

SEKISUIKASEI

Our Planet. Our Tomorrow.

Integrated Report

2020



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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 FY2019 (April 1, 2019 – March 31, 2020) and in part up until August 2020.

On the milestone of our 60th anniversary of foundation, we are pleased to announce that we have created our new corporate message and corporate logo.

Corporate Logo

SEKISUIKASEI

Corporate Message

Our Planet. Our Tomorrow.

[About Our Corporate Message]

We wanted to project a more youthful image by using a bright green color based on our company's corporate color, green, and we have created a simple yet universal logo which reflects our 60 years of tradition. Note that the circle on the right shoulder of the logo represents our aim of a "beautiful future planet". With this new message, we declare that we will continue to pursue unknown technologies that are useful to people's lives and society while living in harmony with the environment.

Ranging from the Human Life segment that supports food and living environment to the Industry segment that supports mobility and information technologies. We will continue to challenge ourselves to realize a sustainable society where people and our planet continue to live harmoniously by utilizing material technologies and processing technologies we have cultivated since our foundation.

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: *Environment Report Guidelines* (Y2012 Edition)
- Ministry of the Environment: *Environmental Accounting Guidelines* (Y2005 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 Group, 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.

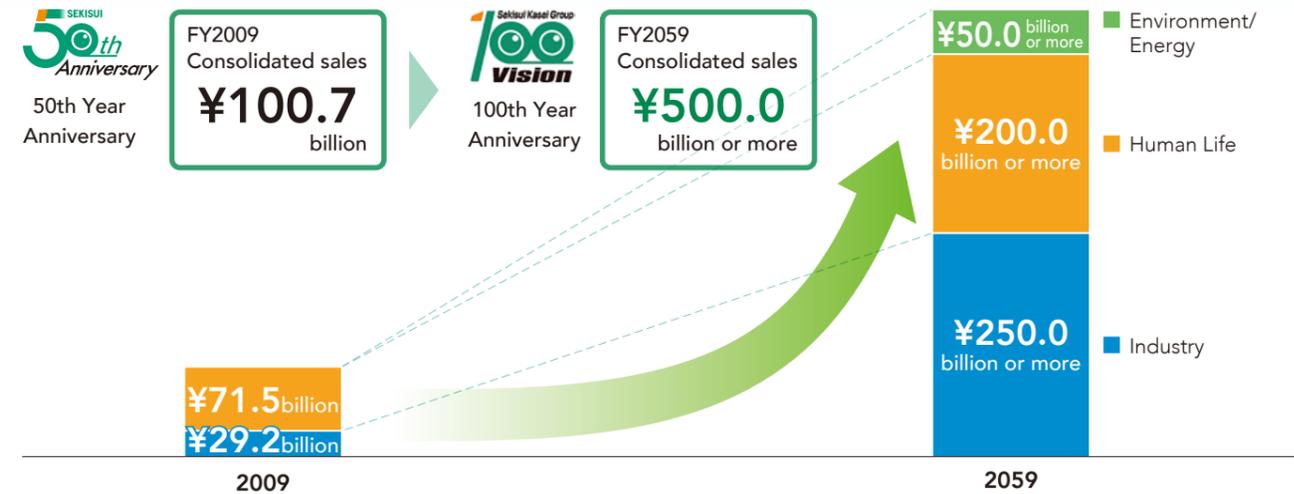
100th Year Vision

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.



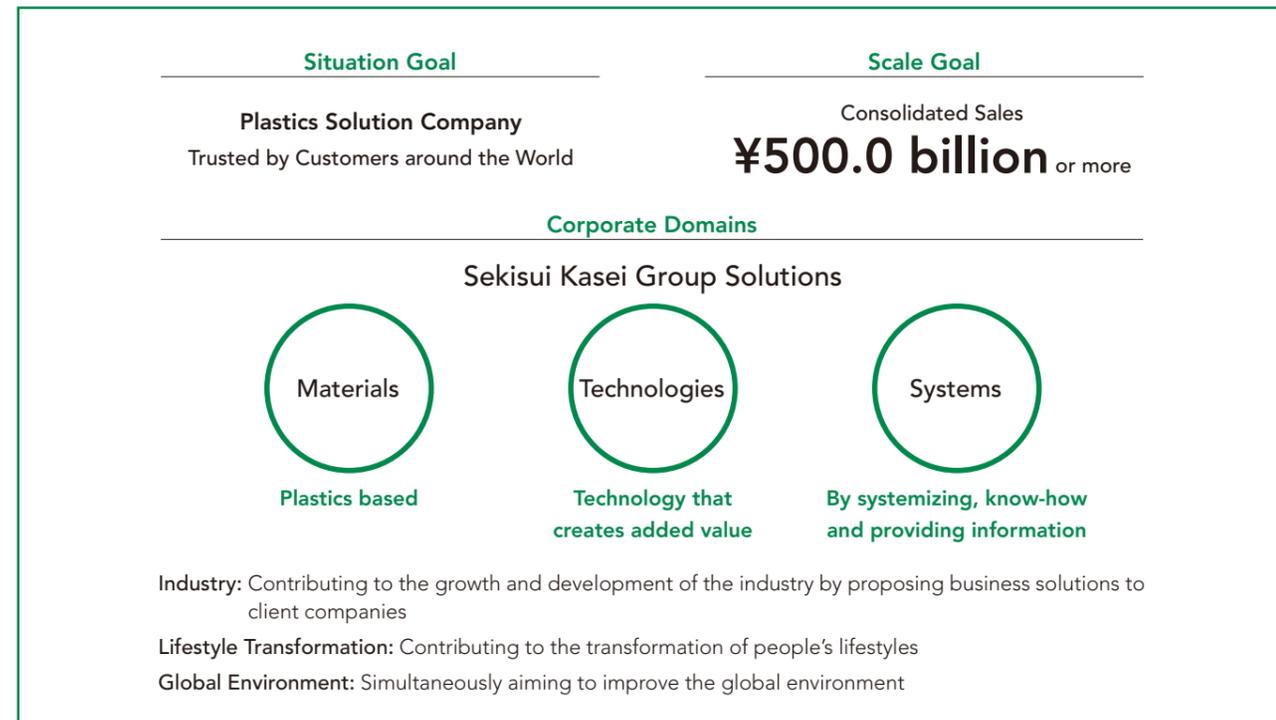
Business Vision —Develop Globally as a “Plastics Solution Company” in Three Business Segments

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.



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.



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."



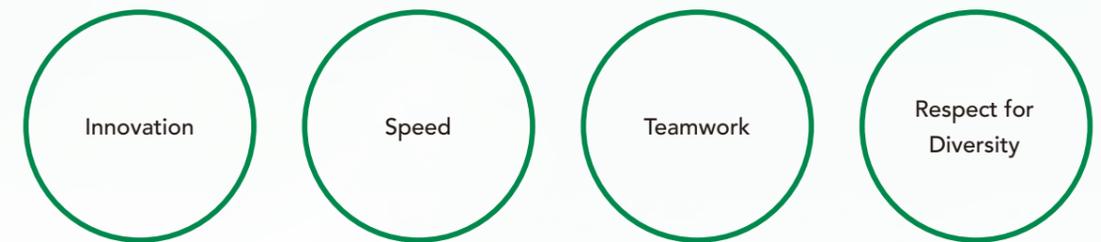
Stakeholder	Responsibility of Sekisui Kasei Group
Customers	The Company not only supplies safe/reliable products but also bring comfort and convenience to the lives of people by always creating new functions/value and proposing materials/services as solutions for customers.
Group Members	The Company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

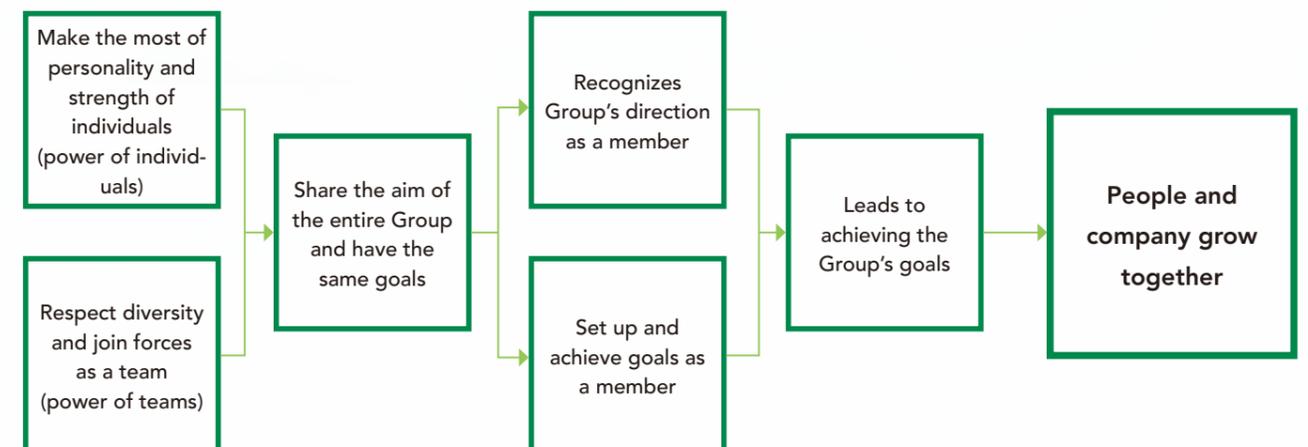
Under the concept of *Zen-in Keiei*, each member thinks by themselves, proposes, and makes voluntary actions, not be forced by top-down instructions. Under the Sekisui Kasei Group culture, we value brainstorm with other members for improving personality and strength of individuals.

For the growth of both company and its people

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

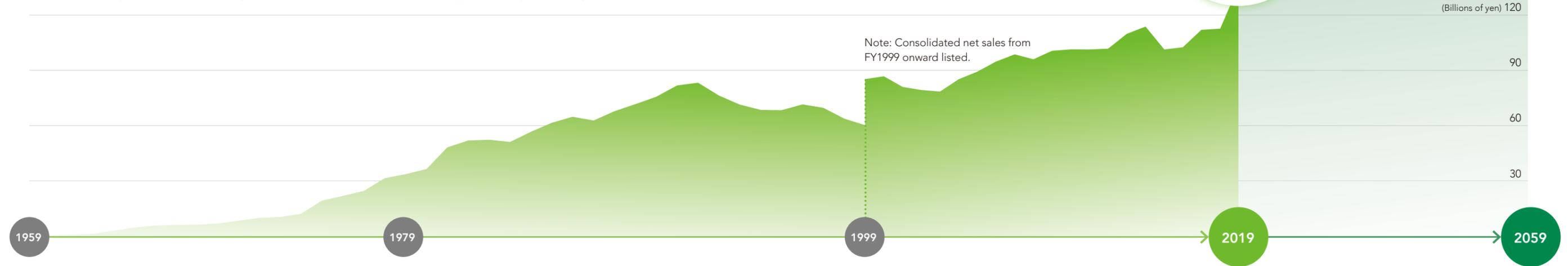


Zen-in Keiei



Challenges and Growth Trajectory

From 1959 to 1960, began the manufacture and sale of the first expandable polystyrene (EPS) using technology developed in Japan. Continues development along with Japan's economic growth and later aims for further sustainable growth through full-scale global expansion.



Establishment Period Sekisui Kasei's First 20 years

Sekisui Sponge Industries Co., Ltd. (the current Sekisui Kasei Co., Ltd.) was established in 1959. The following year, we began manufacturing and selling the first EPS (expandable polystyrene) beads using technology developed in Japan. Our business underwent rapid growth, driven by ELEN Beads and ELEN Sheets, and our shares were listed after five years in business. We overcame the obstacles presented by the 1973 oil crisis and the movement to ban EPS foam, and in 1978 we listed our shares on the First Section of the Tokyo Stock Exchange.

- 1959 Sekisui Sponge Industries Co., Ltd. established
Commenced EPS beads and PVC foam businesses
- 1961 Kanto Plant (the current Sekisui Kasei Kanto Co., Ltd.)
built in Ibaraki Prefecture
- 1966 Tenri Plant (the current Sekisui Kasei Tenri Co., Ltd.)
built in Nara Prefecture
- 1969 Company name changed to Sekisui Plastics Co., Ltd.
Shiga Plant (the current Sekisui Kasei Shiga Co., Ltd.)
built in Shiga Prefecture
- 1970 Kasahara Kasei Co., Ltd. (the current Sekisui Kasei Toubu
Co., Ltd.) established in Ibaraki Prefecture
- 1976 Hokkaido Elen Co., Ltd. (the current Sekisui Kasei Hokkaido
Co., Ltd.) established in Hokkaido
- 1978 Oita Plant (the current Sekisui Kasei Oita Co., Ltd.)
built in Oita Prefecture
Assigned to the First Section of the Tokyo Stock Exchange
and the Osaka Securities Exchange

Growth to Maturity Period Years 21 to 40

The Company continued to develop in line with Japan's economic growth, but with the collapse of the bubble economy, our earnings grew progressively weaker, with consolidated operating losses recorded for four consecutive years from 1995. Against this backdrop, we switched direction from a policy of multifaceted expansion of our existing businesses to one that emphasizes "selection and concentration." Various measures including withdrawals from businesses and early retirement programs were implemented.

- 1989 Okayama Plant (the current Sekisui Kasei Tenri Co., Ltd.
Okayama Mfg. Department) built in Okayama Prefecture
- 1994 Ibaraki Shimodate Plant (the current Sekisui Kasei Kanto Co.,
Ltd., Shimodate Mfg. Group) built in Ibaraki Prefecture
Acquired Giken Kasei Co., Ltd. (the current Sekisui Kasei
Kansai Co., Ltd.)
- 1995 With land expropriated by Nara City, Nara Plant closed

Global Development Period Years 41 to 59

As new businesses including PIOCELAN and TECHPOLYMER began to contribute to earnings, we moved from rebuilding businesses to a return to growth. To build on this growth, we began full-scale global business development, and despite a surge in the price of crude oil and a global recession, we achieved our long-held goal of consolidated net sales of ¥100 billion, with ¥5 billion of consolidated operating income in FY2009.

- 2004 Sekisui Plastics Yamaguchi Co., Ltd. (the current Sekisui Kasei
Seibu Co., Ltd.) established in Yamaguchi Prefecture
- 2006 Sekisui Plastics U.S.A., Inc. (the current Sekisui Kasei U.S.A.
Inc.) established in the United States
- 2007 Sekisui Plastics Europe B.V. (the current Sekisui Kasei Europe
B.V.) established in the Netherlands
- 2008 Taiwan Sekisui Centex Co., Ltd. (the current Sekisui Kasei
Taiwan Co., Ltd.) established in Taiwan
- 2009 Marking 50th anniversary, formulated the Sekisui Plastic
Group's 100th Year Vision
- 2010 Sekisui Plastics Kyushu Co., Ltd. (the current Sekisui Kasei
Seibu Co., Ltd.) established in Fukuoka Prefecture
- 2012 Sekisui Plastics Chubu Co., Ltd. (the current Sekisui Kasei
Chubu Co., Ltd.) established in Aichi Prefecture
Sekisui Plastics (Thailand) Co., Ltd. (the current Sekisui Kasei
[Thailand] Co., Ltd.) established in Thailand
- 2013 Sekisui Plastics Tohoku Co., Ltd. (now Sekisui Kasei Tohoku
Co., Ltd.) established in Miyagi Prefecture
- 2014 Sekisui Plastics Toubu Co., Ltd. (the current Sekisui Kasei
Toubu Co., Ltd.) established
- 2015 Sekisui Plastics Mexico S.A. de C.V. (the current Sekisui Kasei
Mexico S.A. de C.V.) established in Mexico
- 2016 Made Yamakyu (the current Sekisui Kasei Yamakyu Co., Ltd.) a
consolidated subsidiary
- 2019 Made Proseat GmbH & Co. KG, a European manufacturer of
automotive components, a consolidated subsidiary

To a Next "Stage" From our 60th Year (2019)

Make Innovations Stage-II

In 2019, the Company's 60th year of operations, we not only advanced the "execution of strategies to strengthen earnings structure" and "business portfolio transformation" goals commenced during our previous mid-term management plan, but also launched as our new mid-term management plan "Make Innovations Stage-II," which features a basic policy aimed at solidifying our position as a leading environmental company.

Business Model

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



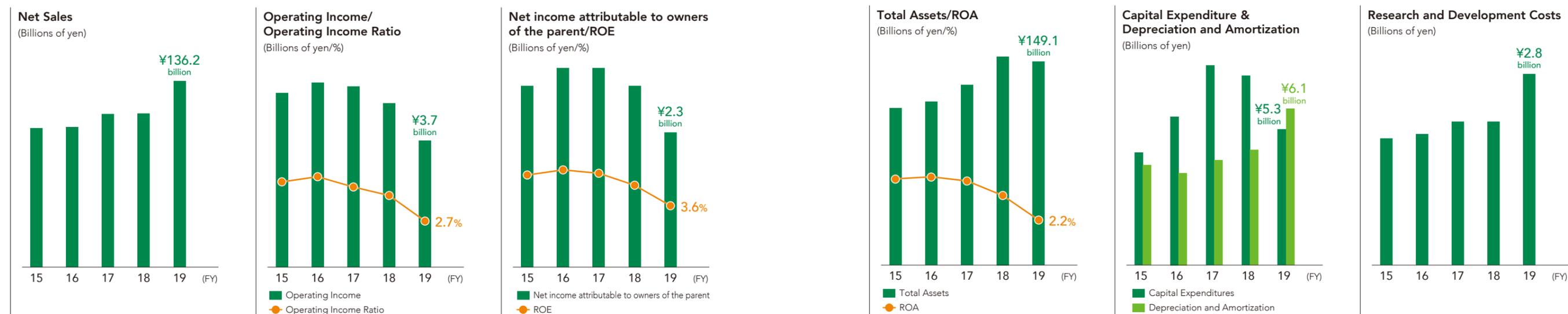
Consolidated Financial Highlights

Fiscal Year	2009	2010	2011	2012	2013	2014*2	2015	2016	2017	2018	2019	2019	
For the year:												Millions of yen	Thousands of U.S. dollars*1
Net sales	¥ 100,744	¥ 101,418	¥ 101,350	¥ 101,784	¥ 109,923	¥ 113,660	¥ 101,559	¥ 102,398	¥ 112,101	¥ 112,593	¥ 136,155	\$ 1,266,205	
Operating income	5,118	4,876	2,271	1,152	2,124	3,930	5,118	5,401	5,284	4,784	3,725	34,641	
Recurring income	4,475	4,628	2,107	1,237	2,206	4,180	4,862	5,049	5,154	4,776	3,391	31,535	
Net income attributable to owners of the parent	2,393	2,306	744	926	1,264	2,530	3,147	3,404	3,448	3,129	2,323	21,603	
Capital expenditures	3,735	4,561	5,059	6,849	3,434	5,908	4,424	5,836	7,762	7,368	5,261	48,926	
Depreciation and amortization	3,886	3,814	3,848	3,940	3,856	3,999	3,937	3,591	4,087	4,517	6,071	56,459	
Research and development costs	2,044	2,237	2,261	1,993	1,936	1,877	1,856	1,916	2,104	2,145	2,769	25,751	
At year-end:													
Total assets	¥ 97,008	¥ 99,263	¥ 101,889	¥ 105,562	¥ 110,687	¥ 116,201	¥ 114,892	¥ 119,670	¥ 131,774	¥ 152,845	¥ 149,103	\$ 1,386,618	
Total net assets	46,848	48,165	48,911	50,929	54,036	58,275	58,800	61,363	66,145	66,771	67,217	625,100	
Interest-bearing debt	17,126	17,175	17,068	18,492	18,566	19,467	18,274	18,424	19,096	35,229	39,583	368,111	
Amounts per share*3:												Yen	U.S. dollars*1
Net income	¥ 50.58	¥ 49.08	¥ 15.84	¥ 19.72	¥ 26.96	¥ 54.14	¥ 67.34	¥ 73.03	¥ 75.33	¥ 69.09	¥ 51.29	\$ 0.48	
Net assets	977.28	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	13.49	
Cash dividends	20.00	20.00	12.00	8.00	14.00	18.00	24.00	24.00	27.00	30.00	30.00	0.28	
Key ratios:													
Operating income ratio (%)	5.1	4.8	2.2	1.1	1.9	3.5	5.0	5.3	4.7	4.2	2.7		
ROE (%)	5.3	5.0	1.6	1.9	2.5	4.6	5.4	5.7	5.5	4.8	3.6		
ROA (%)	4.7	4.7	2.1	1.2	2.0	3.7	4.2	4.3	4.1	3.4	2.2		
Equity ratio (%)	47.4	47.6	47.1	47.4	48.0	49.5	50.6	50.7	49.6	42.7	44.1		

*1 U.S. dollar amounts represent translations of Japanese yen, for readers' convenience only, at the rate of ¥107.53 = U.S.\$1.00, the prevailing exchange rate at March 31, 2020.

*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.

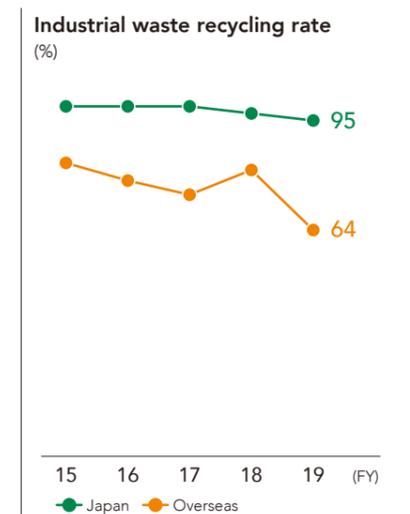
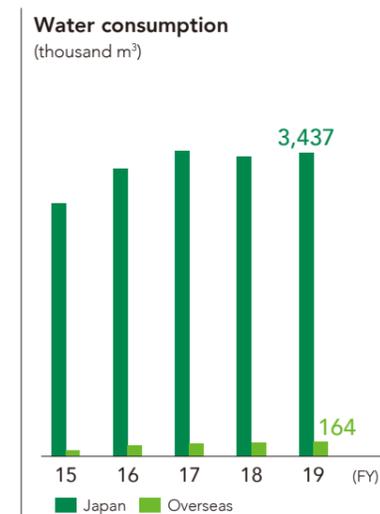
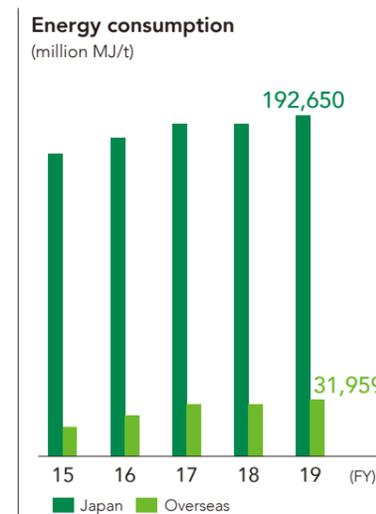
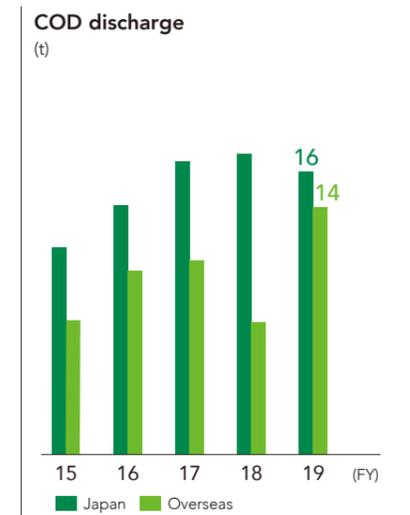
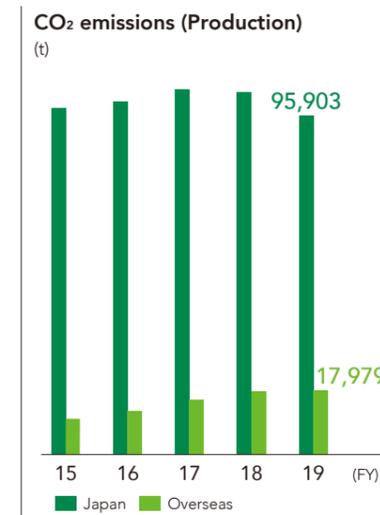
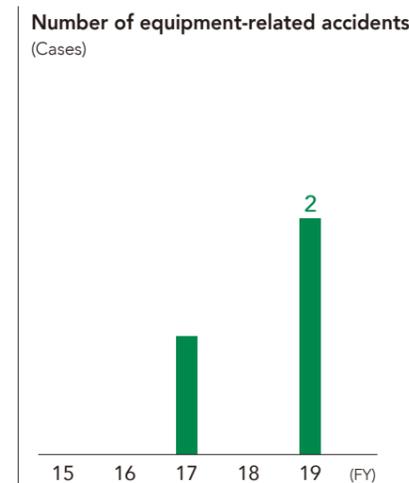
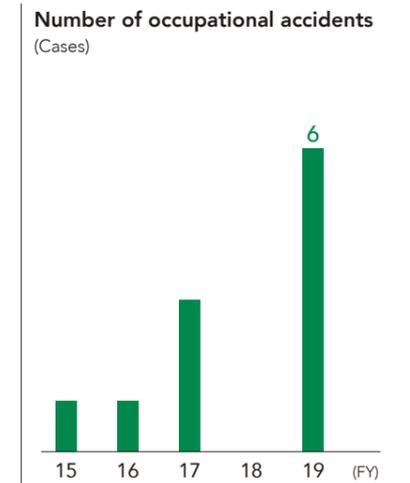
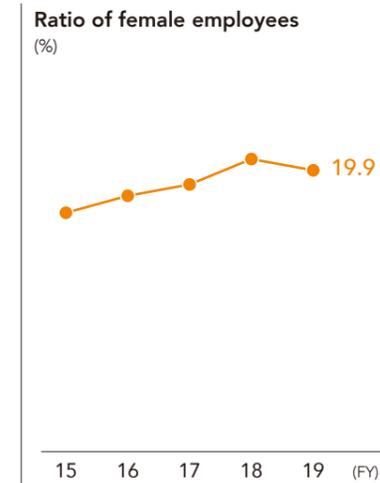
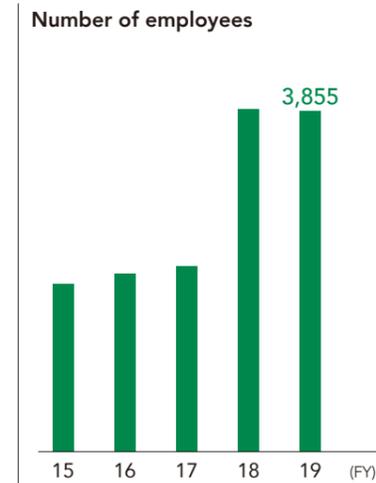
*3 Sekisui Kasei Co., Ltd. consolidated its common share at the ratio of two shares to one, effective on October 1, 2016.



Non-financial Highlights

Fiscal Year	2015	2016	2017	2018	2019
Number of production sites:					
Japan	35	36	37	39	39
Overseas	8	10	10	22	22
Inputs (Japan):					
Energy consumption (million MJ)	171,086	180,126	188,244	188,275	192,650
Unit consumption/output (MJ/t)	8,308	8,308	8,453	8,389	8,782
Water consumption (thousand m ³)	2,865	3,256	3,459	3,389	3,437
Unit consumption/output (m ³ /t)	13.9	15.0	15.5	15.1	15.5
Outputs (Japan):					
CO ₂ emissions (Production) (t)	98,081	99,885	103,320	102,405	95,903
Unit consumption/output (kg-CO ₂ /t)	462	461	464	457	432
CO ₂ emissions (Transportation) (t)	6,506	7,177	7,854	8,304	8,180
Unit consumption/output (kg-CO ₂ /t)	32.4	38.0	39.2	39.5	39.5
CO ₂ emissions (Office) (t)	131	121	110	125	100
Unit consumption/output (kg-CO ₂ /m ²)	34.3	31.7	28.8	32.7	26.2
Effluent (Production) (thousand m ³)	2,799	3,044	3,263	3,241	3,268
Unit consumption/output (m ³ /t)	13.6	14.0	14.7	14.4	14.7
COD discharge (t)	11.7	14.1	16.6	17.0	15.8
Industrial waste (t)	7,278	8,138	8,961	8,780	10,436
Recycling rate (%)	98.8	98.5	98.5	97.2	95.4
Inputs (Overseas):					
Energy consumption (million MJ)	16,670	22,936	29,156	29,550	31,959
Unit consumption/output (MJ/t)	13,571	14,041	16,165	14,526	1,457
Water consumption (thousand m ³)	70	118	138	156	164
Unit consumption/output (m ³ /t)	5.7	7.2	7.7	7.7	8.7
Outputs (Overseas):					
CO ₂ emissions (Production) (t)	10,093	12,398	15,406	17,799	17,979
Unit consumption/output (kg-CO ₂ /t)	819	759	854	875	954
Effluent (Production) (thousand m ³)	62	106	109	75	134
Unit consumption/output (m ³ /t)	5.1	6.5	6.0	3.7	7.1
COD discharge (t)	7.6	10.4	11.0	7.5	13.6
Industrial waste (t)	425	410	476	706	763
Recycling rate (%)	82.6	78.3	73.9	81.0	63.9
Other indicators:					
Number of employees	1,895	2,011	2,101	3,881	3,855
Number of employees in Japan	1,545	1,633	1,680	1,723	1,695
Number of employees outside Japan	350	378	421	2,158	2,160
Ratio of female employees (%) (excluding subsidiaries in Europe and the Americas that are not publicly listed)	16.9	18.1	18.9	20.7	19.9
Number of occupational accidents (Cases)	1	1	3	0	6
Number of equipment-related accidents (Cases)	0	0	1	0	2

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: Excluding Proseat Europe GmbH



A Message from the President



Aiming to become a leading environmental company, we will contribute to a sustainable society on a global basis centered around SKG-5R.

President and Chief Executive Officer
Masato Kashiwbara

Q1 All companies' initiatives are being advanced toward the Sustainable Development Goals (SDGs) set by the United Nations. Please explain the content of what Sekisui Kasei is working on from the perspective of contributing to a sustainable society.

A1 At the present time, we are promoting SKG-5R activities from the perspective of contributing to a sustainable society. In addition to the 3R (Reduce, Reuse, and Recycle) initiatives into which we have traditionally put all our efforts, SKG-5R includes our original 2Rs.

This 2R means "Replace" which replaces conventional products with biodegradable/biomass-derived products ("ELASTIL BIO", "LIGHTLON BIO", etc.) and "Re-create" which creates new value products that contribute to the environment. By adding 2R, we aim to contribute in a way that is unique to the Sekisui Kasei Group.

In the first place, our core foam products business is resource- and energy-saving and also maintains a high recycling rate. We also take pride in that we have been developing *monozukuri* (manufacturing craftsmanship) that coexists with the environment from the Company's founding. However, as the way society views plastics has become more entrenched, I felt the necessity to promote information disclosure as a united industry, including the supply chain, to enable society to gain a more correct understanding, and thus I launched this initiative.

In the years to come, we will examine, certify, and register our products based on the degree of environmental contribution, set a target of 100 registrations and a sales ratio of 20% by FY2030 and thereby raise awareness of our contribution to the environment.



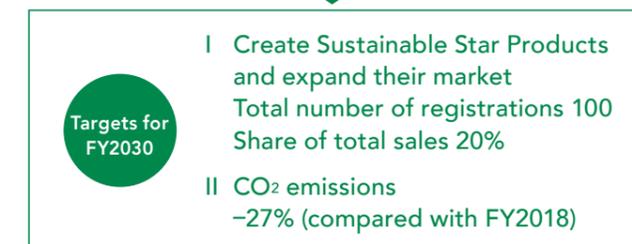
Q2 What are your thoughts on the background to and the purpose of formulating the "SKG-5R STATEMENT" and the plan for achieving its goals?

A2 We believe that our business areas and technologies can contribute to solving environmental and social issues such as the SDGs. We also recognize that social contribution through business is an important management issue for a company to grow over the medium to long term.

For this reason, we deemed "promote business portfolio transformation and the execution of strategies to strengthen the earnings structure while solidifying our position as becoming leading environmental company" as the basic policy of our current mid-term management plan and clarified our corporate stance.

Summarizing the background, thoughts, realization measures, and goals of this policy of "solidifying our position as a leading environmental company," the SKG-5R STATEMENT was formulated to show our commitment to all stakeholders.

Having set the following two goals to be attained in 2030, they are being factored into quantitative plan figures for each department and a system is being put in place to manage progress in the same way as performance goals.



Become leading environmental company

A Message from the President

Q3 The problem of ocean plastic waste is being highlighted worldwide. Please tell us about Sekisui Kasei's stance and efforts.

A3 About 50 years ago, in 1971, we led the industry in starting to recycle expandable polystyrene (EPS) foam. Since then, this initiative has spread throughout the industry, and in recent years the recycling rate of EPS foam in Japan has continued to achieve at around 90%.

We have established a system for recycling food tray containers collected at supermarkets in collaboration with container manufacturers, and we recycle the collected trays as a foam material for trays. With regard to the packaging materials for parts used in the knock-down production of automobiles, should the scrap processing of our products at the site where they were received present problems, we are making full use of our global recycling network and providing services to build appropriate recycling routes in every country. In this way, we recognize that recycling in our main products is progressing at a fairly high level.

Meanwhile, as an initiative conducted in collaboration with other companies in the same industry, Japanese Expanded Polystyrene Association (JEPSA) industry group engages in EPS recycling and in public relations activities. Overseas, there are organizations, such as the Asian Manufacturers of Expanded Polystyrene (AMEPS) in Asia and, on a global scale, the International EPS Alliance (INEPSA), working to protect the environment while cooperating with Japan.

Participating not only in the EPS industry but also in the chemical industry and organizations that joint efforts of the public and private sectors, we are focusing on addressing the problem of waste plastics.



Examples of Participation in Other Organizations

• **Japan Initiative for Marine Environment (JaIME)**

Established by five organizations in chemical-related industries: Japan Chemical Industry Association; the Japan Plastics Industry Federation; the Plastic Waste Management Institute; Japan Petrochemical Industry Association; and Japan PVC Pipe and Fittings Association. Participated in declaration activities to solve the ocean plastic waste problem (about 60 companies/organizations)

• **Clean Ocean Materials Alliance (CLOMA)**

Transcending the boundaries of the plastics industry, CLOMA undertakes wide-ranging collaboration, including with material providers, their processors and users, and is the mother entity for bringing about innovation. (Approximately 350 companies/organizations)

Government agencies, such as the Ministry of Economy, Trade and Industry, are also positioned as observers, and the public and private sectors work together on promotion.

Q4 Since the start of 2020, the spread of COVID-19 has been affecting the structure of society and industry. How do you view demand for your products and the pandemic's impact on the supply chain?

A4 The COVID-19 pandemic has had an enormous impact on global economic activity, and a wide range of uncertainties remain, such as the timing of a return to normal and the state of economic activity after that time. The situation is changing hour by hour, so I would like to constantly gather information so that I can carefully make assessments.

Although it is extremely difficult to determine, since we cannot develop our business without setting prospects and assumptions for the future, as of the end of July we are forecasting the following. The outlook for FY2020 is that, in the Human Life segment, food container-related items demand for ready-made meal will continue to be strong. But

inbound demand for holidaymakers and tourism will continue to be sluggish and recovery will be delayed. Agriculture and fisheries, building materials, and civil engineering-related products will gradually recover due to the resumption of economic activities.

Meanwhile, in the Industry segment, although it will be difficult for automobile-related parts and parts packaging materials to make a complete recovery, we estimate that there will be slowly recovery and that home appliances and IT-related business will be an upward trend but with regional differences. We grasp that medical/healthcare-related business will gradually recover with the resumption of economic activities.

With regard to the supply chain, to make sure that the global turmoil and stagnation do not affect parts procurement and product transportation, we are strengthening business continuity plan (BCP) support by promoting purchasing from multiple business partners and the diversification of production bases.

Q5 What are your thoughts about the accelerated progress of digitalization due to the spread of novel coronavirus infections?

A5 Due to the impact of the spread of COVID-19, remote working seems to be advancing in a variety of companies. At Sekisui Kasei, the teleworking style has begun to become instilled as one of the options, mainly in sales and management departments. Immediately after the state of emergency was declared, the highest priority was given to employee safety and we shifted basically to working from home. Even after that, we have been working to reduce the attendance rate in the workplace with the aim of ensuring employee safety and reducing the risk of infection.

Such moves are not a passing fad, and I anticipate that digitalization will accelerate in the months and years to come. I would like to actively incorporate various tools while accurately assessing their effects.

For example, IoT utilization, automation and production control systems have already been introduced and installed at production sites. In sales departments, progress is also being made with marketing automation, visualization, and the centralized management of prospective customers.

From now on, we are advancing preparations under a policy of drastically promoting digitalization in a broader sense, such as the introduction of AI in research and development and digital transformation (DX).



Q6 What measures have you taken to prevent the spread of novel coronavirus infections?

A6 As of February this year, we already had in place the COVID-19 Emergency Response Headquarters with me, the president, as its head. We have been collecting information on each region, including on a global basis, and taking prompt measures.

In terms of the measures, the health and safety of employees and their families are given top priority. We are striving to take timely measures to prevent the spread of COVID-19 infections. We send in-house notifications whenever the situation changes, such as recommendations for daily physical condition management, working from home and staggered working hours and the use of video conferencing. (As of August 2020, more than 20 such notifications have been issued.)

Examples of Notifications

- Working system (attendance rate, staggered commuting, teleworking, etc.)
- Overseas travel (basically banned, etc.)
- Domestic movement (in principle, ban on travel to production sites, etc.)
- Exhibitions in Japan and overseas (in principle, ban on exhibitions, tours, etc.)
- Response to meetings, etc. (utilization of video conferencing, wearing of masks, etc.)
- Customer support (designation of reception location, history management, etc.)
- How to use in-house cafeterias (staggered timings, avoidance of face-to-face seating, etc.)

A Message from the President

Many of our products are also used in food packaging, which is a daily necessity. To maintain a stable supply system, we therefore strengthened our response, such as thorough hygiene management and attendance management at production sites, and refrained from accepting visitors from other companies.

The situation remains unpredictable, and so the activities of the emergency response headquarters are continuing.

Q7 Please tell us your thoughts on the new preparations you need to make in the post-COVID-19 era.

A7 Looking at the current status of the spread of infections, I grasp we cannot see signs that this situation is being brought under control. Therefore, I think how we spend this “with COVID-19” period is important.

During the period of measures to prevent the spread of infections, teleworking was advanced at once, and a variety of applications for online web conferences and meetings proved their usefulness. Many matters to consider and issues remain, but I believe that introducing and utilizing these tools will bring many benefits that will lead to work-style reform and a better work-life balance in a society that has changed significantly since the COVID-19 pandemic.

Among the various measures implemented at this time, we have begun to consider the permanent introduction and systematic implementation of teleworking. Furthermore, since the promotion of flexible work styles, such as staggered commuting, and health management are very



important for promoting diversity and also have the effect of securing diverse and excellent human resources and increasing employee engagement. We will continue to focus on them in the months and years to come.

Due to the transformation of society, people’s lifestyles and economic activities have changed significantly, and we see this as an opportunity to create new businesses. One example is the increase in the use of food containers and food trays due to the increase in take-out demand, and I would like to actively address all aspects of that.

Q8 Please explain the results of the first year and future outlook for the mid-term management plan that started in FY2019.

A8 The mid-term management plan (Make Innovations Stage-II), which started last year, aims to further evolve and strengthen the changes promoted in the previous medium-term plan (MI60) and further improve corporate value. To achieve this goal, we plan to promote “business portfolio transformation” and the “execution of strategies to strengthen earnings structure.”

Due to the impact of the M&A of the Proseat Group, which was carried out as part of this plan, there have been significant increases in the share of international sales and in the industry- and automotive-related business portfolios. In terms of earnings, however, the slump in the global automobile market, including Europe, combined with the slump in LCD panel applications, led to a significant decrease in earnings.

We have determined that the automobile, home appliances/IT, and medical/healthcare fields, which are the core business fields for “business portfolio transformation,” are expected to grow over the medium to long term, but the situation remains extremely severe due to the spread of novel coronavirus infections. Going forward, we will continue to respond quickly to the changing business environment.

In the meantime, with a view to “reforming our earnings structure” we are making drastic cost reductions and advancing reviews of low-profit businesses.

Q9 ESG investment is attracting attention, and it is considered to be important to have a vision for corporate activities over the medium to long term. Please explain Sekisui Kasei’s ESG strategy.

A9 Concerning ESG, we are conducting activities on the following matters deemed to be of material concern. In case of E (environment), initiatives are centered on SKG-5R, S (society) involves the promotion of social contribution through business and work-style reforms, and under G (governance) we are examining successor development plan and the remuneration system.

In particular, in the past year, we have set up a Nominating and Compensation Advisory Committee regarding governance, and are studying the development of successors to officers and a new remuneration system. We have also introduced a new restricted stock (RS) system in the compensation system to promote value sharing with shareholders. Furthermore, we hold regular training sessions for officers with the aim of improving the level of directors. In past executive training sessions, we had invited outside lecturers to hold study sessions, but in the current fiscal year we are planning to hold training sessions for which the themes to be addressed have been set in advance.

In contrast, to promote such an ESG strategy, I believe that the capabilities of the Group’s human resources are of the utmost importance. By practicing *Zen-in Keiei* (management in which every employee is involved), the culture of the Sekisui Kasei Group, we are strengthening our efforts to develop human resources so that each individual can fully demonstrate his or her abilities.

As part of our human resource development and diversity efforts, we formulated an action plan for promoting the active participation of women and supporting the development of the next generation for the three years from 2019. We are now systematically promoting the promotion of active participation and development support for women. Among them, the number of female department heads (four as of September 2020) and females in management positions has increased, and one female representative has been appointed at a Group company. Furthermore, we have set a target value of 17% for the percentage of women recruited, and we are conducting hiring activities for female employees to exceed the set ratio.

In addition, by FY2019 more than 90 people had graduated from the selective training SK-Juku (SK Cram School),



which is continuously held every year for the purpose of developing next-generation leaders and continue to be held in FY2020. Going forward, I would like to further respect diversity and strengthen our human resource pool.

Q10 Please explain your thoughts with regard to shareholder returns for the current fiscal year.

A10 Our positions the returning of profits to shareholders as an important management issue. Our basic policy remains 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. Based on this policy, we are targeting stable returns over the medium to long term with a consolidated payout ratio of 30% to 40%. In terms of retained earnings, we are giving priority to strategic investments that will lead to further growth and investments in projects that will lead to strengthening of the management structure.

This year, we are considering dividends with an emphasis on shareholder returns while taking into consideration the impact of the spread of novel coronavirus infections.

President and Chief Executive Officer

Masato Kashiwabara

Make Innovations

Stage-II

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

Make Innovations Stage-II Positioning and Quantitative Targets

Our previous mid-term management plan "Make Innovations 60" covered FY2016 to FY2018 and focused on transforming our business portfolio and reforming our earnings structure in line with the goal of transforming our business model and advancing to the next stage of growth as Sekisui Kasei moved into its 60th year of operations.

From FY2019, we believe it vital to strengthen the transformations we have undertaken in the three years covered by the previous mid-term management plan, and in addition to further advancing the "execution of strategies to strengthen earnings structure" and "business portfolio transformation" goals, we have created and are promoting our new three-year mid-term management plan "Make Innovations Stage-II," which contains a basic policy aimed at cementing the Group's position as a leading company in environmental issues.

(Note) The table on the right shows the planned values as of April 2019. The planned values for FY2021 may be revised when the impact of COVID-19 infections on the Group becomes known, and at the time when the calculation of a rational earnings forecast is judged possible.

Make Innovations Stage-II Quantitative Targets

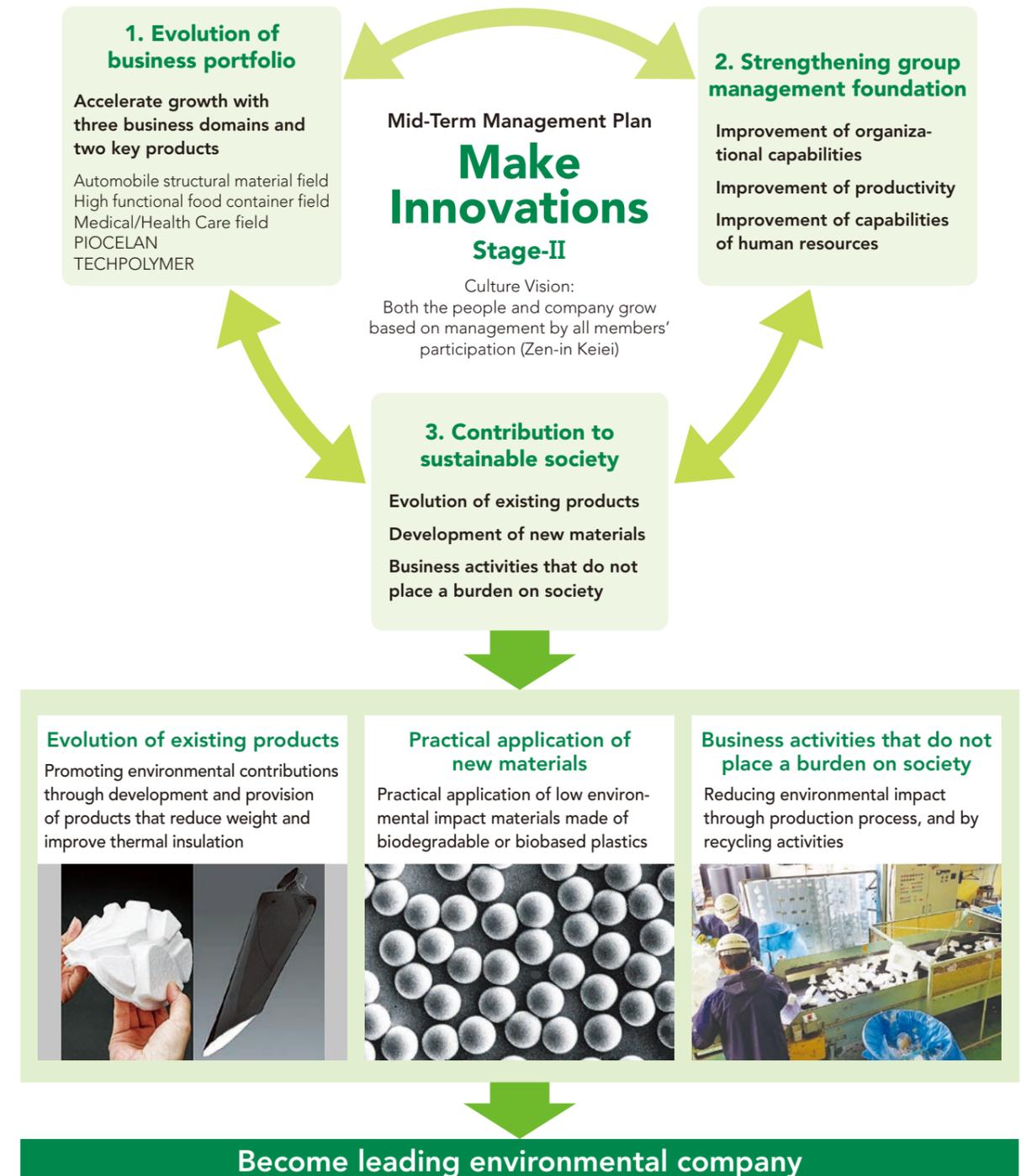
	FY2018 results	FY2019 plan	FY2021 plan	Average annual growth over three years
Net Sales	1,126	1,450	1,550	11%
(Overseas sales)	204	535	580	42%
(Overseas sales ratio)	(18%)	(37%)	(37%)	
Operating income	48	49	78	18%
(Operating income ratio)	(4.2%)	(3.4%)	(5.0%)	
Recurring income	48	48	76	17%
Net income attributable to owners of the parent	31	32	50	17%
ROE	4.8%	4.8%	6.8%	

Key "Make Innovations Stage-II" concepts

- Promote to get contribution from M&A Activities in MI60
- Work to bring about actual results early with MI60 development projects
- Promote further Business Portfolio Transformation
- Strengthen group management foundation and implement efforts that further emphasize the environment

Priority Policies

Sekisui Kasei Group is promoting three priority policies to achieve medium-term management plan basic policies of "cementing our position as a leading company in environmental issues," as well as advancing the "business portfolio transformation," and the "execution of strategies to strengthen our earnings structure."



Business Overview: Industry



Market Environment and FY2019 Results

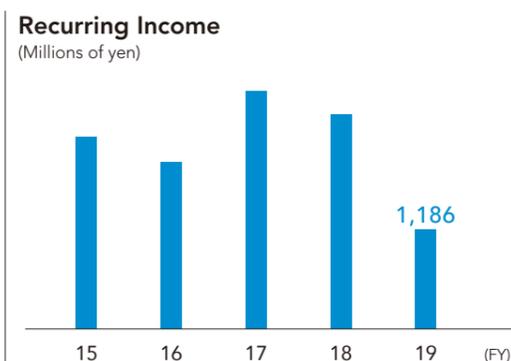
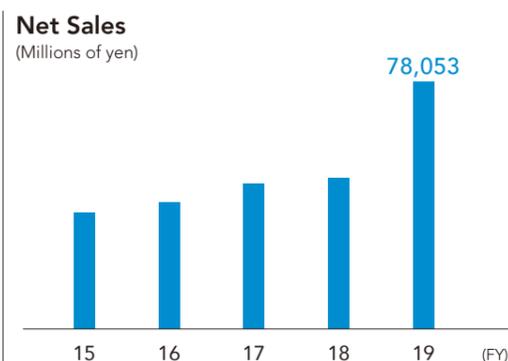
FY2019 net sales in the Industry Segment were ¥78.053 billion, an increase of 63.5% YoY.

In the Home Appliance/IT fields, demand in 1H was firm for *PIOCELAN* (polystyrene/polyolefin hybrid resin foam) and other products for use in LCD panel transportation material applications, though the pace of growth gradually subsided. While demand for *TECHPOLYMER* (organic polymer particles) for use in light diffusion applications, such as liquid crystal panels, was expected to recover from 2H, sales were down YoY as the recovery from inventory adjustments took longer than previously expected.

In the Automotive field, sales of packaging materials for automotive parts improved in Japan, though growth was rather sluggish due to weakness in global automobile sales. Global utilization of automotive component applications using *PIOCELAN* and other company prod-

ucts expanded on the increased use by Japanese automakers. Performance at the Proseat Group remained sluggish, mainly on a slump in sales at the European automakers, which had an adverse impact on consolidated earnings. However, the effects from the acquisition of the company, including improvements in productivity and product sales to Japanese automakers, are now gradually becoming apparent.

In the Medical/Health Care-related fields, sales of *ELASTIL*, a thermoplastic elastomer bead foam, improved on the adoption of a new model in the midsole of running shoes. On the other hand, sales of *ST-gel*, a functional high-polymer gel, remained weak due to the impact from escalating trade friction on finished products from China to the US.



Initiatives in the Mid-term Management Plan & the FY2020 Outlook

Under the "Make Innovations Stage-II" Mid-term Business Plan, we will continue to promote "Business Portfolio Transformation," including an expansion of global sales and sales of priority products. Under this plan, we aim to accelerate growth with a focus on three business fields (the automobile structural materials, functional food container and medical/health care fields, of which the automobile structural materials and medical/health care fields are in the Industry segment) and two priority products

(*PIOCELAN*, *TECHPOLYMER*).

As a result of the spread of COVID-19, we expect a decline in automotive component and component packaging-related demand due to supply chain changes and production shifts at automakers in Japan, the Americas, Europe, and Asia. For the Home Appliances/IT fields, the timeline for a recovery in LCD panel light diffusion application-related demand still appears uncertain.

TOPIC Products Exhibited at K 2019

Sekisui Kasei exhibited its products at K 2019, the Trade Fair for Plastics and Rubber held in Dusseldorf, Germany from October 16 to October 23, 2019. The trade fair is held once every three years and is the world's largest international trade fair of plastic and rubber products. Alongside NPE in the US and IPF in Japan, it is one of the three largest plastics trade fairs in the world. Topics for discussion at the various booths included "Plastic Solutions 4.0" and "Young Professionals." At the Sekisui Kasei booth, we introduced new materials and products to visitors and discussed our intention to continue providing sustainable solutions for the future.



The K 2019 booth

Business Overview: Human Life



Market Environment and FY2019 Results

FY2019 net sales in the Human Life Segment were ¥58.1 billion, a decrease of 10.4% YoY.

In food containers, sales were generally firm, though year-end demand for convenience stores was somewhat weak. Demand for agricultural products was impacted by the large typhoons last fall, but was nevertheless favorable. On the other hand, fishery-related demand remained in a slump amid an ongoing nationwide decline in catch volume. In the construction materials and civil engineering-related fields, 1H results were boosted on the acquisition of sporting facility and associated

construction and roadwork projects, mainly in the greater Tokyo area.

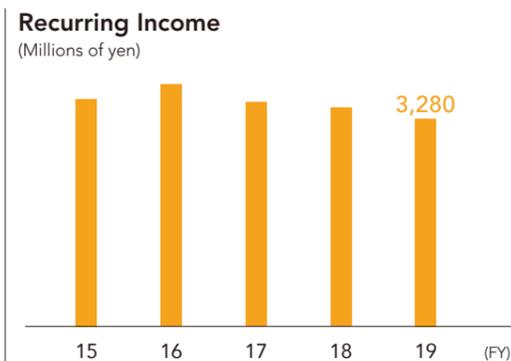
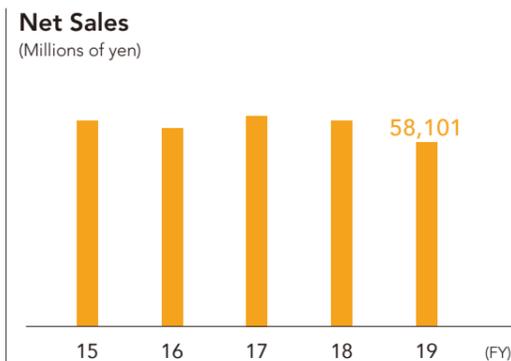
Sales volume for mainstay product *ESLEN Sheet*, a foamed polystyrene sheet, remained generally flat YoY amid firm food tray sales, but a slump in instant noodle container demand. Sales volume for *ESLEN Beads*, which are expandable polystyrene (EPS) beads, were also flat YoY, with firm demand in soil applications offsetting weak demand in other applications. Profit declined YoY, largely as weak sales countered the company's efforts to reduce costs.

Initiatives in the Mid-term Management Plan & the FY2020 Outlook

In the food field, under the "Make Innovations Stage-II" Mid-Term Management Plan we will work to expand business of new products and sales channels in addition to expanding existing fields with a focus on functional food containers. In the agriculture/fishery-related field we will work to expand sales, including import and export business, by maintaining freshness technology and logistics efficiency proposals tailored to domestic specialty products. With regard to global expansion, we will focus on fruit trays and functional food containers as key products. Furthermore, as efforts to improve profitability we will continue to improve productivity and logistics

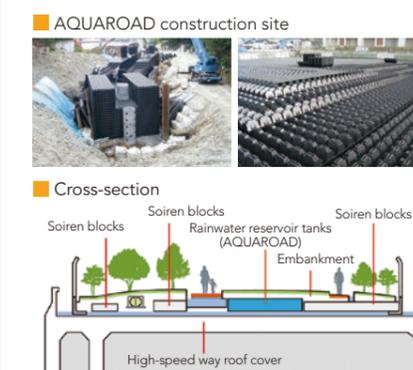
through energy saving and rationalization while continuing to review low-profit businesses.

As a result of the spread of COVID-19, we expect a deterioration in demand for travel and tourism-related materials on a decline in overseas visitors to Japan and domestic consumers staying at home. On the other hand, we expect demand for take-out containers and other products at supermarkets, convenience stores, and restaurants, to increase. We also expect a gradual recovery in demand for agricultural, fishery, and construction materials as economic activity resumes.



TOPIC AQUAROAD for use in rooftop greening applications

AQUAROAD is a plastic rainwater storage and infiltration tank that can be installed directly beneath the road, and is widely used for road flooding countermeasures and the handling of rainwater during torrential downpours. Sekisui Kasei has joined the Green Infrastructure Public-Private Collaborative Platform created by the Ministry of Land, Infrastructure, Transport and Tourism in March 2020 as part of our effort to promote our contribution to the environment such as applying AQUAROAD to rooftop greening and others. As shown with the Meguro Sky Garden project, located in Meguro-ku, Tokyo and opened in 2013, the company has a track record in greening projects combining AQUAROAD and the EPS civil engineering method using lightweight materials. Backed by this experience, we aim to continue contributing to the development of a rich urban environment by promoting the use of AQUAROAD in green infrastructure projects, including rooftop greening efforts.



Research & Development Strategy



Towards a More Beautiful Future

By engaging in the research challenges involved in providing products that help transform lifestyles and improve the global environment, we contribute to business activities through the creation of new value.

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

Research & Development Center Policy

- ◆ **Develop new products that contribute to the growth of the company**
Polish marketing mindsets, implement developments based on hypothetical needs, and actively utilize and promote interaction with other industries
- ◆ **Engage in developments that lead to enhancement and expansion of existing businesses**
Develop solutions that help enhance existing businesses from the three perspectives of “economic value,” “social value,” and “environmental 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 technologies that lead to new business and basic development of new products. Within the Center, the Basic Research Laboratory conducts research and development related to new technologies and

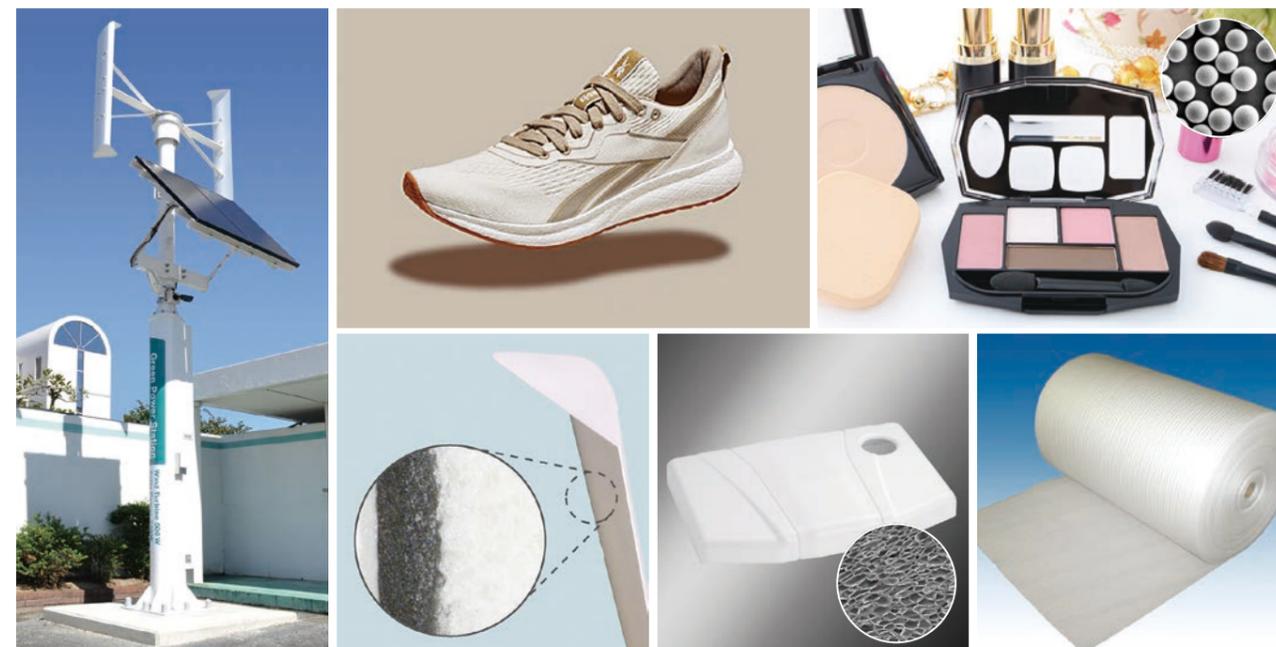
new materials, and handles basic research related to technical developments for the entire company. At the same time, the Center is also home to the Development Division, which allows the Center to help accelerate the development cycle for new products. The Center also manages evaluation and analysis work, as well as the protection and application of intellectual property. 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.

Research & Development Overview

[Industry]
We develop functional materials adapted to market needs based on out foam, fine particle, and gel technologies.

[Human Life]
We advance the addition of new functions and product improvements based on a diverse range of needs by leveraging our core foam extrusion, foam sheet molding, suspension polymerization, impregnated foam, and molding technologies.

Research and development costs for FY2019 totaled ¥2.769 billion.



SKG-5R Balances Sustainability and Growth

In order to tackle the solutions for climate change, ocean pollution, and other global-scale challenges faced by society, we advance research and development in connection with SKG-5R, which we raised as our Action Plan.

In particular, we are focused on initiatives that rely on our proprietary technologies for 2R: Replace (replace with sustainable materials and energy) and Re-create (contribute to environmental improvement through the re-creation of new value and function).

Since FY2019 we have enhanced development of *BIOCELLULAR* as the category brand for Replace. *BIOCELLULAR* is the name for our series of products in which petroleum-based raw materials have been replaced with plant-based raw materials.

ELASTIL BIO, a thermoplastic elastomer foam made by replacing the original materials with plant-based materials, maintains the lightweight, resilience, and cushioning prop-

erties that are essential for high-performance running shoes. For this reason, the material has been adopted by a major sports brand for the midsole of a shoe model that is scheduled to go on sale in the fall and winter of 2020.

TECHPOLYMER BIO, a biodegradable polymer micro-particle, was researched and developed as an eco-friendly product amidst the attention placed on the impact that microplastics have on ecosystems. We also developed a BIO grade of *LIGHTLON*, a non-cross-linked low-density polyethylene foam sheet used for applications ranging from packaging to agricultural materials.

Moreover, *ST-LAYER*, a compound carbon fiber reinforced plastic layer structure that was adopted for the blades used on *NTN Green Power Station* wind turbines, is a development product under Re-create that will help improve power generation efficiency through its lightweight, rigid properties. We used our proprietary *ST-Eleveat* heat resistant foamed plastic as the core of the structure, and we commercialized *ST-Eleveat BIO* during the research and development stage of this core material.

TOPIC Human Resources Strategy for Research & Development

The social environment encompassing the Group has become increasingly complex in the era of VUCA, which has led to the repeated emergence of unexpected events, produced a high level of uncertainty, and made it difficult to predict the future. Against this backdrop, human resources that can only undertake the research and development themes presented to them is unlikely to allow us to flexibly illustrate a future for the Group.

I therefore see it as my role to nurture engineers that maintain an awareness of expanding upon the image of the customers who will use the products they develop, illustrating their own development story, and changing the world through the products they create. Moreover, it is my duty to nurture a research and development climate that will foster these kinds of personnel.



Human Resources Strategy



“Human resources,” the source of sustained growth

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

General Manager of Personnel Dept.
Makoto Okuno

Personnel Systems Organization

Sekisui Kasei’s personnel systems work to promote the implementation of, and to embody, *Zen-in Keiei*. Each employee determines the operations that they are engaged in (work tasks), and based on the results of such activities and their behavioral process, we introduce a mechanism to assess results. These systems enable employees with motivation and competency to tackle challenges and perform at an increasingly high level, and play a role in nurturing our culture, namely, “*Zen-in Keiei* that drives growth for people and the Company.”

Systems that Enable Diverse Human Resources to Play an Active Role

More than merely line positions geared toward conventional-type human resources management that makes use of collective strengths, it is the professionals who possess advanced technical knowledge and skills, and practical experience, who put their capabilities to use to achieve results in the “professional system.” Having introduced this system, by establishing multiple line-type personnel courses, we are creating an environment in which diverse human resources can play an active role.

In addition, in 2019 we enhanced our “senior re-employment system,” taking an active approach to providing human resources age 60 and above with further chances for success and stimulating employment.

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, in order to carry out our management philosophy of *We*, Sekisui Kasei Group, practice *Zen-in Keiei* based on respect and mutual trust. We are always innovating in our aim of “new happiness,” we have formulated the five human resource qualities required of employees of the Sekisui Kasei Group.

We promote the manufacture of containers 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 become engaged through the exchange of ideas with others

5. Ability to execute

Personnel who make concrete plans to achieve objectives, act promptly and take the initiative, and who produce results

Human Resources-related Structure

The Personnel Department and Training Department, principle drivers of our human resources strategy, are united in carrying out an array of operations with regard to human resources.

The Personnel Department 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 Department is in charge of matters pertaining to the education and training of employees, and in developing an environment that enables the growth of individuals.

Initiatives for Human Resources Development

<Career growth>

While we have established training regimens that enable each and every employee to design their own course for growth, we also support personal growth by offering partial compensation for costs associated with correspondence courses or the acquisition of a variety of qualifications they choose to pursue for the own personal development.

<Nurturing management personnel>

With the objective of nurturing the next generation of leaders, we offer elective-type training through Sekisui Kasei Cram School (SK-Juku).

<Female leadership training>

Along with career stimulation training offered to female employees to raise motivation for growth gained in the course of designing their careers, we also provide leadership training.

- Women in Management as of Year-End FY2019 (Non-consolidated) Nine people (Includes four female department heads)
- Female Group company president One person



TOPIC Commemorative Founding Award

Once every year at Sekisui Kasei Group, we bestow awards to employees in recognition of their contributions to Company growth and annual business results.

As the President’s Award, not only are there awards for “achievements,” “skills,” and “originality and ingenuity,” we have also established awards for each Responsible Director. The awards are announced on October 1, the anniversary of the Company’s founding. In our internal Group publication, we spotlight details of the awards, a recipients’ list, and interviews of the winners, so that all employees will honor their efforts.

This type of awards system is one of a variety of initiatives that supports “*Zen-in Keiei* that drives the growth of people and the Company.”



CSR 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 CSR and business activities that put our management philosophy into practice, so that we can fulfill our responsibility to the international community.

Key CSR Issues and Targets

With the goal of contributing to the creation of a sustainable society, the Sekisui Kasei Group organizes its CSR 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 Environment	1. Environment	Contributing through our business to the preservation and improvement of the global environment	Business activities based on the SKG-5R* concept Evolving existing products Creating practical uses from new materials
		Contributing to the environment in cooperation with our stakeholders	Providing sustainable products, goods and services Expanding application products and improving the functionality of products that reduce weight and enhance thermal insulation Developing products making use of biodegradable and biomass plastics Promoting recycling and the saving of energy in production, administration, and management activities Improving the environmental management system and complying with all laws and regulations
S Social	2. Safety, security, and health	Achieving zero accidents	Strengthening efforts to eliminate accidents and realize zero occupational accidents
		Contributing to healthy lives	Developing products that contribute to the advancement of green energy and the prevention and mitigation of disasters Developing gels for use in medical products, cosmetics, and sports-related products
	3. Quality	Providing safe business activities and work environment	Strengthening efforts to eliminate accidents and realize zero occupational accidents
		Providing products and services of the highest quality	Developing products that contribute to the advancement of green energy and the prevention and mitigation of disasters Developing gels for use in medical products, cosmetics, and sports-related products
4. Community	Achieving co-existence and mutual prosperity with local communities and employees	Cooperating with local governments Participating in community clean-up activities, disaster relief operations Promoting flex-time, work-at-home, telecommuting for employees Promoting diversity and the development of human resources	
	Contributing to the environment in cooperation with our stakeholders	Compiling and releasing information in cooperation with industry and government Participating in Green Wave and Satoyama Conservation Activities	
G Governance	5. Governance	Strengthening the global governance system	Strengthening the global management system
		Sincere efforts to comply with the Corporate Governance Code	Implementing steady management, including advisory committees
		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, the Sekisui Kasei Group is 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 the CSR and business activities of the Sekisui Kasei Group that contribute to the achievement of each SDG.

Sekisui Kasei Group Initiatives				
E Environment	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.	P41-42
	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.	P43-44
	3-1	Consumer issues	We engage in manufacturing from the perspective of our customers and undertake the challenge of providing new value.	P45
	4-1	Recycle	We contribute to the promotion of regional recycling by expanding reclamation centers for used EPS (expandable polystyrene) foam.	P46
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.	P47-50



Environment

Special: Undertaking the Challenges of a Leading Environmental Company

Under our Mid-Term Management Plan, which we launched in 2019, the Sekisui Kasei Group has positioned "contributing to a sustainable society" as a priority issue for management. After back-casting from our aspirations for 2030 and following repeated discussions over the mid-term targets, we raised SKG-5R as our action plan. This action plan adds 2Rs (Replace and Re-create) that are unique to the Company to the conventional 3Rs (Reduce, Reuse, Recycle).

For a sustainable society and corporate growth

Implementation of SKG-5R

Mid-Term Management Plan
"Make Innovations Stage-II"
(FY2019 - FY2021)

- Evolution of business portfolio
- Strengthening Group management foundation
- Contribution to sustainable society

We will support and contribute to the Sustainable Development Goals (SDGs)



3Rs for the creation of a recycling-based society

Reduce

Reduce the use of resources and energy

[Core measures]

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

Reuse

Reuse waste materials and energy

[Core measures]

- Expand the lineup of reusable products
- Reuse distribution materials

Recycle

Develop recycling technologies and systems to promote recycling

[Core measures]

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

2Rs based on Sekisui Kasei Group's unique technologies

Replace

Promote replacement with sustainable materials and energy

[Core measures]

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

Re-create

Re-create value and function to contribute to environmental improvement

[Core measures]

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

Targets of SKG-5R

Target I

Create Sustainable Star Products and expand their market

In aiming to achieve a sustainable society, along with reducing the environmental impacts of products during the manufacturing stage, the Sekisui Kasei Group deems it necessary to minimize the environmental impacts of procured materials and products after their use by customers. Therefore, we established a target (FY2030) for the number of registered environmentally-friendly products, and are engaged in both evolving existing products and putting new materials into practical use.

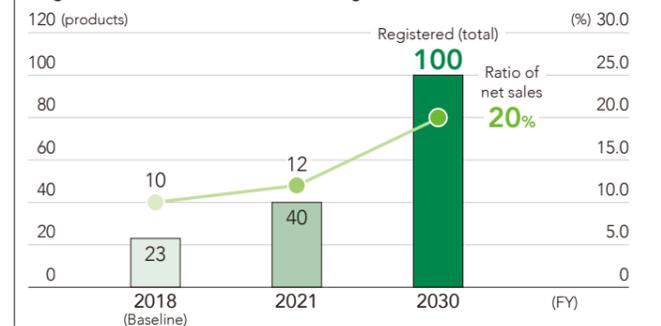
FY2030 Targets

Expanded lineup of Sustainable Star Products
Registered (total) Ratio of net sales
100 products **20%**

Create Sustainable Star Products

From among our Sustainable Products that consider environmental impact and limited resources throughout their life-cycle (eco-friendly products), under SKG-5R we certify those products that contribute to the environment to a particularly high degree as Sustainable Star Products (environmentally-friendly products), and have set out to index and promote their expansion.

Targets and results for the number of registrations and share of total sales



Target II

CO₂ emissions

As part of the Paris Agreement, which went into effect in November 2016, an international target (2°C target) was set in aims of keeping the average rise in global temperatures since the industrial revolution below 2°C.

In aims of achieving this 2°C target and "Business activities that do not place a burden on society," as raised in the Mid-Term Management Plan, we have formulated CO₂ reduction targets through FY2030.

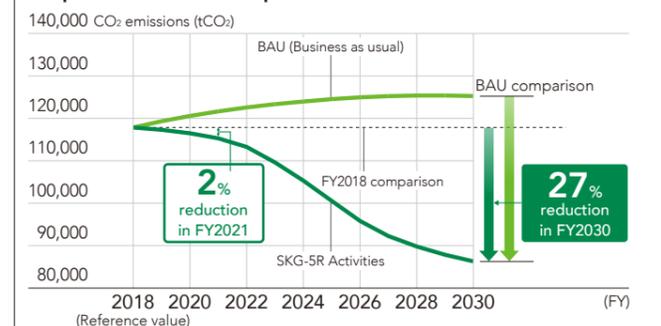
FY2030 Targets

Scope 1+2
-27%

Reduce CO₂ emissions in Scope 1+2 by 27%

Under SKG-5R, we set the target of reducing CO₂ emissions from our business activities (Scope 1 and 2) by 27% in FY2030 as compared with FY2018. This target was set in reference to the SBT (Science Based Target) Initiative standards.

Scope 1 + 2* reduction plan



* Scope1: Greenhouse gases directly emitted by businesses
Scope2: Indirect emissions coinciding with the use of electricity, heat, and steam supplied by other companies

Environment

Special: Undertaking the Challenges of a Leading Environmental Company

3Rs for the creation of a recycling-based society

Reduce
Eco-friendly and comfortable automobiles

Technology to minimize thickness and weight without compromising functionality

Despite the fact that lighter weight automobiles consume less fuel, in recent years total automobile weights have tended to increase with the installation of more equipment and the use of thicker automotive components designed to improve safety during a crash. PIOCELAN, a hybrid resin foam consisting of polystyrene and polyolefin, and ST-Eleveat, a high heat resistant foam, satisfy the strength and heat resistant performance demands of automobiles while enabling minimal wall thicknesses and weights (high foam expansion rate). Along with improving fuel efficiency and reducing CO₂ emissions, these materials also help to improve safety.

Technologies to develop materials and design solutions for repeated use

Foam plastic is used widely in packaging and delivery containers for delicate foods because it retains freshness with its excellent heat insulation property and protects the contents from impact during transport with its good shock-absorbing property. In addition to helping reduce food waste, it also holds the potential to contribute to longer-range transport of agricultural, forestry, and fishery products. Moreover, by making changes to the material selection and design technologies, we also provide foam plastic in the form of ESLEN Containers and other returnable containers that can be used repeatedly.

Reuse
Reusable containers for food delivery

Use of recycled materials in business and development of a chemical recycling technology

Made entirely from used EPS, EPSREM is a recycled material that can be used to make cushioning materials and packaging materials. This material is produced using a material recycling technology, however, which places a limit on the number of times EPSREM can be reused for quality-purposes. Therefore, we are also advancing research and development into chemical recycling that allows for repeated recycling. The day when it is commonplace for foam plastics to be completely recycled might be close at hand.

Recycle
100% recyclable cushioning and packaging materials

2Rs based on Sekisui Kasei Group's unique technologies

Replace
Running shoes made from vegetable plants

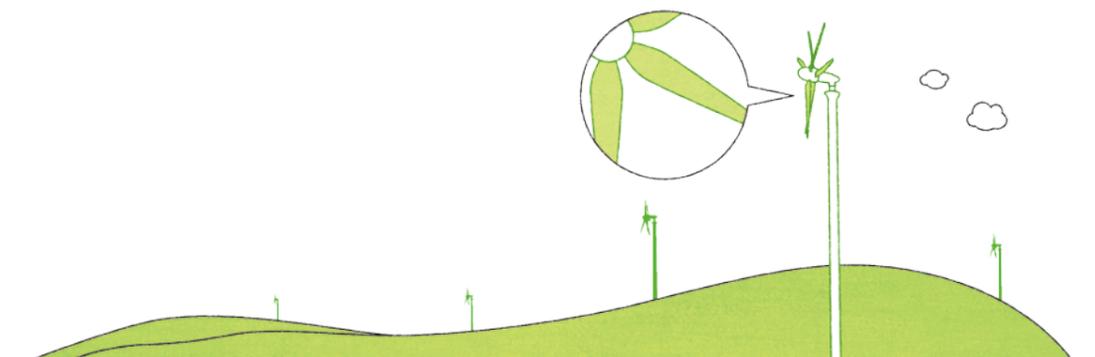
Effective use of sustainable resources (biomass plastics) and bio degradable plastics

The midsoles of running shoes require high resiliency for running fast as well as a cushioning property to reduce the burden on the runner's body. ELASTIL, a type of elastomer bead foam, balances these two properties to a high degree. ELASTIL BIO continues to satisfy these properties while being made of plant-based materials instead. Recognized as having the same performance as standard ELASTIL, ELASTIL BIO has been adopted for use in running shoes. This product considers both people and the environment.

Re-create
Even more efficient wind power generation system

Creation of new value and next-generation products to contribute to the environment

In order for wind power generation systems that rely on natural energy to efficiently generate electricity, the blades must adjust to the direction and speed of the wind in order to receive the wind without waste. Although lighter blades respond more quickly to changes in the wind and can thus increase power generation capacity, they must also be made of strong materials in order to prevent damage caused by centrifugal forces and strong winds. ST-LAYER (a composite structure consisting of fiber reinforced plastics and foam) is a material that is both light and strong. Adopted for use in wind power generation blades, ST-LAYER contributes to higher output and greater power generation efficiency.

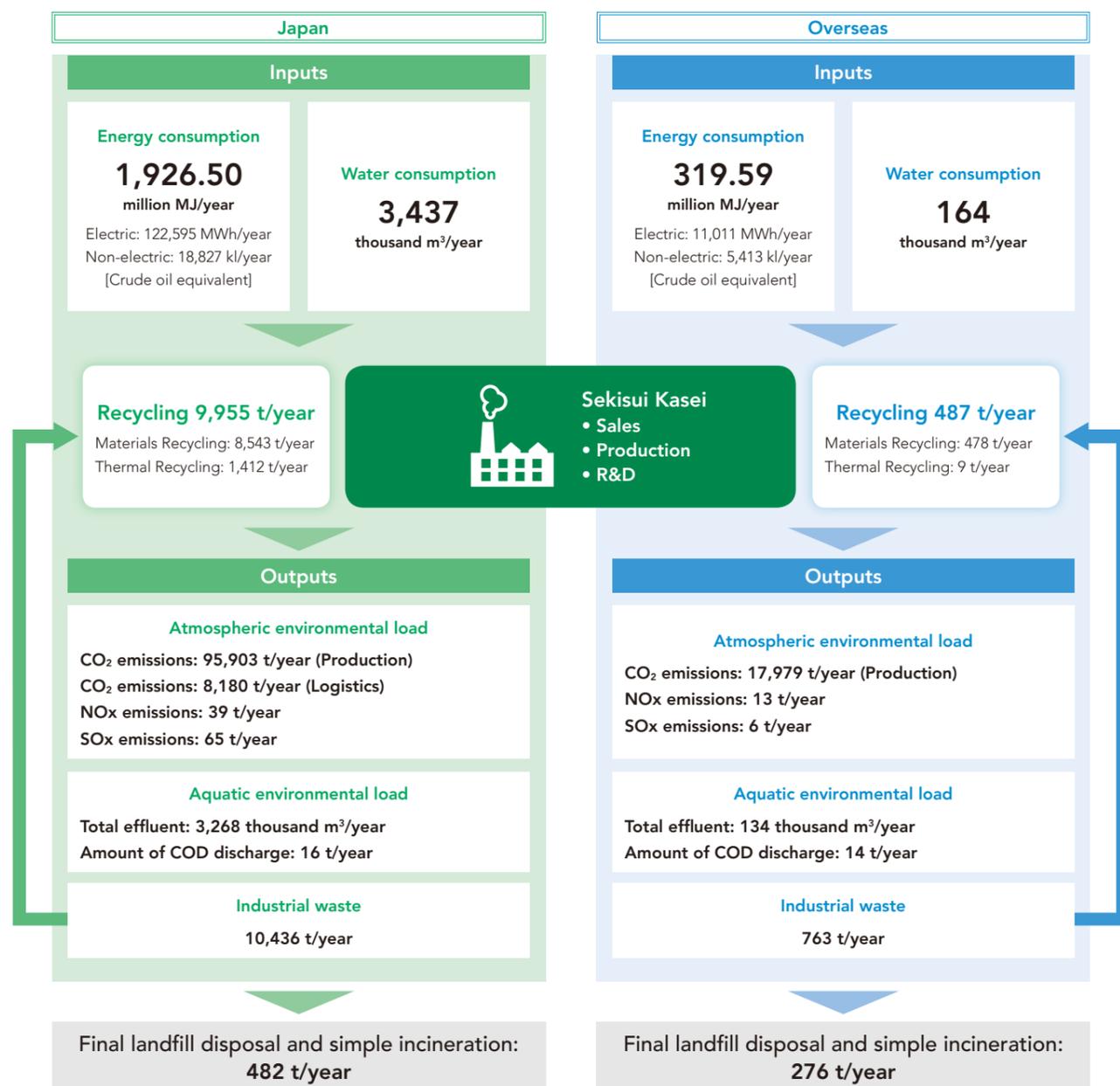


Environment

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 (FY2019 Results)

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



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)

Substance	Styrene					Toluene					Methyl methacrylate					Ethyl benzene				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Air	6.2	6.6	4.7	4.7	6.7	0.4	0.4	0.5	0.4	0.5	1.4	1.4	1.6	1.4	1.4	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	1.6	2.7	2.8	3.4	3.1	0.0	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

Participation in EcoPro 2019

We participated in EcoPro 2019, held December 5 to 7, as a member of the Clean Ocean Material Alliance (CLOMA). There we introduced our products and initiatives that take people and the environment into consideration in our efforts to realize a sustainable society. CLOMA is a platform established to strengthen collaboration among a broad cross-section of stakeholders to accelerate innovation so as to find solutions to the problem of marine plastic litter.



Grant Activities through the Sekisui Kasei Fund

With the aim of providing assistance to support biodiversity preservation activities, we established the Sekisui Kasei Fund with a contribution to the "Mirai Fund Ohmi" in 2012, and to expand upon this, we created a new fund with a contribution to the "Mirai Fund Ibaraki." We continue to assist activities conducted by local NPOs, in which Group employees are active and participate as volunteers, and together with that, endeavor at Satoyama Conservation Activities.



Environment
Performance
Data

Environmental Accounting (Japan)

Category	Major activities	FY2018		FY2019	
		Investment	Costs	Investment	Costs
1) Costs in business area					
(1) Pollution control	Control measures for air/water quality	51	116	55	115
(2) Global environment	Energy saving	150	11	249	5
(3) Recycling	Recycling, industrial waste treatment	5	231	0	309
	Subtotal	207	358	304	429
2) Up-/down-stream					
	Product recycling	0	428	0	326
3) Management costs					
	Departmental costs associated with introducing environment management system	0	167	5	164
4) R&D costs					
	R&D for environmental conservation products	0	47	0	47
5) Social Activity cost					
	Greening, social supports	6	3	0.2	37
6) Environmental damage fixing cost					
	Nature restoration	0	0	0	0
	Total	213	1,003	309	1,003

Details of effects (Unit)	FY2018	FY2019
1) Effects on costs in business area		
(1) Electricity consumption (MWh)	121,573	122,595
(2) Crude oil consumption (kl)	17,319	18,271
(3) Total effluent (thousand m ³)	3,246	3,268
(4) Amount of COD discharge (t)	17	16
2) Effects on Up-/down-stream costs		
Amount of recycled polystyrene foam (t)	309	144

Details of effects	FY2018	FY2019
1) Cost reduction through energy-saving activities	45	37
2) Income from recycling	453	475
Total	498	512

FY2018	FY2019
49.7%	51.5%

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

Certification List As of July 31, 2020

ISO9001 Certification
 Sekisui Kasei Co., Ltd. The 2nd Business Headquarters
 Sekisui Kasei Toubu Co., Ltd. Main Plant
 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 Ohmi 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 Schwarzhede 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 Schwarzhede 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 Schwarzhede GmbH

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

Society **Human Rights**
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, disability.

Initiatives to Human Rights

The Sekisui Kasei Group's 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 several training programs as part of employee education.

In March 2018, Sekisui Kasei published the second edition of the Company's compliance manual, which included



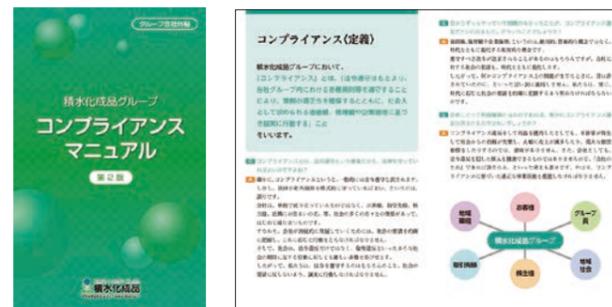
Diversity Initiatives

Based on our founding spirit of "For happiness of people working for the Company," as well as our management philosophy of "We, the Sekisui Kasei Group, 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, while also setting the goal of having women account for over 17% of new hires. In addition, we also offer training, including for women to develop their career paths.

The employment rate for people with disabilities for the entire Group was 1.4% in FY2019. While we have not yet reached the legal standard, we are sharing examples of employment (job content, working environment, etc.) at companies and business sites that are advancing such employment, and have set the goal of creating a comfortable working environment for all of our employees.

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.



Physical and Mental Healthcare

To support the physical and mental health of employees, we provide a wide range of services including medical checkups, medical consultations with an industrial physician, guidance from public health nurses on reversing metabolic syndrome, and hygiene training.

For the mental health, in FY2012, we formulated a basic policy, the Sekisui Kasei Group's Mental Health Promotion. We continually and systematically engage in mental health support activities, including preventive measures.

In FY2016, we held stress-check tests, engaged in activities to prevent lifestyle-related diseases from becoming severe, and provided health information in order to raise health awareness among employees. In FY2019, our stress-check implementation rate was 93.4%.

Labor Practices 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. For this reason, the Sekisui Kasei Group is proactive in not only skill development support and fair evaluation of employees, but also endeavors to create a good work-life balance and a healthy/safe work environment.

**Business Promotion Consortium—
Passing on the Founding Spirit to Now**

The Business Promotion Consortium 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 Consortium 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 of Sekisui Kasei, and action guidelines for the "Zen-in Keiei," all in a booklet-sized card provided to Group employees.



TOPIC Support for Parents

In raising our children, we regularly make use of the childcare leave system that makes it possible to take time off up until a child reaches age two, and the Company's system for taking leave in half-day increments for up to five days per year to care for a child.

While offering an ample lineup of systems, this is a work environment where my coworkers and supervisor have an understanding that you have small kids at home, and this makes me feel how easy it is to take time off for things like hurrying to take my kids to the hospital should they suddenly get sick.

Information System Dept., Information System Group
Shohei Hayashi

Society

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

FY2019 Policy for Safety-Related Activities

- In preparation for large-scale disasters, move forward on creating robust dynamic systems and entrenching practical training
- Along with an increase in new business, advance creation of an environment that adapts to operational changes
- Eliminate factors of potential risk and proceed with ongoing education, and eradication of accidents and disasters

Key Items

- 1) Disaster prevention measures for large-scale natural disasters
 - Work to amplify an initial dynamic system in preparation for large-scale natural disasters and other issues
 - Periodically hold disaster prevention training, conduct disaster prevention drills that address regional hazards, and other activities
- 2) Put in place an environment that addresses operational changes and conduct education
 - Implement safety measures for processing facilities with each new business
 - Transfer education and preparation of manuals, protect worker safety, others
- 3) Eliminate factors of potential risk and conduct education
 - Place emphasis on inherent and engineering-type measures so as to eradicate potential risks
 - Thoroughly conduct systematic, periodic safety education, others

FY2019 Initiatives

Disaster Prevention Activities

- [Disaster prevention measures]
- Comprehensive operational drills of safety confirmation systems

Safety Initiatives

- [Safety promotion]
- Safety promotion activities carried out by executive officers
 - Introduction, etc., of safety activities at individual offices
- [Fostering a sensitivity to danger]
- Evolution of Anzen Dojo (Safety training halls) that can offer disaster simulations or practical experience
 - Identification of near misses (case studies of being on the brink, but not reaching the level of serious disaster or accident)

Other safety events held on an as-needed basis, conduct Safety Awards



Safety-Related Activities

In addition to safety patrols of each workplace and site patrols by top managers, we carry out the following activities.

1 Safety briefings with the top manager

Each top manager has a briefing with every single employee to find out dangerous facilities and procedures. We use results of the safety response survey of the Japan Industrial Safety and Health Association.

2 Appointment of one-day safety managers

All Group companies appoint one-day safety managers to increase awareness and responsibility on safety and finding out unsafe conditions.

3 Safety meetings by each production section

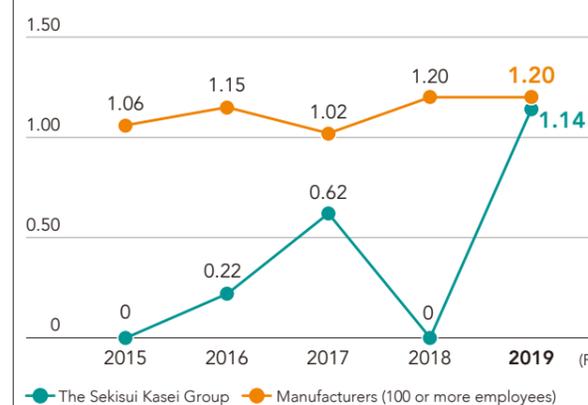
Group companies that have any similar facility and/or procedure get together to discuss common issues and make/carry out safety measures.

Safety-Related and Health Activities

We conduct periodic training, safety education and emergency response drills to hone employee abilities and skills, and maintain/improve safety and health. We set up Anzen Dojo (Safety training halls), where employees can experience simulated accidents, at eleven locations in Japan and nine locations overseas as educational facilities to raise safety awareness among individual employees and impart safety skills.

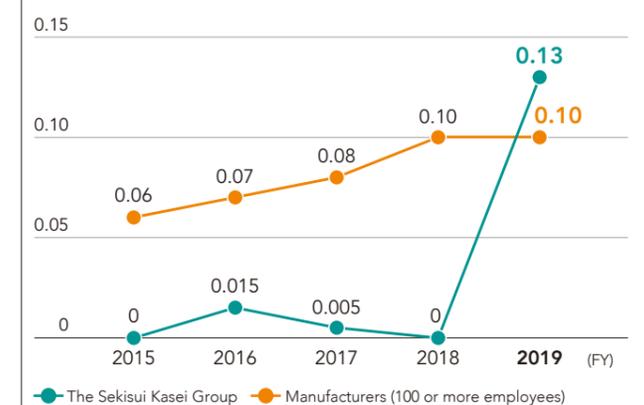


Lost Time Injury Frequency Rates*



* 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.

In FY2019, there were increases in both lost time injury frequency rates and the accident severity rate. Given this, in FY2020 we made an "emergency declaration with regard to safety," and are conducting security activities in pursuit of inherent safety from the three perspectives of hardware, software, and humans.



Society **Consumer Problems**
To carry out our responsibility to consumers, the Sekisui Kasei Group pursues safety and reliability through activities ensuring product safety and correcting the understanding of environmental impact.

Initiative to Quality Assurance

We operate a customer-focused quality assurance system, applied from the development stage to ensure that all products and services meet the expectations of our customers.

Basic Stance on Quality Assurance

The Company's philosophy is that product quality should reflect customer values, not those of the Company, and as such we carry out upstream management (ensuring product quality at the development stage) in an integrated manner throughout the entire Group. World Quality Month, held annually every November, is a campaign conducted to raise quality awareness, and FY2019 was another year we conducted the campaign within the Group.

Approach to Product Safety

We are committed to developing products that take into consideration the environment, safety and health throughout the entire product life cycle, from the research and development stage to product disposal after use.



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.

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.

Cooperation with Kyoto Manufacturing Workshop

Sekisui Kasei is working in cooperation with the Kyoto Manufacturing Workshop courses promoted by the Kyoto City Board of Education. One of the learning programs is focused on foamed polystyrene (generally referred to a Styrofoam), which is quite useful in our lives thanks to its light weight, thermal insulation, and shock absorbing properties.



The learning course is offered to and enjoyed by elementary school students in the city of Kyoto. In cooperation with the 3S Senior Venture Club (a volunteer group of Sekisui Chemical alumni), the Sekisui Kasei Group provides support, instructors, and materials for hands-on learning in these programs.



Recycling

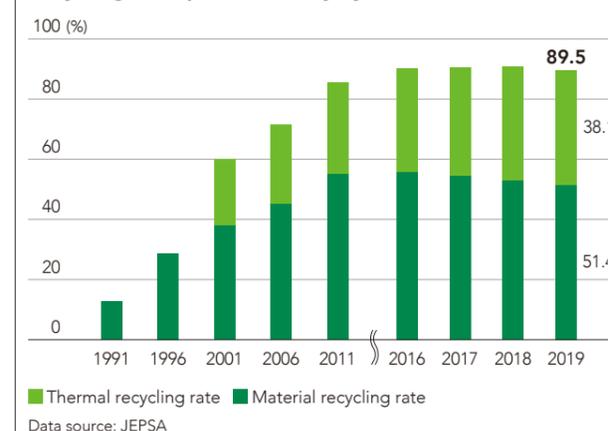
The Sekisui Kasei Group has been a leader in the recycling of EPS foam for 49 years, since 1971. We established the Japan EPS Recycling Association (current: JEPSA - Japan Expanded Polystyrene Association) together with raw material and molding companies in 1991.

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), the Group is actively engaged in the recycling of Styrofoam.

Of particular note, the Sekisui Kasei Seibu Ozu facility acquired permission to operate transport businesses and is undertaking the collection and recycling of foamed polystyrene floats used throughout Shikoku.

Recycling of Expandable Polystyrene Foam (EPS)





Governance

Organizational Governance

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.

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.

Corporate Governance System

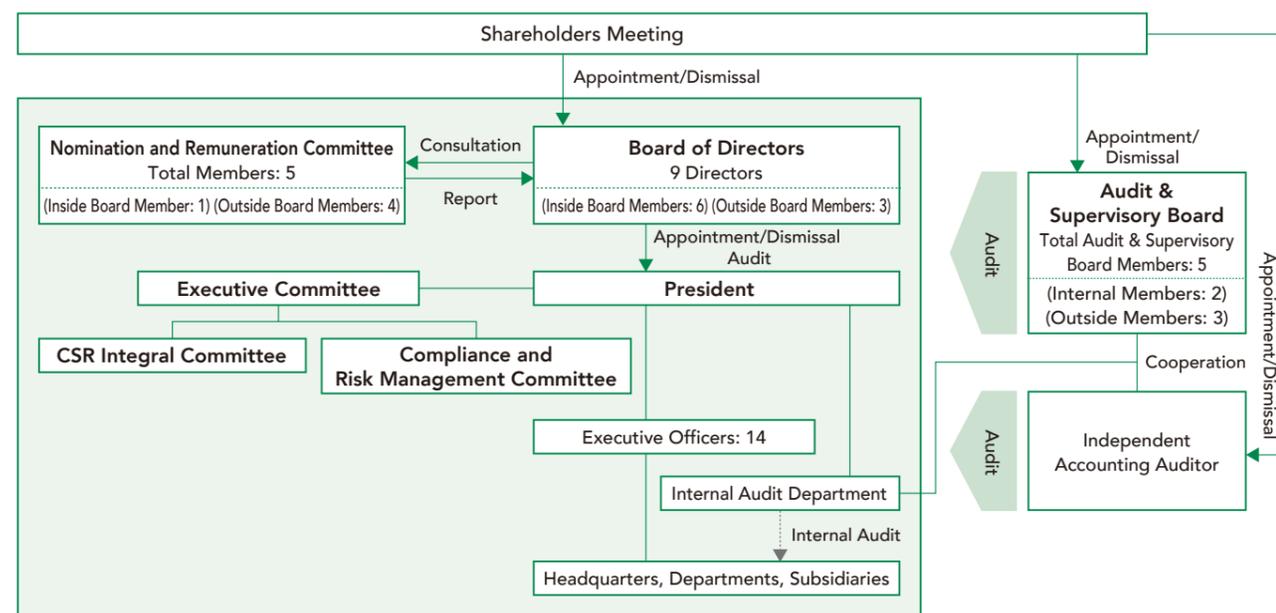
The execution of our business, as well as the supervision and auditing conducted under our governance system is carried out by the following organizations.

The Board of Directors, comprised of nine members, including three outside directors, aims to make management decisions in a rational and efficient manner. All important matters related to the company are decided upon by the Board of Directors after sufficient deliberation.

In order to clarify the management responsibilities of directors and establish a management system that can act swiftly in the face of changes in the business environment, the term of office for a Director shall be one year.

We have established committees to deliberate on and manage our compliance, risk management, and CSR issues, with the goal of promoting the mutual monitoring of compliance, ethics, and CSR.

Chart of the Sekisui Kasei Corporate Governance System



Evaluation of the Effectiveness of the Board of Directors

In order to 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, oper-

ational status, and in its deliberations. We also recognized recent efforts to improve the Company's governance, including through the establishment of a remuneration committee. At the same time, we identified areas for improvement moving forward, and we will continue to work on further improving the effectiveness of the Board of Directors based on the results of the evaluations.

Policy on Director Remuneration

The maximum amount for Director remuneration is established through a resolution passed at the shareholders meeting. The policy on determining Director remuneration is set by the Board of Directors after receipt of the report on deliberations by the Nomination and Remuneration Committee, for which a majority of members are independent outside Directors.

Basic Line of Thinking

- Creating a system that contributes to enhanced corporate value and improved earnings over the medium to long term
- A remuneration system that emphasizes the proportion of remuneration determined through a comprehensive analysis, including in regard to performance and progress in achieving objectives
- Clarifying the link between Director remuneration and the value of Company shares in order to further promote shared value with shareholders

Director Remuneration

In FY2019, the Company paid ¥142 million to nine Directors, including ¥28 million to three outside Directors, and ¥61 million to five members of the Audit and Supervisory Board, including ¥14 million to three outside Auditors. The amount of remuneration for Directors does not include employee salaries for those who serve concurrently as employees.

This includes provisions of ¥20 million for Director bonuses (¥14 million for nine Directors, including ¥3 million for three outside Directors) and ¥6 million for 5 members of the Audit & Supervisory Committee, including ¥2 million for three outside Auditors.



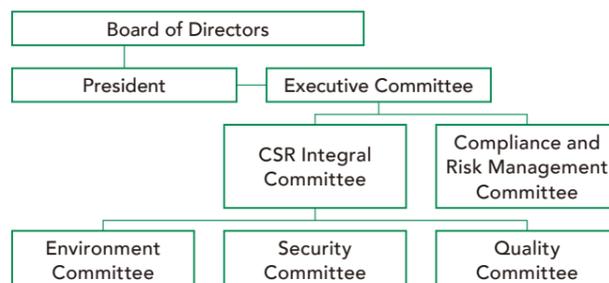
Governance

Fair Business Practices

The Sekisui Kasei Group complies with laws and regulations, strives to engage in fair operating practices, and conducts its business activities according to the highest ethical standards.

CSR Promotion

The Sekisui Kasei Group established the CSR Integral Committee, with the company president as the chair, as a subcommittee of the Executive Committee and with the goal of promoting important CSR activities. There are three further subcommittees, with each focused on a particular issue.



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 com-

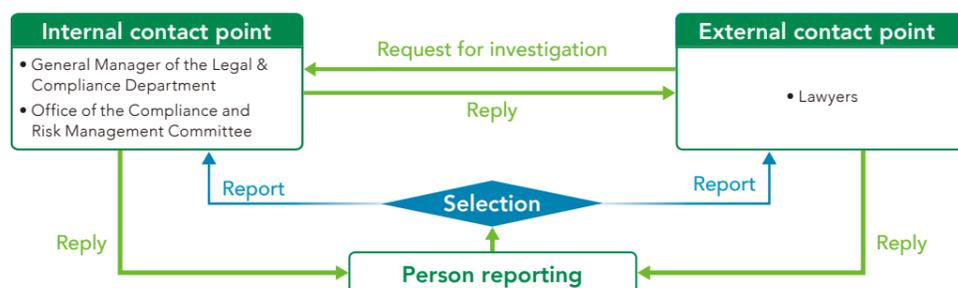
pliance throughout the Group, we established the Compliance and Risk Management Committee to ensure ongoing compliance with all laws and regulations. The Compliance and Risk Management Group meets in principle once every six months to discuss compliance issues within the Sekisui Kasei Group and to report 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.



Risk Management System

The Sekisui Kasei Group has established rules and regulations focused on risks related to quality, safety, the environment, and information security, with the relevant committees managing risk in their designated areas and taking measures aimed at dealing with those risks.

We have also created a Crisis Management Manual and

promoted awareness of it to all officers and employees in order to prevent risk. Moreover, the Crisis Management Committee, headed by the Company president, will manage any crisis in accordance with the Emergency Response Guidelines.

Information Security

The Sekisui Kasei Group ensures the protection of customer information assets through the implementation of appropriate management procedures based on our information security policy.

We established the IT Security Committee with the aim of improving information security across the entire Group. The Committee is responsible to formulating and maintaining rules and procedures ensuring information security, providing periodic training and e-learning opportunities to all employees, and ensuring an improved understanding in regard to the handling of information assets.



Respect for Intellectual Property Rights

The Sekisui Kasei Group recognizes intellectual property as being an important management asset. We have thus set down a basic policy on intellectual property and are carrying out activities in line with that policy.

Our goal is to promote the sharing of information through collaboration between the operating and R&D departments, acquire and maintain intellectual property beneficial to our business activities, respect the intellectual property rights of others, and lawfully exercise our intellectual property rights. We actively pursue external awards for inventions in line with our aim to keep our inventors motivated.



Discussion between Three Outside Directors

Strengthening Governance with Diverse Knowledge



Outside Director
Hiroyuki Bamba



Outside Director
Morio Kubota



Outside Director
Naoto Kitagawa

Our outside directors held a three-way discussion to explain how they are working to strengthen the Company's corporate governance as they fulfill their role of supervising management (execution of business). They also explain how opinions are exchanged at Board meetings regarding the enhancement of corporate value.

Role of Outside Directors

Mr. Bamba Outside directors have two roles. The first is to provide impartial, neutral opinions on matters that are commonplace within the Company but may seem questionable from the outside. Fortunately, we don't have any major problems at Sekisui Kasei, but if a problem does arise it will be more important for us to express our opinions. The second role is to supervise the Board of Directors and management. These are our two main roles, I think.

Mr. Kubota I agree. I have been involved in overseas business activities for 40 years, and my experiences include Asian project sales, satellite import negotiations, and satellite data communication services. I've also had the opportunity to work with entities in a wide range of sectors, including government agencies. Based on these experiences, I provide fresh perspectives on what is considered normal within Sekisui Kasei, and I also speak from an external monitoring standpoint in various management decision-making situations.

Mr. Kitagawa My aim is to monitor management from multiple perspectives, unconstrained by internal norms and traditions, and to offer my opinions about achieving sustainable development and increasing corporate value. I have

spent more than 40 years developing new cars in the automotive industry, including 10 years as chief engineer. During that time, I was able to see more than 50 countries around the world with my own eyes as a supervisor of all business functions—development, production, sales, and service. I also have 10 years of experience in the design of plastic materials, so I believe that I can provide sound advice on how Sekisui Kasei can increase its corporate value.

Evaluation of Sekisui Kasei's Corporate Governance

Mr. Bamba Sekisui Kasei is now proactively working to enhance governance, and I know firsthand the speed of reforms being made. We are making improvements in multiple areas. For example, outside directors now account for one-third of the Board of Directors, and we are also conducting effectiveness evaluations of the Board. In addition, the Board of Directors regularly discusses risk management and compliance. By successfully intertwining the horizontal functions of the CSR Control Committee and the Compliance & Risk Management Committee with the vertically aligned business divisions, we are able to clarify what risks exist and what measures are being taken.

We also have a Nomination & Remuneration Committee,

which consists of the president and four outside people. This committee is highly transparent and well positioned to resolve a variety of issues.

Mr. Kubota Certainly, we have taken numerous steps in the past year, and I notice that we have a positive approach to improving governance ourselves.

At Board of Directors' meetings, the three outside directors (including me), as well as the three outside corporate auditors, actively convey our opinions to the six internal directors based on our diverse experience and insights. I believe that the governance system at Sekisui Kasei is functioning well in terms of monitoring management from multiple perspectives. During the year, we discussed the Nomination & Remuneration Committee on many occasions and were able to establish a system allowing mediation by the Board of Directors after going through proper processes at the Committee.

Provision of Information to Outside Directors and Collaboration between Outside Directors

Mr. Bamba Providing information is a very important part of the decision-making process. At Sekisui Kasei, the three outside directors are briefed on the agenda at the same time prior to each Board of Directors' meeting, which allows us to exchange opinions in a timely manner. There are times when we outside directors disagree with each other, but I think we work well together in general.

Mr. Kubota Due to COVID-19, we hold more and more

Board meetings remotely to avoid the "3 Cs" (confined spaces, crowded places, and close-contact settings), so the number of face-to-face meetings has declined. It remains to be seen how we can achieve a deeper level of interaction going forward. However, I believe that exchanges of opinion between outside directors are held with suitable frequency.

Mr. Kitagawa In fiscal 2019, my first year as outside director, I had planned to visit the Company's production sites and offices around the country.

Unfortunately, COVID-19 prevented me from making all my planned visits. However, I received lots of materials with detailed explanations about our operations, and I am grateful for that.

Expectations of Sekisui Kasei

Mr. Kubota Recent years have seen growing worldwide awareness about environmental and social issues, including the subject of plastics. Against this background, I believe we are making steady progress in our efforts to address the issues. The important thing is to illustrate how we intend to enhance corporate value in the future

Mr. Bamba I believe the Company is suitably aware of the current risks to the plastics sector. We established our SKG-5R concept as a way to address the social issues of global climate change and ocean pollution as a company that aims to be a leader in environmental protection.

In the future, I hope that each theme of SKG-5R will be incorporated into specific measures that will solve real problems.

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)

Directors & Auditors



Corporate Auditor

Kojiro
Takekoshi

Outside Auditor

Keizo
Kousaka

Outside Auditor

Toshitaka
Fukunaga

Managing Executive
Officer

Katsumi
Sasaki

Managing Executive
Officer

Tetsuharu
Hirota

Senior Managing
Executive Officer

Tetsuya
Ikegaki

Managing Executive
Officer

Tetsuya
Shiota

Managing Executive
Officer

Hideyuki
Asada

Outside Auditor

Morinobu
Nagahama

Corporate Auditor

Koichi
Miyashita

Outside Director

Naoto
Kitagawa

Outside Director

Hiroyuki
Bamba

Chief Executive Officer

Masato
Kashiwabara

Outside Director

Morio
Kubota

MD&A

Market Environment

The world economy in FY2019 continued to face an uncertain outlook owing to the prolonged trade friction between the United States and China, the impact of the United Kingdom's decision to withdraw from the European Union on the European economy, the slowdown in the European auto business stemming from exhaust gas regulations and other factors, and structural changes in the global supply chain. Furthermore, since the beginning of 2020, the COVID-19 pandemic has caused an unprecedented situation. The Japanese economic trend has changed from moderate recovery to severe circumstances due to shrinkage in economic activity from the pandemic. As regards Japan's foam plastics industry, falling demand in the fisheries sector, the effects of natural disasters such as typhoons, and increases in logistics costs resulted in an ongoing challenging operating environment. In addition, addressing environmental issues including marine debris has further gained in importance.

Amidst this severe situation, to further strengthen the transformation implemented in the previous mid-term management plan, the Group formulated the three-year FY2019–2021 mid-term management plan, "Make Innovations Stage-II." We will steadily drive forward measures to promote business portfolio transformation and execution of strategies to strengthen earnings structure while solidifying our position as a leading environmental company. Our consolidated fiscal year includes the one-year performance from January 1 to December 31, 2019 of the Proseat Group acquired in the previous fiscal year.

Consolidated Performance

In FY2019, we achieved ¥136.155 billion in net sales (up 20.9% YoY), ¥3.725 billion in operating income (down 22.1% YoY), ¥3.391 billion in recurring income (down 29.0% YoY), and ¥2.323 billion in net income attributable to owners of the parent (down 25.8% YoY).

The results by segment were as follows.

The Human Life segment recorded net sales of ¥58.101 billion (down 10.4% YoY) and segment income of ¥3.280 billion (down 5.0% YoY).

The Industry segment recorded net sales of ¥78.053 billion (up 63.5% YoY) and segment income of ¥1.186 billion (down 53.4% YoY).

Financial Position

• Assets

Total assets as of the end of FY2019 were ¥149.103 billion, falling by ¥4.388 billion year-on-year.

Current assets were ¥58.342 billion (previous fiscal year: ¥64.826 billion), falling by ¥6.484 billion mainly due to a decrease in notes and accounts receivable.

Non-current assets were ¥90.761 billion (end of previous consolidated fiscal year: ¥88.665 billion), rising by ¥2.096 billion due to an increase in property, plant and equipment resulting mainly from changes in accounting standards for overseas lease assets.

• Liabilities

Total liabilities as of the end of FY2019 were ¥81.886 billion, falling by ¥4.644 billion year-on-year.

• Net assets

Total net assets as of the end of FY2019 were ¥67.217 billion, rising by ¥256 million year-on-year.

• Cash flow

Cash and cash equivalents in FY2019 were ¥9.532 billion, falling by ¥1.739 billion year-on-year.

(Cash flow from operating activities)

Cash flow from operating activities in FY2019 saw proceeds decrease by ¥669 million year-on-year, resulting in ¥6.486 billion in net cash provided by operating activities, mainly due to the decrease in income before income taxes in this fiscal year and the impact of the net decrease in notes and accounts payable.

(Cash flow from investment activities)

Cash flow from investment activities in FY2019 saw expenses decrease by ¥5.576 billion year-on-year, resulting in ¥5.129 billion in net cash used in investing activities, mainly due to decreased outlays resulting from the acquisition of shares through buyouts and decreased outlays for purchases of property, plant and equipment.

(Cash flow from financing activities)

While there were proceeds from the issuance of corporate bonds, cash flow from financing activities in FY2019 saw expenses decrease by ¥12.264 billion year-on-year mainly due to the impact of the net decrease (repayment) in short-term loans and a decrease in proceeds from long-term loans, resulting in ¥2.568 billion in net cash used in financing activities.

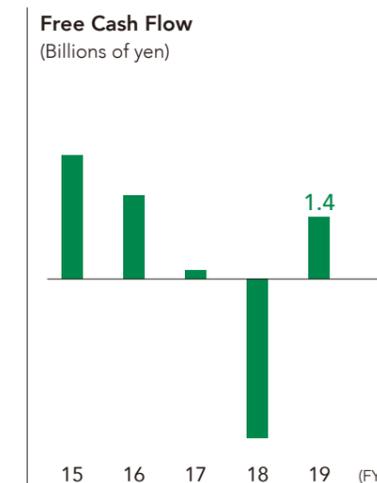
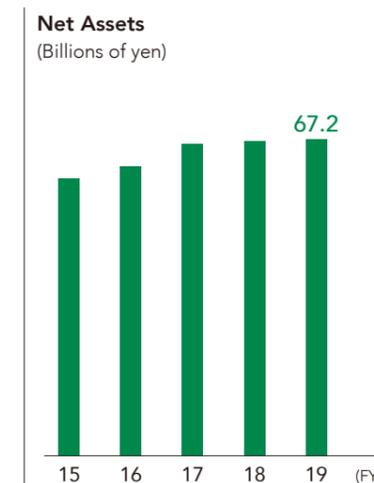
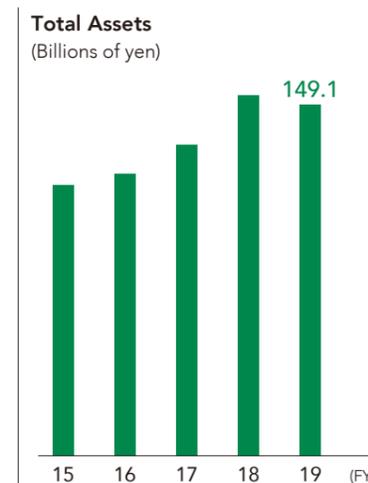
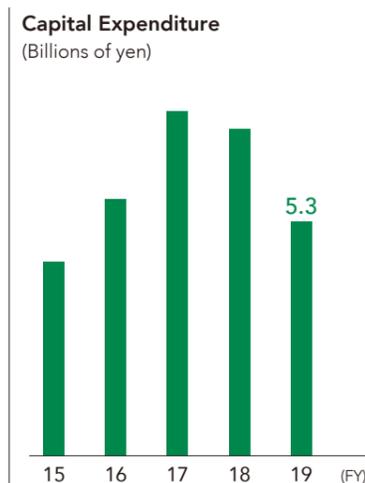
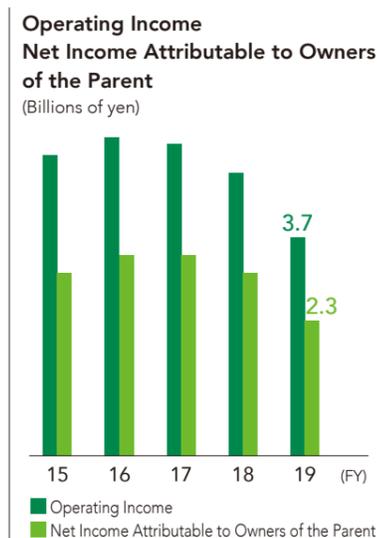
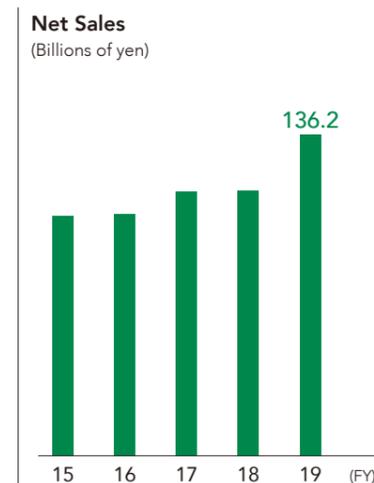
• Capital investment

The Sekisui Kasei Group (the Company and consolidated subsidiaries) implements initiatives in line with the management plan, making capital investments focusing on renewals, repairs, and capacity expansion. The Group's capital investment in FY2019 totaled ¥5.261 billion. By segment, the investment amount was ¥1.807 billion for the Human Life segment and ¥2.767 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 FY2019, 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 4, 2019, we executed an interim dividend of ¥13 per share, resulting in an annual dividend of ¥30 per share in FY2019. As an outcome, the payout ratio was 65.1% (consolidated payout ratio: 58.5%).



Business Risks

Business and Other Risks

Matters relating to business and accounting statuses that may have a critical impact on the decisions of investors are described below. Business and other risks facing the Sekisui Kasei Group may be affected by domestic and international economic conditions and are not limited to the following risks.

1. COVID-19 Risks

We recognize mainly the following risks associated with the novel coronavirus disease (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 a 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, it has 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.

Therefore, even under these circumstances, the Group is working to minimize the impact on its performance and financial condition by improving productivity and carrying out thorough cost reductions and by implementing factoring and other credit guarantee systems that have already been introduced.

c. Disruption and Stagnation of the Logistics Network

COVID-19 may cause a disruption or stagnation of the worldwide logistics network, resulting in delays in the procurement of raw materials of products and their components and in the transportation of products and intermediate products, which could have a significant impact on the performance and financial condition of the Group.

The Group has thus been taking measures from before, such as procuring raw materials from multiple business partners and decentralizing production bases, in order to minimize the impact.

d. R&D Risks

If the prolongation of the COVID-19 pandemic causes prolonged 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.

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. This Committee plays a central role in compiling countermeasures for COVID-19 risks.

b. Product Quality Assurance

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

The Group has thus established the Quality Committee to strengthen its quality management system. The entire Group has also set forth a quality management policy. It

plans and implements activities, such as quality audits, quality management training, and quality meetings, giving consideration to safety and quality in the product development and production stages. In addition, the Group conducts business activities in compliance with quality-related domestic and international laws and ordinances as well as regulations and standards set by industry organizations. Furthermore, it is enrolled in product liability insurance in case a quality problem arises.

c. Environmental Management

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

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

d. Economic Situation

The Sekisui Kasei Group's performance and financial condition may potentially be affected by a contraction in demand due to economic trends, as well as by changes in the supply-demand balance and prices due to competition with rival companies. In particular, the COVID-19 pandemic has had an enormous impact on global economic activities since the beginning of 2020. The overall outlook remains uncertain, including when the virus will be brought under control and the post-COVID-19 economic situation. The virus is also expected to have a significant impact on the Group's performance and financial condition.

The Group is committed to strengthening its sales capabilities, development capabilities, and financial health to ensure that it will not be affected by such market economic conditions and trends in product users and personal consumption. It has formulated the three-year FY2019–2021 mid-term management plan, "Make Innovations Stage-II," and will steadily drive forward the measures and keep profit decreases to a minimum.

e. Overseas Business Activities

The Sekisui Kasei Group has production and sales businesses in Asia, the United States, Latin 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 Fluctuation Risk

In FY2019, the Sekisui Kasei Group saw its overseas net sales ratio nearly double from that of the previous fiscal year (18.1%) to 36.3%. Overseas business items denominated in local currency in the financial statement are impacted by exchange rate fluctuations when converted into yen. While risk reduction measures are taken for foreign currency denominated transactions, currency fluctuations that exceed expectations could affect the Group's performance and financial condition.

The Group will consider further measures to minimize the risks, including currency hedging for trade transactions.

Consolidated Balance Sheet

Sekisui Kasei Co., Ltd. and Consolidated Subsidiaries
March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020 (Note 3)
Assets			
Current assets:			
Cash and cash equivalents (Note 5)	¥ 11,271	¥ 9,532	\$ 87,586
Short-term investments (Note 5)	6	7	64
Notes and accounts receivable (Notes 4 and 5)	36,457	32,142	295,341
Inventories (Note 7)	13,872	13,805	126,849
Other current assets	3,279	2,913	26,766
Less allowance for doubtful accounts	(60)	(59)	(542)
Total current assets	64,826	58,342	536,083
Property, plant and equipment (Note 20):			
Land (Notes 9 and 13)	21,176	21,182	194,633
Buildings and structures (Notes 9 and 16)	46,921	47,409	435,624
Machinery and equipment	100,115	105,944	973,481
Construction in progress	2,186	1,493	13,718
	170,400	176,030	1,617,476
Less accumulated depreciation	(110,135)	(114,129)	(1,048,690)
Property, plant and equipment, net	60,265	61,901	568,786
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliates (Note 5)	594	369	3,390
Investments in securities (Notes 5 and 6)	17,059	17,679	162,446
Deferred income taxes (Note 10)	804	779	7,157
Assets for retirement benefits (Note 11)	5,163	5,677	52,163
Software	753	699	6,422
Other assets	4,080	3,705	34,043
Less allowance for doubtful accounts	(55)	(51)	(468)
Total investments and other assets	28,399	28,859	265,175
Total assets (Note 20)	¥ 153,491	¥ 149,103	\$ 1,370,054

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020 (Note 3)
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable (Notes 4 and 5)	¥ 28,288	¥ 23,522	\$ 216,135
Short-term loans (Notes 5, 8 and 9)	13,562	2,606	23,945
Current portion of long-term loans (Notes 5, 8, 9 and 17)	4,127	3,844	35,321
Accrued expenses	4,419	4,156	38,188
Accrued income and enterprise taxes (Note 10)	990	282	2,591
Provision for bonuses to employees	1,056	1,038	9,537
Provision for bonuses to directors and audit and supervisory board members	29	27	248
Other current liabilities (Note 4)	3,788	2,914	26,775
Total current liabilities	56,264	38,393	352,779
Long-term liabilities:			
Long-term debt less current portion (Notes 5, 8, 9 and 17)	17,540	29,211	268,409
Liabilities for retirement benefits (Note 11)	3,212	3,446	31,664
Deferred income taxes (Note 10)	6,936	7,208	66,231
Provision for product warranty	190	158	1,451
Other long-term liabilities	2,387	3,467	31,857
Total long-term liabilities	30,266	43,493	399,641
Net assets:			
Shareholders' equity (Note 12):			
Common stock:			
Authorized: 124,751,000 shares and 124,751,000 shares at March 31, 2019 and 2020, respectively			
Issued: 46,988,109 shares and 46,988,109 shares at March 31, 2019 and 2020, respectively	16,533	16,533	151,915
Capital surplus	16,532	16,532	151,906
Retained earnings (Note 21)	22,560	23,524	216,153
Less treasury stock, at cost: 1,696,864 shares at March 31, 2019 1,697,882 shares at March 31, 2020	(1,425)	(1,426)	(13,103)
Total shareholders' equity	54,200	55,164	506,882
Accumulated other comprehensive income:			
Net unrealized holding gain on securities (Notes 6 and 14)	8,799	9,226	84,774
Surplus arising from land revaluation (Note 13)	1,479	1,479	13,590
Translation adjustments (Note 14)	190	(583)	(5,356)
Retirement benefits liability adjustments (Notes 11 and 14)	524	399	3,666
Total accumulated other comprehensive income	10,992	10,520	96,664
Non-controlling interests	1,766	1,531	14,067
Total net assets	66,960	67,217	617,633
Total liabilities and net assets	¥ 153,491	¥ 149,103	\$ 1,370,054

See notes to consolidated financial statements.

Consolidated Statement of Income

Sekisui Kasei Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2020	2020
Net sales (Note 20)	¥ 112,593	¥ 136,155	\$ 1,251,079
Cost of sales	85,498	105,978	973,793
Gross profit	27,095	30,177	277,285
Selling, general and administrative expenses (Note 15)	22,311	26,451	243,048
Operating income	4,784	3,725	34,227
Other income (expenses):			
Interest income (Note 20)	4	5	45
Dividend income	305	361	3,317
Equity in earnings of affiliates (Note 20)	0	—	—
Interest expense (Note 20)	(164)	(392)	(3,601)
Equity in losses of an affiliate (Note 20)	—	(13)	(119)
Foreign exchange loss, net	(20)	(71)	(652)
Loss on sales or disposal of equipment	(54)	(61)	(560)
Commission paid	(52)	(86)	(790)
Gain on sales of investments in securities (Note 6)	603	1	9
Gain on subsidiary liquidation	—	95	872
Loss on sales of investments in securities	—	(37)	(339)
Loss on impairment of investments in securities	(8)	(8)	(73)
Loss on disaster	(31)	—	—
Loss on office closure	—	(61)	(560)
Loss on impairment of property, plant and equipment (Note 16)	(356)	—	—
Other, net	(25)	(76)	(698)
Profit before income taxes	4,983	3,380	31,057
Income taxes (Note 10):			
Current	1,605	1,111	10,208
Deferred	243	132	1,212
	1,848	1,243	11,421
Profit	3,134	2,137	19,636
Profit attributable to:			
Non-controlling interests	(5)	185	1,699
Owners of parent	¥ 3,129	¥ 2,323	\$ 21,345

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Sekisui Kasei Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2020	2020
Profit	¥ 3,134	¥ 2,137	\$ 19,636
Other comprehensive income (Note 14):			
Net unrealized holding (loss) gain on securities	(1,368)	426	3,914
Translation adjustments	(45)	(819)	(7,525)
Retirement benefits liability adjustments	(654)	(125)	(1,148)
Total other comprehensive income	(2,068)	(517)	(4,750)
Comprehensive income	¥ 1,066	¥ 1,619	\$ 14,876
Comprehensive income attributable to:			
Owners of parent	¥ 1,060	¥ 1,759	\$ 16,162
Non-controlling interests	5	(139)	(1,277)

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Sekisui Kasei Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2019 and 2020

	Millions of yen			
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at April 1, 2018	¥ 16,533	¥ 16,544	¥ 20,699	¥ (1,425)
Cash dividends	—	—	(1,268)	—
Profit attributable to owners of parent for the year	—	—	3,129	—
Decrease due to acquisition of additional shares of consolidated subsidiary	—	(12)	—	—
Acquisition of treasury stock	—	—	—	(0)
Other changes	—	—	—	—
Balance at 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	—
Decrease due to acquisition of additional shares of consolidated subsidiary	—	—	—	—
Acquisition of treasury stock	—	—	—	(0)
Other changes	—	—	—	—
Balance at March 31, 2020	¥ 16,533	¥ 16,532	¥ 23,524	¥ (1,426)

	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 at April 1, 2018	¥ 10,168	¥ 1,479	¥ 235	¥ 1,179	¥ 731	¥ 66,145
Cash dividends	—	—	—	—	—	(1,268)
Profit attributable to owners of parent for the year	—	—	—	—	—	3,129
Decrease due to acquisition of additional shares of consolidated subsidiary	—	—	—	—	—	(12)
Acquisition of treasury stock	—	—	—	—	—	(0)
Other changes	(1,368)	—	(45)	(654)	1,035	(1,033)
Balance at 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
Decrease due to acquisition of additional shares of consolidated subsidiary	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	—	(0)
Other changes	426	—	(773)	(125)	(235)	(707)
Balance at March 31, 2020	¥ 9,226	¥ 1,479	¥ (583)	¥ 399	¥ 1,531	¥ 67,217

	Thousands of U.S. dollars (Note 3)			
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at April 1, 2019	\$ 151,915	\$ 151,906	\$ 207,295	\$ (13,093)
Cash dividends	—	—	(12,478)	—
Profit attributable to owners of parent for the year	—	—	21,345	—
Decrease due to acquisition of additional shares of consolidated subsidiary	—	—	—	—
Acquisition of treasury stock	—	—	—	(0)
Other changes	—	—	—	—
Balance at March 31, 2020	\$ 151,915	\$ 151,906	\$ 216,153	\$ (13,103)

	Thousands of U.S. dollars (Note 3)					
	Net unrealized holding gain on securities	Surplus arising from land revaluation	Translation adjustments	Retirement benefits liability adjustments	Non-controlling interests	Total net assets
Balance at April 1, 2019	\$ 80,850	\$ 13,590	\$ 1,745	\$ 4,814	\$ 16,227	\$ 615,271
Cash dividends	—	—	—	—	—	(12,478)
Profit attributable to owners of parent for the year	—	—	—	—	—	21,345
Decrease due to acquisition of additional shares of consolidated subsidiary	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	—	(0)
Other changes	3,914	—	(7,102)	(1,148)	(2,159)	(6,496)
Balance at March 31, 2020	\$ 84,774	\$ 13,590	\$ (5,356)	\$ 3,666	\$ 14,067	\$ 617,633

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Sekisui Kasei Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2020	2020
Cash flows from operating activities			
Profit before income taxes	¥ 4,983	¥ 3,380	\$ 31,057
Adjustments for:			
Depreciation and amortization	4,517	6,071	55,784
Amortization of goodwill	21	168	1,543
Loss on impairment of property, plant and equipment	356	—	—
Decrease in allowance for doubtful accounts	(12)	(2)	(18)
Interest and dividend income	(310)	(366)	(3,363)
Interest expense	164	392	3,601
Equity in (earnings) losses of an affiliate	(0)	13	119
Increase (decrease) in provision for bonuses to employees	32	(17)	(156)
Decrease in provision for product warranty	(54)	(31)	(284)
Changes in assets and liabilities for retirement benefits, net	(830)	(452)	(4,153)
(Gain) loss on sales of investments in securities	(603)	36	330
Loss on impairment of investments in securities	8	8	73
Loss on sales or disposal of equipment, net	51	51	468
Decrease in notes and accounts receivable	2,419	3,971	36,488
Increase in inventories	(597)	(120)	(1,102)
Decrease in notes and accounts payable	(2,685)	(4,258)	(39,125)
Other, net	1,136	(978)	8,986
Subtotal	8,596	7,865	72,268
Interest and dividends received	310	366	3,363
Interest paid	(184)	(432)	(3,969)
Proceeds from casualty insurance claims	155	304	2,793
Income taxes	(1,721)	(1,616)	(14,848)
Net cash provided by operating activities	7,156	6,486	59,597
Cash flows from investing activities			
Increase in short-term investments	(1)	(1)	(9)
Purchases of property, plant and equipment	(8,077)	(5,930)	(54,488)
Proceeds from sales of property, plant and equipment	37	109	1,001
Purchases of investments in securities	(4)	(6)	(55)
Proceeds from sales of investments in securities	893	166	1,525
Increase in short-term and long-term loans receivable	(4)	(3)	(27)
Collection of short-term and long-term loans receivable	22	468	4,300
Purchases of investments in consolidated subsidiaries and affiliates	(3,565)	—	—
Other, net	(8)	65	597
Net cash used in investing activities	(10,706)	(5,129)	(47,128)
Cash flows from financing activities			
Net increase (decrease) in short-term loans	4,714	(10,138)	(93,154)
Proceeds from long-term loans	13,675	9,033	83,001
Proceeds from issuance of bond	—	7,000	64,320
Repayment of long-term loans	(7,181)	(5,104)	(46,898)
Purchases of treasury stock	(0)	(0)	(0)
Dividends paid	(1,266)	(1,357)	(12,468)
Dividends paid to non-controlling shareholders	(2)	(2)	(18)
Purchase of shares of subsidiary not resulting in change in scope of consolidation	(58)	—	—
Other	(185)	(1,999)	(18,368)
Net cash provided by (used in) financing activities	9,695	(2,568)	(23,596)
Effect of exchange rate changes on cash and cash equivalents	8	(527)	(4,842)
Net increase (decrease) in cash and cash equivalents	6,154	(1,739)	(15,979)
Cash and cash equivalents at the beginning of the year	5,117	11,271	103,565
Cash and cash equivalents at the end of the year	¥ 11,271	¥ 9,532	\$ 87,586

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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

1. Significant Accounting Policies

(a) Basis of Preparation

The consolidated financial statements of Sekisui Kasei Co., Ltd. (the "Company", formerly named "Sekisui Plastics Co., Ltd.") 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, 2019 to the 2020 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 consolidated financial statements include the accounts of the Company and its 40 significant consolidated subsidiaries (collectively, the "Group") for the years ended March 31, 2019 and 2020. The Company has applied the equity method to its investment in one significant affiliate for the purpose of the consolidated financial statements for the years ended March 31, 2019 and 2020.

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. In addition, significant affiliates, over which the Group exercises substantial control in various ways, are accounted for by the equity method.

Other subsidiaries and affiliates are not significant in terms of their total assets, profit or loss, and retained earnings. Accordingly, these other subsidiaries and affiliates have not been consolidated nor are they accounted for by the equity method. Investments in such subsidiaries and 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 the 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 at March 31, 2020.

For 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 Defect Compensation

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 debt denominated in foreign currencies.

i) Hedge accounting method

Interest-rate swaps that meet special matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income, and the long-term debt 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) Change in Accounting Policy (Application of IFRS 16 "Leases")

The overseas consolidated subsidiaries applying IFRS accounted for by the equity method have adopted IFRS 16 Leases (issued on January 13, 2016; hereinafter "IFRS 16") from the fiscal year ended March 31, 2020. In applying IFRS 16, the overseas consolidated subsidiaries, as lessees, principally recognize all lease transactions on their balance sheets as assets and liabilities. The Company has applied the modified retrospective approach with the cumulative effect of initially applying the standard is recognized as an adjustment to equity at the date of initial application.

As a result of the adoption of this accounting standard, non-current assets increased by ¥2,700 million (\$24,809thousand), current liabilities increased by ¥428 million (\$3,932thousand), and non-current liabilities increased by ¥2,303 million (\$21,161thousand) at the end of the current fiscal year; however, the impacts on the consolidated statement of income for the current fiscal year and the beginning balance of retained earnings are immaterial.

(t) 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), "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No.31), and "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 Company is currently evaluating the effect of the adoption of the accounting standard and the implementation guidance on its consolidated financial statements.

(Accounting Standard for Disclosure of Accounting Estimates)

i) Overview

On March 31, 2020, the ASBJ issued "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No.31). The ASBJ received certain requests on "Factors of Uncertainty on Accounting Estimates" that the IASB requires to be disclosed as defined in the International Accounting Standards 1 "Presentation of Financial Statements" ("IAS 1") Topic 125, issued by the IASB in 2003. The requests require the ASBJ to consider requirement of disclosures on "Factors of Uncertainty on Accounting Estimates" in the notes as useful information for users of financial statements and the ASBJ to develop and issued the accounting standard for disclosures on accounting estimates ("this accounting standard").

As the basic policy in developing this accounting standard, which referred to IAS 1 Topic 125, the ASBJ indicated the principle (purpose of disclosures) instead of expanding individual notes and the entity will determine the specific contents of disclosures considering the purpose of disclosures. 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 from the end of the fiscal year ending March 31, 2021.

(Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections)

i) Overview

On March 31, 2020, the ASBJ issued "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No.24). Under the proposal to consider expanding the notes about "Principles and Procedures of Accounting Treatment Adopted in the Situations of Uncertainty of the Related Accounting Standards," the ASBJ made the necessary revisions and issued accounting standard for accounting policies disclosures, accounting changes and error corrections.

In considering the expansion of the notes about "Principles and Procedures of Accounting Treatment Adopted in the Situations of Uncertainty of the Related Accounting Standards," Annotations on the Accounting Principles (Notes 1-2) was incorporated so as not to affect conventional accounting practices when the related accounting standards were clear.

ii) Scheduled date of adoption

The Company expects to adopt the accounting standard from the end of the fiscal year ending March 31, 2021.

financial position and operating results from the next period. Even though it is difficult to anticipate the effect because there are many uncertainties surrounding COVID-19, the Company estimated the considerations of impairment loss on fixed assets and recoverability of deferred tax assets based on the assumption that such effects would last until the end of September 2020 and December 2020, respectively, at the end of the current fiscal year.

In addition, it is possible that a loss may be recognized if the results in the future are different from the above estimates and assumptions.

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.

2. Additional Information

The outbreak of COVID-19 has had some impact on the consolidated financial statements with the effects different depending on each segment. Regarding the "Human Life" segment, even though domestic demand of packing materials used in tourism-related applications has been decreasing, the demand for takeaway packaging for home-use has been expanding. Regarding the "Industry" segment, it is assumed that the occupancy rate for factories related to automotive and electronics in domestic and overseas countries would decrease. It is also assumed that these matters including the assumptions for accounting estimates would be expected to have an effect on the Company's

3. 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 ¥108.83 = U.S. \$1.00, the exchange rate prevailing on March 31, 2020. This translation should not be construed

4. Notes and Accounts Receivable, Notes and Accounts Payable and Other Current Liabilities

The balance sheet date for the year ended March 31, 2019 fell on a bank holiday. Consequently, notes receivable of ¥1,062 million and notes and accounts payable and other current liabilities of ¥721 million with a due

date of March 31, 2019 were included in the respective balances in the consolidated balance sheet at March 31, 2019 and were settled on the next business day.

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, 2019 and 2020 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					
	2019			2020		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Cash and cash equivalents	¥ 11,271	¥ 11,271	¥ —	¥ 9,532	¥ 9,532	¥ —
Short-term investments	6	6	—	7	7	—
Notes and accounts receivable	36,457	36,457	—	32,142	32,142	—
Investments in securities	17,007	17,007	—	17,627	17,627	—
Total assets	¥ 64,742	¥ 64,742	¥ —	¥ 59,310	¥ 59,310	¥ —
Notes and accounts payable	¥ 28,288	¥ 28,288	¥ —	¥ 23,522	¥ 23,522	¥ —
Short-term loans	13,562	13,562	—	2,606	2,606	—
Bond	—	—	—	7,000	6,971	(28)
Long-term loans*	21,668	21,756	88	26,056	26,235	178
Total liabilities	¥ 63,519	¥ 63,608	¥ 88	¥ 59,184	¥ 59,334	¥ 150

	Thousands of U.S. dollars		
	2020		
	Carrying value	Fair value	Difference
Cash and cash equivalents	\$ 87,586	\$ 87,586	\$ —
Short-term investments	64	64	—
Notes and accounts receivable	295,341	295,341	—
Investments in securities	161,968	161,968	—
Total assets	\$ 544,978	\$ 544,978	\$ —
Notes and accounts payable	\$ 216,135	\$ 216,135	\$ —
Short-term loans	23,945	23,945	—
Bond	64,320	64,054	(257)
Long-term loans*	239,419	241,064	1,635
Total liabilities	\$ 543,820	\$ 545,198	\$ 1,378

* Includes current portion of long-term loans of ¥4,127 million and ¥3,844 million (\$35,321 thousand) at March 31, 2019 and 2020, 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 value of other investments in securities is based on quoted market prices. For information on securities classified by purpose of holding, please refer to Note 5.

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.

Bonds:

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

Long-term loans:

The fair value of long-term loans is 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, including the difference paid or received under the swap agreements, with the rate which would be applied if similar new borrowings were entered into.

Unlisted equity securities in the amounts of ¥645 million and ¥421 million (\$3,868 thousand) at March 31, 2019 and 2020, respectively, are not included in investments in securities in the preceding table since it is extremely difficult to determine their fair value at March 31, 2019 and 2020.

The redemption schedule at March 31, 2020 for deposits and notes and accounts receivable is summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2020	2020	2020	2020
	Within 1 year	Within 1 year	Within 1 year	Within 1 year
Deposits	¥ 9,517		\$ 87,448	
Notes and accounts receivable	32,142		295,341	
Total	¥ 41,660		\$ 382,798	

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

6. Investments in Securities

Marketable securities classified as other securities at March 31, 2019 and 2020 were as follows:

	Millions of yen					
	2019			2020		
	Acquisition cost	Carrying value	Unrealized holding gain (loss)	Acquisition cost	Carrying value	Unrealized holding gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 4,566	¥ 17,007	¥ 12,440	¥ 4,338	¥ 17,627	¥ 13,289
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	0	0	(0)	0	0	(0)
Total	¥ 4,566	¥ 17,007	¥ 12,440	¥ 4,338	¥ 17,627	¥ 13,289

	Thousands of U.S. dollars		
	2020		
	Acquisition cost	Carrying value	Unrealized holding gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	\$ 39,860	\$ 161,968	\$ 122,107
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	0	0	(0)
Total	\$ 39,860	\$ 161,968	\$ 122,107

Unlisted equity securities other than securities of affiliates in the amount of ¥51 million and ¥51 million (\$468 thousand) at March 31, 2019 and

2020 are not included in equity securities in the above table since it is extremely difficult to determine their fair value at March 31, 2019 and 2020.

The proceeds from sales of, and gross realized gain on investments in securities for the years ended March 31, 2019 and 2020 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2019	2020	2020	2020
Proceeds from sales	¥ 895	¥ 1	\$ 9	
Gross realized gain	603	1	9	

7. Inventories

Inventories at March 31, 2019 and 2020 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Merchandise, finished goods and semi-finished goods	¥ 7,937	¥ 8,216	\$ 75,493
Work in process goods	1,840	1,722	15,822
Raw materials and supplies	4,094	3,866	35,523
Total	¥ 13,872	¥ 13,805	\$ 126,849

8. Short-Term Loans and Long-Term Debt

Short-term loans at March 31, 2019 and 2020 represented loans in the form of deeds and overdrafts at interest rates ranging from 0.18% to 8.2% and from 0.18% to 6.47% per annum, respectively.

Long-term debt at March 31, 2019 and 2020 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Unsecured loans from banks and insurance companies, payable in Japanese yen, at rates ranging from 0.095% to 0.60% and variable rates	¥ 18,316	¥ 20,067	\$ 184,388
Unsecured loans from banks, payable in U.S. dollars, at rates ranging from 2.48% to 3.40%	1,272	1,080	9,922
Unsecured loans from banks, payable in Euro, at rates ranging from 0.65% to 0.68% and variable rates	1,015	4,090	37,581
Unsecured loans from banks, payable in Taiwan dollars, at a rate of 1.40%	86	—	—
Unsecured loans from banks, payable in Baht, at a rate of 2.575%	977	818	7,516
Unsecured bonds, payable in yen at rate of 0.5%, due 2026	—	7,000	64,320
Total	21,668	33,056	303,739
Less current portion	(4,127)	(3,844)	(35,321)
	¥ 17,540	¥ 29,211	\$ 268,409

The aggregate annual maturities of long-term debt subsequent to March 31, 2020 are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
	2020	2020
2021	¥ 3,844	\$ 35,321
2022	5,039	46,301
2023	8,109	74,510
2024	4,467	41,045
2025	3,070	28,209
2026 and thereafter	8,524	78,323
Total	¥ 33,056	\$ 303,739

9. Pledged Assets and Secured Liabilities

Assets pledged as collateral for liabilities as of March 31, 2019 and 2020 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Land	¥ 166	¥ 166	\$ 1,525
Buildings	54	51	468
	¥ 220	¥ 217	\$ 1,993

Liabilities secured by these assets as collateral consist of ¥31 million and ¥19 million (\$174 thousand) of short-term loans and ¥37 million and ¥17 million (\$156 thousand) of long-term loans at March 31, 2019 and 2020, respectively.

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, 2019 and 2020 were, in the aggregate, approximately 30.6%.

A reconciliation of the statutory and effective tax rates for the years ended March 31, 2019 and 2020 as a percentage of profit before income taxes was presented as follows:

	2019	2020
Statutory tax rate	30.6%	30.6%
Non-deductible expenses	2.3	1.7
Impairment loss on property, plant and equipment	2.2	—
Acquisition related cost	1.9	0.3
Per capita portion of inhabitants' taxes	0.6	0.9
Tax credit of research and development costs	(0.6)	(4.8)
Loss on impairment of investments in securities	0.1	0.1
Tax rate differences of overseas subsidiaries	(0.1)	9.6
Amortization of goodwill	0.1	1.5
Gain on liquidation of subsidiaries	—	(3.1)
Other	0.0	0.0
Effective tax rate	37.1%	36.8%

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 at March 31, 2019 and 2020 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Deferred tax assets:			
Liabilities for retirement benefits	¥ 190	¥ 51	\$ 468
Tax loss carryforwards	2,069	3,184	29,256
Provision for bonuses to employees	334	328	3,013
Unrealized profit on intercompany transactions	507	527	4,842
Impairment loss on property, plant and equipment	119	76	698
Loss on devaluation of inventories	75	73	670
Acquisition related cost of acquired companies	93	93	854
Other	459	381	3,500
Gross deferred tax assets	3,852	4,715	43,324
Valuation allowance for tax loss carryforwards	(1,864)	(3,002)	(27,584)
Valuation allowance for temporary differences	(377)	(331)	(3,041)
Valuation allowance	(2,242)	(3,333)	(30,625)
Total deferred tax assets	1,609	1,382	12,698
Deferred tax liabilities:			
Surplus arising from land revaluation	(962)	(985)	(9,050)
Net unrealized holding gain on securities	(3,874)	(4,063)	(37,333)
Gain on marketable securities contributed to employees' retirement benefit trust	(146)	(146)	(1,341)
Assets for retirement benefits	(230)	(178)	(1,635)
Customer related assets	(457)	(325)	(2,986)
Other	(474)	(515)	(4,732)
Total deferred tax liabilities	(6,145)	(6,215)	(57,107)
Net deferred tax liabilities	¥ (4,535)	¥ (4,832)	\$ (44,399)

Note 1: Tax loss carryforwards and related deferred tax assets as of March 31, 2019 and 2020 will expire as follows:

Years ending March 31,	Millions of yen		
	2019	2020	2020
	Tax loss carryforwards ^(*)	Valuation allowance for tax loss carryforwards	Deferred tax assets for tax loss carryforwards
2020	¥ 29	¥ (24)	¥ 4
2021	29	(11)	18
2022	43	(37)	6
2023	124	(118)	6
2024	71	(71)	—
2025 and thereafter	1,769	(1,600)	169
Total	¥ 2,069	¥ (1,864)	¥ 205

Years ending March 31,	Millions of yen		
	2020	2020	2020
	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

Years ending March 31,	Thousands of U.S. dollars		
	2020	2020	2020
	Tax loss carryforwards ^(*)	Valuation allowance for tax loss carryforwards	Deferred tax assets for tax loss carryforwards
2021	\$ 192	\$ (64)	\$ 128
2022	312	(229)	82
2023	928	(900)	27
2024	781	(762)	9
2025	909	(891)	9
2026 and thereafter	26,104	(24,708)	1,396
Total	\$ 29,256	\$ (27,584)	\$ 1,672

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

The Company finalized provisional accounting treatment related to business combination as of March 31, 2020 (Note 19).

The summary of significant components of the Group's deferred tax

assets and liabilities at March 31, 2019 reflects the above revision of purchase price allocation.

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 de-

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, 2019 and 2020

(i) Excluding amounts calculated by the simplified method, the changes in the retirement benefit obligation for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Retirement benefit obligation at the beginning of the year	¥ 9,568	¥ 9,444	\$ 86,777
Service cost	258	282	2,591
Interest cost	31	29	266
Actuarial loss (gain)	0	(176)	(1,617)
Retirement benefit paid	(580)	(588)	(5,402)
Other	35	21	192
Increase due to business combination	130	—	—
Retirement benefit obligation at the end of the year	¥ 9,444	¥ 9,013	\$ 82,817

(ii) Excluding amounts calculated by the simplified method, the changes in plan assets at fair value for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Plan assets at fair value at the beginning of the year	¥ 14,747	¥ 14,459	\$ 132,858
Expected return on plan assets	274	243	2,232
Actuarial loss	(391)	(3)	(27)
Contributions by the employer	409	399	3,666
Retirement benefit paid	(580)	(581)	(5,338)
Plan assets at fair value at the end of the year	¥ 14,459	¥ 14,517	\$ 133,391

(iii) The changes in liabilities for retirement benefits under the simplified method for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Liabilities for retirement benefits at the beginning of the year	¥ 2,995	¥ 3,064	\$ 28,154
Retirement benefit expense	326	381	3,500
Retirement benefit paid	(240)	(149)	(1,369)
Contribution to defined contribution pension plans	(7)	(20)	(183)
Other	(10)	(2)	(18)
Liabilities for retirement benefit at the end of the year	¥ 3,064	¥ 3,273	\$ 30,074

(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, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Funded retirement benefit obligation	¥ 9,501	¥ 9,073	\$ 83,368
Plan assets at fair value	(14,514)	(14,572)	(133,896)
	(5,012)	(5,499)	(50,528)
Unfunded retirement benefit obligation	3,061	3,268	30,028
Net amount of liabilities and assets recognized in the consolidated balance sheet	(1,951)	(2,231)	(20,499)
Liabilities for retirement benefits	3,212	3,446	31,664
Assets for retirement benefits	(5,163)	(5,677)	(52,163)
Net amount of liabilities and assets recognized in the consolidated balance sheet	¥ (1,951)	¥ (2,231)	\$ (20,499)

(v) The components of retirement benefit expense (credit) for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Service cost	¥ 258	¥ 282	\$ 2,591
Interest cost	31	29	266
Expected return on plan assets	(274)	(243)	(2,232)
Amortization of actuarial gain	(548)	(349)	(3,206)
Retirement benefit expenses calculated by the simplified method	326	381	3,500
Retirement benefit expense (credit)	¥ (207)	¥ 100	\$ 918

(vi) The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Actuarial gain	¥ (938)	¥ (180)	\$ (1,653)

(vii) The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2019 and 2020 were as following:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Unrecognized actuarial gain	¥ (755)	¥ (575)	\$ (5,283)

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

	2019	2020
		23%
Bond	47	44
Equities	13	13
General accounts at life insurance companies	4	5
Cash and deposits	13	17
Other	100%	100%
Total		

The total pension plan assets include 30% and 32% of the retirement benefits trust for the corporate pension fund plans as of March 31, 2019 and 2020, 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, 2019 and 2020 are as follows:

	2019	2020
Discount rates	0.3%	0.4%
Expected long-term rate of return on plan assets	1.7%	1.7%
Rates of salary increase	2.8%	2.7%

(c) Defined contribution pension plans for the years ended March 31, 2019 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Contributions to defined contribution pension plans	¥ 10	¥ 17	\$ 156

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 and ¥1,370 million (\$12,588 thousand) at March 31, 2019 and 2020, respectively.

Common stock and treasury stock

Movements in shares of common stock and treasury stock during the years ended March 31, 2019 and 2020 are summarized as follows:

	2019			
	Number of shares			
	April 1, 2018	Increase	Decrease	March 31, 2019
Common stock	46,988,109	—	—	46,988,109
Treasury stock	1,696,143	721	—	1,696,864

The increase in treasury stock consists of 124 shares due to the purchase of fractional shares of less than one voting unit, and 597 shares attributable to the Company acquired by its equity-method affiliates.

	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.

13. Land Revaluation

In accordance with the "Law Concerning Revaluation of Land" promulgated on March 31, 1998, land used for business was revalued at 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 ¥3,554 million and ¥3,580 million (\$32,895 thousand) at March 31, 2019 and 2020, respectively.

14. Other Comprehensive Income

Reclassification adjustments and tax effects on components of other comprehensive income for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Net unrealized holding (loss) gain on securities:			
(Loss) gain arising during the year	¥ (1,495)	¥ 615	\$ 5,651
Reclassification adjustments	(399)	—	—
Before tax effect	(1,894)	615	5,651
Tax effect	525	(188)	(1,727)
Net unrealized holding (loss) gain on securities	(1,368)	426	3,914
Translation adjustments:			
Loss arising during the year	(45)	(765)	(7,029)
Reclassification adjustments	—	(53)	(486)
Before tax effect	(45)	(819)	(7,525)
Tax effect	—	—	—
Translation adjustments	(45)	(819)	(7,525)
Retirement benefits liability adjustments:			
Loss arising during the year	(1,487)	(544)	(4,998)
Reclassification adjustments	548	364	3,344
Before tax effect	(938)	(180)	(1,653)
Tax effect	283	54	496
Retirement benefits liability adjustments	(654)	(125)	(1,148)
Total other comprehensive income	¥ (2,068)	¥ (517)	\$ (4,750)

15. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2019 and 2020 amounted to ¥2,145 million and ¥2,769 million (\$25,443 thousand), respectively.

16. Loss on Impairment of Property, Plant and Equipment

The Group recorded loss on impairment for the following asset groups for the year ended March 31, 2019.

Location	Use	Classification
Mexico	Business Use	Buildings and machinery
China	Business Use	Buildings and machinery

The Group categorizes assets for business use mainly based on the classification for management accounting units. Idle assets are grouped on an individual basis.

For the year ended March 31, 2019, the Company recorded loss on impairment in the amount of ¥356 million on buildings and machinery within other expenses by writing down the net book value to the recoverable amount of plant assets due to a continuous downturn in the results of business operations of two consolidated subsidiaries. The loss

on impairment consisted of ¥174 million for buildings, ¥155 million for machinery and ¥26 million for other. The recoverable amounts of this asset group were measured at the estimated value in use, which was calculated based on future cash flows using a discount rate of 10.1%. The net selling value is based on the estimated sales price.

No loss on impairment of property, plant and equipment was recorded for the year ended March 31, 2020.

17. Derivatives and Hedge Accounting

The estimated fair value of derivative instruments outstanding at March 31, 2019 and 2020 for which hedge accounting has been applied is summarized as follows:

	Millions of yen		
	2019		
	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	¥ 977	¥ 855	(*)

	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	¥ 977	¥ 855	(*)

	Thousands of U.S. dollars		
	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	\$ 8,591	\$ 5,366	(*)

(*) Because interest-rate swaps accounted for by integral 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
	2019	2020	2020
Profit attributable to owners of parent	¥ 69.09	¥ 51.29	\$ 0.47
Net assets	1,439.43	1,450.32	13.32
Cash dividends	30.00	30.00	0.27

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, 2019 and 2020 since neither the Company nor any of the consolidated subsidiaries had any potentially dilutive

shares at March 31, 2019 and 2020.

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, 2019 and 2020 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Profit attributable to owners of parent	¥ 3,129	¥ 2,323	\$ 21,345
Adjusted profit attributable to owners of parent available for distribution to common stockholders	¥ 3,129	¥ 2,323	\$ 21,345

	Thousands of shares	
	2019	2020
Weighted-average number of shares of common stock outstanding	45,291	45,290

The financial data used in the computation of net assets per share based on the above method at March 31, 2019 and 2020 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Total net assets	¥ 66,960	¥ 67,217	\$ 617,633
Deductions from total net assets:			
Non-controlling interests	1,766	1,531	14,067
Total net assets available to owners of parent	¥ 65,193	¥ 65,685	\$ 603,556

	Thousands of shares	
	2019	2020
Number of shares of common stock used in the calculation of net assets per share	45,291	45,290

The Company finalized the provisional accounting treatment related to business combination as of March 31, 2020 (Note 19).

The computation basis of net assets per share at March 31, 2019 reflected the above revision of purchase price allocation.

19. Business Combination

The provisional accounting treatment related to the business combination with Proseat Group on February 19, 2019 had not been finalized as of the end of the fiscal year ended March 31, 2019, and the amounts disclosed previously were provisional amounts based on the information available at that time. The allocation of the acquisition cost was completed in the fiscal year ended March 31, 2020.

As the acquisition cost allocation was finalized, goodwill was remeasured and reclassified in the consolidated financial statements for the

year ended March 31, 2019.

As a result, the provisionally calculated goodwill in the amount of ¥2,100 million decreased by ¥566 million due to the completion of the accounting procedures, resulting in a total of ¥1,533 million of goodwill. In addition, other intangible assets increased by ¥1,213 million, other long-term liabilities increased by ¥457 million and non-controlling interests increased by ¥188 million.

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) Changes in the measurement method of income or loss in the reporting segment

The allocation method in each reporting segment has been changed to reflect their performances appropriately from the year ended March 31, 2020.

As a result of this change, segment income decreased by 87 million (\$799 thousand) in Human Life segment, and increased by 87 million (\$799 thousand) in Industry segment compared with the amounts that would have been recognized based on the former allocation method for the year ended March 31, 2020.

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

Information by reportable segment for the years ended March 31, 2019 and 2020 is as follows:

	Millions of yen				
	2019				
	Reportable segments			Adjustments and eliminations ^(*)	Consolidated
	Human Life	Industry	Total		
Sales, income and assets by reportable segments:					
Sales to third parties	¥ 64,865	¥ 47,728	¥ 112,593	¥ —	¥ 112,593
Inter-segment sales and transfers	3,816	2,651	6,468	(6,468)	—
Total	¥ 68,681	¥ 50,380	¥ 119,062	¥ (6,468)	¥ 112,593
Segment income ^(**)	¥ 3,453	¥ 2,546	¥ 5,999	¥ (1,223)	¥ 4,776
Segment assets	¥ 72,609	¥ 72,022	¥ 144,632	¥ 8,859	¥ 153,491
Other items:					
Depreciation and amortization	¥ 1,939	¥ 2,115	¥ 4,055	¥ 462	¥ 4,517
Amortization of goodwill	—	21	21	—	21
Interest income	0	3	3	0	4
Interest expense	859	424	1,284	(1,119)	164
Equity in losses of an affiliate	0	—	0	—	0
Investments in affiliates accounted for by the equity method	348	—	348	—	348
Increase in property, plant and equipment and intangible assets	2,202	4,235	6,437	931	7,368

	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 ^(**)	¥ 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 earnings 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

	Thousands of U.S. dollars				
	2020				
	Reportable segments			Adjustments and eliminations ^(*)	Consolidated
Human Life	Industry	Total			
Sales, income and assets by reportable segments:					
Sales to third parties	\$ 533,869	\$ 717,201	\$ 1,251,079	\$ —	\$ 1,251,079
Inter-segment sales and transfers	6,156	1,433	7,589	(7,589)	—
Total	\$ 540,025	\$ 718,643	\$ 1,258,678	\$ (7,589)	\$ 1,251,079
Segment income ^(**)	\$ 30,138	\$ 10,897	\$ 41,045	\$ (9,877)	\$ 31,158
Segment assets	\$ 647,734	\$ 617,862	\$ 1,265,597	\$ 104,456	\$ 1,370,054
Other items:					
Depreciation and amortization	\$ 17,761	\$ 32,362	\$ 50,124	\$ 5,651	\$ 55,784
Amortization of goodwill	—	1,543	1,543	—	1,543
Interest income	0	36	45	0	45
Interest expense	0	2,407	2,416	1,176	3,601
Equity in earnings of an affiliate	(119)	—	(119)	—	(119)
Investments in affiliates accounted for by the equity method	3,078	—	3,078	—	3,078
Increase in property, plant and equipment and intangible assets	16,603	25,424	42,019	6,312	48,341

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

- (i) Segment income in the amounts of ¥1,223 million and ¥1,075 million (\$9,877 thousand) for the years ended March 31, 2019 and 2020 consisted of elimination of inter-segment transactions in the amounts of ¥(0) million and ¥(0) million (\$0 thousand), and unallocable expenses in the amounts of ¥1,223 million and ¥1,075 million (\$9,877 thousand).
- (ii) Segment assets in the amounts of ¥8,859 million and ¥11,368 million (\$104,456 thousand) for the years ended March 31, 2019 and 2020, 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 ¥462 million and ¥615 million (\$5,651 thousand) for the years ended March 31, 2019 and 2020, 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) Interest expenses were the difference between allocated internal interest expenses and actual interest expenses. The Company allocates internal interest to each reportable segment according to the amount of assets of each reportable segment.
- (v) Increase in property, plant and equipment and intangible assets in the amounts of ¥931 million and ¥687 million (\$6,312 thousand) for the years ended March 31, 2019 and 2020, respectively, mainly consisted of assets related to the Central R&D Laboratory owned by the Company.

(**) 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. "

(e) Geographical information

Sales to third parties by countries or areas grouped according to geographical classification for the years ended March 31, 2019 and 2020 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Japan	¥ 92,230	¥ 86,790	\$ 797,482
Asia	16,158	12,173	111,853
Other	4,204	37,192	341,744
Total	¥ 112,593	¥ 136,155	\$ 1,251,079

Property, plant and equipment by countries or areas grouped according to geographical classification at March 31, 2019 and 2020 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Japan	¥ 48,182	¥ 47,788	\$ 439,106
Asia	4,911	4,498	41,330
Other	7,170	9,614	88,339
Total	¥ 60,265	¥ 61,901	\$ 568,786

(f) Information by major customer

The information by major customer for the years ended March 31, 2019 and 2020 was summarized as follows:

Customer	Related segment	Millions of yen		Thousands of U.S. dollars
		2019	2020	2020
FP Corporation	Human Life	¥ 14,964	¥ 14,562	\$ 133,805

(g) Loss on impairment of property, plant and equipment for the years ended March 31, 2019 and 2020.

	Millions of yen			
	2019			
	Human life	Industry	Adjustments and eliminations	Consolidated
Loss on impairment of property, plant and equipment	¥ —	¥ 356	¥ —	¥ 356

Loss on impairment of property, plant and equipment was not recorded for the year ended March 31, 2020.

(h) Amortization of goodwill and unamortized balance of goodwill for the years ended and as of March 31, 2019 and 2020.

	Millions of yen			
	2019			
	Human life	Industry	Adjustments and eliminations	Consolidated
Amortization of goodwill	¥ —	¥ 21	¥ —	¥ 21
Unamortized balance of goodwill	—	1,585	—	1,585

	Millions of yen			
	2020			
	Human life	Industry	Adjustments and eliminations	Consolidated
Amortization of goodwill	¥ —	¥ 168	¥ —	¥ 168
Unamortized balance of goodwill	—	1,363	—	1,363

	Thousands of U.S. dollars			
	2020			
	Human life	Industry	Adjustments and eliminations	Consolidated
Amortization of goodwill	\$ —	\$ 1,543	\$ —	\$ 1,543
Unamortized balance of goodwill	—	12,524	—	12,524

Independent Auditor's Report

21. Subsequent Event

(a) Cash dividends

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, 2020 was approved at a shareholders' meeting held on June 24, 2020.

	Millions of yen	Thousands of U.S. dollars
	2020	2020
Cash dividends (¥17 (U.S. \$0.15) per share)	¥ 770	\$ 7,075

(b) 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 company | Sekisui Plastics Kyushu Co., Ltd. |
| b) Business description | Sales and manufacturing of foamed plastics |
| c) Name of merged company | Sekisui Plastics Yamaguchi Co., Ltd.
Sekisui Plastics Shikoku Co., Ltd. |
| d) Business description | Sales and manufacturing of foamed plastics |

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 in order to enhance competitiveness by prompt decision-making in a changing business environment and synergies utilizing these companies' know-how considering the locations and the nature of the businesses.

As a result of this business combination, the Company believes the operating structure will be more efficient, and the Company also expects further sales growth by expanding specialty areas to other regions.

(ii) Summary of accounting treatment

The Company will treat it as a transaction under common control on the basis of "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).



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. (formerly named "Sekisui Plastics Co., Ltd.") and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as at March 31, 2020, 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 at March 31, 2020, 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 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.

Responsibilities of Management, Corporate Auditor and Board of Corporate Auditors 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.

Corporate Auditor and Board of Corporate Auditors 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.
- 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 Corporate Auditor and Board of Corporate Auditors 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 Corporate Auditor and Board of Corporate Auditors 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.

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, 2020 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 3 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Osaka, Japan
June 24, 2020

松本 要 

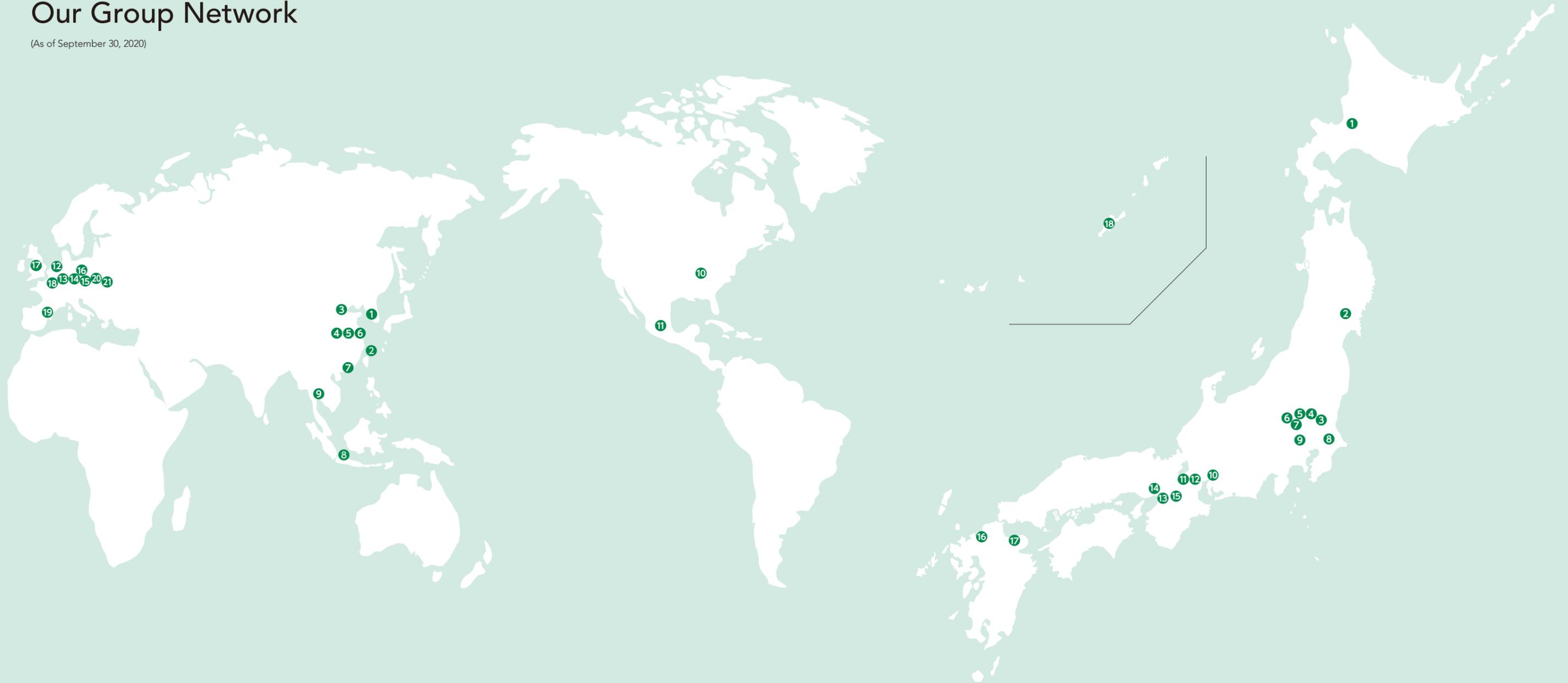
Kaname Matsumoto
Designated Engagement Partner
Certified Public Accountant

谷間 薫 

Kaoru Tanima
Designated Engagement Partner
Certified Public Accountant

Our Group Network

(As of September 30, 2020)



Overseas subsidiaries 21 companies

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

Domestic subsidiaries 18 companies

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

Company Profile

(As of March 31, 2020)

Company name	Sekisui Kasei Co., Ltd.
Osaka Head office	2-4-4 Nishi-tenma, Kita-ku, Osaka 530-8565, Japan
Tokyo Headquarters	2-7-1 Nishi-Shinjuku, Shinjuku-ku, Tokyo 163-0727, Japan
Founded	October 1, 1959
Paid-in capital	16,533 million yen
President	Masato Kashiwabara
Number of employees	427 (non-consolidated) 3,855 (consolidated)
Consolidated Subsidiaries	(Japan) 18 companies (As of April 1, 2020) (Worldwide) 21 companies
Equity Method Affiliate	1 company
Fiscal Year	Ended March 31

Business Lines in Each Segment

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
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

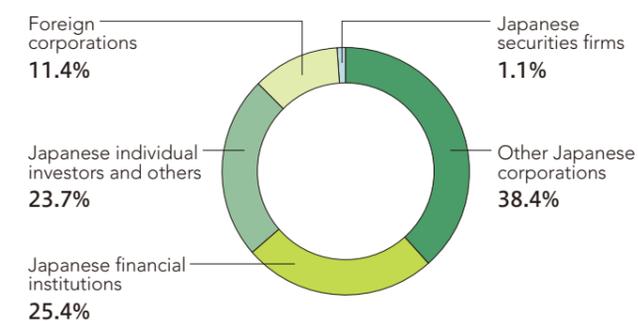
Investor Information

(As of March 31, 2020)

Stock Information

Ordinary General Meeting of Shareholders	June
Record Date	Ordinary General Meeting of Shareholders: March 31 Interim Dividend: March 31 Year-end Dividend: September 30
Listings	First Section, Tokyo Stock Exchange
Securities code	4228
Common stock—issued	46,988,109 shares
Number of shareholders	6,599
Transfer agent	Mitsubishi UFJ Trust and Banking Corporation
Independent Auditor	Ernst & Young ShinNihon LLC

Shareholdings by Type of Shareholder



Note: Calculated after deducting treasury stock holdings of 1,668 thousand shares

Major Shareholders

Name	Numbers of shares held (thousands)	Percentage of shares held (%)
Sekisui Chemical Co., Ltd.	9,855	21.75
The Dai-ichi Life Insurance Company, Limited	3,031	6.69
Employees' Shareholding	1,727	3.81
BNP PARIBAS SECURITIES SERVICES LUXEMBOURG / JASDEC / FIM / LUXEMBOURG FUNDS / UCITS ASSETS	1,477	3.26
Sekisui Jushi Corporation	1,419	3.13
Daido Life Insurance Company	1,418	3.13
The Master Trust Bank of Japan, Ltd.	1,379	3.04
FP Corporation	1,348	2.98
MUFG Bank Ltd.	1,327	2.93
Asahi Kasei Corp.	1,250	2.76
Denka Company Limited	1,250	2.76

Notes: The Company maintains 1,668,000 shares of treasury stock, which does not include the holdings of the major shareholders in the above list.

Stock Price/Trading Volume



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

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

SEKISUI KASEI CO., LTD.

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