

Review and Analysis of Consolidated Results for Fiscal Year 2013

Year ended March 31, 2014

Business Environment

Global economic conditions gradually improved overall during the year supported in part by economic recovery in the United States and improving conditions in Europe while the growth momentum weakened in China and some developing countries.

In the United States, household debt eased amid improving employment, income, and consumption conditions. European GDP turned to positive growth in the April-June 2013 quarter and settled into a steady rising trend. At the same time, China's economic expansion eased to a 7.7% rate of real economic growth in 2013 and ASEAN growth stalled. India's economy continued expanding at the same sluggish growth rate since 2012.

The Japanese economy remained firm with improving business sentiment, particularly in the manufacturing industry, supporting gradually improving capital investment, production, and employment conditions. Private consumption also improved helped by a surge in demand before the scheduled consumption tax hike. Real GDP notched upward with each term and ultimately regained the pre-Lehman shock level.

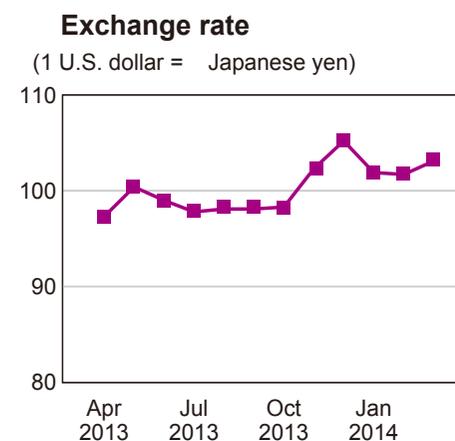
By business segment, housing market conditions benefited from particularly strong demand in the first half fueled by the rush demand associated with the tax hike. Although

demand dropped back late in the second half, new housing starts ultimately rose 10.6% year on year to 987,254 units in fiscal year 2013, marking the fourth straight year of year-on-year growth and the first year of double-digit percentage growth in 26 years.

In the water infrastructure field, which includes piping materials, private-sector demand remained strong supported by the buoyant housing construction starts and demand for building and apartment construction. The large supplementary budget in Japan also helped boost domestic demand for piping materials. Overseas business continued to be affected by the low number of projects owing to the decline in public works in Western Europe.

Demand continued growing in the automotive field amid recovering economic conditions in Europe and active automobile production in the United States and China. Conditions in the IT field included production adjustments due to a deteriorating supply and demand balance for liquid-crystal materials, but mobile device-related demand ultimately helped generate growth in our IT business during the year.

Bank of Japan monetary easing measures and other factors helped hold the foreign exchange rate near ¥100 to the U.S. dollar throughout the year. The fiscal year 2013 foreign exchange rates were ¥100 to the U.S. dollar and ¥134 to the euro.



Analysis of Business Results and Financial Position

1. Analysis of Business Results for Fiscal Year 2013

1) Net sales

Net sales in fiscal year 2013 amounted to ¥1,110,851 million, an increase of ¥78,419 million or 7.6% from the previous fiscal year.

Housing Company net sales amounted to ¥496,790 million in fiscal year 2013, representing an increase of ¥27,753 million or 5.9% from the previous fiscal year. The Housing Company's new housing construction business responded to the growing emphasis on energy conservation by focusing on expanding sales of the Shin Smart Heim housing featuring large-capacity solar power generation systems, the Smart Heim Navi home energy management system, and the e-Pocket stationary large-capacity storage cell system. The living environment business actively marketed refurbishment concepts and expanded sales for its kitchen, bathroom, and other mainstay products as well as its painting and remodeling operations.

Urban Infrastructure & Environmental Products Company net sales amounted to ¥239,941 million in fiscal year 2013, representing an increase of ¥25,425 million or 11.9% from the previous fiscal year. The UIEP Company boosted domestic sales by effectively capturing the robust construction demand generated by public sector investment and accelerated housing starts spurred by pre-tax hike demand. The piping materials operations acquired from

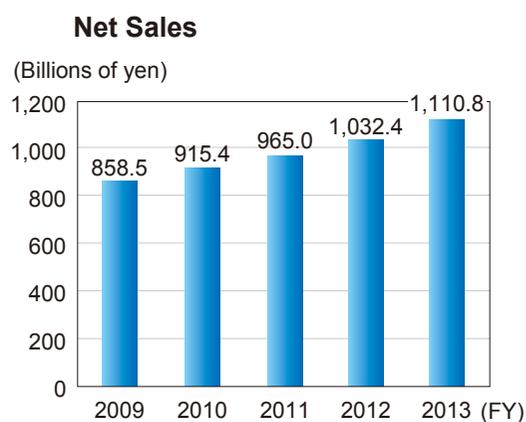
Mitsubishi Plastics, Inc., in fiscal year 2012 was a key contributor to an increase in PVC pipe sales. Overseas earnings were boosted by solid plastic sheet business in the United States and contribution from the new subsidiary Sekisui KNT (Hebei) Environmental Technology Co., Ltd., in China.

High Performance Plastics Company net sales in fiscal year 2013 amounted to ¥353,782 million, an increase of ¥21,764 million or 6.6% from the previous fiscal year. The HPP Company posted a year-on-year rise in sales in the automotive field led by strong demand overseas and increased sales, particularly for high-performance products. IT field sales also rose on expanded sales of fine particles, photosensitive adhesives, and other liquid-crystal chemical products and of tapes and other products used in mobile devices. Sales also increased year on year in the medical field supported by expanded development of the diagnostic reagent and diagnostic equipment business both overseas and in Japan.

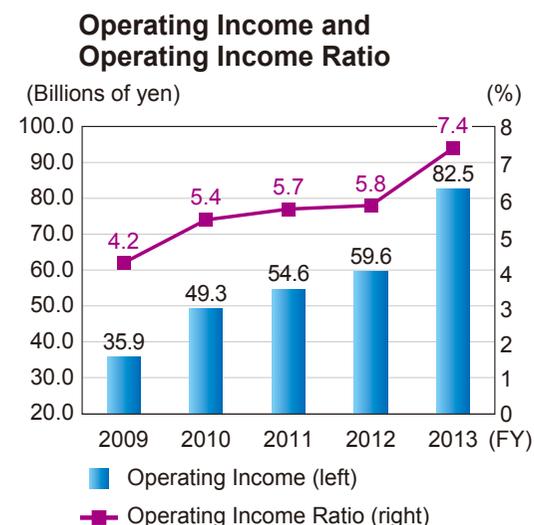
Net sales in Other Businesses in fiscal year 2013 amounted to ¥43,799 million, an increase of ¥3,307 million or 8.2% from the previous fiscal year.

2) Operating income

Operating income in fiscal year 2013 amounted to ¥82,541 million, an increase of ¥22,920 million or 38.4% from the previous fiscal year. The growth was largely due to an ¥33,637 million increase in gross profit that accompanied the rise in sales and more than offset the ¥10,717 million increase in selling, general and administrative expenses.



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



3) Non-operating income and expenses

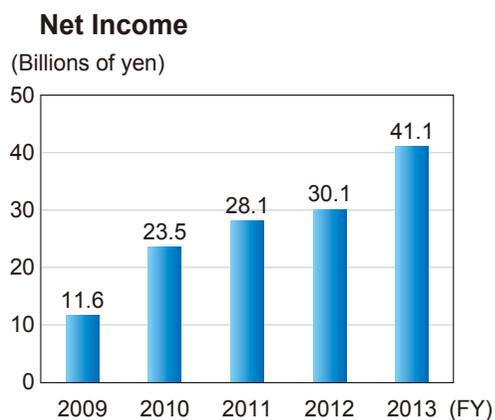
Non-operating income increased by ¥637 million from the previous fiscal year, largely owing to increases of ¥1,019 million in dividend income and ¥821 million in equity in earnings of affiliates, which more than offset a ¥1,554 million decrease in foreign exchange gain. Non-operating expenses increased by ¥917 million from the previous fiscal year, primarily from a ¥1,188 million increase in miscellaneous expenses.

4) Extraordinary income and loss

The Company recorded an extraordinary loss of ¥10,884 million, a decrease of ¥7,106 million or 60.5% from the previous fiscal year, mainly comprising a ¥9,642 million loss on impairment of fixed assets and goodwill and ¥1,241 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 2013 increased ¥27,930 million from the previous fiscal year to ¥72,426 million. After taxes and minority interests, net income amounted to ¥41,190 million, an increase of ¥11,016 million or 36.5% from the previous fiscal year.



2. Financial Position

1) Assets, liabilities, and net assets

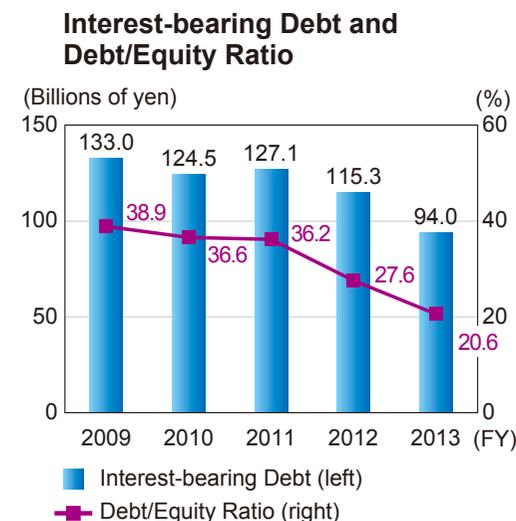
Total assets at the end of fiscal year 2013 amounted to ¥961,009 million, an increase of ¥59,444 million from the previous fiscal year-end.

(Assets)

Current assets rose ¥54,696 million from the previous fiscal year to ¥494,660 million at the end of fiscal year 2013. The main element was a ¥20,149 million increase in notes and accounts receivable. Non-current assets increased by ¥4,748 million to ¥466,349 million.

(Liabilities)

Liabilities rose ¥19,118 million year on year to ¥487,454 million at the end of fiscal year 2013. The main elements were increases of a combined ¥12,748 million in notes payable, electronically recorded obligations, accounts payable, and accrued expenses, ¥11,538 million in accrued income taxes and other taxes, and ¥8,241 million in advances received along with a decrease of ¥21,310 million in interest-bearing debt.



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

(Net assets)

Net assets amounted to ¥473,555 million at the end of fiscal year 2013, an increase of ¥40,326 million from the previous fiscal year-end. The main factors was a ¥30,951 million increase in retained earnings, due largely to an increase of ¥41,190 million in net income and a decrease of ¥10,342 million from dividend payments. Yen depreciation led to an upward translation adjustments of ¥13,403 million.

2) Cash flows

Cash and cash equivalents on a consolidated basis (hereinafter “funds”) amounted to ¥51,248 million at the end of fiscal year 2013, a decrease of ¥7,383 million or 12.6% from the end of fiscal year 2012. Factors influencing the fiscal year 2013 cash flow accounts were as follows.

(Operating activities)

Funds from operating activities amounted to ¥97,720 million in fiscal year 2013, an increase of ¥26,703 million from the previous fiscal year. Factors increasing cash flow from operating activities included ¥72,426 million in income before income taxes and minority interests and

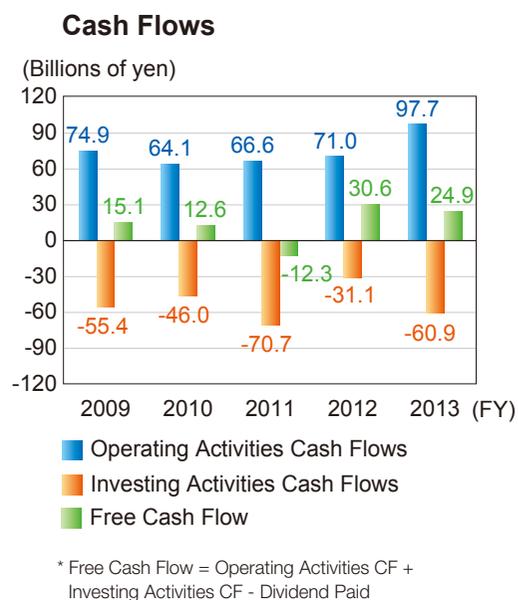
¥34,376 million in depreciation and amortization along with a ¥9,642 million loss on impairment of fixed assets and goodwill and a ¥2,957 million amortization of goodwill. Factors drawing from cash flow included ¥18,280 million in income taxes paid.

(Investing activities)

Funds used in investing activities amounted to ¥60,914 million in fiscal year 2013, compared with a cash outflow of ¥31,133 million in the previous fiscal year. The cash outflow was primarily the result of aggressive investment activities including ¥28,580 million utilized to acquire property, plant and equipment in priority and growth fields.

(Financing activities)

Funds used in financing activities amounted to ¥49,803 million in fiscal year 2013, compared with a cash outflow of ¥30,520 million in the previous fiscal year. The cash outflow was largely due to ¥11,889 million in dividend payments (including dividends paid to minority shareholders), ¥10,038 million utilized to acquire treasury stock, and a net decrease of ¥29,964 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 2013.

1) Foreign Currency Fluctuations

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

2) Raw Material Price Volatility

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

3) Overseas Business Activities

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

4) Housing Related Tax and Interest Rate Trends

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

5) Electronics Market Trends

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

6) Trends in Public Works

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

7) Industrial Accidents and Disasters

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

8) Intellectual Property and Product Liability

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