

Dexerials

Dexerials Integrated Report 2019



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 Feature: New Mid-term Management Plan "Challenges for Evolution"
- 22 Message from the CFO

chapter 3

- 24 CSR Management

chapter 3 Materiality

Creating New Value, Resolving Social Issues

- 28 Business Overview by Segment
 - 28 Optical Materials and Components Segment
 - 30 Electronic Materials and Components Segment
- 32 Businesses in New Domains
- 34 Feature — Kireia —
- 36 Environmental Management

- 38 Quality Management
- 41 Supply Chain Management

Reinforcement of Corporate Governance and Compliance

- 42 Corporate Governance
- 46 Directors and Audit & Supervisory Board Members
- 48 Messages from 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

We have decided to publish an integrated report from fiscal 2019 onward by combining an annual report and a sustainability report, which hitherto were separate publications. This report covers the Dexerials Group's business strategy, business results, financial information, CSR activities, and so on, and has been published 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 2018 (April 1, 2018-March 31, 2019); however, some reports and data may refer to past or current information.

Disclaimer on Forward-looking Statements

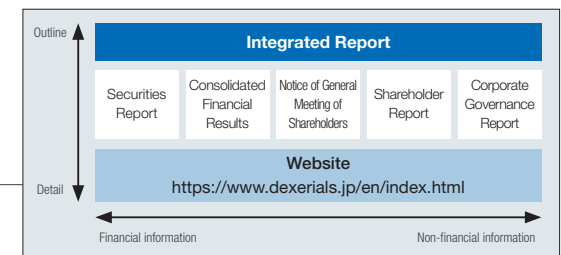
The forward-looking statements contained in this report are based on information currently available to the Company and certain assumptions that are believed to be reasonable, and no responsibility is borne as to the accuracy or completeness of the forward-looking statements. Actual results may differ 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.

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 Sustainability Reporting Standards published by GRI ISO 26000
 Environmental Reporting Guidelines (Fiscal Year 2018 Version) published by the Ministry of the Environment



Unceasing pursuit of “unprecedented innovation, unprecedented value”

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.

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

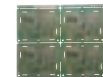
Started production of protection elements for Li-ion rechargeable batteries.

As laptop PCs, cellular phones, video cameras and other portable electronic equipment were introduced with reduced sizes and advanced features, the Li-ion rechargeable 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.

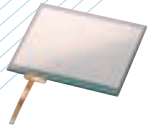


Company



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.



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.



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

Started production of Albedo 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.



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.



Highlights

Functional materials with top global market share

No.1

Global Market Share

<p>No.1 Global Market Share for small-to-medium-sized display applications</p> <p>Anisotropic conductive films (ACF)</p>	<p>No.1 Global Market Share for laptop PC and smartphone applications</p> <p>Surface mounted type fuses</p>
<p>No.1 Global Market Share for resin adhesives for small-to-medium-sized displays for smartphone and tablet applications</p> <p>Optical elasticity resins (SVR)</p>	<p>No.1 Global Market Share for anti-reflection films produced utilizing sputtering technology</p> <p>Anti-reflection films</p>

*Based on our survey

Net sales

60,580

million yen

year on year **-13.6%**

Operating profit

3,724

million yen

year on year **-39.7%**

Profit attributable to owners of parent

2,284

million yen

year on year **-33.3%**

ROE

4.6%

year on year **-2.2%**

Total payout ratio
(after adjustments for goodwill)

50.4%

Ratio of outside directors

57.1%

Internal directors

3

Outside directors

4



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

96%



Number of employees

2,005

On a non-consolidated basis

1,603



Business Portfolio

Net Sales by Business 

Net sales **25,955** million yen Contribution to net sales **42.7%**

Net sales **34,838** million yen Contribution to net sales **57.3%**

(Note) Net sales include inter-segment transactions.

Optical Materials and Components Business

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 optical resin (OCR) market because of the advanced technology and high quality of our optical elasticity resins (SVR and hybrid SVR), which are our mainstay products.



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 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.



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. We also offer a lineup of eye shielding materials for medical use featuring outstanding high visual transmittance and low reflectance.



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 affixing components such as camera modules and optical pickups.

Electronic Materials and Components Business

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.



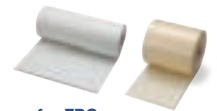
Anisotropic conductive films (ACF)

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

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



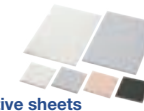
Double-coated tapes for FPC Thermosetting tapes for FPC

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



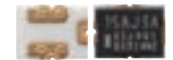
Impact-resistant double-coated tapes (waterproof type)

The strong impact-resistant adhesive layer and elastic hollow balloon layer absorb shock if the devices are dropped, protecting the chassis. These tapes are ideal for bonding of window frames on mobile devices, or for fixing modules on chassis that require waterproofing.



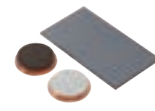
Thermal conductive sheets

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.



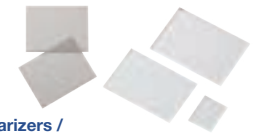
Sputtering targets

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

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.

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
- ▶ Optical elasticity resins (SVR)
- ▶ Anti-reflection films
- ▶ Surface mounted type fuses

● Projectors

- ▶ Inorganic polarizers / Inorganic waveplates

● Architectural window films

- ▶ Albedo solar control window film

● Servers

- ▶ Thermal conductive sheets

Home



● Washstands

- ▶ Kireia anti-fogging and anti-fouling solutions

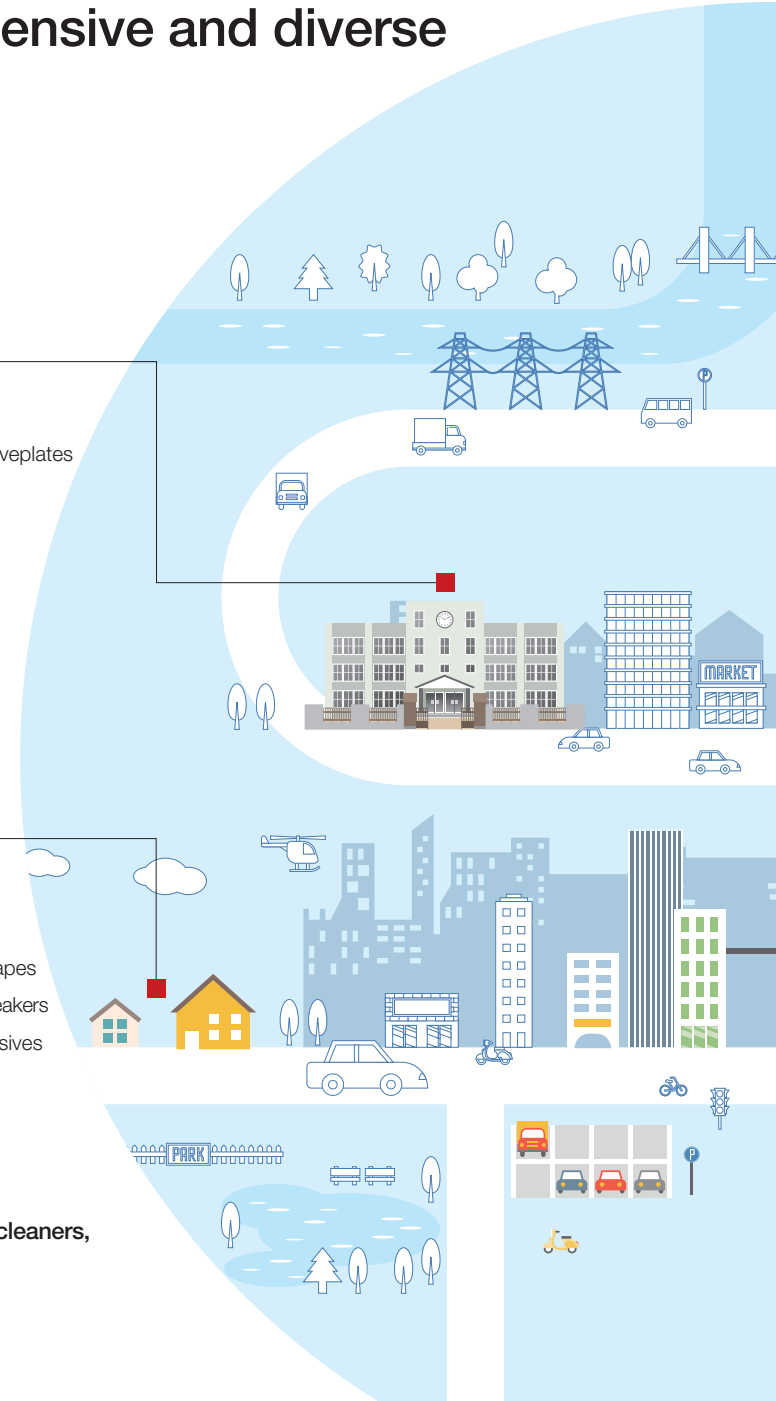
 > See Page 34 for the details.

● Televisions

- ▶ 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

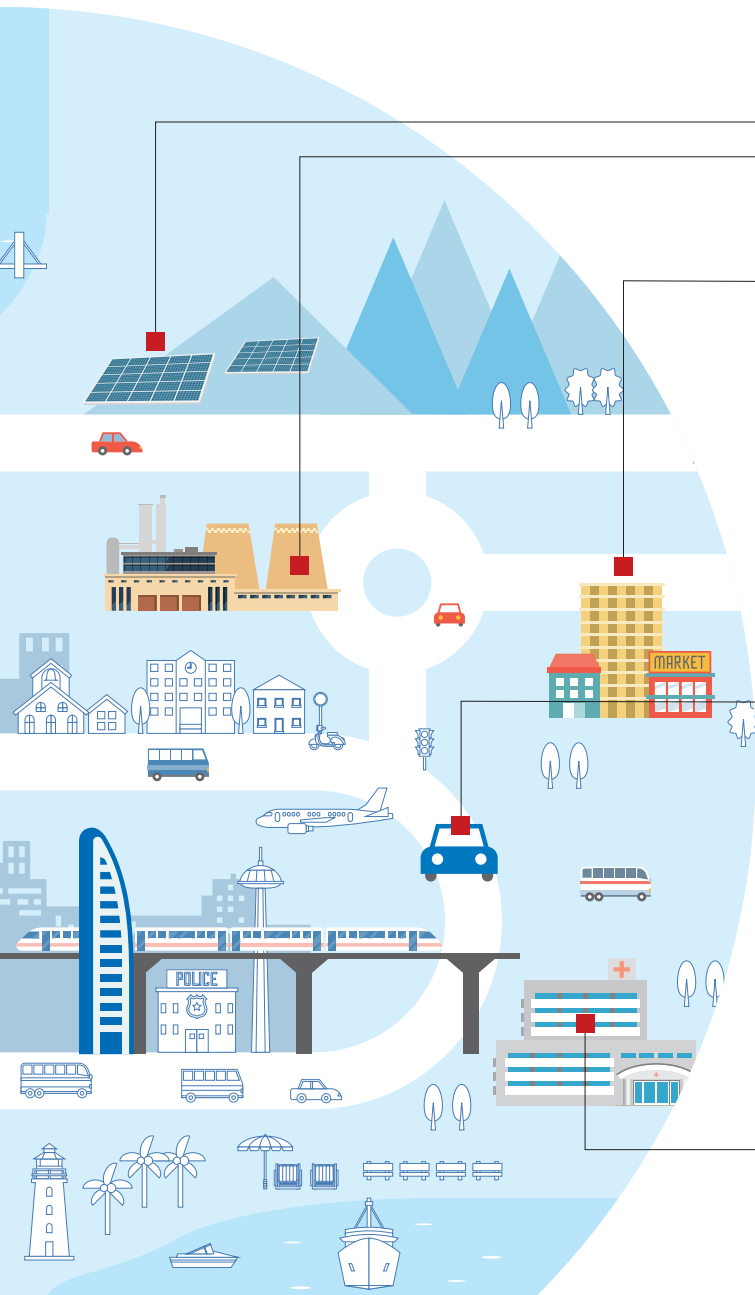
● Electric power tools, vacuum cleaners, electric motorbikes

- ▶ Surface mounted type fuses



 > Visit our website for the details.

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



Factories

- ▶ Water treatment agents (for inorganic effluent)

Solar Panels

- ▶ Solar cell conductive films for photovoltaic modules
- ▶ UV-curable / thermo-curable adhesives
- ▶ Thermal conductive sheets
- ▶ Optical elasticity resins (SVR)
- ▶ Anti-reflection films
- ▶ Surface mounted type fuses

Around Town



Smartphones / Tablet PCs

- ▶ Anisotropic conductive films (ACF)
- ▶ General-purpose double-coated tapes
- ▶ Dustproof net with adhesive for speakers
- ▶ Double-coated tapes for FPC / Thermosetting tapes for FPC

Automobile



- ▶ Anisotropic conductive films (ACF)
- ▶ Optical elasticity resins (SVR)
- ▶ Thermal conductive sheets
- ▶ Anti-reflection films

 > See Page 33 for the details.

Medical Facilities

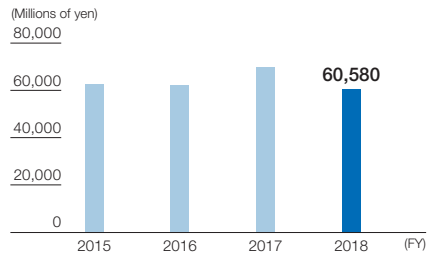


- ▶ Moth-eye type films for medical eye shields

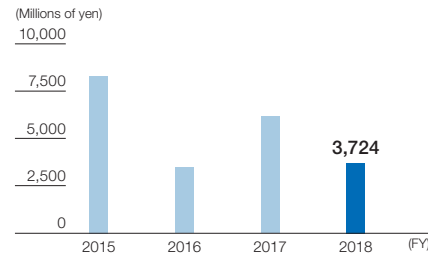
Consolidated financial performance indicators

		FY2015	FY2016	FY2017	FY2018
Net sales	(millions of yen)	62,654	62,598	70,079	60,580
Operating profit	(millions of yen)	8,306	3,491	6,178	3,724
Profit attributable to owners of parent	(millions of yen)	4,587	949	3,426	2,284
Net assets	(millions of yen)	52,062	50,682	49,921	49,055
Net assets per share	(yen)	868.96	843.56	825.82	809.40
Total assets	(millions of yen)	87,296	97,347	94,958	87,586
Capital to asset ratio	(%)	59.64	52.06	52.57	56.01
Return on equity (ROE)	(%)	8.62	1.85	6.81	4.62

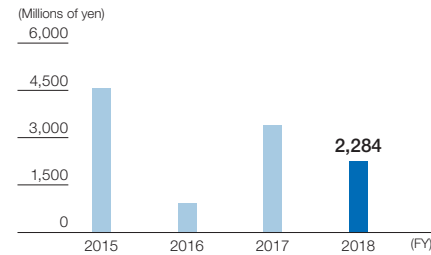
1 Net sales



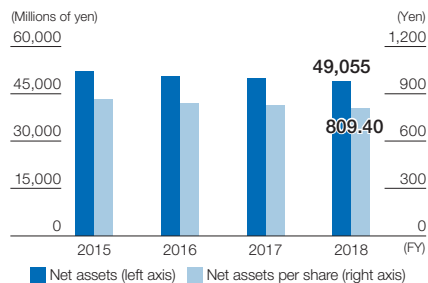
2 Operating profit



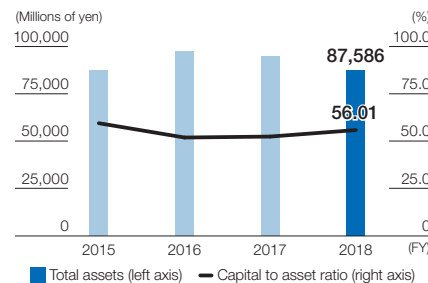
Profit attributable to owners of parent



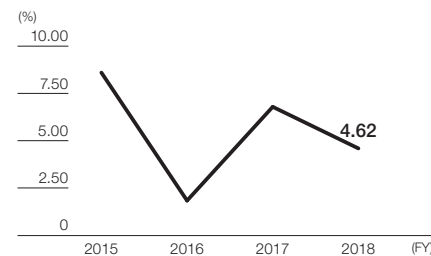
Net assets / Net assets per share



Total assets / Capital to asset ratio



Return on equity (ROE)



Explanation of key aspects of financial performance

1 For fiscal 2018, for the optical films product category, a substantial year-on-year decrease in sales was reported due to the change of the base films, and also for the optical solutions product category, a substantial year-on-year decrease in sales was reported due to the withdrawal from the consumer IT products business, which had accounted for a great majority of sales in this category in the previous fiscal year. Net sales would have increased by approximately 6% year on year excluding the impact of the change of base films and the impact on the optical solutions product category mentioned above.

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

2 In the optical films product category, demand for products for laptop PC displays and for in-vehicle applications was strong, and in the surface mounted type fuses category, demand for products for electric power tools was robust. However, profit for fiscal 2018 decreased year on year mainly because of a decrease in sales of the products for smartphones in the optical resin materials product category.

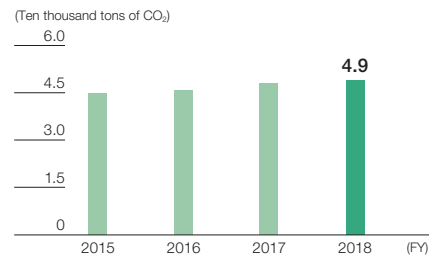
Non-financial indicators		FY2015	FY2016	FY2017	FY2018
CO ₂ emissions	(ten thousand tons of CO ₂)	4.5	4.6	4.8	4.9
Water usage	(ten thousand tons)	20	24	26	28
VOC emissions	(tons)	46	55	42	46
Waste emissions	(ten thousand tons)	0.21	0.21	0.24	0.29
Number of Group employees	(persons)	2,317	2,124	1,981	2,005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

*1. For directors and audit & supervisory board members. Figures as of the date of publication of this report are as follows:

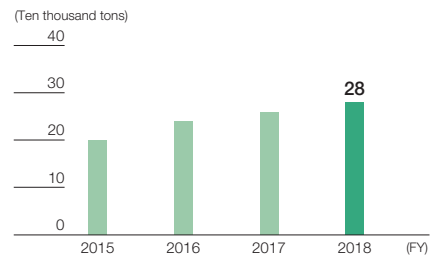
Female 1/10
Non-Japanese nationals 1/10

*2. On a notification basis as of June 1

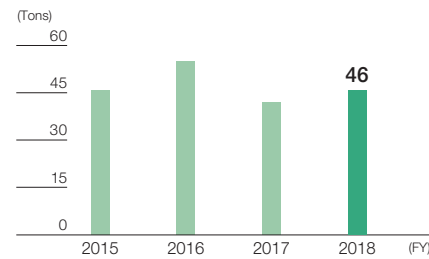
① CO₂ emissions



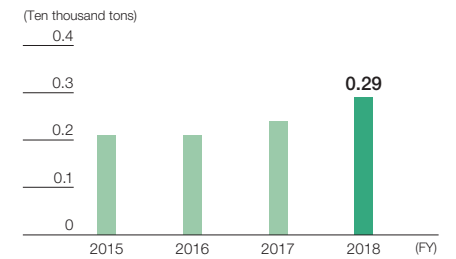
① Water usage



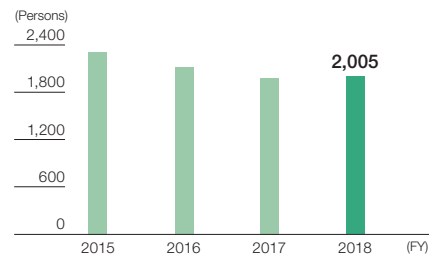
① VOC emissions



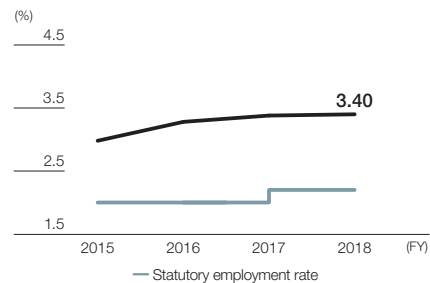
① Waste emissions



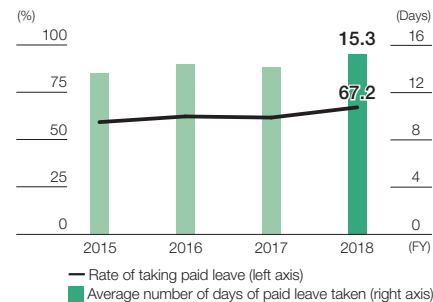
Number of Group employees



② Percentage of employees with disabilities



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



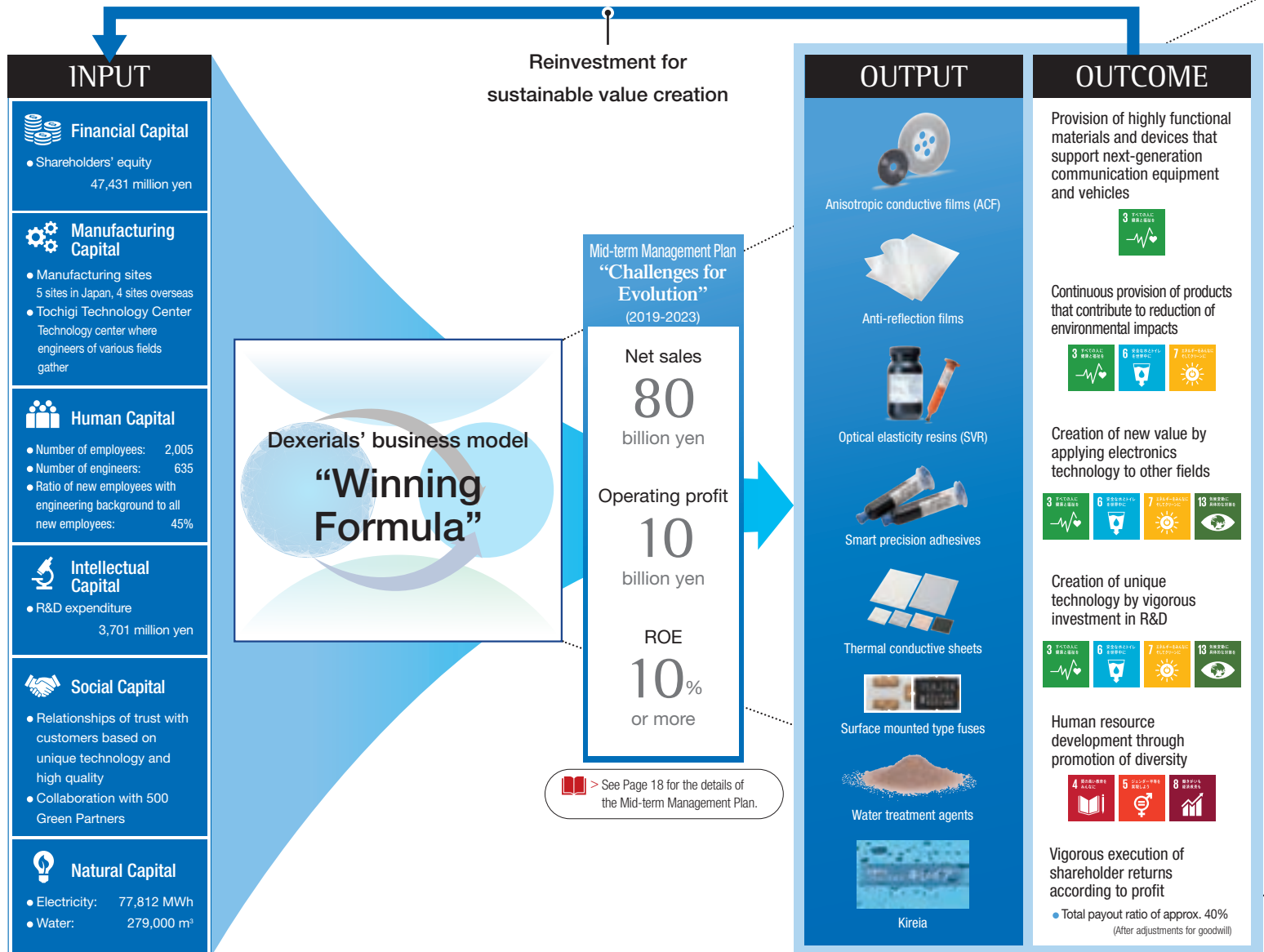
Explanation of key aspects of non-financial performance

- ① Although we pursued various initiatives to reduce environmental impact in fiscal 2018, all the results deteriorated from the previous fiscal year because of an increase in production output, implementation of countermeasures for high temperatures in the summer, and other factors.
 - > See Page 36 for the details of the initiatives to reduce environmental impact.
- ② Dexerials Kibou Corporation is the Company's certified special subsidiary for promoting employment of people with disabilities. The percentage of employees with disabilities as of June 2019 was 3.40% and has been constantly higher than the statutory employment rate of 2.2% set by the Japanese government.

Create the future together with customers

Change in the social environment

- Progress of AI
- Progress of autonomous driving technology
- Advent of IoT
- Spread of high-speed communication (5G)
- Global warming
- Labor shortages



> See Page 18 for the details of the Mid-term Management Plan.

> See Page 05 for the details of the products.

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 the needs of customers 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.

Corporate Philosophy

Integrity

Have Integrity and Sincerity

Corporate Vision

Value Matters

Unprecedented innovation, unprecedented value.

Dexerials' business model

"Winning Formula"

Reasons why customers select
Dexerials



High technological capabilities and unique approaches to customers

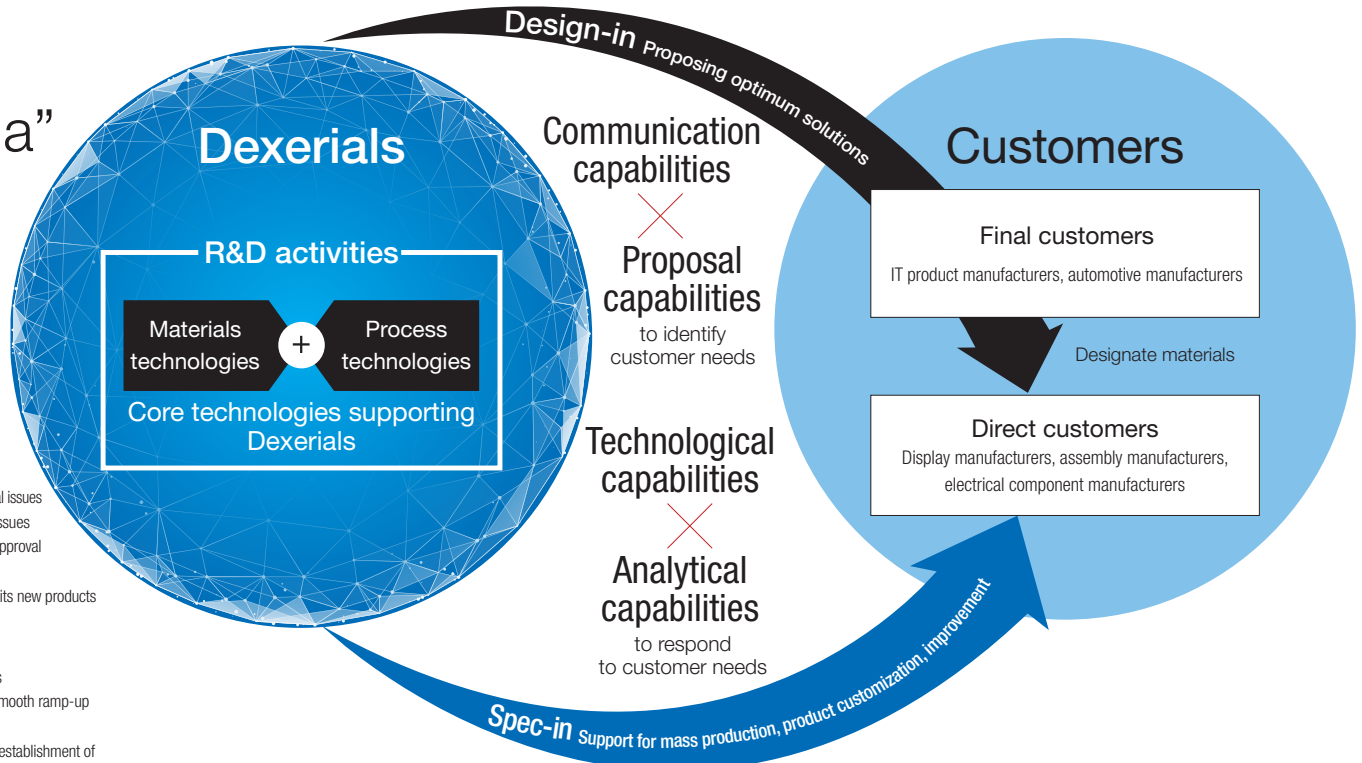
Design-in: Final customers and Dexerials

- Identify needs from the product planning phase and assume 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 results in a contribution to our financial performance

Spec-in: Direct customers and Dexerials

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

In addition to the above initiatives, there are cases in which we propose new technology and samples to a customer that the customer officially adopts as a product after evaluation.



CSR materiality as the basis of corporate activities

> See Page 26 for the details of CSR materiality.

- Reinforcement of corporate governance and compliance
- Cultivation of diverse human resources and engagement
- Ensuring operational safety and business continuity

The five-year period for “Challenges for Evolution” has started. We will strive to achieve the transformation necessary for sustainable growth.

Aspirations upon Assuming the Presidency **Achieve the new Mid-term Management Plan** **in the era of uncertainty**

I joined Sony Chemicals Corporation, the predecessor of Dexerials, in 2001, 18 years ago. I experienced the start-up of a new business and worked in various roles transcending the conventional organizational borders. These roles included visiting customers to sell products that I had helped develop. In 2010, as the head of product development of the Optical Solutions Products Business, I promoted expansion of the application field of optical elasticity resin (SVR) that has become a pillar of Dexerials' business. The anti-reflection film business, which now commands a big market share, had been unprofitable for over 10 years. I led the turnaround of that business, developing it as a growth driver.

Dexerials subsequently reached a watershed in its history, becoming independent from Sony and relisting on the stock exchange in 2015. Amid all this change, I gained experience in product development as well as in achieving profitable operations and establishing a profitable structure by making decisions on the course of actions to take for projects and on growth investments.

In 2016, I was appointed head of the Product Development Division, which was newly established as a corporate organization through integration of what had hitherto been the product development functions of business units. Over the past couple of

years, eyeing the automotive sector as the next growth field, we discussed the growth strategy and the business strategy in the Product Development Division and launched the Automotive Solutions Business Unit in January 2019.

The current business environment in which we operate is characterized by uncertainties reflecting the dynamic change of the era, making it difficult to forecast what lies ahead. In these circumstances Dexerials aspires to be an enterprise that achieves growth by creating and offering products and services that resolve social issues over the long term. In this regard, I recognize that my mission as president is to achieve the new Mid-term Management Plan whose aim is to ensure sustainable growth.

As the leader of Dexerials, I am resolved to do my utmost to further develop the Group's business, capitalizing on my experience to date.

Dexerials' Strengths

Business development based on a sure grasp of market needs for end products and applications

Our company name Dexerials comes from a combination of the words “Dexterous,” meaning to move skillfully or agilely, and “Materials.” As indicated by the origins of our name, flexible and

fast business development in the materials field is our intrinsic strength. I myself was granted a large degree of discretion and authority early on in my career, which enabled me to launch a business in the manner of an in-house venture. As the person in charge of setting the course for management, I am emphasizing Dexerials' strengths and endeavoring to enhance them.

As a supplier of chemical materials, Dexerials is just a step away from the end products. We have strengths in product development based on a sure grasp of market needs for products and applications of our final customers. Our ability to propose technologies and solutions that appeal not only to our direct customers but also to their customers gives us a valuable competitive advantage. In our business development from now on, with the automotive field as the driver of new domains, in our role as a supplier capable of offering technology underpinning the major transformation of the automotive industry, we have opportunities to negotiate directly with auto manufacturers, rather than via manufacturers of parts or electrical components. This has made it possible for us to take our growth strategy to a new higher stage.

In the new Mid-term Management Plan, which will be discussed later, Dexerials is implementing measures that leverage these strengths to the full.



Representative Director and President

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**Review of the Previous Mid-term Management Plan
Fell short of the operating profit target, highly
unsatisfactory results**

The Mid-term Management Plan 2018 covered the three years from fiscal 2016 to fiscal 2018. Based on two key policies, “Accelerate growth in new domains and ensure the new domains contribute to earnings” and “Seek growth with the current ROE

“ **In the previous Mid-term Management Plan, we failed to achieve growth in new domains and issued remained unresolved.** ”



level as benchmark,” we implemented initiatives over the last three years. As a result, we increased the size of the anti-reflection film business to net sales of 10.0 billion yen and expanded the automotive business whose sales accounted for 10% of Dexerials’ total net sales. We also expanded the market share of anisotropic conductive films (ACF) led by strong growth of particle-arrayed ACF, which is a differentiating technology product.

However, the results were highly unsatisfactory. In particular, we made little progress regarding growth of new domains, which is a priority theme, and issues remained unresolved. Another issue that remained unresolved was that we were unable to rectify overreliance of our business portfolio on the consumer IT products market and high dependence on specific customers. These issues emerged as explicit risks and, affected by the slowdown of the consumer IT products market, operating profit for the final fiscal year was only 3.7 billion yen whereas the initial operating profit target was 10.0 billion yen, revised to 8.0 billion yen in April 2017.

Management needs to reflect on its indecisiveness concerning initiatives for growth of new domains. We did not narrow our targets from among domains including the environment, life sciences, semiconductors, and automotive. Another factor was our too optimistic forecast for growth of the consumer IT products market, which was used as a condition for formulation of the plan. These factors caused us to lack a sense of urgency about the major changes afoot in the world.

**Formulation and Launch of the New Mid-term Management Plan
Formulated a five-year plan to avoid
shortsighted management decisions and to be
sure to achieve transformation of the portfolio**

Reflecting on this review, Dexerials formulated and launched the Mid-term Management Plan 2023 covering the five years from fiscal 2019 to fiscal 2023. Under the “Challenges for Evolution” theme, this plan positions the next five years as “a phase to ensure sustainable growth through business expansion in new domains where social issues have surfaced.”

Regarding our recognition of the business environment in which the Mid-term Management Plan 2023 will be executed, we take a conservative view of the growth potential of the consumer IT products market and forecast a decline in smartphone-related demand, in particular. Although some may expect standardization of 5G to provide an expansionary tailwind, we see little room for growth in applications. In these circumstances, our policy is to expand new domains and capture more broadly based demand so as to reduce dependence on specific customers.

In recent years, trade friction and geopolitical risks have become more prominent and pressing in the world at an alarming speed. All the indications are that this highly uncertain business environment will persist, making it difficult to forecast what lies ahead. However, one thing seems certain, namely, that unceasing technological evolution will be the driving force for resolving social issues and create growth opportunities. Above all, the automotive sector is an application field poised for major transformation, through integration of autonomous driving, AI, IoT, and 5G communication technologies against the backdrop of change in the social structure brought about by such factors as urbanization.

“ We will ensure sustainable growth through business expansion in new domains where social issues have surfaced. ”



Through the application to the automotive domain of technologies cultivated in our existing businesses and by accumulating a track record, we will pursue business expansion by helping to resolve issues in society where IoT is expected to become embedded.

We set a five-year term for the Mid-term Management Plan 2023 in order to avoid shortsighted management decisions and be sure to achieve transformation of the business portfolio, shifting toward the new domains centering on the automotive sector, with a view to rectifying our overreliance on the consumer

IT products market. In the first three years we will promote the shift of resources to new domains, applying the principle of selection and focus. In the remaining two years, we will pursue business expansion in the new automotive-centered domains. Dexerials has received an order from a leading global auto manufacturer for what seems destined to be a major project and we expect the benefits to Dexerials to become apparent during the plan period.

In the consumer IT products market, our conventional approach was to develop business on our own, anticipating customer needs. However, in order to achieve results in rapidly changing markets in the automotive field, we need to tie up with partners in each area and enhance our presence by collaborating with them. In particular, in Europe where initiatives for sustainability are emphasized, we will promote creation of a framework for sustainability initiatives in cooperation with our partners.

Goals of the Three Basic Policies

Accelerate growth in new domains centering on the automotive sector and change in the existing domains, and strengthen the management base that supports initiatives

The Mid-term Management Plan 2023 has three basic policies: “accelerate growth in new domains,” “qualitatively change businesses in the existing domains,” and “strengthen management base.”

 > See Page 18 for the details of the Mid-term Management Plan 2023.

To reiterate, with regard to new domains, we will focus resources on the automotive business by positioning it as the pillar of growth. We intend to increase the ratio of sales of the

automotive business to Dexerials' net sales from about 10% in fiscal 2018 to 30% in fiscal 2023 through the contribution of the aforementioned large project of a major global auto manufacturer and progress achieved in cooperation with partners.

Rising demand for in-vehicle displays will be the driving force of the growth of the automotive business. Although we do not anticipate a large increase in global automotive production volume, the number of displays mounted per vehicle is increasing and so is the size of displays in line with the CASE (Connected, Autonomous, Shared & Services, Electric) trend that is transforming the automotive sector. This growing demand for in-vehicle displays in terms of both number and size is the tailwind that will boost sales of Dexerials' ACF, optical elasticity resins, and optical films.

On the other hand, in the existing domains, based on a conservative projection of the growth potential of the consumer IT products market, we will apply the principle of selection and focus and work to strengthen businesses for differentiating technology products, such as particle-arrayed ACF, by concentrating resources on them. At the same time, for businesses requiring improvement of operational efficiency, we will thoroughly pursue standardization and productivity enhancement. Resources freed up through improved efficiency will be vigorously shifted to new fields. For selection and focus of businesses, we will conduct an annual business review to maintain the optimum status corresponding to the change in the environment.

 > See “Message from the CFO” on Page 22 for the details of the business review.

In addition to breaking away from the traditional approach relying solely on our own resources, in order to accelerate business development in new domains, and applying the principle of selection and focus in existing domains, we will promote

greater awareness and behavioral change among employees engaged in promoting transformation with a view to cultivating a robust corporate culture. We need to retain a sound sense of urgency and to motivate our people to drive “Challenges for Evolution” forward.

Moreover, we will also implement measures to create an organization geared to realization of sustainable growth, including development of next-generation management candidates and engineers who will be the source of innovation and enhancement of corporate governance.

ESG Management Concept and Initiatives

Think about what our business can do for the environment and society and then execute

ESG management, emphasizing the perspectives of the environment, society, and governance, and promoting initiatives corresponding to those perspectives, should not be considered separately from the business strategy. Rather, linkage of ESG management directly with business is a precondition for sustainable growth.

As I mentioned, responding to needs in society with a sense of speed will, for example, lead to user safety in the case of automotive products and fuses. There are also various products that can contribute to the environment. I think that creating and nurturing such products is the essence of ESG management.

Following delivery to customers, Dexerials products will enter customers’ production lines and be incorporated in their end products, and thus our products have environmental impacts in many processes. Therefore, our stance is to consider this as a

problem affecting the entire supply chain and think about what we can do to reduce those impacts.

Regarding adhesive materials such as ACF, developing products that will be fixed at low temperature and in a short period of time can contribute to reduction of environmental impacts by curtailing energy consumption at customers’ manufacturing sites.

Turning to relations with society, regarding the workplace environment at Dexerials, we are promoting workstyle reform in

“ Our linkage of ESG management directly with business is a precondition for sustainable growth. ”



light of the need to achieve work-life balance and emphasizing diversity in terms of such attributes as gender, age and nationality in the deployment of human resources. Moreover, while contributing to economic development and creation of employment in local communities through our business, we are striving to contribute to society through afforestation, local clean-up campaigns, and sports promotion as a good corporate citizen.

As for governance, maintaining the structure of the Board of Directors where outside directors constitute a majority enhances the effectiveness of corporate governance while helping ensure management transparency and soundness. At the same time, we are making proactive use of monitoring, advice, and recommendations from external perspectives in management, which is leading to enhancement of corporate value. While the meetings of the Board of Directors focus on thorough deliberations as necessary, they also function as a venue for open discussion, vitalized by respecting frank expression of opinions and exchanges of views. As a listed company, Dexerials emphasizes dialogue with shareholders and other stakeholders and aims to build strong relationships of trust.

Development of Next-generation Management Leaders and Engineers
Systems introduced to cultivate abundant human resources while enhancing effectiveness of corporate governance

Dexerials has recently established the Nomination and Remuneration Committee, which is an optional advisory body, and has introduced an entrusted executive officer system. These systems help foster next-generation management candidates and

motivate employees to aspire to leadership positions while enhancing the effectiveness of corporate governance.

For succession planning at Dexerials, processes for evaluation, selection, and examination of candidates predate the establishment of the Nomination and Remuneration Committee. These processes were applied to my own appointment as representative director and president. Going forward, owing to the functions of the Nomination and Remuneration Committee, further



“Going forward, the attributes that make us humans special will be in greater demand than ever before.”

enhancement of transparency, fairness, and objectivity regarding nominations is expected. In addition, in October 2019, we will launch the Dexerials Business Leadership Program for young employees selected as next-generation management candidates. By executing this program continuously, we intend to cultivate abundant human resources for management positions.

In regard to the engineers who will be the source of innovation, we need people who are capable of thinking about how Dexerials can contribute to technological evolution, and then formulating and presenting a road map supporting applications. In order to foster such human resources and enable them to demonstrate their capabilities, we will offer them opportunities for personal development, such as by dispatching them overseas, and through open innovation with external partners at the Tochigi Technology Center. We also intend to be proactive in recruiting engineers from outside the Company so as to equip Dexerials with the necessary engineering human resources.

To Our Stakeholders

Create value attuned to needs in society by focusing on human resource development to maximize our social contribution

The “Challenges for Evolution” theme of the Mid-term Management Plan 2023 highlights our commitment to transforming the domain portfolio over the next five years and, looking further ahead, is imbued with our aspirations to create an enterprise capable of achieving sustainable growth by resolving social issues.

Mindful of various social issues, we will work to create and offer unprecedented value to resolve issues and achieve sustainable growth of Dexerials. This orientation is articulated in our corporate vision “Value Matters—Unprecedented innovation, unprecedented value.”

However, this does not mean that we can do whatever we want in our pursuit of growth. Over and above ensuring compliance, it is incumbent on us to make decisions and take actions based on our social responsibility and ethics. This is expressed in our corporate philosophy “Integrity—Have Integrity and Sincerity.”

> See Page 01 for the details of the Corporate Vision and the Corporate Philosophy.

Inculcating the corporate philosophy in the hearts of all employees of the Group so that it always shapes their decisions and actions will lead to the enhancement of corporate governance and the achievement of sustainable growth.

Based on a shared recognition throughout the Dexerials Group that putting the corporate philosophy and corporate vision into practice is the essence of ESG management, we will implement initiatives to achieve the Mid-term Management Plan.

Going forward, the rise of AI and robotics means that those attributes that make us humans special, particularly our ability to create new value, will be in greater demand than ever before. Through human resource development, Dexerials is committed to creating value attuned to the needs in society and thus maximizing our contribution to society. In this way, we will strive to achieve growth with our stakeholders and illuminate the path to a mutually prosperous future.

October 2019

Yoshihisa Shinya

Representative Director and President

“Challenges for Evolution”

The Dexerials Group has launched the “Mid-term Management Plan 2023” toward fiscal year 2023, five years from now, under the theme “Challenges for Evolution,” we have set the management targets indicated below as the goals for the final fiscal year. To achieve these targets, we will implement a growth strategy based on three basic policies. We intend to revise the plan three years from now, assuming that the business environment will change significantly over the next five years.

(The period of the plan: from fiscal 2019 to fiscal 2023)

		FY2018		FY2023 ^{*1}
Net sales	(billions of yen)	60.6	→	80.0
Operating profit	(billions of yen)	3.7		10.0
Profit attributable to owners of parent	(billions of yen)	2.3		7.0
ROE	(%)	4.6		10% or more
Equity spread ^{*2}	(%)	(3.4)		2% or more
Operating cash flows	(billions of yen)	7.8		10.0 billion yen or more ^{*3}

^{*1} A foreign exchange rate of 108 yen to a US dollar is assumed. ^{*2} Equity spread = ROE - Cost of equity (assumed at 8%) ^{*3} 10.0 billion yen or more annually is targeted for fiscal 2021 and thereafter.

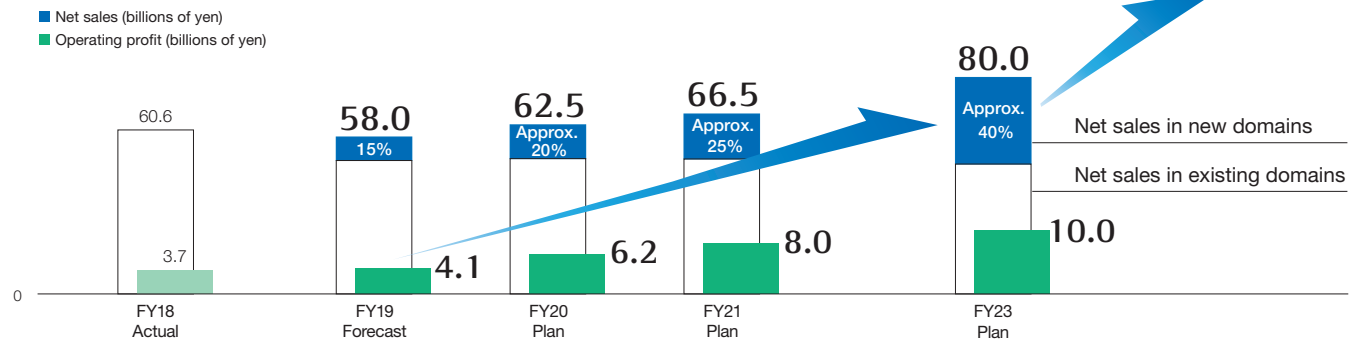
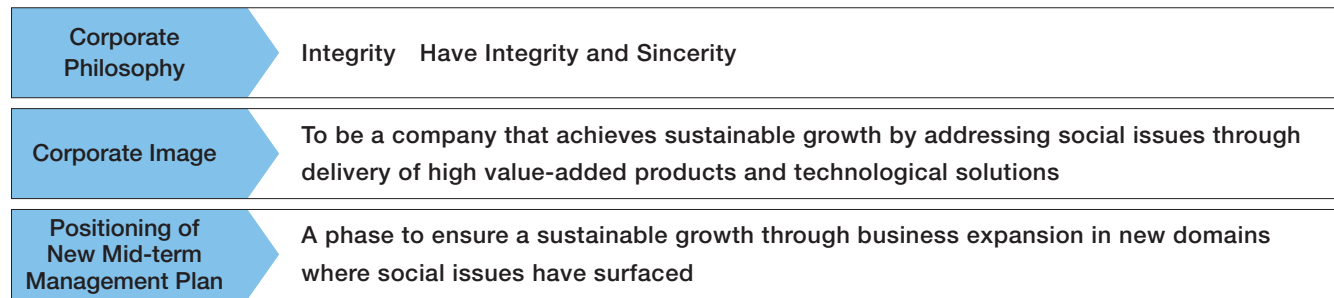
Challenges for Evolution

Positioning of Mid-term Management Plan 2023

Under the three-year “Mid-term Management Plan 2018”, we expanded the size of the anti-reflection film business, increased sales of the automotive business, and expanded the market share of anisotropic conductive films (ACF). Despite these achievements, growth of new domains did not accelerate as expected. Moreover, we were unable to achieve the numerical targets mainly because of slowing demand in the consumer IT products market.

In light of these results, the Group formulated the “Mid-term Management Plan 2023”, a five-year plan, and defined its positioning as “a phase to ensure a sustainable growth through business expansion in new domains where social issues have surfaced.” We intend to achieve transformation of the domain portfolio by accelerating the shift of resources, including selection and focus in the first three years, and by expanding business in new domains centering on the automotive business.

Goals of the five-year plan



Challenges for Evolution

Growth strategy based on three basic policies

The Mid-term Management Plan 2023 recognizes “dependence on the consumer IT products market and specific customers” and “lack of adaptability to changing business environment” as issues central to the Group’s growth strategy. In order to overcome these issues, we have set the following three basic policies and will implement key initiatives.

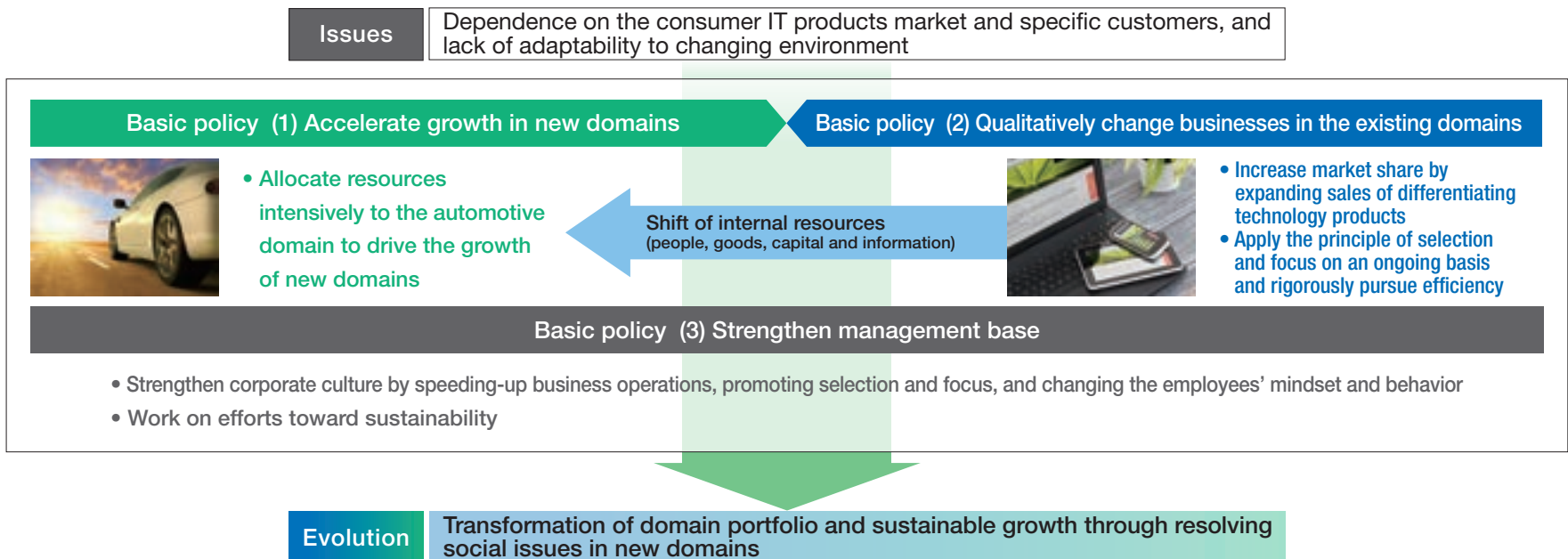
The first basic policy is to “**accelerate growth in new domains.**” By allocating resources intensively to the automotive domain, we will expand key products, exploiting the tailwind of growing demand for in-vehicle displays in terms of both number and size, and enhance our presence in the US and European markets through joint creation with partners.

The second basic policy is to “**qualitatively change businesses in the existing domains.**” While seeking to increase market share by expanding sales of particle-arrayed ACF and other differentiating technology products with new functionalities, we will expand applications of products utilizing sputtering technology. We will also promote the shift of resources to new domains through rigorous pursuit of efficiency by applying the principle of selection and focus on an ongoing basis.

The third basic policy is to “**strengthen management base.**” We will establish a robust corporate culture by creating an organizational structure that can support the company-wide evolution and by carrying out behavioral change. At the same time, while focusing on fostering next-generation talent capable of assuming managerial positions, as well as engineers who are drivers of innovation, we will strive to maintain a sound governance system to achieve sustainability.

Three basic policies and key initiatives

Overcome the issues and realize evolution by shifting resources and strengthening corporate culture



Challenges for Evolution

Key points for accelerating growth in new domains

In the Mid-term Management Plan 2023, we position the automotive business as a new pillar of growth in new domains. Whereas the automotive business accounted for approximately 10% of the Group's net sales in fiscal 2018, we intend to increase the ratio to 30% in fiscal 2023, the final fiscal year of the plan.

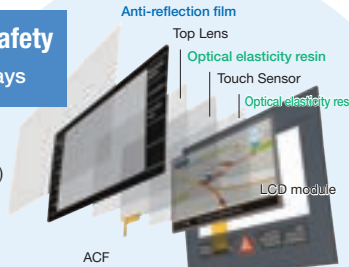
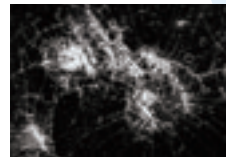
In particular, regarding in-vehicle displays for which high visibility and safety are needed and higher resistance, larger size, and applications for curved surface and irregular shape are accommodated, the Group's anti-reflection films and optical elasticity resins are attracting interest and acclaim in view of their high functionality.

Capitalizing on these selection criteria, we will conduct vigorous proposal-oriented sales to enhance the presence of the Group in the automotive industry.

Reasons why Dexerials products are selected

Provide high visibility and safety required for in-vehicle displays

- Anti-reflection films
Countermeasure for head impact (anti-scattering)
- Optical elasticity resins
Impact absorption



Accommodate needs for higher resistance, larger size, and applications for curved surface & irregular shape

- Anti-reflection films
DIN* Standard compliant / Applicable for curved surface
*DIN Standard: German Industrial Standard
- Optical elasticity resins
OCR* is dominant for larger displays.
*OCR: Optical Clear Resin



Materialized the solution by jointly working with MinebeaMitsumi on lamination

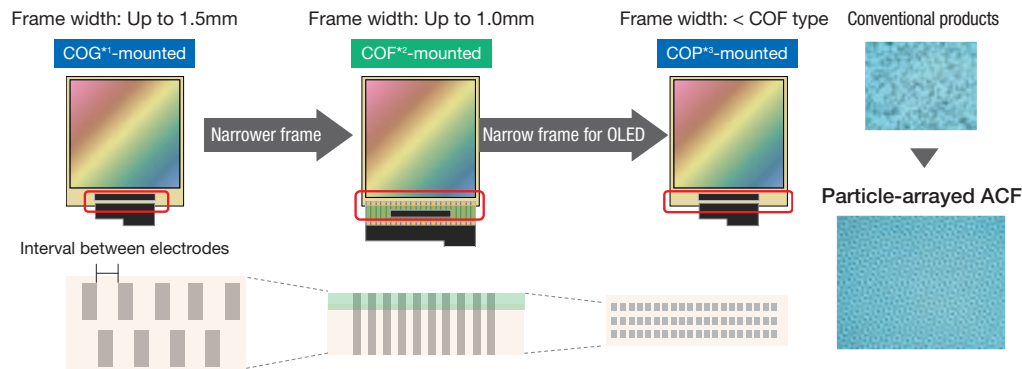
Challenges for Evolution

Key points for qualitatively changing businesses in the existing domains

Establish particle-arrayed ACF as the de facto standard in the industry

Particle-arrayed ACF will likely go mainstream in the future because the conventional products cannot accommodate growing needs for downsizing wiring area on smartphones.

Trends on wiring area and mounting technologies of display-related materials (drive ICs, substrates, etc.)



*1 COG: Chip on Glass *2 COF: Chip on Film *3 COP: Chip on Plastic

By thoroughly applying the principle of selection and focus in the existing domains, we will strengthen products and technologies with which the Group can achieve differentiation to steadily increase market share.

Among differentiating technologies to focus on, we have positioned particle-arrayed ACF as the sales driver in the existing domains and intend to establish it as the de facto standard in the industry. In particular, for smartphone displays, the particle-arrayed ACF is becoming the sole option in the market that can accommodate a smaller wiring area for the drive ICs in line with the trend toward greater precision.

In view of this trend, by establishing particle-arrayed ACF as the de facto standard in the industry, we intend to increase the ratio of sales of particle-arrayed ACF to total sales in the existing domains from approximately 7% in fiscal 2018 to 40% in fiscal 2023, securing about 10.0 billion yen.



Achieve sustainable enhancement of corporate value by reinforcing portfolio management

Naoyuki Sanada

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


Support Dexerials' transformation by leveraging my experience to fulfill the expectations of a "CFO who understands business"

Having joined the Company as a sales representative, after a while I was transferred to corporate planning and then gained experience in planning at a business unit, was involved in establishing an overseas subsidiary, and eventually worked overseas. Subsequently, having gained experience as a plant manager in Japan and a business unit head, I have been serving as Corporate Planning & Control Division Head since 2014. I led the project that resulted in a public offering in 2015. This was a valuable experience and is related to my current responsibilities.

I am deeply aware of the Company's expectations of me as CFO, particularly as my background is not weighted toward corporate finance. Resolved to satisfy those expectations as a "CFO who understands business," I am committed to supporting Dexerials' transformation by leveraging my experience and thus fulfilling my role.

Review of fiscal 2018 and prospects for fiscal 2019

In regard to the financial aspects, let me comment on key points concerning the results of fiscal 2018. Although net sales decreased 14% year on year, this decrease was due to the change of the base films for optical films, which are positioned as a new pillar of growth, and excluding this impact, net sales would have increased 6% year on year. On the other hand, a substantial 40% year-on-year decrease in operating profit reflected a decline in sales of optical resin materials, which constitute a profit driver. This was because the IT and mobile phone market, including smartphones on which Dexerials products are largely dependent for their applications, lost momentum in the second half of fiscal 2018.

 > Please see "Explanation of key aspects of financial performance" on Page 08 for the details of the change of the base films for optical films.

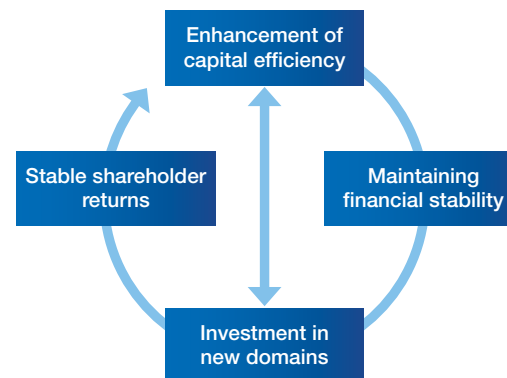
For fiscal 2019, we expect a year-on-year decrease in sales of 2.5 billion yen or 4%. Of this decrease, 1.1 billion yen is expected to be attributable to foreign exchange impacts based on the anticipated rate of 108 yen to a US dollar. The plan calls for a 10% year-on-year increase in profits due to volume increases in optical films, for which there is strong demand for laptop PC and automotive applications, and in thermal conductive sheets, whose application for 5G wireless base stations is set to grow.

Introduction of a business review system to realize the shift of resources and reinforce portfolio management

The basic policy of our financial strategy from now on is to strengthen the financial base leading to sustained enhancement of corporate value and we will tackle four issues: enhancement of capital efficiency, maintaining financial stability, investment in new domains,

Basic Policy

Strengthening Financial Base Leading to Sustained Enhancement of Corporate Value



and stable shareholder returns. Specifically, while maintaining financial stability, we will pursue a cycle of securing returns through disciplined investment in growth so as to enhance capital efficiency and achieve stable shareholder returns. In particular, while maintaining the current capital to asset ratio in order to respond to various financial risks that are anticipated, we will invest for future growth within the annual amount of depreciation and judge whether to execute each investment project based on the economic criteria for investment using the internal rate of return.

In order to reinforce portfolio management, we review businesses based on perspectives of profitability, stability, growth, scale, and competitive advantage and the “economic value of business” on which will be commented later and categorize each business as a “developing business,” “strategic business,” “core business,” or “business undergoing structural transformation.” Through this business review process, we periodically conduct selection and focus of businesses to shift resources, and aim at achieving sustainable growth.

The economic value of a business is calculated by subtracting the capital cost of the business from the profit contributed by the business, which is the sum of operating profit of the business and indirect division expenses charged to the business. The capital cost of each business is calculated by categorizing the operating capital of the entire Company to individual businesses and charging the capital cost to each business.

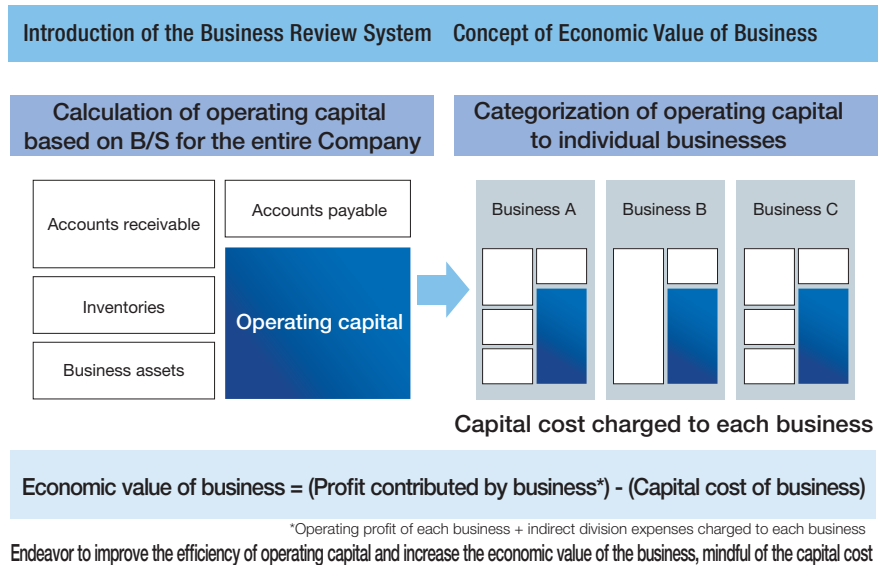
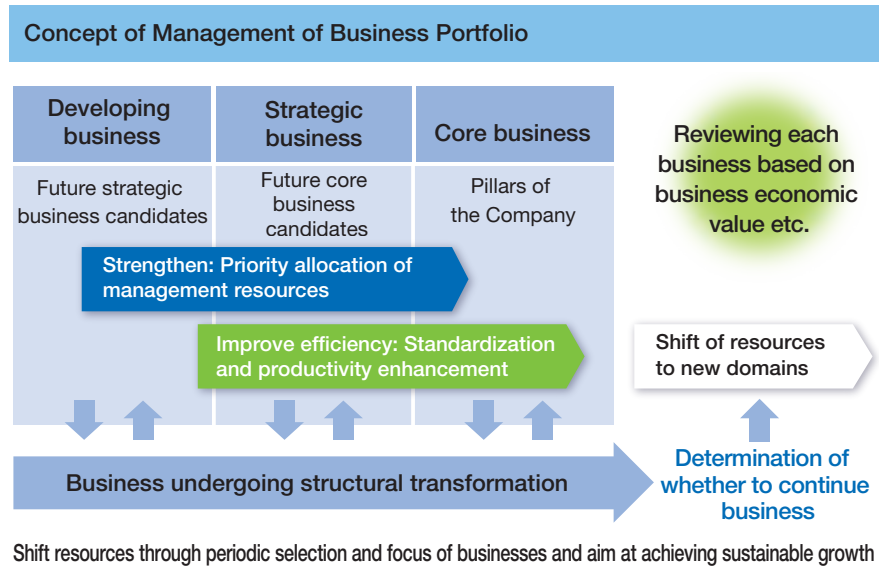
One of the objectives of the introduction of the business review system is to ensure each division head has a sense of urgency and considers the contribution to the entire Company while endeavoring to enhance the efficiency of the operating capital of the business and increase the economic value of the business.

Achieve the performance targets of Mid-term Management
Plan 2023 to position Dexerials at the starting line for the future

Dexerials has started five-year initiatives under the Mid-term Management Plan 2023 with “Challenges for Evolution” as the

theme. This plan expresses the management team’s determination to venture into new domains and its determination to accomplish reform, reflecting on the fact that we fell short of the targets of the previous three-year Mid-term Management Plan. In order to achieve growth in new domains and qualitative change of businesses in the existing domains and strengthen the management base, management’s resolve for reform must be fully shared and taken to heart by every employee.

Net sales of 80.0 billion yen and operating profit of 10.0 billion yen, which are the targets for fiscal 2023, the final year of the plan, are the level of financial performance we aimed at when we went public. By achieving these targets, we will at last be able to position Dexerials at the starting line for the future. We sincerely ask our stakeholders for their continued interest and support in the various challenges Dexerials will be embracing over the next five years.



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.



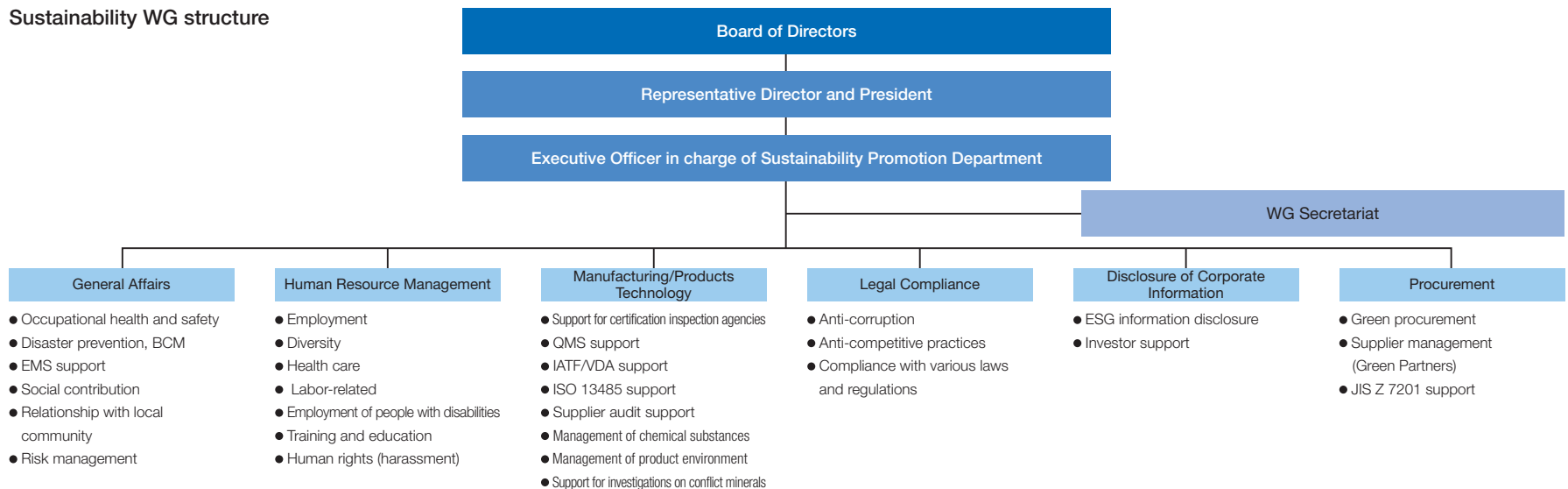
CSR Promotion System

At Dexerials, CSR management is promoted based on the direction of the executive officer in charge of the Sustainability Promotion Department 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” (referred to hereafter as “Sustainability WGs”) are held regularly comprising the Division responsible for each CSR theme.

On the basis of important challenges (materialities) specified by the Board of Directors, Sustainability WGs plan to enhance activities and to promote in-company awareness by holding investigations into problems within activities, etc., from an inter-divisional perspective, including compiling up-to-date CSR activity status reports.

Sustainability WG structure




Risk Management

The Risk Management Committee has been established as the agency for Group-wide management of interdepartmental risk. The Committee is composed of 11 subcommittees in specialized fields, which gather and evaluate risk information and take countermeasures centering on risks related to business operations.

The executive officer in charge of general affairs serves as the risk manager and regularly meets with each subcommittee manager to confirm the major risks in each subcommittee and the progress of appropriate countermeasures.

If a risk materializes, it is reported to the risk manager via the information transmission route stipulated by the Company. The Board of Executive Officers then deliberates on the response and reports to the Board of Directors regarding risks that may have a serious impact on the Dexerials Group.

 > See Page 60 for the details of the business continuity planning (BCP) activities.

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

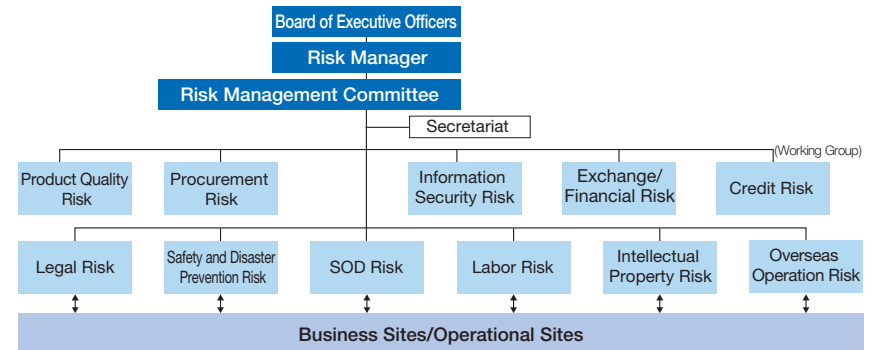
We respect all human rights and we do not discriminate or carry out forced labor or child labor.

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.

Risk management structure



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

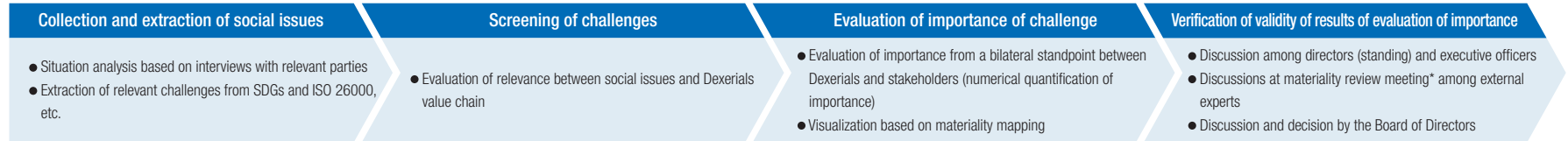
We contribute to local communities as a good corporate citizen. We encourage communication with local communities, promoting activities and supporting initiatives related to the environment, sports, cultural activities and so on, mainly in the areas where plants are located.

8. Expanding together with suppliers

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

Specifying Materialities

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

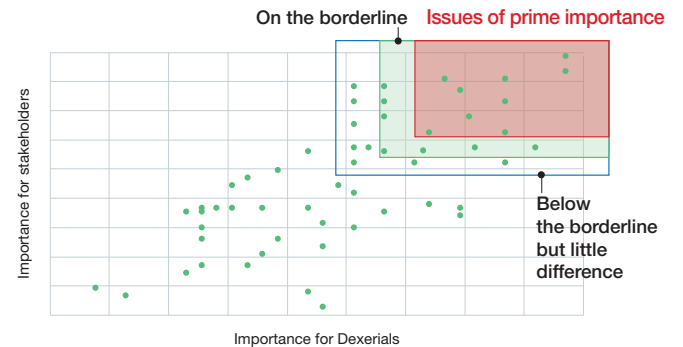


*Materiality evaluation (materiality mapping)

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

*Materiality review meeting

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



Challenges Specified as Materialities and SDGs

Theme	Related SDGs
Creating new value/ resolving social issues	3 Good health and well-being Ensure healthy lives and promote well-being for all at all ages.
	7 Affordable and clean energy Ensure access to affordable, reliable, sustainable and modern energy for all.
	6 Clean water and sanitation Ensure availability and sustainable management of water and sanitation for all.
Reinforcement of corporate governance and compliance	12 Responsible consumption, production Ensure sustainable consumption and production patterns.
	13 Climate action Take urgent action to combat climate change and its impacts.
Cultivation of diverse human resources and engagement	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.
	4 Quality education Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
Ensuring operational safety and business continuity	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.

CSR Targets

Dexerials has set medium- to long-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 key performance indicators (KPIs) specified for each materiality theme.

CSR targets based on materiality (KPIs)

Materiality theme	KPI	Fiscal 2019	Fiscal 2020	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: 424,000 m ² ● Thermal conductive sheets: 39,324 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 37 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)	Survey of certain suppliers on status of their CSR management and request for improvements (guidance)
Reinforcement of corporate governance and compliance	Maintenance and enhancement of the management system	<ul style="list-style-type: none"> ● Further clarification of the nomination and compensation determination process ● Promotion of the officer succession plan (including fostering of successors) 		
	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		
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	<ul style="list-style-type: none"> ● Instilment of the management by objective system to facilitate employees' growth ● Implementation of measures for managers 	<ul style="list-style-type: none"> ● Instilment of evaluation and development to facilitate employees' growth ● Implementation of measures for managers
	[Cultivation of engagement (2)] Promotion of Dexerials-style workstyle reform measures	<ul style="list-style-type: none"> ● 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 workstyle reform to respond to the needs of diverse workstyles	Introduction of new measures for Dexerials-style workstyle reform to respond to the needs of diverse workstyles
	[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		
	[Diverse human resources] Ratio of management's participation in diversity communication training: 100%	Participation ratio of general managers* to be 30% *Managers engaged in management of departments	Participation ratio of general managers to be 65%	Participation ratio of general managers to be 100%
Ensuring operational safety and business continuity	Number of workplace accidents with lost working days	Zero	Zero	Zero
	Enrichment of BCP training	<ul style="list-style-type: none"> ● Execution of company-wide BCP training at least once a year ● Ongoing review of BCP plans through training (promotion of initiatives, considering BCM) 	<ul style="list-style-type: none"> ● Execution of company-wide BCP training at least once a year ● Ongoing review of BCP plans through training (promotion of initiatives, considering BCM) 	<ul style="list-style-type: none"> ● Execution of company-wide BCP training at least once a year ● Ongoing review of BCP plans through training (promotion of initiatives, considering BCM)
	Strengthening of disaster-prevention measures	<ul style="list-style-type: none"> ● Execution of company-wide disaster-prevention training at least once a year ● Ongoing review of disaster-prevention measures, considering linkage with BCP 	<ul style="list-style-type: none"> ● Execution of company-wide disaster-prevention training at least once a year ● Ongoing review of disaster-prevention measures, considering linkage with BCP 	<ul style="list-style-type: none"> ● Execution of company-wide disaster-prevention training at least once a year ● Ongoing review of disaster-prevention measures, considering linkage with BCP

Optical Materials and Components Segment



Aspiring to be a business that ensures people’s happiness by supporting safety and comfort behind the scenes

Takashi Yoshida

Executive Officer
Optical Solutions Business Unit Head

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.

Anti-reflection films as a new pillar of growth

The Optical Materials and Components segment consists of three categories: optical films, optical resin materials, and optical solutions. The Optical Solutions Business Unit for which I am responsible is in charge of optical films and optical resin materials. The principal products are anti-reflection films, optical elasticity resins, UV-curable resins for optical disks, and smart precision adhesives. While another business unit, the Automotive Solutions Business Unit, is in charge of the optical solutions category, the Optical Solutions Business Unit accounts for approximately 95% of net sales of the segment and sales of anti-reflection films account for about 50% of net sales of the Optical Solutions Business Unit.

As for the review of the results of operations of the Optical Materials and Components segment for fiscal 2018, segment sales decreased as a result of the change of base films for anti-reflection films to lower-cost ones. Although this change did not have an impact on profit, profit decreased significantly because of a decline in sales of optical elasticity resins because of lower demand for the products for smartphones. Meanwhile, for optical films, a production facility in which we have made a large investment since 2016 has started full-scale operation and the optical films category has grown to such a scale that net sales exceed 10.0 billion yen.

Growth opportunities and risks for optical materials and components

Going forward, the trend in the automotive industry called “CASE” will provide growth opportunities for the Optical Products and Components segment. In line with the trend toward increases in the number and the size of displays in a cockpit and dramatic increases in the number of sensors and cameras installed, demand for anti-reflection films, optical elasticity resins, smart precision adhesives, etc. is expected to expand. At the same time, needs for enhanced visibility of displays, which is relevant to safety when vehicles are driven, are expected to become more evident. We think it will be an opportunity to enhance evaluation of anti-reflection films and for the value delivered by our products to gain wider recognition.

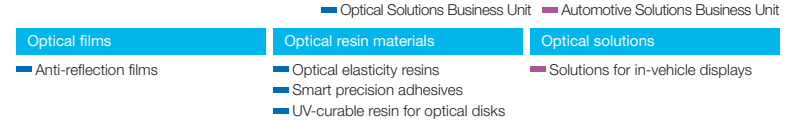
In response to such changes in demand, we will promote sharing of production processes of resin products and development of multi-skilled operators to enable a flexible shift in accordance with the changing environment.

At Dexerials, technical exchanges transcending the differences in product categories are vigorously pursued on a regular basis. For example, product analysis technology is not just for optical materials and components but for all Dexerials products, and information on new analysis methods and facilities is widely shared within the company. Such initiatives are highly regarded by our customers and are becoming recognized as new added value from Dexerials.

» Structure of an anti-reflection film and applications

Labels in diagram:
 Anti-reflection layer
 Low refractive layer
 High refractive layer
 Low refractive layer
 High refractive layer
 Adhesion layer
 Anti-smudge layer
 Clear or anti-glare hard coat layer
 Base film
 Adhesion layer

Applications:
 Automotive displays
 Flat display panels
 Tablet PCs, laptop PCs



Accelerating growth in new domains and promoting structural transformation

In regard to the Mid-term Management Plan 2023 that we are currently implementing, the Optical Materials and Components segment seeks to expand the automotive business while reducing dependence on the consumer IT products market, thereby becoming a driving force of structural reform to accelerate growth in new domains.

In order to fulfill its role and contribute to achievement of the Mid-term Management Plan, the Optical Materials and Components segment is committed to seizing the growth opportunities in the automotive industry mentioned earlier and achieving good results.

Concerning the securing of safety when vehicles are driven, which is a social issue, our products can deliver value in many aspects, such as enhancement of visibility of in-vehicle displays and head impact countermeasures (prevention of scattering) by applying anti-reflection films and impact absorbance by applying optical elasticity resins. It is critically important for us to establish a position that will enable Dexerials to prevail despite price competition.

We aspire to be a business that ensures people's happiness by supporting safety and comfort behind the scenes. Through our contribution to creation of a society in which our aspirations are realized, we are refining our technological capabilities to enhance our enterprise value.

» Dexerials' analysis technology supporting product quality

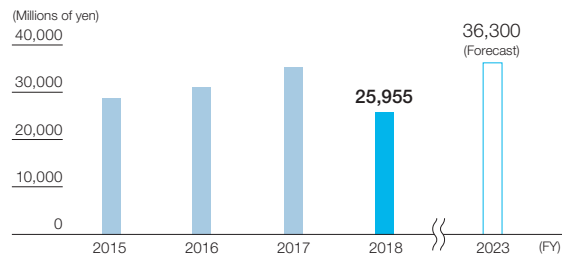
Dexerials develops and markets a wide range of functional materials matched to the needs of our customers, and this is made possible by our analysis laboratory. Our laboratory is equipped with various instruments boasting high sensitivity and high resolution. Engineers using such equipment apply their expert knowledge of many products and development themes. They also conduct optimum pre-conditioning of samples and select the best analytical technique to quickly resolve problems that arise not only in the development and manufacturing of our own products, but also during our customers' manufacturing processes.

In addition, we have a specialized organization which performs simulations of fluids, structures, and optics to optimize process conditions for film layer configuration, material mixing, coating, and crystal growth, to mention a few. By verifying actual behavior through a theoretical approach, this organization offers extensive support for our fundamental development, product development and also for process development.

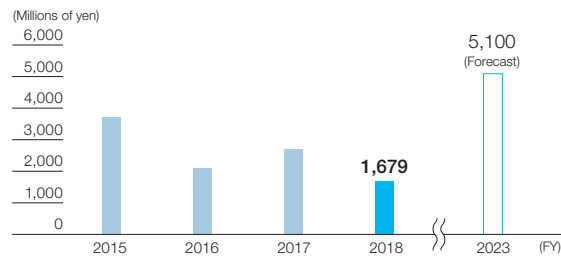


Analysis laboratory

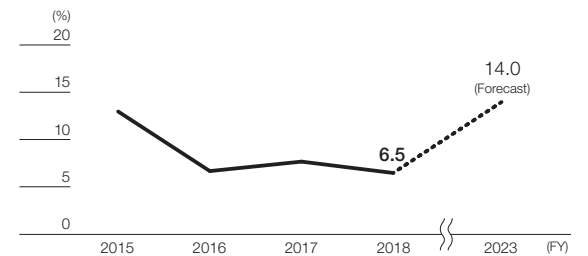
Net sales



Operating profit



Operating profit margin



Business Overview by Segment

Electronic Materials and Components Segment



Aim to be a business unit that can offer solutions as a partner with a sure grasp of customers' issues

Kozaburo Hayashi (left)
Executive Officer
Connecting Materials Business Unit Head

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.

Realize an organization that enhances employee satisfaction and is capable of adapting to change, embracing individuals' ideas

Hisaya Tamura (right)
Executive Officer
Electronic Components & Environment Solutions Business Unit Head

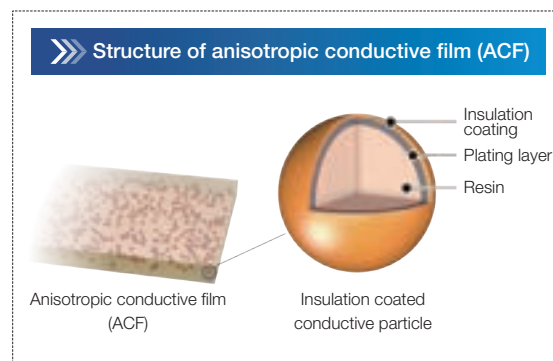
Profile
Joined Sony Chemicals Corporation, the predecessor of Dexerials, in 1986 as an electrical engineer. After working on improvement of motor efficiency and development of self-control protectors (SCP), secondary protection devices for Li-ion battery in Li-ion rechargeable batteries, worked at the former Neagari Plant (Ishikawa Prefecture). Since 2007, served as an officer responsible for manufacturing and technology at Suzhou Plant in China. After returning to Japan, appointed the Electronic Devices Business Unit Head in 2016. Appointed Executive Officer in 2017. In the current position since 2019.

Results of operations for fiscal 2018

Fiscal 2018 was a significant year for the Electronic Materials and Components segment, marked by an increase in sales of strategic products despite a year-on-year decrease in operating profit of the segment. Regarding anisotropic conductive films (ACF), demand for particle-arrayed ACF for smartphone and in-vehicle display applications increased significantly, and regarding adhesive materials, demand for thermal conductive sheets for wireless base stations was robust. Sales of surface mounted type fuses increased, following an increase in the previous fiscal year, owing to an increase in demand for products for large-current applications centering on those for electric power tools.

Hayashi Significant growth of the particle-arrayed ACF business, the next growth driver

The mainstay products of the Connecting Materials Business Unit are anisotropic conductive films (ACF). Other adhesive materials we handle include various adhesives and bonding tapes. ACF is an adhesive material endowed with both electrical conductivity and insulation by the inclusion of conductive particles in thermo-curable resins. ACF is becoming indispensable for production of electronic components and higher-definition displays whose substrates are becoming more compact.



In fiscal 2018, overall demand for ACF declined in line with the slowdown of the smartphone market and we operated in a very challenging environment. However, we managed to maintain net sales virtually the same as the previous fiscal year as a result of a higher unit sales price because of greater demand for particle-arrayed ACF, which is increasingly adopted for in-vehicle display and high-end smartphone applications. On the other hand, profit decreased because of an increase in fixed costs in order to respond to a surge in demand.

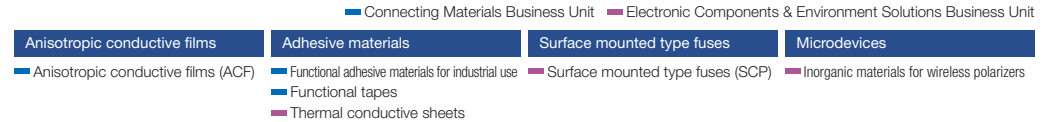
Expansion of sales of particle-arrayed ACF, differentiating technology products on which we have been focusing our efforts, was a major achievement in fiscal 2018. We also succeeded in mass production of ACF with ultra-narrow width of 0.5 mm in fiscal 2018.

Seize a position in the market by taking advantage of differentiating technology products

In order to “qualitatively change businesses in the existing domains,” which is one of the basic policies of the Mid-term Management Plan, the Connecting Materials Business Unit aims to seize an overwhelming market position by expanding sales of differentiating technology products. Specifically, we intend to establish particle-arrayed ACF as the de facto standard in the industry, responding to the trend toward higher-definition displays, displays with narrower frame width, and adoption of OLED displays for high-end smartphones and 8K TVs.

As a consequence of this evolution of displays, the width of electrodes of connecting semiconductor devices, and the intervals between the electrodes, are getting smaller and particle-arrayed ACF is becoming the only option capable of accommodating this trend. Moreover, in the automotive field where vehicles are being equipped with more displays, demand for particle-arrayed ACF is expected to increase because it offers more reliable connection.

The Mid-term Management Plan calls for increasing net sales of particle-arrayed ACF to 10.0 billion yen by fiscal 2023. We are currently making good progress toward this goal.



Meanwhile, from the viewpoint of resolving social issues, the spread of particle-arrayed ACF contributes to enhancement of living convenience as well as resource saving and energy saving at our customers' production sites because it enables loss reductions through high yields and thermocompression bonding at lower temperatures.

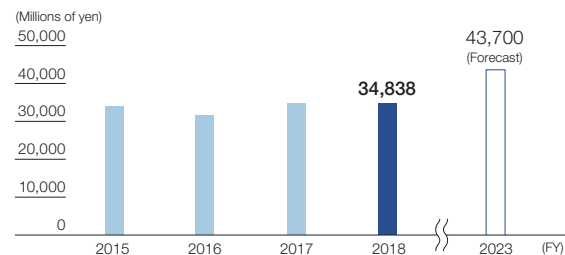
We aim to be a business unit that can offer solutions as a partner with a sure grasp of customers' issues, rather than simply supplying materials.

Tamura Integration of excellence in four areas: organic and inorganic materials, electrical, and microfabrication technologies

The principal products of the Electronic Components & Environment Solutions Business Unit are adhesive materials such as thermal conductive sheets, electronic components and materials such as surface mounted type fuses, and other environmental and new energy materials.

Not just the Electronic Materials and Components segment but Dexerials in its entirety has developed unique strengths through the combination of organic chemicals-based materials technology for adhesives with inorganic materials technology and by applying electrical technology and microfabrication technology. Products developed and offered by the Electronic Components & Environment Solutions Business Unit are the integration of excellence in four areas: organic and inorganic materials, electrical, and microfabrication technologies.

Net sales



Thermal conductive sheets, our mainstay products, are widely used for smartphones, and other mobile devices and wireless base stations. By quickly dissipating heat generated by CPUs and other IC chips to heat sinks and cases, thermal conductive sheets protect device performance. Surface mounted type fuses, which are also mainstay products, protect electronic equipment by preventing overcharging and overcurrent of Li-ion batteries, and are indispensable not only for mobile devices and laptop PCs but also for home appliances, such as robotic vacuum cleaners.

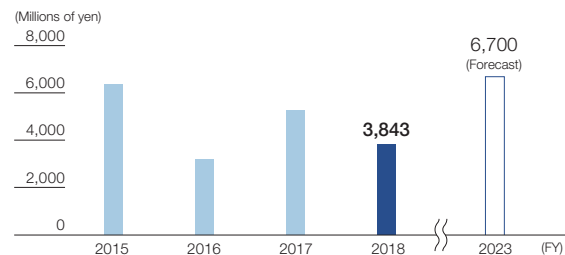
Business development into the automotive field by capitalizing on technology cultivated in the communications field

In fiscal 2018 sales of thermal conductive sheets were below the target and virtually unchanged from the previous fiscal year. This was because sales ended up centering on products in the low-price zone although sales volume increased almost as planned. Sales of surface mounted type fuses increased as demand for products for large-current applications, such as for robotic vacuum cleaners, were robust.

So far, growth of these products was mainly in the communications field in the consumer IT products market. Going forward, capitalizing on the technology cultivated in the communications field, we aim to introduce more products into the automotive field where computerization is advancing.

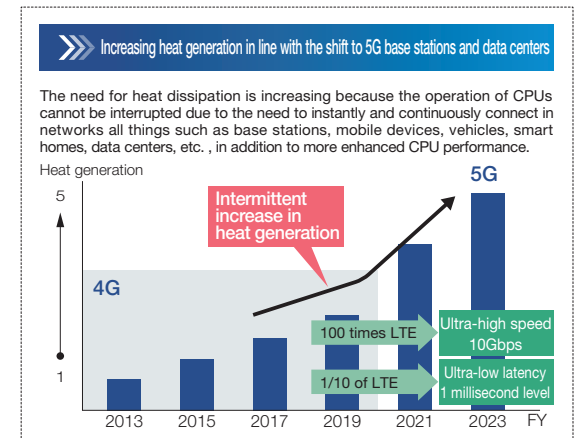
Our initiatives for thermal conductive sheets in accordance with

Operating profit

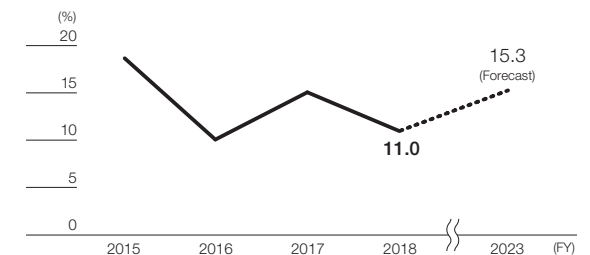


the Mid-term Management Plan are designed to tap rising demand for 5G wireless base stations from now on so as to increase sales while concurrently promoting expansion into the automotive field. For surface mounted type fuses, we will sharpen our focus on development of products for automotive applications while maintaining the expansion of sales of products for large-current applications, such as products for robotic home appliances and electric power tools.

I aspire to make the Electronic Components & Environment Solutions Business Unit an organization that emphasizes employee satisfaction as a measure of happiness and is capable of adapting to change, embracing individuals' ideas rather than relying on a top-down approach.




Operating profit margin



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. Products that have been brought to market through Virtual Startup include Kireia anti-fogging and anti-fouling solutions.  > See Page 34 for the details of Kireia.

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. In order to address needs in society and those of customers and to keep delivering new value, we continue to aim to achieve successful development and commercialization of new products, making use of intrapreneurship and other mechanisms.

Environment and Life Sciences Field

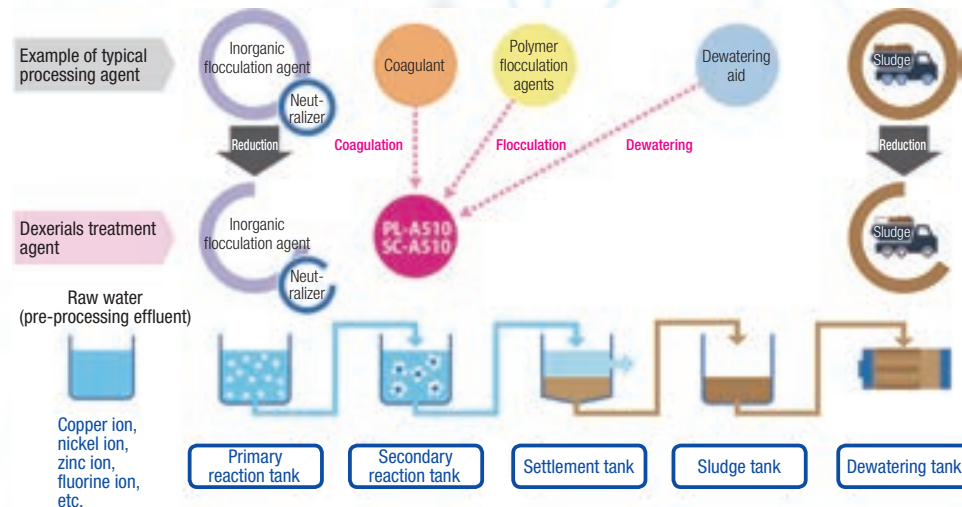
Principal Products

Wastewater treatment agent (for inorganic effluent) that improves quality of water discharged from factories by exploiting the power of natural plant materials



Dexerials wastewater treatment agent was born from integration of our core technologies—organic materials technology and formulation technology. This product is a wastewater treatment agent that utilizes the characteristics of natural plants in which the coagulating and flocculating functions exhibited by water-soluble polymer components achieve desirable flocculation. Furthermore, it can reduce the usage of chemicals including inorganic flocculant, thus lowering sludge production.

It also contributes to overall cost reduction of wastewater treatment as the fibrous structure of plants leads to better drainage, resulting in saving dewatering time and lower moisture content. Generally, different kinds of chemicals are used in each treatment: coagulation, flocculation and dewatering. This product consolidates three functions in one and can be used in existing wastewater treatment equipment.



Albedo solar control window film

A new type of transparent heat-shielding window film. The special reflective layer inside the film selectively targets only heat-generating near-infrared rays and reflects them upward, meaning fewer such rays reach the ground surface. Albedo helps keep room temperatures from rising without negatively impacting the outdoor environment.



Medical eye shields

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.

Supporting the future of automobiles with Dexerials' technology

Dexerials Corporation has been committed to improving cutting-edge material technologies and process technologies mainly in the electronics field. We apply unique functional materials derived from such development in various fields, thereby expanding their usage. To take up challenges in new areas by using the technologies and solutions we have developed, we will now move forward with our technological development into the automotive business.

Sensing technologies, seamless communication environments, and interfaces for drivers that meet complex requirements are needed in the automotive industry today, where technologies are used more widely than ever before. We will support the accelerating use of intelligent technologies in the automotive industry with our creativity.

Applications

Head-up Display

- Anti-reflection film moth-eye type
- Inorganic waveplate
- Inorganic diffuser
- Anisotropic conductive film (ACF)
- Thermal conductive sheet
- Sputtering target

Instrument Cluster*1

- Anti-reflection film
- Anti-reflection film moth-eye type
- Optical elasticity resin (SVR)
- Anisotropic conductive film (ACF)

Side-view Mirror

- Sputtering target

Millimeter-wave Radar Compatible Emblem

- Sputtering target

Headlight

- Thermal conductive sheet
- Sputtering target



Sensing Camera

- UV-curable / thermo-curable adhesives
- Anisotropic conductive film (ACF)
- Thermal conductive sheet

Center Information Display

- Anti-reflection film
- Anti-reflection film moth-eye type
- Optical elastic resin (SVR)
- Anisotropic conductive film (ACF)
- Thermal conductive sheet

Mirror Display*1

- Anti-reflection film
- Anti-reflection film moth-eye type
- Optical elasticity resin (SVR)
- Anisotropic conductive film (ACF)

Tail Light**2

- Anisotropic conductive film (ACF)

Battery

- Thermal conductive sheet
- Surface mounted type fuse

*1 Applied on displays
*2 OLED type

Unique solutions capitalizing on technology to offer value that makes a greater contribution to society

We are committed to creating value that contributes to resolution of social issues, transcending the borders of our existing business fields. This article features Kireia anti-fogging and anti-fouling solutions that have complex functions.

Achieving both anti-fogging and anti-fouling, adopted for bathroom vanity units

“Kireia” is the name of the anti-fogging and anti-fouling solutions developed by Dexerials. By coating the surface of the target material using a proprietary process, complex functions, such as water repellence, oil repellence, and moisture absorption, are provided to prevent fogging caused by water vapor and reduce marks and stains, including those from water and oil, while also maintaining high levels of rigidity and durability for resistance to surface scratches and peeling.

These anti-fogging and anti-fouling solutions developed by Dexerials have been adopted in bathroom vanity units introduced by Panasonic Corporation since August 2018. The coating applied

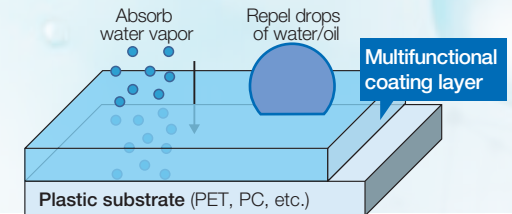
to the mirrors repels scale and dirt from toothpaste, cosmetics, and the like, making it easy to remove dirt. The coating layer also absorbs water vapor to prevent fogging of the mirror.

Kireia is an application of the technology for processing the surface of liquid crystal displays to prevent fingerprints and dirt, which Dexerials has been cultivating. No solutions were previously available that achieve both anti-fogging and anti-fouling, and our pursuit of possible applications in other fields led to commercialization. The anti-fouling function makes it unnecessary to apply strong force when wiping the mirror to clean it, resulting in high durability of the processed surface.

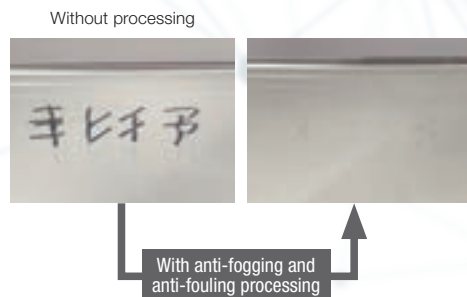
Characteristics of the new anti-fogging and anti-fouling film

Newly developed multifunctional coating layer achieves:

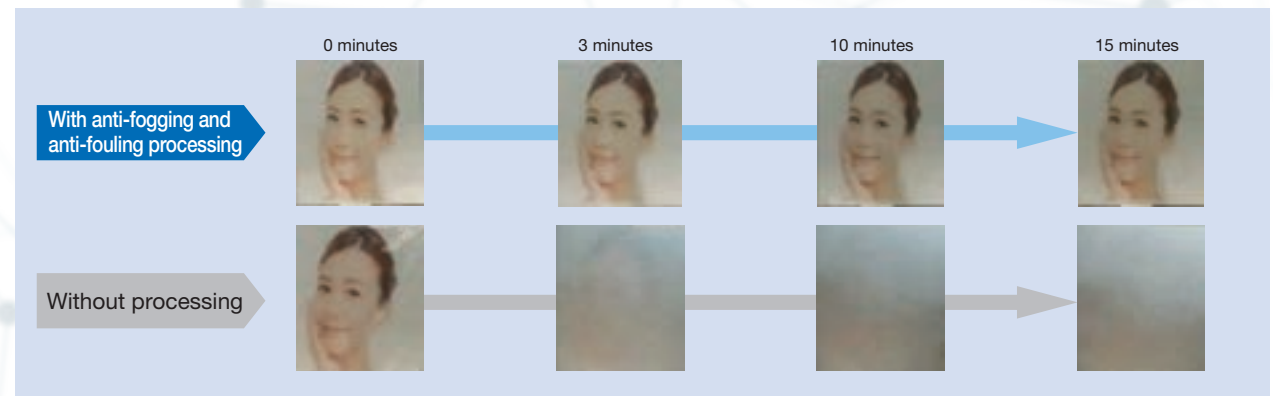
High anti-fogging function, powerful anti-fouling function, antistatic performance, scratch resistance, excellent durability



Comparison of the effect for oil stain (permanent marker)



Comparison of the speed of fogging of a mirror



Possibilities expand from home applications to automotive and medical applications

Aiming for wide adoption of Kireia, we are working to expand applications in various fields.

Regarding applications in the home, the target is to process doors, floor materials, wall materials, and parts such as those of faucets, to prevent build-up of scale in the bathroom. Applications in kitchens and toilets are also a source of growth. Offering comfort in the home and reducing the burden of housekeeping, including cleaning and maintenance, Kireia will deliver qualitative improvement of everyday life.

In industry where automation is advancing, production lines at factories are equipped with many sensors. By applying anti-fogging and anti-fouling processing to sensor windows, erroneous detection and malfunction of sensors can be reduced. Kireia is also applied for photoelectric sensors launched by OMRON Corporation in October 2019 to support enhancement of the reliability of automated production lines and improvement of the facility utilization rate at production sites.

The application of sensors in the automotive field is on an upward trajectory in line with the progress of electrification and autonomous driving. Anti-fogging and anti-fouling processing is considered effective for secure operation of these sensors to enhance safety. It contributes to safe driving by eliminating poor visibility. It also reduces the burden of maintenance if applied to coating of the entire body.

Besides, in the medical field, applying anti-fouling processing to surgical instruments and equipment is expected to contribute to maintenance of hygiene, including disinfection.

Thus, widening the application of Kireia is expected to bring about numerous advantages in terms of resolving social issues.

What is necessary for a new business to deliver wide-ranging value

“Kireia” is the first outcome of “Virtual Startup,” launched two years ago as an intrapreneurship system within the company that enables employees to apply their ideas to establish new businesses. From the proposal stage, the employee who conceived of Kireia had a concrete vision, that is, to develop a relationship with a major manufacturer of household appliances and apply Kireia to bathroom vanity units. Having been selected for Virtual Startup, the Kireia project gained legitimacy and a budget, targets were set to put the business on track and achieve profitable operation, and the business was launched.

While promoting use of Virtual Startup to broaden the scope of our business based on unique ideas capitalizing on Dexerials’ technological capabilities, we also offer opportunities for our employees to appreciate and share new ideas through technology exchange meetings and commendations. In this freewheeling, open-minded atmosphere, the Kireia project received valuable feedback and high evaluation.

For a new business aiming to deliver wide-ranging value, an approach emphasizing the development of solutions is required. Rather than emphasizing Dexerials’ technology, it is necessary to address customers’ issues and respond to their requests in a manner that leverages their strengths. Possessing specialized knowledge that enables us to discuss with customers on an equal footing and maintaining an attitude conducive to flexible generation of ideas, we are able to make effective proposals that address needs of which customers themselves may be unaware.

We will continue our commitment to creating value, transcending the borders of our existing business fields, and contribute to resolution of social issues.



“Utsukushi-zu” bathroom vanity unit of Panasonic Corporation (Dexerials’ technology is adopted.)



“E3AS Series” compact reflective-type photoelectric sensors of OMRON Corporation (Dexerials’ technology is adopted.)

Environmental Management

The Dexerials Group has established its Environmental Philosophy and Principles based upon its Vision and CSR Policy, and environmental activities are promoted in line with points and processes toward the acquisition of ISO certification.



Environmental Management

The Dexerials Group is implementing measures to mitigate global warming in its business activities as part of initiatives to deal with climate change. The Group is also taking initiatives to reduce environmental impacts, including efficient utilization of resources, appropriate separation, collection, and processing of waste, and saving of water.

Environmental Management System

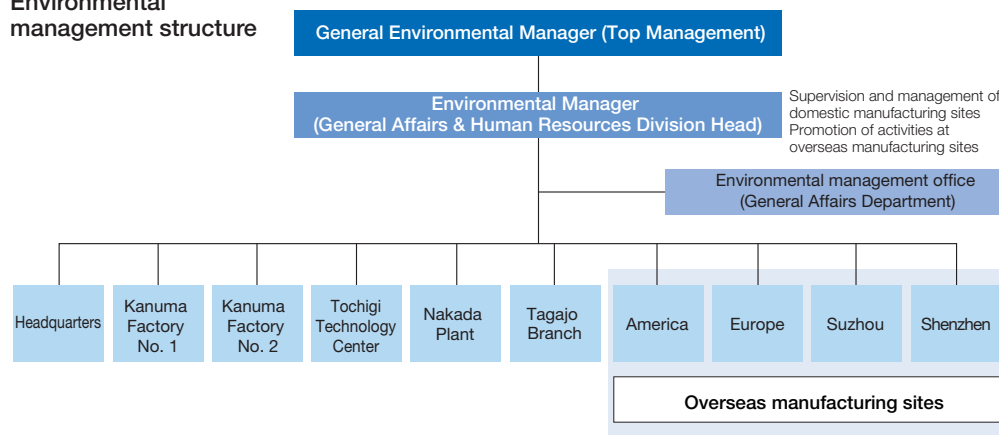
Based on the Environmental Philosophy and Principles*, the Group has built an environmental management system that encompasses all offices and manufacturing sites both within Japan and overseas. Based on this system, Environmental Managers supervise and manage each office and manufacturing site, and 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 handled at each office and manufacturing site. As a result, the Group's principal sites in Japan and overseas have obtained an external certification for ISO 14001, a standard for environmental management systems.

*The Environmental Philosophy and Principles are available on the 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 Factory No. 1/No. 2 Nakada Plant Tagajo Branch	4283884
	Dexerials Europe B.V.		NL016090-1
	Dexerials (Suzhou) Co., Ltd.		CNBJ311710-UK
	Dexerials (Shenzhen) Corporation		CNGZ301221-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. We will continue to promote systematic initiatives toward achieving our targets.

Review of fiscal 2018	For achievement of the targets for 2030
<p>The principal environmental impact reduction measures implemented in fiscal 2018 are described below.</p> <p>CO₂ ➡ In order to reduce electricity usage, we implemented effective measures corresponding to each season. Cooling of water used for air conditioning by free cooling using cold external air in the winter and reduction of electricity consumption through increased cooling efficiency in the summer by applying thermal insulation coating to the building (Tochigi Technology Center). Realization of energy saving by the introduction of appropriate functions and enhancement of efficiency, such as the introduction of inverters, upon upgrading of facilities (Kanuma Factories) However, CO₂ emissions increased 2% year on year owing to an increase in the production volume.</p> <p>Industrial waste ➡ We worked to reduce emissions of waste plastic films by increasing the product yield and promoted waste separation and recycling and greater recovery as valuable wastes. However, the volume of waste generated increased 21% year on year owing to an increase in the production volume.</p> <p>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 7% year on year owing to countermeasures for high temperatures in the summer.</p> <p>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. However, VOC emissions increased 9% year on year owing to an increase in the production volume.</p>	<p>We intend to implement the following measures to achieve the long-term environmental targets we have set for fiscal 2030.</p> <p>CO₂ ➡ 50% reduction compared with fiscal 2013 by introducing gas engine power generation and the latest technology</p> <p>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</p> <p>Water ➡ 70% reduction compared with fiscal 2013 by introducing the latest facilities and other measures</p> <p>VOC ➡ 99% reduction compared with fiscal 2013 by using chemical filters and other measures</p>

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

	Target for fiscal 2018	Achievement of the target for fiscal 2018	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	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	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	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	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.

Quality Management

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

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

Quality Philosophy and Basic Policy

— Quality Philosophy —

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

— Basic Policy —

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

Quality Promotion System

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

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

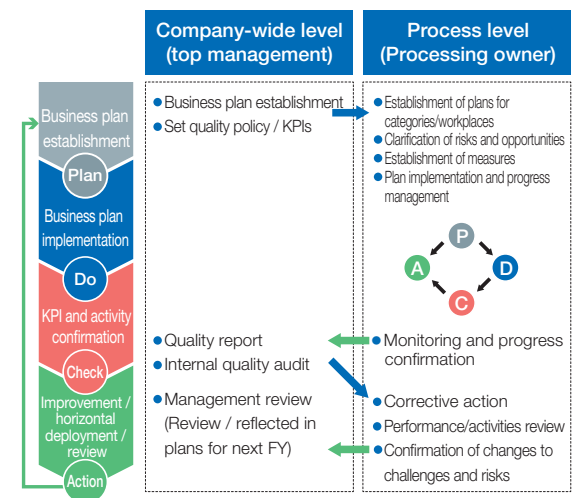
In order to monitor and improve Dexerials' quality initiatives, including preventing and responding to serious quality issues,

quality KPIs are set at two levels: the company-wide level and the business process level. We are conducting activities that lead to the achievement of the quality KPIs by implementing a two-stage PDCA cycle at the company-wide level and the business process level.

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.

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.

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.

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

Quality management system certification status

Quality management system	Organization	Site	Certification registration
ISO9001	Dexerials Corporation	Headquarters Tochigi Technology Center Kanuma Factory No. 1 Kanuma Factory No. 2 Nakada Plant Tagajo Branch	3790996
		Dexerials America Corporation	38206-2011-AQ-USA-RvA
		Dexerials Europe B.V.	NL012504-1
		Dexerials (Suzhou) Co., Ltd.	CNB312234-UK
	Dexerials (Shenzhen) Corporation	CNG302155-UK	
IATF16949	Dexerials Corporation	Kanuma Factory No. 1	353001
		Kanuma Factory No. 2	299078
ISO13485	Dexerials Corporation	Headquarters Tochigi Technology Center Kanuma Factory No. 2	MD665939

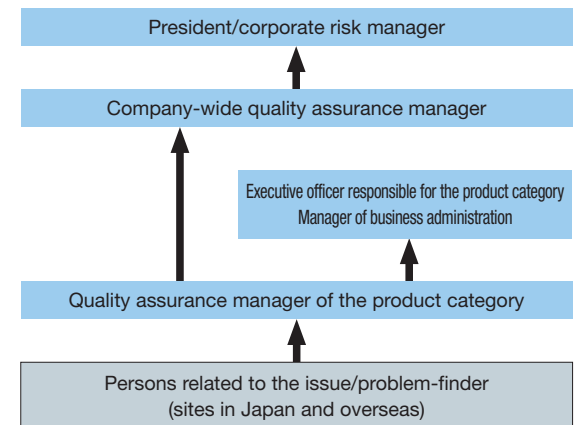
performs control by feeding the results of the line condition measured in real time by using high-speed line sensor cameras and image processing technology back to the manufacturing conditions. In thin-film processing, Dexerials has further refined its quality control technology, which is one of its 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.

Quality issue escalation flow



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

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

Technology Education and Human Resource Development

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

We have produced a road map for quality training that clarifies the quality management standards 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 is provided for all divisions.

Employees who wish to improve their quality management capabilities are provided with opportunities 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. We provide opportunities to learn corresponding to the needs of managers engaged in quality management at workplaces and workplace leaders.

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).

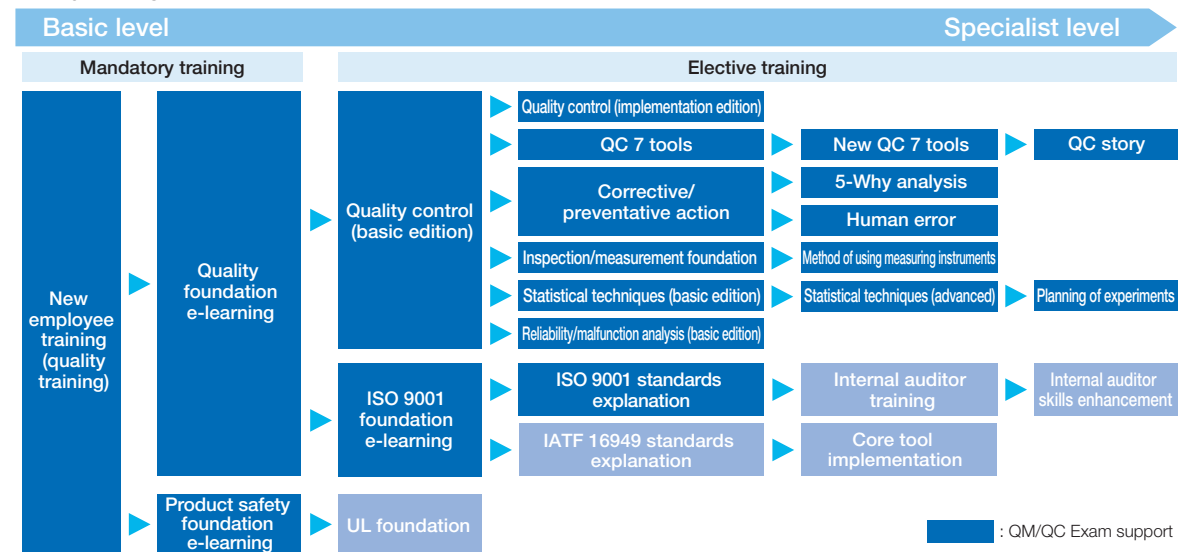
In order to prevent corporate scandals related to quality that have been an issue recently, Dexerials provides all employees training on compliance regarding quality and corporate ethics, which is the basis of correct decisions and actions.

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



Training on self maintenance

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.

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.

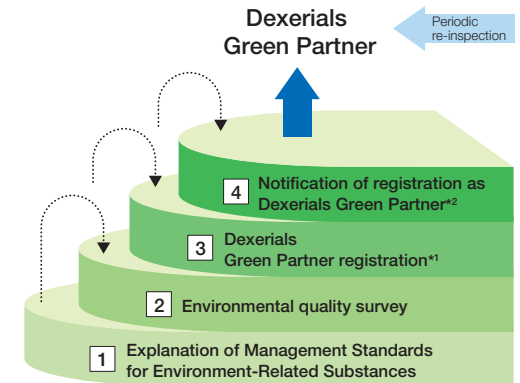
In terms of the process up to recognition as a Green Partner, first, we start by explaining the Management Standards for Environment-Related Substances to suppliers to gain their understanding. Next, as a compatibility survey for internal recognized standards for “Green Partners,” we conduct individual surveys regarding compliance with laws and regulations, and then suppliers that fulfilled the recognized standards are authorized and registered, and transactions can begin.

Dexerials will continue to provide customers with high-quality, safe and reliable products by conducting stable procurement based on relationships of trust with Green Partners.

The Management Standards for Environment-Related Substances are available on the Dexerials website.

[WEB https://www.dexerials.jp/en/csr/social/green.html](https://www.dexerials.jp/en/csr/social/green.html)

Dexerials Green Partner Program



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

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

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.

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.



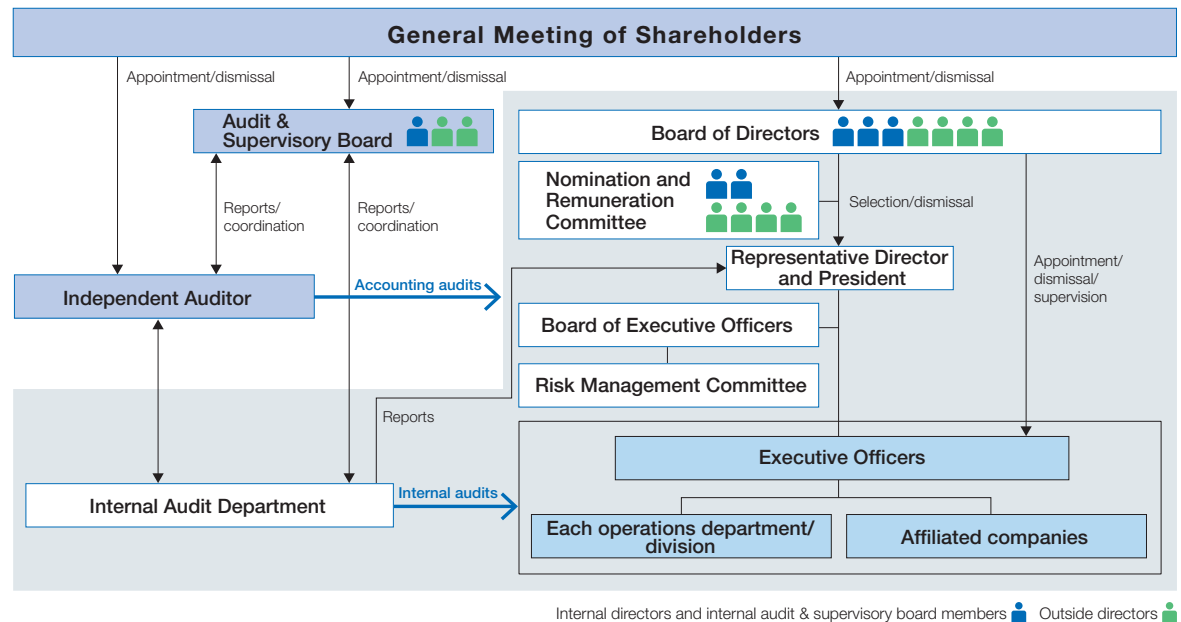
Reason for Adopting the Current Structure

Dexerials ensures objectivity and transparency of management by requiring that independent outside directors with no conflict of interest with regular shareholders account for a majority of the Board of Directors. Furthermore, we established the Nomination and Remuneration Committee in July 2019, and we have further clarified the processes for nominating and dismissing officers and determining remuneration.

We are strengthening supervision of management by appointing people with diverse knowledge and experience to ensure that audit & supervisory board members can express their opinions to management from an expert and objective perspective.

Furthermore, we have introduced an executive officer system and are promoting transfer of authority, as well as streamlining decision making and clarifying management responsibilities by making some executive officers subject to entrustment agreements.

Dexerials' Corporate Governance Structure (as of October 2019)



Directors, Board of Directors, and Executive Officers

Dexerials' Board of Directors consists of three 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.

For business execution, the Company has appointed twelve executive officers, three of whom serve concurrently as director, and delegated authority to them to enable prompt decision making and clarify executive responsibility.

Each of the four senior executive officers (excluding those serving concurrently as director) has entered into an entrustment agreement with the Company as an entrusted executive officer.

Audit & Supervisory Board Members and Audit & Supervisory Board

Dexerials adopts the company with an audit and supervisory board system. The Audit & Supervisory Board of the Company consist of one internal standing audit & supervisory board

member and two independent outside audit & supervisory board members. As well as ensuring transparency and independence, the Audit & Supervisory Board fulfills audit functions with respect to the Company's management.

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

Board of Executive Officers

In principle, the Company conducts twice-monthly meetings of the Board of Executive Officers, which comprises the twelve executive officers as regular members. The Board of Executive Officers examines the status of executive operation as well as issues, in addition to conducting discussion of major proposals in advance of a meeting of the Board of Directors.

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.

Independence Standards for Outside Directors

If none of the following attributes applies to an Outside Director or a candidate for Outside Director, the Company judges that such Outside Director or candidate for Outside Director is independent from the Company.

1. A person who currently serves as Director (excluding Outside Director. The same applies hereinafter), Audit & Supervisory Board Member (excluding Outside Audit & Supervisory Board Member, with the same applying hereinafter), Executive Officer or employee of the Company or subsidiaries of the Company (hereinafter referred to as the "Dexerials Group") (hereinafter referred to collectively as "Director etc.") or served as such in the 10 years prior to his/her appointment.
2. A second-degree or closer relative of a Director etc. of the Dexerials Group
3. A major shareholder of the Company (or if the shareholder is an organization, such as a corporation, a person who belongs to it)⁽¹⁾
4. A person who belongs to an organization of which the Company is a major shareholder⁽²⁾
5. A major business partner of the Dexerials Group (or if the business partner is a corporation etc., a person who belongs to it)
6. A major lender to or creditor of the Dexerials Group (or if the lender or creditor is an organization, such as a corporation, a person who belongs to it)⁽³⁾
7. A person who has received a donation amounting to 10 million yen or more in the current fiscal year from the Dexerials Group (or if the person receiving such donation is an organization, such as a corporation or an association, a person who belongs to such organization or belonged to such organization in the most recent five years)
8. A person who has received remuneration amounting to 10 million yen or more in the current fiscal year for providing professional services concerning law, finance, tax affairs, etc. or consulting services to the Dexerials Group (or if such person is an organization, such as a corporation, a person who belongs to it)
9. The company where a person serves as a Director etc. and the Dexerials Group have a relationship of interlocking outside officers.⁽⁴⁾

Notes: 1. "Major shareholder" means a person who directly or indirectly holds 10% or more of the total voting rights.

2. "Major business partner" means a person who received from the Dexerials Group or paid to the Dexerials Group an amount equal to 2% or more of annual consolidated sales of the said business partner or the Dexerials Group.

3. "Major lender" means a lender from which the Dexerials Group borrows an amount equivalent to 2% or more of consolidated total assets.

4. "Relationship of interlocking outside officers" means receiving an outside officer from a company where a Director etc. of the Dexerials Group serves as an outside officer.

Evaluation of Effectiveness of the Board of Directors

The Company evaluated the following content in relation to the effectiveness of the Board of Directors, in order to achieve sustainable corporate growth and a medium to long-term increase in corporate value:

1 Analysis & Method of Evaluation

To evaluate effectiveness during fiscal 2018, interviews were newly conducted and analysis of the results was outsourced to a third party for the purpose of ensuring the objectivity and transparency of the evaluation and comprehensively re-verifying the Company's corporate governance as a whole to date, since the fiscal year in question is the final year of the Mid-term Management Plan (2016-2018).

When performing the evaluation, third parties conducted interviews of all directors and Audit and Supervisory Board members and analyzed the results while reviewing the results of earlier evaluations. A survey was also conducted with regard to the evaluation for fiscal 2018 to separately gather and confirm information supplementary to the third-party evaluation.

2 Outline of Results of Evaluation

(1) Summary

The results of the third-party evaluation are that the effectiveness of the Company's Board of Directors is high, but it was indicated that there is a need to investigate the following points in order to raise effectiveness even further in the future:

- 1) Deliberation on desirable governance structures based on an awareness of the authoritative roles of the Board of Directors
- 2) Review of the time allocation for deliberation by the Board of Directors (it is necessary to allocate time for deliberation on management strategies and the status of progress of the Mid-term Management Plan)
- 3) Ensure transparency in nomination and remuneration decision-making processes
- 4) Deepen communications among directors, audit & supervisory board members, executive officers, and employees

(2) Action plan for fiscal 2019

In light of the details specified in (1) above, the Company made the following decisions with regard to its action plan for fiscal 2019:

- 1) Efforts will be made to facilitate Board of Directors operations that contribute to more substantial and open deliberation.
 - Further selection and reduction in the number of Board of Directors deliberation matters
 - Continuous improvement of Board of Directors deliberation materials (efforts to make them easier to grasp, such as reduction in the number of key points)
 - Continuation of vigorous information sharing on the Board of Directors (including negative news)
 - Periodic progress reports on important issues, promotion of strategic discussion
- 2) Nomination and remuneration decision-making processes will be clarified and transparency will be ensured.
 - Establishment of an optional Nomination and Remuneration Committee
 - Promotion of discussion for clarification of the succession plan
- 3) Efforts will be made to deepen communications, etc.
 - Promotion of exchange of opinions and discussion between outside directors and internal key members
 - Promotion of exchange of opinions, discussion, and information sharing between directors and audit & supervisory board members

Main Topics of the Third-Party Interviews and Analysis Results

Interview Topic	Analysis Results (Main Opinions)
Roles to be performed by the Board of Directors	<ul style="list-style-type: none"> • It is necessary to promote a monitoring board. • Promote transfers of authority and organize Board of Directors deliberation matters.
Composition of the Board of Directors	<ul style="list-style-type: none"> • It is necessary to maintain a majority of outside directors on the Board. • It is necessary to promote diversity (gender, nationality, area of specialization, etc.) on the Board.
Operation of the Board of Directors	<ul style="list-style-type: none"> • It is necessary to clarify discussion points in materials and briefings and to conduct proceedings with some variation. • There is a lack of strategic debate and opportunities for the open exchange of opinions.
Nomination and remuneration decision-making processes	<ul style="list-style-type: none"> • Ensure transparency in decision-making processes. • Clarify succession criteria and processes.

Officers' Remuneration

Basic Philosophy

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.

"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 2018

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	139	95	40	4	7
Audit & supervisory board members	30	30	—	—	3
Total	169	125	40	4	10
(of which outside officers)	(63)	(63)	—	—	(7)

Directors

Representative Director and President,
President and Executive Officer
Automotive Solutions Business Unit Head

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, Automotive Solutions Business Unit Head, the Company (to present)
- Jun. 2019 Representative Director and President, the Company (to present)

Representative Director and Senior Managing
Executive Officer
Officer 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)

Director and Managing Executive Officer
Lieutenant President



Hisashi Ando

- Apr. 1979 Joined Sony Chemicals Corporation (current the Company)
- Jul. 2000 General Manager, i-D Development Department, Sony Chemicals Corporation
- Oct. 2006 Corporate Executive, Kanuma Plant Manager, Sony Chemical & Information Device Corporation (current the Company)
- Dec. 2007 Executive Officer, Kanuma Plant Manager, Sony Chemical & Information Device Corporation
- Apr. 2010 Director, Kanuma Plant Manager, Sony Chemical & Information Device Corporation
- Sep. 2012 Director and Executive Officer, Senior General Manager, Research & Development Division, Kanuma Plant Manager, the Company
- Apr. 2014 Director and Senior Executive Officer, Senior General Manager, Research & Development Division, Procurement, New Business Planning & Promotion, the Company
- Apr. 2016 Director and Managing Executive Officer, Officer in charge of Manufacturing & Technology, Corporate R&D Division Head, the Company
- Jun. 2016 Representative Director and Senior Managing Executive Officer, Corporate R&D Division Head, the Company
- Jan. 2019 Representative Director and Senior Managing Executive Officer, the Company
- Jun. 2019 Director and Managing Executive Officer, 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.

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 as a Standing Audit & Supervisory Board Member since 2014. The Company judges that he is capable of appropriately fulfilling his duties as a Director and therefore appointed him Director.

Since being appointed Director of Sony Chemical & Information Device Corporation, the predecessor of the Company, Mr. Hisashi Ando has been leading the Company's development of mainstay products. He has a wealth of experience in the product development and business operations of the Company and has deep insight about management. The Company judges that he is capable of appropriately fulfilling his duties as a Director and therefore appointed him Director.

Outside Director

Independent Officer

Nomination and Remuneration
Committee Member



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)

Reasons for
appointment

Mr. Takao Tsuji has a wealth of experience about corporate management as the Representative Director 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 & ASAH))
- 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)

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 as an Outside Audit & Supervisory Board Member of the Company. 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 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)

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 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. (to present)
- Jun. 2017 Outside Director, LITALICO Inc. (to present)
- Mar. 2019 External Director, Uzabase, Inc. (to present)

Reasons for
appointment

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

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 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)

Reasons for
appointment

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.

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)

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 an international attorney-at-law. 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
Automotive Solutions Business Unit Head**Toshiya Satake**Senior Managing Executive Officer
Officer in charge of Internal Audit**Hishashi Ando**Managing Executive Officer
Lieutenant President**Yukio Yamada**Senior Executive Officer
Production & Quality Division Head,
Company Process Innovator**Naoyuki Sanada**Senior Executive Officer
CFO (Chief Financial Officer), Corporate Planning &
Control Division Head,
Company Process Innovator**Soichiro Kishimoto**Senior Executive Officer
Business Innovation Division Head**Satoshi Ishiguro**Senior Executive Officer
General Affairs & Human Resources Division Head,
Legal & Intellectual Property**Tetsuji Ishikawa**Executive Officer
Business Innovation Division Deputy-Head,
President of Dexerials America Corporation**Hisaya Tamura**Executive Officer
Electronic Components & Environment Solutions
Business Unit Head**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



Masao Hirano
Outside Director

To establish a more efficient and effective governance structure

Dexerials is making a concerted effort to enhance corporate governance. Outside officers account for the majority of the board and the individuals appointed outside officers are highly independent and have managerial knowledge and specialized expertise. Thus, strong supervision of the president and other members of the executive management team is ensured both systematically and substantially from the viewpoint of shareholders' interests. As a result, at each board meeting, the management team and outside officers engage in in-depth discussion on important management matters and management with a sense of urgency is realized to enhance corporate value. Furthermore, Dexerials is working to accelerate management execution and ensure agility by reducing the number of the matters requiring approval of the Board of Directors. Thus, the weight of management supervision is shifting toward monitoring of implementation of the management plan and evaluation of the nomination of members of the management team.

Going forward, we will consider measures to further enhance governance, such as enhancement of the supervisory function of the Board of Directors and utilization of the Nomination and Remuneration Committee by promoting delegation of authority.

Become an enterprise in which every employee can take pride

The company name of Dexerials comes from “dexterous materials.” Dexerials should continue to create various “dexterous materials” and contribute to society. To this end, “imagination” is important. Jules Verne, a French novelist, left a famous phrase: “Anything one man can imagine, other men can make real.” Among his many fantasy novels, “From the Earth to the Moon” became a bestseller and was a favorite book of the three scientists who are called the “fathers of modern rocketry”: Konstantin Tsiolkovsky (Russia), Robert H. Goddard (US), and Hermann Oberth (Germany). 2019 is the 50th anniversary of Apollo 11's landing on the Moon. In 1968, a year before the achievement of Apollo 11, Apollo 8 launched from Florida orbited the Moon and then splashed down in the Pacific Ocean. It was really like the novel “From the Earth to the Moon.” Jules Verne's imagination of “going to the Moon” about 200 years ago when there weren't even any airplanes is amazing.

Wernher von Braun, who was largely influenced by Oberth, was exiled to the US after the war where he led the Apollo program in which 400,000 people were involved. What were the factors contributing to the success of this unprecedented project? The factors include President John F. Kennedy's decision (setting of the goal), NASA engineers (technology), and astronauts (courage and crisis response capabilities). Nevertheless, I think the largest factor is that all the 400,000 people who supported the project shared the goal of landing a man on the Moon and directed their collective talent and energy toward accomplishment of the shared goal.

An anecdote has it that when President Kennedy visited NASA in 1962, he came across a janitor in a corridor and asked him, “What are you doing?” The janitor responded proudly, “Well, Mr. President, I'm helping put a man on the moon.”

I would like to see Dexerials become an enterprise with such a corporate culture.



Takao Tsuji
Outside Director

To achieve the new Mid-term Management Plan “Challenges for Evolution”

Under the new Mid-term Management Plan “Challenges for Evolution,” Dexerials aims to reduce dependence on the consumer IT products market and specific customers by boldly shifting internal resources to the automotive field and other new domains so as to achieve structural reform and sustainable growth. Reflecting on the results of the previous Mid-term Management Plan that fell short of the targets, I find the new plan to be more down to earth.

As for recognition of the expected change in the business environment in the formulation of the plan, we revised the assumptions of the market size and growth rates of the existing domains. Concerning new domains that are expected to grow, we had several vigorous discussions in order to determine a business model that would allow us to leverage our strengths.

The contemporary world is fraught with complicated issues that make the future difficult to foresee, such as competition between major powers for economic supremacy which has major implications for business. In such circumstances, it is crucially important to adhere to the corporate philosophy “Integrity—Have Integrity and Sincerity” when engaging with stakeholders and doing business.

Autonomous driving technology and digital transformation led by 5G, IoT, and AI are certain to bring about change in society that will create great opportunities for Dexerials to expand its business. Such change will also be necessary in strengthening the organization and human resources for business activities.

I would like to help Dexerials transform itself into an enterprise capable of flexibly and speedily responding to any change in the business environment, thus becoming an enterprise that contributes to resolution of social issues by steadily implementing initiatives pursuant to the new Mid-term Management Plan through a concerted effort under the new president.



Takashi Yokokura
Outside Director



Rika Sato
Outside Director

Roles as a newly appointed outside director enriched by experience as a former audit & supervisory board member

Having served as an audit & supervisory board member of Dexerials for four years from June 2015, I was appointed an outside director at the Annual General Meeting of Shareholders held in June 2019.

Both outside directors and outside audit & supervisory board members are expected to fulfill monitoring functions with respect to the company and they share some common aspects. In order to fulfill either role, it is first necessary to have a good knowledge of the company.

In this regard, my four years of experience serving as an outside audit & supervisory board member of Dexerials, particularly the opportunities it gave me to deepen my understanding of Dexerials through monitoring from various perspectives, should prove useful.

According to the law, monitoring by audit & supervisory board members is limited to audits of legal compliance of directors' performance of duties (whether there is any violation of law or the articles of incorporation). On the other hand, for monitoring by directors, the Board of Directors, which is the decision-making body for business execution, supervises execution of duties of executive directors, and monitoring covers not only compliance of business execution but also appropriateness. Thus, monitoring by directors has a dynamism different from that of monitoring by audit & supervisory board members.

Having a voting right on the Board of Directors, I feel a sense of responsibility different from before. I am resolved to fulfill my responsibility with integrity so as to be worthy of the trust of shareholders and will do my utmost for the development of Dexerials from now on.

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.

Dexerials Group Code of Conduct

1. Basic Policy	2. Conducting business with integrity and fairness	3. Sound work environment	4. Management of assets and information	5. Being a good corporate citizen
<ul style="list-style-type: none"> ● Implementation of management philosophy ● Compliance with laws and rules ● Relationship with stakeholders ● Use of Compliance Hotline 	<ul style="list-style-type: none"> ● Trust of customers and trade partners ● Product safety ● Fair competition ● Fair procurement activities ● Compliance with import and export laws and regulations ● Restrictions on gifts and entertainment ● Records and reports ● Prohibition of personal conflicts of interest 	<ul style="list-style-type: none"> ● Work environment which allows self-fulfillment ● Equal employment opportunities ● Sound labor practices ● Prohibition of harassment 	<ul style="list-style-type: none"> ● Prohibition of private use of company assets ● Intellectual property ● Management of confidential information ● Prohibition of insider trading ● Personal information ● Relationship with the media 	<ul style="list-style-type: none"> ● Environmental preservation ● Management of chemical substances ● Harmonious relationship with the community ● Safety and disaster prevention ● Measures against antisocial forces

Initiatives for Reinforcing Compliance

Distribution of the Compliance Handbook

The “Compliance Handbook: Our Commitments” picks topics from within the Dexerials Group Code of Conduct that are of particular relevance to business activities and uses specific examples to explain concepts to employees simply. It is distributed to all employees in Japan and overseas, and is used for employee training.

Compliance Education

Each year, the Dexerials Group conducts training for all employees using e-learning, covering topics such as compliance, prevention of insider trading, import and export compliance, information security, management of personal information, and prevention of harassment.

We also conduct stratified compliance training appropriate to role and rank, for example, targeting new employees and management. This training provides necessary knowledge on laws and regulations as well as risk awareness, increases the understanding of compliance and further embeds the Code of Conduct.

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, including the IR section of our website and shareholder reports, 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

Shareholder Report
(for the fiscal year ended March 31, 2019)

Profit Return Policy

We consider return of profits to shareholders as one of the most important management issues. Based on the recognition that enhancement of corporate value through investments for growth is in the common interest of our shareholders, while prioritizing business investment that will lead to sustainable enhancement of corporate value, our basic policy is to distribute profit to shareholders according to profit growth, with a target total payout ratio*1 to consolidated profit before amortization of goodwill of approximately 40%.

We determine the actual amount of dividends by comprehensively considering factors such as the amount of investments required for growth, the estimated free cash flow*2, the total payout ratio including share buyback and the importance of stable dividend distribution, while securing a sound financial base.

$$*1 \text{ Total payout ratio to consolidated profit before amortization of goodwill} \\ = \frac{\text{Total payout amount (Annual total dividends paid + Annual total share buyback)}}{\text{Consolidated profit + Amortization of goodwill}} \times 100$$

$$*2 \text{ Free cash flow} \\ = \text{Operating cash flow} + \text{Investing cash flow}$$

General Meeting of Shareholders

Ahead of the Annual General Meeting of Shareholders, we send out the meeting notices as early as possible, provide enhanced information, post documents on our website in both Japanese and English, and take other measures to ensure that shareholders have fair access to data, adequate information to exercise their

rights, and sufficient time for reflection. Moreover, we are working to create an electronic voting environment, with a website where individual shareholders can exercise their voting rights online and an electronic voting platform for institutional investors.

IR Activities

Below is an outline of investor relations activities for fiscal 2018.

Activity	Frequency	Content
Interviews with analysts and Japanese and non-Japanese institutional investors	156 times	<ul style="list-style-type: none"> Conducted individual interviews and telephone conferences, as well as participated in investor conferences hosted by securities firms
Briefings for institutional investors and analysts	5 times	<ul style="list-style-type: none"> Earnings briefings (4 times) Tour of Tochigi Technology Center (once)
Briefings for individual investors	7 times	<ul style="list-style-type: none"> Participated in IR events and investment seminars and conducted IR briefings held at securities firms' branches with participation from a total of 2,758 individual investors

- Posting IR materials on the Dexerials website As necessary
 - Posting of materials such as the consolidated financial results and supplementary materials, as well as shareholder reports, securities reports (quarterly), materials relating to the General Meeting of Shareholders, the IR event calendar, and so on
 - Began video streaming of earnings briefings and posted the presentation with transcript and summary of Q&A
 - Redesigned the Dexerials website and also made it suitable for viewing on smartphones
 - As content for individual investors, newly posted "Who We Are" and "Business Model," in addition to corporate briefings, product introductions, and shareholder questionnaire survey results

Chemical Substance Management

The Dexerials Group abides by environment-related laws and regulations and manages chemical substances to minimize risks and impacts on the environment.



Basic Approach to Chemical Substance Management

Concerning atmospheric and water pollution, noise, vibration, offensive odors and so on, the Dexerials Group has established its own standards that are stricter than the legal requirements and implements measures and carries out operational management to ensure that regulatory standards are not violated.

Based on these initiatives, in fiscal 2018, 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.

[WEB](https://www.dexerials.jp/en/csr/envi/law.html) <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.

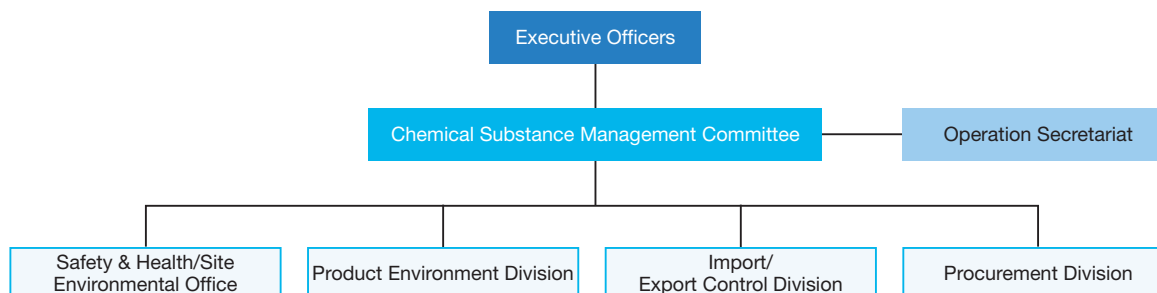
[WEB](https://www.dexerials.jp/en/csr/envi/chemical.html) <https://www.dexerials.jp/en/csr/envi/chemical.html>

Minimizing Chemical Substance Risks

The Dexerials Group has established chemical substance management regulations applicable to the entire Group to ensure compliance of products concerning chemical substances, in order to continue providing safe and secure products to its customers into the future and to protect the environment at sites. Having established the Chemical Substance Management Committee, Dexerials is strengthening its systems for the appropriate, integrated management of the chemical substances used by the Company.

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

Chemical Substance Management Committee



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.

The information shared among the committee is shared not only with sites in Japan but also with overseas sites, and Group-wide management is implemented, including checking of the status of overseas sites by the Secretariat.

Appropriate Import and Export Control of 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 2018 the Dexerials Group had no compliance violations concerning chemical substance management.

Management of Chemical Substances Introduced

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.

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.

Introduction of a 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 and 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.

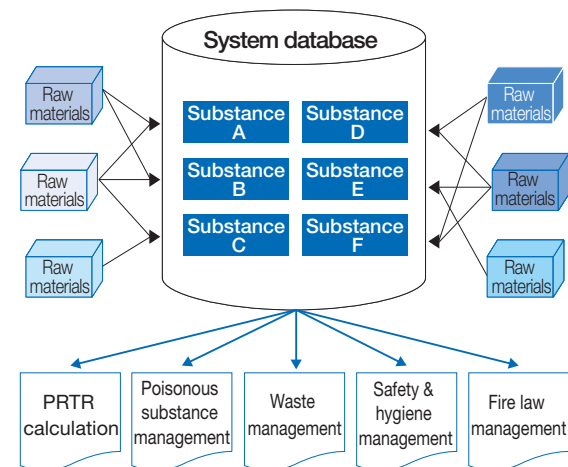
*1 REACH: Abbreviation of Registration, Evaluation, Authorization and Restriction of Chemicals. The Reach Regulation was issued on June 1, 2007.

*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

*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.

Comprehensive Management System for Chemical Substances



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. Also, 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.

Optimization of the Cycle for Self-fulfillment

At Dexerials, our employees are united in their pursuit of personal development. In order to enable our employees to achieve their aspirations at Dexerials, we revised our personnel system in fiscal 2018. 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.

HR Philosophy, HR Vision, and HR Strategy

HR philosophy Developing people who create value

HR vision Optimize the cycle for self-fulfillment

Corporate Philosophy

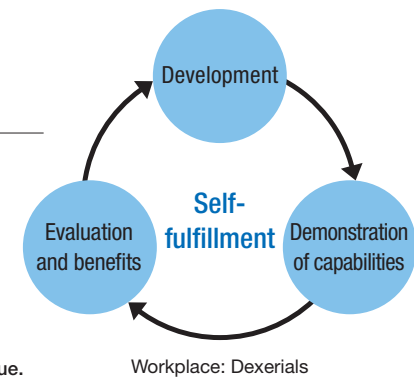
Integrity

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

Key points of the revised personnel system

- Clarification of the necessary abilities for each grade and the criteria for promotion and establishment of an education and training system to improve abilities required for promotion
- Optimization of the merit-based compensation system to motivate individual employees to demonstrate their capabilities to the full and to seek personal development
- Human resource development based on meticulous evaluation of not only the results but also activities contributing to value creation for the future

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 want our employees to work autonomously by "learning for themselves, thinking for themselves, and acting for themselves," and we support them so that both employees and Dexerials can achieve future growth. In line with the revision of the personnel system, we updated the education and training system in fiscal 2018.

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

Promotion as the starting point for the next stage of growth
Previously, the training for promoted employees focused on cultivating their mindset and improving skills required for their roles after promotion. From fiscal 2018, training for promoted employees was shifted to a more development-oriented approach. The 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

Use evaluation as a tool for personal development
For managers, we have introduced evaluator training in which 155 managers participated in fiscal 2018. Subordinates' performance evaluation not only leads to their benefits but also is an important opportunity for their development. The training 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

Nurture employees who "learn for themselves"

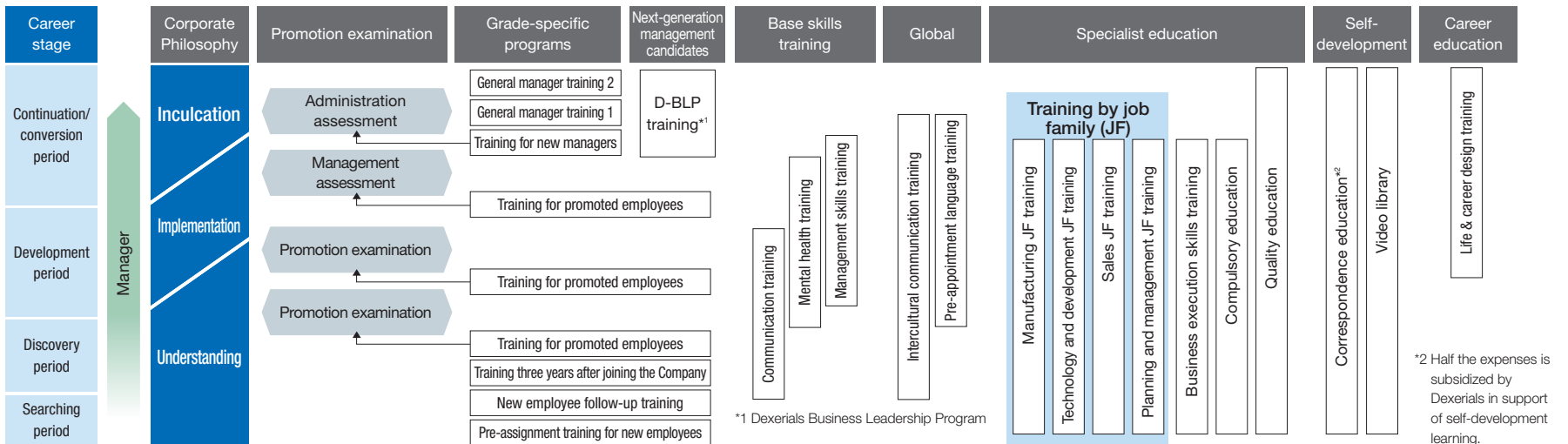
We provide integrated training bearing in mind that the first three years with the company is an important period for constructing the individual's foundation as a business person.

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."

As a result of these training programs, the retention rate of new employees is high, and that of the employees in their third year of employment stands at 96%.

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 specialist training corresponding to each job family.

Technical Training for Engineers

As part of the technical training program 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.



Technical training for engineers

Next-generation Leader Development

In order to become an organization that can grow sustainably, Dexerials emphasizes not only selection of leaders but also establishment of a system that can continuously develop future leaders. In this regard, Dexerials introduced promotion examinations based on an assessment center* for candidates for managerial positions in fiscal 2018. We do not treat promotion

examinations as just one-off tests but use them as opportunities to ascertain employees' strengths and weaknesses as leaders and for individuals' personal development and human resource development.

We intend to launch a training program for management candidates in fiscal 2019. We will establish a Human Resource Development Committee consisting of management team members and will foster next-generation leaders of Dexerials by capitalizing on each person's strengths.

*A personnel assessment method involving multifaceted and objective measurement and determination of how the individual's personality and ability will be demonstrated in actual work situations.

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 of creating 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.

Support for Active Participation of Women

At Dexerials, as of March 2019 female employees accounted for 18.1% of all employees, whereas the average length of service of men was 18 years and 9 months and that of women was 19 years and 7 months, indicating that female employees also pursue long-term careers. Since 2014, we have held lectures for managerial staff on promoting active female participation and work-life balance to promote workstyles that make efficient use of regular work hours and support employees in their efforts to achieve work-life balance. We have also made a declaration of

support for the success of women based on the Positive Action promoted by the Ministry of Health, Labour and Welfare.

● Declaration of Positive Action promoted by the Ministry of Health, Labour and Welfare

http://positiveaction.mhlw.go.jp/declaration/add/search_detail/?id=1527

Dexerials hired 22 women in fiscal 2018, comprising new graduates and mid-career hires, and women accounted for 29% of the total number of new employees.

Number of women hired

Number of new employees (new graduates and mid-career)	FY2016	FY2017	FY2018
Total	41	71	75
Of whom women	6	12	22
Ratio of women to new employees	14.63%	16.90%	29.33%

In fiscal 2018 we held a seminar with 65 participants on the theme of women's work and health to help women work energetically and network with one another.

We will continue to emphasize development of female leaders.

Strengthening of Diversity Communication

In order to enable employees with diverse backgrounds to demonstrate their capabilities, not only their own efforts but also those of their superiors and co-workers to encourage them and bring out their strengths are important. With a view to being an organization that makes good use of diversity, we have several training programs designed to enhance the quality of communication.

Diversity: Intercultural Communication Training

We provide intercultural communication training for employees whose co-workers include foreign nationals and employees working in departments with frequent communication with people overseas.

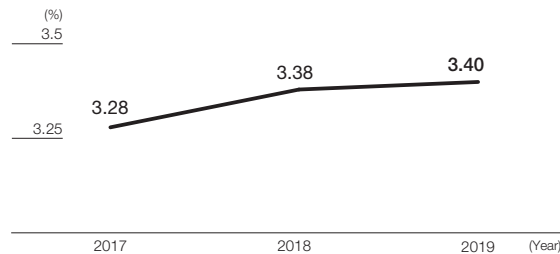
This training is designed to help people recognize and appreciate the differences between countries, cultures, and in communication styles, and to make use of diversity to enhance teamwork and achieve positive results. This training was launched in fiscal 2018 as a pilot scheme with about 30 participants, including employees who are foreign nationals and their superiors.

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.

In fiscal 2018, at divisions and sites that will welcome employees with disabilities we introduced training designed to enhance mutual understanding and communication, including signs in the event of an emergency. Learning of sign language and fingerspelling is included in the menu of our new employee training to enhance the mindset for diversity.

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

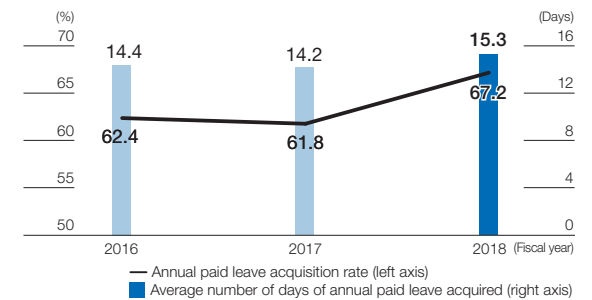
disabilities can work with peace of mind. Dexerials Kibou currently has 23 employees (of whom 13 have disabilities) working at Dexerials business sites in cleaning, garden management and other business activities. The percentage of employees with disabilities in the Group is 3.40%.

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 employee working at Dexerials. 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.

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

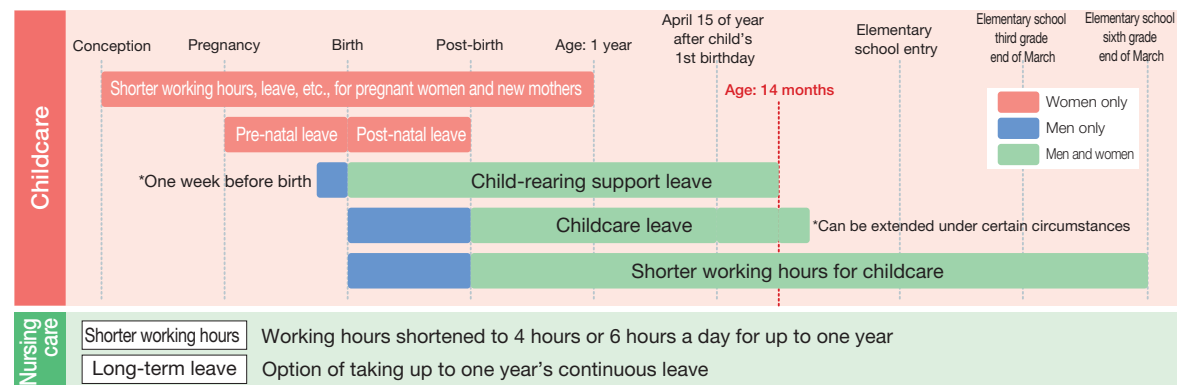


Appropriate Working Hours

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 encouraging leave acquisition and refreshment. Employees can plan to acquire leave that suits their lifestyles and can be refreshed by taking days of accrued leave. In fiscal 2018, the average number of days of annual paid leave acquired was 15.3 days and the average acquisition rate was 67.2%.

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



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 42 users of child-rearing support leave in fiscal 2018 (0 women, 42 men), 17 users of childcare temporary leave (16 women, 1 man) and 27 users of shorter working hours for childcare (27 women, 0 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.

WEB <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.

Initiatives for Health and Productivity Management

We are implementing measures to promote employee health at all sites in Japan in order to enable employees to bring their capabilities into full play, stay healthy and continue to work.

In particular, we are emphasizing the raising of employees’ health awareness through initiatives including execution of stress checks at all sites, offering of healthy meals at cafeterias, and holding of exercise seminars and walking events. These initiatives are highly regarded and in February 2019, Dexerials was recognized as a White 500 under the Certified Health and Productivity Management Outstanding Organization Recognition Program* held under the auspices of the Ministry of Economy, Trade and Industry.

*The Certified Health and Productivity Management Outstanding Organization Recognition Program recognizes large corporations and small and medium-sized enterprises that make exceptional efforts in employee health management, based on initiatives tailored to regional health challenges and initiatives for health improvement promoted by the Nippon Kenko Kaigi.



Initiatives to Support Health Promotion

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

The survey of employees’ awareness about improvement of lifestyles conducted in fiscal 2018 revealed that 75% of our employees are “not interested” in health or “interested but not doing anything” to promote health. In view of this result, we held events and seminars on health promotion at sites in Japan to enhance employees’ awareness about health and a total of 977 employees participated.



RIZAP GROUP, Inc.'s health promotion seminar

Exercise Classes

To enable employees to enjoy engaging in health promotion activities, RIZAP GROUP, Inc.'s health promotion seminars were held throughout Dexerials and 144 employees participated in the lectures and training. According to the results of the follow-up questionnaire, 87% of participants said that their health awareness changed by participating in the classes, indicating that the seminars helped motivate employees to make it a habit to take exercise.

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, we held a campaign called “Pre-check-up Challenge” lasting for one month, which had 266 participants, including insured family members. In cooperation with the health insurance association, Dexerials is promoting health of employees and their family members.



Pre-check-up Challenge

Lunchtime Events

We hold health measurement events during lunchtime, such as checks of advanced glycation end products (AGEs), which are considered to be a factor in aging. Such events are fun and great opportunities for employees to know their health conditions and review their lifestyles.

Mental Health Initiatives

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 two years running. Moreover, we emphasize countermeasures for workplaces where issues were identified 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 exceeded 90%. 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 in fiscal 2019.

We will promote organizational and systematic initiatives for employees' mental health in order to fulfill social responsibility, vitalize human resources and maintain and enhance labor productivity.



Mental health training

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.

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 sets 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 plans and organizes an annual event at each site 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.



Poster soliciting participation in a photo contest

Ensuring Operational Safety and Business Continuity

The Dexerials Group positions “ensuring operational safety and business continuity” as a material item and 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.



Occupational Health and Safety, Disaster Prevention Principle

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.

The FIRST Concept

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



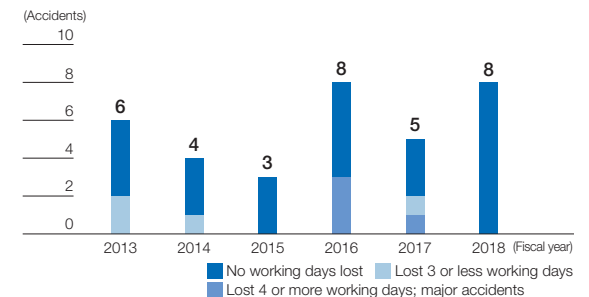
We work to eliminate workplace accidents and fires and explosions.

Occurrence of Workplace Accidents

In fiscal 2018, eight workplace accidents occurred in the Dexerials Group. The accidents were all due to human error, not issues with equipment or safety management.

Whereas there were accidents that resulted in loss of work time due to careless mistakes by workers in fiscal 2017, there were no accidents that resulted in loss of work time in fiscal 2018 thanks to the initiatives to prevent workplace accidents.

Occurrence of workplace accidents



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, 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, and to find and eliminate risks such as dangers and health hazards in the workplace, and we will make further improvements to form safe workplace environments.

Education and Training

At Dexerials, we regularly conduct education for occupational health and safety/disaster prevention, disaster drills, safety confirmation system practice, and education for the safe handling of chemical substances in heavy use in development and at manufacturing sites.

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.

Also, at the Kanuma Factories, we have established a safety workshop where employees can experience various simulated dangers to increase their awareness and sensitivity regarding safety.

Workplace Safety

At all sites, Dexerials regularly carries out risk assessments at each workplace. The various dangers at each workplace are



Experiential learning at a safety workshop

extracted, categorized for the level of danger, improved and reviewed in a workplace safety PDCA cycle. The safety and hygiene committee regularly confirms the progress of risk assessments.

Also, in the Dexerials company-wide improvement activity “ADVANCE,” more than 500 safety improvement plans per year are submitted, so that all employees are always improving the workplace and implementing workplace safety countermeasures.

Equipment Disaster Prevention

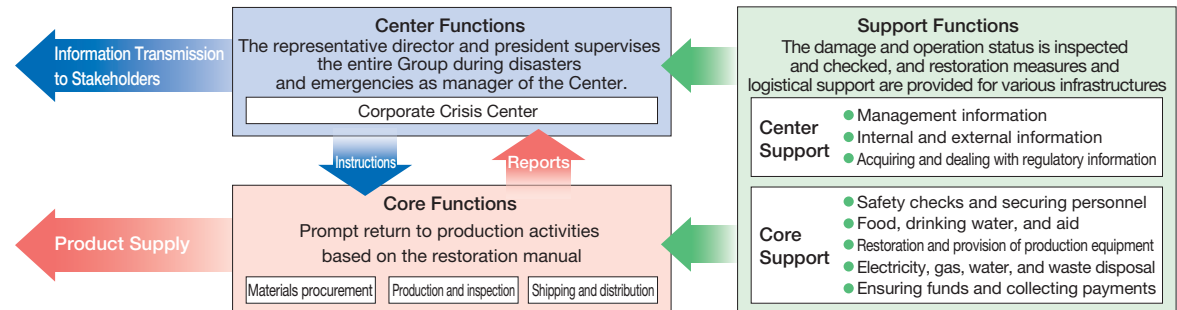
Disasters can be separated into two types: “machinery” and “human.” We engage in disaster prevention activities on the basis of the idea that the elimination of these two factors is important to disaster prevention. In order to eliminate machinery disaster (i.e. unsafe status) and human disasters (i.e. unsafe actions), we engage in disaster prevention by reducing the level of “machinery” and “human” danger as we prioritize the elimination of dangers and risks from machinery by conducting risk identification and analysis of various dangers during the introduction and operation of machinery from the design and investigation stage. With regard to machinery that has already been introduced, we have introduced a structure for the early-stage detection of abnormalities by conducting independent maintenance by the using department and

various inspections in planned maintenance by the equipment specialist department. By appropriately performing such maintenance, we are striving toward the prevention of accidents in advance. Also, we are taking initiatives to minimize damage during emergencies by conducting regular accident preparation training.

Business Continuity Planning (BCP) Activities

Natural disasters such as earthquakes and typhoons and communicable diseases such as novel influenza 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. We aim to further strengthen the BCP and we are working to improve crisis management capabilities and business continuity capacities.

Business continuity planning (BCP) organizational structure and functional roles



Social Contribution Activities

Dexerials is striving to contribute to the local communities where it operates so as to vitalize those communities and hand over a better environment to future generations.



Environmental Protection

Restoring greenery on the devastated land around former Ashio copper mine

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



New employee training at Ashio copper mine

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 2018, 33 Dexerials employees and their family members participated in the event. In November 2018, 39 employees participated in tree planting activities as part of the training for new employees.

Protecting the environment of Watarase Reservoir

Since 2017 Dexerials has been a registered corporate member of Watarase Knights Club, which is organized by Tochigi City for nature conservation. We have been participating in and extending



Watarase Reservoir nature conservation activity

cooperation for activities to protect biodiversity and natural environments while maintaining bountiful ecosystems of Watarase Reservoir, which is registered as a Ramsar Convention wetland.

Clean-up activities in local communities

The Tochigi Technology Center, the Nakada Plant, the Tagajo Branch, Dexerials (Shenzhen) Corporation, Dexerials (Suzhou) Co., Ltd. and other sites of the Dexerials Group conduct annual clean-up activities in local communities.



Tochigi Technology Center's clean-up activity



Photo courtesy of TABLE FOR TWO

Donations and Fundraising

TABLE FOR TWO

Dexerials has been participating in the TABLE FOR TWO (TFT) program at cafeterias of the Tochigi Technology Center, Kanuma Factories, and the Nakada Plant. When employees choose healthy TFT menus at cafeterias, 20 yen is donated for every meal purchased to support school meals for children in need. 20 yen is the amount to pay for one school meal in a developing country. In fiscal 2018, 6,769 TFT meals were consumed at Dexerials cafeterias and 135,380 yen was donated.

Recycling Activities

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

Sponsorship of Sports Teams

Sony Sendai Football Club (Sony Sendai FC)

Since 2013, we have been sponsoring Sony Sendai FC in Miyagi Prefecture. Through this sponsorship, we aim to promote amateur sports and to invigorate the local community, while also promoting the healthy upbringing of young people.

In November 2018, the Dexerials Cup 16th Miyagi Prefecture Champions Cup U-12 Tournament was held, an event sponsored by Dexerials every year. The selected teams, whose members are under 12 years old and registered with training centers in 10 districts of Miyagi Prefecture, played a round-robin tournament over two days.



Dexerials Cup

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 March 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. Twelve children participated in the event.



Bicycle Safety Seminar

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 Factories are located.



©TOCHIGI BREC INC.



Utsunomiya Brex

Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (As of March 31, 2018)	Current fiscal year (As of March 31, 2019)
Assets		
Current assets:		
Cash and deposits	14,887	11,826
Notes and accounts receivable - trade	10,692	10,306
Electronically recorded monetary claims - operating	155	89
Merchandise and finished goods	2,635	2,257
Work in process	2,235	2,062
Raw materials and supplies	1,817	1,656
Other	2,325	1,923
Allowance for doubtful accounts	(4)	(4)
Total current assets	34,746	30,118
Non-current assets:		
Property, plant and equipment:		
Buildings and structures	29,689	31,548
Accumulated depreciation	(19,396)	(20,323)
Buildings and structures, net	10,292	11,224
Machinery, equipment and vehicles	34,921	40,048
Accumulated depreciation	(29,024)	(30,835)
Machinery, equipment and vehicles, net	5,896	9,213
Land	3,661	3,682
Construction in progress	6,253	649
Other	5,487	5,936
Accumulated depreciation	(4,403)	(4,602)
Other, net	1,084	1,333
Total property, plant and equipment	27,190	26,103
Intangible assets:		
Goodwill	26,072	24,281
Patent rights	2,275	1,871
Other	1,362	1,122
Total intangible assets	29,710	27,274
Investments and other assets:		
Asset for retirement benefits	985	1,460
Deferred tax assets	1,527	1,531
Other	810	1,109
Allowance for doubtful accounts	(12)	(11)
Total investments and other assets	3,311	4,089
Total non-current assets	60,211	57,467
Total assets	94,958	87,586

(Millions of yen)

	Previous fiscal year (As of March 31, 2018)	Current fiscal year (As of March 31, 2019)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	7,599	7,212
Electronically recorded obligations - operating	1,123	1,074
Current portion of long-term debt	3,083	3,666
Other payables	5,207	2,043
Accrued expenses	551	562
Provision for bonuses	1,298	1,194
Other	2,106	1,147
Total current liabilities	20,968	16,901
Non-current liabilities:		
Long-term debt	18,000	15,333
Liability for retirement benefits	5,333	5,442
Deferred tax liabilities	83	100
Other	651	752
Total non-current liabilities	24,067	21,629
Total liabilities	45,036	38,530
Net assets		
Shareholders' equity:		
Common stock	15,934	15,977
Capital surplus	15,934	15,977
Retained earnings	19,071	18,807
Treasury stock	(3,339)	(3,331)
Total shareholders' equity	47,601	47,431
Accumulated other comprehensive income:		
Deferred gains or losses on hedges	245	30
Foreign currency translation adjustment	1,665	1,676
Remeasurements of defined benefit plans	408	(83)
Total accumulated other comprehensive income	2,320	1,624
Total net assets	49,921	49,055
Total liabilities and net assets	94,958	87,586

Consolidated Statements of Income

(Millions of yen)

	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
Net sales	70,079	60,580
Cost of sales	46,705	39,395
Gross profit	23,373	21,185
Selling, general and administrative expenses	17,195	17,460
Operating profit	6,178	3,724
Non-operating income:		
Interest income	30	40
Foreign exchange gains	—	266
Rent income	45	80
Other	63	162
Total non-operating income	140	549
Non-operating expenses:		
Interest expenses	91	90
Foreign exchange losses	296	—
Depreciation	214	234
Other	33	45
Total non-operating expenses	636	370
Ordinary profit	5,682	3,903
Extraordinary income:		
Gain on sale of non-current assets	31	2
Subsidy income	157	100
Total extraordinary income	188	102
Extraordinary losses:		
Loss on sale of non-current assets	0	—
Loss on retirement of property, plant and equipment	78	160
Impairment loss	49	—
Restructuring expenses	113	—
Settlement package	275	86
Other	0	—
Total extraordinary losses	518	247
Profit before income taxes	5,352	3,758
Income taxes - current	1,099	1,141
Income taxes - deferred	827	332
Total income taxes	1,926	1,473
Profit	3,426	2,284
Profit attributable to owners of parent	3,426	2,284

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
Profit	3,426	2,284
Other comprehensive income:		
Deferred gains or losses on hedges	118	(214)
Foreign currency translation adjustment	(47)	11
Remeasurements of defined benefit plans	(1,458)	(491)
Total other comprehensive income	(1,387)	(695)
Comprehensive income	2,038	1,588
Comprehensive income attributable to:		
Owners of parent	2,038	1,588
Non-controlling interests	—	—

Consolidated Statements of Cash Flows

(Millions of yen)

	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
Cash flows from operating activities:		
Profit before income taxes	5,352	3,758
Depreciation	3,799	4,390
Amortization of goodwill	1,798	1,798
Increase (decrease) in allowance for doubtful accounts	6	0
Increase (decrease) in provision for bonuses	(487)	(102)
Increase (decrease) in liability for retirement benefits	(1,423)	(1,074)
Interest and dividend income	(30)	(40)
Interest expenses	91	90
Subsidy income	(157)	(100)
Foreign exchange (gains) losses	298	(207)
(Gain) loss on sale of non-current assets	(31)	(2)
Loss on retirement of property, plant and equipment	78	160
Impairment loss	49	—
Restructuring expenses	113	—
Settlement package	275	86
(Increase) decrease in notes and accounts receivable - trade	870	476
(Increase) decrease in inventories	667	732
(Increase) decrease in other receivables	(147)	(21)
Increase (decrease) in notes and accounts payable - trade	(1,575)	(467)
Increase (decrease) in other payables	173	96
Increase (decrease) in income taxes payable (size-based business tax)	17	(20)
Other, net	(219)	(5)
Subtotal	9,519	9,547
Interest and dividend income received	33	34
Interest expenses paid	(85)	(90)
Proceeds from subsidy income	153	104
Settlement package paid	—	(361)
Income taxes paid	(631)	(1,406)
Net cash provided by (used in) operating activities	8,988	7,826
Cash flows from investing activities:		
Purchase of investment securities	(375)	(309)
Purchase of property, plant and equipment	(7,713)	(6,044)
Purchase of intangible assets	(393)	(205)
Other, net	27	4
Net cash provided by (used in) investing activities	(8,454)	(6,554)
Cash flows from financing activities:		
Proceeds from long-term debt	3,000	1,000
Repayments of long-term debt	(1,916)	(3,083)
Cash dividends paid	(3,009)	(2,548)
Repayments of lease obligations	(16)	(19)
Proceeds from exercise of stock options	208	86
Net cash provided by (used in) financing activities	(1,734)	(4,564)
Effect of exchange rate change on cash and cash equivalents	(344)	232
Net increase (decrease) in cash and cash equivalents	(1,545)	(3,060)
Cash and cash equivalents at beginning of period	16,432	14,887
Cash and cash equivalents at end of period	14,887	11,826

Corporate Information

(As of March 31, 2019)

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	2,005 (on a consolidated basis)

Stock Overview

(As of March 31, 2019)

Total number of authorized shares	100,000,000 shares
Number of shares issued	63,817,100 shares
Number of shareholders	27,459

Stock Information

(As of March 31, 2019)

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 Mitsubishi UFJ Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda-ku, Tokyo

External Evaluation



Dexerials is a constituent of the SNAM Sustainability Index, which was established by Sompo Japan Nipponkoa Asset Management Co., Ltd. (SNAM), 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).



Recognized under the 2019 Certified Health & Productivity Management Outstanding Organization Recognition Program

> See Page 58 for the details of 2019 Certified Health & Productivity Management Organization Recognition Program

Principal Shareholders

(As of March 31, 2019)

Name	Number of shares held (thousand shares)	Shareholding ratio (%)
Japan Trustee Services Bank, Ltd. (Trust account)	8,432	13.21
SEKISUI CHEMICAL CO., LTD.	5,040	7.90
Trust & Custody Services Bank, Ltd. (Trust E account)	3,209	5.03
Dai Nippon Printing Co., Ltd.	3,125	4.90
The Master Trust Bank of Japan, Ltd. (Trust account)	2,529	3.96
NORTHERN TRUST CO.(AVFC) SUB A/C USL NON-TREATY	1,635	2.56
MLI FOR CLIENT GENERAL OMNI NON COLLATERAL NON TREATY-PB	1,437	2.25
The Nomura Trust and Banking Co., Ltd. (Investment trust account)	1,418	2.22
Japan Trustee Services Bank, Ltd. (Trust account 5)	1,007	1.58
NORTHERN TRUST CO.(AVFC) RE FIDELITY FUNDS	856	1.34

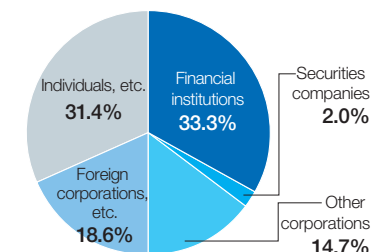
* Trust & Custody Services Bank, Ltd. (trust account E) manages trust assets for the Employee Stock Ownership Plan (J-ESOP), which is an incentive program for employees whereby shares of common stock of the company are granted to them, and for the Board Benefit Trust (BBT), which is a performance-linked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

Stock Price (From April 1, 2018 to March 31, 2019)



Breakdown by Type of Shareholder

(As of March 31, 2019)





Kentaro Noda

Professor at Rikkyo University Graduate School of Business Administration

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 Kogyo Shinbun, 2006), "The Impact of BCP Disclosure on Cost of Equity Capital" (Contemporary Disclosure Research, 2012), "Jigyo Keizoku Keikaku Niyoru Kigyo Bunseki" (Chuo Keizai-sha Inc., 2013), "Senyaku 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' report again, having done so the previous year. Following the publication of Environmental and Social Report 2017 and Sustainability Report 2018, Dexerials has issued an integrated report this year. Although experience gained through publication of previous reports could be utilized, the decision to publish an integrated report presented a new challenge for Dexerials in view of the trend toward the pursuit of both social value and economic value, and moreover, it is a great opportunity for a further leap forward. This is because the integrated report offers wide-ranging stakeholders an excellent opportunity to deepen their understanding of Dexerials' sophisticated technologies and unique approaches to customers. From this perspective, I sensed a powerful message in the narrative on the value creation process, which is in the first part of the report, emphasizing inputs and outputs unique to Dexerials as well as outcomes including social value.

This year's report is characterized by a strong focus on the following points. Firstly, the message from top management, reflecting on the results of the previous Mid-term Management Plan, conveys management's conviction that ESG management and sustainable growth are integral to the strategy for the next five years. Secondly, the content of the Mid-term Management Plan, CFO message, and CSR management sections is linked with concrete explanations of the Optical Materials and Components Business, the Electronic Materials and Components Business, and growth businesses in new domains, making the overall story persuasive. Moreover, it is noteworthy that Dexerials' corporate governance structure is operated in such a way that objectivity and transparency are ensured, with independent outside directors accounting for a majority of the Board of Directors. Meticulous descriptions of various management systems, risk management, compliance, and so on help readers understand that Dexerials has a good foundation for implementing the strategy, which is reassuring for stakeholders. I pointed out some issues in the environmental field last year. Dexerials' responses in this regard in fiscal 2018 were not really satisfactory. However, the long-term targets for fiscal 2030 as the target year based on the review of recent results convey Dexerials' enthusiasm for promoting the initiatives.

Although CSR targets appear to have been set following sufficient discussion, for the presentation of long-term achievements from now on, there is room for improvement regarding what the KPIs should be and other matters, taking into consideration the linkage with social trends. As mentioned in the message from top management, it is expected that the value creation strategy will become clearer through linkage of social issues with the Mid-term Management Plan.

This report also provides detailed descriptions, together with supporting data, about the creation of human capital and health and productivity management. Dexerials' pioneering initiatives are yielding concrete benefits, such as a high retention rate of new graduates employed by the Company. I am looking forward

to Dexerials' development from now on and I am interested to see which perspectives Dexerials will emphasize, considering the recent hot topic of work-life balance and "people who can create value" in Dexerials' vision, while building on the initiatives pursued so far.

More and more companies are publishing integrated reports. I hope Dexerials' initiatives will be praised as being advanced and that a broad range of stakeholders will deepen their understanding of the social value created by Dexerials through the achievement of its "Value Matters" corporate vision.

Response to the Third-party Opinion



Satoshi Ishiguro

Senior Executive Officer
General Affairs & Human Resources
Division Head, Legal & Intellectual Property

Dexerials has published an integrated report to facilitate dialogue with stakeholders with the aim of enhancing corporate value. Following the Sustainability Report 2018, we are deeply grateful to Professor Noda for his highly valued opinions and evaluation from a third-party perspective.

In fiscal 2019 Dexerials launched initiatives in order to accomplish the new Mid-term Management Plan

"Challenges for Evolution," including the transformation of the business portfolio under the new management structure. Moreover, linking with the new Mid-term Management Plan, we have formulated CSR targets based on materiality and intend to systematically pursue initiatives for achievement of sustainable growth of the Company and realization of a sustainable society.

Regarding environmental initiatives, we will reconfirm the environmental impacts of business activities and continue initiatives corresponding to social needs and designed to achieve the medium- and long-term targets. Regarding CSR management and human resource management, we will pursue a new round of progress and development through ongoing discussion.

Despite the challenge posed by the political, social and economic instability of the environment in which Dexerials operates, and the unclear outlook, we will reflect the third-party opinion in our initiatives from now on and strive to strengthen the management foundation, expand the business, and achieve growth so as to meet our stakeholders' expectations.

Dexerials Corporation

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