

SEKISUIKASEI

Our Planet. Our Tomorrow.

Integrated
Report

2022



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Goal

Plastics Solution Company Trusted by
Customers around the World

We make efforts toward solving
environmental and social issues
through our business

Editorial Policy

To convey the sustainable growth potential of SEKISUI KASEI to all readers, including our stakeholders, from the perspective of ESG, we showcase corporate information focusing on medium- to long-term value creation.

Scope of the Report

Period covered: April 1, 2021 – March 31, 2022
(includes activities from April 2022 onwards)

Target organizations: SEKISUI KASEI Co., Ltd. and SEKISUI KASEI Group

Guidelines Used as Reference

- International Integrated Reporting Council (IIRC): International Integrated Reporting Framework
- Ministry of Economy, Trade and Industry: Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation
- Ministry of the Environment: Environmental Accounting Guidelines (Y2018 Edition)
- Japanese Standards Association: Guidance on Social Responsibility JISZ26000 (ISO 26000)

Cautionary Note on Forward-looking Statements

Results forecasts, plans, business strategies, awareness and assessments of facts, and other forward-looking statements concerning the Company or the Group are assumptions that the Company's management believes to be reasonable based on currently available information. Actual outcomes may differ materially from those expressed in these forward-looking statements due to various factors. The Company undertakes no obligation to publish revised forward-looking statements to reflect new events, conditions, or circumstances.

Management Philosophy

We, SEKISUI KASEI, practice “*Zen-in Keiei*” based on respect and mutual trust. We are always innovating in our aim of “new happiness.”

The founding spirit of
“For happiness of people working for the Company”
leads to “new happiness”

Code of Conduct

1. Unite individual efforts to make a strong power.
2. Grow and develop together with customers by creating top quality and service.
3. Contribute to a better environment and an enriched society in perfect harmony among people, nature, and technology.
4. Make an honest, generous and fresh workplace.
5. Address each and every challenge in creation and innovation to achieve our goals.

Zen-in Keiei

Each and every employee acts in the spirit of
entrepreneurs and industrialists



Publication of Integrated Report 2022

We would like to thank all stakeholders for their valuable input to the Integrated Report. As a leading company in foamed plastics, SEKISUI KASEI offers a variety of products and services that support people’s daily lives. From our Industry segment, which supports the electronics, mobility, and medical/healthcare sectors, to our Human Life segment, which supports the food, housing, and energy markets, we contribute to the creation of solutions for society by practicing our corporate culture, *Zen-in Keiei*, while utilizing the material development and molding technologies we have developed since our founding.

In FY2021, the business environment remained uncertain, not only due to the impact of the COVID-19 pandemic, but also due to the shortage of semiconductors and soaring raw material and fuel prices, as well as the situation in Ukraine. The Group is also facing a challenging environment, but in order to overcome the current difficulties and make steady progress toward the future, we have formulated a new mid-term management plan starting in April 2022 and are moving forward with its initiatives.

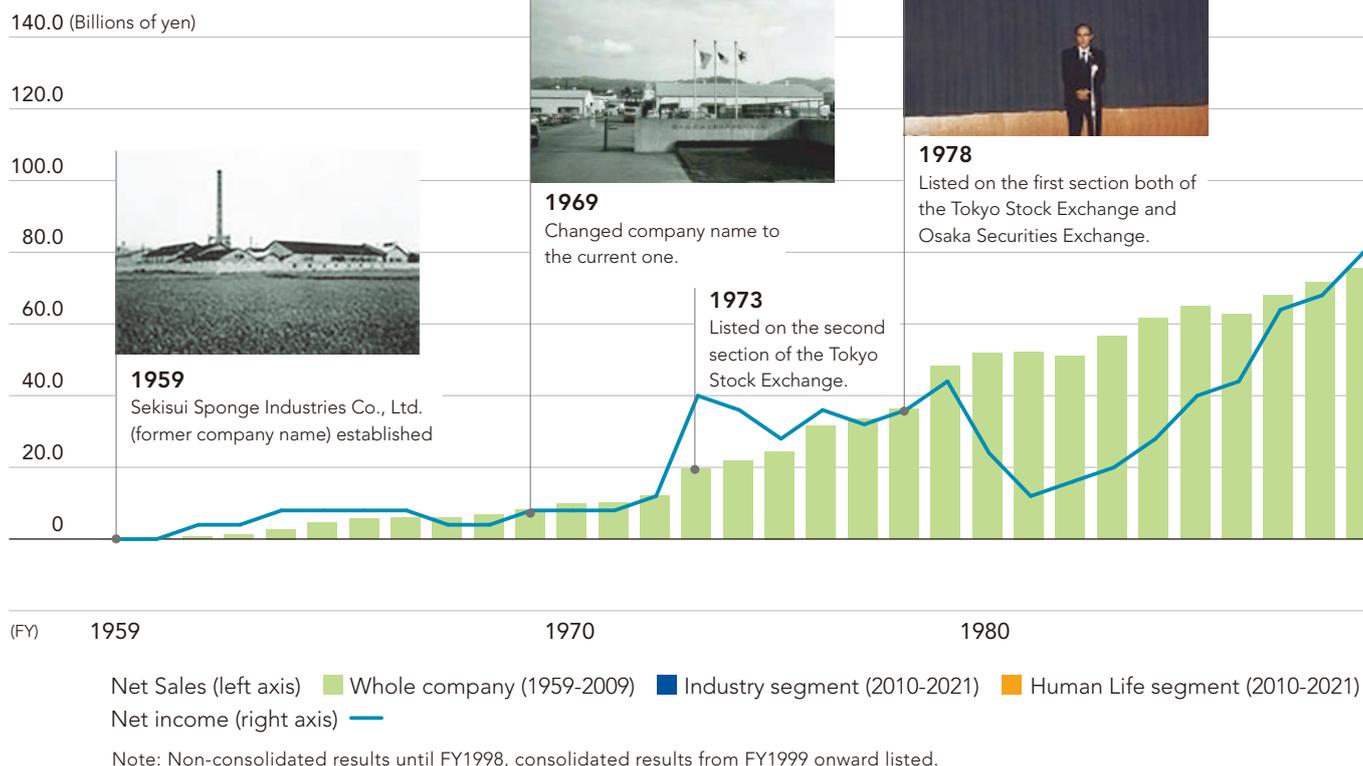
This Integrated Report communicates what we are doing to enhance our corporate value and how we are doing it. Production of the report is treated as a management matter with participation from across the organization. Going forward, we will continue to value dialogue with our stakeholders and work to improve this report every year to make it even better. We appreciate your frank opinions and feedback.

Katsumi Sasaki—Publication Officer
Director and Senior Managing Executive Officer
Head of Corporate Strategic Headquarters

SEKISUI KASEI's Accomplishments

It has been over 60 years since we became the first company in Japan to manufacture and sell EPS (expandable polystyrene) beads in 1959. As a pioneer in the foaming business, we have provided products in a wide range of fields, including food packaging, cushioning materials and lightweight automotive components, expanding globally in earnest from 2000 onwards. Currently, we are working to create a sustainable society and achieve corporate growth by executing our new mid-term management plan.

Development of business results



History of Challenges and Growth

1959-1978

Establishment Period

In 1959, Sekisui Sponge Industries Co., Ltd. was founded with a total of 25 employees. The following year, we began manufacturing and selling ESLEN Beads, Japan's first foaming polystyrene beads made with domestic technology. In 1962, we developed our own manufacturing method for ESLEN Sheets which is foamed polystyrene sheet and after applying for a patent, began production of these products as well.

As Japan continued on its path of rapid economic growth, we listed on the second section of the Osaka Securities Exchange in the year of the Tokyo Olympics and five years after our founding, thanks to a rapid expansion of our business with a series of capital increases, production increases, and sales growth. We subsequently overcame the first oil crisis and the movement to ban EPS foam, and were listed on the First Section of the Tokyo Stock Exchange in 1978.

1979-1991

Accelerated Growth

The 1980s was a period characterized by expanding and innovating production facilities. Demand for ESLEN Sheets rose further for use as food trays and instant noodle containers, going beyond supermarkets and into convenience stores, which were expanding their store network during this period. In response to the growing demand, we built a plant in Tenri, Japan, that automated the entire process of winding, picking, packing, and palletizing. In addition, we pushed for further plant automation in our plant in the Kanto region by introducing unmanned forklifts. Subsequently, we implemented labor-saving measures by proactively investing resources, such as building the Okayama Plant equipped with a CIM system that centrally manages everything from production conditions to logistics data.



2004

Established Sekisui Kasei Shanghai International Trading Co., Ltd. and Sekisui Kasei Tianjin Co., Ltd.



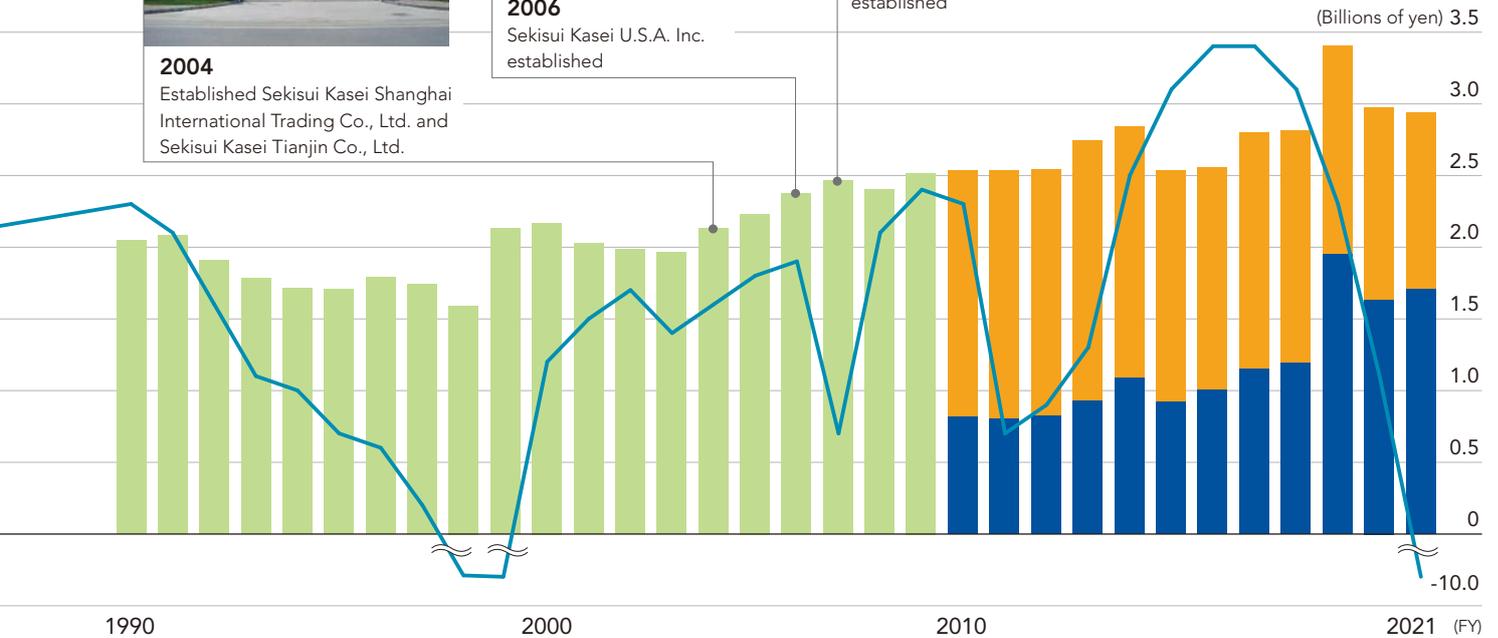
2006

Sekisui Kasei U.S.A. Inc. established



2007

Sekisui Kasei Europe B.V. established



1992–2003

Resurgence

We built up our production and R&D structure by expanding our plants and opening a research laboratory, but from 1992 onward, the Japanese economy plunged into a major recession. The economy remained in a severe downturn with no signs of a recovery, and we suffered two consecutive periods of consolidated losses starting in 1998. At the time, we were pursuing business opportunities in a variety of fields, but it became an urgent issue to select and concentrate on certain businesses and to place emphasis on areas that should be prioritized and strengthened. To get out of the red, we not only reviewed our businesses and streamlined our organization, but also stepped up R&D in areas such as high-functional materials, and were able to reinstate dividend payments in 2000.

2004–2008

Global Expansion

Since the 1970s, our overseas activities have focused on technology exports to a wide range of customers, including the US, India, South Korea, Hong Kong and France. After that, in the early 1990s, our foray into overseas markets took form. While not yet a full-fledged global operation, we began establishing sites in Taiwan, Thailand, and other parts of Asia. In 2000, we designated our Overseas Strategy as one of our key issues and our products, centered on PIOCELAN, were subsequently adopted not only as packaging materials for automobile parts, but also for automobile components such as bumper cores and tibia pads, which led to the opening of our plants in the US and Europe.

2009–

New Challenge

To mark our 50th anniversary, we embarked on a new journey by formulating our 100th Year Vision aimed at achieving further development and growth over the next 50 years. In addition, we are also working to solve environmental problems on a global scale through the effective use and recycling of limited resources by making use of the expertise and technology we have accumulated since our founding. We will continue working to create a sustainable society while taking to heart our corporate message of "Our Planet. Our Tomorrow."

100th Year Vision

To mark its 50th anniversary, in 2009, SEKISUI KASEI Co., Ltd. formulated SEKISUI KASEI Group's 100th Year Vision to serve as a roadmap for further growth and development in the next half century.



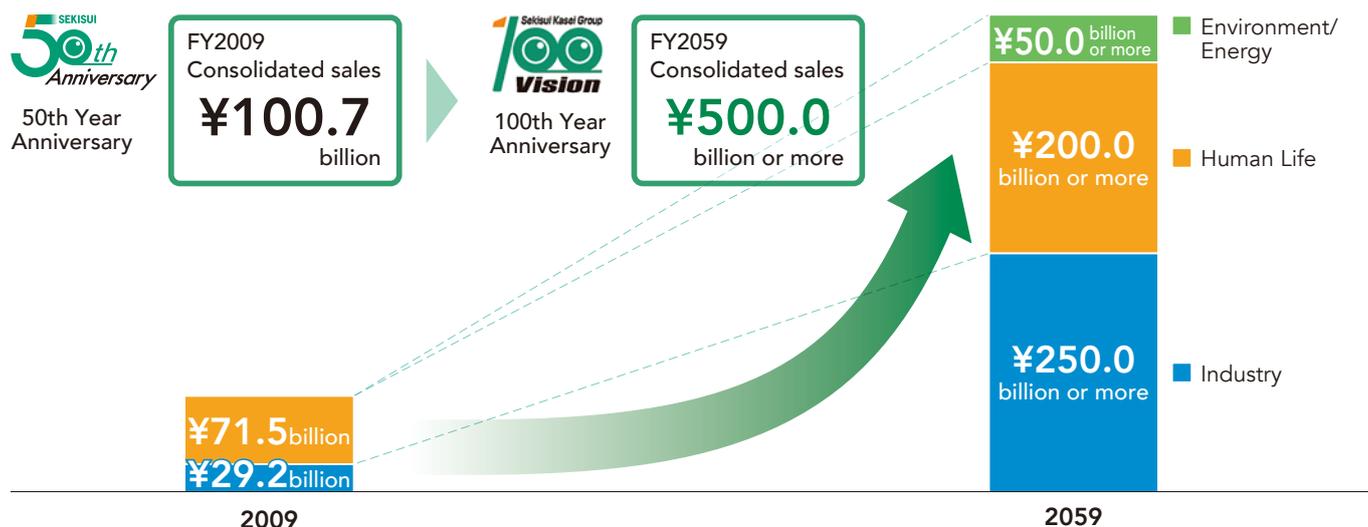
Corporate Goal for Our 100th Year Anniversary (in FY2059)

SEKISUI KASEI Group aims to gain the trust of customers by globally expanding businesses based on plastics and providing solutions.

Situation Goal	Scale Goal	
Plastics Solution Company Trusted by Customers around the World	Consolidated Sales ¥500.0 billion or more	
Corporate Domains		
SEKISUI KASEI Group Solutions		
Materials Plastics based	Technologies Technology that creates added value	Systems By systemizing, know-how and providing information
Industry: Contributing to the growth and development of the industry by proposing business solutions to client companies Lifestyle Transformation: Contributing to the transformation of people's lifestyles Global Environment: Simultaneously aiming to improve the global environment		

Business Vision—Develop Globally as a “Plastics Solution Company” in Three Business Segments

SEKISUI KASEI Group is targeting net sales of over ¥250 billion and ¥200 billion in the Industry and Human Life segments, respectively, and also will grow the Environment/Energy segment to the ¥50 billion scale in net sales in FY2059, the 100th anniversary of the Group’s founding.



CSR Vision—SEKISUI KASEI Group, Expanding Our Dreams for People and the Earth

We, SEKISUI KASEI Group, carry out social responsibility to stakeholders including the global environment by practicing our management philosophy and contribute to the sustainable development of the global society.



Culture Vision—Zen-in Keiei

All members, including managements and employees in general, of SEKISUI KASEI Group always recognize the 4 keywords, “Innovation,” “Speed,” “Teamwork” and “Respect for Diversity” as starting point of achievement by making the most of strength and improving the weakness.

CSR Declaration

Looking ahead to the "SEKISUI KASEI Group 100th Year Vision," SEKISUI KASEI Group is conducting business activities with the aim of fulfilling its social responsibilities to all stakeholders, including the global environment. The CSR activities that form the basis of the Group's business activities are summarized in its "CSR Declaration."



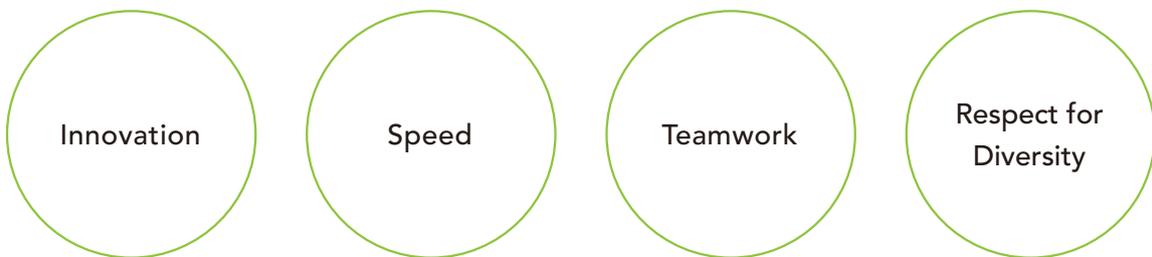
Stakeholder	Responsibility of SEKISUI KASEI Group
Customers	The Company not only supplies safe/reliable products but also bring comfort and convenience to the lives of people by always creating new functions/value and proposing materials/services as solutions for customers.
Group Members	The Company places emphasis on mutual respect and trust, and pursues the happiness of people working for the company. Consequently, we will improve fairness to skill development and rating, and make efforts to create a healthy/safe work environment, and a good balance between work and family.
Local Communities	The Company believes being a safe workplace is the most important to communities. In addition, as a member of local communities, we aim to be a company trusted and loved by the whole community.
Shareholders	The Company meets expectations from shareholders with returns by improving its corporate value. Furthermore, we focus on the active disclosure of our management information and dialogue with shareholders.
Business Partners	The Company builds trust in relationships with business partners through fair, honest business practices with sincerity as our motto. Also, we aim at co-existence and co-prosperity as a better partner for the partners.
Global Environment	The Company actively endeavors to improve environment to protect our precious earth. In particular, we contribute to the low-carbon society and develop the recycling-based society with foam plastics in the community and lowering carbon levels centering on foam plastics which are eco materials.

Zen-in Keiei

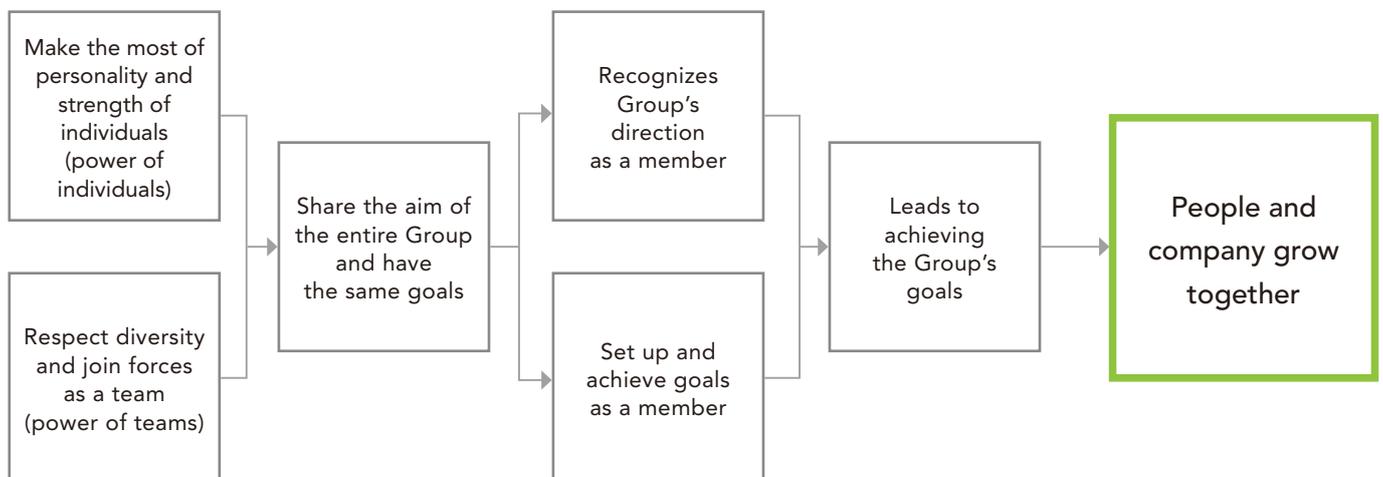
Under the concept of *Zen-in Keiei*, each member thinks by themselves, proposes, and makes voluntary actions, not be forced by top-down instructions. Under SEKISUI KASEI Group culture, we value brainstorm with other members for improving personality and strength of individuals.

For the growth of both company and its people

4 keywords for the practice of *Zen-in Keiei*



Zen-in Keiei



Value Creation Model

We leverage the unique management resources of SEKISUI KASEI Group to provide sustainable value to society through our two business domains and the business activities that support them.



OUTCOMES



Social & Relationship Capital

Contributing to the development of society by proposing business solutions

► Development of eco-friendly and comfortable mobility components

For example,

with automotive components, we have...

Achieved reduction of thickness and weight without compromising functionality

☞ Improved fuel efficiency leads to reduced CO₂ emissions

Developed materials with improved strength and heat resistance

☞ Leads to improved safety



► Providing materials that reduce food loss

For example,

with food containers, we have...

Achieved our pursuit of shock absorbency and improved heat insulation

☞ In addition to protecting food from impact during transport, it also helps to reduce food loss by keeping food fresh and preserving it for a long period of time

Contributed to food safety and security

☞ Thorough compliance with laws and regulations and efforts toward quality lead to improvements in food hygiene

Reusable containers for food delivery



Natural Capital

Existing in harmony with the global environment

► Contributing to the realization of a circular economy by creating Sustainable Star Products and expanding their market

For example,

as an environmental strategy, we have...



Promoted SKG-5R

☞ Creating "Sustainable Star Products" and expanding their market leads to the realization of a sustainable society

Developed materials with improved strength and heat resistance

☞ Leads to improved safety

► Challenge to achieve carbon neutrality in 2050 Leads to "Our planet. Our tomorrow."

For example,

in business activities, we have...

Worked to minimize CO₂ emissions

☞ Utilization of renewable energy

☞ Energy saving and high efficiency



Intellectual Capital

Future value creation through technology

► Utilizing RX to improve output



Manufactured Capital

Establishment of a system that can provide products in a stable manner

► Increased productivity through DX promotion



Human Capital

Establishment of a corporate structure that is trusted by society

► Implementation of diversity promotion and work style reforms to foster respect for people and mutual trust



Financial Capital

Enhancing corporate value in the medium to long term

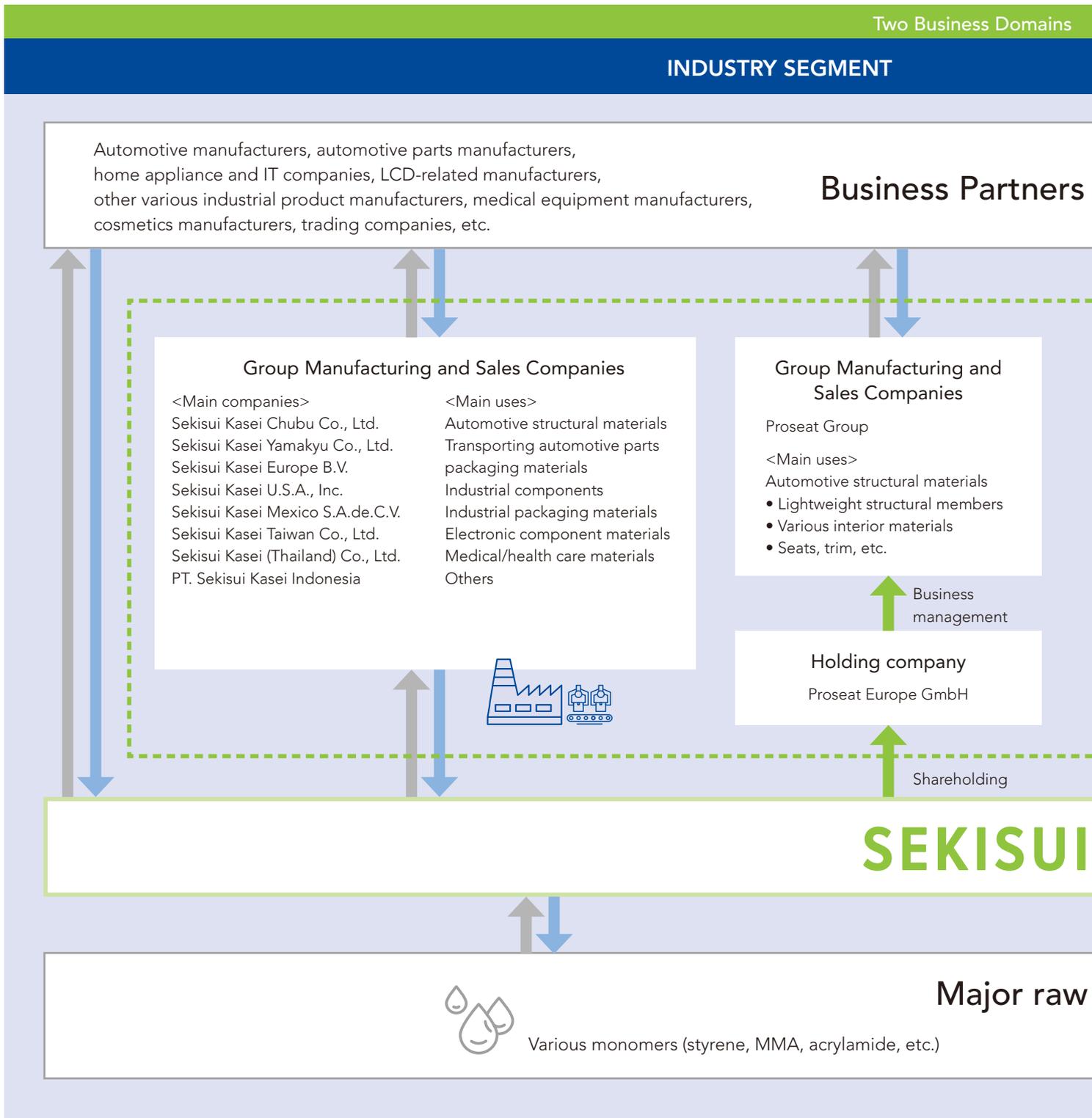
► Strengthening our financial position and implementing capital efficiency-oriented management

Earnings Model

SEKISUI KASEI Group generates stable earnings through an integrated business that extends from the production of foam resin as an intermediate material to the manufacture and sale of finished products for a variety of applications in various markets.

Under our new mid-term management plan "Spiral-up 2024," we have set the strengthening of the earnings structure as one of our key issues, and we are restructuring our business portfolio and quickly monetizing developed products in order to expand earnings.

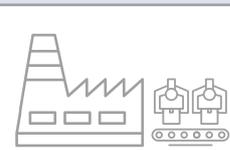
Example business earnings model



Sales of products and goods  Purchase of products and goods 

Product & Service

HUMAN LIFE SEGMENT



Packaging container manufacture, wholesale markets, agriculture and fisheries-related companies, construction companies, landscaping companies, construction material manufacturers, etc.

Group Sales Companies

- <Main companies>
- Sekisui Kasei Korea Co., Ltd.
- Sekisui Kasei Shanghai International Trading Co., Ltd.
- <Main uses>
- Automotive structural materials
- Transporting automotive parts packaging materials
- Industrial components
- Industrial packaging materials
- Electronic component materials
- Others

Group Manufacturing and Sales Companies

- | | |
|---|---|
| <ul style="list-style-type: none"> <Main companies> Sekisui Kasei Hokkaido Co., Ltd. Sekisui Kasei Kansai Co., Ltd. Sekisui Kasei Toubu Co., Ltd. Sekisui Kasei Chubu Co., Ltd. Sekisui Kasei Seibu Co., Ltd. | <ul style="list-style-type: none"> <Main uses> Agricultural and marine product containers Food containers Distribution materials, Construction materials Civil engineering materials Others |
|---|---|



KASEI

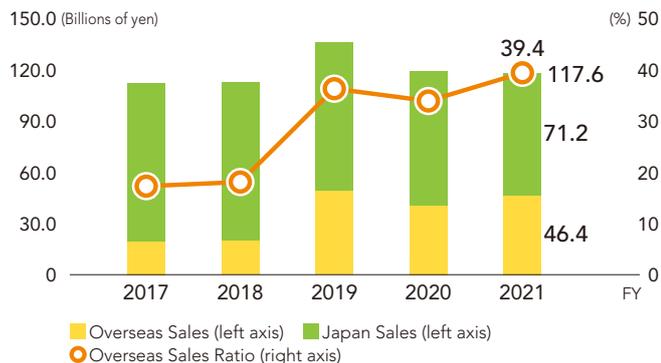
material suppliers

Various polymers (polystyrene, polyethylene, elastomer, etc.)



Financial and Non-Financial Highlights

Net Sales/Overseas Sales Ratio



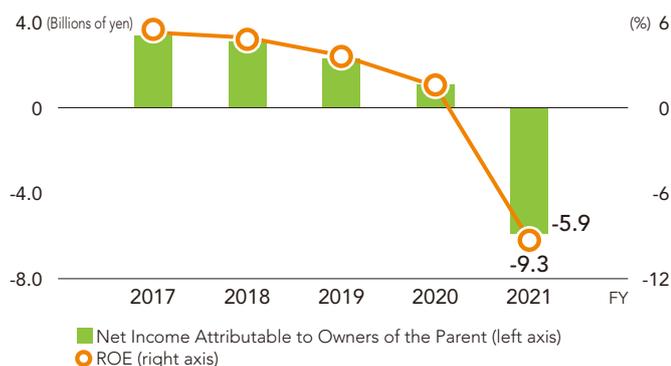
In our 100th Year Vision, SEKISUI KASEI Group has committed to long-term global business expansion and is working to increase the ratio of overseas sales to total sales, so one of the Key Issues in the New Mid-Term Management Plan, Spiral-up 2024 (FY2022-2024) is "Strengthen the earnings structure" which includes constructing a highly profitable structure in the Proseat business.

Operating Income/Operating Income Ratio



Although one of the priority policies in the previous mid-term management plan was to "Execution of strategies to strengthen earnings structure," we met with harsh results as the business environment remained uncertain due to the impact of the spread of COVID-19 and soaring raw material and fuel prices. We will strengthen our earnings structure as we execute on our Spiral-up 2024 (2022-2024) plan to ensure that we make steady progress toward the future.

Net Income Attributable to Owners of the Parent/ROE



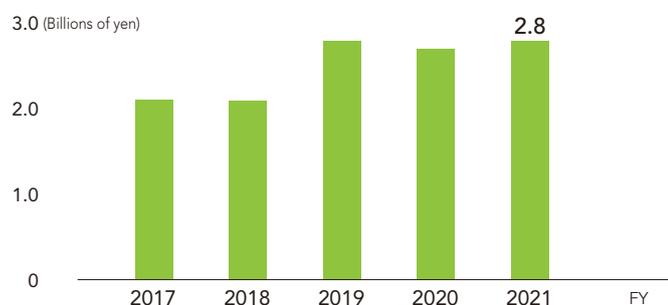
One of the Key Issues of Spiral-up 2024 (2022-2024) is to reinforce our management foundations, and we are focusing on enhancing financial health. We will work to improve ROE by shifting from PL-oriented management to capital efficiency-oriented management, focusing on improving cash flow and working capital metrics.

Free Cash Flow



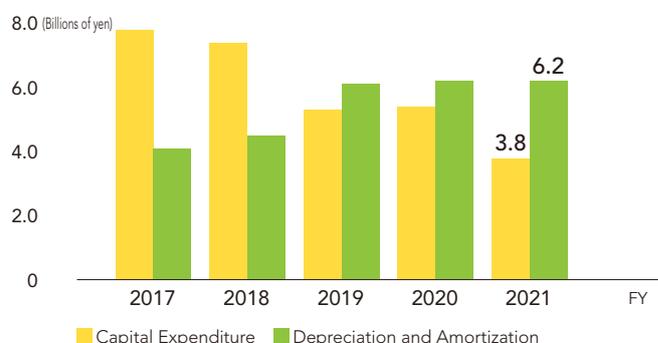
We aim to improve free cash flow, the ability to earn cash, as an indicator for judging corporate performance in addition to accounting profits.

Research and Development Costs



We are engaged in research and development aimed at providing value to society, positioning our developed products as our medium to long term growth driver and focusing on achieving our FY2030 target of creating "Sustainable Star Products" (environmentally-friendly products) and expanding their market. → P29

Capital Expenditure/Depreciation and Amortization



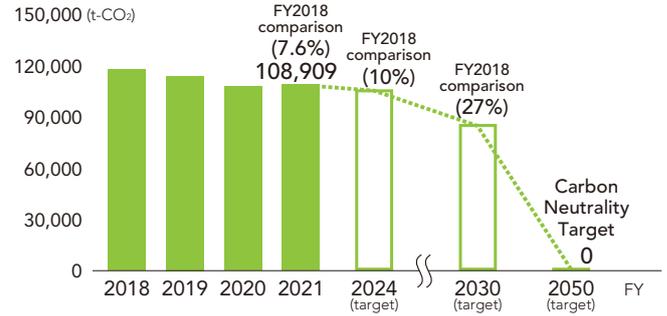
We curbed investments during Make Innovations Stage-II (2019-2021) because of unfavorable market conditions, but we plan to boost capital expenditures by 180% (22 billion yen over 3 years) compared to the previous mid-term management plan during Spiral-up 2024 (2022-2024) in order to strengthen growth investments, including environment- and digital transformation-related investments. → P22

No. of Sustainable Star Products Registered/Ratio of Net Sales



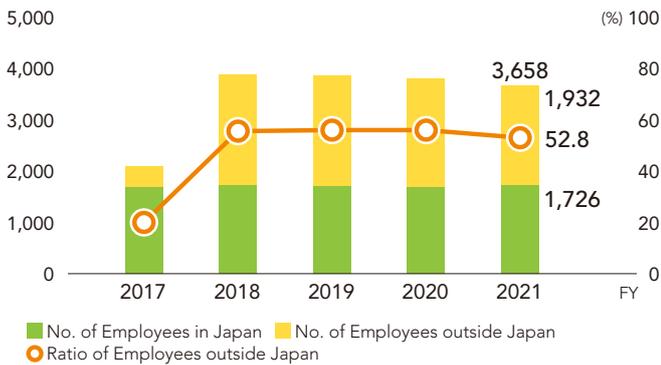
We have set a FY2030 target for "Sustainable Star Products" (environmentally-friendly products) and are working on advancing our existing products and bringing new materials into use. → P33

CO₂ Emissions (Scope 1+2)



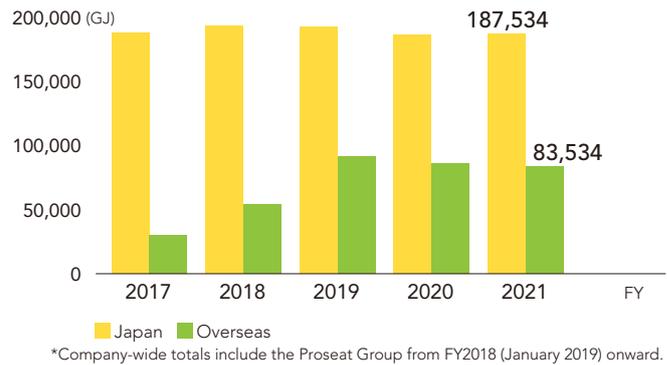
In March 2022, we formulated an initiative to achieve carbon neutrality by 2050, looking beyond the 2030 target set in the SKG-5R to promote CO₂ emission reduction efforts. → P33

No. of Employees



With a view to long-term global business expansion, we are promoting diversity by enhancing our Group employees who are active at our locations outside of Japan.

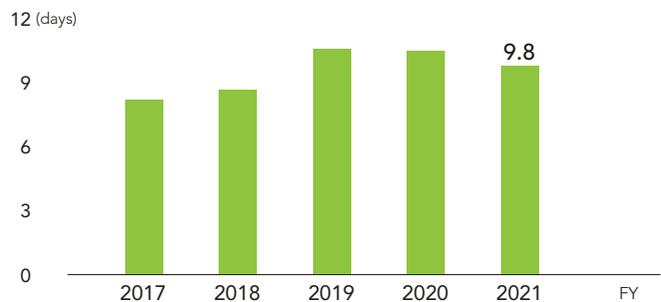
Energy Consumption



*Company-wide totals include the Proseat Group from FY2018 (January 2019) onward.

We recognize the importance of resource and energy savings during the production as well as use of our products, and are working to reduce our energy consumption.

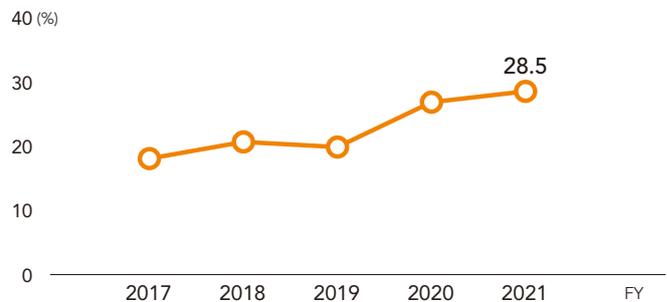
No. of Paid Vacation Days



*SEKISUI KASEI (non-consolidated) and all Group companies in Japan

In keeping with our founding spirit "For happiness of people working for the Company," we are committed to promoting work style reforms. We believe that work-life balance is important for each individual to work creatively and enthusiastically.

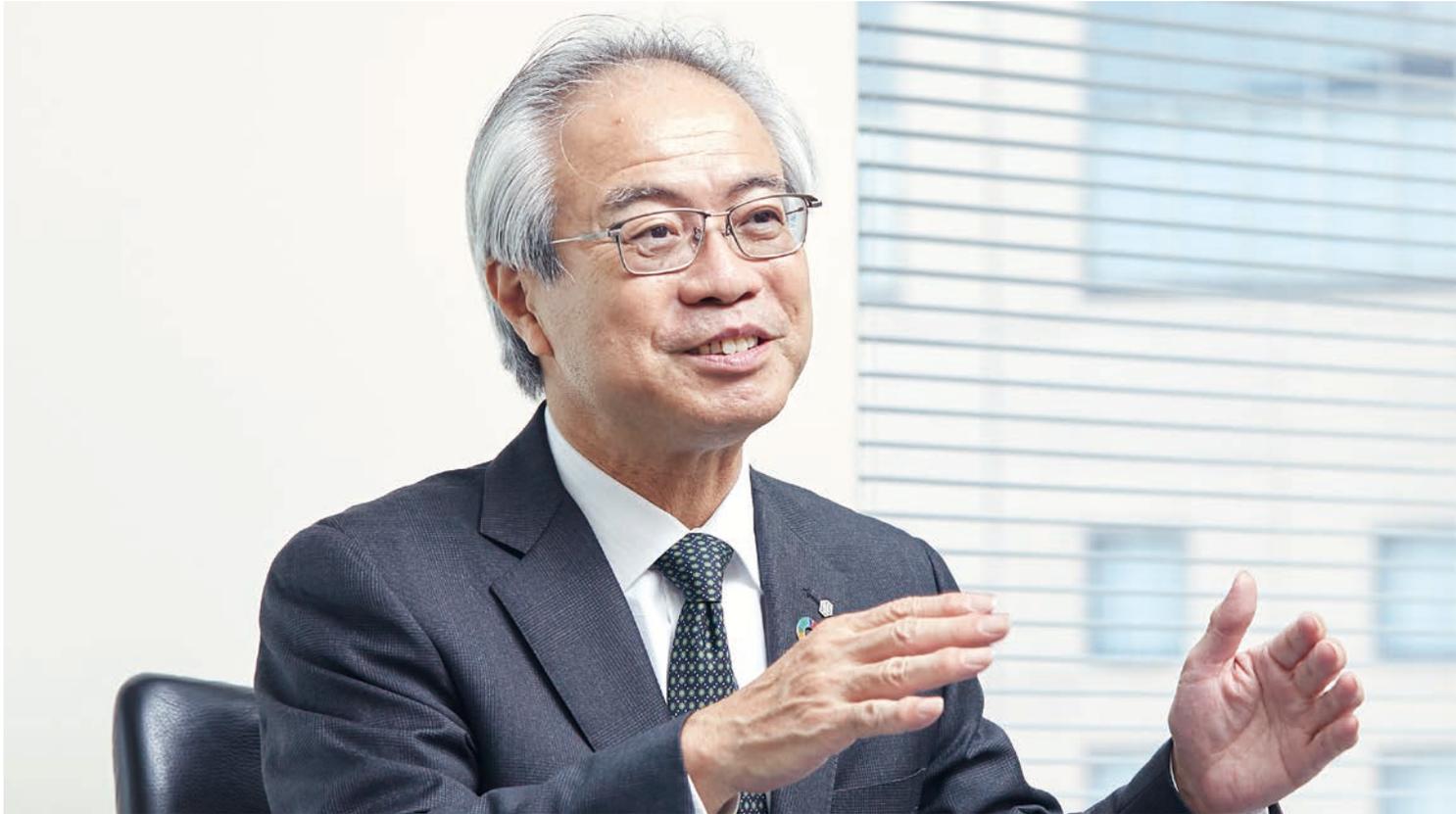
Ratio of Women Employees



*All companies excluding some Group companies

To promote diversity, we have set target ratios for women managers, women employees, and women hires based on our "Action plan on Promotion of Woman's Participation and Advancement in the Workplace & Advancement of Measures to Support Raising Next-Generation Children" (2022-2024), and have been working to achieve them. → P31

Message from the President



Our management philosophy and vision

Our management philosophy reads as follows: We, SEKISUI KASEI practice “Zen-in Keiei” based on respect and mutual trust. We are always innovating in our aim of “new happiness.” The term “new happiness” carries more than one meaning. I believe that by creating products and services that not only bring material and spiritual fulfillment to people, but also contribute to the global environment and solve social issues, we can achieve sustainable corporate development and thereby bring about happiness on

multiple fronts for the next generation.

Our purpose in society is to develop and provide valuable products through *monozukuri* (manufacturing craftsmanship) in harmony with the environment, and to deliver happiness to daily life in a variety of ways. As people’s values change with the times, I believe it is essential for us to continue to support the happiness of each and every person we interact with by adapting to these changes and continuously innovating.

Review of the mid-term management plan “Make Innovations Stage-II”

Under our mid-term management plan “Make Innovations Stage-II,” which we kicked off in FY2019, we worked to transform our business portfolio and execute strategies to strengthen our earnings structure in order to further propel the transformation process we started in our previous plan. To solidify our position as a leading environmental

company, we also focused on advancing our efforts to achieve the targets set forth in the SKG-5R STATEMENT, which we announced in July 2020.

In FY2021, the final year of the plan, we faced an extremely challenging environment, characterized not only by the impact of the COVID-19 pandemic, but also by soaring

We will do our utmost to achieve our targets in the new mid-term management plan by holding our heads high and focusing on our vision in this challenging business environment.

Masato Kashiwabara

President and Chief Executive Officer

fuel prices and the invasion of Ukraine by Russia, which spurred disruptions in supply chains across the globe. In contrast, SEKISUI KASEI Group implemented measures to improve profitability, including efforts to boost productivity and reduce fixed costs. However, our profits fell substantially, with net sales coming in at ¥117,567 million, operating income at ¥1,463 million, and a net loss attributable to owners of the parent of ¥5,917 million.

In our first priority policy of evolving our business portfolio, we made some progress in expanding our Industry segment and global business, with the Industry segment accounting for 58% of net sales (versus our target of 60%) and global sales accounting for 40% (versus our target of 37%). On the other hand, net sales from priority development areas were sluggish at ¥31.5 billion, compared to our plan of ¥37.7 billion, mainly reflecting stagnant production stemming from automotive component shortages, although sales of high functional food containers were firm.

As for our second priority policy of strengthening our group management foundation, we restructured our organization, reviewed our committee structure and governance structure to enhance our organizational capabilities, and made steady progress in boosting productivity through

digitalization. Furthermore, as part of our work style reform and diversity promotion efforts, we introduced a work-from-home program and implemented a three-year Action plan on Promotion of Woman's Participation and Advancement in the Workplace & Advancement of Measures to Support Raising Next-Generation Children to focus on improving our human resource capabilities.

In our third priority policy of contributing to a sustainable society, we made steady progress toward achieving our FY2030 targets by advancing our SKG-5R efforts and achieving our FY2021 target of expanding our Sustainable Star Product lineup.

We are embarrassed that we were not able to achieve the targets of our mid-term management plan "Make Innovations Stage-II," as the business environment was drastically different from the assumptions made when preparing the plan due to unforeseen changes such as the COVID-19 pandemic and the invasion of Ukraine by Russia. However, we plan to continue diligently addressing management issues to ensure that we build on the initiatives we undertook during this period as we work on our new mid-term management plan.

Message from the President

Understanding of external environment

I feel that the three-year period under the Make Innovations Stage-II plan was a time of great change, where social changes became apparent.

First, the shift toward a recycling-based economy and sustainable society has accelerated amid growing awareness of the problem of marine plastic waste and global warming,



which have become major environmental issues on a global scale. In addition, the COVID-19 pandemic triggered a change in our lifestyles, and the spread of remote work and the expansion of the takeout food market created new business opportunities. Digital technology is advancing at a remarkable pace, and I believe that we can bolster our competitiveness not only in R&D, product development, and production sites, but also by promoting digital transformation throughout our company. Furthermore, I believe it is critical for us to enhance our competitiveness in terms of human resources by developing various personnel systems that meet the needs for different and flexible work styles, as well as by promoting diversity.

On the other hand, there are still uncertainties that are likely to linger, which extends beyond the COVID-19 pandemic and also includes soaring crude prices, production adjustments by automakers stemming from semiconductor and component shortages, global supply chain disruptions triggered by Russia's invasion of Ukraine, accelerated inflation, and more.

Overview of the new mid-term management plan "Spiral-up 2024"

While the external environment makes it difficult to anticipate the future, SEKISUI KASEI Group has kicked off its new mid-term management plan, "Spiral-up 2024," in April 2022, with the aim of delivering various forms of happiness to people's lives, even as people's values change with the times.

Our basic policy is "To contribute to a sustainable society and to achieve the sustainable enhancement of our corporate value, we will establish a resilient earnings foundation based on ESG management."

We set three key issues, which are to strengthen the earnings structure, shift to businesses that solve environmental and social issues, and reinforce our group management foundations.

To strengthen the earnings structure, we will reorganize our

businesses portfolio and invest heavily in fields with growth potential, while actively leveraging new technologies to bolster our cost competitiveness through production innovations and quickly monetizing our developed products through R&D innovations. In the Proseat business, since we consolidated our production sites as part of the previous mid-term management plan, we will focus on thoroughly executing growth strategies for each business field and enhancing synergies with our Group companies to build a highly profitable business structure.

As part of our shift to businesses that solve environmental and social issues, we have established the GX Development Department, and will focus on company-wide structural reforms aimed at transforming our business structure in anticipation of a shift toward a recycling-based economy.

As for reinforcing our group management foundations, we will establish materiality (key management issues) for each ESG item and strengthen our foundation by thoroughly repeating the PDCA cycle, while also boosting our financial position by shifting from PL-oriented management to capital efficiency-oriented management and working to improve ROE.

In terms of quantitative targets, we aim to reach net sales of ¥135 billion, operating income of ¥5 billion, and bottom-line profit of ¥3 billion in FY2024. Compared to FY2021 results, we expect net sales to grow by an average of about 5% over the three-year period, but we are aiming for 50% growth in operating income, and we want to focus on ensuring profitability.

Environmental initiatives

Since its founding, SEKISUI KASEI Group has advanced its foaming and polymerization technologies while also working on *monozukuri* (manufacturing craftsmanship) in harmony with the environment, including energy conservation and recycling, with the aim of creating a low-carbon and recycling-based society.

In July 2020, during our previous mid-term management plan, we announced our SKG-5R STATEMENT and set our two FY2030 targets of “creating Sustainable Star Products (SSPs) and expanding their target markets” and “reducing CO₂ emissions.”

To achieve these targets, we will promote SKG-5R, which combines the 3Rs (Reduce, Reuse, Recycle) that we have been working on, with SEKISUI KASEI Group’s own 2Rs (Replace and Re-create), to help solve issues on a global scale.

For our target of creating Sustainable Star Products (SSPs)

and expanding their target markets, we have exceeded our plan both in terms of net sales ratio and the number of Sustainable Star Products registered in FY2021. In addition, we have set a new target of replacing 50% of the raw materials for products manufactured by our Group with recycled or biomass-derived materials by FY2030, and have established and strengthened our category brands, ReNew+ and BIOCellular.



In terms of reducing CO₂ emissions, we aim to achieve a 27% reduction in CO₂ emissions by FY2030 (compared to FY2018). In pursuit of this, we have been working to conserve energy in our production activities and reviewing our energy procurement methods, and as a result, we were able to exceed our FY2021 CO₂ emissions reduction target. Furthermore, as global efforts to address climate change issues accelerate, we endorsed the Japanese government’s 2050 Carbon Neutrality Declaration and developed initiatives to achieve carbon neutrality.

In addition, we expressed our support for the TCFD (Task Force on Climate-related Financial Disclosure) and will continue to disclose information in accordance with this guideline.

Message from the President

Society—human resource initiatives

We have established that our responsibility to all SEKISUI KASEI Group members is to help them in their pursuit of happiness while emphasizing respect and mutual trust. Based on this approach, we have been working on work



style reforms and other initiatives.

At the same time, I believe that ensuring fairness in the development and evaluation of the skills of our Group members is also an important factor in the pursuit of our employees' happiness. With this in mind, we have been reorganizing our internal training system in recent years, while thinking about ways to develop our human resources and set them up for success. We plan to incorporate outside training, and aim to develop the flexible and forward-thinking human resources needed in this new age.

With regard to safety and disaster prevention and quality, we have established a new Safety Policy and Quality Policy. We prioritize safety and health in everything we do and strive to achieve accident-free and disaster-free operations by promoting safety activities, while providing quality that customers appreciate, and offering valuable products and services.

Governance—corporate governance initiatives

With respect to strengthening corporate governance, the most pressing issue we need to address is the need to develop a Group governance system on a global scale. Previously, we had looked at the governance of our global Group companies as an extension of our domestic Group companies, but we reaffirmed that there are problems with our existing approach if circumstances were to quickly deteriorate in a short period of time. We need to examine whether or not our Japanese way of doing things is compatible with the way things are done in other countries and restructure our existing governance system in some cases, taking into consideration whether a company can work under the same basic principles as we do in Japan, or

whether a company needs to work under its own principles. In addition, on a topic related to the Board of Directors, it has been three years since we established the Nominating and Compensation Advisory Committee. We are continuing to examine what we need to do when nominating directors for the next term from many different angles. I also believe that we need to review the skill matrix we published to see whether we can keep it as it is going forward. On the other hand, we have been able to make some progress in establishing a remuneration system, and we should operate it along with the newly introduced performance-based remuneration and restricted stock remuneration.

Shareholder returns

SEKISUI KASEI Group positions shareholder returns as one of its most important management issues. Our basic policy is to return profits to shareholders by providing stable dividends while securing internal reserves to strengthen our management structure and prepare for future business

development. We posted a net loss in FY2021 partly due to the COVID-19 pandemic, but we paid an annual dividend of 12 yen per share. While we continue to face challenging circumstances in FY2022, we currently intend to pay a stable dividend to our shareholders.

To our stakeholders

We were unable to achieve our mid-term management plan targets as we recorded a net loss in FY2021. However, I believe that we are making steady progress in our medium to long term growth initiatives that we have been pursuing during this period, such as expanding our Industry segment and global business.

The business environment remains challenging, but we will do our utmost to achieve our targets in the new mid-term management plan "Spiral-up 2024" by holding our heads high and focusing on our vision to make steady progress in actively developing our high-value-added business, solving environmental and social issues, and strengthening our corporate governance system.

President and Chief Executive Officer

Masato Kashiwabara



New Mid-Term Management Plan

Name of the plan

Spiral-up 2024

In addition to the PDCA cycle, we are committed to creating a virtuous cycle between the challenge of “realizing a sustainable society” and the “sustainable enhancement of our corporate value.”

Basic policy

To contribute to a sustainable society, and to achieve the sustainable enhancement of our corporate value, we will establish a resilient earnings base based on ESG management.

Quantitative targets

(Unit: Billions of yen)		FY2021	FY2022		FY2024	
		Actual	Plan	FY2021 comparison	Plan	FY2021 comparison
Consolidated	Net sales	117.6	125.0	+7.4	135.0	+17.4
	(Income ratio)	(1.2%)	(1.4%)	+0.3	(3.7%)	+3.5
	Operating income	1.5	1.8	+0.3	5.0	+3.5
	(Income ratio)	(1.2%)	(1.3%)	+0.2	(3.6%)	+3.4
	Recurring income	1.4	1.6	+0.2	4.8	+3.4
	(Income ratio)	(—)	(0.7%)	+6.8	(2.2%)	+8.9
	Net income	-5.9	0.9		3.0	
Target ROE		—	1.5% or higher		3.0% or higher	

Key issues

1. Strengthen the earnings structure

(1) Restructuring the business portfolio (5 priority fields as our targeted areas)

Food

Electronics

Mobility

Medical/Healthcare

Housing/Energy

(2) Constructing a highly profitable structure in the Proseat business

Maximize Group synergies and provide differentiated solutions to the increasingly sophisticated requirements of European OEMs in response to the shift to EVs

(3) Strengthening cost competitiveness through innovations in production

Continue to promote production innovation, including the use of technology, and strengthen manufacturing capabilities

(4) Rapidly generating profits from developed products

Position our developed products as medium- to long-term growth drivers and strive to quickly monetize them

2. Shift to businesses that solve environmental and social issues

- Expanding Sustainable Star Products through recycling-based business ▶ P35
- Striving to achieve carbon neutrality ▶ P36

3. Reinforce our management foundations

- Strengthening efforts to address materiality (key management issues) ▶ P23
- Enhancing financial health

Review of Previous Mid-Term Management Plan

The previous mid-term management plan, "Make Innovations Stage-II," which covered FY2019 to FY2021, focused on three priority policies: "Improvement of corporate value through evolution of business portfolio," "Strengthening Group management foundation," and "Contribution to sustainable society."

Although we were able to promote sustainable society initiatives centered on SKG-5R and strengthen the Group

management foundation through organizational restructuring and other measures, our net sales and profits fell significantly below their targets as a result of our insufficient response to a challenging business environment characterized by significant changes in the structure of the market, including the COVID-19 pandemic, semiconductor shortages, and soaring raw material and fuel prices.

New Mid-Term Management Plan

In April 2022, we launched a new three-year mid-term management plan, "Spiral-up 2024," based on the lessons learned from the previous mid-term management plan.

The key issues in the plan are to strengthen the earnings structure, shift to businesses that solve environmental and social issues, and reinforce our management foundations.

Key issue 1. Strengthen the earnings structure

In order to further stabilize our core businesses and create and expand growth businesses, we established 5 priority fields as our targeted areas and will restructure our business portfolio through selection and concentration of our management foundations. In addition, along with efforts to drastically innovate production, we will position our developed products as profitable growth drivers and strive to quickly monetize them.

Key issue 2. Shift to businesses that solve environmental and social issues

We have been contributing to solving various environmental and social issues through our business activities.

To achieve both social and economic value, we will transform our business structure based on the circular economy and work toward achieving carbon neutrality by 2050.

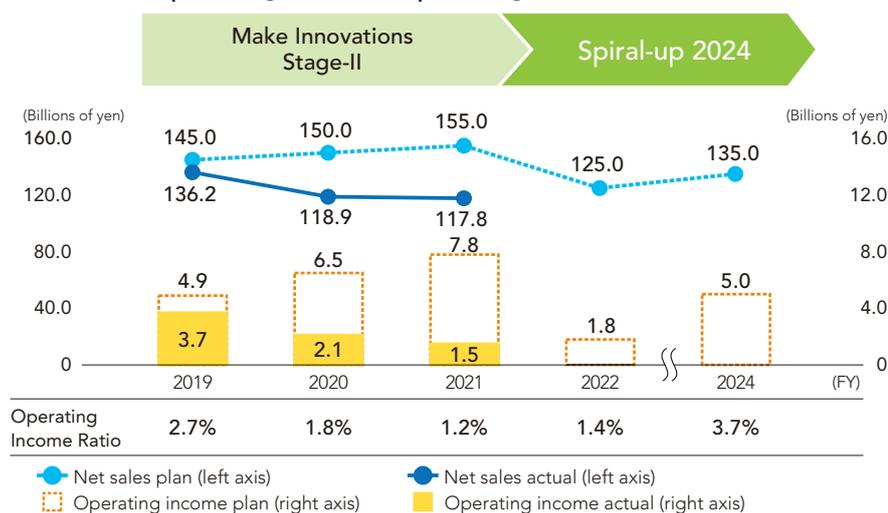
Key issue 3. Reinforce our management foundations

In promoting ESG management, we have identified materiality (key management issues). We will contribute to the realization of a sustainable society through thorough management of the identified materiality items.

In addition, as a way to enhance our financial health, we will work to improve ROE by shifting to a capital efficiency-oriented management.

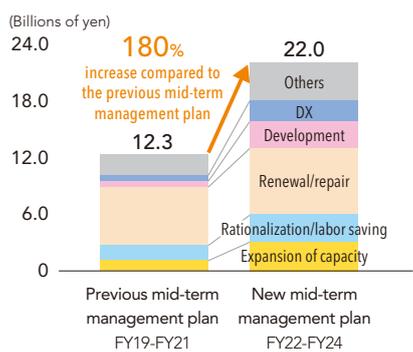
Actual Results vs. Plan

Net sales/ Operating Income/Operating Income Ratio



Capital expenditure

Investment (3-year cumulative total)



* Environmental investment:
 • Previous plan = ¥0.6 billion • New plan = ¥2.5 billion

Process for Materiality (Key Management Issues)

Among the issues that are of high importance for sustainable growth, we have identified materiality items to be addressed with particular priority.

Process for Identifying Materiality (Key Management Issues)

STEP 1

Select issues

We selected issues based on international guidelines on sustainability, various issues emphasized by ESG rating agencies, and the SDGs.

Non-financial information disclosure standards and other sources consulted

Global standards

- “The International Integrated Reporting Framework,” International Integrated Reporting Council (IIRC)
- United Nations Global Compact
- ISO 26000 (Guidelines for Corporate Social Responsibility)
- “GRI Standards,” Global Reporting Initiative

- “SASB Standards,” Sustainability Accounting Standards Board

ESG evaluation indicators

- DJSI, FTSE, MSCI

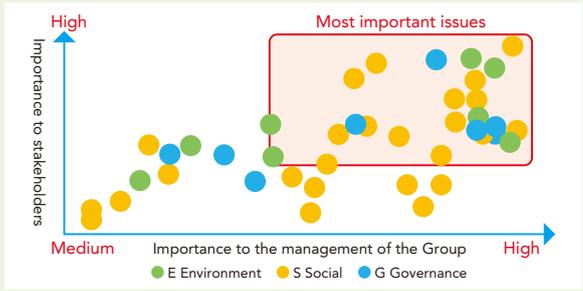
SDGs

Benchmarks for leading CSR companies

STEP 2

Rate their importance

We evaluated the importance of the selected issues along two axes: “importance to stakeholders (expected value)” and “importance to the management of the Group.”



STEP 3

Identify key management issues

Obtain approval of Board of Directors

The identified materiality is discussed by the relevant departments and the CSR Control Committee, deliberated by the CSR Control Committee, and then approved by the Board of Directors.

Process for approving materiality

Relevant departments

← Consult →

CSR Control Committee

→

Board of Directors

Deliberate

Deliberate and approve

Contributing to the Realization of a Sustainable Society

“The 2030 Agenda for Sustainable Development” establishing international sustainable development targets for the years between 2016 and 2030 was adopted at a UN Summit in 2015. The Agenda contains 17 Sustainable Development Goals (SDGs) that are applied universally to all countries, including developed countries, and focus on confronting climate change, ensuring sustainable consumption and production, and resolving poverty and inequalities. With this international focus in mind, we are committed to clarifying our priority issues.

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Initiatives to Address Materiality and ESG Issues

To contribute to the realization of a sustainable society, we divided the materiality (important management issues) into the three classes of E (environment), S (social), and G (governance), and then categorized them as “environment,” “innovation,” “human resources,” “quality / security and disaster prevention,” and “governance.” We are undertaking specific initiatives in each area.

E/S/G	Category	Materiality	Action item		
E	Environment	Creation and expansion of sustainable star products	SKG-5R promotion (expanding Sustainable Star Products)	P33-36	   
		Responding to climate change	SKG-5R Promotion (realization of carbon neutrality by energy saving and utilization of renewable energy)		
		Reduction of environmental impact	Proper management of air, water, waste, and hazardous substances	P37-40	
S	Innovation	Business model resilience	Open innovation, external cooperation/collaboration	P29-30	
		DX	Production innovation, business innovation, marketing innovation, R&D innovation		
	Human resources	Diversity	Diverse workforce (women, seniors, non-Japanese)	P31-32, 44	
		Workstyle reform	Promotion of health management, various systems for work-life balance, and diverse and flexible workstyles		
Work engagement	Personnel system design that promotes the growth of workers				
Quality / Security and disaster prevention	Providing safety and security	Promote zero accidents and zero quality complaints	P41-43	 	
G	Governance	Corporate governance	Strengthen internal controls, improve the effectiveness of the Board of Directors, and enhance Group governance	P45-54	 
		Compliance	Prevent problems and improve reporting system		
		Risk Management	Promote BCP initiatives		

Materiality will be regularly confirmed and reviewed in light of changes in the external environment and other factors. In addition, we will set KPIs for each action item and implement effective initiatives to achieve them.

Business Overview: Industry Segment



We contribute to value creation by developing materials and new applications that combine sustainability and functionality in fields where technological innovation is accelerating.

Tetsuharu Hirota

Director and Managing Executive Officer,
Head of The 2nd Business Headquarters

SWOT analysis

Strength

- Solution proposals that combine sustainability and functionality
- Material development and customization using composite technology
- Integrated technical capabilities from raw material resin to design and processing
- Expanded use of recycled materials and biomaterials
- Global efforts to reduce environmental impact

Opportunity

- Various needs accompanying the growth of EVs including lighter weight, improved comfort, and electrification
- Growing demand to reduce environmental impact
- Increase in health awareness, including prevention of lifestyle-related diseases

Weakness

- Regional unevenness in the distribution of production sites
- High dependence on petroleum-derived materials
- Stable procurement of recycled materials

Threat

- New alternative materials to solve environmental problems
- Risk of raw material price fluctuations

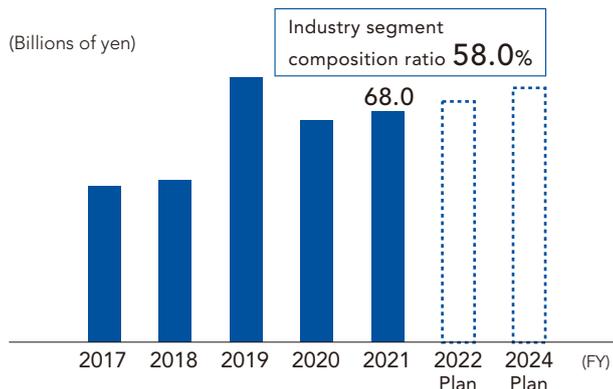
Strategic areas

Electronics	Mobility	Medical/Healthcare
Aim for high profitability through differentiated products, such as advanced materials and Sustainable Star Products, to contribute to the diffusion and advancement of digital technologies	Contribute to the technological innovation of next-generation mobility such as EVs, by maximizing synergies with Proseat, and developing new materials and applications	Provide new value globally, by meeting the needs of the medical and healthcare fields through advanced proprietary products
 	 	 

Actual Results vs. Plan

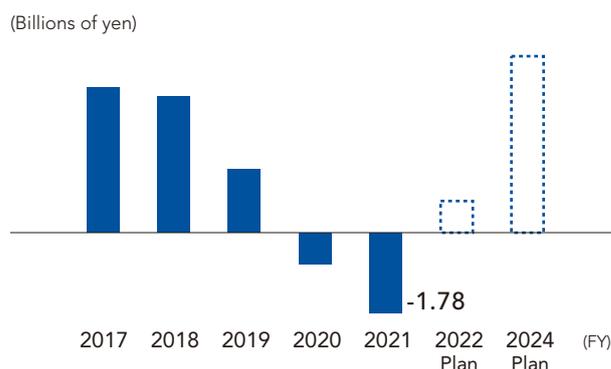
Net Sales

The economy has recovered to a certain extent from the impact of COVID-19 pandemic, and despite sluggish business growth in the automotive sector due to semiconductor shortages, we are focusing on expanding our global net sales ratio with a view toward long-term global expansion.



Operating income

The new mid-term management plan aims to strengthen our earnings structure in the face of a significant decline in profits caused by the impact of soaring raw material prices and supply chain disruptions.

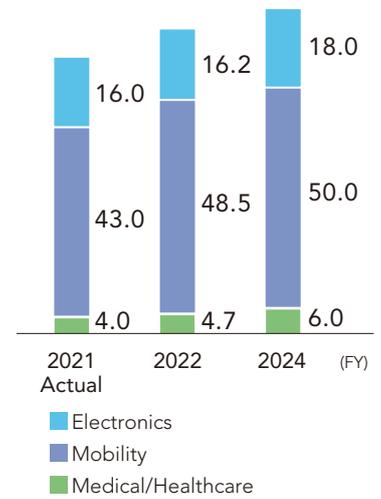


Mid-term management plan (2022-2024)

Electronics	
Electronic materials	Stable growth and area expansion in the electronic materials field <ul style="list-style-type: none"> • Maintain a dominant position in display applications • Meet the challenge of expanding into the high-speed communications field
Packaging materials	Transition to a recycling-based business <ul style="list-style-type: none"> • Launch Sustainable Star Products in markets • Improve the recycling system and develop recycling-based business
Structural components	Provision of structural components that support high-speed communications technology <ul style="list-style-type: none"> • Develop applications for FRP + high-strength foam composite structures (e.g., exterior structural materials for antennas and base stations)
Mobility	
Automotive components	Expansion of adoption in next-generation mobility, such as EVs <ul style="list-style-type: none"> • Propose further weight reduction by increasing the expansion rate of PIOCELAN • Advance the development of next-generation vehicle components through synergy with Proseat • Achieve results for ST-Eleveat
Components logistics	Sales expansion by leveraging our strengths (design know-how + environmental responsiveness) <ul style="list-style-type: none"> • Strengthen proposal activities for components that will increase with the shift to EVs • Launch Sustainable Star Products in markets • Improve the recycling system and develop resource-recycling business
Enhancement of competitiveness	Improvement of competitiveness via thorough cost reductions <ul style="list-style-type: none"> • Establish a system that can enhance production efficiency and reduce fixed costs for Proseat, and respond more quickly to fluctuations in demand • Introduce cost planning to model plants, and expand it across the Group
Medical/Healthcare	
Sports	Expansion of ELASTIL applications <ul style="list-style-type: none"> • Develop new applications (sports and health products, etc.) • Expand applications for shoes beyond sports shoe soles
Skin care	Expansion of sales channels to the skin care market <ul style="list-style-type: none"> • Propose biodegradable and naturally derived microparticles to the market • Expand sales of ST-gel (AI-Fit) using AI technology
Biological sensing	Expansion of ST-gel into new areas <ul style="list-style-type: none"> • Lifestyle-related diseases, infant biomonitoring, etc. • Healthcare areas such as TENS, EMS, wearable devices, etc.

Net sales targets

(Billions of yen)



Expansion of mobility domain



Business Overview: Human Life Segment



We will actively develop products that meet the needs of the times and support lifestyles with solutions that contribute to solving environmental and social issues.

Yasunobu Furubayashi

Director and Managing Executive Officer,
Head of The 1st Business Headquarters

SWOT analysis

Strength

- Polymerization, extrusion, impregnation, and foaming technology; molding technology
- Product design that takes advantage of the light weight, heat insulation, and cushioning properties of foam products
- An integrated system that can handle everything from material development to molding to the supply of final products

Opportunity

- Development of materials to meet environmental needs
- Building recycling systems that support the circular economy

Weakness

- Risk of price fluctuations in raw materials and fuel

Threat

- Expansion of various related regulations due to environmental issues

Strategic areas

Food

Launch Sustainable Star Products in markets
Assist in providing food safety/security and reducing food loss, to contribute to solving environmental and social issues



Housing/Energy

Contribute to sustainable urban development by launching products for disaster prevention, disaster mitigation, and infrastructure development

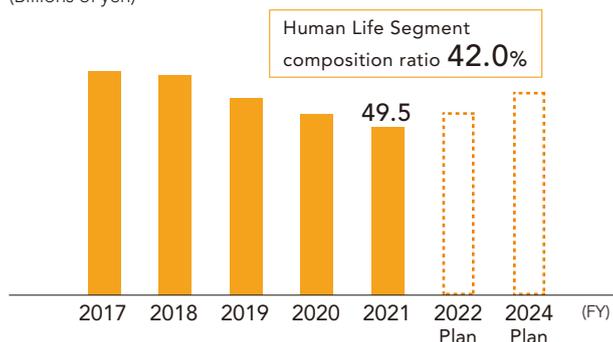


Actual Results vs. Plan

Net Sales

Although demand for fishery-related products was weak, demand for food containers and life goods was stable. We will work to expand the market by steadily capturing new demand in the era of coexistence with COVID-19.

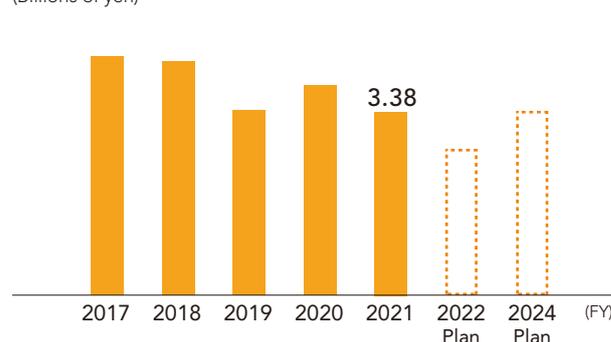
(Billions of yen)



Operating income

Despite efforts to improve productivity and reduce fixed costs, profits decreased due mainly to the impact of soaring raw material prices. However, we aim to strengthen our earnings structure by expanding sales of high-value-added materials and environmentally friendly products.

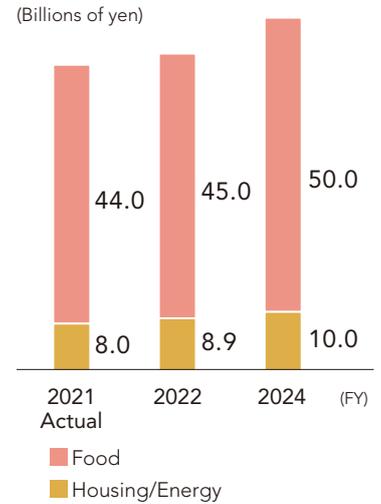
(Billions of yen)



Mid-term management plan (2022-2024)

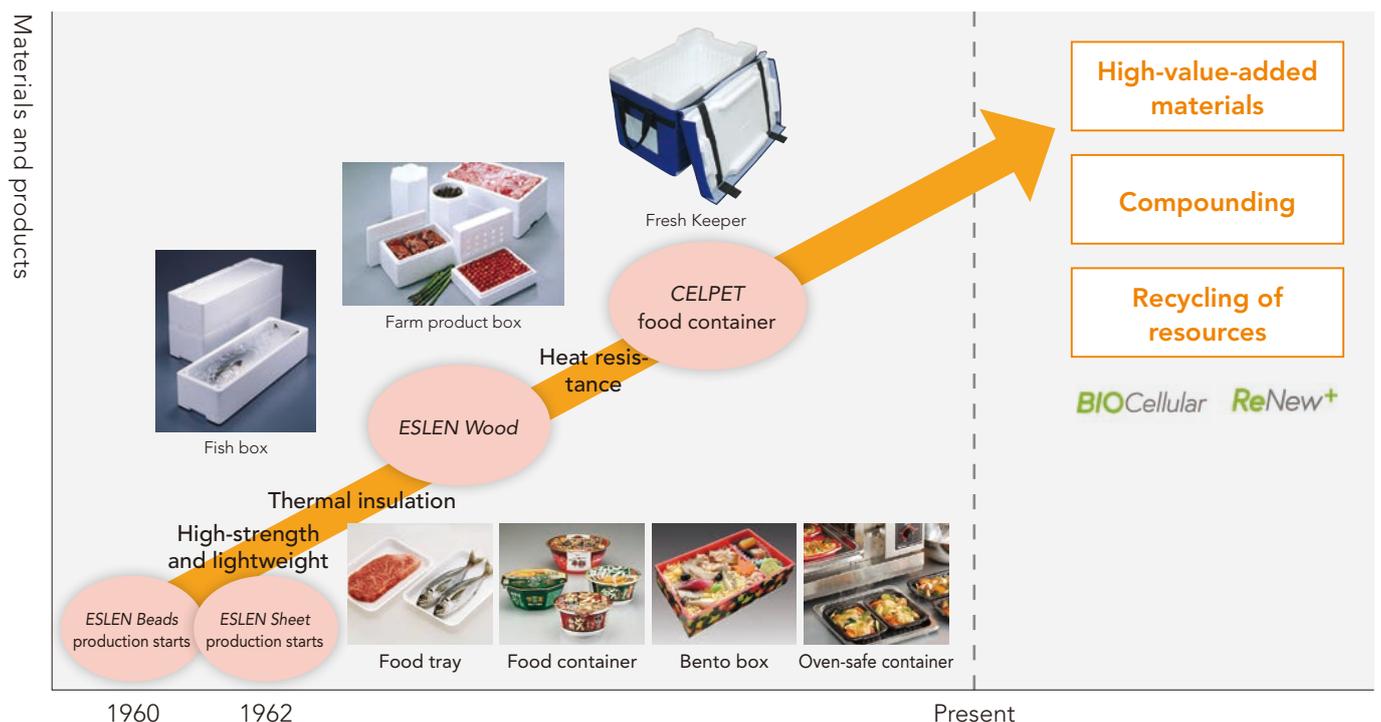
Food	
Environment	Market launch of Sustainable Star Products <ul style="list-style-type: none"> • Foam products using recycled plastic • Foam products using biodegradable and biomass plastics
New markets	Product development and stable supply in response to changes in demand structure <ul style="list-style-type: none"> • Respond to needs in new markets, together with container manufacturers * Home-cooked and ready-made meals markets, home-delivery markets, etc.
Logistics	Proposals for products and technologies that support food safety and security <ul style="list-style-type: none"> • Propose logistics containers that maintain freshness, using our product temperature analysis technology • Contribute to the production and logistics efficiency of our customers in Japan and overseas

Net sales targets



Housing/Energy	
Disaster prevention/mitigation	Expansion of sales of products that support the "Fundamental Plan for National Resilience" <ul style="list-style-type: none"> • Countermeasures against torrential rains and earthquakes • Disaster recovery
Housing improvement	Expansion of sales of products for infrastructure development <ul style="list-style-type: none"> • Expansion of green infrastructure • Improve social infrastructure
Environment/energy	Expansion of sales of products that contribute to a sustainable society <ul style="list-style-type: none"> • Launch Sustainable Star Products in markets • Renewable energy (water, solar, and offshore wind power)

Expansion of food domain



Research & Development Strategy



To contribute to a sustainable society, we will work head-on to shift to a business that solves environmental and social issues and create new value that illuminates a brighter future for the global environment and society.

Hideyuki Asada

Director and Managing Executive Officer,
Head of Research & Development Center and General
Manager of GX Development Dept.

SEKISUI KASEI's R&D Process

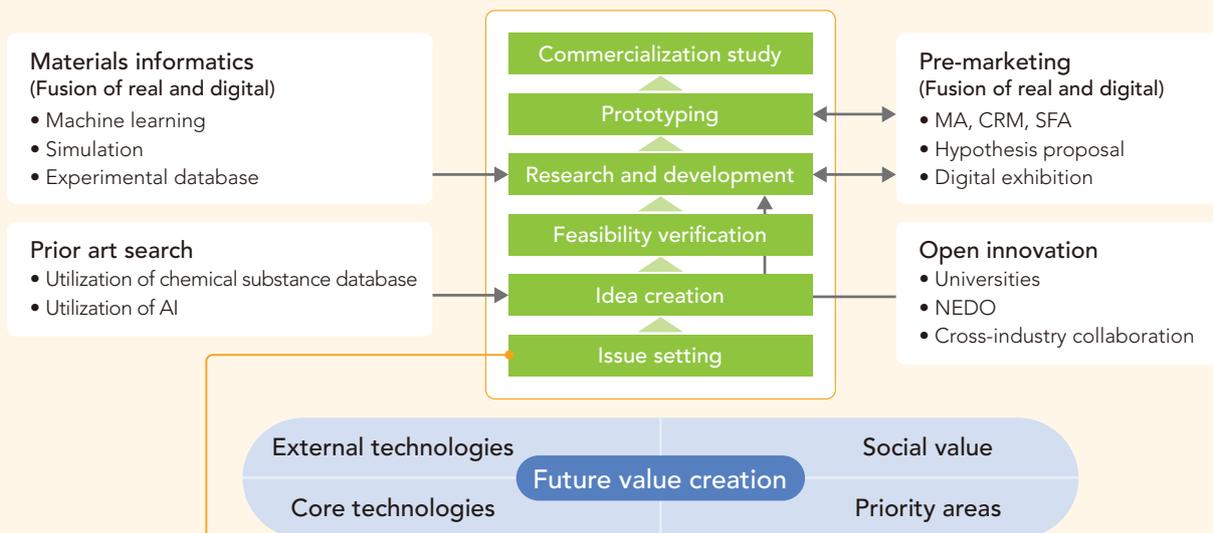
In today's highly uncertain and unpredictable world, it is tempting to focus the negative side. On the other hand, today's world is also overflowing with potential to overturn conventional wisdom and create new businesses and services. As the pace of change continues to increase, we are working to quickly establish a path for translating research and development into practical applications.

Embodying the RX (Research Transformation) mindset

Target for earnings generated by developed products:
10% or more of company-wide operating income in FY2024

Embodying RX (Research Transformation)

We actively incorporate RX into our series of R&D processes. We aim to improve our output by applying machine learning-based AI (Artificial Intelligence) and simulation to materials informatics and by conducting pre-marketing linked with MA (Marketing Automation) and SFA (Sales Force Automation).



Problem-setting process
To perform highly accurate problem identification, the first step is to formulate a "hypothesis," which involves setting the problem and generating ideas for solving it. We then proceed with feasibility verification and improvements on a small-start basis. We also work with universities and companies in other industries to accelerate R&D.

Marketing process
We focus on marketing as well as prior art search. We aim to be an R&D organization that envisions what kind of value we can contribute to society in the future and then implements verification cycle in a hypothetical market up to the point of commercialization.

Research & Development Policy

Develop new products that contribute to the growth of the company

Sharpen marketing thinking and promote development based on hypothetical needs and actively utilize and promote interaction with other industries

Engage in technological development that leads to enhancement and expansion of existing businesses

Promote solution development and technological innovation that will help enhance existing businesses from the three perspectives of "economic value," "social value," and "environmental value"

Nurture creative personnel who think about and experiment with business

Employees who have their own thoughts and put their "desire to achieve something" into practice

Research & Development Framework

The Research & Development Center, which is our central facility for R&D, is responsible for a series of tasks related to research on core technologies and development of new products that lead to new businesses.

Within the Center, the R&D Planning Dept., the Basic Research Laboratory, the Development Dept., the Intellectual Property Dept., the Evaluation Test Dept., and the Product Development Dept. work to speed up the development cycle by conducting integrated R&D from

problem setting through marketing to mass production, which leads to commercialization.

The Center collaborates with both the Production Technology Center, which works on production innovation processes and design development for equipment, including the use of IoT and AI, and with the Design & Technology departments of each business division to ensure the early commercialization of products and services.

TOPIC

Embodying RX (Research Transformation)

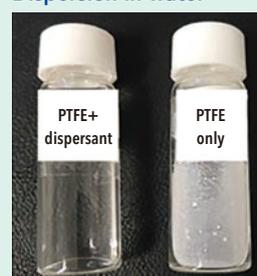
Fluorinated surfactants, which are used as dispersing agent and surface modifiers, are being subjected to tighter environmental regulations now that their properties of bioaccumulation and persistence in the environment have been identified.

There is therefore a need to introduce alternative, non-fluorinated dispersing agent. Inspired by the adhesion abilities of mussels, Associate Professor Hiroshi Yabu (Junior PI) of the Advanced Institute for Materials Research at Tohoku University has succeeded in developing an alternative dispersing agent that does not contain fluorine. When we tested the dispersing agent, it was able to disperse hydrophobic particles in water with no leaching of fluorine into the effluent, which will help enable industrial processes with reduced ecological and environmental impact.

We aim to apply the results of this research to the practical application of non-fluorinated dispersing agent. We have already started pre-marketing, and are currently proceeding with market development for commercialization.

Going forward, we will actively promote such open innovation initiatives to link R&D to practical applications as quickly as possible.

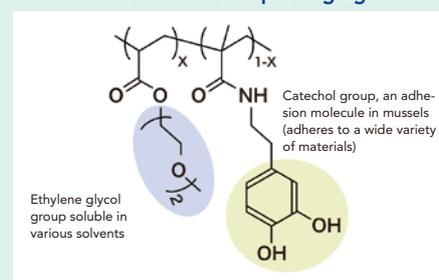
Dispersion in water



Uniformly dispersed and transparent

Unmixed and cloudy

Chemical structure of dispersing agent



Human Resources Strategy



In order to embody our founding spirit, "For happiness of people working for the Company," we aim to become an organization where each and every member of our diverse human resources can demonstrate his or her abilities to the fullest in a workplace that encourages employees to take on new challenges.

Makoto Okuno

General Manager of Human Resources Dept.
Administration Headquarters

Strengthening Our Human Capital

The management philosophy of SEKISUI KASEI Group states that "we practice *Zen-in Keiei* based on respect and mutual trust and are always innovating in our aim of "new happiness." In order to carry out this philosophy, we have formulated the five human resource qualities required of employees of SEKISUI KASEI Group.

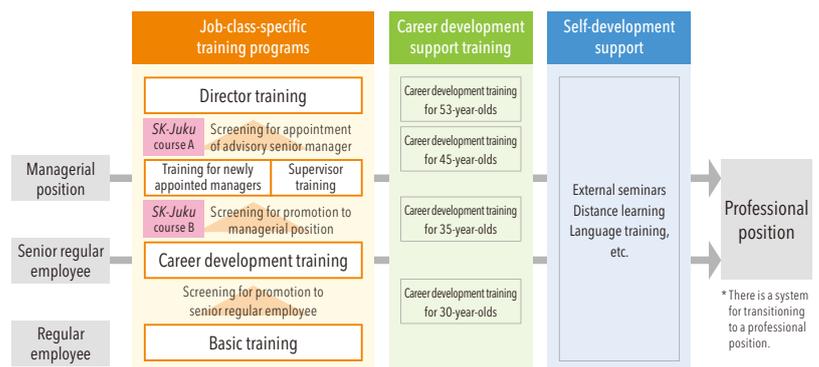
To ensure that each individual is able to independently envision his or her career and to obtain opportunities for self-improvement and growth through work to achieve that career, we are promoting the creation of an environment where *Zen-in Keiei* can be put into practice through various systems including education and training programs.

The Ideal Type of Person Being Sought by SEKISUI KASEI Group

- 1. Aspiration**
Human resources that feel strongly about achieving high goals and the nurturing of people
- 2. Creativity**
Personnel with the ability to conceptualize in order to create and innovate based on mental agility, and that are not bound by preconceived notions
- 3. Self-reliance**
Having a sense of ownership in all matters, people who can think for themselves, who can think things through and make assessments, and then take responsibility for their actions
- 4. Communication skills**
Together with being able to clearly convey their own thoughts in any situation, human resources who will become engaged through the exchange of ideas with others
- 5. Ability to execute**
Personnel who make concrete plans to achieve objectives, act promptly and take the initiative, and who produce results

Training Programs to Promote the Development of a Diverse Professional Workforce

SEKISUI KASEI Group's personnel systems and education and training programs define the knowledge and experience required at each career stage, from joining the company to assuming Managerial position. In addition, through our "specialist system" introduced in 2019, we have established a multi-track personnel course that allows not only management personnel but also specialist personnel to play an active role, and we are working to expand our personnel systems that empower diverse human resources to develop their individuality.



* SK-Juku is a fixed-term, hands-on training program designed to develop next-generation leaders.

Basic Stance with Regard to Human Resources

We believe that our founding spirit “For the happiness of people working for the Company” as well as *Zen-in Keiei*, which has always been the culture and DNA supporting our growth, are the basic and essential elements needed to realize our vision, and are worth passing down and putting into practice into the future.

Diversity & Inclusion Initiatives

As an initiative commencing from FY2019, we have formulated a three-year Action plan on Promotion of Woman’s Participation and Advancement in the Workplace & Advancement of Measures to Support Raising Next-Generation Children, and have conducted educational activities to promote understanding and awareness of diversity.

Meanwhile, we set a goal of increasing the ratio of Women hires to at least 17%, and we have exceeded this goal for all three years of our recruiting activities.

To further promote diversity, in FY2022 we formulated a new Action plan on Promotion of Woman’s Participation and Advancement in the Workplace & Advancement of Measures to Support Raising Next-Generation Children, and are working to achieve this plan.

	FY2021 Results	FY2024 Target
Ratio for Women Managers	4.7%	7.0% or higher
Ratio for Women Employees	16.1%	18.0% or higher
Ratio of Women Hires	23.1%	25.0% or higher

The employment rate for people with disabilities for the entire Group was 1.4% (FY2021 results). To expand employment of the disabled, we are developing case studies of

business sites and Group companies that are making progress in hiring people with disabilities.

Promoting a diverse workforce — in other words, creating an inclusive environment where everyone can thrive — is the essence and true nature of *Zen-in Keiei*. We aim to be the Group that respects diversity and where everyone can contribute their energy and enthusiasm.

Promoting Workstyle Reforms

The COVID-19 pandemic has completely changed the way people think about work, and has led to progress in IT-driven efficiency and the deployment of new systems. In addition to improving the IT infrastructure so that employees can work at home in the same way as when they go to work, in 2021, we made the work-from-home program permanent, allowing for a combination of work-from-home and on-site work based on business needs. We are also working to promote work-life balance by expanding systems such as childcare leave and nursing care leave.



We have institutionalized work-from-home and encourage diverse and flexible workstyles.

TOPIC

SKG Kaizen Activities Tournament

Based on the concept “*monozukuri* (creating things) is creating human resources” and aiming to develop its human resources and strengthen the manufacturing capabilities of the Group as a whole, SEKISUI KASEI Group holds an annual company-wide SKG Kaizen Activities Tournament as part of its efforts to promote improvements in productivity and workability in all aspects of its operations.

This year, 201 teams from around the world entered the competition, and 11 teams that passed the regional qualifying rounds participated in the company-wide tournament.

After the presentation of the *kaizen* activities, the best teams are recognized, and their *kaizen* efforts are shared through our internal Group publication and on the Web. This kind of setting for *Kaizen* activities is another example of our initiatives to support “*Zen-in Keiei* that drives the growth of people and the Company.”



15th SKG Kaizen Activities Tournament, held remotely

SEKISUI KASEI's ESG

E Environment

Manufacturing in harmony with the environment is our starting point

Since its founding, SEKISUI KASEI Group has advanced its foaming and polymerization technologies while also working on *monozukuri* (manufacturing craftsmanship) in harmony with the environment, including energy conservation and recycling, with the aim of creating a low-carbon and recycling-based society.

For example, the lightweight and heat-insulating properties of foamed products help to reduce CO₂ emissions by improving automobile fuel efficiency and also reduce

food loss.

But now, in light of the severity of climate change, ocean pollution, and other global-scale challenges, we feel the need to explore new possibilities and build solutions to our environmental problems. Aiming for a future in which people and the earth are healthy together, we will promote SKG-5R and continue to take on the challenge of innovation in our products and business activities.



Environmental Policy

Basic Policy

SEKISUI KASEI Group, through its business activities, contributes to realizing a sustainable society where people and our planet continue to live harmoniously.

1. Addressing Climate Change

In our business activities and throughout the life-cycle of our products and services, we aim to achieve carbon neutrality through reductions in energy usage and effective utilization of resources.

2. Resource Circulation

With the aim of building a society with material circulation, we pursue innovations that lead to "Reduce, Reuse, Recycle" and "Replace, Re-Create" based on our unique technologies.

3. Ecosystems Conservation

By making efforts for the secure management, treatment and reuse of the chemical substances used and the waste generated, we will contribute to the conservation of rich ecosystems.

4. Compliance and Information Disclosure

We comply with laws, regulations, ordinances and international rules and we disclose the information relating to the environment timely for the communication and mutual understanding with society.

5. Education and Enlightenment

We make efforts for the continuous education and enlightenment to improve the knowledge of our employees and promote the activities to mitigate environmental impacts through management by all members' participation (Zen-in Keiei).

Targets

SEKISUI KASEI Group (SKG) released the SKG-5R STATEMENT in 2019 and set two targets to be achieved by 2030.

One is the creation and market expansion of Sustainable Star Products and the other is the reduction of CO₂ emissions. By promoting SKG-5R, we aim to achieve 100 Sustainable Star Product registrations, accounting for 50% of net sales, and a 27% reduction in CO₂ emissions

compared to FY2018. With respect to the reduction of CO₂ emissions, we regard the achievement of the 2030 target as a milestone, and will accelerate our efforts to achieve carbon neutrality by FY2050.

* The number of Sustainable Star Product registrations, percentage of net sales, and CO₂ emissions are currently being calculated in a way that incorporates figures for the Proseat Group. Consolidated figures will be posted starting next fiscal year.

SKG-5R

3Rs for the creation of a recycling-based society

Reduce

Reduce the use of resources and energy

Core measures

- Reduce raw material consumption via higher foam expansion rates, lighter weights, and thinner walls
- Promote energy savings in production and logistics (CO₂ reduction)

Reuse

Reuse waste materials and energy

Core measures

- Expand the lineup of reusable products
- Reuse distribution materials

Recycle

Develop recycling technologies and systems to promote recycling

Core measures

- Commercialize and promote sales of products made from regenerated materials
- Develop recycling technologies (material, chemical, thermal)

2Rs based on SEKISUI KASEI Group's unique technologies

Replace

Promote replacement with sustainable materials and energy

Core measures

- Switch from petroleum-based to biomass and biodegradable materials
- Switch to renewable energy

Re-create

Re-create value and functions to contribute to environmental improvement

Core measures

- Create next-generation products and business models with new value and functions that contribute to an improved environment

Target I

Create Sustainable Star Products and expand their market

We develop and design products that take into account environmental impacts and limited resources throughout the life cycle, from the raw material procurement stage to the use stage and the disposal and recycling stage. Under SKG-5R, products with a particularly high contribution to the environment are certified as Sustainable Star Products and their expansion is promoted as an indicator.

Creation of the "Sustainable Star Product" logo



Sustainable Product STAR



Sustainable Product

Targets for FY2030

Total number of registrations	Share of net sales
100	50%

Target II

CO₂ emissions

Reduce CO₂ emissions to virtually zero in FY2050

Reduce FY2030 CO₂ emissions (Scope 1+2) by 27% compared to FY2018

Under SKG-5R, CO₂ emissions in Scope 1+2 were set to be reduced by 27% by FY2030 (compared to FY2018).

Today, as the world focuses on tackling climate change, we regard the achievement of the 2030 target as a milestone, and will accelerate our efforts to achieve our new goal of carbon neutrality by FY2050.

Targets for FY2030

Scope 1+2

-27%

(Compared to FY2018)

Targets for FY2050

Carbon neutrality achieved

SEKISUI KASEI's ESG

E Environment

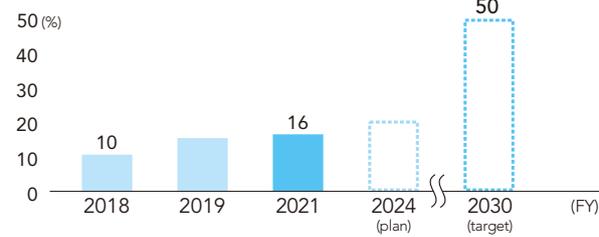
FY2021 Results



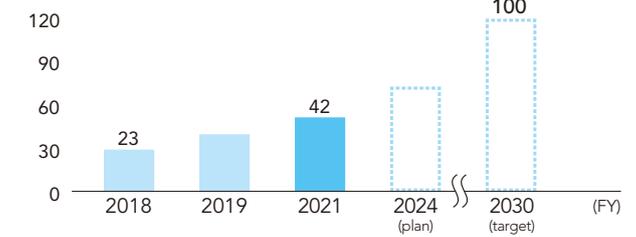
Creating Sustainable Star Products and expanding their target markets



Sustainable Star Products as percentage of net sales



Number of registered Sustainable Star Products



Examination, certification, and registration process

The process of registering a Sustainable Star Product is as follows. After receiving the application from the department in charge, the Environmental Committee examines it, and those that meet the criteria as a result of the examination are certified and registered after approval at a management meeting. A third party evaluates the validity of the certification and registration process.

Flow for examination, certification, and registration



Certification Criteria

We have set detailed criteria for each environmental contribution item for the certification, creating a system to certify products and systems that exceed a certain predefined level as “Sustainable Star Products.”

Environmental contribution item		Contribution at the development/design and raw material procurement stages	Contribution at the production stage	Contribute at the shipping (transportation) stage	Contribute at the use stage	Contribution at the disposal/recycling stage
Reduce	Weight and space reduction	●				
	Reduction of the amount of waste after product use					
	Reduction of hazardous substances and volatile solvents					
	Reduction of greenhouse gases					
Reuse	Reduction of other environmental loads in development and design					
	Energy saving and reduction of CO ₂ emissions during production		●			
	Reduction of water resource use during production					
Recycle	Reduction of waste during production					
	Energy saving during transportation (established as a system)			●		
Replace	Energy saving and improved durability (longer life) during use				●	
	Reduction of other environmental loads during use					
Re-create	Reusability				●	
	Use of recycled materials	●				
Other environmental contributions	Higher recyclability (e.g. easier to sort)					●
	Establishment of an independent recycling system					
Other environmental contributions	Use of biomass raw materials	●				
	Substitution of oil-derived materials	●				
Other environmental contributions	Contribution to environmental improvement by the re-creation of new value and functions	●	●	●	●	●
	Offset of environmental load and support for environmental conservation activities	●				

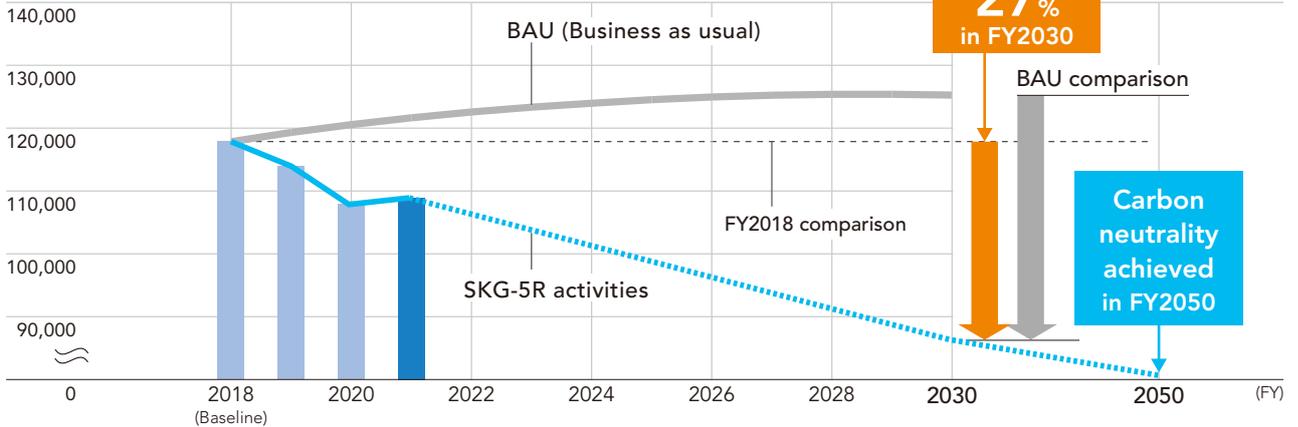
FY2021 Results



Reduction of CO₂ emissions

Scope 1+2 reduction plan

CO₂ emissions (thousand t - CO₂)



Core measures
Promote streamlined production processes and energy savings
Decarbonize fuels and switch to renewable energy sources
Develop new processes and introduce new production facilities under environmental investment limits
Create environmentally-friendly products (Sustainable Star Products) and expand their business

We believe it is important to reduce CO₂ emissions associated with our business activities while also working to reduce them throughout the supply chain. As part of our SKG-5R initiative, we have calculated our supply chain emissions and identified Scope 3* hotspots (categories with high emissions and large potential for reduction).

Under SKG-5R, we will contribute through our Sustainable Star Products and collaborate with companies involved in the supply chain, focusing on the identified hotspots, thereby contributing to the reduction of CO₂ emissions in Scope 3.

* Scope 3: Other indirect CO₂ emissions not included in Scope 1+2

Examples of specific measures	
Reduce	Promote reduction of raw materials used in products and energy conservation during transportation and delivery
Reuse	Efficient use of energy (heat) sources
Recycle	Promote expansion of products made from regenerated materials and recycling of used products
Replace	Switch from petroleum-based to biomass and biodegradable materials
Re-create	Creation of new value and next-generation products to contribute to the environment

SEKISUI KASEI's ESG

E Environment

To achieve a sustainable society, SEKISUI KASEI Group promotes *monozukuri* (manufacturing craftsmanship) activities in coexistence with the environment, such as the reduction of environmentally hazardous substance emissions generated through business activities.

Inputs/Outputs (FY2021 Results)

SEKISUI KASEI Group manages the environmental impact arising from business activities in "output/unit consumption," which expresses environmental loadings per production volume.



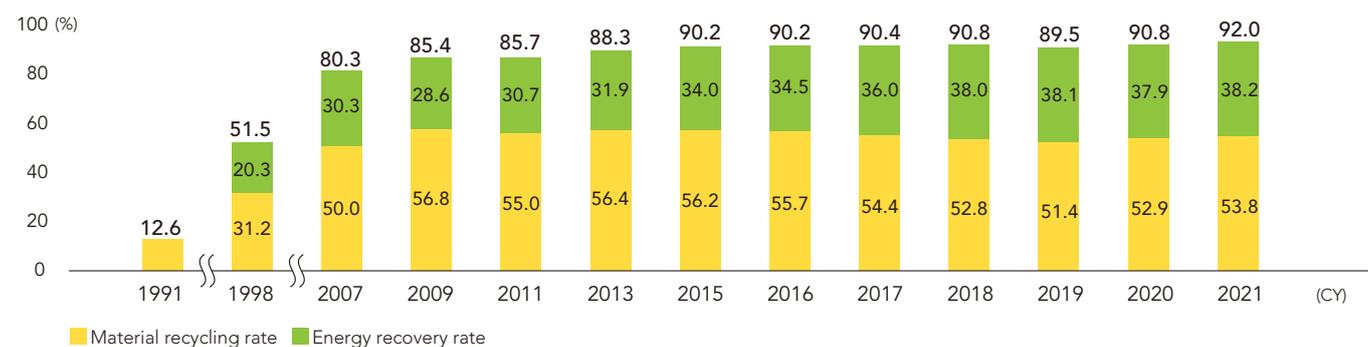
Inputs/Outputs (FY2021 Results)

Fiscal Year	2017	2018	2019	2020	2021
Number of production sites					
Japan	37	39	39	39	38
Overseas	10	19	19	19	19
Inputs (Japan)					
Energy consumption (GJ)	1,884,800	1,934,530	1,929,480	1,866,190	1,875,340
Unit consumption/output (GJ/sales in millions of yen)	20.3	21.0	22.2	23.7	26.3
Water consumption (thousand m ³)	3,459	3,401	3,457	3,252	3,302
Unit consumption/output (thousand m ³ /sales in millions of yen)	37.3	36.9	39.8	41.4	46.4
Outputs (Japan)					
CO ₂ emissions (Production) (t-CO ₂)	102,742	101,909	95,760	89,571	92,140
Unit consumption/output (kg-CO ₂ /sales in millions of yen)	1,108	1,105	1,103	1,140	1,294
CO ₂ emissions (Logistics) (t-CO ₂)	7,854	8,304	8,180	7,634	9,086
Unit consumption/output (kg-CO ₂ /t)	36.0	36.3	36.3	33.7	39.9
CO ₂ emissions (Office) (t-CO ₂)	110	125	100	74	76
Unit consumption/output (kg-CO ₂ /m ²)	28.8	32.7	26.2	19.5	19.9
Effluent (thousand m ³)	3,255	3,269	3,272	2,962	2,975
Unit consumption/output (thousand m ³ /sales in millions of yen)	35.1	35.4	37.7	37.7	41.8
COD discharge (t)	16.6	17.0	15.8	14.0	12.8
Industrial waste (t)	8,961	8,780	10,436	9,764	10,098
Recycling rate (%)	98.5	97.2	95.4	95.6	96.2
Inputs (Overseas)					
Energy consumption (GJ)	297,260	539,150	918,660	858,470	835,340
Unit consumption/output (GJ/sales in millions of yen)	15.3	26.5	18.6	21.3	18.0
Water consumption (thousand m ³)	138	163	253	221	194
Unit consumption/output (thousand m ³ /sales in millions of yen)	7.1	8.0	5.1	5.5	4.2
Outputs (Overseas)					
CO ₂ emissions (Production) (t-CO ₂)	15,437	25,178	41,883	38,503	33,847
Unit consumption/output (kg-CO ₂ /sales in millions of yen)	796	1,236	848	956	730
Effluent (thousand m ³)	128	81	214	166	144
Unit consumption/output (thousand m ³ /sales in millions of yen)	6.6	4.0	4.3	4.1	3.1
COD discharge (t)	11	7.5	13.6	16.0	14.1
Industrial waste (t)	474	1,494	3,511	2,958	2,886
Recycling rate (%)	74.2	80.7	78.8	81.8	79.4

Note 1: SEKISUI KASEI Group ascertains and manages the environmental impact that arises in various aspects of its business activities in terms of "unit consumption/output," which expresses environmental loadings per production volume.

Note 2: Company-wide total including the Proseat Group, which became a consolidated subsidiary in FY2018 (January 2019).

Recycling of Expandable Polystyrene Foam (EPS)



* Data source: JEPSA

SEKISUI KASEI's ESG

E Environment

Environmental Accounting (Japan)

Environmental Conservation Costs

(Millions of yen)

Category	Major activities	FY2020		FY2021	
		Investment	Costs	Investment	Costs
1) Costs in business area					
(1) Pollution control	Control measures for air/water quality	19	94	6	114
(2) Global environment	Energy saving	61	2	125	14
(3) Recycling	Recycling, industrial waste treatment	4	400	0.2	353
	Subtotal	84	496	131	481
2) Up-/down-stream	Product recycling	0	20	0	43
3) Management costs	Departmental costs associated with introducing environment management system	2	140	3	72
4) R&D costs	R&D for environmental conservation products	0	40	0	44
5) Social Activity cost	Greening, social supports	0.1	1	0.1	1
6) Environmental damage fixing cost	Nature restoration	0	0	0	0
	Total	86	697	134	641

Environmental Conservation Effects
(in terms of volume)

Details of effects (Unit)	FY2020	FY2021
1) Effects on costs in business area		
(1) Electricity consumption (MWh)	120,562	122,351
(2) Crude oil consumption (kl)	17,235	17,235
(3) Total effluent (thousand m ³)	3,268	3,272
(4) Amount of COD discharge (t)	14.7	16
2) Effects on Up-/down-stream costs		
Amount of recycled polystyrene foam (t)	200	201

Economic Effects Related to
Environmental Conservation Measures (Millions of yen)

Details of effects	FY2020	FY2021
1) Cost reduction through energy-saving activities	2	(11)
2) Income from recycling	325	280
Total	328	269

Cost Effectiveness of
Environmental Conservation Activities

FY2020	FY2021
47.1%	42.0%

Investment figures are for construction completed during the period.
Expense figures do not include depreciation and amortization.

Compliance with the Chemical Substances Management Act

We promote improvements in compliance with the PRTR* system under the Chemical Substances Management Act (the Act on Confirmation, etc. of Release Amounts

of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof).

* PRTR: Pollutant Release and Transfer Register

Emissions of Chemical Substances (PRTR substances: Rounded to one decimal place)

(t)

Substance	Styrene					Toluene					Methyl methacrylate					Ethyl benzene					
	Fiscal Year	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
Emission	Air	4.7	4.7	6.7	5.0	5.4	0.5	0.4	0.5	0.3	0.4	1.6	1.4	1.4	1.2	1.3	0.1	0.1	0.1	0.1	0.1
	Water	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Soil	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Transfer	2.8	3.4	3.1	1.6	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0



Endorsement of recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)



SEKISUI KASEI has identified addressing climate change as a key management issue (materiality). We are accelerating our efforts to achieve carbon neutrality by reducing CO₂ emissions through energy conservation and efficiency in production and the use of renewable energy, and by creating and expanding environmentally-friendly products that contribute to decarbonization.

In April 2022, we announced our new mid-term management plan “Spiral-up 2024,” which sets “Shift to businesses that solve environmental and social issues” as one of three key issues, to be driven by the initiatives “Expanding Sustainable Star Products through recycling-based business” and “Striving to achieve carbon neutrality.” The newly established GX Development Department will drive the resolution of these issues in order to steadily implement the activities that are the cornerstone of our Green Transformation.

Going forward, the Group will work to disclose information on our response to climate change in line with the TCFD recommendations, contribute to the realization of a sustainable society through our business activities, and strengthen our management foundation for the sustainable growth of the Group.

* TCFD: A task force established in 2015 by the Financial Stability Board (FSB), an international organization dedicated to stabilizing the financial system. The TCFD encourages companies to disclose information on climate change risks and opportunities.

SEKISUI KASEI's ESG

S Social

Safety

Since its founding, SEKISUI KASEI Group has prioritized safety and health and promoted safety activities in all of its business activities. We strive to prevent accidents and disasters and aim to be a safe company that is trusted not only by each and every one of our workers, but also by the community and society. As the COVID-19 pandemic spreads around the world, with significant consequences for society

and the economy, we have continued to give top priority to the safety and health of our Group employees and their families, while never stopping our corporate activities.

Going forward, we will continue to take measures to meet new challenges and provide a stable supply of products and services that support people's daily lives.



Safety Policy

Basic Policy

SEKISUI KASEI Group prioritizes health and safety above all else, promotes safety activities with the objective of achieving zero accidents and zero disasters, and seeks to become a safe and secure company that is trusted by employees and society.

1. Creating a Safe and Secure Workplace

We promote the creation of a comfortable workplace environment in which all employees are healthy in both body and mind and feel that their work is worthwhile.

2. Compliance

We comply with laws, regulations and ordinances related to health and safety, and security and disaster prevention, aiming a company trusted by society.

3. Evolution of Safety Activities

Investigating danger and hazards in the working environment and reducing the risks with new perspectives without been obsessed with current condition, we continue to evolve our safety activities.

4. Communication with Society

We aim good communication with authorities and local communities, and timely information disclosure.

5. Education and Enlightenment

We aim rising awareness for the health and safety through enhancing educational and enlightenment activities and work on leveling up of every individual.

Safety Management System



TOPICS

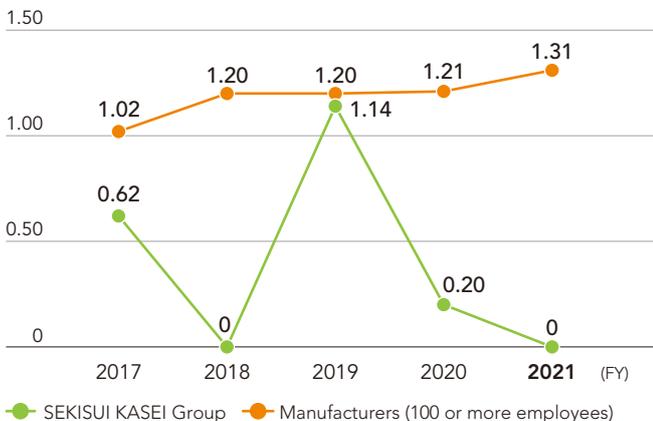
First safety tournament held

We held a safety tournament with the aim of spreading best practices by sharing disaster prevention and safety activities independently implemented by each business site with the entire Group. A total of 38 sites, including global ones, participated in the first tournament, and eight sites introduced case studies. We plan to hold these tournaments on a regular basis to raise safety awareness throughout the organization.

Distribution of safety information

The “Safety Activity of the Week” is sent out every Monday to provide information on key safety-related activities and initiatives. In addition to introducing safety activities at each business site, the bulletin provides a wide range of information which will raise safety and health awareness, from lessons learned from accidents at other companies to information on the government’s “Spring National Traffic Safety Campaign” and “Disaster Prevention Week.”

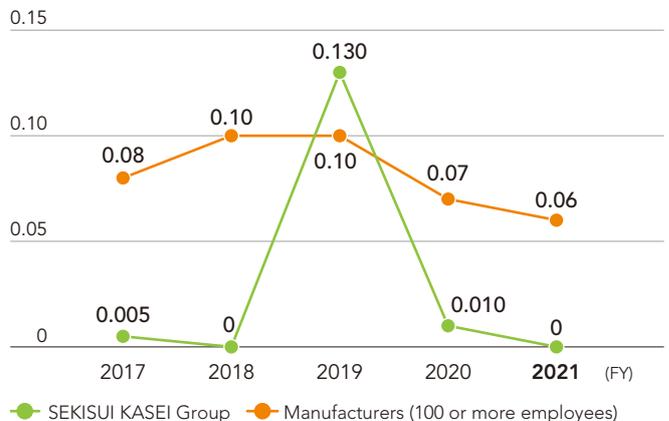
Lost Time Injury Frequency Rates*



* Lost Time Injury Frequency Rate: The number of absent employees due to industrial accidents per 1 million working hours

Lost Time Injury Frequency Rates of Manufacturers (100 or more employees): Excerpted from statistics in the Ministry of Health, Labour and Welfare’s Survey on Industrial Accidents

Accident Severity Rates*



* Accident Severity Rate: The number of lost workdays per 1,000 working hours

Accident Severity Rates of Manufacturers (100 or more employees): Excerpted from statistics in the Ministry of Health, Labour and Welfare’s Survey on Industrial Accidents

SEKISUI KASEI's ESG

S Social

Quality

Group pursues quality from the customer's perspective and promotes quality management activities in accordance with its management philosophy and quality policy. In order to manage the quality of our products and services, we have established a quality assurance system for each product according to its characteristics. Starting from the R&D phase, we clarify the customer's specifications and focus on improving product quality from the development stage.

We have also developed internal regulations to deal with product accidents. In the unlikely event of a product accident, responsible departments take the lead in promptly responding in line with regulations, with full consideration of the customer's perspective, and related departments cooperate in finding a solution as necessary. In the event of a particularly serious product accident, the situation is immediately reported to top management for prompt and appropriate action.

TOPICS

Chemical Substance Initiatives

In order to provide information swiftly to our customers, we use ChemSHERPA (a scheme for standardizing information handling in Japan) to manage the chemical substances contained in our products. SEKISUI KASEI Group has also established a green procurement standard for raw materials and strives not only to thoroughly comply with laws and regulations, but also to develop products that take into account the environment, safety, and health.

Response to Food Sanitation Act Revisions

The partial revision of the Food Sanitation Act (effective June 2020) introduced a "Positive List" system for food utensils, containers, and packaging. The Group has filed notifications at applicable manufacturing

sites, and complies with the revised Food Sanitation Act for all products that fall under the category of food utensils, containers, and packaging.

Quality Training and Awareness-raising Activity

During World Quality Month in November, we conducted Group-wide e-learning (on quality management and the Food Sanitation Act) to further raise awareness of product quality. In addition, in order to improve the level of quality knowledge throughout the Group, we promote the acquisition of QC certification*, which tests knowledge of quality management.

* The exams are certified by The Japanese Society for Quality Control, and are administered by the Japanese Standards Association (JSA) Group and the Union of Japanese Scientists and Engineers.

Quality Policy

Basic Policy

SEKISUI KASEI Group pursue the quality with customer perspective and provides valuable products and services that satisfy our customers and society.

1. Providing Satisfactory Quality

Building in the quality which satisfies customers requirements, we provide safe and secure products and services that satisfy the customers.

2. Thorough Quality Control

By thorough quality control from procurement of raw materials to delivery of products, we work on prevention and recurrence prevention of defects by all the group members in pursuit of higher-quality manufacturing.

3. Perform Quality Assurance

We take the opinions and assessments of the customer seriously and use them for the improvements and we aim appropriate information disclosure and quick resolution with customer perspective for the complaints and requests for improvements from the customers.

4. Compliance

We comply with laws, regulations and ordinances relating to the quality, and we work to maintain and enhance thorough quality management.

5. Education and Enlightenment

Through continuous educational and enlightenment programs, we promote improvement quality awareness and strengthen management capabilities.

Human Rights/Labor Practices

SEKISUI KASEI Group respects fundamental human rights and takes into consideration that no one is discriminated on any and all factors including nationality, ethnicity, creed, religion, gender, and age.

On the basis of our founding spirit, "For happiness of people working for the Company," we regard human resources as one of our most important management resources.

Initiatives for Human Rights

Our stance on human rights appears in the Company's Compliance Manual and is widely entrenched among the Group's employees.

To prevent sexual harassment, power harassment, and other abuses that could occur in the workplace, we conduct various training programs as part of employee education. In March 2018, SEKISUI KASEI published the second edition of the Company's Compliance Manual, which included revisions centered on labor practices and harassment. In order to disseminate the contents of the second edition, we are implementing e-learning programs for all Group employees on a yearly basis, and with the goal of fostering the compliance awareness of employees, we continue to

remind them that the issues of human rights and harassment can occur in a variety of circumstances around us.



Company Business Promotion Committee (Shasui Kai)—Upholding SEKISUI KASEI's Founding Spirit—

The Company Business Promotion Committee is an organization comprised of all members of the Company (management as well as employees), and it pursues our founding spirit of "happiness of people working for the Company" and corporate growth based on respect for humanity and mutual trust.

Realizing the "happiness of people working for the Company" means Group employees working in good health, both physically and mentally, and through the

Committee we are working to implement our corporate culture of "Zen-in Keiei" so that employees can voluntarily participate in management activities and have an awareness of contributing to society through business activities.



The "Zen-in Keiei" Card

SEKISUI KASEI Group has created the "Zen-in Keiei" card that contains information on the origin of the Group name "Sekisui," management philosophy, code of conduct, action guidelines for the "Zen-in Keiei," and the ideal type of person sought by SEKISUI KASEI Group. All information is compiled in a small booklet-sized card and provided to Group employees.

創業の精神
働く者の幸せのために

経営理念
われわれプラスチックグループは、人類福祉と社会発展を基盤に定常発展を実現し、「賢い幸せ」を世に届けて、インベーションを創り上げます

「100年ビジョン」で目指す姿
グローバルに活躍から発展されるプラスチックソリューションカンパニー

行動規範
1. 一人一人の活躍を全体的にしよう
2. 最先端技術とイノベーションを創り出し、顧客とともに成長しよう
3. 人と人と技術の調和の中で、より良い環境と豊かな社会に貢献しよう
4. 常態・常速できりかたな情報による、創造と革新に挑戦し、喜びを分かち合おう

人も会社も成長する全員経営 (Zen-in Keiei)
プラスチックグループの全員（経営者も従業員も）、日本の企業で働く「メンタリング」で「チームワーク」/「多様性の尊重」/「4つのワーク」を実践の基として進んでいく。高いところは伸び、足りないところは補いながら、成長していきます。この全員経営が企業成長につながる、人も会社も成長するに欠かせない要素です。

4つのキーワードと行動規範

- 1 イノベーション**
私たちは、自らを刷新し常に学び続け創ります
- 2 スピード**
私たちは、目標に向かって迅速に行動します
- 3 チームワーク**
私たちは、目標を共有し、チームとして力を合わせ創ります
- 4 多様性の尊重**
私たちは、互いに違いを認め、お互いを尊重します

創業の精神
为员工的事业而存在

経営理念
創業者の志を継ぎ、社会発展を基盤に定常発展を実現し、「賢い幸せ」を世に届けて、インベーションを創り上げます

「百年経営」の目標宣言
成長と発展を創り出す「Plastics Solution Company」

行動規範
1. 得意先との協力を基盤に、社会発展を創ります
2. 最先端技術、イノベーションを創り出し、顧客とともに成長しよう
3. 人と人と技術の調和の中で、より良い環境と豊かな社会に貢献しよう
4. 常態・常速できりかたな情報による、創造と革新に挑戦し、喜びを分かち合おう

4つのキーワードと行動規範

- 1 革新**
私たちは、自らを刷新し常に学び続け創ります
- 2 速度**
私たちは、目標に向かって迅速に行動します
- 3 チームワーク**
私たちは、目標を共有し、チームとして力を合わせ創ります
- 4 多様性の尊重**
私たちは、互いに違いを認め、お互いを尊重します

Founding Spirit
For happiness of people working for the company

Management Philosophy
We, Sekisui Plastics Group, practice "Zen-in Keiei" based on mutual respect and trust. We are always innovating in our pursuit of "New Happiness."

Corporate Goal on the 100th Year Vision
A plastics solution company trusted by customers around the world

Code of Conduct
1. Unite individual efforts to make a strong power
2. Grow and develop together with customers by creating top quality and service
3. Contribute to a better environment and an enriched society in perfect harmony among people, nature and technologies
4. Make an honest, generous and fresh workplace
5. Address each and every challenge in creation and innovation to achieve our goals

Zen-in Keiei Growing Both People and the Company
Through the steady activities of all people of Sekisui Plastics Group, we always assess the 4 keywords (Innovation / Speed / Teamwork / Respect for Diversity) as the starting point of actions, and practice to bring the most of strength and enjoying the workplace. We believe that this disposition with members leads to Zen-in Keiei and grows both people and the company.

4 keywords and Action-Guideline

- 1 Innovation**
We constantly challenge for our own innovation
- 2 Speed**
We promptly take actions toward goals
- 3 Teamwork**
We share our goals and take actions jointly as a team
- 4 Respect for Diversity**
We respect personalities, opinions and ways of thinking each other

SEKISUI KASEI's ESG

G Governance

Our Basic Approach to Corporate Governance

SEKISUI KASEI Group aims to be a plastics solutions company trusted by customers around the world as it fulfills its social responsibilities to all its stakeholders.

In order to achieve this, we recognize that we will need to ensure effective corporate governance, reliability and transparency in management, and the establishment of a management system that is well equipped of responding to changes

in the business environment.

We have established Corporate Governance Guidelines that set forth our basic approach and policy regarding corporate governance and have published them on our website.

Corporate Governance Guidelines

<https://www.sekisui-kasei.com/en/assets/images/company/pdf/guideline.pdf>

Corporate Governance System

We adopt a corporate auditor system, with supervision and audits of business execution conducted by the Board of Directors and Audit & Supervisory Board.

Of the eight directors, three are outside directors, who supervise management from an objective perspective while ensuring the appropriateness and transparency of the Board of Directors' decision making.

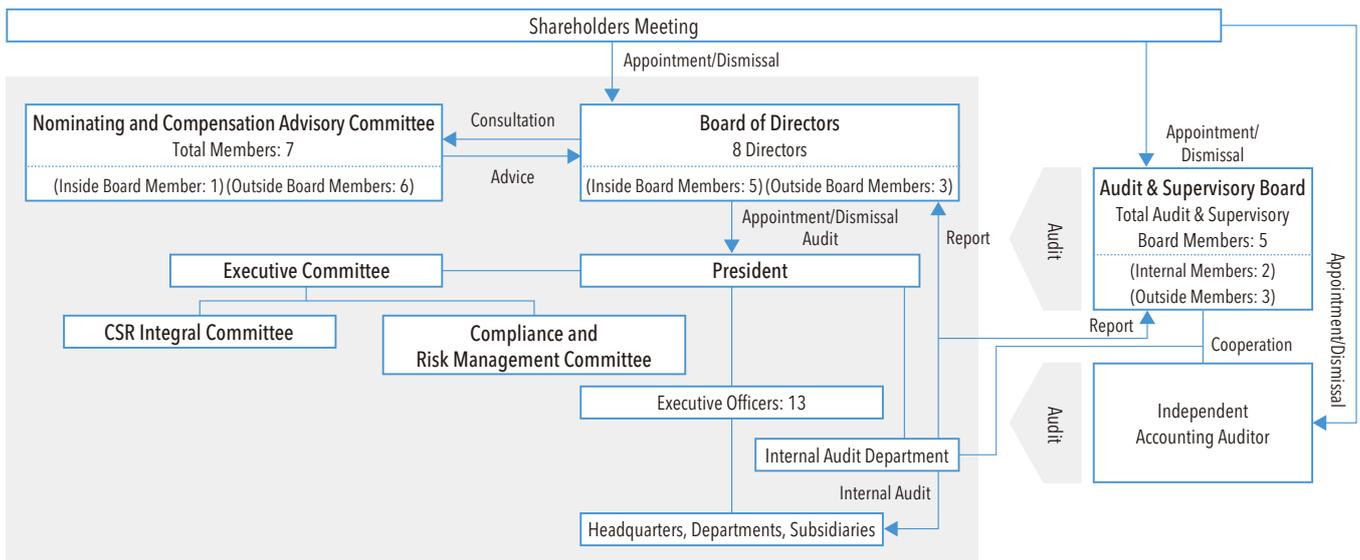
Of the five members of the Audit & Supervisory Board, three are outside members. By establishing a system of timely and appropriate reporting of important matters to the Audit & Supervisory Board and its members, we have strengthened

the auditing function and ensure the rationality, transparency, and fairness of management decisions.

Further, in 2019, we established Nominating and Compensation Advisory Committee of which a majority of members are independent outside officers, which deliberates matters including candidates to succeed the president, director candidates, and director remuneration.

Through this current system, we have put in place a structure that functions both to ensure the rationality, transparency, and fairness of management decisions and to supervise management from an objective and neutral perspective.

Chart of SEKISUI KASEI Corporate Governance System (As of July 21, 2022)



Nominating and Compensation Advisory Committee

As an advisory body to the Board of Directors, the Nominating and Compensation Advisory Committee deliberates on matters such as director appointments, remuneration, and questionnaire items for evaluating the effectiveness of the Board of Directors, with the aim of strengthening the independence and objectivity of the Board of Directors in relation to overall corporate

governance and fulfilling its accountability to stakeholders. It is stipulated that the majority of committee members must consist of independent outside officers. Currently, the committee consists of one internal officer, five independent outside officers, and one outside officer, and the chair is elected from among the independent outside officers by an internal vote.

Operational Status of the Board of Directors

The Board of Directors consists of eight directors, three of whom are outside directors, and the President serves as its chairperson. The three outside directors and all five Audit & Supervisory Board members, including the three outside members, attend the meeting and express their opinions as appropriate.

The Board of Directors formulates management policies and mid-term management plans, reports, deliberates,

and resolves important matters related to business execution, supervises directors and executive officers regarding business execution, and develops internal control systems. Furthermore, in order to clarify the management responsibilities of directors and to build a management structure that can quickly respond to changes in the business environment, we have introduced an executive officer system and set the term of office for directors at one year.

Skill Matrix of Directors

The Board of Directors ensures that its roles and responsibilities are effectively fulfilled by having a well-balanced mix of directors with a wide range of knowledge and experience, in order to accurately assess the business situation and make appropriate decisions. With regard to our policy for selecting director candidates and specific candidate selection proposals, the Nominating and Compensation Advisory Committee prepares a skill matrix of each director's knowledge, experience,

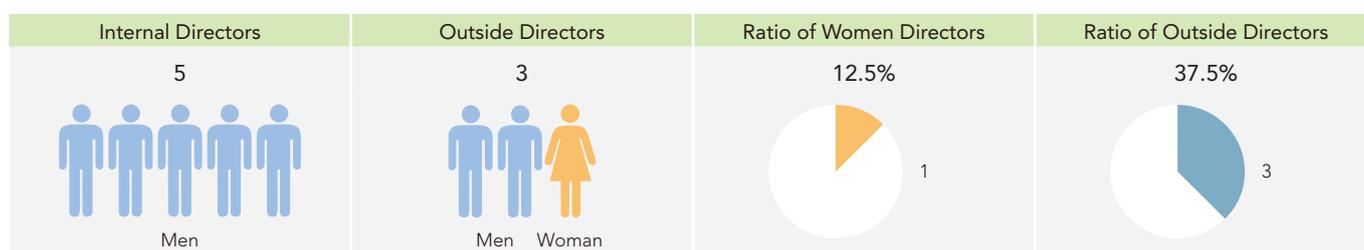
and abilities, and then comprehensively deliberates and prepares a draft proposal, taking into consideration the balance, qualifications, and diversity of each director in relation to each function and business of the Company, as well as management experience at other companies in the case of independent outside directors, and submits the draft proposal to the Board of Directors. The Board of Directors then takes the proposal into consideration when making its decision.

Name	Position and Duties at the Company	Gender	Corporate Management Management Strategy	Financial Accounting	Legal Affairs Governance	HR	Internationality Overseas Business	Sales Marketing	Development/ Production/ Quality	Environment Energy	Insight into Other Industries
Masato Kashiwabara	Representative Director President and Chief Executive Officer		○	○	○	○			○	○	
Katsumi Sasaki	Director Senior Managing Executive Officer		○	○	○	○					
Tetsuharu Hirota	Director Managing Executive Officer		○				○	○	○		
Hideyuki Asada	Director Managing Executive Officer		○				○		○	○	
Yasunobu Furubayashi	Director Managing Executive Officer		○	○		○		○			
Morio Kubota	Independent Outside Director		○	○			○	○			○
Naoto Kitagawa	Independent Outside Director		○				○		○	○	○
Michiko Uehara	Independent Outside Director				○	○					○

*The "○" above does not indicate all insights held by each Director

 Men  Woman

Composition of Board of Directors



SEKISUI KASEI's ESG

G Governance

Evaluation of the Effectiveness of the Board of Directors

In order to analyze and evaluate the overall effectiveness of the Board of Directors, we conducted a survey of all the directors as well as Audit & Supervisory Board members based on the advice and guidance of a third party, with the results of the survey discussed at a Board meeting.

As a result, the level of management and supervision of the Board of Directors has risen, and it has been evaluated that it is generally functioning, and efforts to improve effectiveness,

such as management, deliberation, and setting of proposals, were also evaluated.

On the other hand, some issues were pointed out, so we have formulated an action plan to (1) enhance discussions on medium to long term business directions and management strategies, (2) discuss and consider non-financial agenda items, and (3) conduct executive training, in order to further improve the effectiveness of the Board of Directors.

Policy for Determining Remuneration, etc. of Directors

The Board of Directors has resolved as follows regarding the policy for determining the individual remuneration of

directors and other details based on the report from the Nominating and Compensation Advisory Committee.

Policy on Director Remuneration (excerpt)

The link between director remuneration and the Company's shareholder value shall be clarified to further promote value sharing with shareholders in order to contribute to improved medium to long term business performance and increased corporate value. In addition, the remuneration system shall emphasize the proportion of remuneration determined through a comprehensive analysis, including in regard to the degree to contribution toward performance and progress in achieving targets.

Specifically, remuneration of directors responsible for business execution shall consist of basic remuneration, performance-based remuneration, and stock-based remuneration, while remuneration of outside directors responsible for supervisory functions shall consist only of basic remuneration. Furthermore, the policy for determining director remuneration shall be based on the discussions of the Nominating and Compensation Advisory Committee, of which independent outside officers comprise the majority.

Director Remuneration

FY2021 Officer Remuneration Amounts

(Millions of yen)

Classification	Eligible Personnel	Basic remuneration	Performance-based remuneration	Restricted stock remuneration	Total
Directors (excluding outside directors)	7	83	—	19	103
Audit & Supervisory Board members (excluding outside members)	3	43	—	—	43
Outside officers	6	43	—	—	43

Notes: 1. The above includes two directors and one Audit & Supervisory Board member who stepped down at the conclusion of the 77th Ordinary General Meeting of Shareholders held June 24, 2021.

2. Director remuneration amounts do not include employee salaries for directors concurrently serving as company employees.

Restricted Stock Remuneration System

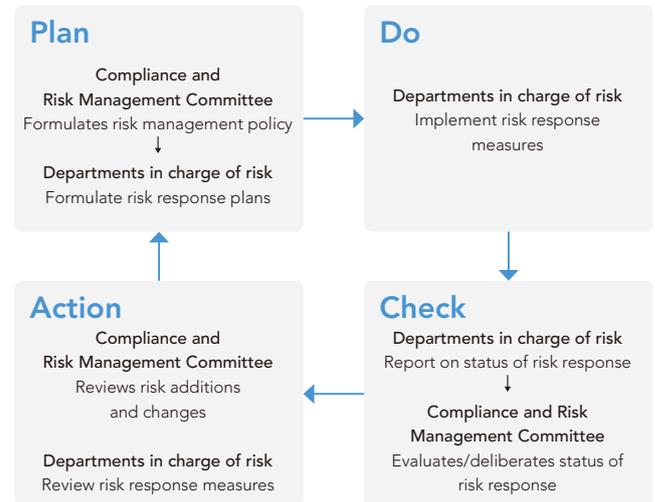
We introduced a restricted stock remuneration system at the 76th Ordinary General Meeting of Shareholders held in June 2020.

This system aims to further promote shared value with shareholders by clarifying the link between director remuneration

and the value of Company shares and by providing incentive to contribute to improvements in medium to long term business performance and increase corporate value for directors, with the exclusion of outside directors.

Risk Management System

In SEKISUI KASEI Group, the departments in charge of each type of risk formulate response plans and take specific countermeasures under the basic policy on risk management established by the Compliance and Risk Management Committee, which manages all risks. Further, the Compliance and Risk Management Committee creates a matrix of currently assumed risks according to their degree of severity, and evaluates and deliberates on the response status based on reports from the departments in charge of each risk. The committee then operates on a system of reviewing the risk response measures and repeating the PDCA cycle depending on the results of their evaluations and deliberations. In addition, the management status of each risk is reported and shared with the Board of Directors and Executive Committee.



Compliance Promotion

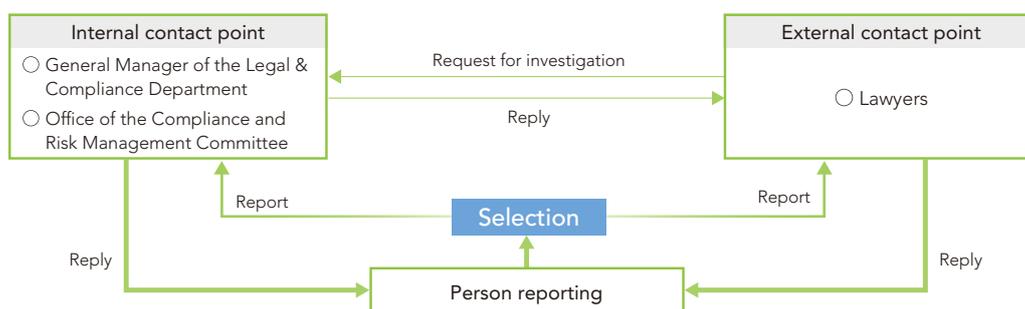
SEKISUI KASEI Group defines compliance as not only complying with laws and regulations, but also ensuring that operations within SEKISUI KASEI Group are carried out in an appropriate manner by complying with related rules and regulations while acting with integrity based on the values, personal ethics, and corporate ethics required by the society in which we operate. SEKISUI KASEI Group Compliance Action Guidelines define how we should act as a corporate entity as part of our effort to promote a strong relationship with society. With the goal of strengthening and promoting compliance

throughout the Group, we established the Compliance and Risk Management Committee to ensure ongoing compliance with all laws and regulations. The Compliance and Risk Management Committee meets in principle once every six months to discuss compliance issues within SEKISUI KASEI Group and to report any items for attention to the Executive Committee. We have also established Compliance Committees and Compliance officers at Group companies, depending on their size, with the goal of further promoting cooperation within the Group.

SKG Clean Network

To fulfill its corporate social responsibilities, SEKISUI KASEI Group set up the "SKG Clean Network" as an internal reporting system in line with our effort to build a fair and active organization.

Users can choose between an internal or external contact points and can issue their report either anonymously or under their own name.



Directors & Auditors



Osamu Matsumoto
Audit & Supervisory Board
Member

1985 Joined the Company
2021 Audit & Supervisory Board
Member of the Company
[incumbent]

Mamoru Akashi
Outside Audit & Supervisory Board
Member

1988 Joined The Dai-ichi Mutual Life
Insurance Company*
2013 Director of The Dai-ichi Frontier Life
Insurance Co., Ltd.
2015 Director, Managing Executive Officer of The
Dai-ichi Frontier Life Insurance Co., Ltd.
2016 Vice President and Representative Director,
Vice-chief Executive Officer of The Dai-ichi
Frontier Life Insurance Co., Ltd.
2020 Managing Executive Officer of Dai-ichi
Life Holdings, Inc.
Director, Managing Executive Officer of
The Dai-ichi Life Insurance Company
2021 Director, Managing Executive Officer of
Dai-ichi Life Holdings, Inc. [incumbent]
2022 Outside Audit & Supervisory Board
Member of the Company [incumbent]

*Currently The Daiichi Life Insurance Company, Limited

Keizo Kousaka
Outside Audit & Supervisory Board
Member

1970 Admitted to the bar
Joined Irokawa Law Office
2001 Chairman of Irokawa Law Office
2009 Outside Director of Sumitomo Rubber
Industries, Ltd. [incumbent]
2012 Outside Audit & Supervisory Board
Member of the Company
[incumbent]
2016 Outside Audit & Supervisory
Board Member of Techno Associe
Co., Ltd. [incumbent]
2020 Chairman of Irokawa Law Office
[incumbent]
Outside Audit & Supervisory
Board Member of Seiren Co., Ltd.
[incumbent]

Yasunobu Furubayashi
Director
Managing Executive Officer

Head of The 1st Business
Headquarters
1992 Joined the Company
2021 Director, Managing Executive
Officer of the Company
[incumbent]

Tetsuharu Hirota
Director
Managing Executive Officer

Head of The 2nd Business Headquarters,
in charge of PX Development Department
and Information Systems Department
1984 Joined the Company
2016 Director, Managing Executive
Officer of the Company
[incumbent]

Michiko Uehara
Outside Director

Please refer to page 54 for
detailed profile.

Naoto Kitagawa
Outside Director

Please refer to page 54 for
detailed profile.



Hideyuki Asada

Director
Managing Executive Officer

Head of Research & Development Center, General Manager of GX Development Department

1989 Joined the Company
2020 Director, Managing Executive Officer of the Company [incumbent]

Toshitaka Fukunaga

Outside Audit & Supervisory Board Member

1979 Joined Sekisui Chemical Co., Ltd.
2011 Executive Officer of Sekisui Chemical Co., Ltd.
2017 Managing Executive Officer of Sekisui Chemical Co., Ltd.
2020 Full-time Audit & Supervisory Board Member of Sekisui Chemical Co., Ltd. [incumbent]
Outside Audit & Supervisory Board Member of the Company [incumbent]

Kojiro Takekoshi

Audit & Supervisory Board Member

1978 Joined the Company
2020 Audit & Supervisory Board Member of the Company [incumbent]

Masato Kashiwabara

President and Representative Director

1983 Joined the Company
2014 Representative Director, President and Chief Executive Officer of the Company [incumbent]

Morio Kubota

Outside Director

Please refer to page 54 for detailed profile.

Katsumi Sasaki

Director
Senior Managing Executive Officer

Head of Corporate Strategic Headquarters

1983 Joined the Company
2021 Director, Senior Managing Executive Officer of the Company [incumbent]

Discussion between Three Outside Directors



Naoto Kitagawa
Outside Director



Michiko Uehara
Outside Director



Morio Kubota
Outside Director

Aiming to become a company that solves environmental and social issues

SEKISUI KASEI is working to enhance corporate governance with the aim of achieving sustainable growth and improving corporate value over the medium to long term.

In this section, we invited outside directors Morio Kubota, Naoto Kitagawa, and Michiko Uehara to share their views on the previous mid-term management plan “Make Innovations Stage-II” and their discussions in formulating the new mid-term management plan “Spiral-up 2024.”

Review of the previous mid-term management plan “Make Innovations Stage-II”

What are your thoughts on the mid-term management plan “Make Innovations Stage-II,” which concluded at the end of March 2022?

Kitagawa I was very disappointed that the Company fell short of the targets in the previous mid-term management plan.

In the Industry segment, the Proseat Group, which was acquired to expand global sales, did not perform well in the wake of the COVID-19 pandemic and the recent developments in the Ukraine, which led to lackluster results.

Kubota Although there were some inevitable factors as the pandemic and the accompanying external environment changed substantially after FY2020, the second year of the plan, I was still disappointed that the Company was unable to achieve the quantitative targets.

Kitagawa On the other hand, I believe that there are things the Company can do even under the harsh external environment.

It began working on creating a system to visualize the profitability of each product in detail, which was raised as an issue in last year’s discussion, by introducing the concept and methods of management accounting, among other things.

How do you see the European business strategy?

Kitagawa During the previous mid-term management plan, the Proseat Group was noticeably affected by the slump in demand for automobiles in Europe, but I believe proactive measures, such as recording impairment losses and reorganizing production bases, are being taken now. The challenge going forward for the Proseat Group will be to implement company-wide cost reduction initiatives to

further improve profitability. I recently visited two production sites, one in Germany and another in the Czech Republic, and felt that there was still plenty of room for improvement throughout. It is important for all employees to be thoroughly committed to improving productivity and eliminating waste. The Company and the Proseat Group must deepen mutual understanding and accelerate their initiatives.

What about other initiatives?

Kubota In terms of promoting diversity, we were able to welcome Ms. Uehara as a woman outside director, and we have also added a foreign national to our executive officers. I believe this represents a significant step forward.

Regarding remuneration for officers, we introduced a restricted stock remuneration system, and also held discussions on how to evaluate performance and the appropriateness of officer remuneration levels.

In addition, for selecting next-generation managers and officers, we exchanged opinions on the qualifications and capabilities required for a manager, and also reformed personnel systems by removing hierarchies in order to actively promote competent personnel, and I believe we gained some success during the three-year period.



Expectations for SEKISUI KASEI going forward

What expectations do you have for SEKISUI KASEI?

Kitagawa I think SKG-5R, SEKISUI KASEI's action plan for the environment, is an excellent and concrete initiative. It is important to expand the lineup of Sustainable Star Products on the market and boost product market share, and it is also critical that these products are widely promoted to the public.

Furthermore, I hope that each and every employee of SEKISUI KASEI Group will internalize the initiative and be able to talk to people about the SKG-5R plan in their own words.

Uehara I agree. I also think SKG-5R is a very good environmental initiative.

However, seeing the sweeping changes in society as the times change dramatically with the COVID-19 pandemic, I do feel that there is a need to accelerate business activities in general.

I am looking forward to the Company's transformation into a "speedy company" that can lead the world in creating

new things.

Kubota The public's negative sentiment toward plastics is loud and clear. I believe it is important to view this as a great opportunity to switch to a new mindset and turn it into new businesses. I would like to see SEKISUI KASEI become a company that solves environmental and social issues by going beyond plastics and fully leveraging its technologies and expertise to continue contributing to society.



Profile of Morio Kubota

Apr. 1977 Joined Okura & Co., Ltd. (until August 1998)
 Mar. 1996 Director of ORBCOMM Japan Planning Limited (now ORBCOMM Japan Limited)
 Jun. 2002 Representative Director and Managing Director of ORBCOMM Japan Limited
 Oct. 2007 Resigned from post of Managing Director of ORBCOMM Japan Limited
 Sep. 2017 Resigned from post of Representative Director of ORBCOMM Japan Limited
 Oct. 2017 Counselor of ORBCOMM Japan Limited (until August 2018)
 Jun. 2018 Outside Director of SEKISUI KASEI Co., Ltd. [incumbent]

Profile of Naoto Kitagawa

Apr. 1976 Joined Toyota Motor Co., Ltd. (currently Toyota Motor Corporation) (until June 2006)
 Jun. 2006 Executive Officer of Daihatsu Motor Co., Ltd.
 Jun. 2008 Director and Senior Executive Officer of Daihatsu Motor Co., Ltd.
 Jun. 2010 Director and Senior Managing Executive Officer of Daihatsu Motor Co., Ltd. (until June 2015)
 Jun. 2020 Outside Director of SEKISUI KASEI Co., Ltd. [incumbent]

Profile of Michiko Uehara

Apr. 1976 Assistant Judge at Kobe District Court
 Apr. 1979 Assistant Judge at Kobe District Court Amagasaki Branch
 Apr. 1982 Assistant Judge at Osaka District Court
 Apr. 1986 Judge at Fukuoka District Court (until March 1989)
 May 1989 Admitted to the bar
 Joined The Miyake Joint Partnership Law Office (currently Miyake & Partners)
 Mar. 1992 Established The Uehara Joint Partnership Law Office
 Jun. 2016 Outside Audit & Supervisory Board Member, Sumitomo Electric Industries, Ltd. [incumbent]
 Feb. 2017 Outside Audit & Supervisory Board Member, The Japan Wool Textile Co., Ltd. [incumbent]
 Jun. 2022 Outside Director of SEKISUI KASEI Co., Ltd. [incumbent]

MD&A and Business Risks

MD&A

Market Environment

Looking at the global economy in FY2021, the situation remains uncertain with respect to the novel coronavirus (COVID-19) pandemic that started in January 2020, with repeated waves of vaccination-driven reductions in COVID-19 followed by its re-emergence in the form of highly contagious mutant strains. In addition, price hikes have been seen in a wide range of sectors due to soaring raw material and fuel prices and the invasion of Ukraine by Russia, which has spurred supply chain disruptions across the globe. In the automotive industry, the situation in Ukraine has cast a shadow over production activities, compounding the effects of shortages of semiconductors and components since last summer. Meanwhile, in the consumer electronics and IT-related sectors, the demand for personal computers and related products has been strong as the practice of working from home spreads and takes root.

The Japanese economy, like the world economy, has been improving as a result of vaccinations, but its recovery remains difficult to predict due to the effects of mutant strains and other factors. In addition, addressing environmental issues such as the reduction of greenhouse gas emissions is becoming even more important.

In the foamed plastics industry in Japan, demand for food container-related products has been strong due to COVID-19. However, the situation in Ukraine and other new problems have prevented a full-fledged recovery in demand for various parts, transportation materials, and packaging materials. In addition, the outlook remains uncertain due to such factors as continued cost increases caused by soaring raw material and fuel prices.

Consolidated Performance

In FY2021*, we achieved net sales of ¥117.567 billion (YoY N/A), operating income of ¥1.463 billion (down 30.0% YoY), recurring income of ¥1.401 billion (down 28.4% YoY), and net loss attributable to owners of the parent of ¥5.917 billion (YoY N/A).

The results by segment were as follows. The Human Life segment recorded net sales of ¥49.530 billion (YoY N/A) and segment income of ¥3.376 billion (down 10.1% YoY). The Industry segment recorded net sales of ¥68.036 billion (YoY N/A) and a segment loss of ¥1.777 billion (compared to a loss of ¥957 million in the previous fiscal year).

* The "Accounting Standard for Revenue Recognition" (ASBJ Accounting Standard No. 29, March 31, 2020) and related standards have been applied starting at the beginning of FY2021. Compared to the year before the ap-

plication of the new standards, net sales in FY2021 decreased by ¥12.35 billion (¥8.432 billion in the Human Life segment and ¥3.872 billion in the Industry segment). Profits were unaffected. For this reason, the operating results for FY2021 are presented without showing the increase or decrease in net sales compared to the previous year or the ratio (%) of net sales to the previous year.

Financial Position

• Assets

Total assets as of the end of FY2021 were ¥143.308 billion, falling by ¥15.130 billion year-on-year. Current assets increased ¥1.027 billion to ¥63.771 billion, mainly due to increases in notes and accounts receivable, contract assets, and electronically recorded monetary claims-operating. Non-current assets decreased by ¥16.157 billion to ¥79.536 billion mainly due to a decrease in the market value of investment securities and the processing of impairment losses at a consolidated subsidiary.

• Liabilities

Total liabilities as of the end of FY2021 were ¥85.065 billion, falling by ¥2.715 billion year-on-year due to decreases in long-term loans, deferred tax liabilities, and other liabilities.

• Net assets

Total net assets as of the end of FY2021 decreased by ¥12.415 billion to ¥58.242 billion, mainly due to a decrease in retained earnings resulting from impairment losses and a decrease in net unrealized holding gains on securities.

• Cash flow

Cash and cash equivalents in FY2021 were ¥10.503 billion, falling by ¥1.995 billion year-on-year.

(Cash flow from operating activities)

Cash flow from operating activities in FY2021 saw proceeds decrease by ¥2.596 billion year-on-year, resulting in ¥3.831 billion in net cash provided by operating activities, mainly due to the decrease in net income before income taxes in this fiscal year and the impact of an increase in inventories.

(Cash flow from investment activities)

Cash flow from investment activities in FY2021 saw expenses decrease by ¥179 million year-on-year, resulting in ¥3.186 billion in net cash used in investing activities, mainly due to decreased outlays for purchases of property, plant and equipment and a decrease in proceeds from sale of investment securities.

(Cash flow from financing activities)

Cash flow from financing activities in FY2021 saw expenses decrease by ¥1.940 billion year-on-year mainly due to a decrease in proceeds from long-term loans, resulting in ¥2.573 billion in net cash used in financing activities.

• Capital investment

SEKISUI KASEI Group (the Company and consolidated subsidiaries) implements initiatives in line with its management plan, making capital investments focusing on renewals, repairs, and capacity expansion. The Group's capital investment in FY2021 totaled ¥3.825 billion.

By segment, the investment amount was ¥1.856 billion for the Industry segment and ¥1.229 billion for the Human Life segment.

• Dividend policy

The Company positions the returning of profits to shareholders as an important management issue. Our basic policy is to distribute profits in accordance with consolidated financial results as well as in consideration of stability of dividends while strengthening our management structure and securing internal reserves to prepare for future business development. We target a consolidated payout ratio of 30% to 40%.

In FY2021, in order to maintain stable dividends to shareholders, we decided to execute a year-end dividend of ¥7 per share, despite the fact that we recorded significant losses due to impairment losses on non-current assets, goodwill, etc. On December 2, 2021, we executed an interim dividend of ¥5 per share, resulting in an annual dividend of ¥12 per share in FY2021.

Business Risks

Business and Other Risks

The main items considered to be risk factors for business development and that have the potential to have an important impact on investors' decisions are described below. The Group's policy is to recognize the possibility of the occurrence of these risks and to strive to avoid their occurrence and to respond to them if they do occur. Overall risk management is evaluated and deliberated by the Compliance and Risk Management Committee, which regularly reports its results to the Board of Directors.

1. COVID-19 Risks

We recognize mainly the following risks associated with COVID-19 that could particularly have implications for SEKISUI KASEI Group. Under the leadership of the President, the Group is making collective efforts to manage and respond to the risks posed by COVID-19.

a. Infection of Officers and Employees

If officers or employees of the Group become infected with COVID-19 and a cluster develops within the Company, the resulting suspension or delay of operations at the business site could cause a significant impact on the performance and financial condition of the Group.

In order to ensure the health and safety of officers, employees, and their families and to prevent the spread of COVID-19 within and outside of the Group, we have strengthened measures such as encouraging employees to telework or stagger work hours and refraining from travelling between business sites.

b. Prolonged Suspension of Business Partner Operations and Deterioration of Credit Status

In the case that COVID-19 causes a prolonged suspension of operations at the global plants of the Group's business partners, particularly plants of the automotive, home appliance, and IT industries, the Group's product net sales will decrease, which could have a significant impact on the performance and financial condition of the Group. In addition, if the credit status of the Group's business partners deteriorates as a result of COVID-19, there may be delays in the Group's collection of accounts receivable or the accounts receivable may be irrecoverable, which could have a significant impact on the performance and financial condition of the Group.

MD&A and Business Risks

The Group is therefore working to drastically reduce costs and boost productivity in its business activities and for some time now has endeavored to minimize the impact of the current business environment on the Group's performance and financial condition with the use of factoring and other credit guarantee systems.

c. Disruption and Stagnation of the Logistics Network

COVID-19 may cause a disruption or stagnation of the worldwide logistics network, resulting in delays in the procurement of raw materials of products and their components and in the transportation of products and intermediate products, which could have a significant impact on the performance and financial condition of the Group. The Group has thus been taking measures for some time, such as procuring raw materials from multiple business partners and decentralizing production sites, in order to minimize the impact.

d. R&D Risks

If the prolonged impact of the COVID-19 pandemic causes long-term restrictions on employees going to the Group's research and development (R&D) sites, ongoing R&D activities may face scheduling delays, possibly hindering the development and launch of new materials and products. The Group has thus been working for some time to minimize the impact by taking measures, such as increasing the number of R&D sites and ensuring close sharing of information. It is also taking steps to smoothly undertake joint developments and other collaborative activities with external partners with the use of online tools.

2. Business Risks Unrelated to COVID-19

a. Ensuring Safety

If a major industrial accident were to occur at any of the business locations of SEKISUI KASEI Group, it will result in loss of social trust, costs for dealing with the accident, loss of opportunities from suspending production activities, and client compensation, which could have a significant impact on the performance and financial condition of the Group. The Group has thus established the Safety Committee. The entire Group is committed to ensuring that there are no accidents and disasters across all of its business activities, setting forth a policy on safety operations and planning and implementing activities, including safety patrols, safety awareness-raising, safety education, and various trainings.

b. Product Quality Assurance

Unexpected product defects or failures could have a significant impact on the performance and financial condition of the Group, including product recalls and compensation for damages.

The Group has thus established the Quality Committee to strengthen its quality management system. The entire Group has also set forth a quality management policy. It plans and implements activities, such as quality audits, quality management training, and quality meetings, giving consideration to safety and quality in the product development and production stages. In addition, the Group conducts business activities in compliance with quality-related domestic and international laws and ordinances as well as regulations and standards set by industry organizations. Furthermore, it is enrolled in product liability insurance in case a quality problem arises.

c. Environmental Management

If an incident occurs that affects the environment surrounding a plant, such as leakage of a chemical substance or an accident during the process of storing and managing product materials or manufacturing, the performance and financial condition of the Group could be significantly impacted by loss of trust from clients and local communities, compensation and other associated costs, and loss of opportunities from production suspension.

The Group has thus established the Environmental Committee. The entire Group is committed to environmental management, setting forth an environmental management policy and planning and implementing activities, including environmental audits, environmental education, and various trainings at respective business sites. In addition, the Group conducts business activities in compliance with environmental regulations, laws, and ordinances.

d. Economic Situation and Public Works

The Group's performance and financial condition may potentially be affected by contracting demand due to economic trends, as well as by changes in the supply-demand balance and prices owing to competition with rival companies. In addition, the COVID-19 pandemic has had an enormous impact on global economic activity and the overall future outlook remains uncertain, including when the virus will be brought under control and what the post-pandemic economic situation might look like. It is therefore expected that the pandemic will significantly impact the Group's performance and financial condition.

Accordingly, the Group is committed to strengthening its sales capabilities, development know-how, and financial health to ensure it can flexibly respond to changes in economic conditions, customer trends, and personal consumption. At the same time, we will strive to minimize revenue loss by steadfastly promoting the measures in our mid-term management plan.

e. Overseas Business Activities

SEKISUI KASEI Group has production and sales businesses in Asia, the United States, Central America, and Europe. In addition to the effects of the COVID-19 pandemic, unexpected changes in laws and regulations, unfavorable political and economic factors, and social disruptions such as war and political instability may affect the performance and the financial condition of the Group.

In order to minimize such risks, the Group actively collects information to be ready to adapt to changes in the business environment.

f. Raw Material Market Fluctuations

The Group uses mainly raw materials such as styrene monomer and polystyrene. If price fluctuations of such raw materials are not passed on to product prices in a timely manner, or if there is a natural disaster or the supply of raw materials from the supplier is unstable, it may affect the performance and financial condition of the Group.

In this light, the Group seeks to create favorable conditions for purchases, including raw materials, packing materials, and production equipment. In addition, we negotiate with customers as appropriate so that the price fluctuations of raw materials can be transferred to the product price in a timely manner.

g. Foreign Currency Risk

Transactions denominated in foreign currency in the Group's domestic and overseas businesses are impacted by exchange rate fluctuations when converted into yen. The Group takes steps to minimize the risk on these transactions, but fluctuations in currency exchange rates could impact the performance and financial condition of the Group.

The Group will continue to consider additional measures, such as foreign currency hedging of transactions, in order to minimize risk.

h. Impairment and Asset Write-Down Risks

The Group books goodwill and various property, plant and equipment and intangible assets for businesses when

acquiring other companies. It also has shareholdings in other companies. In the event these assets fail to generate expected cash flow due to a divergence from earnings targets, changes in market trends, or other factors, or if the value of such assets declines, the performance and financial condition of the Group could be impacted.

The Group has therefore established the Investment and Financing Committee to carefully discuss the propriety of investments and financing. The Group also has a system in place to ensure scrupulous after-the-fact project management and to also accurately gauge asset value.

i. Natural Disaster Risks

In the event the Group's business sites are severely damaged or opportunity losses arise from suspended production owing to supply chain disruptions affecting mainly the procurement of raw materials as a result of a larger-than-expected earthquake, typhoon, or other natural disaster, or a fire, explosion, or similar incident, the performance and financial condition of the Group could be impacted.

The Group has produced an emergency response plan in the event of a natural disaster or other emergency situation, has made preparations in full readiness for such scenarios, and has methods in place for sharing critical information. The Group is also working on the development of a business continuity plan (BCP) for its mainstay businesses.

j. Information Security

The Group stores confidential information and personal information for business purposes, but in the event the Group's critical systems go offline and impede the execution of business due to a natural disaster or unforeseen attack from outside of the Group, or if the Group's credibility is undermined by the leaking or inappropriate use of information from within the organization, the performance and financial condition of the Group could be impacted.

The Group has therefore established the IT Promotion Committee to handle the management and promotion of Group-wide IT measures in order to appropriately safeguard the aforementioned information assets. This committee formulates information security action plans, improves the functionality of information security systems, and provides training to employees. The Group also assigns an information security officer to each department and each Group company to oversee information security activities and properly manage information assets.

Consolidated Financial Statements

Consolidated Balance Sheet

SEKISUI KASEI Co., Ltd. and Consolidated Subsidiaries
March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2021	2022	2022
Assets			
Current assets:			
Cash and cash equivalents (Note 5)	¥ 12,498	¥ 10,503	\$ 85,815
Short-term investments (Note 5)	32	7	57
Notes and accounts receivable (Notes 3 and 5)	28,301	—	—
Notes receivable (Notes 3 and 5)	—	4,335	35,419
Accounts receivable (Notes 3 and 5)	—	23,565	192,540
Contract assets (Note 5)	—	1,092	8,922
Electronically recorded monetary claims (Note 5)	5,220	6,526	53,321
Inventories (Note 7)	13,324	15,175	123,988
Other current assets	3,426	2,617	21,382
Less allowance for doubtful accounts	(59)	(52)	(424)
Total current assets	62,744	63,771	521,047
Property, plant and equipment (Notes 2 and 20):			
Land (Notes 9 and 13)	21,306	21,413	174,957
Buildings and structures (Note 9)	48,112	48,614	397,205
Machinery and equipment (Note 16)	109,301	108,503	886,534
Construction in progress	1,978	1,743	14,241
	180,698	180,275	1,472,955
Less accumulated depreciation	(119,266)	(124,622)	(1,018,236)
Property, plant and equipment, net	61,432	55,652	454,710
Intangible assets (Note 2)			
Goodwill (Notes 16 and 20)	1,236	—	—
Software	587	665	5,433
Other intangible assets (Note 16)	1,549	465	3,799
Total intangible assets	3,373	1,131	9,240
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliates (Notes 5 and 6)	35	35	285
Investments in securities (Notes 5 and 6)	21,314	14,813	121,031
Deferred income taxes (Note 10)	808	822	6,716
Assets for retirement benefits (Note 11)	7,772	6,155	50,290
Other assets	1,007	973	7,949
Less allowance for doubtful accounts	(49)	(47)	(384)
Total investments and other assets	30,889	22,752	185,897
Total assets (Note 20)	¥ 158,439	¥ 143,308	\$ 1,170,912

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2021	2022	2022
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable (Note 5)	¥ 23,145	¥ 25,703	\$ 210,008
Short-term loans (Notes 5, 8 and 9)	3,627	6,086	49,726
Current portion of long-term loans (Notes 5, 8, 9 and 17)	5,558	10,166	83,062
Contract liabilities (Note 3)	—	405	3,309
Accrued expenses (Note 3)	4,481	3,357	27,428
Accrued income taxes (Note 10)	1,213	767	6,266
Provision for bonuses to employees	1,054	1,046	8,546
Provision for bonuses to directors and audit and supervisory board members	59	6	49
Provision for loss on business withdrawal of a subsidiary	919	446	3,644
Other current liabilities (Note 3)	3,246	2,731	22,313
Total current liabilities	43,305	50,715	414,372
Long-term liabilities:			
Long-term debt less current portion (Notes 5, 8, 9 and 17)	27,900	20,863	170,463
Liabilities for retirement benefits (Note 11)	3,590	3,608	29,479
Deferred income taxes (Note 10)	7,261	4,410	36,032
Deferred income taxes for land revaluation	1,596	1,596	13,040
Provision for product warranty	132	108	882
Other long-term liabilities	3,995	3,763	30,745
Total long-term liabilities	44,475	34,349	280,652
Net assets:			
Shareholders' equity (Note 12):			
Common stock:			
Authorized: 124,751,000 shares as of March 31, 2021 and 2022			
Issued: 46,988,109 shares as of March 31, 2021 and 2022	16,533	16,533	135,084
Capital surplus	16,515	16,503	134,839
Retained earnings (Note 21)	23,523	16,602	135,648
Less treasury stock, at cost:			
1,850,959 shares as of March 31, 2021			
1,794,266 shares as of March 31, 2022	(1,493)	(1,448)	(11,831)
Total shareholders' equity	55,077	48,190	393,741
Accumulated other comprehensive income:			
Net unrealized holding gain on securities (Notes 5, 6 and 14)	11,859	7,442	60,805
Surplus arising from land revaluation (Note 13)	1,479	1,479	12,084
Translation adjustments (Note 14)	11	745	6,087
Retirement benefits liability adjustments (Notes 11 and 14)	1,527	(332)	(2,712)
Total accumulated other comprehensive income	14,877	9,334	76,264
Non-controlling interests	702	717	5,858
Total net assets	70,657	58,242	475,872
Total liabilities and net assets	¥ 158,439	¥ 143,308	\$ 1,170,912

See notes to consolidated financial statements.

Consolidated Financial Statements

Consolidated Statement of Income

SEKISUI KASEI Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2021	2022	2022
Net sales (Notes 3 and 20)	¥ 118,851	¥ 117,567	\$ 960,593
Cost of sales (Note 3)	92,451	92,831	758,485
Gross profit	26,399	24,735	202,099
Selling, general and administrative expenses (Notes 3 and 15)	24,308	23,271	190,138
Operating income	2,091	1,463	11,954
Other income (expenses):			
Interest income (Note 20)	17	13	106
Dividend income	311	328	2,679
Subsidy income	289	58	473
Foreign exchange income, net	(97)	288	2,353
Interest expense (Note 20)	(373)	(386)	(3,153)
Equity in loss of an affiliate (Note 20)	(9)	—	—
Compensation expenses	(21)	(114)	(931)
Loss on sales or disposal of fixed assets	(139)	(214)	(1,748)
Commission paid	(58)	(57)	(465)
Gain on sales of investments in securities (Note 6)	857	445	3,635
Loss on sales of investments in securities	(37)	—	—
Loss on impairment of investments in securities	(2)	—	—
Impairment loss (Notes 2 and 16)	—	(6,407)	(52,349)
Loss on subsidiary liquidation	(2)	—	—
Loss on business withdrawal of a subsidiary	(901)	—	—
Other, net	(52)	(21)	(171)
Profit (loss) before income taxes	1,870	(4,560)	(37,258)
Income taxes (Note 10):			
Current	1,564	1,436	11,732
Deferred	(3)	(120)	(980)
	1,560	1,316	10,752
Profit (loss)	309	(5,876)	(48,010)
Profit (loss) attributable to:			
Non-controlling interests	(816)	41	334
Owners of parent	¥ 1,126	¥ (5,917)	\$ (48,345)

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

SEKISUI KASEI Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2021	2022	2022
Profit (loss)	¥ 309	¥ (5,876)	\$ (48,010)
Other comprehensive income (loss) (Note 14):			
Net unrealized holding gain (loss) on securities	2,633	(4,417)	(36,089)
Translation adjustments	640	720	5,882
Retirement benefits liability adjustments	1,128	(1,860)	(15,197)
Total other comprehensive income (loss)	4,402	(5,557)	(45,404)
Comprehensive income (loss)	¥ 4,712	¥ (11,433)	\$ (93,414)
Comprehensive income (loss) attributable to:			
Owners of parent	¥ 5,584	¥ (11,460)	\$ (93,635)
Non-controlling interests	(872)	27	220

See notes to consolidated financial statements.

Consolidated Financial Statements

Consolidated Statement of Changes in Net Assets

SEKISUI KASEI Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2021 and 2022

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance as of April 1, 2020	¥ 16,533	¥ 16,532	¥ 23,524	¥ (1,426)
Cash dividends	—	—	(951)	—
Profit attributable to owners of parent for the year	—	—	1,126	—
Acquisition of treasury stock	—	—	—	(141)
Disposal of treasury shares	—	(17)	—	57
Change in scope of equity method	—	—	(176)	16
Other changes	—	—	—	—
Balance as of April 1, 2021	16,533	16,515	23,522	(1,493)
Cash dividends	—	—	(1,002)	—
Profit (loss) attributable to owners of parent for the year	—	—	(5,917)	—
Acquisition of treasury stock	—	—	—	(0)
Disposal of treasury shares	—	(12)	—	45
Change in scope of equity method	—	—	—	—
Other changes	—	—	—	—
Balance as of March 31, 2022	¥ 16,533	¥ 16,503	¥ 16,602	¥ (1,448)

Millions of yen

	Net unrealized holding gain (loss) on securities	Surplus arising from land revaluation	Translation adjustments	Retirement benefits liability adjustments	Non- controlling interests	Total net assets
Balance as of April 1, 2020	¥ 9,226	¥ 1,479	¥ (583)	¥ 399	¥ 1,531	¥ 67,217
Cash dividends	—	—	—	—	—	(951)
Profit attributable to owners of parent for the year	—	—	—	—	—	1,126
Acquisition of treasury stock	—	—	—	—	—	(141)
Disposal of treasury shares	—	—	—	—	—	40
Change in scope of equity method	—	—	—	—	—	(160)
Other changes	2,633	—	594	1,128	(829)	3,406
Balance as of April 1, 2021	11,859	1,479	11	1,527	702	70,657
Cash dividends	—	—	—	—	—	(1,002)
Profit (loss) attributable to owners of parent for the year	—	—	—	—	—	(5,917)
Acquisition of treasury stock	—	—	—	—	—	(0)
Disposal of treasury shares	—	—	—	—	—	33
Change in scope of equity method	—	—	—	—	—	—
Other changes	(4,417)	—	734	(1,860)	14	(5,528)
Balance as of March 31, 2022	¥ 7,442	¥ 1,479	¥ 745	¥ (332)	¥ 717	¥ 58,242

Thousands of U.S. dollars (Note 4)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance as of April 1, 2021	\$ 135,084	\$ 134,937	\$ 192,197	\$ (12,198)
Cash dividends	—	—	(8,186)	—
Profit (loss) attributable to owners of parent for the year	—	—	(48,345)	—
Acquisition of treasury stock	—	—	—	(0)
Disposal of treasury shares	—	(98)	—	367
Change in scope of equity method	—	—	—	—
Other changes	—	—	—	—
Balance as of March 31, 2022	\$ 135,084	\$ 134,839	\$ 135,648	\$ (11,831)

Thousands of U.S. dollars (Note 4)

	Net unrealized holding gain (loss) on securities	Surplus arising from land revaluation	Translation adjustments	Retirement benefits liability adjustments	Non- controlling interests	Total net assets
Balance as of April 1, 2021	\$ 96,895	\$ 12,084	\$ 89	\$ 12,476	\$ 5,735	\$ 577,310
Cash dividends	—	—	—	—	—	(8,186)
Profit (loss) attributable to owners of parent for the year	—	—	—	—	—	(48,345)
Acquisition of treasury stock	—	—	—	—	—	(0)
Disposal of treasury shares	—	—	—	—	—	269
Change in scope of equity method	—	—	—	—	—	—
Other changes	(36,089)	—	5,997	(15,197)	114	(45,167)
Balance as of March 31, 2022	\$ 60,805	\$ 12,084	\$ 6,087	\$ (2,712)	\$ 5,858	\$ 475,872

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

SEKISUI KASEI Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2021	2022	2022
Cash flows from operating activities			
Profit (loss) before income taxes	¥ 1,870	¥ (4,560)	\$ (37,257)
Adjustments for:			
Depreciation and amortization	6,217	6,176	50,461
Impairment loss	—	6,407	52,349
Amortization of goodwill	168	128	1,045
Decrease in allowance for doubtful accounts	(4)	(11)	(89)
Interest and dividend income	(328)	(342)	(2,794)
Interest expense	373	386	3,153
Equity in losses of an affiliate	9	—	—
Increase (decrease) in provision for bonuses to employees	15	(9)	(73)
Decrease in provision for product warranty	(26)	(23)	(187)
Changes in assets and liabilities for retirement benefits, net	(332)	(1,058)	(8,644)
Gain on sales of investments in securities	(820)	(445)	(3,635)
Loss on impairment of investments in securities	2	—	—
Loss on sales or disposal of fixed assets, net	138	210	1,715
Subsidy income	(289)	(58)	(473)
Loss on business withdrawal of a subsidiary	901	—	—
Increase in notes and accounts receivable	(868)	(892)	(7,288)
Decrease (increase) in inventories	699	(1,544)	(12,615)
(Decrease) increase in notes and accounts payable	(596)	2,209	(18,049)
Other, net	(496)	(1,041)	(8,505)
Subtotal	6,633	5,530	45,183
Interest and dividends received	328	342	2,794
Interest paid	(377)	(357)	(2,916)
Proceeds from casualty insurance claims	105	157	1,282
Amount of receipt of subsidy received	289	58	473
Income taxes	(552)	(1,899)	(15,515)
Net cash provided by operating activities	6,428	3,831	31,301
Cash flows from investing activities			
Payments into time deposits	(23)	—	—
Proceeds from withdrawal of time deposits	—	(26)	(212)
Purchases of property, plant and equipment	(3,987)	(3,700)	(30,231)
Proceeds from sales of property, plant and equipment	13	37	302
Purchases of investments in securities	(5)	(4)	(32)
Proceeds from sales of investments in securities	1,113	581	4,747
Increase in short-term and long-term loans receivable	(3)	(7)	(57)
Collection of short-term and long-term loans receivable	2	17	138
Other, net	(115)	(137)	(1,119)
Net cash used in investing activities	(3,007)	(3,186)	(26,031)
Cash flows from financing activities			
Net increase in short-term loans	851	2,243	18,326
Proceeds from long-term loans	4,989	2,751	22,477
Repayment of long-term loans	(4,943)	(5,570)	(45,510)
Purchases of treasury stock	(141)	(0)	(0)
Dividends paid	(953)	(993)	(8,113)
Dividends paid to non-controlling shareholders	(2)	(2)	(16)
Other	(433)	(1,002)	(8,186)
Net cash used in financing activities	(632)	(2,573)	(21,022)
Effect of exchange rate changes on cash and cash equivalents	177	(67)	(547)
Net increase (decrease) in cash and cash equivalents	2,965	(1,995)	(16,300)
Cash and cash equivalents at the beginning of the year	9,532	12,498	102,116
Cash and cash equivalents at the end of the year	¥ 12,498	¥ 10,503	\$ 85,815

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

SEKISUI KASEI Co., Ltd. and Consolidated Subsidiaries
March 31, 2022

1. Significant Accounting Policies

(a) Basis of Preparation

The consolidated financial statements of SEKISUI KASEI Co., Ltd. (the "Company") and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS"), and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2021 to the 2022 presentation. Such reclassifications had no effect on consolidated profit or net assets.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. Consequently, the totals shown in the consolidated financial statements do not necessarily agree with the sum of the individual yen and U.S. dollar amounts.

(b) Principles of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries Affiliates

The principles of consolidation are to include significant subsidiaries over which substantial control is exerted either through majority ownership of voting stock and/or by other means.

The consolidated financial statements include the accounts of the Company and its 39 significant consolidated subsidiaries (collectively, the "Group") for the years ended March 31, 2021 and 2022. There is no equity-method affiliate for the year ended March 31, 2022.

The five affiliates including Yusui Kasei Kogyo Co., Ltd. as a main affiliated company are not significant in terms of their total assets, profit or loss, and retained earnings. Accordingly, these affiliates have not been consolidated nor are they accounted for by the equity method as of March 31, 2022. Investments in such affiliates are stated at cost unless there has been a permanent decline in the value of such investments. In such case, the Company is required to write down the investments.

All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Goodwill arising from the difference between the purchase cost and the underlying equity in net assets at the respective dates of acquisition is amortized by straight-line method over the estimated period of its effect. Five overseas consolidated subsidiaries whose fiscal year end is December 31 have been consolidated using provisional financial statements as of March 31, 2022.

For other nine overseas consolidated subsidiaries whose fiscal year ends on December 31, necessary adjustments have been made for any significant intercompany transactions which took place during the period between the year end of the overseas consolidated subsidiaries and the year end of the Company.

(c) Foreign Currency Translation

The financial statements of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date except that the components of net assets excluding non-controlling interests are translated at their historical exchange rates. Differences resulting from translating the financial statements of the overseas consolidated subsidiaries are not included in the determination of profit but are reported as translation adjustments and non-controlling interests in net assets in the consolidated balance sheet.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates of exchange in effect at the respective transaction dates.

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and gain or loss on each translation is credited or charged to income.

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits with banks withdrawable on demand and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

(e) Allowance for Doubtful Accounts

The Group provides an allowance for doubtful accounts at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

(f) Inventories

Inventories are stated at lower of cost or net selling value, cost being determined by the moving average method.

(g) Securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities and other securities. Trading securities, consisting of debt and marketable equity securities are stated at fair value. Gain or loss, both realized and unrealized, is credited or charged to income. Held-to-maturity debt securities are stated at amortized cost. Quoted securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income. Unquoted securities classified as other securities are carried at cost determined by the moving average method.

(h) Property, Plant and Equipment (except for leased assets)

Property, plant and equipment are stated at cost.

Depreciation of buildings and structures is calculated by the straight-line method over the estimated useful lives of the respective assets. Depreciation of other property, plant and equipment is principally computed by the straight-line method, except for certain subsidiaries which compute depreciation by the declining-balance method over the estimated useful lives of the respective assets.

The estimated useful lives of major property, plant and equipment are summarized as follows:

Buildings	principally 31 to 38 years
Machinery	principally 8 years

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income as incurred.

(i) Leased Assets (included in other assets)

Leased assets under finance lease contracts that do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the term of the contract as the useful life.

(j) Income Taxes

Income taxes are calculated on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable

income and income reported for financial statement purposes which enter into the determination of taxable income in a different period. The Group has recognized the tax effect of such temporary differences in the consolidated financial statements.

The Company and certain domestic consolidated subsidiaries have applied the consolidated taxation system, which allows companies to file tax returns based on the combined profits or losses of the parent company and wholly owned domestic subsidiaries.

(Treatment of Tax Effect Accounting for Transition from Consolidated Taxation System to the Group Tax Sharing System)

From the following fiscal year, the Company and certain domestic consolidated subsidiaries will transition from the consolidated taxation system to the group tax sharing system.

As an alternative to applying Article No.44 of "Partial Amendments to Accounting Standard for Tax Effect Accounting (Accounting Standards Board of Japan ("ASBJ") Guidance No. 28, February 16, 2018), the Company and certain domestic consolidated subsidiaries that adopted the consolidated taxation system calculate deferred tax assets and deferred tax liabilities based on provisions stipulated in related tax laws before revision for certain items remeasured from the single tax payment system at the time of transition to the group tax sharing system based on provisions in "Act for Partial Amendments to Income Tax Act" (Act No.8) in accordance with Article No.3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ PITF No.39, March 31, 2020).

From the beginning of the following fiscal year, the Company will apply the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ PITF No. 42, August 12, 2021), which provides for the accounting treatments and disclosure of corporation tax, local corporation tax and tax effect accounting in the case of application of group tax sharing system.

(k) Provision for Bonuses to Employees

Provision for bonuses to employees is provided at the estimated amount of bonuses to be paid to the employees in the following year which has been allocated to the current fiscal year.

(l) Provision for Bonuses to Directors and Audit and Supervisory Board Members

Provision for bonuses to directors and audit and supervisory board members is calculated based on the estimated amount of bonuses to be paid to directors and audit and supervisory board members in the following year which has been allocated to the current fiscal year.

(m) Provision for Product Warranty

Provision for product warranty is provided based on an estimated amount which is expected to be incurred subsequent to the balance sheet date.

(n) Provision for Loss on Business Withdrawal of a Subsidiary

Provision for loss on business withdrawal of a subsidiary is provided for estimated future expenses arising from the termination of its business activities.

(o) Retirement Benefit Plans

i) Method of attributing expected benefits to each period

The retirement benefit obligation for employees is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

ii) Amortization method of actuarial gain or loss

Actuarial gain or loss is amortized from the year following the year in which the gain or loss is recognized by the straight-line method over a period of 5 years, which is within the estimated average remaining years of service of the eligible employees.

(p) Revenue Recognition

The Group's main business consists of manufacturing and sales of products in the Human Life segment and Industry segment. The Group recognizes revenue from the sale of these products upon delivery to the customer, since the customer obtains control over such products and the performance obligation is fulfilled upon delivery of the products. Revenue is measured at an amount after deducting sales returns, discounts and rebates from the transaction price in the contract with the customer.

The Group receives a consideration for a transaction within one year after fulfilling the performance obligations, and the consideration does not include a significant financing component.

(q) Software (except for leased assets)

Expenditures relating to computer software developed for internal use are charged to income when incurred, except if these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their respective estimated useful lives, generally a period of 5 years.

(r) Research and Development Costs

Research and development costs are charged to income when incurred.

(s) Hedge Accounting

The Company has entered into interest-rate swaps to hedge the risk of interest rate and foreign currency exchange rate fluctuations on long-term loans denominated in foreign currencies.

i) Hedge accounting method

Interest-rate swaps that meet special matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income, and the long-term loans hedged by the swap by the swap agreements is translated at the swap contract rate ("special treatment").

ii) Hedging instruments and hedged items

Hedging instruments:	Hedged items:
Interest-rate swaps	Long-term loans denominated in foreign currencies

iii) Hedging policy

Derivative transactions are used to hedge the risk of interest-rate fluctuation in accordance with the Company's risk management policy.

iv) Assessing hedge effectiveness

With regard to interest-rate currency swaps accounted for by the special treatment evaluation of hedge effectiveness is omitted.

(t) Distribution of Retained Earnings

Under the Corporation Law of Japan, the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such distributions (see Note 21).

Notes to Consolidated Financial Statements

2. Significant Accounting Estimates

(Impairment of Fixed Assets)

Due to the decline in profitability as a result of recent changes in the business environment, the Group determined that there was an indication of

impairment for fixed assets attributable to Proseat Europe GmbH and its subsidiaries, which were acquired by the Company in February 2019, and the Company made the following judgements.

(a) Amount reported in consolidated financial statements for the year ended March 31, 2022

	Millions of yen	Thousands of U.S. dollars
For the year ended March 31, 2022		
Impairment loss	¥ 6,407	\$ 52,349
As of March 31, 2022		
Property, plant and equipment	¥ 3,320	\$ 27,126
Intangible assets	177	1,446
Total	¥ 3,497	\$ 28,572

The Group recognized impairment loss for the year ended March 31, 2022 due to a decline in profitability caused by changes in the business environment.

(b) Other information that contributes to the understanding of the users of financial statements

i) Method of calculation

The Group categorizes assets by business. The Group determines whether recognition of impairment loss is necessary whenever indications of impairment exist for an asset or an asset group. When the Group determines that an impairment loss should be recognized, the Group reduces the carrying amount to the recoverable amount and records the difference as an impairment loss. In assessing the amount of impairment loss on fixed assets, the Group measures the recoverable amount of the asset group based on its value in use. The value in use is calculated as the present value of estimated future cash flows. In assessing the amount of impairment loss on property, plant and equipment, the Group measures the recoverable amount of the asset group based on its value in use. The value in use is calculated as the present value of estimated future cash flows and the future cash flows to be generated from the continued use of an asset group are estimated based on the business plan approved by the Board of

Directors of the company and the market growth rates for the periods subsequent to the period covered by the business plan.

ii) Significant assumptions

Significant assumptions in estimating future cash flows are i) the forecasts of product sales volumes, ii) trends in sales prices, iii) trends in gross profit margin, which serve as the basis of the business plan, iv) the market growth rates for the periods subsequent to the period covered by the business plan, v) the discount rates and vi) the impact of COVID-19 on business activities. The market growth rate was determined based on the available external market data as a reference.

iii) Impact on the financial statements for the following fiscal year.

Given that the significant assumptions, are subject to a high degree of uncertainty in its estimation, therefore, changes in these assumptions could result in the recognition of additional impairment losses on property, plant and equipment and intangible assets.

3. Changes in Accounting Policies

(Application of Accounting Standards for Revenue Recognition)

The Group has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) from the beginning of the fiscal year ended March 31, 2022 and recognizes revenue at the amount expected to be received in exchange for the goods or services when the control of the goods or services promised is transferred to the customer. The main changes is as follows.

(a) Revenue Recognition in Agent Transactions

For those transactions in which the Group previously recognized revenue at the gross amount of the consideration received from customers, the Group recognizes revenue at the net amount of the consideration received from customers less the amount paid to suppliers when the Group acts as an agent in transactions providing goods or services to customers.

(b) Revenue Recognition of Sales Commission

In the transactions previously recorded as selling, general and administrative expenses, the Group recognizes revenue at the net amount of the transaction price less the amount of consideration payable to a customer, if the Group makes a payment to the customer when it is not a payment for a distinct good or service that the customer transfers to the Group.

As a result, net sales for the year ended March 31, 2022 decreased by ¥12,305 million (\$100,539 thousand), cost of Sales decreased by ¥11,832 million (\$96,674 thousand), and selling, general and administrative expenses decreased by ¥473 million (\$3,864 thousand), but operating income, ordinary income and loss before income taxes were

not affected.

The application of the Accounting Standard for Revenue Recognition is subject to the transitional treatment provided in the provision to Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retroactive application, assuming the new accounting policy had been applied to periods prior to the beginning of the year ended March 31, 2022, was added to or deducted from the beginning balance of retained earnings for the year ended March 31, 2022, and thus the new accounting policy was adopted from the beginning of the current fiscal year. However, there is no effect on the beginning balance of retained earnings for the year ended March 31, 2022.

As a result of the application of the Accounting Standard for Revenue Recognition, "Notes and accounts receivable," in current assets are reclassified as "Notes receivable" and "Accounts receivable", and "Contract assets," which were previously included in "Other current assets," are presented as "Contract assets," and "Contract liabilities," which were previously included in "Accrued expenses" in current liabilities, are presented as "Contract liabilities" from the beginning of the year ended March 31 2022.

However, in accordance with the transitional treatment provided for in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, the Group has not reclassified the balances as of March 31, 2021 based on the new presentation method.

Furthermore, in accordance with the transitional treatment provided for in Article 89-3 of the Accounting Standard for Revenue Recognition, the related footnote information for the year ended March 31, 2021 in Note 19 "Revenue Recognition" has been omitted.

(Accounting Standard for Fair Value Measurement)

The Group has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019, hereinafter, "Fair Value Measurement Standard") and other standards from the beginning of the year ended March 31, 2022, and in accordance with the transitional treatment provided in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Group will prospectively apply the new accounting policy stipulated by the "Fair Value Measurement Standard", etc.

There is no effect of the application of accounting standards on the consolidated financial statements.

The Company disclosed information on items such as the breakdown of the fair value of financial instruments by level of fair value in Note 5, "Financial Instruments." However, in accordance with the transitional provisions stipulated in paragraph 7-4 of the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, July 4, 2019), the related notes for the year ended March 31, 2021 have been omitted.

4. U.S. Dollar Amounts

The U.S. dollar amounts in the consolidated financial statements have been translated from yen solely for convenience and, as a matter of arithmetic computation only, at ¥122.39 = U.S. \$1.00, the exchange rate prevailing on March 31, 2022. This translation should not be construed

as a representation that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

5. Financial Instruments

(a) Status of Financial Instruments

The Group manages fund surpluses only through short-term financial assets. In addition, the Group currently raises capital through bank borrowings and bond. Derivative transactions are not used for speculation, but only used to hedge various risks as addressed below.

In accordance with the internal business management rules of the Company for managing credit risk arising from notes and accounts receivable, each business section and the sales supervisory department monitor credit worthiness of their customers periodically, and monitor due dates and outstanding balances. Subsidiaries of the Company also manage credit risk in accordance with the Company's business management rules.

Investments in securities are exposed to market risk. Those securities are composed of mainly the shares of common stock of other companies with which the Group has business relationships. The finance and accounting department, on a quarterly basis, reviews the fair value of such financial instruments.

Trade payables, such as notes and accounts payable, have payment due dates within one year.

Short-term loans are raised mainly in connection with operating activities, and long-term loans are taken out principally for the purpose of making capital investments. Loans with variable interest rates is exposed

to interest-rate fluctuation risk. Interest-rate swaps are used to hedge the risk of interest rate and foreign currency exchange rate fluctuations on the Group's long-term loans denominated in foreign currencies. Bond is issued for the purpose of paying off loans and raising working capital.

Derivative transactions are not used for speculation, but only used to manage various market risks and to reduce those risks.

Further information regarding the method of hedge accounting can be found in Note 1(s).

Trade payables, short-term loans and long-term loans are exposed to liquidity risk. The Company makes efforts to facilitate financing and ensure diverse sources of financing. Each component of the Group also prepares monthly cash flow plans to manage liquidity risk.

(b) Fair Value of Financial Instruments

Carrying value, fair value and the difference between them for financial instruments on the consolidated balance sheets as of March 31, 2021 and 2022 are shown in the following table. The financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2021, and unquoted securities as of March 31, 2022 in the amounts of ¥78 million and ¥69 million (\$563 thousand), respectively, are not included in investments in securities shown in the following table.

	Millions of yen					
	2021			2022		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Notes and accounts receivable	¥ 28,301	¥ 28,301	¥ —	¥ —	¥ —	¥ —
Notes receivable	—	—	—	4,335	4,335	—
Accounts receivable	—	—	—	23,565	23,565	—
Electronically recorded monetary claims	5,220	5,220	—	6,526	6,526	—
Investments in securities	21,271	21,271	—	14,779	14,779	—
Total assets	¥ 54,793	¥ 54,793	¥ —	¥ 49,207	¥ 49,207	¥ —
Notes and accounts payable	¥ 22,481	¥ 22,481	¥ —	¥ 25,211	¥ 25,211	¥ —
Short-term loans	3,627	3,627	—	6,086	6,086	—
Bond	7,000	6,975	(24)	7,000	6,953	(46)
Long-term loans ⁽²⁾	26,459	26,553	93	24,030	24,123	93
Total liabilities	¥ 59,567	¥ 59,637	¥ 69	¥ 62,328	¥ 62,374	¥ 46

Notes to Consolidated Financial Statements

	Thousands of U.S. dollars		
	2022		
	Carrying value	Fair value	Difference
Notes and accounts receivable	\$ —	\$ —	\$ —
Notes receivable	35,419	35,419	—
Accounts receivable	192,540	192,540	—
Electronically recorded monetary claims	53,321	53,321	—
Investments in securities	120,753	120,753	—
Total assets	\$ 402,050	\$ 402,050	\$ —
Notes and accounts payable	\$ 205,989	\$ 205,989	\$ —
Short-term loans	49,726	49,726	—
Bond	57,194	56,810	(375)
Long-term loans ^{(*)2}	196,339	197,099	759
Total liabilities	\$ 509,257	\$ 509,633	\$ 375

(*)1 Cash and deposits are omitted in the table above as fair value of cash is the same as the carrying value, and deposits are settled within a short term and their fair value approximates the carrying value.

(*)2 Includes current portion of long-term loans of ¥5,558 million and ¥10,166 million (\$83,062 thousand) as of March 31, 2021 and 2022, respectively.

The redemption schedule as of March 31, 2022 for bank deposits, included in cash and cash equivalents and short-term investments presented in the consolidated balance sheet, and notes and accounts receivable is summarized as follows:

	Millions of yen			
	2022			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Bank deposits	¥ 10,490	¥ —	¥ —	¥ —
Notes receivable	4,335	—	—	—
Accounts receivable	23,565	—	—	—
Electronically recorded monetary claims	6,526	—	—	—
Total	¥ 44,918	¥ —	¥ —	¥ —

	Thousands of U.S. dollars			
	2022			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Bank deposits	\$ 85,709	\$ —	\$ —	\$ —
Notes receivable	35,419	—	—	—
Accounts receivable	192,540	—	—	—
Electronically recorded monetary claims	53,321	—	—	—
Total	\$ 367,321	\$ —	\$ —	\$ —

(c) Breakdown of Fair Value of Financial Instruments by Level

Financial instruments are classified into the following three levels based on the observability and materiality of the inputs used to calculate fair value.

Level 1: Fair value calculated based on an unadjusted quoted price in an active market for an identical asset or liability.

Level 2: Fair value calculated using inputs observable directly or indirectly other than Level 1 inputs

Level 3: Fair value calculated using significant inputs that are unobservable

When multiple inputs that have a significant impact on the calculation of fair value are used, fair value is classified to the level with the lowest priority in the calculation of fair value among the levels to which each of those inputs belongs.

Financial instruments recorded at fair value in the consolidated balance sheet as of March 31, 2022 are shown in the following table.

Classification	Millions of yen			
	2022			
	Fair Value			
	Level 1	Level 2	Level 3	Total
Investment in securities	¥ 14,779	¥ —	¥ —	¥ 14,779
Total	¥ 14,779	¥ —	¥ —	¥ 14,779

Classification	Thousands of U.S. dollars			
	2022			
	Fair Value			
	Level 1	Level 2	Level 3	Total
Investment in securities	\$ 120,753	\$ —	\$ —	\$ 120,753
Total	\$ 120,753	\$ —	\$ —	\$ 120,753

Financial instruments other than financial instruments recorded at fair value in the consolidated balance sheet as of March 31, 2022 are shown in the following table.

Classification	Millions of yen			
	2022			
	Fair Value			
	Level 1	Level 2	Level 3	Total
Notes receivable	¥ —	¥ 4,335	¥ —	¥ 4,335
Accounts receivable	—	23,565	—	23,565
Electronically recorded monetary claims	—	6,526	—	6,526
Total assets	¥ —	¥ 34,427	¥ —	¥ 34,427
Notes and accounts payable	¥ —	¥ 16,065	¥ —	¥ 16,065
Electronically recorded monetary claims	—	9,145	—	9,145
Short-term loans	—	6,086	—	6,086
Bond	—	6,953	—	6,953
Long-term loans	—	24,123	—	24,123
Total liability	¥ —	¥ 62,374	¥ —	¥ 62,374

Classification	Thousands of U.S. dollars			
	2022			
	Fair Value			
	Level 1	Level 2	Level 3	Total
Notes receivable	\$ —	\$ 35,419	\$ —	\$ 35,419
Accounts receivable	—	192,540	—	23,565
Electronically recorded monetary claims	—	53,321	—	6,526
Total assets	\$ —	\$ 281,289	\$ —	\$ 34,427
Notes and accounts payable	\$ —	\$ 131,260	\$ —	\$ 16,065
Electronically recorded monetary claims	—	74,720	—	74,720
Short-term loans	—	49,726	—	49,726
Bond	—	56,810	—	56,810
Long-term loans	—	197,099	—	197,099
Total liability	\$ —	\$ 509,633	\$ —	\$ 509,633

(*) Description of valuation techniques used and valuation inputs related to the calculation of fair value

Investments in securities

Listed securities are valued based on quoted prices. Since listed securities are traded on active markets, the fair value of listed securities is classified as Level 1.

Notes receivable, accounts receivable, and electronically recorded monetary claims

The fair value of notes receivable, accounts receivable, and electronically recorded monetary claims are classified by a certain period to maturity. The fair value of each item of those assets is calculated using the discounted present value method based on the amount, period to maturity and interest rate that takes into account the credit risk, and thus classified as Level 2.

Notes and accounts payable, electronically recorded obligations and short-term loans

The fair value of notes and accounts payable, electronically recorded

obligations and short-term loans are classified by a certain period to maturity. The fair value of each item of those liabilities is calculated using the discounted present value method based on its future cash flow, the period to maturity and interest rate that takes into account the credit risk, and thus classified as Level 2.

Bond

The fair value of bond is calculated based on prices and yield information published by industry associations and is classified as Level 2.

Long-term loans including current portion of long-term loans

The fair value of long-term loans including current portion of long-term loans is calculated using the present value method based on the total amount of principal and interest rate that takes into account the remaining term of the loans and credit risk, and is classified as Level 2.

Notes to Consolidated Financial Statements

6. Investments in Securities

Marketable securities classified as other securities as of March 31, 2021 and 2022 were as follows:

	Millions of yen					
	2021			2022		
	Acquisition cost	Carrying value	Unrealized holding gain	Acquisition cost	Carrying value	Unrealized holding gain
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 4,338	¥ 21,271	¥ 16,933	¥ 4,073	¥ 14,779	¥ 10,706
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	0	0	0	0	0	(0)
Total	¥ 4,338	¥ 21,271	¥ 16,933	¥ 4,073	¥ 14,779	¥ 10,706

	Thousands of U.S. dollars		
	2022		
	Acquisition cost	Carrying value	Unrealized holding gain
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	\$ 33,278	\$ 120,753	\$ 87,474
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	0	0	(0)
Total	\$ 33,278	\$ 120,753	\$ 87,474

Unlisted equity securities other than securities of affiliates in the amount of ¥42 million as of March 31, 2021 are not included in equity securities in the above table since it is extremely difficult to determine their fair value. Also

unlisted equity securities other than securities of affiliates in the amount of ¥33 million (\$269 thousand) as of March 31 2022 are not included in equity securities in the above table since they are unquoted securities.

The proceeds from sales of, and gross realized gain on investments in securities for the years ended March 31, 2021 and 2022 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Proceeds from sales	¥ 1,014	¥ 581	\$ 4,747
Gross realized gain	857	445	3,635

7. Inventories

Inventories as of March 31, 2021 and 2022 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Merchandise, finished goods and semi-finished goods	¥ 7,670	¥ 8,633	\$ 70,536
Work in process goods	1,481	1,785	14,584
Raw materials and supplies	4,172	4,756	38,859
Total	¥ 13,324	¥ 15,175	\$ 123,988

8. Short-Term Loans and Long-Term Debt

Short-term loans as of March 31, 2021 and 2022 represented loans in the form of deeds and overdrafts at interest rates ranging from 0.35% to 4.85% and from 0.356% to 4.71% per annum, respectively.

Long-term debt as of March 31, 2021 and 2022 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Unsecured loans from banks and insurance companies, payable in Japanese yen, at rates ranging from 0.095% to 0.50% and variable rates	¥ 20,511	¥ 16,441	\$ 134,332
Unsecured loans from banks, payable in U.S. dollars, at rates from 1.74% to 2.48% and variable rate.	822	755	6,168
Unsecured loans from banks, payable in Euro, at rates ranging from 0.25% to 1.24% and variable rates	4,507	6,446	52,667
Unsecured loans from banks, payable in Baht, at a rate of 2.575%	619	386	3,153
Unsecured bonds, payable in Japanese yen at a rate of 0.5%, due 2026	7,000	7,000	57,194
Total	33,459	31,030	253,533
Less current portion	(5,558)	(10,166)	(83,062)
	¥ 27,900	¥ 20,863	\$ 170,463

The aggregate annual maturities of long-term debt subsequent to March 31, 2022 are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
	2022	2022
2023	¥ 10,166	\$ 83,062
2024	5,040	41,179
2025	4,603	37,609
2026	1,185	9,682
2027	8,988	73,437
2028 and thereafter	1,045	8,538
Total	¥ 31,030	\$ 253,533

9. Pledged Assets and Secured Liabilities

Assets pledged as collateral for liabilities as of March 31, 2021 and 2022 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Land	¥ 166	¥ 166	\$ 1,356
Buildings	49	47	384
	¥ 215	¥ 213	\$ 1,740

Liabilities secured by these assets as collateral consist of ¥7 million and ¥7 million (\$57 thousand) of short-term loans and ¥9 million and ¥1 million (\$8 thousand) of long-term loans as of March 31, 2021 and 2022, respectively.

Notes to Consolidated Financial Statements

10. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries consist of corporation, enterprise and inhabitants' taxes. The statutory tax rate in Japan for the years ended March 31, 2021 and 2022 was, in the aggregate, approximately 30.6%.

Reconciliation of the statutory and effective tax rates for the year ended March 31, 2021 as a percentage of profit before income taxes is presented as follows:

	2021	2022
Statutory tax rates	30.6%	—%
Non-deductible expenses	1.4	—
Per capita portion of inhabitants' taxes	1.7	—
Tax credit of research and development costs	(13.2)	—
Tax rate differences of overseas subsidiaries	38.8	—
Loss on business withdrawal of a subsidiary	14.7	—
Retained earnings of overseas subsidiaries	4.2	—
Amortization of goodwill	2.8	—
Impairment loss	—	—
Other	2.5	—
Effective tax rates	83.5%	—%

Presentation of reconciliation of the statutory and effective tax rates for the year ended March 31, 2022 is omitted because the Group recorded a loss before income taxes.

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reportable purposes and the corresponding amounts for income tax purposes. The significant components of the Group's deferred tax assets and liabilities as of March 31, 2021 and 2022 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Deferred tax assets:			
Liabilities for retirement benefits	¥ —	¥ —	\$ —
Tax loss carryforwards	3,231	3,907	31,922
Provision for bonuses to employees	344	338	2,761
Unrealized profit on intercompany transactions	508	532	4,346
Impairment loss on property, plant and equipment	62	1,074	8,775
Loss on devaluation of inventories	85	98	800
Acquisition related cost of acquired companies	93	93	759
Other	495	578	4,722
Gross deferred tax assets	4,819	6,622	54,105
Valuation allowance for tax loss carryforwards	(3,029)	(3,733)	(30,500)
Valuation allowance for temporary differences	(313)	(1,344)	(10,981)
Valuation allowance	(3,342)	(5,078)	(41,490)
Total deferred tax assets	1,477	1,544	12,615
Deferred tax liabilities:			
Differences on land revaluation	(923)	(999)	(8,162)
Net unrealized holding gain on securities	(5,217)	(3,264)	(26,668)
Gain on marketable securities contributed to employees' retirement benefit trust	(146)	(146)	(1,192)
Assets for retirement benefits	(733)	(148)	(1,209)
Customer related assets	(313)	—	—
Other	(595)	(573)	(4,681)
Total deferred tax liabilities	(7,930)	(5,132)	(41,931)
Net deferred tax liabilities	¥ (6,453)	¥ (3,587)	\$ (29,307)

Note 1: Tax loss carryforwards and related deferred tax assets as of March 31, 2021 and 2022 will expire as follows:

	Millions of yen		
	2021		
Years ending March 31,	Tax loss carryforwards ⁽¹⁾	Valuation allowance for tax loss carryforwards	Deferred tax assets for tax loss carryforwards
2022	¥ 18	¥ (4)	¥ 14
2023	17	(16)	1
2024	104	(103)	0
2025	99	(79)	19
2026	42	(21)	21
2027 and thereafter	2,948	(2,803)	145
Total	¥ 3,231	¥ (3,029)	¥ 201

Millions of yen

Years ending March 31,	2022		
	Tax loss carryforwards ^(*)	Valuation allowance for tax loss carryforwards	Deferred tax assets for tax loss carryforwards
2023	¥ 20	¥ (14)	¥ 5
2024	110	(101)	8
2025	98	(87)	11
2026	42	(29)	13
2027	102	(80)	21
2028 and thereafter	3,532	(3,419)	112
Total	¥ 3,907	¥ (3,733)	¥ 173

Thousands of U.S. dollars

Years ending March 31,	2022		
	Tax loss carryforwards ^(*)	Valuation allowance for tax loss carryforwards	Deferred tax assets for tax loss carryforwards
2023	\$ 163	\$ (114)	\$ 40
2024	898	(825)	65
2025	800	(710)	89
2026	343	(236)	106
2027	833	(653)	171
2028 and thereafter	28,858	(27,935)	915
Total	\$ 31,922	\$ (30,500)	\$ 1,413

(*)1) The tax loss carryforwards in the above table are measured using the statutory tax rates.

11. Retirement Benefit Plans

(a) Outline of adopted retirement benefit plans for employees

The Company and its consolidated subsidiaries adopt plans similar to cash balance pension plans, corporate pension plans (all funded plans) and retirement lump-sum payment plans as defined benefit plans. Further, the Company and its consolidated subsidiaries may pay premium benefits to employees on retirement. The Company also has established retirement benefit trusts. Certain consolidated subsidiaries

adopt defined contribution plans. Certain consolidated subsidiaries calculate the liabilities for retirement benefits and retirement benefit expense by using the simplified method which assumes the retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at the fiscal year end for the calculation of liabilities for retirement benefits and retirement benefit expenses.

(b) Defined benefit plans for the years ended March 31, 2021 and 2022

(i) Excluding amounts calculated by the simplified method, the changes in the retirement benefit obligation for the years ended March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Retirement benefit obligation at the beginning of the year	¥ 9,013	¥ 8,772	\$ 71,672
Service cost	267	262	2,140
Interest cost	38	31	253
Actuarial loss	99	114	93
Retirement benefit paid	(670)	(617)	(5,041)
Other	25	33	269
Retirement benefit obligation at the end of the year	¥ 8,772	¥ 8,596	\$ 70,234

(ii) Excluding amounts calculated by the simplified method, the changes in plan assets at fair value for the years ended March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Plan assets at fair value at the beginning of the year	¥ 14,517	¥ 16,341	\$ 13,315
Expected return on plan assets	236	253	2,067
Actuarial gain (loss)	1,858	(1,937)	(15,826)
Contributions by the employer	387	383	3,129
Retirement benefit paid	(658)	(602)	(4,918)
Plan assets at fair value at the end of the year	¥ 16,341	¥ 14,438	\$ 117,967

Notes to Consolidated Financial Statements

(iii) The changes in liabilities for retirement benefits under the simplified method for the years ended March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Liabilities for retirement benefits at the beginning of the year	¥ 3,273	¥ 3,386	\$ 27,665
Retirement benefit expense	436	257	2,099
Retirement benefit paid	(304)	(292)	(2,385)
Contribution to defined contribution pension plans	(20)	(16)	(212)
Other	1	(39)	(318)
Liabilities for retirement benefit at the end of the year	¥ 3,386	¥ 3,295	\$ 26,922

(iv) Including the amounts presented calculated by the simplified method, the balance of retirement benefit obligation and plan assets at fair value, liabilities and assets recognized in the consolidated balance sheets for the years ended March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Funded retirement benefit obligation	¥ 8,856	¥ 8,794	\$ 71,852
Plan assets at fair value	(16,409)	(14,623)	(119,478)
	(7,552)	(5,829)	(47,626)
Unfunded retirement benefit obligation	3,370	3,282	26,815
Net amount of liabilities and assets recognized in the consolidated balance sheet	(4,182)	(2,547)	(20,810)
Liabilities for retirement benefits	3,590	3,608	29,479
Assets for retirement benefits	(7,772)	(6,155)	(50,290)
Net amount of liabilities and assets recognized in the consolidated balance sheet	¥ (4,182)	¥ (2,547)	\$ (20,810)

(v) The components of retirement benefit expense (credit) for the years ended March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Service cost	¥ 267	¥ 262	\$ 2,140
Interest cost	38	31	253
Expected return on plan assets	(236)	(253)	(2,067)
Amortization of actuarial gain	(123)	(616)	(5,033)
Retirement benefit expenses calculated by the simplified method	436	257	2,099
Retirement benefit expense	¥ 382	¥ (318)	\$ (2,598)

(vi) The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Actuarial loss (gain)	¥ 1,626	¥ (2,681)	\$ (21,905)

(vii) The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Unrecognized actuarial gain (loss)	¥ 2,201	¥ (479)	\$ (3,913)

(viii) The plan assets by major category consist of the following:

	2021	2022
	Bond	19%
Equities	49	46
General accounts at life insurance companies	11	13
Cash and deposits	5	6
Other	15	15
Total	100%	100%

The total pension plan assets include 36% and 27% of the retirement benefits trust for the corporate pension fund plans as of March 31, 2021 and 2022, respectively.

The expected long-term rates of return on plan assets is determined as a

result of consideration of both the portfolio allocation at present and in the future, and the long-term rate expected rate of return from multiple plan assets at present and in the future.

(ix) The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2021 and 2022 are as follows:

	2021	2022
Discount rate	0.4%	0.4%
Expected long-term rates of return on plan assets	1.6%	1.6%
Rates of salary increase	2.8%	2.6%

(c) Defined contribution pension plans for the years ended March 31, 2021 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Contributions to defined contribution pension plans	¥ 16	¥ 20	\$ 163

12. Shareholders' Equity

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by

resolution of the shareholders, or by the Board of Directors if certain conditions are met.

Retained earnings include the legal reserve provided in accordance with the provisions of the Corporation Law of Japan. The legal reserve of the Company included in retained earnings amounted to ¥1,370 million (\$11,193 thousand) as of March 31, 2021 and 2022.

Common stock and treasury stock

Movements in shares of common stock and treasury stock during the years ended March 31, 2021 and 2022 are summarized as follows:

	2021			
	Number of shares			
	April 1, 2020	Increase	Decrease	March 31, 2021
Common stock	46,988,109	—	—	46,988,109
Treasury stock	1,697,882	250,075	96,998	1,850,959

The increase in treasury stock consists of 250,000 shares due to purchase of shares based on the resolution of the Board of Directors meeting, and 75 shares due to the purchase of fractional shares of less than one voting unit.

The decrease in treasury stock consists of 68,000 shares due to allotment under the restricted stock-linked remuneration system, 28,998 shares due to exclusion of an affiliate from the scope of applying the equity method.

	2022			
	Number of shares			
	April 1, 2021	Increase	Decrease	March 31, 2022
Common stock	46,988,109	—	—	46,988,109
Treasury stock	1,850,959	7	56,700	1,794,266

The decrease in treasury stock consists of 56,700 shares due to allotment under the restricted stock-linked remuneration system.

13. Land Revaluation

In accordance with the "Law Concerning Revaluation of Land" promulgated on March 31, 1998, land used for business was revalued as of March 31, 2002, and the related unrealized gain was reported as "Surplus arising from land revaluation" after deducting the relevant tax effect. The method followed for this revaluation was determined in accordance with the "Land Revaluation Tax Law" as stipulated in the "Enforcement Act Concerning

Land Revaluation" and other regulations.

The carrying values of ¥9,545 million and ¥9,545 million (\$77,988 thousand) for the purpose of land revaluation exceeded the land's estimated market values by ¥3,594 million and ¥3,552 million (\$29,021 thousand) as of March 31, 2021 and 2022, respectively.

Notes to Consolidated Financial Statements

14. Other Comprehensive Income

Reclassification adjustments and tax effects on components of other comprehensive income for the years ended March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Net unrealized holding gain (loss) on securities:			
Gain (loss) arising during the year	¥ 4,630	¥ (5,965)	\$ (48,737)
Reclassification adjustments	(842)	(404)	(3,300)
Before tax effect	3,787	(6,369)	(52,038)
Tax effect	(1,153)	1,952	23,890
Net unrealized holding gain (loss) on securities	2,633	(4,417)	(36,089)
Translation adjustments:			
Gain arising during the year	640	720	5,882
Reclassification adjustments	—	—	—
Before tax effect	640	720	5,882
Tax effect	—	—	—
Translation adjustments	640	720	5,882
Retirement benefits liability adjustments:			
Gain (loss) arising during the year	1,783	(2,065)	(16,872)
Reclassification adjustments	(156)	(616)	(5,033)
Before tax effect	1,626	(2,681)	(21,905)
Tax effect	(497)	821	6,708
Retirement benefits liability adjustments	1,128	(1,860)	(15,197)
Total other comprehensive income (loss)	¥ 4,402	¥ (5,557)	\$ (45,404)

15. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2021 and 2022 amounted to ¥2,655 million and ¥2,784 million (\$22,746 thousand), respectively.

16. Impairment Loss

Impairment loss was not recorded for the year ended March 31, 2021.

The Group recorded impairment loss on the following asset groups for the year ended March 31, 2022.

i) Overview of asset groups for which impairment loss has been recognized.

Use	Main location	Asset category	Millions of yen	Thousands of U.S. dollars
			2022	2022
Business assets (Form)	Czech Republic	Machinery and tangible leased assets	¥ 895	\$ 7,312
Business assets (Trim)	Poland	Machinery and tangible leased assets	1,922	15,703
Business assets (Foamed molding)	Germany	Machinery and tangible leased assets	1,416	11,569
Other	—	Goodwill and intangible assets	2,173	17,754

ii) Background of recognition of impairment loss

Proseat Group, consolidated subsidiaries in Europe, have been affected by rising prices from the end of last fiscal year for raw materials used in the automotive parts and materials, which is a core business, as well as a significant decrease in orders due to the impact of reduced production because of a shortage of semiconductors for a European-based automotive manufacturer.

As a result of updating the expected timing of market recovery in

Europe taking into account the facts and circumstances above, the Group determined that there was no possibility of recovery over the estimated period of future cash flows. Accordingly, the Group reduced the carrying amount of goodwill originally recorded when the Company acquired Proseat Group in February 2019, and the carrying amount of fixed assets held by the Proseat Group to the recoverable amounts, and the reduction was recorded as "impairment loss" in the extraordinary loss.

iii) Amount of impairment loss and breakdown by type of assets

An impairment loss of ¥6,407 million (\$52,349 thousand) was recorded and its major components are as follows:

	Millions of yen	Thousands of U.S. dollars
	2022	2022
Building	¥ 234	\$ 1,911
Machinery	1,297	10,597
Land	16	130
Tangible leased assets	2,432	19,870
Other tangible assets	185	1,511
Goodwill	1,137	9,289
Other intangible assets	1,103	9,012
Total	¥ 6,407	\$ 52,349

iv) Grouping method of assets

The Group categorizes assets for business use mainly based on the classification for management accounting units. When there are indications of impairment of goodwill or shared assets, the Company assess recognition of impairment loss by grouping in a larger units including goodwill or shared assets to related multiple assets or asset groups.

v) Calculation method of recoverable amount

The recoverable amount is measured at the value in use and is calculated based on the future cash flows discounted by the rates from 10.8% to 14.3%. However, in the event the value in use was negative, the carrying amount is reduced to the memorandum value.

17. Derivatives and Hedge Accounting

The estimated fair value of derivative instruments outstanding as of March 31, 2021 and 2022 for which hedge accounting has been applied is summarized as follows:

	Millions of yen		
	2021		
	Notional amount		Fair value
Total	Maturing after one year		
Interest-rate currency swaps hedging long-term loans, accounted for by special treatment:			
Receivable / floating and U.S. dollar			
Payable / fixed and Japanese yen	¥ 991	¥ 371	(*)
	Millions of yen		
	2022		
	Notional amount		Fair value
Total	Maturing after one year		
Interest-rate swaps hedging long-term loans, accounted for by special treatment:			
Receivable / floating and U.S. dollar			
Payable / fixed and Japanese yen	¥ 1,030	¥ 128	(*)
	Thousands of U.S. dollars		
	2022		
	Notional amount		Fair value
Total	Maturing after one year		
Interest-rate swaps hedging long-term loans, accounted for by special treatment:			
Receivable / floating and U.S. dollar			
Payable / fixed and Japanese yen	\$ 8,415	\$ 1,045	(*)

(*) Because interest-rate currency swaps and interest-rate swaps accounted for by the special treatment for hedge accounting are accounted for applying swap rates to underlying long-term loans, their fair value is included in that of the hedged long-term loans disclosed in Note 5.

Notes to Consolidated Financial Statements

18. Amounts per Share

	Yen		U.S. dollars
	2021	2022	2022
Profit (loss) attributable to owners of parent	¥ 24.86	¥ (130.99)	\$ (1.07)
Net assets	1,549.84	1,272.86	10.40
Cash dividends	21.00	22.00	0.09

Profit (loss) attributable to owners of parent per share has been computed based on the profit (loss) attributable to owners of parent available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted profit (loss) attributable to owners of parent per share has not been presented for the years ended March 31, 2021 and 2022 since neither the Company nor any of the consolidated subsidiaries had any

potentially dilutive shares as of March 31, 2021 and 2022.

The amounts per share of net assets have been computed based on the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

The financial data used in the computation of profit (loss) attributable to owners of parent per share based on the above method for the years ended March 31, 2021 and 2022 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Profit (loss) attributable to owners of parent	¥ 1,126	¥ (5,917)	\$ (48,345)
Adjusted profit (loss) attributable to owners of parent available for distribution to common stockholders	1,126	(5,917)	(48,345)

	Thousands of shares	
	2021	2022
Weighted-average number of shares of common stock outstanding	45,299	45,176

The financial data used in the computation of net assets per share based on the above method as of March 31, 2021 and 2022 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Total net assets	¥ 70,657	¥ 58,242	\$ 475,872
Deductions from total net assets:			
Non-controlling interests	702	717	5,858
Total net assets available to owners of parent	¥ 69,955	¥ 57,525	\$ 470,013

	Thousands of shares	
	2021	2022
Number of shares of common stock used in the calculation of net assets per share	45,137	45,193

19. Revenue Recognition

Disaggregation of revenue from contracts with customers for the year ended March 31, 2022 is as follows

	Millions of yen		
	2022		
	Human Life	Industry	Total
Japan	¥ 49,391	¥ 21,801	¥ 71,193
Europe	—	30,254	30,254
Asia	137	13,561	13,698
Other	1	2,419	2,420
Revenue from contracts with customers	49,530	68,036	117,567
Other revenue	—	—	—
Total	¥ 49,530	¥ 68,036	¥ 117,567

	Thousands of U.S. dollars		
	2022		
	Human Life	Industry	Total
Japan	\$ 403,554	\$ 178,127	\$ 581,689
Europe	—	247,193	247,193
Asia	1,119	110,801	111,920
Other	8	19,764	19,772
Revenue from contracts with customers	404,689	555,895	960,593
Other revenue	—	—	—
Total	\$ 404,689	\$ 555,895	\$ 960,593

Information that provides the basis for understanding the revenue from contracts with customers

The Group identifies distinct goods or services included in contracts with customers and identifies performance obligations as a unit of transaction.

(a) Sales of merchandise and products

The Group's main business consists of manufacturing and sales of products in the Human Life segment and Industry segment. The Group recognizes revenue from the sale of these products upon delivery to the customer, since the customer obtains control over such products and the performance obligation is fulfilled upon delivery of the products. Revenue is measured at an amount after deducting sales returns, discounts and rebates from the transaction price in the contract with the customer.

The Group receives a consideration for a transaction within one year after fulfilling the performance obligations, and the consideration does not include a significant financing component.

(b) Agent transactions

When the Group's performance obligation is to arrange for the provision of the specified good or service by another party, the Group, as an agent in the transaction, recognizes revenue in the amount of the fee or commission or the net amount of consideration as an agent.

Information to understand the amount of revenue for current year and the following years

Contract assets mainly consists of revenue recognized prior to billing customers.

Contract liabilities mainly consists of consideration received from customers before delivering products.

The amount of contract liabilities at the beginning of the fiscal year included in the revenue recognized for the fiscal year ended March 31, 2022 is not material. The amount of the revenue recognized for the year ended March 31 2022, whose obligations were satisfied in the past periods is immaterial.

Notes to Consolidated Financial Statements

20. Segment Information

(a) Outline of segment information

The Group's business mainly involves the manufacturing and sales of plastic products. The Company has established departments based on product markets or product function for global development in the two fields of "Human Life" and "Industry." Each department has works closely with subsidiaries to plan overall strategies and operate its business.

Accordingly, the Group's reportable segments are "Human Life" and "Industry."

These reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess performance.

The main products for Human Life Segment are boxes/trays for agricultural/fishery products, food containers, housing and civil engineering materials, etc., while the main products for Industry Segment are automobile components, digital consumer electronics components, packaging materials, and other related products.

(b) Calculation methods used for sales, income, assets and other items of each reportable segment

The accounting policies of the segments are substantially the same as those described in significant accounting policies in Note 1.

Segment income represents ordinary income, which consists of operating income and non-operating income/expenses. Non-operating income/expenses mainly include interest income, dividend income, interest expense, equity in losses of an affiliate. Intersegment sales are recorded at the same price used in transactions with third parties.

(Application of Accounting Standards for Revenue Recognition and its Implementation Guidance)

The Group has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020) from the beginning of the year ended March 31, 2022. Although segment sales in the Human Life segment and the Industry segment for the year ended March 31, 2022 decreased by ¥8,432 million (\$68,894 thousand) and ¥3,872 million (\$31,636 thousand), respectively, there was no impact on profit or loss.

(c) Information on sales, income, assets and other items of each reportable segment

Information by reportable segment for the years ended March 31, 2021 and 2022 is as follows:

	Millions of yen				
	2021				
	Reportable segments			Adjustments and eliminations ⁽¹⁾	Consolidated
Human Life	Industry	Total			
Sales, income and assets by reportable segments:					
Sales to third parties	¥ 53,470	¥ 65,381	¥ 118,851	¥ —	¥ 118,851
Inter-segment sales and transfers	549	115	665	(665)	—
Total	¥ 54,020	¥ 65,496	¥ 119,516	¥ (665)	¥ 118,851
Segment income / (loss) ⁽²⁾	¥ 3,754	¥ (957)	¥ 2,797	¥ (840)	¥ 1,956
Segment assets	¥ 70,626	¥ 65,630	¥ 136,257	¥ 22,182	¥ 158,439
Other items:					
Depreciation and amortization	¥ 1,869	¥ 3,642	¥ 5,511	¥ 705	¥ 6,217
Amortization of goodwill	—	168	168	—	168
Interest income	0	17	17	0	17
Interest expense	0	244	245	128	373
Equity in loss of an affiliate	9	—	9	—	9
Increase in property, plant and equipment and intangible assets	1,220	3,538	4,759	618	5,377

Millions of yen

2022

	Reportable segments			Adjustments and eliminations ^(*)	Consolidated
	Human Life	Industry	Total		
Sales, income and assets by reportable segments:					
Japan	¥ 49,391	¥ 21,801	¥ 71,193	¥ —	¥ 71,193
Europe	—	30,254	30,254	—	30,254
Asia	137	13,561	13,698	—	13,698
Other	1	2,419	2,420	—	2,420
Revenue from contracts with customers	49,530	68,036	117,567	—	117,567
Other revenue	—	—	—	—	—
Sales to third parties	49,530	68,036	117,567	—	117,567
Inter-segment sales and transfers	611	133	745	(745)	—
Total	¥ 50,141	¥ 68,170	¥ 118,312	¥ (745)	¥ 117,567
Segment income / (loss) ^(*)	¥ 3,376	¥ (1,777)	¥ 1,598	¥ (196)	¥ 1,401
Segment assets	¥ 66,050	¥ 59,708	¥ 125,758	¥ 17,549	¥ 143,308
Other items:					
Depreciation and amortization	¥ 1,903	¥ 3,535	¥ 5,438	¥ 738	¥ 6,176
Amortization of goodwill	—	128	128	—	128
Interest income	0	11	12	1	13
Interest expense	0	264	264	121	386
Increase in property, plant and equipment and intangible assets	1,229	1,856	3,086	739	3,825

Thousands of U.S. dollars

2022

	Reportable segments			Adjustments and eliminations ^(*)	Consolidated
	Human Life	Industry	Total		
Sales, income and assets by reportable segments:					
Japan	\$ 403,554	\$ 178,127	\$ 581,689	\$ —	\$ 581,689
Europe	—	247,193	247,193	—	247,193
Asia	1,119	110,801	111,920	—	111,920
Other	8	19,764	19,772	—	19,772
Revenue from contracts with customers	404,689	555,895	960,593	—	960,593
Other revenue	—	—	—	—	—
Sales to third parties	404,689	555,895	960,593	—	960,593
Inter-segment sales and transfers	4,992	1,086	6,087	(6,087)	—
Total	\$ 409,682	\$ 556,989	\$ 966,680	\$ (6,087)	\$ 966,680
Segment income / (loss) ^(*)	\$ 27,583	\$ (14,519)	\$ 13,056	\$ (1,601)	\$ 11,447
Segment assets	\$ 539,668	\$ 487,850	\$ 1,027,518	\$ 143,385	\$ 1,170,912
Other items:					
Depreciation and amortization	\$ 15,548	\$ 28,883	\$ 44,431	\$ 6,029	\$ 50,461
Amortization of goodwill	—	1,045	1,045	—	1,045
Interest income	0	89	98	8	106
Interest expense	0	2,157	2,157	988	3,153
Increase in property, plant and equipment and intangible assets	10,041	15,164	25,214	6,038	31,252

(*1) Adjustments and eliminations in the preceding tables were as follows:

- Segment income in the amounts of (¥840 million) and (¥196 million) (\$1,601 thousand) for the years ended March 31, 2021 and 2022, respectively, consisted of elimination of inter-segment transactions in the amounts of ¥1 million and ¥1 million (\$8 thousand), and un-allocated expenses in the amounts of (¥842 million) and (¥198 million) (\$1,617 thousand), respectively.
- Segment assets in the amounts of ¥22,182 million and ¥17,549 million (\$143,385 thousand) for the years ended March 31, 2021 and 2022, respectively, mainly consisted of investments in securities and assets related to administrative departments and the Central R&D Laboratory owned by the Company.
- Depreciation and amortization in the amounts of ¥705 million and ¥738 million (\$6,029 thousand) for the years ended March 31, 2021 and 2022, respectively, include amortization of long-term prepaid expenses. In addition, these amounts mainly consisted of depreciation of assets related to administrative departments and the Central R&D Laboratory owned by the Company.
- Increase in property, plant and equipment and intangible assets in the amounts of ¥618 million and ¥739 million (\$6,038 thousand) for the years ended March 31, 2021 and 2022, respectively, mainly consisted of assets related to the Central R&D Laboratory owned by the Company.

(*2) Segment income was adjusted for the ordinary income as described in "(b) Calculation methods used for sales, income, assets and other items of each reportable segment."

Notes to Consolidated Financial Statements

(d) Geographical information

Sales to third parties by countries or areas grouped according to geographical classification for the years ended March 31, 2021 and 2022 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Japan	¥ 78,589	¥ 71,193	\$ 581,689
Europe	26,352	30,254	247,193
Asia	11,606	13,698	111,920
Other	2,303	2,420	19,772
Total	¥ 118,851	¥ 117,567	\$ 960,593

Property, plant and equipment by countries or areas grouped according to geographical classification as of March 31, 2021 and 2022 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Japan	¥ 46,679	¥ 45,016	\$ 367,807
Europe	8,331	4,159	33,981
Asia	4,471	4,506	36,816
Other	1,949	1,970	16,096
Total	¥ 61,432	¥ 55,652	\$ 454,710

(e) Information by major customer

The information by major customer for the years ended March 31, 2021 and 2022 was summarized as follows:

Customer	Related segment	Millions of yen		Thousands of U.S. dollars
		2021	2022	2022
FP Corporation	Human Life	¥ 15,546	¥ 15,467	\$ 126,374

(f) Information of Impairment Loss on Fixed Assets by Reporting Segment

	Millions of yen			
	2022			
	Human life	Industry	Adjustments and eliminations	Consolidated
Impairment Loss	¥ —	¥ 6,407	¥ —	¥ 6,407

	Thousands of U.S. dollars			
	2022			
	Human life	Industry	Adjustments and eliminations	Consolidated
Impairment Loss	\$ —	\$ 52,349	\$ —	\$ 52,349

(g) Information on Amortization of Goodwill and Unamortized Balances by Reporting Segment

	Millions of yen			
	2021			
	Human life	Industry	Adjustments and eliminations	Consolidated
Amortization of goodwill	¥ —	¥ 168	¥ —	¥ 168
Unamortized balance of goodwill	—	1,236	—	1,236

	Millions of yen			
	2022			
	Human life	Industry	Adjustments and eliminations	Consolidated
Amortization of goodwill	¥ —	¥ 128	¥ —	¥ 128
Unamortized balance of goodwill	—	—	—	—

	Thousands of U.S. dollars			
	2022			
	Human life	Industry	Adjustments and eliminations	Consolidated
Amortization of goodwill	\$ —	\$ 1,045	\$ —	\$ 1,045
Unamortized balance of goodwill	—	—	—	—

21. Subsequent Events

(Distribution of retained earnings)

Distribution of retained earnings of the Company, which has not been reflected in the consolidated financial statements for the year ended March 31, 2022 was approved at a shareholders' meeting held on June 23, 2022.

	Millions of yen	Thousands of U.S. dollars
	2022	2022
Cash dividends (¥7 (U.S. \$0.05) per share)	¥ 316	\$ 2,581

(Acquisition of additional shares of subsidiaries)

On April 28, 2022, the board of directors of the Company resolved that the Company would acquire all shares of Proseat Europe GmbH, a consolidated subsidiary of the Company, and the acquisition was completed on May 20, 2022.

(a) Names and business description of companies in business combination.

(i) Name of the company: Proseat Europe GmbH
Business description: Management of Proseat Group Policies and Administration

(ii) Date of the business combination
May 20, 2022

(iii) Legal form of the business combination
Share acquisition from non-controlling shareholders

(iv) Company name after the business combination
Unchanged

(v) Other matters related to the outline of the transaction
Additional acquisition due to the exercise of a put option from Recticel NA/SA, a non-controlling shareholder of Proseat Europe GmbH.

(b) Outline of the accounting treatment to be applied

The Company will treat this as a transaction with non-controlling shareholders under common control in accordance with the Accounting Standard for Business Combinations (ASBJ Statement No.21, January 16, 2019), and the Guidance on the Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10 January 16, 2019)

(c) Matters concerning the acquisition of additional shares of subsidiary

Acquisition cost of the acquired company and breakdown by consideration for acquisition
Consideration for acquisition: Cash and deposits of 1€
Acquisition cost: 1€

(d) Matters concerning changes in equity of the Company related to the transaction with non-controlling shareholders

(i) Major components of changes in capital surplus and retained earnings
The acquisition of additional shares of a subsidiary

(ii) Decrease in capital surplus and retained earnings due to the transactions with non-controlling shareholders
Not yet determined.

11 Years Summary

Fiscal Year	2011	2012	2013	2014* ²	2015
Millions of yen					
Net Sales	101,350	101,784	109,923	113,660	101,559
Operating Income	2,271	1,152	2,124	3,930	5,118
Ordinary Income	2,107	1,237	2,206	4,180	4,862
Net Income Attributable to Owners of the Parent	744	926	1,264	2,530	3,147
Capital Expenditures	5,059	6,849	3,434	5,908	4,424
Depreciation and Amortization	3,848	3,940	3,856	3,999	3,937
Research and Development Costs	2,261	1,993	1,936	1,877	1,856
Total Assets	101,889	105,562	110,687	116,201	114,892
Total Net Assets	48,911	50,929	54,036	58,275	58,800
Interest-bearing Debt	17,068	18,492	18,566	19,467	18,274
Per Share Data*³:					
Net Income	15.84	19.72	26.96	54.14	67.34
Net Assets	1,021.26	1,063.68	1,136.52	1,231.36	1,243.30
Cash Dividends	12.00	8.00	14.00	18.00	24.00
Other Data (financial):					
Operating Income Ratio (%)	2.2	1.1	1.9	3.5	5.0
ROE (%)	1.6	1.9	2.5	4.6	5.4
ROA (%)	2.1	1.2	2.0	3.7	4.2
Equity Ratio (%)	47.1	47.4	48.0	49.5	50.6
Other Data (non-financial):					
No. of Employees as of March 31	1,757	1,813	1,833	1,859	1,895
No. of Employees in Japan as of March 31	1,587	1,646	1,609	1,539	1,545
No. of Employees outside Japan as of March 31	170	167	224	320	350
Ratio of Women (%) ^{*4}	N.A.	N.A.	N.A.	N.A.	16.9

*1 U.S. dollar amounts represent translations of Japanese yen, for readers' convenience only, at the rate of ¥121.66 = U.S.\$1.00, the prevailing exchange rate at March 31, 2022.

*2 In order to synchronize accounting periods of overseas Group companies with the accounting period in Japan beginning in FY2014, the FY2014 results for overseas Group companies are based on a 15-month accounting period.

*3 SEKISUI KASEI Co., Ltd. consolidated its common share at the ratio of two shares to one, effective on October 1, 2016.

*4 Excluding subsidiaries in Europe and the Americas that are not publicly listed.

2016	2017	2018	2019	2020	2021	2021
					Millions of yen	Thousands of U.S. dollars*1
102,398	112,101	112,593	136,155	118,851	117,567	\$ 966,357
5,401	5,284	4,784	3,725	2,091	1,463	12,025
5,049	5,154	4,776	3,391	1,956	1,401	11,515
3,404	3,448	3,129	2,323	1,126	(5,917)	(48,635)
5,836	7,762	7,368	5,261	5,377	3,825	31,440
3,591	4,087	4,517	6,071	6,217	6,176	50,764
1,916	2,104	2,145	2,769	2,655	2,784	22,883
119,670	131,774	152,845	149,103	158,439	143,308	\$ 1,177,938
61,363	66,145	66,771	67,217	70,657	58,242	478,727
18,424	19,096	35,229	39,583	41,704	41,588	341,837
					Yen	U.S. dollars*1
73.03	75.33	69.09	51.29	24.86	(130.99)	\$ (1.08)
1,322.14	1,444.28	1,439.43	1,450.32	1,549.84	1,272.86	10.46
24.00	27.00	30.00	30.00	21.00	12.00	0.10
5.3	4.7	4.2	2.7	1.8	1.2	
5.7	5.5	4.8	3.6	1.6	(9.3)	
4.3	4.1	3.4	2.2	1.3	0.9	
50.7	49.6	42.7	44.1	44.2	40.1	
2,011	2,101	3,881	3,855	3,808	3,658	
1,633	1,680	1,723	1,695	1,676	1,726	
378	421	2,158	2,160	2,132	1,932	
18.1	18.9	20.7	19.9	26.9	28.5	

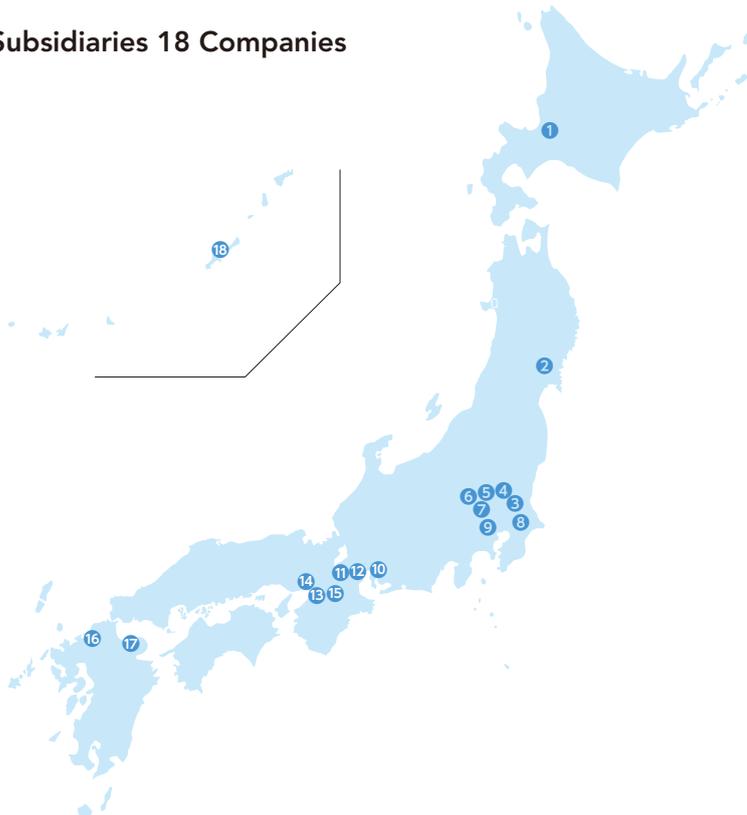
Our Group Network

Overseas Subsidiaries 21 Companies



- ① Sekisui Kasei Korea Co., Ltd.
- ② Sekisui Kasei Taiwan Co., Ltd.
- ③ Sekisui Kasei Tianjin Co., Ltd.
- ④ Sekisui Kasei Suzhou Co., Ltd.
- ⑤ Sekisui Kasei Shanghai International Trading Co., Ltd.
- ⑥ Sekisui Kasei Shanghai Precision Forming Co., Ltd.
- ⑦ Sekisui Kasei Hong Kong Trading Co., Ltd.
- ⑧ PT. Sekisui Kasei Indonesia
- ⑨ Sekisui Kasei (Thailand) Co., Ltd.
- ⑩ Sekisui Kasei U.S.A., Inc.
- ⑪ Sekisui Kasei Mexico S.A. de C.V.
- ⑫ Sekisui Kasei Europe B.V.
- ⑬ Proseat Europe GmbH
- ⑭ Proseat GmbH + Co. KG
- ⑮ Proseat Verwaltung GmbH
- ⑯ Proseat Schwarzheide GmbH
- ⑰ Proseat LLP
- ⑱ Proseat SAS
- ⑲ Proseat Foam Manufacturing, S.L.U.
- ⑳ Proseat Mladá Boleslav s.r.o.
- ㉑ Proseat Sp.zo.o

Domestic Subsidiaries 18 Companies



- ① Sekisui Kasei Hokkaido Co., Ltd.
- ② Sekisui Kasei Tohoku Co., Ltd.
- ③ Sekisui Kasei Toubu Co., Ltd.
- ④ Sekisui Kasei Urethane Co., Ltd.
- ⑤ Sekisui Kasei Kanto Co., Ltd.
- ⑥ Sekisui Kasei Gunma Co., Ltd.
- ⑦ Sekisui Kasei Saitama Co., Ltd.
- ⑧ Shonan Sekisui Kogyo Co., Ltd.
- ⑨ Sekisui Kasei Yamakyu Co., Ltd.
- ⑩ Sekisui Kasei Chubu Co., Ltd.
- ⑪ Sekisui Kasei Omi Co., Ltd.
- ⑫ Sekisui Kasei Shiga Co., Ltd.
- ⑬ Sekisui Kasei Sakai Co., Ltd.
- ⑭ Sekisui Kasei Kansai Co., Ltd.
- ⑮ Sekisui Kasei Tenri Co., Ltd.
- ⑯ Sekisui Kasei Seibu Co., Ltd.
- ⑰ Sekisui Kasei Oita Co., Ltd.
- ⑱ Sekisui Kasei Okinawa Co., Ltd.

Company Profile (As of March 31, 2022)

Company name	SEKISUI KASEI CO., LTD.	
Head office	2-4-4 Nishi-tenma Kita-ku, Osaka, Japan	
Headquarters	2-7-1 Nishi-Shinjuku Shinjuku-ku, Tokyo, Japan	
Founded	October 1, 1959	
Paid-in capital	16,533 million yen	
President	Masato Kashiwabara	
Number of employees	425 (non-consolidated)	3,658 (consolidated)
Consolidated subsidiaries	(Japan) 18 companies	(Overseas) 21 companies
Equity method affiliates	None	
Fiscal year	Ended March 31	

Business Lines in Each Segment

Segment	Market/ Application	Major Products
Industry	Market/ Application	Automotive components, packaging materials for transporting automotive parts, industrial components, industrial packaging, electric part materials, medical and health care materials
	Major Products	PIOCELAN, LIGHTLON, NEOMICROLEN, CELPET, TECHPOLYMER, ST-gel, TECHEATER, ELASTIL, FOAMAC, ST-LAYER, ST-Eleveat, other foamed/molded products
Human Life	Market/ Application	Agricultural and marine product containers, food containers, distribution materials, construction materials, civil engineering materials
	Major Products	ESLEN Beads, ESLEN Sheet, ESLEN Wood, INTERFOAM, other foamed/molded products, ES Dan Mat, ESLEN Block, etc.

Stock Information (As of March 31, 2022)

Basic Information

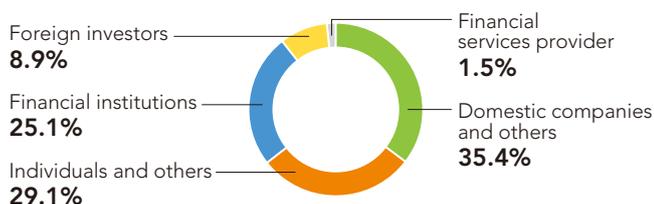
Ordinary general meeting of shareholders	June
Record date	Ordinary general meeting of shareholders: March 31 Year-end dividend: March 31 Interim dividend: September 30
Listings	First section, Tokyo stock exchange
Securities code	4228
Common stock—issued	46,988,109 shares
Number of shareholders	8,804
Transfer agent	Mitsubishi UFJ Trust and Banking Corporation
Independent auditor	Ernst & Young ShinNihon LLC

Major Shareholders

Name	Number of Shares Held (thousands)	Percentage of Ownership (%)
SEKISUI CHEMICAL CO., LTD.	9,855	21.81
The Master Trust Bank of Japan, Ltd.	3,567	7.89
The Dai-ichi Life Insurance Company, Limited	2,576	5.70
Employees' Shareholding	1,894	4.19
Sekisui Jushi Corporation	1,419	3.14
Daido Life Insurance Company	1,418	3.14
FP Corporation	1,348	2.98
MUFG Bank Ltd.	1,327	2.94
Denka Company Limited	1,250	2.77
Business Partners Shareholding	1,138	2.52

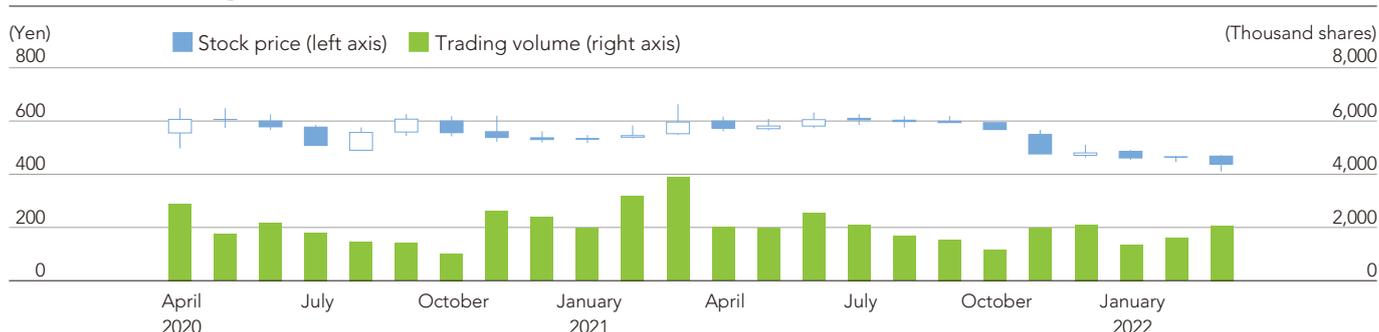
Note: The Company maintains 1,794,000 shares of treasury stock, which does not include the holdings of the major shareholders in the above list.

Breakdown of Shareholder



Note: Calculated after deducting treasury stock holdings of 1,794 thousand shares

Stock Price/Trading Volume



You can find the latest information of corporation, shareholder and investor relations as well as details of our products and green activities on the Website of SEKISUI KASEI.

<https://www.sekisui-kasei.com/en/>

SEKISUI KASEI CO., LTD.

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