

# Financial Reports

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**Financial Highlights (6 years)**

	Millions of yen					
	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
<b>Achievement Transition</b>						
Net Sales	856,935	885,067	926,163	958,674	934,225	858,514
Operating Income	36,445	40,287	45,157	43,005	33,589	35,955
Ordinary Income	37,986	43,801	46,910	38,547	29,438	31,076
Net Income	22,286	20,229	25,538	24,300	1,013	11,627
<b>Operating Income Ratio (%)</b>	<b>4.3</b>	<b>4.6</b>	<b>4.9</b>	<b>4.5</b>	<b>3.6</b>	<b>4.2</b>
<b>Assets, Liabilities and Equity</b>						
Total Assets	748,798	808,357	879,153	782,859	756,450	787,261
Shareholders' Equity	317,857	387,458	413,141	368,919	330,721	351,706
Shareholders' Equity to Total Assets (%)	41.4	46.7	45.9	45.8	42.6	43.4
Current Ratio (%)	105.1	114.3	99.9	117.0	109.4	120.4
Fixed Ratio (%)	148.9	130.9	133.2	122.7	132.3	129.7
Interest-bearing Debt	119,542	94,607	111,283	92,097	129,406	133,085
Debt/Equity Ratio (%)	38.5	25.1	27.6	25.7	40.2	38.9
Total Assets Turnover (Times)	1.14	1.14	1.10	1.15	1.21	1.11
Inventory Turnover (Times)	10.16	9.69	9.07	8.50	7.91	7.56
Tangible Fixed Assets Turnover (Times)	3.66	3.89	3.93	3.92	3.87	3.46
<b>Cash Flow</b>						
Net cash provided by operating activities	48,694	38,268	41,929	31,782	35,611	74,983
Net cash provided by (used in) investing activities	(1,605)	14,847	(59,100)	13,521	(35,403)	(55,496)
Net cash provided by (used in) financing activities	(38,996)	(41,421)	(2,484)	(42,801)	13,889	(5,749)
<b>Free Cash Flow</b>	<b>42,066</b>	<b>47,566</b>	<b>(23,804)</b>	<b>37,197</b>	<b>(7,787)</b>	<b>15,126</b>
<b>Capital Expenditures, Depreciation and R&amp;D Expenditures</b>						
Capital Expenditures, Depreciation and R&D Expenses	25,820	28,348	36,337	31,267	34,539	44,049
Depreciation and Amortization	26,344	25,536	26,045	30,503	36,529	34,525
R&D Expenditures	22,974	23,077	24,451	25,739	25,420	24,010
R&D Expenditures to Revenues (%)	2.68	2.61	2.64	2.68	2.72	2.80
<b>Per Share Data</b>						
Net Assets per Share (Yen)	582.42	711.54	761.69	683.11	612.93	651.08
Net Income per Share (Yen)	41.48	37.78	48.19	46.16	1.93	22.13
Dividends per Share (Yen)	10.00	11.00	14.00	15.00	10.00	10.00
<b>Dividends Payout Ratio (%)</b>	<b>24.1</b>	<b>29.1</b>	<b>29.1</b>	<b>32.5</b>	<b>518.7</b>	<b>45.2</b>
<b>Other Data</b>						
Return on Equity (%)	7.4	5.9	6.5	6.4	0.3	3.5
Return on Total Assets (%)	5.1	5.6	5.6	4.6	3.8	4.0
EBITDA	62,789	65,823	71,202	73,508	70,118	70,480
Interest Coverage Ratio (Times)	15.2	20.6	27.3	21.9	14.8	15.2
PER (%)	18.78	26.39	19.49	13.06	253.89	28.65
Number of Employees	17,002	17,966	18,905	18,907	19,742	19,761
Net Sales per Employee (Ten thousands of yen)	5,042	5,062	5,023	5,070	4,834	4,346

Shareholders' Equity to Total Assets = Shareholders' Equity / Total Assets

Current Ratio = Current Assets / Current Liabilities

Fixed Ratio = Fixed Assets / Shareholders' Equity

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

Total Assets Turnover = Net Sales / Average Total Assets

Inventory Turnover = Net Sales / Average Inventory

Tangible Fixed Assets Turnover = Net Sales / Average Tangible Fixed Assets

Free Cash Flow =

CF Operating Activities + CF Investing Activities - Dividend Paid

R&D Expenditures to Revenues = R&D Expenditures / Net Sales

Return on Equity = Net Income / Average Shareholders' Equity

Return on Total Assets = Ordinary Income / Average Total Assets

EBITDA = Operating Income + Depreciation and Amortization

Interest Coverage Ratio =

(Operating Income + Interest and Dividends) / Interest Expense

PER = Stock Prices at the End of Fiscal Year / Net Income per Share

Net Sales per Employee = Net Sales / Average Number of Employees

## Consolidated Financial Statements

### Consolidated Balance Sheets

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
March 31, 2010 and 2009

	Millions of yen	
	2010	2009
<b>Assets</b>		
Current assets:		
Cash and deposits (Notes 16 and 18)	¥ 45,175	¥ 40,842
Notes receivable (Note 18)	39,783	44,435
Accounts receivable (Note 18)	106,739	97,950
Marketable securities (Notes 4 and 18)	20,001	1
Merchandise and finished goods	40,197	44,333
Land for sale	16,822	23,808
Work in process	31,645	32,716
Raw materials and supplies	18,536	19,161
Advance payments	759	1,066
Prepaid expenses	2,393	1,967
Deferred income taxes (Note 9)	9,715	8,338
Short-term loans	691	1,395
Other current assets	12,049	15,390
Allowance for doubtful accounts	(986)	(887)
<b>Total current assets</b>	<b>343,524</b>	<b>330,521</b>
Non-current assets:		
Property, plant and equipment, net (Notes 6, 7 and 14):		
Buildings and structures	89,395	82,743
Machinery, equipment and vehicles	66,940	60,788
Land	69,314	67,674
Leased assets	8,044	9,416
Construction in progress	17,918	11,630
Other	5,371	6,576
<b>Total property, plant and equipment, net</b>	<b>256,985</b>	<b>238,830</b>
Intangible assets:		
Goodwill (Note 14)	22,909	25,645
Software	4,180	4,227
Leased assets	263	354
Other	6,426	3,538
<b>Total intangible assets</b>	<b>33,780</b>	<b>33,766</b>
Investments and other assets:		
Investments in securities (Notes 4 and 18)	116,582	109,923
Long-term loans	793	593
Long-term prepaid expenses	1,244	1,404
Deferred income taxes (Note 9)	25,191	31,834
Other	11,093	10,366
Allowance for doubtful accounts	(1,934)	(790)
<b>Total investments and other assets</b>	<b>152,970</b>	<b>153,332</b>
<b>Total non-current assets</b>	<b>443,736</b>	<b>425,929</b>
<b>Total assets</b>	<b>¥ 787,261</b>	<b>¥ 756,450</b>

	Millions of yen	
	2010	2009
Liabilities		
Current liabilities:		
Current liabilities;		
Notes payable (Notes 6 and 18)	¥ 8,783	¥ 11,469
Accounts payable (Notes 6 and 18)	113,181	107,327
Short-term debt and current portion of long-term debt (Note 6 and 18)	28,001	32,446
Commercial paper (Note 6)	-	20,000
Bonds redeemable within one year (Notes 6 and 18)	10,000	5,365
Lease obligations (Note 7)	3,627	4,431
Accrued surcharge	-	7,965
Accrued expenses	25,119	24,649
Accrued income and other taxes	8,342	6,297
Deferred income taxes (Note 9)	123	147
Allowance for employees' bonuses	13,188	12,809
Allowance for directors' bonuses	227	160
Provision for compensation for completed construction	1,286	1,010
Advances received	37,812	33,474
Other	35,580	34,478
Total current liabilities	285,275	302,033
Long-term liabilities:		
Long-term liabilities		
Bonds less current maturities (Notes 6 and 18)	10,000	10,000
Long-term debt less current portion (Notes 6 and 18)	76,761	51,811
Lease obligations (Note 7)	4,694	5,353
Deferred income taxes (Note 9)	4,397	2,952
Accrued retirement benefits (Note 8)	48,608	48,195
Other	5,816	5,382
Total long-term liabilities	150,279	123,695
Total liabilities	435,554	425,729
Net assets		
Shareholders' equity (Note 10) :		
Shareholders' equity;		
Common stock	100,002	100,002
Capital surplus	109,307	109,307
Retained earnings	154,353	146,931
Treasury stock, at cost	(10,839)	(10,833)
Total shareholders' equity	352,823	345,408
Valuation and translation adjustments:		
Valuation and translation adjustments;		
Unrealized holding loss on securities	(1,037)	(11,227)
Deferred gain on hedges	74	7
Unrealized gain on land revaluation (Note 11)	199	224
Translation adjustments	(10,017)	(12,411)
Total valuation and translation adjustments:	(10,781)	(23,408)
Stock acquisition rights	503	386
Minority interests	9,160	8,334
Total net assets	351,706	330,721
Total liabilities and net assets	¥ 787,261	¥ 756,450

See accompanying notes to consolidated financial statements

## Consolidated Statements of Income

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2010 and 2009

	Millions of yen	
	2010	2009
Net sales (Notes 17 and 21)	¥ 858,514	¥ 934,225
Cost of sales	606,123	680,446
Gross profit	252,390	253,779
Selling, general and administrative expenses (Note 13)	216,434	220,189
Operating income (Note 21)	35,955	33,589
Non-operating income:		
Interest income	790	1,230
Dividends income	2,021	2,268
Equity in earnings of affiliates	1,498	1,409
Miscellaneous income	2,986	2,454
Total non-operating income	7,295	7,363
Non-operating expenses:		
Interest expenses	2,253	2,480
Interest on commercial papers	27	31
Sales discounts	277	312
Foreign exchange loss	998	2,616
Miscellaneous expenses	8,619	6,073
Total non-operating expenses	12,175	11,513
Ordinary income	31,076	29,438
Extraordinary income:		
Gain on sales of property, plant and equipment	1,015	687
Total extraordinary income	1,015	687
Extraordinary loss:		
Loss on impairment of fixed assets and goodwill (Note 14)	3,456	70
Reorganization costs (Note 15)	2,302	4,257
Surcharge	-	7,965
Loss on devaluation of investments in securities	-	2,782
Loss on devaluation of investments in an unconsolidated subsidiary and an affiliate	-	453
Loss on sales or disposal of property, plant and equipment	2,988	1,753
Total extraordinary loss	8,747	17,283
Income before income taxes and minority interests	23,344	12,842
Income taxes (Note 9):		
Current	11,510	9,029
Deferred	(1,000)	2,485
Total Income taxes	10,509	11,515
Minority interests	1,207	313
Net income	¥ 11,627	¥ 1,013

See accompanying notes to consolidated financial statements

**Consolidated Statements of Changes in Net Assets**

 Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
 Years ended March 31, 2010 and 2009

	Millions of yen										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding loss on securities	Deferred gain on hedges	Unrealized gain on land revaluation	Translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at March 31, 2008	¥100,002	¥109,367	¥154,073	¥(10,844)	¥ (933)	¥ -	¥217	¥ 7,033	¥237	¥9,764	¥368,919
Effect of changes in accounting policies applied to foreign subsidiaries	-	-	(42)	-	-	-	-	-	-	-	(42)
Cash dividends	-	-	(7,887)	-	-	-	-	-	-	-	(7,887)
Net income for the year	-	-	1,013	-	-	-	-	-	-	-	1,013
Decrease in retained earnings resulting from inclusion of subsidiaries in consolidation	-	-	(226)	-	-	-	-	-	-	-	(226)
Increase in treasury stock	-	-	-	(150)	-	-	-	-	-	-	(150)
Gain on sales of treasury stock	-	(59)	-	161	-	-	-	-	-	-	102
Net changes of items other than shareholders' equity	-	-	-	-	(10,294)	7	6	(19,445)	149	(1,430)	(31,006)
Total changes of items during the year	-	(59)	(7,100)	10	(10,294)	7	6	(19,445)	149	(1,430)	(38,155)
Balance at March 31, 2009	100,002	109,307	146,931	(10,833)	(11,227)	7	224	(12,411)	386	8,334	330,721
Cash dividends	-	-	(4,205)	-	-	-	-	-	-	-	(4,205)
Net income for the year	-	-	11,627	-	-	-	-	-	-	-	11,627
Increase in retained earnings resulting from inclusion of subsidiaries in consolidation	-	-	0	-	-	-	-	-	-	-	0
Increase in treasury stock	-	-	-	(20)	-	-	-	-	-	-	(20)
Gain on sales of treasury stock	-	(0)	-	14	-	-	-	-	-	-	13
Net changes of items other than shareholders' equity	-	-	-	-	10,190	66	(24)	2,394	117	826	13,569
Total changes of items during the year	-	(0)	7,421	(5)	10,190	66	(24)	2,394	117	826	20,985
Balance at March 31, 2010	¥100,002	¥109,307	¥154,353	¥(10,839)	¥ (1,037)	¥74	¥199	¥(10,017)	¥503	¥9,160	¥351,706

*See accompanying notes to consolidated financial statements*

## Consolidated Statements of Cash Flows

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
 Years ended March 31, 2010 and 2009

	Millions of yen	
	2010	2009
Operating activities:		
Income before income taxes and minority interests	¥ 23,344	¥ 12,842
Adjustments for:		
Depreciation and amortization	34,525	36,529
Amortization of goodwill	3,083	2,426
Loss on impairment of fixed assets and goodwill	3,456	70
Loss on disposal of fixed assets	2,950	1,642
Increase (decrease) in provision for retirement benefits	387	(5,914)
Interest and dividend income	(2,811)	(3,499)
Interest expenses	2,557	2,823
Equity in earnings of affiliates	(1,498)	(1,409)
(Increase) decrease in notes and accounts receivable	(2,865)	20,363
Decrease (increase) in inventories	13,293	(6,079)
Increase (decrease) in notes and accounts payable	753	(17,363)
Increase (decrease) in advances received	4,332	(733)
Other	6,395	6,766
Subtotal	87,904	48,466
Interest and dividends received	3,257	3,952
Interest paid	(2,546)	(2,711)
Surcharge paid	(7,965)	-
Income taxes refund	4,868	-
Income taxes paid	(10,535)	(14,096)
Net cash provided by operating activities	74,983	35,611
Investing activities:		
Purchases of property, plant and equipment	(37,061)	(25,749)
Proceeds from sales of property, plant and equipment	2,285	1,199
Purchases of investments in securities	(1,389)	(3,876)
Proceeds from sales or redemption of investment in securities	2,056	5,373
Acquisition of investments in subsidiaries resulting in change in scope of consolidation (Note 16)	(2,908)	(9,523)
Acquisition of businesses (Note 16)	(16,288)	-
Acquisition of shares from minority interests in consolidated subsidiaries	(201)	-
Purchase of intangible assets	(1,990)	(1,913)
Other	(0)	(913)
Net cash used in investing activities	(55,496)	(35,403)

**Consolidated Statements of Cash Flows (continued)**

## Financing activities:

Decrease in short-term debt, net	(9,007)	(493)
Repayments of finance lease obligations	(5,083)	(5,850)
(Decrease) increase in commercial paper	(20,000)	20,000
Proceeds from long-term debt	32,545	15,592
Repayment of long-term debt	(4,419)	(7,299)
Proceeds from issuance of bonds	10,000	-
Payment for redemption of bonds	(5,382)	-
Cash dividends paid	(4,209)	(7,885)
Cash dividends paid to minority shareholders of consolidated subsidiaries	(152)	(110)
Other	(40)	(63)
Net cash (used in) provided by financing activities	(5,749)	13,889
Effect of exchange rate change on cash and cash equivalents	602	(3,825)
Net increase in cash and cash equivalents	14,339	10,271
Cash and cash equivalents at beginning of year	40,488	29,852
Increase in cash and cash equivalents from initial consolidated subsidiary	28	363
Cash and cash equivalents at end of year (Note 16)	¥ 54,855	¥ 40,488

*See accompanying notes to consolidated financial statements*

## Notes to Consolidated Financial Statements

### 1. Basis of Preparation of Consolidated Financial Statements

Sekisui Chemical Co., Ltd. (the "Company") and its domestic consolidated subsidiaries maintain their books of account and records in accordance with accounting principles generally accepted in Japan, and its overseas consolidated subsidiaries maintain their books in conformity with those of their respective countries of domicile.

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 Law 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 financial statements for the year ended March 31, 2009 to the 2010 presentation. Such reclassifications had no effect on consolidated net income or net assets.

As permitted by the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen for the years ended March 31, 2010 and 2009 have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements for the years ended March 31, 2010 and 2009 do not necessarily agree with the sum of the individual amounts.

### 2. Summary of Significant Accounting Policies

#### (1) Principles of Consolidation

At March 31, 2010, the Company had 193 subsidiaries as opposed to 194 at March 31, 2009. The accompanying consolidated financial statements for the years ended March 31, 2010 and 2009 include the accounts of the Company and its 153 and 150 significant subsidiaries, respectively.

The accounts of the remaining 40 and 44 subsidiaries have not been consolidated with those of the Company at March 31, 2010 and 2009, respectively, because their combined assets, retained earnings, net sales and net income (loss) in the aggregate were not material to the consolidated financial statements.

The overseas consolidated subsidiaries have a December 31 year end which differs from that of the Company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year ends of these overseas subsidiaries and the year end of the Company.

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, 2010 and 2009, although the Company had 40 and 44 unconsolidated subsidiaries, respectively, and 17 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 years 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 sheets.

- (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 net assets. 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.

(Supplementary information)

The Company and domestic consolidated subsidiaries have changed the useful lives of some machinery and equipment. This change was made based on an amendment to the Corporation Tax Law of Japan. The effect of this change on the consolidated financial statements and segment information was immaterial for the year ended March 31, 2009.

- (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 Receivables  
The allowance for doubtful receivables is provided to cover possible losses on collection. With respect to normal trade accounts receivable, it 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 Employees' Bonuses  
Allowance for employees' bonuses is provided at the estimated amount of bonuses to be paid to the employees in the following year which has been allocated to the current fiscal year.
- (11) Accrued Retirement Benefits  
The Company and the domestic consolidated subsidiaries have non-contributory defined benefit pension plans and retirement benefit plans. Certain overseas consolidated subsidiaries have defined contribution retirement plans.

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

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

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

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

(12) Recognition of Revenue and Related Costs

Up to the year ended March 31, 2009, revenues and costs of construction contracts were recognized by the completed-contract method, in principle. Effective the year ended March 31, 2010, revenues and costs of construction contracts, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. To estimate the progress of such construction projects, the Company measures the percentage of completion by comparing costs incurred to date with the most recent estimate of total costs required to complete the project (cost to cost basis). If a reliable estimate cannot be made, revenues and costs of construction contract are recognized by the completed-contract method.

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

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

(14) Income Taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes which are entered into the determination of taxable income in different periods.

The Company has recognized the tax effect of such temporary differences in the accompanying consolidated financial statements.

(15) 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 net assets.

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.

### 3. Changes in Method of Accounting

(1) Recognizing Revenues and Costs of Construction Contracts

Effective the year ended March 31, 2010, the Company and its domestic consolidated subsidiaries have adopted the "Accounting Standard for Construction Contracts" (Accounting Standards Board of Japan ("ASBJ") Statement No.15, issued on December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Statement No.18, issued on December 27, 2007). Under the new accounting standard and guidance, revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. To estimate the progress of such construction projects, the Company measures the percentage of completion by comparing costs incurred to date with the most recent estimate of total costs required to complete the project (cost to cost basis). The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.

The effect of this change was immaterial to the consolidated financial statements and the segment information for the year ended March 31, 2010.

(2) Business Combination

Effective the year ended March 31, 2010, the Company has applied the following revised accounting principles regarding the initial integration of a business combination and business divestitures: "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued on December 26, 2008), "Partial Amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No. 23, issued on December 26, 2008), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued on December 26, 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16,

issued on December 26, 2008), “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, issued on December 26, 2008).

(3) Accounting Policies Applied to Foreign Subsidiaries

Effective the year ended March 31, 2009, the Company and its overseas consolidated subsidiaries adopted “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ Practical Issues Task Force (“PITF”) No. 18 issued on May 17, 2006), and made the necessary adjustments on the consolidated financial statements. The effect of the adoption of PITF No. 18 on the consolidated financial statements and segment information was immaterial for the year ended March 31, 2009.

(4) Lease Transactions

Up to the year ended March 31, 2008, finance lease transactions which do not transfer ownership to lessee were accounted for as operating leases.

Effective the year ended March 31, 2009, as the “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13 originally issued by the First Committee of the Business Accounting Council on June 17, 1993 and revised by the ASBJ on March 30, 2007) and the “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16 originally issued by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised by the ASBJ on March 30, 2007) were applied, lease transactions of the Company and its domestic consolidated subsidiaries are accounted for as finance leases if substantially all of the benefits and risks of ownership have been transferred to the lessee. As a result of the adoption of this accounting standard and the related guidance, operating income and ordinary income increased by ¥237 million and 144 million, and income before income taxes and minority interests decreased by ¥1 million for the year ended March 31, 2009 from the corresponding amounts which would be recorded under the method applied in the previous year. The effect of this change on segment information was immaterial for the year ended March 31, 2009.

Effective April 1, 2008, since the Company and its domestic consolidated subsidiaries applied the accounting standard for lease transactions outlined above, finance lease transactions outstanding at April 1, 2008 were recognized as leased assets in the consolidated balance sheets at March 31, 2010 and 2009, for which acquisition value was the aggregate future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2008.

#### 4. Investments in Securities

(1) Held-to-maturity debt securities at March 31, 2010 are summarized as follows:

			Millions of yen		
			2010		
			Carrying value	Estimated fair value	Gross unrealized loss
Unlisted securities	foreign	debt	¥ 10,029	¥10,019	¥ (10)
			¥ 10,029	¥10,019	¥ (10)

(2) Other securities with available fair market value at March 31, 2010 and 2009 are summarized as follows:

					Millions of yen			
					2010			
					Cost	Carrying value	Gross unrealized gain	Gross unrealized loss
Equity securities					¥ 6,933	¥ 12,400	¥ 5,466	¥ -
					78,160	70,812	-	(7,347)
Bonds and debentures					25	25	-	-
Other					10,000	10,000	-	-
					¥ 95,119	¥ 93,238	¥ 5,466	¥ (7,347)

Millions of yen				
2009				
	Cost	Carrying value	Gross unrealized gain	Gross unrealized loss
Equity securities	¥ 5,290	¥ 8,661	¥ 3,371	¥ -
	79,653	57,566	-	(22,086)
Bonds and debentures	25	25	-	-
	¥ 84,968	¥ 66,253	¥ 3,371	¥(22,086)

Because no quoted market prices are available and it is extremely difficult to determine the fair value, the financial instruments of ¥4,309 million and ¥4,143 million at March 31, 2010 and 2009, respectively, are not included in the above table.

Impairment loss on other securities with available fair market value amounting to ¥2,707 million was recorded for the year ended March 31, 2009.

- (3) The proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2010 and 2009 are summarized as follows:

Millions of yen		
	2010	2009
Proceeds from sales	¥371	¥458
Gross realized gain	52	3
Gross realized loss	(18)	(10)

## 5. Accumulated Depreciation

Property, plant and equipment, net reflected in the accompanying consolidated balance sheets were stated at cost, less accumulated depreciation. Accumulated depreciation at March 31, 2010 and 2009 amounted to ¥467,588 million and ¥453,607 million, respectively.

## 6. Short-Term Debt, Commercial Paper, Bonds and Long-Term Debt

- (1) Short-term debt  
The average interest rates of short-term debt outstanding at March 31, 2010 and 2009 were 1.47% and 2.18%, respectively.
- (2) Commercial Paper  
The average interest rate of commercial paper outstanding at March 31, 2009 was 0.37%.
- (3) Bonds outstanding at March 31, 2010 and 2009 were as follows:

Millions of yen		
	2010	2009
4.80% bonds due July 2009	¥ -	¥ 365
2.22% bonds due December 2009	-	5,000
2.04% bonds due May 2010	10,000	10,000
1.18% bonds due July 2014	10,000	-
	20,000	15,365
Less current maturities	(10,000)	(5,365)
	¥ 10,000	¥ 10,000

- (4) Long-term debt at March 31, 2010 and 2009 was as follows:

	Millions of yen	
	2010	2009
Secured	¥ 2,687	¥ 2,463
Unsecured	81,823	53,445
	84,510	55,909
Less current portion	(7,749)	(4,096)
	¥ 76,761	¥ 51,811

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 subsidiary 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 for 5 years subsequent to March 31, 2010 are summarized below:

Year ending March 31,	Millions of yen
2011	¥ 7,749
2012	17,672
2013	20,704
2014	20,525
2015	13,339

- (5) At March 31, 2010 and 2009, the following assets were pledged as collateral for trade notes and accounts payable, long-term and short-term debt and other:

Assets	Millions of yen	
	2010	2009
Buildings and structures	¥ 2,864	¥ 2,515
Machinery	1,363	793
Land	3,951	3,858
Intangible fixed assets	228	219
Other	3,278	2,178
Total	¥ 11,687	¥ 9,564

Liabilities	Millions of yen	
	2010	2009
Notes payable	¥ 145	¥ 135
Accounts payable	1,741	1,765
Short-term debt	2,985	3,953
Long-term debt	2,687	2,463
Other	-	675
Total	¥ 7,560	¥ 8,993

- (6) 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, 2010 and 2009 were as follows:

	Millions of yen	
	2010	2009
Lines of credit	¥19,210	¥10,000
Credit used	-	-
Available credit	¥19,210	¥10,000

## 7. Lease Obligations

The annual maturities of lease obligations for 5 years subsequent to March 31, 2010 are summarized below:

Year ending March 31,	Millions of yen
2011	¥ 3,627
2012	2,269
2013	1,437
2014	743
2015	192

## 8. Accrued Retirement Benefits

The following table sets forth the funded and accrued status of the retirement benefit plans for employees and the amounts recognized in the accompanying consolidated balance sheets at at March 31, 2010 and 2009 for the Companies' defined benefit pension plans:

	Millions of yen	
	2010	2009
Retirement benefit obligation at end of year	¥(109,874)	¥(107,097)
Fair value of plan assets at end of year	59,089	48,520
Unfunded retirement benefit obligation	(50,785)	(58,576)
Unrecognized actuarial loss	3,240	11,516
Unrecognized prior service cost	315	339
Net retirement benefit obligation	(47,230)	(46,720)
Prepaid pension cost	2	14
Accrued retirement benefits	¥ (47,233)	¥ (46,734)

At March 31, 2010 and 2009, accrued retirement benefits of ¥48,608 million and ¥48,195 million, respectively, reflected in the accompanying consolidated balance sheets included accrued retirement benefits for officers of ¥1,375 million and ¥1,460 million, respectively.

The components of retirement benefit expenses for the years ended March 31, 2010 and 2009 are outlined as follows:

	Millions of yen	
	2010	2009
Service cost	¥ 8,866	¥ 8,194
Interest cost	2,564	2,489
Expected return on plan assets	(1,702)	(1,935)
Amortization:		
Unrecognized actuarial loss (gain)	937	(1,982)
Prior service cost	41	(2,134)
Retirement benefit expenses	¥10,708	¥ 4,631

In addition to retirement benefit expenses listed above, the Company and domestic consolidated subsidiaries accounted

for additional payments of retirement benefits of ¥1,143 million and ¥2,501 million as reorganization costs for the years ended March 31, 2010 and 2009, respectively.

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2010 and 2009 were as follows:

	2010	2009
Discount rate	2.5%	2.5%
Expected rates of return on plan assets	1.0% ~ 3.5%	1.0% ~ 3.5%

## 9. 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 40.4% for the years ended March 31, 2010 and 2009.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2010 and 2009 differ from the above statutory tax rate for the following reasons:

	2010	2009
Statutory tax rate	40.4%	40.4%
Non-deductible expenses	3.8	6.4
Temporary differences arising from consolidation without tax effect	3.4	19.2
Surcharge	-	25.1
Differences in income tax rates applied to overseas consolidated subsidiaries	-	(3.8)
Other	(2.6)	2.4
<b>Effective tax rates</b>	<b>45.0%</b>	<b>89.7%</b>

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, 2010 and 2009 are summarized as follows:

	Millions of yen	
	2010	2009
<b>Deferred tax assets:</b>		
Retirement benefits	¥ 19,613	¥ 19,451
Tax loss carryforwards	9,631	11,735
Accrued bonuses	5,262	5,144
Loss on impairment of fixed assets	4,011	3,164
Loss on devaluation of investments in securities	3,615	3,631
Unrealized gain	3,058	2,902
Unrealized holding loss on securities	673	7,389
Other	8,665	7,491
Valuation allowance	(12,415)	(13,280)
<b>Total deferred tax assets</b>	<b>42,115</b>	<b>47,630</b>
<b>Deferred tax liabilities:</b>		
Revaluation of investments in affiliates	(3,769)	(3,864)
Deferred capital gains on property	(2,286)	(2,113)
Adjustment for allowance for doubtful accounts	(75)	(82)
Other	(5,597)	(4,497)
<b>Total deferred tax liabilities</b>	<b>(11,730)</b>	<b>(10,557)</b>
<b>Net deferred tax assets</b>	<b>¥ 30,385</b>	<b>¥ 37,072</b>

## 10. 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, 2010 and 2009.

### *Stock-based compensation plan*

In accordance with the former Commercial Code of Japan (the "Code") a stock option plan for directors and key employees of the Company and for representative directors of certain subsidiaries and affiliates was approved at the annual general meeting of the shareholders held on June 29, 2005.

In accordance with the Law, stock option plans for directors and key employees of the Company and for representative directors, certain directors and key employees of certain subsidiaries and affiliates were approved at the annual general meeting of the shareholders held on June 29, 2006 and June 28, 2007.

In accordance with the Law, stock option 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 the shareholders held on June 27, 2008 and June 26, 2009.

The stock option plans outlined above are summarized as follows:

Date of approval	Number of stock options outstanding at March 31, 2010	Exercise price at March 31, 2010	Exercisable period
June 29, 2005	942,000	775	From July 1, 2007 up to and including June 30, 2010
June 29, 2006	1,070,000	1,045	From July 1, 2008 up to and including June 30, 2011
June 28, 2007	1,035,000	1,010	From July 1, 2009 up to and including June 30, 2012
June 27, 2008	1,130,000	734	From July 1, 2010 up to and including June 30, 2013
June 26, 2009	1,190,000	579	From July 1, 2011 up to and including June 30, 2014

### *Common stock and treasury stock*

Movements in common stock in issue and treasury stock for the years ended March 31, 2010 and 2009 are summarized as follows:

	Number of shares			
	2010			
	March 31, 2009	Increase	Decrease	March 31, 2010
Common stock	539,507,285	-	-	539,507,285
Treasury stock	14,161,865	35,807	35,388	14,162,284

  

	Number of shares			
	2009			
	March 31, 2008	Increase	Decrease	March 31, 2009
Common stock	539,507,285	-	-	539,507,285
Treasury stock	14,088,433	280,898	207,466	14,161,865

## 11. 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 accounted for under net assets as unrealized gain on land revaluation of ¥199 million and ¥224 million in the accompanying consolidated balance sheets at March 31, 2010 and 2009, respectively.

## 12. Contingent Liabilities

Contingent liabilities at March 31, 2010 and 2009 were as follows:

	Millions of yen	
	2010	2009
Guaranteed obligations		
Housing loans of customers	¥ 15,891	¥ 14,062
Housing loans of employees	865	1,113
Loans of unconsolidated subsidiaries and affiliates	280	269
	Millions of yen	
	2010	2009
Notes receivable with recourse		
Notes receivable endorsed	¥ 290	¥ 364
Notes receivable discounted	164	384

## 13. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2010 and 2009 are as follows:

	Millions of yen	
	2010	2009
Research and development costs	¥ 24,010	¥ 25,420

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

The Companies group their fixed assets 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.

As a result of a decline in land prices, the carrying value of these assets (or groups of assets), whose market value has decreased significantly from their original carrying value, has been reduced to their respective recoverable amounts. Accordingly, for the year ended March 31, 2010, a total impairment loss of ¥2,213 million related to a decline in land prices was recognized, which consisted of ¥2,188 million on land and ¥25 million on structures. The recoverable amounts of the assets (or groups of assets) are measured based on their respective estimated selling value determined by the Companies.

The Company wrote down the book value of goodwill recorded on the acquisition of the pipeline rehabilitation business and medical diagnostic products business in U.S. to the recoverable amounts, as it was estimated that it could no longer expect the income initially projected in its business plan at the acquisition of the equity in the businesses. As such, the Company recorded a loss of ¥983 million as impairment loss. Recoverable amounts were measured by the value in use method based on estimated future cash flows discounted at rates varying from 15% to 16.7%.

## 15. Reorganization Costs

Reorganization costs for the years ended March 31, 2010 and 2009 are as follows:

	Millions of yen	
	2010	2009
Additional payments of retirement benefits	¥ 1,143	¥ 2,501
Reorganization of subsidiaries	811	1,421
Others	348	335
	¥ 2,302	¥ 4,257

## 16. Supplemental Information on Statements of Cash Flows

A reconciliation between cash and cash equivalents in the accompanying consolidated statements of cash flows and cash and deposits in the accompanying consolidated balance sheets at March 31, 2010 and 2009 is presented as follows:

	Millions of yen	
	2010	2009
Cash and deposits	¥45,175	¥40,842
Time deposits with maturities in excess of three months	(319)	(354)
Certificate of deposit within three months	10,000	-
Cash and cash equivalents	¥54,855	¥40,488

The Company purchased shares of American Diagnostica, Inc. (America), including American Diagnostica, Inc. (Canada), American Diagnostica, G.m.b.H., American Diagnostica, S.a.r.L. and initially consolidated the accounts of this company for the year ended March 31, 2010. The following summarizes the assets and liabilities included in consolidation and the relationship between acquisition cost and net disbursement of acquisition:

	Millions of yen	
	2010	
Current assets	¥	696
Non-current assets		2,350
Goodwill		782
Current liabilities		(107)
Non-current liabilities		(771)
Other		(447)
Acquisition cost		2,502
Cash and cash equivalents		(23)
Net disbursement of acquisition	¥	2,478

Sekisui Specialty Chemicals America, LLC. acquired the business of Celanese Ltd. and the Company initially consolidated the accounts of Sekisui Specialty Chemicals America, LLC. for the year ended March 31, 2010. The following summarizes the assets and liabilities included in consolidation and the acquisition cost:

	Millions of yen	
	2010	
Current assets	¥	2,412
Non-current assets		10,226
Goodwill		69
Current liabilities		(47)
Other		(7)
Acquisition cost	¥	12,654

Sekisui Specialty Chemicals Europe, S.L. acquired the business of Celanese Chemicals Ibérica S.L. and the Company initially consolidated the accounts of Sekisui Specialty Chemicals Europe, S.L. for the year ended March 31, 2010. The following summarizes the assets and liabilities included in consolidation and the acquisition cost:

	Millions of yen
	2010
Current assets	¥ 1,842
Non-current assets	1,788
Goodwill	116
Current liabilities	(43)
Other	(70)
<b>Acquisition cost</b>	<b>¥ 3,634</b>

The Company purchased shares of XenoTech, LLC and initially consolidated the accounts of this company for the year ended March 31, 2009. The following summarizes the assets and liabilities included in consolidation and the relationship between acquisition cost of the company's stock and net disbursement of acquisition:

	Millions of yen
	2009
Current assets	¥ 806
Non-current assets	1,773
Goodwill	3,168
Current liabilities	(280)
Other	245
<b>Acquisition cost</b>	<b>5,712</b>
<b>Cash and cash equivalents of XenoTech, LLC</b>	<b>(15)</b>
<b>Net disbursement of acquisition</b>	<b>¥ 5,697</b>

The Company purchased shares of Sekisui CPT G.m.b.H. and initially consolidated the accounts of this company for the year ended March 31, 2009. The following summarizes the assets and liabilities included in consolidation and the relationship between acquisition cost of the company's stock and net disbursement of acquisition:

	Millions of yen
	2009
Current assets	¥ 6,305
Non-current assets	3,062
Goodwill	4,455
Current liabilities	(8,559)
Non-current liabilities	(47)
Minority interests	(586)
Other	(264)
<b>Acquisition cost</b>	<b>4,365</b>
<b>Cash and cash equivalents of Sekisui CPT G.m.b.H.</b>	<b>(539)</b>
<b>Net disbursement of acquisition</b>	<b>¥ 3,826</b>

Finance lease obligations of ¥3,969 million and ¥3,476 million were incurred during the years ended March 31, 2010 and 2009, respectively.

## 17. Related Party Transactions

Principal transactions between the Company's consolidated subsidiaries and their related parties for the years ended March 31, 2010 and 2009 are summarized as follows:

2010			
Name	Title	Transactions	Millions of yen
Tadashi Kunihiro	Corporate auditor of the Company	Sales of housing	¥35
Keita Kato	Executive officer of the Company	Sales of housing	¥32

2009			
Name	Title	Transactions	Millions of yen
Hidemi Uno	Executive officer of the Company	Sales of housing	¥41

Prices for sales of housing were determined based on the same terms as third party transactions.

(Supplementary information)

Effective the year ended March 31, 2009, the Company has adopted "Accounting Standard for Related Party Disclosures" (ASBJ Statement No.11 issued on October 17, 2006) and "Guidance on Accounting Standard for Related Party Disclosures" (ASBJ Guidance No.13 issued on October 17, 2006). As a result of the adoption of this accounting standard, transactions between the Company's consolidated subsidiaries and their related parties were newly disclosed from the year ended March 31, 2009.

## 18. Financial Instruments

### Overview

#### (1) Policy for financial instruments

The Companies raise the funds by bank borrowings and bonds, including short-term bonds. The Companies manage funds only through short-term time deposit and others. The Companies use derivatives for the purposes of managing foreign currency exchange risk related to trading receivables and payables 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

Trade receivables—notes receivable and accounts receivable—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. Trade payables—notes payable and accounts payable—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, included in debts 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. The repayment dates of the long-term debt and bonds extend up to six years and three months from the balance sheet date. 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 monitors 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 confirm the effectiveness of hedging and obtain 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 the 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

The notional amounts of derivatives listed below are not necessarily indicative of the actual market risk involved in derivative transactions.

Estimated Fair Value of Financial Instruments

The carrying value of the financial instruments on the consolidated balance sheet as of March 31, 2010 and unrealized gain (loss) 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).

	Millions of yen		
	Carrying value	Estimated fair value	Difference
(1)Cash and deposits	¥ 45,175	¥ 45,175	¥ -
(2)Notes and accounts receivable	146,522	146,522	-
(3)Marketable securities and Investments in securities	124,224	120,865	(3,359)
<b>Total</b>	<b>¥ 315,922</b>	<b>¥ 312,563</b>	<b>¥ (3,359)</b>
(1)Notes and accounts payable	¥ (121,965)	¥ (121,965)	¥ -
(2)Short-term debt	(20,252)	(20,252)	-
(3)Long-term debt	(84,510)	(85,378)	867
(4)Bonds	(20,000)	(20,143)	143
<b>Total</b>	<b>¥ 246,728</b>	<b>¥ 247,739</b>	<b>¥ 1,010</b>

(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*

Since these items are settled in a short period, their carrying value approximates fair value.

*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 4. Investments in Securities of the notes to the consolidated financial statements.

*Notes and accounts payable and short-term debt*

Since these items are settled in a short period of time, their carrying value approximates fair value.

*Long-term debt*

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 rate for long-term debt is hedged by interest rate swap contract and accounted for as debt with fixed interest rate. The fair value of long-term debt with variable interest is reasonably based on the present value of the total of principal, interest and net cash flow of interest rate swap contract discounted by the

reasonably estimated interest rate to be applied if similar new loans with a similar remaining period were entered into.

#### Bonds

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

#### Derivatives Transactions

Please refer to Note 19. Derivatives of the notes the consolidated financial statements.

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

As of March 31, 2010

Millions of yen

	Millions of yen
Unlisted equity securities	¥12,359

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 receivables and marketable securities with maturities at March 31, 2010

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	¥ 45,175	¥ -	¥ -	¥ -
Notes and accounts receivable	146,522	-	-	-
Marketable securities and investments in securities				
Held-to-maturity debt securities	10,001	28	-	-
Other securities with maturities	10,000	-	-	-
<b>Total</b>	<b>¥ 211,699</b>	<b>¥ 28</b>	<b>¥ -</b>	<b>¥ -</b>

- (4) The redemption schedule for long-term debt and bonds is disclosed in Note 6. Short-Term Debt, Commercial paper, Bonds and Long-Term Debt of the notes the consolidated financial statements .

(Additional information)

The “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, issued on March 10, 2008) and the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, issued on March 10, 2008) are applied effective the year ended March 31, 2010.

## 19. Derivatives

The Company and certain of its consolidated subsidiaries enter into currency swap contracts and interest-rate swap contracts in order to manage certain risk arising from adverse fluctuation in foreign currency exchange rates and interest rates. The Company and certain of its consolidated subsidiaries are also exposed to the risk of credit loss in the event of nonperformance by the counterparties to these currency swap 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, 2010 and 2009:

## 1. Derivatives for which hedge accounting is not applied

## (1) Currency-related transactions

	Millions of yen					
	2010			2009		
	Notional amount	Fair value	Unrealized gain	Notional amount	Fair value	Unrealized gain
Foreign currency swaps:						
Receive fixed – U.S. dollars/ pay fixed – yen	¥ 2,935	¥ 384	¥ 384	¥ 3,308	¥ 260	¥ 260
Receive fixed – Euro/ pay fixed – yen	1,239	128	128	1,594	96	96
<b>Total</b>	<b>¥ 4,174</b>	<b>¥ 512</b>	<b>¥ 512</b>	<b>¥ 4,902</b>	<b>¥ 357</b>	<b>¥ 357</b>

Notional amount of receive fixed – U.S. dollars / pay fixed – yen includes a portion over 1 year of ¥1,036 million.

## (2) Interest-related transactions

	Millions of yen					
	2010			2009		
	Notional amount	Fair value	Unrealized gain	Notional amount	Fair value	Unrealized gain
Interest-rate swaps:						
Receive/fixed and pay/floating	¥ 10,000	¥ 70	¥ 70	¥ 15,000	¥ 251	¥ 251
Receive/floating and pay/fixed	10,000	(69)	(69)	15,000	(251)	(251)
<b>Total</b>	<b>¥ 20,000</b>	<b>¥ 0</b>	<b>¥ 0</b>	<b>¥ 30,000</b>	<b>¥ (0)</b>	<b>¥ (0)</b>

## 2. Derivatives for which hedge accounting is applied

## (1) Currency-related transactions

	Millions of yen			
	2010			
	Hedged item	Notional amount	Fair value	Unrealized gain
Foreign exchange forward contracts:				
Buy: U.S. dollars	Accounts	¥17,786	¥73	¥73
Buy: Euro	payable	35	1	1

Notional amount of buy position in U.S. dollars includes a portion over 1 year of ¥9,701 million.

## (2) Interest-related transactions

	Millions of yen			
	2010			
	Hedged item	Notional amount	Fair value	Unrealized gain (loss)
Interest-rate swap:				
Receive/floating and pay/fixed	Long-term debt	¥41,000	(*)	(*)
<b>Total</b>		<b>¥41,000</b>		

Notes(\*): 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 the long-term debt.

## 20. Amounts Per Share

	Yen	
	2010	2009
Net income:		
Basic	¥ 22.13	¥ 1.93
Diluted	-	1.93
Cash dividends	10.00	10.00
Net assets	651.08	612.93

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 not been disclosed because no potentially dilutive securities were outstanding at March 31, 2010. Diluted net income per share at March 31, 2009 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 the 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.

## 21. Segment Information

The business segment information of the Companies for the years ended March 31, 2010 and 2009 is summarized as follows:

### Business Segments

	Millions of yen						Consolidated
	2010					Eliminations or unallocable accounts	
	Housing	Urban infrastructure and environmental products	High performance plastics	Other	Total		
Sales:							
Sales to third parties	¥398,130	¥182,689	¥241,390	¥ 36,304	¥ 858,514	¥ -	¥858,514
Intersegment sales or transfer	115	11,960	6,293	6,480	24,849	(24,849)	-
Net sales	398,245	194,649	247,683	42,785	883,363	(24,849)	858,514
Operating expenses	378,834	197,058	228,476	42,452	846,822	(24,264)	822,558
Operating income (loss)	¥ 19,410	¥ (2,409)	¥ 19,207	¥ 332	¥ 36,541	¥ (585)	¥ 35,955
Total assets	¥190,323	¥160,321	¥270,652	¥ 43,606	¥ 664,904	¥122,356	¥787,261
Depreciation and amortization	8,065	7,614	16,112	2,032	33,824	700	34,525
Loss on impairment of fixed assets	2,213	556	686	-	3,456	-	3,456
Capital expenditures	6,405	5,059	30,690	716	42,873	1,176	44,049

Millions of yen							
2009							
	Housing	Urban infrastructure and environmental products	High performance plastics	Other	Total	Eliminations or unallocable accounts	Consolidated
Sales:							
Sales to third parties	¥424,436	¥213,642	¥255,450	¥40,695	¥934,225	¥ -	¥934,225
Intersegment sales or transfer	56	11,577	7,192	5,499	24,325	(24,325)	-
Net sales	424,492	225,219	262,642	46,195	958,550	(24,325)	934,225
Operating expenses	407,358	223,568	246,845	46,870	924,643	(24,007)	900,635
Operating income (loss)	¥ 17,134	¥ 1,650	¥ 15,797	¥ (675)	¥ 33,907	¥ (317)	¥ 33,589
Total assets	¥183,454	¥173,993	¥230,423	¥43,245	¥631,118	¥125,332	¥756,450
Depreciation and amortization	8,728	7,803	17,124	2,251	35,907	621	36,529
Loss on impairment of fixed assets	-	-	70	-	70	-	70
Capital expenditures	6,202	6,233	19,132	1,926	33,495	1,044	34,539

Geographical segment information of the Companies for the year ended March 31, 2010 and 2009 is summarized as follows:

#### Geographical Segments

Millions of yen								
2010								
	Japan	United States of America	Europe	Asia	Other	Total	Eliminations or unallocable accounts	Consolidated
Sales:								
Sales to third parties	¥739,820	¥33,310	¥38,550	¥40,160	¥6,671	¥858,514	¥ -	¥858,514
Intersegment sales or transfer	30,664	3,683	1,823	2,509	366	39,047	(39,047)	-
Net sales	770,485	36,993	40,373	42,670	7,037	897,561	(39,047)	858,514
Operating expenses	738,892	36,792	38,600	41,307	6,045	861,637	(39,079)	822,558
Operating income	¥ 31,593	¥ 201	¥ 1,773	¥ 1,363	¥ 992	¥ 35,923	¥ 32	¥ 35,955
Total assets	¥525,014	¥47,664	¥50,161	¥46,107	¥6,233	¥675,181	¥112,080	¥787,261

Millions of yen								
2009								
	Japan	United States of America	Europe	Asia	Other	Total	Eliminations or unallocable accounts	Consolidated
Sales:								
Sales to third parties	¥805,903	¥33,899	¥42,264	¥46,632	¥5,525	¥934,225	¥ -	¥934,225
Intersegment sales or transfer	29,407	2,083	1,386	3,306	279	36,463	(36,463)	-
Net sales	835,310	35,983	43,650	49,938	5,804	970,688	(36,463)	934,225
Operating expenses	810,170	34,237	40,408	48,267	4,962	938,046	(37,410)	900,635
Operating income	¥ 25,139	¥ 1,745	¥ 3,242	¥ 1,670	¥ 842	¥ 32,641	¥ 947	¥ 33,589
Total assets	¥523,838	¥31,746	¥36,770	¥44,641	¥4,880	¥641,877	¥114,573	¥756,450

Overseas sales for the year ended March 31, 2010 and 2009 were as follows:

#### Overseas Sales

Millions of yen					
2010					
	America	Europe	Asia	Other	Total
Overseas sales	¥ 37,604	¥ 41,543	¥ 55,035	¥ 6,800	¥ 140,983
Consolidated net sales					858,514
Overseas sales as a percentage of consolidated net sales	4.4	4.8	6.4	0.8	16.4

Millions of yen					
2009					
	America	Europe	Asia	Other	Total
Overseas sales	¥ 38,985	¥ 47,626	¥ 59,022	¥ 5,961	¥ 151,596
Consolidated net sales					934,225
Overseas sales as a percentage of consolidated net sales	4.2	5.1	6.3	0.6	16.2

## 22. Business Combination

### (1) Acquisition of stock

On April 20, 2009, Sekisui America Co., Ltd., a wholly owned subsidiary of the Company, acquired 100% of the shares of American Diagnostica, Inc. ("ADI"), which is involved in the development, production and distribution of diagnostic reagents in the blood coagulation field. The Company determined that the acquisition would enable the establishment of an overseas base for the diagnostic reagents business in a short period of time. ADI specializes in the blood coagulation field, has strong customer relationships and earns stable profits. ADI is expected to expand in the cancer field, developing the cancer diagnostic reagents.

The aggregate cost for the acquisition was \$30 million. This cost includes \$4 million of the present value of a contingent consideration which is accounted for by the overseas subsidiary as the acquirer. A contingent consideration may be paid additionally depending on achievement targets that are performance based and others in the certain years after the closing.

Goodwill of \$7 million arising from the acquisition is being amortized over a period of 5 years.

The accompanying consolidated statement of income for the year ended March 31, 2010 reflects the operating results of ADI for the period from April 21, 2009 to December 31, 2009. The amounts of assets acquired and liabilities assumed of ADI at the date of acquisition are as follows:

	(Millions of U.S. dollars)
Current assets	\$ 6
Tangible assets	0
Intangible assets	23
Investments, long-term loans and other	0
Goodwill	7
Current liabilities	(1)
Long-term liabilities	(7)
Acquisition cost	<u>\$ 30</u>

(2) Acquisition of businesses

On July 1, 2009, Sekisui America Corporation, a wholly owned subsidiary of the Company, established Sekisui Specialty Chemicals America, LLC. which then acquired the business of Celanese Ltd. In a related transaction, Sekisui Specialty Chemicals Europe, S.L. acquired the business of Celanese Chemicals Ibérica S.L., which is involved in the production and distribution of polyvinyl alcohol resin business. The Company determined that the acquisition would enable it to establish a stable supply system of raw materials and enhance the supply chain in the interlayer films for laminated glass business of the high performance plastics business. The aggregate acquisition cost for the business of Celanese Ltd. and the business of Celanese Chemicals Ibérica S.L. were \$131 million and €26 million, respectively. The acquisitions were accounted for using the purchase method of accounting. As Sekisui Specialty Chemicals America, LLC. was the acquiring company, goodwill of \$0.7 million arising from the acquisition was charged to the statement of income for the year ended March 31, 2010. As Sekisui Specialty Chemicals Europe, S.L. was the acquiring company, goodwill of €0.9 million arising from the acquisition is being amortized over a period of 5 years.

The accompanying consolidated statement of income for the year ended March 31, 2010 reflects the operating results of Sekisui Specialty Chemicals America, LLC. and Sekisui Specialty Chemicals Europe, S.L. for the period from July 1, 2009 to December 31, 2009. The amounts of assets acquired and liabilities assumed of Celanese Ltd. and Celanese Chemicals Ibérica S.L. at the date of acquisition are as follows:

Celanese Ltd.

	(Millions of U.S. dollars)
Current assets	\$ 25
Tangible assets	95
Intangible assets	10
Goodwill	0
Current liabilities	(0)
Other	(0)
Acquisition cost	<u>\$131</u>

Celanese Chemicals Ibérica S.L.

	(Millions of Euro)
Current assets	€ 13
Tangible assets	13
Goodwill	0
Current liabilities	(0)
Other	(1)
Acquisition cost	<u>€ 26</u>

## Report of Independent Auditors

The Board of Directors  
Sekisui Chemical Co., Ltd.

We have audited the accompanying consolidated balance sheets of Sekisui Chemical Co., Ltd. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sekisui Chemical Co., Ltd. and consolidated subsidiaries at March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

*Ernst & Young Shin Nihon LLC*

Osaka, Japan  
June 18, 2010