

Top Message



Placing ESG at the Core of our Management

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Determining Things that Will Grow, Recover, or Not Recover to Achieve Record-High Profits

Throughout fiscal 2021, the world remained at the mercy of COVID-19, which had broken out the year before. Ironically enough, the pandemic catalyzed fundamental changes in the way our society and economy are structured, the public mindset, and our values, while at the same time accelerating technological progress. As we found ourselves faced with these dizzying changes, we set about distinguishing among things that we believed will grow, recover, or not recover to simultaneously pursue growth strategies and restructuring.

We acted in accordance with the Niche Top Strategy—our proprietary marketing approach: We spared no expense on products whose performance we decided to boost, while at the same time suspending or downsizing other businesses. These were not easy decisions to make in ordinary times, but the management team stood firmly for this policy to do what should be done. Because we made our policy of determining what will “grow, recover, or not recover” crystal clear and sent the message throughout the Group, I believe that our employees were able to attend to their business without hesitation.

As it turned out, we were able to surpass our official financial forecasts by a large margin to report net sales of 853.4 billion yen and for our operating income we managed to achieve a record-high profit of 132.3 billion yen.

Placing ESG at the Core of our Management to Realize a Sustainable Environment and Society

The Nitto Group will continue to enhance corporate value with ESG (Environmental, Social, and Corporate Governance) at the core of our management. These days, it seems that the term “non-financial” has become a buzz word in the business circle, but we deliberately chose not to use this when we refer to “something that is not financial” and instead use “unfinanced,” as we believe that, although that “something” may not have any financial value now, it will develop into “something financial” and start yielding profits. ESG is all about a “unfinanced something” that will be a source of returns in the future. As such, we consider our ESG initiatives to be assets and forward-looking investments that will enhance our corporate value over the mid- and long-term.

The Nitto Group's brand slogan is “Innovation for

Customers.” Throughout the first 100 years of our existence, our primary approach has been to stay close to customers: we were always ready to work alongside them to develop innovations together, thus making life easier and more convenient for people. Going forward, we are led by the reinvented concept of “customers” to include not only “those whom we come in contact with directly” but also the global environment, humankind, and society in general. Of course, we will stick to the Niche Top Strategy to keep our valued customers satisfied with our products, but any and all products that we will deliver must have something that contributes to the global environment and humankind, on top of top-notch technology and quality. I believe that this will cement our position as a reliable, first choice partner for our customers.

In order to ensure that our attitude toward sustainability is reflected in everything that we do, the Nitto Group has identified Our Prospects for 2030 and material issues for sustainability. Furthermore, we've placed ESG management at the core of our new mid-term management plan “Nitto Beyond 2023,” which we mapped out to achieve these goals (ESG Management, p. 21)

It is safe to say that ESG initiatives will spread throughout the global community and that market needs will surely change as a result. With this in mind, we will hone our skills to anticipate change, be the first to accurately identify risks and opportunities, and let ESG initiatives guide us to business opportunities, in an effort to simultaneously solve social issues and create economic value.

Our Commitment to ESG Earns Us Well-Deserved Evaluation from Stakeholders

We at the Nitto Group are aware of the importance of constructive dialogue with shareholders, investors, and other stakeholder groups if we wish to achieve sustainable growth and enhance corporate value over the mid- and long-term. We are keenly aware that an increasing number of investors and customers base their investment decisions and selection of partners on “unfinanced information,” that is, how much effort their investee companies put into addressing environmental and societal issues, in addition to traditional financial information. For us to boost corporate value and sustain growth over the mid- and long-term, it is essential to let the stakeholders know that we are geared toward achieving both financial and unfinanced targets and generating earnings from



We will make a financial commitment to ESG initiatives, as part of our effort to attain our “unfinanced targets” that we hope will bring a healthy return to our business.

our business.

In fiscal 2022, the Nitto Group announced its support to the Task Force on Climate-Related Financial Disclosures (TCFD) and disclosed its risks and opportunities associated with climate change, their financial impact, and its responses. By including climate change in the list of our managerial issues to increase the resilience of our business against changes in the external environment and adequately cope with the risks thus identified, we will build a resilient corporate structure immune to external environments. (Disclosure Based on the TCFD Recommendations, p. 51)

Our investors know that the Nitto Group may be careful and attentive but that we are a company that keeps its word. This trait is a part of our DNA and it is a source from which we can earn trust and credibility. For example, when we announce our support for the TCFD Recommendations and other ESG initiatives, all executives come together for discussions until we are certain that we can carry out the TCFD Recommendations and other ESG initiatives, and then we draw up a roadmap as we work toward a consensus.

Accelerating Innovation in the Three Focus Domains

The Nitto Group has established three focus domains of next-generation mobility, information interface, and human life.

In the next-generation mobility domain, we will be launching a series of new products that enhance the safety, efficiency, and comfort of mobility, which we believe will help to realize a secure and convenient lifestyle. More specifically, we will aggressively roll out electronic and functional materials

for the CASE (Connected, Autonomous, Shared, and Electric) market, such as radio wave absorbers for sensing units, which are essential for self-driving technology.

In the information interface domain, our optical films have long enjoyed a large market share. Going forward, we will shift our focus to applications for OLED devices, while seeking to establish technology for the metaverse market, where significant advancements in technological innovation are expected. Furthermore, we are taking the offensive in the market with high precision substrates for smartphones and electronic materials and semiconductor process materials for data centers serving as growth drivers. We are also working on a practical application for plastic optical fibers to realize a smart society.

The human life domain is a new domain evolved from life science, which was one of the three focus domains in the previous mid-term management plan. To accelerate our initiatives in this new domain, in April 2022 we established the Human Life Solutions Sector. Here, we provide pharmaceutical products and medical materials, including oligonucleotide therapeutics, which are expected to be our next primary sources of earnings, and develop products that help to realize a decarbonized society, which we hope will achieve harmony with the global environment and enrich the lifestyle and well-being of people the world over.

Looking back, our decision to ramp up efforts for nucleic acid medicine marked a turning point with respect to Nitto Group's ESG management and the stark realization that we can save human lives with our technology. While we are keenly aware of the weight of responsibility this carries, we have renewed our determination to pursue ESG management as we work on sustainable businesses that serve the global

environment and humankind.

Recently, we acquired a personal care component business from Mondi plc. This deal helps us to create innovation in the human life domain and provides us with an operating base in Germany, one of the most environmentally advanced countries in the world, which should allow us to bring our ESG management to the next level and increase resilience of our global management infrastructure through the enhancement of our regional functions in Europe. Expectations are running high for foreseeable synergies in the form of technology and products, as well as synergies that have yet to become visible.

Strategically Investing Management Resources in Growth Fields to Update Our Business Portfolio

At the Nitto Group, efforts are underway to advance its business portfolio into a more balanced one by implementing growth strategies and restructuring and creating new businesses. We will not hesitate to devote resources to growth fields. Our plan is to proactively allocate management resources to the contract manufacturing of bulk oligonucleotide therapeutics, the ramping-up of printed circuit board production, the launch of new businesses, and more M&A projects, leading up to the end of fiscal 2023.

Optronics is one business that generates a high level of cash flow. We will further increase its profitability by enhancing productivity and shifting the focus to high-value-added products. For industrial tape and human life businesses, on the other hand, we plan to further accelerate their growth, so that we can raise the percentage of sales from these two businesses to 42% by the end of fiscal 2023 and to continue adding to it in stages thereafter. The acquisition of Mondi's personal care component business is part of this strategy. (Business Strategies by Segment and their Progress, p. 33)

There has clearly been a good response regarding the product development concept, which gives us a reason to be confident in our new offerings. Let me give you some examples. Our polymer separation membrane business has been focusing solely on the treatment of water, but there has been a revolutionary idea to use this technology for gas separation to realize a decarbonized society. Another example concerns the recycling of plastics, which poses a major challenge for a high-polymer material manufacturer like Nitto. While making continued efforts to reduce the amount of industrial waste generated, we will seek to create a new

business model that achieves a circular economy by decarbonizing our society.

The Nitto Group will seek to make a further leap forward by responding promptly to emerging market needs and being the first in the industry to provide the world with products and solutions that benefit the global environment and society.

Creating Global Niche Top™ Products out of those that Contribute to the Environment and Human Life

As I have reiterated, we will place ESG at the core of our management at the Nitto Group. However, for each and every employee to think for themselves about how they can live up to this policy on a daily basis, we need an incentive program. Hence the product recognition scheme based on contributions made to the environment and human life. (PlanetFlags/HumanFlags, p. 27)

The Nitto Group's strengths are mostly derived from *Sanshin* Activities and the Niche Top Strategy. Literally “three new” activities, *Sanshin* Activities are geared toward exploring “new products,” “new applications,” and “new demand,” while the Niche Top Strategy encourages us to find niche markets with growth potential where Nitto is the first mover, thus allowing us to utilize our proprietary technology to aim at the leading share. While these sources of our strength will remain unchanged, we need to add “ESG” perspectives to them if we wish to further enhance our corporate value.

One of the management targets of the Nitto Beyond 2023 mid-term management plan is to sustain the ratio of new products at 35% or higher of total sales. We would also like to see two categories of products account for the majority of these new products. They are: products contributing to the environment (PlanetFlags), which help to reduce negative impact and ameliorate the global environment, and products contributing to human life (HumanFlags), which help to enhance our quality of life (QOL). We would be most delighted if these products were to become Global Niche Top™ products down the road.

With these two primary sources of our strength at the core of our undertakings, we will seize every opportunity available and act proactively to bring the fruits of these two unique approaches into a sustainable growth path as we work closely with players in the supply chain and value chain.

Facing Up to Climate Change—the Universal Challenge to All Humankind—to Declare the Nitto Group Carbon Neutral 2050

In May 2022, our strong determination to accelerate the realization of a decarbonized society led us to announce the Nitto Group Carbon Neutral 2050, which includes the Nitto Group's CO2 emission reduction targets of: carbon neutrality by fiscal 2050; decreasing CO2 emissions to 470,000 tons by fiscal 2030; and contributing to customer CO2 emission reduction through products and solutions. To achieve these targets, we have an investment plan to use a total of approximately 60.0 billion yen by the end of fiscal 2030. (Carbon Neutrality, p. 26)

With regard to our CO2 emissions target, our original target for fiscal 2030 was 600,000 tons, but we raised the bar higher to 470,000 tons, which represents a roughly 40% reduction from fiscal 2013. We should be able to clear the original target of 600,000 tons earlier, by fiscal 2025.

To set the new targets, executives and employees got together to discuss what challenges exist, which of them we should address and how Nitto's carbon neutrality declaration is clearly different from other similar declarations in that all operating entities commit themselves to the roadmap leading to carbon neutrality, rather than making specious promises.

Climate change is a universal challenge for all humankind. To maintain and better the global environment for future generations to enjoy, we the current generation must do something about it in earnest. We understand that we cannot possibly sustain growth of the Nitto Group and realize a sustainable environment and society without reducing CO2 emissions and that every business has a social responsibility to do so.

Empowering Diverse People in the Global Area Leads to Nitto Group's Sustainable Growth

For the Nitto Group to achieve sustainable growth, we need to ensure the recruitment of talented individuals from across the globe, a workplace culture that encourages its members to constantly challenge themselves, and the building of an organization where diverse individuals are motivated to demonstrate their exceptional abilities. In this respect, we believe it important to develop "Nitto Persons," who understand and practice "The Nitto Way," which indicates values, attitudes and mindset, and a code of conduct that all

members of the Nitto Group are expected to have.

In fiscal 2021, we conducted an engagement survey of all employees around the world. Depending on what region they are in or what business they are engaged in, different employees have different workplace cultures. The survey updated our perceptions of the present situation, and one of the most important takeaways is that our employees are highly conscious of occupational safety and the vision that Nitto Group has put forth.

The Nitto Group supports diversity, one of the key initiatives for Nitto Beyond 2023, with a special focus on the empowerment of women. In fiscal 2022, we will launch a new leadership training program to support women who want to challenge themselves. Meanwhile, at our sites in Japan, female managers are taking the lead in organizing small group activities to discuss and review what it takes to empower women, including awareness, corporate culture, and programs and systems at workplaces. We will proactively support such voluntary efforts by employees so that we can create a corporate culture that encompasses diversity.

Working Tenaciously with Safety Measures to Achieve Zero Accidents and Injuries

True to its slogan of "Placing safety before everything else," the Nitto Group strives to reduce the number of accidents and injuries to zero. Every site identifies their own risks to take actions for both tangibles and intangibles. For example, we rank each individual risk, say, associated with rotating bodies or chemicals on the shop floor, and try eliminating the occurrence of higher risk accidents first. We have been most tenacious in addressing such risks according to their level of danger with the entire Group uniting as one. One of the most serious risks thus identified is an injury inflicted when an operator mistakenly touches the moving parts of equipment. Putting priority on this imminent risk, I have taken the lead in visiting the shop floor to ensure that safety measures are budgeted for and safety training is given to everyone.

I think it is safe to say that a safety-oriented culture is ingrained within the organization, but it is important to further cultivate a culture of safety whereby we observe and have others observe self-set rules. In business, continuing concerted efforts to enhance safety means to build an open, vibrant organization, which in turn will lead to higher product quality and productivity. I expect each and every employee to think for themselves to start autonomously improving their safety

awareness and behavior, so that we can make our workplace safer and more secure.

For the Nitto Group to sustain its business growth, I believe that "human resources," including employees and their family members, are the single most important asset. I will take every opportunity available to tell employees that nothing is more important than their safety, and do whatever I can in this regard from both physical (tangible) and mental (intangible) aspects.

Updating the Mission-Critical System in Japan to Build an Integrated Management Infrastructure

Of the three elements of ESG, "G (Corporate Governance)" is the prerequisite for addressing issues concerning "E (Environmental)" and "S (Social)." As such, we consider "G" to be essential for enhancing corporate value over the mid- and long-term. Accordingly, as part of the move to shore up our management infrastructure, in fiscal 2021 we replaced our mission-critical system with a multi-platform linked to a number of cloud solutions. It is a global-standard ERP (Enterprise Resource Planning) that is slated for deployment at overseas sites, thus accelerating DX (digital transformation).

The new system can be seamlessly linked to business systems in any function, including sales, accounting, procurement, and human resources. By integrating necessary data thus gathered, our management team can make decisions even faster. In fiscal 2022, we will start installing this system globally, especially at our sites in Asian countries.

By making the production status and each indicator visible

across the globe by fiscal 2025 so that we can see what is happening anywhere in the world, we should be able to respond to changes in a timely manner.

Amid Drastically Changing Social Conditions, We Continue to Grow As We Build a Resilient Corporate Structure

The Nitto Group now operates in 28 countries, where nearly 100 Group companies employ almost 30,000 employees. Here's the challenge: how can we ensure our business continuity and growth while giving due regard to a major impact that geopolitical risks can potentially have on our supply chain. We will stay alert to all sorts of issues facing us, such as the COVID-19 pandemic, political conflicts, and environmental problems, and at the same time build a resilient corporate structure immune to external environments to accelerate our efforts towards addressing managerial issues.

In 2018, the Nitto Group celebrated the first centennial anniversary of its foundation. What will it take for us to keep growing robustly throughout the next 100 years? As a top manager who happened to be in that position at this major milestone of the company, I have since strongly felt the need to map out the next corporate vision. My answer is to simultaneously solve social issues and create economic value through business that contributes to the global environment, humankind, and society. In other words, our responsibility is to forge ahead with business administration with ESG at its core. These days, I have renewed my resolve in this regard.

We will redefine the concept of "customers" to include the global environment and humankind as beneficiaries of our offerings to further broaden the scope of business opportunities.

