

Dexerials

Dexerials Integrated Report

2021



Corporate
Philosophy

Integrity

Have Integrity and Sincerity

“Integrity—Have Integrity and Sincerity” is the corporate philosophy of the Dexerials Group and “Value Matters Unprecedented innovation, unprecedented value” is our corporate vision.

Utilizing Dexerials’ unique and innovative technologies with a quick and skilled approach, we fulfill customer needs and resolve customer challenges. With integrity and commitment, each and every employee endeavors to create value exceeding our customers’ expectations.

We have firmly established these ideals as a public corporation within society.

Our mission, which is also our desired corporate image, is to enhance the richness and quality of life and our global environment by continuing to develop new products of value to the world and nurturing people who can create value.

“Integrity” and “Value Matters.”

We hold these two ideas close at heart as we advance onward.

Corporate
Vision

Value Matters

Unprecedented innovation, unprecedented value.



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Editorial Policy

The Integrated Report covers the Dexerials Group's business strategy, business results, financial information, non-financial information such as CSR activities, and so on, and has been published since fiscal 2019 as a communication tool to facilitate understanding of the Group.

Applicable Scope and Term

Applicable Scope: This report covers Dexerials Corporation and its subsidiaries in Japan and overseas.

Applicable Term: This report is based in principle upon the results of activities in fiscal 2020 (April 1, 2020-March 31, 2021); however, some reports and data may refer to past or current information.

Reference Guidelines

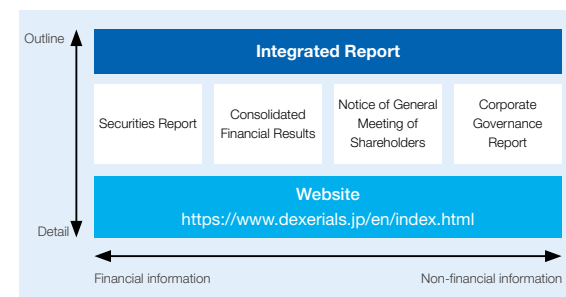
The International Integrated Reporting Framework published by the International Integrated Reporting Council (IIRC)
Guidance for Collaborative Value Creation published by the Ministry of Economy, Trade and Industry
GRI "GRI Standards"
ISO26000
Environmental Reporting Guidelines (Fiscal Year 2018 Version) published by the Ministry of the Environment

Disclaimer on Forward-looking Statements

The forward-looking statements contained in this report are based on information currently available to the Company and certain assumptions that are believed to be reasonable, and no responsibility is borne as to the accuracy or completeness of the forward-looking statements. Actual results may differ from the results anticipated in these forward-looking statements due to a variety of factors, and the Company gives no assurance that such statements will prove to be correct. Additionally, regardless of actual results, etc., from the date of the publishing of this document, the Company has no obligation to continuously update the content of this document, nor does it have such a policy.

Communication Map

For detailed financial information, please refer to the securities report and the Investor Relations page on the Dexerials website. For detailed CSR information, please refer to the CSR page on the Dexerials website.



Unceasing pursuit of “unprecedented innovation, unprecedented value”

Company

1962
Sony Chemicals Corporation was established for manufacturing and sales of copper foil products for circuits and industrial adhesive products.



1970
Kanuma Plant No.1 completed. Transferred from Haneda Plant.



1972
Started mass production of magnetic heads and ferrite cores.



1963
Advanced into the liquid adhesive domain to build up a new core business.



1965
Expanded the application of bonding technologies to double-coated tapes.



1977
Commercialized anisotropic conductive films (ACF) ahead of industry peers.
As LCD panels for digital cameras and cellular phones and also flat panel displays became widespread, demand for LCD display devices grew ever faster. Anisotropic conductive films (ACF) are indispensable for the evolution of LCD display devices. Sony Chemicals Corporation succeeded in commercializing ACF ahead of the rest of the industry.



1987
Listed on the Second Section of the Tokyo Stock Exchange (TSE).



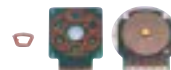
1989
Sony Chemical Corporation of America established.



1985
Launched production of ink ribbons for thermal transfer printers.



1987
Started production of Lamicoil for compact motors.



1989
Started production of high-density thin multilayer printed circuit boards for the passport-sized camcorder Handycam® TR55.



1992
Sony Chemicals Europe B.V. established in the Netherlands.



1994
Sony Chemicals (Suzhou) Co., Ltd. established in China.



1996
Started volume production of multilayer printed circuit boards for PlayStation®.



1998
Started production of optical devices.



1994
Started production of protection elements for Li-ion batteries.

As laptop PCs, cellular phones, video cameras and other portable electronic equipment were introduced with reduced sizes and advanced features, the Li-ion battery market expanded. Sony Chemicals Corporation was first in the world to mass-produce the protection elements essential for safe operation of Li-ion batteries.



For over 50 years since the days of our predecessor Sony Chemicals Corporation, we have been delivering new value to the world.

The value we have created is embodied in technologies indispensable for the advancement and safety of products and that enhance convenience, including through miniaturization, thinning, and greater visibility.

Capitalizing on the unique technologies we have cultivated over many years and new technologies yet to be developed, we will continue our pursuit of value.

2000
Sony Chemicals Corporation was delisted from TSE. Became a wholly owned subsidiary of Sony Corporation.

2006
Company name changed to Sony Chemical & Information Device Corporation.

2012
Company name changed to Dexerials Corporation, and business launched.

2013
Dexerials (Shanghai) Corporation established in China.

2015
Listed on the First Section of the Tokyo Stock Exchange (TSE).

Dexerials Kibou Corporation started business.

2016
Tochigi Technology Center started operations.

2020
Dexerials Precision Components Corporation established.

2021
Headquarters changed to Shimotsuke-shi, Tochigi. Tokyo Office moved to Kyobashi, Chuo-ku, Tokyo.

2001
Started production of touch panels.

2002
Started selling of anti-reflection films.
Sony Chemicals Corporation established the roll-to-roll sputtering system suited for volume production by applying the proprietary technology for anti-reflection film for cylindrical CRTs, which had been developed by Sony Corporation.

2004
Started production of thermal conductive sheets.

2008
Started production of inorganic polarizer for projectors.

2007
Started production of the optical elastic resin (SVR[®]) to increase the visibility of the display panel.

2013
Started production of PSA-transformable optical elastic resin (hybrid SVR) whose adhesive properties are transformed during UV curing.
While maintaining excellent optical properties of conventional SVR, which is known for its high visibility as well as abilities to improve contrast and shock resistance, hybrid SVR realizes workability equivalent to that of optical clear adhesive. It also reduces color unevenness of display panels caused by shrinkage during curing.

2014
Started production of eye shield material for medical use.

2016
Commercialized ArrayFIX particle-arrayed anisotropic conductive film (ACF).

2015
Started production of Albedo solar control window film.

2018
Developed anti-fogging and anti-fouling solutions to prevent clouding and improve the ease of cleaning mirrors.

2020
Developed Infra-Aid, a brand of leak repair products specifically for repair and maintenance of infrastructure equipment.

Developed anti-reflection film AR Film HD Series.

Developed Jettable SVR, optical elastic resin corresponding to inkjet coating.

2021
Commercialized the Phosphor Film "PS Series".

Commercialized SFJ15Amperes T Series, small thin lead-free self control protector.

Products

Highlights



No.1



Anisotropic conductive films (ACF) ^{*1}



Optical elastic resins (SVR) ^{*2}



Anti-reflection films produced utilizing sputtering technology ^{*3}

Net sales



65,830 million yen
 year on year +14.1%

Operating profit



11,339 million yen
 year on year +145.6%

Profit attributable to owners of parent



5,329 million yen
 year on year +94.9%

ROE



10.4%
 year on year +4.9%_{pt}

Total payout ratio (before amortization of goodwill)



42.2%

Ratio of outside directors



57.1%

Ratio of mid-career hires



39.5%

Three-year retention rate for new graduates employed



82.5%

Number of engineers



564

Ratio to No. of employees on a consolidated basis
31.8%

^{*1} The 2020 share for amount of ACF for large-sized and small- to medium-sized displays according to the "2021 Current Status and Future Prospects of the Display-related Market" issued by Fuji Chimera Research Institute, Inc.

^{*2} The 2020 share for total amount of optically clear adhesives (OCR/LOCA) used in bonding displays according to the "2021 Current Status and Future Prospects of the Display-related Market" issued by Fuji Chimera Research Institute, Inc. Optical elastic resin (SVR) is the product name for Dexerials' optically clear adhesives.

^{*3} The 2020 share for amount of surface treatment film (dry coating) according to the "2021 Current Status and Future Prospects of the Display-related Market" issued by Fuji Chimera Research Institute, Inc.

Business Portfolio

(Note) Each business corresponds to a segment among the disclosed results and net sales include inter-segment sales.

Optical Materials and Components Business

Contribution
to net sales
42.7%

Net sales **28,165** million yen Operating profit **6,278** million yen

This business is classified into three categories: optical films, optical resin materials, and optical solutions. These three categories include anti-reflection films, optical elastic resins, and smart precision adhesives. We have a large share of the global market because of the advanced technology and high quality of our anti-reflection films which are our mainstay products.



Anti-reflection films

The dry-type anti-reflection films realizing outstanding low reflection property and abrasion resistance contribute to improved visibility of mobile devices and automotive displays such as center information displays. Lineup including DxShield®, eye shielding materials for medical use featuring low reflectance and high visual transmittance utilizing our microfabrication technology.



Optical elastic resins (SVR)

Highly permeable and elastic resin is embedded in air gaps in devices such as smartphones and tablet PCs to realize slim profiling and improved visibility. Our lineup also includes a PSA-transformable optical elastic resins (hybrid SVR) for small-to-medium-sized flat panel displays (FPD) whose adhesive properties are transformed by UV curing to realize workability equivalent to that of optical clear adhesive.



UV-curable / thermo-curable adhesives

Our "SA Series" of smart precision adhesives comprises adhesives for UV curing, thermosetting, and UV + thermosetting. This series accomplishes low temperature fast curing, along with low shrinkage, and is ideal for precision affixing during assembly such as camera modules and optical pickups.



UV-curable resin for optical discs

UV-curable resins for optical disc media, such as DVD and Blu-ray Disc. Suitable for forming a corrosion-protection coating for the recording layer and for forming the base and cover layers of Blu-ray Disc media.

Electronic Materials and Components Business

Contribution
to net sales
57.3%

Net sales **37,801** million yen Operating profit **6,858** million yen

This business is classified into the four categories: adhesive materials, anisotropic conductive films, surface mounted type fuses, and micro devices. Due to our advanced technology and high quality, we have a large share of the global market for anisotropic conductive films (ACF), our mainstay products, which we were the first in the industry to develop and put into mass production in 1977.



Anisotropic conductive films (ACF)

Anisotropic conductive films are conductive adhesive materials that exploit electrical properties to conduct two components vertically while keeping mechanical performance by adhesion. Widely adopted for display panels and camera modules.



Surface mounted type fuses

Self control protectors (SCP) that immediately interrupt overcharge or overcurrent in Li-ion rechargeable batteries are standard fuses for secondary protection devices. We also offer a lineup of power current protector (PCP) fuses for high-current applications, which despite being thinner and smaller, protect electronic devices from overcurrent.



Thermal conductive sheets

Thermal conductive sheets conduct the heat generated from IC chips such as CPUs to the heat sink to protect device performance. We offer silicone sheets featuring high thermal conductivity and flexibility, acrylic sheets, and carbon fiber sheets for applications that generate large amounts of heat such as network servers of wireless base station.



Inorganic polarizers / Inorganic waveplates

These optical devices have high durability to withstand long hours of use in high temperature and high light intensity environments, and achieve high transmittance and low reflectance with its nano-level processing technology and a unique thin-film microstructure. They boost the brightness and contrast of projectors and optical units that use laser light sources.



Solar cell conductive films for photovoltaic modules

This film-type bonding material is used to bond solar cells with the metal ribbon that collects electricity generated by the cells. The material is capable of bonding at a lower temperature than conventional soldering. Thus, cells undergo less thermal strain from heating, which helps improve yield during module production.



Sputtering targets

Our sputtering targets are widely used by manufacturers of electronic and electric devices for semiconductor chips, recording media of various optical disk formats, and more. High purity and uniform structure contribute to higher productivity while our various irregular-shape-processing technologies extend lifetimes.

The application field of Dexerials products is extensive and diverse

Around Town

- **Smartphones**
 - ▶ UV-curable / Thermosetting adhesives
- **Tablets PCs**
 - ▶ Anisotropic conductive films (ACF)
 - ▶ General-purpose double-coated tapes
 - ▶ Dustproof nets with adhesive for speakers
 - ▶ Thermosetting tapes for FPC
- **Automobile**
 - ▶ Surface mounted type fuses
- **Electric motorcycles**
 - ▶ Surface mounted type fuses

Please refer to P7.

Please refer to P7.

Offices & Schools

- **Laptop PCs**
 - ▶ Anisotropic conductive films (ACF)
 - ▶ General-purpose double-coated tapes
 - ▶ Thermosetting tapes for FPC
 - ▶ UV-curable / Thermosetting adhesives
- **Projectors**
 - ▶ Inorganic polarizers / Inorganic waveplates
- **Servers**
 - ▶ Thermal conductive sheets

Home

- **Televisions / laptop PCs**
 - ▶ Anisotropic conductive films (ACF)
 - ▶ General-purpose double-coated tapes
 - ▶ Dustproof nets with adhesive for speakers
 - ▶ UV-curable / Thermosetting adhesives
- **Cordless electric power tools / vacuum cleaners**
 - ▶ Thermal conductive sheets
 - ▶ Optical elastic resins (SVR)
 - ▶ Thermosetting tapes for FPC
 - ▶ Surface mounted type fuses

Factories / Others

- **Factories**
 - ▶ Water treatment agents
- **Solar Panels**
 - ▶ Solar cell conductive films for photovoltaic modules

Medical Facilities

- **Protective gear for health professionals**
 - ▶ Eye shield material for medical use (DxShield®)
- **Artificial ventilators**
 - ▶ Surface mounted type fuses



For further details, please visit our website.

<https://www.dexerials.jp/en/ir/about/place.html>

For example

Smartphones

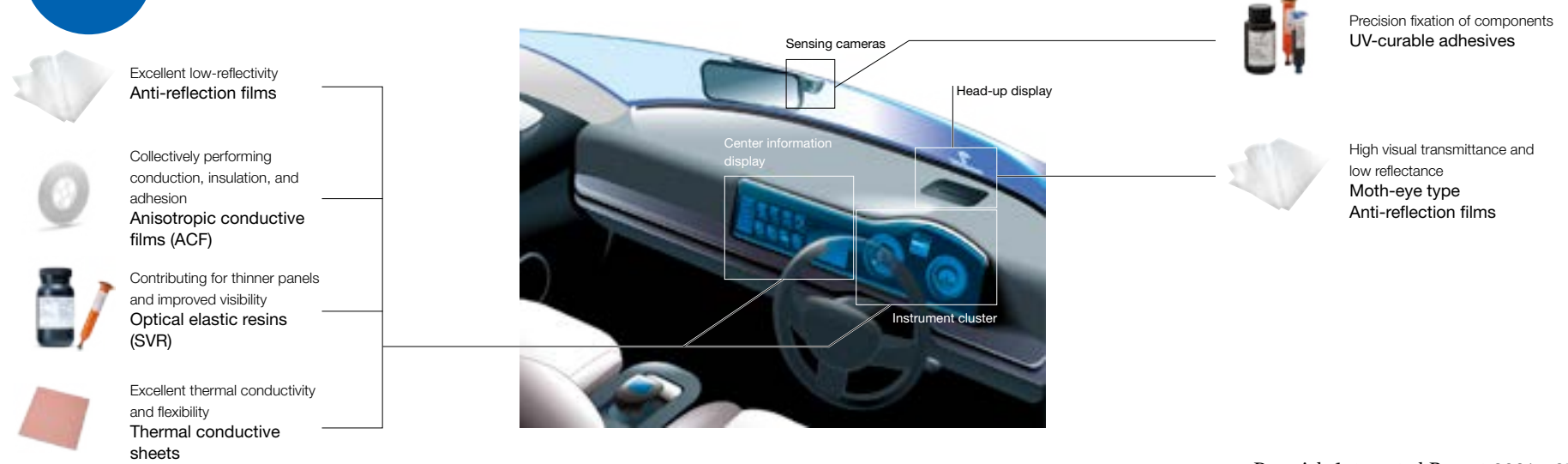
Smartphones have become thinner and more sophisticated.
 To mount numerous circuit boards and components within limited space, Dexerials' functional materials are used.



For example

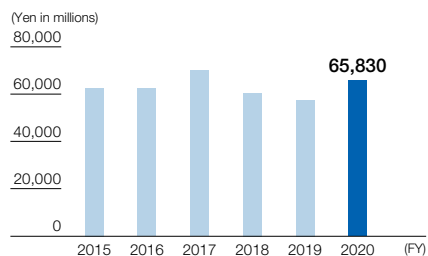
Automobile

Dexerials' functional materials are used in automotive field requiring higher visibility, smoother screen operation, and higher intelligence.

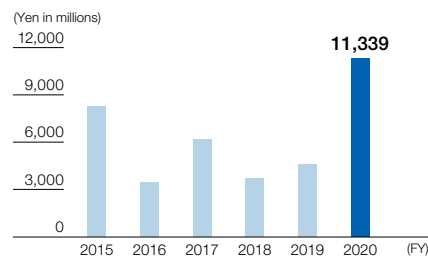


Consolidated financial performance indicators		FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Net sales	(Yen in millions)	62,654	62,598	70,079	60,580	57,710	65,830
Operating profit	(Yen in millions)	8,306	3,491	6,178	3,724	4,617	11,339
Profit attributable to owners of parent	(Yen in millions)	4,587	949	3,426	2,284	2,734	5,329
Earnings per share (EPS)	(yen)	73.16	15.85	56.91	37.73	45.05	87.60
Total assets	(Yen in millions)	87,296	97,347	94,958	87,586	86,279	95,201
Capital to asset ratio	(%)	59.6	52.1	52.6	56.0	57.5	56.0
EBITDA	(Yen in millions)	13,083	8,543	11,561	9,680	10,786	17,590
ROIC	(%)	7.4	2.7	5.6	3.3	4.4	11.4
ROE	(%)	8.6	1.9	6.8	4.6	5.6	10.4

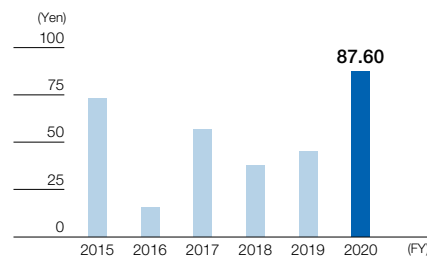
1 Net sales



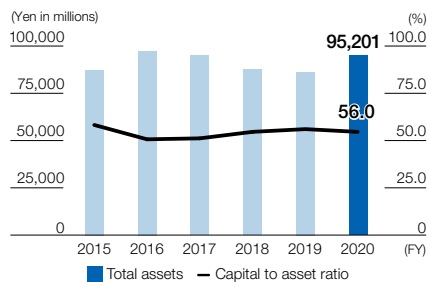
2 Operating profit



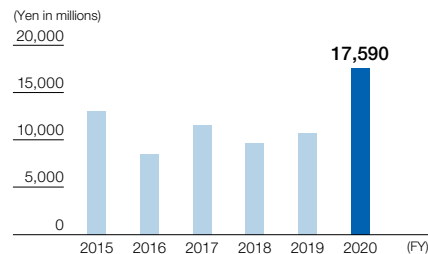
Earnings per share (EPS)



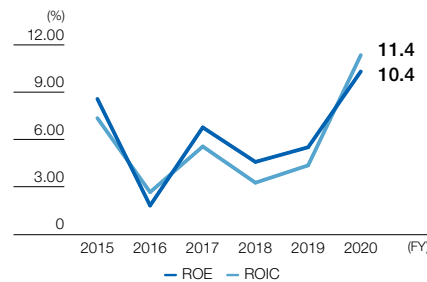
Total assets / Capital to asset ratio



EBITDA



ROE / ROIC

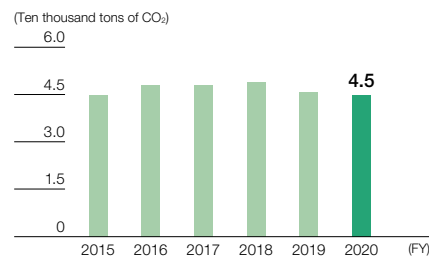


Explanation of key aspects of financial performance

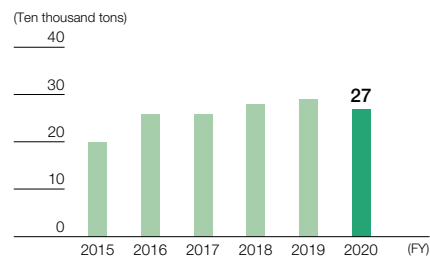
1 2 In addition to increases in sales for anti-reflection film and Anisotropic Conductive Film (ACF), which are our differentiating technology products, and Surface mounted type fuses, productivity of anti-reflection film and ACF improved as well, leading to significant increase in profitability.

Non-financial indicators		FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
CO ₂ emissions	(ten thousand tons of CO ₂)	4.5	4.6	4.8	4.9	4.6	4.5
Water usage	(ten thousand tons)	20	24	26	28	29	27
VOC emissions	(tons)	46	55	42	46	37	36
Waste emissions	(ten thousand tons)	0.21	0.21	0.24	0.29	0.26	0.25
Number of employees (consolidated basis)	(persons)	2,317	2,124	1,981	2,005	1,999	1,772
	(non-consolidated basis)	(persons)	1,718	1,600	1,585	1,604	1,313
Composition of Directors and Number of Board of Directors (total / outside / female)	(persons)	10/7/2	10/7/2	10/7/2	10/7/2	10/6/1	9/6/1
Percentage of employees with disabilities	(%)	2.98	3.28	3.38	3.40	3.40	3.37
Rate of taking paid leave	(%)	59.4	62.4	61.8	67.2	68.4	60.0
Average number of days of paid leave taken	(days)	13.7	14.4	14.2	15.3	15.7	13.7

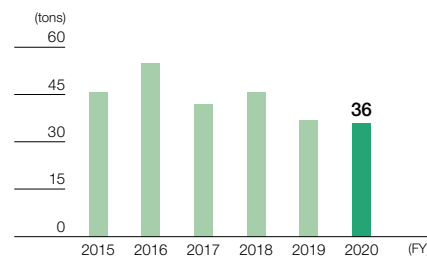
1 CO₂ emissions



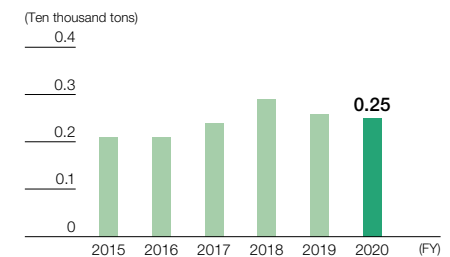
1 Water usage



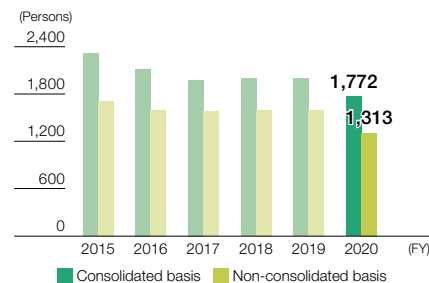
1 VOC emissions



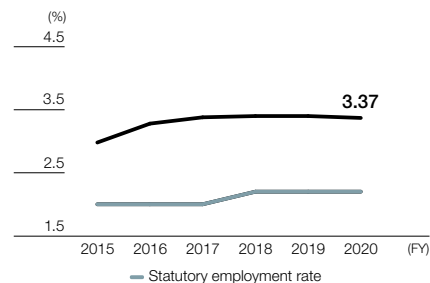
1 Waste emissions



2 Number of employees



Percentage of employees with disabilities




Rate of taking paid leave / Average number of days of paid leave taken



Explanation of key aspects of non-financial performance

- For various environmental indicators in fiscal 2020, such as CO₂ emissions, we were able to reduce the numbers compared to the previous year, as a result of the introduction of energy-saving equipment at manufacturing sites and improved yields in manufacturing processes.
 - See Page 38 for the details of the initiatives to reduce environmental impact.
- The number of employees decreased in fiscal 2020 due to such factors as personnel transfers related to the establishment of a manufacturing joint-venture company and the introduction of a "special early job transfer support program."


Create the future together with customers



Corporate Philosophy

Integrity

Have Integrity and Sincerity



Corporate Vision

Value Matters

Unprecedented innovation, unprecedented value.

Invested Capital

Financial Capital

- Shareholders' equity: 51,439 million yen

Manufacturing Capital

- Capital investment amount: 3,832 million yen
- Manufacturing sites: 4 sites in Japan, 3 sites overseas
- Headquarters and Tochigi Technology: the technology center where engineers from various fields gather

Human Capital

- Number of employees: 1,772
- Number of engineers: 564
- Ratio of new hires with engineering background to all new hires: 77.3%

Intellectual Capital

- R&D expenditure: 3,611 million yen
- Overseas patents ratio: 65%

Social Capital

- Relationships of trust with customers based on unique technology and high quality
- Relationships with 470 Green Partners

Natural Capital

- Electricity: 71,311 MWh
- Water: 270,000 tons

Four important challenges to be engaged in for the medium- to long-term (Materialities)

1 Creating New Value, Resolving Social Issues	2 Reinforcement of Corporate Governance and Compliance
3 Cultivation of Diverse Human Resources and Engagement	4 Ensuring Operational Safety and Business Continuity

Returns and Value Offered to Society

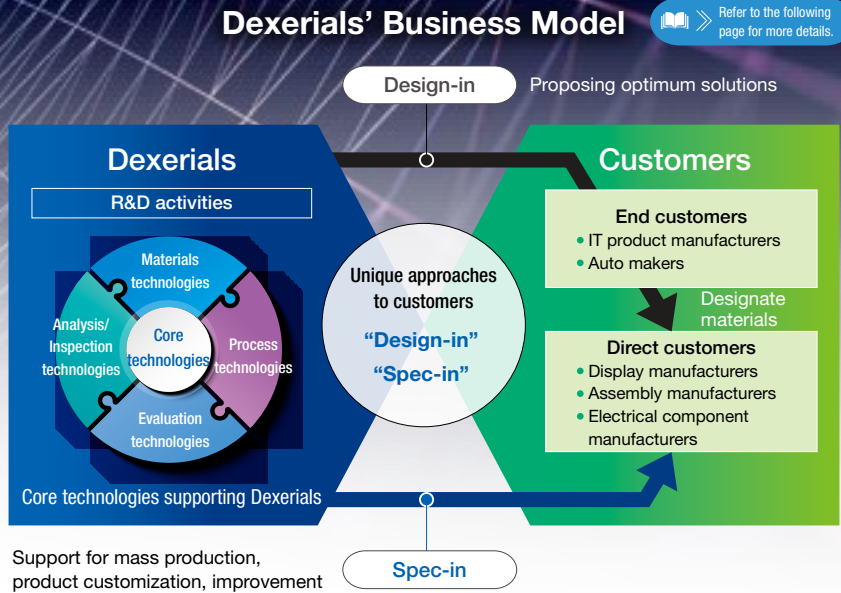
Solve social issues and contribute to the realization of a prosperous society through products and services backed by unique technology

- Provision of highly functional materials and devices that support next-generation communication equipment and automobiles
- Provision of products that contribute to reduction of environmental impacts
- Creation of new value by applying electronics technology to other fields
- Creation of unique technology by vigorous investment in R&D
- Human resource development through promotion of diversity
- Proactive shareholder returns according to profit (Total payout ratio before amortization of goodwill 40%)



Changes in the social environment

- Progress of AI
- Spread of high-speed communication
- Progress of autonomous driving technology
- Advent of IoT society
- Climate change
- New lifestyle



Dexerials' Management Strategy

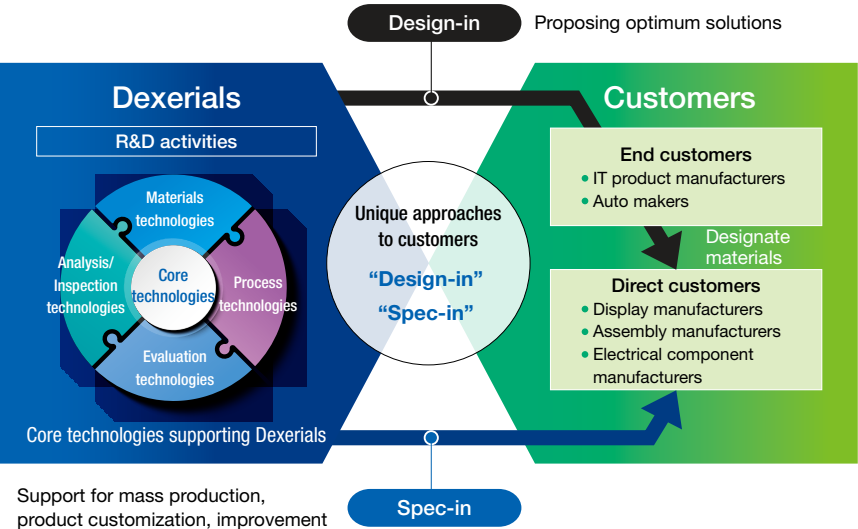
Mid-term Management Plan 2023 "Challenges for Evolution"

- Accelerate business growth in new business domains
- Qualitatively change businesses in the existing domains
- Strengthen the management base

Business Model

We use advanced technologies and communication with customers to discover customers' issues and provide products that will solve those issues.

This has allowed us to maintain a high barrier to entry and high market share and to realize stable profitability.



Unique approaches to customers

Design-in **Spec-in**

Dexerials' product development is supported by our approaches to both "direct customers" who are manufacturers of displays and components, and "end customers" who are manufacturers of end products beyond that.

Design-in

In response to products and new functions developed by the end customers, we identify issues that the customers are not aware of. We then propose new products that will resolve customers' issues. Our products, which have been approved after evaluation by the end customer, are used by the direct customer as designated materials when manufacturing the end products.

Through these activities, we grasp the cutting-edge technology trends, quickly incorporate the end customers' needs, and develop and propose numerous "products that continues to be chosen" by customers.

Spec-in

At the same time, we also provide support for mass production using our products to our direct customers. Furthermore, we are highly evaluated by direct customers for providing improved products that contribute to the customers' productivity improvements even after the establishment of the mass-production system, such as shortening of adhesion time and adhesion at low temperatures.

The key to maintaining a high market share in niche markets

"Communication capabilities" to elicit customers' issues and needs

In our communication with the customers, our engineers join our sales representatives to elicit customers' issues and needs, and then work with the development division to the true challenges by adding technical considerations.

In response to these challenges, we develop and propose unprecedented, unique and highly value-added products and solutions, and in doing so, achieve the provision of value that exceeds customers' expectations.

Advanced "technological" and "analytical" capabilities to develop products that meet customers' expectations

Our product development that exceeds customers' expectations is founded on comprehensive development capabilities generated by the four core technologies that we have accumulated since the time of our predecessor.

Multiplying these core technologies opens up a wide range of possibilities.

Materials and process technologies

Dexerials owns many technologies related to manufacturing processes, including materials technologies for developing functional materials used in cutting-edge electrical, electronic, and communication equipment, such as liquid and film adhesive materials, magnetic materials, and optical materials; organic technologies for mixing, dispersing, and synthesizing materials; inorganic technologies, such as crystal growth; technology for coating materials on base films or forming thin films in a vacuum environment; and technology for high-precision cutting of film into the required shapes .

Analysis/Inspection and evaluation technologies

To respond swiftly and with certainty to product development and technical challenges, our engineers leverage their knowledge of products and developed products, optimal preprocessing, and analytical methods to perform sophisticated analysis. They use highly sensitive high-resolution instruments backed by the latest technology to achieve speedy solutions to issues.

Achieve profit targets ahead of schedule by responding quickly to changes

Refresh the Mid-term Management Plan and take steps toward further growth.

Review of fiscal 2020

Fiscal year 2020 was a year in which society as a whole was greatly affected by the COVID-19 pandemic. The pandemic further accelerated the movement toward work style reforms and digitalization, which had a positive impact on our business performance, and we attained the highest profit level since we were listed on the stock exchange by capturing the increased demand for mobile IT products and improving productivity. However, there is something else that I believe deserves praise besides financial performance: employees' change in mindset. In last year's Integrated Report, I mentioned that a mindset that is not afraid of change has been fostered within the company. In the midst of the major changes in the external environment caused by the COVID-19 pandemic, the management team and employees were able to act in unison and cope with the changes in an agile manner, which I believe is a valuable evolution that will lead to the sustainable growth of the company in the future. Taking DX (Digital Transformation) as an example, in the process of rolling out remote work to all of our business locations, each and every one of us has come to realize the necessity

and importance of remote work, which has led to the acceleration of our efforts to respond to change. In terms of communication with customers, various challenges have been attempted despite the difficulty of face-to-face communication, and the fact that we were able to implement spec-in activities beyond our expectations has been a gain harvest for us. carry out more spec-in activities than expected.

Progress and assessment of the Mid-term Management Plan in the two years

As for the progress of the Med-term Management Plan 2023 "Challenge to Evolution," I believe that we have been able to steadily implement what we can do in the midst of significant changes in the business environment over the two years to 2020. Specifically, in order to achieve a qualitative change in business in existing areas, we have established a system for business reevaluation that ensures transparency and fairness, identified businesses that should be selected and focused on, and firmly implemented measures accordingly. For example, we reevaluated our production bases of businesses that should continue,

and thoroughly strengthened them by taking measures such as improving productivity and expanding differentiating technology products. In order to strengthen the management base, we have promoted generational changes in our management team and implemented a special early career change support program for managers aged 50 and above. In the micro devices business, we have improved its revenue structure on a stand-alone basis and established a production system that is resilient to fluctuations in demand since January of this year, and have begun to operate the business independently to achieve sustainable growth.

On the other hand, one of the remaining issues is the growth of new businesses. Although we have made progress, such as in the development of our automotive business, we have yet to transform the company's overall business portfolio and need to accelerate further. Last October, we began collaboration with German automotive design house SemsoTec Group. The fact that we were able to establish a technological support system for in-vehicle displays in spite of the COVID-19 pandemic is one of our achievements, and we will strengthen the collaboration even further going forward.



Representative Director and President

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Refresh the Mid-term Management Plan

After completing second year of the Mid-term Management Plan, we have refreshed (updated) the Mid-term Management Plan to set new targets for the next stage of growth, as there have been major changes in the business environment that were not expected when this plan was formulated, and in terms of business performance, we have exceeded the initial plan for two consecutive years, including achieving the final year target for operating income three years ahead of schedule. Although the three basic policies we initially established — (1) Accelerate growth in new domains, (2) Qualitatively change businesses in the existing domains, and (3) Strengthen our management base — remain unchanged, we will update the individual measures related to each one. In addition to EBITDA (earnings before interest, taxes, depreciation, and amortization), as an indicator of our earning strength, we will also introduce ROIC (return on invested capital), to judge the investment efficiency for growth.

Furthermore, even after the announcement of the refresh of the Mid-term Management Plan, the evaluation of and demand for our differentiated technology products continued to increase, and based on this, we made a further upward revision to our business forecast for fiscal year 2021 in November 2021.



See Page 24 for the details of the updated Mid-term Management Plan.

1. Accelerate growth in new domains: Promote full-scale growth of automotive business

In the automotive business, which is the prioritized field in new domains, even though the automotive market overall faces slowdowns in production volume and shortages of semiconductors due to the COVID-19 pandemic, environmental problems have triggered the acceleration of the electrification trend for EVs and autonomous driving. In the in-vehicle display market, the increase in display size has progressed than expected, so we will strive to achieve dramatic business growth with a focus on anti-reflection films. The number of car models that use our products have been expanding steadily: In fiscal 2021 our products are expected to be adopted in a total of over 100 models globally. With regard to joint sales

promotion activities with our German collaborative partner, SemsoTec Group, we have started trial lamination of optical elastic resin (SVR) in addition to anti-reflective film, we are also making various preparations to further enhance our presence in German automotive OEMs, such as discussing the introduction of an infrastructure for Jettable SVR compatible with inkjet coating.

2. Qualitatively change businesses in the existing domains:

Improve our earning strength by investing in increased production and launching new products

With the advancement of digitalization and the changes in values and behavior brought about by the COVID-19 pandemic, demand for mobile IT products

We will strive to improve corporate value further by introducing ROIC in addition to EBITDA.



Measures to strengthen the management base

Corporate Governance

- Transition to a company with an Audit and Supervisory Committee
- Adopt EBITDA and TSR as evaluation criteria for directors' remuneration
- Relocate Headquarters to Tochigi

Work style reform

- Promote diversification of work styles by institutionalizing remote work
- Double the number of women in management compared to fiscal 2020

Enhancement of Environmental Measures and BCP

- Installation of in-house power generation using renewable energy and electricity storage facility
- Improve maneuverability in response to disasters

Digital Transformation

- Visualize all the activities
- Strive to accelerate growth and create new customer value

in existing domains, such as laptop PCs, tablet PCs, and smartphones, has increased more than initially expected when the Mid-term Management Plan was formulated. Specifically, anti-reflection films for laptop PCs have been adopted by new customers and are expected to expand business steadily along with products for in-vehicle displays, and it has also led to new customers adopting phosphor film, a new product for which mass production has already begun. We will expand the business for our differentiated technology products, such as surface mountable type fuses for Li-ion batteries and particle-arrayed

anisotropic conductive films (ACF), by making investment for more production capacity and improving production efficiency. As legal regulations for Li-ion batteries have been strengthened in Europe, demand for our surface mounted type fuses is expected to increase since they meet European safety requirements. Since various projects are progressing and demand looks very strong not only for laptop PCs, but also for electric motorcycles, electric power tools, drones, and cordless vacuum cleaners, we plan to work to take full advantage of business opportunities and achieve steady growth by making

investment for more production capacity. In addition to the expansion of particle-arrayed ACF for displays, also for mounting sensor modules is expanding. Going forward, we will make investment for more production capacity to build optimal lines specifically for particle-arrayed ACF to increase production capacity and dramatically boost productivity. We expect it to become a powerful growth driver for the Company.

3. Strengthen management base:

Tackling innovation to create a new corporate image that coexists with all stakeholders

In order to further strengthen our management base, we made a transition to a company with an audit and supervisory committee in June 2021 to further separate the execution and supervision functions, speed up the decision-making process, and strengthen the monitoring function. In July of the same year, we relocated our head office from Tokyo to Shimotsuke-shi, Tochigi where Tochigi Technology Center is located to integrate operation of management and site. With regard to employee relations, in April of the same year, we established the remote work system in response to diverse work styles due to the COVID-19 pandemic, and we will continue to further diversify the work styles of our employees, including the use of shared offices.

On the other hand, looking at the external environment, the world can no longer wait to address climate change. We had set a rather challenging goal for our carbon-neutral efforts, but through the active use of renewable energy, we have made progress in reducing CO₂ emissions ahead of our initial plan. In terms of environmental issues, our stance as a company on decarbonization efforts across the

Message from Top Management

entire supply chain, which includes customers abroad, is being challenged to take a corporate stance toward decarbonization, and we recognize that if we miss the global trend toward decarbonization, it will come back to us as a risk to our business. While keeping an eye on the future introduction of a carbon tax in the future, we have moved forward with using renewable energy, despite the costs, and set a new target of zero CO₂ emissions from business-derived electricity consumption through the use of renewable energies by fiscal 2030. In addition to our own efforts, we will continue to actively work on developing and providing materials that can reduce the environmental impact on our customers and society.

As a measure to reinforce our BCP (Business Continuity Plan), we are planning to introduce in-house power generation using renewable energy including solar and other renewable energy sources, and electricity storage facilities to prepare for large scale power outage by natural disasters. As for DX, a dedicated organization leads a company-wide initiatives. DX literacy has risen among management who have already completed training, and we will continue to achieve more agile management leveraging DX and bring change to customer value.

Risks and opportunities

The Board of Directors has been discussing what we want to be as a company in the long term. We recognize that the change in people's behavior and the acceleration of digitalization in the COVID-19 pandemic are business opportunities for us, but we also recognize that the environmental issues, although



Environmental initiatives are becoming one of the requirements for the sustainable growth of business.

I have been consistently sending a message to our employees that the greatest risk for our company is the risk of not changing and acting on our own in the face of so much change in the external environment. On the other hand, I also told them that if they can act quickly to change, they can turn risks into opportunities.

ESG management

Through our efforts to date, our understanding of ESG and SDGs has become quite widespread within the company. I feel that each and every one of our employees is gaining a deeper understanding of the fact that these issues cannot be considered separately from our business, and that they are all connected.

With regard to the "environment (E)", I feel that it is changing into one of the necessary conditions for the sustainable growth of our business. Our CO₂ emissions were 45,000 tons in fiscal 2020, which is extremely low for a company in the chemical sector. However, as decarbonization efforts are becoming a precondition for business, we believe that being a pioneer and making solid efforts will lead to the expansion of our business.

they present great business opportunities, will become a risk factor if we do not respond properly. We are also aware of the need to strengthen our BCP in preparation for further intensification of natural disasters as a risk of climate change advancing faster than expected, and we will also implement measures to improve our mobility in responding to disasters. Among the various possible risks and opportunities,

With regard to “society (S)”, carrying out initiatives to deepen relations with stakeholders who are involved with our businesses, including employees. We also will focus on development of human resource system that can accommodate new ways of working and create a framework that will ensure the company to achieve solid growth in the midst of diversifying work styles, while at the same time expanding overall diversity. Although we set a target of doubling the number of women in management positions in Japan in the Mid-term Management Plan Refresh, the number of women in management positions in Japan is still small in terms of the overall number. In addition, we will actively promote the appointment of foreign nationals to executive positions. We will continue to take on the challenge of expanding the opportunities for women to play an active role in the company, as a variety of work styles that can be easily balanced with life events have taken root. We will also actively promote the appointment of foreign nationals as executives.

With regard to “governance (G)”, we will further enhance our effectiveness under the new governance structure. We are also working to comply with the revised Japan’s Corporate Governance Code announced in June 2021. The Nomination and Remuneration Committee will play a central role in examining the process of appointing internal and external directors with the skills required by the Company’s priority issues, including succession plans, in a way that fits the Company.

And we are preparing with preparations for disclosing sustainability-related information in line with the TCFD (Task Force on Climate-related Financial Disclosures) framework. In fiscal 2021, we introduced EBITDA for short-term incentives and TSR (Total

Shareholder Return) for long-term incentives as KPIs to be reflected in the calculation of executive remuneration, and we are promoting management that is more conscious than ever of corporate value enhancement and stock prices. We feel this has been positively received in our engagement with investors, and will continue to deepen our discussions based on the recognition that in the future it will be a matter of course to incorporate ESG-related indicators into the KPIs for calculating officer remuneration.

See Pages 48-49 for the details of the policy to decide officers’ remuneration.

I feel that we have been able to establish a base for sustainable growth and enhancement of corporate value in the future, and stand at the starting line for the next stage of growth.

Message to Stakeholders

In the two years since I took office as President, I have strived to convey a consistent message and have focused on engagement with investors, employees, and other stakeholders. Now that we have completed the second year of our Mid-term Management Plan, I feel that we have established a base for sustainable growth and enhancement of corporate value, and we are finally standing on the starting line for the next stage of growth.

December 2021

Representative Director and President

Yoshihisa Shinya





Management and employees will work together under the same mindset to develop CSR activities.

Representative Director and Senior Managing Executive Officer

Toshiya Satake

Review of fiscal 2020 CSR activities

Our corporate philosophy, “Integrity—Have Integrity and Sincerity,” is the foundation for our management decisions and the actions of each and every employee, and communication is the starting point for smooth corporate management toward the realization of our corporate philosophy. In July 2021, we moved our head office from Tokyo to Tochigi, and I expect that management and the frontline will be more integrated in our business operations than ever before. In terms of initiatives for CSR and ESG, it is important for employees to be able to straightforwardly convey their thoughts on day-to-day activities and customer needs to management, but it is also important for management to convey the right mindset to tackle to employees. I believe the relocation of our head office has facilitated such mutual communication.

I also feel that discussions are progressing based on a new, diverse set of values by establishing an executive management structure for the next

generation in October 2020, including the appointment of young executives from within the company and outside personnel.

The year 2022 will mark the 10th anniversary since we changed our company name to Dexerials and became independent from the Sony Group. I believe building a diverse management team has given us a foundation to achieve sustainable growth in the years ahead.

Progress and assessment of four materialities

(1) Creating New Value, Resolving Social Issues

Despite the impact of the COVID-19 pandemic, we have been able to firmly respond to market needs with our main products. In particular, our medical eye shield material (DxShield®), which is based on the Moth-eye type anti-reflection film that significantly reduces visual fatigue in medical personnel, has been adopted by many medical institutions.



See Page 37 for the details on eye shield material for medical use.

(2) Reinforcement of Corporate Governance and Compliance

While we have not experienced any major compliance issues, we have made a fresh start in terms of governance following the organizational reform in 2020 and the transition to a company with an audit and supervisory committee in June 2021, and we will strive to create more value under the new governance structure.

(3) Fostering Diverse Human Capital and Engagement

In terms of recruiting human resources, we are not limited to hiring new graduates en masse, but are actively promoting external human resources in Japan and overseas, and introduced a restricted stock compensation plan in 2020 to secure excellent human resources overseas. We will continue our efforts to maintain a work environment that emphasizes communication and mutual respect.

(4) Ensuring Operational Safety and Business Continuity

We quickly established a remote work system for the COVID-19 pandemic and have been able to continue our business with less risk of infection. Even with the remote work system, we have been able to maintain and strengthen our relationships with our customers and the entire supply chain, and the results are reflected in our business performance. We are also working on confirming the BCP plans of our business partners to strengthen the management system for procurement and logistics risks in the supply chain.

To resolve environmental issues

With regard to initiatives, we can do ourselves such as reducing CO₂ emissions and waste, and using water resources effectively, we are poised to achieve initial CO₂ emissions targets ahead of schedule by switching to electricity derived from renewable energy sources, and will strive to achieve a target of zero CO₂ emission from consuming electricity for business by fiscal 2030. In addition to our own initiatives, we are also aiming to achieve zero CO₂ emissions from business-derived electricity consumption in fiscal 2030. In addition to our own efforts, by using our products and technologies, we will also contribute to reducing CO₂ emissions in the manufacturing processes and end products of our customers, as well as reducing CO₂ emissions in society as a whole.

Initiatives to develop human resources, the source of value creation

The remote work rate at our offices in Tokyo and Western Japan has reached over 90%, and we have been working to improve the environment for remote

work in other regions as well, and in April 2021, we institutionalized remote work.

Besides showing promise to improve operational efficiency and employee creativity, accommodating diverse work styles will make it easier to balance work with life events such as childcare and nursing care, and lead to increasing the number of female managers and promoting health and productivity management. Over the past year, work styles have rapidly diversified, and many employees have developed the mindset of considering what they can do to create value themselves, taking into account their own life plans.

Our immediate task is to increase the number of female managers, from 11 at the end of March 2021 to nearly double to 20 by the end of March 2024, the final year of the Mid-term Management Plan.

Strengthen the governance system to enhance corporate value

In June 2021, we made a transition from a company with an audit and supervisory board to a company with an audit and supervisory committee. The objective was threefold: to speed up decision-making in management and define management responsibility by delegating authority from the Board of Directors to executive directors; invigorate discussions by the Board of Directors on mid- to long-term corporate strategies including growth strategies, financial strategies, and capital policies; and strengthen supervisory and audit functions by placing greater emphasis of the role the Board of Directors on monitoring executive activities through separating execution and supervision.

In preparation for the transition, including outside directors we have spent a lot of time discussing the role of the Board of Directors, the roles to be played by individual directors and Audit Committee members,

and the themes to be discussed by the Board of Directors on an annual basis, and I believe that this process will become the cornerstone under the new governance and contribute to further improvement in effectiveness.

See Page 31 for the details on the transition to the new governance structure.

In conclusion

Faced with dramatic and rapid changes in the social and economic environment and huge changes in people's values and behavior, it is essential to increase diversity and inclusiveness throughout the Group and operate businesses with all employees under the same awareness in order to promote corporate management and CSR activities. We value communication and will make every effort to have our stakeholders understand our environmental and social initiatives, and would be happy to hear any opinions.



Optical Solutions Business Unit

We will create value and contribute to resolving social issues by combining new technologies.



Optical Solutions Business Unit Head

Hiroshi Uchida

Profile

Joined Sony Chemicals Corporation, the predecessor of Dexerials, in 1998. After engaged in product development, where he developed wiring materials, coating materials, liquid adhesives, and other products, he has been involved in developing high-precision components fixing adhesives such as UV curing, low-temperature curing, and smartphone camera module adhesives. In the current position since April 2021.

Market environment

Optical Solutions Business Unit handles two key product categories: the optical films and the optical resin materials. In the optical films category, sales of anti-reflection films, which have a high global market share and account for a large portion of the division's sales, are steadily increasing for use in laptop PCs and in-vehicle displays, where demand has expanded due to the COVID-19 pandemic. Medical eye-shielding material (DxShield®), which is based on anti-reflection film moth-eye type, has been adopted by many medical institutions, and demand is expanding as it helps reduce eye strain among medical personnel. In the optical resin materials category, optical elastic resin (SVR) has maintained a high global share as a resin adhesive for small-to-medium-sized displays. In the high-precision bonding resins, sales for camera modules are steadily expanding against the backdrop

of an increase in the number of cameras mounted on smartphones.

Growth strategy and risks

Optical Materials and Components Business accounts for about 40% of overall net sales. We have set a target of 448 million yen in net sales for the business to achieve by fiscal 2023, and we will continue to contribute to both sales and profits by improving yields and productivity through safety-first and stable production. Anti-reflection films are required to have various functions such as foldable, rollable, touch-sensor compatible, and smudge-proof fingerprint resistance. We will expand the range of functions by taking advantage of the superiority of our materials and our technological development capabilities, and will further expand the range of applications by investing in increased production. In April 2021, we launched a series of phosphor film products which has been highly evaluated for its wide color gamut and ability to reproduce images with a high degree of clarity. We are working to expand our business base by putting a mass production system in place.

We will continue to take measures to ensure stable procurement of materials while coordinating with suppliers as appropriate, based on our understanding of the risks in the entire supply chain, such as soaring material and transportation costs, as well as the occurrence of natural disasters and geopolitical risks, while assuming that we may experience a reaction to the strong demand in the COVID-19 pandemic in the future. On the other hand, personal devices and gadget-related products will continue to grow steadily as lifestyles changed, and business opportunities for us will continue to expand, including sensing devices for autonomous driving and automation, and data storage and communication devices for increased communication traffic. We will continue to create value for customers and contribute to resolving social issues by combining new technologies.

Connecting Materials Business Unit

We will enhance our ability to solve customers' challenges, and strive for growth with a healthy sense of crisis.



Executive Officer
Connecting Materials Business Unit Head

Kozaburo Hayashi

Profile

Joined Sony Chemicals Corporation, the predecessor of Dexerials, in 1992. Engaged in sales and development of thermosetting adhesive tapes, UV-curable adhesives, optical resin materials, etc. Appointed Display Materials Business Unit Head in 2016 and contributed to expand our core products such as anisotropic conductive films (ACF) and optical elastic resin (SVR). In the current position since January 2019.

Market environment

Connecting Materials Business Unit handles anisotropic conductive films (ACFs) and surface mounted type fuses as its main products, as well as adhesive materials and thermal conductive sheets.

ACF is a film material that is indispensable for bonding circuits in digital devices with display panels. We are aiming to make particle-aligned ACF, our differentiating technology product, de facto in the industry, and it is steadily becoming de facto in small-to-medium-sized OLED displays, and is also increasingly being used in displays for automotive applications.

Surface mounted type fuses protect, which Li-ion batteries from overcharging and overcurrent, is expanding in line with the growth of the market for cordless products such as power tools, as well as the

shift to working from home due to the COVID-19 pandemic, which has led to increased sales of laptop PC. This increase in demand for laptop PC has also led to strong sales of adhesive materials.

Thermal conductive sheets are expected to expand in line with the installation of 5G base stations, but decreased in fiscal 2020 due to delay in installation work caused by the pandemic.

We develop and provide functional materials as a solution provider, where our engineers provide technical support to solve the problems that our customers face in making their products more functional and building mass production systems. Our strength is our ability to provide solutions to customers' challenges. It has earned their recognition and trust, and we will continue to enhance this skill.

Growth strategy and risks

In the refresh of our Mid-term Management Plan, we revised upward our net sales target for the Electronic Materials and Components Business to 405 million yen in fiscal 2023. To achieve this target, we will make investment for more production capacity of particle-arrayed ACF and surface mounted type fuses.

In the area of particle-arrayed ACF, we will expand productivity in stages to meet the increasing demand for higher-definition displays and other products, and through the converting plants into smart factories, we will improve productivity and quality to achieve further business growth. In the area of surface mounted type fuses, we are installing new self control protector (SCP) lines and plan to bring them online in fiscal 2022. We anticipate further growth in demand for SCPs as safety regulations for Li-ion batteries are tightened, especially in Europe.

While remaining aware of geopolitical risks and semiconductor shortages, we will continue to deepen overseas collaboration and aim for long-term growth with a healthy sense of crisis, while seizing business opportunities arising from the change in behavior and heightened environmental awareness caused by the COVID-19 pandemic.

Automotive Solutions Business Unit

Steadily capture business opportunities created from decarbonization, the shift to EVs, and growth of autonomous driving.



Automotive Solutions Business Unit Head

Kentaro Oshima

Profile

Joined Sony Chemicals Corporation, the predecessor of Dexerials, in 1991, and engaged in product development of anti-reflection film, etc. Appointed Deputy Head of Automotive Solutions Business Unit in 2019 and contributed to expand our products into the automotive industry. In the current position since October 2020.

Market environment

Automotive Solutions Business Unit is working to grow the business by leveraging a variety of internal resources with a focus on applications in automobiles, such as anti-reflection films, optical elastic resins (SVR), UV curable adhesives, anisotropic conductive films (ACF), and thermal conductive sheets. The automotive market has been impacted by the decrease in production and semiconductor supply shortage caused by the COVID-19 pandemic. It is currently a seller's market where production cannot keep up with increasing demand, but since the change in the US administration in 2021, the shift to EVs has been accelerating along with the shift to decarbonization. As automakers accelerate their decarbonization efforts throughout the value chain, decarbonization efforts on the part of suppliers are also becoming a prerequisite for business.

Growth strategy and risks

We have been striving to develop new customers and raise awareness of our company in the automotive industry by taking "design-in" and "spec-in" approach, where we visit end users ourselves to find out their needs and issues, and work together to come up with technical solutions. In 2020, we began collaboration with SemsoTec Group, a German automotive design house which designs in-vehicle displays and creates concepts for the entire driver's seat. We have already installed our hybrid SVR laminating equipment at the Company's plant and have begun joint marketing activities to develop new customers in Germany. We plan to supply inkjet-compatible Jettable SVR, which will further increase awareness of Dexerials in the German automotive industry.

Although the pandemic that could disrupt the supply chain will continue to be a major risk factor in the future, the growth of EVs and autonomous driving is a great business opportunity for us, and the trend toward decarbonization is also a tailwind for our products that reduce environmental impact. For fiscal year 2023, sales in Automotive Solutions Business are expected to double from five years ago to 140 million yen, driven by anti-reflection films, whose adoption continues to grow globally. Anti-reflection films and optical elastic resins contribute directly to improving driver visibility, and will and materials for sensing, which are essential for autonomous driving also contribute to improved safety in the automotive society. We will transform our entire business portfolio through business growth while contributing to resolving social issues. Although the pressure on us, we will strive to achieve growth with courage and enthusiasm.



We will resolve social issues by strengthening our “outside-in” technology strategy.

Executive Officer
Corporate Strategy Division Head

Koichi Akeyama

Profile

Joined Dexerials in July 2020. As Business Strategy Office Head, Engaged in technology and product strategy, alliance strategy planning, and digital transformation (DX) promotion. In the current position since April 2021.

Review of fiscal 2020 and recognition of challenges

In fiscal 2020, we experienced sudden changes in the business environment due to the spread of COVID-19 and were forced to respond to an unexpected circumstances. Internally, I believe that we were able to minimize the negative impact throughout the year by quickly establishing a policy of prioritizing safety to protect our employees and other stakeholders from infections, and by taking prompt action. On the businesses front, we were able to capture the trend of digitalization accelerated by the emergence of new lifestyles, and achieve a result that exceeded targets. The efforts we have made over the past two years, such as launch of new products and the improvement of the yield at the production site, have blossomed and resulted in a significant increase in profits.

In existing business, we will continue to strengthen them while making qualitative changes. We will focus efforts particularly on products that can provide high added value, and thoroughly improve differentiating technology with the goal of making them the de facto

standard. In addition, we will actively invest in increasing production capacity as we see an increase in demand for our high value-added products from new customers, new applications and areas.

On the other hand, the results of the management team renewal and HR policies are being seen in the form of faster management decisions and in order to seize these changes as opportunities, it is necessary to further promote an awareness of reform throughout the company without fear of change.

System to promote development in new domains

As part of the organizational reform in October 2020, Business Innovation Division was dissolved, and newly established the Corporate Strategy Division and Dexerials Innovation Group (DIG) along with Global Sales & Marketing Division, are now in charge of promoting business growth in new domains.

The Corporate Strategy Division, which I currently head, took over from the Business Strategy Office and serves the function of connecting the overall

organization to formulate growth strategies and develop growth roadmaps. It also plays the role of acquiring technology and talent outside the Company through external alliances.

DIG will promote not only “inside-out” technology strategy, in which we develop products based on themes defined from our perspective and provide them to society, but also “outside-in” technology strategy, in which we consider and develop products that we can provide to resolve future social issues. Our role is to envision business development that integrates ESG /SDGs measures with the aim of contributing to a sustainable society, and we will incorporate themes determined from a societal perspective into our technology development roadmaps. To ensure the “outside-in” new business strategy takes root, we need to establish a process to translate the strategy to the technology development roadmap that is based on quantification and analysis to make sure it is not dependent on the expertise of a single individual, and testing of each process.

The Global Sales & Marketing Division collects and analyzes fresh information on partners and customers

in order to realize the technology development roadmap presented by DIG. The Corporate R&D Division is responsible for research and development, but rather than doing everything on its own, it proactively considers acquiring technology and specialized talent from external sources when necessary.

In order to accurately grasp the growth opportunities that can be found in solving social issues and to grow as a company that is resilient to change, it is crucial for these divisions to collaborate organically to promote and cultivate new businesses.

Updating “Challenges for Evolution” measures

We have a number of products with top share in global niche markets. Therefore, simply increasing the market share of existing products will not be enough for a growth strategy. Strengthening profitability by qualitatively changing existing businesses and achieving growth through transforming our business portfolio will be the key. We also need to develop a system for strengthening the management base and invest in human resources.

The Mid-term Management Plan “Challenges for Evolution” has been refreshed (revised) due to the achievement of the operating income target ahead of schedule and the essential changes in the business environment caused by COVID-19 pandemic.

See Pages 24-26 for the details of the updated Mid-term Management Plan.

For existing business domains, we will conduct regular business assessments and make qualitative changes focusing on what is important. We will also optimize production bases and improve production costs. And as I mentioned earlier, we will proactively invest in areas where we can provide high added value and areas no one else can handle but us.

I explained that for new business domains, going forward, we will focus more on resolving social issues with “outside-in” approach. On the other hand, our automotive business, which we had already been working on as a new business, is growing as expected. Accelerating the automotive business and ensuring it grows is an important theme for us. From there, we will consider expanding into technological fields such as IoT, 5G, and AI, and aim for sustainable growth by expanding businesses in new domains.

Facilitating DX and developing human resources are the key for strengthening our management base. Over the next two years until fiscal 2022, we will accelerate the digitalization of business operations to the extent possible and establish a system to rapidly apply acquired information to the management. In the next phase, we will identify issues from digitized information and plan, and implement projects that will lead to the creation of customer value. The first thing we need to do to strengthen the management base and create customer value through DX is to recognize what issues we face ourselves. And the key to this is instilling a mindset in employees to try to resolve these issues with digital technology. In order to develop such talent, we provided DX training to 600 employees.

See Page 27 for the details of DX initiatives.

Creating further innovation

Expertise is an important element in creating innovations to resolve social issues. However, you need more than just expertise. Just as some of our high value-added products are the result of flexibly combining existing technologies, the elements of innovation are often right in front of you. It is also important to change our way of thinking by clarifying the required goal. And by not limiting ourselves by doing only what we are capable of, but making up for what we lack with external capabilities to meet application needs, we can bring about innovation with



synergy. We plan to obtain knowledge on applications and strengthen open innovation activities.

Going forward, we will also consider introducing new technology development methods such as AI-based development simulations and materials informatics (materials development using information processing technology).

In conclusion

We consider the current Mid-term Management Plan as a step to create the foundation for the next Mid-term Management Plan and we recognize that our true value will be tested by our subsequent growth. We will strive to carefully disseminate information and formulate communication in order to make our future growth visible to our stakeholders and become a company whose value is properly recognized.

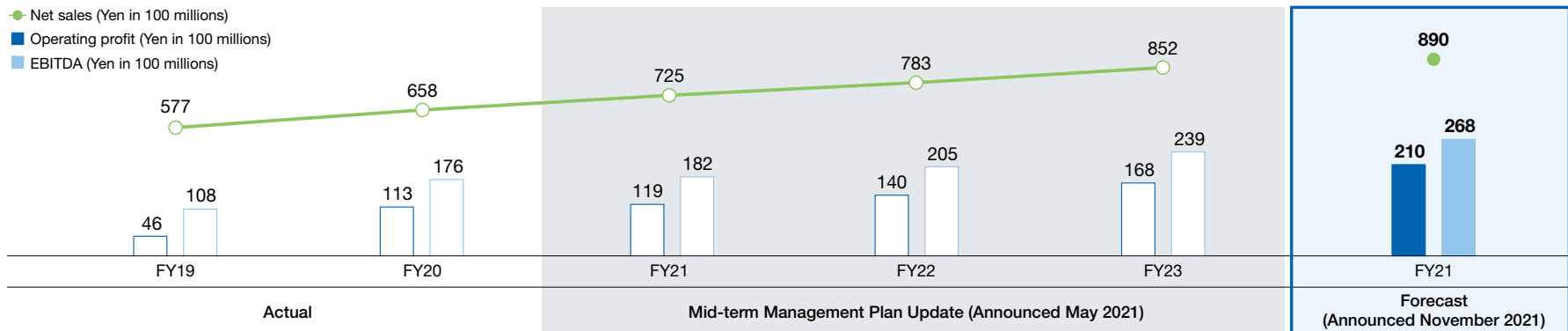
“Challenges for Evolution” Update

The Company formulated and announced the 5-year Mid-term Management Plan, “Challenges for Evolution,” in April 2019. This fiscal year, the third year of the plan, in light of the progress made in the Company’s performance and changes in the business and external environment, we have updated the plan, while maintaining the basic policies.

We will strive to further enhance its earning power as well as to lay the foundations for the next Mid-term Management Plan, with the aim of sustainable growth and enhancement of corporate value.

“Accelerating Toward Evolution”

1 Review of fiscal 2021 earnings forecast due to changes in the business environment



Based on the three basic policies, “accelerate business growth in new domains,” “qualitatively change businesses in the existing domains,” and “strengthen the management base” set in the Mid-term Management Plan “Challenges for Evolution” announced in 2019, we have steadily implemented measures to enhance corporate value. In the process, the individual initiatives have achieved results, and we achieved the initial targets for fiscal 2023, the final year of the Mid-term Management Plan, ahead of the initial plan. For this reason, in May 2021, we updated the Mid-term Management Plan and decided to make a transition to a new growth stage to introduce EBITDA and ROIC as a new corporate management indicators. After

announcing the updated Mid-term Management Plan, recognition and demand for our differentiating technology products continued to grow. Therefore, we upwardly revised our fiscal 2021 earnings forecast again in November 2021.

We will continue to maximize our “earning power” through resolving social issues to achieve the enhancement of sustainable corporate value.

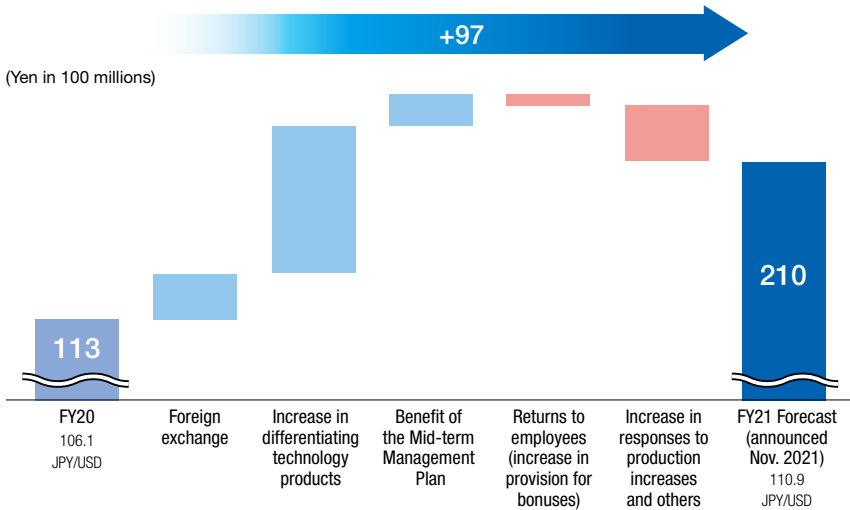
“Accelerating Toward Evolution”

2 Measures to accelerate growth

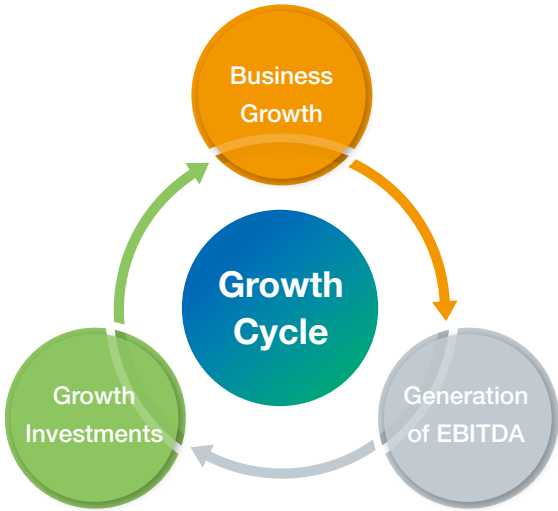
We will continue to move forward the Mid-term Management Plan with “accelerate business growth in new domains,” “qualitatively change businesses in the existing domains,” and “strengthen management base” as the three basic policies.

- 1 Accelerate business growth in new domains **Promote full-scale growth of automotive business**
- 2 Qualitatively change businesses in the existing domains **Improve our earning strength through investment in production increases and the launches of new products**
- 3 Strengthen the management base **Take on challenge for change to build a new corporate image – a company thriving together with all of our stakeholders (ESG, DX, BCP)**

Trends in operating profit (FY20 → FY21)



In terms of the factors behind the continuing increase in revenue and profits since fiscal 2020, while there were external impacts such as the sharp increase in demand for mobile IT equipment accompanying lifestyle changes brought about by COVID-19, more importantly, our own initiatives to expand our high value-added products have proved successful. Differentiating technology products that match technological trends in broader society have entered the reward-reaping stage, and this has driven the enhancement of our earning strength. With this enhancement of earning power, we have conducted returns to employees and shareholders, while at the same time making proper investments for our next growth, in an aim to evolve into a corporate structure that will achieve sustainable growth. This cycle toward growth is starting now, and “evolution” that we continued our challenges is about to begin at an accelerating pace.



In the three years from fiscal 2021 to fiscal 2023, while conducting the necessary investments to strive for business growth, we will strengthen our management base for the future and implement measures for evolution. In doing so, we have positioned those three years as a time to “build a base for sustainable growth and enhancement of corporate value.” Specifically, through vigorous investments in production increases of anti-reflection film and surface mounted type fuses, we will expand our supply capacity for differentiating technology products to meet the predicted increase in demand, in our efforts to realize steady business growth.

In addition, for the further enhancement of shareholder returns, we have decided to increase our cash dividends and acquire treasury stock.

“Accelerating Toward Evolution”

1 Conduct capital investments to expand production systems for anti-reflection film.

In November 2021, we decided to expand our production systems for anti-reflection film by introducing anti-reflection film manufacturing equipment at the Headquarters and Tochigi Technology Center, at a total investment of approximately 80 million yen. This equipment is ideal for the manufacture of anti-reflection film for automotive in-vehicle displays and next-generation mobile IT products. Once mass production starts, our production capacity for anti-reflection film will be approximately 1.5 times the current capacity.

Our anti-reflection film realizes excellent low-reflectance performance using sputtering technology* to form metal oxide film with nano-scale precision. The adoption of these films is spreading to in-vehicle displays and mobile IT products. In order to respond to these demands, we had planned to invest in production increases of anti-reflection film in fiscal 2023 and begin mass production in fiscal 2024, but having made steady progress in winning new orders, we anticipate that demand will exceed our initial plan. In light of this situation, we have decided to advance our plans by a year and bring the capital investment forward so we can start operating the equipment from April 2023.

The manufacturing equipment to be introduced is able to produce cutting-edge anti-reflection film of high quality with high efficiency. By introducing equipment that forms an anti-smudge layer on the top surface by the vacuum deposition method and designing equipment that is able to form the anti-reflection layer and anti-smudge layer consistently, more efficient manufacture of the “HD Series” of anti-reflection films will be possible. We will primarily pursue its adoption for in-vehicle displays, which demand high durability, and next-generation mobile IT products, with the aim of expanding our customer base.



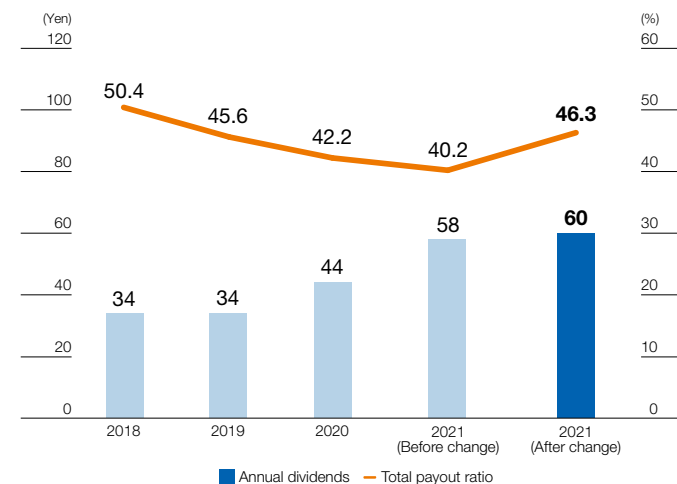
*Sputtering technology: a technology that forms a film by crashing the target material into ionized argon gas and depositing the atoms that spring out onto the target substrate in a vacuum environment. It is also used in the manufacture of semiconductor chips.

2 Further enhancement of shareholder returns

With a recognition that increasing corporate value through investments for growth is the common interest of our shareholders, we have established a basic policy that we should first give priority to business investments leading to sustainable improvement of corporate value and then make shareholder returns in line with profit growth with the target total payout ratio to consolidated profit attributable to owners of parent before amortization of goodwill of approximately 40%. In fiscal 2021, in light of the revision of our full-year results forecasts and due to the improvement of our “earning power,” we have decided to increase our interim dividend and forecast year-end dividend by 1 yen per share each from 29 yen to 30 yen per share. This will bring the annual dividend to 60 yen per share.

Furthermore, in response to the recent changes in the management environment, to enhance corporate value through the execution of flexible capital policies, we decided to acquire treasury stock up to a limit of a total acquisition value of 30 million yen or 2.34% of issued shares. Together with the cash dividends described above, the total payout ratio before amortization of goodwill in fiscal 2021 is expected to be 46.3%.

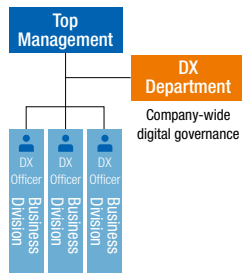
Trends in annual dividends and total payout ratios



Feature – DX Promotion Initiative: Advancing Business Process Reforms to Realize “Intelligent” Management—

DX Promotion System

At Dexerials, individual workplaces are taking the initiative to identify and visualize operational challenges they want to solve with digital transformation (DX). The DX Department oversees that process, formulates measures and plans while checking them against company-wide directions, and assists the workplaces with the promotion of DX. This department was newly established in October 2020 in the Corporate Strategy Division. It has brought together members of each division as a working group to strengthen intra-company cooperation while pursuing the DX of the entire company.



Three Steps to Realizing DX

The DX Department is pursuing DX while pursuing the three inter-linked steps below at the same time.

Step 1 Digital platforms

At the same time as standardizing supply chain systems that, until now, have been introduced separately for each business division from the viewpoint of individual optimization, we will transition to digital platforms for the engineering chain. This will allow us to create databases of customer and supplier information, materials quantity management, blends, and chemicals and to build information platforms that include customer needs for technologies and products. This will lead to improvements in product development speeds and to shorter supply chain lead times. Through digital workflows and automation using robotic process automation (RPA) and the establishment of information management platforms, we have achieved over 100 examples of digitalization in both the supply chain and engineering chain, and we anticipate efficiency improvements of several tens of thousands of hours per year in fiscal 2021.

Step 2 “Intelligent” management

Leveraging the diverse databases built in Step 1, we will visualize various KPIs through automation of data collection and data collaboration, to achieve speedier management decision-making and risk responses. We intend to complete Step 2 DX in fiscal 2022.

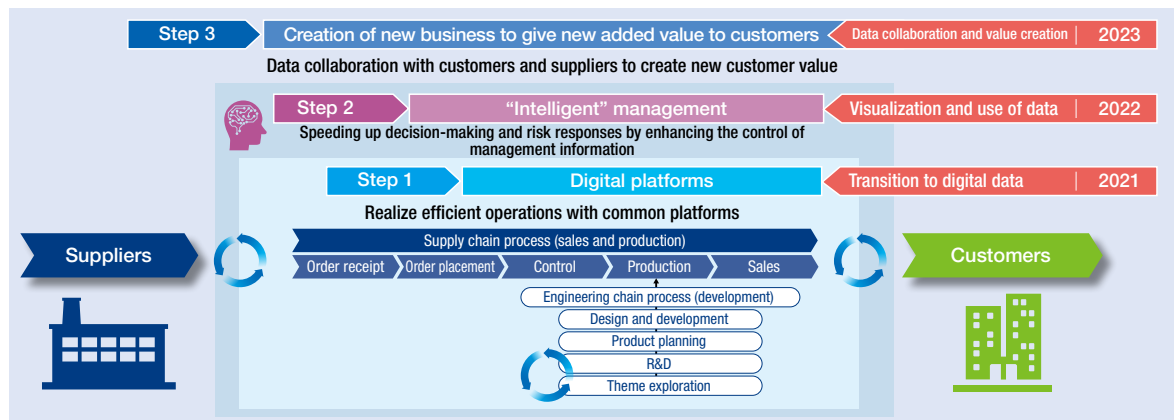
Step 3 Creation of new business to give new added value to customers

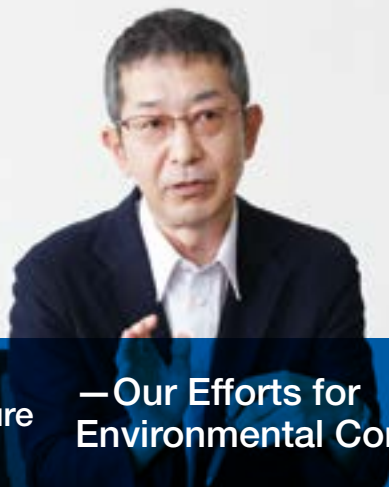
As a vision beyond the use of DX within our company, for example, we have started considering the construction of an environment that will assist with design on the customer’s side. This includes a “product matching” system in which customers would be able to directly access our product database and select products to match their specifications and applications. Our company aims to use the status of customers’ access to our data to analyze and identify needs and trends and to build solutions that will enable us to make proposals that anticipate those needs.

Improving DX Literacy

To improve DX literacy within our company, we have built a portal site for employees, on which we publish various information related to DX when required. Such information includes explanations for beginners asking “What’s DX?,” related news and publications, and the state of our company’s progress. We have also set up a DX Consultation Desk, which will respond to employees’ questions and concerns about how to use DX to solve problems and built a framework that makes it possible to communicate with DX team members at any time. On the human resources development front, we have strengthened our education frameworks, including study sessions and on-demand seminars for employees. In the belief that improving top management’s literacy is important to strengthen DX promotion, we held an Executive Seminar for DX Promotion, consisting of e-learning, workshops, and seminars by external organizations. We will also expand training for line leaders and above and for engineers to raise digital literacy across the entire company and enhance our team of digital personnel who can achieve reforms themselves.

Steps to realizing DX at Dexerials





chapter 1	chapter 2	chapter 3	chapter 4	chapter 5	chapter 6
Introduction	Strategy	Materiality	IR / Social Contribution	Financial Section	Corporate Info

Production Strategy Division Head

Kouji Yamagishi

Profile

Joined Sony Neagari Corporation Inc. (formerly the Company's Neagari Plant), in 1991. Subsequently served as the Deputy Head of Administration Division at Suzhou Plant in China. After returning to Japan, appointed as General Manager of the Production Control Department and later Head of Production Sector. In the current position since October 2020.

Feature

—Our Efforts for Environmental Consideration—

While focusing on the technological development that will help reduce environmental impact, we will aim for zero CO₂ emissions by 2030.

Environmental contributions through products and technologies

We are developing technologies that will help reduce environmental impact and turning those technologies into products as well as reducing environment-related controlled substances. While there are direct examples of these environmentally conscious products, such as surface mounted type fuses for which we have developed and achieved completely lead-free many of our products contribute to reducing environmental impact indirectly as our customers' raw materials through lower power consumption, longer product life, and thinner, and smaller products. Recently developed products such as our particle-arrayed anisotropic conductive films that use large-diameter conductive particles, optical elastic resins for inkjet coating, and diffusive microlens array have also achieved major reductions in power consumption on our customers' side.

Through our "design-in" and "spec-in" approaches to customers, we take up our customers' environmental issues from the development stages and turn them into products. This is the main form of our contribution to the environment. We also work with DIG Promotion Department, which is in charge of creating new businesses that lead to the solution of social issues, and Corporate R&D Division, which is participating in government-academia collaboration programs, to respond to the growing environmental needs.

Efforts to reduce environmental impact in business activities

Regarding the reduction of environmental impact in business, we have set a new target of "zero CO₂ emissions from business-derived electricity consumption" in 2030. Approximately 80% of our CO₂ emissions are from power consumption. We will work to address this

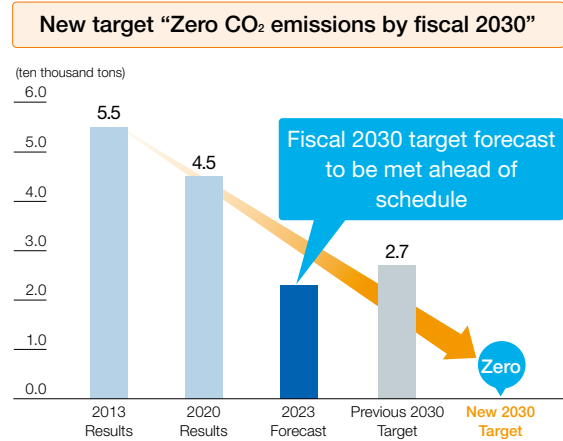
issue by assessing the effectiveness of three main areas: renewable energies, new energies such as hydrogen and ammonia, and energy conservation activities. Among these, in particular, leveraging purchases of J-credits and other measures, we will consider the procurement of solar power and biomass-derived electricity, first installing it at our mother plant, Tochigi Technology Center. Power procurement is another urgent challenge from the perspective of business continuity planning (BCP) due to the impact of climate change disasters. We must therefore hasten the strengthening of this area in particular.

Given that many of our products have high global market shares, we also emphasize initiatives in Scope 3 value chains in the GHG protocol, working to understand the carbon footprint of each of our suppliers. Using databases of environment-related controlled substances and other sources that have already been established, we will expand supply chain environmental information and strive to

see the whole picture of environmental management. In the operation of our business, besides CO₂, we have environmental targets for waste materials, water, and VOC. We will review these targets and make physical investments to improve them.

Realization of our long-term vision

Addressing environmental issues requires multifaceted activities, including supplier initiatives and collaboration with government, academia, and local governments. These activities are not performed by specific specialized organizations alone but the activities that the entire company and each and every employee is involved in, after setting targets that are linked to business activities. Based on our long-term vision, we will strive to raise environmental awareness among employees, make technological contributions to the environment, and reduce environmental impact across the entire corporate organization.



Response to the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

Climate change is an important issue that humanity must resolve if we are to realize a sustainable society. We consider action against climate change to be a prerequisite for business continuity for any company.

Dexerials has endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (“TCFD”) and will contribute to the realization of a sustainable society through the appropriate and timely disclosure of information about the management risks and opportunities associated with climate change.

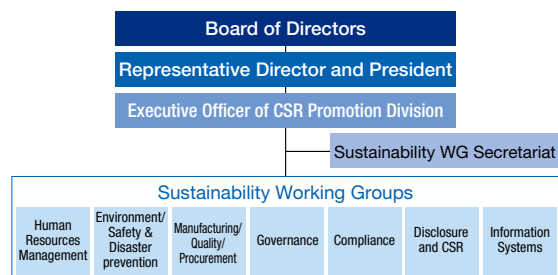
In addition, by providing new value through our own products and technologies, we will promote initiatives to leave a rich environment to future generations, with the aim of harmonious co-existence with our stakeholders.

Disclosure in accordance with the TCFD recommendations

(1) Governance

Dexerials has positioned climate change as an important management issue and is pursuing activities aimed at realizing a sustainable society. It regularly convenes the Sustainability Working Groups, led by a representative director, to hold cross-functional discussions of progress being made toward the targets set under its important challenges. The Working Groups report on material issues to the Board of Executive Officers and the Board of Directors and receive instructions from them.

CSR Management Structure



(2) Strategy

Dexerials has identified risks and opportunities on the long-term timeframe toward 2050 and is undertaking scenario analyses that

consider the 2°C (1.5°C) and 4°C scenarios. Based on these scenario analyses, in addition to deliberating on responses to those risks and opportunities and on the resilience of the Company’s strategies, we will further enhance company-wide strategies by expanding the target of analysis to other products.

(3) Risk Management

The Risk Management Committee has been established as the agency for Group-wide management of interdepartmental risk. This Committee periodically identifies significant management risks and reports them to the monthly meetings of the Board of Executive Officers.

(4) Metrics and Targets

Dexerials has set CO₂ emissions as a climate-related evaluation metrics and is aiming to achieve zero CO₂ emissions from consuming electricity for business by 2030.

Additionally, based on the scenario analyses, we will consider long-term climate change metrics and targets such as the reduction of greenhouse gas emissions in business activities.

Significant risks and opportunities *Verification of risks and opportunities from Dexerials’ core product, anti-reflection films

	Classification	Business impact	Level
Transition risk	Rise in carbon price	● Introduction of carbon tax and increase in manufacturing and transport costs	High
	Advancement of technologies associated with climate change and the circular economy	● Increase in product development costs and loss of opportunity due to delays in response	High
	Shift toward renewable raw materials	● Difficulties in procurement of fossil-derived raw materials ● Increase in costs of renewable raw materials	High
Physical risk	Popularization of mobility services	● Shrinking sales of automobile-related products due to car-sharing, etc.	Medium
	Increasing severity of climate disasters (floods, typhoons, thunders)	● Increase in restoration/repair costs ● Increase in shutdown of supply chains	Medium
	Rise in average temperature	● Increase in costs of response to rising temperatures	Medium
Opportunities	Changes in lifestyle	● Expansion of display-related demand due to spread of work-from-home and staying at home	High
	Popularization and expansion of next-generation mobility	● Expansion of business in automotive anti-reflection films	High
	Shift toward renewable raw materials	● Enhancement of recycling technologies ● Reduction of waste emissions	High
	Changes in stakeholders	● Competitiveness and superiority will rise due to environmental response initiatives, leading to higher evaluations from stakeholders	Medium

Feature —Work Style Reforms and Health and Productivity Management—

The Company is promoting new work styles across the entire Company with the formalization of a system for remote work from April 2021, an area that it had already been working on before then.

In July 2021, we concentrated our headquarters functions at the Tochigi Technology Center, relocated our Tokyo Office, and revamped it into offices suited to new workstyles.

We are also re-organizing the relationship of employee health promotion and business continuity and implementing initiatives to link it to systematic health-enhancing measures.

Transition to new work styles

The Company has been pursuing work style reforms for some time, but with the COVID-19 pandemic, remote work rapidly took root and became an established practice, primarily in the headquarters divisions. In response to this trend, the Company introduced a formal remote working system in April 2021. The aim of this formalization of remote work is to contribute to the enhancement of employee productivity, while at the same time, help prevent transmission of infectious diseases and strengthen our frameworks for the stable continuity of operations at times of natural disasters. Anticipating that remote work will eventually become an established practice across the entire Company, including in the manufacturing divisions, through future technological innovations, the remote working system covers the entire Company in principle. Training is being conducted on aspects such as the communication practices, which is key to the promotion of remote work among management and employees.

Revision of personnel system

The Company is undertaking a revision of the personnel system and is considering a job-based personnel system, with the aim of introducing it in around April 2023. By shifting from the conventional function-based (membership-based) system, which is based on employees' potential, to a job-based system that employs people based on the job description, we aim to build a personnel system that is focused on responsibility for outcomes.

Headquarters relocation and establishment of Tokyo office

Amid the realization of various workstyles that are not bound to certain locations, effective July 1, 2021, we concentrated our headquarters functions on our core location, the Tochigi Technology Center, and changed our address on the corporate register to Shimotsuke City, Tochigi Prefecture. This move has shortened the physical distance between top management and manufacturing site, the aim of which is to speed up decision-making through the further integration of management. At the Company, where remote work is well advanced, in the area of recruitment as well, we are able to attract excellent people without being constrained by geography. Going forward, as we pursue the transition toward even more new work styles, we will aim to achieve a fulfilling work-life balance that is not bound by work location.



View of new Tokyo office



Promotion of health and productivity management

(1) Health and productivity management initiatives to date

We believe that the good physical and mental health of each and every employee will lead to the good health of the Company and, in turn, to the realization of our Corporate Philosophy and the enhancement of corporate activities. At the Company, the health care section and the health insurance association convene regular meetings of the Health Management Committee and work together on health-enhancing measures. We are promoting the health of our employees from the dual angles of a population approach, which aims to gradually reduce the health risks for all employees, and a high-risk approach, which conducts thorough follow-up examinations of high-risk employees based on the results of the annual medical check-ups.

(2) Health and productivity management workshops

Health and productivity management workshops were held four times in 2021, using an online format, with the members drawn from each division in a well-balanced manner. With external experts also participating, the workshops reconfirmed the status of the Company's health promotion initiatives and discussed the impact of health promotion on the Company's management and the establishment of a long-term vision.

(3) Future outlook

Further carrying out more in-depth discussions within the Company going forward, we will accelerate our initiatives toward the finalization of a long-term vision for health and productivity management and the formulation of a roadmap for concrete actions aimed at the practice of health and productivity management based on that vision.

Feature — Shift to New Corporate Governance System —

At the 9th Annual General Meeting of Shareholders on June 18 2021, we made a transition from a company with an Audit and Supervisory Board to a company with an Audit and Supervisory Committee. At the same time, we continue our evolution with the aim of a new form of governance, such as the strengthening of our executive officer system and the partial revision of the officer remuneration system.

Purpose of change

The business environment surrounding our company is changing drastically. If we are to continue sustainable growth under such a business environment, we will need to have speed and a resilient corporate structure and to be a company that is able to co-exist into perpetuity with a wide range of stakeholders. We have made the transition to a company with an Audit and Supervisory Committee to further separate the two functions of “executive” and “supervisory” and improve the monitoring function of the management, while at the same time accelerating decision-making through the further delegation of authority.

What has changed

(1) Highly diverse composition of officers

Prior to the transition, our company had a total of ten officers, consisting of seven directors, including four outside directors, and three Audit and Supervisory Board Members, including two outside Audit and Supervisory Board Members. With the transition to a company with an Audit and Supervisory Committee, we now have a leaner structure, with four directors who are not the Audit and Supervisory Committee Members (including two outside directors) and three directors who concurrently serve as Audit and Supervisory Committee Members (including two outside directors).

The post-transition Board of Directors is composed of members with a diverse range of skills required for the management of our company, such as technology management, finance and accounting, legal, and experience in global corporate management. Each member of the Board also possesses skills in his or her respective fields that

are needed for sustainability management, resulting in a structure that makes it possible to hold discussions in Board of Directors meetings that are based on specialist and objective perspectives.

(2) Flexible decision-making and the revitalization of strategic discussion

With the transition, we reviewed our internal rules and further accelerated decision-making by actively delegating the Board of Directors’ “authority of decision making on important business execution” to the executive directors. With the review of the matters to be resolved by the Board of Directors, the foundations have been established for the revitalization of strategic discussions.

(3) Further improving the monitoring function

Unlike Audit and Supervisory Board Members in a company with an Audit and Supervisory board, Audit and Supervisory Committee Members also have voting rights in the Board of Directors. As such,

they will be able to demonstrate even more effectively than before their function of holding management in check through their votes on nomination and remuneration in the Board of Directors.

With the delegation of authority from the Board of Directors, the main role of the Board of Directors has shifted from decision-making on business execution to supervision of management, which will lead to improving the monitoring function.

The optional Nomination and Remuneration Committee, which was established in 2019 and is chaired by an independent outside director, remains in place even after the transition to the new corporate system. We are working to further strengthen the functions of this committee by ensuring that independent outside directors account for the majority of its membership and that Audit and Supervisory Committee Members are also included.

Skills matrix of board of directors

Position	Name	Area of expertise held by Directors that they are particularly expected to demonstrate					
		Corporate management	Technology management	Sustainability management	Global business	Legal and compliance	Finance & accounting and Capital policy
Representative Director and President, Nomination and Remuneration Committee Member	Yoshihisa Shinya	●	●	●	●		
Representative Director, Nomination and Remuneration Committee Member	Toshiya Satake	●		●		●	●
Outside Director, Chairperson of the Nomination and Remuneration Committee	Takashi Yokokura	●	●	●	●		
Outside Director, Nomination and Remuneration Committee Member	Satoshi Taguchi	●		●	●	●	
Outside Director, Chairperson of the Audit and Supervisory Committee, Nomination and Remuneration Committee Member	Rika Sato			●	●	●	
Director, Standing Audit and Supervisory Committee Member	Masahiro Kuwayama			●		●	●
Outside Director, Audit and Supervisory Committee Member, Nomination and Remuneration Committee Member	Tetsuyuki Kagaya			●			●



CSR Management

Dexerials recognizes that promoting CSR management is a company-wide challenge, and we have therefore constructed a system to promote inter-division challenge sharing and activity engagement.



CSR Promotion System

At Dexerials, CSR management is promoted based on the direction of the executive officer of the CSR promotion division (Corporate Strategy Division Head) with the representative director and president as the final authority.

For the expansion of specific CSR activities, on the basis of the corporate philosophy, corporate vision and CSR Policy, etc., the Company unitedly promotes activities and “Sustainability Working Groups” have been established comprising the Division responsible for each CSR theme. On the basis of important challenges (materialities) specified by the Board of Directors, Sustainability Working Groups set issues by theme, set goals and activities, and confirm their progress. They also enhance activities and promote in-company awareness by taking into consideration an inter-divisional perspective.

Individual important themes related to the promotion of sustainability are discussed at the Board of Directors meeting when appropriate, which are fed back to formulate and execute management strategies.

Dexerials Group CSR Policy

The Dexerials Group will contribute to the realization of a sustainable society and aims to enhance corporate value by means of open and highly-transparent business management and the tireless development and provision of technology and products toward the realization of the corporate philosophy “Integrity” and the corporate vision “Value Matters.”

1 Creating value through business

We are promoting the development of new products and new technology development that responds to various social issues by means of the ultimate demonstration and improvement of the technology and know-how acquired by Dexerials through our business.

Also, with pride in our great technological strength, we are striving to create value that goes beyond what is required of us from society and our customers.

2 Thorough compliance

We are complying with social norms including laws, and we are sincerely and honestly promoting fair business.

Also, we are protecting the Company’s assets and values by thoroughly managing the information required for business and corporate management.

3 Respect for human rights

We respect all human rights and we do not discriminate or carry out forced labor or child labor.

4 Creating a lively workplace

We are creating a fair workplace with meaningful work, promoting dialogs with employees, and preparing and supporting environments required for all employees to independently demonstrate their abilities and grow.

Also, we are promoting initiatives for active female participation and expanding opportunities for the active participation of people with disabilities.

5 Environmental conservation

We are conducting the proper management of chemical substances as we endeavor to reduce the environmental burden from our business activities, including global warming countermeasures. Also, we are contributing to solving environmental issues by developing environmentally-conscious products and promoting environmental consciousness in business.

6 Creating safe and healthy workplaces

We conduct activities to promote the vitality and health of employees by preparing environments in which all employees can continue to work safely.

7 Contribution to local communities

We contribute to local communities as a good corporate citizen. We encourage communication with local communities, promoting activities and supporting initiatives related to the environment, sports, cultural activities and so on, mainly in the areas where plants are located.

8 Expanding together with suppliers

We strive to conduct activities that contribute to the fulfillment of our social responsibility in the entire supply and procurement value chain as we share CSR initiatives with all suppliers.

Risk Management

The Risk Management Committee has been established as the agency for Group-wide management of interdepartmental risk. The Committee is composed of 11 subcommittees in specialized fields, which gather and evaluate risk information and take countermeasures centering on risks related to business operations. The executive officer and corporate planning & control division head serves as a Risk Manager and confirms the major risks in each subcommittee and the progress of appropriate countermeasures at the committee meeting held regularly. If a risk materializes, it is reported to Risk Manager via the information transmission route stipulated by the Company. The Board of Executive Officers then deliberates on the response and reports to the Board of Directors regarding risks that may have a serious impact on the Dexerials Group.

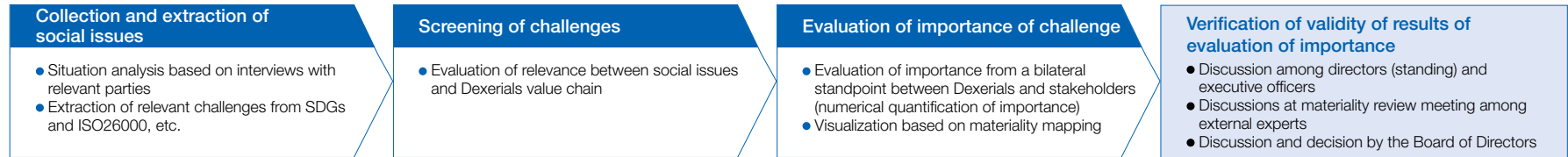
Main risks of the Dexerials Group and appropriate countermeasures

Risk category	Business risk	Risk	Countermeasure	Relevance to the three basic policies*	
External environment risk	Macroeconomics	Trends in economic conditions	The possibility of a widespread and long-term worldwide recession due to factors such as the economic slowdown in important economic blocks including China and other emerging countries, failed attempts of governments' stimulus measures and easing monetary policies in Japan and other developed countries, global economic chaos associated with tapering in the U.S., slump in consumption resulting from consumption tax hikes in Japan, political instability in countries around the world, and impacts of infectious diseases including the global spread of COVID-19, etc.	Make initiatives for production and a sales management structure that can accurately handle a radical change in demand so that adjustments such as promptly cutting fixed costs can be made even if demand falls.	(1) (2)
Management strategy risk	Changes in the market and competitive environment	Intensifying competition	If competitors gain a competitive edge over us in research and development, production capacity, capital and human resources, etc., there is a risk our customers will switch over to competitors as suppliers or reduce their orders from us upon their reorganization or change in their strategies.	Strengthen operations such as through development of high value-added products using differentiating technologies.	(2)
		Reliance on display products	<ul style="list-style-type: none"> As a large portion of sales relies on display products, there is a risk that our performance will be affected when display manufacturers change their operational or sales strategies. Large-scale set manufacturers for smartphones and tablet PCs are limited, and factors such as these manufacturers changing their operational or sales strategies, the timing of a finished product undergoing a model update, and their sales volume will pose a risk in affecting the demand for our products by display manufacturers who are our customers. 	Continue initiatives for an increase in the incorporation of our products in categories and products other than displays.	(1) (2)
	Drop in sales price of products	<ul style="list-style-type: none"> The risk of product sales price dropping further than the range of our cost reductions or an increase in the sales ratio of products with low profitability, resulting from constant pressure from customers on pricing, overproduction in the markets for optical materials and electronic materials, shrinking demand, emergence into the high-performance products market of manufacturers providing low-priced products, and outcomes of negotiations with our customers. 	<ul style="list-style-type: none"> Create added value, improve product quality, and maintain and improve pricing levels. Make initiatives toward cost reduction such as by improving the production process and increasing material yield. 	(2)	
Business operational risk	Innovation	Technological development, etc.	<ul style="list-style-type: none"> Risk of our products becoming obsolete unexpectedly as a result of technological innovation and cost competitiveness, new technologies and product development of competitors, and changes in industrial standards and customer needs. Risk of a decrease in demand for our products if competitors develop technologies that will replace our mainstay products or if competitors launch products superior to such mainstay products. Risk of sales performance fall short of forecasts for products we develop due to changes in the market. 	<ul style="list-style-type: none"> Develop new technologies and products and find paths for new applications and markets based on the medium-term development strategy, while predicting changes in the market. Undergo investments in R&D as well as plant and equipment necessary for reforming the production process. 	(1)
	Overseas operations	Business development overseas	<ul style="list-style-type: none"> Country risks associated with development of business overseas, including political instability; uncertain economic environment; problems related to laws and regulations including rules concerning the environment and safety in the manufacture, import/export, and usage of our products; labor management issues and increase in labor costs; expensive tariffs and strict trade restrictions; unpredictable establishment of and changes in laws and regulations, tax system, government policies or discrepancies of interpretation thereof; unstable infrastructure that can cause suspension or delay in fundamental services such as electricity, transport and communications; fluctuations in the exchange rate; discrepancies in laws, regulations, rules, customary business routine and practical treatment; effects of terrorism, war, infectious diseases; occurrence of boycotts, etc. 	Consider and implement countermeasures at an early stage by sharing information internally regarding changes in political and economic social conditions as necessary.	(1) (2)
Management base risk	Procurement risk	Raw materials procurement	<ul style="list-style-type: none"> Risk of suppliers of raw materials becoming unable to fulfill their obligations under purchase contracts with the Group due to delay in supply of raw materials, short supply thereof, or any other reasons, resulting in a failure to ship our products as scheduled. Risk of an increase in prices of raw materials and fuels, which cannot be passed on to product prices. Risk of becoming unable to secure necessary primary raw materials due to interruption of supply resulting from, for example, the supplier being damaged from natural disasters or accidents, or its bankruptcy. 	Enhance supply chain management so as to reduce risks of being unable to secure primary raw materials, by, for example, adopting multiple suppliers.	(3)
			Safety / disaster prevention	Effects from accidents and disasters	<ul style="list-style-type: none"> Risk of interruption of business caused by damage to infrastructure such as electricity and gas or widespread damage to the supply chain relating to procurement of materials, distribution, or the customers due to large-scaled natural disasters such as an earthquake, tsunami, and flooding as well as a pandemic of an infectious disease including the global spread of COVID-19. Risk of the occurrence of human injury caused by fire or chemical substances in the production process.
Financial risk	Exchange/capital	Fluctuation in exchange rates	<ul style="list-style-type: none"> Effect on costs and prices of products and services; assets and liabilities in foreign currency denominations, assets and liabilities of affiliated companies overseas in local currency denominations due to fluctuations in the exchange rate. 	Hedge risks with forward exchange contracts.	(3)
	Financial reporting / financial stability	Impairment of non-current assets	<ul style="list-style-type: none"> Risk of effects on the Company's financial position, operating results, and cash flows due to recognition of impairment in the case of a decline in business profitability due to market trends or a decline in prices and the relevant assets are deemed unable to generate sufficient cash flows. 	Periodically evaluate collectibility of residual value based on estimated future cash flows from non-current assets.	(3)

* The three basic policies set in the "Challenges for Evolution" from the Mid-term Management Plan
(1) Accelerate growth in new domains (2) Qualitatively change businesses in the existing domains (3) Strengthen management base

Specifying Materialities

There are many social issues surrounding Dexerials at this time. Among these, Dexerials specified the issues (materialities) in fiscal 2018 that are considered to be closely related to the Dexerials business and of high importance, and for which systematic engagement is important, using the process for specifying materialities as below.

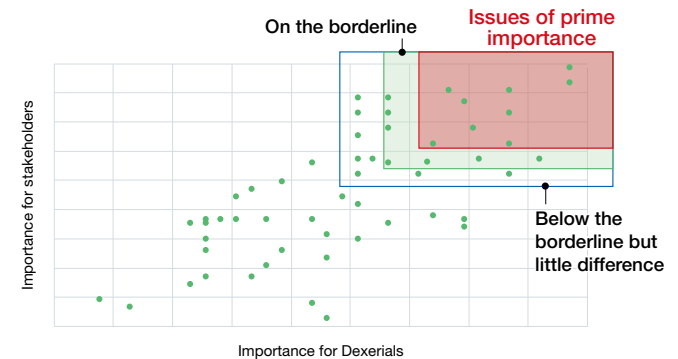


Materiality evaluation (materiality mapping)

We narrowed down social issues that are considered to be particularly relevant to the Company, which were identified by referring to various guidelines, etc. Then, we evaluated the importance of each issue to the Company and its stakeholders, and created a visualization of the results of the evaluation through two-axis mapping.

Materiality review meeting

In the process of setting materialities, it is important that we evaluate and verify the social issues to be tackled as we objectively consider not only the importance to our Company but also the importance to stakeholders. Dexerials held a materiality review meeting attended by outside directors of Dexerials and external expert Kentaro Noda (Professor of Business Design at Rikkyo University Graduate School) in addition to three internal standing officers. At the materiality review meeting, there was an exchange of opinions from specialist and objective perspectives alongside analyses of the social situation around Dexerials in connection to the social issues in which Dexerials should be engaged in the medium- to long-term from among the selected social issues.



Challenges Specified as Materialities and SDGs

Theme	Related SDGs	
Creating new value/resolving social issues	3 Good health and well-being Ensure healthy lives and promote well-being for all at all ages.	6 Clean water and sanitation Ensure availability and sustainable management of water and sanitation for all.
	7 Affordable and clean energy Ensure access to affordable, reliable, sustainable and modern energy for all.	13 Climate action Take urgent action to combat climate change and its impacts.
Reinforcement of corporate governance and compliance	12 Responsible consumption, production Ensure sustainable consumption and production patterns.	16 Peace, justice and strong institutions Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.
Cultivation of diverse human resources and engagement	4 Quality education Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.	5 Gender equality Achieve gender equality and empower all women and girls.
	8 Decent work and economic growth Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.	
Ensuring operational safety and business continuity	3 Good health and well-being Ensure healthy lives and promote well-being for all at all ages.	8 Decent work and economic growth Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

CSR Targets

Dexerials has set medium-term CSR action targets in order to surely and effectively promote materiality initiatives.
We will make a concerted effort to promote CSR activities to achieve KPIs specified for each materiality theme.

CSR targets based on materiality (KPIs)

Materiality theme	KPI	Target for fiscal 2019	Achievement status	Target for fiscal 2020	Achievement status	Target for fiscal 2021
Creating new value/resolving social issues	Response to change in information and communication equipment in a high-speed, large-capacity communication society (miniaturization, thinning, higher speed, higher reliability)	Formulation of a design concept for thermal conductive materials and devices for automotive and mobile terminal applications	○	Completion of design of materials and devices for high-frequency applications	○	Verification of social impact
	Promotion of diffusion of products for automotive applications	Shipments of products for automotive applications ● Anti-reflection films: 247,000 m ² ● Thermal conductive sheets: 5,469 m ²	×	Shipments of products for automotive applications ● Anti-reflection films: 336,000 m ² ● Thermal conductive sheets: 17,099 m ²	×	Shipments of products for automotive applications ● Anti-reflection films: 290,000 m ² ● Thermal conductive sheets: 4,400 m ²
	Promotion of diffusion of ACF capable of bonding at low temperatures	Shipments: 15,600 km/year	○	Shipments: 16,600 km/year	○	Shipments: 17,300 km/year
	Continuation of launch of new lead-free SCP	Launch of new products: 1 model or more	○	Launch of new products: 1 model or more	×	Launch of new products: 1 model or more
	Contribution to reduction of CO ₂ emissions by launching water treatment agents in Japan and overseas	Reduction in CO ₂ emissions: 3,000 t-CO ₂ /year	○	Reduction in CO ₂ emissions: 6,000 t-CO ₂ / (cumulative total over fiscal 2019-2020)	○	Reduction in CO ₂ emissions: 10,000 t-CO ₂ / (cumulative total over fiscal 2019-2021)
	Number of major quality issues	Zero	○	Zero	×	Zero
	Number of product quality incidents	Zero	○	Zero	○	Zero
	Reduction of CO ₂ emissions, water consumption, waste, etc. from business activities	 See "Environmental Targets" on Page 39 for the details.				
Supply Chain Management	Survey of certain suppliers on status of their CSR management	○	Survey of certain suppliers on status of their CSR management and request for improvements (guidance)	○	Survey of certain suppliers on status of their CSR management and request for improvements (guidance)	
Reinforcement of corporate governance and compliance	Maintenance and enhancement of the management system	<ul style="list-style-type: none"> Further clarification of the nomination and compensation determination process Promotion of the officer succession plan (including fostering of successors) 	○	<ul style="list-style-type: none"> Further clarification of the nomination and compensation determination process Promotion of the officer succession plan (including fostering of successors) 	○	<ul style="list-style-type: none"> Further clarification of the nomination and compensation determination process Promotion of the officer succession plan (including fostering of successors)
	Prevention of information security incidents	Execution of information security training (new employee training, company-wide training through e-learning)	○	Execution of information security training (new employee training, company-wide training through e-learning)	○	Execution of information security training (new employee training, company-wide training through e-learning)
	Compliance with laws and regulations and penetration of the code of conduct	Ongoing execution of internal training on Dexerials Group Code of Conduct	○	Ongoing execution of internal training on Dexerials Group Code of Conduct	○	Ongoing execution of internal training on Dexerials Group Code of Conduct
Cultivation of diverse human resources and engagement	[Cultivation of engagement (1)] Strengthening of HR development by instilling and operating the revised personnel system	Execution of grade-specific training in order to instill the revised personnel system and facilitate the understanding of roles	○	Instilment of the management by objective system to facilitate employees' growth Implementation of measures for managers	○	Instilment of evaluation and development to facilitate employees' growth Implementation of measures for managers
	[Cultivation of engagement (2)] Promotion of Dexerials-style work style reform measures	Increase the paid-holiday utilization rate compared with the previous year Identification and organization of issues for 2020 onward	○	Introduction of new measures for Dexerials-style work style reform to respond to the needs of diverse work styles	○	Introduction of new measures for Dexerials-style work style reform to respond to the needs of diverse work styles
	[Cultivation of engagement (3)] Promotion of health-enhancing measures to create the ideal working environment conducive to health	Planning and implementation of lifestyle disease countermeasures, mental health initiatives and other health-enhancing measures so that employees can work in good health	○	Planning and implementation of lifestyle disease countermeasures, mental health initiatives and other health-enhancing measures so that employees can work in good health	○	Planning and implementation of lifestyle disease countermeasures, mental health initiatives and other health-enhancing measures so that employees can work in good health
	[Diverse human resources] Ratio of management's participation in diversity communication training: 100%	Participation ratio of general managers* to be 30% * Managers engaged in management of departments	×	Participation ratio of general managers to be 65%	×	Participation ratio of general managers to be 100%
Ensuring operational safety and business continuity	Number of workplace accidents with lost working days	Zero	×	Zero	×	Zero
	Enrichment of BCP training	<ul style="list-style-type: none"> Execution of company-wide BCP training at least once a year Ongoing review of BCP plans through training (promotion of initiatives, considering BCM) 	○	<ul style="list-style-type: none"> Execution of company-wide BCP training at least once a year Ongoing review of BCP plans through training (promotion of initiatives, considering BCM) 	×	<ul style="list-style-type: none"> Execution of company-wide BCP training at least once a year Ongoing review of BCP plans through training (promotion of initiatives, considering BCM)
	Strengthening of disaster-prevention measures	<ul style="list-style-type: none"> Execution of company-wide disaster-prevention training at least once a year Ongoing review of disaster-prevention measures, considering linkage with BCP 	○	<ul style="list-style-type: none"> Execution of company-wide disaster-prevention training at least once a year Ongoing review of disaster-prevention measures, considering linkage with BCP 	○	<ul style="list-style-type: none"> Execution of company-wide disaster-prevention training at least once a year Ongoing review of disaster-prevention measures, considering linkage with BCP

Initiatives for Creating Value and Resolving Social Issues



Commercialization of the Phosphor Film “PS Series”

Contributing to higher-definition and thinner displays

Currently, increasingly high-resolution displays, such as 4K and 8K, are being developed, and there is also a demand for higher image quality with higher brightness, higher contrast, and wider color gamut. For this reason, the use of direct LED backlighting that is capable of improving the brightness and contrast (dynamic range) of displays while simultaneously efficiently extracting light and controlling lightness and darkness in order to expand the color gamut is becoming popular. However, when white LEDs are used, there is a possibility of individual differences in light emission.

Our phosphor film “PS Series” has been developed by shaping green and red phosphors into a film. Incorporating this product into a display enables the use of blue LEDs with less variation in light emission as the light source in place of white LEDs, and also enables the production of higher quality displays than those using a direct LED backlight using white LEDs.

In addition, since the use of this product makes the light source monochromatic blue, the light distribution of the LED is easier to control compared with using white LEDs as the light source, making it possible to

shorten the distance between the light source and the diffuser, contributing to a thinner overall display.

This product uses sulfide green phosphor originally developed by the Company. This sulfide green phosphor realizes vivid luminescence with a sharp PL* spectrum by utilizing inorganic material synthesis technology, which is one of our elemental technologies, thereby contributing to a wide color gamut for liquid crystal displays.

* PL: Photoluminescence

In addition, in order to control unevenness in light emission of phosphor film, the particle diameter of phosphors needs to be reduced, but on the other hand, there is a trade-off in that the moisture resistance decreases due to the increase in surface area and reliability decreases unless a barrier film is used.

We have improved the moisture resistance by applying a special treatment to the particle surface while simultaneously reducing the particle diameter to reduce unevenness, making it possible to shape phosphors into a film without using a barrier film.

In addition, the efficiency of light extraction has been improved by installing a dichroic filter under the

phosphor film that transmits only blue light and reflects green light and red light. A part of the blue light emitted from the blue LEDs is converted into green light or red light by the phosphor and is synthesized into white light, but a portion of the white light is reflected in the direction of the light source LEDs. The dichroic filter reflects red light and green light among the reflected light back to the transmission direction, thereby preventing loss of light inside the backlight and enabling highly efficient light extraction and accurate light control.

We have obtained patents in Japan, the United States, China, and South Korea for the structure of the light source, which uses a combination of dichroic filter and phosphor film, contributing to higher brightness and higher contrast in liquid crystal displays.

Example of use of phosphor film (cross-section of a liquid crystal display using a direct LED backlight)

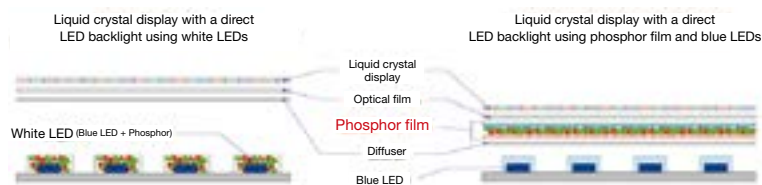
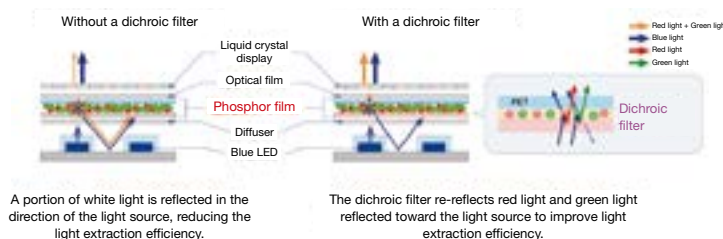
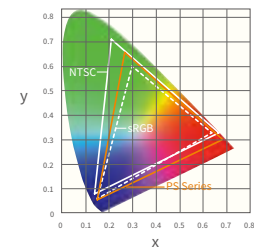


Image showing the effect of a dichroic filter (Cross-section of direct LED display)



Color gamut (CIE-1931 chromaticity diagram)



Businesses in New Domains

Challenge to New Domains

In order to create products that are highly regarded by society, it is indispensable to foster a corporate culture where every employee has the mindset to be curious about the social issues and to try to figure out how our research can help solve them.

Awareness of social issues has been growing in recent years as global frameworks leading the issues to resolution have developed, including the SDGs (Sustainable Development Goals) set by the UN.

We will continue to take on the challenge of business development in the new domains in order to achieve sustainable growth through resolving social issues.

Topics in Automotive Field

Development of the Diffusive Microlens Array for Enhancing the Performance of Automotive Head-Up Displays

—Contributing to Enhanced Brightness and Reduced unevenness of projected image—

Dexerials has developed the Diffusive Microlens Array, which enhances the brightness of an automotive heads-up display (hereinafter called HUD) and reduces the unevenness of projected image.



Head-up Display (HUD)

Today, more and more automobiles adopt HUDs, which project information on the windshield. Information projected on HUDs includes travel speed and temperature inside the car, and more recently also includes more safety-related information such as navigation and pedestrian detection, leading to growing market demands that various information be clearly displayed on them.

Our “Diffusive Microlens Array” is a diffusive film that control the light distribution to obtain the HUD with high brightness and uniformity.

“Microlens Array” is literally arrayed micrometer-sized lenses and are formed on film substrate by our proprietary micro/nano-fabrication technology. Each lens is placed in arrangement and designed in shape to convert the incident light from LED to optimized light distribution on imaging display panel, and to enhance the brightness by 40% and uniformity of projected image.

In addition, the diffusive angle is controlled by precisely controlling the shape of the microlens array structure. This product therefore comes in three standard diffusive angles: 8°, 10°, and 12°. Customers can choose a product having the angle suited to their HUD design and can enhance the HUD performance just by replacing the existing diffuser film with the product.

Products that contribute to medical care / reduction of environmental impacts

Eye shield material for medical use “DxShield®”

DxShield® is a film for medical eye shield with a highly transparent anti-reflection film, which applies anti-reflection technology used for LCD displays.



It has an anti-reflection layer featuring nano-level tiny convexes (moth-eye structure) arranged on both sides of the film. The structure can maintain clear vision for long periods by controlling light reflection.

Because DxShield® uses a highly hydrophilic resin to form the moth-eye structure, even if water vapor gets on the film, it will immediately spread over the surface and prevent fogging.

In medical settings, it is required to keep clear vision for long periods while wearing eye shields to perform precise operations. In order to respond to such needs, DxShield® has been adopted for eye shields for medical use, etc.

Self control protector (SCP)

SCP is a surface mounted type fuse used for secondary protection that melts the fuse element to shut down the circuit when overcurrent and/or overcharging occur due to malfunction of the primary protection that controls charging and discharging Li-ion battery packs.



SFJ 15 Amperes T Series has a rated current of 15 amperes and is suitable for mobile devices with a high rated current, such as laptop and tablet PCs, cordless vacuum cleaners and power tools. Dexerials modified the ceramic circuit board material structure while using a Pb-free fuse element developed in-house, consequently realizing Pb-free SCP.



Environmental Management

The Dexerials Group has established its Environmental Philosophy and Principles based upon its corporate vision and CSR Policy, and is promoting initiatives with due consideration to the environment in all business processes.



Environmental Initiatives

The Dexerials Group is taking initiatives in its business activities to reduce CO₂ emissions, utilize resources efficiently to reduce environmental impacts, handle wastes and emissions appropriately, and save water. With the mid- and long-term target for reducing CO₂ emissions established, various activities to reduce environmental impacts have been conducted.

Environmental management system

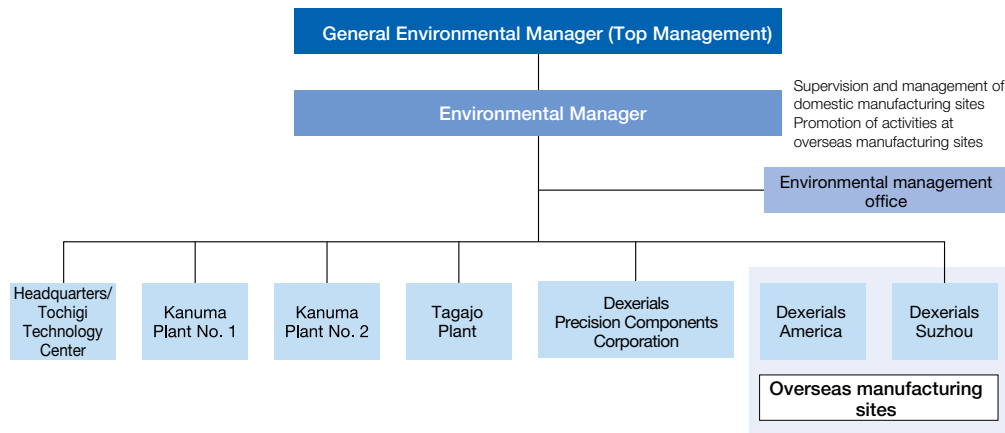
Based on the Environmental Philosophy and Principles*, the Group has built an environmental management system that encompasses both domestic and overseas operations. Based on this system, Environmental Managers supervise and manage each business unit, and environmental activities are implemented throughout the group across all plants. At each office and manufacturing site, an environment office works on environmental

activities with consideration for the differences in the various products and equipment at each office and manufacturing site. In addition, the Group's principal sites in Japan and overseas have obtained an external certification for ISO14001, for environmental management systems.

* For details of the Environmental Philosophy and Principles, please refer to Dexerials website.

<https://www.dexerials.jp/en/csr/envi/vision.html>

Environmental management structure



ISO 14001 certification status

Environmental management system	Organization	Site	Certification registration
ISO14001	Dexerials Corporation	<ul style="list-style-type: none"> ● Headquarters/Tochigi Technology Center ● Kanuma Plant No. 1 ● Kanuma Plant No. 2 ● Tagajo Plant ● Dexerials Precision Components Corporation 	4283884
	Dexerials (Suzhou) Co., Ltd.		CNBJ311710-UK


Environmental targets

Dexerials has established environmental targets for the three fiscal years from 2019 to 2021 as initiatives toward realizing a sustainable society.

The Company has expressed its support for the recommendations of the Task Force on Climate-related Financial Disclosures (“TCFD”) and promoted analyses, etc. of management risks and opportunities associated with climate changes.

Going forward, based on results of said analyses, environmental indicators (KPI) will be formulated anew as necessary from a longer-term perspective.

Achievement status of the mid-term environmental targets (2019 - 2021)/Review of fiscal 2020

 Please refer to Page 29 for the details of the important risks and opportunities.

	Target for fiscal 2019	Achievement of the target for fiscal 2019	Target for fiscal 2020	Achievement of the target for fiscal 2020	Review of fiscal 2020	Target for fiscal 2021
CO ₂	<ul style="list-style-type: none"> 1% YoY reduction of CO₂ emissions from business activities 	○	<ul style="list-style-type: none"> 1% YoY reduction of CO₂ emissions from business activities 	○	<p>CO₂ emissions were reduced by approximately 6.5% year on year.</p> <ul style="list-style-type: none"> Energy was saved with lower loads on the turbo refrigerator by changing the temperature of cold water in winter at Tochigi Technology Center, as well as renewal of the substation transformer at Kanuma Plant. For our environmentally conscious products, initiatives were conducted to calculate and visualize CO₂ emitted in the customer process, and clarify how much CO₂ was reduced by using the products. 	<ul style="list-style-type: none"> 1% YoY reduction of CO₂ emissions from business activities
Industrial waste	<ul style="list-style-type: none"> Continuation of zero emissions* Reduction of volume generated 	○	<ul style="list-style-type: none"> Continuation of zero emissions* Reduction of volume generated 	○	<p>The volume of waste generated was reduced by approximately 3.8% year on year.</p> <ul style="list-style-type: none"> We continued to reduce emissions of waste plastic films by improving the product yield in the primary categories. We made beneficial use of things to be intrinsically disposed of by reprocessing them into face shields, line tapes, and other products. 	<ul style="list-style-type: none"> Continuation of zero emissions* Reduction of volume generated
Water	<ul style="list-style-type: none"> YoY reduction of usage volume Compliance with voluntary standards for water quality 	×	<ul style="list-style-type: none"> YoY reduction of usage volume Compliance with voluntary standards for water quality 	○	<p>As a result of participation in community activities, such as Water Day and Water Week, and continuous initiatives to raise employee awareness about water saving, water usage decreased by approximately 6.9% year on year.</p>	<ul style="list-style-type: none"> YoY reduction of usage volume Compliance with voluntary standards for water quality
VOC	<ul style="list-style-type: none"> Flat or reduction of usage volume YoY 	○	<ul style="list-style-type: none"> Flat or reduction of usage volume YoY 	○	<p>With the exhaust gas elimination equipment newly introduced into Dexerials (Suzhou) Co., Ltd., VOC emissions decreased by approximately 2.7% year on year.</p>	<ul style="list-style-type: none"> Flat or reduction of usage volume YoY

* Zero emissions: “Zero waste emissions” is defined as a reuse/recycling ratio of 99.5% or more.

Topics

Joining the TCFD Consortium of Japan

Based on our judgment that is analyzing risks and opportunities associated with climate change, incorporating countermeasures in management/business strategies and disclosing the information about them to our stakeholders contribute to the realization of a sustainable society and the Company’s sustained growth and corporate value enhancement, the Company has expressed support for the recommendations of the TCFD and joined the TCFD Consortium of Japan in September 2021.

Going forward, the Company will promote information disclosure under the TCFD framework, continuously contribute to the realization of a sustainable society and offer new value through its business activities.

 Please refer to Page 29 for the details of initiatives for the recommendations of TCFD.



Dexerials continuously selected as S Class in the system of classifying businesses

In the system of classifying businesses conducted by the Agency for Natural Resources and Energy, part of the Ministry of Economy, Trade and Industry, Dexerials has been continuously selected as a superior energy conservation business (S Class).



Quality Management

The Dexerials Group is working to ensure product quality with high levels of reliability and satisfaction so that customers can use Dexerials products with confidence. The Group has obtained certification for quality management systems corresponding to applications of Dexerials products.

We are striving to maintain quality and enhance customer satisfaction by satisfying customers' requirements and ensuring compliance concerning products.



Quality Philosophy and Basic Policy

Quality Philosophy

The quality philosophy of the Dexerials Group is to contribute to the increased value of our customers' products through pursuit of technology and provision of high-quality products and services in the spirit of its vision "Value Matters—Unprecedented innovation, unprecedented value." We are engaging in various activities related to product quality and safety, including enacting a basic policy for quality that sets out the basic approach of our quality activities.

Basic Policy

- 1 We provide safe and reliable products and services.**
- 2 We comply with relevant laws and regulations, agreements with customers, and internal standards surely.**
- 3 We steadily implement activities to reduce risks and preventive activities.**
- 4 We improve professional standards and develop human resources by on-the-job training and education.**
- 5 We utilize quality management systems and strive to improve their effectiveness.**

Quality Promotion System

Dexerials has established a process management system led by top management in order to conduct business activities in compliance with quality management systems and ensure compliance with laws and regulations and customer requirements.

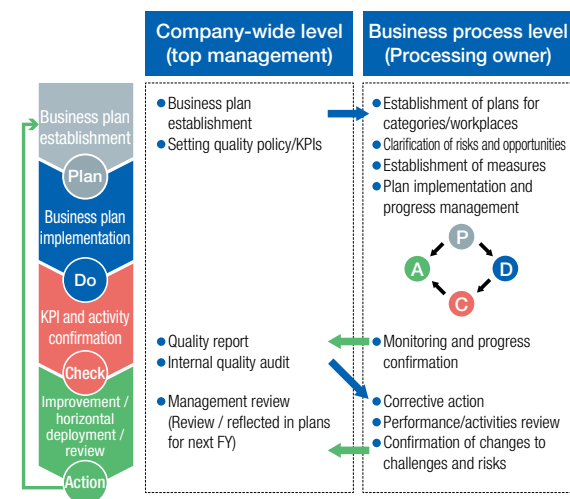
Cross-organizational activities and cooperation are indispensable for achievement of the quality business plan and for realization of products. Each unit of activities that requires cooperation is designated as a business process, which is the unit for management responsibility.

In order to monitor and improve Dexerials' quality initiatives, including preventing and responding to serious quality issues, quality KPIs are set at two levels: the company-wide level and the business process level. We are conducting activities that lead to the achievement of the quality KPIs by implementing a two-stage PDCA cycle at the company-wide level and the business process level.

The achievement status of the quality KPIs set respectively and the progress of initiatives for improving them are confirmed through quality reports issued monthly and internal quality audits conducted on a regular basis. In addition, in the internal quality

audit, it is confirmed whether business and field operations are conducted in accordance with legal regulations and rules, and whether manufacturing is performed in accordance with process and quality specifications. Then, problems are identified and reported to top management.

Process management operation chart



Quality Management System Certification Status

All the manufacturing sites of the Dexerials Group have obtained ISO 9001 certification for quality management systems that provide the basis for promotion of the quality philosophy and the basic policy and for business activities, such as design, development, manufacturing, and quality assurance.

Regarding products for automotive applications, we have obtained certification for IATF 16949, a standard for the automotive industry for the maintenance of the high quality and reliability required for automobile parts and we also comply with the VDA standard (quality standard of the German Association of the Automotive Industry).

Product Safety

In line with our basic policy of making product safety the top priority, we test our products for compliance with a range of product safety standards and acquire the relevant certifications to ensure that products are safe for customers to use with complete confidence. Regarding the essential international standard, the UL standard (safety standards established by UL LCC, a company that enacts safety standards and conducts tests and certification), in particular, not only did we respond to the demand from customers for certification registration but also from the viewpoint of ensuring product safety, we have proactively received certification for various products in the Dexerials Group as we continue to supply safe products at the parts level.

As many of our products are in a liquid form, in order to accurately communicate product safety information to customers, Dexerials has introduced a dedicated system for preparation of safety data sheets (SDSs) and provides SDSs compliant with laws and regulations in Japan and abroad.

Promotion of DX (Digital Transformation) in quality control

The Dexerials Group is promoting DX (Digital Transformation) also in quality control, believing the advanced data utilization with cutting-edge technologies represented by AI, IoT, and data science, etc. will lead to its further growth. Based on the abundant data and knowledge which have been accumulated so far, the quality has been innovatively improved, which is leveraged to increase our competitiveness.

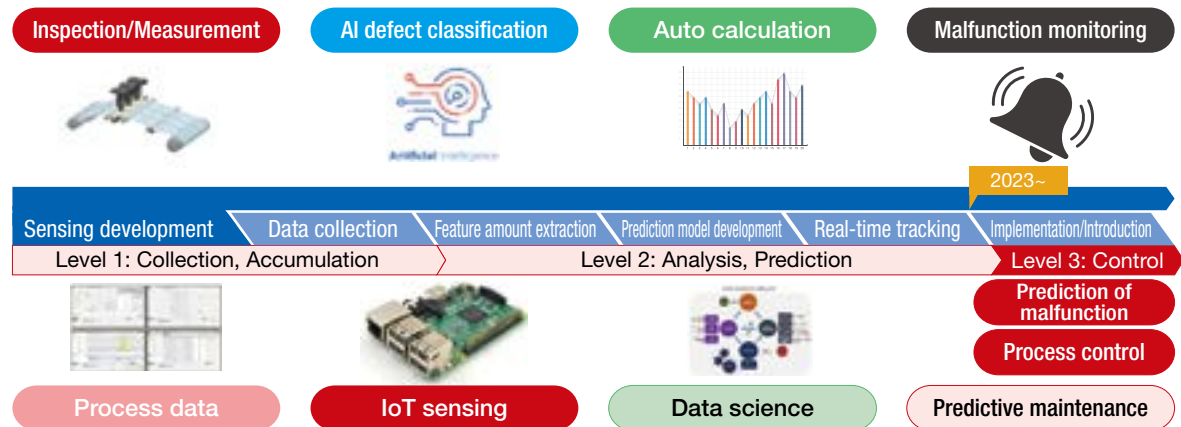
The Group produces a lot of roll-shaped film products. As they are continuously produced over a long time, it was a critical issue for quality control to prevent failures from occurring in series due to unexpected causes, i.e., how to realize quality failure early during the continuous production. Therefore, Dexerials developed the Automated optical inspection using image processing and the auto measuring device patented by the Company. By combining them with our unique production equipment design technology, we are striving to improve the in-line inspection (conducted simultaneously with the production) and measurement technology.

Then, based on enormous data obtained from the equipment, we addressed proprietary AI development. We also developed the system to classify defect images

by defect type in real-time with high accuracy by using deep learning, as well as the system which multidimensionally aggregates results of such classification so as to analyze them from many directions. Those systems have been integrated into the existing production management system. Similarly, the manufacturing equipment supporting the production is connected with networks so as to track operation status in real-time, and sensing devices and smart devices using IoT were developed. The Company is pushing ahead with the deployment of them in production sites. With those efforts, the sophisticated quality control system has been realized, wherein quality can always be tracked in real-time, even during continuous production.

Furthermore, in order to identify points to be improved in the process and early detect malfunctions of the manufacturing equipment, the Company is analyzing data classified into tens of thousands of items in total, making efforts for further improving quality and ensuring it constantly. In addition to quality forecast and predictive maintenance, we will take on the challenge of establishing the advanced control technology based on prediction technology, such as automatic adjustment of complicated production conditions amounting to hundreds of items necessary for the production. In this way, the Company has been working with our utmost efforts toward the realization of a smart factory.

Shift to the model which forecasts the future from the past and the present

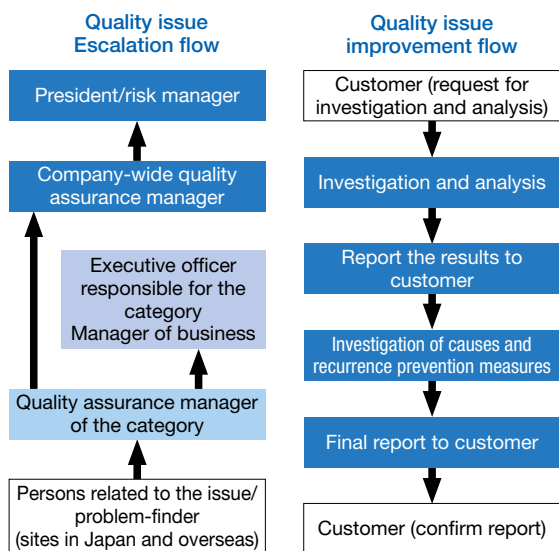


Quality communication

Through communication with customers, the Dexerials Group shares customer needs and technology issues. We offer technology-based support and solutions, working toward the creation of products that respond to customers' confidence in us and deliver customer satisfaction.

In the event of quality issues that could impact stakeholders, including where there is the threat of serious quality issues and product incidents occurring, a system is in place whereby the relevant corporate department promptly reports the situation to top management so that appropriate response measures can be taken.

Regarding returns and recoveries due to complaints made by customers, an analysis is performed by specialist technical staff with advanced analytical skills, and the analytical reports and follow-up measures are promptly implemented. For defects whose causes are difficult for customers to identify, we provide technical support for the investigation of the causes using our sophisticated analytical capabilities.

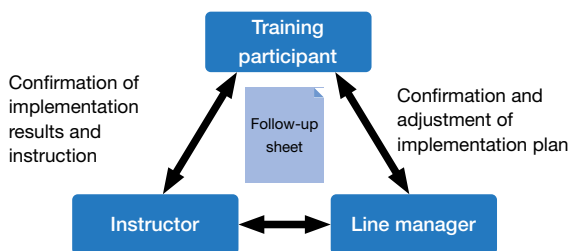


Technology Education and Human Resource Development

At Dexerials, based on the human resource strategy with the objective of developing specialists, we are developing human resources who have excellent quality management capabilities.

We have produced a road map for quality training that clarifies the quality management knowledge required in each post in a wide range of levels, from new employees to specialist technicians, and training that covers the basics through to expert knowledge and tools is provided for all divisions. In the basic quality control training, which we position as the most important quality control training at Dexerials, the following comments were raised by young employees who participated, and they show that the training leads to a better understanding of the basic concept of quality. "I understood the importance of a perspective of quality in a broad sense, which is to control the quality of operation as well as the quality of products." "I learned what quality is, and the importance of quality control for making good products speedily at low cost." "I reaffirmed the importance of providing quality assurance to the next process and customers by everyday inspection."

Training follow-up system



Report on training and creating implementation plan

On the other hand, since large part of the knowledge and tools required for quality control are universally used in a variety of work, not just in manufacturing, it has long been our agenda to ensure that these tools

can be implemented immediately. We therefore provide follow-up support from confirmation of implementation status to instructions while encouraging training participants, line managers and instructors to communicate with each other. For communication of the three parties, a follow-up sheet that clarifies PDCA cycle is used to further ensure learning.

To further improve employees' quality management capabilities, Dexerials encourages them to take the Quality Management and Quality Control Examination (examination regarding knowledge of quality control held by the Japanese Standards Association) that objectively determines the level of knowledge regarding quality. Wide range of employees including managers engaged in quality management, workplace leaders and development engineers are actively taking the test.

Training programs at manufacturing sites include "manufacturing basic training" centering on the necessary approaches to engage in manufacturing, "manufacturing technical training" to learn improvement techniques, and "manufacturing management training" to learn daily management at work locations. In addition, to enhance skills for maintenance and preventative maintenance of production facilities, we conduct on-the-job training (OJT) for self-maintenance. Employees are also encouraged to acquire the machine maintenance technician qualification (national qualification attesting to machine maintenance skills).

In order to prevent corporate scandals related to quality that have been an issue recently, Dexerials provides all employees training on compliance regarding quality and corporate ethics, which is the basis of correct decisions and actions.



Quality control training



Intellectual Property Activities

Dexerials views intellectual properties as an essential management resource for the realization of sustainable business development and improvement of corporate value. We have worked to enhance patent portfolios and improve business competitiveness using the IP Landscape.*

* IP Landscape: In the planning of management or business strategies, (1) the analysis is implemented, with incorporating intellectual property information into management/business information, and (2) results thereof (present plane view, future perspective, etc.) are shared with top managements and business managers.

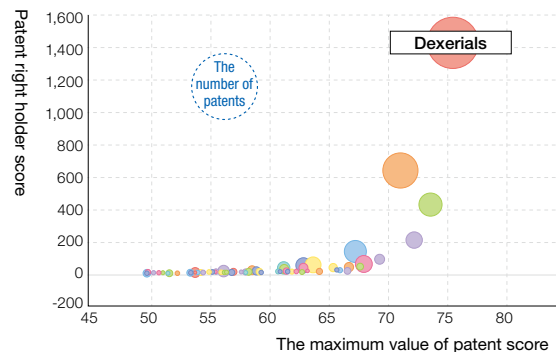


Activities to Enhance Business Competitiveness

Our business competitiveness improves by building a robust entry barrier using the patent portfolio and checking forged products and competitors' patents.

Our company analyses our own and competitors' intellectual property competitiveness by business category using the IP Landscape method (see the figure below). We strive to maintain and improve intellectual property competitiveness for core business. For growth or new business, we try to strengthen our own patent applications, as well as checking competitors' patents and reducing risks thereof. The

Patent right holder score map (ACF category)



Surveyed by Dexerials, using "Biz Cruncher" of Patent Result Co., Ltd.

analyzed intellectual property competitiveness for individual business is also adopted as an indicator for the business evaluation conducted by the entire company on a regular basis.

In order to realize our business model "Design-in" and "Spec-in," we globally protect inventions and know-how concerning functional materials and devices manufactured and sold by our company, and manufacturing methods, etc. And also by carefully conducting investigations on competitors' patents, legal security of our business is ensured. In addition, the percentage of overseas patents keeps over 60%, which contributes that our company develops business globally and secures business competitiveness in each country.

Establishing and Utilizing of Lean Patent Portfolio

Our company takes the approach of increasing the intellectual property competitiveness with not only enhancement of our own patent applications but also the acquisition of competitor's intellectual properties or license thereof as necessary. We strive to sell or license our unutilized patents to other companies, thereby promoting the beneficial use of our patents and the establishment of a lean portfolio.

Furthermore, our company promotes open innovation of environment-related patents by participating in WIPO GREEN (matching platform for environmental technologies and intellectual properties promoted by World Intellectual Property Organization) with an eye to using our own patents as a company contributing to solving environmental issues.

The above activities are reported to and discussed by the Board of Directors in a timely manner, and the results thereof are fed back for planning and execution of intellectual property investment and strategies.

Intellectual Property Investment

Our company appropriates an amount equal to approximate 25% of the annual R&D expenditure for intellectual property investments. Such investments have been actively made mainly into the enhancement of patent portfolios, IP Mix Strategy (design, trademark, know-how, etc.), and DX (digital transformation) for intellectual properties.

In recent years, with preparing infrastructures of the IP Landscape and feeding the analysis results back to the business strategies, our Legal & IP department contributes to sustainable business growth through the creation of new customer value.



Supply Chain Management

Dexerials is endeavoring to establish sound partnerships with its suppliers and is conducting activities for co-prosperity through the supply chain.



Basic Philosophy of Supply Chain Management

- 1 Emphasizing “fair business practices, transparency, and equal opportunities,”** the Dexerials Group’s procurement is founded on relationships of mutual trust with suppliers.
 - “Fair business practices” means conducting procurement in accordance with prescribed policies and procedures.
 - “Transparency” means avoiding any arbitrary actions.
 - “Equal opportunities” means providing suppliers with a level playing field.
- 2 Dexerials also emphasizes cooperative relationship with suppliers in such areas as strengthening technological competence, assuring and improving the quality of parts and maintaining competitive prices.**
- 3 To preserve the global environment and realize a sustainable society, Dexerials strives for environmental management together with suppliers by observing the Green Procurement Policy.**
- 4 To ensure compliance with laws, regulations, and social standards and to realize contributions to society, Dexerials works not only internally but also with suppliers to strengthen corporate governance and compliance.**

Main contents of Dexerials CSR Procurement Guidelines

Human rights/Labor	Health and safety	Environment	Fair trade/Ethics	Quality/Health and safety	Information security	Contribution to society
<ul style="list-style-type: none"> ● Prohibition of forced labor ● Prohibition of harassment ● Prohibition of child labor ● Prohibition of discrimination ● Fair wages ● Management of working hours 	<ul style="list-style-type: none"> ● Safety measures for machine and equipment ● Health and safety for workplaces and facilities ● Measures against industrial accidents ● Emergency response ● Consideration for work with physical loads ● Health management of employees 	<ul style="list-style-type: none"> ● Chemical substance management ● Building of environmental management system ● Reduction of greenhouse gas emissions ● Reduction of waste ● Disclosure of status of initiatives for environmental conservation 	<ul style="list-style-type: none"> ● Prohibition of corruption, bribes, etc. ● Prohibition of abuse of advantageous position ● Prohibition of offering/receiving profits ● Prohibition of anticompetitive practices ● Provision of accurate product and service information ● Respect for intellectual properties ● Appropriate export management 	<ul style="list-style-type: none"> ● Ensuring product safety ● Building and operation of quality management system 	<ul style="list-style-type: none"> ● Defense against threats to computer networks ● Prevention of personal information leakage ● Prevention of leakage of confidential information of customers and third parties 	<ul style="list-style-type: none"> ● Contribution to society and local communities

CSR Promotion Together with Supply Chain

In order to promote CSR in overall supply chain, Dexerials have established the Dexerials CSR Procurement Guidelines, and we ask for the understanding and cooperation of our suppliers of materials and other items.

To be more specific, while confirming CSR policies of our suppliers whose dependence on us is 20% or more, we conduct a CSR survey to grasp the status of their CSR initiatives, and confirm the status of their efforts in areas such as human rights, labor, health and safety, and environment. In this way, we are making efforts for sustainable procurement.

Primary check items in CSR questionnaire survey

Classification	Items to be checked
Human rights/ Labor	Forced labor, harassment, child labor, discrimination, fair wages, appropriate working hours, employees' right to organize
Health and safety	Measures for health and safety at workplaces, industrial accidents, industrial diseases, emergency response, consideration to work with physical loads, health management of workers
Environment	Chemical substance management, environmental management system, minimization of environmental impacts, environmental license/administrative permission, effective use of resources/energy, reduction of greenhouse gas emissions, reduction of industrial wastes, disclosure of status of initiatives for environmental conservation

Green Procurement

For the purposes of global environmental conservation and the realization of a sustainable society, Dexerials has established a set of Management Standards for Environment-Related Substances. The Standards define controlled substances, which are categorized as substances to be banned immediately, substances to be phased out, or exempted substances. They are also subject to monitoring in order to prevent inclusion in our products or to confirm reduction of their use.

Dexerials designates suppliers who cooperate with these standards as Dexerials Green Partners. In

principle, the Dexerials Group procures all raw materials and parts used for its products from suppliers who have been qualified as Dexerials Green Partners.

As the process to grant certification as a Green Partner, we start with explaining the "Management Standards for Environment-Related Substances" to suppliers for their understanding. Next, we individually investigate specific matters such as legal compliance to check conformity with our internal certification criteria. Each supplier meeting the certification criteria is certified and registered as a "Green Partner," and business with such supplier starts.

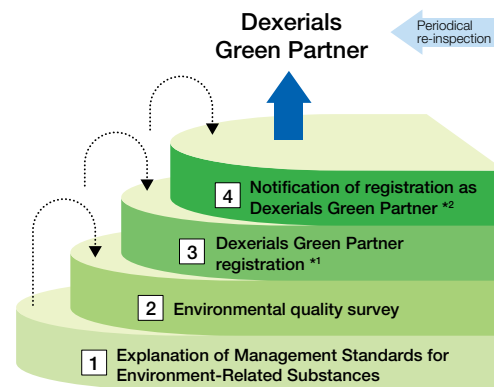
Through the stable procurement based on the trust relationship with "Green Partners," the Company will provide high-quality, reliable, and safe products to customers.

"Management Standards for Environment-Related Substances" is disclosed on our website.

* For details of the Management Standards for Environment-Related Substances, please refer to Dexerials website.

<https://www.dexerials.jp/en/csr/social/green.html>

Dexerials Green Partner Program



*1 Suppliers who meet the criteria are registered as Dexerials Green Partners

*2 Registered suppliers are notified of their status as Dexerials Green Partners, and the business relationship commences

Procurement/Logistics Risk Management

In order to reduce procurement/logistics risks arising from natural disasters, etc., Dexerials is further enhancing measures for BCP including our supply chain.

Specifically, supplier's BCP status is confirmed through the questionnaire, and, based on its contents, risks at domestic and overseas suppliers are identified and compiled as a database to build a system for monitoring status of response to BCP. In this way, the Company is building the system capable of responding to various risks and disasters in the supply chain.

Response to Climate Changes

As measures against climate changes in combination with the supply chain, the Company works to visualize CO₂ emissions (carbon footprint) concerning its products from procurement of raw materials through distribution.

Going forward, we will push ahead with the reduction of CO₂ emissions in the entire supply chain, by knowing CO₂ emissions at suppliers through the questionnaire survey, and managing the survey data by incorporating them into the system for visualization.

Response to Conflict Minerals

The Dexerials Group promotes responsible procurement based on a policy of not using raw materials and parts that contain conflict minerals from countries with human rights violations or similar issues. As a product supplier, we check for trace levels of the relevant minerals in our products and provide the appropriate information to customers.

Reinforcement of Corporate Governance and Compliance



Corporate Governance

Dexerials' corporate philosophy is "Integrity—Have Integrity and Sincerity," and in accordance with this we recognize that in order to try and improve the corporate value, and to live up to the expectations and trust placed in us by all the stakeholders who support the corporate activities, the establishment of corporate governance is an extremely important issue.



Initiatives to Strengthen Corporate Governance

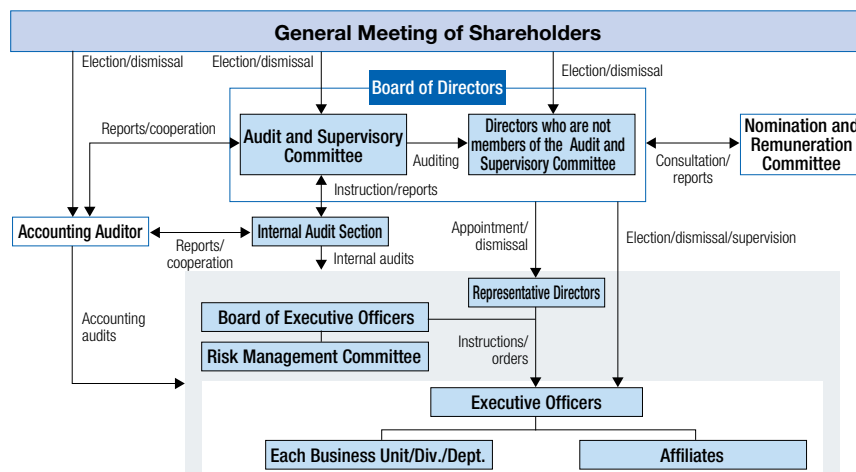
Dexerials engages continuously in initiatives to enhance corporate governance in order to build a more effective and efficient management system. Ever since we became a listed company, we have had a supervisory system in which the majority of our directors are outside directors with high independence and expertise, thereby ensuring transparency and objectivity of management. The decision-making process for officers' nomination and remuneration is

handled by the Nomination and Remuneration Committee, an optional committee, which was established in 2019. The majority of the members and the committee chairperson are outside directors. It holds discussions on matters such as evaluation of executive directors, succession planning for officers, and the officer remuneration system.

We proactively delegate executive authority by introducing an executive officer system. In 2019, we

introduced an Entrusted Executive Officer System to further spread the delegation of authority. Then in 2021, we switched to a company with an Audit and Supervisory Committee, which has accelerated decision-making and efforts to drive forward the monitoring model.

Dexerials' corporate governance system (as of December 2021)



History of governance reforms

Jul. 2015

- Listed on TSE first section

Jun. 2016

- Introduced performance-linked stock compensation plan

Jun. 2021

- Switched to a company with an Audit and Supervisory Committee
- Revised policy on determination of officer remuneration (reviewed the KPIs, etc. used to decide remuneration)
- Status of all executive directors changed to delegation agreement-based
- Enhanced the delegation of executive authority

Jul. 2019

- Established Nomination and Remuneration Committee
- Introduced entrusted executive officer system
- Enhanced the delegation of executive authority

Changes in the number of officers

	2015	2016	2017	2018	2019	2020	2021
Directors (of which, outside)	7 (4)	7 (4)	7 (4)	7 (4)	7 (4)	6 (4)	7 (4)
Audit & Supervisory Board Members (of which, outside)	3 (3)	3 (3)	3 (3)	3 (3)	3 (2)	3 (2)	—
Executive officers	9	11	11	12	11	7	6

Directors, Board of Directors, and Executive Officers

Dexerials' Board of Directors consists of seven members (including four outside directors), of which a majority of the members are outside directors. In principle, the Board of Directors conducts regular meetings once per month, where it decides legally mandated matters, determines major management policies and strategies, selects candidates for officers, determines remuneration of individual directors, and oversees execution of business. The outside directors each have extensive experience and knowledge as managers or experts in their field and are able to play their role in strengthening supervisory functions from an independent perspective.

In the execution of business, authority is delegated to the six appointed executive officers. In this way, we are working to build a system that makes quick decision-making and clarity of executive responsibility possible.

Of the executive officers, two also serve as internal directors. The four executive officers who do not serve as internal directors have executed a delegation agreement with the company regarding the execution of business.

Audit and Supervisory Committee

Dexerials is a company with an Audit and Supervisory Committee. The company's Audit and Supervisory Committee comprises three members (of which two are outside directors) and is chaired by an outside director, which ensures the transparency and independence in audits. In addition, a position for one standing audit and supervisory committee member has been created to secure the effectiveness of audits.

Board of Executive Officers

Dexerials conducts meetings of the Board of Executive Officers twice per month in principle. The board comprises the six executive officers as regular members. It examines the status of and issues regarding executive operations, in addition to conducting discussions of major proposals in advance.

Internal Audits and Audits by the Audit and Supervisory Committee

The Internal Audit Section strives to implement effective and efficient audits, establishes an internal control system for the company and its Group companies, and audits the status of their implementation of and compliance with their respective compliance and risk management systems. In regards to the results of internal audits, the Internal Audit Section periodically reviews the status of enhancements, and reports those details to the Audit and Supervisory Committee, the representative directors, and any related departments. Specifically, the section carries out internal audits based on the audit plan formulated at the beginning of the fiscal year, notifies the audited divisions of the results, while also informing the Audit and Supervisory Committee and the representative directors of the results. If there are any issues that require improvement, the section checks on the progress and results of their implementation.

The section holds monthly meetings with the Standing Audit and Supervisory Committee Member to confirm the details of audits and exchange opinions. It also exchanges opinions with the Accounting Auditor every quarter, informing them on any material events concerning internal control that were found in internal audits and seeking their guidance and advice as needed.

Accounting Audits

For accounting audits, the company has an audit agreement with PricewaterhouseCoopers Aarata LLC, which conducts accounting audits in accordance with the companies Act and the Financial Instruments and Exchange Act.

Neither this audit corporation nor its engagement partners engaged in audits of the company have any special interest relationships with the company. In addition, this audit corporation has implemented measures to ensure that the same engagement partner will not be involved in accounting audits of the company for more than a certain period of time.

Nomination and Remuneration Committee

Dexerials has established the optional Nomination and Remuneration Committee. Selection of candidates for officers and determination of the remuneration are based on the discussions carried out by the committee.

The Nomination and Remuneration Committee consists of six directors. The majority of the members, including the chairperson, are independent outside directors, thereby ensuring objectivity and transparency.

The Nomination and Remuneration Committee met five times in fiscal 2020, where it discussed matters such as selection of officer candidates, confirmation of the training process for officer successors, evaluation of performance in determining remuneration for officers, and the appropriateness of evaluation indicators in determining the composition of remuneration and performance-linked compensation.

Nomination and Remuneration Committee Meetings in Fiscal 2020

Date	Matters deliberated on
May 2020	<ul style="list-style-type: none"> ● Execution of the succession of president and management team ● Deliberation on the amounts of officers' remuneration (performance bonus, stock-based compensation) ● Review of fiscal 2019
July	<ul style="list-style-type: none"> ● Discussion on succession planning ● Discussion on the revision of officers' remuneration (basic policy) ● Report on fiscal 2000 commitments
September	<ul style="list-style-type: none"> ● Discussion on the revision of officers' remuneration (KPIs for performance-linked compensation)
October	<ul style="list-style-type: none"> ● Discussion on succession planning ● Discussion on the revision of officers' remuneration (KPIs for performance-linked compensation)
January 2021	<ul style="list-style-type: none"> ● Discussion on the management system for the next fiscal year

Evaluation of Effectiveness of the Board of Directors

Analysis & Method of Evaluation

The Board of Directors conducts self-evaluations of its effectiveness with the aim of achieving sustainable corporate growth and a medium- to long-term increase in corporate value.

For the evaluation in fiscal 2020, we contracted a third party to conduct interviews and analyze the results in order to ensure objectivity and transparency in the evaluation. Specifically, each director and Audit & Supervisory Board Member evaluated the effectiveness of the Board of Directors in fiscal 2020 based on a questionnaire created by the Board of Directors Secretariat, then the third party interviewed all directors and Audit & Supervisory Board Members about their responses and analyzed the results.

Finally, the Board of Directors held discussions based on the results of the analysis, and formulated an action plan detailing the key issues that need to be addressed in the next fiscal year.

Details of questionnaire items

Category	Details
Operation of the Board of Directors	<ul style="list-style-type: none"> • Contents and number of agenda items in board meetings • Progress on agenda items in board meetings • Frequency and duration of board meetings • State of open exchange of opinions and discussions in board meetings
Corporate governance-related	<ul style="list-style-type: none"> • Deciding direction of management strategy • Understanding stakeholders' perspectives • Creating an environment that supports risk-taking • Sharing risk information • Effectiveness of supervisory function
Evaluation of fiscal 2020 action plan	<p>Evaluation of effectiveness of fiscal 2020 action plan (Details of fiscal 2020 action plan)</p> <ul style="list-style-type: none"> • Hold more in-depth discussions on the medium- to long-term management strategy, etc. • Deliberate on the composition and organizational design of the Board of Directors and method for deciding nomination and remuneration • Improve communications and share information

Outline of Results of Evaluation

(1) Summary

While the results of the third-party evaluation showed a high standard of effectiveness of the Board of Directors, the followings were pointed out as matters of particular concern overall:

- Hold more in-depth discussions on the medium- to long-term management strategy, etc.
- Improve communications and share information
- Progress on agenda items in board meetings
- Share information related to risks

In addition to the above, the followings were pointed out as matters that require deliberation to further improve effectiveness:

- Clarify the roles and functions of the Board of Directors and each of its members
- Build consensus on the agenda of board meetings and scheduling of deliberation (clarify the roles and functions of the Board of Directors)
- Clarify the roles and functions expected of outside directors
- Consider ways of information sharing and communication needed to allow the Board of Directors to fulfill its roles and functions
- Evaluation of each member and succession

(2) Action plan for fiscal 2021

In light of the details specified in (1) above, the company made the following decisions with regard to its action plan for fiscal 2021:

- Build consensus between the management and outside directors on the roles and functions expected of outside directors, their evaluation, and succession
- Build consensus on the agenda of board meetings and scheduling of deliberation
- Consider ways of information sharing and communication needed to allow the Board of Directors to fulfill its roles and functions

Officers' Remuneration

Basic Approach

Remuneration of the Company's directors is determined based on a comparative examination of the company's current compensation systems and levels with those of companies of similar size, type, and industry. This information is derived from executive compensation survey data provided by external research organizations.

Remuneration of directors (excluding outside directors) is determined by a resolution of the Board of Directors following the discussion by the Nomination and Remuneration Committee based on the amount calculated according to the job title and the degree of achievement of results for the fiscal year, etc., in view of the basic approach for determining officers' remuneration described below.

Remuneration of Audit and Supervisory Committee Members is determined through consultation among directors serving as Audit and Supervisory Committee Members.

Basic approach for determining officers' remuneration

- Officers' remuneration shall correspond to the role, responsibilities, and performance of each officer.
- Officers' remuneration shall be designed such that it reflects the medium- to long-term management strategy and also strongly incentivizes medium- to long-term growth.
- The level of remuneration shall be appropriate for attracting and retaining excellent human resources.
- The remuneration determination process shall be objective and highly transparent.

Base Remuneration

Amounts are determined according to the job title in accordance with internal rules (weighted allocation according to job responsibilities), and a fixed monthly amount of remuneration is paid.

Only base remuneration is provided to outside directors and directors serving as Audit and Supervisory Committee Members.

The maximum amount of remuneration of directors (excluding directors serving as Audit and Supervisory Committee Members) was set to be no more than 300 million yen annually by resolution adopted at the 9th Annual General Meeting of Shareholders held on June 18, 2021. The maximum amount of remuneration of directors serving as Audit and Supervisory Committee Members was set to be no more than 50 million yen annually by resolution adopted at the above-mentioned Annual General Meeting of Shareholders.

Performance-linked compensation

Performance-linked compensation comprises “performance-linked pay,” which is paid according to performance during the fiscal year, and “stock-based compensation (BBT trust),” which is intended to foster the awareness that directors share interests with shareholders and to provide motivation for achieving objectives over the medium to long term. Performance-linked compensation is designed to motivate the company’s executive directors to manage with an awareness of performance and share

prices not just in a single fiscal year, but also over the medium to long term.

Performance-linked pay is set based on consolidated net sales, which correspond to the capability to earn revenue through implementation of the strategy, and EBITDA, which corresponds to the capability to earn substantial profit, as evaluation indicators. In addition to these, individual evaluation determined by the Nomination and Remuneration Committee is also reflected in performance remuneration. Regarding the above performance indicators, performance-linked pay is calculated at the ratio of 50% consolidated net sales and 50% EBITDA, and the amount determined is divided by 12 and the divided amount is paid monthly from the month following the conclusion of the Annual General Meeting of Shareholders.

“Stock-based compensation” is set separately from base remuneration for the purpose of increasing awareness of contributions to medium- to long-term continuous improvements in financial results and increases in corporate value. Specifically, money is contributed to a trust every three years for acquisition of the shares necessary for provision to directors, and thereafter, eligible directors are awarded points according to TSR (total shareholder return) and ROE, which are evaluation indicators specified in order to ensure directors share interests with shareholders and to ensure that not only the benefit of the increase in the share price, but also the risk of the decrease in the share price is shared among the directors and the shareholders, thereby strengthening the directors’ awareness of their contribution to the medium- to long-term improvement in financial results and corporate value.

Each point granted can be converted into one share of the company’s ordinary stock, and every three years, eligible directors

are granted shares and monies converted at the market value of those shares according to the number of points.

Decision-Making Process

In order to guarantee appropriate remuneration for officers and transparency of decision-making processes, the company has established a Nomination and Remuneration Committee as an advisory body to the Board of Directors.

The decision-making process of the Board of Directors shall involve referral to and deliberation by the Nomination and Remuneration Committee for matters relating to the composition of remuneration of directors and executive officers, determination of the appropriateness of design and setting targets for the performance-linked compensation system, and evaluation of performance, etc.

The remuneration of individual directors shall be determined by a resolution of the Board of Directors following discussion by the Nomination and Remuneration Committee and within the range of remuneration determined by a resolution of the General Meeting of Shareholders in advance.

The remuneration of individual directors serving as Audit and Supervisory Committee Members shall be determined through consultation among directors serving as Audit and Supervisory Committee Members within the range of remuneration determined by a resolution of the General Meeting of Shareholders in advance.

Percentages of each type of remuneration by job title

Job title	Percentage of officer remuneration			Total
	Base remuneration	Performance-linked compensation		
		Performance-linked pay	Stock-based compensation	
Representative directors	50%	30%	20%	100%
Outside directors	100%	—	—	
Directors serving as Audit and Supervisory Committee Members	100%	—	—	

(Note) The composition of each type of remuneration is the percentage when each evaluation indicator selected as performance target is achieved.

Amount of officers’ remuneration in fiscal 2020

Officer classification	Total amount of remuneration, etc. (Yen in millions)	Total amount of remuneration, etc. by type (Yen in millions)			Number of eligible officers (people)
		Base remuneration	Performance-linked pay	Stock-based compensation	
Directors	132	85	25	21	7
Audit & Supervisory Board Members	25	25	—	—	3
Total	157	110	25	21	10
(of which outside officers)	42	42	—	—	6

Reinforcement of Corporate Governance and Compliance

Directors and Executive Officers (As of December 2021)

Directors

Representative Director and President,
President and Executive Officer
Officer in charge of management and business operations

Nomination and Remuneration
Committee Member

Yoshihisa Shinya



- Jul. 2001 Joined Sony Chemicals Corporation (current the company)
- Apr. 2005 General Manager, Development Department, Optical Material Business Unit, Sony Chemicals Corporation
- Apr. 2012 Deputy Head, Optical Solutions Products Business Division, Sony Chemicals Corporation
- Sep. 2012 Deputy Head, Optical Solutions Products Business Unit, the company
- Apr. 2014 Executive Officer, Optical Solutions Products Business Unit Head, the company
- Apr. 2016 Executive Officer, Product Development Division Head, Business Unit Group Deputy-Head, Corporate R&D Division Deputy-Head, the company
- Apr. 2017 Senior Executive Officer, Product Development Division Head, Automotive Devices Business Group Head, the company
- Jan. 2019 Senior Executive Officer, Automotive Solutions Business Unit Head, the company
- Mar. 2019 President and Executive Officer (to present), Automotive Solutions Business Unit Head, the company
- Jun. 2019 Representative Director and President, the company (to present)

Mr. Yoshihisa Shinya is playing a central role in product development with regard to the company's entry to new business fields and has deep insight about technology and a wealth of experience in business operations. The company judges that he is capable of appropriately fulfilling his duties as a Director and therefore appointed him Director.

Outside Director

Independent Officer

Nomination and Remuneration
Committee Chairman

Takashi Yokokura



- Apr. 1971 Joined Tokyo Optical Co., Ltd. (current TOPCON Corporation)
- Oct. 1993 General Manager of Electronic Beam Engineering Department, Electronic Beam Division, TOPCON Corporation
- Apr. 1997 Technology Executive, Industrial Equipment Division, TOPCON Corporation
- Jun. 2002 Executive Officer, TOPCON Corporation
- Jun. 2003 Director, TOPCON Corporation
- Jun. 2006 President and Representative Director, TOPCON Corporation
- Jun. 2011 Advisor, TOPCON Corporation
- Dec. 2012 Governor, Tokyo University of Science
- May 2015 Outside Director, the Company (to present)
- Oct. 2015 Director, Tokyo University of Science
- Jul. 2020 External Director, KIKUCHI SEISAKUSHO CO., LTD. (to present)

Having served as president and representative director at a global company, Mr. Takashi Yokokura has deep insight into corporate management. The company appointed him Outside Director, expecting that he can provide useful advice for its management from an objective and professional perspective and contribute to strengthening of its technology development and business development.

Representative Director and
Senior Managing Executive Officer
Officer in charge of management and administration

Nomination and Remuneration
Committee Member

Toshiya Satake



- Apr. 1983 Joined Hokkaido-Tohoku Development Finance Public Corporation (current Development Bank of Japan Inc.)
- Apr. 2006 Deputy Head of Business Development Department, Head of Transaction Services Group, Development Bank of Japan Inc.
- Jun. 2009 Director, General Manager, Planning Department, Skynet Asia Airways Co., Ltd. (current Solaseed Air Inc.)
- Apr. 2012 Head of Regional Planning Department, Development Bank of Japan Inc.
- Jun. 2013 Head of Regional Planning Department, Head of PPP/PFI Promotion Center, Development Bank of Japan Inc.
- Apr. 2014 Advisor, the company
- Jun. 2014 Standing Audit & Supervisory Board Member, the company
- Jun. 2019 Representative Director and Senior Managing Executive Officer, the company (to present)
- Oct. 2020 Representative Director and President, Dexerials Precision Components Corporation (to present)

Mr. Toshiya Satake has a wealth of experience and deep insight gained through his involvement in investment and financing business at financial institutions and as a manager of a company. In his capacity as representative director, he has contributed to enhancing the corporate governance and corporate value of the company. The company judges that he is capable of appropriately fulfilling his duties as a Director and therefore appointed him Director.

Outside Director

Independent Officer

Nomination and Remuneration
Committee Member

Satoshi Taguchi



- Apr. 1981 Joined Nippon Oil Corporation (current ENEOS Corporation)
- Apr. 2013 Executive Officer and General Manager of General Administration Department, JX Nippon Oil & Gas Exploration Corporation
- Jul. 2013 Executive Officer and General Manager of General Administration Department, JX Nippon Oil & Energy Corporation (current ENEOS Corporation)
- May 2015 Executive Officer and General Manager of Legal & Corporate Affairs Department, JX Holdings, Inc. (current ENEOS Holdings, Inc.)
- Apr. 2016 Director and Senior Vice President, JX Nippon Oil & Energy Corporation (current ENEOS Corporation)
- Nov. 2016 Director and Senior Vice President, JX Nippon Oil & Energy Corporation (current ENEOS Corporation)
- Apr. 2017 Director and Senior Vice President, JXTG Nippon Oil & Energy Corporation (current ENEOS Corporation)
- Jun. 2017 Director and Senior Vice President, JXTG Holdings, Inc. (current ENEOS Holdings, Inc.)
- Apr. 2018 Director and Senior Vice President, JXTG Holdings, Inc. (current ENEOS Holdings, Inc.)
- Jun. 2018 Statutory Outside Corporate Auditor, Nippon Shokubai Co., Ltd.
- Apr. 2019 Director and Senior Vice President, JXTG Holdings, Inc. (current ENEOS Holdings, Inc.)
- Jun. 2019 Director and Senior Vice President, JXTG Holdings, Inc. (current ENEOS Holdings, Inc.)
- Apr. 2020 Director and Senior Vice President, JXTG Holdings, Inc. (current ENEOS Holdings, Inc.)
- Jun. 2020 Senior Vice President, ENEOS Holdings, Inc. and ENEOS Corporation
- Apr. 2021 Advisor, ENEOS Corporation (to present)
- Jun. 2021 Outside Director, the company (to present)

Having held important posts at global companies, Mr. Satoshi Taguchi has deep insight into corporate management. The company judges that he can provide useful advice for the Company's management from an objective and professional perspective and contribute to strengthening oversight over the company's risk management and execution of duties, and therefore appointed him Outside Director.

Directors (Audit and Supervisory Committee Members)

Outside Director, Chairperson of the Audit and Supervisory Committee

Independent Officer

Nomination and Remuneration Committee Member



Rika Sato

- Apr. 1992 Registered as attorney-at-law (The Tokyo Bar Association)
- Dec. 1998 Registered as attorney-at-law (New York State)
- Jun. 2000 Joined Asahi & Koma Law Office (current NISHIMURA & ASAHI)
- Jan. 2003 Partner, Asahi & Koma Law Office
- Jan. 2007 Joined Jones Day, Partner
- May 2015 Outside Audit & Supervisory Board Member, the company
- Jan. 2016 Partner, Ota & Sato
- Jun. 2018 Outside Director, CMK CORPORATION (to present)
- Jun. 2019 Outside Director, the company
- Jul. 2019 Partner, Sato & Partners (to present)
- Nov. 2019 Examiner for the National Bar Examination and Examiner for the Preliminary National Bar Examination (in charge of Code of Civil Procedure) (to present)
- Jun. 2021 Outside Director (Audit and Supervisory Committee Member), the company (to present)

Ms. Rika Sato has deep insight about corporate legal affairs as an attorney-at-law and has a track record of contributing to enhancement of the quality of auditing of the company through her service as an Outside Audit and Supervisory Board Member. The company expects her to contribute to strengthening of the audit and supervisory functions from an objective and professional perspective and to offer useful advice for enhancing compliance and corporate governance, and therefore appointed her Outside Director serving as Audit and Supervisory Committee Member.

Outside Director

Independent Officer

Nomination and Remuneration Committee Member



Tetsuyuki Kagaya

- Apr. 2000 Lecturer, Hitotsubashi University Graduate School of Commerce and Management
- Apr. 2004 Assistant Professor, Hitotsubashi University Graduate School of Commerce and Management
- Apr. 2008 Associate Professor, Hitotsubashi University Graduate School of Commerce and Management
- Apr. 2017 Associate Professor, Hitotsubashi University School of Business Administration
- Oct. 2020 Professor, Hitotsubashi University School of Business Administration (to present)
- Jun. 2021 Outside Director (Audit and Supervisory Committee Member), the company (to present)

Mr. Tetsuyuki Kagaya has deep insight about finance and accounting, evaluation of corporate value, risk analysis etc. as a university professor. The company expects him to contribute to strengthening of the audit and supervisory functions from an objective and professional perspective and to offer useful advice for promoting ESG management of the company, and therefore appointed him Outside Director serving as Audit and Supervisory Committee Member.

Director and Standing Audit and Supervisory Committee Member



Masahiro Kuwayama

- Apr. 1981 Joined Sony Corporation
- Jan. 2003 General Manager, MSNC RM Business Strategy Division, Sony Corporation
- Apr. 2007 General Manager, Corporate Planning Department, Sony Chemical & Information Device Corporation (current the company)
- Aug. 2008 Corporate Executive, responsible for corporate planning, chemical products business management, general affairs, human resources, chemical materials, Sony Chemical & Information Device Corporation
- Aug. 2012 General Manager, Legal Affairs, Environment & Compliance Division, Sony Chemical & Information Device Corporation
- Mar. 2017 General Manager, Internal Audit Department, the company
- Jun. 2019 Audit & Supervisory Board Member (Standing), the company
- Jun. 2021 Director (Audit and Supervisory Committee Member), the company (to present)

Having served in the Legal Affairs Department and as the General Manager of the Internal Audit Department of the company, Mr. Masahiro Kuwayama has a wealth of experience and insight about legal affairs and audit practices. The company judges that he is capable of performing appropriate auditing from an objective and professional perspective and therefore appointed him Director serving as Audit and Supervisory Committee Member.

Executive Officers / Division Heads / Business Unit Heads

Yoshihisa Shinya

President and Executive Officer
Officer in charge of management and business operations

Toshiya Satake

Senior Managing Executive Officer
Officer in charge of management and administration
Representative Director and President, Dexerials Precision Components Corporation

Takashi Yoshida

Executive Officer
Corporate Planning & Control Division Head

Kozaburo Hayashi

Executive Officer
Connecting Materials Business Unit Head

Yuji Kakiuchi

Executive Officer
Global Sales & Marketing Division Head

Koichi Akeyama

Executive Officer
Corporate Strategy Division Head

Kuo-Hua Sung

Technology Strategy Head
Officer in charge of Dexerials Innovation Group (DIG) Promotion Department

Kentaro Oshima

Automotive Solutions Business Unit Head

Kazuya Hayashibe

Corporate R&D Division Head

Kouji Yamagishi

Production Control Division Head

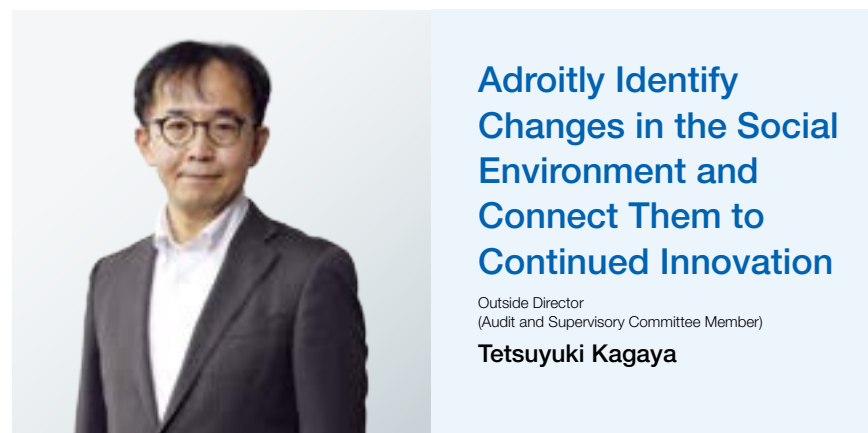
Hiroshi Uchida

Optical Solutions Business Unit Head

Reasons for appointment

Reasons for appointment

Messages from Newly Appointed Outside Directors



As a manufacturer of functional materials, we possess a range of differentiated products, such as anisotropic conductive films (ACF) and anti-reflection films, based on our superior technological capabilities, and we are developing our business by capturing a large share of global niche markets based on our unique business model in which sales and engineers work together to approach not only direct customers but also end-product manufacturers directly. In response to the challenge of high dependence on products for specific fields, we are also branching out into new domains, such as the automotive field.

On the other hand, looking at the business environment surrounding our company from a long-term perspective, I believe that, to achieve sustainable growth and the enhancement of corporate value, our urgent challenge will be to create a long-term vision on which to base all manner of business decisions. Our most important tasks will be to draw up a vision for what we want Dexerials to be as a company in the future, incorporate long-term growth scenarios for realizing that vision specifically into its main strategies, that is, our future mid-term management plans, and execute those strategies promptly. This very moment in time, when business is performing well, is the perfect opportunity for us to create the organizational foundations and corporate culture to support our steady performance.

In my involvement as one of the outside directors in the first stage of formulating the long-term vision that will form the foundation for future growth, I hope I will be able to make some contribution by offering values that are not a mere extension of the past and ways of thinking that are not bound by the Company's history, culture, and traditions.

The aims of the transition from a company with an Audit and Supervisory board to a company with an Audit and Supervisory Committee are to expand the scope of the delegation of authority to the executive directors and to increase the speed of management. To link these aims to the sustainable creation of corporate value will require strengthening the independence and authority of the Audit and Supervisory Committee, which is in charge of monitoring.

The effectiveness of such efforts is determined by how sincerely the directors in charge of business execution share information about the current status of the company with the outside directors and how sincerely they listen to their opinions. At Dexerials, the internal directors charged with business execution and the executive officers provide the outside directors with various opportunities besides the Board of Directors meetings to hear careful explanations about important matters, even regarding events for which those directors and executive officers have been given authority. In explaining matters to the outside directors to our satisfaction, the Company places emphasis on reflecting diverse perspectives in its management decisions. Where necessary, I make requests for information I need to fulfill my monitoring role as a director and Audit and Supervisory Committee Member, and the Company responds to my requests promptly.

Nevertheless, the economy, society, and the environment are changing at a dizzying pace, and to respond flexibly to those changes, we need to listen sincerely than ever to our diverse stakeholders, and take a stance to transform the Company. To this end, we need to evolve our corporate governance itself. I hope to adroitly identify the changes in the economy, society, and the environment and work hard to link them to our management innovation.



Compliance

For an enterprise to remain trusted by stakeholders, the promotion of compliance is indispensable.

The Dexerials Group is promoting initiatives to be a good corporate citizen and ensure compliance with laws and regulations and social norms.



Formulation and Dissemination of the Dexerials Group Code of Conduct

The Dexerials Group has established the Dexerials Group Code of Conduct, which all officers and employees should observe, and is promoting thorough compliance and sound business activities.

The basic policies of the Code of Conduct are implementation of our corporate philosophy “Integrity—Have Integrity and Sincerity,” understanding of and compliance with laws and regulations, and accountability and appropriate communication with stakeholders, and ensuring internal control through use of the Compliance Hotline. In addition, based upon the basic policies, we have established specific commitments that should always be upheld both by officers and employees. These include respect for human rights, product and service safety, environmental conservation, disclosure of corporate information, prohibition of harassment, prohibition of insider trading, measures against antisocial forces, and so on. The Code of Conduct has been translated into English, Chinese and Korean, and is applied to all group companies in Japan and overseas.

For details on the Dexerials Group Code of Conduct, please refer to our website.

 <https://www.dexerials.jp/en/csr/management/group.html>

Initiatives for Reinforcing Compliance

Distribution of the Compliance Handbook

The “Compliance Handbook: Our Commitments” picks topics from within the Group Code of Conduct that are of particular relevance to business activities and uses specific examples to explain concepts simply. The handbook is revised as appropriate in consideration of the recent changes in social conditions, and redistributed to all Group officers and employees worldwide.



Compliance Month

The Dexerials Group has designated October as “Compliance Month.” Educational activities are carried out every October on complying with laws and social norms as well as practicing corporate philosophy and the Group Code of Conduct with the aim of improving compliance awareness within the Company.

Compliance Education

The Dexerials Group conducts training for all employees using e-learning and other means, covering topics such as compliance, prevention of insider trading, prevention of bribery to public officials,

product quality, elimination of antisocial forces, information security, and prevention of harassment.

We are also working to familiarize all employees with these issues, such as through periodical email newsletters explaining laws and regulations using manga.

Compliance Hotline

The Dexerials Group has established internal and external (via attorneys) points of contact (Hotline) for whistleblowing by employees of the Group. Anonymous reporting is permitted and disadvantageous treatment of whistleblowers is prohibited.

When the Compliance Hotline receives a report from an employee, the Compliance Hotline investigates the facts, and if the report is judged to be credible as a result of the investigation, the president and the relevant officers are notified, and the Board of Executive Officers will deliberate on measures necessary for correction and for prevention of recurrence.



Chemical Substance Management

The Dexerials Group uses chemical substances not only in its raw materials but also in its research materials and products.

We abide by related laws and regulations and manage chemical substances to minimize risks and impacts related to the environment and our products themselves.



Minimizing Chemical Substance Risks

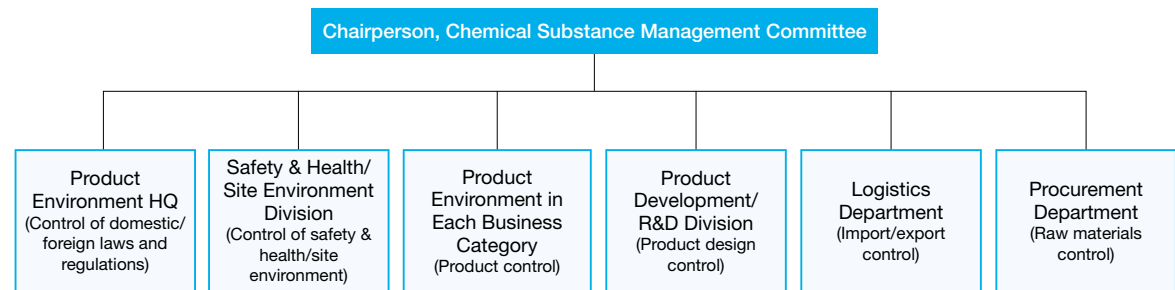
The Dexerials Group believes that thorough compliance with chemical substances is indispensable to continue providing safe and secure products to our customers into the future. To put this belief into practice, we have built the Chemical Substance Management Committee to ensure proper and integrated management of chemical substances used in the Company.

Staying in Compliance with Ever-changing Domestic and Foreign Laws and Regulations

As well as managing the use of chemical substances in the Company's business activities, we check and deal with regulatory aspects of matters ranging from the purchase of raw materials to product design, manufacture, distribution, import and export, to ensure that the Company responds appropriately to recent legislative amendments relating to chemical substances, both within Japan and overseas.

Imports and exports of chemical substances may require procedures such as notifications and registrations. The Dexerials Group responds to such regulatory requirements through local sales or manufacturing subsidiaries or consulting companies.

Organization chart of the Chemical Substance Management Committee



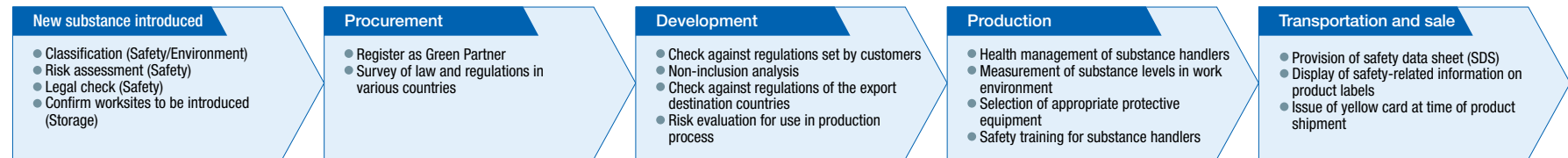
Appropriate Management of Chemical Substances

Because chemical substances have a risk of adverse effects on the environment and health, for all chemical substances introduced, we conduct risk evaluations and apply Dexerials proprietary classifications based on risk assessment methods and are strengthening use management.

Regarding classification standards, the risk impact is correctly determined using criteria such as laws and GHS classification results*1.

*1 GHS Classification: GHS, or the "Globally Harmonized System of Classification and Labelling of Chemicals," classification standards adopted by the UN in July 2003 for chemicals according to the types of hazards.

Internal management flow for chemical substances



Formulation and Dissemination of the Dexerials Group Code of Conduct

The Company engages in making information on laws and regulations on chemical substances in each relevant country easily viewable, so as to ensure appropriate management of chemical substances on a continuous basis.

Internal Web Portal to Regulatory Information on Chemical Substances



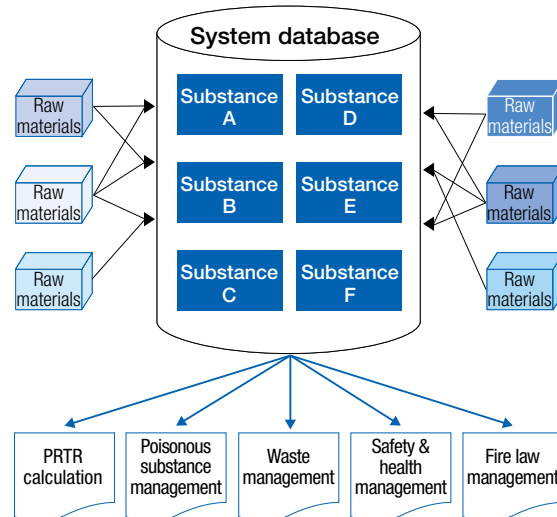
Formulation and Dissemination of the Dexerials Group Code of Conduct

The Dexerials Group uses a system to manage raw materials that are purchased and chemicals/reagents that are widely used by development divisions. Under

the system that we operate, chemicals are recorded in a chemical substance database so that the data can then be output by item for PRTR totals and other objectives.

This is useful for preventing compliance violations, as it can be widely used for investigations into the use of chemical substances by individual manufacturing divisions, R&D divisions, regulations or substance at sites in Japan and overseas, and to respond to revisions in applicable laws.

Concept of management system for chemical substances



Chemical Substance Management Education

The Dexerials Group frequently uses chemical substances in R&D and product manufacturing.

For that reason, thorough education regarding chemical substances is given to employees from the time they join the Company, through OJT provided at their assigned positions, e-learning, or instructions by internal experts. The subjects of education range from those legally required to those aimed at making improvements at the workplace.

This year, we introduced a new sensory training method using VR equipment to learn about an explosion and other topics.

In addition to these, we are also continuing the chemical substances training that had previously been conducted while taking COVID-19 infection prevention measures such as limiting the number of participants at each group training session or holding remote training.

Cultivation of Diverse Human Resources and Engagement



Human Resource Management

In order to realize the Dexerials Group’s corporate vision, based on our HR philosophy “Developing people who create value,” we conduct activities to support employees’ personal development and career development. We aim to be an attractive company for employees by proactively conducting various activities to create a workplace environment with job satisfaction, and to fulfil diverse working styles.



Basic Approach to Human Resource Development and Initiatives

Developing People Who Create Value

At Dexerials, based on the conviction that human resources are the most important assets for realization of the corporate philosophy and the corporate vision, we have set the HR philosophy, HR vision, and HR strategy.

HR Philosophy, HR Vision, and HR Strategy

HR philosophy Developing people who create value

HR vision Optimize the cycle for self-fulfillment

Corporate Philosophy	Integrity	Corporate Vision	Value Matters
	Have Integrity and Sincerity		Unprecedented innovation, unprecedented value.

HR Strategy

1. Develop individuals who create value based on their specializations
2. Create a working environment in which employees can bring their capabilities and skills into full play

Optimization of the Cycle for Self-fulfillment

At Dexerials, our employees are united in their pursuit of personal development. We operate a personnel system that enables our employees to achieve their aspirations at Dexerials. The objective is to enable individual employees to specialize, demonstrate their capabilities at work, and motivate them for the next round of personal development by fairly reflecting the outcome in personnel evaluation and benefits, that is, to optimize the cycle for self-fulfillment.



Basic Policy for Human Resource Development and Education and Training System

Based on the belief that the development of each and every employee is the most important task, we have established the basic policy for human resource development. The policy clearly expresses our stance.

We encourage our employees to adopt an independent, self-driven work style in which they learn for themselves, think for themselves, and act for themselves. We support them in doing so that both employees and Dexerials can achieve future growth. In order to achieve a cycle of self-fulfillment - the aim of our personnel system operation - since the revision of our personnel system in fiscal 2018 we have enhanced our education and training programs, including doubling training expenditure per employee.

Basic Policy for Human Resource Development

In order to achieve the “Value Matters” corporate vision, Dexerials has set the following policy:

- We believe that the development of each and every employee is the most important task.
- We want employees to continue developing by learning for themselves, thinking for themselves, and acting for themselves.
- We conduct activities to support employee career development.

Initiatives for Sustainable Growth

Our goal is to become a company that grows continuously while solving social issues. Towards this, we are exploring the idea of introducing a “job-type” personnel system, in which employees are appointed to a particular job of their choice instead of rotating from post to post.

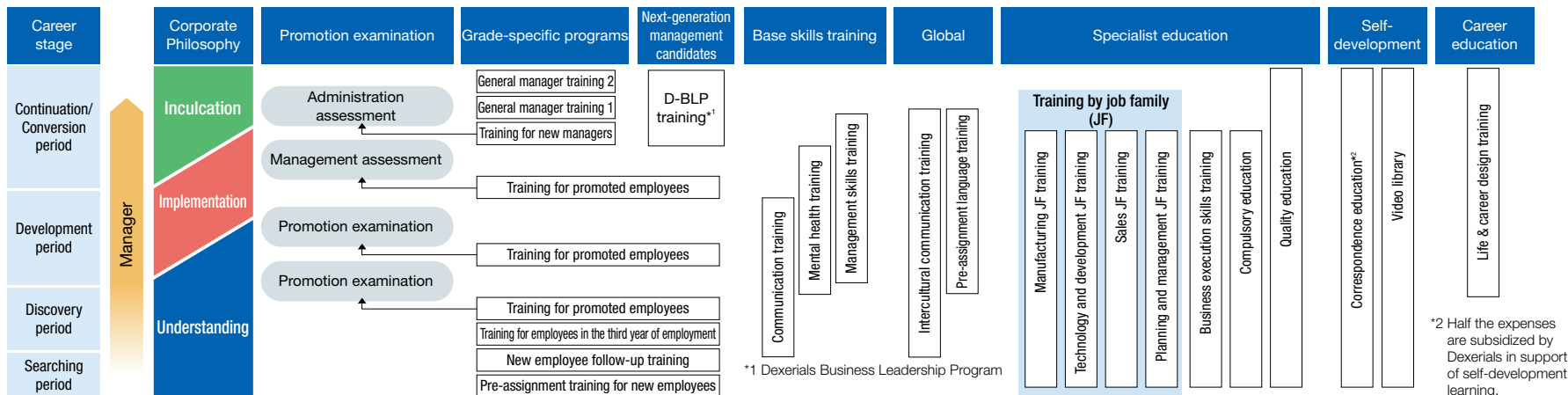
We are aiming to build a system in which our diverse talents are evaluated and treated fairly according to their duty and role, regardless of age, experience or the location of work. We will provide an environment where employees come together and grow to become creators of new value and promoters of productivity, and strengthen the foundation to establish ourselves as a solution provider that supports the solution of social issues with the materials we produce.

Education and Training System

Development-oriented Training for Promoted Employees

In order to ensure that promotion serves as the starting point for the next stage of growth, we provide development-oriented training for promoted employees. This training aims to facilitate

Education and training system



personal development of promoted employees toward the next stage by ensuring they recognize the key points of the capabilities they should develop for the next stage and the Company's expectations of them. This training leads to early fostering of leaders. In addition to spurring the participants' own development, the training also offers participants an opportunity to reflect on how they can train their junior colleagues, so as to cultivate a culture of growth among the employees.

Training for Managers

Managers, who support the growth of employees, play a huge role in the practicing of our HR philosophy of developing people who create value, on top of the awareness of each employee. To help them understand and actually play the role of line managers, which is essential to the growth of employees through their daily work, we are enriching manager training programs including training for evaluators, and thereby strengthening support for the growth of our employees.

Training for New Employees in the First Three Years

We provide integrated training bearing in mind that the first three years with the company is an important period for constructing

the individual's foundation as employees capable of “learning for themselves, thinking for themselves, and acting for themselves.”

Programs for employees in their first year are wide ranging, covering business manners, compliance, product knowledge, and social contribution activities. In addition, we offer opportunities for new employees to develop their initiative, which provide the foundation for personal development in the current rapidly changing era. Moreover, senior employees are assigned as tutors to support new employees.

For employees in their third year, the career training provided requires them to review their development and clarify their targets for the next step, thus nurturing employees capable of “learning for themselves, thinking for themselves, and acting for themselves.”

In addition, we view our recruiting activities as a means to find partners who will help us realize our corporate vision of “Value Matters.” To this end, we are working to strengthen our new graduate recruiting activities, with employees who have been with the company for three years or less playing a leading role. By participating in recruitment activities, our young employees not only learn practical business skills, such as communication and presentation skills, but also acquire capabilities to engage and inspire others.

Specialist Education System

Job Family System

Dexerials classifies the jobs into four categories (job families)—manufacturing, technology and development, sales, and planning and management—and provides specialized training corresponding to each job family.

Technical Training for Engineers

We provide training to young engineers and mid-career engineers. Leading engineers in Dexerials' technology and development field serve as instructors to transfer the principles of Dexerials product technology, the latest knowledge, and expertise. The training aims to develop young engineers into professionals who play a key role in developing new products and creating new businesses for the future by providing them opportunities to deepen their understanding of products and element technologies and apply those to their work, as well as to broaden the scope of their knowledge beyond areas in which they are currently engaged.

Next-generation Leader Development

As a personnel development measure to strengthen our management base, we have been conducting the D-BLP* next-generation management candidate development program since fiscal 2019. This program provides selected members, comprising mainly managers, with the knowledge and training necessary for management and aims to equip participants with a leadership mindset.

In order to achieve sustainable medium- to long-term business growth amidst a rapidly changing environment, we will extend this program to the younger group of leaders and use it to strengthen the pipeline that systematically produces next-generation management and leadership personnel. In cooperation with the management, we will continue working to enrich our human resource development programs in tune with the business environment and related Company strategies, and to develop

management personnel that will underpin the Company's continued growth.

*Dexerials Business Leadership Program

Diversity: Creation of an Organization That Makes Good Use of Diverse Human Resources

Approach to Diversity

In order to create value for the future, we think it is indispensable to create an environment where individuals recognize one another's values and can demonstrate their capabilities to the full. Our basic approach to diversity is based on our HR strategy to "develop individuals who can create value based on their specialization" and to "create a working environment in which employees can bring their capabilities and skills into full play" and we aim to become an attractive enterprise facilitating active participation of diverse human resources. We are also working to accept diverse ways of working in order to realize the full potential of our diverse human resources. In order to keep our employees safe from COVID-19 and other infectious diseases while ensuring that the quality of service we provide to customers is not compromised, we are working to realize flexible workstyles unrestricted by factors such as location or time, including remote work.

Transformation of Workstyles

In order to realize the maximum value of our employees, we believe it is essential to create an environment that allows each individual to work in the style that suits them best. To meet the expectations of our stakeholders while keeping our employees safe from infectious diseases such as COVID-19 and natural disasters, we are working to develop an environment that allows for flexible workstyles. One such measure we are promoting is remote work, which is available for all employees except those engaged in manufacturing. We are offering remote work management training to all managers.

Selected Among MIC's "Top Hundred Telework Pioneers"

As a leading firm in the introduction and utilization of teleworking, Dexerials was chosen by the Ministry of Internal Affairs and Communications (MIC) in November 2021 among the "Top Hundred Telework Pioneers" for fiscal 2021.

The "Top Hundred Telework Pioneers" is a teleworking promotion scheme that MIC has been implementing since fiscal 2015. MIC selects and announces the names of firms that excel in the promotion of teleworking and also have sufficient achievements in that respect.



Strengthening of Diversity Communication

In order to ensure that employees with diverse backgrounds are able to use their capabilities to their full potential, we believe it is important to consider each of our members' individuality and bring out their strengths accordingly. We provide intercultural communication training for employees whose co-workers include foreign nationals and employees working in departments with frequent communication with people overseas. This training is designed to help people recognize and appreciate the differences between countries, cultures, and in communication styles. To further encourage the active practice of diversity communication, we will add more e-learning content and make other efforts to become an organization that brings the uniqueness of each individual into full play.

Training for Mid-career New Hires

Dexerials is putting emphasis on the hiring of mid-career staff who can immediately contribute from day one in order to accelerate business transformation or to start a new business. We have a system in place to help the mid-career new hires quickly become a vital part of the workforce by offering them training aimed at supporting them in making a smooth start to their work.

Promotion of Female Participation and Career Advancement

As part of its diversity management initiatives, Dexerials is working to promote female participation and career advancement in the workplace.

In the three-year action plan beginning in fiscal 2021, we have set two targets themed on offering females more opportunities in their career, which are: 1) raising the proportion of females in new graduate hires to at least 20%; and 2) raising the number of female managers to 20 by fiscal 2023. We will push on with the plan to achieve these goals.

Employment of People with Disabilities and Communication Training

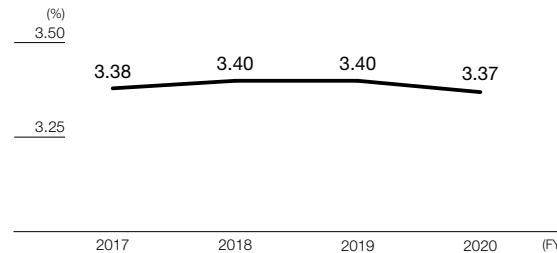
We employ people with disabilities in a wide range of areas, from office work through to manufacturing.

In workplaces where employees with hearing impairments work, their bosses and colleagues learn sign language and fingerspelling to enhance communication. Consideration is given to the working environment too, such as installation of indicator lights for safety and accident prevention purposes. At divisions and sites that will welcome employees with disabilities we conduct training designed to enhance mutual understanding and communication, including signs in the event of an emergency. We are also working to improve our diversity mindset through initiatives such as providing sign language interpreters at events in which employees with disabilities participate.

In view of the importance of increasing diversity within the Company and proactively fulfilling social responsibilities, Dexerials Kibou Corporation began operating in 2015 as a certified special subsidiary to promote the employment of people with disabilities.

Work environments are being prepared so that people with disabilities can work with peace of mind. Dexerials Kibou currently has 23 employees (of whom 13 have disabilities) working at Dexerials business sites in cleaning, garden management and other business activities. The percentage of employees with disabilities in the Group is 3.37%.

Percentage of employees with disabilities



Diverse Workstyles and Work-Life Balance

Basic Approach

In order to achieve sustainable growth far into the future, it is becoming increasingly important to realize workstyles according to the values and circumstances of each of our employees. We aim to create an environment where individuals can realize the workstyles most suitable for them, feel a sense of reward in their work, and achieve growth together with the Company.

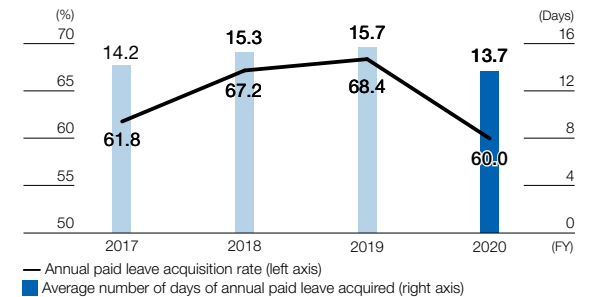
Appropriate Working Hours

System for the planned acquisition and accumulation of annual paid leave

Mindful of the need for work-life balance, in addition to efforts to achieve appropriate working hours, we have created a system for the planned acquisition of annual paid leave with the objective of ensuring our employees have sufficient opportunity to refresh and revitalize. In addition, we have established an accrual system that allows employees to accumulate annual paid leave not taken during the fiscal year. This accumulated leave can be taken in case of injury, illness, nursing care, volunteer activities, care for sick child, fertility treatment, etc. To let employees choose working styles that better suit their lifestyles, in April 2020, we introduced a system of paid leave that can be taken in units of an hour for up to a total of five days per year. The drop in the average number of days of annual paid leave acquired in fiscal 2020 compared to the previous year was conceivably due to the increase in the amount

of work as well as the start of the hourly paid leave system that led to a lower rate of leave acquisition. We will continue our efforts to create an environment that facilitates the use of leave by encouraging the use of paid leave in a well-planned manner so that our employees can enjoy both work and leisure.

Average number of days of annual paid leave acquired and acquisition rate



Remote Work

In the wake of COVID-19, we set up an environment for remote work and promoted its use as a measure to protect our employees from infection and to secure business continuity.

Recognizing that remote work contributes to improving productivity by cutting commuting time and increasing hours of concentration, we have relaunched remote work as a permanent scheme and began offering it as a new workstyles of the company in April 2021.

Supporting Childcare and Nursing Care

Childcare

We have put in place a system to support a successful combination of work and family life that exceeds legal requirements in terms of childcare leave and other benefits. We have introduced systems of flexible working hours and shorter working hours for childcare so that both men and women can work flexibly. In fiscal 2020, there were 41 users of child-rearing support leave (0 women, 41 men), 14 users of childcare temporary leave (13 women, 1 man), and 30 users of shorter working hours for childcare (29 women, 1 man).

Cultivation of Diverse Human Resources and Engagement

Among the above-mentioned systems, in regard to child-rearing support leave, employees can take up to 20 days of paid leave when their spouse gives birth or for childcare, and thus this system encourages active participation of male employees in childcare.

Meanwhile, we have set up a work skills improvement support system for employees on childcare leave, and such employees can use this system to continue to access internal information, improve their knowledge, and communicate with superiors while remaining at home. For these initiatives, Dexerials has received recognition as a “Kanuma Company that Supports Childcare” from Kanuma City in Tochigi Prefecture. We have also announced initiatives for the “Tochigi Declaration for Good Work and Good Families” promoted by Tochigi Prefecture in support of work and home compatibility.

This initiative is featured on the Tochigi Prefecture website:



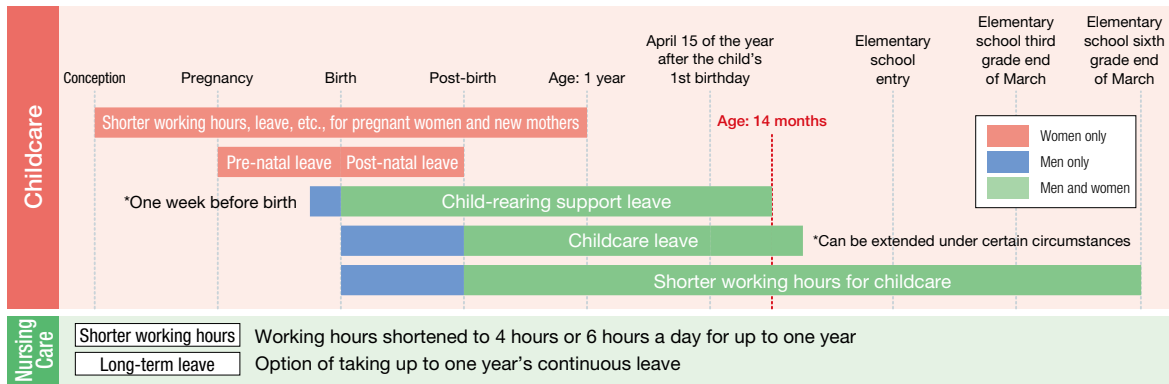
We also received a Platinum Kurumin certificate on August 18, 2020. Platinum Kurumin certificate is given to selected firms among the recipients of Kurumin Mark—an accreditation system of the Ministry of Health, Labour and Welfare that recognizes firms that support child-rearing—for their higher level of support. We will continue working to create a workplace environment that allows each and every employee to demonstrate their capabilities to the fullest and feel rewarded, and ultimately to balance and harmonize their family and work life.

Nursing Care

In view of the fact that the number of people who will require nursing care will increase in society in the future, we are supporting the compatibility of work and nursing care for its employees. We are also creating a workplace that enables proactive career continuation of employees who have nursing care responsibility by providing nursing care support systems that go beyond what is legally required, such as a shorter working hours system and a system of one-year’s leave.

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Main systems to support employees combining work with childcare or nursing care



Expansion of Systems to Support Balance Between Work and Home Needs

We are improving our schemes and programs to support employees who value their families and work. Flexible work style choices are available, including the childcare and nursing care support systems and hourly paid leave system, allowing each employee to work in a way that suits his/her lifestyle.

Initiatives for Health and Productivity Management

Declaration of Health and Productivity Management

Dexerials’ corporate philosophy is “Integrity—Have Integrity and Sincerity,” and in accordance with this, we aim to remain an enterprise that lives up to the expectations and trust placed in us by all stakeholders, and provide opportunities to employees to fully demonstrate their capabilities.

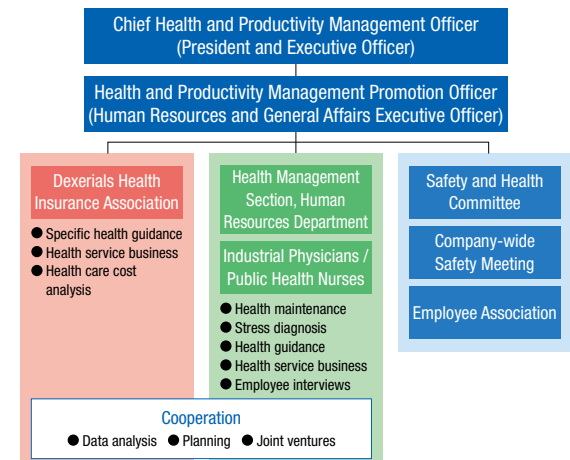
In order to achieve this aim, we believe it is essential that all employees are physically and mentally healthy.

Dexerials will continue to promote workstyle reform and promote health care of each and every employee in cooperation with the Dexerials Health Insurance Association.

Organization Structure for Health and Productivity Management

Dexerials will promote company-wide health and productivity management with an organization structure in which the President is the chief Health and Productivity Management officer.

Organizational Chart of Health and Productivity Management Framework



Initiatives to Support Health Promotion

We are conducting various initiatives in cooperation with the health care section, the health insurance association, the Employee Association, and the Human Resources and General Affairs divisions to maintain and promote employee health.

The survey of employees' awareness about the improvement of lifestyles conducted for all employees each year shows that the ratio of respondents working to improve their lifestyle is increasing year by year. According to the fiscal 2020 survey, 28% of our employees are continuously working to make their lifestyle more healthy.

In fiscal 2020, we co-organized an e-learning program featuring health promotion sessions with the health insurance association, which the participants were able to continue even under the COVID-19 pandemic. A total of 2,079 people participated in the program.

We hope to see more health-conscious employees who are able to voluntarily practice activities to improve their lifestyles, and to that end we will continue our initiatives aimed at raising employees' health awareness.

Sleep Survey of Shift Workers

In fiscal 2020, we focused on the sleep issue of shift workers and conducted a company-wide sleep survey targeting all shift workers. The survey revealed that 94% of the respondents were experiencing some sort of sleep problem. Following the survey, a sleep improvement program was provided to those who wished for one month, which helped some participants understand their sleep habits and challenges through visualized data and increased their consciousness for sleep.

Dexerials Walk and Pre-check-up Challenge

In cooperation with the health insurance association, we have been holding twice-yearly health events aimed at raising awareness of exercise habits and lifestyle improvements.

At the fiscal 2020 Dexerials Walk, a month-long walking

competition event, some participants voiced their willingness to continue walking beyond the event period, so the event period was extended by one month for those who wished to join. The event succeeded in inspiring our employees to voluntarily practice activities to improve their lifestyles.

Emphasis on Mental Health: from Stress Checks to Improvement

As addressing mental health issues is becoming increasingly important, we are implementing meticulous measures including self-care, daily care by line managers, and counseling by industrial healthcare staff as measures to address employees' mental health issues and initiatives to support employees returning to work, and to improve the workplace environment.

With the increasing adoption of remote work in view, we will watch out for new types of issues and continue taking measures that place importance on communication.

Initiatives for Human Rights and Employee Communication

Dexerials Group CSR Policy, Code of Conduct, and Human Rights Initiatives

As befits an enterprise operating globally, the Dexerials Group sets "respect for human rights" in its CSR Policy and declares that it respects all human rights and does not discriminate or carry out forced labor or child labor. We have also created a CSR handbook to communicate our CSR Policy throughout the Company. This publication is distributed throughout the Company as well as used for training. Moreover, the Dexerials Group Code of Conduct expressly prohibits any discrimination in employment or promotion based on factors without justifiable reasons with respect to business, such as ethnicity, religion, skin color, nationality, age, gender, and disabilities, and expressly prohibits behavior that offends individuals' dignity based on gender, authority, position,

etc. All employees of Dexerials act with an awareness of the Code of Conduct in the course of their daily work.

The Code of Conduct also defines the basic policies for matters concerning the Group's corporate ethics and business activities, such as product and service safety, environmental conservation, and disclosure of corporate information, in addition to compliance with laws and regulations and respect for human rights. We strive to inculcate the Code of Conduct through training of employees upon joining the Company.

In fiscal 2020, we conducted anti-discrimination training via e-learning, with a focus on human rights issues surrounding businesses. As a responsible member of society, we are committed to respecting human rights and creating a non-discriminatory environment.

Employee Association's Activities

The Dexerials Employee Association was established in August 2013 to achieve growth of the Company on the basis of communication and mutual trust between the Company and its employees.

The Dexerials Employee Association consists of employee representatives of each site and holds a steering council meeting with the Company every quarter. At the meetings, the Company and employees not only share management information and discuss labor-management matters, such as inspection of the implementation of various systems, but also exchange information on wide-ranging themes and emphasize frank communication.

The Employee Association also plays a role in vitalizing communication among employees, and plans and holds various events involving all employees. While some of the activities were restricted during the COVID-19 pandemic, the Association has found ways to keep up the activities such as using remote work tools to connect the sites online. The Employee Association is implementing initiatives to involve many employees and cultivate a sense of unity, including with the management team.



Ensuring Operational Safety and Business Continuity

The Dexerials Group conducts various activities so that employees can work in a healthy and reassuring environment where all workplaces are safe and hygienic. The Group implements employee training, along with systematic reinforcement and improvement work to facilities, in an effort to prevent or minimize damage from disasters and accidents that potentially could have a serious impact on business.



Philosophy on Occupational Health and Safety, Disaster Prevention

Based on the corporate vision, “Value Matters—Unprecedented innovation, unprecedented value,” the Dexerials Group is expanding activities to continually provide safe and healthy business sites and manufacturing sites as we are conscious that safety is imperative to the creation of new value and quality enhancement.

Basic Policy on Occupational Health and Safety, Disaster Prevention

The Dexerials Group promotes Safety FIRST initiatives, as well as initiatives to improve the climate of safety in work sites in all business domains and to prevent serious accidents, which leads to reduced risk and accidents and stable business continuation.

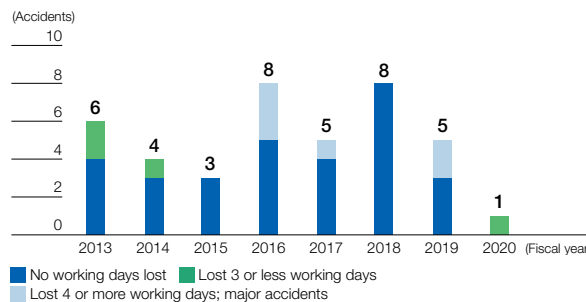
The FIRST Concept



Occurrence of Workplace Accidents

In fiscal 2020, Dexerials had one workplace accident, which was less than in fiscal 2019, but we nevertheless took it seriously as it was a case of lost time injury. We analyzed its risk assessment and carried out process improvements. The analysis found that although introducing hazard countermeasures reduces the number of hazard points, employee awareness of the risk involved may also decline (fade). Therefore, we made an improvement whereby a number of hazard points before and after the implementation of countermeasures are compared, and any difference is noticeable at first glance, thus making it easier to keep up the hazard countermeasures. In fiscal 2021, we worked on digital

Occurrence of workplace accidents

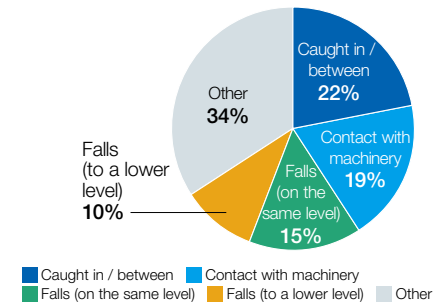


transformation in this area to improve our workers’ ability to find risks throughout the Company by making risk data searchable by item and entry of data more user-friendly.

We conduct investigations, analyses and improvements with regard to accidents that occur at the Company as minor mistakes and near misses may lead to major accidents (Heinrich’s law), and then we share the information throughout the Company to prevent reoccurrence.

While preventing serious accidents, we will carry out activities to eliminate human errors, to find and eliminate risks such as dangers and health hazards in the workplace, and to make further improvements to form safe workplace environments.

Workplace accidents by cause (Total: FY2013 - FY2020)



Education and Training

At Dexerials, we prepare for emergencies by conducting a range of drills and training related to occupational health and safety/disaster prevention.

For new employees, we conduct basic education including firefighting training and disaster countermeasure training at external facilities.

Foreman education regarding safety considerations at work sites is given to employees who become the new heads of work sites, and appropriate safety education is given at the right time to employees who are engaged in special types of work including forklift operation, and handling laser machinery and various powders.

As a range of chemical substances are used in our development and manufacturing processes, we provide basic education on safe handling of chemicals on a regular basis.

We conduct disaster drills, safety confirmation system practice, and other drills for all employees in order to ensure they have the necessary skills to respond in the event of a disaster.

In addition to these, we expanded our e-learning content as a means to provide training under the COVID-19 pandemic, which served as a platform for all employees to learn on topics ranging from accident prevention to volunteering.

Also, at the Tochigi Technology Center, we are preparing to set up a safety workshop where employees can experience various simulated dangers to increase their awareness and sensitivity regarding safety, which is scheduled for full-scale operation in 2021. We will work to improve the quality of and environment for safety training by upgrading educational content, such as the introduction of sensory virtual reality equipment, to train workers in various jobs—from production, development, to back-office—to be able to detect hazards.



Experiential learning at a safety workshop

Workplace Safety

Dexerials regularly carries out risk assessments at each workplace. The various dangers associated with regular and non-regular operations at each workplace are extracted and categorized for the level of danger. High risk items are improved and reviewed in a workplace safety PDCA cycle. In fiscal 2020, we implemented further in-depth risk improvement measures by improving our risk assessment evaluation systems, as well as commencing remote patrolling using cameras so as to increase the variety of inspectors, and thereby prompting our workers to take actions to enhance workplace safety.

We place a particular focus on identifying risks associated with equipment, which are regarded as particularly serious risks, and conduct safety checks prior to usage in cooperation with relevant departments to ensure that equipment is safe. We also strive to prevent accidents by constantly maintaining the safety of our equipment through independent maintenance by the user departments in conjunction with planned maintenance by the equipment specialist department.

Business Continuity Planning (BCP) Activities

Natural disasters such as earthquakes or typhoons and the outbreak of pandemics may cause damage to

the personnel, equipment and lifeline utilities required for work.

The Group has established a Business Continuity Plan (BCP) to minimize damage during emergencies and to enable us to promptly resume production activities in order to prevent the interruption of business activities.

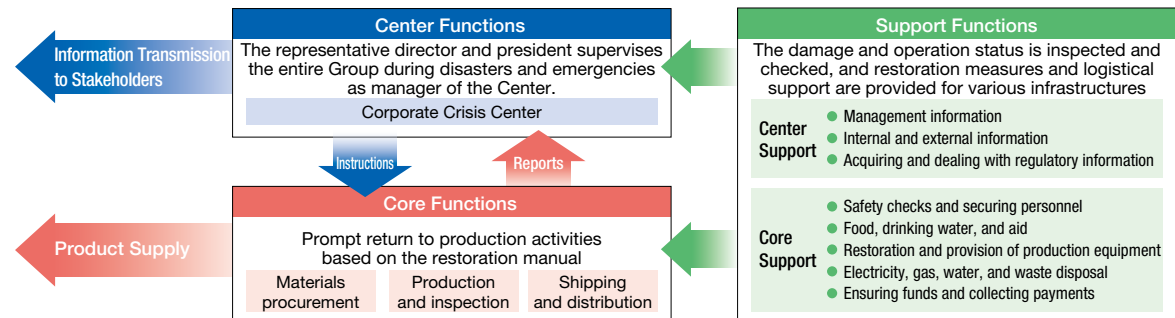
We have clarified internal organizational roles, including the BCP Center, with regard to core functions for the supply of products to customers, such as materials procurement, production, distribution and sales, and support functions such as employee safety checks, and internal and external information gathering. A restoration manual has been prepared based on expected responses and actions.

With regard to the prevention of COVID-19 infection, all of our business sites including overseas sites are taking strict preventive measures—such as building a system for the preventive isolation of crucial areas, defining responses to those identified as close contacts, and establishing remote working as a permanent arrangement—in our effort to maintain the stable supply of our products.

We also strengthened measures in the supply chain, including identifying the status of infection in each area and disruption to logistics, and thereby sharing such information.

Going forward, we will continue strengthening the BCP to further improve our business continuity capacities.

Business continuity planning (BCP) organizational structure and functional roles





Dialogues with Shareholders and Investors

Dexerials strives to enhance corporate value in the medium to long term through highly transparent and reliable disclosure as well as sincere communication.



Disclosure of Corporate Information

For the Company, timely and appropriate disclosure to shareholders and investors serves to ensure transparent and fair decision making as well as effective corporate governance functions. We also believe that it contributes to increasing corporate value by promoting public understanding and an appropriate market assessment of the Company.

Therefore, we not only undertake disclosure required by laws and regulations, but also publish information proactively mainly through our website, working in this way to create a system for highly transparent and reliable disclosure.

To ensure that our disclosed information can be easily understood and serves as a useful basis for investment decisions, we adopt reader-friendly language and formats in our materials, and we are improving both financial and non-financial information. We also provide an English language version where the information is considered likely to be of particular importance to non-Japanese shareholders and investors.



Dexerials Investor Relations website

Notice of Annual General Meeting of Shareholders

General Meeting of Shareholders

In June 2021, we held the 9th Annual General Meeting of Shareholders. In order to prevent the spread of COVID-19, as in the previous year, in addition to voting in writing, we asked individual shareholders to exercise their voting rights via the voting rights exercise website on the internet and asked institutional investors to do so through an electronic voting platform beforehand. We also made an effort to ensure there was ample time to deliberate and sufficient information for exercising voting rights by providing information impartially and broadly to all shareholders. For example, we sent out meeting notice early, improved the information on notice, posted relevant material on our website in advance, and introduced a web-based meeting notice which could be easily and conveniently viewed on smartphone and computer.

At the venue of the General Meeting of Shareholders, we made sure there was plenty of space between people, placed alcohol sanitizer inside and outside the venue, and asked shareholders attending the meeting to allow their temperature to be taken before entering the reception area. We also took a variety of measures to prevent the spread of infection and ensure the proceedings ran smoothly, efficiently, and safely, such as requiring officers and shareholder meeting staff to wear masks.

IR Activities

The status of fiscal 2020 investor relations activities is as follows.

Due to the prolonged duration of the COVID-19 pandemic, as of November 2021, we are holding all interviews with institutional investors and analysts as well as briefings in physical venues online (i.e., web conferences and telephone conferences) as a general rule, to maintain the level of communication while prioritizing the health and safety of all shareholders, investors, and employees. We will continue to improve communication through efforts such as increasing information on our website and proactively utilizing online meetings.

Activity	Frequency	Content
Interviews with analysts, and institutional investors in Japan and overseas	149 times	<ul style="list-style-type: none"> Conducted individual interviews, web conferences and telephone conferences.
Briefings for institutional investors and analysts	4 times	<ul style="list-style-type: none"> Earnings briefings (4 times)
Briefings for individual investors	4 times	<ul style="list-style-type: none"> Held online briefings. For those who were unable to attend the briefings on the day, video record of the briefings and their transcripts were made available online, which was viewed by a total of 8,709 individual investors.
Posting IR materials on the Dexerials website	As necessary	<ul style="list-style-type: none"> Posting of materials such as the consolidated financial results and earnings briefings materials, as well as securities reports (quarterly), materials relating to the General Meeting of Shareholders, the IR event calendar, and so on Streamed videos of earnings briefings and posted briefings materials with transcript and Q&A. Regarding content for individual investors, "To our individual investors" page has been renewed. Enriched content including on business reports. Also available on smartphone sites.



Social Contribution Activities

The Dexerials Group is striving to contribute to local communities both in and outside Japan so as to vitalize those communities and hand over a better environment to future generations.



Environmental Protection

Restoring greenery to the mountains of Ashio

Since 2009, we have supported NPO Grow Green in Ashio in its initiative to plant one million trees in the mountains of Ashio. As a corporate member of the NPO, we have assisted afforestation through nurturing saplings, planting, weeding, thinning, and so on.

Every year in spring, we host a tree planting event attended by our employees and their families, and in fall, a tree planting activity as part of the training for new employees.

Protecting the environment of Watarase Reservoir

Since 2017, Dexerials has been a registered corporate member of Watarase Knights Club, which is organized by Tochigi City for nature conservation. We have been participating in and extending cooperation for activities to protect biodiversity and natural environments while maintaining bountiful ecosystems of Watarase Reservoir, which is registered as a Ramsar Convention wetland.

Clean-up Activities in Local Communities

The Tochigi Technology Center, the Nakada Plant, the Tagajo Plant, and other sites of the Dexerials Group conduct clean-up activities in local communities.

Promoting Sports

Supporting Utsunomiya Blitzen

Since 2015, we have been sponsoring Utsunomiya Blitzen, a community-based professional cycling road race team from Tochigi Prefecture. This sponsorship aims to vitalize the local community and promote cycling sports.

Every year, we hold “Cycling Clean-up” events aimed to improve the local environment and also bicycle lessons for children.



Supporting Utsunomiya Brex

Since 2017, we have been sponsoring Utsunomiya Brex, a professional basketball team, with the objective of contributing to regional vitalization through sports promotion.



©TOCHIGI BREX INC.

18th Dexerials Cup Miyagi Prefecture

Champions Cup U-12 Tournament

Dexerials has supported this tournament since 2013, with the aim of promoting amateur sports and contributing to the local community.

In 2020, we hosted the event in partnership with the Miyagi Football Association. Selected teams,

comprising children in the sixth grade of elementary school or younger in the ten districts of Miyagi Prefecture, competed in a league-style competition over two days.



Donations and Contributions

Recycling activities

Each year, Dexerials Hong Kong Limited collects clothing, shoes, bags, etc. that are no longer used by its employees and donates them to Friends of the Earth Hong Kong, a charity dedicated to protecting the environment.



Donations

Dexerials Hong Kong Limited participates in “Skip Lunch Day,” an initiative to donate the cost of a lunch to support communities with poor living conditions.

Dexerials Hong Kong also participates in “Love Teeth Day,” an initiative organized by the Community Chest Hong Kong, in order to raise employees’ health awareness while collecting donations to support dental care for those in poverty.

Consolidated Balance Sheets

(Yen in millions)

	Previous fiscal year (As of March 31, 2020)	Current fiscal year (As of March 31, 2021)
Assets		
Current assets:		
Cash and deposits	13,779	20,531
Notes and accounts receivable - trade	9,617	12,639
Electronically recorded monetary claims - operating	77	157
Merchandise and finished goods	1,998	2,670
Work in process	2,035	2,468
Raw materials and supplies	1,642	2,392
Other	2,317	2,400
Allowance for doubtful accounts	(3)	(2)
Total current assets	31,466	43,259
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	31,813	30,163
Accumulated depreciation	(21,173)	(20,425)
Buildings and structures, net	10,640	9,738
Machinery, equipment and vehicles	39,575	36,219
Accumulated depreciation	(31,378)	(29,719)
Machinery, equipment and vehicles, net	8,197	6,500
Land	3,696	3,357
Construction in progress	1,118	1,646
Other	6,150	6,483
Accumulated depreciation	(4,848)	(5,089)
Other, net	1,302	1,393
Total property, plant and equipment	24,954	22,635
Intangible assets:		
Goodwill	22,479	20,683
Patent rights	1,514	1,120
Other	1,080	1,251
Total intangible assets	25,075	23,055
Investments and other assets:		
Shares of subsidiaries and associates	738	591
Asset for retirement benefits	1,604	2,868
Deferred tax assets	1,728	1,867
Other	722	935
Allowance for doubtful accounts	(10)	(11)
Total investments and other assets	4,782	6,252
Total non-current assets	54,813	51,942
Total assets	86,279	95,201

(Yen in millions)

	Previous fiscal year (As of March 31, 2020)	Current fiscal year (As of March 31, 2021)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	5,750	8,433
Electronically recorded obligations - operating	1,157	1,948
Current portion of long-term debt	2,847	4,677
Other payables	2,101	3,595
Accrued expenses	627	711
Income taxes payable	1,212	1,813
Provision for bonuses	1,500	2,440
Other	557	1,932
Total current liabilities	15,755	25,552
Non-current liabilities:		
Long-term debt	14,486	10,808
Liability for retirement benefits	5,259	4,375
Deferred tax liabilities	238	222
Other	971	937
Total non-current liabilities	20,956	16,344
Total liabilities	36,711	41,896
Net assets		
Shareholders' equity:		
Common stock	16,021	16,106
Capital surplus	16,021	16,106
Retained earnings	19,562	22,717
Treasury stock	(3,255)	(3,491)
Total shareholders' equity	48,349	51,439
Accumulated other comprehensive income:		
Deferred gains or losses on hedges	155	(587)
Foreign currency translation adjustment	1,159	1,807
Remeasurements of defined benefit plans	(96)	645
Total accumulated other comprehensive income	1,218	1,866
Total net assets	49,567	53,305
Total liabilities and net assets	86,279	95,201

Consolidated Statements of Income

(Yen in millions)

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Net sales	57,710	65,830
Cost of sales	36,309	37,475
Gross profit	21,400	28,354
Selling, general and administrative expenses	16,783	17,015
Operating profit	4,617	11,339
Non-operating income:		
Interest income	51	9
Foreign exchange gains	174	—
Rent income	98	90
Other	110	96
Total non-operating income	434	196
Non-operating expenses:		
Interest expenses	81	62
Foreign exchange losses	—	83
Share of loss of entities accounted for using equity method	261	207
Depreciation	237	221
Loss on investments in investment partnerships	50	83
Other	28	31
Total non-operating expenses	657	691
Ordinary profit	4,393	10,844
Extraordinary income:		
Gain on sale of non-current assets	2	0
Gain on change in equity	—	26
Subsidy income	50	—
Insurance income	—	57
Compensation income	137	—
Settlement received	42	—
Total extraordinary income	231	85
Extraordinary losses:		
Loss on sale of property, plant and equipment	—	223
Loss on retirement of property, plant and equipment	24	89
Impairment loss	—	956
Loss on valuation of investment securities	199	—
Restructuring expenses	103	1,809
Compensation for damage	—	154
Total extraordinary losses	328	3,232
Profit before income taxes	4,297	7,696
Income taxes - current	1,719	2,519
Income taxes - deferred	(157)	(152)
Total income taxes	1,562	2,367
Profit	2,734	5,329
Profit attributable to owners of parent	2,734	5,329

Consolidated Statements of Comprehensive Income

(Yen in millions)

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Profit	2,734	5,329
Other comprehensive income:		
Deferred gains or losses on hedges	124	(742)
Foreign currency translation adjustment	(517)	648
Remeasurements of defined benefit plans	(12)	741
Total other comprehensive income	(405)	647
Comprehensive income	2,328	5,977
Comprehensive income attributable to:		
Owners of parent	2,328	5,977
Non-controlling interests	—	—

Consolidated Statements of Cash Flows

(Yen in millions)

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Cash flows from operating activities:		
Profit before income taxes	4,297	7,696
Depreciation	4,607	4,674
Amortization of goodwill	1,798	1,798
Interest and dividend income	(51)	(9)
Interest expenses	81	62
Foreign exchange (gains) losses	(101)	282
(Gain) loss on sale of non-current assets	(2)	222
Loss on retirement of property, plant and equipment	24	89
Impairment loss	—	956
Restructuring expenses	103	1,809
(Gain) loss on investments in investment partnerships	50	83
Subsidy income	(50)	—
(Gain) loss on change in equity	—	(26)
Insurance income	—	(57)
Compensation income	(137)	—
Settlement received	(42)	—
Loss on compensation for damage	—	154
Increase (decrease) in provision for bonuses	314	928
Changes in asset/liability for retirement benefits	(345)	(1,080)
Share of loss (profit) of entities accounted for using equity method	261	207
Loss (gain) on valuation of investment securities	199	—
(Increase) decrease in notes and accounts receivable - trade	554	(2,637)
(Increase) decrease in inventories	262	(1,771)
Increase (decrease) in notes and accounts payable - trade	(1,281)	2,984
(Increase) decrease in other receivables	(82)	(51)
Increase (decrease) in other payables	34	(1,516)
Increase (decrease) in income taxes payable (size-based business tax)	15	43
Other, net	260	478
Subtotal	10,772	15,320
Interest and dividend income received	51	10
Interest expenses paid	(84)	(62)
Subsidies received	50	—
Proceeds from insurance income	—	57
Settlement package received	30	—
Compensation for damage paid	—	(154)
Proceeds from compensation	—	159
Income taxes paid	(1,162)	(2,144)
Net cash provided by (used in) operating activities	9,656	13,187
Cash flows from investing activities:		
Purchase of investment securities	(150)	(200)
Purchase of property, plant and equipment	(2,801)	(2,383)
Purchase of intangible assets	(244)	(353)
Proceeds from sale of property, plant and equipment	—	497
Purchase of shares of subsidiaries and associates	(700)	(34)
Other, net	5	2
Net cash provided by (used in) investing activities	(3,891)	(2,471)
Cash flows from financing activities:		
Proceeds from long-term debt	2,000	6,000
Repayments of long-term debt	(3,666)	(7,847)
Purchase of treasury stock	(0)	(331)
Cash dividends paid	(1,979)	(2,174)
Repayments of lease obligations	(41)	(76)
Proceeds from exercise of stock options	86	170
Net cash provided by (used in) financing activities	(3,600)	(4,259)
Effect of exchange rate change on cash and cash equivalents	(211)	295
Net increase (decrease) in cash and cash equivalents	1,952	6,751
Cash and cash equivalents at beginning of period	11,826	13,779
Cash and cash equivalents at end of period	13,779	20,531

Corporate Profile / Stock Information

Corporate Information

(As of March 31, 2021)

Company name	Dexerials Corporation
Establishment	June 20, 2012
Capital stock	16,106 million yen
Headquarters	1724 Shimotsuboyama, Shimotsuke-shi, Tochigi, Japan (as of December 2021)
Number of employees	1,772 (on a consolidated basis)

Stock Overview

(As of March 31, 2021)

Total number of authorized shares	100,000,000 shares
Number of shares issued	64,276,700 shares
Number of shareholders	17,776

Stock Information

(As of March 31, 2021)

Number of shares in one unit	100 shares
Fiscal year end	March 31 of each year
Listing	Tokyo Stock Exchange, First Section
Stock exchange code	4980
Shareholder registry administrator	Stock Transfer Agency Department 1-4-5 Marunouchi, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation

External Evaluation



Dexerials is a constituent of the Somo Sustainability Index, which was established by Somo Asset Management Co., Ltd., for asset management by investing in companies with high evaluations for ESG (environment, society, governance).



Dexerials is a constituent of the S&P/JPX Carbon Efficient Index, a global environmental stock index selected by the Government Pension Investment Fund (GPIF).



Dexerials was selected as one of the "2021 Certified Health & Productivity Management Outstanding Organizations" in the large enterprise category by the Ministry of Economy, Trade and Industry's Certified Health & Productivity Management Organization Recognition Program.

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Introduction	Strategy	Materiality	IR / Social Contribution	Financial Section	Corporate Info

Principal Shareholders

(As of March 31, 2021)

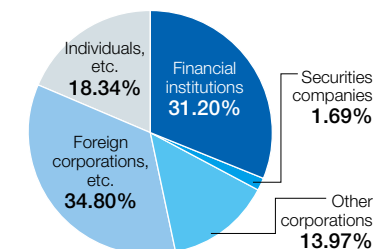
Name	Number of shares held (thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	5,984	9.35
SEKISUI CHEMICAL CO., LTD.	5,040	7.88
Custody Bank of Japan, Ltd. (Trust account)	3,405	5.32
SSBTC CLIENT OMNIBUS ACCOUNT	3,229	5.05
Dai Nippon Printing Co., Ltd.	3,125	4.88
Custody Bank of Japan, Ltd. (Trust E Account)	3,039	4.75
GOLDMAN SACHS INTERNATIONAL	2,446	3.82
The Nomura Trust and Banking Co., Ltd. (Investment trust account)	2,033	3.18
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	1,810	2.83
MLI FOR CLIENT GENERAL OMNI NON COLLATERAL NON TREATY-PB	1,445	2.26

Note 1: Treasury shares (293,848 shares) are excluded from the calculation of shareholding ratios.

Note 2: Custody Bank of Japan, Ltd. (Trust account E) manages trust assets for the Employee Stock Ownership Plan (J-ESOP), which is an employee incentive program using common stock of the company as compensation, and for the Board Benefit Trust (BBT), which is a performance-linked stock compensation plan for directors (excluding outside directors).

Breakdown by Type of Shareholder

(As of March 31, 2021)



Stock Price (From April 1, 2020 to March 31, 2021)



Return on stock price*

(From April 1, 2020 to March 31, 2021)



*Stock price on March 31, 2020 was used in the calculation.

Third-party Opinion



Professor at Rikkyo University Graduate School of Business Administration

Kentaro Noda

Career summary

PhD (Commercial Science), Graduate School of Commerce and Management, Hitotsubashi University Business School. Prior to current post, experience at Research Institute of Capital Formation, Development Bank of Japan (senior main researcher), Visiting scholar at the University of California, Berkeley in 2020-2021. Specialisms include financial accounting, business continuation plans (BCP), and corporate social responsibility (CSR). Publications and papers include "Venture Ikusei Ron Nyumon Kigyo Ka Mind No Josei Ni Mukete" (University Education Press, 2004), "Jigyo Keizoku Management Wo Rikai Suru Hon" (Nikkan Kogyo Shinbun, 2006), "The Impact of BCP Disclosure on Cost of Equity Capital" (Contemporary Disclosure Research, 2012), "Jigyo Keizoku Keikaku Niyoru Kigyo Bunseki" (Chuo Keizai-sha Inc., 2013), "Senryaku Teki Risk Management De Kaisha Wo Tsuyoku Suru" (Chuo Keizai-sha Inc., 2017). Member of the Expert Panel on Government Service Continuity Evaluation of the Cabinet Office, etc.

I have read your Integrated Report as I did last year. In 2021, the impact of COVID-19 continues on a global level, and the future remains uncertain. In addition, with the increasing threat of global warming, companies and societies are under pressure to make major changes in values and various reforms. Under these circumstances, Under these circumstances, it is highly evaluated that your company calmly analyzes its own situation in the Integrated Report and clearly describes its reforms and short- and long-term, directions and initiatives.

What I found most impressive in this year's report was the message from the president followed, by a refresh of the Mid-term Management Plan. In his message, looking back on the result of the second year of the Mid-term Management Plan, I was struck by the description of how the company achieved its targets ahead of schedule despite the COVID-19 situation, and that he felt a positive response from employees who are boldly tackling risks. In addition, he is not resting on the laurels, but identifying the nest issues related to the Company's

business field and ESG, and setting the stage for further growth. The subsequent special features describe how Dexerials steadily addressed each of the very important themes, such as refreshing the Mid-term Management Plan, TCFD initiatives, shift to a new corporate governance system, relocation of head office, work style reforms, and promotion of digital transformation (DX), among others, which will attract the attention of various stakeholders. Readers would be able to understand how Dexerials is working to build an advanced governance system—including its transition to a company with an Audit and Supervisory Committee—together with the various measures to enhance the effectiveness of the system, and that the Company is committed to continuing these efforts.

The next point that caught my attention is the description regarding environmental considerations. Dexerials has made a great leap forward from the previous year in this respect, having started working on TCFD compliance, has made significant progress in reducing its CO₂

emissions ahead of schedule, and set the new long-term goal of zero CO₂ emissions by fiscal 2030.

The third point I noticed is the rich information on the initiatives leading to DX. The report deserves a close attention, as it covers from the Company's efforts to implement DX internally—which was prompted by the use of remote work—to the creation of new business, which means that DX is being promoted on a company-wide scale. I have a good impression of the rest of the report as well, in that it discusses the relationship between the society and Dexerials' business based on facts, without being swayed into arguing for mere formality.

Meanwhile, in terms of areas where I can expect further improvement than before, now that Dexerials has endorsed TCFD in terms of the environment, I have high expectations that you will incorporate measures to achieve zero CO₂ emissions into more specific strategies by utilizing the framework. Regarding human resources, while Dexerials is proactively investing in human resource development, which is one of its strength, further improvements will be required, such as securing diverse talents and increasing the number of female managers, as mentioned in the CSR goals. In addition, although it is apparent that your company is already aware of this, I would like to add that ESG, DX, and BCP need to be managed in a more integrated manner rather than being treated as individually.

Since this year's report covers a huge progress Dexerials has made in many of the items, I believe the stakeholders' expectations will become even higher. I hope that you take this as a positive challenge and works towards further progress, while using the process itself as an opportunity to recognize the direction it should ultimately be heading.

Response to the Third-party Opinion



Executive Officer and Corporate Strategy Division Head

Koichi Akeyama

At Dexerials, we work to prepare an integrated report that encourages dialogue with our stakeholders, and we are deeply grateful to Professor Noda for his highly valued opinions and evaluation from a third-party perspective.

In 2021, we updated the Mid-term Management Plan "Challenges for Evolution" launched in fiscal 2019 in light of the changes in the business environment and after exceeding the original targets two years in a row.

For the initiatives aimed at decarbonized society, for which there is an accelerating trend worldwide, we have replaced the original target set for fiscal 2030 with a new goal of zero CO₂ emissions from electricity used in our business operations, which we aim to achieve ahead of schedule. Efforts are underway to align our disclosure with the TCFD recommendations, and we are working to integrate

climate-change strategy with business strategies in both our disclosure and initiatives.

As for the promotion of diversity in our human resources, we will continue to promote a variety of work styles while improving the environment through various human resource systems, evaluation mechanisms, and development plans that enable each employee to play an active role. It is also the time to renew our CSR targets, so taking this opportunity, we would like to upgrade our CSR activities to a comprehensive scheme that takes into consideration how DX, BCP and other initiatives correlate with each other.

The environment surrounding us facing a major turning point. Dexerials is committed to meeting the expectations and trust of our stakeholders by contributing to the realization of a sustainable society through ESG promotion efforts integrated with our business.

Dexerials Corporation

<https://www.dexerials.jp/en>



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