

# Integrated Report 2021

Year Ended March 31, 2021

**SEKISUI**

## Innovation for the Earth



**SEKISUI CHEMICAL CO., LTD.**

# Innovation for the Earth

In order to realize 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 also endeavoring to enhance the sustainability of society in concert with efforts to secure our sustainable growth as a company.

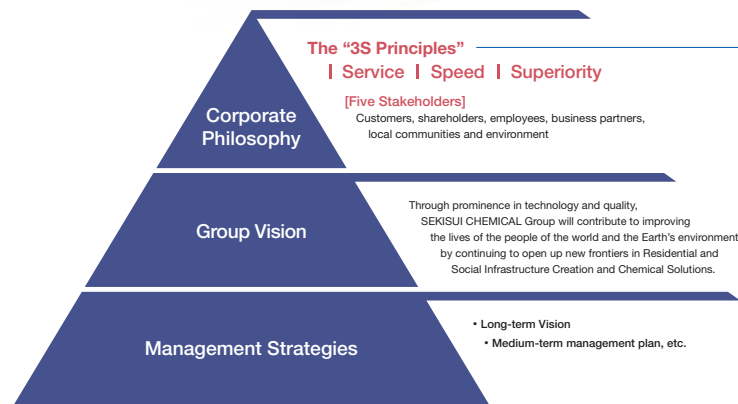


## Our Principles

SEKISUI CHEMICAL Group’s Principles comprise the three Corporate Philosophy, Group Vision, and Management Strategy elements. 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.”

In order 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 anticipated future 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.



Please see the following website for further details about SEKISUI CHEMICAL Company’s Corporate Philosophy, Group Vision, and other elements of our Group Principles.

<https://www.sekisuichechemical.com/about/vision/principles/index.html>

## 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 social, environmental, and economic stakeholders: Customers, Shareholders, Employees, Business Partners, Local Communities and Environment



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Please refer to the [CSR Report](#) for detailed non-financial information.

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 may cause actual performance results to differ materially from these forward-looking statements.

Figures in the Integrated Report

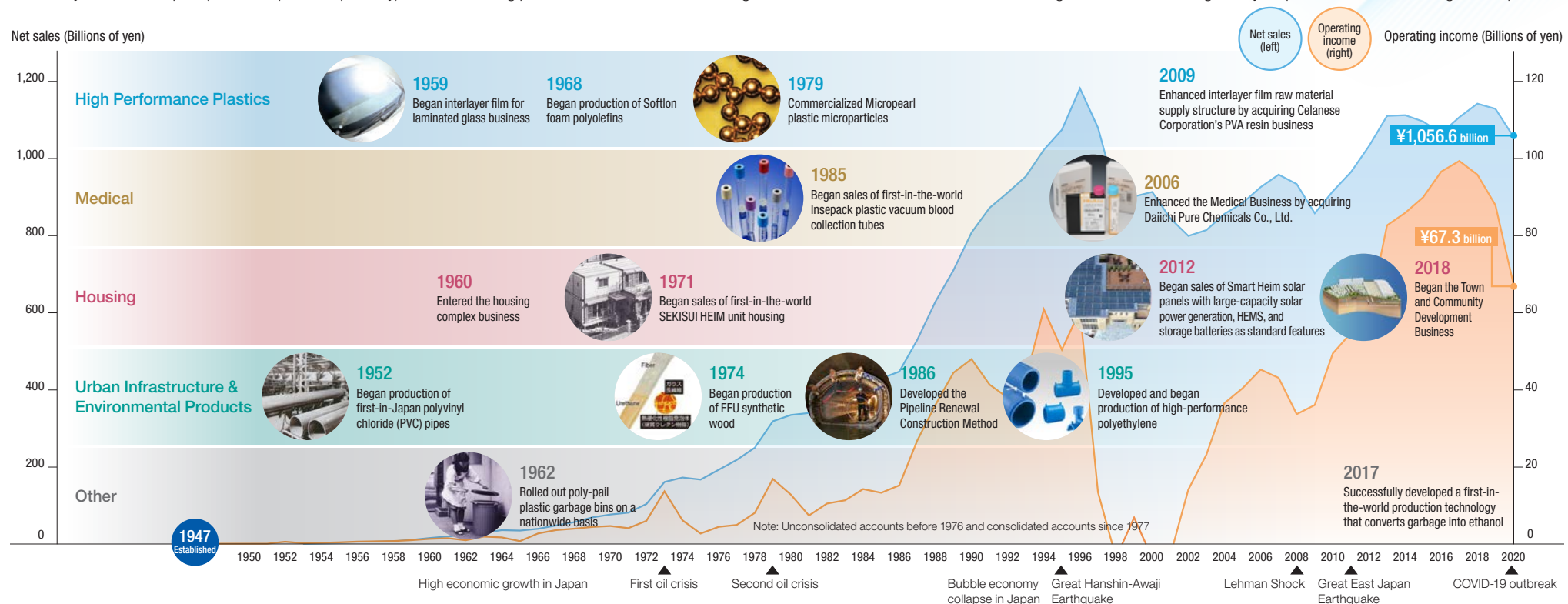
For charts and graphs in this integrated report denominated in billions of yen, numbers below a billion are rounded up or down to the nearest hundred million.

For those denominated in millions of yen, numbers below a million are rounded off to the nearest hundred thousand.

# SEKISUI CHEMICAL Group Accomplishments

SEKISUI CHEMICAL Group was established in 1947 with the aim of comprehensively commercializing plastic, a new and innovative material in Japan at that 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

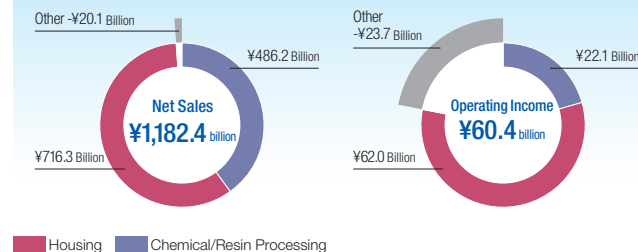
We are improving profitability along with expanding our businesses by pursuing investment strategies that clarify strategic fields and by enhancing our business structure. We have significantly increased sales of high-performance plastics company by expanding our lineups of high-performance products. 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 in order to realize social and corporate sustainability by taking a more strategic approach to environmental and social issues.

# SEKISUI CHEMICAL Group Accomplishments

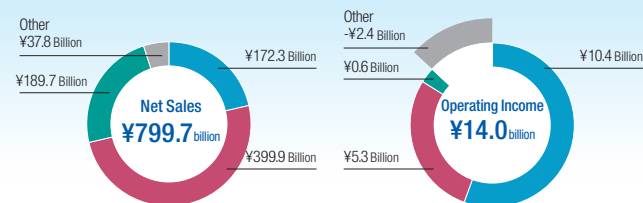
## Performance Changes by Segment

### Fiscal 1996

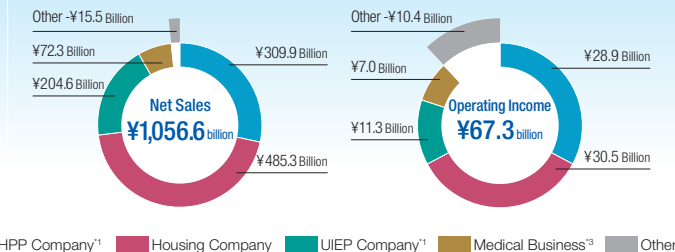
(Seven Business Divisions)



### Fiscal 2002



### Fiscal 2020



Identifying key markets in response to changing social needs while transforming the business portfolio for growth

Housing Business  
Chemical/Resin Processing Business

**March 2001**

Introduced a  
Divisional Company System

Business domain  
per company  
(Strategic fields)

Housing Company ▶ Housing

UIEP Company ▶ Water infrastructure

HPP Company ▶ AT/IT/MD<sup>2</sup>

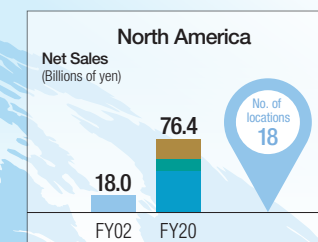
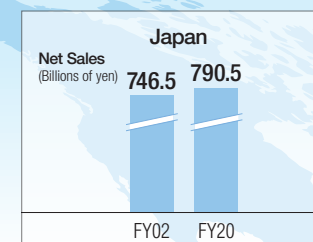
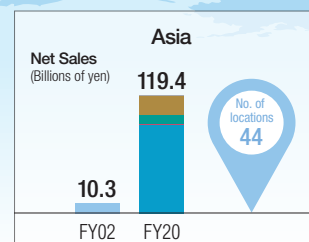
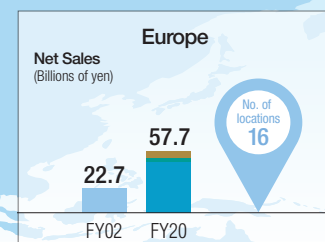
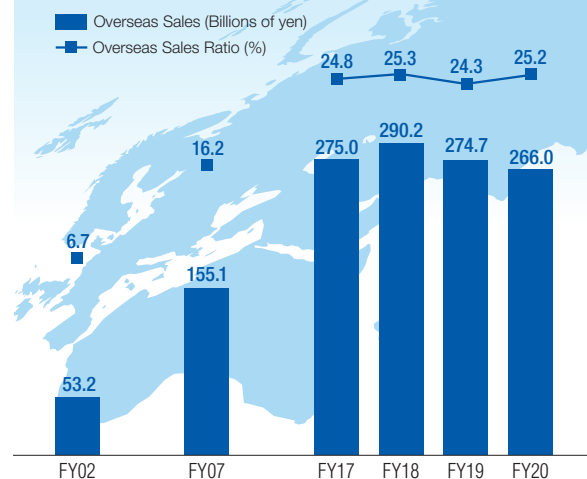
Growth while defining  
focus markets by  
addressing changing  
social needs

▶ Housing/Stock (renovation, real estate)/Town and Community Development, etc.  
▶ Piping and Infrastructure/Building and Living Environment/Advanced Materials  
▶ Electronics/Mobility/Building and Infrastructure  
Medical Business<sup>3</sup>

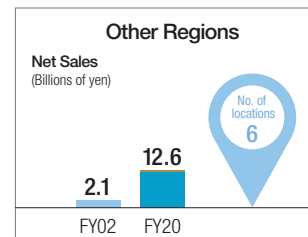
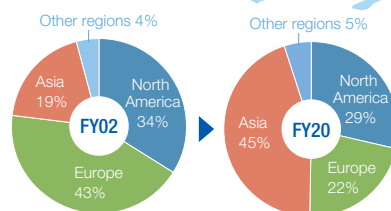
\*1 HPP Company: High Performance Plastics Company, UIEP Company: Urban Infrastructure & Environmental Products Company \*2 AT (automotive materials), IT (IT-related materials), MD (medical products) \*3 The Medical Business was spun off from the High Performance Plastics Company in fiscal 2019 as new company candidate to accelerate growth.

## Global Expansion

### Overseas Sales/Overseas Sales Ratio



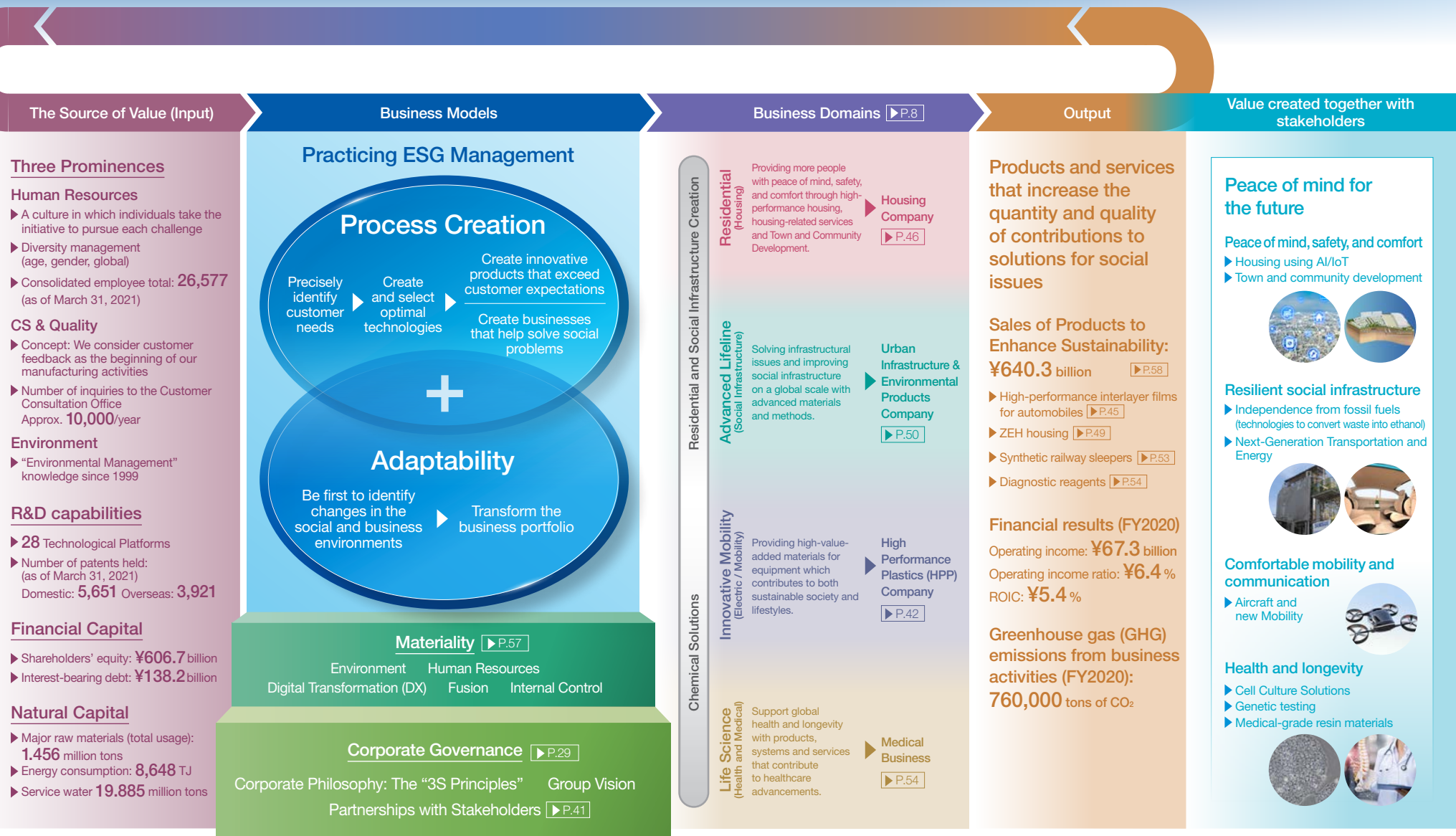
### Overseas Sales Ratio by Region



# Value Creation Process

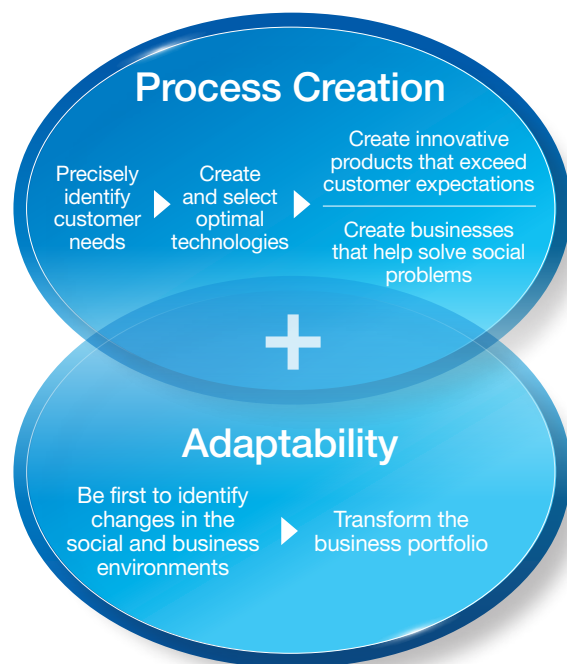
## Vision 2030 Innovation for the Earth

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





## Commentary: SEKISUI CHEMICAL Group's Value Creation Process



SEKISUI CHEMICAL Group maintains BtoC businesses primarily in the new housing construction industry and BtoB businesses that handle conductive fine particles, interlayer films for automotive laminated glass, and other materials in advanced fields, sewage pipes, and diagnostic reagents. Similarly, we carry out business through the three "High Performance Plastics," "Housing," and "Urban Infrastructure & Environmental Products" divisional companies as well as the Medical Business in the fields of "Residential and Social Infrastructure Creation" and "Chemical Solutions." Each of the divisional companies and the Medical Business maintains its own development, manufacturing, and sales capabilities (P.37), and creates value through the series of steps involved in "Process Creation," from capturing customer needs to creating products and businesses, as well as through portfolio transformation (adaptability) that tracks changes in the social environment.

### The "Three Prominences" and R&D Capabilities that Serve as the Source (Input) of the Group's Value

#### Human Resources

In order to ensure that each of our employees can hone and grow their unique skills, we offer a wide-range of "Elective and Recruitment-type Training Programs" through which employees can choose courses to attend from a varied lineup of training and educational options on their own. At the same time, we provide opportunities for employees that aim to put their motivation to undertake various challenges in a self-driven manner to the test in order to encourage the growth of each individual.

#### CS & Quality

Since 1999, SEKISUI CHEMICAL Group has engaged in CS management that places emphasis on customer satisfaction (CS). We directly reply to each of the more than 10,000 inquiries and opinions received by the Customer Consultation Office each year, and analyze the factors that motivated the customer to make the inquiry in the first place, in order to discover the hidden needs of customers. By drawing out customer opinions and providing continuous feedback to the related business units of each divisional company, these efforts assist in revising product specifications, for example.

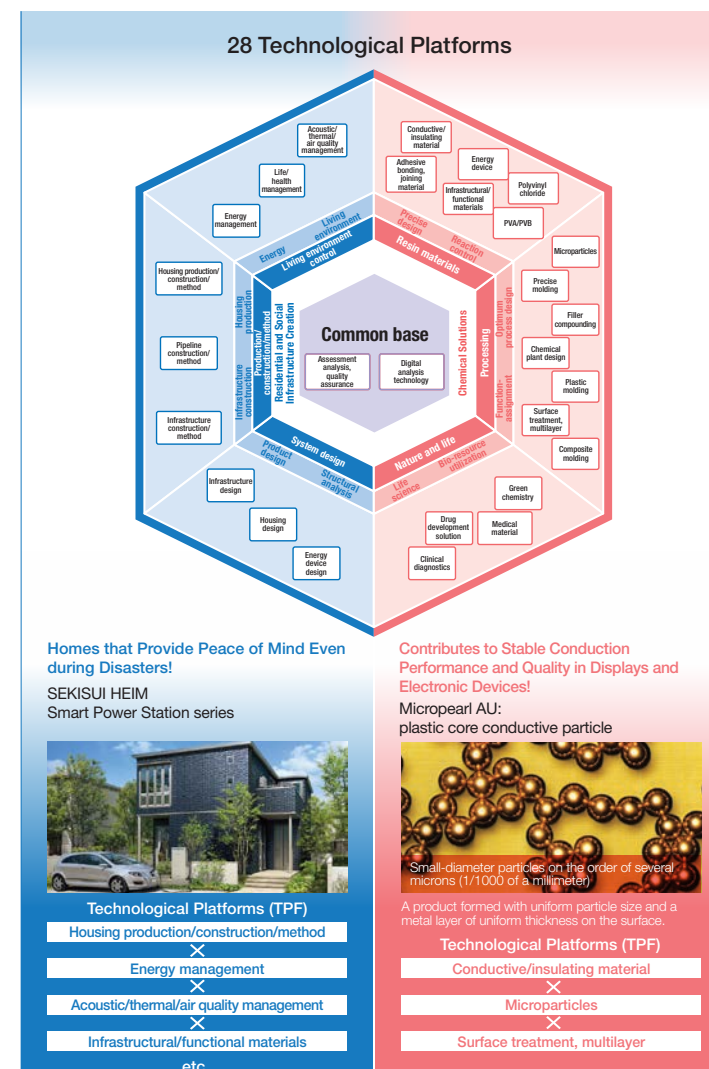
#### Environment

SEKISUI CHEMICAL Group has recognized the environment as an important issue since the 1990s. In addition to ongoing efforts to prevent pollution, every effort has been made to reduce the environmental impact of the Group's business activities. Since 2003, we have worked diligently to practice "Environment Management" on an increasingly fully fledged basis with the aim of achieving sustainable growth that balanced ecology with the economy. We still to this day strive to build a sustainable business base that includes ties of trust with our stakeholders through various measures including the acquisition of SBT certification and endorsement of TCFD.

#### R&D Capabilities

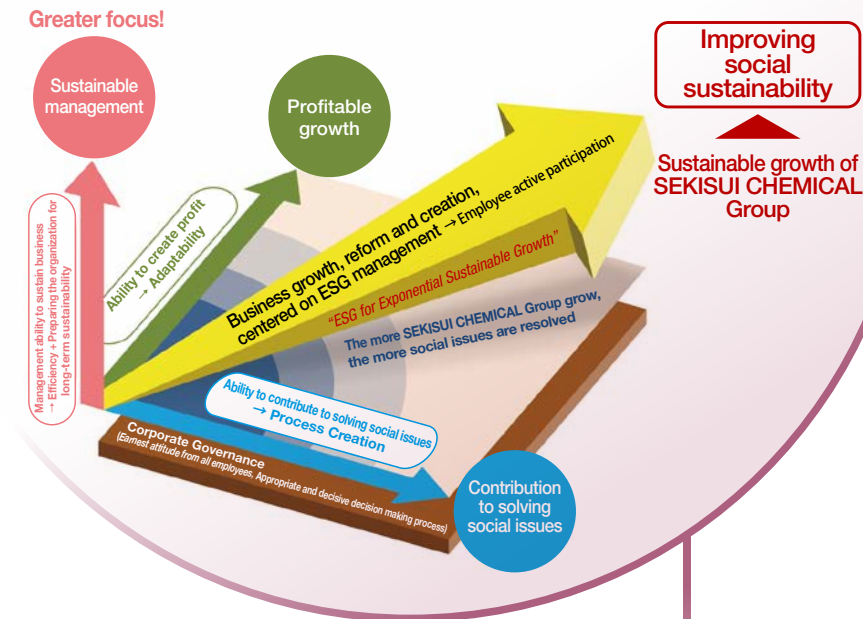
SEKISUI CHEMICAL Group recognizes that maintaining a prominence in technology is the bedrock for creating value. Forming the basis of these efforts are the 28 technological platforms with direct links to the Group's two business domains, "Residential and Social Infrastructure Creation" and "Chemical Solutions." These are the core technological platforms that support the Group's product lineup and should even be said to be the source of the competitiveness that has been cultivated over many years.

We do more than just carefully listen to customer feedback to discover the added-value that we can provide through the technological platforms on an individual basis, and instead effectively combine multiple platforms to develop new products and services that are capable of maintaining a clear lead in the market, even in a harsh competitive environment.



# ESG Management at SEKISUI CHEMICAL Group

The efforts of SEKISUI CHEMICAL Group to contribute to resolving social issues directly connect to the greater sustainability of society, while the net sales gained in exchange for these contributions indicate the degree to which the Group helps resolve social issues. By raising this degree of contribution, the Group can ensure its own profitable sustainable growth and in turn enable the further expansion of its contributions to customers, shareholders, employees, business partners, local communities, the environment, and all other stakeholders.



What is "Management ability to sustain business" ?

## "Efficiency"

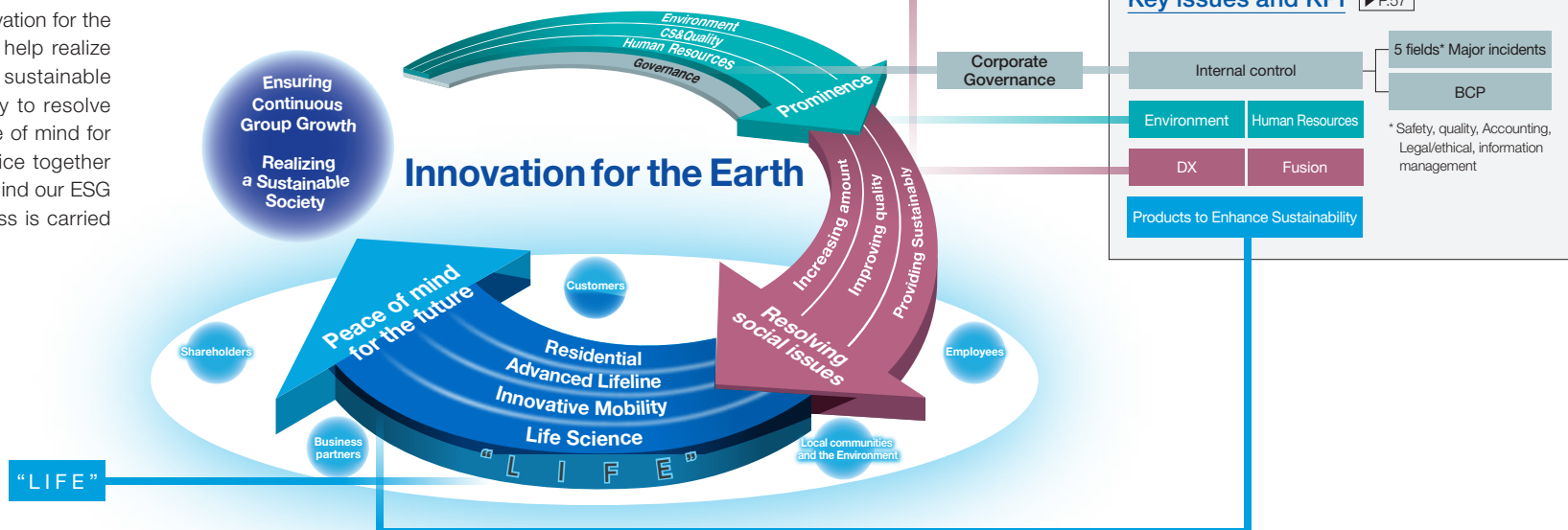
- Improve productivity and efficiency, make efficient use of management resources.

## "Preparing the organization for long-term sustainability (Strengthen business base)"

- Avoidance of significant risk by thorough Safety, Compliance, and Quality.
- Investing in business base for sustainable growth, reduce various long-term capital costs.

## Conceptual Diagram of ESG Management

We have positioned the statement "Innovation for the Earth" as a central theme, and we will help realize a sustainable society and the Group's sustainable growth through our prominence, ability to resolve social issues, and efforts to bring peace of mind for the future. Putting this cycle into practice together with our stakeholders is the concept behind our ESG management. Our value creation process is carried out based on this conceptual diagram.



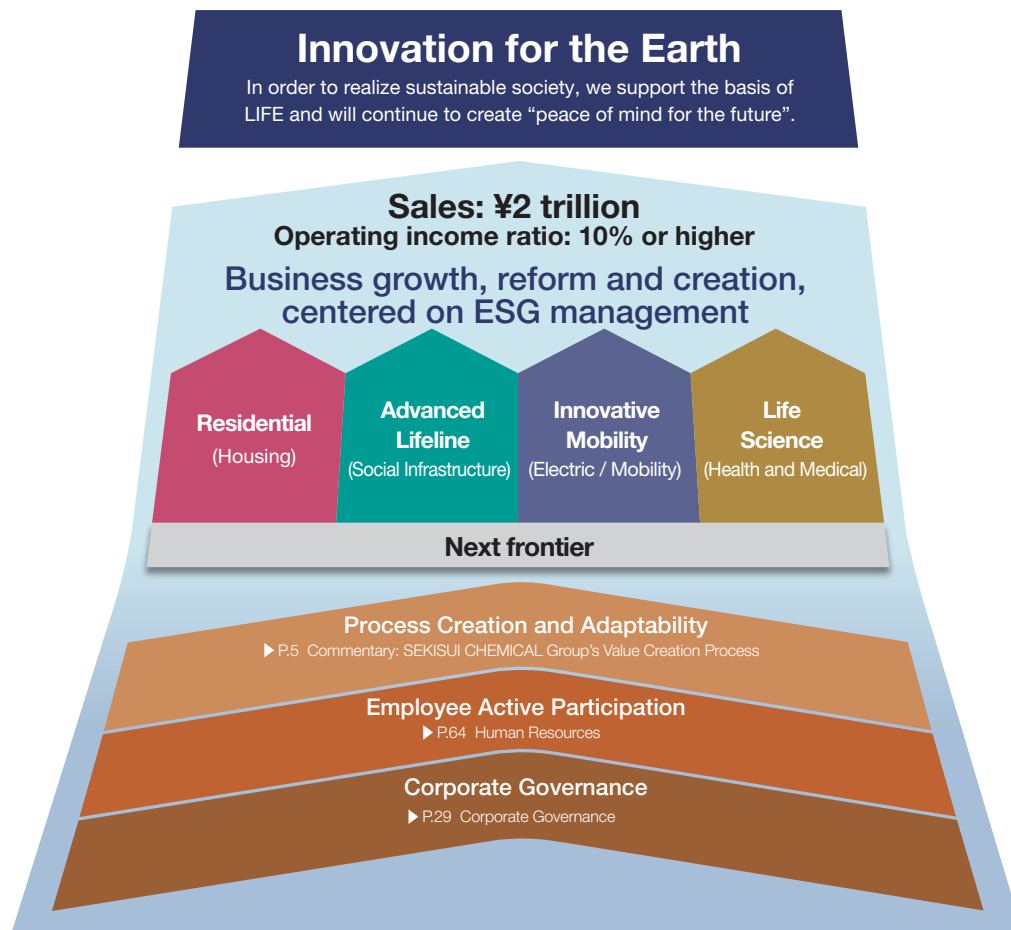
With a focus on four domains (business domains), we will pursue the creation of "peace of mind for the future," which supports the basis of LIFE.



## Long-term Vision

# VISION 2030 Aiming to Double the Group's Business by 2030 Centered on ESG Management

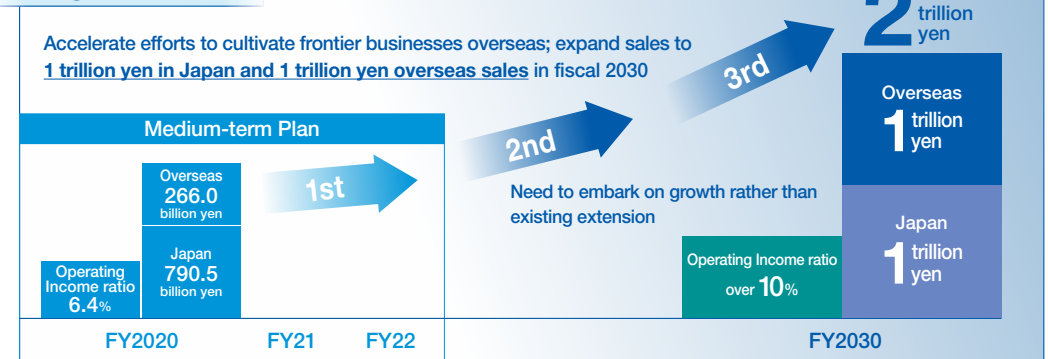
“Vision 2030,” the Group’s long-term vision, presents the vision statement of “Innovation for the Earth,” which incorporates the Group’s resolute will to continuously drive innovation as a means of “supporting the basis of LIFE and continuing to create ‘peace of mind for the future’ in order to realize a sustainable society.” This Vision lays down the four business domains of Residential (Housing), Advanced Lifeline (Social Infrastructure), Innovative Mobility (Electric/Mobility), and Life Science (Health and Medical), and aims to double business by 2030 through the expansion of existing business while taking on the challenge of new domains along the strategy axis of “business growth, reform, and creation centered on ESG management.”



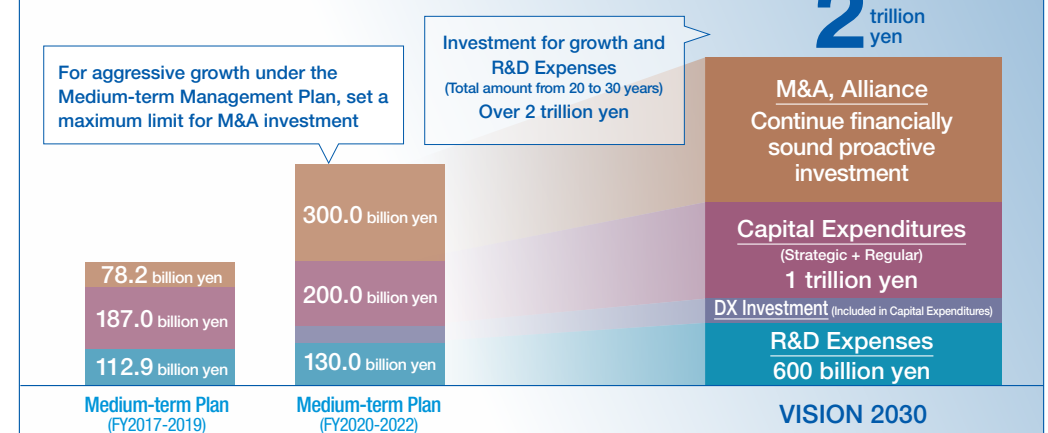
## Proactive Investment of Management Resources

The expansion of business for which the long-term vision aims can only be achieved through substantial growth rather than the extension of existing businesses. SEKISUI CHEMICAL Group is proactively investing management resources to double the size of business by 2030. When executing new investments, the Group considers financial soundness and steps to increase the probability of return in anticipation of making investments exceeding ¥2 trillion in total value over the 10 years through 2030. Along with aiming to achieve a scale of ¥1 trillion through domestic growth, the Group will accelerate efforts to cultivate frontier businesses without slowing its current pace of growth overseas as part of a plan to expand the scale of overseas business to ¥1 trillion, more than three times that of today.

## Long-term Vision



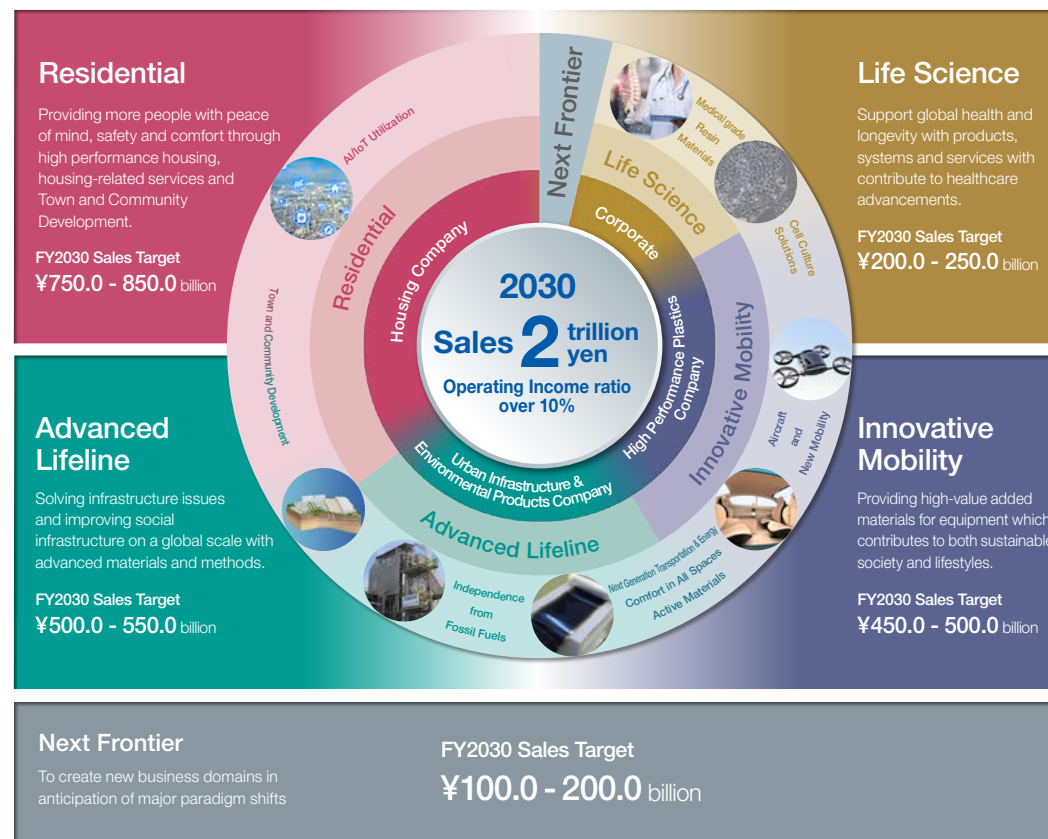
## Proactive investment to double the size of business



## Long-term Vision

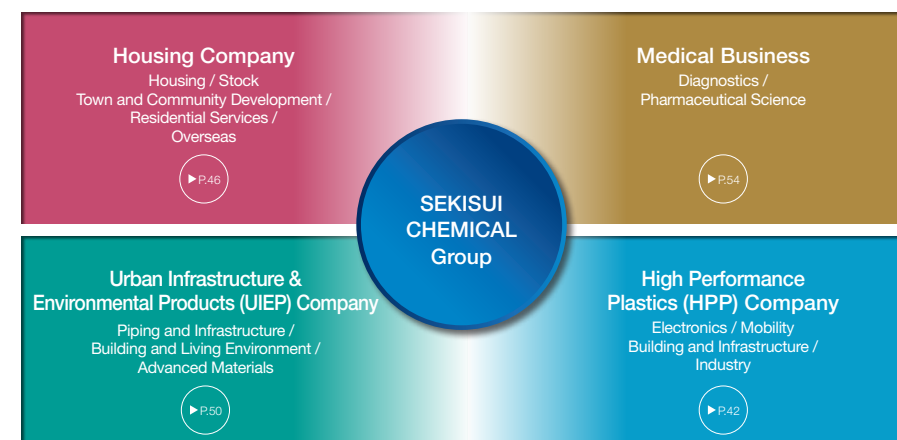
# VISION 2030 Domain Growth Image and Targeted Business Structure

In each of the Residential (Housing), Advanced Lifeline (Social Infrastructure), Innovative Mobility (Electric/Mobility), and Life Science (Health and Medical) business domains, the Group will grow sales 1.5 to 3 times to achieve the major target for 2030 of ¥2 trillion in net sales, a doubling of business from today, and transform into an attractive company with diverse growth engines and a strong presence. By taking up the challenge of pursuing innovation as an extension of core technologies in each domain, the Group will create new businesses and the next frontier for the new business domains in anticipation of major paradigm shifts.

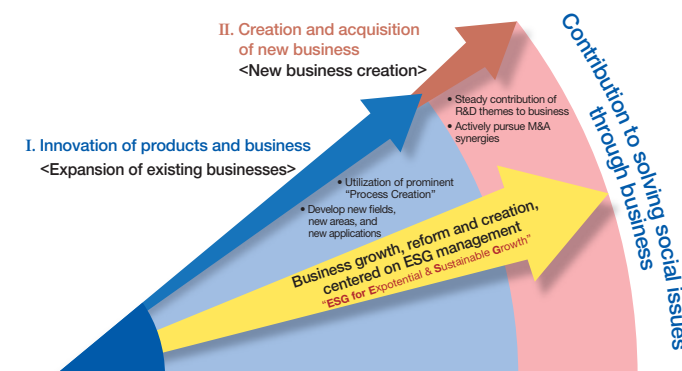


## The Existing Business Portfolio and Strategies to Achieve the Vision

SEKISUI CHEMICAL Group currently carries out its businesses through the three Housing, Urban Infrastructure & Environmental Products (UIEP), and High Performance Plastics (HPP) divisional companies as well as the Medical business in the four domains shown to the left. The Medical business was spun off as a new company candidate in 2019 in an effort to accelerate the pace of growth in the Life Science field, which was previously included in the High Performance Plastics Company's activities. Going forward, we will broaden our contributions to resolving social issues through the expansion of existing businesses and the creation of new businesses.



Expand contributions to solving social issues through expansion of existing businesses and new business creation through "business growth & reform and creating new business centered on ESG management"



## Message from the President &amp; CEO

## Instilling ESG management, drawing out the will to undertake challenges among all Group employees, and accelerating innovation to double the Group's business by 2030

Due to the COVID-19 pandemic, which ravaged every region throughout the world, fiscal 2020 brought about significant changes in what we had previously accepted as common sense and the very ways in which we lead our lives. The pandemic also drove dramatic developments for companies, including a shift to digital and online work processes. Together, these transformations underscored just how dependent corporate activities are on the natural environment and social systems.

As the Head of the Business Strategy Department, I was involved in formulating the Long-term Vision through 2030 and the Medium-term Management Plan over the year from April 2019 to March 2020, when I was appointed as President & CEO and thereby placed in the position of executing these. The Long-term Vision announced in fiscal 2020 fully incorporates my own ideas and determination that despite today's uncertain world in which pandemics and other unforeseen events are a real possibility, we will pursue contributions to society through innovation and grow toward the goal of doubling the Group's business with a healthy awareness of risk. As the kick-off year of "Drive 2022," the first Medium-term Management Plan to be formulated by backcasting from the Long-term Vision, during fiscal 2020 we strove to strengthen earnings power, while our efforts to fortify our business structure and our growth investments for the future steadily advanced, despite the harsh business environment.

Although I have at times been frustrated following my appointment as President & CEO with today's situation in which I cannot visit overseas, or even domestic, business sites, I greatly appreciate our onsite employees for their conscious actions that have enabled us to maintain operations as normal. In this regard, I recognize that one of the most important roles I must fulfill is to communicate with onsite employees the need to understand and share the Long-term Vision, and to build a framework that encourages employees to undertake challenges in working toward our goals.

Under the assumption that COVID-19 will continue to have an ongoing impact, SEKISUI CHEMICAL Group will persist in working in unison as we boldly undertake challenges toward growth. Our first step will be to gear up toward achieving the goals under the final year of the current Medium-term Management Plan.

June 2021

President & CEO *Keiichi Kato*



## Message from the President & CEO

### Fiscal 2020: Despite the significant impact of COVID-19 during the first half, ongoing self-driven efforts to strengthen earnings power and an improving market environment led a recovery during the second half to the level of the previous year

Throughout the first half of fiscal 2020, the first year of the current Medium-term Management Plan, the Group experienced an across-the-board decline in profits among all segments due to the significant impact of COVID-19. During the second half, however, the High Performance Plastics (HPP) Company ultimately recovered to record increases in sales and profits compared with the previous year, while the Housing and Urban Infrastructure & Environmental Products (UIEP) companies managed to reduce the degree to which their profits declined and the Medical Business succeeded in achieving operating income nearly on par with the previous year. As a result, net sales for the full year declined 6.4% to ¥1,056.6 billion compared with the previous year, operating income fell 23.5% to ¥67.3 billion, ordinary income dropped 28.2% to ¥62.6 billion, and net income attributable to owners of the parent contracted 29.8% to ¥41.5 billion. Although the Group did not achieve the planned operating income of ¥70 billion, we managed to reduce fixed costs ahead of schedule and steadily strengthened earnings power.

By business segment, the HPP Company contributed significantly to the dramatic recovery during the second half by advancing portfolio reforms in the electronics field, broadening non-LCD-related products, and expanding sales of high-performance products in the mobility field. Although the Housing Company saw a significant decline in orders due to the impact of COVID-19 during the first quarter, in particular, orders recovered during the second quarter and beyond. Moreover, the Housing Company managed to reduce the extent to which profits declined toward the end of the period as a result of its year-long efforts to fortify its business structure. Meanwhile, the UIEP Company experienced ongoing delays in the recovery of domestic demand and continued sluggishness in sheet demand for aircraft during the second half. However, the UIEP Company strove to reduce the degree to which profit declined by focusing on driving forward cost reductions and making other structural reforms. Despite being significantly impacted by the decline in both Japan and overseas outpatient testing, as a result of expanding sales of COVID-19 test kits and new active pharmaceutical ingredients that began deliveries during the second half, as well as efforts to reduce costs, during the second half the Medical Business recovered to a level at which it was able to secure profits nearly on par with the previous year. As a result of these developments, and as initially planned, SEKISUI CHEMICAL Group paid our shareholders a second-quarter dividend of ¥23 and a period-end dividend of ¥24 per share, for an annual dividend of ¥47 per share for fiscal 2020. This represents a year-on-year increase of ¥1 per share and an 11th consecutive fiscal year of dividend growth.

Although the “Drive 2022” Medium-term Management Plan got off to a rocky start due to the impact of COVID-19, the slump in sales volume at this time was offset by our efforts to reduce fixed and other costs wherever possible, thereby enabling us to minimize the degree to which profits declined during the first year of the Plan. Among these efforts, our success in strengthening earnings power

is expected to connect a performance recovery during the next fiscal year and beyond. In working to strengthen the ESG management base, the Group investigated key ESG issues (materiality) and KPIs, which we were able to present to our stakeholders. Looking forward, we will firmly ground management in accordance with these KPIs within the Company.

### Fiscal 2021: Restoring business to pre-pandemic levels while addressing the new normal and establishing a path to achieving the targets of the Plan's final year

Although we assume COVID-19 will continue to have some degree of impact, during fiscal 2021 we will restore performance to pre-pandemic levels, and intend to use this year to establish a path to achieving the targets of the Medium-term Plan's final year. Despite the many uncertainties regarding the outlook for demand, including stagnated production of automobiles and electronics-related items due to the global semiconductor shortage, rising raw material prices, and a sluggish aircraft industry, the HPP Company will work to expand sales of environmentally friendly products and other high-performance products that match the sophisticated demands of our customers. Along with promoting product development tailored to a world living with COVID-19, the Housing Company will enhance negotiation capabilities corresponding to the new normal, including attracting customers via the internet. The UIEP Company and the Medical Business will focus on expanding overseas business in aims of raising profits while preparing for a recovery in domestic demand. Although I have sometimes received questions from investors about the possibility of revising the Medium-term Management Plan, at present we are not considering making any changes. Rather, the Group will, without doubt, achieve a performance recovery during fiscal 2021 in aims of meeting the schedule for the final year of the current Medium-term Management Plan.

I do not believe the world will ever fully return to its pre-pandemic state even after COVID-19 settles down, however. This is especially why I also maintain a strong sense of risk regarding the fact that companies cannot survive if they do not establish work styles that address the changes of the new normal. By ensuring the continuation into the future of the various schemes, efforts, new work styles, and methods of performing work that we implemented as a means of preventing the spread of infection during the pandemic, our efforts toward recovery will connect to success in the final year.

### The Long-term Vision, “Vision 2030,” incorporates the concept of “generating innovation that contributes to the Earth and people’s lives”

In May 2020, SEKISUI CHEMICAL Group announced its new Long-term Vision with an end goal of 2030. The Vision Statement of “Innovation for the Earth: In order to realize a sustainable society, we support the basis of LIFE and will continue to create ‘peace of mind for the future’” incorporates the

## Message from the President & CEO



unifying theme behind our strong, Group-wide commitment to contribute to society through innovation.

In other words, it highlights our determination to support the fundamental LIFE of individuals and society in the broadest sense of the term, encompassing the residential, life science, and infrastructure fields. In addition, it shows that we are determined to deliver the value of “peace of mind for the future” for current and future generations, through products and services backed by technology.

### Aggressively investing in growth domains in working toward profit expansion and efficient capital management

In the Long-term Vision, we proposed a net sales target of ¥2 trillion and a goal of doubling business by 2030. In addition, the Vision aims for sustainable growth that coincides with profits that aspire for an operating income ratio of at least 10%. Although this is a challenging numerical target that will be difficult to achieve through organic growth alone, we believe achieving this goal is entirely possible. However, this will require us to chart business expansion by nurturing new businesses and implementing M&As while carrying over past performance levels until 2030, specifically a CAGR

(compound annual growth rate) of more than 1% for domestic sales as in the previous Medium-term Management Plan from fiscal 2017 to fiscal 2019, and a CAGR of more than 11% for overseas sales as achieved from fiscal 2002 to fiscal 2019. In terms of M&As, in particular, we will primarily focus consideration on the mobility and medical fields while keeping an eye on overseas growth. Under the current Medium-term Management Plan, the Group established a budget frame of ¥300 billion, which enables us to aggressively investigate M&As if viable proposals emerge. Although the Company posted a net financial debt due to the acquisition of SEKISUI AEROSPACE CORPORATION in fiscal 2019, even if the entire budget frame established under the Medium-term Management Plan were procured through debt, the D/E ratio would still remain at approximately 0.2 and the Group would maintain financial soundness. In short, we will continue to make aggressive investments for growth while leveraging debt at the required timing. Meanwhile, when it comes to financing, the Group is also responsible for strictly managing and disclosing the degree of return that such financing generates, so the current Medium-term Management Plan adopts ROIC (return on invested capital) as a new key performance indicator.

In order to increase ROIC, we must improve the profit margin while at the same time boosting the turnover rate. In order to ensure sustainable growth going forward, we will place considerable importance on improving the accuracy of returns as we vigorously implement M&As and strategic capital investments. 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. For example, the Town and Community Development Business being undertaken by the Housing Company has a tendency to experience a lower ROIC over the short term due to high initial investment levels. In response, the Housing Company will thoroughly manage the turnover rate for purchased land as it increases the number of projects and expands the marginal profit. In regard to other businesses, the Group will also first seek to expand marginal profit and control fixed costs as a means of expanding profits, which serve as the numerator for ROIC, and raising the profit margin. We will also engage in more efficient financing through capital investments, M&As, and inventory adjustments.

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.

In this respect, we consider the cost of capital in a broader sense. In addition to appropriate financial strategies and capital policies, we have categorized major incidents under each of the five safety, quality, accounting, legal/ethics, and information management domains, which together help control the occurrence of events with the potential for devastating effects on corporate value. At the same time, we believe that investing for the future in the environment, human resources, digital transformation, and other ESG categories that are crucial to the Company, as well as properly disclosing information through IR activities, will help control the cost of capital in a broader sense of the term.

## Message from the President & CEO

### Expanding Products to Enhance Sustainability that serve to improve the sustainability of both solutions to social issues and growth for the Group

In working to achieve the Long-term Vision, we are committed to creating and expanding Products to Enhance Sustainability. These are products that contribute to a high degree to the sustainability of society in our four existing business domains (Residential, Advanced Lifeline, Innovative Mobility, Life Science), which enable the Group to take a multifaceted approach to the various issues faced by society, as well as in new business domains.

Ever since our founding, we have continued to manufacture products as a key component of our social contribution activities. Launched in fiscal 2006, our unique system for certifying Environment-Contributing Products, in short those products designed to help resolve environmental and social issues, has become a symbol of the Group's ESG initiatives. Since fiscal 2020, we have evolved our focus to look beyond efforts aimed simply at resolving issues and now place considerable emphasis on improving the management ability to sustain business, as well as on profitability. To reflect this evolution, we have revised and newly adopted the concept of Products to Enhance Sustainability, which will further improve the sustainability of both resolving social issues and ensuring growth for the Group. In fiscal 2020, sales of Products to Enhance Sustainability came to ¥640.3 billion, reaching a 60% share of the Group's total sales. Looking ahead, we will focus on promoting Products to Enhance Sustainability and work to increase their share of total sales to 66% by fiscal 2022, the final year of the Medium-term Management Plan.

### Perfecting technical skills and the ability to reform the business portfolio as a strength of the Company, and actively engaging in the fusion of internal and external resources

We maintain base technologies relating to Residential and Social Infrastructure Creation and Chemical Solutions, and have established these as a platform consisting of 28 technologies. One of our strengths is our process creation that encompasses the ability to listen carefully to customer feedback, select and combine the right materials in response to requests, impart added value by leveraging any number of these 28 technologies that are felt to be the best for the job, and apply our capabilities in providing solutions. Several representative examples include the SPR Method, which enables sewage pipes to be renovated without digging up the ground, and products that not only improve the comfort of automobile interiors, but also contribute to improved fuel efficiency and reduced CO<sub>2</sub> emissions, as with our sound insulation and heat insulation automotive interlayer films. Taking this approach and building long-term relationships of trust with our customers allows us to capture more new demands. And we believe that the very act of addressing these demands in an ongoing manner leads to sustained innovation for the Company.

Another one of our strengths is our management skill (Adaptability) in foreseeing changes in the

social and business environment, adapting to these changes, and advancing structural transformations of our business, as well as in reforming the business portfolio within each domain.

We believe that the act of specializing in areas where these strengths allow us to triumph, as well as our stance of boldly undertaking challenges, has supported the growth of the Company thus far.

Going forward, we will leverage these strengths while pursuing maximum synergies between the divisional companies. At the same time, we will accelerate open innovation through external alliances. Under the previous Medium-term Management Plan, we advanced the concept of "Fusion" in order to both generate approximately ¥40 billion in sales and to nurture an awareness of fusion as part of the mindset of our employees. We will continue aiming to maximize efficiency and synergies with a view to transforming existing business, the product portfolio, and the divisional company system.

Moreover, in preparation for long-term growth, we will aggressively and boldly cultivate domains peripheral to existing businesses and work to expand the business base through innovation. This move will include nationwide deployment of Town and Community Development, which brings together all of our technologies; Cell Culture Solutions and Medical Resins, which fuse the polymer and resin technologies held by the HPP Company and the technologies held by the Medical Business; and Independence from Fossil Fuels, which requires collaboration with local communities.

### Corporate governance maintains transparency and impartiality based on guidelines, capital policy increases efficiency, and the policy on proactively returning profits to shareholders is unwavering

Transparent, impartial governance is the foundation for advancing sound corporate management. In order to reinforce the supervisory function and receive management-related advice from a broad perspective, we have appointed three independent Outsider Directors among the 10 members of the Board of Directors. Our Board of Directors is chaired by the Representative Director and Chairman, who is a non-executive director. Under the Revised Corporate Governance Code (Revised CG) announced in June 2021, at least one-third of all Board members must now be Outsider Directors. Although the Group did not meet this standard during fiscal 2021, we recognize this is the result of having to put the right people in the right place. We will investigate ways to address this situation during fiscal 2022 and beyond, and have begun searching for suitable human resources to serve as independent Outsider Directors. Moreover, SEKISUI CHEMICAL Group has established the voluntary 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.

In addition, the Revised CG requires us to review the endowment effect of cross-shareholdings.



## Message from the President & CEO

Although we strategically hold shares of any major partners that are publicly-listed companies on a limited basis if doing so is judged to be beneficial and important when taking action to maximize growth in the medium- to long-term corporate value of the Group and the Company for which shares are held, our Board of Directors regularly reviews these holdings. Based on these reviews, we curtail any holdings that lack sufficient strategic benefits or are inconsistent with our capital policies.

Starting with the current Medium-term Management Plan, we will focus more intensely than ever on enhancing shareholder returns and have also clarified the policy for such. Although today's harsh business environment will continue into fiscal 2021, we intend to increase the annual dividend by ¥2 per share to ¥49 as a clear indication of the priority that we place on shareholders and in a bid to ensure a 12th consecutive period of dividend growth. At the same time, we will also ensure 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 given a D/E ratio of less than 0.5. And we will continue to aggressively return profits to our shareholders by achieving sustainable growth.

### Expanding opportunities for dialogue to instill the Vision in our employees

I myself was committed to how we could instill and embed the Long-term vision, Vision 2030, in our employees over the past year. Given that I have been unable to go to our business sites due to the impact of COVID-19, we held the Vision Caravan remotely as a location to engage in direct communication with our employees. In fact, I was able to directly convey the Long-term Vision to more than 2,300 SEKISUI CHEMICAL Group members through eight domestic and five overseas sessions. Post-session questionnaires indicated a very high level of understanding and a positive impression of my explanations regarding the Long-term Vision and the Medium-term Management Plan. This response gave me the solid sense that this approach is working. The sustainable growth of SEKISUI CHEMICAL Group, however, will rely on all employees gaining a deeper understanding of the concept that "ESG is work itself," and on the entire Group acting in unison to promote ESG management. Holding these dialogues allowed me to directly pick up on the enthusiasm of our employees in controlling major incidents through conscious action and on their strong spirit of undertaking challenges, and once again imparted upon me the importance of engagement. At the same time, they provided me with a solid sense that our efforts to enhance ESG management as the basis for sustainable growth are progressing steadily.

In fiscal 2021, we also launched the President's Blog on the intranet as a tool to further advance communication with our employees. Along with collecting comments and responses as feedback from our business sites regarding posts describing my own thoughts, positive remarks from our employees have encouraged me to further streamline communication within the Group. Instilling the Long-term Vision is not something we can do overnight. I will therefore continue to hold ongoing dialogue through Vision Caravan and this blog.



### As a company essential to society

Since our foundation, SEKISUI CHEMICAL Group has continued to grow on the basis of the trust we earn from society, working in diverse areas that bring fulfillment and peace of mind to people's lives, ranging from water and the medical field to vehicle safety, residential construction, and social infrastructure.

Modern society, however, is faced with a growing number of social issues as identified in the SDGs, and the modern era is one of wrenching change and uncertainty, including a rapidly accelerating transition to a carbon-free society. Against this backdrop, I am convinced that the path SEKISUI CHEMICAL Group must follow is that of pursuing the sustainability of society and the environment through solving issues. The Group will therefore firmly prepare for the issues and risks inherent in today's changing environment and society. At the same time, we will interpret the solutions to these issues as business opportunities, and will break down the barriers within and between companies as a means of concentrating information and creating innovation. And by aiming to balance the achievement of a sustainable society with sustainable growth for the Group based on ESG management, we intend to persist in serving as a company that is essential to society and that continues to provide peace of mind for the future through our products and services. As we work toward achieving our goals, we welcome expectations and ask for the continued support and understanding of all our shareholders and stakeholders.

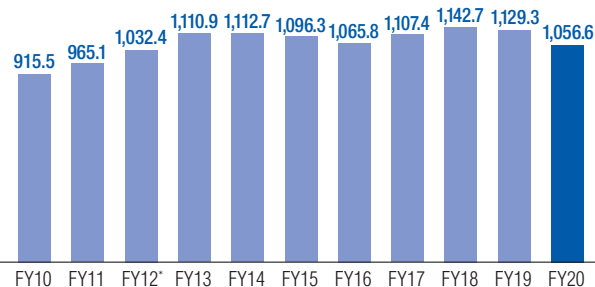
# Financial and Non-financial Highlights

▶ P.73 Review and Analysis of Consolidated Results for Fiscal (2020 Fiscal year ended March 31, 2021)

## Net Sales

(Billions of yen)

FY2020  
**¥1,056.6 billion**

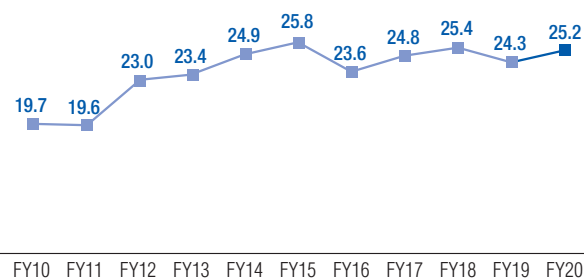


\*Includes impact from fiscal year changeover at overseas subsidiaries implemented in fiscal 2012.

## Overseas Sales Ratio

(%)

FY2020  
**25.2%**

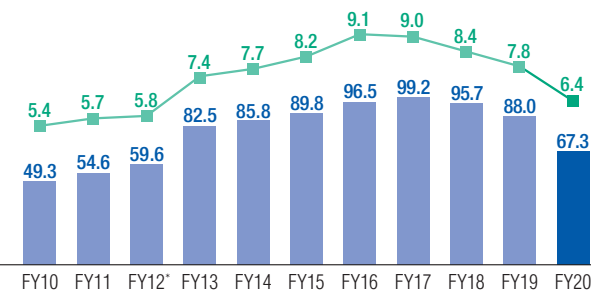


## Operating Income/ Operating Income Ratio

Operating Income (Billions of yen)  
Operating Income Ratio (%)

FY2020 Operating Income  
**¥67.3 billion**

FY2020 Operating Income Ratio  
**6.4%**

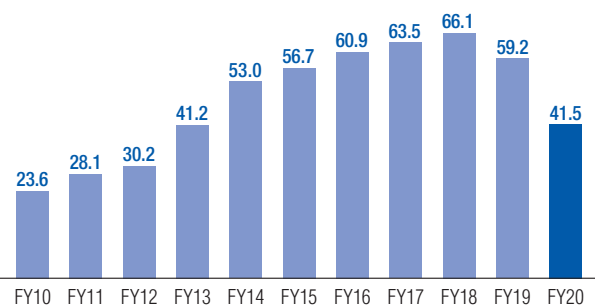


\*Includes impact from fiscal year changeover at overseas subsidiaries implemented in fiscal 2012.

## Net Income Attributable to Owners of the Parent

(Billions of yen)

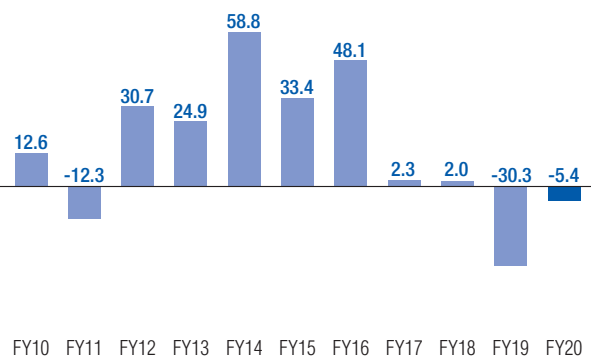
FY2020  
**¥41.5 billion**



## Free Cash Flow

(Billions of yen)

FY2020  
**-¥5.4 billion**

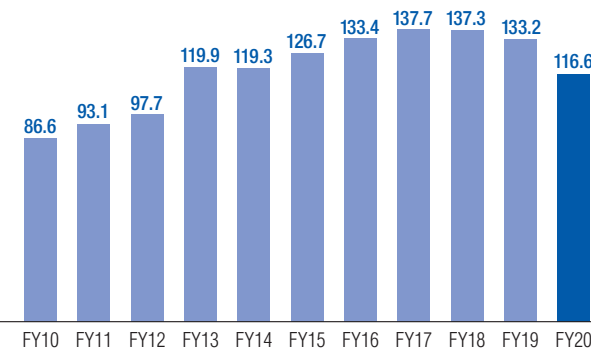


Free Cash Flow = CF Operating Activities + CF Investing Activities - Dividends Paid

## EBITDA

(Billions of yen)

FY2020  
**¥116.6 billion**



EBITDA = Operating Income + Depreciation and Amortization + Amortization of Goodwill

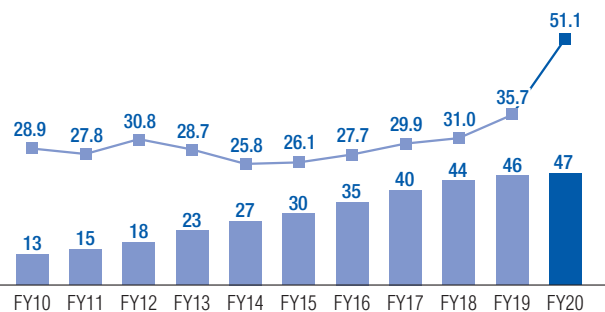
For the year ended March 31, 2021, the Companies completed the provisional accounting treatment related to a business combination.

As a result, certain amounts as of and for the year ended March 31, 2020, include items that were adjusted retroactively to reflect the revision of the initial allocated amounts of the acquisition price as the Companies finalized the provisional accounting treatment for the business combination.

## Financial and Non-financial Highlights

### Dividend per Share/ Dividend Payout Ratio

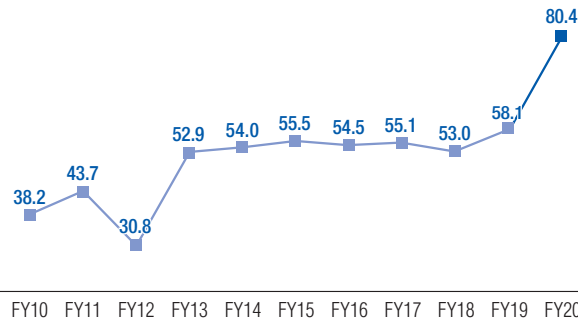
■ Dividend per Share (Yen)  
■ Dividend Payout Ratio (%)



FY2020 Dividend per Share  
**¥47**  
FY2020 Dividend Payout Ratio  
**51.1%**

### Total Return Ratio

(%)

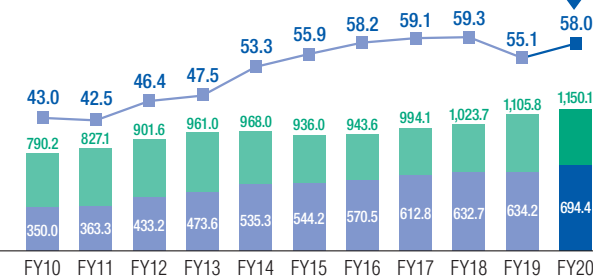


FY2020  
**80.4%**

Total Return Ratio = (Amount of Treasury Stock Acquired + Total Dividends)/Net Income Attributable to Owners of the Parent

### Total Assets, Net Assets, Equity to Total Assets

■ Total Assets (Billions of yen)  
■ Net Assets (Billions of yen)  
■ Equity to Total Assets (%)

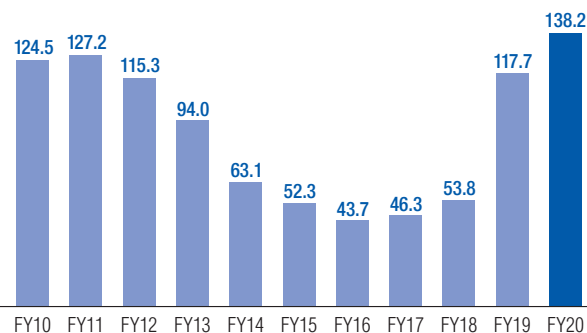


FY2020 Total Assets  
**¥1,150.1 billion**  
FY2020 Net Assets  
**¥694.4 billion**  
FY2020 Equity to Total Assets  
**58.0%**

Equity to Total Assets = Equity/Total Assets  
Note: "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 issued on Feb. 16, 2018) have been applied from the beginning of the fiscal year ended March 31, 2019 (FY2019). Major management indicators, etc., for the previous fiscal year have been calculated by retrospectively applying the accounting standard.

### Interest-bearing Debt

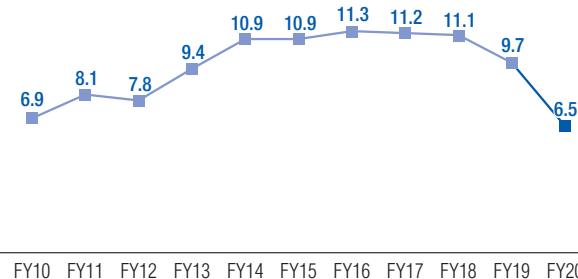
(Billions of yen)



FY2020  
**¥138.2 billion**

### Return on Equity (ROE)

(%)



FY2020  
**6.5%**

Equity = Shareholders' Equity including Accumulated Other Comprehensive Income  
Return on Equity = Net Income Attributable to Owners of the Parent/Average Equity

### Return on Invested Capital (ROIC)

(%)



FY2020  
**5.4%**

Return on Invested Capital (ROIC) = After-tax Operating Income/Average Invested Capital (Fixed Assets + Working Capital)

For the year ended March 31, 2021, the Companies completed the provisional accounting treatment related to a business combination.

As a result, certain amounts as of and for the year ended March 31, 2020, include items that were adjusted retroactively to reflect the revision of the initial allocated amounts of the acquisition price as the Companies finalized the provisional accounting treatment for the business combination.

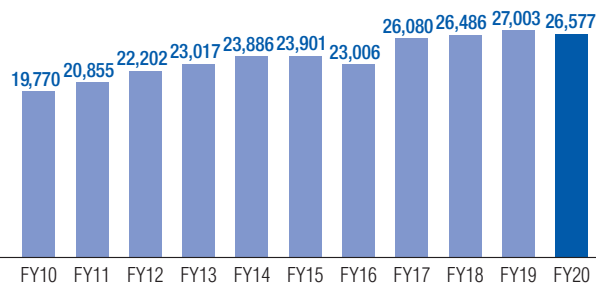


## Financial and Non-financial Highlights

### Number of Employees

(Number of persons)

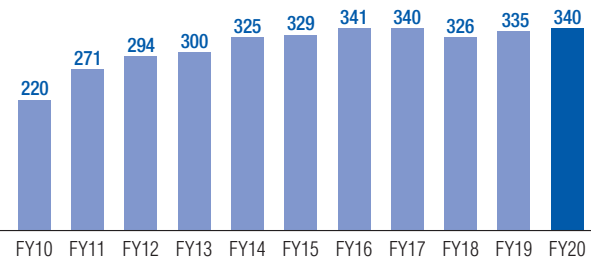
FY2020  
**26,577** people



### Global Talent Employees

(Number of persons)

FY2020  
**340** people

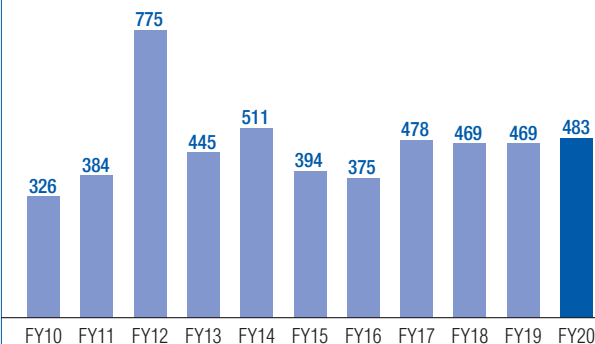


Global Talent Employees: Japanese employees with overseas assignment experience (including Global Trainees).

### Loss Costs

(Millions of yen)

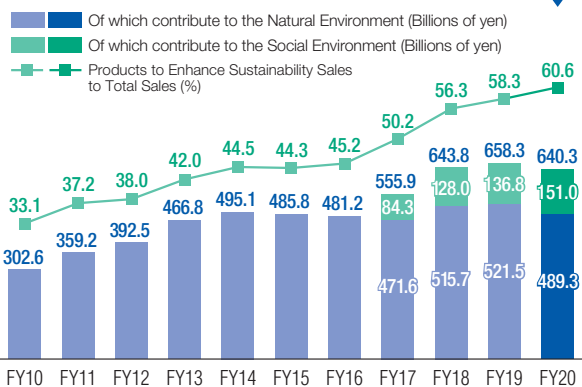
FY2020  
**¥483** million



Loss Costs: Domestic production site, R&D facility, Headquarters department, and indirect Company department expenses including man-hours required to respond to occupational accidents, equipment-related accidents, and commuting accidents as well as long-term illness absences.

### Net sales of Products to Enhance Sustainability

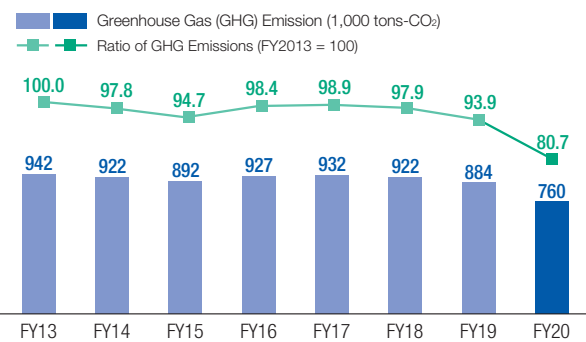
FY2020  
**¥640.3** billion



▶ P.58

### Greenhouse Gas (GHG) Emissions that arise from Business Activities

FY2020  
**760** (1,000 tons-CO<sub>2</sub>)

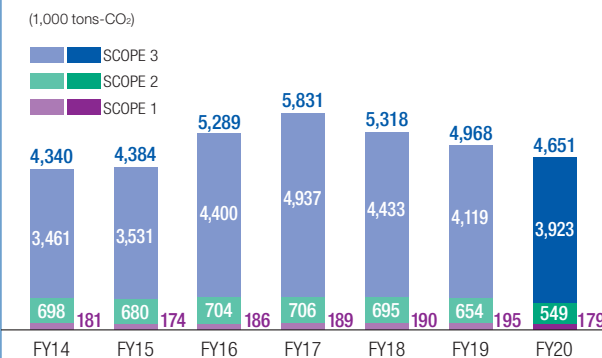


Past figures have been revised due to improvements in precision.

▶ P.60

### Greenhouse Gas (GHG) Emissions throughout the Supply Chain as a Whole

FY2020  
**4,651** (1,000 tons-CO<sub>2</sub>)



Note: Since fiscal 2016, transport energy accuracy has improved and the scope of tabulation of purchased products and services has been expanded in relation to SCOPE3; this resulted in the emissions known increasing substantially from the previous fiscal year. After including the effects of reducing energy consumption, emission volumes related to the "use of sold products" declined, and SCOPE3 decreased compared to the previous fiscal year for ZEH-specification housing from fiscal 2018.

▶ P.60