

**SEKISUI**

# RISING TO THE OCCASION

**ANNUAL REPORT**

**2011**

Version 2 (Full Report)

Year Ended March 31, 2011

**SEKISUI CHEMICAL CO., LTD.**

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**NOTE ON THE RELEASE OF  
THE SEKISUI CHEMICAL “ANNUAL REPORT 2011”*****Release of “Annual Report 2011, Version 2 (Full Report)”***

Sekisui Chemical released a preliminary report, entitled “Annual Report 2011, Version 1 (Preliminary Report)” to address investor concerns regarding the ramifications of the March 11, 2011, Great East Japan Earthquake for the Company. The preliminary report only included messages from the Company President and the presidents of each of the three internal divisional companies concerning the anticipated impact of the disaster on the Company’s earnings and market risk as of April 2011.

The Sekisui Chemical “Annual Report 2011, Version 2 (Full Report)” provides updated reports by the Company President and the presidents of each of the three internal divisional companies concerning the impact of the disaster on the Company’s earnings and market risk as of the end of the first quarter of fiscal year 2011. The reports are presented in the “Fiscal Year 2011 Plan” section under the headings “Impact of the Great East Japan Earthquake” and “Market Environment.”

The “Annual Report 2011, Version 2” is the Company’s full “Annual Report” for the fiscal year ended March 31, 2011, and contains all of the sections in our standard annual reports, including the “Corporate Information” sections on corporate governance, research and development, list of Directors, Auditors, and Executive Officers and the “Financial Reports” for fiscal year 2010.

We plan to issue an “Annual Report 2011, Version 3 (Supplemental Report)” as of the end of the second quarter with reports on any changes in the status of the disaster’s impact on the Company’s earnings and market risk.

August 2011

**For further information please contact:**

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### PERFORMANCE HIGHLIGHTS

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

	Billions of yen			Millions of U.S. dollars*1
	FY2008	FY2009	FY2010	FY2010
<b>OPERATING RESULTS:</b>				
Net sales	¥ 934.2	¥ 858.5	¥ 915.5	\$ 11,010
Operating income	33.6	36.0	49.3	593
Ordinary income	29.4	31.1	48.3	581
Income before income taxes and minority interests	12.8	23.3	39.8	479
Net income	1.0	11.6	23.6	284

#### FINANCIAL POSITION:

	Billions of yen			Millions of U.S. dollars*1
Total assets	¥ 756.5	¥ 787.3	¥ 790.2	9,503
Shareholders' equity	322.0	342.0	339.7	4,086
Interest-bearing debt	129.4	133.1	124.5	1,497

#### CASH FLOWS:

	Billions of yen			Millions of U.S. dollars*1
Free cash flow	¥ (7.8)	¥ 15.1	¥ 12.6	\$ 152

#### PER SHARE AMOUNTS

	Yen			U.S. dollars*1
Net income, non-diluted (EPS)	¥ 1.93	¥ 22.13	¥ 44.92	\$ 0.54
Cash dividends	10.00	10.00	13.00	0.16
Net assets	612.93	651.08	650.83	7.83

#### RATIOS

Operating income ratio*2 (%)	3.6	4.2	5.4
Return on equity (ROE)*3,4 (%)	0.3	3.5	6.9
Return on total assets (ROA)*3,5 (%)	3.8	4.0	6.1
Equity ratio (%)	42.6	43.4	43.0
Debt/Equity ratio*6 (%)	40.2	38.9	36.6

#### Other Data:

Total number of employees	19,742	19,761	19,770
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\*1: U.S. dollar amounts represent translations of Japanese yen, for the readers' convenience only, at the rate of ¥83.15 = U.S.\$1, the prevailing exchange rate on March 31, 2011.

\*2: Operating income ratio = Operating income / Net sales

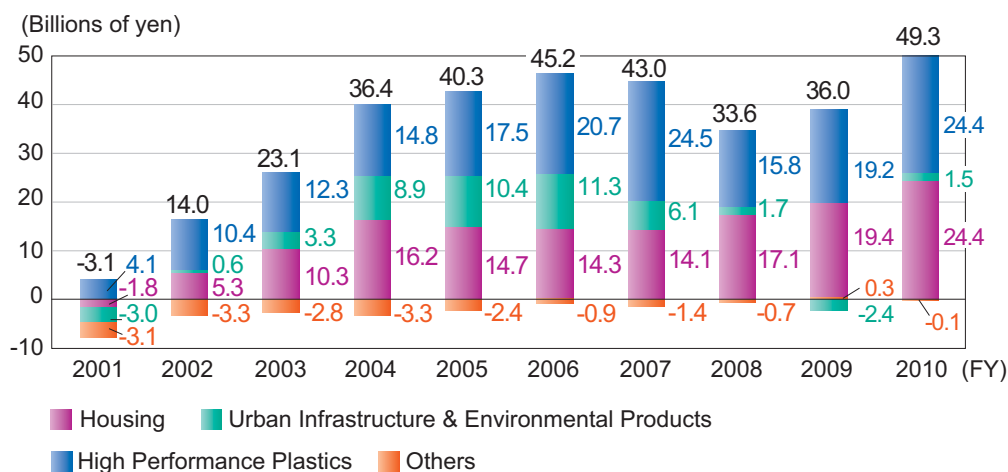
\*3: ROE and ROA are calculated using the simple average of the beginning and end of term balance sheet figures.

\*4: ROE = Net income / Shareholders' equity

\*5: ROA = Ordinary income / Total assets

\*6: Debt/Equity ratio = Interest-bearing debt / Shareholders' equity

#### Operating Income by Business Segment



### PERFORMANCE HIGHLIGHTS

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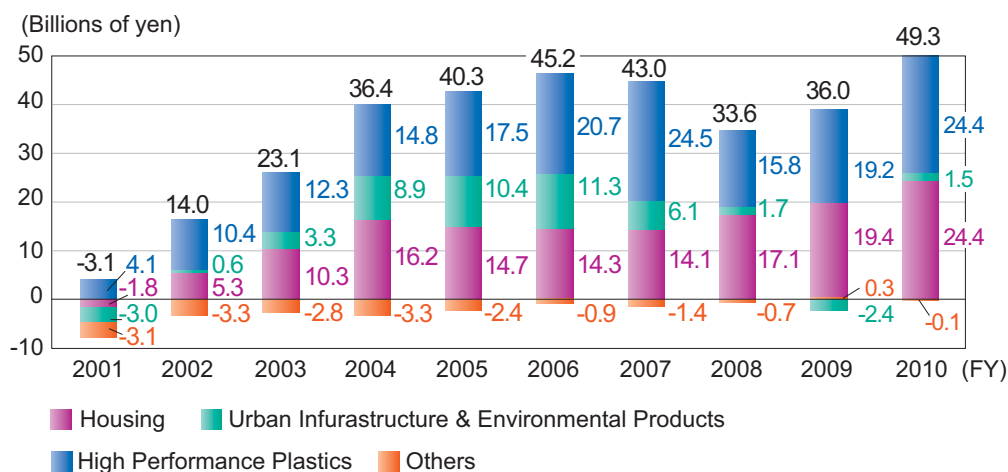
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#### Operating Income by Business Segment



## TO OUR SHAREHOLDERS AND INVESTORS

We wish to express our heartfelt condolences and deepest sympathies to all who were affected by the March 11 Great East Japan Earthquake.

We are pleased to report Sekisui Chemical's performance results for fiscal year 2011, ended March 31, 2011. We are currently advancing the GS21-SHINKA! five-year medium-term management plan (fiscal years 2009 to 2013), designed to fulfill our Group vision of establishing Sekisui Chemical as a "Prominent & Profitable Premium Company."

GS21-SHINKA! is divided into two phases, the initial Stage 1, covering fiscal years 2009 and 2010, and Stage 2, starting in fiscal year 2011 and ending in 2013. In fiscal year 2010, the final year of Stage 1, management focused on implementing two fundamental strategies: steadily capture growth demand and accomplish the strengthening of the earnings structure. The initial plan in April 2009 was to attain operating income of ¥40 billion in fiscal year 2010. Our efforts have proven successful, and we have far exceeded our target, posting an operating income of ¥49.3 billion for the year.

Stage 2 of the plan, covering fiscal years 2011 to 2013, is focused on advancing three strategies for business growth: 1) broaden business through value chain development, 2) accelerate global development, and 3) cultivate new growth segments.

The focus in this stage is on expanding revenue in each of the business segments, particularly in the "Frontier 7" businesses\* that we have designated as high-growth fields, with the objective of attaining overall operating income of ¥80 billion in fiscal year 2013, the final year of the GS21-SHINKA! plan.

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



### Net Sales and Operating Income by Division Company

(Billions of yen)

	FY2010				FY2011 (Plan)			
	Net Sales	YoY Change	Operating Income	YoY Change	Net Sales	YoY Change	Operating Income	YoY Change
Housing	418.7	20.4	24.4	5.0	444.0	25.3	27.0	2.6
UIEP*1	195.6	0.9	1.5	3.9	206.0	10.4	5.0	3.5
HPP*2	281.6	34.0	24.4	5.2	310.0	28.4	26.0	1.6
Others	43.1	0.4	-0.1	-0.5	45.0	1.9	-0.7	-0.6
Elimination	-23.5	1.3	-0.8	-0.2	-25.0	-1.5	-0.3	0.5
<b>Total</b>	<b>915.5</b>	<b>57.0</b>	<b>49.3</b>	<b>13.4</b>	<b>980.0</b>	<b>64.5</b>	<b>57.0</b>	<b>7.7</b>

\*1 UIEP: Urban Infrastructure & Environmental Products Company

\*2 HPP: High Performance Plastics Company

## Review of Fiscal Year 2010

(April 1, 2010, to March 31, 2011)

In fiscal year 2010, the Sekisui Chemical Group successfully captured growth demand by concentrating management efforts on meeting the rising demand in the “Frontier 7” businesses and in emerging countries, specifically in Asia. These efforts resulted in an 11% increase in sales over the previous year in the “Frontier 7” businesses, and a notable 23% rise in sales in the Asia region, which supported a 6.6% year-on-year increase in consolidated net sales to ¥915.5 billion in fiscal year 2010.

We also continued strengthening the earnings structure in line with our plan, through ongoing efforts to minimize fixed costs and cut other costs. Some domestic businesses encountered intensifying competition during the year, which put downward pressure on product prices; however, we were generally able to maintain our profit margins (the difference between product sales prices and material costs, plus the effects of cost cutting). The steady progress made in increasing revenue and improving the earnings structure enabled us to achieve a substantial 37.2% rise in operating income over the previous year, to ¥49.3 billion in fiscal year 2010, marking the highest income level since the internal divisional company system was adopted in fiscal year 2000.

The Company’s manufacturing facilities in the disaster-stricken areas incurred only slight damage from the Great East Japan Earthquake in March, and are currently operating at normal levels.

## GS21-SHINKA! Medium-term Management Plan: Review of Stage 1 (FY2009–FY2010)

In Stage 1 of the GS21-SHINKA! medium-term management plan, we overcame the post-Lehman Shock economic recession by implementing structural reform to strengthen the earnings structure and by focusing on the fields and regions promising solid demand growth, while enhancing our capabilities for future business expansion.

In fiscal year 2009, the plan’s first year, we substantially lowered the break-even point by implementing various structural reform measures. In fiscal year 2010, we achieved a marked recovery in earnings that surpassed our initial targets by effectively responding to the demand trends, which included both recovery demand mainly in industrialized countries and growth demand in emerging countries. We also reinforced our strategic businesses, particularly overseas, during these two years and established a high-profit structure for the Housing Company. The progress we made in structural reform proved beneficial as the UIEP Company regained profitability despite struggling amid dwindling domestic demand and

intensifying competition.

We also made steady progress in strategic investment and business fortification measures to prepare for future business expansion in fiscal year 2011 and beyond. In Europe and the United States, we expanded our business portfolios in interlayer films, pipeline renewal, and the medical field, and in Asia, we established a housing production and sales company in Thailand, with the aim of expanding the housing business into overseas markets.

These activities enabled us to attain operating income of ¥49.3 billion in fiscal year 2010, which vastly exceeded the plan’s initial target of ¥40.0 billion for the year. Based on the progress and performance results, I believe we have successfully achieved our goals for Stage 1 of the GS21-SHINKA! medium-term management plan.

## Fiscal Year 2011 Plan

(April 1, 2011, to March 31, 2012)  
(as of April 30, 2011)

### The Impact of the Great East Japan Earthquake and Market Environment\*

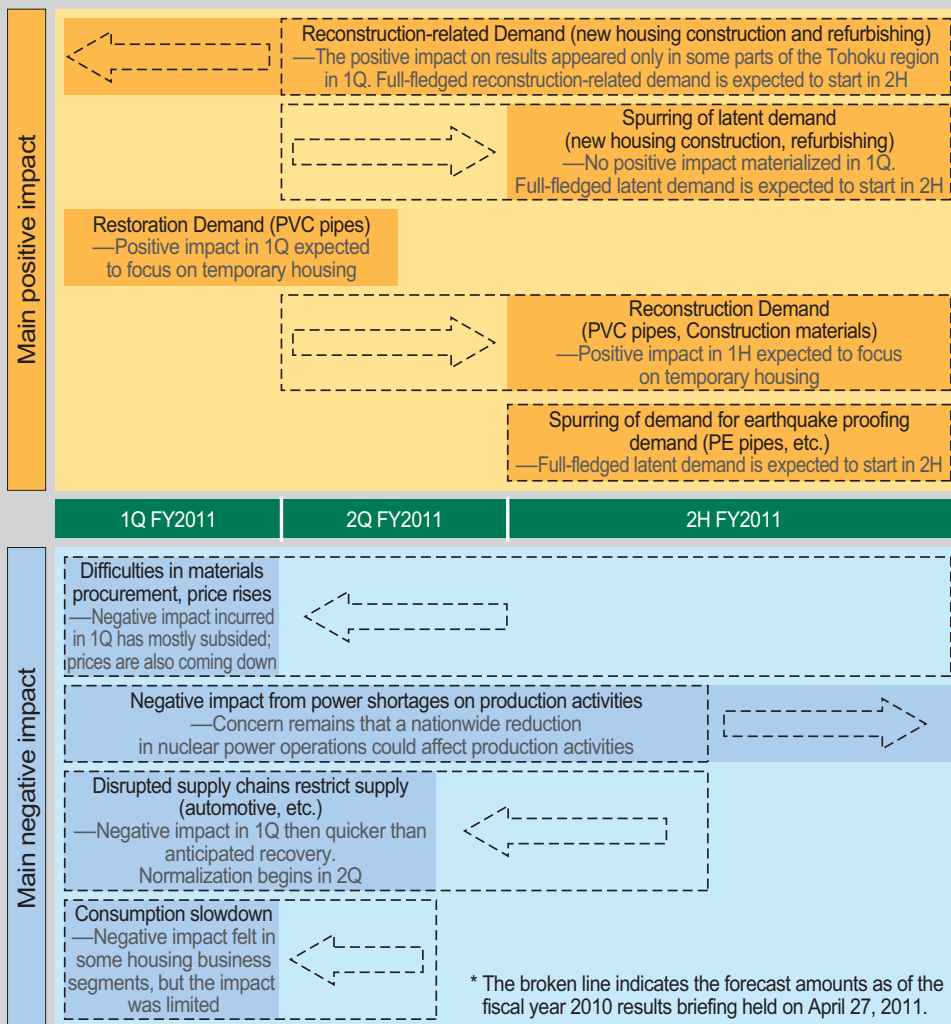
We have revised our fiscal year 2011 outlook as shown in the chart to reflect our current projections of how the disaster that struck Japan in fiscal year 2010 may affect our business performance in the year ahead. The new projections framed at the end of the first quarter replace our initial projections at the beginning of fiscal year 2011.

I would like to discuss the changes from our initial projections and the factors that we believe may have significant impacts on the business of the internal divisional companies and businesses.

Our order targets for the Housing Company are based on a market forecast that takes into account the disaster’s impact. We had expected a temporary lull in the market during the first half of fiscal year 2011 due to consumer hesitancy to spend and other factors followed by the beginnings of recovery in the second quarter. We also expected reconstruction-related demand and the emergence of latent demand to drive further growth in the second half. However, in the first quarter, the impact from consumer hesitancy was less than we had anticipated and reconstruction-related demand began appearing in some areas in the Tohoku region. In the second quarter, we now forecast gradually improving market conditions as consumer sentiment improves from the first quarter, including a brief rise in demand before government policies supporting housing purchases expire.

\*The information presented in the “Impact of the Great East Japan Earthquake” and “Market Environment” sections reflect the business conditions as of the end of the first quarter of fiscal year 2011. Regarding the Company’s forecasts for these two categories as of the fiscal year 2010 results briefing held on April 27, 2011, please refer to the “Annual Report 2011, Version 1”

**Expected Impact of Earthquake Damage (As of the End of 1Q)**



related demand will not pick up until the second half. We also expect to see the start of full-fledged demand for anti-seismic pipes and other materials for seismic upgrades and disaster resistance from the second half on.

We initially anticipated the HPP Company to face risk of weakened demand due to production adjustments for end-products caused by disruptions in the supply chain, particularly in AT (automotive materials) and IT related businesses. However, as of the end of the first quarter, the situations were improving faster than expected, and we now expect demand to return to normal levels beginning in the second quarter.

Overall, the negative impact from the disaster ultimately appears to be less than we had anticipated and the outlook for the domestic market environment is becoming less uncertain. Overseas markets are developing generally as we were expecting with solid growth driven by the expansion of the developing countries and a gradual recovery in the markets of Europe and the United States.

We anticipate full-fledged demand to begin in the second half, fueled by reconstruction-related demand, centered on the stricken regions, and the emergence of latent demand, such as for replacement construction in other regions.

For the UIEP Company, we initially anticipated growth in demand for PVC pipes for emergency lifeline reconstruction, followed in the second quarter by rising demand related to full-fledged urban reconstruction along with demand for anti-seismic pipes and other materials stemming from the increasing need for seismic upgrades and disaster resistance.

In the first quarter, demand related to urgent lifeline reconstruction, such as for PVC pipes for temporary housing did occur. However, it now appears that full-fledged reconstruction-

**Priority Measures**

Management will be focusing on two priority measures in fiscal year 2011, namely participation in the domestic reconstruction, and the delivery of a solid performance in the global market.

Participation in the domestic reconstruction begins with the Company extending its full cooperation to reestablish urgent lifelines in the disaster-stricken areas. These activities include the emergency production and supply of temporary housing and PVC pipes.

In the next phase of full-fledged reconstruction, we plan to take an active role by supplying products in our areas of specialty, including highly quake-resistant pipes and high-performance housing featuring exceptional anti-seismic and natural energy usage specifica-

tions, thereby playing a leading role in the reconstruction of urban environments with enhanced disaster-resistance capabilities.

Regarding the other priority measure, the delivery of a solid performance in the global market, we will maintain stable production and supply of liquid-crystal related materials, interlayer films for automobiles, and other products that command a strong market share in the global market, to eliminate the current concern over the global supply conditions in these fields. We will similarly continue to ensure stable production and supply of our diagnostic reagent products.

Whether it be in participation in the domestic reconstruction or the delivery of a solid performance in the global market, we will leverage the Company's strengths and play the role that is expected of us, with the aim of meeting the demands of society and contributing to the growth of industries.

### Business Plan

Our goal in the business plan for fiscal year 2011 will be to increase revenues in each of the Housing, UIEP, and HPP companies, by attracting growth demand, centering on the "Frontier 7" businesses.

On the income side, we will maintain our solid earnings structure during the year by increasing product prices and cutting costs to offset anticipated rises in material costs, while also controlling our fixed costs by restraining spending other than investment for business growth.

Through the steady implementation of the business plan, we are targeting net sales of ¥980.0 billion and operating income of ¥57.0 billion in fiscal year 2011.

### Financial Strategy and Shareholder Return Policy

Our financial strategy is based on the key management policies of increasing corporate value and ensuring a return of profit to shareholders. In line with these policies, we have established a target dividend payout ratio of 30% on a consolidated basis to be returned to shareholders in each fiscal term. In the fiscal year under review, we provided an interim dividend payment of ¥5 per share and increased the year-end payment by ¥3 to ¥8 per share, for a total annual dividend payment of ¥13 per share. We will retain internal cash reserves of an amount sufficient for covering R&D expenses, capital expenditures, strategic investment, financing activities, and other activities that we consider vital to assuring further improvement in corporate value into the future.

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

### In Closing

The Great East Japan Earthquake that struck in March devastated northeastern Japan and caused substantial damage throughout the country. Our Company incurred light damage to some production equipment and other facilities, but we have been able to reestablish normal operations. Immediately following the quake, we were also concerned about potential difficulties with regard to materials procurement. However, the situation was quickly rectified, and we think the impact on our production plans will be less than initially anticipated. While we have been able to stabilize our operating status, the extent of the earthquake's impact on many of our client companies is still unclear. As a result, the operating status of our client companies could influence our production operations and sales results.

Since its founding, Sekisui Chemical has worked to develop products that meet the needs of society, including those which are useful to the daily lives of individuals, and contribute to the protection of the natural environment. Despite the current circumstances, we maintain our intention to continue contributing, through our products and businesses, to the resolution of social issues and guiding the Group to fulfill the expectations and hopes of our shareholders and stakeholders.

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

June 2011



Naofumi Negishi, *President*

## AT A GLANCE

### Company Overview

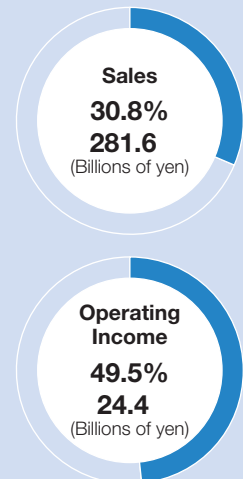
Sales\*<sup>1</sup> and Operating Income\*<sup>2</sup>  
Generated by Each Company (FY2010 results)

### HIGH PERFORMANCE PLASTICS COMPANY

Number of Employees (Consolidated, FY2010 year-end): 5,655



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

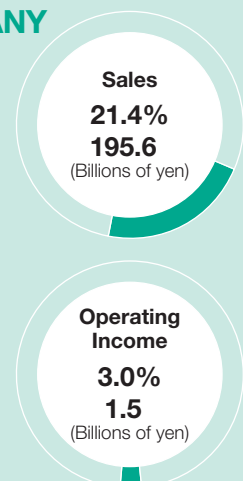


### URBAN INFRASTRUCTURE & ENVIRONMENTAL PRODUCTS COMPANY

Number of Employees (Consolidated, FY2010 year-end): 4,447



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

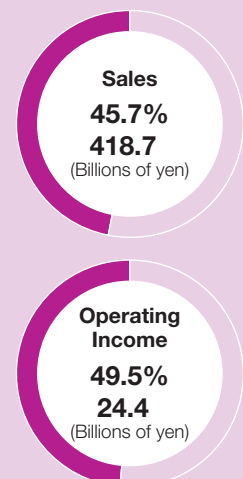


### HOUSING COMPANY

Number of Employees (Consolidated, FY2010 year-end): 8,637



The Housing Company is a leading provider of residential housing in Japan and enjoys a reputation as a high-quality builder based on its specialized Unit Construction Method that enables short construction periods and its highly refined manufacturing method that provides superior air-tightness and heat insulation features, two of the fundamental functions that define high quality residential housing. As customer needs become increasingly sophisticated, the Housing Company is taking the industry lead in developing high-performance housing guided by the concepts of environment, reliability, and comfort. One example is the revolutionary "zero-utility-cost house," which carved out a new market and is highly praised by customers for its leading-edge innovations. The Housing Company is also the market leader in solar powered housing, having sold a total of some 100,000 units of "houses with built-in solar power generation systems." The Housing Company rounds out its operations with the living environment business focused on meeting needs that arise during the time people are living in their homes. The business includes the nationwide "Fami S" refurbishing business providing products and services attuned to the changes in homeowner needs over the long-term.



\*1: Figures for net sales include inter-segment transactions. Net sales for Other Businesses was ¥43.1 billion, and eliminations and unallocatable accounts amounted to ¥23.5 billion.

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

Primary Business Areas	Main Products and Brand Names
<p><b>HIGH PERFORMANCE PLASTICS COMPANY</b></p> <p><b>AT (Automotive materials)</b> Interlayer films for laminated glass, Polyolefin foam, Automotive resin products, Double-sided tape</p> <p><b>IT (IT-related materials)</b> LCD fine particles, Photosensitive materials, Semiconductor materials, Optical adhesive tape and film</p> <p><b>MD (Medical products)</b> Diagnostic agents, Blood sampling plastic tubes, Transdermal drugs, Pharmacokinetics business</p> <p><b>Functional materials and others</b> Adhesives, Fire resistant tapes and sheets, Packaging tape, Packaging and agricultural film, Plastic containers</p>	<p>S-LEC™ (Interlayer film) Softlon™ (Foaming material)</p> <p>Micropearl™ (Spacer, Conductive fine particles)</p> <p>Cholestest™ (Cholesterol diagnostic agents) Insepack™ (Blood sampling plastic tubes)</p> <p>Fiblock™ (Thermal expansion fire-resistant material)</p>
<p><b>URBAN INFRASTRUCTURE &amp; ENVIRONMENTAL PRODUCTS COMPANY</b></p> <p><b>Pipe materials (water supply &amp; drainage, construction equipment, sewage pipes, electricity pipes, gas pipes, and others)</b> PVC pipes, Polyethylene pipe, Lining steel pipe, Plastic mass, Glass-reinforced plastic pipe etc.</p> <p><b>Performance materials</b> Sheets for aircraft interiors, Sheets for vehicle interiors &amp; exteriors, Fiber-reinforced foamed urethane (FFU)</p> <p><b>Industrial piping materials</b> Pipe materials for factory production equipment (valves, pipes, joints, etc.)</p> <p><b>Pipeline renewal</b> Materials, equipment and installation methods for pipeline renewal</p> <p><b>Building materials and housing equipment</b> Construction materials (rain gutters, materials for decks), Bathroom units</p>	<p>ESLON™ pipe series</p> <p>KYDEX™, ALLEN™, ESLON™ Neo Lumber FFU (Railway orbital sleeper)</p> <p>ESLON™ valves</p> <p>SPR Method™, Omega-Liner Method™, Pipe Line Diagnostic System</p> <p>ESLON™ rain gutters</p>
<p><b>HOUSING COMPANY</b></p> <p><b>Housing</b> Steel-frame unit house "Sekisui Heim", Wood-frame unit house "Sekisui Two-U", Subdivision land, "Reuse System House" built through the reuse of unit houses</p> <p><b>Living environment</b> Refurbishing business "Sekisui Fami-S", Interiors, Exteriors, Real estate (Leasing, brokerage)</p> <p><b>Others</b> Nursing and the elderly business</p>	<p><b>Detached houses</b></p> <p><b>Sekisui Heim (steel-framed)</b> Parfait series, Desio series, Domani series, bj series, CRESCASA</p> <p><b>Sekisui Two-U (wooden-framed)</b> 2x6 GRAND TO YOU series, 2x4 SEKISUI TO YOU HOME series</p> <p><b>Housing complex</b> Letoit series Life Style Planning series (Joint rental-occupancy homes) Harvestment series (Nursing-care facilities for elderly people, Congregate housing)</p>

## HIGH PERFORMANCE PLASTICS COMPANY



### PERFORMANCE HIGHLIGHTS

	FY07	FY08	FY09	FY10	FY11 (Plan)
(Billions of yen)					
Net sales	280.5	262.6	247.7	<b>281.6</b>	310.0
Operating income	24.5	15.8	19.2	<b>24.4</b>	26.0
Operating income ratio (%)	8.7	6.0	7.8	<b>8.7</b>	8.4

TAKAYOSHI MATSUNAGA, President of High Performance Plastics Company

### Results for Fiscal Year 2010

**Net sales: Increase of ¥34.0 billion to ¥281.6 billion**

**Operating income: Increase of ¥5.2 billion to ¥24.4 billion**

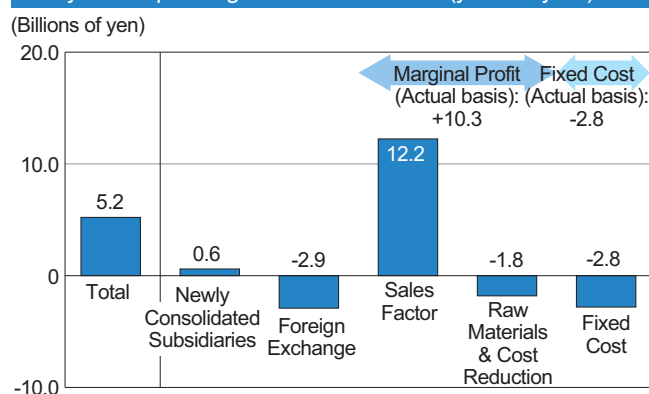
The High Performance Plastics (HPP) Company, under the banner “Chemistry for your Win,” adopts a business strategy of focusing management resources on the automotive materials (AT), IT-related materials (IT) and medical products (MD) fields. The company views these three fields as presenting significant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

The HPP Company solidly increased both net sales and operating income in fiscal year 2010 by steadily capturing the demand accompanying the recovery and growth of the markets in these three fields and by implementing measures to accelerate business growth and reinforce the business base.

The HPP Company’s efforts to expand business in the strategic fields and overseas generated a ¥34.0 billion year-on-year increase in net sales to ¥281.6 billion. Net sales in the strategic business fields rose by ¥14.7 billion to ¥134.6 billion for the year, largely as a result of expanded sales contributions from the AT and IT fields. Overseas sales also improved substantially, rising by ¥35.4 billion to ¥142.6 billion. The HPP Company achieved these results through increased production capacity and market development, which enabled the company to fully respond to the growth demand in Asia and other emerging markets, and also through the augmentation of its business scope via M&A activities in the AT field.

The HPP Company recorded operating income of ¥24.4 billion in fiscal year 2010. The operating income result reflected the positive impact of a ¥12.2 billion increase resulting from growth in sales, and the negative impact of a ¥1.8 billion decrease owing to higher materials costs and company efforts to reduce costs. The result was a ¥10.3 billion improvement in marginal profit in real terms.

### Analysis of Operating Income for FY2010 (year-on-year)



Additional factors influencing operating income for the year were the positive impact of a ¥600 million contribution from newly consolidated subsidiaries, the negative impact of a ¥2.8 billion increase in fixed costs from the reinforcement of staff accompanying overseas business expansion, and a ¥2.9 billion decrease as a result of the impact of the foreign exchange rate because of the strong yen. The overall result was a ¥5.2 billion increase in operating income from the previous fiscal year.

Operating income of ¥24.4 billion exceeded our initial target of ¥21.0 billion for the year, and came very close to the HPP Company’s record high of ¥24.5 billion, attained in fiscal year 2007.

In the strategic business fields, net sales in the AT field rose by ¥8.5 billion year on year to ¥58.1 billion in fiscal year 2010. While the strong yen and rising raw material costs were negative factors, increasing demand in emerging countries and recovering demand in Europe and the United States fueled a vigorous recovery in the AT market, with significant sales growth for interlayer film for laminated glass, polyolefin film, and other products.

While working to expand sales by solidly capturing growth demand, the HPP Company took steps during the term to prepare for future expansion in the AT field. One key step was to expand

production capacity for the core interlayer film products. The company increased production capacity for high value-added, high-performance interlayer films at the Shiga Minakuchi Plant in Japan and expanded the production lines for the interlayer film material polyvinyl butyral (PVB) resin at the plants in Shiga Minakuchi and the Netherlands.

In the IT field, net sales surged by ¥8.1 billion to ¥38.0 billion for the year, led by strong growth in sales of LCD panel-related products and other competitive products. During the year, the company expanded its production capacity for tape and film products with the aim of keeping pace with the rapidly rising demand for those products for touch panel applications accompanying the growing popularity of smart phones and other devices.

In the MD field, net sales declined by ¥2.0 billion, due to decreased sales of influenza diagnostic reagents resulting from the mild influenza season compared to the previous year, despite steady sales expansion of diagnostic equipment in Japan and diagnostic reagents overseas. However, excluding sales of influenza diagnostic reagents, which are highly dependent on seasonal conditions, net sales of the MD field increased by ¥1.6 billion. With the aim of positioning the HPP company for further growth in the MD field, Sekisui Chemical acquired the diagnostics business of U.S.-based Genzyme Corporation, focusing on the fields of biochemistry, diabetes, infectious diseases, and immunological testing.

**Fiscal Year 2011 Plan (as of April 30, 2011)**

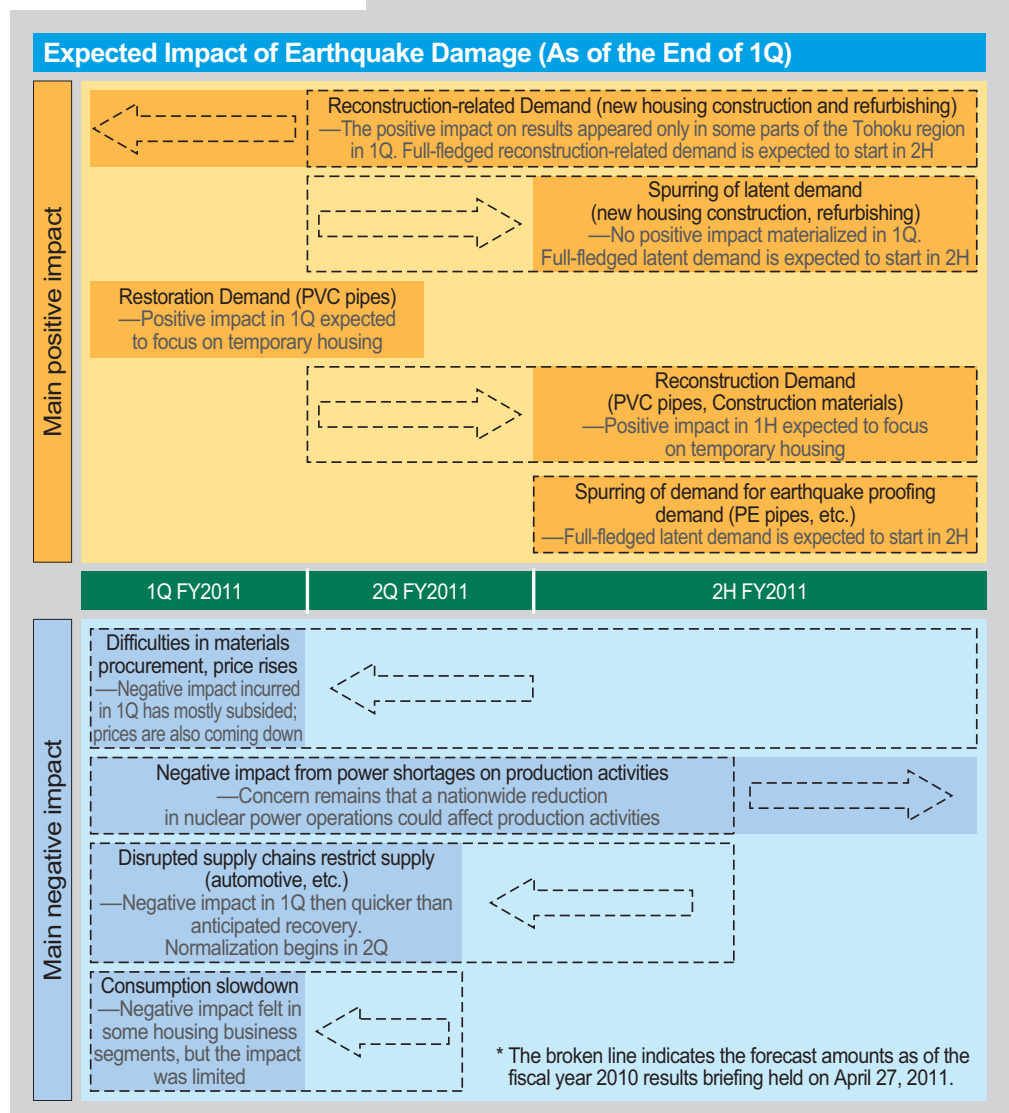
**Net sales: Increase of ¥28.4 billion to ¥310.0 billion**

**Operating income: Increase of ¥1.6 billion to ¥26.0 billion**

**Impact of the Great East Japan Earthquake\***

At the start of fiscal year 2011 (in April 2011), we anticipated that the disaster's biggest impact on our earnings could come from disruptions in the supply chain that could cause demand to fall short of our projections, which were based on assumptions in the AT (automotive materials) business of 6% year-on-year growth in global automobile production output and in the IT-related business of 5% growth in global LCD panel sales.

We initially expected the impact from the supply chain dis-



\*The information presented in the "Impact of the Great East Japan Earthquake" and "Market Environment" sections reflect the business conditions as of the end of the first quarter of fiscal year 2011. Regarding the Company's forecasts for these two categories as of the fiscal year 2010 results briefing held on April 27, 2011, please refer to the "Annual Report 2011, Version 1"

ruptions to continue into the second half of the fiscal year. While our performance was affected in the first quarter, as of the end of the first quarter the situation appears to be resolving faster than we had anticipated, and we now expect demand levels begin normalizing in the second quarter. We believe the demand fluctuation caused by the earthquake will be limited to the first quarter.

**Market Environment\***

Our initial outlook for the market environment in fiscal year 2011 was for ongoing strong demand for HPP Company products, particularly in overseas markets, led by emerging countries, Europe, and the United States, while the business outlook for the domestic Japanese market was uncertain. At the end of the first quarter, overseas market conditions are essentially as we had forecast while the domestic market outlook is becoming less opaque as the supply chain issues are resolved.

In the strategic business fields, automobile production in emerging countries is rising in the AT field and demand is expanding in line with our expectations in the IT field for materials used in tablet computers and smart phones.

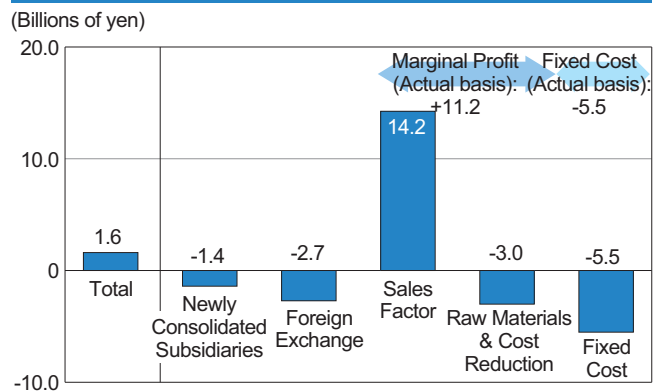
In the MD field, the decline in demand in the stricken regions for diagnostic reagents and other products led to an overall slowdown in domestic demand in the first quarter. We expect the disaster's repercussions on demand to fade in the second quarter. We continue to forecast the economic growth of emerging countries to support steady business in overseas markets across all of our product lines.

**Sales and Income Targets**

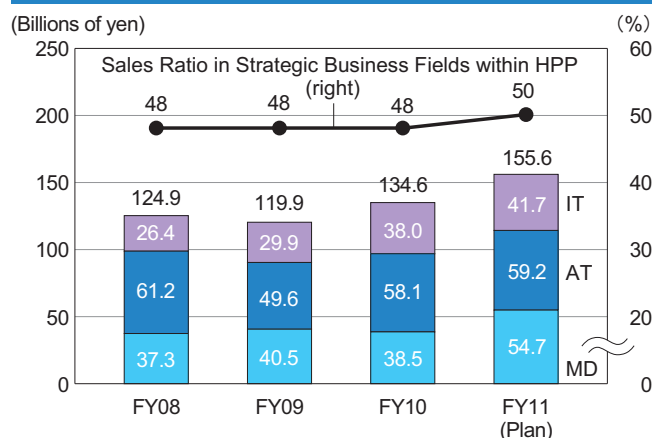
We plan to continue expanding sales in our strategic business fields and overseas business. Our sales target for the three strategic business fields is to raise total combined net sales by ¥21.0 billion year on year to ¥155.6 billion. In our overseas business, we will endeavor to maintain the rapid growth pace and increase net sales by ¥17.4 billion year on year to ¥160.0 billion. Based on the strong growth in the strategic business fields and overseas business, we are aiming for HPP Company to achieve net sales of ¥310.0 billion in fiscal year 2011.

We also plan to take steps to increase operating income. We expect a rise in marginal profit (¥14.2 billion) from the growth in sales to more than offset the anticipated negative impacts of higher raw material prices (¥3.0 billion after cost-cutting efforts), increased fixed costs due to higher labor costs and other expenses from newly consolidated companies (¥5.5 billion), costs associated with new consolidation (¥1.4 billion), and the impact of the foreign exchange rate (¥2.7 billion). As a result, we plan to increase operating income by ¥1.6 billion year on year to ¥26.0 billion in fiscal year 2011.

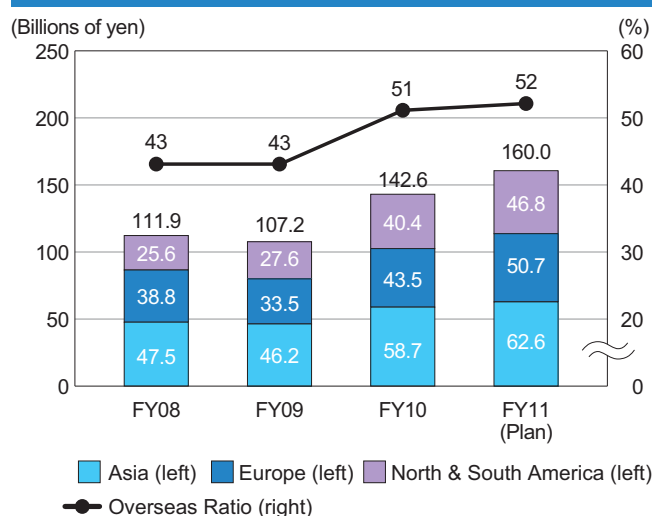
**Analysis of Operating Income for FY2011 (year-on-year)**



**Sales in Strategic Business Fields**



**Overseas Sales**



## Business Policy for Fiscal Year 2011 (as of April 30, 2011)

The HPP Company's first priority will be to implement measures to address the supply chain issues and prepare for anticipated power shortages following the Great East Japan Earthquake. These measures will focus on limiting the impact on product deliveries to customers by addressing issues related to parts procurement systems in which potential supply shortages are anticipated, as well as issues related to the expected power shortages and energy-conservation needs in summer. In particular, we will take steps to ensure that we maintain stable production and supply of our liquid crystal-related materials, automobile interlayer films, and other products that command high market shares in the global markets.

In addition, the company will place priority on the implementation of growth strategies and the solidification of the HPP Company's earnings base, to position the company for accelerated business growth and establish a strong business foundation. Growth strategies will focus on the continued efforts to strengthen the businesses in strategic fields and overseas, and on the development of new products and businesses.

Regarding the strategic business fields, in the AT field we will seek to establish the optimal production allocation on a global basis

as a measure to counter foreign exchange fluctuation risk and maximize profit. In the IT field, we will continue to fortify the peripheral businesses and technologies of our existing core businesses and products. In the MD field, we plan to bring the three previously acquired companies up to full operation.

Regarding strategic investments to fortify our operations in the strategic business fields, we have completed investments to boost production capacity in the AT field to respond to growing demand in emerging countries and rising demand for high-performance products, particularly in industrialized countries. In the MD field, our M&A moves have established a solid foundation for business expansion overseas. Beginning in fiscal year 2011, we will turn our attention to producing results through further sales growth. In the IT field, in order to fortify and expand business, Sekisui Chemical has acquired functional film maker Suzutora Corporation with the aim of capturing the booming demand for materials for use in touch panels and other new technologies.

In overseas business operations, the HPP Company is strengthening its local management capabilities while utilizing overseas business bases to offset foreign exchange risk and increasing overseas procurement of materials. The company is also making inroads into emerging markets to realize further business growth overseas.

## URBAN INFRASTRUCTURE & ENVIRONMENTAL PRODUCTS COMPANY



### PERFORMANCE HIGHLIGHTS

	FY07	FY08	FY09	FY10	FY11 (Plan)
(Billions of yen)					
Net sales	233.8	225.2	194.6	<b>195.6</b>	206.0
Operating income (loss)	6.1	1.7	-2.4	<b>1.5</b>	5.0
Operating income ratio (%)	2.6	0.8	-1.2	<b>0.8</b>	2.4

KOZO TAKAMI, President of Urban Infrastructure & Environmental Products Company

### Results for Fiscal Year 2010

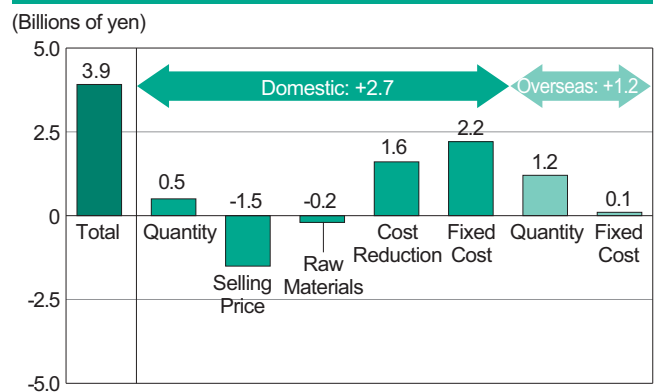
**Net sales: Increase of ¥0.9 billion to ¥195.6 billion**

**Operating income: Increase of ¥3.9 billion to ¥1.5 billion**

The Urban Infrastructure & Environmental Products (UIEP) Company is the leading supplier of resin pipe products in Japan. The UIEP Company, with its 50 years of accumulated know-how, has targeted the following products to be a driving force in future overseas growth: pipeline renewal products; glass reinforced plastic pipes; various piping products including industrial piping materials, such as valves; and performance materials, such as sheet material for aircraft and fiber-reinforced foamed urethane for railway applications. The UIEP Company aims to achieve a steady expansion in profits by creating an effective product mix of resin pipes and other products, which are the core profit earners for its domestic core businesses, and products from promising growth segments. Management has also been restructuring the domestic core businesses in response to the protracted stagnant demand in the domestic construction market, which has remained sluggish since fiscal year 2007.

The UIEP Company increased sales in the domestic core businesses in fiscal year 2010 by harnessing the recovery in detached housing demand to maintain sales volume amid downward pressure on product prices from intensifying competition. Growing demand for products in the social infrastructure stock and energy-saving fields, as well as other fields with growth potential also contributed to the domestic sales result. Overseas, the company's water infrastructure business struggled, but the sheet business rebounded sharply and the pipeline renewal business posted sales growth. As a result, the UIEP Company's overall net sales grew by ¥900 million year on year to ¥195.6 billion for the fiscal year.

### Analysis of Operating Income for FY2010 (year-on-year)



Operating income for domestic operations improved by ¥2.7 billion yen from the previous fiscal year. The increase was the sum result of positive contributions that included growth in sales volume accompanying a recovery in demand (¥0.5 billion), progress with cost-cutting efforts (¥1.6 billion), and lower fixed costs achieved through staff reductions (¥2.2 billion), which more than offset such negative factors as lower product prices amid intensifying competition (¥1.5 billion) and higher raw material costs (¥0.2 billion). Operating income overseas rose by ¥1.2 billion with increased sales volume (¥1.2 billion) and reduced fixed costs (¥0.1 billion) being the main contributing factors. Accordingly, the UIEP Company's efforts in fiscal year 2010 to reduce fixed costs and other costs, combined with the business recovery overseas, enabled the company to record operating income of ¥1.5 billion and achieve a positive income result for the first time in two years.

In fiscal year 2010, the company succeeded in establishing a profitable operating structure as a result of efforts to lower fixed costs and other costs, and simultaneously clarified three new issues that must

be addressed: 1) the limited ability to realize significant profit from single-item sales, 2) the need to revise marketing strategies to accelerate an expansion in sales of growth products, and 3) the need to reorganize the overseas water infrastructure business.

Management believes that to resolve these issues, the business model must be reformulated, namely through the adoption of new approaches and movement away from the previous methods that focused on expanding business by increasing the sale of single products through the expansion of target fields and sales regions. On the business operations level, we plan to introduce changes in the business activities of the value chain, addressing both upstream and downstream activities. On the product level, we will move away from single-item product sales and seek to expand “package” orders for multiple products sold as a package, including sales of product sets, auxiliary product sales, and system sales. We plan to begin implementing specific initiatives to realize this new business model early in fiscal year 2011.

**Fiscal Year 2011 Plan (as of April 30, 2011)**

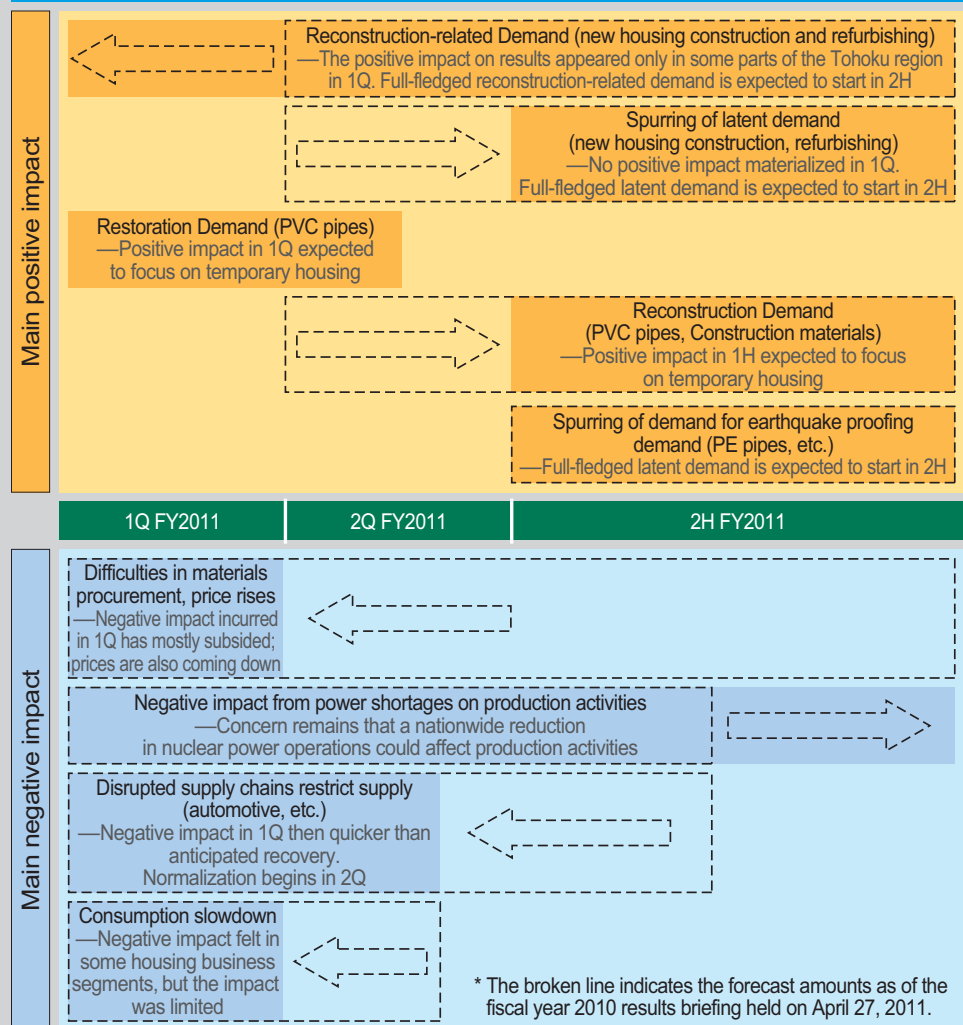
**Net sales: Increase of ¥10.4 billion to ¥206.0 billion**

**Operating income: Increase of ¥3.5 billion to ¥5.0 billion**

**Impact of the Great East Japan Earthquake\***

At the start of fiscal year 2011 (in April 2011), we expected a major impact on UIEP Company results from fluctuating demand in the PVC pipe, construction materials, and other products related to the post-disaster reconstruction. Our business results and product sales forecasts assumed a slight year-on-year increase in domestic new housing starts to the 830,000-unit level. Although not reflected in our forecast figures, we also anticipated growth in demand for PVC pipes for emergency life-line reconstruction followed in the second half by rising demand

**Expected Impact of Earthquake Damage (As of the End of 1Q)**



\*The information presented in the “Impact of the Great East Japan Earthquake” and “Market Environment” sections reflect the business conditions as of the end of the first quarter of fiscal year 2011. Regarding the Company’s forecasts for these two categories as of the fiscal year 2010 results briefing held on April 27, 2011, please refer to the “Annual Report 2011, Version 1”

related to urban reconstruction and along with demand for anti-seismic pipes and other materials stemming from increasing demand for seismic upgrades and disaster resistance.

At the end of the first quarter of fiscal year 2011, the main demand trend during the first quarter was restoration-related demand for PVC pipes and other materials for the construction of temporary housing. However, due to the government's slow development of reconstruction policies and other factors, we now expect full-fledged reconstruction-related demand to begin in the second half, later than our initial projection. We also expect anti-seismic demand, such as PE pipe replacement, to gain momentum in the second half.

### Market Environment\*

At the end of the first quarter, our forecast for the domestic market is virtually unchanged as we believe the rise in our housing orders in fiscal year 2010 and other factors signal a slight year-on-year growth in new housing starts in fiscal year 2011.

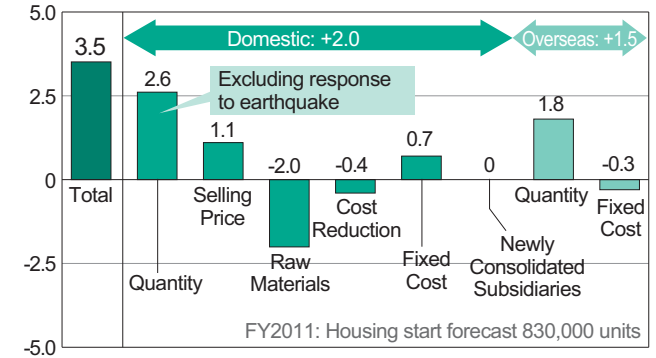
Our outlook for overseas markets is unchanged from our initial forecast for recovery in demand in the plant materials and pipeline renewal businesses, and in the sheet businesses from continuing market recovery in the aircraft industry.

### Sales and Income Targets

The UIEP Company plans to increase sales by concentrating management resources on expanding the domestic and overseas Frontier 7 businesses. Particular focus will be placed on growth products, centered on construction stock and energy-saving products, with the aim of boosting sales of growth products from ¥37.5 billion in fiscal year 2010 to ¥46.5 billion in fiscal year 2011. We also plan to increase sales by expanding the overseas operations for the pipeline renewal, sheet, water infrastructure, and industrial piping materials businesses. We are

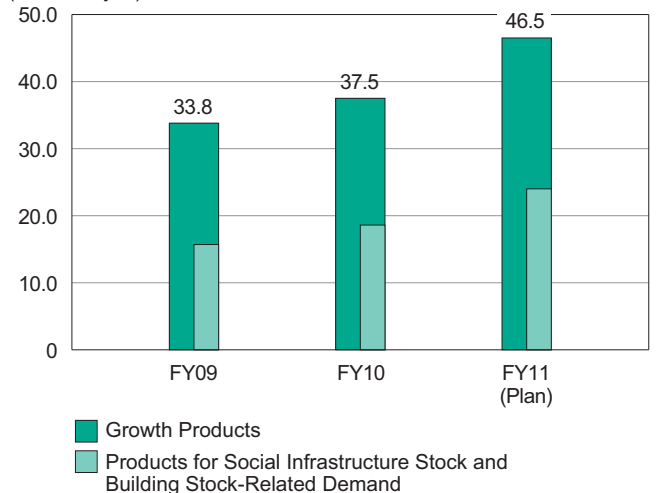
### Analysis of Operating Income for FY2011 (year-on-year)

(Billions of yen)



### Sales of Growth Products (Domestic Core Business)

(Billions of yen)



### Net Sales and Operating Income by Business Portfolio

(Billions of yen)		FY2010	FY2011 Plan	Difference
Domestic Core Business —PVC pipes and Construction materials (General purpose products), Bathroom units, etc.	Net Sales	103.1	105.7	2.6
	Operating Income	3.1	3.2	0.2
F7 (domestic) —Pipeline renewal, Industrial piping materials, PVC pipes and Construction materials (High functional products), etc.	Net Sales	46.4	54.2	7.8
	Operating Income	1.1	3.1	2.0
F7 (overseas) —Pipeline renewal, Water infrastructure (Overseas), Sheet, Industrial piping materials, etc.	Net Sales	29.4	33.8	4.5
	Operating Income	0.1	1.6	1.5
Headquarters and New business	Net Sales	16.7	12.3	-4.4
	Operating Income	-2.8	-2.9	-0.1
Total	Net Sales	195.6	206.0	10.4
	Operating Income	1.5	5.0	3.5

aiming for these initiatives to increase UIEP Company overall net sales by ¥10.4 billion on year to ¥206.0 billion in fiscal year 2011.

We will also work to reinforce the earnings base by continuing to cut fixed costs and other costs, particularly in the domestic core businesses, and by further lowering the break-even point. We lowered the sales to break-even point ratio from 103% in fiscal year 2009 to 97% in 2010, and are aiming to trim another five percentage points to bring it down to 92% in fiscal year 2011. We believe that is the level necessary to maintain an earnings base with the resilience to remain viable when domestic new housing starts reach the anticipated level of 700,000 starts per year.

We are also aiming to continue the growth achieved in the previous fiscal year and attain ¥5.0 billion in operating income in fiscal year 2011. We plan to achieve this target by expanding the sales volume to increase marginal profit, and by maintaining or raising sales prices amid the improving demand conditions.

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### Business Policy for Fiscal Year 2011 (as of April 30, 2011)

As a company that develops water supply and sewerage and other infrastructure that is so closely integrated into people's daily lives, our foremost priority in fiscal year 2011 will be contributing to the post-earthquake reconstruction.

To contribute to post-earthquake reconstruction, we are utilizing our bases in western Japan and overseas to reinforce our supply system for PVC pipes and other essentials for eastern Japan. We are also focusing on reestablishing the water supply and sewerage infrastructure for reconstruction, and are working to quickly establish a comprehensive response

system across the complete value chain, encompassing everything from surveying and diagnostics to product sales and construction, to meet the needs of that region. We are taking a proactive stance as a company, so as to play a leading role in the reconstruction of the infrastructure in the stricken areas and the fortification of the domestic infrastructure in Japan.

In addition, in fiscal year 2011 we aim to aggressively implement an offensive approach to business expansion, to substantially improve our sales and income, and are moving beyond our previous approach of fortifying the earnings base in response to declining demand. This new approach will entail: 1) revising the business model and broadening our business domain to expand sales, 2) solidifying the earnings base, and 3) actively expanding overseas businesses.

We plan to expand sales by revising the business model and broadening our business domain by eliminating our dependence on sales of single product items and by adopting a business model that will enable us to leverage our comprehensive business strengths and which places a priority on system sales and "package" orders. We will develop our overall strength by maximizing the utilization of the company's resources and aggressively establishing partnerships to fortify areas of weakness.

We intend to realize the solidification of our earnings base by reducing fixed costs, mainly in our core domestic businesses, to further lower the break-even point.

In our overseas business operations, we plan to use the demand recovery trend as a catalyst for accelerating the growth of our sheet, industrial piping materials, and pipeline renewal businesses. We also will continue advancing efforts to rebuild the overseas water infrastructure business. In China, we will seek to increase orders received from the inland regions, while also accelerating business expansion in the coastal regions.

## HOUSING COMPANY



TEIJI KOUGE, *President of Housing Company*

### PERFORMANCE HIGHLIGHTS

(Billions of yen)	FY07	FY08	FY09	FY10	FY11 (Plan)
Net sales	420.0	424.5	398.2	<b>418.7</b>	444.0
Housing	326.7	327.1	292.4	<b>301.0</b>	315.6
Living Environment	93.3	97.4	105.8	<b>117.7</b>	128.4
Operating income	14.1	17.1	19.4	<b>24.4</b>	27.0
Housing	11.1	13.7	15.4	<b>18.2</b>	19.5
Living Environment	3.0	3.4	4.0	<b>6.2</b>	7.5
Operating income ratio (%)	3.4	4.0	4.9	<b>5.8</b>	6.1

### Results for Fiscal Year 2010

**Net sales: Increase of ¥20.4 billion to ¥418.7 billion**

**Operating income: Increase of ¥5.0 billion to ¥24.4 billion**

The Housing Company utilizes the features of its unit construction method to develop business centered on high-performance and high value-added housing products. By employing a unique unit construction method, as much as 80% of the construction can be completed inside the factory, enabling both higher quality construction and shorter construction periods than other methods. Assembled from box-shaped units, our houses can easily be expanded or relocated and reconstructed on a different site. In addition, constructing the units inside the factory allows us to maintain an extensive database of the materials used in the construction. The database is a pivotal resource, which provides timely information to meet customer needs, such as for post-construction renovation projects.

The Housing Company is utilizing the database to develop a “cyclical value chain” that follows and meets customer needs at every stage, through the complete housing cycle, which includes new construction, maintenance renovation (painting, etc.), environmental reforms (such as solar power generation equipment installation, tiled exterior walls, etc.), refurbishing to life stages (kitchen and bathroom renovations, etc.), major refurbishments and additions, sales of existing houses, rebuilding, and relocation.

The housing market was firm in fiscal year 2010, with a year-on-year rise in new housing starts, supported by government measures to stimulate demand, which include housing finance incentives and an eco-point system for housing. Coupled with the upturn in the market environment, the Housing Company’s efforts to attract orders and the success of its ongoing measures to fortify its earning structure resulted

### Innovative Unit Technology



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



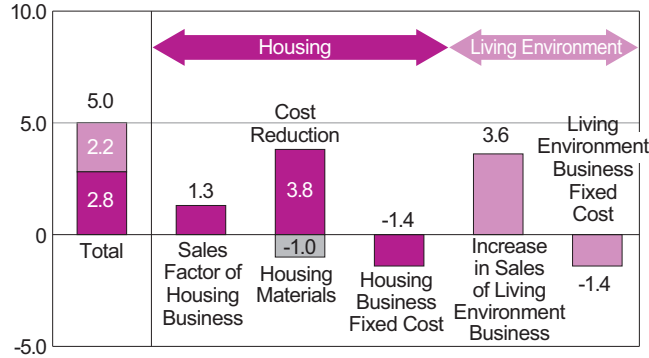
Swift on-site assembly completed in just one day

in growth in both net sales and operating income for the year.

In the housing business, net sales rose by ¥8.6 billion year on year to ¥301.0 billion in fiscal year 2010. The most significant factors in the improved performance were the recovery and growth in housing orders from a healthy order backlog at the start of the fiscal year as a result of the brisk orders in the previous year’s second half and a year-on-year rise in orders in the first half of fiscal year 2010. Operating income rose by ¥2.8 billion to ¥18.2 billion as the increased revenue

### Analysis of Operating Income for FY2010 (year-on-year)

(Billions of yen)



from sales (¥1.3 billion) and savings realized from progress in cutting costs (¥3.8 billion) overcame the negative impacts from higher material prices (¥1.0 billion) and fixed costs (¥1.4 billion).

In addition to the positive impact of various government measures to facilitate home purchases, order levels for the housing business were successfully revived and expanded by promoting the advanced environmental features of the company's products, centering on houses with built-in large-capacity solar power generation systems, as well as the comfort and other features. The Housing Company achieved year-on-year increases in housing orders of 9% in the first half, 1% in the second half, and 5% for the full year in fiscal year 2010. The order backlog at the start of fiscal year 2011 was 16% above the previous fiscal year level.

The living environment business, which centers on the refurbishment of residential houses, continued to fortify its business base, including adding 40 new sales staff during the year. It also worked to stimulate demand using a five-year periodic diagnostic testing system and successfully expanded sales of solar power generation equipment and other mainstay products. Consequently, net sales in the living environment business increased by ¥11.9 billion year on

year to ¥117.7 billion. Operating income grew by ¥2.2 billion to ¥6.2 billion, which was largely the result of a ¥3.6 billion increase in sales revenue, which more than offset a ¥1.4 billion rise in fixed costs accompanying the expansion of staff.

The Housing Company, which combines the results for the housing and living environment businesses, reported an increase in net sales of ¥20.4 billion to ¥418.7 billion and growth in operating income of ¥5.0 billion to ¥24.4 billion in fiscal year 2010, thereby posting a new 10-year high in operating income for the third consecutive year.

### Fiscal Year 2011 Plan (as of April 30, 2011)

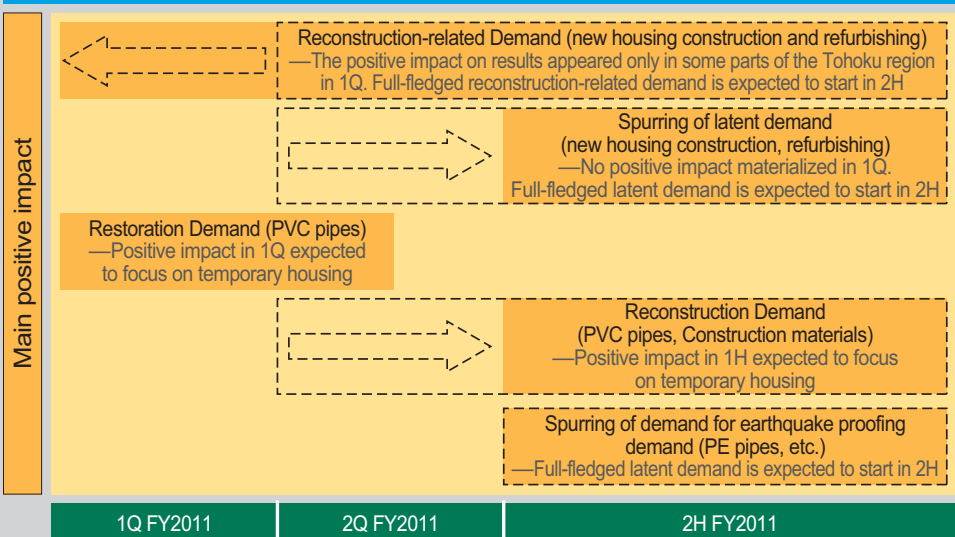
**Net sales: Increase of ¥25.3 billion to ¥444.0 billion**

**Operating income: Increase of ¥2.6 billion to ¥27.0 billion**

#### Impact of the Great East Japan Earthquake\*

In our report at the start of fiscal year 2011 (in April 2011), we

#### Expected Impact of Earthquake Damage (As of the End of 1Q)



\* The broken line indicates the forecast amounts as of the fiscal year 2010 results briefing held on April 27, 2011.

\*The information presented in the "Impact of the Great East Japan Earthquake" and "Market Environment" sections reflect the business conditions as of the end of the first quarter of fiscal year 2011. Regarding the Company's forecasts for these two categories as of the fiscal year 2010 results briefing held on April 27, 2011, please refer to the "Annual Report 2011, Version 1"

said that we thought the trends in the housing market might have a significant impact on the company's performance.

At the time, we anticipated a negative impact from consumer restraint and a positive impacts beginning in the second quarter from new housing construction, refurbishing, and other reconstruction-related demand in the stricken areas and from replacement construction and other latent demand in other areas.

At the end of the first quarter of fiscal year 2011, the reconstruction-related demand in the stricken areas had begun in some areas of northeastern Japan. However, it appears that the latent demand in other areas will not begin in earnest until the second half.

The Company has completed its mission of supplying temporary housing for emergency reconstruction, and it will not have a significant impact on earnings.

**Market Environment\***

Our initial outlook for the first half of the fiscal year was for a significant impact on our business to occur in the first quarter with consumer restraint and other factors causing a brief downturn in the housing market environment. We then expected the market environment to start recovering in the second quarter and show an improvement in the second half from reconstruction activity along with emerging latent demand arising from the growing need for enhanced seismic and disaster resistance upgrades.

At the end of the first quarter, although a certain degree of consumer restraint did appear during the quarter, the impact on our business was less than we had anticipated. Reconstruction demand also emerged in some areas of in the northeast, and the orders to the Housing Company in the first quarter were higher than we had projected.

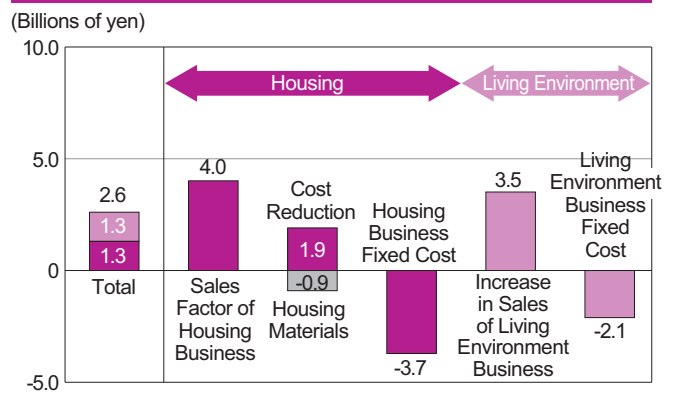
We expect conditions in the housing market to improve in the second quarter, partially due to a brief rise in demand ahead of the impending expiration of some government measures to facilitate home purchases. We anticipate reconstruction-related demand and surfacing latent demand, including increasing demand for disaster resistance upgrades.

**Sales and Income Targets**

We aim to expand sales in both the housing and living environment businesses. In the housing business, we are aiming to increase orders and enhance cost competitiveness by continuing to integrate the production and sales operations and reducing costs. Our fiscal year 2011 targets for the housing business are net sales of ¥315.6 billion and operating income of ¥19.5 billion.

In the living environment business, we plan to continue expanding sales of our solar, bath, kitchen, and other mainstay products while fortifying the business base, centered on increasing our sales staff, for ongoing growth in the future. Our fiscal year 2011 targets

**Analysis of Operating Income for FY2011 (year-on-year)**



for the living environment business are net sales of ¥19.5 billion and operating income of ¥7.5 billion.

Combined, we are aiming for the Housing Company to attain net sales of ¥444.0 billion and operating income of ¥27.0 billion in fiscal year 2011.

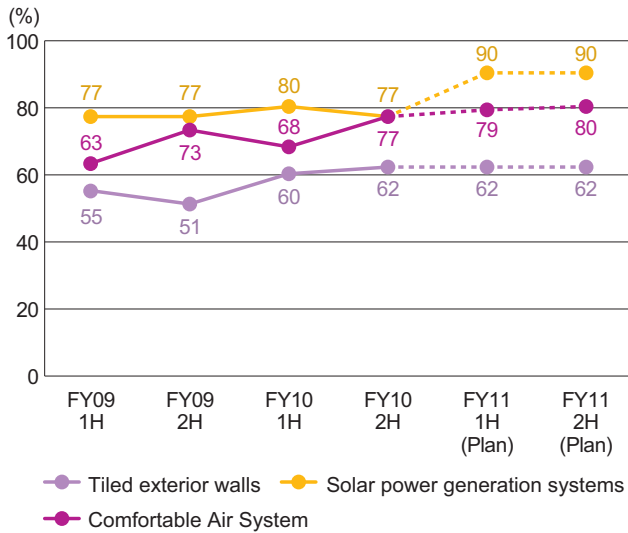
**Priority Measures for Fiscal Year 2011 (as of April 30, 2011)**

Our main priority in fiscal year 2011 is to respond to the reconstruction needs following the disaster—first and foremost of which will be to meet the urgent need to construct temporary housing. This will be followed by the aggressive provision of high-performance housing with superior quake-resistance and natural energy usage capabilities as key elements for creating towns with greater disaster resistance.

As a homebuilder, we feel it is our corporate duty to play a principal role and put every effort into the reconstruction and reinforcement of the domestic infrastructure. We will focus on capturing replacement and new construction demand (including rebuilding on new sites) in the stricken regions and surrounding areas that can be anticipated in the first stages of full-fledged reconstruction. We will also actively promote sales of seismic-resistant housing and housing with built-in solar power generation equipment to respond to increasing demand for construction related to disaster resistance and for natural energy usage.

Specific measures to attract orders in the housing business will focus on expanding orders by introducing new products and emphasizing high-performance feature options to differentiate our products along with fortifying our sales force and organization. As a first step in new products and product differentiation, in April we launched the “Smart Heim” series of homes designed for maximum energy efficiency, and are moving to incorporate the energy-efficient systems into all of our housing products. With the aim of capturing demand in the price-volume zone of the housing market, we plan to aggressively introduce affordably priced models with readily perceivable cost performance. Sales force and organizational fortification will

Sales Percentages of Homes with High-performance Options (Order base)



consist of expanding sales staff (by adding approximately 300 new recruits) and implementing region-specific strategies through ongoing integration of the production and sales operations.

Through these initiatives, we aim to realize year-on-year increases in unit orders of 2% in the first half, 8% in the second half, and 5% for the full-year period in fiscal year 2011.

We will also continue to implement cost-cutting measures to offset the negative impacts from higher materials costs and fixed costs and realize profit growth.

In the living environment business, efforts to increase orders and expand sales will continue to focus on differentiating our products by expanding sales of solar power generation equipment to take full advantage of the government support for the use of renewable energy. Strategies will also be implemented to expand sales of bath, kitchen, and other mainstay products. In addition, we plan to increase the refurbishing business sales staff by 70 people and fortify the business base for further growth from fiscal year 2011 onward.

## REVIEW AND ANALYSIS OF CONSOLIDATED RESULTS FOR FISCAL YEAR 2010

Year ended March 31, 2011

### Business Environment

The global economy in fiscal year 2010 showed signs of building a strong recovery in the first half fueled by the rapid economic growth in China and other developing countries. However, shadows have been cast on the recovery from the second half amid an accumulation of negative factors, including fading effectiveness of stimulus measures in developed nations, credit anxiety in Europe, and political instability in the Middle East.

The Japanese economy likewise appeared to be headed for recovery in the first half, with the growing demand in developing countries boosting activity at export companies and further support from governmental economic stimulus measures. However, momentum dissipated in the second half when the stimulus measures expired and global economic activity slowed as well as from the impact of the stronger yen. The nation's economic future was further cast in doubt when the March 11 Great East Japan Earthquake impacted both private consumption and corporate earnings.

In these conditions, fiscal year 2010 marked the final year of the first phase of the Sekisui Chemical Group's "GS21-SHINKA!" Medium-term Management Plan (fiscal years 2009-2013) begun in fiscal year 2009. In this first phase, the Company implemented several measures to raise earnings back to the pre-Lehman shock level, including capturing the growing demand centered on the "Frontier 7" businesses, lowering the break-even point, and conducting strategic investment and fortifying operations for further growth.

By business segment in fiscal year 2010, in the domestic housing field, government support measures for new housing starts stimulated construction activity helping to raise new housing construction starts above the previous fiscal year to 819,020 units. As a result, the Company successfully generated a recovery and growth in housing orders and ultimately raised full-year housing orders 5% over the previous fiscal year. We also successfully increased the order backlog at beginning of fiscal year 2011, with a 16% larger backlog than a year earlier.

The recovery in housing starts also had a positive effect on peripheral business fields, such as housing equipment and construction materials. The Company saw recovering sales volumes for its core PVC and other products accompanying the recovery in demand for detached houses. Sales also grew for our differentiated products in the energy-saving and other fields as well as in the stock field.

In the infrastructure field, the overseas pipeline renewal field in particular benefited from the falling away of various factors from fiscal year 2009, including the project postponements due to worldwide unseasonable weather, and sales expanded in the Eastern Europe and other regions. At the same time, the overseas water infrastructure field struggled to produce results, which was partially due to the turmoil in China's Xinjiang Uyghur Autonomous Region. However, worldwide water environment issues are becoming more critical and new infrastructure construction demand in developing countries with rapidly growing populations and infrastructure renewal demand in developed countries with aging facilities continue to be urgent issues.

Sales in the automotive field improved substantially in fiscal year 2010 on rising demand in developing countries and recovery in the markets of Europe and the United States. The Company generated strong sales growth in the IT field with a focus on its highly competitive products. In the medical field, demand declined for influenza diagnostic reagents following last year's influenza epidemic while sales increased for other diagnostic reagents.

Although the business environment was not altogether positive in fiscal year 2010, the Company was able to achieve growth in sales from the expanding "Frontier 7" businesses and by capturing the growing demand, particularly in the Asian region. At the same time, the continuous progress in increasing our earnings strength enabled us to record the highest operating income level since the introduction of the internal divisional company system.

Analysis of Business Results and Financial Position

I. Analysis of Business Results for Fiscal Year 2010

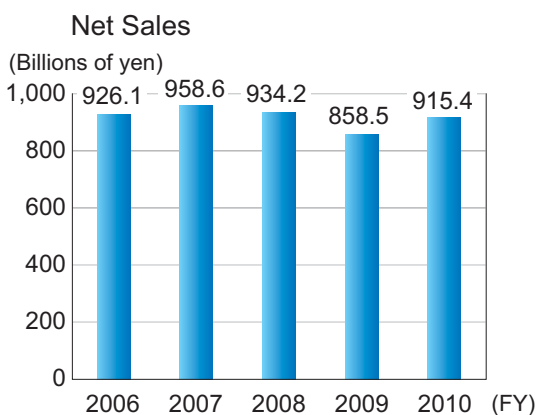
1) Net sales

Net sales in fiscal year 2010 amounted to ¥915,492 million, an increase of ¥56,978 million, or 6.6%, from the previous fiscal year.

Housing Company net sales amounted to ¥418,687 million in fiscal year 2010, representing an increase of ¥20,442 million, or 5.1%, from the previous fiscal year. In the new housing construction business, sales rose year on year from successful marketing of the products' advanced environmental, economical, and high-performance features, the lineup of products with superlative cost performance, and expanded sales of products commemorating the 40th anniversary of the housing business. These efforts overcame the temporary production halts at production bases, delayed delivery of completed products, and other repercussions from the Great East Japan Earthquake. In the living environment business, sales were brisk for product models with solar power generation systems and with environmental and comfort enhancement features.

Urban Infrastructure & Environmental Products Company net sales amounted to ¥195,570 million in fiscal year 2010, representing an increase of ¥921 million, or 0.5%, from the previous fiscal year. Although overseas business remained strong during the year, the overall sales growth was constrained by domestic business conditions, which included recovering demand for detached houses and an accompanying expanding sales volume for PVC pipes and rain gutters, but which also included intensifying competition and declining product prices.

High Performance Plastics Company net sales in fiscal year 2010 amounted to ¥281,642 million, an increase of ¥33,958 million, or 13.7%, from the previous fiscal year. Sales were boosted by steady activity in the automotive field supported by growing demand in

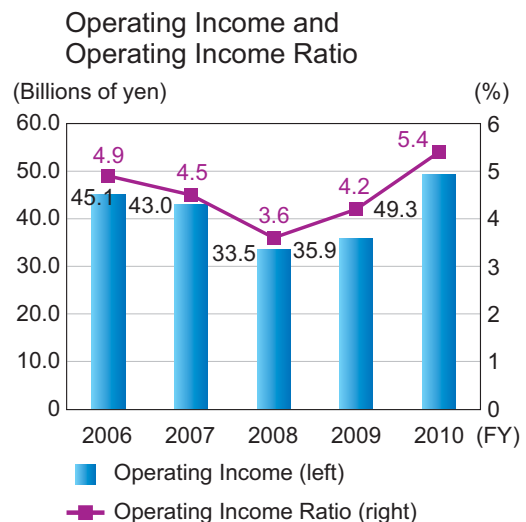


emerging countries, notably in Asia, and recovery in the Japan, Europe, and the United States markets. Although sales in the IT field were affected by client inventory adjustments implemented in the third quarter of fiscal year 2010, the cumulative sales were strong for the first half. Sales of diagnostic reagents other than those for influenza were brisk during the year, but overall sales in the medical field declined due to the reduced shipments of influenza diagnostic reagents from the previous year's high level.

Net sales in Other Businesses in fiscal year 2010 increased by ¥355 million, or 0.8%, year on year to ¥43,140 million.

2) Operating income

Operating income in fiscal year 2010 amounted to ¥49,335 million, an increase of ¥13,379 million, or 37.2%, from the previous fiscal year. The growth was largely due to the ¥17,633 million increase in gross profit that accompanied the rise in sales, and which more than offset the ¥4,253 million increase in selling, general and administrative expenses.



3) Non-operating income and expenses

Non-operating expenses declined by ¥3,426 million from the previous fiscal year with a decrease in miscellaneous expenses of ¥4,977 million while an increase in foreign exchange loss of ¥1,505 million.

4) Extraordinary income and loss

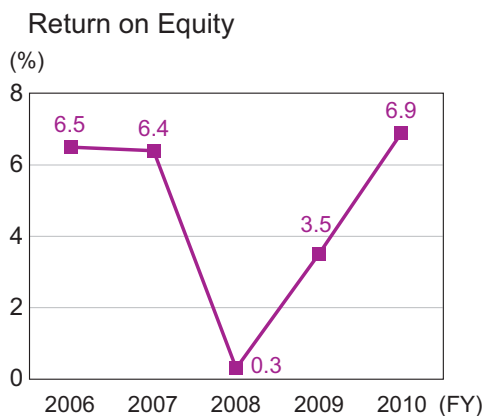
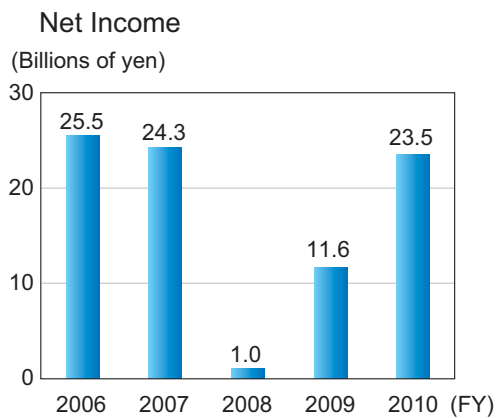
Extraordinary loss amounted to ¥8,491 million, representing a decline of ¥256 million, or 2.9%, year on year. The decline comprised ¥3,967 million reorganization costs, ¥1,239 million disaster

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

loss, a ¥1,109 million loss on devaluation of investments in securities, a ¥984 million loss on impairment of fixed assets and goodwill, and a ¥1,189 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 2010 increased ¥16,456 million from the previous fiscal year to ¥39,801 million. After taxes and minority



interests, net income amounted to ¥23,574 million, an increase of ¥11,947 million, or 102.8%, from the previous fiscal year.

## II. Financial Position

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

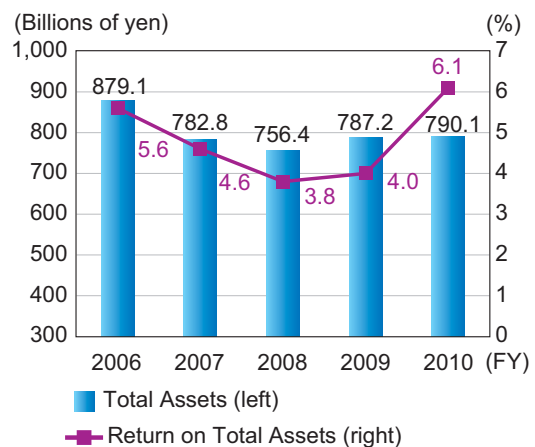
Total assets at the end of fiscal year 2010 amounted to ¥790,189 million, an increase of ¥2,928 million from the previous fiscal year-end.

#### (Assets)

Current assets rose ¥35,960 million from the previous fiscal year to ¥379,485 million at the end of fiscal year 2010. The main elements

were a combined ¥20,345 million increase in cash and deposits and marketable securities, and a ¥10,653 million increase in inventories.

### Total Assets and Return on Total Assets

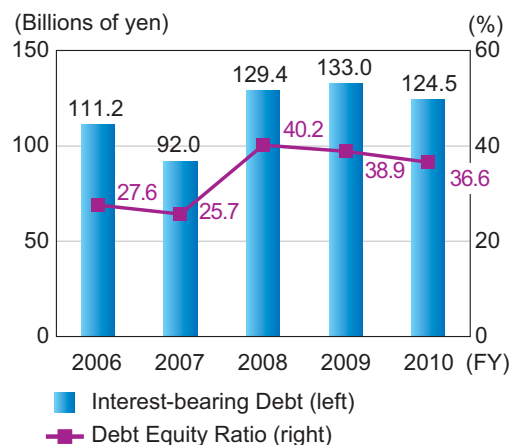


Non-current assets decreased ¥33,032 million from the previous fiscal year to ¥410,704 million at the end of fiscal year 2010. The primary factor was a ¥20,731 million decline in property, plant and equipment, which resulted from capital expenditure being less than depreciation and amortization.

#### (Liabilities)

Liabilities rose ¥4,588 million year on year to ¥440,143 million at the end of fiscal year 2010, largely due to a combined ¥5,524 million increase in notes payable, accounts payable, and accrued expenses, an

### Interest-bearing Debt and Debt Equity Ratio



increase of ¥6,341 million in advances received, and a decrease of ¥8,577 million in interest-bearing debt from the previous fiscal year.

### (Net assets)

Retained earnings rose ¥18,336 million, mainly due to an increase in net income of ¥23,574 million that more than offset dividend payments of ¥5,256 million. However, the impact of the strong yen deteriorated translation adjustments of ¥11,101 million, and a decline in the market value of listed shares deteriorated the unrealized holding loss on securities of ¥7,164 million. As a result of the above, net assets were ¥350,045 million at the end of fiscal year 2010, a decline of ¥1,660 million from the previous fiscal year-end.

### 2) Cash flows

Cash and cash equivalents on a consolidated basis (hereinafter “funds”) amounted to ¥65,944 million at the end of fiscal year 2010, an increase of ¥11,088 million, or 20.2%, from the end of fiscal year 2009.

Factors influencing the fiscal year 2010 cash flow accounts were as follows.

### (Operating activities)

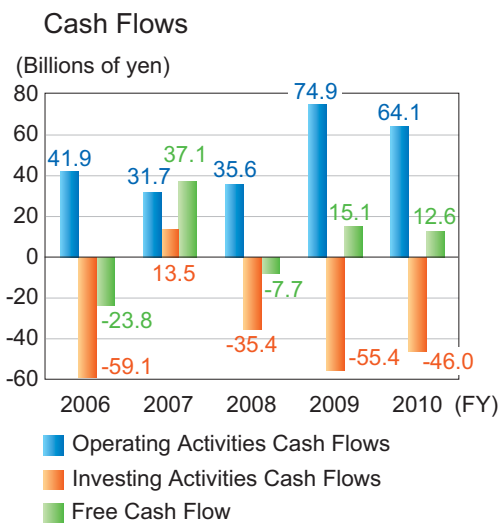
Funds from operating activities amounted to ¥64,197 million in fiscal year 2010, a decrease of ¥10,785 million from the previous fiscal year. Factors increasing cash flow from operating activities included ¥39,801 million in income before income taxes and minority interests, ¥34,530 million in depreciation and amortization, a ¥9,538 million increase in notes and accounts payable, a ¥6,359 million increase in advances received, and ¥2,730 million in amortization of goodwill. These were exceeded by factors drawing from cash flow, which included a ¥13,347 million increase in inventories, ¥13,056 million in income taxes paid, and a ¥6,071 million increase in notes and accounts receivable.

### (Investing activities)

Funds used in investing activities amounted to ¥46,051 million in fiscal year 2010, compared with a cash outflow of ¥55,496 million in the previous fiscal year. The cash outflow was primarily the result of ¥21,232 million utilized to acquire property, plant and equipment in priority and growth fields and a ¥17,646 million placement of time deposits.

### (Financing activities)

Funds used in financing activities amounted to ¥5,197 million in fiscal year 2010, compared with a cash outflow of ¥5,749 million in the previous fiscal year. The cash outflow was largely due to ¥5,544 million in dividend payments (including dividends paid to minority shareholders), ¥2,171 million to acquire treasury stock, and a net increase of ¥2,489 million in interest-bearing debt.



## 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 2010.

### I. 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.

### II. 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.

### III. 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.

### IV. 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.

### V. IT Market Trends

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

### VI. 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.

### VII. 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.

### VIII. Intellectual Property and Product Liability

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

# Corporate Information

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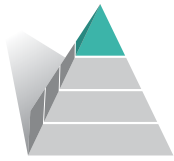
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**OUR PRINCIPLE**

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





## COMPANY CREED

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

#### Service

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

#### Speed

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

#### Superiority

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

#### The “3S Principle”

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



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

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

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

#### Origin of Company Name

SEKISUI means “pent-up water.” An expression used by Sun Tzu in his classic treatise.

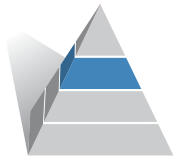
**The onrush of a conquering force is like the bursting of pent-up waters into a chasm a thousand fathoms deep.**

#### Meaning of “SEKISUI”

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

#### Adoption of this concept into corporate activities:

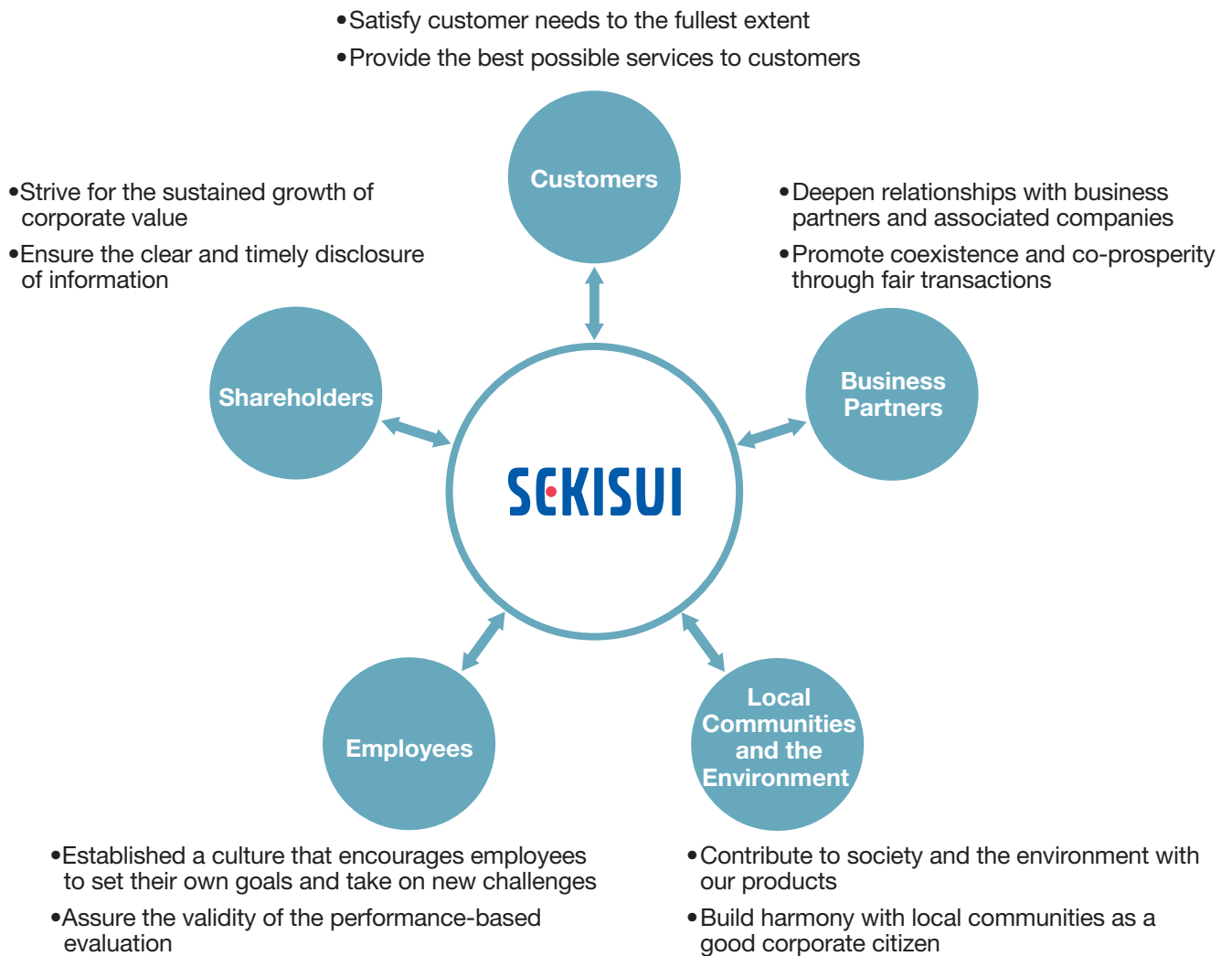
The expansion of business activities will inevitably experience problems and challenges. To overcome such difficulties, it is important both to gain a full understanding of and to analyze one’s opponent’s circumstances, to consolidate one’s own structure and then to release the power of pent-up waters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



## MISSION STATEMENT

### Create social value while fulfilling stakeholder expectations

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





## GROUP VISION

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

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

### **Prominent technology and quality**

We provide quality that satisfies customers, including technology accumulated over many years in the plastics processing and housing sectors, as well as "hard" products and "soft" services and solutions.

### **Creation of Housing / Social Infrastructure**

We offer housing and related materials, and infrastructure related to water and the environment, which make full use of advanced technology.

### **Chemical Solutions**

We supply chemical products that anticipate the advanced needs of customers in the industrial fields of transport equipment, electronics, healthcare, etc.

### **Development of frontiers**

We create new value while exploring and expanding business, in keeping with the progressive spirit of development that flows through the Sekisui Chemical Group.

### **People’s lives around the world**

We contribute to improving the quality of people’s lives by responding to global markets and taking part in global activities.

### **Global environment**

We seek to create an environment in which people of the next generation can enjoy true peace of mind through business that combines ecology and economy.

## CORPORATE SOCIAL RESPONSIBILITY (CSR)

### CSR is the Pillar of Management

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

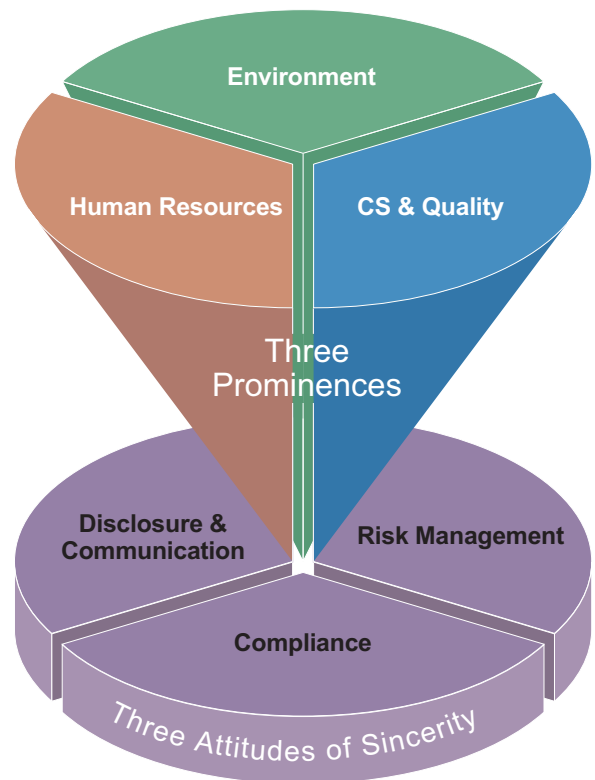
### The Three Prominences and Three Attitudes of Sincerity

The Group's CSR management is based on the core themes of the Three Prominences of the Environment, Customer Service & Quality, and Human Resources, and the Three Attitudes of Sincerity of Compliance, Risk Management, and Disclosure & Communication.

As a member of the manufacturing industry, we believe the Environment and Customer Service & Quality are our inherent responsibilities, and we also consider it our duty to include Human Resources in the three prominences, because it is people who achieve progress in the other two areas.

### CSR Medium-term Plan (Fiscal Years 2009-2013)

CSR plans are integral to the Sekisui Chemical Group's management plan, and in fiscal year 2009 the Group formulated the CSR Medium-term Plan to deepen the integration of its business and CSR activities. The completion of the first phase (fiscal years 2009-2010) of our "GS21-SHINKA!" Medium-term Management Plan



(fiscal years 2009-2013) in fiscal year 2010 allowed us to measure the progress we have achieved in our CSR Medium-term Plan. Our assessment indicates that we are progressing generally in line with our plan. The following chart incorporates the environmental changes in each field and presents our activities and targets for fiscal year 2013.

### Three Prominences

Theme	Main Activities	FY2010 Results	FY2013 Targets
Environment	• Increase Environment-Contributing products*	• 33% of net sales (target: 27%)	• Over 40% of net sales
	• Reduce greenhouse gas emissions	• 21% reduction from FY1990 level (domestic) (target: 14% reduction)	• Maintain reduction above 20% of FY1990 level (domestic) • Reduce by over 5% from FY2008 level (overseas) (unit: GJ/ton-CO <sub>2</sub> )
CS & Quality	• External failure costs	• Reduced by ¥4.2 billion (from FY2004 level)	• Reduce by ¥5.0 billion (from FY2004 level)
	• Major quality issues	• 2 cases (target: 0 cases)	• 0 cases
Human Resources	• Global Talents	• Increased "Global Talents" employees to 224 people • International recruiting expanded	• 300 people
	• Career Development & Evaluation	• 22 cases of using an Intra-group Job Posting System for post-hiring transfers	• 20 cases/year
	• Decent Work & Diversity	• 25% of new graduate recruits were women (target: 30%)	• 30%

### Three Attitudes of Sincerity

Theme	Main Activities	FY2010 Results	FY2013 Targets
Compliance	<ul style="list-style-type: none"> <li>Continue raising awareness</li> <li>Develop overseas compliance</li> </ul>	<ul style="list-style-type: none"> <li>Education and instruction catered to staff level and specific groups</li> <li>Compliance and local law training at overseas bases</li> </ul>	<ul style="list-style-type: none"> <li>Continue raising awareness</li> <li>Cultivated key individuals for overseas compliance</li> </ul>
Risk Management	<ul style="list-style-type: none"> <li>Establish an overseas crisis management system</li> <li>Construct a Sekisui Chemical Group risk management system</li> </ul>	<ul style="list-style-type: none"> <li>Constructed overseas safety measure programs</li> <li>Created overseas crisis management guidelines</li> <li>Constructed a Sekisui Chemical Group risk management system</li> </ul>	<ul style="list-style-type: none"> <li>Continue overseas development</li> <li>Continue risk management activities</li> </ul>
Disclosure & Communication	<ul style="list-style-type: none"> <li>Enhance external recognition and perception of the Company</li> <li>Continue open dialogue with employees</li> </ul>	<ul style="list-style-type: none"> <li>Earned Sustainable Asset Management (SAM) "Silver Class" CSR rating</li> <li>Earned selection for FTSE4Good Global Indexes</li> <li>Included in the Morningstar Socially Responsible Investment Index (MS-SRI)</li> </ul>	<ul style="list-style-type: none"> <li>Increase communication efforts in each region</li> </ul>

#### \* Sekisui Chemical Group Environment-Contributing Products

The Sekisui Chemical Group has been steadily increasing its Environment-Contributing products and operations. The Group actively contributes to society through its Environment-Contributing products, which take into account the environmental burden not just in the manufacturing stages but also while the products are in use. In fiscal year 2010, growing sales of our houses with built-in solar power generation systems and sound- and heat-insulating interlayer films raised sales of our Environment-Contributing products to ¥302.6 billion, which represents 33% of our net sales.

#### Featured Environment-Contributing Products



##### Houses with Built-in Solar Power Generation Systems

As of March 31, 2011, cumulative sales of our houses with built-in solar power generation systems had surpassed 100,000 units. We will continue offering products combining energy-saving and energy-producing features to reduce household CO<sub>2</sub> emissions.



##### High Performance Interlayer Films for Laminated Glass

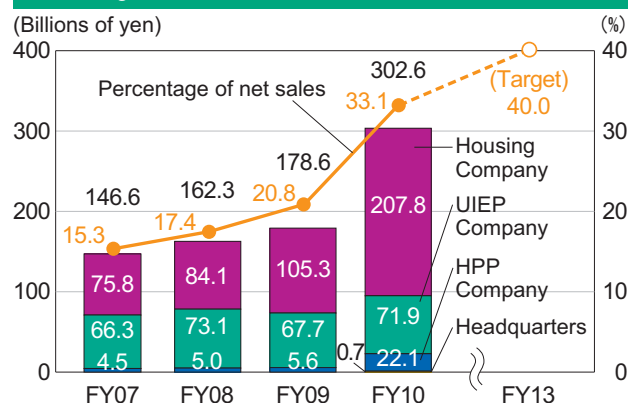
Our S-LEC interlayer films for laminated glass provide various enhancement functions for glass. Sound insulation interlayer film lightens vehicle weight by replacing heavier soundproofing materials. Solar control interlayer film improves fuel efficiency by reducing air conditioner usage.



##### Pipeline Renewal Systems (SPR Methods)

The SPR method of renovating existing pipeline infrastructure preserves resources and virtually eliminates waste by applying a spiral coating of hard vinyl chloride materials on the inner surface of degraded sewer pipes, which allows reparations to be made without excavating old pipes.

#### Trends in Environment-Contributing Product Sales and Percentage



Please see the Sekisui Chemical Group CSR web page for further details on our CSR activities.

<http://www.sekisuichemical.com/csr/index.html>

## CORPORATE GOVERNANCE

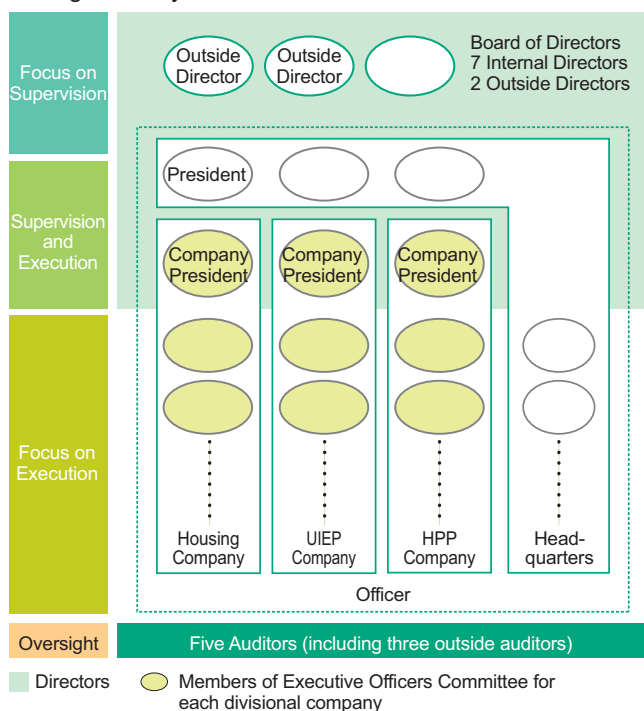
Sekisui Chemical implements various measures, including the introduction of Outside Directors and the Executive Officer System, to enhance its transparency and fairness and to respond swiftly to business opportunities.

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

### Corporate Governance Basic Policies and Systems

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

#### Management System



### Strengthening the Board of Directors

The Board of Directors comprises nine Directors, and it continually strives to strengthen its role as a body responsible for decision-making concerning the Company's fundamental policies and upper-level management issues, and supervising the execution of business. The Board includes independent Outside Directors to ensure transparency in management and fairness in business decisions and operations.

#### Appointment of Outside Directors

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

### Strengthened Business Execution Functions

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

#### Executive Officer System

The Executive Officer System appoints Executive Officers whose role is to focus solely on business execution and to respond swiftly to business opportunities. Each divisional company has an Executive Officers Committee, which serves as the company's highest decision-making body. The Executive Officers Committee has been delegated substantial authority previously entrusted to the Board of Directors. Executive Officers are appointed by a resolution of the Board of Directors, and their term of office is one year.

### Auditing System

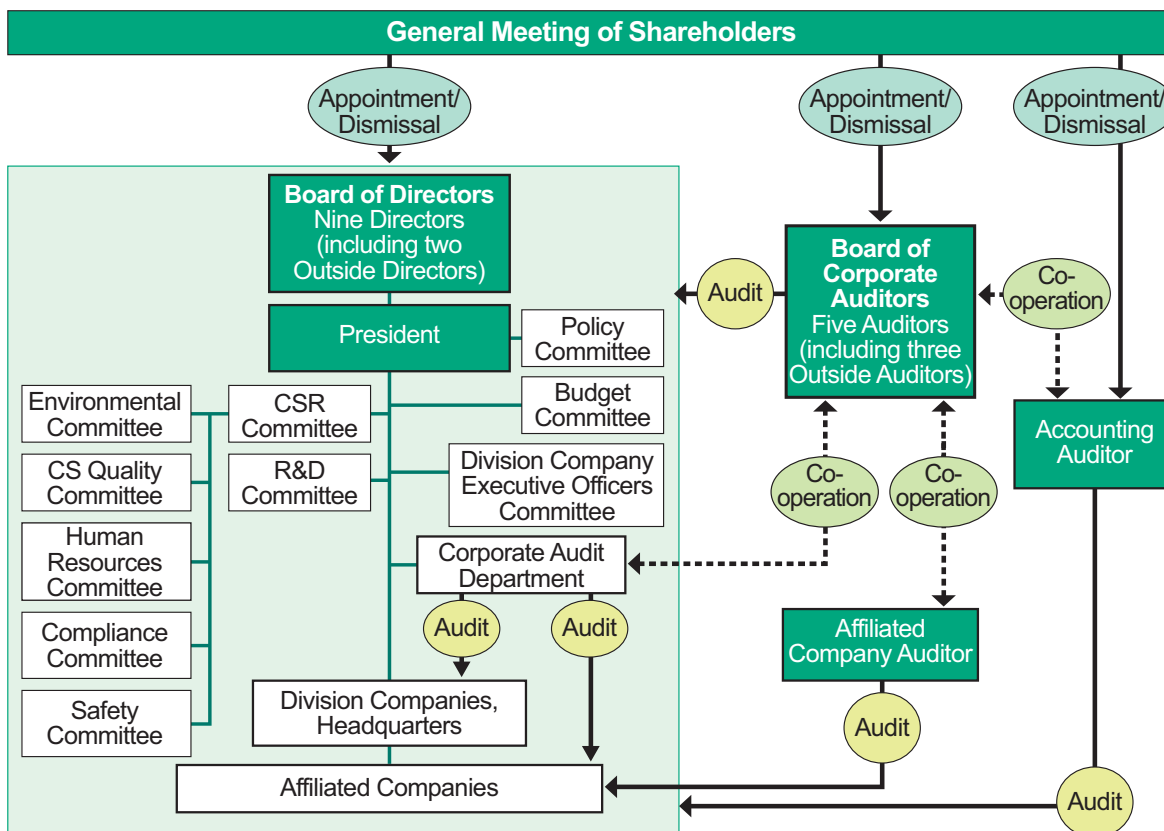
The Company has strengthened its auditing system, designed to harmonize the efforts of corporate auditors and internal audits, ensure the appropriate functioning of the management and operations oversight system. The Board of Corporate Auditors comprises five auditors (including three outside auditors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

### Reinforcement of the Internal Control System

In May 2006, the Board of Directors resolved to adopt a fundamental policy regarding the establishment of an internal control system for ensuring the appropriateness of the Group's business activities. Based on the Corporate Activity Guidelines set forth in

accordance with the Group management principles, the Company seeks to realize collaborative interaction concerning the supervision, directives, and communications of the Sekisui Chemical Group (the Company and its subsidiaries), and Sekisui Chemical's duties include providing guidance and counsel, and undertaking evaluations of all Sekisui Chemical Group members to ensure that their business activities are being conducted in an appropriate manner. To further strengthen the Group's compliance activities, the CSR Committee, chaired by the president, deliberates the Fundamental Compliance Policies, which are subject to approval by the Board of Directors. In addition, the Compliance Subcommittee supervises compliance activities group wide, and conducts activities to highlight the importance of compliance as a fundamental aspect of our corporate culture. In April 2011, the Company established the Safety Committee to further reinforce our activities related to occupational safety and health.

### Corporate Governance System



## DIRECTORS, AUDITORS AND EXECUTIVE OFFICERS

### BOARD OF DIRECTORS

**Naofumi Negishi**

President and Representative Director,  
Chief Executive Officer

**Takayoshi Matsunaga**

Director,  
Senior Managing Executive Officer

**Teiji Kouge**

Director,  
Senior Managing Executive Officer

**Hajime Kubo**

Director,  
Managing Executive Officer

**Kozo Takami**

Director,  
Managing Executive Officer

**Satoshi Uenoyama**

Director,  
Managing Executive Officer

**Naotake Okubo**

Director & Executive Advisor

**Toru Tsuji [Outside Director]**

Senior Corporate Advisor  
Marubeni Corporation

**Toru Nagashima [Outside Director]**

Chairman of the Board  
Teijin Limited

### CORPORATE AUDITORS

**Eiji Manshou**
**Shuichi Shino**

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

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

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

### EXECUTIVE OFFICERS

**Naofumi Negishi**

Chief Executive Officer

#### Housing Company

**Teiji Kouge**

Senior Managing Executive Officer  
President of Housing Company

**Hidemi Uno**

Managing Executive Officer  
Head of Technology Department

**Kazumasa Murakami**

Managing Executive Officer  
Responsible for Sales Department  
Head of Housing Division

**Hiroyuki Watanabe**

Executive Officer  
President of Tokyo Sekisui Heim Co., Ltd.  
President of Tokyo Sekisui Fami S Co., Ltd.  
President of Sekisui Heim Real Estate Co., Ltd.  
President of Tokyo Sekisui Heim Industry Co., Ltd.  
President of Kanto Sekisui Heim Industry Co., Ltd.

**Toshiro Takeda**

Executive Officer  
Head of CS Promotion & Quality Assurance  
Department

**Shunichi Sekiguchi**

Executive Officer  
Head of Living Environment Division

**Yoshikazu Nakamura**

Executive Officer  
Head of Research & Development Department

**Futoshi Kamiwaki**

Executive Officer  
Head of Planning & Control Department

#### Urban Infrastructure & Environmental Products Company

**Kozo Takami**

Managing Executive Officer  
President of Urban Infrastructure &  
Environmental Products Company

**Yasuo Yamabe**

Executive Officer  
Head of New Business Development Division

**Masaru Teramae**

Executive Officer  
Head of Technology & Development Division

**Torao Ishii**

Executive Officer  
Head of Administrative Management & Control  
Department

**Takao Miyake**

Executive Officer  
Head of Global Production Innovation Center

**Kimiatsu Sato**

Executive Officer  
Head of Global Water Pipe Systems Division

**Masao Shimazu**

Executive Officer  
Head of Eslon Pipe Systems Division

#### High Performance Plastics Company

**Takayoshi Matsunaga**

Senior Managing Executive Officer  
President of High Performance Plastics  
Company

**Toshio Uesaka**

Managing Executive Officer  
Head of Industrial Tape Division

**Mutsumi Fukuda**

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

**Takeshi Inoue**

Executive Officer  
President of Sekisui Film Co., Ltd.

**Keita Kato**

Executive Officer  
Head of New Business Promotion Division

**Masaru Noriki**

Executive Officer  
Head of Administrative Management & Control  
Department

**Toshitaka Fukunaga**

Executive Officer  
Head of Shiga - Minakuchi Plant

#### Headquarters

**Hideo Tagashira**

Managing Executive Officer  
Responsible for Corporate Finance &  
Accounting Department  
Head of Business Planning Department

**Hajime Kubo**

Managing Executive Officer  
Responsible for Corporate Communication  
Department  
Head of External Relations Department  
and Head of CSR Department

**Satoshi Uenoyama**

Managing Executive Officer  
Head of R&D Center

**Kiyotaka Tsuji**

Executive Officer  
Head of Legal Department

**Masaru Kondou**

Executive Officer  
Head of Total Manufacturing Management  
Center

## RESEARCH & DEVELOPMENT / INTELLECTUAL PROPERTY

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

### R&D Strategy

#### The Sekisui Chemical R&D System

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

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

Next-generation business creation will leverage our operating infrastructures in emerging markets and chemical development capabilities to generate business opportunities concentrated in the environment & energy field, the IT-related field, and the life science field. At the Corporate R&D Center, we are engaged in the development of unique cutting-edge technology with the aim of generating new businesses.

Product development is the key to a manufacturer's competitiveness. We established the Manufacturing Development Innovation Center at the Corporate R&D Center in 2006 to enhance our product development capabilities. The center allows us to augment our focus on technical development with the practical application and utilization of new technologies at the production sites. The center's activities are already producing tangible results. The five-year management plan begun in fiscal year 2009 promotes ongoing advancement of activities currently under way and establishes steps to shift operations to our production bases overseas. The R&D structure has been reorganized by shifting all manufacturing development

Frontier 7 Businesses—Goals of R&D		
Housing Company	Living Environment Business	Automation of inspection system
		Strengthen environment, comfort, and reassurance
		•Innovative Engineering •Energy efficiency Engineering •Short-term Construction Schedule
UIEP Company	Pipeline Renewal Business	Advancement of Methods
	Water Infrastructure Business	High Performance
	Performance Materials Business	High Performance
HPP Company	AT Related Business	Aim for Eco-friendly, Safety, and Comfortable Vehicle
	IT Related Business	Shift from FDP Materials to Semiconductor and Energy Related Products
	Medical Related Business	Worldwide Expansion of No.1 Share Products

Goal of Next Generation Businesses	
Building Infrastructure of Emerging Countries	<ul style="list-style-type: none"> <li>•Highly Industrialized Housing</li> <li>•Water Recycling System</li> <li>•Self-supported Utilities Technology</li> </ul>
Frontier Focused Chemicals	<ul style="list-style-type: none"> <li>•IT Related Business: Semiconductor Packaging and Adhesion Materials</li> <li>•Environment: Key Materials for Desalination</li> <li>•Energy: Solar Cell and Secondary Battery Materials</li> </ul>
Life Science-Related Business	<ul style="list-style-type: none"> <li>•New Medical Business Development</li> <li>•Biotechnology-based Business —i.e. Drug Discovery Support Business—</li> </ul>

#### Manufacturing Development SHINKA

##### Creating a Distinctive Manufacturing Line

No Defects, Highly Automated Line: No defects, double productivity  
Advanced Ecological Processes: Reduced energy consumption (50%), no waste

##### Strengthening "Productive Power SHINKA"

Double Productivity—Ultimate Automation	Ultimate cost reduction by material change	Restructuring of Production System
<ul style="list-style-type: none"> <li>•From Integrated organization of sales and production to Innovative construction</li> <li>•Ultra-steady production line</li> <li>•Process Innovation</li> </ul>	<ul style="list-style-type: none"> <li>•Expansion of Overseas Procurement of Parts and Materials</li> <li>•Product Design of Ultimate Cost Reduction</li> </ul>	<ul style="list-style-type: none"> <li>•Drastic Rearrangement of Manufacturing Location and Production</li> <li>•Revision of Manpower Allocation</li> </ul>

##### Deeping Manufacturing Development Innovation

Promotion of Self-sustaining Companies
<ul style="list-style-type: none"> <li>•Expansion and Enhancement of Overseas Subsidiaries</li> <li>•Reduction of External Loss •Safe and Comfortable Workplace</li> </ul>

departments to the Total Manufacturing Innovation Center, which now comprises the Manufacturing Development Innovation Center, the Safety Group, the Global Manufacturing Innovation Group, and the Purchasing Group. The objective of this reorganization is to establish a solid framework for activities throughout our production network based on respect for the customer (zero quality defects and claims), respect for the employee (zero accidents), and respect for the environment (zero waste, reduction by half of energy consumption, and double productivity). This organizational approach will provide the platform for the Company to engage its prominent technologies and quality to continue “creating housing and social infrastructures” and developing “the frontier of chemical solutions” for the betterment of the earth environment and the people of the world.

### R&D Human Resources and Benefits

The Sekisui Group presents Great Invention Awards to acknowledge researchers and engineers that have created highly unique and innovative inventions with potential to become profitable technologies and products. The award and the accompanying monetary endowment is one way the Group shows its recognition and appreciation of its talented researchers and engineers. In fiscal year 2010, four inventions, including an LDL cholesterol quantification method, were recognized and the inventors were presented with awards and benefits.

The Group has also established a Specialist Position system to recognize and reward researchers and engineers with highly specialized skills. The system selects exceptional individuals who have been recognized as possessing highly advanced skills and appoints them to uniquely defined specialist positions. The system promotes ongoing development and aims to cultivate outstanding researchers and engineers recognized both inside and outside the company. As of July 2010, 26 people held specialist positions.

The Sekisui Group introduced the “Monozukuri” Master position in fiscal year 2009 to recognize individuals that exemplify the range of manufacturing skills and technical objectives of the Sekisui Chemical Group. The position is intended to promote the Group tradition of high skill and craftsmanship and provide motivation for each and every technician. As of July 2010, nine people held “Monozukuri” Master positions.

Cultivating and encouraging the Group’s talented manufacturing technicians by acknowledging their highly refined skills inspires motivation and will further elevate the Group’s high level of manufacturing expertise.

## Intellectual Property Strategy

### Intellectual Property Strategy Objectives and Fundamental Policy

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

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

In fiscal year 2011, the third year of the plan, we have implemented three initiatives to 1) enhance our intellectual property culture, 2) continue to improve our global responsiveness, and 3) continue to improve our risk response capabilities with the objective of harnessing the full force of intellectual property and making more visible the contributions it offers the company.

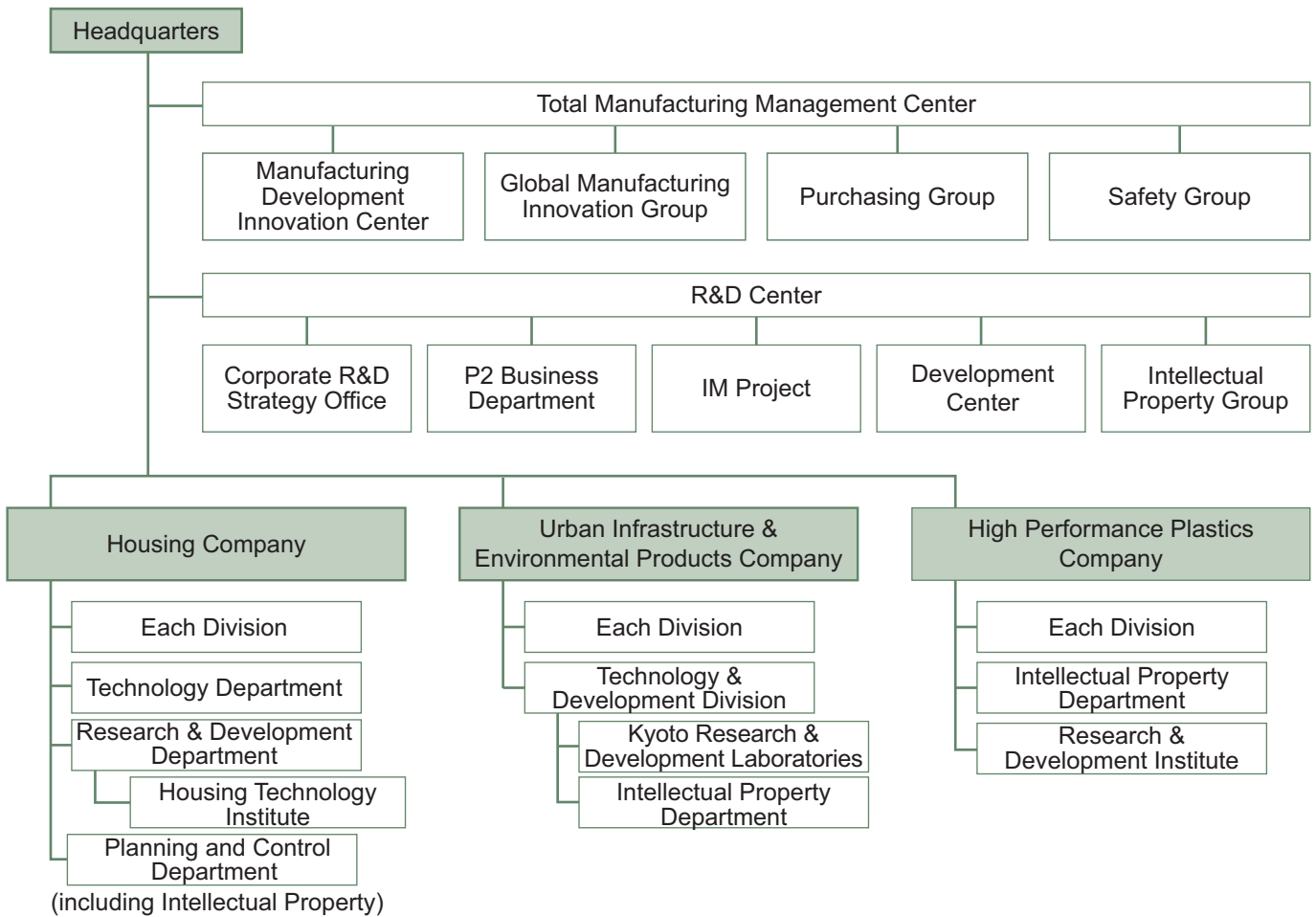
### Framework for Promoting the Intellectual Property Strategy and Major Activities

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

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

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

R&D and Intellectual Property Management System



## MAJOR CONSOLIDATED SUBSIDIARIES AND AFFILIATES

(As of March 31, 2011)

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

\* Ratio of voting rights is rounded down to one decimal place.

CONSOLIDATED SUBSIDIARIES		Capital	Ratio of Voting Rights*	Activities
Kinki Sekisui Heim Industry Co., Ltd.	Japan	JPY300 million	100.0%	Production and sale of materials for unit housing
Chushikoku Sekisui Heim Industry Co., Ltd.	Japan	JPY100 million	100.0%	Production and sale of materials for unit housing
Kyusyu Sekisui Heim Industry Co., Ltd.	Japan	JPY100 million	100.0%	Production and sale of materials for unit housing
Sekisui Board Co., Ltd.	Japan	JPY100 million	100.0%	Production and sale of materials for unit housing
Sekisui Global Trading Co., Ltd.	Japan	JPY100 million	100.0%	Import of lumber for housing
Sekisui Heim Supply Co., Ltd.	Japan	JPY50 million	100.0%	Trading of construction materials and equipment & devices for housing
Sekisui-SCG Industry Co., Ltd.	Thailand	THB200,000 thousand	51.0%	Production of unit housing

### Urban Infrastructure & Environmental Products

Sekisui Aqua Systems Co., Ltd.	Japan	JPY200 million	80.5%	Construction of plant facilities and production, sale, construction and maintenance of water environment systems (panel tanks, etc.) for industrial facilities
Sekisui Home Techno Co., Ltd.	Japan	JPY360 million	100.0%	Development, construction and sale of housing construction equipment
Vantec Co., Ltd.	Japan	JPY100 million	100.0%	Sale of piping materials
Vantec Shoji Co., Ltd.	Japan	JPY20 million	100.0%	Sale of synthetic resin products
Sekisui Chemical Hokkaido Co., Ltd.	Japan	JPY200 million	100.0%	Production, processing and sale of synthetic resin products and construction materials
Toto Sekisui Co., Ltd.	Japan	JPY50 million	100.0%	Production, processing and sale of synthetic resin products
Asaka Sekisui Industry Co., Ltd.	Japan	JPY10 million	100.0%	Plastic product finishing, packaging, and related operations
Chiba Sekisui Industry Co., Ltd.	Japan	JPY450 million	100.0%	Contracted manufacture of piping materials
Okayama Sekisui Industry Co., Ltd.	Japan	JPY100 million	100.0%	Production, processing and sales of fireproof construction materials and equipment & devices for housing
Shikoku Sekisui Industry Co., Ltd.	Japan	JPY100 million	100.0%	Production, processing and sale of synthetic resin products
Kyushu Sekisui Industry Co., Ltd.	Japan	JPY130 million	100.0%	Production, processing and sale of synthetic resin products
Sekisui Roof System Co., Ltd.	Japan	JPY100 million	100.0%	Development, production and sale of roofing materials
Kyushu Sekisui Kenzai Co., Ltd.	Japan	JPY40 million	100.0%	Sale of rain gutters
Sekisui Roof Tech Co., Ltd.	Japan	JPY10 million	100.0%	After-sale maintenance of roofing materials
Ryuseki Jubi Co., Ltd.	Japan	JPY40 million	100.0%	Production and processing of synthetic resin products
Hokkaido Sekisui Shoji Co., Ltd.	Japan	JPY32.5 million	100.0%	Sale of synthetic resin products
Tohoku Sekisui Shoji Co., Ltd.	Japan	JPY30 million	100.0%	Sale of synthetic resin products
Tokyo Sekisui Shoji Co., Ltd.	Japan	JPY150 million	100.0%	Sale of synthetic resin products
Chubu Sekisui Shoji Co., Ltd.	Japan	JPY30 million	100.0%	Sale of synthetic resin products
Kinki Sekisui Shoji Co., Ltd.	Japan	JPY70 million	100.0%	Sale of synthetic resin products
Chu-Shikoku Sekisui Shoji Co., Ltd.	Japan	JPY30 million	100.0%	Sale of synthetic resin products
Sanin Sekisui Shoji Co., Ltd.	Japan	JPY30 million	100.0%	Sale of synthetic resin products
M&S Pipe Systems Co., Ltd.	Japan	JPY20 million	51.0%	Consulting on production and distribution of pipes and joints
Nippon No-Dig Technology Co., Ltd.	Japan	JPY60 million	100.0%	Design, construction and equipment rental for civil engineering projects
Ritto Sekisui Industry Co., Ltd.	Japan	JPY10 million	100.0%	Production and sale of synthetic resin pipes and joints

<b>CONSOLIDATED SUBSIDIARIES</b>		Capital	Ratio of Voting Rights*	Activities
<b>KYDEX, LLC.</b>	U.S.	USD54.9 thousand	100.0%	Production and sale of PVC sheet for thermoforming
<b>Allen Extruders, LLC.</b>	U.S.	USD27,000 thousand	100.0%	Production and sale of ABS sheet for thermoforming
<b>Sekisui SPR Americas, LLC.</b>	U.S.	USD1,000 thousand	100.0%	Production, sale and installation of materials for SPR method pipeline renewal
<b>Heitkamp, Inc.</b>	U.S.	USD10 thousand	100.0%	Maintenance of water supply and sewerage facilities / Pipeline renewal business / Pipeline survey
<b>Sekisui SPR Europe G.m.b.H.</b>	Germany	EUR11,500 thousand	75.0%	Pipeline renewal business (pipeline renewal process development, production, distribution of piping materials, renewal construction)
<b>Eslon B.V.</b>	Netherlands	EUR1,000.3 thousand	100.0%	Production and sale of PVC rain gutters and other building materials
<b>Sekisui Refresh Co., Ltd.</b>	Korea	KRW3,000 million	51.0%	Production and sale of lining profiles for pipeline renewal
<b>Sekisui Nuvotec Co., Ltd.</b>	Korea	KRW3,600 million	67.0%	Production and sale of Eslon NV pipe and fittings for water supply / Import and sale of Sekisui products
<b>Yongchang Sekisui Composites Co., Ltd.</b>	China	RMB150,000 thousand	62.4%	Production and sale of reinforced plastic pipe (FRPM pipe) and synthetic wood (FFU)
<b>Wuxi SSS-Diamond Plastics Co., Ltd.</b>	China	RMB33,106.8 thousand	51.0%	Production of polyethylene electrofusion fittings (EF fittings)
<b>Sekisui (Qingdao) Plastic Co., Ltd.</b>	China	RMB70,904.2 thousand	100.0%	Production and sale of high-performance plastic pipe for water supply
<b>Sekisui Industrial Piping Co., Ltd.</b>	Taiwan	TWD456,000 thousand	100.0%	Production and sale of plastic valves, and pipe and fittings for industrial use

### High Performance Plastics

<b>Sekisui Techno Molding Co., Ltd.</b>	Japan	JPY200 million	100.0%	Production, processing and sale of molded synthetic resin products
<b>Sekisui Film Co., Ltd.</b>	Japan	JPY350 million	100.0%	Production, processing and sale of polyethylene tubes and films
<b>Senseki Kako Co., Ltd.</b>	Japan	JPY20 million	100.0%	Production and processing of polyethylene films
<b>Hiroseki Kako Co., Ltd.</b>	Japan	JPY30 million	100.0%	Production and processing of polyethylene films
<b>Sekisui Film Kyushu Kako Co., Ltd.</b>	Japan	JPY10 million	100.0%	Production and processing of polyethylene films
<b>Sekisui Fuller Co., Ltd.</b>	Japan	JPY400 million	50.0%	Production and sale of adhesive materials
<b>Sekisui Medical Co., Ltd.</b>	Japan	JPY1,275.2 million	100.0%	Production and sale of diagnostics and research use testing drugs
<b>Sekisui Techno Shoji Higashi Nihon Co., Ltd.</b>	Japan	JPY50 million	100.0%	Sale of synthetic resin products
<b>Sekisui Techno Shoji Nishi Nihon Co., Ltd.</b>	Japan	JPY50 million	100.0%	Sale of synthetic resin products
<b>Sekisui Polymatech Co., Ltd.</b>	Japan	JPY50 million	100.0%	Processing and sale of plastic films and foam plastic products
<b>Sekisui Musashi Kako Co., Ltd.</b>	Japan	JPY25 million	100.0%	Production and processing of polyolefin film products and adhesive tapes
<b>Sekisui Minakuchi Kako Co., Ltd.</b>	Japan	JPY10 million	100.0%	Production and processing of interlayer films and resins
<b>Sekisui Amagasaki Kako Co., Ltd.</b>	Japan	JPY20 million	100.0%	Production and processing of synthetic resin products
<b>Naseki Seimitsukako Co., Ltd.</b>	Japan	JPY10 million	100.0%	Production and processing of molded synthetic resin products
<b>Sekisui TA Industries, LLC.</b>	U.S.	USD7,000 thousand	100.0%	Production and sale of adhesive tapes

<b>CONSOLIDATED SUBSIDIARIES</b>		Capital	Ratio of Voting Rights*	Activities
Sekisui Voltek, LLC.	U.S.	USD41,788.4 thousand	100.0%	Production and sale of polyolefin foam products
Sekisui S-Lec America, LLC.	U.S.	USD1,765.4 thousand	100.0%	Production and sale of polyvinyl butyral interlayer films
XenoTech, LLC.	U.S.	USD5,442.1 thousand	100.0%	In vitro reagent business
American Dianostica Inc.	U.S.	USD31.7 thousand	100.0%	Development, manufacture and sales of diagnostic reagents specializing in the blood coagulation field
Sekisui Specialty Chemicals America, LLC.	U.S.	USD107,000 thousand	100.0%	Development, production and sale of PVA resin
Sekisui Products, LLC.	U.S.	USD2,036.9 thousand	100.0%	Import and export of plastic products
Sekisui S-Lec Mexico S.A. de C.V.	Mexico	MXN32,836.1 thousand	70.9%	Production and sale of polyvinyl butyral interlayer films
Sekisui Alveo Representative Ltda.	Brasil	BRL387.2 thousand	100.0%	Sale of polyolefin foam products
Sekisui Alveo AG	Switzerland	CHF21,000 thousand	100.0%	Sale of polyolefin foam products
Sekisui Alveo Ltd.	U.K.	GBP7,100 thousand	100.0%	Production of polyolefin foam products
Sekisui-Alveo B.V.	Netherlands	EUR1,361 thousand	100.0%	Production of polyolefin foam products
Sekisui Alveo G.m.b.H.	Germany	EUR26 thousand	100.0%	Sale of polyolefin foam products
Sekisui Alveo (Benelux) B.V.	Netherlands	EUR18 thousand	100.0%	Sale of polyolefin foam products
Sekisui-Alveo S.A.	Spain	EUR60 thousand	100.0%	Sale of polyolefin foam products
Sekisui Alveo S.r.L.	Italy	EUR103 thousand	100.0%	Sale of polyolefin foam products
Sekisui Alveo S.a.r.L.	France	EUR8 thousand	100.0%	Sale of polyolefin foam products
Sekisui Alveo BS G.m.b.H.	Germany	EUR25 thousand	100.0%	Production and sale of non-crosslinked polyethylene foam
Sekisui S-Lec B.V.	Netherlands	EUR11,344.5 thousand	100.0%	Production and sale of resin for, and products of, polyvinyl butyral interlayer films
Sekisui Specialty Chemicals Europe, S.L.	Spain	EUR18,000 thousand	100.0%	Production and sale of PVA resin
Sekisui Chemical G.m.b.H.	Germany	EUR664.6 thousand	100.0%	Import and export of plastic products
Sekisui S-Lec (Thailand) Co., Ltd.	Thailand	THB430,000 thousand	100.0%	Production and sale of polyvinyl butyral interlayer films
Thai Sekisui Foam Co., Ltd.	Thailand	THB450,000 thousand	91.1%	Production and sale of polyolefin foam products
Sekisui Chemical (Thailand) Co., Ltd.	Thailand	THB20,000 thousand	100.0%	Import and export of plastic products
Sekisui Pilon Pty. Ltd.	Australia	AUD1,257.2 thousand	100.0%	Production and sale of polyolefin foam products
Sekisui Korea Co., Ltd.	Korea	KRW250 million	100.0%	Sale of plastic products / Technology services
YoungBo Chemical Co., Ltd.	Korea	KRW10,000 million	52.3%	Production and sale of polyolefin foam products
Muhan Co., Ltd.	Korea	KRW300million	33.9%	Processing and sale of polyolefin foam products
Sekisui High Performance Packaging (Langfang) Co., Ltd.	China	RMB15,726.4 thousand	100.0%	Production of adhesive tapes
YoungBo HPP (Langfang) Co., Ltd.	China	KRW51,857 thousand	52.3%	Production and sale of polyolefin foam products
Sekisui S-Lec (Suzhou) Co., Ltd.	China	RMB195,979.3 thousand	100.0%	Production and sale of polyvinyl butyral interlayer films
Sekisui Medical Technology (China) Ltd.	China	RMB96,671 thousand	100.0%	Production and sale of medical equipment
Sekisui (Shanghai) International Trading Co., Ltd.	China	RMB1,655.4 thousand	100.0%	Import and export of plastic products
Sekisui (Hong Kong) Ltd.	China	HKD300 thousand	100.0%	Import and export of plastic products
Sekisui Chemical (Taiwan) Co., Ltd.	Taiwan	TWD5,000 thousand	100.0%	Import and export of plastic products
Sekisui Chemical Singapore (Pte.) Ltd.	Singapore	SGD800 thousand	100.0%	Import and export of plastic products

<b>CONSOLIDATED SUBSIDIARIES</b>		Capital	Ratio of Voting Rights*	Activities
<b>Others</b>				
<b>Sekisui Seikei Industry Co., Ltd.</b>	Japan	JPY450 million	100.0%	Production, processing and sale of synthetic resin products
<b>Sekisui Engineering Co., Ltd.</b>	Japan	JPY80 million	100.0%	Factory automation system construction
<b>Hinomaru Co., Ltd.</b>	Japan	JPY672.5 million	89.2%	Sales of fertilizers, pesticide, agricultural materials and synthetic resin products
<b>Tokuyama Sekisui Industry Co., Ltd.</b>	Japan	JPY1,000 million	70.0%	Production and sale of PVC resins and medical equipment
<b>Sekisui Kosan Co., Ltd.</b>	Japan	JPY50 million	100.0%	Management of company housing
<b>Sekisui Insurance Service Co., Ltd.</b>	Japan	JPY30 million	100.0%	Agent for life and non-life insurance
<b>Sekisui Accounting Center Co., Ltd.</b>	Japan	JPY20 million	100.0%	Accounting and finance services / Financing services for affiliated companies
<b>Sekisui America Corporation</b>	U.S.	USD8,421.1 thousand	100.0%	Holding company
<b>Sekisui Europe B.V.</b>	Netherlands	EUR1,000.3 thousand	100.0%	Capital raising /Holding company

<b>AFFILIATES (EQUITY METHOD)</b>		Capital	Ratio of Voting Rights*
<b>Sekisui Plastics Co., Ltd.</b>	Japan	JPY16,533 million	21.8%
<b>Sekisui Jushi Corp.</b>	Japan	JPY12,334 million	23.8%
<b>Ibaraki Sekisui Heim Co., Ltd.</b>	Japan	JPY105 million	40.0%
<b>Tochigi Sekisui Heim Co., Ltd.</b>	Japan	JPY80 million	40.0%
<b>Sekisui Heim Tokai Co., Ltd.</b>	Japan	JPY198 million	36.3%
<b>Sekisui Heim Sanyo Co., Ltd.</b>	Japan	JPY100 million	43.3%
<b>Sekisui Heim Higashishikoku Co., Ltd.</b>	Japan	JPY100 million	25.0%
<b>Kagawa Sekisui Heim Co., Ltd.</b>	Japan	JPY100 million	37.5%

## STOCK INFORMATION (As of March 31, 2011)

### Sekisui Chemical Co., Ltd.

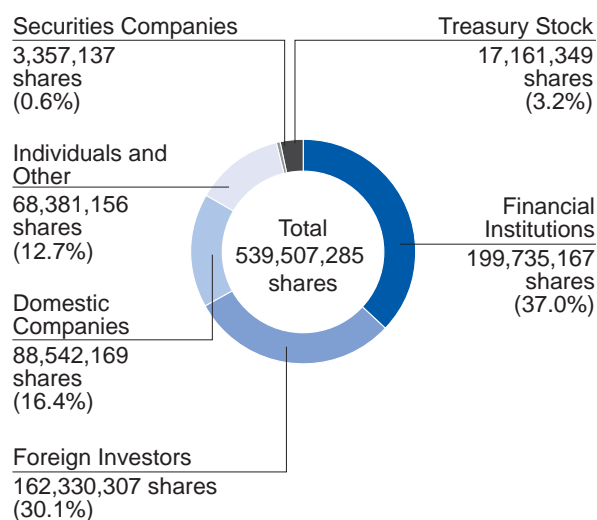
Head Office:	4-4, Nishitenma 2-chome, Kita-ku, Osaka
Tokyo Head Office:	3-17, Toranomom 2-chome, Minato-ku, Tokyo
Founded:	March 3, 1947
Fiscal Year:	Ended March 31
Paid-in Capital:	¥100,002,375,657
Authorized:	1,187,540,000 shares
Issued:	539,507,285 shares
Listings:	Common stock listed on the Tokyo Stock Exchange and the Osaka Securities Exchange
Number of Shareholders:	23,222
Manager of the Register of shareholders:	Mitsubishi UFJ Trust and Banking Corporation
Transfer Agency:	Mitsubishi UFJ Trust and Banking Corporation Osaka Corporate Agency Division 6-3, Fushimimachi 3-Chome, Chuo-ku Osaka-shi, Osaka 541-8502

### Major Shareholders:

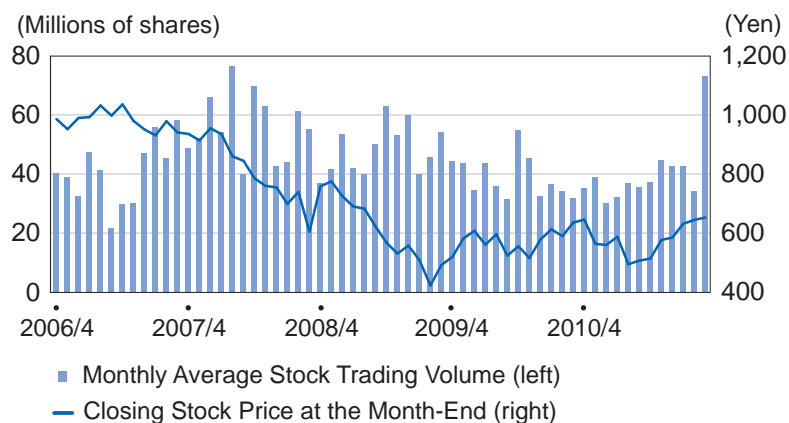
Name of shareholder	State of investments		The Company's investments in these companies	
	Number of Shares Held (Thousands)	Percentage of Ownership (%)	Number of Shares Held (Thousands)	Percentage of Ownership (%)
Asahi Kasei Corporation	31,039	5.94	1,716	0.12
Japan Trustee Services Bank, Ltd. (Trust Account)	26,492	5.07	—	—
The Dai-ichi Life Insurance Company, Limited	26,181	5.01	1	0.01
Sekisui House, Ltd.	25,592	4.89	72,168	10.66
The Master Trust Bank of Japan, Ltd. (Trust Account)	23,327	4.46	—	—
Japan Trustee Services Bank, Ltd. (Trust Account 9)	19,164	3.66	—	—
Tokio Marine & Nichido Fire Insurance Co., Ltd.	15,927	3.04	—	—
Employees Stock Ownership Plan	10,612	2.03	—	—
JP Morgan Chase Bank 385164	9,704	1.85	—	—
State Street Bank and Trust Company 505223	8,485	1.62	—	—

Note: 1. Sekisui Chemical Co., Ltd. holds 17,161 thousand shares of treasury stock.  
 2. The percentage of ownership is calculated after subtracting the treasury stock from the total number of outstanding shares.  
 3. The number of shares held is rounded down to the nearest thousand.

### Breakdown of Shareholders:



## Sekisui Chemical Stock Price and Trading Volume



	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
<b>Additional information</b>							
<b>(Sekisui Chemical Co., Ltd.):</b>							
Price range of common stock (yen)							
High	¥ 930	¥1,017	¥1,094	¥1,006	¥ 821	¥ 645	¥ <b>708</b>
Low	621	653	855	570	372	464	<b>481</b>
Market value (billions of yen)	420.3	537.9	506.6	325.3	264.4	342.0	<b>351.2</b>

## CORPORATE HISTORY

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

# Financial Reports

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**Financial Highlights (6 years)**

	Millions of yen					
	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
<b>Achievement Transition</b>						
Net Sales	885,067	926,163	958,674	934,225	858,514	915,492
Operating Income	40,287	45,157	43,005	33,589	35,955	49,335
Ordinary Income	43,801	46,910	38,547	29,438	31,076	48,292
Net Income	20,229	25,538	24,300	1,013	11,627	23,574
Comprehensive Income	-	-	-	-	-	5,705
Operating Income Ratio (%)	4.6	4.9	4.5	3.6	4.2	5.4
<b>Assets, Liabilities and Net Assets</b>						
Total Assets	808,357	879,153	782,859	756,450	787,261	790,189
Net Assets	387,458	413,141	368,919	330,721	351,706	350,045
Shareholders' Equity to Total Assets (%)	46.7	45.9	45.8	42.6	43.4	43.0
Current Ratio (%)	114.3	99.9	117.0	109.4	120.4	126.0
Fixed Ratio (%)	130.9	133.2	122.7	132.3	129.7	120.9
Interest-bearing Debt	94,607	111,283	92,097	129,406	133,085	124,508
Debt/Equity Ratio (%)	25.1	27.6	25.7	40.2	38.9	36.6
Total Assets Turnover (Times)	1.14	1.10	1.15	1.21	1.11	1.16
Inventory Turnover (Times)	9.69	9.07	8.50	7.91	7.56	8.14
Tangible Fixed Assets Turnover (Times)	3.89	3.93	3.92	3.87	3.46	3.71
<b>Cash Flow</b>						
Net cash provided by operating activities	38,268	41,929	31,782	35,611	74,983	64,197
Net cash provided by (used in) investing activities	14,847	(59,100)	13,521	(35,403)	(55,496)	(46,051)
Net cash provided by (used in) financing activities	(41,421)	(2,484)	(42,801)	13,889	(5,749)	(5,197)
Free Cash Flow	47,566	(23,804)	37,197	(7,787)	15,126	12,602
<b>Capital Expenditures, Depreciation and R&amp;D Expenditures</b>						
Capital Expenditures	28,348	36,337	31,267	34,539	44,049	25,269
Depreciation and Amortization	25,536	26,045	30,503	36,529	34,525	34,530
R&D Expenditures	23,077	24,451	25,739	25,420	24,010	24,694
R&D Expenditures to Revenues (%)	2.61	2.64	2.68	2.72	2.80	2.70
<b>Per Share Data</b>						
Net Assets per Share (Yen)	711.54	761.69	683.11	612.93	651.08	650.83
Net Income per Share (Yen)	37.78	48.19	46.16	1.93	22.13	44.92
Dividends per Share (Yen)	11.00	14.00	15.00	10.00	10.00	13.00
Dividends Payout Ratio (%)	29.1	29.1	32.5	518.7	45.2	28.9
<b>Other Data</b>						
Return on Equity (%)	5.9	6.5	6.4	0.3	3.5	6.9
Return on Total Assets (%)	5.6	5.6	4.6	3.8	4.0	6.1
EBITDA	65,823	71,202	73,508	70,118	70,480	83,865
Interest Coverage Ratio (Times)	20.6	27.3	21.9	14.8	15.2	19.8
PER (%)	26.39	19.49	13.06	253.89	28.65	14.49
Number of Employees	17,966	18,905	18,907	19,742	19,761	19,770
Net Sales per Employee (Ten thousands of yen)	5,062	5,023	5,070	4,834	4,346	4,631

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, 2011 and 2010

	Millions of yen	
	2011	2010
<b>Assets</b>		
Current assets:		
Cash and deposits (Notes 17 and 19)	¥ 75,021	¥ 45,175
Notes receivable, trade (Note 19)	38,688	39,783
Accounts receivable, trade (Note 19)	109,263	106,739
Marketable securities (Notes 4 and 19)	10,501	20,001
Merchandise and finished goods	39,332	40,197
Land for sale	19,146	16,822
Work in process	37,015	31,645
Raw materials and supplies	22,361	18,536
Advance payments	633	759
Prepaid expenses	2,531	2,393
Deferred income taxes (Note 9)	12,341	9,715
Short-term loans	1,118	691
Other current assets	12,530	12,049
Allowance for doubtful accounts	(999)	(986)
<b>Total current assets</b>	<b>379,485</b>	<b>343,524</b>
Non-current assets:		
Property, plant and equipment, net (Notes 6, 7 and 14):		
Buildings and structures	85,005	89,395
Machinery, equipment and vehicles	64,515	66,940
Land	69,184	69,314
Leased assets	7,163	8,044
Construction in progress	5,516	17,918
Other	4,867	5,371
<b>Total property, plant and equipment, net (Note 5)</b>	<b>236,253</b>	<b>256,985</b>
Intangible assets:		
Goodwill (Note 14)	19,290	22,909
Software	4,341	4,180
Leased assets	381	263
Other	5,799	6,426
<b>Total intangible assets</b>	<b>29,813</b>	<b>33,780</b>
Investments and other assets:		
Investments in securities (Notes 4 and 19)	105,307	116,582
Long-term loans	552	793
Long-term prepaid expenses	1,124	1,244
Deferred income taxes (Note 9)	27,340	25,191
Other	11,569	11,093
Allowance for doubtful accounts	(1,258)	(1,934)
<b>Total investments and other assets</b>	<b>144,636</b>	<b>152,970</b>
<b>Total non-current assets</b>	<b>410,704</b>	<b>443,736</b>
<b>Total assets</b>	<b>¥ 790,189</b>	<b>¥ 787,261</b>

	Millions of yen	
	2011	2010
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Notes payable, trade (Notes 6 and 19)	¥ 7,324	¥ 8,783
Accounts payable, trade (Notes 6 and 19)	118,027	113,181
Short-term debt and current portion of long-term debt (Notes 6 and 19)	40,325	28,001
Bonds redeemable within one year (Notes 6 and 19)	—	10,000
Lease obligations (Note 7)	3,102	3,627
Accrued expenses	27,257	25,119
Accrued income taxes and other taxes	9,107	8,342
Deferred income taxes (Note 9)	162	123
Allowance for bonuses to employees	14,308	13,188
Allowance for bonuses to directors and corporate auditors	223	227
Provision for compensation for completed construction	1,127	1,286
Advances received	44,153	37,812
Other	35,981	35,580
<b>Total current liabilities</b>	<b>301,101</b>	<b>285,275</b>
<b>Long-term liabilities:</b>		
Bonds less current maturities (Notes 6 and 19)	10,000	10,000
Long-term debt less current portion (Notes 6 and 19)	66,702	76,761
Lease obligations (Note 7)	4,378	4,694
Deferred income taxes (Note 9)	4,949	4,397
Accrued retirement benefits (Note 8)	47,761	48,608
Other	5,249	5,816
<b>Total long-term liabilities</b>	<b>139,042</b>	<b>150,279</b>
<b>Total liabilities</b>	<b>440,143</b>	<b>435,554</b>
<b>Contingent liabilities (Note 12)</b>		
<b>Net assets</b>		
<b>Shareholders' equity (Note 10);</b>		
Common stock	100,002	100,002
Capital surplus	109,307	109,307
Retained earnings	172,689	154,353
Treasury stock, at cost	(13,017)	(10,839)
<b>Total shareholders' equity</b>	<b>368,982</b>	<b>352,823</b>
<b>Accumulated other comprehensive income (loss):</b>		
Unrealized holding loss on securities	(8,202)	(1,037)
Deferred (loss) gain on hedges	(123)	74
Unrealized gain on land revaluation (Note 11)	199	199
Translation adjustments	(21,119)	(10,017)
<b>Total accumulated other comprehensive loss</b>	<b>(29,245)</b>	<b>(10,781)</b>
Stock acquisition rights	611	503
Minority interests	9,697	9,160
<b>Total net assets</b>	<b>350,045</b>	<b>351,706</b>
<b>Total liabilities and net assets</b>	<b>¥ 790,189</b>	<b>¥ 787,261</b>

See accompanying notes to consolidated financial statements

**Consolidated Statements of Income**

 Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
 Years ended March 31, 2011 and 2010

	Millions of yen	
	2011	2010
Net sales (Notes 18 and 22)	¥ 915,492	¥ 858,514
Cost of sales	645,468	606,123
Gross profit	270,023	252,390
Selling, general and administrative expenses (Note 13)	220,688	216,434
Operating income (Note 22)	49,335	35,955
Non-operating income:		
Interest income	646	790
Dividends income	1,533	2,021
Equity in earnings of affiliates	1,739	1,498
Miscellaneous income	3,785	2,986
Total non-operating income	7,704	7,295
Non-operating expenses:		
Interest expenses	2,297	2,253
Interest on commercial papers	—	27
Sales discounts	305	277
Foreign exchange loss	2,504	998
Miscellaneous expenses	3,641	8,619
Total non-operating expenses	8,748	12,175
Ordinary income	48,292	31,076
Extraordinary income:		
Gain on sales of property, plant and equipment	—	1,015
Total extraordinary income	—	1,015
Extraordinary loss:		
Reorganization costs (Note 15)	3,967	2,302
Loss on disaster	1,239	—
Loss on devaluation of investments in securities	1,109	—
Loss on impairment of fixed assets and goodwill (Note 14)	984	3,456
Loss on sales or disposal of property, plant and equipment	1,189	2,988
Total extraordinary loss	8,491	8,747
Income before income taxes and minority interests	39,801	23,344
Income taxes (Note 9):		
Current	14,025	11,510
Deferred	1,096	(1,000)
Total income taxes	15,122	10,509
Income before minority interests	24,678	12,834
Minority interests	1,103	1,207
Net income	¥ 23,574	¥ 11,627

*See accompanying notes to consolidated financial statements*

**Consolidated Statements of Comprehensive Income**

 Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
 Year ended March 31, 2011

	Millions of yen
	2011
Income before minority interests	¥ 24,678
Other comprehensive income (loss) (Note 16)	
Unrealized holding loss on securities	(7,211)
Deferred loss on hedges	(197)
Translation adjustments	(11,617)
Comprehensive income of affiliates accounted for by the equity method attributable to the Company	53
Total other comprehensive loss	(18,972)
Comprehensive income	5,705
Comprehensive income attributable to:	
Shareholders of the Company	¥ 5,110
Minority shareholders	594

*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, 2011 and 2010

Millions of yen

	Shareholders' equity				Accumulated other comprehensive income (loss)				Stock acquisition rights	Minority interests	Total net assets
	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			
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
Cash dividends	-	-	(5,256)	-	-	-	-	-	-	-	(5,256)
Net income for the year	-	-	23,574	-	-	-	-	-	-	-	23,574
Increase in retained earnings resulting from inclusion of subsidiaries in consolidation	-	-	19	-	-	-	-	-	-	-	19
Increase in treasury stock	-	-	-	(2,178)	-	-	-	-	-	-	(2,178)
Gain on sales of treasury stock	-	(0)	-	1	-	-	-	-	-	-	0
Net changes of items other than shareholders' equity	-	-	-	-	(7,164)	(197)	0	(11,101)	107	536	(17,819)
Total changes of items during the year	-	(0)	18,336	(2,177)	(7,164)	(197)	0	(11,101)	107	536	(1,660)
Balance at March 31, 2011	¥100,002	¥109,307	¥172,689	¥(13,017)	¥ (8,202)	¥(123)	¥199	¥(21,119)	¥611	¥9,697	¥350,045

*See accompanying notes to consolidated financial statements*

## Consolidated Statements of Cash Flows

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
 Years ended March 31, 2011 and 2010

	Millions of yen	
	2011	2010
Operating activities:		
Income before income taxes and minority interests	¥ 39,801	¥ 23,344
Adjustments for:		
Depreciation and amortization	34,530	34,525
Amortization of goodwill	2,730	3,083
Loss on impairment of fixed assets and goodwill	984	3,456
Loss on disposal of fixed assets	1,106	2,950
Loss on devaluation of investment securities	1,109	225
(Decrease) increase in accrued retirement benefits	(704)	387
Interest and dividend income	(2,179)	(2,811)
Interest expenses	2,602	2,557
Equity in earnings of affiliates	(1,739)	(1,498)
Increase in notes and accounts receivable	(6,071)	(2,865)
(Increase) decrease in inventories	(13,347)	13,293
Increase in notes and accounts payable	9,538	753
Increase in advances received	6,359	4,332
Other	2,522	6,169
Subtotal	77,244	87,904
Interest and dividends received	2,616	3,257
Interest paid	(2,606)	(2,546)
Surcharge paid	—	(7,965)
Income taxes refund	—	4,868
Income taxes paid	(13,056)	(10,535)
Net cash provided by operating activities	64,197	74,983
Investing activities:		
Purchases of property, plant and equipment	(21,232)	(37,061)
Proceeds from sales of property, plant and equipment	424	2,285
Increase in time deposits	(17,646)	(6)
Purchases of investments in securities	(3,154)	(1,389)
Proceeds from sales or redemption of investment in securities	462	2,056
Acquisition of investments in subsidiaries resulting in change in scope of consolidation (Note 17)	—	(2,908)
Acquisition of investments in subsidiaries	(683)	—
Acquisition of businesses (Note 17)	—	(16,288)
Acquisition of shares from minority interests in consolidated subsidiaries	(12)	(201)
Purchase of intangible assets	(2,529)	(1,990)
(Increase) decrease in short-term loans	(121)	702
Other	(1,558)	(696)
Net cash used in investing activities	(46,051)	(55,496)

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

## Financing activities:

Increase (decrease) in short-term debt, net	29	(9,007)
Repayments of finance lease obligations	(3,944)	(5,083)
Decrease in commercial paper	—	(20,000)
Proceeds from long-term debt	14,160	32,545
Repayment of long-term debt	(7,755)	(4,419)
Proceeds from issuance of bonds	—	10,000
Payment for redemption of bonds	—	(5,382)
Cash dividends paid	(5,260)	(4,209)
Cash dividends paid to minority shareholders of consolidated subsidiaries	(284)	(152)
Purchase of treasury stock	(2,171)	(20)
Other	29	(20)
Net cash used in financing activities	(5,197)	(5,749)
Effect of exchange rate change on cash and cash equivalents	(2,488)	602
Net increase in cash and cash equivalents	10,459	14,339
Cash and cash equivalents at beginning of year	54,855	40,488
Increase in cash and cash equivalents from initial consolidated subsidiary	629	28
Cash and cash equivalents at end of year (Note 17)	¥ 65,944	¥ 54,855

*See accompanying notes to consolidated financial statements*

## Notes to Consolidated Financial Statements

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

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

Effective the year ended March 31, 2011, the Companies have adopted the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, issued on June 30, 2010). The account items "accumulated other comprehensive income (loss)" and "total accumulated other comprehensive loss" in the accompanying consolidated balance sheet as of March 31, 2010 are used in place of the previously reported items of "valuation" and "total valuation" in the consolidated balance sheet as of March 31, 2010.

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, 2010 to the 2011 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, 2011 and 2010 have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements for the years ended March 31, 2011 and 2010 do not necessarily agree with the sum of the individual amounts.

### 2. Summary of Significant Accounting Policies

#### (1) Principles of Consolidation

At March 31, 2011, the Company had 202 subsidiaries as opposed to 193 at March 31, 2010. The accompanying consolidated financial statements for the years ended March 31, 2011 and 2010 include the accounts of the Company and its 155 and 153 significant subsidiaries, respectively.

The accounts of the remaining 47 and 40 subsidiaries have not been consolidated with those of the Company at March 31, 2011 and 2010, 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, 2011 and 2010, although the Company had 47 and 40 unconsolidated subsidiaries, 18 and 17 affiliates, respectively, 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 and statement of comprehensive income.

(3) Cash and Cash Equivalents

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

(4) Inventories

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

(5) Securities

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

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

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

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

(7) Leased Assets

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

(8) Goodwill

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

(9) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided to cover possible losses on collection. With respect to normal accounts receivable, trade, 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 Bonuses to Employees

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

(11) Accrued Retirement Benefits

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

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

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

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

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

(12) Recognition of Revenue and Related Costs

Revenues and costs of construction contracts, of which the percentage of completion can be reliably estimated, are

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

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

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

The Company has recognized the tax 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 accumulated other comprehensive income (loss).

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

### 3. Changes in Method of Accounting

- (1) **Asset Retirement Obligations**  
Effective the year ended March 31, 2011, the Company and its domestic consolidated subsidiaries have adopted the "Accounting Standard for Asset Retirement Obligations" (Accounting Standards Board of Japan ("ASBJ") Statement No. 18, issued on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008). The effect of this change was immaterial to the consolidated financial statements for the year ended March 31, 2011.
- (2) **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" (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 these 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.

- (3) **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).

#### 4. Marketable Securities and Investments in Securities

- (1) Held-to-maturity debt securities at March 31, 2011 and 2010 are summarized as follows:

			Millions of yen		
			2011		
Unlisted securities	foreign	debt	Carrying value	Estimated fair value	Gross unrealized gain (loss)
			¥ 25	¥ 25	¥ -
			¥ 25	¥ 25	¥ -

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

- (2) Other securities with available fair market value at March 31, 2011 and 2010 are summarized as follows:

					Millions of yen			
					2011			
	Cost	Carrying value	Gross unrealized gain	Gross unrealized loss				
Equity securities	¥ 7,307	¥ 11,412	¥ 4,105	¥ -				
Equity securities	77,575	59,221	-	(18,353)				
Bonds and debentures	25	25	-	-				
Other	10,500	10,500	-	-				
	¥ 95,407	¥ 81,159	¥ 4,105	¥(18,353)				

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

Because no quoted market prices are available and it is extremely difficult to determine the fair value, the financial instruments of ¥3,661 million and ¥4,309 million at March 31, 2011 and 2010, respectively, are not included in the above table.

- (3) The proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2011 and 2010 are summarized as follows:

	Millions of yen	
	2011	2010
Proceeds from sales	¥418	¥371
Gross realized gain	118	52
Gross realized loss	(0)	(18)

## 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, 2011 and 2010 amounted to ¥480,789 million and ¥467,588 million, respectively.

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

- (1) Short-term debt  
The average interest rates of short-term debt outstanding at March 31, 2011 and 2010 were 1.85% and 1.47%, respectively.
- (2) Bonds outstanding at March 31, 2011 and 2010 were as follows:

	Millions of yen	
	2011	2010
2.04% bonds due May 2010	¥ -	¥ 10,000
1.18% bonds due July 2014	10,000	10,000
	10,000	20,000
Less current maturities	-	(10,000)
	¥ 10,000	¥ 10,000

- (3) Long-term debt at March 31, 2011 and 2010 was as follows:

	Millions of yen	
	2011	2010
Secured	¥ 1,526	¥ 2,687
Unsecured	87,239	81,823
	88,765	84,510
Less current portion	(22,063)	(7,749)
	¥ 66,702	¥ 76,761

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, 2011 are summarized below:

Year ending March 31,	Millions of yen
2012	¥ 22,063
2013	16,248
2014	23,948
2015	17,569
2016	7,703

- (4) At March 31, 2011 and 2010, the following assets were pledged as collateral for trade notes and accounts payable, trade, long-term and short-term debt and other:

Assets	Millions of yen	
	2011	2010
Buildings and structures	¥ 2,944	¥ 2,864
Machinery	631	1,363
Land	3,975	3,951
Intangible assets	221	228
Other	3,072	3,278
<b>Total</b>	<b>¥ 10,845</b>	<b>¥ 11,687</b>

Liabilities	Millions of yen	
	2011	2010
Notes payable, trade	¥ 112	¥ 145
Accounts payable, trade	1,731	1,741
Short-term debt	2,302	2,985
Long-term debt	1,526	2,687
<b>Total</b>	<b>¥ 5,672</b>	<b>¥ 7,560</b>

- (5) In order to achieve more efficient and flexible financing, the Company has concluded line-of-credit agreements with certain financial institutions. The status of these at March 31, 2011 and 2010 were as follows:

	Millions of yen	
	2011	2010
Lines of credit	¥10,000	¥19,210
Credit used	-	-
<b>Available credit</b>	<b>¥10,000</b>	<b>¥19,210</b>

## 7. Lease Obligations

The annual maturities of lease obligations for 5 years subsequent to March 31, 2011 are summarized below:

Year ending March 31,	Millions of yen
2012	¥ 3,102
2013	2,260
2014	1,312
2015	561
2016	193

## 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 March 31, 2011 and 2010 for the Companies' defined benefit pension plans:

	Millions of yen	
	2011	2010
Retirement benefit obligation at end of year	¥(108,494)	¥(109,874)
Fair value of plan assets at end of year	59,431	59,089
Unfunded retirement benefit obligation	(49,063)	(50,785)
Unrecognized actuarial loss	2,493	3,240
Unrecognized prior service cost	210	315
Net retirement benefit obligation	(46,358)	(47,230)
Prepaid pension cost	3	2
Accrued retirement benefits	¥ (46,361)	¥ (47,233)

At March 31, 2011 and 2010, accrued retirement benefits of ¥47,761 million and ¥48,608 million, respectively, reflected in the accompanying consolidated balance sheets included accrued retirement benefits for officers of ¥1,399 million and ¥1,375 million, respectively.

The components of retirement benefit expenses for the years ended March 31, 2011 and 2010 are outlined as follows:

	Millions of yen	
	2011	2010
Service cost	¥ 8,976	¥ 8,866
Interest cost	2,440	2,564
Expected return on plan assets	(1,921)	(1,702)
Amortization:		
Unrecognized actuarial loss	301	937
Prior service cost	35	41
Retirement benefit expenses	¥ 9,832	¥10,708

In addition to retirement benefit expenses listed above, the Company and domestic consolidated subsidiaries accounted for additional payments of retirement benefits of ¥1,301 million and ¥1,143 million which were included in reorganization costs for the years ended March 31, 2011 and 2010, respectively.

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2011 and 2010 were as follows:

	2011	2010
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, 2011 and 2010.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2011 and 2010 differ from the above statutory tax rate for the following reasons:

	2011	2010
Statutory tax rate	40.4%	40.4%
Non-deductible expenses	-	3.8
Temporary differences arising from consolidation without tax effect	2.6	3.4
Decreases in valuation allowance	(3.7)	-
Other	(1.3)	(2.6)
<b>Effective tax rates</b>	<b>38.0%</b>	<b>45.0%</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, 2011 and 2010 are summarized as follows:

	Millions of yen	
	2011	2010
Deferred tax assets:		
Retirement benefits	¥ 19,370	¥ 19,613
Tax loss carry forwards	6,889	9,631
Unrealized holding loss on securities	5,798	673
Accrued bonuses	5,623	5,262
Loss on impairment of fixed assets	4,114	4,011
Loss on devaluation of investments in securities	4,036	3,615
Unrealized gain	3,092	3,058
Other	8,878	8,665
Valuation allowance	(10,950)	(12,415)
<b>Total deferred tax assets</b>	<b>46,853</b>	<b>42,115</b>
Deferred tax liabilities:		
Revaluation of investments in affiliates	(3,769)	(3,769)
Deferred capital gains on property	(2,215)	(2,286)
Adjustment for allowance for doubtful accounts	(12)	(75)
Other	(6,285)	(5,597)
<b>Total deferred tax liabilities</b>	<b>(12,282)</b>	<b>(11,730)</b>
<b>Net deferred tax assets</b>	<b>¥ 34,570</b>	<b>¥ 30,385</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, 2011 and 2010.

### *Stock-based compensation plan*

In accordance with the former Commercial Code of Japan (the "Code") a stock option plan (the 2005 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, certain stock option plans (the 2006 and 2007 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 shareholders held on June 29, 2006 and June 28, 2007, respectively.

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

The stock option plans outlined above are summarized as follows:

	Number of stock options outstanding at March 31, 2011	Exercise price at March 31, 2011	Exercisable period
The 2006 plan	1,060,000	1,045	From July 1, 2008 up to and including June 30, 2011
The 2007 plan	1,025,000	1,010	From July 1, 2009 up to and including June 30, 2012
The 2008 plan	1,115,000	734	From July 1, 2010 up to and including June 30, 2013
The 2009 plan	1,175,000	579	From July 1, 2011 up to and including June 30, 2014
The 2010 plan	1,190,000	595	From July 1, 2012 up to and including June 30, 2015

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

	The 2005 plan	The 2006 plan	The 2007 plan	The 2008 plan	The 2009 plan	The 2010 plan
Number of stock options:						
Balance at April 1, 2009	952,000	1,090,000	1,050,000	1,140,000	—	—
Granted	—	—	—	—	1,205,000	—
Cancelled	10,000	20,000	15,000	10,000	15,000	—
Exercised	—	—	—	—	—	—
Balance at March 31, 2010	942,000	1,070,000	1,035,000	1,130,000	1,190,000	—
Granted	—	—	—	—	—	1,195,000
Cancelled	942,000	10,000	10,000	15,000	15,000	5,000
Exercised	—	—	—	—	—	—
Balance at March 31, 2011	—	1,060,000	1,025,000	1,115,000	1,175,000	1,190,000
Fair value of stock options as of the grant date	—	¥ 195	¥ 144	¥ 108	¥ 97	¥ 92

*Common stock and treasury stock*

Movements in common stock in issue and treasury stock for the years ended March 31, 2011 and 2010 are summarized as follows:

	Number of shares			
	2011			
	March 31, 2010	Increase	Decrease	March 31, 2011
Common stock	539,507,285	-	-	539,507,285
Treasury stock	14,162,284	3,343,033	1,526	17,503,791

	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

## 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 accumulated other comprehensive income (loss) as unrealized gain on land revaluation of ¥199 million in the accompanying consolidated balance sheets at March 31, 2011 and 2010, respectively.

## 12. Contingent Liabilities

Contingent liabilities at March 31, 2011 and 2010 were as follows:

	Millions of yen	
	2011	2010
Guaranteed obligations		
Housing loans of customers	¥ 22,433	¥ 15,891
Housing loans of employees	631	865
Loans of unconsolidated subsidiaries	50	280

	Millions of yen	
	2011	2010
Notes receivable, trade with recourse		
Notes receivable, trade endorsed	¥ 189	¥ 290
Notes receivable, trade discounted	28	164

## 13. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2011 and 2010 are as follows:

	Millions of yen	
	2011	2010
Research and development costs	¥ 24,694	¥ 24,010

## 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.

For the year ended March 31, 2011, the Company has written down goodwill and intangible assets, recognized at the time of acquisition of the testing medicine business in the United States, to their respective net recoverable values because the management of the Company has determined that reaching the income target expected in line with the business plan in effect when the business was acquired is difficult. As a result, the Company recorded a loss of ¥577 million, for which the recoverable amounts were measured by the value in use method based on estimated future cash flows discounted at rates varying from 19.8% to 22.6% for the year ended March 31, 2011.

For the year ended March 31, 2010, the Company has written down the book value of goodwill recognized at the time of acquisition of the pipeline rehabilitation business and medical diagnostic products business in the United States, to their respective net recoverable values because the management of the Company has determined that reaching the income target expected in line with the business plan in effect when the business was acquired is difficult. As a result, the Company recorded a loss of ¥ 983 million as impairment loss, for which the 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% for the year ended March 31, 2010.

For the year ended March 31, 2010, the carrying value of land and structures (or groups of assets), whose market value has decreased significantly from their original carrying value, has been reduced to their respective recoverable amounts as a result of decline in land prices. Accordingly, 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 ¥24 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.

## 15. Reorganization Costs

Reorganization costs for the years ended March 31, 2011 and 2010 are as follows:

	Millions of yen	
	2011	2010
Additional payments of retirement benefits	¥ 1,301	¥ 1,143
Cost of integration of the retirement pension plan of certain subsidiaries in the Housing segment	714	—
Reorganization of subsidiaries	—	811
Others	1,952	348
	¥ 3,967	¥ 2,302

## 16. Other Comprehensive Income

Other comprehensive income for the year ended March 31, 2010 is summarized as follows;

	Millions of yen
	2010
Other comprehensive income (loss)	
Unrealized holding loss on securities	¥ 9,927
Deferred loss on hedges	66
Translation adjustments	2,702
Comprehensive income of affiliates accounted for by the equity method attributable to the Company	165
Total other comprehensive income	¥ 12,862
Comprehensive income attributable to:	
Shareholders of the Company	¥ 24,253
Minority shareholders	1,444
Total	¥ 25,697

## 17. Supplemental Information on Statements of Cash Flows

Reconciliations 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, 2011 and 2010 are presented as follows:

	Millions of yen	
	2011	2010
Cash and deposits	¥75,021	¥45,175
Time deposits with maturities in excess of three months	(17,576)	(319)
Certificate of deposit within three months	8,500	10,000
<b>Cash and cash equivalents</b>	<b>¥65,944</b>	<b>¥54,855</b>

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)
<b>Net disbursement of acquisition</b>	<b>¥</b>	<b>2,478</b>

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)
<b>Acquisition cost</b>	<b>¥</b>	<b>12,654</b>

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>

Finance lease obligations of ¥3,195 million and ¥3,769 million were incurred during the years ended March 31, 2011 and 2010, respectively.

## 18. Related Party Transactions

Principal transactions between the Company's consolidated subsidiaries and their related parties for the years ended March 31, 2011 and 2010 are summarized as follows:

2011			
Name	Title	Transactions	Millions of yen Amounts
Shuji Negishi	President of the Company	Sales of housing	¥52
Kozo Takami	Director of the Company	Sales of housing	¥26

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

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

## 19. Financial Instruments

### Overview

- (1) Policy for financial instruments  
The Companies raise funds by bank borrowings and bonds, including short-term bonds. The Companies manage funds only through short-term time deposits and others. The Companies use derivatives for the purposes of managing foreign currency exchange risk related to notes and accounts receivable, trade and notes and accounts payable, trade and avoiding the risk of fluctuations of interest rates related to debt. The Companies do not enter into derivatives for speculative or trading purposes.
- (2) Types of financial instruments and related risk  
Notes and accounts receivable, trade are exposed to credit risk in relation to customers. In addition, the Companies are exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies resulting from trade with overseas customers.

Equity securities—the Companies hold equity securities, which are mainly issued by companies who have business relationships with the Companies, and these securities are exposed to the risk of fluctuation in market prices. Notes and accounts payable, trade 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 bank loans and bonds, is raised mainly in connection with business activities. Long-term debt and bonds are taken out

principally for the purpose of capital expenditure. The repayment dates of the long-term debt and bonds extend up to five 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 confirms the effectiveness of hedging and obtains approval from the responsible person, depending on the notional contract value, based on the internal policies and formal regulations on market risk for financial instruments.

(c) Monitoring of liquidity risk for financing (the risk that the Companies may not be able to meet its obligations on the scheduled due dates)

The Companies manage liquidity risk mainly through the monthly cash-flow plans, which are prepared by each company.

(4) Supplementary explanation of the estimated fair value of financial instruments

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 sheets as of March 31, 2011 and 2010 and differences (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).

Fair value information as of March 31, 2011:

	Millions of yen		
	Carrying value	Estimated fair value	Difference
(1)Cash and deposits	¥ 75,021	¥ 75,021	¥ —
(2)Notes and accounts receivable, trade	147,951	147,951	—
(3)Marketable securities and Investments in securities	102,966	96,901	(6,065)
Total	¥ 325,939	¥ 319,873	¥ (6,065)
(1)Notes and accounts payable, trade	¥ (125,351)	¥ (125,351)	¥ —
(2)Short-term debt	(18,261)	(18,261)	—
(3)Long-term debt, including current portion	(88,765)	(89,130)	364
(4)Bonds	(10,000)	(10,205)	205
Total	¥ (242,379)	¥ (242,948)	¥ 569

Fair value information as of March 31, 2010:

	Millions of yen		
	Carrying value	Estimated fair value	Difference
(1)Cash and deposits	¥ 45,175	¥ 45,175	¥ —
(2)Notes and accounts receivable, trade	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, trade	¥ (121,965)	¥ (121,965)	¥ —
(2)Short-term debt	(20,252)	(20,252)	—
(3)Long-term debt, including current portion	(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, trade*

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

*Marketable securities and investment in securities*

The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on either quoted market prices or prices provided by the financial institutions making markets in these securities. For information on securities classified by holding purpose, please refer to Note 4. Marketable Securities and Investment in Securities of the notes to the consolidated financial statements.

*Notes and accounts payable, trade and short-term debt*

Since these items are settled in a short period, 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 contracts and accounted for as debt with fixed interest rate. The fair value of long-term debt with variable interest is based on the present value of the total of principal, interest and net cash flow of interest rate swap contracts discounted by the reasonably estimated interest rate to be applied if similar new loans with a similar remaining period were entered into.

*Bonds*

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

*Derivatives Transactions*

Please refer to Note 20. Derivatives of the notes to the consolidated financial statements.

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

	Millions of yen	
	2011	2010
Unlisted equity securities	¥12,842	¥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 Cash and deposits, notes and accounts receivable, trade and marketable securities and investments in securities with maturities at March 31, 2011 and 2010:

Maturity analysis as of March 31, 2011:

	Millions of yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and deposits	¥ 75,021	¥ -	¥ -	¥ -
Notes and accounts receivable, trade	147,951	-	-	-
Marketable securities and investments in securities				
Held-to-maturity debt securities	1	24	-	-
Other securities with maturities	10,500	-	-	-
<b>Total</b>	<b>¥ 233,473</b>	<b>¥ 24</b>	<b>¥ -</b>	<b>¥ -</b>

Maturity analysis as of 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, trade	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, 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.

## 20. 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 some 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, 2011 and 2010:

1. Derivatives for which hedge accounting is not applied

## (1) Currency-related transactions

	Millions of yen					
	2011			2010		
	Notional amount	Fair value	Unrealized gain	Notional amount	Fair value	Unrealized gain
Foreign currency swaps:						
Receive fixed – U.S. dollars/ pay fixed – yen	¥ 3,037	¥ 87	¥ 87	¥ 2,935	¥ 384	¥ 384
Receive fixed – Euro/ pay fixed – yen	-	-	-	1,239	128	128
<b>Total</b>	<b>¥ 3,037</b>	<b>¥ 87</b>	<b>¥ 87</b>	<b>¥ 4,174</b>	<b>¥ 512</b>	<b>¥ 512</b>

The notional amount of receive fixed – U.S. dollars / pay fixed – yen includes a portion over 1 year of ¥621 million as of March 31, 2011.

## (2) Interest-related transactions

	Millions of yen					
	2011			2010		
	Notional amount	Fair value	Unrealized gain	Notional amount	Fair value	Unrealized Gain (loss)
Interest-rate swaps:						
Receive/fixed and pay/floating	¥ -	¥ -	¥ -	¥ 10,000	¥ 70	¥ 70
Receive/floating and pay/fixed	-	-	-	10,000	(69)	(69)
<b>Total</b>	<b>¥ -</b>	<b>¥ -</b>	<b>¥ -</b>	<b>¥ 20,000</b>	<b>¥ 0</b>	<b>¥ 0</b>

## 2. Derivatives for which hedge accounting is applied

## (1) Currency-related transactions

	Millions of yen			
	2011			
	Hedged item	Notional amount	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts:				
Buy: U.S. dollars	Accounts payable	¥17,803	¥(123)	¥(123)
Buy: Euro		5	0	0

The notional amount of the buy position in U.S. dollars includes a portion over 1 year of ¥3 million.

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

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

## (2) Interest-related transactions

	Millions of yen			
	2011			
	Hedged item	Notional amount	Fair value	Unrealized gain (loss)
Interest-rate swap:	Long-term			
Receive/floating and pay/fixed	debt	¥39,125	(*)	(*)
<b>Total</b>		<b>¥39,125</b>		

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

The notional amount of the above interest rate swap includes a portion over 1 year of ¥24,875 million.

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

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

The notional amount of the above interest rate swap includes a portion over 1 year of ¥36,625 million.

## 21. Amounts Per Share

	Yen	
	2011	2010
Net income:		
Basic	¥ 44.92	¥ 22.13
Diluted	44.92	-
Cash dividends	13.00	10.00
Net assets	650.83	651.08

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 at March 31, 2011 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. Diluted net income per share at March 31, 2010 has not been disclosed because no potentially dilutive securities were outstanding at March 31, 2010. The amounts per share of net assets have been computed based on the number of shares of common stock outstanding at year end.

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

## 22. Segment Information

(Additional information)

Segment Information Disclosures

Effective the year ended March 31, 2011, the Companies have adopted the "Revised Accounting Standard for

Disclosures about Segments of an Enterprise and Related Information” (ASBJ Statement No. 17, revised on March 27, 2009) and “Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No. 20, issued on March 21, 2008). Under the new revised accounting standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the Board of Directors in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(a) Segment Information for the Year ended March 31, 2011

1. Overview of the Reportable segments

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

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

The accounting methods for the reportable segments is presented principally in accordance with the same accounting policies of the accompanying consolidated financial statements defined in Note 2 “Summary of Significant Accounting Policies.” The amounts of segment income are calculated based on the same method as the calculation of operating income in the consolidated statement of income for the year ended March 31, 2011. The figures of intersegment sales and transfers are presented based on the current market prices at the time of these transactions.

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

Reportable segment information of the Companies for the year ended March 31, 2011 is summarized as follows:

	Millions of yen					
	2011					
	Reportable segments			Total	Other (*1)	Consolidated
Housing	Urban infrastructure and environmental products	High performance plastics				
Sales:						
Sales to third parties	¥ 418,620	¥ 184,443	¥ 275,122	¥ 878,186	¥ 37,305	¥ 915,492
Intersegment sales or transfers	66	11,126	6,520	17,713	5,835	23,548
Net sales	418,687	195,570	281,642	895,900	43,140	939,041
Segment income	¥ 24,379	¥ 1,503	¥ 24,397	¥ 50,281	¥ (127)	¥ 50,153
Segment assets	¥ 196,715	¥ 161,309	¥ 257,843	¥ 615,868	¥ 42,057	¥ 657,926
Other items:						
Depreciation and amortization (*2)	7,287	6,953	17,638	31,879	1,956	33,836
Investment in affiliates accounted for by the equity method	6,454	-	-	6,454	-	6,454
Increase in property, plant and equipment, and intangible assets (*2)	5,708	5,556	12,111	23,375	1,235	24,611

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

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

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

Net sales and income for the year ended March 31, 2011

Net sales:	(Millions of Yen)
Total of reportable segments	¥ 895,900
Other business sales	43,140
Eliminations	(23,548)
Net sales	¥ 915,492
Income:	(Millions of Yen)
Total of reportable segments	¥ 50,281
Other business loss	(127)
Eliminations	(196)
Corporate expenses (*1)	(620)
Operating income	¥ 49,335

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

Assets for the year ended March 31, 2011

Assets:	(Millions of Yen)
Total of reportable segments	¥ 615,868
Assets classified as "other"	42,057
Eliminations	(72,479)
Corporate assets (*1)	204,742
<b>Total Assets</b>	<b>¥ 790,189</b>

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

Other items for the year ended March 31, 2011

	Millions of yen			
	2011			
	Reporting Segment	Others	Adjustment (*1)	Consolidated
Other items:				
Depreciation and amortization	¥ 31,879	¥ 1,956	¥ 694	¥ 34,530
Investment in affiliates accounted for by the equity method	6,454	—	21,806	28,260
Increase in property, plant and equipment, and intangible assets	23,375	1,235	658	25,269

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

### 5. Related information

(1) Sales information by geographic area

Overseas sales by geographical areas for the year ended March 31, 2011 is as follows:

	Millions of yen					
	2011					
	Japan	America	Europe	Asia	Other	Total
Net sales	¥ 735,480	¥ 52,800	¥ 50,654	¥ 67,574	¥ 8,983	¥ 915,492

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

Information of property, plant and equipment by geographical areas for the year ended March 31, 2011 is as follows:

	Millions of yen					
	2011					
	Japan	America	Europe	Asia	Other	Total
Property, plant and equipment, net	¥ 180,814	¥ 17,091	¥ 20,101	¥ 16,304	¥ 1,942	¥ 236,253

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

Information on loss on impairment of fixed assets and goodwill for the year ended March 31, 2011 is as follows.

	Millions of yen					
	2011					
	Housing	Urban infrastructure and environmental products	High performance plastics	Other	Eliminations or unallocable accounts	Total
Loss on impairment of fixed assets and goodwill	¥ -	¥ 211	¥ 773	¥ -	¥ -	¥ 984

## 7. Amortization and balance of goodwill

Information on amortization of goodwill by each segment and its remaining balance for the year ended March 31, 2011 is summarized as follows:

	Millions of yen					
	2011					
	Housing	Urban infrastructure and environmental products	High performance plastics	Other	Eliminations or unallocable accounts	Total
Amortization of goodwill	¥ (33)	¥ 1,019	¥ 1,746	¥ (1)	¥ -	¥ 2,730
Balance at March 31, 2011	(5)	4,629	14,666	-	-	19,290

## (b) Segment Information for the Year ended March 31, 2010

Restated segment information for the year ended March 31, 2010 has been omitted because basic segment information was similarly presented from prior years and this presentation treatment has been permitted in line with "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, issued on March 27, 2008) and ASBJ Guidance No.20 "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No.20, issued on March 21, 2008).

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

Business Segments

	Millions of yen						Eliminations or unallocable accounts	Consoli- dated
	2010							
	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 transfers	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	

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

Geographical Segments

	Millions of yen						Eliminations or unallocable accounts	Consoli- dated
	2010							
	Japan	United States	Europe	Asia	Other	Total		
Sales:								
Sales to third parties	¥739,820	¥33,310	¥38,550	¥40,160	¥6,671	¥858,514	¥ -	¥858,514
Intersegment sales or	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

Overseas sales for the year ended March 31, 2010 is summarized as follows:

Overseas Sales

	Millions of yen				Total
	America	Europe	Asia	Other	
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

### 23. 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 reflected 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 were 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. 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 reflected 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 were 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>

## 24. Subsequent Events

(1) (Acquisition of business and stock)

The Company determined at its Board of Directors meeting on November 10, 2010, to proceed with the acquisition of the diagnostics business of Genzyme Corporation, based in the United States, and concluded an agreement on November 18, 2010 to acquire the business and shares of its subsidiaries. As a result, the Company acquired the diagnostics business of Genzyme Corporation in the United States and the United Kingdom, and the shares of subsidiaries in Canada and Germany of Genzyme Corporation on January 31, 2011.

Sekisui America Corporation, a wholly owned subsidiary of the Company, established Sekisui Diagnostics, LLC. in the United States and Sekisui Diagnostics, LLC. acquired the diagnostics business of Genzyme Corporation in North America (including the shares of Genzyme Corporation's subsidiary in Canada, renamed Sekisui Diagnostics P.E.I. Inc.), which is involved in development, manufacture and distribution of clinical diagnostics.

Sekisui Europe B.V., a wholly owned subsidiary of the Company, similarly established Sekisui Diagnostics (UK) Ltd. subsequently in the United Kingdom and Sekisui Diagnostics (UK) Ltd. acquired the diagnostics business of Genzyme Corporation in the United Kingdom and the shares of Genzyme Corporation's subsidiary in Germany (renamed Sekisui Virotech G.m.b.H.), which are involved in development, manufacture and distribution of clinical diagnostics.

The aggregate acquisition costs of the Sekisui Diagnostics, LLC and Sekisui Diagnostics (UK) Ltd. business were \$116 million and \$74 million, respectively. The aggregate acquisition cost of shares of Sekisui Diagnostics P.E.I. Inc. and Sekisui Virotech G.m.b.H. were \$58 million and \$15 million, respectively.

The Company determined that the acquisition would enable it to fortify development of the medical business's overseas clinical diagnostics operations.

The Company will newly include the accounts of the above new subsidiaries in its consolidated financial statements for the year ending March 31, 2012.

(2) (Acquisition of stock)

The Company acquired 100% of the shares of Suzutora Corporation, which is involved in the thin-film business (ITO film for touch panels) field and textile business (nano-metal coating to textiles, fabricated to synthetic leather) field, and it became a wholly-owned subsidiary on April 27, 2011. The Company determined that the acquisition would enable it to broaden the high performance plastics business range in the IT field.

The aggregate cost for the acquisition was ¥10,938 million, including a professional advisory fee of ¥32 million.

(3) (Issuance of corporate bonds)

The Company issued unsecured bonds in the aggregate amount of ¥10,000 million on June 15, 2011 pursuant to a resolution of the Board of Directors at a meeting held on May 16, 2011 mainly in order to refinance outstanding corporate bonds.

The unit price for the bond issuance was set at ¥100 per ¥100 nominal value and an annual interest rate of 0.603%. The bonds will be redeemed on June 15, 2016.

(4) (Year-end cash dividends)

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2011, was approved at the Board of Directors at a meeting held on May 16, 2011:

	Millions of yen
Year-end cash dividends (¥8.0 per share)	¥ 4,178



Ernst & Young ShinNihon LLC

## 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, 2011 and 2010, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended March 31, 2011, all expressed in yen. 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, 2011 and 2010, 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.

### *Supplemental Information*

As described in Note 24 (1), the Company acquired the diagnostics business of Genzyme Corporation in the United States and the United Kingdom, and the shares of subsidiaries in Canada and Germany of Genzyme Corporation on January 31, 2011.

As described in Note 24 (2), on April 27, 2011, the Company acquired 100% of the shares of Suzutora Corporation, which became a wholly-owned subsidiary of the Company.

As described in Note 24 (3), the Company issued unsecured bonds on June 15, 2011 pursuant to a resolution of the Board of Directors at a meeting held on May 16, 2011.

*Ernst & Young ShinNihon LLC*

Osaka, Japan  
June 17, 2011

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