

Top Message

Building a Resilient Corporate Structure Immune to External Environments in an Effort to Simultaneously Solve Social Issues and Create Economic Value through Business



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Emerging from the COVID-19 Crisis with Positive Earnings Growth

Allow me to begin by expressing my heartfelt sympathies to those who have contracted the novel coronavirus (COVID-19), as well as their families and friends. I would also like to express my sincere gratitude to medical professionals and others for their dedicated efforts to prevent the further spread of the virus.

This pandemic has changed the face of the international economy and our daily lives completely, and the Nitto Group is no exception. Because orders plummeted in the first quarter of last fiscal year, in particular, we were not able to announce our financial forecasts in a timely manner.

As we entered the second quarter and began to grasp the situation, albeit slowly, we decided that we should make it clear to shareholders and investors where we were headed. As the leader of the Nitto Group, I concluded that the last thing we should do was get dispirited by the disturbances caused by the pandemic. Rather, I felt we should tap into our competitive advantages to bolster businesses that looked set to grow under the tumultuous circumstances along with those that seemed poised to post strong earnings once the global economy fully reopened.

At the same time, we decided to do something about businesses that had been severely affected, which included divesting those which had suffered beyond recovery. Over the past year, we have done everything we can to make this strategic approach succeed. This is because we believe that, when it comes to bolstering, rehabilitating, or divesting businesses, management should be fully responsible for assessing market environments, doing so in a fell swoop without missing opportunities, rather than doing a half-hearted job.

One market that has made a comeback during the pandemic is computers and tablets. As "work / study at home" has become a new social norm, the demand for such devices soared, which in turn led to a sudden increase in liquid crystal display (LCD) panel shipments and a resultant spike in demand for our film products. I have to say that this brought to light the unrealized potential of LCDs, when organic light emitting displays (OLEDs) have become the mainstream in the display market for some time.

In any case, we at the Nitto Group saw these sizeable changes not as a "challenge" but as an "opportunity," and we demonstrated our flexibility in coping with them by simultaneously pursuing a growth strategy and structural reform. As a result of all this, in fiscal 2020, we were able to report a better showing over the previous year, giving us good reason to believe that our preparatory action is paying off.

Sanshin Activities to Expand the Potential of Technology by Developing/Exploring "New Products," "New Applications," and "New Demand"

The Nitto Group is fortunate enough to have *Sanshin* Activities and the Niche Top Strategy, which have long guided our undertakings.

With its origin dating back to 1957, *Sanshin* (three new) Activities is Nitto Group's proprietary marketing approach, which is designed to stimulate new demand through the development of new applications and new products. With augmentations spanning more than half a century, this approach is the very source of our innovation and the engine that drives further growth.

Upon joining the Group, all Nitto Group employees, including myself, are expected to learn its importance. In fact, *Sanshin* Activities is a product of underlying anxiety over the sustainability of our business. No matter how we manage to create new products, applications, or demand, we cannot expect their value to last forever. This is even more true in this fast-changing world; many products hit their peak demand within a matter of a few years and eventually become obsolete. It is thus crucial for us to stay on our toes and create new value while demand lasts.

Now, what is important here is not to be content with "one technology for one project." Suppose you come up with an innovative technology for automobiles. It does not make much sense if you are happy with one application only. What you should really do is find multiple applications for a single technology in other fields to explore its potential in different markets. *Sanshin* Activities is best practiced when you try coming up with one new application after another for the technology that you have painstakingly developed, so that it will not be labeled as a "one-trick pony."

Niche Top Strategy to Enhance Competitive Advantage Where the Nitto Group's Originality is Felt Most

The other proprietary approach exclusive to the Nitto Group is the Niche Top Strategy. In a market with high growth potential, we locate a niche field where we are first to market and establish a leading position there by applying the Nitto Group's unique technologies. The Global Niche Top™ strategy is aimed at achieving top global market share, whereas the Area Niche Top™ strategy assists us in competing for top place in national or regional markets with products that meet specific needs there.

These strategies allow us to corral a domain immune to macroeconomic conditions and other external factors. If we play only in

the volume zone, which is very crowded, we may have to expect lower profitability once our offerings become commoditized. The Niche Top Strategy allows us to avoid this dilemma and instead develop niche markets where we can tap into our uniqueness and establish a competitive advantage before anyone else. "Start small and nurture into a giant" is the key to a successful Niche Top Strategy.

The Nitto Group led the industry when it adopted the Global Niche Top™ strategy as one of our corporate strategies in 1996 ("Global Niche Top™" is Nitto's registered trademark.). So far, a total of about 15 product categories, including polarizing films for displays, thermal release sheets, and thin-film metal base board, have been designated as Global Niche Top™ products to form the financial bedrock of the Nitto Group.

At every meeting of directors, corporate auditors, and global leaders, I never fail to emphasize the importance of the Global Niche Top™ strategy and Area Niche Top™ strategy. We also take every opportunity to internalize these unique strategies at in-house presentations of achievements, qualification ceremonies of Global Niche Top™ products, and commendations.

Strategically Investing Management Resources in Growth Fields

In terms of our outlook for the business environment for fiscal 2021, I must say that we have to expect this uncertainty to linger on the back of concerns over more waves of COVID-19 and the U.S.-China trade friction, to name but a few. Meanwhile, as business slowly resumes globally, we expect steady recovery among high-tech products, such as semiconductors and the fifth-generation (5G) smartphones, and life science products, including medical materials and pharmaceutical products. Led by *Sanshin* Activities and the Niche Top Strategy, both of which are longstanding strategies of ours based on our strengths of our business activities, we will focus on developing new markets without missing opportunities and aggressively pursue initiatives designed to put us on a new growth trajectory.

In the new Mid-term Management Plan*, for example, we will strive to stably generate operating income of 100 billion yen or more by building a resilient corporate structure immune to external environments. At the same time, we will seek to solve social issues and create economic value simultaneously through business, so that we can meet the expectations for and confidence in our Group from diverse stakeholders, thus aiming to achieve sustainable growth and enhance

*To be announced in September 2021

corporate value over the mid- and long-term.

To realize sustainable growth, it is important to develop an internal system for rejuvenating our business portfolio, all the more because our performance is heading for recovery. To this end, we will determine things that will grow, recover, or not recover, in an attempt to simultaneously pursue growth strategies and structural reform.

The three business domains that we will focus on are: "Information interface," "Next-generation mobility," and "Life science." By bringing about innovations in these domains, we hope to sustain our business growth.

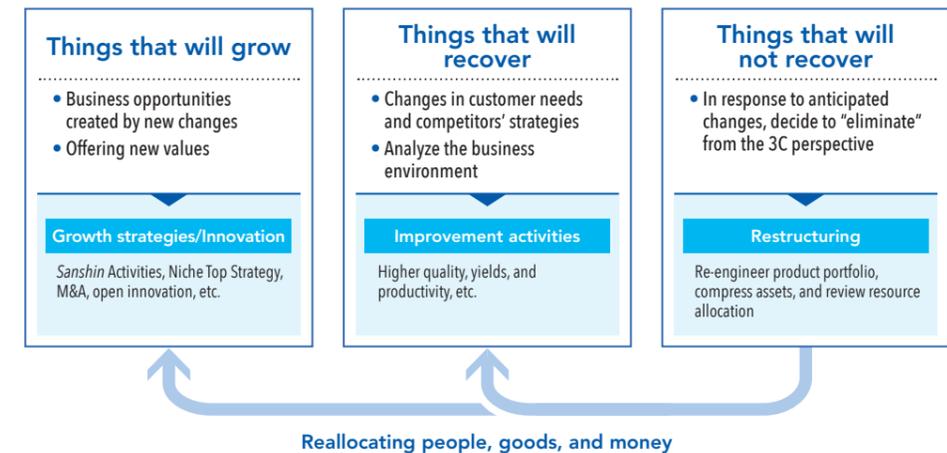
In the information interface domain, we are currently focusing on high precision substrates for smartphones, whose commercial production began in the previous year, as well as electronic materials and semiconductor process materials for data centers, whose demand is expanding due to the ongoing shift to teleworking.

Then there is the next-generation mobility domain, whose applications include automobiles and everything that moves. We are witnessing a dramatic shift from engines to motors. With this, on-vehicle equipment goes increasingly electronic. We have many innovative products here that help to enhance the safety and comfort of automobiles, such as electric materials and neodymium magnets. On top of these competitive lines, 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.

The third domain is life science. The Nitto Group has long been involved in the medical business, which currently includes drug discovery in another niche market of nucleic acid medicine, and its contract manufacturing in the U.S. We have earmarked a total of 25.0 billion yen to invest in the nucleic acid medicine contract manufacturing business. For drug discovery, on the other hand, we are working to develop drugs with higher efficacy and minimal adverse reactions by applying our proprietary drug delivery system. As we continue to support our customers in expanding production scale with the shift in their target markets from that of investigational drugs to commercial drugs, we hope to contribute to the diffusion of nucleic acid medicine and the progress in advanced medicine. My ultimate wish is to help people to have healthy lives.

We have begun strategic investments of management resources in these three domains and, during the new Mid-term Management Plan period, we will accelerate our approaches to respective markets to increase our efforts to facilitate the growth of each business.

Two-Pronged Management Approach of "Growth Strategies" and "Structural Reform"



Reinforcing Corporate Resilience by Building a New Platform for Growth

Over the mid-term, we have to prepare ourselves for the lingering effects of COVID-19 in the markets. While this will force us to change the way we live and do business, the situation will hopefully come under control sooner than later with the spread of vaccination.

Though we are living in a time of great uncertainty, the Nitto Group is determined to build a new platform for growth within the coming three years. While devoting our management resources to growth fields, we will also be streamlining less-efficient businesses. COVID-19 has brought about a myriad of unprecedented challenges, but we should turn the tables and take the opportunity that this crisis presents to further enhance our corporate resilience.

In the leadership position that I am in, I believe my most important job is to determine which businesses are not likely to recover. Once I have reached a conclusion, we will then carry out their structural reform and allocate all of the management resources thus saved to growth fields. We are no strangers to business streamlining, so we will take advantage of the ongoing adversities to make the Nitto Group more resilient.

Speaking of the Nitto Group's long-term vision, we will challenge ourselves to make people's lives healthier and more convenient the world over, in an effort to remain an integral part of society. To make this a reality, we will continue to amaze and inspire our customers as we constantly seek to innovate.

In addition, we will manage our business with a greater focus on ESG (Environmental, Social, and Corporate Governance), in order to achieve

sustainable growth and enhance corporate value over the mid- and long-term. In the area of environment, in particular, we have set a CO₂ reduction policy leading up to 2030 to achieve carbon neutrality, under which we plan to spend over 60.0 billion yen over the coming ten years to introduce decarbonizing technology and implement aggressive energy-saving measures.

Making Concerted Efforts to Solve Material Issues for Sustainability

It has recently become standard practice for businesses to contribute to the realization of a sustainable society, above and beyond the pursuit of their own growth. In fiscal 2019, the Nitto Group identified its material issues for sustainability, for which solutions must be prioritized. Each and every employee plays a part as we strive to solve these issues with the entire Group united as one.

Of these material issues, the Nitto Group has long been committed to environmental conservation, setting its own standards for the reduction of CO₂ emissions and industrial waste to preserve the global and regional environments. As the leading provider of adhesive tapes and optical films, we will continue to do our best to reduce the amount of solvents used and waste plastics produced, while at the same time expediting the development of products and processes with low environmental impact, thus contributing our services to the realization of a sustainable society. In so doing, we will stay ahead of our contemporaries to address environmental degradation from a broad perspective.

In fiscal 2020, in an effort to bolster ESG-related initiatives, we established the ESG Promotion Department under the Corporate Sustainability Division. This newly established department began by envisioning what we should be doing to achieve the aforementioned material issues and then set mid- and long-term targets and mapped out concrete action plans accordingly.

We will also disclose any issues related to ESG as a gesture to address the issues in a positive manner. I am happy to take the lead in sharing this mindset with officers and employees in the hope that this practice will function as part of internal controls, so to speak.

Over the mid- and long-term, we will accelerate ESG-oriented management to enhance our corporate value. At the same time, we will provide the world with products and solutions that benefit the global environment and society while simultaneously solving social issues and creating economic value through the promotion of business activities. The Mission of our 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 perspective of customers. Going forward, we believe it crucial for us to keep taking on challenges to realize a sustainable future, always striving to improve the well-being of our stakeholders by extending the definition of customers to include the global environment, humankind, and society in general, instead of catering only to the customers before us now. We establish a long-term vision that includes the Nitto Group as it should be. To make this happen, we are taking a backcasting approach to bring clarity to what we should be doing now.

There are a number of technologies that are good for the environment in the Nitto Group's portfolio. We will put them into active use to address sustainability issues. We will first try those technologies on our shop floor and elsewhere to confirm their effects before applying them to customers' processes. Some of our membrane products, for example, can efficiently filter industrial wastewater to produce clean water, and another can not only filter liquids but also separate gases like CO₂. We are hoping to make better use of such technologies and products in-house while leveraging them in our solutions to customers to achieve environmental conservation. I should also mention our fluorine functional materials, which have been used for high functional masks. These pioneering initiatives would not be possible without tapping into our distinctive qualities.

Seeking Sustainable Growth



Uniting Individual Efforts to Achieve Zero Accidents and Injuries under Top Management Leadership

For any manufacturing business, ensuring the safety of operations is another critical imperative. Placing safety before everything else, the Nitto Group is seeking to achieve zero accidents and injuries.

As we produce large quantities of adhesive tapes and film products, we use a great deal of production equipment with rotating or driving parts at our plants, which are often responsible for occupational accidents. Although the number of critical accidents has been on the decline since 2014, we will continue making steady efforts to reach the ultimate goal of zero accidents and injuries.

We know that it is not just machinery that prevents us from achieving the goal, as there are intangible factors at play. Accordingly, we will organize regular training sessions for all employees to learn how to foresee dangers or ensure safety, while at the same time proactively ramping up investing in safety devices. In the event that an unfortunate accident or injury occurs, I make it a rule to visit the site to see what has happened and speak directly with employees on-site to take necessary steps. In the quest for zero accidents and injuries, we will strive to enhance our safety culture so that each and every employee has a sense of responsibility and constantly improves their safety awareness and acts accordingly.

Developing Nitto Persons of the Next Generations Leading Sustainable Growth

As we accelerate our global business reach, we are being required to shore up our corporate governance. The Nitto Group adopts the "three axes" management approach, which comprises the management axes of "business (for business execution)," "region (for regional management)," and "function (for supporting businesses and regional operations with special functions)." To ensure that each axis functions



properly in terms of governance, we strengthened our internal control system in fiscal 2021, which increased the effectiveness of our monitoring. We will make continued efforts to enhance both the system and its effectiveness.

What is just as important as monitoring is the internal campaign to educate all the members of the Group on the mindset expected of "Nitto Persons," which is aligned with The Nitto Way, the action guidelines of the Nitto Group.

The development of "Nitto Persons" is an essential challenge in terms of sustainable growth as well. We are lucky to have a corporate culture that supports those who challenge themselves, encouraging them to try again, even if their first attempt should fail. This is because we believe that the habit of tenaciously taking on challenges is what will give rise to the Nitto Persons of the next generations.

Personally, I expect leaders to single out what needs to be addressed and set their priorities accordingly. As part of the series of training opportunities designed to develop global leaders or future senior executives, we have set up the Nitto Global Business Academy (NGBA). To this date, more than 300 employees from around the globe have participated in the sessions offered at the NGBA, an avenue for the development of able human resources who will strengthen the Nitto Group.

In fiscal 2020, we launched a new initiative called "Nitto Innovation Challenge" with a view toward creating new businesses. We invite ideas on new businesses from all the employees of the Nitto Group the world over and offer support to outstanding ideas in the form of market surveys and verification of their concepts. In fiscal 2020, the first year of the

initiative, we had a total of 1,107 ideas from within the Group. Currently, teams of finalists that have made it through the most stringent screening are working hard to bring their ideas to the market.

These days, we find ourselves in a circumstance where markets and customer needs alike change faster than we can imagine. To respond to these changes both promptly and flexibly, we are keenly aware of the significance of promoting diversity by, for example, assimilating diverse values and thoughts. Last year, we welcomed a foreign national female Outside Director to our board, which we feel has triggered a change for the better in the atmosphere of the company. We will continue bolstering effective measures to employ, develop, and promote the appointment of diverse individuals.

Finally, we have recently heard candid opinions on a variety of management issues in the dialogues with shareholders and investors. This experience has aroused in me a new appreciation of the importance of increasing corporate value while listening carefully to what our stakeholders have to say.

As the COVID-19 pandemic continues into fiscal 2021, it seems that the global economy will remain challenging. Nevertheless, we will not be discouraged by these hardships and instead do our best to take advantage of the ongoing changes to deal with management issues, thus generating steady growth. Your continued support in this regard will be most appreciated.