

Message from the President & CEO

We will continue to create innovations that help resolve social issues while aiming to double our business by 2030.

Having assumed the position of President and Representative Director in March this year, on behalf of the Company, I would like to express my heartfelt sympathy to those who continue to suffer from the novel coronavirus (COVID-19) that is currently ravaging the world. Together with my wishes for a speedy recovery, I would also like to offer my sincere condolences to the many people who have lost a loved one to the pandemic.

COVID-19 is increasingly challenging traditional norms, altering our perceptions of what we have accepted as common sense and the very way we lead our lives. Shifts in people's behavior, prompted by such factors as the acceleration of digitalization and reaffirmation of the importance of hygiene management, are triggering changes in society and in companies as well.

Against this backdrop, SEKISUI CHEMICAL Group announced details of the Long-term Vision and new Medium-term Management Plan in May. In my role as Head of the Business Strategy Department, I have been spending my time deeply involved in formulating this Vision and Plan. Looking back over the 20 years since 2000, when the Company incurred a consolidated operating loss, we have made progress with efforts to become a premium company with an operating income ratio of 10%. The process has involved both aggressive investment and painful structural reforms. On this basis, we have overcome many obstacles in getting to where we are today. Unfortunately, we fell short of this operating income ratio at the very end of fiscal 2019, the final year of the previous medium-term management plan. Nevertheless, I am convinced that we were able to bring about a recovery and evolve to a position that is close to the objectives set two decades ago.

Under our recently announced Long-term Vision, we set the goal of doubling our business by 2030. At such a high level, this target will be difficult to achieve if we build solely on the Group's past track record. At the outset, my mission is to therefore ensure that all employees fully understand the Medium-term Management Plan, and its role as a roadmap, as well as our Long-term Vision. My purpose then is to put in place a system that allows all employees to work in unison with an eye fixed toward a common direction. In a post-COVID-19 era, we will once again review the Company's management from a different perspective, and take up the challenge of achieving our goals by flexibly responding to major changes in the structure of demand.

Message from the President & CEO

Q How would you evaluate fiscal 2019?

Despite the impact of deteriorating global market conditions and COVID-19 on the second half, we have made progress in the introduction and rollout of ESG management under the previous medium-term management plan.

Looking back over fiscal 2019, the final year of the previous medium-term management plan, results were mixed. While operating income in the first half came in at around the same level as the corresponding period of the previous fiscal year, the second half was impacted by a deterioration in global market conditions including the automobile industry. Entering the fourth quarter, the High Performance Plastics (HPP) and Housing companies, in particular, felt the brunt of COVID-19. As a result, SEKISUI CHEMICAL Group reported declines in both sales and profit. In specific terms, net sales for the fiscal year under review edged down 1.2% compared with the previous fiscal year, to ¥1,129.3 billion. From a profit perspective, operating income declined 8.3%, to ¥87.8 billion, ordinary income contracted 6.6%, to ¥87.0 billion, and net income attributable to owners of the parent fell 10.8%, to ¥58.9 billion, all on a year-on-year basis. By business segment, the HPP Company suffered a substantial downturn in profit. In addition to the prolonged slump in global automobile market conditions from the first half, results were especially impacted by overseas production adjustments by automobile manufacturers due to the COVID-19 pandemic. The Housing Company was also affected by COVID-19 with profit held to the same level as the previous fiscal year. On top of delays in delivery as of the end of the period in both the New Housing Construction and Renovation businesses, certain activities were buffeted by the late supply of housing materials made in China. While overseas businesses struggled due to a deterioration in the external environment, the Urban Infrastructure & Environmental Products (UIEP) Company reported record high results. This was largely due to the success of structural reforms implemented under the previous medium-term management plan and growth in high value-added prioritized products in Japan. In line with its plans, SEKISUI CHEMICAL Group has decided to pay an interim and period-end dividend of ¥23 per share, for an annual dividend of ¥46 per share for fiscal 2019. This represents a year-on-year increase of ¥2 per share and a 10th consecutive fiscal year of dividend growth.

Turning to an overview of the previous medium-term management plan, sales growth was derived mainly from overseas. SEKISUI CHEMICAL Group fell short of both its sales and profit targets with profitability in particular a pending issue. Nevertheless, our efforts to promote “fusion” among divisional companies and with external parties has allowed us to generate additional incremental sales of around ¥40 billion. I would also evaluate the progress made in fully introducing and rolling out ESG management across our management foundation. Focusing especially on ESG management, we have improved the ratio of Environment-Contributing Product sales to total sales. The Company has continued to receive positive external feedback. This included selection as one of the 2020 Global 100 Most Sustainable Corporations in the World index for a third consecutive year. I am convinced that our efforts have fostered considerable awareness among employees that the Group’s business is contributing to society.

Q What impact has COVID-19 had on business results, and what is your outlook for fiscal 2020?

By taking the initiative through various ways including structural reforms and a wide range of measures, we will minimize the impact of COVID-19 and target a recovery in the second half.

While conditions surrounding the future remain uncertain, after outlining details of its underlying assumptions including measures from the Company’s perspective, SEKISUI CHEMICAL Group announced details of its forecasts for fiscal 2020 in April. While recognizing in April that conditions in the first quarter would continue to be difficult, our forecasts were based on the assumption that conditions would gradually recover from July and essentially return to normal levels in the second half. Looking especially at trends in the global manufacture and sale of automobiles and smartphones, as well as a decline in the number of outpatient medical examinations and tests for lifestyle-related diseases, we believe that the Company’s results will be impacted by a variety of factors. This includes a drop in the number of visitors and negotiations at housing exhibitions, a downturn in the number of housing starts, and delays in construction. Under these circumstances, we are working to increase the number of visitors to our Housing Business website by 150% compared with the previous year. Among a host of other measures, we are also looking within to minimize the impact of this harsh operating environment by pushing forward such measures as thoroughgoing structural reforms. While we anticipate that business results will struggle in the first half under the burden imposed by COVID-19, we will maintain and reinforce the supply chain in a bid to secure a definitive recovery from the second half.

As far as the Company’s flow of supply is concerned, SEKISUI CHEMICAL Group is maintaining operations across the entire chain from factories, with the exception of certain overseas locations, through production to indirect sections. This is partly due to the measures taken since the spread of the COVID-19 pandemic. In addition to prohibiting group meetings, training, business trips, and social gathering in Japan and overseas in principle, we are promoting telecommuting and staggered work schedules with the safety of employees uppermost in our minds. Above all, we have been able to maintain our supply chain thanks to the actions of our employees based on an acute awareness toward the importance of preventing further spread of the virus.

Looking ahead, we will continue to upgrade and expand safety measures and prepare for any unforeseen circumstance by, for example, securing stable working capital while taking into consideration the incidence of prolonged risk.

Q What were your thoughts and aspirations when formulating the Long-term Vision, “Vision 2030,” and the vision statement?

Amid the uncertainty that surrounds society, we will continue to generate innovation that contribute to the Earth and people’s lives.

While details of our Long-term Vision are outlined separately in this report, I would like to elaborate on what went into its formulation and in particular our thoughts and aspirations. Despite overcoming the financial crisis at the beginning of 2000, and recording an operating income ratio of around 8% on sales

Message from the President & CEO



exceeding ¥1 trillion in fiscal 2019, we anticipate the business environment will continue to be difficult, given unexpected events such as the COVID-19 pandemic. Against this backdrop, we will continue to grow while meeting the expectations of society and working in unison to bring about further reforms. With this as our guiding light, we formulated the Long-term Vision.

Rallying to the call of “Innovation for the Earth,” SEKISUI CHEMICAL Group’s Vision Statement stipulates that “in order to realize a sustainable society, we support the basis of LIFE and will continue to create peace of mind for the future.” Recognizing that the “Earth” refers to both the “Planet” and “the people who reside within it,” we will contribute to society by creating peace of mind for the future while sharing in the image of a “sustainable society” by 2030, as targeted under the Sustainable Development Goals (SDGs) adopted by the United Nations Sustainable Development Summit held in September 2015. Moreover, our Vision Statement is based on the dual understanding that in contributing to the future of society by continuing to create innovations that help resolve social issues, we will simultaneously secure the Group’s ongoing growth.

Q Where do you think the strength of SEKISUI CHEMICAL Group lies in being able to create innovation?

Our strengths lie in the wide range of solutions derived from our broad array of diverse technologies and the longstanding ties of trust with customers.

SEKISUI CHEMICAL Group has continued to expand its business through the release of a succession of innovative products. With virtually no raw materials of our own, we were at a decided disadvantage in the past, susceptible to a profit squeeze as the result of fluctuations in raw material prices. This weakness has evolved and is now considered a major strength. Today, we are able to select and combine those materials that can be tailored specifically to each customer’s request. Free from the need to focus on such issues

as the use of our own materials and plant utilization rates, we can add value utilizing the most appropriate technology and deliver best-fit solutions. Naturally, varied and diverse technological skills, the ability to listen carefully to customer feedback, and marketing that helps to uncover real and precise needs are essential to generating added value. Avoiding even a hint of compromise, SEKISUI CHEMICAL Group has continued to respond thoroughly to the needs of its customers. We boast a proven track record of developing proprietary products that help resolve social issues. This includes the Sewage Pipe Renewal (SPR) method that facilitates the rehabilitation of aged sewage pipes without the digging up of roads and sound and heat insulation interlayer films for automotive use that not only deliver comfort, but also improve fuel consumption while reducing CO₂ emissions. This proven track record that continues to nurture longstanding ties of deep-seated trust allows us to uncover a host of new opportunities. I am convinced that the Company’s sustained innovation is a product of this ability to constantly respond to customers’ requests.

Q Why have you identified the goal of doubling your business by 2030?

Our goals are to establish a global presence and become a company in which our employees can be proud.

Under our Long-term Vision, we have set the goal of essentially doubling the current level of sales to ¥2 trillion in 2030. Naturally, we have not only set our sights on the scale of the Group’s sales, but are also looking at an operating income ratio of 10% or higher commensurate with the sustainable growth of profit. The emphasis that we have placed on doubling our business stems from the desire to become a company with a global presence. In addition, by coming together as a unified group to achieve these lofty goals, we would hope also to become a company in which our employees can take great pride. Based on results to date, we will work toward the organic growth of existing businesses in Japan at an annual rate of 3% and more than 10% overseas.

In an uncertain operating environment that is prone to fast-paced change, there is an inherent risk that building solely on an existing view of the future will open a company up to upheaval in the event of a major incident such as the COVID-19 pandemic. With this in mind, and in addition to the organic growth of existing businesses, we will look to secure exponential growth and target an increase in sales of ¥1 trillion while actively considering M&As with an eye toward overseas expansion. Although recognizing that an increase of this magnitude will not be easy to achieve, it is by no means an unreasonable task.

Q Can you provide us with some background behind the inclusion of ROIC as a new key performance indicator in the Medium-term Management Plan Drive 2022?

Our goal is to increase the efficiency of capital management while expanding profit.

While deliberating on our Long-term Vision, we concluded that efforts aimed at expanding contributions to society, profitable growth associated with that contribution, and management ability to sustain business were vital to enhancing the Company’s corporate value. Based on this conclusion, we have introduced Return on Invested Capital (ROIC) as a KPI to pick up the pace of investment while closely monitoring profitability as we embark on our medium-term management plan. Through proactive

Message from the President & CEO

investment, we will take all preparatory steps to achieve our Long-term Vision. We believe that the degree of improvement is in direct correlation with proactive investment. The introduction of ROIC is also an indication of our intention to make steady improvements as we firmly prepare for long-term growth.

In order to increase ROIC, we must improve the profit margin while at the same time boost the turnover rate. Cognizant of our responsibility to all stakeholders, we will place considerable importance on improving the accuracy of returns as we vigorously pursue investment opportunities, including M&As as well as strategic capital investments that help secure sustainable growth going forward. While also taking into consideration the replacement of our ROIC-based business portfolio, we recognize that the scale and quality of invested capital required differs depending on the business. Accordingly, we will first look to expand profit and improve profit margins through various measures including the expansion of marginal profit and reduction of fixed costs. At the same time, we will endeavor to increase the efficiency of capital management by optimizing capital investments, M&As, and inventories.

The ROIC Spread, which represents the difference between ROIC and the cost of capital, is defined as the SEKISUI Sustainable Spread. As an indicator of corporate value, the SEKISUI Sustainable Spread also incorporates SEKISUI CHEMICAL Group's unique non-financial costs into the cost of capital. We have categorized major incidents into each of the five safety, quality, accounting, legal/ethics, and information management domains. Cognizant of the importance of reducing financial and non-financial costs, we have positioned the need to control events that could have a devastating effect on corporate value as our highest priority. In addition, we recognize the significance of employees carrying out their duties with an understanding that their work contributes directly to efficiency and the control of capital costs. As a result, efforts that contribute to increasing corporate value help lift management's ability to sustain business. While monitoring the status of COVID-19 as it dissipates, I will call on each business site to personally explain our thoughts on this matter and to deepen Groupwide understanding.

Q Can you elaborate on the “Three Drives” identified in the Medium-term Management Plan Drive 2022?

Increasing the efficiency of business and strengthening ESG management are of the utmost importance.

The Medium-term Management Plan Drive 2022, which serves as a roadmap for achieving the Long-term Vision, is designed to accelerate the pace at which we push forward the three “Existing Business,” “New Business,” and “Business Base” drives on a global basis.

Every effort will be made to further refine each of our existing businesses and to rollout high value-added products worldwide. We have categorized each business into one of four domains and will work to increase Group sales in each domain by approximately 1.5 to three times. The purpose of putting in place new domains is to maximize synergies.

As far as existing business is concerned, the “Fusion” advanced under the previous medium-term management plan served not only to generate around ¥40 billion in sales, but also helped to lower employee barriers and mindsets. Moving forward, we will look to maximize efficiency and synergies with a view to transforming existing business, the product portfolio, and divisional company system.

In preparing for long-term new business growth, we will aggressively and boldly cultivate domains peripheral to existing businesses through the aforementioned innovation. We will work to build a

business base in such areas as town and community development. Other areas of focus will include independence from fossil fuels, aircraft and mobility, and cell culture solutions. While ensuring both the efficiency and flexibility of R&D and other themes through a forward-looking process of selection and concentration, engaging in M&As as well as strategic capital investment, and allocating such management resources as personnel, we have introduced ROIC as a means to improve the accuracy of investment effects.

From a business base perspective, the third business drive, we will further strengthen and promote those ESG management measures that we have continued to implement in the past while at the same time holding down major incidents as earlier identified. In this regard, I am a strong believer in “ESG for ESG.” Our long-term vision is therefore to engage in ESG management that underpins “Exponential & Sustainable Growth.”

Q What does ESG mean to the SEKISUI CHEMICAL Group?

ESG is the very essence of our business.

At the SEKISUI CHEMICAL Group, we believe that ESG is the very essence of our business. Throughout our entire history, we have continued to manufacture products as a key component of our social contribution activities. Launched in fiscal 2006, the system for Environment-Contributing Products that are designed to help resolve environmental and social issues has become a symbol of the Group's ESG initiatives. In fiscal 2019, sales of Environment-Contributing Products came to ¥658.3 billion, representing 58.3% of the Group's total sales. From fiscal 2020, we have evolved our focus. Looking beyond efforts aimed simply at resolving issues, we are also placing considerable emphasis on improving the sustainability of efforts aimed at resolving issues. To reflect this evolution, we have revised and newly adopted the concept of “Products to Enhance Sustainability.” Looking ahead, we will redouble our efforts to promote Products to Enhance Sustainability and work to increase their share of total sales to 75% by fiscal 2022, the final year of the Medium-term Management Plan.

On top of this, we are promoting digital transformation (DX), which entails automation in a bid to address the shortage of labor and improve productivity in combination with various security tightening and other measures. At the same time, we are endeavoring to eliminate major incidents including such compliance issues as the falsification of quality data and accounting fraud, factory fires and other industrial accidents, and quality issues that encompass the large-scale recall of products. In the context of its DX activities, SEKISUI CHEMICAL Group has pushed for the digital transformation project over the course of one year commencing in fiscal 2019. In April 2020, we newly established the Digital Transformation Department. Against this backdrop, the COVID-19 pandemic has served to reaffirm the validity and importance of digital transformation as the direction in which to proceed. In the future, we will deepen our DX endeavors, including efforts to lift the labor productivity of employees.

We strongly believe that governance is the foundation for ensuring sound corporate management. Based on this belief, we have worked diligently to improve corporate governance in order to increase the transparency and fairness of our management and pursue swift decision-making. With the aim of receiving advice from a broad perspective and to reinforce the supervisory function, we have appointed three independent outside directors to the Company's Board. Our Board of Directors is chaired by the Representative Director and Chairman, who is a non-executive director. Moreover, SEKISUI CHEMICAL

Message from the President & CEO

Group has also established the Nomination and Remuneration Advisory Committee. Director bonuses are determined on a performance basis. In addition to the Group's overall performance, the payment of bonuses reflects such non-financial indicators as the sales ratio of products to enhance sustainability as well as return on equity (ROE) trends. On top of this, we have introduced a share-based compensation plan. This incentive plan is designed to further raise the motivation of Directors and is linked closely to shareholders' value over the medium to long term.

Q What are your thoughts on risks and opportunities in light of social environment changes some five to 10 years into the future?

We see social environment changes as a business opportunity.

There is no doubt that the social and economic environments will become even more digitalized in the next five to 10 years. This will have a significant impact on our business in areas of considerable familiarity, as automobiles evolve in similar fashion to home appliance, major changes are made to the way products are manufactured, and automated driving also develops and evolves. With the prospect that these dramatic changes will occur at an even faster pace across a variety of areas, there is a risk that SEKISUI CHEMICAL Group will be left behind in the blink of an eye in the event that it does not put in place a structure that can address this change in an appropriate and timely manner. On the domestic front, Japan continues to confront a number of issues including a declining and aging population, aging infrastructure, and frequent natural disasters. For these reasons, it is one of the most advanced nation in the world when it comes to social issues. Based on this understanding, we believe the opportunity exists for the Group to develop products that can help resolve many of the nation's problems. In doing so, the potential also exists to roll out these products to the rest of the world. For example, the industrialized products that the Housing Company manufactures based on the Unit Construction Method can address the shortage of carpenters and craftsmen by reducing onsite construction processes. At the same time, the HPP and UIEP companies boast a number of products that contribute to the renewal of infrastructure and prevention/mitigation of natural disasters.

As far as the environment is concerned, greenhouse gases, which are a major contributor to climate change is an issue that plagues the world as a whole. The SEKISUI CHEMICAL Group is making the switch to 100% renewable energy for purchased electricity by 2030. Among a host of other initiatives, we are also collaborating with supplier in the procurement of raw materials with low environmental impact. The contributions provided by the previously mentioned Products to Enhance Sustainability are much more than temporary in nature. These products make a lasting contribution to society while at the same time contributing to the sustainability of the Company from a profitability perspective. In addition to contributing to the Earth and society, we will make every effort to expand the market through products to enhance sustainability.



Q In conclusion, what are your thoughts on capital policy?

While committed to an unwavering policy of proactively returning profits to shareholders we will continue to undertake growth investments.

SEKISUI CHEMICAL Group acquired AIM Aerospace based in the U.S. in fiscal 2019. While historically a debt-free business, we have transitioned to a net debt business in real terms. This in itself is not a cause for concern, as it coincides with the Company's intention to undertake investments for growth even in the event of harnessing leverage. Although in a net debt position, the company's financial position is considered extremely strong. From our perspective, we believe that balancing strategic investment and research and development for sustainable growth with shareholders' returns is an important issue in the Company's management.

Under our medium-term management plan, we have doubled our strategic investment limit to ¥400 billion. At the same time, we have clarified and strengthened our commitment to the return of profit to shareholders at an increased level. Despite the harsh business environment in fiscal 2020, we intend to place considerable weight on shareholders and increase the period-end dividend by ¥1 per share in a bid to ensure an 11th consecutive period of dividend growth. Our goals are also to deliver a dividend payout ratio of 35% or higher on a consolidated basis, a dividend on equity (DOE) ratio of 3% or higher, and a total return ratio of 50% or higher if the D/E ratio is less than 0.5.

Going forward, SEKISUI CHEMICAL Group will proactively return profits to shareholders by ensuring the Company's sustainable growth while creating innovative products that help address social issues on a sustainable basis and producing results that engender the trust of customers. As we work toward achieving our goals, we welcome your expectations and ask for your continued support and understanding.

June 2020

President and
Representative Director