# REVIEW AND ANALYSIS OF CONSOLIDATED RESULTS FOR FISCAL YEAR 2012

Year ended March 31, 2013

## Business Environment

Global economic conditions had been improving since the financial crisis in 2008, but the ongoing tension in 2012 concerning the sovereign debt crisis in Europe led to the wide-ranging economic slowdown in manufacturing industries in Europe spreading to China and other developing countries as well as to Japan and the United States.

Business confidence was relatively unchanging as real economic growth slowed in the major industrial nations. However, the sovereign debt crisis in Europe and the economic recession that spread across the region from the Southern European countries ultimately started affecting the major industrial nations as well, and the region's real economy fell into negative growth in the July–September quarter. The economic growth also slowed in China, Russia, South Korea, and other developing countries that were rapidly recovering from the global financial crisis and where economic growth peaked around 2010.

Economic conditions in Japan also rapidly weakened in 2012 due to factors such as the expiration of eco-car subsidies used to stimulate the economy and sharp decline in exports from the economic slowing overseas. The fiscal year ultimate ended on an upbeat as the election of a new government administration fueled expectations for economic recovery and signs of improvement began appearing in the first quarter of 2013 (January to March 2013).

Although the market environment provided very little to support optimism, the Sekisui Chemical Group made steady progress in fiscal year 2012 advancing the Stage 2 initiatives of the GS21-SHINKA! medium-term management plan (fiscal years 2009 to 2013). Specifically, the Company began setting up and implementing the measures that needed to be advanced in Stage 2 of the plan, including revising the business model to correspond with changes in the domestic and overseas demand structure, beginning to reap results from the growth seeds sowed for the global businesses, and continuing to open new growth segments, such as environment-contributing products, to expand sales.

By business segment in fiscal year 2012, in the domestic housing field, new housing construction starts continued brisk supported by low interest rates for home loans and improved consumer sentiment. New housing construction starts rose 6.2% over the previous year to 893,002 units in fiscal year 2012, marking the third straight year of year-on-year growth. The Company's housing orders also remained brisk, rising 5% year on year on a unit basis, and the value of the year-end order backlog grew to ¥211.9 billion.

In the water infrastructure-related field, which includes piping materials, private sector demand was relatively strong for building construction and domestic new housing starts, including apartment buildings. Public sector demand, however, fell short of expectations for the fiscal year due to factors including delayed reconstruction-related orders and the late enforcement of the supplementary budget. Although the company continues to develop the pipeline renewal business as an overseas business, earnings inevitably deteriorated in this field from the fiscal austerity in Western Europe and consequent reduction in public construction projects.

In the automotive related business, demand in Europe continued sluggish due to the economic conditions in the region, but strong demand developed in the United States and was relatively strong in China despite a temporary slowing midyear. In the IT field, strong demand for smartphones and tablet computers supported solid demand in related fields to which the company supplies components.

The market environments varied widely for each business field and region in fiscal year 2012. However, the Company implemented appropriate response measures and ultimately posted the highest level of operating income since the introduction of the internal divisional company system in fiscal year 2001, marking the third consecutive year of record-high income.

## Analysis of Business Results and Financial Position

### 1. Analysis of Business Results for Fiscal Year 2012

#### *1) Net sales*

Net sales in fiscal year 2012 amounted to ¥1,032,431 million, an increase of ¥67,340 million, or 7.0%, from the previous fiscal year.

Housing Company net sales amounted to ¥469,036 million in fiscal year 2012, representing an increase of ¥19,644 million, or 4.4%, from the previous fiscal year. The Housing Company's new housing construction business recorded year-on-year growth in housing unit orders supported by sales of new apartment products and the next-generation Shin Smart Heim housing featuring superior air-tightness and heat insulation and equipped with large capacity solar power generation systems (energy generation), the Smart Heim Navi home energy management system (energy saving), and built-in large capacity storage batteries (energy storage). The living environment business also increased the value of orders year on year supported by strong sales of solar power generation systems and expanded sales of its kitchen, bathroom, and other mainstay products backed by a fortified sales staff for which we accelerated training to quickly developed their sales capabilities.

Urban Infrastructure & Environmental Products Company net sales amounted to ¥214,516 million in fiscal year 2012, representing an increase of ¥14,514 million, or 7.3%, from the previous fiscal year. The UIEP Company restructured to a business organization based on demand fields and progressed with measures to accelerate development of the value chain. However, the overseas businesses struggled under the impact of the economic recession in Europe.

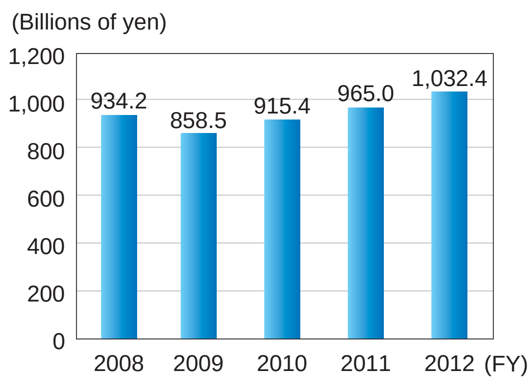
High Performance Plastics Company net sales in fiscal year 2012 amounted to ¥332,017 million, an increase of ¥35,141 million, or 11.8%, from the previous fiscal year. The HPP Company posted a year-on-year rise in sales in the automotive field as strong demand in the United States and growing demand in Asia, Central and South America, and other developing regions offset the impacts from sluggish demand in Europe, the strong yen during the year, and other factors. IT field sales remained flat year on year as sluggish demand for TV and computer related product was balanced by higher sales volume of products for smartphone and tablet computer applications, including fine particle and other liquid-crystal chemical products as well as double-sided tape, foam, and ITO films. In the medical field, the HPP Company progressed with the reorganization of the operation in North America. Sales remained roughly flat year on year supported by stable demand in the diagnostic reagents business.

Net sales in Other Businesses in fiscal year 2012 amounted to ¥40,492 million, a decrease of ¥2,982 million, or 6.9%, from the previous fiscal year.

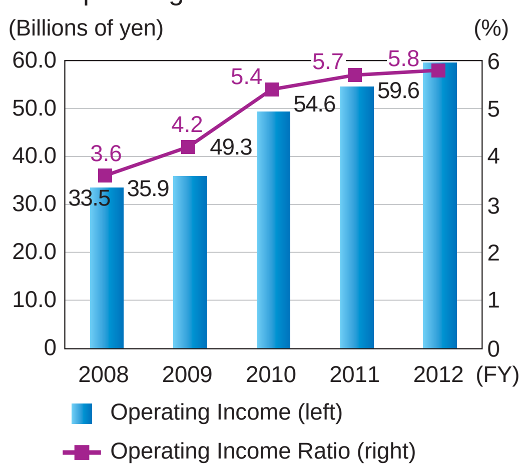
#### *2) Operating income*

Operating income in fiscal year 2012 amounted to ¥59,621 million, an increase of ¥5,011 million, or 9.2%, from the previous fiscal year. The growth was largely due to an ¥16,898 million increase in gross profit that accompanied the rise in sales and which more than offset the ¥11,886 million increase in selling, general and administrative expenses.

Net Sales




Operating Income and Operating Income Ratio




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

### *3) Non-operating income and expenses*

Non-operating income increased by ¥3,533 million from the previous fiscal year, largely owing to an increase in foreign exchange gain of ¥4,827 million, which offset a decline of ¥1,262 million in miscellaneous income. Non-operating expenses increased by ¥2,033 million from the previous fiscal year as a decrease of ¥608 million in foreign exchange loss was outpaced by a ¥2,524 million increase in miscellaneous expenses.

### *4) Extraordinary income and loss*

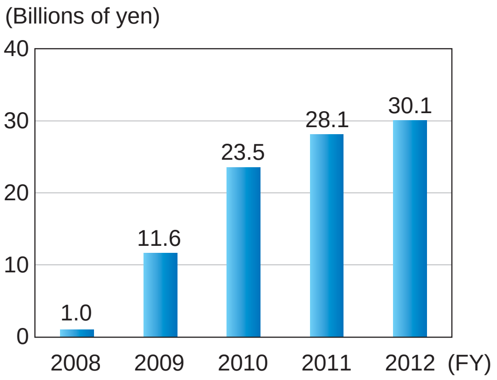
Extraordinary income included a ¥1,815 million gain on sales of property, plant and equipment.

Extraordinary loss amounted to ¥17,989 million, an increase of ¥9,760 million, or 118.6%, from the previous fiscal year, comprising ¥9,536 million in retirement benefit expenses, a ¥5,243 million loss on impairment of fixed assets and goodwill, a ¥2,022 million loss on devaluation of investments in securities, and a ¥1,186 million loss on sales or disposal of property, plant and equipment.

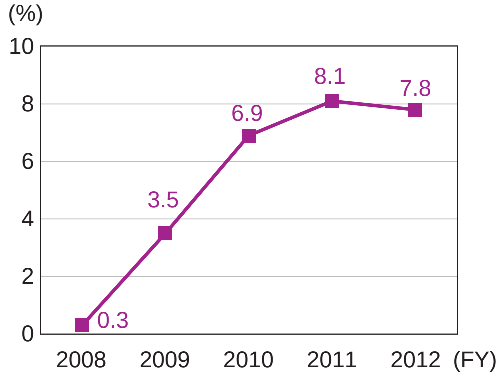
### *5) Net income*

As a result of the above, income before income taxes and minority interests for fiscal year 2012 decreased ¥4,744 million from the previous fiscal year to ¥44,495 million. After taxes and minority interests, net income amounted to ¥30,174 million, an increase of ¥2,058 million, or 3.7%, from the previous fiscal year.

Net Income




Return on Equity




*Return on Equity = Net Income/Average Shareholder's Equity

## 2. Financial Position

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

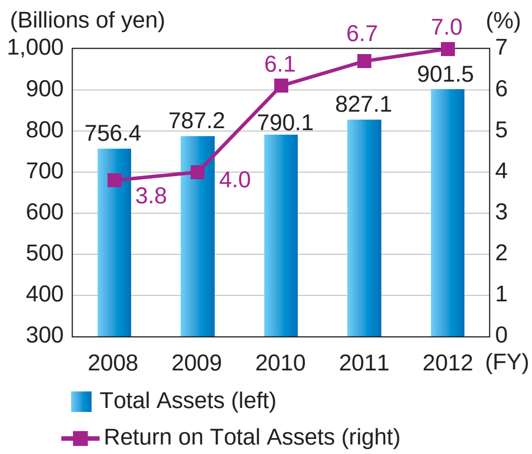
Total assets at the end of fiscal year 2012 amounted to ¥901,564 million, an increase of ¥74,461 million from the previous fiscal year-end.

**(Assets)**

Current assets rose ¥39,641 million from the previous fiscal year to ¥439,964 million at the end of fiscal year 2012. The main element was a ¥15,163 million increase in notes and accounts receivable.

Non-current assets increased by ¥34,819 million to ¥461,600 million, primarily owing to a ¥38,267 million rise in investment in securities from factors including a rise in the market value of listed equity securities.

Total Assets and
Return on Total Assets



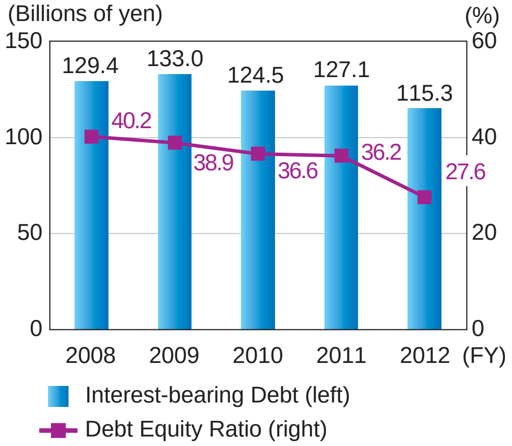

*Return on Total Assets = Ordinary Income/Average Total Assets

**(Liabilities)**

Liabilities rose ¥4,533 million year on year to ¥468,336 million at the end of fiscal year 2012.

The main elements were a combined ¥8,712 million increase in notes payable, electronically recorded obligations, accounts payable, and accrued expenses along with an increase of ¥10,365 million in accrued retirement benefits and a decrease of ¥11,867 million in interest-bearing debt.

Interest-bearing Debt and Debt Equity Ratio




*Debt Equity Ratio = Interest-bearing Debt/Shareholder's Equity

**(Net assets)**

Retained earnings rose ¥16,423 million, mainly due to an increase in net income of ¥30,174 million that more than offset dividend payments of ¥8,767 million. Yen depreciation led to an upward translation adjustment of ¥19,386 million. As a result of the above, net assets were ¥433,228 million at the end of fiscal year 2012, an increase of ¥69,928 million from the previous fiscal year-end.

### *2) Cash flows*

Cash and cash equivalents on a consolidated basis (hereinafter "funds") amounted to ¥58,631 million at the end of fiscal year 2012, an increase of ¥13,485 million, or 29.9%, from the end of fiscal year 2011. Factors influencing the fiscal year 2012 cash flow accounts were as follows.

**(Operating activities)**

Funds from operating activities amounted to ¥71,016 million in fiscal year 2012, an increase of ¥4,364 million from the previous fiscal year. Factors increasing cash flow from operating activities included ¥44,495 million in income before income taxes and minority interests and ¥34,895 million in depreciation and amortization along with a ¥9,902 million increase in accrued retirement benefits, a ¥5,243 million loss on impairment of fixed assets and goodwill, and a ¥3,232 million amortization of goodwill. Factors drawing from cash flow included a ¥25,876 million increase in income taxes paid.

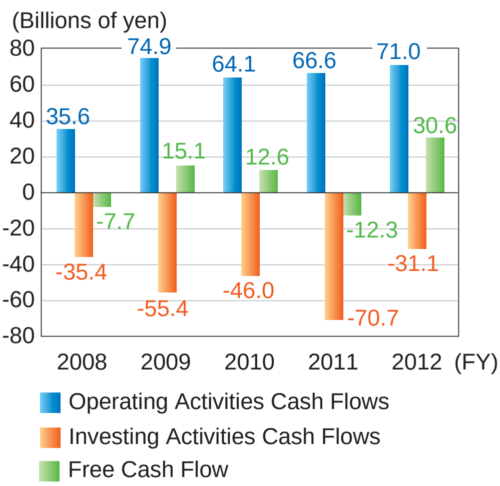
**(Investing activities)**

Funds used in investing activities amounted to ¥31,133 million in fiscal year 2012, compared with a cash outflow of ¥70,727 million in the previous fiscal year. The cash outflow was primarily the result of aggressive investment activities including ¥29,211 million utilized to acquire property, plant and equipment in priority and growth fields.

**(Financing activities)**

Funds used in financing activities amounted to ¥30,520 million in fiscal year 2012, compared with a cash outflow of ¥16,077 million in the previous fiscal year. The cash outflow was largely due to ¥9,234 million in dividend payments (including dividends paid to minority shareholders) and a net decrease of ¥23,583 million in interest-bearing debt.

Cash Flows




*Free Cash Flow = Operating Activities CF + Investing Activities CF - Dividend Paid

## Business Risks

The following factors related to our business and accounting practices may materially influence investment decisions. The Company is endeavoring to establish a system for anticipating potential risks for the Group, preventing their occurrence, and promptly and appropriately dealing with them if they occur. Forward-looking statements contained herein are based upon assessments made by the Sekisui Chemical Group at the end of consolidated fiscal year 2012.

### 1) Foreign Currency Fluctuations

Exchange rates may affect the value of the Group's overseas assets held in foreign currencies when converted into yen. The Group employs hedging strategies as needed in response to currency fluctuations. However, the business results and the financial position of the Group may be affected if the exchange rates diverge significantly from the forecasted levels.

### 2) Raw Material Price Volatility

The Group's business results and financial position may be affected in the event that the Group, especially the Urban Infrastructure & Environmental Products Company, is unable to transfer changes in prices of polyvinyl chloride, olefin, steel, or other raw materials to product prices in a timely manner and is unable to maintain sufficient margin.

### 3) Overseas Business Activities

Unforeseeable changes in laws and regulations, fragility in the industrial base, and social or political turmoil such as terrorism, war, or other factors may affect the Group's overseas business activities. The emergence of such risks may disrupt the Group's overseas business activities, which would affect the business results and future plans of the Group.

### 4) Housing Related Tax and Interest Rate Trends

The Group's housing-related businesses are affected by domestic taxes and consumption taxes on house purchases and by interest rate trends. These trends may impact our housing-related businesses and affect the Group's business results and financial position.

### 5) 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.

### 6) Trends in Public Works

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

### 7) Industrial Accidents and Disasters

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

### 8) Intellectual Property and Product Liability

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