

Corporate Governance

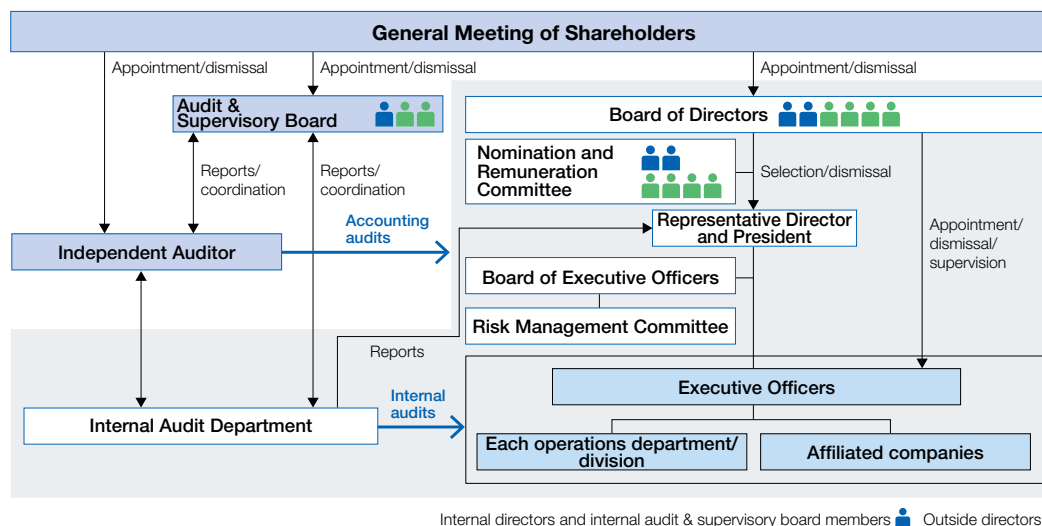
Dexerials' corporate philosophy is "Integrity—Have Integrity and Sincerity," and in accordance with this we recognize that in order to try and improve the corporate value, and to live up to the expectations and trust placed in us by all the stakeholders who support the corporate activities, the establishment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

Initiatives to Strengthen Corporate Governance

Dexerials engages continuously in initiatives to enhance corporate governance in order to build a more effective and efficient management system. Ever since we became a listed company, we have had a supervisory system in which the majority of our directors are outside directors with high independence and expertise, whereby ensuring transparency and objectivity of management. The decision-making process for officers' nomination and remuneration is handled by the Nomination and Remuneration Committee which was optionally established in 2019. The majority of the members and the committee chairman are outside directors. It holds discussions on matters such as evaluation of executive directors, succession planning for officers, and the officer remuneration system.

We proactively delegate executive authority by introducing an executive officer system. In 2019, we introduced an entrusted executive officer system to further spread the delegation of authority. Then in 2020, we reevaluated the management system and switched to a more compact system, which has accelerated decision-making and efforts to drive forward the monitoring model.

Dexerials' Corporate Governance Structure (As of December 2020)



Overview of Corporate Governance Structure

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

Dexerials' Corporate Governance

Directors, Board of Directors, and Executive Officers

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

Audit & Supervisory Board Members and Audit & Supervisory Board

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

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

Board of Executive Officers

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

Internal Audits and Audits by the Audit & Supervisory Board Members

The Internal Audit Department strives to implement effective and efficient audits, establishes an internal control system for the Company and its Group companies, and audits the status of their implementation of and compliance with their respective compliance and risk management systems. In regards to the results of internal audits, the Internal Audit Department periodically reviews the status of enhancements, and reports those details to the representative directors, the audit & supervisory board members, and any related departments.

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

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

Accounting Audits

For accounting audits, the Company has entered into an audit agreement with PricewaterhouseCoopers Aarata LLC, which conducts accounting audits in accordance with the Companies Act and the Financial Instruments and Exchange Act.

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

Nomination and Remuneration Committee

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

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

The Nomination and Remuneration Committee met five times in fiscal 2019, where it discussed matters such as selection of officer candidates, confirmation of the training process for officer successors, evaluation of performance in determining remuneration for officers, and the appropriateness of evaluation indicators in determining the composition of remuneration and performance-linked remuneration.

Nomination and Remuneration Committee Meetings in Fiscal 2019

| Date | Matters deliberated on |
|--------------|--|
| July 2019 | <ul style="list-style-type: none"> Operation of the Nomination and Remuneration Committee KPIs for determining officers' remuneration Performance reviews related to determining officers' remuneration |
| October | <ul style="list-style-type: none"> Operation of the Nomination and Remuneration Committee Agenda items regarding the officer remuneration system |
| January 2020 | <ul style="list-style-type: none"> Management system for the next fiscal year |
| February | <ul style="list-style-type: none"> Management system for the next fiscal year |
| March | <ul style="list-style-type: none"> Management system for the next fiscal year |

Evaluation of Effectiveness of the Board of Directors

1 Analysis & Method of Evaluation

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

For the evaluation in fiscal 2019, we contracted a third party to conduct interviews and analyze the results in order to ensure objectivity and transparency in the evaluation. Specifically, each director and audit & supervisory board member evaluated the effectiveness of the Board of Directors in fiscal 2019 based on a questionnaire created by the Board of Directors Secretariat, then the third party interviewed all directors and audit & supervisory board members about their responses and analyzed the results.

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

2 Outline of Results of Evaluation

(1) Summary

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

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

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

- Medium- to long-term management strategy, etc.
- Composition and organizational design of the Board of Directors and method for deciding nomination

and remuneration based on the above discussions

- Improving communication (building less formal relationships) and sharing information

(2) Action plan for fiscal 2020

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

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

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

| Category | Details | Overview of main opinions |
|---------------------------------------|---|--|
| Composition of the Board of Directors | <ul style="list-style-type: none"> ● Number of directors, composition of personnel, balance of officers' expertise ● Necessity of reevaluating composition of the Board of Directors ● Directors' knowledge and understanding about the Company's fields of business | <ul style="list-style-type: none"> ● It is necessary to maintain a majority of outside directors on the Board. ● It is necessary to have people with high expertise in new business domains. |
| Operation of the Board of Directors | <ul style="list-style-type: none"> ● Contents and volume of board meeting materials, and time to study them beforehand ● Contents and number of agenda items in board meetings ● Progress on agenda items in board meetings ● Frequency and duration of board meetings ● State of open exchange of opinions and discussions in board meetings | <ul style="list-style-type: none"> ● It is necessary to have more in-depth discussions on ESG and SDGs initiatives. ● It is necessary to discuss the direction for financial, capital, and shareholder return policies with a focus on growth strategy. |
| Corporate governance-related | <ul style="list-style-type: none"> ● Deciding direction of management strategy ● Creating an environment that supports risk-taking ● Effectiveness of supervisory function ● Understanding stakeholders' perspectives ● Sharing risk information | <ul style="list-style-type: none"> ● A direction should be formulated with a focus on where Dexerials wants to be as a company in the next 5-10 years, including its role in society. ● Incentives such as remuneration should be designed to support risk-taking. |
| Evaluation of fiscal 2019 action plan | <ul style="list-style-type: none"> ● Evaluation of effectiveness of fiscal 2019 action plan (Details of fiscal 2019 action plan) ● Facilitation of Board of Directors operations that contribute to more substantial and open deliberation ● Clarifying the nomination and remuneration decision-making processes and ensuring transparency ● Deepening of communications | <ul style="list-style-type: none"> ● Free, unrestricted discussions are held in board meetings. ● Establishment of the Nomination and Remuneration Committee made the officer succession plan more clear. Strengthening ties between Nomination and Remuneration Committee members and audit & supervisory board members is an issue for the future. ● It is necessary to further promote less formal communication between outside directors and executives. |

Officers' Remuneration

Basic Approach

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

Remuneration of directors (excluding outside directors) is determined by a resolution of the Board of Directors following the discussion by the Nomination and Remuneration Committee based on the amount calculated according to the job title and the degree of achievement of results for the fiscal year, etc.

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

Basic remuneration

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

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

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

Performance-linked remuneration

Performance-linked remuneration comprises "performance remuneration," which is paid according to performance during the fiscal year, and "stock compensation (BBT trust)," which is intended to foster the awareness that directors share interests with shareholders and to provide motivation for achieving objectives over the medium to long term. Performance-linked remuneration is designed to motivate the Company's executive directors to manage with an awareness of performance and share prices not just in a single fiscal year, but also over the medium to long term.

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

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

into one share of the Company's ordinary stock, and at the time of separation from the Company, eligible directors are granted shares of the Company's stock and monies converted at the market value of those shares according to the number of points.

Decision-Making Process

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

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

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

The remuneration of individual audit & supervisory board members shall be determined through consultation between audit & supervisory board members, within the range of remuneration determined by a resolution of the General Meeting of Shareholders in advance.

Percentages of Each Type of Remuneration by Job Title

| Job title | Percentage of officer remuneration | | | Total |
|---|------------------------------------|---------------------------------|--------------------|-------|
| | Basic remuneration | Performance-linked remuneration | | |
| | | Performance remuneration | Stock compensation | |
| Representative director | 50% | 30% | 20% | 100% |
| Directors (excluding outside directors) | 60% | 25% | 15% | |
| Outside directors | 100% | — | — | |

Amount of Officers' Remuneration in Fiscal 2019

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

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

Directors

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

Nomination and Remuneration
Committee Member

Yoshihisa Shinya



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

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.

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.

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

Nomination and Remuneration
Committee Member

Toshiya Satake



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

Mr. Toshiya Satake has a wealth of experience and deep insight gained through his involvement in investment and financing business at financial institutions and as a manager of a company. He is well versed in the Company's overall management through involvement in the Company's auditing in the course of his service as a Standing Audit & Supervisory Board Member. The Company judges that he is capable of appropriately fulfilling his duties as a Director and therefore appointed him Director.

Outside Director

Independent Officer

Nomination and Remuneration
Committee Member

Takao Tsuji



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

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

Outside Director

Independent Officer

Nomination and Remuneration
Committee Chairman

Masao Hirano



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

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

Outside Director

Independent Officer

Nomination and Remuneration
Committee Member

Rika Sato



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

Ms. Rika Sato has deep insight about corporate legal affairs as an attorney-at-law and has a track record of contributing to enhancement of the quality of auditing of the Company through her service as an Outside Audit & Supervisory Board Member. The Company judges that she can provide useful advice and suggestions that contribute to strengthening of the functions for supervision of the Company's business execution, and therefore appointed her Outside Director.

Audit & Supervisory Board Members

Audit & Supervisory Board Member
(Standing)



Masahiro Kuwayama

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

Reasons for appointment

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

Outside Audit & Supervisory Board Member

Independent Officer



John C. Roebuck

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

Reasons for appointment

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

Outside Audit & Supervisory Board Member

Independent Officer



Toshifumi Takada

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

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

Executive Officers

Yoshihisa Shinya

President and Executive Officer
Overall management and business

Toshiya Satake

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

Naoyuki Sanada

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

Takashi Yoshida

Executive Officer
Optical Solutions Business Unit Head

Kozaburo Hayashi

Executive Officer
Connecting Materials Business Unit Head

Yuji Kakiuchi

Executive Officer
Global Sales & Marketing Division Head

Dexerials' Governance from the Perspective of Outside Directors

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



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

Toshiya Satake



Outside Director
Nomination and Remuneration Committee Chairman

Masao Hirano



Outside Director
Nomination and Remuneration Committee Member

Rika Sato

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

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

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

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

Hirano I think it is a good example of governance that embodies Dexerials' corporate philosophy of "Integrity." I give it a high assessment as it is an

earnest, attentive, and honest process that has improved the quality of governance.

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

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

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

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



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

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

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

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

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

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

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

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

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

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

Satake **Through the Dexerials Business Leadership Program we are currently running, I would like to think about how to create a management team which can operate in collaboration with members of management who are women and from other countries. Next, I would like**

to talk about the Nomination and Remuneration Committee, which we established last year. In the process of discussing the succession plan, the committee has deliberated on KPIs for defining requirements for the president and determining remuneration for directors over the last two years under the leadership of chairman Masao Hirano. Looking back on this, I would like to you to provide some comments.

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

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



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

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

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

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

management, so I do see the difficulty of the position expected of outside officers.

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

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

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

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



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



Compliance

For an enterprise to remain trusted by stakeholders, the promotion of compliance is indispensable. The Dexerials Group is promoting initiatives to be a good corporate citizen and ensure compliance with laws and regulations and social norms.

Formulation and Dissemination of the Dexerials Group Code of Conduct

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

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

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

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

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.

Initiatives for Reinforcing Compliance

Distribution of the Compliance Handbook

The “Compliance Handbook: Our Commitments” picks topics from within the Group Code of Conduct that are of particular relevance to business activities and uses specific examples to explain concepts simply. In 2019, it was partially revised in consideration of the recent changes in social conditions, and redistributed to all Group officers and employees worldwide.



Compliance Month

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

Compliance Education

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

Dialogues with Shareholders and Investors

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

Disclosure of Corporate Information

For the Company, timely and appropriate disclosure to shareholders and investors serves to ensure transparent and fair decision making as well as effective corporate governance functions. We also believe that it contributes to increasing corporate value by promoting public understanding and an appropriate market assessment of the Company. Therefore, we not only undertake disclosure required by laws and regulations, but also publish information proactively through a variety of channels, such as IR information on our website, working in this way to create a system for highly transparent and reliable disclosure.

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



Dexerials Investor Relations website



Notice of Annual General Meeting of Shareholders

In June 2020, we held the 8th Annual General Meeting of Shareholders. In order to prevent the spread of COVID-19, we asked individual shareholders to exercise their voting rights in writing or via the voting rights exercise website on the internet and asked institutional investors to do so through an electronic voting platform beforehand. We also made an effort to ensure there was ample time to deliberate and sufficient information for exercising voting rights by providing information impartially and broadly to all shareholders. For example, we sent out meeting notice early, improved the information on notice, and posted relevant material on our website in advance. At the venue of the General Meeting of Shareholders, we made sure there was plenty of space between people and placed alcohol sanitizer inside and outside the venue. We also took a variety of measures to prevent the spread of infection and ensure the proceedings ran smoothly, efficiently, and safely, such as asking shareholders attending the meeting to allow their temperature to be taken before entering the reception area, and requiring employees and shareholder meeting staff to wear masks.

IR Activities

The status of fiscal 2019 investor relations activities is as follows. Due to the spread of COVID-19, we have moved all interviews with institutional investors and analysts as well as briefings in physical venues online (i.e., website and telephone conferences) as a general rule, to prioritize the health and safety of all

shareholders, investors, and employees. We will continue to improve communication through efforts such as increasing information on our website and proactively utilizing online meetings.

| Activity | Frequency | Content |
|--|--------------|---|
| Interviews with analysts and Japanese and non-Japanese institutional investors | 163 times | <ul style="list-style-type: none"> Conducted most individual interviews and telephone conferences online |
| Briefings for institutional investors and analysts | 6 times | <ul style="list-style-type: none"> Earnings briefings (4 times) Small meetings for analysts and ESG briefings  |
| Briefings for individual investors | 4 times | <ul style="list-style-type: none"> Held briefings at IR events and investment seminars organized by institutional investors, and streamed online briefings for the first time, with a total of 2,657 individual investors participating |
| Posting IR materials on the Dexerials website | As necessary | <ul style="list-style-type: none"> Posting of materials such as the consolidated financial results and earnings briefings materials, as well as securities reports (quarterly), materials relating to the General Meeting of Shareholders, the IR event calendar, and so on Streamed videos of earnings briefings and posted briefings materials with transcript and Q&A Posted corporate briefings, product introductions, shareholder questionnaire survey results, and "Who We Are" and "Business Model" on our website and smartphone site as contents for individual investors  |



Chemical Substance Management

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

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

Minimizing Chemical Substance Risks

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

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

Compliance with Laws and Regulations on Chemical Substances

Imports and exports of chemical substances may require procedures such as notifications and registrations. The Dexerials Group responds to such regulatory requirements through local sales or manufacturing subsidiaries or consulting companies. The relevant laws of Japan include the Act on the Regulation of Manufacture and Evaluation of Chemical Substances and the Industrial Safety and Health Act and those of overseas jurisdictions include the REACH Regulation*¹ of the European Union, K-REACH*² of South Korea, TSCA*³ of the US, and the new regulatory frameworks for chemical substance management of China and Taiwan.

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

*1 REACH Regulation: Abbreviation of Registration, Evaluation, Authorization and Restriction of Chemicals.

*2 K-REACH: Act on the Registration and Evaluation of Chemicals of South Korea

*3 TSCA of the US: Toxic Substances Control Act of the US

Compliance with Environmental Laws and Regulations

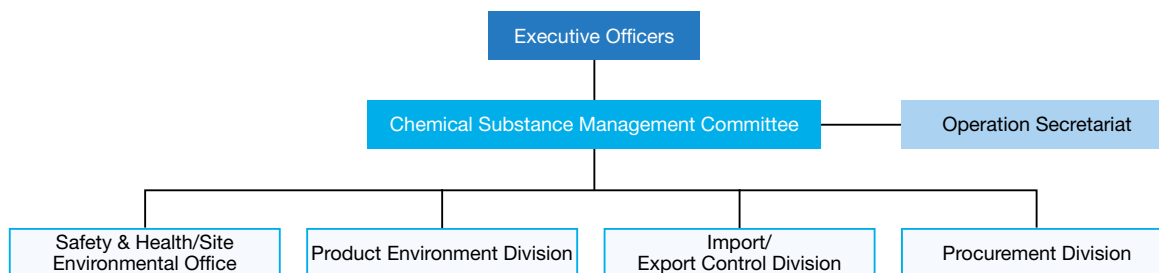
In fiscal 2019, there were no items whose measured values exceeded the standard values at any of our sites. See the Dexerials website for the data on each item.

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

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

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

Chemical Substance Management Committee Organization



Appropriate Management of Chemical Substances

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

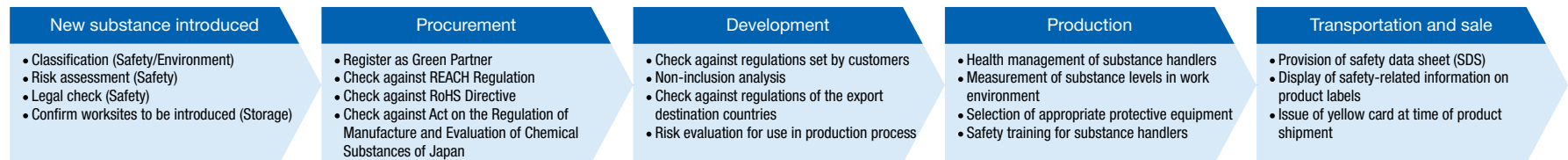
Regarding classification standards, the risk impact is correctly determined using criteria such as laws and GHS categorization results^{*4}.

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

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

*5 RoHS Directive: The Restriction of the use of certain Hazardous Substances in electrical and electronic equipment

Internal Management Flow for Chemical Substances

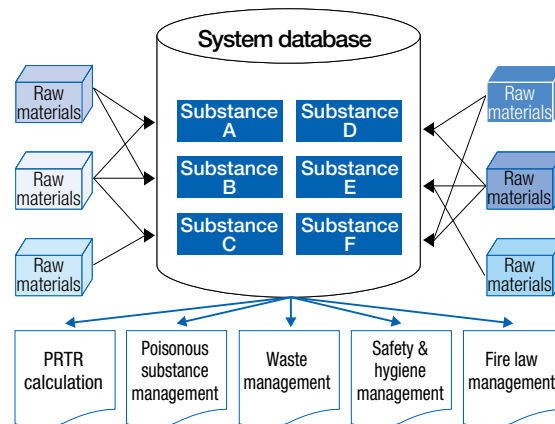


Comprehensive Management System for Chemical Substances

The Dexerials Group has introduced a management system whereby raw materials and chemicals/reagents in wide use by development divisions that are purchased are managed on a single system. Under this system, chemicals are recorded in a chemical substance database so that the data can then be output by item for PRTR totals and other objectives.

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

Comprehensive Management System for Chemical Substances



Chemical Substance Management Education

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

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

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