

Strengthening the ESG Management Base (Business Base Drive)

To realize its Long-term Vision, Vision 2030, SEKISUI CHEMICAL Group has identified internal control, digital transformation, environment, human resources, and fusion as key issues from the perspective of its ability to create profit, contribute to solving social problems, and achieve sustainable management, and is promoting ESG management under the fiscal 2020 to fiscal 2022 Medium-term Management Plan Drive 2022.

Key ESG Management Issues (Materiality), KPIs, and Target Values (FY2020-FY2022)

				KPI	Fiscal 2020 Results	Fiscal 2022 Targets			
Output		Products to Enhance Sustainability and Premium Framework		Drive the ability to create profit, contribute to solving social problems, and achieve sustainable management	Products to Enhance Sustainability and Premium Framework Net Sales	¥640.3 billion* Includes Premium Framework ¥329 billion*	¥800 billion Includes Premium Framework ¥440 billion	▶P.58	
Key Issues (Materiality)	Risk reduction/avoidance	Internal control	Reducing major incidents in the 5 fields		Prevent or minimize impact of major incidents on our corporate value	Number of major incidents in the 5 fields	0	0	▶P.69
			Safety	Quality					
			Business Continuity Planning (BCP)		Mitigate the impact of earthquakes, pandemics, and other incidents	BCP operating rate*	Selection of 143 target organizations in Japan and overseas	BCP operating rate 100%* (Establishment of PDCA)	▶P.68
	Investment for the future (Raising sustainability KPI)	DX		Become the Driver that Transforms Work Processes and Business Models	Direct/indirect net sales per employee	N/A	FY2030: Indirect productivity 40% increase Direct productivity 15% increase (from FY2019)	▶P.66	
		Environment		Addressing climate change	Renewable Energy as a Percentage of Purchased Power	7.2%	20%	▶P.60	
		Human Resources		Aim to be an excellent and vibrant company where employees thrive on challenges	Degree of challenging behavior expression	N/A	Managing initiative progress*	▶P.64	
Fusion		Promote Technology and Business Opportunities through Internal and External Fusion	Increasing net sales through fusion	+¥12.4 billion (from FY2019)	+¥50.0 billion (from FY2019)	▶P.67			

* Partially revised from financial results briefing materials disclosed on April 27, 2021

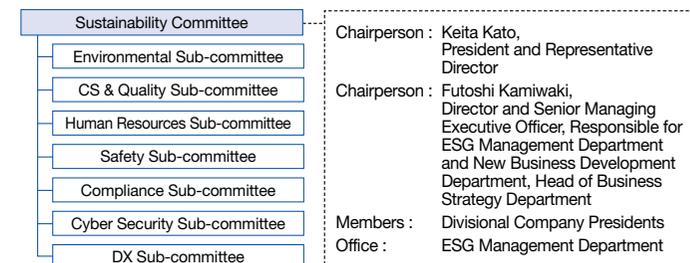
ESG Management Promotion Flow and Group-wide Expansion

The structure for the promotion of ESG management in the Group comprises the Sustainability Committee and seven subcommittees (“Environment,” “CS & Quality,” “Human Resources,” “Safety,” “Compliance,” “Cyber Security,” and “DX”). The Sustainability Committee seeks out the risks and opportunities that the Group might in the future be directly confronted with, and deliberates on Group-wide policy and strategy. The important matters and Group-wide risks that have been determined are reported and deliberated upon by the Board of Directors, and then provided to the entire Group through each subcommittee.



*2 Management ability to sustain business KPI: SEKISUI Sustainable spread

Sustainability Committee / Sub-committee Structure



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Products to Enhance Sustainability and Premium Framework to Realize Vision 2030

SEKISUI CHEMICAL Group aims to grow as a company by making a greater contribution to solving social issues, particularly SDGs, through its core products and by working to create and expand Products to Enhance Sustainability in order to increase the sustainability of the Earth, society, the Group, its products, and the customers who use them.

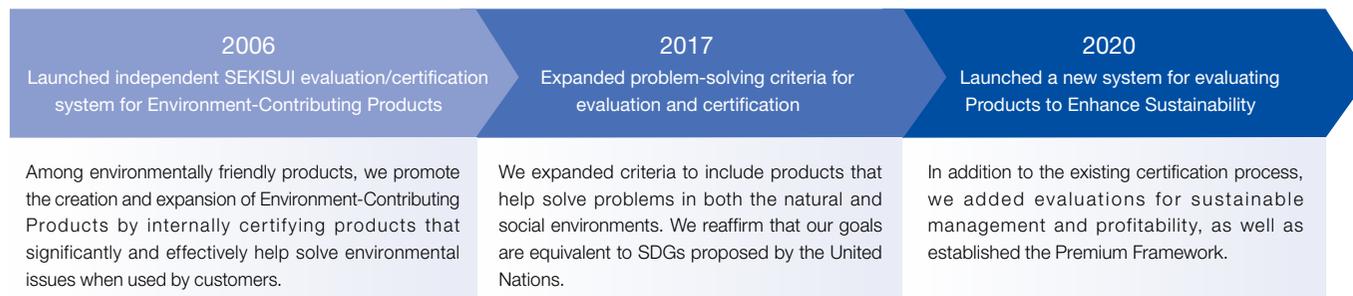
Launch System for Evaluating Products to Enhance Sustainability

Vision 2030 aims to realize a sustainable society and sustainable corporate growth. To this end, we launched from fiscal 2020 the Products to Enhance Sustainability system, an evolution from the

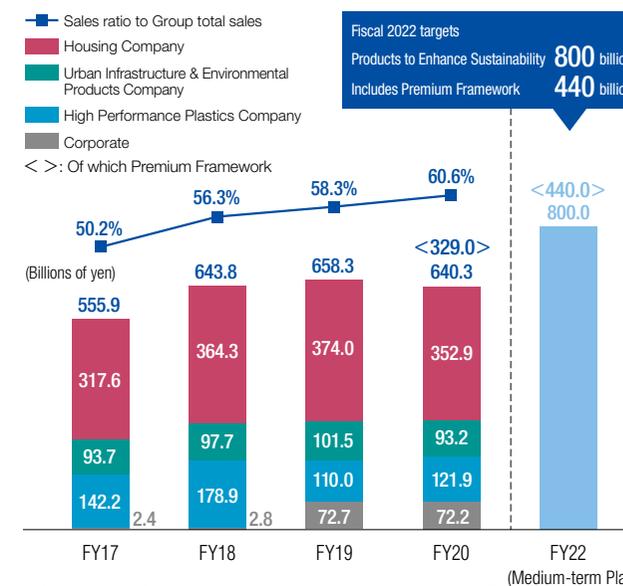
existing Environment-Contributing Products system. Under the new system, we conduct additional sustainability confirmation assessments from the perspectives of internal control, supply chain management, customer satisfaction, and profitability in order to improve our sustainable management capabilities. In addition, we have newly established the Premium Framework for strategic growth in line with our business portfolio in order to increase profitability.

Products to Enhance Sustainability are certified and registered based on internal criteria. We accept the opinions and advice of outside advisors with various backgrounds in industry, government, and academia regarding these criteria, approaches, and the validity of results in order to ensure high standards and transparency.

Evolution of System for Evaluating Products to Enhance Sustainability

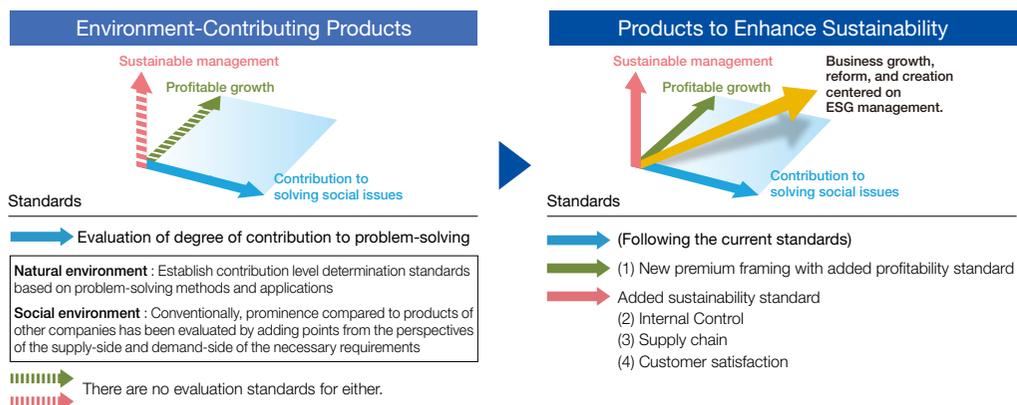


Products to Enhance Sustainability Net sales/Sales Ratio



Typical Premium Framework products
 ZEH-specification housing (Housing), FFU (UIEP)
 HUD+ insulation interlayer films (HPP), blood coagulation/POC/
 pharmaceutical ingredients (Medical)

Changes in Evaluation Criteria for Contributing Products



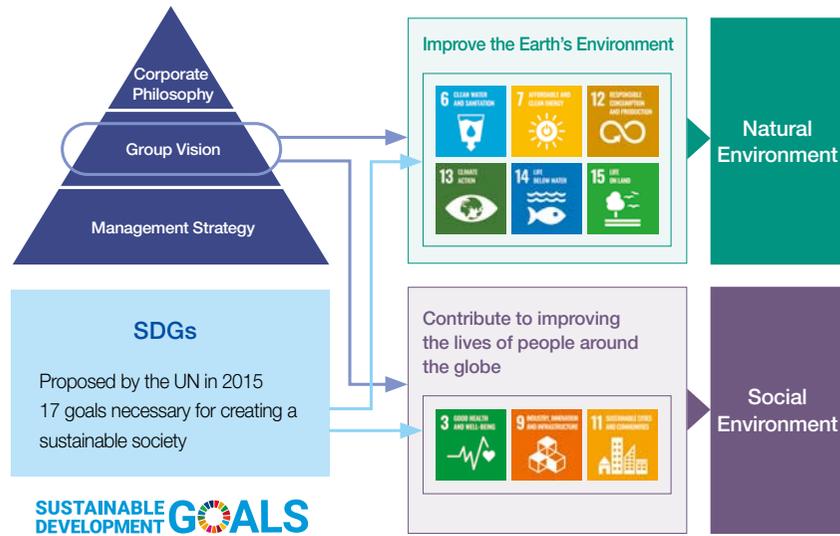
Evaluations to Verify Sustainability

<p>Internal Control Is there a business plan or framework in place for handling accidents or disasters which have serious business impacts that also considers issues such as safety, the environment, quality, compliance, and human rights?</p>	<p>Customer Satisfaction In what ways do quality or service appeal to the customers who use Company products, how satisfied are they, and what kind of requests do they have?</p>
<p>Supply Chain Management Are there structures or frameworks in place to prevent accidents or disasters which have serious business impacts on both this Company and the product-related supply chain?</p>	<p>Profitability How much room is there to grow and what potential does the business have?</p>

Strengthening the ESG Management Base (Business Base Drive)

Reference Products to Enhance Sustainability Certification

Products to Enhance Sustainability Definition



Social Environment Contribution Certification Criteria (Excerpt)

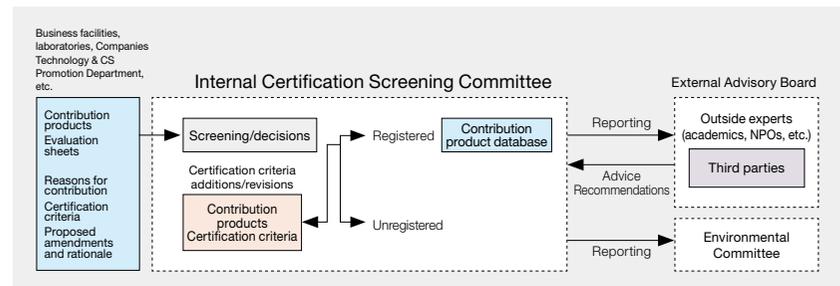
Judgement criteria*	Social environment contribution impact
Promote health and well-being	Prevent the spread of disease (illness detection/prevention)
	Support the independence of the elderly and those in need of care
	Support the independence of people with disabilities
	Minimize burdens on caregivers
	Improve comfort/hygiene
	Raise awareness of healthy habits
Build resilient infrastructure	Mitigate natural disaster risks
	Improve working conditions, including in supply chains
	Develop and provide infrastructure
	Enhance responses to disasters and emergencies
Promote sustainable cities and residences	Enhance resilience to disasters and emergencies
	Support low-income countries
	Improve sustainability of residences and livelihoods
	Improve livelihood safety
	Make residences and livelihoods more comfortable
	Invigorate local communities

Note: Social environment contribution products are those that significantly contribute to the above three criteria, while other products are judged based on internal judgment criteria that reflect the 17 SDGs as necessary.

Natural Environment Contribution Certification Criteria (Excerpt)

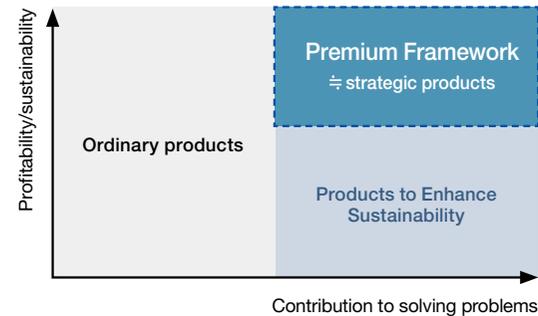
Judgement criteria	Natural environment contribution impact
Reduce GHG emissions	Increase energy conservation performance
	Use unutilized energy
	Find alternatives to freon gas
	Reduce use in product lifecycles
	Reduce the use of fossil resource-derived plastics
	Develop energy creation/storage functions
Reduce waste	Implement energy management in urban spaces
	Conserve energy in customer production processes
	Increase durability (extend service life, etc.)
Reduce raw materials use	Adopt low volume waste methods
	Reduce scrap, defects, and unnecessary materials
	Conserve raw materials
Conserve water/aquatic environments	Use recycled resources (waste from other products)
	Horizontal recycling of materials collected internally
	Reduce clean water usage volume
Prevent pollution	Reduce water usage volume
	Reduce water leakage
	Circulate water through rainwater filtration
Preserve biodiversity	Prevent pollution via purification
	Shift to low VOC
	Use certified forest timber
	Use thinned timber
	Use of biodegradable materials
	Prevent topsoil erosion
	Prevent desertification
	Conserve wetlands
	Promote tree planting
	Prevent marine/river pollution
Conserve species/genes	
Prevent/mitigate disasters	Disaster-resistant materials
	Help lower environmental burdens via raw materials, components, materials

Products to Enhance Sustainability System Operation/Certification Method



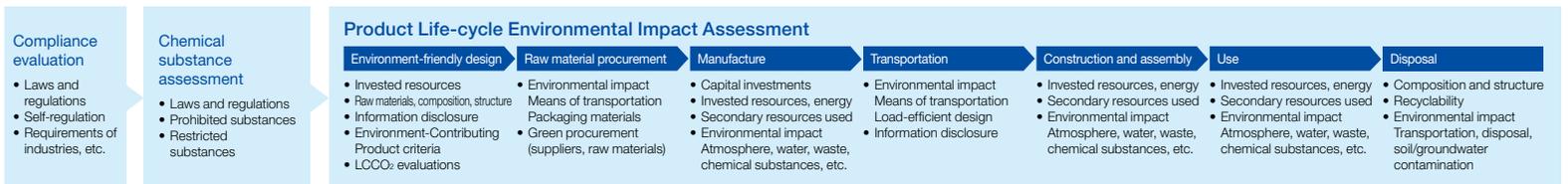
Internal Certification Screening Committee: comprises Corporate HQ centered on ESG Management Department

Products to Enhance Sustainability Concept



Conduct Product Environmental Impact Assessments

SEKISUI CHEMICAL Group conducts environmental impact assessments during product planning, development, and all life-cycle stages. Based on this, the Group determines the degree of contribution to solving social issues based on internal standards when certifying Products to Enhance Sustainability after release.



Strengthening the ESG Management Base (Business Base Drive)

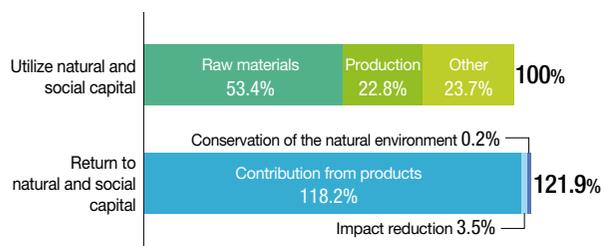
Environment – Addressing Climate Change

SEKISUI CHEMICAL Group utilizes natural capital while conducting its business activities. In addition to the analyses of risks and opportunities in response to climate change, the reduction of greenhouse gases (GHGs), and the introduction of renewable energy to balance global environmental conservation and sustainable business, we are promoting initiatives aimed at reducing environmental impact, such as resource recycling and the protection of water resources.

Long-term Environmental Management Vision and Environmental Medium-term Plan

SEKISUI CHEMICAL Group is working on environmental issues from a long-term viewpoint toward the realization of a sustainable society. Toward the realization of earth with maintained biodiversity, we drew up the long-term environmental management vision Sekisui Environment Sustainability Vision 2050, which envisions the ideal for 2050, and from that ideal are setting the goals for each environmental medium-term plan by backcasting and implementing each measure. In the medium-term environmental plan SEKISUI Environmental Sustainable Plan Accelerate II, which runs from fiscal 2020 to fiscal 2022, climate change, water risk, and resource recycling were defined as priority environmental issues. To accelerate efforts to resolve these issues, we are enhancing supply chain management over product life cycles and deploying measures. To maintain awareness of improvements in ROIC, we also utilize environmental accounting to invest in the environment, control costs, and improve productivity.

Integrated Index SEKISUI Environmental Sustainability Index



Note: The SEKISUI Environmental Sustainability Index represents the impact on the environment caused by the activities of SEKISUI CHEMICAL Group (the use of natural capital) and their degree of contribution to the environment (returns to natural capital) as a single indicator. The Ratio of return to natural capital indicated by this index is used as an index by which to monitor the progress of environmental management.

	FY2020 (Result)	FY2022 (Medium-term Plan)
Ratio of Return to Natural and Social Capital	121.9%	Maintain 100% or more

Efforts to Address Climate Change

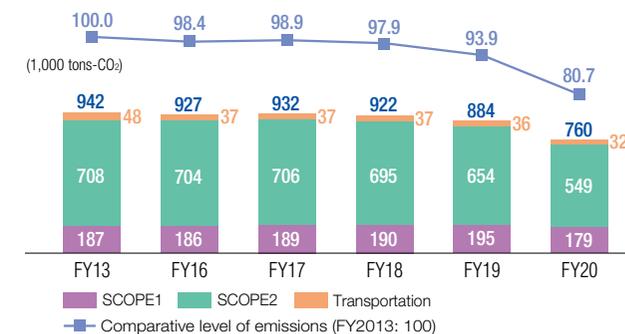
To accelerate climate change mitigation and adaptation measures, as well as to strengthen risk assessment from a long-term perspective, in information disclosure based on the recommendations of the TCFD (disclosure of weather-related financial information), to which SEKISUI CHEMICAL Group gave its approval in 2019, we assumed four scenarios centered on climate change of 2°C and 4°C, as well as centralization versus diversification of company-wide businesses, while analyzing the risks and opportunities in each scenario. In aiming for zero GHG emissions, we have been accelerating our efforts since fiscal 2020 to reduce risks by converting the purchased electricity used in production activities to renewable energy, and converting risks into opportunities by strengthening sales of low-carbon products such as net-zero energy house (ZEH) specification housing. Having set the long-term goal of reducing GHG emissions from our business activities to zero in 2050, we conducted further backcasting and placed the milestone for making the switch to 100% renewable energy for purchased electricity in 2030. To this end, we will utilize the SMART HEIM DENKI power trading service and the ESG investment limit newly established in fiscal 2020 to promote the conversion to renewable energy.

Medium- to long-term targets for GHG reduction

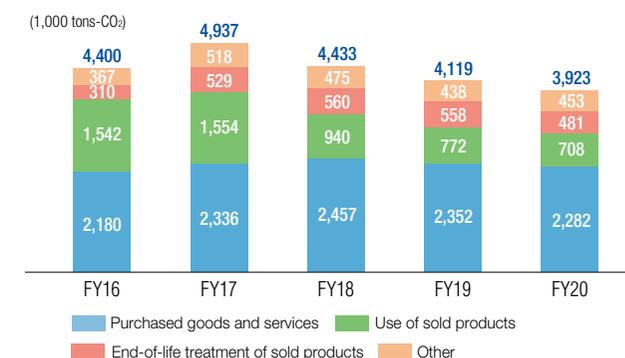
Item	Index	Fiscal 2020 Results	Medium-term Target (FY2022)	2030	2050	Notes
Reduction of GHG Emissions	Rate of renewable energy of purchased electricity	7.2%	20%	100%	(Convert all energy used to renewable energy)	Join RE100
	Reduction in GHG emissions generated by business activities	19.3% reduction (vs. FY2013)	Reduction of 9% or more (vs. FY2013)	Reduction of 26% or more (vs. FY2013)	Zero GHG emissions	Acquisition of certification from Science-Based Targets (SBT) Initiative (until 2030)
	Reduction in GHG emissions in supply chain	Reduction of 10.8% (vs. FY2016)	—	Reduction of 27% or more (vs. FY2016)	—	
Energy Savings	Energy use per unit of production	Reduction of 0.4% (vs. FY2019)	Reduction of 3% or more (vs. FY2019)	—	—	

▶ Please see TCFD Report 2021 for detailed information on our efforts to addressing climate change.

Greenhouse Gas (GHG) Emissions That Arise from Business Activities



Supply Chain Greenhouse Gas (GHG) Emissions (SCOPE3)



Strengthening the ESG Management Base (Business Base Drive)

Environment

Effect of Issues Related to Climate Change on Businesses and Strategies

Climate change risks can also offer opportunities. In response to medium- to long-term climate change risks, we reduce risk with respect to products and services, supply or value chains, R&D investments, and operations while planning strategies and plans so that we can turn them into opportunities.

Case Study: SMART HEIM DENKI Power Trading Service

<Risks>

Impeding the spread of solar panel installation due to the end of the feed-in tariff (FIT) system

<Measure to turn risk into opportunity>

Launch of SMART HEIM DENKI power trading service

SEKISUI CHEMICAL Group purchases surplus energy produced by its customers with solar-equipped housing via its SEKISUI HEIM DENKI power trade service, which is then used in the Group's domestic factories and business sites, as well as sold to other SEKISUI HEIM customers. As of the end of December 2019, the number of applications for the surplus electricity purchase service exceeded 13,000. In addition, from March 2020, we started supplying power from equipment that has graduated from the FIT system to Hokkaido Sekisui Heim Industry Co., Ltd., and Sekisui Heim Industry Co., Ltd.'s Chubu Office.



Case Study: Raw Materials Suppliers

<Risks>

Fluctuations in raw material costs due to tightening of climate change-related regulations. Supply risk due to natural disasters and other factors.

<Measure to turn risk into opportunity>

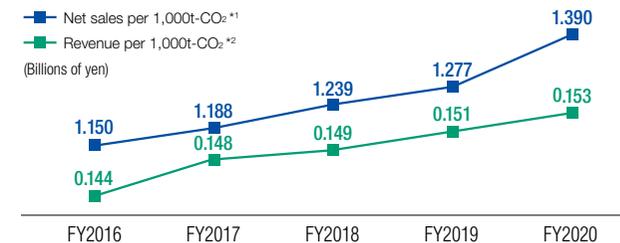
From fiscal 2018, encouraged raw materials suppliers to promote reduction of GHG emissions. In giving consideration to disaster risk, we are building a purchasing system from multiple raw materials suppliers and also examining relocating production bases in areas where risks such as serious natural disasters are expected.

Effects of Climate Change Efforts on Management

We compared carbon efficiency (environmental) and economic efficiency to see how efforts that contribute to climate change mitigation and adaptation are affecting management. First, the relationship between GHG emissions, sales, and EBITDA is shown by changes in net sales per 1,000t-CO₂ and revenue per 1,000t-CO₂. As a result, both sales per GHG emissions and EBITDA from business activities are on the rise, confirming that management based on an ambitious carbon-neutral strategy is heading in the right direction. For the years to come, we are also starting to consider bringing forward the 2030 milestone toward zero GHG emissions in 2050. In fiscal 2020, a slight decline in carbon efficiency in the entire supply chain was confirmed due to the influence of the COVID-19 infection. Although the rate of increase was small compared to the carbon efficiency due to business activities, while reducing the environmental load (GHG emissions) on the entire supply chain we were able to confirm an increasing trend in profits. To reduce GHG emissions under SCOPE3, we acquired SBT certification for sales and set long-term targets and believe that continuing this will be effective in improving carbon efficiency.

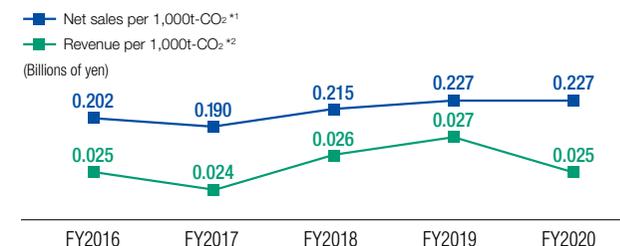
When we took the correlation between EBITDA/sales (economy) and sales/GHG emissions (environment), we were able to confirm that we would improve net sales per 1,000t-CO₂ while maintaining profit stability until fiscal 2020. Amid physical and regulatory risks that are expected to increase, if we could develop a strategy that reflects this improvement in net sales per 1,000t-CO₂ in economic profitability, it would be possible to turn risks into even greater opportunities. We were able to reconfirm that the potential for future profitability is increasing in comparison with current profitability. Looking toward the goals based on the long-term vision for fiscal 2030, it has also been suggested that there is a need to accelerate improvement in carbon profitability by further innovations and initiatives. We are working to convert purchased electricity to 100% renewable energy in 2030 and believe that improving carbon profitability by accelerating our efforts will be important for the realization of carbon-neutral management.

Carbon Efficiency due to Business Activities



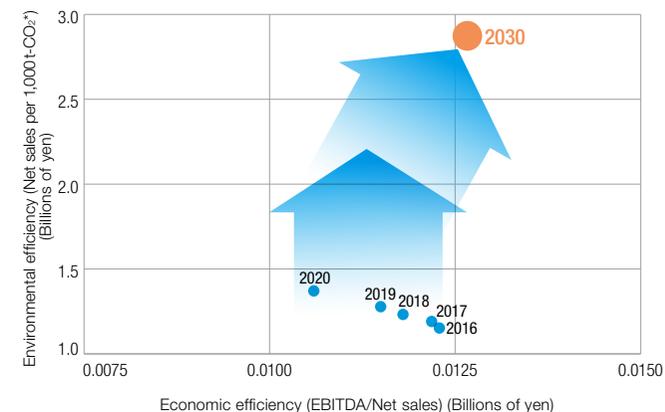
*1 Net sales per 1,000t-CO₂: Net sales (Billions of yen) / GHG emissions (Thousands of tons-CO₂)
 *2 Revenue per 1,000t-CO₂: EBITDA (Billions of yen) / GHG emissions (Thousands of tons-CO₂)

Carbon Efficiency throughout Supply Chain



*1 Net sales per 1,000t-CO₂: Net sales (Billions of yen) / GHG emissions (Thousands of tons-CO₂)
 *2 Revenue per 1,000t-CO₂: EBITDA (Billions of yen) / GHG emissions (Thousands of tons-CO₂)

Correlation between Economic Efficiency and Environmental Efficiency

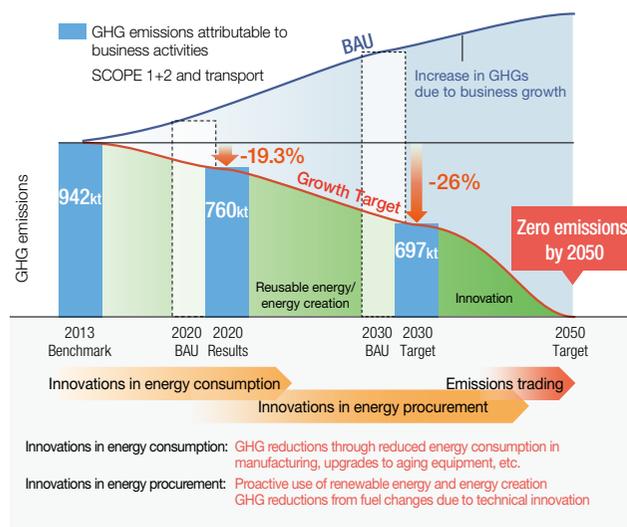


* Revenue per 1,000t-CO₂: GHG emissions (Thousands of tons-CO₂) due to net sales/business activities

Strengthening the ESG Management Base (Business Base Drive)

Environment

Roadmap to Reducing GHG Emissions and Initiatives



Under the previous Medium-Term Environmental Plan (2017–2019), we promoted initiatives that focused on manufacturing and the renewal of aging production equipment as innovations in energy consumption. From 2020, we are in the innovations in energy procurement stage. By making purchased electricity 100% renewable energy in 2030, we aim to achieve a 26% reduction compared with 2013. In fiscal 2020, solar power generation equipment was installed at 10 offices in Japan and overseas, and the total power generation output reached 6.3 megawatts.

In addition, the power purchased from outside has been switched to 100% renewable energy at eight domestic and overseas offices, and in fiscal 2020 the renewable energy ratio of purchased electricity was 7.2%, including private power consumption from solar power generation. We also strategically set an environmental investment limit for three years from 2017 and in particular have established and promoted Environment-Contributing Investments Incentive Program relating to reductions in GHG emissions. A form of internal carbon pricing, this is a program by which SEKISUI headquarters provides financial support to investing departments at ¥30,000 for each CO₂ ton equivalent of GHGs reduced through investment. The CO₂ reductions from these investment projects are increasing year by year as equipment upgrades are completed, and are continuously contributing to the reduction of GHG emissions from SEKISUI CHEMICAL Group's manufacturing.

We are aiming to reduce GHG emissions in the supply chain (SCOPE3) by 27% in 2030 compared with fiscal 2016. Our GHG emissions that fall under the SCOPE3 category are highest at the raw materials procurement as well as purchased products and services stages, and we recognize that the procurement of raw materials stage is due to the characteristics of our business as a chemicals manufacturer. To address this issue, in 2018 we began reviewing our procurement standards to ask raw material suppliers to set GHG emission reduction targets and make progress on these targets, as well as to monitor the GHG emissions of raw material suppliers through the CDP Supply Chain Program to provide opportunities for dialogue and collaboration on reduction. In addition to calculating GHG emissions and disclosing data, we actively exchange practical information with raw materials suppliers regarding long-term targets and reduction measures and have built relationships to promote mutual reductions. We are also aiming for a 20% reduction in 2030 by switching to biomaterials and recycled materials. Moreover, we intend to reduce emissions of purchased products and services, which account for more than 50% of SCOPE3, by 50% in 2030 by expanding sales of ZEH-specification houses.

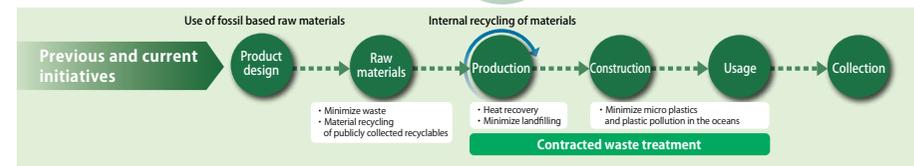
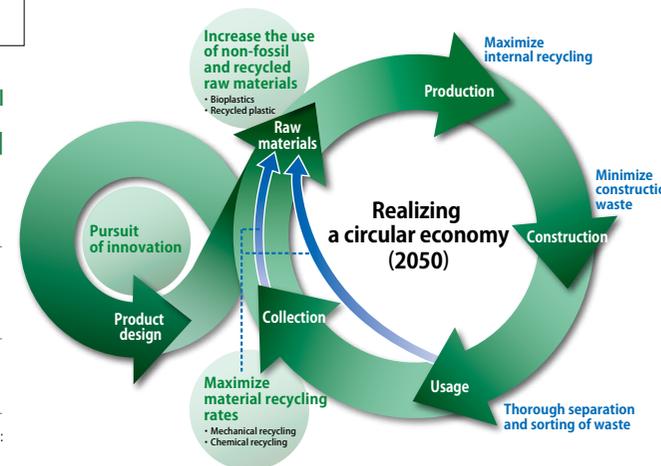
Roadmap for Achievement of Long-Term Resource Recycling Goal

		FY2022 Targets	By 2025	By 2030
Business Strategy	Net sales of Products to Enhance Sustainability that contribute to resource circulation*	1.1 times	1.3 times	Double or more
Raw material resource conversion	Net sales of products not derived from fossil fuels and those for which recycled materials were used	¥3.0 billion	¥10.0 billion	¥100.0 billion
Recycling of waste products	Rate/ratio of waste plastic recycled into new materials	Grasping current conditions and setting benchmarks	Double	100%

* Benchmark for net sales of Products to Enhance Sustainability that contribute to resource circulation: ¥296.0 billion (FY2020)

Initiatives for Resource Recycling

In fiscal 2020, we formulated a resource recycling policy and, for the realization of a circular economy in 2050, a resource recycling strategy and roadmap. We also consider this an important strategy to shift to low-carbon products that will boost climate change mitigation in their life cycles. Since products that contribute to resource recycling are low-carbon products, we consider this a core strategy for products that will assist in resolving climate change issues. As an indicator, we have set a goal of increasing sales by 10% in fiscal 2022, against the fiscal 2020 benchmark for net sales of Products to Enhance Sustainability that contribute to resource circulation of ¥296.0 billion, and more than doubling that figure by 2030. Considered as an aspect that should be accelerated in product innovation that contributes to resource recycling is the conversion of plastic raw materials to non-fossil-derived and recycled materials, and sales of these are set to increase by 10% in 2022 from ¥3.0 billion in 2020, and we have also set a goal of 30 times by 2030.



Environment

Addressing Water Risk Issues

With regard to water risk issues, we have established two goals—minimizing the water risk at SEKISUI CHEMICAL Group and contributing to the resolution of water-related issues in local communities—while reducing the water intake volume of the entire group. In addition to promoting recycling, we are also focusing on improving the chemical oxygen demand (COD) index for the quality of water discharged into rivers. As a specific measure, we will select locations/suppliers where the business impact is substantial as well as locations where the water risks are substantial and minimize the environmental impact by 2030.

The situation and challenges of water resources are highly localized and contradictory to working toward a uniform global goal. Understanding the risk that our ongoing business will have on water resources located in close proximity to our business sites, we are engaging in business activities while being conscious that we utilize water in a sustainable manner as a shared regional resource.

Water intake volume at production sites in fiscal 2020 decreased by 3.7%, relative to results in the base year of fiscal 2016, while the COD volume of water discharged into rivers decreased 11.8% on the same basis. This was due to the decrease in production brought about by the COVID-19 pandemic, but taking into consideration the reduction measures targeting the three SEKISUI CHEMICAL Group production sites with the highest discharged wastewater COD volumes and the highest water intake, which include the Shiga-Mizuguchi Plant that accounts for about 30% of all domestic business sites, the effects of capital investments using the environmental contribution investment framework have been realized since fiscal 2019.

Examples of capex using the environmental contribution investment framework

	Site	Reduction strategy	Result
Reduction in water intake	Shiga-Minakuchi Plant	Introduction of filtration equipment allowing the reuse of recycled wastewater as coolant Strengthened management and promoted visualization of water use at the facility	Reduction of 9%
	Sekisui Medical Co., Ltd., Iwate Plant	Achieve 10% reduction through automation of industrial water intake adjustment system	Reduction of 10%
Reduction in wastewater COD volume	Sekisui Nano Coat Technology Co., Ltd.	Improve treatment capacity by upgrading wastewater treatment facilities	Reduction of 25%

Reference: SEKISUI CHEMICAL Group's Water-related Businesses

SEKISUI CHEMICAL Group develops a range of businesses related to water infrastructure, such as the supply, storage, and drainage of water, contributing to society not only by technologies and products that help to improve the quality of drainage, such as water treatment systems and drain pipes, but also by creating strong water infrastructure made to withstand natural disasters.

ESLON HYPER AW Polyethylene Piping for Building Pipework



Featuring excellent flexibility, ESLON HYPER AW prevents damage and water leakage due to earthquakes and land subsidence, thereby providing a stable supply of water.

High Flowrate Drainage System



A siphon-type rainwater drainage system. This product secures a sufficient amount of drainage to cope with torrential rain without increasing the pipe diameter.

ESLON RCP Reinforced Composite Plastic Pipe



This product is lightweight and can be installed even in places where the ground is loose. Widely utilized in, for example, agriculture, airport facilities and hydroelectric power generation. Rainwater can be stored in the pipe, thereby contributing to measures against torrential rain in towns and buildings.

SPR Sewerage Pipeline Rehabilitation Method



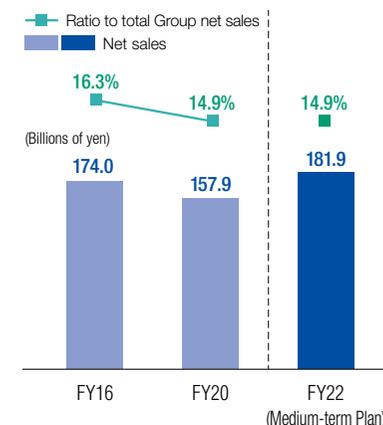
A method for renewing aging sewerage pipes through work on the inner-layer of existing pipes without the need to dig up the road. The method also enables construction by small numbers of people and in a short period of time while greatly reducing waste outflow.

Cross-Wave Rainwater Storage System



This product regulates the rain volume flowing into sewer systems during torrential rains. The system assists measures to prevent chronic water shortages in Asian countries, the recycling of rainwater for the greening of urban areas, and disaster prevention, as well as a disaster countermeasures in floods.

Water-related Business Net Sales Trends



Human Resources – Aim to be an excellent and vibrant company where employees thrive on challenges

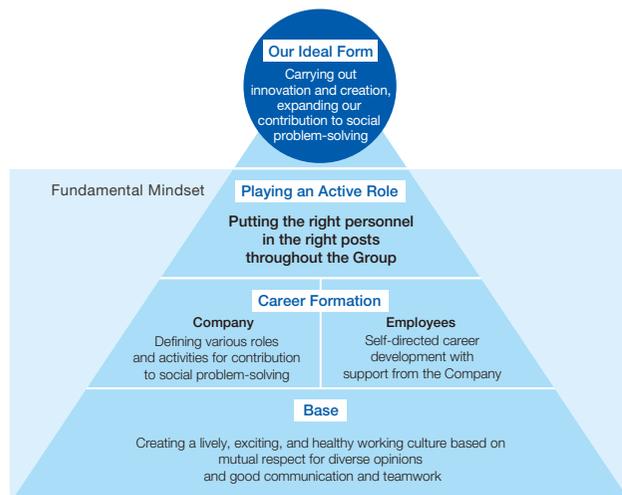
SEKISUI CHEMICAL Group aims to be an entity that gives rise to innovation and creativity, brings employees and the Company together in the drive to tackle social issues, and contributes to finding solutions to those issues. We share this commitment Group-wide while promoting the creation of workplaces that are full of energy and enthusiasm.

▶ Please see **Vision Management** in the Human Resources section of our CSR Report 2021.

Stance toward Human Resources

Based on our belief that “employees are precious assets bestowed on us by society,” we offer various opportunities through which we help individual employees to pursue their own careers and enhance their “unique skills” while taking on the challenge of working together with employees to help solve social problems by creating opportunities to pursue various socially significant missions and challenges. At the same time, we are striving to ensure that our workplaces are vibrant and enable diverse personnel to take on challenges and play active roles.

Human Resources Management Principles



Human Resource Promotion System

Reporting to the Sustainability Committee, the Human Resources Subcommittee is chaired by the managing executive officer who heads the Human Resources Department and composed of executive officers and the heads of human resources departments selected from each divisional company. In fiscal 2020, the Human Resources Subcommittee carried out deliberating, determination, and monitoring measures with regard to diversity, work-style reforms, and health management.

Vision Management and KPIs

To realize our Long-term Vision, we are working on the measures shown below toward becoming a vibrant company that encourages employees to take on challenges and the “realization of a challenge-oriented corporate culture” under the ESG Medium-term Plan (fiscal 2020 – fiscal 2022).

- Implement the Long-Term Vision, deepen ESG management
- Transform to a challenge-oriented corporate culture
- Shift to human resources management based on having the right person in the right place

To realize our Long-term Vision, it is important for each and every employee to demonstrate their abilities and break free from convention while continuously taking on challenges. We will therefore regard the degree of challenging behavior expression as a KPI in terms of human resources and measure the level by questionnaires and other means while aiming for improvements. In addition, in order to rollout the Long-term Vision, managers essential to workplace operations drew up a vision for their own organizations, engaged in dialogue with members in the form of a “workplace workshop,” and incorporated this vision into the vision of each department and in business plans for the fiscal year. SEKISUI CHEMICAL Group will engage in two-way communications based on a three-year roadmap that communicates new messages from executive management based on feedback from this discussion, in the form of team member impressions and opinions.

Efforts to Deepen Engagement

SEKISUI CHEMICAL Group periodically conducts an engagement survey targeting all employees. The results of the survey conducted in fiscal 2019, which were analyzed and examined by the Business Strategy Department and the Human Resources Department, served as the basis for formulating the current Long-term Vision and Medium-term Management Plan. For the express purpose of deepening engagement in fiscal 2020 we launched the Engagement Drive Project, in which the human resource departments of each organization served as members and worked on themes that included productivity improvement and institutional reform.

Clarification of missions and roles and a shift to a role-based system for human resources (to be revised in fiscal 2022)

Through backcasting, we are clarifying the various missions and roles that are necessary to achieve the ideal forms. We are also supporting and assigning employees who will take on challenges and improve themselves regardless of their age or year of employment. At the same time, we are advancing preparations for a system revision in fiscal 2022 to shift to a system for human resources that ensures that the right person is in the right place. In line with the purpose of the human resource system revision, we will extend the retirement age from 60 to 65 from October 2021 to increase opportunities for active participation regardless of age.

SEKISUI CHEMICAL (Non-consolidated) Human Resources System Revision Roadmap

Measure	FY2020	FY2021	FY2022
Shifting to right person in the right place human resources management	Consideration of a new human resources system	Trial of a new human resources system	Implementation of a new human resources system

Development Initiatives

We are working to foster diverse human resources throughout the Group based on the two pillars of training business leaders, those who will power SEKISUI CHEMICAL Group into the future, and the human resources who will support the workplace. The new personnel system will require each employee to make positive contributions and take on challenges in their respective roles. Career education will shift from the traditional age basis to a role/job-based framework. We will also support “career autonomy,” whereby employees take the lead in building their careers.

* Career Autonomy: An approach to independent employee career development whereby employees aim to work with vitality in a location to which they are uniquely suited as they prepare to play the roles expected of them by the company.

Strengthening the ESG Management Base (Business Base Drive)

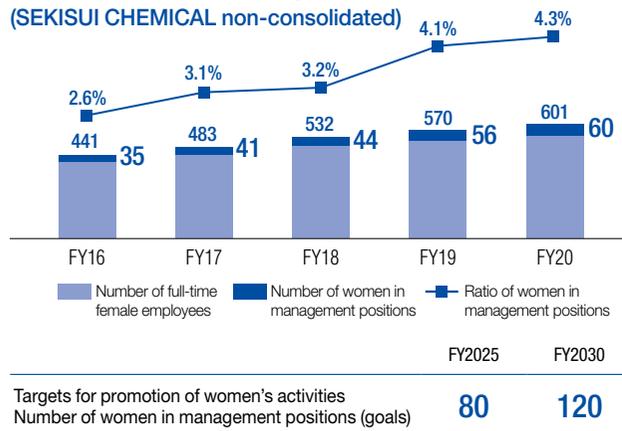
Human Resources

Diversity Initiatives

SEKISUI CHEMICAL Group remains constantly aware of the critical need to make the most of the diverse orientations to work and life and strengths of its employees if it is to continue contributing to society. Based on this awareness, top management has declared its commitment to promoting diversity, which includes the empowerment of women, both within and outside the Group. With regard to diversity, we focus not only on, for example, gender, age, and race but also on differences that include background, values, and personality. In 2015, we formulated the Diversity Management Policy based on the idea that we will understand and recognize the differences of each and every employee and use them to our advantage. With the aim of transforming into a “vibrant company,” from fiscal 2020 we are working on work-style reforms and expanding opportunities to take on challenges that will allow diverse human resources to excel.

Allowing Diverse Human Resources to Excel (Gender)

Since 2007, we have been advancing initiatives to empower women in two stages: “established practice and active participation” and “creating managerial positions.” We offer training programs, including hands-on training cycles and career building, for females in their first through their fourth years of employment. This training fosters greater awareness while enabling women to take on leadership roles from an early stage, as well as to learn and take on challenges on their own. In addition, as a result of practical training targeted at female candidates

Number of women in management positions
(SEKISUI CHEMICAL non-consolidated)

for managerial positions and their immediate superiors while working to expand the areas in which women can participate, the retention rate of female employees and the number of females in managerial positions are increasing. In recognition of these efforts, we were selected as a [Nadeshiko Brand in fiscal 2020](#). This is the fourth time we have been selected, following on fiscal 2016, fiscal 2017, and fiscal 2019.

Going forward, we will also focus on “enhancing the employment of women” and “training following promotion to managerial positions.”



Allowing Diverse Human Resources to Excel (Global)

Expanding our business overseas is key to realizing our Long-term Vision. To do so, it is not only important to globalize employees in Japan but also for us to hire foreign national employees and have them play active roles and, above all, for employees working throughout the world to demonstrate their distinctive characteristics in providing products and services that meet the needs of each country and region. Based on this idea, we have introduced and started operation of our Learning Management System, which will serve as one of the foundations for the fostering of human resources, in four areas around the world (United States, Europe, China, and ASEAN). As the first fiscal year on the way to achieving our Long-Term Vision, in fiscal 2020 we conducted “vision caravans” in each area and focused on disseminating and instilling the vision among our employees around the world.

Promotion of Work-style Reforms

In the pursuit of highly productive work styles that maximize results in a limited time, SEKISUI CHEMICAL Group put in place its Statement of Work Style Reforms in 2018 and has been working on three reforms, specifically relating to business operations, the HR system, and the work environment. For those reforms, we invested ¥7 billion in the three years up to and including 2020 and were able to reduce the total number of working hours for the Group as a whole by approximately 170,000 hours by, for example, automation and labor saving for production lines, sales innovation through the Sekisui Heim Museum, and the introduction of production management, remote work, and other systems. Since fiscal 2018, we have been promoting improvements in working environments to realize flexible work styles in which there is little or no distinction between work undertaken within or outside the Company. It was under this situation that we confronted the COVID-19 pandemic and rapidly expanded and instilled use of

the remote work and web conferencing systems, that had already been partially deployed. Advances were also made in paperless offices, and significant reductions in travel time and preparation man-hours realized. As a result of putting this infrastructure into place and of the employees of each workplace exercising their wisdom to review how standard operations are performed, we were able to continue operations without significant impact even under the various restrictions of the State of Emergency.

Promotion of Health Management

Based on the belief that “employees are precious assets bestowed on us by society,” SEKISUI CHEMICAL Group is promoting the creation of healthy, invigorating workplaces that allow diverse human resources to excel. In 2019, we formulated our Declaration on Health and Basic Policy for Health and Productivity Management that summarize the philosophy and ideals of health management for which SEKISUI CHEMICAL Group is aiming. In-house awareness of the Declaration of Health in fiscal 2020 was 64.3% (a rise of 12.1% compared with the previous fiscal year), and health management is steadily being instilled throughout SEKISUI CHEMICAL Group as a whole.

To realize our Long-term Vision, we are encouraging the putting in place of the structures and systems required to support our most important assets, our people, from the aspect of health, while setting medium- to long-term KPIs and encouraging health promotion. Since fiscal 2020, we have been deploying seven health habit support programs as measures against lifestyle-related diseases. We have also introduced a health promotion app and started to support independent health promotion. In fiscal 2020, 59% of the people in SEKISUI CHEMICAL Group were practicing four or more of the seven health habits. We are aiming to achieve 100% awareness by fiscal 2022.

Recognized for its Company-wide efforts to resolve issues relating to the health of its employees, including those at Group companies, SEKISUI CHEMICAL Group was certified as a [2021 Health and Productivity Stock](#). Along with 30 affiliated companies in Japan, SEKISUI CHEMICAL Group was also certified as a [2021 Health and Productivity Management Organization in the large-enterprise category \(“White 500”\)](#) for the fifth year in a row.



Strengthening the ESG Management Base (Business Base Drive)

Digital Transformation (DX) – Become the Driver that Transforms Work Processes and Business Models

SEKISUI CHEMICAL Group's DX mission is to accelerate and support the growth strategies and structural reforms necessary to realize its long-term vision. To maintain sustainable growth in an uncertain business environment, we will take another look at conventional governance (internal control), as well as our business and work processes, while undergoing a transformation from the perspectives of "visualization and standardization,"* "productivity increase," and "sophistication."

* "visualization and standardization": Standardized operations, introduction of ERP, renewed infrastructure and networks

Initiatives to Promote DX

		Fiscal 2020 Results	FY22	FY25
Global Management Foundation Reform	Renovation of the core system (global ERP*) We are aiming to improve the productivity of indirect business operations—by the visualization and analysis of the data necessary for decision-making, business standardization, and efficiency improvements—while increasing standardization, enhancing internal control and minimizing risk on a global basis.	We defined the requirements for more sophisticated and standardized business management controls and implemented global ERP introduction contracts.	Complete the transfer of accounting operations at major sites in Japan	Complete overseas site rollout preparations
Purchasing	Standardization of purchasing operations and the visualization of transaction data on a global basis Enables deterrence and early detection of fraudulent activities. In addition, steps will be taken to establish mechanisms and infrastructure for continuous cost reduction, including improved purchasing power, procurement cost reduction, and improved purchasing operational efficiency through the realization of overall optimal purchasing.	We decided to introduce an indirect purchasing system.	Conclude rollout at major sites in Japan	Expand rollout to overseas sites
Sales and Marketing	Standardization of efficient business models and visualization of business processes We aim to solve problems relating to sales and marketing operations, such as the different systems used by each divisional company and many individualized parts, and will work on business standardization and automation to thoroughly streamline and raise productivity.	We are enhancing the order expansion process by utilizing marketing automation, the visualization of the status of customer transactions, and data analysis. We are promoting the introduction of a system that reduces the man-hours required for internal reporting while also putting in place information security measures that are essential to DX initiatives.		
Remote Work	Promotion of remote work SEKISUI CHEMICAL Group is promoting "remote work" in a bid to realize various working styles. In this manner, employees are able to carry out their duties using the Company's in-house operating system from locations other than the office including the home, outside, and satellite offices.	We put in place MobileNET, IT infrastructure that enables safe and secure access to in-house operating systems anywhere in the world		

* ERP is the abbreviation for Enterprises Resource Planning. A system that merges and centrally controls core operations, such as corporate accounting, human resources, manufacturing operations, and sales operations

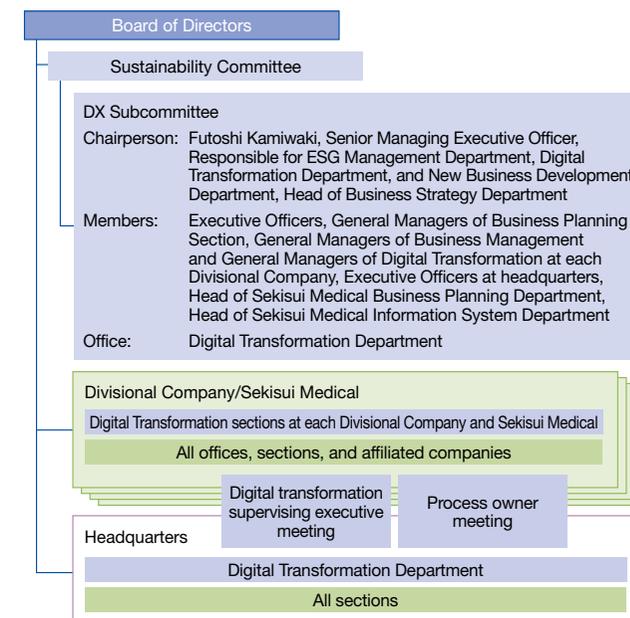
Systems to Promote DX

To promote DX Company-wide in unison throughout the Company and Group, SEKISUI CHEMICAL Group established the Digital Transformation Department in April 2020.

In SEKISUI CHEMICAL Group, which is engaged in a variety of different businesses, it is not easy to make business operations standardized and more sophisticated, and in some cases this process might actually lead to reduced efficiency. To prevent this and promote optimal solutions throughout the Company, we have established a promotion system headed by our CEO and senior managing executive officer. The Digital Transformation Department functions as the project leader in this system.

In addition, the DX Subcommittee, chaired by the executive officer of the Digital Transformation Department, has been newly established under the Sustainability Committee and has been in operation from fiscal 2021. In addition to deliberating on fundamental policies related to digital strategy and confirming the progress and effectiveness of digital transformation, the DX Subcommittee carries out deliberation and decision-making on important measures such as standardization of Company-wide operating processes and renewal of Company-wide core systems from a management perspective.

DX Promotion System (from FY2021)



Fusion – Promote Technology and Business Opportunities through Internal and External Fusion

Based on its technology platform, SEKISUI CHEMICAL Group is making efforts to fuse together its various internal and external stakeholders and companies while accelerating innovation.

We will not limit ourselves to the inter-group initiatives conducted until now in cooperation with divisional companies, instead aiming to achieve wider-ranging and more effective fusion, including technological development, personnel cultivation, cooperation with external organizations, and open innovation.

Technological Development Fusion

Technological development is the source from which new businesses are created, and it is extremely important for fusion as well. At the SEKISUI CHEMICAL R&D Center, the mission of the organization is “strengthening fusion with divisional companies,” and this facility promotes fusion with each divisional company from three perspectives: core technology fusion, planning fusion, and development fusion. More specifically, the R&D Center carries out unified verification of fundamental technologies that was previously carried out at divisional companies, and the personnel involved in planning are rotated around. This is a measure for promoting the formation of cross-organizational planning in coordination with divisional companies.

ESG Task Force

Creating Products to Enhance Sustainability through Internal Fusion

Today’s companies are hearing growing demands to offer solutions in a timely manner to address issues such as the COVID-19 pandemic. In such times, innovations must be considered quickly and turned rapidly into action. However, we believe it is also important to accelerate the proposal and consideration of innovations aimed at solving social issues with a long-term view and to implement those innovations in a timely manner. By taking such quick and prompt action, SEKISUI CHEMICAL Group was able to fuse its 28 technological platforms for promoting the creation of products to enhance sustainability. The result was the launch of the ESG Task Force, a forum for considering social issues in ways that transcend organizational boundaries. In the future, we will take steps to normalize internal cross-sectional systems that enable the development of business proposals aimed at addressing social issues, while at the same time putting in place a system that can accelerate innovation in case of emergencies such as the COVID-19 pandemic.

Example of Product to Enhance Sustainability through Internal Fusion

Building smart & resilient residential housing communities

In addition to communities where all residences are equipped with storage batteries and built to zero energy house (ZEH) specifications, there are communities that none other than SEKISUI CHEMICAL Group can provide. We bring to bear the unparalleled infrastructure materials of the Group that stand strong against disasters, including rainwater storage systems that provide countermeasures to torrential downpours and drinking water systems capable of securing days of potable water, even when water services are suspended. We bring sustainable town and community development to every corner of Japan so residents can continue to live in safety.

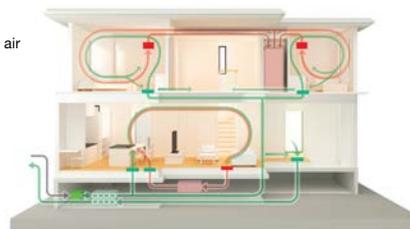


Artist's impression of "Asaka Lead Town" after completion

Homes equipped with the comfortable ventilation and air-conditioning system “T-SAS”

This is a ventilation and air-conditioning system that uses “Virutaker™,” an anti-viral processing agent that is a product of a high-performance plastics divisional company. System benefits are reduced daily life concerns and a comfortable interior environment.

■ Ventilation air
■ Air-conditioning air



External Fusion

In 2019, we established the New Business Development Department as an organization that would accelerate the commercialization of products, services, and technologies developed by SEKISUI CHEMICAL Group’s R&D Center. In addition to considerations on bringing to market in-house developed technologies such as the technology to make ethanol from waste products (Bio-Refinery), in 2021 we set up a new entity to with the goal of spurring on innovation and have been working toward fusion with external partners. We are seeking opportunities outside the company, such as CIC Tokyo, the Tokyo site of the Cambridge Innovation Center, the largest focal point of innovation in the United States, through company’s established corporate business unit as well as promising start-up companies to create new businesses. By skillfully leveraging such relationships as “trading posts” with the outside world, we use fusion to bring into the Company the technology, ideas, and innovative culture that would be difficult to obtain just on our own, and use those things we incorporate to speed the creation of value that works to solve societal issues.

Moreover, through the New Business Development Department we participate in the accelerator program* for the “New Materials” domain operated by Plug and Play Japan, and while searching the world over for start-ups in the materials field, push forth on business creation through collaborations with start-ups that possess technology such as follows.

- Bio-materials
- Battery/semiconductor materials
- Meta-materials
- Materials/Informatics
- Carbon dioxide Capture, Utilization and Storage (CCUS)

* This three-month business creation acceleration support program brings together major corporations searching for new technologies and start-ups working in the new materials-related field, giving rise to new innovation.

Internal Control – Prevent or minimize impact of major incidents on our corporate value

In aiming to improve its management ability to sustain business, SEKISUI CHEMICAL Group has defined five major incident fields (safety, quality, accounting, legal/ethical, information management) that strengthen risk management and hold the potential for major Group-wide impacts and has established the medium- to long-term priority of each. While investing resources in a focused manner, we have been advancing measures from the two approaches of reducing the frequency of incidence and of mitigating the degree of impact following an incident.

Business Continuity Planning (BCP)

Risk Management (ERM, BCP, and BCM)

Maintaining a risk management structure for the integrated management of measures to prevent risks from occurring (risk management) and to respond when serious crisis events occur (crisis management), SEKISUI CHEMICAL Group is building a system that can adapt to constantly changing risks and crisis events according to the situation of the organization.

In their risk management activities, each organization analyzes and evaluates Company-wide risks and risks identified based on the SEKISUI CHEMICAL Group Risk Management Guidelines. After undertaking this analysis and evaluation, each organization adopts measures and implements a risk management cycle (PDCA) that repeats corrections while reviewing them as needed. Since fiscal 2020, we have been promoting ERM (Company-wide risk management), which integrates these organizational activities with an all-company perspective of risk management activities. We will accelerate the development of organizational activities in Japan and overseas, newly carry out critical risk assessments and regional risk assessments on an all-company basis as ERM, thereby strengthening our response to critical risks from a Company-wide perspective.

In the event of a major incident occurring, we will carry out crisis management activities based on the SEKISUI CHEMICAL Group Crisis Management Guidelines. To always implement prompt and accurate responses, we regularly hold crisis management liaison meetings, consisting of corporate specialized departments and company personnel, and carry out case studies and training.

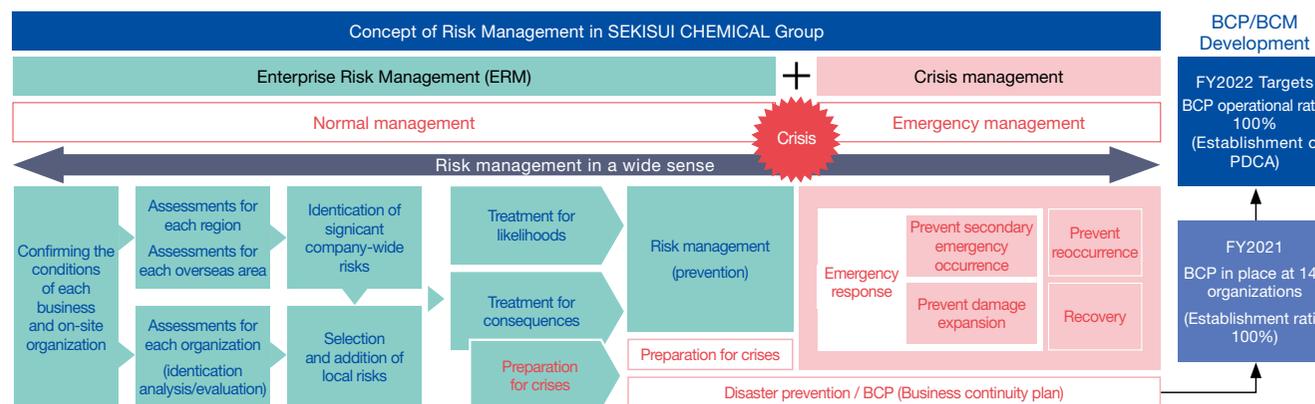
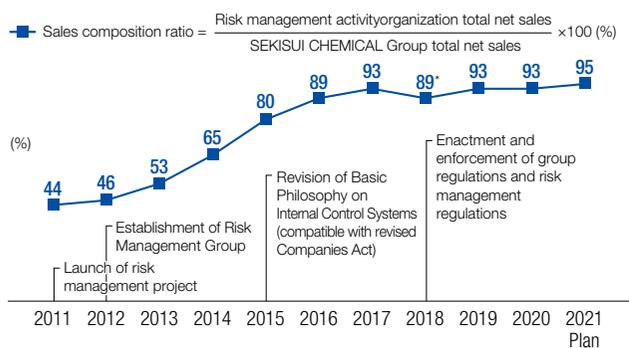
From fiscal 2020, we have intensified our initiatives for the drafting of business continuity plans (BCPs) with the goal of establishing a BCP-based business continuity management (BCM) cycle (PDCA) to minimize the impact on corporate value in the event of an incident. In fiscal 2020, we determined that 143 organizations needed to formulate initial response plans and disaster response/management plans, revised BCP (BCM) guidelines, and created standard templates for the Group. In the current fiscal year, the 143 organizations will formulate BCPs (100% establishment rate) and work to increase awareness of risks among employees through their BCP formulation activities.

each line of business (the heads of business units, the presidents of subsidiaries and affiliates, etc.) determine the necessity of BCP individually, based on the particulars of the businesses in which they are engaged, and is promoting the formulation of BCPs and the implementation of BCM in conformity with ISO 22301, the standard for methods of implementing BCM. In light of the recent increase in the number of threats, as well as the growing need to determine how to continue operations in the event of a medium- to long-term loss of key management resources, and to prepare for such an event, from the current fiscal year the Group is developing an initial emergency response plan (ERP) that places the protection of human life as the highest priority at all organizations as a Company-wide initiative. In addition, the Group will also focus on establishing BCM for each of its domestic and overseas businesses in line with the individual characteristics of each business in our diverse lineup of operations. Even in an emergency situation that could threaten the continuance of operations, we will minimize losses to our organization and our customers while continuing to fulfill our social responsibilities as a company by responding quickly and restoring important functions as soon as possible.

Basic Philosophy Toward BCP

Engaging in a wide range of businesses, SEKISUI CHEMICAL Group has decided on a basic posture of having those in charge of

Status of Risk Management Activities by Organization



Internal Control

Reducing Major Incidents in Five Fields

As the business environment surrounding companies becomes more uncertain and complex, the Group comprehensively identifies various risks related to the business objectives of each organization. Having quantified those risks from the viewpoints of probability (frequency) and impact (result), we identified the fields that possess the potential to lead to major incidents in fiscal 2019 and defined safety, quality, accounting, legal/ethical, and information management as the five major incident fields in fiscal 2020. After deciding the medium- to long-term priorities from a Company-wide perspective, we are promoting measures to reduce the frequency of occurrence and reduce the impact of any occurrence while investing management resources in a focused manner. The policies and activity guidelines for incident control are formulated and promoted by four sub-committees, covering safety, CS & quality, compliance, and cyber security.

Major incidents in the five fields

Fields	Example incidents	
Safety	Fire, explosion, fatality, and serious injury incidents	Safety Sub-committee
Quality	Disguising or falsifying quality, quality defects which put lives at risk, quality problems causing external losses (or expected losses) of ¥1 billion or more	CS & Quality Sub-committee
Accounting	Fraudulent or inappropriate accounting	Compliance Sub-committee
Legal/ethical	Anti-Monopoly Act violations, bribery violations	
Information management	Data exploitation or destruction, information system infiltration, leakage of personal or confidential information	Cyber Security Sub-committee



Fiscal 2022 Targets

Number of major incidents in the five fields

0

Safety

At the core of safety, it is important that each and every employee has the ability to identify dangerous situations and take appropriate steps to protect themselves and fellow employees. For this reason, we are making concerted efforts at safety education and raising sensitivity to risks while following rules and creating a corporate culture that emphasizes compliance while also implementing total safety activities (i.e., zero occupational injuries, zero equipment-related accidents, zero commuting-related accidents, and zero extended sick leave) based on five themes. In the event of an actual occupational injury, information including the form of employment of the injured party is collected, and improvements are sought when there is a problem with the management of a business site. From fiscal 2020, we are working on reforms in three areas—mechanisms, equipment, and people—to build safe and secure factories and sites globally.

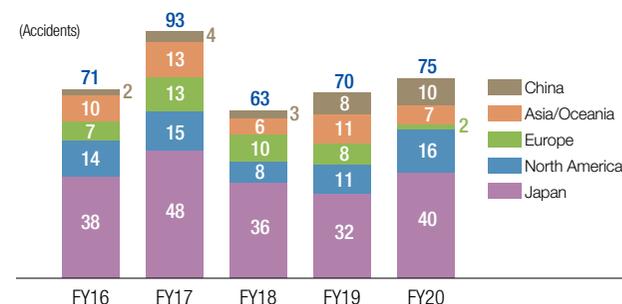
Five Themes and Major Initiatives

1. Intrinsic safety of equipment

- Formulating equipment safety design guidelines and implementing their monitoring
- Encourage employees to obtain safety assessor and safety sub-assessor qualifications for equipment safety and improve equipment safety by sharing information between business sites



Number of Occupational Accidents



2. Safety management using OHSMS

3. Safety education of employees

- Set leading example in safety activities
- Fostering key safety leaders who lead safety activities and promoting their placement at each base
- Standardizing safety education within the Group
- Sharing safety policies with the supply chain and providing occupational safety training (Housing Company)

4. Risk prevention through risk detection activities and other initiatives

- Implementing emergency response skill improvement training (passing on of safety know-how)
- Identifying and improving risks through training to enhance the ability to identify risks

5. Auditing of health, safety, and accident prevention

- Conducting audits based on the Occupational Health and Safety Management Systems (OHSMS) audit evaluation report (evaluation items revised annually and include incorporating ISO 45001 requirements)
- Having disaster prevention audits conducted by outside experts to prevent disasters involving fires and explosions

Internal Control

Quality

SEKISUI CHEMICAL Group emphasizes quality compliance. Assuming that high-risk cases of quality irregularities and data falsification in particular can occur as a result of insufficient investment related to quality improvement and pressure from the supply chain, from 2020 we have been working on building a new quality management system, as well as digitalizing and reinforcing quality data to eradicate the root causes of such risks.

The Group has built a quality assurance system that covers the entire process, from the product development stage to design, production, and sales. At the same time as establishing a quality assurance system in each process and promoting standards-based controls on a daily basis, we recognize that it is onsite monozukuri (manufacturing) that supports quality and are focusing on innovation in production activities. In developing products or making improvements in quality, we conduct strict design screening from a variety of perspectives, such as those of quality assurance and safety. In addition, we have established a system that enables maintenance and control of after-sales services for customers. To rebuild our quality management system, when certification shifted to the ISO 9001:2015 standard we developed an original management sheet, the SEKISUI Process Management Chart (SPMC), to strengthen our process approach. Monitoring daily management checks and promoting

corrective actions, internal audits as well as quality education, the SPMC provides an at-a-glance overview of the management flow of these processes. From fiscal 2020 onward, we are working to improve operational levels by, for example, conducting training to utilize SPMC and improve the quality of internal audits.

Fiscal 2020 Status

In fiscal 2020, two major quality issues¹ occurred. As a result, external failure costs² increased 25% compared with fiscal 2016. Focusing on strengthening Group-wide quality assurance systems and on design/development processes, we will promote the application of development risk prevention methods (such as FMEA and DRBFM)³ to reduce external failure costs. The rate of application of development risk prevention methods in fiscal 2020 was 94%.

¹ Major quality issues: Problems related to product, technology, and service quality that could cause significant damage to customers, society, or SEKISUI CHEMICAL Group if not thoroughly resolved on an urgent basis.

² External failure costs: Costs arising from responding to product-related complaints

³ FMEA: Failure Mode and Effects Analysis; DRBFM: Design Review Based on Failure Mode (a preventive approach in which problems in new designs are discovered and solved by focusing on points of modification and change)

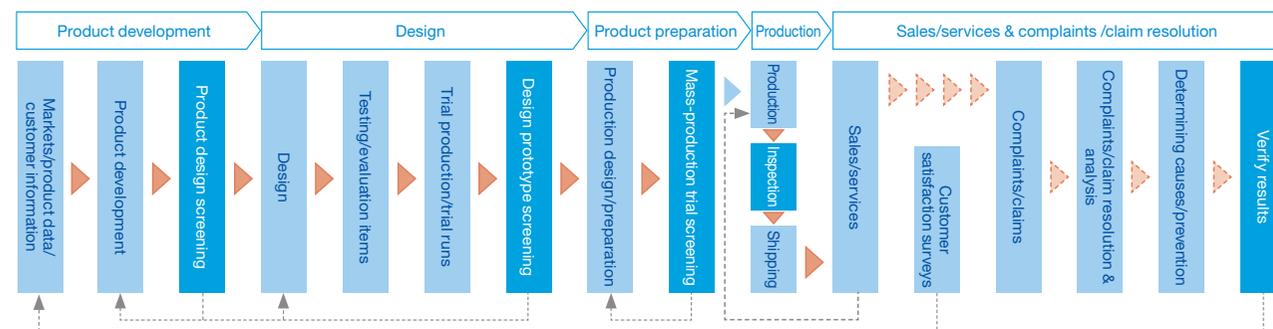
External Failure Costs



Initiatives to Prevent Data Quality Irregularities and Falsification

SEKISUI CHEMICAL Group put in place a system and framework for the thorough prevention of data irregularities and falsification based on the CS & Quality Medium-term Plan, which was launched in the fiscal year under review. In fiscal 2020, SEKISUI CHEMICAL Group took steps to ensure the reliability and transparency of data particularly with regard to product inspections and the drafting of reports to ensure that the specifications agreed upon with our customers are observed. In addition, we are developing systems and revamping daily management work to make data input errors and falsification impossible, while focusing our efforts on digitalizing and using inspection data. To improve our quality assurance capabilities, we will reinforce compliance awareness and strengthen in-house quality control on an ongoing basis.

Quality Assurance System



Preventing Quality-related Problems

SEKISUI CHEMICAL Group holds a number of seminars on the theme of preventing quality problems. Development Risk Prevention Seminars aim to teach efficient and effective prevention methods. The DR Reviewer Training Seminars are held to improve the skills of employees who conduct design reviews (DRs), while the Quality Function Deployment Seminars are conducted to teach methods of organizing information on product development. Having also clarified the discussion points during design screenings when new businesses are launched, we created a mechanism for performing strict design reviews called a Gate Review (GR) platform and started its operation on a trial basis in fiscal 2020.

Internal Control

Compliance (Legal/Ethical and Accounting)

Based on principles such as “contributing to society,” “being a trusted company,” and “adherence to the letter and spirit of the law,” SEKISUI CHEMICAL Group established its Compliance Declaration in 2003. In keeping with the spirit of the Group Principles and our Corporate Code of Ethics, we defined our stance for the acquisition of high social trust through compliance. From fiscal 2020, we are working to strengthen our compliance management foundation by controlling critical compliance risks and strengthening internal controls on a global scale. To promote compliance management by instilling compliance awareness in each and every employee, we distribute the Compliance Manual and provide education on an ongoing basis. The Compliance Manual includes information on topics such as the prohibitions on corruption and bribery, respect for human rights and the prohibition of discrimination, data management and protection, compliance with antitrust legislation, prohibitions on insider trading, conservation of the global environment, and compliance with labor-related laws and regulations. We are also promoting content localization for global local employees and thereby encouraging thorough adherence with these requirements among all employees.

S.C.A.N. Intra-company Whistleblowing System

Established in 2002, the S.C.A.N. (Sekisui Compliance Assist Network) in-house reporting system is available for use by all SEKISUI CHEMICAL Group employees and business partners and also plays a role as a point of contact for consultations, such as whether a specific act would be classed as a compliance violation. Enabling reports to be made directly to an outside law firm in addition to an in-house point of contact, the system also prescribes the protection of the whistleblower and stipulates the protection of whistleblowers, such as the confidentiality of whistleblower information and prohibition of disadvantageous treatment. With regard to the content of reports, we work to resolve organizational issues from a fair standpoint after having first confirmed the claims and facts of the informer and informed. In fiscal 2020, we worked to expand the scope of application of the internal reporting system overseas in cooperation with our regional headquarters in the United States, China, Europe, and Thailand.

Accounting and Tax Compliance Initiatives

SEKISUI CHEMICAL Group is promoting efforts to strengthen monitoring and improve the efficiency of accounting operations toward a solid accounting compliance system. Also providing education on accounting skills and financial knowledge through accounting training and e-learning, in addition to preventing the occurrence of incorrect accounting treatment and accounting fraud, we are working to raise awareness of compliance among the departments and employees involved in accounting operations.

Not using tax havens for tax avoidance purposes, SEKISUI CHEMICAL Group pays taxes appropriately in the countries and regions where it operates, thereby contributing to the economic development of those countries and regions while aiming for harmony and stable development together with them. Transactions with tax risk are checked with external experts as necessary to ensure proper processing and the reduction of tax risk. In regard to transfer pricing risks, transactions within the Group are conducted in accordance with arm's length prices based on the local laws and regulations of each country and region and Organization for Economic Co-operation and Development (OECD) guidelines. To eliminate unstable tax positions, we use the Advance Pricing Arrangement (APA) confirmation system according to the size of the transaction and the degree of tax risk, while working to maintain good relationships with the tax authorities in each country.

Fiscal 2020 Number of Whistleblowing Cases and Consultations

Power harassment	39	Working conditions	29
Sexual harassment	2	Workplace environmental concerns	11
Misuse of expenses	3	Sales methods related	2
Misrepresentation of work performance	3	Collusive relationship with business partners	0
Others	22	Total number of complaints	111

Efforts to Prevent Corruption and Bribery

Based on the spirit of the UN Global Compact, signed and approved by the Group, we promote efforts to prevent acts of bribery and corruption before they occur. Along with introducing Group-wide internal regulations to prevent bribery and corruption, SEKISUI CHEMICAL Group formulated anti-bribery guidelines, which summarize matters concerning bribery and corruption, and that employees should adhere to when doing business in Japan, the United States, and China, and has worked to make these known. We anticipate risks and set and operate rules to prevent violations. For example, a form needs to be submitted in advance to obtain approval when a government official is to be entertained or presented with a gift. In the event of consultancy fees being incurred in connection with business transactions, including those involving public officials from other countries, we stipulate that these can only be undertaken once we have confirmed that there are no reasonable grounds to suspect that payments could constitute bribes. We also provide training to sales and purchasing departments, which are especially at risk from bribery and corruption.

Handling Measures for Anti-Trust Laws

Having been operating a business organization membership payment system, a pre-application and follow-up report system for competitor contact, and a price revision committee system since 2007 as a compliance program for antitrust laws, SEKISUI CHEMICAL Group audits its operational status every year and reviews the program as appropriate.

Reinforcement of Global Legal Affairs Structure

We are reinforcing our global legal affairs structure by expanding legal functions and coordinating between legal departments. The Compliance Reinforcement Month that we hold every year in Japan is deployed in North America, China, Southeast Asia, Europe, and other areas. In those months, the themes to be taken up are those selected by the regional headquarters from the risks that are judged to be high in each region.

Internal Control

Information Management

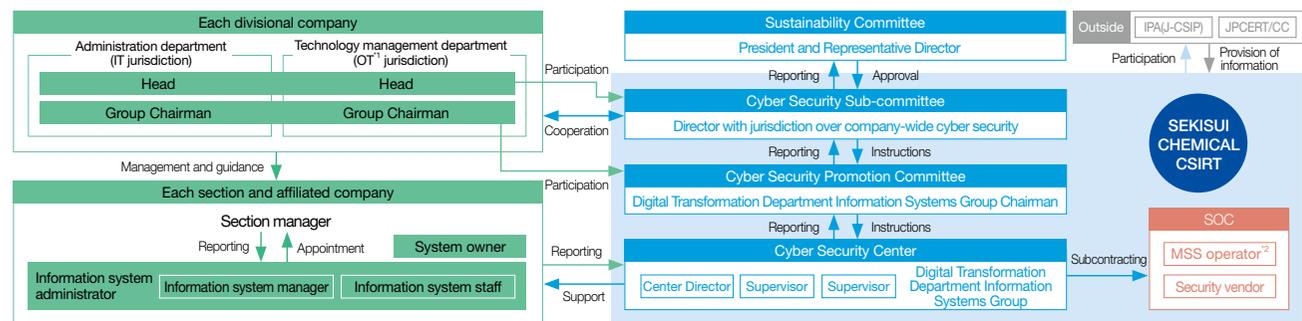
To strengthen our efforts in cybersecurity measures, we have formulated an information security policy and are taking measures against information leakage risk and natural disaster risk. We established a CSIRT^{*1} as a cybersecurity response system and set up a Cyber Security Center as a working unit. Acting in partnership with an SOC^{*2}, the Cyber Security Center monitors the security of networks and devices 24 hours a day, 365 days a year, and strives for the early detection of and recovery from incidents. In the years to come, we will enhance domestic operations and advance the development of CSIRTs at Group companies overseas.

^{*1} Computer Security Incident Response Team, or CSIRT, is the title given to specialized teams that receive reports, conduct surveys, and enact response measures related to computer security incidents at companies and other organizations.
^{*2} The Security Operation Center, or SOC, is a specialized entity devoted to monitoring and analyzing threats to information systems. It works to detect threats as soon as possible and plays a role in supporting CSIRTs with their response and recovery efforts.

Measures to Address Natural Disaster-related Risks

We have dispersed earthquake-resistant, seismically isolated data centers among multiple locations, so that business operations can be continued even in the event that backbone systems are damaged by a major earthquake or other disaster. By taking steps to completely duplicate mission-critical systems, the Company is working to shorten the leadtime needed up to the completion of repairs and recovery of business operations.

Cyber Security Structure



^{*1} Operational Technology ^{*2} Managed Security Service

Measures to Address Information Leakage Risks

The Company takes both system measures, such as the strengthening of data center fortifications and enhanced monitoring, and human measures, such as regular e-learning courses for all employees, to maintain the security of customer (including personal) and internal (including confidential) information. To combat external threats, the SOC plays a primary role in consistently identifying new threats, such as viral infections, and in swiftly taking action to implement appropriate countermeasures. With regard to personal information, we have formulated "Guidelines for Web Server Construction and Management" and endeavor to protect the servers managed at each company and work site.

Measures to Prevent Recurrence after Leakage of Conductive Fine Particle Technical Information (Excerpt)

- Thorough information management by importance
- Limitation of contactable persons by confidential information, access log recording
- Organizational risk management activities in R&D Department
- Enhancement of moral education and training for technology development workers
- Thorough confidentiality obligations for retirees and hires

Identifying Risks That SEKISUI CHEMICAL Group Should Manage

To make clear which risks the Group as a whole should prepare itself for, in terms of both organization-specific risk management and Group-wide risk management, we have broadly categorized these as business environmental, strategic, and operational risk, and have further subdivided each category to comprehensively identify risk. We then quantify by means of a risk matrix of probability (frequency) and impact (result) and, with regard to risks that are likely to lead to Company-wide major incidents, regularly check for uncertainties and verify the effectiveness of our Enterprise Risk Management (ERM).

In fiscal 2020, we reviewed the revisions and corrections made to the serious risks identified in fiscal 2019 and considered changes in the risk matrix in light of geopolitical risks, new social demands, and other changes. The results of the deliberations and the various measures for risk reduction are reported to the Board of Directors after deliberation by the Sustainability Committee and are taken into consideration when making management decisions.

Fields	Risk	Examples of incidents
Business environmental risks	Major market trends	
	Fluctuations in exchange rates, interest rates, and asset value	
	Raw material price volatility and procurement	
	Large earthquakes, natural disasters, industrial accidents	
	Climate Change and environmental issues	Resource depletion, water risk, marine plastics
	Politics and society	Political change / terrorism
Strategic risk	M&A / New Business / R&D	
Operational risk	Information-management	Information leaks / technical information outflow
	Quality	Responsibility for manufactured goods / Major Quality Issues
	Safety	Fire and explosions / major workplace accidents / hazardous substance leakage
	Laws / Compliance / Human Rights	Unethical or criminal behavior / violations of the Monopolies Act or fraudulent transactions / unauthorized overwriting of data / bribery / harassment / environmental regulations, etc.
	Intellectual property	IP disputes