SEKISUI

# REAPING TODAY, SOWING SEEDS FOR TOMORROW

## ANNUAL REPORT 2013

Year Ended March 31, 2013

SEKISUI CHEMICAL CO., LTD.

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# READERS' GUIDE

**Sekisui Chemical provides a wide variety of investor relation materials to help shareholders and investors maintain a full understanding of the Company.**

As part of its management priority on shareholders and investors, the Company exercises a policy of proactively providing information disclosure. In line with this policy, we actively communicate with stakeholders through regularly scheduled explanatory meetings with analysts and institutional investors, by providing a full range of IR materials for overseas investors and individual investors, and by providing additional information, such as voice recordings of explanatory meetings, on the Company homepage.

Here, we would like to introduce some of the features of the IR materials available on our homepage.

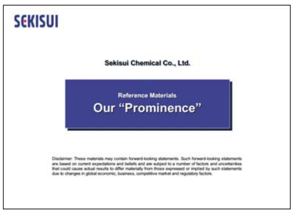

## Annual Report

**The Sekisui Chemical Annual Report contains a wide range of material, including corporate information and commentary from the company president and the presidents of the three internal divisional companies.**

The annual report is composed of three sections: **Operation and Strategy** in which the company and divisional company presidents discuss the previous year results, the outlook for the coming year, and management strategies; **Corporate Information** providing information about the company principle, CSR, corporate governance, the R&D structure, board members, and subsidiary companies; and **Financial Reports** for the year including financial statements and the notes to the financial statements.

The annual reports can be downloaded from the Sekisui Chemical website.
http://www.sekisuichemical.com/ir/library/annual/index.html

The main content of the most recent annual report can also be read online.
http://www.sekisuichemical.com/ir/sekisui_overview/index.html

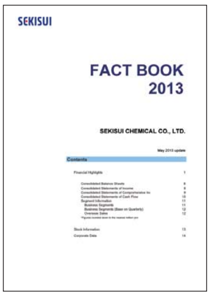



## Reference Materials Our "Prominence"

**The Characteristics of the Three Divisional Companies**

The annual reports providing information on the Company's business trends over a one year period, The Reference Materials; Our "Prominence" presents data about the three divisional companies, including their strengths in the businesses being developed, their business models, and other qualitative information that is unchanging in the medium and long term. For example, the section on the HPP Company introduces the company's global interlayer film business operations and market share in each key region, and the Housing Company section describes our business clearly showing the structure of the domestic housing industry as well as market trends and the competitive environment in the constantly evolving housing industry.

The Reference Materials; Our "Prominence" can be downloaded from the Sekisui Chemical website.
http://www.sekisuichemical.com/ir/library/reference/index.html




## Fact Book

**The Fact Book contains 10 years of results data in graphs and charts.**

The Fact Book focuses on quantitative corporate data, which is presented in graphs and charts. Primary data for the past 10 years from the consolidated balance sheets, consolidated statements of income, and consolidated statements of cash flows is presented for easy comprehension of trends. The Fact Book also provides sales, profit, and other segment information for each divisional company as well as stock information, including share price and the status of major shareholders.

The Fact Book can be downloaded from the Sekisui Chemical website.
http://www.sekisuichemical.com/ir/library/fact/index.html

## Other IR Materials

The materials from our four results briefings each year are posted on our website in Japanese and English on the day the meeting is held. Please see the materials for the most recent business results. Materials related to other presentation meetings which are not regularly scheduled are also posted on the website.

http://www.sekisuichemical.com/ir/event/index.html

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

*The figures appearing on page 2-23 are rounded off to the nearest hundred million yen, as in our results briefing presentation materials and other IR materials.

# OPERATION AND STRATEGY

## CONTENTS

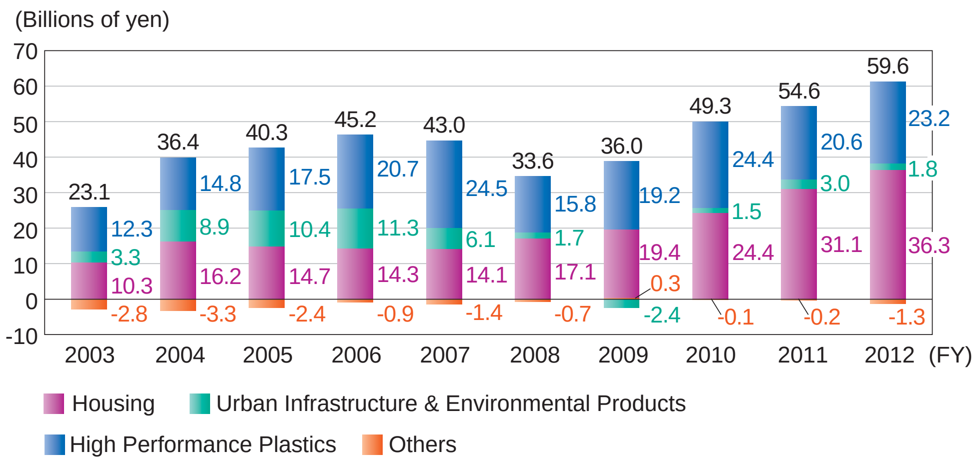
# PERFORMANCE HIGHLIGHTS

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

| | Billions of yen | | | | | Millions of U.S. dollars*1 |
|---|---|---|---|---|---|---|
| | FY2008 | FY2009 | FY2010 | FY2011 | **FY2012*2** | **FY2012*2** |
| **OPERATING RESULTS (for the year):** | | | | | | |
| Net sales | ¥ 934.2 | ¥ 858.5 | ¥ 915.5 | ¥ 965.1 | **¥1,032.4** | **$ 10,977** |
| Operating income | 33.6 | 36.0 | 49.3 | 54.6 | **59.6** | **634** |
| Ordinary income | 29.4 | 31.1 | 48.3 | 54.2 | **60.7** | **645** |
| Income before income taxes and minority interests | 12.8 | 23.3 | 39.8 | 49.2 | **44.5** | **473** |
| Net income | 1.0 | 11.6 | 23.6 | 28.1 | **30.2** | **321** |
| **FINANCIAL POSITION (at year-end):** | | | | | | |
| Total assets | ¥ 756.5 | ¥ 787.3 | ¥ 790.2 | ¥ 827.1 | **¥ 901.6** | **$ 9,586** |
| Shareholders' equity | 322.0 | 342.0 | 339.7 | 351.7 | **418.6** | **4,451** |
| Interest-bearing debt | 129.4 | 133.1 | 124.5 | 127.2 | **115.3** | **1,226** |
| **CASH FLOWS:** | | | | | | |
| Free cash flow | ¥ (7.8) | ¥ 15.1 | ¥ 12.6 | ¥ (12.3) | **¥ 30.7** | **$ 326** |
| | Yen | | | | | U.S. dollars*1 |
| **PER SHARE AMOUNTS** | | | | | | |
| Net income, non-diluted (EPS) | ¥ 1.93 | ¥ 22.13 | ¥ 44.92 | ¥ 53.96 | **¥ 58.53** | **$ 0.62** |
| Cash dividends | 10.00 | 10.00 | 13.00 | 15.00 | **18.00** | **0.19** |
| Net assets | 612.93 | 651.08 | 650.83 | 682.46 | **810.76** | **8.62** |
| **RATIO** | | | | | | |
| Operating income ratio*3 (%) | 3.6 | 4.2 | 5.4 | 5.7 | **5.8** | |
| Return on equity (ROE)*4,5 (%) | 0.3 | 3.5 | 6.9 | 8.1 | **7.8** | |
| Return on total assets (ROA)*4,6 (%) | 3.8 | 4.0 | 6.1 | 6.7 | **7.0** | |
| Equity ratio (%) | 42.6 | 43.4 | 43.0 | 42.5 | **46.4** | |
| Debt equity ratio*7 (%) | 40.2 | 38.9 | 36.6 | 36.2 | **27.6** | |
| **OTHER DATA:** | | | | | | |
| Total number of employees | 19,742 | 19,761 | 19,770 | 20,855 | **22,202** | |

Notes:
*1: U.S. dollar amounts represent translations of Japanese yen, for the readers' convenience only, at the rate of ¥94.05 = U.S.$1.00, the prevailing exchange rate at March 31, 2013.
*2: 15-month period from January 2012 to March 2013 for overseas subsidiaries(Consolidated subsidiary fiscal years were revised to a March year end beginning in FY2012).
*3: Operating income ratio = Operating income/Net sales
*4: ROE and ROA are calculated using the simple average of the beginning and end of term balance sheet figures.
*5: ROE = Net income/Shareholders' equity
*6: ROA = Ordinary income/Total assets
*7: Debt Equity ratio = Interest-bearing debt/Shareholders' equity

Operating Income by Business Segment



# TO OUR SHAREHOLDERS AND INVESTORS

The Sekisui Chemical Group vision for the future is to be a “Prominent & Profitable Premium Company.” Sekisui Chemical utilizes the prominent technology and quality it has refined over many years to develop various frontiers and through its pioneering efforts aims to contribute to people’s lives around the world and the global environment and realize growth for the company.

We are currently advancing the GS21-SHINKA! five-year medium-term management plan (fiscal years 2009 to 2013) designed to fulfill the Group vision. GS21-SHINKA! is divided into two phases. The initial Stage 1 to fiscal year 2010 covered the recovery years after the Lehman Shock. Stage 2, from fiscal year 2011 to 2013, is when we aim to rapidly grow earnings with the objective of attaining overall

## Business Results by Company

(Billions of yen)

| | FY2012 Note1 | | | | | | FY2013 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Results | | Overseas Subsidiaries Jan–Mar 2012 | | Difference | | Plan | | Difference Note2 | |
| | Net Sales | Operating Income | Net Sales | Operating Income | Net Sales | Operating Income | Net Sales | Operating Income | Net Sales | Operating Income |
| Housing | 469.0 | 36.3 | — | — | 19.6 | 5.2 | 495.0 | 40.0 | 26.0 (26.0) | 3.7 ( 3.7) |
| UIEP Note3 | 214.5 | 1.8 | 4.9 | -0.7 | 14.5 | -1.2 | 237.0 | 7.0 | 22.5 (27.4) | 5.2 ( 4.5) |
| HPP Note4 | 332.0 | 23.2 | 32.7 | 1.3 | 35.1 | 2.7 | 332.0 | 30.0 | 0.0 (32.7) | 6.8 ( 8.0) |
| Others | 40.5 | -1.3 | 0.2 | 0.0 | -3.0 | -1.1 | 42.0 | -1.5 | 1.5 ( 1.7) | -0.2 (-0.2) |
| Eliminations or Unallocatable Accounts | -23.6 | -0.5 | 0.0 | -0.1 | 1.0 | -0.7 | -28.0 | -1.5 | -4.4 (-4.4) | -1.0 (-1.1) |
| Total | 1,032.4 | 59.6 | 37.7 | 0.5 | 67.3 | 5.0 | 1,078.0 | 74.0 | 45.6 (83.3) | 14.4 (14.9) |

Note1: 15-month period from January 2012 to March 2013 for overseas subsidiaries (Consolidated subsidiary fiscal years were revised to a March year end beginning in FY2012)
Note2: Figures have been adjusted so comparisons of the FY2013 plan and FY2012 results are both on a 12-month basis.
Note3: Urban Infrastructure & Environmental Products Company
Note4: High Performance Plastics Company

operating income of ¥80.0 billion in the plan's final year primarily by expanding the "Frontier 7" businesses* that we believe have promise for future growth.

In fiscal year 2012, the second year of Stage 2, we harnessed the improving market conditions for solid results the domestic core businesses, including the Housing Company generating steadily increasing sales volume for its leading energy-efficient housing and advancing the shift in our lineups to high value-added products. In overseas operations, we did not achieve the growth we had planned for the Company's global strategic businesses, centering on the Frontier 7 growth businesses, largely due to the deteriorating operating environment and sluggish orders for the pipeline renewal business in Western Europe. In both the domestic core businesses and the global strategic businesses, we also made significant progress fortifying our cost competitiveness and business foundations as well as advancing measures to cultivate businesses with the potential for future growth and to be the next-generation profit drivers.

These efforts generated growth for the Group in both operating income and net income in the year under review.

* "Frontier 7" Businesses: HPP's automotive materials (AT), IT-related materials (IT), and medical products (MD); UIEP's pipeline renewal business, water infrastructure business (overseas), and performance materials business; and the Housing Company's living environment business.

## Fiscal Year 2012 Performance

### (April 1, 2012, to March 31, 2013)

The Sekisui Chemical Group's fiscal year 2012 sales results included growth in Japan led by the housing business as well as in Asia and the United States even as business was impacted by the economic stagnation in Europe. The result was sales surpassing the ¥1 trillion mark with a ¥67.3 billion year-on-year rise in net sale to ¥1,032.4 billion.

Operating income was negatively affected by a year-on-year rise in fixed costs arising mainly from growth investment for the Housing Company in the form of expanding and fortifying its sales force and price cuts aimed at increasing market share of certain products. However, we were able to raise operating income from a year ago by substantially increasing sales volume in the domestic core businesses and continuing to pursue cost reductions for materials and components. The result was a ¥5.0 billion rise in operating income to ¥59.6 billion. Ordinary income increased by ¥6.5 billion to a record high ¥60.7 billion.

Net income increased from the application of the Tax Program for Promoting R&D of Basic Technologies, while an extraordinary loss was recorded due to revisions to the accounting method for retirement benefit obligations associated with certain consolidated subsidiaries in the housing business. Net income rose by ¥2.1 billion to ¥30.2 billion.

## GS21-SHINKA! Medium-term Management Plan: Progress of Stage 2

### (FY2011–2013)

The objective of the current Stage 2 of our GS21-SHINKA! medium-term management plan is to begin generating new growth. In Stage 1, we implemented structural reform to strengthen the earnings structure and focused on fields and regions promising solid demand growth. In Stage 2, we will build on this foundation by fully cultivating the growth potential and realizing new business growth.

After reviewing our performance progress in fiscal year 2012, the second year of Stage 2, we believe we will not be able to reach the operating income target for next year, the plan's final year. The economic conditions during the period have been very different than we initially anticipated and led to diverging results. Domestic businesses enjoyed favorable demand conditions and previous cost reform efforts helped some operations, such as the Housing Company, generate earnings that exceeded our plan. However, the impact on the global businesses from the economic conditions in Europe was greater than we anticipated, and had the effect of slowing their growth with several operations, such as the UIEP Company's overseas pipeline renewal business, failing to increase their earnings.

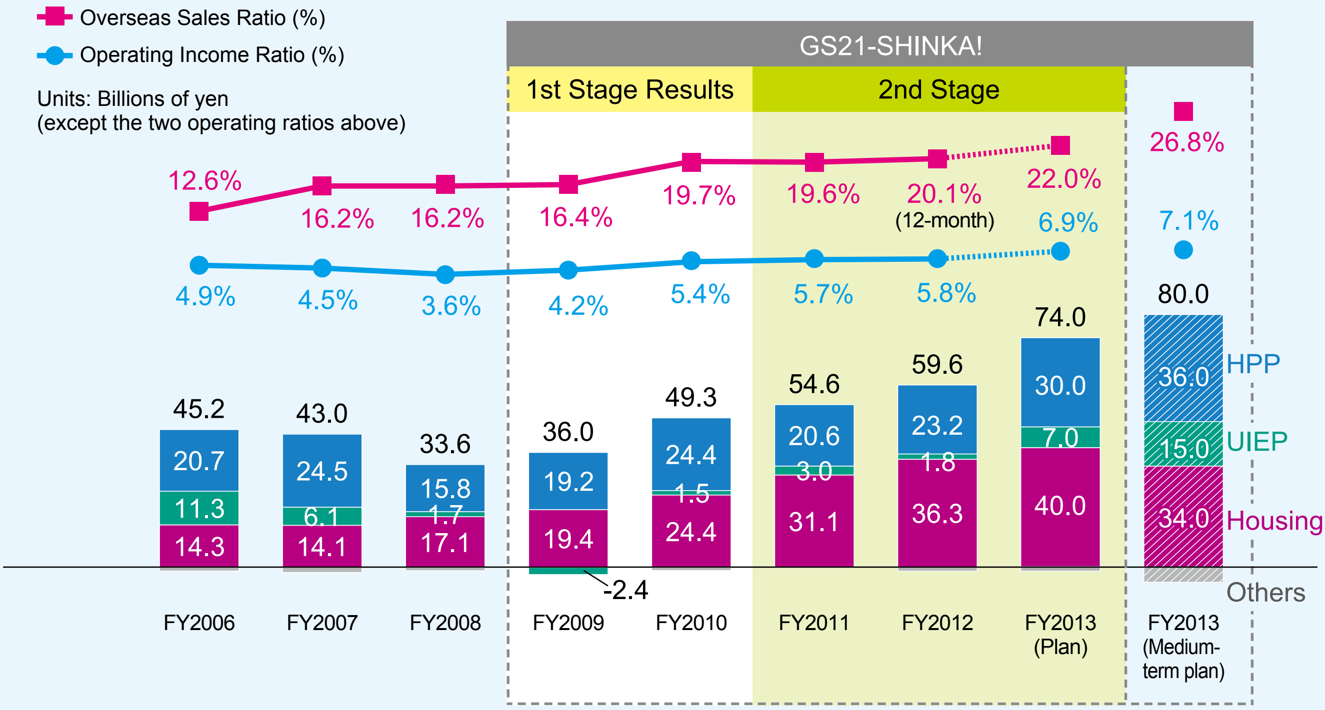
Despite the mixed results, all of the divisional companies steadily progressed toward the objectives of earnings improvement and expansion and to position the Company for rapid earnings growth when the markets recover.

By company, the Housing Company achieved solid growth in both sales and profits in the housing business as a result of its efforts to improve the cost structure for new housing construction and product differentiation strategies. In the living environment business, which centers on home refurbishment, the increased staff generated growth in sales and the active promotion of new refurbishment package products attracted growth in orders. We also commenced operations at the mass production housing factory in Thailand during the year. These efforts enabled the Housing Company to attain the Stage 2 operating income target of ¥34.0 billion a year ahead of the plan.

Next, the Urban Infrastructure & Environmental Products (UIEP) Company was anticipating rising demand in the earthquake reconstruction-related business for the domestic business and in the pipeline renewal business in Western Europe for the overseas business. However, a political deadlock under the prior Japanese government administration, deteriorating economic conditions, and other factors hindered demand from fully developing and undermined the company's plan to substantially expand its earnings.

Despite the adverse business conditions, the UIEP Company steadily advanced measures to strengthen its business from a value

## Medium-term Management Plan (Trend in Operating Income)




**External Environment**

- 2007/06 Stricter Building Standards Act
- 2008/10 Lehman Shock
- 2011/03 Great East Japan Earthquake
- 2011/09 European financial crisis worsens
- 2011/10 Flooding in Thailand
- 2012/09 Japan-China friction escalates
- 2012/12 New government administration
- 2014/04 Consumption tax hike? (5% to 8%)

**Foreign Exchange (Avg. rate*)**

| FY2006 | FY2007 | FY2008 | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 (Plan) |
|---|---|---|---|---|---|---|---|
| 116yen/US$<br>147yen/€ | 118yen/US$<br>162yen/€ | 103yen/US$<br>152yen/€ | 94yen/US$<br>131yen/€ | 87yen/US$<br>115yen/€ | 80yen/US$<br>111yen/€ | 83yen/US$<br>107yen/€ | 90yen/US$<br>124yen/€ |

*Avg. rate for each fiscal year; for FY2013, we use an assumed average rate.

**Our Measures**

Growth

- 2006/09 Daiichi Pure Chemicals acquired (MD, HPP)
- 2008/05 Full-fledged overseas business launch (Pipeline Renewal)
- 2009/04 PVA resin businesses acquired (AT, HPP)
- 2011/02 Major U.S. diagnostic reagent business acquired (MD,HPP)
- 2011/04 ITO film business Acquired (IT, HPP)
- 2012 AT and High performance plastics company: Full entry into India, ASEAN
- 2013/4 Mass production facilities in Thailand in operation (Housing)

Strengthen Core Business

- 2007 Housing company: implemented large-scale structural reforms
- 2011 Housing Business: Shift to nationwide integrated production-sales operations completed
- 2012 Medical Business: North America business structure reformed
- 2012/12 Water Infrastructure Business: Mitsubishi Plastics' pipe business integrated

chain perspective as it continues the business model reformulation begun in fiscal year 2011. The company also acquired the piping materials operations of Mitsubishi Plastics, Inc., to bolster operations in the general-purpose products field, which is the staple of its domestic core business. The acquisition will further enhance scale merit, which will help establish the foundation for stable earnings. The company also made strides overseas, including establishing a joint venture in the China coastal region in the overseas water infrastructure business. Although the operating income target for the company in the medium-term management plan now appears out of reach, we believe the company is establishing the foundation for rapid earnings growth when demand begins to recover.

Finally, the High Performance Plastics (HPP) Company results were affected through the year by the economic stagnation in Europe, but growing sales supported by the economic recovery trend in the United States and continuing growth in Asia led to year-on-year rises in sales and profit as the company rapidly approached the Stage 2 operating income target. The company also continued expanding sales for its target products and markets in the three strategic business fields and is steadily putting in place the mechanisms further growth. The company will certainly need the market conditions to improve, including the European markets, to be able to reach the targets for fiscal year 2013, and is fully prepared to generate accelerated growth when the markets are in recovery phases.

## Fiscal Year 2013 Plan

(April 1, 2013, to March 31, 2014)

Our outlook for the market environment in fiscal year 2013 includes the assumption that the financial crisis in Europe will not be resolved during the year and that more time will be needed for economic recovery to begin in the region.

In Japan, meanwhile, signs of improving economic conditions are appearing, including high stock prices, a depreciated yen, and improving personal consumption, since the new government administration took office. In addition, new housing starts are gaining momentum, earthquake reconstruction activity is getting under way, and investment in public works is growing with increasing attention being given to aging infrastructure. In fiscal year 2013, we also anticipate a surge in demand for housing and other consumer durables ahead of the consumption tax hike planned for April 2014.

Overseas, business conditions in the United States are improving supported by trends including improving employment and recoveries in consumption and production.We anticipate varying trends in other developed countries and regions but forecast ongoing high growth in general and in ASEAN in particular. Regarding foreign exchange rates, we believe the period of extreme yen appreciation is in the past and expect the weakening trend for the yen to continue.

From this overall evaluation of the market environment, we believe fiscal year 2013 will provide better conditions than last year for all three of the divisional companies.

Based on this market environment outlook, we expect to continue raising sales in fiscal year 2013 and are targeting a record-high ¥74.0 billion in operating income, which would surpass the previous high of ¥60.8 billion attained in fiscal year 1994. We likewise are aiming for record levels in all income categories, including ordinary income and net income.

To fulfill these objectives, we will expand earnings in the domestic core businesses by fully capturing the demand growth from the demand surge ahead of the tax increase and the emergence of reconstruction demand. In the global strategic businesses, we will enhance earnings by steadily expanding sales of our competitive products in growth fields and growth markets, such as mobile devices in the IT field and the India and ASEAN AT fields.

The sluggish pace of the recovery in demand has limited the return we have received from our overseas strategic investments. We plan to step up efforts to secure investment return by advancing our new market creation and cost structure improvement measures to deepen our competitive advantage and expand orders in the IT field, MD field, pipeline renewal business, and other areas. In addition, in our domestic businesses, we will not be complacent during the temporary spike in demand ahead of the tax hike and plan to strengthen our cost competitiveness in preparation for the inevitable demand fallback so we can full respond to the market conditions after the higher tax rate takes effect.

In these conditions, in fiscal year 2013 we plan to take full advantage of the demand surge to boost earnings while simultaneously establishing a framework that will minimize the impact when demand subsequently falls back.

In short, while we expect to benefit from a relatively positive market environment, including pre-tax hike and reconstruction demand in fiscal year 2013, we realize that the most important element in our activities during the year will be how we prepare for the following years.

Preparation for fiscal year 2014 and beyond will mean advancing measures linked to the medium- and long-term growth of the Company as a whole. In our domestic businesses, this will consist of formulating a business model to minimize the backlash from the surge in existing demand and to create new demand. In our global strategic businesses, we will reap the return on our recent M&A activities and capital investments aimed at future growth, advance new business development in India and other growth markets, and accelerate new product development for the energy, stock, and other fields.

## Financial Strategy and Shareholder Return Policy

Our financial strategy is based on the key management policies of increasing corporate value and ensuring a return of profit to shareholders. In line with these policies, we aim to provide a stable level of dividend payments and have set a target of a dividend payout ratio of 30% on a consolidated basis to be returned to shareholders.

In the fiscal year under review, we increased the interim dividend payment by ¥2 from the previous fiscal year to ¥9 per share and the year-end payment by ¥1 to ¥9 per share, for a total annual dividend payment of ¥18 per share in fiscal year 2012. The dividend payout ratio was 30.8%. We will retain internal cash reserves of an amount sufficient for covering R&D expenses, capital expenditures, strategic investment, financing activities, and other activities that we consider vital to assuring further improvement in corporate value into the future.

Cash flow during the year will be utilized for capital investment, financial structure reinforcement, and shareholder return. Investment will focus on strategic investment to fortify our strategic businesses, specifically for capital expenditures, M&A, and the construction of our overseas business structure, which will be essential for the Company's future growth.

In fiscal year 2013, based on the expectation of business conditions in which we will be able to continue expanding our earnings, the Company has determined to distribute dividends of ¥10 per share at the midterm and ¥10 per share at the year end, for a full-year dividend payout of ¥20 per share.

## In Closing

This fiscal year is the final year of the GS21-SHINKA! five-year medium-term management plan, and we are dedicated to making every effort to achieve the plan objectives. At the same time, we are fully aware of the importance of looking beyond the plan and planting the seeds for new initiatives for future growth.

Although the current market and competitive conditions are different than we had envisioned for the GS21-SHINKA! plan, we will seek to thrive in these conditions as we contribute to improving the earth environment in which we all live and to grow as a company into the medium- and long- term.

We thank you for your continued understanding and support of the Sekisui Chemical Group.

July 2013

Naofumi Negishi, *President*

## CSR REPORT 2013

TOP MESSAGE

# Creating Next-generation Businesses and Contributing to Society to be a Company with a Sustaining Presence for the Next 100 Years

### Steady Growth in a Rapidly Changing Business Environment

Fiscal year 2013 is the final year of the GS21-SHINKA! five-year medium-term management plan that was launched the year I became president of the Company. The business environment has undergone severe fluctuations in the past four years to fiscal year 2012, including the market plummet after the Lehman Shock, the debt crisis in Europe, yen appreciation, the Great East Japan Earthquake, and China risk.

Through it all, the Sekisui Chemical Group has continued to reformulate its business model focused on sustainable growth and steadily raised operating income.

In the housing business, our efforts promoting our environmental, economical, and comfortable homes have generated sales of some 120,000 solar powered homes since 1997 including the recently launched "ecology and economy" line of Shin Smart Heim homes with built-in solar power systems, HEMS, and storage batteries.

In the infrastructure business, we reinforced the presence of the domestic core operation by establishing top share of the resin piping market by acquiring the piping materials operations of Mitsubishi Plastics, Inc., as well as by being awarded the Okochi Memorial Prize for the pipeline renewal business's SPR method for rehabilitating degraded sewer pipes while vastly decreasing waste compared to the standard open-trench replacement method.

Overseas, our ongoing efforts to develop markets for our strategic businesses, notably in the IT field for our products for mobile devices, generated a third consecutive year of record-high profit, the first such streak since we introduced the internal company system in 2000.

While Japan is finally moving from recovery to rebuilding from the Great East Japan Earthquake, the Sekisui Chemical Group is focusing all of its efforts to create safe and secure homes and towns along with sustainable societies in Japan and around the world.

### Review of Fiscal Year 2012

Sekisui Chemical Group's CSR management efforts are based on the principles of the Three Prominences in the Environment, Customer Satisfaction & Quality, and Human Resources and the Three Attitudes of Sincerity of Compliance, Risk Management, and Disclosure & Communication.

Environment-Contributing products expanded and grew markedly in fiscal year 2012. We define environment-contributing products as those that can contribute to reducing society's environmental burden in addition to incorporating environmental considerations. We raised the percentage of Environment-Contributing products to 38% of net sales in fiscal year 2012, bringing us very close to our 40% target for fiscal year 2013.

In addition, our investment in environmental manufacturing equipment is gradually starting to produce results as $CO_2$ emissions from our production activities in Japan declined 9% from the previous year. The $CO_2$ reduction effects from reducing our emissions and expanding sales of our Environment-Contributing products are steadily progressing us toward realizing the goal of our 2030 Vision to be a carbon negative company.

We deeply regret the inconvenience and concern created for customers living in our homes and all stakeholders from the incident of incorrect authentication numbers for specific-type housing components and on certification of specific-type housing components manufacturers. This is a compliance matter that we take very seriously and are raising our awareness and strengthening our administrative structure to prevent recurrence.

## Deepening and Strengthening of CSR Management Throughout the Group

The CSR medium-term plan focuses on strengthening and deepening CSR management and developing our global CSR as we work as a unified group to advance our CSR management capabilities. In fiscal year 2012, we established the Risk Management Group within the CSR Division as an addition to our existing structure with the aim of fortifying our risk management and crisis management and conducted risk analysis and developed countermeasures for each organization while finalizing the disaster prevention systems at all business sites.

Each divisional company and department identifies its specific CSR topics and priorities and develops and deploys appropriate business policies following the deliberation and review of the CSR Committee and individual subcommittees.

Despite these extensive and ongoing efforts, by no means has our CSR management been able to fully penetrate our operations in terms of realizing a shared Group philosophy and perspective and presenting concerted responses to common issues in each area overseas.

In fiscal year 2013, the final year of the medium-term management plan, we will continue seeking to further deepen and strengthen CSR management throughout the Group with sensitivity to the characteristics of each divisional company's business and each location overseas.

In addition, the United Nations Global Compact will continue to serve as the platform for the global deployment of our CSR management.

## Creating Next-generation Businesses to be a Company with a Sustaining Presence for the Next 100 Years

In fiscal year 2013, we will aim to fully respond to the anticipated growing demand in Japan from factors including full-fledged post-earthquake reconstruction, increasing attention on aging infrastructure, and a surge in housing orders before the consumption tax increase in 2014. Overseas, we have established production structures for growth markets and are ready to meet demand for the promising markets in the automotive components, functional resins, and housing fields. I believe we are also well positioned to take advantage of the depreciated yen with our exports in the IT field.

Japan is being looked to as a leader among the developed nations in the environmental, energy, and stock fields which are expected to grow substantially in the future. I believe that if we can construct a Japanese model for these fields, then we will also be able to construct next-generation businesses that can make global contributions. To play our role, we must be sensitive to changes in the external environment and reformulate our business model. In a word, we, the Sekisui Chemical Group, must continue to evolve, which is the very essence of our SHINKA (evolution) plan.

As the Company's business globalization accelerates and our personnel become increasingly diverse and capable, we will continue encouraging each employee to grow by honing their special skills and meeting new challenges, build our businesses with a focus on the environment and contributing to society by expanding and creating Environment-Contributing products, and further hone the fundamental product quality and attractiveness to offer products and services that reflect customer feedback and create a positive impression. These efforts will be our drivers as we continue to enhance corporate value and advance our CSR management as we aim to be a company with a sustaining presence for the next 100 years.

Naofumi Negishi

Naofumi Negishi, *President*

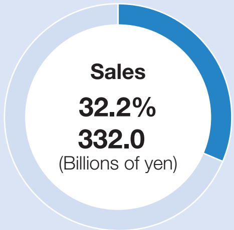
# AT A GLANCE

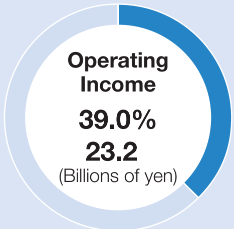
| Company Overview | Sales*1 and Operating Income*2 Generated by Each Company (FY2012 results) |
|---|---|

## HIGH PERFORMANCE PLASTICS COMPANY

Number of Employees (Consolidated, FY2012 year-end): 6,545

The High Performance Plastics Company's strengths are its unique fine particle, adhesion, and precise synthesis technologies upon which it builds a wide range of businesses centered on leading-edge materials. In recent years, the HPP Company has focused on expanding business in its three strategic business fields of information technology materials (IT), automotive materials (AT) and medical products (MD). The HPP Company is the primary driver of the Company's operating income growth through its business development centered on high value-added products and its top global market shares for its liquid crystal spacers and conductive fine particles in the IT field and its high-performance interlayer films and polyolefin foam for automobile interiors in the AT field. The HPP Company continues to strengthen its existing core products while also developing new products and reinforcing its operations through M&A and other strategies to support the ongoing expansion of its business centered in the increasingly sophisticated IT, AT, and MD fields.

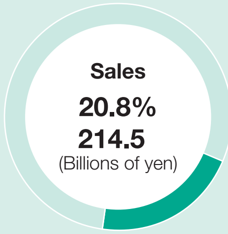


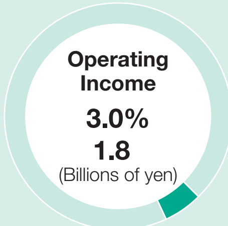




## URBAN INFRASTRUCTURE & ENVIRONMENTAL PRODUCTS COMPANY

Number of Employees (Consolidated, FY2012 year-end): 4,887

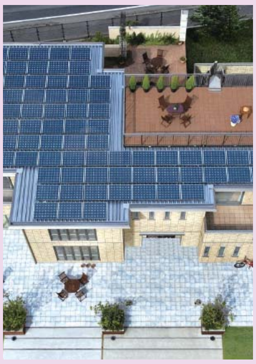
The fundamental businesses of the Urban Infrastructure & Environmental Products Company mainly deals in the water infrastructure facilities, such as water supply and drain pipes, and the manufacture and sale of construction materials. The UIEP Company is focusing on leveraging the technology cultivated from its fundamental businesses to develop and expand its overseas business operations in areas ranging from pipeline renewal, sheet used for high-performance plastic molds, industrial piping materials, and glass-reinforced plastic pipe for infrastructure applications. The UIEP Company's pipeline renewal and other highly effective technologies are readily applicable to infrastructure upgrade projects in developed countries. Consequently, we are embarking on full-fledged overseas expansion, as we actively conduct M&As in related business fields.



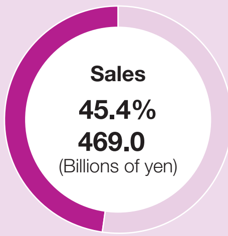



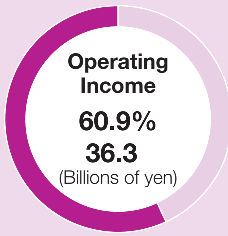

## HOUSING COMPANY

Number of Employees (Consolidated, FY2012 year-end): 9,775



The Housing Company is a leading provider of residential housing in Japan and enjoys a reputation as a high-quality builder based on its specialized Unit Construction Method that enables short construction periods and its highly refined manufacturing method that provides superior air-tightness and heat insulation features, two of the fundamental functions that define high quality residential housing. As customer needs become increasingly sophisticated, the Housing Company is taking the industry lead in developing high-performance housing guided by the concepts of environment, reliability, and comfort. One example is the revolutionary "zero-utility-cost house," which carved out a new market for "highly functional housing" and is highly praised by customers for its leading-edge innovations. One example is the revolutionary "zero-utility-cost house," which carved out a new market and is highly praised by customers for its leading-edge innovations. Over 85% of our housing orders are for models with built-in solar power generation equipment, and we further advanced our line of highly functional housing in May 2012 with the release of the Smart Heim models with built-in storage batteries. The Sekisui Heim Group's 124,413 solar powered houses built, including refurbishments, (as of the end of December 2012) is a world record certified by Guinness World Records™. The Housing Company rounds out its operations with the living environment business focused on meeting needs that arise during the time people are living in their homes. The business includes the nationwide "Fami S" refurbishing business providing products and services attuned to the changes in homeowner needs over the long-term.




GUINNESS WORLD RECORDS™ is a registered trade mark of Guinness World Records Limited.

*1: Figures for net sales include inter-segment transactions. Net sales for Other Businesses was ¥40.5 billion, and eliminations and unallocatable accounts amounted to ¥23.6 billion.

*2: Figures for operating income include inter-segment transactions.

| Primary Business Products | Main Products and Brand Names |
|---|---|
| **HIGH PERFORMANCE PLASTICS COMPANY** | |
| **IT (IT-related materials)** | |
| LCD fine particles, Photosensitive materials,<br>Semiconductor materials, Optical adhesive tape and film, ITO film | Micropearl™ (Spacer, Conductive fine particles) |
| **AT (Automotive materials)** | |
| Interlayer films for laminated glass, Polyolefin foam,<br>Molded resin products and double-faced tape for vehicle use | S-LEC™ (Interlayer film)<br>Softlon™ (Foaming material) |
| **MD (Medical products)** | |
| Diagnostic agents, Medical devices, Pharmaceuticals,<br>Drug-discovery support businesses | Cholestest™ (Cholesterol diagnostic agents)<br>Insepack™ (Blood sampling plastic tubes) |
| **Functional materials and others** | |
| Adhesives, Fire resistant tapes and sheets,<br>Packaging tape, Packaging and agricultural film,<br>Plastic containers, Polyvinyl alcohol resins | Fiblock™ (Thermal expansion fire-resistant material) |
| **URBAN INFRASTRUCTURE & ENVIRONMENTAL PRODUCTS COMPANY** | |
| **Pipe materials (water supply & drainage, construction equipment, sewage pipes, electricity pipes, gas pipes, and others)** | |
| PVC pipes and joints, Polyethylene pipes and joints,<br>Plumbing systems, Reinforced compound plastic pipes, etc. | ESLON™ pipe series |
| **Pipeline renewal** | |
| Materials, equipment and installation methods for pipeline renewal | SPR Method™, Omega-Liner Method™, Pipe Line Diagnostic System |
| **Industrial piping materials** | |
| Pipe materials for factory production equipment (valves, pipes, joints, etc.) | ESLON™ valves |
| **Building materials and housing equipment** | |
| Construction materials (rain gutters, flooring materials, etc.),<br>Insulation material, Bathroom units | ESLON™ rain gutters |
| **Performance materials** | |
| Sheets for aircraft interiors, Sheets for vehicle interiors & exteriors,<br>Fiber-reinforced foamed urethane (FFU) | KYDEX™, ALLEN™, ESLON™ Neo Lumber FFU (Railway orbital sleeper) |
| **HOUSING COMPANY** | |
| **Housing** | **Detached houses** |
| Steel-frame unit house “Sekisui Heim”,<br>Wood-frame unit house “Sekisui Two-U”,<br>Subdivision land,<br>“Reuse System House” built through the reuse of unit houses | **Sekisui Heim (steel-framed)**<br>Parfait series, Desio series (Three-Story house),<br>Domani series, bj series, CRESCASA, One-story house "Raku"<br>**Sekisui Two-U (wooden-framed)**<br>2x6 GRAND TO YOU series,<br>2×4 Miole series<br>One-story house "Raku" |
| **Living environment** | **Housing complex** |
| Refurbishing business “Sekisui Fami-S”,<br>Interiors,<br>Exteriors,<br>Real estate (Leasing, brokerage) | With-Heim Series<br>Letoit series |
| **Others** | |
| Nursing and the elderly business | |

# HIGH PERFORMANCE PLASTICS COMPANY

**TAKAYOSHI MATSUNAGA,**
*President of High Performance Plastics Company*

**PERFORMANCE HIGHLIGHTS**

| (Billions of yen) | FY09 | FY10 | FY11 | **FY12**[Note] | FY13 (Plan) |
|---|---|---|---|---|---|
| Net Sales | 247.7 | 281.6 | 296.9 | **332.0** | 332.0 |
| Operating Income | 19.2 | 24.4 | 20.6 | **23.2** | 30.0 |
| Operating Income Ratio (%) | 7.8 | 8.7 | 6.9 | **7.0** | 9.0 |

Note: The previous fiscal year results encompassed the 15-month period from January 1, 2012, to March 31, 2013, owing to the revision to the overseas subsidiaries' accounting period effected in fiscal year 2012. Overseas subsidiary earnings in the January–March 2012 quarter included net sales of ¥32.7 billion and operating income of ¥1.3 billion.

The High Performance Plastics (HPP) Company, guided by its "Chemistry for your Win" banner, employs a business strategy focusing management resources on the IT-related materials (IT), automotive materials (AT) and medical products (MD) fields. The company views these three fields as presenting significant growth potential and as areas where it can fully apply Sekisui Chemical's highly differentiated products leveraging the company's advantages.

In each of these fields, the HPP Company develops products and operates production and sales structures geared to the global market. The company's leading products already maintain high market shares around the world and are establishing a competitive advantage.

The Medium-term Management Plan sets targets for the HPP Company of ¥360 billion in net sales and ¥36 billion in operating income in fiscal year 2013, the final year of the plan, and we have implemented various measures, including M&A in the strategic business field and aggressive development of new markets overseas, to reach the targets.

At this point, the global economic conditions, particularly in Europe, are worse than we had anticipated, and we believe it will be a significant challenge to achieve the targets for the year. Nevertheless, we are making steady progress toward realizing an operating structure that positions the company for earnings growth.

## Results for Fiscal Year 2012

**Net sales: Increase of ¥35.1 billion to ¥332.0 billion**
**Operating income: Increase of ¥2.7 billion to ¥23.2 billion**

In fiscal year 2012, the HPP Company recorded an increase in net sales on sales growth in the strategic business fields and regional sales growth in Japan, Asia, and the United States. Our performance in Europe suffered from the sluggish conditions in the region. Operating income also turned upward supported mainly by growth in sales volume and an improved sales composition.

Net sales rose ¥35.1 billion year on year to ¥332.0 billion and included steady sales growth in the three strategic business fields of ¥5.0 billion to ¥150.1 billion*.

The global business development centered on the strategic businesses continued during the year, and expanding sales of high-performance interlayer films in the U.S. market contributed to net sales overseas rising ¥8.8 billion year on year to ¥168.4 billion*.

The company's operating income increased by ¥2.7 billion year on year to ¥23.2 billion.

Increased sales volume, an improved sales composition, cost cuts, lower materials prices, and other positive factors offset the impacts from the foreign exchange rate, lower product prices, higher fixed costs, and other factors.

The consolidated fiscal years of overseas subsidiaries were revised in fiscal year 2012. To facilitate examination of the factors influencing changes in the operating income results, the consolidated subsidiary figures for fiscal year 2012 are presented for the 12-month period from April 1, 2012, to March 31, 2013.

In the strategic business fields, fiscal year 2012 net sales rose year on year in the IT field as growth in mobile solution products for smartphones and tablet terminals overcame sluggish demand for TV and computer applications, which was largely due to production adjustments for liquid crystal panels. During the year, we also expanded our production capacity for capacitive ITO films, which are in strong demand for touch panel applications. The adverse market conditions, which included production adjustments by key customers in the fourth quarter, resulted in IT field net sales rising just ¥0.5 billion year on year to ¥37.8 billion* in fiscal year 2012.

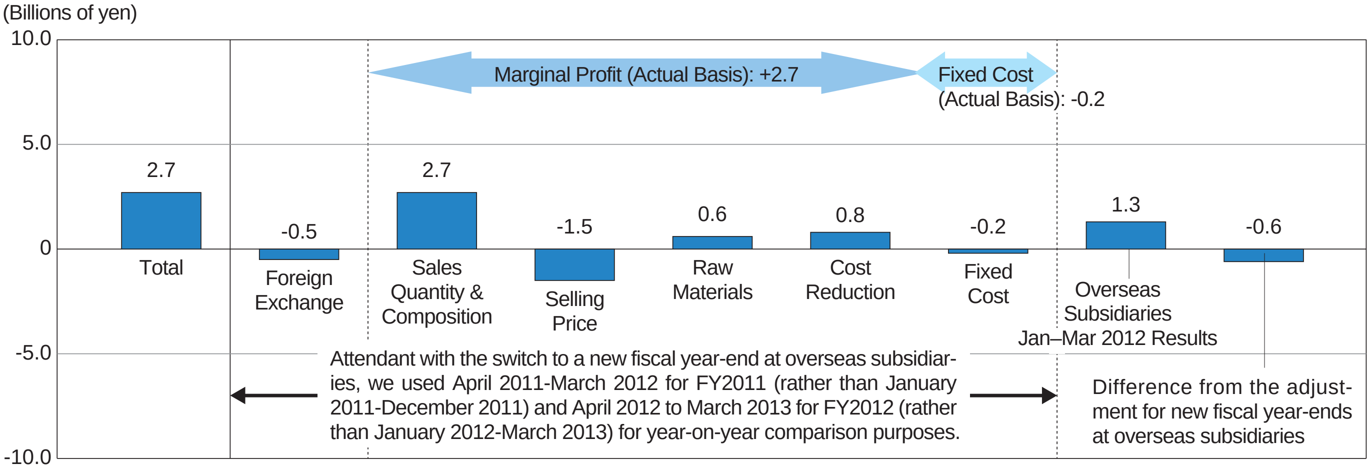
Net sales in the AT field increased by ¥4.2 billion year on year to ¥62.1 billion* as the ongoing negative impact from the economic conditions in Europe was offset by strong demand and expanding sales of high-performance interlayer films in the United States. During the year, we established the joint venture PT ADYAWINSA SEKISUI TECHNO MOLDING to manufacture and sell injection mold products for automotive components in the promising growth market of Indonesia.

In the MD field, emphasis was placed on developing new products while we aimed to expand the diagnostic equipment businesses. Progress was also made in the structural reorganization of our operations in the MD field, including the consolidation of our North America bases.

Although sales in the MD fields rose only slightly in fiscal year 2012, we made steady progress with measures designed to lead to expanding earnings going forward.

*Overseas subsidiary net sales figures exclude the period from January to March 2012.

## Analysis of Operating Income for FY2012 (year-on-year)




## Fiscal Year 2013 Plan

**Net sales: No change at ¥332.0 billion**

**Operating income: Increase of ¥6.8 billion to ¥30.0 billion**

The HPP Company is aiming to raise operating income to ¥30.0 billion in fiscal year 2013, the final year of the GS21-SHINKA! Medium-term Management Plan. Although these targets are short of the plan's goals of ¥360.0 billion in net sales and ¥36.0 billion in operating income, we will continue laying the groundwork to enable ongoing growth by advancing earning structure reform and strengthening the core capabilities of each business. Specific measures will include fortifying the strategic businesses and developing new products and businesses to advance our growth strategies and paralleling this with measures including strengthening our personnel management capability to fortify our management base.

### Market Environment

The market environment forecast, which serves as the basis for the HPP Company's business plan for fiscal year 2013, includes the regional outlook for improving business conditions in the United States supported by recoveries in consumption and production and improving employment conditions. We also anticipate improving business sentiment in Japan on rising stock prices, a weaker yen, and recovering personal consumption. We also forecast generally strong growth in emerging countries. At the same time, we expect demand to remain sluggish in Europe and the economic expansion in China to continue slowing.

The market environment forecasts for the business fields the company is developing include, in the IT field, demand holding steady from fiscal year 2012 for LCD TVs and computers and rising further for smartphones, tablet computers, and other mobile devices. The macroeconomic outlook for the AT field is similarly mixed, as we anticipate growing demand on economic recovery and growth in the United States, Japan, and emerging countries along with diminishing demand in Europe and a continued slowing of demand in China.

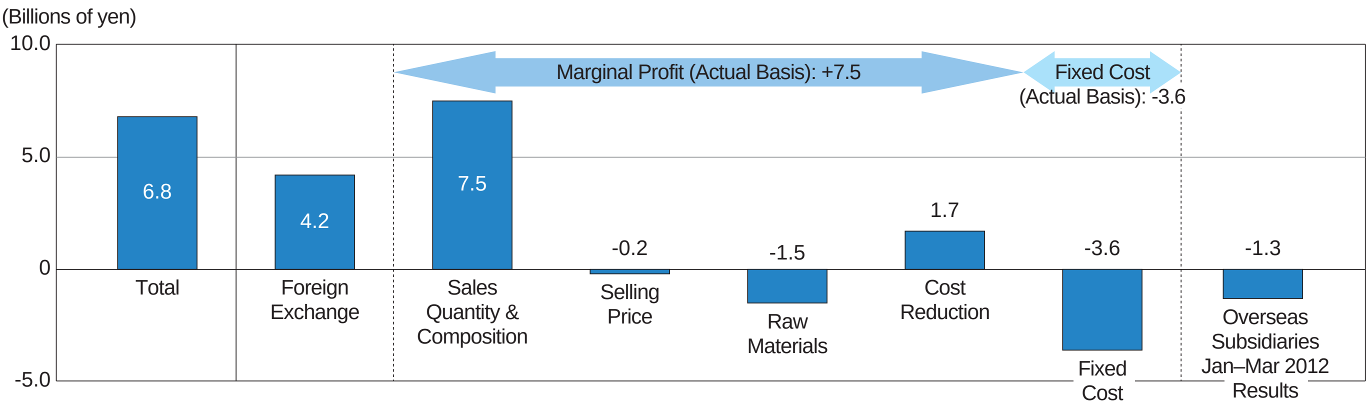
MD field operations, particularly in the diagnostic agent field, are relatively unaffected by general business conditions. We expect demand in the MD field to remain solid overall with rising trends developing from the aging populations in advanced countries and broader compulsory testing in emerging countries.

### Sales and Income Targets

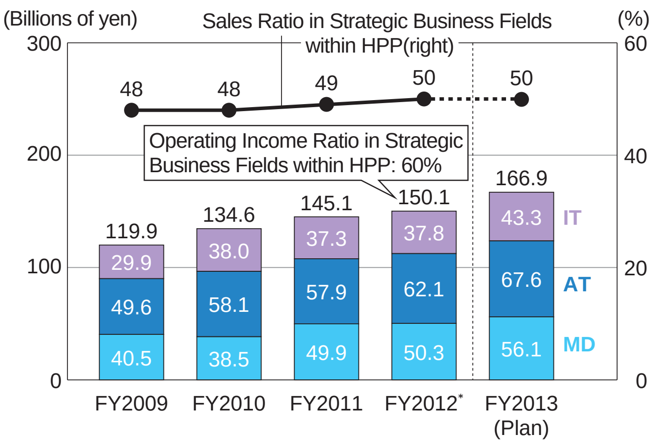
The HPP Company is aiming to substantially boost overseas sales in the three strategic businesses in fiscal year 2013. By expanding business in each of the IT, AT, and MD fields, we plan to raise total net sales in the three strategic business fields by ¥16.8 billion year on year to ¥166.9 billion. We plan to increase net sales overseas by ¥30.5 billion to ¥198.9 billion by expanding in the AT field, with a focus on Asia, and by fully developing the diagnostic equipment business in the MD field in Europe and the United States. As a result, the HPP Company is targeting overall net sales of ¥332.0 billion in fiscal year 2013.

The company expects operating income to benefit from profit contributions from the increased sales volume and improved sales composition as well as from favorable foreign exchange rates. These positive factors are expected to more than offset negative factors, such as higher raw material and fixed costs, generating a ¥6.8 billion rise in operating income to ¥30.0 billion.

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

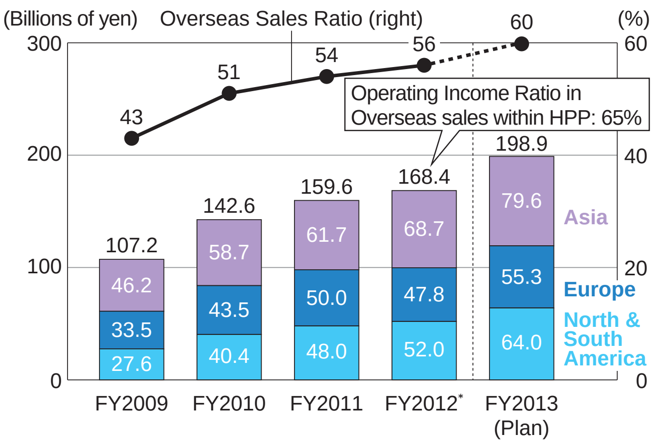



#### Sales in Strategic Business Fields




* Exclude overseas January–March 2012 sales

#### Overseas Sales




* Exclude overseas January–March 2012 sales

## Fiscal Year 2013 Initiatives

The HPP Company's fiscal year 2013 growth strategies will focus on three themes: strengthening the strategic businesses, expanding overseas business, and developing new products and businesses.

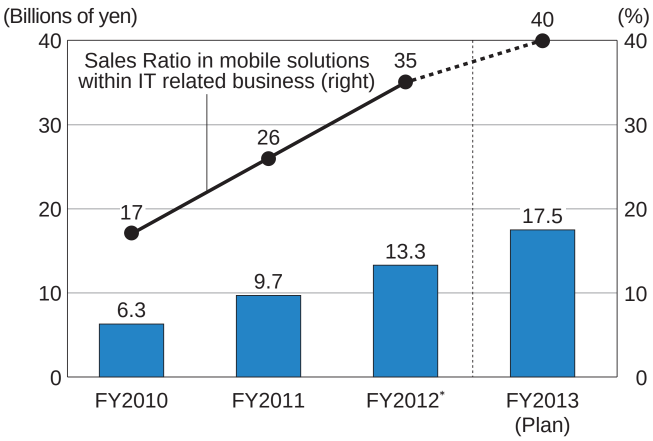
The first initiative, strengthening the strategic businesses, will entail focusing efforts in the IT field on steadily raising sales in growth markets. Specific efforts will focus on expanding sales of mobile solutions products for smartphones and tablet computers and on enhancing production capacity for ITO film. In the AT field, we will accelerate the sales growth and raise profits of high-performance interlayer films while also developing business in India and Indonesia, which we consider to be frontier regions in the AT field. In the MD field, we will seek to fully develop the diagnostic equipment business in Europe and the United States and develop our domestically marketed diagnostics reagents for overseas markets.

The second initiative, expanding overseas business, will entail capturing the rising demand in growth markets. We will seek to increase our export volume and expand domestic production capacity for chlorinated polyvinyl chloride (CPVC) resin. We will also leverage the joint-venture company in Thailand to capture the brisk construction demand in Southeast Asia and ASEAN, particularly in India, as well as in the Middle East region.

Implementing the third initiative, developing new products and businesses, will include stepping up efforts to bring new products to market, such as components for lithium-ion batteries and binding materials for semiconductors, and to expand FP Business sales of thermal expansion fire-resistant materials.

Through the steady implementation of these initiatives, we aim to strengthen our core business capabilities to raise both sales and profit in fiscal year 2013 realize continuous business growth in the future.

### Mobile Solutions Sales




* Exclude overseas January–March 2012 sales

### Mobile Solutions Products

- Conductive fine particles
- Adhesive
- ITO film
- High-performance double-faced tape
- Shock-resistance foam tape

# URBAN INFRASTRUCTURE & ENVIRONMENTAL PRODUCTS COMPANY

**KOZO TAKAMI**,
*President of Urban Infrastructure & Environmental Products Company*

## PERFORMANCE HIGHLIGHTS

| (Billions of yen) | FY09 | FY10 | FY11 | **FY12**Note | FY13 (Plan) |
|---|---|---|---|---|---|
| Net Sales | 194.6 | 195.6 | 200.0 | **214.5** | 237.0 |
| Operating Income | -2.4 | 1.5 | 3.0 | **1.8** | 7.0 |
| Operating Income Ratio (%) | -1.2 | 0.8 | 1.5 | **0.8** | 3.0 |

Note: The previous fiscal year results encompassed the 15-month period from January 1, 2012, to March 31, 2013, owing to the revision to the overseas subsidiaries' accounting period effected in fiscal year 2012. Overseas subsidiary earnings in the January–March 2012 quarter included net sales of ¥4.9 billion and an operating loss of ¥0.7 billion.

The Urban Infrastructure & Environmental Products (UIEP) Company is the leading supplier of resin pipe products in Japan with operations centering on water infrastructure facilities, such as water supply and drain pipes, and the manufacture and sale of construction materials.

The UIEP Company's success in the resin pipe business is the result of know-how accumulated over 50 years of domestic business activities and it is applying this know-how to actively advance the development of its overseas businesses through its pipeline renewal products; glass reinforced plastic pipes; various piping products including valves and other industrial piping materials; and performance materials, such as sheet material for aircraft and fiber-reinforced foamed urethane for railway applications.

The UIEP Company is fully aware of the inevitable repercussions that the declining population in Japan will have on housing and construction starts and is seeking to expand sales by leveraging its accumulated brand power and sales strength and by reformulating the business model and broadening the business domain for its domestic core businesses centered on its resin pipes and other mainstay products.

Specifically, the company is seeking to eliminate its dependence on sales of single product items and transition to a business model that will enable full application of its comprehensive business strength for system sales, combined-product "package" orders, and other integrated products. The company is maximizing the utilization of the company's resources and aggressively fortifying partnerships in areas where the company's resources are limited with the aim of creating an operating structure that will enable it to compete at its full strength.

In this way, the UIEP Company is preparing for the expected temporary spikes in domestic demand, including new housing starts from the anticipated surge in demand ahead of the consumption tax increase and post-earthquake reconstruction-related demand, as well as for the fundamental gradual ebbing of demand.

The company is currently advancing a strategic transformation to position for earnings growth in the medium and long-term. In Japan, the company is revising the business model of its domestic core businesses to focus on package product and systems sales. In its overseas businesses, the company is applying its technologies cultivated in Japan and other strengths to meet needs in countries where demand is expected to grow.

## Results for Fiscal Year 2012

**Net sales: Increase of ¥14.5 billion to ¥214.5 billion**
**Operating income: Decrease of ¥1.2 billion to ¥1.8 billion**

The UIEP Company fell short of its earnings targets in fiscal year 2012. The targets were set in anticipation of reconstruction demand and a large supplementary budget in Japan during the year, but demand never gained momentum as reconstruction demand failed to emerge and is now expected in fiscal year 2013 or later and the supplementary budget was not ratified until the end of the fiscal year in March.

Despite the harsh business conditions, the company steadily advanced measures to strengthen the business structure of the domestic core businesses through business integration and business model reform aimed at fortifying the earning capability for the medium and long-term. The overseas business environment was also severe, including deteriorating profit in the pipeline renewal business due to stagnancy in the European market.

A key step to fortifying the domestic core businesses during the year was the acquisition of the piping materials operations of Mitsubishi Plastics, Inc. Acquiring the operations, centered on the PVC piping business, will fortify the company's earning power with the increased trading volume boosting negotiating power when procuring production materials and scale merit improving production and distribution cost efficiency. In addition, consolidation of the PVC pipe industry will alleviate the excessively competitive conditions in the shrinking domestic market.

In addition, the domestic core businesses began to show results from efforts to eliminate the dependence on single product sales and transition to a business model for expanding earnings by applying its comprehensive business strength in system sales, "package" orders, and other integrated products.

In the value chain business, which will be a key to future earnings growth, expansion of the business to reach further upstream and downstream enabled the company to raise sales by ¥7.3 billion in fiscal year 2012 compared to fiscal year 2010.

Progress was also made in positioning the company to offer comprehensive project proposals in the factory, housing, public facilities, and other business domains through deepened partnerships and other measure.

In addition, efforts to attract combined-product package orders by leveraging the company's overall strength generated an order backlog ¥20.0 billion higher than in fiscal year 2010.

As fiscal year 2013 approached, signs began to appear of an upturn in the demand environment, such as for housing and construction spending. Overseas businesses showed improving earnings in the United States, Asia, China, and other areas but were late to respond to the overall deteriorating market environment accompanying the stagnant economic conditions in Europe.

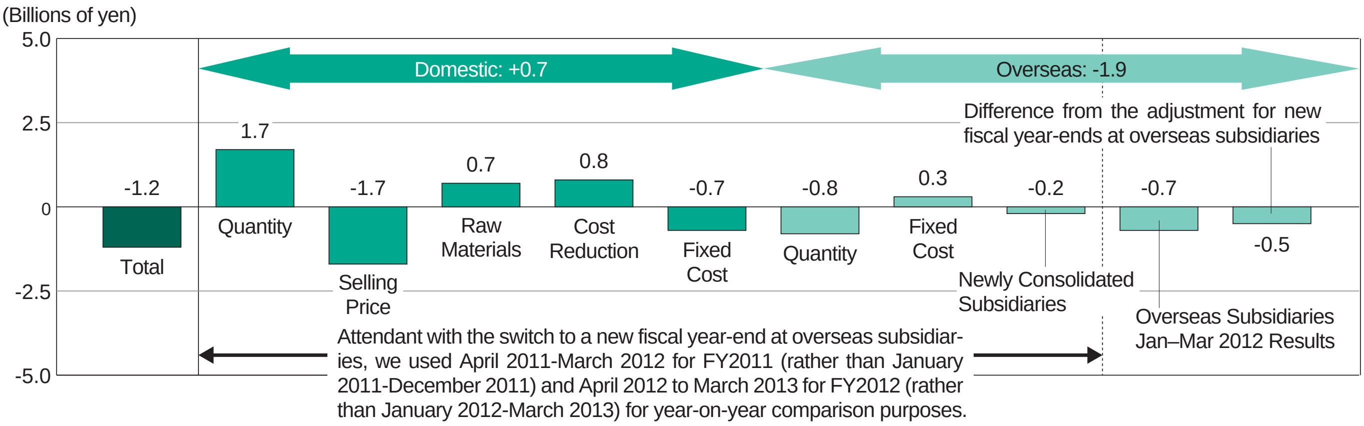
Earnings deteriorated for the pipeline renewal business in Europe owing to falling project prices amid intensifying competition and growing bad debts, particularly in the Western European markets. On top of this, sales did not grow as much as planned in Eastern Europe, which offers promising new markets, due to delays in acquiring standards certification for the company's proprietary construction methods. The overall result was the UIEP Company recording a ¥14.5 billion year-on-year increase in net sales to ¥214.5 billion in fiscal year 2012.

The UIEP Company's operating income from Japan operations increased ¥0.7 billion year on year. Despite the impacts in Japan from the slow emergence of reconstruction-related demand and the late enforcement of the supplementary budget, positive factors including increased volume, lower raw material expenses, and cost cutting effects outpaced the negative factors including falling product prices in the intensified competition and higher fixed costs.

Overseas profits declined ¥1.9 billion year on year, primarily due to the reduced volume from the sluggish pipeline renewal business. The revised fiscal years of overseas subsidiaries and new consolidations strongly impacted profits and erased the positive effect from reductions to fixed costs.

In fiscal year 2012, the UIEP Company made steady progress fortifying the business foundation and revising the business model of the domestic businesses, but sluggish pipeline renewal business results due mainly to the stagnancy in the European market held operating income at ¥1.8 billion.

## Analysis of Operating Income for FY2012 (year-on-year)



## Fiscal Year 2013 Plan

**Net sales: Increase of ¥22.5 billion to ¥237.0 billion**
**Operating income: Increase of ¥5.2 billion to ¥7.0 billion**

In fiscal year 2013, the company plans to bring the reform launched in fiscal year 2011 to completion. To that end, the company will continue developing and fully activating the value chain business during the year. At the same time, the company plans to aggressively pursue domestic private and public demand to full advantage of the upswing in demand cycles.

We also plan to improve earnings overseas as we reestablish the European operations. Through these measures, we intend to regain the profit growth track and ensure continuing growth going forward.

### Market Environment

We expect demand to remain generally strong in areas related to the UIEP Company's domestic businesses. We anticipate increasing public investment and emerging reconstruction activity to boost demand for the pipeline renewal business and government projects, such as for public facility construction, and expand the market by 20% or more from the previous fiscal year. We also expect domestic private demand to rise year on year in every sector, including the housing sector from the demand surge ahead of the consumption tax increase, the construction sector on increasing demand for seismic upgrades and other structural improvements, and the plant sector on a boost from tax incentives.

The outlook for the overseas businesses varies depending on the region and sector. In Europe, we expect demand to continue firm in Eastern Europe while persisting severe conditions in Western Europe hold demand flat year on year. In the United States, we expect improving capital investment to support a general recovery in demand and also see signs of a recovery in infrastructure-related demand. In the emerging markets of Asia, we anticipate ongoing growth in infrastructure-related demand in fiscal year 2013.

### Sales and Income Targets

In fiscal year 2013, we plan to increase earnings in the domestic business by steadily capturing the anticipated rises in both government and private demand and also to raise earnings in the overseas business by reestablishing the pipeline renewal business in Europe.

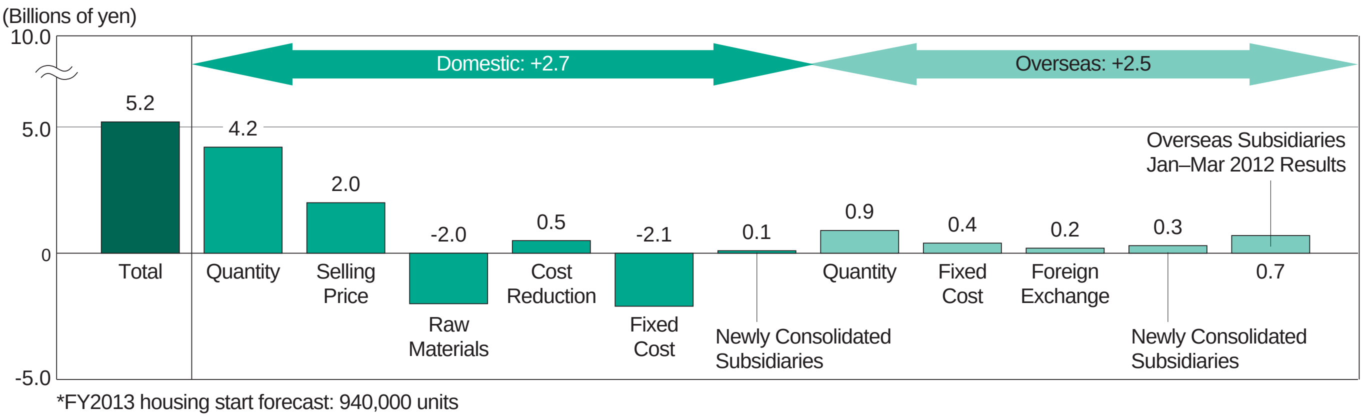
We plan to raise domestic business operating income by ¥2.7 billion. We expect business volume to grow on boosts from both government demand with the enforcement of the 15-month supplementary budget and the surfacing of reconstruction demand and from private demand as a surge in pre-tax hike demand accelerates new housing construction starts. We will also raise our product prices as a hedge against rising raw material prices and implement cost reductions to help offset a rise in fixed costs.

We plan to raise overseas business operating income by ¥2.5 billion. The key elements are the boosts from increased business volume, reduced fixed costs, foreign exchange effects, and contributions from newly consolidated companies.

The forecast includes ¥1.3 billion that should be attainable from management efforts excluding the foreign exchange effect, contributions from newly consolidated companies, and the impact from the revision to the fiscal year periods of overseas subsidiaries. We believe this combined with the forecasts for growth in the sheet business in the brisk U.S. market and the water infrastructure business in China along with lower fixed costs and other benefits from the restructuring of the pipeline renewal business in Europe will give us sufficient momentum to achieve the target.

Through these efforts, the UIEP Company is targeting operating income of ¥7.0 billion in fiscal year 2013.

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




*FY2013 housing start forecast: 940,000 units

## Fiscal Year 2013 Initiatives

Management initiatives in fiscal year 2013 will focus in the domestic business on accelerating the growth of the stock business and establishing a firm foundation for the general products business and in the overseas business on reestablishing the European business and implementing new mechanisms for growth.

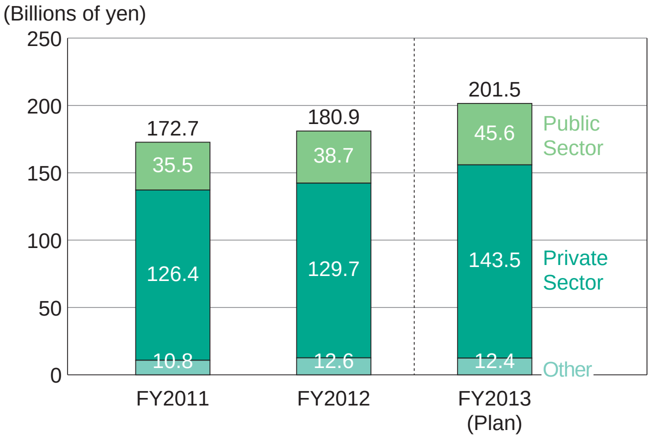
In the domestic business, accelerating the growth of the stock business will entail increasing orders in the pipeline renewal business along with full entry into the water supply and transportation fields to progress away from single product sales to systems and package sales. In the condominium field, we plan to bolster performance results by offering comprehensive proposals for large-scale reforms and renovation projects and attracting orders and commencing projects from our stock of post-earthquake reconstruction projects as we direct all our powers toward transforming to a business model for earnings growth.

To establish a firm foundation for the general products business, we will implement a comprehensive streamlining of operations by reorganizing the production systems including the piping materials business acquired from Mitsubishi Plastics, Inc. and use our leading domestic distribution channels to expand orders. We will also take steps to construct a profit structure in preparation for the anticipated declining trend in housing construction starts in the medium and long-term.

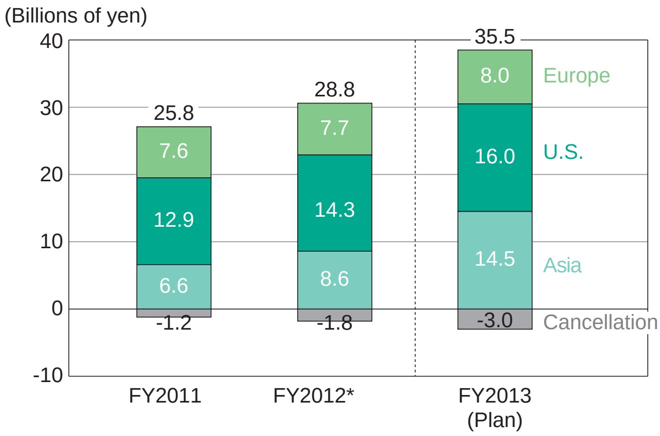
In the overseas business, we will move to quickly reestablish the pipeline renewal business in Europe. Measures begun last year, including overhauling the construction management system and reorganizing the Western Europe business operation system, will be advanced to completion, and management will aim to increase orders by focusing strategies on Northern Germany, where the company has its strongest presence, and Eastern Europe, where demand is strong. These efforts will further advance our initiatives to improve European business earnings and prepare the overseas business for new growth.

In the United States, we will continue consolidating the pipeline renewal business to improve efficiency and expand orders while implementing measures in the sheet business to further stimulate the synergies between the two companies. In other regions, we will step up our business specialization in the public water supply business in China and promote full-fledged development of the infrastructure market in Asia.

Domestic Sales




Overseas Sales




* Excluding sales of Overseas subsidiaries Jan-Mar 2012

# HOUSING COMPANY

**TEIJI KOGE,**
*President of Housing Company*

## PERFORMANCE HIGHLIGHTS

| (Billions of yen) | FY09 | FY10 | FY11 | **FY12** | FY13 (Plan) |
|---|---|---|---|---|---|
| Net Sales | 398.2 | 418.7 | 449.4 | **469.0** | 495.0 |
| Housing | 292.4 | 301.0 | 322.3 | **333.7** | 349.0 |
| Living Environment | 105.8 | 117.7 | 127.1 | **135.4** | 146.0 |
| Operating Income | 19.4 | 24.4 | 31.1 | **36.3** | 40.0 |
| Housing | 15.4 | 18.2 | 23.1 | **26.1** | 28.5 |
| Living Environment | 4.0 | 6.2 | 8.0 | **10.2** | 11.5 |
| Operating Income Ratio (%) | 4.9 | 5.8 | 6.9 | **7.7** | 8.1 |

The Housing Company is a leading provider of residential housing in Japan and one of the country's largest homebuilders with housing sales surpassing 10,000 units annually. The company targets customers seeking high quality homes, such as customers building replacement homes.

The company's strength is its unique unit construction method allowing as much as 80% of the construction to be completed inside the factory and enabling superior air-tightness and heat insulation as fundamental features and quality that consistently meets design performance targets. The short on-site construction period of roughly 50 days has the additional advantage of allowing customers, such as those rebuilding their homes, shorter periods spent in temporary housing. The Housing Company highlights these strengths to offer customers high-performance, high value-added, and short construction period housing products.

The benefits of the unit construction method are not limited to new construction. Assembling our houses from standardized box-shaped units, allows them to be easily expanded or relocated and reconstructed on a different site. The materials used are compiled in an extensive database, which provides timely information for meeting customer needs, such as for post-construction renovation projects. The Housing Company effectively utilizes the database to construct a business model following customer cycles enabling the company to anticipate and meet all customer needs at each life stage.

The reality of the domestic housing market is that demand is expected to swell in the short term ahead of the planned increase in the consumption tax rate but will inevitably be affected in the medium and long-term by Japan's shrinking population. The Housing Company responded by implementing various measures beginning with

### Innovative Unit Technology

Ensure consistent product quality through production at the factory regardless of weather conditions

Swift on-site assembly completed in just one day introducing an integrated production and sales structure to lower the break-even point and establish an operating structure capable of securing profit even in periods of declining demand.

The company is also working to establish an operating structure capable of continuous profit growth by broadening its business portfolio, including expanding the refurbishing business by targeting the substantial housing stock the company has cultivated and developing business overseas by highlighting the advantages of the factory production method.

At this point, we think lowering of the break-even point has provided the new housing construction business with sufficient earning power. We believe that maintaining an order backlog and other leveling efforts is bringing the company closer to achieving an operating structure that is as resilient as possible to the influence of short-term demand fluctuations, such as the anticipated impact from the increase in the consumption tax.

Meanwhile, the living environment business continues growing, to the point that it has become the second pillar of the Housing Company's. The overseas business is just getting under way and is gauging the market environments in the target countries as it prepares for steady expansion.

## Results for Fiscal Year 2012

**Net sales: Increase of ¥19.6 billion to ¥469.0 billion**
**Operating income: Increase of ¥5.2 billion to ¥36.3 billion**

In fiscal year 2012, Housing Company orders rose 5% year on year driven by the advanced Shin Smart Heim housing products featuring built-in large-capacity solar power systems, storage batteries, and the Home Energy Management System (HEMS). The refurbishing business also generating ongoing sales growth as it advanced business activities aimed at expanding sales of solar equipment and other mainstay products. As a result, the Housing Company posted growth in net sales and operating income for both the housing and living environment businesses.

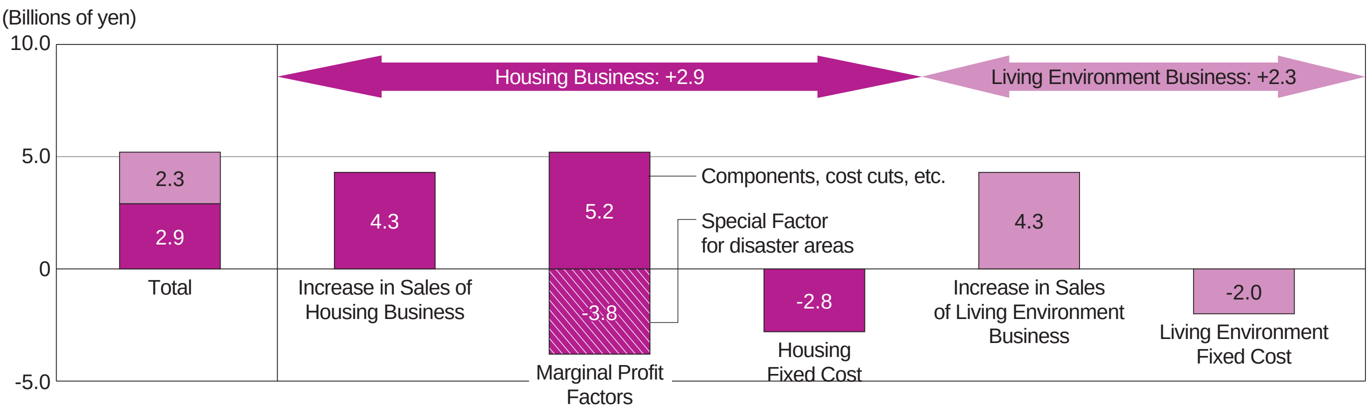
Housing business net sales rose by ¥11.4 billion year on year to ¥333.7 billion in fiscal year 2012. Housing orders rose 5% year on year, primarily due to the timely release of the new, advanced Shin Smart Heim line with built-in storage batteries, which tapped into the growing consumer interest in purchasing housing, particularly energy-efficient housing, since the earthquake.

Profit also continued growing, rising by ¥3.0 billion to ¥26.1 billion. The profit growth was achieved from progress cutting costs in materials, production, construction, and other areas, which more than made up for higher fixed costs associated with the increase in personnel.

Orders also expanded amid the growing customer demand for energy-efficient housing in recent years and a positive reception in the market for the advanced housing we introduced equipped with original large-capacity solar power generation systems, storage batteries, HEMS, Comfortable Airy System, and other environmental features. As a result, the value of housing orders increased 6% year on year in fiscal year 2012, and the order backlog at the start of fiscal year 2013 was 13% higher on a value basis than a year earlier. This ability to build up the term-start order backlogs without incurring a drop in sales will enable us to steadily progress with the leveling of factory production capacity utilization and construction schedules.

The living environment business, which is focused on home refurbishment, is advancing its strategy to stimulate demand by initiating periodic diagnostic testing to be applied every five years to houses in the extensive database of some 500,000 houses the Company has built for customers. In the year under review, the business continued

Analysis of Operating Income for FY2012 (year-on-year)



expanding its refurbishment business sales staff and fortifying its business base while also seeking to expand sales of solar power generation equipment and other mainstay products.

Living environment business net sales increased by ¥8.3 billion year on year to ¥135.4 billion. Operating income grew by ¥2.3 billion to ¥10.2 billion, as the growth in sales more than offset the rise in fixed costs, including the staff increase to bolster the sales force.

## Fiscal Year 2013 Plan

**Net sales: Increase of ¥26.0 billion to ¥495.0 billion**
**Operating income: Increase of ¥3.7 billion to ¥40.0 billion**

In fiscal year 2013, we plan to fully respond to the anticipated rise in demand ahead of the scheduled April 2014 increase in the consumption tax while fortifying our business structure by improving cost efficiency, leveling, and other measures for the post-tax hike market. We will also continue expanding the living environment business and developing the overseas business with an eye toward earnings growth in the long term.

When we launched the GS21-SHINKA! medium-term management plan, we set a profit target of ¥34 billion for fiscal year 2013, the plan's final year. Having surpassed the target in fiscal year 2012, we have set a new higher target of ¥40 billion for fiscal year 2013.

### Market Environment

The housing market environment is currently being influenced by anticipation of rising stock prices and interest rates, which is supporting improving consumer sentiment, increasing potential buyer traffic, and emerging housing replacement demand. We expect these conditions to continue in the first half of the fiscal year.

We expect the planned increase in the consumption tax to be the single most influential factor on the housing and related markets in the coming fiscal year. We anticipate a demand surge in the housing and related markets in the first half of the fiscal year as customers seek to qualify for the pre-hike tax rate by either placing an order before the end of September 2013 or by receiving delivery before the end of March 2014. In the second half, although it is still unknown what kind of policies might be implemented to ease the burden of the tax rate hike, we think the backlash from the demand surge in the first half will begin appearing near the end of the fiscal year.

In the refurbishing market, we also expect consumer anticipation of rising stock prices and interest rates to trigger demand. We also believe demand will receive a further boost from government housing policies, such as special programs for existing homes and refurbishment projects, and from the home ownership cyclical as baby boomer homeowners reach the period when refurbishment demand begins to rise.

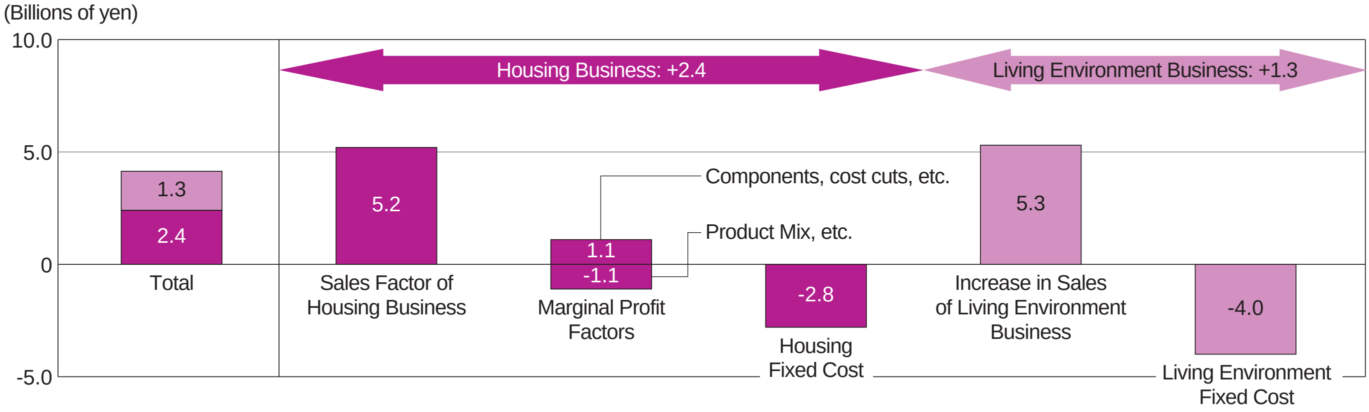
### Sales and Income Targets

We aim to expand sales and profits for both the housing and living environment businesses in fiscal year 2013 supported by strong housing orders in the first half as consumers frontload demand before the consumption tax increase and by the high value of the order backlog at the start of the fiscal year.

In the housing business, we plan to increase sales and profit in fiscal year 2013 by taking steps to minimize the backlash from the demand surge while also maintaining a healthy backlog of orders and establishing a foundation for continuing profit expansion in the years ahead. We aim to raise housing business net sales by ¥15.3 billion to ¥349.0 billion and operating income by ¥2.4 billion to ¥28.5 billion in fiscal year 2013.

In the living environment business, we will further strengthen our

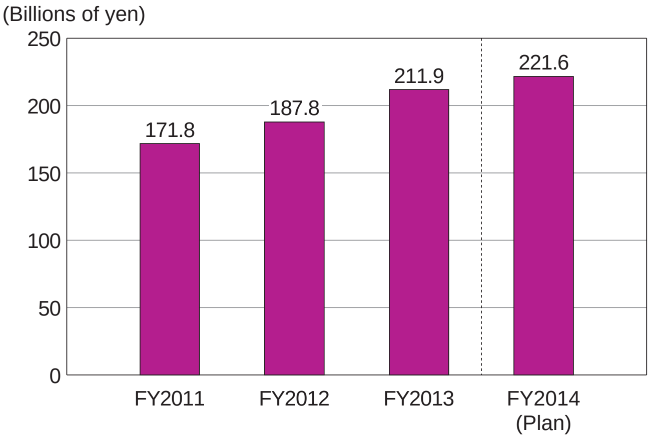
Analysis of Operating Income for FY2013 (year-on-year)



sales force to raise the customer coverage ratio and enhance our ability to respond to all demand that arises while also focusing effort on expanding sales of the mainstay products that highlight our strengths. Our fiscal year 2013 targets for the living environment business are to raise net sales to ¥146.0 billion and operating income to ¥11.5 billion.

We are aiming for the Housing Company to attain overall net sales of ¥495.0 billion and operating income of ¥40.0 billion in fiscal year 2013.

Order Backlogs at Term Start




## Fiscal Year 2013 Initiatives

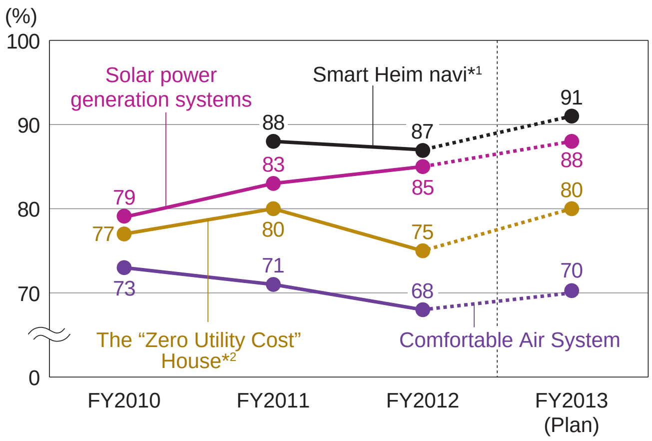
In fiscal year 2013, we will approach the anticipated temporary rise in housing orders caused by the demand surge ahead of the consumption tax increase by ensuring we fully capture the demand while simultaneously taking steps to fortify our business structure for the subsequent demand backlash. In the housing business, after analyzing the potential impact of the tax hike, we set a target of raising housing unit orders by 1% year on year in fiscal year 2013. This outcome is the result of our estimates of pre-tax hike demand fueling a 14% year on year rise in the first half followed by an unavoidable 10% year on year decline in the second half when the higher tax rate will start being applied.

In the detached housing segment, we will aim to increase orders in the first half by highlighting the appeal of our advanced housing products, led by our next-generation Shin Smart Heim with built-in storage batteries launched in April 2012. In the second half, we will highlight our short construction periods for our housing products and aim to deliver as many products as possible by the March 2014 deadline for applying the lower tax rate. We will also seek to further improve business efficiency by continuing to lower material expenses and reduce costs in the design and construction stages.

In the living environment business, we aim to expand sales of our solar power systems and bath, kitchen, and other mainstay products while implementing measures to fortify the business foundation, including fortifying the sales force and quickly developing the abilities of younger staff. For our solar power systems, we will seek to expand sales by promoting a Smart Heim Refurbishing package of a large capacity solar power system, HEMS, and storage batteries similar to our newer housing products.

The overseas development of the housing business in Thailand took a strong leap forward in March 2013 with the completion of a mass-production factory with an annual capacity of 1,000 homes, and the focus will now turn to developing activities to attract orders.

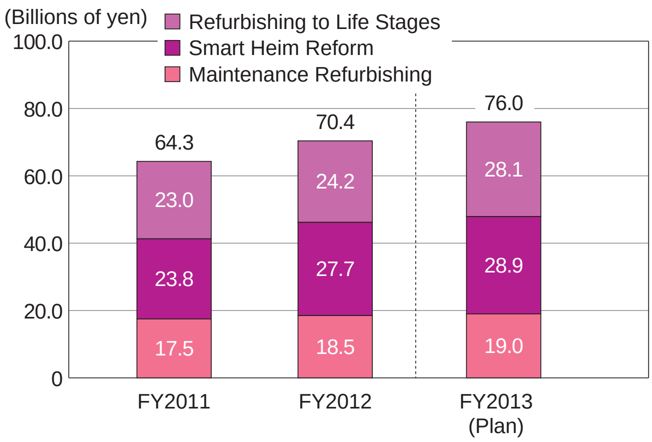
New Housing Construction
Trend in the Percentage of Built-in Differentiation Tools




*1: HEMS, percentage within all homes with built-in solar power generation units.

*2: Percentage within all homes with built-in solar power generation units.

Refurbishment Business
Trend in Sales



# REVIEW AND ANALYSIS OF CONSOLIDATED RESULTS FOR FISCAL YEAR 2012

Year ended March 31, 2013

## Business Environment

Global economic conditions had been improving since the financial crisis in 2008, but the ongoing tension in 2012 concerning the sovereign debt crisis in Europe led to the wide-ranging economic slowdown in manufacturing industries in Europe spreading to China and other developing countries as well as to Japan and the United States.

Business confidence was relatively unchanging as real economic growth slowed in the major industrial nations. However, the sovereign debt crisis in Europe and the economic recession that spread across the region from the Southern European countries ultimately started affecting the major industrial nations as well, and the region's real economy fell into negative growth in the July–September quarter. The economic growth also slowed in China, Russia, South Korea, and other developing countries that were rapidly recovering from the global financial crisis and where economic growth peaked around 2010.

Economic conditions in Japan also rapidly weakened in 2012 due to factors such as the expiration of eco-car subsidies used to stimulate the economy and sharp decline in exports from the economic slowing overseas. The fiscal year ultimate ended on an upbeat as the election of a new government administration fueled expectations for economic recovery and signs of improvement began appearing in the first quarter of 2013 (January to March 2013).

Although the market environment provided very little to support optimism, the Sekisui Chemical Group made steady progress in fiscal year 2012 advancing the Stage 2 initiatives of the GS21-SHINKA! medium-term management plan (fiscal years 2009 to 2013). Specifically, the Company began setting up and implementing the measures that needed to be advanced in Stage 2 of the plan, including revising the business model to correspond with changes in the domestic and overseas demand structure, beginning to reap results from the growth seeds sowed for the global businesses, and continuing to open new growth segments, such as environment-contributing products, to expand sales.

By business segment in fiscal year 2012, in the domestic housing field, new housing construction starts continued brisk supported by low interest rates for home loans and improved consumer sentiment. New housing construction starts rose 6.2% over the previous year to 893,002 units in fiscal year 2012, marking the third straight year of year-on-year growth. The Company's housing orders also remained brisk, rising 5% year on year on a unit basis, and the value of the year-end order backlog grew to ¥211.9 billion.

In the water infrastructure-related field, which includes piping materials, private sector demand was relatively strong for building construction and domestic new housing starts, including apartment buildings. Public sector demand, however, fell short of expectations for the fiscal year due to factors including delayed reconstruction-related orders and the late enforcement of the supplementary budget. Although the company continues to develop the pipeline renewal business as an overseas business, earnings inevitably deteriorated in this field from the fiscal austerity in Western Europe and consequent reduction in public construction projects.

In the automotive related business, demand in Europe continued sluggish due to the economic conditions in the region, but strong demand developed in the United States and was relatively strong in China despite a temporary slowing midyear. In the IT field, strong demand for smartphones and tablet computers supported solid demand in related fields to which the company supplies components.

The market environments varied widely for each business field and region in fiscal year 2012. However, the Company implemented appropriate response measures and ultimately posted the highest level of operating income since the introduction of the internal divisional company system in fiscal year 2001, marking the third consecutive year of record-high income.

## Analysis of Business Results and Financial Position

### 1. Analysis of Business Results for Fiscal Year 2012

#### *1) Net sales*

Net sales in fiscal year 2012 amounted to ¥1,032,431 million, an increase of ¥67,340 million, or 7.0%, from the previous fiscal year.

Housing Company net sales amounted to ¥469,036 million in fiscal year 2012, representing an increase of ¥19,644 million, or 4.4%, from the previous fiscal year. The Housing Company's new housing construction business recorded year-on-year growth in housing unit orders supported by sales of new apartment products and the next-generation Shin Smart Heim housing featuring superior air-tightness and heat insulation and equipped with large capacity solar power generation systems (energy generation), the Smart Heim Navi home energy management system (energy saving), and built-in large capacity storage batteries (energy storage). The living environment business also increased the value of orders year on year supported by strong sales of solar power generation systems and expanded sales of its kitchen, bathroom, and other mainstay products backed by a fortified sales staff for which we accelerated training to quickly developed their sales capabilities.

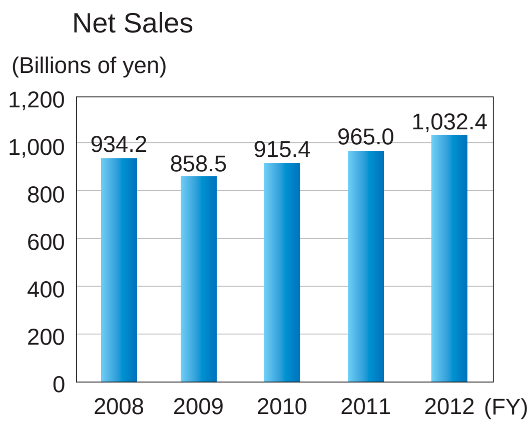
Urban Infrastructure & Environmental Products Company net sales amounted to ¥214,516 million in fiscal year 2012, representing an increase of ¥14,514 million, or 7.3%, from the previous fiscal year. The UIEP Company restructured to a business organization based on demand fields and progressed with measures to accelerate development of the value chain. However, the overseas businesses struggled under the impact of the economic recession in Europe.

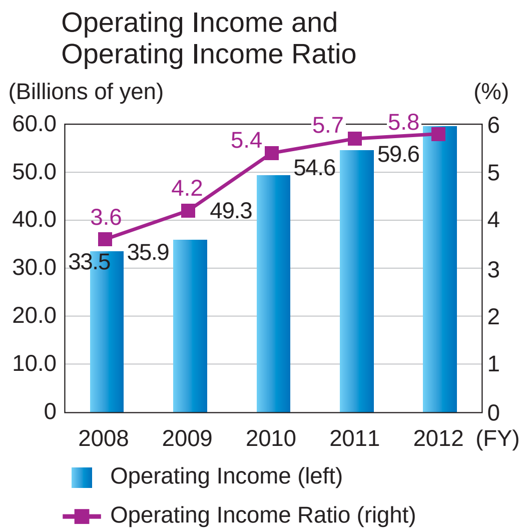
High Performance Plastics Company net sales in fiscal year 2012 amounted to ¥332,017 million, an increase of ¥35,141 million, or 11.8%, from the previous fiscal year. The HPP Company posted a year-on-year rise in sales in the automotive field as strong demand in the United States and growing demand in Asia, Central and South America, and other developing regions offset the impacts from sluggish demand in Europe, the strong yen during the year, and other factors. IT field sales remained flat year on year as sluggish demand for TV and computer related product was balanced by higher sales volume of products for smartphone and tablet computer applications, including fine particle and other liquid-crystal chemical products as well as double-sided tape, foam, and ITO films. In the medical field, the HPP Company progressed with the reorganization of the operation in North America. Sales remained roughly flat year on year supported by stable demand in the diagnostic reagents business.

Net sales in Other Businesses in fiscal year 2012 amounted to ¥40,492 million, a decrease of ¥2,982 million, or 6.9%, from the previous fiscal year.

#### *2) Operating income*

Operating income in fiscal year 2012 amounted to ¥59,621 million, an increase of ¥5,011 million, or 9.2%, from the previous fiscal year. The growth was largely due to an ¥16,898 million increase in gross profit that accompanied the rise in sales and which more than offset the ¥11,886 million increase in selling, general and administrative expenses.




The figures used in the following graphs are rounded down to the nearest hundred million yen.

***3) Non-operating income and expenses***

Non-operating income increased by ¥3,533 million from the previous fiscal year, largely owing to an increase in foreign exchange gain of ¥4,827 million, which offset a decline of ¥1,262 million in miscellaneous income. Non-operating expenses increased by ¥2,033 million from the previous fiscal year as a decrease of ¥608 million in foreign exchange loss was outpaced by a ¥2,524 million increase in miscellaneous expenses.

***4) Extraordinary income and loss***

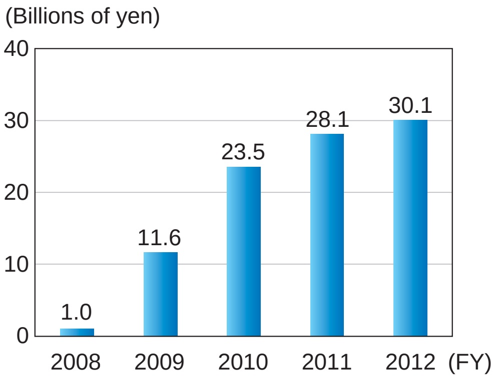
Extraordinary income included a ¥1,815 million gain on sales of property, plant and equipment.

Extraordinary loss amounted to ¥17,989 million, an increase of ¥9,760 million, or 118.6%, from the previous fiscal year, comprising ¥9,536 million in retirement benefit expenses, a ¥5,243 million loss on impairment of fixed assets and goodwill, a ¥2,022 million loss on devaluation of investments in securities, and a ¥1,186 million loss on sales or disposal of property, plant and equipment.

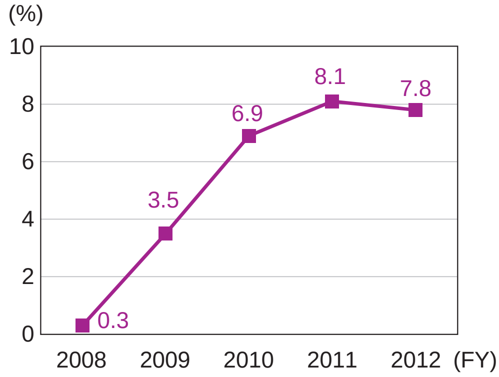
***5) Net income***

As a result of the above, income before income taxes and minority interests for fiscal year 2012 decreased ¥4,744 million from the previous fiscal year to ¥44,495 million. After taxes and minority interests, net income amounted to ¥30,174 million, an increase of ¥2,058 million, or 3.7%, from the previous fiscal year.

Net Income




Return on Equity




*Return on Equity = Net Income/Average Shareholder's Equity

## 2. Financial Position

***1) Assets, liabilities, and net assets***

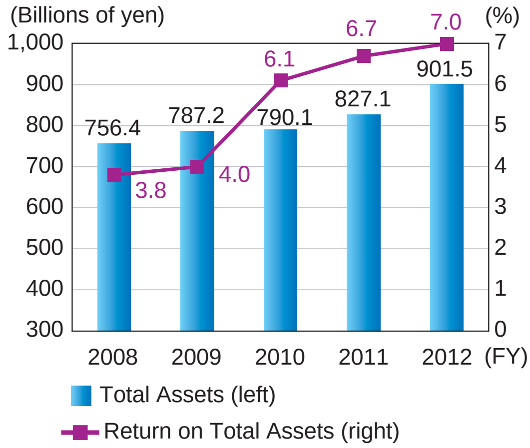
Total assets at the end of fiscal year 2012 amounted to ¥901,564 million, an increase of ¥74,461 million from the previous fiscal year-end.

**(Assets)**

Current assets rose ¥39,641 million from the previous fiscal year to ¥439,964 million at the end of fiscal year 2012. The main element was a ¥15,163 million increase in notes and accounts receivable.

Non-current assets increased by ¥34,819 million to ¥461,600 million, primarily owing to a ¥38,267 million rise in investment in securities from factors including a rise in the market value of listed equity securities.

Total Assets and
Return on Total Assets



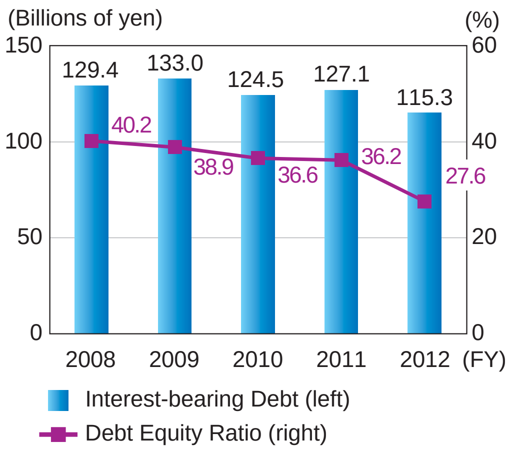

*Return on Total Assets = Ordinary Income/Average Total Assets

**(Liabilities)**

Liabilities rose ¥4,533 million year on year to ¥468,336 million at the end of fiscal year 2012.

The main elements were a combined ¥8,712 million increase in notes payable, electronically recorded obligations, accounts payable, and accrued expenses along with an increase of ¥10,365 million in accrued retirement benefits and a decrease of ¥11,867 million in interest-bearing debt.

Interest-bearing Debt and Debt Equity Ratio




*Debt Equity Ratio = Interest-bearing Debt/Shareholder's Equity

**(Net assets)**

Retained earnings rose ¥16,423 million, mainly due to an increase in net income of ¥30,174 million that more than offset dividend payments of ¥8,767 million. Yen depreciation led to an upward translation adjustment of ¥19,386 million. As a result of the above, net assets were ¥433,228 million at the end of fiscal year 2012, an increase of ¥69,928 million from the previous fiscal year-end.

### *2) Cash flows*

Cash and cash equivalents on a consolidated basis (hereinafter "funds") amounted to ¥58,631 million at the end of fiscal year 2012, an increase of ¥13,485 million, or 29.9%, from the end of fiscal year 2011. Factors influencing the fiscal year 2012 cash flow accounts were as follows.

**(Operating activities)**

Funds from operating activities amounted to ¥71,016 million in fiscal year 2012, an increase of ¥4,364 million from the previous fiscal year. Factors increasing cash flow from operating activities included ¥44,495 million in income before income taxes and minority interests and ¥34,895 million in depreciation and amortization along with a ¥9,902 million increase in accrued retirement benefits, a ¥5,243 million loss on impairment of fixed assets and goodwill, and a ¥3,232 million amortization of goodwill. Factors drawing from cash flow included a ¥25,876 million increase in income taxes paid.

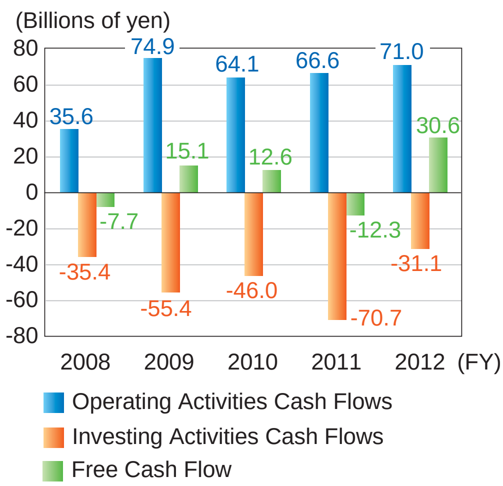
**(Investing activities)**

Funds used in investing activities amounted to ¥31,133 million in fiscal year 2012, compared with a cash outflow of ¥70,727 million in the previous fiscal year. The cash outflow was primarily the result of aggressive investment activities including ¥29,211 million utilized to acquire property, plant and equipment in priority and growth fields.

**(Financing activities)**

Funds used in financing activities amounted to ¥30,520 million in fiscal year 2012, compared with a cash outflow of ¥16,077 million in the previous fiscal year. The cash outflow was largely due to ¥9,234 million in dividend payments (including dividends paid to minority shareholders) and a net decrease of ¥23,583 million in interest-bearing debt.

Cash Flows




*Free Cash Flow = Operating Activities CF + Investing Activities CF - 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 2012.

### 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 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) IT Market Trends

The IT 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.

# CORPORATE INFORMATION

## CONTENTS

## OUR PRINCIPLE

Sekisui Chemical Group's Principle ("Our Principle") comprises elements such as our Company Creed, Mission Statement, Group Vision that expresses an ideal form aimed for by the Group in the medium to long term, and our concrete Business Strategy (e.g. Medium-term Management Plan) to realize the Group Vision. Based on Our Principle, it is our aim to create social values as a unified group.

# COMPANY CREED

## The “3S Principle” (Service, Speed, Superiority)

### Service
We enhance the well-being of the world community through our global business network

### Speed
We surge ever forward into new fields of development with the power and vitality of a mighty waterfall

### Superiority
We obtain the trust of our customers through superior operational performance and the highest quality standard

### The “3S Principle”
Our company badge comprises the three S’s of the company’s original name, adopted at the time of its foundation, “SEKISUI SANGYO” enclosed in a hexagonal shape resembling a tortoise shell (the chemical symbol for benzene), symbolizing the Chinese character meaning “water.”

In November 1959, this mark was defined as the “3S Principle” and formally established as the company creed.

“The difference between people living their lives in accordance with ideals and those simply going where the currents and eddies of life take them becomes ever more apparent as the long years of their lives pass. The same is true of business. Only when employees mass under a common ideal arising from a basic policy of business management can the company demonstrate its great power as a corporate community.”

It was in the spirit of this intent that the 3S Principle comprising Service, Speed and Superiority was established as the motto of SEKISUI.

### Origin of Company Name
**SEKISUI means “pent-up water.”**
**An expression used by Sun Tzu in his classic treatise.**

**The onrush of a conquering force is like the bursting of pent-up waters into a chasm a thousand fathoms deep.**

### Meaning of “SEKISUI”
“The battle of victor is determined in a fell swoop with tremendous force, just as a full body of water (pent-up water or “SEKISUI”) let drop into a deep gorge.”

### Adoption of this concept into corporate activities:
The expansion of business activities will inevitably experience problems and challenges. To overcome such difficulties, it is important both to gain a full understanding of and to analyze one’s opponent’s circumstances, to consolidate one’s own structure and then to release the power of pent-up waters to do battle and be victorious.

# MISSION STATEMENT

## Create social value while fulfilling stakeholder expectations

**Sekisui Chemical Group will fulfill the stakeholder expectations of our "Customers," "Shareholders," "Employees," "Business Partners," "Local Communities and the Environment."**

- Satisfy customer needs to the fullest extent
- Provide the best possible services to customers

- Strive for the sustained growth of corporate value
- Ensure the clear and timely disclosure of information

- Deepen relationships with business partners and associated companies
- Promote coexistence and co-prosperity through fair transactions


- Established a culture that encourages employees to set their own goals and take on new challenges
- Assure the validity of the performance-based evaluation

- Contribute to society and the environment with our products
- Build harmony with local communities as a good corporate citizen

# GROUP VISION

**Sekisui Chemical Group will continue to develop the frontiers of "Creation of Housing/Social Infrastructure" and "Chemical Solutions, " utilizing its prominent technology and quality, thereby contributing to people's lives around the world and the global environment.**

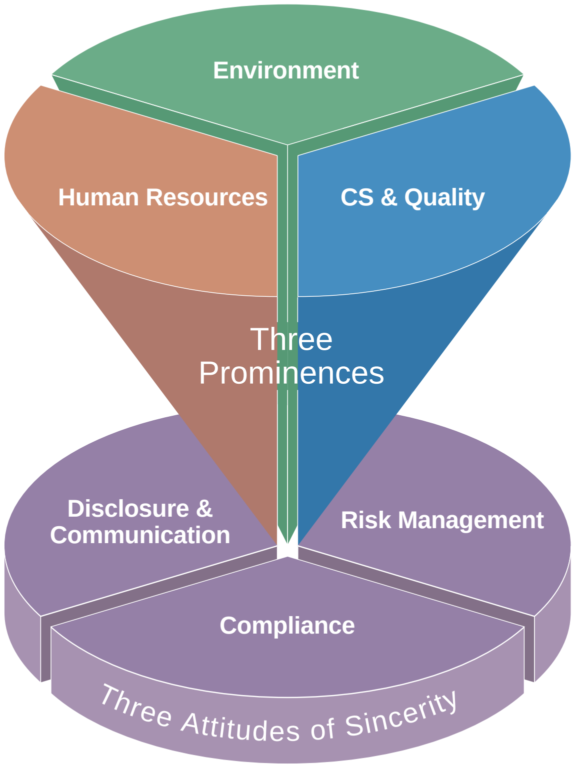
The Group Vision contains the intention of the Sekisui Chemical Group. All Group employees will realize the intention and continue to be a business group that is trusted and expected.

| | |
|---|---|
| **Prominent technology and quality** | We provide quality that satisfies customers, including technology accumulated over many years in the plastics processing and housing sectors, as well as "hard" products and "soft" services and solutions. |
| **Creation of Housing/ Social Infrastructure** | We offer housing and related materials, and infrastructure related to water and the environment, which make full use of advanced technology. |
| **Chemical Solutions** | We supply chemical products that anticipate the advanced needs of customers in the industrial fields of transport equipment, electronics, healthcare, etc. |
| **Development of frontiers** | We create new value while exploring and expanding business, in keeping with the progressive spirit of development that flows through the Sekisui Chemical Group. |
| **People's lives around the world** | We contribute to improving the quality of people's lives by responding to global markets and taking part in global activities. |
| **Global environment** | We seek to create an environment in which people of the next generation can enjoy true peace of mind through business that combines ecology and economy. |

# CORPORATE SOCIAL RESPONSIBILITY (CSR)

## CSR is the Pillar of Management

The Sekisui Chemical Group's CSR is to contribute to society through its businesses, and fulfilling its CSR is the very embodiment of the Group's corporate philosophy. We believe that advancing our CSR management raises the quality of our corporate management. Based on these perceptions, we must earnestly implement CSR initiatives at all times under any kind of business conditions to realize the ongoing transformation and evolution of the Group.




## The Three Prominences and Three Attitudes of Sincerity

The Group's CSR management is based on the core themes of the Three Prominences of the Environment, Customer Service & Quality, and Human Resources, and the Three Attitudes of Sincerity of Compliance, Risk Management, and Disclosure & Communication. As a member of the manufacturing industry, we believe the Environment and Customer Service & Quality are our inherent responsibilities, and we also consider it our duty to include Human Resources in the three prominences, because it is people who achieve progress in the other two areas.

## CSR Medium-term Plan

(Fiscal Years 2009-2013)

The Sekisui Chemical Group integrates CSR planning into its medium-term management plan and has established a CSR Medium-term Plan. The following chart presents the fiscal year 2012 results and the targets for fiscal year 2013. The Sekisui Chemical Group has worked together to spread, strengthen, and develop the global application of our CSR management. As our business becomes increasingly diversified and global, we will continue to work as a unified group to further deepen and strengthen our CSR management.

### Three Prominences

| Themes and Initiatives | Main Activities | FY2012 Results | FY2013 Targets |
|---|---|---|---|
| **Environment**<br>1. Refine Environment-contributing products<br>2. Further reduce environmental burden of our business activities<br>3. Incorporate biodiversity consideration | • Increase Environment-contributing products* | • 38% of net sales (target: 38%) | • Over 40% of net sales |
| | • Reduce greenhouse gas emissions | • 28% reduction from FY1990 level (domestic) | • Maintain reduction above 20% of FY1990 level (domestic) |
| | • Conduct biodiversity assessments at business sites | • Conducted at three business sites | • Form plans for all major plants and business plants |
| | • Implement nature conservation activities at all business sites | • Implemented at 48 of the 51 business sites<br>Participation by 73% of employees in FY2011-12 | • Implement at all 51 business sites<br>Participation by 80% of employees in FY2011-13 |
| **CS & Quality**<br>1. Fortify base quality<br>2. Create attractive quality | • External failure costs | • Reduced by 40% (from FY2004 level) | • Reduce by 75% (from FY2004 level) |
| | • Major quality issues | • 2 cases (target: 0 cases) | • 0 cases |
| **Human Resources**<br>1. Enhance global human resource skills<br>2. Cultivate global human resources<br>3. Utilize diverse human resources | • Enhance global human resource skills | • Fostered future business leaders<br>• Revised personnel system | • Provide planned transfers and experiences<br>• Expand to group companies |
| | • Cultivate global human resources | • Expanded global recruitment<br>• Increased global personnel to 294 people | • 30% global recruitment<br>• Increased global personnel to 300 people |
| | • Utilize diverse human resources | • 28% of new recruits were women<br>• Appointed women as line managers | • 30% of new recruits were women<br>• Provide development support for candidates |

### Three Attitudes of Sincerity

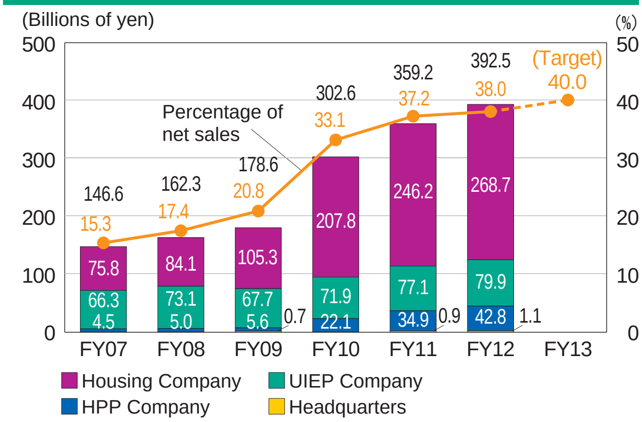
| Themes | Main Activities | FY2012 Results | FY2013 Targets |
|---|---|---|---|
| Compliance | • Raise awareness and develop overseas compliance | • Expanded education and formulate overseas compliance system | • Expand monitoring and broaden application overseas |
| Risk Management | • Strengthen risk management systems | • Increased risk management activity organizations (72 organization)<br>• Initiated domestic crisis management system | • Increase risk management activity organizations (100 organization)<br>• Formulate regional crisis management systems (overseas) |
| Disclosure & Communication | • Continue dialogue with stakeholders | • Selected to the Dow Jones Sustainability Index (DJSI)<br>• Selected to the FTSE4Good Index<br>• Selected to Ethibel PIONEER and Ethibel EXCELLENCE<br>• Selected to the Morningstar Socially Responsible Investment Index (MS-SRI) | • Maintain status on SRI indices |

### * Sekisui Chemical Group Environment-contributing Products

The Group contributes to society by expanding its offerings of environment-contributing products and businesses that take into account the environmental burden in the manufacturing and all stages and can contribute to reducing the environmental burden of society. In fiscal year 2012, environment-contributing products represented 38% of our net sales.

The reduction in $CO_2$ emissions attributable to sales of our environment-contributing products nearly matched the emission volume from our domestic manufacturing plants. Our efforts to reduce $CO_2$ emissions are beginning to bear fruit and are steadily leading us toward achieving carbon negative status.

Trends in Environment-contributing Product Sales and Percentage




#### Featured Environment-Contributing Products

**Shin Smart Heim (Navi, built-in storage batteries, Ohisama Heim)**

Shin Smart Heim houses offer both energy-conservation equipment and energy-creation equipment based on solar power generation systems. The homes also have Smart Heim Navi as a standard feature, enabling reductions of about 10% in energy consumption and 15-20% in utility costs. Built-in storage batteries further raise electrical self-sufficiency.

**S-LEC Sound Insulation and Solar Control Interlayer Films**

Our S-LEC interlayer films for laminated glass provide added sound insulation and solar control functionality to automotive glass. Sound insulation assists in reducing vehicle weights and solar control reduces air conditioner use in summer, both of which contribute to lowering $CO_2$ emissions. Many automakers utilize our S-LEC films, and use on 10 million vehicles could cut $CO_2$ emissions by as much as 600,000 tons.

**Pipeline Renewal Systems (SPR Methods)**

The SPR Method is a method for renovating pipelines without requiring digging an open trench. The method entails applying strips of hard vinyl chloride materials to the interior walls of existing pipes to create a new inner surface. The SPR Method minimizes the impact on the local inhabitants, as installation can be done even while water is flowing in the pipes, and also vastly reduces the installation period and costs compared to the open trench method.

Please see the Sekisui Chemical Group CSR web page for further details on our CSR activities.
http://www.sekisuichemical.com/csr/index.html

# CORPORATE GOVERNANCE

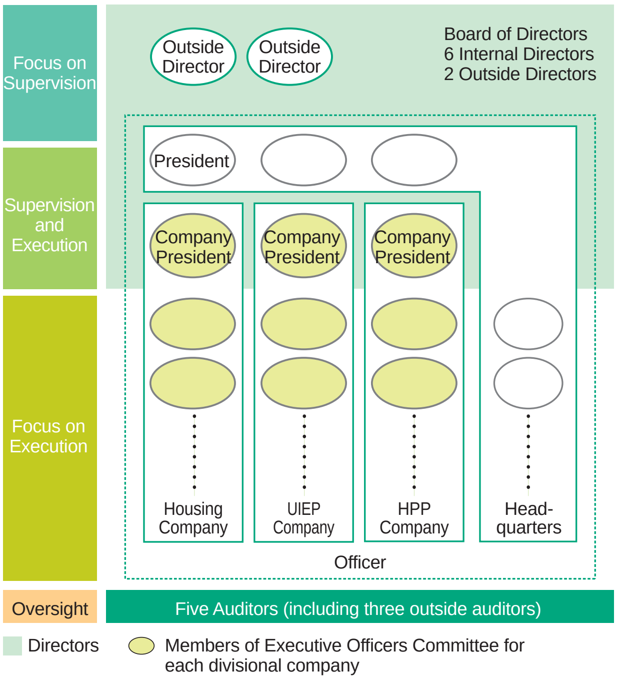
**Sekisui Chemical implements various measures, including the introduction of Outside Directors and the Executive Officer System, to enhance its transparency and fairness and to respond swiftly to business opportunities.**

**In addition, each Sekisui Chemical Group company implements various programs to heighten the compliance awareness and understanding of all its directors, executive officers, and employees with the intention of maintaining and continuing to earn its status as a company broadly trusted by society.**

## Corporate Governance Basic Policies and Systems

The Group has created a management framework based on a division company system to maximize corporate value. Amid the rapid changes in the Group's business environment, the Group recognizes that enhancing business transparency and fairness and speeding up management decision-making is essential to sustaining steady growth in corporate value. We have instituted several measures to enhance our corporate governance system, including strengthening the Board of Directors and the business execution function.

Management System




## Strengthening the Board of Directors

The Board of Directors comprises eight Directors, and it 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 independent Outside Directors to ensure transparency in management and fairness in business decisions and operations.

### Appointment of Outside Directors

The Company appoints to the Board two Outside Directors with verified independence from the Company who contribute to the enhancement of corporate value by providing advice and oversight based on their extensive administrative experience and specialized knowledge. The Outside Directors provide counsel based on their diverse and objective perspectives on priority management issues, such as global development strategy, business model revisions, and strengthening of CSR management.

## Strengthened Business Execution Functions

Under our division company system, we introduced a Executive Officer System, to separate supervisory (Directors) and business execution (Executive Officers) functions, with the aim of enhancing each divisional company's ability to respond swiftly to changing business conditions.

### Executive Officer System

The Executive Officer System appoints Executive Officers whose role is to focus solely on business execution and to respond swiftly to business opportunities. 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.

## Auditing System

The Company has strengthened its auditing system, designed to harmonize the efforts of corporate auditors and internal audits, ensure the appropriate functioning of the management and operations oversight system. The Board of Corporate Auditors comprises five auditors (including three outside auditors with verified independence from the Company) who undertake extensive audits, which cover the execution of duties by the Board of Directors, and the conduct of business by all divisional companies, and corporate headquarters.

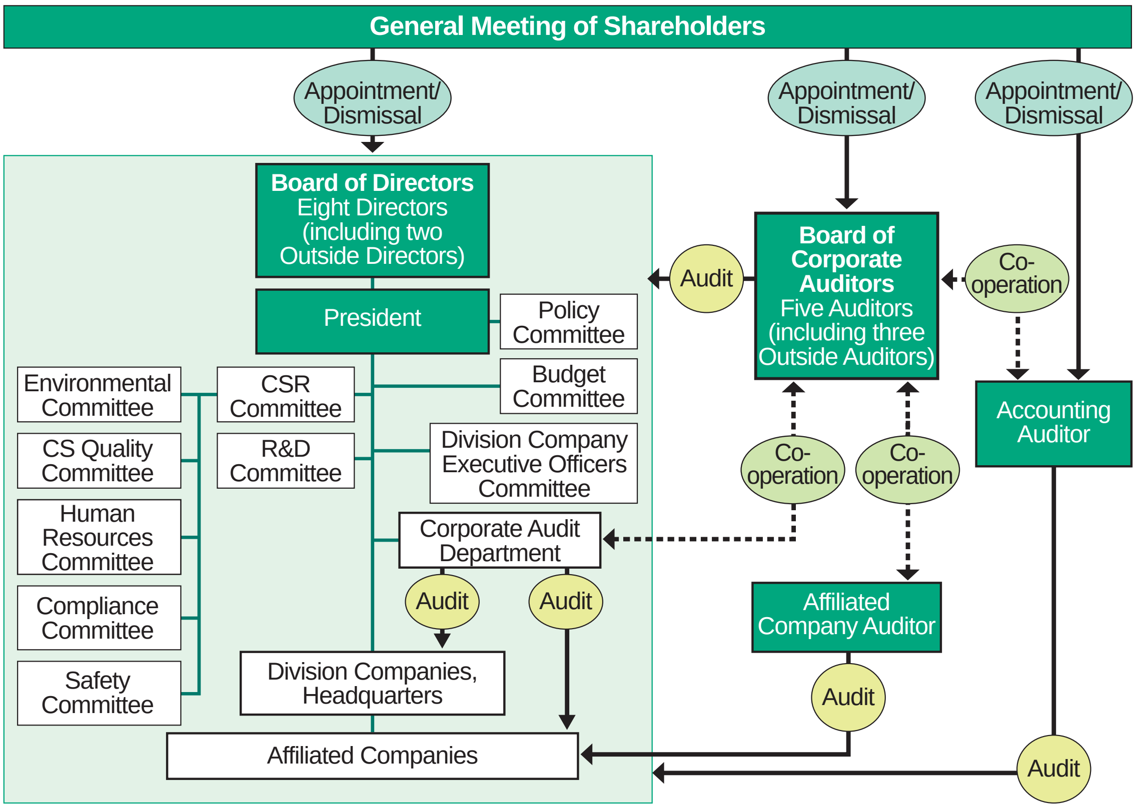
## Reinforcement of the Internal Control System

In May 2006, the Board of Directors resolved to adopt a fundamental policy regarding the establishment of an internal control system for ensuring the appropriateness of the Group's business activities. Based on the Corporate Activity Guidelines set forth in accordance with the Group management principles, the Company seeks to realize collaborative interaction concerning the supervision, directives, and communications of the Sekisui Chemical Group (the Company and its subsidiaries), and Sekisui Chemical's duties include providing guidance and counsel, and undertaking evaluations of all Sekisui Chemical Group members to ensure that their business activities are being conducted in an appropriate manner. To further strengthen the Group's compliance activities, the CSR Committee, chaired by the president, deliberates the Fundamental Compliance Policies, which are subject to approval by the Board of Directors. In addition, the Compliance Subcommittee supervises compliance activities group wide, and conducts activities to highlight the importance of compliance as a fundamental aspect of our corporate culture.

## Reinforcement of the Risk Management Structure

The Compliance committee also supervises risk management activities. The committee deliberates policies and implements education, training, and related measures. In addition, the Company also maintains a full-time corporate risk management department. The risk management department is charged with promoting risk management awareness and planning, organizing, and implementing risk management related activities. Specifically, the risk management department prepares the Sekisui Chemical Group Crisis Management Guidelines and takes steps to prevent the occurrence of risk by disseminating information to all directors, executive officers, and employees of the Company and the Group companies. In accordance with the Sekisui Chemical Group Crisis Management Guidelines, in the event of a major risk event, the risk management department will establish an emergency control headquarters and conduct a prompt and appropriate response.

Corporate Governance System



# DIRECTORS, AUDITORS AND EXECUTIVE OFFICERS

## BOARD OF DIRECTORS

**Naofumi Negishi**
President and Representative Director,
*Chief Executive Officer*

**Takayoshi Matsunaga**
Director,
*Senior Managing Executive Officer*

**Teiji Koge**
Director,
*Senior Managing Executive Officer*

**Kozo Takami**
Director,
*Senior Managing Executive Officer*

**Hajime Kubo**
Director,
*Managing Executive Officer*

**Satoshi Uenoyama**
Director,
*Managing Executive Officer*

**Toru Nagashima**
[Outside Director]
*Senior Advisor*
*Teijin Limited*

**Kunio Ishizuka**
[Outside Director]
*Chairman*
*Isetan Mitsukoshi Holdings Ltd.*

## CORPORATE AUDITORS

**Shuichi Shino**

**Kiyotaka Tsuji**

**Tadashi Kunihiro**
[Outside Auditor]
*Attorney at Law*

**Hiroshi Osada**
[Outside Auditor]
*Professor Emeritus,*
*Tokyo Institute of Technology*

**Hirofumi Onishi**
[Outside Auditor]
*Certified Public Accountant*

## EXECUTIVE OFFICERS

**Naofumi Negishi**
Chief Executive Officer

### Housing Company

**Teiji Koge**
Senior Managing Executive Officer
*President of Housing Company*

**Hidemi Uno**
Managing Executive Officer
*Head of Technology Department*

**Shunichi Sekiguchi**
Managing Executive Officer
*Responsible for Public Relations & External Relations Department*
*Head of Sales Management Division*
*Head of President Office*

**Hiroyuki Watanabe**
Executive Officer
*President of Tokyo Sekisui Heim Co., Ltd.*

**Futoshi Kamiwaki**
Executive Officer
*Head of Housing Product Research & Development Department*

**Kazukiyo Kuroki**
Executive Officer
*President of Sekisui Heim Kyushu Co., Ltd.*

**Toshiyuki Kamiyoshi**
Executive Officer
*President of Sekisui Heim Tohoku Co., Ltd.*

**Kenji Yagi**
Executive Officer
*President of Sekisui Heim Chubu Co., Ltd.*

### Urban Infrastructure & Environmental Products Company

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

**Torao Ishii**
Managing Executive Officer
*Regional General Manager (Europe)*
*Head of Administrative Management & Control Department*

**Kimiatsu Sato**
Executive Officer
*Regional General Manager (China & Asia)*
*Head of Global Water Pipe Systems Division*

**Masao Shimazu**
Executive Officer
*Responsible for Private Sector Business*
*Head of Pipe Systems & Building Materials Division*

**Shigeki Fujii**
Executive Officer
*Head of Technology & Development Division*

**Eiji Nishiie**
Executive Officer
*Responsible for Public Sector Business*
*Head of Public Works & Infrastructural Business Division*

### High Performance Plastics Company

**Takayoshi Matsunaga**
Senior Managing Executive Officer
*President of High Performance Plastics Company*

**Toshio Uesaka**
Managing Executive Officer
*Head of Industrial Tape Division*

**Mutsumi Fukuda**
Managing Executive Officer
*Head of Medical Products Division*
*President of Sekisui Medical Co., Ltd.*

**Takeshi Inoue**
Executive Officer
*President of Sekisui Film Co., Ltd.*

**Keita Kato**
Executive Officer
*Head of New Business Promotion Division*
*Head of Research & Development Institute*

**Masaru Noriki**
Executive Officer
*Head of Administrative Management & Control Department*

**Toshitaka Fukunaga**
Executive Officer
*Head of Shiga - Minakuchi Plant*

### Headquarters

**Hideo Tagashira**
Senior Managing Executive Officer
*Responsible for Corporate Finance & Accounting Department*
*Head of Business Planning Department*

**Hajime Kubo**
Managing Executive Officer
*Head of CSR Department*
*Head of Corporate Communication Department*

**Satoshi Uenoyama**
Managing Executive Officer
*Head of R&D Center*

**Masaru Kondo**
Executive Officer
*Head of Total Manufacturing Management Center*

**Takashi Goto**
Executive Officer
*Head of Legal Department*

# RESEARCH & DEVELOPMENT/INTELLECTUAL PROPERTY

**The Sekisui Chemical Group promotes the innovations achieved in the pursuit of prominence to enhance its earning power and cultivate growth businesses. Improving the value of our R&D and the intellectual property it produces is indispensable to maintaining our prominence and is of paramount importance to our management strategy.**

## R&D Strategy

### The Sekisui Chemical R&D System

The Sekisui Chemical Group operates four primary R&D centers within the Housing Company, the Urban Infrastructure & Environmental Products Company, the High Performance Plastics Company, and the Corporate headquarters. In addition, Sekisui Medical Co., Ltd., and other key affiliated companies maintain independent R&D divisions and facilities. The Sekisui Chemical Group's wide spectrum of R&D activities, which include basic research, product development, production engineering and management technologies, are undertaken with the objective of generating groundbreaking products to meet latent customer needs. The Company has developed prominent proprietary technologies and introduced numerous leading-edge technologies, which are used in a multitude of products that are contributing to society. One recent example is our innovative sewage pipeline renewal (SPR) method. The Company actively collaborates with industrial, governmental, and academic entities to conceive and develop advanced technologies.

The five-year management plan launched in fiscal year 2009 delineates three management priorities: 1) accelerating growth in "Frontier 7" businesses; 2) creating next-generation businesses; and 3) promoting "Manufacturing development SHINKA." Accelerating growth in the "Frontier 7" businesses will be achieved by continuing to implement strict selection and concentration of the R&D resources of each of the divisional companies to speed up R&D activities and generate new prominent technologies.

We are focusing our creation of next-generation businesses in three fields: advanced infrastructure solutions, energy-related leveraging our chemical strength, and life science.

At the Corporate R&D Center, we are engaged in the development of new technologies with the aim of creating unique energy systems, centered on generated energy and stored energy, and chemistry formulation that are not reliant on oil-based resources.

Product development is the key to a manufacturer's competitiveness. We established the Manufacturing Development Innovation Center at the Corporate R&D Center in 2006 to enhance our product development capabilities. Under the Manufacturing Development SHINKA plan begun in fiscal year 2009, the manufacturing development departments were shifted from the Corporate R&D Center to the new Total Manufacturing Innovation Center comprising the Safety Group, the Quality Management Group, the Manufacturing Development Innovation Center, and the Purchasing Group and operating

**Frontier 7 Businesses—Goals of R&D**

| | | |
|---|---|---|
| Housing Company | Living Environment Business | Automation of Inspection System |
| | | Strengthen Environment, Comfort, and Reassurance |
| | | •Innovative Engineering •Energy Efficiency Engineering •Short-term Construction Schedule |
| UIEP Company | Pipeline Renewal Business | Advancement of Methods |
| | Water Infrastructure Business | High Performance |
| | Performance Materials Business | High Performance |
| HPP Company | AT Related Business | Aim for Eco-friendly, Safety, and Comfortable Vehicle |
| | IT Related Business | Shift from FPD Materials to Semi-conductor and Energy Related Products |
| | Medical Related Business | Worldwide Expansion of No.1 Share Products |

**Goal of Next Generation Businesses**

| | |
|---|---|
| Advanced Infrastructure Solutions | •Provide highly industrialized housing in developed countries<br>•Develop business using a packaged-order model |
| Energy Solution Chemicals | •Energy Saving: LED components<br>•Energy Generation: Solar battery components<br>•Energy Storage: Lithium-ion battery components |
| Life Science | •Provide new diagnostic methods, develop and provide equipment<br>•Drug Discovery Support Business with unique analytical technology |

**Manufacturing Development SHINKA**

**Creating a Distinctive Manufacturing Line**

No Defects, Highly Automated Line: No defects, double productivity

Advanced Ecological Processes: Reduced energy consumption (50%), no waste

**Strengthening "Productive Power SHINKA"**

| Double Productivity—Ultimate Automation | Ultimate Cost Reduction by Material Change | Restructuring of Production System |
|---|---|---|
| •From integrated organization of sales and production to innovative construction<br>•Ultra-steady production line<br>•Process innovation | •Expansion of overseas procurement of parts and materials<br>•Product design of ultimate cost reduction | •Drastic rearrangement of manufacturing location and production<br>•Revision of manpower allocation |

**Deeping Manufacturing Development Innovation**

**Promotion of Self-sustaining Companies**

•Expansion and Enhancement of Overseas Subsidiaries
•Reduction of External Loss •Safe and Comfortable Workplace

under the guiding principle of "No quality without safety. No productivity without safety and quality." The system is structured for all departments, including the Purchasing Group, to support innovation in manufacturing. The Company is also taking active steps to respond to the current electric power situation in Japan, including shifting its focus from strictly energy conservation to an approach stressing the correct use of energy. In addition, the Company is revising its human resource development system under the concept "manufacturing development is people development" and plans to fully implement the new system in fiscal year 2013.

This organizational approach will provide the platform for the Company to engage its prominent technologies and quality to continue "creating housing and social infrastructures" and developing "the frontier of chemical solutions" for the betterment of the earth environment and the people of the world.

### R&D Human Resources and Benefits

The Sekisui Group presents Great Invention Awards to acknowledge researchers and engineers that have created highly unique and innovative inventions with potential to become profitable technologies and products. The award and the accompanying monetary endowment is one way the Group shows its recognition and appreciation of its talented researchers and engineers. In fiscal year 2012, three inventions, including Cholestest N-DHL, were recognized and the inventors were presented with awards and benefits.

The Group has also established a Specialist Position system to recognize and reward 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 July 2012, 22 people held specialist positions.

The Sekisui Group introduced the "Monozukuri" Master position in fiscal year 2009 to recognize individuals that exemplify the range of manufacturing skills and technical objectives of the Sekisui Chemical Group. The position is intended to promote the Group tradition of high skill and craftsmanship and provide motivation for each and every technician. As of July 2012, 11 people held "Monozukuri" Master 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.

## Intellectual Property Strategy

### Intellectual Property Strategy Objectives and Fundamental Policy

The intellectual property cultivated from our R&D activities is an important management resource that underpins the Sekisui Group's growth and revenue and contributes to optimizing corporate value. An intellectual property strategy is vital to maximizing the Group's technological prominence. In the Principles on Intellectual Property formulated in March 2005, the Group clearly stated that the objectives of our intellectual property management are to contribute to our business growth and to increase our corporate value by encouraging the creation, protection, and utilization of intellectual property, which is to be achieved by respecting our own intellectual property and that of others, and by clearly laying out our approach towards intellectual property management. This management mandate is further reinforced by our fundamental policy of ensuring business competitiveness by acquiring highly beneficial patents.

In March 2009, we adopted a new company-wide Intellectual Property Management Medium-term Plan. The plan is based on three fundamental guiding principles: 1. acquiring highly beneficial patents as a fundamental source of business competitiveness; 2. limiting costs associated with overseas applications, increasing the number of new patent applications overseas, and developing global intellectual property policies, including for the prevention of technology leakage, covering each country in which we operate; and 3. supporting the creation of next-generation businesses by conducting patent information studies from the initial stages of planning and development.

In fiscal year 2013, the last year of the plan, reflecting our increasing awareness in recent years that our intellectual property activities are essential not just for product development but are also increasingly important on the management level, we are working on Company-wide initiatives to 1) enhance our intellectual property culture, 2) improve our global responsiveness, 3) improve our risk response capabilities, and 4) increase our stock of intellectual property.

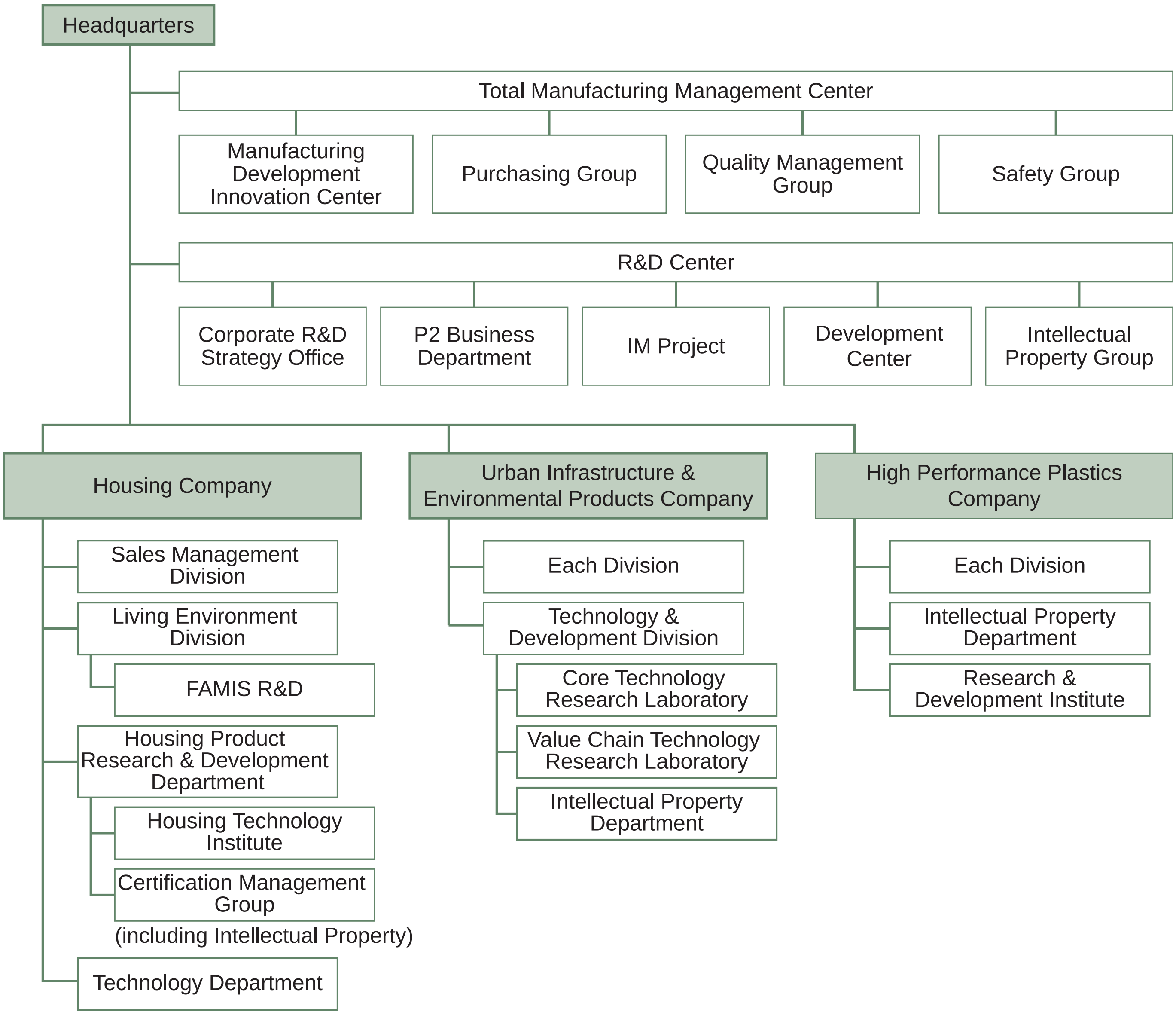
### Framework for Promoting the Intellectual Property Strategy and Major Activities

The Group advances a uniform intellectual property strategy through intellectual property divisions at the headquarters and each division Company that covers all levels of operation from planning of basic strategy to the acquisition, management, and utilization of patents.

Each divisional company's intellectual property and R&D divisions hold periodic Development and Intellectual Property Strategy Committee meetings to review the orientation and direction of its individual intellectual property strategies. In addition, the Intellectual Property Group at the headquarters supports each divisional company from the perspective of the company-wide business strategy to optimize the intellectual property portfolio.

The Group also proactively cooperates and seeks the advice of patent agents, lawyers and other external experts regarding the acquisition, management, and utilization of intellectual property to ensure each step is conducted in an appropriate manner. The Group is actively working with specialists in both Japan and overseas with the aim of further expanding the development of our global business. Along with this effort, we are training individuals to serve as local intellectual property staff in China and the United States to promote intellectual property activities in those countries.

R&D and Intellectual Property Management System



# MAJOR CONSOLIDATED SUBSIDIARIES AND AFFILIATES

(As of March 31, 2013)

| Consolidated Subsidiaries | | Capital*1 | Ratio of Voting Rights*2 | Activities |
|---|---|---|---|---|
| **Housing** | | | | |
| Hokkaido Sekisui Heim Co., Ltd. | Japan | JPY200 million | 100.0% | Construction of unit housing and real estate sales |
| Sekisui Heim Tohoku Co., Ltd. | Japan | JPY300 million | 100.0% | Construction of unit housing and real estate sales |
| Sekisui Heim Shinetsu Co., Ltd. | Japan | JPY300 million | 100.0% | Construction of unit housing and real estate sales |
| Gunma Sekisui Heim Co., Ltd. | Japan | JPY200 million | 100.0% | Unit housing contract, remodeling and expansion construction, and real estate sales and brokerage |
| Tokyo Sekisui Heim Co., Ltd. | Japan | JPY400 million | 100.0% | Construction of unit housing and real estate sales |
| Sekisui Heim Chubu Co., Ltd. | Japan | JPY300 million | 100.0% | Construction of unit housing and real estate sales |
| Sekisui Heim Kinki Co., Ltd. | Japan | JPY400 million | 100.0% | Construction of unit housing and real estate sales |
| Sekisui Heim Chushikoku Co., Ltd. | Japan | JPY300 million | 100.0% | Construction of unit housing and real estate sales |
| Sekisui Heim Kyushu Co., Ltd. | Japan | JPY300 million | 100.0% | Construction of unit housing and real estate sales |
| Hokkaido Sekisui Fami S Co., Ltd. | Japan | JPY20 million | 100.0% | Expansion and refurbishment of unit housing |
| Sekisui Fami S Tohoku Co., Ltd. | Japan | JPY100 million | 100.0% | Expansion and refurbishment of unit housing |
| Sekisui Fami S Shinetsu Co., Ltd. | Japan | JPY20 million | 100.0% | Expansion and refurbishment of unit housing |
| Tokyo Sekisui Fami S Co., Ltd. | Japan | JPY50 million | 100.0% | Expansion and refurbishment of unit housing |
| Sekisui Fami S Chubu Co., Ltd. | Japan | JPY50 million | 100.0% | Expansion and refurbishment of unit housing |
| Sekisui Fami S Kinki Co., Ltd. | Japan | JPY50 million | 100.0% | Expansion and refurbishment of unit housing |
| Sekisui Fami S Chushikoku Co., Ltd. | Japan | JPY50 million | 100.0% | Expansion and refurbishment of unit housing |
| Sekisui Fami S Kyushu Co., Ltd. | Japan | JPY50 million | 100.0% | Expansion and refurbishment of unit housing |
| Sekisui Interior Co., Ltd. | Japan | JPY50 million | 100.0% | Sale of interior design plans |
| Sekisui Exterior Co., Ltd. | Japan | JPY50 million | 100.0% | Construction of building exteriors |
| Tohoku Sekisui Heim Real Estate Co., Ltd. | Japan | JPY10 million | 100.0% | Real estate brokerage and apartment leasing & management |
| Sekisui Heim Real Estate Co., Ltd. | Japan | JPY200 million | 100.0% | Real estate brokerage and apartment leasing & management |
| Nagoya Sekisui Heim Real Estate Co., Ltd. | Japan | JPY20 million | 100.0% | Real estate brokerage and apartment leasing & management |
| Osaka Sekisui Heim Real Estate Co., Ltd. | Japan | JPY100 million | 100.0% | Real estate brokerage and apartment leasing & management |
| Chushikoku Sekisui Heim Real Estate Co., Ltd. | Japan | JPY10 million | 100.0% | Real estate brokerage and apartment leasing & management |
| Kyushu Sekisui Heim Real Estate Co., Ltd. | Japan | JPY10 million | 100.0% | Real estate brokerage and apartment leasing & management |
| Sekisui Unidea Co., Ltd. | Japan | JPY50 million | 100.0% | Rental tenant guarantor and trustee services |
| Hokkaido Sekisui Heim Industry Co., Ltd. | Japan | JPY100 million | 100.0% | Production and sale of materials for unit housing |
| Tohoku Sekisui Heim Industry Co., Ltd. | Japan | JPY100 million | 100.0% | Production and sale of materials for unit housing |
| Kanto Sekisui Heim Industry Co., Ltd. | Japan | JPY100 million | 100.0% | Production and sale of materials for unit housing |
| Tokyo Sekisui Heim Industry Co., Ltd. | Japan | JPY300 million | 100.0% | Production and sale of materials for unit housing |
| Chubu Sekisui Heim Industry Co., Ltd. | Japan | JPY100 million | 100.0% | Production and sale of materials for unit housing |

*1 Capital amounts are rounded down to the nearest decimal point.
*2 Ratio of voting rights is rounded down to one decimal place.

| Consolidated Subsidiaries | | Capital*1 | Ratio of Voting Rights*2 | Activities |
|---|---|---|---|---|
| Kinki Sekisui Heim Industry Co., Ltd. | Japan | JPY300 million | 100.0% | Production and sale of materials for unit housing |
| Chushikoku Sekisui Heim Industry Co., Ltd. | Japan | JPY100 million | 100.0% | Production and sale of materials for unit housing |
| Kyushu Sekisui Heim Industry Co., Ltd. | Japan | JPY100 million | 100.0% | Production and sale of materials for unit housing |
| Sekisui Board Co., Ltd. | Japan | JPY100 million | 100.0% | Production and sale of materials for unit housing |
| Sekisui Global Trading Co., Ltd. | Japan | JPY100 million | 100.0% | Import of lumber for housing |
| Sekisui Heim Supply Co., Ltd. | Japan | JPY50 million | 100.0% | Trading of construction materials and equipment & devices for housing |
| Sekisui-SCG Industry Co., Ltd. | Thailand | THB2,325 million | 51.0% | Production of unit housing |

## Urban Infrastructure & Environmental Products

| | | | | |
|---|---|---|---|---|
| Sekisui Aqua Systems Co., Ltd. | Japan | JPY200 million | 81.1% | Construction of plant facilities, production, sale, construction and maintenance of water environment systems (panel tanks, etc.) for industrial facilities |
| Sekisui Home Techno Co., Ltd. | Japan | JPY360 million | 100.0% | Development, construction and sale of housing construction equipment |
| Vantec Co., Ltd. | Japan | JPY100 million | 100.0% | Sale of piping materials |
| Hanyu Plastics Industries Ltd. | Japan | JPY200 million | 100.0% | Production and sale of extrusion molding products |
| Toyo Plastics Industries Corp. | Japan | JPY130 million | 100.0% | Production and sale of injection, extrusion and blow molded products |
| Sekisui Chemical Hokkaido Co., Ltd. | Japan | JPY200 million | 100.0% | Production, processing and sale of synthetic resin products and construction materials |
| Toto Sekisui Co., Ltd. | Japan | JPY50 million | 100.0% | Production, processing and sale of synthetic resin products |
| Asaka Sekisui Industry Co., Ltd. | Japan | JPY10 million | 100.0% | Plastic product finishing, packaging, and related operations |
| Chiba Sekisui Industry Co., Ltd. | Japan | JPY450 million | 100.0% | Contracted production of piping materials |
| Okayama Sekisui Industry Co., Ltd. | Japan | JPY100 million | 100.0% | Production, processing and sales of fireproof construction materials and equipment & devices for housing |
| Shikoku Sekisui Industry Co., Ltd. | Japan | JPY100 million | 100.0% | Production, processing and sale of synthetic resin products |
| Kyushu Sekisui Industry Co., Ltd. | Japan | JPY130 million | 100.0% | Production, processing and sale of synthetic resin products |
| Sekisui Roof System Co., Ltd. | Japan | JPY100 million | 100.0% | Development, production and sale of roofing materials |
| Kyushu Sekisui Kenzai Co., Ltd. | Japan | JPY40 million | 100.0% | Sale of rain gutters |
| Sekisui Roof Tech Co., Ltd. | Japan | JPY10 million | 100.0% | After-sale maintenance of roofing materials |
| Ryuseki Jubi Co., Ltd. | Japan | JPY40 million | 100.0% | Production and processing of synthetic resin products |
| Higashinihon Sekisui Shoji Co., Ltd. | Japan | JPY150 million | 100.0% | Sale of synthetic resin products |
| Chubu Sekisui Shoji Co., Ltd. | Japan | JPY30 million | 100.0% | Sale of synthetic resin products |
| Nishinihon Sekisui Shoji Co., Ltd. | Japan | JPY70 million | 100.0% | Sale of synthetic resin products |
| Sanin Sekisui Shoji Co., Ltd. | Japan | JPY30 million | 100.0% | Sale of synthetic resin products |
| M&S Pipe Systems Co., Ltd. | Japan | JPY20 million | 100.0% | Consulting on production and distribution of pipes and joints |
| Nippon No-Dig Technology Co., Ltd. | Japan | JPY60 million | 100.0% | Construction and equipment rental for civil engineering projects |
| Ritto Sekisui Industry Co., Ltd. | Japan | JPY10 million | 100.0% | Production and sale of synthetic resin pipes and joints |
| KYDEX, LLC. | U.S. | USD54 thousand | 100.0% | Production and sale of PVC sheet for thermoforming |
| Allen Extruders, LLC. | U.S. | USD27,000 thousand | 100.0% | Production and sale of ABS sheet for thermoforming |

## Consolidated Subsidiaries

| | | Capital*1 | Ratio of Voting Rights*2 | Activities |
|---|---|---|---|---|
| **Sekisui SPR Americas, LLC.** | U.S. | USD1,000 thousand | 100.0% | Production, sale and installation of materials for SPR method pipeline renewal |
| **Heitkamp, Inc.** | U.S. | USD10 thousand | 100.0% | Maintenance of water supply and sewerage facilities/Pipeline renewal business/Pipeline survey |
| **Sekisui SPR Europe G.m.b.H.** | Germany | EUR11,500 thousand | 100.0% | Pipeline renewal business (pipeline renewal process development, production, distribution of piping materials, renewal construction) |
| **Eslon B.V.** | Netherlands | EUR1,000 thousand | 100.0% | Production and sale of PVC rain gutters and other building materials |
| **Sekisui Refresh Co., Ltd.** | Korea | KRW3,000 million | 51.0% | Production and sale of lining profiles for pipeline renewal |
| **Sekisui Nuvotec Co., Ltd.** | Korea | KRW3,600 million | 67.0% | Production and sale of Eslon NV pipe and fittings for water supply Import and sale of Sekisui products |
| **Yongchang Sekisui Composites Co., Ltd.** | China | RMB95 million | 62.4% | Production and sale of reinforced plastic pipe (FRPM pipe) and synthetic wood (FFU) |
| **Sekisui (Shanghai) Environmental Technology Co., Ltd.** | China | RMB55 million | 100.0% | Production of reinforced compound plastic (FRP) products, glass-fiber products, and plastic products, research and development on composite materials and environmental protection products, sale of the company's own products and provision of technical support and other after-sales services |
| **Wuxi SSS-Diamond Plastics Co., Ltd.** | China | RMB33,106 thousand | 100.0% | Production of polyethylene electrofusion fittings (EF fittings) |
| **Sekisui (Qingdao) Plastic Co., Ltd.** | China | RMB70,904 thousand | 100.0% | Production and sale of high-performance plastic pipe for water supply |
| **Sekisui Industrial Piping Co., Ltd.** | Taiwan | TWD456 million | 100.0% | Production and sale of plastic valves, and pipe and fittings for industrial use |

### High Performance Plastics

| | | | | |
|---|---|---|---|---|
| **Sekisui Techno Molding Co., Ltd.** | Japan | JPY200 million | 100.0% | Production, processing and sale of molded synthetic resin products |
| **Sekisui Film Co., Ltd.** | Japan | JPY350 million | 100.0% | Production, processing and sale of polyethylene tubes and films |
| **Sekisui Film Kyushu Kako Co., Ltd.** | Japan | JPY10 million | 100.0% | Production and processing of polyethylene films |
| **Sekisui Nano Coat Technology Co., Ltd.** | Japan | JPY30 million | 100.0% | Thin film business (ITO film primarily for touch panels), textile business (metallurgical coating processing, base fabric processing for synthetic leather) |
| **Sekisui Fuller Co., Ltd.** | Japan | JPY400 million | 50.0% | Production and sale of adhesive materials |
| **Sekisui Medical Co., Ltd.** | Japan | JPY1,275 million | 100.0% | Production and sale of diagnostics and research use testing drugs |
| **Sekisui Techno Shoji Higashi Nihon Co., Ltd.** | Japan | JPY50 million | 100.0% | Sale of synthetic resin products |
| **Sekisui Techno Shoji Nishi Nihon Co., Ltd.** | Japan | JPY50 million | 100.0% | Sale of synthetic resin products |
| **Sekisui Polymatech Co., Ltd.** | Japan | JPY50 million | 100.0% | Processing and sale of plastic films and foam plastic products |
| **Sekisui Musashi Kako Co., Ltd.** | Japan | JPY25 million | 100.0% | Production and processing of polyolefin film products and adhesive tapes |
| **Sekisui Minakuchi Kako Co., Ltd.** | Japan | JPY10 million | 100.0% | Production and processing of interlayer films and resins |
| **Sekisui Taga Kako Co., Ltd.** | Japan | JPY20 million | 100.0% | Production and processing of synthetic resin products |
| **Naseki Seimitsukako Co., Ltd.** | Japan | JPY10 million | 100.0% | Production and processing of molded synthetic resin products |
| **Sekisui TA Industries, LLC.** | U.S. | USD7,000 thousand | 100.0% | Production and sale of adhesive tapes |

## Consolidated Subsidiaries

| | | Capital*1 | Ratio of Voting Rights*2 | Activities |
|---|---|---|---|---|
| Sekisui High Performance Packaging (Langfang) Co., Ltd. | China | RMB15,726 thousand | 100.0% | Production of adhesive tapes |
| Sekisui Voltek, LLC. | U.S. | USD41,788 thousand | 100.0% | Production and sale of polyolefin foam products |
| Sekisui Alveo AG | Switzerland | CHF21,000 thousand | 100.0% | Sale of polyolefin foam products |
| Sekisui Alveo Ltd. | U.K. | GBP7,100 thousand | 100.0% | Production of polyolefin foam products |
| Sekisui-Alveo B.V. | Netherlands | EUR1,361 thousand | 100.0% | Production of polyolefin foam products |
| Sekisui Alveo G.m.b.H. | Germany | EUR26 thousand | 100.0% | Sale of polyolefin foam products |
| Sekisui Alveo (Benelux) B.V. | Netherlands | EUR18 thousand | 100.0% | Sale of polyolefin foam products |
| Sekisui-Alveo S.A. | Spain | EUR60 thousand | 100.0% | Sale of polyolefin foam products |
| Sekisui Alveo S.r.L. | Italy | EUR103 thousand | 100.0% | Sale of polyolefin foam products |
| Sekisui Alveo S.a.r.L. | France | EUR8 thousand | 100.0% | Sale of polyolefin foam products |
| Sekisui Alveo Representative Ltda. | Brazil | BRL387 thousand | 100.0% | Sale of polyolefin foam products |
| Sekisui Alveo BS G.m.b.H. | Germany | EUR25 thousand | 100.0% | Production and sale of non-crosslinked polyethylene foam |
| YoungBo Chemical Co., Ltd. | Korea | KRW10,000 million | 52.3% | Production and sale of polyolefin foam products |
| Muhan Co., Ltd. | Korea | KRW300 million | 33.9% | Processing and sale of polyolefin foam products |
| YoungBo HPP (Langfang) Co., Ltd. | China | KRW 51,857 thousand | 52.3% | Production and sale of polyolefin foam products |
| Thai Sekisui Foam Co., Ltd. | Thailand | THB450,000 thousand | 91.1% | Production and sale of polyolefin foam products |
| Sekisui Pilon Pty. Ltd. | Australia | AUD1,257 thousand | 100.0% | Production and sale of polyolefin foam products |
| Sekisui S-Lec America, LLC. | U.S. | USD1,765 thousand | 100.0% | Production and sale of polyvinyl butyral interlayer films |
| Sekisui S-Lec B.V. | Netherlands | EUR11,344 thousand | 100.0% | Production and sale of resin for, and products of, polyvinyl butyral interlayer films |
| Sekisui S-Lec (Suzhou) Co., Ltd. | China | RMB195,979 thousand | 100.0% | Production and sale of polyvinyl butyral interlayer films |
| Sekisui S-Lec (Thailand) Co., Ltd. | Thailand | THB430,000 thousand | 100.0% | Production and sale of polyvinyl butyral interlayer films |
| Sekisui S-Lec Mexico S.A. de C.V. | Mexico | MXN32,836 thousand | 70.9% | Production and sale of polyvinyl butyral interlayer films |
| XenoTech, LLC. | U.S. | USD5,442 thousand | 100.0% | In vitro reagent business |
| Sekisui Diagnostics, LLC. | U.S. | USD132 million | 100.0% | Development, production, and sale of diagnostic agents |
| Sekisui Diagnostics P.E.I. Inc. | Canada | CAD52 million | 100.0% | Development, production, and sale of diagnostic agents |
| Sekisui Diagnostics (UK) Limited | U.K. | GBP36 million | 100.0% | Development, production, and sale of diagnostic agents and raw materials (enzymes) |
| Sekisui Virotech GmbH | Germany | EUR283 thousand | 100.0% | Development, production, and sale of diagnostic agents |
| Sekisui Specialty Chemicals America, LLC. | U.S. | USD107,000 thousand | 100.0% | Development, production and sale of PVA resin |
| Sekisui Specialty Chemicals Europe, S.L. | Spain | EUR18,000 thousand | 100.0% | Production and sale of PVA resin |
| Sekisui Medical Technology (China) Ltd. | China | RMB96,671 thousand | 100.0% | Production and sale of medical equipment |
| Sekisui DLJM Molding Private Limited | India | INR1 million | 51.0% | Production and sale of injection molding products (automotive components field) |

## Consolidated Subsidiaries

| Consolidated Subsidiaries | | Capital*1 | Ratio of Voting Rights*2 | Activities |
|---|---|---|---|---|
| Sekisui Korea Co., Ltd. | Korea | KRW250 million | 100.0% | Sale of plastic products/Technology services |
| Sekisui Products, LLC. | U.S. | USD2,036 thousand | 100.0% | Import and export of plastic products |
| Sekisui Chemical G.m.b.H. | Germany | EUR664 thousand | 100.0% | Import and export of plastic products |
| Sekisui (Shanghai) International Trading Co., Ltd. | China | RMB1,655 thousand | 100.0% | Import and export of plastic products |
| Sekisui (Hong Kong) Ltd. | China | HKD300 thousand | 100.0% | Import and export of plastic products |
| Sekisui Chemical (Taiwan) Co., Ltd. | Taiwan | TWD5,000 thousand | 100.0% | Import and export of plastic products |
| Sekisui Chemical Singapore (Pte.) Ltd. | Singapore | SGD800 thousand | 100.0% | Import and export of plastic products |
| Sekisui Chemical (Thailand) Co., Ltd. | Thailand | THB20,000 thousand | 100.0% | Import and export of plastic products |
| PT Sekisui Indonesia | Indonesia | USD500 thousand | 100.0% | Import and export of plastic products |
| Sekisui Chemical India Private Ltd. | India | INR110 million | 100.0% | Import, sale, marketing, and other activities for Sekisui Chemical group products including interlayer film and foam products for automotive and architectural glass applications, tape and film products for electronic materials, and medical products. |

### Others

| | | | | |
|---|---|---|---|---|
| Sekisui Seikei, Ltd. | Japan | JPY450 million | 100.0% | Production, processing and sale of synthetic resin products |
| Sekisui Engineering Co., Ltd. | Japan | JPY80 million | 100.0% | Factory automation system construction |
| Hinomaru Co., Ltd. | Japan | JPY672 million | 89.5% | Sales of fertilizers, agricultural materials and synthetic resin products |
| Tokuyama Sekisui Industry Co., Ltd. | Japan | JPY1,000 million | 70.0% | Production and sale of PVC resins and medical equipment |
| Sekisui Kosan Co., Ltd. | Japan | JPY50 million | 100.0% | Management of company housing |
| Sekisui Insurance Service Co., Ltd. | Japan | JPY30 million | 100.0% | Agent for life and non-life insurance |
| Sekisui Accounting Center Corporation | Japan | JPY20 million | 100.0% | Accounting and finance services/Financing services for affiliated companies |
| Sekisui America Corporation | U.S. | USD8,421 thousand | 100.0% | Holding company |
| Sekisui Europe B.V. | Netherlands | EUR1,000 thousand | 100.0% | Capital raising/Holding company |

## Affiliates (Equity Method)

| Affiliates (Equity Method) | | Capital*1 | Voting Rights*2 |
|---|---|---|---|
| Sekisui Plastics Co., Ltd. | Japan | JPY16,533 million | 21.8% |
| Sekisui Jushi Corporation | Japan | JPY12,334 million | 23.8% |
| Ibaraki Sekisui Heim Co., Ltd. | Japan | JPY105 million | 40.0% |
| Tochigi Sekisui Heim Co., Ltd. | Japan | JPY80 million | 40.0% |
| Sekisui Heim Tokai Co., Ltd. | Japan | JPY198 million | 36.3% |
| Sekisui Heim Sanyo Co., Ltd. | Japan | JPY100 million | 43.3% |
| Sekisui Heim Higashishikoku Co., Ltd. | Japan | JPY100 million | 25.0% |
| Kagawa Sekisui Heim Co., Ltd. | Japan | JPY100 million | 37.5% |

# STOCK INFORMATION (As of March 31, 2013)

### Sekisui Chemical Co.,Ltd.

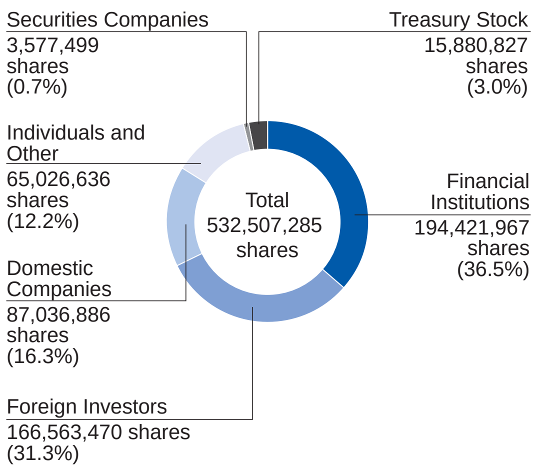
| | |
|---|---|
| Head Office: | 4-4, Nishitenma 2-Chome,Kita-ku,Osaka |
| Tokyo Head Office: | 3-17, Toranomon 2-Chome,Minato-ku,Tokyo |
| Founded: | March 3,1947 |
| Paid-in Capital: | ¥100,002,375,657 |
| Fiscal Year: | Ended March 31 |
| Authorized: | 1,187,540,000 shares |
| Issued: | 532,507,285 shares |
| Listings: | Common stock listed on the Tokyo Stock Exchange and the Osaka Securities Exchange |
| Number of Shareholders: | 21,744 |
| Manager of the Register of Shareholders: | Mitsubishi UFJ Trust and Banking Corporation |
| Transfer Agency: | Mitsubishi UFJ Trust and Banking Corporation Osaka Corporate Agency Division 6-3,Fushimimachi 3-Chome, Chuo-ku Osaka 541-8502 |

### Major Shareholders

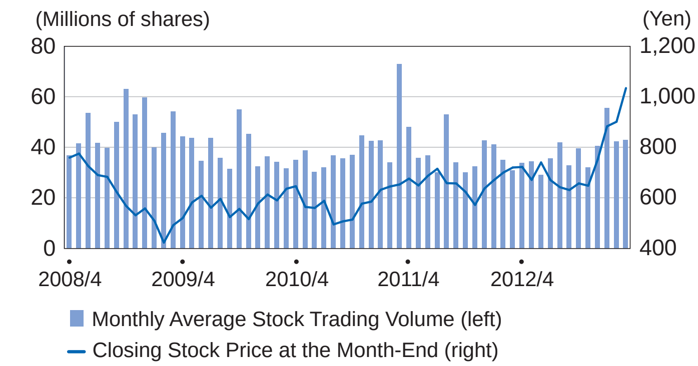
| Name of Shareholder | State of Investments | |
|---|---|---|
| | Number of Shares Held (Thousands of Shares) | Percentage of Ownership (%) |
| Asahi Kasei Corporation | 31,039 | 5.82 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 25,662 | 4.81 |
| Sekisui House, Ltd. | 25,592 | 4.80 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 25,483 | 4.78 |
| The Dai-ichi Life Insurance Company, Limited | 19,681 | 3.69 |
| Japan Trustee Services Bank, Ltd. (Trust Account 9) | 16,570 | 3.11 |
| Tokio Marine & Nichido Fire Insurance Co., Ltd. | 15,927 | 2.99 |
| Employees Stock Ownership Plan | 11,330 | 2.12 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 7,618 | 1.43 |
| State Street Bank and Trust Company 505225 | 6,622 | 1.24 |

Note: 1. The Company maintains 15,880,827 shares of treasury stock, which does not include the holdings of the major shareholders in the above list.
2. The number of shares held is rounded down to the nearest thousand.

### Breakdown of Shareholders




### Sekisui Chemical Stock Price and Trading Volume




### Additional Information

| | FY2006 | FY2007 | FY2008 | FY2009 | FY2010 | FY2011 | **FY2012** |
|---|---|---|---|---|---|---|---|
| **Stock Price (Yen)** | | | | | | | |
| Open | ¥ 997 | ¥ 969 | ¥ 626 | ¥ 475 | ¥ 631 | ¥ 661 | **¥ 729** |
| High | 1,094 | 1,006 | 821 | 645 | 708 | 731 | **1,042** |
| Low | 855 | 570 | 372 | 464 | 481 | 553 | **590** |
| Close | 939 | 603 | 490 | 634 | 651 | 718 | **1,032** |
| Market value (billions of yen) | 506.6 | 325.3 | 264.4 | 342.0 | 351.2 | 387.4 | **549.5** |

# CORPORATE HISTORY

| | |
|---|---|
| Mar. 1947 | Sekisui Industry Co., Ltd. formed as a general plastics company by former employees of Nippon Chisso Hiryo K.K. (currently Chisso Corporation) |
| Jan. 1948 | Nara Plant (currently Nara Control Center) opened, started the first plastic automatic injection molding business in Japan |
| Jan. 1948 | Changed the name to Sekisui Chemical Co., Ltd. |
| Mar. 1953 | Listed on the Osaka Securities Exchange (currently Osaka Securities Exchange Co., Ltd.) |
| Sep. 1953 | Tokyo Plant opened, began production of molded plastic products |
| Apr. 1954 | Listed on the Tokyo Stock Exchange (currently Tokyo Stock Exchange Group, Inc.) |
| Jun. 1956 | Central Research Laboratory (currently Research & Development Institute) established |
| Aug. 1960 | Shiga Ritto Plant opened, began production of PVC pipe and PVC building materials |
| Nov. 1960 | Shiga Minakuchi Plant opened, began production of polyvinyl butyral and interlayer film |
| Jul. 1962 | Musashi Plant opened, began production of plastic tape and PVC tape |
| Jan. 1964 | Tokuyama Sekisui Industry Co., Ltd. (currently a consolidated subsidiary) established and began production of PVC resins |
| Feb. 1971 | Entered the housing business with the launch of steel frame unit housing “Heim” |
| Oct. 1971 | Naseki Industry Co., Ltd. (currently Kinki Sekisui Heim Industry Co., Ltd., consolidated subsidiary) established and began production of unit housing |
| Mar. 1972 | 3S (San-es) Heim Manufacturing Co., Ltd. (currently Tokyo Sekisui Heim Industry Co., Ltd., consolidated subsidiary) established and began production of unit housing |
| May 1977 | Introduction of a new divisional head office system |
| Mar. 1982 | Launch of wooden frame unit housing “Two-U Home” |
| Apr. 1982 | Gunma Plant opened, began production of PVC pipe and exterior paneling for unit construction housing |
| Dec. 1983 | Sekisui America Corporation (currently a consolidated subsidiary) established |
| Jul. 1987 | Applied Electronics Research Center (currently Development Center, R&D Center) established |
| Sep. 1990 | Housing Research & Development Institute (currently Housing Technology Institute) established in the Housing Division (currently Housing Company) |
| Apr. 1992 | Kyoto Technology Center (currently Kyoto R&D Laboratory) established |
| Aug. 1997 | Komatsu Kasei Co., Ltd. (currently Vantec Co., Ltd., consolidated subsidiary) acquired to strengthen pipe business |
| Jan. 2000 | Hinomaru Co., Ltd. (currently a consolidated subsidiary) acquired to strengthen operations in the Kyushu region |
| Mar. 2000 | Seven divisions combined into three: Housing Division, Urban Infrastructure & Environmental Products Division, and High Performance Plastics Division; New Business Headquarters established |
| Oct. 2000 | Housing sales system reorganized, with the Tokyo and Kinki regional sales companies overseeing local regional sales networks |
| Mar. 2001 | New “company” system introduced, renaming the Housing, Urban Infrastructure & Environmental Products, and High Performance Plastics Divisions as the Housing Company, Urban Infrastructure & Environmental Products Company, and High Performance Plastics Company |
| Apr. 2002 | Head office functions reorganized into 7 departments |
| Apr. 2003 | Chugoku region housing business sales structure reorganized, Sekisui Heim Chugoku Co., Ltd., (currently Sekisui Heim Chushikoku Co., Ltd., consolidated subsidiary) established |
| Apr. 2003 | Youngbo Chemical Co., Ltd. (listed on the Korea Exchange, consolidated subsidiary) acquired, strengthening global competitiveness |
| Aug. 2004 | Tohoku region housing business sales structure reorganized, Sekisui Heim Tohoku Co., Ltd. (currently a consolidated subsidiary) established |
| Jul. 2005 | Kyushu region housing business sales structure reorganized, Sekisui Heim Kyushu Co., Ltd. (currently a consolidated subsidiary) established |
| Oct. 2006 | Daiichi Pure Chemicals Co., Ltd. (currently Sekisui Medical Co., Ltd., a consolidated subsidiary) acquired to strengthen the medical business of the High Performance Plastics Company |
| Jan. 2007 | Head office functions reorganized into 6 departments, and CSR department established |
| Jul. 2007 | Tokyo, Chubu and Kinki region housing business sales structures reorganized, Tokyo Sekisui Heim Co., Ltd., (currently a consolidated subsidiary) Sekisui Heim Chubu Co., Ltd. (currently a consolidated subsidiary) and Sekisui Heim Kinki Co., Ltd. (currently a consolidated subsidiary) established |
| Apr. 2008 | Introduction of the Executive Officer System |
| Jul. 2009 | Polyvinyl alcohol resin business acquired from group companies of the Celanese Corporation chemical company of the United States, stable raw material supply structure for the interlayer film for laminated glass business established |
| Jan. 2011 | Diagnostics business acquired from of pharmaceutical company Genzyme Corporation of the United States and new company established accelerating full-fledged global development in the medical business |
| Dec. 2012 | Pipeline business of Mitsubishi Plastics, Inc. transferred, core businesses centered on piping materials strengthened |
| Mar. 2013 | Thailand unit housing mass production factory constructed. Full-fledged development of the housing business in Thailand |

# FINANCIAL REPORTS

## CONTENTS

## Financial Highlights (6 years)

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | FY2007 | FY2008 | FY2009 | FY2010 | FY2011 | FY2012 |
| Achievement Transition | | | | | | |
| Net Sales | 958,674 | 934,225 | 858,514 | 915,492 | 965,090 | 1,032,431 |
| Operating Income | 43,005 | 33,589 | 35,955 | 49,335 | 54,610 | 59,621 |
| Ordinary Income | 38,547 | 29,438 | 31,076 | 48,292 | 54,158 | 60,670 |
| Net Income | 24,300 | 1,013 | 11,627 | 23,574 | 28,116 | 30,174 |
| Comprehensive Income | - | - | - | 5,705 | 24,652 | 77,437 |
| Operating Income Ratio (%) | 4.5 | 3.6 | 4.2 | 5.4 | 5.7 | 5.8 |
| Assets, Liabilities and Net Assets | | | | | | |
| Total Assets | 782,859 | 756,450 | 787,261 | 790,189 | 827,103 | 901,564 |
| Net Assets | 368,919 | 330,721 | 351,706 | 350,045 | 363,299 | 433,228 |
| Shareholders' Equity to Total Assets (%) | 45.8 | 42.6 | 43.4 | 43.0 | 42.5 | 46.4 |
| Current Ratio (%) | 117.0 | 109.4 | 120.4 | 126.0 | 123.5 | 131.1 |
| Fixed Ratio (%) | 122.7 | 132.3 | 129.7 | 120.9 | 121.4 | 110.3 |
| Interest-bearing Debt | 92,097 | 129,406 | 133,085 | 124,508 | 127,188 | 115,320 |
| Debt/Equity Ratio (%) | 25.7 | 40.2 | 38.9 | 36.6 | 36.2 | 27.6 |
| Total Assets Turnover (Times) | 1.15 | 1.21 | 1.11 | 1.16 | 1.19 | 1.19 |
| Inventory Turnover (Times) | 8.50 | 7.91 | 7.56 | 8.14 | 7.71 | 7.57 |
| Tangible Fixed Assets Turnover (Times) | 3.92 | 3.87 | 3.46 | 3.71 | 4.13 | 4.38 |
| Cash Flow | | | | | | |
| Net cash provided by operating activities | 31,782 | 35,611 | 74,983 | 64,197 | 66,652 | 71,016 |
| Net cash provided by (used in) investing activities | 13,521 | (35,403) | (55,496) | (46,051) | (70,727) | (31,133) |
| Net cash provided by (used in) financing activities | (42,801) | 13,889 | (5,749) | (5,197) | (16,077) | (30,520) |
| Free Cash Flow | 37,197 | (7,787) | 15,126 | 12,602 | (12,332) | 30,650 |
| Capital Expenditures, Depreciation and R&D Expenditures | | | | | | |
| Capital Expenditures | 31,267 | 34,539 | 44,049 | 25,269 | 33,076 | 36,842 |
| Depreciation and Amortization | 30,503 | 36,529 | 34,525 | 34,530 | 35,102 | 34,895 |
| R&D Expenditures | 25,739 | 25,420 | 24,010 | 24,694 | 25,611 | 25,894 |
| R&D Expenditures to Revenues (%) | 2.68 | 2.72 | 2.80 | 2.70 | 2.65 | 2.51 |
| Per Share Data | | | | | | |
| Net Assets per Share (Yen) | 683.11 | 612.93 | 651.08 | 650.83 | 682.46 | 810.76 |
| Net Income per Share (Yen) | 46.16 | 1.93 | 22.13 | 44.92 | 53.96 | 58.53 |
| Dividends per Share (Yen) | 15.00 | 10.00 | 10.00 | 13.00 | 15.00 | 18.00 |
| Dividends Payout Ratio (%) | 32.5 | 518.7 | 45.2 | 28.9 | 27.8 | 30.8 |
| Other Data | | | | | | |
| Return on Equity (%) | 6.4 | 0.3 | 3.5 | 6.9 | 8.1 | 7.8 |
| Return on Total Assets (%) | 4.6 | 3.8 | 4.0 | 6.1 | 6.7 | 7.0 |
| EBITDA | 73,508 | 70,118 | 70,480 | 83,865 | 89,712 | 94,516 |
| Interest Coverage Ratio (Times) | 21.9 | 14.8 | 15.2 | 19.8 | 20.7 | 21.7 |
| PER (%) | 13.06 | 253.89 | 28.65 | 14.49 | 13.31 | 17.63 |
| Number of Employees | 18,907 | 19,742 | 19,761 | 19,770 | 20,855 | 22,202 |
| Net Sales per Employee (Ten thousands of yen) | 5,070 | 4,834 | 4,346 | 4,631 | 4,751 | 4,796 |

Shareholders' Equity to Total Assets = Shareholders' Equity / 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
Free Cash Flow =
CF Operating Activities + CF Investing Activities - Dividend Paid

R&D Expenditures to Revenues = R&D Expenditures / Net Sales
Return on Equity = Net Income / 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
PER = Stock Prices at the End of Fiscal Year / Net Income per Share
Net Sales per Employee = Net Sales / Average Number of Employees

# Consolidated Financial Statements

## Consolidated Balance Sheet

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
March 31, 2013 and 2012

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Assets | | |
| Current assets: | | |
| Cash and deposits (Notes 18 and 20) | ¥ 91,132 | ¥ 75,422 |
| Notes receivable, trade (Notes 5 and 20) | 42,183 | 40,797 |
| Accounts receivable, trade (Note 20) | 129,901 | 116,123 |
| Marketable securities (Notes 6 and 20) | 1 | 21 |
| Merchandise and finished goods | 47,825 | 47,100 |
| Land for sale | 19,334 | 16,977 |
| Work in process | 43,036 | 44,156 |
| Raw materials and supplies | 29,829 | 24,343 |
| Advance payments | 2,354 | 1,909 |
| Prepaid expenses | 2,525 | 2,878 |
| Deferred income taxes (Note 11) | 15,370 | 14,396 |
| Short-term loans receivable | 527 | 347 |
| Other current assets | 17,850 | 17,374 |
| Allowance for doubtful accounts | (1,907) | (1,527) |
| Total current assets | 439,964 | 400,322 |
| Non-current assets: | | |
| Property, plant and equipment, net (Notes 8 and 16): | | |
| Buildings and structures | 84,226 | 83,601 |
| Machinery, equipment and vehicles | 63,736 | 61,796 |
| Land | 69,810 | 67,097 |
| Leased assets | 7,775 | 7,220 |
| Construction in progress | 10,288 | 6,871 |
| Other | 4,816 | 4,607 |
| Total property, plant and equipment, net (Notes 7 and 23) | 240,654 | 231,194 |
| Intangible assets (Notes 8, 16 and 23): | | |
| Goodwill | 21,123 | 26,711 |
| Software | 5,129 | 4,764 |
| Leased assets | 278 | 228 |
| Other | 22,566 | 20,188 |
| Total intangible assets | 49,098 | 51,893 |
| Investments and other assets: | | |
| Investments in securities (Notes 6 and 20) | 146,192 | 107,925 |
| Long-term loans receivable | 710 | 833 |
| Long-term prepaid expenses | 1,276 | 1,433 |
| Deferred income taxes (Note 11) | 12,732 | 22,670 |
| Other | 12,283 | 11,813 |
| Allowance for doubtful accounts | (1,346) | (982) |
| Total investments and other assets | 171,848 | 143,693 |
| Total non-current assets | 461,600 | 426,780 |
| Total assets (Note 23) | ¥ 901,564 | ¥ 827,103 |

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Liabilities | | |
| Current liabilities: | | |
| Notes payable, trade (Notes 5, 8 and 20) | ¥ 7,797 | ¥ 6,777 |
| Electronically recorded obligations (Note 20) | 4,963 | 3,540 |
| Accounts payable, trade (Notes 8 and 20) | 125,403 | 121,028 |
| Short-term debt and current portion of long-term debt (Notes 8 and 20) | 47,590 | 40,636 |
| Lease obligations (Note 9) | 2,953 | 3,019 |
| Accrued expenses | 29,977 | 28,083 |
| Accrued income taxes and other taxes (Note 11) | 6,747 | 15,282 |
| Deferred income taxes (Note 11) | 225 | 163 |
| Allowance for bonuses to employees | 15,410 | 14,887 |
| Allowance for bonuses to directors and corporate auditors | 207 | 233 |
| Provision for compensation for completed construction | 1,223 | 1,223 |
| Advances received | 49,123 | 47,555 |
| Other | 43,915 | 41,587 |
| Total current liabilities | 335,539 | 324,017 |
| Long-term liabilities: | | |
| Bonds (Notes 8 and 20) | 20,000 | 20,000 |
| Long-term debt less current portion (Notes 8 and 20) | 39,650 | 59,083 |
| Lease obligations (Note 9) | 5,126 | 4,449 |
| Deferred income taxes (Note 11) | 5,104 | 3,916 |
| Accrued retirement benefits (Note 10) | 57,274 | 46,909 |
| Other | 5,640 | 5,426 |
| Total long-term liabilities | 132,797 | 139,786 |
| Total liabilities | 468,336 | 463,803 |
| | | |
| Contingent liabilities (Note 14) | | |
| | | |
| Net assets | | |
| Shareholders' equity (Note 12); | | |
| Common stock | 100,002 | 100,002 |
| Capital surplus | 109,234 | 109,288 |
| Retained earnings | 209,280 | 192,856 |
| Treasury stock, at cost | (11,577) | (17,352) |
| Total shareholders' equity | 406,939 | 384,795 |
| Accumulated other comprehensive income (loss): | | |
| Unrealized holding gain (loss) on securities | 17,778 | (7,556) |
| Deferred gain (loss) on hedges | 47 | (16) |
| Unrealized gain on land revaluation (Note 13) | 260 | 260 |
| Translation adjustments | (6,443) | (25,830) |
| Total accumulated other comprehensive income (loss) | 11,642 | (33,143) |
| Stock acquisition rights | 306 | 474 |
| Minority interests | 14,339 | 11,173 |
| Total net assets | 433,228 | 363,299 |
| Total liabilities and net assets | ¥ 901,564 | ¥ 827,103 |

*See accompanying notes to consolidated financial statements*

## Consolidated Statement of Income

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Net sales (Notes 19 and 23) | ¥ 1,032,431 | ¥ 965,090 |
| Cost of sales | 729,971 | 679,528 |
| Gross profit | 302,460 | 285,562 |
| Selling, general and administrative expenses (Note 15) | 242,838 | 230,951 |
| Operating income (Note 23) | 59,621 | 54,610 |
| Non-operating income: | | |
| Interest income | 909 | 695 |
| Dividends income | 2,075 | 1,795 |
| Equity in earnings of affiliates | 1,249 | 1,774 |
| Foreign exchange gain, net | 4,827 | — |
| Miscellaneous income | 4,134 | 5,396 |
| Total non-operating income | 13,195 | 9,662 |
| Non-operating expenses: | | |
| Interest expenses | 2,550 | 2,432 |
| Sales discounts | 332 | 332 |
| Foreign exchange loss, net | — | 608 |
| Miscellaneous expenses | 9,265 | 6,740 |
| Total non-operating expenses | 12,147 | 10,113 |
| Ordinary income | 60,670 | 54,158 |
| Extraordinary income: | | |
| Gain on sales of property, plant and equipment | 1,815 | 3,311 |
| Total extraordinary income | 1,815 | 3,311 |
| Extraordinary loss: | | |
| Retirement benefit expenses (Notes 4 and 10) | 9,536 | — |
| Loss on impairment of fixed assets and goodwill (Notes 16 and 23) | 5,243 | 3,811 |
| Loss on devaluation of investments in securities (Note 6) | 2,022 | 987 |
| Advanced depreciation of property, plant and equipment | — | 1,840 |
| Loss on sales or disposal of property, plant and equipment | 1,186 | 1,590 |
| Total extraordinary loss | 17,989 | 8,229 |
| Income before income taxes and minority interests | 44,495 | 49,240 |
| Income taxes (Note 11): | | |
| Current | 17,241 | 21,862 |
| Deferred | (3,967) | (1,667) |
| Total income taxes | 13,274 | 20,194 |
| Income before minority interests | 31,221 | 29,046 |
| Minority interests | 1,047 | 930 |
| Net income | ¥ 30,174 | ¥ 28,116 |

*See accompanying notes to consolidated financial statements*

## Consolidated Statement of Comprehensive Income

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Income before minority interests | ¥ 31,221 | ¥ 29,046 |
| Other comprehensive income (loss) (Note 17) | | |
| Unrealized holding gain on securities | 25,099 | 582 |
| Deferred gain on hedges | 63 | 106 |
| Translation adjustments | 20,805 | (5,194) |
| Comprehensive income of affiliates accounted for by the equity method attributable to the Company | 247 | 111 |
| Total other comprehensive income (loss) | 46,215 | (4,393) |
| Comprehensive income | ¥ 77,437 | ¥ 24,652 |
| Comprehensive income attributable to: | | |
| Shareholders of the Company | ¥ 74,960 | ¥ 24,218 |
| Minority shareholders | 2,476 | 434 |

*See accompanying notes to consolidated financial statements*

## Consolidated Statement of Changes in Net Assets

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

| | Millions of yen | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shareholders' equity | | | | Accumulated other comprehensive income (loss) | | | | | | |
| | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Unrealized holding gain (loss) on securities | Deferred gain (loss) on hedges | Unrealized gain on land revaluation | Translation adjustments | Stock acquisition rights | Minority interests | Total net assets |
| Balance at April 1, 2011 | ¥100,002 | ¥109,307 | ¥172,689 | ¥(13,017) | ¥ (8,202) | ¥(123) | ¥ 199 | ¥ (21,119) | ¥ 611 | ¥ 9,697 | ¥350,045 |
| Cash dividends | - | - | (7,836) | - | - | - | - | - | - | - | (7,836) |
| Net income for the year | - | - | 28,116 | - | - | - | - | - | - | - | 28,116 |
| Decrease in retained earnings resulting from inclusion of subsidiaries in consolidation | - | - | (113) | - | - | - | - | - | - | - | (113) |
| Increase in treasury stock | - | - | - | (4,544) | - | - | - | - | - | - | (4,544) |
| Gain on sales of treasury stock | - | (18) | - | 209 | - | - | - | - | - | - | 190 |
| Net changes of items other than shareholders' equity | - | - | - | - | 645 | 106 | 61 | (4,711) | (137) | 1,475 | (2,558) |
| Total changes of items during the year | - | (18) | 20,166 | (4,335) | 645 | 106 | 61 | (4,711) | (137) | 1,475 | 13,254 |
| Balance at April 1, 2012 | ¥100,002 | ¥109,288 | ¥192,856 | ¥(17,352) | ¥ (7,556) | ¥ (16) | ¥ 260 | ¥ (25,830) | ¥ 474 | ¥ 11,173 | ¥363,299 |
| Cash dividends | - | - | (8,767) | - | - | - | - | - | - | - | (8,767) |
| Net income for the year | - | - | 30,174 | - | - | - | - | - | - | - | 30,174 |
| Retirement of treasury stock | - | (5,046) | - | 5,046 | - | - | - | - | - | - | - |
| Increase in treasury stock | - | - | - | (14) | - | - | - | - | - | - | (14) |
| Gain on sales of treasury stock | - | 9 | - | 742 | - | - | - | - | - | - | 751 |
| Transfer from retained earnings to capital surplus | | 4,983 | (4,983) | - | - | - | - | - | - | - | - |
| Net changes of items other than shareholders' equity | - | - | - | - | 25,335 | 63 | - | 19,386 | (168) | 3,166 | 47,783 |
| Total changes of items during the year | - | (53) | 16,423 | 5,774 | 25,335 | 63 | - | 19,386 | (168) | 3,166 | 69,928 |
| Balance at March 31, 2013 | ¥100,002 | ¥109,234 | ¥209,280 | ¥(11,577) | ¥ 17,778 | ¥ 47 | ¥ 260 | ¥ (6,443) | ¥ 306 | ¥ 14,339 | ¥433,228 |

*See accompanying notes to consolidated financial statements*

# Consolidated Statement of Cash Flows

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Operating activities: | | |
| Income before income taxes and minority interests | ¥ 44,495 | ¥ 49,240 |
| Adjustments for: | | |
| Depreciation and amortization | 34,895 | 35,102 |
| Amortization of goodwill | 3,232 | 3,422 |
| Loss on impairment of fixed assets and goodwill | 5,243 | 3,811 |
| Loss on disposal of property, plant and equipment | 1,089 | 1,038 |
| Loss on devaluation of investment in securities | 2,022 | 987 |
| Advanced depreciation of property, plant and equipment | – | 1,840 |
| Gain on sales of property, plant and equipment, net | (1,718) | (2,993) |
| Increase (decrease) in accrued retirement benefits | 9,902 | (817) |
| Interest and dividends income | (2,984) | (2,491) |
| Interest expenses | 2,882 | 2,765 |
| Equity in earnings of affiliates | (1,249) | (1,774) |
| Increase in notes and accounts receivable | (3,179) | (8,372) |
| Increase in inventories | (1,715) | (12,194) |
| (Decrease) increase in notes and accounts payable | (1,384) | 6,318 |
| Increase in advances received | 1,730 | 2,854 |
| Other | 3,232 | 3,247 |
| Subtotal | 96,496 | 81,987 |
| Interest and dividends received | 3,420 | 2,875 |
| Interest paid | (3,023) | (2,753) |
| Income taxes paid | (25,876) | (15,455) |
| Net cash provided by operating activities | 71,016 | 66,652 |
| Investing activities: | | |
| Purchases of property, plant and equipment | (29,211) | (25,963) |
| Proceeds from sales of property, plant and equipment | 4,805 | 3,036 |
| Payments into time deposits | (50,084) | (37,361) |
| Proceeds from withdrawal of time deposits | 47,970 | 24,637 |
| Purchases of investments in securities | (227) | (1,089) |
| Proceeds from sales or redemption of investments in securities | 1,936 | 2,944 |
| Acquisition of investments in subsidiaries resulting in change in scope of consolidation (Notes 18 and 24) | – | (16,324) |
| Acquisition of investments in subsidiaries | (2,322) | (408) |
| Acquisition of businesses (Notes 18 and 24) | (448) | (15,862) |
| Acquisition of shares from minority interests in consolidated subsidiaries | (92) | (1,127) |
| Purchases of intangible assets | (2,840) | (2,423) |
| Decrease in short-term loans receivable | 79 | 570 |
| Other | (698) | (1,355) |
| Net cash used in investing activities | ¥ (31,133) | ¥ (70,727) |

## Consolidated Statement of Cash Flows (continued)

| | | |
|---|---|---|
| Financing activities: | | |
| (Decrease) increase in short-term debt, net | ¥ (5,860) | ¥ 2,801 |
| Repayments of lease obligations | (3,459) | (3,478) |
| Proceeds from long-term debt | 4,454 | 11,513 |
| Repayment of long-term debt | (18,717) | (25,246) |
| Proceeds from issuance of bonds | — | 10,000 |
| Payment for redemption of bonds | — | (500) |
| Proceeds from stock issuance to minority shareholders | 1,506 | 1,302 |
| Cash dividends paid | (8,777) | (7,835) |
| Cash dividends paid to minority shareholders of consolidated subsidiaries | (456) | (422) |
| Other | 790 | (4,211) |
| Net cash used in financing activities | (30,520) | (16,077) |
| Effect of exchange rate change on cash and cash equivalents | 3,939 | (971) |
| Net increase (decrease) in cash and cash equivalents | 13,302 | (21,124) |
| Cash and cash equivalents at beginning of year | 45,146 | 65,944 |
| Increase in cash and cash equivalents from newly consolidated subsidiary | 182 | 325 |
| Cash and cash equivalents at end of year (Note 18) | ¥ 58,631 | ¥ 45,146 |

*See accompanying notes to consolidated financial statements*

# Notes to Consolidated Financial Statements

## 1. Basis of Preparation of Consolidated Financial Statements

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

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

A reclassification of previously reported amounts was made to conform the consolidated statements of cash flows for the year ended March 31, 2012 to the 2013 presentation.

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

## 2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

At March 31, 2013, the Company had 210 subsidiaries. The accompanying consolidated financial statements for the year ended March 31, 2013 include the accounts of the Company and its 167 significant subsidiaries.

The accounts of the remaining 43 subsidiaries have not been consolidated with those of the Company at March 31, 2013, because their combined assets, retained earnings, net sales and net income (loss) in the aggregate were not material to the consolidated financial statements.

The fiscal year end of 16 overseas consolidated subsidiaries was December 31. 15 overseas consolidated subsidiaries have been consolidated using provisional financial statements at March 31. An overseas consolidated subsidiary has made adjustments to reflect significant transactions that occurred between December 31 and March 31.

Until the year ended March 31, 2012, the 73 overseas consolidated subsidiaries whose fiscal year end was December 31 had made adjustments to reflect significant transactions that occurred between December 31 and March 31. Effective from the year ended March 31, 2013, however, the fiscal year end of 57 overseas consolidated subsidiaries has been changed to March 31, 2013 and 15 overseas consolidated subsidiaries have been consolidated using provisional financial statements at March 31, 2013.

As a result, the current financial statements of these overseas consolidated subsidiaries are prepared for the 15 months from January 1, 2012 to March 31, 2013. Net sales, operating income, ordinary income, income before income taxes and minority interests and net loss of these overseas consolidated subsidiaries for the 3 months from January 1, 2012 to March 31, 2012 were ¥37,716 million, ¥529 million, ¥170 million, ¥144 million and ¥93 million, respectively.

Unrealized intercompany profit and loss among the Company and its consolidated subsidiaries have been entirely eliminated and the portion attributable to minority interests has been charged to minority interests.

At March 31, 2013, although the Company had 43 unconsolidated subsidiaries and 19 affiliates, the Company has applied the equity method to investments in 8 major affiliates, including Sekisui Plastics Co., Ltd. and Sekisui Jushi Corp. for the purpose of the consolidated financial statements for the year then ended since the investments in the remaining unconsolidated subsidiaries and affiliates were not material.

(2) Foreign Currency Transactions

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates of exchange in effect at the respective transaction dates. Gain or loss on foreign exchange is credited or charged to income in the period in which the gain or loss is recognized for financial reporting purposes.

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

The balance sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date except that the components of net assets excluding minority interests are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rates of exchange in effect during the year. Adjustments resulting from translating foreign currency financial statements are not included in the determination of net income and are reported as translation adjustments and minority interests in the accompanying consolidated balance sheet and statement of comprehensive income.

(3) Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash-on-hand and in banks and other highly liquid investments with maturities of three months or less when purchased.

(4) Inventories

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

(5) Securities

Securities other than those of unconsolidated subsidiaries and affiliates are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities are carried at fair value. Gain or loss, both realized and unrealized, is credited or charged to income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income (loss). Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

(6) Property, Plant and Equipment and Depreciation (excluding leased assets)

Depreciation of buildings (except for structures attached to the buildings) is computed principally by the straight-line method based on the estimated useful lives of the respective assets.

Depreciation of other property, plant and equipment is computed principally by the declining-balance method based on the estimated useful lives of the respective assets.

(7) Leased Assets

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

(8) Goodwill

Goodwill is amortized over a period of 5 years by the straight-line method. If the economic useful life can be estimated, the useful life is used as the amortization period. Immaterial amounts, however, are charged to income.

(9) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided to cover possible losses on collection. With respect to normal accounts receivable, trade, allowance for doubtful accounts is stated at an amount based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount has been individually estimated.

(10) Allowance for Bonuses to Employees

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

(11) Accrued Retirement Benefits

The Company and the domestic consolidated subsidiaries have non-contributory defined benefit pension plans and retirement benefit plans. Certain overseas consolidated subsidiaries have defined contribution retirement plans.

Accrued retirement benefits are provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value at the end of the year.

Prior service cost is amortized by the straight-line method over a period of 5 years, which is within the estimated average remaining years of service of the eligible employees.

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

Certain consolidated subsidiaries have retirement benefit plans for their officers which are stated at 100 percent of the estimated amount calculated in accordance with each subsidiary's internal rules.

(12) Recognition of Revenue and Related Costs

Revenues and costs of construction contracts, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. To estimate the progress of such construction projects, the Company measures the percentage of completion by comparing costs incurred to date with the most recent estimate of total costs required to complete the project (cost to cost basis). If a reliable estimate cannot be made, revenues and costs of construction contract are recognized by the completed-contract method.

(13) Research and Development Costs and Computer Software (excluding leased assets)

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

(14) Income Taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes which are entered into the determination of taxable income in different periods. The Company has recognized the tax effects of such temporary differences in the accompanying consolidated financial statements.

The Company and certain domestic consolidated subsidiaries have applied the consolidated taxation system effective from the year ended March 31, 2013.

(15) Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. Consumption taxes paid not offset by consumption taxes received in accordance with Consumption Tax Act of Japan that arise from the purchases of property, plant and equipment are charged to income when incurred.

(16) Derivatives and Hedging Activities

The Company and certain consolidated subsidiaries have entered into derivatives transactions in order to manage the risk arising from adverse fluctuation in foreign currency exchange rates and interest rates. Derivatives are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss, net of the applicable income taxes, is reported as a component of accumulated other comprehensive income (loss).

If interest rates swap contracts meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract is executed.

(17) Accounting Standards Issued but Not Yet Effective

On May 17, 2012, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No.26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No.25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

In accordance with the revision of this accounting standard, how to account for actuarial gains and losses and past service costs, how to calculate retirement benefit obligations and enhancement of disclosures were mainly revised from the viewpoint of improvements to financial reporting and international convergence.

The Company and its domestic consolidated subsidiaries will apply the revised accounting standard from the year ending March 31, 2014. However, the amendment of the calculation method for the present value of defined obligations and current service costs will be applied from the beginning of the fiscal year ending March 31, 2015.

The Company is currently evaluating the effect these modifications will have on its consolidated results of operations and financial position.

## 3. Change in Accounting Policies

Effective April 1, 2012, the Company and its domestic consolidated subsidiaries changed their depreciation method for property, plant and equipment acquired on or after April 1, 2012 in accordance with the amended Corporation Tax Law. The effect of this change on the accompanying consolidated financial statements for the year ended March 31, 2013 was immaterial.

## 4. Change in Accounting Estimates

Certain domestic consolidated subsidiaries changed the accounting method to calculate retirement benefit obligations from simplified method to the principle method as of March 31, 2013.

This change was made to allocate retirement benefit expenses to periods more appropriately because the Company's regional personnel organization and human resource management system were changed and a method to estimate actuarial calculation of retirement benefit obligations reasonably was implemented, through mergers of domestic housing sales subsidiaries on a regional basis in recent years, integration of retirement benefit plans and the adoption of the regional business organization in January 2013.

As a result of this change, the difference of retirement benefit obligations calculated by the simplified method and the principle method at March 31, 2013, amounting to ¥9,536 million, was recorded as retirement benefit expenses in extraordinary loss for the year ended March 31, 2013. Accordingly, income before income taxes and minority interests decreased by the same amount and accrued retirement benefits increased by the same amount compared with the amounts that would have been recorded under the previous method.

## 5. Notes Receivable, trade and Notes Payable, trade

The balance sheet date for the years ended March 31, 2013 and 2012 fell on a bank holiday. Consequently, notes receivable, trade of ¥4,672 million and ¥4,837 million and notes payable, trade of ¥762 million and ¥581 million with the due dates of March 31, 2013 and 2012, respectively, were included in the respective balances and were settled on the next business day.

## 6. Marketable Securities and Investments in Securities

(1) Held-to-maturity debt securities at March 31, 2013 and 2012 are summarized as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2013 | | | |
| | Carrying value | Estimated fair value | Gross unrealized gain | Gross unrealized loss |
| Unlisted foreign debt securities | ¥ 9 | ¥ 9 | ¥ - | ¥ - |
| | ¥ 9 | ¥ 9 | ¥ - | ¥ - |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2012 | | | |
| | Carrying value | Estimated fair value | Gross unrealized gain | Gross unrealized loss |
| Unlisted foreign debt securities | ¥ 28 | ¥ 28 | ¥ - | ¥ - |
| | ¥ 28 | ¥ 28 | ¥ - | ¥ - |

(2) Other securities with available fair market value at March 31, 2013 and 2012 are summarized as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2013 | | | |
| | Acquisition cost | Carrying value | Gross unrealized gain | Gross unrealized loss |
| Equity securities | ¥ 80,905 | ¥107,204 | ¥ 26,298 | ¥ - |
| Equity securities | 2,257 | 2,064 | - | (192) |
| Bonds and debentures | 25 | 25 | - | - |
| | ¥ 83,188 | ¥109,294 | ¥ 26,298 | ¥ (192) |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2012 | | | |
| | Acquisition cost | Carrying value | Gross unrealized gain | Gross unrealized loss |
| Equity securities | ¥ 5,303 | ¥ 9,086 | ¥ 3,783 | ¥ - |
| Equity securities | 79,250 | 63,039 | - | (16,211) |
| Bonds and debentures | 25 | 25 | - | - |
| | ¥ 84,579 | ¥ 72,151 | ¥ 3,783 | ¥ (16,211) |

Because no quoted market prices are available and it is extremely difficult to determine the fair value, unlisted equity securities of ¥1,836 million and ¥3,492 million at March 31, 2013 and 2012, respectively, are not included in the above tables.

(3) The proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2013 and 2012 are summarized as follows:

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Proceeds from sales | ¥ 167 | ¥ 908 |
| Gross realized gain | 39 | 301 |
| Gross realized loss | (1) | (17) |

(4) For the year ended March 31, 2013, the Company recorded a loss on devaluation of investments in securities amounting to ¥2,022 million, consisting of equity securities classified as other securities of ¥1,485 million, investments in unconsolidated subsidiaries and affiliates of ¥310 million and unlisted equity securities of ¥226 million.

## 7. Accumulated Depreciation

Property, plant and equipment, net reflected in the accompanying consolidated balance sheet at March 31, 2013 and 2012 were stated at cost, less accumulated depreciation. Accumulated depreciation at March 31, 2013 and 2012 amounted to ¥538,671 million and ¥496,582 million, respectively.

## 8. Short-Term Debt, Bonds and Long-Term Debt

(1) Short-term debt

The average interest rates of short-term debt outstanding at March 31, 2013 and 2012 were 1.90% and 1.58%, respectively.

(2) Bonds outstanding at March 31, 2013 and 2012 were as follows:

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| 1.18% bonds due July 2014 | ¥ 10,000 | ¥ 10,000 |
| 0.60% bonds due June 2016 | 10,000 | 10,000 |
| | 20,000 | 20,000 |
| Less current maturities | - | - |
| | ¥ 20,000 | ¥ 20,000 |

(3) Long-term debt at March 31, 2013 and 2012 was as follows:

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Secured | ¥ 361 | ¥ 828 |
| Unsecured | 65,368 | 77,145 |
| | 65,729 | 77,973 |
| Less current portion | (26,078) | (18,890) |
| | ¥ 39,650 | ¥ 59,083 |

As is customary in Japan, substantially all loans (including short-term loans) from banks are made under general agreements which provide that, at the request of the respective banks, the Company or the relevant consolidated subsidiaries be required to provide collateral or guarantors (or additional collateral or guarantors, as appropriate) with respect to such loans, and that all assets pledged as collateral under such agreements be applicable to all present and future indebtedness to the banks concerned. The general agreements further provide that the banks have the right, as the indebtedness matures or becomes due prematurely by reason of default, to offset deposits at such banks against any indebtedness due to the banks.

The annual maturities of long-term debt subsequent to March 31, 2013 are summarized below:

| Year ending March 31, | Millions of yen |
|---|---|
| 2014 | ¥ 26,078 |
| 2015 | 21,808 |
| 2016 | 8,812 |
| 2017 | 3,775 |
| 2018 | 4,421 |
| 2019 and thereafter | 833 |

(4) At March 31, 2013 and 2012, the following assets were pledged as collateral for notes and accounts payable, trade and long-term and short-term debt:

| | Millions of yen | |
|---|---|---|
| Assets | 2013 | 2012 |
| Buildings and structures | ¥ 3,585 | ¥ 2,688 |
| Machinery | 804 | 549 |
| Land | 4,647 | 3,804 |
| Intangible assets | 525 | 288 |
| Other | 2,190 | 2,818 |
| Total | ¥ 11,753 | ¥ 10,150 |

| | Millions of yen | |
|---|---|---|
| Liabilities | 2013 | 2012 |
| Notes payable, trade | ¥ 84 | ¥ 84 |
| Accounts payable, trade | 1,190 | 1,445 |
| Short-term debt | 3,438 | 2,440 |
| Long-term debt | 361 | 828 |
| Total | ¥ 5,074 | ¥ 4,799 |

(5) In order to achieve more efficient and flexible financing, the Company has concluded line-of-credit agreements with certain financial institutions. The status of these at March 31, 2013 and 2012 were as follows:

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Lines of credit | ¥10,000 | ¥10,000 |
| Credit used | - | - |
| Available credit | ¥10,000 | ¥10,000 |

## 9. Lease Obligations

The annual maturities of lease obligations subsequent to March 31, 2013 are summarized below:

| Year ending March 31, | Millions of yen |
|---|---|
| 2014 | ¥ 2,953 |
| 2015 | 2,033 |
| 2016 | 1,424 |
| 2017 | 948 |
| 2018 | 449 |
| 2019 and thereafter | 269 |

## 10. Accrued Retirement Benefits

The following table sets forth the funded and accrued status of the retirement benefit plans for employees and the amounts recognized in the accompanying consolidated balance sheet at March 31, 2013 and 2012 for the Companies' defined benefit pension plans:

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Retirement benefit obligations at end of year | ¥(140,386) | ¥(115,828) |
| Fair value of plan assets at end of year | 82,402 | 62,063 |
| Unfunded retirement benefit obligations | (57,984) | (53,764) |
| Unrecognized actuarial loss | 2,003 | 7,978 |
| Unrecognized prior service cost | 209 | 240 |
| Net retirement benefit obligations | (55,771) | (45,546) |
| Prepaid pension cost | 181 | 54 |
| Accrued retirement benefits | ¥ (55,952) | ¥ (45,601) |

Certain consolidated subsidiaries calculate retirement benefit obligations by simplified methods.

At March 31, 2013 and 2012, accrued retirement benefits of ¥57,274 million and ¥46,909 million, respectively, reflected in the accompanying consolidated balance sheet included accrued retirement benefits for officers of ¥1,322 million and ¥1,308 million, respectively.

The components of retirement benefit expenses for the years ended March 31, 2013 and 2012 are outlined as follows:

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Service cost | ¥ 9,332 | ¥ 8,338 |
| Interest cost | 1,865 | 2,326 |
| Expected return on plan assets | (2,038) | (1,886) |
| Amortization: | | |
| Unrecognized actuarial loss | 2,932 | 1,377 |
| Prior service cost | 42 | 36 |
| Adjustment for retirement benefit obligations due to change in accounting estimates (*) | 9,536 | - |
| Retirement benefit expenses | ¥ 21,670 | ¥10,191 |

(*) Certain domestic consolidated subsidiaries changed the accounting method to calculate retirement benefit obligations from the simplified method to the principle method as of March 31, 2013 as disclosed in Note 4 "Change in Accounting Estimates" of the notes to the consolidated financial statements.

The retirement benefit expenses of certain consolidated subsidiaries calculated by simplified method have been included in service cost in the above table.

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2013 and 2012 were as follows:

| | 2013 | 2012 |
|---|---|---|
| Discount rate | 1.6% | 1.6% |
| Expected rates of return on plan assets | 1.0%-3.5% | 1.0%-3.5% |

## 11. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries consist of corporation, inhabitants' and enterprise taxes, which, in the aggregate, resulted in statutory tax rates of approximately 37.8% and 40.4% for the years ended March 31, 2013 and 2012, respectively.

The effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2013 differs from the above statutory tax rate for the following reasons:

| | 2013 |
|---|---|
| Statutory tax rate | 37.8% |
| Temporary differences arising from consolidation without tax effect | (8.7) |
| Income tax credit | (7.9) |
| Temporary differences of consolidated subsidiaries which do not recognize tax effect | 5.6 |
| Non-deductible expenses | 4.9 |
| Other | (1.9) |
| Effective tax rate | 29.8% |

A reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2012 has been omitted as the difference was less than 5% of the statutory tax rate.

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding amounts reported for income tax purposes. The significant components of the Companies' deferred tax assets and liabilities at March 31, 2013 and 2012 are summarized as follows:

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Deferred tax assets: | | |
| Accrued retirement benefits | ¥ 20,352 | ¥ 16,781 |
| Unrealized gain | 5,956 | 3,104 |
| Allowance for bonuses | 5,768 | 5,436 |
| Loss on devaluation of investments in securities | 4,491 | 3,856 |
| Tax loss carry forwards | 2,427 | 4,965 |
| Loss on impairment of fixed assets | 1,677 | 1,533 |
| Accrued business tax | 1,171 | - |
| Unrealized holding loss on securities | - | 4,377 |
| Other | 10,015 | 10,520 |
| Valuation allowance | (5,557) | (5,192) |
| Total deferred tax assets | 46,302 | 45,381 |
| Deferred tax liabilities: | | |
| Unrealized holding gain on securities | (9,048) | - |
| Revaluation of investments in affiliates | (3,303) | (3,303) |
| Deferred capital gains on property | (2,913) | (2,480) |
| Adjustment for allowance for doubtful accounts | (29) | (9) |
| Other | (8,233) | (6,600) |
| Total deferred tax liabilities | (23,529) | (12,394) |
| Net deferred tax assets | ¥ 22,773 | ¥ 32,987 |

## 12. Shareholders' Equity

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

Retained earnings include the legal reserve provided in accordance with the provisions of the Law. The legal reserve of the Company included in retained earnings amounted to ¥10,363 million at March 31, 2013 and 2012.

*Stock-based compensation plan*

In accordance with the Law, certain stock option plans (the 2007 plan) for directors and key employees of the Company and for representative directors, certain directors and key employees of certain subsidiaries and affiliates were approved at the annual general meeting of shareholders held on June 28, 2007.

In accordance with the Law, certain stock option plans (the 2008, 2009, 2010, 2011 and 2012 plans) for directors, executive officers and key employees of the Company and for representative directors, certain directors and key employees of certain subsidiaries and affiliates were approved at the annual general meeting of shareholders held on June 27, 2008, June 26, 2009, June 29, 2010, June 29, 2011 and June 27, 2012, respectively.

The stock option plans outlined above are summarized as follows:

| | Number of stock options outstanding at March 31, 2013 | Exercise price at March 31, 2013 | Exercisable period |
|---|---|---|---|
| The 2007 plan | - | - | From July 1, 2009 up to and including June 30, 2012 |
| The 2008 plan | 778,000 | ¥ 734 | From July 1, 2010 up to and including June 30, 2013 |
| The 2009 plan | 587,000 | 579 | From July 1, 2011 up to and including June 30, 2014 |
| The 2010 plan | 745,000 | 595 | From July 1, 2012 up to and including June 30, 2015 |
| The 2011 plan | 1,220,000 | 739 | From July 1, 2013 up to and including June 30, 2016 |
| The 2012 plan | 1,200,000 | 742 | From July 1, 2014 up to and including June 30, 2017 |

Information regarding the Company's stock option plans is summarized as follows:

| | The 2007 plan | The 2008 plan | The 2009 plan | The 2010 plan | The 2011 plan | The 2012 plan |
|---|---|---|---|---|---|---|
| Number of stock options: | | | | | | |
| Balance at March 31, 2011 | 1,025,000 | 1,115,000 | 1,175,000 | 1,190,000 | — | — |
| Granted | — | — | — | — | 1,230,000 | — |
| Cancelled | 10,000 | 15,000 | 5,000 | 5,000 | — | — |
| Exercised | — | — | 280,000 | — | — | — |
| Balance at March 31, 2012 | 1,015,000 | 1,100,000 | 890,000 | 1,185,000 | 1,230,000 | — |
| Granted | — | — | — | — | — | 1,205,000 |
| Cancelled | 1,015,000 | 15,000 | 10,000 | 10,000 | 10,000 | 5,000 |
| Exercised | — | 307,000 | 293,000 | 430,000 | — | — |
| Balance at March 31, 2013 | — | 778,000 | 587,000 | 745,000 | 1,220,000 | 1,200,000 |
| Fair value of stock options as of the grant date | ¥ 144 | ¥ 108 | ¥ 97 | ¥ 92 | ¥ 67 | ¥ 61 |

*Common stock and treasury stock*

Movements in common stock in issue and treasury stock for the years ended March 31, 2013 and 2012 are summarized as follows:

| | Number of shares | | | |
|---|---|---|---|---|
| | 2013 | | | |
| | April 1, 2012 | Increase | Decrease | March 31, 2013 |
| Common stock | 539,507,285 | - | 7,000,000 | 532,507,285 |
| Treasury stock | 24,234,348 | 18,966 | 8,030,000 | 16,223,314 |

| | Number of shares | | | |
|---|---|---|---|---|
| | 2012 | | | |
| | April 1, 2011 | Increase | Decrease | March 31, 2012 |
| Common stock | 539,507,285 | - | - | 539,507,285 |
| Treasury stock | 17,503,791 | 7,012,949 | 282,392 | 24,234,348 |

## 13. Land Revaluation

Sekisui Plastics Co., Ltd., which has been accounted for by the equity method, revalued its land held for business use in accordance with the “Land Revaluation Law” and the “Amended Land Revaluation Law.” As a result of this revaluation by Sekisui Plastics Co., Ltd., the Company recognized the portion attributable to the Company’s interest in the unrealized gain on land revaluation and this has been included in accumulated other comprehensive income (loss) as unrealized gain on land revaluation of ¥260 million in the accompanying consolidated balance sheet at March 31, 2013 and 2012.

## 14. Contingent Liabilities

Contingent liabilities at March 31, 2013 and 2012 were as follows:

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Guaranteed obligations | | |
| Housing loans of customers | ¥ 28,884 | ¥ 23,880 |
| Housing loans of employees | 365 | 489 |
| Loans of unconsolidated subsidiaries | 100 | 60 |

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Notes receivable, trade with recourse | | |
| Notes receivable, trade endorsed | ¥ 783 | ¥ 319 |
| Notes receivable, trade discounted | 15 | 31 |

## 15. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2013 and 2012 are as follows:

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Research and development costs | ¥ 25,894 | ¥ 25,611 |

## 16. Loss on Impairment of Fixed Assets and Goodwill

The Companies group their fixed assets and goodwill by cash-generating units (except for idle property which is grouped individually) and these are defined as the smallest identifiable groups of assets generating cash inflows which are largely independent of the cash inflows from other assets or groups of assets.

For the year ended March 31, 2013, the Companies have written down goodwill recognized at the time of acquisition of the pharmacokinetics business in the United States, to its net recoverable value because the management of the Companies have determined that reaching the income target previously expected was difficult. As a result, the Companies recorded the impairment loss of goodwill in the amount of ¥1,620 million for the year ended March 31, 2013. The value of goodwill was written down to zero as future profitability was uncertain. In addition, the Companies have written down goodwill recognized at the time of acquisition of the pipe rehabilitation business in Germany to its net recoverable value because the management of the Companies have determined that reaching the income target previously expected was difficult. As a result, the Companies recorded the impairment loss of goodwill in the amount of ¥1,451 million for the year ended March 31, 2013. The value of goodwill was written down to zero as future profitability was uncertain..

As for the year ended March 31, 2012, the carrying value of land located at Tenri city in Nara Prefecture, whose market value has decreased significantly from its original carrying value, has been reduced to its respective recoverable amount as a result of a decline in land prices. Accordingly, the Companies recorded a loss of ¥1,450 million, for which the recoverable amount of the assets was measured based on its respective estimated net selling value determined by the Companies. In addition, the Companies have written down goodwill recognized at the time of acquisition of the pipe rehabilitation business in Germany to its net recoverable value because the management of the Companies have determined that reaching the income target expected in line with the business plan in effect when the business was acquired is difficult. As a result, the Companies recorded an impairment loss of ¥994 million, for which the recoverable amount was measured by the value in use method based on estimated future cash flows discounted at a rate of 10% for the year ended March 31, 2012.

## 17. Other Comprehensive Income (Loss)

The reclassification adjustments and tax effects for components of other comprehensive income (loss) for the years ended March 31, 2013 and 2012 are as follows:

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Unrealized holding gain on securities: | | |
| Amount arising during the year | ¥ 37,147 | ¥ 1,680 |
| Reclassification adjustments for losses realized in net income | 1,455 | 82 |
| Before tax effect | 38,603 | 1,762 |
| Tax effects | (13,503) | (1,179) |
| Total unrealized holding gain on securities | ¥ 25,099 | ¥ 582 |
| Deferred gain on hedges: | | |
| Amount arising during the year | 63 | 106 |
| Translation adjustments: | | |
| Amount arising during the year | 20,805 | (5,194) |
| Comprehensive income of affiliates accounted for by the equity method attributable to the Company: | | |
| Amount arising during the year | 250 | 111 |
| Reclassification adjustments for losses realized in net income | (3) | 0 |
| Total comprehensive income of affiliates accounted for by the equity method attributable to the Company | 247 | 111 |
| Total other comprehensive income (loss) | ¥ 46,215 | ¥ (4,393) |

## 18. Supplemental Information on Statement of Cash Flows

Reconciliations between cash and cash equivalents in the accompanying consolidated statement of cash flows and cash and deposits in the accompanying consolidated balance sheet at March 31, 2013 and 2012 are presented as follows:

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Cash and deposits | ¥91,132 | ¥75,422 |
| Time deposits with maturities in excess of three months | (32,500) | (30,275) |
| Cash and cash equivalents | ¥58,631 | ¥45,146 |

*Non cash financing activities*

Finance lease obligations of ¥4,181 million and ¥3,646 million were incurred during the years ended March 31, 2013 and 2012, respectively.

The Company purchased shares of Suzutora Corporation (presently Sekisui Nano Coat Technology Co., Ltd.) and initially consolidated the accounts of this company for the year ended March 31, 2012. The following summarizes the assets and liabilities included in consolidation and the relationship between acquisition cost and net disbursement for the acquisition:

| | Millions of yen |
|---|---|
| | 2012 |
| Current assets | ¥ 3,386 |
| Non-current assets | 8,734 |
| Goodwill | 6,622 |
| Current liabilities | (2,425) |
| Non-current liabilities | (5,380) |
| Acquisition cost | 10,938 |
| Cash and cash equivalents | (1,872) |
| Net disbursement for acquisition | ¥ 9,066 |

The Company purchased shares of Sekisui Diagnostics P.E.I Inc. and Sekisui Virotech G.m.b.H. and initially consolidated the accounts of these companies for the year ended March 31, 2012. The following summarizes the assets and liabilities included in consolidation and the relationship between acquisition cost and net disbursement for the acquisition:

| | Millions of yen |
|---|---|
| | 2012 |
| Current assets | ¥ 3,059 |
| Non-current assets | 4,355 |
| Goodwill | 1,237 |
| Current liabilities | (428) |
| Non-current liabilities | (430) |
| Acquisition cost | 7,793 |
| Cash and cash equivalents | (1,297) |
| Net disbursement for acquisition | ¥ 6,496 |

The Company initially consolidated the accounts of Sekisui Diagnostics, LLC. and Sekisui Diagnostics (UK) Limited, which acquired businesses from third parties, for the year ended March 31, 2012. The following summarizes the assets and liabilities included in consolidation and the relationship between acquisition cost and net disbursement for the acquisition:

| | Millions of yen |
|---|---|
| | 2012 |
| Current assets | ¥ 3,345 |
| Non-current assets | 11,333 |
| Goodwill | 2,226 |
| Current liabilities | (736) |
| Acquisition cost | 16,168 |
| Cash and cash equivalents | (305) |
| Net disbursement for acquisition | ¥ 15,862 |

## 19. Related Party Transactions

Principal transactions between the Company's consolidated subsidiaries and their related parties for the year ended March 31, 2013 are summarized as follows:

| 2013 | | | |
|---|---|---|---|
| | | | Millions of yen |
| Name | Title | Transactions | Amounts |
| Naotake Okubo | Director and Executive Advisor of the Company | Remodeling of residence | ¥24 |

Prices for remodeling of residence were determined based on the same terms as third party transactions.

There were no balances or transactions to be disclosed as of March 31, 2012 and for the year then ended.

## 20. Financial Instruments

Overview

(1) Policy for financial instruments
The Companies raise funds by bank borrowings and bonds, including short-term bonds. The Companies manage funds only through short-term time deposits and others. The Companies use derivatives for the purposes of managing foreign currency exchange risk related to notes and accounts receivable, trade and notes and accounts payable, trade and avoiding the risk of fluctuations of interest rates related to debt. The Companies do not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk
Notes and accounts receivable, trade are exposed to credit risk in relation to customers. In addition, the Companies are exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies resulting from trade with overseas customers.

Equity securities—the Companies hold equity securities, which are mainly issued by companies who have business relationships with the Companies, and these securities are exposed to the risk of fluctuation in market prices.

Notes and accounts payable, trade and electronically recorded obligations mostly have payment due dates within one year. A portion of trade payables, which is denominated in foreign currencies, is exposed to foreign currency exchange risk.

Short-term debt of bank loans and bonds is raised mainly in connection with business activities. Long-term debt and bonds are taken out principally for the purpose of capital expenditure. Long-term debt and bonds have maturity dates within five years and six months, at the longest, subsequent to March 31, 2013. Debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for debt bearing interest at variable rates, the Companies undertake interest rate swap transactions as a hedging instrument for most long-term debt.

(3) Risk management for financial instruments
(a) Monitoring of credit risk (the risk that customers or counterparties may default)
In accordance with the internal policies for managing credit risk of the Companies, the Companies monitor credit worthiness of their main customers periodically, and monitor due dates and outstanding balances by customer.

To minimize the credit risk when entering into derivative transactions, counterparties are limited to financial institutions with high ratings.

(b) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)
For equity securities included in investments in securities, the fair values of these securities are periodically reviewed and reported to the Board of Directors.

In conducting and managing derivative transactions, the accounting department confirms the effectiveness of hedging and obtains approval from the responsible person, depending on the notional contract value, based on the internal policies and formal regulations on market risk for financial instruments.

(c) Monitoring of liquidity risk for financing (the risk that the Companies may not be able to meet its obligations on the scheduled due dates)
The Companies manage liquidity risk mainly through the monthly cash-flow plans, which are prepared by each company.

(4) Supplementary explanation of the estimated fair value of financial instruments
For derivative transactions, please refer to Note 21 Derivatives of the notes to the consolidated financial statements.

Estimated Fair Value of Financial Instruments

The carrying value of the financial instruments on the consolidated balance sheet, fair value and the difference at March 31, 2013 and 2012 are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to (2) below).

Fair value information at March 31, 2013:

| | Millions of yen | | |
|---|---|---|---|
| | Carrying value | Estimated fair value | Difference |
| Cash and deposits | ¥ 91,132 | ¥ 91,132 | ¥ — |
| Notes and accounts receivable, trade | 172,084 | 172,084 | — |
| Marketable securities and investments in securities | 133,241 | 127,071 | (6,170) |
| Total | ¥ 396,458 | ¥ 390,288 | ¥ (6,170) |
| | | | |
| Notes and accounts payable, trade and electronically recorded obligations | ¥ (138,164) | ¥ (138,164) | ¥ — |
| Short-term debt | (21,511) | (21,511) | — |
| Long-term debt, including current portion | (65,729) | (65,935) | 205 |
| Bonds | (20,000) | (20,245) | 245 |
| Total | ¥ (245,406) | ¥ (245,856) | ¥ 450 |

Estimated fair value information at March 31, 2012:

| | Millions of yen | | |
|---|---|---|---|
| | Carrying value | Estimated fair value | Difference |
| Cash and deposits | ¥ 75,422 | ¥ 75,422 | ¥ — |
| Notes and accounts receivable, trade | 156,921 | 156,921 | — |
| Marketable securities and investments in securities | 95,046 | 87,058 | (7,988) |
| Total | ¥ 327,390 | ¥ 319,401 | ¥ (7,988) |
| | | | |
| Notes and accounts payable, trade and electronically recorded obligations | ¥ (131,346) | ¥ (131,346) | ¥ — |
| Short-term debt | (21,745) | (21,745) | — |
| Long-term debt, including current portion | (77,973) | (78,254) | 280 |
| Bonds | (20,000) | (20,262) | 262 |
| Total | ¥ (251,065) | ¥ (251,607) | ¥ 542 |

(1) Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

*Cash and deposits and notes and accounts receivable, trade*
Since these items are settled in a short period, their carrying value approximates fair value.

*Marketable securities and investment in securities*
The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on either quoted market prices or prices provided by the financial institutions making markets in these securities. For information on securities classified by holding purpose, please refer to Note 6 Marketable Securities and Investments in Securities of the notes to the consolidated financial statements.

*Notes and accounts payable, trade, electronically recorded obligations and short-term debt*
Since these items are settled in a short period, their carrying value approximates fair value.

*Long-term debt, including current portion*
The fair value of long-term debt is based on the present value of the total amount including principal and interest, discounted by the expected interest rate to be applied if similar new loans with a similar remaining period were entered into. Variable interest rates for long-term debt are hedged by interest rate swap contracts and accounted for as debt with fixed interest rate. The fair value of long-term debt with variable interest is based on the present value of the total of principal, interest and net cash flow of interest rate swap contracts discounted by the reasonably estimated interest rate to be applied if similar new loans with a similar remaining period were entered into.

*Bonds*
The fair value of bonds that are issued by the Company is quoted market prices.

(2) Financial instruments for which it is extremely difficult to determine the fair value were as follows:

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Unlisted equity securities | ¥12,951 | ¥12,900 |

Because no quoted market prices are available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the preceding table.

(3) Redemption schedule for cash and deposits, notes and accounts receivable, trade and marketable securities and investments in securities with maturities at March 31, 2013 and 2012:

Maturity analysis at March 31, 2013:

| | Millions of yen | | | |
|---|---|---|---|---|
| | Due in One Year or Less | Due after One Year through Five Years | Due after Five Years through Ten Years | Due after Ten Years |
| Cash and deposits | ¥ 91,132 | ¥ - | ¥ - | ¥ - |
| Notes and accounts receivable, trade | 172,084 | - | - | - |
| Marketable securities and investments in securities | | | | |
| Held-to-maturity debt securities | 1 | 8 | - | - |
| Total | ¥ 263,218 | ¥ 8 | ¥ - | ¥ - |

Maturity analysis at March 31, 2012:

| | Millions of yen | | | |
|---|---|---|---|---|
| | Due in One Year or Less | Due after One Year through Five Years | Due after Five Years through Ten Years | Due after Ten Years |
| Cash and deposits | ¥ 75,422 | ¥ - | ¥ - | ¥ - |
| Notes and accounts receivable, trade | 156,921 | - | - | - |
| Marketable securities and investments in securities | | | | |
| Held-to-maturity debt securities | 21 | 6 | - | - |
| Total | ¥ 232,365 | ¥ 6 | ¥ - | ¥ - |

(4) The redemption schedule for long-term debt and bonds is disclosed in Note 8 Short-Term Debt, Bonds and Long-Term Debt of the notes the consolidated financial statements.

## 21. Derivatives

The Company and certain consolidated subsidiaries enter into currency swap contracts, forward foreign exchange contracts and interest-rate swap contracts in order to manage certain risks arising from adverse fluctuation in foreign currency exchange rates and interest rates. The Company and certain consolidated subsidiaries are also exposed to the risk of credit loss in the event of nonperformance by the counterparties to these currency swap contracts, forward foreign exchange contracts and interest-rate swap contracts; however, they do not anticipate nonperformance by any of the counterparties, all of whom are financial institutions with high credit ratings.

Summarized below are the notional amounts and the estimated fair value of the derivatives positions outstanding at March 31, 2013 and 2012:

1. Derivatives for which hedge accounting is not applied

(1) Currency-related transactions

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| | Notional amount | Fair value | Unrealized loss | Notional amount | Fair value | Unrealized gain |
| Over-the-counter transactions | | | | | | |
| Forward foreign exchange contracts: | | | | | | |
| Buy: U.S. dollars | ¥ 4,013 | ¥ (25) | ¥ (25) | ¥ – | ¥ – | ¥ – |
| Foreign currency swaps: | | | | | | |
| Receive fixed – U.S. dollars/ pay fixed – yen | 3,127 | (254) | (254) | 4,211 | 7 | 7 |
| Total | ¥ 7,141 | ¥(280) | ¥ (280) | ¥ 4,211 | ¥ 7 | ¥ 7 |

The notional amount of receive fixed – U.S. dollars / pay fixed – yen includes portions over 1 year of ¥313 million and ¥207 million at March 31, 2013 and 2012, respectively.

2. Derivatives for which hedge accounting is applied

(1) Currency-related transactions

| | Millions of yen | | |
|---|---|---|---|
| | 2013 | | |
| | Hedged item | Notional amount | Fair value |
| Forward foreign exchange contracts: | | | |
| Buy: U.S. dollars | Accounts payable | ¥538 | ¥47 |
| Buy: Euro | | 28 | (0) |

The notional amount of the buy position in U.S. dollars and Euro does not include any portion over 1 year.

| | Millions of yen | | |
|---|---|---|---|
| | 2012 | | |
| | Hedged item | Notional amount | Fair value |
| Forward foreign exchange contracts: | | | |
| Buy: U.S. dollars | Accounts payable | ¥18,258 | ¥(16) |
| Buy: Euro | | 0 | 0 |

The notional amount of the buy position in U.S. dollars and Euro does not include any portion over 1 year.

(2) Interest-related transactions

| | Millions of yen | | |
|---|---|---|---|
| | 2013 | | |
| | Hedged item | Notional amount | Fair value |
| Interest-rate swap: Receive/floating and pay/fixed | Long-term debt | ¥17,450 | (*) |
| Total | | ¥17,450 | |

| | Millions of yen | | |
|---|---|---|---|
| | 2012 | | |
| | Hedged item | Notional amount | Fair value |
| Interest-rate swap: Receive/floating and pay/fixed | Long-term debt | ¥24,875 | (*) |
| Total | | ¥24,875 | |

(*): Because the interest rate swap contract is accounted for as if the interest rate applied to the swap had originally applied to the underlying long-term debt, its fair value is included in that of long-term debt.

The notional amount of the above interest rate swap includes a portion over 1 year of ¥7,200 million and ¥15,125 million at March 31, 2013 and 2012, respectively.

## 22. Amounts Per Share

| | Yen | |
|---|---|---|
| | 2013 | 2012 |
| Net income: | | |
| Basic | ¥ 58.53 | ¥ 53.96 |
| Diluted | 58.50 | 53.94 |
| Cash dividends | 18.00 | 15.00 |
| Net assets | 810.76 | 682.46 |

Basic net income per share has been computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share has been computed based on the net income available for distribution to the shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year after giving effect to the dilutive potential of the shares of common stock issuable upon the exercise of stock options issued by the Company. The amounts per share of net assets have been computed based on the number of shares of common stock outstanding at year end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective fiscal years together with the interim cash dividends paid.

## 23. Segment Information

1. Overview of the Reportable segments

The reportable segments of the Companies are determined on the basis that separate financial information of such segments is available and examined periodically by the Board of Directors of the Company to make decisions regarding the allocation of management resources and assess the business performances of such segments. The Companies have divided the business operations into the three segments of Housing, Urban Infrastructure and Environmental Products (UIEP), and High Performance Plastics (HPP) based on manufacturing methods, products, sales channels, and other business similarities. Each business segment formulates comprehensive strategies and develops business activities for its products in Japan and overseas. The Housing business comprises manufacturing, construction, sales, refurbishing, and other operations related to unit housing. The UIEP business comprises manufacturing, sales, and construction operations related to PVC pipes and joints, polyethylene pipes and joints, pipe and drain renewal materials and construction methods, reinforced plastic pipe, and construction materials. The HPP business comprises manufacturing and sales of interlayer films for laminated glass, polyolefin foam, tape, LCD fine particles and photosensitive materials, diagnostic drugs and other products.

2. Calculation methods used for sales, income, assets and the other items on each reportable segment

The accounting methods for the reportable segments are presented principally in accordance with the same accounting policies of the accompanying consolidated financial statements defined in Note 2 “Summary of Significant Accounting Policies.” The amounts of segment income (loss) are calculated based on the same method as the calculation of operating income in the consolidated statement of income for the years ended March 31, 2013 and 2012. The figures of intersegment sales and transfers are presented based on the current market prices at the time of these transactions.

3. Information as to sales, income, assets and other items on each reportable segment

Reportable segment information of the Companies for the years ended March 31, 2013 and 2012 is summarized as follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | | | |
| | Reportable segments | | | | | |
| | Housing | Urban infrastructure and environmental products | High performance plastics | Total | Other (*1) | Consoli-dated |
| Sales: | | | | | | |
| Sales to third parties | ¥ 468,902 | ¥ 201,009 | ¥ 325,749 | ¥ 995,662 | ¥ 36,769 | ¥1,032,431 |
| Intersegment sales or transfers | 134 | 13,506 | 6,267 | 19,908 | 3,723 | 23,632 |
| Net sales | 469,036 | 214,516 | 332,017 | 1,015,570 | 40,492 | 1,056,063 |
| Segment income (loss) | ¥ 36,333 | ¥ 1,800 | ¥ 23,249 | ¥ 61,384 | ¥ (1,287) | ¥ 60,096 |
| Segment assets | ¥ 239,348 | ¥ 180,238 | ¥ 321,264 | ¥ 740,852 | ¥ 41,432 | ¥ 782,284 |
| Other items: | | | | | | |
| Depreciation and amortization (*2) | 6,951 | 6,129 | 19,198 | 32,280 | 1,902 | 34,182 |
| Investment in affiliates accounted for by the equity method | 6,869 | - | - | 6,869 | - | 6,869 |
| Increase in property, plant and equipment, and intangible assets (*2) | 12,253 | 7,737 | 14,455 | 34,446 | 1,561 | 36,007 |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | | | |
| | Reportable segments | | | | | |
| | Housing | Urban infrastructure and environmental products | High performance plastics | Total | Other (*1) | Consoli-dated |
| Sales: | | | | | | |
| Sales to third parties | ¥ 449,005 | ¥ 187,524 | ¥ 290,471 | ¥ 927,001 | ¥ 38,088 | ¥ 965,090 |
| Intersegment sales or transfers | 386 | 12,477 | 6,404 | 19,268 | 5,385 | 24,654 |
| Net sales | 449,391 | 200,002 | 296,876 | 946,270 | 43,474 | 989,745 |
| Segment income (loss) | ¥ 31,090 | ¥ 2,957 | ¥ 20,582 | ¥ 54,630 | ¥ (235) | ¥ 54,394 |
| Segment assets | ¥ 217,455 | ¥ 163,958 | ¥ 296,296 | ¥ 677,710 | ¥ 42,907 | ¥ 720,618 |
| Other items: | | | | | | |
| Depreciation and amortization (*2) | 6,995 | 6,584 | 18,798 | 32,378 | 2,003 | 34,381 |
| Investment in affiliates accounted for by the equity method | 6,798 | – | – | 6,798 | – | 6,798 |
| Increase in property, plant and equipment, and intangible assets (*2) | 8,566 | 5,115 | 16,694 | 30,376 | 1,938 | 32,314 |

(*1): Other is segments other than the reportable segments, which includes manufacturing and sales of flat panel display manufacturing equipment, agricultural and construction materials, and provision of services.

(*2): Depreciation and amortization and increase in property, plant and equipment, and intangible assets include amortization of long-term prepaid expenses and its associated costs.

Until the year ended March 31, 2012, the 73 overseas consolidated subsidiaries whose fiscal year end was December 31 had made adjustments to reflect significant transactions that occurred between December 31 and March 31. However, from the year ended March 31, 2013, the fiscal yearend of 57 overseas consolidated subsidiaries has been changed to March 31, and 15 overseas consolidated subsidiaries have been consolidated using provisional financial statements at March 31, 2013. As a result, the current financial statements of these 57 overseas consolidated subsidiaries are prepared for the 15 months from January 1, 2012 to March 31, 2013. Net sales and segment income (loss) of these overseas consolidated subsidiaries for the 3 months from January 1, 2012 to March 31, 2012 were ¥4,886 million and ¥(699) million in the Urban Infrastructure and environmental products segment, ¥32,689 million and ¥1,288 million in the High performance plastics segment and ¥169 million and ¥(2) million in other.

4. Information on the difference between the total amount of the reportable segments in the above tables and the corresponding amount reported in the consolidated financial statements

Net sales and income for the years ended March 31, 2013 and 2012

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Net sales: | | |
| Total of reportable segments | ¥ 1,015,570 | ¥ 946,270 |
| Other net sales | 40,492 | 43,474 |
| Eliminations | (23,632) | (24,654) |
| Net sales | ¥ 1,032,431 | ¥ 965,090 |

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Income: | | |
| Total of reportable segments | ¥ 61,384 | ¥ 54,630 |
| Other loss | (1,287) | (235) |
| Eliminations | 551 | 922 |
| Corporate expenses (*1) | (1,026) | (707) |
| Operating income | ¥ 59,621 | ¥ 54,610 |

(*1): Corporate expenses are mainly general administrative expenses not attributable to each reportable segment.

Assets at March 31, 2013 and 2012

| | Millions of yen | |
|---|---|---|
| | 2013 | 2012 |
| Assets: | | |
| Total of reportable segments | ¥ 740,852 | ¥ 677,710 |
| Assets classified as “other” | 41,432 | 42,907 |
| Eliminations | (107,125) | (85,114) |
| Corporate assets (*1) | 226,405 | 191,599 |
| Total Assets | ¥ 901,564 | ¥ 827,103 |

(*1): Corporate assets are assets not attributable to the reportable segments. The main items were cash and deposits, long-term investments (investments in securities), assets related to administrative operations and deferred income taxes of the Company.

Other items for the years ended March 31, 2013 and 2012

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2013 | | | |
| | Reporting segments | Others | Adjustments (*1) | Consolidated |
| Other items: | | | | |
| Depreciation and amortization | ¥ 32,280 | ¥ 1,902 | ¥ 712 | ¥ 34,895 |
| Investments in affiliates accounted for by the equity method | 6,869 | — | 23,974 | 30,844 |
| Increase in property, plant and equipment, and intangible assets | 34,446 | 1,561 | 835 | 36,842 |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2012 | | | |
| | Reporting segments | Others | Adjustments (*1) | Consolidated |
| Other items: | | | | |
| Depreciation and amortization | ¥ 32,378 | ¥ 2,003 | ¥ 721 | ¥ 35,102 |
| Investments in affiliates accounted for by the equity method | 6,798 | – | 22,892 | 29,691 |
| Increase in property, plant and equipment, and intangible assets | 30,376 | 1,938 | 762 | 33,076 |

(*1): Adjustment represents the amounts of investments in affiliates accounted for by the equity method, which are not attributable to with the reportable segments.

5. Related information

(1) Sales information by geographic area

Overseas net sales by geographical areas for the years ended March 31, 2013 and 2012 is as follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | | | |
| | Japan | America | Europe | Asia | Other | Total |
| Net sales | ¥ 794,573 | ¥ 76,716 | ¥ 63,381 | ¥ 87,284 | ¥ 10,476 | ¥1,032,431 |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | | | |
| | Japan | America | Europe | Asia | Other | Total |
| Net sales | ¥ 775,564 | ¥ 56,420 | ¥ 57,073 | ¥ 65,598 | ¥ 10,433 | ¥ 965,090 |

Until the year ended March 31, 2012, the 73 overseas consolidated subsidiaries whose fiscal year end was December 31 had made adjustments to reflect significant transactions that occurred between December 31 and March 31. However, from the year ended March 31, 2013, the fiscal year end of 57 overseas consolidated subsidiaries has been changed to March 31, 2013 and 15 overseas consolidated subsidiaries have been consolidated using provisional financial statements at March 31. As a result, the current financial statements of these overseas consolidated subsidiaries are prepared for the 15 months from January 1, 2012 to March 31, 2013. Net sales of these overseas consolidated subsidiaries for the 3 months from January 1, 2012 to March 31, 2012 were ¥13,132 million in America, ¥11,850 million in Europe, ¥10,802 million in Asia and ¥1,931 million in other.

(2) Information of property, plant and equipment, net by geographic area

Information of property, plant and equipment, net by geographical areas as of March 31, 2013 and 2012 is as follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | | | |
| | Japan | America | Europe | Asia | Other | Total |
| Property, plant and equipment, net | ¥ 175,738 | ¥ 17,739 | ¥ 21,825 | ¥ 23,213 | ¥ 2,137 | ¥ 240,654 |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | | | |
| | Japan | America | Europe | Asia | Other | Total |
| Property, plant and equipment, net | ¥ 177,568 | ¥ 15,488 | ¥ 19,914 | ¥ 16,433 | ¥ 1,789 | ¥ 231,194 |

6. Information of loss on impairment of fixed assets and goodwill

Information on loss on impairment of fixed assets and goodwill for the years ended March 31, 2013 and 2012 is as follows.

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | | | |
| | Housing | Urban infrastructure and environmental products | High performance plastics | Other | Elimination or unallocable accounts | Total |
| Loss on impairment of fixed assets and goodwill | ¥ 820 | ¥ 2,144 | ¥ 2,278 | ¥ — | ¥ — | ¥ 5,243 |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | | | |
| | Housing | Urban infrastructure and environmental products | High performance plastics | Other | Elimination or unallocable accounts | Total |
| Loss on impairment of fixed assets and goodwill | ¥ 407 | ¥ 1,162 | ¥ 775 | ¥ 15 | ¥ 1,450 | ¥ 3,811 |

7. Amortization and balance of goodwill

Information on amortization of goodwill by each segment and its remaining balance for the years ended March 31, 2013 and 2012 is summarized as follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | | | |
| | Housing | Urban infrastructure and environmental products | High performance plastics | Other | Elimination or unallocable accounts | Total |
| Amortization of goodwill | ¥ - | ¥ 528 | ¥ 2,708 | ¥ (3) | ¥ - | ¥ 3,232 |
| Balance at March 31, 2013 | - | 1,798 | 19,324 | - | - | 21,123 |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | | | |
| | Housing | Urban infrastructure and environmental products | High performance plastics | Other | Elimination or unallocable accounts | Total |
| Amortization of goodwill | ¥ (5) | ¥ 863 | ¥ 2,565 | ¥ (1) | ¥ - | ¥ 3,422 |
| Balance at March 31, 2012 | - | 3,596 | 23,114 | - | - | 26,711 |

## 24. Business Combination

***For the year ended March 31, 2013***

There was no material business combination to be disclosed for the year ended March 31, 2013.

***For the year ended March 31, 2012***

1. The Company acquired the diagnostics business from U.S.-based Genzyme Corporation. The Company established new companies in the U.S.A. and U.K. to acquire Genzyme's operating assets in the U.S.A. and U.K. and its shares of the Canadian and German subsidiaries.

(1) Acquisition of business

On February 1, 2011, Sekisui Diagnostics, LLC. (U.S.A.) and Sekisui Diagnostics (U.K.) Ltd., which were established by the Company as wholly owned subsidiaries, acquired the diagnostics business of Genzyme Corporation, which was involved in development, production and distribution of clinical diagnostics in the U.S.A. and U.K. The Company determined that the acquisition would enable it to strengthen overseas development of the clinical diagnostics business in the medical business field. The aggregate acquisition costs for the business in the U.S.A. and U.K. from Genzyme Corporation were $113 million and £49 million, respectively. The acquisitions were accounted for using the purchase method of accounting. As Sekisui Diagnostics, LLC. (U.S.A.) and Sekisui Diagnostics (U.K.) were the acquiring companies, goodwill amounts of $18 million and £5 million arising from the acquisitions are being amortized over periods of 9 years and 4 years, respectively.

The accompanying consolidated statement of income for the year ended March 31, 2012 reflected the operating results of these companies for the period from February 1, 2011 to December 31, 2011. The amounts of assets acquired and liabilities assumed of these companies at the date of acquisition were as follows:

| From Genzyme Corporation (U.S.A.) | (Millions of U.S. dollars) |
|---|---|
| Current assets | $ 26 |
| Tangible assets | 2 |
| Intangible assets | 72 |
| Goodwill | 18 |
| Current liabilities | (6) |
| Acquisition cost | $113 |

| From Genzyme Corporation (U.K.) | (Millions of GB pounds) |
|---|---|
| Current assets | £ 8 |
| Tangible assets | 12 |
| Intangible assets | 24 |
| Goodwill | 5 |
| Current liabilities | (1) |
| Acquisition cost | £ 49 |

The amounts allocated to intangible assets other than goodwill and weighted average amortization period by type were as follows:

From Genzyme Corporation (U.S.A.)

| Asset Type | (Millions of U.S. dollars) | Weighted average amortization period |
|---|---|---|
| Customer relationships | $ 54 | 21 years |
| Developed technology | 17 | 20 years |

From Genzyme Corporation (U.K.)

| Asset Type | (Millions of GB pounds) | Weighted average amortization period |
|---|---|---|
| Customer relationships | £ 16 | 21 years |
| Developed technology | 7 | 20 years |

(2) Acquisition of stock

On February 1, 2011, Sekisui Diagnostics LLC (U.S.A.) and Sekisui Europe B.V. (Netherland), wholly owned subsidiaries of the Company, acquired 100% of the shares of Genzyme Diagnostics P.E.I. Inc. (Canada) and Genzyme Virotech G.m.b.H., which were involved in the development, production and distribution of clinical diagnostics. The Company determined that the acquisition would strengthen overseas development of the diagnostics business in the medical business field.

The aggregate costs for the acquisitions were C$74 million in cash for the common stock of Genzyme Diagnostics P.E.I. Inc. and €15 million in cash for the common stock of Genzyme Virotech G.m.b.H.

Goodwill amounts of C$12 million and €2 million arising from the acquisitions are being amortized over a period of 10 years and 5 years, respectively.

The accompanying consolidated statement of income for the year ended March 31, 2012 reflected the operating results of these companies for the period from February 1, 2011 to December 31, 2011. The amounts of assets acquired and liabilities assumed of these companies at the date of acquisition were as follows:

| From Genzyme Diagnostics P.E.I. Inc. (Canada) | Millions of Canadian dollars |
|---|---|
| Current assets | C$20 |
| Tangible assets | 2 |
| Intangible assets | 43 |
| Goodwill | 12 |
| Current liabilities | (1) |
| Long-term liabilities | (3) |
| Acquisition cost | C$74 |

| From Genzyme Virotech G.m.b.H. (Germany) | Millions of Euro |
|---|---|
| Current assets | € 11 |
| Tangible assets | 2 |
| Intangible assets | 2 |
| Goodwill | 2 |
| Current liabilities | (2) |
| Long-term liabilities | (1) |
| Acquisition cost | € 15 |

The amounts allocated to intangible assets other than goodwill and weighted average amortization period by type were as follows:

From Genzyme Diagnostics P.E.I. Inc. (Canada)

| Asset Type | Millions of Canadian dollars | Weighted average amortization period |
|---|---|---|
| Customer relationships | C$ 31 | 22 years |
| Developed technology | 11 | 20 years |

2. The Company acquired 100% of shares of Suzutora Corporation (renamed Sekisui Nano Coat Technology Co., Ltd.), which is involved in the thin-film business (ITO film for touch panels) field and textile business (nano-metal coating to textiles, fabricated to synthetic leather) field, and it became a wholly-owned subsidiary on April 27, 2011. The Company determined that the acquisition would enable it to broaden the high performance plastics business range in the IT field. The aggregate cost for the acquisition was ¥10,938 million, including a professional advisory fee of ¥32 million. The acquisition was accounted for using the purchase method of accounting. As the Company was the acquiring company, goodwill of ¥6,622 million arising from the acquisition is being amortized over a period of 15 years.

The accompanying consolidated statement of income for the year ended March 31, 2012 reflected the operating results of the company for the period from May 1, 2011 to March 31, 2012. The amounts of assets acquired and liabilities assumed of the company at the date of acquisition were as follows:

| From Suzutora Corporation | Millions of yen |
|---|---|
| Current assets | ¥ 3,386 |
| Tangible assets | 4,587 |
| Intangible assets | 3,959 |
| Goodwill | 6,622 |
| Investments and other assets | 187 |
| Current liabilities | (2,425) |
| Long-term liabilities | (5,380) |
| Acquisition cost | ¥10,938 |

The amounts allocated to intangible assets other than goodwill and weighted average amortization period by type were as follows:

From Suzutora Corporation

| Asset Type | Millions of Yen | Weighted average amortization period |
|---|---|---|
| Developed technology | ¥ 3,947 | 12 years |

## 25. Subsequent Event

(Year-end cash dividends)

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2013, was proposed by the Board of Directors at the meeting held on May 15, 2013. The distribution proposed is subject to approval by the shareholders at the meeting to be held on June 26, 2013.

| | Millions of yen |
|---|---|
| Year-end cash dividends (¥9.0 per share) | ¥ 4,649 |

# Independent Auditor's Report

The Board of Directors
Sekisui Chemical Co., Ltd.

We have audited the accompanying consolidated financial statements of Sekisui Chemical Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sekisui Chemical Co., Ltd. and its consolidated subsidiaries at March 31, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

June 14, 2013
Osaka, Japan