



Message from the President & 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 *Keita Kato*

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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

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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.

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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 CO₂ 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.

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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.