Review and Analysis of Consolidated Results for Fiscal 2020 Fiscal year ended March 31, 2021

Business Environment

In fiscal 2020, conditions throughout the global economy were generally severe. This was largely due to the worldwide spread of COVID-19, which placed considerable downward pressure on corporate as well as socioeconomic activity including people's movements in general. Starting in the second half of the period, however, the economy began to show signs of a recovery, primarily in the United States and China. The domestic economy also faced harsh conditions as it experienced a widespread downturn in corporate earnings and business sentiment due to the impact of the COVID-19 pandemic. In addition to postponements in and downscaling of capital investments, the domestic economy also saw a decline in consumer spending and a prolonged loss of inbound demand. Starting in the second half, however, Japan did show signs of a moderate recovery, primarily in the manufacturing industry. Despite signals of a gradual movement toward restarting economic activity in Japan and overseas, an outlook for an end to the pandemic has yet to be established and prospects for the future remain clouded.

As far as the market environments for each of the Group's individual business segments are concerned, new housing starts in the domestic housing field came to 810,000 units in fiscal 2020, a decrease of 9.9% compared with the previous fiscal year. This decline largely reflected decreases in privately-owned homes, rental housing, and condominiums. Among detached houses, privately-owned homes declined 9.6% year on year to 261,088 units, while built-for-sale detached housing fell 11.4% compared with the previous fiscal year to 130,753 units. In the Water Infrastructure field, PVC pipe shipment volumes fell below the levels recorded in the previous fiscal year in line with the downturn in condominium construction starts. Private-sector construction investment also declined year on year despite robust government construction investment. In the Electronics field, smartphone shipments continued to weaken, but a recovery in demand was observed in the second half of the period. The Automobiles field experienced a year-on-year decline in automobile sales in all regions. However, China and the United States saw a faster-paced recovery in demand than expected during the second half of the period. From a foreign currency exchange rate perspective, the yen edged higher against the U.S. dollar after starting out the period at ¥107 in April 2020. Although the yen appreciated to ¥102 at one point during the start of 2021, it trended weaker later on and finished the period in March 2013 in the upper ¥110 range. In fiscal 2020, the annual average foreign currency exchange rate against the U.S. dollar was ¥106 and ¥124 against the euro. Compared with the previous period, the yen appreciated against the U.S. dollar and weakened against the euro, whereas the exchange rate impact on operating income for the period under review was a loss of ¥1.1 billion.

Overview of Business Results and Financial Position

1. Analysis of Business Results for Fiscal 2020

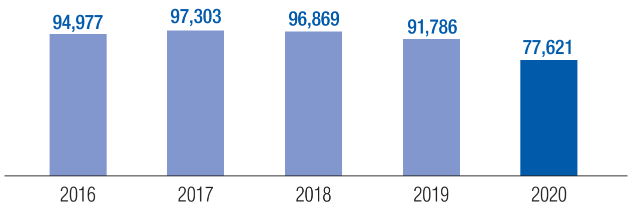
1) Net sales and operating income

As the first year of the new Medium-term Management Plan Drive 2022, which was formulated based on the SEKISUI CHEMICAL Group Long-term Vision, Vision 2030, fiscal 2020 was affected by a variety of factors stemming from the COVID-19 pandemic, namely sluggish demand for automobiles and aircraft from Japan and overseas, suspensions or delays of construction projects, a decline in the number of new housing starts in Japan, and restrictions imposed on sales activities. Starting in the third quarter, in addition to a gradual recovery in the automobile and smartphone market conditions, accelerated efforts to reduce fixed costs and achieve structural reform helped second-half operating income reach the same level as the previous consolidated fiscal year.

As a result, the Company reported declines in both sales and profit on a year-on-year basis. In specific terms, net sales for the consolidated fiscal year under review declined 6.4% to ¥1,056,560 million, operating income declined 23.5% to ¥67,300 million, and ordinary income declined 28.2% to ¥62,649 million. Similarly, net income attributable to owners of the parent fell 29.8% year on year, to ¥41,544 million, due to a decline in gains on the sale of investment securities and other factors compared with the previous period. Meanwhile, in preparation for the future, the Company opened a new research-and-development building at the Urban Infrastructure & Environmental Products Company's General Institute and an innovation center for the High Performance Plastics Company in an effort to strengthen the R&D system. In preparation for overseas business expansion, in Europe the Company resolved to commence operations at a production site for heat release materials and to construct a production plant for synthetic railway sleepers (FFU). Moreover, the Company formed

World Motor Vehicle Production Volume

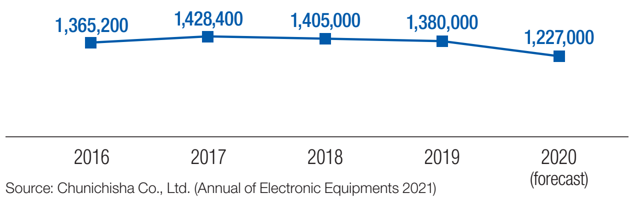
(Thousands of Cars)



* Source: OICA correspondents' survey
Note: Calendar year base

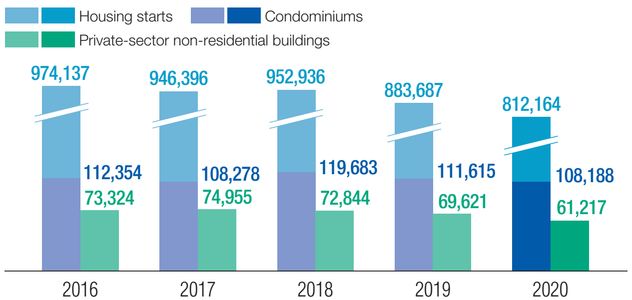
Smartphone Shipments

(Thousands of Units)



Source: Chunichisha Co., Ltd. (Annual of Electronic Equipments 2021)

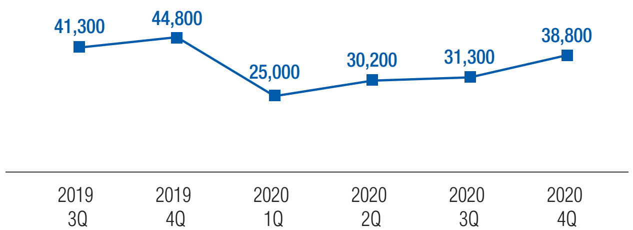
Number of New Housing Starts and Private-sector



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

Domestic Naphtha Price Assumptions

(¥/KL)



Source: Ministry of Finance (Trade Statistics of Japan)

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the ESG Taskforce to address new social issues, including life during and after the COVID-19 pandemic, using the full capabilities of the entire Group.

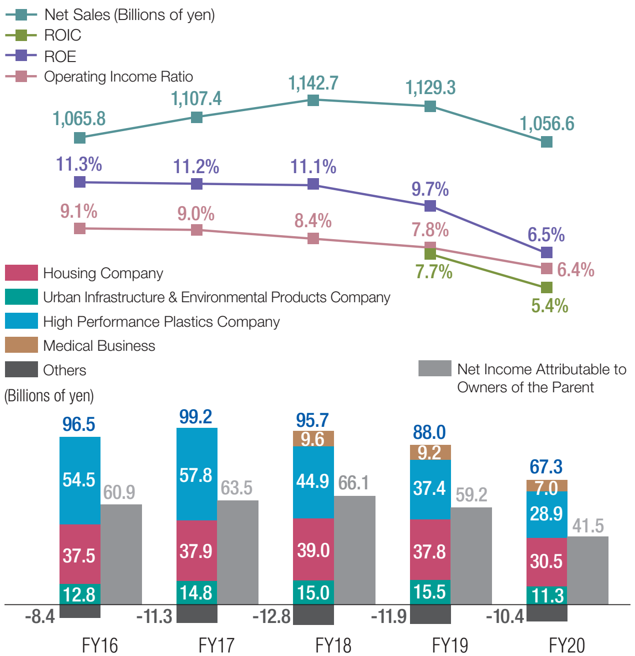
Of these totals, the Housing Company posted net sales of ¥485,265 million, down 5.4% compared with the previous fiscal year. On a year-on-year basis, operating income came to ¥30,546 million, a decrease of 19.2%. In fiscal 2020, in addition to a smaller year-start backlog, orders decreased due to effects of COVID-19, and as a result, sales and income were down. On the other hand, progress was made on efforts to strengthen profit foundations, including optimizing production and reducing fixed costs. Regarding the Housing business, orders were down year on year for the fiscal year as a whole due to the spread of COVID-19, but starting in the third quarter, the market began to recover, and orders in the second half of the fiscal year were at the same level as the previous year. Sales of subdivision and ready-built houses were strong. Measures such as Web platforms to attract visitors and online negotiations were conducted, and we emphasized energy self-sufficiency proposals with the Smart Power Station FR GREEN MODEL, which was launched in October. We also took measures to increase and enhance stocks of land and ready-built houses to expand already strong sales. In the Housing Renovation business, contacts with customers decreased, resulting in net sales lower than the previous year, but cost-cutting measures proceeded even more than planned, and profits turned upward in the second half of the fiscal year. Measures included development of systems through placement of periodic diagnosis specialists and leveling construction and sales by reinforcing backlog management. In the Town and Community Development business, contributions to profits from sales at Asaka Lead Town and Higashi Matsuyama Lead Town became well-established, and steady progress was made on securing future projects.

In the fiscal year under review, net sales in the UIEP Company came in at ¥204,586 million. This was a decrease of 13.8% compared with the previous fiscal year. Operating income fell 27.3% year on year to ¥11,251 million. In fiscal 2020, sales and income were down due to effects from delayed and postponed construction projects as a result of COVID-19 in Japan and overseas, as well as sluggishness in construction-related (non-residential facilities) markets in Japan. However, structural reforms, higher work efficiency, and fixed cost reductions progressed ahead of the plan. In Piping and Infrastructure, sales to public-sector projects in Japan and overseas plants (semiconductors and liquid crystals) were solid, but demand in construction-related (non-residential facilities) markets in Japan slumped, and net sales were lower than the previous year. With regard to Building and Living Environment, demand for detached houses and renovation recovered, but non-residential demand was sluggish and there were also effects from structural reforms. As a result, net sales were lower than the previous year.

In Advanced Materials, deployment for new applications progressed, primarily for thermo plastic sheets for medical equipment in the United States, but demand for aircraft sank and there were also effects from structural reforms due to business transfers. As a result, net sales were lower than the previous year. Domestic demand for synthetic lumber (railway sleepers, water treatment related applications, etc.) progressed steadily. Net sales in the HPP Company amounted to ¥309,867 million in fiscal 2020, down 3.9% compared with the previous fiscal year. On the earnings front, operating income fell 22.6% year on year to ¥28,935 million. In fiscal 2020, demand in the Mobility domain and Building and Infrastructure was down sharply due to effects of COVID-19, and as a result, sales and income were down. However, thorough measures were implemented to reinforce profit structures through cost innovations and structural reforms throughout the supply chain, leading to year on year increases in sales and income in the second half, when demand recovered.

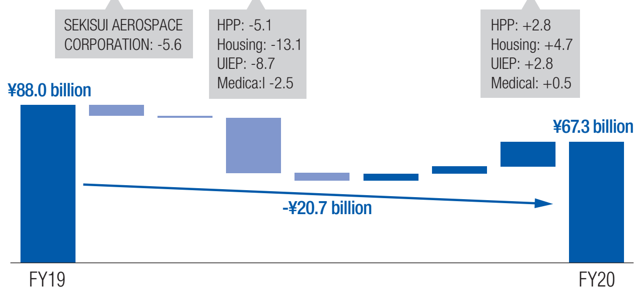
In Electronics, net sales were up year on year substantially in both the first and second halves of the year due to higher demand for mobile devices and steady efforts to increase sales of non-liquid-crystal-related products such as substrates and semiconductors, joint parts, and heat release products. In Mobility, net sales were lower than the previous year due to a downturn in the automobile market and an extreme slump in demand for aircraft-related components in the first half, but the automobile market largely recovered starting in the third quarter, thereby allowing efforts to increase sales of high-performance products to make progress, and in the second half, net sales were substantially higher than the previous year. In Building and Infrastructure, although global demand for chlorinated polyvinyl chloride (CPVC) recovered starting in the third quarter, the impacts of lockdowns in the first quarter and ongoing sluggishness in domestic market conditions led to lower net sales than in the previous year. In the Medical business, net sales declined 0.3% compared with the previous fiscal year, to ¥72,342 million. Operating income fell 23.8% year on year, to ¥7,010 million. In fiscal 2020, although there was an impact from the decrease in outpatient tests for lifestyle-related diseases due to the spread of COVID-19, net sales were essentially at the same level as the previous year due to increased sales of COVID-19 test kits in the United States and higher sales of new active pharmaceutical ingredients. Meanwhile, operating profit was down due to a lower profit rate in conjunction with falling demand for diagnostic reagents.

Trends in Operating Income



Analysis of Operating Income

(Billions of yen)	Consolidated-basis Change	Foreign Exchange	Sales Volumes & Product Mix	Selling Price	Raw Materials	Cost Reduction, etc.	Fixed Costs	Total
YoY Full FY	-6.0	-1.1	-30.8	-4.2	+3.7	+4.1	+13.8	-20.7
1H YoY	-3.7	-0.4	-28.6	-2.4	+3.0	+1.3	+11.8	-19.1
2H YoY	-2.3	-0.7	-2.4	-1.8	+0.7	+2.8	+2.1	-1.6



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2) Non-operating income and expenses

Non-operating income declined ¥772 million year on year due in part to a decrease in interest income of ¥472 million. Taking into account such factors as the increase in expenses for exterior wall inspections and maintenance of ¥2,317 million, non-operating expenses grew ¥3,105 million year on year.

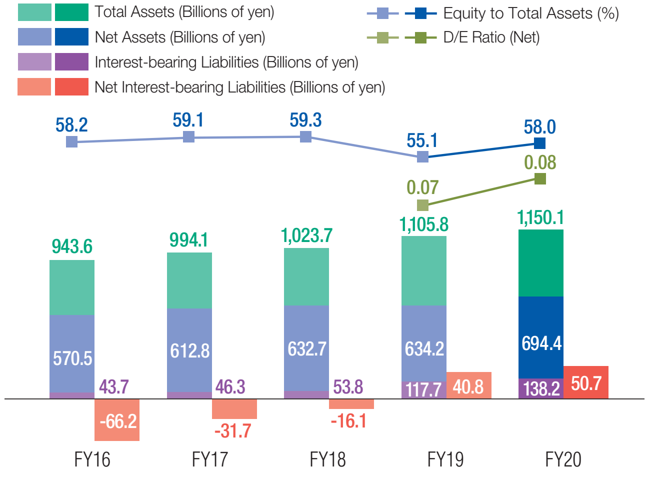
3) Extraordinary income and loss

The Company posted total extraordinary income of ¥5,387 million, including a gain on sales of fixed property, plant, and equipment of ¥3,128 million and sales of investments in securities of ¥2,258 million. Meanwhile, the Company posted a total extraordinary loss of ¥4,857 million, including a loss on impairment of fixed assets of ¥2,428 million and a loss on sales or disposal of property, plant, and equipment of ¥1,700 million.

4) Net income attributable to owners of the parent

Accounting for each of the aforementioned factors, income before income taxes and minority interests totaled ¥63,179 million, a decrease of ¥20,607 million compared with the previous fiscal year. After deducting taxes and net income attributable to non-controlling interests, net income attributable to owners of the parent amounted to ¥41,544 million.

Total Assets, Net Assets, Equity to Total Assets, Net Interest-bearing Liabilities, and D/E Ratio



Equity to Total Assets = Equity/Total Assets

5) Primary management indicators

In addition to ROE (return on equity), the Group introduced ROIC (return on invested capital) as a primary management indicator for enhancing the management's ability to sustain business. Under the Medium-term Management Plan, the Group proposed to achieve an ROE of 10.6% and an ROIC of 8.6% as the business targets for fiscal 2022, the final year of the Plan. In fiscal 2020, ROE fell 3.2 percentage points year on year to 6.5%. Moreover, ROIC also declined 2.3 percentage points year on year to 5.4%.

2. Financial Position

1) Assets, liabilities, and net assets

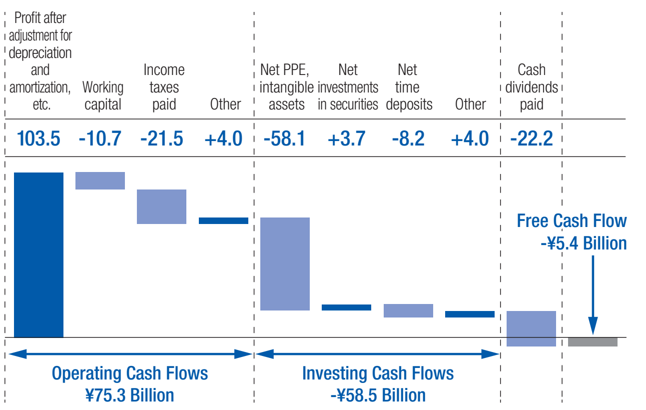
Total asset as of March 31, 2021, stood at ¥1,150,143 million, an increase of ¥44,361 million compared with the end of the previous fiscal year.

(Assets)

Current assets stood at ¥505,571 million as of the end of fiscal 2020, ¥13,688 million higher than the balance as of the previous fiscal year-end. While the balance of notes receivable, trade, and accounts receivable, trade declined ¥3,493 million during the fiscal year under review, the balances of cash and deposits as well as total inventories climbed ¥10,635 million and ¥5,719 million, respectively. In addition, non-current assets grew ¥30,673 million year on year to ¥64,571 million.

Free Cash Flow

(Billions of yen)



Free cash flow = Operating Cash flows + Investing Cash flows – Cash dividends paid

(Liabilities)

Liabilities decreased ¥15,811 million compared with the end of the previous fiscal year to ¥455,751 million. Despite an increase in interest-bearing debt of ¥20,502 million, this downturn in liabilities was largely attributable to decreases in liability for retirement benefits of ¥16,767 million and a combined drop of ¥11,367 million in notes payable, electronically recorded obligations, accounts payable, and accrued expenses.

(Net assets)

Net assets stood at ¥694,392 million as of the end of the fiscal year under review, an increase of ¥60,173 million compared with the end of the previous fiscal year. This mainly reflected the posting of net income attributable to owners of the parent of ¥41,544 million and increases in unrealized gain on holding securities and translation adjustments of ¥23,318 million and ¥15,146 million, respectively.

2) Cash flows

Cash and cash equivalents on a consolidated basis amounted to ¥76,649 million as of the end of fiscal 2020, an increase of ¥1,927 million compared with the end of the previous fiscal year. Factors influencing fiscal 2020 cash flow accounts were as follows.

(Operating activities)

Net cash provided by operating activities came to ¥75,271 million, down from ¥92,647 million in the previous fiscal year. In the fiscal year under review, major cash inflows, which included income before income taxes and minority interest of ¥63,179 million, depreciation and amortization of ¥44,926 million, and a decrease in notes and accounts receivable of ¥4,629 million, exceeded such cash outflows given income taxes paid of ¥21,497 million, a decrease in notes and accounts payable of ¥11,246, and an increase in inventories of ¥4,165 million.

(Investing activities)

Net cash used in investing activities amounted to ¥58,495 million, down from ¥100,562 million in the previous fiscal year. This decrease was primarily due to purchases of property, plant, and equipment worth ¥55,359 million focusing mainly on priority and growth fields, and to a net increase in time deposits of ¥8,156 million.

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(Financing activities)
Net cash used in financing activities was ¥19,157 million in the fiscal year under review, compared with net cash provided by financing activities of ¥15,450 million in the previous fiscal year. Principal cash outflows came from cash dividends paid including cash dividends paid to non-controlling shareholders of consolidated subsidiaries of ¥22,193 million and the purchase of treasury stock of ¥12,201 million, whereas the net increase in interest-bearing debt was ¥14,484 million.

Business Risks

The following factors related to our business and accounting practices could 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 SEKISUI CHEMICAL Group at the end of fiscal 2020.

1) Major market trends

The Group's business results and financial position could be affected should an unforeseen event arise. This includes a downturn in demand in a variety of mobility, electronics, housing, construction, infrastructure, and other fields, or an economic slowdown in such business areas as Japan, North America, Europe, and Asia. For example, markets where business is undertaken in the mobility field are easily affected by conditions and demand trends in the global automotive and aerospace industries. Markets for businesses in the electronics field, which are characterized by volatile fluctuations in demand, might shrink over a short period of time. In addition, the Housing Company's activities are subject to the policies and taxation systems that apply to the acquisition of houses in Japan. The Housing Company's business can also be affected by trends in consumption tax rates, interest rates, private consumption, and regional economies. As far as the UIEP Company is concerned, activities, which encompass the public sector, could be impacted by trends in public investment, which are determined by governments at both the national and local levels.

2) Raw material price volatility and procurement

The market prices of steel, timber, polyvinyl chloride, olefin, and other petroleum-related raw materials used in the Group's production activities are affected by a variety of factors including trends in the global economy, the balance between demand and supply, and fluctuations in foreign currency exchange rates. In addition, some of the raw materials used in the Group's products comprise scarce resources, which pose a risk regarding stable procurement. A sharp rise in the price of raw materials could lead to higher production costs, while demand trends for scarce resources and problems at suppliers could interfere with the Group's ability to supply products. As a result, the Group's business results and financial position could be affected. In response to rising raw material prices, the Group is implementing cost-reduction measures. At the same time, energies are being directed toward maintaining a sufficient margin between selling and raw material prices, mainly in the UIEP and HPP companies.

3) Products and quality

The Group continues to engage in assurance and improvement activities to ensure that its products and services are of the utmost quality. However, despite these activities, the Group continues to run the risk of a product recall, discontinuation, payment of compensation, and loss of customer confidence should a major product-related incident; should product safety, environmental, statutory and regulatory compliance, or other issue arise; and in the event of a dispute over intellectual property that results in a decision that is unfavorable to the Group. In this event, the possibility exists that the Group's business results and financial position could be affected. SEKISUI CHEMICAL Group engages in CS & Quality Management to consistently deliver value to customers so that they will always choose its products and services. We have also positioned "zero major quality issues" as one of our key indicators, and are working diligently to improve the level of consistent quality control across the entire value chain by preventing the incidence of a quality issue occurring through advance prediction of potential quality-related risks at the development stage after a product has been commercialized, and ensuring that basic guidelines for day-to-day management are being strictly adhered to by production departments. At the same time, the Group places the utmost importance on its intellectual property strategy in order to make the most of its prominence in technology. In striving to secure business competitiveness through the acquisition of strong patents, we conduct the necessary investigations to ensure that we do not infringe on the intellectual property of others and take appropriate measures to avoid or prevent intellectual property infringement.

4) Foreign currency, interest rate, and owned asset price fluctuation

Operating and expanding its business globally, fluctuations in the value of the yen against foreign currencies could have a significant impact on the Group's foreign currency-denominated sales, raw material procurement costs, and the assets and liabilities of overseas subsidiaries and affiliates. Fluctuations in interest rates could also impact the amounts of interest income received and interest expense paid by the Group, as well as housing-related business demand. In the event of a change in the market and business environments, there is a risk that the Group's real estate holdings including land, other inventories, property, plant and equipment, intangible non-current assets including goodwill, and investments and other assets such as investment securities might need to be written down. Each of the aforementioned has the potential to impact the Group's business results and financial position. The Group continues to promote local production by its businesses seeking to expand globally. Under these circumstances, every effort is being made to manage the balance of the Group's foreign currency holdings by converting them into yen and utilizing intra-Group loans and other means to reduce foreign currency exchange risk.

5) Overseas business activities

Engaging in manufacturing and sales activities through an overseas network that currently spans 22 countries, the Group is promoting the development of its global business as a key growth strategy. In addition to trends in the overall global economy, the Group's overseas business activities are subject to the risk of social and political disruption due to political turmoil such as terrorism and war, tariff retaliation measures, unexpected changes in policies, laws and regulations, tax changes, industrial base fragility, natural disasters, infectious diseases, racial discrimination, product boycotts, and other factors. In the event that these risks materialize, the Group's overseas business activities could be impeded and its performance and future plans affected. SEKISUI CHEMICAL Group has established four regional headquarters in the United States, Europe, China, and ASEAN regions to gather information on the economic, social, and political conditions and trends in the laws and regulations of each country in which it has a base of operations. Should an event that requires a response occur, the Group company, regional headquarters, and specialized department at the Company's head office in Japan work together to respond as appropriate.

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6) Major earthquake, natural disaster, industrial accident, and other incident

Major industrial accidents including fires, explosions, and the leakage of harmful substances that affect the areas surrounding the Group's factories and R&D facilities, as well as such natural disasters as earthquakes and tsunamis at the Group's business sites, together with the spread of infectious diseases could interrupt the Group's business activities. Any resulting loss of public confidence, expenses in responding to industrial accidents, including compensation and other costs, opportunity loss attributable to the suspension of production, compensation paid to customers, and other factors might affect the Group's performance and financial position. In order to prevent industrial accidents including fires, explosions, and the leakage of harmful substances, the Group identifies and responds to risks through risk management activities at production sites that also include simulations of natural disasters, and has a dedicated head office department that periodically conducts onsite audits while providing remedial guidance on a global basis. Taking the lead, the Overseas Crisis Management Office at the same time shares crisis management information with regional headquarters, alerting them to the need for timely action. In addition, we have built a system that allows us to keep abreast of disasters and accidents should they occur through a global emergency contact network, and have strengthened employee training to ensure an appropriate initial response.

7) Information security

As the Group makes efficient use of IT in a wide range of business processes including production, sales, research and development, procurement, and accounting, it is becoming increasingly dependent on IT systems. Moreover, and in addition to confidential business process information, we handle personal information about many of our customers due to the nature of the Housing business. Taking these circumstances into consideration, the Group is subject to such risks as cyberattacks, power outages, natural disasters, business interruptions and damages resulting from equipment and software failures or defects, and the leakage of confidential including personal information. In the event that any of these risks should materialize, the Group's business activities could be impeded affecting its business results and financial position. After putting in place certain guidelines codified in its Cyber Security Policy, the Group established a Computer Security Incident Response Team (CSIRT) to strengthen its response and constantly monitor the incidence or otherwise of system-based incidents. In addition, we have developed a system to take appropriate action and prevent recurrence in the event that an incident should arise, and are working to prevent the leakage of human-related information through employee training. To counter the risk of backbone system stoppages due to such natural disasters as a major earthquake, we have taken a wide range of measures including the decentralization of data centers to multiple locations and the complete duplication of critical business operations.

8) Legal and other compliance

The Group is subject to a variety of statutory and regulatory requirements in the conduct of its business. In the event that the Group should seriously violate any of these laws following an amendment or unexpected introduction of a law or regulation, or undertake an action or carry out an injustice that violates societal norms caused by pressure to achieve performance targets, it could suffer a loss of customer confidence and incur costs in order to address the infraction thereby impacting its business results and financial position. The Group established its "Compliance Declaration" in 2003 based on principles such as "contributing to society," "being a trusted company," and "adherence to the letter and spirit of the law." In keeping with the spirit of the Group Principles and our Corporate Code of Ethics, we defined our stance for the acquisition of high social trust through compliance. In October 2020, under the leadership of president Kato, the Group declared that it regards compliance as the foundation for growth, and that each and every director and employee must act with a high sense of ethics and responsibility and behave in ways that conform to community expectations. In addition, the Sustainability Committee, chaired by the President, deliberates on "Fundamental Compliance Policies" that require the approval of the Board of Directors, and has established a designated Compliance Subcommittee, which reports to the Sustainability Committee, to plan, consider, and decide on important compliance-related matters, with the aim of establishing and implementing a compliance system for the Company and its Group companies. In order to ensure SEKISUI CHEMICAL Group will be widely trusted by society, we will continue to carry out initiatives for improving compliance awareness.

9) Climate change and environmental issues

Recognizing that climate change caused by greenhouse gases, resource depletion, water risk, and marine plastic waste are common social issues worldwide, the Group promotes ESG management to improve social and global environmental sustainability through solutions to social issues, as well as its own sustainable growth, in a bid to realize its Long-term Vision "Vision 2030" and the Sekisui Environment Sustainability Vision 2050. In the event that efforts aimed at addressing these issues prove inadequate, the Group could suffer a loss of public trust and a deterioration of its reputation and competitiveness, thereby impacting sales. We are working to create, certify, and expand the market for products to enhance sustainability that contribute to the sustainability of the global environment and society by helping to resolve environmental and social issues. As a measure to combat global warming, we have set the target of increasing our utilization ratio for renewable energy from electricity purchased to 100% by 2030, and to promote various other measures including collaboration with suppliers to procure raw materials with low environmental impact. Among a host of other initiatives, we are also undertaking activities to promote solutions to the marine plastic problem through industry-government-academia collaboration. This includes participation in the CLOMA*1 and JaIME*2 corporate initiatives.

*1 CLOMA: Japan Clean Ocean Material Alliance.
*2 JaIME: Japan Initiative for Marine Environment.

10) Impact of COVID-19

The global spread of COVID-19 could threaten the safety of our employees, restrict the activities of our Group's businesses domestically and internationally, and impact our profit and loss, including market stagnation. We assume that these concerns will linger to a certain degree in fiscal 2021.In addition to setting up a Groupwide Emergency Response Headquarters, and with the safety of employees our primary concern, we are minimizing the use of group meetings, training, and business trips, while applying online tools, and are promoting telecommuting, among other measures. From a customer service perspective, we are trying to reduce the number of face-to-face meetings while emphasizing online communication and telephone negotiations to ensure that we address customers' needs in a timely manner. In similar fashion, we are promoting telecommuting and shortened work hours at our overseas offices while accommodating conditions in each country. We will continue to enhance safety measures for our stakeholders while monitoring future progress and prepare for unforeseen circumstances, including the need to secure stable working capital to deal with prolonged risks.