Dexerials

Dexerials Integrated Report 2020



Corporate Philosophy

Integrity

Have Integrity and Sincerity

Corporate Vision

Value Matters

Unprecedented innovation, unprecedented value.

“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.















Contents

chapter 1 Introduction

01 Corporate Philosophy, Corporate Vision, Editorial Policy
02 History of Value Creation
04 At a Glance
06 Where You Can Find Dexerials
08 Financial and Non-financial Highlights
10 Value Creation Process

chapter 2 Strategy

12 Message from Top Management
18 Message from executive officer in charge of CSR division
20 Message from the CFO
22 Dexerials' Business Strategy
24 Dexerials' Innovation Strategy

26 CSR Management

chapter 3 Materiality

Creating New Value, Resolving Social Issues

30 Initiatives for Creating Value and Resolving Social Issues
32 Businesses in New Domains
33 Feature —Analysis Laboratory—
34 Environmental Management
36 Quality Management
39 Supply Chain Management

Reinforcement of Corporate Governance and Compliance

40 Corporate Governance
44 Directors and Audit & Supervisory Board Members
46 Dialogue on Corporate Governance
"Dexerials' Governance from the Perspective of Outside Directors"
50 Compliance
51 Dialogues with Shareholders and Investors
52 Chemical Substance Management

Cultivation of Diverse Human Resources and Engagement

54 Human Resource Management

Ensuring Operational Safety and Business Continuity

60 Ensuring Operational Safety and Business Continuity

62 Social Contribution Activities

chapter 4 Financial Section

64 Consolidated Balance Sheets
66 Consolidated Statements of Income / Consolidated Statements of Comprehensive Income
67 Consolidated Statements of Cash Flows

chapter 5 Corporate Info

68 Corporate Profile / Stock Information
69 Third-party Opinion

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 2019 (April 1, 2019-March 31, 2020); however, some reports and data may refer to past or current information.

Reference Guidelines

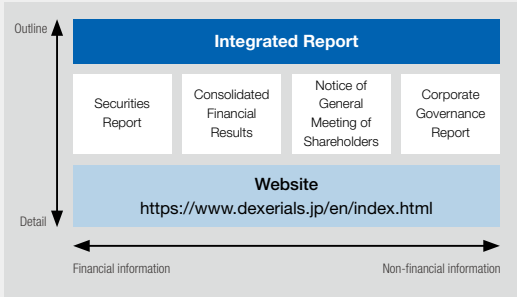
The International Integrated Reporting Framework published by the International Integrated Reporting Council (IIRC)
Guidance for Collaborative Value Creation published by the Ministry of Economy, Trade and Industry
GRI "GRI Standards"
ISO26000
Environmental Reporting Guidelines (Fiscal Year 2018 Version)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



History of Value Creation

Unceasing pursuit of “unprecedented innovation, unprecedented value”

1960 | 1970 | 1980 | 1990

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.



1972
Started mass production of magnetic heads and ferrite cores.



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.



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® TR-55.



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.

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



1998
Started production of optical devices.



Products

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.



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



1989
Sony Chemical Corporation of America established.



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



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



Company

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

2001
Started production of touch panels.



2002
Started selling of anti-reflection films.



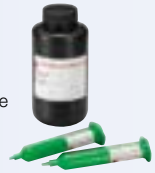
Sony Chemicals Corporation established the roll-to-roll sputtering system suited for volume production by applying the proprietary technology for anti-reflection film for cylindrical CRTs, which had been developed by Sony Corporation.

2004
Started production of thermal conductive sheets.



2005

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



2008
Started production of inorganic polarizer for projectors.



2010

2013
Started production of PSA-transformable optical elasticity 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 and reduces color unevenness of display panels caused by shrinkage during curing.

2014
Started production of eye shield material for medical use.



2015

2015
Started production of Albeedo solar control window film.



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



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



2020

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 elasticity resin corresponding to inkjet coating.

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.

Dexerials

2013
Dexerials (Shanghai) Corporation established in China.



2015
Dexerials Kibou Corporation started business.

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



2016
Tochigi Technology Center started operations.



2020
Dexerials Precision Components Corporation established.

Highlights

Global market share **No.1**



Anisotropic conductive films (ACF)[*1]



Optical elasticity resins (SVR)[*2]



Anti-reflection films produced utilizing sputtering technology[*3]

Net sales

57,710 million yen

year on year −4.7%

Operating profit

4,617 million yen

year on year +24.0%

Profit attributable to owners of parent

2,734 million yen

year on year +19.7%

ROE

5.5%

year on year +0.9%pt

Total payout ratio
(before amortization of goodwill)

45.6%

Ratio of outside directors

Internal directors 2

Outside directors 4

66.7%

Ratio of mid-career hires

37.5%

Three-year retention rate for new graduates employed by the Company

90.0%

Number of employees

1,999

On a non-consolidated basis

1,604

1. The 2019 share for amount of ACF for large-sized and small- to medium-sized displays according to the "2020 Current Status and Future Prospects of the Display-related Market" issued by Fuji Chimera Research Institute, Inc.
2. The 2019 share for total amount of optically clear adhesives (OCR/LOCA) used in bonding displays according to the "2020 Current Status and Future Prospects of the Display-related Market" issued by Fuji Chimera Research Institute, Inc. Optical elasticity resins (SVR) is the product name for Dexerials' optically clear adhesives.
3. The 2019 share for amount of surface treatment film (dry coating) according to the "2020 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 transactions.

Optical Materials and Components Business

Contribution to net sales 40.8%

Net sales 23,624 million yen Operating profit 1,832 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 elasticity 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 electronic products and automotive displays such as mobile devices and car navigation systems. Lineup including moth-eye type eye shielding materials for medical use featuring low reflectance and high visual transmittance utilizing our microfabrication technology.



Optical elasticity 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 elasticity resin (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 curing at low temperatures within a short time, along with low shrinkage, and is ideal for precision affixing during assembly such as camera modules and optical pickups.



UV-curable resin for optical disks

UV-curable resins for optical disk 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 59.2%

Net sales 34,226 million yen Operating profit 4,583 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.



General-purpose double-coated tapes

These products offering superb curvature behavior and static load characteristics are suitable for punching processes. Our lineup in the “Green tape” series consists of many products and is manufactured using a UV curing production method that does not use organic solvent during the adhesive coating process.



Double-coated tapes for FPC Thermosetting tapes for FPC

Double-coated tapes for FPC, FPC stiffener materials, and thermosetting tapes for FPC with high temperature resistance (top 260 or higher) are widely used in the solder reflow process.



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.



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.



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.



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.



Inorganic polarizers / Inorganic waveplates

These optical devices achieve high transmittance and low reflectance thanks to nano-level processing technology and a proprietary thin-film microstructure. They are sufficiently durable to withstand long-term use in high-temperature, high-luminance environments. They boost the brightness and contrast of projectors and optical units that use laser light sources.

The application field of Dexerials products is extensive and diverse

Various products, such as televisions, personal computers, smartphones, tablet PCs, and automobiles, created by applying our technologies are used to support lifestyles and industries. The principal Dexerials products and their diverse applications are introduced below.

Around Town





- **Smartphones / tablets**
  - Anisotropic conductive films (ACF)
  - General-purpose double-coated tapes
  - Dustproof nets with adhesive for speakers
  - Double-coated tapes for FPC
  - Thermosetting tapes for FPC
  - UV-curable / thermo-curable adhesives
  - Thermal conductive sheets
  - Optical elasticity resins (SVR)
  - Surface mounted type fuses
- **Automobile**
  - Anisotropic conductive films (ACF)
  - Optical elasticity resins (SVR)
  - Thermal conductive sheets
  - Anti-reflection films
- **Electric motorbikes**
  - Surface mounted type fuses

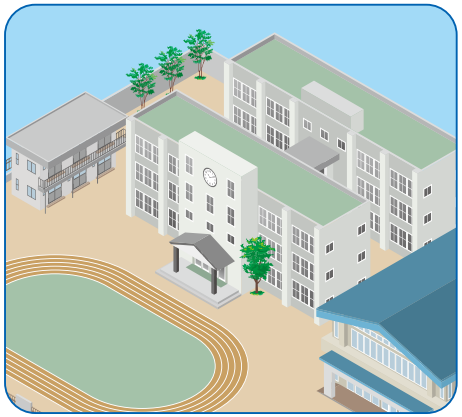
- **Televisions / laptop PCs**
  - Anisotropic conductive films (ACF)
  - General-purpose double-coated tapes
  - Dustproof nets with adhesive for speakers
  - UV-curable / thermo-curable adhesives
  - Thermal conductive sheets
  - Optical elasticity resins (SVR)
  - Anti-reflection films
  - Double-coated tapes for FPC
  - Thermosetting tapes for FPC
  - Surface mounted type fuses
- **Cordless electric power tools / vacuum cleaners**
  - Surface mounted type fuses
- **Washstands**
  - Kireia anti-fogging and anti-fouling solutions

Home



Offices & Schools







- **Laptop PCs**
  - Anisotropic conductive films (ACF)
  - General-purpose double-coated tapes
  - Double-coated tapes for FPC
  - Thermosetting tapes for FPC
  - UV-curable / thermo-curable adhesives
  - Anti-reflection films
  - Surface mounted type fuses
- **Projectors**
  - Inorganic polarizers / Inorganic waveplates
- **Architectural window films**
  - Albeedo solar control window film
- **Servers**
  - Thermal conductive sheets

Medical Facilities



- **Protective gear for health professionals**
  - Moth-eye type films for medical eye shields



- **Artificial ventilators**
  - Surface mounted type fuses

Factories / Others



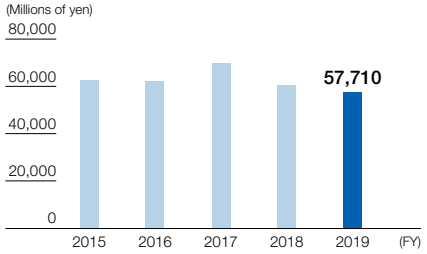
- **Factories**
  - Water treatment agents
- **Solar Panels**
  - Solar cell conductive films for photovoltaic modules
- **Infrastructure equipment**
  - Leak repair product “Infra-Aid”



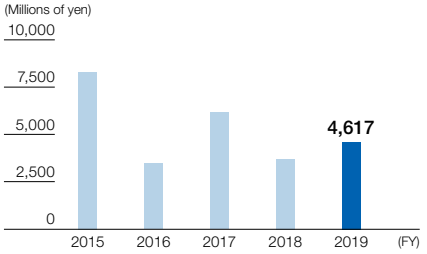
Financial and Non-financial Highlights

Consolidated financial performance indicators		FY2015	FY2016	FY2017	FY2018	**FY2019**
Net sales	(millions of yen)	62,654	62,598	70,079	60,580	**57,710**
Operating profit	(millions of yen)	8,306	3,491	6,178	3,724	**4,617**
Profit attributable to owners of parent	(millions of yen)	4,587	949	3,426	2,284	**2,734**
Net assets	(millions of yen)	52,062	50,682	49,921	49,055	**49,567**
Net assets per share	(yen)	868.96	843.56	825.82	809.40	**814.68**
Total assets	(millions of yen)	87,296	97,347	94,958	87,586	**86,279**
Capital to asset ratio	(%)	59.64	52.06	52.57	56.01	**57.45**
ROE	(%)	8.62	1.85	6.81	4.62	**5.55**

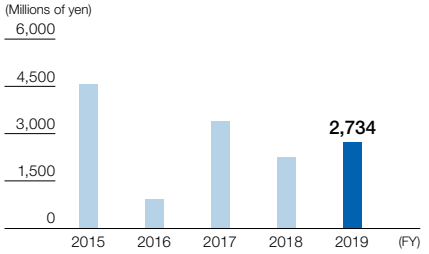
❶ Net sales



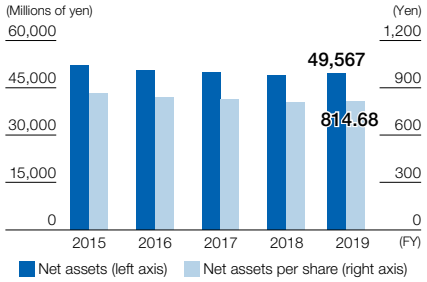
❷ Operating profit



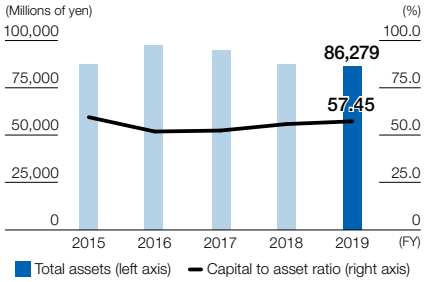
Profit attributable to owners of parent



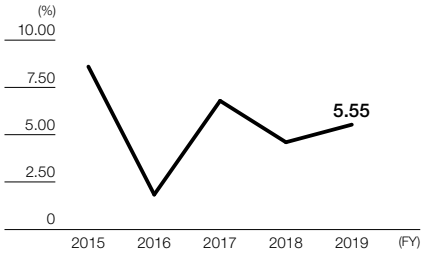
Net assets / Net assets per share



Total assets / Capital to asset ratio



ROE



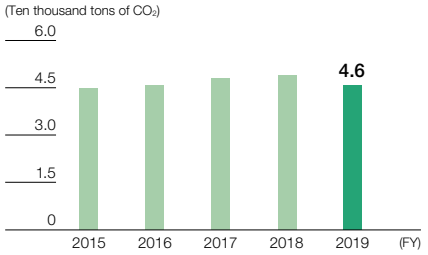
Explanation of key aspects of financial performance

❶ ❷ Factors such as impact of change in the base films for optical films and a decline in the quantity of optical elasticity resins resulted in a year-on-year decrease in sales for fiscal 2019. However, profit increased year-on-year as smart precision adhesives for camera modules was favorably affected by the shift to multiple lenses for smartphones, and the anisotropic conductive films (ACF) product category reported a year-on-year increase in profit because of the expanding demand for particle-arrayed ACF for smartphone applications on top of improved productivity.

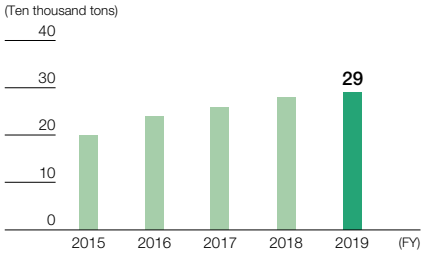
(Note) The change of base films from those that the Company had previously purchased resulted in a decrease in the Company's purchase price since the third quarter of fiscal 2018. As a result, the selling price of the Company's products also decreased. However, this change had no impact on profit.

Non-financial indicators		FY2015	FY2016	FY2017	FY2018	**FY2019**
CO_2 emissions	(ten thousand tons of CO_2)	4.5	4.6	4.8	4.9	**4.6**
Water usage	(ten thousand tons)	20	24	26	28	**29**
VOC emissions	(tons)	46	55	42	46	**37**
Waste emissions	(ten thousand tons)	0.21	0.21	0.24	0.29	**0.26**
Number of employees (consolidated basis)	(persons)	2,317	2,124	1,981	2,005	**1,999**
(non-consolidated basis)	(persons)	1,718	1,600	1,585	1,603	**1,604**
Board diversity Female	(persons)	2/10	2/10	2/10	2/10	**1/10**
Non-Japanese nationals	(persons)	0/10	0/10	0/10	0/10	**1/10**
Percentage of employees with disabilities	(%)	2.98	3.28	3.38	3.40	**3.40**
Rate of taking paid leave	(%)	59.4	62.4	61.8	67.2	**68.4**
Average number of days of paid leave taken	(days)	13.7	14.4	14.2	15.3	**15.7**

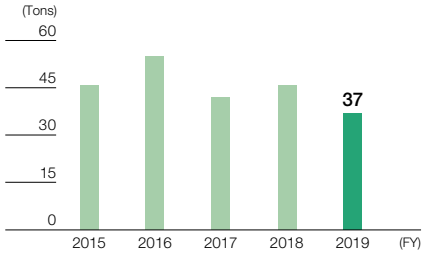
❶ CO_2 emissions



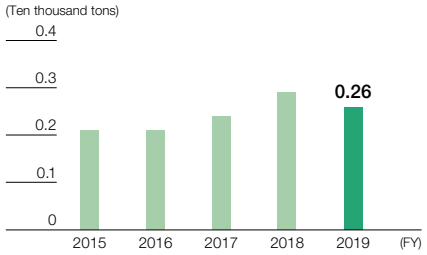
❶ Water usage



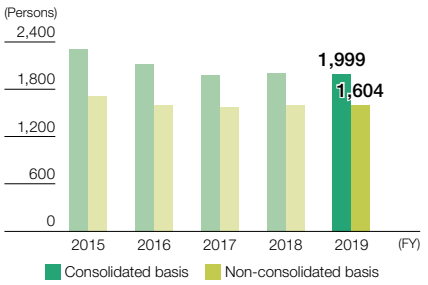
❶ VOC emissions



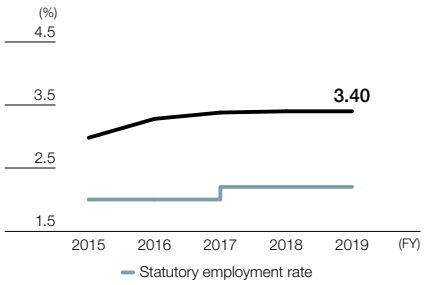
❶ Waste emissions



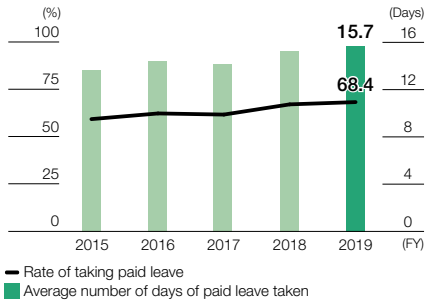
Number of employees



Percentage of employees with disabilities



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



Explanation of key aspects of non-financial performance

❶ For various environmental indicators in fiscal 2019 such as CO_2 emissions, we were mostly able to reduce the numbers compared to the previous year as a result of promoting energy saving initiatives and recycling at manufacturing sites.

See Pages 34-35 for the details of the initiatives to reduce environmental impact.

❷ To promote work-life balance, we are making efforts to promote the acquisition of annual paid leave. The rate of taking paid leave in fiscal 2019 was 68.4%, higher than performance in the previous year.

Value Creation Process

Create the future together with customers

Corporate Philosophy **Integrity**

Have Integrity and Sincerity

Change in the social environment

- Progress of AI
- Spread of high-speed communication
- Progress of autonomous driving technology
- Advent of IoT
- Global warming
- Labor shortages
- Global spread of infectious diseases

Invested Capital

Financial Capital
- Shareholders' equity 48,349 million yen

Manufacturing Capital
- Capital investment amount 3,029 million yen
- Manufacturing sites 5 sites in Japan, 3 sites overseas
- Tochigi Technology Center Technology center where engineers of various fields gather

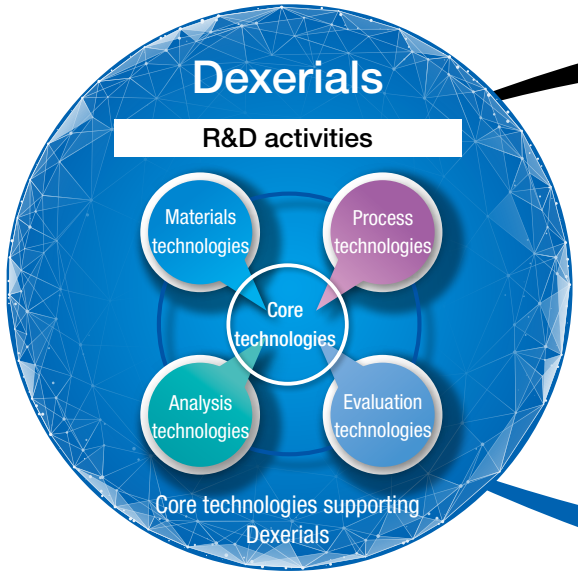
Human Capital
- Number of employees: 1,999
- Number of engineers: 643
- Ratio of new employees with engineering background to all new employees: 77%

Intellectual Capital
- R&D expenditure 3,653 million yen

Social Capital
- Relationships of trust with customers based on unique technology and high quality
- Relationships with 500 Green Partners

Natural Capital
- Electricity: 71,471 MWh
- Water: 290,000 tons

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



Design-in

Dexerials' strengths

Unique business model

"Design-in" "Spec-in"

Identify customer needs and find the true challenges

Communication capabilities × Proposal capabilities

Provide value that exceeds customers' expectations

Technological capabilities × Analytical capabilities

Spec-in

Dexerials' Management Strategy

Mid-term Management Plan 2023 "Challenges for Evolution"

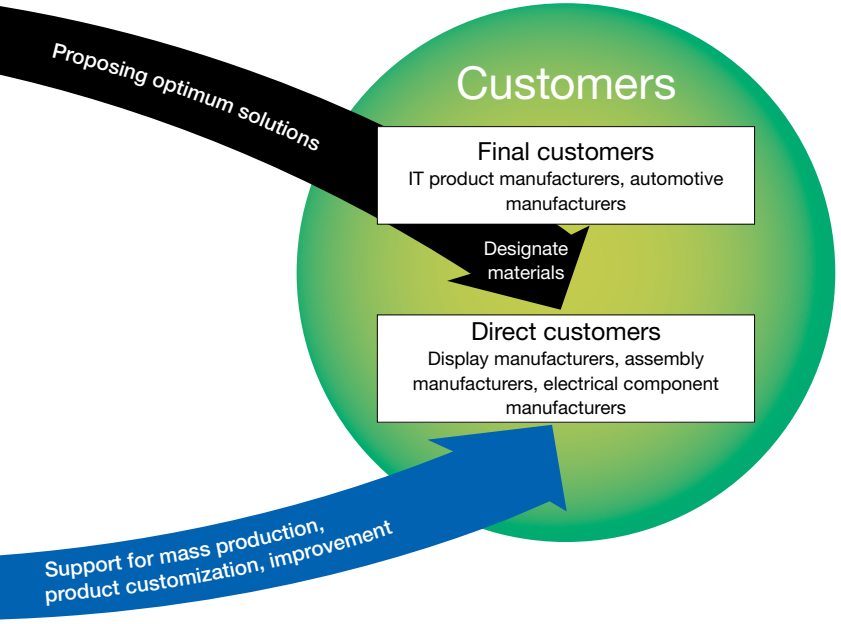
- Accelerate growth in new business domains
- Qualitatively change businesses in the existing domains
- Strengthen management base

Corporate Vision

Value Matters

Unprecedented innovation, unprecedented value.

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



Management indicators for fiscal 2023

Net sales **80** billion yen Operating profit **10** billion yen

ROE **10**% or more

Reinvestment for sustainable value creation

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 vehicles
- 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
- Vigorous execution of shareholder returns according to profit (Total payout ratio before amortization of goodwill 40%)

Business Model

Dexerials' business model is characterized by its two-track approach to customers, that is, to address the needs of both direct customers and final customers. We are continuing to address needs flexibly and meticulously. For example, as decision-makers on adoption of Dexerials products differ from one customer to another and from one product to another, we first identify the decision-makers and make proposals. As a result, we have gained the trust of both types of customers, which has enabled us to maintain or increase our products' market shares while identifying new technological needs.

Unique approaches to customers

"Design-in" "Spec-in"

Design-in - Approach to final customers

- Identify needs and challenges from the product planning phase and assume true technological issues
- Propose our technological solutions corresponding to the assumed issues
- Following evaluation of the proposal, secure the customer's official approval for use of the proposed materials
- Designation of our products by the customer for mass production of its new products

"Spec-in" - Approach to direct customers

- Customize products by using materials optimized for peripheral parts
- Share know-how on handling and usage of Dexerials' products to support smooth ramp-up of mass production
- Development and provision of improved products that contribute to higher productivity such as shortening of manufacturing time, yield improvement, etc. following establishment of the mass-production system

Seizing new business opportunities by standing at the forefront of change, responding quickly and evolving itself

Review of the 1st year after taking office as president

Advancing initiatives needed for growth in the face of unexpected changes in the business environment

In last year's integrated report, I stated my aspiration at the time of taking office as president was to "achieve the new Mid-term Management Plan in the era of uncertainty." Even when Mid-term Management Plan 2023 was announced in April 2019, I also realized that there is always the possibility of major unexpected changes occurring in these uncertain times. Looking back over this past fiscal year, it was a year of unprecedented and unexpected changes: rise of geopolitical risks such as the trade friction between the US and China in 2019, changes in the business environment, and the ongoing pandemic of novel coronavirus (COVID-19) that started in 2020.

We have been taking comprehensive measures to address these changes, and I believe we have been able to quickly produce products and services that will contribute to solving major problems faced by society over the long term and advance initiatives needed to transform and grow the Company.

Countermeasures against COVID-19

Rolling out comprehensive prevention measures against the pandemic early on

When COVID-19 began to spread in Wuhan, China, we established a prevention task force in the end of January 2020 and formulated company-wide rules and guidelines ahead of national governments' actions. Under our policy of placing the highest priority on the health and safety of employees, we immediately adopted a remote working system on a company-wide basis and worked to maintain a stable product supply. Looking back now, we were able to swiftly respond to COVID-19 prior to advice or guidelines from the government.

We had already worked to establish an internal infrastructure for a remote working system in view of the fact that it might be difficult for employees to commute to work during the Tokyo Olympic and Paralympic Games, so we immediately decided to introduce the system to all business locations. There was a concern about implementing remote working, but once we started, we realized it worked better than expected, even improving efficiency in some operations. It accelerated changes in work styles at the Company. For example, as of December 2020, around 90% of employees at our Headquarters continue to work remotely.

Running a business under COVID-19

Fostering of an in-house mindset not to fear a change

COVID-19 has affected the Company in both positive and negative ways, and it has had an immense impact on a global scale. First of all, it clearly accelerated the trend of "digital transformation" (DX). People realized many aspects through remote communication with each other, including the fact that it has freed people from the constraints of mobility and that it has generated needs for technology that can enhance reality remotely. This is a theme that can lead to new social issues that humans must overcome. As we provide many products that support "digitalization", solutions of such social issues can lead to expanding business opportunities.

I've been telling employees that the biggest risk of all is not being able to transform ourselves in these rapidly changing times, and a mindset not to fear a



Representative Director and President

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change began to be fostered among employees from the sense of crisis for the environmental changes due to the pandemic. We have been advancing DX in our manufacturing and sales divisions, which mainly centered on activities on site and through interaction with clients. I can see that the awareness of employees to transform themselves has spread among them, including the use of tools such as VR (virtual reality) and MI (materials informatics). Rather than deciding ahead of time that remote working is impossible, they think about how remote working can be achieved.

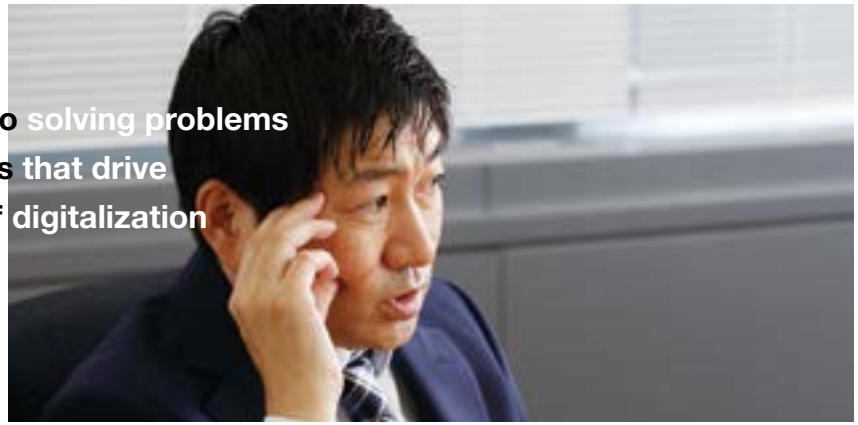
Review of the 1st year of the Mid-term Management Plan

3 basic policies have seen solid progress

Last year we formulated the 5-year Mid-term Management Plan 2023 with the theme of "Challenges for Evolution." It is very difficult to look ahead to the next five years in such dramatically changing times, with drastic changes occurring globally in the plan's first year alone, fiscal 2019. But in order to avoid making short-sighted business decisions, we chose to formulate a 5-year plan. We have positioned these five years as "a phase to ensure a sustainable growth through business expansion in new domains where social issues have surfaced." The first three years will consist of shifting resources which includes selection and focus, to break away from overemphasizing on the consumer IT products market. In the last two years, we plan to expand new domains centering on automobiles and transform our business portfolio.

We have established three basic policies—"accelerate growth in new domains," "qualitatively change businesses in the existing domains," and "strengthen management base"—and the initiatives based on these policies have made solid progress in fiscal 2019.

"We will contribute to solving problems by offering products that drive the acceleration of digitalization stemming from COVID-19."



(1) Accelerate growth in new domains

In the new domains, we are focusing resources on the automotive business as a growth pillar and increasing the proportion of the automotive business in the Group's total sales.

The automotive industry was greatly impacted by COVID-19 toward the end of fiscal 2019. Plants around the world were forced to temporarily suspend operations, leading to a huge temporary decline in global automobile production. However, since the 2nd quarter of fiscal 2020, automobile demand has shown signs of recovery and production plants across the globe have resumed operations. Not even the COVID-19 pandemic could change the CASE (Connected, Autonomous, Shared & Services, Electric) trend, which points to the future direction of the automotive industry. In fact, I think the needs for peripheral devices related to autonomous and electric technologies have increased at an accelerated pace. The Dexerials Group is rolling out an automotive business with a focus on anti-reflection films and anisotropic conductive films (ACF)—products that have a competitive advantage such as higher visibility, safety, and durability, as well as larger size of in-vehicle displays, in addition to compatibility with curved surfaces and irregular shapes. Some countries, like France and Germany, are granting subsidies to purchase electric vehicles as part of their measures to stimulate the stagnant economy caused by the COVID-19 pandemic. In China, recent automobile sales have shown an increase from the previous corresponding period. As the number of in-vehicle displays per automobile increases and the size of

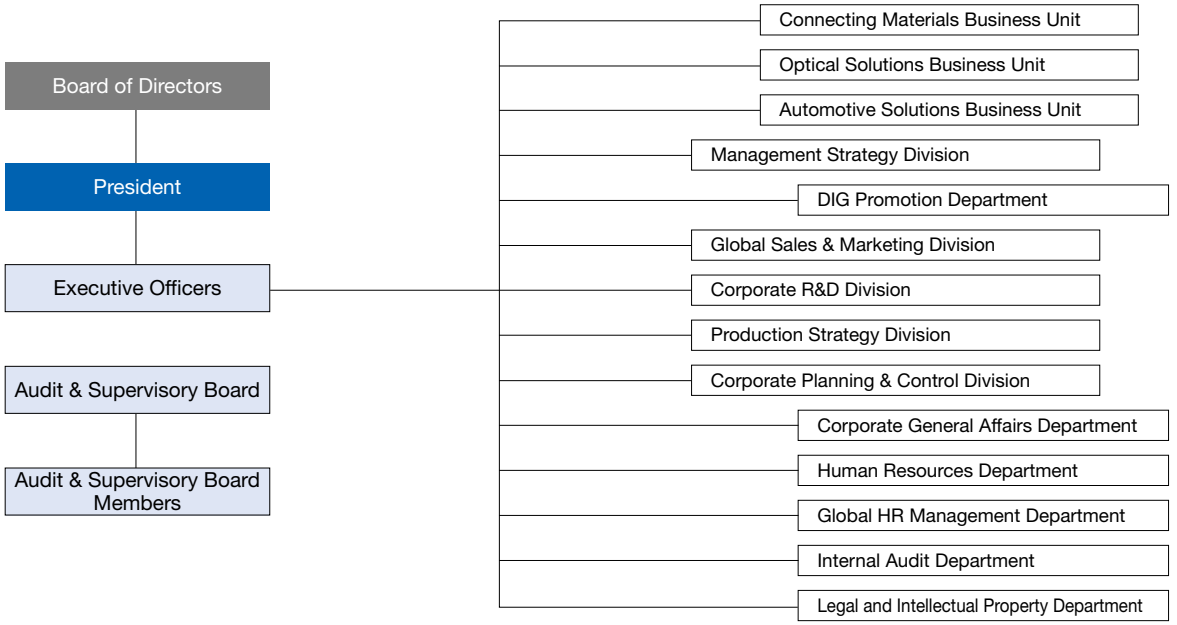
displays becomes larger in line with the CASE trend, we will accelerate business growth with a focus on products that are differentiated from the competitors.

(2) Qualitatively change businesses in the existing domains

In existing domains, we are restructuring and consolidating businesses, and working to strengthen and concentrate resources on differentiating technology products such as particle-arrayed ACF, in accordance with a conservative projection for the growth potential of the consumer IT products market, which includes smartphone displays and other products.

As part of the process of restructuring and consolidating businesses, we have decided to review all our businesses once per year. The first business review was carried out in the end of 2019. Based on the results of the review, we announced in August this year that we would implement reorganization and structural reforms on October 1. We switched from a four-business-unit structure to a three-business-unit structure. As for the micro device business which deals with products such as inorganic polarizers, inorganic waveplates, and sputtering targets, we established a subsidiary to consolidate business unit functions. We also established a joint venture with OUTSOURCING Inc. for product manufacturing. The reorganization aims to strengthen our revenue base and build a business structure that can endure demand fluctuations. Many of the products the micro device business deals with have the potential of providing solutions for the future advance of VR (virtual reality), AR (augmented reality), and MR (mixed reality), as well as the evolution of head-up displays for automobiles. Considering this promise of potential, we decided that we should continue it as a strategic business. But to do so, we must further strengthen the current business structure. Instead of operating the entire business by ourselves alone, we will strengthen our business by ascertaining what functions the Company should have and what functions should be achieved in collaboration with external partners.

Corporate structure after structural reforms (as of Oct. 1, 2020)



(3) Strengthen management base

A key factor in driving the above two initiatives is strengthening the management base. Encouraging changes in the mindset and behavior of each employee who will transform the business portfolio will also lead to strengthening the corporate culture. I think the pandemic has helped to foster a sound sense of crisis among employees and provided motivation to drive “Challenges for Evolution.”

We also announced that we would implement a “special early job transfer support program” to create a lean management system as part of our efforts to build a dynamic organizational structure in order to achieve sustainable growth. To carry out these reforms, we also need to revamp our executive structure. Therefore, we recruited new people from within and outside the Company to invigorate the

"We will continue to be an organization that stands at the forefront of changes and takes on challenges."



organization and improve management in view of the next-generation. In October 2019, we started a training program to develop next-generation leaders, participants for which were selected from managers. We are also running a training program for engineers—the drivers of innovation.

See Page 56 for the details of our business leadership program.

COVID-19 made us realize things about our values and how we work, spurring discussions about what we want Dexerials to be as a company. The Nomination and Remuneration Committee began discussing a vision for our management system in the future and started deliberating on revising the personnel system in line with changes in work styles. We will continue deliberating on how to become a company that attracts highly creative individuals and how to build a system that enables sustainable growth.

Looking ahead to the medium- to long-term

Solving social issues and achieving sustainable growth

In the medium- to long-term, and amid the pandemic we are currently facing, I believe we are required to carry out management that can swiftly respond to changes. In today's world that changes dramatically and constantly, the biggest risk is not changing, or not being able to change. We want to be an organization that stands at the forefront of changes in the world and takes on the challenge of transforming ourselves.

With our recent COVID-19 measures, we demonstrated our ability to quickly respond to the change. We are considering how we can contribute to solving social issues such as environmental problems and poverty over the medium- to long-term, while considering how we transform ourselves. Dexerials is a solution provider that drives the evolution of digitalization from materials, which is one of the tools to solve such issues. Through practicing this identity, we will contribute to society and grow ourselves. It is essential that both of these work in tandem.

Developing and expanding a telecommunications infrastructure is essential for driving digitalization. As telecommunication systems switch to 5G, the number of base stations will inevitably increase. And the range of applications for our products in 5G devices will further expand.

The reason why we have chosen automobiles as the domain to accelerate business growth is that automobile applications have pioneered innovative solutions among IoT applications including DX. The COVID-19 pandemic has reaffirmed the importance of IoT applications in various business domains other than the automotive domain. For example, needs have increased for IoT applications in the medical and healthcare domains from the perspective of how we utilize sensing technology and monitor health in healthcare. As healthcare costs increase year by year around the world, the number of social problems that need to be solved in the medical and healthcare domains have piled up, such as the widening disparity in some countries between those who benefit from healthcare system and those who do not. We will achieve solutions of social problems and attain corporate growth in a wide range of fields other than the automotive domain by entering medical, healthcare, and other domains.

See Page 32 for the details of businesses in new domains

ESG management

ESG and business strategy work through integration

If we cannot develop businesses that can contribute to solving various social issues, we will not be able to become a company that can maintain sustainable growth. In this sense, I believe that ESG (Environment, Society, and Governance) and business strategy should not be taken as separated components; rather, ESG should be viewed as a condition for sustainable growth and tied directly to business operations. In fact, when making a decision, I always do so using the concepts of ESG and SDGs (Sustainable Development Goals) as guidelines, rather than just viewing within a business framework.

We have identified four materiality themes of high priority that are considered closely related to our business activities: “creating new value, resolving social issues,” “reinforcement of corporate governance and compliance,” “cultivation of diverse human resources and engagement,” and “ensuring operational safety and business continuity.” In terms of governance, in fiscal 2019, we established the Nomination and Remuneration Committee, an optional advisory body, and promoted delegation of authority within the Company. At the General Meeting of Shareholders held in June 2020, we changed the composition of the Board of Directors by reducing the number of internal directors by one, whereby four of the six director posts in total are assumed by outside directors. In terms of engagement, we made an effort to engage in attentive dialogue and share our values with employees with a focus on managers who are eligible for a special early job transfer support program, and continued to engage in dialogue with shareholders and other stakeholders.

See Page 28 for the details of materiality.

In conclusion

Striving for sustainable growth while standing at the forefront of changes in the world and transforming ourselves

In 2030, the target achievement year for SDGs, one-third of Japan’s total population is expected to be 65-year-old or older. This will inevitably create a new world for companies where diverse human resources regardless of gender, age, and nationality work together as a team to drive business operation, without being constrained by their workplace. In this case, we will have no choice but to change Japan’s traditional personnel system and work style. We will continue to make all-out efforts to become a company that can achieve sustainable growth by responding rapidly to changes in the world and engaging in research at the forefront of changes. We look forward to your continued support.

December 2020

Representative Director and President

Yoshihisa Shinya

“We will achieve sustainable growth by promotion of ESG initiatives that is integrated with business.”



Message from the executive officer in charge of CSR division

Promoting Dexerials' unique CSR initiatives based on "Integrity"



Representative Director and Senior Managing Executive Officer
Toshiya Satake

Dexerials' CSR Activities

Since the days before Dexerials became an independent company, we have been diligently engaged in CSR activities. In fiscal 2018, we identified four materiality themes of high priority that are considered closely related to our business activities: (1) Creating new value, resolving social issues, (2) Reinforcement of corporate governance and compliance, (3) Cultivation of diverse human resources and engagement, and (4) Ensuring operational safety and business continuity. Then in fiscal 2019, we set CSR targets based on these themes, and have been carrying out various initiatives and taking follow up actions on their progress twice per year.

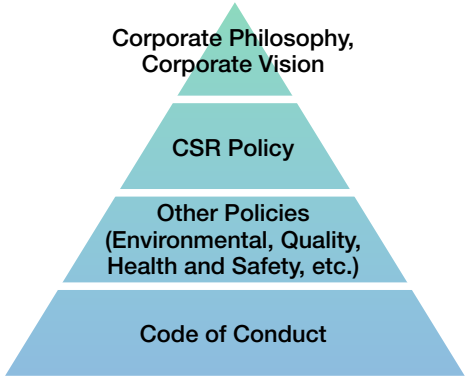
See Page 28-29 for the details of materiality and CSR targets.

Review of Fiscal 2019

Fiscal 2019 was a year for tackling many new challenges: For example, in October we published our first integrated report and in December we held an ESG briefing for institutional investors and analysts. The first issue of the integrated report is brimmed with originality and a handmade taste, featuring both top-down and bottom-up initiatives. Based on a wide range of feedback we received from the many stakeholders who read it, we realized the significance of publishing the report. The ESG briefing was a great opportunity for our stakeholders to understand Dexerials' basic approach—that practicing our corporate philosophy and vision is the backbone of our CSR activities. The details of the briefing were posted on our website afterward.

Our environmental efforts described in the integrated report and other disclosed information were recognized, and in 2020, we received the highest environmental rating from the Development Bank of Japan. Through this recognition, we rediscovered the importance of disclosing our approach to stakeholders. "Integrity" is our corporate philosophy, so we will continue to enhance our information disclosure in a proactive manner.

Structure of Policies Based on Corporate Philosophy and Vision



Acceleration of New Work Styles and Results

COVID-19 started spreading in the end of fiscal 2019. Due to its impact, we have continued remote work throughout the Company. At first many employees expressed anxiety because we quickly adopted remote working which we had been proceeding with gradually. However, as a result, we could enhance productivity thanks to continuous companywide efforts such as providing training to ensure smooth business execution and team management in a remote environment and improving many employees' skills with which they can grasp their decision-making scope and perform tasks autonomously.

Currently we are deliberating on how to improve our personnel system, which includes the review of

evaluation and remuneration system in line with such new work styles.

Materiality Assessments and Outlook

Materiality Theme (1) Creating New Value, Resolving Social Issues

In order to create new value and contribute to society, everything is to start with a return to Dexerials' original role in society. ACF is one of our mainstay products. As our differentiating technology product, AFC has gained a track record in the consumer IT field, which includes smartphones, tablets, and laptops, thereby being highly evaluated as new value to new domains such as automotive and life sciences. In addition to 5G-compatible products and products that help lessen environmental impact, in the future we will contribute to solving social problems by developing and offering products that lead to improving safety in the automotive field, where electrification and automation are advancing.

Materiality Theme (2) Reinforcement of Corporate Governance and Compliance

In July 2019, Dexerials established the Nomination and Remuneration Committee, an optional advisory body, and introduced an entrusted executive officer system. This has resulted in higher transparency of governance and more swift decision-making process. The management system has been evolved into a lean system thanks to the structural reforms implemented in October 2020. Dexerials is a company with an audit and supervisory board, and the majority of the board is composed of outside directors and audit & supervisory board members, in order to ensure our basic approach that the supervisory function woks properly through monitoring from external perspective. The Company annually conducts an evaluation of effectiveness of the Board of Directors. Based on the review of the evaluation, we formulate an action plan every year to constantly improve the effectiveness of the Board of Directors. In order for outside officers to gain a better understanding of the Company, we have provided occasions to exchange opinions other than at board meetings, such as field inspections and interaction with younger employees, whereby facilitating lively discussions at the board meetings.

Materiality Theme (3) Cultivation of Diverse Human Resources and Engagement

In the structural reforms implemented in October 2020, we proactively recruited young people and those from outside the Company. This resulted in creating a great team with higher diversity and superior next-generation human resources. Dexerials is a technology-oriented company, and has fostered a corporate culture that values the spirit to take on challenges. With the belief that we should value mistakes so that we can make it a lesson that results in gaining knowledge or success, and have earnest and open discussions based on mutual respect. People with diverse ideas allow mistakes and help one another, which has put down deep roots in our corporate culture on a global scale. This culture facilitates to produce differentiating technology products in terms of technological development. We will continue to prioritize this culture as our unique competitive edge.

Materiality Theme (4) Ensuring Operational Safety and Business Continuity

We consider operational safety to be the most important aspect of corporate management, and focus efforts on supporting health of employees who uphold operational safety. Also, as part of our corporate risk management initiatives, we provide regular compliance education, which includes chemical substance management. Going forward, we will encourage our suppliers and all other entities across the supply chain to build a similar risk management system.

For Improving Effectiveness of CSR Activities

In order to improve the effectiveness of CSR activities, we will incorporate a CSR perspective into mid-term management plans and business plans from now on to ensure that we always keep in mind that the basis for CSR activities is our corporate philosophy of Integrity. At the same time, with the aim of accurately identifying social issues, we will maintain points of contact and constant communication with stakeholders, whereby generating social value. We will continue to advance our mission of being a benefit to the world through offering outstanding technologies and products. We look forward to your continued support.



Message from the CFO

Instilling a B/S-oriented corporate management approach and continuously strengthening business portfolio management



Senior Executive Officer
CFO (Chief Financial Officer), Corporate Planning & Control Division Head, Company Process Innovator

Naoyuki Sanada

Profile
Joined Sony Chemicals Corporation, the predecessor of Dexerials, in 1984. Having gained experience in sales and corporate planning divisions, served as a director of Dexerials' subsidiary in Singapore. After returning to Japan, held positions including head of sales and business divisions and plant manager. Appointed Executive Officer in 2012, and Corporate Planning & Control Division Head in 2014. Contributed to taking Dexerials public. In the current position since 2019.

Review of the first year of "Mid-term Management Plan 2023"

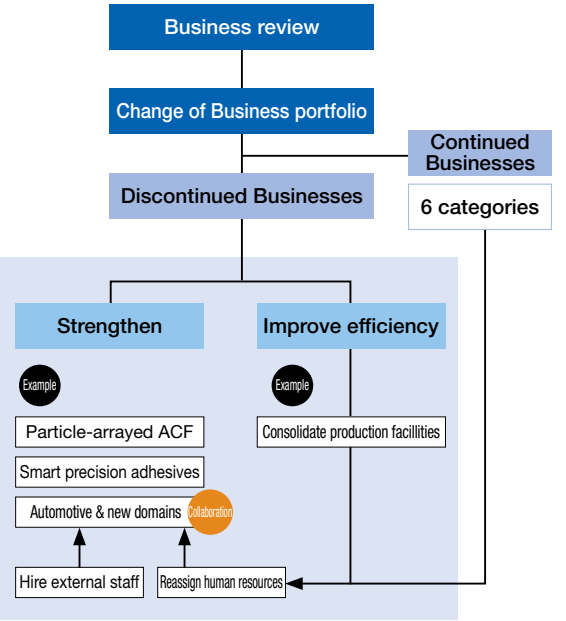
Net sales in fiscal 2019 decreased 5% year on year, but operating profit grew 24.0% year on year thanks in part to the expansion of smart precision adhesives and particle-arrayed anisotropic conductive film (ACF). Operating profit exceeded the targets of the initial plan, getting the first year of the Mid-term Management Plan off to a good start.

In fiscal 2019 we reviewed our businesses to strengthen business portfolio management. The review assessed the profitability, stability, growth, scale, and competitive advantage of each business, and the "economic value of business," i.e., the spread between the profit contributed by the business and the capital cost of the business. Based on the results, we changed our business portfolio to improve corporate value over the mid- to long-term, and determined which businesses we would continue and which ones we would discontinue. Two things that are key in carrying out business reviews: visually displaying how improvements will affect the numbers by sharing the review rules throughout the company, and carrying it out not once but annually.

By making these two into company rules, we will improve the efficiency of "operating capital" and increase "the economic value of business", and instill a B/S-oriented corporate management approach. In terms of cash flows, thanks to accumulating over 9.0 billion yen in operating cash flows—our earning power—free cash flow increased year on year from approximately 1.3 billion yen to 5.8 billion yen.

As for the initiatives laid out in the Mid-term Management Plan, we have set a target for our new automotive business to achieve 30% of total sales by fiscal 2023, and in fiscal 2019 the percentage steadily increased from approximately 10% of the previous fiscal year. However, one of our management issue is our high dependence on the consumer IT products market. The increase in sales of high value-added products such as our differentiating technology

Efforts to Strengthen the Business Portfolio



product ACF, anti-reflection film, and smart precision adhesives enabled us to absorb market volatility, but it did not lead to lowering our dependence. In the future, we will accelerate growth in domains other than the consumer IT products market to lower our dependency.

Risks and opportunities from a financial perspective

The first risks we see are the trend in operating cash flows and fluctuations in the foreign exchange rate caused by changes in the economic environment stemming from the COVID-19 pandemic. Our foreign exchange sensitivity continues to be a financial risk we need to work on: The loss caused by yen appreciation by one yen against the US dollar was relatively large,

with a loss of approximately 400 million yen in net sales and approximately 300 million yen in operating profit. When investing in growth over the mid-term, it is important to identify business risks early and accurately. For example, for new investment candidates we will carry out risk management while maintaining a balance between risk and return, such as forming alliances instead of contributing funds from the start.

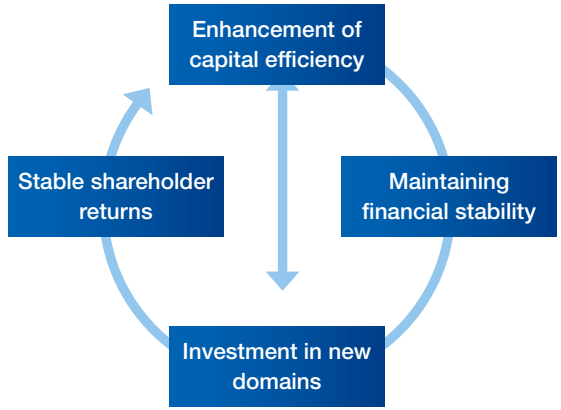
With the elevated at-home demand due to the pandemic, the expanding demand of consumer IT products such as personal displays presents a possible business opportunity. As COVID-19 has increased demand for next-generation automobiles and accelerated the widespread use of various technologies over the mid-term, I believe that developing immersive technologies like VR (virtual reality), AR (augmented reality), and MR (mixed reality) will create business growth opportunities for Dexerials.

Future financial strategies

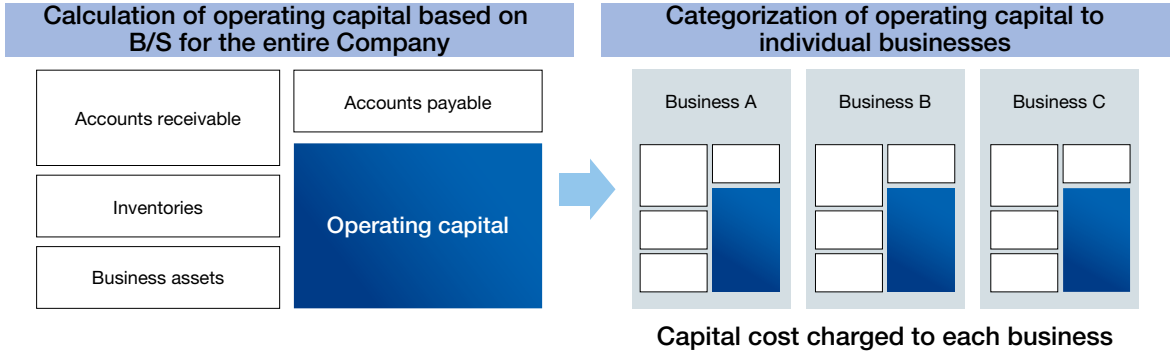
We will continue to work on four basic policies for our financial strategy: enhancement of capital efficiency, maintaining financial stability, investment in new domains, and stable shareholder returns. In terms of KPIs, we set a capital cost target of 8% prioritizing ROE and will work to achieve a positive equity spread. At present we expect around a 5% ROE mainly due to incurring temporary costs related to resource shifts, but we will aim to achieve over 10% from fiscal 2021 to 2023 when the effects of decreased fixed costs and others manifest. Growth investment will be driven by the Management Strategy Division, which was established in October 2020 in the structural reforms. We are deliberating mainly on investing in domains where we can make use of our technology, such as the environmental, telecommunications, and medical fields, with a focus on the new automotive domain. Our shareholder return policy, one of our capital strategies, remains unchanged with a total payout ratio to profit before amortization of goodwill at approximately 40%. We will continue to convey our efforts to attain our vision on how we will continue to achieve sustainable growth by solving social problems through a wide range of communication channels to our shareholders and investors.

Basic Policy

Strengthening Financial Base Leading to Sustained Enhancement of Corporate Value



Concept of Economic Value of Business



Economic value of business = (Profit contributed by business*) - (Capital cost of business)

*Operating profit of each business + indirect division expenses charged to each business

Endeavor to improve the efficiency of operating capital and increase the economic value of the business, mindful of the capital cost



Dexerials' Business Strategy

Optical Solutions Business

Create comfort in people's lives using unique technology



Executive Officer
Optical Solutions Business Unit Head

Takashi Yoshida

Profile
Joined Sony Chemicals Corporation, the predecessor of Dexerials, in 2003. Assigned to the former Neagari Plant (Ishikawa Prefecture). Subsequently, served as the Deputy Head of Administration Division and the General Manager of Procurement Department at Suzhou Plant in China. After returning to Japan, appointed the General Manager of the Business Promotion Department in 2011 and the Film Products Business Unit Head in 2016. Achieved expansion of the anti-reflection film business and appointed Executive Officer in 2017. In the current position since 2019.

Market environment

The Optical Solutions Business handles several products holding a large share globally in the two key categories of optical films and optical resin materials.

In the optical films category, anti-reflection film (ARF) is used for displays on tablets, laptop PCs and in vehicles. As the number of displays installed per vehicle increases as well as size of the displays, Dexerials' ARF which is characterized by metal film deposition utilizing sputtering technology and an inspection process in real time maintains a high global share. The moth-eye type ARF is used in applications such as medical eye shields, and demand is increasing as a product that can alleviate burden when worn by medical workers during the COVID-19 pandemic.

In the optical resin materials category, optical elasticity resin (SVR), with its high technology and quality, maintains a high global share as resin adhesives for small-to-medium-sized displays. Also, there is a growing demand for smart precision adhesives (SA) used to affix components such as camera modules despite the lack of growth in shipment volume of smartphones around the world, since the number of cameras installed per unit is increasing, as well as the flattening, enlargement, and higher resolution of cameras themselves.

Growth strategy and risks

While the second half of fiscal 2019 saw the effects of factory shutdowns worldwide due to US-China trade frictions and the spread of COVID-19, sales of our products in fiscal 2020 have grown as a result of the surge in sales of laptop PCs and tablets with the proliferation of work-at-home and online classes caused by the pandemic. At the same time, improvement in yield for the manufacturing process of ARF has enabled cutting down on the amount of industrial waste.

Going forward, if an environment in which social distancing is required continues, Dexerials' ARF, characterized by its ability to make it difficult for colors to change due to the angle they are seen, will have opportunities to expand its anti-reflection application in artistic works and in viewing video images. Meanwhile, we recognize the possibility of trends in demand changing going forward as a result of normalization of changes in lifestyle caused by the pandemic as a risk.

Growth of high-speed technology in communication infrastructure, such as with 5G, has been around before the start of the pandemic as an irreversible trend, and attempts to achieve further growth through the spread of use in public institutions.

Connecting Materials Business

Sharing goals and values, and striving for "One for All, All for Won."



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 and was in charge of thermo-curable adhesive sheets, UV-curable adhesives, optical resin materials, etc. Appointed the Display Materials Business Unit Head in 2016 and contributed to expansion of mainstay products such as anisotropic conductive films (ACF) and optical elasticity resins (SVR). In the current position since 2019.

Market environment

The Connecting Materials Business handles adhesive materials, thermal conductive sheets, and water treatment agents in addition to anisotropic conductive films (ACF) and surface mounted type fuses.

Dexerials' ACF maintains its high global share with small-to-medium-sized displays, mainly with particle-arrayed ACF. Aside from displays, it is also used in IC chips such as on credit cards and in sensors on camera modules. The surface mounted type fuses category secures a high market share as products that protect laptop PCs and smartphones with self-control protectors (SCP) that prevent overcharging and overcurrent in Li-ion batteries for these devices. In addition, as a result of the stay-at-home trend caused by the pandemic, demand of use for such as cordless electric

power tools and vacuum cleaners is increasing. In the adhesive materials category, thermal conductive sheets secure a high market share particularly for 5G base stations, and we can expect further growth in line with the spread of 5G networks going forward. We can anticipate heightened interest in water treatment agents against a backdrop of increased awareness in the environment around the world to not only enable efficient treatment of water with ingredients that take advantage of plant material, but also as products that lead to a reduction in CO_2 emissions and sludge.

Growth strategy and risks

The ACF category, which saw a double-digit growth year on year in fiscal 2019 with expansion in business, continues smooth progress in fiscal 2020 with sales expansion of particle-arrayed ACF in addition to sales acceleration of laptop PCs, large-screen TVs and tablets with at- home demand due to the pandemic. Going forward, we will actively meet the demand not only for small-to-medium-sized displays but also for large-sized displays showing a similar move toward higher-definition. Also, while displays themselves change from LCD to OLED type, and as even more sophisticated functions and high reliability are expected, we will strive to establish particle-arrayed ACF, which is Dexerials' differentiating technology, as the de facto standard in the industry.

Supported by digitization including higher communication speed, reduction in manpower and a switch to automation, it is expected that display equipment will clearly increase going forward. It will be an opportunity for ACF's substantial growth as an indispensable part of display equipment. In the future, with the development of electric vehicles and other mobility stemming from consideration of the environment, we can anticipate an increase in the demand for SCP.

While there is the risk that demand for PCs and tablets which grew in 2020 will start to diminish next term and onward in the short-term, we consider that large business opportunities await going forward with the acceleration of digitization.

Automotive Solutions Business

Armed with the business model cultivated thus far, we propose new value creation.



Automotive Solutions Business Unit Head

Kentaro Oshima

Profile
Joined Sony Chemicals Corporation, the predecessor of Dexerials, in 1991. Engaged in product development and was in charge of anti-reflection film, etc. Appointed Deputy Head of the Automotive Solutions Business Unit in 2019 and contributed to deployment of the Company's products into the automotive field. In the current position since October 2020.

Market environment

The Automotive Solutions Business is working to achieve business growth by utilizing the Company's various resources for a wide range of domains with a focus on application in automobiles. With the aim of growing new domains centering on automotive applications to a scale of approximately 40% of overall sales (30% for in-vehicle applications) by fiscal 2023, we are working to attract new customers and raise recognition of Dexerials within the automotive industry.

Our design-in/spec-in approach, through which we approach final customers ourselves to identify their needs and issues and consider solutions together with them from a technical perspective, is highly regarded by our customers. Dexerials' anti-reflection film is already being recognized as a product that contributes to higher visibility and safety for in-vehicle displays, the number and size of which are becoming larger.

See page 11 for details of design-in/spec-in.

Growth strategy and risks

While effects of the COVID-19 pandemic lasted until the 2nd quarter of fiscal 2020, recovery of the market in China was the beginning of gradual improvement in the automobile industry worldwide. Going forward, we will cooperate with the newly established DIG Promotion Department for application-based product development and commercialization, while also focusing on creating new value with external cooperative partners. In October 2020, we began a collaboration for technical support of in-vehicle displays with German design house SemsoTec Group, which designs in-vehicle displays installed on the dashboard of automobiles and creates concepts for the entire driver's seat.

Effects of the COVID-19 pandemic will remain as a potential risk going forward, but by regarding change in a positive manner, it is possible to change risk into opportunity. Trends in environmental restrictions across various regions can potentially become a risk, but we will continue preparations for the age of autonomous driving which is certain to arrive sometime in the future. To address various issues that come about with the progress of digitalization of automobiles, such as overheating and problems with camera sensors for autonomous driving, we will propose solutions which go beyond the domain of traditional displays and seize business opportunities.

Dexerials' Innovation Strategy

Providing new technical solutions by backcasting for problems in the future



Corporate R&D Division Head

Kazuya Hayashibe

Profile
Joined Sony Corporation in 1999. Joined Dexerials in 2014 after establishment of the Company. Engaged in research and development and was in charge of technological development such as for microfabrication. In the current position since October 2020.

Source of Dexerials' Innovation

In providing materials and devices for consumer IT equipment, Dexerials cultivated material technologies and process technologies and has come to create various innovations, such as anti-reflection solution combining optical elasticity resins (SVR) and anti-reflection film, and in addition particle-arrayed anisotropic conductive films (ACF), leading to functional sophistication and compactness of displays and the realization of higher productivity.

The source of such creating innovation is the employees at Dexerials. Not only ideas that create new things, but also going through the process of identifying needs for materials and devices going forward and approaching the creation of value depends largely on people, and to what extent we have human resources gifted with creativity determines the power we possess to create innovation. With our corporate vision, "Value Matters—Unprecedented innovation, unprecedented value," Dexerials will value creativity of each of our employees with our vision of developing people who create value.

See Page 54 for the details of the HR philosophy and HR vision.

In order to fulfill social contribution in a continual manner, we must never cease to consider what will most be needed in society from a long-term perspective going forward. We will avoid focusing solely on the research at hand, and instead look five, ten years, even more into the future, and contemplate what needs will arise and how best we can address those needs. Using a backcasting perspective, we put our heads together with members of the Corporate R&D Division to promote research and development.

Basic Approach to Creating Innovation: Design-in/Spec-in

To better understand the needs of our customers and society to help us create innovation, we value the concept of "design-in/spec-in" as our business model. When holding discussions with our customers, development engineers sit in with sales representatives so that the customer's needs can be grasped directly from a developer's point of view not only from a sales perspective. This may lead to customers also tapping into needs they would otherwise not realize, resulting in even better product development or technological solution being proposed.

See page 11 for details of design-in/spec-in.

Innovation Promoted under a New Organizational Structure

The R&D structure at Dexerials consists of development in new domains as part of the Corporate R&D Division as well as product development belonging to the various business units, but they do not engage in R&D individually apart from one another. The Corporate R&D Division is involved in the product development of new domain including automobiles as well as advanced development in existing business categories, and meets with employees working on development from the various business units on a regular basis to exchange information and share findings surrounding their respective customers, so that development can proceed in line with the direction of the Company as a whole.

Going forward, through collaboration among three bodies; the Management Strategy Division and the DIG Promotion Department, which were newly established in October 2020 under the structural reforms, and the Global Sales & Marketing Division, technological marketing will be further strengthened to work toward early detection of social issues which

may arise in the medium- to long-term range, applications, and systems, while leading to product and solutions development to provide value to that environment.

New Domain Promotion System



Innovation Strategy Going Forward

The important aspects in considering innovation are being quick in grasping upcoming global social issues and needs from a developmental perspective and undergoing preparations accordingly. Major changes are occurring in our environment as a result of the COVID-19 pandemic, and we must establish an environment in which predicting upcoming trends is facilitated and it is possible to swiftly respond to sudden changes.

In considering future applications, we believe the aspect of communicating is important, and as remote activities become established due to the pandemic, attention to communicative functions using information terminal devices is increasing. With next-generation automobiles turning more to IoT, the number of display panels and sensor modules is also increasing, while growth in communications, including the interface with drivers, among vehicles, and between automobiles and infrastructure equipment, is expected as well. Regarding peripheral areas related to display panels and sensor modules, we will work toward innovation in the technological domain to support communication, such as with new displays and information terminal devices to realize VR (virtual reality), AR (augmented reality), and MR (mixed reality) as well as communication equipment such as for 5G.

While DX (digital transformation) technology is being implemented internally, we will incorporate such technology as the Corporate R&D Division to promote efficiency.

Human Resource Investment and Open Innovation

We will increase investment toward R&D for new business domains including automotive and IoT in addition to investment on human resources that are the source of innovation. We will make efforts to strengthen human resources possessing expertise skills in new technological domains that will lead to enhancement of our technological portfolio in the United States and China where opportunities for new technology emerging are vast, and also in Europe where next-generation automotive technology is advanced. We will not succeed in breakthrough innovation by clinging on to existing technological categories. By combining new technological domains with technological areas in which Dexerials excels, we will create new solutions and the next innovations.

With such new technological domains, we will not commit to self-reliance and instead actively pursue open innovation as well as collaboration and cooperation with external entities such as other companies and the academic community. In 2019, we introduced the technology which can be provided and



at the same time announced technological needs we were seeking on our website, and several projects involving collaborations and alliances are already underway. In 2020, we have also created a plan in which assistance is provided for research funds toward research organizations and research themes intended to study designated technological domains as a program for research support.

In order to realize Dexerials' sustainable growth while contributing to resolving social issues, the action that is required of us is to accurately identify how society will evolve going forward and what issues will arise, and backcast from there to allow us to provide products and technological solutions. Potential needs and issues that customers and society face encompassing the medium- to long-term must be firmly predicted and reflected in our actions. This continuous loop will be rigidly adhered to which will lead to not only products in the form of materials and devices, but also to the creation of new technological solutions.



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 supervising CSR promotion division (representative director and senior managing executive officer) 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.

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 risk management officer 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 Managers 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*
Management strategy risk	Macroeconomics	Trends in economic conditions	The possibility of a widespread and long-term worldwide recession due to factors such as economic slowdown of emerging countries, sluggish crude oil prices, instability in the financial sector of European nations, failed attempts or early termination of stimulus measures and easing monetary policies in Japan and other developed countries, slump in consumption resulting from consumption tax hikes in Japan, political instability in countries around the world, 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)
	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	● 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	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.	● Create added value and improve product quality. ● Maintain and improve pricing levels. ● Make initiatives toward cost reduction such as by improving the production process and increasing material yield.	(2)
	Innovation	Technological development, etc.	● 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.	● 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)
Business operational risk	Overseas operations	Business development overseas	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 including the global spread of COVID-19; 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	Safety / disaster prevention	Effects from accidents and disasters	● 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.	Formulate a BCP based on ensuring operational safety and business continuity which were identified as materialities, holding disaster-prevention training regularly, etc.	(3)
Financial risk	Exchange/capital	Fluctuation in exchange rates	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	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.

Collection and extraction of social issues
- Situation analysis based on interviews with relevant parties
- Extraction of relevant challenges from SDGs and ISO26000, etc.

Screening of challenges
- Evaluation of relevance between social issues and Dexerials value chain

Evaluation of importance of challenge
- Evaluation of importance from a bilateral standpoint between Dexerials and stakeholders (numerical quantification of importance)
- Visualization based on materiality mapping

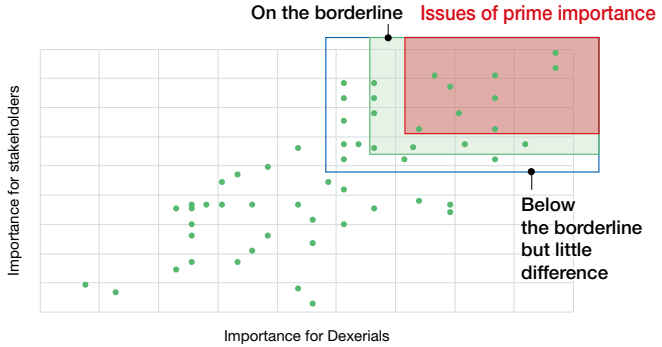
Verification of validity of results of evaluation of importance
- Discussion among directors (standing) and executive officers
- Discussions at materiality review meeting* among external experts
- Discussion and decision by the Board of Directors

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	Fiscal 2019 Target	Fiscal 2019 Achievement status	Target for fiscal 2020	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 "Establishing Medium- to Long-term Environmental Targets" on Page 35 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	● Further clarification of the nomination and compensation determination process ● Promotion of the officer succession plan (including fostering of successors)	○	● 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	
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	
	[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	● Execution of company-wide BCP training at least once a year ● Ongoing review of BCP plans through training (promotion of initiatives, considering BCM)	○	● Execution of company-wide BCP training at least once a year ● Ongoing review of BCP plans through training (promotion of initiatives, considering BCM)	● 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	● Execution of company-wide disaster-prevention training at least once a year ● Ongoing review of disaster-prevention measures, considering linkage with BCP	○	● Execution of company-wide disaster-prevention training at least once a year ● Ongoing review of disaster-prevention measures, considering linkage with BCP	● Execution of company-wide disaster-prevention training at least once a year ● Ongoing review of disaster-prevention measures, considering linkage with BCP

Creating New Value, Resolving Social Issues

Initiatives for Creating Value and Resolving Social Issues

Optical Solutions Business



"Jettable SVR," the industry's first optical elasticity resin corresponding to inkjet coating has launched!
It increases visibility of displays with new designs including curved surfaces.

Dexerials has developed "Jettable SVR", the industry's first optical elasticity resin corresponding to coating with an inkjet device in September 2020. Optical elasticity resin "SVR" is an acrylic resin to fill air gap between a display panel indication area and a top plate, and is an optical adhesive, which not only prevents optical reflection on the interface of air gap and realizes visibility improvement by giving optical characteristics similar to the material of a top plate but also has shock resistance. Since SVR was launched in the market in 2007, it has been adopted to various displays such as smartphones, tablet PCs and in-vehicle displays. We have always focused on development to add new value to SVR by responding to various needs of customers identified by design-in/spec-in approach, such as "hybrid SVR," which we launched in the market in 2013 with better workability by laminating after UV pre-curing.

"Jettable SVR" was created in the effort to improve ease in workability and the further flexibility of coating shape of SVR while focusing on the direction of the market, where the number of equipping of curved displays and variant displays is expected to increase. Based on requests from customers to increase adhesive reliability while thinning and to be able to change thickness freely, we discussed the optimal development process and came up with the approach using SVR with inkjet, a common technology used for printing.

It requires very high technological capabilities to spray SVR from inkjet head evenly and cure it to create a transparent layer, but with "Jettable SVR," it is possible to apply it evenly at a thickness of just 10μ. In addition, it can apply proper amount of resin to an intended position with high accuracy by applying inkjet technology, the ease in workability and the flexibility of coating shapes has greatly improved while maintaining the excellent optical characteristics of existing SVR. The ability to change a coating shape and coating thickness on the software, as well as the high speed of inkjet coating compared to that of existing coating method improves productivity.

We will contribute to improve visibility of displays and safety of automobiles by vigorously expanding "Jettable SVR" for the new design display, which requires complicated shape and thickness variation where existing optical adhesive is difficult to be used.

Feature comparison between "Jettable SVR" and existing optical elasticity resins

	Jettable SVR	Hybrid SVR	SVR
Coating method	● Inkjet coating 	● Slit coating 	● Dispenser coating 
Coating/laminating method	● Apply proper amount of resin to an intended position like printing, and conduct UV pre-curing. ● After that, conduct vacuum lamination, and cure fully by UV.	● Apply the resin all over evenly, and keep the resin form by UV pre-curing. ● After that, conduct vacuum lamination, and cure fully by UV.	● Calculate the amount of resin, and apply it on the top plate. ● After that, spread the resin all over by reverse lamination of the top plate, and cure the resin by UV.
Coating shape	● As coating shape can be controlled on the software, not only a quadrilateral but also various shapes of coating are possible.	● Due to the slit coating, coating shape is limited to a quadrilateral.	● In order to prevent the resin from protruding from a display, it is necessary to construct coating shape patterns and control the dam resin on the periphery.
Workability	● As the switching of the coating shape due to display change is conducted on the software, the maintenance can be kept to the minimum.	● When coating shape is switched due to the display change, the maintenance of the hardware is necessary.	● When coating shape is switched due to the display change, the maintenance of the hardware is necessary.

Connecting Materials Business



Installed in artificial ventilators saving COVID-19 patients!
Dexerials' surface mounted type fuses contribute to safety and reliability.

Dexerials' surface mounted type fuses are secondary protection fuses that melt the fuse elements to interrupt the circuit when overcharging or overcurrent occurs in Li-ion rechargeable batteries. Since its launch in 1994, it has been widely used to protect Li-ion batteries for laptop PCs, smartphones and power tools which require high current, securing a high market share.

We have accumulated material technologies while enhancing product performance and downsizing for over 20 years since we launched them. Considering the impact of lead on the environment and the possibility of stricter regulations in the future, we have worked on the development of lead-free fuses and in 2018, we developed and acquired a patent for the technology to make lead-free fuse elements.

In 2020, due to the spread of the COVID-19 pandemic around the world, the production of artificial ventilators increased rapidly. As Dexerials' surface mounted type fuses are adopted for use in Li-ion batteries in them, we have increased production in response to rapidly growing demands. Our achievements in surface mounted type fuses made by overcoming technical challenges such as downsizing and lowering current resistance are highly evaluated in terms of quality and also match the needs of customers.

Products using Li-ion batteries including consumer IT products, drones and electric motorcycles are increasing, and our surface mounted type fuses will continue to contribute to safety and reliability.

Automotive Solutions Business



Durability improved 40-fold from existing products!
New anti-reflection film contributes to the improvement of safety, which is essential for automobiles.

In July 2020, Dexerials has developed an anti-reflection film "AR Film HD Series," the durability of which improved by 40 times or more compared to our conventional products by forming an anti-smudge layer on the top surface by vacuum deposition method. Mass production system will be in place by the spring of 2021, and the products will be supplied sequentially.

Our anti-reflection film is a product that realizes excellent low-reflectance performance by forming an anti-reflection layer using sputtering technology, and is adopted in laptop PCs and in-vehicle displays. The top surface of the film is provided with an anti-smudge layer to prevent fingerprints and dirt from sticking to the film and to enable easy wiping.

In laptop PCs, models with touch panels and 2-in-1 types that can also be used like tablets are becoming popular. Anti-reflection films used on the top surface of displays are required to have higher abrasion durability in order to cope with frequent touch operations by fingers and stylus pens. In addition, in order to meet the customers' needs for higher durability in use for in-vehicle displays, it is necessary to improve the abrasion durability of the anti-smudge layer of the anti-reflection film.

We therefore introduced a new manufacturing method of forming an anti-smudge layer on the top surface using vacuum deposition, with the aim of further improving abrasion durability. This is how the "AR Film HD Series" was developed. While maintaining the excellent optical properties of conventional products, the durability of the anti-smudge layer improved by 40 times or more. In the manufacturing process, we have further improved production efficiency by adopting an integrated film formation, in which the formation from the anti-reflection layer to the anti-smudge layer can be performed in the same equipment.

In in-vehicle displays, the improvement of visibility achieved by anti-reflection films leads directly to the improvement of safety such as prevention of accidents. We will contribute to resolving new social issues while creating new values by improving visibility and durability.

Creating New Value, Resolving Social Issues

Businesses in New Domains

Addressing 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 problems our society faces and to try to figure out how our research can help solve them.
In fiscal 2016 Dexerials launched “Virtual Startup,” an intrapreneurship system within the company, encouraging employees to try to promote new ideas and create their own projects.
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.

Principal Products in Environment and Life Sciences Field



Water treatment agents

Water treatment agent for inorganic effluent discharged from facilities such as plating factories and semiconductor factories. The water-soluble polymer components of natural plants exhibit coagulating and flocculating function and its fibrous structure accelerates drainage thereby lowering sludge production and contributing to the reduction of environment impact. In addition, it realizes the cost reduction of sludge treatment.



Anti-reflection films for medical eye shields moth-eye type

The reflection of visible rays is reduced and most light passes through because the film is manufactured with an uneven surface at a nanoscale level. Consequently, compared with using conventional products, discomfort and fatigue are reduced when wearing the eye shield. In addition, it will contribute to the improvement of the work environment of health professionals owing to its excellent anti-fogging properties.

Topics in Automotive Field

Dexerials × SemsoTec

Collaboration started with SemsoTec Group, Germany on technical support

In October 2020, Dexerials has agreed to collaborate with automobile design house, SemsoTec Group (hereinafter referred to as “SemsoTec”) in Germany, on technical support for in-vehicle displays.
SemsoTec is a company that designs in-vehicle displays installed on the dashboard of automobiles and creates concepts for the entire driver’s seat. SemsoTec provides in-vehicle displays which contributes to comfort and safety of automobiles, based on in-depth knowledge of latest in-vehicle displays and improvement of display visibility, which enables challenging designs and integration of overall requirements. Through this collaboration, we will propose prototype designs of in-vehicle displays using our high-quality products that improve the features of displays, such as anti-reflection films and optical elasticity resins, to customers including manufacturers of finished automobiles with the aim of realizing comfortable and safe in-vehicle environment for the next generation.

Company Profile of SemsoTec Group

Company name	SemsoTec Group
Address	Schleißheimer Straße 91a D-85748 Garching bei München
Representative	Founder and Managing Director Jochen Semmelbauer
Business overview	● R&D and product development for human-machine interface (HMI) and display solutions ● Technology development for display production process ● Sample sales and small-lot production of displays and electronic devices
Capital stock	11.5 Million Euro (as of December 31, 2019)
Establishment	April 2009

Feature

Analysis Laboratory







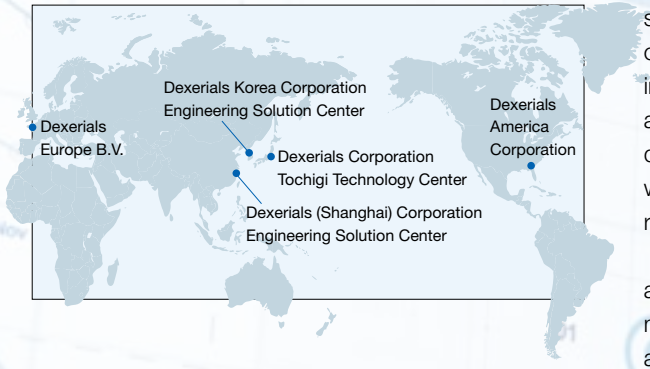


Overview of Analysis Laboratory

Dexerials strives to quickly resolve problems and quality issues which arise during the development and manufacturing stages of products, by using analysis laboratory where engineers conduct optimal analysis based on their high levels of expertise and abundant knowledge of products. The analysis laboratory was originated from customer support activities. We receive feedback from end users on issues which arise during the use of our customized products, analyze them, and provide support for resolutions. In this process, we have extracted issues and accumulated know-how on addressing the needs in a field engineering way. Currently in the Corporate R&D Division, about 20 engineers with high levels of expertise and abundant knowledge of products are quickly responding to an average of 600 to 700 analysis requests per month.

In addition, many of our customers are operating their businesses globally, and in order to respond immediately to advanced issues in each region, Dexerials has established engineering bases in the United States, the Netherlands, China and South Korea, and created an environment that enables in-depth analysis at a submicron level (1/10,000 millimeter). For issues that require more complex analysis, the analysis laboratory in the Tochigi Technology Center, Japan provides assistance.

Dexerials' engineering sites



Strengths of Dexerials' Analysis Laboratory

Dexerials' analysis laboratory is equipped with a wide range of highly sensitive and high-resolution instruments backed by the latest technology. By adding the eyes and fingers of professionals with high level of expertise, analysis can be conducted swiftly from multiple angles.

The requestors of analysis laboratory varies from customers who have actually had problems with our products, staff working on basic development within our company, to those who have caught some phenomena during the manufacturing process. However, if the issues are related to products used in areas where high safety is required, such as in automobiles, it is indispensable to promptly identify factors that could lead to accidents. Analysis laboratory focuses on recognizing the core meaning of such requests and providing feedback speedily to customers and development teams that have made the request.

Along with speedy feedback, another strength of our analysis laboratory is the analysis of microscopic parts such as bonding of electrodes, and analysis of surfaces and interfaces of anti-reflection films and other products. This leads to our capability to investigate the cause when trouble arises, and the analysis capability directly related with the product quality is highly evaluated by our customers, together with precisely made samples and elaborate analysis reports.

In the future, as the products become more advanced, it is predicted that the analysis will become more complicated. We will continue to enhance our analysis capability excelling at microscopic areas as our differentiated strong point. At the same time, we will continue our efforts to strengthen our capability to apply analysis in wide range of fields, by gathering information about research on analysis outside the Company, considering introduction of analyzing instruments according to applications, etc.



Environmental Management

The Dexerials Group has established its Environmental Philosophy and Principles based upon its Vision and CSR Policy, and environmental activities are promoted with due consideration to the environment in all business processes.

Environmental Initiatives

The Dexerials Group is taking initiatives in its business activities to reduce CO_2 emissions, utilize resources efficiently to reduce environmental impacts, dispose wastes appropriately, and save water. The Group is addressing climate change, which is particularly important issue, from two perspectives: mitigation measures and response measures.

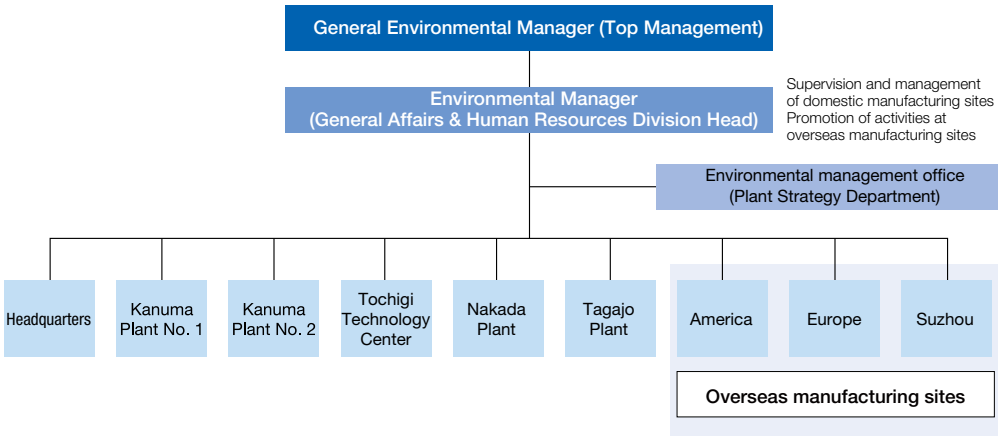
Environmental Management System

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. As a result, 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	Headquarters Tochigi Technology Center Kanuma Plant No. 1 Kanuma Plant No. 2 Nakada Plant Tagajo Plant	4283884
	Dexerials Europe B.V.		NL016090-1
	Dexerials (Suzhou) Co., Ltd.		CNBJ311710-UK

Establishing Medium- to Long-term Environmental Targets

In addition to the mid-term environmental targets for the three fiscal years from 2019 to 2021 as initiatives toward realizing a sustainable society, Dexerials has established long-term targets toward 2030.

Review of fiscal 2019

The principal environmental impact reduction measures implemented in fiscal 2019 are described below.

CO_2 ➡ CO_2 emissions were reduced by approximately 6% year on year.
As a new initiative, environmental patrols were conducted regularly at each office and manufacturing site. We were able to reduce energy consumption by discovering and improving energy-saving themes hidden in the workplace that are usually unnoticed.
For example, we worked on reducing electricity usage by turning off equipment on non-operating days and reducing air consumption by managing all valves at the production site of the Tochigi Technology Center.

Industrial waste ➡ The volume of waste generated was reduced by approximately 10% year on year.
We continued to reduce emissions of waste plastic films by increasing the product yield. In addition, we processed transparent films that were going to be discarded by its feature into face shields, and made it possible to reduce the amount of waste by utilizing them and contribute to recipients.

Water ➡ We participated in community activities, such as for Water Day and Water Week, and also continued initiatives to raise employee awareness about water saving. However, water usage increased by approximately 3% year on year owing to increased production activities.

VOC ➡ We have introduced gas emission detoxification systems and are pursuing process improvements for target materials or the use of alternative materials and are ensuring compliance with the VOC emission standards. Measures to reduce VOC emissions included reduction of the usage of solvents by automation of cleaning of manufacturing equipment and reuse of cleaning solvents. As a result, VOC emissions were reduced by approximately 20% year on year.

For achievement of the targets for 2030

We intend to implement the following measures to achieve the long-term environmental targets for fiscal 2030.

CO_2 ➡ 50% reduction compared with fiscal 2013 by introducing gas engine power generation and the latest technology

Industrial waste ➡ 75% reduction compared with fiscal 2013 by considering and implementing measures to reduce the volume of transfer of industrial waste generated within the Company to outside the Company

Water ➡ 70% reduction compared with fiscal 2013 by introducing the latest facilities and other measures

VOC ➡ 99% reduction compared with fiscal 2013 by using chemical filters and other measures

Medium- to long-term environmental targets (2019-2021, 2030)

	Target for fiscal 2019	Achievement of the target for fiscal 2019	Target for fiscal 2020	Target for fiscal 2021	Target for fiscal 2030
CO_2	● 1% YoY reduction of CO_2 emissions from business activities	○	● 1% YoY reduction of CO_2 emissions from business activities	Same as the left	**50% reduction** compared with fiscal 2013
Industrial waste	● Continuation of zero emissions* ● Reduction of volume generated	○ ○	● Continuation of zero emissions* ● Reduction of volume generated	Same as the left	**75% reduction** compared with fiscal 2013
Water	● YoY reduction of usage volume ● Compliance with voluntary standards for water quality	× ○	● YoY reduction of usage volume ● Compliance with voluntary standards for water quality	Same as the left	**70% reduction** compared with fiscal 2013
VOC	● Flat or reduction of usage volume YoY	○	● Flat or reduction of usage volume YoY	Same as the left	**99% reduction** compared with fiscal 2013

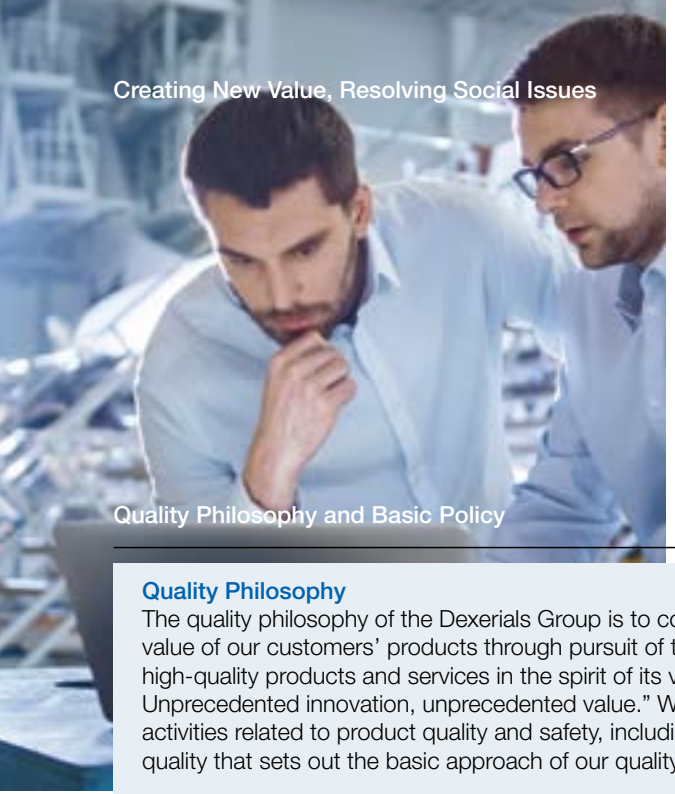
*Zero emissions: "Zero waste emissions" is defined as a reuse/recycling ratio of 99.5% or more.

Dexerials acquired the highest rating under the DBJ Environmental Rating Program

In December 2020, Dexerials acquired the highest rating under the Development Bank of Japan Inc. (hereinafter referred to as "DBJ") Environmental Rating Program run by DBJ, which recognizes companies with excellent advanced environmental initiatives, and received a loan based on this system. DBJ Environmental Rating Program loan is the world-first financing service that introduces a specialized method for environmental rating, which converts a company's environmental management into a score and selects superior companies using a screening (rating) system developed by DBJ. Financing conditions are then set according to that score. We will continue to promote environmentally friendly business activities along with offering technologies and products to reduce the environmental impact and contribute to the creation of a sustainable society.



Environmental Rating Program award ceremony



Quality Philosophy and Basic Policy

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

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.

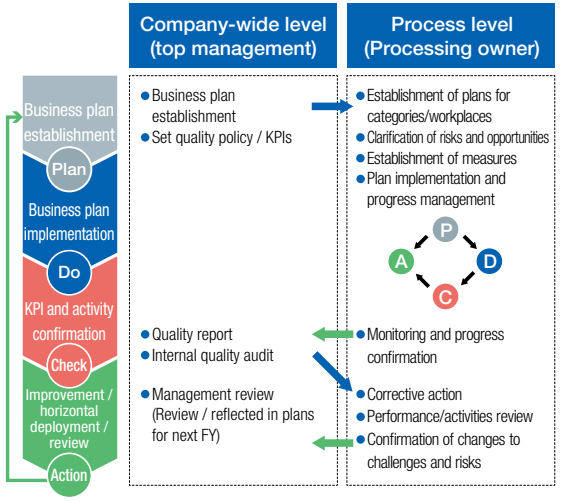
Cross-organizational activities and cooperation are indispensable for achievement of the quality business plan and for realization of products. Each unit of activities that requires cooperation is designated as a business process, which is the unit for management responsibility.

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.

Quality KPIs set for the company-wide level are managed as indicators for measuring the degree of achievement of the quality business plan and are used for monthly progress review and management review at the end of a fiscal year to judge whether activities conducted in the year yielded positive results.

Quality KPIs set for each business process are drilled down to improvement targets and measures of each organization and used for judging the results of implementation of the measures and initiatives corresponding to risks and opportunities.

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.

In line with the expansion of businesses of products for automotive applications and those for medical applications, we have established quality assurance systems that can respond to customer requirements and regulations specific to each business domain. 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). With regard to products for medical applications, we have obtained certification for ISO 13485, a standard for medical devices that emphasizes reliable quality and compliance according to the corresponding product categories.

Quality management system certification status

(as of October 1, 2020)

Quality management system	Organization	Site	Certification registration
ISO9001	Dexerials Corporation	Headquarters Kanuma Plant No. 1 Kanuma Plant No. 2 Tochigi Technology Center Nakada Plant Tagajo Plant	4450555
	Dexerials Europe B.V.		NL019503
	Dexerials (Suzhou) Co., Ltd.		CNBJ313666-UK
	Dexerials America Corporation		38206-2011-AQ-USA-RvA
IATF16949	Dexerials Corporation	Kanuma Plant No. 1	353001
		Kanuma Plant No. 2	299078
ISO13485	Dexerials Corporation	Headquarters Kanuma Plant No. 2 Tochigi Technology Center	MD665939

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.

Internal Development of Quality Control Technology

The Dexerials Group has proprietary, sophisticated production facility design technology, which is one of the Group's strengths. In terms of quality control, we have vigorously introduced production inspection facilities and screening methods that do not rely on manpower.

As an example, on the film product production line (Roll to Roll production method of performing continuous production by using roll-shaped materials), we have introduced a system that performs control by feeding the results of the line condition measured in real time by using high-speed line sensor cameras and image processing technology back to the manufacturing conditions. In thin-film processing, Dexerials has further refined its quality control technology, which is one of its strong points, and achieved constant high quality and high productivity.

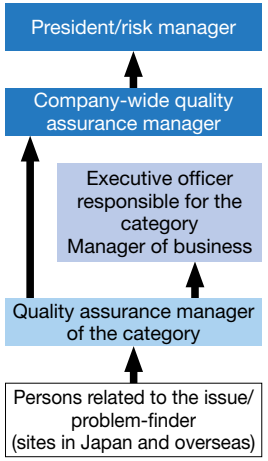
Also, Dexerials is proactively promoting initiatives toward production technology reform, such as an attempt to analyze accumulated big data on measured values and apply the data to improve the accuracy of tests and the introduction of AI cooperative robots with the aim of improving quality and efficiency.

Quality Communication

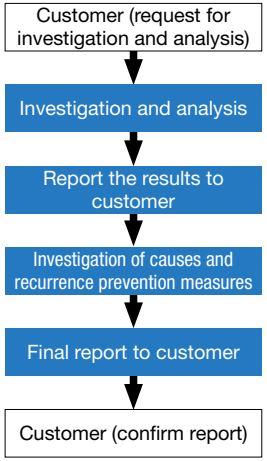
Through communication with customers, the Dexerials Group shares customer needs and technology issues. We offer technology-based support and solutions, working toward the creation of products that respond to customers' confidence in us and deliver customer satisfaction. In the event of quality issues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

Quality issue escalation flow



Quality issue improvement flow



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."

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 introduced a new follow-up system in which training participants, line managers and instructors communicate with each other from creation of implementation plan to confirmation of implementation status and instructions. For communication of the three parties, a follow-up sheet that clarifies PDCA cycle is used to further ensure learning.

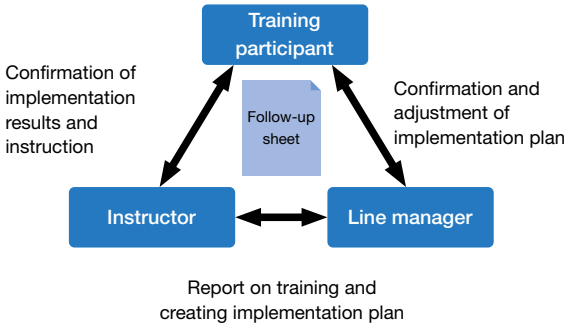
To further improve employees' quality management capabilities, Dexerials encourages them to take the Quality Management and Quality Control Examination (examination regarding knowledge of quality control held by the Japanese Standards Association) that objectively determines the level of knowledge regarding 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).

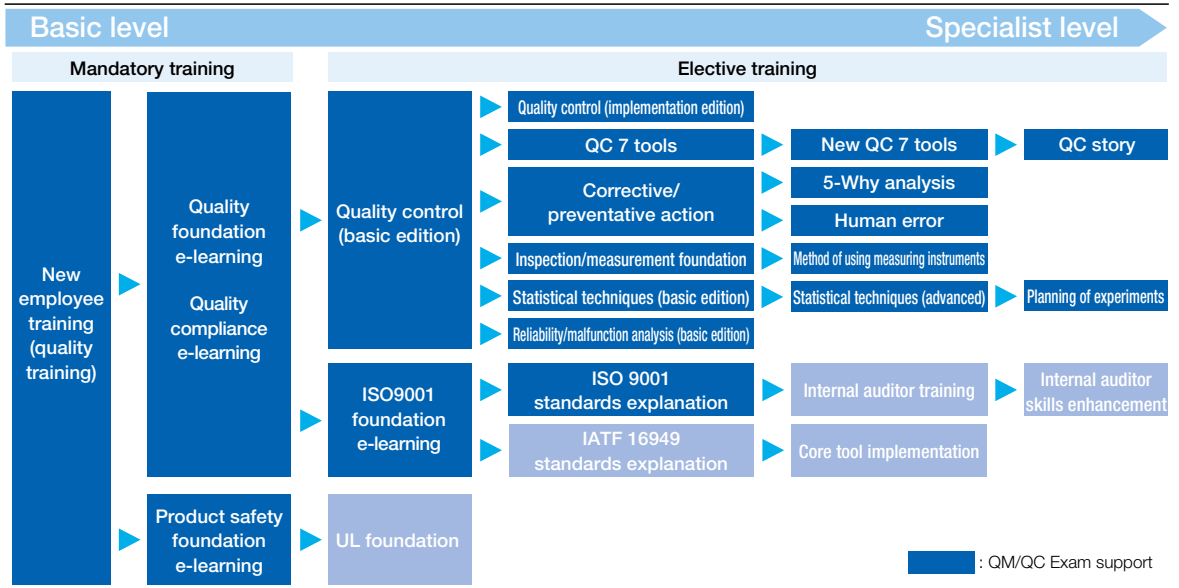
In order to prevent corporate scandals related to quality that have been an issue recently, Dexerials provides all employees training on compliance regarding quality and corporate ethics, which is the basis of correct decisions and actions.

In particular, young employees actively participate in various QC circle presentations held externally, factory tours, and lectures as places to train themselves. These are excellent opportunities to learn from the good initiatives of other companies, and we strive to enhance the level of our quality management.

Training follow-up system



Quality training road map



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.

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. We also conduct CSR survey to grasp the status of our suppliers' CSR initiatives, and by confirming the status of their efforts in areas such as human rights, labor, health and safety, and environment, we are working together to promote activities toward realization of a sustainable society.

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 carries out manufacturing based on the Management Standards for Environment-Related Substances.

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.

Procurement Risk Management

Dexerials is promoting a BCP initiative utilizing Dexerials Green Partner Program tools, in order to reduce procurement risks such as natural disasters. In fiscal 2019, we conducted a survey to 140 major suppliers to confirm the existence of a BCP plan. Based on the result, we will cross-check the database information of the Green Partner Certification Program and hazard map, and proceed with making BCPs with especially high-risk suppliers.

In addition, we have conducted an emergency digital survey to our suppliers regarding COVID-19 measures. We confirmed about not just supply prospects and internal initiatives, but also the need for hygiene control efforts between companies and mutual support. Furthermore, we have shared the results with the suppliers to utilize them for making initiatives at each company. In order to build a stable procurement system in the future, Dexerials is promoting a procurement risk management based on sincere communication, with consideration of various perspectives.

Summary of digital survey to suppliers regarding COVID-19

Survey sample



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

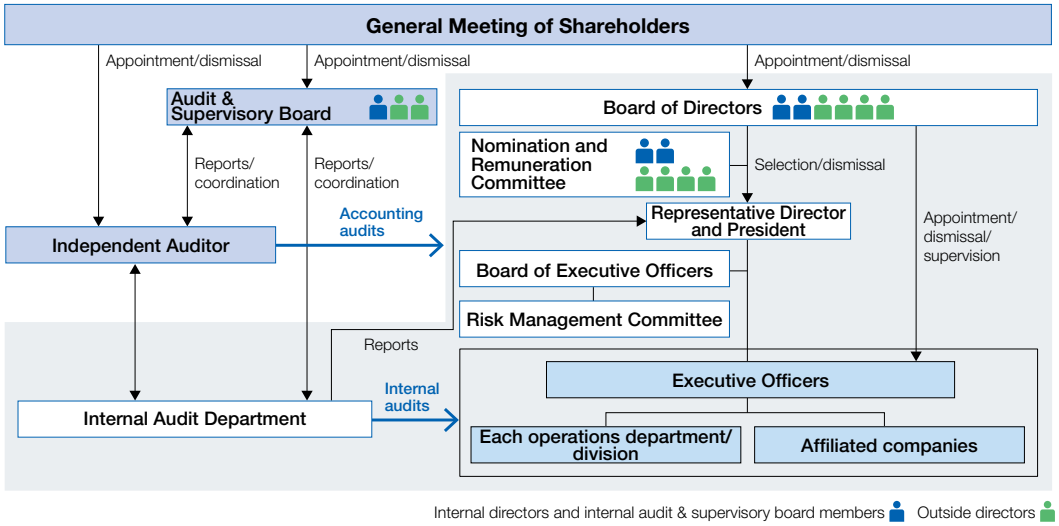
Dexerials' corporate philosophy is "Integrity—Have Integrity and Sincerity," and in accordance with this we recognize that in order to try and improve the corporate value, and to live up to the expectations and trust placed in us by all the stakeholders who support the corporate activities, the establishment 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, whereby ensuring transparency and objectivity of management. The decision-making process for officers' nomination and remuneration is handled by the Nomination and Remuneration Committee which was optionally established in 2019. The majority of the members and the committee chairman 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 2020, we reevaluated the management system and switched to a more compact system, which has accelerated decision-making and efforts to drive forward the monitoring model.

Dexerials' Corporate Governance Structure (As of December 2020)



Overview of Corporate Governance Structure

Type of organization	Company with an audit and supervisory board
Number of directors (of which outside directors)	6 (4)
Number of audit & supervisory board members (of which outside members)	3 (2)
Number of executive officers (also serving as directors)	6 (2)
Chairman of the Board of Directors	Yoshihisa Shinya, Representative Director and President
Chairman of the Board of Executive Officers	Yoshihisa Shinya, Representative Director and President
Chairman of the Nomination and Remuneration Committee	Masao Hirano, Outside Director
Directors' terms of office	1 year
Independent Auditor	PricewaterhouseCoopers Aarata LLC

Dexerials' Corporate Governance

Directors, Board of Directors, and Executive Officers

Dexerials' Board of Directors consists of six members: two internal directors and four independent outside directors. In principle, the Board of Directors conducts regular meetings once per month, where it decides legally mandated matters, formulates major management policies and strategies, selects candidates for officers, determines remuneration, and oversees execution of business. The independent outside directors each have extensive experience and knowledge as managers or experts in their field and are able to perform their supervisory functions from an independent perspective.

Audit & Supervisory Board Members and Audit & Supervisory Board

Dexerials adopts the company with an audit and supervisory board system. Consisting of one standing member and two independent outside members, Dexerials' audit & supervisory board ensures transparency and independence, and performs supervisory functions related to the management of the Company.

All audit & supervisory board members have considerable knowledge about finance and accounting.

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 of Board of Directors meetings.

Internal Audits and Audits by the Audit & Supervisory Board Members

The Internal Audit Department 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 Department periodically reviews the status of enhancements, and reports those details to the representative directors, the audit & supervisory board members, and any related departments.

The audit & supervisory board members exchange ideas with the representative director and president, attend important meetings, review important documents, inspect important assets, participate in department hearings, and investigate subsidiary companies, while at the same time coordinating with the Internal Audit Department and independent auditors to enhance the effectiveness and efficiency of audits.

The audit & supervisory board members and the Internal Audit Department hold monthly meetings to confirm the details of audits and exchange opinions.

Accounting Audits

For accounting audits, the Company has entered into 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 Nomination and Remuneration Committee. Selection of candidates for officers and determination of the remuneration are based on the discussions carried out by the committee.

All directors are the member of the Nomination and Remuneration Committee. The majority of the members, including the chairman, are independent outside directors, thereby ensuring objectivity and transparency.

The Nomination and Remuneration Committee met five times in fiscal 2019, 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 remuneration.

Nomination and Remuneration Committee Meetings in Fiscal 2019

Date	Matters deliberated on
July 2019	• Operation of the Nomination and Remuneration Committee • KPIs for determining officers' remuneration • Performance reviews related to determining officers' remuneration
October	• Operation of the Nomination and Remuneration Committee • Agenda items regarding the officer remuneration system
January 2020	• Management system for the next fiscal year
February	• Management system for the next fiscal year
March	• Management system for the next fiscal year

Evaluation of Effectiveness of the Board of Directors

1 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 2019, 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 2019 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.

2 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:

- Efforts will be made to deepen communications, etc.
- Future reevaluation of the composition of the Board of Directors to align the board with the Company's medium- to long-term management strategy
- Knowledge and understanding of the board and individual directors about the Company's fields of business

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

- Medium- to long-term management strategy, etc.
- Composition and organizational design of the Board of Directors and method for deciding nomination and remuneration based on the above discussions
- Improving communication (building less formal relationships) and sharing information

(2) Action plan for fiscal 2020

In light of the details specified in (1) above, the Company made the following decisions with regard to its action plan for fiscal 2020:

- Hold more in-depth discussions on the medium- to long-term management strategy, etc.
- Improve communications and share information
- Deliberate on the composition and organizational design of the Board of Directors and method for deciding nomination and remuneration

Details of questionnaire items and overview of opinions from interviews by third party

Category	Details	Overview of main opinions
Composition of the Board of Directors	• Number of directors, composition of personnel, balance of officers' expertise • Necessity of reevaluating composition of the Board of Directors • Directors' knowledge and understanding about the Company's fields of business	• It is necessary to maintain a majority of outside directors on the Board. • It is necessary to have people with high expertise in new business domains.
Operation of the Board of Directors	• Contents and volume of board meeting materials, and time to study them beforehand • 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	• It is necessary to have more in-depth discussions on ESG and SDGs initiatives. • It is necessary to discuss the direction for financial, capital, and shareholder return policies with a focus on growth strategy.
Corporate governance-related	• Deciding direction of management strategy • Understanding stakeholders' perspectives • Creating an environment that supports risk-taking • Sharing risk information • Effectiveness of supervisory function	• A direction should be formulated with a focus on where Dexerials wants to be as a company in the next 5-10 years, including its role in society. • Incentives such as remuneration should be designed to support risk-taking.
Evaluation of fiscal 2019 action plan	• Evaluation of effectiveness of fiscal 2019 action plan (Details of fiscal 2019 action plan) • Facilitation of Board of Directors operations that contribute to more substantial and open deliberation • Clarifying the nomination and remuneration decision-making processes and ensuring transparency • Deepening of communications	• Free, unrestricted discussions are held in board meetings. • Establishment of the Nomination and Remuneration Committee made the officer succession plan more clear. Strengthening ties between Nomination and Remuneration Committee members and audit & supervisory board members is an issue for the future. • It is necessary to further promote less formal communication between outside directors and executives.

Officers' Remuneration

Basic Approach

Remuneration of the Company's directors and audit & supervisory board members 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.

Also, remuneration for audit & supervisory board members is determined through deliberation of audit & supervisory board members, and only basic remuneration is provided.

Basic 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 basic remuneration is provided to outside directors and audit & supervisory board members.

The maximum amount of remuneration of directors was set to no more than 300 million yen annually by a February 27, 2013 resolution pursuant to Article 319, Paragraph 1 of the Companies Act. The maximum amount of remuneration of audit & supervisory board members was set to no more than 50 million yen annually by resolution adopted at the third Annual General Meeting of Shareholders held on May 27, 2015.

Performance-linked remuneration

Performance-linked remuneration comprises "performance remuneration," which is paid according to performance during the fiscal year, and "stock 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 remuneration 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 remuneration" is set based on consolidated net sales, consolidated operating income, and ROE, management indicators that are emphasized by the Company and are used as evaluation indicators for all officers, as well as the degree of achievement of individual commitments as an evaluation indicator with regard to executive directors other than the representative director and president. Performance remuneration is calculated based on the following formula: 40% consolidated net sales, 40% consolidated operating income, and 20% ROE.

"Stock compensation" is set separately from basic remuneration for the purpose of increasing awareness of contributions to medium to long-term continuous improvements in results and increases in corporate value. Specifically, capital is contributed to a trust every three years for acquisition of the shares necessary for provision to directors (the maximum amount of the contribution in each fiscal year is the amount necessary to acquire 45,000 ordinary shares of the Company's stock), and thereafter, eligible directors are granted points according to consolidated net sales, consolidated operating income, ROE, and other indicators in the same manner as described above for performance remuneration. Each point granted can be converted into one share of the Company's ordinary stock, and at the time of separation from the Company, eligible directors are granted shares of the Company's stock 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 remuneration system, and evaluation of performance, etc.

The remuneration of individual directors shall be discussed by the Nomination and Remuneration Committee and shall be determined at the discretion of the representative director and president at a Board of Directors meeting, within the range of remuneration determined by a resolution of the General Meeting of Shareholders in advance. Furthermore, said discretionary determination by the representative director and president shall be based on the results of the discussion of the Nomination and Remuneration Committee.

The remuneration of individual audit & supervisory board members shall be determined through consultation between audit & supervisory board 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
	Basic remuneration	Performance-linked remuneration		
		Performance remuneration	Stock compensation	
Representative director	50%	30%	20%	100%
Directors (excluding outside directors)	60%	25%	15%	
Outside directors	100%	—	—	

Amount of Officers' Remuneration in Fiscal 2019

Officer classification	Total amount of remuneration, etc. (millions of yen)	Total amount of remuneration, etc. by type (millions of yen)			Number of subject officers (people)
		Basic remuneration	Performance-linked remuneration		
			Performance remuneration	Stock compensation	
Directors	147	96	35	16	11
Audit & supervisory board members	27	27	—	—	5
Total	175	124	35	16	16
(of which outside officers)	48	48	—	—	10

Directors and Audit & Supervisory Board Members (As of December 2020)

Directors

Representative Director and President, President and Executive Officer
Overall management and business

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)

Reasons for appointment

Mr. Yoshihisa Shinya is playing a central role in product development and commercialization 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.

Representative Director and Senior Managing Executive Officer
Overall management and administration, in charge of internal audit

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. He is well versed in the Company's overall management through involvement in the Company's auditing in the course of his service as a Standing Audit & Supervisory Board Member. 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



Masao Hirano

Apr.	1980	Joined JGC Corporation
Nov.	1987	Joined McKinsey & Company, Inc.
Jul.	1993	Partner, McKinsey & Company, Inc.
Jul.	1998	Managing Director of McKinsey Japan
Nov.	2007	Managing Director and Co-Head of Japan Buyout, Carlisle Japan, LLC
Jan.	2012	President & Representative Director, m&i Co., Ltd. (to present)
Apr.	2012	Professor, Faculty of Commerce, Waseda University (to present)
Mar.	2014	Outside Director, Broadleaf Co., Ltd.
May	2015	Outside Director, the Company (to present)
Aug.	2016	Outside Director, LOCONDO, Inc.
Jun.	2017	Outside Director, LITALICO Inc. (to present)
Mar.	2019	External Director, Uzabase, Inc. (to present)
Aug.	2019	Chairman, Spiral Capital, Inc. (to present)

Mr. Masao Hirano has deep insight about corporate management as a university professor and management consultant. The Company judges that he can provide useful advice for the Company's management from an objective and professional perspective and therefore appointed him Outside Director.

Outside Director

Independent Officer

Nomination and Remuneration Committee Member



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

Reasons for appointment

Having held important posts at a listed company, Mr. Takashi Yokokura 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 of the Company's technology development and business development, and therefore appointed him Outside Director.

Outside Director

Independent Officer

Nomination and Remuneration Committee Member



Takao Tsuji

Apr.	1973	Joined Nissho Iwai Corporation (current Sojitz Corporation), Tokyo Head Office
Jun.	1999	Director, NISSHO ELECTRONICS CORPORATION
Mar.	2000	Director, FUSION COMMUNICATIONS CORPORATION (Part-time)
Jun.	2001	Managing Director, NISSHO ELECTRONICS CORPORATION
Jun.	2002	President and Representative Director, NISSHO ELECTRONICS CORPORATION
Jun.	2009	Chairman of the Board of Directors, NISSHO ELECTRONICS CORPORATION
Jun.	2013	External Director, JVCKENWOOD Corporation
May	2014	President, Representative Director of the Board, Chief Operating Officer (COO), Chief Risk Officer (CRO), Chief Innovation Officer (CIO), JVCKENWOOD Corporation
Jun.	2016	President, Representative Director of the Board, Chief Executive Officer (CEO), JVCKENWOOD Corporation
Apr.	2018	Representative Director of the Board, Chairman & Chief Executive Officer (CEO), Chief Export Control Officer, JVCKENWOOD Corporation
Apr.	2019	Representative Director of the Board, Chairman, JVCKENWOOD Corporation (to present)
Jun.	2019	Outside Director, the Company (to present)

Mr. Takao Tsuji has a wealth of experience about corporate management as a corporate manager of a listed company and specialized knowledge as an engineer. The Company judges that he can provide useful advice for the Company's management from an objective and professional perspective and contribute to the Company's product development and business development in new fields, and therefore appointed him Outside Director.

Outside Director

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
Jun.	2007	Joined Jones Day, Partner
May	2015	Outside Audit & Supervisory Board Member, the Company (to present)
Jan.	2016	Partner, Ota & Sato (to present)
Jun.	2018	Outside Director, CMK CORPORATION (to present)
Jun.	2019	Outside Director, the Company (to present)
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)

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 & Supervisory Board Member. The Company judges that she can provide useful advice and suggestions that contribute to strengthening of the functions for supervision of the Company's business execution, and therefore appointed her Outside Director.

Audit & Supervisory Board Members

Audit & Supervisory Board Member (Standing)



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 (to present)

Reasons for appointment

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 Audit & Supervisory Board Member.

Outside Audit & Supervisory Board Member

Independent Officer



John C. Roebuck

Nov. 1975 Registered as attorney-at-law (District of Columbia)
Nov. 1975 Associate Attorney, Arnold & Porter
Sep. 1976 Foreign Lawyer, Nagashima & Ohno
Jan. 1980 Associate Attorney, Coudert Brothers LLP
Jan. 1982 Foreign Lawyer, Tanaka & Takahashi
Sep. 1985 Partner, Mayer, Brown & Platt
Jul. 1995 Partner, Jones Day
Apr. 2003 General Counsel, IBM Japan, Ltd.
Jan. 2016 Of Counsel, Jones Day
Jun. 2019 Outside Audit & Supervisory Board Member, the Company (to present)

Reasons for appointment

Mr. John C. Roebuck has specialized knowledge about international financial legal affairs and a wealth of experience and insight about management of global companies as a registered foreign lawyer. The Company judges that he is capable of performing appropriate auditing from an objective and professional perspective and therefore appointed him Outside Audit & Supervisory Board Member.

Outside Audit & Supervisory Board Member

Independent Officer



Toshifumi Takada

Apr. 1997 Professor, Faculty of Economics, Tohoku University
Apr. 1999 Professor, Graduate School of Economics and Management, Tohoku University
Apr. 2005 Executive Vice President, Tohoku University
Apr. 2007 Professor (Economics and Management), Tohoku University
May 2015 Outside Audit & Supervisory Board Member, the Company (to present)
Apr. 2018 Professor Emeritus, Tohoku University (to present)
Aug. 2018 Professor, National Chung Cheng University (to present)

Mr. Toshifumi Takada has deep insight about accounting and the audit system as a university professor. The Company judges that he is capable of performing appropriate auditing from an objective and professional perspective and therefore appointed him Outside Audit & Supervisory Board Member.

Executive Officers

Yoshihisa Shinya

President and Executive Officer
Overall management and business

Toshiya Satake

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

Naoyuki Sanada

Senior Executive Officer
CFO (Chief Financial Officer), Corporate Planning & Control Division Head, Company Process Innovator

Takashi Yoshida

Executive Officer
Optical Solutions Business Unit Head

Kozaburo Hayashi

Executive Officer
Connecting Materials Business Unit Head

Yuji Kakiuchi

Executive Officer
Global Sales & Marketing Division Head

Dexerials' Governance from the Perspective of Outside Directors

In this section, Dexerials representative director Toshiya Satake talks about Dexerials' governance with Masao Hirano, who has served as an outside director since June 2015, and Rika Sato, who has served as an outside director since June 2019 after serving as an outside audit and supervisory board member since June 2015.



Representative Director and Senior Managing Executive Officer
Nomination and Remuneration Committee Member

Toshiya Satake



Outside Director
Nomination and Remuneration Committee Chairman

Masao Hirano



Outside Director
Nomination and Remuneration Committee Member

Rika Sato

Satake **What is your assessment of the governance structure that has been in place since Dexerials became a listed company in 2015, in which the majority of the Board of Directors are outside officers?**

Hirano Since the beginning of 2015, Dexerials has worked ambitiously to incorporate outside perspectives in management. I think that a relationship of trust has been fostered between internal and outside officers while maintaining a healthy sense of urgency, and the Company has demonstrated sound governance.

Sato I give it a high assessment. While there may have been concern that it could become an unstable element in the operation of the Board of Directors and there are not many Japanese companies with a majority of outside directors, the Dexerials' board has operated without problems based on a relationship of trust between officers. It demonstrates the strong commitment each member of the Board of Directors and Audit and Supervisory Board has for creating a cohesive board of directors.

Satake **What do you think about the evaluation of effectiveness of the Board of Directors? Every year the Board of Directors formulates an action plan to work on issues based on reviews, including self-evaluations, and interviews conducted by a third party. I would like to hear your opinion about the process.**

Hirano I think it is a good example of governance that embodies Dexerials' corporate philosophy of "Integrity." I give it a high assessment as it is an earnest, attentive, and honest process that has improved the quality of governance.

Sato I give it a high evaluation. The board works earnestly on action plans while making an effort to provide in-depth, multi-faceted feedback you cannot get from questionnaire forms and collected data. I am also thankful that governance is fully recognized as a key initiative.

Satake **This year many Board of Directors meetings were conducted online due to the COVID-19 pandemic. I would like to hear your honest opinion about this.**

Hirano Considerable care was taken to ensure that online meetings would have the same quality as in-person ones. Thorough preparations were made before each meeting, including checking internet connections and distributing materials in advance, and at the actual meetings the chairperson was attentive to participants—by confirming what they thought, for example—to ensure that quality was maintained. I gave feedback and asked questions online in the same way as in in-person meetings, so I do not feel that holding meetings online have hurt the quality of discussions.

Sato I agree. I was thoroughly satisfied with the preparations, how the meeting was run, and so on. It was also fortunate that, partly due to the fact that there were no new members, a mutual relationship of trust had been built between the board members. The meeting format was switched to an in-person and online hybrid format midway through the period, but in terms of quality of communication, I did feel that in-person meetings were easier.



Satake **What is your assessment of the revision of the executive structure accompanying the structural reforms carried out this October?**

Sato In some cases, changing the head of the company or implementing structural reforms creates considerable friction in the organization, and the energy spent on getting things under control weakens the management system. But at Dexerials the transition from the previous president and the recent structural reforms went extremely smoothly and seamlessly, and I can feel the enthusiasm of those who have taken on new rolls to work hard. I can feel the potential of the Company to progress further while incorporating new people and ideas.

Hirano I am very impressed with the management ability of the current management team. It has quickly driven management reforms such as revamping and invigorating the management system, including

restructuring and consolidating businesses, implementing structural reforms, and hiring external business leaders; the results of which can be seen in Dexerials' performance. An earnest, meticulous, and honest corporate culture is in the core of Dexerials as a virtue, and I expect that this virtue is maintained and the energy and dynamism to move things forward are produced with identity and positiveness, through open discussion with those on the front lines instead of a top-down approach.

Satake **What is your assessment of the operation of the Board of Directors?**

Hirano It has been improving little by little for the last five years, and we have been able to have solid discussions on agenda items that need to be discussed without being constrained by the scheduled time. In governance, substance is more important than form. Important matters in the agenda are explained to us individually beforehand, giving us a better sense of Dexerials' circumstances, such as performance and outlook, than before. If we continue to receive information about what is happening on the front lines and in operations, employee engagement surveys, and so on, we will be able to raise questions and point out problems more accurately.

Sato I can see that changes have been made in how the board operates: we have been able to have more focused discussions concentrating on what needs to be discussed, and the atmosphere makes it easy to exchange opinions and have in-depth and substantial discussions. I think provision of information has been exemplary. The discussion materials distributed in advance and the briefings before the meetings are very thorough.

Satake **What do you think about diversity in the Board of Directors?**

Sato With regard to women's participation in management, previously there were two women including me and now I am the only one, but now that Mr. Roebuck is on board as an audit & supervisory board member, diversity has increased in terms of nationality. The Company has challenges in and has potential for global growth, so from that perspective, expanding diversity is important for the entire Company, not only for officers.

Hirano Besides demographic diversity, having employees with different backgrounds is also a kind of diversity, so I think that always needs to be kept in mind when selecting people.

Satake **Through the Dexerials Business Leadership Program we are currently running, I would like to think about how to create a management team which can operate in collaboration with members of management who are women and from other countries. Next, I would like to talk about the Nomination and Remuneration Committee, which we established last year. In the process of discussing the succession plan, the committee has deliberated on KPIs for defining requirements for the president and determining remuneration for directors over the last two years under the leadership of chairman Masao Hirano. Looking back on this, I would like to you to provide some comments.**



Sato The method of nomination and remuneration is a source for growth that promotes the morale of not only top management but the entire company as it ensures fair evaluations. We carried out detailed and substantial deliberations while making use of external organizations, and I think that ensuring transparency and objectivity in committee discussions is an important effort that will lead to Dexerials' further development.

Hirano The Nomination and Remuneration Committee deliberated on matters such as objectively evaluating people who are potential candidates for successors and benchmarking remuneration levels, and when something could not be fully addressed in discussions within the committee, we utilized an external specialized organization. The results of this can be seen in the installation of the new president. As the right person was selected for the role, I experienced first-hand the importance of a succession plan. Right now, I want the current president to demonstrate strong leadership and take command of Dexerials, but training business leaders is a crucial task that underpins the core of a company and we will continue to objectively evaluate people from a global perspective, leveraging external specialists. In terms of the remuneration system, since people will continue to be

recruited from outside the Company, we carry out discussions to maintain a remuneration system that is on par with global standards and reward those who demonstrate outstanding abilities and bring results. Developing business leaders is essential for increasing a company's capabilities, so I believe it is important for the Nomination and Remuneration Committee to not only discuss the succession of the president, but also deliberate on continuously developing leaders and enriching the leadership pool.

Satake **I can see that the committee is carrying out thorough discussions about nomination, remuneration, and business leader development, which are difficult to have substantial discussions on at Board of Directors' meetings. Next, I would like to hear your thoughts on the role expected of outside directors.**

Hirano Our fundamental role is as a supervisor on behalf of the shareholders, but it is also important to keep in mind interest and the position of not only shareholders but all stakeholders including customers, suppliers, and employees, and verify whether management decision-making is sound and contributes to improving corporate value, while maintaining distance from the execution of business.

Sato Our role is to ensure the soundness of decisions made in the Company's resolution process, considering both the pros and cons. Also, bringing in outside officers makes it easier to have open discussions when passing resolutions, which results in contributing to ensuring further transparency and objectivity in discussions. I have heard cases in other companies of relations with executives deteriorating due to outside officers becoming too involved in management, so I do see the difficulty of the position expected of outside officers.

Hirano It is important to have both a sense of urgency and trust: in other words, to have a relationship of trust with executives, one where people listen attentively and speak frankly to each other; and a sense of urgency stemming from having someone outside the Company being able to raise questions and express opinions from the standpoint of external stakeholders. I think both are needed.

Satake **Could you give some advice for further improving Dexerials' governance and a message for our stakeholders?**

Hirano I think that Dexerials' governance has steadily and qualitatively improved in terms of ensuring that it has not only form, but substance. One crucial factor in ensuring substance is to appropriately share important issues with outside officers; another is for outside officers to think from the perspective of both the management and those on the front lines, and commit to improving the value of the Company. Dexerials has an ingrained honest and earnest corporate culture it refers to as "Integrity," and is working to instill vitality and ambition for growth under its current management structure based on that virtue. I believe the results of this will be demonstrated in the Company's performance, and stakeholders have great things to look forward to. And I am committed to creating the next Dexerials with its employees and management.

Sato The current management team has made many efforts, carried out numerous deliberations, and brought about various innovations to improve governance. I expect their continued initiatives, but I think that considering the system of communication will



be important in ensuring the continuity of those initiatives. Communication efforts are needed to build a relationship of trust. Dexerials' corporate philosophy of "Integrity" is a very important principle for employees to return to when they are unsure of what the right decision is, and I hope Dexerials continues to value this as a constant and core principle of the Company. Dexerials has already produced a variety of innovations, but a big part of the ability to produce new ideas and things comes from "play" and "potential," so I hope that the Company emphasizes this as well. I will continue to contribute as an outside officer to the maintenance and development of an environment that preserves governance, including compliance, in order to ensure that Dexerials achieves sound and well-balanced growth, and I look forward to the continued support of the stakeholders.



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 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," 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. In 2019, it was partially revised 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 the Group's 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, import and export compliance, information security, management of personal information, and prevention of harassment.

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, the relevant officers, and the standing audit & supervisory board members are notified. Then, the Risk Management Committee and the Board of Executive Officers will deliberate on measures necessary for correction and for prevention of recurrence.

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 through a variety of channels, such as IR information on 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

In June 2020, we held the 8th Annual General Meeting of Shareholders. In order to prevent the spread of COVID-19, we asked individual shareholders to exercise their voting rights in writing or 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, and posted relevant material on our website in advance. At the venue of the General Meeting of Shareholders, we made sure there was plenty of space between people and placed alcohol sanitizer inside and outside the venue. We also took a variety of measures to prevent the spread of infection and ensure the proceedings ran smoothly, efficiently, and safely, such as asking shareholders attending the meeting to allow their temperature to be taken before entering the reception area, and requiring employees and shareholder meeting staff to wear masks.

IR Activities

The status of fiscal 2019 investor relations activities is as follows. Due to the spread of COVID-19, we have moved all interviews with institutional investors and analysts as well as briefings in physical venues online (i.e., website and telephone conferences) as a general rule, to prioritize 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 Japanese and non-Japanese institutional investors	163 times	• Conducted most individual interviews and telephone conferences online
Briefings for institutional investors and analysts	6 times	• Earnings briefings (4 times) • Small meetings for analysts and ESG briefings 
Briefings for individual investors	4 times	• Held briefings at IR events and investment seminars organized by institutional investors, and streamed online briefings for the first time, with a total of 2,657 individual investors participating
Posting IR materials on the Dexerials website	As necessary	 • 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&APosted corporate briefings, product introductions, shareholder questionnaire survey results, and “Who We Are” and “Business Model” on our website and smartphone site as contents for individual investors



Compliance with Environmental Laws and Regulations

In fiscal 2019, there were no items whose measured values exceeded the standard values at any of our sites. See the Dexerials website for the data on each item.

https://www.dexerials.jp/en/csr/envi/law.html

The Dexerials Group also ascertains the results of release and transfer volumes of chemical substances based on the PRTR Law, and reports the total amounts for each year. See the Dexerials website for the data on each substance.

https://www.dexerials.jp/en/csr/envi/chemical.html

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 has established the Chemical Substance Management Committee as well as systems to ensure thorough and integrated management of chemical substances used in the Company. This serves to ensure compliance of products concerning chemical substances, and enables to continue providing safe and secure products to our customers into the future and to protect the environment at sites.

As well as managing the use of chemical substances in the Company's business activities, the Committee checks and deals 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.

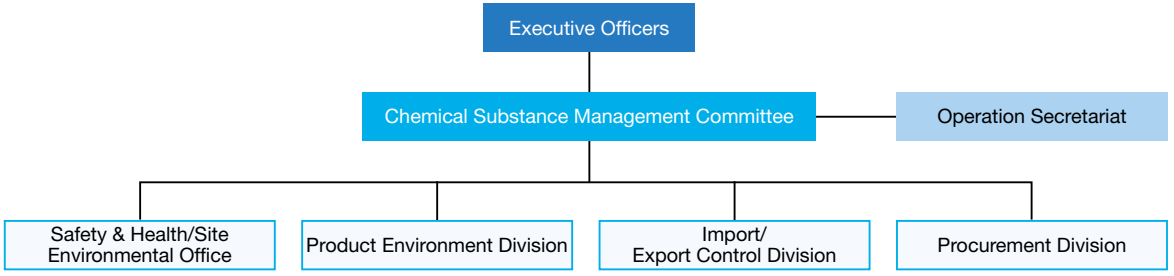
Compliance with Laws and Regulations on Chemical Substances

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. The relevant laws of Japan include the Act on the Regulation of Manufacture and Evaluation of Chemical Substances and the Industrial Safety and Health Act and those of overseas jurisdictions include the REACH Regulation*1 of the European Union, K-REACH*2 of South Korea, TSCA*3 of the US, and the new regulatory frameworks for chemical substance management of China and Taiwan.

Owing to such management systems, in fiscal 2019 the Dexerials Group had no compliance violations concerning chemical substance management.

*1 REACH Regulation: Abbreviation of Registration, Evaluation, Authorization and Restriction of Chemicals.
*2 K-REACH: Act on the Registration and Evaluation of Chemicals of South Korea
*3 TSCA of the US: Toxic Substances Control Act of the US

Chemical Substance Management Committee Organization



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 categorization results*4.

Meanwhile, with regard to chemical substances used in our products we have established level classifications (usage restriction standards) based on the European RoHS Directive*5, and conduct additional surveys when confirming non-inclusion or newly designating substances under the regulations.

*4 GHS Classification: GHS stands for 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 hazard.
*5 RoHS Directive: The Restriction of the use of certain Hazardous Substances in electrical and electronic equipment

Internal Management Flow for Chemical Substances

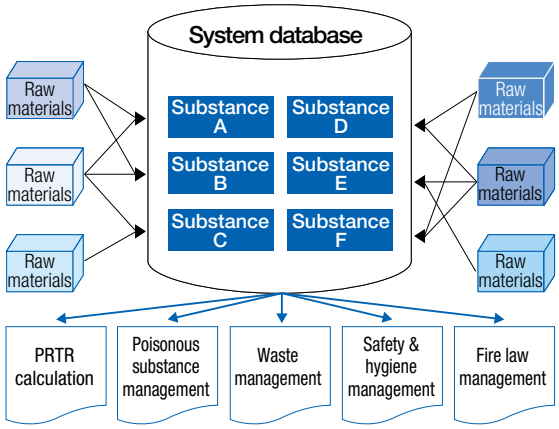
New substance introduced	Procurement	Development	Production	Transportation and sale
• Classification (Safety/Environment) • Risk assessment (Safety) • Legal check (Safety) • Confirm worksites to be introduced (Storage)	• Register as Green Partner • Check against REACH Regulation • Check against RoHS Directive • Check against Act on the Regulation of Manufacture and Evaluation of Chemical Substances of Japan	• Check against regulations set by customers • Non-inclusion analysis • Check against regulations of the export destination countries • Risk evaluation for use in production process	• Health management of substance handlers • Measurement of substance levels in work environment • Selection of appropriate protective equipment • Safety training for substance handlers	• Provision of safety data sheet (SDS) • Display of safety-related information on product labels • Issue of yellow card at time of product shipment

Comprehensive Management System for Chemical Substances

The Dexerials Group has introduced a management system whereby raw materials and chemicals/reagents in wide use by development divisions that are purchased are managed on a single system. Under this system, 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.

Comprehensive 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 the handling of chemical substances is given to employees from the time they join the Company, and there is an internal curriculum that is implemented, including post-employment OJT and special education for specific materials.

The company also recommends the acquisition of qualifications for handling materials, and all employees in the manufacturing and R&D departments have the necessary qualifications for handling hazardous materials.

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.

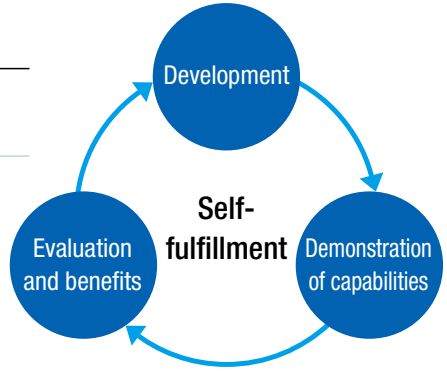
Basic Approach to Human Resource Development and Initiatives

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 Have Integrity and Sincerity
Corporate Vision	Value Matters 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**



Workplace: Dexerials

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 to 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.

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 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.

Training for Managers

In order to use evaluation as a tool for personal development and to promote the growth of each and every employee, it is essential that the Company's personnel evaluation systems are operated properly. Evaluator training is compulsory for all line managers tasked with evaluating their subordinates, and is designed to ensure managers recognize anew that fostering subordinates is one of their most important tasks. We are also strengthening support for personal development of employees at workplaces.

Training for New Employees and Training Three Years after Joining the Company

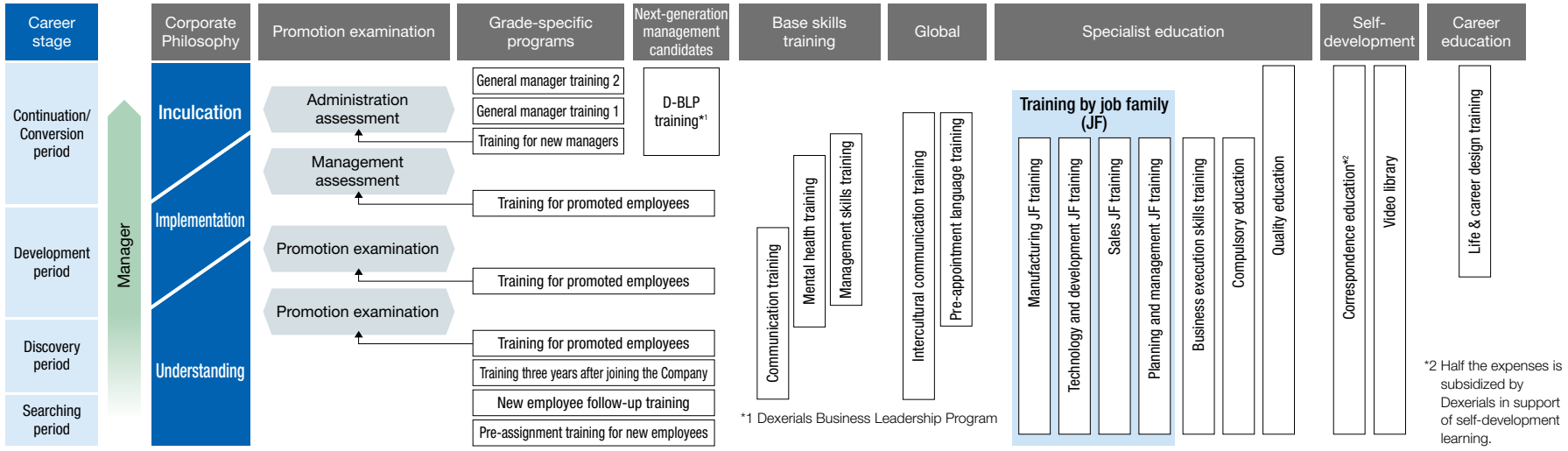
We provide integrated training bearing in mind that the first three years with the company is an important period for constructing the individual's foundation as employees capable of "learning for themselves, thinking for themselves, and acting for themselves."

Programs for employees in their first year are wide ranging, covering business manners, compliance, our product, and social contribution activities. In addition, we offer opportunities for new employees to develop their initiative, which provides 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.

Education and training 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 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 introduced the D-BLP* next-generation management candidate development program from fiscal 2019. This program provides selected members 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 begin expanding this program to sites outside Japan from fiscal 2020 with the aim to enhancing our global management capabilities.

We are working together with management to enhance leadership development measures that are in tune with the business environment and related Company strategies, as well as striving to build a pipeline to systematically develop next-generation management and leadership personnel.

*Dexerials Business Leadership Program



Next-generation management candidate development program training

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 also provide all mangers with remote work management training to ensure they can soundly manage and develop their employees while improving productivity, even under a remote work environment.

Strengthening of Diversity Communication

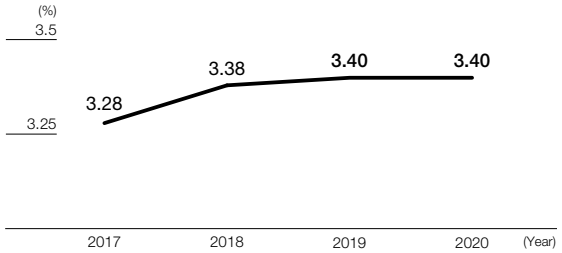
In order to ensure that employees with diverse backgrounds are able to use their capabilities to their full potential, we believe it is important to consider each of our members' individuality and bring out their strengths accordingly. We provide intercultural communication training for employees whose 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. We are working to improve our performance as an organization by developing communication skills that serve to draw out the abilities of our diverse employees to their maximum potential.

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 disaster 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.

Employment rate of people with disabilities



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 24 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 3.4%.

Diversity: Diverse Workstyles and Work-Life Balance

Basic Approach

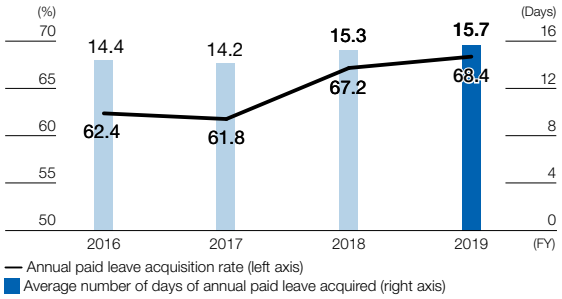
In order to achieve sustainable growth far into the future, it is becoming increasingly important to realize workstyles according to the values and circumstances of each of our employees. We aim to create an environment where individuals can realize the workstyles most suitable for them, feel a sense 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, childcare, fertility treatment, etc. In fiscal 2019, the average number of days of annual paid leave acquired was 15.7 days and the average acquisition rate was 68.4%.

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



Remote Work

We initially began implementing remote work in January 2020, primarily at our Tokyo headquarters, as a new way of working in response to anticipated commuting difficulties during the Tokyo Olympic and Paralympic Games. On the other hand, the outbreak of the COVID-19 pandemic in Japan since March 2020 provided the impetus to promote utilization of remote work in earnest.

As of March 31, 2020, 81.9% of our employees are utilizing our remote work program.

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. There were 46 users of child-rearing support leave in fiscal 2019 (0 women, 46 men), 18 users of childcare temporary leave (17 women, 1 man) and 28 users of shorter working hours for childcare (26 women, 2 men).

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 the “Kurumin award” as a company that supports child-rearing from the Ministry of Health, Labour and Welfare, and we have also 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:

http://www.pref.tochigi.lg.jp/f06/work/koyou/roudou/dexerials2.html

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 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, so that employees can fully demonstrate their talents even when they are facing problems.

Expansion of Systems to Support Balance Between Work and Home Needs

In addition to our various systems designed to support a balance between work and other duties such as childcare and nursing care, in April 2020, we introduced a system that allows paid leave to be taken in hourly units. This serves as a complement to our existing systems that enables each employee to work in a way that better suits their lifestyles. Under this system, up to five days of annual paid leave per year may be taken on in hourly units.

Initiatives for Health and Productivity Management

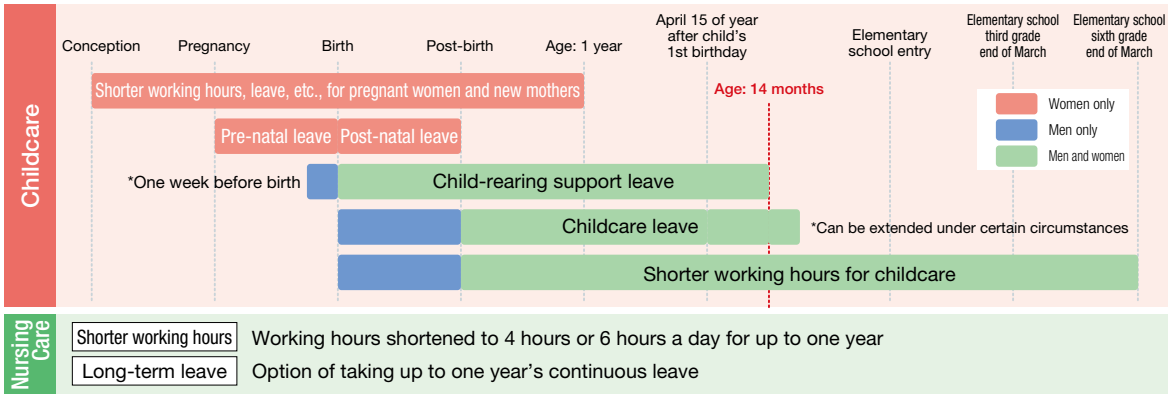
Declaration of Health and Productivity Management

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.

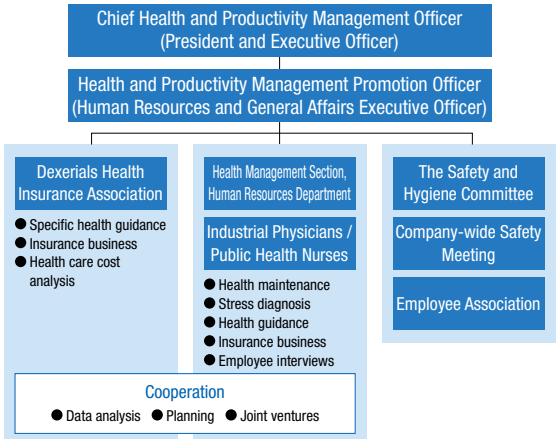
Main systems to support employees combining work with childcare or nursing care



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 Society, and the Human Resources and General Affairs divisions to maintain and promote employee health.

The survey of employees' awareness about improvement of lifestyles conducted for all employees each year revealed that in fiscal 2019 73.6% of our employees were "not interested" in health or "interested but not doing anything" to promote health. This result represented an improvement of 1.4 percentage points from the previous fiscal year. The first step in health promotion is increasing awareness, and focusing on this point we have continued to hold health promotion events, study sessions, and e-learning at each of our business sites in Japan. In fiscal 2019, a total of 2,470 employees participated in these events. The total number of employees who had participated in such programs increased by 1,493 from the previous fiscal year, showing that health awareness among employees is gradually increasing.

Sleep Improvement Seminar

Sleep significantly contributes to employees' health and work performance. As such, in fiscal 2019 we held a Sleep Improvement Seminar, in which 135 employees participated.

Post-seminar survey results showed that the program had given participants a helpful start in improving their sleeping habits, with 93% responding that they are satisfied with the seminar, and 97% answering that the seminar had equipped them with practical advice they could use to improve their own sleep.

Dexerials Walk and Pre-check-up Challenge

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

In November of fiscal 2019, we held a month-long Dexerials Walk event, which featured a team competition. 184 employees in 46 teams participated in the event, enjoying not only walking but also the opportunity to communicate.

In April 2020 we held a one-month campaign called “Pre-check-up Challenge” in order to enable employees and their family members to review their nutrition and exercise habits prior to physical examinations or medical check-ups and prepare by improving their condition. 319 employees and their insured family members participated. In this way, Dexerials is working to promote the health of both employees and their family members.

Lunchtime Events

Lunchtime health measurement events such as blood vessel aging checkups were held three times at the Tochigi Technology Center in fiscal 2019, with a total of 219 employees participating. These events serve as a fun opportunity for employees to work on lifestyle improvement by ascertaining their own physical condition, and becoming aware of how they can select the right foods for their needs from the cafeteria menu.



Lunchtime event

Emphasis on Mental Health: from Stress Checks to Improvement

As mental health countermeasures are becoming increasingly important, we are implementing meticulous measures including self-care, daily care by line managers, and counselling by industrial healthcare staff as countermeasures for employees’ mental health and initiatives for improving the workplace environment.

Dexerials introduced stress checks in fiscal 2017. The total risk points of Dexerials were below the national average for three years running. We emphasize countermeasures for workplaces where issues were identified and Human Resources and industrial healthcare staff and superiors of the workplaces in question collaborate in formulating and implementing countermeasures, and monitor change as part of a PDCA cycle.

In fiscal 2018 we began mental health training for managers who play a vital role in line care and the participation rate has exceeded 90% each year. From fiscal 2019, we have conducted e-learning for all employees as a measure to promote self-care, with a 95% participation rate.

Moreover, considering that mental health management and early detection of unwellness are essential not only for managers but also for workplace leaders, Dexerials added a mental health management examination (Type II line care course) to requirements for promotion of middle-rank employees from fiscal 2019. 311 employees sat the exam during the year - the sixth highest number of examinees nationwide in the large corporation category of the Mental Health Management Examination operated by the Osaka Chamber of Commerce and Industry. We continue to promote organizational and systematic initiatives for employees’ mental health in order to fulfill social responsibility, vitalize human resources and maintain and enhance labor productivity.

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.

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 Employee Association consists of the employee representatives of each site and meets quarterly with Dexerials’ management team, including the executive officer in charge of personnel affairs. At the meetings, the management team 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 holds a photo contest involving all employees. 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

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 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

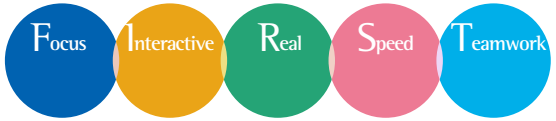
The Dexerials Group promotes Safety FIRST initiatives, as well as initiatives to improve the climate of safety in work sites in all business domains and to prevent serious accidents, which leads to reduced risk and accidents and stable business continuation.

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.

The FIRST Concept

With regard to equipment and operations, each and every team member is aware of:



We work to eliminate workplace accidents and fires and explosions.

Occurrence of Workplace Accidents

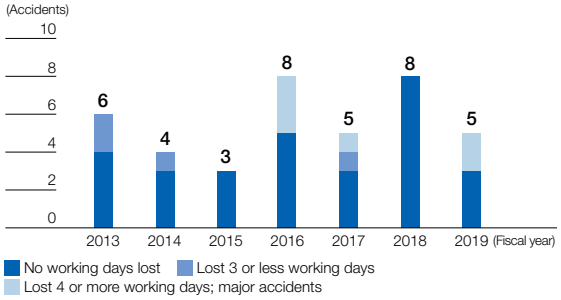
In fiscal 2019, five workplace accidents occurred in the Dexerials Group. The accidents were due to human error, not issues with equipment or safety management. Although the overall number of workplace accidents was lower than in fiscal 2018, there were some accidents that resulted in loss of work time.

We take the fact that loss of work time occurred very seriously and have made improvements to our risk management processes accordingly. Our risk assessment results indicated that although introducing hazard countermeasures reduces the number of hazard points, employee awareness of the degree of risk involved may also decline (fade). To address this concern, we introduced a system that clearly visualizes hazard points both before and after countermeasures.

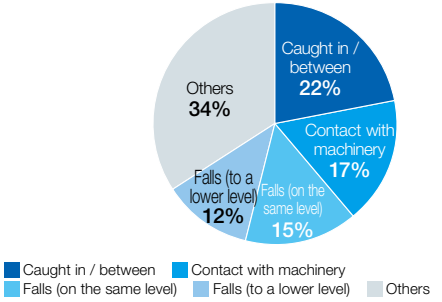
We conduct investigations, analyses and improvements with regard to accidents that occur at the Company as minor mistakes and near misses may lead to major accidents (Heinrich’s law), and then we share the information throughout the Company to prevent reoccurrence.

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.

Occurrence of workplace accidents



Workplace accidents by cause (Total: FY2013 - FY2019)



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.

Also, at the Kanuma Plant, we have established a safety workshop where employees can experience various simulated dangers to increase their awareness and sensitivity regarding safety. We are currently preparing a similar facility at the Tochigi Technology Center to launch in 2021 so that a wide range of people, including those from outside the Company, can experience safety simulations firsthand.

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 2019, we implemented further in-depth risk improvement measures by improving our risk assessment evaluation systems in order to identify risks that are managed through “soft” factors such as education and the establishment of rules, whereby linking them to initiatives to enhance workplace safety.



Experiential learning at a safety workshop

We place a particular focus on identifying risks associated with equipment, which are regarded 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 required for work.

The Group has established a Business Continuity Plan (BCP) for the minimization of damage during emergencies and the return to production activities through prompt restoration 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 and distribution and sales, and support functions such as employee safety checks, and internal and external intelligence gathering. A restoration manual has been prepared based on expected responses and actions.

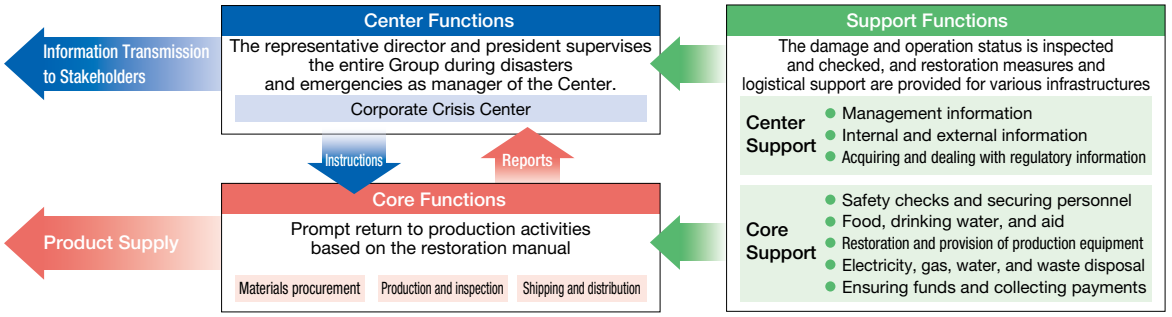
As the COVID-19 pandemic began to emerge, we established a task force at the end of January 2020, soon after the outbreak, and quickly launched company-wide countermeasures. Implementing thorough infection prevention measures at all of our offices, including those outside Japan, ensured that we were able to maintain a stable supply of 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.

As part of the infection prevention measures within the Company, we have established systems through which the procurement of masks, partitions, and other infection prevention supplies can be shared among our sites in and outside Japan, ensuring that all our employees have the means to prevent the spread of infection on an ongoing basis.

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

Business continuity planning (BCP) organizational structure and functional roles





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. On the Ashio Spring Planting Days in April 2019, 33 Dexerials employees and their family members participated in the event. In November 2019, 42 employees participated in tree planting activities as part of the training for new employees.



New employee training at Ashio copper mine

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.



Watarase Reservoir nature conservation activity

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.



Tochigi Technology Center's clean-up activity

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.

In October 2019, we held a "Cycling Clean-up" event aimed at raising awareness of environmental issues in the local community through cycle sports. The event was attended by total of 42 participants, including cycling enthusiasts and other members of the public.

In November 2019, "Dexerials Presents Utsunomiya Blitzen Bicycle Safety Seminar" was held to train children in road safety so as to prevent traffic accidents involving children while also promoting cycling sports. A total of 12 children participated in the event.





Cycling Clean-up event

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 promotions by encouraging Tochigi Prefecture where the Tochigi Technology Center and Kanuma Plant are located.



©TOCHIGI BREX INC.

17th 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 2019, we hosted the event in partnership with the Miyagi Football Association. Selected teams, comprising children under twelve years of age in the ten districts of Miyagi Prefecture, competed in a league-style competition over two days.



Dexerials Cup

Donations and Contributions

Donating medical face shields to local governments and medical institutions

We donated infection-preventing medical face shields, which were in high demand on the medical frontlines, to local governments (Miyagi Prefecture, Kobe City, Hyogo Prefecture, Kanuma City, Tochigi Prefecture) and Jichi Medical University Hospital (Shimotsuke City, Tochigi Prefecture).



Certificate of appreciation from Kobe City

Donating materials used in the “DATE Shield” face shield developed by School of Engineering, Tohoku University

In July 2020, Tohoku University’s School of Engineering developed and produced a new face shield called the “DATE Shield” designed to prevent the COVID-19 infection, and distributed these shields to medical institutions across Miyagi Prefecture.

To support development and production, we provided a sample shipment of our anti-reflection film moth-eye type, which was used as a material. This product reflects minimal light and almost no surrounding scenery, etc., with such outstanding transparency that users do not even notice that the film exists. In addition, it does not fog up readily due to breath or other factors, winning acclaim from users for its stress-free performance.

Donating face shields to NGO

Dexerials Hong Kong Limited donated 100 face shields made by its employees as a volunteer initiative to Hong Kong Christian Service, a non-governmental organization that conducts a wide range of activities from aesthetic sensitivity education for youth to elderly care.



Employees making face shields

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.



Recycling activities

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.

As the COVID-19 pandemic spread, Dexerials Korea Corporation donated to the Korea Disaster Relief Association through the Seoul Japan Club in order to support medical institutions and infected persons in South Korea.

Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Assets		
Current assets:		
Cash and deposits	11,826	**13,779**
Notes and accounts receivable - trade	10,306	**9,617**
Electronically recorded monetary claims - operating	89	**77**
Merchandise and finished goods	2,257	**1,998**
Work in process	2,062	**2,035**
Raw materials and supplies	1,656	**1,642**
Other	1,923	**2,317**
Allowance for doubtful accounts	(4)	**(3)**
Total current assets	30,118	**31,466**
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	31,548	**31,813**
Accumulated depreciation	(20,323)	**(21,173)**
Buildings and structures, net	11,224	**10,640**
Machinery, equipment and vehicles	40,048	**39,575**
Accumulated depreciation	(30,835)	**(31,378)**
Machinery, equipment and vehicles, net	9,213	**8,197**
Land	3,682	**3,696**
Construction in progress	649	**1,118**
Other	5,936	**6,150**
Accumulated depreciation	(4,602)	**(4,848)**
Other, net	1,333	**1,302**
Total property, plant and equipment	26,103	**24,954**
Intangible assets:		
Goodwill	24,281	**22,479**
Patent rights	1,871	**1,514**
Other	1,122	**1,080**
Total intangible assets	27,274	**25,075**
Investments and other assets:		
Shares of subsidiaries and associates	74	**738**
Asset for retirement benefits	1,460	**1,604**
Deferred tax assets	1,531	**1,728**
Other	1,035	**722**
Allowance for doubtful accounts	(11)	**(10)**
Total investments and other assets	4,089	**4,782**
Total non-current assets	57,467	**54,813**
Total assets	87,586	**86,279**

(Millions of yen)

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	7,212	**5,750**
Electronically recorded obligations - operating	1,074	**1,157**
Current portion of long-term debt	3,666	**2,847**
Other payables	2,043	**2,101**
Accrued expenses	562	**627**
Provision for bonuses	1,194	**1,500**
Other	1,147	**1,770**
Total current liabilities	16,901	**15,755**
Non-current liabilities:		
Long-term debt	15,333	**14,486**
Liability for retirement benefits	5,442	**5,259**
Deferred tax liabilities	100	**238**
Other	752	**971**
Total non-current liabilities	21,629	**20,956**
Total liabilities	38,530	**36,711**
Net assets		
Shareholders' equity:		
Common stock	15,977	**16,021**
Capital surplus	15,977	**16,021**
Retained earnings	18,807	**19,562**
Treasury stock	(3,331)	**(3,255)**
Total shareholders' equity	47,431	**48,349**
Accumulated other comprehensive income:		
Deferred gains or losses on hedges	30	**155**
Foreign currency translation adjustment	1,676	**1,159**
Remeasurements of defined benefit plans	(83)	**(96)**
Total accumulated other comprehensive income	1,624	**1,218**
Total net assets	49,055	**49,567**
Total liabilities and net assets	87,586	**86,279**

Consolidated Statements of Income

(Millions of yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Net sales	60,580	**57,710**
Cost of sales	39,395	**36,309**
Gross profit	21,185	**21,400**
Selling, general and administrative expenses	17,460	**16,783**
Operating profit	3,724	**4,617**
Non-operating income:		
Interest income	40	**51**
Foreign exchange gains	266	**174**
Rent income	80	**98**
Other	162	**110**
Total non-operating income	549	**434**
Non-operating expenses:		
Interest expenses	90	**81**
Share of loss of entities accounted for using equity method	—	**261**
Loss on investments in investment partnerships	16	**50**
Depreciation	234	**237**
Other	29	**28**
Total non-operating expenses	370	**657**
Ordinary profit	3,903	**4,393**
Extraordinary income:		
Gain on sale of non-current assets	2	**2**
Subsidy income	100	**50**
Compensation income	—	**137**
Settlement received	—	**42**
Total extraordinary income	102	**231**
Extraordinary losses:		
Loss on retirement of property, plant and equipment	160	**24**
Loss on valuation of investment securities	—	**199**
Restructuring expenses	—	**103**
Settlement package	86	**—**
Total extraordinary losses	247	**328**
Profit before income taxes	3,758	**4,297**
Income taxes - current	1,141	**1,719**
Income taxes - deferred	332	**(157)**
Total income taxes	1,473	**1,562**
Profit	2,284	**2,734**
Profit attributable to owners of parent	2,284	**2,734**

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Profit	2,284	**2,734**
Other comprehensive income:		
Deferred gains or losses on hedges	(214)	**124**
Foreign currency translation adjustment	11	**(517)**
Remeasurements of defined benefit plans	(491)	**(12)**
Total other comprehensive income	(695)	**(405)**
Comprehensive income	1,588	**2,328**
Comprehensive income attributable to:		
Owners of parent	1,588	**2,328**
Non-controlling interests	—	**—**

Consolidated Statements of Cash Flows

(Millions of yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Cash flows from operating activities:		
Profit before income taxes	3,758	**4,297**
Depreciation	4,390	**4,607**
Amortization of goodwill	1,798	**1,798**
Interest and dividend income	(40)	**(51)**
Interest expenses	90	**81**
Foreign exchange (gains) losses	(207)	**(101)**
(Gain) loss on sale of non-current assets	(2)	**(2)**
Loss on retirement of property, plant and equipment	160	**24**
Restructuring expenses	—	**103**
(Gain) loss on investments in investment partnerships	16	**50**
Subsidy income	(100)	**(50)**
Compensation income	—	**(137)**
Settlement received	—	**(42)**
Settlement package	86	**—**
Increase (decrease) in provision for bonuses	(102)	**314**
Changes in asset/liability for retirement benefits	(1,074)	**(345)**
Share of loss (profit) of entities accounted for using equity method	—	**261**
Loss (gain) on valuation of investment securities	—	**199**
(Increase) decrease in notes and accounts receivable - trade	476	**554**
(Increase) decrease in inventories	732	**262**
Increase (decrease) in notes and accounts payable – trade	(467)	**(1,281)**
(Increase) decrease in other receivables	(21)	**(82)**
Increase (decrease) in other payables	96	**34**
Increase (decrease) in income taxes payable (size-based business tax)	(20)	**15**
Other, net	(21)	**260**
Subtotal	9,547	**10,772**
Interest and dividend income received	34	**51**
Interest expenses paid	(90)	**(84)**
Subsidies received	104	**50**
Settlement package received	—	**30**
Settlement package paid	(361)	**—**
Income taxes paid	(1,406)	**(1,162)**
Net cash provided by (used in) operating activities	7,826	**9,656**
Cash flows from investing activities:		
Purchase of investment securities	(309)	**(150)**
Purchase of property, plant and equipment	(6,044)	**(2,801)**
Purchase of intangible assets	(205)	**(244)**
Purchase of shares of subsidiaries and associates	—	**(700)**
Other, net	4	**5**
Net cash provided by (used in) investing activities	(6,554)	**(3,891)**
Cash flows from financing activities:		
Proceeds from long-term debt	1,000	**2,000**
Repayments of long-term debt	(3,083)	**(3,666)**
Purchase of treasury stock	—	**(0)**
Cash dividends paid	(2,548)	**(1,979)**
Repayments of lease obligations	(19)	**(41)**
Proceeds from exercise of stock options	86	**86**
Net cash provided by (used in) financing activities	(4,564)	**(3,600)**
Effect of exchange rate change on cash and cash equivalents	232	**(211)**
Net increase (decrease) in cash and cash equivalents	(3,060)	**1,952**
Cash and cash equivalents at beginning of period	14,887	**11,826**
Cash and cash equivalents at end of period	11,826	**13,779**

Corporate Profile / Stock Information

Corporate Information

(As of March 31, 2020)

Company name	Dexerials Corporation
Establishment	June 20, 2012
Capital stock	15,977 million yen
Headquarters	1-11-2 Osaki, Shinagawa-ku, Tokyo, Japan
Number of employees	1,999 (on a consolidated basis)

Stock Overview

(As of March 31, 2020)

Total number of authorized shares	100,000,000 shares
Number of shares issued	63,973,800 shares
Number of shareholders	24,550

Stock Information

(As of March 31, 2020)

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 Sompo Sustainability Index, which was established by Sompo 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 acquired the highest rating under the DBJ Environmental Rating Program run by the Development Bank of Japan Inc., which recognizes companies with excellent advanced environmental initiatives.

Principal Shareholders

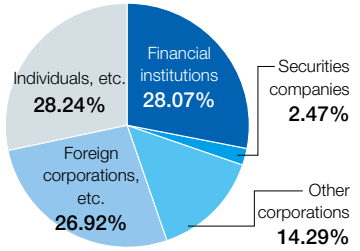
(As of March 31, 2020)

Name	Number of shares held (thousand shares)	Shareholding ratio (%)
SEKISUI CHEMICAL CO., LTD.	5,040	7.87
The Master Trust Bank of Japan, Ltd. (Trust account)	4,005	6.26
Japan Trustee Services Bank, Ltd. (Trust account)	3,829	5.98
Trust & Custody Services Bank, Ltd. (Trust E account)	3,131	4.89
Dai Nippon Printing Co., Ltd.	3,125	4.88
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	2,760	4.31
The Nomura Trust and Banking Co., Ltd. (Investment trust account)	1,890	2.95
MLI FOR CLIENT GENERAL OMNI NON COLLATERAL NON TREATY-PB	1,438	2.24
J.P. MORGAN SECURITIES PLC FOR AND ON BEHALF OF ITS CLIENTS JPMSP RE CLIENT ASSETS-SEGR ACCT	1,200	1.87
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	1,197	1.87

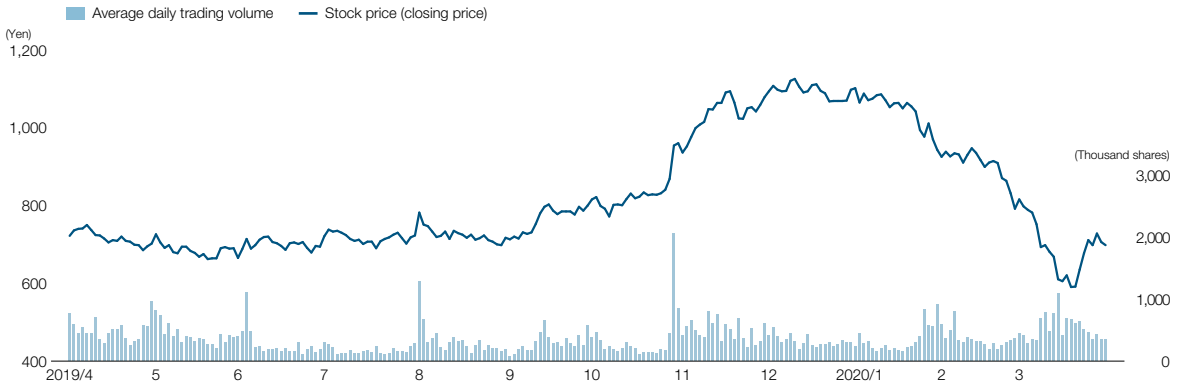
* Trust & Custody Services Bank, Ltd. (trust account E) manages trust assets for the Employee Stock Ownership Plan (J-ESOP), which is an incentive program of common stock of the company for employees, and for the Board Benefit Trust (BBT), which is a performance-linked stock compensation plan for directors (excluding outside directors).

Breakdown by Type of Shareholder

(As of March 31, 2020)



Stock Price (From April 1, 2019 to March 31, 2020)



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), etc. Specialisms include business continuation plans (BCP), corporate social responsibility (CSR), company information analysis and financial accounting. 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 Kogyou 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, JIPDEC BCMS management committee member, etc.

It is my pleasure to read Dexerials' integrated report again, having done so the previous year. In 2020, society and companies were forced to make changes in values like never before due to the impact of the COVID-19 pandemic. In such times, it is not easy for companies to accurately convey the path they will be taking. Dexerials can be praised for using its report to objectively analyze its own strengths and communicate solid initiatives leading in to the future despite such conditions.

The report begins with an introduction and goes on to strategy, then materiality with a structure that is impressive in its clarity and ease in gaining a bird's eye view. There are some points worth mentioning for this report, with the first being in the Message from Top Management portion, where it talks about responding to sudden changes swiftly with measures. A mentality in which change is not to be feared, something the president has been talking about and fostering thus far, has allowed an awareness among employees to change harsh social and economic conditions into new business opportunities. Thereafter, a review of the first year in the Mid-term Management Plan is carefully outlined, followed by an explanation of the ESG management. This serves as a lead-in to the message from executive officer in charge of CSR division, deepening an understanding by the reader. Further, a message from the CFO as well as clarifying the business strategy and innovation strategy of each of the divisions allow an understanding of Dexerials' stance in communicating, on a specific level, how future value can come from the perspectives of both risks and opportunities.

The second point is the addition of a section "Main risks of the Dexerials Group and appropriate countermeasures," which conveys Dexerials' stance to face challenges head-on, including risks that are difficult to address. Relevance to the basic strategies of the Mid-term Management Plan is outlined, which struck me as comprehensive and three-dimensional.

The third point is the addition of an interview with outside directors to discuss the governance structure which has been Dexerials' strength, including its composition of the Board of Directors and the various committees. The interview includes dialogue regarding the direction of the Company going forward that allows readers to see Dexerials' stance of promoting highly effective and advanced initiatives.

As for areas with room for improvement, it may be necessary to explain in more depth how evaluation for business continuity is being ensured, including details of training and expansion across the supply chain. I also felt that the "Summary of digital survey to suppliers regarding COVID-19" in the section for supply chain management could be utilized. In terms of an environmental perspective, a thorough review being conducted and medium- to long-term targets being set are commendable, but plans going forward in dealing with unachieved items, such as water usage, should be laid out in further detail. It is highly praiseworthy that evaluation for the achievement levels regarding the CSR targets are clearly stated. As a next step, it will be necessary to take up a further challenge by setting qualitative and quantitative targets that balance Dexerials' initiatives and demands that can be anticipated by society, to prepare for the fact that indicators that society will expect going forward may not necessarily align with Dexerials' business model.

The integrated report is now becoming an indispensable item for all stakeholders. From that perspective, further acceleration will be anticipated in the trend contained repeatedly in this report to provide thorough explanation of outlooks for the long-term, such as sustainable growth as well as governance and human resource management supporting such growth.

Response to the Third-party Opinion



Representative Director and Senior Managing Executive Officer

Toshiya Satake

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

Dexerials is taking initiatives toward achieving "Challenges for Evolution" in the Mid-term Management Plan which began in fiscal 2019. From fiscal 2019 to fiscal 2020, COVID-19 has been affecting the business environment surrounding Dexerials. In such circumstances, we believe that Dexerials' materialities, which raise solutions to social challenges, can make a contribution to society, and will promote planned CSR activities for the realization of sustainable corporate growth and a sustainable society.

With regard to ensuring business continuity, we will work toward making improvements with an awareness of the need to expand initiatives in the supply chain. Regarding CSR targets, we will keep in mind achievement levels expected of us externally and continually make revisions to adapt to business conditions.

With changes in society at a dizzying pace like never before, we will work toward our Mid-term Management Plan with integrity and sincerity based on our corporate philosophy. By further raising corporate value and contributing to the realization of a sustainable society, we will meet the expectations of all stakeholders and gain their trust.

Dexerials Corporation

Gate City Osaki, East Tower 8F, 1-11-2 Osaki,
Shinagawa-ku, Tokyo 141-0032, Japan
Tel: +81-3-5435-3941

• https://www.dexerials.jp/en

This report uses universal design fonts that are easy to read and distinguish.
This report uses vegetable oil-based ink that is environmentally-friendly.

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