

Q&A Summary

Presentation of Financial Results Progress under Management Plan for the 2Q of FY2022

Date: October 27, 2022

* HPP Company: High Performance Plastics Company

* UIEP Company: Urban Infrastructure & Environmental Products Company

About the HPP Company

Q: Conditions in the smartphone, semiconductor, and related markets are expected to remain harsh. Against this backdrop, what is the background and factors behind your forecast of a recovery in the Electronics field from the 3Q?

A: (Shimizu) Despite the greater-than-expected decline in the 2Q, signs of a gradual recovery have begun to emerge over the end of October. Our outlook toward market conditions from the 3Q is not based on a rose-colored glasses approach. In formulating forecasts, we have factored in an increase in sales owing to fluctuations in foreign currency exchange rates. One positive factor despite the specter of difficult market conditions is the new application of such products as heat release materials and tapes in the Non-LCD field.

Q: While automobile production in the 3Q is expected to remain flat compared with the previous year, your forecast for the 4Q is year-on-year growth. What is your outlook for trends in interlayer films?

A: (Shimizu) Automotive interlayer film sales struggled significantly in the 1Q. Following a recovery from the 2Q, overall growth from the 3Q is projected to exceed the previous year. The year-on-year volume of high-performance interlayer film sales is anticipated to come in at 113% in the 3Q and 109% in the 4Q. We have also factored in a year-on-year increase of more than 115% in HUD films for the full fiscal year on a sales volume basis.

Q: Will soaring LNG prices impact the HPP Company's business in Europe? Will LNG price trends also affect the profitability of interlayer films for HUDs?

A: (Shimizu) Mainly interlayer films in Europe will be affected by higher costs. From a customer perspective, we have revised prices. We anticipate the effects will largely emerge in the 4Q.

Q:As far as aircraft-related businesses are concerned, aircraft manufacturers in the U.S. have lowered their supply forecasts for certain products. Will this have an impact on SEKISUI AEROSPACE CORPORATION (HPP Company) or SEKISUI KYDEX LLC. (UIEP Company)?

A: (Kato) Taking a hard look at the production rates of aircraft manufacturers from the start, SEKISUI AEROSPACE CORPORATION is showing signs of a modest recovery in the 2H. Taking also into account the recovery from COVID-19, SEKISUI KYDEX LLC is experiencing a gradual return in demand for seat back replacement that is not limited to specific aircraft models. From the 2H, both companies will fall under the control of the HPP Company. Plans are in place to generate synergies through integrated operations in the U.S. aircraft field, and to further increase the pace of improvement.

Q:What can you tell us about the current demand for CPVC in India in the Building and Infrastructure field?

A: (Shimizu) Looking at the big picture, demand for CPVC in India is generally firm.

About the Housing Company

Q:What do you see are the reasons for new housing orders falling below plans in the 2Q?

A: (Kamiyoshi) While essentially around the same level as the previous year in the 1Q, new housing orders came in at 90% year on year in the 2Q owing to the rapid spread of COVID-19 and 95% for the 1H. This was largely attributable to the drop in the number of visitors as well as the slowdown in our business activities owing to the spread of the pandemic among customers and the Company. We see a decline in customer sentiment owing to uncertainties surrounding the business environment and a growing wait-and-see stance.

Q:How do you view new housing orders recovering in the 2H?

A: (Kamiyoshi) Order for ready-built houses were strong up to November 2021 owing to the mortgage deduction scheme. As the mortgage deduction extension period came to an end, however, activity was negatively impacted by corrections in the market. Orders were further buffeted by a variety of other factors including the continued spread of COVID-19 and the effects of natural disasters. On a year-on-year comparative basis therefore, we believe that bar will be low, especially from the end of the year.

Q:How will the inclusion of Tochigi Sekisuiheim Inc. in the Company's scope of consolidation impact results in the fiscal year under review? What synergies will you use to improve the operating profit margin, which is low compared with the Housing business as a whole?

A: (Kamiyoshi) Sales in the fiscal year under review are projected to increase ¥4.8 billion owing to the inclusion of Tochigi Sekisuiheim Inc. in the scope of the Company's consolidation as a subsidiary. This has been reflected in the revised plan. Operating profit, on the other hand, is expected to be largely unaffected. As far as forecasts for orders are concerned, contributions from equity-method affiliates were originally incorporated into the overall Company's plan. Turning to the impact on FY2023 results, sales and profit are projected to increase around ¥10 billion and ¥0.4 billion, respectively. Looking ahead, the Company as a whole will actively invest resources to further increase the profit margin.

Q: Are there any other equity-method sales companies that you plan to include in the Company's scope of consolidation as subsidiaries?

A: (Kamiyoshi) There are no plans at this time.

About the UIEP Company

Q: Which products are exhibiting improvements in the spread between selling prices and raw material costs? Will these same products contribute in the 2H?

A: (Hirai) Improvements in the selling prices of the pipes and joints used in construction are the main contributors. This trend is expected to continue in the 2H.

Q: Are we correct in assuming that figures are based on the scenario where raw material prices remain high?

A: (Hirai) That assumption is factored into plans.

About Returns to Shareholders and Others

Q: While ordinary profit increased owing to the temporary impact of such factors as foreign exchange gains, actual earnings including operating profit remain unchanged. Despite these circumstances, what is the background and motivation behind the Company's bold decision to increase dividends?

A: (Kato) Under the current and first Medium-term Plan of our Long-term Vision, we promised our stakeholders that we would pursue a dividend payout ratio of 35% or more. On this basis, we will increase dividends as promised even when our business performance is affected by temporary events.

About the Acquisition of Treasury Stock

Q: What are your thoughts on the acquisition of treasury shares?

A: (Kato) The Company has recently undertaken the acquisition of roughly 5,000,000 to 8,000,000 treasury shares each year. Rather than set a fixed target in stone, we have adopted a flexible, but proactive approach based on our cash position and share price. In light of our current cash position and share price, we have set an additional treasury share acquisition limit of 7,000,000 in this instance. We believe this demonstrates the Company's commitment to proactively providing returns to shareholders while enhancing corporate value.

Q: To what degree is the Company's results affected by current trends in foreign currency exchange rates?

A: (Nishida) As far as the degree to which the Company's results are affected by foreign currency exchange rates are concerned, a ¥1 depreciation in the value of the yen against the dollar and euro has the effect of increasing operating profit by approximately ¥600 million each year. Most of this is due to the dollar.