

Internal Control – Risk Management

SEKISUI CHEMICAL Group has promoted a Group-wide risk management (ERM) structure for the integrated management of measures to prevent risk events from occurring (risk management) and to respond when risk events occur (crisis management). Through this unification of concepts, we are creating a system that can be brought to bear on ever-changing risks and crises according to the status of the organization.

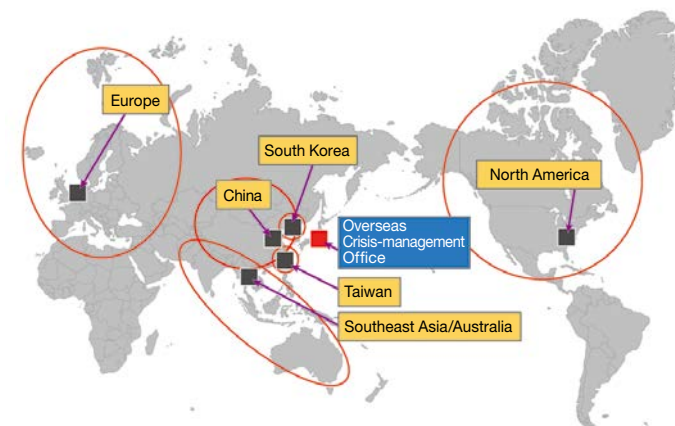
Since April 2020, ultimate responsibility for SEKISUI CHEMICAL Group risk management has resided with the Managing Director of the ESG Management Department. The same department's Risk Management Group serves as a dedicated office and ensures that the SEKISUI CHEMICAL Group Risk Management Guidelines, which were established based on the SEKISUI CHEMICAL Basic Policy on Internal Control System revised in April 2015, are thoroughly instilled in the directors, executive officers, and employees of the Company and Group companies. The Risk Management Group also strives to identify significant risks and to prevent them from manifesting by centrally and comprehensively collecting and evaluating information about risks.

Having started in fiscal 2011 with 27 organizations, mainly businesses affiliated with Divisional Companies, in fiscal 2021, the Group implemented risk management activities at 173 organizations, including affiliated subsidiaries in Japan and overseas, and continuously runs PDCA cycles in line with the ISO 31000 international standard for risk management. The dedicated office classifies and organizes any risks identified by these organizations and deliberates on Group-wide countermeasures.

Since fiscal 2020, we have been promoting a Company-wide ERM system that integrates these organizational risk management activities with an all-company perspective of risk management activities. As Company-wide risk management, we have newly implemented risk assessments by each specialized area and, based on the identification and evaluation of Company-wide serious risks, are working on incorporating them into action plans, designing Company-wide numerical targets, and monitoring progress.

In the event of an emergency occurring that is found to affect the business continuity of the Group, the Crisis-management System establishes an Emergency Response Headquarters based on the SEKISUI CHEMICAL Group Crisis Management Guidelines and creates a framework capable of swiftly and appropriately handling the situation. The Group also periodically works to revise this system and provides training. In addition, a framework has been established for appropriately reporting to the Board of Directors when a serious incident, or the risk thereof, occurs. Although it is extremely difficult to accurately assess the risks that might emerge moving forward, we ensure that employees share a code of conduct they should reference in preparation for an emergency, and raise their awareness through position-level-based training. This is in the belief that it is essential to step up employees' risk sensitivity.

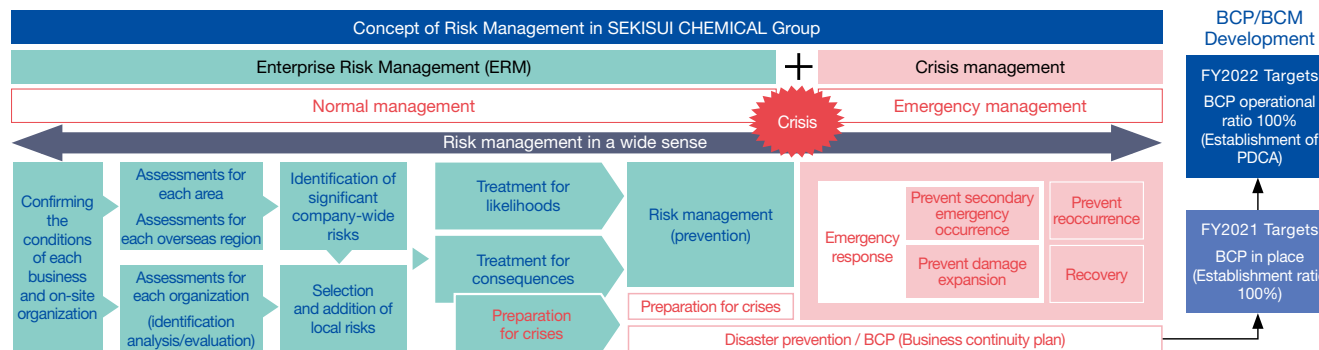
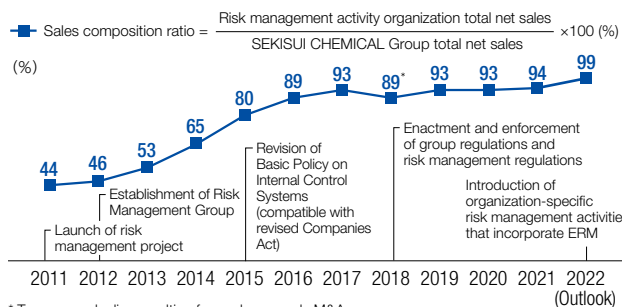
Since fiscal 2021, as a Company-wide initiative, the Group has been revising and developing documents for an emergency response plan (ERP) that places the protection of human life as the highest priority at all organizations. In addition, major business organizations throughout the Group are promoting efforts to put in place resource-based all-hazard BCPs to address every type of crisis event. Plans are in place to establish ERPs in all organizations during the period of the current medium-term plan, and we aim to establish a BCM system that can be regularly reviewed through training and other means within each organization. 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.

Given that our overseas locations have increased in number and importance with each passing year, SEKISUI CHEMICAL Group divides the world into six crisis management regions. We established Regional Headquarters in each of the four main regions and appointed the person responsible for the Regional Headquarters as the Regional Head. The Global Crisis Management Office cooperates with the Regional Headquarters and leads the response to any crises that occur overseas. SEKISUI CHEMICAL Group supports employees traveling abroad, those stationed abroad, and locally based employees in a variety of ways. This support includes sharing crisis management-related information spearheaded mainly by the Overseas Crisis Management Office, calling for caution and attention to important matters in a timely manner, instructing employees about travel restrictions, and implementing other emergency response measures.

Status of Risk Management Activities by Organization



Internal Control — Major Incidents in Five Fields

In aiming to improve its management ability to sustain business, SEKISUI CHEMICAL Group has defined major incidents in five 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 lessening the frequency of incidence and of mitigating the degree of impact following an incident.

Safety

We recognize that ensuring the safety of our employees and all related personnel we work with is essential to achieving sustainable growth. We aim to be a Safe and Secure enterprise that establishes safe and secure working environments that has the full trust of not only all those who work together with us, but also our customers, our communities.

SEKISUI CHEMICAL Group is 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.

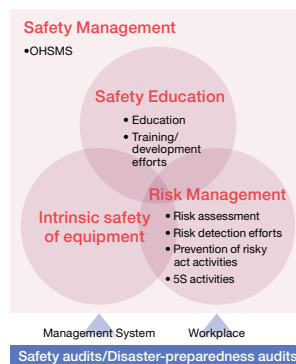
At the core of safety, it is important that each and every employee has the ability to identify dangerous situations and take appropriate steps to protect themselves. For this reason, we are making concerted efforts at safety education and raising sensitivity to risks while creating a corporate culture in which employees observe and enforce rules that have been established.

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

Theme 1 Safety management using OHSMS

In terms of our efforts related to occupational health and safety, policies and activity guidelines are formulated by the Safety Subcommittee established under the Sustainability Committee. Each site puts into practice and promotes these policies and activities under the guidance of the Safety & Environment Group of the Manufacturing Infrastructure Enhancement Center. In the event of operational injury, information including the form of employment of the injured party is collected. Improvements as required are also sought when there is a problem with the management of a business site.



Having determined the necessity of ISO 45001 certification for each business site, we promote the acquisition of and acquisition activities for this certification. Business sites that have not acquired this certification also build and apply health and safety management systems that reflect ISO and Occupational Health and Safety Assessment Series (OHSAS) requirements. Activity status is monitored through safety audits and disaster-preparedness audits to encourage the continuation and vitalization of safety management activities.

Theme 2 Intrinsic Equipment Safety* efforts

- Along with formulating the Equipment Design Safety Standards, which summarize the safety specifications necessary for the production equipment used by the Group, we verify workplace safety standards.
- Ensuring the safety of newly installed equipment by requiring that the manufacturers that supply production equipment submit Equipment Design Safety Guidelines checklists.
- Encouraging employees to obtain safety assessor and safety sub-assessor qualifications to promote equipment safety activities and improve equipment safety by sharing information between business sites

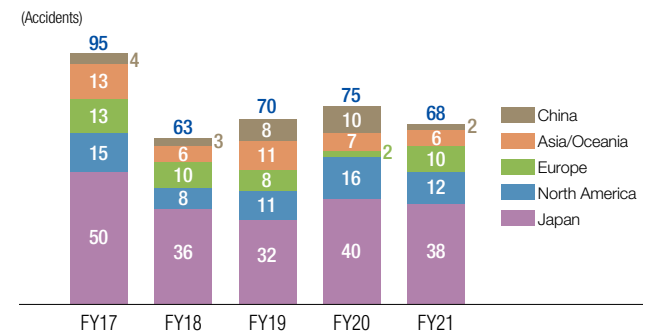
Number of facility accidents: 0

* Intrinsic Equipment Safety: The name given to the machine safety activities promoted by SEKISUI CHEMICAL Group. Promoting improvements through intrinsically safe design measures and safety protection for unsafe locations in production equipment

Theme 3 Safety education of employees

- Set leading example in safety activities
- Promoting the uncovering of risk and improvements by fostering key safety leaders who lead safety activities and promoting their placement at each base
- Enhancing safety education by having safety leaders share information between workplaces
- Sharing safety policies with the supply chain and providing occupational safety training (Housing Company)

Number of Occupational Accidents



Theme 4 Risk management and control, etc.

- Having set high-risk scenarios* on which particular emphasis should be focused on prevention, strengthening skills for responding to unexpected risks by implementing training to improve emergency response skills and passing on safety know-how
- Uncovering and becoming more aware of and sensitive to risk through cooperation between business sites and acceleration of horizontal deployment
- Based on the lessons learned from past occupational accidents, preventing them by disseminating the Basic Safety Principles, which summarize the basic compliance matters to be observed during operations

* High-risk scenarios on which particular emphasis should be focused on prevention: (1) getting caught or entangled in machinery at a production facility; (2) falling off equipment or falling over at a business site; and (3) a chemical process-related fire or explosion

Theme 5 Safety audits/Disaster-preparedness audits

- Having disaster prevention audits conducted by outside experts to prevent disasters involving fires and explosions and materials detailing how the issues raised at previous audits have been addressed
- Establishing global safety standards for overseas production plants and on-site patrols (conducted online at 13 business sites in FY2021)
- Conducting occupational health and safety management audits at new overseas business sites

Internal Control — Major Incidents in Five Fields

Quality

We recognize that it is the fields of manufacturing development that support quality and, in turn, emphasize adhering to quality compliance.

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. Relating to the quality of goods purchased from suppliers, we are also building a quality assurance system while conducting activities to ensure quality.

Quality Assurance System and Quality Management System

SEKISUI CHEMICAL Group has built quality assurance systems that extend across all processes, from product development to design, production, and sales. We have developed a quality assurance system for each process and promote standards-based controls on a daily basis. At the same time, we recognize that it is the fields of manufacturing development that support quality and focus our efforts on innovation in production activities. In developing products and making improvements to quality, we conduct strict design screening from a variety of perspectives, such as those of quality assurance and safety, and have established a system that enables maintenance and management of after-sale 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. In addition to conducting hands-on training to improve the quality of internal audits on an ongoing basis, by producing a manual explaining how to use the SPMC together with rules for SPMC operation, we successfully raised the level of SPMC use in fiscal 2021.

Fiscal 2021 Status

In fiscal 2021, one major quality issue¹ occurred.

As a result, external failure costs² increased 20% 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 QFD and DRBFM)³ to reduce external failure costs.

The rate of application of development risk prevention methods in fiscal 2021 was 100%.

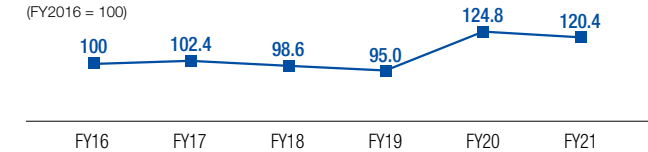
¹ Major quality issues: Problems related to product, technology, and service quality that could cause significant damage to customers, society, or SEKISUI CHEMICAL Group if not thoroughly resolved on an urgent basis.

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

³ QFD: Quality Function Deployment; 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

(FY2016 = 100)



Initiatives to Prevent Data Quality Irregularities and Falsification

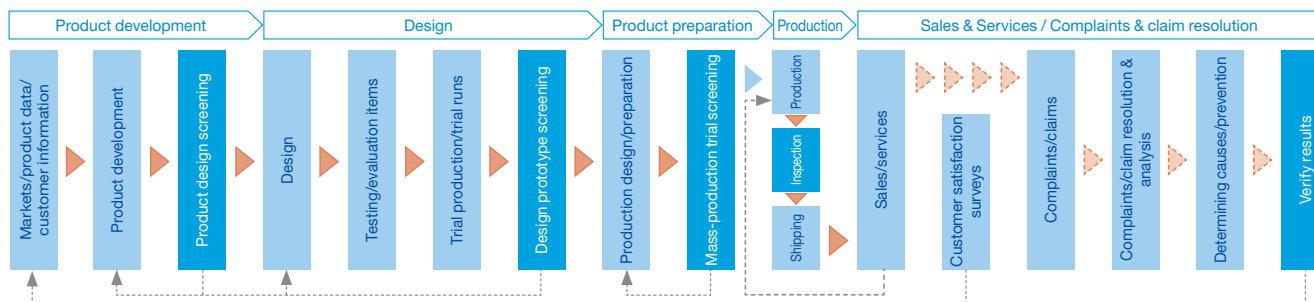
SEKISUI CHEMICAL Group is putting in place a DX-based framework for the thorough prevention of data irregularities and falsification based on the CS & Quality Medium-term Plan from fiscal 2020. For the purpose of ensuring the reliability and transparency of data, particularly with regard to product inspections and the drafting of reports to ensure that the specifications agreed upon with our customers are observed, we are developing systems to make data input errors and falsification impossible and revamping daily management work. At the same time, we are also focusing our efforts on digitalizing and using inspection data. In addition, to improve our quality assurance capabilities, we will reinforce compliance awareness and strengthen quality control on an ongoing basis.

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 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.

Quality Assurance System



Internal Control – Major Incidents in Five Fields

Legal/Ethical

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. In October 2020, under the leadership of the President of SEKISUI CHEMICAL Group, the Group declared that it regards compliance as the foundation for growth, and that each and every director and employee must act with a high sense of ethics and responsibility and behave in ways that conform to community expectations. We will continue to carry out initiatives for strengthening compliance management 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.

Since fiscal 2020, we have been working to strengthen our compliance management foundation by controlling critical compliance risks and strengthening internal controls on a global scale.

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 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.

Globally, having deployed the system in North Africa, China, the EU, ASEAN, South Korea, and Taiwan, we are setting up dedicated points of contact for employees of our foreign affiliates.

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 2021 Number of Whistleblowing Cases and Consultations

Power harassment	26	Working conditions	35
Sexual harassment	3	Workplace environmental concerns	5
Misuse of expenses	0	Sales methods related	4
Misrepresentation of work performance	3	Collusive relationship with business partners	2
Others	13	Total number of complaints	91

Efforts to Prevent Corruption and Bribery

In the spirit of the UN Global Compact, we promote efforts to prevent bribery and corruption. In addition to the introduction of Group-wide internal regulations to prevent bribery and corruption, SEKISUI CHEMICAL Group formulated anti-bribery guidelines, which outlines rules that employees should follow when doing business in Japan, the United States, and China. 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 in connection with business transactions, including those involving public officials from other countries, confirmation that fees do not constitute bribes must be obtained. In fiscal 2021, we conducted an e-learning program on bribery for employees of domestic subsidiary companies.

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 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. Theme examples: Anti-bribery and anti-monopoly laws, harassment, awareness-raising activities regarding information leakage, whistleblower system, etc.

Internal Control – Major Incidents in Five Fields

Information Management

We recognize that cyber assets—information received from a wide range of parties, confidential corporate information, and systems for managing this information—are an important management resource and a source of our competitiveness. We believe that preparations against cyberattacks threatening these assets are an important management responsibility, and strive to continually undertake cybersecurity measures as defined in the basic policy, to ensure a stable management foundation.

To strengthen our efforts in cybersecurity measures, we have formulated an information security policy, make disclosures internally and externally, and are taking measures against information leakage risk and natural disaster risk.

We established a CSIRT^{*1}, which reports to the Sustainability Committee, 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.

Having posted at least one cyber system administrator on site at each business, we have established a comprehensive Group-wide cyber management system.

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 backbone systems to earthquake-resistant, seismically isolated data centers, so that business operations

can be continued even in the event that social infrastructure is damaged by a major earthquake or other disaster. As a precaution, the data centers are also being dispersed among multiple locations so that business will not be disrupted even if a specific data center becomes unavailable. By taking steps toward their complete duplication, in the case of mission-critical systems the Company is working to shorten the lead time needed up to the completion of repairs and recovery of business operations.

Preventing Leakage of Technical Information

In 2019, a then employee leaked technical information about conductive fine particles to an external third party.

After this incident was discovered, information management and employee training were enhanced. To prevent recurrence, we not only take measures to prevent data leakage through IT but also implement a wide array of measures, such as introducing risk management activities in departments that handle confidential technical information, providing moral education and training for engineers, and thoroughly educating employees on their confidentiality obligations upon hiring.

As for the overall progress of these recurrence prevention measures, we monitor information leak risks while consolidating the activities of both the Cyber Security Subcommittee and Compliance Subcommittee.

Measures to Address Information Leakage Risks

The Company takes both system measures, such as the fortification of data centers and enhanced monitoring of internal networks, and human measures 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 in CSIRTs.

Human-related Measures to Prevent Information Leaks

- Thorough information management by degree of importance
- Thorough enforcement of duty of confidentiality for retiring employees and new hires
- Conduct regular e-learning programs for all employees
- Augment moral education and training for important technology development workers

Protecting Personal Information

We handle the personal information of our customers based on our Privacy Policy, which is available on the Company's website.

The Company complies with legal regulations and norms regarding personal information and, by voluntarily putting in place rules and systems based on internal confidential information management regulations, strives to appropriately protect such information.

We have also formulated Guidelines for Web Server Construction and Management, and endeavor to protect servers managed at relevant companies and each work site. At the same time, we ensure thorough management by limiting access rights and other management authority according to the importance of the information handled.

Concurrently, we are strengthening governance over the handling of personal (customer) information by raising employee compliance awareness and providing training.

Cybersecurity Structure

