

# Annual Report 2005

Year Ended March 31, 2005

Standing Out in Growing Business Fields

**SEKISUI CHEMICAL CO., LTD.**



# STANDING OUT IN GRO

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Statements made in this annual report with respect to Sekisui Chemical's plans, strategies and future performance that are not historical facts are forward-looking statements, and are based on management's assumptions and beliefs judged from information currently available. The Company cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.



# WING BUSINESS FIELDS

## PROFILE

Since our establishment in 1947, the Sekisui Chemical Group has provided a wide range of products and services that enrich people's lives and enhance the social foundation. By strengthening our unique, outstanding technology and customer service (CS) quality management, we have realized "prominent" products and services and have continued our long-standing commitment to the environment and the community as a corporate citizen.

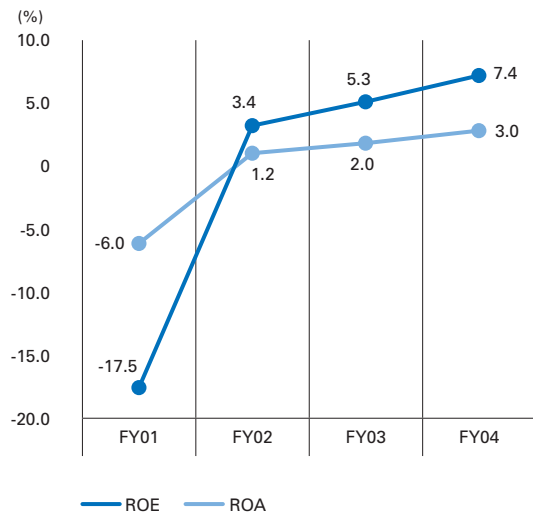
Now our corporate philosophy is the "Creation of social value by responding to stakeholders' expectation." The Sekisui Chemical Group will pursue a prominent position in the marketplace and high profitability. We will continue to grow as a "good company," thereby fulfilling our corporate responsibilities and responding to the expectations of our customers, shareholders, employees, community and environment.

**Our keywords are “prominence” and “high profitability.”**

While we have concentrated on high value-added areas using our “prominent” technologies, we have strived to improve productivity and cost-efficiency. With that, the Sekisui Chemical Group is achieving determined growth along with “high profitability.”

Our efforts have resulted in “actual achievements” in our business performances.

ROE and ROA

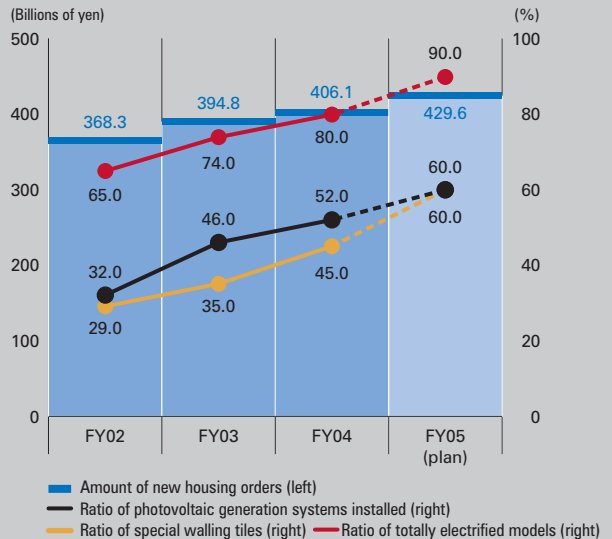


**1. In the Housing Company...**

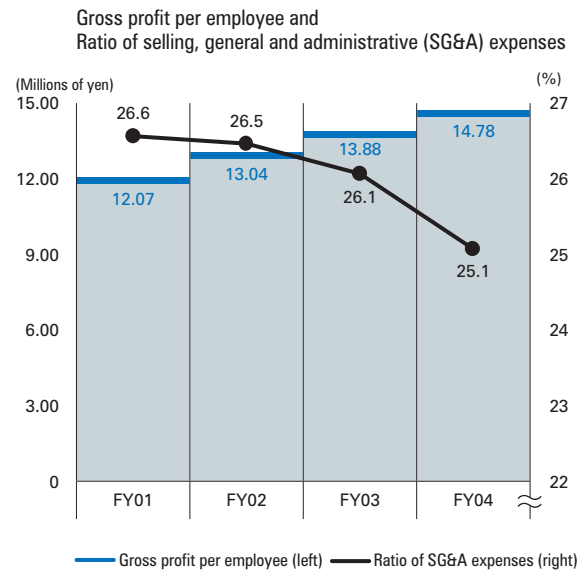
Our own unit construction method is creating the advantage of LCC (Life Cycle Cost) and giving our products high added value such as the installation of a photovoltaic generation system. This has contributed to a growth in received orders.

Our “prominent” technologies are supporting profitability and growth potential in each division company.

Amount of new housing orders and Ratio of photovoltaic generation systems installed, special walling tiles, and totally electrified models



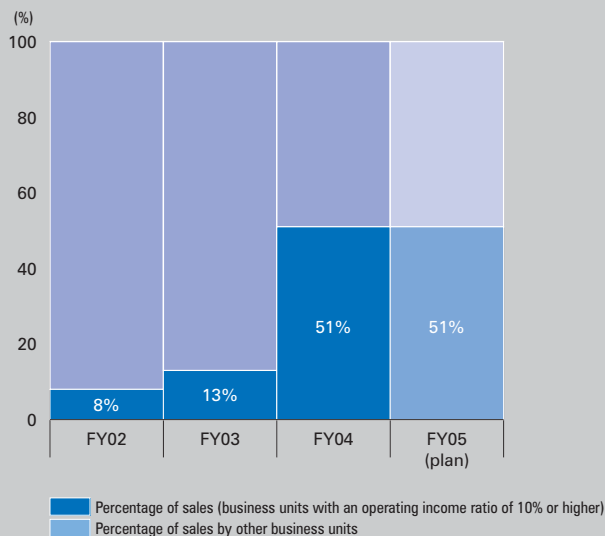
While promoting increased yields through differentiation, we have encouraged a streamlining of our business.



## 2. In the Urban Infrastructure & Environmental Products Company...

We have achieved tangible results in our efforts to enhance profitability in our core businesses centering on water supply & drainage systems. Going forward, we will further solidify our revenue base by applying a unique advantage represented by aged pipe restoration technology.

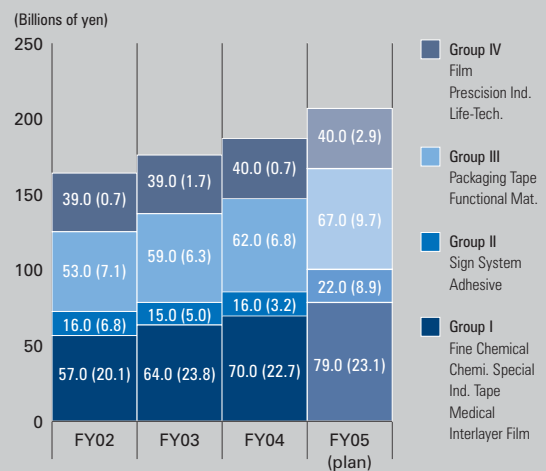
Percentage of sales by business units with an operating income ratio of 10% or higher



## 3. In the High Performance Plastics Company...

High profitability in a business portfolio is driven by high value-added products such as automobile inter-layer films and LCD fine particle products that have the world's best share.

Trend of sales and ROA by business group



The number inside the parenthesis is ROA.

# FINANCIAL HIGHLIGHTS

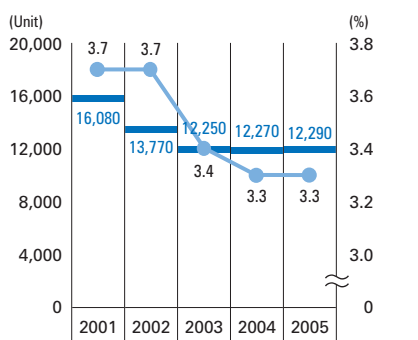
Sekisui Chemical Co., Ltd. and its Subsidiaries  
Years ended March 31

	Millions of yen			Thousands of U.S. dollars*1
	2003	2004	2005	2005
<b>FOR THE YEAR</b>				
<b>Operating Results:</b>				
Net sales	¥799,709	¥814,864	<b>¥856,936</b>	<b>\$7,979,663</b>
Gross profit	225,902	235,729	<b>251,264</b>	<b>2,339,734</b>
Operating income	14,025	23,081	<b>36,446</b>	<b>339,380</b>
Non-operating income and expenses	2,771	4,410	<b>1,541</b>	<b>14,350</b>
Net financial income (expenses)	(1,783)	(1,380)	<b>(1,276)</b>	<b>(11,882)</b>
Equity in earnings of affiliates	6,582	8,490	<b>4,745</b>	<b>44,185</b>
Ordinary income	16,796	27,491	<b>37,986</b>	<b>353,720</b>
Net income	9,298	15,019	<b>22,286</b>	<b>207,524</b>

## FOR REFERENCE

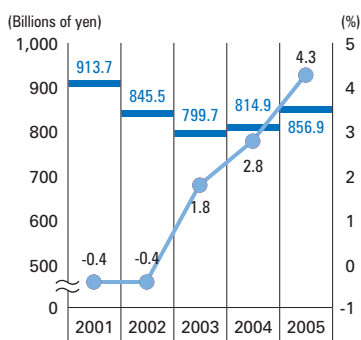
	2003	2004	2005
<b>Business Related Data:</b>			
Total number of houses sold (Unit)	15,840	16,110	<b>16,660</b>
Detached houses sold (Unit)	12,250	12,270	<b>12,290</b>
Total number of orders received (Unit)	18,990	19,190	<b>19,200</b>
New orders received (Millions of yen)	368,326	394,810	<b>406,070</b>
<b>Market Data:</b>			
Overall housing starts (Unit)	1,145,553	1,173,649	<b>1,193,038</b>
Owned housing (Unit)	365,507	373,015	<b>367,233</b>
Rented housing (Unit)	454,505	458,708	<b>467,348</b>

Number of our detached houses sold and Percentage of our share in detached housing



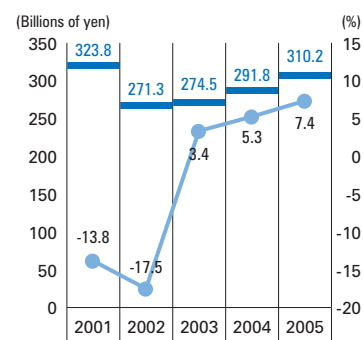
■ Number of our detached houses sold (left)  
— Percentage of our share in detached housing (right)

Net sales and Operating income ratio



■ Net sales (left)  
— Operating income ratio (right)

Shareholders' equity and ROE



■ Shareholders' equity (left)  
— ROE (right)

	Millions of yen			Thousands of U.S. dollars*1
	2003	2004	2005	2005
<b>AT YEAR-END</b>				
<b>Financial Position:</b>				
Total assets	¥751,240	¥748,791	<b>¥748,798</b>	<b>\$6,972,698</b>
Shareholders' equity	274,475	291,756	<b>310,197</b>	<b>2,888,509</b>
Interest-bearing debt	193,774	153,073	<b>119,544</b>	<b>1,113,176</b>
<b>Other Data:</b>				
Total number of employees	17,329	16,987	<b>17,002</b>	
<b>PER SHARE AMOUNTS</b>				
	Yen			U.S. dollars*1
Net income, non-diluted (EPS)	¥ 17.43	¥ 28.00	<b>¥ 41.48</b>	<b>\$ 0.39</b>
Cash dividends	6.00	7.00	<b>10.00</b>	<b>0.10</b>
Shareholders' equity	514.86	548.16	<b>582.42</b>	<b>5.42</b>

**RATIO**

Operating income ratio*2 (%)	1.8	2.8	<b>4.3</b>
Return on equity (ROE)*3 (%)	3.4	5.3	<b>7.4</b>
Return on total assets (ROA)*3,4 (%)	1.2	2.0	<b>3.0</b>
Equity ratio (%)	36.5	39.0	<b>41.4</b>
Debt/Equity ratio*5 (%)	70.6	52.5	<b>38.5</b>

\*1: U.S. dollar amounts represent translations of Japanese yen, for the readers' convenience only, at the rate of ¥107.39=U.S.\$1.00, the prevailing exchange rate at March 31, 2005.

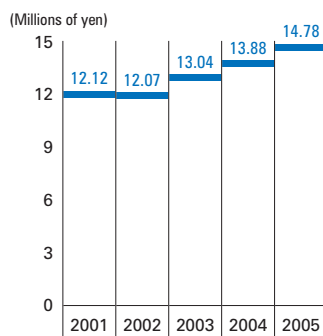
\*2: Operating income ratio = Operating income/Net sales

\*3: ROE and ROA are calculated using the simple average of the beginning and end of term balance sheet figures.

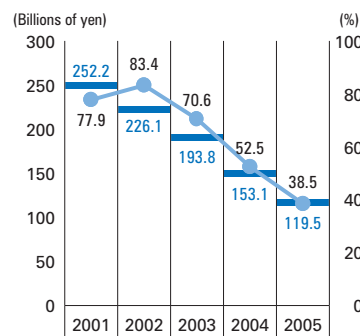
\*4: ROA = Net income / Total assets

\*5: Debt/Equity ratio = Interest-bearing debt/Shareholders' equity

Gross profit per employee

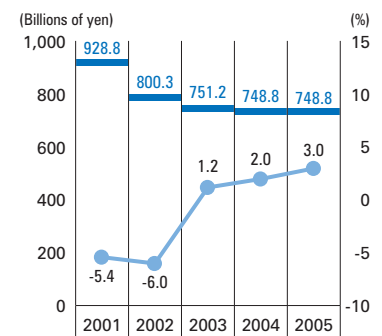


Interest-bearing debt and Debt/Equity ratio



■ Interest-bearing debt (left)  
— Debt/Equity ratio (right)

Total assets and ROA



■ Total assets (left)  
— ROA (right)

**Our medium-term management vision “GS21-Premium 600” identifies a “premium company” as a corporation that realizes a prominent position in the marketplace and high profitability.**

**To position Sekisui Chemical as a genuine “premium company” with sustainable growth, we have identified key growth areas and put forth our fullest efforts to differentiate our products from those of the competition through the use of our “prominent” technologies. The results of these efforts have now begun to become steadily apparent in our sales and profit figures.**

## **LOOKING BACK AT FISCAL YEAR 2004 (APRIL 1, 2004 – MARCH 31, 2005)**

### **Review of consolidated results**

A slowdown in capital expenditures, which had served as a conduit for Japan’s economic recovery in fiscal year 2003, was the main reason for the stagnant status of the economy in fiscal year 2004. Even though the automobile industry remained relatively strong due to the improved competitiveness of Japanese automobile manufacturers at a global level, inventory cutbacks in the IT sector proved to be a deterrent. In the Housing area, overall housing starts increased 1.7% year on year, centering on the strength of built for sale and rental housing. However, conditions were lackluster in owner-occupied housing, which has the most effect on our business, with a decline of 1.6% being recorded.

Amidst the macro-environment of these favorable as well as unfavorable market movements, we nevertheless maintained considerable growth momentum during fiscal year 2004. Consequently, we succeeded in increasing both revenue and profit in continuation from the previous fiscal year. Net sales for fiscal year 2004 exceeded our target by ¥6.9 billion, and grew 5.2% year on year to ¥856.9 billion. Operating income exceeded our target by ¥1.4 billion, and grew by a significant 57.9% year on year to reach ¥36.4 billion. To add to this, net income showed a year-on-year growth of 48.4% and stood at ¥22.3 billion. These figures—and above all, the exponential increase in profitability—are the direct result of businesses that we have identified and developed as our clear-cut strategy. I am of the opinion that these businesses have proved to be of immense value. Together with the use of “prominent” technologies to create highly profitable business portfolios not overly impacted by changes in the business environment, we have also institutionalized a cost structure that is both robust and flexible.

We have been making intensive efforts in respect to our cash flow management with the objective of maximizing shareholder value. The created cash flow is being invested in growing business areas. At the same time, we are also engaged in strengthening our financial framework through the reduction of interest-bearing debt. In view of these efforts and in keeping with our pursuit to provide a maximum return for the favorable results of fiscal year 2004 to our shareholders, we have increased the dividend per share by ¥3 from the previous fiscal year to ¥10.

### **Review by segment—all three division companies posted increased revenue and profit**

In fiscal year 2004, our three division companies displayed concentrated efforts in the identified growth areas under the slogan of “prominence” and “high profitability.” As a result of these efforts, all three division companies were able to steadily increase both revenue and profit.

Net sales in the Housing Company rose by 4.5% year on year to ¥429.2 billion. This is attributable to the tremendous market response to its high value-added products, typified by the “zero-utility-cost” houses, and in particular to the increase in sales for detached houses. The increase in sales of high value-added products also caused an appreciation in the per-unit price. Added to this, factors such as the lowering of costs through evenly spacing orders, production, and construction also served to impact operating income, which saw an exponential year-on-year growth of 58.1% to reach ¥16.2 billion.

In the Urban Infrastructure & Environmental Products (UIEP) Company, the division of environment and civil engineering system, with a focus on the restoration of aged pipes, produced substantial sales growth, with a year-on-year increase of 54.9%. The division of plant materials also produced steady year-on-year growth of 25.2% in the sales of plant materials. These materials include pipes and valves for ultraclean water, which are aimed at semiconductor and LCD manufacturing plants. As a result, the UIEP Company’s net sales grew 6.5% year on year to ¥204.8 billion. Operating income also grew substantially by 171% year on year to ¥8.9 billion. This was prompted, in addition to the fixed cost reduction, by successfully passing on a surge in raw materials costs to the price increase in our PVC products.

In the High Performance Plastics (HPP) Company, IT-related materials, particularly fine particles for LCDs, showed steady sales growth despite an adjustment in demand. In addition, sales also grew strongly in the area of automotive materials, mainly interlayer films for laminated glass. As a result, net sales of the HPP Company grew by 8.8% year on year to ¥197.7 billion. Operating income also grew by 19.9% year on year to reach ¥14.8 billion, making for an increase in both revenue and profit.

In fiscal year 2004, the second year of the medium-term management vision “GS21-Premium 600,” all three division companies succeeded in generating increased revenue and profit as planned. This achievement has been possible as a result of the combined efforts of all division companies towards the goal of “growing into a premium company,” and I have the utmost confidence that we successfully bolstered the fundamentals of “secured profitability” and “sustained growth” over the course of these two years.



## Sekisui Chemical Group's Medium and Long-Term Management Vision:

**Aiming to become a genuine "premium company" with an operating income ratio of over 10%**

### FACING UP TO THE FUTURE IN FISCAL YEAR 2005

Our operating income ratio has been increasing steadily, from 2.8% the last fiscal year to 4.3% in fiscal year 2004. However, to position Sekisui Chemical as a genuine "premium company," we must take steps to push operating income ratio over our benchmark of 10%. At present, the Sekisui Chemical Group has 23 separate business units. Of these, eight business units have already attained an operating income ratio of over 10%. Moving forward, we will continue to increase the number of business units that meet this target figure. Our ultimate goal in the medium and long term is to become a genuine high-profit company that realizes an overall operating income ratio of over 10%. Moving towards this goal, we have positioned fiscal year 2005 as a crucially strategic year for our transition into a genuine "premium company." In order to achieve this, we will be implementing the following plans:

#### **Definitive achievement of "GS21-Premium 600," our medium-term management vision (FY 2003-FY 2005)**

In the Japanese housing market, against the backdrop of the structural negative factors such as a declining birthrate and the "graying of society," the difficult market environment is expected to continue. In addition, the cost of raw materials is surging. This is proving to be an impediment to growth not only for housing, but in all our businesses. Under such circumstances, in fiscal year 2005, which will also be the last fiscal year of our medium-term management vision "GS21-Premium 600," we will be concentrating on the following two objectives.

As is evident from the title of the vision, at the time of developing the management vision, we undertook to raise our consolidated operating income to ¥60.0 billion by fiscal year 2005. In line with this objective, each division company has been increasing its profit-earning capacity steadily over time. On the other hand, the pace of growth in the (1) developing new businesses and in (2) refurbishing business has been slower than what was outlined in the original plan. Taking this into account, we made a downward revision to the target from ¥60.0 billion to ¥50.0 billion for our consolidated operating income in fiscal year 2005. In spite of this revision, we anticipate that our operating income growth will maintain a high



Naotake Okubo, President

level of 37.2% year on year. Although the business environment surrounding us is not easy, we will exert our every effort to achieve this target. As part of this effort, we appointed a new president for each of the three division companies in April this year.

The second target objective for fiscal year 2005 is to further improve upon the results achieved in "GS21-Premium 600" exponentially. Together with this, we will also seek to give due attention to countermeasures concerning the outstanding issues, and to work towards the development of the next new medium-term management plan. It is understood that the planning will not be a mere theoretical exercise. Our objective is to create a pragmatic roadmap for the further improvement of each individual business unit.

#### **Advancing growth to position ourselves as a genuine "premium company"**

For us, a "premium company" is signified by a group of premium businesses. It is our objective to raise each of our individual businesses to the level of a premium business by bringing each to the leading position in their respective segments. In order to achieve this, we will strive for the implementation of a "qualitative changeover" of our businesses and human resources and "refining our management foundation."

#### **"Qualitative Changeover" of Businesses**

The Sekisui Chemical Group seeks to take a great leap towards the future. In order to achieve this, we have identified a number of strategically strong and growing business areas. We will be making efforts in the following three aspects with a view towards concentrating our resources in these identified areas:

##### **1) Restructuring business portfolio**

From the start, we have been promoting a restructuring of our business portfolio across the entire Group as a means of channeling our resources into strategically strong and growing business areas. We will now further scale these strategically strong (high profitability) and growing (sustainable high growth) areas.

### **2) Dynamically developing business opportunities**

We believe that within the businesses presently operated by the Sekisui Chemical Group there are limitless hidden possibilities for future growth. We are aware that the most critical issue for us is to be perceptive to such opportunities for growth and to make dynamic developments in these areas. It will be our endeavor to concentrate all efforts towards this end.

### **3) Maximizing our focus on growing businesses**

"IT," "China," and the "living environment business" have been positioned as our three major growth areas. We have been pushing forward with business in these areas since last year, when we set up the Business Strategy Committee. We will continue to concentrate on these three core areas even beyond fiscal year 2005, and will strive to do our utmost to deliver substantial results.

### **"Qualitative Changeover" of Human Resources**

I believe that for the Sekisui Chemical Group to establish "prominent" businesses, it will be indispensable for the efforts to be supported by "prominent" personnel. With the recognition that the key to a changeover into a genuine "premium company" lies in developing human resources that support this goal, we have identified the following three strategies to strengthen practices for the cultivation and retention of personnel:

#### **1) Strengthening the strategic skills of business leaders**

We will strengthen our efforts towards developing leaders with a firm grasp of business as a whole—persons with an observant perspective of the business and world situations, who have the ability to create successful businesses. Creating a top-ranked business requires persons who have the insight and caliber to develop new ideas.

#### **2) Developing globally-oriented human resources**

Overseas operations focusing on China continue to increase in momentum. In this respect, the need for developing globally-oriented personnel is now becoming more critical than ever. Not restricting ourselves to the training of managerial staff at our overseas companies, we will also strengthen our strategies, centering on a "global employee system" to develop "prominent" globally-oriented personnel.

#### **3) Fostering specialists**

As part of our initiative to foster specialists, we will strengthen the training of technologists involved in pioneering work. In addition, we will also make efforts toward creating teams of specialists in areas such as patenting and legislation in order to protect our "prominent" technologies and leverage these technologies to the maximum extent and advantage.

### **"Refining Our Management Foundation"**

We at the Sekisui Chemical Group consider "environmental corporate management," "CS quality management," and "compliance" to be the three main cornerstones of our management foundation.

Our strategies in the field of environmental corporate management have been highly evaluated by external parties. We have received an environmental rating of "AA" from the review and assessment firm of Deloitte Touche Tohmatsu, and are an industry frontrunner in the field. We will continue our strategies towards our aim of becoming an "environmentally creative organization," and will work towards strengthening this "prominent" position.

In the field of "CS quality management," we have adopted the phrase "Customer opinion as the seed for product development" as our company-wide slogan. By this, we seek to return to the roots of manufacturing. We will spare no effort in working diligently to raise the quality of our products, and in becoming a company that earns the absolute trust of customers.

Starting with the protection of personal information, a corporation's responsibility for due compliance has continued to increase. I am fully aware of the fact that while errors in business can be corrected, it is impossible to undo the damage that is caused to a corporate brand from compliance failures. Based on this awareness, we have been thoroughly working on establishing a compliance structure. We have also been making efforts towards a proactive disclosure of information, and seeking to fulfill our social responsibilities through robust corporate initiatives.

### **IN CLOSING**

We at the Sekisui Chemical Group aim to become a prominent and highly profitable "premium company." Together with making efforts to maximize sustained growth and corporate value, we continuously seek to realize a balance of coexistence and coprosperity with local communities and with the global environment as well. By doing so, we hope to fulfill the expectations of all our stakeholders.

We look forward to your continued understanding and support of the management at the Sekisui Chemical Group.

July 2005



Naotake Okubo, President

SWANIUM—a museum with glass-walled frontage in Tianjin, China. Sekisui's interlayer film for laminated glass is supporting China's newest wave of modern architecture.



STANDING OUT IN  
GROWING BUSINESS FIELDS  
FOR THE SEKISUI CHEMICAL GROUP TO KEEP WINNING

The Sekisui Chemical Group's source of sustained high growth is our identification of business fields where we can win by leveraging our "prominent" technologies of which we are proud, intensively allocating our resources to those fields, and further enhancing the differentiation of our products and services in the marketplace.

There is a multitude of businesses where we maintain a competitive advantage by leveraging our "prominence." In this special feature, we would like to showcase three examples: I. Interlayer Film Business, II. Aged Pipe Restoration Business, and III. Housing Business.

## Differentiation/Growing Fields I.

### INTERLAYER FILM BUSINESS:

#### Continuation and Evolution of the High-Growth, High-Profitability Business Model

### BUSINESS ENVIRONMENT

#### —Increasing Demand for Safe and Comfortable Space in the Car

The Sekisui Chemical Group is the world's leading manufacturer of interlayer films for automobiles, commanding a global market share of about 40%.

Taking the form of transparent plastic sheets with the superior quality of adhesiveness, interlayer films are used to enhance the safety and security qualities of laminated glass used in automobiles and other vehicles as well as in construction. The scale of the global market in fiscal year 2004 was estimated to be approximately 160,000 tons, with approximately 110,000 tons being used in automobiles. The market for laminated glass for automobiles is continuing to expand due to the solid overall performance of the automobile industry in recent years as well as the increased use of laminated glass per vehicle.

### OUR PROMINENCE

#### —Key Points of Differentiation in the Interlayer Film Business

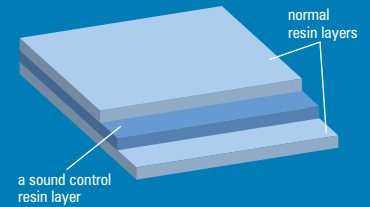
##### 1. Core Technologies for Differentiation

We recognized the growth potential of interlayer films especially for automobiles at an early stage, and poured our efforts into the development and production of higher-performance interlayer films in response to the demand for safe and comfortable car space. Since we started producing interlayer films for laminated glass in 1958, we have been successively launching interlayer films with different functions including safety, security, and UV shielding. In addition, in 1998, we launched the world's first multilayer interlayer film with an edge for sound control. Then in 2001, we launched the world's first nano-dispersion interlayer film with the advantage of solar control. The interlayer film shields infrared radiation (thermal wire) and at the same time allows electromagnetic waves to pass through, and as such, unlike heat-reflecting glass, does not block communication radio waves such as those used in the electronic toll collection (ETC) system for automobiles.

The credibility of our interlayer film products widely used around the world is supported by the following three core technologies for which we have acquired patents:

##### 1) Multi-layer extrusion technology

Multi-layer extrusion technology is used to extrude multiple layers from metal molds simultaneously to multilayered interlayer films at a clip. It is the essential technology to make interlayer

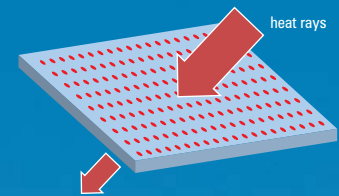


**S-LEC Acoustic Film (sound control interlayer film)**

films multifunctional as it is capable of giving specific functions to specific layers. In particular, sound control interlayer films, made by adding a resin layer with high sound-control properties to a normal resin layer, are now being used widely both for buildings and automobiles. The sound control interlayer films have a surface that can be treated just like conventional interlayer films but which displays high sound insulation performance while maintaining a high quality.

##### 2) Fine-particle distribution technology

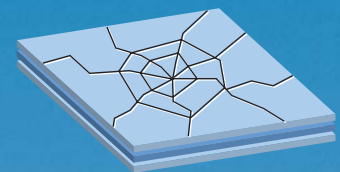
Fine-particle distribution technology involves injecting uniformly fine particles and materials with varied functions into interlayer film resins. It is a technology essential to ensure the multifunctional properties of interlayer films as well as uniform quality. Solar control interlayer films, launched in 2001, are made by dispersing fine particles with infrared ray-shielding functions inside them. The fine-particle distribution technology is put to work to maintain transparency and other features of interlayer films.



**S-LEC Solar Control Film (solar control interlayer film)**

##### 3) Adhesive strength adjustment technology

The technology to adjust the amount of adhesion between glass and polyvinyl butyral is vital to ensure the safety of laminated glass. Our interlayer films have a quality advantage of



Suitable adhesive strength prevents glass panes from shattered while it strengthens the penetration resistance of laminated glass.

high moisture resistance and ensure stable adhesive strength. With this technology, we have been recognized as an interlayer film supplier for the Japanese automobile industry, which has required long rigorous quality.

## 2. Evolution of Our Strategy for Differentiation

We seek to raise our share of the global market for interlayer films used in automobiles from 40% to 50% by fiscal year 2007 through the launch of new products and a further advancement into the global market.

### 1) Launch of new high-performance interlayer film, "S-LEC SSF"

We have so far established our competitive advantages by introducing interlayer film products with individual respective sound and solar control properties. Prompted by the growing importance given to the environmental and comfort performance of automobiles in recent years, we launched a high-performance interlayer film that combines sound and solar control properties as one in the spring of 2005. The new product is a breakthrough in high-perform-

ance interlayer film that can shut off sound and heat with just a single layer to help enhance the comfort and environmental-friendliness of a vehicle. In addition to these high-performance properties, the new product also has an advantage for glass manufacturers in that they can produce glass having both sound and solar control properties with the conventional process of inserting an interlayer film between two pieces of glass.

### 2) Further advancement into the global market

Up to the present, we have made efforts to broaden our overseas production bases, opening plants in Mexico (1971), the Netherlands (1997), Thailand (2002), and adding a second line to our plant in the Netherlands (2003). In October 2004, we established the world's first production and sales company of interlayer films for laminated glass in China and began full operations. By having local production bases at points of demand, we intend to provide more fine-tuned services and strengthen our position in the interlayer film market.





## Differentiation/Growing Fields II.

### AGED PIPE RESTORATION BUSINESS:

Being the First to Establish a Leading Position in Globally Growing Fields

#### BUSINESS ENVIRONMENT

##### — High Potential Demand in Industrialized Countries

With the diffusion rate of sewage pipes coming to about 67% in Japan and to over 70% in most other industrialized countries, the question now is how to maintain these pipes in a healthy state. Sewage pipes installed intensively in Japan and other industrialized countries in periods after World War II are deteriorating, causing serious problems such as leakage, flooding, and cave-in of the road. In Japan, there are about 7,000 km of sewage pipes beyond the serviceable life of 50 years, but only about 2,500 km of them have so far been restored or replaced. Aged sewage pipes are renewed using any of following three methods: (1) replacement with newly installed pipes; (2) partial repairs; or (3) rebuilding through aged pipe restoration. Since the installation of new sewage pipes is often impossible due to road conditions and the concentration of houses and partial repairs offer only limited solutions, demand for aged pipe restoration is growing rapidly. Moreover, aged pipe restoration is drawing attention from the cost point of view, which is inexpensive as compared with newly installed pipes, amid restraints in public investment in recent years. Thus, the demand for aged pipe restoration is enormous in Japan as well as in other industrialized countries, providing a market with great growth potential.

#### OUR PROMINENCE

##### — Key Points of Differentiation in the Aged Pipe Restoration Business

###### 1. Core Technology for Differentiation —SPR (Sewage Pipe Renewal) Method

We have already established an overwhelming technological advantage in this enormous growth market. The two methods of aged pipe restoration that we use are the SPR method for medium to large diameters and the Omega-

Liner method for small diameters. The basic features common in both methods include (1) a shorter installation time and cost reduction as “No-dig installation,” and (2) aged pipes can be restored to have a strength and quality as good as or even superior to new pipes. Moreover, our original SPR method has the following advantages in addition to the aforementioned basic features:

- Manufactured at the factory and assembled on-site, the method ensures consistent high quality
- Since organic solvents are not used in the renewal material, this method does not need measures to cope with foul smells or fire
- Restored pipes have a long serviceable life, lasting 50 years
- The method is applicable to all pipe shapes including a circular, horseshoe, or rectangular shape, and can cope with long-distance and curving pipes as well
- This method is the only one in which the installation can be done without reducing the sewage flow

We have a patent for the SPR method, and we have achieved increasing growths in the aged pipe restoration business on the strength of our technological advantages described earlier. In Japan, the SPR method was developed in 1984 and we restored a cumulative total of 353 km by the end of fiscal year 2004, with a market share (at the end of fiscal year 2003) of 15% for small and medium diameters (250 mm-800 mm) and 51% for large diameters (800 mm and above).



“SPR method,” adopted by Los Angeles, U.S.A. for its “environmental” advantages

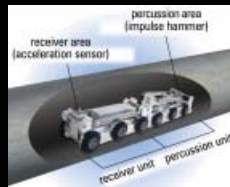
## 2. Strategy for Differentiation —Expansion of “Total Solutions Business”

On the basis of our original differentiation technology, we are also pushing ahead with marketing strategy differentiation through a “total solutions business” for aged pipe restoration, which proposes a comprehensive system of pipe inspection, selection of construction method, installation, and pipe maintenance instead of selling individual pipe restoration materials only.

The “total solutions business” for the aged pipe restoration that we are proposing has the following three points of differentiation:

### 1) Stock management

We have introduced a stock management method that effectively utilizes existing pipe conduits. Using inspection robots that we have independently developed, we detect piping degradation with elastic waves which cannot usually be ascertained by television cameras, striving to preserve and restore piping facilities in an appropriate and efficient manner.



Inspection Robot

### 2) Life cycle cost

The restoration method we use makes it possible for aged pipes to be restored to have a better performance than new pipes, providing the most efficient maintenance and management in consideration of the total life cycle cost of piping.

### 3) Speedy installation

In addition to the “No-dig installation,” installation can be implemented promptly by continuing work under the road without the need to cordon off traffic.

## 3. Evolution of the Strategy for Differentiation —Full-Fledged Expansion into Overseas Markets

The SPR method has also been highly evaluated overseas. As we have received an increasing number of overseas inquiries in recent years, we have been making preparations to enter overseas markets. In 2005, we began our entry into overseas markets, starting with South Korea and the U.S.

## Set Up Joint Venture in South Korea to Produce and Sell Pipe Restoration Materials

In South Korea, the average sewage diffusion rate is 66% across the country, a level almost equivalent to Japan’s, and this requires effective maintenance and management. Like the situation in Japan, South Korea’s sewage pipes have become considerably aged. Sewage pipes that have outlived their serviceable life of 50 years total some 40,000 km throughout the country, of which only about 1,000 km had been restored by 2004, making the rebuilding and restoration of aged pipes an urgent task.

Against this backdrop, we established a joint manufacturing and sales venture for aged pipe restoration materials, Sekisui Refresh Co., Ltd., in South Korea and started production in April 2005. We have thus far provided Refresh, our local partner, with the installation technology for the SPR method, our original pipe restoration method, and Refresh has been undertaking installation work using the SPR method. This time around, we decided to seek to gain further market advantages by providing our manufacturing technology and know-how for aged pipe restoration materials used in the SPR method, and locally producing and selling them.

## Received Order for Sewage Restoration Work in Los Angeles County, U.S.

In December 2004, we conducted an experimental installation (some 80 m) in sewage pipe restoration work in the City of Los Angeles, California, U.S. Through an on-site observation of our work, we have received numerous inquiries from surrounding cities.

We then received a new order from Los Angeles County to restore 550 m of sewage pipes using the SPR method and started the work there from the end of June 2005. The receipt of the order from the county, which is known for its stringent screening of contractors, demonstrates the advantages of our original SPR method. Going forward, we will redouble efforts to strengthen our market presence for our restoration method across the U.S.

## Differentiation/Growing Fields III.

### HOUSING BUSINESS: Keeping Ahead of the Competition by Promoting the Differentiation of Products Brought About by Our Unique Unit Construction Method

#### BUSINESS ENVIRONMENT

##### — Needs for Prefab Housing Continue to Grow Amid an Overall Severe Business Environment

In prefabricated (or “prefab”) housing, the housing structure (pillars, beams, roof, floors, walls, etc.) is produced at a factory and assembled at the building site. Making part of the housing structure at a factory enables rationalization, standardization, mass production, and the shortening of the construction process, and thus has the advantages of consistent quality and a reasonable price. Although prefab housing seems to have a rather “low-grade” image in the U.S. and Europe, prefab housing in industrialized Japan has attained users’ recognition as having a “high level of quality.” On the contrary, prefab housing’s advantage of shortening the construction process, which was mentioned previously, has been recognized, and prefab housing is even on the way to becoming the mainstream for detached houses.

#### OUR PROMINENCE

##### — Key Points of Differentiation in the Housing Business

#### 1. Core Technology for Differentiation —The Unit Construction Method Further Brings Out the Advantages of Prefab Housing

Methods of prefab housing construction include the panel method, the frame method, and the unit method. Among these, we possess a particular industry competence in the “unit construction method.” This method divides a house into several living spaces (“units”), such as the kitchen,

bathroom, living room, etc., and creates each unit at a factory production line with well-ordered quality control. It is the most highly industrialized method of prefab housing construction. In other prefab housing, the main structures are produced at a factory and assembled at the building site. In unit housing, however, the living spaces themselves are manufactured at a factory, and because of this it offers a strength and flexibility of construction that is unattainable in other prefab housing. We at the Sekisui Chemical Group had already focused our attention on the idea of “industrialized housing” (factory-built housing) roughly 35 years ago, and we concentrated the essence of our technology to develop the techniques for the unit method. Thanks to this development, we not only gave every one of our factory-produced rectangular box units individually complete functions, but it also became possible to tap the highest level of performance as housing through assembling the units. Since we first introduced the unit construction method, many other housing manufacturers have adopted it. However, our unit construction method combines our know-how and data backed by our long history with an industry-best factory production rate; around 80% of the housing production process is conducted at the factory.

#### —Differentiated Housing Capabilities Realized by the Unit Construction Method

The “unit house” entities, created by combining the advanced technologies concentrated in each unit, exhibit various housing capabilities based on a uniform quality control system from factory to building site.

##### 1) Earthquake resistance and durability capabilities

Interest in earthquake resistance and durability has been increasing in the wake of numerous earthquakes in recent years (such as the Niigata Prefecture Chuetsu Earthquake of October 2004, which included multiple temblors meas-



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

Swift on-site assembly completed in just one day





uring 6+ on the Japanese seismic intensity scale) and the increasing age of buildings. Thanks to the strong and flexible Box-Rahmen structure\*<sup>1</sup> realized via the unit construction method, unit houses have proven to be fully resistant to Great Hanshin-Awaji Earthquake-level earthquakes, as demonstrated in performance tests and inspections. Even when a unit is dropped from a height of 10 meters (a force generated equivalent to over six times the energy of the Great Hanshin-Awaji Earthquake), there is no damage to structural strength. Such superior earthquake resistance and durability make for superior our unit houses in which people can live safely for many years.

\*1: Box-Rahmen structure: A structure that deftly disperses external force through the wide application of strong welding (unification) of a steel frame into a box shape.

### **2) Energy saving and comfort capabilities**

In the unit construction method, insulation is embedded and a tough inspection is carried out for each unit on a standardized production line at the factory under a process that achieves higher heat insulation and air-tightness than other construction methods that have higher ratios of on-site work. The superior heat insulation and air-tightness bring about the energy saving capability of keeping cold winter air and hot humid summer air from entering the house, and lowering air conditioner and heater energy use. The process also promotes comfort by helping to maintain a uniform temperate environment throughout the entire house. Furthermore, the unit construction method realizes the planning capability of large spaces and large openings due to its Box-Rahmen structure, achieves fire-resistance by each unit having a structural shelter function, and realizes uniform sound insulation without the influence of the placement of pillars and walls through the use of sound insulation for each unit. In these ways and others, the unit construction method provides numerous unique capabilities toward realizing a comfortable living environment.

### **3) Environment-friendly capabilities**

The unit construction method, which involves a small amount of construction work on site, is superior in terms of environmental friendliness by producing little construction waste on site. The strong and flexible structure and high durability of unit houses also makes "reuse" possible. Our "reuse system house" built through the reuse of unit houses is not only environment-friendly but also improves cost performance with the reuse of units and offers a new alternative to rebuilding style.

## **2. Strategy for Differentiation —Our Unique Unit Construction Method Creates High Added Value for Housing**

A "factory production rate of 80%"—this is the greatest strength realized by our unique unit construction method. "Earthquake resistance and durability," and "energy saving and comfort capabilities" are also high in proportion with this high factory production rate. Moreover, because only about 20% of the construction work needs to be carried out on site, we realized speedy construction that requires only about 40 days to complete the on-site work, which is only one-third of the process compared with conventional wooden houses. This is one factor in our further improvements to cost performance through standardized, efficient processes. Furthermore, by optimally developing these unique advantages in our products, we can offer high quality housing at reasonable prices. A typical example is high value-added houses equipped with items such as photovoltaic generation systems and tile exterior walls. By constructing and fitting these items at the factory, and securing high precision and quality while realizing it all at a reasonable price, we have succeeded in gaining wide market penetration for these houses as a high value-added product. As a result, in May 2005, the cumulative sales of our houses equipped with photovoltaic generation systems exceeded 40,000, the top in the housing industry. In addition, the ratio of our houses with tile exterior walls in fiscal year 2004 increased to 45%.



## “ZERO-UTILITY-COST HOUSES” — Realizing Equilibrium between Ecological Goals and Economic Goals

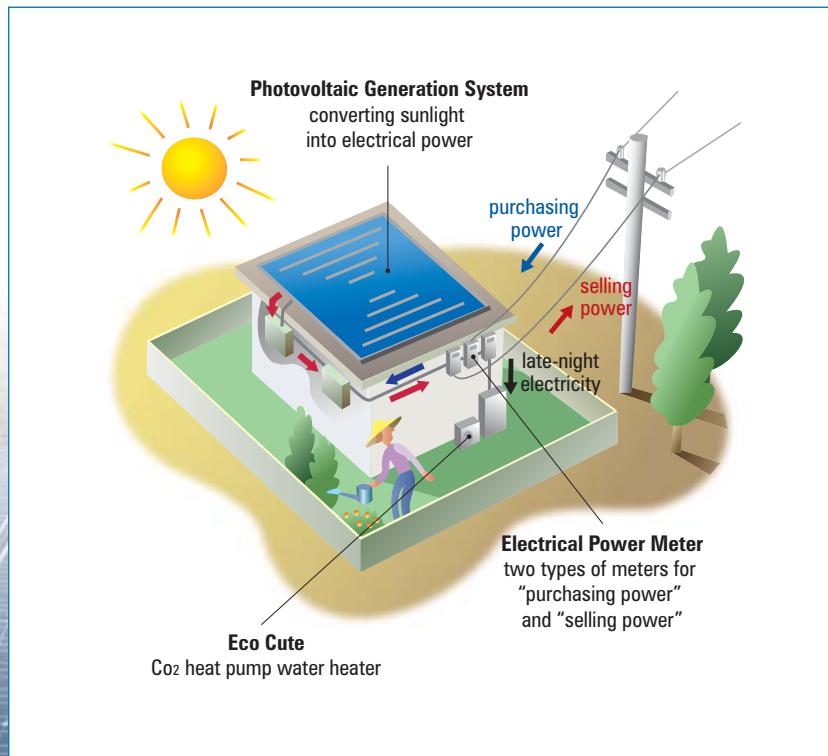
The “zero-utility-cost house” emerged from our work on two major concepts of “environment” and “Life Cycle Cost (LCC),” based on the unit construction method. “Zero-utility-cost” comprises the following four elements to realize an amount of income from power sold during the day that is greater than the amount of power purchased: (1) the superior air-tightness and heat insulation of the frame achieved through the unit construction method reduces utility costs; (2) the energy-creating effect of the photovoltaic generation system makes it possible to sell the surplus power generated during the day; (3) the high-efficiency hot water supplier Eco Cute conserves energy; and (4) being all-electric, the unit house uses economical late-night electricity.

Our zero-utility-cost houses, which call attention to our concept of realizing equilibrium between ecological and environmental goals in a straightforward way, have earned widespread support in the market. While other companies also have products equipped with solar generators, we are currently the only one clearly stating the “zero-utility-cost” concept. This again is made possible by our unique unit construction method. We are also aggressively calling attention to the advantages in our sales efforts by lever-

aging our proprietary LCC simulation software. Standardization and data accumulated through construction and installation at the factory are making highly accurate simulations possible. Showing these simulations to our customers gives them a true sense of how we are different, and leads to increased orders.

Financial institutions are also paying attention to the advantages of our zero-utility-cost houses. In March 2004, the Sumitomo Trust & Banking Co., Ltd. began providing housing loans for our zero-utility-cost houses through our business alliance with the bank. The interest on these loans is 1.7% lower than the usual rate for their long-term fixed-rate housing loans. The loan is also designed so that the larger the power generating capacity of the photovoltaic generation system, the lower the loan’s interest rate, further enhancing economic appeal and support of environment-friendly activities by individuals.

Thanks to zero-utility-cost houses, we have not only received a greater number of orders for houses, but it has also realized higher unit prices by houses equipped with photovoltaic generation systems, tile exterior walls, and other options. The ratio of orders for houses equipped with photovoltaic generation systems to total orders increased from 46% in fiscal year 2003 to 52% in fiscal year 2004, and the ratio for all-electric houses increased from 74% to 80%.

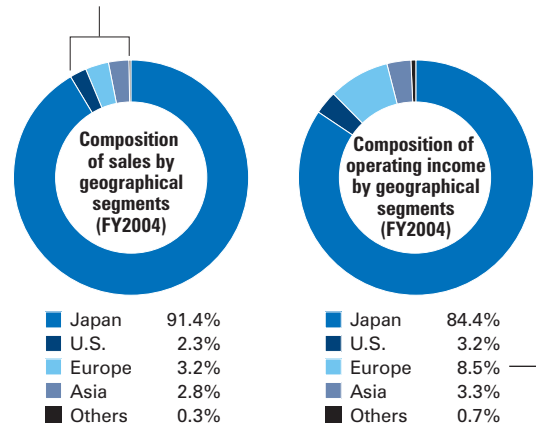




The Sekisui Chemical Group has increased sales and profits centering on our three division companies, each of which possesses a prominent technology.

In the coming years, we will aim to become a “prominent global growing company” by introducing to overseas markets our successful technologies, proven in the Japanese market.

The overseas sales to total net sales ratio increased significantly from 6.0% in fiscal year 2001 to 8.6% in fiscal year 2004.

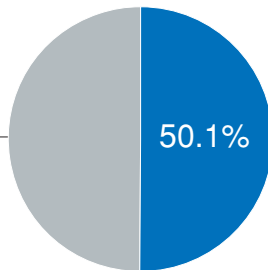


Division Company Name	Percentage of Sales Generated by Each Company (FY 2004)	Main / Focused Areas
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"Grand To You"

**HOUSING COMPANY**

Number of Employees (Consolidated, FY2004 end): 8,988

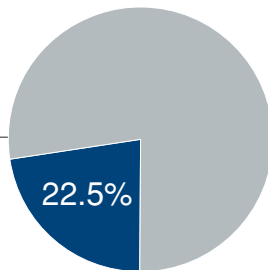


- Housing**  
(detached houses and apartments)
- Living environment**  
(refurbishing, real estate, and others)

"Reinforced Plastic Pipe"

**URBAN INFRASTRUCTURE & ENVIRONMENTAL PRODUCTS COMPANY**

Number of Employees (Consolidated, FY 2004 end): 3,094

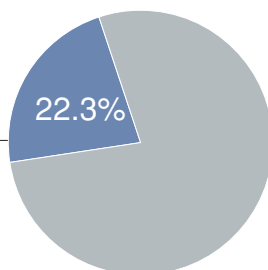


- Pipe**  
(water supply piping, plumbing equipment, construction equipment, sewage pipes, electricity pipes, gas pipes, and others)
- Building materials and housing equipment**

"Micropearl AU"

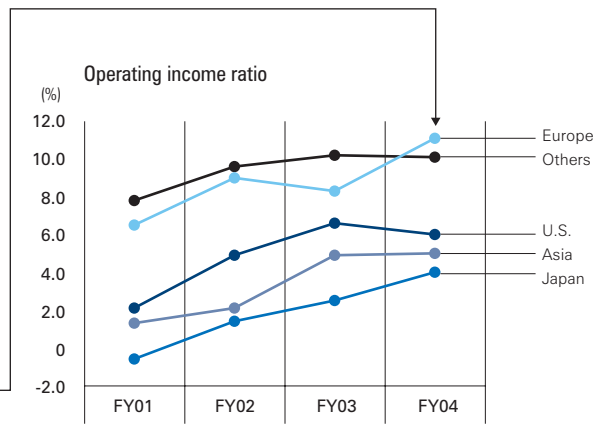
**HIGH PERFORMANCE PLASTICS COMPANY**

Number of Employees (Consolidated, FY2004 end): 3,863



- IT-related materials**
- Automotive materials**
- Medical products**
- Functional building materials**

Operating income is increasing steadily, centering on Europe.



**Key Manufacturing Centers Overseas**

**High-performance water pipes:**

Asia (China): 1 (1)

**Polyethylene EF joints:**

Asia (China): 1 (1)

**Aged pipe restoration profiles:**

Asia (China): 1 (0)

**Polyvinyl butyral interlayer films:**

Asia (China): 2 (1) Europe: 1 Americas (U.S.): 1 (0)

**Adhesive tape:**

Americas (U.S.): 2 (2)

**Polyolefin foam products:**

Asia (China): 3 (1) Europe: 2 Americas (U.S.): 2 (2) Australia: 1

**Medical equipment:**

Asia (China): 1 (1)

\*For other centers overseas, please refer to Page 73.

**Main Products | Brand Names | Subsidiaries, Affiliates, R&D Sites and Others (As of the end of FY2004)**

**Detached houses**  
(steel-framed and wooden-framed unit houses),  
**Apartments**

**Refurbishing, interiors, exteriors, facilities and equipments for caring and the elderly**

**Detached houses**

- Sekisui Heim (steel-framed): PARFAIT/DOMANI/Desio/Heim BJ/ Chezdan
- Sekisui Two-U (wooden-framed): CENTOWA/Earthia/MIOLE/Lucina/Two-U Le/GRAND TO YOU
- Crastina

\* "Zero-utility-cost house" is product above (excluding a portion) that is equipped with specifications such as a photovoltaic generation system 4.45kw+being all-electric+ Eco Cute.

**Housing complexes**

- Letoit
- Harvestment (group home for the elderly)
- **"Reuse System House" built through the reuse of unit houses**

**88 subsidiaries (including 1 overseas subsidiary)**

**The above includes:**

- 9 production companies
- 32 sales companies (Sekisui Heim)
- 24 companies dealing with refurbishing and others (Sekisui Fami S)

**R&D site:**

- Housing Technology Institute (Tsukuba)

**Others:**

- Number of exhibition places (houses): 487 units
- 9 "Sekisui Heim Workshop" stores dealing with refurbishing
- 21 "The Season" stores dealing with exteriors and gardening goods

**PVC pipes, lining steel pipe, plastic bulb, plastic mass, materials, equipment and installation methods for pipe restoration**

**Construction materials.**  
(rain gutters, materials for roofs, materials for decks),  
**bathroom units, garbage processing systems, water-purification tanks, recycle engineered wood, materials for soundproof floor and soundproof heating floor**

ESLON® pipe series  
SPR Method®  
Omega-Liner Method®  
Pipe Line Diagnostic System

ESLON® rain gutters  
SINKLEAR®

**46 subsidiaries (including 6 overseas subsidiaries)**

**The above includes:**

- 5 production companies
- 10 sales companies
- 7 companies dealing with both production and sales

**R&D site:**

- Kyoto R&D Laboratory

**Fine particles**  
(LC spacers, gold-plated fine particles for device mounting, conductive fine particles),  
**foams**  
(polyolefin foam),  
**interlayer films, packaging and industrial tapes, films, adhesives, high-functional resin**  
(polyvinyl butyral, PVC resin),  
**blood sampling plastics tube, transdermal drugs, diagnostic drugs**

Micropearl® (spacer)/  
Micropearl® SOL (gold-plated fine particle)  
S-LEC® (interlayer film)  
Softlon® (foaming material)

**52 subsidiaries (including 32 overseas subsidiaries)**

**The above includes:**

- 5 production companies
- 11 sales companies
- 20 companies dealing with both production and sales

**R&D site:**

- Minase Research Laboratories (Osaka)

Net Sales  
(Billions of yen)



ITSUROU TOGO  
Executive Managing Director /  
President of Housing Company

FY05 (plan)	465.0
FY04	429.2
FY03	410.9
FY02	399.9

**Offering environment-friendly residential houses that can be lived in safely and comfortably for at least 60 years.**

**We are promoting the construction of houses that are friendly to the environment.**

**We are boosting the brand value of our products by focusing on “environment” and “Life Cycle Cost (LCC)\*1” and achieving both “advanced living comfort” and “environmental friendliness” with our unique unit construction method\*2.**

**BUSINESS ENVIRONMENT AND FUNDAMENTAL GROWTH STRATEGY**

**—Expanding Share by Introducing High Value-Added Products that Center on Customer Needs**

With structural factors such as a declining population and the “graying of society” making strong growth in new housing starts unlikely, the overall market environment remains difficult. Despite this, however, demand for rebuilding and refurbishing is firm, supported by an interest in the earthquake resistance and durability of houses that have been heightened by the frequent earthquakes of recent years and by the aging of the housing stock. With further support from a deeply rooted sense of expectation that the Japanese economy will improve over the medium and long term, rebuilding demand is expected to continue to grow going forward.

In this environment, the Housing Company is focusing on expanding market share and making itself resistant to price competition by strategically strengthening our brand power based on the three concepts of “environment-

friendliness,” “LCC reduction” and “zero-utility-cost house\*3” and by introducing high value-added products that center on customer needs.

**RESULTS FOR FISCAL YEAR 2004**

With net sales of ¥429.2 billion (up ¥18.3 billion, or 4.5%, year on year) and operating income of ¥16.2 billion (up ¥6.0 billion, or 58.1%, year on year), the Housing Company achieved growth in both revenue and profit for the second consecutive fiscal year.

In the housing business, which is centered on newly built houses, the number of houses sold increased by 550 units to 16,660 units (12,290 detached houses, 4,370 apartments), while sales were ¥352.7 billion (up ¥14.5 billion, or 4.3%, year on year) and operating income was ¥15.7 billion (up ¥6.0 billion, or 61.1%, year on year). The success of differentiation through “environmental friendliness,” “LCC reduction,” and “zero-utility-cost” led to a strong growth in orders. Particularly, our “zero-utility-cost” houses increased in orders, supported by favorable start

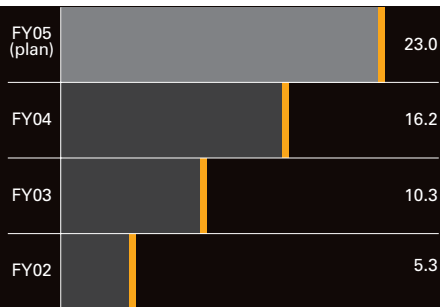
\*1 **Life Cycle Cost (LCC):** By adding maintenance, refurbishing, and scrapping expenses to the purchase cost of a house, this concept helps the consumer evaluate the total cost of a house over its entire life.

LCC = house purchase price + maintenance costs + utility costs + dismantling costs.

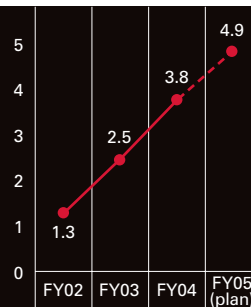
\*2 **Unit Construction Method:** Using this method, we complete 80% of the house construction process at our factories. Starting with the concept that a house consists of multiple rectangular boxes, or units, we do the interior, exterior and installation work for individual units at our factories, completing living spaces such as living rooms, and assemble the finished units (living spaces) into a house on site.

\*3 **“Zero-Utility-Cost” house:** a product for enhanced “LCC” advantages with a photovoltaic generation system equipped as a standard feature. The “zero-utility-cost” concept realizes energy conservation and energy creation in the following four ways: (1) benefit of lower utility cost due to superior air-tightness and thermal insulation of the unit house’s frame; (2) sale of surplus power generated during the day thanks to the photovoltaic generation system; (3) conservation of energy by the adoption of the high-efficiency hot water supplier Eco Cute; and (4) use of economical late-night electricity thanks to the all-electric feature of the unit house.

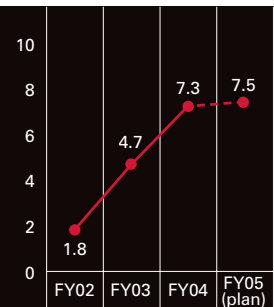
Operating Income  
(Billions of yen)



Operating Income Ratio  
(%)



ROA  
(%)



of our new model, "Grand To You," which launched in October 2004. This model achieves "advanced living comfort" using our newly developed "2x6 unit construction method." Orders for apartments were also strong, thanks to the contribution from the introduction of attractive products such as our "Letoit FC (Free Cube)" apartments for urban singles, which we launched in January 2005. As a result, new orders received in the housing business increased 2.9% year on year to ¥406.1 billion. To reinforce our earnings structure, we increased the price per unit by expanding sales of high value-added products while continuing to reduce costs through, for example, even spacing over time of production and construction, which contributed to large profit growth.

In the living environment business, which is centered on the refurbishing business, sales were ¥76.5 billion (up ¥3.8 billion, or 5.2%, year on year) and operating income was ¥500 million (flat year on year). In the core Fami S business (refurbishing business), sales were ¥51.0 billion (up ¥1.3 billion, or 2.5%, year on year) and operating income was ¥400 million (flat year on year), supported by the contribution from reinforcing periodical check on customers' houses and from expanded sales of items on our

refurbishing priority menu such as painting and photo-voltaic generation systems. Compared with the housing business, however, the full potential of this area was not realized in terms of sales and profitability, which is an issue that we will continue to focus on going forward.

**For a clear perspective on the next ten years, the Housing Company will expand revenue and profit in both of its businesses to establish a "prominent Sekisui Heim brand."**

**COMPANY STRATEGIES FOR FISCAL YEAR 2005**

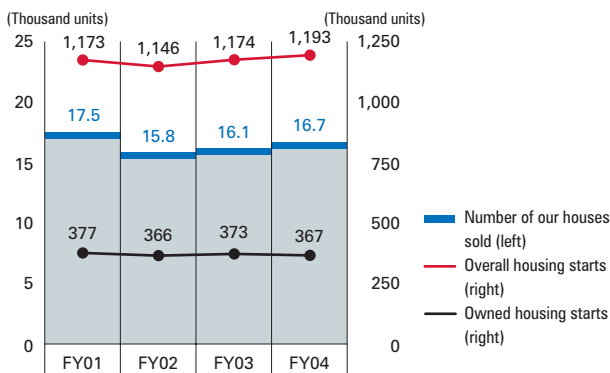
**Housing Business**

**—Expanding Market Share by Further Refining Our Products and Marketing Strategy**

**1) Product Strategy: Further refining our prominence in "environment-friendliness," "LCC reduction" and "zero-utility-cost"**

The unique high efficiencies of our houses have been well received to date because we have focused on reinforcing the strengths of our products based on the three major concepts of "environment-friendliness," "LCC reduction" and "zero-utility-cost" and, in "zero-utility-cost" houses in particular, because of the favorable launches of products that center the market needs. In fiscal year 2005 as well, by further refining these three major concepts, we will focus on launching products of even greater distinction in this mature market, products that are decisively superior in terms of those aspects of house performance that differentiate them such as earthquake resistance and durability, economy, and environmental-friendliness.

Number of our houses sold and Housing starts





Sekisui Heim (Steel-framed): "PARFAIT AE"



"Letoit FC": apartment for urban singles

Specifically, as a further evolution of the "zero-utility-cost" concept, we aim to raise the level of our original environment burden/energy conservation standard (total of nine levels) from the current Level 6 to Level 8 (the highest level achievable in the industry given today's technology). In addition, we are focusing on even more for the "living in safety" concept of our houses, which is realized using our unique unit construction method. With respect to the heightened interest in earthquake resistance following the Niigata Prefecture Chuetsu Earthquake of October 2004 in particular, we are reinforcing our marketing strategy by emphasizing the earthquake resistance of our unit houses while making use of the "individual foundation inspection software" that we developed as a new product.

## 2) Marketing Strategy: Strengthening Our "Advanced and High Quality" Brand

As the market's needs have been shifting from "quantity" to "quality," the Housing Company is making every effort to further strengthen our advanced and high quality "Sekisui Heim" brand, starting with our "zero-utility-cost" houses. As a specific marketing strategy, an intensive campaign of highly accessible television commercials that highlight the "zero-utility-cost" house concept is contributing to boosting recognition of the "Sekisui Heim" brand. In a market environment in which the price competition continues, we aim to expand share and boost unit prices by further expanding sales of high value-added products.

In addition, for our brand power to have a direct impact on orders received, we are revising our sales techniques from the ground up with an emphasis on reinforcing our sales teams. While adding 50 new employees to our sales staff each year, we are reinforcing our sales promotion guidance through the "ECO Heim Promotion Office," an educational/instructional team made up of employees with engineering knowledge. As our sales technique, we will increase our ability to attract customers by promoting

renewals of our exhibition venues. We will also continue to focus on expanding our target markets, which includes reinforcing business of apartment and rental housing and catering to the needs of the first-time buyers who usually do not have land.

Based on these strategies, we are targeting ¥429.6 billion in new orders in fiscal year 2005 (up ¥23.5 billion compared with fiscal year 2004). We are also aiming to increase the ratio of houses equipped with photovoltaic generation systems from 52% in fiscal year 2004 to 60% in fiscal year 2005, of houses with tile exterior walls from 45% to 60%, and of houses that are all-electric from 80% to 90%.

### Living Environment Business —Expanding the Business Based on Our Four Prominences: "System," "Human Resources," "Communication," and "Product Power"

Amid heightened demands for boosting housing efficiencies, demand for housing refurbishing is also becoming increasingly apparent. We are proud to have sold a cumulative total of 410,000 houses, which includes a peak of 34,560 units in 1996. Focusing on this stock of our unit houses, we are conducting meticulous researches of refurbishing needs.

To that end, we will improve the quality and frequency of the periodical check on customers' houses through a full application of our "60-year Long-term Support System" with a view to improving the customer satisfaction quality. We will also expand sales of items on our "priority menu" such as painting and photovoltaic generation systems by reinforcing our ability to make sales proposals through the complete education and training of our human resources, and expand growth in sales per employee. As one of our unique strengths, moreover, we have a full complement of construction and parts data as well as customers data for all of the unit houses that we have sold to date. We are striving to transform this business into a profitable one by reinforcing our ability to take full advantage of the power of this data.





Sekisui Two-u (wooden-framed): "Grand To You"



## Topic in Fiscal Year 2004: "Grand To You," Our Newest "Zero-Utility-Cost" House —Realization of "the highest grade of living comfort" through "zero-utility-cost"

"What is the highest grade of living comfort?" We have researched this question from a scientific point of view. The answer we found is that it depends on being very particular about "air quality."

The number one requirement needed for high "air quality" is being particular about "high air tightness and high thermal insulation." In other words, we enhanced "zero-utility-cost" house building frame efficiencies by introducing a photovoltaic generation system into the high thermal insulation and high air tightness structural frame. By doing so, we simultaneously realized the "highest grade of living comfort" and "zero-utility-cost." This is the ideal of house construction pursued by our "Grand To You" house of being friendly to both people and the environment.

### "The Highest Grade of Living Comfort" —To be very particular about "air quality"

Our Grand To You model is very particular about air quality. It completely manages air quality by setting unique living comfort standards based on the four elements of 1) temperature, 2) humidity, 3) quietness and 4) cleanliness. For example, for temperature, the "relaxation standard" is set at a temperature variation of less than 2°C between the floor and a height of 1.2m or a temperature variation of less than 3°C between the floor and the ceiling of the second story. For humidity, the "cooling disorder control standard" is set at 28°C room temperature, 60% humidity, and less than a 5°C temperature variation with the outside.

These "pleasant living comfort standards" were made possible by the Grand To You's original "Air Controlling System." Specifically, the following three elements are all in equilibrium: 1) the "2x6 structural frame," which realizes high air tightness and high thermal insulation; 2) the air quality unit and ventilation system circuit (heat exchanger Type I ventilation), which ventilates and dehumidifies in a planned and economical manner; and 3) the whole-house air-conditioning system, which cools and heats the overall house.

### "Being Particular about the Structural Frame" —To realize "the Highest Grade of Living Comfort"

"Possible because it is a wooden house." For the Grand To You, we focused on the nature of wooden houses and scientifically analyzed the various qualities possessed by wood. In order to achieve the maximum effect of these qualities, we selected "factory production" using "2x6" lumber, which

has increased thickness and weight. Being particular about three aspects of the structural frame—the appeal of wood, the 2x6 construction method and factory production—is what produced "the highest grade of living comfort."

#### 1) Being particular about wood

For the Grand To You model, we focused on the qualities that wood possesses as a material such as its humidity control effect, its calming effect and its antibacterial effect, and we were very particular about making full use of these in house construction. For example, in Japan, which has a very hot and humid climate, it is essential to create a living environment that feels cool in the summer. Wood has the humidity control effect of absorbing moisture when the humidity is high and releasing moisture when it is low. This quality sustains "pleasant living comfort" over a long period by creating an environment that is cool in the summer and warm in the winter and by protecting the house from damage.

#### 2) Being particular about the 2x6 construction method\*4

Using the 2x6 construction method naturally results in the creation of dwellings with superior earthquake-resistance and durability. It also enhances the efficiencies of the "Air Controlling System" upon which Grand To You is based such as high air tightness and high thermal insulation. Today, the 2x6 construction method is widely used in medium and high-grade housing in the U.S. and Canada and is attracting attention as a construction method that is suitable for a variety of climate conditions.

\*4 **2x6 Construction Method:** The method uses 2inch x 6inch (38mm x 140mm) lumber in the exterior wall framework.

#### 3) Being particular about factory production

"To build the 2x6 house under a roof." Being particular about this naturally means that work is done efficiently and is unaffected by weather and that consistent quality is assured since approximately 80% of the housing production process is conducted at a factory. Given the thickness and weight of the 2x6 lumber used in "2x6 houses," it also contributes to further reinforcing superiority by vastly boosting ease of construction compared with on-site production. Furthermore, because of the mass production realized by our unique unit construction method, we are able to offer high quality houses at reasonable price and to further strengthen the advantages of our houses.

Net Sales  
(Billions of yen)



HIDEO TAGASHIRA  
Managing Director /  
President of Urban Infrastructure &  
Environmental Products Company

FY05 (plan)	215.0
FY04	204.8
FY03	192.3
FY02	189.7

**Aiming to become a prominent “environment solutions company”**

**Concentrating investments in growth areas by radically reforming our business portfolio—We are putting our full efforts into establishing the strongest business base in the industry by refining “prominence” in areas where we excel.**

**BUSINESS ENVIRONMENT AND FUNDAMENTAL GROWTH STRATEGY**

**—Achieving High Profitability and Sustainable Growth by Emphasizing Our “Prominence” in Growth Areas**

The overall business environment does not call for optimism as strong growth in housing starts cannot be expected and the impact of restrained public spending and rising raw material prices continues. However, the Urban Infrastructure & Environmental Products (UIEP) Company aims to establish a solid business base by ascertaining growth areas and aggressively promoting a strategy that emphasizes our “prominence.”

**RESULTS FOR FISCAL YEAR 2004**

The UIEP Company achieved strong growth in both revenue and profit, with net sales of ¥204.8 billion (up ¥12.5 billion, or 6.5%, year on year) and operating income of ¥8.9 billion (up ¥5.6 billion, or 171%, year on year).

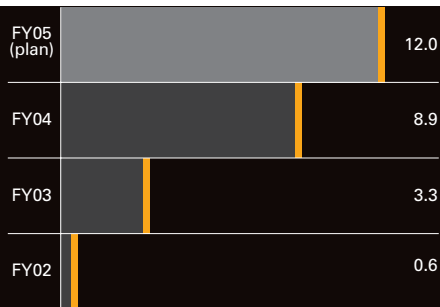
The UIEP Company returned to the black in fiscal year 2002 by concentrating on withdrawing from or downsizing unprofitable businesses. Under a policy of “aiming to become an environmental solutions company” from fiscal year 2003, all of our employees worked together toward a recovery in profitability, so that in fiscal year 2004 we achieved the above results. We have thus created a structure that launches us into strong growth going forward.

Looking at results according to our four strategic business categories (“Core Business,” “Steady Profitability,” “Growth/New,” and “Strategic Investment”), operating income from core businesses grew a strong ¥5.3 billion year on year to

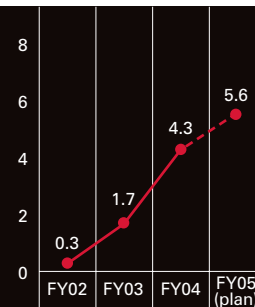
Operating Income by Business Category

Divisions		(Billions of yen)			
		FY2004	Change from P.Y.	FY2005 (plan)	Change from FY2004
Growth Business	Environment & Civil Engineering System	0.1	+0.1	0.9	+0.8
Core Business	Water Supply & Drainage System Building Materials Plant Materials	12.0	+5.3	13.0	+1.0
Steady Profitability Business	FFU Reinforced Plastic Pipe Roofing Materials Aqua System Home-Techno Toto Sekisui	0.5	-0.2	1.7	+1.2
Strategic Investment	New Business etc.	-3.7	+0.4	-3.6	+0.1
<b>Total</b>		<b>8.9</b>	<b>+5.6</b>	<b>12.0</b>	<b>+3.1</b>

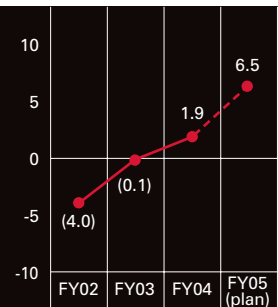
**Operating Income**  
(Billions of yen)



**Operating Income Ratio**  
(%)



**ROA**  
(%)



¥12.0 billion. In our water supply and drainage business division, which consists mainly of the PVC pipe business, we achieved steady progress in raising product prices to absorb higher raw materials prices. In addition, our piping systems for detached houses contributed to sales by strategically shifting the focus of our sales efforts to proposing systems rather than individual products. In our building materials division, which includes rain gutters, the introduction of new products and special restoration demand due to typhoon damage contributed to sales growth.

Among our steady profitability businesses, the plant materials division in particular achieved strong growth in plant materials such as pipes and valves for ultraclean water, supported by the strength of production at semiconductor and LCD factories. As a result, sales topped ¥10.0 billion, elevating this to one of our core businesses from fiscal year 2005. At the same time, operating income from our steady profitability businesses fell ¥200 million year on year to ¥500 million as improvement in earnings mainly in the aqua system division was still under way.

In our division of environment and civil engineering systems, a growth/new business comprising our aged pipe restoration business, we reinforced our sales and construction systems to meet the growing demand. As a result, net sales grew a strong 54.9% year on year, and operating income from this business started to show profitability with a ¥100 million of operating income (up ¥100 million year on year). From fiscal year 2005, we expect the intensive investment we have made in this business to lead to full-scale growth in operating income.

In our strategic investment businesses, we posted an operating loss of ¥3.7 billion (up ¥400 million year on year). Our strategic investments include new business projects and the REW (Recycle-Engineered Wood)\*1 business.

\*1: *REW (Recycle-Engineered Wood)*: This is a wood that is recycled as a strong structural material that can be used for pillars and beams. Its main raw material is the wood that is from the dismantling of houses. By making REW practical, we have made possible a horizontal type of recycling of wood resources from houses that go out of use to newly constructed houses.

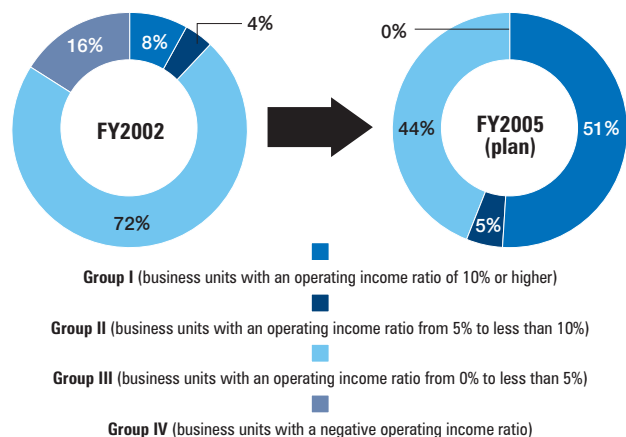
**To “speed-up the business expansion by establishing an adamant base of profitability,” we will focus on the following priority strategies in fiscal year 2005: 1) further refining “prominence” in our businesses, and 2) strategic investments “overseas” and in “growth.”**

**COMPANY STRATEGIES FOR FISCAL YEAR 2005**

**1. Reformation of Our Business Portfolio—further refining “prominence” in our businesses**

The UIEP Company has pursued aggressive reform of its business portfolio by ascertaining which business units realize high profitability and growth in pursuit of the environmental solutions business. As a result, high profitability businesses with an operating income ratio in excess of 10% as a percentage of the company’s total sales have currently expanded to 51% from 8% in fiscal year 2002. In

Reformation of Portfolio (Percentage of Sales by Business Unit Group)



fiscal year 2005 as well, we will further refine “prominence” in growth areas with a view to maintaining this level.

In our core businesses (water supply and drainage system division, building materials division, and plant materials division), we are aiming for operating income of ¥13.0 billion in fiscal year 2005 (up ¥1.0 billion year on year) by establishing a stable business structure and transforming it into a “premium business” with an operating income ratio of over 10%. Specifically, we aim to further boost our competitiveness by continuing to focus on maintaining the profitability of our PVC products and by reinforcing our production and distribution system.

In our steady profitability businesses, we are aiming for operating income of ¥1.7 billion in fiscal year 2005 (up ¥1.2 billion compared with fiscal year 2004) by establishing a solid earnings base by aggressively reinforcing our “prominence.”

In our growth businesses overall we are aiming for fiscal year 2005 sales of ¥10.0 billion and operating income of ¥900 million by concentrating more strongly on “total business development,” which includes pipe restoration inspection, construction and post-construction maintenance, in our mainstay aged pipe restoration business.

## 2. Key Words for Growth—Intensive strategic investments in “Growth” and “Overseas”

The three key factors for the UIEP Company’s growth going forward are 1) renovation, 2) systematization, and 3) globalization. By focusing on these, we aim to expand our growth businesses and make further rapid progress. Particularly, for globalization, we are targeting ¥15.0 billion in overseas sales (up 180% year on year) in fiscal year 2005 (the start of “Global 1000”).\*2

\*2 *Global1000*: The UIEP company is aiming for ¥100.0 billion in overseas sales by fiscal year 2010.

### 1) “Renovation”—Lifeline renovation business

By precisely grasping the needs of society such as the problems with and the need to restore the aging urban infrastructure, we are transforming our renovation products into a systematized business (not only sales of individual products but a value chain that includes inspection, checkups, construction and post-construction maintenance).

### 2) “Systematization”—Business of “water for life” system

Promoting a change in business model from “prominence” in individual pipe products to appealing in terms of the added value of our systems, we are focusing on strengthening our line of system products and developing solutions for “water for life” centered on pipe systems (reassurance, comfort, and energy saving).

### 3) “Globalization”—By horizontally developing technology in “profitable areas”

#### *Chinese businesses*

#### *Start of full-scale operation of Sekisui (Qingdao) Plastic Co., Ltd.*

Sekisui (Qingdao) Plastic Co., Ltd. was set up in July 2002 in conjunction with a major local construction company as a water supply pipe company. This company achieved a favorable start in March 2003 when it began manufacturing and selling pipe products such as ESLON HI Pipe Gold high-performance pipes.

#### *Expanding business in the water-infrastructure market*

In April 2005, we acquired a majority of the outstanding shares of Xinjiang Yongchang Composite Co., Ltd., China’s largest manufacturer of fiberglass-reinforced plastic mortar (FRPM) pipes with a view to expanding business in the water supply infrastructure market in collaboration with this company. This is the first time a Japanese company has entered China’s water-infra-

## Topic in Fiscal Year 2004:

### “Plant Materials”

The plant materials handled by the UIEP Company include the pipes and valves for ultraclean water that are used in semiconductor and LCD factory facilities. Recently, driven by the shift to third-generation mobile phones in the case of semiconductors and mainly by the increasing size of LCDs in the case of digital appliances, all the companies have been building new factories one after the other and stepping up capital investment.



ESLON Clean Pipeline System



ESLON VPFW

Getting a boost from this tailwind, in fiscal year 2004 the sales of the UIEP Company’s plant materials such as pipes and valves for ultraclean water exceeded ¥10.0 billion, so that they have become representative products that are making major contributions to our overall sales and operating income.



"SPR Method," with the advantage of "No-dig installation"



"Plant Materials," used in semiconductor and LCD factories



"FFU," used in railway ties

structure market. Aiming for ¥3.0 billion in sales in fiscal year 2005, we will concentrate on 1) putting our advantage in China's water-infrastructure market on more solid footing by combining the strengths of both companies' products and technologies, 2) expanding share further by unfolding a prioritized regional strategy inside China based on the sales achievements and marketing power of the Yongchang company, and 3) expanding exports to other regions (the Middle East, Southeast Asia, etc.) using China as a base.

**Establishment of production joint venture for polyethylene EF joints**

Polyethylene EF (electrofusion) joints are rapidly becoming popular as a new urban infrastructure type of pipe. With an eye on both domestic and international competitiveness, in June 2002 we set up a production joint venture in China through a joint capital injection with Mitsubishi Plastics, Inc. This will enable us to reinforce the cost-competitiveness of our polyethylene EF joints in the Japanese market by reducing production costs and expanding the scale of production as a result of the alliance.

**Aged pipe restoration business**

The aged pipe restoration business, which is a growth business, is also aggressively expanding overseas. 1) In Korea we set up a joint venture (Sekisui-Refresh Co., Ltd.) to manufacture and sell aged pipe restoration materials. 2) In the U.S., we received a substantial order for sewage pipe restoration work from Los Angeles County, which is known for its stringent screening of contractors. Going forward, we will continue to advance into aged pipe restoration markets overseas, centering on Korea and the U.S.

**Expanding FFU and Plant materials in Asia and Europe**

We are expanding our overseas presence, mainly in Asia and Europe, in FFU (fiber-reinforced foamed urethane), which is used in railway ties, and in our line of plant materials such as the pipes and valves for the ultraclean water used in semiconductor and LCD factories.

**FEATURES OF OUR PLANT MATERIALS**

**1. ESLON CLEAN PIPE SUPER/FITTINGS**  
—The first high-performance clean pipe developed in the world

The UIEP Company's "ESLON Clean pipeline system" is the ultimate in high performance. We accomplished this by further improving our ESLON Clean Pipes, which are recognized as a synonym for clean pipes. With further improvements in performance in terms of shock resistance, adhesion, elution, and inner surface smoothness, these pipes are widely used in the semiconductor and other high-tech industries that require ultraclean water.

**Merit 1.** TOC\*<sup>3</sup> and precious metal elution is extremely low.

**Merit 2.** The smoothness of the inner surface prevents growth of microbes.

**Merit 3.** Uses highly shock-resistant PVC.

\*<sup>3</sup> TOC: Total Organic Carbon is the term for organic pollution measurement used in water disposal systems.

**2. ESLON VPFW HTFW/FITTINGS**

—Pipes for plant pipeline systems; the special characteristics of PVC give them a high degree of pressure resistance and heat resistance

**Merit 1. Superior heat resistance**

ESLON VPFW can be used at temperatures up to 90°C and HTFW at up to 100°C.

**Merit 2. Super pressure resistance**

Reinforced with FRP (fiber-reinforced plastic), these pipes have a pressure resistance that is superior to that of standard PVC pipes.

**Merit 3. Superior corrosion resistance**

Since their inner corrosion-resistant layer is made of hard PVC, these pipes have superior corrosion resistance against chemicals such as acids, alkalis and salts.

**Merit 4. Lightweight**

With a low specific gravity of 1.6, the light weight of these pipes makes them extremely easy to transport and handle.



**TAKAYOSHI MATSUNAGA**  
Executive Managing Director /  
President of High Performance  
Plastics Company

Net Sales  
(Billions of yen)

FY05 (plan)	220.0
FY04	197.7
FY03	181.8
FY02	172.3

**Aiming to become a “premium company” of aggregate high-profit businesses with an operating income ratio in excess of 10%**

**Establishing high-profit businesses as the two pillars of growth strategy and reformation of business structure—We are focusing on business expansion and high profitability to establish highly competitive businesses by expanding our fine lineup of top products in Japan and the world.**

## BUSINESS ENVIRONMENT AND FUNDAMENTAL GROWTH STRATEGY

### —Great Opportunities to Enter Cutting-Edge and Growth Areas Have Opened Up for Us, by Further Refining Our “Prominent” Technologies

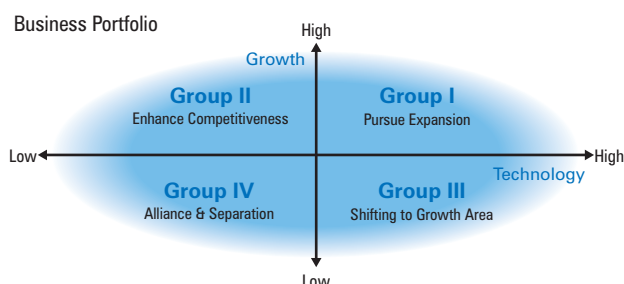
The automobile industry is expected to continue to be strong going forward and the IT industry is also likely to maintain steady growth despite periodic adjustments. At the same time, the environment remains unclear in terms of raw materials prices. However, the High Performance Plastics (HPP) Company has a “prominent” technology portfolio, commanding top shares for a large group of products in Japan and overseas. Building on this, we will further expand our business base and reinforce profitability, concentrating on our four priority areas (IT-related materials, automotive materials, medical products, and functional building materials).

## RESULTS FOR FISCAL YEAR 2004

The HPP Company achieved a second consecutive year of growth in both revenue and profit, with net sales of ¥197.7 billion (up ¥15.9 billion, or 8.8%, year on year) and operating income of ¥14.8 billion (up ¥2.4 billion, or

19.9%, year on year). This is attributable to favorable growth in sales of automotive materials such as interlayer films for laminated glass and polyolefin foam as well as to strong growth in sales of IT-related materials, mainly fine particle products for LCDs and high-functional resins, despite an adjustment in demand for them in the second half of the fiscal year.

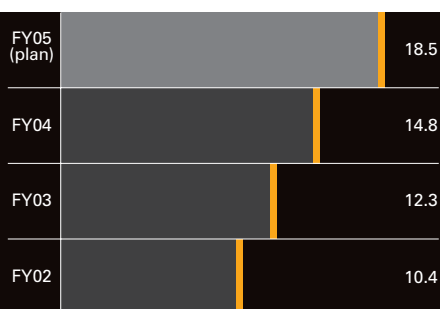
Sales in all four groups of our business portfolio posted growth exceeding that of the previous fiscal year. In Group I, which is centered on the interlayer film business, sales were ¥70.0 billion (up ¥6.0 billion year on year). In Group II, which is centered on adhesives, sales were



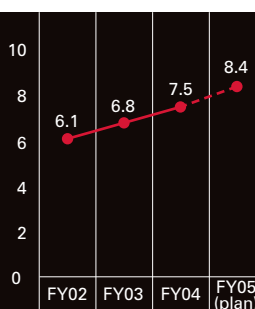
## ROA Breakdown by Group

Business Units		FY2004	FY2005 (plan)
Group I	Fine Chemical	22.7%	23.1%
	Chemical Specialty		
	Industrial Tape		
	Medical		
	Interlayer Film		
Target for FY05: 15%			
Group II	Sign System	3.2%	8.9%
	Adhesives		
Target for FY05: 10%			
Group III	Packaging Tape	6.8%	9.7%
	Functional Materials		
Target for FY05: 10%			
Group IV	Film	0.7%	2.9%
	Precision & Industrial Products		
	Life-Tech.		
Target for FY05: 5%			
Company Total		6.9%	9.8%

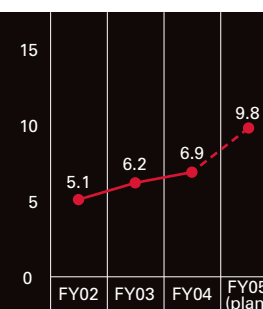
Operating Income  
(Billions of yen)



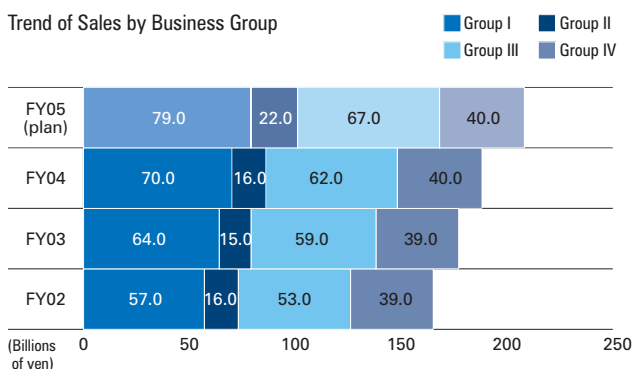
Operating Income Ratio  
(%)



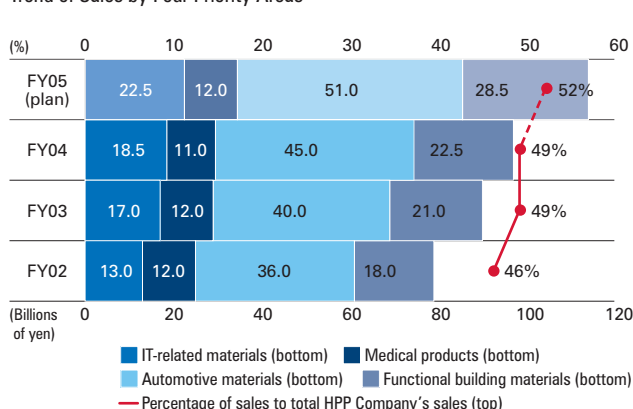
ROA  
(%)



Trend of Sales by Business Group



Trend of Sales by Four Priority Areas



¥16.0 billion (up ¥1.0 billion year on year). In Group III, which is centered on functional materials for automotive products, sales were ¥62.0 billion, (up ¥3.0 billion year on year). In Group IV, sales were ¥40.0 billion (up ¥1.0 billion year on year).

investing 80% of our development resources with a view to further elevating these ratios. From the viewpoint of accelerating business expansion, we will consider the option of M&As and alliances as necessary in order to complement our in-house development.

**The Sekisui Chemical Group aims to be a "premium company." Hoping to play a leading role in that endeavor, the HPP Company has set the target of an operating income ratio in excess of 10% in fiscal year 2006.**

**To that end, our two major management themes for fiscal year 2005 are "business expansion" and "high profitability."**

Among the four priority areas mentioned, the IT-related materials area and automotive materials (AT) area stand out for their steady results.

## COMPANY STRATEGIES FOR FISCAL YEAR 2005

### 1. Business Expansion

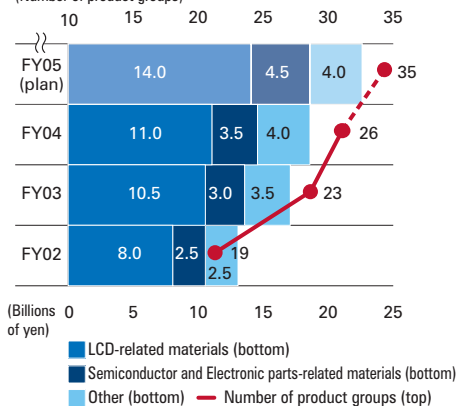
#### Focusing on priority business areas

The HPP Company has promoted a shift in priority to businesses that are in leading-edge and growth areas. We selected IT-related materials, automotive materials, medical products, and functional building materials as our four priority areas, growing them into earnings drivers by investing 80% of our business resources in them. As a result, these four areas have grown to account currently for 50% of its sales and even larger 70% of its operating income. In fiscal year 2005, we will maintain this focus,

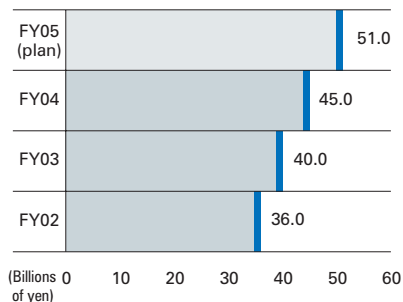
#### 1) IT-related materials area

The IT-related materials area can be broadly divided into the liquid crystal display (LCD)-related area and the semiconductor/electronic parts-related area. In the LCD-related area, the HPP Company is promoting the business development into photosensitive resins and optical films mainly for large-sized LCDs, concentrating on the fine particle products for LCDs where we are strong such as spacers and electro-conductive micro particles. In fiscal year 2004, sales in the LCD-related area were ¥11.0 billion (up ¥500 million), and we are targeting a ¥3.0 billion increase to ¥14.0 billion in fiscal year 2005. In the semiconductor/electronic parts-related area, we are promoting the development of semiconductor-related products centered on binders for ceramics and semiconductor processing materials (temporary adhesives). Specifically, our line of products includes SELFA (tape for processing very thin film, dicing tape) and mount assembly materials (NCF, DAF, Plastic cored solder ball). In fiscal year 2004, sales in the semiconductor/electronic parts-related area were ¥3.5 billion (up ¥500 million) and we are targeting an increase of ¥1.0 billion to ¥4.5 billion in fiscal year 2005.

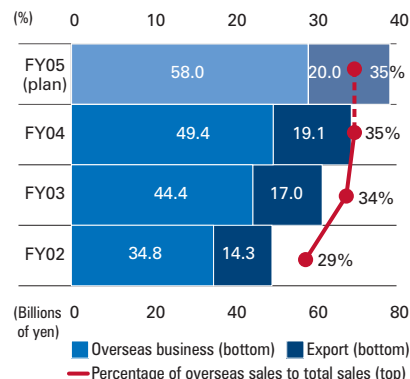
IT-Related Materials Area: Sales by Product Category and Number of Product Groups (Number of product groups)



Automotive Materials (AT) Area: Trend of Sales



Overseas Sales



## 2) Automotive materials (AT) area

In the automotive materials (AT) area, mainly handled by the Automobile Environment Business Planning Office, we have developed and supplied products that embody our three major automobile themes of “environment-friendliness,” “comfort,” and “safety.” The HPP Company’s AT area can be broadly divided into the interlayer film business and the functional materials business. In the interlayer film business, we are globally developing interlayer films for laminated glass for automobiles. Featuring superior strength and flexibility, our interlayer films assure a high degree of safety by boosting the penetration resistance and shatter resistance of glass when they are inserted between sheets of automotive glass. In addition, they enhance the comfort inside the automobile by providing a high degree of solar control and sound control and even reduce the environmental load of the automobile. In the functional materials business, we are developing interior materials and ceiling materials for automobiles that have superior environmental features such as being lightweight, highly rigid, glass-free, in addition to all being safe and comfortable. In fiscal year 2004, sales in the AT area were ¥45.0 billion (up ¥5.0 billion) and we are targeting a ¥6.0 billion increase to ¥51.0 billion in fiscal year 2005.

## Expanding overseas businesses

### 1) Expanding exports

The HPP Company’s basic strategy for expanding exports is “getting products with profit potential to growing markets.” In addition to Asia, which is a growth area, we are expanding our businesses in North America. The ratio of overseas sales combining exports and overseas businesses in fiscal year 2004 was 35% of the HPP Company’s overall sales. However, overseas operating income accounted for 55% of the total. Going forward, we will continue to reinforce the development of businesses with high profitability.

### 2) Building overseas businesses

For the stability and expansion of overseas business, it is essential to reinforce our overseas operations in addition to reinforcing exports. As a result of promoting business expansion in the Asian region, and in China in particular, we have currently launched the four businesses of functional materials, interlayer films, medical products, and packaging tapes in China. For fiscal year 2005, we aim to achieve sales of ¥8.0 billion in Chinese businesses and make the total for the four businesses profitable for the first time.

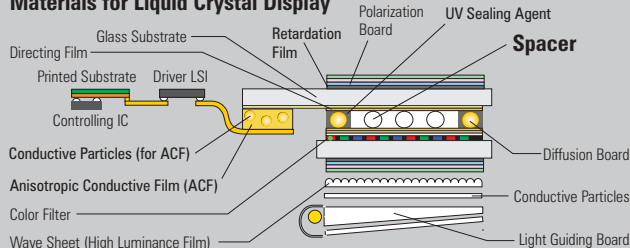
## Topic in Fiscal Year 2004:

### “Liquid Crystal Display (LCD) Materials —Spacers”

Spherical fine particles that keep the thickness of the liquid crystal layer uniform by being placed between the two layers of glass that form the LCD, spacers are mainly used in the small and medium-sized liquid crystals for notebook PCs, monitors, LCD TVs and mobile phones.

The HPP Company’s spacers have a proven global performance record of many years and boast approximately 70% share for 17-inch and smaller LCDs in particular. Cur-

## Materials for Liquid Crystal Display



rently, moreover, we aim to expand our share of the overall spacer market by developing spacers for large-scale LCDs.

### Made possible by original technology —Innovation in LCD display technology

In recent years LCDs have made remarkable progress in terms of large screens, high color clarity, and accommodating animated graphics. An essential element of such





Sekisui's S-LEC® interlayer film for laminated glass is used at the city hall in Seattle, U.S.A.

### Developing new products and businesses

The HPP Company attaches greater importance to "A-type new products," new products that lead to the creation of new demand, than to replacement-type (improved) products. Since A-type new products become the number one or only product of their kind, the products boast gross margins at a high 50% level and are the largest drivers in expanding our businesses. We are aiming to increase sales of A-type new products to ¥44.0 billion in fiscal year 2005 from ¥30.2 billion in fiscal year 2004.

In order to launch A-type new products, the creation of large-scale development themes is essential. We will accelerate the creation of those themes and boost development efficiency by reinforcing technology packages that provide total solutions through combinations of various technologies and by improving our development system.

## 2. Reinforcing Profitability

Aiming to be a "premium company with an operating income ratio in excess of 10%" increases the importance of reviewing unprofitable product lines in order to use business resources more effectively.

### Strengthening competitiveness

Since continued increases in raw materials prices are expected, it is impossible to be the winner in competition without improving cost-competitiveness. We are focusing on boosting productivity, promoting inventory planning and reducing inventory costs in order to strengthen competitiveness in terms of costs, quality and delivery.

innovation in display technology and new product development is our "Micropearl," a fine plastic sphere with superior heat resistance, cold resistance, and chemical resistance developed using our original fine particle technology. When inserted between the glass substrates of the display, these fine particles that are several microns in diameter keep the thickness of the crystal layers (cell gap) even. Having patented this Micropearl spherical fine particle technology, we play a major role in developing LCDs by being a world leader in developing and marketing many spacers for a variety of requirements.

### "Micropearl EX" for maintaining uniform thickness of LC layers

The structure of an LCD is such that it produces various colors when an electric voltage is passed through the two glass sheets that make up the display portion. While

### Acceleration of Business Development in China

In fiscal year 2004, we launched two new factories, for our interlayer film business and our medical products business, in the important strategic market of China. The HPP Company is accelerating business development with a view to further expanding share in the Chinese market.

#### Establishment of Sekisui S-LEC (Suzhou) Co., Ltd.

##### *Interlayer film for laminated glass business —First in the world to be established in China*

We were the first company in the world to establish a new company for the manufacture and sales of interlayer film in China, where large growth in demand for interlayer film for automobiles is expected, and began production and sales in October 2004. Reinforcing our advantage by setting up in China ahead of competitors, we are targeting a share of over 60% (approximately 50% at present) of the Chinese market for interlayer film for automobiles.

#### Establishment of Beijing Sekisui Trank Medical Technology Co., Ltd.

##### *Medical products business—Start of manufacture and sales of blood sampling vacuum tubes*

We established a new joint venture with a major Chinese manufacturer of blood sampling vacuum tubes for the manufacture and sale of plastic blood sampling vacuum tubes in China, where the medical-related market is expected to expand, and began production and sales in September 2004. We plan to increase our market share in China by reinforcing quality and price-competitiveness through local production.

### Strengthening marketing power

Aiming to achieve marginal income of ¥100 million per sales employee, we are strengthening our overall marketing power by focusing on marketing productivity and reinforcing our market development team.

color distortion occurs unless the thickness of the LC layers is kept uniform, the space between the two sheets of glass is only a tiny five or six microns (1 micron = 1/1000mm). This is where our "Micropearl" fine particles play an important role. When these fine particles with a diameter of only a few microns are placed between the two sheets of glass to keep the space between them uniform, they help to produce a beautiful image by eliminating color distortion.

### "Micropearl AU" for producing images

In order to produce colors on an LCD, an electric voltage must be generated by passing electricity between the two sheets of glass. The surface of our "Micropearl AU" product is gold-plated, and by passing electricity through these fine particles, the electric voltages are generated, and the images produced realizes a high-quality LCD picture.




**Publishing of the “Environmental & Social Report 2005”**

The Sekisui Chemical Group has proactively disclosed information about our efforts in environmental conservation activities through our “Environmental Report” since 1999.

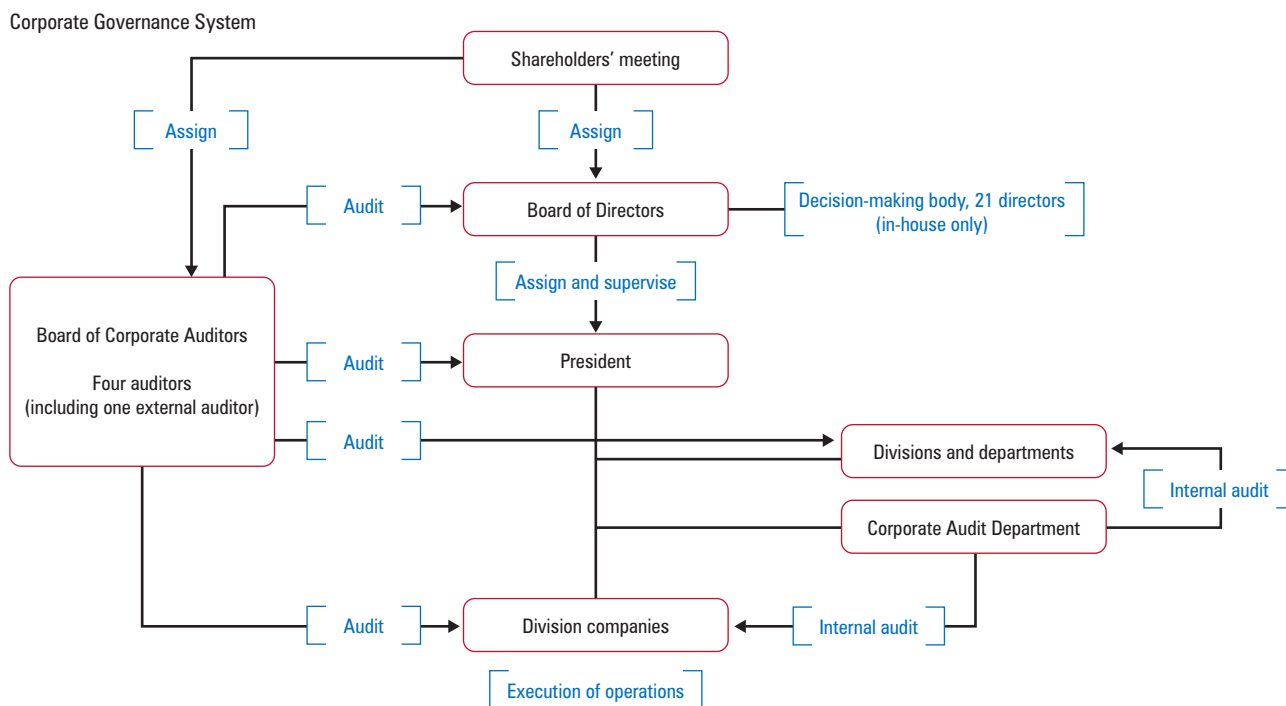
In 2005 we further developed our “Environmental Report” in broad view of CSR and published the “Environmental & Social Report 2005.” Through this report, we would like to help more stakeholders understand our recent efforts in CSR management.

For details about the “Environmental & Social Report 2005,” please refer to our website:  
<http://www.sekisui.co.jp/>



## Pursuing Our Prominence in “Environment,” “CS Quality,” and “Human Resources” to Fulfill Social Responsibility through Our Businesses

The Sekisui Chemical Group will respond to stakeholders’ expectations and strive to maximize our social value by our three “prominences”—products that center on “environment,” “quality” that is a manufacturer’s foundation and our strong commitment, and developing “human resources” that challenge the creation of unique value. In addition, we will promote our CSR management through strengthening our “sincerity” in risk management, compliance, and information disclosure and communication.



## CORPORATE GOVERNANCE

The Sekisui Chemical Group considers the enhancement of corporate governance to be a priority issue in management. On that basis, we are relentlessly working to establish a solid corporate governance system by improving efficiency, maintaining soundness, and ensuring transparency in management.

### 1. Enabling Speedy Decision-Making and Enhancing Accountability

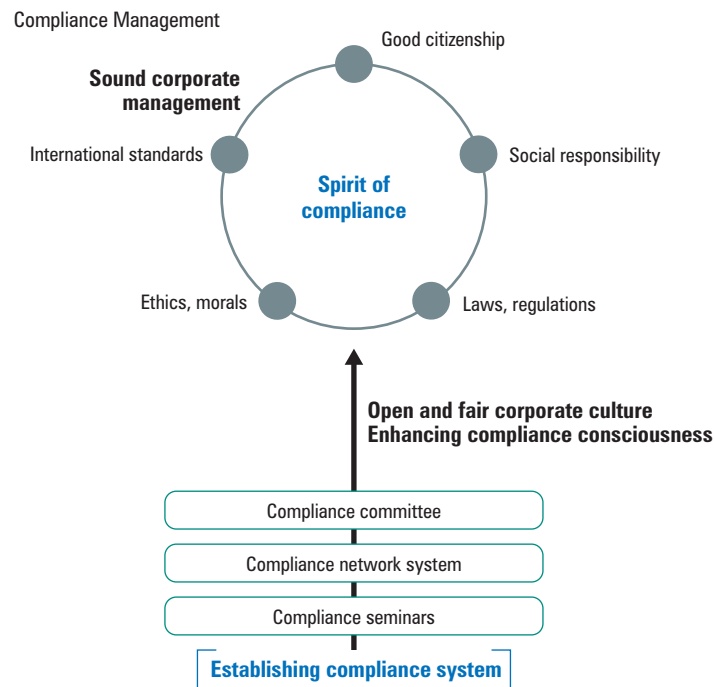
The Sekisui Chemical Group is striving to enable speedy decision-making and enhance accountability to maximize our corporate value. Under the division company system introduced in March 2001, we have realized speedy decision-making by transferring a large portion of operational authority to division company presidents. We have also been performing our operations appropriately by enhancing our accountability. In addition, we have established a board within each division company to facilitate a prompt decision-making process.

In the meantime, the Board of Directors is focusing on such tasks as company-wide decision-making, strategic planning, and monitoring. In addition to the one meeting to be held every month in principle, the Board of Directors is conducting extraordinary meetings as necessary to respond promptly and adjust to the changes in the management environment.

### 2. Strengthening the Auditing System

The Sekisui Chemical Group is also endeavoring to strengthen its monitoring of management and operations.

We ensure that our governance system works effectively with the close cooperation between the audit by the Board of Corporate Auditors and the internal audit by the Corporate Audit Department. The Board of Corporate Auditors comprised of four auditors (including one external auditor) monitors the Board of Directors, president, headquarters and each division company. At the same time, the Corporate Audit Department, which reports directly to the president, internally monitors headquarters and each division company for legality and social appropriateness.



## COMPLIANCE

**The Sekisui Chemical Group considers compliance to be a critical factor in its management base. The enhancement of compliance management is being positioned in fiscal year 2005 as an important measure towards our transformation into a “premium company,” and the entire Company is engaging in efforts to promote this measure.**

### 1. System and Measures for Compliance Management

For our employees to observe laws and regulations and to practice the ethical conduct expected of corporate employees as members of society, we have clarified in our “Compliance Declaration” that we will “transform into a company that earns the broad-based trust of society through the sincere attitudes of each of our individual employees.” In this way, we are working to raise the awareness of compliance in all employees.

With regard to our system of compliance, we set up a Compliance Committee and enhanced our company-wide measures. At the same time, those policies determined by this Committee are being enforced by the Compliance Promotion Committee established in each division company and the corporate headquarters. Furthermore, we have launched the Compliance Advisory Board alongside the Compliance Committee, and it is working to strengthen the compliance system by engaging in efforts to enhance countermeasures against outstanding issues as well as measures to prevent the reoccurrence of problems.

In addition, with the aim of disseminating the importance of compliance to all our employees, we have

compiled a Compliance Manual; conducted various educational and training seminars for personnel newly appointed to key positions, newly hired employees, executive officials, and others; and implemented monitoring surveys twice a year managed by the Legal Affairs Group. We are also currently introducing e-learning training via the Company intranet with the intention to enrich all employees’ compliance mentality. In addition, we enforced a review of the company reporting system (SCAN system), and improved the system, strengthening the protective functions for reporters.

### 2. Measures for the Protection of Personal Information

As a measure to adhere with the Act for Protection of Computer Processed Personal Data held by Administrative Organs, which entered into force in April 2005, we had provided since March 2005 e-learning classes on the legislation to all our employees. The entire Company is putting forth efforts for the thorough management and protection of information in compliance with the various regulations stipulated in the Act.

## BOARD OF DIRECTORS



Hideo Tagashira  
Managing Director

Takayoshi Matsunaga  
Executive Managing Director

Itsuro Togo  
Executive Managing Director

Naotake Okubo  
President

### President

#### **Naotake Okubo**

### Executive Managing Directors

#### **Itsuro Togo**

*President of Housing Company*

#### **Takayoshi Matsunaga**

*President of High Performance Plastics Company*

### Managing Directors

#### **Tetsuji Izu**

*General Manager of General Affairs & Human Resources Department and Environmental Management Department, Responsible for Sekisui's overall compliance, environmental, CSR issues*

#### **Yoshiyuki Takitani**

*General Manager of Corporate Management Strategy Department and Corporate Communication Department*

#### **Ken Yoshida**

*General Manager of CS & Quality Management Department, Head of R&D and Technology Center and NBO, Responsible for Sekisui's overall CS issues*

#### **Naofumi Negishi**

*General Manager of Corporate Finance, Accounting and Planning Department*

#### **Hideo Tagashira**

*President of Urban Infrastructure & Environmental Products Company*

### Directors

#### **Toyoo Manabe**

*Special Advisor*

#### **Gen Endo**

*Special Advisor*

#### **Tomohiko Yasuda**

*Special Advisor*

#### **Eiji Manshou**

*Responsible for Development, Urban Infrastructure & Environmental Products Company, Head of New Business Promotion Project*

#### **Yasukazu Nishimura**

*Responsible for Medical & Building-Related Business Units, High Performance Plastics Company*

#### **Hiroshi Matsubara**

*General Manager of Living Environment Division, Housing Company*

#### **Masafumi Nishimura**

*Head of Housing Company President's Office, General Manager of Housing Division*

#### **Yuji Enatsu**

*Responsible for Automotive-Related Business Units, General Manager of S-Lec Film (Interlayer Film) Division, High Performance Plastics Company*

#### **Seisho Hiramitsu**

*Responsible for Housing Materials & Equipment, Urban Infrastructure & Environmental Products Company, General Manager of Building Materials Division*

#### **Yoshikazu Marushita**

*Responsible for Pipe & Related Products, General Manager of Reinforced Plastic Pipe Division, Urban Infrastructure & Environmental Products Company*

#### **Toshio Uesaka**

*Responsible for IT-Related Business Units, High Performance Plastics Company, Head of Research & Development Institute*

#### **Hidemi Uno**

*Responsible for Technology, Housing Company, General Manager of Technology Department*

#### **Teiji Kouge**

*President of Nagoya Sekisui Heim Co., Ltd. and Nagoya Sekisui Heim Real Estate Co., Ltd.*

### Full-Time Corporate Auditor

#### **Yoshiharu Takahashi**

### Corporate Auditors

#### **Katsuya Kittaka**

#### **Masashi Takai**

#### **Noriaki Kano**

*Professor of Engineering at Tokyo University of Science*



**The Sekisui Chemical Group is striving to disclose management-related information in an appropriate and timely manner as well as to improve its transparency in management by clearly explaining our business strategy and vision. We are also moving forward with voluntary and active “two-way IR communication” in hopes of establishing good communication with each shareholder and maximizing the corporate value of the Sekisui Chemical Group.**

## AIMING TO BUILD TWO-WAY COMMUNICATION WITH EACH SHAREHOLDER

### 1. System and Measures for IR Activities

In the Sekisui Chemical Group, the Investor Relations Group in the Corporate Communication Department plays a central role in disclosing information in an appropriate and timely manner, as well as in making every effort to reflect proactively the feedback we get from our shareholders in management.

In particular, in addition to the business results presentations held every quarter, we actively hold one-on-one meetings with analysts and investors. The content of the questions raised during the meetings are then regularly reported to the management executives. Furthermore, in fiscal year 2004, we vigorously conducted facility and factory observation visits for analysts and investors to deepen their understanding and awareness of our business content and the factors that differentiate us from other companies. We have been enthusiastically advancing IR activities abroad since fiscal year 2000. For instance, in fiscal year 2004, the president or officials in charge of IR individually visited investors and held company briefings three times, once in Europe after our full-year business results had been released and once each in the United States and Asia, respectively, after the release of our medium-term business results.

### 2. Efforts to Disclose Information in an Impartial and Fair Manner

The Sekisui Chemical Group is working to eliminate information disparity by practicing fair disclosure to all our shareholders.

Our quarterly business results and presentations are made available on the Investor Relations section of our website. We upload the business results and briefing notes simultaneously with the public announcement as well as the presentation materials after the information meeting on the business results has ended, both in Japanese and English. The audio and visual images from the presentation are also distributed online the following day. To increase opportunities to communicate with individual shareholders and investors, we have established a section called “To Our Shareholders” in the Investor Relations section of our website, and also launched an e-mail distribution service for the “Sekisui Chemical IR News” in April 2005. Through these efforts, we are working to disclose information in a proactive manner.

**A “prominent” contribution to society and the environment will continue to be our focus**  
**We believe that our primary social contribution as an “environmentally creative organization” is to provide “prominent” products with respect to environmental consideration and improvement, and to continue to provide those products without imposing a burden on the environment.**

**SOCIAL CONTRIBUTION THROUGH OUR CORE BUSINESS**

We believe that it is a duty for a responsible manufacturer to develop products with consideration for the environment, and that the products and services the sincere company provides and offers should make the lives of customers more convenient and economical. At the same time, the company should contribute to the development of society and adopt environmental conservation. This is what we stick to, but at the same time we believe it is also our responsibility and mission.

Each of our Group’s division companies—Housing, Urban Infrastructure & Environmental Products (UIEP), and High Performance Plastics (HPP)—are advancing efforts to fulfill this responsibility and mission through their products and services.

**Housing Company: Offering a comfortable life that does not impose a burden on the environment**

The Housing Company has a deep sense of devotion to the product development at its core and is highly aware that the housing business is not simply about the supply of housing. By making our products environmental friendly, we can increase the satisfaction of our customers and earn society’s trust.

**1. Photovoltaic Generation System**

Cumulative sales of our houses equipped with photovoltaic generation systems exceeded 40,000 in May 2005, making us the leading company in the market, and the total generating capacity had reached at an annual average of 4.23 KW in fiscal year 2004 (both of these figures are on a contract basis.) Add to this, combined with the effects of a high degree of heat insulation and the high-efficiency hot water supplier Eco Cute, both of which with next generation energy-conservation standards, resulted in a cumulative CO<sub>2</sub> reduction effect of 80,000 tons by fiscal year 2004.

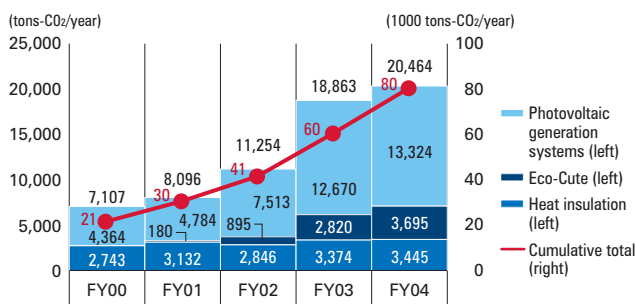
**2. Product Development that Reduces the Burden on the Environment**

The Sekisui Chemical Group is promoting a “zero emission 3R” policy based on the concepts of Reduce, Reuse, and Recycle. The Housing Company has been actively working to achieve zero emissions in line with the motto “Recycle all waste materials without exception at every manufacturing facility.” By the end of March 2005, zero emissions had been achieved not only in production plants and at new housing construction sites, but also in the 38 locations of the 31 Fami S refurbishing companies nationwide.

These efforts to achieve zero emissions have not only led to greater consideration for the environment through

industrial waste reduction, they have also substantially reduced costs. Industrial waste processing costs in fiscal year 2003 were 0.92% of sales, but after implementation of the zero emission policy, they declined to just 0.72% of sales in fiscal year 2004.

Effect of “zero-utility-cost” houses on the reduction of CO<sub>2</sub> emissions



**Urban Infrastructure & Environmental Products Company: Promoting environmental solution businesses**

The Urban Infrastructure & Environmental Products (UIEP) Company believes that it is our responsibility and mission to contribute to society and the environment as an environmental solution company that offers products and systems tailored to the social infrastructure, building materials, water supply infrastructure, and other elements of the living environment.

**1. Urban Infrastructure Reformation and Restoration Business**

Favorable conditioned urban infrastructure is essential for the safety and comfort of our living. The urban infrastructure reformation and aged pipe restoration business does not only provide the infrastructure by itself; it also pursues greater environmental consideration and social contribution through renovation and restoration.

The aged pipe restoration business is representative of this approach. Demand for restoration of aged pipes is rapidly increasing. Our Omega-Liner and SPR methods are being widely adopted by local governments throughout Japan. Furthermore, with our restoration methods it is not necessary to dig roads when carrying out installation, so our environmental friendly methods reduce noise, vibration, odor, traffic congestion, and waste materials otherwise caused by digging roads.

**2. Housing Environment Creation Business**

The housing environment creation business aims to contribute to society by creating and providing products that



support a secure and comfortable life, meeting the increasing needs for a high quality of life in the aging society and for a healthy living environment.

We are developing technologies and materials to resolve a variety of housing environment problems, such as noise, bumps, and energy conservation of housing and construction waste problems. For example, we have developed highly soundproof flooring materials and floor heating, and the roofing tile Brook Solar H which is also a photovoltaic generation panel to generate electricity.

### **3. Water Environment Creation Business**

The water environment creation business is contributing to the construction and creation of a safe and plentiful water environment, taking measures to overcome related problems.

We provide piping systems that control the flow volume of rainwater, by collecting and storing it for un-potable use or allowing it to permeate the soil. For example, we have developed a large scale rainwater storage facility (Rain Station) that controls the flow of rainwater through sewage pipes and reduces the burden on sewage pipes and sewage treatment plants. This rainwater storage system not only realizes a safe and abundant water supply; it also uses plastic materials developed by our Company to achieve porosity of over 90% and to ensure that sand and other debris that get into the pipe are collected in a sediment basin. This contributes to making the system very easy to maintain and manage.

### **High Performance Plastics Company: Making ecological and economic benefits compatible**

We support the environmental friendliness of our clients' products by providing "solutions" based on our technology package, thereby making the products we supply as intermediate materials environment-friendly. This includes products that contribute to the efficient use of resources and to saving energy as well as measures for dealing with the polluting aspects of products.

#### **1. Heat insulation interlayer film: "S-lec Solar Control Film"**

The heat insulation interlayer film "S-lec Solar Control Film" has become an important product. It contributes to saving energy through the use of our technology package that leverages nano-dispersion technology, which uniformly disperses fine particles with a heat shielding function across the film, in addition to the multilayer extrusion technology and adhesive strength adjustment technology developed by our Company.

In particular, by employing this heat insulation interlayer film designed to significantly cut infrared rays (heat rays) in addition to ultraviolet (UV) rays striking automobile windshields, the film reduces the rate at which the temperature rises inside the vehicle\*1 and improves the vehicle's mileage by reducing the load imposed on the engine due to the use of air-conditioning. Furthermore, there are such advantage as minimizing the size and weight of the air-conditioning equipment.

\*1: When the heat insulation interlayer film is built into an automobile windshield, it reduces the temperature of the steering wheel and the surrounding air temperature by approximately ten degrees celsius in a stationary car.

#### **2. Adhesive tape for vehicles: "LSV (Low Smell and Low VOC)"**

In recent years, the automotive industry has been promoting a reduction in the use of volatile organic compounds (VOC) such as toluene and xylene as its main environmental measure. As a result of our vigorous development efforts, in June 2005 we launched an adhesive tape for vehicles, the "LSV," which generates less VOC and smell as compared with conventional products.

Adhesive tape for vehicles is used when installing various interior and exterior equipment in vehicles such as a roof harness or spoiler as well as parts related to air-conditioning. However, the tape's weakness is that there remains VOC at the time of shipment. The LSV we developed generates 100-200PPM of VOC, or close to just one-third of that within conventional products developed by other companies. At the same time, however, we have successfully maintained an adhesive power roughly equal to the conventional products by replacing toluene with ethyl acetate (ethyl compound) as the adhesive compound.

### **ENHANCEMENT OF MEASURES ON ENVIRONMENTAL CORPORATE MANAGEMENT — "Environmental Top Runner Plan"**

The Sekisui Chemical Group has been enhancing our environmental corporate management with an aim to become an "environmentally creative organization" appreciated by the region and society. We have been actively promoting activities in accordance with the measures developed from the action guideline set for each employee to recognize fully his or her own role in the efforts for environmental corporate management, environmental-consciousness of products, and a reduction of environmental loads and risks upon production. This guideline was stipulated in the Middle Term Environmental Plan, "STEP-2005," which was established in April 2003. As a result, net sales of environment-friendly products in fiscal 2004 were ¥244.0 billion, which largely achieved our goal for fiscal 2005 of ¥250.0 billion. By the end of fiscal 2004, we were able to achieve 12 out of the 39 goals that we had set.

In connection with these results, we have established the "Environmental Top Runner Plan," a new vision for our environmental corporate management that raises goals and policies to an even higher level in April 2005. We shall aim to become an "environmentally creative organization" by establishing and achieving challenging goals that well suit the name "top runner." We plan to achieve the following goals by fiscal 2010: (1) expand the ratio of environmentally contributing products we produce to 50%; (2) achieve a 10% reduction in CO<sub>2</sub> emissions as compared with the fiscal 1990 level; (3) achieve a 67% reduction in industrial waste from the fiscal 1998 level; and (4) introduce the environmental corporate management guideline, the Eco Value Index.\*2 (The target value of environmental efficiency in fiscal 2010 is double that of fiscal 2004.)

\*2: The Eco Value Index is a measurement of environmental efficiency, calculated using the aggregate total of environmental loads generated from business activities as the denominator and the environmental added-value as the numerator.

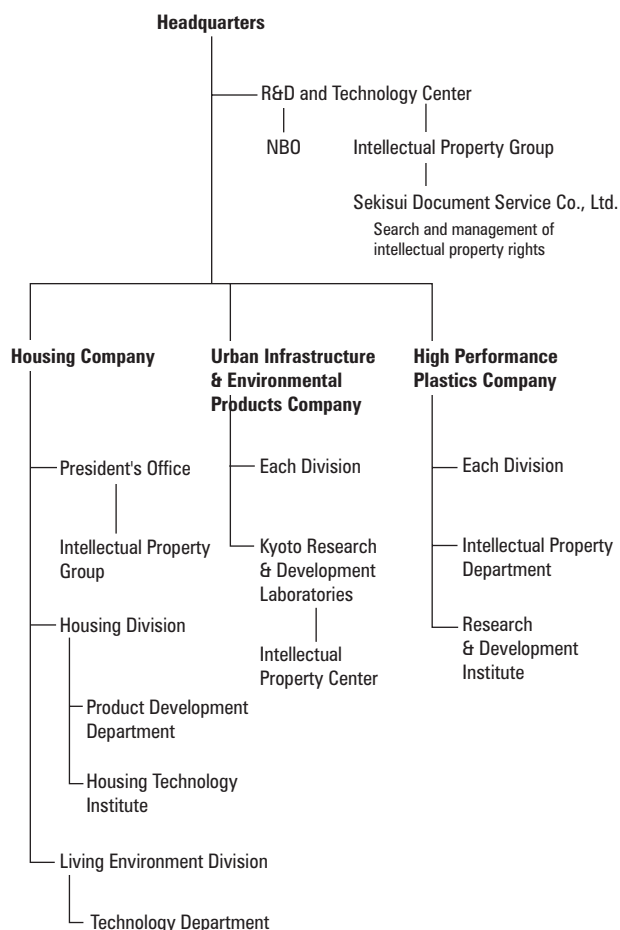
## RESEARCH & DEVELOPMENT (R&D)

### R&D SYSTEM

The Sekisui Chemical Group is a developer of “prominent” technologies and it polishes its core technologies in order to strengthen its earning power and develop growing businesses. At the same time, the Group pursues not only in-house development but also advanced technologies that utilize partnerships between industry and academia as well as alliances. In addition, we are engaged in research and development to differentiate our advanced technologies from that of others. We aim to achieve remarkable technologies from basic research to a development of new businesses in the areas determined by each of our three division companies, based on our R&D strategy that promptly and accurately understands the needs of customers for cutting-edge technologies.

Furthermore, concerning technologies that may lead to the creation of new businesses, R&D is being conducted by the R&D and Technology Center NBO (new business office) directly under the corporate headquarters. Currently, we are advancing the development of new products that meet the social needs and R&D of elemental technology in the two new business areas of P2 (semiconductor production equipment using atmospheric pressure plasma technology) and fire protection (FP).

R&D and Intellectual Property Management System



### R&D STRATEGIES BY EACH DIVISION

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 • Proposal for new houses incorporating LCC and environment-friendly concepts • Improve design, planning and installation capability in refurbishing • Enhance the unit-home reuse system	Housing Company • Environmentally-conscious technology • Building structure, method technology • Production, installation technology • Refurbishing, remodeling technology
High-performance pipes/building materials Environmental solutions Comprehensive piping solutions	• Sophistication of function and system • Development of environmentally-conscious products • Development of low-cost installation technology	Urban Infrastructure & Environmental Products Company • PVC, olefin materials, molding technology • Composite material technology • Piping diagnostics and aged pipe restoration technologies • Recycle and reuse technology of wood and plastics • Water circulation technology
IT-related materials Medical products Automotive materials Functional building materials	• Proposal of technological solutions with technology package	High Performance Plastics Company • Functionalized surface technology • Precise synthesis technology • Nanotechnology • Optical reaction technology • Adhesion control technology
Semiconductor manufacturing equipment-related Fire protection solutions	• Innovation of semiconductor manufacturing process • Planning of technology fire retardation methods	New Technology • Atmospheric-pressure plasma • Fire resistant material technology



## TOPICS FOR FISCAL YEAR 2004

### Achievements of the NBO —Aiming to create new business

The main achievements of the R&D and Technology Center NBO (new business office) division in fiscal year 2004 were twofold. In the P2 business, in addition to our sales turnaround concerning cleaning equipment for flat panel displays (FPD) using atmospheric pressure and cleaning equipment for post-processing, we also began making proposals to customers for proprietary technologies such as water-repellent processing and line etching. In our FP business, we brought to market three types of block penetration parts for cables that we developed in the first half of the fiscal year 2004 as well as sheets to cover steel beams (fire-resistant for an hour), and we have started obtaining shipping and installation results. Currently, we are proceeding in the development of products for steel beams that are fire-resistant for two hours.

## EVALUATIONS AND BENEFITS FOR SUPERIOR RESEARCHERS AND TECHNICIANS

### —Employee-Invention System

The Sekisui Chemical Group recognizes exceptionally superior technology and highly profitable inventions through its “Great Invention Award” within the Employee-Invention System and provides remuneration for such employee inventions. The award was presented for the first time in fiscal year 1999, and each year we recognize two or three products or technologies as Great Inventions in order to highly praise superior researchers and technicians. We also make efforts to improve awareness about the ongoing research and technological developments within our Group. Until now, products and technologies that have received the Great Invention Award include Large Astylar Spaces: High Beam Construction Methods (Heim), ESLON HI Pipe Gold, and Sealant for Liquid Crystal Display Cells (Photolec A-700).

## INTELLECTUAL PROPERTY

### BASIC POLICY OF INTELLECTUAL PROPERTY MANAGEMENT

To maximize the advantages of our “prominent” technologies, the Sekisui Chemical Group places focus on its intellectual property strategy. In March 2005, we formulated the Principles on Intellectual Property to promote an intellectual property strategy in which we set our purpose of intellectual property management “to encourage the creation, protection, and utilization of intellectual property so that it will contribute to our growth and the enhancement of corporate value by respecting the intellectual properties of ourselves and others and by clearly laying out the measures, handling, and procedures for intellectual properties.” We established this as our basic policy to “ensure business competitiveness by acquiring strong patents.”

### SYSTEM OF THE INTELLECTUAL PROPERTY STRATEGY

We are promoting our intellectual property strategy in a uniform manner from its basic strategy to the acquisition, management, and utilization of patents with the “Intellectual Property Group” at the corporate headquarters and the department in charge of intellectual property at each division company playing leading roles. In the corporate headquarters in the presence of the president and presidents of each division company, we hold the R&D and Intellectual Property Strategy Study Review Meeting twice a year to review the strategies together with the division of Research and Development. In addition, each division company is taking a proactive approach on the intellectual property strategy. At the same time, the Intellectual Property Group has not restricted its operations merely to providing consultation services on patents, but instead it is supporting the efforts of division companies from a very refined perspective of optimizing the intellectual property portfolio. As part of this effort, each division company is periodically conducting an Intellectual Property Strategy Study Review Meeting. At these meetings, the company presidents, heads of development departments, and general managers of the Intellectual Property Department directly exchange information and discuss the appropriate way to acquire the rights to the technologies the Company has developed.

Cooperation with external experts such as those at patent offices and law firms is also vital to advance the acquisition, management, and utilization of intellectual properties in an appropriate manner. We are working to strengthen our partnerships with experts in both Japan and abroad as we strive to achieve expertise in our operations on the acquisition of rights and to attain solid credibility in our operations on evaluation. We will pursue this, keeping in mind our future plans to develop our business globally.

**We believe without a doubt that the largest source of energy that supports the creation, establishment, and expansion of “prominent businesses” is our “prominent human resources.” We are focusing on perfecting human resources as well as educational and training systems to increase as much as possible the number of employees that are capable of taking the great leap toward our goal of transforming into a “premium company” with a clear sense of vision and spirit of challenge.**

## 1. Human Resources System to Boost Employee Motivation

### Intra-Group Job Posting System to Support Opportunities for “Self-Actualization”

Work is not simply a task that is given to employees; instead, it is an opportunity for them to raise their hands and take on challenges themselves. With this understanding, we have had in place since 2000 a system of intra-group job posting to maximize the motivation and capacity of those employees with a strong willingness to face challenges. Until now, we have implemented a cumulative of 58 intra-group job postings, and the number of employees applying and accepted has been steadily increasing.

### Enhancing the Performance-Based Remuneration System

To boost employee motivation by reflecting individual performance in remuneration more directly, we are promoting the adoption of a performance-based remuneration system that includes bonuses linked to performance and stock option systems. In particular, as for bonuses linked to performance, we have adopted a system where the entire Group’s consolidated operating income is reflected in the remuneration of each division and each employee, while keeping in mind our goal to become a “premium company” with an operating income ratio exceeding 10%.

### Implementing a Fair Evaluation System

A fair evaluation system is indispensable in boosting the motivation of prominent human resources. The Sekisui Chemical Group’s human resources evaluation system is based on “two-way evaluation,” where employees and their superiors evaluate one another in an interview. The purpose of this evaluation is to link the employee’s performance to remuneration by appropriately evaluating the results of the tasks carried out by the employee (the performances), and the process until the results have been achieved, based on well-defined evaluation standards. At the same time, we are promoting a “360° evaluation” which broadens the scope of parties involved in the evaluation.

## 2. Educational and Training Systems to Nurture Prominent Human Resources

We are striving to enrich our educational and training systems to nurture prominent human resources. Since fiscal year 2002, we have been implementing a training posting system both internally and externally. In fiscal year 2004, we conducted a “management school” and “workshop for self-innovation,” which were attended by 36 and 86 people, respectively, to nurture and develop business leaders in-house. Furthermore, as for external training, we dispatch our employees to receive training in business schools outside the Company and to a Chinese language-training course aimed at nurturing human resources that are vital for expanding our business in China. Since its inception in fiscal year 2003, 54 people have applied to participate in the Chinese language-training course, of which nine have been placed in it.

### NURTURING AND DEVELOPING HUMAN RESOURCES WITH GLOBAL QUALITIES —Advanced “Global Employee System” of the High Performance Plastics Company

The High Performance Plastics (HPP) Company is promoting an acceleration of its overseas operations ahead of other businesses. As such, nurturing human resources with an international perspective has become an urgent task. Given these circumstances, the HPP Company started the “Global Employee System” in fiscal year 2004 as a measure to nurture and develop human resources with global qualities. This system, which targets the approximately 1,300 employees of the HPP Company, aims to nurture and secure a group of candidates to work abroad. Once registered as a “global employee,” they are divided into groups according to their TOEIC scores and overseas work experience, and various kinds of training are conducted according to the level of each group. In fiscal year 2004, 500 employees were registered as “global employees,” of which 94 were selected as overseas business personnel to be candidates to work abroad.

# FINANCIAL SECTION

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## SIX-YEAR SUMMARY

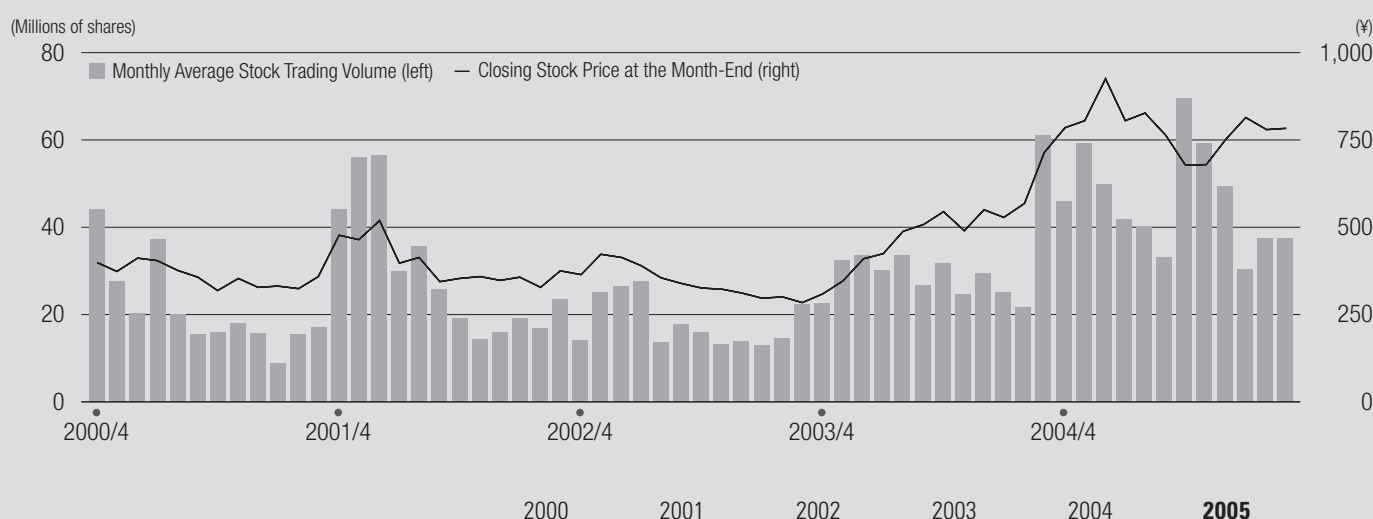
Sekisui Chemical Co., Ltd. and its Subsidiaries  
Years ended March 31

	Millions of yen					
	2005	2004	2003	2002	2001	2000
<b>Results for the year:</b>						
Net sales	¥ 856,936	¥ 814,864	¥ 799,709	¥ 845,497	¥ 913,683	¥ 920,041
Cost of sales	605,672	579,135	573,807	623,474	680,700	675,301
Selling, general and administrative expenses	214,818	212,648	211,877	225,117	236,684	237,952
Research and development expenditures	22,974	23,701	23,404	22,619	24,830	28,773
Operating income (loss)	36,446	23,081	14,025	(3,094)	(3,701)	6,788
Income (loss) before income taxes and minority interests	32,109	22,063	16,603	(63,076)	(78,648)	(22,449)
Net income (loss)	22,286	15,019	9,298	(52,108)	(48,634)	(27,183)
<b>Cash Flows (for the year)</b>						
Cash flows from operating activities	48,695	57,913	47,067	19,036	25,691	62,871
Cash flows from investing activities	(1,606)	(13,115)	(21,097)	(31,669)	(42,506)	(48,987)
Cash flows from financing activities	(38,997)	(40,549)	(37,010)	753	23,174	(8,133)
Capital expenditure	25,820	24,176	25,099	40,757	49,645	52,849
Depreciation and amortization	26,344	26,623	28,433	44,418	47,377	49,802
Free cash flows	42,065	41,538	22,681	(16,987)	(22,300)	6,688
<b>Year-end financial position:</b>						
Total current assets	286,975	256,538	252,179	285,381	349,237	341,267
Property, plant and equipment, net	228,907	239,854	248,246	253,454	285,016	287,688
Total assets	748,798	748,791	751,240	800,272	928,803	887,616
Total current liabilities	273,020	268,956	289,001	368,967	392,677	326,013
Total long-term liabilities	157,920	180,217	181,107	156,277	207,868	173,974
Total shareholders' equity	310,197	291,756	274,475	271,287	323,840	383,076
<b>Per share (in yen):</b>						
Net income (loss), non-diluted (EPS)	¥ 41.48	¥ 28.00	¥ 17.43	¥ (96.75)	¥ (89.91)	¥ (49.25)
Shareholders' equity	582.42	548.16	514.86	503.83	600.88	694.21
Cash flow	88.45	84.15	48.67	(23.46)	(31.09)	25.16
Cash dividends	10	7	6	6	10	10

	2005	2004	2003	2002	2001	2000
<b>Ratios and Other Information:</b>						
Gross profit/Net sales (%)	29.3	28.9	28.2	26.3	25.5	26.6
Operating income ratio (%)	4.3	2.8	1.8	(0.4)	(0.4)	0.7
Return on sales (ROS) (%)	2.6	1.8	1.2	(6.2)	(5.3)	(3.0)
Return on equity (ROE) (%)	7.4	5.3	3.4	(17.5)	(13.8)	(6.8)
Return on total assets (ROA) (%)	3.0	2.0	1.2	(6.0)	(5.4)	(3.0)
Total assets turnover (Times)	1.14	1.09	1.03	0.98	1.01	1.03
Inventory turnover (Times)	10.16	10.38	10.14	9.76	9.94	9.86
Tangible fixed assets turnover (Times)	3.66	3.34	3.19	3.14	3.19	3.32
Payout ratio (%)	24.1	25.0	34.4	(6.2)	(11.08)	(26.4)
Equity ratio (%)	41.4	39.0	36.5	33.9	34.9	43.2
Current ratio (%)	105.1	95.4	87.3	77.3	88.9	104.7
Interest coverage ratio (Times)	15.2	8.9	4.7	(0.5)	(0.6)	3.5
Debt/Equity ratio (%)	38.5	52.5	70.6	83.4	77.9	59.0
Stock price (¥)	779	711	280	372	356	339
PER (Times)	18.78	25.39	16.06	(3.84)	(3.96)	(6.88)
PBR (Times)	1.34	1.30	0.54	0.74	0.59	0.49
PCFR (Times)	8.81	8.45	5.75	(15.86)	(11.45)	13.48
Number of employees (Non-consolidated)	2,518	2,553	2,858	3,299	3,884	4,851
Number of shares outstanding (thousands)	539,507	539,507	539,507	539,507	539,507	551,967

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=Net income/Total assets  
4. Debt/Equity ratio=Interest-Bearing Debt/Shareholders' Equity  
5. Interest coverage ratio=(Operating income+Interest and dividend income)/(Interest expense–Discounts on notes receivable)  
(Discounts on notes receivable in fiscal year 2004 were ¥332 million.)

## SEKISUI CHEMICAL STOCK PRICE AND TRADING VOLUME



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

Price range of common stock (yen)						
High	¥ 880	¥ 466	¥ 543	¥ 444	¥ 724	¥ 930
Low	290	301	300	268	268	621
Market value (billion ¥)	187.1	192.1	200.7	151.1	383.6	420.3

# REVIEW AND ANALYSIS OF CONSOLIDATED RESULTS FOR FISCAL YEAR 2004 (YEAR ENDED MARCH 31, 2005)

## Business Environment

During fiscal year 2004, the Japanese economy experienced a slowdown in growth as a result of the impact of such developments as inventory cutbacks in the IT industry and a surge in prices of raw materials. Under such circumstances, the automotive industry remained relatively strong due to the improved competitiveness of Japanese automobile manufacturers at the global level. In the Housing area, however, the market environment remained difficult as the owner-occupied housing starts decreased 1.6% year on year to 367,000 units. In addition, public works continued to decline due to the government's policy of restraining public investment.

Overseas, the U.S. economy continued to grow despite a slight drop in growth momentum. While the European economy grew on a whole, a slight drop was witnessed in the speed of growth in the second half of the year. Investment and exports were the driving factors for the Asian economy, centered mainly on China, which continued to witness a high level of growth despite a slight drop in momentum.

## Analysis of Financial Position and Business Results

### 1. Analysis of Consolidated Business Results for Fiscal Year 2004

#### 1) Net sales

Net sales in fiscal year 2004 were ¥856,936 million, up ¥42,072 million (5.2%) year on year. Sales increased at all three division companies.

In the Housing Company, net sales increased ¥18,293 million (4.5%) year on year to ¥429,194 million. The Company's strategy of brand differentiation through the use of performance and brand power, as witnessed in concepts such as "environmental friendliness," "Life Cycle Cost (LCC) reduction", and "zero-utility-cost" houses, has begun to bear fruit. As a result, the total number of houses sold increased 3.4% year-on-year (the order backlog at the end of the year

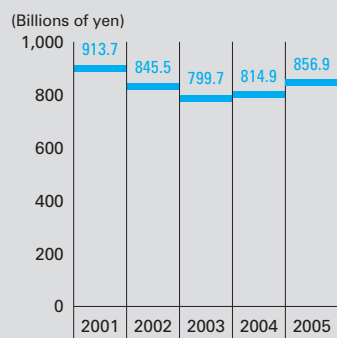
increased 5.0% year on year to ¥169,900 million), and net sales in the housing business recorded an increase of 4.3% year on year to ¥352,683 million. Moreover, Fami S business, which is centered mainly in the refurbishing business, took various initiatives in increasing sales of key products such as photovoltaic generation systems, and posted increased net sales of 3.0% year on year. As a result, net sales in the living environment business increased 5.2% year on year to ¥76,511 million.

In the Urban Infrastructure & Environmental Products (UIEP) Company, net sales increased by ¥12,541 million (6.5%) year on year to ¥204,822 million. In the water supply and drainage business division, which consists mainly of the PVC pipe business, we achieved steady progress in passing on the surge in raw material costs through a price increase in our PVC products. In addition, our piping systems for detached houses contributed to sales by strategically shifting the focus of our sales efforts to proposing systems rather than individual products. Furthermore, our plant materials such as pipes and valves for ultrapure water increased sales, supported by the strength of production at semiconductor and LCD factories. In the division of environment and civil engineering systems, which is centered on the pipe restoration business, sales also increased 54.9% year on year, contributing the Company's net sales increases.

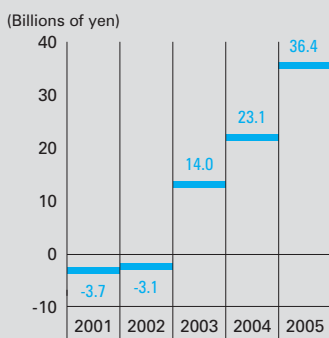
In the High Performance Plastics (HPP) Company, net sales rose ¥15,931 million (8.8%) year on year to ¥197,689 million. This is attributable to the steady growth in sales of automotive materials such as interlayer films for laminated glass and polyolefin foam. In addition, despite the impact from adjustments in the IT industry, sales increased for IT-related products such as fine particles for LCDs and high-functional resin, thus contributing to the results.

In Other Businesses, a change in the scope of consolidation caused net sales to fall by ¥7,893 million (a decrease of 13.1% as compared with the previous fiscal year) to ¥52,542 million.

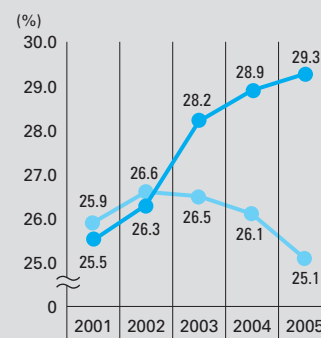
Net Sales



Operating Income (Loss)



Gross Profit/Net Sales, SG&A/Net Sales



— Gross Profit/Net Sales  
— SG&A/Net Sales



## 2) Operating Income

Operating income in fiscal year 2004 increased ¥13,365 million (57.9%) year on year to ¥36,446 million. Operating income increased at all three division companies. Operating income ratio for the entire Group rose by 1.5 percentage points from 2.8% in the previous fiscal year to 4.3%. The operating income/net sales for all three division companies also showed steady movement, with the results being 3.8% for the Housing Company (as compared with 2.5% in the previous fiscal year), 4.3% for the Urban Infrastructure & Environmental Products (UIEP) Company (as compared with 1.7% in the previous fiscal year), and 7.5% for the High Performance Plastics (HPP) Company (as compared with 6.8% in the previous fiscal year).

Gross profit increased by ¥15,535 million (6.6%) year on year to ¥251,264 million. The rise in raw material prices was more than offset by the incremental effect of the rise in net sales and cost cutbacks. Together with this, the gross margin improved from 28.9% to 29.3%. While selling, general and administrative (SG&A) expenses did increase by ¥2,170 million year on year, the ratio of SG&A expenses to net sales improved from 26.1% in the previous fiscal year to 25.1%.

\* For sales and operating income details by business, please refer to the segment information on Page 65.

## 3) Other Income and Expenses

Other income and expenses in fiscal year 2004 fell by ¥3,319 million year on year and amounted to a ¥4,337 million net expense.

In other income, equity in earnings of affiliates fell by ¥3,745 million (mainly equity in the earnings of Sekisui House, Ltd). On the other hand, the gain on the change holding ratio of subsidiaries increased by ¥2,420 million as a result of the partial sale of Sekisui House stock. The total of other income amounted to ¥14,444 million, posting a decrease of ¥573 million year on year.

In other expenses, although interest payments decreased by ¥275 million due mainly to a reduction in interest-bearing debt, the Company recorded a year-on-year increase of ¥2,746 million in net expense, which brought the total expenses to ¥18,781 million. This was attributable to an increase of ¥961 million in reorganization costs and ¥2,348 million in the sale or disposal of property, plant, and equipment.

## 4) Net Income

As a result of the above, income before income taxes and minority interests for fiscal year 2004 increased by ¥10,046 (45.5%) million year on year to ¥32,109 million. Deducting income taxes and minority interests, net income posted a year-on-year increase of ¥7,267 million (48.4%) to ¥22,286 million.

## II. Financial Position

### 1) Assets, Liabilities, and Shareholder Equity

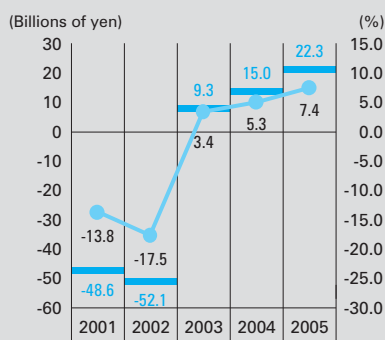
At the end of fiscal year 2004, total assets were generally at the same level as the previous fiscal year at ¥748,798 million (up ¥7 million (0.001%) as compared with end of the previous fiscal year).

#### Assets

Current assets totaled ¥286,975, up ¥30,437 million from the end of the previous fiscal year, due mainly to an increase in inventory assets that largely resulted from an increase in orders received by the housing business.

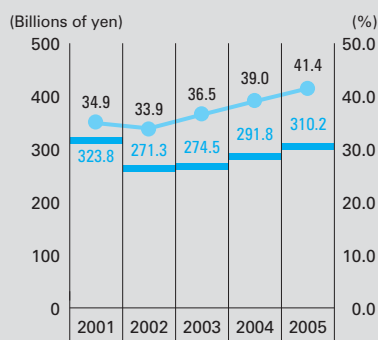
Fixed assets totaled ¥461,823 million, posting a decrease of ¥30,430 million from the end of the previous fiscal year. This was attributable to a control of capital expenditures to within the limits of depreciation. In addition, the sale and retirement of plant, property, and equipment decreased by ¥10,947 million. Investments, long-term loans, and other assets also decreased ¥18,644 million, due mainly to decreases in deferred income taxes.

Net Income (Loss), ROE



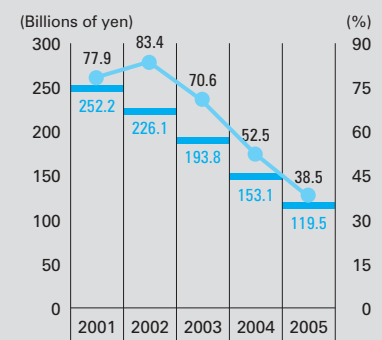
■ Net Income (Loss) (left)  
— ROE (right)

Shareholders' Equity, Equity Ratio



■ Shareholders' Equity (left)  
— Equity Ratio (right)

Interest-Bearing Debt, Debt/Equity Ratio



■ Interest-Bearing Debt (left)  
— Debt/Equity Ratio (right)

## Liabilities

As regards current liabilities, the Company decreased short-term debt to ¥5,590 million and commercial paper to ¥5,000 million using cash reserves generated by strong business operations. On the other hand, trade notes and accounts payable increased ¥6,358 million, reflecting an increase in advances received due to the strength in housing orders received. Total current liabilities were ¥273,020 million, up ¥4,064 million from the end of the previous fiscal year.

In the long-term liabilities as well, long-term debt was reduced by ¥22,736 million. Total long-term liabilities also decreased by around a similar amount of ¥22,297 million to total at ¥157,920 million.

As a result of the above, total liabilities decreased ¥18,233 to ¥430,940 million.

Moreover, the Company has been actively working to reduce interest-bearing debt. Due to the dynamic efforts, the figure for interest-bearing debt decreased ¥33,529 million to ¥119,544 million.

## Shareholders' Equity

Total shareholders' equity was ¥310,197 million, up ¥18,441 million from the end of the previous fiscal year. This was attributable to an increase of ¥16,848 in retained earnings resulting from ¥22,286 million in net income, after deducting ¥4,826 million in dividend payments, and to an increase of ¥781 million in unrealized gains on securities. As a result, the equity ratio rose to 41.4%, up 2.4 percentage points from 39.0% at the end of previous fiscal year.

## 2) Cash Flows

At the end of fiscal year 2004, cash and cash equivalents totaled ¥30,928 million, up ¥8,393 million (37.2%) from the end of the previous fiscal year. The factors behind each type of cash flow in fiscal year 2004 were as follows.

### (Cash Flow from Operating Activities)

Net cash provided by operating activities in fiscal year 2004 was ¥48,695 million (inflow), down ¥9,218 million year on year. This was attributable to the fact that despite the large increase of 45.5% in income before income taxes and minority interests (¥32,109 million in fiscal year 2004) supported by strong business activities, the Company also suffered an impact from the increase in notes and accounts receivable.

### (Cash Flow from Investing Activities)

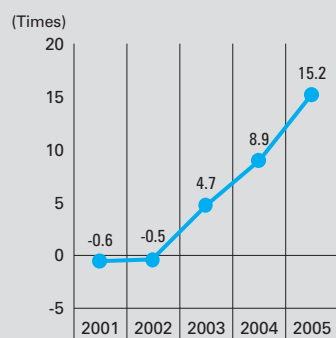
Net cash used in investing activities in fiscal year 2004 was ¥1,606 million (outflow), a ¥11,509 million decrease in payments as compared with the previous fiscal year. Despite an increase of ¥3,021 million in payments as a result of the acquisition of property, plant, and equipment, which occurred as part of the drive for concentrated investment in growth areas, the Company was successful in reducing assets through such means as the sale of dormant assets and the partial sale of Sekisui House stock.

### (Cash Flow from Financing Activities)

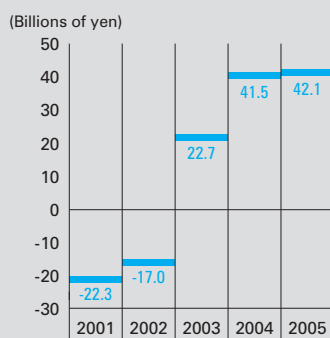
Net cash used in financing activities was ¥38,997 million (outflow), posting a ¥1,552 million decrease in payments as compared with the previous fiscal year. The main factors behind this were steps undertaken to strengthen our financial position with the free cash flow generated, such as a reduction of ¥16,660 in short-term debt and the appropriation of ¥13,485 million for the repayment of long-term debt.

Free cash flow (the outstanding amount after dividend payments from the total cash flow derived from operating and investing activities) increased by 1.3% (¥527 million) year on year to ¥42,065.

Interest Coverage Ratio



Free Cash Flows



## **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 when they do occur.

### **1) Foreign Exchange Rate Volatility**

Changes in foreign exchange rates may affect the yen value of the Group's foreign business assets that are denominated in local currencies. While the Group hedges against currency volatility as required, situations such as a sustained yen strength that exceeds assumptions may influence the Group's business performance and financial position.

### **2) Raw Material Price Volatility**

The prices of raw materials such as PVC, olefin, and iron are significant for the Group's business, particularly for the Urban Infrastructure & Environmental Products business. Any inability to pass volatility in these prices on to product prices on a timely basis and secure an ample spread may impact the Group's business performance and financial position.

### **3) Overseas Business Activities**

The Group's overseas business activities are subject to risks such as unanticipated changes in laws and regulations, weakness of the industrial infrastructure, and social or political disorder due to terrorism, war, and other factors. Any of these factors has the potential to disrupt the Group's overseas business activities, impacting its business performance and financial position in the future.

### **4) Housing Taxation and Interest Rate Trends**

The Group's housing-related businesses are affected by the tax system, consumption tax, and interest rate trends in Japan as they relate to the purchasing of houses. Any impact of these trends on its housing-related businesses

may impact the Group's business performance and financial position.

### **5) IT Market Trends**

The IT-related markets targeted by the Group's High Performance Plastics business are characterized by highly volatile demand. A sudden reduction in such demand may impact the Group's business performance and financial position.

### **6) Public Spending Trends**

The Group's Urban Infrastructure & Environmental Products business includes that for the public sector, and therefore it is affected by trends in public investment. As public investment is determined by government policy at the national and local levels, any reduction in public investment may impact the Group's business performance and financial position.

### **7) Industrial Accidents and Disasters**

The occurrence of an industrial accident or disaster such as a fire or explosion at any of the Group's production sites could have an enormous impact on local society and the Group's business. Any expenses resulting from such an industrial accident or disaster, including loss of and compensation for social trust, opportunity losses due to suspended production, and compensation paid to customers may influence the Group's business performance and financial position.

### **8) Intellectual Property and Product Liability (PL)**

The Group is subject to the risk of an unfavorable ruling in an intellectual property dispute or a product defect resulting in a large-scale product recall or damage payment that cannot be covered by insurance. Risks of this nature have the potential of impacting the Group's business performance and financial position.

# CONSOLIDATED BALANCE SHEETS

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2005	2004	2005	2004
<b>Assets</b>				
Current assets:				
Cash and time deposits (Note 17)	¥ 31,157	¥ 23,393	\$ 290,129	\$ 217,832
Marketable securities	12	1,067	112	9,936
Trade notes and accounts receivable:				
Unconsolidated subsidiaries and affiliates	8,847	8,087	82,382	75,305
Other	124,087	107,564	1,155,480	1,001,620
Inventories (Note 3)	87,829	80,916	817,851	753,478
Deferred income taxes (Note 7)	15,244	10,514	141,950	97,905
Other current assets	21,544	26,703	200,614	248,654
Less allowance for doubtful accounts	(1,745)	(1,706)	(16,249)	(15,886)
Total current assets	286,975	256,538	2,672,269	2,388,844
Property, plant and equipment (Note 5):				
Land	72,420	73,302	674,365	682,577
Buildings and structures	177,226	178,584	1,650,303	1,662,948
Machinery and equipment	285,141	278,777	2,655,191	2,595,931
Tools, furniture and fixtures	65,214	67,171	607,263	625,486
Construction in progress	6,894	10,622	64,196	98,911
	606,895	608,456	5,651,318	5,665,853
Less accumulated depreciation	(377,988)	(368,602)	(3,519,769)	(3,432,368)
Property, plant and equipment, net	228,907	239,854	2,131,549	2,233,485
Investments, long-term loans and other:				
Investments in securities (Note 4):				
Unconsolidated subsidiaries and affiliates	167,550	174,107	1,560,201	1,621,259
Other	21,119	21,260	196,657	197,970
Long-term loans	3,410	3,710	31,754	34,547
Deferred income taxes (Note 7)	21,259	31,944	197,960	297,458
Other	21,405	22,976	199,320	213,949
Less allowance for doubtful accounts	(1,827)	(1,598)	(17,012)	(14,880)
Total investments, long-term loans and other	232,916	252,399	2,168,880	2,350,303
	¥ 748,798	¥ 748,791	\$ 6,972,698	\$ 6,972,632

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2005	2004	2005	2004
<b>Liabilities and shareholders' equity</b>				
Current liabilities:				
Short-term debt (Note 5)	¥ 16,376	¥ 30,282	\$ 152,491	\$ 281,981
Commercial paper (Note 5)	—	5,000	—	46,559
Bonds due within one year (Note 5)	—	96	—	894
Current portion of long-term debt (Note 5)	18,169	9,853	169,187	91,750
Trade notes and accounts payable:				
Unconsolidated subsidiaries and affiliates	3,263	3,574	30,385	33,281
Other	125,944	121,601	1,172,772	1,132,331
Accrued expenses	25,977	25,224	241,894	234,882
Deferred income taxes (Note 7)	408	429	3,799	3,995
Accrued income taxes	3,753	2,556	34,948	23,801
Other	79,130	70,341	736,847	655,005
Total current liabilities	273,020	268,956	2,542,323	2,504,479
Long-term liabilities:				
Bonds less current maturities (Note 5)	25,000	25,107	232,796	233,793
Long-term debt less current portion (Note 5)	59,999	82,735	558,702	770,416
Deferred income taxes (Note 7)	3,391	3,315	31,576	30,869
Accrued retirement benefits (Note 6)	64,514	65,036	600,745	605,606
Other	5,016	4,024	46,709	37,470
Total long-term liabilities	157,920	180,217	1,470,528	1,678,154
Minority interests	7,661	7,862	71,338	73,210
Contingent liabilities (Note 10)				
Shareholders' equity (Note 8):				
Common stock:				
Authorized – 1,187,540,000 shares;				
Issued – 539,507,285 shares at March 31, 2005 and 2004	100,002	100,002	931,204	931,204
Capital surplus	109,267	109,244	1,017,478	1,017,264
Unrealized gain on land revaluation (Note 9)	349	346	3,250	3,222
Retained earnings	97,641	80,793	909,219	752,333
Unrealized holding gain on securities	6,667	5,886	62,082	54,809
Translation adjustments	(601)	(1,771)	(5,596)	(16,491)
Less treasury stock, at cost	(3,128)	(2,744)	(29,128)	(25,552)
Total shareholders' equity	310,197	291,756	2,888,509	2,716,789
	¥ 748,798	¥ 748,791	\$ 6,972,698	\$ 6,972,632

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF INCOME

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2005	2004	2005	2004
Net sales (Notes 12 and 16)	<b>¥ 856,936</b>	¥ 814,864	<b>\$ 7,979,663</b>	\$ 7,587,895
Cost of sales (Note 12)	<b>605,672</b>	579,135	<b>5,639,929</b>	5,392,821
Gross profit	<b>251,264</b>	235,729	<b>2,339,734</b>	2,195,074
Selling, general and administrative expenses (Note 11)	<b>214,818</b>	212,648	<b>2,000,354</b>	1,980,147
Operating income (Note 16)	<b>36,446</b>	23,081	<b>339,380</b>	214,927
Other income (expenses):				
Interest expense	<b>(2,817)</b>	(3,079)	<b>(26,232)</b>	(28,671)
Interest and dividend income	<b>1,207</b>	1,382	<b>11,239</b>	12,869
Equity in earnings of affiliates	<b>4,745</b>	8,490	<b>44,185</b>	79,058
Gain on change in interest in an affiliate	<b>2,420</b>	—	<b>22,535</b>	—
Reorganization costs	<b>(4,059)</b>	(3,098)	<b>(37,797)</b>	(28,848)
Loss on sales or disposal of property, plant and equipment	<b>(4,678)</b>	(2,330)	<b>(43,561)</b>	(21,697)
Other, net	<b>(1,155)</b>	(2,383)	<b>(10,755)</b>	(22,191)
Income before income taxes and minority interests	<b>32,109</b>	22,063	<b>298,994</b>	205,447
Income taxes (Note 7):				
Current	<b>4,482</b>	3,449	<b>41,735</b>	32,116
Deferred	<b>5,753</b>	3,020	<b>53,571</b>	28,122
Minority interests	<b>(412)</b>	575	<b>(3,836)</b>	5,354
Net income	<b>¥ 22,286</b>	¥ 15,019	<b>\$ 207,524</b>	\$ 139,855

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
 Years ended March 31, 2005 and 2004

	Thousands	Millions of yen						
	Number of shares of common stock	Common stock	Capital surplus	Unrealized gain on land revaluation	Retained earnings	Unrealized holding gain (loss) on securities	Translation adjustments	Treasury stock, at cost
<b>Balance at March 31, 2003</b>	539,507	¥ 100,002	¥ 109,235	¥ 343	¥ 69,172	¥ (510)	¥ (1,479)	¥ (2,288)
Net income for the year	—	—	—	—	15,019	—	—	—
Cash dividends	—	—	—	—	(3,220)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	—	(41)	—	—	—
Decrease in retained earnings resulting from exclusion of consolidated subsidiaries	—	—	—	—	(137)	—	—	—
Unrealized gain on land revaluation	—	—	—	3	—	—	—	—
Unrealized holding gain on securities	—	—	—	—	—	6,396	—	—
Translation adjustments	—	—	—	—	—	—	(292)	—
Gain on sales of treasury stock	—	—	9	—	—	—	—	—
Increase in treasury stock	—	—	—	—	—	—	—	(456)
<b>Balance at March 31, 2004</b>	539,507	¥ 100,002	¥ 109,244	¥ 346	¥ 80,793	¥ 5,886	¥ (1,771)	¥ (2,744)
Net income for the year	—	—	—	—	22,286	—	—	—
Cash dividends	—	—	—	—	(4,826)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	—	(159)	—	—	—
Decrease in retained earnings resulting from addition of consolidated subsidiaries	—	—	—	—	(435)	—	—	—
Decrease in retained earnings resulting from exclusion of consolidated subsidiaries	—	—	—	—	(18)	—	—	—
Unrealized gain on land revaluation	—	—	—	3	—	—	—	—
Unrealized holding gain on securities	—	—	—	—	—	781	—	—
Translation adjustments	—	—	—	—	—	—	1,170	—
Gain on sales of treasury stock	—	—	23	—	—	—	—	—
Increase in treasury stock	—	—	—	—	—	—	—	(384)
<b>Balance at March 31, 2005</b>	539,507	¥ 100,002	¥ 109,267	¥ 349	¥ 97,641	¥ 6,667	¥ (601)	¥ (3,128)

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (CONTINUED)

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2005 and 2004

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Unrealized gain on land revaluation	Retained earnings	Unrealized holding gain (loss) on securities	Translation adjustments	Treasury stock, at cost
<b>Balance at March 31, 2003</b>	\$ 931,204	\$ 1,017,180	\$ 3,194	\$ 644,120	\$ (4,749)	\$ (13,772)	\$ (21,306)
Net income for the year	—	—	—	139,855	—	—	—
Cash dividends	—	—	—	(29,984)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(382)	—	—	—
Decrease in retained earnings resulting							
from exclusion of consolidated subsidiaries	—	—	—	(1,276)	—	—	—
Unrealized gain on land revaluation	—	—	28	—	—	—	—
Unrealized holding gain on securities	—	—	—	—	59,558	—	—
Translation adjustments	—	—	—	—	—	(2,719)	—
Gain on sales of treasury stock	—	84	—	—	—	—	—
Increase in treasury stock	—	—	—	—	—	—	(4,246)
<b>Balance at March 31, 2004</b>	\$ 931,204	\$ 1,017,264	\$ 3,222	\$752,333	\$ 54,809	\$ (16,491)	\$ (25,552)
Net income for the year	—	—	—	207,524	—	—	—
Cash dividends	—	—	—	(44,939)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(1,481)	—	—	—
Decrease in retained earnings resulting							
from addition of consolidated subsidiaries	—	—	—	(4,051)	—	—	—
Decrease in retained earnings resulting							
from exclusion of consolidated subsidiaries	—	—	—	(167)	—	—	—
Unrealized gain on land revaluation	—	—	28	—	—	—	—
Unrealized holding gain on securities	—	—	—	—	7,273	—	—
Translation adjustments	—	—	—	—	—	10,895	—
Gain on sales of treasury stock	—	214	—	—	—	—	—
Increase in treasury stock	—	—	—	—	—	—	(3,576)
<b>Balance at March 31, 2005</b>	\$ 931,204	\$ 1,017,478	\$ 3,250	\$909,219	\$ 62,082	\$ (5,596)	\$ (29,128)

See notes to consolidated financial statements.



# CONSOLIDATED STATEMENTS OF CASH FLOWS

FINANCIAL SECTION |

 Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
 Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2005	2004	2005	2004
<b>Operating activities:</b>				
Income before income taxes and minority interests	¥ 32,109	¥ 22,063	\$ 298,994	\$ 205,447
Adjustments for:				
Depreciation and amortization	26,344	26,623	245,312	247,909
Gain on change in interest in an affiliate	(2,420)	—	(22,535)	—
Loss on sales or disposal of property, plant and equipment	4,678	2,330	43,561	21,697
(Decrease) increase in accrued retirement benefits	(579)	3,812	(5,392)	35,497
Equity in earnings of affiliates	(4,745)	(8,490)	(44,185)	(79,058)
Interest expense	2,817	3,079	26,232	28,671
Interest and dividend income	(1,207)	(1,382)	(11,239)	(12,869)
(Increase) decrease in notes and accounts receivable	(16,585)	2,201	(154,437)	20,495
Increase in inventories	(6,663)	(4,982)	(62,045)	(46,392)
Increase in notes and accounts payable	2,462	2,808	22,926	26,148
Increase in advances received	6,347	3,639	59,102	33,886
Other	8,164	7,620	76,022	70,957
Subtotal	50,722	59,321	472,316	552,388
Interest and dividends received	4,198	4,344	39,091	40,451
Interest paid	(2,917)	(3,152)	(27,163)	(29,351)
Income taxes paid	(3,308)	(2,600)	(30,804)	(24,211)
Net cash provided by operating activities	¥ 48,695	¥ 57,913	\$ 453,440	\$ 539,277
<b>Investing activities:</b>				
Purchases of property, plant and equipment	¥ (24,028)	¥ (21,007)	\$(223,745)	\$(195,614)
Proceeds from sales of property, plant and equipment	9,142	3,619	85,129	33,700
Increase in investments in securities	(2,083)	(3,834)	(19,397)	(35,702)
Proceeds from sales of investments in securities	15,533	11,035	144,641	102,756
Acquisition of investment in a subsidiary resulting in inclusion in consolidation (Note 17)	—	(5,521)	—	(51,411)
Proceeds from sale of investment in a subsidiary resulting in exclusion from consolidation (Note 17)	—	565	—	5,261
Purchases of intangible assets and other assets	(2,350)	(2,257)	(21,883)	(21,017)
Other	2,180	4,285	20,300	39,902
Net cash used in investing activities	(1,606)	(13,115)	(14,955)	(122,125)
<b>Financing activities:</b>				
Decrease in short-term debt, net	(16,660)	(18,696)	(155,135)	(174,094)
Decrease in commercial paper	(5,000)	(20,000)	(46,559)	(186,237)
Proceeds from long-term debt	1,573	10,000	14,648	93,119
Repayment of long-term debt	(13,485)	(7,707)	(125,570)	(71,766)
Repayment of bonds	(205)	(96)	(1,909)	(894)
Cash dividends paid	(4,819)	(3,225)	(44,874)	(30,031)
Cash dividends paid to minority shareholders of consolidated subsidiaries	(205)	(35)	(1,909)	(326)
Other	(196)	(790)	(1,826)	(7,357)
Net cash used in financing activities	(38,997)	(40,549)	(363,134)	(377,586)
Effect of exchange rate changes on cash and cash equivalents	320	(200)	2,980	(1,862)
Net increase in cash and cash equivalents	8,412	4,049	78,331	37,704
Cash and cash equivalents at beginning of year	22,535	18,502	209,843	172,288
Increase in cash and cash equivalents resulting from initial consolidation of subsidiaries	28	13	261	121
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(47)	(29)	(438)	(270)
Cash and cash equivalents at end of year (Note 17)	¥ 30,928	¥ 22,535	\$ 287,997	\$ 209,843

See notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
March 31, 2005

## 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 foreign consolidated subsidiaries maintain their books in conformity with those of their 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 Securities and Exchange Law of Japan.

## 2. Summary of Significant Accounting Policies

### (1) Principles of Consolidation

At March 31, 2005, the Company had 201 subsidiaries as opposed to 202 in 2004. The consolidated financial statements for the years ended March 31, 2005 and 2004 include the accounts of the Company and its 138 and 134 significant subsidiaries (the "Companies"), respectively.

The accounts of the remaining 63 and 68 subsidiaries have not been consolidated with those of the Company at March 31, 2005 and 2004, respectively, because their combined assets, retained earnings, net sales and net income (loss) in the aggregate are not material to the consolidated financial statements.

Foreign consolidated subsidiaries have a December 31 year end which differ 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 foreign subsidiaries 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.

Any difference between the cost of an investment in a subsidiary and the amount of the underlying equity in the net assets of the subsidiary is treated as an asset or a liability as the case may be, and is 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.

Although the Company had 63 and 68 unconsolidated subsidiaries and 18 and 16 affiliates at March 31, 2005 and 2004, respectively, the Company has applied the equity method to investments in 9 major affiliates including Sekisui House, Ltd., Sekisui Plastics Co., Ltd., and Sekisui Jushi Corp. for the purpose of the consolidated financial statements for the years ended March 31 2005 and 2004, since the investments in the remaining unconsolidated subsidiaries and affiliates were not material. Sekisui House, Ltd.'s year end is January 31.

### (2) Foreign Currency Transactions

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates 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.

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 form which is more familiar to readers outside Japan.

The accompanying U.S. dollar financial statements have been translated from yen solely for convenience and, as a matter of arithmetic computation only, at the rate of ¥107.39=U.S.\$1.00, the rate of exchange prevailing on March 31, 2005. 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.

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 shareholders' equity 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 in a separate component of shareholders' equity.

### *Changes in Method of Accounting*

Prior to April 1, 2004, the revenue and expense accounts of the overseas consolidated subsidiaries were translated into yen at the rates of exchange in effect at the balance sheet date. Effective April 1, 2004, these accounts were translated at the average rates of exchange in effect during the year. This change was made in order to reflect the substantive results of the transactions of the overseas consolidated subsidiaries more accurately in the consolidated statement of income in response to an increase in the materiality of these overseas subsidiaries. The effect of this change on consolidated net income for the year ended March 31, 2005 was immaterial.

### (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 cost 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, included directly in shareholders' equity. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are carried at cost.

**(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.

**(7) Accrued Retirement Benefits**

The Company and the domestic consolidated subsidiaries have non-contributory defined benefit pension plans and retirement benefit plans. Certain foreign consolidated subsidiaries have defined contribution retirement plans.

Accrued retirement benefits have been 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 5 years, which is within the estimated average remaining years of service of the employees participating in the plans.

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized by the straight-line method over 5 years, which is within the estimated average remaining years of service of the eligible employees.

In addition, the Company and certain of its consolidated subsidiaries have retirement benefit plans for payments to directors and corporate auditors ("officers"), which are stated at 100 percent of the estimated amount calculated in accordance with each company's internal rules.

**(8) 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 useful lives, which is generally 5 years.

**(9) 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.

**(10) 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.

**(11) 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 operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability.

**(12) New Accounting Pronouncement**

A new Japanese accounting standard called "Impairment of Fixed Assets" was issued in August 2002 which will go into effect for fiscal years beginning on or after April 1, 2005. Early adoption is allowed from fiscal years beginning on or after April 1, 2004 and application from fiscal years ending from March 31, 2004 through March 30, 2005 is also permitted. The new standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. A company will be required to recognize an impairment loss in its statement of income if certain indicators of asset impairment exist or if the book value of an asset exceeds the undiscounted sum of its future cash flows. The Company is currently assessing the impact of this new accounting standard on its financial position and results of operations.

**3. Inventories**

Inventories at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
Finished products	¥ 32,457	¥ 32,391	\$ 302,235	\$ 301,620
Work in process	32,620	29,311	303,753	272,940
Raw materials	12,210	10,461	113,698	97,411
Land for sale	10,542	8,753	98,165	81,507
	¥ 87,829	¥ 80,916	\$ 817,851	\$ 753,478

#### 4. Investment in Securities

(1) Other securities at March 31, 2005 and 2004 were as follows:

Millions of yen				
<b>2005</b>				
Other securities				
Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)	
Market value determinable:				
Equity securities	¥ 6,857	¥ 7,688	¥ (250)	¥ 14,295
Bonds and debentures	149	5	(2)	152
	<b>¥ 7,006</b>	<b>¥ 7,693</b>	<b>¥ (252)</b>	<b>¥ 14,447</b>
Market value not determinable:				
Equity securities	8,111			
Bonds and debentures	—			
	<b>¥ 15,117</b>			

Millions of yen				
<b>2004</b>				
Other securities				
Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)	
Market value determinable:				
Equity securities	¥ 7,602	¥ 7,334	¥ (287)	¥ 14,649
Bonds and debentures	95	3	—	98
	<b>¥ 7,697</b>	<b>¥ 7,337</b>	<b>¥ (287)</b>	<b>¥ 14,747</b>
Market value not determinable:				
Equity securities	7,954			
Bonds and debentures	1,067			
	<b>¥ 16,718</b>			

Thousands of U.S. dollars				
<b>2005</b>				
Other securities				
Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)	
Market value determinable:				
Equity securities	\$ 63,851	\$ 71,590	\$ (2,328)	\$ 133,113
Bonds and debentures	1,388	46	(19)	1,415
	<b>\$ 65,239</b>	<b>\$ 71,636</b>	<b>\$ (2,347)</b>	<b>\$ 134,528</b>
Market value not determinable:				
Equity securities	75,528			
Bonds and debentures	—			
	<b>\$ 140,767</b>			

	Thousands of U.S. dollars			
	2004			
	Other securities			
Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)	
Market value determinable:				
Equity securities	\$ 70,789	\$68,293	\$ (2,673)	\$136,409
Bonds and debentures	885	28	—	913
	\$ 71,674	\$68,321	\$ (2,673)	\$137,322
Market value not determinable:				
Equity securities	74,066			
Bonds and debentures	9,936			
	\$ 155,676			

(2) The proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
Proceeds from sales	¥ 1,433	¥ 3,786	\$ 13,344	\$ 35,255
Gross realized gain	389	678	3,622	6,313
Gross realized loss	79	35	736	326

(3) The redemption schedule for securities with maturity dates classified as other securities at March 31, 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005			
	Due in one year or less	Due after one year through five years	Due in one year or less	Due after one year through five years
Government and municipal bonds	¥ 65	¥ 72	\$ 605	\$ 670
Corporate bonds	—	15	—	140
Total	¥ 65	¥ 87	\$ 605	\$ 810

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

(1) Short-term debt and commercial paper

The average interest rates of short-term debt outstanding at March 31, 2005 and 2004 were 1.40% and 0.72%, respectively. The average interest rate of commercial paper at March 31, 2004 was 0.01%.

(2) Bonds outstanding at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
2.22% bonds due December 2009	¥ 5,000	¥ 5,000	\$ 46,558	\$ 46,558
1.67% bonds due May 2007	10,000	10,000	93,119	93,119
2.04% bonds due May 2010	10,000	10,000	93,119	93,119
Variable interest rate bonds due November 2005	—	203	—	1,891
	25,000	25,203	232,796	234,687
Less current maturities	—	(96)	—	(894)
	¥ 25,000	¥ 25,107	\$ 232,796	\$ 233,793

(3) Long-term debt at March 31, 2005 and 2004 was as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
Secured	¥ 2,000	¥ 1,000	\$ 18,624	\$ 9,312
Unsecured	76,168	91,588	709,265	852,854
	<b>78,168</b>	<b>92,588</b>	<b>727,889</b>	<b>862,166</b>
Less current portion	(18,169)	(9,853)	(169,187)	(91,750)
	<b>¥ 59,999</b>	<b>¥ 82,735</b>	<b>\$ 558,702</b>	<b>\$ 770,416</b>

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, 2005 are summarized below:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 18,169	\$ 169,187
2007	14,573	135,702
2008	41,657	387,904
2009	5,656	52,668
2010	7,503	69,867
2011 and thereafter	15,610	145,357
	<b>¥ 103,168</b>	<b>\$ 960,685</b>

(4) At March 31, 2005, 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	¥ 1,169	\$ 10,886
Land	2,341	21,799
	<b>¥ 3,510</b>	<b>\$ 32,685</b>

(5) 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, 2005 was as follows:

	Millions of yen	Thousands of U.S. dollars
	<b>2005</b>	
Lines of credit	¥ 25,000	\$ 232,796
Credit used	—	—
Available credit	¥ 25,000	\$ 232,796

## 6. Accrued Retirement Benefits

The following table sets forth the funded and accrued status of the retirement benefit plans and the amounts recognized in the consolidated balance sheets at March 31, 2005 and 2004 for the Companies' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
Retirement benefit obligation at end of year	¥ (110,468)	¥ (111,312)	\$ (1,028,662)	\$ (1,036,521)
Fair value of plan assets at end of year	51,290	48,370	477,605	450,414
Unfunded retirement benefit obligation	(59,178)	(62,942)	(551,057)	(586,107)
Unrecognized actuarial loss	6,128	12,399	57,063	115,458
Unrecognized past service cost	(9,525)	(12,641)	(88,695)	(117,711)
Net retirement benefit obligation	(62,575)	(63,184)	(582,689)	(588,360)
Prepaid pension cost	31	29	289	270
Accrued retirement benefits	¥ (62,606)	¥ (63,213)	\$ (582,978)	\$ (588,630)

Accrued retirement benefits of ¥64,514 million (\$600,745 thousand) and ¥65,036 million (\$605,606 thousand) in the consolidated balance sheets at March 31, 2005 and 2004 included accrued retirement benefits for officers of ¥1,908 million (\$17,767 thousand) and ¥1,823 million (\$16,976 thousand), respectively.

Effective April 1, 2003, the Company and its consolidated domestic

subsidiaries adopted a new type of defined benefit pension plan known as a "quasi cash balance plan," which allows pension benefits to fluctuate in accordance with market interest rates. In connection with this adoption, prior service cost (a reduction of pension liability) was incurred for the year ended March 31, 2004.

The components of retirement benefit expenses for the years ended March 31, 2005 and 2004 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
Service cost	¥ 7,833	¥ 6,984	\$ 72,940	\$ 65,034
Interest cost	2,447	2,650	22,786	24,676
Expected return on plan assets	(1,512)	(1,222)	(14,080)	(11,379)
Amortization:				
Unrecognized actuarial loss	4,138	5,262	38,533	48,999
Past service cost	(3,117)	(941)	(29,025)	(8,762)
Net periodic benefit cost	¥ 9,789	¥ 12,733	\$ 91,154	\$ 118,568

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2005 and 2004 were as follows:

	2005	2004
Discount rate	2.5%	2.5%
Expected rates of return on plan assets	1.0% to 3.5%	1.0% to 3.5%

## 7. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes, which, in the aggregate, resulted in statutory tax rates of approximately

40.4% and 41.8% for the years ended March 31, 2005 and 2004, respectively.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2005 and 2004 differ from the above statutory tax rates for the following reasons:

	2005	2004
Statutory tax rates	40.4%	41.8%
Temporary differences arising from consolidation without tax effect	(3.1)	(13.3)
Difference in income tax rates applied to overseas consolidated subsidiaries	(2.4)	—
Non-application of tax effect on temporary differences of consolidated subsidiaries	(2.4)	—
Other	(0.6)	0.8
Effective tax rates	31.9%	29.3%

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 for income tax purposes. The significant components of the Companies' deferred tax assets and liabilities at March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
<b>Deferred tax assets:</b>				
Tax loss carryforwards	¥ 20,809	¥ 29,510	\$ 193,770	\$ 274,793
Retirement benefits	25,361	25,048	236,158	233,243
Unrealized gain	2,845	2,862	26,492	26,651
Accrued bonuses	4,521	3,875	42,099	36,083
Loss on devaluation of investments in securities	2,341	2,355	21,799	21,929
Other	5,913	5,059	55,062	47,109
Valuation allowance	(12,822)	(13,560)	(119,397)	(126,269)
<b>Total deferred tax assets</b>	<b>48,968</b>	<b>55,149</b>	<b>455,983</b>	<b>513,539</b>
<b>Deferred tax liabilities:</b>				
Revaluation of investments in affiliates	6,189	6,518	57,631	60,695
Deferred capital gains on property	2,894	2,900	26,949	27,004
Adjustment for allowance for doubtful accounts	76	164	708	1,527
Unrealized holding gain on securities	3,079	2,864	28,671	26,669
Other	4,026	3,989	37,489	37,145
<b>Total deferred tax liabilities</b>	<b>16,264</b>	<b>16,435</b>	<b>151,448</b>	<b>153,040</b>
<b>Net deferred tax assets</b>	<b>¥ 32,704</b>	<b>¥ 38,714</b>	<b>\$ 304,535</b>	<b>\$ 360,499</b>

## 8. Shareholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

Retained earnings include the legal reserve provided in accordance with the provisions of the Code. The legal reserve of the Company included in retained earnings amounted to ¥10,363 million (\$96,499 thousand) at March 31, 2005 and 2004.

In accordance with the Code, a stock option plan for directors and certain employees of the Company was approved at the annual general meeting of the shareholders held on June 29, 2000. Under the terms of this plan, 565,000 shares of common stock were granted at an exercise price of ¥480 (\$4.47) per share, subject to adjustment for certain events including stock splits. The options became exercisable on July 1, 2002 and are scheduled to expire on June 30, 2005.

In accordance with the Code, a stock option plan for directors and certain employees of the Company was approved at the annual general meeting of the shareholders held on June 28, 2001. Under the terms of this plan, 460,000 shares of common stock were granted at an exercise price of ¥484 (\$4.51) per share, subject to adjustment for certain events including stock splits. The options became exercisable on July 1, 2003 and are scheduled to expire on June 30, 2006.

In accordance with the Code, a stock option plan for directors and certain 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, 2002. Under the terms of this plan, 925,000 shares of common stock were granted at an exercise price of ¥450 (\$4.19) per share, subject to adjustment for certain events including stock splits. The options became exercisable on July 1, 2004

and are scheduled to expire on June 30, 2007.

In accordance with the Code, a stock option plan for directors and certain 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. Under the terms of this plan, 1,020,000 shares of common stock were granted at an exercise price of ¥453 (\$4.22) per share, subject to adjustment for certain events including stock splits. The options become exercisable on July 1, 2005 and are scheduled to expire on June 30, 2008.

In accordance with the Code, a stock option plan for directors and certain 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. Under the terms of this plan, 1,005,000 shares of common stock were granted at an exercise price of ¥888 (\$8.27) per share, subject to adjustment for certain events including stock splits. The options become exercisable on July 1, 2006 and are scheduled to expire on June 30, 2009.

In accordance with the Code, a stock option plan for directors and certain 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. Under the terms of this plan, the issuance of up to 1,200,000 shares of common stock has been authorized. Eligible participants may exercise their stock options at an exercise price calculated by multiplying the average of the closing market prices of the Company's shares on the Tokyo Stock Exchange for all trading days for the month immediately preceding the month of the date of the issuance of the rights by a factor of 1.05; however, if the exercise price referred to above is less than the closing market price of the Company's shares on the Tokyo Stock Exchange on the day on which the rights were issued, the closing market price is to be the exercise price. The exercise price is subject to adjustment for certain events including stock splits. The options become exercisable on July 1, 2007 and are scheduled to expire on June 30, 2010.



## 9. 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 shareholders' equity as unrealized gain on land revaluation of ¥349 million (\$3,250 thousand) and ¥346 million (\$3,222 million) in the consolidated balance sheets at March 31, 2005 and 2004, respectively.

## 10. Contingent Liabilities

At March 31, 2005, the Companies were contingently liable as guarantors for housing loans of customers in the aggregate amount of ¥23,891 million (\$222,470 thousand), for housing loans of employees in the aggregate amount of ¥2,794 million (\$26,017 thousand), and for loans of unconsolidated subsidiaries is the amount of ¥1,462 million (\$13,614

thousand).

In addition, at March 31, 2005, the Companies had contingent liabilities arising from notes endorsed for an aggregate amount of ¥59 million (\$549 thousand).

## 11. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2005 and 2004 amounted to ¥22,974 million (\$213,931 thousand) and ¥23,701 million (\$220,700 thousand), respectively.

## 12. Related Party Transactions

The Company's sales to and purchases from its unconsolidated subsidiaries and affiliates for the years ended March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
Sales	¥ 36,291	¥ 33,804	\$ 337,936	\$ 314,778
Purchases	14,624	18,200	136,177	169,476

## 13. Leases

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2005 and 2004, which would have been reflected in the bal-

ance 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					
	2005			2004		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased property:						
Buildings and structures	¥ 11,102	¥ 5,938	¥ 5,164	¥ 14,773	¥ 9,001	¥ 5,772
Machinery and vehicles	2,697	987	1,710	2,121	1,009	1,112
Other assets	6,337	3,263	3,074	7,135	3,969	3,166
Software	772	419	353	1,036	541	495
	¥ 20,908	¥ 10,607	¥ 10,301	¥ 25,065	¥ 14,520	¥ 10,545

	Thousands of U.S. dollars					
	2005			2004		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased property:						
Buildings and structures	\$ 103,380	\$ 55,294	\$ 48,086	\$ 137,564	\$ 83,816	\$ 53,748
Machinery and vehicles	25,114	9,191	15,923	19,750	9,395	10,355
Other assets	59,009	30,384	28,625	66,441	36,959	29,482
Software	7,189	3,902	3,287	9,647	5,038	4,609
	\$ 194,692	\$ 98,771	\$ 95,921	\$ 233,402	\$ 135,208	\$ 98,194

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2005 and 2004 were ¥6,099 million (\$56,793 thousand) and ¥6,836 million (\$63,656 thousand),

respectively. These amounts were equal to the depreciation 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, 2005 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 4,422	\$ 41,177
2007 and thereafter	5,879	54,744
	¥ 10,301	\$ 95,921

#### 14. Derivatives

The Company and certain of its consolidated subsidiaries are exposed to market risk arising from forward foreign exchange contracts and interest-rate swaps. 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 forward foreign exchange contracts and interest-rate swap contracts; however, they do not anticipate nonperformance 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, 2005 and 2004:

##### (1) Currency-related transactions

	Millions of yen					
	2005			2004		
	Notional amount	Fair value	Unrealized gain	Notional amount	Fair value	Unrealized gain
Forward foreign exchange contracts:						
Sell:						
US\$	¥ —	¥ —	¥ —	¥ 1,300	¥ 1,264	¥ 36
Euro	—	—	—	1,638	1,559	79
Total	¥ —	¥ —	¥ —	¥ 2,938	¥ 2,823	¥ 115

	Thousands of U.S. dollars					
	2005			2004		
	Notional amount	Fair value	Unrealized gain	Notional amount	Fair value	Unrealized gain
Forward foreign exchange contracts:						
Sell:						
US\$	\$ —	\$ —	\$ —	\$ 12,105	\$ 11,770	\$ 335
Euro	—	—	—	15,253	14,517	736
Total	\$ —	\$ —	\$ —	\$ 27,358	\$ 26,287	\$ 1,071

##### (2) Interest-related transactions

	Millions of yen					
	2005			2004		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Interest-rate swaps:						
Receive/fix and pay/floating	¥ 25,000	¥ 1,484	¥ 1,484	¥ 25,000	¥ 1,510	¥ 1,510
Receive/floating and pay/fix	25,000	(1,483)	(1,483)	25,000	(1,529)	(1,529)
Total	¥ 50,000	¥ 1	¥ 1	¥ 50,000	¥ (19)	¥ (19)

	Thousands of U.S. dollars					
	2005			2004		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Interest-rate swaps:						
Receive/fixed and pay/floating	\$ 232,796	\$ 13,819	\$ 13,819	\$ 232,796	\$ 14,061	\$ 14,061
Receive/floating and pay/fixed	232,796	(13,809)	(13,809)	232,796	(14,238)	(14,238)
Total	\$ 465,592	\$ 10	\$ 10	\$ 465,592	\$ (177)	\$ (177)

## 15. Amounts Per Share

	Yen		U.S. dollars	
	2005	2004	2005	2004
Net income:				
Basic	¥ 41.48	¥ 28.00	\$ 0.39	\$ 0.26
Diluted	41.42	27.89	0.39	0.26
Cash dividends	10.00	7.00	0.10	0.07
Net assets	582.42	548.16	5.42	5.10

Basic net income per share has been computed based on the net income attributable 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 amount of net income attributable to the shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of the shares of common stock to be

issued upon the exercise of warrants issued by the Company. The amount per share of net assets has been computed based on the net assets available for distribution to the shareholders of common stock and 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 years together with the interim cash dividends paid.

## 16. Segment Information

The business segment information of the Companies for the years ended March 31, 2005 and 2004 is summarized as follows:

### Business Segments

	Millions of yen						
	2005						
	Housing	Urban infrastructure and environmental products	High performance plastics	Other	Total	Eliminations or unallocable accounts	Consolidated
Sales:							
Sales to third parties	¥ 428,905	¥ 192,901	¥ 191,502	¥ 43,628	¥ 856,936	¥ —	¥ 856,936
Intersegment sales	289	11,921	6,187	8,914	27,311	(27,311)	—
Total	429,194	204,822	197,689	52,542	884,247	(27,311)	856,936
Operating expenses	412,948	195,946	182,933	55,887	847,714	(27,224)	820,490
Operating income (loss)	¥ 16,246	¥ 8,876	¥ 14,756	¥ (3,345)	¥ 36,533	¥ (87)	¥ 36,446
Assets	¥ 188,204	¥ 144,875	¥ 171,064	¥ 45,777	¥ 549,920	¥ 198,878	¥ 748,798
Depreciation and amortization	6,025	6,214	11,149	1,778	25,166	1,178	26,344
Capital expenditures	6,037	4,613	8,823	2,269	21,742	4,078	25,820
	2004						
Sales:							
Sales to third parties	¥ 410,723	¥ 175,585	¥ 176,156	¥ 52,400	¥ 814,864	¥ —	¥ 814,864
Intersegment sales	178	16,696	5,602	8,035	30,511	(30,511)	—
Total	410,901	192,281	181,758	60,435	845,375	(30,511)	814,864
Operating expenses	400,626	189,006	169,448	63,236	822,316	(30,533)	791,783
Operating income (loss)	¥ 10,275	¥ 3,275	¥ 12,310	¥ (2,801)	¥ 23,059	¥ 22	¥ 23,081
Assets	¥ 176,520	¥ 145,133	¥ 166,765	¥ 54,521	¥ 542,939	¥ 205,852	¥ 748,791
Depreciation and amortization	6,655	6,064	10,723	2,173	25,615	1,008	26,623
Capital expenditures	3,431	4,701	12,548	1,236	21,916	2,260	24,176

Thousands of U.S. dollars

	2005						Eliminations or unallocable accounts	Consolidated
	Housing	Urban infrastructure and environmental products	High performance plastics	Other	Total			
Sales:								
Sales to third parties	\$ 3,993,901	\$ 1,796,266	\$ 1,783,239	\$ 406,257	\$ 7,979,663	\$ —	\$ 7,979,663	
Intersegment sales	2,691	111,007	57,612	83,006	254,316	(254,316)	—	
Total	3,996,592	1,907,273	1,840,851	489,263	8,233,979	(254,316)	7,979,663	
Operating expenses	3,845,312	1,824,621	1,703,445	520,411	7,893,789	(253,506)	7,640,283	
Operating income (loss)	\$ 151,280	\$ 82,652	\$ 137,406	\$ (31,148)	\$ 340,190	\$ (810)	\$ 339,380	
Assets	\$ 1,752,528	\$ 1,349,055	\$ 1,592,923	\$ 426,269	\$ 5,120,775	\$ 1,851,923	\$ 6,972,698	
Depreciation and amortization	56,104	57,864	103,818	16,556	234,342	10,970	245,312	
Capital expenditures	56,216	42,955	82,158	21,129	202,458	37,974	240,432	
2004								
Sales:								
Sales to third parties	\$ 3,824,593	\$ 1,635,022	\$ 1,640,339	\$ 487,941	\$ 7,587,895	\$ —	\$ 7,587,895	
Intersegment sales	1,657	155,471	52,165	74,821	284,114	(284,114)	—	
Total	3,826,250	1,790,493	1,692,504	562,762	7,872,009	(284,114)	7,587,895	
Operating expenses	3,730,571	1,759,997	1,577,875	588,844	7,657,287	(284,319)	7,372,968	
Operating income (loss)	\$ 95,679	\$ 30,496	\$ 114,629	\$ (26,082)	\$ 214,722	\$ 205	\$ 214,927	
Assets	\$ 1,643,728	\$ 1,351,457	\$ 1,552,891	\$ 507,692	\$ 5,055,768	\$ 1,916,864	\$ 6,972,632	
Depreciation and amortization	61,970	56,467	99,851	20,235	238,523	9,386	247,909	
Capital expenditures	31,949	43,775	116,845	11,509	204,078	21,045	225,123	

As described in Note 2 (2), effective April 1, 2004, the Company changed its method of translation of the revenue and expense accounts of its overseas consolidated subsidiaries. The effect of this change on the disclosure of segment information was immaterial.

The geographical segment information of the Companies for the years ended March 31, 2005 and 2004 is summarized as follows:

## Geographical Segments

	Millions of yen						Eliminations or unallocable accounts	Consolidated
	Japan	United States of America	Europe	Asia	Others	Total		
Sales:								
Sales to third parties	¥ 783,174	¥ 19,429	¥ 27,806	¥ 24,113	¥ 2,414	¥ 856,936	¥ —	¥ 856,936
Intersegment sales	21,406	1,312	931	908	109	24,666	(24,666)	—
Total	804,580	20,741	28,737	25,021	2,523	881,602	(24,666)	856,936
Operating expenses	773,621	19,584	25,639	23,812	2,279	844,935	(24,445)	820,490
Operating income	¥ 30,959	¥ 1,157	¥ 3,098	¥ 1,209	¥ 244	¥ 36,667	¥ (221)	¥ 36,446
Assets	¥ 468,027	¥ 12,813	¥ 28,006	¥ 16,548	¥ 2,651	¥ 528,045	¥ 220,753	¥ 748,798

Millions of yen								
2004								
	Japan	United States of America	Europe	Asia	Others	Total	Eliminations or unallocable accounts	Consolidated
Sales:								
Sales to third parties	¥ 752,921	¥ 17,736	¥ 24,624	¥ 17,501	¥ 2,082	¥ 814,864	¥ —	¥ 814,864
Intersegment sales	20,084	1,174	503	1,146	79	22,986	(22,986)	—
Total	773,005	18,910	25,127	18,647	2,161	837,850	(22,986)	814,864
Operating expenses	754,145	17,731	23,094	17,787	1,948	814,705	(22,922)	791,783
Operating income	¥ 18,860	¥ 1,179	¥ 2,033	¥ 860	¥ 213	¥ 23,145	¥ (64)	¥ 23,081
Assets	¥ 466,746	¥ 13,209	¥ 26,858	¥ 15,099	¥ 2,759	¥ 524,671	¥ 224,120	¥ 748,791

Thousands of U.S. dollars								
2005								
	Japan	United States of America	Europe	Asia	Others	Total	Eliminations or unallocable accounts	Consolidated
Sales:								
Sales to third parties	\$ 7,292,802	\$ 180,920	\$ 258,925	\$ 224,537	\$ 22,479	\$ 7,979,663	\$ —	\$ 7,979,663
Intersegment sales	199,330	12,217	8,670	8,455	1,014	229,686	(229,686)	—
Total	7,492,132	193,137	267,595	232,992	23,493	8,209,349	(229,686)	7,979,663
Operating expenses	7,203,846	182,363	238,747	221,734	21,221	7,867,911	(227,628)	7,640,283
Operating income	\$ 288,286	\$ 10,774	\$ 28,848	\$ 11,258	\$ 2,272	\$ 341,438	\$ (2,058)	\$ 339,380
Assets	\$ 4,358,199	\$ 119,313	\$ 260,788	\$ 154,093	\$ 24,685	\$ 4,917,078	\$ 2,055,620	\$ 6,972,698

Thousands of U.S. dollars								
2004								
	Japan	United States of America	Europe	Asia	Others	Total	Eliminations or unallocable accounts	Consolidated
Sales:								
Sales to third parties	\$ 7,011,091	\$ 165,155	\$ 229,295	\$ 162,967	\$ 19,387	\$ 7,587,895	\$ —	\$ 7,587,895
Intersegment sales	187,019	10,932	4,684	10,671	736	214,042	(214,042)	—
Total	7,198,110	176,087	233,979	173,638	20,123	7,801,937	(214,042)	7,587,895
Operating expenses	7,022,488	165,108	215,048	165,630	18,140	7,586,414	(213,446)	7,372,968
Operating income	\$ 175,622	\$ 10,979	\$ 18,931	\$ 8,008	\$ 1,983	\$ 215,523	\$ (596)	\$ 214,927
Assets	\$ 4,346,271	\$ 123,000	\$ 250,098	\$ 140,600	\$ 25,691	\$ 4,885,660	\$ 2,086,972	\$ 6,972,632

As described in Note 2 (2), effective April 1, 2004, the Company changed its method of translation of the revenue and expense accounts of its overseas consolidated subsidiaries. The effect of this change on the disclosure of segment information was immaterial.

## 17. Supplemental Information on Statements of Cash Flows

A reconciliation between cash and cash equivalents in the consolidated statements of cash flows and cash and time deposits in the consolidated balance sheets at March 31, 2005 and 2004 is presented as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
Cash and time deposits	¥ 31,157	¥ 23,393	\$ 290,129	\$ 217,832
Time deposits with a maturity in excess of three months	(229)	(858)	(2,132)	(7,989)
Cash and cash equivalents	¥ 30,928	¥ 22,535	\$ 287,997	\$ 209,843

In April 2003, the Company purchased shares of Youngbo Chemical Co., Ltd. and initially consolidated the accounts of Youngbo Chemical Co., Ltd. for the year ended March 31, 2004. The following summarizes the

assets and liabilities included in consolidation and presents information on acquisition costs and cash disbursements:

	Millions of yen	Thousands of U.S. dollars
	2004	2004
Current assets	¥ 3,456	\$ 32,182
Non-current assets	3,593	33,458
Excess of investment cost over underlying net assets of a consolidated subsidiary	3,088	28,755
Current liabilities	(1,537)	(14,312)
Non-current liabilities	(724)	(6,742)
Minority interests	(2,343)	(21,818)
Other	(6)	(56)
Acquisition costs	5,527	51,467
Cash and cash equivalents of Youngbo Chemical Co., Ltd.	(6)	(56)
Cash disbursements	¥ 5,521	\$ 51,411

In April 2003, the assets and liabilities of Sekisui Machinery Co., Ltd. were excluded from consolidation due to the sale of the shares of Sekisui Machinery Co., Ltd.. The following summarizes the assets and liabilities excluded from consolidation for the year ended March 31, 2004:

	Millions of yen	Thousands of U.S. dollars
	2004	2004
Current assets	¥ 4,791	\$ 44,613
Non-current assets	4,384	40,823
Total assets	¥ 9,175	\$ 85,436
Current liabilities	¥ 4,619	\$ 43,011
Non-current liabilities	1,651	15,374
Total liabilities	¥ 6,270	\$ 58,385

## 18. Subsequent Events

(1) On April 15, 2005, the Company sold certain shares of Sekisui House, Ltd. as a part of its implementation of the mid-term business plan of the Sekisui Chemical Group. As a result, the Company's percentage of interest in the shareholding of Sekisui House Ltd. fell to 14.4%. The investment in Sekisui House Ltd. was accounted for by the equity method for the years ended March 31, 2005 and 2004. However, since the percentage of voting rights by the Company has decreased to 15.12%, the investment in Sekisui House Ltd. has been excluded from the application of the equity method.

On April 20, 2005, the Company acquired 15 million shares of its own common stock at a cost of ¥10,845 million (\$100,987 thousand) in accordance with a resolution approved at a meeting of the

Board of Directors held on April 14, 2005.

On June 14, 2005, the Company sold 8 million shares of its own common stock to Sekisui House, Ltd. at a cost of ¥5,960 million (\$55,499 thousand) in accordance with a resolution approved at a meeting of the Board of Directors held on May 20, 2005. This sale was conducted in order to strengthen the relationship with Sekisui House, Ltd. and to ensure future mutual growth.

(2) The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2005, were approved at a meeting of shareholders held on June 29, 2005:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥5.00 = \$0.05 per share)	¥ 2,681	\$ 24,965
Bonuses to officers	135	1,257

## 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, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, 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, 2005 and 2004, 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 18 (1), on April 15, 2005, the Company sold certain shares of Sekisui House, Ltd. and its investment in Sekisui House, Ltd. has been excluded from the application of the equity method.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the years ended March 31, 2004 and 2003 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*

June 29, 2005

# MAJOR DOMESTIC SUBSIDIARIES AND AFFILIATES

## SUBSIDIARIES

	Paid-in Capital (Millions of yen)	The Company's Ownership (%)		
<b>Housing</b>				
Hokkaido Sekisui Heim Co.,Ltd.	200	100.0	Wakayama Sekisui Fami S Co.,Ltd.	10 100.0
Sekisui Heim Tohoku Co., Ltd.	300	100.0	Kitakinki Sekisui Fami S Co.,Ltd.	10 100.0
Sekisui Heim Tokyo Co.,Ltd.	200	100.0	Sekisui Fami S Chugoku Co.,Ltd.	30 100.0
Sekisui Heim Kanagawa Co.,Ltd.	200	100.0	Shikoku Sekisui Fami S Co.,Ltd.	10 100.0
Sekisui Heim Chiba Co.,Ltd.	200	100.0	Oita Sekisui Fami S Co.,Ltd.	10 100.0
Sekisui Heim Saitama Co.,Ltd.	200	100.0	Nagasaki Sekisui Fami S Co.,Ltd.	10 100.0
Sekisui Heim Yamanashi Co.,Ltd.	100	100.0	Kyuseki Sekisui Fami S Co.,Ltd.	10 100.0
Gunma Sekisui Heim Co.,Ltd.	200	100.0	Kumamoto Sekisui Fami S Co.,Ltd.	10 100.0
Sekisui Heim Shinetsu Co.,Ltd.	300	55.0	Fukuoka Sekisui Fami S Co.,Ltd.	10 100.0
Nagoya Sekisui Heim Co.,Ltd.	300	100.0	Kagoshima Sekisui Fami S Co.,Ltd.	10 100.0
Gifu Sekisui Heim Co.,Ltd.	200	100.0	Sekisui Interior Co.,Ltd.	50 100.0
Mie Sekisui Heim Co.,Ltd.	200	100.0	Sekisui Exterior Co.,Ltd.	50 100.0
Hokuriku Sekisui Heim Co.,Ltd.	100	100.0	Sekisui Heim Real Estate Co.,Ltd.	200 100.0
Sekisui Heim Keiji Co.,Ltd.	200	100.0	Gunma Sekisui Heim Real Estate Co.,Ltd.	10 100.0
Sekisui Heim Osaka Co.,Ltd.	200	100.0	Nagoya Sekisui Heim Real Estate Co.,Ltd.	20 100.0
Sekisui Heim Hanna Co.,Ltd.	200	100.0	Osaka Sekisui Heim Real Estate Co.,Ltd.	100 100.0
Wakayama Sekisui Heim Co.,Ltd.	100	100.0	Kitanohon Sekisui Industry Co.,Ltd.	100 100.0
Kitakinki Sekisui Heim Co.,Ltd.	100	100.0	Higashinohon Sekisui Industry Co.,Ltd.	100 100.0
Sekisui Heim Chugoku Co.,Ltd.	300	100.0	Kanto Sekisui Industry Co.,Ltd.	100 100.0
Shikoku Sekisui Heim Co.,Ltd.	100	100.0	Tokyo Sekisui Industry Co.,Ltd.	300 100.0
Oita Sekisui Heim Co.,Ltd.	100	100.0	Chubu Sekisui Industry Co.,Ltd.	100 100.0
Nagasaki Sekisui Heim Co.,Ltd.	100	100.0	Kansai Sekisui Industry Co.,Ltd.	300 100.0
Kyuseki Sekisui Heim Co.,Ltd.	200	100.0	Chugoku Sekisui Industry Co.,Ltd.	100 100.0
Kumamoto Sekisui Heim Co.,Ltd.	200	100.0	Nishinohon Sekisui Industry Co.,Ltd.	100 100.0
Fukuoka Sekisui Heim Co.,Ltd.	200	100.0	Sekisui Board Co.,Ltd.	100 100.0
Kagoshima Sekisui Heim Co.,Ltd.	100	100.0	Sekisui Global Trading Co.,Ltd.	100 100.0
Hokkaido Sekisui Fami S Co.,Ltd.	20	100.0	Sekisui Heim Supply Higashinohon Co., Ltd.	50 100.0
Sekisui Fami S Tohoku Co., Ltd.	100	100.0	Sekisui Heim Supply Nishinohon Co., Ltd.	50 100.0
Sekisui Fami S Tokyo Co., Ltd.	50	100.0	Sekisui Heim Supply Kyushu Co., Ltd.	20 100.0
Sekisui Fami S Chiba Co., Ltd.	20	100.0		
Sekisui Fami S Saitama Co., Ltd.	20	100.0	<b>Urban Infrastructure &amp; Environmental Products</b>	
Gunma Sekisui Fami S Co.,Ltd.	10	100.0	Sekisui Aqua Systems Co.,Ltd.	200 78.9
Sekisui Fami S Shinetsu Co.,Ltd.	20	55.0	Vantec Co.,Ltd.	600 100.0
Nagoya Sekisui Fami S Co.,Ltd.	50	100.0	Sekisui Home Techno Co.,Ltd.	360 100.0
Gifu Sekisui Fami S Co.,Ltd.	10	100.0	Sekisui Chemical Hokkaido Co.,Ltd.	200 100.0
Mie Sekisui Fami S Co.,Ltd.	10	100.0	Toto Sekisui Co.,Ltd.	50 100.0
Hokuriku Sekisui Fami S Co.,Ltd.	10	100.0	Hokkaido Sekisui Shoji Co.,Ltd.	33 100.0
Sekisui Fami S Keiji Co., Ltd.	20	100.0	Tohoku Sekisui Shoji Co.,Ltd.	30 100.0
Sekisui Fami S Osaka Co., Ltd.	50	100.0	Tokyo Sekisui Shoji Co.,Ltd.	150 100.0
Sekisui Fami S Hanna Co., Ltd.	20	100.0	Chubu Sekisui Shoji Co.,Ltd.	30 100.0
			Kinki Sekisui Shoji Co.,Ltd.	70 100.0



Chu-Shikoku Sekisui Shoji Co.,Ltd.	30	100.0
Sanin Sekisui Shoji Co.,Ltd.	30	100.0
Kyusyu Sekisui Kenzai Co.,Ltd.	40	100.0
Okayama Sekisui Industry Co.,Ltd.	150	100.0
Shikoku Sekisui Industry Co.,Ltd.	100	100.0
Kyusyu Sekisui Industry Co.,Ltd.	130	91.5
Sekisui Roof Tech Co.,Ltd.	10	100.0
Nippon No-Dig Technology Co., Ltd.	60	100.0
Ritto Sekisui Industry Co., Ltd.	10	100.0
Ryuseki Jubi Co.,Ltd.	40	100.0

#### High Performance Plastics

Sekisui Technol Molding Co., Ltd.	200	100.0
Sekisui Film Co.,Ltd.	350	100.0
Sekisui Film Kyushu Co.,Ltd.	50	78.0
Sekisui Life Tech Co.,Ltd.	400	100.0
Sekisui Polymatech Co.,Ltd.	50	100.0
Sekisui Techno Shoji Higashi Nihon Co.,Ltd.	50	100.0
Sekisui Techno Shoji Chubu Co.,Ltd.	0	100.0
Sekisui Techno Shoji Nishi Nihon Co.,Ltd.	50	100.0
Sekisui Esudain Co.,Ltd.	30	100.0
Sekisui Signsystem Co.,Ltd.	40	100.0
Sekisui Medical Denshi Co.,Ltd.	30	100.0
Naseki Seimitsukako Co.,Ltd.	10	100.0
Sekisui Amagasaki Kako Co.,Ltd.	20	100.0
Sekisui Musashi Kako Co.,Ltd.	25	100.0
Sekisui Minakuchi Kako Co.,Ltd.	10	100.0
Senseki Kako Co.,Ltd.	20	100.0
Hiroseki Kako Co.,Ltd.	30	100.0
Kaseki Kako Co.,Ltd.	10	100.0

#### Others

Sekisui Seikei Industry Co.,Ltd.	450	100.0
Sekisui Engineering Co.,Ltd.	80	100.0
Hinomaru Corp.	673	86.8
Tokuyama Sekisui Industry Co.,Ltd.	1,000	70.0
Sekisui Business Associates Co., Ltd.	50	60.0
Sekisui Kosan Co.,Ltd.	50	100.0
Sekisui Accounting Center Co.,Ltd.	20	100.0

## AFFILIATES

	Paid-in Capital (Millions of yen)	The Company's Ownership (%)
<b>Listed Company</b>		
Sekisui House,Ltd.	186,554	20.1
Sekisui Plastics Co.,Ltd.	16,533	22.8
Sekisui Jushi Corp.	12,335	24.0
<b>Sales of Housing</b>		
Ibaraki Sekisui Heim Co., Ltd.	105	40.0
Tochigi Sekisui Heim Co.,Ltd.	80	40.0
Sekisui Heim Tokai Co., Ltd.	198	36.4
Sekisui Heim Sanyo Co.,Ltd.	100	43.3
Kagawa Sekisui Heim Co.,Ltd.	100	37.5
Kochi Sekisui Heim Co.,Ltd.	100	25.0

(As of March 31, 2005)

## DOMESTIC

### Head Office:

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4-4, Nishitenma 2-chome, Kita-ku, Osaka 530-8565  
Tel: (06) 6365-4122 Fax: (06) 6365-4370

### Tokyo Head Office:

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3-17, Toranomon 2-chome, Minato-ku, Tokyo 105-8450  
Tel: (03) 5521-0521 Fax: (03) 5521-0519

**R&D and Technology Center**  
**New Business Office Development Center:**  
32, Wadai, Tsukuba, Ibaraki 300-4292  
Tel: (029) 864-4111 Fax: (029) 864-4114

### Housing Company

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**Hokkaido & Tohoku Sales Headquarters:**  
Sumitomo Seimei Sendai Chuo Building,  
6-1, Chuo 4-chome, Aoba-ku, Sendai 980-6060  
Tel: (022) 267-8801 Fax: (022) 267-8806

**Tokyo Sales Headquarters:**  
3-17, Toranomon 2-chome, Minato-ku, Tokyo 105-8450  
Tel: (03) 5521-0710 Fax: (03) 5521-0717

**Kanto Sales Headquarters:**  
3-17, Toranomon 2-chome, Minato-ku, Tokyo 105-8450  
Tel: (03) 5521-0722 Fax: (03) 5521-0725

**Chubu Sales Headquarters:**  
NHK Nagoya Broadcasting Center Bldg,13-3, Higashi Sakura 1-chome,  
Higashi-ku, Nagoya 461-0005  
Tel: (052) 952-9750 Fax: (052) 952-9751

**Kinki Sales Headquarters:**  
4-4, Nishitenma 2-chome, Kita-ku, Osaka 530-8565  
Tel: (06) 6366-0021 Fax: (06) 6366-1051

**Chu-Shikoku Sales Headquarters:**  
189, Kozushuku, Okayama 703-8510  
Tel: (086) 208-3212 Fax: (086) 208-3213

**Kyusyu Sales Headquarters:**  
Fukuoka Asahi Kaikan Building,  
8-41, Tenjin 2-chome, Chuo-ku, Fukuoka 810-0001  
Tel: (092) 725-9301 Fax: (092) 725-9305

**Housing Technology Institute:**  
32, Wadai, Tsukuba, Ibaraki 300-4292  
Tel: (029) 864-7251 Fax: (029) 864-7286

### Urban Infrastructure & Environmental Products Company

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**Tohoku Sales Headquarters:**  
Sumitomo Seimei Sendai Chuo Building,  
6-1, Chuo 4-chome, Aoba-ku, Sendai 980-6060  
Tel: (022) 222-4111 Fax: (022) 223-6502

**Tokyo Sales Headquarters:**  
3-17, Toranomon 2-chome, Minato-ku, Tokyo 105-8450  
Tel: (03) 5521-0622 Fax: (03) 5521-0627

### Chubu Sales Headquarters:

NHK Nagoya Broadcasting Center Bldg,13-3, Higashi Sakura 1-chome,  
Higashi-ku, Nagoya 461-0005  
Tel: (052) 952-9730 Fax: (052) 952-9731

### Kinki Sales Headquarters:

4-4, Nishitenma 2-chome, Kita-ku, Osaka 530-8565  
Tel: (06) 6365-4500 Fax: (06) 6365-4387

### Chu-Shikoku Sales Headquarters:

Toshiba Fukoku Seimei Building,  
7-18, Teppo-cho, Naka-ku, Hiroshima 730-0017  
Tel: (082) 224-6211 Fax: (082) 224-5291

### Kyusyu Sales Headquarters:

Hakata Mitsui No.2 Building,  
35, Tenyamachi 1-chome, Hakata-ku, Fukuoka 812-0025  
Tel: (092) 271-1306 Fax: (092) 271-1309

### Shiga-Ritto Plant:

75, Nojiri, Ritto, Shiga 520-3081  
Tel: (077) 553-0771 Fax: (077) 552-3304

### Gunma Plant:

54, Sakaishimofuchina, Isesaki-shi, Gunma 370-0103  
Tel: (0270) 76-3355 Fax: (0270) 76-3462

### Tokyo Plant:

15-1, Negishidai 3-chome, Asaka, Saitama 351-8511  
Tel: (048) 463-5111 Fax: (048) 463-7232

### Kyoto R&D Laboratory:

2-2, Kamitoba Kamichoshi-cho, Minami-ku, Kyoto 601-8105  
Tel: (075) 662-8541 Fax: (075) 662-8581

## High Performance Plastics Company

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### Eastern Japan Sales Headquarters:

3-17, Toranomon 2-chome, Minato-ku, Tokyo 105-8450  
Tel: (03) 5521-0623 Fax: (03) 5521-0695

### Central Japan Sales Headquarters:

NHK Nagoya Broadcasting Center Bldg,13-3, Higashi Sakura 1-chome,  
Higashi-ku, Nagoya 461-0005  
Tel: (052) 952-9725 Fax: (052) 952-9726

### Western Japan Sales Headquarters:

4-4, Nishitenma 2-chome, Kita-ku, Osaka 530-8565  
Tel: (06) 6365-4313 Fax: (06) 6365-4323

### Amagasaki Plant:

8-6, Shioe 5-chome, Amagasaki, Hyogo 661-8564  
Tel: (06) 6429-4301 Fax: (06) 6427-0744

### Musashi Plant:

3535, Kurohama, Hasuda, Saitama 349-0198  
Tel: (048) 768-1131 Fax: (048) 768-3069

### Shiga-Minakuchi Plant:

1259, Izumi, Minakuchi-cho Kohga-gun, Shiga 528-8585  
Tel: (0748) 62-3381 Fax: (0748) 62-8159

### Minase Research Laboratories:

2-1, Hyakuyama, Shimamoto-cho, Mishima-gun, Osaka 618-8589  
Tel: (075) 962-8811 Fax: (075) 962-7584

**OVERSEAS**

## SUBSIDIARIES

**North America****Sekisui America Corporation\***

100 Gaither Drive, Suite A, Mount Laurel, NJ 08054, U.S.A.  
 Tel: 856-235-5115  
 Fax: 856-235-0097  
 Main Activities: Holding Company  
 Paid-in Capital: US \$19,390,000  
 Ownership: 100.0%

**Voltek, LLC. (Head Office and Lawrence Plant)\***

100 Shepard Street, Lawrence, MA 01843, U.S.A.  
 Tel: 978-685-2557  
 Fax: 978-685-9861  
 Main Activities: Sales, marketing, and manufacture of polyolefin foam products  
 Paid-in Capital: US \$48,533,613  
 Ownership: 100.0%

**Voltek, LLC. (Coldwater Plant)\***

17 Allen Avenue, Coldwater, MI 49036, U.S.A.  
 Tel: 517-279-7587  
 Fax: 517-279-8562  
 Main Activities: Manufacture of polyolefin foam products

**Sekisui Products, LLC.\***

550 Stephenson Highway, Suite 301, Troy, Michigan 48083, U.S.A.  
 Tel: 248-307-0000  
 Fax: 248-307-1680  
 Main Activities: Import and export of plastic products  
 Paid-in Capital: US \$2,036,956  
 Ownership: 100.0%

**Sekisui S-Lec America, LLC.\***

1786 Dividend Drive, Columbus, OH 43228, U.S.A.  
 Tel: 614-527-5250  
 Fax: 614-527-5257  
 Main Activities: Sales and marketing of polyvinyl butyral interlayer films  
 Paid-in Capital: US \$1,765,411  
 Ownership: 100.0%

**Kleerdex Company, LLC.\***

100 Gaither Drive, Suite B, Mount Laurel, NJ 08054, U.S.A.  
 Tel: 856-866-1700  
 Fax: 856-866-9728  
 Main Activities: Corporate administration, sales, and marketing of acrylic PVC alloy sheet  
 Paid-in Capital: US \$3,471,996  
 Ownership: 100.0%

**Bloomsburg Plant**

6685 Low Street, Bloomsburg,  
 PA 17815, U.S.A.  
 Tel: 570-387-6997  
 Fax: 570-387-8722  
 Main Activities: Manufacture of acrylic PVC alloy sheet

**Sekisui TA Industries, LLC. (Head Office and California Plant)\***

100 S. Puente Street, Brea, CA 92821, U.S.A.  
 Tel: 714-255-7888  
 Fax: 714-990-0440  
 Main Activities: Corporate administration, sales, marketing, and manufacture of adhesive tape  
 Paid-in Capital: US \$6,000,000  
 Ownership: 100.0%

**Sekisui Ta Industries, LLC. (Tennessee Plant)\***

75 Industrial Park Drive, Rogersville, TN 37857, U.S.A.  
 Tel: 423-272-5898  
 Fax: 423-272-6155  
 Main Activities: Manufacture of adhesive tape

**Central and South America****Sekisui S-Lec Mexico S.A. de C.V.\***

Calle 21E, No.524 Civac, Cuernavaca, Morelos, Mexico  
 Tel: 777-329-06-01  
 Fax: 777-319-06-75  
 Main Activities: Sales, marketing, and manufacture of polyvinyl butyral interlayer films  
 Paid-in Capital: MXN32,836,144  
 Ownership: 70.92%

**Alveo-Voltek Ltda.**

Rua Bento Goncalves 1731, Sala 172, 93410-003 Novo Hamburgo RS, Brazil  
 Tel: 515-827155  
 Fax: 515-942314  
 Main Activities: Sales of polyolefin foam products  
 Paid-in Capital: R \$387,200  
 Ownership: 100.0%

**Europe****Alveo AG\***

Bahnhofstr.7, CH-6002 Luzern, Switzerland  
 Tel: 41-228-92-92  
 Fax: 41-228-92-00  
 Main Activities: Sales and marketing of polyolefin foam products  
 Paid-in Capital: SFr21,000,000  
 Ownership: 100.0%

**Sekisui (U.K.) Ltd.\***

Unit 19, Merthyr Tydfil Industrial Park, Cardiff Road, Troedyrhiw, Merthyr Tydfil, South Wales CF48 4DR, United Kingdom  
 Tel: 1443-690-940  
 Fax: 1443-690-738  
 Main Activities: Manufacture of polyolefin foam products  
 Paid-in Capital: Stg.£7,100,000  
 Ownership: 100.0%

**Sekisui-Alveo B.V.\***

Montageweg 6, 6045 JA, Roermond, the Netherlands  
 Tel: 475-354-354  
 Fax: 475-328-056  
 Main Activities: Manufacture of polyolefin foam products  
 Paid-in Capital: EURO 1,361,341  
 Ownership: 100.0%

**Esilon B.V.\***

Metaalweg 7, 6045 JB, Roermond, the Netherlands  
 Tel: 475-322-851  
 Fax: 475-328-248  
 Main Activities: Sales, marketing, and manufacture of PVC rain gutters  
 Paid-in Capital: EURO 363,024  
 Ownership: 100.0%

**Sekisui S-Lec B.V. (Head Office and Plant)\***

Metaalweg 5, 6045 JB, Roermond, the Netherlands  
 Tel: 475-349900  
 Fax: 475-349999  
 Main Activities: Manufacture of polyvinyl butyral interlayer film  
 Paid-in Capital: EURO 11,344,506  
 Ownership: 100.0%

\*Consolidated subsidiary

**German Representative Office**

Hafenstr. 72, 41460 Neuss Germany

Tel: 2131-36926-0

Fax: 2131-36926-30

Main Activities: Sales and marketing of polyvinyl butyral interlayer films

**German Representative Office U.K. Division**

First Point, Buckingham Gate, Gatwick,

West Sussex RH6 ONT, United Kingdom

Tel: 1293-897-217

Fax: 1293-897-300

Main Activities: Sales and marketing of polyvinyl butyral interlayer films

**Sekisui EUROPE B.V.\***

c/o Metaalweg 5, 6045JB, Roermond, the Netherlands

Tel: 06-6365-4113 Fax: 06-6365-4367

(Sekisui Chemical Corporate Finance, Accounting and Planning Dept.)

Main Activities: Financing, Holding Company

Paid-in Capital: EURO 136,134

Ownership: 100.0%

**Sekisui Chemical G.m.b.H.\***

Vehrham Center, Cantadorstrasse, 3 40211 Düsseldorf, Germany

Tel: 211-36977-0

Fax: 211-36977-31

Main Activities: Export and import of plastic products

Paid-in Capital: EURO 664,679

Ownership: 100.0%

**Alveo S.p.A.**

Viale Italia 5/A, 20020 Lainate, Italy

Tel: 2-935-70283

Fax: 2-935-70343

Main Activities: Marketing of polyolefin foam products

Paid-in Capital: Lit200,000,000

Ownership: 100.0%

**Alveo G.m.b.H.**

Daimlerstrasse 1/H, D- 63303 Dreieich, Germany

Tel: 6103-94830

Fax: 6103-948374

Main Activities: Marketing of polyolefin foam products

Paid-in Capital: DM50,000

Ownership: 100.0%

**Alveo S.a.r.L.**

Le Valvert 46 bis, Chemin du Vieux Moulin 69160 Tassin la Demi Lune, France

Tel: 04-78-33-97-97

Fax: 04-78-33-97-98

Main Activities: Marketing of polyolefin foam products

Paid-in Capital: FF50,000

Ownership: 100.0%

**Sekisui-Alveo S.A.**

C/Industria s/n (esquina C/de l'Horta), Poligono Industrial El Pl'a 08750-Molins de Rei (Barcelona), Spain

Tel: 3-680-28-42

Fax: 3-680-28-69

Main Activities: Marketing of polyolefin foam products

Paid-in Capital: Ptas.10,000,000

Ownership: 100.0%

**Alveo B.V.**

De Raaf 33a NL-4102 DG, Culemborg, the Netherlands

Tel: 345-533939

Fax: 345-534866

Main Activities: Marketing of polyolefin form products

Paid-in Capital: EURO 18,000

Ownership: 100.0%

**Asia and Other Regions****Thai Sekisui Foam Co.,Ltd.\***

Amata Nakorn Industrial Estate, 700/329 Moo6, (Bangana-Trad Rd., Km.57),

Tumbol Don Hua-loh, Amphur Muang, Chonburi20000, Thailand.

Tel: (66)38-213-219~26

Fax: (66)38-213-281

Main Activities: Sales, marketing, and manufacture of polyolefin foam products

Paid-in Capital: B450,000,000

Ownership: 91.11%

**SekisuiS-Lec Thailand Co.,Ltd.\***

64/31, Moo 4 Eastern Seaboard Industrial Estate, T. Pluakdaeng,

A. Pluakdaeng Rayong Code. 21140, Thailand

Tel: (66) 38-955-430~6

Fax: (66) 38-955-427~8

Main Activities: Sales, marketing,

and manufacture of polyvinyl butyral interlayer films

Paid-in Capital: B430,000,000

Ownership: 100.0%

**Sekisui Chemical Singapore (Pte.) Ltd.\***

2 Jurong East Street Road 21, #05-17, IMM Building, Singapore 609601

Tel: 6562-5081

Fax: 6562-5021

Main Activities: Export and import of plastic products

Paid-in Capital: S \$70,000

Ownership: 100.0%

**Malaysia Office**

Lot 16, 1st Floor, Kompleks Antarabangsa, Jalan Sultan Ismail,

Kuala Lumpur, 50250 Malaysia

Tel: 03-214-55333

Fax: 03-214-22533

**Thailand Office**

75/46 15th Floor, Richmond Building, Sukhumvit Soi 26, Sukhumvit Road, Klong-

ton, Klongtoey, Bangkok 10110, Thailand

Tel: (66)2-2617745~49

Fax: (66)2-2617750

**Sekisui (Hong Kong) Ltd.\***

8th Floor, 111 Leighton Road, Causeway Bay, Hong Kong

Tel: 2890-9161

Fax: 2577-1908

Main Activities: Export and import of plastic products

Paid-in Capital: HK \$300,000

Ownership: 100.0%

**Taiwan Office**

Room A, 10F, No.2, Sec.2, Nanjing E. Rd., Taipei, Taiwan, R.O.C.

Tel: 02-2523-5335

Fax: 02-2523-5336

**Shenzhen Office**

Room 2703, 27/F, Shenzhen Kerry Centre,

No.2008 Ren Min South Road, 518001, China

Tel: 0755-82219393

Fax: 0755-82219395

**Sekisui (Shanghai) International Trading Co., Ltd.\***

Room 702-705, Metro Tower, No.30,

Tianyaoqiao Road, Shanghai 200030, China

Tel: 021-64820638

Fax: 021-64820639

Main Activities: Export and import of plastics products

Paid-in Capital: US \$200,000

Ownership: 100%

**Sekisui Korea Co., Ltd.\***

402F, Youngbo Bldg, 168-1 Samsung-Dong,  
Kangnam, Seoul, Korea, 135-090  
Tel: 02-319-9471  
Fax: 02-319-9475  
Main Activities: Sales of plastic products, Technical service  
Paid-in Capital: W250,000,000  
Ownership: 100%

**Young Bo Chemical Co.,Ltd. (Head Office)\***

542-1, Panje-Ri, Wongok-Myon, Ansong-Si, Kyonggi-Do,465-810, Korea  
Tel: 31-659-8800  
Fax: 31-659-8877  
Main Activities: Manufacture of Polyolefin foam  
Paid-in Capital: W10,000,000  
Ownership: 51%

**Taejeon Plant**

236 Pokyong-Dong, Yoosug-Gu, Taejeon 305-305, Korea  
Tel: 42-822-0603  
Fax: 42-822-0606

**Sekisui-Refresh Co., Ltd.\***

383-1, OiRyong-Ri, Buknae-Myun, YeoJu-Gun, Gyeong Gi-Do, 469-852, Korea  
Tel: 82-31-881-3741  
Fax: 82-31-881-3745  
Main Activities: Manufacture and construction of aged pipe restoration profiles  
Paid-in Capital: W3,000,000,000  
Ownership: 51%

**Sekisui Polytie Co.,Ltd.**

6F,824-19 Dongkyung Bldg., Yeoksam-Dong, Kangnam-Ku, Seoul, Korea  
Tel: 02-561-0654  
Fax: 02-561-9873  
Main Activities: Research and preparation for production and commercialization of synthetic wood tie  
Paid-in Capital: W30,000,000  
Ownership: 60%

**Pilon Plastics Pty. Ltd.\***

1-5 Parraweena Road, Taren Point, Sydney N.S.W 2229, Australia  
Tel: 2-9525-9880  
Fax: 2-9525-8004  
Main Activities: Sales, marketing, and manufacture of polyolefin foam products  
Paid-in Capital: A\$3,000,000  
Ownership: 100.0%

**Sekisui Chemical Australia Pty.Ltd.**

1-5 Parraweena Road, Taren Point, Sydney N.S.W. 2229, Australia  
Tel: 2-9525-98048  
Fax: 2-9531-2759  
Main Activities: Sales and marketing of polyvinyl butyral interlayer films  
Paid-in Capital: A\$800,000  
Ownership: 100.0%

**Sekisui Dalian Housing Technology Co., Ltd.**

Ping'an Building 1405, No. 24 Renmin Road,  
Zhongshan District  
Tel: 86-411-82539771  
Fax: 86-411-82539773  
Main Activities: Development of construction-related data for use in Japan  
Paid-in Capital: US \$250,000  
Ownership: 100.0%

**Wuxi SSS-Diamond Plastics Co., Ltd.**

Block 82-A, Wuxi National High & New Technology  
Industrial Development Zone, Wuxi, Jiangsu, 214028 China  
Tel: 86-510-522-1943  
Fax: 86-510-522-4339  
Main Activities: Manufacture of Polyethylene EF joints  
Paid-in Capital: US \$4,000,000  
Ownership: 51%

**Sekisui (Qingdao) Plastic Co., Ltd.**

Construction Group Industry Park, Huanghe West Road, Qingdao Economic & Technology Development Zone, 266500 China  
Tel: 86-532-8683-7878  
Fax: 86-532-8683-7877  
Main Activities: Sales and manufacture of high-performance water pipes  
Paid-in Capital: US \$6,050,000  
Ownership: 25%

**Qingdao Office**

360-1 Qingdao International Financial Center, NO.59 Middle Hangkang Road,  
Qingdao, China  
Tel: 86-532-8579-3237  
Fax: 86-532-8579-3234

**Shanghai Sekisui-Holy Plastics Co.,Ltd.\***

No.951.Liou-Shan Rd Nan-Shan Industrial Park Jiading Village  
Shanghai, China  
Tel: 021-69178519  
Fax: 021-69177219  
Main Activities: Manufacture of Polyolefin foam  
Paid-in Capital: US \$5,000,000  
Ownership: 51%

**Sekisui High Performance Packaging (Langfang) Co.,Ltd.**

No.12 HuiYuan Road Langfang E&T Development Zone Hebei,  
China 065001  
Tel: 0316-6089731  
Fax: 0316-6089731  
Main Activities: Manufacture of adhesive tape  
Paid-in Capital: US \$1,900,000  
Ownership: 100%

**Sekisui S-Lec (Suzhou) Co.,Ltd.**

No.25 Taishan Rd., Suzhou New District, Suzhou, China 215219  
Tel: (86)512-6661-8181  
Fax: (86)512-6661-8383  
Main Activities: Sales, marketing, and manufacture of polyvinyl butyral interlayer films  
Paid-in Capital: US \$12,500,000  
Ownership: 100%

**Shanghai Office**

Room 706-707, Metro Tower, No.30 Tianyaoqiao Road, Shanghai,  
China 200030  
Tel: (86)21-64268877  
Fax: (86)21-64267318

**Beijing Office**

Room 1593, No.128 Zhichun Road, Haidian District, Beijing, China 100086  
Tel: (86)10-62657230  
Fax: (86)10-62653337

**Beijing Sekisui Trank Medical Technology Co.,Ltd.**

8F Pana Tower, No. 128 Zhichun Road, Haidian District, Beijing, China 10086  
Tel: (86)10-62632947  
Fax: (86)10-62636647  
Main Activities: Manufacture, sales and marketing of medical equipment  
Paid-in Capital: US \$6,100,000  
Ownership: 55%

\*Consolidated subsidiary

(As of March 31, 2005)

# CORPORATE DATA

## Sekisui Chemical Co., Ltd.

**Head Office:** 4-4, Nishitenma 2-chome, Kita-ku, Osaka 530-8565  
Tel: (06) 6365-4122 Fax: (06) 6365-4370

**Tokyo Head Office:** 3-17, Toranomon 2-chome, Minato-ku, Tokyo 105-8450  
Tel: (03) 5521-0521 Fax: (03) 5521-0519

**Founded:** March 3, 1947

**Paid-in Capital:** ¥100.002375657 billion

**Authorized:** 1,187,540,000 shares

**Issued:** 539,507,285 shares

**Listings:** Common stock is listed on the Tokyo stock exchange and Osaka securities exchange.

**Number of Shareholders:** 30,440

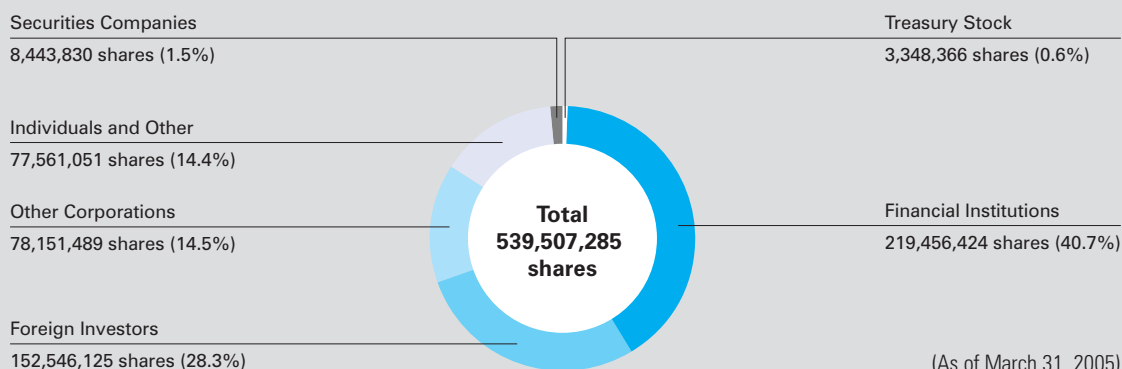
**Transfer Agent:** UFJ Trust Bank Limited Osaka Branch  
Corporate Agency Department  
6-3, Fushimi-cho 3-chome, Chuo-ku,  
Osaka 541-8502

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)	43,997	8.15	—	—
Japan Trustee Services Bank, Ltd. (Trust Account)	33,339	6.17	—	—
Asahi Kasei Corporation	31,039	5.75	1,716	0.12
The Dai-ichi Mutual Life Insurance Company	26,181	4.85	—	—
Sekisui House, Ltd.	17,592	3.26	142,118	20.03
Tokio Marine & Nichido Fire Insurance Co., Ltd.	15,927	2.95	—	—
State Street Bank and Trust Company	13,254	2.45	—	—
Employees Stock Ownership Plan	7,773	1.44	—	—
UFJ Bank Limited	7,075	1.31	—	—
The Kyoei Fire & Marine Insurance Company, Limited	6,718	1.24	—	—

**Notes:**

1. The shares held by The Master Trust Bank of Japan, Ltd. (Trust Account) and Japan Trustee Services Bank, Ltd. (Trust Account) are held in trust for investors, including shares in securities investment trusts.
2. The Company owns 5,000 common stock shares (ownership of 0.09%) in UFJ Holdings Inc., a holding company of UFJ Bank Limited.
3. On April 15, 2005, the Company sold a portion of its Sekisui House, Ltd. shares. As a result, the percentage of the Company's ownership is 14.40%.

**Breakdown of Shareholders:**





**For further information,**

— please contact:

Sekisui Chemical Co., Ltd. Investor relations, Corporate Communication Department  
3-17, Toranomon, 2-chome, Minato-ku, Tokyo 105-8450, Japan  
<http://www.sekisui.co.jp> Tel: 03(5521)0524 Fax: 03(5521)0511



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