

The SEKISUI logo is located in the top left corner. It consists of the word "SEKISUI" in a bold, blue, sans-serif font. A small red dot is positioned above the letter "K".

**SEKISUI**

The main title "GLOBAL MARKET GROWTH THROUGH 'PROMINENCE'" is centered in the upper half of the page. It is written in a large, white, bold, sans-serif font. The background is a wide-angle photograph of a bright blue sky with scattered white clouds, meeting a clear turquoise ocean at the horizon.

**GLOBAL MARKET GROWTH THROUGH "PROMINENCE"**

ANNUAL REPORT  
Year Ended March 31, 2008

**2008**

SEKISUI CHEMICAL CO., LTD.

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**For further information:**

— please contact:

Sekisui Chemical Co., Ltd.,

Investor Relations, Corporate Communication Department

3-17, Toranomom, 2-chome, Minato-ku, Tokyo 105-8450, Japan

<http://www.sekisuichemical.com/> Tel: 03 (5521) 0524 Fax: 03 (5521) 0511

**MANAGEMENT MESSAGE**



Performance Highlights

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To Our Shareholders,  
Customers, and Employees

## PERFORMANCE HIGHLIGHTS

Sekisui Chemical Co., Ltd. and its Subsidiaries

	Millions of yen			Thousands of U.S. dollars (Note 1)
	FY2005	FY2006	FY2007	FY2007
<b>FOR THE YEAR</b>				
<b>Operating Results (for the year):</b>				
Net sales	¥ 885,068	¥ 926,164	¥ 958,675	\$ 9,568,570
Gross profit	257,788	269,659	272,772	2,722,547
Operating income	40,287	45,158	43,006	429,244
Non-operating income and expenses	3,514	1,752	(4,458)	(44,500)
Net financial income (expenses)	1,208	1,250	1,459	14,563
Equity in earnings of affiliates	1,709	1,415	590	5,889
Ordinary income	43,801	46,910	38,547	384,740
Net income	20,229	25,539	24,300	242,539

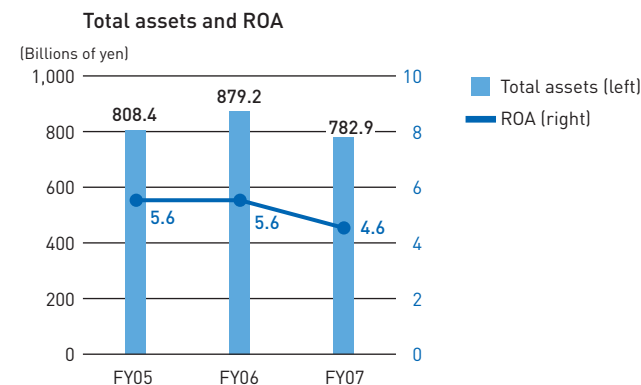
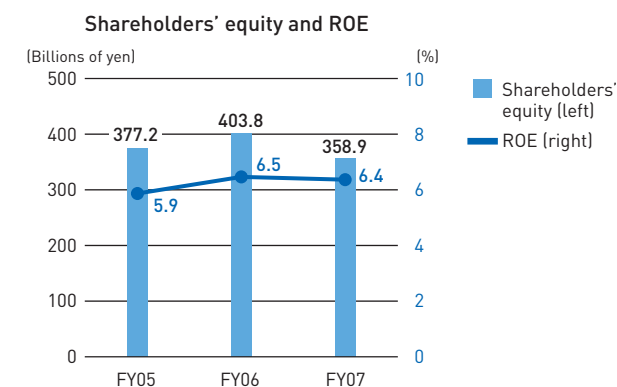
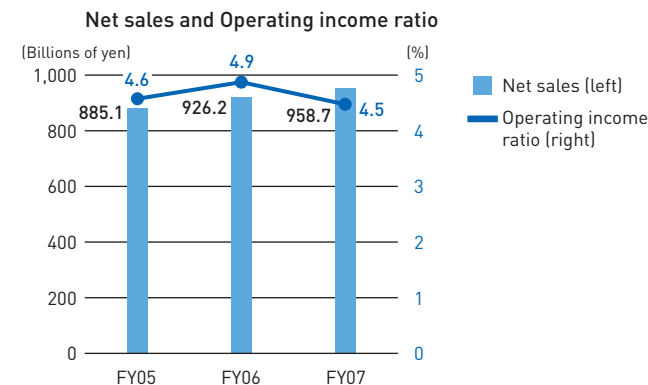
### Financial Position (at year-end):

Total assets	¥ 808,357	¥ 879,153	¥ 782,860	\$ 7,813,754
Equity	377,206	403,824	358,917	3,582,363
Interest-bearing debt	94,608	111,286	92,098	919,234

	Yen			U.S. dollars (Note 1)
<b>PER SHARE AMOUNTS</b>				
Net income, non-diluted (EPS)	¥ 37.78	¥ 48.19	¥ 46.16	\$ 0.46
Cash dividends	11	14	15	0.15
Equity	711.54	761.69	683.11	6.82

### Other Data:

Total number of employees	17,966	18,905	18,907
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	FY2005	FY2006	FY2007
<b>RATIO</b>			
Operating income ratio* <sup>2</sup> (%)	4.6	4.9	<b>4.5</b>
Return on equity (ROE)* <sup>3,4</sup> (%)	5.9	6.5	<b>6.4</b>
Return on total assets (ROA)* <sup>3,5</sup> (%)	5.6	5.6	<b>4.6</b>
Equity ratio (%)	46.7	45.9	<b>45.8</b>
Debt/Equity ratio* <sup>6</sup> (%)	25.1	27.6	<b>25.7</b>

<b>FOR REFERENCE</b>	FY2005	FY2006	FY2007
<b>Business Related Data:</b>			
Total number of houses sold (Unit)	15,850	15,000	<b>14,350</b>
Detached houses sold (Unit)	11,580	10,820	<b>10,100</b>
Total number of orders received (Unit)	16,870	17,050	<b>16,500</b>
New orders received (Millions of yen)	377,701	392,184	<b>384,432</b>
<b>Market Data:</b>			
Overall new housing starts (Unit)	1,249,366	1,285,246	<b>1,035,598</b>
Owned housing (Unit)	352,577	355,700	<b>311,803</b>

## Notes:

\*1: U.S. dollar amounts represent translations of Japanese yen, for the readers' convenience only, at the rate of ¥100.19 = U.S.\$1.00, the prevailing exchange rate at March 31, 2008.

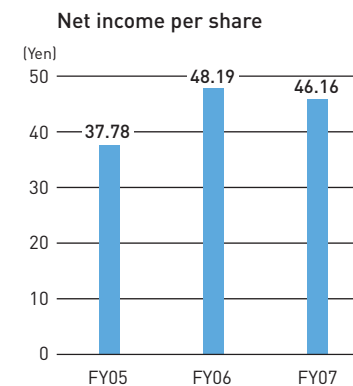
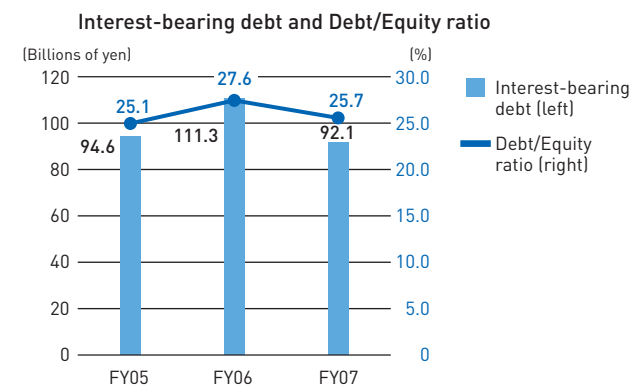
\*2: Operating income ratio = Operating income / Net sales

\*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



## TO OUR SHAREHOLDERS, CUSTOMERS, AND EMPLOYEES



Naotake Okubo, President

In fiscal year 2007, we continued to steadily expand net sales while recording our first decline in operating income in six years. During the year, we continued making steady progress developing operations in the fields designated as frontiers of growth and expanding business in strategic and overseas businesses. Our core businesses, which rely on domestic demand to secure a stable flow of revenue, struggled during the year as soaring raw material prices and a steep drop in new housing construction starts had a strong impact on performance.

The Sekisui Group is actively pursuing its vision of becoming a premium company that consistently achieves high profit levels and maintains an operating income ratio exceeding 10%. The foundation of this vision is the realization of a Group corporate structure that is balanced on the distinctiveness and the “prominences” of its three divisional companies and that is highly resilient to fluctuations in external business conditions.

We are concentrating on accumulating the resources that will propel our business expansion in the growth frontiers by seeking to further distinguish our unmatched prominences in and improve management efficiency through structural reform to further enhance our already strong presence in our domestic demand led core businesses while also cultivating prominence in emerging business fields and overseas markets offering promising growth prospects.

We achieved significant advances in the year under review, including raising sales in the automotive, high-performance materials including information technology (IT), and water environment businesses, establishing a solid foundation for expanding earnings in the future through aggressive strategic investment in our global operations, and a radical restructuring of our domestic demand led housing business.

Specifically, we are advancing our business development by establishing competitive superiority based on our “prominences”—our distinct strengths—in business fields undergoing rapid global industrialization, including the automotive, information technology, and medical industries, by constructing a worldwide manufacturing structure, and other strategic measures to develop and expand our operations.

One of our key strategies is the development of our overseas water environment business. Our water environment business grew out of products and services of Sekisui Chemical Group’s domestic core businesses, yet its applications are universal and the water environment business promises substantial growth potential from the rapidly increasing social infrastructure needs in both developed and developing countries. To be competitive and grow in the water environment systems business requires specialization

in all aspects of the complex systems. We are applying our finely tuned technologies developed from our domestic operations and forming strategic partnerships with leading companies around the world to expand our business structure and establish our position at the forefront of the industry while laying the foundation for steady profit growth.

As we progress with business expansion strategies in our growth frontiers, we are also fortifying our core businesses, which rely on domestic demand. The domestic operations of the Housing Company and the Urban Infrastructure and Environmental Products Company are facing inevitable market shrinkage in the medium and long term. Our business strategy is to develop those operations into solid and steady profit generators by continuing to introduce leading edge technology products to build on our strong market presence and to streamline their manufacturing and sales structures to improve their cost competitiveness.

In fiscal year 2008, we will aim to reestablish the Group's profit growth trajectory and continue our transformation into a premium company.

### Review of Fiscal Year 2007 (April 1, 2007 — March 31, 2008)

In fiscal year 2007, we achieved our objectives for expanding our strategic and overseas businesses. At the same time, however, our domestic core businesses struggled, particularly housing, PVC pipe, and construction materials.

The High Performance Plastics (HPP) Company raised net sales by more than 20% year on year in its three strategic focus fields of automotive materials (AT), information technology materials (IT) and medical products (MD) as the company generated over 60% of the company's operating income. The HPP Company is aggressively developing its operations to position itself for further growth, with steps including launching operations at an interlayer film plant in the United States to boost its product supply to the AT field. The HPP Company is also reforming its operating structure and in fiscal year 2008 aims to reduce the number of products contributing less than 5% of operating income from 21% in fiscal year 2007 to about 10% of its product offerings.

The Urban Infrastructure and Environmental Products Company (UIEP) continued to steadily widen its business scope in fiscal year 2007 through various measures including leveraging its acquisition of Allen Extruders, LLC., an acrylonitrile butadiene styrene (ABS) sheet producer in the United States and

### Sales and Operating Income by Division Company

(Billions of yen)

	FY2007				FY2008 (Plan)			
	Sales	Change	Operating Income	Change	Sales	Change	Operating Income	Change
Housing	420.0	-10.5	14.1	-0.2	428.0	8.0	20.0	5.9
UIEP	233.8	7.3	6.1	-5.2	245.0	11.2	7.5	1.4
HPP	280.5	35.0	24.5	3.8	295.0	14.5	28.0	3.5
Others	48.5	-1.1	-1.4	-0.5	49.0	0.5	-1.5	-0.1
Eliminations	-24.1	1.9	-0.3	0.0	-28.0	-3.9	—	0.3
Total	958.7	32.5	43.0	-2.2	989.0	30.3	54.0	11.0

attracting large-scale orders in China and Asia for its reinforced plastic piping. The UIEP Company implemented several strategies to position itself for future growth. Two major activities were the acquisition of Heitkamp, Inc., a sewage pipe renewal (SPR) company in the United States to bolster its SPR operations in the growing market in developed countries, and the operating start of a fiber-reinforced foam urethane (FFU) plant and facility expansion for reinforced plastic pipe production in China. In fiscal year 2008, the UIEP Company will continue to maximize the profitability of the M&A venture and continue to frame and implement strategies for further business expansion.

While we continued to make great strides fortifying and expanding our operations overseas, our core businesses in Japan struggled, particularly PVC piping and construction materials. Two fundamental factors were behind the weak domestic performance: the slowing trend in new housing starts and the sharp rise in raw material prices. New housing starts in Japan plummeted to 1.04 million units in fiscal year 2007 down from 1.28 million units in fiscal year 2006. The sharp drop in construction starts of both detaching houses and large buildings was precipitated by stricter building construction certification regulations initiated after the discovery of approved construction plans with falsified anti-seismic data. While Sekisui Chemical was not involved and the Housing Company's highly-industrialized housing contract orders were relatively unaffected, shipment orders plummeted for PVC pipes, construction

materials, and other products for which demand is largely based on construction volume. Meanwhile, our profit structure deteriorated from an inability to transfer the cost increases from the soaring raw materials prices into our product prices. Under normal circumstances, cost increases are systematically integrated into our product prices. However, the revision to the Construction Standard Law and the subsequent slowing of construction starts resulted in a steep drop in demand for construction supplies, creating supply and demand conditions that effectively forestalled efforts to transfer the costs into the product prices.

Housing Company orders declined in the first half of fiscal year 2007, affected by diminishing confidence among potential housing purchasers arising from, among many factors, the uncertain outlooks for interest rates and the economy as a whole, as well as our own temporary operating difficulties during the initiation of the sales office network in the Tokyo, Chubu, and Kinki regions. In the second half, however, the organizational issues were worked out and the new sales structure immediately began contributing as we had envisioned, ultimately helping the division post a year on year increase in orders.

In anticipation of the inevitability of a shrinking housing market in Japan, the Housing Company implemented early measures to establish a high-efficiency management structure. The company enhanced the efficiency of its sales operations during fiscal year 2007 through various measures, including the extensive sales network restructuring in the Tokyo, Chubu, and Kinki regions. We expect organizational streamlining, including the reduction of non-core operation staff in the new housing construction business.

The living environment business, which focuses on the refurbishment of existing housing structures, continued to expand in line with the company plan. As one of the company's growth frontier fields, we increased the operation's staff during the year in preparation for accelerating growth momentum in fiscal year 2008 and beyond.

### **Business Outlook for Fiscal Year 2008 (April 1, 2008 — March 31, 2009)**

We intend to return profit to the growth track in fiscal year 2008 by revitalizing the domestic demand-based core businesses while further accelerating the development and expansion of our strategic and overseas operations. We are targeting raising fiscal year 2008 consolidated net sales by 3.2% year on year to ¥989.0 billion and net income by 11.1% to ¥27.0 billion. We expect the Housing Company to

contribute a large portion of this increase as we aim to raise operating income in the division by ¥5.9 billion to ¥20.0 billion for the year. We plan to raise Urban Infrastructure and & Environmental Products Company operating income by ¥1.4 billion to ¥7.5 billion and High Performance Plastics Company operating income by ¥3.5 billion to ¥28.0 billion.

### **Revitalizing the Domestic Demand Led Core Businesses**

We are focusing on revitalizing the Housing Company's new housing construction business and the Urban Infrastructure & Environmental Products Company.

We expect the Housing Company's improved management efficiency to contribute an approximately ¥6.0 billion increase in revenue in fiscal year 2008. While we anticipate sales to rise for the rapidly growing living environment business, we expect the ongoing severe macroeconomic conditions to limit new housing construction business sales to minimal growth from the previous fiscal year even as the savings from the reduced fixed cost set a foundation for steady growth. We plan to leverage the transformation in operating efficiency achieved last year by launching full-fledged efforts to attract housing orders.

The UIEP Company will seek to cover the soaring raw material prices by integrating the costs into product prices and by reducing costs in other areas. Raw material prices are expected to continue rising in the year ahead, and we are moving quickly to reestablish a structure that facilitates swift transfer of the higher costs into product prices. We have already notified our sales outlets that, starting with PVC pipes, we will be raising product prices commensurate with the markedly higher raw material prices. In addition, we expect an improving supply and demand balance as new housing starts move into recovery and anticipate a business environment that permits strategic increases in product prices. In the current business environment, successful application of these price adjustments will be key to achieving our profit target.

### **Expanding Strategic Businesses and Accelerating Development of Overseas Business Frontiers**

The progress we have achieved expanding our strategic businesses and accelerating development of our overseas operations gives us a solid base upon which we plan to accelerate the opening of frontiers for business growth.

The HPP Company will continue its ongoing steady expansion of operations in the AT, IT, and MD strategic business fields. In the AT field, the company plans to enhance its production bases for interlayer glass for automotive and increase sales of its high value-added products. The focus in the IT field will be on expanding sales of its LCD chemical-related products and cultivating new next-generation products.

In the MD field, Daiichi Pure Chemicals Co., Ltd., which we acquired in 2006, has been fully integrated into our operating structure and we reintroduced the merged operations as Sekisui Medical Co., Ltd., in April 2008. Sekisui Medical plans to expand sales of its core products primarily by focusing on sales operations in overseas markets.

We expect the UIEP Company's overseas business to raise revenues by about 30% in fiscal year 2008 on growing demand for new infrastructure equipment in newly developing countries and rehabilitation of existing infrastructure in advance countries.

### Financial Strategy and Shareholder Return Policy

Our financial strategy is based on the fundamental management priorities of increasing corporate worth and the proactive return of profit to shareholders. We recognize the importance of returning profits to our shareholders in each fiscal term as a reflection of our growth and continue to work toward our goal of achieving a dividend payout ratio of 30% on a consolidated basis. In line with this policy, we raised the annual dividend per share to ¥15 in fiscal year 2007. Our policy is to retain internal cash reserves of an amount sufficient for R&D costs, equipment investment, strategic investment, financial activities, and other activities that we consider vital to assuring steady and ongoing improvement in corporate value into the future.

The medium-term management plan GS21-Go! Frontier set an aggressive agenda to establish a foundation for future growth in corporate value with an investment budget of ¥120.0 billion, representing 60% of anticipated cash flow for the three fiscal years from 2006 to 2008, and set plans to invest half of the amount, ¥60.0 billion, to open business growth frontiers. After determining that we required additional funds to carry out investment crucial to assuring steady business growth, we sold our stake in Sekisui House Ltd. in June 2007 and allocated ¥40 billion of the proceeds as investment assets. These funds were used to increase investments and loans to promote development of the Group's growth fields of the HPP Company's three strategic businesses and the UIEP Company's overseas operations.

In fiscal year 2007, funds from the investment budget were utilized to acquire two major enterprises in

the United States, Allen Extruders, LLC. and Heitkamp, Inc.. We are currently in the process of acquiring Chevalier Pipe Technologies GmbH, a sewage pipe renewal company in Europe, which we expect to finalize in fiscal year 2008. We plan to continue employing an aggressive M&A policy when we identify companies that will substantiate our market presence and enhance corporate value.

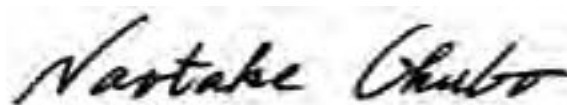
In fiscal year 2008, we anticipate maintaining capital expenditure and R&D spending at ¥35.0 billion and ¥26.0 billion, respectively, the same levels as the previous fiscal year.

### In Closing

Despite the currently adverse business conditions, we are steadfast in our objectives to raise our operating income ratio to 10% and to concentrate on select business fields to optimize our prominence and position the Group for the future. In fiscal year 2008, as we reestablish our profit growth trajectory and further establish our presence in business fields with excellent potential for substantial growth, we believe we will be approaching the fulfillment of our vision of becoming a genuine premium company.

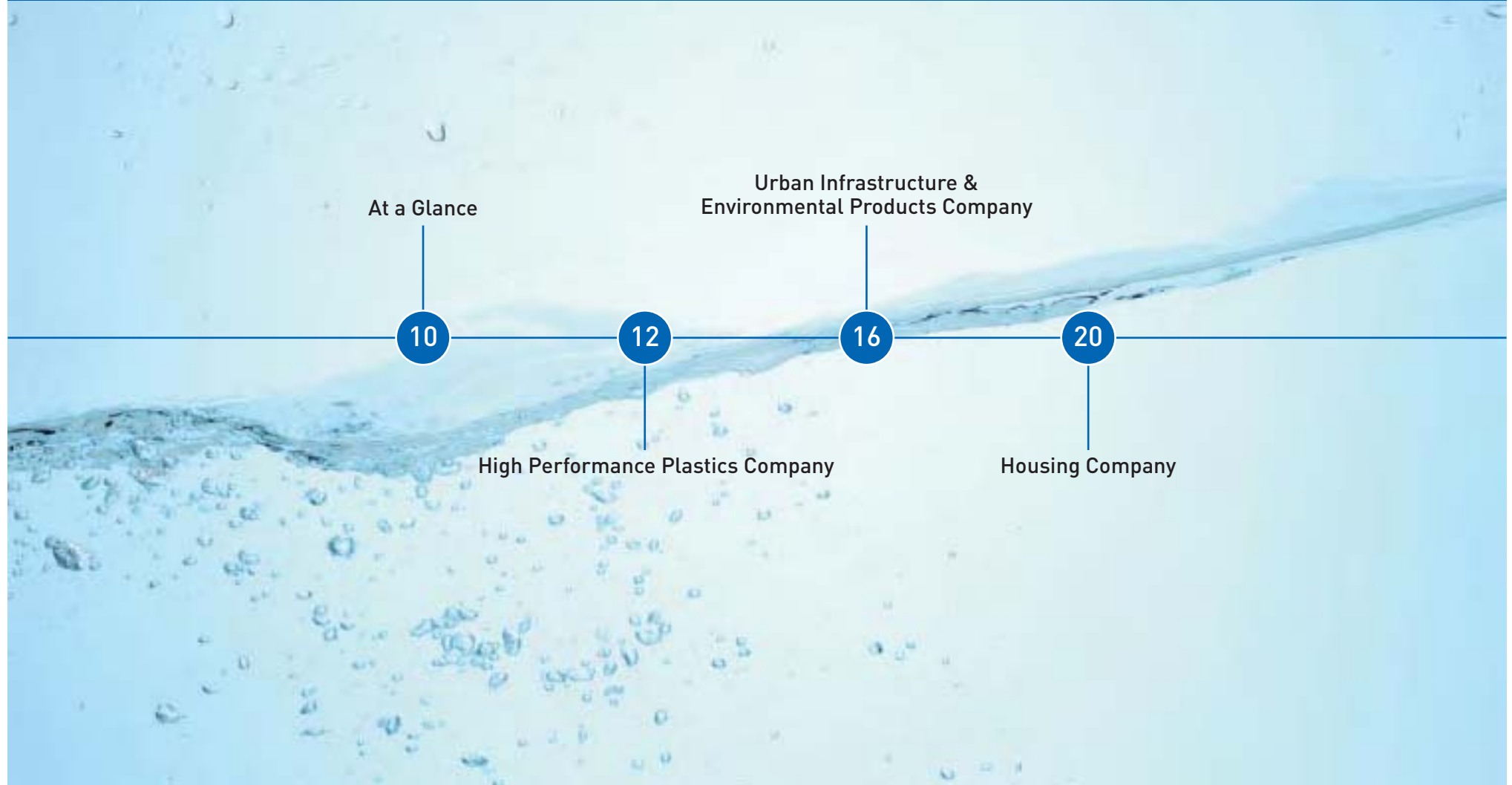
We thank you for your continued understanding and support of the Sekisui Chemical Group.

July 2008



Naotake Okubo, President

COMPANY OVERVIEW



## AT A GLANCE

## Company Overview

**HIGH PERFORMANCE PLASTICS COMPANY**

Number of Employees (Consolidated, FY2007 end): 5,265



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, FY2007 end): 4,025



The fundamental businesses of the Urban Infrastructure & Environmental Products Company are 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 core operations to develop and expand its overseas business in areas ranging from sewage pipe restoration to supplying composite material products for factory materials and infrastructure applications.

The UIEP Company's pipe restoration and other highly effective technologies are readily applicable to infrastructure upgrade projects in Japan and in developed countries around the world. The UIEP Company employs aggressive initiatives to develop its overseas business operations, including M&A of operations offering strategic advantages.

**HOUSING COMPANY**

Number of Employees (Consolidated, FY2007 end): 8,557

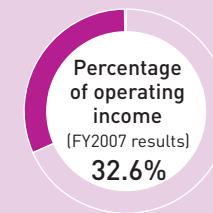
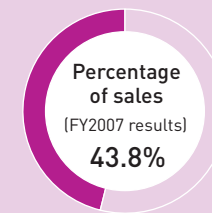
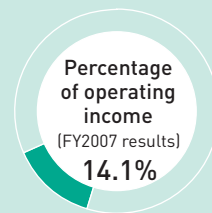
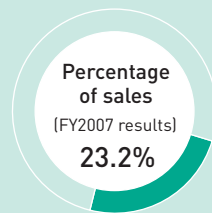
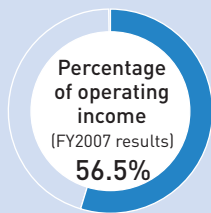
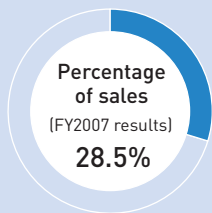


The Housing Company is a leading provider of residential housing in Japan and enjoys a reputation as a high-quality builder based on its specialized Unit Construction Method that enables short construction periods and its highly refined manufacturing method that provides superior air-tightness and heat 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 world leader in solar powered housing, having sold a total of some 60,000 units of its leading edge "photovoltaic energy generation system housing".

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.

## Percentage of Sales\*1 and Percentage of Operating Income\*2 Generated by Each Company (FY2007 results)



\*1: Figures for net sales include net sales in other businesses, and those for share of overall net sales correspond to post-inter-segment elimination totals.

\*2: Figures for operating income include operating loss for other businesses, and those for share of overall operating income correspond to pre-inter-segment elimination totals.

## High Performance Plastics Company

## Urban Infrastructure &amp; Environmental Products Company

## Housing Company

## Primary Business Areas and Main Products

**AT (Automotive materials)**

Interlayer films for laminated glass, Polyolefin foam, Automotive resin products, Double-sided tape

**IT (IT-related materials)**

LCD fine particles, Photosensitive materials, Semiconductor materials, Optical adhesive tape and film

**MD (Medical products)**

Diagnostic drugs, Blood sampling plastic tube, Transdermal drugs, Pharmacokinetics Business

**Functional materials and others**

Adhesives, Marking film, Fire resistant tapes and sheets, Packaging tape, Packaging and agricultural tape, Plastic containers

**Pipe materials (water supply & drainage, construction equipment, sewage pipes, electricity pipes, gas pipes, and others)**

PVC pipes, Polyethylene pipe, Lining steel pipe, Plastic maintenance cover etc.

**Environmental civil engineering**

Materials, Equipment and installation methods for pipe restoration

**Plant materials**

Pipe Materials for Factory Production Equipment (valves, pipes, joints, etc.) Sheets for aircraft interiors, Sheets for vehicle interiors & exteriors

**Composite materials for infrastructure**

Reinforced plastic composite pipe, Plastic foam reinforced by long glass fibers [FFU]

**Housing equipment**

Construction materials (rain gutters, materials for roofs, materials for decks), Bathroom units

**Housing**

Steel-frame unit house "Sekisui Heim", Wood-frame unit house "Sekisui Two U", Subdivision land

**Living environment**

Refurbishing, Interiors, exteriors, "Reuse System House" built through the reuse of unit houses

**Others**

Facilities and equipment for nursing and the elderly, Urban development

## Brand Names

**AT (Automotive materials)**

S-LEC® (interlayer film)  
Softlon® (foaming material)

**IT (IT-related materials)**

Micropearl® (spacer)

**MD (Medical products)**

Cholestest® (Cholesterol Diagnostic Agents)  
Inse Pack® (Blood sampling plastic tubes)

**Functional building materials**

Fiblock® (thermal expansion fire-resistant material)

**Pipe materials (water supply & drainage, construction equipment, sewage pipes, electricity pipes, gas pipes, and others)**

ESLON® pipe series

**Environmental civil engineering**

SPR Method®, Omega-Liner Method®, Pipe Line Diagnostic System

**Plant materials**

KYDEX®, ALLEN®

**Composite materials for infrastructure**

ESLON® Neo Lumber FFU (railway orbital sleeper)

**Housing equipment**

ESLON® rain gutters

**Detached houses**

- Sekisui Heim (steel-framed): PARFAIT, DOMANI, Desio, Heim BJ, Chezdan
- Sekisui Two U (wooden-framed): GRAND TO YOU, Grand to You Fiora, MIOLE

**Housing complex**

- Letoit, Harvestment (group home for the elderly)

**Reform materials**

- Development, manufacture and sales of "Ecochaté" exterior wall tile

## HIGH PERFORMANCE PLASTICS COMPANY



## Performance Highlights

	FY04	FY05	FY06	FY07	FY08 (plan)
Net sales (billions of yen)	197.7	218.3	245.5	<b>280.5</b>	295.0
Operating income (billions of yen)	14.8	17.5	20.7	<b>24.5</b>	28.0
Operating income ratio (%)	7.5	8.0	8.4	<b>8.7</b>	9.5

TAKAYOSHI MATSUNAGA, President of High Performance Plastics Company

**Results for Fiscal Year 2007**

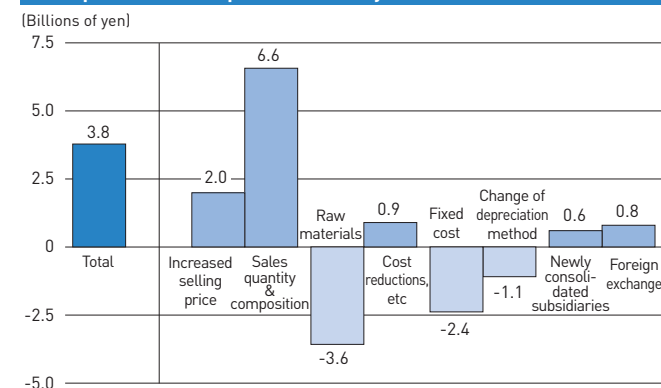
Net sales increased ¥35.0 billion to ¥280.5 billion, operating income increased ¥3.8 billion to ¥24.5 billion

In the year under review, the High Performance Plastics (HPP) Company focused management resources on strategic initiatives in the three core strategic fields of automotive materials (AT), IT-related materials (IT) and medical products (MD) under the “Chemistry for your Win” concept. Strong demand in these fields coupled with aggressive global business development, including enhancing overseas production bases, supported growth in both sales and income for the year.

AT field sales rose for high-performance interlayer film featuring exceptional sound and solar control and resin mold products for

motorcycles and automobiles. In the IT field, sales continued steady for LCD fine particle products and optical films. In the MD field, the strategic acquisition of Daiichi Pure Chemicals Co., Ltd., a leading presence in the medical diagnostic agent field, enabled the launch of full-fledged development of materials and fundamental technology as the company realized a solid start to developing operations at all levels, from development planning and product development, to production technology and sales. The HPP Company is continuing to integrate operations to maximize the synergy effects and is setting a foundation for augmenting the competitive strength of the operations. Total sales in the three strategic fields increased 23.4% year on year to ¥134.5 billion in fiscal year 2007.

Overseas, the HPP Company continued initiatives to continue advancing the global development of its interlayer film business and commenced production at two new facilities during the year, an inter-

**Analysis of Operating Income for FY2007 (compared with the previous fiscal year)**


layer film raw materials processing plant in the Netherlands and an interlayer production plant in the United States. The sales company established in India, which promises to become a significant growth market for interlayer films, is actively exploring potential new markets. The interlayer film business is rapidly evolving into an earnings driver for the company with business growing in all three of its operating regions of Asia, North America, and Europe. In fiscal year 2007, the interlayer film business posted overseas net sales growth of 23.2% year on year to ¥117.0 billion.

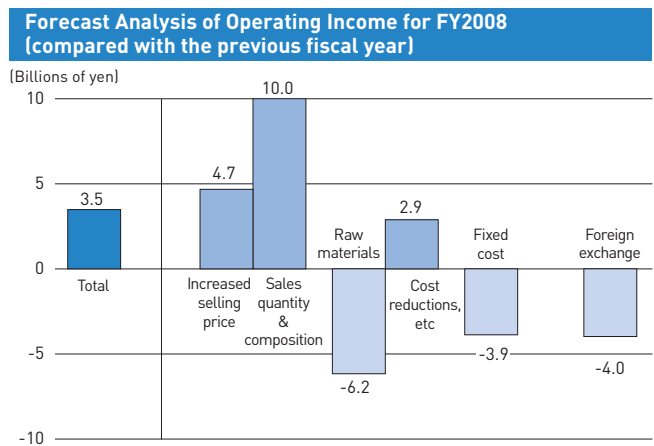
The HPP Company implemented measures to elevate the high value-added features of its products and radically reformed its business model with the aim of constructing a high revenue business structure. As part of this business restructuring, the HPP Company cut product lines that carried operating income ratio below 5% to less than 10% of its total products.

### Outlook for Fiscal Year 2008

**Net sales growth of ¥14.5 billion to ¥295.0 billion, operating income growth of ¥3.5 billion to ¥28.0 billion**

In fiscal year 2008, the HPP Company will continue to focus on its business in its three strategic fields and seek to aggressively expand overseas business while eliminating low-margin products to reform its earnings structure. Growing sales overseas from full operations of the interlayer film plant in the United States and other activities in strategic business fields are expected to contribute ¥14.5 billion growth in HPP Company net sales to ¥295.0 billion. The HPP Company is aiming to raise operating income by ¥3.5 billion to ¥28.0 billion by counterbalancing higher material prices, higher fixed costs associated

with the new facilities, particularly overseas, foreign currency-related costs and other factors expected to impact income revenue with expanded sales volume, higher sales prices, and cost reductions.



### Key Strategies for Fiscal Year 2008

#### Strengthen operations in strategic fields, expand overseas business

The HPP Company will concentrate management resources on fields showing promise for significant growth and continue to systematically implement business strategies in the three strategic business fields.

In the AT field, the company will expand its production bases and seek to attain further business growth. The company aims to expand



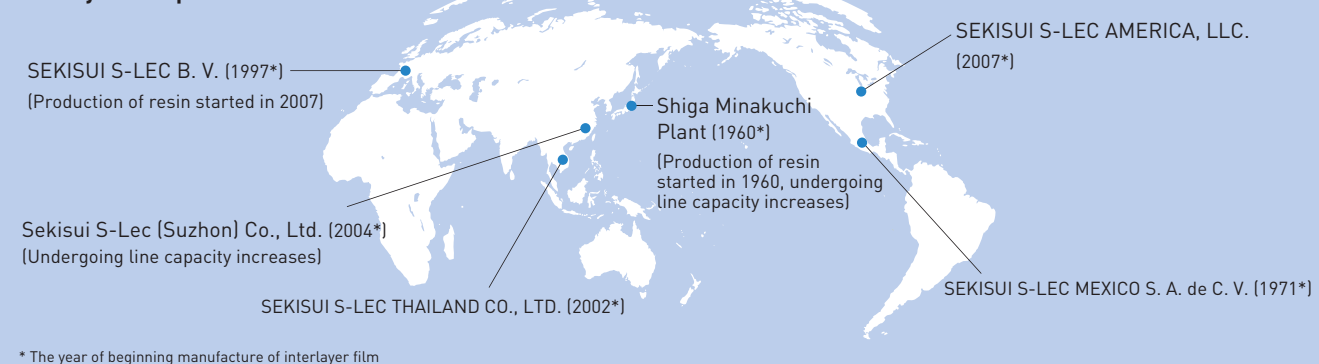
Interlayer films for placement between layers of glass in automobile windshields



Spacers that maintain uniform thickness of the liquid crystal layer



HDL (Good) and LDL (Bad) cholesterol diagnostic agents

**Interlayer film production bases**

**Number of overseas production bases**

	FY05	FY06	FY07	FY08
Asia, Oceania (china)	8 (4)	9 (5)	9 (5)	9 (5)
North America	5	5	6	6
Europe	3	4	4	4
Overseas total	16	18	19	19

+1 Interlayer film

Increasing production capacity for Interlayer film

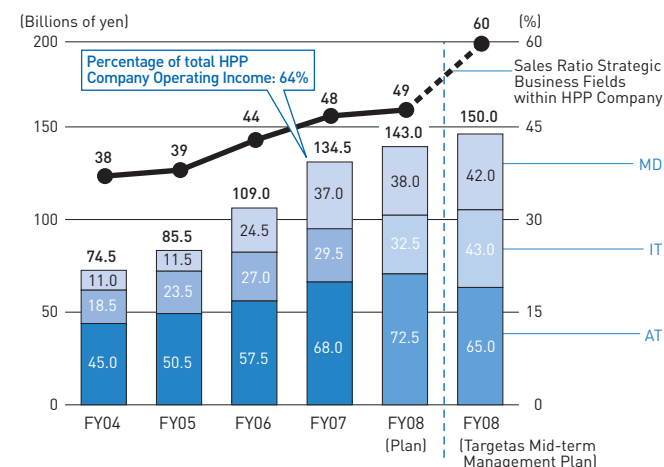
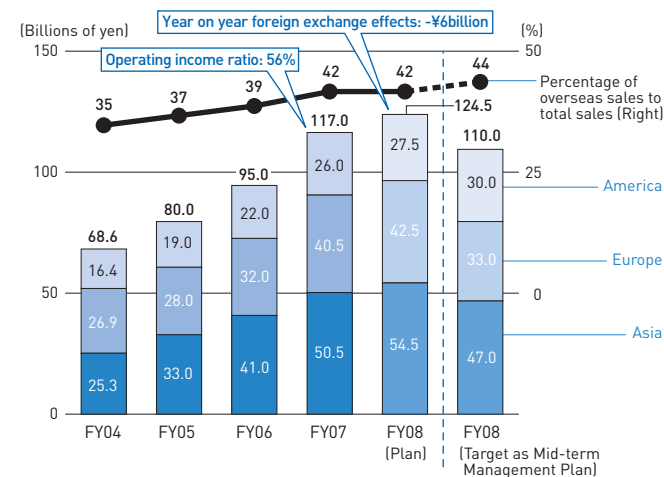
market share for the interlayer film business, particularly for high performance interlayer films, by leveraging the contribution from the new interlayer production plant in the United States that successfully came on line in fiscal year 2007. The company is currently examining the potential to expand production capacity in China and Europe and in fiscal year 2008 will take concrete steps to establish an effective

global production network capable of meeting demands in its operating regions of Japan, the United States, Europe, and Asia.

The company plans aggressive marketing campaigns for its foam molding products, metal alternative products, and other product solutions to automakers who are seeking new ways to reduce vehicle weights to lower CO<sub>2</sub> emissions and improve fuel efficiency.

In the IT field, the company is applying strategies to expand sales of LCD products and optical films, where it continues to develop highly innovative products and release a steady stream of new products to the market. Next-generation large-scale products are also being developed to become the next generation of the company's leading-edge spacers, the feature element in the current LCD-related product lines.

In the MD field, the merging of operations with Daiichi Pure Chemicals Co., Ltd., acquired in 2006, was completed and the new company launched operations in April 2008 under the name Sekisui Medical Co., Ltd. The most competitive and promising operations of Sekisui Chemicals medical (five business fields) and Daiichi Pure

**Sales in the Strategic Business Fields**

**Overseas Sales**


Chemical (four business fields) were selected and restructured into two divisions, the diagnostics and medical divisions, and four business fields, centered on diagnostic agents and diagnostic instruments. In the diagnostic division, the diagnostic agent business is partitioned into five segments, with the company aiming to position itself to capture top market share in three: blood clotting, diabetes, and infectious diseases.

In the medical division, the company is strengthening its core technology of chiral (compound) synthesis technology, which is an essential part of medicinal chemical manufacturing. The company is magnifying its product marketing activities, including approaching R&D divisions of major pharmaceutical manufactures in Japan and overseas, to fully leverage its leading technologies. Production of medical agents will also be expanded and production will be commissioned to intermediaries to increase product supply across the board, from experimental medicines to market products.

Sekisui Medical aims to attain total net sales overseas of ¥124.5 billion, comprised of regional sales in Asia of ¥54.5 billion (an increase of

¥50.5 billion from the previous fiscal year), Europe ¥42.5 billion (¥42.5 billion), and the United States ¥27.5 billion (¥26.0 billion).

### Business Structure Reform

While expanding sales of high value-added products in the strategic business fields, the company plans to shore up products with low profit margins. In fiscal year 2008, measures will be implemented with the specific objective of improving the earnings performance, including continuing the rigorous business structure reform begun in fiscal year 2007 to eliminate products that are unprofitable or carry low profitability. In addition, specific measures will be formulated and implemented to effectively respond to the soaring raw material prices and foreign currency exchange rate trend.

### Other Measures

In April 2008, the HPP company established the New Business Promotion Department to focus on expanding sales of new products

and businesses.

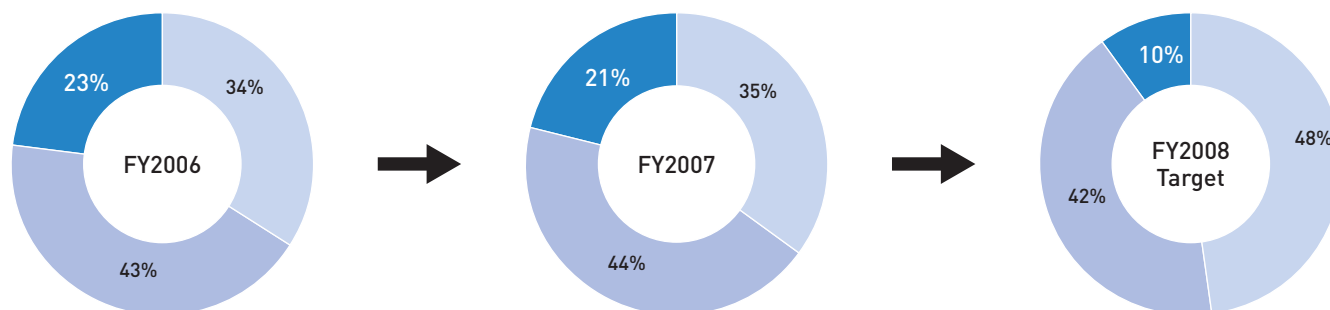
The department will oversee all new products, including optical film, fire-resistant materials, mount materials, and care materials and is charged with cultivating new businesses with an initial objective of producing earnings contributors in fiscal year 2009.



"FP" uses new plastic materials that form insulation layer instantly when applied if a fire occurs (fire-resistant materials)

### Sales Structure (by Per-Business Unit Operating Profit Margin)

■ =10% or higher ■ =5-10% ■ =Less than 5%



In fiscal year 2008, we will reduce products with operating profit margin of less than 5% to 10% of all sales.



"Allerbuster", a curtain that controls allergens attached to it using special technology (care material)

## URBAN INFRASTRUCTURE &amp; ENVIRONMENTAL PRODUCTS COMPANY



## Performance Highlights

	FY04	FY05	FY06	FY07	FY08 (plan)
Net sales (billions of yen)	204.8	214.1	226.5	<b>233.8</b>	245.0
Operating income (billions of yen)	8.9	10.4	11.3	<b>6.1</b>	7.5
Operating income ratio (%)	4.3	4.9	5.0	<b>2.6</b>	3.1



YOSHIYUKI TAKITANI, President of Urban Infrastructure &amp; Environmental Products Company

**Results for Fiscal Year 2007**

Net sales increased ¥7.1 billion to ¥233.8 billion, operating income decreased ¥5.2 billion to ¥6.1 billion

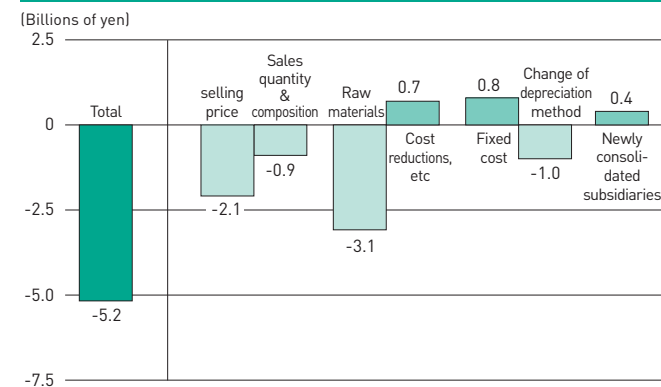
In fiscal year 2007, the Urban Infrastructure and Environmental Products (UIEP) Company's development of the overseas growth frontiers progressed even further than had been anticipated but the core businesses in Japan, particularly PVC piping and construction materials, were severely impacted by the soaring raw materials prices and the slowdown in new residential housing starts after the adoption of revised Construction Standard Law. The inevitable decline in income resulted limited operating income to almost half the level of a year ago.

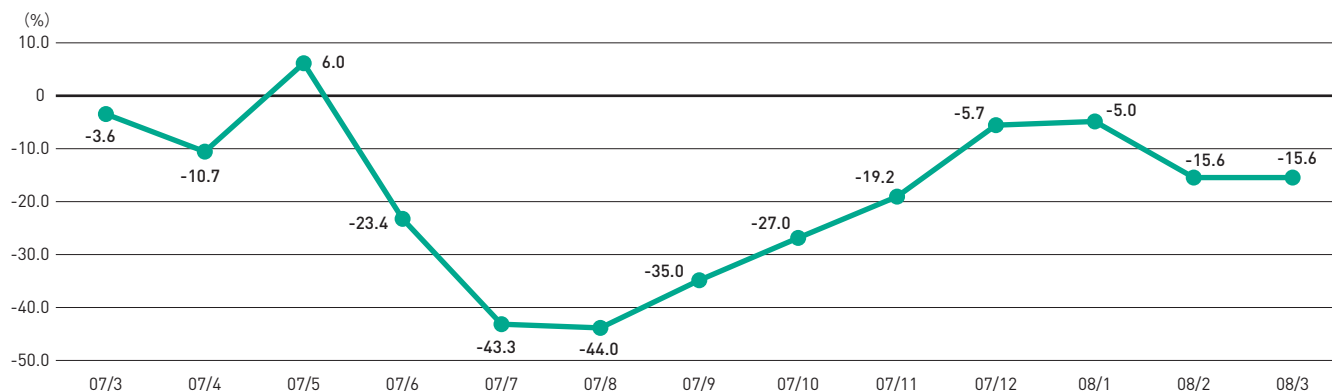
Revenue declined from the PVC pipe (water supply and drainage systems) and other core businesses owing to a severely impaired sup-

ply and demand balance as Construction Standard Law revisions implemented during the year caused a steep drop in construction starts of both detaching houses and large buildings. The outcome was a ¥7.2 billion year on year drop in net sales to ¥140.8 billion in the UIEP Company's core businesses.

The ongoing rapid rise in raw material prices during the year also had substantial impact on income. Due to the temporary deterioration in the supply and demand environment, it was not strategically possible to transfer the increased costs into product prices to the same degree as in fiscal year 2006 (during which 100% were integrated into product prices). The cumulative effect was a steep ¥6.1 billion drop in operating income from the previous year to ¥4.8 billion for the core businesses upon which the UIEP Company is heavily reliant as its primary source of income.

At the same time, operations steadily expanded, particularly over-

**Analysis of Operating Income for FY2007 (compared with the previous fiscal year)**


**New housing starts (year-on-year comparison)**

**New Housing Starts fell sharply year-on-year after the summer of 2007 due to a revision of the basic construction law.**


Profits on core business including water supply & drainage sharply decreased according to the decline of new housing starts

seas, in the environment and civil engineering, plant materials, infrastructure composite materials, and other fields expected to become primary revenue sources in the future, and the company fortified its business foundation in these fields in preparation for ongoing growth.

Net sales were boosted by contributions from ABS sheet producer Allen Extruders, LLC., of the United States in the plant materials segment and from other newly affiliated companies. Companies in the China and Asia region attracted brisk orders for large-scale projects in the reinforced plastic pipe business in the infrastructure composite materials segment.

Supported by contributions from newly affiliated companies, total overseas sales grew by ¥18.2 billion from a year ago to ¥29.4 billion.

With the objective establishing position for future growth in the pipe restoration business, the company acquired pipeline rehabilitation company Heitkamp, Inc. of the United States in fiscal year 2007.

Sales and operating income by portfolio segment				(Billions of yen)		
Portfolio			FY2006 (result)	FY2007 (result)	FY2008 (plan)	Change (FY2007-FY2008)
Core	Water Supply & Drainage, Building Materials, Home Technologies	Sales	148.0	140.8	143.7	2.9
		Operating income	10.9	4.8	5.1	0.4
Growth	Environment & Civil Engineering (Aged pipe restoration)	Sales	10.5	10.8	17.3	6.4
		Operating income	0.3	0.4	0.8	0.5
Extending	Plant Materials (Sheet Business, etc.), Infrastructure (RCP, FFU, etc.)	Sales	32.5	43.2	45.7	2.4
		Operating income	3.9	5.1	5.1	0.1
Base Reinforcing	Aqua System, Roofing Materials	Sales	20.9	19.9	20.4	0.5
		Operating income	-0.3	0.1	0.3	0.2

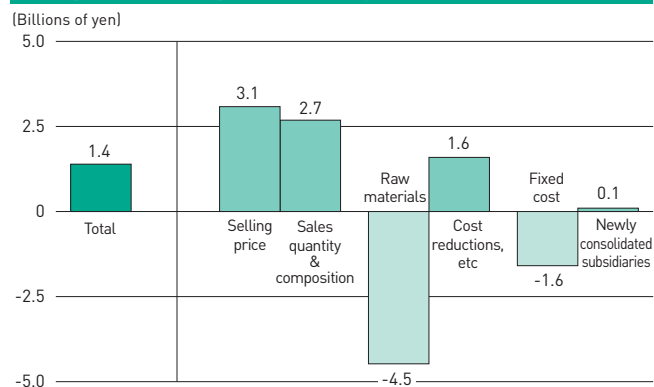
Aggressive plans are also under way to expand overseas production capacity, including commencing production at a second plant at Sekisui Industrial Piping Co., Ltd. in Taiwan in the plant materials segment and a new production facility for fiber-reinforced foamed urethane (FFU) at the Shanghai Plant in the infrastructure composite materials segment.

## Outlook for Fiscal Year 2008

**Net sales growth of ¥11.2 billion to ¥245.0 billion, operating income growth of ¥1.4 billion to ¥7.5 billion**

The key element to reestablishing the growth trajectory for operating income in fiscal year 2008 will be to transfer the certainly impact of

### Forecast Analysis of Operating Income for FY2008 (compared with the previous fiscal year)



the raw material price increases into the product prices of PVC pipes and other core domestic product lines. Measures will also be implemented to accelerate growth strategies, such as to fully realize the synergy effects of overseas M&A in the ABS sheet business and pipe restoration businesses.

In fiscal year 2008, the UIEP Company expects to increase domestic core business sales with new products and on the revival of demand as new housing starts recover from the temporary bottom reached in fiscal year 2007. Joined with ongoing sales expansion overseas, the company aims to raise net sales by ¥11.2 billion to ¥245.0 billion. Various measures, primarily raising product prices and reducing costs, will also be implemented to offset the high raw material prices. Based on these efforts, the UIEP Company is targeting a ¥1.4 billion rise in operating income to ¥7.5 billion for the year.

## Key Strategies for Fiscal Year 2008

### Fortify the Domestic Earning Structure

Until fiscal year 2006, the company generally covered increases in the raw materials prices with corresponding increases in product prices of its PVC pipes and other products commanding high market shares. This mechanism was carried out while maintaining the equilibrium between supply and demand and rises in product manufacturing costs, and received the full understanding of customers. In fiscal year 2007, however, the steep rise in raw material prices and the simultaneous temporary plunge in demand after the adoption of the revised Construction Standard Law not only prevented the company from raising product prices but actually forced prices to be lowered on some products. In fiscal year 2008, the company is concentrating on

### UIEP FY 2008 Plan

	Establishment of profit-earning bases	Exploitation of the "Frontier of Growth"	
		Japan	Overseas
<b>Actions to be taken earliest (2008-2009)</b>	<b>1) Price increase of products</b> • PVC general products <b>2) Promotion of structural reform -Drastic reduction in fixed costs-</b> • Closure and integration of branch offices • Personnel reductions • Reviewing unprofitable businesses	<b>1) Priority actions toward growing businesses and products</b> • Shifting of management resources (human resources & investments) <b>2) Earliest possible start-up of the large-sized products business</b> Fireproof pipe, Phenovaboard Rain gutters with stretched PET sheet, etc.	<b>1) The earliest realization of synergy effect from M&amp;A transactions made in FY2007</b> • Sheeting Business (Allen Extruders, Kleerdex) • Aged Pipe Restoration Business (Heitkamp, Sekisui SPR America.)
<b>Strategic moves for the future (2008-2010)</b>	<b>3) Pursuit of appropriate manufacturing in the entire company.</b> • Core Products Structuring an efficient production system meeting the supply & demand situation. • Growing Products A twofold increase in production line capacity	<b>3) Challenging forward new businesses and materializing such businesses</b> • PFI Business • Stock Business • Rainwater treatment business	<b>2) Reviewing further expansion based on the 3 priority areas</b> • Piping-line restoration (M&A in Europe) • Water environment (emerging countries) • Functional materials <b>3) Enhancing appropriate manufacturing overseas</b> • Realizing the same level of quality as Japan

reconstructing the foundation for systematically shifting increases in raw material prices into its principal general-use PVC products, which have lost much of their earning power and have already commenced price revision negotiations with customers. The degree to which the product price revisions can be matched to the cost increases will largely depend on the supply and demand environment. Nevertheless, the progress that has been made is a sign that the situation is improving.

New residential housing starts plummeted by 250,000 units from the previous year to 1.04 million units in fiscal year 2007. However, the decline in housing starts has already started bottoming. The company anticipates a modest improvement in the supply and demand environment for new residential housing and forecasts recovery to 1.1 million new construction starts in fiscal year 2008. The company will steadily adjust its product prices as the business environment improves.

The UIEP Company believes extensive structural reform is necessary to galvanize its operations for medium and long-term growth, and various measures are being considered, including consolidated the branch office network and reducing staff.

### Opening Growth Frontiers Overseas

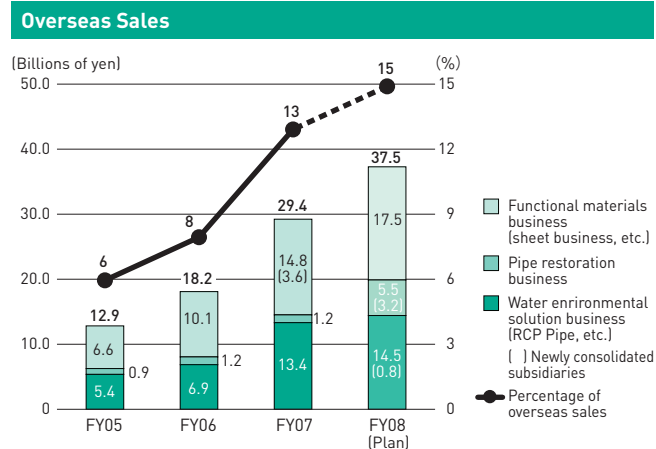
Overseas, the UIEP Company will accelerate business expansion strategies in countries with aging infrastructures where demand is strong for pipe restoration, such as by leveraging the project capacity and sales routes of Heitkamp in the United States, while advancing with full-fledged business development in the European market.

The company expects to finalize the acquisition of German a pipe rehabilitation company Chevalier Pipe Technologies (CPT) GmbH in July this year. CPT maintains nine business bases Western Europe, ten bases in Austria and Eastern Europe, and has operations spanning approximately 40 countries worldwide. CPT provides services across the value chain from pipe inspection and diagnosis through construc-

tion in markets centered on Europe. The UIEP Company also plans to leverage CPT's vast product line-up of pipe rehabilitation technology, which ranges from its specialization in large-diameter pipe rehabilitation to unique small and medium-sized pipe rehabilitation methods, to expand business in Asia and the United States. The acquisition adds production bases in Europe and Australia to the network in Japan and establishes an overseas production network for pipe rehabilitation materials, which will support the acceleration of business growth plans in the pipe rehabilitation industry.

In the reinforced plastic piping business of the infrastructure composite materials segment, the UIEP Company plans to continue the aggressive expansion of its water environment infrastructure operations in developing countries. In the plastic sheet business of the plant materials segment, the company is mapping strategies to expand business in the United States while developing synergy effect of Allen Extruders, LLC., and Kleerdex Company, LLC.

In fiscal year 2008, the UIEP Company is aiming to raise net sales overseas by ¥8.1 billion to ¥37.5 billion.



SPR method, which allows pipe restoration without excavation.



Reinforced plastic compound pipe installation



FFU railroad ties at the rail yard for the Guangzhou subway No.8 line

## HOUSING COMPANY



TEIJI KOUGE, President of Housing Company

## Performance Highlights

	FY04	FY05	FY06	FY07	FY08 (plan)
Net sales (billions of yen)	429.2	427.6	430.5	<b>420.0</b>	428.0
-Housing	352.7	347.7	339.7	<b>326.7</b>	328.0
-Living Environment	76.5	79.9	90.7	<b>93.3</b>	100.0
Operating income (billions of yen)	16.2	14.7	14.3	<b>14.1</b>	20.0
-Housing	15.7	14.5	13.3	<b>11.1</b>	16.0
-Living Environment	0.5	0.2	1.0	<b>3.0</b>	4.0
Operating income ratio (%)	3.8	3.4	3.3	<b>3.4</b>	4.7



## Results for Fiscal Year 2007

Net sales decreased ¥10.5 billion to ¥420.0 billion, operating income decreased ¥0.2 billion to ¥14.1 billion

The Housing Company seeks to develop and provide high performance and high value-added housing products based on its unique unit construction method.

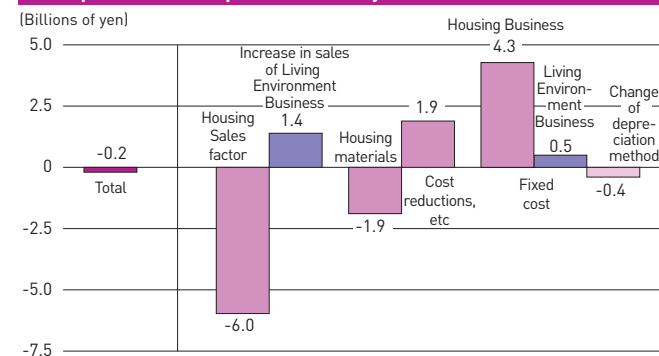
In fiscal year 2007, in anticipation of a shrinking new housing construction market over the long-term, the Housing Company took several steps to improve management efficiency, including restructuring its sales network in the Tokyo, Chubu, and Kinki regions, reducing non-core operation staff, and other strategic measures.

The new home construction business posted a 7-percentage-point decline in housing orders the first half of the year. Uncertainty about

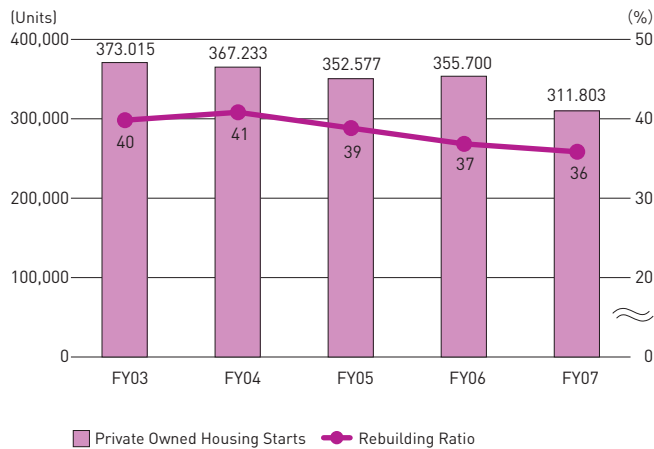
the future direction of interest rates, the consumption tax, and other issues along with concern about the economic outlook, reflected in a declining stock market, led to an overall decline in housing demand, with the steepest drop appearing in rebuilding demand. In addition, orders to the company were further impacted by the temporary deterioration in operating efficiency during the initiation of the regional sales office restructuring. The unfavorable market environment remained unchanged in the second half. However, the company's organizational restructuring almost immediately began producing results as orders recovered in the three regions covered. Coupled with ongoing brisk orders in other regions, the company was able to secure order levels roughly even with the previous fiscal year.

During the year, the Housing Company implemented measures to enhance profitability and to fortify its business base to support ongoing future growth in the living environment business, which is

## Analysis of Operating Income for FY2007 (compared with the previous fiscal year)



### Private Owned Housing Starts and Rebuilding Ratio (in Sekisui Chemical)



designated a growth frontier for the company.

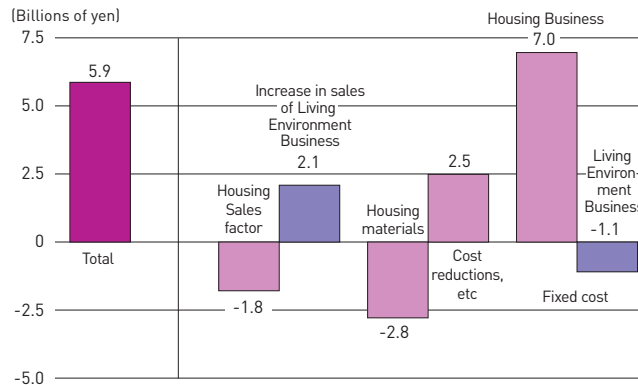
The company also expanded and strengthened the management structure in the refurbishing field and endeavored to expand sales of its feature products, such as its external tiles. The result was growing sales for the Fami S refurbishing business and the real estate business, which conducts apartment leasing and management and existing home sales.

### Outlook for Fiscal Year 2008

**Net sales growth of ¥8.0 billion to ¥428.0 billion, operating income growth of ¥5.9 billion to ¥20.0 billion**

The Housing Company anticipates a harsh environment for the new housing market in fiscal year 2008 as consumers remain apprehensive

### Forecast Analysis of Operating Income for FY2008 (compared with the previous fiscal year)



about the economic outlook amid the still volatile declines in the stock market triggered by the subprime loan crisis and rising commodities prices following the rising oil prices. In recognition of the conditions, the company plans to take further steps to create a more efficient management structure in the housing operation.

The Housing Company's fixed costs began to decrease in fiscal year 2007 as the company moved ahead of the industry to enhance operating efficiency. These measures are expected to contribute to improving income flow in fiscal year 2008.

In the living environment business, the company plans to fully leverage its reinforced operating base to aggressively expand sales.

The Housing Company expects these efforts to enable attainment of net sales of ¥428.0 billion and operating income of ¥20.0 billion in fiscal year 2008.

### Innovative Unit Technology



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



Swift on-site assembly completed in just one day

## Key Strategies for Fiscal Year 2008

### Utilize the new sales structure to increase orders and improve operating efficiency

In fiscal year 2008, the Housing Company expects demand to remain centered on first-time homebuyers. Demand is expected to be strong for new construction housing, particularly for detached housing, as demand from second-generation baby boomers moves into its peak period. Meanwhile, there appears to be widespread latent demand in the rebuilding market, but there are as yet no indications that it is ready to emerge as real demand.

Based on this scenario, the Housing Company will spearhead its product strategy with launches of “products with tangible cost performance” priced to attract first-time homebuyers. The company plans launches of the Heim bj new in April, Grand to You WS in May, Crescasa in October, and other products designed to strengthen

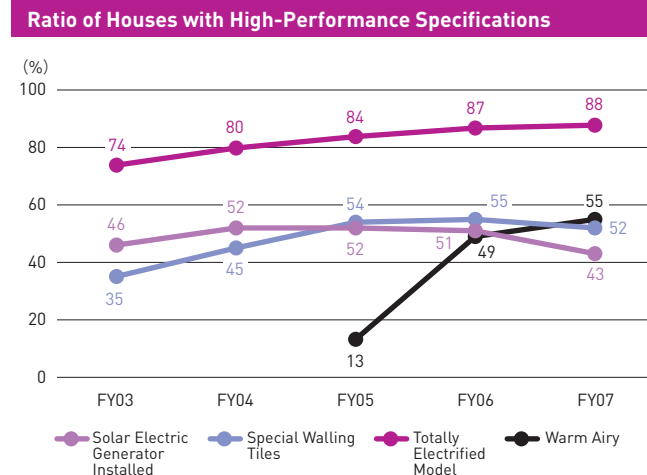


Launch of bj new, a new housing product for first-time buyers with realizing cost performance

its product lineup in the price-volume zone.

At the same time, the company aims to attract growing orders by realizing the benefits of its reorganized wide-area sales network and further strengthening its local community-based sales systems. To draw out rebuilding demand, the reorganized sales system covering the Tokyo, Chubu, and Kinki regions will be used to effectively market its high-performance housing products, including the Zero Utility Cost Houses, Life Cycle Cost (LCC) external walls, and Warm Airy technology (whole-house heating system). The company will also leverage its dedicated sales structures strengthen its marketing activities and competitiveness for housing complexes, built-for-sale housing, the Two-U wooden frame houses, and other products.

In regions other than Tokyo, Chubu, and Kinki, the company will begin establishing community-based operating systems. An integrated sales and production structure has already been established in Hokkaido, and a similar operating structure will be launched in



Kyushu in October. Full system integration from development and production to sales and after-sale services promotes the development of products catered to local needs and facilitates expeditious deployment of staff. In these areas, the company will continue to proactively market its housing products, particularly products within the price-volume zone, with the aim of continuing the order growth momentum begun in the second half of fiscal year 2007.

The Housing Company is targeting raising housing orders by 3% in the first half and 2% in the second half with a target of a 2% year on year increase in orders for the full fiscal year 2008. Fulfilling these targets would increase net sales in the second half and amass an order backlog heading into the next fiscal year. Coupled with the expected contribution of reduced fixed costs from the upgraded operating efficiency completed in fiscal year 2007, the company aims to raise housing business net sales by ¥1.3 billion year on year to ¥328.0 billion and operating income by ¥4.9 billion to ¥16.0 billion.



Zero-utility-cost house (Photovoltaic generation systems installed house)

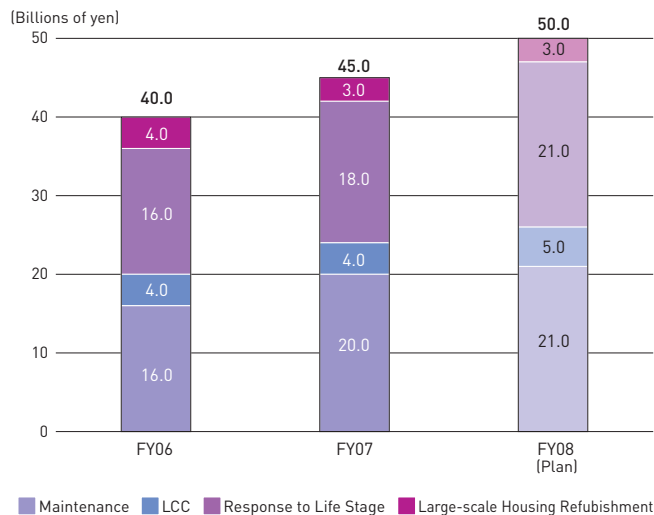
### Living Environment Business Growth Strategy

In the living environment business, which focuses on reform of residential houses, Housing Company aims to expand its business using a business model hinging on its existing customer base. Utilizing its owner information management system for high-performance industrialized housing, the living environment business implements its long-term diagnostic system to follow up home product sales with periodic diagnostic testing every five years. This system provides insight into the changing and evolving needs of occupants as they progress through stages of life. This information will be applied to enhance the company's ability to offer attractive products and services with the aim of increasing orders and unit sales. Specific product promotions will include Ecpack Reform, a package of heat insulation sash products, solar power generation equipment, and other environ-

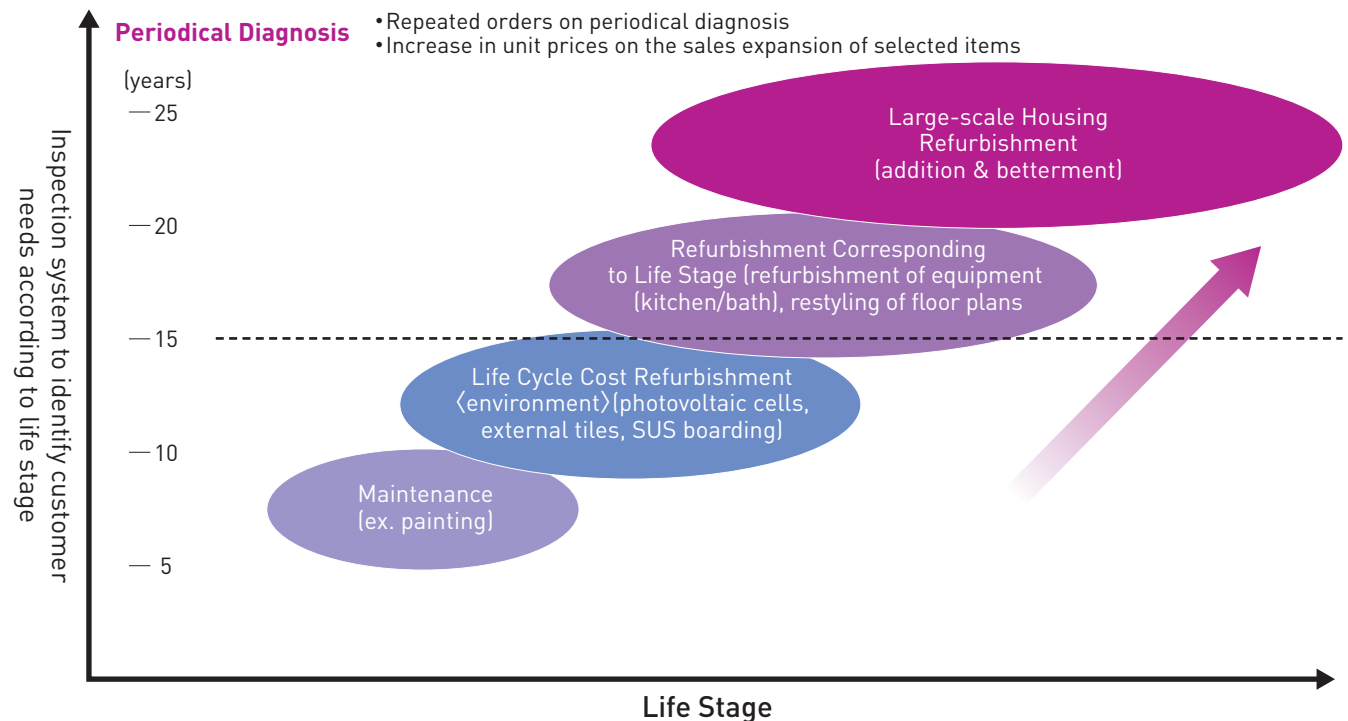
ment-related products. Staff is also being increased to enhance the operation's competitive strength, with approximately 100 new management staff added in fiscal year 2007 and plans for 50 new staff positions to be added in the refurbishing business in fiscal year 2008.

Based on these initiatives, the Housing Company aims to raise living environment business net sales to ¥100.0 billion and operating income to ¥4.0 billion in fiscal year 2008.

#### Sales trend of the selected sales materials



#### Business Model for highly profitable Stock-Refurbishing Business



Utilizing the information management system on tenants is only possible in industrialized housing

**CORPORATE DATA**



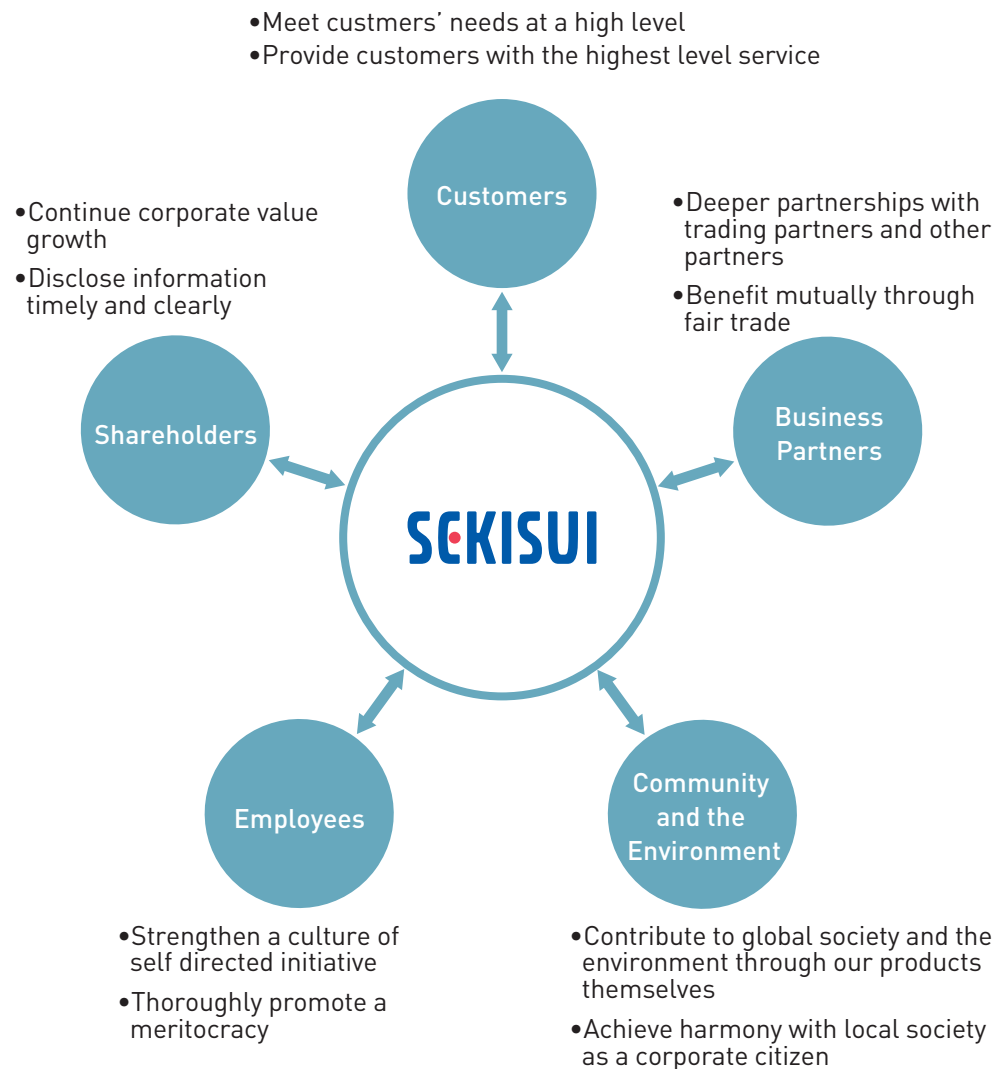
## CORPORATE PHILOSOPHY

## Create social value while fulfilling stakeholder expectations

The Sekisui Chemical Group aims to be a “good” company with a positive image and sustaining business growth.

We aim to grow our business based on satisfied customers and maximize corporate value and to fulfill the expectations of our shareholders. We support the self-fulfillment of our employees, who are the main component in our corporate activities, and seek to deepen our relations with our client and partner companies. Through our business, products and social contributions, we support local communities and the earth’s environment fully aware that we play a part in the legacy we will leave to future generations.

We at the Sekisui Chemical Group will continue to grow as a prominent and highly profitable corporation while striving to meet the expectations of our five groups of stakeholders: customers, shareholders, employees, business partners, community and the environment.



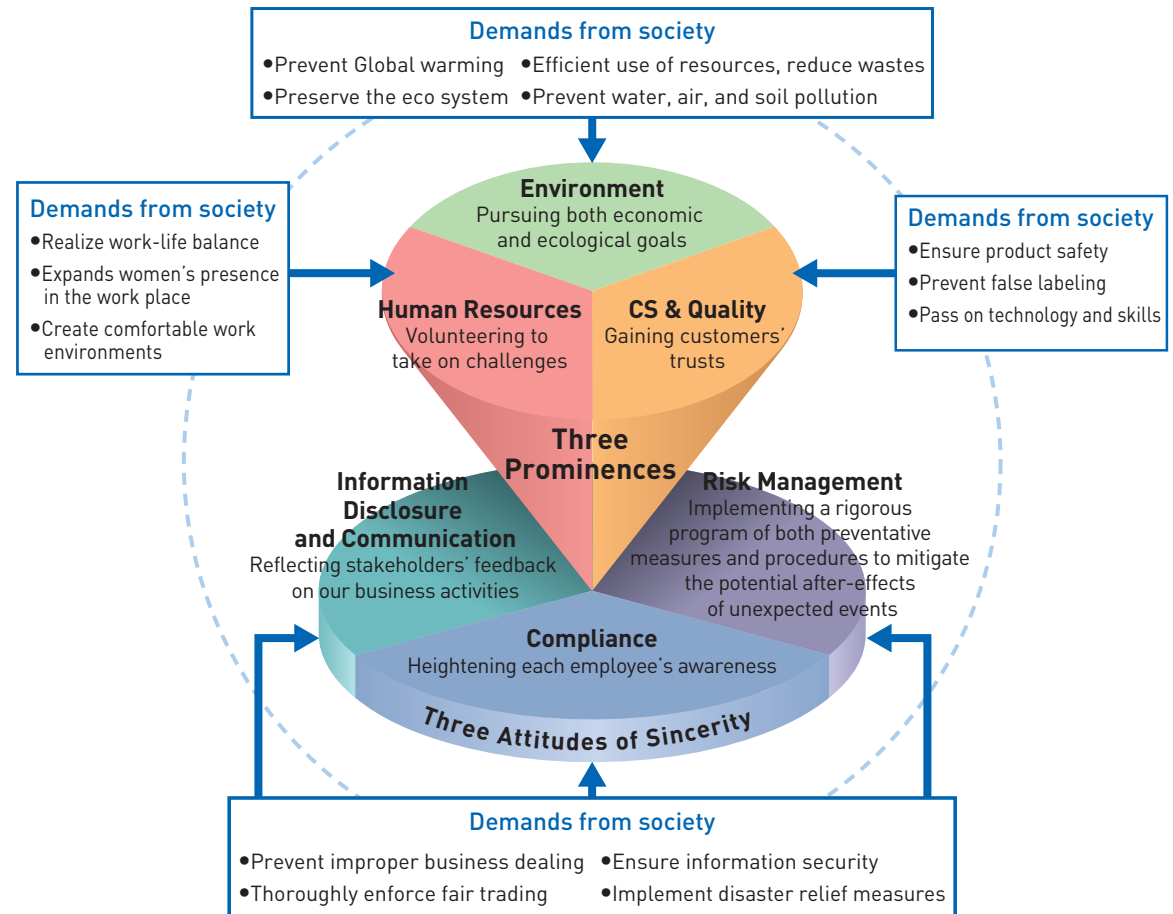
## CSR (Corporate Social Responsibility)

### The Sekisui Chemical Group promotes CSR as a management priority

CSR is an important part of realizing the Sekisui Chemical Group corporate philosophy of “creating social value while fulfilling stakeholder expectations” and in fiscal year 2005, we began full-fledged CSR management activities.

The Sekisui Chemical Group’s CSR philosophy features a unique blend of our three “prominences” and three “attitudes of sincerity”. We utilize our corporate prominences, our fields of specialty and strengths, to be a leader in society where we can apply our business activities to emphasize the environment, quality and customer satisfaction, and human resources to contribute to society. While using our products and services to contribute to society and preserve the natural environment, we also believe it is important to play a role in creating a better society and resolving issues that affect the environment. We realize that this role is fulfilled first and foremost by our employees. Human resources are one of our prominences because we believe people have unlimited hidden potential, and we want draw out that potential and encourage its growth.

Our CSR management is also promotes Attitudes of Sincerity based on three essential elements for a company to remain successful; these are compliance, risk management, and disclosure and communication. In applying our CSR Management, we endeavor to maintain frequent and open dialog with our various stakeholders, to understand social issues, and to be aware of the expectations of society in our company and the Sekisui Chemical Group as we seek to provide new values to society through our various business activities. We will continue to develop and evolve our CSR management as we respond to social needs and join with our stakeholders in contributing to creating a better society.



### Inclusion in socially responsible investment indices (as of March 2008)

Sekisui Chemical Group companies are included in several socially responsible investment (SRI) indices and funds. CSR is a fundamental part of our management philosophy, and we will continue striving to earn high evaluation of our CSR activities.



Dow Jones  
Sustainability Index



FTSE4Good



Morning star socially  
Responsible Investment Index

The Sekisui Chemical Group considers the environment one of its prominences and incorporates measures to preserve the environment and prevent global warming in every aspect of its corporate activities.

### CO<sub>2</sub> emissions reduction efforts

Japan has committed to reduce its greenhouse gas emissions by 6% compared to 1990 level during the First Commitment Period of the Kyoto Protocol. The Sekisui Chemical Group has committed to a tighter target of reducing our CO<sub>2</sub> emissions from energy generated at the production stage by 10% in fiscal 2010. To attain this goal, we are introducing cogeneration systems and other energy saving equipment as well as emission-free photovoltaic energy generation systems to reduce the CO<sub>2</sub> emissions throughout our operations.

The Development Bank of Japan has conferred on us the highest environmental ranking in recognition of our environmental policies, including our capital investment promotion measures to reduce CO<sub>2</sub> emissions.

#### CO<sub>2</sub> Reduction Progress (vs. FY1990)



### Global warming prevention through our products

At the Sekisui Chemical Group, we are working to not just reduce the environmental impact of our production stage operations but to contribute to reducing the environmental impact of our customers and society as a whole through the development and marketing of Environment-contributing Products.

As of the end of fiscal 2007, products and services in the environment-contributing products category, including the Zero Utility Cost House, amounted to 34 items, equivalent to 15% of consolidated sales. As an example of how our products can support the emissions reduction from communities, our improvements in home heat insulation and air-tightness functions and sales of our Eco Cute and photovoltaic generation systems cumulatively reduce residential CO<sub>2</sub> emissions by 118,000 tons annually. We plan to continue to aggressively expand our lineup and sales of environment-contributing products.

#### Examples of Environment Contributing Products



Zero utility cost house that utilize highly efficient appliances and photovoltaic energy systems to reduce CO<sub>2</sub> emission volume

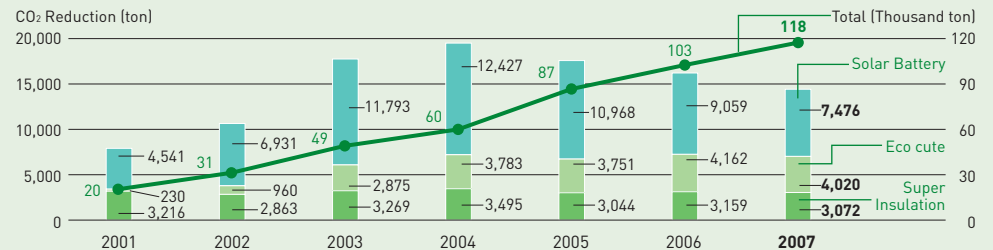


A sewage pipe renewal (SPR) system that reduces waste by eliminating the need to open new trenches in roads



A Solar Control Interlayer Film that blocks infrared (heat) radiation and thereby improves the efficiency of air conditioners

#### Residential CO<sub>2</sub> Emissions Reduction



### Nature conservation activities and support of future generations

The Sekisui Chemical Group is implementing forest preservation initiatives to utilize the CO<sub>2</sub> absorption function of forests. In fiscal 2007, these activities include the 10-year plan to plant about 5,000 trees for the Sekisui Chemical Forest in Wakayama Prefecture, Japan.

Our activities also include working to raise understanding and awareness of global warming prevention among children, who will be the leaders in future society. In 2007, we hosted several educational events, including the Global Children's Eco Summit and the Manufacturing Based on Learning from Nature, Junior Forum 2007. We look forward to hosting and sponsoring many more fun and educational events in the future.

For further details on the Sekisui Chemical Group's CSR activities, please see Sekisui Chemical Group CSR Report 2008.

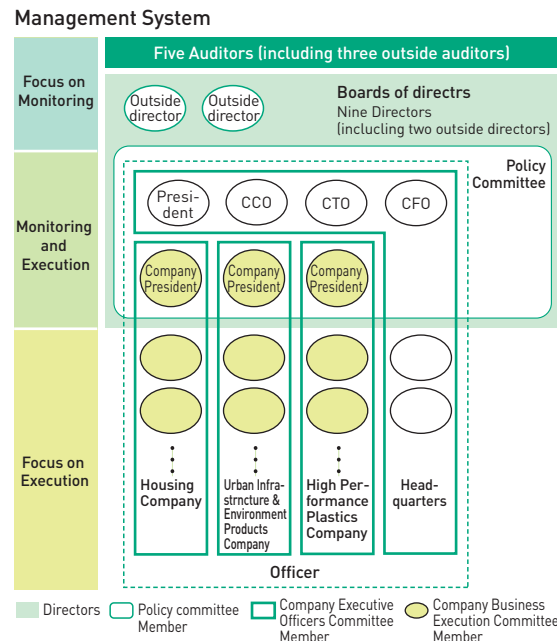
<http://www.sekisuichemical.com/csr/index.html>

## CORPORATE GOVERNANCE

The Sekisui Chemical Group has revised its corporate governance system, including introducing external board members and corporate executive officers, to further enhance its business transparency and fairness and to speed up its ability to respond to business opportunity. In addition, the Group implements various programs to heighten the compliance awareness and understanding of all executives, officers, and employees throughout the Group 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 designed 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 our corporate governance system, including strengthening the Board of Directors and Business Execution Function.



### Reorganization of the Board of Directors

The Board of Directors oversees and guides the company's management in the establishment of company's fundamental policies, management judgment, and business execution. The Board includes independent, external Directors to ensure full transparency and fairness in business decisions and operations. To expedite business decisions, the number of Directors has been reduced from 21 to nine.

#### Introduction of External Directors

Two External Directors have been appointed to the Board to provide advice and oversight based on their extensive administrative experience and specialized knowledge. Their presence and guidance will provide supportive perspective to the Group's endeavors, including the global development strategy in the GS21-Go! Frontier medium-term management vision, the reestablishment of the core domestic business, and the strengthening of compliance management.

### Strengthened Business Execution Function

We introduced the Corporate Officer System to separate the auditing (directors) and business execution (corporate officer) functions in April 2008 to speed up response to the changing business conditions for each company in the Group.

#### Introduction of the Corporate Officer System

The Corporate Officer System establishes the position of Corporate Officer to focus solely on business execution with the aim of realizing quick response business opportunities. Each Group company is establishing a Corporate Officers Committee to be the company's highest decision-making body and is delegating substantial authority previously carried by the Board of Directors to the Corporate Officers Committee.

Corporate Officers will be appointed by decision of the Board of Directors and will serve for one year.

## Audit System

The Group has built several auditing roles into the fundamental framework of its management and operation monitoring processes. The audit system is constructed to promote coordinated activities of corporate auditors and internal auditors as an additional step to audit accuracy and effectiveness.

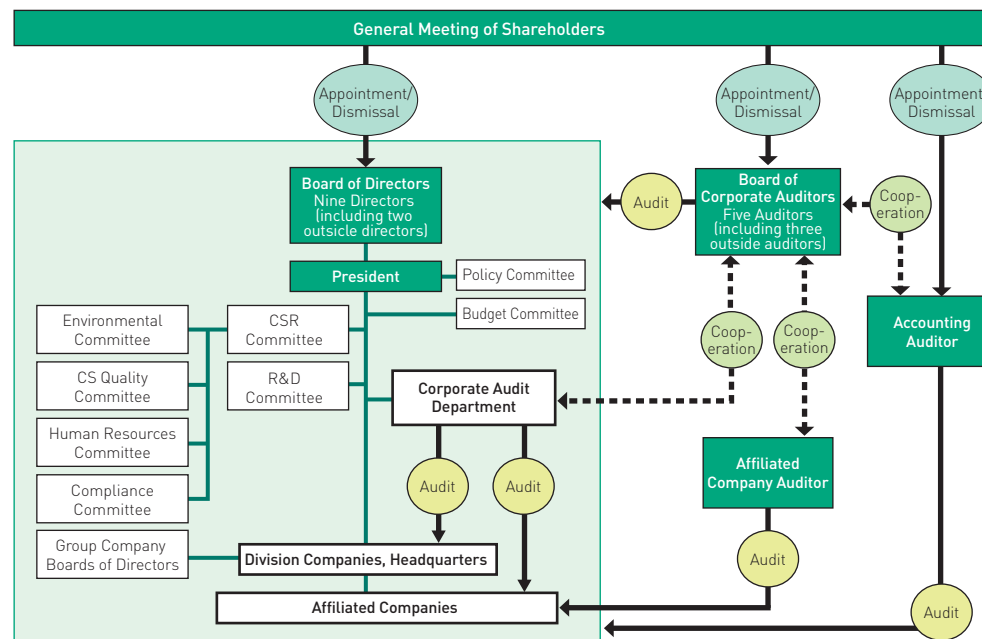
The Board of Corporate Auditors comprises five auditors (including three external auditors) conducting broad audits of the execution of duties by the Board of Directors, all division companies, and headquarters.

## Reinforcement of the Internal Control System

In May 2006, the Board of Directors resolved to establish a fundamental policy regarding the construction of an internal control system for ensuring the appropriateness of our business activities. Based on the Group management principles set forth in the Corporate Activity Guidelines, the system establishes close interconnection of the supervision, directives, and communications of the Sekisui Chemical Group companies and charges Sekisui Chemical with the duty to lead, advise, and evaluate the Group companies to ensure appropriate business activities by all Group members.

To further fortify the Group's compliance activities, the CSR Committee headed by president deliberates the Fundamental Compliance Policies with authorization of the Board of Directors. We have also established the position of Chief Compliance Officer (CCO) to act as committee chair, to plan education, training and other compliance-related activities and measures. The system is intended to reinforce our overall compliance activities and further emphasize compliance as a fundamental aspect of our corporate culture.

Corporate Governance System



DIRECTORS, AUDITORS AND OFFICERS



**Naotake Okubo**  
President

**Takayoshi Matsunaga**  
President of High Performance  
Plastics Company

**Yoshiyuki Takitani**  
President of Urban Infrastructure &  
Environmental Products Company

**Teiji Kouge**  
President of Housing Company

**BOARD OF DIRECTORS**

- Naotake Okubo**  
President and Chief Executive Officer
- Takayoshi Matsunaga**  
Director and Senior Managing Executive Officer
- Tetsuji Izu**  
Director and Senior Managing Executive Officer
- Yoshiyuki Takitani**  
Director and Senior Managing Executive Officer
- Ken Yoshida**  
Director and Senior Managing Executive Officer
- Naofumi Negishi**  
Director and Senior Managing Executive Officer
- Teiji Kouge**  
Director and Managing Executive Officer
- Shigemi Tamura** [Outside Director]  
Advisor  
Tokyo Electric Power Company
- Toru Tsuji** [Outside Director]  
Senior Corporate Advisor  
Marubeni Corporation

**CORPORATE AUDITORS**

- Masashi Takai**
- Eiji Manshou**
- Noriaki Kano** [Outside Auditor]  
Professor Emeritus at Tokyo University  
of Science
- Tadashi Kunihiro** [Outside Auditor]  
Attorney at Law
- Tamio Morimoto** [Outside Auditor]  
Certified Public Accountant

**CORPORATE OFFICERS**

**Naotake Okubo**  
Chief Executive Officer

**Housing Company**

**Teiji Kouge**

Managing Executive Officer  
President of Housing Company

**Hidemi Uno**

Managing Executive Officer  
Responsible for Technology  
Head of Technology Department  
Head of International Business Promotion Group

**Keiji Kobayashi**

Managing Executive Officer  
Responsible for Sales Division  
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.

**Toshiroh Takeda**

Executive Officer  
Head of CS Promotion & Quality Assurance  
Department

**Kazumasa Murakami**

Executive Officer  
President of Sekisui Heim Kyushu Co., Ltd.  
President of Sekisui Fami S Kyushu Co., Ltd.  
President of Kyushu Sekisui Heim Real Estate Co., Ltd.

**Shunichi Sekiguchi**

Executive Officer  
Head of Living Environment Division  
Head of Diversified Business Group

**Urban Infrastructure & Environmental Products Company**

**Yoshiyuki Takitani**

Senior Managing Executive Officer  
President of Urban Infrastructure & Environmental Products Company

**Yoshikazu Marushita**

Managing Executive Officer  
Responsible for Overseas Operation and Composite Products & Materials Division

**Tatsuo Sudou**

Executive Officer  
Responsible for Sales and Housing Materials & Equipment Business

**Kozo Takami**

Executive Officer  
Responsible for Civil Engineering Systems Division and Wood Business Promotion Department

**Yasuo Yamabe**

Executive Officer  
Responsible for Research & Development  
Head of Industrial Pipes & Materials Division

**Masaru Teramae**

Executive Officer  
Head of Technology & CS Promotion Department

**Torao Ishii**

Executive Officer  
Head of Building Materials Business

**Takao Miyake**

Executive Officer  
Head of Water Supply & Drainage System Division

**High Performance Plastics Company**

**Takayoshi Matsunaga**

Senior Managing Executive Officer  
President of High Performance Plastics Company

**Yuji Enatsu**

Managing Executive Officer  
Responsible for Automotive Related Business Units  
Head of International Business Department

**Toshio Uesaka**

Managing Executive Officer  
Responsible for BD Related Business Units

**Mutsumi Fukuda**

Executive Officer  
Responsible for Medical Related Business Units  
Head of Medical Products Division  
President of Sekisui Medical Co., Ltd.

**Akira Nakasuga**

Executive Officer  
Responsible for Research & Development

**Takeshi Inoue**

Executive Officer  
Responsible for IT Related Business Units  
Head of New Business Promotion Division

**Hajime Kubo**

Executive Officer  
Head of Administrative Management & Control Department  
Head of General Affairs & Human Resources Department

**Keita Kato**

Executive Officer  
Head of Interlayer Film Division

**Headquarters**

**Tetsuji Izu**

Senior Managing Executive Officer  
CCO  
Responsible for External Relations Department  
Head of CSR Department

**Ken Yoshida**

Senior Managing Executive Officer  
CTO  
R&D Center Head

**Naofumi Negishi**

Senior Managing Executive Officer  
CFO  
Responsible for Corporate Communication Department  
Head of Corporate Finance, Accounting and Planning Department

**Hideo Tagashira**

Senior Managing Executive Officer  
Head of Business Planning Department

**Kiyotaka Tsuji**

Executive Officer  
Head of Legal Department

## RESEARCH & DEVELOPMENT / INTELLECTUAL PROPERTY

The Sekisui Chemical Group is fortifying its earning power and cultivating growth businesses by promoting the innovations achieved in the pursuit of prominence. 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 Group pursues development of advanced technologies not only through in-house development but also through collaboration with academia, as well as business alliances. We are engaged in a wide spectrum of R&D from basic research to production management technologies in core areas determined by each of the three division Companies to generate groundbreaking products that will stimulate potential customer needs.

We established the headquarters-controlled R&D Planning Group in the R&D and Technology Center to fortify our capabilities to anticipate and plan development of the next-generation technologies that will create new business fields for the Group. In addition, the R&D and Technology Center's Product Development Innovation Center is focused on promoting and strengthening product development, the fundamental activity of a manufacturer. The center acts as a collection center for production technologies and promotes the introduction and full application of these technologies at the production site. Specifically, the center aims to elicit the full potential of innovative ideas by planning the improvement of technological capabilities at production sites and dispatching quality, industrial, and value engineering specialists to implement the strategies.

We are working to establish this system, which firmly centers the development of prominent products on a framework of respect for the customer (zero quality defects and claims), respect for the employee (zero accidents) and respect for the environment (zero waste), as our fundamental business model.

#### Company R&D Details and Cost

The Sekisui Chemical Group engages in a wide spectrum of R&D utilizing cutting-edge technology from basic research and applied technology to new business creation and development focused on achieving the individual objectives of each of the Housing, Urban Infrastructure & Environmental Products, and High Performance Plastics division Companies.

In fiscal year 2007, the Group invested ¥25,739 million in R&D. The details and cost of the R&D activities for each division are the following.

##### 1. Housing Company

The Housing Company's mission is to provide environment-friendly housing that can be lived in safely and comfortably for at least 60 years. Based on this policy, in the new housing construction field, the Company develops new products and fundamental technologies for steel-framed and wooden-framed unit houses, and in the refurbishing field develops refurbishing technology and products to strengthen existing housing structures.

In fiscal year 2007, the Housing Company introduced the Domani Comfatic new line of steel-framed unit housing featuring a pillarless design and attic space converted into an extra room, the compact three-story Desio BR featuring the new bioresist external wall and a skip tower rising up to six floors, the Parfait Master Design 2.0 offering a higher level of air-tightness and heat-insulation for the Parfait line of energy-saving homes, as well as the Letoit 07 Model group home housing complex designed specifically to meet rental occupant needs. The company also developed and launched the GAIASS hybrid seismic absorption system for enhancing home earthquake resistance. The 2x6 constructed wooden frame "Grand Toyou Piache" unit housing featuring a factory-assembled first-floor tile wall and second-floor timber wall with a panorama court.

In the refurbishing field, the Housing Company expanded its menu of products designed to meet homeowner needs with the launch of a solar power generation system for the Toyou home line, the development of a retrofit Warm Factory (under-floor heat storage system), and a line of compact sanitary refurbishment products.

The Housing Company utilized ¥4,586 million for R&D expenses in fiscal year 2007.

## 2. Urban Infrastructure & Environmental Products

The Urban Infrastructure & Environmental Products (UIEP) Company develops new piping and housing material products via cooperation between the UIEP's Kyoto Research & Development Laboratory and each of its business segments. The Kyoto Laboratory and new business project groups also conduct R&D and commercialization viability research for new business creation.

R&D achievements in fiscal year 2007 in the water supply systems business included the successful development of the world's first fire-resistant PVC pipe, which was introduced as a commemorative product celebrating the 55th year of the Eslon Pipe. This innovative technology was also the basis for the development and marketing of the all-plastic, fire-resistant Eslon VP and fire-resistant pipe joints. The company plans to expand its product range to include water drainage and air vent pipes for office buildings, apartments, and other large-scale structures.

In the plant materials business, the company commenced operations of a new production facility for industrial pipe materials and valves at the Taiwan plant and began marketing activities. The company is expanding its line-up of products to meet growing worldwide demand for new facilities in the IT-related devices field and the chemical and sewage treatment plant fields.

In the urban infrastructure composite materials business, the company increased its production capacity in the Chinese market with the construction of new production line for fiber-reinforced foamed urethane (FFU) at Xinjiang Yongchang-Sekisui Composites Co., Ltd., in Shanghai and commenced deliveries of sleepers for use in subway railway systems.

In the environmental civil engineering systems (pipe restoration) operation, the company continued development of new PVC materials, lining profiles, and winding devices to meet the widening range of market needs. Development and marketing also continued for the company's Sewage Pipe Renewal (SPR) method for reinforcing underground pipe infrastructure and for a high-speed winding system to shorten the time required for pipe restoration operations.

In the housing materials business, the company launched sales of the phenol foam high-performance insulation material Phenova Board as a special commemorative product in celebration of the 50 years in the construction materials business. The company is developing thermal insulation products for both the housing and non-housing construction markets with the aim of establishing the operation as the third business pillar with the rain gutter and exterior products businesses. The company also developed a low expansion and contraction all-resin rain gutter for large non-housing structures.

In new business fields, the company began market development for condensation preventive materials for various applications, such as electric power distribution panels. New products developed and marketed during the year included the Geo-REX, a compact, lightweight and high-precision heavy metals measuring device, and "ROBARIER", a humidity controlling substance developed from the company's unique inorganic carbon material technology.

The UIEP Company utilized ¥5,669 million for R&D expenses in fiscal year 2007.

## 3. High Performance Plastics Company

The High Performance Plastics (HPP) Company promotes the concerted development of new products, materials and production technologies in the areas of high-performance materials, molding/processing products, and medical-related products through coordination between each of its business segments and the HPP Company's Research & Development Institute.

Key R&D activities in the electronics materials operation in fiscal year 2007 included substantial progress in the development of adhesive sheet for semiconductor chip applications and steady advances in the heat-resistant Selfa back grind tape for the semiconductor solutions business. In materials for liquid crystal displays (LCD), the Company introduced optical film for LCD TVs and continued development of new spacers usable in new LCD TV production methods and new sealants for non-LCD display applications. New medical-related products released during the year in the three focus segments of infectious diseases, blood clotting, and diabetes in the diagnostic agents field. The company also received manufacturing approval for the medical industry's only diagnostic agent for oxidized low-density lipoprotein (LDL), which is an important indicator of coronary health risk.

In the pharmacokinetic research business, which provides comprehensive drug development support operations for pharmaceutical companies, the company commenced Japan's first Good Laboratory Practices (GLP) compliant nuclear receptor analysis service supporting diagnostic drug R&D for adult-onset diseases and similar disorders.

In the automotive materials field, the company applied its unique extrusion manufacturing process to develop and market a better looking foam with increased molding and processing capabilities and continued making steady progress toward developing a noise-insulation interlayer film suitable for the increasingly larger surface areas of automobile windshields. In the functional building materials field, the company marketed a photovoltaic sealant film and is drawing steady demand for its growing line of products.

The HPP Company utilized ¥11,355 million for R&D expenses in fiscal year 2007.

#### 4. Other Businesses

The core R&D facility for the Other Business segment is the R&D and Technology Center New Business Office (NBO), which conducts R&D and development for new business directions. The NBO's P2 Business Promotion Department is conducting business development centered on applications for atmospheric pressure plasma surface treatment systems for film, which is rapidly becoming a standard technology in various manufacturing processes for large flat panel display substrates. The department is examining and assessing numerous etching, ashing, and other cleaning methods for applications in dry cleansing and specialized surface treatment processes. The Business Promotion Department is focusing on development of unique materials centered on cutting-edge IT and energy-related materials and has submitted several new materials to clients for trial assessment.

Other Businesses utilized ¥4,127 million for R&D expenses in fiscal year 2007.

#### Development of human resources and benefits related to R&D

The Group has established the Great Invention Award to acknowledge researchers and engineers that have created highly unique & 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.

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 2008, 34 people hold specialist positions.

#### High Growth Business Fields x Enhancement and Application of Technologies x Core Technologies = Creation of Premium Businesses

High Growth Business Fields	Methods for Strengthening Technology and Promoting its Application	Core Technologies
Energy conserving/ generating housing Refurbishing	Utilization of unit construction technology <ul style="list-style-type: none"> <li>•Incorporating LCC and environment-friendly concepts in new house proposals</li> <li>•Presenting housing performance by simulation technologies</li> <li>•Improving design, planning and installation capability in refurbishing</li> <li>•The unit-home reuse system</li> </ul>	<b>Housing Company</b> <ul style="list-style-type: none"> <li>•Environmentally-conscious technology</li> <li>•Building structure, method technology</li> <li>•Production, installation technology</li> <li>•Refurbishing, remodeling technology</li> </ul>
High-performance pipes/ building materials Environmental solutions Comprehensive piping solutions	<ul style="list-style-type: none"> <li>•Sophistication of function and system</li> <li>•Development of environmentally-conscious products</li> <li>•Development of low-cost installation technology</li> </ul>	<b>Urban Infrastructure &amp; Environmental Products Company</b> <ul style="list-style-type: none"> <li>•PVC, olefin materials, molding technology</li> <li>•Piping diagnostics and aged pipe restoration technologies</li> <li>•Recycle and reuse technology of wood and plastics</li> <li>•Composite material technology</li> <li>•Water circulation technology</li> </ul>
Automotive materials (AT) IT-related materials (IT) Medical products (MD)	<ul style="list-style-type: none"> <li>•Proposal of technological solutions with technology package</li> </ul>	<b>High Performance Plastics Company</b> <ul style="list-style-type: none"> <li>•Fine particle technology</li> <li>•Precise molding technology</li> <li>•Adhesion control technology</li> <li>•Body composition analyzed technology</li> </ul>
Semiconductor manufacturing equipment-related	<ul style="list-style-type: none"> <li>•Innovation of semiconductor manufacturing process</li> </ul>	<ul style="list-style-type: none"> <li>•Atmospheric-pressure plasma</li> </ul>

## 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 Group's growth and revenues and contributes to optimizing corporate value. Intellectual property strategy is vital to the group because it maximizes our technological prominence. In the Principles on Intellectual Property formulated in March 2005, the Group clearly stated that the objective of our intellectual property management is to contribute to our growth and to increase our corporate value through encouraging the creation, protection, and utilization of intellectual property, which should 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 underpinned by our fundamental policy of ensuring business competitiveness by acquiring highly beneficial patents.

We also are continuing to aggressively implement the company-wide Intellectual Property Management Midterm Plan adopted in February 2006. The plan is based on three fundamental guiding principles: 1) conducting prior evaluation of the competitiveness of large-scale research themes through patent information studies, 2) acquiring highly beneficial patents as a source of business competitiveness, and 3) conducting thorough inventory of overseas rights, increasing the number of new patent applications overseas, and developing intellectual property policies tailored to each region to prevent technology leakage. We are aiming to fulfill these objectives in fiscal year 2008, the plan's final year.

### Framework promoting the intellectual property strategy and major activities

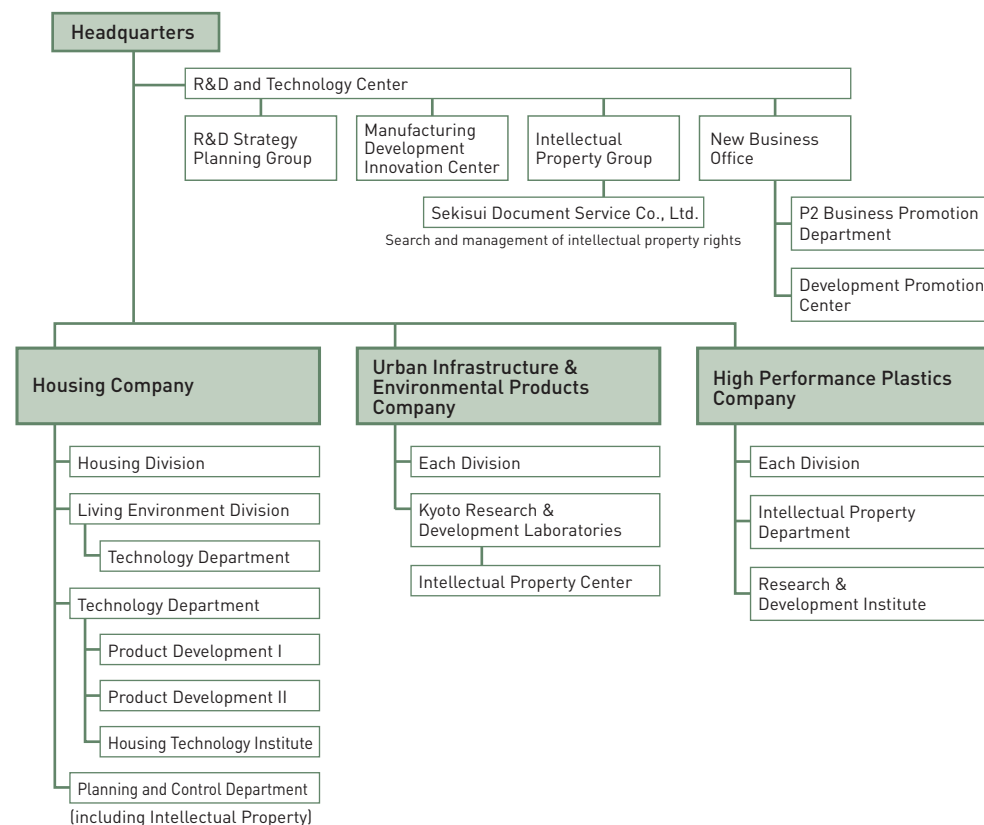
The Group advances a uniform intellectual property strategy through intellectual property divisions at the headquarters and each division Company, at all levels from the planning of basic strategy to the acquisition, management, and utilization of patents.

Each Company's intellectual property and R&D divisions hold periodic Intellectual Property Strategy Review Committee meetings to review the orientation of its individual intellectual property strategies. In addition, the Intellectual Property Group at the headquarters supports each 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 our global business.

### R&D and Intellectual Property Management System



**MAJOR CONSOLIDATED SUBSIDIARIES AND AFFILIATES** (As of March 31, 2008)

**Consolidated Subsidiaries**

		Capital	Percentage of Shares Held	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%	Construction of unit housing and real estate sales
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 Chugoku Co., Ltd.	Japan	JPY300 million	100.0%	Construction of unit housing and real estate sales
Shikoku Sekisui Heim Co., Ltd.	Japan	JPY100 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
Gunma Sekisui Fami S 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 Chugoku Co., Ltd.	Japan	JPY30 million	100.0%	Expansion and refurbishment of unit housing
Shikoku Sekisui Fami S Co., Ltd.	Japan	JPY10 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%	Sales of interior design plans
Sekisui Exterior Co., Ltd.	Japan	JPY50 million	100.0%	Construction of building exteriors
Sekisui Heim Real Estate Co., Ltd.	Japan	JPY200 million	100.0%	Real estate brokerage and apartment leasing & management

**Consolidated Subsidiaries**

		Capital	Percentage of Shares Held	Activities
Gunma Sekisui Heim Real Estate Co., Ltd.	Japan	JPY10 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
Sekisui Estate Chugoku 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
Kitanihon Sekisui Industry Co., Ltd.	Japan	JPY100 million	100.0%	Production and sales of materials for unit housing
Higashinihon Sekisui Industry Co., Ltd.	Japan	JPY100 million	100.0%	Production and sales of materials for unit housing
Kanto Sekisui Industry Co., Ltd.	Japan	JPY100 million	100.0%	Production and sales of materials for unit housing
Tokyo Sekisui Industry Co., Ltd.	Japan	JPY300 million	100.0%	Production and sales of materials for unit housing
Chubu Sekisui Industry Co., Ltd.	Japan	JPY100 million	100.0%	Production and sales of materials for unit housing
Kansai Sekisui Industry Co., Ltd.	Japan	JPY300 million	100.0%	Production and sales of materials for unit housing
Chugoku Sekisui Industry Co., Ltd.	Japan	JPY100 million	100.0%	Production and sales of materials for unit housing
Nishinihon Sekisui Industry Co., Ltd.	Japan	JPY100 million	100.0%	Production and sales of materials for unit housing
Sekisui Board Co., Ltd.	Japan	JPY100 million	100.0%	Production and sales 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

**Urban Infrastructure & Environmental Products**

Sekisui Aqua Systems Co., Ltd.	Japan	JPY200 million	78.9%	Production, processing and sales of water supply and drainage systems for industrial plant construction and water tanks
Sekisui Aqua Tec Co., Ltd.	Japan	JPY30 million	78.9%	Assembly and sales of panel-tanks and water tank maintenance
Vantec Co., Ltd.	Japan	JPY600 million	100.0%	Production and sales of piping and injection molded products
Teibutsu Co., Ltd.	Japan	JPY20 million	100.0%	Sales of molded resin products
Sekisui Home Techno Co., Ltd.	Japan	JPY360 million	100.0%	Sales and installation of equipment and devices for housing
Sekisui Chemical Hokkaido Co., Ltd.	Japan	JPY200 million	100.0%	Production, processing and sales of molded resin products and construction materials

**Consolidated Subsidiaries**

		Capital	Percentage of Shares Held	Activities
Toto Sekisui Co., Ltd.	Japan	JPY50 million	100.0%	Production, processing and sales of molded resin products
Hokkaido Sekisui Shoji Co., Ltd.*1	Japan	JPY32 million	100.0%	Sales of molded resin products
Tohoku Sekisui Shoji Co., Ltd.	Japan	JPY30 million	100.0%	Sales of molded resin products
Tokyo Sekisui Shoji Co., Ltd.	Japan	JPY150 million	100.0%	Sales of molded resin products
Chubu Sekisui Shoji Co., Ltd.	Japan	JPY30 million	100.0%	Sales of molded resin products
Kinki Sekisui Shoji Co., Ltd.	Japan	JPY70 million	100.0%	Sales of molded resin products
Chu-Shikoku Sekisui Shoji Co., Ltd.	Japan	JPY30 million	100.0%	Sales of molded resin products
Sanin Sekisui Shoji Co., Ltd.	Japan	JPY30 million	100.0%	Sales of molded resin products
Watanabe Sansho Co., Ltd.*1	Japan	JPY45 million	83.7%	Sales and processing of molded resin tubes, corrosion-resistant devices and plant materials
M&S Pipe Systems Co., Ltd.	Japan	JPY20 million	51.0%	Consulting on production and distribution of pipes and joints
Kyushu Sekisui Kenzai Co., Ltd.	Japan	JPY40 million	100.0%	Sales of rain gutters
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 sales of molded resin products
Kyushu Sekisui Industry Co., Ltd.	Japan	JPY130 million	100.0%	Production, processing and sales of molded resin products and construction materials
Sekisui Roof System Co., Ltd.	Japan	JPY100 million	100.0%	Development, production and sales of roofing materials
Sekisui Roof Tech Co., Ltd.	Japan	JPY10 million	100.0%	After-sale maintenance of roofing materials
Nippon No-Dig Technology Co., Ltd.	Japan	JPY60 million	100.0%	Construction and equipment rental for civil engineering projects
Ritto Sekisui Industry Co., Ltd.	Japan	JPY10 million	100.0%	Production and sales of molded resin pipes and joints
Ryuseki Jubi Co., Ltd.	Japan	JPY40 million	100.0%	Production and processing of molded resin products
Kleerdex Company, LLC.	U.S.	USD100 thousand	100.0%	Production and sales of PVC sheeting for molding
Allen Extruders, LLC.	U.S.	USD27,000 thousand	100.0%	Production and sales of ABS sheeting for molding

\*1 Capital rounded down to the nearest million yen.

**Consolidated Subsidiaries**

		Capital	Percentage of Shares Held	Activities
Sekisui SPR Americas, LLC.	U.S.	USD1,000 thousand	100.0%	Production, sales and processing of materials for pipe restoration (SPR method), pipe survey and diagnosis
Eslon B.V.	Netherlands	EUR363 thousand	100.0%	Production and sales of PVC rain gutters and other construction materials
Sekisui Refresh Co., Ltd.	Korea	KRW3,000 million	51.0%	Production and sales of lining profile pipe for pipe restoration
Yongchang Sekisui Composites Co., Ltd.	China	RMB148,086 thousand	62.4%	Production and sales of strengthened plastic piping (fiber reinforced plastic mortar pipes) and synthetic wood products (fiber-reinforced foam urethane)
Sekisui (Qingdao) Plastic Co., Ltd.	China	RMB50,076 thousand	90.0%	Production and sales of high function water system pipes
Sekisui Industrial Piping Co., Ltd.	Taiwan	TWD456,000 thousand	90.0%	Production and sales of plastic valves, industrial pipes and joints
Wuxi SSS-Diamond Plastics Co., Ltd.	China	RMB33,107 thousand	51.0%	Production of polyethylene electrofusion joints

**High Performance Plastics**

Sekisui Techno Molding Co., Ltd.	Japan	JPY200 million	100.0%	Production, processing and sales of compound resin molded products
Sekisui Film Co., Ltd.	Japan	JPY350 million	100.0%	Production, processing and sales of polyethylene tubes and films
Senseki Kako Co., Ltd.	Japan	JPY20 million	100.0%	Production and processing of polyethylene films
Hiroseki Kako Co., Ltd.	Japan	JPY30 million	100.0%	Production and processing of polyethylene films
Sekisui Film Kyushu Co., Ltd.	Japan	JPY50 million	100.0%	Production, processing and sales of polyethylene tubes and films
Kaseki Kako Co., Ltd.	Japan	JPY10 million	100.0%	Production and processing of polyethylene films
Sekisui Fuller Co., Ltd.	Japan	JPY400 million	50.0%	Production and sales of adhesive materials
Daiichi Pure Chemicals Co., Ltd.*1*2	Japan	JPY1,275 million	100.0%	Production and sales of diagnostics and research use testing drugs
Sekisui Polymatech Co., Ltd.	Japan	JPY50 million	100.0%	Processing and sales of plastic films and foam plastic products
Sekisui Signsystem Co., Ltd.	Japan	JPY40 million	100.0%	Processing and sales of marking films
Sekisui Techno Shoji Higashi Nihon Co., Ltd.	Japan	JPY50 million	100.0%	Sales of compound resin products
Sekisui Techno Shoji Nishi Nihon Co., Ltd.	Japan	JPY50 million	100.0%	Sales of compound resin products
Sekisui Medical Denshi Co., Ltd.	Japan	JPY30 million	100.0%	Production of electronics-use devices

\*1 Capital rounded down to the nearest million yen.

\*2 On April 1 2008, the medical business of Sekisui Chemical Co., Ltd. was spun off and merged with Daiichi Pure Chemicals Co., Ltd.; the combined firm was renamed Sekisui Medical Co., Ltd.

**Consolidated Subsidiaries**

		Capital	Percentage of Shares Held	Activities
Naseki Seimitsukako Co., Ltd.	Japan	JPY10 million	100.0%	Production and processing of compound resin molded products
Sekisui Amagasaki Kako Co., Ltd.	Japan	JPY20 million	100.0%	Production and processing of compound resin products
Sekisui Musashi Kako Co., Ltd.	Japan	JPY25 million	100.0%	Production and processing of polyolefin film products and adhesive tapes
Sekisui Minakuchi Kako Co., Ltd.	Japan	JPY10 million	100.0%	Production and processing of interlayer films and resins
Sekisui Voltek, LLC.	U.S.	USD41,788 thousand	100.0%	Production and sales of polyolefin foam products
Sekisui Voltek California Inc.	U.S.	USD600 thousand	100.0%	Sales of polyolefin foam products
Sekisui TA Industries, LLC.	U.S.	USD7,000 thousand	100.0%	Production and sales of adhesive tapes
Sekisui S-Lec America, LLC.	U.S.	USD1,765 thousand	100.0%	Production and sales of polyvinyl butyral interlayer films
Sekisui Products, LLC.	U.S.	USD2,037 thousand	100.0%	Import and export of plastic products
Sekisui S-Lec Mexico S.A. de C.V.	Mexico	MXN32,836 thousand	70.9%	Production and sales of polyvinyl butyral interlayer films
Sekisui S-Lec B.V.	Netherlands	EUR11,345 thousand	100.0%	Production and sales of resin for, and products of, polyvinyl butyral interlayer films
Sekisui-Alveo B.V.	Netherlands	EUR1,361 thousand	100.0%	Production of polyolefin foam products
Sekisui Alveo Ltd.	U.K.	GBP7,100 thousand	100.0%	Production of polyolefin foam products
Sekisui Alveo AG	Switzerland	CHF21,000 thousand	100.0%	Sales of polyolefin foam products
Sekisui Alveo S.p.A.	Italy	EUR103 thousand	100.0%	Sales of polyolefin foam products
Sekisui Alveo S.a.r.L.	France	EUR8 thousand	100.0%	Sales of polyolefin foam products
Sekisui-Alveo S.A.	Spain	EUR60 thousand	100.0%	Sales of polyolefin foam products
Sekisui Alveo (Benelux) B.V.	Netherlands	EUR18 thousand	100.0%	Sales of polyolefin foam products
Sekisui Alveo G.m.b.H.	Germany	EUR26 thousand	100.0%	Sales of polyolefin foam products
Sekisui Chemical G.m.b.H.	Germany	EUR665 thousand	100.0%	Import and export of plastic products
Sekisui S-Lec (Thailand) Co., Ltd.	Thailand	THB430,000 thousand	100.0%	Production and sales of polyvinyl butyral interlayer films
Thai Sekisui Foam Co., Ltd.	Thailand	THB450,000 thousand	91.1%	Production and sales of polyolefin foam products
Sekisui Pilon Pty. Ltd.	Australia	AUD1,257 thousand	100.0%	Production and sales of polyolefin foam products
Sekisui Korea Co., Ltd.	Korea	KRW250 million	100.0%	Sales of plastic products; technology services

**Consolidated Subsidiaries**

		Capital	Percentage of Shares Held	Activities
YoungBo Chemical Co., Ltd.	Korea	KRW10,000 million	52.3%	Production and sales of polyolefin foam products
Muhan Co., Ltd.	Korea	KRW300 million	34.0%	Processing and sales of polyolefin foam products
YoungBo HPP (Langfang) Co., Ltd.	China	RMB51,857 thousand	52.3%	Production and sales of polyolefin foam products
Shanghai Sekisui-Holy Plastics Co., Ltd.	China	RMB41,398 thousand	51.0%	Production and sales of polyolefin foam
Sekisui S-Lec (Suzhou) Co., Ltd.	China	RMB103,465 thousand	100.0%	Production and sales of polyvinyl butyral interlayer films
Beijing Sekisui Trank Medical Technology Co., Ltd.	China	RMB96,671 thousand	85.0%	Production and sales of medical equipment
Sekisui High Performance Packaging (Langfang) Co., Ltd.	China	RMB15,726 thousand	100.0%	Production of adhesive tapes
Sekisui (Shanghai) International Trading Co., Ltd.	China	RMB1,655 thousand	100.0%	Import and export of plastic products
Sekisui (Hong Kong) Ltd.	Hong Kong	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	SGD70 thousand	100.0%	Import and export of plastic products

**Others**

Sekisui Seikei Industry Co., Ltd.	Japan	JPY450 million	100.0%	Production, processing and sales of molded resin products
Sekisui Engineering Co., Ltd.	Japan	JPY80 million	100.0%	Factory automation system construction
Hinomaru Co., Ltd.*1	Japan	JPY672 million	88.9%	Sales of fertilizers, agricultural materials and molded resin products
Tokuyama Sekisui Industry Co., Ltd.	Japan	JPY1,000 million	70.0%	Production and sales of PVC resins and medical equipment
Sekisui Kosan Co., Ltd.	Japan	JPY1,000 million	100.0%	Management of company housing
Sekisui Accounting Center Co., Ltd.	Japan	JPY20 million	100.0%	Accounting and finance services; financing services for affiliated companies
Sekisui Insurance Service Co., Ltd.	Japan	JPY30 million	100.0%	Agent for life and non-life insurance
Sekisui America Corporation	U.S.	USD8,421 thousand	100.0%	Holding company
Sekisui Europe B.V.	Netherlands	EUR135 thousand	100.0%	Capital raising; holding company

\*1 Capital rounded down to the nearest million yen.

**Affiliates**

		Capital	Percentage of Shares Held	Activities
Sekisui Plastics Co., Ltd.	Japan	JPY16,533 million	23.8%	
Sekisui Jushi Corp.	Japan	JPY12,334 million	24.2%	
Ibaraki Sekisui Heim Co., Ltd.	Japan	JPY105 million	40.0%	
Tochigi Sekisui Heim Co., Ltd.	Japan	JPY80 million	40.0%	
Sekisui Heim Tokai Co., Ltd.	Japan	JPY198 million	36.3%	
Sekisui Heim Sanyo Co., Ltd.	Japan	JPY100 million	43.3%	
Sekisui Heim Higashishikoku Co., Ltd.	Japan	JPY100 million	25.0%	
Kagawa Sekisui Heim Co., Ltd.	Japan	JPY100 million	37.5%	

## STOCK INFORMATION

### 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

**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:** 26,646

**Manager of the Register of shareholders:** Mitsubishi UFJ Trust and Banking Corporation

**Transfer Agency:** Mitsubishi UFJ Trust and Banking Corporation  
Osaka Corporate Agency Division  
1-5, Doujimahama 1-Chome, Kita-ku, Osaka 530-0004

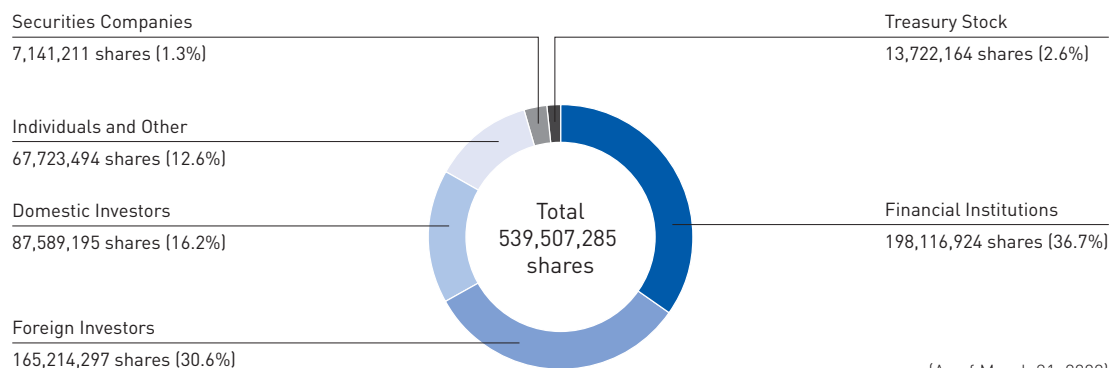
**Transfer Agency Branches:** Mitsubishi UFJ Trust and Banking Corporation  
Branches Nationwide  
Nomura Securities Co., Ltd Branches Nationwide

### Major Shareholders:

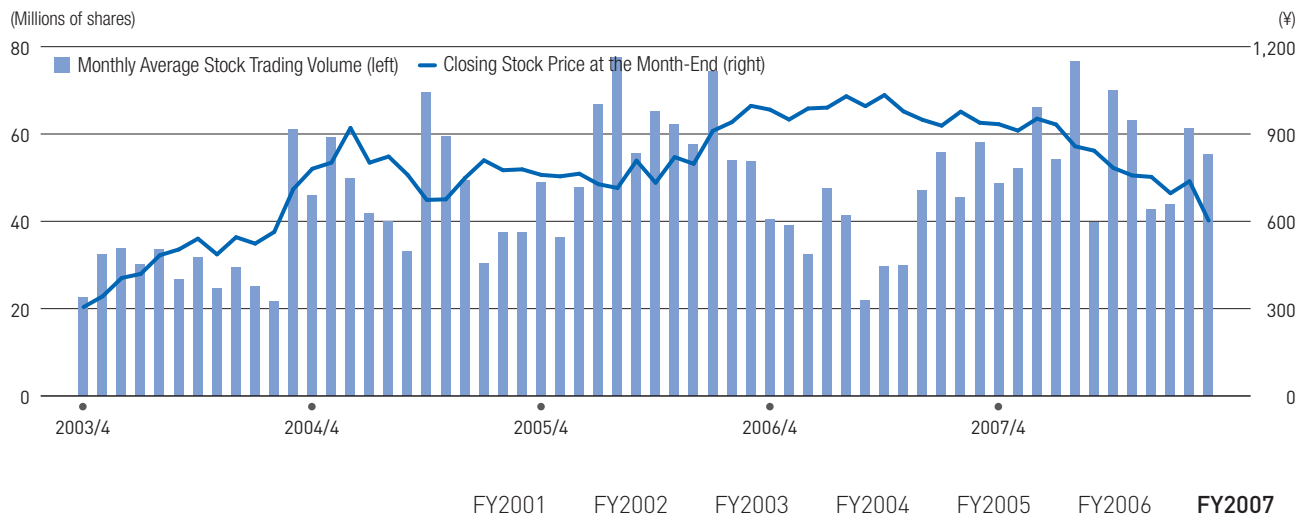
Name of shareholder	State of investments		The Company's investments in these companies	
	Number of Shares Held (Thousands)	Percentage of Ownership (%)	Number of Shares Held (Thousands)	Percentage of Ownership (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	31,122	5.7	—	—
Asahi Kasei Corporation	31,039	5.7	1,716	0.12
The Dai-ichi Mutual Life Insurance Company	26,181	4.8	—	—
Sekisui House, Ltd.	25,592	4.7	72,168	10.17
Japan Trustee Services Bank, Ltd. (Trust Account)	21,911	4.0	—	—
Tokio Marine & Nichido Fire Insurance Co., Ltd.	15,927	2.9	—	—
The Chase manhattan Bank NA London (SL omnibus account)	15,212	2.8	—	—
State Street Bank and Trust Company	12,715	2.3	—	—
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	9,255	1.7	—	—
Employees Stock Ownership Plan	7,721	1.4	—	—

Note: Sekisui Chemical Co., Ltd. holds 13,722 thousand shares of treasury stock

### Breakdown of Shareholders:



(As of March 31, 2008)

**SEKISUI CHEMICAL STOCK PRICE AND TRADING VOLUME**

**Additional information**
**(Sekisui Chemical Co., Ltd.):**

Price range of common stock (yen)

High	¥ 543	¥ 444	¥ 724	¥ 930	¥1,017	¥1,094	<b>¥1,006</b>
Low	300	268	268	621	653	855	<b>570</b>
Market value (billions of yen)	200.7	151.1	383.6	420.3	537.9	506.6	<b>325.3</b>

**FINANCIAL REPORTS**

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## SIX-YEAR SUMMARY

Sekisui Chemical Co., Ltd. and its Subsidiaries

	Millions of yen					
	FY2007	FY2006	FY2005	FY2004	FY2003	FY2002
<b>Results for the year:</b>						
Net sales	¥ 958,675	¥ 926,164	¥ 885,068	¥ 856,936	¥ 814,864	¥ 799,709
Cost of sales	685,903	656,505	627,280	605,672	579,135	573,807
Selling, general & administrative expenses	229,766	224,501	217,501	214,818	212,648	211,877
Operating income	43,006	45,158	40,287	36,446	23,081	14,025
Income before income taxes and minority interest	44,993	38,857	31,835	32,109	22,063	16,603
Net income	24,300	25,539	20,229	22,286	15,019	9,298
<b>Cash flows (for the year):</b>						
Net cash (used in) provided by operating activities	31,783	41,929	38,268	48,695	57,913	47,067
Net cash(used in) provided by investing activities	13,522	(59,101)	14,847	(1,606)	(13,115)	(21,097)
Net cash used in financing activities	(42,801)	(2,485)	(41,422)	(38,997)	(40,549)	(37,010)
Free cash flow *1	37,197	(23,806)	47,566	42,065	41,538	22,681
<b>R&amp;D expenditures, capital expenditures and depreciation and amortization:</b>						
R&D expenditures	25,739	24,452	23,077	22,974	23,701	23,404
Capital expenditures	31,268	36,337	28,348	25,820	24,176	25,099
Depreciation and amortization	30,504	26,046	25,536	26,344	26,623	28,433
<b>Year-end financial position:</b>						
Total current assets	342,450	340,986	314,680	286,975	256,538	252,179
Property, plant and equipment, net	243,466	245,486	226,430	228,907	239,854	248,246
Total assets	782,860	879,153	808,357	748,798	748,791	751,240
Total current liabilities	292,737	341,413	275,345	273,020	268,956	289,001
Total fixed liabilities	121,204	124,599	145,552	157,920	180,217	181,107
Total shareholders' equity *2	413,940	413,141	377,206	310,197	291,756	274,475
Interest-bearing debt	92,098	111,286	94,607	119,542	153,071	193,771
<b>Per share (in yen)</b>						
Net income (loss), non-diluted (EPS)	¥ 46.16	¥ 48.19	¥ 37.78	¥ 41.48	¥ 28.00	¥ 17.43
Net assets	683.11	761.69	711.54	582.42	548.16	514.86
Cash dividends	15	14	11	10	7	6

Notes: \*1. Free cash flow = CF operating activities + CF investing activities - Dividend paid

\*2. Due to a change in accounting standard, from FY2006 shareholder's equity per share is being presented as net assets per share. Figures prior to FY 2006 have not been restated to reflect this change.

	FY2007	FY2006	FY2005	FY2004	FY2003	FY2002
<b>Ratios and Other Information:</b>						
Gross profit/Net sales (%)	28.5	29.1	29.1	29.3	28.9	28.2
Operating income ratio (%)	4.5	4.9	4.6	4.3	2.8	1.8
Return on sales (ROS) (%)	2.5	2.8	2.3	2.6	1.8	1.2
Return on equity (ROE) (%)	6.4	6.5	5.9	7.4	5.3	3.4
Return on total assets (ROA) (%)	4.6	5.6	5.6	5.1	3.7	2.2
Total assets turnover (Times)	1.15	1.10	1.14	1.14	1.09	1.03
Inventory turnover (Times)	8.50	9.07	9.69	10.16	10.38	10.14
Tangible fixed assets turnover (Times)	3.92	3.93	3.89	3.66	3.34	3.19
Payout ratio (%)	32.5	29.1	29.1	24.1	25.0	34.4
Equity ratio (%)	45.8	45.9	46.7	41.4	39	36.5
Current ratio (%)	117.0	99.8	114.3	105.1	95.4	87.3
Interest coverage ratio (Times)	21.9	27.3	20.6	15.2	8.9	4.7
Debt/Equity ratio (%)	25.7	27.6	25.1	38.5	52.5	70.6
Stock price (Yen)	603	939	997	779	711	280
PER (Times)	13.06	19.49	26.39	18.78	25.39	16.06
PBR (Times)	0.88	1.23	1.40	1.34	1.30	0.54
Number of shares outstanding (thousands)	539,507	539,507	539,507	539,507	539,507	539,507
EBITDA	73,510	71,204	65,823	62,790	49,704	42,458
Number of employees (Non-consolidated)	2,467	2,572	2,504	2,518	2,553	2,858
Number of employees (Consolidated)	18,907	18,905	17,966	17,002	16,987	17,329

- Notes:
1. Stock price and market value are closing prices at the end of fiscal years on the Tokyo Stock Exchange.
  2. ROE and ROA are calculated using the simple average of the beginning and end of term balance sheet figures.
  3. ROA=Ordinary income/Total assets
  4. ROE=Net income/Shareholders' equity
  5. Interest coverage ratio=(Operating income+Interest and dividend income)/(Interest expense)
  6. Debt/Equity ratio=Interest-bearing debt/Shareholders' equity
  7. EBITDA=Operating income + Depreciation and amortization

## REVIEW AND ANALYSIS OF CONSOLIDATED RESULTS FOR FISCAL YEAR 2007

Year Ended March 31, 2008

## Business Environment

The Japanese economy continued expanding in the first half of fiscal year 2007 as strong corporate earnings, led by export-oriented companies, supported ongoing aggressive capital expenditure and business expansion activities. Economic conditions deteriorated quickly in the second half; however, on sharp price rises for raw materials and fuel, especially oil.

Overseas, the subprime loan crisis triggered a sharp drop in housing investment and capital expenditure in the United States. Corporate earnings were also impacted by the sharp rise in the value of the yen versus the dollar in the second half of the fiscal year. At the same time, brisk domestic demand supporting strong economic growth in China and other Asian countries and economic conditions remained healthy in Europe.

Business conditions for the Sekisui Chemical Group included steady demand growth, particularly from developing markets, in automobile-related fields and escalating demand for environmental components to support automaker efforts to lighten vehicle weights, lower thermal loads, and reduce the environmental impact of automobiles. Electronic industry demand also continued strong centered on semiconductor and LCD related investment.

In the social infrastructure field, growing concern worldwide about water environments is spurring demand for new infrastructure in developing nations and infrastructure renovation in developed nations. The generally favorable conditions for all of the Group's overseas businesses supported steady business growth and new demand growth for Group products and services during the year.

The domestic housing industry was impacted by the discovery of approved construction plans with falsified anti-seismic data, which prompted stricter building construction certification regulations that precipitated sharp drops in construction starts of both detaching houses and large buildings. New housing starts in Japan plummeted from 1.28 million units in fiscal year 2006 to 1.04 million units in fiscal year 2007 and negatively affected the housing equipment, construction materials, and other peripheral construction-related businesses.

Demand for rainwater- and earthquake-resistance renovation continued to grow, while the volume of public works projects remained low in accordance with the government's spending control policy. Boosted by the announcement of a "200-Year Housing Vision" for the country, Sekisui Chemical continued to attract strong demand as attention focused on the quality of the company's housing products amid growing demand for durable housing and existing housing reform. The

Group confronted perhaps the most severe domestic demand conditions in its history in fiscal 2007, yet the emergence of new needs and a sweeping shift in demand revealed potential new directions for the future.

## Analysis of Financial Position and Business Results

### I. Analysis of Consolidated Business Results for Fiscal Year 2007

#### 1) Net sales

Net sales in fiscal year 2007 increased by ¥32,510 million, or 3.5% year on year, to ¥958,674 million.

Housing Company net sales declined by ¥10,492 million, or 2.4%, to ¥419,978 million. The uncertain economic outlook led to diminished rebuilding demand in the Tokyo, Kinki, and other metropolitan areas resulting in a 3.3% year on year decrease in housing unit orders and a 3.2% drop in order value. The living environment business benefited from its expanded refurbishing operations and enhanced marketing of its feature products, ultimately posting a 4.5% increase in order value for the year.

The Urban Infrastructure & Environmental Products Company net sales grew ¥7,280 million, or 3.2%, to ¥233,756 million for the year. The division steadily expanded its overseas operations during the year, particularly with the additions of a molded plastic sheet business in the United States and a reinforced plastic pipe operation in China. Strategic investments included the acquisition of ABS sheet producer Allen Extruders, LLC., of the United States, and construction of new production facilities for fiber-reinforced foamed urethane (FFU) at the Shanghai plant and industrial pipe materials and valves at the Taiwan plant.

The High Performance Plastics Company achieved net sales growth of ¥35,014 million, or 14.3%, to ¥280,487 million as it focused its management resources in the three strategic automotive, IT, and medical fields during the year. In the automotive field, sales grew for high-performance interlayer films with soundproofing properties and molded resin products for motorcycles and automobiles. The HPP Company expanded its interlayer film production facilities in the United States and fortified its management bases in Asia, the United States, and Europe to bolster its global sales capabilities, particularly for automotive glass interlayer films. In the IT field, sales continued brisk for adhesive tape for mobile phones and optical films. Sales also increased in the medical field, led by diagnostic agents produced by Daiichi Pure Chemicals.

Net sales in Other Businesses declined by ¥1,143 million, or 2.3%, to ¥48,541 million for the consolidated accounting period.

## 2) Operating Income

Operating income in fiscal year 2007 declined ¥2,152 million, or 4.8%, year on year to ¥43,005 million.

Gross profit increased ¥3,112 million on expanding sales which overcame the adverse affects of the soaring raw material prices and slowing residential housing starts following the adoption of the revised Construction Standards Law. Selling general and administrative (SG&A) expenses increased ¥5,265 million, largely due to the addition of new consolidated subsidiaries.

## 3) Non-operating income and expenses

Non-operating income and expenses declined ¥2,246 million year on year primarily due to a decrease in foreign exchange transaction gains. Non-operating expenses increased ¥3,964 million, likewise mainly owing to increased foreign exchange transaction losses.

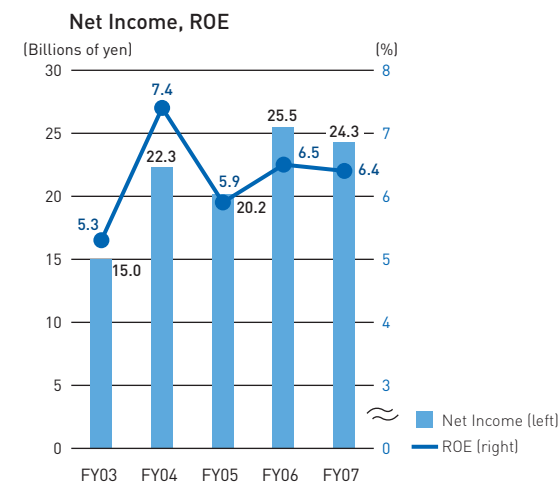
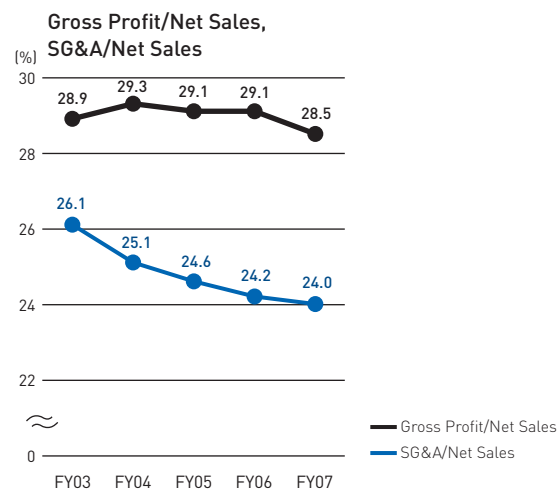
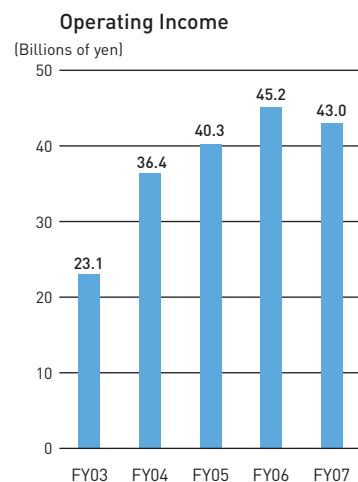
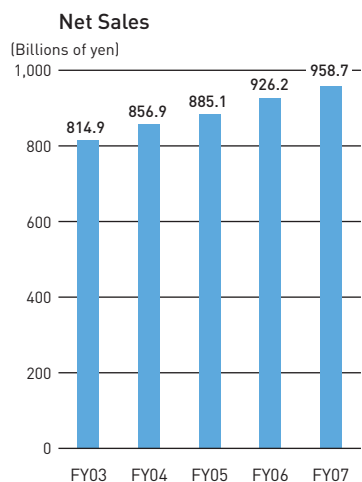
## 4) Extraordinary Profit and Loss

Extraordinary profit amounted to ¥23,641 million comprised of a ¥23,163 million from the gain on sale of investments in securities associated primarily from the partial sale of the stake in Sekisui House Ltd. and ¥478 million capital gain from the sale of the toner resin products business.

Extraordinary loss amounted to ¥17,195 million comprised of ¥10,152 million for business structure reform, a ¥3,069 million loss on inventory evaluation, ¥1,374 million in impairment charges, and a ¥2,600 million loss on the sale and retirement of fixed assets.

## 5) Net Income

As a result of the above, net income before taxes and minority interest for fiscal year 2007 increased ¥6,136 million from the previous year to ¥44,993 million. Deducting taxes and minority interest, net income amounted to ¥24,300 million.



ROE is calculated using the simple average of the beginning and end of term balance sheet figures.

ROE=Net income/Shareholders' equity

## II. Financial Position

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

Total assets at the end of fiscal year 2006 totaled ¥782,859 million, a decrease of ¥96,293 million from the previous fiscal year end.

#### Assets

Current assets increased ¥1,464 million from the previous fiscal year to ¥342,450 million at the end of fiscal year 2007. Cash increased from the sale of investments in securities and other transactions, but this was largely offset by a decline in notes and accounts receivable mainly due to the final day of the previous fiscal year landing on a holiday.

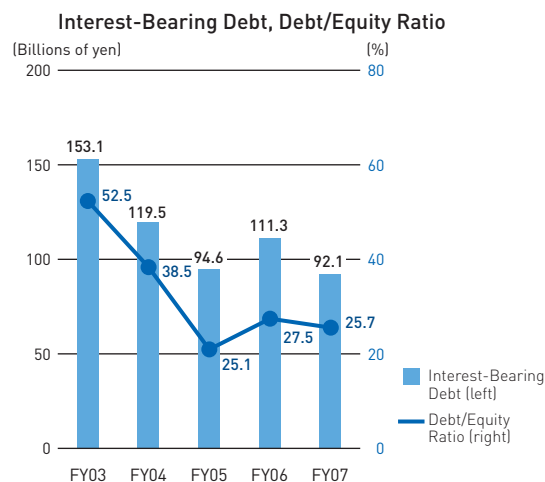
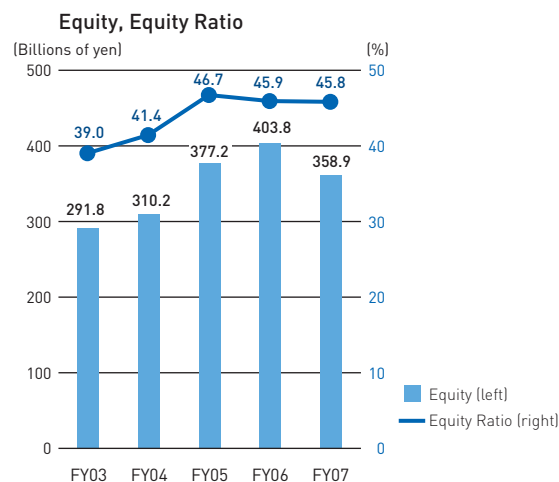
Fixed assets decreased ¥97,757 million from the previous year to ¥440,409 million at the end of fiscal year 2007. The main factor was a ¥116,259 million decline in investments in securities due to revaluation of securities to market value and the partial sale of the stake in Sekisui House Ltd.

#### Liabilities

Liabilities decreased ¥52,071 million to ¥413,940 million at the end of fiscal year 2007, on a ¥19,186 million decline in interest-bearing debt to ¥92,097 million, as well as decreases in accounts payable, advances received and other non-interest bearing debt, and deferred income taxes associated with the revaluation of securities to market value.

#### Net assets

Total net assets were ¥368,919 million at the end of fiscal year 2007. Net income amounted to ¥24,300 million. After deducting dividends and other payments of ¥7,924 million, retained earnings increased ¥16,361 million from the previous fiscal year. Unrealized holding gains on securities increased ¥58,361 million, mainly due to an increase in treasury stock of ¥4,468 million, partially from repurchases, and revaluation of securities, including Sekisui House holdings, to market value. The equity ratio edged down 0.1 percentage point from 45.9% to 45.8% as of the end of fiscal year 2007.



## 2) Cash flows

Consolidated cash and cash equivalents increased ¥3,883 million, or 15.0%, from the end of fiscal year 2006 to ¥29,852 million. Factors influencing the fiscal year 2007 cash flow accounts were as follows.

### (Cash flow from operating activities)

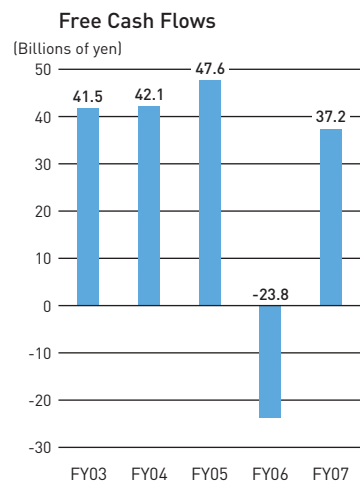
Cash flow from operating activities decreased ¥10,147 million from the previous fiscal year to an inflow of ¥31,782 million. Factors increasing cash flow from operating activities included ¥44,993 million in net income before taxes and minority interest, ¥30,503 million in depreciation costs, and a decrease of ¥9,587 million in notes and accounts receivable. Factors decreasing cash flow from operating activities included ¥23,163 million in gains realized from the sale of investments in securities, a decline of ¥6,126 million in accrued retirement benefits, a decline of ¥6,267 million in notes and accounts payable, and ¥17,893 million in corporate tax payments.

### (Cash flow from investing activities)

Cash used in investing activities increased ¥59,100 million from the previous fiscal year to an inflow of ¥13,521 million. The sales of the portion of our stake in Sekisui House added ¥53,627 million to the investment cash account while aggressive investment activities including ¥35,356 million to acquire tangible and intangible fixed assets and ¥5,780 million to acquire ABS sheet producer Allen Extruders, LLC., of the United States.

### (Cash flow from financing activities)

Cash used in financing activities increased ¥40,317 million from the previous fiscal year to an outflow of ¥42,801 million. Main elements were ¥8,107 million in dividend payments of, ¥4,733 million for the purchase of treasury stock, and a ¥29,712 million net decrease in interest bearing debt.



## Business Risks

The following factors related to our businesses and accounting practices may materially impact investment decisions. The Company is endeavoring to establish a system that predicts potential risks for the Group, prevents their occurrence, and promptly and appropriately deals with them if they do occur. Forward-looking items contained herein are based upon assessments made by the Sekisui Chemical Group at the end of consolidated fiscal year 2007.

### I. Foreign currency fluctuations

The value of the Group's overseas assets held in foreign currencies may be affected when they are converted into yen depending on exchange rates. In addition, our Group employs hedging strategies as needed in response to currency fluctuations, but if the value of the yen moves to levels significantly different from forecasts, it is possible that the business results and financial position of the Group will be affected.

### II. Raw material price volatility

When the Group, especially the Urban Infrastructure & Environmental Products Company, is unable to transfer changes in prices of raw materials, such as polyvinyl chloride, olefin and steel, to product prices in a timely manner and cannot obtain sufficient margin, the Group's business results and financial position may be affected.

### III. Overseas business activities

Unforeseeable changes in laws and regulations, fragility in the industrial base, and social or political disruptions such as terrorism, war, or other factors may affect the Group's overseas business activities. The emergence of these kinds of risks may obstruct our Group's overseas business activities, affecting the business results and future plans of the Group.

### IV. Housing related taxes and interest rate trends

The Group's housing related business is 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 changes in demand. A rapid drop in demand within a short period could affect the Group's business results and financial position may be affected.

### VI. Trends in public works

The Group's Urban Infrastructure & Environmental Products business supplies to the public sector, and therefore is affected by trends in public investment. As public investment is determined by government policy at national and local levels, a decision to reduce public investment may impact the Group's business performance and financial position.

### VII. Industrial accidents and disasters

In the event that a fire, explosion or other industrial accident at one of the Group's facilities, were to cause a major impact on the Group's business and on the local community, response costs would be incurred, including accompanying loss of trust from society and compensation payments, and a production stoppage may be necessary, which would involve opportunity costs and compensation to customers. This may affect the Group's business results and financial position.

### VIII. Intellectual property and product liability

There is a risk that if disputes pertaining to the Group's intellectual property arise, the decisions made to resolve the issue may be unfavorable to the Group. Also, product defects may cause large-scale product recalls and compensation for damages. It is possible that such situations may arise that cannot be covered by insurance, and thus the Group's business results and financial position may be affected.

**CONSOLIDATED BALANCE SHEETS**

 Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
 March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2008	2007	2008	2007
<b>Assets</b>				
Current assets:				
Cash and time deposits (Note 19)	¥ 30,281	¥ 26,084	\$ 302,236	\$ 260,345
Marketable securities	29	22	289	220
Trade notes and accounts receivable:				
Unconsolidated subsidiaries and affiliates	3,251	5,335	32,448	53,249
Other	165,195	171,372	1,648,817	1,710,470
Inventories (Note 4)	116,220	109,321	1,159,996	1,091,137
Deferred income taxes (Note 9)	11,410	11,609	113,884	115,870
Short-term loans	898	3,062	8,963	30,562
Other current assets	16,522	15,463	164,907	154,336
Less allowance for doubtful accounts	(1,356)	(1,282)	(13,534)	(12,796)
Total current assets	342,450	340,986	3,418,006	3,403,393
Property, plant and equipment, at cost (Notes 6 and 7):				
Land	68,881	67,958	687,504	678,291
Buildings and structures	200,905	196,358	2,005,240	1,959,856
Machinery and equipment	341,858	318,984	3,412,097	3,183,791
Tools, furniture and fixtures	70,218	69,288	700,848	691,566
Construction in progress	7,450	20,162	74,359	201,238
	689,312	672,750	6,880,048	6,714,742
Less accumulated depreciation	(445,846)	(427,264)	(4,450,005)	(4,264,537)
Property, plant and equipment, net	243,466	245,486	2,430,043	2,450,205
Investments, long-term loans and other:				
Investments in securities (Note 5)	133,173	249,432	1,329,205	2,489,590
Long-term loans	1,007	2,184	10,051	21,799
Deferred income taxes (Note 9)	23,930	4,164	238,846	41,561
Goodwill	20,176	18,639	201,377	186,037
Other	19,979	19,997	199,411	199,590
Less allowance for doubtful accounts	(1,321)	(1,735)	(13,185)	(17,317)
Total investments, long-term loans and other	196,944	292,681	1,965,705	2,921,260
Total assets	¥782,860	¥ 879,153	\$ 7,813,754	\$ 8,774,858

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2008	2007	2008	2007
<b>Liabilities</b>				
Current liabilities:				
Short-term debt (Note 7)	¥ 27,921	¥ 47,724	\$ 278,681	\$ 476,335
Commercial paper (Note 7)	—	3,000	—	29,943
Current portion of long-term debt (Note 7)	6,557	11,630	65,446	116,079
Bonds redeemable within one year (Note 7)	—	10,000	—	99,810
Trade notes and accounts payable:				
Unconsolidated subsidiaries and affiliates	2,698	3,276	26,929	32,698
Other	130,380	135,849	1,301,327	1,355,914
Accrued expenses	30,701	30,227	306,428	301,697
Deferred income taxes (Note 9)	259	111	2,585	1,108
Accrued income taxes	11,161	12,600	111,398	125,761
Allowance for employees' bonuses	13,010	13,444	129,853	134,185
Advances received	34,140	37,821	340,753	377,493
Other	35,910	35,731	358,419	356,632
Total current liabilities	292,737	341,413	2,921,819	3,407,655
Long-term liabilities:				
Bonds less current maturities (Note 7)	15,608	5,642	155,784	56,313
Long-term debt less current portion (Note 7)	42,012	33,290	419,323	332,269
Deferred income taxes (Note 9)	2,655	18,928	26,500	188,921
Accrued retirement benefits (Note 8)	54,575	60,643	544,715	605,280
Other	6,354	6,096	63,419	60,844
Total long-term liabilities	121,204	124,599	1,209,741	1,243,627
Contingent liabilities (Note 12)				
<b>Net assets</b>				
Shareholders' equity (Note 10):				
Common stock:				
Authorized - 1,187,540,000 shares				
Issued - 539,507,285 shares at March 31, 2008 and 2007	100,002	100,002	998,124	998,124
Capital surplus	109,367	109,420	1,091,596	1,092,125
Retained earnings	154,074	137,713	1,537,818	1,374,518
Treasury stock, at cost	(10,844)	(6,376)	(108,235)	(63,639)
Total shareholders' equity	352,599	340,759	3,519,303	3,401,128
Valuation and translation adjustments:				
Unrealized holding (loss) gain on securities	(933)	57,428	(9,312)	573,191
Unrealized gain on land revaluation (Note 11)	218	217	2,176	2,166
Translation adjustments	7,033	5,419	70,196	54,087
Total valuation and translation adjustments	6,318	63,064	63,060	629,444
Stock acquisition rights	237	74	2,366	739
Minority interests	9,765	9,244	97,465	92,265
Total net assets	368,919	413,141	3,682,194	4,123,576
Total liabilities and net assets	¥782,860	¥ 879,153	\$ 7,813,754	\$ 8,774,858

**CONSOLIDATED STATEMENTS OF INCOME**

 Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
 Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2008	2007	2008	2007
Net sales (Notes 14 and 18)	¥ 958,675	¥ 926,164	\$ 9,568,570	\$ 9,244,076
Cost of sales (Note 14)	685,903	656,505	6,846,023	6,552,600
Gross profit	272,772	269,659	2,722,547	2,691,476
Selling, general and administrative expenses (Note 13)	229,766	224,501	2,293,303	2,240,752
Operating income (Note 18)	43,006	45,158	429,244	450,724
Other income (expenses):				
Interest expense	(2,461)	(2,111)	(24,563)	(21,070)
Interest and dividend income	3,920	3,361	39,126	33,546
Equity in earnings of affiliates	590	1,415	5,889	14,123
Gain on sales of investments in securities	23,164	—	231,201	—
Gain on sales of a business	478	—	4,771	—
Reorganization costs	(10,152)	(4,340)	(101,327)	(43,318)
Loss on devaluation of inventories	(3,069)	—	(30,632)	—
Loss on impairment of fixed assets (Note 6)	(1,374)	(1,800)	(13,714)	(17,966)
Loss on sales or disposal of property, plant and equipment	(2,600)	(1,914)	(25,951)	(19,104)
Foreign exchange loss	(3,784)	—	(37,768)	—
Other, net	(2,725)	(912)	(27,199)	(9,102)
Income before income taxes and minority interests	44,993	38,857	449,077	387,833
Income taxes (Note 9):				
Current	16,433	15,323	164,018	152,939
Deferred	3,513	(2,634)	35,064	(26,290)
Minority interests	747	629	7,456	6,278
Net income	¥ 24,300	¥ 25,539	\$ 242,539	\$ 254,906

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

 Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
 Years ended March 31, 2008 and 2007

	Millions of yen									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding (loss) gain on securities	Unrealized gain on land revaluation	Translation adjustments	Stock acquisition rights	Minority interests	Total net assets
<b>Balance at March 31, 2006</b>	¥ 100,002	¥ 109,457	¥ 118,909	¥ (6,630)	¥ 54,052	¥ 216	¥ 1,200	¥ —	¥ 10,254	¥ 387,460
Net income for the year	—	—	25,539	—	—	—	—	—	—	25,539
Cash dividends	—	—	(6,363)	—	—	—	—	—	—	(6,363)
Bonuses to directors and corporate auditors	—	—	(314)	—	—	—	—	—	—	(314)
Decrease in retained earnings resulting from inclusion of subsidiaries in consolidation	—	—	(55)	—	—	—	—	—	—	(55)
Decrease in retained earnings resulting from exclusion of subsidiaries from consolidation	—	—	(3)	—	—	—	—	—	—	(3)
Gain on sales of treasury stock	—	(37)	—	355	—	—	—	—	—	318
Increase in treasury stock	—	—	—	(101)	—	—	—	—	—	(101)
Net changes in items other than shareholders' equity	—	—	—	—	3,376	1	4,219	74	(1,010)	6,660
<b>Balance at March 31, 2007</b>	¥ 100,002	¥ 109,420	¥ 137,713	¥ (6,376)	¥ 57,428	¥ 217	¥ 5,419	¥ 74	¥ 9,244	¥ 413,141
Net income for the year	—	—	24,300	—	—	—	—	—	—	24,300
Cash dividends	—	—	(7,924)	—	—	—	—	—	—	(7,924)
Decrease in retained earnings resulting from inclusion of subsidiaries in consolidation	—	—	(9)	—	—	—	—	—	—	(9)
Decrease in retained earnings resulting from exclusion of subsidiaries from consolidation	—	—	(6)	—	—	—	—	—	—	(6)
Gain on sales of treasury stock	—	(53)	—	266	—	—	—	—	—	213
Increase in treasury stock	—	—	—	(4,734)	—	—	—	—	—	(4,734)
Net changes in items other than shareholders' equity	—	—	—	—	(58,361)	1	1,614	163	521	(56,062)
<b>Balance at March 31, 2008</b>	¥ 100,002	¥ 109,367	¥ 154,074	¥ (10,844)	¥ (933)	¥ 218	¥ 7,033	¥ 237	¥ 9,765	¥ 368,919

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (CONTINUED)**

 Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
 Years ended March 31, 2008 and 2007

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding (loss) gain on securities	Unrealized gain on land revaluation	Translation adjustments	Stock acquisition rights	Minority interests	Total net assets
<b>Balance at March 31, 2006</b>	\$ 998,124	\$ 1,092,494	\$ 1,186,835	\$ (66,174)	\$ 539,495	\$ 2,155	\$ 11,977	\$ —	\$ 102,346	\$ 3,867,252
Net income for the year	—	—	254,906	—	—	—	—	—	—	254,906
Cash dividends	—	—	(63,509)	—	—	—	—	—	—	(63,509)
Bonuses to directors and corporate auditors	—	—	(3,134)	—	—	—	—	—	—	(3,134)
Decrease in retained earnings resulting from inclusion of subsidiaries in consolidation	—	—	(550)	—	—	—	—	—	—	(550)
Decrease in retained earnings resulting from exclusion of subsidiaries from consolidation	—	—	(30)	—	—	—	—	—	—	(30)
Gain on sales of treasury stock	—	(369)	—	3,543	—	—	—	—	—	3,174
Increase in treasury stock	—	—	—	(1,008)	—	—	—	—	—	(1,008)
Net changes in items other than shareholders' equity	—	—	—	—	33,696	11	42,110	739	(10,081)	66,475
<b>Balance at March 31, 2007</b>	\$ 998,124	\$ 1,092,125	\$ 1,374,518	\$ (63,639)	\$ 573,191	\$ 2,166	\$ 54,087	\$ 739	\$ 92,265	\$ 4,123,576
Net income for the year	—	—	242,539	—	—	—	—	—	—	242,539
Cash dividends	—	—	(79,090)	—	—	—	—	—	—	(79,090)
Decrease in retained earnings resulting from inclusion of subsidiaries in consolidation	—	—	(89)	—	—	—	—	—	—	(89)
Decrease in retained earnings resulting from exclusion of subsidiaries from consolidation	—	—	(60)	—	—	—	—	—	—	(60)
Gain on sales of treasury stock	—	(529)	—	2,655	—	—	—	—	—	2,126
Increase in treasury stock	—	—	—	(47,251)	—	—	—	—	—	(47,251)
Net changes in items other than shareholders' equity	—	—	—	—	(582,503)	10	16,109	1,627	5,200	(559,557)
<b>Balance at March 31, 2008</b>	\$ 998,124	\$ 1,091,596	\$ 1,537,818	\$ (108,235)	\$ (9,312)	\$ 2,176	\$ 70,196	\$ 2,366	\$ 97,465	\$ 3,682,194

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

 Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
 Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2008	2007	2008	2007
<b>Operating activities:</b>				
Income before income taxes and minority interests	¥ 44,993	¥ 38,857	\$ 449,077	\$ 387,833
Adjustments for:				
Depreciation and amortization	30,504	26,046	304,462	259,966
Amortization of goodwill	1,697	—	16,938	—
Loss on impairment of fixed assets	1,374	1,800	13,714	17,966
Gain on sales of investments in securities	(23,164)	—	(231,201)	—
Loss on sales or disposal of property, plant and equipment	2,600	1,914	25,951	19,104
Decrease in accrued retirement benefits	(6,126)	(3,103)	(61,144)	(30,971)
Equity in earnings of affiliates	(590)	(1,415)	(5,889)	(14,123)
Interest expense	2,461	2,111	24,563	21,070
Interest and dividend income	(3,920)	(3,361)	(39,126)	(33,546)
Decrease (increase) in trade notes and accounts receivable	9,587	(19,995)	95,688	(199,571)
Increase in inventories	(5,309)	(8,992)	(52,989)	(89,749)
(Decrease) increase in trade notes and accounts payable	(6,268)	8,500	(62,561)	84,839
Decrease in advances received	(3,679)	(1,371)	(36,720)	(13,684)
Bonuses to directors and corporate auditors	—	(314)	—	(3,134)
Other	3,689	7,860	36,820	78,450
Subtotal	47,849	48,537	477,583	484,450
Interest and dividends received	4,345	3,674	43,367	36,670
Interest paid	(2,517)	(2,052)	(25,122)	(20,481)
Income taxes paid	(17,894)	(8,230)	(178,601)	(82,144)
Net cash provided by operating activities	31,783	41,929	317,227	418,495

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

 Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
 Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2008	2007	2008	2007
<b>Investing activities:</b>				
Purchases of property, plant and equipment	¥ (32,363)	¥ (32,706)	\$ (323,016)	\$ (326,440)
Proceeds from sales of property, plant and equipment	961	2,872	9,592	28,666
Acquisition of investments in securities	(3,004)	(3,758)	(29,983)	(37,509)
Proceeds from sales or redemption of investments in securities	53,627	1,040	535,253	10,380
Acquisition of investment in a subsidiary resulting in change in scope of consolidation	—	(20,663)	—	(206,238)
Proceeds from sales of investments in subsidiaries	1,381	—	13,784	—
Acquisition of a business (Note 19)	(5,780)	—	(57,690)	—
Acquisition of shares from minority interests in consolidated subsidiaries	(376)	(2,640)	(3,753)	(26,350)
Purchases of intangible assets and other assets	(2,994)	(2,542)	(29,883)	(25,372)
Collection of long-term loans receivable	68	862	679	8,604
Payments for long-term loans receivable	(282)	(28)	(2,815)	(279)
Other	2,284	(1,538)	22,796	(15,351)
Net cash provided by (used in) investing activities	13,522	(59,101)	134,964	(589,889)
<b>Financing activities:</b>				
Decrease in short-term debt, net	(110)	(1,053)	(1,098)	(10,510)
(Decrease) increase in commercial paper	(3,000)	3,000	(29,943)	29,943
Proceeds from issuance of bonds	—	621	—	6,198
Repayment of bonds	(10,000)	—	(99,810)	—
Proceeds from long-term debt	15,714	18,632	156,842	185,967
Repayment of long-term debt	(32,316)	(14,017)	(322,547)	(139,904)
Cash dividends paid	(7,922)	(6,361)	(79,070)	(63,489)
Cash dividends paid to minority shareholders of consolidated subsidiaries	(186)	(273)	(1,856)	(2,725)
Purchases of treasury stock	(4,733)	(100)	(47,240)	(998)
Proceeds from sales of treasury stock	13	4	130	40
Withholding tax on cash dividends paid to former shareholders of a newly consolidated subsidiary	—	(2,998)	—	(29,923)
Other	(261)	60	(2,606)	598
Net cash used in financing activities	(42,801)	(2,485)	(427,198)	(24,803)
Effect of exchange rate changes on cash and cash equivalents	(297)	783	(2,965)	7,815
Net increase (decrease) in cash and cash equivalents	2,207	(18,874)	22,028	(188,382)
Cash and cash equivalents at beginning of year	25,969	44,630	259,198	445,454
Increase in cash and cash equivalents resulting from initial consolidation of subsidiaries	1,697	213	16,938	2,126
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(20)	—	(200)	—
Cash and cash equivalents at end of year (Note 19)	¥ 29,853	¥ 25,969	\$ 297,964	\$ 259,198

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
March 31, 2008

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

Sekisui Chemical Co., Ltd. (the "Company") and its domestic consolidated subsidiaries maintain their books of account and records in accordance with accounting principles generally accepted in Japan, and its overseas consolidated subsidiaries maintain their books in conformity with those of their respective countries of domicile.

The accompanying consolidated financial statements of the Company and consolidated subsidiaries 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.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been 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 have been made to conform the consolidated financial statements for the year ended March 31, 2007 to the 2008 presentation. Such reclassifications had no effect on consolidated net income or net assets.

The accompanying consolidated financial statements are expressed in yen and have been translated into U.S. dollars from yen solely for convenience, as a matter of arithmetic computation only, at ¥100.19 = U.S.\$1.00, the rate of exchange prevailing on March 31, 2008. This translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

### 2. Summary of Significant Accounting Policies

#### (1) Principles of Consolidation

At March 31, 2008, the Company had 178 subsidiaries as opposed to 199 at March 31, 2007. The accompanying consolidated financial statements for the years ended March 31, 2008 and 2007 include the accounts of the Company and its 130 and 147 significant subsidiaries (the "Companies"), respectively.

The accounts of the remaining 48 and 52 subsidiaries have not been consolidated with those of the Company at March 31, 2008 and 2007, 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 sub-

sidaries and the year end of the Company.

Unrealized intercompany profit and loss among the Companies have been entirely eliminated and the portion attributable to minority interests has been charged to minority interests.

At March 31, 2008 and 2007, although the Company had 48 and 52 unconsolidated subsidiaries, respectively, and 16 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.

#### (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 net assets. 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

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.

(Supplementary information)

Effective the year ended March 31, 2008, depreciation expense for property, plant and equipment acquired before April 1, 2007 is computed based on the salvage value of 5% of acquisition cost, and the amount between the salvage value (5% of acquisition cost) and memorandum value is depreciated from the year following the year in which the book value of the asset reaches 5% of its acquisition cost by the straight-line method over a period of 5 years. This change was made based on an amendment to the Corporation Tax Law. As a result of this change, operating income and income before income taxes and minority interests decreased by ¥1,903 million (\$18,994 thousand) for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the method applied in the previous year.

(7) Goodwill and negative goodwill

Goodwill and negative goodwill are 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.

(8) Allowance for Employees' Bonuses

Allowance for employees' bonuses 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.

(9) 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.

(10) Research and Development Costs and Computer Software

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.

(11) Leases

Noncancelable leases are accounted for as operating leases whether such leases are classified as operating or finance leases, except that leases which stipulate the transfer of ownership of the leased property to the lessee are accounted for as finance leases.

(12) 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 enter into the determination of taxable income in a different period.

The Company has recognized the tax effect of such temporary differences in the accompanying consolidated financial statements.

(13) 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 net assets.

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

### 3. Changes in Method of Accounting

Effective the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have early adopted "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan (ASBJ) Statement No. 9 issued on July 5, 2006). As a result of the early adoption of this accounting standard, operating income increased by ¥1,246 million (\$12,436 thousand) and income before income taxes and minority interests decreased by ¥1,822 million (\$18,185 thousand) for the year ended March 31, 2008 as compared to the corresponding amounts which would have been recorded under the method applied in the previous year.

Effective the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment acquired on or after April 1, 2007. This change was made based on an amendment to the Corporation Tax Law. As a result of this change, operating income and income before income taxes and minority interests decreased by ¥843 million (\$8,414 thousand) for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the method applied in the previous year.

Effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Directors' Bonuses" (ASBJ Statement No. 4 issued on November 29, 2005). As a result of the adoption of this accounting standard, operating income and income before income taxes and minority interests decreased by ¥345 million (\$3,443 thousand) for the year ended March 31, 2007 from the corresponding amounts which would have been recorded under the method applied in the previous year.

Effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Share-based Payments" (ASBJ Statement No. 8 issued on December 27, 2005) and "Guidance on Accounting Standard for Share-based Payments" (ASBJ Statement No. 11 issued on May 31, 2006). As a result of the adoption of this accounting standard and the related guidance, operating income and income before income taxes and minority interests decreased by ¥74 million (\$739 thousand) for the year ended March 31, 2007 from the corresponding amounts which would have been recorded under the method applied in the previous year.

### 4. Inventories

Inventories at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	2008	2007
Finished products	¥ 41,596	¥ 40,705	\$ 415,171	\$ 406,278
Work in process	32,456	33,189	323,945	331,261
Raw materials	17,812	15,654	177,782	156,243
Land for sale	24,356	19,773	243,098	197,355
	¥ 116,220	¥ 109,321	\$ 1,159,996	\$ 1,091,137

**5. Investments in Securities**

(1) Other securities with available fair market value at March 31, 2008 and 2007 are summarized as follows:

	Millions of yen			
	2008			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Equity securities	¥ 86,311	¥ 6,514	¥ (8,427)	¥ 84,398
Bonds and debentures	5	0	—	5
	¥ 86,316	¥ 6,514	¥ (8,427)	¥ 84,403

	Millions of yen			
	2007			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Equity securities	¥ 116,459	¥ 94,830	¥ (359)	¥ 210,930
Bonds and debentures	98	11	(0)	109
	¥ 116,557	¥ 94,841	¥ (359)	¥ 211,039

	Thousands of U.S. dollars			
	2008			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Equity securities	\$ 861,473	\$ 65,016	\$ (84,110)	\$ 842,379
Bonds and debentures	50	0	—	50
	\$ 861,523	\$ 65,016	\$ (84,110)	\$ 842,429

	Thousands of U.S. dollars			
	2007			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Equity securities	\$ 1,162,381	\$ 946,502	\$ (3,583)	\$ 2,105,300
Bonds and debentures	978	110	(0)	1,088
	\$ 1,163,359	\$ 946,612	\$ (3,583)	\$ 2,106,388

(2) The book value of investments in securities with no available fair market value at March 31, 2008 and 2007 is summarized as follows:

	Millions of yen	
	2008	2007
Held-to-maturity debt securities:		
Unlisted foreign debt securities	¥ 10,074	¥ —
Other securities:		
Unlisted securities	2,574	2,381
Unlisted foreign securities	5,030	5,000
Total	¥ 17,678	¥ 7,381

	Thousands of U.S. dollars	
	2008	2007
Held-to-maturity debt securities:		
Unlisted foreign debt securities	\$ 100,549	\$ —
Other securities:		
Unlisted securities	25,691	23,765
Unlisted foreign securities	50,205	49,905
Total	\$ 176,445	\$ 73,670

- (3) The proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	2008	2007
Proceeds from sales	¥ 54,532	¥ 717	\$ 544,289	\$ 7,158
Gross realized gain	22,551	118	225,078	1,173
Gross realized loss	(1)	(0)	(9)	(3)

- (4) The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities at March 31, 2008 is summarized as follows:

	Millions of yen		
	2008		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Government and municipal bonds	¥ 29	¥ 50	¥ —
Corporate bonds	—	10,000	—
Total	¥ 29	¥ 10,050	¥ —

	Thousands of U.S. dollars		
	2008		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Government and municipal bonds	\$ 292	\$ 500	\$ —
Corporate bonds	—	99,810	—
Total	\$ 292	\$ 100,310	\$ —

## 6. Loss on Impairment of Fixed Assets

The Company and its consolidated subsidiaries 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.

As a result of a recent decline in land prices, the carrying value of these assets (or groups of assets), whose market value has decreased significantly from their carrying value, has been reduced to their respective recoverable amounts. Accordingly, for the years ended March 31, 2008 and 2007, a total impairment loss of ¥1,374 million (\$13,714 thousand) and ¥1,800 million (\$17,966 thousand), respectively, has been recognized, which consisted of ¥775 million (\$7,735 thousand) and ¥1,645 million (\$16,419 thousand), respectively, on land and ¥599 million (\$5,979 thousand) and ¥155 million (\$1,547 thousand), respectively, on buildings and structures.

The recoverable amounts of the assets (or groups of assets) are measured based on their respective estimated selling value determined by the Company.

## 7. Short-Term Debt, Commercial Paper, Bonds and Long-Term Debt

- (1) Short-term debt

The average interest rates of short-term debt outstanding at March 31, 2008 and 2007 were 2.18% and 1.28%, respectively.

- (2) Commercial Paper

The average interest rate of commercial paper outstanding at March 31, 2007 was 0.61%.

- (3) Bonds outstanding at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	2008	2007
2.22% bonds due December 2009	¥ 5,000	¥ 5,000	\$ 49,905	\$ 49,905
1.67% bonds due May 2007	—	10,000	—	99,810
2.04% bonds due May 2010	10,000	—	99,810	—
4.80% bonds due July 2009	608	642	6,068	6,408
	15,608	15,642	155,784	156,123
Less current maturities	—	(10,000)	—	(99,810)
	¥ 15,608	¥ 5,642	\$ 155,784	\$ 56,313

(4) Long-term debt at March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	2008	2007
Secured	¥ 2,972	¥ 4,637	\$ 29,664	\$ 46,282
Unsecured	45,597	40,283	455,105	402,066
	48,569	44,920	484,769	448,348
Less current portion	(6,557)	(11,630)	(65,446)	(116,079)
	¥ 42,012	¥ 33,290	\$ 419,323	\$ 332,269

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 bonds and long-term debt subsequent to March 31, 2008 are summarized below:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 6,557	\$ 65,446
2010	3,910	39,026
2011	6,083	60,715
2012	10,645	106,248
2013	10,474	104,541
2014 and thereafter	10,900	108,793
	¥ 48,569	\$ 484,769

(5) At March 31, 2008, the following assets were pledged as collateral for long-term and short-term debt and trade notes and accounts payable:

	Millions of yen	Thousands of U.S. dollars
Buildings and structures, at book value	¥ 3,377	\$ 33,702
Machinery	1,279	12,765
Land	4,178	41,704
Intangible fixed assets	44	443
	¥ 8,878	\$ 88,614

(6) 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, 2008 was as follows:

	Millions of yen	Thousands of U.S. dollars
	2008	
Lines of credit	¥ 15,000	\$ 149,716
Credit used	2,112	21,080
Available credit	¥ 12,888	\$ 128,636

### 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, 2008 and 2007 for the Companies' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	2008	2007
Retirement benefit obligation				
at end of year	¥ (110,757)	¥ (113,604)	\$ (1,105,471)	\$ (1,133,886)
Fair value of plan assets at end of year	60,138	65,630	600,240	655,056
Unfunded retirement benefit obligation	(50,619)	(47,974)	(505,231)	(478,830)
Unrecognized actuarial gain	(367)	(6,159)	(3,661)	(61,474)
Unrecognized prior service cost	(1,789)	(4,370)	(17,854)	(43,617)
Net retirement benefit obligation	(52,775)	(58,503)	(526,746)	(583,921)
Prepaid pension cost	312	414	3,116	4,132
Accrued retirement benefits	¥ (53,087)	¥ (58,917)	\$ (529,862)	\$ (588,053)

At March 31, 2008 and 2007, accrued retirement benefits of ¥54,575 million (\$544,715 thousand) and ¥60,643 million (\$605,280 thousand), respectively, reflected in the accompanying consolidated balance sheets included accrued retirement benefits for officers of ¥1,488 million (\$14,853 thousand) and ¥1,726 million (\$17,227 thousand), respectively.

The components of retirement benefit expenses for the years ended March 31, 2008 and 2007 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	2008	2007
Service cost	¥ 7,511	¥ 7,509	\$ 74,970	\$ 74,948
Interest cost	2,582	2,532	25,768	25,272
Expected return on plan assets	(2,135)	(1,963)	(21,308)	(19,593)
Amortization:				
Unrecognized actuarial (gain) loss	(113)	1,246	(1,129)	12,436
Prior service cost	(2,183)	(2,003)	(21,791)	(19,992)
Retirement benefit expenses	¥ 5,662	¥ 7,321	\$ 56,510	\$ 73,071

In addition to retirement benefit expenses listed above, the Company and domestic consolidated subsidiaries accounted for additional payments of retirement benefits of ¥8,109 million (\$80,936 thousand) as reorganization costs for the year ended March 31, 2008.

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2008 and 2007 were as follows:

	2008	2007
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, 2008 and 2007.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2008 and 2007 differ from the above statutory tax rate for the following reasons:

	2008	2007
Statutory tax rate	40.4%	40.4%
Temporary differences arising from consolidation without tax effect	—	(4.9)
Differences in income tax rates applied to overseas consolidated subsidiaries	(3.4)	(3.4)
Non-deductible expenses	2.3	—
Non-application of tax effect on temporary differences of certain consolidated subsidiaries	2.1	—
Other	2.9	0.6
Effective tax rates	44.3%	32.7%

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, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	2008	2007
<b>Deferred tax assets:</b>				
Retirement benefits	¥ 21,876	¥ 24,663	\$ 218,345	\$ 246,162
Tax loss carryforwards	8,000	6,762	79,848	67,492
Accrued bonuses	5,154	5,368	51,442	53,578
Loss on impairment of fixed assets	5,652	5,387	56,413	53,768
Unrealized gain	4,844	4,964	48,348	49,546
Loss on devaluation of investments in securities	2,478	2,475	24,733	24,703
Unrealized holding loss on securities	757	—	7,556	—
Other	7,965	7,258	79,500	72,443
Valuation allowance	(13,841)	(10,146)	(138,148)	(101,268)
<b>Total deferred tax assets</b>	<b>42,885</b>	<b>46,731</b>	<b>428,037</b>	<b>466,424</b>
<b>Deferred tax liabilities:</b>				
Unrealized holding gain on securities	—	38,253	—	381,805
Revaluation of investments in affiliates	3,864	4,859	38,567	48,498
Deferred capital gains on property	2,360	2,459	23,555	24,543
Adjustment for allowance for doubtful accounts	91	90	908	898
Other	4,144	4,336	41,362	43,278
<b>Total deferred tax liabilities</b>	<b>10,459</b>	<b>49,997</b>	<b>104,392</b>	<b>499,022</b>
<b>Net deferred tax assets (liabilities)</b>	<b>¥ 32,426</b>	<b>¥ (3,266)</b>	<b>\$ 323,645</b>	<b>\$ (32,598)</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 (\$103,433 thousand) at March 31, 2008 and 2007.

#### Stock-based compensation plan

In accordance with the former Commercial Code of Japan (the "Code"), a stock option 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 27, 2003.

In accordance with the Code, a stock option 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, 2004.

In accordance with the Code, a stock option 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, a stock option plan for directors and key employees of the Company and for representative directors, certain directors and key employees of certain subsidiaries and affiliates was approved at the annual general meeting of the shareholders held on June 29, 2006.

In accordance with the Law, a stock option plan for directors and key employees of the Company and for representative directors, certain directors and key employees of certain subsidiaries and affiliates was approved by the Board of Directors, and at the annual general meeting of the shareholders held on June 28, 2007.

The stock option plans outlined above are summarized as follows:

Date of approval	Number of stock options outstanding at March 31, 2008	Exercise price at March 31, 2008	Exercisable period
	(Number of shares)	(Yen)	
June 27, 2003	150,000	¥ 453	From July 1, 2005 up to and including June 30, 2008
June 29, 2004	784,000	888	From July 1, 2006 up to and including June 30, 2009
June 29, 2005	957,000	775	From July 1, 2007 up to and including June 30, 2010
June 29, 2006	1,090,000	1,045	From July 1, 2008 up to and including June 30, 2011
June 28, 2007	1,050,000	1,010	From July 1, 2009 up to and including June 30, 2012

#### Common stock and treasury stock

Movements in common stock in issue and treasury stock for the years ended March 31, 2008 and 2007 are summarized as follows:

	Number of shares			
	2008			
	March 31, 2006	Increase	Decrease	March 31, 2007
Common stock	539,507,285	—	—	539,507,285
Treasury stock	9,337,271	5,096,264	345,102	14,088,433

	Number of shares			
	2007			
	March 31, 2006	Increase	Decrease	March 31, 2007
Common stock	539,507,285	—	—	539,507,285
Treasury stock	9,745,774	102,741	511,244	9,337,271

### 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 net assets as unrealized gain on land revaluation of ¥218 million (\$2,176 thousand) and ¥217 million (\$2,166 million) in the accompanying consolidated balance sheets at March 31, 2008 and 2007, respectively.

### 12. Contingent Liabilities

At March 31, 2008, the Companies were contingently liable as guarantors for housing loans of customers in the aggregate amount of ¥14,154 million (\$141,271 thousand), for housing loans of employees in the aggregate amount of ¥1,487 million (\$14,844 thousand) and for loans of unconsolidated subsidiaries in the aggregate amount of ¥270 million (\$2,695 thousand).

At March 31, 2008, the Companies had contingent liabilities arising from notes endorsed in the aggregate amount of ¥350 million (\$3,491 thousand) and notes receivable discounted in the aggregate amount of ¥863 million (\$8,611 thousand).

Since July 10, 2007, the Company and a consolidated subsidiary have been investigated by the Fair Trade Commission due to suspicion of being involved in a price cartel regarding polyvinyl chloride pipes with other participants. The Company, the consolidated subsidiary and the other participants may incur losses; however, the losses cannot be estimated with certainty at this time.

### 13. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2008 and 2007 amounted to ¥25,739 million (\$256,905 thousand) and ¥24,452 million (\$244,054 thousand), respectively.

### 14. Related Party Transactions

The Company's sales to and purchases from its unconsolidated subsidiaries and affiliates for the years ended March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	2008	2007
Sales	¥ 31,527	¥ 34,362	\$ 314,669	\$ 342,968
Purchases	16,412	16,735	163,810	167,033

### 15. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation/amortization and net book value of the leased assets at March 31, 2008 and 2007, which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases (under which the Companies are the lessees) currently accounted for as operating leases:

	Millions of yen					
	2008			2007		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased assets:						
Buildings and structures	¥ 11,801	¥ 6,152	¥ 5,649	¥ 12,800	¥ 5,627	¥ 7,173
Machinery and vehicles	4,425	1,942	2,483	4,137	1,486	2,651
Other assets	9,254	4,739	4,515	6,811	3,196	3,615
Software	638	338	300	721	394	327
	¥ 26,118	¥ 13,171	¥ 12,947	¥ 24,469	¥ 10,703	¥ 13,766

	Thousands of U.S. dollars					
	2008			2007		
	Acquisition costs	Accumulated depreciation/amortization	Net book value	Acquisition costs	Accumulated depreciation/amortization	Net book value
Leased assets:						
Buildings and structures	\$ 117,783	\$ 61,402	\$ 56,381	\$ 127,757	\$ 56,163	\$ 71,594
Machinery and vehicles	44,166	19,387	24,779	41,292	14,832	26,460
Other assets	92,364	47,295	45,069	67,981	31,899	36,082
Software	6,365	3,374	2,991	7,196	3,933	3,263
	<b>\$ 260,678</b>	<b>\$ 131,458</b>	<b>\$ 129,220</b>	<b>\$ 244,226</b>	<b>\$ 106,827</b>	<b>\$ 137,399</b>

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2008 and 2007 amounted to ¥6,643 million (\$66,301 thousand) and ¥6,168 million (\$61,563 thousand), respectively. These amounts were equal to the depreciation/amortization expense of the leased assets computed by the straight-line method over the respective lease terms.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2008 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 5,662	\$ 56,514
2010 and thereafter	7,284	72,705
	<b>¥ 12,946</b>	<b>\$ 129,219</b>

## 16. 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 certain 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 non-performance 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, 2008 and 2007:

### (1) Currency-related transactions

	Millions of yen					
	2008			2007		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized loss
Interest-rate and foreign currency swaps:						
Receive fixed - U.S. dollars/						
pay fixed - yen	¥ 2,438	¥ 253	¥ 253	¥ 2,625	¥(31)	¥ (31)
Receive fixed - Euro/						
pay fixed - yen	1,948	(188)	(188)	2,125	(187)	(187)
Total	<b>¥ 4,386</b>	<b>¥ 65</b>	<b>¥ 65</b>	<b>¥ 4,750</b>	<b>¥ (218)</b>	<b>¥ (218)</b>

	Thousands of U.S. dollars					
	2008			2007		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized loss
Interest-rate and foreign currency swaps:						
Receive fixed - U.S. dollars/						
pay fixed - yen	\$ 24,336	\$ 2,525	\$ 2,525	\$ 26,199	\$ (313)	\$ (313)
Receive fixed - Euro/						
pay fixed - yen	19,445	(1,881)	(1,881)	21,213	(1,863)	(1,863)
Total	<b>\$ 43,781</b>	<b>\$ 644</b>	<b>\$ 644</b>	<b>\$ 47,412</b>	<b>\$ (2,176)</b>	<b>\$ (2,176)</b>

## (2) Interest-related transactions

	Millions of yen					
	2008			2007		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Interest-rate swaps:						
Receive/fixed and pay/floating	¥ 15,000	¥ 374	¥ 374	¥ 25,000	¥ 532	¥ 532
Receive/floating and pay/fixed	15,000	(373)	(373)	25,000	(530)	(530)
Total	¥ 30,000	¥ 1	¥ 1	¥ 50,000	¥ 2	¥ 2

	Thousands of U.S. dollars					
	2008			2007		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Interest-rate swaps:						
Receive/fixed and pay/floating	\$ 149,716	\$ 3,733	\$ 3,733	\$ 249,526	\$ 5,306	\$ 5,306
Receive/floating and pay/fixed	149,716	(3,722)	(3,722)	249,526	(5,286)	(5,286)
Total	\$ 299,432	\$ 11	\$ 11	\$ 499,052	\$ 20	\$ 20

## 17. Amounts Per Share

	Yen		U.S. dollars	
	2008	2007	2008	2007
Net income:				
Basic	¥ 46.16	¥ 48.19	\$ 0.46	\$ 0.48
Diluted	46.15	48.13	0.46	0.48
Cash dividends	15.00	14.00	0.15	0.14
Net assets	683.11	761.69	6.82	7.60

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 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. The amounts per share of net assets have been computed based on the number of shares of common stock outstanding at the 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.

**18. Segment Information**

The business segment information of the Companies for the years ended March 31, 2008 and 2007 is summarized as follows:

**Business Segments**

	Millions of yen						
	2008						
	Housing	Urban infrastructure and environmental products	High performance plastics	Other	Total	Eliminations or unallocable accounts	Consolidated
Sales:							
Sales to third parties	¥ 419,792	¥ 222,483	¥ 273,267	¥ 43,133	¥ 958,675	¥ —	¥ 958,675
Intersegment sales	187	11,274	7,220	5,409	24,090	(24,090)	—
Net sales	419,979	233,757	280,487	48,542	982,765	(24,090)	958,675
Operating expenses	405,847	227,626	255,997	49,949	939,419	(23,750)	915,669
Operating income (loss)	¥ 14,132	¥ 6,131	¥ 24,490	¥ (1,407)	¥ 43,346	¥ (340)	¥ 43,006
Total assets	¥ 179,872	¥ 177,627	¥ 249,563	¥ 42,960	¥ 650,022	¥ 132,838	¥ 782,860
Depreciation and amortization	5,596	7,054	15,236	1,918	29,804	700	30,504
Loss on impairment of fixed assets	1,374	—	—	—	1,374	—	1,374
Capital expenditures	5,571	8,211	15,183	1,440	30,405	863	31,268

	Millions of yen						
	2007						
	Housing	Urban infrastructure and environmental products	High performance plastics	Other	Total	Eliminations or unallocable accounts	Consolidated
Sales:							
Sales to third parties	¥ 430,035	¥ 214,553	¥ 237,881	¥ 43,695	¥ 926,164	¥ —	¥ 926,164
Intersegment sales	436	11,923	7,592	5,990	25,941	(25,941)	—
Net sales	430,471	226,476	245,473	49,685	952,105	(25,941)	926,164
Operating expenses	416,133	215,187	224,784	50,549	906,653	(25,647)	881,006
Operating income (loss)	¥ 14,338	¥ 11,289	¥ 20,689	¥ (864)	¥ 45,452	¥ (294)	¥ 45,158
Total assets	¥ 181,638	¥ 172,482	¥ 247,494	¥ 45,121	¥ 646,735	¥ 232,418	¥ 879,153
Depreciation and amortization	5,368	5,647	12,567	1,641	25,223	823	26,046
Loss on impairment of fixed assets	582	—	—	—	582	1,218	1,800
Capital expenditures	6,384	8,610	19,076	1,605	35,675	662	36,337

	Thousands of U.S. dollars						
	2008						
	Housing	Urban infrastructure and environ- mental products	High performance plastics	Other	Total	Eliminations or unallocable accounts	Consolidated
Sales:							
Sales to third parties	\$ 4,189,959	\$ 2,220,611	\$ 2,727,488	\$ 430,512	\$ 9,568,570	\$ —	\$ 9,568,570
Intersegment sales	1,867	112,526	72,063	53,987	240,443	(240,443)	—
Net sales	4,191,826	2,333,137	2,799,551	484,499	9,809,013	(240,443)	9,568,570
Operating expenses	4,050,774	2,271,943	2,555,115	498,544	9,376,376	(237,050)	9,139,326
Operating income (loss)	\$ 141,052	\$ 61,194	\$ 244,436	\$ (14,045)	\$ 432,637	\$ (3,393)	\$ 429,244
Total assets	\$ 1,795,309	\$ 1,772,901	\$ 2,490,897	\$ 428,786	\$ 6,487,893	\$ 1,325,861	\$ 7,813,754
Depreciation and amortization	55,854	70,406	152,071	19,144	297,475	6,987	304,462
Loss on impairment of fixed assets	13,714	—	—	—	13,714	—	13,714
Capital expenditures	55,604	81,954	151,542	14,373	303,473	8,614	312,087

	Thousands of U.S. dollars						
	2007						
	Housing	Urban infrastructure and environ- mental products	High performance plastics	Other	Total	Eliminations or unallocable accounts	Consolidated
Sales:							
Sales to third parties	\$ 4,292,195	\$ 2,141,461	\$ 2,374,299	\$ 436,121	\$ 9,244,076	\$ —	\$ 9,244,076
Intersegment sales	4,352	119,004	75,776	59,786	258,918	(258,918)	—
Net sales	4,296,547	2,260,465	2,450,075	495,907	9,502,994	(258,918)	9,244,076
Operating expenses	4,153,438	2,147,789	2,243,577	504,532	9,049,336	(255,984)	8,793,352
Operating income (loss)	\$ 143,109	\$ 112,676	\$ 206,498	\$ (8,625)	\$ 453,658	\$ (2,934)	\$ 450,724
Total assets	\$ 1,812,935	\$ 1,721,549	\$ 2,470,247	\$ 450,355	\$ 6,455,086	\$ 2,319,772	\$ 8,774,858
Depreciation and amortization	53,578	56,363	125,432	16,379	251,752	8,214	259,966
Loss on impairment of fixed assets	5,809	—	—	—	5,809	12,157	17,966
Capital expenditures	63,719	85,937	190,398	16,020	356,074	6,607	362,681

As described in Note 3, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9 issued on July 5, 2006). As a result, operating expenses in the housing business segment decreased by ¥429 million (\$4,282 thousand), the urban infrastructure and environmental products business segment decreased by ¥725 million (\$7,236 thousand), the high performance plastics business segment decreased by ¥76 million (\$759 thousand), and the other business segment decreased by ¥16 million (\$160 thousand), and operating income (loss) increased (decreased) by the same amounts for the year ended March 31, 2008 as compared to the corresponding amounts which would have been recorded under the method applied in the previous year.

As described in Note 3, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment acquired on or after

April 1, 2007. Furthermore, as described in Note 2(6), the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of property, plant, and equipment acquired before April 1, 2007. As a result, operating expenses in the housing business segment increased by ¥387 million (\$3,863 thousand), the urban infrastructure and environmental products business segment increased by ¥978 million (\$9,761 thousand), the high performance plastics business segment increased by ¥1,083 million (\$10,809 thousand), the other business segment increased by ¥281 million (\$2,805 thousand), and eliminations or unallocable accounts increased by ¥15 million (\$150 thousand), and operating income (loss) decreased (increased) by the same amounts for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the method applied in the previous year.

Geographical segment information of the Companies for the years ended March 31, 2008 and 2007 is summarized as follows:

### Geographical Segments

	Millions of yen							Eliminations or unallocable accounts	Consolidated
	2008								
	Japan	United States of America	Europe	Asia	Others	Total			
Sales:									
Sales to third parties	¥ 825,748	¥ 33,811	¥ 41,511	¥ 53,212	¥ 4,393	¥ 958,675	¥ —	¥ 958,675	
Intersegment sales	32,600	1,009	1,124	2,260	69	37,062	(37,062)	—	
Net sales	858,348	34,820	42,635	55,472	4,462	995,737	(37,062)	958,675	
Operating expenses	827,251	31,830	37,915	51,685	4,063	952,744	(37,075)	915,669	
Operating income	¥ 31,097	¥ 2,990	¥ 4,720	¥ 3,787	¥ 399	¥ 42,993	¥ 13	¥ 43,006	
Total assets	¥ 529,236	¥ 29,181	¥ 40,579	¥ 49,776	¥ 4,006	¥ 652,778	¥ 130,082	¥ 782,860	

	Millions of yen							Eliminations or unallocable accounts	Consolidated
	2007								
	Japan	United States of America	Europe	Asia	Others	Total			
Sales:									
Sales to third parties	¥ 824,481	¥ 27,272	¥ 30,765	¥ 40,025	¥ 3,621	¥ 926,164	¥ —	¥ 926,164	
Intersegment sales	26,836	1,040	3,218	2,442	87	33,623	(33,623)	—	
Net sales	851,317	28,312	33,983	42,467	3,708	959,787	(33,623)	926,164	
Operating expenses	814,433	26,524	30,844	39,630	3,352	914,783	(33,777)	881,006	
Operating income	¥ 36,884	¥ 1,788	¥ 3,139	¥ 2,837	¥ 356	¥ 45,004	¥ 154	¥ 45,158	
Total assets	¥ 539,082	¥ 24,602	¥ 38,447	¥ 44,378	¥ 3,678	¥ 650,187	¥ 228,966	¥ 879,153	

	Thousands of U.S. dollars							Eliminations or unallocable accounts	Consolidated
	2008								
	Japan	United States of America	Europe	Asia	Others	Total			
Sales:									
Sales to third parties	\$ 8,241,821	\$ 337,469	\$ 414,323	\$ 531,111	\$ 43,846	\$ 9,568,570	\$ —	\$ 9,568,570	
Intersegment sales	325,382	10,071	11,219	22,557	688	369,917	(369,917)	—	
Net sales	8,567,203	347,540	425,542	553,668	44,534	9,938,487	(369,917)	9,568,570	
Operating expenses	8,256,822	317,696	378,431	515,870	40,554	9,509,373	(370,047)	9,139,326	
Operating income	\$ 310,381	\$ 29,844	\$ 47,111	\$ 37,798	\$ 3,980	\$ 429,114	\$ 130	\$ 429,244	
Total assets	\$ 5,282,324	\$ 291,257	\$ 405,020	\$ 496,816	\$ 39,984	\$ 6,515,401	\$ 1,298,353	\$ 7,813,754	

	Thousands of U.S. dollars							Eliminations or unallocable accounts	Consolidated
	2007								
	Japan	United States of America	Europe	Asia	Others	Total			
Sales:									
Sales to third parties	\$ 8,229,175	\$ 272,203	\$ 307,067	\$ 399,491	\$ 36,140	\$ 9,244,076	\$ —	\$ 9,244,076	
Intersegment sales	267,851	10,380	32,119	24,374	868	335,592	(335,592)	—	
Net sales	8,497,026	282,583	339,186	423,865	37,008	9,579,668	(335,592)	9,244,076	
Operating expenses	8,128,885	264,737	307,855	395,548	33,456	9,130,481	(337,129)	8,793,352	
Operating income	\$ 368,141	\$ 17,846	\$ 31,331	\$ 28,317	\$ 3,552	\$ 449,187	\$ 1,537	\$ 450,724	
Total assets	\$ 5,380,597	\$ 245,553	\$ 383,741	\$ 442,938	\$ 36,711	\$ 6,489,540	\$ 2,285,318	\$ 8,774,858	

As described in Note 3, the Company and its domestic consolidated subsidiaries have adopted “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9 issued on July 5, 2006). As a result, operating expenses in the Japan segment decreased by ¥1,246 million (\$12,436 thousand) and operating income increased by the same amount for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the method applied in the previous year.

As described in Note 3, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment acquired on or after April 1, 2007. Furthermore, as described in Note 2(6), the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of property, plant, and equipment acquired before April 1, 2007. As a result, operating expenses in the Japan segment increased by ¥2,746 million (\$27,408 thousand) and operating income decreased by the same amount for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the method applied in the previous year.

**Overseas Sales**

Overseas sales for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen				
	2008				
	America	Europe	Asia	Other	Total
Overseas sales	¥ 38,557	¥ 45,033	¥ 66,767	¥ 4,767	¥ 155,124
Consolidated net sales	—	—	—	—	958,675
Overseas sales as a percentage of consolidated net sales	4.0%	4.7%	7.0%	0.5%	16.2%

	Millions of yen				
	2007				
	America	Europe	Asia	Other	Total
Overseas sales	¥ 28,458	¥ 34,239	¥ 50,257	¥ 3,921	¥ 116,875
Consolidated net sales	—	—	—	—	926,164
Overseas sales as a percentage of consolidated net sales	3.1%	3.7%	5.4%	0.4%	12.6%

	Thousands of U.S. dollars				
	2008				
	America	Europe	Asia	Other	Total
Overseas sales	\$ 384,841	\$ 449,473	\$ 666,405	\$ 47,581	\$ 1,548,300
Consolidated net sales	—	—	—	—	9,568,567
Overseas sales as a percentage of consolidated net sales	4.0%	4.7%	7.0%	0.5%	16.2%

	Thousands of U.S. dollars				
	2007				
	America	Europe	Asia	Other	Total
Overseas sales	\$ 284,041	\$ 341,738	\$ 501,618	\$ 39,144	\$ 1,166,541
Consolidated net sales	—	—	—	—	9,244,076
Overseas sales as a percentage of consolidated net sales	3.1%	3.7%	5.4%	0.4%	12.6%

### 19. Supplemental Information on Statements of Cash Flows

A reconciliation between cash and cash equivalents in the accompanying consolidated statements of cash flows and cash and time deposits in the accompanying consolidated balance sheets at March 31, 2008 and 2007 is presented as follows:

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	2008	2007
Cash and time deposits	¥ 30,281	¥ 26,084	\$ 302,236	\$ 260,345
Time deposits with maturities in excess of three months	(428)	(115)	(4,272)	(1,147)
Cash and cash equivalents	¥ 29,853	¥ 25,969	\$ 297,964	\$ 259,198

Allen Extruders, LLC. acquired the business of Allen Extruders, Inc. and the accounts of Allen Extruders, LLC. were initially consolidated for the year ended March 31, 2008. The following summarizes the assets and liabilities included in consolidation and the relation between acquisition cost and net disbursement of acquisition of the business:

	Millions of yen	Thousands of U.S. dollars
	2008	
Current assets	¥ 1,155	\$ 11,528
Non-current assets	2,083	20,790
Goodwill	2,629	26,240
Current liabilities	(204)	(2,036)
Other	120	1,198
Acquisition cost	5,783	57,720
Cash and cash equivalents of Allen Extruders, LLC	(3)	(30)
Net disbursement of acquisition of a business	¥ 5,780	\$ 57,690

### 20. Business Combination

On April 6, 2007, Sekisui America Corporation, a consolidated subsidiary of the Company, established Allen Extruders, LLC. Allen Extruders, LLC. in turn acquired the business of Allen Extruders, Inc., an ABS-based plastic seat manufacturer, on April 12, 2007. The Company determined that the acquisition would enable it to maintain its global market share of business of urban infrastructure and environmental products. The aggregate acquisition cost was \$47 million, which consisted of \$46 million of acquisition price and \$1 million of expenditures directly related to the acquisition. The acquisition was accounted for using the purchase method of accounting. As Allen Extruders, LLC. is the acquiring company, goodwill of \$21 million arising from the acquisition is not being amortized in accordance with the accounting standards generally acceptable in the United States.

The accompanying consolidated statement of income for the year ended March 31, 2008 reflects the operating results of Allen Extruders, Inc. for the period from April 12, 2007 to December 31, 2007. The amounts of assets acquired and liabilities assumed of Allen Extruders, Inc. at the date of acquisition were as follows:

	(Millions of U.S. dollars)
Current assets	\$ 10
Tangible fixed assets	7
Intangible fixed assets	9
Goodwill	22
Current liabilities	(1)
Acquisition price	\$ 47

**21. Subsequent Events**

- (1) From May 15, 2008 to May 28, 2008, the Company and its consolidated subsidiaries encouraged certain employees in the urban infrastructure and environmental products business division to participate in an early retirement plan with special benefits. As a result, the Company anticipated the related retirement cost to be approximately ¥2,100 million (\$20,960 thousand).
- (2) On May 16, 2008, the Company concluded a contract for the acquisition of 75% of the outstanding shares of stock of Chevalier Pipe Technologies G.m.b.H., a company engaged in the pipeline regeneration business and a subsidiary of Chevalier International Holdings Ltd.

An outline of Chevalier Pipe Technologies G.m.b.H. is presented as follows:

1. Principal business activities: Pipeline regeneration business (development, production, distribution and engineering)
2. Planned acquisition date July 2008
3. Acquisition cost of stock of Chevalier Pipe Technologies G.m.b.H.: U.S.\$37,500 thousand
4. Percentage of ownership after the acquisition: Owned by the Company: 75%  
Owned by CPT Belgium Holdings S.p.r.L.: 25%

## 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, 2008 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, 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, 2008 and 2007, 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 3, effective the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for the measurement of inventories.

As described in Note 21(1), the Company and its consolidated subsidiaries encouraged certain employees in the urban infrastructure and environmental products business division to participate in an early retirement plan with special benefits. As a result, the Company anticipates the related retirement cost to be significant.

As described in Note 21(2), on May 16, 2008, the Company concluded a contract for the acquisition of 75% of the outstanding shares of stock of Chevalier Pipe Technologies G.m.b.H., a subsidiary of Chevalier International Holdings Ltd.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the years ended March 31, 2008 and 2007 are presented solely for convenience. Our audits also included translations of yen amounts into U.S. dollar amounts and, in our opinion, such translations have been made on the basis described in Note 1.

*Ernst & Young Shin Nihon*

Osaka, Japan  
June 20, 2008