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Financial Highlights (6 years)

	Millions of yen					
	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Achievement Transition						
Net Sales	934,225	858,514	915,492	965,090	1,032,431	1,110,851
Operating Income	33,589	35,955	49,335	54,610	59,621	82,541
Ordinary Income	29,438	31,076	48,292	54,158	60,670	83,310
Net Income	1,013	11,627	23,574	28,116	30,174	41,190
Comprehensive Income	-	-	5,705	24,652	77,437	57,944
Operating Income Ratio (%)	3.6	4.2	5.4	5.7	5.8	7.4
Assets, Liabilities and Net Assets						
Total Assets	756,450	787,261	790,189	827,103	901,564	961,009
Net Assets	330,721	351,706	350,045	363,299	433,228	473,555
Shareholders' Equity to Total Assets (%)	42.6	43.4	43.0	42.5	46.4	47.5
Current Ratio (%)	109.4	120.4	126.0	123.5	131.1	127.4
Fixed Ratio (%)	132.3	129.7	120.9	121.4	110.3	102.1
Interest-bearing Debt	129,406	133,085	124,508	127,188	115,320	94,010
Debt/Equity Ratio (%)	40.2	38.9	36.6	36.2	27.6	20.6
Total Assets Turnover (Times)	1.21	1.11	1.16	1.19	1.19	1.19
Inventory Turnover (Times)	7.91	7.56	8.14	7.71	7.57	7.50
Tangible Fixed Assets Turnover (Times)	3.87	3.46	3.71	4.13	4.38	4.51
Cash Flow						
Net cash provided by operating activities	35,611	74,983	64,197	66,652	71,016	97,720
Net cash used in investing activities	(35,403)	(55,496)	(46,051)	(70,727)	(31,133)	(60,914)
Net cash provided by (used in) financing activities	13,889	(5,749)	(5,197)	(16,077)	(30,520)	(49,803)
Free Cash Flow	(7,787)	15,126	12,602	(12,332)	30,650	24,915
Capital Expenditures, Depreciation and R&D Expenditures						
Capital Expenditures	34,539	44,049	25,269	33,076	36,842	41,827
Depreciation and Amortization	36,529	34,525	34,530	35,102	34,895	34,376
R&D Expenditures	25,420	24,010	24,694	25,611	25,894	27,720
R&D Expenditures to Revenues (%)	2.72	2.80	2.70	2.65	2.51	2.50
Per Share Data						
Net Assets per Share (Yen)	612.93	651.08	650.83	682.46	810.76	897.18
Net Income per Share (Yen)	1.93	22.13	44.92	53.96	58.53	80.13
Dividends per Share (Yen)	10.00	10.00	13.00	15.00	18.00	23.00
Dividends Payout Ratio (%)	518.7	45.2	28.9	27.8	30.8	28.7
Other Data						
Return on Equity (%)	0.3	3.5	6.9	8.1	7.8	9.4
Return on Total Assets (%)	3.8	4.0	6.1	6.7	7.0	8.9
EBITDA	70,118	70,480	83,865	89,712	94,516	116,918
Interest Coverage Ratio (Times)	14.8	15.2	19.8	20.7	21.7	33.2
PER (Times)	253.89	28.65	14.49	13.31	17.63	13.39
Number of Employees	19,742	19,761	19,770	20,855	22,202	23,017
Net Sales per Employee (Ten thousands of yen)	4,834	4,346	4,631	4,751	4,796	4,913

Shareholders' Equity to Total Assets =
Shareholders' Equity including Accumulated Other Comprehensive Income/ Total Assets
Current Ratio = Current Assets / Current Liabilities
Fixed Ratio = Fixed Assets / Shareholders' Equity
Debt/Equity Ratio = Interest-bearing Debt / Shareholders' Equity
Total Assets Turnover = Net Sales / Average Total Assets
Inventory Turnover = Net Sales / Average Inventory
Tangible Fixed Assets Turnover = Net Sales / Average Tangible Fixed Assets
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, 2014

	Millions of yen	
	2014	2013
Assets		
Current assets:		
Cash and deposits (Notes 17 and 19)	¥ 107,673	¥ 91,132
Notes receivable, trade (Notes 4 and 19)	39,643	42,183
Accounts receivable, trade (Note 19)	152,591	129,901
Marketable securities (Notes 5 and 19)	0	1
Merchandise and finished goods	54,209	47,825
Land for sale	21,716	19,334
Work in process	47,730	43,036
Raw materials and supplies	32,690	29,829
Advance payments	1,115	2,354
Prepaid expenses	3,030	2,525
Deferred income taxes (Note 10)	17,243	15,370
Short-term loans receivable	467	527
Other current assets	19,296	17,850
Allowance for doubtful accounts	(2,748)	(1,907)
Total current assets	494,660	439,964
Non-current assets:		
Property, plant and equipment, net (Notes 6, 7 and 22):		
Buildings and structures	86,451	84,226
Machinery, equipment and vehicles	68,461	63,736
Land	69,419	69,810
Leased assets	9,045	7,775
Construction in progress	13,133	10,288
Other	5,540	4,816
Total property, plant and equipment, net	252,051	240,654
Intangible assets (Notes 7, 15 and 22):		
Goodwill	12,893	21,123
Software	6,173	5,129
Leased assets	325	278
Other	20,436	22,566
Total intangible assets	39,828	49,098
Investments and other assets:		
Investments in securities (Notes 5 and 19)	151,724	146,192
Long-term loans receivable	967	710
Long-term prepaid expenses	1,177	1,276
Asset for retirement benefits (Note 9)	490	-
Deferred income taxes (Note 10)	8,964	12,732
Other	12,222	12,283
Allowance for doubtful accounts	(1,078)	(1,346)
Total investments and other assets	174,468	171,848
Total non-current assets	466,349	461,600
Total assets (Note 22)	¥ 961,009	¥ 901,564

	Millions of yen	
	2014	2013
Liabilities		
Current liabilities:		
Notes payable, trade (Notes 4, 7 and 19)	¥ 8,453	¥ 7,797
Electronically recorded obligations (Note 19)	6,520	4,963
Accounts payable, trade (Notes 7 and 19)	133,861	125,403
Short-term debt and current portion of long-term debt (Notes 7 and 19)	44,146	47,590
Current portion of bonds (Notes 7 and 19)	10,000	-
Lease obligations (Note 8)	2,907	2,953
Accrued expenses	32,056	29,977
Accrued income taxes and other taxes (Note 10)	18,286	6,747
Deferred income taxes (Note 10)	371	225
Allowance for bonuses to employees	17,250	15,410
Allowance for bonuses to directors and corporate auditors	261	207
Provision for compensation for completed construction	1,132	1,223
Advances received	57,365	49,123
Other	55,752	43,915
Total current liabilities	388,365	335,539
Long-term liabilities:		
Bonds (Notes 7 and 19)	10,000	20,000
Long-term debt less current portion (Notes 7 and 19)	20,459	39,650
Lease obligations (Note 8)	6,496	5,126
Deferred income taxes (Note 10)	4,923	5,104
Accrued retirement benefits (Note 9)	-	57,274
Liability for retirement benefits (Note 9)	51,100	-
Other	6,109	5,640
Total long-term liabilities	99,089	132,797
Total liabilities	487,454	468,336
Contingent liabilities (Note 13)		
Net assets		
Shareholders' equity (Note 11);		
Common stock	100,002	100,002
Capital surplus	109,234	109,234
Retained earnings	240,231	209,280
Treasury stock, at cost	(20,347)	(11,577)
Total shareholders' equity	429,120	406,939
Accumulated other comprehensive income (Note 16):		
Unrealized holding gain on securities	19,001	17,778
Deferred gain on hedges	7	47
Unrealized gain on land revaluation (Note 12)	261	260
Translation adjustments	6,959	(6,443)
Retirement benefit adjustments (Note 9)	1,468	-
Total accumulated other comprehensive income	27,698	11,642
Stock acquisition rights	267	306
Minority interests	16,468	14,339
Total net assets	473,555	433,228
Total liabilities and net assets	¥ 961,009	¥ 901,564

See accompanying notes to consolidated financial statements

Consolidated Statement of Income

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2014

	Millions of yen	
	2014	2013
Net sales (Notes 18 and 22)	¥ 1,110,851	¥ 1,032,431
Cost of sales	774,753	729,971
Gross profit	336,097	302,460
Selling, general and administrative expenses (Note 14)	253,555	242,838
Operating income (Note 22)	82,541	59,621
Non-operating income:		
Interest income	1,029	909
Dividends income	3,094	2,075
Equity in earnings of affiliates	2,070	1,249
Foreign exchange gain, net	3,273	4,827
Miscellaneous income	4,364	4,134
Total non-operating income	13,832	13,195
Non-operating expenses:		
Interest expenses	2,266	2,550
Sales discounts	345	332
Miscellaneous expenses	10,453	9,265
Total non-operating expenses	13,064	12,147
Ordinary income	83,310	60,670
Extraordinary income:		
Gain on sales of property, plant and equipment	—	1,815
Total extraordinary income	—	1,815
Extraordinary loss:		
Loss on impairment of fixed assets and goodwill (Notes 15 and 22)	9,642	5,243
Retirement benefit expenses (Notes 3 and 9)	—	9,536
Loss on devaluation of investments in securities (Note 5)	—	2,022
Loss on sales or disposal of property, plant and equipment	1,241	1,186
Total extraordinary loss	10,884	17,989
Income before income taxes and minority interests	72,426	44,495
Income taxes (Note 10):		
Current	29,664	17,241
Deferred	393	(3,967)
Total income taxes	30,058	13,274
Income before minority interests	42,368	31,221
Minority interests	1,177	1,047
Net income	¥ 41,190	¥ 30,174

See accompanying notes to consolidated financial statements

Consolidated Statement of Comprehensive Income

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2014

	Millions of yen	
	2014	2013
Income before minority interests	¥ 42,368	¥ 31,221
Other comprehensive income (Note 16)		
Unrealized holding gain on securities	954	25,099
Deferred (loss) gain on hedges	(40)	63
Translation adjustments	14,389	20,805
Comprehensive income of affiliates accounted for by the equity method attributable to the Company	272	247
Total other comprehensive income	15,576	46,215
Comprehensive income	¥ 57,944	¥ 77,437
Comprehensive income attributable to:		
Shareholders of the Company	¥ 55,778	¥ 74,960
Minority shareholders	2,166	2,476

See accompanying notes to consolidated financial statements

Consolidated Statement of Changes in Net Assets

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2014

	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	Retirement benefit adjustments	Stock acquisition rights	Minority interests	Total net assets
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	-	-	-	-	-	-	-	-
Purchase of treasury stock	-	-	-	(14)	-	-	-	-	-	-	-	(14)
Disposal 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 April 1, 2013	¥ 100,002	¥109,234	¥209,280	¥(11,577)	¥ 17,778	¥ 47	¥ 260	¥ (6,443)	¥ -	¥ 306	¥ 14,339	¥ 433,228
Cash dividends	-	-	(10,342)	-	-	-	-	-	-	-	-	(10,342)
Net income for the year	-	-	41,190	-	-	-	-	-	-	-	-	41,190
Increase in retained earnings resulting from inclusion of subsidiaries in consolidation	-	-	134	-	-	-	-	-	-	-	-	134
Purchase of treasury stock	-	-	-	(10,038)	-	-	-	-	-	-	-	(10,038)
Disposal of treasury stock	-	(30)	-	1,268	-	-	-	-	-	-	-	1,238
Transfer from retained earnings to capital surplus		30	(30)	-	-	-	-	-	-	-	-	-
Net changes of items other than shareholders' equity	-	-	-	-	1,223	(40)	1	13,403	1,468	(38)	2,128	18,146
Total changes of items during the year	-	-	30,951	(8,770)	1,223	(40)	1	13,403	1,468	(38)	2,128	40,326
Balance at March 31, 2014	¥ 100,002	¥109,234	¥240,231	¥(20,347)	¥ 19,001	¥ 7	¥ 261	¥ 6,959	¥ 1,468	¥ 267	¥ 16,468	¥ 473,555

See accompanying notes to consolidated financial statements

Consolidated Statement of Cash Flows

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2014

	Millions of yen	
	2014	2013
Operating activities:		
Income before income taxes and minority interests	¥ 72,426	¥ 44,495
Adjustments for:		
Depreciation and amortization	34,376	34,895
Amortization of goodwill	2,957	3,232
Loss on impairment of fixed assets and goodwill	9,642	5,243
Loss on disposal of property, plant and equipment	1,125	1,089
Loss on devaluation of investment in securities	-	2,022
Loss (gain) on sales of property, plant and equipment, net	116	(1,718)
Increase in accrued retirement benefits	-	9,902
Decrease in liability for retirement benefits	(3,326)	-
Interest and dividends income	(4,124)	(2,984)
Interest expenses	2,611	2,882
Equity in earnings of affiliates	(2,070)	(1,249)
Increase in notes and accounts receivable	(13,206)	(3,179)
Increase in inventories	(12,424)	(1,715)
Increase (decrease) in notes and accounts payable	6,139	(1,384)
Increase in advances received	8,156	1,730
Other	8,886	3,232
Subtotal	111,284	96,496
Interest and dividends received	4,536	3,420
Interest paid	(2,626)	(3,023)
Income taxes refunded	2,806	-
Income taxes paid	(18,280)	(25,876)
Net cash provided by operating activities	97,720	71,016
Investing activities:		
Purchases of property, plant and equipment	(28,580)	(29,211)
Proceeds from sales of property, plant and equipment	856	4,805
Payments into time deposits	(71,109)	(50,084)
Proceeds from withdrawal of time deposits	47,228	47,970
Purchases of investments in securities	(315)	(227)
Proceeds from sales or redemption of investments in securities	230	1,936
Acquisition of investments in subsidiaries	(4,346)	(2,322)
Acquisition of businesses	-	(448)
Purchases of intangible assets	(3,342)	(2,840)
Decrease in short-term loans receivable	19	79
Other	(1,554)	(791)
Net cash used in investing activities	¥ (60,914)	¥ (31,133)

Consolidated Statement of Cash Flows (continued)

Financing activities:		
Decrease in short-term debt, net	¥ (115)	¥ (5,860)
Repayments of lease obligations	(3,421)	(3,459)
Proceeds from long-term debt	4,981	4,454
Repayment of long-term debt	(31,409)	(18,717)
Proceeds from stock issuance to minority shareholders	994	1,506
Cash dividends paid	(10,351)	(8,777)
Cash dividends paid to minority shareholders of consolidated subsidiaries	(1,538)	(456)
Purchase of treasury stock	(10,038)	(14)
Other	1,095	804
Net cash used in financing activities	(49,803)	(30,520)
Effect of exchange rate change on cash and cash equivalents	3,071	3,939
Net (decrease) increase in cash and cash equivalents	(9,926)	13,302
Cash and cash equivalents at beginning of year	58,631	45,146
Increase in cash and cash equivalents from newly consolidated subsidiary	2,543	182
Cash and cash equivalents at end of year (Note 17)	¥ 51,248	¥ 58,631

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.

Certain reclassifications of previously reported amounts were made to conform the consolidated statements of cash flows for the year ended March 31, 2013 to the 2014 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, 2014, the Company had 210 subsidiaries. The accompanying consolidated financial statements for the year ended March 31, 2014 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, 2014, 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 17 overseas consolidated subsidiaries was December 31. 16 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.

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, 2014, although the Company had 43 unconsolidated subsidiaries and 18 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) Retirement Benefits

Asset for retirement benefits and liability for retirement benefits have been recorded mainly at the amount calculated based on the retirement benefit obligations and the fair value of the pension plan assets as of balance sheet date. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

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 adopted a simplified method of calculation with liability for retirement benefits and retirement benefits expense. Under this simplified method, retirement benefit obligation for employees are stated the amount which would be required to be paid if all eligible employees voluntarily retired at the balance sheet date.

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 are related amount is included in liability for retirement benefits.

(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 and certain consolidated subsidiaries measure 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 and consolidated subsidiaries have recognized the tax effects of such temporary differences in the accompanying consolidated financial statements.

The Company and certain consolidated subsidiaries have applied the consolidated taxation system.

(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 prior service cost and how to calculate retirement benefit obligations and current service costs were mainly revised and disclosures were enhanced revised from the viewpoint of improvements to financial reporting and international convergence.

The amendment of the calculation method for retirement benefit obligations and current service costs will be applied from the beginning of the fiscal year ending March 31, 2015.

The effect of the amendment of the calculation method on the Company's consolidated financial statements for the year ending March 31, 2015 is expected to be immaterial.

3. Change in Accounting Policies

The Company adopted "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26 of May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 of May 17, 2012) (except for certain provisions described in the main clause of Section 35 of the ASBJ standard and in the main clause of Section 67 of the ASBJ guidance) as of March 31, 2014. These accounting standards require the Company to apply a revised method for recording the retirement benefit obligations, after deducting pension plan assets, as a liability for retirement benefits. In addition, unrecognized actuarial differences and unrecognized prior service costs are recorded as a liability for retirement benefits. Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Clause 37 of the ASBJ standard, the effects of such changes in the current fiscal year have been recorded in retirement benefit liability adjustments through accumulated other comprehensive income. As a result of this change, liability for retirement benefits was recognized in the amount of ¥51,100 million and accumulated other comprehensive income increased by ¥1,468 million as of March 31, 2014. For additional information, the effect of this change on net assets per share, please refer to Note 21 Amounts Per Share of the notes to consolidated financial statements.

4. Notes Receivable, Trade and Notes Payable, Trade

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

5. Marketable Securities and Investments in Securities

(1) Held-to-maturity debt securities at March 31, 2014 and 2013 are summarized as follows:

	Millions of yen			
	2014			
	Carrying value	Estimated fair value	Gross unrealized gain	Gross unrealized loss
Unlisted foreign debt securities	¥ 9	¥ 9	¥ -	¥ -
	¥ 9	¥ 9	¥ -	¥ -

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

(2) Other securities with available fair market value at March 31, 2014 and 2013 are summarized as follows:

	Millions of yen			
	2014			
	Acquisition cost	Carrying value	Gross unrealized gain	Gross unrealized loss
Equity securities	¥ 81,297	¥ 108,957	¥ 27,660	¥ -
Equity securities	2,021	1,856	-	(165)
Bonds and debentures	20	20	-	-
	¥ 83,339	¥110,834	¥ 27,660	¥ (165)

	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)

Because no quoted market prices are available and it is extremely difficult to determine the fair value, unlisted equity securities of ¥1,967 million and ¥1,836 million at March 31, 2014 and 2013, 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, 2014 and 2013 are summarized as follows:

	Millions of yen	
	2014	2013
Proceeds from sales	¥ 219	¥ 167
Gross realized gain	33	39
Gross realized loss	-	(1)

(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.

6. Accumulated Depreciation

Property, plant and equipment, net reflected in the accompanying consolidated balance sheet at March 31, 2014 and 2013 were stated at cost, less accumulated depreciation. Accumulated depreciation at March 31, 2014 and 2013 amounted to ¥557,953 million and ¥538,671 million, respectively.

7. Short-Term Debt, Bonds and Long-Term Debt

(1) Short-term debt
The average interest rates of short-term debt outstanding at March 31, 2014 and 2013 were 2.16% and 1.90%, respectively.

(2) Bonds outstanding at March 31, 2014 and 2013 were as follows:

	Millions of yen	
	2014	2013
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 portion	(10,000)	-
	¥ 10,000	¥ 20,000

(3) Long-term debt at March 31, 2014 and 2013 was as follows:

	Millions of yen	
	2014	2013
Secured	¥ 768	¥ 361
Unsecured	40,595	65,368
	41,363	65,729
Less current portion	(20,904)	(26,078)
	¥ 20,459	¥ 39,650

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, 2014 are summarized below:

Year ending March 31,	Millions of yen
2015	¥ 20,904
2016	6,467
2017	8,776
2018	4,405
2019	705
2020 and thereafter	103

(4) At March 31, 2014 and 2013, the following assets were pledged as collateral for notes and accounts payable, trade and long-term and short-term debt:

	Millions of yen	
Assets	2014	2013
Buildings and structures	¥ 4,492	¥ 3,585
Machinery	341	804
Land	5,788	4,647
Intangible assets	683	525
Other	2,611	2,190
Total	¥ 13,917	¥ 11,753

	Millions of yen	
Liabilities	2014	2013
Notes payable, trade	¥ 12	¥ 84
Accounts payable, trade	1,301	1,190
Short-term debt	2,436	3,438
Long-term debt	768	361
Total	¥ 4,518	¥ 5,074

(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, 2014 and 2013 were as follows:

	Millions of yen	
	2014	2013
Lines of credit	¥ 10,000	¥ 10,000
Credit used	-	-
Available credit	¥ 10,000	¥ 10,000

8. Lease Obligations

The annual maturities of lease obligations subsequent to March 31, 2014 are summarized below:

Year ending March 31,	Millions of yen
2015	¥ 2,907
2016	2,285
2017	1,759
2018	1,095
2019	638
2020 and thereafter	715

9. Retirement Benefits

The Company and domestic consolidated subsidiaries have set up funded and unfunded defined benefit plans and defined contribution plans to provide for employees' retirement benefits. Under the defined benefit pension plans, which are funded, lump-sum payments or pensions are provided mainly based on the salary amounts and service periods. Under the lump-sum payment plans, which are unfunded, lump-sum payments are provided mainly based on the merit points acquired by the time of retirement.

Certain overseas consolidated subsidiaries have defined benefit plans and defined contribution plans to provide for employees' retirement benefits. Certain consolidated subsidiaries calculated liability for retirement benefits and retirement benefit expenses as for defined benefit pension plans and lump-sum payment plans, using by the simplified method. In addition, certain consolidated subsidiaries participate in multi-employer pension plans. Contributions made by certain consolidated subsidiaries to the multi-employer pension plans are expensed when paid in the event that the plan assets attributable to each participant cannot be reasonably determined.

Year ended March 31, 2014

(1) The changes in defined benefit obligation, excluding plans to which simplified methods are applied, for the year ended March 31, 2014 were as follows:

	Millions of yen
Retirement benefit obligations at beginning of year	¥ 131,436
Service cost	4,682
Interest cost	2,312
Actuarial gain	(661)
Retirement benefits paid	(6,331)
Prior service cost	(49)
Others	1,614
Retirement benefit obligations at end of year	¥ 133,002

Note: "Others" include principally foreign exchange translation adjustments.

(2) The changes in plan assets, excluding plans to which simplified methods are applied, for the year ended March 31, 2014 were as follows:

	Millions of yen
Plan assets at beginning of year	¥ 79,957
Expected return on plan assets	2,717
Actuarial gain	4,032
Contributions from the employer	6,805
Retirement benefits paid	(4,523)
Others	1,362
Plan assets at end of year	¥ 90,352

Note: "Others" include principally foreign exchange translation adjustments.

(3) The changes in liability for retirement benefits of the plans to which simplified methods are applied for the year ended March 31, 2014 were as follows:

	Millions of yen
Liability for retirement benefits at beginning of year	¥ 7,034
Retirement benefit expenses	2,519
Retirement benefits paid	(603)
Contributions to the plans	(2,273)
Liability for retirement benefits at end of year	¥ 6,676

(4) The balance of retirement benefit obligations and plan assets at fair value as of March 31, 2014, liabilities and assets recognized in the consolidated balance sheet were as follows:

	Millions of yen
Funded retirement benefit obligations	¥ 112,004
Plan assets at fair value	(94,843)
	17,160
Unfunded retirement benefit obligations	32,164
Net liability recognized in the consolidated balance sheet	49,325
Liability for retirement benefits	49,815
Asset for retirement benefits	490
Net liability recognized in the consolidated balance sheet	¥ 49,325

Note: Plans to which simplified methods are applied are included.

At March 31, 2014, accrued retirement benefits of ¥51,100 million reflected in the accompanying consolidated balance sheet included accrued retirement benefits for officers of ¥ 1,284 million.

(5) The components of retirement benefit expenses for the year ended March 31, 2014 were as follows:

	Millions of yen
Service cost	¥ 4,682
Interest cost	2,312
Expected return on plan assets	(2,717)
Amortization of actuarial (gain) loss	1,089
Amortization of prior service cost	(7)
Retirement benefit expenses calculated by simplified methods	2,465
Retirement benefit expenses	¥ 7,823

(6) Unrecognized prior service cost and unrecognized actuarial gain included in accumulated other comprehensive income (before tax effect) as of March 31, 2014 are as follows:

	Millions of yen
Unrecognized prior service cost	¥ 173
Unrecognized actuarial gain	(2,598)
Total	¥ (2,424)

(7) Plan assets, by major category, as a percentage of total plan assets as of March 31, 2014 are as follows:

Debt securities	39%
Equity securities	33%
General accounts at life insurance companies	17%
Cash and deposits	4%
Others	7%
Total	100%

The expected rate of return on plan assets is determined considering the allocation of the plan assets expected currently and in the future and the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) The assumptions used in accounting for the above plans were as follows:

Discount rate	1.6%
Expected long-term rates of return on plan assets	1.0%-3.5%

Multi-employer Pension Plans

The contribution to the multi-employer pension plans, which was expensed when paid, was ¥1,857 million.

(1) The most recent funded status related to multi-employer pension plans as of March 31, 2013 was as follows:

	Millions of yen
Plan assets	¥ 95,024
Benefit obligations calculated under pension financing	107,328
Unfunded obligations	¥ (12,303)

(2) Benefit obligations used calculated under pension financing of the Companies were approximately 20% to the multi-employer pension plans as of March 31, 2013.

Defined Contribution Plans

The Company and certain consolidated subsidiaries have defined contribution plans and the amount of the contribution was immaterial.

Year ended March 31, 2013

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 for the Companies' defined benefit pension plans:

	Millions of yen
Retirement benefit obligations at end of year	¥(140,386)
Fair value of plan assets at end of year	82,402
Unfunded retirement benefit obligations	(57,984)
Unrecognized actuarial loss	2,003
Unrecognized prior service cost	209
Net retirement benefit obligations	(55,771)
Prepaid pension cost	181
Accrued retirement benefits	¥ (55,952)

Certain consolidated subsidiaries calculate retirement benefit obligations by simplified methods.

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

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

	Millions of yen
Service cost	¥ 9,332
Interest cost	1,865
Expected return on plan assets	(2,038)
Amortization:	
Unrecognized actuarial loss	2,932
Prior service cost	42
Adjustment for retirement benefit obligations due	9,536
Retirement benefit expenses	¥ 21,670

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 year ended March 31, 2013 were as follows:

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

The most recent funded status related to multi-employer pension plans as of March 31, 2012 was as follows:

	Millions of yen
Plan assets	¥ 82,517
Benefit obligations calculated under pension financing	107,849
Unfunded obligations	¥ (25,332)

Benefit obligations calculation under pension financing of the Companies were approximately 20% to the multi-employer pension plans as of March 31, 2012.

10. 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 a statutory tax rate of approximately 37.8% for the years ended March 31, 2014 and 2013.

The effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2014 and 2013 differs from the above statutory tax rate for the following reasons:

	2014	2013
Statutory tax rate	37.8%	37.8%
Temporary differences arising from consolidation without tax effect	3.4	(8.7)
Income tax credit	(2.5)	(7.9)
Temporary differences of consolidated subsidiaries which do not recognize tax effect	3.9	5.6
Differences of tax rates for overseas consolidated subsidiaries	(2.3)	(0.7)
Other	1.2	3.7
Effective tax rate	41.5%	29.8%

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, 2014 and 2013 are summarized as follows:

	Millions of yen	
	2014	2013
Deferred tax assets:		
Liability for retirement benefits	¥ 17,245	¥ -
Accrued retirement benefits	-	20,352
Unrealized gain	6,819	5,956
Allowance for bonuses	6,042	5,768
Loss on devaluation of investments in securities	4,252	4,491
Loss on impairment of fixed assets and goodwill	2,183	1,677
Tax loss carry forwards	1,525	2,427
Accrued business tax	1,323	1,171
Other	10,369	10,015
Valuation allowance	(4,447)	(5,557)
Total deferred tax assets	45,314	46,302
Deferred tax liabilities:		
Unrealized holding gain on securities	(9,475)	(9,048)
Revaluation of investments in affiliates	(3,303)	(3,303)
Deferred capital gains on property	(2,811)	(2,913)
Adjustment for allowance for doubtful accounts	(12)	(29)
Other	(8,798)	(8,233)
Total deferred tax liabilities	(24,401)	(23,529)
Net deferred tax assets	¥ 20,913	¥ 22,773

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No.10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014.
As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 37.8% to 35.4% for the temporary differences expected to be realized to settled from fiscal years beginning April 1, 2014. The effect of this change in for the effective statutory tax rate on the accompanying consolidated financial statements for the year ended March 31, 2014 was immaterial.

11. 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, 2014 and 2013.

Stock-based compensation plan

In accordance with the Law, certain stock option plans (the 2008, 2009, 2010, 2011, 2012 and 2013 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, June 27, 2012 and June 26, 2013, respectively.

The stock option plans outlined above are summarized as follows:

	Number of stock options outstanding at March 31, 2014	Exercise price at March 31, 2014	Exercisable period
The 2008 plan	-	¥ 734	From July 1, 2010 up to and including June 30, 2013
The 2009 plan	192,000	579	From July 1, 2011 up to and including June 30, 2014
The 2010 plan	380,000	595	From July 1, 2012 up to and including June 30, 2015
The 2011 plan	765,000	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
The 2013 plan	1,195,000	1,136	From July 1, 2015 up to and including June 30, 2018

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

	The 2008 plan	The 2009 plan	The 2010 plan	The 2011 plan	The 2012 plan	The 2013 plan
Number of stock options:						
Balance at March 31, 2012	1,100,000	890,000	1,185,000	1,230,000	—	—
Granted	—	—	—	—	1,205,000	—
Cancelled	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	—
Granted	—	—	—	—	—	1,195,000
Cancelled	358,000	—	—	—	—	—
Exercised	420,000	395,000	365,000	455,000	—	—
Balance at March 31, 2014	—	192,000	380,000	765,000	1,200,000	1,195,000
Fair value of stock options as of the grant date	¥ 108	¥ 97	¥ 92	¥ 67	¥ 61	¥ 238

Common stock and treasury stock
Movements in common stock in issue and treasury stock for the years ended March 31, 2014 and 2013 are summarized as follows:

	Number of shares			
	2014			
	April 1, 2013	Increase	Decrease	March 31, 2014
Common stock	532,507,285	-	-	532,507,285
Treasury stock	16,223,314	8,749,431	1,635,038	23,337,707

	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

12. 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 as unrealized gain on land revaluation of ¥261 million and ¥260 million in the accompanying consolidated balance sheets at March 31, 2014 and 2013, respectively.

13. Contingent Liabilities

Contingent liabilities at March 31, 2014 and 2013 were as follows:

	Millions of yen	
	2014	2013
Guaranteed obligations		
Housing loans of customers	¥ 26,796	¥ 28,884
Housing loans of employees	271	365
Loans of unconsolidated subsidiaries	170	100

	Millions of yen	
	2014	2013
Notes receivable, trade with recourse		
Notes receivable, trade endorsed	¥ 588	¥ 783
Notes receivable, trade discounted	-	15

14. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen	
	2014	2013
Research and development costs	¥ 27,720	¥ 25,894

15. 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, 2014, the Companies have written down goodwill recognized at the time of acquisition of the IT field related business, 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 was difficult. As a result, the Companies recorded loss on impairment of goodwill under extraordinary loss in the amount of ¥5,335 million for the year ended March 31, 2014. The recoverable value was measured by the value in use method based on estimated future cash flows discounted at rates from 7% to 10% and, as a result, the value of goodwill was written down to zero.
In addition, the Companies have written down intangible assets recognized at the time of acquisition of the medicine testing business in the United States, 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 was difficult. As a result, the Companies recorded loss on impairment in the amount of ¥2,501 million for the year ended March 31, 2014. The recoverable value measured by the value in use method and their intangible assets were written down to zero as the amount of future cash flows were uncertain.

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 loss on impairment of goodwill under extraordinary loss 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 loss on impairment 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.

16. Other Comprehensive Income

The reclassification adjustments and tax effects for components of other comprehensive income for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen	
	2014	2013
Unrealized holding gain on securities:		
Amount arising during the year	¥ 1,302	¥ 37,147
Reclassification adjustments for (loss) gain realized in net income	(24)	1,455
Before tax effect	1,277	38,603
Tax effects	(323)	(13,503)
Total unrealized holding gain on securities	¥ 954	¥ 25,099
Deferred (loss) gain on hedges:		
Amount arising during the year	(40)	63
Translation adjustments:		
Amount arising during the year	14,389	20,805
Comprehensive income of affiliates accounted for by the equity method attributable to the Company:		
Amount arising during the year	277	250
Reclassification adjustments for losses realized in net income	(5)	(3)
Total comprehensive income of affiliates accounted for by the equity method attributable to the Company	272	247
Total other comprehensive income	¥ 15,576	¥ 46,215

17. 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, 2014 and 2013 are presented as follows:

	Millions of yen	
	2014	2013
Cash and deposits	¥107,673	¥91,132
Time deposits with maturities in excess of three months	(56,425)	(32,500)
Cash and cash equivalents	¥51,248	¥58,631

Non cash financing activities

Finance lease obligations of ¥4,767 million and ¥4,181 million were incurred during the years ended March 31, 2014 and 2013, respectively.

18. Related Party Transactions

There were no balances or transactions to be disclosed as of March 31, 2014 and for the year then ended.

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.

19. 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 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 seven years and eight months, at the longest, subsequent to March 31, 2014. 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 20 Derivatives of the notes to 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, 2014 and 2013 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, 2014:

	Millions of yen		
	Carrying value	Estimated fair value	Difference
Cash and deposits	¥ 107,673	¥ 107,673	¥ -
Notes and accounts receivable, trade	192,234	192,234	-
Marketable securities and investments in securities	136,428	131,235	(5,192)
Total	¥ 436,336	¥ 431,144	¥ (5,192)
Notes and accounts payable, trade and electronically recorded obligations	¥ (148,835)	¥ (148,835)	¥ -
Short-term debt	(23,242)	(23,242)	-
Long-term debt, including current portion	(41,363)	(41,441)	78
Bonds, including current portion	(20,000)	(20,081)	81
Total	¥ (233,441)	¥ (233,600)	¥ 159

Estimated 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, including current portion	(20,000)	(20,245)	245
Total	¥ (245,406)	¥ (245,856)	¥ 450

(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 5 Marketable Securities and Investments in Securities.

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, including current portion
The fair value of bonds issued by the Company is the quoted market price.

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

	Millions of yen	
	2014	2013
Unlisted equity securities	¥ 15,296	¥ 12,951

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, 2014 and 2013:

Maturity analysis at March 31, 2014:

	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	¥ 107,673	¥ -	¥ -	¥ -
Notes and accounts receivable, trade	192,234	-	-	-
Marketable securities and investments in securities				
Held-to-maturity debt securities	0	9	-	-
Total	¥ 299,908	¥ 9	¥ -	¥ -

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	¥ -	¥ -

(4) The redemption schedule for long-term debt and bonds is disclosed in Note 7 Short-Term Debt, Bonds and Long-Term Debt.

20. 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, 2014 and 2013:

1. Derivatives for which hedge accounting is not applied

(1) Currency-related transactions

	Millions of yen					
	2014			2013		
	Notional amount	Fair value	Unrealized loss	Notional amount	Fair value	Unrealized loss
Over-the-counter transactions						
Forward foreign exchange contracts:						
Buy: U.S. dollars	¥ 152	¥ (2)	¥ (2)	¥ 4,013	¥ (25)	¥ (25)
Foreign currency swaps:						
Receive fixed – U.S. dollars/ pay fixed – yen	7,271	(52)	(52)	3,127	(254)	(254)
Receive fixed–S.G. dollars/ pay fixed– yen	432	(19)	(19)	-	-	-
Total	¥ 7,856	¥ (74)	¥ (74)	¥ 7,141	¥ (280)	¥ (280)

The notional amount of receive fixed – U.S. dollars / pay fixed – yen includes portions over 1 year of ¥3,457 million and ¥313 million at March 31, 2014 and 2013, respectively.

2. Derivatives for which hedge accounting is applied

(1) Currency-related transactions

	Millions of yen		
	2014		
	Hedged item	Notional amount	Fair value
Forward foreign exchange contracts:			
Buy: U.S. dollars	Accounts payable	¥ 808	¥ 7
Buy: Euro		1	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		
	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.

(2) Interest-related transactions

	Millions of yen		
	2014		
	Hedged item	Notional amount	Fair Value
Interest-rate swap: Receive/floating and pay/fixed	Long-term debt	¥ 7,200	(*)
Total		¥ 7,200	

	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	

(*): 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 ¥3,325 million and ¥7,200 million at March 31, 2014 and 2013, respectively.

21. Amounts Per Share

	Yen	
	2014	2013
Net income:		
Basic	¥ 80.13	¥ 58.53
Diluted	79.94	58.50
Cash dividends	23.00	18.00
Net assets	897.18	810.76

As noted in Note 3 Change in Accounting Policies, the Company has applied the Accounting Standard for Retirement Benefits and the provisional treatment set out in Clause 37 of the ASBJ Standard. As a result, net assets per share increased by ¥2.88 as of March 31, 2014.

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.

22. 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, 2014 and 2013. 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, 2014 and 2013 is summarized as follows:

	Millions of yen					
	2014					
	Reportable segments					
	Housing	Urban infrastructure and environmental products	High performance plastics	Total	Other (*1)	Consolidated
Sales:						
Sales to third parties	¥ 496,679	¥ 226,933	¥ 347,085	¥ 1,070,697	¥ 40,153	¥ 1,110,851
Intersegment sales or transfers	111	13,008	6,696	19,816	3,646	23,462
Net sales	496,790	239,941	353,782	1,090,514	43,799	1,134,313
Segment income (loss)	¥ 41,108	¥ 6,460	¥ 36,098	¥ 83,668	¥ (778)	¥ 82,889
Segment assets	¥ 256,121	¥ 200,277	¥ 341,171	¥ 797,569	¥ 40,940	¥ 838,510
Other items:						
Depreciation and amortization (*2)	7,722	6,083	18,405	32,210	1,534	33,745
Investment in affiliates accounted for by the equity method	7,385	-	-	7,385	-	7,385
Increase in property, plant and equipment, and intangible assets (*2)	11,142	10,473	17,645	39,262	1,468	40,730

	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

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

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, 2014 and 2013

	Millions of yen	
	2014	2013
Net sales:		
Total of reportable segments	¥ 1,090,514	¥ 1,015,570
Other net sales	43,799	40,492
Eliminations	(23,462)	(23,632)
Net sales	¥ 1,110,851	¥ 1,032,431

	Millions of yen	
	2014	2013
Income:		
Total of reportable segments	¥ 83,668	¥ 61,384
Other loss	(778)	(1,287)
Eliminations	1,103	551
Corporate expenses (*1)	(1,451)	(1,026)
Operating income	¥ 82,541	¥ 59,621

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

Assets at March 31, 2014 and 2013

	Millions of yen	
	2014	2013
Assets:		
Total of reportable segments	¥ 797,569	¥ 740,852
Assets classified as "other"	40,940	41,432
Eliminations	(111,138)	(107,125)
Corporate assets (*1)	233,637	226,405
Total assets	¥ 961,009	¥ 901,564

(*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, 2014 and 2013

	Millions of yen			
	2014			
	Reporting segments	Others	Adjustments (*1)	Consolidated
Other items:				
Depreciation and amortization	¥ 32,210	¥ 1,534	¥ 631	¥ 34,376
Investments in affiliates accounted for by the equity method	7,385	-	25,614	33,000
Increase in property, plant and equipment, and intangible assets	39,262	1,468	1,097	41,827

	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

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

5. Related information

(1) Sales information by geographic area

Overseas net sales by geographical areas for the years ended March 31, 2014 and 2013 is as follows:

	Millions of yen					
	2014					
	Japan	America	Europe	Asia	Other	Total
Net sales	¥ 851,377	¥ 77,959	¥ 67,006	¥ 104,264	¥ 10,242	¥ 1,110,851

	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

(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, 2014 and 2013 is as follows:

	Millions of yen					
	2014					
	Japan	America	Europe	Asia	Other	Total
Property, plant and equipment, net	¥ 176,842	¥ 19,231	¥ 24,045	¥ 29,859	¥ 2,073	¥ 252,051

	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

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, 2014 and 2013 is as follows.

	Millions of yen					
	2014					
	Housing	Urban infrastructure and environmental products	High performance plastics	Other	Elimination or unallocable accounts	Total
Loss on impairment of fixed assets and goodwill	¥ 434	¥ 1,370	¥ 7,837	¥ -	¥ -	¥ 9,642

	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

7. Amortization and balance of goodwill

Information on amortization of goodwill by each segment and its remaining balance for the years ended March 31, 2014 and 2013 is summarized as follows:

	Millions of yen					
	2014					
	Housing	Urban infrastructure and environmental products	High performance plastics	Other	Elimination or unallocable accounts	Total
Amortization of goodwill	¥ -	¥ 321	¥ 2,636	¥ (0)	¥ -	¥ 2,957
Balance at March 31, 2014	-	1,338	11,555	-	-	12,893

	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

23. 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, 2014, was proposed by the Board of Directors at the meeting held on May 15, 2014. The distribution proposed is subject to approval by the shareholders at the meeting to be held on June 26, 2014.

	Millions of yen
Year-end cash dividends (¥12.0 per share)	¥ 6,114

Ernst & Young ShinNihon LLC

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, 2014, 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, 2014, 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 13, 2014
Osaka, Japan