

Addressing Material Issues for Sustainability

In 2019, the Nitto Group identified its material issues for sustainability, which demand high priority if we are to solve social issues and create economic value simultaneously in our management. To address the issues thus identified, we are taking the two-pronged approach of "co-creating value through innovation" and "enhancing management process for co-creating value."

In fiscal 2020, we focused on increasing awareness of our materiality throughout the organization. At sustainability workshops for managers, for example, participants engage in case-study group discussions, so that each and every manager understands the rationale behind addressing material issues for sustainability and thinks and acts for themselves with a sense of responsibility. Meanwhile, private enterprises are increasingly required to produce visible results toward realizing sustainability. Accordingly, the Nitto Group will further accelerate its concerted efforts. For this to happen, we need to provide organic links to various activities that we have pursued in order to bring about synergies. We have thus demonstrated our genuinely unique "attitude toward sustainability" that is in line with our Corporate Philosophy and reimagined our 2030 prospects for each issue with progress in our previously set KPIs. We will determine concrete performance targets and monitor them by way of KPIs.

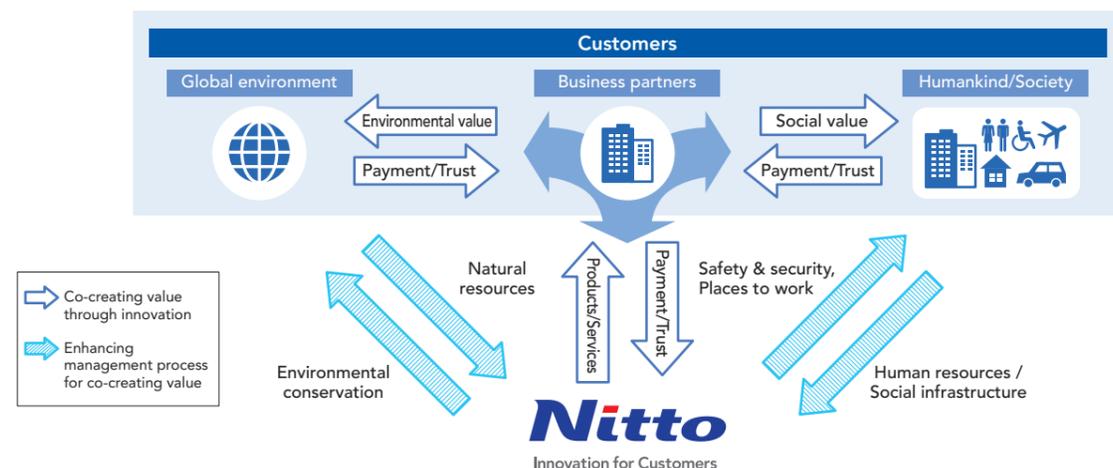
In Pursuit of Management that Solves Social Issues and Creates Economic Value Simultaneously



Attitude toward Sustainability—The Nitto Group keeps challenging itself to realize a sustainable future and support well-being for everyone by serving the global environment, humankind and society as our customers.

The Mission of the Nitto Group's Corporate Philosophy reads, "Contribute to customers' value creation with innovative ideas." True to this, we have been making continuous efforts to create value from the customers' perspective, the practice of which is deeply entrenched in our corporate DNA. We will conceive how we should create value and strive for the betterment of the global environment, humankind, and society, much in the way we serve our business partners, so that we can promote ESG-oriented management in a way unique to the Nitto Group.

Nitto Group's Definition of "Customers"



The Nitto Group keeps challenging itself to realize a sustainable future and support well-being for everyone by serving the global environment, humankind and society as our customers.



Co-Creating Value through Innovation

By "co-creating value through innovation," we mean the development of technologies and provision of products/services to benefit the global environment, humankind, and society in general. Many of the Nitto Group's products/services are "a force behind the scenes," but they contribute to society via our customers. To form a complete picture of the lifecycle of those products, we must visualize how we are contributing to the global environment, humankind, and society in general.

To make this happen, we have come up with our prospects with the year 2030 as a milestone. We are currently considering a system to visualize it.

Heading in the direction unified throughout the Group, we will take on the challenge of co-creating value together with diverse stakeholders.

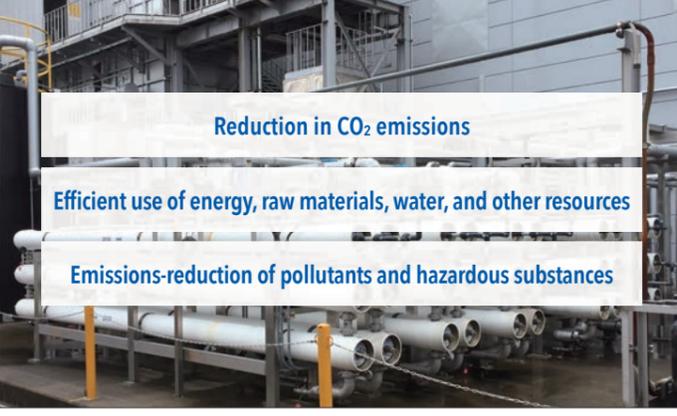
Material Issues for Sustainability	Risks	Opportunities	Our Initiatives	Values that We Offer	Our Prospects for 2030	Nitto Group's Goals	Relevant SDGs
 <ul style="list-style-type: none"> Development of infrastructure for intelligent society Reduction in traffic jams/accidents Providing public transportation services for vulnerable road users 	<ul style="list-style-type: none"> Lowering of products' competitive edge as new alternative technologies for digital devices emerge and the company's technologies become commoditized Increase in responsibilities as a result of the company's products, etc. playing key roles in ensuring safety of traffic systems 	<ul style="list-style-type: none"> Increase in demand for components, devices, and materials for sensors, semiconductors, telecommunication infrastructure, etc. as IoT and digitalization advance Increase in demand for products that improve traffic flow and the safety level of automobiles 	P39-40	<ul style="list-style-type: none"> Large-capacity communication environment Realistic sensations created by high-definition displays Power-saving, high-functional communication terminals Mass data storage 	<ul style="list-style-type: none"> Broad distribution of intelligent devices Diversified high-speed, large-capacity communication High popularity of self-driving 	Secure and accessible lifestyle	11 SUSTAINABLE CITIES AND COMMUNITIES
 <ul style="list-style-type: none"> Promotion and spread of renewable energy and energy conservation Promotion of cyclic use of plastics, metals, water, carbon, and other materials Prevention of air, water, and soil pollution 	<ul style="list-style-type: none"> Increase in difficulty in sales of existing products as environmental regulations for chemical substances, plastics, etc. are tightened Decrease in order volume in case of falling behind competitors in addressing the need for eco-friendly products Lowering of trust in the company over the long term in case of failure to meet expectations of the market/customers with regard to environmental measures, such as the shift to organic-solvent-free products and bio-plastics 	<ul style="list-style-type: none"> Increase in demand for technologies/products for cyclic use of various resources/materials as global environmental issues, such as climate change, global warming, and water shortages, worsen Increase in demand for technologies/products that contribute to separation, removal, purification or otherwise, of hazardous substances in air, water, soil, etc. 		<ul style="list-style-type: none"> Power-saving motors and electronic devices Reduction of resource loss, recycling/reuse of water CO₂ reduction Detection of hydrogen leakage 	<ul style="list-style-type: none"> Energy conservation by EVs and low-powered mobility Higher efficiency of solar/wind power generation Curb on atmospheric CO₂ emissions Efficient use of water and other resources 	Sustainable circular society	6 CLEAN WATER AND SANITATION 7 AFFORDABLE AND CLEAN ENERGY
 <ul style="list-style-type: none"> Support for health and longevity (lifestyle-related diseases, non-infectious diseases) Providing healthcare and long-term care services to all Control of infectious diseases on a global scale 	<ul style="list-style-type: none"> Increase in the company's cost and risk in case of extended period and/or greater expenses of developing nucleic acid medicine and other pharmaceutical products Lowering of the company's competitive edge and growth potential in case of failure to meet unmet medical needs Increase in social responsibilities, such as prevention of harm to patients due to quality problems, adverse reactions, etc. 	<ul style="list-style-type: none"> Increase in demand for products that realize good health and longevity in forms such as detection of disease symptoms, early diagnosis, and caring for the elderly and supporting their independence Increase in demand for easy-to-use pharmaceuticals, medical materials, and nursing care products for home care, self-medication, etc. Increase in demand for products that improve QOL* and prevent disease progression 		<ul style="list-style-type: none"> Innovative pharmaceutical products Early diagnosis and prevention Treatment of new infectious diseases Prevention of infectious diseases 	<ul style="list-style-type: none"> Solutions to diverse diseases Spread of telesurgery and preventive medicine Global combat against infectious diseases 	Sound and healthy life	3 GOOD HEALTH AND WELL-BEING

*Quality of Life

Enhancing Management Process for Co-Creating Value

In order to create innovations that benefit the global environment, humankind, and society in general, it is essential that we have robust management foundations. As such, the Nitto Group regards efforts to enhance the management process for co-creating value as another key approach toward addressing material issues for sustainability, along with co-creation of value through innovation.

Diversity & inclusion, respect for human rights, human resource development, and environmental conservation, in particular, attract significant attention in the international community, and failure to fulfill these sustainability imperatives can affect the continuity of business. It is thus essential to set targets and forge ahead with necessary initiatives, bearing in mind how such efforts relate to investment in non-financial activities and the creation of value for the future. The Nitto Group has determined "Our Prospects for 2030 (Performance Targets)" in order to accelerate the initiatives with Group-wide unification.

Material Issues for Sustainability	Risks	Opportunities	Our Initiatives	Our Prospects for 2030 (Performance Targets)	Nitto Group's Goals	Relevant SDGs
 <p>Recruitment/development of employees</p> <p>Diversity & inclusion</p>	<ul style="list-style-type: none"> ■ Increase in difficulty in maintaining stable business operations due to shortages of employees in case of failure to recruit/develop human resources ■ Decrease in competitive edge due to inability to respond to rapid changes in the business environment in case of insufficient diversity 	<ul style="list-style-type: none"> ■ Creation of innovations and enhancement of long-term growth potential made possible by novel ideas offered by diverse and capable human resources 	P41-43	<p>Motivating Workplace Environment for Diverse Employees</p> <ul style="list-style-type: none"> ■ Investment in employee training: Double the annual number of hours of employee training attended ■ Continuous improvement of engagement surveys and measures against issues identified ■ Ratio of women in management Global: 30%, Japan: 10% 	Corporate culture that satisfies diverse employees	 
 <p>Enhancement of safety and quality of products</p> <p>Improvement of workplace environment</p> <p>Respect for human rights in supply chains</p>	<ul style="list-style-type: none"> ■ Occurrence of recalls, lawsuits, etc. due to quality problems and harm to health through use of products ■ Personal damage and shut-downs due to work-related accidents ■ Damage to the company's reputation as seen by customers, society at large, and shareholders due to occurrence of human rights issues and other scandals in the supply chain 	<ul style="list-style-type: none"> ■ Increase in competitive edge through the supply of safe products, which reassure customers and win strong support from them 	P44-46	<p>Safe and Secure Manufacturing to Gain Societal Trust</p> <ul style="list-style-type: none"> ■ Proactive quality assurance and safety management ■ Zero critical/serious occupational accidents ■ Sustainability appraisal and improvement of suppliers who account for 90%+ of total purchases ■ Digitalized logistics for greater efficiency 	Safe manufacturing	
 <p>Reduction in CO₂ emissions</p> <p>Efficient use of energy, raw materials, water, and other resources</p> <p>Emissions-reduction of pollutants and hazardous substances</p>	<ul style="list-style-type: none"> ■ Shut-downs due to tighter regulations in case of continued use of raw materials and energy sources with high environmental impact ■ Shut-downs due to increased cost and difficulty in procurement of specific raw materials that may face depletion in the future as consumption of them increases globally ■ Increase in the cost for compliance and difficulty in obtaining operational licenses in case of air pollution during production process and delay in reducing emissions of hazardous substances 	<ul style="list-style-type: none"> ■ Increase in long-term growth potential and competitive edge due to increased productivity and lower costs made possible by production process with high environmental efficiency 	P47-50	<p>Realizing Manufacturing that is Friendly to the Environment and Humankind</p> <ul style="list-style-type: none"> ■ CO₂ emissions: 600,000 tons/year ■ Reduction in CO₂ emissions in supply chains ■ Recycling Ratio of generated waste-plastics: 60% or over ■ Reduction in total waste disposed ■ Promotion of usage of recycled resources ■ Reduction in VOC emissions 	Environmentally friendly processes	

Nitto Group's Financial Strategy as per the Chief Financial Officer



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 General Manager,
 Corporate Accounting & Finance Division

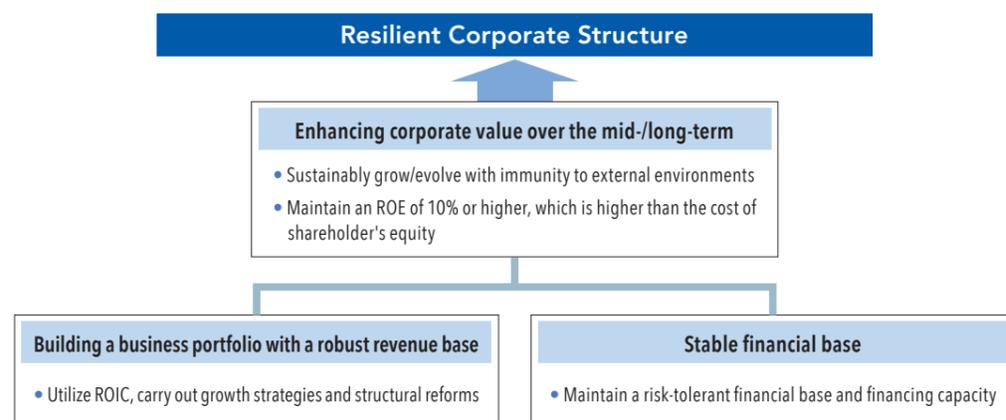
In Pursuit of a Resilient Corporate Structure

Some of the business areas in the Nitto Group's portfolio, such as optronics and life science, undergo rapid changes. To add to matters, the Nitto Group finds itself in increasingly uncertain circumstances with the spread of COVID-19 and the resultant sweeping changes in industrial structures and people's lifestyles, as well as interstate confrontations and climate change. In this milieu, the Nitto Group aims to build a resilient corporate structure that is immune to external environments, allowing it to keep growing and advancing by combining a business portfolio with a robust revenue base with a stable financial base.

We closely monitor return on equity (ROE) as a key performance indicator for the Group to enhance corporate value over the mid- and long-term. As such, we aim to maintain an ROE of 10% or higher, which surpasses the cost of shareholder's equity, both stably and

continuously. In fiscal 2020, despite the harsh operating environment amid the COVID-19 pandemic, we managed to maintain an ROE of 10%. Going forward, we will continue monitoring the performance of the three factors of profit margin, asset efficiency, and financial leverage, as well as their balance, to pursue improvement of intrinsic ROE.

To remain ever conscious of capital costs in business management, we will adopt return on invested capital (ROIC) as a measure for business evaluation in the new Mid-term Management Plan. We will set a hurdle rate for each business and seek to generate a higher return than the hurdle, while at the same time advancing our business portfolio with a more robust revenue base by strategically allocating management resources to priority business domains. We will rejuvenate our business portfolio by utilizing ROIC to determine things that will grow, recover, or not recover, thus simultaneously pursuing growth strategies and structural reform.



Nitto Group's Financial Strategies

Cash Allocation

In allocating cash flow generated and cash and deposits in hand, we believe it necessary to balance between stable and continuous shareholder return on the one hand and maintenance of a healthy financial base on the other, while placing top priority on growth investment to generate a higher return than capital costs, in order to enhance corporate value over the mid-/long-term. To this end, the Nitto Group prioritizes its application of cash in the order of: 1. Capital investment, 2. Cash dividends, 3. M&As, and 4. Share buybacks, according to which we conduct our business over the mid-/long-term.

Operating in the fast-changing environment, we have managed to sustain growth by responding to changes with our proprietary approaches of *Sanshin* Activities and the Niche Top Strategy. To sustain renewed growth with an eye toward the future, we must continue investing in facilities in a timely manner. We will thus remain committed to proactive capital investment (1.) to implement our growth strategies, including a further expansion of market-leading products and creation of new businesses/products, while adhering to the self-set investment principle of generating a return higher than capital costs.

We will invest our cash not only to develop advanced technologies and excellent products but also to proactively protect the environment by way of reducing greenhouse gas emissions, for example. By examining measures that incentivize people, such as an internal carbon pricing system, we aim to produce a steady flow of positive results. We will promote capital investment in a way that incorporates an ESG perspective to realize a sustainable future and support well-being for everyone by serving the global environment, humankind and society as our customers.

While pursuing the above-mentioned growth strategies and environmental initiatives, in case there is an M&A opportunity (3.) that has potential synergies with our existing businesses and/or technologies that would help to accelerate business growth, we will proactively take advantage of it.

For shareholder return, we deem cash dividends (2.) to be a fundamental tool to distribute the profits generated from our business activities. To reward long-term shareholders and investors, our policy is to continue paying stable dividends, whose amount is determined by considering various factors, including dividends per share, dividend on equity ratio (DOE), payout ratio, and financial position.

To complement shareholder return by way of cash dividends, which emphasizes stability and continuity, we conduct share buybacks (4.). Most recently, between February and July 2020, we repurchased 9 million of our shares for a total of 50.0 billion yen. When certain conditions, such as financial position and the market situation, are met, we will flexibly buy back our shares.

Financial Integrity at the Nitto Group

The Nitto Group aims to build resilience, which allows it to continue with business as usual in times of crises or social changes—meeting the trust and expectations of its diverse stakeholders and fulfilling our social responsibilities—and cope with such challenges flexibly to act promptly and accelerate its growth by seizing the "opportunity" such crises and changes present. To make this a reality, we always need to have a financial base that resists potential risks and financing capacity.

The Nitto Group has maintained solid equity capital and ample liquid cash on hand. Based on this sound financial base, we are pleased to report that in fiscal 2020 we have been able to outperform our previous year's financial results by a large margin, while simultaneously continuing to pay stable cash dividends amid the disturbances caused by COVID-19.

With regard to liquid cash on hand, we believe it necessary to maintain working capital requirements, cash for investment to seize growth opportunities flexibly, and cash with which to ensure liquidity for financial crisis management. We will remain flexible in maintaining optimal levels, with the enhancement of asset efficiency in mind as well.

Meanwhile, amidst this highly uncertain operating environment, to be able to raise funds promptly when needed, we will strive to maintain an optimal and sound capital balance.

Global Cash Management

The Nitto Group uses a treasury management system to monitor the movement of funds within the Group both globally and in a timely manner to promptly respond to financial emergencies, such as major changes in funding environments, and enhance fund efficiency in ordinary times.

We also ensure that funds are allocated flexibly across geographical regions and that fund efficiency is enhanced by centralizing funds distributed across Group companies into a fund management center in each region.

We also set up a policy on the handling of funds within the Group, ensuring that it is widely known and implemented to reinforce financial governance, while at the same time working to reduce consolidated interest-bearing debts and debt-servicing costs.

We at the Nitto Group wish to become a more integral part of society than ever before by offering solutions to social issues and creating economic value through our business activities. In my capacity as the Chief Financial Officer, I am determined to drive the Nitto Group's business by promoting the financial strategies unique to us to build a resilient corporate structure. At the same time, we will pay close attention to the capital market's appraisal of us, and carefully listen to what shareholders and investors have to say, so that we can enhance our corporate value through constant dialogues.

Value Creation Process

How can we find solutions to various social issues together with our customers? - The Nitto Group's response to this question is its two unique business models of "Sanshin Activities" and "Niche Top Strategy" to constantly create innovative and broad value.

