

Long-term Vision and ESG Management



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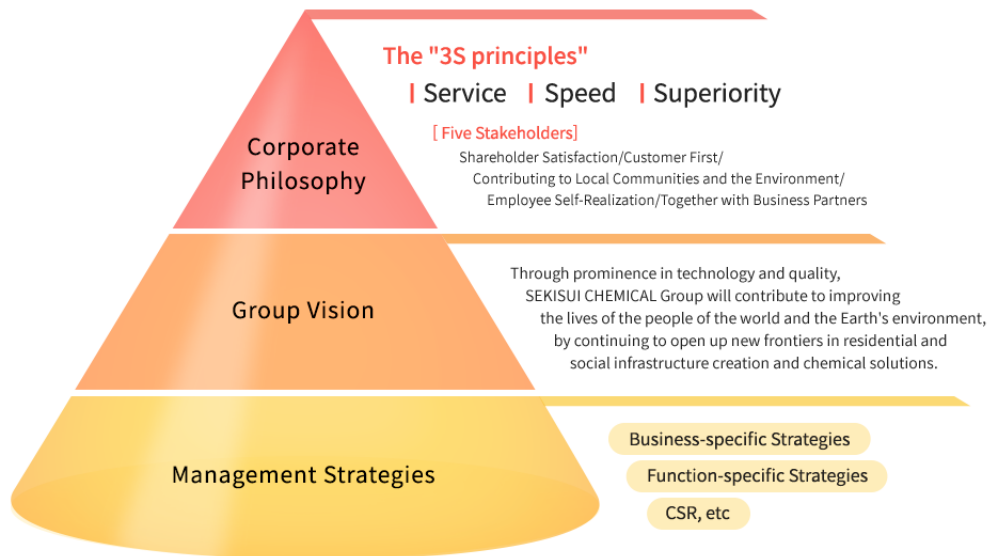
Long-term Vision and ESG Management

Under its Long-term Vision, Vision 2030, that carries the Group through to 2030, SEKISUI CHEMICAL Group has identified the Vision Statement to support the basis of LIFE and to create peace of mind for the future in order to realize a sustainable society. Through innovation and creativity with a focus on ESG management, we will increase our contributions toward solving social issues by expanding existing businesses and creating new businesses.

Realizing Vision 2030

SEKISUI CHEMICAL Group’s Corporate Philosophy System

SEKISUI CHEMICAL Group’s system of management principles comprises the Group’s Corporate Philosophy, which outlines the approach and policies that underpin corporate activities; the Group Vision, which expresses the form to which we aspire under our Corporate Philosophy over the medium to long term; and Management Strategies to realize the Group Vision.



Corporate Philosophy-The 3S Principles

Service: At SEKISUI, we serve our stakeholders by creating social, environmental, and economic* value through responsible business practices.

Speed: At SEKISUI, we accelerate innovation by eagerly taking on new challenges, adapting to change, and staying ahead of the times.

Superiority: At SEKISUI, we contribute to society* by helping to resolve social issues with our prominence in technology and quality.

* Five social, environmental, and economic stakeholders: Customers, Shareholders, Employees, Business Partners, Local Communities, and the Environment.

Group Vision

Through prominence in technology and quality, SEKISUI CHEMICAL Group will contribute to improving the lives of the people of the world and the Earth’s environment, by continuing to open up new frontiers in residential and social infrastructure creation, and chemical solutions.

See the following website for details of such elements as the Corporate Philosophy and Group Vision within Our Principles.

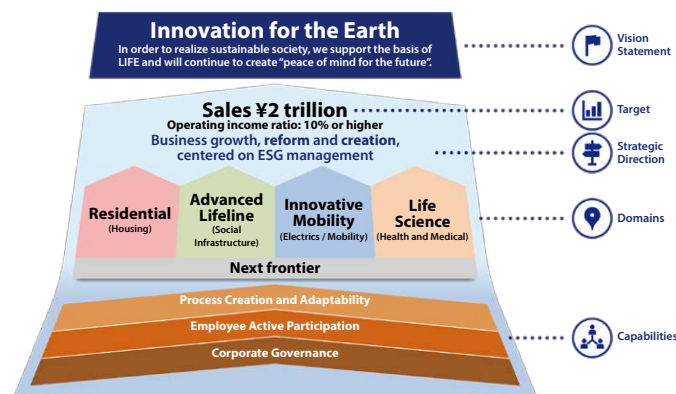
<https://www.sekisuichemical.com/about/outline/vision/principles/>

Long-term Vision, Vision 2030

Guided by SEKISUI CHEMICAL Group’s Corporate Philosophy and Group Vision, the Long-term Vision, Vision 2030, serves as a bridge for SEKISUI CHEMICAL Group’s management strategy. Under Vision 2030, SEKISUI CHEMICAL Group has identified its vision statement, which incorporates the Group’s resolute will to drive continuous innovation to support the basis of LIFE and to create peace of mind for the future in order to realize a sustainable society.

With business growth and reform and creating new business centered on ESG management at the center of its strategy, SEKISUI CHEMICAL Group aims to contribute more than ever before to resolving social issues by driving innovation through two distinct means: expanding existing businesses* through product and business reform and creating new businesses through the development and acquisition of new business bases. Drawing on this cycle, we envisage doubling our sales volume by 2030 (to sales of ¥2 trillion and an operating income ratio of 10% or higher).

* Four business domains: Residential (Housing), Advanced Lifeline (Social Infrastructure), Innovative Mobility (Electric/Mobility), and Life Science (Health and Medical).



Overview of the Long-term Vision

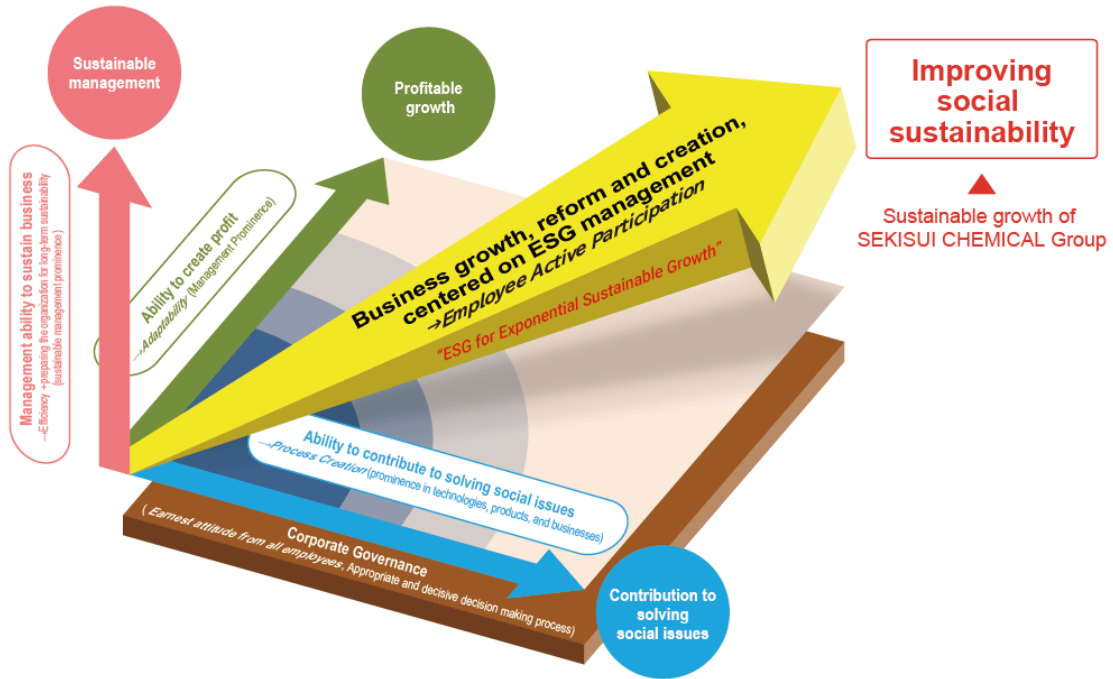
See the following for materials on the Long-term Vision, Vision 2030.

Long-term Vision and Medium-term Management Plan Presentation (May 22, 2020)

https://www.sekisuichemical.com/about/outline/vision/principles/pdf/20200522kge_2.pdf

ESG Management

Through business growth and reform and creating new business centered on ESG management, SEKISUI CHEMICAL Group aims to realize both a sustainable society and sustainable growth of the Group itself by strengthening three driving forces: the ability to contribute to resolving social issues; the ability to create profit; and the Group’s management ability to sustain business.



The Group’s management ability to sustain business

Adopted ROIC as a KPI to strengthen the Group’s management ability to sustain business.

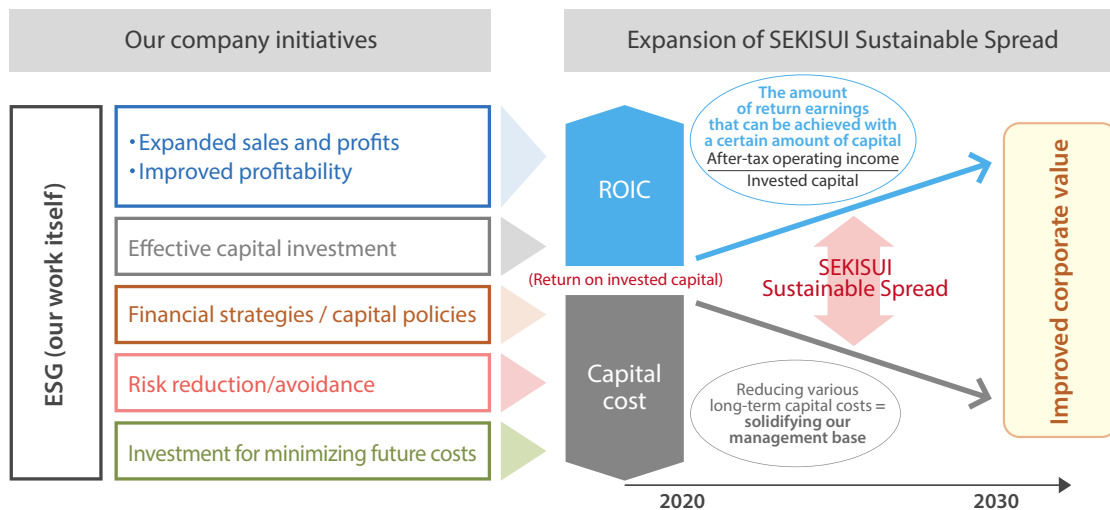
SEKISUI CHEMICAL Group adopted ROIC as an indicator of efficiency and is targeting an improvement over the medium to long term. To this end, we will improve our profit margin by such measures as expanding marginal profit and improving productivity and increase invested capital turnover through various efforts including effective capital investment, optimal plant utilization, and inventory adjustments.

Improve the Group’s corporate value by increasing capital efficiency and lowering the cost of capital in a broad sense over the long term.

SEKISUI CHEMICAL Group defines the SEKISUI Sustainable Spread (ROIC spread) as the difference between ROIC and long-term capital cost. By expanding the SEKISUI Sustainable Spread, the Group is increasing its corporate value.

Control the cost of capital in a broad sense and improve the Group’s management ability to sustain business by controlling major incidents and investing in the management base

SEKISUI CHEMICAL Group will increase investments in such areas as governance (internal controls on safety, quality, accounting, legal /ethical matters, information management and risk management), digital transformation (DX), the environment and human capital to mitigate risks that could lead to major incidents by establishing an ESG investment limit. We will also work to control medium- to long-term capital costs and improve our management ability to sustain business.



Overview of the Current Medium-term Management Plan

Under the current Medium-term Management Plan, Drive 2022, SEKISUI CHEMICAL Group has worked diligently to promote business growth and reform, make preparations for long-term growth, and strengthen the ESG management base guided by the basic strategy of promoting ESG management. Through these endeavors, the Company reported record-high net sales of ¥1,242.5 billion in fiscal 2022 against a target of ¥1,220.0 billion. While operating income was held to ¥91.7 billion against a target of ¥110.0 billion and ROIC to 7.6% against a target of 8.6% owing to the fluctuation in demand and high raw material prices attributable to the prolonged impact of COVID-19, we are making steady progress in our efforts to promote the three Drives despite the pandemic.

Business Growth and Reform (Existing Business Drive)

Bring forward structural reforms, accelerate the shift to high-value-added products, address the surge in raw material costs through adjustments to product prices

Preparations for Long-term Growth (New Business Drive)

Push forward town and community development, Bio-Refinery (BR), perovskite solar cell, and other new business themes, and expand the Life Science business

Strengthening the ESG management base (Business Base Drive)

Set KPIs for each of the five materialities (governance (internal control), the environment, digital transformation (DX), human capital, and fusion (inclusion)) and products to enhance sustainability, and invest management resources to develop and implement Group-wide and divisional company initiatives.

The next Medium-term Management Plan Drive 2.0—The 2nd Phase for 2030



Three initiatives to enhance corporate value form the backbone of SEKISUI CHEMICAL Group's basic strategy under its Medium-term Management Plan Drive 2.0—The 2nd Phase for 2030—, which is positioned as the second stage in efforts to realize the Long-term Vision, Vision 2030.

Under the Plan, SEKISUI CHEMICAL Group will engage in strategic creation, work to strengthen existing businesses, and bolster its ESG management base in a bid to achieve sustainable growth, while at the same time upgrading and expanding efforts to create and acquire new businesses.

Targets set for fiscal 2025, the final year of the Plan, include net sales of ¥1,410 billion, operating income of ¥115 billion, and an ROIC of 8.5%.

Strategic Creation (Strategic Innovation)

SEKISUI CHEMICAL Group is undertaking detailed preparations to create new business domains. In specific terms, we are working to generate innovations in innovation areas and to promote the commercialization of seven major themes as a part of its Strategic Area Map, which was formulated as a compass for realizing our Long-term Vision.

Strengthening Existing Businesses (Organic Growth)

SEKISUI CHEMICAL Group is promoting efforts to steadily grow existing business and fine tune its portfolio. In particular, we are focusing on expanding enhancement areas, undertaking the balanced allocation of resources through portfolio management, and expanding growth drivers while promoting unrelenting structural reforms.

Strengthening the ESG Management Base (Strengthen Sustainability)

SEKISUI CHEMICAL Group is engaging in measures to strengthen ESG management in a bid to achieve sustainable growth while expanding and upgrading efforts to create and acquire new businesses.

Setting an expense budget of ¥55 billion (capital expenditure + expenses) for strengthening ESG measures under the next Medium-term Management Plan, SEKISUI CHEMICAL Group is actively engaging in medium- to long-term measures including activities to mitigate risks that lead to major incidents, investments in such areas as DX, human capital, and the environment.

See the following for materials on the next Medium-term Management Plan Drive 2.0.

- SEKISUI CHEMICAL Group's Medium-term Management Plan Drive 2.0

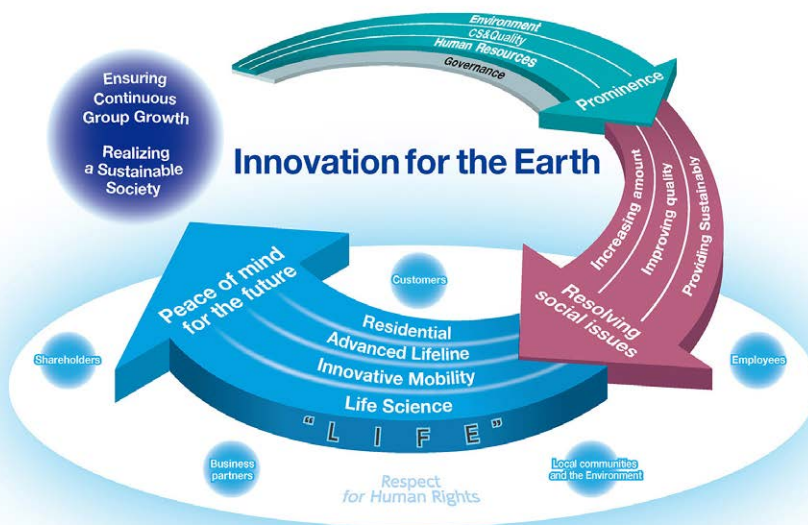
https://www.sekisuichemical.com/news/2023/___icsFiles/afiedfile/2023/05/23/230523_en.pdf

- Medium-term Management Plan Presentation (May 23, 2023)

https://www.sekisuichemical.com/ir/presentations/vision/___icsFiles/afiedfile/2023/06/19/20230523kge.pdf

Basic Concept of ESG Management

By means of its ESG management, SEKISUI CHEMICAL Group is aiming to realize both a sustainable society and the sustainable growth of the Group itself. To this end, we are working together with stakeholders on the three steps: securing prominence, solving social issues, and creating peace of mind for the future. While first focusing on strengthening our sustainable management capabilities and lowering the cost of capital under our current Medium-term Management Plan, we will develop initiatives that contribute to our growth strategies in the next Medium-term Management Plan.



Conceptual Diagram of ESG Management

Three Steps

(1) Securing prominence

Putting in place a corporate structure that is trusted by society through Governance (Internal Control) and driven by the challenge of its prominence in human resources to create products and services that are overwhelmingly different in terms of the environment as well as CS & Quality.

(2) Solving social issues

Based on its prominence, accelerating the solving of social issues by means of three approaches (increasing the quantity of contributions, improving the quality of contributions, and providing both quantity and quality in a sustainable manner).

(3) Creating peace of mind for the future

Creating and expanding the value that delivers peace of mind for the future to all generations, including those of the future, through four domains (Residential, Advanced Lifeline, Innovative Mobility, and Life Science).

Identifying Key Issues (Materiality)

To strengthen still further ESG management, which is the key to realizing the Long-term Vision, Vision 2030, SEKISUI CHEMICAL Group has taken a revised look at key issues and is promoting measures centered on Governance (Internal Control), DX, the environment, human capital, and fusion (innovation).

Extracting and Identifying Key Issues

Key issues are identified based on the following processes.

Step 1: Extracting Issues

A comprehensive list of issues was identified from the following perspectives:

(1) SEKISUI CHEMICAL Group

- Corporate Philosophy system (Corporate Philosophy, Group Vision, Long-term Vision)
- Various policies
- Employee awareness surveys
- Discussions at various meetings

(2) Social demands

- Regulations and the soft law of each country in which the Group operates
- Opinions and expectations of external stakeholders (customer surveys, dialogue with shareholders and investors, NPOs)
- Opinions of outside experts (advisory boards)
- Evaluation institution and customer survey items and content
- Global guidelines (UN Global Compact, ISO26000, GRI Standards, SDGs, TCFD, IIRC, SASB, OECD's Guidelines for Multinational Enterprises)

(3) Other companies' trends

- Integrated reports, Sustainability reports
- Exchange of opinions at Global Compact subcommittee and other meetings

Step 2: Identifying Key Issues

We identify key issues after deliberation by the Sustainability Committee and prioritize in accordance with the two axes: A. Importance to stakeholders*¹ and B. Importance to SEKISUI CHEMICAL Group*².

*1 Taking into consideration the magnitude of the positive and negative impact on the earth and society utilizing the SEKISUI Environment Sustainability Index.

*2 Utilizing the SEKISUI Sustainable Spread based on the assumption of a substantial financial impact in the future.

Step 3: Authorizing Key Issues

Key issues deliberated by the Sustainability Committee are ultimately authorized by the Board of Directors.

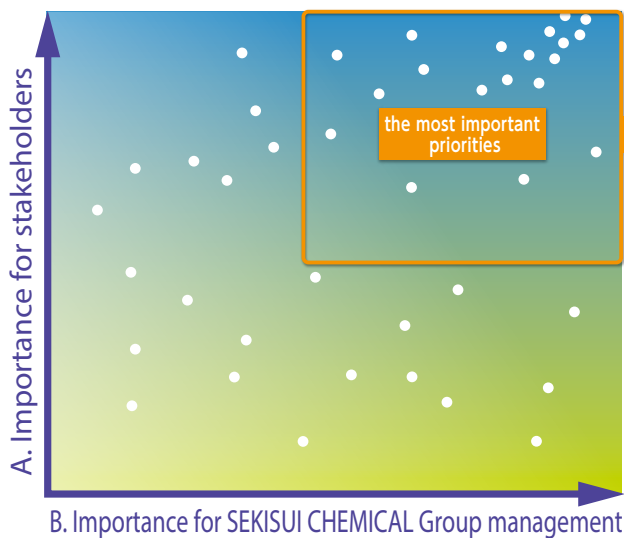
While key issues are revised as a rule every three years, when steps are taken to formulate the Medium-term Management Plan, SEKISUI CHEMICAL Group considers whether further revisions are required each year based on such factors as the status of the Group and changes in social conditions.

Execution and monitoring of key issues

As far as the key issues identified are concerned, each principal and related department of SEKISUI CHEMICAL Group’s Corporate Headquarters and divisional companies formulate activity plans and targets, which are implemented following deliberation and authorization at management meetings.

The progress of activities is monitored by the Budget Committee, Sustainability Committee, and subcommittees, twice a year.

SEKISUI CHEMICAL Group’s Key Issues (2020-2022)



<Governance (Internal Control)>

—Reduce operational risks that may damage corporate value on a Group and global basis—

- Reducing serious incidents (safety, quality, accounting, legal/ethical, information management)
- Risk management (BCP)
- Reduce supply chain risk
- Implement human rights due diligence

<DX>

—Revise work processes and drastically increase productivity triggered by DX—

- Visualize and standardize (standardize operations, introduce ERP, renew infrastructure and networks)
- Increase productivity (automation / unmanned shifts, improve operational efficiency through the use of digital technology, ICT and AI)
- Sophisticate (increase the sophistication of operational control, Governance (Internal Control) and the supply chain)

<Environment>

—Reduce GHG emissions and waste through business activities and shift to sustainable management—

- Adapt to and mitigate climate change
- Promote a circular economy
- Reduce water-related risks
- Reduce environmental degradation

<Human capital>

—Foster a culture in which employees can thrive and take on challenges on their own—

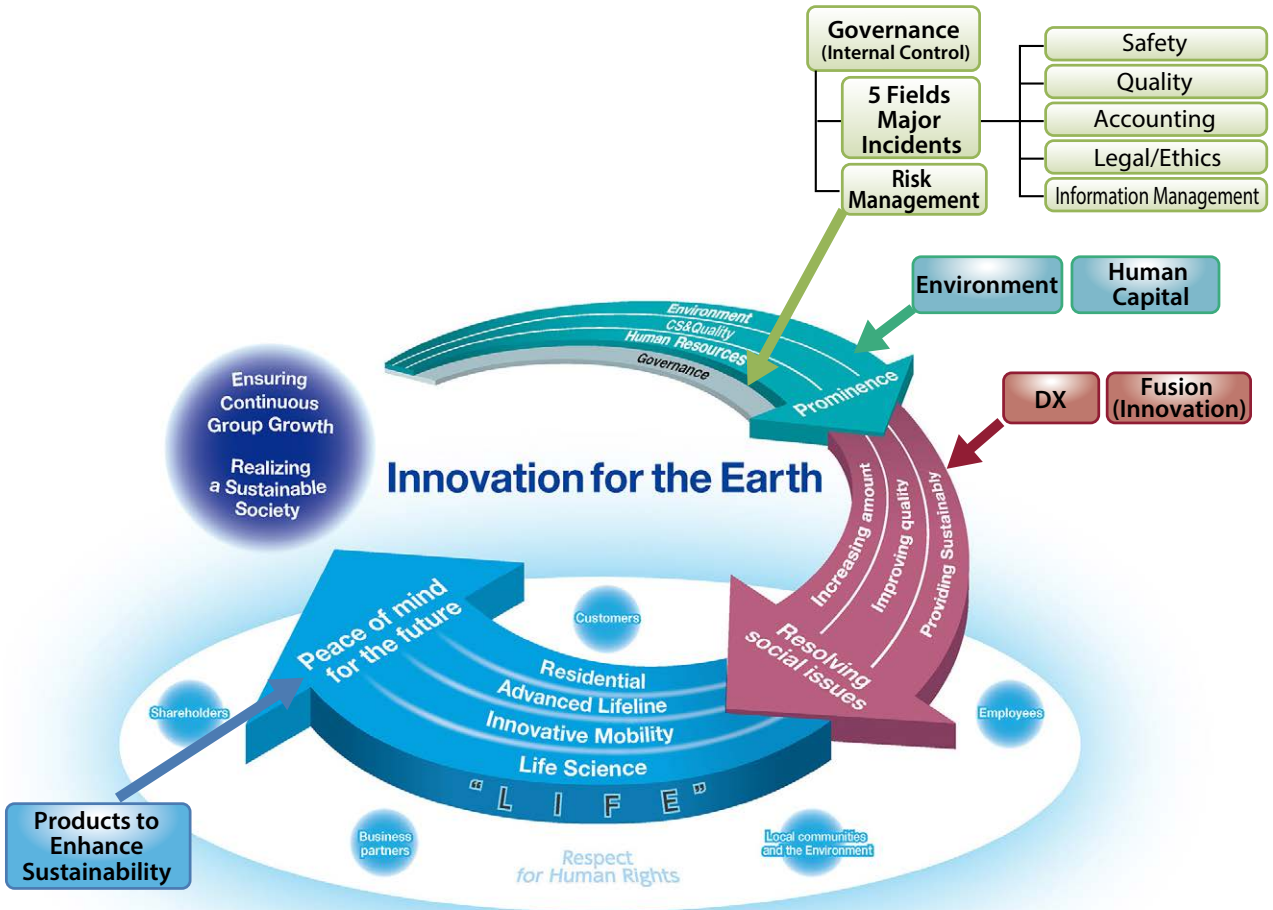
- Evolve toward a challenging corporate culture and active employee participation (culture and human resource development, system design)
- Promote diversity management and globalization
- Promote health management

<Fusion / Innovation>

—Steadily develop and launch new products and projects in existing areas; maximize speed and impact by breaking away from a new business area process that relies solely on closed innovation—

- Create and expand the market for products to enhance sustainability
- Promote open innovation
- Strengthen intellectual property strategies
- Promote activities that contribute to the solving of issues through cooperation with local communities

Positioning of key issues in the ESG management conceptual diagram



Supervisory Promotion System of ESG Management

Oversight and Promotion System Made Up of the Board of Directors, Sustainability Committee, and Seven Subcommittees

SEKISUI CHEMICAL Group promotes ESG management on an integrated Group-wide basis through an oversight and promotion system made up of the Board of Directors, which fulfills a supervisory function, the Sustainability Committee, which fulfills a business execution function, and seven subordinate subcommittees.

Board of Directors:

The Board of Directors receives reports on policies, strategies, and Group-wide risks deliberated by the Sustainability Committee twice a year. In addition to making final decisions, the Board oversees the executive function regarding sustainability.

Sustainability Committee:

Chaired by the President, the Sustainability Committee's membership also includes the Senior Managing Executive Officer Responsible for the ESG Management Department serving as deputy chairperson, as well as executive directors including the presidents of the Housing Company, the UIEP Company, and the HPP Company. Meeting two times each year, the Sustainability Committee extracts and identifies risks and opportunities that the Group may face in the future, and reviews materiality as appropriate. At the same time, the Committee determines Group-wide policies and KPIs, formulates Group-wide action plans, receives reports from each subcommittee chairperson, and monitors the status of each materiality initiative.

Sub-committees:

SEKISUI CHEMICAL Group has established seven subcommittees related to the Group's materialities covering the environment, CS & Quality, human resources, safety, compliance, cyber security, and DX under the umbrella of the Sustainability Committee.

Meeting two times each year, each subcommittee is chaired by the executive in charge of Corporate Headquarters and includes the executives of each divisional company as well as general managers of divisional companies, Corporate Headquarters, and the Medical Business, which falls under the umbrella of Corporate Headquarters. Each subcommittee drafts specific measures for each divisional company based on details determined by the Sustainability Committee. These measures are incorporated into action plans and the status of progress monitored. The chairperson of each subcommittee participates in meetings of the Sustainability Committee to report on and discuss results.

Sustainability Committee / Subcommittee Structure

