Review and Analysis of Consolidated Results for Fiscal 2015

Fiscal year ended March 31, 2016

Business Environment

During fiscal 2015, trends in the global economy were mixed. Throughout 2014, economic growth in most developed countries stalled following the worldwide financial crisis. In contrast, emerging markets including China and Asia as well as such resource-rich countries as Brazil and Russia provided the impetus for a recovery. Entering 2015, the table was reversed. Economic conditions in the United States enjoyed a positive turnaround. The slowdown in the rate of economic growth in China, however, placed downward pressure on the economies of emerging markets in Asia. Accounting for these factors, the global economy as a whole was held to a modest recovery. Over the ensuing period, economic conditions throughout the world as a whole have remained subdued with the outlook for the future shrouded in uncertainty. This largely reflects the downside risk of a prolonged slowdown in the economies of China and resource-rich countries.

Turning to the domestic economy, Japan has been unable to break free from the market correction that following the rush in demand prior to the consumption tax rate hike. As a result, private consumption has remained weak since autumn 2013. On a positive note, export activity by the manufacturing industry including the automobile and electric appliance sectors has been robust, buoyed by the favorable flow on effects of movements in foreign currency exchange rates and in particular depreciation in the value of yen compared with fiscal 2014. Accounting for these factors, the underlying strengths of the corporate sector has remained intact.

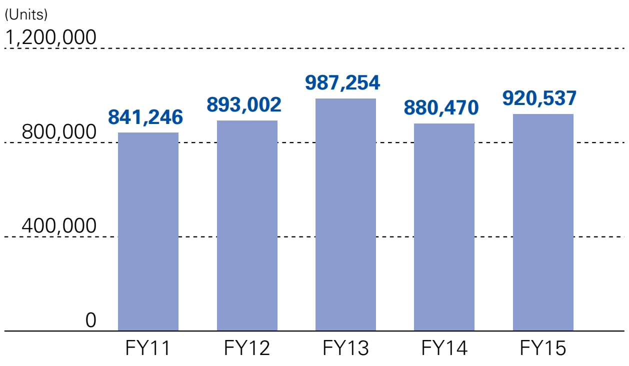
Looking at the market environment from each of the Company's individual business segment perspectives, the housing business field in Japan enjoyed a gradual improvement in new housing starts following the market correction in the wake of the rush in demand leading up to Japan's consumption tax rate hike. As a result, the number of construction starts in fiscal 2015 rebounded after a hiatus of two business terms and increased 4.6% to 920,537 units.

Trends in the Water Infrastructure field, which includes PVC piping materials, were also relatively firm. This was largely due to new condominium construction starts, which experienced a positive turnaround for the first time in three business terms. Overall trends remained relatively firm. Meanwhile, construction labor costs continued to hover at a high level. As a result, demand for public works continued to languish at a low level.

Overseas business conditions by industry were patchy. In the Electronics field, demand stalled negatively impacting the pace of smartphone growth, which had driven market in recent years. In the Automobiles and Transportation fields, trends in the mainstay automobile market in the United States were firm despite signs of stagnant conditions in certain developing countries. Turning to the Life science field, which in relative terms is less affected by movements in economic conditions, demand for diagnostic reagents in emerging markets grew in line with the upswing in living standards. At the same time, demand in developed countries was generally stable.

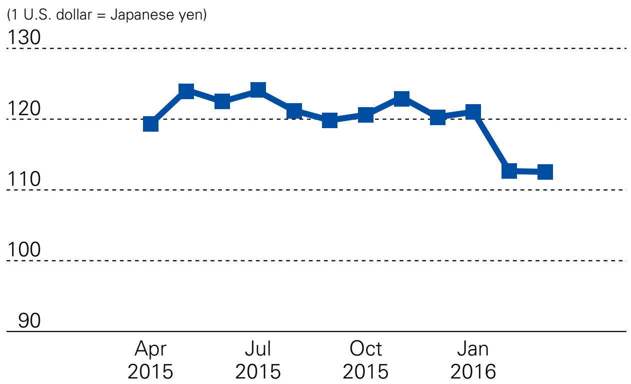
As far as foreign currency exchange rates are concerned, the yen/U.S. dollar rate which continued to hover around ¥120 throughout 2015, saw a sudden and rapid rise in the value of the yen entering 2016. As of March 31, 2016, the value of the yen had appreciated to the ¥112 level. Taking into consideration the annual average foreign currency exchange rates of ¥120 to the U.S. dollar and ¥133 to the euro in fiscal 2015, the value of the yen to the U.S. dollar has depreciated around ¥10 compared with the previous fiscal year.

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 2015

(1) Net sales

Net sales in fiscal 2015 came to ¥1,096,317 million, a decrease of ¥16,430 million, or 1.5%, compared with the previous fiscal year.

Of this total, the Housing Company accounted for ¥473,441 million, down 4.2%. In the fiscal year under review, sales and profit declined. This was largely due to the drop off in the market in fiscal 2014, which led to a downturn in the order backlog at the start of the term. Sales in the second half, however, were improved to even with the corresponding period of the previous fiscal year. As a result, the Housing Company experienced an improvement in profit. In the Housing Company's new housing construction business, the number of orders was unchanged compared with the previous fiscal year. Despite steady trends in built-for-sale housing orders, this result was mainly due to the substantial drop off in orders for detached houses in the first half of fiscal 2015.

Under these circumstances, the Housing Company focused its efforts on promoting the Smart Power Station series of homes that answer the market's calls for integrated solar power generation systems and storage batteries. Over and above increasing sales through the launch of the new wood-frame GRAND TO YOU f series, which in addition to complying with the Net Zero Energy House (ZEH) standards offers superior energy efficiency at a low cost, steps were taken to strengthen built-for-sale housing activities. For its part, the Living Environment business worked to bolster points of contact with customers through periodic diagnoses. At the same time, energies were directed toward rolling out original renovation menus that help to improve the thermal environments of homes.

The UIEP Company posted net sales of ¥226,279 million in fiscal 2015. This was 0.6% lower than the amount recorded in fiscal 2014. The company's domestic business sales were essentially unchanged from the previous fiscal year. This largely reflected inventory adjustments by distributors in line with restrained shipments in the Pipeline Rehabilitation business and efforts to standardize shipments of general products. In the fiscal year under review, the UIEP Company took steps to reorganize its overall structure. Rather than focus on business fields, the company transitioned to a structure that is based on products. In addition to strengthening profit management by product, considerable weight was also placed on increasing the profitability of general products. While the company's overseas business struggled under the burden of expenses attributable to structural reforms implemented in the Pipeline Rehabilitation business in the United States as well as the deterioration in market conditions in the Water Infrastructure business in China, every effort was made to promote drastic structural reforms including the transfer of the Pipeline Rehabilitation business in Europe.

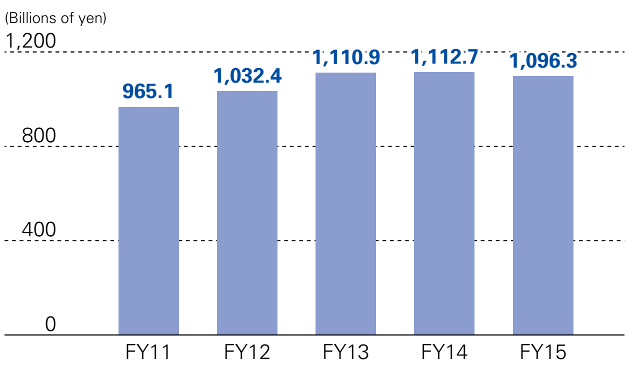
Net sales in the HPP Company amounted to ¥378,552 million in fiscal 2015, an increase of 1.7% compared with the previous fiscal year. Despite difficult conditions in the Electronics field, the HPP Company reported a fourth consecutive fiscal year of increased sales and profit due mainly to profit growth in the three Automobiles and Transportation, Building and Infrastructure, and Life Science fields. In specific terms, sales of liquid-crystal materials including fine particles and sealants as well as double-sided tapes and other products declined. This was mainly due to the impact of adjustments in the production of such mobile devices as smartphones and tablets reflecting the downturn in the pace of economic growth in China and other factors in the Electronics field. In the Automobiles and Transportation field, results were positively affected by such factors as stable overseas demand and especially Europe and the United States. As a result, sales of high-performance products were particularly high. In the Building and Infrastructure field, construction work was completed on facilities in Thailand. In the fiscal year under review, operations at a chlorinated polyvinyl chloride (CPVC) resin factory and a resin compound factory commenced in earnest. Focusing mainly on diagnostic reagents and testing equipment, net sales in the life science field increased substantially in Japan and overseas.

Net sales in Other Businesses in fiscal 2015 declined 1.6% compared with the previous fiscal year, to ¥38,300 million.

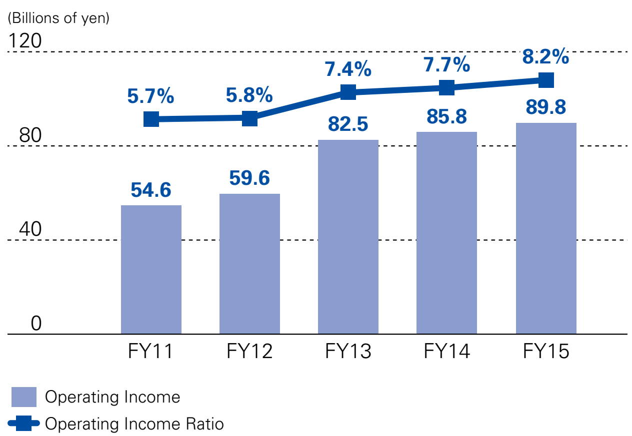
(2) Operating income

Operating income in fiscal 2015 amounted to ¥89,823 million, an increase of ¥4,058 million, or 4.7%, compared with the previous fiscal year.

Net Sales



Operating Income and Operating Income Ratio



(3) Non-operating income and expenses

Non-operating income decreased ¥8,763 million compared with the previous fiscal year. In addition to the absence of the foreign exchange gain posted in the previous fiscal year, this decrease was mainly attributable to the drop in dividend income of ¥309 million. Non-operating expenses increased ¥2,059 million compared with the previous fiscal year, primarily owing to a ¥3,155 million increase in foreign exchange loss.

(4) Extraordinary income and loss

The Company recorded a gain on sales of investments in securities of ¥10,769 million as extraordinary income in the fiscal year under review. The Company also incurred various extraordinary losses including a loss on transfer of business totaling ¥6,638 million, the provision for loss on transfer of business of ¥3,241 million, a loss on impairment of fixed assets and goodwill of ¥2,313 million, and a loss on sales or disposal of property, plant and equipment of ¥1,838 million. As a result, the Company posted a total extraordinary loss of ¥14,032 million, up ¥5,201 million, or 58.9%, compared with the previous fiscal year.

(5) Net income attributable to owners of parent

Accounting for each of these factors, income before income taxes came to ¥77,950 million, a decrease of ¥6,281 million compared with the previous fiscal year. After deducting taxes and net income attributable to non-controlling interests, net income attributable to owners of parent came in at ¥56,653 million, up ¥3,658 million, or 6.9%, compared with the previous fiscal year. Effective from the fiscal year under review, the Company has adopted the Accounting Standard for Business Combinations (Accounting Standards Board of Japan (ASBJ) Statement No. 21 issued on September 13, 2013) and reclassified net income as net income attributable to owners of parent.

2. Financial Position

(1) Assets, liabilities, and net assets

Total assets as of March 31, 2016 stood at ¥936,043 million, a decrease of ¥31,967 million compared with the end of the previous fiscal year.

(Assets)

Current assets stood at ¥434,513 million as of the end of fiscal 2015, ¥31,651 million lower than the balance as of the previous fiscal year-end. The main factor was a ¥19,162 million decrease in the balance of cash and deposits. Non-current assets declined ¥316 million to ¥501,530 million.

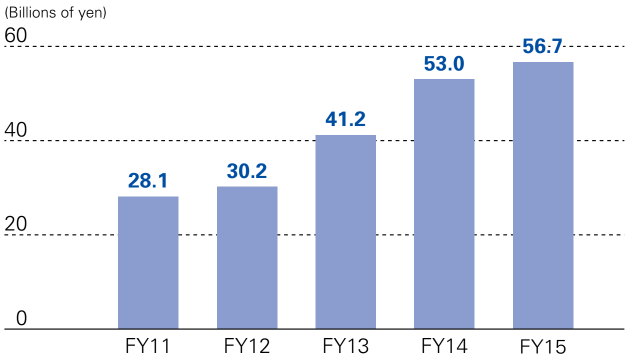
(Liabilities)

Liabilities declined ¥40,831 million year on year to ¥391,887 million as of the end of fiscal 2015. The main components were decreases of a combined ¥8,939 million in notes payable, electronically recorded obligations, accounts payable, and accrued expenses, ¥7,498 million in accrued income taxes and other taxes, and ¥2,669 million in advances received along with a decrease of ¥10,782 million in interest-bearing debt.

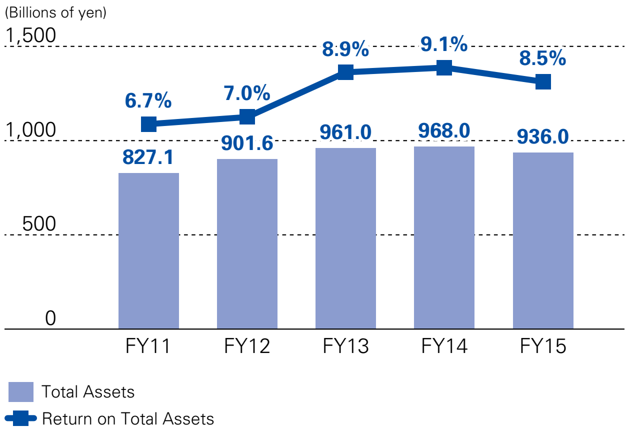
(Net assets)

Net assets stood at ¥544,156 million as of the end of fiscal 2015, an increase of ¥8,863 million compared with

Net Income Attributable to Owners of Parent

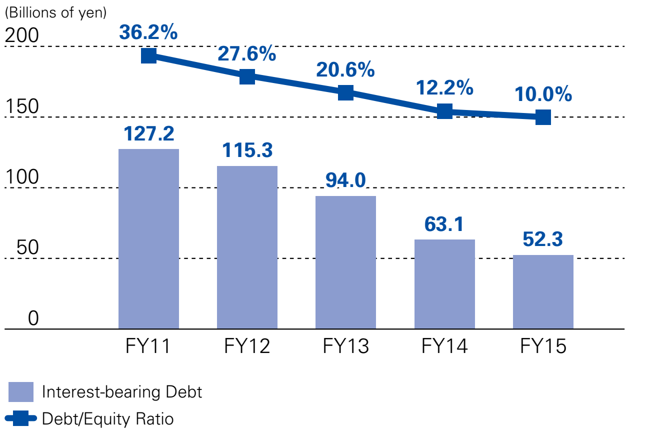


Total Assets and Return on Total Assets



Return on Total Assets = Ordinary Income/Average Total Assets

Interest-bearing Debt and Debt/Equity Ratio



Debt/Equity Ratio = Interest-bearing Debt/Shareholders' Equity the previous fiscal year-end. The main factors were a ¥30,413 million increase in retained earnings due largely to net income attributable to owners of parent of ¥56,653 million and a decrease of ¥13,836 million from dividend payments. Appreciation in the value of the yen led to downward translation adjustments of ¥10,600 million.

(2) Cash flows

Cash and cash equivalents on a consolidated basis amounted to ¥67,104 million as of the end of fiscal 2015, an increase of ¥4,323 million compared with the end of the previous fiscal year.

Factors influencing fiscal 2015 cash flow accounts were as follows.

(Operating activities)

Net cash provided by operating activities came to ¥71,389 million, up from ¥67,760 million compared with the previous fiscal year. This increase in net cash provided by operating activities was largely because principal cash outflows, which included income taxes paid of ¥30,707 million and decrease in deposits of ¥10,801 million were more than offset by major cash inflows, which comprised income before income taxes of ¥77,950 million, depreciation and amortization of ¥34,735 million, and loss on transfer of business of ¥6,638 million.

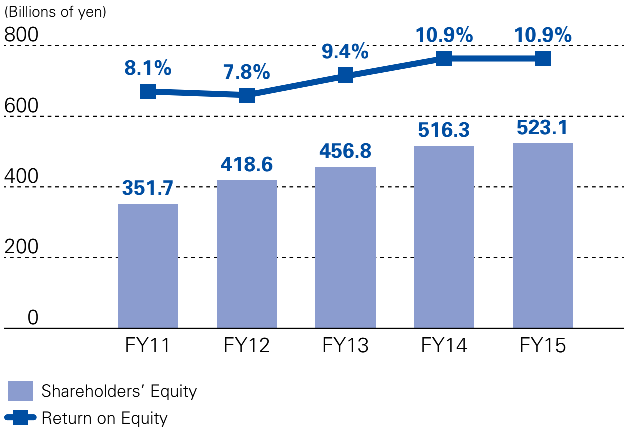
(Investing activities)

Net cash used in investing activities totaled ¥23,715 million in fiscal 2015. This was compared with net cash provided by investing activities of ¥4,127 million in fiscal 2014. Major cash inflows came from proceeds from sales or redemption of investments in securities of ¥21,408 million, which included a portion of shareholders in Sekisui House, Ltd., and a ¥23,412 million net decrease in time deposits. Cash outflows primarily comprised ¥39,444 million for purchases of property, plant and equipment focused on priority and growth fields, ¥12,232 million for the acquisition of investments in a subsidiary resulting in change in scope of consolidation following the purchase of shares of EIDIA Co., Ltd., a company which engages in the manufacture and sale of clinical diagnostic reagents, and its inclusion in the Company's scope of consolidation as a subsidiary company, and ¥8,314 million for purchases of investments in securities.

(Financing activities)

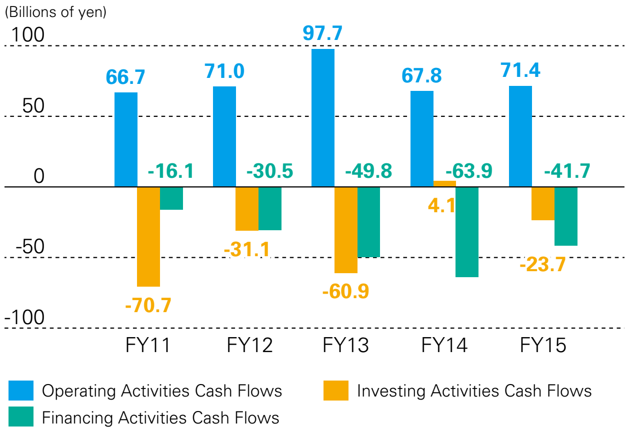
Net cash used in financing activities amounted to ¥41,726 million compared with ¥63,856 million for the previous fiscal year. The principal cash outflows comprised ¥16,783 million for purchases of treasury stock, ¥14,299 million for cash dividends paid including cash dividends paid to noncontrolling shareholders of consolidated subsidiaries, and a net decrease in interest-bearing debt of ¥11,360 million.

Shareholders' Equity and Return on Equity

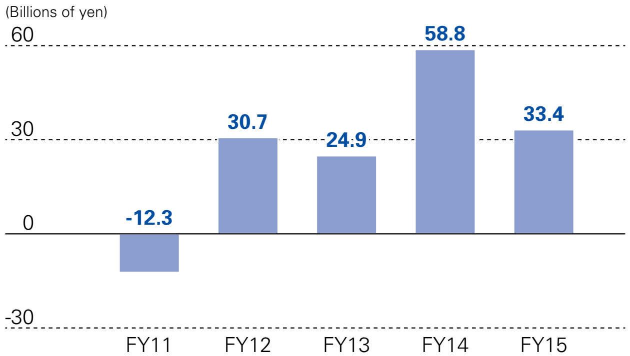


*Return on Equity = Net income attributable to owners of parent/Average Shareholders' Equity

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 2015.

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.