

PERFORMANCE HIGHLIGHTS

Sekisui Chemical Co., Ltd. and its Subsidiaries

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

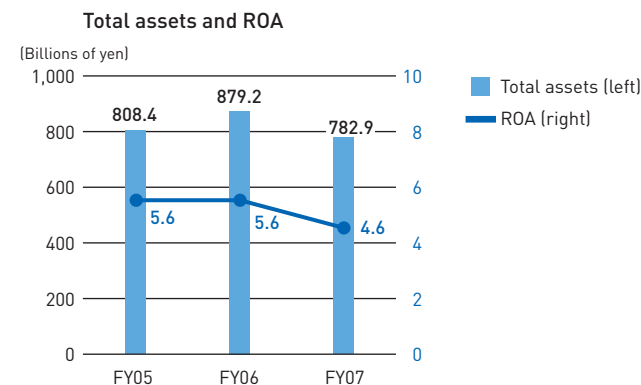
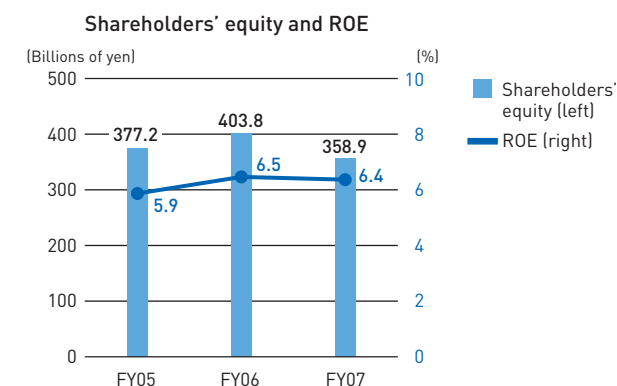
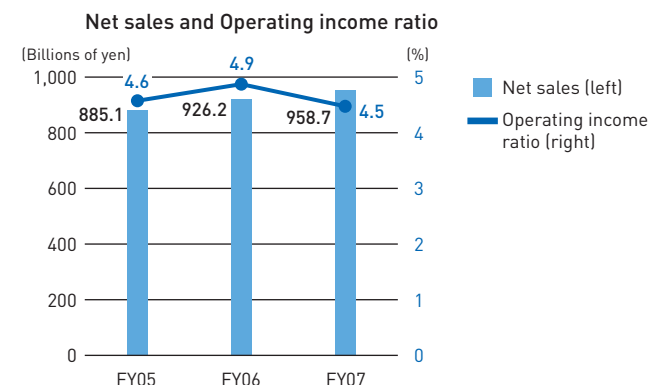
Financial Position (at year-end):

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

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

Other Data:

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

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

Notes:

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

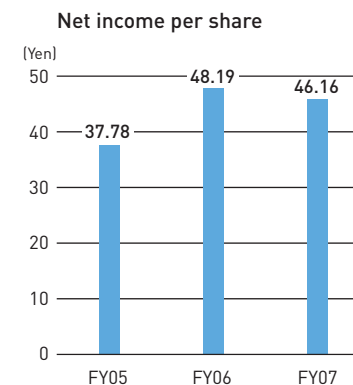
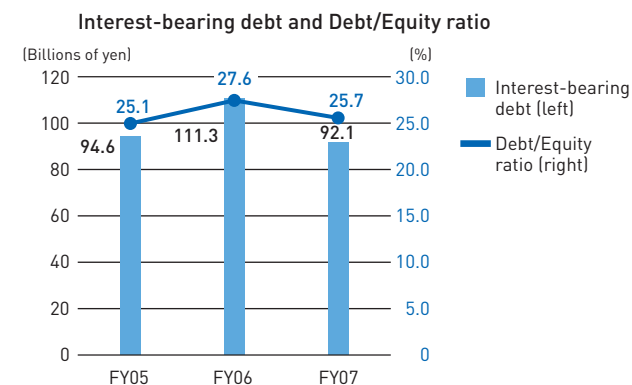
*2: Operating income ratio = Operating income / Net sales

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

*4: ROE = Net income / Shareholders' equity

*5: ROA = Ordinary income / Total assets

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



TO OUR SHAREHOLDERS, CUSTOMERS, AND EMPLOYEES



Naotake Okubo, President

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

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

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

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

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

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

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

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

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

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

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

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

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

Sales and Operating Income by Division Company

(Billions of yen)

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

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

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

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

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

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

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

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

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

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

Revitalizing the Domestic Demand Led Core Businesses

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

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

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

Expanding Strategic Businesses and Accelerating Development of Overseas Business Frontiers

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

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

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

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

Financial Strategy and Shareholder Return Policy

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

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

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

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

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

In Closing

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

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

July 2008



Naotake Okubo, President