

# Presentation of Financial Results for FY2013 and FY2014-2016 Medium-term Management Plan

**Naofumi Negishi, President**

SEKISUI CHEMICAL CO., LTD.

**28 April, 2014**

## Business Results by Company

(Billions of yen)

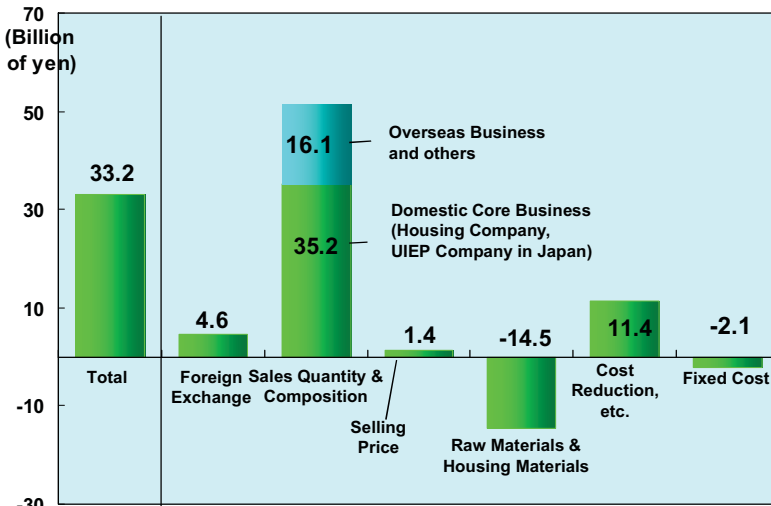
	FY2008		Medium-term Management Plan GS21-SHINKA!				GS21-SHINKA! 2nd Stage	
			FY2010 (End of 1st Stage)		FY2013 (End of 2nd Stage)		FY2013 (Rolling Plan)	
	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income
Housing	424.5	17.1	418.7	24.4	496.8	41.1	500.0	34.0
UIEP*1	225.2	1.7	195.6	1.5	239.9	6.5	240.0	15.0
HPP*2	262.6	15.8	281.6	24.4	353.8	36.1	360.0	36.0
Others	21.9	-1.0	19.6	-0.9	20.3	-1.1	20.0	-5.0
<b>Total</b>	<b>934.2</b>	<b>33.6</b>	<b>915.5</b>	<b>49.3</b>	<b>1,110.9</b>	<b>82.5</b>	<b>1,120.0</b>	<b>80.0</b>

\*1: Urban Infrastructure & Environmental Products Company, \*2: High Performance Plastics Company

**■ Took steps to increase profit-making capabilities**

- Successfully reinforced the earning strengths of the domestic core business (the housing business and domestic water infrastructure business)
- On a backdrop of correction to the strong yen, expanded the business volume and composition ratio of the global strategic businesses
- Progress made preparing the global business framework for further growth

**Analysis of Operating Income for FY2013 (compared with FY2010)**



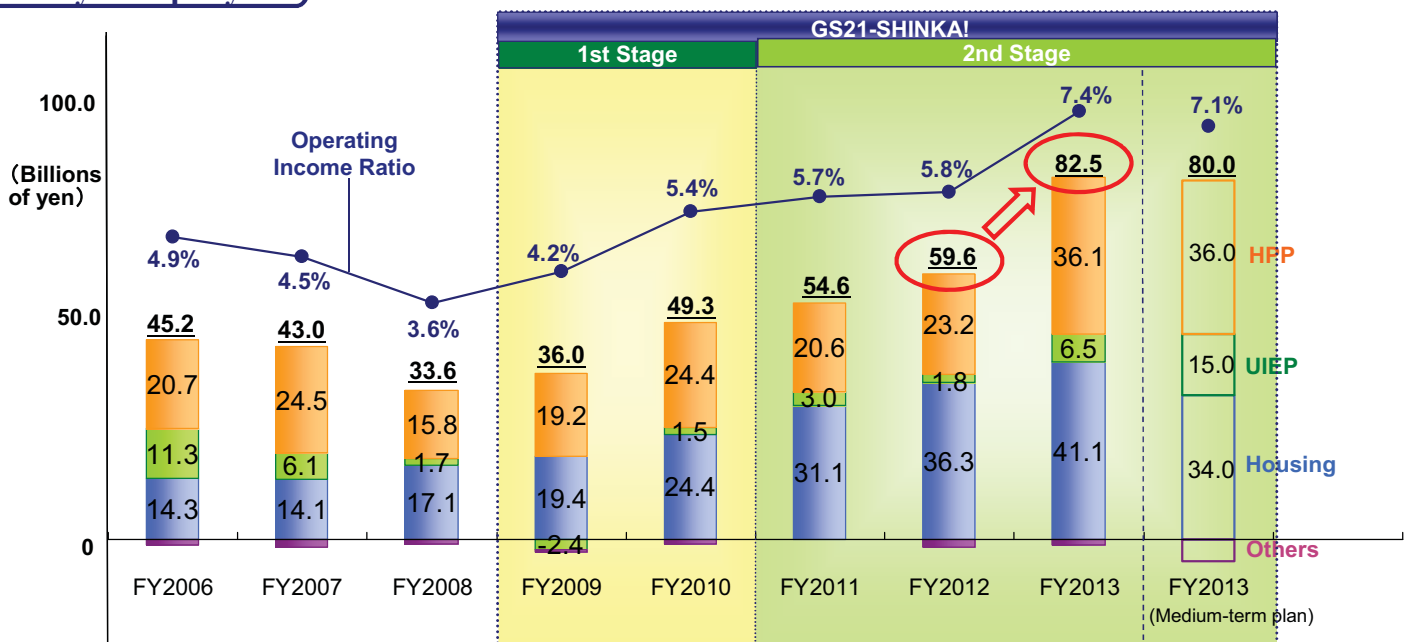
Note: Includes selling price of Housing Company within the sales quantity and composition

**FY2011-FY2013 Priority Measures Results**

	Domestic Core Business	Global Strategic Business
<b>Growth Strategy</b>	<ul style="list-style-type: none"> <li>Established the strategy to be "No.1 in Smart Houses" (Housing Business)</li> <li>The refurbishment business expanded at a rapid rate (Living Environment Business, LEB)</li> <li>Expanded business by developing the value chain (UIEP in Japan)</li> </ul>	<ul style="list-style-type: none"> <li>Expanded the global supply system (AT Field)</li> <li>Broadened the mobile solutions business (IT Field)</li> </ul>
<b>Strengthen Core Business</b>	<ul style="list-style-type: none"> <li>Increased our earning power by acquiring the Mitsubishi Plastics piping materials business (UIEP in Japan)</li> <li>Established a nationwide integrated production-sales operating structure (Housing Business, HB)</li> <li>Fortify the sales force (HB and LEB)</li> </ul>	<ul style="list-style-type: none"> <li>Structural reform of the North America diagnostic business (Medical Field)</li> <li>In the process of rebuilding the European business (Pipeline rehabilitation)</li> </ul>
<b>Next Frontier Business</b>	<ul style="list-style-type: none"> <li>Created a new production base for ASEAN (AT Field and the CPVC Business)</li> <li>Expanding the water infrastructure business in the Asia market (Water Infrastructure Business Overseas)</li> </ul>	<ul style="list-style-type: none"> <li>Commenced mass production factory operations in Thailand (Housing Business)</li> <li>Develop new materials for the energy-related field                             <ul style="list-style-type: none"> <li>Film-type lithium-ion batteries</li> <li>Film-type dye-sensitized solar cell</li> </ul> </li> </ul>

**Operating Income by Company**

Progress revising the business model enabled a step up in profit-making capability



¥207 billion operating income in FY2006-10

¥197 billion operating income in 3 years

External Environment and Foreign Exchange (Avg. rate)\*

Year	2007/06	2008/10	2011/03	2011/09	2012/09	2012/12	2014/04
116yen/US\$	118yen/US\$	103yen/US\$	87yen/US\$	80yen/US\$	83yen/US\$	100yen/US\$	
147yen/€	162yen/€	152yen/€	115yen/€	111yen/€	107yen/€	134yen/€	*Avg. rate for each fiscal year

**Business Results by Company**

	FY2012*		FY2013		Difference	
	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income
Housing	469.0	36.3	496.8	41.1	27.8	4.8
UIEP	214.5	1.8	239.9	6.5	25.4	4.7
HPP	332.0	23.2	353.8	36.1	21.8	12.8
Others	40.5	-1.3	43.8	-0.8	3.3	0.5
Eliminations or Unallocatable Accounts	-23.6	-0.5	-23.5	-0.3	0.2	0.1
<b>Total</b>	<b>1,032.4</b>	<b>59.6</b>	<b>1,110.9</b>	<b>82.5</b>	<b>78.4</b>	<b>22.9</b>

(Billions of yen)

Overseas Subsidiaries Jan-Mar 2012 Results	
Net Sales	Operating Income
-	-
4.9	-0.7
32.7	1.3
0.2	0
0	-0.1
37.7	0.5

Ordinary Income	60.7	83.3	22.6
Net Income	30.2	41.2	10.0
Dividend per Share (Yen)	18	23	5

\* 15-month period from January 2012 to March 2013 for overseas subsidiaries (Consolidated subsidiary fiscal years were revised to a March year end beginning in FY2012)

- The domestic core businesses expanded both in volume and composition ratio in response to the changing business environment
- The global strategic businesses expanded centering on growing sales of high value-added products
- Progress was made in advancing the next frontiers

**【Domestic Core Business】**

- Housing Order (Volume): +3% (YoY)
- UIEP Company domestic sales: +10% (YoY)

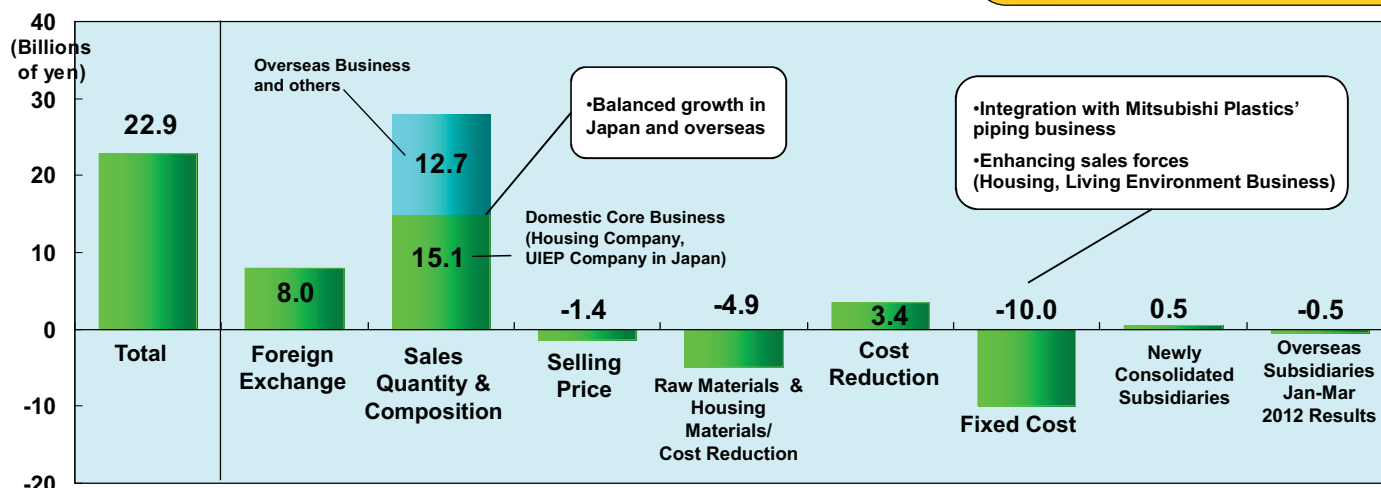
**【Global Strategic Business】**

- AT related field sales: +26% (YoY)
- Mobile solution sales: +51% (YoY)

**【Next Frontier Business】**

- Establishment of New Chlorinated Polyvinyl Chloride (CPVC) Compound Plant in Thailand
- Established a JV water infrastructure company in China
- Commenced mass production factory operations in Thailand (Housing Business)

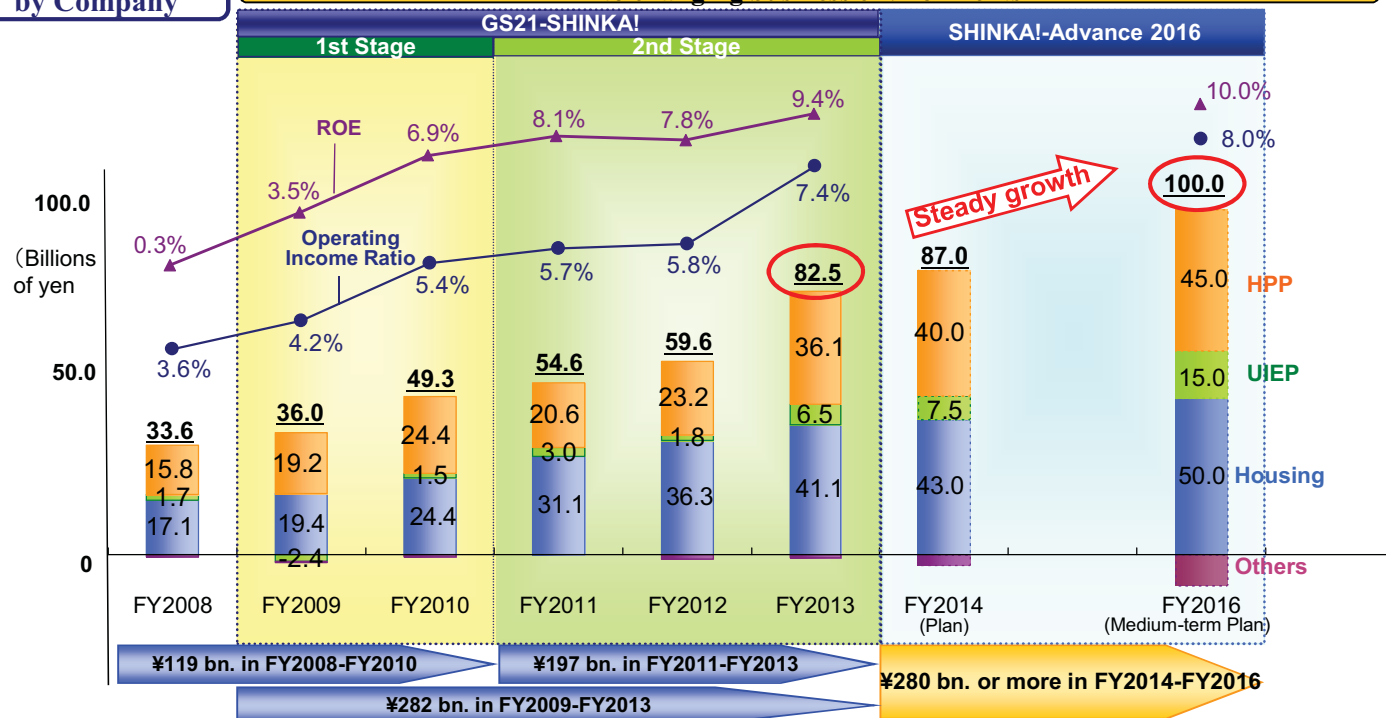
**Analysis of Operating Income for FY2013 (year-on-year)**



Note: Includes selling price of Housing Company within the sales quantity and composition

## Operating Income by Company

Steadily grow earnings and raise business to a new level to be resilient to changing business environments



External Environment and Foreign Exchange* (Avg. rate)*	2008/10	2011/03	2011/09	2012/09	2012/12	2014/04	2015/10
	Lehman Shock	Great East Japan Earthquake	European financial crisis worsens	Japan-China friction escalates	New government administration	Consumption tax hike(5% to 8%)	Consumption tax hike(8% to 10%?)
	103yen/US\$ 152yen/€	94yen/US\$ 131yen/€	87yen/US\$ 115yen/€	80yen/US\$ 111yen/€	83yen/US\$ 107yen/€	100yen/US\$ 134yen/€	103yen/US\$ 140yen/€

SEKISUI CHEMICAL GROUP

## Profit Plan for FY2014

(Billions of yen)

	FY2013		FY2014 (Plan)		Difference	
	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income
Housing	496.8	41.1	524.0	43.0	27.2	1.9
UIEP	239.9	6.5	247.0	7.5	7.1	1.0
HPP	353.8	36.1	370.0	40.0	16.2	3.9
Others	43.8	-0.8	41.0	-2.5	-2.8	-1.7
Eliminations or Unallocatable Accounts	-23.5	-0.3	-28.0	-1.0	-4.5	-0.7
<b>Total</b>	<b>1,110.9</b>	<b>82.5</b>	<b>1,154.0</b>	<b>87.0</b>	<b>43.1</b>	<b>4.5</b>

Ordinary Income	83.3	85.0	1.7
Net Income	41.2	46.0	4.8
Dividend per Share (Yen)	23	24	1

SEKISUI CHEMICAL GROUP

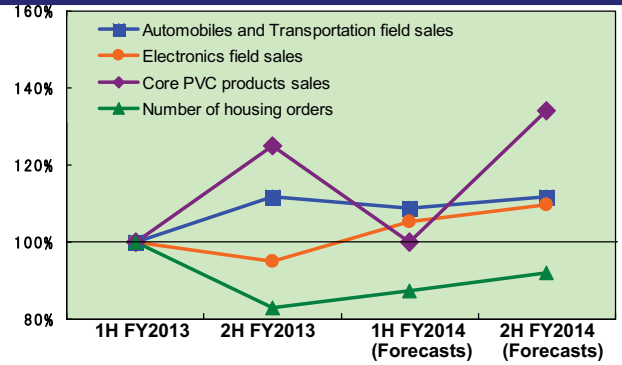
### Market Trend

- Domestic: tax hike causes a temporary lull followed by recovery later in 1H
- Europe: lingering fiscal and political risk but gradual turn toward economic recovery
- US: ongoing economic recovery supported by improving employment and increasing capital investment
- Asia and developing countries: economic expansion driven by active internal demand although at a slower pace

### Foreign Exchange and Raw Materials

- Foreign Exchange: end of the vastly overvalued yen
- Raw Materials: Rising trends in crude oil and naphtha-derivative prices

### Main Business Sales and Orders (Index with 1H FY2013=100)



### Main Businesses Forecasts

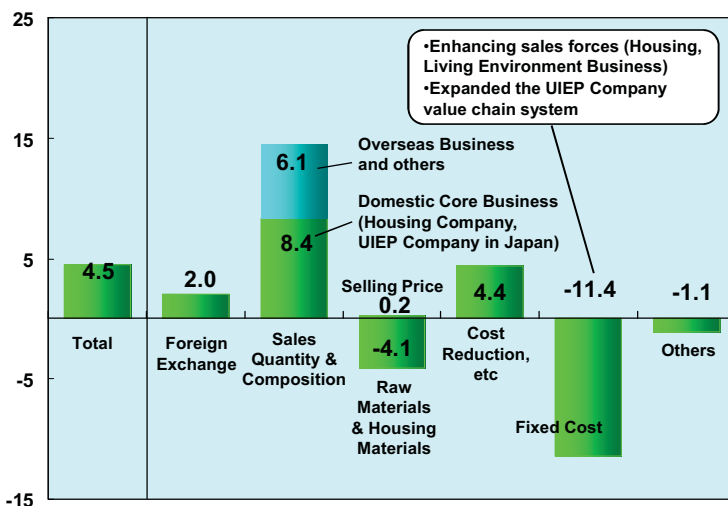
Business Field		FY2014 Demand Trends and Business Opportunities
Global Businesses	Electronics	New product launches fueling growing demand for small and medium liquid crystal application, mainly for mobile devices. Overall weak demand for TVs and computers
	Automobiles and Transportation	Steadily expanding demand overseas (Healthy China and US markets, European market recovery, Tax hike causes a temporary lull in domestic demand)
	Building and Infrastructure	Robust CPVC demand in India and the Middle East
	Life Science	Steadily expanding demand for diagnostic reagents in Japan, Europe, and US. Expand sales on new products launches and other activities
	Infrastructure Stock (Pipeline Rehabilitation) Water Infrastructure	In Europe, growing momentum for recovery in pipeline rehabilitation demand. In Asia, robust demand for infrastructure development
Domestic Businesses	Housing	Homebuyer mood soured by the consumption tax hike to 8% in 1Q FY2014 but gradually moves toward recovery in 2Q. Some demand rush in 2H FY2014 before the subsequent consumption tax hike to 10%
	Living Environment	Growing demand from the volume-zone of customers who acquired their homes 15 to 25 years ago. Minor impact from the tax hike.
	Water Infrastructure	Expanding public sector demand supported by active public investment, larger budget for seismic upgrades, and other trends. A dip in private demand after the consumption tax hike but firm demand related to renovation of existing stock

### Overview of FY2014

#### ■ Establish new framework (Core, Growth, Nurturing and Creation) and steadily advance in each stage

- Domestic businesses of “Core” stage: respond to the demand fluctuations from the consumption tax hike and supplemental budget
- Growing 8 businesses of “Growth” stage: domains where we compete effectively and growth markets
- “Nurturing and Creation” stage : continue establishing business foundations and business models to advance in the Growing 8 businesses of “Growth” stage

### Analysis of Operating Income for FY2014 (year-on-year)



Note: Includes selling price of Housing Company within the sales quantity and composition

### FY2014 Priority Measures Results

	Growth Strategy	Business Strengthening and Acceleration Measures
Core	•Advance the strategy to be “No.1 in Smart Houses” (Housing Business)	• Increase cost competitiveness by using the unit-based completion method to maximize factory construction (Housing Business) •Augmented the sales force (Housing Business, Living Environment Business) •Maximize the production, logistics, and sales process efficiency of general products (UIEP, Domestic)
Growing 8	•Develop the value chain to capture infrastructure stock demand (UIEP, Domestic) •Expand business in the China and ASEAN (Water Infrastructure Business, Overseas) •Bring on line the new vertically integrate CPVC factory and continue expanding sales of fire proofing materials (Building and infrastructure field)	•Continue expanding the refurbishment business (Living Environment Business) •Strengthen the overseas business foundation (Pipeline Rehabilitation Business) •Continue growing sales of high-performance products (Automobiles and Transportation)
Nurturing and Creation	•Establish business foundations; Overseas (Thai) Business, Home Euity Management, Residential Services (Housing Company) •Develop new products for the LED and Implementation fields (HPP)	

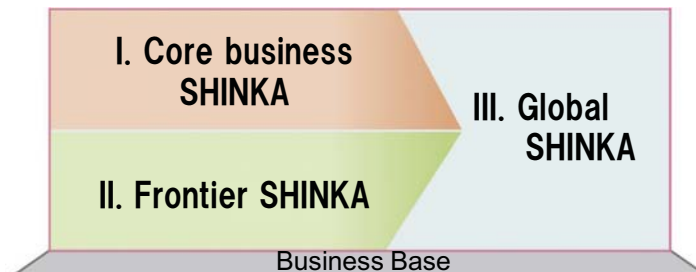
Overview of “SHINKA!-Advance 2016”

Policy

◆ Continue and evolve “SHINKA” to maintain a strong corporate presence for 100 years.

Basic Strategy

◆ Continue to reform business models implement new reforms with long term vision, with the “3 SHINKA Business models”.



◆ Address ourselves to “CSR SHINKA” striving to incite human resources and organizations supporting the “3 SHINKA Business models”, and further evolving CSR management.

Target

**FY2016**

Operating Income: 100 billion yen  
Net Sales: 1.25 trillion yen  
ROE: 10%

Three SHINKA business models

The Three Key Words of the SHINKA business model: **Change, Co-creation, Localization of “prominent business models”**

**I. Core Business SHINKA**

⇒ **Change**

- Refine existing businesses
- Specialization in the strategic businesses and products

**II. Frontier SHINKA**

⇒ **“Co-creation”**

- Collaborate with companies inside and outside the Group to develop new markets and fields

**III. Global SHINKA**

⇒ **Localization of “prominent business models”**

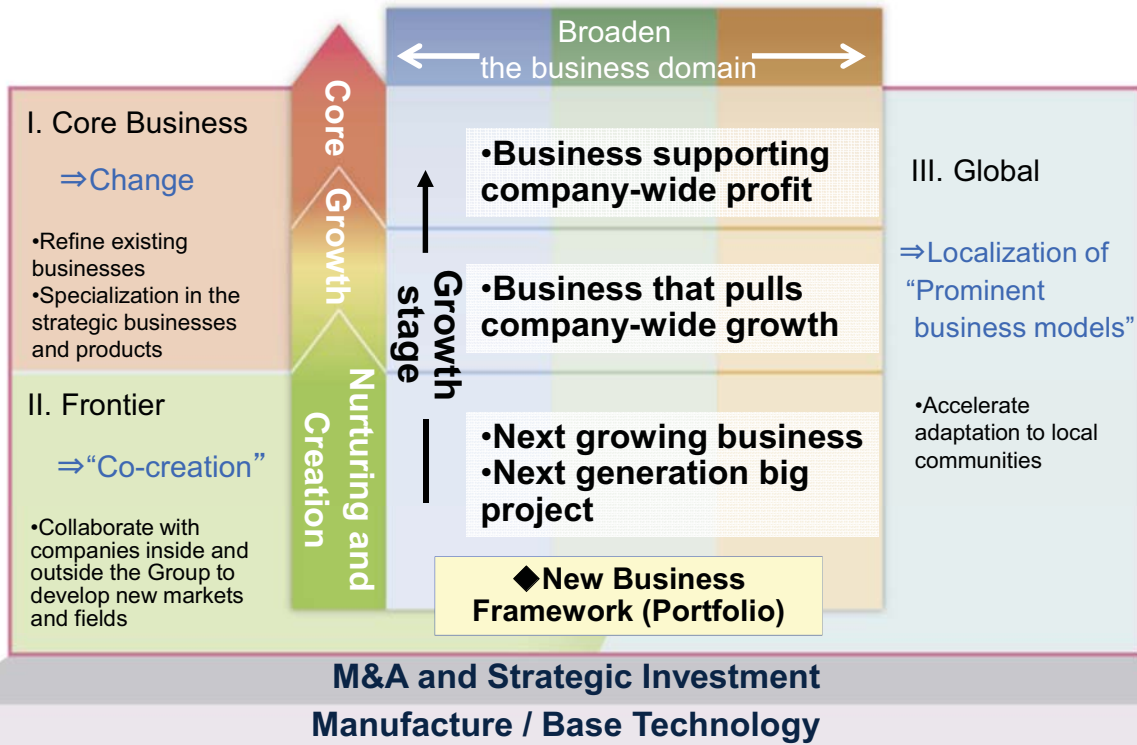
- Accelerate adaptation to local communities

**M&A and Strategic Investment**

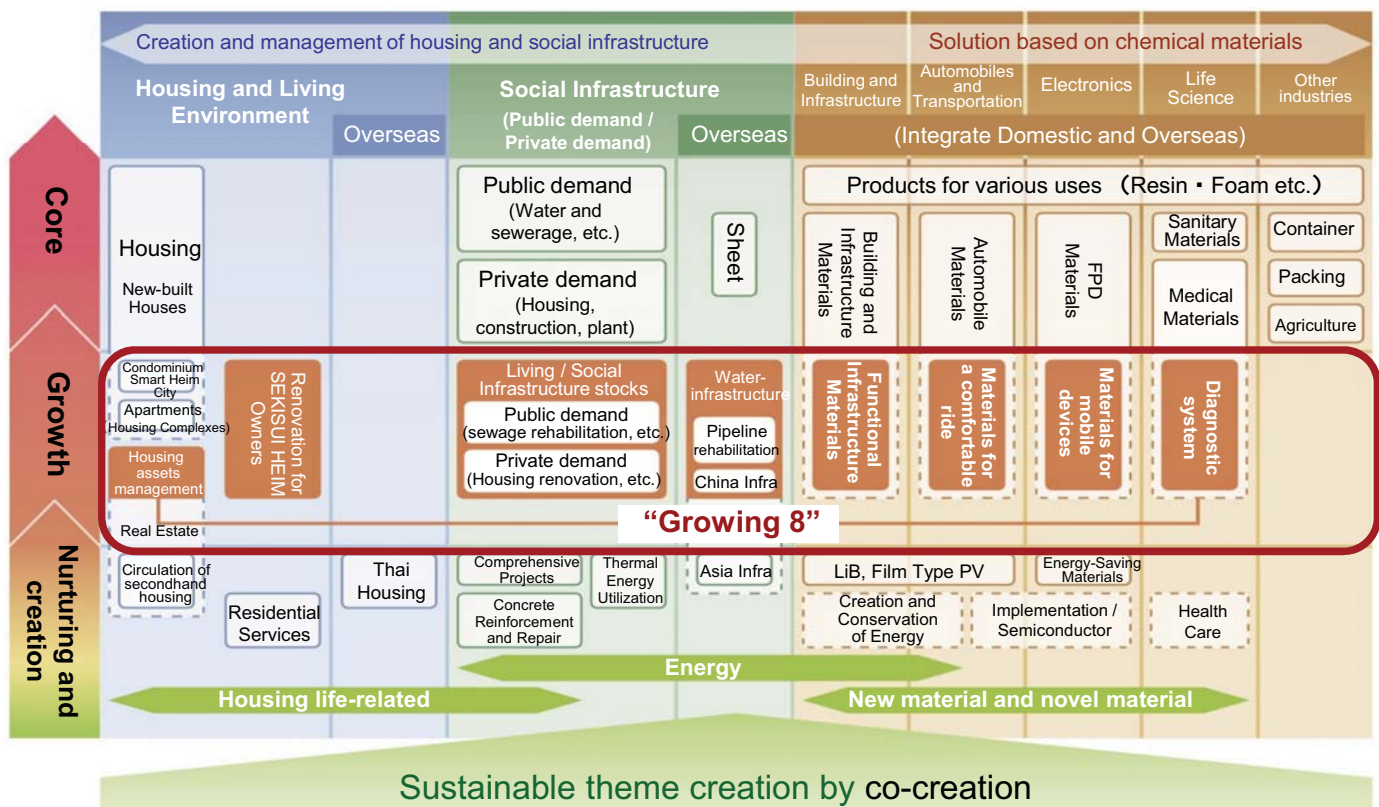
**Manufacture / Base Technology**



**New Business Framework**



**Business Portfolio**



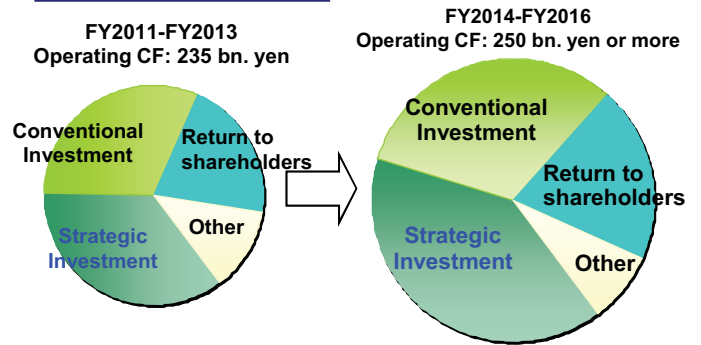




**Cash Flow Strategy**

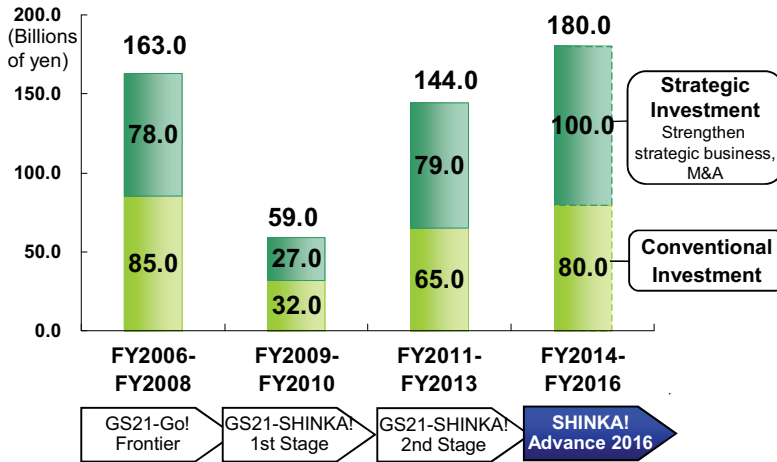
- Conduct aggressive strategic investment centered on the growth stage business
- ROE of 10% in FY2016
- Maintain a stable dividend with a target consolidated payout ratio of 30%

**Use of Cash Flow**

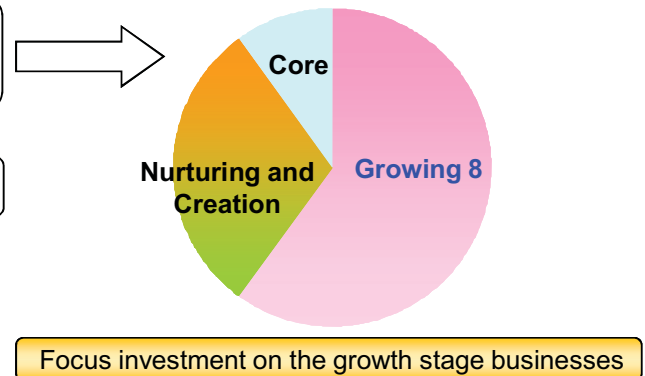


Conduct more aggressive strategic investment

**Investment Amount**



**Breakdown of strategic investment**



**CSR SHINKA**

**We will address to various measures centering on Group / Global / Communication**

- Group**-Further penetrate CSR management into Sekisui Chemical Group
- Global**-Share the concept of value and solve issued globally.
  - Establish same targets in Japan and overseas
  - Local rollout of risk management
- Communication**-Improve the corporate value by fulfilling communication with stakeholders
  - Overall: Reinforce transmission capabilities with new slogan
  - Investors: Responds to requests for disclosure of information
  - Local community and global environment: New long-term environment vision

“Environment” is not incidental to management but forms the center of management directly connected to business



Incitement of human resources and pursuit of Sekisui ways by further deepening and renewing CSR management

# Financial Results for FY2013

**Hajime Kubo**

**Director**

**Senior Managing Executive Officer**

**Responsible for Corporate Finance & Accounting Department**

### Number of Consolidated Companies

	March 31, 2014	March 31, 2013	Difference
<b>Consolidated Subsidiaries</b>	<b>167</b>	<b>167</b>	<b>Increased: 4 subsidiaries</b> •Sekisui KNT Environmental Technology Co., Ltd. (China water infrastructure business), ASTM (Joint Venture for Vehicle Components Molding Business in Indonesia), and other 2 subsidiaries <b>Decreased: 4 subsidiaries</b>
<b>Affiliates (Equity Method)</b>	<b>8</b>	<b>8</b>	-

### Influence of Change in the Number of Consolidated Companies

(Billions of yen)

<b>Net Sales</b>	<b>+7.6</b>	<b>Sekisui KNT Environmental Technology Co., Ltd. *</b>
<b>Operating Income</b>	<b>+0.5</b>	

\* Newly consolidated from the first quarter of FY2013

**Summary of Profit and Loss**

(Billions of yen)

	FY2013	FY2012	Differences		Overseas Subsidiaries Jan-Mar 2012 Results
Net Sales	1,110.9	1,032.4	78.4	(108.6)* <sup>1</sup>	37.7
Gross Profit	336.1	302.5	33.6		
Gross Profit Rate	30.3%	29.3%	1.0%		
Selling, Gen. and Admin. Expenses	253.6	242.8	10.7		
Operating Income	82.5	59.6	22.9	(22.9)* <sup>1</sup>	0.5
Equity in Earnings of Affiliates	2.1	1.2	0.8		
Other Non-operating Income and Expenses	-1.3	-0.2	-1.1	Foreign exchange gains or losses: -1.6	
Ordinary Income	83.3	60.7	22.6		
Extraordinary Income	-	1.8	-1.8		
Extraordinary Loss	10.9	18.0	-7.1		
Income before Income Taxes	72.4	44.5	27.9		
Corporate Income Tax, etc.	30.1	13.3* <sup>2</sup>	16.8		
Income for Minority Shareholders	1.2	1.0	0.1		
Net Income	41.2	30.2	11.0		

Foreign Exchange (Avg. rate)	1US\$	100 yen	83 yen	17 yen
	1€	134 yen	107 yen	27 yen

\*1: Excluding effects from new consolidations and the 15-month reporting period for overseas subsidiaries

\*2: Includes a ¥2.2 billion decline in tax expenses due to the tax effect from the elimination of unrealized profit associated with the start of consolidated tax payments in the previous fiscal year and a ¥3.5 billion decline in tax expenses due to R&D promotion activities

**Consolidated Cash Flows**

	FY2013	FY2012
Operating Activities Cash Flows	97.7	71.0
Investing Activities Cash Flows	-60.9*	-31.1
Financing Activities Cash Flows	-49.8	-30.5
Net Decrease (Increase) in Cash and Cash Equivalents	-9.9	13.3
Cash and Cash Equivalents at the End of Term	51.2	58.6
Free Cash Flow =Operating Activities Cash Flows +Investing Activities Cash Flows -Dividends Paid	24.9	30.7

\* Includes 23.9 billion yen in net payments into time deposits

**Balance Sheets (Assets)**

(Billions of yen)

	March 31, 2014	March 31, 2013	Difference
Cash and Deposits	107.7	91.1	16.5
Account Receivable on Sales	192.2	172.1	20.2
Inventories	156.3	140.0	16.3
Other Current Assets	38.4	36.7	1.7
Tangible Non-Current Assets	252.1	240.7	11.4
Intangible Non-Current Assets	39.8	49.1	-9.3
Investments in Securities	151.7	146.2	5.5
Investments & Other Assets	22.7	25.7	-2.9
<b>Total Assets</b>	<b>961.0</b>	<b>901.6</b>	<b>59.4</b>

 Housing: +8.0  
Foreign exchange: +3.8

 Impairment of goodwill  
(Sekisui Nano Coat Technology Co., Ltd) :  
-5.3

Foreign exchange: +22.6

**Balance Sheets (Liabilities & Net Assets)**

(Billions of yen)

	March 31, 2014	March 31, 2013	Difference
Non-Interest-Bearing Liabilities	393.4	353.0	40.4
Interest-Bearing Liabilities	94.0	115.3	-21.3
<b>Total Liabilities</b>	<b>487.5</b>	<b>468.3</b>	<b>19.1</b>
Capital Stock etc.	209.2	209.2	0
Retained Earning	240.2	209.3	31.0
Treasury Stock	-20.3	-11.6	-8.8
Unrealized Holding Loss on Securities	19.0	17.8	1.2
Minority Interests	16.5	14.3	2.1
Other Net Assets	9.0	-5.8	14.8
<b>Total Net Assets</b>	<b>473.6</b>	<b>433.2</b>	<b>40.3</b>
<b>Total Liabilities, Net Assets</b>	<b>961.0</b>	<b>901.6</b>	<b>59.4</b>

 Accrued income taxes and other taxes: +11.5  
Advances received: +8.2

 Net income: +41.2  
Dividends paid: -10.3

 Foreign currency translation adjustment:  
+13.4

**Depreciation and Capital Expenditures**

(Billions of yen)

	Depreciation			Capital Expenditures		
	FY2013	FY2012* <sup>1</sup>	Difference	FY2013	FY2012* <sup>1</sup>	Difference
Housing	7.7	7.0	0.8	11.1	12.3	-1.1
UIEP	6.1	6.1	0	10.5	7.7	2.7
HPP	18.4	19.2	-0.8	17.6	14.5	3.2
Others	1.5	1.9	-0.4	1.5	1.6	-0.1
Eliminations or Unallocatable Accounts	0.6	0.7	-0.1	1.1	0.8	0.3
<b>Total</b>	<b>34.4</b>	<b>34.9*<sup>2</sup></b>	<b>-0.5</b>	<b>41.8</b>	<b>36.8*<sup>3</sup></b>	<b>5.0</b>

\*1 Overseas subsidiaries previous fiscal year results represent the 15-month period from January 2012 to March 2013. (Overseas subsidiaries fiscal year ends were revised to March in FY2012.)

\*2 Overseas subsidiaries depreciation for the three months from January to March 2012 was ¥2.0 billion

\*3 Overseas subsidiaries capital expenditures for the three months from January to March 2012 was ¥1.1 billion

**Depreciation and Capital Expenditures**

(Billions of yen)

	FY2014 (Plan)	FY2013	Difference
Depreciation	33.0*	34.4	-1.4
Capital Expenditures	42.0	41.8	0.2
Research and Development Expenditure	28.0	27.7	0.3

\*Beginning in FY2014, the computation method for depreciation of property, plant and equipment of the Company and domestic subsidiaries has been revised from the declining-balance method to the straight-line method.



**Profit Plan for FY2014**

(Billions of yen)

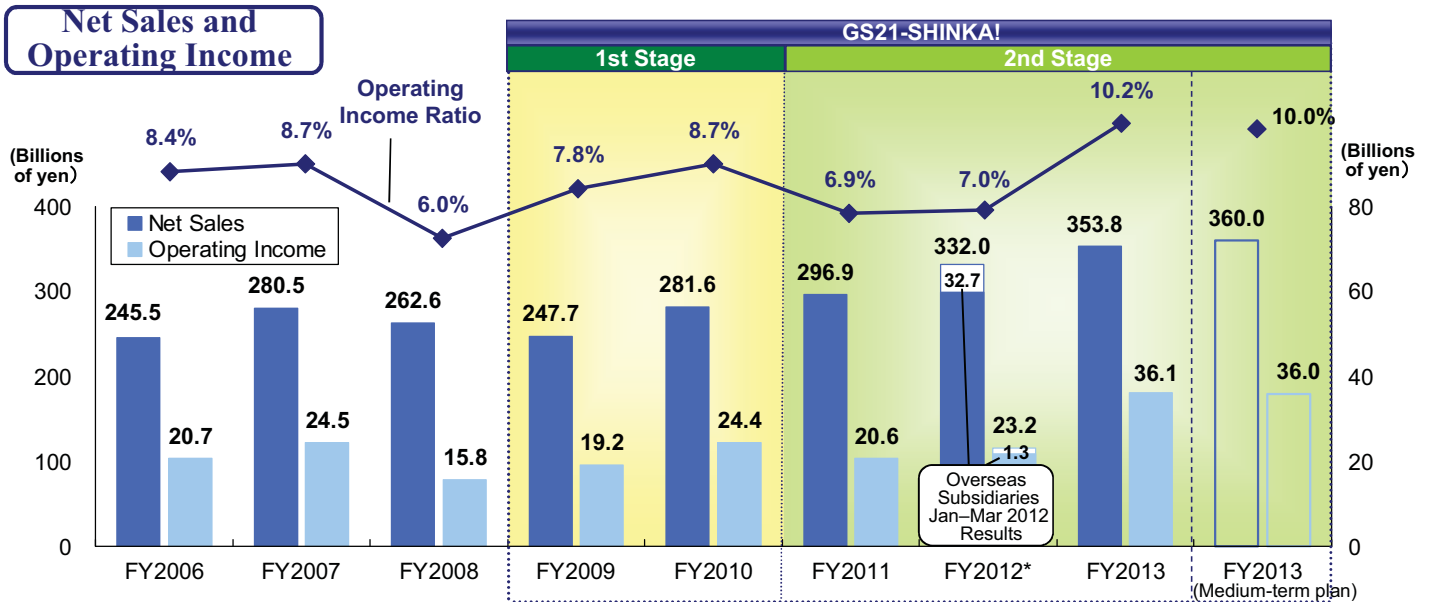
	FY2014 (Plan)	FY2013	Differences
Net Sales	1,154.0	1,110.9	43.1
Operating Income	87.0	82.5	4.5
Ordinary Income	85.0	83.3	1.7
Net Income	46.0	41.2	4.8

Dividend per Share (Yen)	24	23	1
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\*Forex rate assumptions for FY2014 forecasts are ¥103/US\$ and ¥140/€.

# High Performance Plastics Company

**Keita Kato**  
Company President



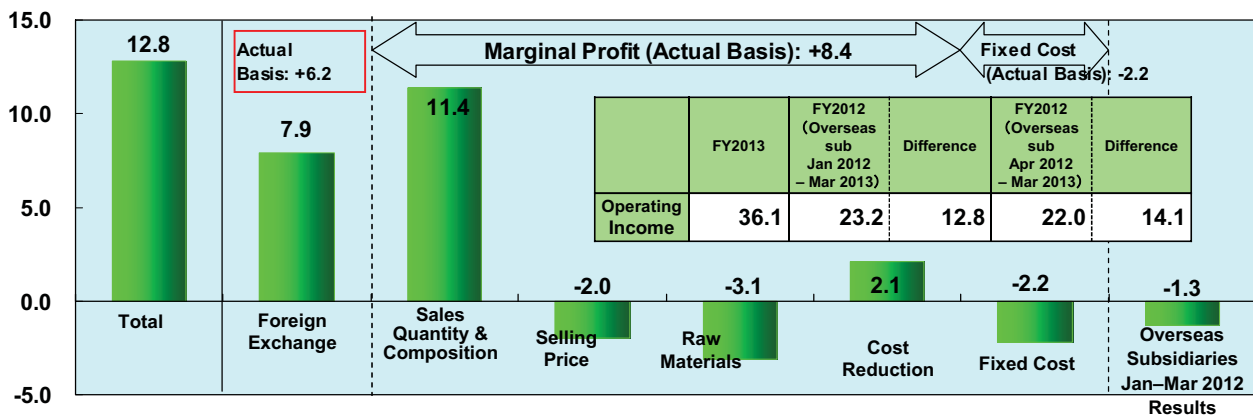
Object	Measures	Result (FY2011-FY2013)	
Business expansion	Fortify strategic fields	Increase production capacity	Investment for facilities: CPVC in Thailand, mobile related products (tapes and foam)
		Augment business content	M&A and establish a joint venture: 3
	Overseas business expansion	Increase region presence	Production base: +3 (India, Indonesia)
		Expand frontiers	Sales base: +2 (Indonesia, San Jose in USA)
Advance new products and new businesses	Advance projects	Launch new projects in the LED and Implementation fields	
Reinforce the management base	Revise business structure	Restructuring of plant	Closing of Amagasaki plant

Overview of FY2013

Success with the aggressive development of overseas businesses generated large sales and profit growth in FY2013

- IT** : Core FPD materials sales grew despite an impact from a worsening supply and demand balance
- AT** : Demand recovered in Europe, and strong automobile demand supported sales growth for high-performance products in the US and China
- MD** : Progress continued in the overseas development of diagnostic agent and equipment businesses

Analysis of Operating Income for FY2013 (year-on-year)



Business Policy for FY2014

“Chemical Solution” ⇒ Highly Profitable Company

1. The Engine of Growth

4 new strategic fields, overseas businesses, and new product/new business

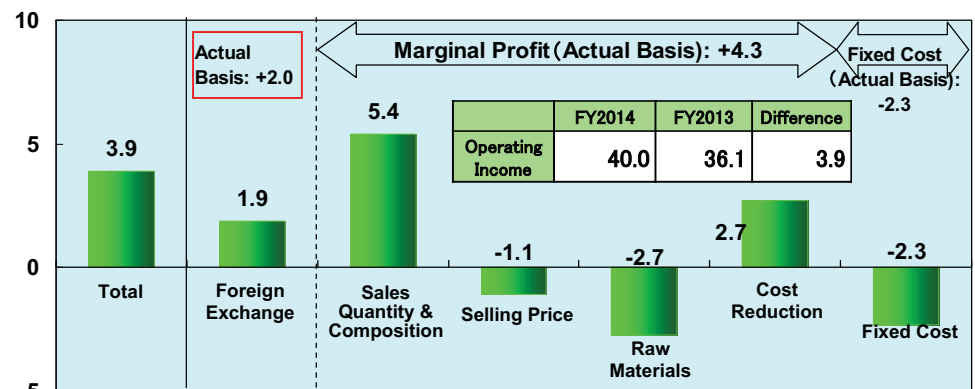
2. Strengthening of Business Foundation

Laying the foundation of (overseas) business operation, structural reform, Safety/Quality/Compliance

Market Trend

Area	Status
Japan	Possible post-tax hike backlash is a concern
Europe	Ongoing trend of gradual recovery
USA	Recovery in capital investment, solid undertone for business conditions
China	Real economic growth rate remaining flat at 7-8%

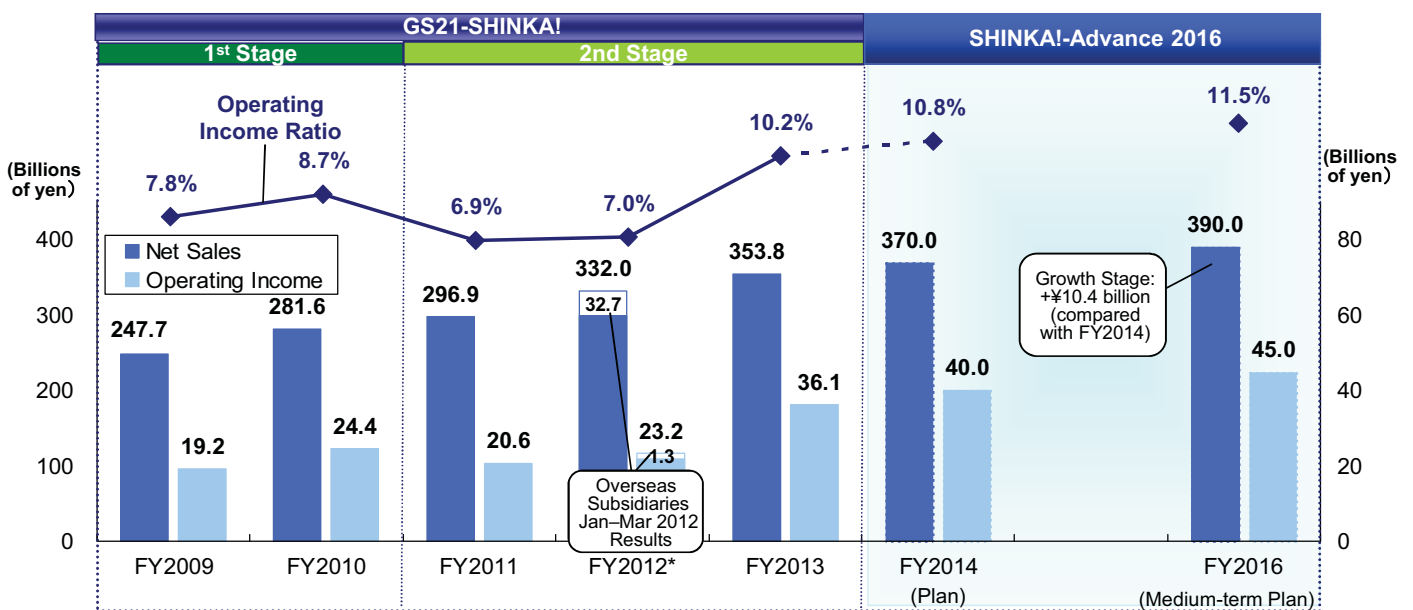
Analysis of Operating Income for FY2014 (year-on-year)



**4 New Strategic Fields and Growth Stage**

4 New Strategic Fields					
	IT→ Electronics	AT→ Automobiles and Transportation	Building and Infrastructure	MD→ Life Sciences	Industry
Core	FPD materials	Automobile materials	Building and infrastructure related materials	Sanitary materials Medical materials	Container, Packaging, Agriculture, and etc.
Growth	Materials for mobile Devices Packaging tape, fine particles, adhesive, foam	Materials for a comfortable Ride High-performance interlayer films, PP foam, and etc.	Functional materials for Infrastructures CPVC, Fireproofing materials, and etc.	Diagnostic System Diagnostic reagents, Equipment, and others	
Nurturing and Creation	Energy saving chemicals Implementation/semiconductor	Energy saving and creating		Healthcare	

**Net Sales and Operating Income**

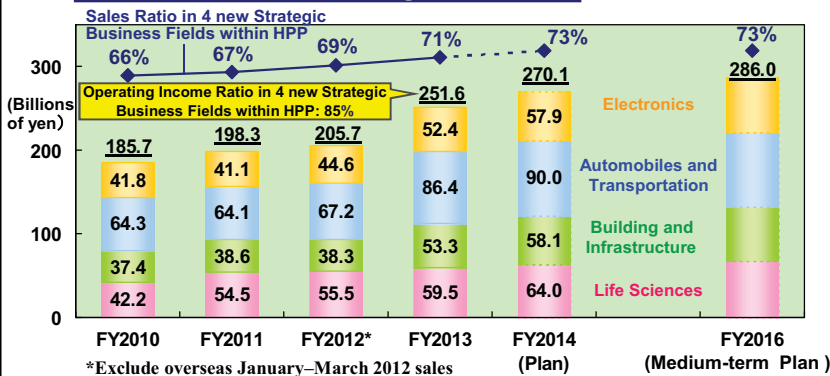


**Medium-term vision**

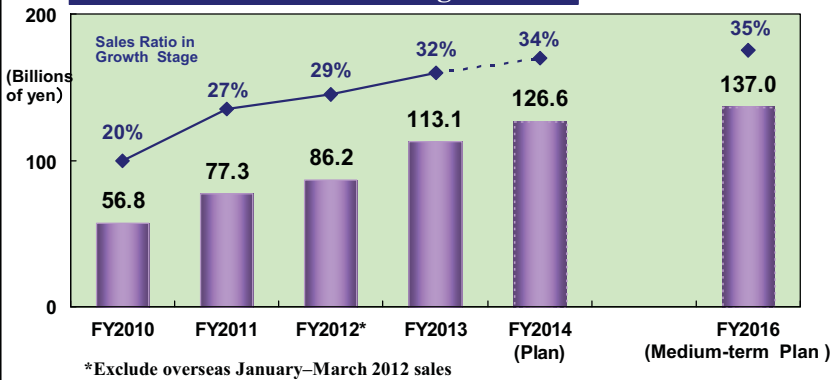
Concentrate investment in the Growth and the Nurturing & Creation stages, and generate profits from standout new products

**Growth Engine**

**Sales in 4 new strategic fields**



**Sales in Growth Stage**



**1. 4 new strategic fields**

- 1) Prioritize allocations to development and business resources of the growth stage
- 2) Increase capacity for large-scale strategic investment
- 3) Expand the synergies with completed M&As and determine areas that need reinforcing

**Priority Measures in FY2014**

**Electronics:**

- Increase sales of mobile materials
- Completely reorganize the ITO film business

**Automobiles and Transportation:**

- Continue growing sales centered on high-performance products
- Move toward full-fledged development automotive molded products in India and Indonesia

**Building and Infrastructure:**

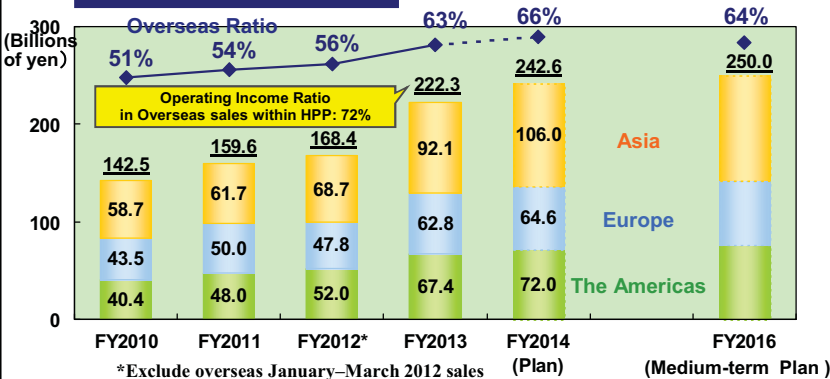
- Increase CPVC sales in India and the Middle East
- Quickly bring the new CPVC plant in Thailand on line

**Life Sciences:**

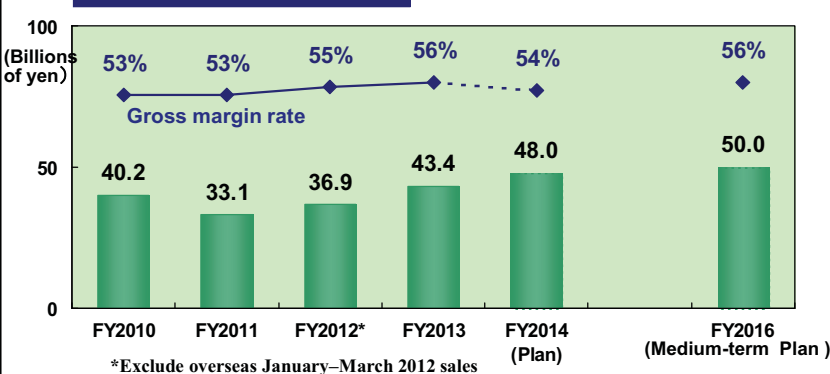
- Globally expand the medical business
- Accelerate the synergy effects in Europe and the US

**Growth Engine**

**Overseas Sales**



**New Products Sales**



**2. Overseas business**

**1) Increase overseas production**

- Advance the transfer of technology and technical capabilities
- Strengthen our global purchasing power
- Consider upgrading and expanding the production bases

**2) Increase exports**

- Increase and strengthen the representative personnel
- Move toward globally standardized specifications
- Continue increasing the workforce and upgrading and expanding the production bases in the frontier fields

**3. New products and New businesses**

**1) New products**

- Accelerate new product develop for the nurturing and creation stage, such as LIB components
- Enhance planning capabilities
- Create proprietary products

**2) New businesses**

- Fireproofing materials: expand the sash and partition product lines
- LED and implementation: establish a core business



Safety and Security/Recycle-based society/Healthy and comfort

Nurturing and Creation Stage

Product lines in the three focus fields

Implementation/semiconductor materials

Energy saving and creating materials

Healthcare products and materials

Technology package= Key function

Adhesive strength control

Energy conversion

Physical property innovation (durability, printability, etc.)

Create new technologies and products by comprehensively strengthening and integrating the 10 technology platforms

Technology Platform (TP)

①PVA-PVB resins

②Acrylic resin

③Epoxy resin

④Silicon polymer

⑤Organic/inorganic fine particle

⑧Foam

⑥Nanocomposite

⑦Functional thin-film synthesis

⑨Precision molding

4 Material TPs

⑩Valuation and analyses

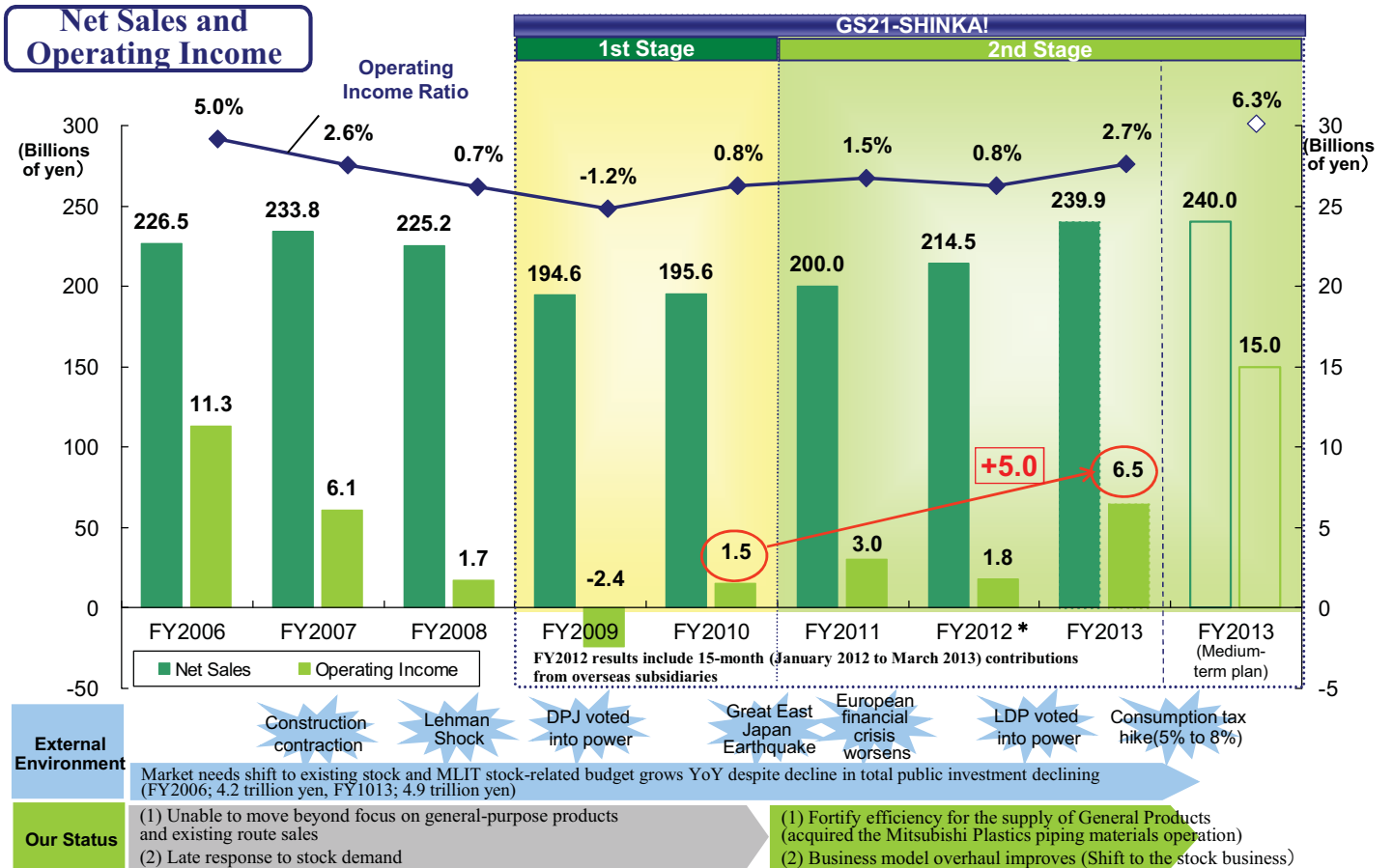
5 Process TPs

1 Foundation TP

# Urban Infrastructure and Environmental Products Company

**Kozo Takami**  
Company President

## SEKISUI UIEP : Summary of Medium-term Management Plan GS21-SHINKA! 2nd Stage (FY2011-FY2013) SHINKA!-Advance 2016



### Overview of FY2013

#### Domestic Business:

**Sales and profit growth on firm stock demand and expanding value chain sales**

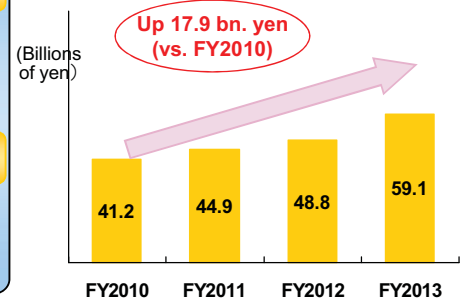
**Public Sector:** Public investment was robust and sales volume increased. Contracted for comprehensive management of the Kawachinagano City, Osaka Prefecture, sewerage duct facility  
**Private Sector:** Firm sales from the effects of the Mitsubishi Plastic business transfer and brisk housing start demand

#### Overseas Business:

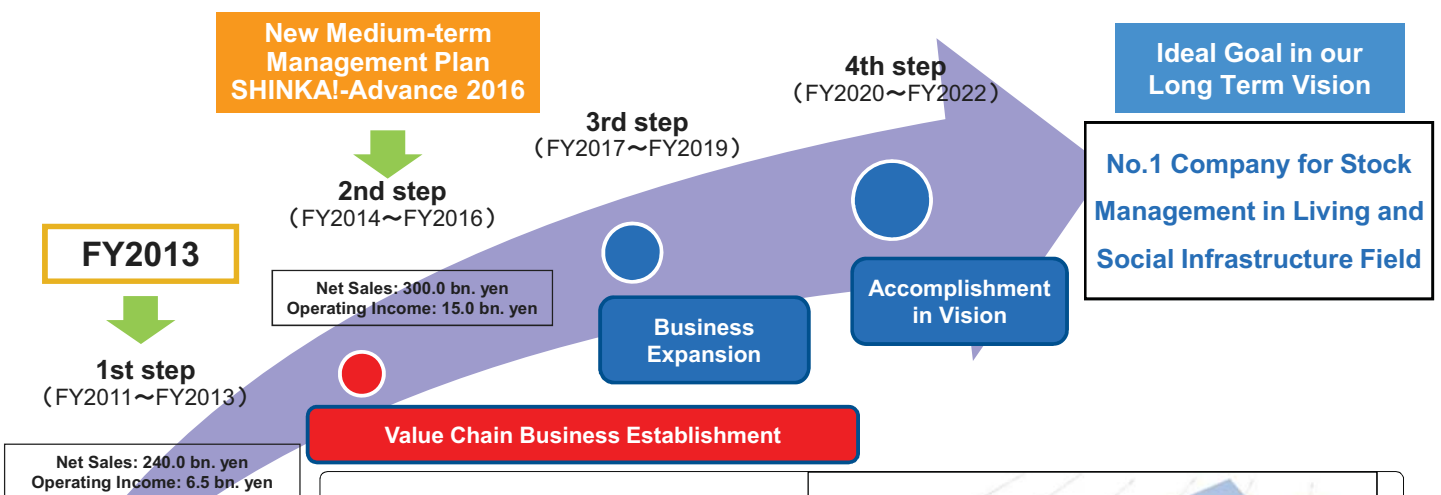
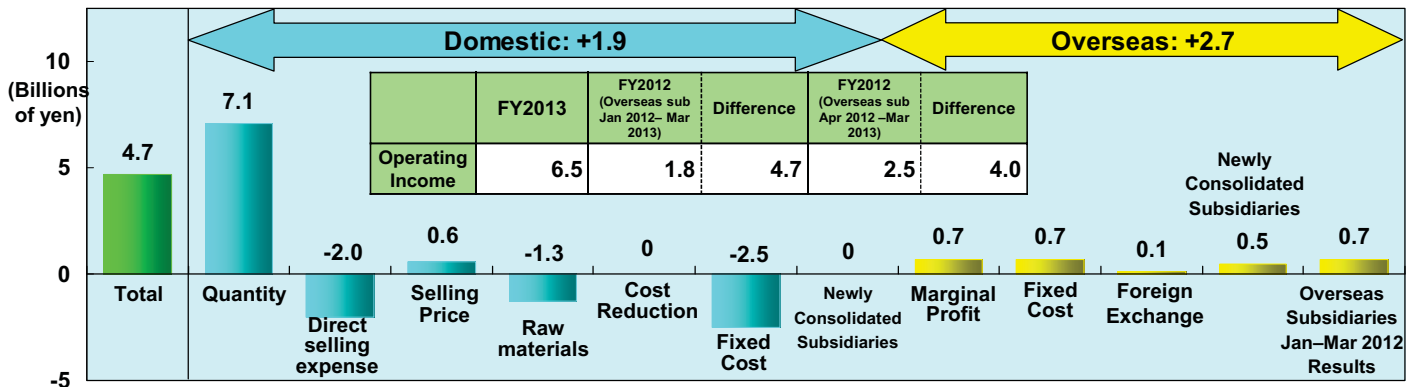
**Sales and profit growth on improved profitability and the new consolidation effect**

**Pipeline Rehabilitation Business:** Profitability improved in Europe with progress in business structure reorganization  
**Sheet Business:** Sheet business sales grew centered on aircraft applications  
**Water Infrastructure Field:** Smooth startup of Sekisui KNT and substantial growth in sales

### Domestic Value Chain Sales



### Analysis of Operating Income for FY2013 (year-on-year)



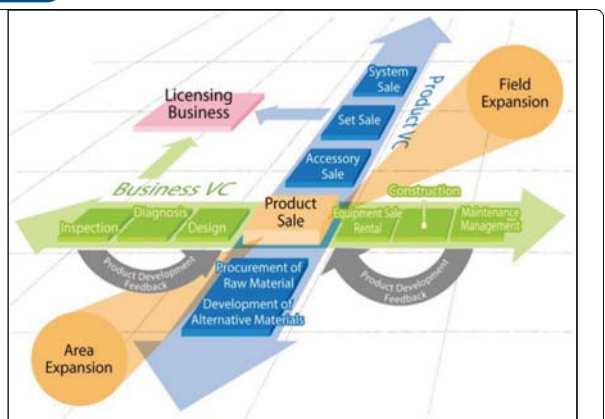
### Value Chain business

#### Product Value Chain

Provide greater value via sales of accessories, sets, and systems from the materials development stage, the bedrock of a strong manufacturing culture

#### Business Value Chain

Provide comprehensiveness across an integrated value chain that underpins our businesses ranging from inspection, diagnosis, design, production-sales, construction, and maintenance-management



**① Fortify efficiency for the supply of General Products**

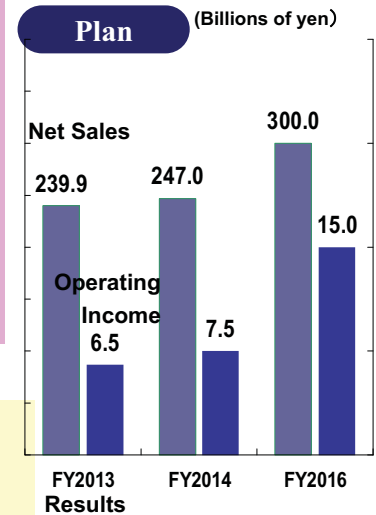
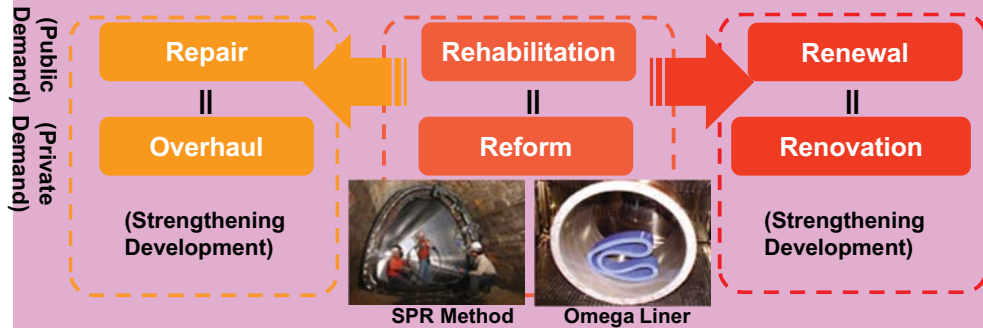
**② Shift to stock field**

**Business Policy**



Armed with Value Chain business, aim to become an **engineering manufacturer in the stock management business** that provides various solutions in the fields of repairs, rehabilitation, and renewal

**<Solution in the Stock field>**



**Basic Strategy**

- I. Fortify efficiency for the supply of General Products
- II. Expansion of the stock business
- III. Fortify the overseas business base/Strategic move to growth
- IV. All human resources brought into the value chain (use the value chain school)

**Sales Portfolio by Business Fields**

[Item Name] Commodity Growth Stock Growth Others

	Public Sector Demand		Private Sector Demand		Overseas	FY2013 Sales	FY2016 Sales
<b>[Core] Commodity Business</b> <i>Improve the overall efficiency</i>	Water (Commodity) Agri. Water (Commodity)	Harbor transport (railroads ties) Gas, Elec. etc. (Gas Pipe, CCB)	Housing (Pipe & Building Materials, UB) Construction (New Pipe, Tank)	Plant (Valve)	Sheet (Aviation)	165.0 bn. yen Ratio 69%	150.0 bn. yen Ratio 50%
<b>Shift operating resources from commodity sales to growing stock business (Living•Social Infra. Stock).</b>							
<b>[Growth] Stock Business</b> <i>Focus Area</i>	<b>Living•Social Infrastructure Stock</b>					74.0 bn. yen Ratio 31%	138.0 bn. yen Ratio 46%
	Water supply (Nordi.,etc) Transport (noise proofing mtl.) Communication Pipe renewal	Sewer rehab. Agri. Stock (Water Pipe Rehab) Disaster prevention	Reform Factory Stock (VC orders) Insulation	Housing Stock (pipe renewal) Housing renovation Nursing Care UB	OPR New Business Sheet for railway China Infra.	<b>Stock Increase 52 bn. yen</b> <b>50%</b> <b>FY2016 Stock Sales 110.0 bn. yen (double of FY2013)</b>	
<b>Ramp up growing or generating business (Develop arms that will break into stock business)</b>							
<b>[Nurturing and Creation] Future Growing Area</b>	Concrete Reinforcement Comprehensive Projects	Sewerage Heat	Water Purification	Underground Heat	Asia Infra. Comprehensive Projects	1.0 bn. yen Ratio 0%	12.0 bn. yen Ratio 4%
						<b>Stock Increase 6.0 bn. yen</b>	

**Business Policy for FY 2014**

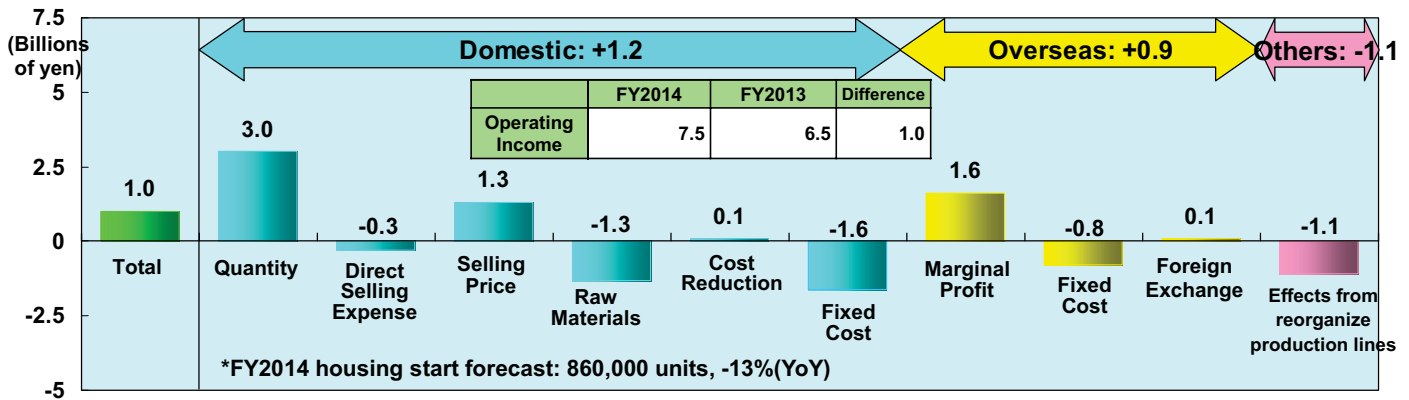
**The Year of Company Restructuring for "True Value"**

—Preparation for FY2016—

FY14 Target: 247.0 billion yen (Net Sales), 7.5 billion yen (Operating Income)

1. Fortify efficiency for the supply of General Products (production system restructuring, distribution reform)
2. Establish value chain systems in the growth domains
3. Enhance strategic products for the existing-stock market
4. Cultivate value chain human resources
5. Fortify the overseas business base

**Analysis of Operating Income for FY2014 (year-on-year)**



**Market Trend**

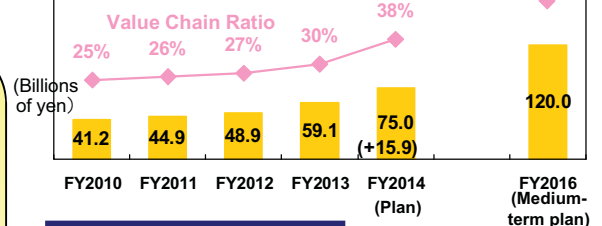
Area	Status	Market Forecast (YoY)
Domestic	Public Sector	+8%
	Private Sector	General-purpose products: -5% Stock Market: +5%
Europe and USA	Market recovery trends	+5%
China and Asia	Outlook for increasing public investment Growing infrastructure maintenance in developing countries	+8%

**Domestic Business**

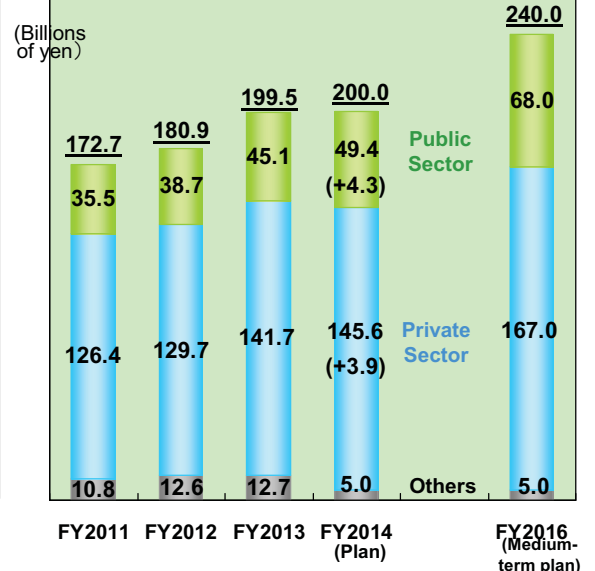
**Priority measures**

- 1. Improve the overall efficiency of the general product business**
  - 1) Optimize production and logistics by advancing the "local production, local consumption" strategy
    - ① Reorganize the domestic production bases
    - ② Construct the optimal logistics network
  - 2) Construct a sales system for a shrinking market
    - ① Shift staff to growth fields (stock business)
    - ② Strengthen affiliations with partner stores
- 2. Establish value chain systems for the growth domains**
  - 1) Augment and strengthen the value chains and package businesses in each field
  - 2) Further penetrate the existing-stock markets in all fields while developing new domains
- 3. Bolster strategic products for the existing-stock market**
  - 1) Strengthen new product development for existing-stock markets in all fields
- 4. Cultivate value chain human resources**
  - 1) Use the value chain school

**Domestic Value Chain Sales**



**Domestic Sales**





### Overseas Business

#### Priority measures

#### 5. Fortify the overseas business operating base

##### 1) Pipeline Rehabilitation

- ① Europe: Improve project margins by careful selection of property orders  
Reconstruct the partner network
- ② USA: Use the SPR Method to create a repeat market  
Strengthen connections with strategic partners

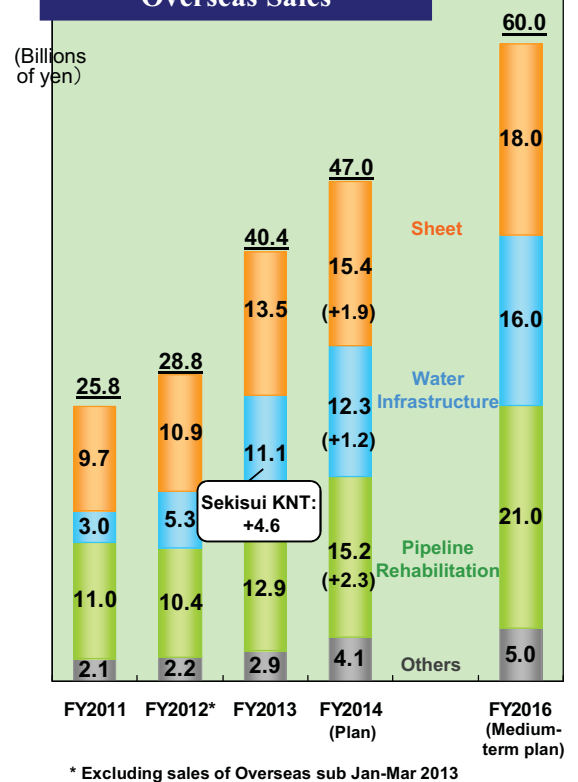
##### 2) Water Infrastructure

- ① China: Advance orders in the water supply field by bolstering our value chain system
- ② Asia: Restructure the value chain and promote package orders in ASEAN

##### 3) Sheet

- ① Increase share of specified-supplier orders from aircraft makers
- ② Develop global business using railway as an axis

#### Overseas Sales

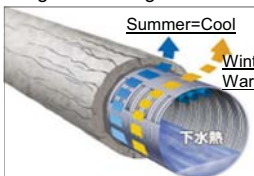


#### Thermal energy activation business

FY2016 sales  
2.0 bn.yen

##### <Sewerage Heat>

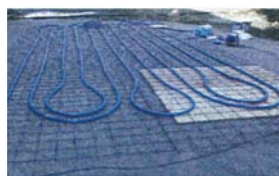
Install heat recovery systems during pipeline rehabilitation for heating and cooling use



\*Demonstration testing under way in Sendai City since November 2013

##### <Underground Heat>

Develop ground heat extraction materials, systems, and construction methods. Reduce installation costs



#### Condominium renovation business

FY2016 sales  
10.0 bn.yen

##### <Private sections> マルリ

Upgrade unseen areas: heat (insulation), sound (soundproofing), water (plumbing)



##### <Shared-use sections>

One-stop solutions for everything from plumbing renewal to major repairs

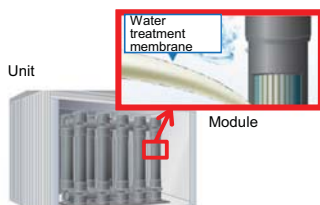


#### Water purification business

FY2016 sales  
2.0 bn.yen

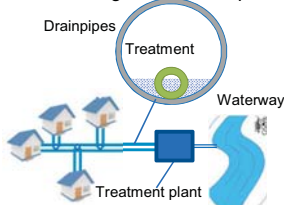
##### <Membrane filtration systems>

Dry pit type using large-caliber hollow fiber membrane. Unit-type for easy installation in existing facilities



##### <Pipe internal cleaning systems>

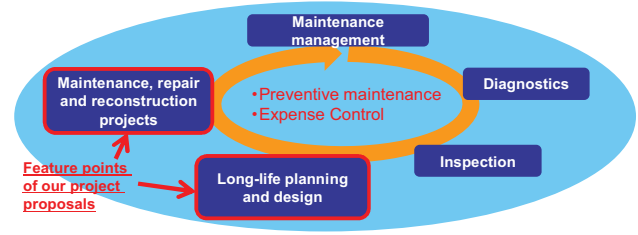
Drainpipes with self-cleaning functions. Energy saving and downscaling of treatment plants



#### Combined-package business (public and private collaborations)

FY2016 sales  
4.0 bn.yen

Provide more efficient, reassuring and safe systems by proposing package plans for total pipe system asset management covering all aspects from long-life planning to reconstruction and renewal projects

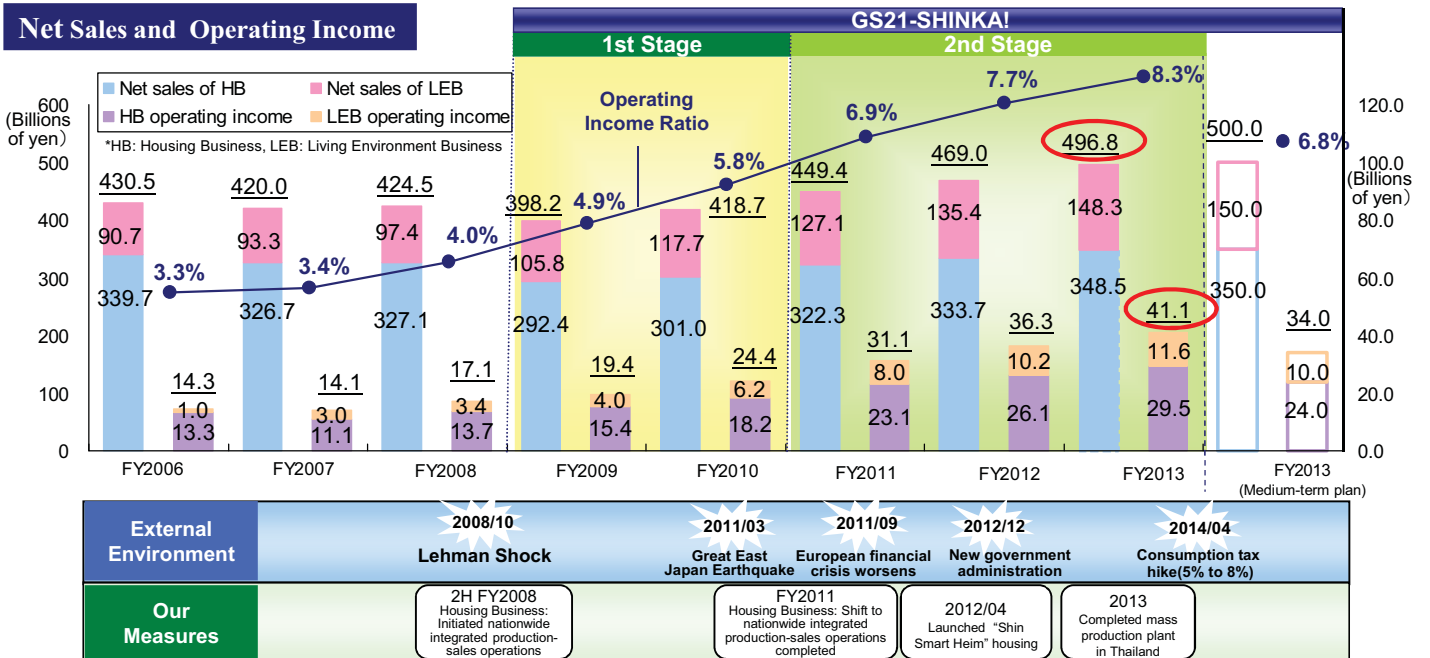


# Housing Company

**Shunichi Sekiguchi**  
Company President

**Achievement in Medium-term Management Plan GS21-SHINKA!**

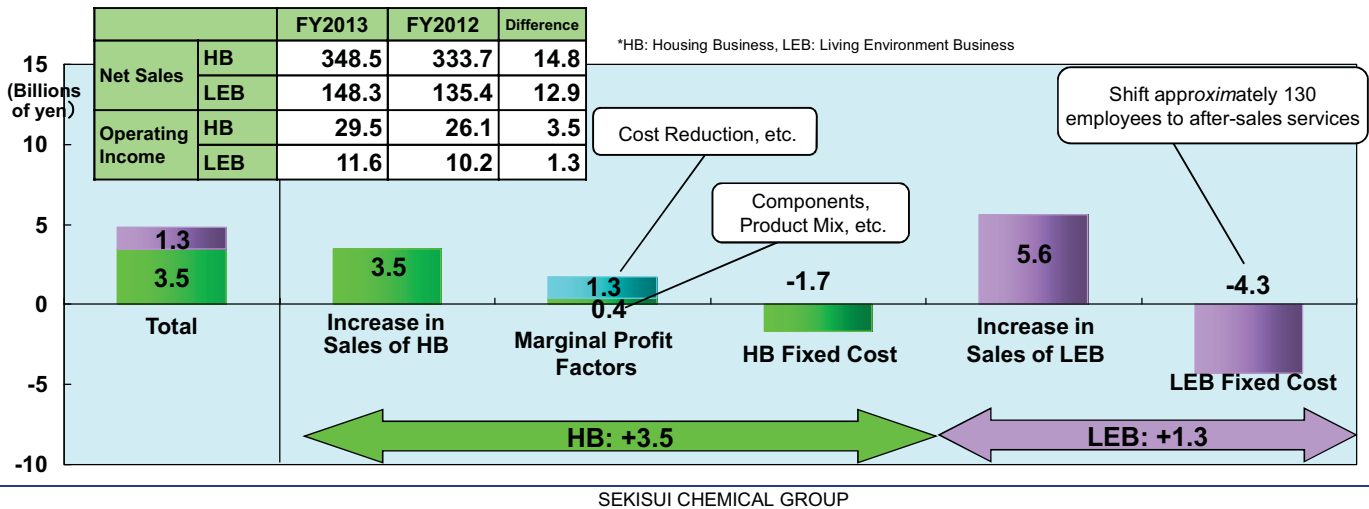
- Responded to external environment changes, vastly increased earnings, raised margins**
- Launched the No.1 in Smart Houses Strategy
  - Grew the living environment business into a second earnings pillar
  - Deepen the management structure; use the area management structure to enhance earning power
  - Full-fledged entry to an overseas market (Thailand)



## Overview of FY2013

- Orders increased from the demand fluctuation created by the tax hike**  
 -Housing Order (FY2013 Results): +14%(1H), -10%(2H), +2%(full year) (Units base, YoY)
- Living Environment business expanded by capturing volume zone demand**  
 -Sales of Living Environment Business (FY2013 Results): +10% (YoY)
- Made progress fortifying the business structure for the post-tax hike period**  
 -Cost reform and Improved management efficiency; lowered the sales breakeven point by 2% from the previous term  
 -Order backlog secured to support sustaining profit growth (Year-start Backlog at FY2014: +10% (YoY))
- Business foundation strengthened for continuing growth**  
 -Increased sales staff to bolster marketing capabilities in the new construction and refurbishment businesses, mass production housing factory commences operation in Thailand

## Analysis of Operating Income for FY2013 (year-on-year)



## SHINKA!-Advance 2016 Basic Strategy

Business Portfolio Improvements; Aiming the evolution of the circulation business by growth & fusion of New Business Portfolios

Present: 3 Businesses	New 5 fields	Business Stage	Business Policy
Housing	① <b>Housing</b> New-built Houses, Apartments, Subdivision Houses	Core	Aiming for sales increase through attractive products and skilled human resources ⇒ <b>No.1 of Detached House Market Share</b>
		Growth	<b>Strengthening subdivision houses &amp; apartments</b> that have room to grow ⇒ Diversification of earnings structure
Living Environment	② <b>Renovation for SEKISUI HEIM Owners</b>	Growth	Providing for SEKISUI HEIM Owners with attractive products and services ⇒ <b>The engine of growth</b> for making next leap forward
	③ <b>Real Estate (Home Equity Management)</b>	Growth	Conduct <b>circulation of secondhand housing and leasehold property management</b> on a surefooted basis as the platform of the circulation business ⇒ Primary source of highly-stable earnings
	④ <b>Residential Services</b> Elderly housing with supportive services, Renovation for non-Sekisui Heim, Interior, Exterior	Creation	Providing <b>services through all stages of life</b> ⇒ Forming the final shape of circulation business model
Overseas	⑤ <b>Overseas</b>	Nurturing	Providing valuable houses meeting local needs ⇒ <b>Pillar of earnings</b>

**SHINKA!-Advance 2016 Summary**

**Expand market share by activating the No.1 in Smart Houses Strategy and going back to the origins of unit technology (cost performance)**

> Lead the growth in the market for smart houses; ZEH\* specs for all smart houses in FY2016

> Maximize factory production to further improve price performance

**Sustain the growth of the refurbishment business**

> Strengthen sales capabilities for mainstay products (new commercial materials and composite proposals)

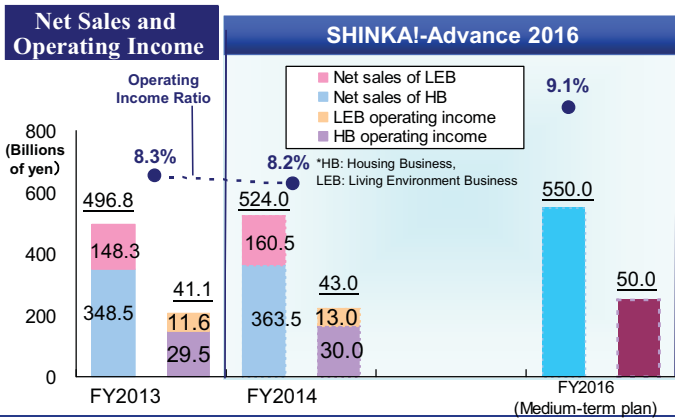
> Stronger business organization (increase sales force, advance divisional separation)

**Construct a new growth story**

> Establish business foundations for home equity management and residential services

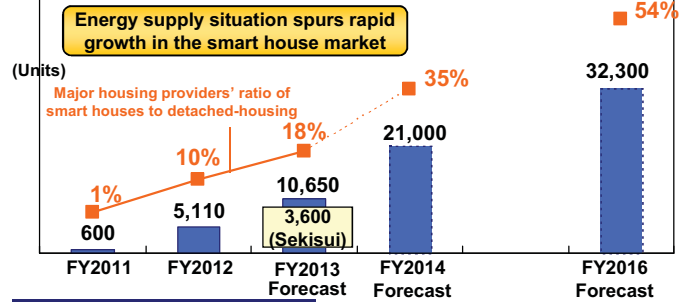
> Expand the housing business in Thailand to make it a profit contributor

\*ZEH: Net Zero Energy House. In all-electric homes, total energy consumption (excepting household appliances) is less than the amount of electricity generated.

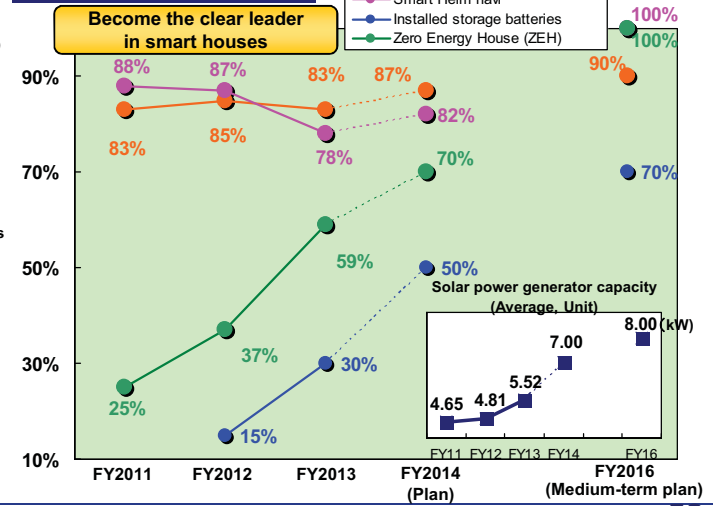


**Expanding smart house market**

\*Sekisui research findings  
Smart house = built-in solar power equipment + HEMS + storage batteries



**<Reference> Differentiated tool load ratio trend**



**Business Policy for FY2014**

**Position to surge ahead at the post-tax hike turning point**

-Strategy to be "No.1 in Smart Houses" and strengthen marketing capabilities; FY2014 Housing Order: -2%(YoY)

-Accelerate the refurbishment business growth; FY2014 Sales of Living Environment Business: +8%(YoY)

**Going back to the origins of unit technology (cost performance)**

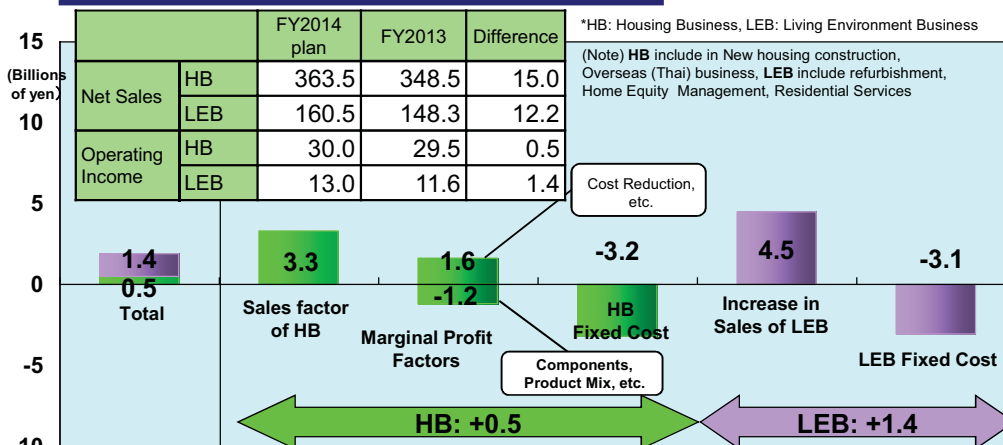
-Maximize the factory production ratio

-Further reducing reduce costs

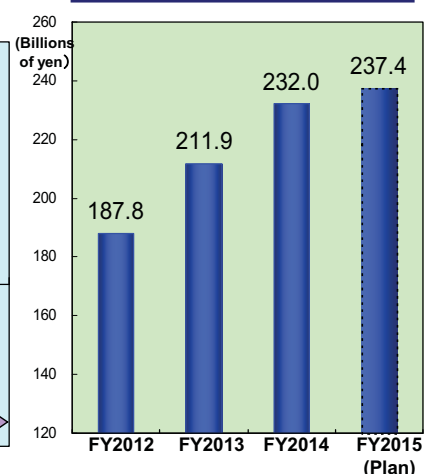
**Prepare and fortify foundations for new businesses**

- Overseas (Thai) business, real estate (leasehold property management and circulation of secondhand housing), residential services (homes with nursing and care services)

**Analysis of Operating Income for FY2014 (YoY)**



**Year-start Backlog**



## Market Outlook and Measures to acquire housing orders

Timely measures in response to demand fluctuations  
 FY2014 Housing Order: -2%(Units base, YoY)

	1H FY2014 Housing Order: -15%(1Q), -10%(2Q), -12%(1H) (Units base, YoY)	2H FY2014 Housing Order: +10% (Units base, YoY)
<b>Market Trend</b>	Buyer sentiment soured temporarily in 1Q FY2014 due to the tax hike, but should gradually recover in 2Q  Energy situation spurs rising demand for smart houses	Recovering business conditions, anticipation of rising interest rates, and other factors support improving consumer sentiment Uptick in volume on demand before the next tax hike to 10%
<b>Basic Strategy</b>	Strengthen attractiveness of the Smart Power Station Focus investment on sales promotions to draw in customers	Steadily capture pre-tax hike demand Strengthen products to reinforce differentiation
<b>Detached House</b>	By the use the Smart Power Station (the model home galleries and open house) to attract customers, fortify ability to close sales  Low demand in 1H FY2014 but rising in 2H on pre-tax hike movement	Strengthen the Smart Power Station
	Strengthen the technology of the All Net Zero Energy home Advance the No.1 in Smart Houses Strategy	
	Develop special feature products for limited period promotions	
<b>Subdivision housing</b>	Firm demand	Fortify the Smart Heim City subdivision brand
<b>Apartments</b>	Firm demand	Strengthen the appeal of the differentiating features (BIG solar and tiled exteriors)
		Launch sales of Smart Power Stations for housing complexes

Strengthen marketing capabilities (Add roughly 240 sales personnel, YoY)

## Living Environment Business (LEB)

FY2014 Living Environment Business sales: +8% (YoY)

<b>Renovation</b>	Growing demand in the volume zone, particularly for bath, kitchen, and water-related amenities Slight impact from the consumption tax hike
<b>Real Estate</b>	Firm construction starts for housing complexes increases properties under management Expanding secondary market for pre-owned homes
<b>Residential Services</b>	Structural demand growth from the aging society

### Priority Measures in FY2014

#### ■ Expand sales of mainstay products

- Increase orders for life stage products (bath, kitchen, refurbishing, etc.)
- Increasing Smart Heim refurbishment orders (solar, storage battery, and HEMS)
- Raise the unit price of orders by strengthening our ability to formulate proposals, such as compound proposals and for large-scale orders

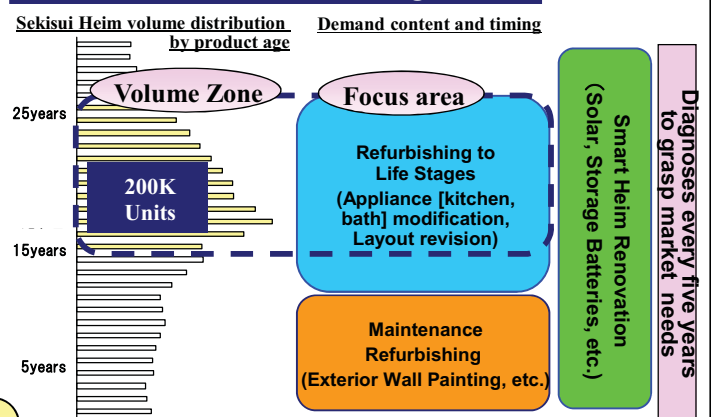
#### ■ Strengthen marketing capabilities

- Add roughly 190 personnel (sales staff and sales support)
- Utilize the systems to increase the demand coverage rate

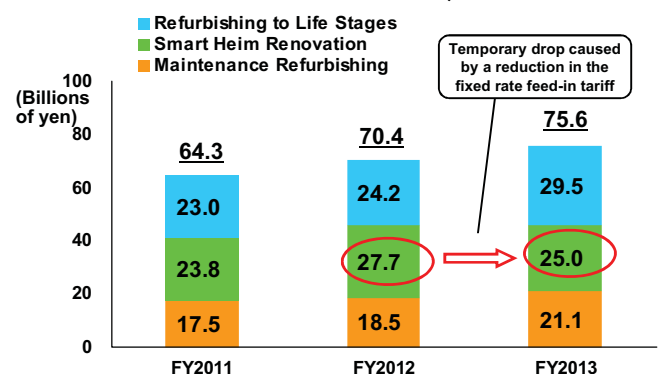
#### ■ Create foundations for new businesses

- Real Estate: Increase the number of leasing and management units and pre-owned secondary market brokerage units
- Residential Services: Formulate the business model

### Business Model of the Refurbishing Business



### Sales of Mainstay Products





This slide presentation may contain forward-looking statements. Such forward-looking statements are based on current expectations and beliefs and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements due to changes in global economic, business, competitive market and regulatory factors.

## Housing Company Results and Plan

### 1. Main data in Housing business

		FY2013			FY2012			FY2011
		1H	2H	Annual	1H	2H	Annual	Annual
CONSOLIDATED	Sales (Billions of yen)	243.9	252.9	496.8	231.8	237.3	469.0	449.4
	Housing	171.3	177.2	348.5	164.5	169.2	333.7	322.3
	Houses	161.8	167.1	328.8	155.0	160.5	315.5	304.7
	Land	9.5	10.1	19.7	9.5	8.7	18.2	17.6
	Living environment	72.6	75.6	148.3	67.2	68.1	135.4	127.1
	Refurbishing	51.6	54.1	105.7	47.5	48.3	95.8	88.8
	Interior-Exterior	3.0	2.8	5.8	2.9	2.7	5.6	5.8
	Real estate	18.1	18.7	36.8	16.8	17.2	34.0	32.5
OTHERS	1. Number of houses sold (housing units)	7,110	7,400	14,510	6,750	7,110	13,860	13,240
	Detached houses	5,420	5,400	10,820	5,300	5,310	10,610	10,490
	Heim	4,150	4,100	8,250	4,110	4,120	8,230	8,390
	Two-U	1,270	1,300	2,570	1,190	1,190	2,380	2,100
	Apartments	1,690	2,000	3,690	1,450	1,800	3,250	2,750
	2. Main data							
	Prices<Sales subsidiaries : Detached houses>/ Unit (Millions of yen)	30.7	30.4	30.6	29.9	30.0	30.0	29.7
	Prices<Sales subsidiaries : Detached houses>/ Tsubo (3.3 Square meter) (Thousands of yen)	791	794	793	768	774	772	765
	Floor space (Square meter)	128.0	126.4	126.9	128.5	127.9	128.2	127.9
	Exhibition places (Units)	425	-	423	409	-	407	404
	Sales staff (Number of person)	2,518	-	2,376	2,369	-	2,259	2,222
	Rebuilding ratio (%)	34	30	32	33	34	34	35
	Referral sales ratio (%)	38	39	39	41	42	41	40

\* Replacement ratio and Referral ratio are based on time of orders-received.

### 2. Housing order

(Millions of yen)

	FY2014 Plan			FY2013			FY2012		
	1H Plan	2H Plan	Annual Plan	1H	2H	Annual	1H	2H	Annual
Backlogs at beginning	232,000	232,700	-	211,900	244,000	-	187,800	197,000	-
Growth Rate	+10%	-5%	-	+13%	+30%	-	+9%	+4%	-
New Orders	227,300	233,700	461,000	248,426	211,995	460,421	214,657	226,314	440,971
Growth Rate	-8%	+10%	±0%	+16%	-6%	+4%	+2%	+11%	+6%
Sales of houses	226,600	229,000	455,600	216,326	223,995	440,321	205,457	211,414	416,871
Growth Rate	+5%	+2%	+4%	+5%	+6%	+6%	+6%	+3%	+4%
Balance at the end	232,700	237,400	-	244,000	232,000	-	197,000	211,900	-
Growth Rate	-5%	+2%	-	+24%	+10%	-	+4%	+13%	-

### 3. Housing starts

(in number of unit)

	FY2013			FY2012			FY2011
	1H	2H	Annual	1H	2H	Annual	Annual
Housing starts*	498,690	488,811	987,501	442,948	450,054	893,002	841,246
Privately-owned houses* (included in above) =A	182,940	172,251	355,191	161,247	155,285	316,532	304,822
Sales by our company	7,110	7,400	14,510	6,750	7,110	13,860	13,240
Detached house sales by our co.=B	5,420	5,400	10,820	5,300	5,310	10,610	10,490
Our share in Detached houses=B/A	3.0%	3.1%	3.0%	3.3%	3.4%	3.4%	3.4%

\*\*The housing starts\* and "Privately owned houses" in 2H and Annual FY2013 are based on a forecast.

### 4. The ratio of the houses equipped with the high-performance specifications

	FY2013			FY2012			FY2011
	1H	2H	Annual	1H	2H	Annual	Annual
Solar power generation systems installed	83%	83%	83%	86%	84%	85%	83%
Tiled exterior wall (Heim type JX)	70%	64%	67%	69%	70%	70%	63%
All-electric housing	88%	88%	88%	90%	89%	89%	89%
Comfortable Air System	66%	68%	67%	66%	70%	68%	71%