Review and Analysis of Consolidated Results for Fiscal Year 2014

Year ended March 31, 2015

Business Environment

The global economy moved in a general recovery centered on the United States in the year under review amid slower growth in China and some emerging countries. In the United States, GDP retracted in the January-March 2014 quarter due to heavy snowfall and cold weather but steadily recovered in the April-June quarter led by improving private consumption. The recovery trend became more pronounced in other developed countries as well, excluding Japan, where GDP shrank in the April-June and July-September quarters following the consumption tax increase.

Growth continued in developing countries although at a slower pace. China's pace of economic expansion slowed from rapid investment-dependent growth to a "new normal" of slower growth following a policy shift toward promoting structural reform aimed at future sustainable growth. India's economy showed signs it is beginning to recover, while Brazil fell into negative growth in fiscal year 2014. The ongoing decline in crude oil prices supported manufacturing and private consumption in oil-importing countries but began squeezing some oil-exporting countries in the second half of the fiscal year.

The Japanese economy was strongly affected in fiscal year 2014 by the consumption tax hike, which caused private consumption to fluctuate widely from the surge in demand from autumn 2013 before the hike followed by a fallback. Unseasonal weather further suppressed demand in summer, putting temporary downward pressure on business conditions. However, improving employment, income, and other factors have supported gradual recovery in Japan since the October-December quarter.

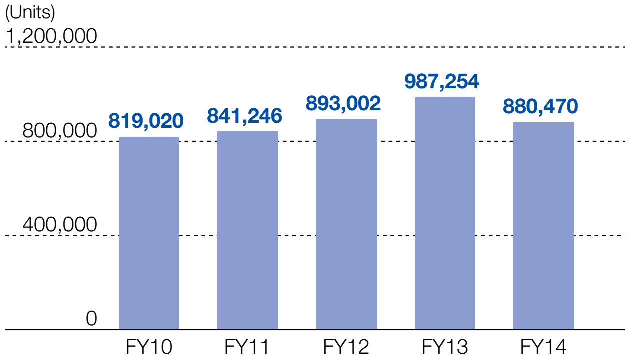
At the business field level, we note housing market conditions in Japan were affected by the demand fallback from the second half of fiscal year 2013 following rush demand ahead of the consumption tax hike. With low demand persisting in fiscal year 2014, new housing starts fell 10.8% year on year to 880,470 units, marking the first downturn in five years.

The water infrastructure field, which includes PVC piping materials, also confronted adverse conditions on weaker demand from segments such as privately owned homes, condominiums, and others and the sharp rise in construction labor costs triggered a slump in public works tenders.

Overseas conditions were generally favorable for all business segments. Demand in the electronics field, other than some brief fluctuations, steadily expanded led by demand for products used in mobile devices. Demand in the automobiles and transportation field also grew, supported by brisk automobile production, particularly in the United States and China.

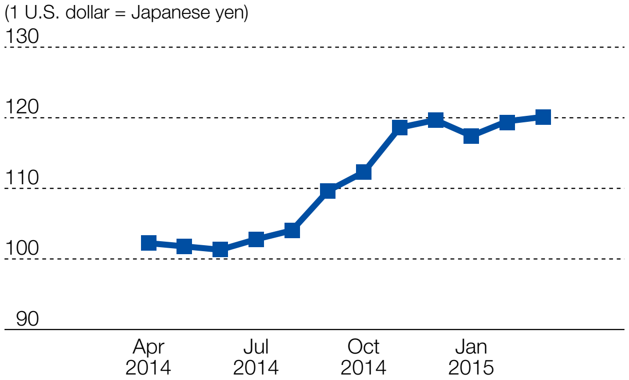
Overseas business results benefited from the correction to the strong yen, which was in part supported by Bank of Japan monetary easing measures. The fiscal year 2014 foreign exchange rates were ¥110 to the U.S. dollar and ¥139 to the euro.

Housing starts



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

Exchange rate



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

Analysis of Business Results and Financial Position

1. Analysis of Business Results for Fiscal Year 2014

1) Net sales

Net sales in fiscal year 2014 amounted to ¥1,112,748 million, an increase of ¥1,897 million or 0.2% from the previous fiscal year.

Housing Company net sales amounted to ¥494,116 million, representing a decrease of ¥2,673 million or 0.5% from the previous fiscal year. The Housing Company's new housing construction business focused on promoting sales of the Smart Power Station series of homes with upgraded energy creation, conservation, and storage features. The Living Environment business strengthened its sales proposal capabilities in the volume zone of existing Sekisui Heim stock aged 15 to 25 years and implemented measures to expand sales of its kitchen, bathroom, and other mainstay products as well as its solar power generation systems, storage batteries, and other products and equipment related to smart houses.

The UIEP Company posted net sales of ¥227,689 million, a decline of ¥12,252 million or 5.1% from the previous fiscal year. The company's domestic business results were affected by the impact of the consumption tax hike in the housing, construction, and other private demand segments as well as restrained purchasing in anticipation of declining raw material prices. Public sector sales also declined from the slump in public works tenders and delayed construction starts. The company's overseas business generated solid sales growth led by strong sheet business sales to the aircraft industry, but the contribution was unable to cover the drop in domestic sales.

The HPP Company recorded net sales of ¥372,296 million, an increase of ¥18,514 million or 5.2% from the previous fiscal year. The company raised sales in the electronics field on solid demand for products used in smartphones, tablet computers, and other mobile devices and on sales growth for double-faced tape and liquid-crystal chemical products, including fine particles and sealant. In the automobiles and transportation field, high-performance products drove sales growth fueled by stable demand in the United States and China. Building and infrastructure field results were boosted by growing sales of CPVC resins in India and the Middle East and fire-resistant materials in Japan. In the life sciences field, the company steadily expanded the diagnostic reagent business, which is the foundation of the equipment business, both in Japan and overseas.

Net sales in Other Businesses in fiscal year 2014 amounted to ¥38,906 million, a decrease of ¥4,893 million or 11.2% from the previous fiscal year.

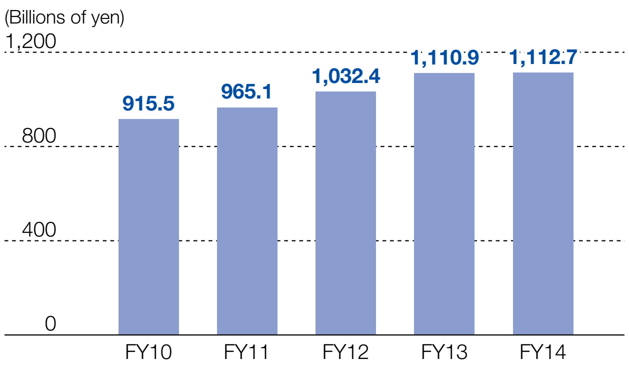
2) Operating income

Operating income in fiscal year 2014 amounted to ¥85,764 million, an increase of ¥3,222 million or 3.9% from the previous fiscal year. The growth was largely due to a ¥1,519 million increase in gross profit accompanying the rise in sales and a ¥1,702 million decline in selling, general and administrative expenses.

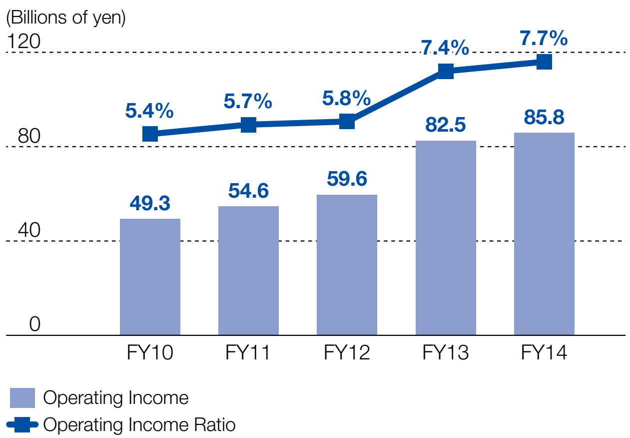
3) Non-operating income and expenses

Non-operating income increased ¥4,651 million from the previous fiscal year, largely owing to increases of ¥1,006 million in dividend income and a ¥4,121 million increase in foreign exchange gain. Non-operating expenses rose

Net Sales



Operating Income and Operating Income Ratio



¥3,179 million from the previous fiscal year, primarily owing to a ¥3,205 million increase in expenses for exterior wall inspections and maintenance.

4) Extraordinary income and loss

The Company recorded extraordinary income of ¥5,084 million from gain on sales of investments in securities. The Company recorded an extraordinary loss of ¥8,830 million, a decrease of ¥2,053 million or 18.9% from the previous fiscal year, comprising a ¥7,123 million loss on impairment of fixed assets and goodwill and a ¥1,707 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 2014 increased ¥11,805 million from the previous fiscal year to ¥84,232 million. After taxes and minority interests, net income amounted to ¥52,995 million, an increase of ¥11,804 million or 28.7% from the previous fiscal year.

2. Financial Position

1) Assets, liabilities, and net assets

Total assets at the end of fiscal year 2014 amounted to ¥968,011 million, an increase of ¥7,001 million from the previous fiscal year-end.

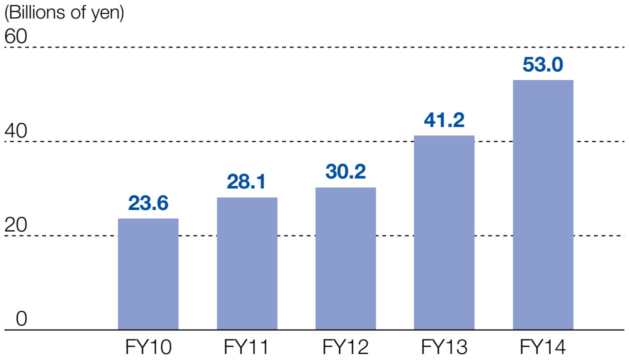
(Assets)

Current assets declined ¥28,496 million from the previous fiscal year to ¥466,164 million at the end of fiscal year 2014. The main factor was a ¥20,504 million decrease in cash and deposits. Non-current assets increased by ¥35,498 million to ¥501,847 million.

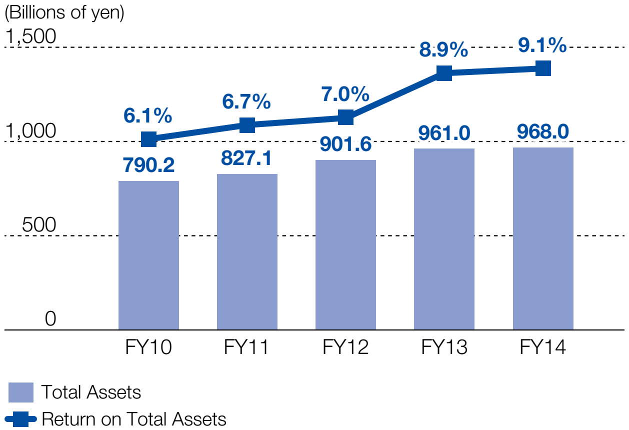
(Liabilities)

Liabilities declined ¥54,736 million year on year to ¥432,718 million at the end of fiscal year 2014. The main elements were decreases of a combined ¥8,673 million in notes payable, electronically recorded obligations, accounts payable, and accrued expenses, ¥5,101 million in accrued income taxes and other taxes, and ¥14,160 million in advances received along with a decrease of ¥30,889 million in interest-bearing debt.

Net Income

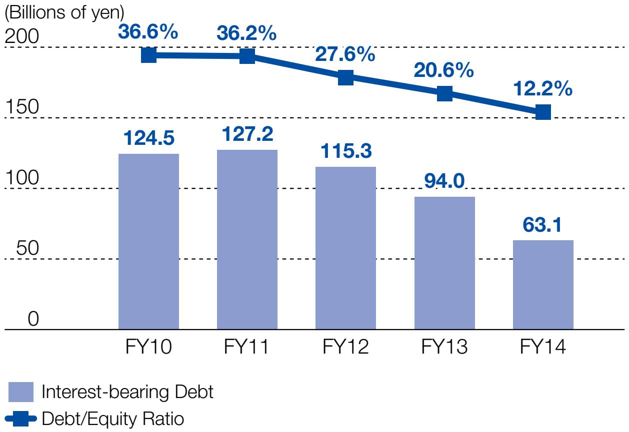


Total Assets and Return on Total Assets



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

Interest-bearing Debt and Debt/Equity Ratio



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

(Net assets)

Net assets amounted to ¥535,292 million at the end of fiscal year 2014, an increase of ¥61,737 million from the previous fiscal year-end. The main factors were a ¥25,015 million increase in retained earnings (including the cumulative effect from the change in accounting policy) due largely to an increase of ¥52,995 million in net income, and a decrease of ¥12,745 million from dividend payments. Yen depreciation led to an upward translation adjustments of ¥9,458 million.

2) Cash flows

Cash and cash equivalents on a consolidated basis (hereinafter “funds”) amounted to ¥62,780 million at the end of fiscal year 2014, an increase of ¥11,532 million or 22.5% from the end of fiscal year 2013. Factors influencing the fiscal year 2014 cash flow accounts were as follows.

(Operating activities)

Funds from operating activities amounted to ¥67,760 million in fiscal year 2014, a decrease of ¥29,960 million from the previous fiscal year. Factors increasing cash flow from operating activities included ¥84,232 million in income before income taxes and minority interests and ¥31,203 million in depreciation and amortization. Factors drawing from cash flow included ¥33,538 million in income taxes paid and a ¥14,552 million decrease in accounts payable.

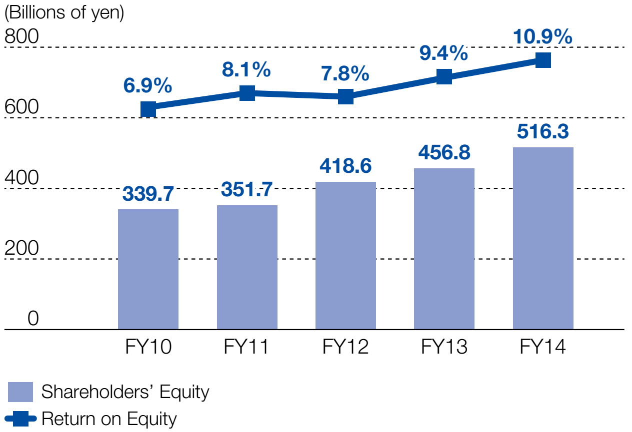
(Investing activities)

Funds from investing activities amounted to ¥4,127 million in fiscal year 2014, compared with a cash outflow of ¥60,914 million in the previous fiscal year. The cash inflow was primarily due to ¥16,789 million in proceeds from the sale of investment securities, which included a portion of shareholdings in Sekisui House, Ltd., and a ¥32,015 million net decrease in time deposits. Cash outflow primarily comprised ¥34,602 million to acquire property, plant, and equipment focused on priority and growth fields, and ¥5,983 million for investments in securities, including the acquisition of subsidiary shares.

(Financing activities)

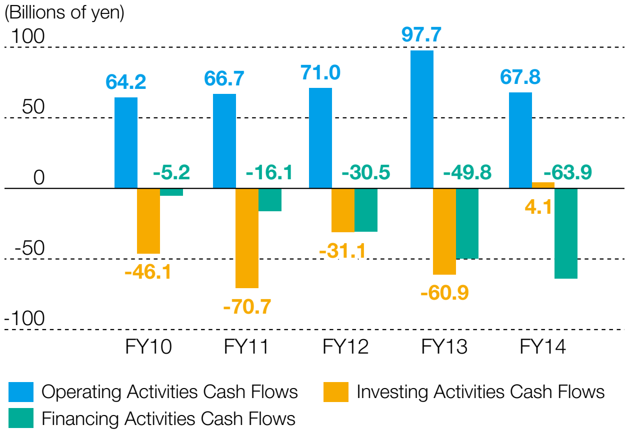
Funds used in financing activities amounted to ¥63,856 million in fiscal year 2014, compared with a cash outflow of ¥49,803 million in the previous fiscal year. The cash outflow was largely due to ¥15,024 million utilized to acquire treasury stock, ¥13,078 million in dividend payments (including dividends paid to minority shareholders), and a net decrease of ¥36,780 million in interest-bearing debt.

Shareholders’ Equity and Return on Equity

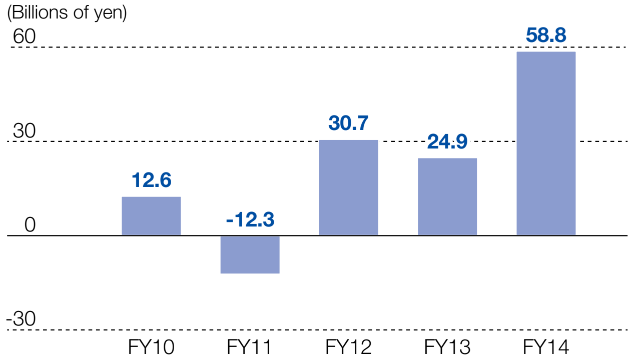


* Return on Equity = Net Income/Average Shareholders’ Equity

Cash Flows



Free Cash Flow



* 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 2014.

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) Electronics Market Trends

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

6) Trends in Public Works

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

7) Industrial Accidents and Disasters

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

8) Intellectual Property and Product Liability

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