

SEKISUI

Integrated Report 2017

Year Ended March 31, 2017

SHIFT

SEKISUI CHEMICAL CO., LTD.

70th



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Publication of the Integrated Report 2017

Fiscal Year Ended March 31, 2017

The Sekisui Chemical Group aims to become a more compelling company by making quantitative growth compatible with qualitative transition in its business operations, based on its prominence in technology and quality, and achieving sustained growth in accordance with its responsibility to society.

Since 2016, the Group has published an integrated report that explains its economic value, the outcomes of activities to create social value, Group strategies, its medium-term vision, as well as a discuss its financial strategy, shareholder return policy and other measures that form the basis of corporate activities. We hope this integrated report is a useful tool for deepening your understanding of the Group.

This report can be downloaded from our website in PDF format. Moreover, the online version of this report can be viewed on the Investor Relations section of our website, from the SEKISUI Overview menu.

Integrated Report (PDF version)
<http://www.sekisuichechemical.com/ir/library/annual/index.html>


SEKISUI Overview (Online version)
http://www.sekisuichechemical.com/ir/sekisui_overview/index.html

This report covers fiscal 2016, the period from April 2016 to March 2017. Some parts of this report contain qualitative information as of July 2017. The forecasts, plans, outlooks, and other forward-looking statements in this report are based on management's judgment of information available at the time this report was produced. Changes in key factors may cause actual performance results to differ materially from these forward-looking statements.


Introduction to Other Related Materials

Other related materials have been made available on our website to address the diverse interests of our readers in order to further their understanding of the Group.

Investor Relations Information <http://www.sekisuichechemical.com/ir/>





For Analysts and Institutional Investors
 The latest results presentation materials are available here. An audio recording of the presentation can be listened to online as well.



Fact Book, Financial Analysis Tools
 Eleven years of historical financial data and indicators can be viewed in graphs and tables here.

CSR Management <http://www.sekisuichechemical.com/csr/index.html>

CSR Report
 This publication is a digest version of priority CSR issues.

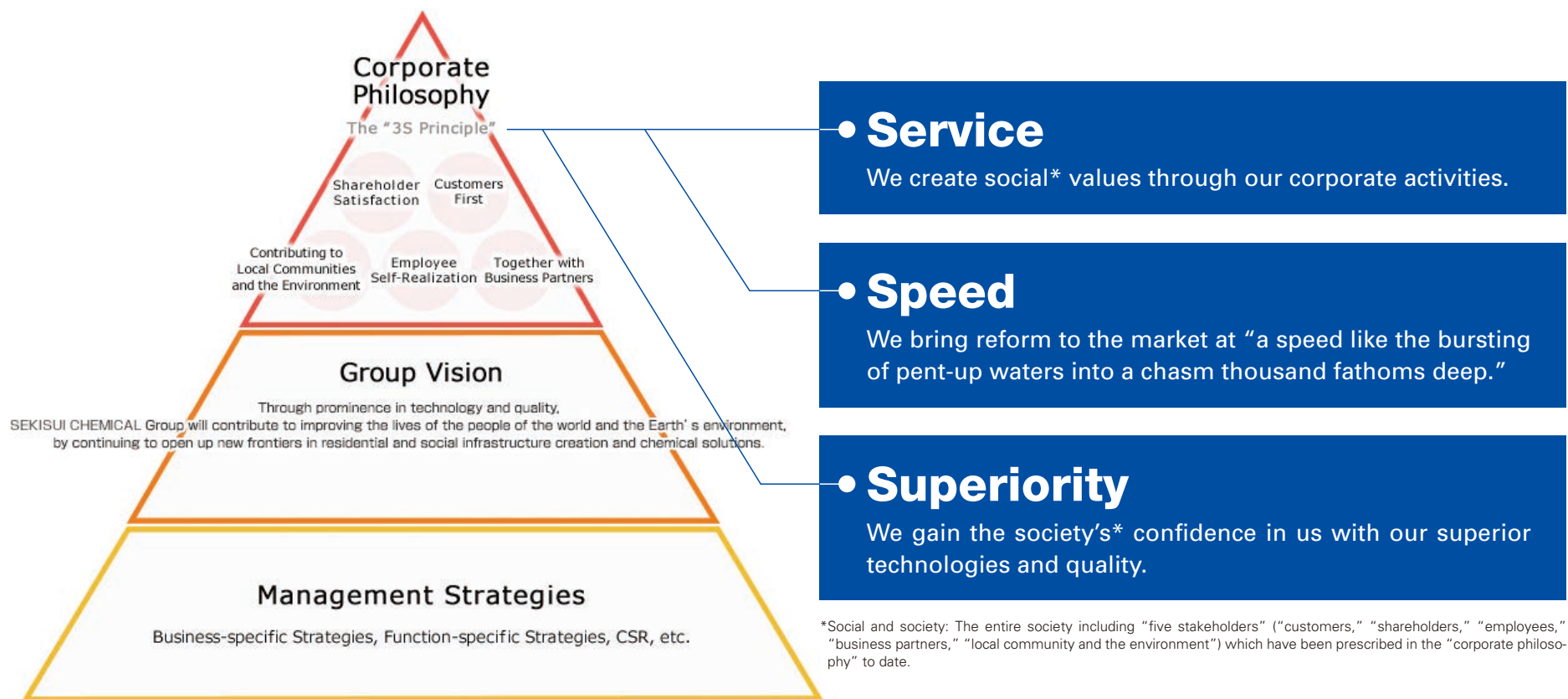
For more information about CSR, please visit the CSR section of our website.

Our Principles

Our Principles

The Sekisui Chemical Group’s principles embody our Corporate Philosophy, which expresses the concepts and policies at the root of our corporate activities, Group Vision, which expresses the ideal form of the Group aimed for over the medium to long term based on the Corporate Philosophy, and specific Management Strategies, such as medium-term management plans, to realize the Group Vision.

We are able to manage operations in a consistent manner by taking a comprehensive view and adopting a systematic approach that extends from our Corporate Philosophy that expresses our long-term priorities through to the Management Strategies created to address changes in market conditions and modern society.



Please see the following website for further details about Sekisui Chemical Company’s Corporate Philosophy, Group Vision, and other elements of our Group Principles.
<http://www.sekisuichemical.com/about/principles/index.html>

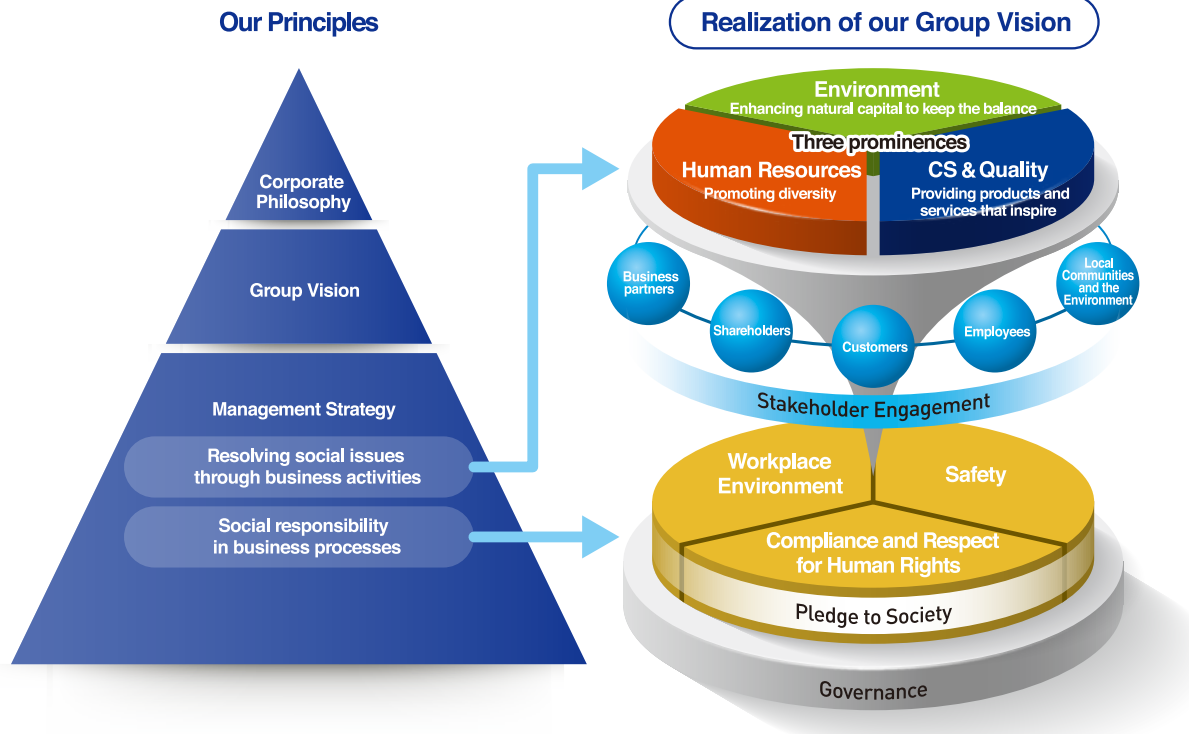
Sekisui Chemical Group CSR

The Sekisui Chemical Group fulfills our corporate social responsibility (CSR) as part and parcel of efforts to put into effect the “3S Principles” of our Corporate Philosophy. CSR is a focal point of our management strategy and we strive to help solve social problems and fulfill our responsibilities to society through our business execution and processes.

In accordance with changes in social demands, we conducted a review of our CSR from E (environmental)/S (social)/G (governance) points of view and revised the conceptual diagram of CSR in 2017.

While striving to deepen mutual understanding through constructive dialogue with stakeholders and thereby assessing their expectations for use in management, we will deem a high level of governance as a cornerstone and aim to realize our global vision by promoting the further enhancement of initiatives in unison with our business operations.

[New CSR conceptual scheme]

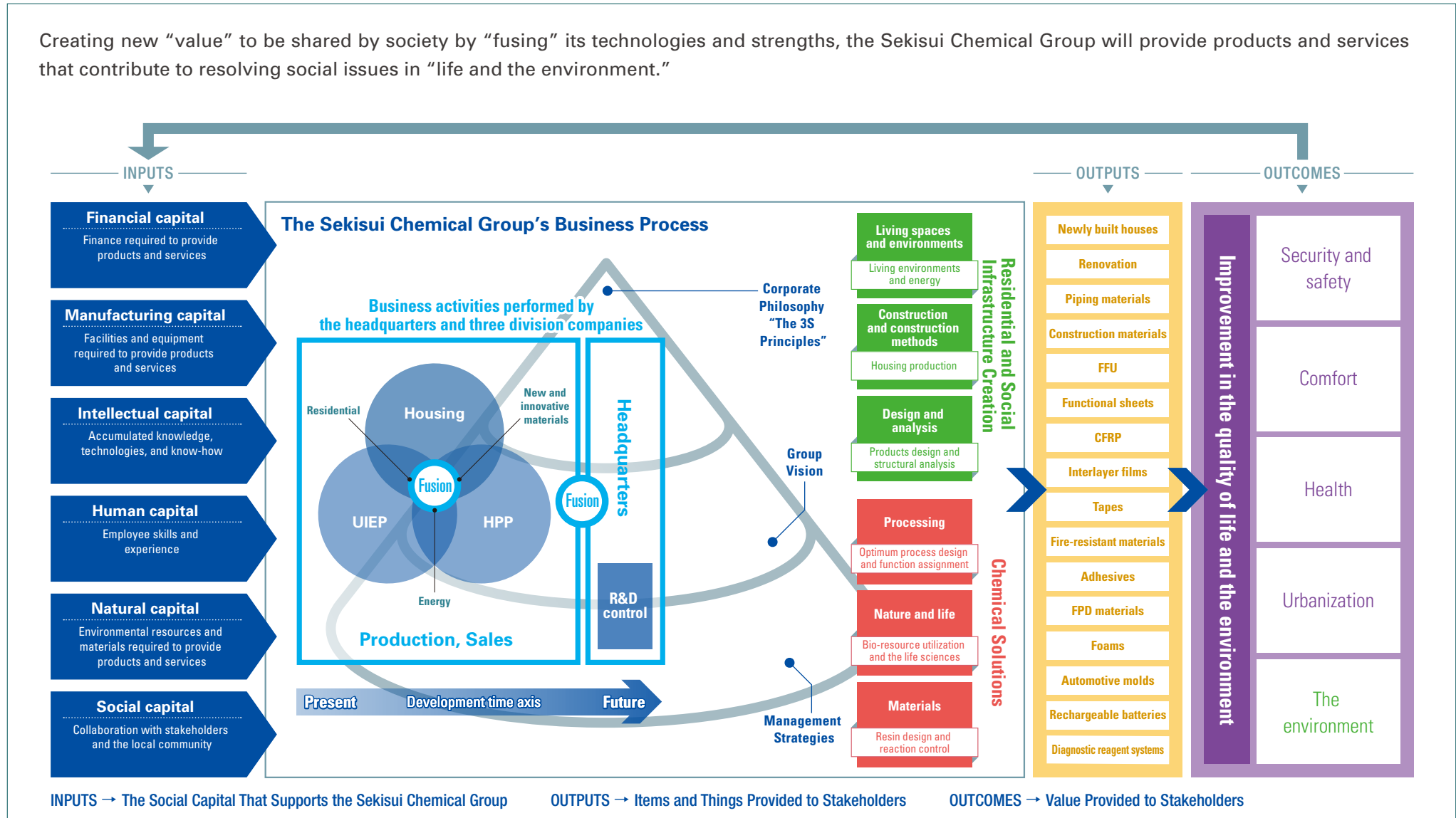


Resolving social issues	Three Prominences	
	Environment	Enhancing natural capital to keep the balance
	CS & Quality	Providing products and services that inspire
	Human Resources	Promoting diversity
Stakeholder Engagement		Constructive Dialogue for Improving Corporate Value
Social responsibility	Pledge to Society	
	Safety	A safe working place that provides peace of mind to employees and local communities
	Compliance and Respect for Human Rights	Fair and sincere corporate activities and respect for human rights
	Working Environment	Healthy, supportive and invigorating workplace and systems
Governance		Mechanisms for Appropriate and Decisive Decision-Making Aimed at Sustainable Growth

Value Creation Cycle

Value Creation Cycle

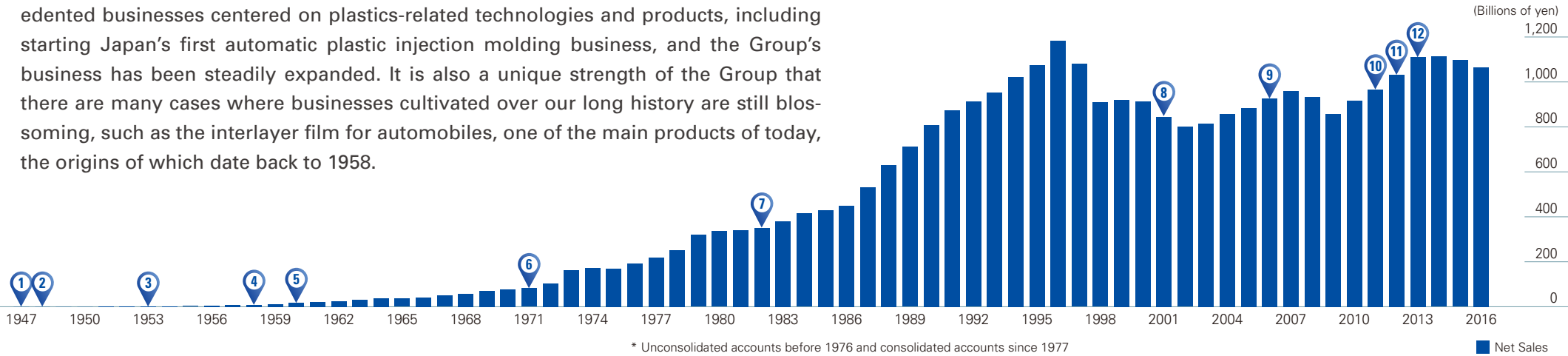
Creating new “value” to be shared by society by “fusing” its technologies and strengths, the Sekisui Chemical Group will provide products and services that contribute to resolving social issues in “life and the environment.”



Sekisui Chemical Group Accomplishments

Sekisui Chemical Group Accomplishments

The Sekisui Chemical Group was founded in March 1947 for the purpose of the comprehensive commercialization of plastics. Thereafter, we proactively advanced into unprecedented businesses centered on plastics-related technologies and products, including starting Japan's first automatic plastic injection molding business, and the Group's business has been steadily expanded. It is also a unique strength of the Group that there are many cases where businesses cultivated over our long history are still blossoming, such as the interlayer film for automobiles, one of the main products of today, the origins of which date back to 1958.



1 1947
Established SEKISUI INC. in order to run a general plastic business



4 1958
Began production of interlayer film for laminated glass S-LEC



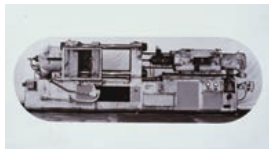
7 1982
Gunma Plant opened, began production of PVC pipe and exterior paneling for unit construction housing



10 2011
Diagnostics business acquired from pharmaceutical company Genzyme Corporation of the United States and new company established



2 1948
With automatic injection molding, started the first plastic automatic injection molding business in Japan



5 1960
Shiga Ritto Plant opened and started manufacture of PVC pipe and PVC building materials



8 2001
New "company" system introduced



11 2012
Piping materials business acquired from Mitsubishi Plastics, Inc.



3 1953
Began production of mold-plastic products



6 1971
Entered the housing business with the launch of steel frame unit housing "Heim"



9 2006
Daiichi Pure Chemicals Co., Ltd. (currently Sekisui Medical Co., Ltd., a consolidated subsidiary) acquired



12 2013
Thailand unit housing mass production factory constructed



SDG Initiatives at Sekisui Chemical Group

SDG Initiatives at Sekisui Chemical Group

The Sekisui Chemical Group has been contributing to resolving social issues through various products and businesses for a very long time. We have also been promoting active involvement in international organizations and international rules, including the declaring of our support for the UN Global Compact in 2009. At this point, we would like to showcase the products and services that the Group contributes through its business operations under the Sustainable Development Goals (SDGs) agenda compiled by the United Nations.



13 CLIMATE ACTION
Automotive Sound Insulation/ Solar Control Interlayer Film
 Reduces CO₂ when vehicle is in motion and contributes to climate change mitigation by means of improved air conditioning efficiency and thinner glass



13 CLIMATE ACTION
Housing Equipped with Solar Power Generation Systems
 Housing made possible by creating, saving, and storing energy by means of solar power generation, storage batteries, and HEMS. Reduces CO₂ emissions in residential areas and contributes to climate change mitigation



SDG Initiatives at Sekisui Chemical Group

SDG Initiatives at Sekisui Chemical Group

13 CLIMATE ACTION

Housing in Thailand

Durable, energy-saving housing manufactured and sold in Thailand. Contributes to reduced CO₂ emissions and climate change mitigation in Thailand



12 RESPONSIBLE CONSUMPTION AND PRODUCTION

EsloHYPER Series Polyethylene Pipes

A water supply pipe that does not leak water, because the pipes and fittings are joined by electrofusion. Contributes to resource recycling by preventing water leakage and improving resource (water) utilization efficiency



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Sewage (Spirally) Pipe Renewal (SPR) Method

Rehabilitates and strengthens ageing sewage pipes in a short period of time by a non-excavation method



13 CLIMATE ACTION

Film-type Lithium-ion Battery

Enables larger capacity by being of the film type, promotes effective utilization of re-energy, contributes to climate change mitigation



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

FFU Synthetic Wood

Synthetic wood with high durability. Used for railway sleepers and enhancing safety of mobility travel



3 GOOD HEALTH AND WELL-BEING

Diagnostic Reagents for Patients Suffering from Viral Diseases

Diagnostic reagents to diagnose whether someone is infected with a virus. Lead to early detection of illness and extend healthy lifespans



External Evaluations

In addition to having its environmental management and CSR initiatives, which focus on Environment-contributing Products, externally evaluated and earning selection by the major SRI indices, the Sekisui Chemical Group has received high evaluations in the fields of the environment, quality, and human resources.

CSR in General

- Earned selection to the Dow Jones Sustainability Indices (DJSI) Industry Leader, World, and Asia Pacific
- Earned RobecoSAM sustainability rating Gold Class
- Earned selection to the FTSE4Good Index
- Earned selection to the MSCI Global Sustainability Indexes
- Earned selection to the Ethibel PIONEER and Ethibel EXCELLENCE Investment Registers
- Earned selection to the Morningstar Socially Responsible Investment Index
- Ranked 46th in the Toyo Keizai CSR Ranking



"Sekisui Chemical Co. Ltd. has been reconfirmed for inclusion in the Ethibel PIONEER and Ethibel EXCELLENCE Investment Registers since 09/12/2016. This selection by Forum ETHIBEL (www.forumethibel.org) indicates that the company can be qualified as a sector leader in terms of Corporate Social Responsibility (CSR)."



FTSE4Good



2017 Constituent
MSCI Global
Sustainability Indexes

THE INCLUSION OF Sekisui Chemical Co., Ltd IN ANY MSCI INDEX, AND THE USE OF MSCI LOGOS, TRADEMARKS, SERVICE MARKS OR INDEX NAMES HEREIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF Sekisui Chemical Co., Ltd BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.



(2017/1/4)

Environment

- Ranked 43rd in the Nikkei Environmental Management Ranking

CS & Quality

- Ranked 11th in the Union of Japanese Scientists and Engineers Quality CS and Quality Management
- Awarded the Union of Japanese Scientists and Engineers' Deming Prize (Sekisui Chemical senior advisor Naotake Okubo)
- Awarded the Union of Japanese Scientists and Engineers' The Japan Quality Recognition Award Ranking

Human Resources

- Earned selection to the Ministry of Economy, Trade and Industry's Diversity Management Selection 100 for fiscal 2013
- Earned selection to the Ministry of Economy, Trade and Industry/Tokyo Stock Exchange's Nadeshiko brand for fiscal 2016
- Certified as Ministry of Economy, Trade and Industry/Nippon Kenko Kaigi as a company that achieved superior health management in 2017
- Ranked 75th in the Nikkei Ranking of Companies that Fully Utilize Human Resources
- Kofu Sekisui Sangyo Co., Ltd. received the Ministry of Economy, Trade and Industry's New Diversity Management Selection 100 in fiscal 2016



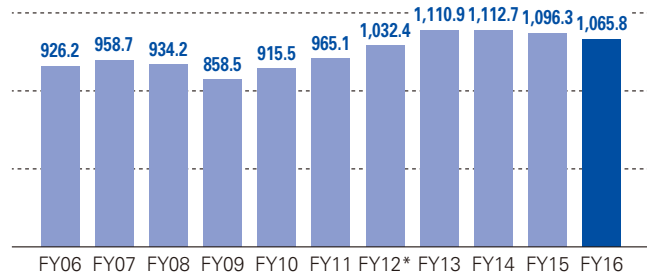
2017
健康経営優良法人
Health and productivity
ホワイト500

Financial Highlights

Financial Highlights

Net Sales
(Billions of yen)

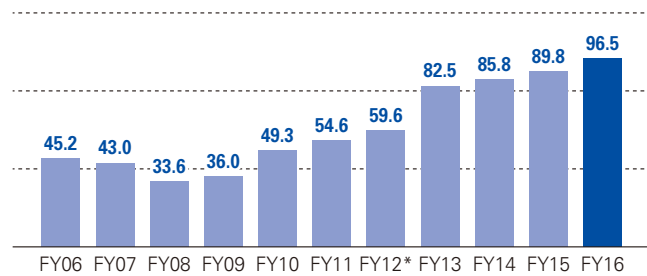
FY2016
1,065.8



*Includes impact from fiscal year changeover at overseas subsidiaries implemented in fiscal year 2012.

Operating Income
(Billions of yen)

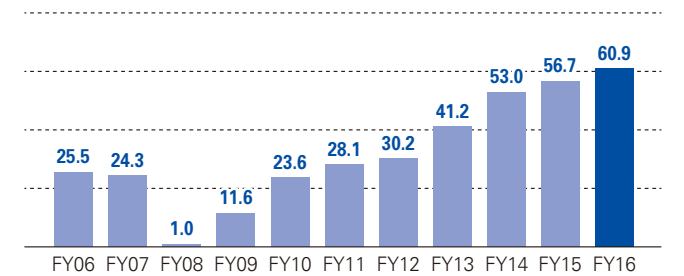
FY2016
96.5



*Includes impact from fiscal year changeover at overseas subsidiaries implemented in fiscal year 2012.

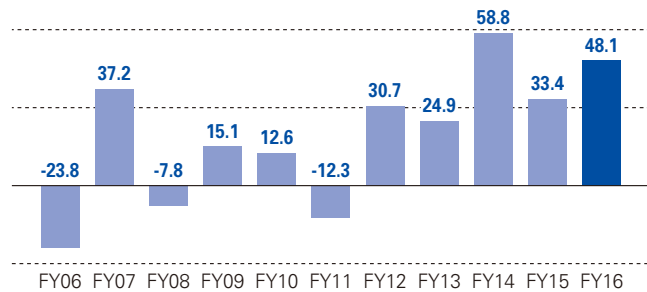
Net Income Attributable to Owners of the Parent
(Billions of yen)

FY2016
60.9



Free Cash Flow
(Billions of yen)

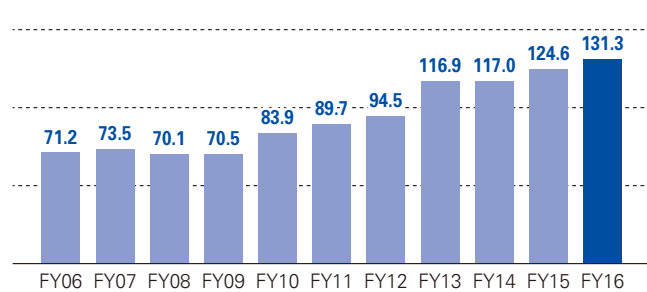
FY2016
48.1



Free Cash Flow = Operating Activities CF + Investing Activities CF - Dividend Paid

EBITDA
(Billions of yen)

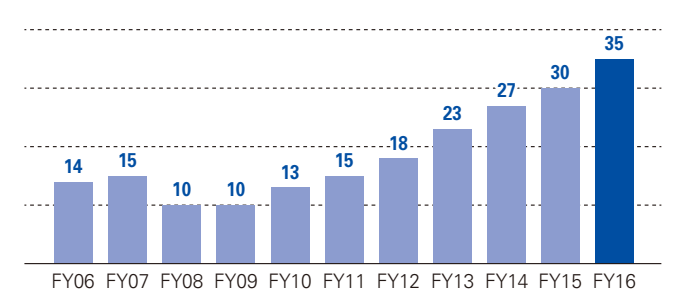
FY2016
131.3



EBITDA = Operating Income + Depreciation and Amortization

Dividends per Share
(Yen)

FY2016
35

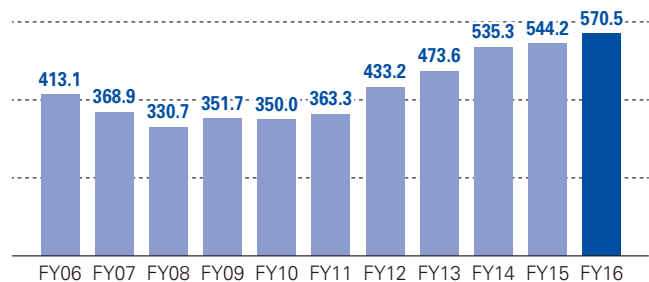


Financial Highlights

Financial Highlights

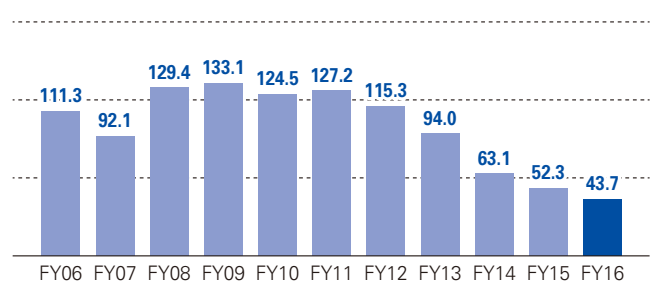
Net Assets
(Billions of yen)

FY2016
570.5



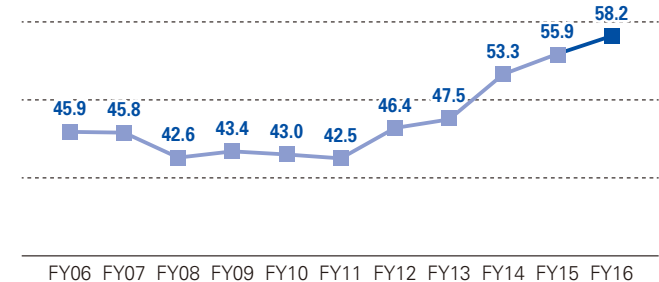
Interest-bearing Debt
(Billions of yen)

FY2016
43.7



Shareholders' Equity to Total Assets
(%)

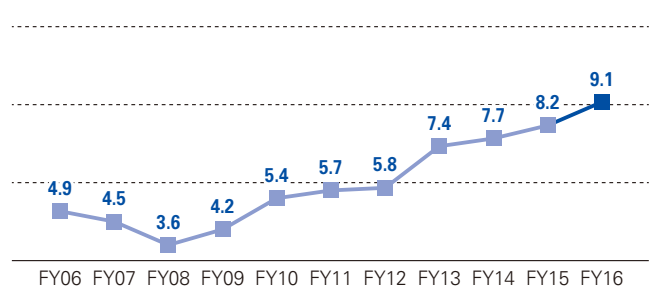
FY2016
58.2



Shareholders' Equity to Total Assets = Shareholders' Equity including Accumulated Other Comprehensive Income/Total Assets

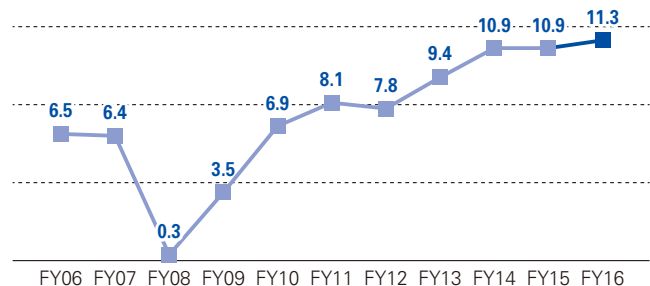
Operating Income Ratio
(%)

FY2016
9.1



Return on Equity (ROE)
(%)

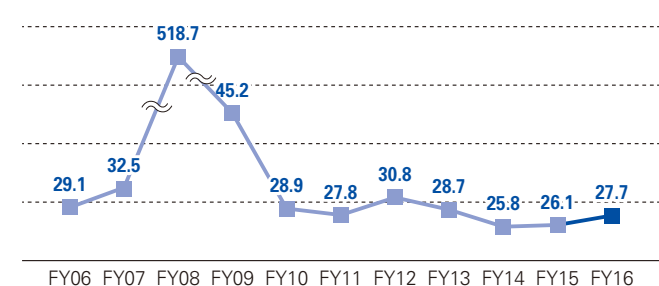
FY2016
11.3



Return on Equity = Net Income Attributable to Owners of the Parent/Average Shareholders' Equity

Dividends Payout Ratio
(%)

FY2016
27.7

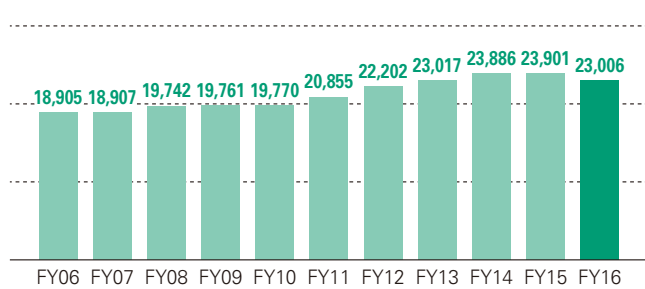


Non-Financial Highlights

Non-Financial Highlights

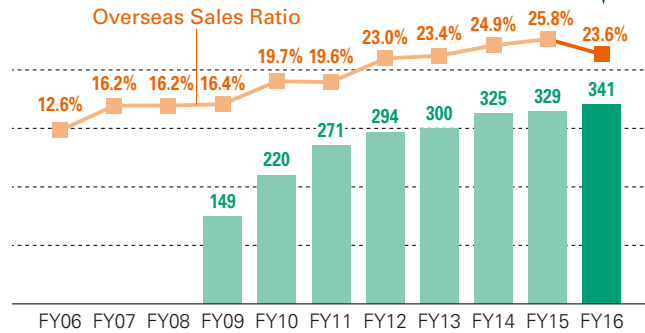
Number of Employees
(Number of persons)

FY2016
23,006



Global Talent Employees
(Number of persons)

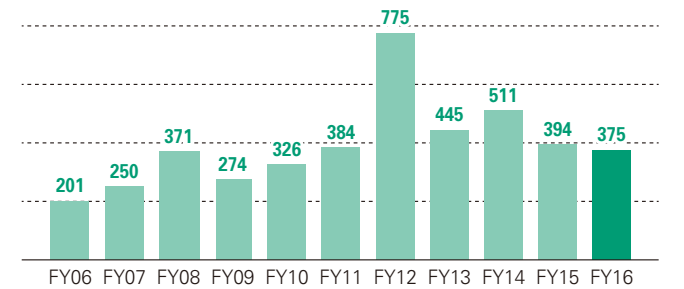
FY2016
341



Global talent employees: Japanese employees with experience working overseas (including overseas trainees). The Company introduced a global talent employees program in fiscal 2009.

Loss Costs
(Millions of yen)

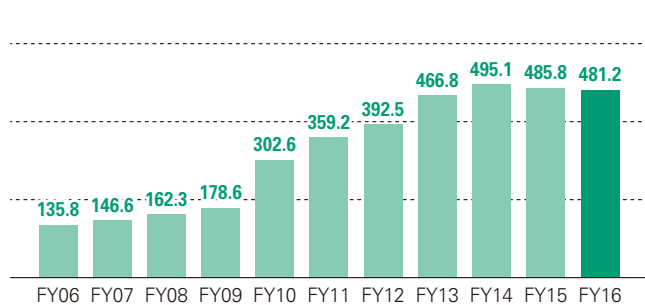
FY2016
375



Loss costs: Domestic production site, R&D facility, Headquarters department, and indirect company department expenses including man-hours required to respond to occupational accidents, equipment-related accidents, and commuting accidents as well as long-term illness absences.

Environment-Contributing Products Sales
(Billions of yen)

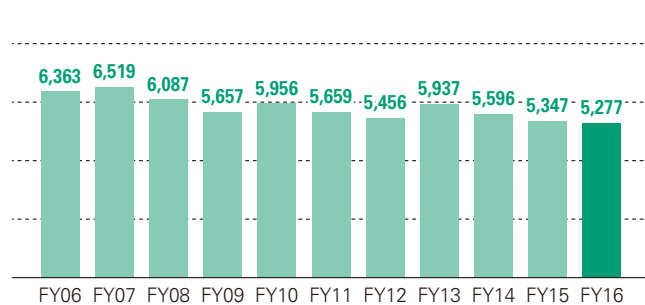
FY2016
481.2



Environment-contributing products: Products that have demonstrated a high level of environmental contribution and that have been certified as having an effect when used by customers under the Company's internal certification system.

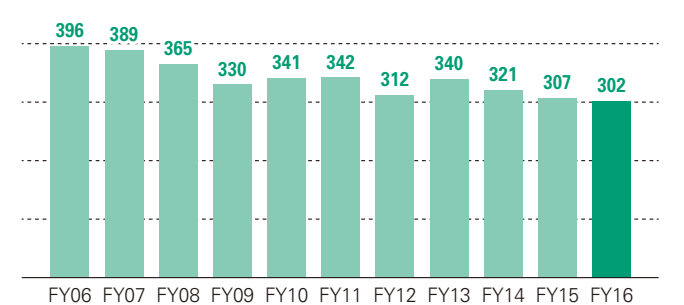
Energy Usage during Manufacturing (Japan)
(TJ)

FY2016
5,277



Greenhouse Gas (GHG) Emissions during Manufacturing (Japan)
(Kilotons-CO₂)

FY2016
302



Message from President & CEO

Ensuring the achievement of Both “Quantitative Growth” and “Qualitative Transition” of our business activities based on our prominence in technology and quality, we will realize sustainable growth in line with the efforts to fulfill our social responsibility

The Sekisui Chemical Group celebrated its 70th anniversary in March 2017. The Group was first established with the aim of promoting the comprehensive commercial application of plastics, which was a new and innovative material in Japan at that time.

Since its founding, the Sekisui Chemical Group has endeavored to create value for society through business activities, one of the “3S principles” embodied in its Corporate Philosophy, by providing various products and services that help solve problems that arise in people’s daily lives and throughout society.

In the future, we will maintain our focus on improving people’s lives and the global environment. Making every effort to earn the trust of society through our prominence in technology and quality, we will continue to take up the challenge of forging a presence that is strong enough to last a century.

Record-High Operating Income for a Fourth Year

Looking at the Sekisui Chemical Group’s performance in fiscal 2016, resolute efforts by the Urban Infrastructure & Environmental Products (UIEP) Company to carry out structural reforms, centered largely around the withdrawal from unprofitable businesses, contributed significantly to earnings. As a result, successful steps were taken to boost operating income, which came in at ¥96.5 billion. This represented an eighth consecutive year of increased profit as well as record-high operating income for four fiscal years in a row. Profit



Message from President & CEO

in the High Performance Plastics (HPP) Company grew year on year owing mainly to the upswing in volume and improvements in the product mix primarily in four strategic business fields. An increase in orders contributed to the results in the Housing Company, which reported profit growth for the first time in two fiscal years.

Fiscal 2016 was the final year of the SHINKA!-Advance 2016 Medium-term Management Plan, which was initially launched in fiscal 2014. At the start of the Plan, we identified the fiscal 2016 operating income target of ¥100 billion. Other goals for the final year of the Plan included an operating income ratio of 8.0% and an ROE of 10.0%. With results for operating income, the operating income ratio, and ROE coming in at ¥96.5 billion, 9.1%, and 11.3%, respectively, the Sekisui Chemical Group has for all intents and purposes achieved its established goals.

Ensuring the Achievement of Both “Quantitative Growth” and “Qualitative Transition” while Working Toward SHIFT 2019 -Fusion-Medium-term Management Plan

With an eye to future growth, trends in those products in particular that are expected to underpin the Group’s performance five or more years from now under the previous medium-term management plan were sluggish. In light of these trends, the Sekisui Chemical Group has put in place the SHIFT 2019 -Fusion- Medium-term Management Plan, a three-year plan that commences in fiscal 2017. Under this new plan, we will promote quantitative growth that looks beyond the timeframe of the plan while at the same time undertaking a qualitative transition in a bid to secure high profitability.

As far as quantitative growth is concerned, we will actively engage in forward-looking growth investment with a view to boosting both sales and profitability. As a part of efforts to undergo a qualitative transition, we will work to improve profitability by implementing a variety of measures including the reorganization of our manufacturing structure together with the allocation of resources to promising fields. Through these means, we will target an operating income ratio of 10% or more.

Guided by the Medium-term Management Plan, the Sekisui Chemical Group is taking one step forward toward a new phase of growth and achieving net sales of ¥2 trillion and operating income of ¥200 billion during the 2020s.

In naming the Medium-term Management Plan, we have incorporated the word “SHIFT” to indicate our commitment to shifting the quality of growth. In this regard, we have identified the twin goals of ensuring the achievement of both quantitative growth and the qualitative transition of our business activities, and realizing sustainable growth in line with efforts to fulfill our social responsibility. Moreover, the letters that make up the word “SHIFT” are the first letters of the five components of our basic strategy that will allow us to achieve our twin goals.

As a part of this basic strategy, which is designed to help crystallize the achievement of quantitative growth and a qualitative transition, we have set up a new business portfolio

based on the two core axes of our Group Vision: prominence in technology and quality as well as contributions to the lives of people and the global environment.

Prominence in technology and quality indicates the axis of maintaining our competitive edge, and contributions to the lives of people and the global environment indicates the axis of the potential and possibility to cultivate markets. Our aim is to create as many star businesses positioned high at each axis as possible. To ensure a portfolio of 10 or more star businesses in fiscal 2019, we will actively engage in the development of new products and applications while undertaking strategic investments and pursuing M&As. Another key word that we have positioned to accelerate each of these activities is “Fusion.” Through the fusion of technologies, opportunities, and resources that extend beyond company boundaries both internally and externally, we will ramp up pace at which each action is undertaken.

We have identified key quantitative management targets for fiscal 2019, the final year of our Medium-term Management Plan. In specific terms, we will make every effort to secure net sales of ¥1,200 billion, operating income of ¥120 billion, and ROE of 12%. In fiscal 2017, the first year of the Plan, we aim to secure net sales of ¥1,104 billion, operating income of ¥102 billion, and net income attributable to owners of parent of ¥63 billion. This includes record-high operating income in each of the HPP and UIEP companies.



Message from President & CEO

Embarking on Efforts to Strengthen Our Business Base while Promoting Diversity

The Sekisui Chemical Group will further strengthen its environmental, social, and governance (ESG) initiatives in a bid to realize sustainable growth in line with efforts to fulfill its social responsibility throughout the period of the Medium-term Management Plan.

As a part of these efforts, the Group revised its CSR conceptual scheme at the start of the plan. With a view to integrating our CSR and business activities, we have codified our Principles together with our approach to CSR. Steps are also being taken to reorganize our overall structure in line with this approach.

First, we have positioned governance as the foundation of our CSR approach. In this regard, we will reinforce the necessary mechanisms that will allow us to make proper and resolute decisions as we work toward securing sustainable growth. In our overseas operations, which are expected to expand even further in the future, we will bolster our governance structure. In specific terms, we will strengthen and newly establish functions of the Group's regional headquarters while at the same time promoting increased awareness and understanding of our Principles.

Building on this governance foundation, we have clearly stipulated our commitment through a Pledge to Society regarding safety, compliance and respect for human rights, and our working environment. This Pledge to Society embodies our efforts to fulfill our social responsibility through every facet of our business processes. The Sekisui Chemical Group will place the utmost importance on workplace safety to ensure the peace of mind of its employees and the local community. At the same time, we will engage in fair and honest corporate activities as well as CSR procurement that maintains a deep respect for human rights. We will also build healthy and invigorating workplaces as well as systems.

Furthermore, we will utilize our three prominences in the environment, CS Quality, and human resources in a bid to solve social issues through our business activities. From the perspective of the environment, we will expand contributions to the return of natural capital. In addition to lifting the sales ratio of environment-contributing products based on the concept of Sustainable Development Goals (SDGs) to 60% in 2019, we have established an energy saving investment framework geared toward reducing greenhouse gas emissions of ¥12 billion over the three-year period from fiscal 2017 to fiscal 2019. As far as CS Quality are concerned, we will return to our roots and place the utmost emphasis on customer feedback as the beginning of our manufacturing while providing products and services that inspire. Taking into consideration human resources, and in particular diversity management, we are rolling out our Diversity Management Policy, which was first formulated in fiscal 2015, across the Group as a whole. In fiscal 2016, the Sekisui Chemical Group focused on putting in place an organizational culture that would help realize diversity. This included developing support programs that would allow diversity promoters to take the initiative in pushing forward diversity in each of their organizations. In an effort to empower women, considerable effort has been made to expand opportunities that allow women to excel.

Starting from the active hiring process, this effort encompasses career education programs for female employees. Thanks largely to these endeavors, we are seeing steady increases in such key indicators as the ratio of women among newly hired employees, retention rates, and the number of women in management positions. These initiatives are also attracting increased external acclaim. In fiscal 2016, Sekisui Chemical was selected as a Nadeshiko brand by Ministry of Economy, Trade and Industry (METI) and Tokyo Stock Exchange, Inc. In recognition of its proactive efforts to employ individuals with disabilities, our Group company was selected for the METI Minister Award program of the New Diversity Management Selection 100 sponsored by Japan's Ministry of Economy, Trade and Industry (METI).

Enhancing Corporate Value and Providing Increased Value to Society

As mentioned earlier, the SHIFT 2019 -Fusion- Medium-term Management Plan revolves largely around the need to balance the value for the Company with the value for society as a part of efforts to secure the sustainable growth not only of the Group, but also of society. It is therefore important to avoid any gap between them.

With this in mind, it is absolutely vital that we promote earnest dialogue with stakeholders, work to foster deep and mutual understanding, and increase the number of opportunities through which we can gain new knowledge as well as important feedback from stakeholders.

Fiscal 2017 is the first year of our Medium-term Management Plan in which we will embark on a new phase of growth. In addition to the steps taken to improve profitability (undertake a qualitative transition), we will endeavor to simultaneously pursue quantitative growth in line with profitability. As we work toward expanding the scope of our business throughout the 2020s, we undergo a major shift in our management direction.

In order to achieve our targets, we will further strengthen our business base. Working in unison, we will redouble our efforts and focus especially on fostering personnel (Prominence in Human Resources), increasing customer satisfaction (Prominence in CS Quality), and contributing to the return of natural capital (Prominence in the Environment).

As we work toward achieving our established goals, we kindly ask for the continued support and understanding of all stakeholders.

August 2017



Teiji Koge
President and Representative Director

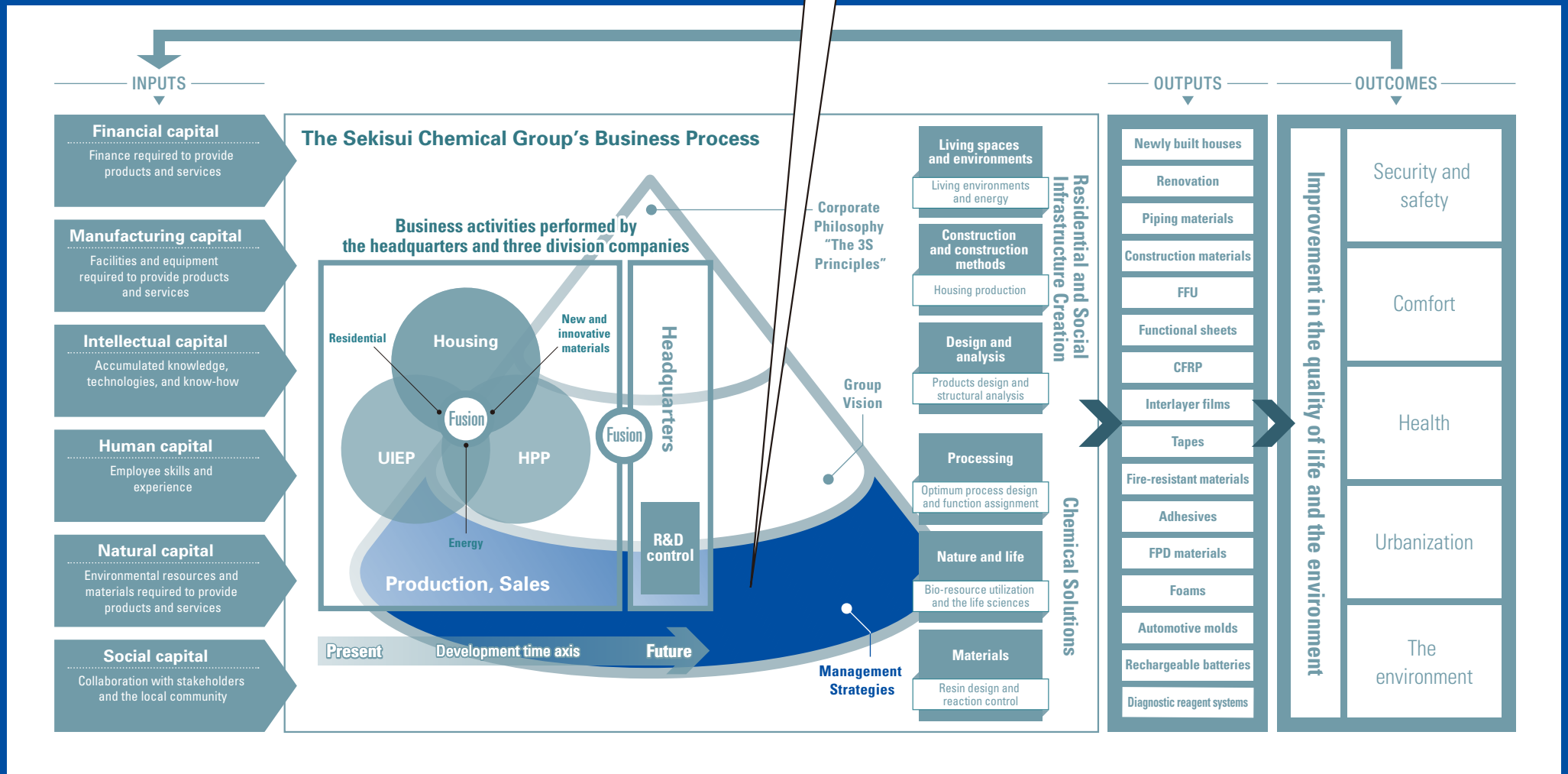
Strategy

The Sekisui Chemical Group aims to ensure sustained growth over the medium to long term. Within this context, we outline the earnings targets and financial strategies with regard to the Medium-term Management Plan, which represents an embodiment of the specific measures by which we will achieve our aim.

Management Strategy

We outline the targets of the Medium-term Management Plan, which was launched in fiscal 2017, and provide an overall picture of the strategies. In relation to the plan, we also explain the financial strategies, such as capital policy, investment, and return to shareholders.

P17



Medium-term Management Plan "SHIFT 2019 -Fusion-"

Medium-term Management Plan "SHIFT 2019 -Fusion-"

Under the Medium-term Management Plan "SHIFT 2019 -Fusion-" (from fiscal 2017 to fiscal 2019) we will make "quantitative growth," by which we grow sales with profitability by appropriate growth investment for the future, compatible with "qualitative transition," by which we aim for an operating income ratio of more than 10% through ongoing improvements in profitability by constant structural reform.

Basic Policy: SHIFT nature of growth

S	Sustainable	Establish sustainable business base from E/S/G viewpoint
H	Human resources	Empowerment of diverse employees who support the business
I	Innovation	Create new products and new businesses with prominent technologies and quality
F	Frontier	Develop new fields, new area and new applications
T	Transformation	Promote transformation (strengthening earnings power) and establish strong business structure

Basic Strategy

Strengthen the business base

3 actions
Accelerate "3 actions" with "Fusion"

- **Technology Fusion**
- **Opportunity Fusion**
- **Resources Fusion**

New phase of growth

<p>Quantitative growth</p> <p>Aim to grow sales with profitability by grasping plenty of appropriate potentials for growth</p> <p>Forward-looking investment</p> <ul style="list-style-type: none"> High Performance Plastics Company Strategic capital investments and M&As in four strategic fields Housing Company Launch new products to capture a share of volume zone markets Urban Infrastructure & Environmental Products Company Increase production capacity of high-value-added products; strengthen the overseas alliance strategy 	+	<p>Qualitative transition</p> <p>Aim for an operating income ratio of more than 10% through ongoing improvements in profitability and by allocating resources to promising fields</p> <p>Constant structural reform</p> <ul style="list-style-type: none"> High Performance Plastics Company Increase earnings power by reorganizing the structure of production Housing Company Promote cost innovation across the entire supply chain Urban Infrastructure & Environmental Products Company Optimize the structure of production
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Quantitative target

	FY2016 Results	FY2019 Medium-term Plan*
Net sales	1,065.8 billion yen	1,200.0 billion yen
Operating income	96.5 billion yen	120.0 billion yen
Operating income ratio	9.1%	10%
Net income	60.9 billion yen	75.0 billion yen
ROE	11.3%	12%
Overseas sales	251.8 billion yen	300.0 billion yen
Domestic sales	813.9 billion yen	900.0 billion yen

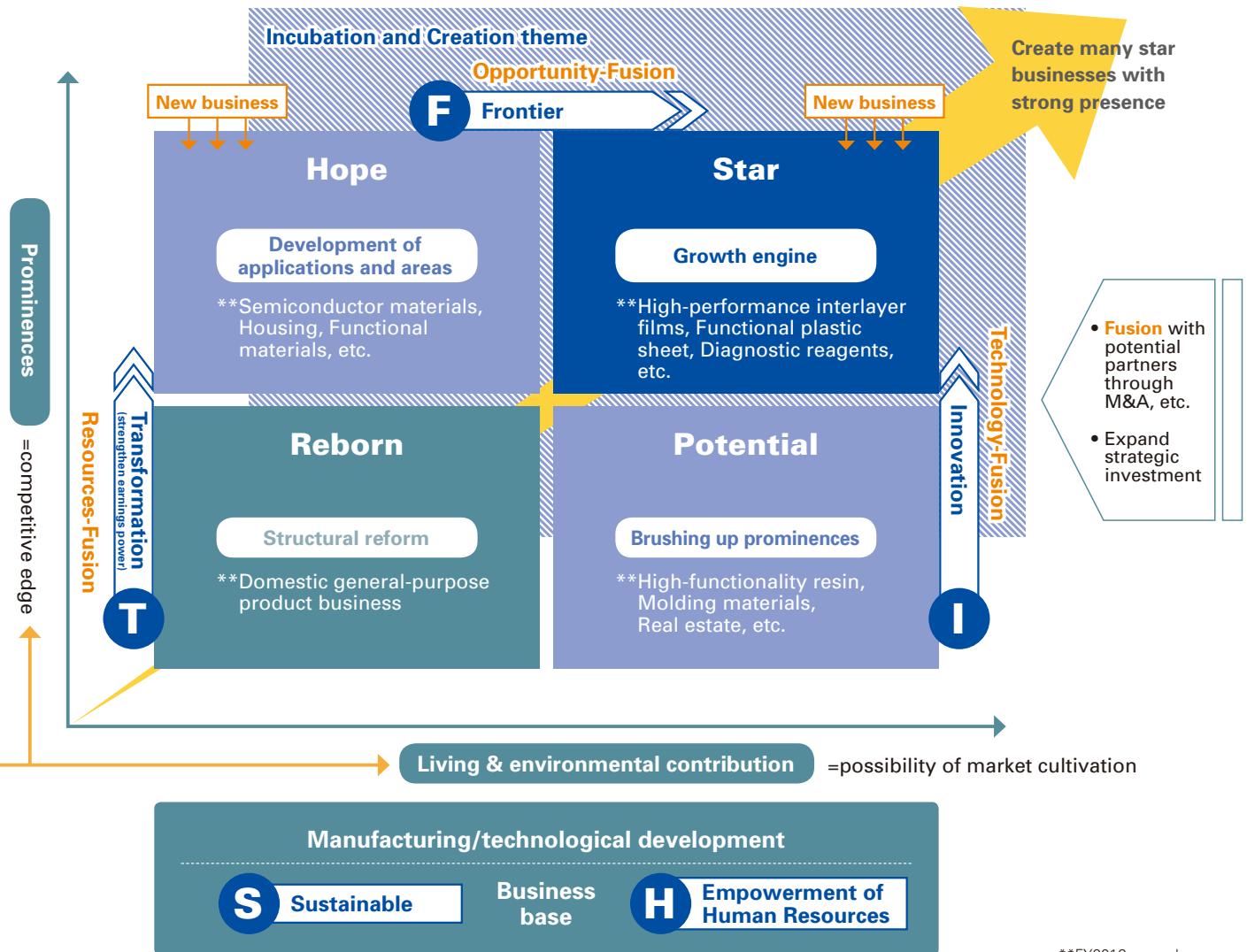
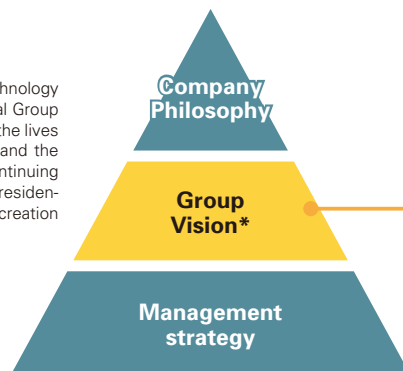
* Assumed exchange rate
US Dollar 100 yen
Euro 113 yen

Medium-term Management Plan "SHIFT 2019 -Fusion-"

Medium-term Management Plan Whole Picture of Strategy

Under the Medium-term Management Plan "SHIFT 2019-Fusion-," we will set up a new business framework at the axis of the Group vision and expand the growth engine star businesses by implementing three initiatives: strengthening earnings power, promoting innovation, and cultivating frontier businesses.

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

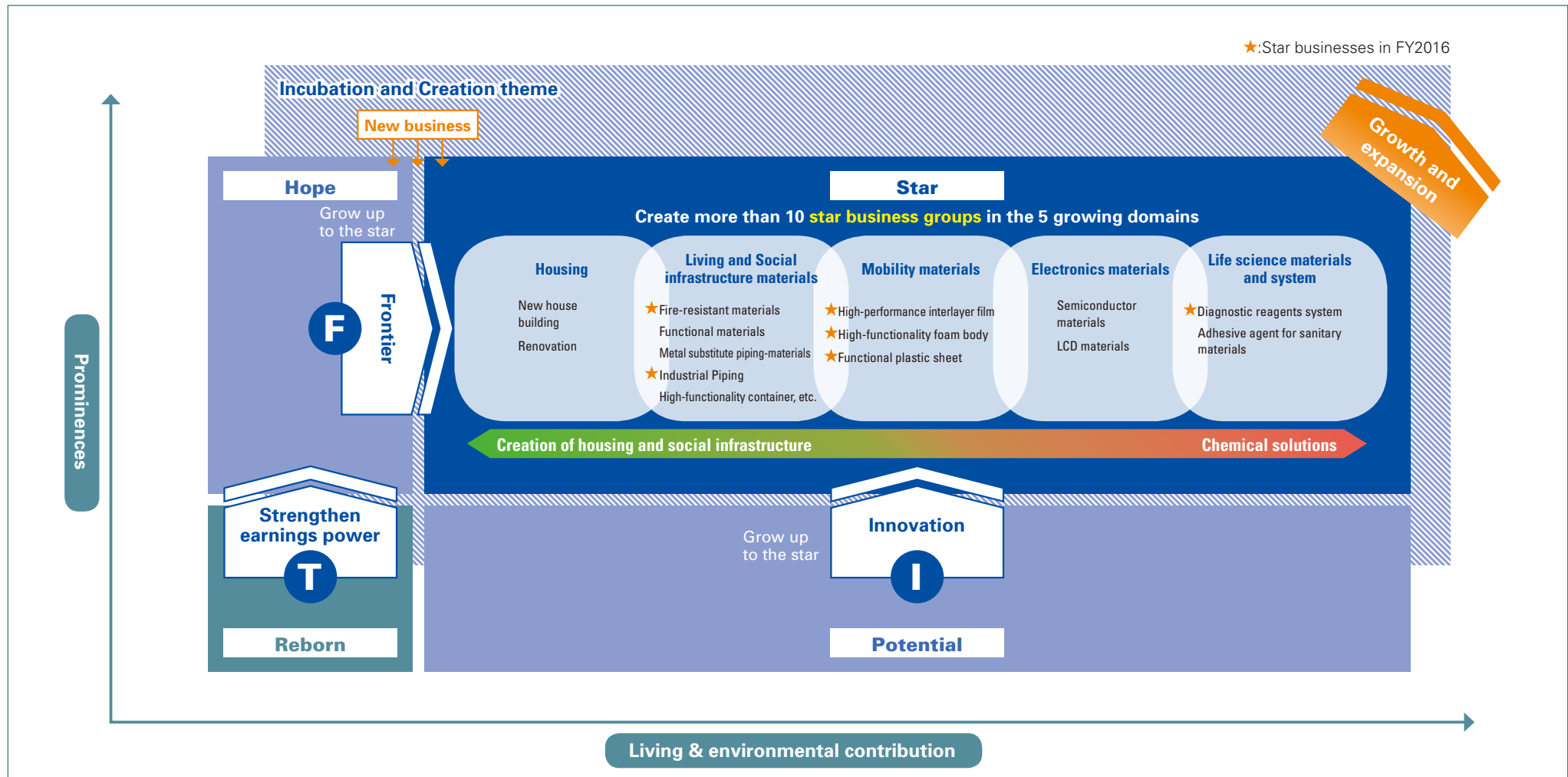


**FY2016 example

Medium-term Management Plan "SHIFT 2019 -Fusion-"

Medium-term Management Plan **Creation and Expansion of Star Business through Three Actions**

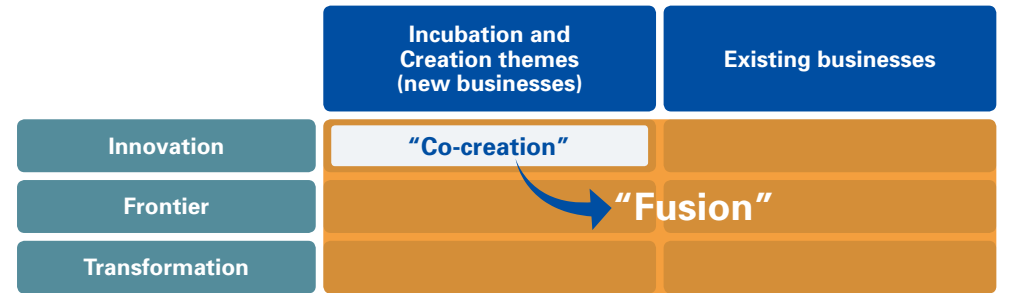
Under the Medium-term Management Plan "SHIFT 2019 -Fusion-," we are targeting the creation of more than 10 star business groups in five growing domains by fiscal 2019, the final year of the Plan.



Medium-term Management Plan "SHIFT 2019 -Fusion-"

Medium-term Management Plan **Fusion**

In addition to growth in existing businesses, the thinking is that growth under the Medium-term Management Plan "SHIFT 2019 -Fusion-" will be achieved by creating incremental increases in sales in existing businesses through fusion themes and by accelerating the promotion of new businesses (commercialization of incubation and creation themes).



Examples of Fusion (Existing businesses)

Addressed more than 20 fusion themes to create incremental increases

Example of fusion among divisional companies

Urban Infrastructure & Environmental Products

Functional plastic sheet (Present) Aircraft seat material

Technology-Fusion

- Cushioning property
- Heat insulation property, etc.

High Performance Plastics

Foam

High-performance interior material

Opportunity-Fusion

Aircraft manufacturers

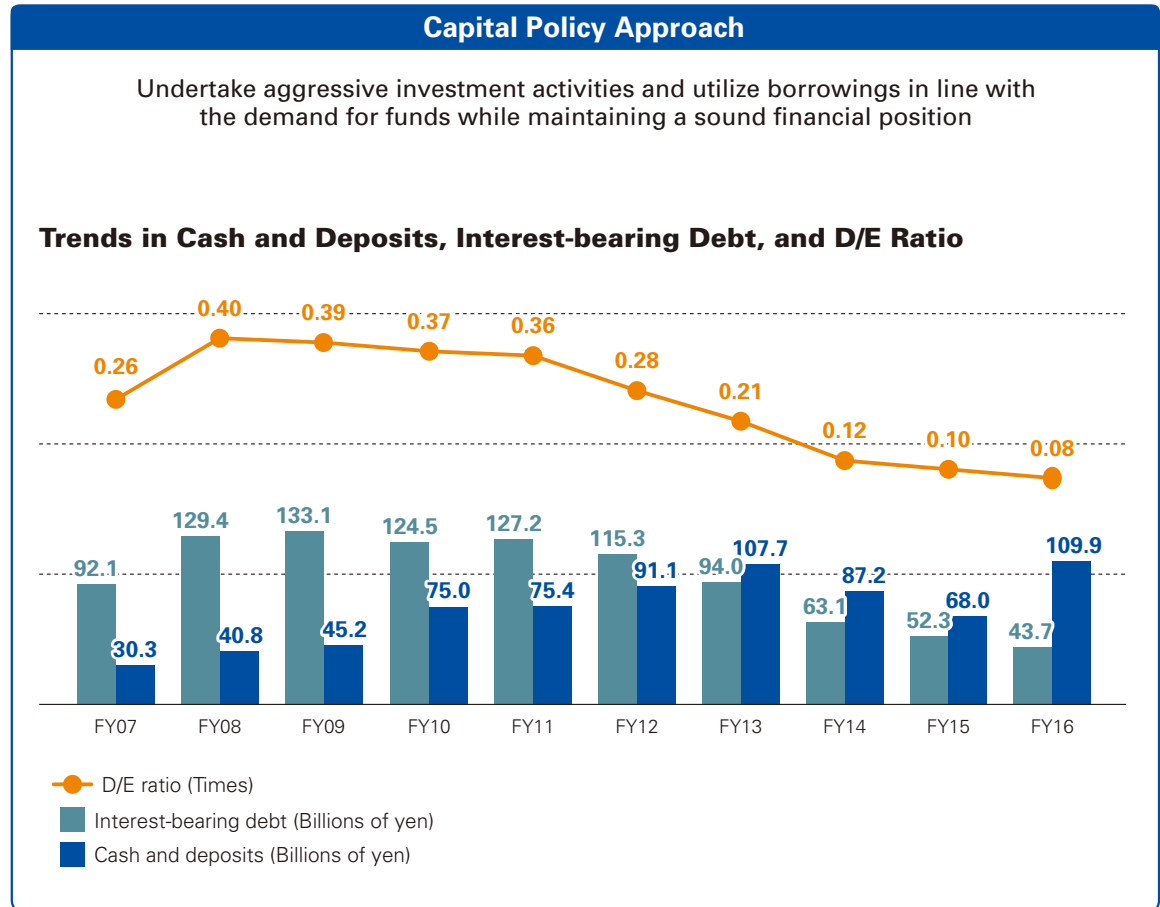
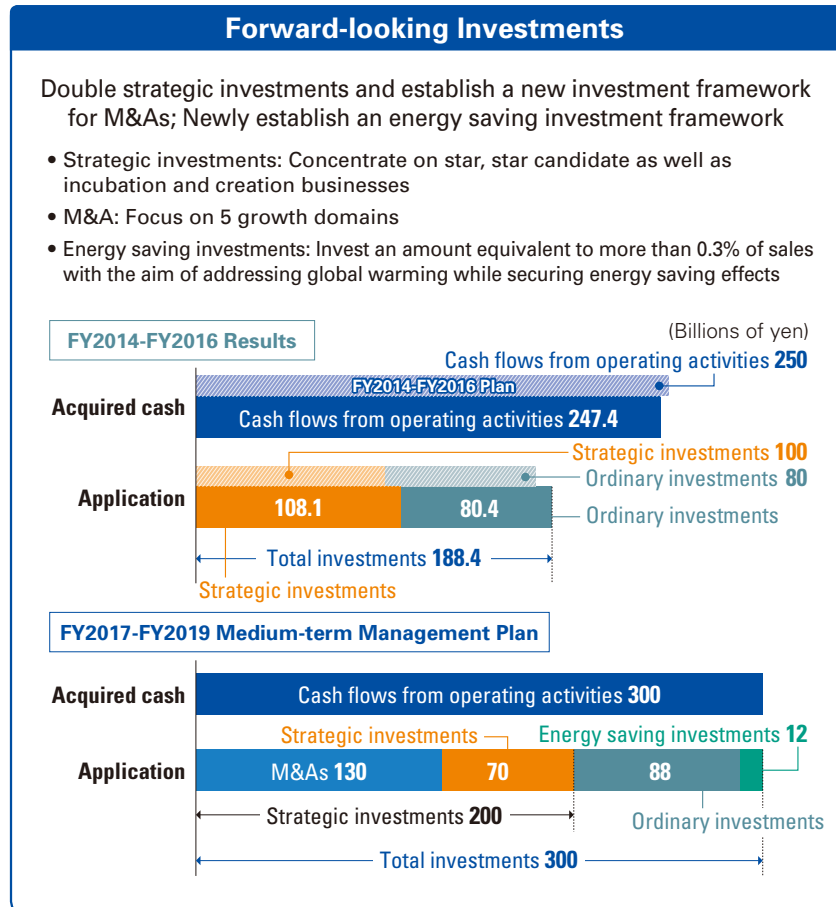
Commercialization of Incubation and Creation Themes

Creating new businesses in the housing society infrastructure, industrial materials innovation and environmental energy domains

Typical Examples of Development Themes	FY2016	FY2017	FY2018	FY2019	FY2020 and After
Film-type lithium-ion battery (Housing x Corporate R&D x External electronic manufacturer)		Launch	Stationary use: Enhance performance for housing		
	Automotive use: Improve performance; verify user				Launch
Urban development project (Housing x Urban Infrastructure & Environmental Products x High Performance Plastics x Corporate R&D)	Urban development proposals that seamlessly combine the collective strengths of the Sekisui Chemical Group's technologies and products				
Carbon fiber reinforced thermal plastic (Urban Infrastructure & Environmental Products x Corporate R&D)		Partial Launch	Progressively roll out to the civil engineering, construction, transportation and other fields		
Film-type solar cell (dye sensitized) (Corporate R&D x Advanced User Candidates)		Partial Launch	Improve performance and production technologies Conduct user verification tests		Expand applications
Town energy management system (Housing x Corporate R&D)	Conduct virtual power plant verification tests		Commercialize		
	Consider and verify business models				

Financial Strategies

Under the Medium-term Management Plan "SHIFT 2019 -Fusion-," the policy is to conduct aggressive investment while maintaining a sound financial position. To that end, we will double strategic investment and establish a new investment framework for M&As. We will make investments for growth from various perspectives, including establishing a new environmental contribution framework. On the other hand, our policy is to maintain active and stable returns of profits to shareholders through dividends and treasury stock acquisition.



Financial Strategies

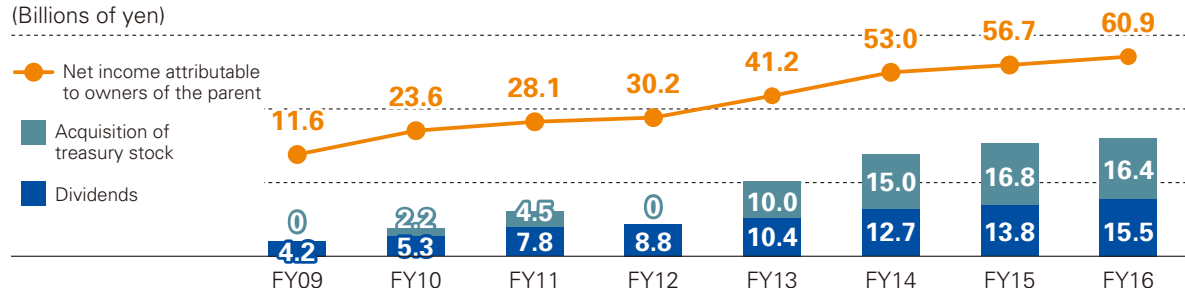
Financial Strategies

Returns to Shareholders

Maintain vigorous and stable returns to shareholders also under the Medium-term Management Plan

Returns to Shareholders Track Record

(Billions of yen)



Commitments under the Medium-term Management Plan

- Targeting a dividend payout ratio of 30%
- **Targeting DOE of 3%**
- Flexible acquisition of treasury stock

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
Net income attributable to owners of the parent per share (yen)	22.13	44.92	53.96	58.53	80.13	104.73	115.08	126.13
Cash dividends per share (yen)	10	13	15	18	23	27	30	35
Dividends payout ratio	45.2%	28.9%	27.8%	30.8%	28.7%	25.8%	26.1%	27.7%
Acquisition of treasury stock (billions of yen)	0	2.2	4.5	0	10.0	15.0	16.8	16.4
Total return ratio*	45.2%	38.1%	43.5%	30.8%	52.9%	54.0%	55.5%	54.5%
ROE	3.5%	6.9%	8.1%	7.8%	9.4%	10.9%	10.9%	11.3%
DOE	1.6%	2.0%	2.3%	2.4%	2.7%	2.8%	2.9%	3.2%
Treasury stock retired (thousand of shares)				7,000		12,000	10,000	0

*Total return ratio = (Amount of treasury stock acquired + Total Dividends)/Net income attributable to owners of the parent

Performance

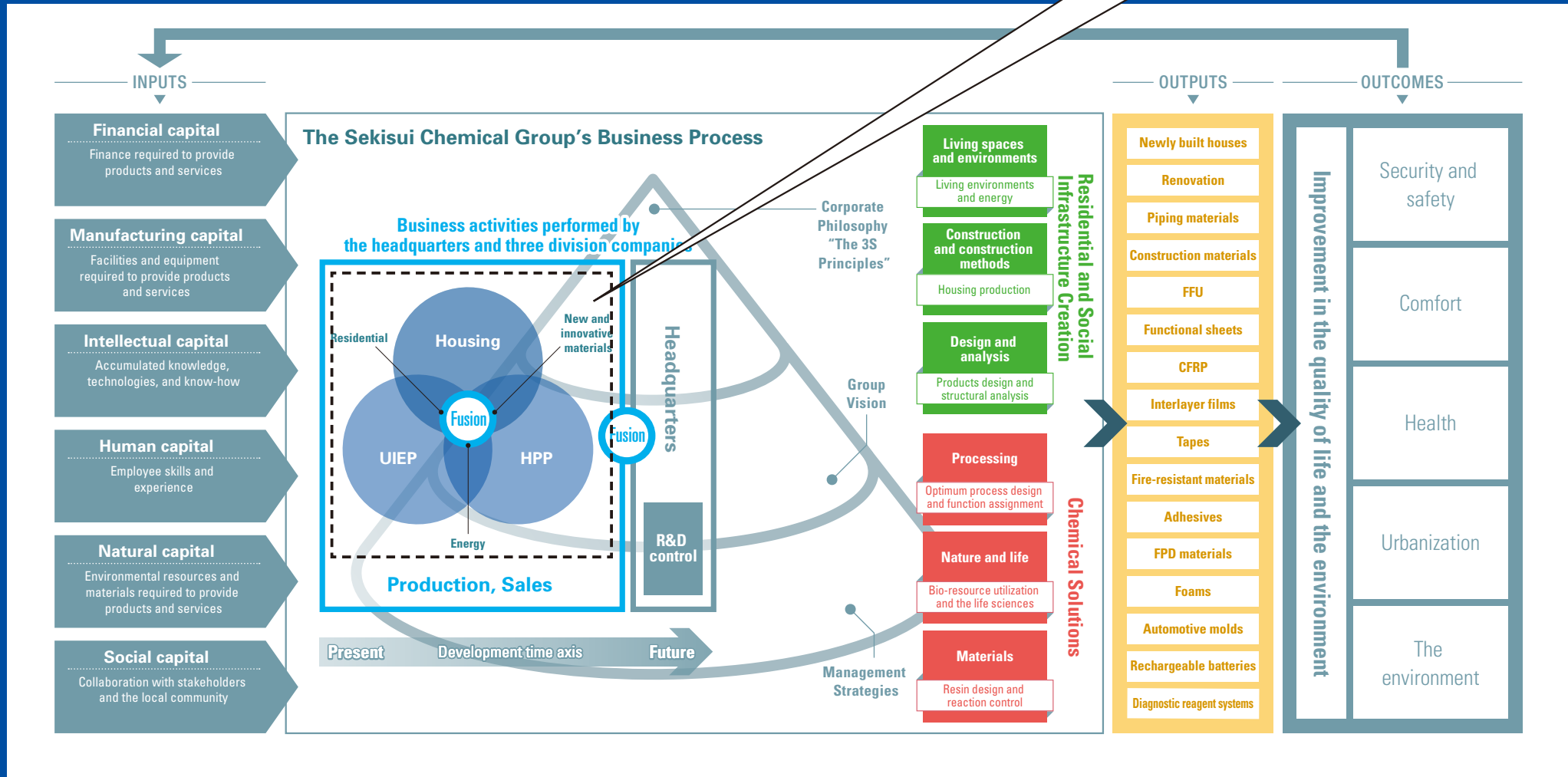
Reports from Divisional Companies

At the same time as taking a look back at the fiscal 2016 performance of each of the three highly independent companies of the Sekisui Chemical Group—the High Performance Plastics (HPP) Company, the Housing Company, and the Urban Infrastructure & Environmental Products (UIEP) Company—we explain about their growth strategies for the years ahead.

High Performance Plastics (HPP) Company
 The explanation includes the growth strategies at the three stages of “core,” “growth enhancement,” and “cooperation enhancement,” centered on four strategic fields that will be deployed globally.
P25

Housing Company
 This section explains about the core business reform, which centers on the housing and renovation businesses, and the frontier businesses, such as domestic real estate and residential services and overseas businesses.
P32

Urban Infrastructure & Environmental Products (UIEP) Company
 Here we explain the growth strategy based on the new strategic portfolio that has been established in accordance with the current Medium-term Management Plan.
P39



High Performance Plastics (HPP) Company

High Performance Plastics (HPP) Company

Business Overview

The High Performance Plastics (HPP) Company's strengths are its original fine particle, adhesion, precise synthesis, and other technologies upon which it develops a wide range of businesses centered on providing materials for advanced technology fields.

The HPP Company focuses on business development driven by high value-added products and commands top global market shares for products ranging from conductive fine particles and liquid crystal sealants to interlayer films for automotive laminated glass, polyolefin foam for automobile interiors, and cholesterol diagnostic reagents.

The HPP Company is the primary operating income generator for the Sekisui Chemical Group and is introducing competitive products into global markets with the aim of achieving earnings growth that outpaces the global economic growth rate. Under the new medium-term management plan, the HPP Company will fortify its current core products, develop new products, augment its operations through M&A and other measures in its four strategic fields of Electronics, Automobiles and Transportation, Building and Infrastructure, and Life Sciences.

President's Policy

I Growth Engine

Realize sales and profit growth by undertaking portfolio reform

II Business Structural Reform

End of a round of low-profit business rationalization; aggressive structural reform aimed at further increasing profit ratios

III Solid Business Foundation

Solid business foundation that is capable of realizing I & II above

Keita Kato

President of High Performance Plastics Company



Press Releases on HPP Company's Topics

- Apr. 2016** Merger of 2 Medical Companies in the Sekisui Chemical Group
- Oct. 2016** Line-up Expansion of Industrial Double-Sided Tape for "Narrower Bezel" and "Thinner Body" of Mobile Devices **1**
- Nov. 2016** Expansion of the Drug Substance Manufacturing Facility at Sekisui Medical Co., Ltd.'s Iwate Plant
- Mar. 2017** Establishment of a Polyolefin Foam Production Company for Automobile Interiors in Wuxi, China **2**
- Apr. 2017** Notice of Acquisition of Management Rights to "Polymatech Japan Co., Ltd. Group"
- Jun. 2017** Notice Concerning the Start of Plans to Establish a New Company for the Research, Commercial Manufacture, and Sale of Peptide Pharmaceuticals by PeptiDream Inc., Shionogi & Co., Ltd., and Sekisui Chemicals Co., Ltd.
- Jul. 2017** Establishment of an Automotive Interior and Exterior Plastic Parts and Industrial Components Manufacturing Plant in Tochigi in April 2018
- Jul. 2017** New European Research Center for Interlayer Films for Laminated Glass in the Netherlands
- Jul. 2017** Notice Concerning the Acquisition of Shares (i.e., Subsidiarization) in "SofflanWiz Co., Ltd.", which Manufactures and Sells Urethane Products



Summary of the Previous Medium-term Management Plan and Fiscal 2016 Performance

Achieved a record-high profit thanks to an increase in sales volumes and improvement in the product mix

Over the three-year period of the previous SHINKA!-Advance 2016 Medium-term Management Plan, net sales in the High Performance Plastics (HPP) Company were held to a slight increase due to the effects of movements in foreign currency exchange rates. In contrast, operating income continued to grow by leaps and bounds.

These results were largely attributable to the increase in sales volumes and continued progress in improving the product mix by shifting to high-value-added products in the four strategic fields that were expected to drive growth. Buoyed by the positive flow-on effects of these factors, operating income in the HPP Company climbed 51.0% from ¥36.1 billion in fiscal 2013, to ¥54.5 billion in fiscal 2016, the final year of the previous Medium-term Management Plan. This represents five consecutive fiscal years of profit growth and a fourth consecutive fiscal year of record-high operating income. Moreover, the operating income ratio also improved substantially from 10.2% in fiscal 2013, to 15.3% in fiscal 2016.

Also during the three-year period of the previous SHINKA!-Advance 2016 Medium-term Management Plan, the HPP Company undertook investments totaling ¥85.0 billion. This comprised ordinary investments of ¥50.0 billion as well as strategic investments and M&As of ¥35.0 billion. Based on the company's results, successful steps have been taken to recoup the sufficient return on investments.

Moreover, the company made progress with efforts to rationalize low-profit businesses and is confident that the groundwork has been laid to push forward growth strategies aimed at securing increases in net sales and profit margins in the next Medium-term Management Plan.

Offset the negative impact of movements in foreign currency exchange rates through successful efforts to expand sales volumes and improve the product mix

In fiscal 2016, the HPP Company reported net sales of ¥357.5 billion, a decrease of ¥21.0 billion compared with the previous fiscal year. Operating income, on the other hand, climbed ¥1.2 billion year on year, to ¥54.5 billion.

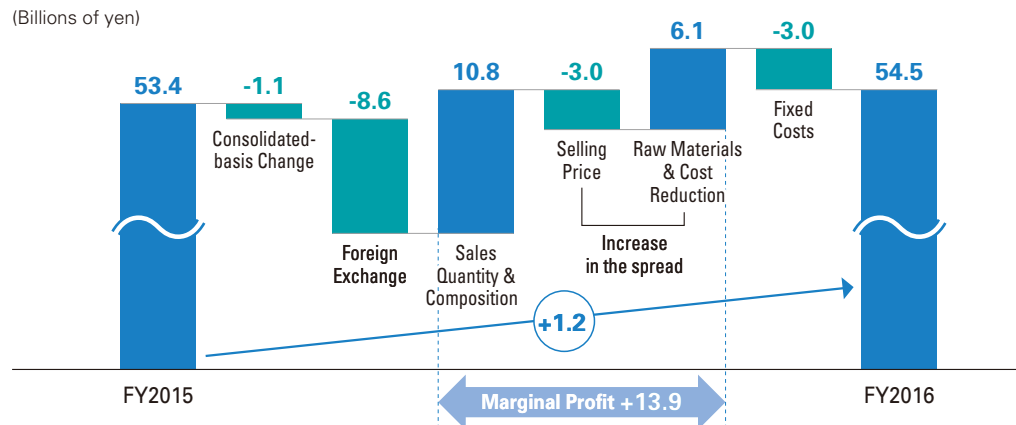
The downturn in net sales was attributable to a variety of factors. One factor was the movement in foreign currency exchange rates. In specific terms, the value of the yen against the U.S. dollar appreciated from an average rate of ¥120 in fiscal 2015 to an average of just on ¥108 in the fiscal year under review. Another factor was the deterioration in market conditions in the Electronics field. The increase in profit was mainly due to an upswing in the pace of demand growth for high-performance products in the Automobiles and Transportation field as well as steady growth in diagnostic reagent systems and testing equipment in the Life Sciences field.

In the Building and Infrastructure field, there was a sense that demand for chlorinated polyvinyl chloride (CPVC) had bottomed out in the Middle East. On a positive

note, trends in fire-resistant materials were firm in existing domestic markets. Turning to the reasons behind the increase or decrease in operating income, the company adhered strictly to a policy of controlling raw material expenses and reducing costs to offset any negative impact associated with movements in selling prices. In the fiscal year under review, successful steps were taken to further expand the spread between selling prices and raw material costs. As far as marginal profit is concerned, which measures the increase attributable to growth in the spread between selling prices and raw material costs as well as sales volumes and improvements in the product mix, the company achieved a substantial upswing of ¥13.9 billion compared to the previous fiscal year.

With an eye on fiscal 2017 and beyond, the HPP Company continues to put forward a variety of initiatives. In addition to promoting the step up activities aimed at becoming an approved global vendor with respect to semiconductor materials and OLED-related components in the Electronics field, the company worked diligently to realize synergies with EIDIA Co., Ltd., which it acquired in 2015 for the Life Science field.

Analysis of Operating Income for FY2016 (year-on-year)



Targets of the Medium-term Management Plan “SHIFT 2019 -Fusion-” and Fiscal 2017 Forecasts

Identify new enhancement areas under the Medium-term Management Plan and cultivate new sources of earnings

Under the Medium-term Management Plan “SHIFT 2019 -Fusion-,” the HPP Company will target sales and profit growth by undertaking business portfolio reform. Moreover, the company will continue to reform its business structure while strengthening its global business foundation as the means to carry out its various measures.

Based on a forecast foreign currency exchange rate of ¥100 to the U.S. dollar, the HPP Company is targeting net sales of ¥390.0 billion and operating income of ¥65.0 billion in fiscal 2019, the final fiscal year of the Plan. As far as its operating income ratio is concerned, the company is also anticipating its profit margin to surpass the level recorded in fiscal 2016. On this basis, the HPP Company has set the operating income ratio of 16.7% in fiscal 2019, up from 15.3% in the fiscal year under review.

In order to achieve these targets, steps are being taken to identify new enhancement areas and to allocate management resources accordingly in each of the company’s four strategic fields. The company’s new enhancement areas are classified into two categories; the growth enhancement category aimed at the growth exceeding the market, and the fusion enhancement category where efforts can be directed toward cultivating new sources of earnings in collaboration within and outside the company. The HPP Company will manage progress in each category through quantitative and qualitative evaluations.

Looking at the specific components of the growth enhancement category that are expected to also contribute to earnings under the Medium-term Management Plan, implementation and semiconductor materials as well as OLED-related components in the Electronics field, interlayer films with new functions in the Automobiles and Transportation field, overseas infrastructure materials in the Building and Infrastructure field, and overseas diagnostic reagent systems in the Life Sciences field are expected to play a significant role.

In addition, the HPP Company will endeavor to reinforce step up activities aimed at becoming an approved

global vendor through marketing by strategic field in its overseas business. At the same time, the company will work to reform its sales company structure and systems. Moreover, the HPP Company’s new product and new business endeavors are expected to serve as major growth engines. With this in mind, the company will undertake intensive investment and consolidate work hours.

Realize growth in excess of the market and continue to secure record-high profit in fiscal 2017

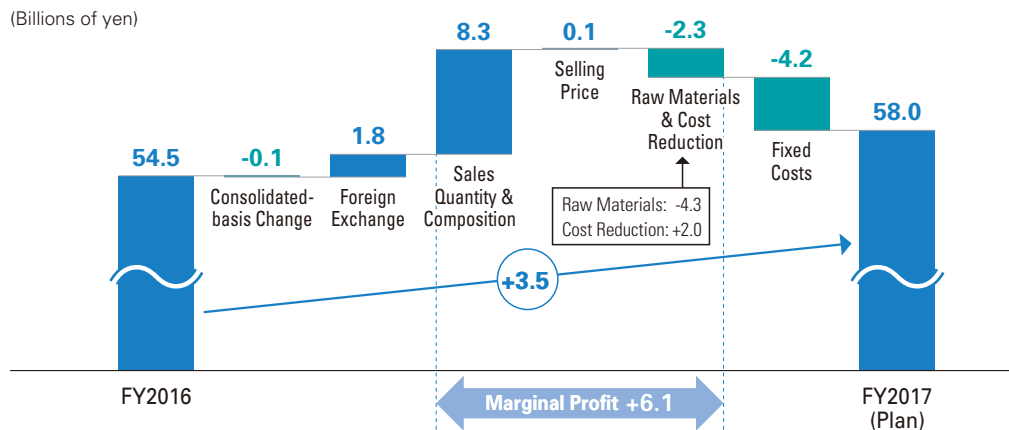
In fiscal 2017, the first fiscal year of the Medium-term Management Plan “SHIFT 2019 -Fusion-,” the HPP Company will work toward sales and profit growth by expanding volume and improving its product mix through a shift to high-value-added products focusing mainly on its four strategic fields. The company has set the net sales and operating income targets of ¥375.0 billion and ¥58.0 billion, respectively. This translates to a fifth consecutive fiscal year of record-high profit.

In order to achieve these targets, steps will be taken to secure growth that exceeds the market in each of the

four strategic fields, with a particular emphasis on the Automobiles and Transportation field. In specific terms, every effort will be made to accelerate the pace of demand growth by increasing the number of automobile models and parts that use high-performance products in the Automobiles and Transportation field. In the Electronics field, the company will increase its share of mainstay products and focus mainly on the semiconductor and OLED. In the Building and Infrastructure field, energies will be channeled toward increasing the company’s share in the CPVC resin markets of India and the Americas, finally, in the Life Sciences field, the HPP Company will realize growth by focusing on expanding sales of diagnostic reagent systems and testing equipment in China.

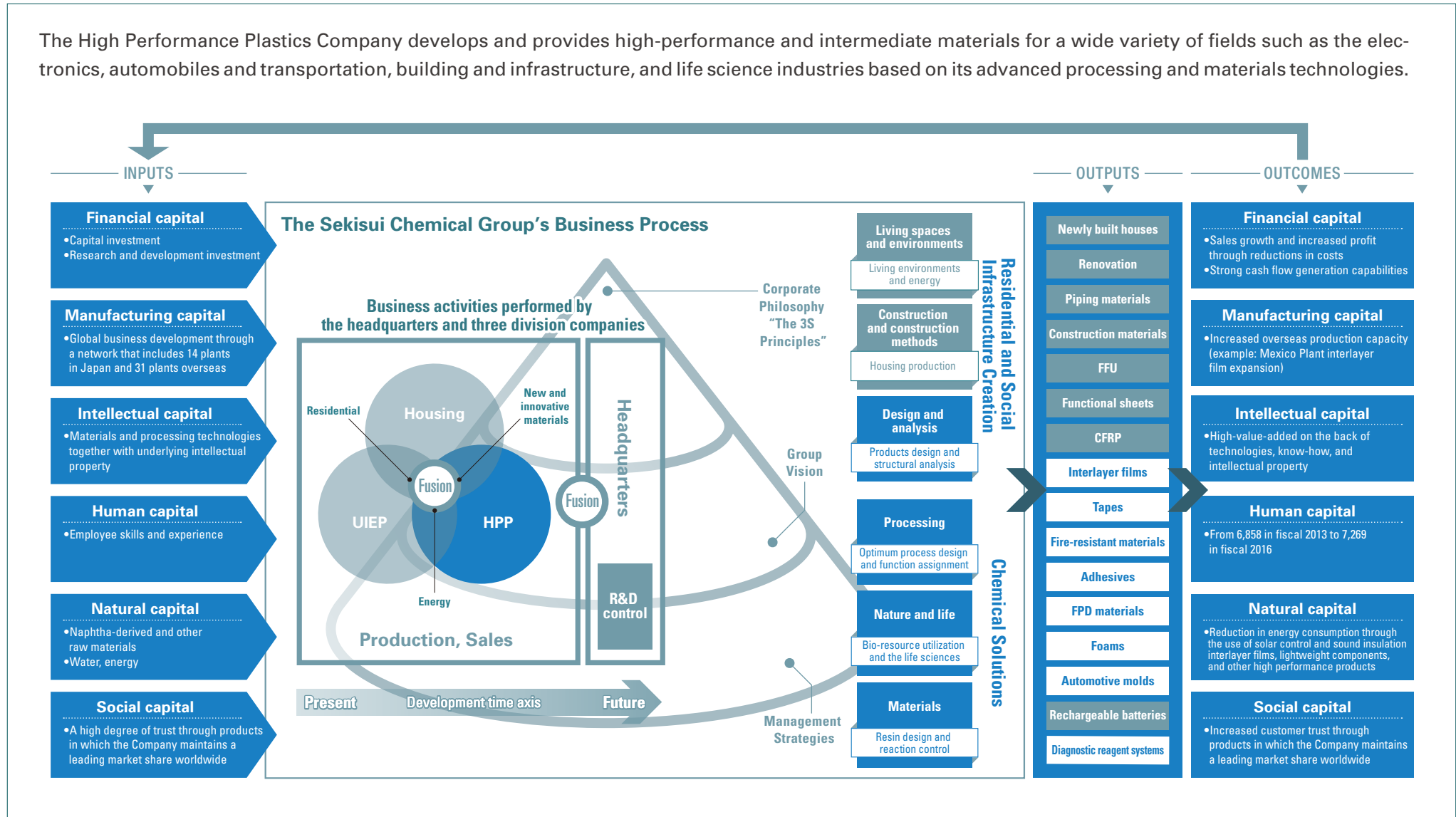
In the fusion enhancement category raised under the Medium-term Management Plan, having acquired the operating rights to Polymatech Japan Co., Ltd., we will make every effort to realize synergy effects mainly in automobile electronics domain with respect to the acceleration of development, technological fusion and marketing collaboration.

Analysis of Operating Income for FY2017 (year-on-year)



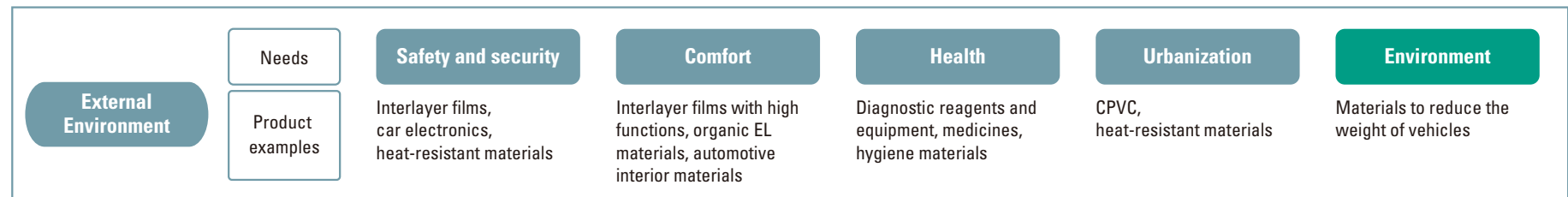
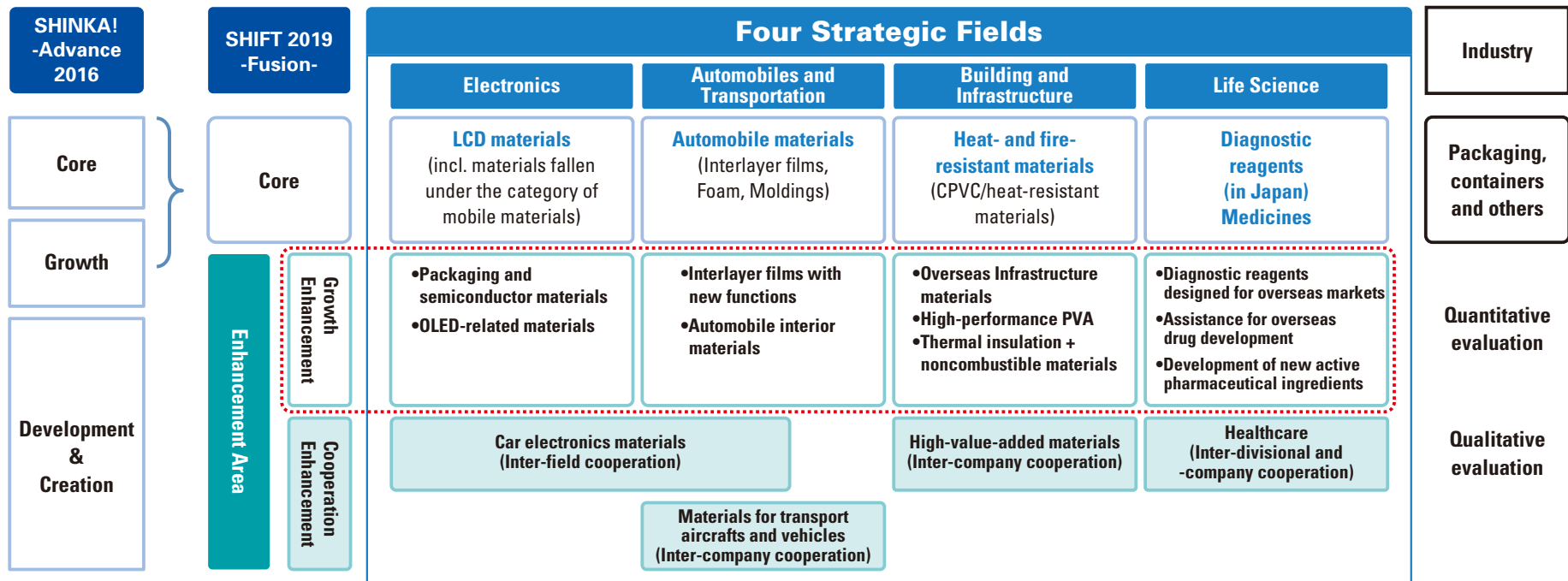
Business Model of the High Performance Plastics Company

The High Performance Plastics Company develops and provides high-performance and intermediate materials for a wide variety of fields such as the electronics, automobiles and transportation, building and infrastructure, and life science industries based on its advanced processing and materials technologies.



Portfolio and Growth Strategy of the High Performance Plastics Company

The High Performance Plastics Company has established growth enhancement areas that target growth in excess of the market and cooperation enhancement areas in which energies will be channeled toward cultivating new sources of earnings by coordinating efforts within and outside the company in each of the four strategic fields. The company is undertaking the appropriate allocation of management resources to both areas.



High Performance Plastics (HPP) Company

Main Products



Double-sided LED fixed placement tape used in smartphones and tablets



Conductive fine particles



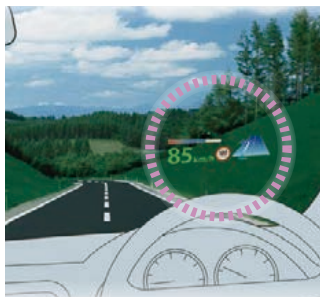
Moldings for automobile bumpers



Foaming material for automotive interiors



Interlayer film for automotive laminated glass



Wedge-shaped high performance interlayer films for head-up display (HUD) system use



Chlorinated polyvinyl chloride (CPVC) resin compound



Thermal expansion fire-resistant materials



Blood coagulation analyzers



Cholesterol diagnostic reagents

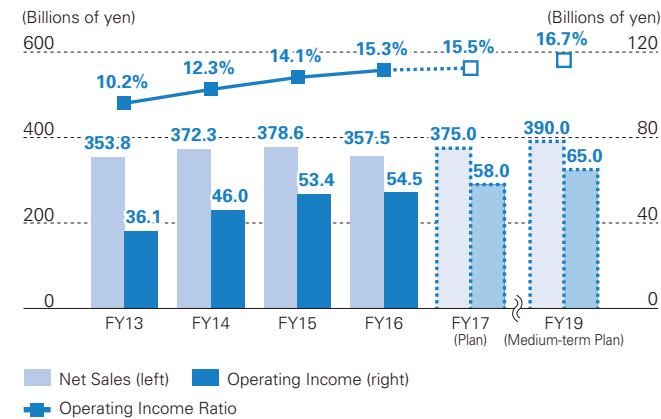


Infectious disease rapid test kit



Products for industrial application

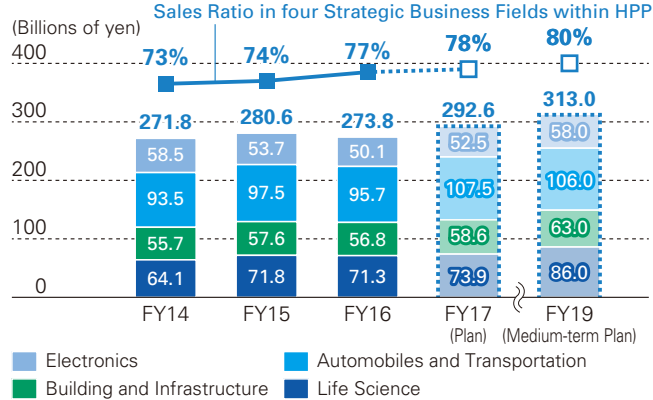
Performance Highlights



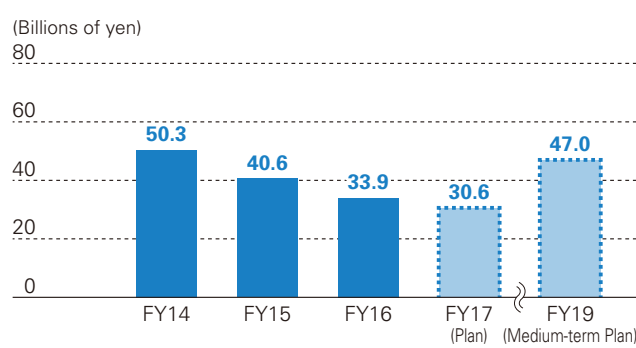
(Billions of yen)	FY12	FY13	FY14	FY15	FY16
Assets	321.3	341.2	357.7	382.4	388.2
Depreciation and Amortization	19.2	18.4	16.6	18.1	17.7
Capital Expenditures	14.5	17.6	17.9	23.5	20.7
R&D Expenditures	13.5	14.6	15.9	16.7	18.0
Number of Employees	6,545	6,858	7,051	7,453	7,269
Consolidated Subsidiaries (Overseas Companies)	57(44)	59(46)	60(47)	62(48)	57(46)

HPP Company and Market Data

Sales in 4 Strategic Fields



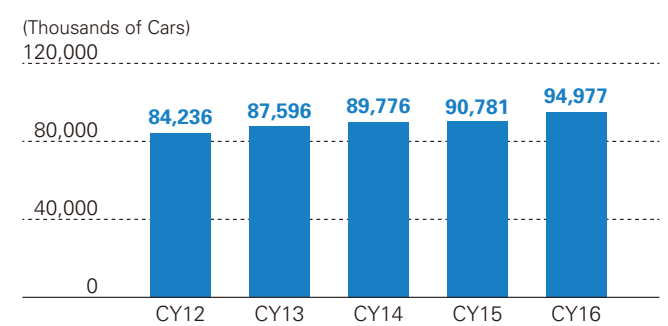
New Product Sales



*Definition of new product: up to 5 years after being placed on the market

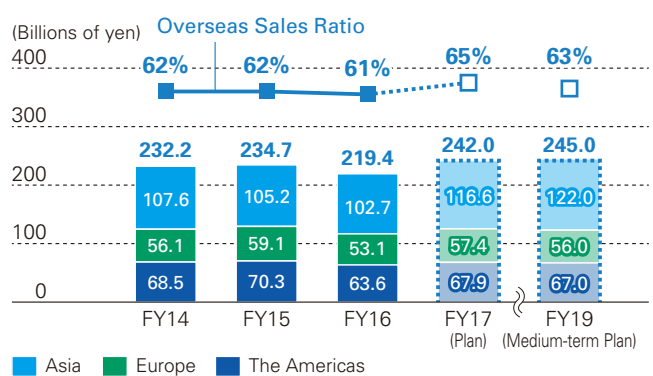
Market Data

World Motor Vehicle Production Volume

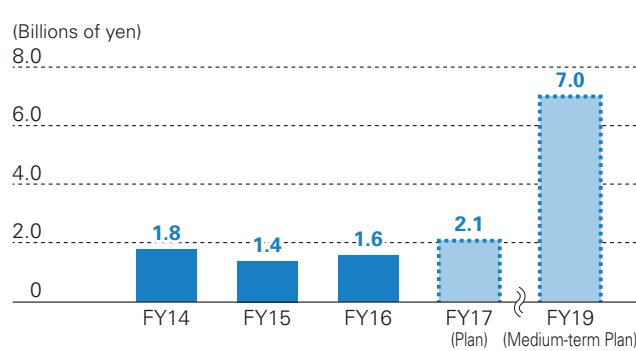


Source: OICA correspondents' survey

Overseas Sales

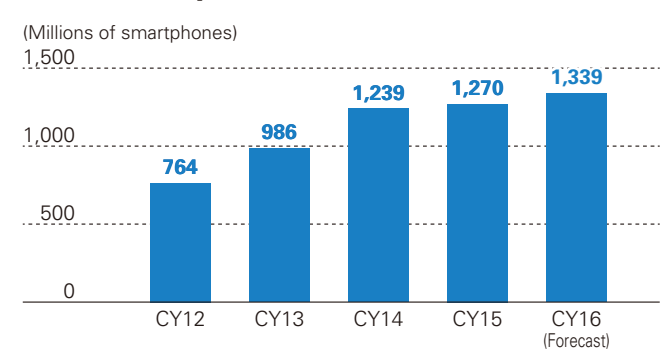


New Business Sales



Market Data

Global Smartphone Production Volume



Source: "Annual of Electronic Equipments 2017," Chunichisha Co., Ltd.

Housing Company

Housing Company

Business Overview

The Housing Company has established a unique position in Japan in new housing construction as a specialist in the Unit Construction Method, an advanced factory-built approach that enables short construction periods and delivers functions in accordance with design plans.

Responding to the increasingly sophisticated needs of customers, the Housing business has moved high-performance housing forward, guided by the concepts of environment, reliability, and comfort. It was in particular an early mover in housing with solar-power generation systems, going back to 1997 when it first scaled up such initiatives, and its cumulative sales of such residences exceeded 180,000 units as of the end of Fiscal 2016.

The company achieved another milestone in April 2012 with the release of its Smart Heim models with standard features such as built-in storage batteries and the Smart Heim Navi Home Energy Management System (HEMS).

In the Renovation business, it draws on the features of its factory-built housing products and its database of the housing stock it has constructed to offer renovation proposals best suited to the life stage of each homeowner.

In the Frontier (Domestic) business, we are also developing our management of existing home sales, leasing and management, and other housing asset management operations as well as the construction and operation of housing with support services for senior citizens. In addition, the company is expanding its new construction housing operation overseas.

President's Policy

Emphasize the uniqueness of SEKISUI HEIM and strive to transform the core businesses and develop the frontier businesses for sustainable growth.



Shunichi Sekiguchi

President of Housing Company

Press Releases on Housing Company's Topics

- Apr. 2016** G Series, a Commemorative Product to Celebrate the 45th Anniversary of Sekisui Heim Launched **1**
- June 2016** 20th Anniversary of Sekisui FamiS, the Second Phase of GREENSHIFT Remodeling! Launch of "V to Heim Renovation"
- June 2016** Renewal Work on the New Sekisui Heim Factory (Kyushu Area) Completed
- Aug. 2016** Started Demonstration Tests of Virtual Power Plant in Conjunction with Household Storage Batteries at Smart Heim City Research Academy in Tsukuba City, Ibaraki Prefecture **2**
- Dec. 2016** "Smart Power Station '100% Edition'" Launched
- Mar. 2017** Merged and Unified Operations of Housing Production Companies in Japan's Three Major Metropolitan Areas
- Mar. 2017** Merged and Unified Operations of Real Estate Companies in Tokyo, Nagoya and Osaka
- May 2017** Renewal Work on the Sekisui Heim Factory (Chugoku and Shikoku Areas) Completed
- July 2017** 70th Anniversary Commemorative Product "Smart Power Station GR" Launched



Summary of the Previous Medium-term Management Plan and Fiscal 2016 Performance

Buffeted by changes in market conditions, profit over the period of the previous Medium-term Management Plan was sluggish

Over the three-year period of the previous Medium-term Management Plan "SHINKAI-Advance 2016," trends in the number of orders and houses sold were sluggish. Despite generating record-high profit in fiscal 2014, this downturn in performance was largely attributable to changes in market conditions which included the hike in Japan's consumption tax and issues relating to the renewable energy feed-in tariff (FIT) scheme. As a result, the Housing Company reported a slight decline in net sales and operating income in fiscal 2016, the final year of the previous Medium-term Management Plan, compared with fiscal 2013. On a positive note, orders in the fiscal year under review recovered on a year-on-year basis while profit also rebounded exhibiting an upward trajectory. This mainly reflected successful efforts to implement measures in anticipation of changes in the market environment.

Comparing the profits of each business in fiscal 2016 with fiscal 2013, the Housing Company's new housing construction business was especially affected by the hike in Japan's consumption tax. Owing to the downturn in both orders and sales, and an inability to fully compensate through measures aimed at reducing costs and controlling fixed expenses, operating income by business declined from ¥31.0 billion to ¥28.9 billion.

In the renovation business, the Housing Company was also impacted by the hike in Japan's consumption tax. Coupled with the negative flow-on effects attributable to issues relating to the FIT scheme, orders for the company's mainstay solar products were weak. Taking into account each of these factors, operating income by business fell from ¥10.1 billion in fiscal 2013 to ¥7.3 billion in the fiscal year under review. Meanwhile, the frontier business that covers a wide range of fields including real estate and residential services as well as the overseas business, which were collectively identified as a potential source of additional profit under the previous Medium-term Management Plan "SHINKAI-Advance 2016," generated operating income of ¥1.4 billion in fiscal 2016 from a zero base in fiscal 2013.

Again, during the three-year period of the previous Medium-term Management Plan, the Housing Company undertook investments to increase the efficiency of its eight nationwide production plants. At the same time, steps were taken to upgrade and expand the company's lineup of smart house products, thereby harnessing its inherent strengths. Each of these initiatives was geared toward addressing medium- and long-term changes in the market. Moreover, there is considerable expectation that these initiatives will continue to bear fruit through fiscal 2017 and beyond.

Increase in orders and the shift to a profit growth trajectory through a focus on built-for-sale housing in fiscal 2016

In fiscal 2016, the Housing Company reported net sales of ¥485.0 billion, an increase of ¥11.5 billion compared with the previous fiscal year. From a profit perspective, operating income came to ¥37.5 billion, up ¥1.2 billion year on year.

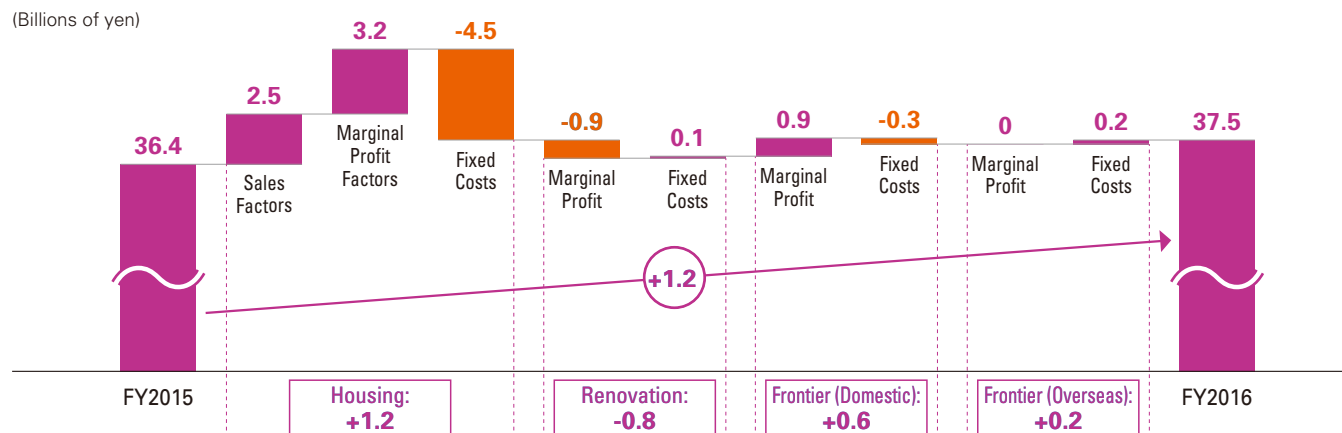
In the fiscal year under review, the Housing Company focused on the built-for-sale housing business, which continued to experience firm demand. As a part of this focus, the

company worked vigorously to acquire land for sale as subdivision lots. Among a host of proactive steps to promote the built-for-sale housing business, steps were taken to conduct simultaneous tours across the company's nationwide network of plants, construction sites, and completed homes. As a result, new housing orders climbed 3% in fiscal 2016. Moreover, the Housing Company worked diligently to cultivate new markets by launching such large-scale products as energy self-sufficient smart houses that combine large-capacity solar power generation systems with storage batteries, recognized as an underlying strength.

In contrast, orders (3% decrease from the previous fiscal year), sales, and profit declined in the renovation business. In addition to sluggish results in solar power generation systems, this downturn was largely due to the priority placed on inspecting existing homes in the wake of the Kumamoto earthquake. In a bid to increase orders, the Housing Company transitioned toward a proposal-type sales style.

In the domestic frontier and overseas businesses, sales and profit increased. Despite these positive results, the pace of growth left some room for concern.

Analysis of Operating Income for FY2016 (year-on-year)



Housing Company

Targets of the Medium-term Management Plan “SHIFT 2019 -Fusion-” and Fiscal 2017 Forecasts

Pursuing the uniqueness of Sekisui Heim to secure sales and profit growth

Under the Medium-term Management Plan “SHIFT 2019 -Fusion-”, the Housing Company will roll out measures that leverage the uniqueness of its Sekisui Heim strengths while working diligently to secure growth. Through the housing business, the company will look to lift its share of the Tokyo, Nagoya, and Osaka markets, which remains low in relative terms. At the same time, energies will be directed toward bolstering the company’s profitability by reforming costs, which includes a review of the supply chain. In the renovation business, efforts will be made to target growth. To this end, the company will strengthen its proposal-type sales style in a bid to expand repeat orders. As far as its domestic real estate and residential service activities in the frontier business and its overseas business in Thailand concerned, the Housing Company will focus on accelerating the pace of sales and profit growth.

In fiscal 2019, the final year of the Medium-term Management Plan “SHIFT 2019 -Fusion-,” the Housing Company has identified the net sales and operating income targets of ¥550.0 billion and ¥50.0 billion, respectively. Plans are also in place to lift the operating income ratio from 7.7% in fiscal 2016 to 9.1% in fiscal 2019.

In the housing business, the company will continue to strengthen its energy self-sufficiency proposals as one specific measure. With an eye toward expanding orders in the volume zone targeting mainly at first-time buyers, steps will be taken to introduce new products to capture the demand, and increase sales personnel. Every effort will be also made to capture a larger share of the urban market. To achieve this goal, the company will reinforce its lineup of three-story products where needs are high and ramp up rebuilding activities.

At the same time, the Housing Company will initiate measures aimed at unifying the operations of production companies in the three major metropolitan areas. Building on these measures, the company will pursue increased efficiency in procurement and distribution as a part of efforts to promote cost innovation across the entire supply chain. The company will further improve the productivity by unit product approach to realize cost decrease of one million yen per building.

In the renovation business, work is being completed to transform the Housing Company’s sales activities. This entails

the transition from proposals based on building age to life-stage-based proposals. In this manner, every effort will be made to expand repeat orders. Turning to the real estate business, moves will be made to increase the number of dwelling units under management. In the residential services business, energies will be focused toward creating the market for circulation of pre-owned homes and increasing orders for serviced housings. In the overseas business, the Housing Company will seek to quickly realize contributions to earnings from its unit housing business activities in Thailand while pursuing other initiatives.

Forecasting an increase in sales and profits through various measures including the introduction of strategic products and efforts to strengthen land and built-for-sale housing

Under the Medium-term Management Plan “SHIFT 2019 -Fusion-”, the Housing Company will target net sales of ¥500.0 billion and operating income of ¥39.0 billion in fiscal 2017.

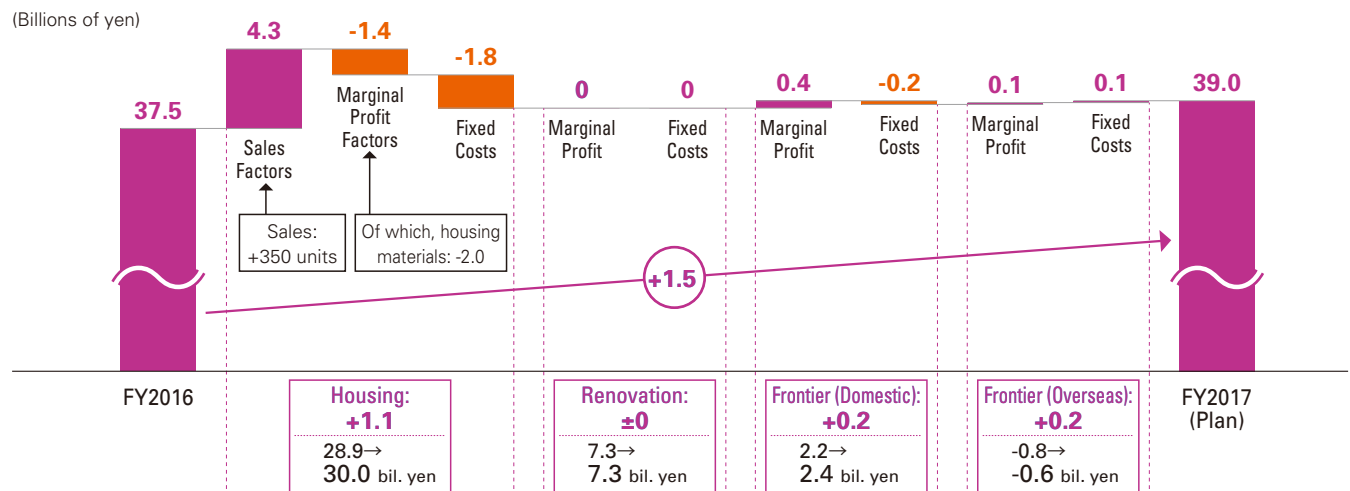
Several initiatives will be taken in the housing business to help achieve these targets. In addition to stimulating demand by progressively introducing strategic products to mark the Group’s

70th anniversary, energies will be directed toward strengthening land and built-for-sale housing activities through a variety of measures including bolstering land-for-sale endeavors.

In line with the targets identified under the Medium-term Management Plan, the Housing Company will promote the transformation of renovation business model to a proposal-based style. In the real estate and residential services businesses, emphasis will be placed on horizontally rolling out a high profitability business model based on the integration of real estate companies in the Tokyo, Nagoya, and Osaka metropolitan areas while expanding sales and the number of dwelling units under management.

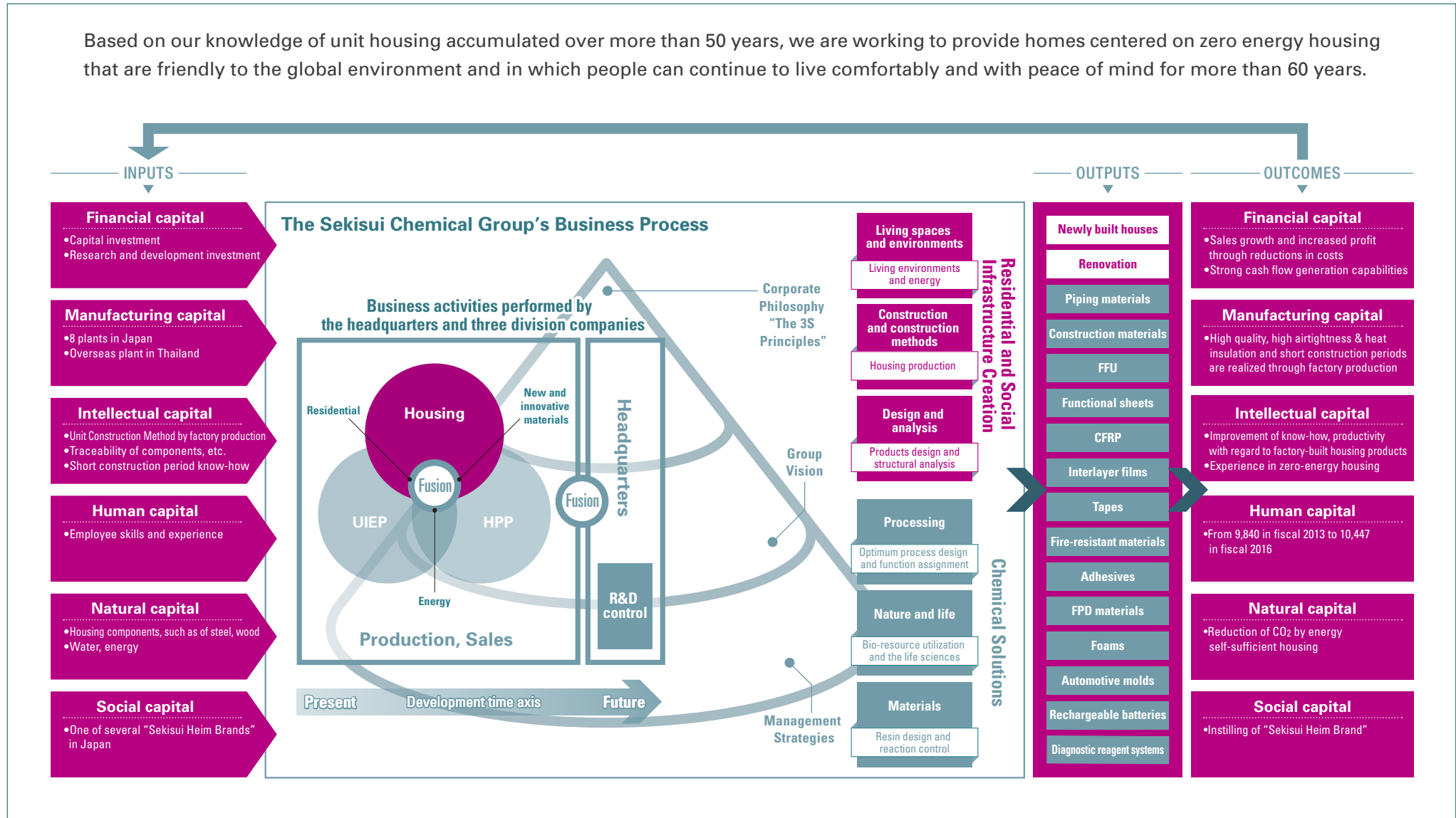
Moreover, the Housing Company will engage in the development of its land with houses built-for-sale activities in its overseas business in Thailand. Through these and other means, the company will expand orders while accelerating the pace of contribution to profit by promoting cost reductions through measures including the localization of specifications. Moving forward, the Housing Company will target a second consecutive fiscal year of increased sales and profits by implementing growth measures in each of the aforementioned businesses.

Analysis of Operating Income for FY2017 (year-on-year)



Business Model of the Housing Company

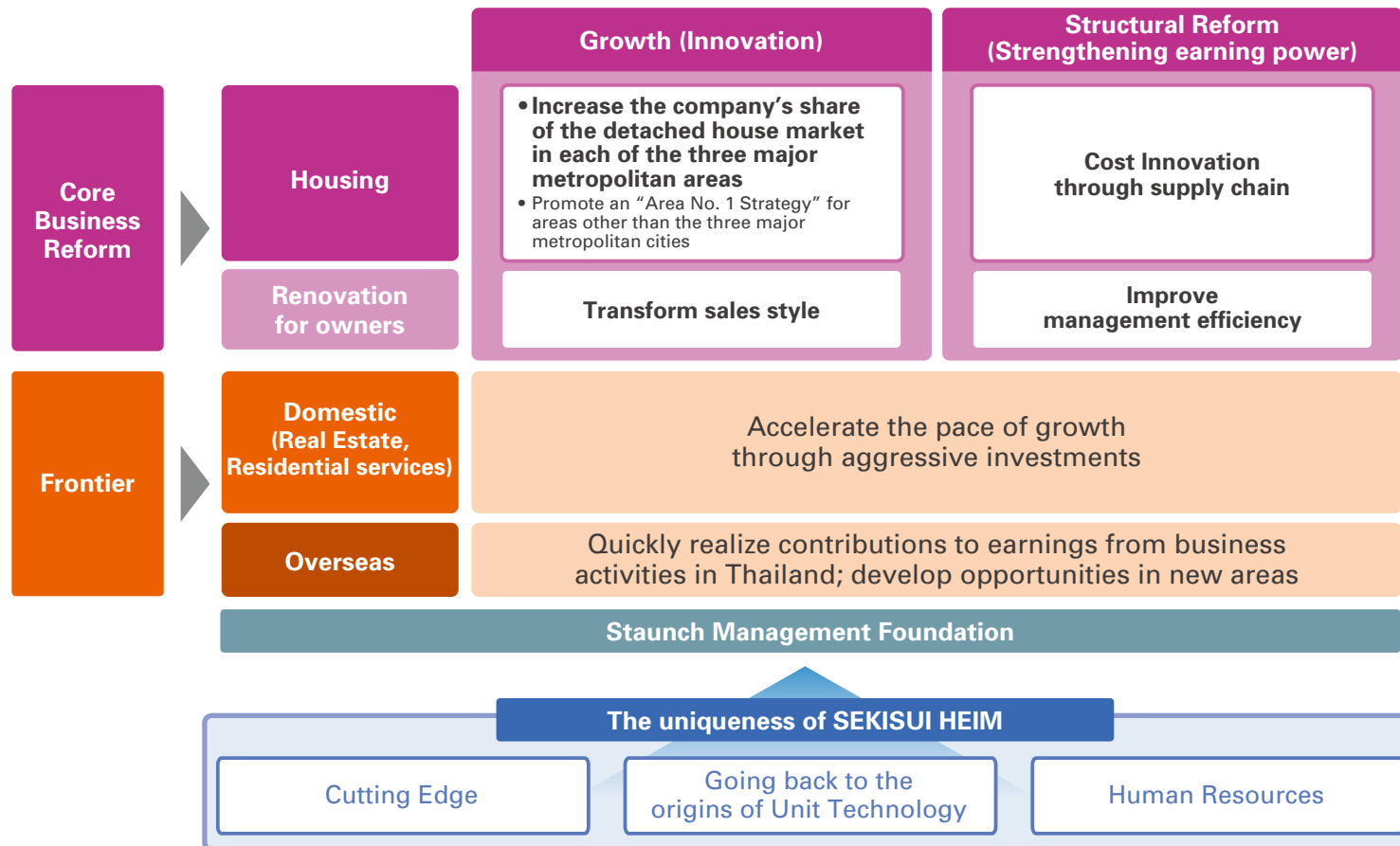
Based on our knowledge of unit housing accumulated over more than 50 years, we are working to provide homes centered on zero energy housing that are friendly to the global environment and in which people can continue to live comfortably and with peace of mind for more than 60 years.



Housing Company

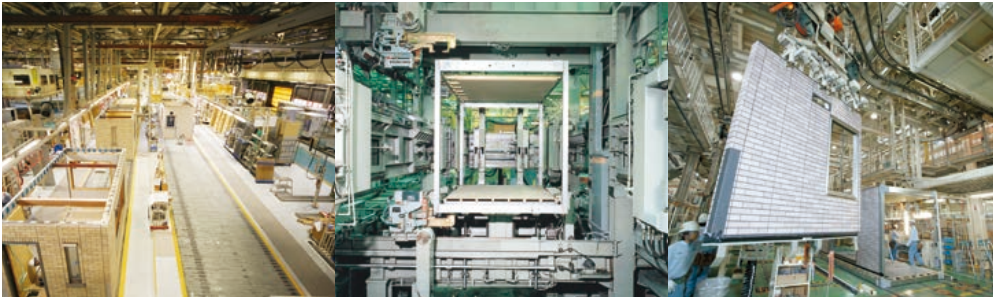
Portfolio and Growth Strategy of Housing Company

In the housing business that represents our business activities, we aim to increase market share in the three largest metropolitan areas where we have a relatively low market share while simultaneously implementing cost innovation that leverages the appeal of the Unit Construction Method. In addition, we will promote Frontier Pioneering, such as in real estate, residential services and overseas business activities.



Housing Company

Main Products



In-house production in progress inside the Housing Unit Factory



A housing unit being installed



The Smart Power Station series is aimed at enabling energy self-sufficiency



A large-capacity solar power generation system



“e-Pocket” large capacity storage battery system that fits into smaller space



The Company’s Smart Heim Navi Consulting HEMS



Kitchen renovation



Bath renovation

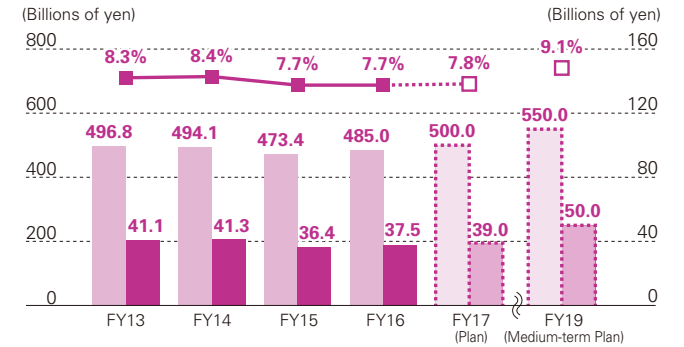


Housing for the elderly for which the Sekisui Heim Group is responsible, from constructing to operating



The housing production factory in Thailand

Performance Highlights



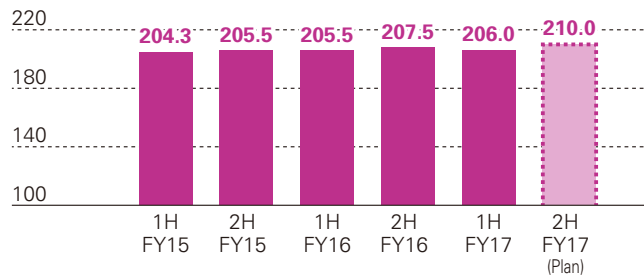
Net Sales (left) Operating Income (right)
Operating Income Ratio

(Billions of yen)	FY12	FY13	FY14	FY15	FY16
Assets	239.3	256.1	249.1	265.5	277.8
Depreciation and Amortization	7.0	7.7	6.7	8.0	8.9
Capital Expenditures	12.3	11.1	9.8	14.4	13.5
R&D Expenditures	4.1	4.7	4.9	4.8	4.5
Number of Employees	9,775	9,840	10,442	10,419	10,447
Consolidated Subsidiaries (Overseas Companies)	38(1)	38(1)	40(1)	41(1)	41(1)

Housing Company and Market Data

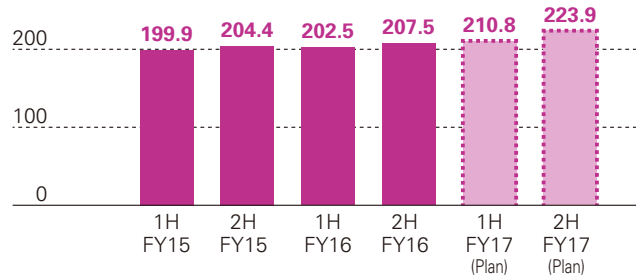
Year-start Backlog

(Billions of yen)
260



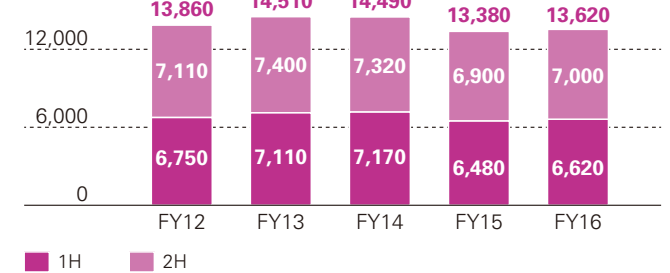
New Housing Orders

(Billions of yen)
300



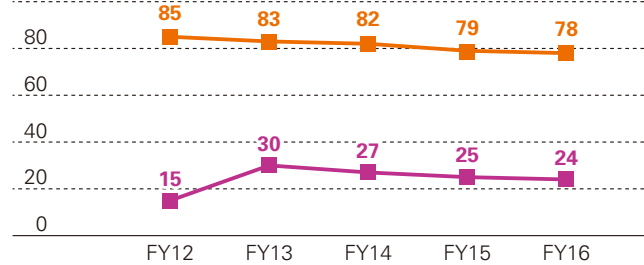
Number of Houses Sold

(Units)
18,000



Solar Power Generation System and Installed Storage Batteries Load Ratio

(%)
100

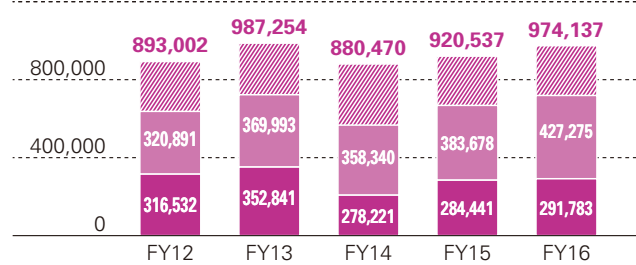


— Solar power generation system
— Installed storage batteries

Market Data

Housing Starts

(Units)
1,200,000



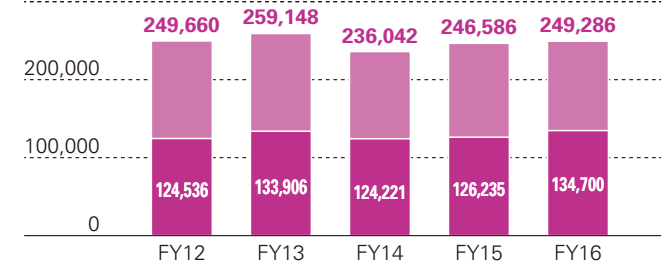
■ Privately-owned houses
■ Rental housing

Source: "New construction starts of dwellings," Ministry of Land, Infrastructure, Transport and Tourism

Market Data

Housing Starts for Condominium Housing

(Units)
300,000



■ Of which, detached house

Source: "New construction starts of dwellings," Ministry of Land, Infrastructure, Transport and Tourism

Urban Infrastructure & Environmental Products (UIEP) Company

Urban Infrastructure & Environmental Products (UIEP) Company

Business Overview

The Urban Infrastructure & Environmental Products (UIEP) Company is a manufacturing and sales leader in Japan in water sewerage and supply pipe systems as well as construction materials supply businesses, which collectively form the company's core operating platform.

Based on the Medium-Term Management Plan that will start in fiscal 2017, we redesigned our business portfolio and set up a new strategic portfolio consisting of three strategic areas: "Piping and Infrastructure," "Building and Living Environment" and "Advanced Materials" (see page 43).

We will promote strategies, such as "overseas," "growth," "core" and "reform," in accordance with the market and competitive environments in which the products are produced in each field.

In particular, under "growth" and "overseas," we will actively introduce high-value-added products, based on the technologies cultivated in our fundamental businesses for many years, and promote business domain expansion through alternative materials, such as metal, wood and glass.

President's Policy

"Get on the Track for Growth" Expanding Business Field with Competitive Technology and Products

1. Expand Sales of "Growth Products" by Concentrating Resources on R&D
2. Expand Sales in Overseas Market by High-value-added Products
3. Improve Profitability and Efficiency of Core Business
4. Structural Reform of Low-profit Business
5. Improve Fundamental of CSR Management

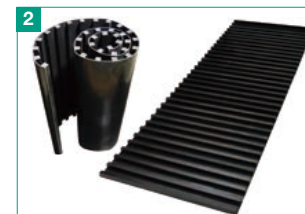


Hajime Kubo

President of Urban Infrastructure & Environmental Products Company

Topics

- Apr. 2016** Structural Reform of the Water Infrastructure Business in China
- June 2016** The 3rd Factory of High Performance Plastic Sheets in United States Starts Production **1**
- June 2016** Restructuring and Reform of the Pipeline Rehabilitation Business in the U.S.
- Feb. 2017** Establishment and Business Launch of the World's First "Carbon Fiber Reinforced Thermo Plastics(CFRTP) Continuous Atypical Molding Technology" **2**
- Mar. 2017** Establishment of Comprehensive Research Institute (Abbreviated as Kansoken), Establishment of Product Development Function within Shiga-Ritto Plant
- May 2017** InfraGuard™ Series of Aging Infrastructure Countermeasure Products Launched
- May 2017** Investment Decision Made to Increase Production Capacity in Response to Rise in Overseas Demand for FFU, Production Reorganization at Shiga-Ritto Plant Implemented
- July 2017** Market Entry of High-Pressure PE Pipe as Product to Address High-Rise Building Construction
- July 2017** Capital Participation in Vietnamese Plastic Manufacturer Implemented



Summary of the Previous Medium-term Management Plan and Fiscal 2016 Performance

Achieved record-high profit on the back of structural reforms carried out since fiscal 2015

Over the three-year period of the previous SHINKA!-Advance 2016 Medium-term Management Plan, the Urban Infrastructure & Environmental Products (UIEP) Company undertook a host of measures. While net sales remained essentially unchanged, profit continued to improve especially on the back of structural reforms that focused on the withdrawal from unprofitable businesses and of restructuring its organization by transitioning toward business departments based on individual product categories carried out from fiscal 2015. On a company basis, operating income reached an historic high, surpassing the previous record reported 10-years ago in fiscal 2006.

As one example of the structural reforms carried out by the company, for overseas businesses, steps were taken to withdraw from construction-related activities undertaken through the pipeline rehabilitation business in countries and regions including the U.S. and Europe. In addition, the UIEP Company has also withdrawn from the water infrastructure business in the inland areas of China.

Meanwhile, the company successfully increased profitability by leveling out shipments in Japan thereby improving costs and securing a proper spread between selling prices and raw material costs. In addition to this improvement in raw material expenses and the cost of goods sold in Japan, the company was able to create substantial improvement effects with respect to fixed costs overseas thanks largely to these initiatives. As a result, the UIEP Company generated operating income of ¥12.8 billion in fiscal 2016, the final year of the previous Medium-term Management Plan, compared with ¥1.3 billion in fiscal 2014.

Under the SHINKA!-Advance 2016 Medium-term Management Plan, the UIEP Company worked vigorously to improve profitability by carrying out structural reforms. Beyond that, the company also took significant strides toward putting in place the necessary groundwork for future growth. Drawing on its inherent strengths, every effort is being made to cultivate new fields and domains in which the UIEP Company can further distinguish itself.

One such example is the success in expanding the use and sales of aircraft sheets to other areas of application.

Achieved profit growth in Japan and overseas through the effects of structural reforms

The UIEP Company reported net sales of ¥240.3 billion and operating income of ¥12.8 billion in fiscal 2016.

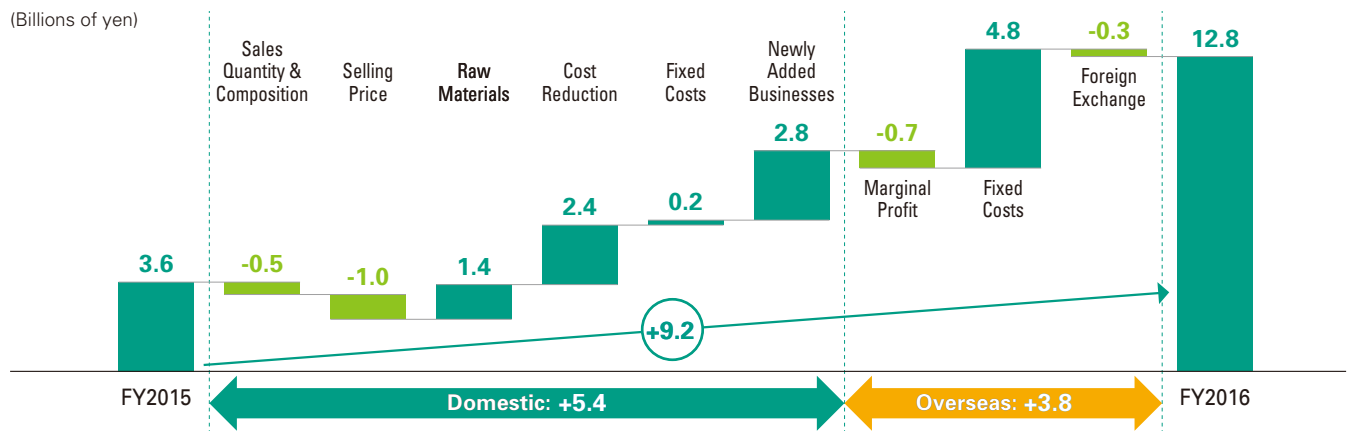
Looking at trends throughout the fiscal year under review, on the one hand, net sales declined as a result of structural reforms. This included the withdrawal from unprofitable and underperforming businesses overseas, which have now come to an end. On the other hand, net sales increased owing to the development of new fields and new domains as well as the transfer of control over Sekisui Seikei Ltd. and Hinomaru Co., Ltd. which were previously classified under the Company's other businesses to the UIEP Company. Off-setting one with the other, the net sales of the company increased ¥14.1 billion.

From a profit perspective, operating income benefited

substantially from improvements in earnings at existing businesses. Looking at domestic businesses, the decision to focus strictly on improving the cost of goods sold through such measures as the leveling of shipments led to a reduction in raw material expenses and other costs totaling ¥3.8 billion. These two factors therefore contributed to more than half of the ¥5.4 billion increase in profit from domestic businesses. Turning to the UIEP Company's overseas activities, withdrawal from certain businesses helped cutback fixed costs by ¥4.8 billion. This accounted for virtually most of the ¥3.8 billion increase in profit from overseas businesses.

The UIEP Company has continued to implement harsh structural reforms throughout fiscal 2015 and fiscal 2016. As a result, measures aimed at addressing those businesses with an operating income ratio of 5% or lower have all but been completed. On this basis, preparatory steps have now been taken, and the UIEP Company is ready to move toward a renewed growth.

Analysis of Operating Income for FY2016 (year-on-year)



Targets of the Medium-term Management Plan “SHIFT 2019 -Fusion-” and Fiscal 2017 Forecasts

Shift to a growth track through aggressive investment in new domains

The UIEP Company will aggressively undertake investment in new domains while at the same time shifting to a growth track both in Japan and overseas over the three-year period of the Medium-term Management Plan “SHIFT 2019 -Fusion-.”

The company is targeting net sales and operating income of ¥251.5 billion and ¥18.0 billion, respectively, in fiscal 2019, the final fiscal year of the Plan. After essentially completing the necessary steps to reform the structure of businesses with low operating profit margins of 5% or less under the previous Medium-term Management Plan, the company intends to lift the operating income ratio from its current level of 5.3% in fiscal 2016 to 7.2% in fiscal 2019.

In a bid to shift to growth track, the UIEP Company will renew its business portfolio. In specific terms, the company has put in place a new strategic portfolio that is comprised of the three core Piping and Infrastructure, Building and Living Environment, and Performance Materials strategic fields. Taking into account market and competitive environment considerations, the products and businesses in each of these three fields will be further classified into the four overseas, growth, core and reform categories. The UIEP Company will then push forward strategies in line with each category.

In the growth category, for example, which is expected to contribute to earnings under the Medium-term Management Plan “SHIFT 2019 -Fusion-,” steps will be taken to concentrate resources on research and development and to expand sales and profits of growth products. For instance, the company will look closely at alternative materials made of metals, wood, and glass to replace plastics. In this manner, every effort will be made to pioneer new fields and domains. In the sheet business, where energies have been directed toward increasing sales for aircraft applications, the UIEP Company will explore opportunities in the railway, medicine, and construction fields.

Moreover, the company is looking to ramp up activities across a wide range of areas including industrial piping materials, non-residential rain gutters, and FFU.

Work to increase marginal profit by expanding sales of high-value-added products and continue to achieve record-high profit

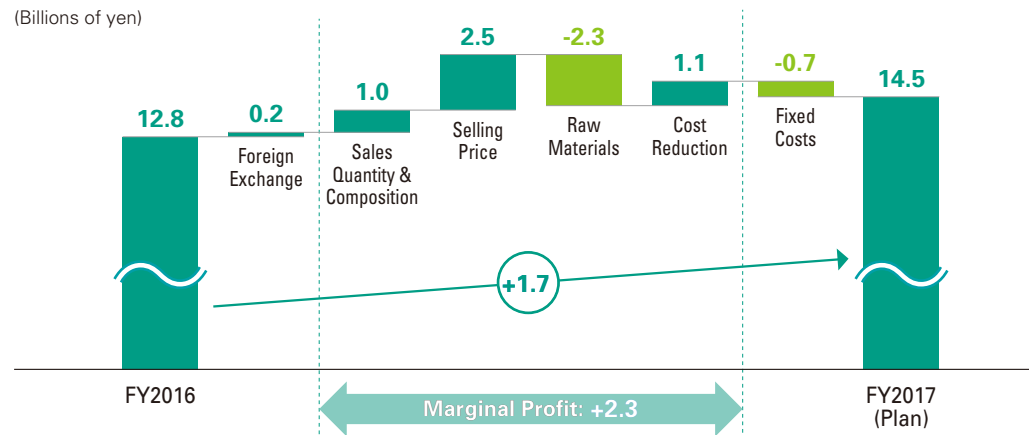
The UIEP Company is targeting net sales growth in all of the three Piping and Infrastructure, Building and Living Environment, and Performance Materials strategic fields in fiscal 2017. The company is also targeting an increase in profit through higher sales volumes and an improvement in the product mix attributable to the shift to high-value-added products. By adjusting product prices and CR effects, the company intends to offset any increase in raw material costs. Efforts to curtail costs are also expected to boost profit. In specific terms, the UIEP Company is forecasting net sales of ¥243.0 billion and operating income of ¥14.5 billion in fiscal 2017. This represents a second consecutive

fiscal year of record-high profit.

The Sekisui Chemical Group will place considerable weight on developing new materials and cultivating new applications through fusion between operating companies in fiscal 2017. As one example, the Group is looking to uncover applications in the civil engineering, construction, and transportation fields for its thermoplastics including carbon fiber reinforced plastics (CFRPs), which combines the extrusion molding technologies of the UIEP Company and the carbon fiber pretreatment technologies of the Corporate R&D.

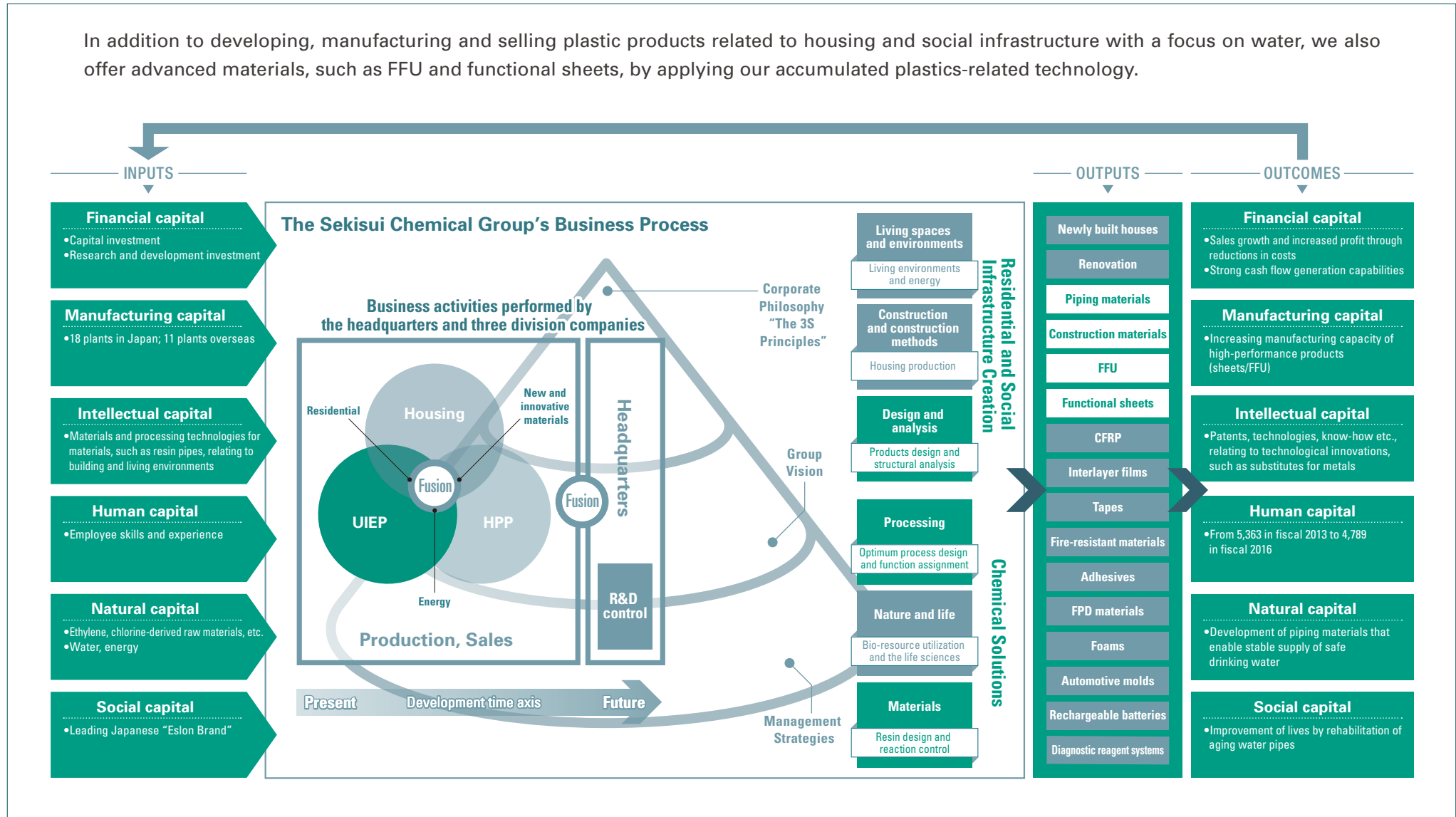
Outside Japan, the Sekisui Chemical Group will focus on business profitability. Steps will be taken to increase production of high-value-added products such as the sheet business in the U.S. Energies will also be directed toward expanding sales by strengthening relationships with partners for FFUs in Europe and Piping and Infrastructure in Asia. Through these and other means, every effort will be made to put in place a platform for growth.

Analysis of Operating Income for FY2017 (year-on-year)



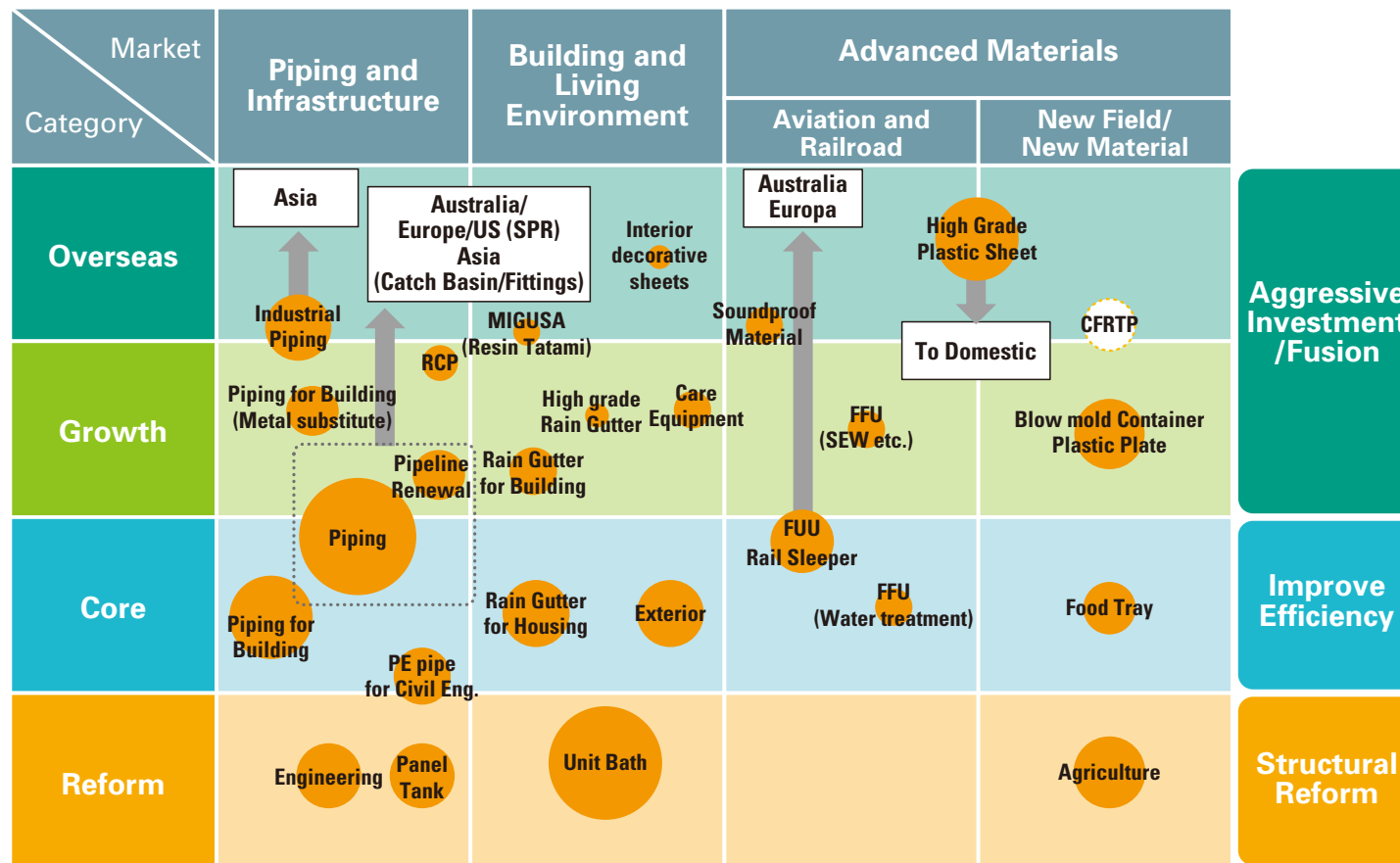
Business Model of the Urban Infrastructure & Environmental Products (UIEP) Company

In addition to developing, manufacturing and selling plastic products related to housing and social infrastructure with a focus on water, we also offer advanced materials, such as FFU and functional sheets, by applying our accumulated plastics-related technology.



Portfolio and Growth Strategy of Urban Infrastructure & Environmental Products (UIEP) Company

We set up a new strategic portfolio, which is classified into three strategic fields and four strategic positions, and implement management appropriate for each field and position. Overseas, we realize growth with a focus on growth positions.



Urban Infrastructure & Environmental Products (UIEP) Company

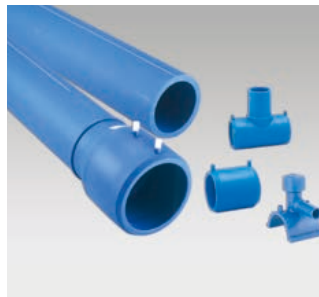
Main Products



Residential water supply and drainage system



Fire-resistant drainage system



High-performance seismic polyethylene pipes



Plant products with high corrosion and chemical resistance



Sewage pipe rehabilitation



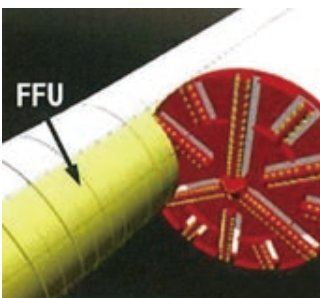
Designer rain gutters



Functional flooring



Railway Sleepers (FFU)



SEW (Shield Earth Retaining Wall System)



Aviation sheets

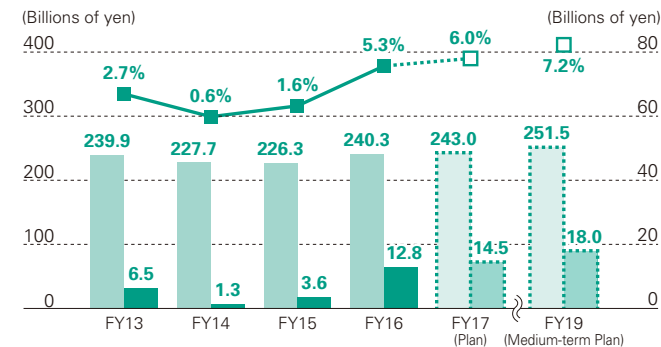


Plastic sheet for medical equipment



Low elution sterilization container for medical use

Performance Highlights



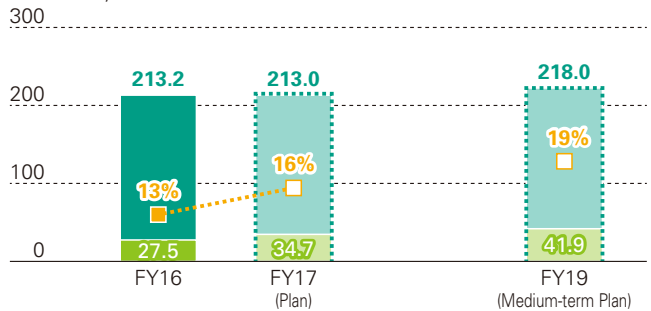
Net Sales (left) Operating Income (right)
Operating Income Ratio

(Billions of yen)	FY12	FY13	FY14	FY15	FY16
Assets	180.2	200.3	198.8	179.1	193.9
Depreciation and Amortization	6.1	6.1	6.2	6.4	6.4
Capital Expenditures	7.7	10.5	15.4	8.5	6.7
R&D Expenditures	5.1	5.1	5.1	5.3	5.7
Number of Employees	4,887	5,363	5,453	5,044	4,789
Consolidated Subsidiaries (Overseas Companies)	62(37)	60(36)	56(32)	43(19)	39(15)

UIEP Company and Market Data

Sales in Prioritized Products*

(Billions of yen)



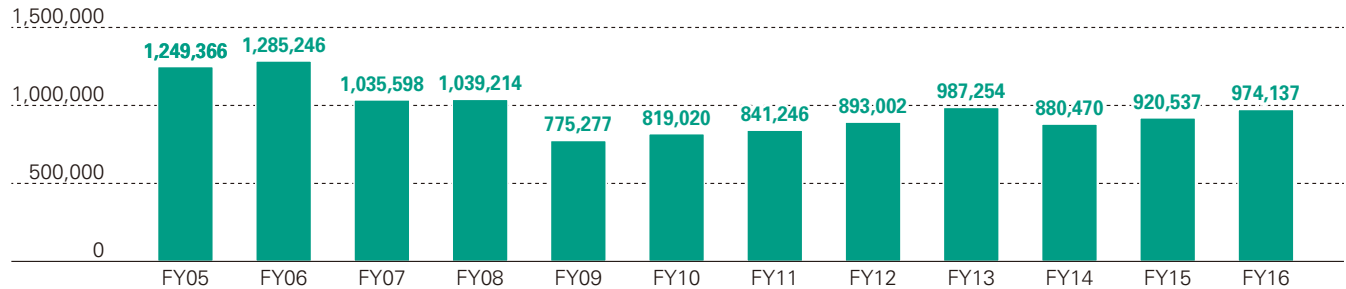
■ Domestic sales ■ Prioritized product sales included in Domestic sales
 □ Ratio of prioritized product sales included in Domestic sales

*Prioritized products: High-value-added products with the potential for market growth and substitutability

Market Data

Housing Starts

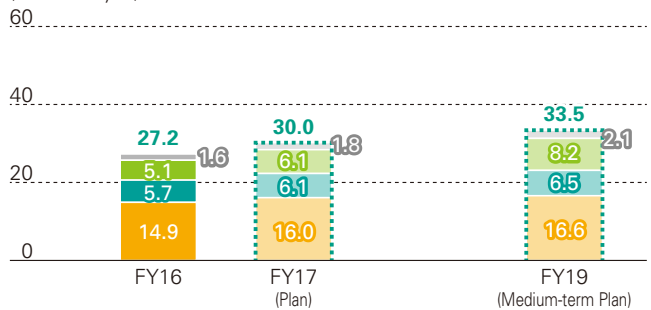
(Units)



Source: "New construction starts of dwellings," Ministry of Land, Infrastructure, Transport and Tourism

Overseas Sales

(Billions of yen)

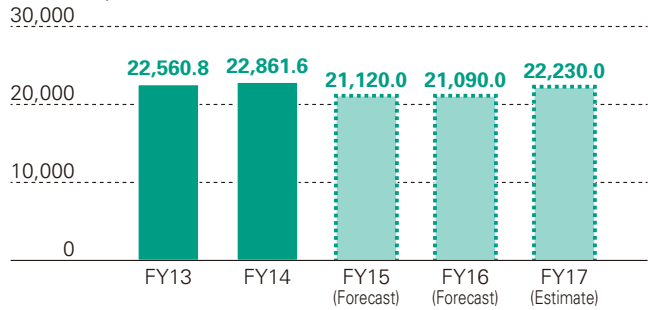


■ Americas ■ Europe ■ Asia ■ Australia

Market Data

Government Construction Investment (nominal value)

(Billions of yen)

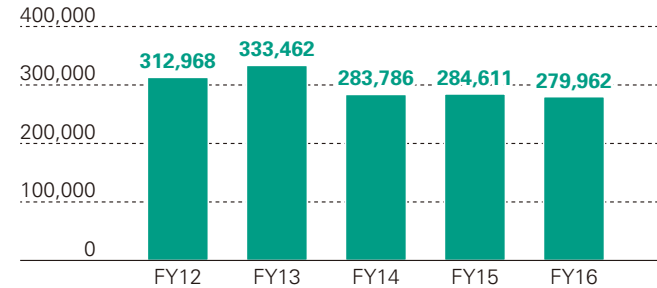


Source: "Fiscal 2017 estimate of construction investment," Ministry of Land, Infrastructure, Transport and Tourism (June 2017 announced)

Market Data

Shipment volume of rigid PVC pipe

(t)



Source: "PVC Pipe Shipment Volumes," Japan PVC Pipe and Fittings Association

Review and Analysis of Consolidated Results for Fiscal 2016

Fiscal year ended March 31, 2017

Business Environment

From a peak in 2010, the rate of global growth continues to exhibit a downward trend. With the Chinese economy accounting for nearly 30% of the world's economic growth, trends in China are having a significant impact on the economies of other countries. After implementing large-scale economic measures, China is currently in an adjustment phase with corrections being made to such key commercial indicators as inventories as well as equipment. As a result, China is experiencing a moderate slowdown in its rate of economic growth. Meanwhile, the United States is enjoying a positive turnaround in private consumption on the back of improvements in employment and disposable incomes. Europe is also experiencing a modest recovery. Looking further abroad, certain emerging countries are showing signs of weakness. This includes the aforementioned slowdown in the rate of economic growth in China. Crude oil prices are sluggish owing mainly to prolonged

excess supply across worldwide markets. This is having a negative effect on the global economy with a deterioration in the earnings of energy-related companies in Europe and the United States while triggering various trends including risk-off moves in international financial and capital markets.

Looking at major trends throughout 2016, several advanced countries adopted an increasingly protective stance. In addition to the national referendum in the United Kingdom and the decision to withdraw from the European Union (Brexit), the election of Donald Trump as president heralded that start of an "America First" approach in the United States. Taking each of these factors into consideration, future conditions throughout the global economy are becoming increasingly uncertain.

Turning to the domestic economy, there are indications of an improvement in employment and disposable incomes in Japan. Buoyed by an upswing in business sentiment, conditions remain fixed in a recovery trend led

mainly by the manufacturing sector. In contrast, corporate sector capital investment and private consumption continue to lack strength.

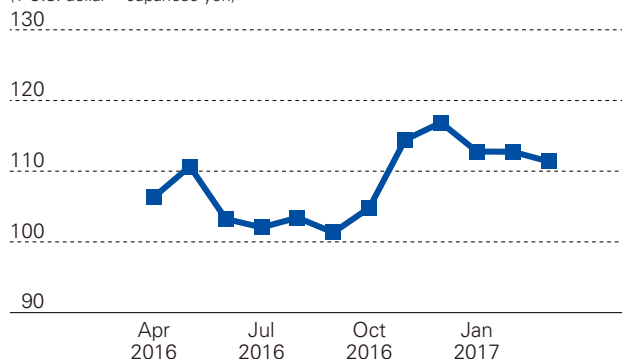
As far as the market environments for each of the Company's individual business segments are concerned, the Housing business field in Japan enjoyed an ongoing positive trend as the effects of corrections to the rush in demand leading up to Japan's consumption tax rate hike dissipated in full. As a result, the number of construction starts in fiscal 2016 grew 5.8% compared with the previous fiscal year, to 974,137 units, representing a second consecutive fiscal year of increase. Meanwhile, in the Water Infrastructure field, which includes PVC piping materials, new condominium starts declined for the first time in two business terms. On a positive note, trends in public investment were firm owing to the implementation of the fiscal 2015 supplementary budget and the early implementation of the initial fiscal 2016 budget.

Overseas business conditions remained patchy by industry. In the Electronics field, demand stalled negatively impacting the pace of smartphone growth, which had driven the market in recent years. Weak conditions also reflected such factors as LCD inventory adjustments. In the Automobiles and Transportation fields, trends in the mainstay automobile markets of developed countries led by Europe and the United States remained firm. Turning to the Life Science field, which in relative terms is less affected by movements in economic conditions, activity expanded mainly in China. This was largely attributable to the upswing in the standards of living in developing countries. As far as developed countries were concerned, trends in demand remained stable.

From a foreign currency exchange rate perspective, the yen/U.S. dollar rate saw minimal movement on overall terms. Beginning with a rate of ¥112 at the start of the fiscal year in April 2016, the yen/U.S. dollar rate came in at ¥111 as of the end of the fiscal year under review in March

Exchange Rate

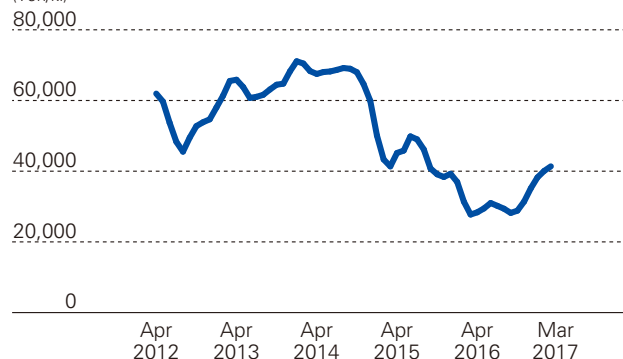
(1 U.S. dollar = Japanese yen)



*The exchange rate is the closing rate at month end.

Naphtha Price (Petrochemical Naphtha, Import CIF)

(Yen/kl)



Source: "Trade statistics of Japan," Ministry of Finance

Review and Analysis of Consolidated Results for Fiscal 2016

2017. During the period, however, the value of the yen continued to appreciate against the U.S. dollar reaching close to ¥100 from June to September. Based on this and other movements, the value of the yen exhibited marked strong trends compared with the previous fiscal year. In fiscal 2016, the annual average foreign currency exchange against the U.S. dollar was ¥108 and ¥119 against the euro.

Analysis of Business Results and Financial Position

1. Analysis of Business Results for Fiscal 2016

(1) Net sales

Net sales in fiscal 2016 came to ¥1,065,776 million, a decrease of 2.8% compared with the previous fiscal year.

Of this total, the Housing Company accounted for ¥484,975 million, up 2.4% year on year in fiscal 2016. In the fiscal year under review, sales and profits were up owing mainly to firm trends in new housing construction orders. In the Housing Company's new housing construction business, the number of orders exceeded the level recorded in the previous fiscal year. In addition to robust results in the rebuilding market thanks in part to the G Series released in April 2016, this year-on-year improvement was largely due to steady trends in built-for-sale housing. Spearheaded by the Smart Power Station homes "100% Edition," which makes 100% energy self-sufficiency a possibility, further efforts were made to promote houses that answer the market's calls for integrated solar power generation systems and storage batteries. At the same time, particular emphasis was placed on strengthening sales of large-scale lots for subdivision housing nationwide.

In the Renovation business, the Company adhered strictly to the periodic diagnosis of houses sold. At the same time, energies were directed toward promoting product packages to customers living in homes that are 15 to 25 years old. As a result, menus for high durability and external renewal work as well as plumbing and related equipment expanded. Despite these favorable trends, performance in the Renovation business suffered under the impact of repair measures in the wake of the Kumamoto earthquake and weak sales of solar power generation

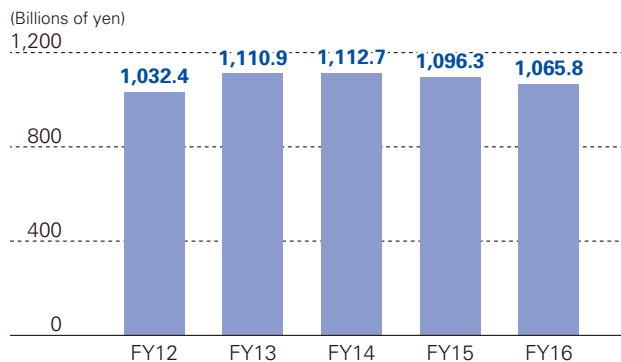
systems. Taking into account each of these factors, net sales in the Renovation business fell below the levels recorded in the previous fiscal year.

In the fiscal year under review, net sales in the UIEP Company up 6.2% compared with the previous fiscal year, to ¥240,332 million. Operating income hit a record high. This was largely due to the boost received as measures to improve profitability in domestic business activities took hold and the positive flow-on effects of overseas business structural reforms. The company's domestic sales and earnings increased. This mainly reflected the benefits to accrue from the introduction of the total production cost method as well as successful efforts to level out shipments, which helped cutback manufacturing costs. Sales in the company's overseas business decreased owing mainly to the impact of structural reforms. In contrast, earnings improved substantially on the back of the favorable effects attributable to the aforementioned structural reforms and an increase in sales volumes as operations at a new thermoplastic sheet plant in the U.S. commenced in earnest.

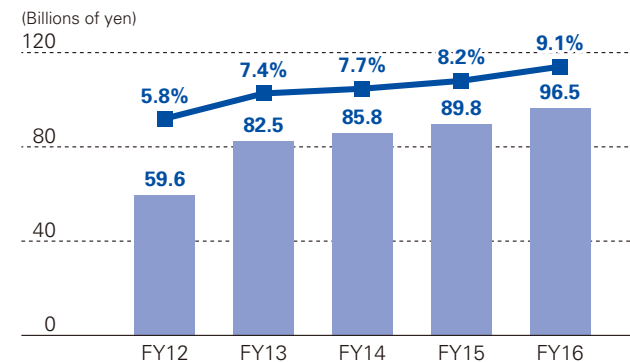
Net sales in the HPP Company amounted to ¥357,526 million in the fiscal year under review, down 5.6% compared

with the previous fiscal year. The downturn in sales was largely attributable to movements in foreign currency exchange rates and difficult conditions in the electronics field. From a profit perspective, earnings increased for a fifth consecutive business term to reach a record high. This upswing in earnings mainly reflected the growth in sales of high-performance products in other strategic fields. Turning to the Electronics field, results were mixed. While there were signs of a recovery trend from the third quarter of the fiscal year under review, sales of such products as double-sided tape declined as a result of adjustments to the production of mobile devices including smartphones and tablets up to the first half. In the Automobiles and Transportation field, trends in overseas demand were generally stable especially in China, Europe, and the U.S. While sales of mainly high-performance products expanded as a result, overall results declined due to the impact of the strong yen. As far as the Building and Infrastructure field is concerned, sales of chlorinated polyvinyl chloride (CPVC) resin and fire-resistant materials were firm. Meanwhile, sales of diagnostic reagent systems and testing equipment in the Life Science field were sound in Japan and overseas.

Net Sales



Operating Income and Operating Income Ratio



■ Operating Income
■ Operating Income Ratio

Review and Analysis of Consolidated Results for Fiscal 2016

(2) Operating income

Operating income in fiscal 2016 amounted to ¥96,476 million, an increase of ¥6,653 million, or 7.4%, compared with the previous fiscal year.

(3) Non-operating income and expenses

Non-operating income increased ¥2,402 million compared with the previous fiscal year. This was mainly due to the increase of ¥259 million in equity in earnings of affiliates. Non-operating expenses decreased ¥1,244 million compared with the previous fiscal year. In addition to the downturn in interest expenses of ¥537 million, this drop in non-operating expenses is mainly due to the decline in net foreign exchange loss of ¥2,346 million.

(4) Extraordinary income and loss

The Company recorded a gain on sales of investments in securities of ¥6,935 million as extraordinary income in the fiscal year under review. The Company also incurred various extraordinary losses including a loss on transfer of business totaling ¥4,988 million, a loss on devaluation of

investment in securities of ¥4,534 million, a loss on impairment of fixed assets and goodwill of ¥3,573 million, and a loss on sales or disposal of property, plant and equipment of ¥2,500 million. As a result, the Company posted a total extraordinary loss of ¥15,596 million, up ¥1,564 million, or 11.1%, compared with the previous fiscal year.

(5) Net income attributable to owners of the parent

Accounting for each of the aforementioned factors, income before income taxes came to ¥82,851 million, an increase of ¥4,900 million compared with the previous fiscal year. After deducting taxes and net income attributable to non-controlling interests, net income attributable to owners of the parent amounted to ¥60,850 million, up ¥4,196 million, or 7.4%, compared with the previous fiscal year.

2. Financial Position

(1) Assets, liabilities, and net assets

Total assets as of March 31, 2017 stood at ¥943,640 million, an increase of ¥7,596 million compared with the end of the previous fiscal year.

(Assets)

Current assets stood at ¥466,101 million as of the end of fiscal 2016, ¥31,588 million higher than the balance as of the previous fiscal year-end. The main factor was a ¥41,884 million increase in the balance of cash and deposits. Non-current assets declined ¥23,992 million to ¥477,538 million.

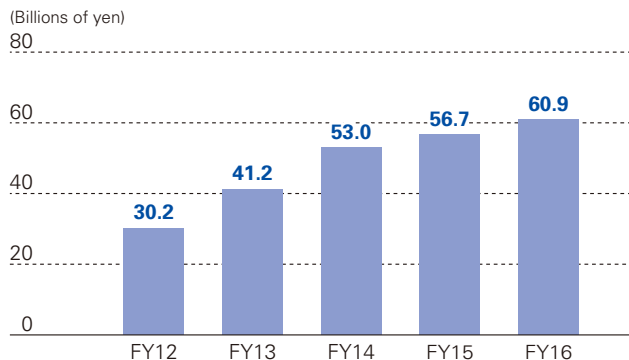
(Liabilities)

Liabilities declined ¥18,797 million compared with the previous fiscal year-end to ¥373,090 million as of the end of fiscal 2016. The main components were decreases of a combined ¥4,041 million in notes payable, electronically recorded obligations, accounts payable, and accrued expenses as well as a downturn in the balance of interest-bearing debt of ¥8,603 million.

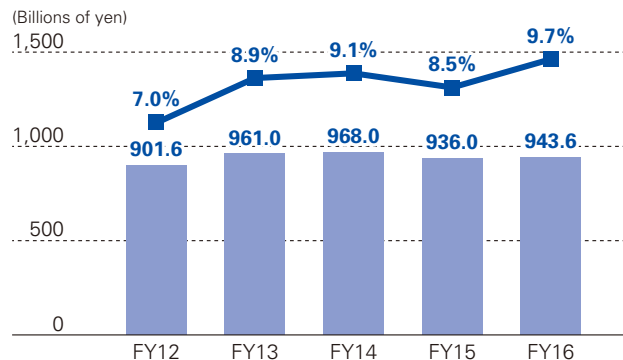
(Net assets)

Net assets stood at ¥570,549 million as of the end of fiscal 2016, an increase of ¥26,393 million compared with the end of the previous fiscal year. The main movements were a ¥45,349 million increase in retained earnings due

Net Income Attributable to Owners of the Parent

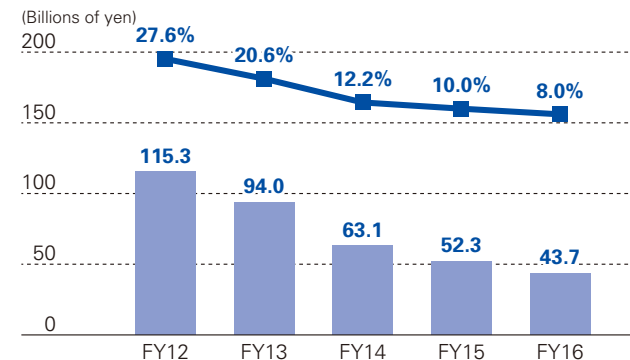


Total Assets and Return on Total Assets



Return on Total Assets = Ordinary Income/Average Total Assets

Interest-bearing Debt and Debt/Equity Ratio



Debt/Equity Ratio = Interest-bearing Debt/Shareholders' Equity

Review and Analysis of Consolidated Results for Fiscal 2016

largely to net income attributable to owners of the parent of ¥60,850 million and a decrease of ¥15,541 million from dividend payments. Appreciation in the value of the yen led to downward translation adjustments of ¥4,876 million.

(2) Cash flows

Cash and cash equivalents on a consolidated basis amounted to ¥89,856 million as of the end of fiscal 2016, an increase of ¥22,752 million compared with the end of the previous fiscal year.

Factors influencing fiscal 2016 cash flow accounts were as follows.

(Operating activities)

Net cash provided by operating activities came to ¥108,229 million, up from ¥71,389 million in the previous fiscal year. This increase in net cash provided by operating activities was largely because principal cash outflows, which included income taxes paid of ¥16,395 million, an increase in inventories of ¥7,466 million, and decrease in gain on sales of investments in securities of ¥6,935 million were

more than offset by major cash inflows, which comprised income before income taxes of ¥82,851 million, depreciation and amortization of ¥34,843 million, loss on transfer of business of ¥4,988 million, and loss on devaluation of investment in securities of ¥4,534 million.

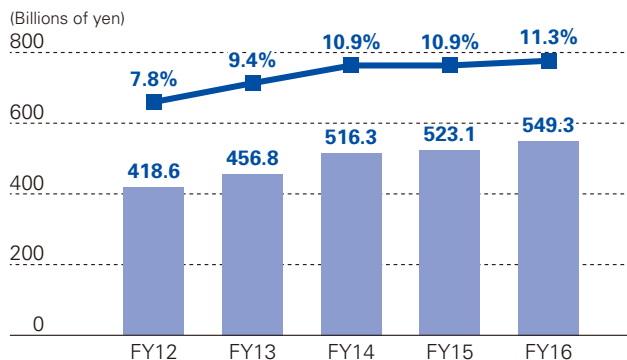
(Investing activities)

Net cash used in investing activities totaled ¥44,057 million in fiscal 2016, up from ¥23,715 million in the previous fiscal year. The major cash inflow came from proceeds from sales or redemption of investments in securities of ¥18,165 million, which included a portion of shareholders in Sekisui House, Ltd. Meanwhile, cash outflows primarily comprised ¥35,241 million for purchases of property, plant and equipment focused on priority and growth field, and a net increase in time deposits of ¥19,103 million.

(Financing activities)

Net cash used in financing activities amounted to ¥39,633 million compared with ¥41,726 million in the previous fiscal year. The principal cash outflows comprised ¥16,356 million for purchase of treasury stock, ¥16,063 million for cash dividends paid including cash dividends paid to noncontrolling shareholders of consolidated subsidiaries, and a net decrease in interest-bearing debt of ¥9,232 million.

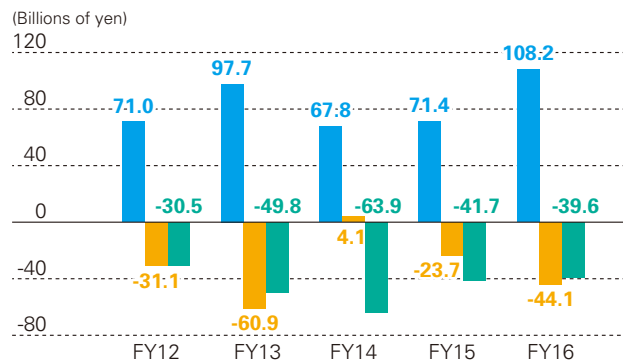
Shareholders' Equity and Return on Equity



■ Shareholders' Equity
 ■ Return on Equity

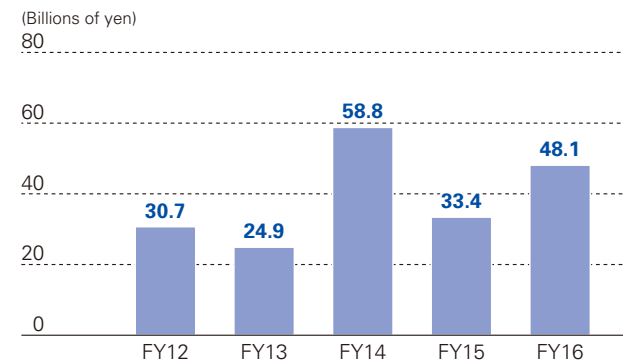
Return on Equity = Net income attributable to owners of the parent / Average Shareholders' Equity

Cash Flows



■ Operating Activities Cash Flows
 ■ Investing Activities Cash Flows
 ■ Financing Activities Cash Flows

Free Cash Flow



Free Cash Flow = CF Operating Activities + CF Investing Activities - Dividend Paid

Business Risks

The following factors related to our business and accounting practices may materially influence investment decisions. The Company is endeavoring to establish a system for anticipating potential risks for the Group, preventing their occurrence, and promptly and appropriately dealing with them if they occur.

Forward-looking statements contained herein are based upon assessments made by the Sekisui Chemical Group at the end of consolidated fiscal year 2016.

1) Foreign Currency Fluctuations

Exchange rates may affect the value of the Group's overseas assets held in foreign currencies when converted into yen. The Group employs hedging strategies as needed in response to currency fluctuations. However, the business results and the financial position of the Group may be affected if the exchange rates diverge significantly from the forecasted levels.

2) Raw Material Price Volatility

The Group's business results and financial position may be affected in the event that the Group, especially the High Performance Plastics Company and the Urban Infrastructure & Environmental Products Company, is unable to transfer changes in prices of polyvinyl chloride, olefin, steel, or other raw materials to product prices in a timely manner and is unable to maintain sufficient margin.

3) Overseas Business Activities

Unforeseeable changes in laws and regulations, fragility in the industrial base, and social or political turmoil such as terrorism, war, or other factors may affect the Group's overseas business activities. The emergence of such risks may disrupt the Group's overseas business activities, which would affect the business results and future plans of the Group.

4) Housing Related Tax and Interest Rate Trends

The Group's housing-related businesses are affected by domestic taxes and consumption taxes on house purchases and by interest rate trends. These trends may impact our housing-related businesses and affect the Group's business results and financial position.

5) Electronics Market Trends

The electronics industry, a market for the Group's High Performance Plastics Company, is characterized by severe fluctuations in demand. A rapid drop in demand within a short period could affect the Group's business results and financial position.

6) Trends in Public Works

The Group's Urban Infrastructure & Environmental Products Company includes products used in the public sector. Trends in public works therefore influence the Company's business performance. Public investment is determined by government policy at the national and local levels, and decisions to reduce public investment may impact the Group's business performance and financial position.

7) Industrial Accidents and Disasters

A fire, explosion, or other industrial accident at one of the Group's facilities that causes a major impact on the Group's business capability and on the local community could damage society's trust in the Company and incur response costs, including compensation costs directly related to the accident, business opportunity costs from the stoppage of production activity, and compensation costs from payments to customers. Such an event may affect the Group's business results and financial position.

8) Intellectual Property and Product Liability

In the event that a dispute arises concerning the Group's intellectual property, the dispute resolution may not be favorable to the Group. The discovery of defects in the Group's products may require large-scale product recalls and compensation for damages. The possibility exists that insurance may not be able to cover associated costs, which could impact the Group's business results and financial position.

Foundation

CSR for Strengthening Our Business Foundation

For the Sekisui Chemical Group, CSR means contributing to society through business activities while meeting the expectations of stakeholders. With this awareness, we explain about human capital, through which we are continuing our earnest efforts, natural capital, intellectual capital, and relationship building with suppliers, etc.

Human Capital

We explain about respect for human rights, giving consideration to workplaces that are conducive to work, nurturing human resources, the various policies concerning the utilization of those human resources, and the external evaluations of such efforts.

P52

Intellectual Capital

Here we explain about the R&D and manufacturing to create the prominent technologies that form the core of value creation. In addition, we outline our reinforcement measures in the intellectual property field.

P56

Social Capital

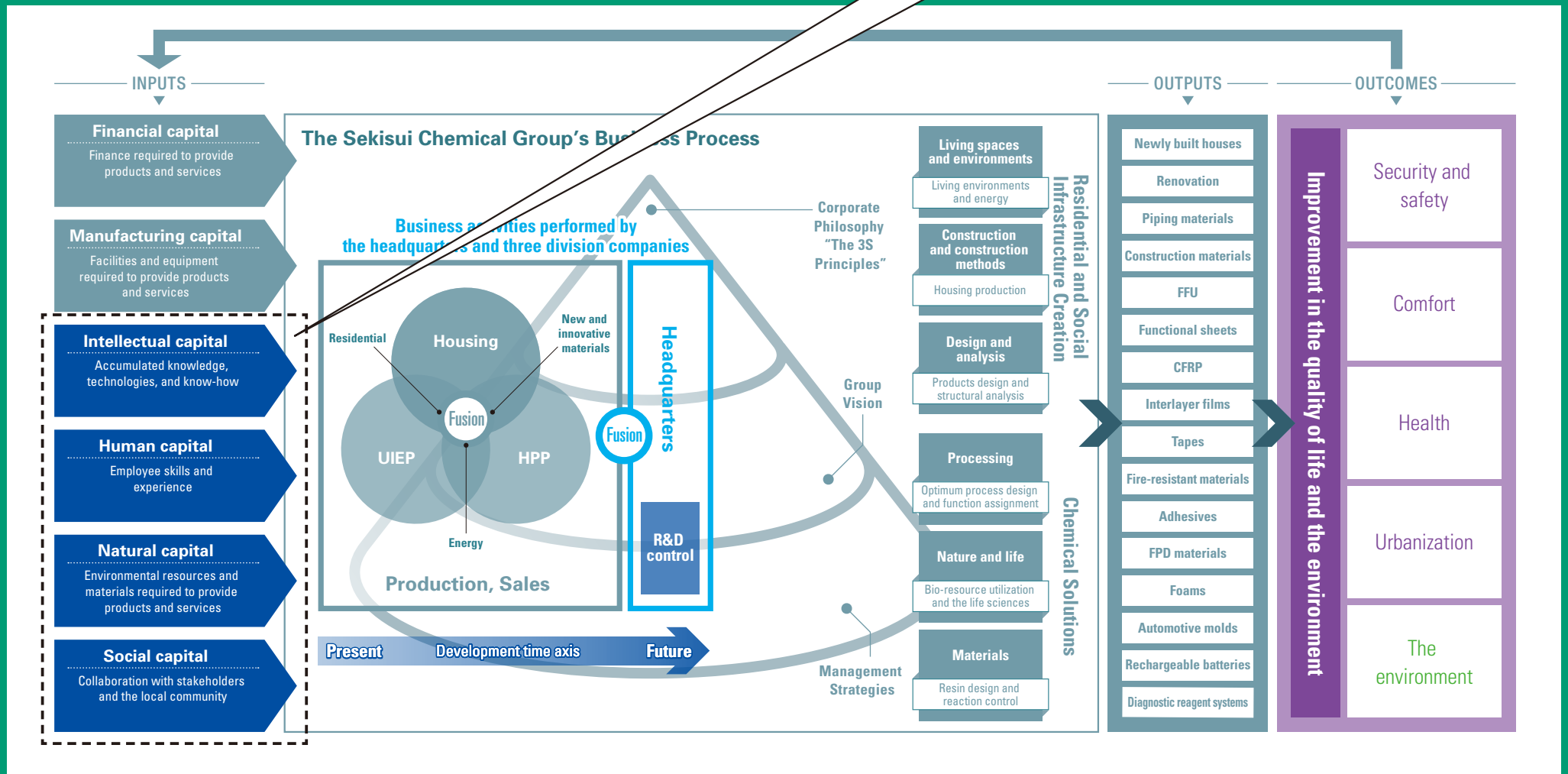
We explain about the quality improvement measures for people, goods, and systems to satisfy our customers, the promotion of CSR procurement and green procurement, and the environmental and social contribution activities of employees.

P59

Natural Capital

With the understanding that corporate activities are based on the use of natural capital, we explain the various policies to return used natural capital.

P61



Human Capital

The Sekisui Chemical Group works to develop its human resources and apply the skills of its employees to maximum effect. At the same time, every effort is made to protect the rights of all staff and to provide a comfortable and rewarding workplace environment. Through these means, the Group is actively endeavoring to enhance its corporate value.

Stance toward Human Resources

Based on our concept of enabling human resources to perform and grow, the Group supports employees' independent career development by providing a variety of opportunities for them to become prominent human resources.

Based on the realization that diversity is essential to becoming a sustainable company that can maintain its strong corporate value for a century, we understand and recognize that each and every employee's orientation to work and life and their distinctive characteristics are different and thus we actively take advantage of that. To create an organizational culture, we will continue, through employee dialogue, to provide employment and participation opportunities and a variety of environmental improvements that support growth.

Respect for Human Rights

With the recognition that it is our social responsibility to protect individual human rights, the Group respects the diversity, personality and individuality of each person, promote various working styles and create safe and secure work environments in response to the conditions in each country and region.

Our "Basic Policy on Human Rights" accordingly stipulates respect for human rights and basic labor rights, prohibiting child labor and forced labor, and as well as harassment and discrimination.

Training and Education about Human Rights

The Sekisui Chemical Group implements employee training on key occasions, such as when they join the company or receive a promotion, in order to maintain awareness of human rights. The curriculum is designed to increase awareness of issues related to human rights, such as forced labor, child labor, and harassment.

Caring about Human Rights in Procurement Activities

Along with its entire supply chain, the Sekisui Chemical Group engages in business activities that respect human rights as part of its obligation to all stakeholders. Through CSR procurement with our suppliers, we make sure our business partners respect human rights. In the event that a supplier does not meet the prescribed standards, a request is made to ensure that the necessary steps are taken to resolve any issues. Sekisui Chemical works together with suppliers in the implementation of appropriate measures.

Labor Relations

The Group strives to understand the positions of labor unions and respects the opinions of employees. Through close communications, we believe good relations between labor and management are essential to sharing the objective of advancing the company. In Japan, as of July 1, 2017, there were 5,012 employees in the All-Sekisui Chemical Labor Union Federation.

A Safe and Secure Workplace

At the core of safety, it is important that each and every employee has the ability to identify dangerous situations and take appropriate steps to protect themselves and fellow employees. At the same time, constructing a work environment in which employees can work with safety and security is our responsibility as a company and one of the most important priorities for management. The Group is implementing total safety activities (i.e. zero occupational injuries, zero equipment-related accidents, zero commuting-related accidents, and zero extended sick leave) based on five themes*.

*Five themes: Intrinsic safety of equipment, management using OHSMS, safety education of employees, risk prevention through risk detection activities and other initiatives, and auditing of health, safety, and accident prevention.

Topic

Recognized as a 2017 Certified Health and Productivity Management Organization

Sekisui Chemical was recognized as a 2017 Certified Health and Productivity Management Organization* under the large enterprise category (White 500) by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi for its initiatives to solve employee health-related issues.

*This system recognizes companies that practice excellent health management based on initiatives to promote health being advanced by the Nippon Kenko Kaigi.



Human Capital

Stress Checks

Since 2016, stress checks have been performed every June. The purpose of these stress checks is to create workplaces that facilitate work through the improvement of work environments by collecting and analyzing stress levels in each section, as well as to help each and every employee understand their stress levels and prevent mental illness. In the first fiscal year of this program, reading workshops were held on learning how to correctly read group analysis. These workshops were attended by 60 business sites including Group companies.

■ **Stress check implementation ratio**

FY2016

72%

Review of Equipment Safety Standards

Sekisui Chemical reviewed equipment safety design standards with the intention of installing safe equipment that are unlikely to cause accidents, in order to prevent serious occupational injuries. We also provided training to employees in charge of installing equipment and ensuring safety, explaining in detail the new standards and related legal requirements.

■ **Number of employees who took equipment safety training courses**

FY2016

327

Formulation of a Diversity Management Policy

Not only perceiving diversity by differences understood from outward appearance—such as gender, age, nationality, and careers—the Sekisui Chemical Group will also focus on differences that include values and personality while understanding, recognizing and utilizing the differences between each and every employee as strengths.

Diversity Management Policy

Based on the realization that diversity is essential to becoming a sustainable company that can maintain its strong corporate value for a century, we understand and recognize that each and every employee's orientation to work and life and their distinctive characteristics are different and thus we actively take advantage of that. To create an organizational culture, we will continue, through employee dialogue, to provide employment and participation opportunities and a variety of environmental improvements that support growth.

Diversity Activities in Organizational Units

To create an organizational culture that realizes diversity management, we initiated small group activities on organizational culture reform through 140 domestic organizations.

Putting in place those responsible for and managers in charge of diversity management promotion at each business department and Group company organization, these efforts have the aim of creating a better organizational culture through diversity promotion by means of each organization's independent activities.

■ **Number of organizations implementing activities**

FY2016

61 companies
140 organizations

Diversity Management Training

In working toward the realization of diversity management, since it is important for superiors, who play a key role, to understand, recognize and utilize the fact that attitudes to work and life and distinctive characteristics differ from one team member to another, we are implementing educational programs on diversity management that are geared toward the managers of groups and sections from domestic Group companies. At these educational programs, participants are learning the way that business leaders ought to act as well as communications and management styles that discover new possibilities and which they are putting into practice at their actual workplaces.

■ **Numbers of participants at educational programs on diversity management implementation**

FY2016

1,168

Women's Empowerment

As a first step in diversity management, we are seeking to become an organization where women can truly thrive and, since fiscal 2016, have been implementing a raft of measures that are being rolled out throughout the entire Group. With regard to the percentage of new graduate hires accounted for by women and the number of women in management positions, we have also established specific numerical targets.

■ **Percentage of women among new graduate hires**

FY2015

FY2016

28% 31.3%

Human Capital

■ Number of female management

FY2015	FY2016
102	111

Fostering Women as Candidates for Management Positions

Targeting women employees and direct supervisors who are highly likely to be appointed to management positions within five years, the Company is conducting a career development program for women, an educational program that has been put in place with the aim of fostering awareness and gaining the achievements appropriate for management positions. We have been deploying this program as essential training across the entire Group since fiscal 2016.

Topic

Recognized as a Nadeshiko Brand

Having advocated women's empowerment since fiscal 2007, the Company has been implementing diversity management initiatives across the entire Group since fiscal 2015. Having evaluated these efforts, the Ministry of Economy, Trade and Industry as well as the Tokyo Stock Exchange, Inc. recognized the Company as a Nadeshiko brand in fiscal 2016. In aiming to become a corporate group with a presence strong enough to last a century, the Company will make even greater efforts to promote diversity.



Career Development Support

Faced with their own attitudes toward work and life and distinctive characteristics, the Company is conducting career plan training by age (young employees and employees aged in their 30s, 40s, and 50s) to give employees an opportunity to consider their future careers for themselves. From fiscal 2016, career plan training is being extended to cover all domestic Group employees. We are conducting training to draft career plans.

■ Number of participants at career plan training by age

FY2015	FY2016
330	1,164

Promoting the Employment of People with Disabilities

As part of its diversity management efforts to enable each and every employee to display his or her distinctive capabilities, the Company works to employ people with disabilities across the entire Group.

As a new initiative in fiscal 2016, we conducted brainstorming sessions for people with disabilities on a joint Group basis. Through case studies and other methods, we gained a better understanding of the knowledge required with regard to the employment of people with disabilities and drafted employment plans.

■ Employment ratio of people with disabilities (Sekisui Chemical including special provision subsidiary)

FY2015	FY2016
2.21%	2.29%

Topic

Kofu Sekisui Sangyo "New Diversity Management Selection 100" Winner

Group company Kofu Sekisui Sangyo Co., Ltd. employs 16 people with disabilities, including eight who are classed as having severe disabilities. These employees are assigned to departments where they can make the most of their special qualities.

The company has also prepared operating manuals filled with instructional photos, set up displays and labels that are both easy to see and follow, and put in place a framework in which all employees can carry out their duties without error. These initiatives not only encompass employees with disabilities, but also all general staff.

The efforts by Kofu Sekisui Sangyo have further helped to improve business activities through increased productivity and a reduction in claims. In recognition of these measures, the company received a "New Diversity Management Selection 100" award certificate from Japan's Minister of Economy, Trade and Industry.



Improving Group Human Resource Capabilities

The Group has developed a consistent training system covering all stages from new hires to management positions, in order to systematically train business leaders to power the Group into the future. Based on the concept that the foundations of growth are the experiences gained through everyday business activities, and learning from such experience, we have developed a training system that links these two elements together. Through this system we will enhance each individual's mastery of the skills required of business leaders, by running through the cycle of growth through experience.

Human Capital

In addition to the training of business leaders, we will at the same time nurture the human resources necessary to support the frontline and to enhance frontline capabilities. The human resources who will support the foundations of management in practical terms in the workplace must undergo self-growth as highly capable practitioners by accumulating experience over the long term and acquiring highly specialized knowledge and skills. Based on this concept, the Group hires human resources who will support the workplace as full-time, permanent employees, creates an environment in which they can demonstrate their abilities with peace of mind over the long term, and deploys the Meister System to strengthen their abilities in the workplace.

Rebuilding Our Manufacturing Education System

Since fiscal 2013, the Sekisui Chemical Group has been rebuilding its employee grade-based training system for managers in production departments in order to spread knowledge of manufacturing throughout all levels, and to pass down the expertise of veteran technicians to younger employees. We offer 16 courses in the three fields of technical skills, human skills and conceptual skills. A cumulative total of 2,252 employees had undertaken course up to fiscal 2016.

Participants in employee grade-based training system for managers in production departments (cumulative)

FY2015	FY2016
1,780	2,252

Personnel who can Succeed on the Global Stage

Overseas sales accounted for 23.6% of consolidated sales in fiscal 2016, and this ratio has been increasing every year. We have over 90 production and marketing sites in approximately 27 countries. We believe that all the businesses of the Group depend on each and every employee working around the world growing through their work and providing excellent products and services in tune with local needs.

Global Trainee Program

The Sekisui Chemical Group has established the Global Trainee Program to enable participants to build up real-world experience overseas. This program assigns applicants with sufficient levels of experience in positions such as sales, accounting, and development to actual positions at overseas affiliates. In fiscal 2016, seven employees enlisted in this program and were newly assigned overseas. In the years to come, we will strive to enhance the program so that greater numbers of employees can build up work experience around the world.

Number enlisted in Global Trainee Program

FY2015	FY2016
4	7

Developing Personnel to be Immediately Effective Overseas

The Company set up a global talent employee system to nurture global talents, currently, there are 1,700 registered domestic Group employees registered. Registered employees receive the training in cultural differences and specialist tuition necessary for their reassignment overseas. Toward an increased target of 400 global talent employees

by fiscal 2020, the Company has been promoting measures designed to enable them to actually gain overseas business experience.

Number of global talent employees

As of the end of March 2016	As of the end of March 2017
329	341

Foster Global Management Personnel

Since overseas human resource development has become an urgent task amid the rapid expansion of business globalization, we put the Global Saijuku School into operation to develop the next generation of management personnel who will play an active role in global markets. Nine executives from Group companies in North America, Europe, Oceania and Japan, took part in a program to enhance the management skills required for personnel to play an active role on the global stage by teaching them about Sekisui's values while reinforcing management and business creation capabilities.



Intellectual Capital (Research & Development/Manufacturing/Intellectual Property)

The Sekisui Chemical Group recognizes that maintaining a prominence in technology is the bedrock for creating value. This is particularly the case in the housing infrastructure and chemical solutions fields, where the Group's technology platform provides the underlying strength of its competitive advantage. In order to maintain this prominence in technology, the Group is committed to consistently strengthening its human resources and organizational structure in the research & development, manufacturing and intellectual property (IP) fields.

Research & Development (R&D)/ Manufacturing

Sekisui Chemical's Approach to R&D and Its R&D System

With the putting of efforts into practice for its Group Vision forming the framework of its medium-term management strategy, the Sekisui Chemical Group is aiming to continue to be a corporate group with a sense of presence strong enough to last a century. The Medium-term Management Plan "SHIFT 2019 -Fusion-", which begins in the fiscal year ending March 31, 2018 (fiscal 2017), is positioned as one step forward toward a "new phase of growth" for the realization of the aim, and establishes the acceleration of new business creation through "technology fusion" as one of the top priorities. Actively promoting the fusion of in-house technologies with those from outside, the Company is working to increase the pace of commercialization in the new markets and fields that will play a part in the Group's future while creating attractive themes that look beyond at what will follow.

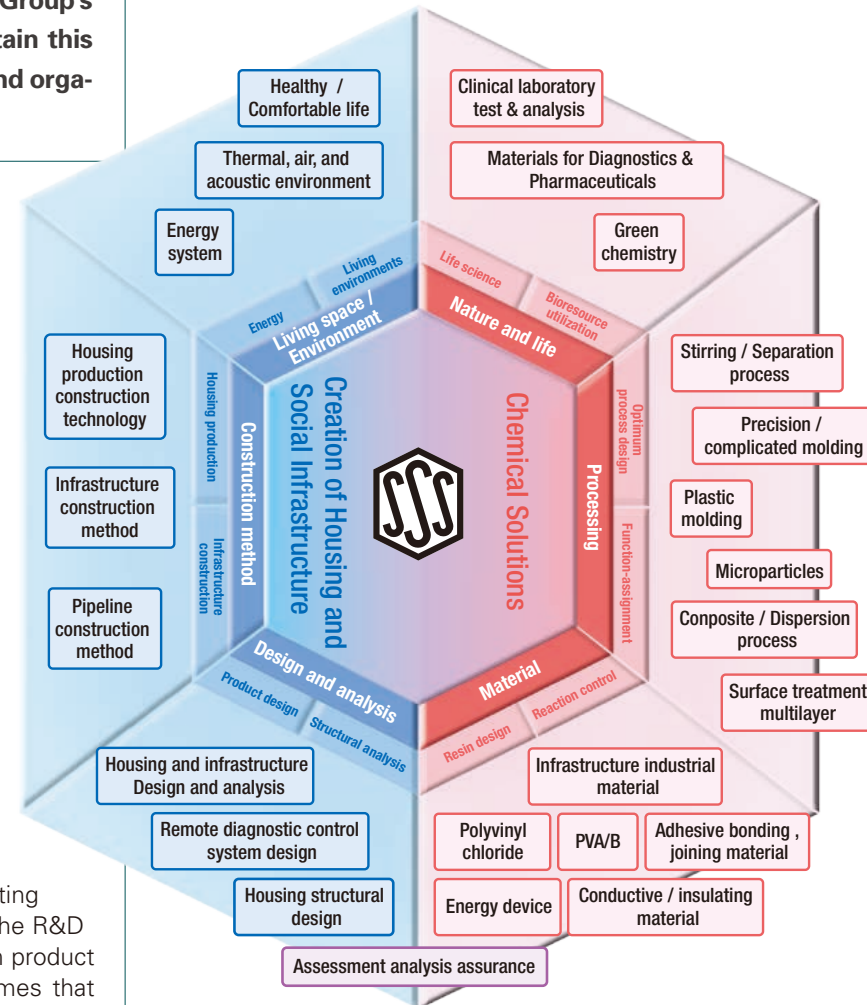
Forming the basis of these efforts are the 25 technological platforms with direct links to the Group's two business domains, "Creation of Housing and Social Infrastructure" and "Chemical Solutions". These are the fundamental technological platforms that support the Group's product lineup

and should even be said to be the source of its competitiveness that has been cultivated over many years. In addition to adapting to changes in the external environment and in the business domains of the Group in recent years, we have reconfigured the platforms in line with the start of the Medium-term Management Plan to make them more practical. Further developing and honing each one of these technological platforms and at the same time effectively combining multiple platforms, we will develop new products and services that are capable of winning overwhelmingly even in a harsh competitive environment.

Serving as the R&D system in the Group responsible for these platforms are the four primary R&D centers within the Housing Company, the UIEP Company, the HPP Company, and the Corporate headquarters. In addition, Sekisui Medical Co., Ltd. and other key affiliated companies maintain independent R&D divisions and facilities.

Directly linked to the enhancement of existing businesses and the pioneering of new frontiers, the R&D conducted at the divisional companies focuses on product development and manufacturing technology themes that will lead to profit in the near future. Products launched onto markets in fiscal 2016 included the G Series, a commemorative product to celebrate the 45th anniversary of Sekisui

25 Technological Platforms



Heim, and functional foam tape for mobile devices. In fiscal 2017, we plan to launch large-size products, such as Infrastructure GUARD™ (aging infrastructure countermeasure products) and ink-jet coating materials that will revolutionize the semiconductor manufacturing process.

In contrast, as an independent research unit the center within Corporate headquarters is conducting research into themes that present extremely high technical hurdles to be addressed over medium- and long-term timeframes, large-scale themes of the kind that will become links for interdivisional company collaboration, and new business domain themes which we have never challenged before for the Group. A high-capacity, film-type lithium-ion battery, which is one of the achievements of this R&D, was adopted in residential electricity storage systems in fiscal 2016. In fiscal 2017, we are proceeding with energetic preparations for the commercialization of, for example, thermoplastic carbon fiber-reinforced plastic (CFRP) and film-type, dye-sensitized solar cells.

Strengthening Manufacturing Capabilities

The Group is working to promote R&D that helps to create new products. At the same time, the Group is placing equal emphasis on strengthening its manufacturing capabilities in a bid to reinforce the competitive advantage of its existing products.

In the Medium-term Management Plan “SHIFT 2019 -Fusion-,” we stated “minimizing manufacturing risk and fortifying our ability to respond to the new era of manufacturing”* as a policy relating to manufacturing capabilities. Regarding the building of a culture to reduce manufacturing risk as one of its priority measures, the Company will promote the strengthening of CS quality infrastructure by, for example, promoting the intrinsic safety of equipment and the thorough promotion of safety-aware human resource development as well as the building of a CS quality information knowledge system. As part of the ongoing

enhancements to our manufacturing capabilities, we will strengthen our technical capabilities through the quantification of our production technology capabilities in conjunction with the introduction of new technologies (the adoption of ICT, automation). At the same time, we will further enhance our manufacturing core strengths through the nurturing of manufacturing human resources, as we have been doing up to now.

Such organizational approach will enable the Group to engage its prominent technologies and quality in the continuous development of new frontiers in the domains of “Creation of Housing and Social Infrastructure” and “Chemical Solutions” for the betterment of the environment and the people’s lives in the world.

*The Third Industrial Revolution: IT/Information Society; The Fourth Industrial Revolution: AI

Human Resources and Benefits for R&D and Manufacturing

The Group presents Great Invention Awards to acknowledge researchers and engineers that have created highly unique and innovative inventions with the potential to become profitable technologies and products. These awards and the accompanying monetary endowment are one way the Group demonstrates its recognition of and appreciation for its talented researchers and engineers.

In fiscal 2016, several innovations were recognized, and their inventors presented with awards and benefits. These included Thin Stretched Foam.

The Group has also established a specialist position system for researchers and engineers with highly specialized skills. The system selects exceptional individuals who have been recognized as possessing highly advanced skills and appoints them to uniquely defined specialist positions. The system promotes ongoing development and aims to cultivate outstanding researchers and engineers recognized both inside and outside the Company. As of April

2017, 19 people held specialist positions.

The Group introduced the Meister position in fiscal 2009 to recognize individuals that exemplify the range of manufacturing skills and technical objectives of the Group. The position is intended to promote the Group tradition of superior skill and craftsmanship and increase the motivation of each and every technician. As of April 2017, seven people held Meister positions. Cultivating and encouraging the Group’s talented manufacturing technicians by acknowledging their highly refined skills inspires motivation and will further elevate the Group’s high level of manufacturing expertise in the years to come.

Intellectual Property

Fundamental Policy on Intellectual Property

The IP cultivated from our R&D activities is an important management resource that underpins the Group’s growth and revenue and contributes to optimizing corporate value. An IP strategy is vital to maximizing the Group’s technological prominence.

In its Principles on Intellectual Property, the Group clearly stated that the objectives of its IP management are to contribute to business growth and to increase corporate value by encouraging the creation, protection, and utilization of IP, which is to be achieved by respecting the Group’s proprietary IP and that of others and by clearly laying out an approach toward IP management. This management mandate is further reinforced by our fundamental policy of ensuring business competitiveness by acquiring highly beneficial patents.

Sekisui Chemical adopted a new Group-wide

Intellectual Capital (Research & Development/Manufacturing/Intellectual Property)

Intellectual Property Management Medium-term Plan in March 2017. In addition to constantly creating highly strategic groups of patents, the Group is aiming to contribute

to their management by nurturing IP human resources who possess the strength to compete. Specifically, the Group is focusing on the following two directives.

1. Advancement of IP Activities

We will utilize IP information analysis tools, which will become increasingly sophisticated through the evolution of big data analysis technology, and analyze the competitive environment in detail. Based on the results, we will devise a winning IP strategy before the start of development and contribute to the efficient execution of R&D and an improvement in the probability of success of new businesses.

2. Accelerated Training of Intellectual Property Division Personnel

By having personnel gain experience by rotating them through development and planning divisions and locating them at overseas patent agents, we aim to improve the skills, planning proposal capabilities and global response capabilities of Intellectual Property Division staff.

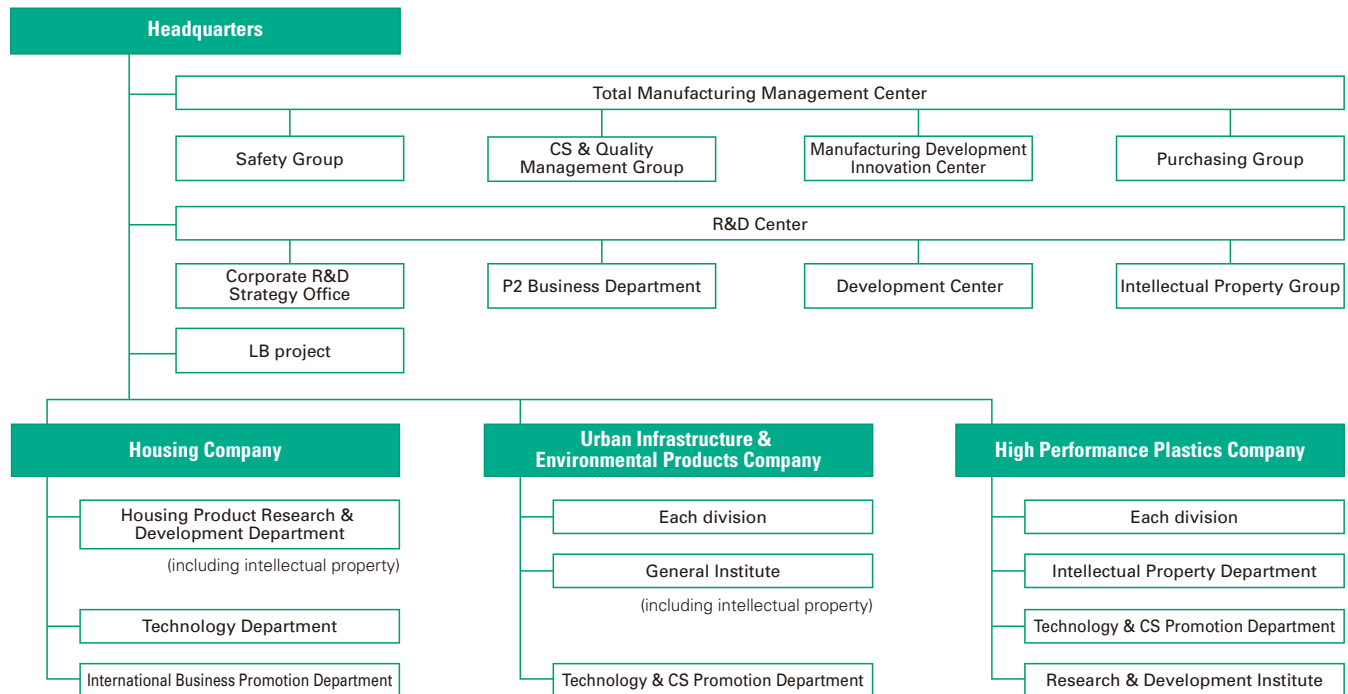
Intellectual Property Management System and Major Activities

To speed up judgments and decision-making, the Group has set up intellectual property divisions at Corporate headquarters and at each divisional company.

The role of the Intellectual Property Division at Corporate headquarters ranges from the planning and drafting of a basic IP strategy common to the entire Company to IP training, and the operation and management of the patent management system. In order to raise awareness of IP, as the main entity, Corporate headquarters conducts training on IP in a planned manner for R&D and sales personnel. In addition, the patent management system, which will be updated in fiscal 2017, will enable the management of patent groups and introduce a platform for building strategic patent groups.

At the same time, the roles of the intellectual property divisions at each divisional company are to periodically hold Intellectual Property Strategy Committee meetings among the IP, sales and R&D divisions and to work with the aim of building strategic patent groups by having each company build and deploy its own IP strategy according to each company's business environment. In this way, the intellectual property divisions at Corporate headquarters and at each divisional company are endeavoring to improve the Group's IP level by collaborating in an organic manner.

R&D, Manufacturing, and Intellectual Property Management System



Social Capital

The Sekisui Chemical Group recognizes the importance of providing products and services that consistently satisfy and appeal to customers. Only in this way, can the Group truly strengthen ties with society and stakeholders. Accordingly, every effort is made to enhance the quality of our human resources, products, and systems while working the quality that will always be specified by customers. At the same time, we adhere strictly to a policy of CSR procurement when seeking to purchase raw materials. We also refrain from the use of conflict minerals associated with inhumane acts.

Cognizant that the Company is a member of society, we engage vigorously in environmental and social contribution activities in each of the three environment, next generation, and local community fields.

CS & Quality Management Pursuing a level of quality that is always specified by customers

Since 1999, the Group has practiced customer satisfaction (CS) management. In 2004, we began CS & Quality Management to consistently deliver value to our customers so that they will always choose our products and services, by focusing on quality innovations in all of our businesses. Based on the motto “we consider customer feedback as the beginning of our manufacturing,” we improve the Attractive Qualities and Basic Qualities provided to customers by enhancing the Quality of People, Quality of Products, and Quality of Systems. The Group is working together to pursue the quality that will always be specified by customers.

The Group has identified two themes for CS & Quality Management. One of these is external failure costs*1 and the other is the number of major quality issues*2. Under the CSR Medium-Term Plan (FY2014-2016), we are targeting zero major quality issues and a

50% reduction in external failure costs (compared with fiscal 2013) by fiscal 2016.

*1 External failure costs: Costs arising from responding to product-related complaints.
*2 Major quality issues: Problems related to product and service quality that could cause significant damage to customers, society, or the Sekisui Chemical Group if not thoroughly resolved on an urgent basis.

Three Zeros Initiatives

Based on the idea that costs arise from poor quality in the form of losses and wastefulness, such as responding to customer complaints and increasing waste, we aim to achieve the “Three Zeros” of zero accidents, zero waste, and zero complaints.

Accidents, waste, and complaints compared to fiscal 2013

Number of Occupational Accidents	Waste Generated per Unit of Output	Costs of Responding to Claims (External Failure Costs)
Decrease of	Increase of	Decrease of
26.9%	7.5%	12.4%

Major Quality Issues Initiatives

Sekisui Chemical defines Major Quality Issues as problems related to product, technology and service quality that could cause significant damage to customers, society, or the Sekisui Chemical Group if not thoroughly resolved on an urgent basis and works diligently to prevent these problems from arising. For three consecutive years since fiscal 2014, we have had zero occurrences of Major Quality Issues.

Major Quality Issues

FY2014	FY2015	FY2016
0	0	0

Training to Prevent Quality Problems

We held the Development Risk Prevention Seminar aimed at acquiring effective risk prevention methods as well as the DR Reviewer Training Seminar to improve design reviewer skills. Both seminars are based on the topic of preventing quality problems before they arise.

Number of participants in the Development Risk Prevention Seminar

FY2015	FY2016
196	302

Social Capital

Improve and Maintain the Quality of Partner Companies

At the Housing Company, the Sekisui Heim Mutual Prosperity Association, an organization of partner companies that supply Sekisui Heim materials and parts, holds study sessions about quality for member companies with the aim of maintaining and improving quality throughout the supply chain.

Publishing a Booklet Summarizing Customer Feedback

The Sekisui Chemical Group Customer Information & Consulting Services department receives over 10,000 inquiries and feedback items each year. The Group identifies the hidden needs of customers by using unique methods to analyze customer motivations based on these inquiries.

Starting in fiscal 2015, the Group published VOICE, which is a summary of the inquiries received by its Customer

Information & Consulting Services department. This booklet is published with the aim of reflecting customer feedback in management activities, cultivating and instilling a culture of CS and quality in all employees, and promoting the understanding of these issues in Group-wide businesses in a manner that transcends particular operational areas.



Materials Procurement

The Group procures materials based on the five fundamental concepts of openness; fairness and equity; legal compliance; mutual trust; and consideration for the environment. We will strengthen our harmonious and mutually beneficial partnership with our business partners through fair transactions. Also, the Group is engaging in the promotion of CSR procurement. In other words, activities that are conducted by collaborating with business partners.

Moreover, in an effort to secure the highest quality from its business partners, suppliers are requested to take into consideration the environment as well as compliance with all laws, regulations and societal norms, and ensure health and safety in their own companies. We ask not only Group companies, but all our partners to carry out business activities in accordance with the relevant laws and social customs of the countries in which they operate, and work toward the abolition of forced labor and child labor, as well as as discriminatory treatment toward employees.

Green Procurement

Beginning in October 2001, the Sekisui Chemical Group began evaluating procurement, including for raw materials, not only on a QCD basis, but also on an environmental basis. The Group is promoting the “Greening of Procurement” by procuring products with low environmental impacts from producers who also have a low environmental impact. The Group conducted a regular review of green procurement standards in April 2017 and revised relevant documents to comply with amendments to the Ordinance on Prevention of Hazards Due to Specified Chemical Substances.

Addressing the Issue of Conflict Minerals

As part of its efforts to comply with laws and social norms in procurement, The Sekisui Chemical Group is guided by the provisions of the Dodd-Frank Act in the United States, and is committed to eradicating the use of conflict minerals including gold (Au), tantalum (Ta), tungsten (W), and tin (Sn) associated with inhumane acts committed by armed groups on the ground in the Democratic Republic of the Congo or any of its neighboring countries. If any concerns that conflict minerals are being used come to light during commercial distribution inspections, robust steps will be taken to promote responsible procurement and to implement the necessary remedial measures in collaboration with business partners.

Companies that are registered with the US Securities and Exchange Commission (SEC) fall within the scope of

the Dodd-Frank Act. Sekisui Chemical is not an SEC registered company and accordingly is not obligated to disclose details of conflict mineral use. The Company is, however, implementing surveys and inspections to ascertain the status of conflict mineral use throughout the supply chain.

**Social Contribution Activities
A Company that Lives Together with
the Local Community**

The Group contributes to the environment and society primarily through activities in the areas of the environment, the next generation, and local communities. We position these activities as a hallmark of our initiatives as a corporate citizen in tune with the needs of society. We support the activities of Group employees to give back to society.

More specifically, activities with an “environmental theme” are aimed at securing our long-term environmental vision and are focused around three areas: preservation of the forests, preservation of biodiversity, and greening activities. “Next generation” activities provide support and subsidies for research activities as well as chemistry experiment class conducted on-site at local elementary and junior high schools, as well as Japanese language supplementary schools in the US. Finally, “local community” activities include the promotion of safe and secure neighborhoods in cooperation with local communities, as well as support programs carried out in emerging economies.



On-site chemistry experiment class

Natural Capital

The Sekisui Chemical Group aims for a planet in which the air, water, and land provide a healthy living environment for its inhabitants and fosters robust biodiversity. Our daily lives and economic activities have been sustained by the natural capital* provided by our planet. The Group’s business activities use the resources (natural capital) of our planet, such as petroleum and timber, while also building plants and office buildings on the land. Being aware of this, we engage in a wide range of activities aimed at paying back the natural capital that we use.

*Natural capital: A term that refers to the Earth’s various resources, such as soil, air, water, minerals, flora, and fauna, that human beings are incapable of creating themselves.

Long-Term Environmental Management Vision Sekisui Environment Sustainability Vision 2030

The Group is aware that its business activities depend on resources (natural capital). Each and every executive and employee is working to evolve into a pool of talented personnel with excellent environmental activity promotional skills and will promote environmental management based on contributions in three areas in order to “give back more to the Earth than is taken” in 2030. In specific terms, energies will be channeled toward expanding and creating markets for Environment-contributing Products, reducing environmental impact, and conserving the natural environment. In addition, the Group is generating prominent value toward the realization of “the Earth with maintained biodiversity” by contributing to the return of natural capital.

Environment Management System

The CSR Committee, headed by the President, and the Environmental Subcommittee of the Group meet twice a year to decide on environmental policies and key initiatives for the entire Group. Matters decided by these two bodies are then transformed into specific action plans in meetings

of environmental managers from corporate headquarters and each divisional company. Each business site manages its environmental activities through an environment management system based on ISO 14001.

As of March 31, 2017, 52 business sites (100%) in Japan and 35 overseas (83%) have been ISO 14001 certified. (The company-wide ratio was 93%)

Environmental Medium-term Plan “SEKISUI Environmental Sustainability Plan Accelerate”

Back-casting from the “SEKISUI Environmental Sustainability Vision 2030” that sets out its long-term vision, the Sekisui Chemical Group has created “SEKISUI Environmental Medium-term Plan Accelerate” (fiscal 2017–2019) and is addressing the specific targets cited in the plan.

Following on from the previous environmental medium-term plan, “SEKISUI Environmental Sustainability Plan Take-Off,” under the new plan we calculate the amount of load our corporate activities impose on the environment (utilization of natural capital) and our contribution to the environment (return of natural capital) as a single “SEKISUI Environmental Sustainability Index.” Under the plan, we

will also accelerate improvements in the return ratio on an ongoing basis.

SEKISUI Environmental Sustainability Index

FY2016 (Results)	FY2019 (Plan)	FY2030 (Target)
76.9%	90%	100%

Environment-contributing Products

Contributing to the environment through its products and businesses is an essential mission of the Group, which uses this planet’s natural resources. The Group returns natural capital to the Earth by creating and the expanding markets of its Environment-contributing Products. Environment-contributing Products are internally certified products that have demonstrated a high level of environment-contribution especially when used by customers.

Under the previous plan, we worked to expand the ratio of sales accounted for by Environment-contributing Products and to expand newly registered products, achieving net sales of Environment-contributing Products of ¥481.2 billion and a ratio to net sales of 45.2%.

For a more detailed explanation of Environment-contributing Products, please see page 63.

Establishment of Environmental Contribution Investment Framework

The 21st Conference of the Parties (COP 21) was held

Natural Capital

in Paris, France, from November to December 2015, and the Paris Agreement adopted that, in addition to keeping the world's average temperature rise at sufficiently lower than 2°C compared with before the Industrial Revolution, includes the pursuit of efforts to keep it to 1.5°C as a globally shared long-term goal. Under this Paris Agreement, Japan also promises a 26% reduction in greenhouse gas (GHG) emissions, compared with fiscal 2013, by fiscal 2030.

Regarding this global-level issue as being of the utmost importance, the Group set an environmental contribution investment framework of ¥12.0 billion, equivalent to more than 0.3% of net sales*, as a means of improving its effectiveness.

As specific investment applications, we are considering measures such as Environmental Investment Promotion Measures to support capital investment and newly establishing a president's award, the Excellence Award for Global Warming, for business sites that have made significant contributions to the reduction of GHG emissions. As part of measures to promote environmental investment, the renewal of cold water installations at resin factory and the renewal of molding machines for pipe-related products are already partially under way.

*Approximate cumulative sales target for fiscal 2017-2019

Greenhouse Gas Emission Reduction Targets

The Group is working to reduce GHG emissions at each stage, from the procurement of raw materials and through development, production, shipping, and use. We are ascertaining the volume of emissions not only from our business sites (Scope 1 and 2) but also along the entire supply chain (Scope 3), including the sources of raw material procurement and the uses of sold products.

Under the previous plan, we had aimed to peg the total GHG emission volumes at production sites for fiscal 2016 to fiscal 2013 levels. We actually achieved the target with a reduction of 0.3% as a result of an 11.3% reduction in domestic and a 7.5% increase in overseas GHG emissions.

In addition, under the new plan we have set a target for FY2019 to reduce GHG emissions by 6% or more when compared with FY2013 and are aiming to reduce them by 3% in FY2017, the first year of the plan.

Waste Reduction

The Sekisui Chemical Group engages in zero emissions activities that reuses all waste as resources through the strict application of the 3Rs throughout product lifecycles. Five domestic business sites and seven overseas business

sites achieved zero emissions, versus our environmental medium-term plan's target for four domestic business sites and eight overseas business sites by fiscal 2016.

Number of Business Sites with Zero Emissions

FY2016 Targets	FY2016 Results
Japan and overseas total	Japan and overseas total

12 business sites 12 business sites

Maintenance of Water Resources

Water resources are a form of natural capital that is vital for maintaining sustainable business activities. Accordingly, we are not only reducing the amount of water extracted, but also identifying risks posed to biodiversity and business sustainability by water discharge. Under the previous plan, we had completed a survey by fiscal 2015 and confirmed that there was no urgency in responding to water risk. Under the new plan, we have set goals to not only reduce the amount of water extracted but also to improve the quality of wastewater.

Natural Environment Conservation

Employees across the Group's global network of business sites are actively promoting measures aimed at conserving the natural environment. In particular, the Group has designed "SEKISUI Environment Week" for each business site to setup a week per year to promote the environmental contribution activities throughout the entire week, aiming for the participation from all employees of all business sites. SEKISUI Environment Week was held for the fourth time in fiscal 2016, with 20,449 employees taking part. The percentage of participants to the total number of staff has reached 70%.

Column Environmental Contribution Investment: Renewal as Eco Factory

As part of the environmental contribution investment aimed at counteracting global warming, we are renewing housing unit production factories. At Kyushu Sekisui Heim Industry Co., Ltd., the first phase of factory renovations was completed in June 2016, and the New Heim Plant reborn as an environmentally friendly eco factory.

Features adopted for the factory include a thermally insulated roof and walls, a geothermal air-conditioning system, rainwater storage tanks, storage batteries and solar power generation systems, and LED lighting in all buildings. If the CO₂ emissions of a conventional factory of the same size are taken to be 100, we are reducing emissions to 82.



Kyushu Sekisui Heim Industry Co., Ltd.

Natural Capital

New Challenges for Environment-contributing Products



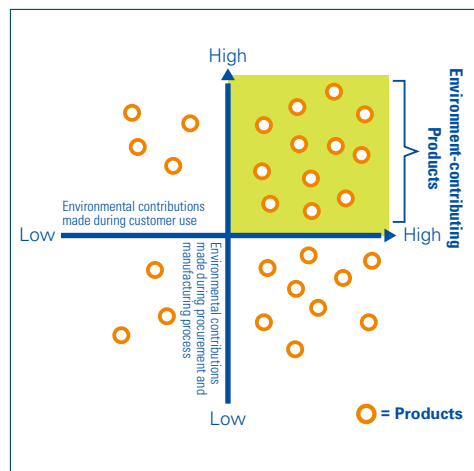
In fiscal 2006, we established an in-house system by which products that demonstrate a high environmental contribution effect at the use stage for the customers who use our products and services are designated as Environment-contributing Products and certified based on certain criteria. We have been receiving evaluations and judgments with regard to the system's validity etc. from an advisory panel consisting of outside experts. In our business domains, however, we can expand our contribution not only in the field of the natural environment but also in the field of the social environment, in response to the tasks for improving the sustainability of the Earth and also consider it our mission to be the driving force behind those contributions.

We have therefore brought about an evolution in the definition of what constitutes an Environment-contributing Product and, in addition to the natural environment, would like to expand the scope of consideration and increase the contribution, while regarding the environment as

encapsulating the social environment, including human and social capital and other factors.

Due to such diversification of viewpoints with regard to environmental contribution, a number of products—specifically, the residential service business relating to the medical business, such as diagnostic reagents, and nursing care businesses that are being deployed by the Company (corresponding to “ensure healthy lives and promote well-being for all at all ages,” the third SDG), and the various types of plastic products for sewerage, transportation/transportation infrastructure as well as technologies to deal with aging infrastructure (corresponding to “build resilient infrastructure,” the ninth SDG)—will become Environment-contributing Products capable of resolving new issues. We are working to create these Environment-contributing Products and aim to newly register 30 or more.

Conceptual Diagram of Environment-contributing Products



Revised Definition and Scope

	Current Environment-contributing Products	Evolution of Environment-contributing Products
Definition	<ul style="list-style-type: none"> • Products and businesses steadily contributing to reductions in the environmental impact of our customers and society as a whole. • Products or systems having at least a certain degree of effect in contributing to the environment compared with similar conventional products and systems 	<ul style="list-style-type: none"> • Products and businesses that steadily contribute to the global natural environment + social environment (=> Natural capital) • Products or systems having at least a certain degree of effect in reducing environmental impact compared with similar conventional products and systems <p>Redefining into two categories environment-contributing products in order to verify and perpetuate the existing framework for these products</p> <p>(1) Products that contribute to the natural environment (biological capital, material capital): Products with a strong contribution impact on customers' natural environments</p> <p>(2) Products that contribute to the social environment (human capital, social capital): Products with a strong contribution impact on customers' social environments</p>
Scope	Items generally cited as environmental issues: greenhouse gas reductions, waste reduction, raw material usage reduction, water/water cycle conservation, pollution prevention, biodiversity protection, disaster prevention/mitigation	Global social issues that the Sekisui Chemical Group must solve For example: Various social issues addressed by SDGs, extending healthy lifespan, building strong infrastructure

Environment-contributing Product Registrations in FY2016 (product examples)



Geothermal Eslo Heat

Kucho Hyper CH

Advasol, Water-soluble Film with Harsh Chemical Resistance

High-Capacity Film-Type Lithium-Ion Battery

Corporate Governance

The Sekisui Chemical Group sets forth as the basic policy for corporate governance the promotion of sustainable corporate growth and the increase of corporate value. To realize this, the Group will enhance the transparency/fairness of management, pursue prompt decision-making, and continue to fulfill the expectations of “customers,” “shareholders,” “employees,” “business partners,” and “local communities and the environment,” the five major categories of stakeholders that the Company values most, through the creation of values to the society.

Corporate Governance Measures of Recent Years

- **2001** Three-company divisional company structure introduced (Housing Company, Urban Infrastructure & Environmental Products Company, High Performance Plastics Company)
- **2004** Rules on intra-company whistle-blowing system formulated
- **2005** Director retirement bonus system abolished
- **2006** Internal Control System Basic Policies formulated
Committee system put in place (CSR Committee and Sub-Committee, R&D Committee)
- **2007** Directors’ term in office shortened from two years to one year
- **2008** Executive officer system introduced, number of directors reduced from 21 to nine (including two outside directors)
- **2009** Corporate Information Disclosure Regulations formulated
- **2012** SEKISUI CHEMICAL Group Crisis Management Guidelines formulated
- **2014** SEKISUI CHEMICAL Group Risk Management Guidelines formulated
- **2015** SEKISUI Corporate Governance Principles formulated
- **2016** Nomination and Remuneration Advisory Committee established (The committee deliberates appointments of representative directors/directors, remuneration system criteria, etc.)
System of stock issuances as director (excluding outside director) and executive officer incentives introduced
- **2017** Discontinuation (abolition) of takeover defense measures introduced in 2008

Overview of the Corporate Governance System

(1) Organizational Structure and business execution system

As an organizational structure under the Companies Act, the Company has chosen to be a company with Audit & Supervisory Board.

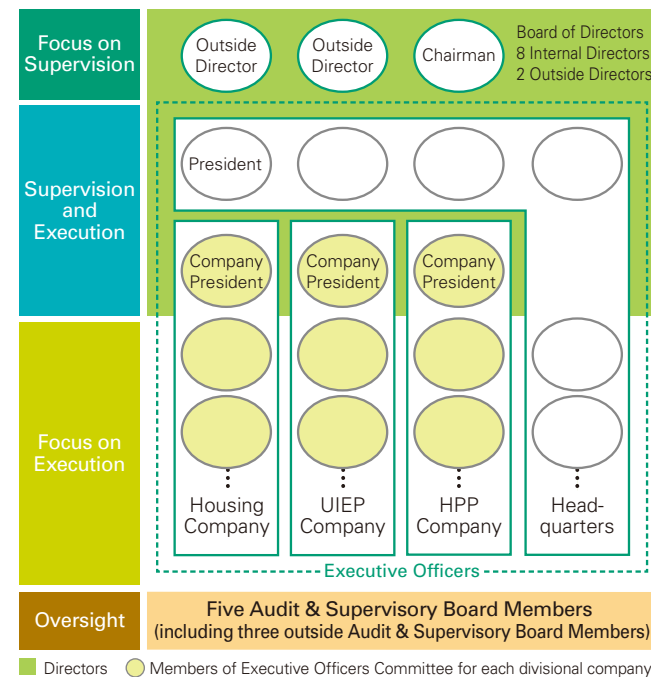
Under the Divisional Company System, the Company has adopted the Executive Officer System in order to clearly distinguish the business execution function from the decision-making function in management. Each divisional company has an Executive Officers Committee, which serves as the company’s highest decision-making body. The Executive Officers Committee has been delegated substantial authority previously entrusted to the Board of Directors. Executive Officers are appointed by a resolution of the Board of Directors, and their term of office is one year.

(2) Board of Directors

The Board of Directors continually strives to strengthen its role as a body responsible for decision-making concerning the Company’s fundamental policies and upper level management issues, and supervising the execution of business. The Board includes two Outside Directors to ensure transparency in management and fairness in business decisions and operations.

The number of directors shall not exceed 15, and two or more of them shall be independent outside directors. The Company ensures diversity among board members

Management System



and keeps the number of directors at an optimal level for appropriate decision-making that is commensurate with the business domain and size. The presidents of the divisional companies who are the top management of each business and senior corporate officers with significant experience and strong expertise are appointed as inside directors. Together with the outside directors who have broad knowledge and Audit & Supervisory Board Members with strong experience, they effectively perform the roles and responsibilities of the Board of Directors, taking the balance with respect to diversity, optimal size, and capabilities, with Audit & Supervisory Board Member with strong expertise.

(3) Auditing System

The Company has established an Audit & Supervisory Board Member Board as a supervisory body to oversee the Board of Directors and business execution system. Together with the adoption of outside Audit & Supervisory Board Members, the system ensures wide-ranging viewpoints and fairness.

A group-wide internal framework has been put in place to enable Audit & Supervisory Board Members to exercise without any obstacle its authorities by, among others, attending various important meetings, conducting an investigation into divisions concerned including affiliates, and examining the approval documents of important projects. Sufficient information sharing and exchange of opinions take place among the members of Audit & Supervisory Board (including Outside Audit & Supervisory Board Members). Audit & Supervisory Board Members also hold a regular meeting with the representative directors to exchange opinions on, among others, the issues that the Company should resolve, the status of the improvement of the environment for audit by Audit & Supervisory Board Members, and important audit issues and to make necessary requests to enhance mutual understanding.

The Corporate Audit Department has been established under the direct control of the President, and conducts internal audits on the operations of the entire Group. Internal audit field work is conducted in accordance with the internal audit regulations and based on the audit policy and the audit plan for the year. The findings are reported to the President, directors, Audit & Supervisory Board Members and divisions concerned. The Corporate Audit Department receives action plans for improvement from the audited parties or conducts follow-up audits where necessary, through which it streamlines and improves the internal control system.

The Company's accounting auditor is Ernst & Young ShinNihon LLC, and certified public accountants who execute the accounting audit work are Mikio Konishi and Hiroshi Matsuura; each certified public accountant is replaced in a timely manner in accordance with the replacement plan formulated with Ernst & Young ShinNihon LLC.

(4) Nomination and Remuneration Advisory Committee

The Company has established an optional advisory committee on nominations and remuneration policies as a complementary function to the Board of Directors, and for the purpose of enhancing fairness and transparency.

The Company has established an optional advisory committee concerning nomination and remuneration to further enhance fairness and transparency of management.

The Nomination and Remuneration Advisory Committee deliberates matters related to the selection of Directors, matters related to the remuneration of Directors, and matters related to enhancing the effectiveness of the Board of Directors, etc., and submits recommendations and advice to the Board of Directors. The Nomination and Remuneration

Advisory Committee comprises five members who have been selected by the Board of Directors from among Directors and Audit & Supervisory Board Member, the majority of whom are independent outside board members. The Chairperson is elected from the independent outside board members.

Director Compensation

The remuneration, etc., for Directors of the Company consists of basic remuneration, bonus and share-based compensation (excluding Outside Directors), whereas the remuneration for Audit & Supervisory Board Member consists of base remuneration and bonus (excluding Outside Audit & Supervisory Board Member).

The bonus represents the performance-based remuneration, the amount of which is determined based on the payment standards linked to the business performance of the Company and each divisional company, the dividend policy and ROE (return on equity).

The compensation for fiscal 2016 is set out in the chart below.

Director Compensation in Fiscal 2016

(millions of yen)

	Basic remuneration		Bonus		Share-based compensation		Stock options		Total	
	Number of eligible officers (persons)	Amount	Number of eligible officers (persons)	Amount	Number of eligible officers (persons)	Amount	Number of eligible officers (persons)	Amount	Number of eligible officers (persons)	Amount
Directors	11	332	8	191	8	65	10	9	11	598
(Of which external Directors)	3	24	—	—	—	—	2	1	3	25
Audit & Supervisory Board Members	7	78	2	14	—	—	—	—	7	92
(Of which external Audit & Supervisory Board Members)	3	28	—	—	—	—	—	—	3	28

(Notes) 1. The number of eligible officers includes one Director and two Audit & Supervisory Board members who retired at the closing of the 94th Annual General Meeting of Shareholders held on June 28, 2016.
 2. The amount paid to Directors does not include the portion of employee's salary (including bonus) amounting to 115 million yen for Directors who concurrently serve as employees.
 3. We are not granting shares since we have transferred to the share-based compensation system in June 2016, and the number of Stock Option above shows the booked amount necessary for the accounting processing of fiscal 2016 from the shares granted in the past fiscal years.

Compliance

Chaired by the president, the CSR Committee deliberates on the Fundamental Compliance Policies and other important matters. As an executive organization, the CSR Committee also manages a Compliance Sub-committee with the Legal Department serving as the secretariat. In addition to having Group company and Headquarters executive officers as well as the head of the Corporate Audit Department join its members, the Compliance Subcommittee reports on the results of compliance initiatives and on matters discussed at the Compliance Advisory Board, and discusses future initiative policy.

In fiscal 2016, we regarded harassment prevention as an important implementation item and enhanced our education and training activities, including the implementation of training for executive officers with regard to the U.S. Employment Non-Discrimination Act. In October 2016, as part of the activities for Compliance Reinforcement Month, top executives sent messages, and we conducted e-learning sessions and training (open seminars).

In addition, the Sekisui Chemical Group developed its S.C.A.N. (Sekisui Compliance Assist Network) intra-company whistle-blowing system in 2002 and has made the system available for use by all Group employees.

Reinforcement of the Risk Management Structure

Sekisui Chemical maintains a companywide risk management structure for integrated management of measures to prevent risk events from occurring (risk management) and to respond when risk events occur (crisis management). The Risk Management Group of the Human Resources Department maintains and refines the risk management structure and disseminates information to all directors, executive officers, and employees of the Company and Group companies.

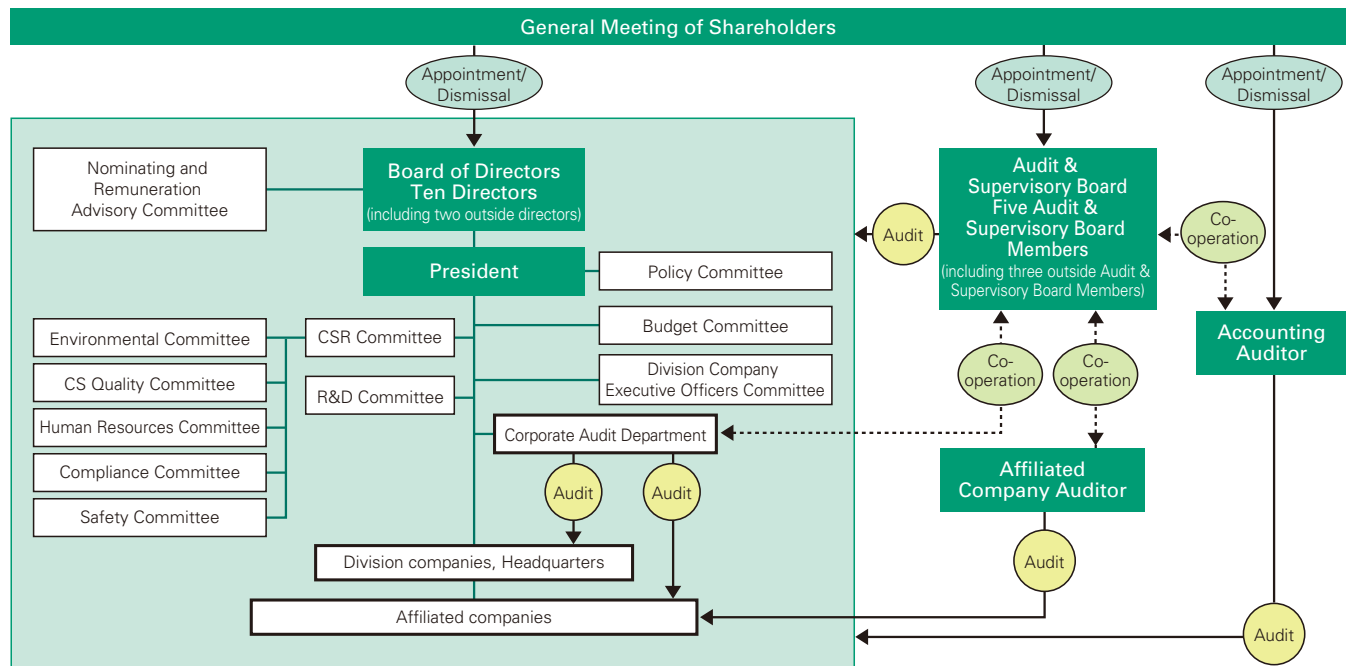
Based on the Sekisui Chemical Group Risk Management Guidelines, 170 task forces are working (fiscal 2017) to reduce and eliminate risk by analyzing and assessing conditions and implementing risk management measures followed by periodic reviews and implementation of the PDCA cycle of risk management for ongoing improvement. The Risk Management Group addresses risk expediently and systematically, reports to the CSR Committee, and considers measures for implementation throughout the Company.

Crisis management activities are carried out following the Sekisui Chemical Group Crisis Management Guidelines. Risk management officers of each department regularly hold crisis management liaison meetings to research incidents and reinforce practices. The Company's overseas crisis management activities are overseen by the Global Crisis Management Office and Regional Crisis Management Responsibility in each of the Company's nine regions in line with the Global Crisis Management Guidelines.

Information Disclosure

In order to deepen mutual trust with all of our shareholders, we believe it is important not only to actively disclose information in a timely and appropriate manner, but also to enhance two-way communications with our shareholders. To steadily put this belief into practice throughout the Group, we established the "Principle of Corporate

Corporate Governance System



Information Disclosure” and beefed up our internal information disclosure framework. For instance, we have set up the “Corporate Information Disclosure Regulations” which specify the content and system of disclosure.

In the Group, the Investor Relations Group within the Business Strategy Department is working hard to strengthen two-way communications with our shareholders and investors, not only by disclosing financial statements in a timely and appropriate manner but also by actively reflecting feedback from our shareholders and investors in our management.

To ensure information is provided in a fair manner, the Group posts its financial statements and results briefings on the Company website in Japanese and English simultaneously and additionally provides an audio recording of briefings and a transcript of the question and answer session.

Dialogue with Stakeholders

The Sekisui Chemical Group believes that an active and appropriate information disclosure as well as interactive communication is important to build a relationship of trust with our five stakeholders of customers, shareholders, employees, business partners, and local communities & the environment.

As part of that communication, we actively engage in communication with business partners—such as at CAT (Customer and Top) meetings, at which top management in housing sales companies meet customers to receive feedback directly; and Dialogue with Top Management and Heim Mutual Prosperity Group, where top management talk directly with employees—and conduct interviews with investors and research institutions.

Of these, the Dialogue with Top Management meetings, at which top management talk directly with

employees, are considered indispensable in resolving issues surrounding the Company and work-related challenges and have provided employees with an opportunity to speak directly to management since 2002. In fiscal 2016, Sekisui Chemical President Teiji Koge visited Japan-based Group companies, explained the progress made with the Medium-term Management Plan and conducted question and answer sessions. For the exchanges of opinions that followed, active discussions were held on a number of topics, including “the Company’s future competitive strength” and “how we and the Company should change in the years to come.”

Response to the Corporate Governance Code

The Company has established and disclosed the SEKISUI Corporate Governance Principles for the purpose of further evolving the initiatives of the Group to improve its corporate governance and communicating our corporate governance approach and initiatives to our stakeholders.

In addition to the above Principles, the status of the Company’s initiatives and its approach with respect to all 73 items of the Corporate Governance Code consisting of the General Principles, Principles and Supplementary Principles have been summarized and disclosed in the form of the Initiatives to Each of Principles of the Corporate Governance Code, including the items for which the implementation method is currently being considered. Please refer to the following.

<http://www.sekisuichemical.com/about/governance/index.html>

Column Actively Engaging in Dialogue with Shareholders and Investors

In addition to the financial results briefings given on a quarterly basis by the management team, as part of our efforts to actively utilize feedback from shareholders and investors in management we actively conduct one-on-one meetings with, for example, analysts and institutional investors, while paying attention to feedback from capital markets.

In addition, having been actively engaged in social contribution through its business activities—for example by advocating CSR management and from an early stage having adopting a plan to expand earnings through its Environment-contributing Products—the Group is actively engaged in social contribution, there is growing interest in socially responsible investment (SRI), by which investments are actively made in companies that engage in CSR, and investigations are actively carried out by rating agencies. In this regard, every year we conduct ongoing direct dialogue with SRI ratings agencies, including those in Europe, as well as with financial institutions and investors inside and outside Japan.



General view of President Koge conducting a financial results briefing.

Directors, Audit & Supervisory Board Members and Executive Officers

Board of Directors



Naofumi Negishi
Chairman of the Board and Director

- Apr. 1971: Joined the Company
- Jun. 2003: Director of the Company, Head of Corporate Finance & Accounting and Planning Department
- Apr. 2005: Managing Director of the Company*, Head of Corporate Finance & Accounting and Planning Department
- Oct. 2007: Managing Director of the Company*, in Charge of Corporate Communication Department, Head of Corporate Finance & Accounting and Planning Department
- Apr. 2008: Managing Director of the Company*, Senior Managing Executive Officer & CFO of the Company, in Charge of Corporate Communication Department, Head of Corporate Finance & Accounting and Planning Department
- Jun. 2008: Director of the Company, Senior Managing Executive Officer & CFO of the Company, in Charge of Corporate Communication Department, Head of Corporate Finance & Accounting and Planning Department
- Oct. 2008: Director of the Company, Executive Vice President & CFO of the Company, in Charge of Corporate Communication Department and Corporate Finance & Accounting and Planning Department
- Mar. 2009: President and Representative Director, Chief Executive Officer of the Company
- Mar. 2015: Chairman of the Board and Representative Director of the Company
- Jun. 2017: Chairman of the Board and Director of the Company [incumbent]

Reasons for Election of the Director

He formerly assumed office as President and Representative Director for six years from 2009 to 2015. Since 2015 when he was appointed as Chairman of the Board and Representative Director, he has been managing the Board of Directors appropriately and engaged in external affairs as representative of the Sekisui Chemical Group. Therefore, the Company has judged that he would be able to further fortify the Board's functions of decision-making and supervision and thus reelected him as a Director.

*The title of managing director of the Company was in use until the April 2008 introduction of the Executive Officer System.



Teiji Koge
President and Representative Director
Chief Executive Officer

- Apr. 1976: Joined the Company
- Jun. 2005: Director of the Company, President of Nagoya Sekisui Heim Co., Ltd.
- Oct. 2005: Director of the Company, Head of President's Office of Housing Company
- Apr. 2006: Director of the Company, Head of Planning & Control Department of Housing Company
- Apr. 2007: Director of the Company, Head of Housing Division and Planning & Control Department of Housing Company
- Jul. 2007: Director of the Company, in Charge of Sales Department, Head of Housing Division of Housing Company
- Feb. 2008: Director of the Company, President of Housing Company, in Charge of Sales Department, Head of Housing Division
- Apr. 2008: Director of the Company, Managing Executive Officer of the Company, President of Housing Company
- Apr. 2009: Director of the Company, Senior Managing Executive Officer of the Company, President of Housing Company
- Mar. 2014: Director of the Company, Senior Managing Executive Officer of the Company, Head of CSR Department, Head of Corporate Communication Department
- Mar. 2015: President and Representative Director, Chief Executive Officer of the Company [incumbent]

Reasons for Election of the Director

Since he was appointed as President and Representative Director in March 2015, he has demonstrated strong leadership as Chief Executive Officer of the Company with the aim of fulfilling the Medium-term Management Plan and fully performed his role in important decisions on and supervision of business execution. Therefore, the Company has judged that he would be able to contribute to further enhancing the corporate value of the Sekisui Chemical Group and thus reelected him as a Director.



Hajime Kubo
Representative Director
Senior Managing Executive Officer

- Apr. 1980: Joined the Company
- Apr. 2008: Executive Officer of the Company, Head of Administrative Management & Control Department of High Performance Plastics Company
- Jan. 2010: Executive Officer of the Company, Head of CSR Department
- Jun. 2010: Director of the Company, Executive Officer of the Company, in Charge of Corporate Communication Department, Head of External Affairs Department and CSR Department
- Apr. 2011: Director of the Company, Managing Executive Officer of the Company, in Charge of Corporate Communication Department, Head of External Affairs Department and CSR Department
- Apr. 2012: Director of the Company, Managing Executive Officer of the Company, in Charge of Legal Department, Head of CSR Department and Corporate Communication Department
- Apr. 2013: Director of the Company, Managing Executive Officer of the Company, Head of CSR Department and Corporate Communication Department
- Mar. 2014: Director of the Company, Managing Executive Officer of the Company, Responsible for Corporate Finance Accounting Department, Head of Business Planning Department
- Apr. 2014: Director of the Company, Senior Managing Executive Officer of the Company, Responsible for Corporate Finance Accounting Department, Head of Business Planning Department
- Mar. 2015: Director of the Company, Senior Managing Executive Officer of the Company, Responsible for Corporate Finance Accounting Department, Head of Business Planning Department, Head of CSR Department, Head of Corporate Communication Department
- Apr. 2015: Director of the Company, Senior Managing Executive Officer of the Company, President of Urban Infrastructure & Environmental Products Company
- Jun. 2017: Representative Director of the Company, Senior Managing Executive Officer of the Company, President of Urban Infrastructure & Environmental Products Company [incumbent]

Reasons for Election of the Director

Since he was appointed as President of Urban Infrastructure & Environmental Products Company in April 2015, he has demonstrated strong leadership in leading structural reform and profitability enhancement of said Company and has an abundant track record and experience. Furthermore, he has considerable knowledge and supervisory capabilities regarding business management in general as proven by the execution of his duties as Director. Therefore, the Company has judged that he would be able to contribute to further enhancing the corporate value of the Sekisui Chemical Group and thus reelected him as a Director.



Satoshi Uenoyama
Director
Senior Managing Executive Officer

- Apr. 1980: Joined the Company
- Apr. 2009: Executive Officer of the Company, Head of R&D Center
- Apr. 2011: Managing Executive Officer of the Company, Head of R&D Center
- Jun. 2011: Director of the Company, Managing Executive Officer of the Company, Head of R&D Center
- Apr. 2014: Director of the Company, Senior Managing Executive Officer of the Company, Head of R&D Center
- Apr. 2016: Director of the Company, Senior Managing Executive Officer of the Company, Head of R&D Center and Head of LB Project
- Apr. 2017: Director of the Company, Senior Managing Executive Officer of the Company, Responsible for Corporate Research and Development, Head of LB Project [incumbent]

Reasons for Election of the Director

As the Head of the R&D area of the Company, he has been the Company's driving force to launch products in markets that win society's confidence with outstanding technology and product quality. Furthermore, he has considerable knowledge and supervisory capabilities regarding business management in general as proven by the execution of his duties as Director. Therefore, the Company has judged that he would be able to contribute to further enhancing the corporate value of the Sekisui Chemical Group and thus reelected him as a Director.



Shunichi Sekiguchi
Director
Senior Managing Executive Officer

- Apr. 1978: Joined the Company
- Apr. 2008: Executive Officer of the Company, Head of Living Environment Division and Head of Diversified Business Group of Housing Company
- Jul. 2010: Executive Officer of the Company, Head of Living Environment Division of Housing Company
- Jan. 2013: Executive Officer of the Company, Responsible for Public Relations & External Relations Department, Head of Living Environment Division and Head of President Office of Housing Company
- Apr. 2013: Managing Executive Officer of the Company, Responsible for Public Relations & External Relations Department, Head of Sales Management Division and Head of President Office of Housing Company
- Jan. 2014: Managing Executive Officer of the Company, Responsible for Public Relations & External Relations Department and Head of President Office of Housing Company
- Mar. 2014: Managing Executive Officer of the Company, President of Housing Company
- Jun. 2014: Director of the Company, Managing Executive Officer of the Company, President of Housing Company
- Apr. 2015: Director of the Company, Senior Managing Executive Officer of the Company, President of Housing Company [incumbent]

Reasons for Election of the Director

Since he was appointed as President of Housing Company in March 2014, he has demonstrated strong leadership in leading profitability enhancement of said Company and has an abundant track record and experience. Furthermore, he has considerable knowledge and supervisory capabilities regarding business management in general as proven by the execution of his duties as Director. Therefore, the Company has judged that he would be able to contribute to further enhancing the corporate value of the Sekisui Chemical Group and thus reelected him as a Director.

Directors, Audit & Supervisory Board Members and Executive Officers

Board of Directors



Keita Kato
Director
Senior Managing
Executive Officer

- Apr. 1980: Joined the Company
- Apr. 2008: Executive Officer of the Company, Head of Interlayer Film Division of High Performance Plastics Company
- Jul. 2011: Executive Officer of the Company, Head of New Business Promotion Division of High Performance Plastics Company
- Mar. 2013: Executive Officer of the Company, Head of New Business Promotion Division and Head of Research & Development Institute of High Performance Plastics Company
- Oct. 2013: Executive Officer of the Company, Head of Research & Development Institute of High Performance Plastics Company
- Mar. 2014: Managing Executive Officer of the Company, President of High Performance Plastics Company
- Jun. 2014: Director of the Company, Managing Executive Officer of the Company, President of High Performance Plastics Company
- Apr. 2015: Director of the Company, Senior Managing Executive Officer of the Company, President of High Performance Plastics Company [incumbent]

Reasons for Election of the Director

Since he was appointed as President of High Performance Plastics Company in March 2014, he has demonstrated strong leadership in leading the business expansion of said Company and has an abundant track record and experience. Furthermore, he has considerable knowledge and supervisory capabilities regarding business management in general as proven by the execution of his duties as Director. Therefore, the Company has judged that he would be able to contribute to further enhancing the corporate value of the Sekisui Chemical Group and thus reelected him as a Director.



Yoshiyuki Hirai
Director
Managing
Executive Officer

- Apr. 1985: Joined the Company
- Mar. 2009: Head of Foam Division of High Performance Plastics Company
- Apr. 2014: Executive Officer of the Company, Head of Foam Division of High Performance Plastics Company
- Apr. 2015: Executive Officer of the Company, Responsible for CSR Promotion Department, Head of Business Strategy Department
- Jun. 2015: Director of the Company, Executive Officer of the Company, Responsible for CSR Promotion Department, Head of Business Strategy Department
- Apr. 2017: Director of the Company, Managing Executive Officer of the Company, Responsible for Corporate Finance & Accounting Department, Head of Business Strategy Department [incumbent]

Reasons for Election of the Director

Since he was appointed as Director in June 2015, he has promoted the planning of business strategies from an enterprise perspective and constructive dialogue with shareholders mainly as the Head of the Business Strategy Department by leveraging the knowledge fostered through his abundant experience so far, as well as performing his duties as Director. Therefore, the Company has judged that he would be able to contribute to further enhancing the corporate value of the Sekisui Chemical Group and thus reelected him as a Director.



Hiroyuki Taketomo
Director
Managing
Executive Officer

- Apr. 1985: Joined the Company
- Oct. 2003: Head of General Administration Department of High Performance Plastics Company
- Apr. 2011: Director of SEKISUI MEDICAL CO., LTD.
- Sep. 2014: Head of Human Resources Group of CSR Department
- Apr. 2015: Executive Officer of the Company, Head of Human Resources Department
- Apr. 2016: Executive Officer of the Company, Responsible for Legal Department, Head of Human Resources Department
- Jun. 2016: Director of the Company, Executive Officer of the Company, Responsible for Legal Department, Head of Human Resources Department
- Apr. 2017: Director of the Company, Managing Executive Officer of the Company, Responsible for Legal Department, Head of Human Resources Department [incumbent]

Reasons for Election of the Director

Since he was appointed as Director in June 2016, he has promoted initiatives relevant to diversity management and the establishment of the compliance system as the Responsible for Legal Department and the Head of the Human Resources Department by leveraging the knowledge fostered through his abundant experience so far, as well as performing his duties as Director. Therefore, the Company has judged that he would be able to contribute to further enhancing the corporate value of the Sekisui Chemical Group and thus reelected him as a Director.



Kunio Ishizuka
Director
Outside Director

- May 1972: Joined Mitsukoshi, Ltd.
- Feb. 2003: Executive Officer, General Manager of Operations Department of Mitsukoshi, Ltd.
- Mar. 2004: Senior Executive Officer, General Manager of Corporate Planning Division of Mitsukoshi, Ltd.
- Mar. 2005: Managing Executive Officer, General Manager of Business Planning Division of Mitsukoshi, Ltd.
- May 2005: President and Representative Director, Executive Officer, General Manager of Business Planning Division of Mitsukoshi, Ltd.
- Feb. 2006: President and Representative Director, Executive Officer of Mitsukoshi, Ltd.
- Apr. 2008: President and Representative Director, Executive Officer of Isetan Mitsukoshi Holdings Ltd.
- Feb. 2012: Chairman and Representative Director, Executive Officer of Isetan Mitsukoshi Holdings Ltd.
- Apr. 2012: Chairman and Representative Director, Executive Officer of Isetan Mitsukoshi Ltd.
- Jun. 2013: Director of the Company [incumbent]
- Apr. 2017: Chairman and Representative Director of Isetan Mitsukoshi Holdings Ltd., Chairman and Representative Director of Isetan Mitsukoshi Ltd.
- Jun. 2017: Senior Corporate Advisor of Isetan Mitsukoshi Holdings Ltd., Senior Corporate Advisor of Isetan Mitsukoshi Ltd. [incumbent]

Reasons for Election of the Director

Since he was appointed as Outside Director of the Company, he has provided advice with respect to the business management of the Company and supervised business execution appropriately by leveraging his abundant knowledge of business management and leadership fostered through his position as a management executive in the retail and service industry. Therefore, the Company has judged that he would be able to contribute to further enhancing the corporate value of the Sekisui Chemical Group and thus reelected him as an Outside Director.

Number of Attendance of the Board of Directors Meetings of the Company in FY2016: 15 out of 17 (Attendance rate: 88.2%)

Chairman of the Nomination and Remuneration Advisory Committee



Yutaka Kase
Director
Outside Director

- May 1970: Joined Nissho Iwai Corporation
- Jun. 2001: Executive Officer of Nissho Iwai Corporation
- Apr. 2003: Director and Managing Executive Officer of Nissho Iwai Corporation
- Apr. 2004: Representative Director and Senior Managing Executive Officer of Former Sojitz Corporation
- Aug. 2004: Representative Director and Executive Vice President of Former Sojitz Corporation
- Oct. 2005: Representative Director and Executive Vice President of Sojitz Corporation
- Apr. 2007: President & CEO of Sojitz Corporation
- Apr. 2012: Representative Director and Chairman of Sojitz Corporation
- Jun. 2016: Director of the Company [incumbent]
- Jun. 2017: Senior Corporate Advisor of Sojitz Corporation [incumbent]

Reasons for Election of the Director

Since he was appointed as Outside Director of the Company, he has provided advice with respect to the business management of the Company and supervised business execution appropriately by leveraging his abundant experience and past achievements regarding global corporate management and business strategy fostered through his position as a corporate manager of a general trading company. Therefore, the Company has judged that he would be able to contribute to further enhancing the corporate value of the Sekisui Chemical Group and thus reelected him as an Outside Director.

Number of Attendance of the Board of Directors Meetings of the Company in FY2016: 13 out of 13 (Attendance rate: 100%)

Member of the Nomination and Remuneration Advisory Committee

Directors, Audit & Supervisory Board Members and Executive Officers

Audit & Supervisory Board Members

Moritoshi Naganuma

Corporate Audit & Supervisory Board Member

Yuichi Hamabe

Corporate Audit & Supervisory Board Member

Tetsuo Ozawa

Outside Audit & Supervisory Board Member
Attorney at Law

FY2016 Activities

Attendance rate of the Board of Directors Meetings: 94.1%
Attendance rate of the Audit & Supervisory Board Members Meetings: 94.4%

Member of the Nomination and Remuneration Advisory Committee
Mr. Ozawa has mainly and appropriately provided comments and advice on building and maintaining compliance system of the Group from a specialist perspective as a lawyer.

Yasuhiro Nishi

Outside Audit & Supervisory Board Member
Certified Public Accountant

FY2016 Activities

Attendance rate of the Board of Directors Meetings: 100%
Attendance rate of the Audit & Supervisory Board Members Meetings: 100%

Mr. Nishi has mainly and appropriately provided comments and advice necessary for the deliberation of discussed items from a financial and accounting specialist perspective as a certified public accountant.

Kazuyuki Suzuki

Outside Audit & Supervisory Board Member
Professor Emeritus

University of Electro-Communications, Tokyo

FY2016 Activities

Attendance rate of the Board of Directors Meetings: 94.1%
Attendance rate of the Audit & Supervisory Board Members Meetings: 94.4%

Mr. Suzuki has appropriately provided comments and advice necessary for the deliberation of discussed items based on his profound knowledge and extensive experience on quality control and reliability engineering.

Executive Officers

Teiji Koge

Chief Executive Officer

Housing Company

Shunichi Sekiguchi

Senior Managing Executive Officer
President of Housing Company

Kazukiyo Kuroki

Managing Executive Officer
Head of Housing Sales Management Division

Futoshi Kamiwaki

Managing Executive Officer
Head of Housing Product Research & Development Department

Toshiyuki Kamiyoshi

Executive Officer
President of TOKYO SEKISUI HEIM CO., LTD.

Kenji Yagi

Executive Officer
President of SEKISUI HEIM KINKI CO., LTD.

Satoru Oketani

Executive Officer
Head of Housing Renovation Sales Management Division

Shinichiro Koga

Executive Officer
Head of Technology Department

Masahide Yoshida

Executive Officer
President of SEKISUI HEIM CHUBU CO., LTD.

Urban Infrastructure & Environmental Products Company

Hajime Kubo

Senior Managing Executive Officer
President of Urban Infrastructure & Environmental Products Company

Akira Nishimura

Managing Executive Officer
Head of Management Planning Department

Masaru Noriki

Executive Officer
Head of Sheet Division

Kiyoshi Fujii

Executive Officer
Head of Higashinohon Sales Headquarters

Masabumi Nishimura

Executive Officer
Head of Industrial Piping Systems Division

Takeo Kishitani

Executive Officer
Head of Building Materials Division

High Performance Plastics Company

Keita Kato

Senior Managing Executive Officer
President of High Performance Plastics Company

Toshitaka Fukunaga

Managing Executive Officer
Responsible for Electronics field
Head of Technology & CS Promotion Department

Katsuhisa Yokura

Executive Officer
Head of Purchasing Department

Katsunori Mukai

Executive Officer
Head of New Business Promotion Division and Research & Development Institute

Ikusuke Shimizu

Executive Officer
Responsible for Automobiles and Transportation field
Head of Foam Division

Toshio Konno

Executive Officer
Responsible for Building and Infrastructure Materials field
Head of Specialty Chemicals Division

Takatsugu Arai

Executive Officer
President of SEKISUI MATERIAL SOLUTIONS CO., LTD.

Headquarters

Satoshi Uenoyama

Senior Managing Executive Officer
Responsible for Corporate Research and Development
Head of LB Project

Yoshiyuki Hirai

Managing Executive Officer
Responsible for Corporate Finance & Accounting Department
Head of Business Strategy Department

Hiroyuki Taketomo

Managing Executive Officer
Responsible for Legal Department
Head of Human Resources Department

Hitoshi Kobayashi

Executive Officer
Head of Total Manufacturing Management Center

Masao Ogasa

Executive Officer
Head of R&D Center

Data (Key Financial and Non-financial Data)

	FY2012	FY2013	FY2014	FY2015	FY2016
Financial Data					
Net Sales	1,032,431 mil. yen	1,110,851 mil. yen	1,112,748 mil. yen	1,096,317 mil. yen	1,065,776 mil. yen
(Housing)	469,036 mil. yen	496,790 mil. yen	494,116 mil. yen	473,441 mil. yen	484,975 mil. yen
(Urban Infrastructure & Environmental Products)	214,516 mil. yen	239,941 mil. yen	227,689 mil. yen	226,279 mil. yen	240,332 mil. yen
(High Performance Plastics)	332,017 mil. yen	353,782 mil. yen	372,296 mil. yen	378,552 mil. yen	357,526 mil. yen
Operating Income	59,621 mil. yen	82,541 mil. yen	85,764 mil. yen	89,823 mil. yen	96,476 mil. yen
(Housing)	36,333 mil. yen	41,108 mil. yen	41,327 mil. yen	36,387 mil. yen	37,549 mil. yen
(Urban Infrastructure & Environmental Products)	1,800 mil. yen	6,460 mil. yen	1,264 mil. yen	3,610 mil. yen	12,827 mil. yen
(High Performance Plastics)	23,249 mil. yen	36,098 mil. yen	45,951 mil. yen	53,353 mil. yen	54,537 mil. yen
Ordinary Income	60,670 mil. yen	83,310 mil. yen	87,978 mil. yen	81,213 mil. yen	91,513 mil. yen
Net Income Attributable to Owners of the Parent	30,174 mil. yen	41,190 mil. yen	52,995 mil. yen	56,653 mil. yen	60,850 mil. yen
Comprehensive Income	77,437 mil. yen	57,944 mil. yen	91,587 mil. yen	37,080 mil. yen	57,638 mil. yen
Operating Income Ratio	5.8 %	7.4 %	7.7 %	8.2 %	9.1 %
Total Assets	901,564 mil. yen	961,009 mil. yen	968,011 mil. yen	936,043 mil. yen	943,640 mil. yen
Net Assets	433,228 mil. yen	473,555 mil. yen	535,292 mil. yen	544,156 mil. yen	570,549 mil. yen
Net cash provided by operating activities	71,016 mil. yen	97,720 mil. yen	67,760 mil. yen	71,389 mil. yen	108,229 mil. yen
Net cash used in (provided by) investing activities	-31,133 mil. yen	-60,914 mil. yen	4,127 mil. yen	-23,715 mil. yen	-44,057 mil. yen
Net cash used in financing activities	-30,520 mil. yen	-49,803 mil. yen	-63,856 mil. yen	-41,726 mil. yen	-39,633 mil. yen
Free Cash Flow	30,650 mil. yen	24,915 mil. yen	58,810 mil. yen	33,375 mil. yen	48,107 mil. yen
Capital Expenditures	36,842 mil. yen	41,827 mil. yen	46,993 mil. yen	49,740 mil. yen	43,868 mil. yen
Depreciation and Amortization	34,895 mil. yen	34,376 mil. yen	31,203 mil. yen	34,735 mil. yen	34,843 mil. yen
R&D Expenditures	25,894 mil. yen	27,720 mil. yen	29,452 mil. yen	31,693 mil. yen	34,169 mil. yen
Net Assets per Share	810.76 yen	897.18 yen	1,033.49 yen	1,071.24 yen	1,147.91 yen
Net Income Attributable to Owners of the Parent per Share	58.53 yen	80.13 yen	104.73 yen	115.08 yen	126.13 yen
Dividends per Share	18.00 yen	23.00 yen	27.00 yen	30.00 yen	35.00 yen

Introduction	Message from President & CEO	Strategy	Performance	Foundation	Corporate Governance	Data	Contents
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Data

	FY2012	FY2013	FY2014	FY2015	FY2016
Financial Data					
Financial Index					
Dividends Payout Ratio	30.8 %	28.7 %	25.8 %	26.1 %	27.7 %
Shareholders' Equity to Total Assets	46.4 %	47.5 %	53.3 %	55.9 %	58.2 %
Current Ratio	131.1 %	127.4 %	139.8 %	138.0 %	160.7 %
Fixed Ratio	110.3 %	102.1 %	97.2 %	95.9 %	86.9 %
Interest-bearing Debt	115,320 mil. yen	94,010 mil. yen	63,120 mil. yen	52,338 mil. yen	43,734 mil. yen
Debt/Equity Ratio	27.6 %	20.6 %	12.2 %	10.0 %	8.0 %
Total Assets Turnover	1.19 times	1.19 times	1.15 times	1.15 times	1.13 times
Inventory Turnover	7.57 times	7.50 times	7.09 times	7.11 times	7.00 times
Tangible Fixed Assets Turnover	4.38 times	4.51 times	4.31 times	4.11 times	4.01 times
R&D Expenditures to Revenues	2.51 %	2.50 %	2.65 %	2.89 %	3.21 %
Return on Equity	7.8 %	9.4 %	10.9 %	10.9 %	11.3 %
Return on Total Assets	7.0 %	8.9 %	9.1 %	8.5 %	9.7 %
EBITDA	94,516 mil. yen	116,918 mil. yen	116,967 mil. yen	124,558 mil. yen	131,319 mil. yen
Interest Coverage Ratio	21.7 times	33.2 times	51.7 times	64.5 times	100.4 times
Dividend to Equity Ratio	2.4 %	2.7 %	2.8 %	2.9 %	3.2 %
PER	17.63 times	13.39 times	14.89 times	12.04 times	14.83 times
Net Sales per Employee	47.96 mil. yen	49.13 mil. yen	47.44 mil. yen	45.88 mil. yen	45.44 mil. yen

Human Rights
Compliance Training

Number of Employees Participating in e-Learning	19,617	20,210	20,450	20,450	20,510 (Note)
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Note: Implemented on four sessions in fiscal 2016. However, as the third and fourth sessions are under way, data is the average of the results from the first and second sessions.

Shareholders' Equity to Total Assets = Shareholders' Equity including Accumulated Other Comprehensive Income/Total Assets, Current Ratio = Current Assets/Current Liabilities, Fixed Ratio = Fixed Assets/Shareholders' Equity, Debt/Equity Ratio = Interest-bearing Debt/Shareholders' Equity, Total Assets Turnover = Net Sales/Average Total Assets, Inventory Turnover = Net Sales/Average Inventory, Tangible Fixed Assets Turnover = Net Sales/Average Tangible Fixed Assets, R&D Expenditures to Revenues = R&D Expenditures/Net Sales, Return on Equity = Net Income Attributable to Owners of the Parent/Average Shareholders' Equity, Return on Total Assets = Ordinary Income/Average Total Assets, EBITDA = Operating Income + Depreciation and Amortization, Interest Coverage Ratio = (Operating Income + Interest and Dividends)/Interest Expense, Dividend to Equity Ratio = Dividend per Share/Average Net per Share, PER = Stock prices at the end of fiscal year/Net Income Attributable to Owners of the Parent per Share, Net Sales per Employee = Net Sales/Average Number of Employees

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	FY2012	FY2013	FY2014	FY2015	FY2016
Labor Practices					
Number of Employees	22,202	23,017	23,886	23,901	23,006
By Divisional Company					
(Housing)	9,775	9,840	10,442	10,419	10,447
(Urban Infrastructure & Environmental Products)	4,887	5,363	5,453	5,044	4,789
(High Performance Plastics)	6,545	6,858	7,051	7,453	7,269
(Headquarters)	995	956	940	985	501
By Region					
(Japan)	16,813	17,047	17,743	18,065	17,928
(North America, Central and South America)	1,553	1,544	1,579	1,512	1,403
(Europe)	1,462	1,432	1,425	1,048	973
(Asia/Pacific (including China))	2,374	2,994	3,139	3,276	2,702
Diversity					
Employment Ratio of People with Disabilities (Sekisui Chemical) *1	1.99 %	2.55 %	2.40 %	2.21 %	2.29 %
Number of Elderly Employees Reemployed (Sekisui Chemical)	65	56	83	104	65
Elderly Employees Reemployment Rate (Sekisui Chemical)	72.2 %	87.5 %	82.2 %	82.5 %	83.3 %
Global Talent Employees*2	294	300	325	329	341
Work-life Balance					
Number of people using work-life balance related programs*3 (Sekisui Chemical)	143	154	165	177	196
Health and Safety					
Loss Costs (Japan)*4	775.4 mil. yen	444.5 mil. yen	510.9 mil. yen	393.7 mil. yen	375.1 mil. yen

*1: Including special provision subsidiary

*2: Japanese employees with experience working overseas (including overseas trainees)

*3: Programs for promoting diverse working styles including childcare leave, shorter working hours, use of flexible working hours, and family leave

*4: Domestic production site, R&D facility, Headquarters department, and indirect company department expenses including man-hours required to respond to occupational accidents, equipment-related accidents, and commuting accidents as well as long-term illness absences

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Data

	FY2012	FY2013	FY2014	FY2015	FY2016
Environment					
Greenhouse-gas Emissions during Manufacturing (Japan)	312 kilotons-CO ²	340 kilotons-CO ²	321 kilotons-CO ²	307 kilotons-CO ²	302 kilotons-CO²
Greenhouse-gas Emissions during Manufacturing (Overseas)	441 kilotons-CO ²	471 kilotons-CO ²	470 kilotons-CO ²	468 kilotons-CO ²	506 kilotons-CO²
Energy Usage during Manufacturing (Japan)	5,456 TJ	5,937 TJ	5,596 TJ	5,347 TJ	5,277 TJ
Energy Usage during Manufacturing (Overseas)	7,365 TJ	7,840 TJ	7,836 TJ	7,741 TJ	8,385 TJ
Wastes Generated by Production Sites (Japan)	35.2 kilotons	35.0 kilotons	34.1 kilotons	31.7 kilotons	32.6 kilotons
Wastes Generated by Production Sites (Overseas)	22.2 kilotons	26.2 kilotons	27.9 kilotons	26.2 kilotons	27.0 kilotons
Wastes Generated by New House Construction (Japan)	1.88 tons per unit	1.90 tons per unit	1.87 tons per unit	1.73 tons per unit	2.02 tons per unit
(New House Construction Site)	1.17 tons per unit	1.22 tons per unit	1.31 tons per unit	1.34 tons per unit	1.39 tons per unit
(Exterior Wall Plant)	0.46 tons per unit	0.44 tons per unit	0.34 tons per unit	0.16 tons per unit	0.39 tons per unit
(Assembly Plant)	0.25 tons per unit	0.24 tons per unit	0.22 tons per unit	0.23 tons per unit	0.24 tons per unit
NOx Emission Volume (Japan)	205 tons	217 tons	197 tons	193 tons	167 tons
SOx Emission Volume (Japan)	14 tons	13 tons	10 tons	15 tons	10 tons
Soot and Dust Emission Volume (Japan)	9.5 tons	4 tons	3 tons	2.3 tons	2.9 tons
COD Discharge Volume (Japan)	51 tons	70 tons	71 tons	76 tons	71 tons
Discharge of Volatile Organic Compounds (VOCs) into the Atmosphere (Japan)	1,219 tons	1,368 tons	1,259 tons	1,262 tons	1,047 tons
Amount of Water Extracted for Use at Production Sites (Japan)	15,712 kilotons	17,041 kilotons	16,019 kilotons	15,954 kilotons	15,384 kilotons
Amount of Water Extracted for Use at Production Sites (Overseas)*	4,737 kilotons	4,668 kilotons	4,321 kilotons	4,238 kilotons	5,235 kilotons
Environment-Contributing Products					
Ratio of Sales of Environment-Contributing Products	38.0 %	42.0 %	44.5 %	44.3 %	45.2 %
Net Sales	392.5 bil. yen	466.8 bil. yen	495.1 bil. yen	485.8 bil. yen	481.2 bil. yen
(Housing)	268.7 bil. yen	306.8 bil. yen	305.8 bil. yen	280.6 bil. yen	290.9 bil. yen
(Urban Infrastructure & Environmental Products)	79.9 bil. yen	99.6 bil. yen	99.8 bil. yen	103.5 bil. yen	90.3 bil. yen
(High Performance Plastics)	42.8 bil. yen	59.1 bil. yen	88.1 bil. yen	99.8 bil. yen	99.4 bil. yen

*Due to the revised scope of summation, overseas figures have been revised retroactively.

Community Involvement and Development

Charitable Contributions	102 mil. yen	255 mil. yen	179 mil. yen	148 mil. yen	186 mil. yen
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Consumer Issues

External Failure Costs (Costs responding to product-related claims) (FY2013=100)	—	100	98.2	95.4	87.6
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Corporate Information and Stock Information

As of March 31, 2017

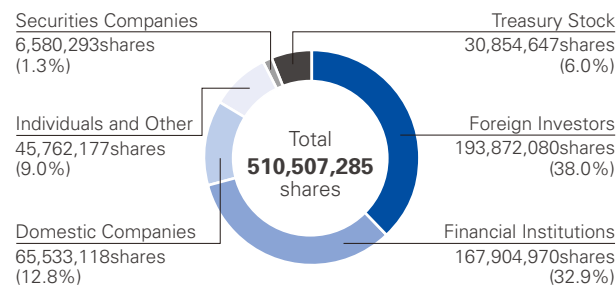
Head Office:	4-4, Nishitenma 2-Chome, Kita-ku, Osaka 530-8565
Tokyo Head Office:	3-17, Toranomon 2-Chome, Minato-ku, Tokyo 105-8450
Founded:	March 3, 1947
President and Representative Director:	Teiji Koge
Employees:	23,006
Consolidated Subsidiaries:	143
Affiliates (Equity Method):	8
Paid-in Capital:	100,002,375,657 yen
Fiscal Year:	Ended March 31
Authorized:	1,187,540,000 shares
Issued:	510,507,285 shares
Listings:	Common stock listed on the Tokyo Stock Exchange
Stock Ticker Number:	4204
Number of Shareholders:	18,508
Manager of the Register of Shareholders:	Mitsubishi UFJ Trust and Banking Corporation
Accounting Auditor:	Ernst & Young ShinNihon LLC

Major Shareholders

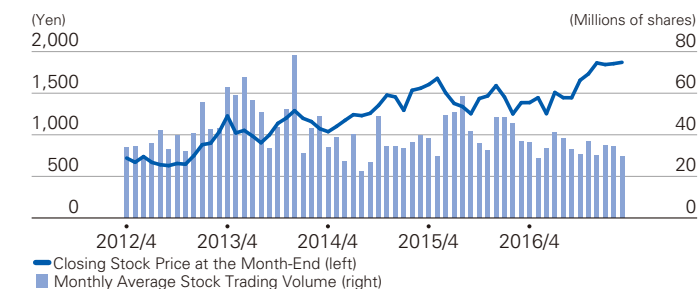
Name/Company Name	Number of Shares Owned (Thousands of Shares)	Percentage (%)
Asahi Kasei Corporation	28,039	5.49
Japan Trustee Services Bank, Ltd. (Trust Account)	22,365	4.38
The Dai-ichi Life Insurance Company, Limited	19,681	3.85
The Master Trust Bank of Japan, Ltd. (Trust Account)	18,396	3.60
Sekisui House, Ltd.	11,998	2.35
Tokio Marine & Nichido Fire Insurance Co., Ltd.	11,946	2.34
JPMorgan Chase Bank 385164	8,991	1.76
Japan Trustee Services Bank, Ltd. (Trust Account 5)	8,735	1.71
Employees Stock Ownership Plan	8,474	1.65
State Street Bank and Trust Company 505225	7,706	1.50

Notes: 1. The Company maintains 30,854,647 shares of treasury stock, which does not include the holdings of the major shareholders in the above list.
 2. The Employee Stock Ownership Plan (400,000) and Board Incentive Plan as officer remuneration system (350,000) are not included in treasury stock.
 3. The number of shares held is rounded down to the nearest thousand.

Breakdown of Shareholders



Sekisui Chemical Stock Price and Trading Volume



Additional Information

	FY2012	FY2013	FY2014	FY2015	FY2016
Open	729	1,028	1,087	1,544	1,382
High	1,042	1,448	1,619	1,752	1,983
Low	590	900	1,002	1,193	1,215
Close	1,032	1,073	1,559	1,386	1,871
Issued (thousands of shares)	532,507	532,507	520,507	510,507	510,507
Market value (billions of yen)	549.5	571.4	811.5	707.6	955.2

For further information please contact:

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