

PERFORMANCE HIGHLIGHTS

Sekisui Chemical Co., Ltd. and its Subsidiaries

	Millions of yen			Thousands of U.S. dollars (Note 1)
	FY2006	FY2007	FY2008	FY2008
FOR THE YEAR				
Operating Results (for the year):				
Net sales	¥ 926,164	¥ 958,675	¥ 934,225	\$ 9,510,590
Gross profit	269,659	272,772	253,779	2,583,520
Operating income	45,158	43,006	33,589	341,945
Non-operating income and expenses	1,752	(4,458)	(4,151)	(42,254)
Net financial income (expenses)	1,583	1,780	988	10,058
Equity in earnings of affiliates	1,415	590	1,409	14,346
Ordinary income	46,910	38,547	29,439	299,691
Net income	25,539	24,300	1,013	10,313

Financial Position (at year-end):

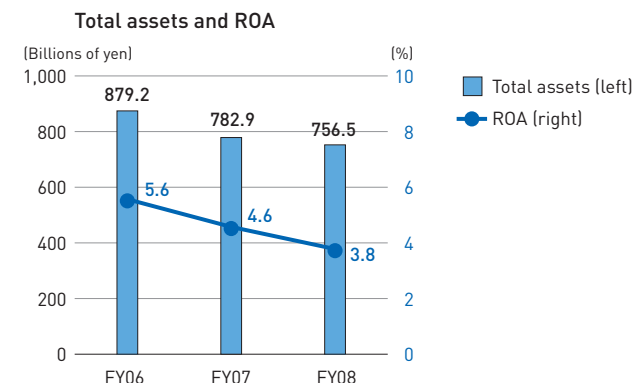
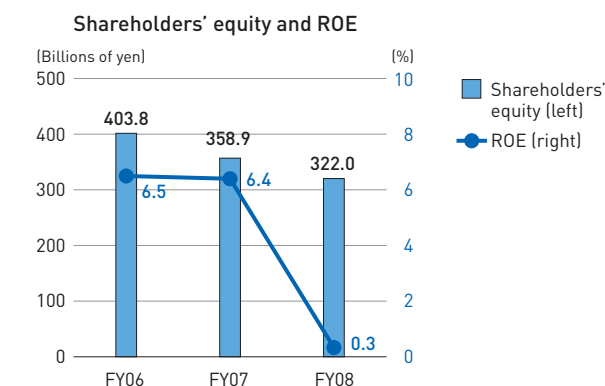
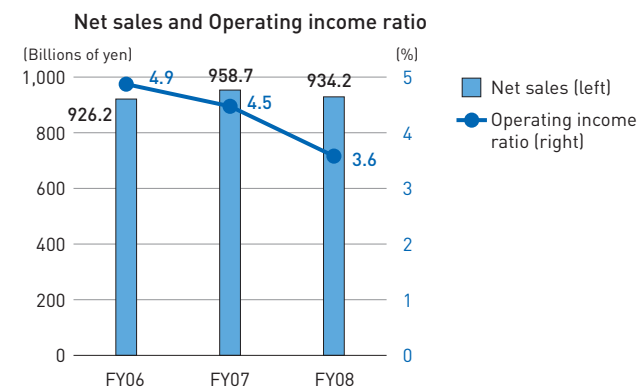
	Yen			U.S. dollars (Note 1)
Total assets	¥ 879,153	¥ 782,860	¥ 756,451	\$ 7,700,813
Shareholders' equity	403,824	358,917	322,000	3,278,022
Interest-bearing debt	111,286	92,098	129,408	1,317,397

PER SHARE AMOUNTS

	Yen			U.S. dollars (Note 1)
Net income, non-diluted (EPS)	¥ 48.19	¥ 46.16	¥ 1.93	\$ 0.02
Cash dividends	14.00	15.00	10.00	0.10
Net assets	761.69	683.11	612.93	6.24

Other Data:

Total number of employees	18,905	18,907	19,742
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	FY2006	FY2007	FY2008
RATIO			
Operating income ratio* ² (%)	4.9	4.5	3.6
Return on equity (ROE)* ^{3,4} (%)	6.5	6.4	0.3
Return on total assets (ROA)* ^{3,5} (%)	5.6	4.6	3.8
Equity ratio (%)	45.9	45.8	42.6
Debt/Equity ratio* ⁶ (%)	27.6	25.7	40.2

FOR REFERENCE

Business Related Data:	FY2006	FY2007	FY2008
Total number of houses sold (Unit)	15,000	14,350	14,550
Detached houses sold (Unit)	10,820	10,100	10,300
Total number of orders received (Unit)	17,050	16,500	15,700
New orders received (Millions of yen)	392,184	384,432	367,085

Market Data:

	FY2006	FY2007	FY2008
Overall new housing starts (Unit)	1,285,246	1,035,598	1,039,180
Owned housing (Unit)	355,700	311,803	310,664

Notes:

*1: U.S. dollar amounts represent translations of Japanese yen, for the readers' convenience only, at the rate of ¥98.23 = U.S.\$1.00, the prevailing exchange rate at March 31, 2009.

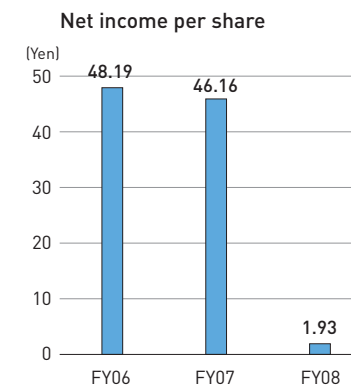
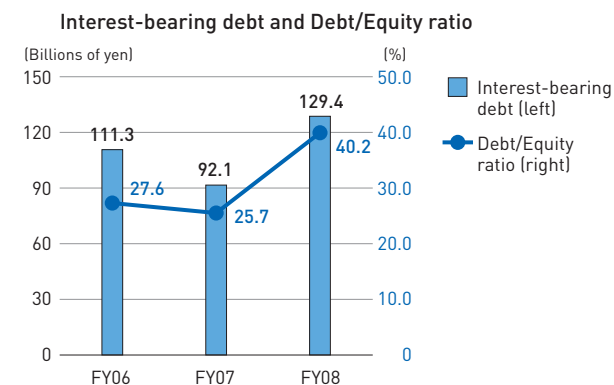
*2: Operating income ratio = Operating income / Net sales

*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



Naofumi Negishi, President

The worldwide economic recession that took hold in fiscal year 2008 under review wreaked havoc on market conditions. The circumstances made declines for the Company in net sales and operating income virtually unavoidable. Although we struggled to produce results, we made steady progress developing the Group's presence in the growth frontier fields. Specifically, regarding businesses which come under the strategic business and overseas business, we were able to strengthen those with competitive advantages for further growth and equally laid the foundation for businesses in new areas where we anticipated growth in the future.

In fiscal year 2008, the final year of the three-year medium-term management plan GS21-Go! Frontier, the Company accomplished important objectives for each of its divisional companies. The High Performance Plastics (HPP) Company reinforced the operating foundations for its strategic businesses and restructured its overall operations. The Urban Infrastructure & Environmental Products (UIEP) Company broadened its overseas business activities. And the Housing Company improved management efficiency in its housing business and expanded the living environment business. The market environment's rapid deterioration proved to be too large an obstacle to overcome, and we were unable to meet the plan's sales and earnings goals. However, the progress we achieved during the three years of the plan has positioned the Company to maximize earnings when the markets begin to recover.

In fiscal year 2009, we launched the medium-term management plan GS21-SHINKA! The new plan's objectives for the first two years were formulated to accommodate the unpredictability of the current market conditions. In fiscal years 2009 and 2010, the plan sets an agenda for shoring up our strengths so the Company will emerge from the current recession with full momentum and for advancing specific measures centered on reinforcing our earning power. In anticipation of improving market conditions in the fiscal year 2011-2013 period, the plan's final three years call for active engagement of the competitive strengths built up in the previous two years. This two-phased implementation strategy is designed to raise the Company's operating income to ¥80.0 billion in the final year of the plan.

In the first year of GS21-SHINKA!, we will focus specifically on structural reforms to bolster the Company's earnings structure and on cultivating our specialization in fields and market regions where we anticipate growing demand.

In recent years, the Sekisui Chemical Group has been actively pursuing its vision of becoming a premium company that maintains a stable and high level of profit. Fulfilling this vision requires that we establish a Group corporate structure that is balanced on the distinctiveness and the “prominences” of the three divisional companies and that is resilient to fluctuations in external business conditions. As we pursue this vision and seek to elevate the Company to a new level, we have committed anew to the Group vision to ‘Sekisui Chemical Group will continue to develop the frontiers of “Creation of Housing/Social infrastructure” and “Chemical Solutions,” utilizing its prominent technology and quality, thereby contributing to people’s lives around the world and global environment.’

CSR Management

We consider fulfilling our responsibility as a corporate entity to be a management issue of equal importance to our corporate growth and renewal. We constantly seek to improve and advance our CSR activities to continue earning our status as a company broadly trusted by society.

The foundation for our CSR management activities is our Corporate Philosophy—“We enhance the well-being of the world community through our global business network.” This philosophy is manifest in our efforts to contribute to society by applying our three “prominences” emphasizing the environment, quality and customer satisfaction, and human resources, while also enhancing the social value of the Company. In recognition of our CSR management, for two consecutive years the Sekisui Chemical has been named one of the Global 100 Most Sustainable Corporations in the World.

Since its inception, the Company has been developing products to meet the needs of society and providing a constant stream of value to society. The Company’s plastic piping, resin foams, pipeline renewal, unit housing, and other products as well as its various activities are all associated with contributing to society and meeting social needs. We define CSR as the contribution a company makes to society through its business activities, and we will continue to develop new products that fulfill this responsibility.

CSR goes beyond setting and meeting performance targets. We believe it is important that CSR activities be continually assessed and modified to keep pace with the evolution of society and our business

content. While the current economic conditions are very severe, we think it is essential to continue fortifying our management base and maintain our status as a company capable of responding to the expectations of society.

Improving our business performance is an important goal of the new GS21-SHINKAI, but just as important is ensuring that we continue earning the trust of society by maintaining our status as a company poised to continue steadily growing in the future. No company can be successful without meeting the expectations and trust of society. Raising corporate value is ultimately and inextricably linked to fulfilling the expectations and earning the trust of society.

Review of Fiscal Year 2008 (April 1, 2008, to March 31, 2009)

In fiscal year 2008, the three divisional companies that comprise the Sekisui Chemical Group each struggled to maintain sales volumes as demand virtually disappeared amid deteriorating business

Sales and Operating Income by Division Company

(Billions of yen)

	FY2008				FY2009 (Plan)			
	Sales	Change	Operating Income	Change	Sales	Change	Operating Income	Change
Housing	424.5	4.5	17.1	3.0	404.0	-20.5	17.5	0.4
UEIP	225.2	-8.5	1.7	-4.5	217.0	-8.2	1.7	0.0
HPP	262.6	-17.8	15.8	-8.7	226.0	-36.6	10.5	-5.3
Others	46.2	-2.3	-0.7	0.7	41.0	-5.2	-1.7	-1.0
Eliminations	-24.3	-0.2	-0.3	0.0	-28.0	-3.7	-0.5	-0.2
Total	934.2	-24.4	33.6	-9.4	860.0	-74.2	27.5	-6.1

conditions in Japan and overseas. While the market conditions impacted our performance results, we fulfilled our plans for the year to reinforce profitability by raising prices on our products with highly competitive advantages and reform our business structure. We also made significant progress fortifying our competitiveness in growth fields we anticipate will be highly profitable when the markets begin to recover.

The High Performance Plastics (HPP) Company has designated the automotive materials (AT), information technology materials (IT) and medical products (MD) as its three strategic focus fields based on market growth potential and its lineup of technically superior products, and have continued to focus its management resources. In fiscal year 2008, the HPP Company's sales in the three strategic fields continued brisk in the first half but ultimately declined for the year owing to the sharp drop in demand, particularly in the AT and IT fields, which began in November in the second half. The decline in sales volume inevitably reduced operating income. Soaring raw materials prices also put pressure on earnings, but planned cost cuts and rolling the costs into product prices generally neutralized their impact.

While the deteriorating demand environment slowed the company's sales growth momentum, the company nevertheless actively continued to fortify its strategic businesses. In the AT field, the company expanded production capacity for interlayer films for automobiles and raised its market share in this product segment to above 40%. Despite the currently stagnant demand in the automobile market and decreasing overall sales of automotive components, the HPP Company continues to capture market share based on growing sales of its highly differentiated products that succinctly meet market needs.

In the MD field, the HPP Company continued measures begun in the previous year to expand its operations. Sekisui Medical, the merged result of Sekisui's medical business and Daiichi Pure Chemicals Co., Ltd., which was acquired in 2006, commenced full-fledged operations in April 2008. This was a major step forward, and we believe the integrated operations will greatly improve operating efficiency and lead to significant earnings contributions in the years ahead.

The Urban Infrastructure and Environmental Products (UIEP) Company faced ongoing sluggish demand in the domestic construction market due to repercussions from the previous year's Construction Standard Law revision as well as from the overall unfavorable economic conditions. Sales declined for UIEP Company's core PVC pipes and construction materials as well as other products for the domestic

construction market. Raw materials prices continued rising during the year, but the company effectively offset the impact by reducing costs and revising product prices. With demand plummeting, the company also activated emergency measures to restructure its operations and specifically to reduce fixed costs in Japan. Ultimately, however, the harsh business conditions resulted in the UIEP Company recording decreases in both net sales and operating income.

The UIEP Company continued developing overseas growth frontiers and setting in place overseas business platforms for accelerated growth in the pipeline renewal, plant materials, infrastructure composite materials, and other businesses we believe promise substantial growth and expansion. In July 2008, the company established a base in Europe for the pipeline renewal business with the acquisition of Chevalier Pipe Technologies (CPT) GmbH, a pipe rehabilitation company with an extensive business network centered in Europe. These steps give the company virtually complete coverage in the advanced country regions, which are the leading markets for infrastructure renewal demand, and the company is now firmly positioned to develop this operation into a core source of earnings.

In the new housing construction market, the harsh conditions of fiscal year 2007 persisted in fiscal year 2008. The Housing Company's early actions to counter the shrinking market last year through structural reform produced results, and the company posted growth in both net sales and operating income as it achieved its highest income level in 10 years.

In the housing business, the reorganized sales network and successful product differentiation emphasizing the high-performance features enabled by the unit construction method supported a 6% year on year increase in orders in the first half of fiscal year 2008. However, the unavoidable impact from the sharp economic slowdown led to a 14% drop in orders in the second half. Ultimately overall orders for the fiscal year was down 4% from the previous year. Housing business sales for the year remained at roughly the same level as the previous year. However, operating income increased thanks to an improved profit structure from cost-cutting measures to counter the rising raw material costs and to lower fixed costs, which were the positive result of the staff reorganization completed in the previous year.

The living environment business also posted improved results with net sales rising to ¥97.4 billion and operating income reaching ¥3.4 billion in fiscal year 2008. Amid harsh market conditions, these results were the outcome of the company's enhanced marketing capabilities from an expanded sales staff and

stronger competitiveness, application of the company's unique sales promotion systems, including the periodic diagnosis system, and growing sales of selected sales materials, such as external tiles.

Business Outlook for Fiscal Year 2009 (April 1, 2009, to March 31, 2010)

We expect the harsh business environment to persist in fiscal year 2009 with demand hovering at bottom levels. Our chief objective during the year will be to minimize the decline in sales volume with each divisional company employing initiatives to capitalize on business opportunities. We also plan to move swiftly to introduce measures to increase profitability, such as by lowering the break-even point for sales, with the dual objective of putting the Company in position to achieve the profit targets for fiscal year 2009 and reinforcing the profit structure for the future.

We believe it is an important year to implement necessary measures in order to regain the operating income level of fiscal year 2007 and put us back on track to where we were before the deeper-than-anticipated economic recession set in.

In fiscal year 2009, we are targeting net sales of ¥860.0 billion and operating income of ¥27.5 billion.

Each divisional company will implement measures to reinforce their profit structures catered to their specific business environments. Anticipating ongoing low demand in the AT and IT fields, the HPP Company will seek to improve its profitability by lowering its sales break-even point. The HPP Company is aiming to reduce fixed costs by ¥5.0 billion while increasing marginal profit by the same amount through new customer cultivation, new product development, and other measures. Under the current economic conditions, while demand trends are virtually impossible to predict, the HPP Company will apply the above strategic initiatives with the aim of raising profit by ¥10 billion in the two-year period to fiscal year 2010. The company also plans to actively implement a policy of "rebuilding during a recession" with the objectives of limiting the impact from the decline in sales and securing ¥10.5 billion in operating income in fiscal year 2009.

When the economic conditions begin improving, we are anticipating a dynamic recovery. To position the HPP Company for rapid growth during the recovery phase, we will take steps this year to

build on our competitive advantages. Specific measures focus on reinforcing our business supply chains, inclusive of an increase in the capacity of the interlayer film and other core businesses, and continuing the aggressive expansion of our overseas operations in the MD field, which is less susceptible to external economic conditions. The acquisition of a polyvinyl alcohol (PVA) resin business in July 2009 is specifically designed to amplify the supply chain capacity of interlayer films.

Key economic indicators on which the UIEP Company bases its business plans suggest that residential housing starts and private capital investment will decrease in fiscal year 2009. The stagnant market and the accompanying decline in demand are expected to make a decrease in earnings unavoidable. In this environment, the company will seek to secure profit by focusing on improving revenue through our own sheer effort. The UIEP Company is implementing measures to improve earnings by ¥10.0 billion by fiscal year 2010. The company is aiming to save approximately ¥5.0 billion in fiscal year 2009 through structural reform focused on reducing fixed costs. The company also aims to improve revenue by approximately ¥5.0 billion by fiscal year 2010 by filling out its presence in the domestic stock field and increasing its growth-oriented product lines to expand operations in the frontier growth fields with a focus on businesses related to social infrastructure.

Efforts are also continuing to expand the UIEP Company's presence in anticipated business growth areas. Expanding business content in the pipeline renewal business will be a main drive in fiscal year 2009. Revenue from the pipeline renewal business is growing as a result of aggressive steps taken in recent years to construct an operating network covering the main markets in Japan, Europe, and North America, along with efforts to establish the value chain and increase the number of construction business partners to fill out the network.

The Housing Company expects the housing market to begin recovering in second quarter of fiscal 2009. We anticipate a vigorous recovery once it gets under way as several elements are aligning to give it support, including demand stimulation from expanded preferential tax breaks for buyers of residential houses, increasing demand for houses with solar-power generators spurred by the reinstatement of government subsidy programs, and growing consumer interest to purchase housing supported by low interest rates and depressed land prices.

The Housing Company is targeting raising orders by 3% year on year on a unit basis in fiscal year

2009. Several initiatives will be activated to attract orders during the year. Promotional strategies will highlight the solar power generation systems, Warm Airy technology, and other high-performance feature options that differentiate its products. The product lineup will be expanded in the price-volume zone where demand is holding relatively strong. In addition, region-specific strategies will be strengthened to develop products and product specifications matching local needs.

The Housing Company will also continue streamlining operations in fiscal year 2009 with the goal of further reinforcing operational profitability. The company will continue to shift personnel to increase staff for the growing living environment business. This is expected to reduce fixed costs and enhance the efficiency of the sales companies as they become more attuned to the features of the local regions. The Housing Company will also implement extensive measures to reduce costs, including eliminating inefficient promotional spending and other spending as well as reducing materials costs and revising materials usage. The company expects these efforts to improve marginal profit and increase income.

The Housing Company's living environment business thrives on the existing customer base of residential units constructed and sold by the Company. The Housing Company will continue to advance a growth strategy for the living environment business based on the business model targeting this customer base. Leveraging the strength of project proposals created from the detailed customer database made possible by the construction of units inside the factory; its highly competitive products, including solar power generation systems and other selected sales materials, and the enhanced ability to attract orders owing to the increased staff and swift strategy implementation, the Housing Company is targeting living environment business net sales of ¥105.0 billion and operating income of ¥3.7 billion in fiscal year 2009.

Compliance

Sekisui Chemical considers compliance as a fundamental element of its operations and as equal in importance to its business growth, evolution, and CSR. Management upholds complete compliance to laws and internal regulations, international rules, and corporate ethics.

In February 2009, the Fair Trade Commission ruled that the Company was involved in price-fixing of PVC pipes and joints from March 2004 to June 2006 in violation of Section 3 of the Anti-Monopoly

Law. The commission ordered the Company to terminate such activities and pay a fine. The Company believes the commission's findings do not represent the facts verified by the Company. The Company immediately submitted an appeal to rescind the ruling, and the commission has notified the Company that appeal proceedings will commence in May 2009. The Company plans to present its case fully during the court proceedings.

While we are requesting a review of the findings, we view the ruling with the utmost gravity and have already taken steps internally to address the issue. To show our understanding of the severe nature of this incident and restore society's trust in the Company, we have ordered the directors and corporate officers that were involved in the incident to return a portion of their salaries.

Before the alleged incident occurred, we had reinforced our compliance coverage regarding the Anti-Monopoly Law following an investigation of alleged price fixing on polyethylene gas pipes and joints in November 2006. After a comprehensive investigation by a committee of external lawyers, following the committee's recommendation, we vastly reduced our participation in trade associations, strictly prohibited all unnecessary contact with competitor companies, and introduced systems to prevent the recurrence of any action that could be construed as misconduct. We also began providing compliance training and monitor regulatory conditions to raise employee awareness of compliance issues. In addition, in 2007, to further clarify the responsibilities of the Company directors, we decreased the number of directors, shortened the term of directors from two years to one year, and appointed outside directors to ensure transparency and fairness of our operations. These actions formed the basis for the revised corporate governance policies and systems initiated in 2008. The incident the Fair Trade Commission ruled on occurred before these preventive measures were in place, and the Company currently conducts no activities of a similar nature. The Company continues to apply the strictest compliance checks to all of its activities and seeks to continue earning its status as a company broadly trusted by society.

Financial Strategy and Shareholder Return Policy

Our financial strategy is based on the basic management policy of increasing corporate value and the proactive return of profit to shareholders. In line with this policy, we have established a dividend payout

ratio of 30% on a consolidated basis to be returned to shareholders in each fiscal term. In the term under review, management was compelled to consider the Company's performance results alongside its commitment to provide steady profit return to shareholders. As a result, management determined it necessary to reduce the annual dividend payment per share to ¥10 for fiscal year 2008. Our policy is to retain internal cash reserves of an amount sufficient for R&D expenses, 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.

Investment activities will be conducted with the ultimate goal of raising future corporate value and will be limited to within the operating cash flow amount while focusing on strategic investment in areas where business growth is anticipated. The medium-term GS21-SHINKA! management plan sets an investment budget of approximately ¥220.0 billion, representing approximately 80% of the anticipated ¥270.0 billion in operating cash flow the Company aims to accumulate in the five years from fiscal 2009 to 2013. Of this amount, ¥120.0 billion will be for strategic investment focused on growth frontier development, specifically for capital investment, M&A, and to construct business operation systems overseas, that we consider essential for the Company's future growth. The amount allotted to other ordinary investments will be half of the previous year amount and limited only to items deemed absolutely necessary.

In Closing

Many companies struggled in fiscal year 2008 as the economic recession deepened worldwide and included bankruptcies of major investment banks in the United States and losses at automobile manufacturers that had been key drivers in the world economy. Although the operating conditions were severe, Sekisui Chemical was able to secure operating income to a certain degree even as profits diminished. We believe these results confirm that the Company is on the right track, and we appreciate the continuing support we received from our shareholders.

A sudden improvement in business conditions appears very unlikely during fiscal year 2009. While the harsh conditions persist, we will continue to improve the effectiveness of the business structure and develop new growth frontiers to position the Company for rapid earnings growth when the recovery does begin.

I replaced former President Naotake Okubo as president of the Company in March of this year. In my previous position as chief financial officer, I was primarily in charge of activities to promote the Company's transformation into a premium company. In the current tumultuous conditions, one of my chief objectives as president will be to accelerate the management decision-making processes. In addition, I plan to apply my experience in M&A from the days when I was CFO to enhance the Company's presence on the global stage.

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

July 2009



Naofumi Negishi, President