

Review and Analysis of Consolidated Results for Fiscal 2016

Fiscal year ended March 31, 2017

Business Environment

From a peak in 2010, the rate of global growth continues to exhibit a downward trend. With the Chinese economy accounting for nearly 30% of the world's economic growth, trends in China are having a significant impact on the economies of other countries. After implementing large-scale economic measures, China is currently in an adjustment phase with corrections being made to such key commercial indicators as inventories as well as equipment. As a result, China is experiencing a moderate slowdown in its rate of economic growth. Meanwhile, the United States is enjoying a positive turnaround in private consumption on the back of improvements in employment and disposable incomes. Europe is also experiencing a modest recovery. Looking further abroad, certain emerging countries are showing signs of weakness. This includes the aforementioned slowdown in the rate of economic growth in China. Crude oil prices are sluggish owing mainly to prolonged

excess supply across worldwide markets. This is having a negative effect on the global economy with a deterioration in the earnings of energy-related companies in Europe and the United States while triggering various trends including risk-off moves in international financial and capital markets.

Looking at major trends throughout 2016, several advanced countries adopted an increasingly protective stance. In addition to the national referendum in the United Kingdom and the decision to withdraw from the European Union (Brexit), the election of Donald Trump as president heralded that start of an "America First" approach in the United States. Taking each of these factors into consideration, future conditions throughout the global economy are becoming increasingly uncertain.

Turning to the domestic economy, there are indications of an improvement in employment and disposable incomes in Japan. Buoyed by an upswing in business sentiment, conditions remain fixed in a recovery trend led

mainly by the manufacturing sector. In contrast, corporate sector capital investment and private consumption continue to lack strength.

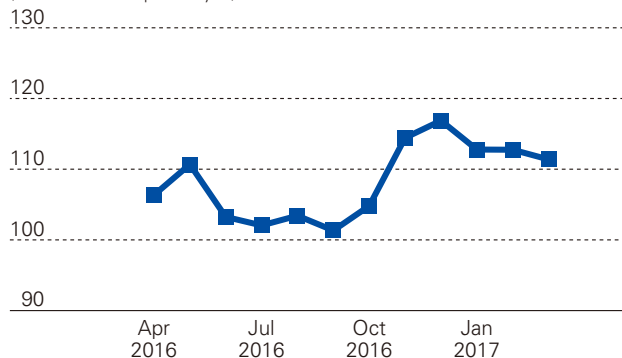
As far as the market environments for each of the Company's individual business segments are concerned, the Housing business field in Japan enjoyed an ongoing positive trend as the effects of corrections to the rush in demand leading up to Japan's consumption tax rate hike dissipated in full. As a result, the number of construction starts in fiscal 2016 grew 5.8% compared with the previous fiscal year, to 974,137 units, representing a second consecutive fiscal year of increase. Meanwhile, in the Water Infrastructure field, which includes PVC piping materials, new condominium starts declined for the first time in two business terms. On a positive note, trends in public investment were firm owing to the implementation of the fiscal 2015 supplementary budget and the early implementation of the initial fiscal 2016 budget.

Overseas business conditions remained patchy by industry. In the Electronics field, demand stalled negatively impacting the pace of smartphone growth, which had driven the market in recent years. Weak conditions also reflected such factors as LCD inventory adjustments. In the Automobiles and Transportation fields, trends in the mainstay automobile markets of developed countries led by Europe and the United States remained firm. Turning to the Life Science field, which in relative terms is less affected by movements in economic conditions, activity expanded mainly in China. This was largely attributable to the upswing in the standards of living in developing countries. As far as developed countries were concerned, trends in demand remained stable.

From a foreign currency exchange rate perspective, the yen/U.S. dollar rate saw minimal movement on overall terms. Beginning with a rate of ¥112 at the start of the fiscal year in April 2016, the yen/U.S. dollar rate came in at ¥111 as of the end of the fiscal year under review in March

Exchange Rate

(1 U.S. dollar = Japanese yen)



*The exchange rate is the closing rate at month end.

Naphtha Price (Petrochemical Naphtha, Import CIF)

(Yen/kl)



Source: "Trade statistics of Japan," Ministry of Finance

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2017. During the period, however, the value of the yen continued to appreciate against the U.S. dollar reaching close to ¥100 from June to September. Based on this and other movements, the value of the yen exhibited marked strong trends compared with the previous fiscal year. In fiscal 2016, the annual average foreign currency exchange against the U.S. dollar was ¥108 and ¥119 against the euro.

Analysis of Business Results and Financial Position

1. Analysis of Business Results for Fiscal 2016

(1) Net sales

Net sales in fiscal 2016 came to ¥1,065,776 million, a decrease of 2.8% compared with the previous fiscal year.

Of this total, the Housing Company accounted for ¥484,975 million, up 2.4% year on year in fiscal 2016. In the fiscal year under review, sales and profits were up owing mainly to firm trends in new housing construction orders. In the Housing Company's new housing construction business, the number of orders exceeded the level recorded in the previous fiscal year. In addition to robust results in the rebuilding market thanks in part to the G Series released in April 2016, this year-on-year improvement was largely due to steady trends in built-for-sale housing. Spearheaded by the Smart Power Station homes "100% Edition," which makes 100% energy self-sufficiency a possibility, further efforts were made to promote houses that answer the market's calls for integrated solar power generation systems and storage batteries. At the same time, particular emphasis was placed on strengthening sales of large-scale lots for subdivision housing nationwide.

In the Renovation business, the Company adhered strictly to the periodic diagnosis of houses sold. At the same time, energies were directed toward promoting product packages to customers living in homes that are 15 to 25 years old. As a result, menus for high durability and external renewal work as well as plumbing and related equipment expanded. Despite these favorable trends, performance in the Renovation business suffered under the impact of repair measures in the wake of the Kumamoto earthquake and weak sales of solar power generation

systems. Taking into account each of these factors, net sales in the Renovation business fell below the levels recorded in the previous fiscal year.

In the fiscal year under review, net sales in the UIEP Company up 6.2% compared with the previous fiscal year, to ¥240,332 million. Operating income hit a record high. This was largely due to the boost received as measures to improve profitability in domestic business activities took hold and the positive flow-on effects of overseas business structural reforms. The company's domestic sales and earnings increased. This mainly reflected the benefits to accrue from the introduction of the total production cost method as well as successful efforts to level out shipments, which helped cutback manufacturing costs. Sales in the company's overseas business decreased owing mainly to the impact of structural reforms. In contrast, earnings improved substantially on the back of the favorable effects attributable to the aforementioned structural reforms and an increase in sales volumes as operations at a new thermoplastic sheet plant in the U.S. commenced in earnest.

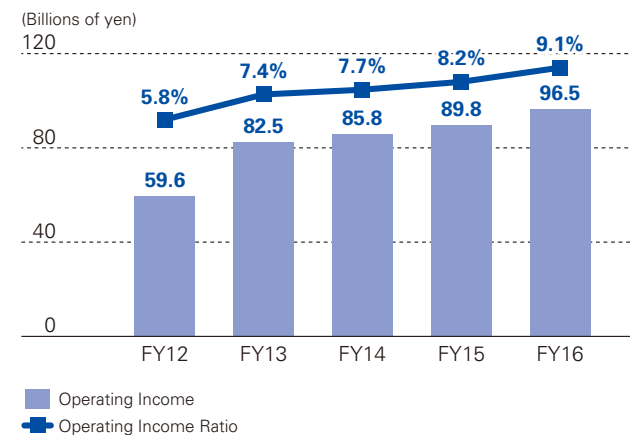
Net sales in the HPP Company amounted to ¥357,526 million in the fiscal year under review, down 5.6% compared

with the previous fiscal year. The downturn in sales was largely attributable to movements in foreign currency exchange rates and difficult conditions in the electronics field. From a profit perspective, earnings increased for a fifth consecutive business term to reach a record high. This upswing in earnings mainly reflected the growth in sales of high-performance products in other strategic fields. Turning to the Electronics field, results were mixed. While there were signs of a recovery trend from the third quarter of the fiscal year under review, sales of such products as double-sided tape declined as a result of adjustments to the production of mobile devices including smartphones and tablets up to the first half. In the Automobiles and Transportation field, trends in overseas demand were generally stable especially in China, Europe, and the U.S. While sales of mainly high-performance products expanded as a result, overall results declined due to the impact of the strong yen. As far as the Building and Infrastructure field is concerned, sales of chlorinated polyvinyl chloride (CPVC) resin and fire-resistant materials were firm. Meanwhile, sales of diagnostic reagent systems and testing equipment in the Life Science field were sound in Japan and overseas.

Net Sales



Operating Income and Operating Income Ratio



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(2) Operating income

Operating income in fiscal 2016 amounted to ¥96,476 million, an increase of ¥6,653 million, or 7.4%, compared with the previous fiscal year.

(3) Non-operating income and expenses

Non-operating income increased ¥2,402 million compared with the previous fiscal year. This was mainly due to the increase of ¥259 million in equity in earnings of affiliates. Non-operating expenses decreased ¥1,244 million compared with the previous fiscal year. In addition to the downturn in interest expenses of ¥537 million, this drop in non-operating expenses is mainly due to the decline in net foreign exchange loss of ¥2,346 million.

(4) Extraordinary income and loss

The Company recorded a gain on sales of investments in securities of ¥6,935 million as extraordinary income in the fiscal year under review. The Company also incurred various extraordinary losses including a loss on transfer of business totaling ¥4,988 million, a loss on devaluation of

investment in securities of ¥4,534 million, a loss on impairment of fixed assets and goodwill of ¥3,573 million, and a loss on sales or disposal of property, plant and equipment of ¥2,500 million. As a result, the Company posted a total extraordinary loss of ¥15,596 million, up ¥1,564 million, or 11.1%, compared with the previous fiscal year.

(5) Net income attributable to owners of the parent

Accounting for each of the aforementioned factors, income before income taxes came to ¥82,851 million, an increase of ¥4,900 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 ¥60,850 million, up ¥4,196 million, or 7.4%, compared with the previous fiscal year.

2. Financial Position

(1) Assets, liabilities, and net assets

Total assets as of March 31, 2017 stood at ¥943,640 million, an increase of ¥7,596 million compared with the end of the previous fiscal year.

(Assets)

Current assets stood at ¥466,101 million as of the end of fiscal 2016, ¥31,588 million higher than the balance as of the previous fiscal year-end. The main factor was a ¥41,884 million increase in the balance of cash and deposits. Non-current assets declined ¥23,992 million to ¥477,538 million.

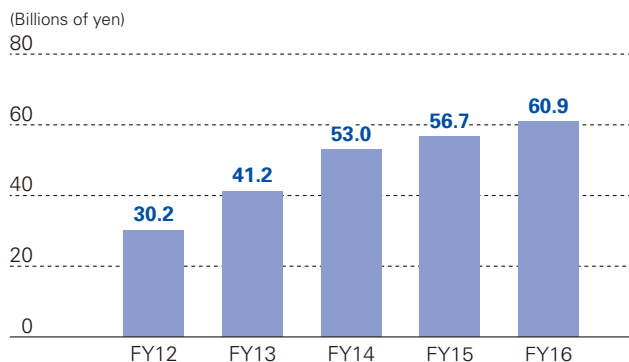
(Liabilities)

Liabilities declined ¥18,797 million compared with the previous fiscal year-end to ¥373,090 million as of the end of fiscal 2016. The main components were decreases of a combined ¥4,041 million in notes payable, electronically recorded obligations, accounts payable, and accrued expenses as well as a downturn in the balance of interest-bearing debt of ¥8,603 million.

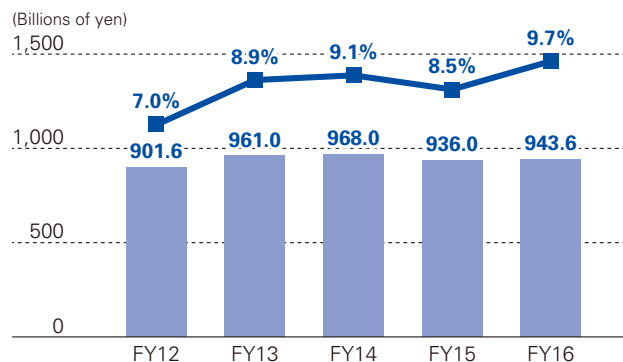
(Net assets)

Net assets stood at ¥570,549 million as of the end of fiscal 2016, an increase of ¥26,393 million compared with the end of the previous fiscal year. The main movements were a ¥45,349 million increase in retained earnings due

Net Income Attributable to Owners of the Parent

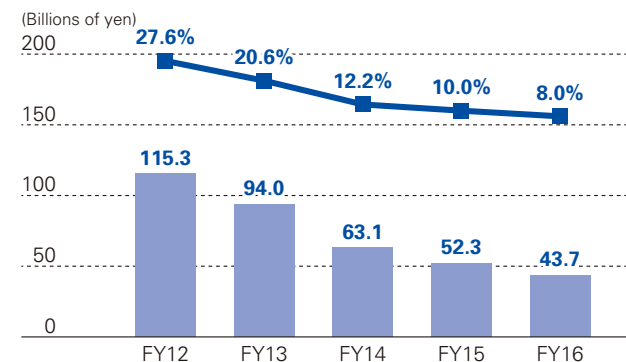


Total Assets and Return on Total Assets



Return on Total Assets = Ordinary Income/Average Total Assets

Interest-bearing Debt and Debt/Equity Ratio



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

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largely to net income attributable to owners of the parent of ¥60,850 million and a decrease of ¥15,541 million from dividend payments. Appreciation in the value of the yen led to downward translation adjustments of ¥4,876 million.

(2) Cash flows

Cash and cash equivalents on a consolidated basis amounted to ¥89,856 million as of the end of fiscal 2016, an increase of ¥22,752 million compared with the end of the previous fiscal year.

Factors influencing fiscal 2016 cash flow accounts were as follows.

(Operating activities)

Net cash provided by operating activities came to ¥108,229 million, up from ¥71,389 million in the previous fiscal year. This increase in net cash provided by operating activities was largely because principal cash outflows, which included income taxes paid of ¥16,395 million, an increase in inventories of ¥7,466 million, and decrease in gain on sales of investments in securities of ¥6,935 million were

more than offset by major cash inflows, which comprised income before income taxes of ¥82,851 million, depreciation and amortization of ¥34,843 million, loss on transfer of business of ¥4,988 million, and loss on devaluation of investment in securities of ¥4,534 million.

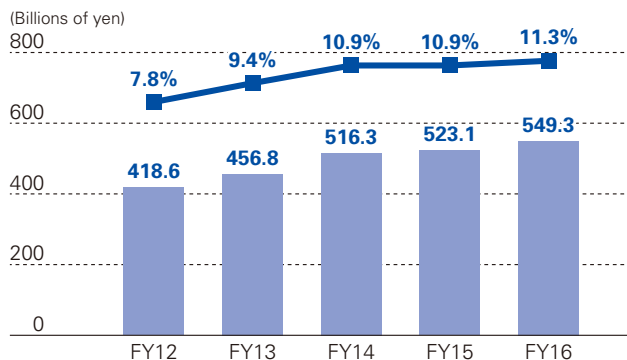
(Investing activities)

Net cash used in investing activities totaled ¥44,057 million in fiscal 2016, up from ¥23,715 million in the previous fiscal year. The major cash inflow came from proceeds from sales or redemption of investments in securities of ¥18,165 million, which included a portion of shareholders in Sekisui House, Ltd. Meanwhile, cash outflows primarily comprised ¥35,241 million for purchases of property, plant and equipment focused on priority and growth field, and a net increase in time deposits of ¥19,103 million.

(Financing activities)

Net cash used in financing activities amounted to ¥39,633 million compared with ¥41,726 million in the previous fiscal year. The principal cash outflows comprised ¥16,356 million for purchase of treasury stock, ¥16,063 million for cash dividends paid including cash dividends paid to noncontrolling shareholders of consolidated subsidiaries, and a net decrease in interest-bearing debt of ¥9,232 million.

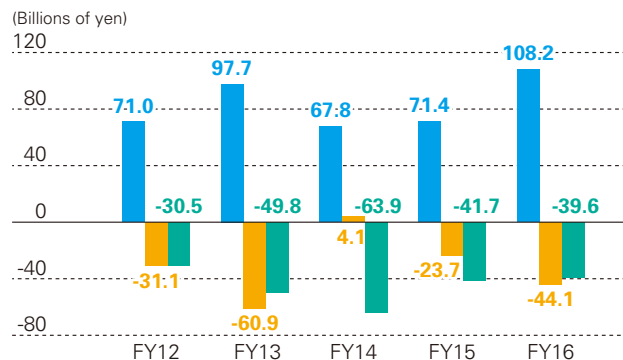
Shareholders' Equity and Return on Equity



■ Shareholders' Equity
 ◆ Return on Equity

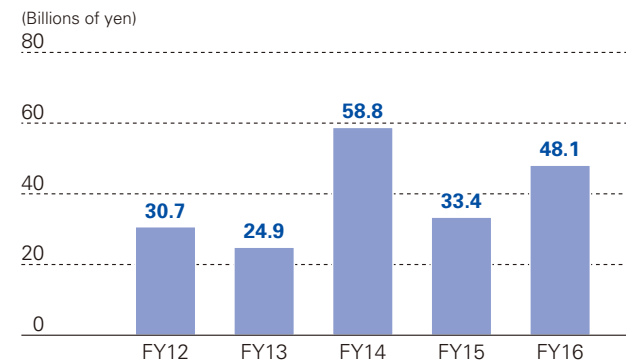
Return on Equity = Net income attributable to owners of the parent / Average Shareholders' Equity

Cash Flows



■ Operating Activities Cash Flows
 ■ Investing Activities Cash Flows
 ■ Financing Activities Cash Flows

Free Cash Flow



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