

SEKISUIKASEI

Our Planet. Our Tomorrow.

Integrated Report

2021



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Publication of Integrated Report 2021

We have continued to improve this report every year with the feedback of our stakeholders. We therefore warmly welcome the honest opinions of all readers.

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

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.

Period Covered

The activities included in this report were primarily carried out in the period from FY2020 (April 1, 2020 – March 31, 2021) and in part up until August 2021.

Scope of Reporting

This report covers the 40 companies of the Sekisui Kasei Group, including Sekisui Kasei Co., Ltd. However, the environmental performance data do not include Proseat Europe GmbH, which became a subsidiary in February 2019.

Guidelines Used as Reference

• Ministry of the Environment: Environmental Accounting Guidelines (Y2018 Edition)

• Japanese Standards Association: Guidance on Social Responsibility JISZ26000 (ISO 26000)

Some of the data in this report differs from data disclosed in the past as a result of revisions implemented to reflect changes in calculation methods and the business sites covered.

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.”

Goal

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 technology.
4. Make an honest, generous and fresh workplace.
5. Address each and every challenge in creation and innovation to achieve our goals.

Cautionary Note on Forward-looking Statements

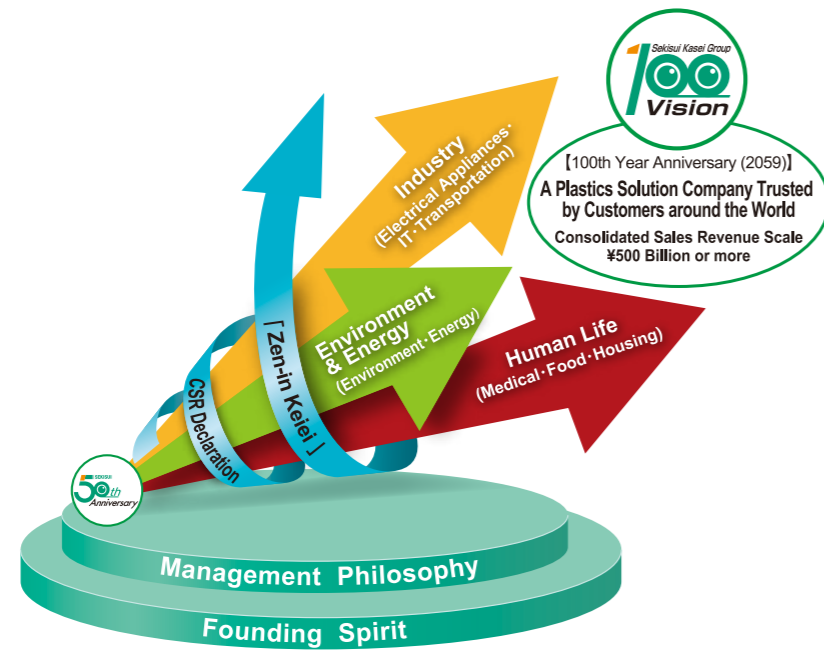
Results forecasts, plans, business strategies, awareness and assessments of facts, and other forward-looking statements concerning the Company or the Group are assumptions that the Company's management believes to be reasonable based on currently available information. Actual outcomes may differ materially 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.

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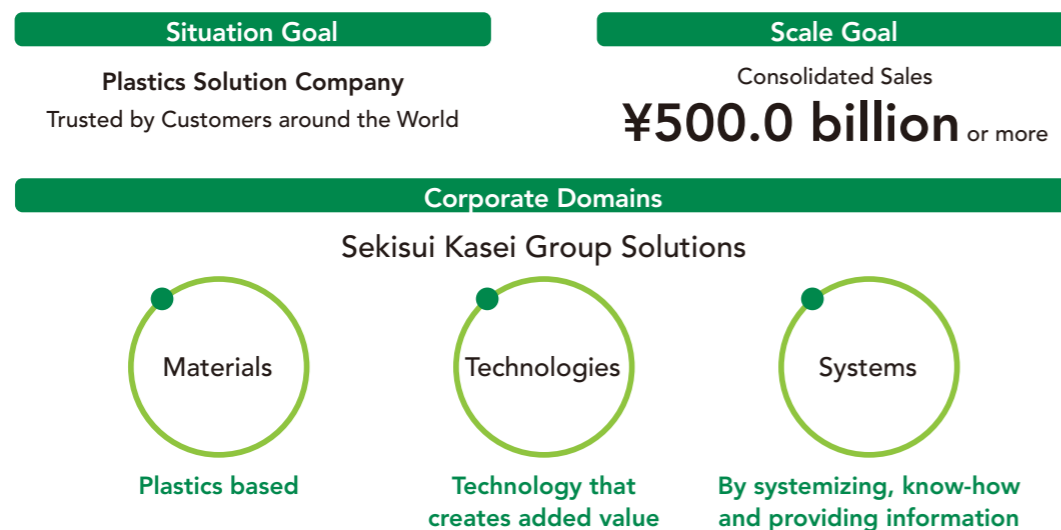
100th Year Vision

To mark its 50th anniversary, in 2009, Sekisui Kasei Co., Ltd. formulated the 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)

The Sekisui Kasei Group aims to gain the trust of customers by globally expanding businesses based on plastics and providing solutions.



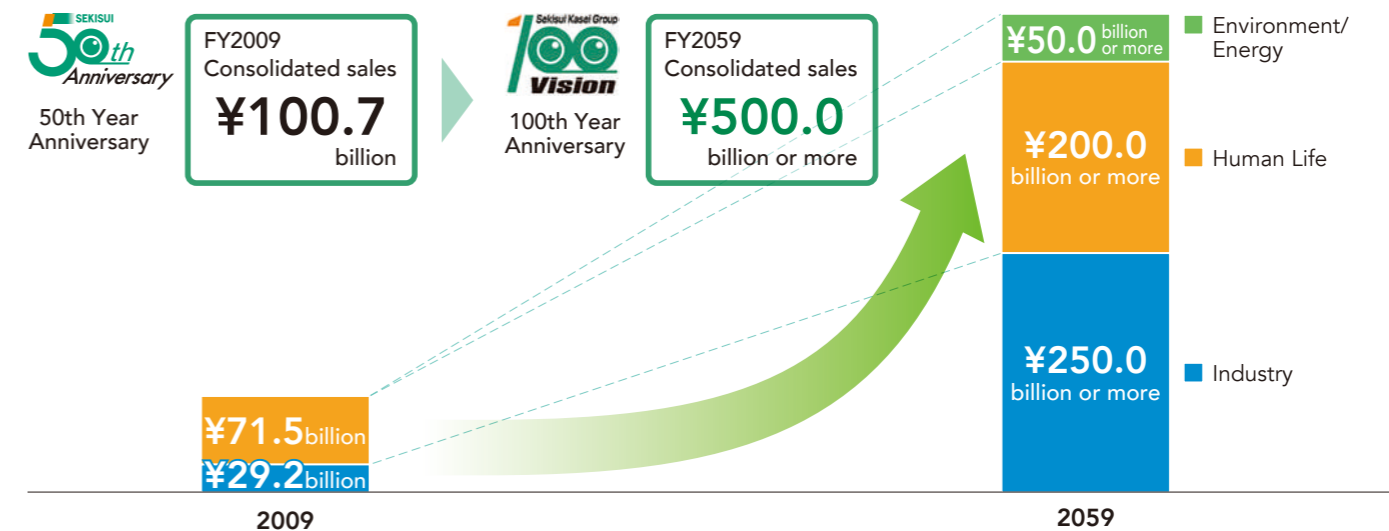
Industry: Contributing to the growth and development of the industry by proposing business solutions to client companies

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

The 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," the 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."



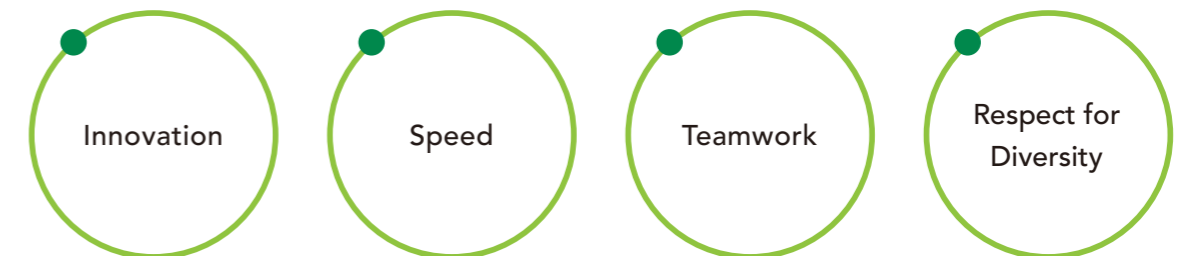
Stakeholder	Responsibility of Sekisui Kasei Group
Customers	The Company not only supplies safe/reliable products but also bring comfort and convenience to the lives of people by always creating new functions/value and proposing materials/services as solutions for customers.
Group Members	The Company 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

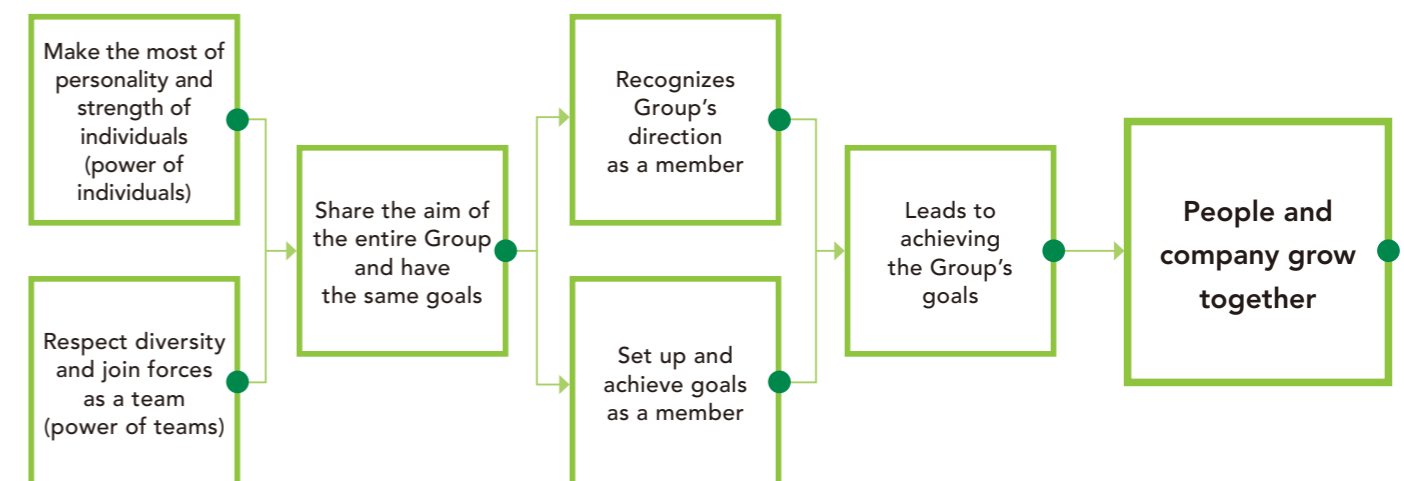
Under the concept of *Zen-in Keiei*, each member thinks by themselves, proposes, and makes voluntary actions, not be forced by top-down instructions. Under the Sekisui Kasei Group culture, we value brainstorm with other members for improving personality and strength of individuals.

For the growth of both company and its people

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



Zen-in Keiei



Challenges and Growth Trajectory


It has been more than 60 years since we began manufacturing and selling the first expandable polystyrene (EPS) in 1959 using technology developed in Japan. We continued to develop alongside Japan's economic growth and have since aimed for further sustainable growth through full-scale global business development.

1959—Establishment period

In 1960, we began manufacturing and selling the first EPS (expandable polystyrene) beads using technology developed in Japan. Our shares were listed after five years in business, and after overcoming the obstacles presented by the 1973 oil crisis and boycott movements against EPS foam, we listed our shares on the First Section of the Tokyo Stock Exchange in 1978.


1959

Sekisui Sponge Industries Co., Ltd. (the current Sekisui Kasei Co., Ltd.) established




1960

Began manufacturing and selling *ESLEN Beads* (EPS (expandable polystyrene) beads)



1962

Began selling *ESLEN Sheets* (foamed polystyrene sheets)




1979—Growth to maturity period

The Company continued to develop in line with Japan's economic growth, but with the collapse of the bubble economy, our performance deteriorated, with consolidated operating losses recorded for four consecutive years from 1995. We shifted from a policy of multifaceted expansion of our existing businesses to one of management that utilizes our strengths through selection and concentration.

1971


Began collection and recycling of EPS foam

Waste plastics collected are transported to our Tenri Plant and Kanto Plant, where they are recycled into molded products and construction materials.



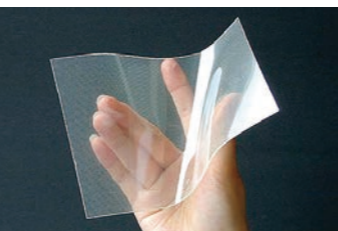
1985

Launched the EPS civil engineering method, a lightweight embankment method to counteract soft ground



1993

Began selling *ST-gel* (a functional high-polymer gel) Entered into the medical field




1999—Global development period

The adoption of products such as *PIOCELAN* and *TECHPOLYMER* polymer particles in new fields progressed. Taking this as an opportunity, we embarked on a full-scale global expansion, and in 2009, the 50th anniversary of our founding, we achieved consolidated net sales of ¥100 billion and consolidated operating income of ¥5 billion.


2000

PIOCELAN (polystyrene/polyolefin hybrid resin foam) adopted in automobile components (shock-absorbing pads)



2001


Published our first environmental report (environmental initiatives are currently disclosed through our integrated reports and website)



2004

Established a closed-loop recycling system for *EPSREM*

Recycled from resins from home appliances and other waste, *EPSREM* is an EPS foam product that addresses environmental issues head-on

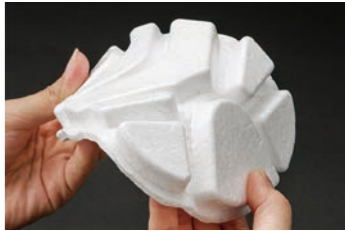


2019—To a next stage

On the milestone of the 60th anniversary of our foundation, we created a new corporate logo and corporate message. "Our planet. Our tomorrow." We aim to realize a sustainable society.


2015

Developed *ELASTIL* (thermoplastic elastomeric bead foam)




2019

Made Proseat GmbH & Co. KG, a European manufacturer of automotive components, a consolidated subsidiary

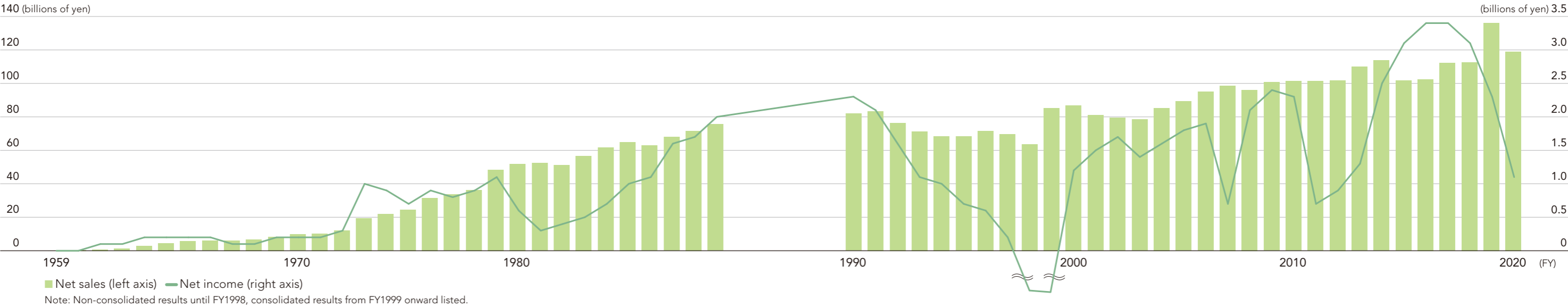


2020

Formulated the "SKG-5R STATEMENT" to realize a sustainable society

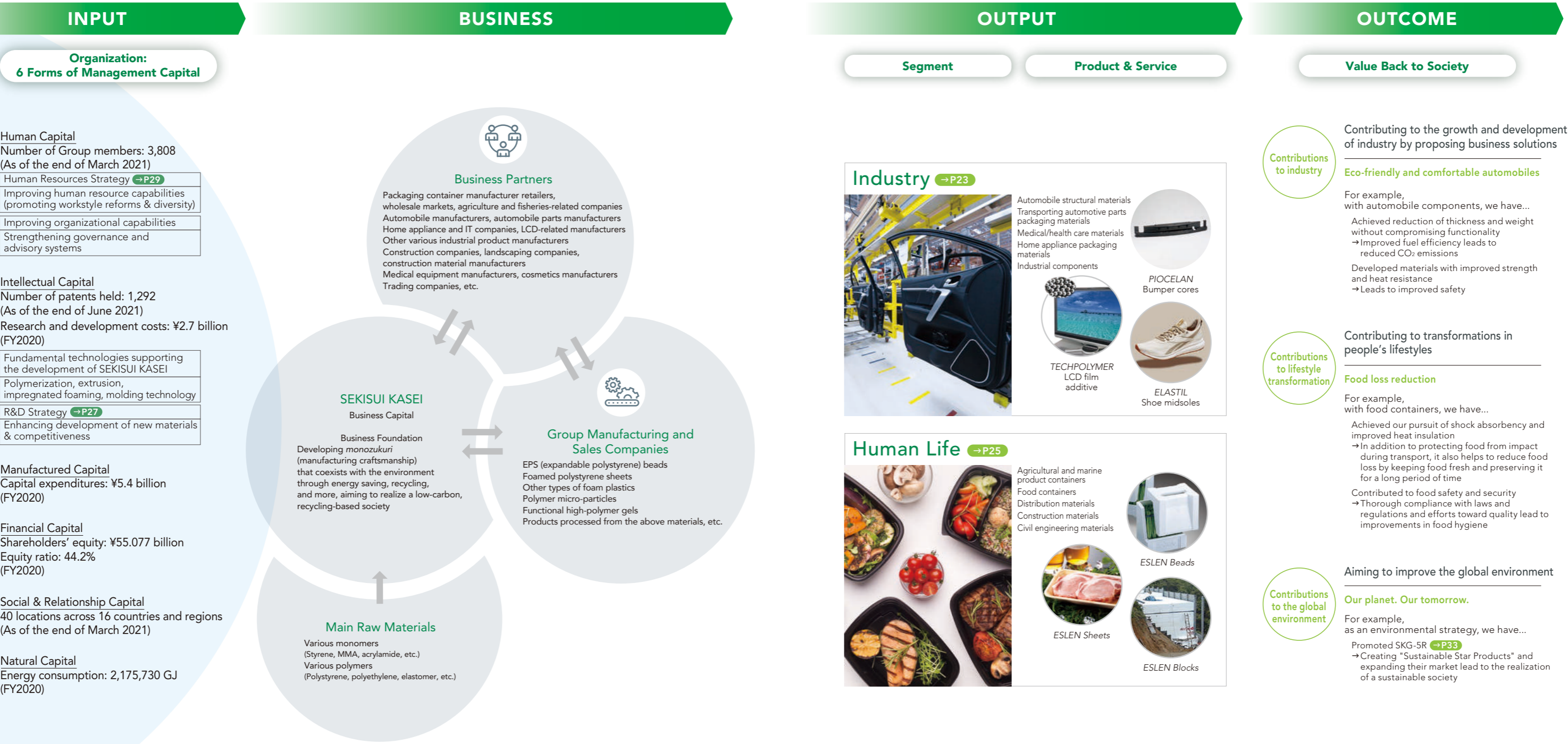


Transition of business results



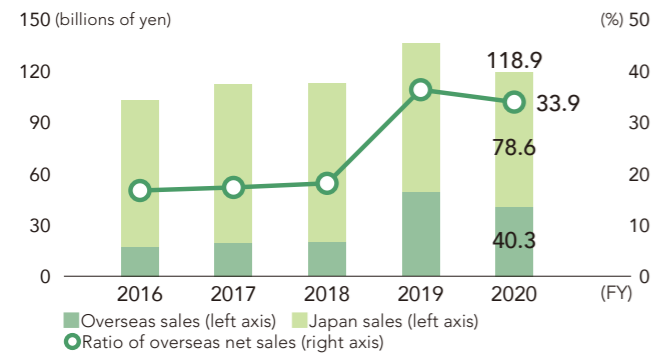
Business Model

The Sekisui Kasei Group aims to solve social issues and realize a safe, comfortable, and convenient society through business activities.



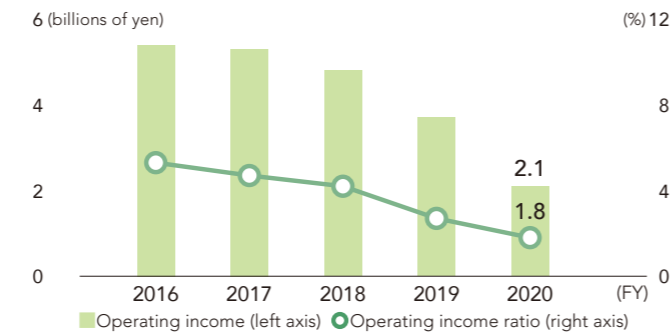
Financial and Non-Financial Highlights

Net Sales/Ratio of Overseas Net Sales



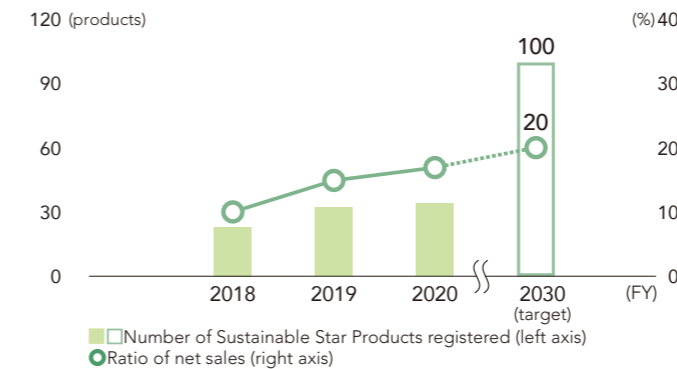
Under the Make Innovations Stage-II (mid-term management plan 2019-2021) priority issue "evolution of business portfolio," we are focusing on expanding the ratio of global sales with a view to long-term global expansion.

Operating Income/Operating Income Ratio



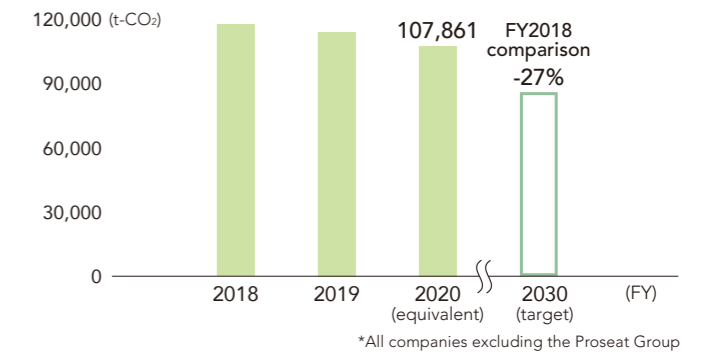
We are promoting measures to evolve the "execution of strategies to strengthen earnings structure," clearly stated in the Make Innovations Stage-II (mid-term management plan 2019-2021) basic policy.

Number of Sustainable Star Products Registered/Ratio of Net Sales



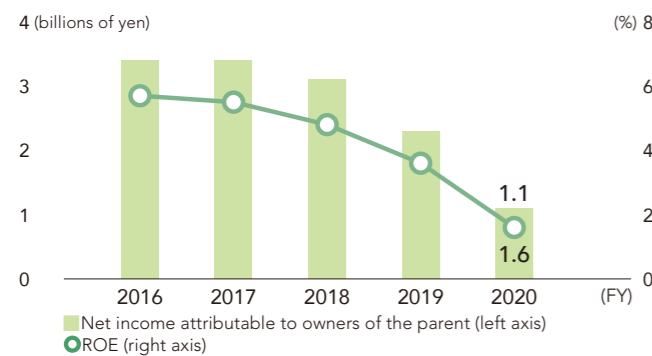
We have established a target (FY2030) for the number of registered "Sustainable Star Products" (environmentally-friendly products), and are engaged in both evolving existing products and putting new materials into practical use. →P33

CO₂ Emissions (Scope 1+2)



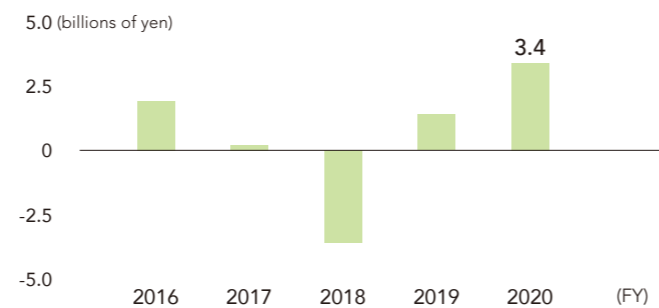
In aiming for "business activities that do not place a burden on society" as raised in Make Innovations Stage-II (mid-term management plan 2019-2021), we have formulated and are working toward CO₂ reduction targets through FY2030. →P33

Net Income Attributable to Owners of the Parent/ROE



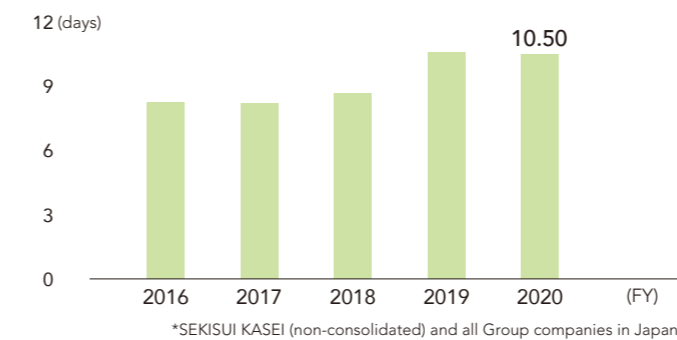
We strive to ensure healthy profitability in terms of net income relative to invested equity capital. We recognize ROE as an important indicator of management efficiency and aim to improve it.

Free Cash Flow



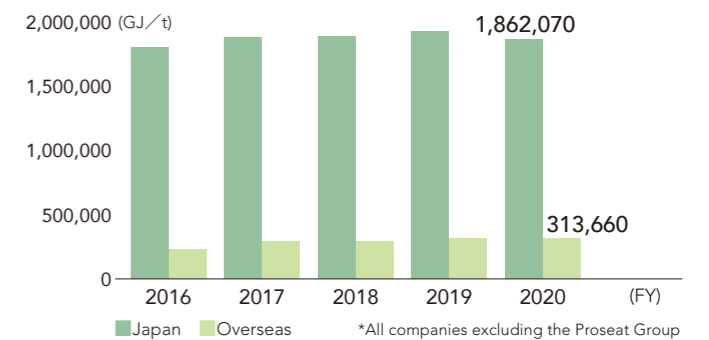
We aim to improve free cash flow, the ability to earn cash, as an indicator for judging corporate performance in addition to accounting profits.

Number of Paid Vacation Days



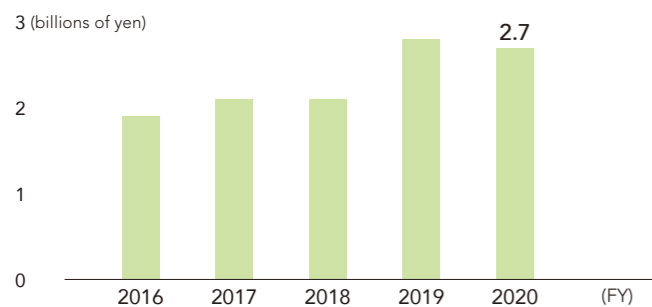
Based on our founding spirit of "For happiness of people working for the Company," we are engaged in improving human resource capabilities (promoting workstyle reforms) under the Make Innovations Stage-II (mid-term management plan 2019-2021) priority issue of "strengthening the Group's management foundation."

Energy Consumption



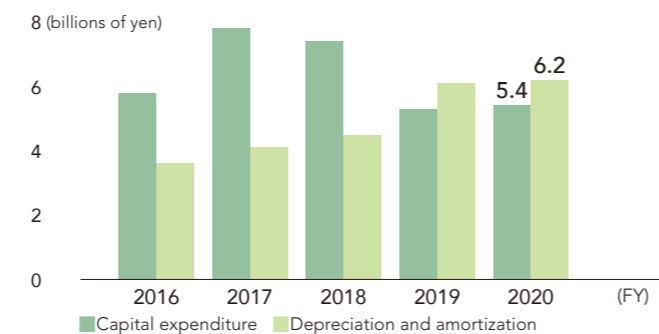
We recognize the importance of resource and energy savings during the production as well as use of our products, and are working to reduce our energy consumption.

Research and Development Costs



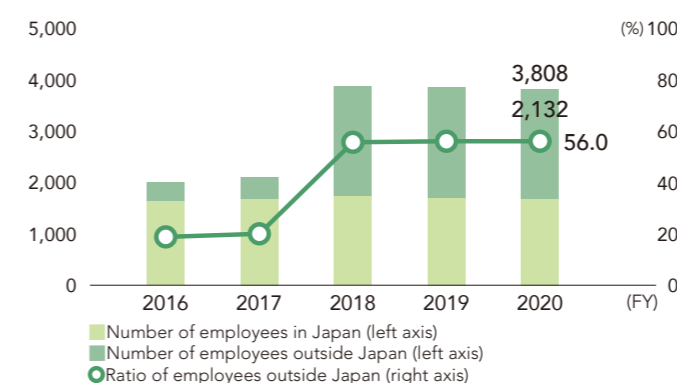
In order to promote SKG-5R, we are focusing on creating "Sustainable Star Products" (environmentally-friendly products) and expanding their market, and are engaged in research and development that provides value to society.

Capital Expenditure/Depreciation and Amortization



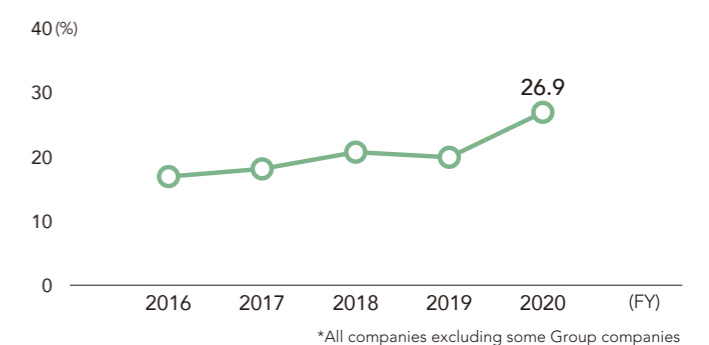
We are making capital investments for sustainable corporate growth, including the development of systems-related infrastructures and R&D facilities for new polymer materials.

Number of Employees



With a view to long-term global expansion, we are working to increase the number of Group members active in locations outside Japan and to promote diversity.

Ratio of Female Employees



In order to promote diversity, we are engaged in improving human resource capabilities (advancement of women) under the Make Innovations Stage-II (mid-term management plan 2019-2021) priority issue of "strengthening the Group's management foundation."

A Message from the President

Pursuing “new happiness”
by adapting to
the changing times and
constantly innovating

Masato Kashiwabara
President and Chief Executive Officer

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.”* This management philosophy is based on the original statement formulated at the time of the Company’s 30th anniversary, but we turned it into a shared philosophy for the entire Sekisui Kasei Group when we celebrated 50 years of existence in 2009.

The social environment that currently envelops the Sekisui Kasei Group is changing dynamically. As symbolized by the adoption of the Sustainable Development Goals (SDGs) at a United Nations summit in 2015, there is a growing awareness in society about solving environmental and social issues on a global scale. At the same time, technological innovation in fields that have the potential to drive new growth—namely, digital technology and mobility—is evolving much faster than expected. In this environment, the “new happiness” that we seek to deliver carries more than one meaning. Not only do our products and services create material and emotional gratification, but I believe that providing value to help solve global environmental and social issues is conducive to sustained corporate development, which in turn leads to happiness on multiple fronts for the next generation.

Our reason for existence in society is to develop and offer products of value whilst coexisting with the environment by harnessing our *monozukuri* (manufacturing craftsmanship) to deliver various forms of happiness to people’s lives. Even if people’s values change over the years, we will adapt to those changes and keep on innovating. We therefore believe it very important to constantly be there for the happiness of every single person.

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

Under our current mid-term management plan “Make Innovations Stage-II,” we continue to implement measures aimed at transforming our business portfolio and executing strategies to strengthen our earnings structure in order to further propel the transformation process we started in our previous plan.

Both sales and profit declined in FY2020 mainly due to the impact of the COVID-19 pandemic. Even now we are still being affected by the emergence and spread of new variants of the virus and there is still no telling when the pandemic might end. Although the outlook for the business environment remains clouded, we still intend to steadily push ahead with our mid-term management plan.

To transform our business portfolio, we are focused on increasing our global sales weighting and expanding operations mainly in the Industry segment, particularly in the areas of automotive and home appliance IT.

As electrification in the automotive market continues to accelerate, we expect the shift to electric vehicles (EVs) to gain even more momentum up ahead. At present, electric component R&D and demand growth is taking precedent, mainly in semiconductors, but in the near future we expect to see a rapid uptake of lightweight materials and components, which is why we intend to globally expand sales of mainly *PIOCELAN* and *ST-Eleveat*, both of which contribute to making car bodies lighter. Owing to the impact of COVID-19, earnings are currently sluggish at Proseat, the automotive component manufacturer we acquired in February 2019, but we continue to steadily push ahead with product development to generate synergies, implementing measures that can lead to our initially anticipated customer growth.

Also, we are aggressively pursuing the development of new technologies and new materials and endeavoring to expand sales in such fields as information-intensive industries and medicine and healthcare where demand growth is expected to materialize going forward.

Meanwhile, demand has remained brisk for eating at home and ready-made meals in the Human Life segment, but excursion- and travel-related demand is sluggish as people refrain from going out and because of the sharp drop in inbound tourism demand. The agriculture/fishery-related field too has been lackluster in general.

A Message from the President



Progress of SKG-5R in tackling global environmental issues

From our founding in 1959 to the present day, we have consistently developed business lines whilst taking environmental factors into account. We were the first in Japan to produce expandable polystyrene (EPS) foam with as little resources as possible and by developing applications that leverage the thermal insulation and lightweight properties of such material, we have contributed to a reduction in food loss and energy saving in logistics, among other environmental challenges. We also started recovering and recycling EPS foam in 1971 and by ramping up activities across the

entire industry, the domestic recycling rate for this material is now higher than 90%.

Our initiatives in pursuit of becoming a leading environmental company are anchored by our SKG-5R action plan, which adds the Sekisui Kasei Group's own 2Rs (replace and re-create) to the conventional 3Rs (reduce, reuse, and recycle).

We have also set two medium- to long-term targets to be achieved by the milestone year of 2030.

The first is to create Sustainable Star Products (SSPs) and expand their target markets. The sales weighting of SSPs in FY2020 rose 2.0 percentage points year on year to 16.9%, but we intend to lift this ratio to at least 20% by 2030. To that end, we will develop new products under the SSP brand, step up the pace of market launches, and expand sales. As for the certification of SSPs, we have formulated certification criteria and an in-house approval process, but we are also adding a third-party suitability assessment component to the mix. In addition, we have created an SSP brand logo that is instantly recognizable by our stakeholders and we are proactively disseminating information about it within and outside of the Group.

The second milestone target is reducing CO₂ emissions. Under the Paris Agreement that came into force in 2016, a global target was established to "hold the increase in the global average temperature to well below 2°C above pre-industrial levels." We aim to do business without being a burden on society and in order to contribute to the achievement of the 2°C target, we set ourselves the goal of reducing our own CO₂ emissions by 27% by FY2030 versus FY2018. In FY2020 we lowered our CO₂ emissions by 8.5% compared to FY2018 mainly by promoting energy

saving in production activities and reviewing our energy procurement methods.

The global movement towards realizing a carbon-free society is gathering momentum and Japan too has jumped on board the bandwagon with the December 2020 release of the Green Growth Strategy Through Achieving Carbon Neutrality in 2050. In light of this, we think even tougher measures than the ones we initially planned to implement will be required going forward, which is why we are starting to consider a carbon neutrality roadmap through to the year 2050, including the utilization of renewable energy.

As long as we continue to implement the 5Rs up ahead and execute our strategy to become a leading environmental company, I believe we can generate a virtuous cycle of contributing to a sustainable society and sustainably enhancing corporate value.

Initiatives to strengthen the Group's management foundation

Based on our plan to strengthen the Group's management foundation, we are focused on the following three aspects: reinforcing organizational capabilities, boosting productivity, and bolstering human resources.

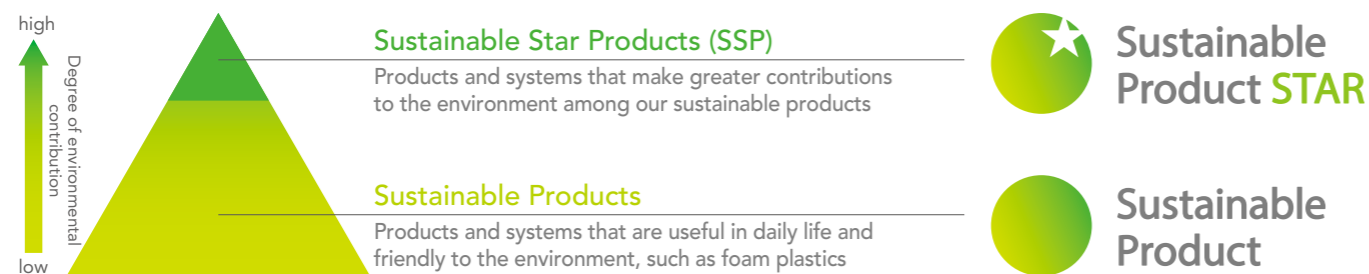
For the first—reinforcing organizational capabilities—we restructured a number of organizational units. To quicken the pace of our business portfolio transformation, we shored up our R&D and production technology systems with a view to accelerating the development cycle for new materials and new products. Furthermore, we recognized anew the importance of safety and security after both the lost time injury frequency rate and accident severity rate came in higher in FY2019. We thus took steps to further heighten awareness of safety by turning the Safety Promotion Dept. into an independent unit. Also, to promote our business in Europe, we set up an EB Project Team in the head office. This team will focus on quickly launching businesses operations there. In addition to the above measures, we are improving global collaboration throughout the Sekisui Kasei Group. We therefore standardized the English name of the Company as Sekisui Kasei on the occasion of our 60th anniversary as one measure for strengthening the Group's management foundation.



To boost productivity, we set up a DX Committee to guide the Company's digital transformation, the main objectives of which are using digital technology to link all information and operations and integrate production, sales, and services. The production departments are working to strengthen their competitiveness with each other by using IoT and robotics to improve productivity, the management departments are adopting AI and IoT to streamline operations, and the sales departments are endeavoring to enhance the efficiency of sales by strengthening marketing. The research departments continue to beef up their R&D platforms by actively incorporating the concept of research transformation (RX) mainly with the use of science information search tools and AI for leading scientific research.

Lastly, as part of our efforts to bolster our human resources, we are focusing on workstyle reforms and diversity (empowerment of women, mid-career hiring, and nurturing of globally-minded managers). We are therefore rebuilding our HR structure so that our diverse workforce can work with flexibility and give full play to their ambitions and capabilities. In terms of promoting diversity, we are beginning to see results materialize with the emergence of a female president of a Group company and the executive officer appointment of a non-Japanese mid-career hire. Also, as a measure to cultivate and support the activities of talented employees that possess high-level skills, we have introduced a specialist employee scheme. Five employees were accredited under this system in FY2020.

Brand logo for Sustainable Star Products



A Message from the President



Corporate governance

As part of our efforts to strengthen corporate governance, in FY2019 we newly established the Nomination and Remuneration Committee. In addition to myself, the other members of this committee are the Company's three outside directors and one outside auditor. The committee actively discusses topics concerning remuneration and the nurturing of successors. Regarding the former, we introduced a new restricted stock-based compensation system to further incentivize performance improvement. As for nurturing successors, we are aiming to run more training sessions with guest lecturers and study sessions on various topics in an effort to raise the knowledge level of all officers. Also, the Nomination and Remuneration Committee is currently examining how to best go about evaluating the effectiveness of the Board of Directors. The incorporation of external opinions, including the regular hosting of off-site meetings with outside directors, has meant that the Board has been able to engage in in-depth discussions about carefully selected topics.

Risk management

The risks that we had envisioned as an organization up until now were usually of a local nature, such as natural disasters or accidents/IT system errors in certain countries and regions. However, the current spread of the COVID-19 pandemic to all corners of the earth pretty much represents a global risk, so I feel that we will need to change our conventional approach along with the kind of countermeasures we take to address risks.

We will continue to do business whilst prioritizing the health and safety of our employees and their families on the assumption that the pandemic is here to stay for quite a while yet. Owing to the pandemic, demand has risen for take-away containers and food containers driven by growth in ready-made meals. We believe it is the responsibility of the Sekisui Kasei Group to ensure steady supply of food packaging materials, a daily necessity for many people. We are therefore doubling down on hygiene management and attendance control at our production sites. And along with a reassessment of inventory levels, we are also rebuilding our system of guaranteeing a constant supply of products across the entire supply chain.

As an in-house measure for coexisting with COVID-19, teleworking has become commonplace mainly in our sales and management departments. This is also related to our efforts to promote workstyle reforms. In the future, we should be able to roll out a permanent work-from-home solution by making use of online conferencing tools and various other applications and by actively improving work processes. Of course, some of our production sites and other workplaces are unable to switch over to this new approach and some issues still remain particularly regarding communication and evaluation systems, but we hope to accelerate this shift with a focus on realizing flexible and diverse working styles. For our "diversity initiatives" and "Health and Productivity Management" too, we will aim to be a corporation where our respective employees can be motivated to work towards their goals.

Shareholder returns

The Sekisui Kasei Group regards the distribution of profits to shareholders as an important management issue. Accordingly, our basic policy is to distribute profits in accordance with consolidated financial results as well as in consideration of the stability of dividends while strengthening our management structure and securing internal reserves to prepare for future business development.

Based on this approach, our dividend policy is to aim to deliver stable returns over the medium to long term by targeting a consolidated payout ratio of 30%–40%. Due to the impact of the COVID-19 pandemic, in FY2020 we paid an annual dividend of ¥21.

Even though we expect the pandemic to still affect the global economy in FY2021, our plan is to keep paying stable dividends to our shareholders.

To our stakeholders

The outlook for the future remains uncertain mainly because of the impact of the unavoidable external circumstance that is the COVID-19 pandemic. However, it is precisely because of this challenging business environment that we must look at the bigger picture and reassess what we hope to achieve. We will endeavor to improve corporate value in a sustained manner by steadily pushing ahead with initiatives geared towards aggressively entering high value-added businesses, solving environmental and social issues, and strengthening corporate governance.

President and Chief Executive Officer

Masato Kashiwabara



Special: Our Prevention Measures and Efforts against COVID-19

Here, we will introduce the kind of measures we have taken and how we have proceeded with our corporate activities without stop as COVID-19 spreads around the world, having major impacts on societies and the economy.

Establishment of the COVID-19 Emergency Response Headquarters

Emergency Response Headquarters Structure

1. General Response Headquarters headed by president
2. Regional Response Headquarters headed by each Group company president

- Works to prevent the spread of COVID-19 with the health and safety of Group employees and their families given top priority
- Sends notifications with the latest information based on announcements by the governments and local authorities of each country and region (as of August 2021, 27 such notifications have been issued)
- Quickly determines responses in line with each headquarters' situation

Examples of Notifications

- Response to working system (attendance rate, staggered commuting, teleworking)
- Overseas travel (banned in principle)
- Domestic movement (in principle, ban on travel to production sites)
- Exhibitions in Japan and overseas (in principle, ban on exhibitions, tours)
- Participation in various events (ban on meetings, social gatherings with more than five people)
- Response to meetings (utilization of video conferencing, wearing of masks)
- Customer support (designation of reception location, history management)
- How to use in-house cafeterias (staggered timings, avoidance of face-to-face seating)

Procurement



Risk response

In light of the impact on the procurement of raw materials of products and their components, we have been working for some time to diversify our suppliers and the raw materials we use, as well as to purchase from multiple business partners, in order to stabilize procurement. In addition, we are also promoting stronger cooperation with our suppliers.

Future considerations

We are examining criteria for setting inventory volumes.

Production



Risk response

We are promoting thorough infection response measures as in the event that a cluster were to break out within a company following an infection from COVID-19, there is a possibility that we would not be able to maintain safe production and supply systems.

Future considerations

We are reexamining the production site decentralization measures already being taken.

Sales



Risk response

In order to ensure the health and safety of Group employees and their families, and to prevent the spread of COVID-19 both inside and outside of the Group, we have strengthened measures such as promoting telework and staggered work hours, and refraining from visiting business sites. We have implemented support for remote work to decrease the number of face-to-face meetings.

Future considerations

We are examining the introduction of new systems such as telework as we move into the 'new normal' era.

Logistics



Risk response

In order to prevent delays and other impacts on the transportation of products and intermediate products caused by disruption and stagnation of the logistics network, we implement multiple COVID-19 prevention measures during distribution and strive to plan for stable logistics channels.

Future considerations

We are reexamining logistics systems.

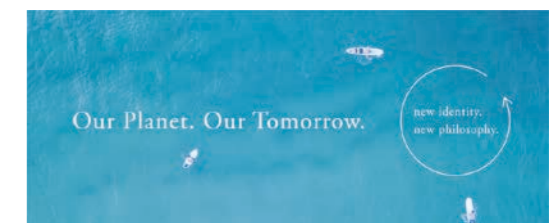
Contribution to Society

We will fulfill our supply responsibilities in recognition that we are a provider of materials and products to fields that support people's lives, such as those related to medicine, food, and housing. We will take the best possible measures to ensure that people can continue to lead safe and healthy lives.



Future Initiatives

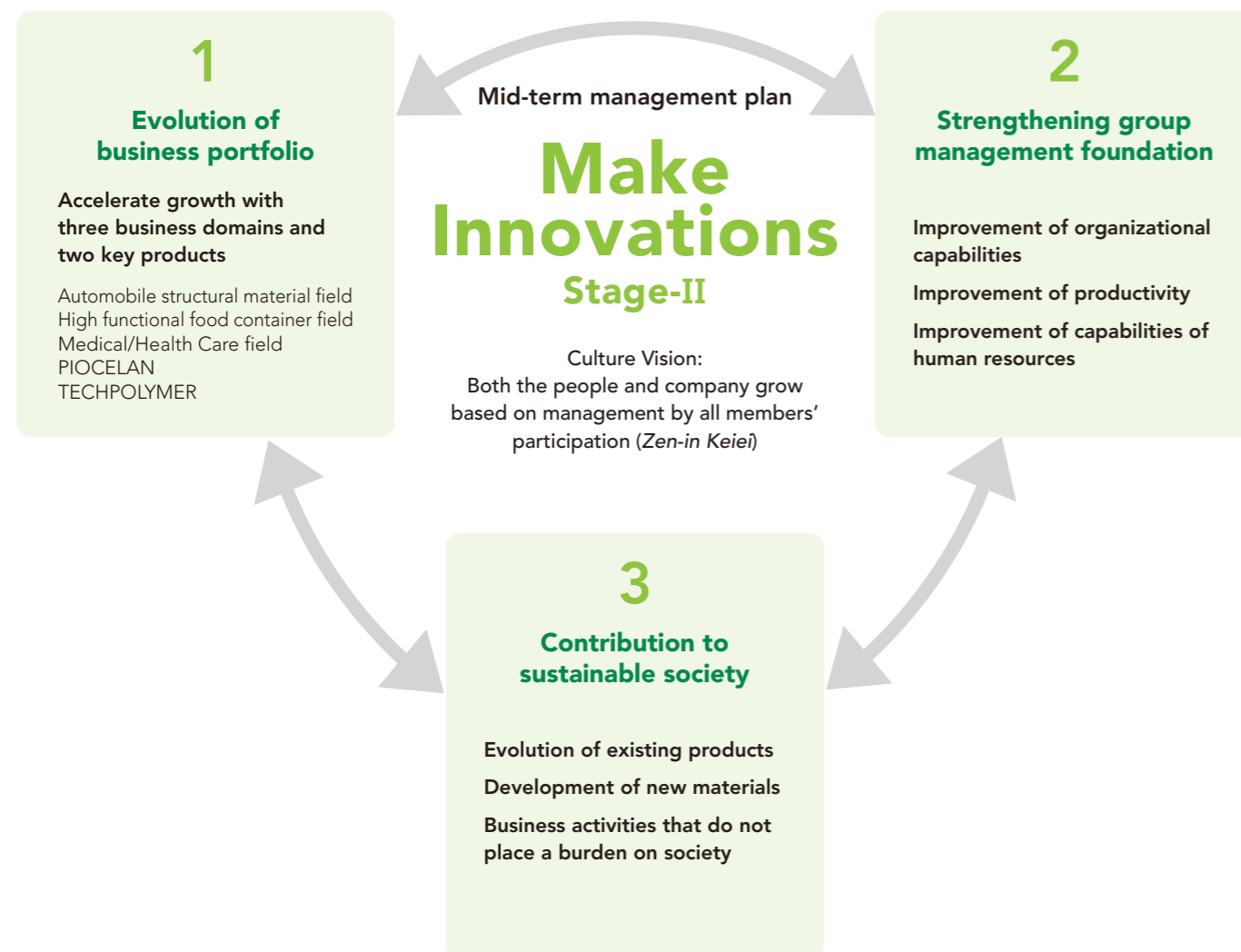
COVID-19 has completely changed the world, and many new issues have emerged for society as a whole. We will redefine new standards for the 'new normal' era, strengthen our BCP, and aim for the stable supply of products that support people's daily lives.



Mid-Term Management Plan

Make Innovations Stage-II

Promote business portfolio transformation and execution of strategies to strengthen earnings structure while solidifying position as a leading environmental company



Progress of "Make Innovations Stage-II" 2019-2021

With regard to COVID-19, we put product safety and the health and safety of our business partners and Group employees first, taking measures to avoid risks related to the disease to the greatest extent possible. As we do so, we are evolving the basic policies of "business portfolio transformation" and "execution of strategies to strengthen earnings structure" of our three-year mid-term management plan "Make Innovations Stage-II," in its second year in FY2020, and are advancing measures in order to cement our position as a leading company in environmental issues.

While we benefitted from home nesting demand in the Human Life segment for items such as grocery store food trays and restaurant take-out containers, a significant negative impacted resounded throughout the Industry segment in the first half of the year centered around our automobile-related businesses, resulting in a year-over-year decrease in revenues and earnings for the full year.

FY2021 is the final year of the mid-term management plan, and as we adhere to the basic policy and three priority policies of "improvement of corporate value through evolution of business portfolio," "strengthening group management foundation," and "contribution to sustainable society," we will thoroughly execute "transformations to strengthen our earnings structure" and establish the foundation for our next mid-term management plan.

• Improvement of corporate value through evolution of business portfolio

Industry segment: Aim for expanded profit through high value-added businesses that respond to changes in market structure
Human Life segment: Strengthen profitability by reviewing low-profit businesses and firmly engaging new demand in the "with COVID-19" era

• Strengthening group management foundation

Strengthen the governance system of the entire company, enhancing compliance and risk management
Promote business innovation and workstyle reforms

• Contribution to sustainable society

Strengthen activities around SKG-5R through our business to solidify our position as a leading environmental company

Make Innovations Stage-II Quantitative Targets

(Unit: Billions of yen)

	FY2019 Results	FY2020 Plan (Announced in July)	FY2020 Results	FY2021 Plan
Net Sales	136.16	116.00	118.85	118.00
(Overseas sales)	49.37	—	40.26	—
(Overseas sales ratio)	36.3%	—	33.9%	—
Operating income	3.73	2.00	2.09	3.60
(Operating income ratio)	2.7%	1.7%	1.8%	3.1%
Recurring income	3.39	1.60	1.96	3.20
Net income attributable to owners of the parent	2.32	1.00	1.13	1.80

* The FY2020 and FY2021 plans have been reviewed and reset in consideration of the impact of the COVID-19 pandemic on the Group.

* The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) is applied from FY2021.

(For reference: Net sales equivalent to ¥130 billion in the previous standard)

Business Overview: Industry Segment



Co-creating new value in the new normal era

This department has continued to provide components and materials to new markets by developing products and proposing solutions that satisfy customers. Preparing for the era of the “new normal” in the midst of rapid social changes, in fields where the pace of technological innovation is accelerating, such as mobility, IT, medicine, and healthcare, we will focus on establishing a system that enables value co-creation with our customers so that we can help them create the future.

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



Automobile components



Packaging materials for transporting automobile parts

TECHPOLYMER
liquid crystal film additive

ST-gel electrodes for ECGs

Strategic Target Markets

Automotive, Home Appliance/IT, Medical/Healthcare,
Overall Industry

Strengths and Features

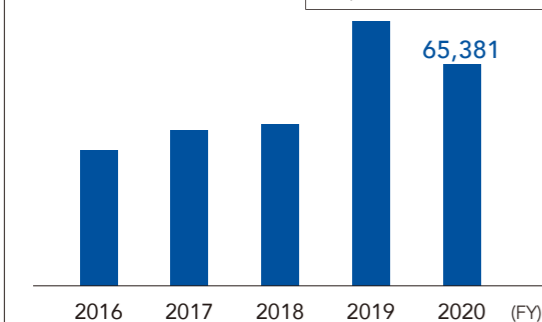
- Solution proposals that combine sustainability and functionality
- Material development and customization using composite technology
- Global efforts to reduce environmental impact through business

Business Strategies

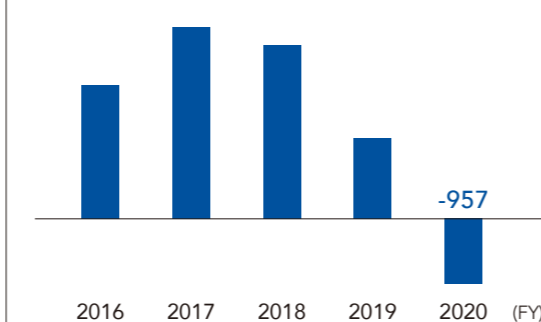
- Together with the Proseat Group, build a foundation as a supplier of automobile parts
- Deeply cultivate the Medical/Healthcare field through the provision of components and promotion of systemization
- Make rapid progress in the provision of high-value-added components and the development of high-performance materials

Net Sales (Millions of yen)

Industry segment
composition ratio **55.0%**



Recurring Income (Millions of yen)



Looking Back on FY2020

Automotive

A significant decline in demand due to the COVID-19 pandemic led to lower sales of *PIOCELAN*, our automotive component and packaging material for automobile parts. However, with the resumption of production by automobile manufacturers, the market has begun to recover.

Home Appliance/IT

There was a decline in sales of our panel transport material/packaging material applications using *PIOCELAN*. Increased demand for PCs and monitors for stay-at-home workers led to strong sales of *TECHPOLYMER* in light diffusion applications such as LCD panels.

Medical/Healthcare

Sales of *ELASTIL*, which is used in the midsole of running shoes, were impacted in the first half of the fiscal year by staying indoors imposed in various countries, but sales grew significantly throughout the second half of the fiscal year prompted by the recovery in shoe demand and the introduction of models equipped with *ELASTIL BIO*. Sales of *ST-gel* were weak due to trade frictions between the United States and China and the impact of the COVID-19 pandemic.

FY2021 Challenges and Outlook

In an effort to further evolve the business portfolio, the Company is pursuing growth, particularly in the automotive, Home Appliance/IT fields, with a view to global expansion. In the automotive industry, the shift to electric vehicles (EVs) is expected to accelerate, driving growth for our products that contribute to vehicle weight reduction. As a stepping stone to expanding our business in Europe, we acquired the Proseat Group, a manufacturer of automotive components, in 2019. Although performance was weak in the current fiscal year due to the significant impact of the COVID-19 pandemic, the Company is executing what it initially set out to do, namely creating synergies through product development and customer expansion and strengthening governance. We will contin-

ue to develop new materials and expand sales in areas such as Home Appliance/IT, the information industry, and Medical/Healthcare.

FY2021 Outlook

Automotive

Instability due to supply chain bottlenecks for some parts

Home Appliance/IT

Recovery trend, although with regional differences

Environmentally-friendly product brand “Sustainable Star Products”

ELASTIL BIO Thermoplastic elastomer foam with biomass content of 45% or more



This is a thermoplastic elastomer bead foam that contains plant-based material derived from castor beans oil. It features a biomass content of 45% or more.

While retaining the characteristics of *ELASTIL*, which is lightweight and combines the elasticity of rubber with the softness of polyurethane, we were able to reduce the product weight by 30% compared to the conventional product made from petroleum-derived materials.



Used in the midsole of running shoes

Business Overview: Human Life Segment



Driving the delivery of value to achieve a sustainable society

This department provides a wide range of products and services for the Human Life segment, which supports the food and civil engineering markets. In response to today's diversification of lifestyles, we will not only pursue need-driven product development and evolution of existing products, but also actively work on the creation and practical application of new materials with a reduced environmental impact in order to solve the global-scale issues set forth in the goals and targets of the SDGs.

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



ESLEN Beads



ESLEN Sheet



CELPET Functional food container

Super Soilen System
Lightweight greening method

Strategic Target Markets

Agricultural/Fishery, Food, Distribution, Civil Engineering/Construction, Disaster Prevention, Environment, Household Goods

Strengths and Features

- 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

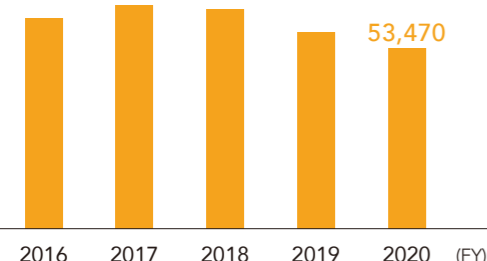
Business Strategies

- In the high functional food container field, increase the value of containers and packaging materials to contribute to the transformation of food culture
- By practicing the SKG-5Rs and creating "Sustainable Star Products," try to expand the market by providing value that meets the needs of the times

Net Sales

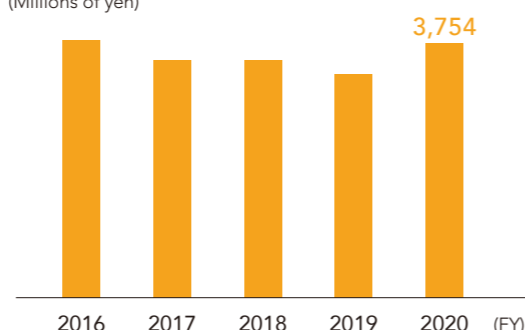
(Millions of yen)

Human Life segment
composition ratio **45.0%**



Recurring Income

(Millions of yen)



Looking Back on FY2020

Food containers related

Due to the COVID-19 pandemic, although demand for leisure and tourism-related services declined, there was strong continuing demand related to home-cooked meals and prepared foods eaten at home.

Agricultural/Fishery related

In the fisheries-related business, in addition to a decline in fish catches, demand from tourism and restaurants declined, resulting in a doldrums.

Housing/Civil Engineering related

More and more customers have adopted AQUAROAD, a lightweight resin-based embankment material, as a measure against flooded roads during natural disasters such

as localized torrential rainfall.

ESLEN Sheet

Sales volume increased from the previous year as the Company steadily captured increased demand from home-bound consumers for food packaging such as perishable food trays used at supermarkets, as well as continuing strong demand for take-out containers with superior heat retention properties.

ESLEN Beads

Household goods applications such as beads for cushions continued to perform well as consumers spent more hours at home, but sales in the fishery sector, which is the main application, were generally sluggish.

FY2021 Challenges and Outlook

In the final year of the mid-term management plan, "Make Innovations Stage-II," in addition to the growth of functional food containers in the food sector, we will work to expand the market by steadily capturing new demand in the era of coexistence with the coronavirus.

Moreover, to help achieve a sustainable society, we will continue to work on the evolution of existing products and the creation of new materials, including bio-based materials and recycled materials, which we launched ahead of other companies to meet the needs of the times.

Furthermore, in order to take concrete measures against heavy rains and typhoons, which are becoming more frequent due to the effects of climate change, we will continue to propose disaster prevention-related products such as AQUAROAD (used against road flooding and to handle

rainwater during torrential downpours) to protect the safety of people's lives.

FY2021 Outlook

Food containers related

In the face of continuing restrictions on activities, continuing strong demand is expected related to take-out meals and prepared foods eaten at home. However, in the leisure and tourism sectors, recovery in inbound demand is expected to be slow.

Agricultural/Fishery related, Housing/Civil Engineering related

A gradual recovery is expected, but demand will take a long time to return to pre-COVID levels.

Environmentally-friendly product brand "Sustainable Star Products"

ESLEN Beads HCMH Bead-method polystyrene foam that contributes to resource conservation with 100x foam expansion

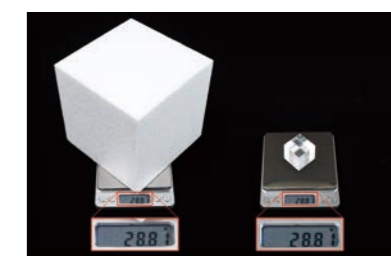


This resource-conserving material consists of 99% air and 1% polystyrene resin in total volume.

It is 10% lighter than our conventional product with 90x foam expansion, which is used as a structural and cushioning material.

By advancing our polymer and foaming technologies, we have enabled production using normal manufacturing processes. This not only reduces the amount of plastic used but also reduces the impact on the environment.

Furthermore, only materials that have been evaluated for safety as food containers and packaging are used, ensuring both eco-friendliness and safety. Large foam blocks with excellent buoyancy and rigidity are already being used as a buoyant material for floating solar panels.



100x foam (left) and non-foamed polystyrene resin (right)



Foam blocks used as a buoyant material for floating solar system

Research & Development Strategy



Towards a more beautiful future

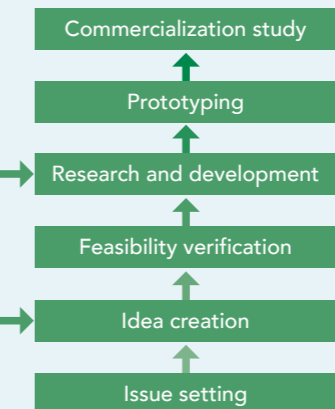
By engaging in research challenges that contribute to solving social problems and achieving sustainable management, we contribute to sustainable growth by creating new value that brightens the future of the global environment and society.

Hideyuki Asada
Director and Managing Executive Officer,
Head of Research & Development Center

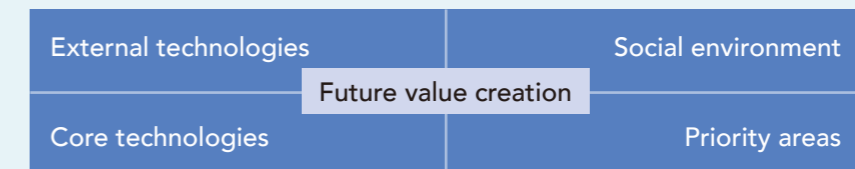
Sekisui Kasei research transformation*

Materials informatics
(Fusion of real and digital)
· Machine learning
· Simulation
· Experimental database

Prior art search
· Scientific information search tool
· Intellectual property AI



Pre-marketing
(Fusion of real and digital)
· Marketing automation
· Sales force automation
· Customer hypothesis proposal
· Exhibition



* Transformation of the R&D system with digital technology as the main driver, proposed by the R&D Strategy Center of the Japan Science and Technology Agency

Research & Development Center Policy

- ◆ **Develop new products that contribute to the growth of the company**
Polish up marketing mindsets, promote development based on hypothetical needs through the fusion of real and digital technologies.
- ◆ **Engage in developments that lead to enhancement and expansion of existing businesses**
Develop solutions that help enhance existing businesses from the four perspectives of "economic value," "social value," "environmental value," and "emotional value"
- ◆ **Nurture developers and creative personnel that think about and experiment with business**
Developers hold their own thoughts and put their "desire to achieve something" into practice

Research & Development Framework

The Research & Development Center, which is our core facility for R&D, handles duties from marketing to product development and improvement for development of new products that lead to new businesses and technologies that support development.

Within the Center are the R&D Planning Dept., the Basic Research Laboratory, the Development Dept., the Intellectual Property Dept., and the Evaluation Test Dept. By establishing a system that integrates the development

process from conceptualization of new materials and technologies to basic research and marketing to mass production, the Center is accelerating the development cycle. The Center collaborates with both the Production Technology Center, which works on processes that lead to production innovations and design development for equipment, including the use of IoT and AI, and with the Design & Technology departments of each Business Headquarters, to create new products.

Value Creation Process

The Sekisui Kasei Group's corporate message is "Our planet. Our tomorrow." Aiming to become a leading environmental company, we are working to create value that contributes to a sustainable society by practicing the SKG-5Rs. To accelerate the R&D cycle, in addition to speedy response to changes inside and outside of the company environment, it is necessary to concentrate resources on solving issues in priority business areas using our own core technologies as well as incorporating a wide range of outside technologies.

However, in today's highly uncertain world, even setting an issue is difficult. Therefore, as a first step we establish a "hypothetical" issue and create ideas for solving it. We start feasibility verification and improvements quickly with a small start, resulting in highly accurate problem identification. In addition, the R&D Center conducts not only prior art searches on the issues that are set, focuses on marketing. We recognize the importance of the R&D organization that first envisions how the products we develop can

contribute to society in the future, then implements verification cycle in a hypothetical market up to the point of commercialization.

Specifically, in all of our R&D themes, we set challenges and create ideas that generate economic value on top of social value, based on environmental value, even taking into account emotional value.

Moreover, we actively promote the idea of RX (Research

Transformation) as an innovative form of R&D that is different from the conventional series of R&D activities.

We believe that it is our role to continue to provide value which contributes to sustainable society by improving output with pre-marketing in conjunction with MA (marketing automation) and SFA (sales force automation) as well as utilizing simulation for materials informatics and machine learning technologies such as AI.

TOPIC

Example of R&D that incorporates RX

ST-gel is a safe, high-performance gel material created with polymerization technology. It is highly functional mainly because of its ability to retain solvents such as water and humectants, as well as electrolytes and additives, in a 3D polymer matrix.

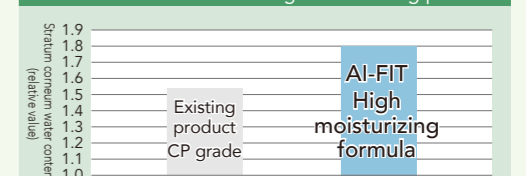
For cosmetic gel mask applications, the ability to control the water and oil content makes it possible to simultaneously provide contradictory textures such as "moist" and "crisp". However, "moistness" is a sensation that varies from person to person, and it takes time to develop formulas that meet the needs of customers.

"ST-gel AI-FIT" is one example of our development in which we quantified the sensory evaluation that hitherto varied greatly from person to person. By using AI to derive the formulations, AI-FIT was able to significantly shorten the time required to match customer requirements with formulation development and we realized the product that could not be obtained in the traditional mindset. AI-FIT also contributed to the reduction of materials and energy required during the development period.



Example of cosmetic mask use

Quantitative evaluation of high-moisturizing product



Measurement method

1. As a baseline, measure the water content of the skin with a corneometer.
2. Affix the pack for 10 minutes.
3. Measure the water content 1 hour after removing the pack.
4. Convert to a relative value where 1.0 corresponds to the value measured in step 1 (before the pack was affixed).

Human Resources Strategy



"Human resources," the source of sustained growth

In carrying out "Zen-in Keiei" (all-member management), we promote the creation of a workplace environment where we are able to place value on mutual improvement that leads to the growth of our respective individuality and individual strengths.

Makoto Okuno

General Manager of Human Resources Dept.
and Training Dept.
Administration Headquarters

Diversity Initiatives

Based on our founding spirit of "For happiness of people working for the Company," as well as our management philosophy of We, Sekisui Kasei, practice "Zen-in Keiei" based on respect and mutual trust. We are always innovating, and in our aim of "new happiness," we provide each and every employee, regardless of nationality, age, or gender, with workplaces where they can fully demonstrate their skills and abilities.

As an initiative commencing from April 2019, we have formulated a three-year action plan to support the advancement of women and to nurture the next generation, and we are conducting recruiting activities with a goal of having women account for over 17% of new hires.

Furthermore, to create an environment that provides opportunities for motivated and capable employees to achieve career advancement, we held a women's forum to identify potential problems, and then implemented measures such as transfer rotation and career development support to address the issues in each organization. The employment rate for people with disabilities for the entire Group was 1.4% in FY2020. We are developing case studies of employment at business sites and Group companies that are making progress in hiring people with disabilities, and have set the goal of creating a comfortable working environment for everyone.

Basic Stance with Regard to Human Resources

- ◆ **Founding spirit**
"For happiness of people working for the company"
- ◆ **Culture and DNA that have underpinned development throughout our history**

Full participation
in management

Leading to the current
Zen-in Keiei

"Executing full-participation management – the spirit of entrepreneurs and industrialists –"

- Entrepreneurial spirit: the spirit of enterprise, the spirit of tackling new things (No. 1)
- Industrialist spirit: proactively moving forward and taking action, mutually improving

The very culture that has supported our growth up to the present is, we believe, a basic and essential element toward realizing our vision, and in handing this down to those who follow, has value in its practice.

In accordance with this belief, we have formulated the five human resource qualities required of employees of the Sekisui Kasei Group in order to carry out our 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."

We promote the creation of a workplace environment through the carrying out of *Zen-in Keiei* which can produce such human talent and thoroughly instill such qualities.

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 be come 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

Human Resources-related Structure

The Human Resources Dept. and Training Dept., principal drivers of our human resources strategy, are united in carrying out an array of operations with regard to human resources.

The Human Resources Dept. plays a role in the welfare and hiring of personnel and labor, including putting in place personnel systems in line with our human resources strategy, while the Training Dept. is in charge of matters pertaining to the education and training of employees. In FY2020, we are rebuilding our training system and developing an environment that enables the growth of individuals.

Promoting Workstyle Reforms

"Strengthening group management foundation" is one of the Priority Policies in the mid-term management plan, "Make Innovations Stage-II," and as part of our efforts to strengthen human resources, we are promoting workstyle reforms.

In order to achieve diverse and flexible workstyles while respecting each employee's life stage and values, we are studying the possibility of making telecommuting, which we started as a measure against COVID-19, a permanent system. We are also working to promote work-life balance by expanding systems such as childcare leave, reduced working hours, and nursing care leave.

In addition, in order to achieve workstyles in anticipation of both a post-coronavirus world and a world of coexistence with the coronavirus, we have updated our attendance management system to ensure that working hours are properly managed by us and our respective organizations.

As measures to improve employee engagement, we are conducting employee satisfaction surveys and forums to identify and analyze issues with the goal of revising the personnel system and improving the workplace environment in the future.



Our Headquarters promotes telecommuting and practices diverse and flexible workstyles.

TOPIC

SKG Kaizen Activities Tournament

The 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, 203 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 other outlets.

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."



14th SKG Kaizen Activities Tournament, held remotely

ESG That Supports Corporate Value

In addition to meeting the expectations of all our stakeholders, including shareholders, Group employees, and customers, the Sekisui Kasei Group remains committed to developing a variety of business activities and social contribution activities that put our management philosophy into practice, so that we can fulfill our responsibility to the international community.

Key Issues and Targets

With the goal of contributing to the creation of a sustainable society, the Sekisui Kasei Group organizes its ESG issues into the five key areas of “environment,” “safety, security and health,” “quality,” “community,” and “governance.” We are committed to continually developing policies and implementing specific initiatives in each of these areas.

	Focus Area	Key Points	Policy	Specific Initiatives (Direction, Examples)
E Environ- ment	1. Environment	Contributing through our business to the preservation and improvement of the global environment	Business activities based on the SKG-5R* concept	Providing sustainable products, goods and services
			Evolving existing products	Expanding application products and improving the functionality of products that reduce weight and enhance thermal insulation
			Creating practical uses from new materials	Developing products making use of biodegradable and biomass plastics
			Engaging in activities that do not put a burden on society	Promoting recycling and the saving of energy in production, administration, and management activities
		Management	Improving the environmental management system and complying with all laws and regulations	
		Contributing to the environment in cooperation with our stakeholders	Addressing international issues	Compiling and releasing information in cooperation with industry and government
		Preserving biodiversity	Participating in Green Wave and Satoyama Conservation Activities	
S Social	2. Safety, security, and health	Providing safe business activities and work environment	Achieving zero accidents	Strengthening efforts to eliminate accidents and realize zero occupational accidents
		Creating safe cities	Contributing to the prevention and mitigation of disasters, and the advancement of green energy	Developing products that contribute to the advancement of green energy and the prevention and mitigation of disasters
		Contributing to healthy lives	Promoting improved health	Developing gels for use in medical products, cosmetics, and sports-related products
	3. Quality	Providing products and services of the highest quality	Complying with product characteristics	Maintaining and improving product quality
			Reflecting customer feedback	Enacting measures to incorporate customer feedback into management
	4. Community	Achieving co-existence and mutual prosperity with local communities and employees	Concluding disaster prevention agreements, etc.	Cooperating with local governments
			Promoting local volunteer activities	Participating in community clean-up activities, disaster relief operations
			Promoting workstyle reforms and diversity	Promoting flex-time, work-at-home, telecommuting for employees Promoting diversity and the development of human resources
	G Governance	5. Governance	Creating a company where transactions are conducted with confidence	Strengthening the global governance system Sincere efforts to comply with the Corporate Governance Code
			Strengthening compliance and risk management measures	Improving quality in management systems and methods

* SKG-5R: Reduce/Reuse/Recycle/Replace/Re-create

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.



Contributing to the Achievement of the SDGs through Our Business Activities

The Sustainable Development Goals (SDGs) aim to address a wide range of issues which consist of 17 universal goals and 169 individual targets, and we note that there is quite a bit of overlap in these goals and targets with our efforts to contribute to society through our business activities. In the following section we will outline business activities and social contribution activities of the Sekisui Kasei Group that contribute to the achievement of each SDG.

		Sekisui Kasei Group Initiatives			
E Environ- ment	1-1	SKG-5R	To realize a sustainable society, we released the SKG-5R STATEMENT and set two targets to be achieved by 2030. In order to achieve these targets, we promote the 5Rs of Reduce, Reuse, Recycle, Replace, and Re-create, and contribute to solutions for the problems faced by the global environment as raised by the SDGs.	P33-36	
	1-2	Environment	We ascertain the environmental ramifications originating from various aspects of our business activities, and strive to mitigate and reduce environmental impact.	P37-40	

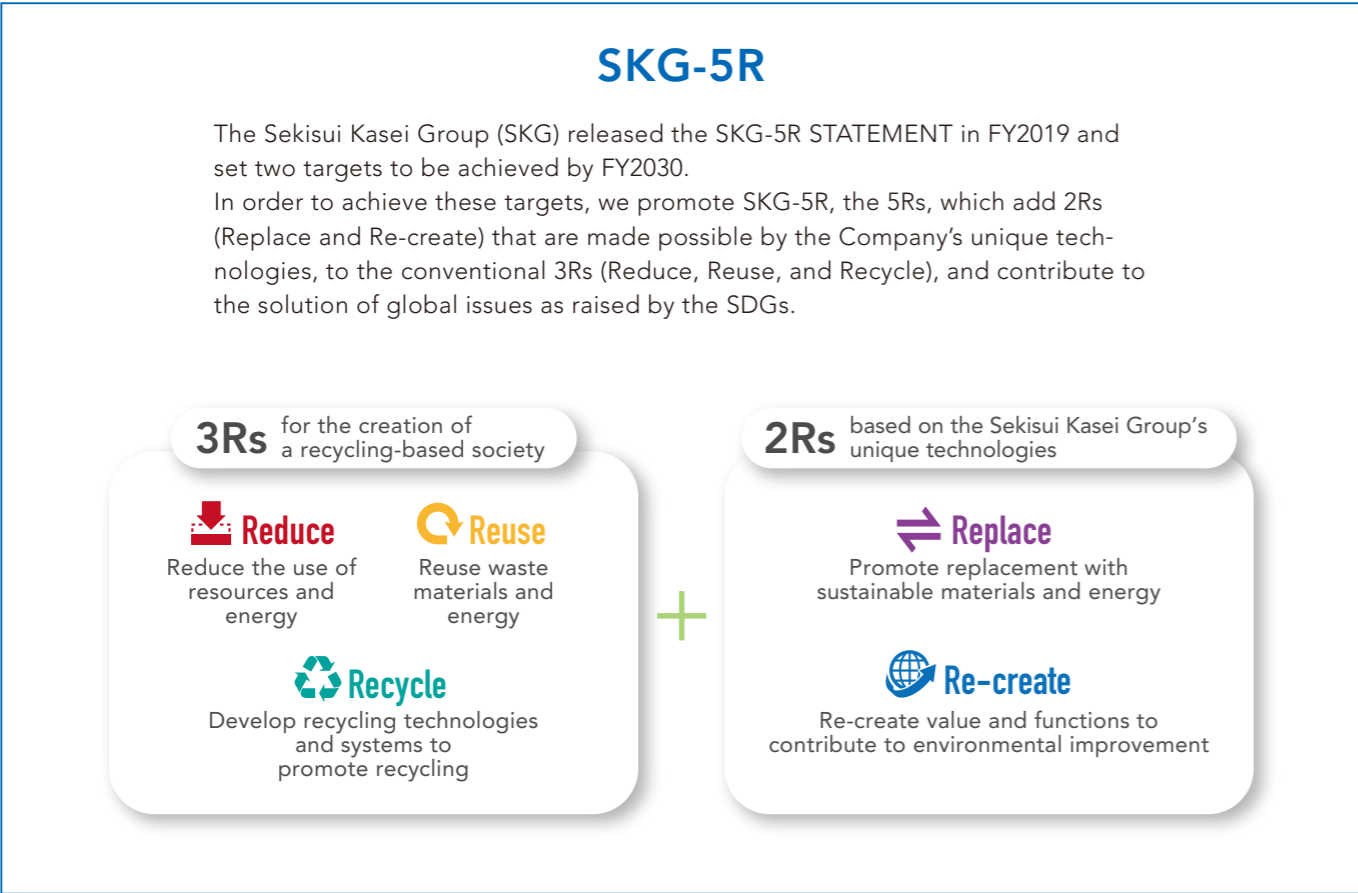
S Social	2-1	Human rights and labor practices	Based on the Sekisui Kasei Group founding spirit of “For happiness of people working for the Company,” we engage in creating environments in which all Group employees can work in good health, both mentally and physically, and with vitality.	P44	
	2-2	Manufacturing with a focus on the environment, safety, and product quality	In accordance with our policies related to the environment, safety, and quality, we strive to prevent accidents and disasters, ensure the health and safety of all people including Group employees, business partners, and local residents, and aim to provide products and services that meet the expectations of consumers.	P41-43	
	3-1	Consumer issues	We engage in manufacturing from the perspective of our customers and undertake the challenge of providing new value.	P43	
	4-1	Recycle	We contribute to the promotion of regional recycling by expanding reclamation centers for used EPS (expandable polystyrene) foam.	P38	

G Governance	5-1	Creating a company where transactions are conducted with confidence	Based on our management philosophy, we are committed to the prompt, appropriate disclosure of pertinent information in order to ensure transparency, validity, and compliance in management.	P45-54	
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Special: SKG-5R Initiatives

–Results of FY2020 Activities–

Under the mid-term management plan “Make Innovations Stage-II,” we have positioned “contribution to sustainable society” as a priority issue for management.
After back-casting from our vision for 2030 and following repeated discussions, we set out SKG-5R as our action plan.



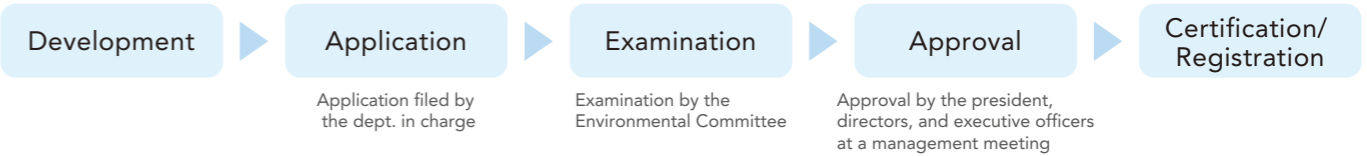
What are Sustainable Star Products?

Examination, Certification, and Registration Process

For a product to be registered as a Sustainable Star Product, the Environmental Committee will conduct an examination after receiving an application from the department in charge. Products that have met the committee’s criteria will subsequently be submitted at a management

meeting, and the products that are then approved by the president, directors, and executive officers will be certified and registered as Sustainable Star Products. The validity of this certification and registration is evaluated by a third party.

Flow for examination, certification, and registration



Product Definition

We define “Sustainable Products” as products that take into consideration the reduction of environmental impact and the finiteness of resources throughout their life cycles, from the procurement of materials and supply of the products to their disposal and recycling. Among our

Sustainable Products, we certify those that make even greater contributions to the environment as “Sustainable Star Products,” aiming to promote the creation and market expansion of those products.

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.”

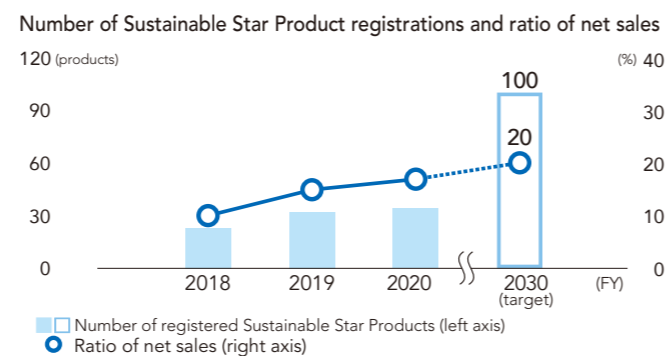
Environmental contribution item		Contribution at the development/design and raw material procurement stages	Contribution at the production stage	Contribute at the shipping (transportation) stage	Contribute at the use stage	Contribution at the disposal/recycling stage
Reduce	Weight and space reduction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

Special: SKG-5R Initiatives –Results of FY2020 Activities–

Results of FY2020 Activities

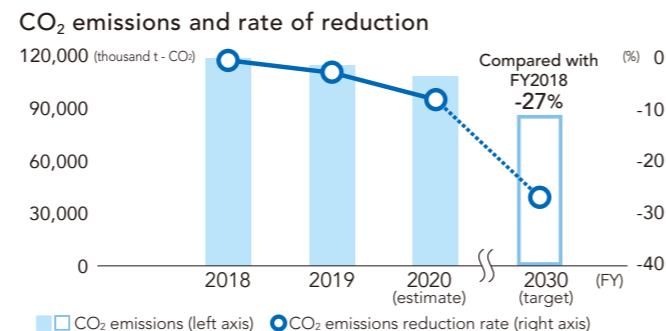
Target I Create Sustainable Star Products and expand their market

The total number of registered Sustainable Star Products in FY2020 was 34, with the ratio of net sales up two percentage points year-on-year at 16.9%. The increase in ratio of net sales over the previous year was mainly due to increased sales of *ESLEN* Sheets (product made from recycled materials) and *ELASTIL* containing biomass grade.



Target II CO₂ emissions

Our CO₂ emissions reduction rate in FY2020 was -8.5% as compared to FY2018. This was due to a 2.4% reduction in production itself as compared to FY2018 caused by factors such as the COVID-19 pandemic, and an 8.9% decrease in CO₂ emission factors by our power companies as compared with an expected 3.9% decrease.



Sustainable Star Product Brand

TECHPOLYMER BIO Biodegradable polymer microparticles that decompose in the natural environment



At the Cosmetic Ingredients & Technology Exhibition (CITE JAPAN 2021), our *TECHPOLYMER BIO EF-A* series of water-degradable polymers received the Silver Award in the Environment Category, which recognizes products that contribute to the cosmetic industry and have superior innovativeness and impacts.

This award was made in recognition of our efforts to address marine plastics, one of the most significant environmental issues. Our replacement of petroleum-based materials with plant-based materials, together with our approach to using water-degradable polymers, was recognized for emphasizing the use of sustainable resources in consideration of the global environment for future generations.



The 10th Cosmetic Ingredients & Technology Exhibition (CITE JAPAN 2021) was held at Pacifico Yokohama from May 19 to 21, 2021.

Sustainable Star Product List

(as of March 31, 2021)

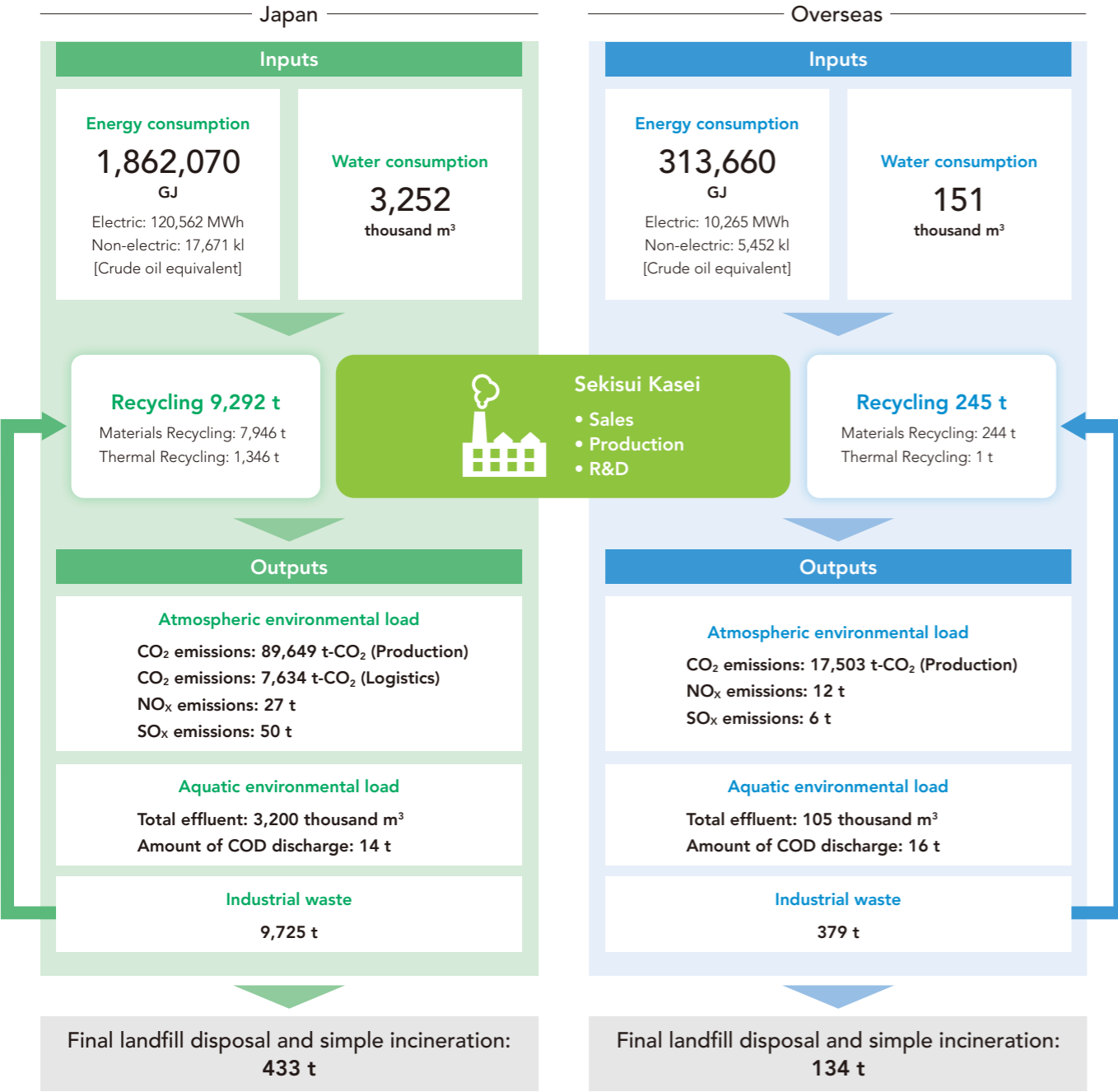
	Product name	Reduce	Reuse	Recycle	Replace	Re-create	Environmental contribution content (certification basis)
Industry segment	CMT bathtub pan	●				●	Weight reduced by approx. 75% compared to competitive FRP products
	TECHEATER	●					Approx. 30% reduction in CO ₂ emissions during product use [Comparison: Commonly used electrothermal heaters]
	ST-LAYER Wind power generation blade	●				●	80% lighter than steel blades and 60% lighter than aluminum blades when compared with the same strength
	PIOCELAN Flat-panel TV component transporting container		●				Repeated use
	PIOCELAN Packing material for transporting automobile parts		●				Repeated use
	TECHPOLYMER Microparticles for lighting covers	●					27% reduction in CO ₂ emissions compared to inorganic diffusing agents
	TECHPOLYMER Cosmetic grades	●					Residual monomer reduced to less than 1/100 [Comparison: Industrial grades]
	TECHTELAS	●					250% reduction in CO ₂ emissions during product use [Comparison: Fluorescent lamps]
	ST-gel Electrodes for low-frequency therapy equipment		●				Repeated use
	CELEPET F			●			Recycled plastic bottle flakes used for 80% of raw materials
	NEO-MICROLEN SHE	●					More than 30% weight reduction by high foam expansion rate [Comparison: Conventional products]
	FRAHASANA					●	Cause-brand product (A part of the sales proceeds is donated to environmental contribution activities)
Human life segment	AQUAROAD	●					57% reduction in CO ₂ emissions from raw materials to product use [Comparison: Concrete water storage tanks]
	EPS Slope	●				●	Newly conceived disaster recovery item without the need for heavy machines [Comparison: Sandbags and laid iron plates]
	ESLEN Wood Panel RC Panel			●			25% or more recycled resin used (Eco Mark certified)
	ESLEN Sheet Product made from recycled materials			●			25% or more recycled polystyrene used
	ESLEN Container		●				Repeated use
	Insulated Foldable Container		●				Repeated use
	SET BOX		●				Repeated use
	KATAEMON	●					Designed to eliminate waste without the need to dismantle the formwork
	ES Dan Mat LV	●					73% reduction in CO ₂ emissions from raw materials to product use [Comparison: No thermal insulation materials used]
	SUPER SOILEN SYSTEM		●				Made from 100% crushed granules of used EPS
	Sponge carrier for DHS water purification system	●					Environmental load reduction in water bodies
	ESLEN Block for EPS civil engineering method	●					48% reduction in CO ₂ emissions from raw materials to product use [Comparison: Air bubble mixed lightweight soil]
Material	ESLEN Beads HCMH Foam with 100 times expansion rate	●					Product liability compliance and 36% reduction in plasticizer additives [Comparison: Molded products with 90 times expansion rate] 10% reduction in weight per cubic meter of molded product [Comparison: Molded products with 90 times expansion rate]
	EPSREM	●		●			100% recycled resin + Proprietary recycling system
	EPSREM Returnable Box	●		●			EPSREM + Eco Mark certified product
	EPSREM ERX-ZERO	●		●			EPSREM + Carbon offset
	ELASTIL	●				●	50% reduction in weight compared to non-foam PU/EVA competitive products
	ELASTIL BIO	●				●	ELASTIL + Biomass content of 45% or more (Biomass Mark certified)
	ST-Eleveat	●				●	80 to 90% reduction in weight compared to non-foam competitive products
	ST-Eleveat BIO	●				●	ST-Eleveat + Biomass content of 25% (Biomass Mark certified)
	LIGHTLON BIO				●		Biomass content of 10% or more (Biomass Mark certified)
	TECHPOLYMER BIO	●				●	Biodegradable polymer microparticles that decompose in the natural environment



To achieve a sustainable society, the Sekisui Kasei Group promotes *monozukuri* (to create things) activities in coexistence with the environment, such as the reduction of environmentally hazardous substance emissions generated through business activities.

Inputs/Outputs (FY2020 Results)

The Sekisui Kasei Group manages the environmental impact arising from business activities in “output/unit consumption,” which expresses environmental loadings per production volume.



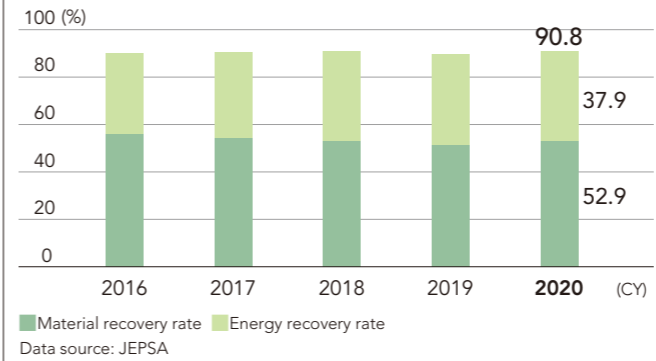
Environmental Data

Fiscal Year	2016	2017	2018	2019	2020
Number of production sites:					
Japan	36	37	39	39	39
Overseas	10	10	19	19	19
Inputs (Japan):					
Energy consumption (GJ)	1,801,260	1,882,440	1,882,750	1,926,500	1,862,070
Unit consumption/output (MJ/t)	8,308	8,453	8,389	8,782	8,646
Water consumption (thousand m³)	3,256	3,459	3,389	3,451	3,252
Unit consumption/output (m³/t)	15.0	15.5	15.1	15.5	15.1
Outputs (Japan):					
CO ₂ emissions (Production) (t)	99,303	102,742	101,909	95,760	89,649
Unit consumption/output (kg-CO ₂ /t)	458	461	453	432	416
CO ₂ emissions (Transportation) (t)	7,177	7,854	8,304	8,180	7,634
Unit consumption/output (kg-CO ₂ /t)	34.9	36.0	36.3	36.3	33.7
CO ₂ emissions (Office) (t)	121	110	125	100	74
Unit consumption/output (kg-CO ₂ /m²)	31.7	28.8	32.7	26.2	19.5
Effluent (Production) (thousand m³)	3,044	3,263	3,241	3,268	3,200
Unit consumption/output (m³/t)	14.0	14.7	14.4	14.7	14.9
COD discharge (t)	14.1	16.6	17.0	15.8	14.0
Industrial waste (t)	8,138	8,961	8,780	10,436	9,725
Recycling rate (%)	98.5	98.5	97.2	95.4	95.5
Inputs (Overseas):					
Energy consumption (GJ)	229,360	291,560	295,500	319,590	313,660
Unit consumption/output (MJ/t)	14,041	16,165	15,491	16,948	19,163
Water consumption (thousand m³)	118	138	156	164	151
Unit consumption/output (m³/t)	7.2	7.7	7.7	8.7	9.2
Outputs (Overseas):					
CO ₂ emissions (Production) (t)	12,398	15,406	17,799	17,966	17,503
Unit consumption/output (kg-CO ₂ /t)	759	854	875	954	1,069
Effluent (Production) (thousand m³)	106	109	75	134	105
Unit consumption/output (m³/t)	6.5	6.0	3.7	7.1	6.4
COD discharge (t)	10.4	11.0	7.5	13.6	16.0
Industrial waste (t)	410	476	706	763	379
Recycling rate (%)	78.3	73.9	81.0	63.9	64.6

Note 1: The 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: “Inputs (Overseas)” and “Outputs (Overseas)” exclude the results of Proseat Europe GmbH.

Recycling of Expandable Polystyrene Foam (EPS)



The Sekisui Kasei Group has been a leader in the recycling of EPS foam for 50 years, since 1971. We established the Japan EPS Recycling Association (current: JEPSA – Japan Expanded Polystyrene Association) together with raw material and molding companies in 1991.

Following the acquisition of permission to operate industrial waste disposal businesses in Ibaraki, Nara, Ehime, Oita, and Okinawa Prefectures as well as wide-area certification at Sekisui Kasei Seibu (covering Hiroshima, Yamaguchi, and Shimane Prefectures), we are actively engaged in the recycling of Styrofoam.



Environmental Accounting (Japan)

Environmental Conservation Costs				(Millions of yen)	
Category	Major activities	FY2019		FY2020	
		Investment	Costs	Investment	Costs
1) Costs in business area					
(1) Pollution control	Control measures for air/water quality	55	115	19	94
(2) Global environment	Energy saving	249	5	61	2
(3) Recycling	Recycling, industrial waste treatment	0	309	4	400
	Subtotal	304	429	84	496
2) Up-/down-steam	Product recycling	0	326	0	20
3) Management costs	Departmental costs associated with introducing environment management system	5	164	2	140
4) R&D costs	R&D for environmental conservation products	0	47	0	40
5) Social Activity cost	Greening, social supports	0.2	37	0.1	1
6) Environmental damage fixing cost	Nature restoration	0	0	0	0
	Total	309	1,003	86	697

Environmental Conservation Effects (in terms of volume)		
Details of effects (Unit)	FY2019	FY2020
1) Effects on costs in business area		
(1) Electricity consumption (MWh)	122,595	120,562
(2) Crude oil consumption (kl)	18,271	17,235
(3) Total effluent (thousand m³)	3,268	3,268
(4) Amount of COD discharge (t)	16	14.7
2) Effects on Up-/down-steam costs		
Amount of recycled polystyrene foam (t)	144	200

Economic Effects Related to Environmental Conservation Measures		
Details of effects	FY2019	FY2020
1) Cost reduction through energy-saving activities	30	2
2) Income from recycling	475	325
Total	512	328

Cost Effectiveness of Environmental Conservation Activities	
FY2019	FY2020
51.5%	47.1%

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		2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Emission	Air	6.6	4.7	4.7	6.7	5.0	0.4	0.5	0.4	0.5	0.3	1.4	1.6	1.4	1.4	1.2	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		2.7	2.8	3.4	3.1	1.6	0.0	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

Certification List

As of July 31, 2021

ISO9001 Certification
Sekisui Kasei Co., Ltd. The 2nd Business Headquarters
Sekisui Kasei Hokkaido Co., Ltd. Chitose Plant
Sekisui Kasei Toubu Co., Ltd. Main Plant
Sekisui Kasei Urethane Co., Ltd.
Sekisui Kasei Kanto Co., Ltd. Main Plant
Sekisui Kasei Kanto Co., Ltd. Miho Mfg. Department
Sekisui Kasei Gunma Co., Ltd.
Sekisui Kasei Saitama Co., Ltd.
Shonan Sekisui Kogyo Co., Ltd.
Sekisui Kasei Yamakyu Co., Ltd.
Sekisui Kasei Omi Co., Ltd.
Sekisui Kasei Shiga Co., Ltd.
Sekisui Kasei Kansai Co., Ltd. Kasai Plant
Sekisui Kasei Kansai Co., Ltd. Meihan Ogura Plant
Sekisui Kasei Tenri Co., Ltd.
Sekisui Kasei Seibu Co., Ltd.
Sekisui Kasei Oita Co., Ltd.
Sekisui Kasei Okinawa Co., Ltd.
Sekisui Kasei Taiwan Co., Ltd.
Sekisui Kasei Tianjin Co., Ltd.
Sekisui Kasei Suzhou Co., Ltd.
Sekisui Kasei Shanghai International Trading Co., Ltd.
Sekisui Kasei Shanghai Precision Forming Co., Ltd.
PT. Sekisui Kasei Indonesia
Sekisui Kasei (Thailand) Co., Ltd.
Sekisui Kasei Europe B.V.
Proseat GmbH & Co. KG Mörfelden-Walldorf Plant

Eco-Action 21 Certification
Sekisui Kasei Yamakyu Co., Ltd.

ISO45001 Certification
Sekisui Kasei Tenri Co., Ltd.

ISO13485 Certification
Sekisui Kasei Co., Ltd. The 2nd Business Headquarters
Sekisui Kasei Kanto Co., Ltd. Miho Mfg. Department

ISO14001 Certification
Sekisui Kasei Co., Ltd. The 2nd Business Headquarters
Sekisui Kasei Urethane Co., Ltd.
Sekisui Kasei Kanto Co., Ltd. Main Plant
Sekisui Kasei Kanto Co., Ltd. Miho Mfg. Department
Sekisui Kasei Gunma Co., Ltd.
Sekisui Kasei Shiga Co., Ltd.
Sekisui Kasei Sakai Co., Ltd.
Sekisui Kasei Tenri Co., Ltd. Main Plant
Sekisui Kasei Oita Co., Ltd.
Sekisui Kasei Taiwan Co., Ltd.
Sekisui Kasei Tianjin Co., Ltd.
Sekisui Kasei Suzhou Co., Ltd.
Sekisui Kasei Shanghai International Trading Co., Ltd.
Sekisui Kasei Shanghai Precision Forming Co., Ltd.
Proseat GmbH & Co. KG
Proseat Schwarzeheide GmbH
Proseat SAS
Proseat LLP
Proseat Foam Manufacturing, S.L.U.
Proseat Sp.zo.o
Proseat Mladá Boleslav s.r.o

ISO/TS16949 Certification
Sekisui Kasei U.S.A., Inc.
Sekisui Kasei Mexico S.A.de C.V.
Proseat GmbH & Co. KG Espelkamp Plant
Proseat Schwarzeheide GmbH
Proseat SAS
Proseat LLP
Proseat Foam Manufacturing, S.L.U.
Proseat Sp.zo.o
Proseat Mladá Boleslav s.r.o

ISO50001 Certification
Proseat GmbH & Co. KG Espelkamp Plant
Proseat Schwarzeheide GmbH

* Even in the case that there is no description, relevant departments within a site may be included.

Social

— Safety —

In line with our management policies related to the environment, safety, and quality, we work to assure safety throughout all of our business processes, and to raise the level of trust from society.

Management Policies Related to the Environment, Safety, and Quality

1. Provide high-quality, safe products and services that meet the expectations of each customer
2. In overall business activities, strive to prevent accidents and disasters and ensure the health and safety of all the people including employees, business partners, and local residents
3. Consider the environment and safety in every process from product development to use and disposal and strive to conserve the environment
4. Consider the resource and energy savings in product development and production, and promote the recycling of used products
5. Engage in responsible care activities to improve environment, safety, and quality management and gain further confidence from society
6. Comply with domestic and overseas laws, regulations and standards established by local governments and industries, and engage in business activities

FY2020 Policy for Safety-Related Activities

In Pursuit of Inherent Safety: Group-Wide Initiatives to Achieve Zero Accidents

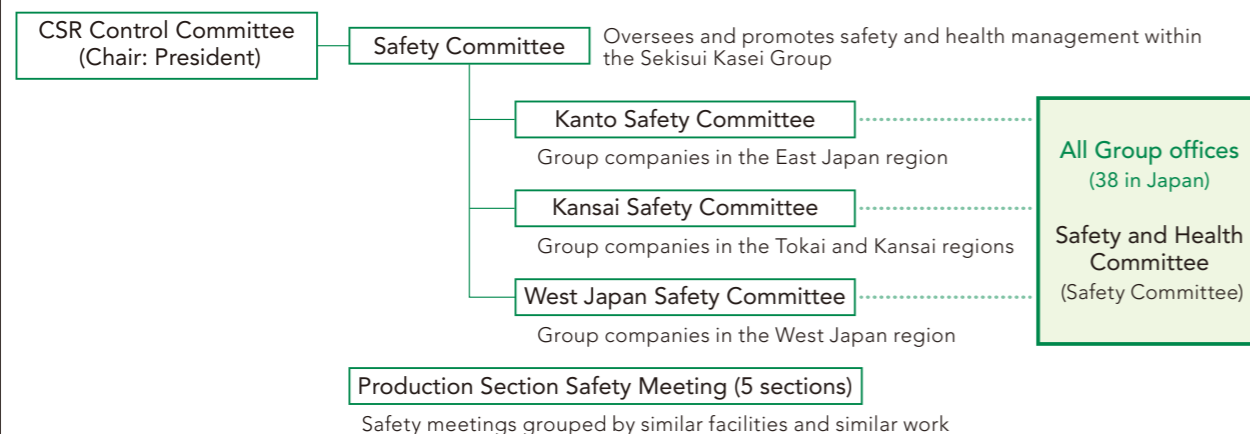
Goals

Zero occupational and industrial accidents

Key Items

1. Implementing safety activities from three perspectives in order to prevent accidents resulting from unsafe behaviors or unsafe conditions
The three perspectives: tangible, intangible, and human (both mental and physical aspects)
2. Enhancing initial response systems and continuing to practice on-site drills in preparation for large-scale natural disasters
3. Strengthening coordination between the Safety Committee and Group offices, and promoting on-site safety activities

Safety Management System



Safety Activities

In FY2019, the Group saw increases in both lost time injury frequency rates and accident severity rates caused by industrial accidents, while other accidents also occurred. Recognizing the severity of these trends, in November 2019 we issued a Group-wide "emergency declaration with regard to safety" and expedited initiatives aimed at the pursuit of inherent safety, from the three perspectives of tangible, intangible, and human (both mental and physical aspects).

We focused efforts on safety measures based on the order of priority identified in risk assessments, updated safety training tools aimed at ensuring rules compliance, and focused on establishing a safety-first culture. We also completed the horizontal rollout of these safety activities across similar facilities, processes, and work procedures. Consequently, we lifted the emergency declaration at the end of March 2021. Nevertheless, we continue to promote the pursuit of inherent safety across our entire Group.



TOPICS

Updated Operating Manual for Safety Training (video content)

Video content is one type of operating manual to deepen the understanding of users, and we are continually updating video content that visualizes the procedures. The operating manual is not only intended as a tool to be referred to before starting work procedures; we also encourage its repeated use in both new recruit training and safety training.

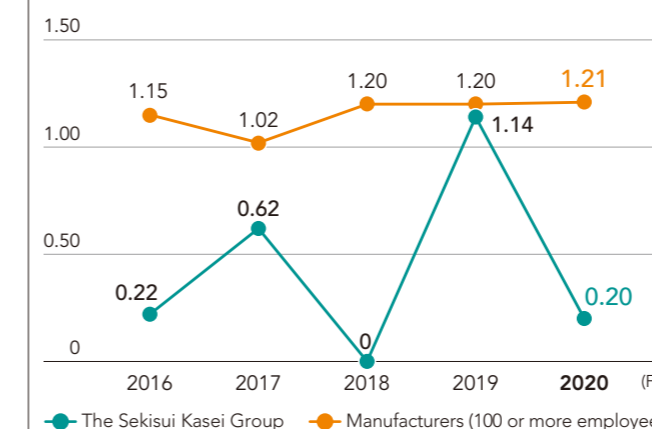
Awareness Raising on 6S Activities

Our Group's "6S Activities" refers to implementing 5S activities with a focus on safety awareness. The 5Ss of seiri, seiton, seiso, seiketsu, and shitsuke—which approximately translate to sort, set in order, shine, standardize, and sustain—are fundamental to establishing sound working environments. When carrying out 5S activities, we instruct all employees to maintain an awareness of safety, with the goal of preemptively reducing the risk of industrial accidents.

Enhancing Online Communications

We have introduced systems such as staggered working hours and working from home as part of our push for work-style reforms. By using the internet as an additional means of communication, we are working to ensure that accurate information can be delivered to every one of our employees.

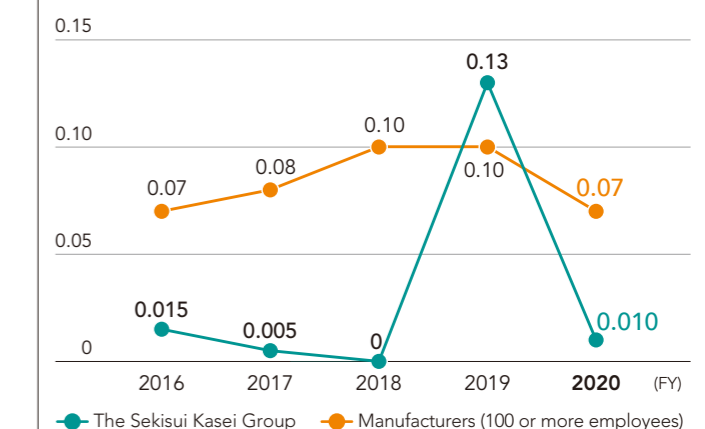
Lost Time Injury Frequency Rates*



* Lost Time Injury Frequency Rates: 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 Rate*



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

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

Social

— Quality —

To raise quality awareness, and to provide products and services that fully meet the expectations of customers, we carry out initiatives to ensure the safety and security of our products.

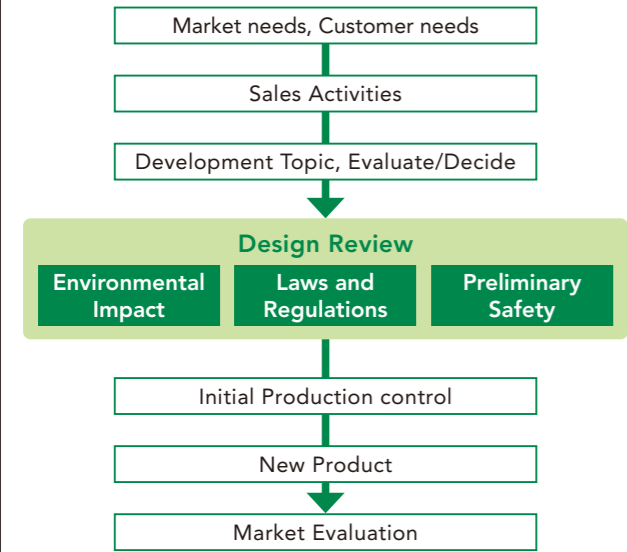
FY2020 Quality Management Policy

To satisfy our customers and to provide safe and secure products and services, we promote quality management from a customer-centric standpoint.

Quality Assurance Activities

To provide products and services that meet the expectations of our customers, the Sekisui Kasei Group promotes quality management activities in line with its management philosophy and management policies. For quality management, we construct quality assurance systems tailored to unique business characteristics for each of our products. In particular, we focus on clarifying customer specifications in the R&D stage and seek to improve product quality at the development stage.

Improve Product Quality at Development Stage



Respond to Consumer Problems

Responding to Accidents/Defects on Products

We developed internal regulations to deal with product accidents. When an accident occurs, responsible departments take the lead in promptly response based on the regulations, with full consideration of the customers' perspective, and related departments cooperate in finding a solution as necessary. In the case of a serious product accident, responsible departments promptly report to the top management and takes rapid, appropriate response.

TOPICS

Response to Food Sanitation Act revisions

In June 2020, partial revisions to the Food Sanitation Act came into effect, stipulating a new Positive List System for food utensils, containers, and packaging and prohibiting the use of substances that have not been assessed as safe. We comply with the revised Food Sanitation Act for all products that fall under the category of food utensils, containers, and packaging.

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. We have also formulated an independent green procurement standard for raw materials, based on which we not only seek to ensure legal compliance, but also endeavor to consider the environment, safety, and health in our product development process.

Quality Training

In November, which is World Quality Month, we implemented quality-related campaigns and offered e-learning (quality management courses) to further raise quality awareness. We use QC KENTEI (Quality Management and Quality Control Examination),* which tests knowledge of quality management, to objectively assess the levels of quality-related knowledge among our employees.

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

Raising Customer Satisfaction

The Group attempts to identify customer needs using inquiries via our corporate website and by visits to customers, in our pursuit of customer satisfaction.

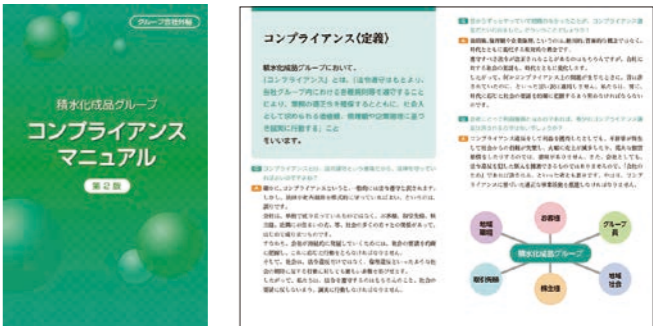
Social

— Human Rights/Labor Practices —

The Sekisui Kasei Group respects fundamental human rights and takes into consideration that no one is discriminated on any and all factors such as birth, nationality, ethnicity, creed, religion, gender, age. On the basis of our founding spirit such as “for the happiness of people working for the Company,” we regard human resources as one of our most important management resources.

Initiatives to Human Rights

Our stance on human rights appears in the Compliance Manual and is widely publicized 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 expand the understanding of the topics covered in the second edition, we are implementing e-learning programs for all Group employees, and with the goal of fostering an awareness of the importance of compliance we continue to remind our employees that the issues of human rights and harassment are never far away.



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 (directors as well as employees), and by positioning as fundamental mutual respect and trust, it pursues our founding spirit of “the happiness of people working for the Company,” and corporate growth. Realizing “the happiness of people working for the Company” means Group employees working in good health, both mentally and physically, 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.



The “Zen-in Keiei” Card

The Sekisui Kasei Group has created the “Zen-in Keiei” card that contains information on the origin of the Group name “Sekisui,” management philosophy and code of conduct, and action guidelines for the “Zen-in Keiei,” all in a bookletsized card provided to Group employees.





— Organizational Governance /Fair Operating Practices —

In line with our management philosophy, we will be proactive in the prompt and appropriate disclosure of information while ensuring compliance, reliability, and transparency in management. We also ensure compliance and strive to engage in fair operating practices.

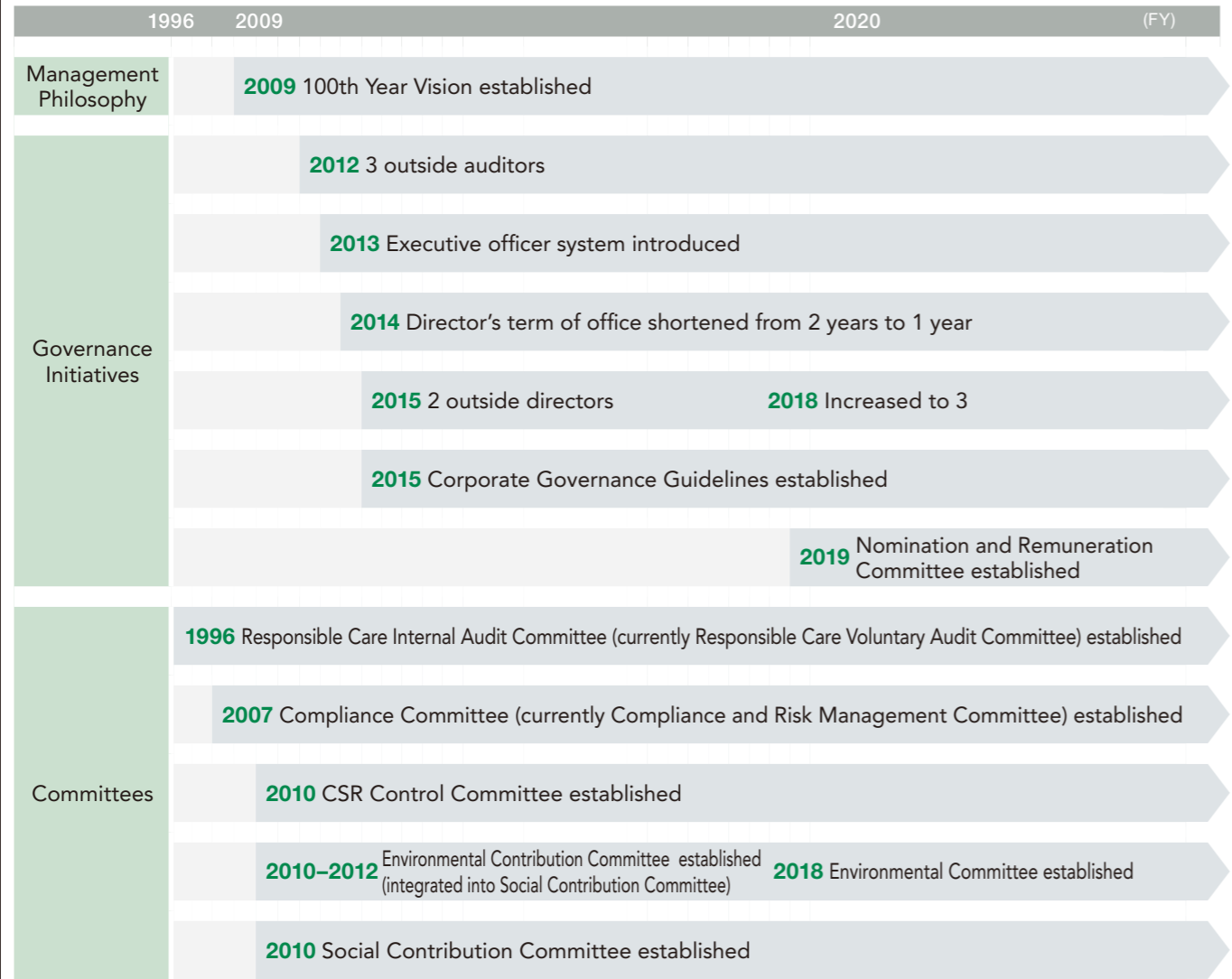
Our Basic Approach to Corporate Governance

The 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 Initiatives

We promote initiatives to achieve highly effective corporate governance.

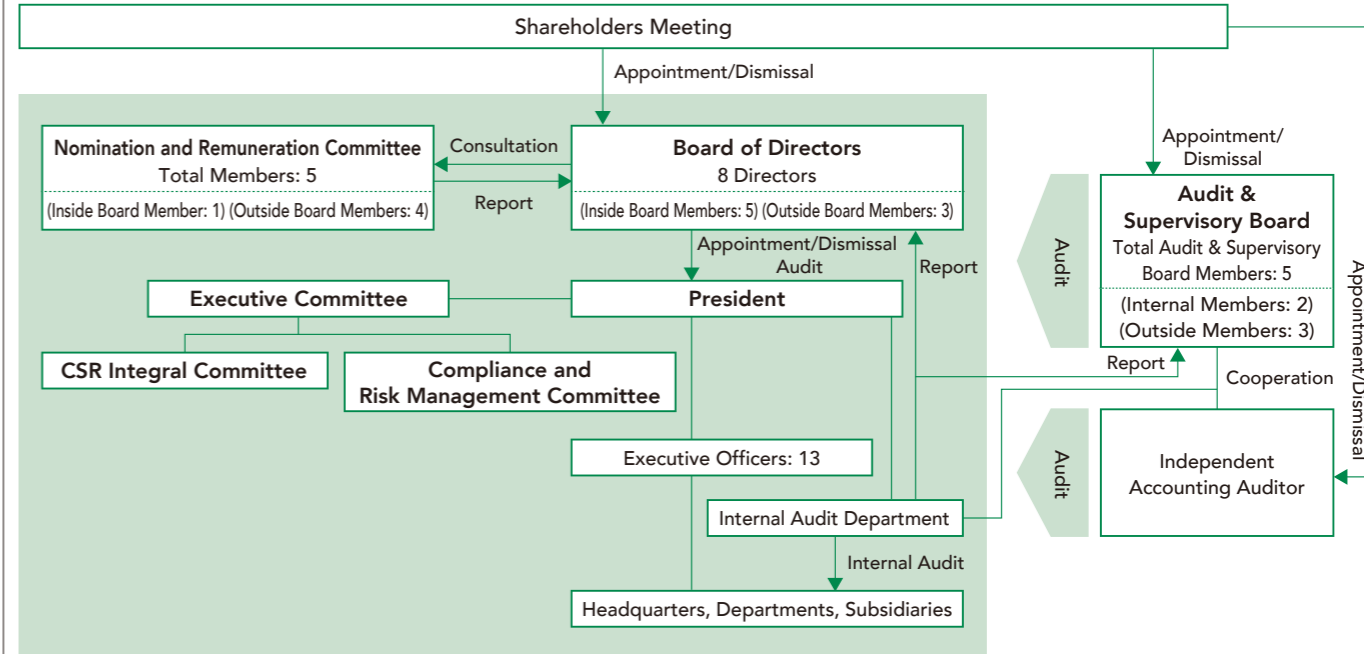


Corporate Governance System

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 auditors. 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 the Nomination and Remuneration Committee, of which a majority of members are independent outside directors, 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 the SEKISUI KASEI Corporate Governance System



Nomination and Remuneration Committee

As an advisory body to the Board of Directors that aims to enhance the independence and objectivity of the Board of Directors with relation to overall corporate governance and fulfill its accountability to stakeholders, the committee deliberates matters such as personnel affairs and remuneration of directors and the evaluation of the effectiveness of the Board of Directors. The outcomes of

the deliberation are reported to the Board of Directors. It is stipulated that the majority of committee members be comprised of independent outside directors and auditors. The chair is determined by the committee through mutual election from among the independent outside directors and auditors.



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. The Board of Directors was judged to be sufficiently effective, including in regard to its size, composition, operational status, and in its deliberations. We also recognized recent efforts to improve the Company's governance,

including through the establishment of the Nomination and Remuneration Committee. At the same time, we identified areas for improvement, including: 1) review of Board of Directors agenda items, 2) enhancement of discussions regarding the medium to long term business direction, and 3) improvement of "officer training." We will continue to work on further improving the effectiveness of the Board of Directors based on the results of the latest evaluation.

Policy on Director Remuneration

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 Nomination and Remuneration 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 Nomination and Remuneration Committee, of which independent outside directors and auditors comprise the majority.

Director Remuneration

FY2020 Officer Remuneration Amounts

Classification	Eligible Personnel	Type of Remuneration			Total
		Basic remuneration	Performance-based remuneration	Restricted stock remuneration	
Directors (excluding outside directors)	7	92	26	25	143
Audit & Supervisory Board members (excluding outside auditors)	3	45	—	—	45
Outside directors and auditors	8	42	—	—	42

Note: 1. The above includes two directors (including one outside director) and two Audit & Supervisory Board members (including one outside auditor) who stepped down at the conclusion of the 76th Ordinary General Meeting of Shareholders held June 24, 2020.
2. Director remuneration amounts do not include employee salaries for directors concurrently serving as company employees.

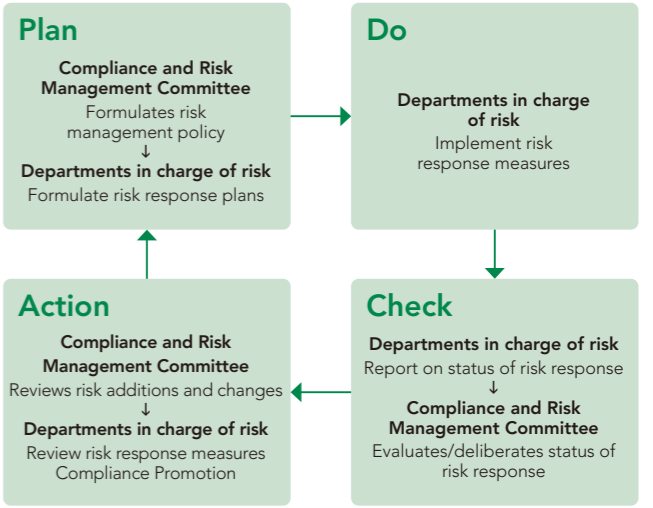
Restricted Stock Remuneration System

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 the 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 Board of Managing Directors.



Compliance Promotion

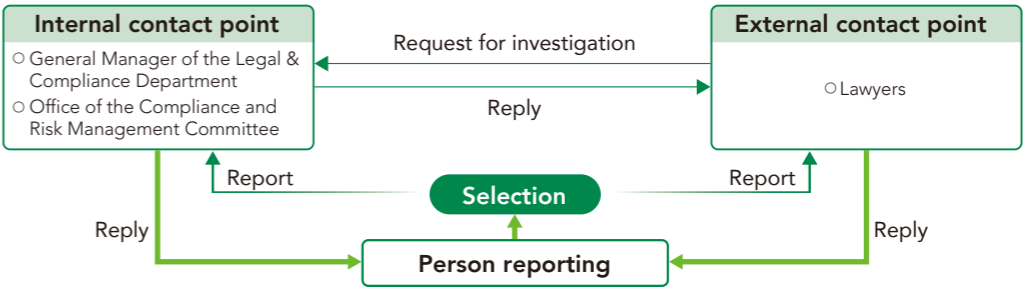
The Sekisui Kasei Group defines compliance as not only complying with laws and regulations, but also ensuring that operations within the Sekisui Kasei Group are carried out in an appropriate manner by complying with related rules and regulations while acting with integrity based on the values, personal ethics, and corporate ethics required by the society in which we operate. The 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 Group meets in principle once every six months to discuss compliance issues within the 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, the 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 point and can issue their report either anonymously or under their own name.





Osamu Matsumoto
Audit & Supervisory Board Member
DOB: May 29, 1960
1985 Joined the Company
2021 Audit & Supervisory Board Member of the Company (current position)

Keizo Kousaka
Outside Audit & Supervisory Board Member
DOB: December 11, 1945
1970 Admitted to the bar
Joined Irokawa Law Office
2001 Chairman of Irokawa Law Office
2009 Outside Director of Sumitomo Rubber Industries, Ltd.
2012 Outside Audit & Supervisory Board Member of the Company
2016 Outside Audit & Supervisory Board Member of Techno Associe Co., Ltd.
2020 Chairman of Irokawa Law Office
Outside Audit & Supervisory Board Member of Seiren Co., Ltd

Toshitaka Fukunaga
Outside Audit & Supervisory Board Member
DOB: April 7, 1956
1979 Joined Sekisui Chemical Co., Ltd.
2011 Executive Officer of Sekisui Chemical Co., Ltd.
2017 Managing Executive Officer of Sekisui Chemical Co., Ltd. (current position)
2020 Full-time Audit & Supervisory Board Member of Sekisui Chemical Co., Ltd. (current position)
Outside Audit & Supervisory Board Member of the Company (current position)

Yasunobu Furubayashi
Director
Managing Executive Officer
DOB: June 30, 1967
Head of The 1st Business Headquarters, Supervising Business Research Department
1992 Joined the Company
2021 Director
Managing Executive Officer of the Company (current position)

Tetsuharu Hirota
Director
Managing Executive Officer
DOB: January 24, 1959
Head of The 2nd Business Headquarters, Supervising Information System Department
1984 Joined the Company
2016 Director
Managing Executive Officer of the Company (current position)

Katsumi Sasaki
Director
Senior Managing Executive Officer
DOB: May 5, 1960
Head of Corporate Strategic Headquarters
1983 Joined the Company
2021 Director
Senior Managing Executive Officer of the Company (current position)

Hideyuki Asada
Director
Managing Executive Officer
DOB: March 17, 1967
Head of Research & Development Center, General Manager of Basic Research Laboratory
1989 Joined the Company
2020 Director
Managing Executive Officer of the Company (current position)

Morinobu Nagahama
Outside Audit & Supervisory Board Member
DOB: December 18, 1956
1979 Joined the Dai-ichi Mutual Life Insurance Company
2008 Executive Officer of the Dai-ichi Mutual Life Insurance Company
2013 Managing Executive Officer of the Dai-ichi Life Insurance Co., Ltd.
2014 Director
Managing Executive Officer of the Dai-ichi Life Insurance Co., Ltd. Outside Audit & Supervisory Board Member of the Company (current position)
2016 Director
Senior Managing Executive Officer of the Dai-ichi Life Insurance Co., Ltd. Director (Audit & Supervisory Committee Member (full-time)) of Dai-ichi Life Holdings, Inc. (current position)

Kojiro Takekoshi
Audit & Supervisory Board Member
DOB: December 16, 1959
1978 Joined the Company
2020 Audit & Supervisory Board Member of the Company (current position)

Naoto Kitagawa
Outside Director
DOB: December 8, 1953
Please refer to page 54 for detailed profile.

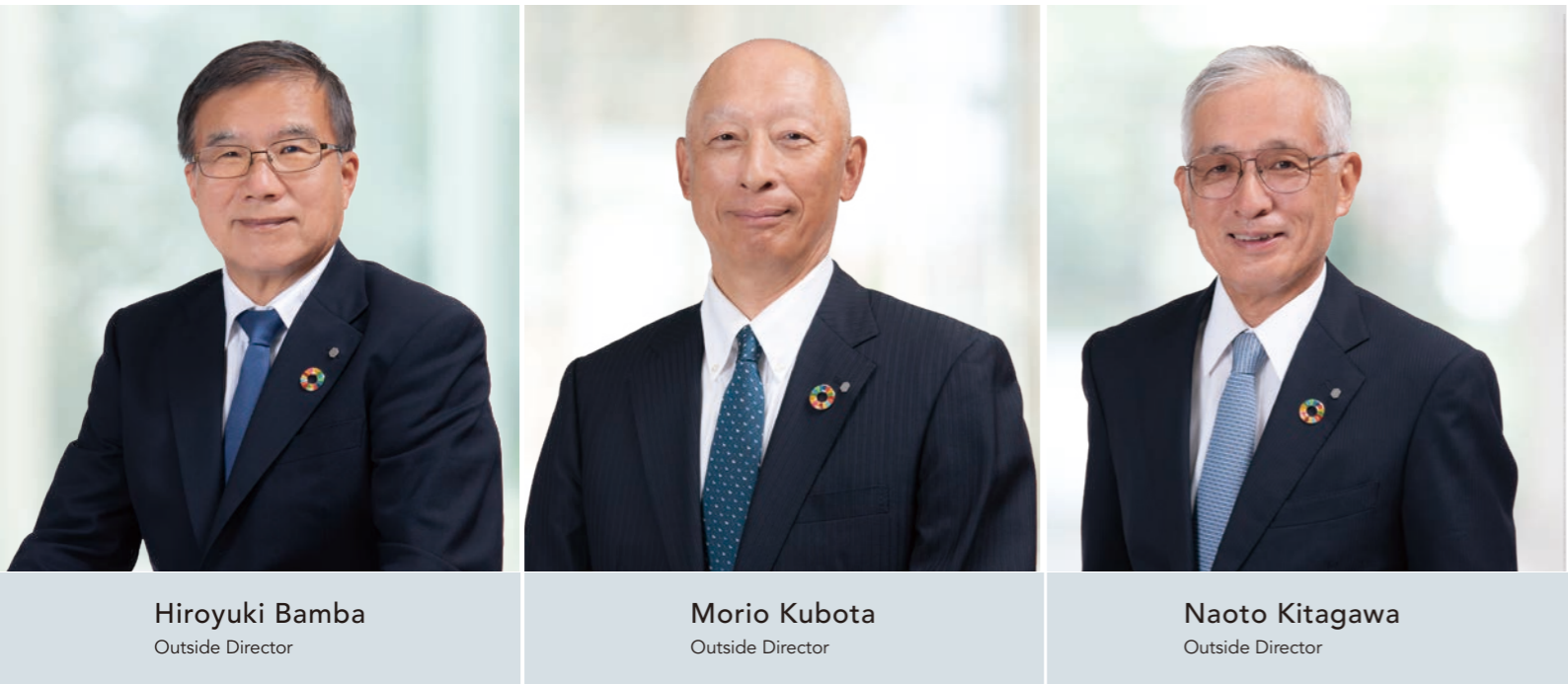
Hiroyuki Bamba
Outside Director
DOB: January 27, 1954
Please refer to page 54 for detailed profile.

Masato Kashiwabara
President and Representative Director
DOB: June 29, 1959
1983 Joined the Company
2014 Representative Director, President and Chief Executive Officer of the Company (current position)

Morio Kubota
Outside Director
DOB: November 23, 1952
Please refer to page 54 for detailed profile.

Discussion between Three Outside Directors

Strengthening Governance with Diverse Knowledge



Having appointed a number of outside officers (outside directors and outside auditors), the Company is striving to enhance and strengthen the auditing and supervisory functions of the Board of Directors. The Company's outside directors—tasked with supervising management (business execution)—recently sat down to talk about their approach to strengthening corporate governance and how they are furthering discussions with the aim of enhancing corporate value.

Initiatives to strengthen governance

How has corporate governance at Sekisui Kasei evolved over the past year? Please provide a summary from an outside director's point of view.

Kitagawa I only took office as an outside director last year, so I can't really comment on how the situation has evolved before that, but I think the following points are worthy of recognition. We have repeatedly engaged in serious discussions to enhance the effectiveness of the Board of Directors and quickly incorporated ideas for improvement that came out of those discussions. For example, holding off-site meetings separate from Board meetings to discuss medium- to long-term management policies have been really beneficial to deepening Board discussions around the formulation of management plans.

Kubota In terms of governance initiatives, we are endeavoring to roll out new rules and frameworks to reflect the recent amendments to Japan's Corporate Governance Code. For instance, the Board previously consisted of six internal directors and three outside directors, but this fiscal year the ratio of outside directors was increased by lowering the number of internal directors. This reflects the Company's intention to further incorporate opinions from outside of the organization.

Bamba The Nomination and Remuneration Committee was established in July 2019 and it wasted little time in hammering out some concrete ideas on how to improve the Board's effectiveness evaluation and activation. As Mr. Kubota just mentioned, the makeup of the Board was first changed to increase the percentage of directors

hailing from outside of the Company. On top of that, agenda items at Board meetings have also been improved. To be more specific, the way meetings are run has been improved so that we can allot plenty of time to medium- and long-term management issues.

Kubota I certainly feel that over the past year we have been able to more clearly apportion the roles of both the

Board of Directors and the Executive Committee with as little overlap as possible.

Bamba I'm expecting that free discussion regarding the topics to be deliberated by the Board during the off-site meetings that Mr. Kitagawa just mentioned will help invigorate discussions from a medium- to long-term perspective.

Initiatives of the Nomination and Remuneration Committee

Raising transparency concerning the Company's officer appointment and remuneration policies is also key to strengthening governance. What steps are being taken in this regard?

Bamba Since its establishment as an advisory body to the Board of Directors, the Nomination and Remuneration Committee has convened meetings nearly every month. Given that the committee comprises the President and four outside officers, I believe transparency and fairness is properly guaranteed with an emphasis on perspectives from outside of the Company.

How would you rate the Company's initiatives on appointing next-generation managers and officers?

Bamba The committee has talked about what kind of key capabilities are required as manager qualifications in order for the Company to continue to grow. Also, with the aim of actively promoting talented employees, we are discussing and improving the human resources structure, mainly by considering the removal of the personnel system hierarchy so that we might employ a more flexible approach.

Kitagawa I certainly believe we have been able to deepen discussions about what qualities are needed to be a manager. Going forward, I'm hoping that our discussions can go into more detail about how to unearth next-generation management candidates and what methods we can use to select them, among other topics.

Kubota I'd like to personally add that diversity is another factor.

For the Company to set its sights on sustained growth, I feel that we need to closely examine how we should go about promoting diversity in the management ranks in terms of gender and internationalism.

What are your thoughts on remuneration?

Bamba Restricted stock-based compensation was approved at the general meeting of shareholders in June 2020. This initiative will urge management to focus more on shareholders and hopefully improve governance functions. The committee determines remuneration by discussing also the methods of performance assessment and the appropriateness of compensation levels for officers.

Kitagawa In terms of remuneration, I think it comes down entirely to the kind of criteria we use to measure performance. In order to develop an objectively convincing yardstick to measure the performance of each officer, we hope to brush up our methods. This includes how we evaluate results as well as the feedback we receive from those being evaluated.

Bamba My impression is that even though only two years have passed since the Nomination and Remuneration Committee was formed, its work to address nomination and remuneration issues has been very significant.

Discussion between Three Outside Directors

Impact of the COVID-19 pandemic and risk management

What is your opinion about the impact of COVID-19 on Sekisui Kasei and the Company’s measures to address such a situation?

Bamba I really applaud the emergency measures undertaken since February last year to improve profitability by drastically overhauling fixed costs. In taking such steps, I think many people realized that certain procedures in the workplace could be done differently. The Company also took steps to diversify working styles, mainly with the use of telecommuting and staggered working hours. I’d like to see management make good use of these initiatives implemented to raise the quality of work even after the pandemic. If new discoveries can be leveraged skillfully without being bound by preconceived ideas, I think the Company’s business structure can be further improved.

Kubota I agree. Roughly one year ago when COVID-19 was wreaking havoc on the global economy, I remember advising the Board that the pandemic was an opportune time to embrace a scrap-and-build approach usually out of reach during normal times.

I took the opportunity to suggest that it is precisely because of these challenging times that the Company should think outside the box and try something new without being shackled by convention. In order to create slightly more new value, I think the Company would benefit from a change and quantum leap in mindset.

Taking the lessons of the pandemic into account, what kind of situations do you think the Company must be prepared for in the future?

Kitagawa I think management must acutely anticipate changes in society and forecast what the future might look like. Based on that, it should examine how its products might fit into such a scenario and consider whether production or sales activities would survive. Sekisui Kasei is in the business of food packaging materials and daily necessities indispensable to people’s lives. It might have to rethink its system of speedily and continuously supplying the market with products even if the economy grinds to a halt because of the COVID-19 pandemic. I hope to offer my advice on how the Company can become a more agile and dynamic organization.

Issues to overcome to achieve sustained growth

What are your thoughts on areas where there is room for improvement and issues that the Company must start addressing?

Bamba I feel that the off-site meetings that were held in a timely manner ultimately led to the deepening of discussions in the sense that they improved the effectiveness of the Board. I would like to see such meetings held continually or periodically. I think they raise the quality of discussions and have a positive impact on invigorating the Board of Directors.

Kubota While I have mentioned it already, initiatives aimed at broadening the diversity of officers is vital to proper governance. I intend to continue to raise this subject at the meetings of the Nomination and Remuneration Committee.

At the same time, as part of the process of expanding the Company’s global reach, I think it would be beneficial if the outside officers could provide advice on the systems and organizations needed to suitably support Group companies in Japan and overseas.

Kitagawa If we outside directors are to fulfill our roles, it is crucial that we have an understanding of the Company’s management situation. My personal mantra is to approach everything in light of work sites, so I currently feel frustrated about not being able to visit development work sites or inspect manufacturing processes. Of course, I currently receive detailed business briefings, various reports, and KPI data, and use my imagination when attending Board meetings and meetings of the Nomination and Remuneration Committee, but as soon as the COVID-19 pandemic comes to an end I intend to visit

the Group’s work sites to gain a better understanding of how things are faring. There are two issues for the Company to address up ahead. The first is reviewing the mechanism for accurately

assessing the profitability of products with a view to bolstering the earnings structure, while the second is the direction of the European business strategy.

Expectations for Sekisui Kasei

Lastly, what expectations do you have for Sekisui Kasei?

Kitagawa The Company has kicked off its SKG-5R action plan, which was formulated by back-casting from its vision for 2030. I certainly hope the Company can further accelerate the pace of this initiative. As you know, topics concerning climate change on a global scale and the problem of plastic waste in the world’s oceans are the focus of much attention and not a day goes by without hearing about these issues in the news. In addition to launching Sustainable Star Products that make greater contributions to resolving such environmental issues, I want to see Sekisui Kasei become the kind of corporation that instigates the transformation of people’s lifestyles in society.

Kubota I’m of the same mind as Mr. Kitagawa. I believe *monozukuri* (manufacturing) know-how that draws on the characteristics of materials with a view to the future will lead to the creation of corporate value. I value the Company’s current flexible approach to doing business, but I’d like to see Sekisui Kasei set its sights on becoming an even more open-minded company, without being constrained by convention.

Bamba Sekisui Kasei has forged ahead with the creation of its range of Sustainable Star Products in a bid to become a leading environmental company. Going forward, I’m hoping it can not only develop new products, but also position itself at the center of the market to deliver influential, yet extremely useful environmentally-friendly products.

Profile of Hiroyuki Bamba

Apr. 1976
Joined Sumitomo Rubber Industries, Ltd.
Mar. 2000
Director of Sumitomo Rubber Industries, Ltd.
Jul. 2003
President and Representative Director of SRI Sports Limited (currently Sumitomo Rubber Industries, Ltd.) (until March 2013)
Mar. 2011
Chairman and Representative Director of SRI Sports Limited (until March 2015)
Mar. 2015
Counselor of SRI Sports Limited (until December 2017)
Jun. 2015
Director of Sekisui Kasei Co., Ltd. (current position)
Jun. 2017
Outside Director of Kobe Steel, Ltd. (current position)
Jan. 2018
Advisor of Sumitomo Rubber Industries, Ltd. (until February 2019)

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 (until October 2007)
Oct. 2017
Counselor of ORBCOMM Japan Limited (until August 2018)
Jun. 2018
Director of Sekisui Kasei Co., Ltd. (current position)

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.
Apr. 2010
Director and Senior Managing Executive Officer of Daihatsu Motor Co., Ltd. (until June 2015)
Jun. 2020
Outside Director of Sekisui Kasei Co., Ltd. (current position)

MD&A and Business Risks

MD&A

Market Environment

Global economic growth in FY2020 contracted sharply as a result of the spread of the COVID-19 pandemic from January 2020 onwards. In particular, demand in domestic and overseas manufacturing industries quickly dried up in the first half of the fiscal year owing to suspended plant operations and production adjustments. While some regions, namely China, showed signs of a recovery as economic activity picked up again from summer, the outlook remained clouded in other regions and industries. In the automotive industry, manufacturer and supplier plant operating rates started to recover from summer onwards, but the situation remains unstable partly because of the impact of semiconductor shortages and other supply chain issues. In home appliance and IT industries, the ongoing shift to teleworking continues to drive growth in demand for mainly personal computers.

In Japan too, economic activity was severely hampered by the government's first declaration of a state of emergency in April 2020, which conversely buoyed stay-at-home demand. Economic activity gradually resumed thereafter, but a second and third wave of infections coupled with a second state of emergency in January 2021—not to mention the recent emergence of new variants of COVID-19—have meant that the future is still shrouded in uncertainty. Meanwhile, taking further action is growing important to combat climate change and environmental issues including marine debris as well as announcing targets for the reduction of greenhouse gas emissions by governments worldwide.

In Japan's foam plastics industry, even though stay-at-home demand stemming from the pandemic drove sales of food containers, the business environment was extremely challenging because of stagnant demand for various components and transportation and packaging materials. Demand has continued to recover gradually with economic activity picking up again, but the future outlook still remains uncertain.

Consolidated Performance

In FY2020, we achieved ¥118.851 billion in net sales (down 12.7% YoY), ¥2.091 billion in operating income (down 43.9% YoY), ¥1.956 billion in recurring income (down 42.3% YoY), and ¥1.126 billion in net income attributable to owners of the parent (down 51.5% YoY).

The results by segment were as follows.

The Human Life segment recorded net sales of ¥53.470 billion (down 8.0% YoY) and segment income of ¥3.754 billion (up 14.4% YoY).

The Industry segment recorded net sales of ¥65.381 billion (down 16.2% YoY) and segment loss of ¥957 million.

Financial Position

• Assets

Total assets as of the end of FY2020 were ¥158.439 billion, rising by ¥9.336 billion year on year.

Current assets rose ¥4.401 billion to ¥62.744 billion due to mainly increases in cash and deposits and notes and accounts receivable.

Non-current assets rose ¥4.933 billion to ¥95.694 billion due to mainly an increase in the market value of investment securities.

• Liabilities

Total liabilities as of the end of FY2020 were ¥87.781 billion, rising by ¥5.894 billion year on year due to increases in mainly short-term loans and income taxes payable.

• Net assets

Total net assets as of the end of FY2020 were ¥70.657 billion, rising by ¥3.44 billion year on year due to mainly an increase in net unrealized holding gain on securities.

• Cash flow

Cash and cash equivalents in FY2020 were ¥12.498 billion, rising by ¥2.965 billion year on year.

(Cash flow from operating activities)

Cash flow from operating activities in FY2020 provided net cash of ¥6.428 billion, a year-on-year decrease of ¥58.0 million due to a decrease in mainly income before income taxes.

(Cash flow from investment activities)

Cash flow from investment activities in FY2020 increased by ¥2.122 billion year on year, resulting in ¥3.007 billion used in investing activities due to mainly a decrease in capital expenditure outlay and an increase in proceeds from sales of investment securities.

(Cash flow from financing activities)

Cash flow from financing activities in FY2020 increased by ¥1.935 billion year on year, resulting in ¥0.632 billion used in financing activities due to mainly a net increase in short-term loans (vs. a net decrease in FY2019).

• Capital investment

The 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 FY2020 totaled ¥5.377 billion. By segment, the investment amount was ¥1.220 billion for the Human Life segment and ¥3.538 billion for the Industry 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 FY2020, we decided to execute a year-end dividend of ¥17 per share upon careful consideration, taking into account our basic policy on dividend of surplus and our dividend policy. On December 2, 2020, we paid an interim dividend of ¥4 per share, bringing the annual dividend amount to ¥21 per share. As a result, the consolidated payout ratio came to 84.5%.

Business Risks

Business and Other Risks

Matters concerning business and accounting circumstances that significantly influence the decisions of investors are described below. Risks to the businesses and other aspects of the Sekisui Kasei Group may be affected by economic situations in Japan and overseas and are not limited to the items described below.

1. COVID-19 Risks

We recognize mainly the following risks associated with COVID-19 that could particularly have implications for the 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.

The Group is therefore working to drastically reduce costs and boost productivity in its business activities and for some

MD&A and Business Risks

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 world-wide 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 the 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 sig-

nificant 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.

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. It has formulated the three-year FY2019–2021 medium-term management plan "Make Innovations Stage-II," and will steadily roll out measures in an effort to maximize profitability.

e. Overseas Business Activities

The 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 Sekisui Kasei 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. We are also working to diversify suppliers and the raw materials we use and stabilize logistics channels.

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, the performance and financial condition of the Group could be impacted.

The Group has produced a manual on how to respond during 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 Security 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, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2021	2021
Assets			
Current assets:			
Cash and cash equivalents (Note 5)	¥ 9,532	¥ 12,498	\$ 112,889
Short-term investments (Note 5)	7	32	289
Notes and accounts receivable (Note 5)	32,142	33,522	302,791
Inventories (Note 7)	13,805	13,324	120,350
Other current assets	2,913	3,426	30,945
Less allowance for doubtful accounts	(59)	(59)	(532)
Total current assets	58,342	62,744	566,741
Property, plant and equipment (Note 20):			
Land (Notes 9 and 13)	21,182	21,306	192,448
Buildings and structures (Note 9)	47,409	48,112	434,576
Machinery and equipment	105,944	109,301	987,273
Construction in progress	1,493	1,978	17,866
	176,030	180,698	1,632,174
Less accumulated depreciation	(114,129)	(119,266)	(1,077,282)
Property, plant and equipment, net	61,901	61,432	554,891
Intangible assets			
Goodwill (Note 20)	1,363	1,236	11,164
Software	699	587	5,302
Other intangible assets	1,401	1,549	13,991
Total intangible assets	3,464	3,373	30,466
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliates (Notes 5 and 6)	369	35	325
Investments in securities (Notes 5 and 6)	17,679	21,314	192,522
Deferred income taxes (Note 10)	779	808	7,298
Assets for retirement benefits (Note 11)	5,677	7,772	70,201
Other assets	941	1,007	9,096
Less allowance for doubtful accounts	(51)	(49)	(442)
Total investments and other assets	25,395	30,889	279,002
Total assets (Note 20)	¥ 149,103	¥ 158,439	\$ 1,431,117

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2021	2021
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable (Notes 5)	¥ 23,522	¥ 23,145	\$ 209,059
Short-term loans (Notes 5, 8 and 9)	2,606	3,627	32,761
Current portion of long-term loans (Notes 5, 8, 9 and 17)	3,844	5,558	50,203
Accrued expenses	4,156	4,481	40,475
Accrued income taxes (Note 10)	282	1,213	10,956
Provision for bonuses to employees	1,038	1,054	9,520
Provision for bonuses to directors and audit and supervisory board members	27	59	532
Provision for loss on business withdrawal of a subsidiary (Note 16)	—	919	8,300
Other current liabilities	2,914	3,246	29,319
Total current liabilities	38,393	43,305	391,157
Long-term liabilities:			
Bond (Notes 5 and 8)	7,000	7,000	63,228
Long-term loans less current portion (Notes 5, 8, 9 and 17)	22,211	20,900	188,781
Liabilities for retirement benefits (Note 11)	3,446	3,590	32,427
Deferred income taxes (Note 10)	5,612	7,261	65,585
Deferred income taxes for land revaluation	1,596	1,596	14,416
Provision for product warranty	158	132	1,192
Other long-term liabilities	3,467	3,995	36,085
Total long-term liabilities	43,493	44,475	401,725
Net assets:			
Shareholders' equity (Note 12):			
Common stock:			
Authorized: 124,751,000 shares as of March 31, 2020 and 2021			
Issued: 46,988,109 shares as of March 31, 2020 and 2021	16,533	16,533	149,336
Capital surplus	16,532	16,515	149,173
Retained earnings (Note 21)	23,524	23,523	212,474
Less treasury stock, at cost:			
1,697,882 shares as of March 31, 2020			
1,850,959 shares as of March 31, 2021	(1,426)	(1,493)	(13,485)
Total shareholders' equity	55,164	55,077	497,488
Accumulated other comprehensive income:			
Net unrealized holding gain on securities (Notes 5, 6 and 14)	9,226	11,859	107,117
Surplus arising from land revaluation (Note 13)	1,479	1,479	13,359
Translation adjustments (Note 14)	(583)	11	99
Retirement benefits liability adjustments (Notes 11 and 14)	399	1,527	13,792
Total accumulated other comprehensive income	10,520	14,877	134,378
Non-controlling interests	1,531	702	6,340
Total net assets	67,217	70,657	638,216
Total liabilities and net assets	¥ 149,103	¥ 158,439	\$ 1,431,117

See notes to consolidated financial statements.

Consolidated Financial Statements

Consolidated Statement of Income

Sekisui Kasei Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2021	2021
Net sales (Note 20)	¥ 136,155	¥ 118,851	\$ 1,073,534
Cost of sales	105,978	92,451	835,073
Gross profit	30,177	26,399	238,451
Selling, general and administrative expenses (Note 15)	26,451	24,308	219,564
Operating income	3,725	2,091	18,887
Other income (expenses):			
Interest income (Note 20)	5	17	153
Dividend income	361	311	2,809
Subsidy income	—	289	2,610
Interest expense (Note 20)	(392)	(373)	(3,369)
Equity in loss of an affiliate (Note 20)	(13)	(9)	(81)
Foreign exchange loss, net	(71)	(97)	(876)
Loss on sales or disposal of equipment	(61)	(139)	(1,255)
Commission paid	(86)	(58)	(523)
Gain on sales of investments in securities (Note 6)	1	857	7,740
Gain on subsidiary liquidation	95	—	—
Loss on sales of investments in securities	(37)	(37)	(333)
Loss on impairment of investments in securities	(8)	(2)	(18)
Loss on office closure	(61)	—	—
Loss on subsidiary liquidation	—	(2)	(18)
Loss on business withdrawal of a subsidiary (Note 16)	—	(901)	(8,138)
Other, net	(76)	(74)	(668)
Profit before income taxes	3,380	1,870	16,890
Income taxes (Note 10):			
Current	1,111	1,564	14,126
Deferred	132	(3)	(27)
	1,243	1,560	14,090
Profit	2,137	309	2,791
Profit (loss) attributable to:			
Non-controlling interests	(185)	(816)	(7,370)
Owners of parent	¥ 2,323	¥ 1,126	\$ 10,170

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Sekisui Kasei Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2021	2021
Profit	¥ 2,137	¥ 309	\$ 2,791
Other comprehensive (loss) income (Note 14):			
Net unrealized holding gain on securities	426	2,633	23,782
Translation adjustments	(819)	640	5,780
Retirement benefits liability adjustments	(125)	1,128	10,188
Total other comprehensive (loss) income	(517)	4,402	39,761
Comprehensive income	¥ 1,619	¥ 4,712	\$ 42,561
Comprehensive income attributable to:			
Owners of parent	¥ 1,759	¥ 5,584	\$ 50,438
Non-controlling interests	(139)	(872)	(7,876)

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, 2020 and 2021

	Millions of yen			
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance as of April 1, 2019	¥ 16,533	¥ 16,532	¥ 22,560	¥ (1,425)
Cash dividends	—	—	(1,358)	—
Profit attributable to owners of parent for the year	—	—	2,323	—
Acquisition of treasury stock	—	—	—	(0)
Other changes	—	—	—	—
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 March 31, 2021	¥ 16,533	¥ 16,515	¥ 23,523	¥ (1,493)

	Millions of yen					
	Net unrealized holding gain on securities	Surplus arising from land revaluation	Translation adjustments	Retirement benefits liability adjustments	Non- controlling interests	Total net assets
Balance as of April 1, 2019	¥ 8,799	¥ 1,479	¥ 190	¥ 524	¥ 1,766	¥ 66,960
Cash dividends	—	—	—	—	—	(1,358)
Profit attributable to owners of parent for the year	—	—	—	—	—	2,323
Acquisition of treasury stock	—	—	—	—	—	(0)
Other changes	426	—	(773)	(125)	(235)	(707)
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)	3,527
Balance as of March 31, 2021	¥ 11,859	¥ 1,479	¥ 11	¥ 1,527	¥ 702	¥ 70,657

	Thousands of U.S. dollars (Note 4)			
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance as of April 1, 2020	\$ 149,336	\$ 149,327	\$ 212,483	\$ (12,880)
Cash dividends	—	—	(8,590)	—
Profit attributable to owners of parent for the year	—	—	10,170	—
Acquisition of treasury stock	—	—	—	(1,273)
Disposal of treasury shares	—	(153)	—	514
Change in scope of equity method	—	—	(1,589)	144
Other changes	—	—	—	—
Balance as of March 31, 2021	\$ 149,336	\$ 149,173	\$ 212,474	\$ (13,485)

	Thousands of U.S. dollars (Note 4)					
	Net unrealized holding gain 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	\$ 83,334	\$ 13,359	\$ (5,266)	\$ 3,604	\$ 13,828	\$ 607,144
Cash dividends	—	—	—	—	—	(8,590)
Profit attributable to owners of parent for the year	—	—	—	—	—	10,170
Acquisition of treasury stock	—	—	—	—	—	(1,273)
Disposal of treasury shares	—	—	—	—	—	361
Change in scope of equity method	—	—	—	—	—	(1,445)
Other changes	23,782	—	5,365	10,188	(7,488)	31,858
Balance as of March 31, 2021	\$ 107,117	\$ 13,359	\$ 99	\$ 13,792	\$ 6,340	\$ 638,216

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Sekisui Kasei Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2021	2021
Cash flows from operating activities			
Profit before income taxes	¥ 3,380	¥ 1,870	\$ 16,890
Adjustments for:			
Depreciation and amortization	6,071	6,217	56,155
Amortization of goodwill	168	168	1,517
Decrease in allowance for doubtful accounts	(2)	(4)	(36)
Interest and dividend income	(366)	(328)	(3,363)
Interest expense	392	373	2,962
Equity in losses of an affiliate	13	9	81
(Decrease) increase in provision for bonuses to employees	(17)	15	(135)
Decrease in provision for product warranty	(31)	(26)	(234)
Changes in assets and liabilities for retirement benefits, net	(452)	(332)	(2,998)
Loss (gain) on sales of investments in securities	36	(820)	(7,406)
Loss on impairment of investments in securities	8	2	18
Loss on sales or disposal of equipment, net	51	138	1,246
Subsidy income	—	(289)	(2,610)
Loss on business withdrawal of a subsidiary	—	901	8,138
Decrease (increase) in notes and accounts receivable	3,971	(868)	(7,840)
(Increase) decrease in inventories	(120)	699	6,313
Decrease in notes and accounts payable	(4,258)	(596)	(5,383)
Other, net	(978)	(496)	(4,528)
Subtotal	7,865	6,633	59,913
Interest and dividends received	366	328	2,962
Interest paid	(432)	(377)	(3,405)
Proceeds from casualty insurance claims	304	105	948
Amount of receipt of subsidy received	—	289	2,610
Income taxes	(1,616)	(552)	(4,895)
Net cash provided by operating activities	6,486	6,428	58,061
Cash flows from investing activities			
Increase in short-term investments	(1)	(23)	(207)
Purchases of property, plant and equipment	(5,930)	(3,987)	(36,013)
Proceeds from sales of property, plant and equipment	109	13	117
Purchases of investments in securities	(6)	(5)	(45)
Proceeds from sales of investments in securities	166	1,113	10,053
Increase in short-term and long-term loans receivable	(3)	(3)	(27)
Collection of short-term and long-term loans receivable	468	2	18
Other, net	65	(115)	(1,038)
Net cash used in investing activities	(5,129)	(3,007)	(27,161)
Cash flows from financing activities			
Net (decrease) increase in short-term loans	(10,138)	851	(7,686)
Proceeds from long-term loans	9,033	4,989	45,063
Proceeds from issuance of bond	7,000	—	—
Repayment of long-term loans	(5,104)	(4,943)	(44,648)
Purchases of treasury stock	(0)	(141)	(1,273)
Dividends paid	(1,357)	(953)	(8,608)
Dividends paid to non-controlling shareholders	(2)	(2)	(18)
Other	(1,999)	(433)	(3,911)
Net cash used in financing activities	(2,568)	(632)	(5,708)
Effect of exchange rate changes on cash and cash equivalents	(527)	(177)	(1,598)
Net (decrease) increase in cash and cash equivalents	(1,739)	2,965	26,781
Cash and cash equivalents at the beginning of the year	11,271	9,532	86,098
Cash and cash equivalents at the end of the year	¥ 9,532	¥ 12,498	\$ 112,889

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sekisui Kasei Co., Ltd. and Consolidated Subsidiaries
March 31, 2021

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, 2020 to the 2021 presentation. Such reclassification had no effect on consolidated profit.

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, 2020 and 2021. The Company has applied the equity method to its investment in one significant affiliate, Yusui Kasei Kogyo Co., Ltd. for the purpose of the consolidated financial statements for the year ended March 31, 2020. There was no significant equity-method affiliate for the purpose of the consolidated financial statements for the year ended March 31, 2021 as the Company sold a portion of investment in Yusui Kasei Kogyo Co., Ltd. and excluded this investment from the scope of applying the equity method.

Other affiliates are not significant in terms of their total assets, profit or loss, and retained earnings. Accordingly, these other affiliates have not been consolidated nor are they accounted for by the equity method. 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, 2021.

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. Marketable 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. Non-marketable 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)

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).

(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) 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.

(o) 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.

(p) Research and Development Costs

Research and development costs are charged to income when incurred.

(q) 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.

ii) 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.

(r) 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).

(s) Accounting Standards Issued but Not Yet Effective

(Accounting Standard and Implementation Guidance for Revenue Recognition)

On March 31, 2020, the ASBJ issued “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30).

i) Overview

The International Accounting Standards Board (the “IASB”) and the Financial Accounting Standards Board (the “FASB”) in the United States co-developed comprehensive accounting standards for revenue recognition and issued “Revenue from Contracts with Customers” (issued as IFRS 15 by the IASB and Topic 606 by the FASB) in May 2014. The ASBJ developed comprehensive accounting standards on revenue recognition and issued them in conjunction with the implementation guidance based on the fact that IFRS 15 was applied from fiscal years starting on or after January 1, 2018 and Topic 606 was applied from fiscal years starting after December 15, 2017.

As the basic policy in developing accounting standards for revenue recognition, the ASBJ defined the accounting standard starting with incorporating the basic principle of IFRS 15 from a standpoint of comparability between financial statements, which is one benefit of ensuring consistency with IFRS 15. Furthermore, the ASBJ added alternative accounting treatment without impairing comparability when there are matters to be considered related to accounting practices, etc. common in Japan.

ii) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

iii) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

(Accounting Standard and Implementation Guidance for Fair Value Measurement)

i) Overview

On July 4, 2019, the ASBJ issued “Accounting Standard for Fair Value Measurement” (ASBJ Statement No.30), “Accounting Standard for Measurement of Inventories” (ASBJ Statement No.9), “Accounting Standard for Financial Instruments” (ASBJ Statement No.10),

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“Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No.31).

On March 31, 2020, the ASBJ issued “Implementation Guidance for Disclosures on Estimated Fair Value of Financial Instruments” (ASBJ Guidance No.19).

The ASBJ tried ensuring consistency between Japanese standards and international standards mainly for guidance and disclosures on estimated fair value of financial instruments and issued “Accounting Standard for Fair Value Measurement”, etc. based on the fact that the IASB and the FASB in the United States had already issued almost identical detailed guidance on fair value measurement (issued as IFRS 13 “Fair Value Measurement” by the IASB and Topic 820 “Fair Value Measurement” in the Accounting Standards Codification by the FASB).

As the basic policy in developing accounting standards for fair value measurement, the ASBJ incorporated basically all of the matters defined in IFRS 13 from a standpoint of increasing comparability of

financial statements among domestic and foreign companies by using a unified measurement method. Furthermore, the ASBJ defined alternative accounting treatment to the individual matters without impairing comparability considering related to accounting practices, etc. common in Japan.

ii) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

iii) Effect of the adoption of accounting standard and implementation guidance

The effect of the adoption of the accounting standard and the implementation guidance on the consolidated financial statements is currently unknown.

intangible assets in Proseat Europe GmbH and its subsidiaries, which were acquired by the Company in February 2019, and the Company made the following judgements.

covered by the business plan and iv) trend in gross profit margin, which serve as the basis of the business plan. The market growth rate was determined based on the available external market data as a reference. The Company made the assumption that the impact of COVID-19 on business activities will continue but there will be a gradual recovery.

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

The market growth rate, which is one of the significant assumptions, is subject to a high degree of uncertainty in its estimation, and many uncertain factors are involved in the impact of the COVID-19 on business activities, therefore, changes in these assumptions could result in the recognition of impairment losses on property, plant and equipment and intangible assets.

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 Company determined that there was an indication of impairment for the property, plant and equipment and

(a) Amount reported in consolidated financial statements in the current fiscal year

	Millions of yen	Thousands of U.S. dollars
For the year ended March 31, 2021		
Impairment loss	¥ —	\$ —
As of March 31, 2021		
Property, plant and equipment	¥ 7,494	\$ 67,691
Intangible asset	2,485	22,453
Total	¥ 9,979	\$ 90,144

Although no impairment loss was recorded in the current fiscal year, it was recognized as an item to be disclosed in view of the risk bringing a significant impact to the financial statements for the following fiscal year.

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

i) Method of calculation

The Company groups assets by business. No impairment loss was recognized as the future cash flows generated from the asset group by business exceeded the carrying amount. The future cash flows are estimated based on the business plan for the following fiscal years approved by the Board of Directors 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) the market growth rates for the periods subsequent to the period

3. Changes in Presentation

(Adoption of Accounting Standard for Disclosure of Accounting Estimates)

The Company adopted Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No.31, March 31, 2020) effective from the year ended March 31, 2021 and disclosed notes on accounting standard for

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 ¥110.71 = U.S. \$1.00, the exchange rate prevailing on March 31, 2021. 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(q).

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, 2020 and 2021 are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

Millions of yen						
2020			2021			
Carrying value	Fair value	Difference	Carrying value	Fair value	Difference	
Cash and cash equivalents	¥ 9,532	¥ 9,532	¥ —	¥ 12,498	¥ 12,498	¥ —
Short-term investments	7	7	—	32	32	—
Notes and accounts receivable	32,142	32,142	—	33,522	33,522	—
Investments in securities	17,627	17,627	—	21,271	21,271	—
Total assets	¥ 59,310	¥ 59,310	¥ —	¥ 67,324	¥ 67,324	¥ —
Notes and accounts payable	¥ 23,522	¥ 23,522	¥ —	¥ 22,481	¥ 22,481	¥ —
Short-term loans	2,606	2,606	—	3,627	3,627	—
Bond	7,000	6,971	(28)	7,000	6,975	(24)
Long-term loans*	26,056	26,235	178	26,459	26,553	93
Total liabilities	¥ 59,184	¥ 59,334	¥ 150	¥ 59,567	¥ 59,637	¥ 69

Thousands of U.S. dollars			
2021			
Carrying value	Fair value	Difference	
Cash and cash equivalents	\$ 112,889	\$ 112,889	\$ —
Short-term investments	289	289	—
Notes and accounts receivable	302,791	302,791	—
Investments in securities	192,132	192,132	—
Total assets	\$ 544,978	\$ 544,978	\$ —
Notes and accounts payable	\$ 203,062	\$ 203,062	\$ —
Short-term loans	32,761	32,761	—
Bond	63,228	63,002	(216)
Long-term loans*	238,993	239,842	840
Total liabilities	\$ 538,045	\$ 538,677	\$ 623

* Includes current portion of long-term loans of ¥3,844 million and ¥5,558 million (\$50,203 thousand) as of March 31, 2020 and 2021, respectively.

Methods to determine the estimated fair value of financial instruments and other matters related to securities are as follows:

Assets:

Cash and cash equivalents, short-term investments and notes and accounts receivable:

Since cash and cash equivalents, short-term investments and notes and accounts receivable are settled in a short period of time, their carrying value approximate the fair value.

Investments in securities:

The fair values of other investments in securities are based on quoted

market prices. For information on securities classified by purpose of holding, please refer to Note 6.

Liabilities:

Notes and accounts payable and short-term loans:

Since notes and accounts payable and short-term loans are settled in a short period of time, their carrying value approximate the fair value.

Notes to Consolidated Financial Statements

Bond:

The fair value of bond is determined based on their market prices.

including the difference paid or received under the swap agreements, with the rate which would be applied if similar new borrowings were entered into.

Long-term loans:

The fair value of long-term loans are based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into. The fair value of long-term loans with variable interest rates hedged with interest-rate swaps which qualify for hedge accounting and meet special matching criteria is calculated by discounting the sum of principal and interest,

Unlisted equity securities in the amounts of ¥421 million and ¥78 million (\$704 thousand) as of March 31, 2020 and 2021, respectively, are not included in investments in securities in the preceding table since it is extremely difficult to determine their fair value as of March 31, 2020 and 2021.

The redemption schedule as of March 31, 2021 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	Thousands of U.S. dollars
	2021	2021
	Within 1 year	Within 1 year
Bank deposits	¥ 12,509	\$ 112,988
Notes and accounts receivable	33,522	302,791
Total	¥ 46,032	\$ 415,779

The redemption schedule for long-term loans are disclosed in Note 8.

6. Investments in Securities

Marketable securities classified as other securities as of March 31, 2020 and 2021 were as follows:

	Millions of yen					
	2020			2021		
	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	¥ 17,627	¥ 13,289	¥ 4,338	¥ 21,271	¥ 16,933
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	0	0	0	0	0	0
Total	¥ 4,338	¥ 17,627	¥ 13,289	¥ 4,338	¥ 21,271	¥ 16,933

	Thousands of U.S. dollars		
	2021		
	Acquisition cost	Carrying value	Unrealized holding gain
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	\$ 39,183	\$ 192,132	\$ 152,949
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	0	0	0
Total	\$ 39,183	\$ 192,132	\$ 152,949

Unlisted equity securities other than securities of affiliates in the amount of ¥51 million and ¥42 million (\$379 thousand) as of March 31, 2020 and 2021, respectively, are not included in equity securities in the above table

since it is extremely difficult to determine their fair value as of March 31, 2020 and 2021.

The proceeds from sales of, and gross realized gain on investments in securities for the years ended March 31, 2020 and 2021 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Proceeds from sales	¥ 1	¥ 1,014	\$ 9,159
Gross realized gain	1	857	7,740

7. Inventories

Inventories as of March 31, 2020 and 2021 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Merchandise, finished goods and semi-finished goods	¥ 8,216	¥ 7,670	\$ 69,280
Work in process goods	1,722	1,481	13,377
Raw materials and supplies	3,866	4,172	37,684
Total	¥ 13,805	¥ 13,324	\$ 120,350

8. Short-Term Loans and Long-Term Debt

Short-term loans as of March 31, 2020 and 2021 represented loans in the form of deeds and overdrafts at interest rates ranging from 0.18% to 6.47% and from 0.35% to 4.85% per annum, respectively.

Long-term debt as of March 31, 2020 and 2021 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Unsecured loans from banks and insurance companies, payable in Japanese yen, at rates ranging from 0.095% to 0.39% and variable rates	¥ 20,067	¥ 20,511	\$ 185,267
Unsecured loans from banks, payable in U.S. dollars, at rates ranging from 2.48% to 3.40%	1,080	822	7,424
Unsecured loans from banks, payable in Euro, at rates ranging from 0.25% to 1.00% and variable rates	4,090	4,507	40,709
Unsecured loans from banks, payable in Baht, at a rate of 2.575%	818	619	5,591
Unsecured bonds, payable in Japanese yen at a rate of 0.5%, due 2026	7,000	7,000	63,228
Total	33,056	33,459	302,223
Less current portion	(3,844)	(5,558)	(50,208)
	¥ 29,211	¥ 27,900	\$ 252,015

The aggregate annual maturities of long-term debt subsequent to March 31, 2021 are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
	2021	2021
2022	¥ 5,558	\$ 50,208
2023	9,951	89,890
2024	4,878	44,069
2025	3,714	33,556
2026	1,030	9,312
2027 and thereafter	8,323	75,187
Total	¥ 33,459	\$ 302,223

9. Pledged Assets and Secured Liabilities

Assets pledged as collateral for liabilities as of March 31, 2020 and 2021 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Land	¥ 166	¥ 166	\$ 1,499
Buildings	51	49	442
	¥ 217	¥ 215	\$ 1,942

Liabilities secured by these assets as collateral consist of ¥19 million and ¥7 million (\$63 thousand) of short-term loans and ¥17 million and ¥9 million (\$81 thousand) of long-term loans as of March 31, 2020 and 2021, respectively.

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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, 2020 and 2021 was, in the aggregate, approximately 30.6%.

Reconciliation of the statutory and effective tax rates for the years ended March 31, 2020 and 2021 as a percentage of profit before income taxes are presented as follows:

	2020	2021
Statutory tax rates	30.6%	30.6%
Non-deductible expenses	1.7	1.4
Per capita portion of inhabitants' taxes	0.9	1.7
Tax credit of research and development costs	(4.8)	(13.2)
Tax rate differences of overseas subsidiaries	9.6	38.8
Loss on business withdrawal of a subsidiary	—	14.7
Retained earnings of overseas subsidiaries	(0.2)	4.2
Amortization of goodwill	1.5	2.8
Gain on liquidation of subsidiaries	(3.1)	—
Other	0.6	2.5
Effective tax rate	36.8%	83.5%

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, 2020 and 2021 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Deferred tax assets:			
Liabilities for retirement benefits	¥ 51	¥ —	\$ —
Tax loss carryforwards	3,184	3,231	29,184
Provision for bonuses to employees	328	344	3,107
Unrealized profit on intercompany transactions	527	508	4,588
Impairment loss on property, plant and equipment	76	62	560
Loss on devaluation of inventories	73	85	767
Acquisition related cost of acquired companies	93	93	840
Other	381	495	4,471
Gross deferred tax assets	4,715	4,819	43,528
Valuation allowance for tax loss carryforwards	(3,002)	(3,029)	(27,359)
Valuation allowance for temporary differences	(331)	(313)	(2,827)
Valuation allowance	(3,333)	(3,342)	(30,186)
Total deferred tax assets	1,382	1,477	13,341
Deferred tax liabilities:			
Differences on land revaluation	(985)	(923)	(8,337)
Net unrealized holding gain on securities	(4,063)	(5,217)	(47,123)
Gain on marketable securities contributed to employees' retirement benefit trust	(146)	(146)	(1,318)
Assets for retirement benefits	(178)	(733)	(6,620)
Customer related assets	(325)	(313)	(2,827)
Other	(515)	(595)	(5,374)
Total deferred tax liabilities	(6,215)	(7,930)	(71,628)
Net deferred tax liabilities	¥ (4,832)	¥ (6,453)	\$ (58,287)

Note 1: Tax loss carryforwards and related deferred tax assets as of March 31, 2020 and 2021 will expire as follows:

	Millions of yen		
	2020	2021	2021
Years ending March 31,	Tax loss carryforwards ^(*)	Valuation allowance for tax loss carryforwards	Deferred tax assets for tax loss carryforwards
2021	¥ 21	¥ (7)	¥ 14
2022	34	(25)	9
2023	101	(98)	3
2024	85	(83)	1
2025	99	(97)	1
2026 and thereafter	2,841	(2,689)	152
Total	¥ 3,184	¥ (3,002)	¥ 182

	Millions of yen		
	2021	2021	2021
Years ending March 31,	Tax loss carryforwards ^(*)	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

	Thousands of U.S. dollars		
	2021	2021	2021
Years ending March 31,	Tax loss carryforwards ^(*)	Valuation allowance for tax loss carryforwards	Deferred tax assets for tax loss carryforwards
2022	\$ 162	\$ (36)	\$ 126
2023	153	(144)	9
2024	939	(930)	0
2025	894	(713)	171
2026	379	(189)	189
2027 and thereafter	26,628	(25,318)	1,309
Total	\$ 29,184	\$ (27,359)	\$ 1,815

(*)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, 2020 and 2021

(i) Excluding amounts calculated by the simplified method, the changes in the retirement benefit obligation for the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Retirement benefit obligation at the beginning of the year	¥ 9,444	¥ 9,013	\$ 81,410
Service cost	282	267	2,411
Interest cost	29	38	343
Actuarial (gain) loss	(176)	99	894
Retirement benefit paid	(588)	(670)	(6,051)
Other	21	25	225
Retirement benefit obligation at the end of the year	¥ 9,013	¥ 8,772	\$ 79,234

(ii) Excluding amounts calculated by the simplified method, the changes in plan assets at fair value for the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Plan assets at fair value at the beginning of the year	¥ 14,459	¥ 14,517	\$ 131,126
Expected return on plan assets	243	236	2,131
Actuarial (loss) gain	(3)	1,858	16,782
Contributions by the employer	399	387	3,495
Retirement benefit paid	(581)	(658)	(5,943)
Plan assets at fair value at the end of the year	¥ 14,517	¥ 16,341	\$ 147,601

Notes to Consolidated Financial Statements

(iii) The changes in liabilities for retirement benefits under the simplified method for the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Liabilities for retirement benefits at the beginning of the year	¥ 3,064	¥ 3,273	\$ 29,563
Retirement benefit expense	381	436	3,938
Retirement benefit paid	(149)	(304)	(2,745)
Contribution to defined contribution pension plans	(20)	(20)	(180)
Other	(2)	1	9
Liabilities for retirement benefit at the end of the year	¥ 3,273	¥ 3,386	\$ 30,584

(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, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Funded retirement benefit obligation	¥ 9,073	¥ 8,856	\$ 79,992
Plan assets at fair value	(14,572)	(16,409)	(148,216)
	(5,499)	(7,552)	(68,214)
Unfunded retirement benefit obligation	3,268	3,370	30,439
Net amount of liabilities and assets recognized in the consolidated balance sheet	(2,231)	(4,182)	(37,774)
Liabilities for retirement benefits	3,446	3,590	32,427
Assets for retirement benefits	(5,677)	(7,772)	(70,201)
Net amount of liabilities and assets recognized in the consolidated balance sheet	¥ (2,231)	¥ (4,182)	\$ (37,774)

(v) The components of retirement benefit expense (credit) for the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Service cost	¥ 282	¥ 267	\$ 2,411
Interest cost	29	38	343
Expected return on plan assets	(243)	(236)	(2,131)
Amortization of actuarial gain	(349)	(123)	(1,111)
Retirement benefit expenses calculated by the simplified method	381	436	3,938
Retirement benefit expense	¥ 100	¥ 382	\$ 3,450

(vi) The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Actuarial (gain) loss	¥ (180)	¥ 1,626	\$ 14,687

(vii) The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Unrecognized actuarial (loss) gain	¥ (575)	¥ 2,201	\$ 19,880

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

	2020	2021
Bond	21%	19%
Equities	44	49
General accounts at life insurance companies	13	11
Cash and deposits	5	5
Other	17	15
Total	100%	100%

The total pension plan assets include 32% and 36% of the retirement benefits trust for the corporate pension fund plans as of March 31, 2020 and 2021, 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, 2020 and 2021 are as follows:

	2020	2021
Discount rate	0.4%	0.4%
Expected long-term rates of return on plan assets	1.7%	1.6%
Rates of salary increase	2.7%	2.8%

(c) Defined contribution pension plans for the years ended March 31, 2020 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Contributions to defined contribution pension plans	¥ 17	¥ 16	\$ 144

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 (\$12,374 thousand) as of March 31, 2020 and 2021.

Common stock and treasury stock

Movements in shares of common stock and treasury stock during the years ended March 31, 2020 and 2021 are summarized as follows:

	2020			
	Number of shares			
	April 1, 2019	Increase	Decrease	March 31, 2020
Common stock	46,988,109	—	—	46,988,109
Treasury stock	1,696,864	1,018	—	1,697,882

The increase in treasury stock consists of 1,018 shares due to the purchase of fractional shares of less than one voting unit.

	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.

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 (\$85,998 thousand) for the purpose of land revaluation exceeded the land’s estimated market values by ¥3,580 million and ¥3,594 million (\$32,463 thousand) as of March 31, 2020 and 2021, 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, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Net unrealized holding gain on securities			
Gain arising during the year	¥ 615	¥ 4,630	\$ 41,820
Reclassification adjustments	—	(842)	(7,605)
Before tax effect	615	3,787	34,206
Tax effect	(188)	(1,153)	(10,414)
Net unrealized holding gain on securities	426	2,633	23,782
Translation adjustments:			
(Loss) gain arising during the year	(765)	640	5,780
Reclassification adjustments	(53)	—	—
Before tax effect	(819)	640	5,780
Tax effect	—	—	—
Translation adjustments	(819)	640	(5,780)
Retirement benefits liability adjustments:			
(Loss) gain arising during the year	(544)	1,783	16,105
Reclassification adjustments	364	(156)	(1,409)
Before tax effect	(180)	1,626	14,687
Tax effect	54	(497)	(4,489)
Retirement benefits liability adjustments	(125)	1,128	10,188
Total other comprehensive (loss) income	¥ (517)	¥ 4,402	\$ 39,761

15. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2020 and 2021 amounted to ¥2,769 million and ¥2,655 million (\$23,981 thousand), respectively.

16. Loss on Business Withdrawal of a Subsidiary

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Loss on business withdrawal of a subsidiary	¥ —	¥ 901	\$ 8,138

Loss on business withdrawal of a subsidiary represents losses associated with the withdrawal of the business in the UK which was operated by Proseat LLP, a consolidated subsidiary of the Company. It includ-

ed employees' retirement benefits amounting to ¥789 million (\$7,127 thousand) and cancellation of lease asset expenses amounting to ¥111 million (\$1,003 thousand).

17. Derivatives and Hedge Accounting

The estimated fair value of derivative instruments outstanding as of March 31, 2020 and 2021 for which hedge accounting has been applied is summarized as follows:

	Millions of yen		
	2020		
	Notional amount		
	Total	Maturing after one year	Fair value
Interest-rate swaps hedging long-term loans, accounted for by special treatment:			
Receivable / floating and U.S. dollar			
Payable / fixed and Japanese yen	¥ 935	¥ 584	(*)
	Millions of yen		
	2021		
	Notional amount		
	Total	Maturing after one year	Fair value
Interest-rate swaps hedging long-term loans, accounted for by special treatment:			
Receivable / floating and U.S. dollar			
Payable / fixed and Japanese yen	¥ 991	¥ 371	(*)

Thousands of U.S. dollars

2021

Notional amount

Total

Maturing after one year

Fair value

Interest-rate swaps hedging long-term loans, accounted for by special treatment:
Receivable / floating and U.S. dollar
Payable / fixed and Japanese yen

\$ 8,951

\$ 3,351

(*)

(*) 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.

18. Amounts per Share

	Yen		U.S. dollars
	2020	2021	2021
Profit attributable to owners of parent	¥ 51.29	¥ 24.86	\$ 0.22
Net assets	1,450.32	1,549.84	13.99
Cash dividends	30.00	21.00	0.18

Profit attributable to owners of parent per share has been computed based on the profit 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 attributable to owners of parent per share has not been presented for the years ended March 31, 2020 and 2021 since neither the Company nor any of the consolidated subsidiaries had any potentially dilutive

shares as of March 31, 2020 and 2021.

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 attributable to owners of parent per share based on the above method for the years ended March 31, 2020 and 2021 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Profit attributable to owners of parent	¥ 2,323	¥ 1,126	\$ 10,170
Adjusted profit attributable to owners of parent available for distribution to common stockholders	¥ 2,323	¥ 1,126	\$ 10,170

	Thousands of shares	
	2020	2021
Weighted-average number of shares of common stock outstanding	45,290	45,299

The financial data used in the computation of net assets per share based on the above method as of March 31, 2020 and 2021 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Total net assets	¥ 67,217	¥ 70,657	\$ 638,216
Deductions from total net assets:			
Non-controlling interests	1,531	702	6,340
Total net assets available to owners of parent	¥ 65,685	¥ 69,955	\$ 631,876

	Thousands of shares	
	2020	2021
Number of shares of common stock used in the calculation of net assets per share	45,290	45,137

19. Business Combination

Merger between consolidated subsidiaries

At a meeting of the Board of Directors held on January 24, 2020, the Company approved a resolution to merge Sekisui Plastics Kyushu Co., Ltd. a wholly-owned consolidated subsidiary, with wholly-owned consolidated subsidiaries Sekisui Plastics Yamaguchi Co., Ltd. and Sekisui Plastics Shikoku Co., Ltd. The merger was completed on April 1, 2020.

- (i) Outline of the absorption-type merger
- 1) Name of combined company and business description
 - a) Name of combined companies

Sekisui Plastics Yamaguchi Co., Ltd.
Sekisui Plastics Shikoku Co., Ltd.
 - b) Business description

Sales and manufacturing of foamed plastics
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Notes to Consolidated Financial Statements

- 2) Date of the business combination
April 1, 2020
- 3) Legal form of the business combination
Absorption-type merger with Sekisui Plastics Kyushu Co., Ltd. as the surviving company, and Sekisui Plastics Yamaguchi Co., Ltd. and Sekisui Plastics Shikoku Co., Ltd. as the dissolved companies.
- 4) Name of company after the business combination
Sekisui Kasei Seibu Co., Ltd.
- 5) Other matters related to the outline of transaction
The Company decided to merge the three consolidated subsidiaries, considering their locations and the nature of their businesses, in order to enhance competitiveness through prompt decision-making to handle a rapidly changing business environment and enjoy synergies consolidating know-how of these 3 subsidiaries.
As a result of this business combination, the Company believes the operating structure will be more efficient, and expects further sales growth by leveraging competitive advantages of each subsidiary to others.
- (ii) Summary of accounting treatment
The Company treated this as a transaction under common control in accordance with “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, January 16, 2019) and “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, January 16, 2019).

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.

(c) Information on sales, income, assets and other items of each reportable segment
Information by reportable segment for the years ended March 31, 2020 and 2021 is as follows:

	Millions of yen				
	2020				
	Reportable segments			Adjustments and eliminations ^(*)	Consolidated
	Human Life	Industry	Total		
Sales, income and assets by reportable segments:					
Sales to third parties	¥ 58,101	¥ 78,053	¥ 136,155	¥ —	¥ 136,155
Inter-segment sales and transfers	670	156	826	(826)	—
Total	¥ 58,771	¥ 78,210	¥ 136,982	¥ (826)	¥ 136,155
Segment income / (loss) ^{(*)2}	¥ 3,280	¥ 1,186	¥ 4,467	¥ (1,075)	¥ 3,391
Segment assets	¥ 70,493	¥ 67,242	¥ 137,735	¥ 11,368	¥ 149,103
Other items:					
Depreciation and amortization	¥ 1,933	¥ 3,522	¥ 5,455	¥ 615	¥ 6,071
Amortization of goodwill	—	168	168	—	168
Interest income	0	4	5	0	5
Interest expense	0	262	263	128	392
Equity in losses of an affiliate	13	—	13	—	13
Investments in affiliates accounted for by the equity method	335	—	335	—	335
Increase in property, plant and equipment and intangible assets	1,807	2,767	4,573	687	5,261

	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	245	244	128	373
Equity in earnings of an affiliate	9	—	9	—	9
Investments in affiliates accounted for by the equity method	—	—	—	—	—
Increase in property, plant and equipment and intangible assets	1,220	3,538	4,759	618	5,377

	Thousands of U.S. dollars				
	2021				
	Reportable segments			Adjustments and eliminations ^{(*)1}	Consolidated
	Human Life	Industry	Total		
Sales, income and assets by reportable segments:					
Sales to third parties	\$ 482,973	\$ 590,560	\$ 1,073,534	\$ —	\$ 1,073,534
Inter-segment sales and transfers	4,958	1,038	6,006	(6,006)	—
Total	\$ 487,941	\$ 591,599	\$ 1,079,541	\$ (6,006)	\$ 1,073,534
Segment income / (loss) ^{(*)2}	\$ 33,908	\$ (8,644)	\$ 25,264	\$ (7,587)	\$ 17,667
Segment assets	\$ 637,936	\$ 592,810	\$ 1,230,756	\$ 200,361	\$ 1,431,117
Other items:					
Depreciation and amortization	\$ 16,881	\$ 32,896	\$ 49,778	\$ 6,367	\$ 56,155
Amortization of goodwill	—	1,517	1,517	—	1,517
Interest income	0	153	153	0	153
Interest expense	0	2,203	2,212	1,156	3,369
Equity in earnings of an affiliate	81	—	81	—	81
Investments in affiliates accounted for by the equity method	—	—	—	—	—
Increase in property, plant and equipment and intangible assets	11,019	31,957	42,986	5,582	48,568

(*)1 Adjustments and eliminations in the preceding tables were as follows:
(i) Segment income in the amounts of (¥1,075 million) and (¥840 million) (\$7,587 thousand) for the years ended March 31, 2020 and 2021, respectively, consisted of elimination of inter-segment transactions in the amounts of ¥(0) million and ¥1 million (\$9 thousand), and unallocable expenses in the amounts of (¥1,075 million) and (¥842 million) (\$7,605 thousand), respectively.
(ii) Segment assets in the amounts of ¥11,368 million and ¥22,182 million (\$200,361 thousand) for the years ended March 31, 2020 and 2021, respectively, mainly consisted of investments in securities and assets related to administrative departments and the Central R&D Laboratory owned by the Company.
(iii) Depreciation and amortization in the amounts of ¥615 million and ¥705 million (\$6,367 thousand) for the years ended March 31, 2020 and 2021, 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.
(iv) Increase in property, plant and equipment and intangible assets in the amounts of ¥687 million and ¥618 million (\$5,582 thousand) for the years ended March 31, 2020 and 2021, 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.”

(d) Geographical information
Sales to third parties by countries or areas grouped according to geographical classification for the years ended March 31, 2020 and 2021 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Japan	¥ 86,790	¥ 78,589	\$ 709,863
Europe	34,198	26,352	238,027
Asia	12,173	11,606	104,832
Other	2,993	2,303	20,802
Total	¥ 136,155	¥ 118,851	\$ 1,073,534

Notes to Consolidated Financial Statements

Property, plant and equipment by countries or areas grouped according to geographical classification as of March 31, 2020 and 2021 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Japan	¥ 47,788	¥ 46,679	\$ 421,633
Europe	7,800	8,331	75,250
Asia	4,498	4,471	40,384
Other	1,814	1,949	17,604
Total	¥ 61,901	¥ 61,432	\$ 554,891

(e) Information by major customer

The information by major customer for the years ended March 31, 2020 and 2021 was summarized as follows:

Customer	Related segment	Millions of yen		Thousands of U.S. dollars
		2020	2021	2021
FP Corporation	Human Life	¥ 14,562	¥ 15,546	\$ 140,420

(f) Amortization of goodwill and unamortized balance of goodwill for the years ended and as of March 31, 2020 and 2021.

	Millions of yen		
	2020		
	Industry	Consolidated	
Amortization of goodwill	¥ 168	¥ 168	
Unamortized balance of goodwill	1,363	1,363	

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

	Thousands of U.S. dollars			
	2021			
	Human life	Industry	Adjustments and eliminations	Consolidated
Amortization of goodwill	\$ —	\$ 1,517	\$ —	\$ 1,517
Unamortized balance of goodwill	—	11,164	—	11,164

21. Subsequent Event

The following distribution of retained earnings of the Company, which has not been reflected in the consolidated financial statements for the year ended March 31, 2021 was approved at a shareholders' meeting held on June 24, 2021.

	Millions of yen	Thousands of U.S. dollars
	2021	2021
Cash dividends (¥17 (U.S. \$0.15) per share)	¥ 767	\$ 6,928

Independent Auditor's Report

**Independent Auditor's Report**

The Board of Directors
Sekisui Kasei Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Sekisui Kasei Co., Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2021, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report



Impairment of Property, Plant and Equipment and Intangible Assets in the Proseat Group

Description of Key Audit Matter	Auditor's Response
<p>As of March 31, 2021, property, plant and equipment and intangible assets are valued at ¥61,432 million and ¥3,373 million respectively in the consolidated balance sheet, and of the reported amount, Proseat Europe GmbH and its subsidiaries (the "Proseat Group") hold property, plant and equipment of ¥7,494 million, and intangible assets (including customer-related assets and goodwill) of ¥2,485 million.</p> <p>As described in the Note 2 (Significant Accounting Estimates), the Company determined that there was an indication of impairment for the property, plant and equipment and intangible assets in the Proseat Group during the year ended March 31, 2021 due to the decline in profitability as a result of recent changes in the business environment. However, the Company did not recognize an impairment loss as the amount of future cash flows generated from the asset group exceeded the carrying amount. 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 and the market growth rates for the periods subsequent to the period covered by the business plan.</p> <p>Significant assumptions in estimating future cash flows are the forecast of product sales volume, the trend of sales prices, the market growth rates for the periods subsequent to the period covered by the business plan, the trend of gross profit margin which serve as the basis of the business plan and the impact of COVID-19 on business activities.</p> <p>Given that the significant assumptions used to estimate the future cash flows are subject to uncertainty and require management's judgement, we determined impairment of property, plant and equipment and intangible assets to be a key audit matter.</p>	<p>The audit procedures we performed to assess the estimated amount of future cash flows used in determining the necessity of recognition for impairment loss on property, plant and equipment and intangible assets in the Proseat Group include the following, among others:</p> <ul style="list-style-type: none"> • We compared the estimated future cash flows with the business plan approved by the Board of Directors to evaluate consistency. • We assessed the significant assumptions including the forecast of product sales volume, the trend of sales prices, and the trend of gross profit margin, which serve as the basis of the business plan, by making inquiries with the management and performed trend analysis based on past performance. In addition, we confirmed the sales price by comparing with formal agreements. • We assessed the market growth rates for the periods subsequent to the period covered by the business plan by reviewing the third party report. We also assessed the management's evaluation of future uncertainties. • We compared the business plan to the available internal and external data related to the market and customer trend related to the market where the Proseat Group belongs and customer trend. • We made inquiries with management and evaluated assumptions related to the impact of COVID-19 on business activities.

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Responsibilities of Management, the Audit and Supervisory Board Member and the Audit and Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Audit and Supervisory Board Member and the Audit and Supervisory Board are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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Independent Auditor's Report



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Board Member and the Audit and Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Board Member and the Audit and Supervisory Board with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Supervisory Board Member and the Audit and Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

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Ernst & Young ShinNihon LLC
Osaka, Japan

June 24, 2021

松本 要 

Kaname Matsumoto
Designated Engagement Partner
Certified Public Accountant

谷間 薫 

Kaoru Tanima
Designated Engagement Partner
Certified Public Accountant

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11 Years Summary

Fiscal Year	2010	2011	2012	2013	2014 ^{*2}	2015	2016	2017	2018	2019	2020	2020
For the year:	Millions of yen											Thousands of U.S. dollars ^{*1}
Net sales	¥ 101,418	¥ 101,350	¥ 101,784	¥ 109,923	¥ 113,660	¥ 101,559	¥ 102,398	¥ 112,101	¥ 112,593	¥ 136,155	¥ 118,851	\$ 1,073,534
Operating income	4,876	2,271	1,152	2,124	3,930	5,118	5,401	5,284	4,784	3,725	2,091	18,887
Recurring income	4,628	2,107	1,237	2,206	4,180	4,862	5,049	5,154	4,776	3,391	1,956	17,667
Net income attributable to owners of the parent	2,306	744	926	1,264	2,530	3,147	3,404	3,448	3,129	2,323	1,126	10,170
Capital expenditures	4,561	5,059	6,849	3,434	5,908	4,424	5,836	7,762	7,368	5,261	5,377	48,568
Depreciation and amortization	3,814	3,848	3,940	3,856	3,999	3,937	3,591	4,087	4,517	6,071	6,217	56,155
Research and development costs	2,237	2,261	1,993	1,936	1,877	1,856	1,916	2,104	2,145	2,769	2,655	23,981
At year-end:												
Total assets	¥ 99,263	¥ 101,889	¥ 105,562	¥ 110,687	¥ 116,201	¥ 114,892	¥ 119,670	¥ 131,774	¥ 152,845	¥ 149,103	¥ 158,439	\$ 1,431,117
Total net assets	48,165	48,911	50,929	54,036	58,275	58,800	61,363	66,145	66,771	67,217	70,657	638,216
Interest-bearing debt	17,175	17,068	18,492	18,566	19,467	18,274	18,424	19,096	35,229	39,583	41,704	376,695
Amounts per share^{*3}:	Yen											U.S. dollars ^{*1}
Net income	¥ 49.08	¥ 15.84	¥ 19.72	¥ 26.96	¥ 54.14	¥ 67.34	¥ 73.03	¥ 75.33	¥ 69.09	¥ 51.29	¥ 24.86	\$ 0.22
Net assets	1,005.62	1,021.26	1,063.68	1,136.52	1,231.36	1,243.30	1,322.14	1,444.28	1,439.43	1,450.32	1,549.84	13.99
Cash dividends	20.00	12.00	8.00	14.00	18.00	24.00	24.00	27.00	30.00	30.00	21.00	0.18
Key ratios (financial):												
Operating income ratio (%)	4.8	2.2	1.1	1.9	3.5	5.0	5.3	4.7	4.2	2.7	1.8	
ROE (%)	5.0	1.6	1.9	2.5	4.6	5.4	5.7	5.5	4.8	3.6	1.6	
ROA (%)	4.7	2.1	1.2	2.0	3.7	4.2	4.3	4.1	3.4	2.2	2.2	
Equity ratio (%)	47.6	47.1	47.4	48.0	49.5	50.6	50.7	49.6	42.7	44.1	44.2	
Key ratios (non-financial):												
Number of employees	1,719	1,757	1,813	1,833	1,859	1,895	2,011	2,101	3,881	3,855	3,808	
Number of employees in Japan	1,545	1,587	1,646	1,609	1,539	1,545	1,633	1,680	1,723	1,695	1,676	
Number of employees outside Japan	174	170	167	224	320	350	378	421	2,158	2,160	2,132	
Ratio of female employees (%) ^{*4} (excluding subsidiaries in Europe and the Americas that are not publicly listed)	N.A.	N.A.	N.A.	N.A.	N.A.	16.9	18.1	18.9	20.7	19.9	26.9	

^{*1} U.S. dollar amounts represent translations of Japanese yen, for readers' convenience only, at the rate of ¥110.71 = U.S.\$1.00, the prevailing exchange rate at March 31, 2021.

^{*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 a part of subsidiaries

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 Schwarzeide GmbH
- 17

Proseat LLP
- 18

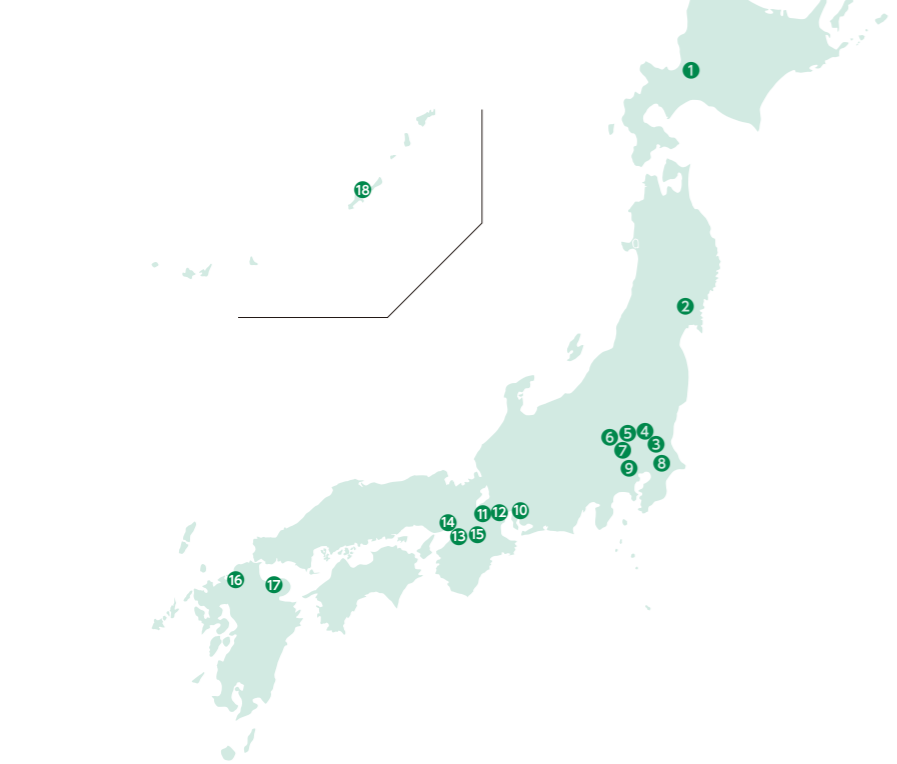
Proseat SAS
- 19

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.
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Sekisui Kasei Oita Co., Ltd.
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Sekisui Kasei Okinawa Co., Ltd.

Company Profile (As of March 31, 2021)

Company name	SEKISUI KASEI CO., LTD.
Osaka head office	2-4-4 Nishi-tenma Kita-ku, Osaka, Japan
Tokyo 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	424 (non-consolidated) 3,808 (consolidated)
Consolidated subsidiaries	(Japan) 18 companies (Worldwide) 21 companies
Equity method affiliates	None
Fiscal year	Ended March 31

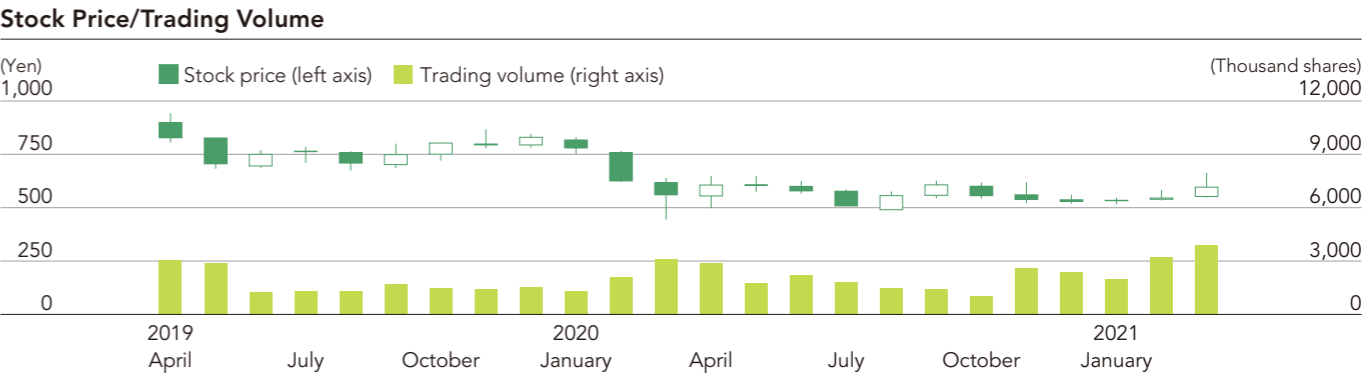
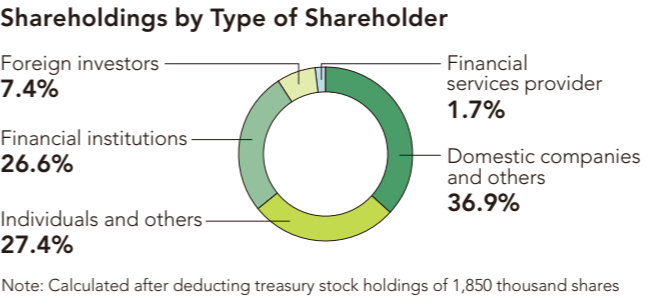
Business Lines in Each Segment		
Industry	Market/ Application	Automotive components, packaging materials for transporting automotive parts, industrial components, industrial packaging, electric part materials, medical and health care materials
	Major Products	PIOCELAN, LIGHTLON, NEOMICROLEN, CELPET, TECHPOLYMER, ST-gel, TECHEATER, ELASTIL, FOAMAC, ST-LAYER, 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.

Investor Information (As of March 31, 2021)

Stock 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	7,800
Transfer agent	Mitsubishi UFJ Trust and Banking Corporation
Independent auditor	Ernst & Young ShinNihon LLC

Major Shareholders		
Name	Numbers of shares held (thousands)	Percentage of shares held (%)
SEKISUI CHEMICAL CO., LTD.	9,855	21.84
The Dai-ichi Life Insurance Company, Limited	3,031	6.72
The Master Trust Bank of Japan, Ltd.	1,921	4.26
Employees’ Shareholding	1,817	4.03
Sekisui Jushi Corporation	1,419	3.14
Daido Life Insurance Company	1,418	3.14
FP Corporation	1,348	2.99
MUFG Bank Ltd.	1,327	2.94
Denka Company Limited	1,250	2.77
Business Partners Shareholding	1,151	2.55

Note: The Company maintains 1,850,000 shares of treasury stock, which dose not include the holdings of the major shareholders in the above list.



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.

Contact

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Tokyo 163-0727, Japan

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Easy-to-read universal design fonts are used in this report.