

Integrated Report 2023

Year Ended March 31, 2023

Innovation for the Earth

SEKISUI

SEKISUI CHEMICAL CO., LTD.

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In addition to organizing the Group's promising new endeavors together with its existing growth businesses as a part of efforts to achieve its 2030 long-term vision, we have taken steps to upgrade and expand the disclosure of information relating to intangible assets, including the intellectual property that underpins the Group's operations in the Integrated Report 2023.

This report is available in PDF format in Japanese and English and can be downloaded from the following URL.

▼ Japanese Edition

<https://www.sekisui.co.jp/ir/document/annual/>

▼ English Edition

<https://www.sekisuichemical.com/ir/report/annual/>

Organizations Covered

In principle, this report covers SEKISUI CHEMICAL CO., LTD. and its consolidated subsidiaries.

Applicable Period

Includes fiscal 2022 (April 1, 2022 to March 31, 2023) and the Medium-term Management Plan as well as other details to August 2023.

In Editing This Report

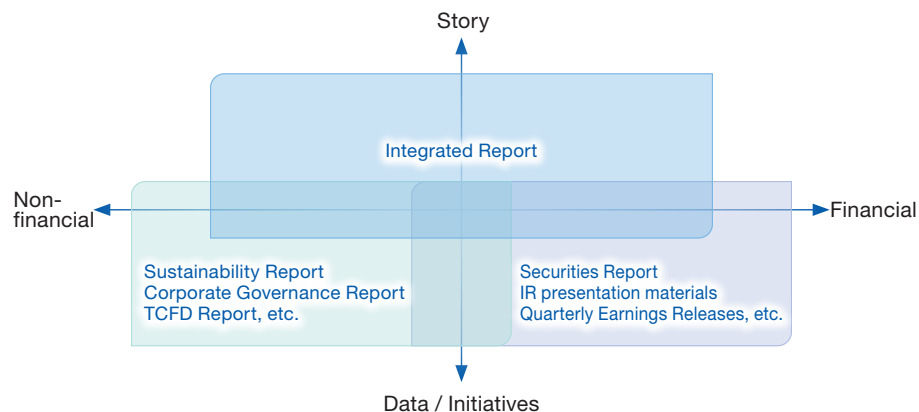
In editing this report, we referred to the International Integrated Reporting Framework recommended by the IFRS Foundation and the Guidance for Collaborative Value Creation of Japan's Ministry of Economy, Trade, and Industry (METI).



Cautionary Notes

The forecasts, plans, outlooks, and other forward-looking statements in this report are based on management's judgment of information available at the time this report was produced. Changes in key factors could cause actual performance results to differ materially from these forward-looking statements. Figures denominated in billions of yen in this integrated report are rounded off to the nearest first decimal place. In addition, those denominated in millions of yen are rounded down to the nearest million yen.

SEKISUI CHEMICAL Group Information Disclosure System



SEKISUI CHEMICAL Group reports on its management strategies aimed at creating corporate value, its financial and non-financial approach as well as related data and initiatives in a comprehensive manner in its Integrated Report.

Moreover, we continuously disclose explanatory materials on our management strategy, including financial results and non-financial data, in our Annual Securities Report and IR financial results presentation materials.

Details of the Group's ESG management and sustainability activities as well as comprehensive non-financial information are disclosed in the Sustainability Report.

Website Information

▼ Investor Relations

<https://www.sekisuichemical.com/ir/>

Securities Report

https://www.sekisuichemical.com/ir/report/financial_report/

Presentations

<https://www.sekisuichemical.com/ir/presentations/>

▼ Sustainability

Sustainability Report

https://www.sekisuichemical.com/sustainability_report/report/

TCFD/TNFD Report

https://www.sekisuichemical.com/sustainability_report/report/#tcf

Innovation for the Earth

To realize a sustainable society, we support the basis of LIFE and will continue to create peace of mind for the future.

Viewing changes in the social environment as a business opportunity, SEKISUI CHEMICAL Group is working to continuously generate innovation to help resolve social issues drawing on the solutions created by its varied and diverse technologies as well as the trust it enjoys with its stakeholders. By contributing to the Earth and people's lives, we are endeavoring to enhance the sustainability of society in concert with efforts to secure our sustainable growth as a company.



SEKISUI CHEMICAL Group's Principles

SEKISUI CHEMICAL Group's Principles comprise the three elements of Corporate Philosophy, Group Vision, and Management Strategy. Far from consistently enjoying a favorable tailwind, SEKISUI CHEMICAL Group has overcome a host of challenges since its foundation in 1947 through the underlying strength of its Corporate Philosophy 3S principles, which were established based on the following intent.

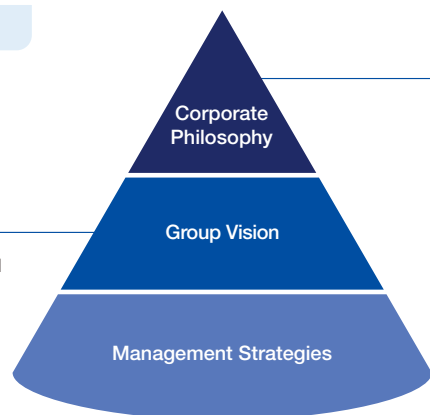
The difference between people living their lives in accordance with ideals and those simply going where the currents and eddies of life take them becomes ever more apparent as the long years of their lives pass. The same is true of business. Only when employees mass under a common ideal arising from a basic

policy of business management can the company demonstrate its great power as a corporate community.

For the Group to achieve sustainable growth in an increasingly uncertain world, it is imperative that every employee take the initiative and independently participate in constantly overcoming each challenge to respond swiftly to changes in the market, and that efforts are made to accelerate preparations for megatrends and to steadily implement measures that contribute to solving social issues. Adopting a long-term outlook, we will work to continue generating innovations that contribute to social issues.

Group Vision

Through prominence in technology and quality, SEKISUI CHEMICAL Group will contribute to improving the lives of the people of the world and the Earth's environment, by continuing to open up new frontiers in Residential and Social Infrastructure Creation and Chemical Solutions.



Corporate Philosophy The 3S Principles

Service

At SEKISUI, we serve our stakeholders by creating social, environmental and economic value through responsible business practices.

Speed

At SEKISUI, we accelerate innovation by eagerly taking on new challenges, adapting to change and staying ahead of the times.

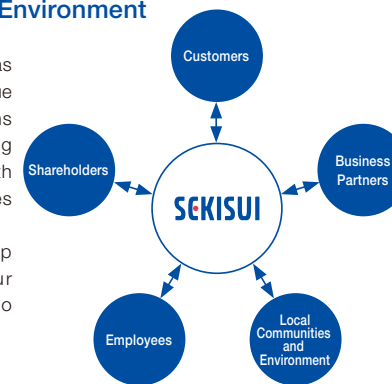
Superiority

At SEKISUI, we contribute to society by helping to solve social issues with our superior technologies and quality.

Five stakeholders for SEKISUI CHEMICAL Group: Customers, Shareholders, Employees, Business Partners, Local Communities and Environment

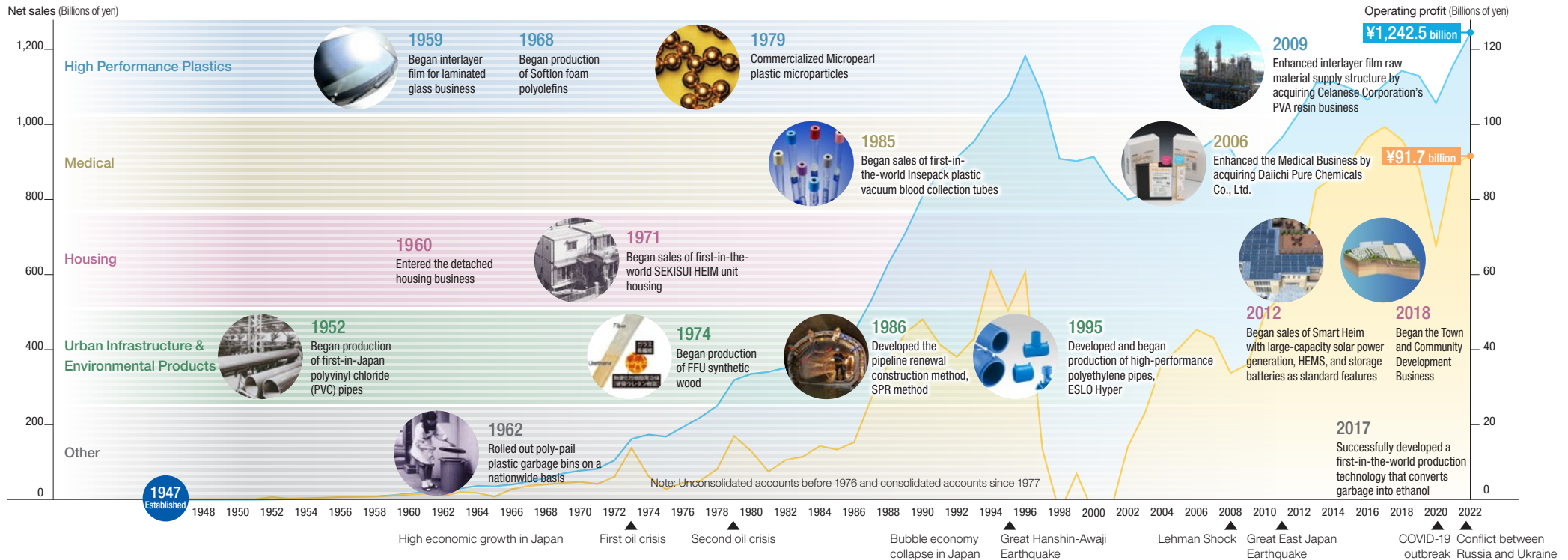
Positioning its five stakeholders as partners in improving corporate value and assessing their expectations and requests, as well as resolving society-wide issues together with them, leads to great opportunities for SEKISUI CHEMICAL Group.

We will create a relationship of mutual prosperity with our stakeholders while continuing to promote sustainable growth.



SEKISUI CHEMICAL Group Accomplishments

With its roots in Nippon Chisso Hiryo K.K., founded by Shitagau Noguchi, SEKISUI CHEMICAL Group was established in 1947 by seven young employees aiming to comprehensively launch a business based on plastics, a new miracle material at the time. Guided by our 3S Principles (Service, Speed, Superiority) over the ensuing period, we have dared to challenge new businesses and frontiers while ushering in a new era focusing mainly on plastic-related technologies and products.



1947-: Foundation

Established Process Creation Business as Pioneers in Plastics

SEKISUI CHEMICAL Group took on the challenge of being the first in Japan to engage in plastic processing using domestically produced injection molding machines. We contributed to Japan's postwar reconstruction by bringing new changes to people's lives through plastic products such as daily necessities, tapes and films, PVC pipes, and poly-pail plastic garbage bins. In 1960, SEKISUI House Sangyo Co., Ltd. (now SEKISUI House Co., Ltd.), was spun off as a separate company after we entered the housing field. In 1963, we aggressively expanded operations, which included becoming the first Japanese manufacturer to make a foray into the United States.

1966-: Development

Improved Management Framework and Developed Next-generation Businesses

With high economic growth in Japan drawing to a close, we improved our management framework based on restructuring and our basic philosophy of respecting employees and business partners while contributing to society through plastics. We began Sekisui Heim industrialized modular houses and the Medical Business as the next wave of growth businesses. The Company was awarded the Deming Prize, the highest honor for TQC,* in 1979 for company-wide TQC activities.

* TQC: Total Quality Control

1980-: Growth

Launched High-performance Products and Expanded the Housing Business

With commercialization of next-generation products progressing since the late 1970s, we saw growth particularly in the social infrastructure, housing, and medical fields. We implemented organizational reforms to enhance our ability to meet customer needs, while launching new materials, technologies, and products to address more sophisticated user needs and social issues. We expanded after-sales services in the Housing Business, through which strong growth has driven earnings. In 1997, we began selling houses equipped with solar-power generation systems.

1999-: Resurgence

Adopted a Three Company System and Initiated CSR Management

The Company reorganized from a seven-division to a three-company system, engaged in business selection and concentration, and pursued globalization to overcome the business crisis following the collapse of the bubble economy in Japan. At the same time, we promoted CSR management under the Three Prominences: Environment to achieve sustainable growth by balancing the economy and ecology; CS & Quality to improve CS (customer satisfaction) together with enhancing quality; and Human Resources to support the growth of employees to maximize their strengths.

2008 onward: Transformation

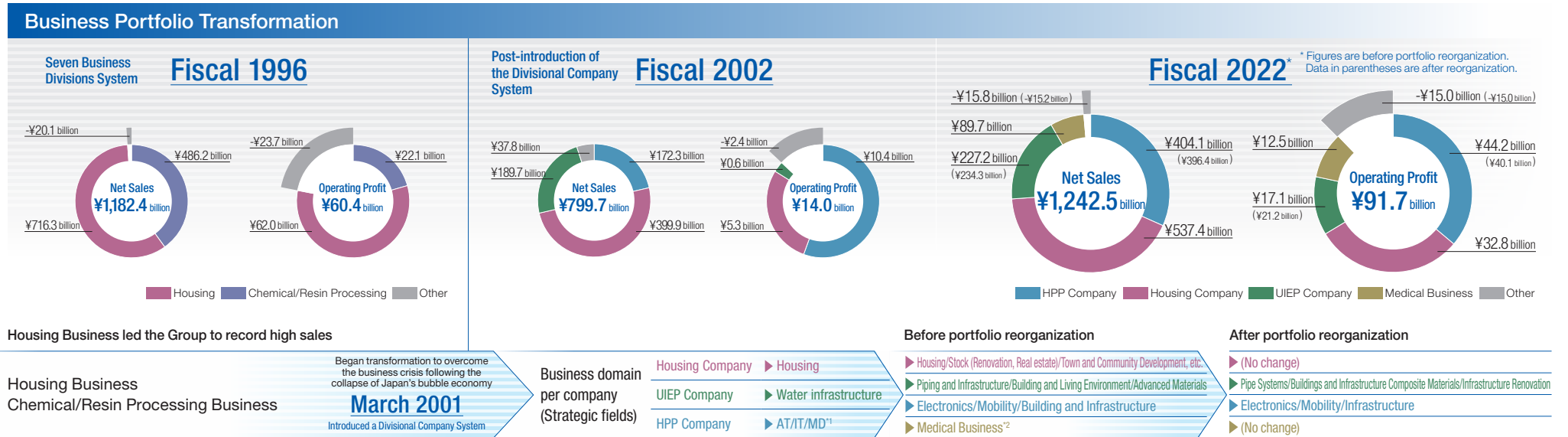
Proactively Pursuing Strategic Investment and Evolving from CSR to ESG Management

We are improving profitability along with expanding our businesses by pursuing investment strategies that clarify strategic fields and by enhancing our business structure. We have significantly increased sales of the High Performance Plastics Company by expanding our lineups of high-performance products. In 2020, we formulated our new Long-term Vision. As part of this, we are pursuing the evolution of CSR management—an integral part of our operations—into ESG management to realize social and corporate sustainability by taking a more strategic approach to environmental and social issues.

SEKISUI CHEMICAL Group Accomplishments

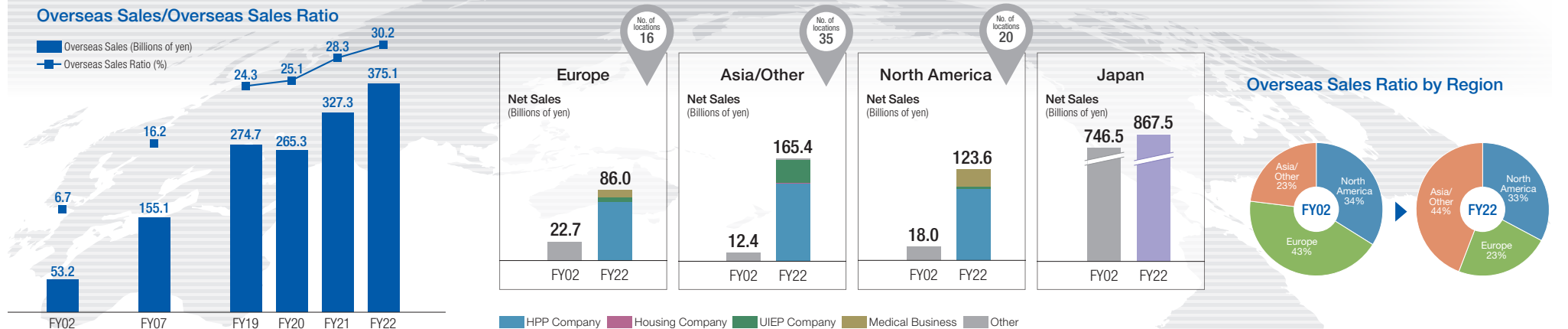
We have worked to transform our business portfolio to achieve growth while anticipating and identifying changes in society and business (Adaptability).

We took steps to reorganize our business portfolio in October 2022 owing to the increasingly overlapping nature of certain aspects of the HPP and UIEP companies due to the expansion of business domains in recent years. Through reorganization, we are working to more efficiently engage in operations and utilize assets by further expanding its business and improving productivity.












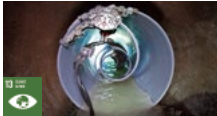
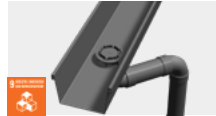




















*1 AT (automotive materials), IT (IT-related materials), MD (medical products) *2 The Medical Business was spun off from the High Performance Plastics Company in fiscal 2019 as new company candidate to accelerate growth.

Global Expansion



SEKISUI CHEMICAL Group's Business Domains

SEKISUI CHEMICAL Group is active in the Residential and Social Infrastructure Creation and Chemical Solutions fields. Its business is comprised of four segments, namely the three Housing, Urban Infrastructure & Environmental Products (UIEP), and High Performance Plastics (HPP) companies as well as the Medical field. Moving forward, we will develop products and services that solve social issues in each of the Residential, Advanced Lifeline, Innovative Mobility, and Life Science domains by fusing our existing businesses from the perspectives of technology, business opportunities, and personnel exchange and creating synergies.

Business Domains	Residential and Social Infrastructure Creation				Chemical Solutions											
Existing Businesses	Housing Company Housing, Renovation, Town and Community Development, Residential Services, Overseas				UIEP Company Pipe Systems, Building and Infrastructures Composite Materials, Infrastructure Renovation				HPP Company Electronics, Mobility, Industrial				Medical Business (Headquarters) Diagnostics, Pharmaceutical Sciences			
Growth Trajectory	Providing more people with peace of mind, safety and comfort through high-performance housing and housing-related services				Solving infrastructure issues and improving social infrastructure on a global scale with advanced materials and methods				Providing high-value-added materials for equipment that contributes to both sustainable society and lifestyles				Supporting global health and longevity with products, systems and services that contribute to healthcare advancements			
	 The Smart Power station series aimed at enabling energy self-sufficiency		 Smart and resilient town and community development		 High-performance seismic polyethylene pipe		 Reinforced plastic composite pipe Blood coagulation analyzers S400CF (ESLON RCP)		 Conductive fine particles for displays and electronic devices		 Component packaging materials for semiconductors		 Blood coagulation analyzers (S400CF)		 Blood coagulation diagnostic reagent (Nanopia P-FDP)	
	 In-house production in progress inside the Housing production factory		 Housing production factory (unit)		 Pipeline renewal method (SPR method)		 High flow rate drainage system		 Double-sided fixed LCD placement tape used in smartphones and tablets		 Moldings for automobile bumpers		 Diabetes diagnostic reagent (NORUDIA N HbA1c)		 SARS Coronavirus Antigen Test Kit	
	 Lifeline and energy renovations for Sekisui Heim owners		 Renovation through the Be Heim Sekisui Heim purchase and resale scheme		 Synthetic sleepers for railroads (FFU)		 Thermal expansion fire-chlorinated materials		 Interlayer film for automotive laminated glass		 Aircraft components		 Plastic vacuum blood collection tubes		 Drug development solution testing	
	 Serviced housing for the elderly		 Purchase and effective use of excess solar power generated by Sekisui Heim owners		 Functional tanks		 Rainwater storage system		 Heat dissipation grease for EVs		 Plastic molding sheets for aircraft cabin interiors		 Active pharmaceutical ingredients (APIs)		 Expanded newborn screening	

Creating products and services in the four domains to solve social issues while giving rise to fusion and synergy in existing businesses

Strategic are map — (P.26)



Message from the President & CEO



CEO MESSAGE

Positioned at the heart of efforts to realize its Long-term Vision, SEKISUI CHEMICAL Group has launched its Drive 2.0 Medium-term Management Plan.

SEKISUI CHEMICAL Group will demonstrate its growth potential to stakeholders by steadily increasing sales of Products to Enhance Sustainability to over ¥1 trillion and improving both capital and profit efficiency while generating innovations that help solve social issues.

August 2023

President & CEO

Keita Kato

Message from the President & CEO

Q The frequency of events held in person has increased as the impact of COVID-19 has gradually dissipated. What are your thoughts on the many changes that have occurred as a result of the pandemic?

There are indeed signs that life is slowly returning to normal. This is especially so after the government's decision to downgrade the legal status of the pandemic to a category V infectious disease from May 2023. On a personal note, I have participated in a growing number of face-to-face events. I have in fact seen how seriously managers and their subordinates view the need to engage in challenging action during such in-house events as town hall style meetings with the president and top management in 2023. This has reinforced the importance of in-person communication. Seeing firsthand people's facial expressions and reactions while gaining a feel for the mood of deliberations are defining features of face-to-face communication. Having said this, I do not personally see the need to engage entirely in in-person communication. Without forgetting the lessons learned from COVID-19, I think it is more important to search for the optimal balance of efficiency and productivity, including work-life balance.

Q How do you rate the previous Medium-term Management Plan?

SEKISUI CHEMICAL Group positioned the previous Medium-term Management Plan as a first step toward realizing its Long-term Vision and as an engine in its bid to secure sustainable growth. Looking back, results throughout fiscal 2022 were mixed. In the first half, operating profit exceeded plans prompting expectations that the Group was well within reach of achieving its goal of ¥100 billion. In the second half, however, operating profit fell below plans. In addition to the prolonged slump in market conditions reflecting surplus inventories of products and components in the Electronics field, this was largely due to the drop in consumer confidence in the housing sector on the back of inflation. As a result, operating profit fell below the target

set under the previous Medium-term Management Plan, coming in at ¥91.7 billion. Despite this mixed performance, I recognize that we were able to secure an increase in sales and profit, surpassing the levels recorded in fiscal 2019 prior to the pandemic. Moreover, EBITDA, an indicator of the Group's earning power hit a record high at ¥142.1 billion. The fact that we were able to increase our earning power despite the harsh operating environment, including COVID-19, the prolonged shortage



of semiconductors, and sharp rise in raw material and fuel prices, is testament to the collective efforts and resolve of all SEKISUI CHEMICAL Group employees to undertake structural reforms and pass on higher costs to product prices. In addition, the Group announced details of its Strategic Area Map as a compass for realizing its Long-term Vision in April 2022. Looking at this Map in more detail, the steady bio-refinery, perovskite solar cell, and other progress made in areas that we have positioned as new innovation domains is providing a certain amount of new business drive as we prepare for long-term growth. From an in-house perspective, I feel that front-line employees are becoming increasingly aware that their efforts are contributing to society. I also believe that ESG management-based business operations are becoming more prevalent. SEKISUI CHEMICAL Group's goal is to become a sustainable company. Against this backdrop, the Company's management has received the recognition of certain external organizations. In specific terms, SEKISUI CHEMICAL CO., LTD. was selected as one of the 2023 Global 100 Most Sustainable Corporations in the World index for a sixth consecutive year.

Q What thoughts were put into the Drive 2.0 Medium-term Management Plan as a means to realize the Vision 2030 Long-term Vision?

SEKISUI CHEMICAL Group announced details of its Long-term Vision in 2020, the year I was appointed president & CEO, as an expression of its ideal vision in 2030. Looking ahead, I suspect uncertainty will continue to cloud the business environment, as exemplified by the global outbreak of COVID-19. Against this backdrop, I recognize the inherent risk that the Group's business may take a sudden turn for the worse in the event of a major unforeseen circumstance should it continue to draw up management strategies that are only an extension of its existing businesses. SEKISUI CHEMICAL Group's Long-term Vision, Vision 2030, is therefore a rallying call for the entire Group to share with a healthy sense of crisis. Under the banner of this Vision, we will work toward continuous growth while generating further change. In a bid to achieve our stated goals, we launched the Medium-term Management Plan, Drive 2.0, as an important 2nd phase from fiscal 2023. This Medium-term Management Plan is positioned at the heart of efforts to realize our Long-term Vision.

First and foremost, I would hope that Drive 2.0 firmly clarifies the Group's growth path to all stakeholders. Recognizing the need to implement structural reforms in response to the pandemic, growth investments were limited under the previous Medium-term Management Plan. I am therefore concerned that our Long-term Vision for 2030 may appear to deviate slightly from our current situation in the eyes of stakeholders.

I am acutely aware of the need to foster expectations toward growth based on a trust in management, and then improving capital and profit efficiency to increase corporate value. Of equal importance is the need to foster expectations, not only from outside the Group, but also among Group employees. Under Drive 2.0, we will nurture expectations toward growth by accelerating the creation of new business areas while improving capital efficiency through growth in existing businesses based on efforts to strengthen the ESG management platform.

Message from the President & CEO

Q Can you provide us with an overview of the Drive 2.0 Medium-term Management Plan and numerical targets.

SEKISUI CHEMICAL Group has set the goal of securing record high sales and profit under the Drive 2.0 Medium-term Management Plan. In specific terms, we have identified targets for net sales, operating profit, and net income of ¥1,410 billion, ¥115 billion, and ¥82 billion, respectively. These targets reflect certain underlying assumptions regarding the external environment, including a partial recovery in the market and steady efforts to revise selling prices in similar fashion to the previous Medium-term Management Plan in response to the continued surge in raw material costs. In addition, we have set the sales target for Products to Enhance Sustainability at over ¥1 trillion as a KPI that embodies the sustainability of our management. Efforts to achieve this target will help drive the Group's growth while at the same time increasing the amount of the Group's contribution toward solving social issues. EBITDA, an indicator of earning power, is also projected to increase significantly, to ¥175 billion. Fiscal 2025, the final year of Drive 2.0, is the halfway point toward our Long-term Vision. In achieving our established goals, we will therefore be one step closer to realizing Vision 2030. Recognizing that efforts to consistently exceed an operating profit of ¥100 billion will gain widespread external acceptance while altering conditions from the Group's perspective, we will work to achieve our operating targets as quickly as possible.

A key component of the Group's financial strategies is to secure the cash necessary to fund investments in growth. In addition to the forecast three-year total of ¥500 billion in operating cash flows, we will work to reduce cross-shareholdings and procure funds through debt to a maximum of ¥400 billion as required. Meanwhile, should the Group indeed increase its debt to this maximum of ¥400 billion, its debt-equity ratio is still estimated to remain below 0.5 times.

Moreover, we will allocate capital in a balanced manner. We will allocate ¥450 billion to strategic investment and ¥150 billion to normal investment of the total ¥600 billion in growth investments. As far as the ¥450 billion in strategic investments is concerned, we will set aside ¥300 billion for M&As, etc. and the remaining ¥150 billion to capital expenditures. In addition to investments for growth, we will allocate ¥140 billion to R&D expenditures. From the total of growth investments and R&D expenditures, more than 70% will be allocated on a priority basis to the High Performance Plastics (HPP), Medical, and new businesses, growth fields in the Medium-term Management Plan and Long-term Vision. (▶P.32)

Furthermore, SEKISUI CHEMICAL Group will strengthen returns to shareholders. To this end, we have increased the dividend payout ratio target to 40% or higher and will look to flexibly implement share buybacks and cancel treasury shares in line with various circumstances. (▶P.33)

Q Can you elaborate on each strategy under the new Medium-term Management Plan. First, how will you promote existing business growth?

In formulating the new Medium-term Management Plan, we analyzed and evaluated all existing businesses from multifaceted perspectives. This includes profitability, return on invested capital (ROIC), growth potential, strategic positioning, and the amount of the Group's contribution

toward solving social issues. We also clarified Growth Potential Business and businesses that we believe have the most growth potential as businesses and fields that will drive sustainable growth in the future. For example, we have identified as Growth Driving businesses the Mobility field, focusing on high-performance interlayer films as well as heat release and other materials for EVs, and the Performance Materials field, including overseas testing systems and resin sleeper FFUs for railways. Meanwhile, growth driving businesses include the Town and Community Development and Pharmaceutical Sciences Business. These growth driving businesses and businesses that we believe have the most Growth Potential Business are expected to generate more than 90% of the increase in EBITDA target set in Drive 2.0, and is where we will concentrate our management resources.

Q What specific initiatives will you pursue in the creation of new business areas?

Drawing on its core technology platform, SEKISUI CHEMICAL Group will accelerate steps to commercialize new business areas through internal and external fusion and M&As. We have for example taken steps to develop [perovskite solar cells](#), which are thinner and lighter than conventional silicon-based solar cells from the previous Medium-term Management Plan. This initiative boasts a host of possibilities, including installation on the sides of buildings and in such transportation infrastructure as railroad tracks and airports. SEKISUI CHEMICAL Group's perovskite solar cells are accordingly attracting substantial inquiries and interest from the Japanese government and local municipalities. I myself visited the Morigasaki Water Reclamation Center, where a demonstration trial with the Tokyo Metropolitan Government is underway. Although the technical hurdles are high, we believe that this project, if realized, will contribute significantly to society in the field of renewable energy. As an endeavor that we believe will evolve into a lucrative business, we will vigorously support the challenge toward early commercialization while further deepening collaborative ties with local governments and other companies.

Q Can you provide us with specific details of the Group's efforts to strengthen the ESG management platform.

We adopted an [ROIC Spread](#) approach under the previous Medium-term Management Plan to strengthen the ESG management platform. We are paying close attention to increasing our corporate value. In specific terms, this entails controlling non-financial capital costs and expanding the Spread through various means, including curbing such major incidents as misconduct, investing in the environment and human capital domains, and respecting human rights across the entire supply chain while at the same time working to improve ROIC, a key financial indicator. Building on these endeavors, steps have also been taken to ensure effective implementation by incorporating the ROIC Spread in the evaluation of each department's performance.

We deeply regret the incidence of such issues as nonconformity with building standards in residential complexes and detached houses under these circumstances. Recognizing the extremely grave nature of this incident, we are taking prompt action and implementing

Message from the President & CEO

thoroughgoing measures to prevent a recurrence, while working to further reduce risks and avoid a similar incident. We believe this will help in regaining the trust of stakeholders and as such will continue to work in unison to strengthen the ESG management platform with integrity. (▶P.63)

Q What are your thoughts on the Company's efforts to promote innovation and underlying strengths?

Through innovation, SEKISUI CHEMICAL Group draws on its technological strengths while accurately grasping market trends to provide unique, high-quality solutions that address solve social issues. Despite our status as a chemical company, we possess almost none of our own raw materials. Our strength lies in Process Creation which is the ability to select optimal materials in response to customers' requirements and provide high-value-added solutions. Complementing this strength, we also boast Adaptability in addressing the need to solve social issues in advance.

The Company's inherent strengths are underpinned by its [technology platform](#). As a pool of core technologies that is common throughout the Group, this platform is key to promoting fusion both internally and externally. One of the Group's mainstay businesses, for example, is its shatterproof interlayer films used for the windshields of automobiles. Here, PVA/PVB material, fine particle, precise synthesis, and various other technologies enhance the sound and heat insulation performance of the interlayer films, and they are also used in head-up displays (HUDs). Furthermore, the fine particle technology used in the Electronics field for conductive fine particles and heat insulation interlayer films is also applied to the Medical field for the diagnostic reagents used for blood cancers. In this manner, the Group's core technologies are commonly used in the seemingly different Mobility and Medical fields.

SEKISUI CHEMICAL Group has maintained an uncompromising approach toward addressing the requirements of its customers. This proven track record, grounded in the Group's technology platform, has helped build strong relationships of trust which are leading to a variety of new

opportunities. As a wellspring for the Group's Process Creation and Adaptability this virtuous cycle is contributing to the creation of a strong intellectual property network for each technology and the foundation of our sustainable growth.

Innovation only occurs when our technologies match prevailing trends and the intrinsic needs of customers. No matter how good a product or service may be, it is unlikely to develop into a business of any consequence if its purpose is self-serving. In our formative years as a company,

we failed to consider a matching need when pursuing several businesses. In each instance, our endeavors foundered. Recognizing that the growing selection and concentration approach toward development themes and the ability to capture significant demand by commercializing the right products and services are two sides of the same coin, we are today placing considerable importance on identifying market needs at an early stage and then initiating development. Moving forward, I will continue to encourage employees by constantly promoting this concept.

Q Have you personally taken up the challenge of creating innovation?

One of my most memorable experiences stems from efforts to improve the quality of interlayer films when a member of the technology section of the Minakuchi Plant. Responding to a customer complaint, we initiated steps to improve the moisture resistance of automotive interlayer films. Believing that our products would be more competitive on a global scale if improvements could be made, I took it upon myself to request a temporary transfer to the Minase research and development facility. Trying all kinds of additives, I took part in discussions with senior staff until late at night and systematically repeated experiments based on the hypotheses made. Through a process of trial and error, we finally developed a formula, which I believe is today the de-facto global standard for interlayer film additives. At the time, the scale of the interlayer film business was still small. Drawing on the Housing Company as a source of development funds, there was considerable pressure to succeed.

Another experience of note was when I was stationed in the United States, the home of the automobile industry, as an interlayer film technical service representative. SEKISUI CHEMICAL Group entered the U.S. cognizant of the fact that its failure to compete in the local market would extend to the rest of the world. Even though the SEKISUI CHEMICAL name was essentially unknown, the extremely fair treatment we enjoyed from business partners was a source of considerable encouragement. We would provide samples to the plants of business partners in the U.S. for evaluation, identify areas for improvement, and then provide additional samples. Properly addressing customers' requirements was a slow and extremely difficult endeavor. Despite the repetitive nature of this process, I felt a genuine sense of satisfaction and joy with each incremental improvement.

Q What are your thoughts toward investments in human capital?

Long before the importance of investing in human capital became a popular topic of conversation, we recognized that our employees are precious assets bestowed on us by society and positioned human resources as one of our key materiality issues. Over and above materiality, respect for human capital and human rights throughout the supply chain, including business partners, is the foundation of our business. SEKISUI CHEMICAL Group has identified the goals of doubling both its sales volume (the size of our business) and contribution under its Long-term Vision. We recognize that becoming an energized and engaged company where all employees thrive on challenges is the most important factor in achieving this vision. Moving forward, we will continue to focus on developing human resources to respond to the speed of business growth and change, and on placing the right people in the right place.



Message from the President & CEO

From my own perspective, I have made it a point to put forward themes that offer a reasonable degree of challenge when developing subordinates. Through a process of repeated discussion, I have set themes that are within reach if employees put in 110 to 120% effort. The goal here is to put in place an environment in which subordinates can readily accept each challenge and accumulate a track record of successful experiences. Based on the aforementioned, I believe that employees who can get things done and complete each task to the very end will enjoy considerable personal growth and become the Group's leaders of the future.

SEKISUI CHEMICAL Group took steps to substantially reform its human resources system for the first time in 20 years in 2022 to encourage employees to take on challenges. Once again, for my own part, I will continue to help put in place an environment that encourages employees to take on challenges by actively creating a culture that does not condemn failure. At the same time, I will promote investment in the training and reskilling necessary to meet each challenge.

As I mentioned in my introductory comments, SEKISUI CHEMICAL Group achieved increases in both revenue and earnings despite the difficult business environment in fiscal 2022. As a result, it is important to reward employees who helped produce these results. Moving forward, we have decided to raise wages by more than 4% in fiscal 2023 in the hope that each and every employee will continue to further express a challenging action and make efforts to realize our Long-term Vision.

Q Can you share with us any personal experiences or episodes regarding reskilling?

The many things I learned from studying statistical quality control after joining the Company were of considerable benefit in my actual work. Statistical quality control is rarely taught in schools. This concept is, however, extremely helpful to engineers in promoting efficient experiments and data processing. In these early days, calculation software did not exist. Inputting and analyzing experimental data were a manual task. Despite the growing automated nature of today's workplaces, this knowledge remains indispensable to employees involved in engineering and production. Expertise in statistical quality control helps in identifying the causes of problems, pursuing improvement methods, and promoting quality control activities in the workplace.

Q The Company reacquired SBT certification, which acknowledges companies that have set GHG reduction targets consistent with the Paris Agreement, in 2023. Can you provide us with details of Company's efforts to address environmental concerns.

SEKISUI CHEMICAL Group has positioned the environment as a key materiality issue. Having engaged in environmental management from an early stage, we are proud to be a member of a leading group of companies recognized for their environmental endeavors. As other companies accelerate their environmental initiatives in response to escalating climate change, we must leverage our position as a top runner in our field to look beyond the status quo and work to continuously contribute to the environment. We were the first company in the chemical industry to obtain SBT certification in 2018. With our GHG emissions reduction rate significantly higher than initially planned, we have further raised our 2030 reduction rate target and reacquired SBT certification. To

achieve the target, we will continue to promote the electrification of fuel-consuming facilities as well as the transition to low-carbon fuels. At the same time, we have set the material recycling rate as a new KPI, cognizant of our responsibility as a company that handles plastic products. We intend to promote the recycling of waste by increasing sales of products that contribute to resource recycling and resource conversion and further accelerate the reduction of Scope 3 emissions.

Q What are your thoughts on the Group's optimal business portfolio and the allocation of capital?

As a conglomerate that engages in a variety of businesses, there are instances where SEKISUI CHEMICAL Group is valued at a discount. Recognizing the need to allocate capital to growth areas on a priority basis, we believe that our diverse portfolio enables us to create value through synergies between businesses that cannot be achieved through a single business on its own. For example, in our Town and Community Development business, we provide customers with the added value of disaster prevention and mitigation together with safety and security by embedding our disaster-resistant infrastructure and high-performance materials beneath the towns that are lined with the Group's energy self-sufficient homes. From a financial point of view, maintaining businesses that generate stable cash within the Group's portfolio also has the advantage of securing resources for continuous investment in growth areas.

SEKISUI CHEMICAL Group's strategy to vigorously expand its growth investments while utilizing debt as and when required remains unchanged. Against this backdrop, we will undertake appropriate strategic capital investments and M&As in accordance with the Strategic Area Map, which serves as a compass to realize our Long-term Vision.

In Conclusion

We recognize that constructive dialogue with our shareholders, investors, and other stakeholders is an extremely important opportunity for us to achieve sustainable growth and enhance our corporate value. We will continue to utilize the opinions and suggestions we receive through this dialogue in our management. As we work toward achieving our established goals, we ask for the continued support and understanding of all stakeholders.



Value Creation Process

Based on our varied and diverse technologies, as well as the trust we enjoy with our stakeholders, SEKISUI CHEMICAL Group views social issues from a strategic standpoint, and through innovation provides products and services that contribute to improved lifestyles and a healthier global environment for people around the world. Through the implementation of a business model that effectively leverages the six forms of capital, we aim to maximize outcomes and will successfully enhance the sustainability of society and achieve sustainable growth as a company.

Envisioned Macro Trends ■ More devastating natural disasters due to climate change ■ Resource and energy exhaustion ■ Longer healthy life spans



Financial Capital

- Equity: ¥705.0 billion
- Interest-bearing debt: ¥120.5 billion

Human Capital

- Consolidated employee total: 26,838
- Ratio of overseas employees: 25%
- Average hours of training and development per full-time employee: 6.1
- Promotion of health management (▶P.54)

Intellectual Capital

- R&D expenditures: ¥40.5 billion
- Technological Platforms (▶P.50)
- Number of patents held: 10,540
6,157 (Japan), 4,483 (Overseas)

Manufacturing Capital

- Production bases (Japan/overseas): Approx. 100
- Capital expenditures: ¥59.3 billion

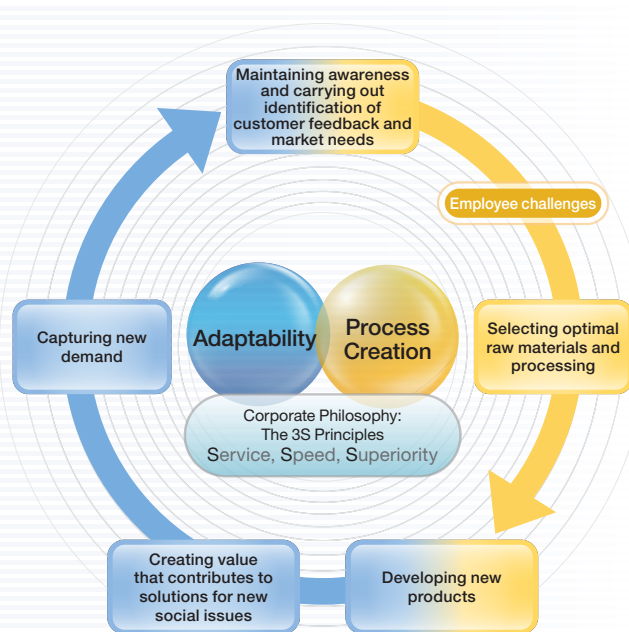
Social Capital

- Number of inquiries to the Customer Consultation Office: Approx. 10,000/year
- Number of engagements with investors: 74 times*
- Investments in start-up companies (▶P.48)

Natural Capital

- Total usage of major raw materials (metals, polyvinyl chloride, etc.): 1,534 thousand tons
- Energy consumption: 9,916 TJ
- Industrial water: 20.785 million m³

* The number of times the Company president and executives in charge of specific areas had dialogues with investors



Materiality (▶P.17)

- Innovation (▶P.45)
- Human Capital (▶P.54)
- Environment (▶P.56)
- DX (▶P.60)
- Internal control (▶P.62)



Positive Output (▶P.5)

- Main Housing Company products
- Main Urban Infrastructure & Environmental Products Company products
- Main High Performance Plastics Company products
- Main Medical Business products

Products to Enhance Sustainability (▶P.41)

- Net sales: ¥908.9 billion
- Net sales accounted for by Premium Framework: ¥440.3 billion

Negative Output

- GHG emissions (Scope 1 + 2): 655 kt-CO₂
- Total waste generated by production sites: 71,000 tons
- Wastewater discharge at production sites: 18.770 million m³

Economic Value Created

- Operating profit: (Operating profit margin): ¥91.7 billion (7.4%)
- Free cash flow: -¥13.0 billion
- EBITDA ¥142.1 billion
- ROIC 7.6% • ROE 10.0%
- Total dividend payment: (Payout ratio) ¥25.6 billion (37.0%)
- TSR: +8.2% (past 10 years annualized)
- Taxes paid: ¥28.7 billion (corporate taxes, local taxes, business taxes)

Innovation Platform Development and Creation

Innovation

- Number of Products to Enhance Sustainability registered: 198 (as of March 31, 2023)
- Number of newly registered products: 18/year
- Patent Asset Index (PAI) growth rate: 115% (▶P.53) (compared with FY2018)
- Number of patent applications: 948
- Number of employees in specialist positions: 39 (▶P.62)

Realization of the Right Person for the Right Position and a Corporate Culture that Embraces Challenges

Human Capital

- Ratio of women in management positions: 4.5% (non-consolidated) (Ratio of women on the Board of Directors: 25%)
- Management executive successor candidate preparation rate: 77% (non-consolidated)
- Employee retention rate: 97% (non-consolidated)
- Degree of challenging behavior expression: 47
- Engagement score: 114 (indexed to 100 for FY2019)

Contribution to an Earth with Maintained Biodiversity

Environment

- GHG emission reduction rate: 26.8% (compared with FY2013)
- Amount of waste recycled by production sites: 63,000 tons
- Renewable energy as a percentage of purchased power: 36.4%
- Production site water intake reduction rate: 3.5%

Enhanced Capabilities in Sustainable Management

DX

Internal control

- Direct/Indirect Net Sales per Employee: 112%/118% (compared with FY2019)
- Number of Workplace Accidents Resulting in a Fatality: 0 (▶P.62)
- Number of Major Quality Issues: 2 (▶P.63)
- Number (incidence) of Serious Non-compliance and Negligence: 0 (▶P.64)
- Cybersecurity Incidents: 0 (▶P.65)

Related Stakeholders



- Shareholders



- Employees



- Customers



- Business Partners



- Local Communities, and Environment

- Peace of mind for the future
- Peace of mind, safety, and comfort
- Resilient social infrastructure
- Comfortable mobility and communication
- Health and longevity

* Except where specifically indicated, all figures are actual results from fiscal 2022.

Commentary SEKISUI CHEMICAL Group's Value Creation Process Business Model

SEKISUI CHEMICAL Group's strengths are Process Creation and Adaptability. Through collaboration with varied and diverse stakeholders, the Company practices a business model centered on these strengths in a way that creates products and services that contribute to the solutions for environmental and social issues. By strengthening materiality through this cycle, the Company maximizes outcomes, as well as endeavors to maximize both sustainable corporate value growth and shareholder value.

Process Creation

SEKISUI CHEMICAL Group creates products by procuring the optimal materials as needed from outside and applying Process Creation in a way that generates additional value through advanced technologies. In this way, these products contribute to the solutions for social issues, where the resulting trust earned from customers helps the Company capture new demands and needs. Implementing this cycle in a sustainable, ongoing manner is the key to sustainable growth for SEKISUI CHEMICAL Group.

Adaptability

Adaptability involves efforts to capture the requests of customers and the needs for solutions to social issues, and incorporates these into development ahead of the competition. At the same time, it involves transforming the business portfolio in accordance with the conditions faced at the time, and continuously seeks to maximize synergy between businesses. Based on these two aspects, Adaptability endeavors to strengthen the earning power of the Company.

Maintaining awareness and carrying out identification of customer feedback and market needs



- Since establishing the Customer Consultation Office, SEKISUI CHEMICAL Group has received around 10,000 inquiries and opinions each year. The Company analyzes the factors that motivated the customer to make the inquiry in the first place, in order to discover the hidden needs of customers.
- Through joint research between industry, government, and academia, SEKISUI CHEMICAL Group develops new products that possess the ability to contribute to the solutions for issues faced by local communities and local governments. (▶P.15 ESLO HYPER, ▶P.49 Perovskite Solar Panels)
- In order to promote operational efficiency for sales and marketing operations, SEKISUI CHEMICAL Group is advancing onsite training for DX related human resources. (▶P.61)

Capturing new demand



- As a business run by SEKISUI CHEMICAL Group, SEKISUI HEIM operates plants throughout Japan. Similarly, with its high ratio of overseas sales, the High Performance Plastics Company has built a global operations structure. These types of manufacturing systems situated close to their customers enable the Company to address customer demands in a timely manner. They also serve as the foundation for earning the trust of customers and for capturing new demand. (▶P.13)

Create Products to Enhance Sustainability That Help Solve Social Issues



- SEKISUI CHEMICAL Group receives advice and recommendations from the External Advisory Board regarding products that contribute to the solutions for issues faced by both the natural and social environments in an effort to certify Products to Enhance Sustainability and to expand sales of these. (▶P.41)
- SEKISUI CHEMICAL Group holds workshops on new technologies and prior cases for each issue aimed at technologies, development, and market transformations necessary to achieve long-term goals related to carbon neutrality and the circular economy. Likewise, it is arranging these into task forces to promote activities regarding promising themes.

Employee challenges



- Through the Vision Caravan (▶P.18), which serves as an opportunity for dialogue between management and employees, SEKISUI CHEMICAL Group encourages employees to empathize with the Corporate Philosophy and Vision, and to take the initiative in changing their own behavior.
- In order to appropriately assess the actions taken by employees to undertake the challenge of achieving the Long-term Vision, SEKISUI CHEMICAL Group established a new human resources system in fiscal 2021. (▶P.55)

Selecting optimal raw materials and processing by developing technologies and fusion

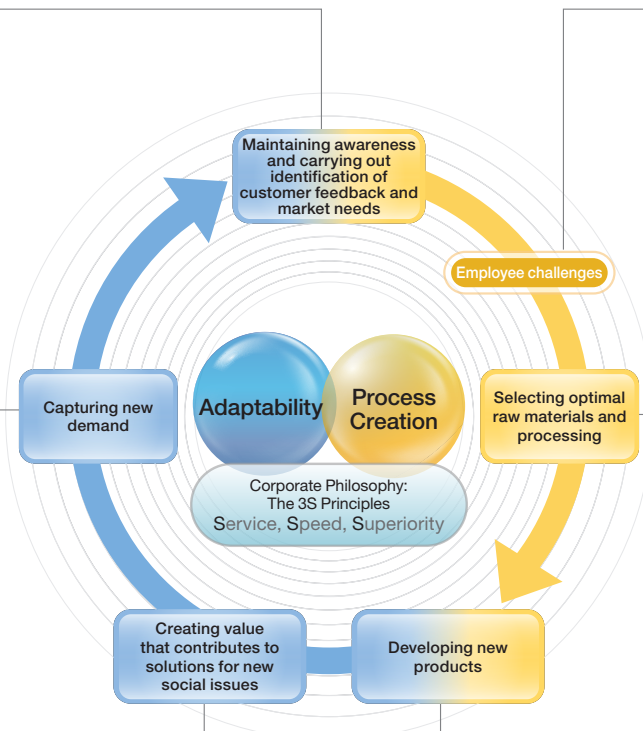


- SEKISUI CHEMICAL Group possesses almost none of its own raw materials, which enables it to select the optimal materials in accordance with customer demands. Moreover, the Company's Technological Platforms (TPF, ▶P.50) serve as the foundation for technological development. Along with refining the prominence of each individual technology, the Company fuses multiple TPFs to develop products that stay one step ahead of changes in the social environment.
- Based on the TPF, SEKISUI CHEMICAL Group assigns employees with specialized expertise recognized internally and externally to Specialist Positions, and treats these employees accordingly. (▶P.52)

Developing new products



- Established by SEKISUI CHEMICAL Group in 2020 as a research facility, MINASE INNOVATION CENTER (MIC) generates interactions that transcend internal divisional companies, and engages in efforts to accelerate internal and external fusion and open innovation through active technological exchanges with start-up companies and through collaboration with other companies. (▶P.48)
- Intellectual property is a source of competitiveness as well as an important management resource that underpins SEKISUI CHEMICAL Group's growth and revenue. The Company therefore conducts competition environment analysis using information related to intellectual property, markets, and competition, and this serves as a starting point for its strategy development, intellectual property portfolio management, and other strategic intellectual property promotion activities. (▶P.53)
- SEKISUI CHEMICAL Group emphasizes quality compliance. In particular, the Company has established a quality management system to eradicate the root causes of incidents of quality irregularities and data falsification. The Company has also built a quality assurance system for goods purchased from suppliers, and engages in activities to ensure quality. (▶P.63)



Commentary **SEKISUI CHEMICAL Group's Value Creation Process Business Model: Case Study**

Mobility Field

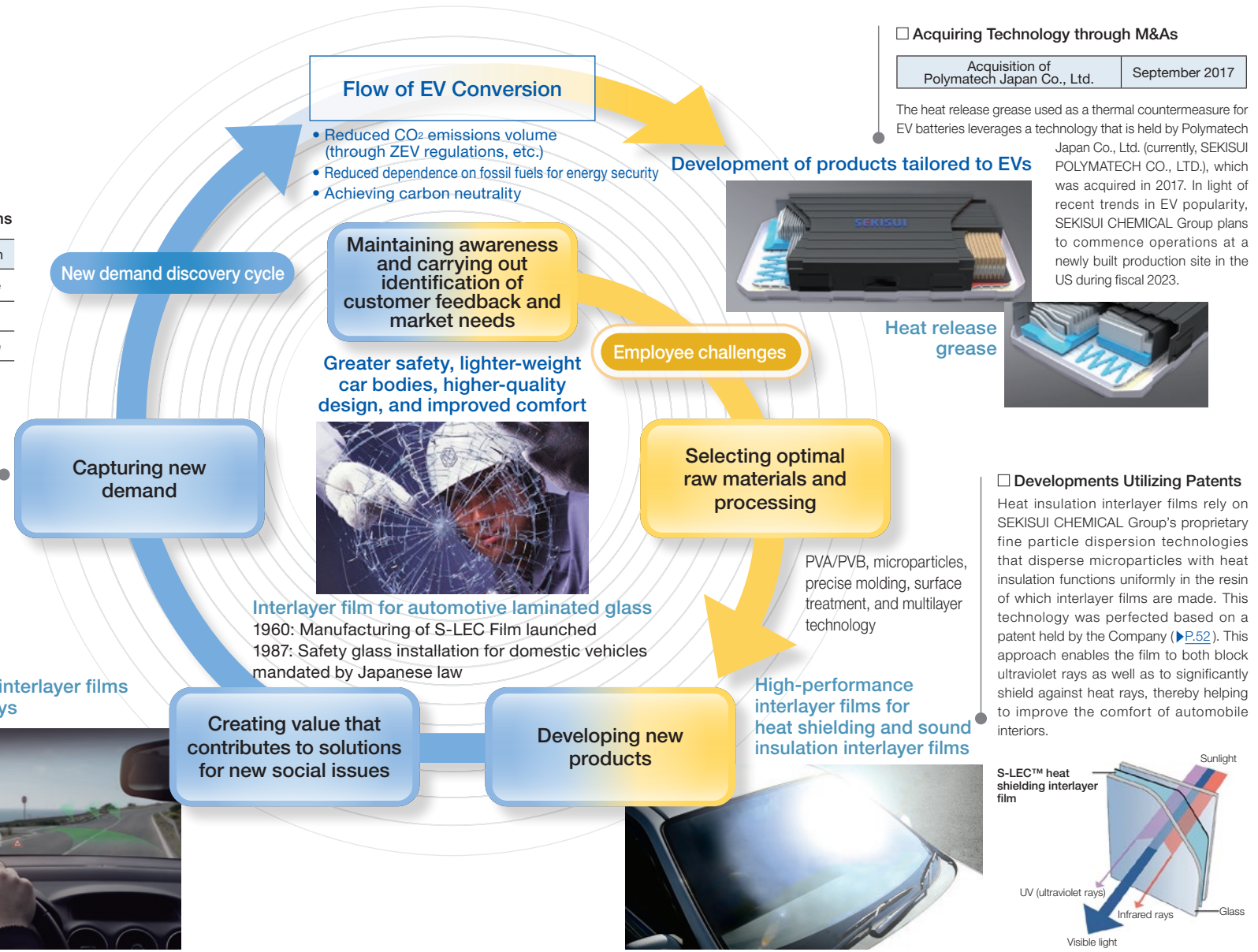
Contributed to the development of automotive industry trend CASE* + α

*CASE: C (Connected), A (Autonomous), S (Shared/Service), E (Electric)

□ **Establishing Production Sites in Sales Regions**

	Americas	Europe	Asia	Japan
Interlayer Film Production Plants	2 sites	1 site	2 sites	1 site
PVA Resin Plants	1 site	1 site	-	-
PVB Resin Plants	-	1 site	-	1 site

SEKISUI CHEMICAL Group has established a global production system for interlayer films for automobiles. Services that can rapidly address the demands of customers build trust among customers and help quickly capture new demands.



High-performance interlayer films for Head-up Displays



Creating value that contributes to solutions for new social issues

Developing new products

High-performance interlayer films for heat shielding and sound insulation interlayer films



Interlayer film for automotive laminated glass
 1960: Manufacturing of S-LEC Film launched
 1987: Safety glass installation for domestic vehicles mandated by Japanese law



Greater safety, lighter-weight car bodies, higher-quality design, and improved comfort

Maintaining awareness and carrying out identification of customer feedback and market needs

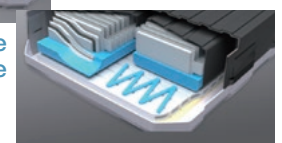
Flow of EV Conversion

- Reduced CO₂ emissions volume (through ZEV regulations, etc.)
- Reduced dependence on fossil fuels for energy security
- Achieving carbon neutrality

Development of products tailored to EVs



Heat release grease



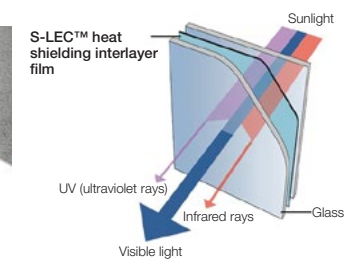
□ **Acquiring Technology through M&As**

Acquisition of Polymatech Japan Co., Ltd.	September 2017
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The heat release grease used as a thermal countermeasure for EV batteries leverages a technology that is held by Polymatech Japan Co., Ltd. (currently, SEKISUI POLYMATTECH CO., LTD.), which was acquired in 2017. In light of recent trends in EV popularity, SEKISUI CHEMICAL Group plans to commence operations at a newly built production site in the US during fiscal 2023.

□ **Developments Utilizing Patents**

Heat insulation interlayer films rely on SEKISUI CHEMICAL Group's proprietary fine particle dispersion technologies that disperse microparticles with heat insulation functions uniformly in the resin of which interlayer films are made. This technology was perfected based on a patent held by the Company (▶P.52). This approach enables the film to both block ultraviolet rays as well as to significantly shield against heat rays, thereby helping to improve the comfort of automobile interiors.



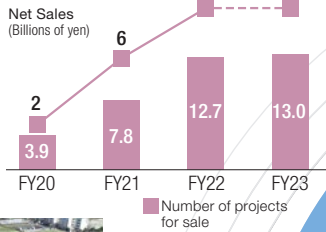
Commentary **SEKISUI CHEMICAL Group's Value Creation Process Business Model: Case Study**

Housing Related Business

From building homes to support the lives of people in period of high economic growth to safe and secure urban planning to protect people's comfortable daily lives

□ **Creating Towns and Communities in which Residents Can Live with Peace of Mind**

SEKISUI CHEMICAL Group engages in unique town and community development throughout Japan that brings together the Company's prominent infrastructure technologies developed to provide resistance to natural disasters. The Company endeavors to set itself apart from competitors through the creation of sustainable towns and communities.



Developing smart and resilient towns and communities that are resistant to natural disasters



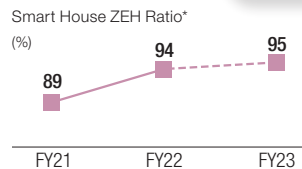
New Smart Power Station FR GREENMODEL



New e-PocketGREEN high-capacity storage battery

□ **Enhancing Smart Features**

Equipped with high-capacity solar panels and storage batteries, SEKISUI HEIM houses help reduce CO₂ emissions. They also enable residents to maintain their lifestyles even when lifelines are severed due to natural disasters and other events, thereby supporting safe living that provides peace of mind for all.



* Detached house order installation (excluding Hokkaido)

New challenges for housing

- Increasing numbers of vacant houses, resilience to increasingly frequent and severe natural disasters

Maintaining awareness and carrying out identification of customer feedback and market needs

Provided high-quality, high-performance housing to capture changes in housing demand



1960: Entered the housing business. Launched sales of Sekisui House Type A, the first light steel frame house in Japan

Creating value that contributes to solutions for new social issues

Developing new products

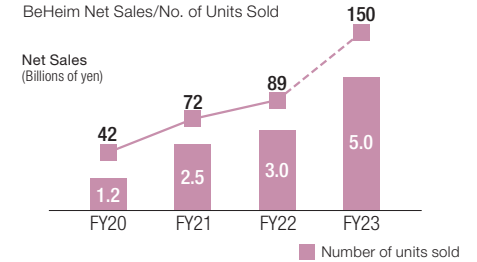
Capturing current needs ahead of the competition, we promoted the installation of solar power generation equipment, thereby creating and evolving new markets.

Employee challenges

ハイムの買取&再販
BeHEIM

□ **Expanding the Circular Housing Business**

Based on the quality advantages of factory-built housing products, SEKISUI CHEMICAL Group purchases SEKISUI HEIM houses from customers at an appropriate price. In order to ensure the new owner can live securely in their home, the Company also carries out renovations at the time of purchase to enhance quality and performance, thereby increasing the real estate value.



Unit construction method from 1971
SEKISUI HEIM goes on sale (world first)

□ **High-quality Factory-built Housing**

Housing Unit Production Factories **8 factories nationwide**

One feature of factory-built SEKISUI HEIM houses is the Unit Construction Method, which handles 80% of the entire housing construction process at the factory. Along with contributing to solutions for solving issues such as carpenter shortages and skyrocketing construction labor costs, the Unit Construction Method also ensures reliable quality in accordance with design plans. The Company is currently aiming to further increase the ratio of production processes handled at factories, and is making investments to automate production factories.

Commentary **SEKISUI CHEMICAL Group's Value Creation Process Business Model: Case Study**

Pipe Systems Field

Resolving infrastructure problems, supporting social foundations, and protecting people's lives

□ **Creating New Products through Industry, Government, and Academia Collaboration**

The Great Hanshin-Awaji Earthquake that occurred in 1995 highlighted the importance of water lifelines during emergencies, in part due to the delays in firefighting efforts caused by disruptions in water used for firefighting. This recognition triggered the acceleration of joint research with universities and local governments towards the development of polyethylene water pipes, the first of which were selected for introduction just six months after the earthquake following extensive testing and verification.



1995: Developed and began production of first-in-Japan polyethylene pipes **ESLO HYPER** for water supply
Preventing damages and water leakage related to earthquakes and ground subsidence

Environmental preservation

- Infrastructure conservation
- Intensification of natural disasters

ESLON Drop Shaft (Deep fall treatment system)

Increased utilization for handling rainwater storage pipe elevation difference related to increased demand for flooding countermeasures



Maintaining awareness and carrying out identification of customer feedback and market needs

Employee challenges

Galvanized steel pipes for social problems related to hygiene and quality matters (such as reddening of water caused by rust)



1952: Began production of first-in-Japan **polyvinyl chloride (PVC) pipes**

Selecting optimal raw materials and processing



1975: Began production of reinforced plastic composite pipes (**ESLON RCP**)

□ **Expanding Applications that Leverage Strengths**

Using a multilayer structure composed of FRP and mortar, SEKISUI CHEMICAL Group achieved a balance between high strength and lighter weights. Given its resistance to corrosion, ESLON RCP also offers excellent durability. Based on both its performance and economy, ESLON RCP has been increasingly adopted in a wide range of fields and applications, including rainwater drainage pipes at major airports and water pipes for standard and low head hydro power facilities, for example.

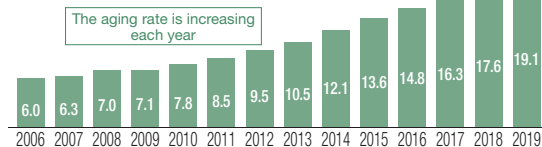
□ **Working to Solve Japan's Aging Infrastructure Issue**

Breakdown of Pipelines by Age (as of 2019)

	(km)
Total Pipeline Length Exceeding the Statutory Useful Life (40 years)	138,983
Total Pipeline Length Older than 20 Years (excluding that exceeding 40 years)	325,613

Based on the conventional SPR method's technology, SEKISUI CHEMICAL Group developed a design that increases strength and satisfies the required yield strength when using rehabilitated pipelines alone. This new design enables customers to rehabilitate sections of pipe that could not be saved with the conventional SPR method, such as extremely degraded pipes or those that had partially collapsed.

Pipeline Aging Rate (%) Total pipeline length exceeding the statutory useful life/Total pipeline length X 100



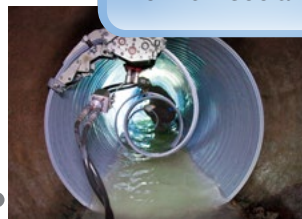
* Source 2022 Nationwide Water Supply Manager Meeting Materials (Japan's Ministry of Health, Labour and Welfare)

Creating value that contributes to solutions for new social issues

Developing new products

1986 Developed the Pipeline Renewal Construction Method (**SPR Method**)

Achieved large-scale reductions in construction time and industrial waste by-products such as sediment by resolving sewer pipe deterioration problems without digging up roadways



New demand discovery cycle

Capturing new demand

Commentary **SEKISUI CHEMICAL Group's Value Creation Process Business Model: Case Study**

Medical Business

Expanding business domains and areas through M&As based on technologies held by the Company. Further expanding domains through product creation based on new technologies

SEKISUI MEDICAL TECHNOLOGY (SUZHOU) CO., LTD.



Expanding the business size by introducing new products in diagnostic reagents and devices and strengthening local production

Expansion of the Diagnostics Field

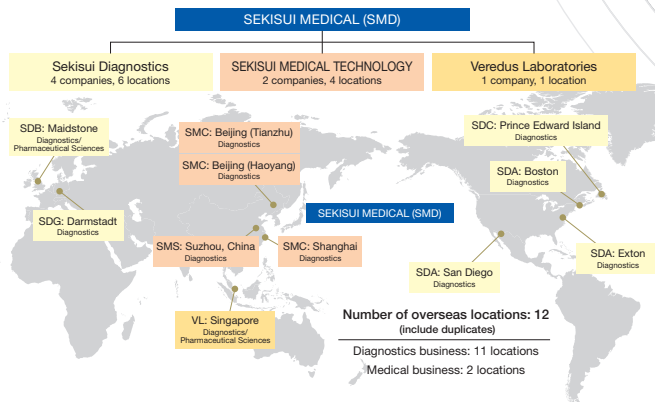
Acquired EIDIA Co., Ltd.	2015
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The Group expanded in the diagnostic area, including cancer diagnostics, acquiring new technologies.

Acceleration of Overseas Development

Diagnostic reagent business acquired of new technologies from Genzyme Corporation	2011
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Established new diagnostic reagents companies in the US and the UK



Overseas expansion of fields and areas through introduction of own-company products

Full-fledged entry into the genetic POC field through the MDx (molecular diagnostics) Development Center and development of own-company products

Maintaining awareness and carrying out identification of customer feedback and market needs

Employee challenges

Improved safety, shorter diagnostics times, higher diagnostics accuracy

Selecting optimal raw materials and processing



Insepack

1985 First in the world to enable practical plastic vacuum blood collection tubes with superior strength

Group core technologies

- Microparticle control technologies (latex)
- Microparticle compounding and design
- Fine formation processes
- Design of functional plastics

Creating value that contributes to solutions for new social issues

Developing new products



Sekisui Diagnostics, LLC, San Diego

Acquisition of Technology through M&As

Acquired Daiichi Pure Chemicals	2006
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Full-fledged entry into the diagnostics business
Contracted services for biochemical diagnostic reagents, diagnostic reagents for influenza antigen testing, amino acids, and intermediary pharmacokinetic studies.

Key Issues (Materiality)

To further strengthen ESG management, which is the key to realizing the Long-term Vision, Vision 2030, SEKISUI CHEMICAL Group is promoting measures centered on innovation, human capital, the environment, DX, and Internal Control.

Identification Process

Step 1: Extracting Issues

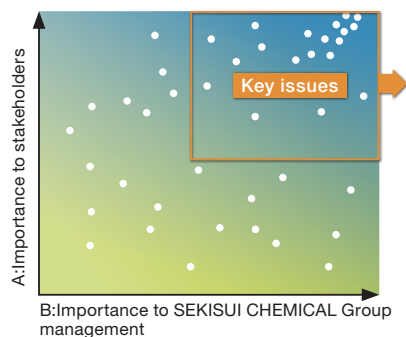
In line with the Corporate Philosophy System, extract issues based on social demands, including global guidelines such as the UN Global Compact, and feedback from customers, shareholders, and investors, as well as on other companies' trends.

Step 2: Identifying Key Issues

Prioritize issues along two axes: A. Importance to stakeholders and B. Importance to management. The former utilizes the SEKISUI Environment Sustainability Index (▶P.56), and considers the positive and negative impacts on communities and society. The latter utilizes the ROIC Spread (▶P.31), and estimates the degree of financial impact in the future. Key issues are then identified following deliberation by the Sustainability Committee (▶P.75).

Step 3: Authorizing Key Issues

Key issues deliberated by the Sustainability Committee are ultimately authorized by the Board of Directors. While key issues are revised as a rule every three years, when steps are taken to formulate the Medium-term Management Plan, SEKISUI CHEMICAL Group considers whether further revisions are required each year based on such factors as the status of the Group and changes in social conditions.



KPI Previous Medium-term Management Plan, Drive 2022, during FY2020–2022

		Output	KPI	Fiscal 2022 Targets	Fiscal 2022 Results
		Products to Enhance Sustainability and Premium Framework	Products to Enhance Sustainability and Premium Framework net sales	¥800 billion Includes Premium Framework ¥440 billion	¥908.9 billion Includes Premium Framework ¥440.3 billion
Materiality	Investment for the future	Fusion	Increasing net sales through fusion	+¥50.0 billion (compared with FY2019)	+¥46.8 billion (compared with FY2019)
		Human Resources	Employee challenge action rate ¹	17%	11%
		Environment	Renewable Energy Ratio of Purchased Electricity	20%	36.4%
		DX	Direct/indirect net sales per employee	FY2030: Direct productivity 15% increase Indirect productivity 40% increase (compared with FY2019)	Direct productivity 12% increase Indirect productivity 8% increase (compared with FY2019)
	Risk reduction/avoidance	Internal control (Safety, Quality, Legal/ethical, Accounting, Information management)	Number of major incidents in the 5 fields	0	-
			BCP operating rate	BCP operating rate 100% (Establishment of PDCA)	BCP operating rate 100% (Establishment of PDCA)

KPI Medium-term Management Plan, Drive 2.0, during FY2023–2025

		Output	KPI	Fiscal 2025 Targets		
		Products to Enhance Sustainability and Premium Framework	Drive the ability to create profit, contribute to solving social problems, and achieve sustainable management	Products to Enhance Sustainability and Premium Framework net sales	At least ¥1 trillion Includes Premium Framework ¥540 billion	▶P.41
Materiality	Foster Expectations for Growth (enhance preparations)	Innovation	Develop new products and steadily progress market launch in existing fields, and create and acquire new businesses	Number of open innovation	-	▶P.48
		Human Capital	Create an energized and engaged company that enables diverse human resources to take on challenges and play an active role	Employee challenge action rate ¹	60%	▶P.55
				Rate of successor candidate preparation ²	100%	▶P.55
		Environment	Aim to realize an earth with maintained biodiversity	Rate of GHG reduction(Scope1+2)	-33% (compared with FY2019)	▶P.57
	Material Recycling rate of waste plastic (Japan)			Japan:65% (Overseas: BM+5%)	▶P.59	
	DX	Revise work processes and drastically increase productivity	Direct/Indirect Net Sales per Employee	FY2030: Direct productivity 30% increase Indirect productivity 40% increase (compared with FY2019)	▶P.60	
Improve confidence (reduce capital costs)	Internal control (Safety, Quality, Legal/ethical, Accounting, Information management)	Reduce operational risks that may damage corporate value on a global basis	Number of major incidents in the 5 fields	0	▶P.62	

¹ Four options were given for the answer to the question "Does the following statement apply to you: I am taking concrete actions to engage in challenging action to realize Vision 2030": [1] Yes, [2] Somewhat applicable, [3] Somewhat not applicable, and [4] No. Until fiscal 2022, the Company only aggregated the total for answer [1]. In fiscal 2023, the Company redefined the indicator in a way that aggregates the totals for [1] and [2].² Number of successor candidates to the most senior business leader post ÷ Number of the same post

Coexistence in Mutual Prosperity with Stakeholders

We will build relationships of mutual prosperity with our five stakeholders—customers, shareholders, employees, business partners as well as local communities and the environment—while continuing to promote stable growth.

Creating Attractive Products and Services Based on Customer Feedback

SEKISUI CHEMICAL Group considers customer feedback as a valuable management resource and is committed to promoting innovation to maintain the quality of products under the motto “We consider customer feedback as the beginning of our manufacturing.” In this way, the Company provides value (goods and services) that meets customer expectations, and aims for continued long-term development and growth with the customer.

Enhancing Corporate Value by Direct Dialogue with Investors

We believe it is extremely important to engage in constructive dialogue with shareholders and investors in order to achieve sustainable growth. We therefore have put in place Active Engagement between Investors and Management as one of our key issues, while the CEO and director in charge of the Business Strategy Department are taking the lead in proactively holding financial results briefings and direct dialogues with shareholders and institutional investors to leverage our management strategy to enhance corporate value.

We are strengthening information dissemination on our website with an awareness of fair disclosure while striving to reflect as much as possible the opinions and questions received through these dialogues in the Integrated Report and other IR materials. To promote an understanding of initiatives intended to achieve the Long-term Vision, we hold ESG Management Briefings for institutional investors and analysts, as well as small group meetings with the CEO for sell-side analysts. Along with making the content of these available on the website, we also held IR events including tours of the MINASE INNOVATION CENTER.

Distributing Value to Stakeholders (Fiscal 2022)

SEKISUI CHEMICAL Group calculates the status of distribution based on financial statements by stakeholder, using GRI and other standards as a reference.

(Millions of yen)

Stakeholder	Method of Calculating Amounts	Fiscal 2022
Shareholders	Dividends	25,100
Business partners	Cost of Sales, Selling Costs/General Administrative Costs (Excluding Personnel Costs)	926,822
Employees	Labor costs, Salaries and allowances as part of sales costs and general administrative costs, Provisions for bonuses, Provisions for retirement pay	224,034
Local communities	Donations	198
Global environment	Environmental conservation costs	26,373
Government and administrative bodies	Corporate taxes, local taxes, business taxes	28,727
Creditors	Interest paid as part of costs apart from sales	871

Vision Caravan Dialogue between Management and Employees

To disseminate our Long-term Vision and ESG management, we are conducting the Vision Caravan as an opportunity for dialogue between management and employees. At fiscal 2022 Vision Caravan events, management explained their own thoughts on realizing the Long-term Vision and ESG management, while employees deepened their understanding by discussing among themselves the connection between their work and ESG management. At the same time, executives commented and gave feedback on the presentation of content and questions, promoting a lively two-way dialogue.

Responsible Procurement

In March 2022, we signed the Declaration of Partnership Building to promote coexistence in mutual prosperity and collaboration with business partners in the supply chain and operators of businesses that create value. To assist in resolving social issues in the supply chain and achieve sustainable procurement, we have formulated Sustainable Procurement Guidelines and are working together with our business partners to realize a sustainable society.

▼ Declaration of Partnership Building

<https://www.biz-partnership.jp/declaration/8555-05-08-tokyo.pdf>

■ Sustainable Timber Procurement

To contribute to the eradication of deforestation and the sustainable use of timber resources, at SEKISUI CHEMICAL Group every effort is made to ensure that the timber used in products is logged in accordance with statutory and regulatory requirements, such as FSC-certified wood. In addition, the Group conducts investigations into commercial distribution with regard to the logging area, tree species and quantity of timber materials to ensure traceability.

■ Responsible Mineral Procurement

SEKISUI CHEMICAL Group is also concerned about the issue of conflict minerals in the Democratic Republic of Congo and neighboring countries and has conducted surveys on the use of conflict minerals throughout the supply chain from an ESG perspective. In fiscal 2022, the Group surveyed domestic and overseas sites that handle minerals subject to this effort, including 3TG (tantalum, tungsten, tin, and gold), cobalt, and mica. In advance of the survey, the Group also held internal study meetings regarding the risks of child labor and other human rights abuses in addition to those on funding of armed forces in an effort to deepen the understanding of the survey.

▼ Procurement

<https://www.sekisuichechemical.com/about/outline/suggestion/>

Respect for Human Rights

Human rights initiatives

SEKISUI CHEMICAL Group considers respect for human rights as an enduring value that serves as a prerequisite and basis for business. We also recognize that enhancing the Group's sustainable management platform requires engaging in efforts to ensure respect for the human rights of business partners and as many stakeholders as possible beyond just SEKISUI CHEMICAL Group employees, and will therefore establish mechanisms for preventing human rights abuses on a global basis.

▼ Please refer to the following webpage for details of the SEKISUI CHEMICAL Group Human Rights Policy.

https://www.sekisuichechemical.com/sustainability_report/basic_policies/#anc-P01

Human Rights Due Diligence

When conducting human rights due diligence, the Group applies expert human rights knowledge from independent third parties and engages in earnest dialogue and consultation with our stakeholders.

* Human rights due diligence is the ongoing management process of identifying and assessing any potential negative impact on human rights (human rights risks) from a company's business activities, and if there are human rights risks, the process of creating mechanisms to prevent the impact from such risks on an ongoing basis.

In fiscal 2021, SEKISUI CHEMICAL Group implemented a human rights risk assessment targeting management at Group companies, including joint ventures, in all global areas, and management at on-site outsourcing companies. The Group also conducted this assessment targeting general employees, including indirect employees, at selected business locations. In fiscal 2022, the Group took corrective action regarding issues extracted during the assessments and conducted human rights interviews at two locations in Japan and abroad.

■ Identify and remedy human rights risk based on a human rights risk assessment (example)

The Group drafts employment agreements in workers' native languages in order to promote an understanding of employment agreements among foreign nationality workers employed at Group companies in Japan.

■ Conduct human rights interviews with foreign nationality employees at overseas production sites

Targets: Vietnamese workers employed at Sekisui Industrial Piping Co., Ltd. (Taiwan) of the UIEP Company

Implementation method: Questionnaire and a survey conducted by an external third-party organization based on the questionnaire results
Confirm the living environment through a housing observation

Survey content: Forced labor, freedom of association, the right to collective bargaining, equal pay, and prohibition of discrimination, etc.

Results: Although no notable negative impacts were revealed, it did identify preparing multilingual pay statements and internal factory signage, reducing the burden of living expenses, securing access to employee whistleblowing systems (▶P.64), and others as issues requiring priority action. In response to these issues, Sekisui Industrial Piping Co., Ltd. (Taiwan) formulated a remediation plan and will address these issues in stages.

Addressing Risks and Opportunities

To identify the risks for which SEKISUI CHEMICAL Group should prepare, we have broadly categorized each into business environment, strategic, and operational risks, and have further subdivided each category to comprehensively identify each. In light of geopolitical risks, new social demands, and other changes, we regularly conduct quantitative risk level assessments using a risk matrix composed of risk probability (frequency) and impact (result). Risk items that are especially serious are deliberated by the Sustainability Committee and Board of Directors. Based on these deliberations, steps are taken to determine countermeasures and policies, which are incorporated into management and action plans.

To quickly respond to various changes in the business environment, we discuss and make decisions during Board of Directors' meetings held monthly and the Budget Formulation Meeting held quarterly while working to review and disclose details of management plan indicators as well as financial conditions in a timely and appropriate manner. [▶P.17 Materiality](#) [▶P.66 Risk Management](#) [▶P.75 Sustainability Promotion Framework](#)

	Major Risks and Opportunities	Major Responses/Actions by SEKISUI CHEMICAL Group
Business environment risks	Economy and product market trends Risk • Downturn in demand due to trends in the economic environments of business areas where the Group does business, changes in public policy, and unforeseen events Mobility, Electronics, Housing, Construction, Infrastructure, and other markets ▶P.34-39	<ul style="list-style-type: none"> • Capture demand by introducing high-value-added products that solve social issues to the market and by pioneering applications for these • Strengthen earnings power by reducing costs
	Raw material price volatility and procurement Risk • Volatility in steel, wood, polyvinyl chloride, olefin, and other petroleum-related raw materials owing to tightened or delayed supply due to changes in the balance between demand and supply as well as the impact of the trade policies of supplier countries • Stable supply of scarce resources	<ul style="list-style-type: none"> • Diversify the source of raw materials procurement • Implement cost-reduction measures on an ongoing basis • Maintain the margin between selling and raw material prices
	Foreign currency, interest rate, and owned asset price fluctuation Risk • Impact on the yen-translated amount of foreign currency-denominated transactions and items owing to fluctuations in the value of the yen against foreign currencies • Impact on the amounts of interest income and interest expense due to interest rate fluctuations • Losses on owned assets due to changes in the market and business environments, etc.	<ul style="list-style-type: none"> • Periodic review of internal currency exchange rates for foreign currency-denominated transactions (avoid discrepancies between plans and actual results) • Transitioning businesses deployed globally to local production
	Major earthquake, natural disaster Risk • Interruption of the Group's business activities due to such natural disasters as major earthquakes and tsunamis, or the spread of infectious diseases	<ul style="list-style-type: none"> • Engage in risk management and put in place the Crisis-management System • Implement business continuity plans (BCPs)
	Climate change and environmental issues ▶P.20 Addressing Risks and Opportunities: Climate Change Risks Impact Analyses	
	Politics and Society Risk • Incidence of social and political turmoil due to terrorism, war, tariff retaliation measures, unexpected changes in policies, laws and regulations, racial discrimination, product boycotts, and other factors	<ul style="list-style-type: none"> • Collect trends and information in each country through regional headquarters (United States, Europe, China, ASEAN) • Establish swift response measures (ERM) • Human rights initiatives
Strategic risk	M&A/New Business/R&D Risk • Manifestation of business environment risks • Delays in development and business launch Opportunity • Expanded business scale and manifestation of synergy	<ul style="list-style-type: none"> • Strengthen preliminary investigations of potential M&A targets • Strengthen monitoring after M&A execution • Accelerate development through internal and external technology fusion • Effectively implement business reviews and design reviews

	Major Risks and Opportunities	Major Responses/Actions by SEKISUI CHEMICAL Group
Operational risk	Safety and health, industrial accidents Risk • Fire, explosion, or hazardous substance leaks • Incidence of major workplace accidents	▶P.62 Safety <ul style="list-style-type: none"> • Identify risks and regularly conduct onsite audits to prevent any incidence of risks occurring/Make corrective improvements through disaster-preparedness audits • Clarify equipment safety standards and promote safety activities • Develop human resources to take the initiatives in safety activities and create a culture for this • Improve emergency response measure skill levels
	Products / Quality Risk • Incidence of serious product accidents • Product recalls or discontinuation due to questions over safety, the environment, or statutory and regulatory compliance	▶P.63 Quality <ul style="list-style-type: none"> • Implement quality management across the entire process, from product development to design, production, and sales, and work to improve quality levels • Establish systems to thoroughly prevent quality data irregularities and falsification • Prevent quality issues through preliminary reviews at the development stage • Share information on onsite manufacturing improvements that support quality
	Compliance Risk • Unethical or criminal behavior • Violations of the Monopolies Act or fraudulent transactions • Unauthorized overwriting of data • Bribery • Harassment, etc.	▶P.64-65 Legal/Ethics, Accounting <ul style="list-style-type: none"> • Instill compliance awareness • Build and employ a whistleblowing system for internal and external use • Formulate internal regulations and guidelines and provide education • Provide ongoing compliance training by theme • Visualize accounting processes through the effective use of IT
	Information management Risk • Customer, technology, and other information leaks • Business suspension due to system failures resulting from cyberattacks or natural disasters, etc.	▶P.65 Information management <ul style="list-style-type: none"> • Strengthen cybersecurity monitoring systems • Formulate guidelines for handling personal information and build a data protection framework • Regularly strengthen employee training and ensure thorough information management by importance • Completely duplicate mission-critical systems
	Intellectual Property Risk • Costs involved in fighting disputes related to intellectual property and damage to reputation Opportunity • Management resources that support growth and profits	▶P.53 R&D / Intellectual Property <ul style="list-style-type: none"> • Secure strategic intellectual property, and maintain and manage acquired intellectual property • Conduct intellectual property training for employees • Conduct timely investigations to avoid intellectual property infringement • Implement strategic intellectual property management through the use of IP landscaping

Addressing Risks and Opportunities Climate Change Risks Impact Analyses*

* Since fiscal 2021, we have adopted 1.5°C and 4°C scenarios.

Regarding climate change, we are investigating steps we can take to become aware of risks and opportunities, reduce risks, and turn risks into opportunities. We recognize climate change as a serious external risk. Accordingly, we have considered policies and countermeasures to address this risk when exploring medium- to long-term strategies and established an environmental medium-term plan. The environmental medium-term plan is then approved by the Board of Directors. We have implemented PDCA cycles to pursue climate change-related initiatives, based on the indicators and goals for the plans to promote addressing climate change-related risks. [▶P.56 Environment](#)

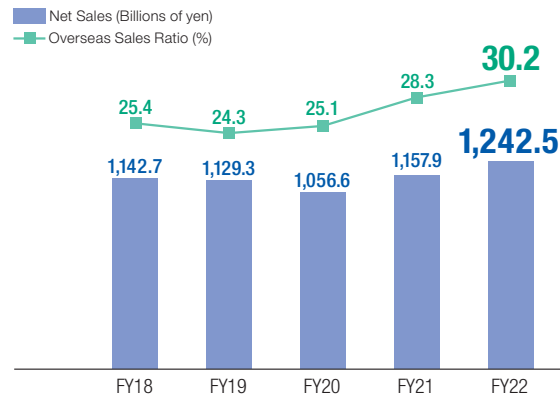
Bold type: Innovation-related items

Type	Climate Change Risks	Financial Impacts	Business Risks	Business Opportunities	Response/Actions by SEKISUI CHEMICAL Group	
Transition	Carbon tax increase	Large	<Medium to long term> <ul style="list-style-type: none"> • Increase in energy procurement costs • Decrease in sales due to adding costs to product prices 	<Medium to long term> <ul style="list-style-type: none"> • Acquire business opportunities by differentiating through early response • Stabilization of energy costs by introducing renewable energy 	<ul style="list-style-type: none"> • Accelerate the conversion to renewable energy and transform internal awareness by implementing an internal carbon pricing scheme under the Policy to Facilitate Renewable Energy Adoption • Improve effectiveness through public commitments such as SBT certification 	
	Regulations for energy savings/low carbon	Large	<Short term> <ul style="list-style-type: none"> • Increase in capital investment to strengthen energy conservation and renewable energy <Medium to long term> <ul style="list-style-type: none"> • Increase in introduction costs for renewable energy certificates, etc. 	<Short term> <ul style="list-style-type: none"> • Increased sales from energy conservation/storage/creation businesses • Increased sales from CO₂-regulation compliant products 	<ul style="list-style-type: none"> • Establish an ESG investment framework (¥40 billion/three years), including climate change action ▶P.32 • Develop new energy creation technologies (e.g., perovskite solar cells) ▶P.49 • Review green procurement standards as appropriate • Standardize housing with ZEH specifications ▶P.43 	
	Policy regulations					
	Policies	Large	<Short term> <ul style="list-style-type: none"> • Increase in renewable energy procurement and waste treatment costs <Medium to long term> <ul style="list-style-type: none"> • Lose market share from loss of differentiation due to mandating of low-carbon products such as ZEH • Reduction of business opportunities due to stricter laws and regulations related to resource recycling 	<Short term> <ul style="list-style-type: none"> • Increased need for technologies to reduce CO₂ during waste incineration <Medium to long term> <ul style="list-style-type: none"> • Increase in sales of new homes due to expansion of ZEH market from mandatory ZEH specs • Expanding opportunities for horizontally recycled products such as in-house and industry-wide collection 	<ul style="list-style-type: none"> • Develop technology for creating ethanol from garbage (e.g., Biorefinery, BR) ▶P.49 • Use purchased power after FIT (e.g., Smart Heim DENKI) • Expand Products to Enhance Sustainability ▶P.41 • Consideration of expanding horizontal recycling of in-house plastic products (e.g., KYDEX buyback system, etc.) • Development of services to improve the recycling value of housing products (e.g., Be-Heim) 	
	Litigation	Medium	<Medium to long term> <ul style="list-style-type: none"> • Lawsuits against companies using fossil fuels 	<Medium to long term> <ul style="list-style-type: none"> • Increase in business opportunities due to consumer trust earned from commitments to society 	<ul style="list-style-type: none"> • Disclose environmental vision and 2050 GHG emissions reduction targets • Improve scores in various external benchmarking systems 	
	Technologies	Large	<Short term> <ul style="list-style-type: none"> • Increase in re-certification costs due to change of low-carbon materials <Medium to long term> <ul style="list-style-type: none"> • Changeover to lower carbon materials and processes 	<Short to medium term> <ul style="list-style-type: none"> • Increase in business opportunities for Products to Enhance Sustainability that contribute to low carbonization <Long term> <ul style="list-style-type: none"> • Business expansion through prioritized procurement of resource recycling friendly designed products 	<ul style="list-style-type: none"> • Use of LCA in planning, development and marketing (CFP, environmental impact other than climate change) • Use of learn from nature technologies and continuation of researcher subsidies • Promotion of renewable energy in factories (e.g., Smart Heim DENKI) • Reduction of factory waste and acceleration of resource recycling ▶P.59 • Product development using bio-derived materials • Product development using recycled materials and increasing their use 	
	Development of decarbonization technology	Large	<Medium to long term> <ul style="list-style-type: none"> • Opportunity loss due to delay in introduction of decarbonization technologies 	<Medium to long term> <ul style="list-style-type: none"> • Expand business opportunities by decarbonizing products • Creation of new businesses utilizing decarbonization technologies 	<ul style="list-style-type: none"> • Development of CCU technologies in collaboration with different industries (e.g., collaboration with ArcelorMittal, S.A.) 	
	Markets	Medium	<Long term> <ul style="list-style-type: none"> • Decrease in sale of new cars • Opportunity loss due to inability to recycle resources and use decarbonization incentives 	<Medium term> <ul style="list-style-type: none"> • Acquisition of incentives through resource recycling and visualization of decarbonized value <Long term> <ul style="list-style-type: none"> • Increase in profitability from shift to higher-performance products • Expansion of market for ICT-related products 	<ul style="list-style-type: none"> • Efforts to improve resource recycling value through industry collaboration (e.g., CLOMA (for marine plastic issues)) • Development of highly heat-resistant, durable, and other high-performance products • Development of lightweight solar cells, heat release products 	
	Market uncertainty	Medium	<Long term> <ul style="list-style-type: none"> • Investments to stabilize power supply for dispersed renewable energies 	<Long term> <ul style="list-style-type: none"> • Increase in sales of products to support a more dispersed society 	<ul style="list-style-type: none"> • Sales of houses that realize energy self-sufficiency ▶P.14 • Development of resource recycling technologies (e.g., BR, material waste recycle) ▶P.59 	
	Reputation	Medium	<Short to medium term> <ul style="list-style-type: none"> • Sales decline due to inability to keep up with sustainable lifestyle preferences <Long term> <ul style="list-style-type: none"> • Decrease in sales due to increased preference for sharing over owning 	<Short to medium term> <ul style="list-style-type: none"> • Improve corporate brand and expand sales with products that support sustainable living <Long term> <ul style="list-style-type: none"> • Creation of new businesses to meet consumer preferences 	<ul style="list-style-type: none"> • Promotion of sustainable town development businesses (e.g., ABINC certification of Asaka Lead Town) • Begin services using housing big data (e.g., Smart Heim DENKI) 	
Industry criticism	Large	<Medium to long term> <ul style="list-style-type: none"> • Investor valuation decline for companies that do not decarbonize <Long term> <ul style="list-style-type: none"> • Decline in evaluation of companies that do not understand the biodiversity impact of decarbonization solutions 	<Short to medium term> <ul style="list-style-type: none"> • Secure stable financing by demonstrating compatibility with resource circulation <Long term> <ul style="list-style-type: none"> • Consideration of nature-positive decarbonization solutions and high evaluation for product development 	<ul style="list-style-type: none"> • Use of renewable energy by purchasing electricity after FIT • Secure reform and use of in-house system for planning and R&D (product environmental impact assessment) • Promotion of efforts to reduce the impact on nature and information disclosure (e.g., use of Land Use Score Card™) 		
Physical	Acute	Large	<Short term> <ul style="list-style-type: none"> • Increase in damage such as in plant shutdowns and sales decrease • Increase in costs to control flooding and overflows <Medium to long term> <ul style="list-style-type: none"> • Decrease in sales due to supply chain disruption • Increase in insurance premiums 	<Short term> <ul style="list-style-type: none"> • Increase in needs for resilient infrastructure • Increase in sales of products in areas with a high level of water-related risks • Increase in needs for equipment/facilities for disaster preparedness 	<ul style="list-style-type: none"> • Understand water risks and implement countermeasures ▶P.59 • Development of highly durable infrastructure • Accelerate infrastructure renewal in developed nations (e.g., SPR method) • Expand infrastructural business in developing nations ▶P.37 • Development of disaster response products (e.g., drinking water storage systems) ▶P.44 • In-house fusion mechanism for adaptive product development, task force projects 	
	Chronic	Medium	<Short term> <ul style="list-style-type: none"> • Increase in costs for restructuring supply chain <Medium to long term> <ul style="list-style-type: none"> • Increase in heat stroke/other illnesses related to warming • Increase in air-conditioning/cooling costs 	<Short term> <ul style="list-style-type: none"> • Increase in sales of heat insulating/heat shielding products <Medium to long term> <ul style="list-style-type: none"> • Increase in needs for pharmaceutical products/diagnostic drugs that contribute to treatments 	<ul style="list-style-type: none"> • Explain procurement guidelines to raw material suppliers ▶P.18 • Globally disperse production bases ▶P.12 • Reinforcement of OEM structure in accordance with increase in illness 	
	Changes in rainfall patterns	Medium				
	Rise in sea level	Medium				
Rise in average temperatures	Medium					

The Financial Impacts in the table were evaluated in three categories: large, medium, and small, in light of the magnitude of the impact on related financial indicators. The risks and opportunities that become apparent are described in three stages: Short term (less than 3 years), medium-term (3 to less than 6 years), and long-term (6 years or more).

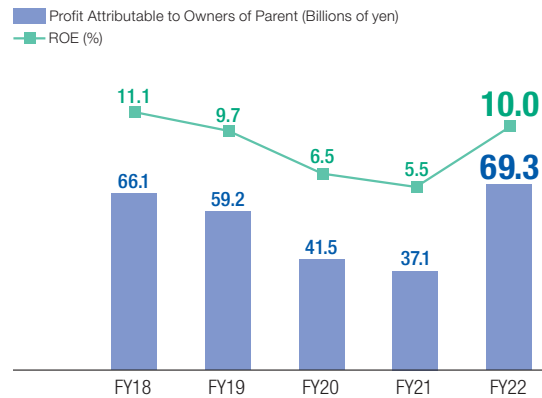
Financial and Non-financial Highlights

Net Sales/Overseas Sales Ratio



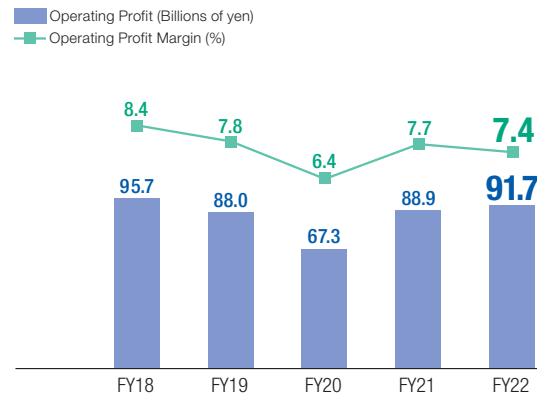
Despite a harsh business environment impacted by such factors as cuts in automobile production due to the semiconductor shortage, deterioration in electronics market conditions, and a downturn in the number of domestic housing starts, net sales reached a record high owing to the increase in sales of high value-added products as well as progress in improving selling prices and positive foreign exchange effects.

Profit Attributable to Owners of Parent/ROE



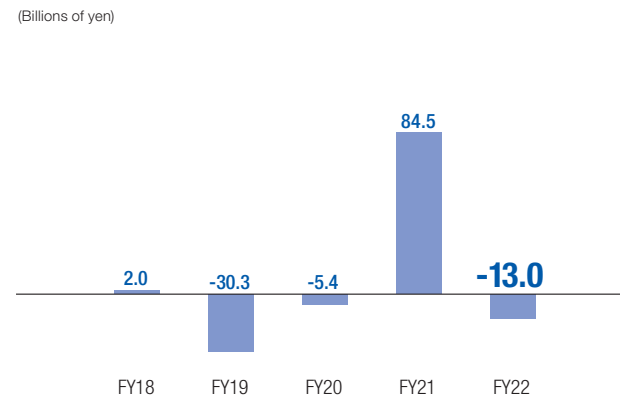
Substantial increase in non-operating income due to the impact of fluctuations in foreign currency exchange rates and the absence of impairment losses posted by SEKISUI AEROSPACE CORPORATION in the previous fiscal year.

Operating Profit/Operating Profit Margin



Operating profit increased owing to a variety of factors, including improvements in selling prices, an increase in sales of high value-added products, and cost reductions, which offset the significant impact of the soaring prices of raw materials, fuels, and component parts.

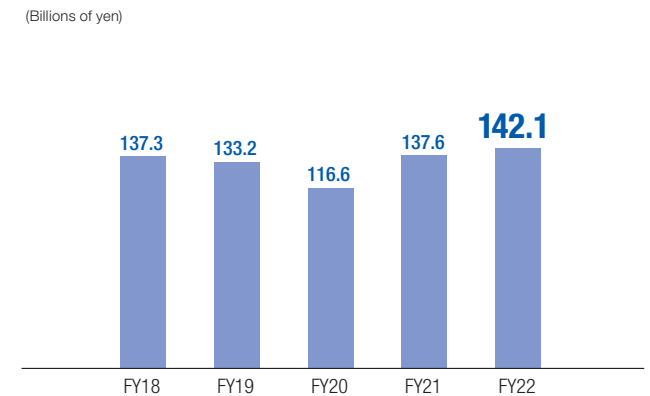
Free Cash Flow



Cash on hand declined mainly due to an increase in payments for capital expenditures and dividend payments.

Free Cash Flow = Cash Flows from Operating Activities + Cash Flows from Investing Activities - Dividends Paid

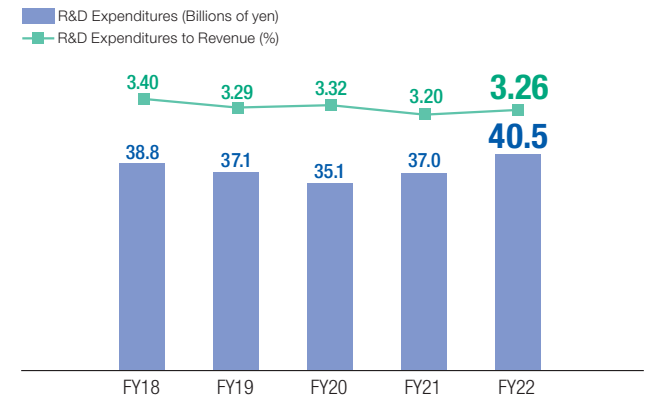
EBITDA



EBITDA reached a record high of ¥142.1 billion due to increased sales volume, sales growth from the shift to high value-added products, and efforts to manage costs, including the structural reform of business.

EBITDA = Operating Profit + Depreciation + Amortization of Goodwill

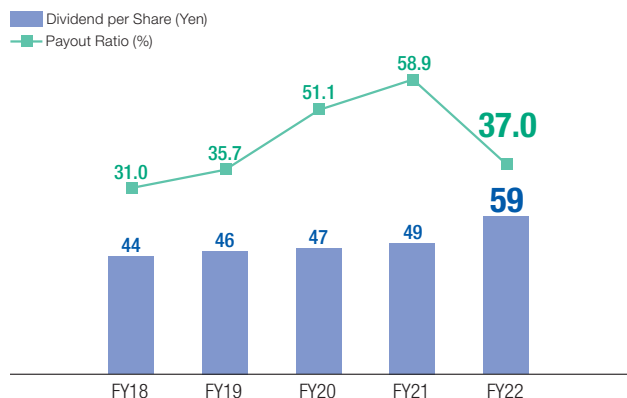
R&D Expenditures/ R&D Expenditures to Revenues



Expenditures came to ¥40.5 billion given efforts to promote R&D in the HPP Company as well as Medical and new businesses.

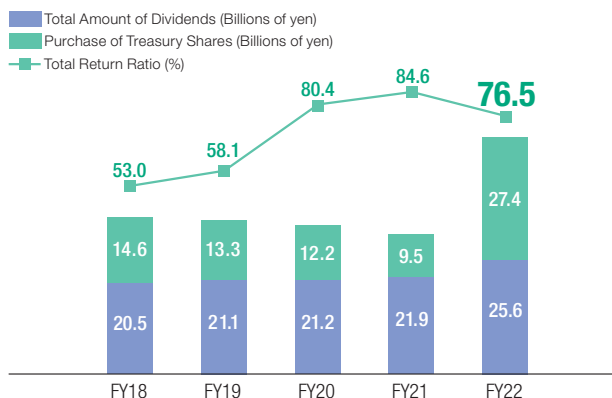
Financial and Non-financial Highlights

Dividend per Share/Payout Ratio



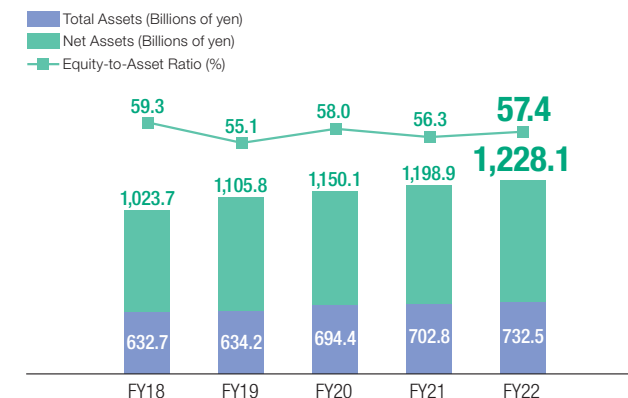
The annual dividend was set at ¥59 per share. This represented the 13th consecutive fiscal year of dividend increase. The Company will continue to provide stable and proactive returns to shareholders in the future.

Total Amount of Dividends/ Purchase of Treasury Shares/Total Return Ratio



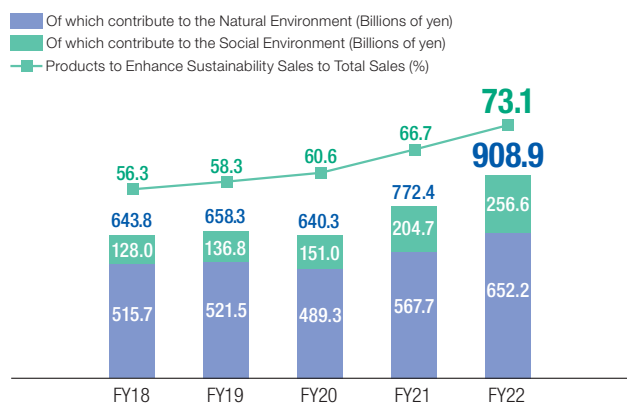
In addition to implementing flexible capital policies and improving capital efficiency, the Company purchased ¥27.4 billion (15 million shares) of its common stock as part of its proactive efforts to provide returns to shareholders.

Total Assets/Net Assets/ Equity-to-Asset Ratio



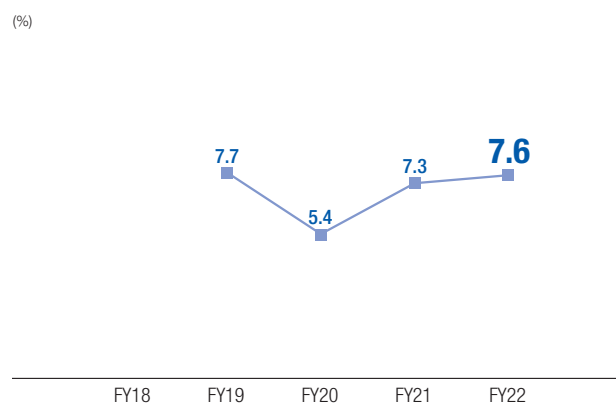
Total assets stood at ¥1,228.1 billion, an increase of ¥29.2 billion, mainly owing to the impact of fluctuations in foreign currency exchange rates.

Net Sales of Products to Enhance Sustainability (P.41)



Sales of Products to Enhance Sustainability came to ¥908.9 billion accounting for 73.1% of total sales. Under the Company's ESG management, every effort is being made to develop and expand Products to Enhance Sustainability that help drive the Company's growth by solving social issues.

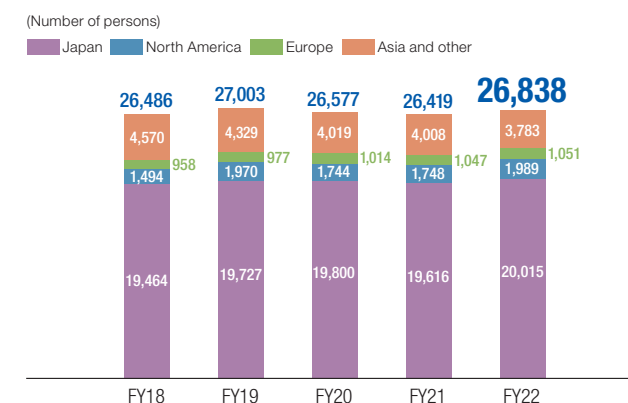
ROIC



Despite the substantial improvement in net profit after tax, the increase in ROIC was held to 0.3 percentage point owing to the impact of fluctuations in foreign currency exchange rates as well as increases in fixed assets and inventories on the back of soaring raw material prices.

Return on Invested Capital (ROIC) = After Tax Operating Profit/Average Invested Capital (Fixed Assets + Working Capital)

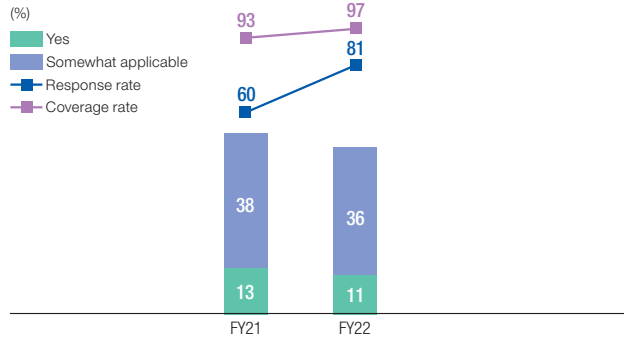
Number of Employees



While there was a decrease in certain areas due to structural reforms, the number of employees increased by 419 across the Group as a whole, to 26,838 owing to such factors as the upswing in consolidated companies and efforts to strengthen the production system.

Financial and Non-financial Highlights

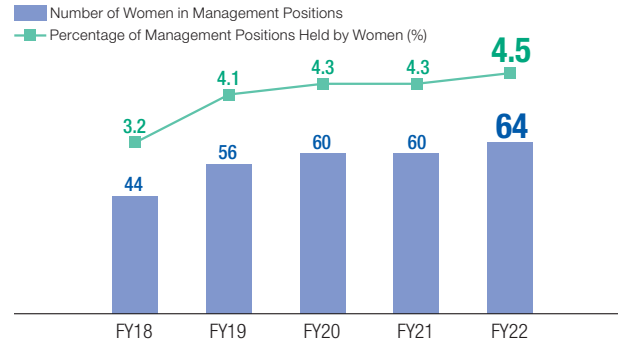
Employee Challenge Action Rate* (▶P.54)



It is important for each and every employee to break free from convention while continuously taking on challenges in order to realize the Long-term Vision. An analysis of results in fiscal 2022 indicates that many employees are confused about what exactly they need to do to take challenging actions.

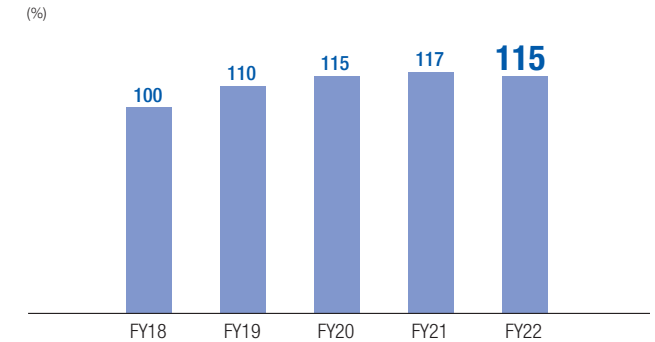
* The percentage of respondents who answered yes to the question, "I am taking concrete actions to engage in challenging action to realize Vision 2030." The percentage of respondents who answered yes or somewhat applicable from fiscal 2023.

Number of Women in Management Positions (SEKISUI CHEMICAL Non-consolidated)



SEKISUI CHEMICAL Group is working to support the retention and success of female employees as well as the appointment of women to management positions. In fiscal 2022, the ratio of female managers increased due to the appointment of new female managers.

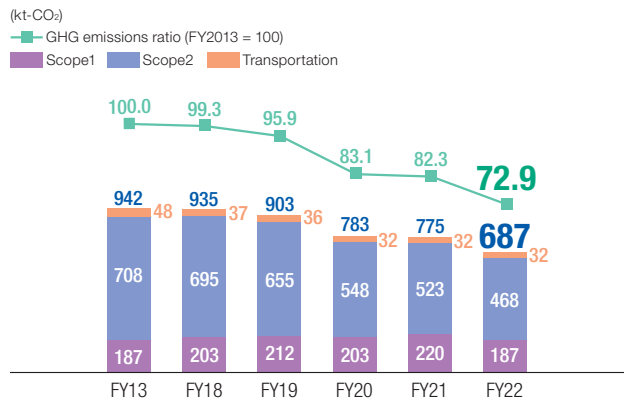
Patent Asset Index™ growth rate (▶P.53)



The Company regards intellectual property (IP) that has resulted from its R&D activities to be an important management resource underpinning SEKISUI CHEMICAL Group's growth and profitability as well as efforts toward the maximization of corporate value. Against this backdrop, we will engage in activities while referencing the Patent Asset Index™ (PAI).

* Patent Asset Index™ growth rate calculated using LexisNexis' PatentSight® patent analysis tool based on figures from five years ago. * The Patent Asset Index™ is a comprehensive evaluation index of patents that multiplies the technical value calculated based on the number of citations and the market value calculated based in the country of application for each patent with valid legal status, and adds them together to show the assets value of the patent. * Fiscal 2022 is the aggregate value as of April 2023.

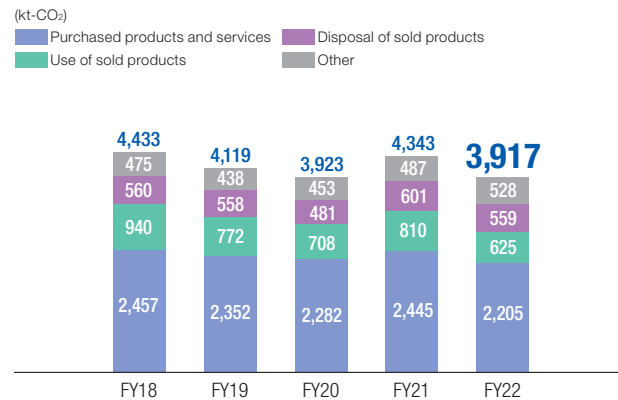
GHG Emissions from Business Activities (▶P.56)



In fiscal 2022, solar power generation equipment was installed at 15 business sites in Japan and overseas, bringing the total generated output to 9.3 MW. In addition, reductions in GHG emissions through the upgrade and renewal of equipment based on the environmental investments incentive program* from fiscal 2020 to fiscal 2022 was 127.5 kt-CO₂.

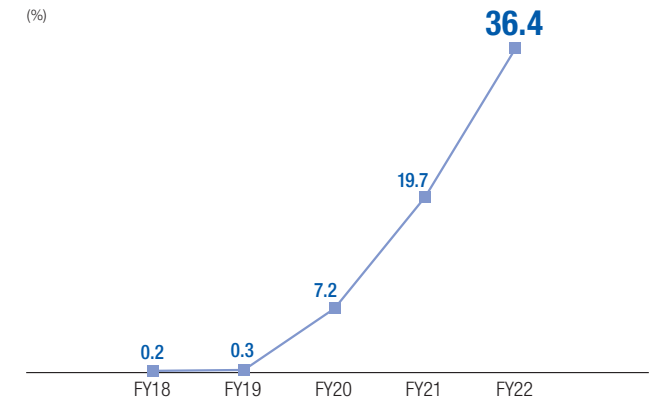
* Environment-Contributing Investments Incentive Program: Environmental investments strategically implemented to promote reductions in GHG emissions. This program is a form of internal carbon pricing, by which SEKISUI headquarters provides financial support to investing departments at a conversion rate of ¥30,000 per t-CO₂ of GHG emissions reduced.

GHG Emissions from the Supply Chain (Scope3)



SEKISUI CHEMICAL Group was successful in cutting back, albeit slightly, on its purchased products and services, even as its business expanded by mainly encouraging suppliers and shifting to bio-based and other resources. Efforts to promote a reduction in the use of sold products were driven by an increase in ZEH specification housing as a ratio of houses sold. With little or no progress made in reducing the disposal of sold products, we recognize the need to accelerate reductions through steady implementation of the Group's resource recycling strategy (▶P.59).

Renewable Energy Ratio of Purchased Electricity



The switchover to renewable energy sources was completed at 31 facilities in Japan and overseas by fiscal 2022. As a result, the ratio of purchased electricity derived from renewable energy came in at 36.4%.