Achieving the cutting-edge

SEKISUI

Sekisui Chemical, Full of Surprises

# Environmental & Social Report 2005

**Emphasizing "Environment", "CS & Quality" and "Human Resources" to Contribute to Society through Our Business Activities**

SEKISUI CHEMICAL CO., LTD.

# Sekisui Chemical Group products are used for a variety of applications in everyday life, in business and in industry.

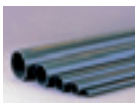
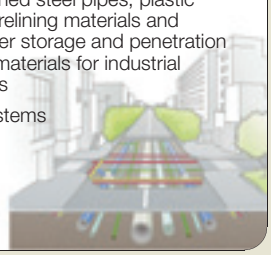
## Housing & Construction

- Steel frame modular housing (Sekisui Heim), wooden frame modular housing (Sekisui Two-U Home), land for residential use, renovations, interior/exterior decoration, nursing and care facilities for the elderly
- Building products and fixtures (rain gutters, roofing materials, decking materials), bath units, septic tanks
- Interlayer films for architectural laminated glass, soundproof flooring materials, fireproof tapes and sheets, polyethylene foams, sheeting for interior decoration, adhesives



## Infrastructure

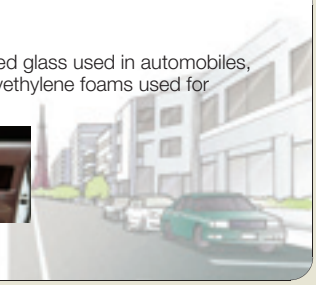
- Piping systems for water supply, sewerage, electricity, gas, communication (UPVC pipes, lined steel pipes, plastic valves, plastic sewer pits, pipe relining materials and construction methods), rainwater storage and penetration systems, anti-corrosive piping materials for industrial plants, synthetic wood products
- Underground water storage systems

## Automotive

- Interlayer films for laminated glass used in automobiles, molded vehicle parts, polyethylene foams used for automobile interior fittings





## Electronics

- Piping materials for ultra-pure water systems, plastic plates for antistatic/electromagnetic shielding
- Display materials (spacers, sealing compounds), printing materials (toner binders), protective/affixing tapes for semiconductors and circuit boards
- Semiconductor/flat-panel display* manufacturing devices

*corporate-controlled products



## Medical

- Vacuum blood collection tubes, medical tapes, diagnostic products, medical equipment


## Agriculture

- Water piping systems for agricultural use
- Films for agricultural use


## Transport & Logistics

- Packaging tapes, films, adhesives, plastic containers


## Editorial Policy

The “Environmental Report”, published by Sekisui Chemical Group until 2004, reported on activities related to environmental preservation carried out by Sekisui Chemical Group. This “Environmental & Social Report” further expands its forerunners. As the name suggests, it is not limited merely to reporting on such activities, but also addresses the broader issue of Corporate Social Responsibility (CSR).

The report was prepared with reference to the Ministry of the Environment’s “Environmental Report Guidelines (2003 Edition)” and the Global Reporting Initiative’s (GRI) “Sustainability Reporting Guidelines 2002”. The report contains chapters on the “three prominences” and the “three attitudes of sincerity”, which are the fundamental CSR concepts of Sekisui Chemical Group. Through this “Environmental & Social Report” and the accompanying “Annual Report”, which outlines the finance-related information of the company, Sekisui Chemical Group hopes to promote public disclosure of its business activities.

## Scope of this Report

**Entities Encompassed by this Report:**
The basic function of this report is to comment on the activities of Sekisui Chemical Group. However, some activities may include those individually taken by Sekisui Chemical Co., Ltd. and other group companies.

**Timeframe Encompassed by this Report:**
April 2004-March 2005 (including activities up to June 2005).


Annual Report


Environmental & Social Report (this document)

## Corporate Profile (as of March 31, 2005)

| | |
|---|---|
| Established: | March 3, 1947 |
| Capital: | ¥100.02 billion |
| Domestic Subsidiaries: | 158 companies |
| Overseas Subsidiaries: | 43 companies |
| Affiliated Companies: | 18 companies |
| Total: | 219 companies* |

(*of which 138 companies are consolidated subsidiaries)

| | |
|---|---|
| Annual Turnover: | ¥856.9 billion (consolidated) |
| Number of Employees: | 17,002 (consolidated) |

### Housing Company

Through our housing and housing environment businesses, which encompass manufacture and sale of “Sekisui Heim” and “Sekisui Two-U Home” modular housing, together with interior and exterior housing products and home renovation services, we offer environment-friendly residential houses that can be lived in safely and comfortably for at least 60 years.

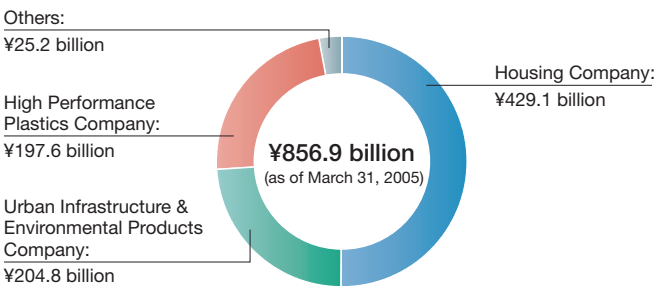
### Urban Infrastructure & Environmental Products Company

We care about the water environment on which both people and nature depend. Our aim is to help develop a society in which future generations can live safely and comfortably. We offer this through our lifeline services, which include water supply and sewerage systems, aged pipe recovery, in-home water usage-related products, and installation services.

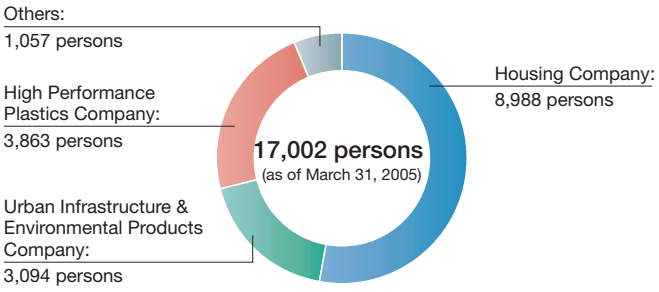
### High Performance Plastics Company

We provide intermediate materials and functional parts that utilize our core technologies in applications relating to materials, molding, processing and evaluation. These are widely used in various fields, including information technology (IT), automotive, medical and functional building materials.

## Annual Turnover (Consolidated)




## Number of Employees (Consolidated)

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**Disclaimer**

This report is not confined to commentary on the past and current activities of “Sekisui Chemical Co., Ltd. and its related entities”. It includes future projections based on planning, forecasts, management plans and directions that were valid at the time of publication. It should be appreciated that eventual outcomes and events may differ from those projected in this report, due to changes in various conditions. Furthermore, because figures contained in the included graphs and tables are rounded off, there may be some instances where actual totals do not identically match those stated in the report. We hope that readers will understand and take these factors into consideration when perusing this report.

# While emphasizing “environment”, “CS & Quality” and “human resources”, we aim to contribute to society through our business activities.

## The Essence of CSR is contribution to society through business

Even as we enter the 21st Century, society is still faced with a number of issues. As both the role of business within society and its impact on society continue to increase, companies must recognize that they need to address the same issues that confront society in general.

One of the major issues is “the environment”. Others relate to such matters as building new relationships with employees, fair and honest corporate activities, and contribution to the local communities in which globally active enterprises operate. In terms of corporate activities, society continues to demand that businesses take initiatives in various areas, and such demands are often linked with the concept of Corporate Social Responsibility (CSR), which has been commanding ever-increasing attention.

The corporate philosophy of Sekisui Chemical Group is to create “social value by responding to stakeholders’ expectations”. Because this philosophy represents the essence of CSR (which in turn signifies the wide range of corporate responsibilities), we believe our mission is to translate it into positive action – action that helps us to grow as a company while contributing as a valuable member of society. This mentality underpins CSR at Sekisui Chemical Group.

In considering tangible ways to implement CSR, we have determined that our fundamental approach to making social contributions should be built upon our business activities. After all, a company cannot exist without some form of business activity. The products and services we provide are designed to please customers and contribute to the resolution of social issues. We intend to position our CSR activities upon such basic tenets.

## To be prominent in “environment”, “CS & Quality” and “human resources”

In order to develop a business that is fully capable of contributing to society, we need to identify the best approach.

The best approach is to offer products and services that possess unique strengths vis-a-vis those of our competitors. By continually developing such products and services to be “prominent”, we can assure their acceptance in the wider world. If we regard such “prominence” as representative of the essence of building a business, then we can more easily begin to appreciate why our chosen “three prominences” are “environment”, “CS & Quality” and “human resources”.

With regard to “environment”, it would not be an exaggeration to describe the 21st Century as the “Environmental Century”. Indeed, both socially and from a business perspective, environmental issues are currently very high on the list of priorities. In the case of corporate activities,

### Corporate Philosophy

**Creation of social value by responding to stakeholders’ expectation.**

The Sekisui Chemical Group defines a “good company” as one that has a favorable image and continuing growth. We intend to maximize business growth and corporate value with customer satisfaction to respond to the expectations of our shareholders. In addition, through our business, products and contribution to society, we aim to contribute to the community and the global environment. We actively support the self-actualization of the employees who are the driving force of our corporate activities.
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.

**Five stakeholders of the Sekisui Chemical Group**


### Corporate Activity Guidelines

1. **Our business activities contribute to the positive development of our global society.**
   1. We supply products and services that are highly appreciated by society, manufactured and provided with full consideration for the safety of the handler, consumer and the environment.
   2. We are a forerunner in developing new technologies, new products and new markets.
   3. We develop our business continuously, by providing safe and comfortable working environments and establishing sound corporate qualities.
2. **We activate our operations by maximizing each employee’s personal abilities.**
   1. We individually aim at being self-supporting persons by our perpetual efforts to expand our attributes and abilities.
   2. We seek “speed” and “quality” in fulfilling our roles and duties.
   3. We achieve maximum results by confidently facing every challenge and contributing our best in teamwork, without being hampered by precedents.
3. **We maintain an enterprise in which society has confidence, and which is highly regarded by our customers, dealers, stockholders and the general public.**
   1. We obtain our customer confidence by supplying top quality products, meeting all delivery times and providing excellent services.
   2. We communicate meaningfully with our customers, dealers, stockholders and local communities.
   3. We disclose our corporate information justly and timely.
4. **We compete justly and fairly by observing the laws and the spirit therein.**
   1. We conduct clear and fair trading by observing all relevant laws and regulations as well as establishing our internal rules.
   2. We conduct all our activities in a manner which will have only beneficial results to the society at large, fully in accordance with our position as a responsible corporate member of the society.
   3. We maintain sound and normal relations with political and all other administrative bodies.
5. **We, as a good corporate citizen, are active in tackling global environmental protection and contributing to the well-being of society.**
   1. We are dedicated to resource saving, energy saving and preservation of the environment, fixing our views on the international environmental standards.
   2. We support social contribution activities widely, such as nature preservation activities, culture, welfare and so forth.
   3. We respect the culture and customs of local communities for co-existence and co-prosperity both inside and outside of Japan.

environmental themes are not limited to the need for businesses to consider, from all angles, the environmental impact of their products. In fact, incorporating an environmental “prominence” within products leads to the products themselves becoming vehicles for social contribution. Due to a desire to change our practices so that environmental considerations become our principle drivers, we have coined the term, “environmentally creative organization” as a point of corporate differentiation. Furthermore, with the steps taken towards the “CSR” framework, this “environmentally creative organization” principle remains an important element for us.

Businesses are only truly viable when their customers buy goods and services continuously, not just once.True business only comes into existence when such purchases become ongoing events. One of the major preconditions for this to occur is “quality”. We use a rather unusual term, “CS & Quality”, to describe this factor because it incorporates the sense of desiring to be preoccupied with “quality” issues, which should be fundamental to a manufacturing business. In our pursuit of customer satisfaction, the basis of all our efforts is a strong desire to make products whose quality is second-to-none.

Our most difficult task is to build a prominent business in terms of environment and CS & Quality, and the key factor for this, without doubt, is human resources. Conversely, through the growth of each individual employee, the business as a whole can grow. This, in turn, results in employees feeling a sense of self-realization. We could regard this as an example of the company contributing to society by looking after the interests of its “people”.

## Laying the foundations of CSR management

While following the basic principle of contributing to society through our business activities, we hope to establish CSR management fundamentals as a solid basis of our business. These center on the three elements of compliance, risk management and information disclosure and communication. Compliance in particular is a basic precondition for any business to exist within modern society. Although it is very difficult to monitor a wide range of corporate activities and the day-to-day actions of every employee, we would like to see the culture of compliance become an integral part of the cultural makeup of Sekisui Chemical Group.

Recently we expanded the scope of our traditional environmental report, and we now publish it as the “Environmental & Social Report”. This document effectively becomes the first CSR report for Sekisui Chemical Group. It represents our intention to review and reinforce the activities that have been undertaken to date with respect to the “CSR” framework.

In an environment that has no clear standards against which to benchmark CSR, we have had to think long and hard about what should constitute our core CSR commitments. But, even as we collated material for this report, we realized that there are elements still to be addressed. Furthermore, we cannot say for sure that our approaches were not self-righteous. Communication with our stakeholders is also an important element of CSR activities. We look forward to your honest opinions and comments regarding our efforts.

July 2005

Naotake Okubo
President

# By observing the three attitudes of “sincerity”, and realizing the three “prominences”, we can fulfill multiple “responsibilities”

## “Realization of Corporate Philosophy” is the CSR of Sekisui Chemical Group

The corporate philosophy of Sekisui Chemical Group is to create “social value by responding to stakeholders’ expectations”. For CSR, what we hope to realize is purely the essence of the corporate philosophy.

To meet the expectations of stakeholders, we must continue to grow as a business. Such growth, in turn, can be linked to the creation of social value. From a social awareness perspective, this offers a raison d’etre for being a premium business.

## Meeting the expectations of stakeholders

What expectations do stakeholders have of a business? These could possibly be classified as follows: (1) “it must offer superior products and services”; (2) “it must have honesty to be accepted as a member of society. We will be prominent in terms of the environment, CS & Quality and human resources to offer superior products and serviceses. We will also continue to focus on compliance, risk management, information disclosure and communication to be accepted as a member of society.These elements represent Sekisui Chemical Group CSR practices.

## Creating social value through business — the three “prominences”

The roots of any corporate activity lie in the business itself. We first wish to see our business and ourselves as contributing to society through the products and services we produce. For this reason, we pursue our three “prominences”, in “the environment”, “CS & Quality” and “human resources.”

**“Prominence” in the environment**

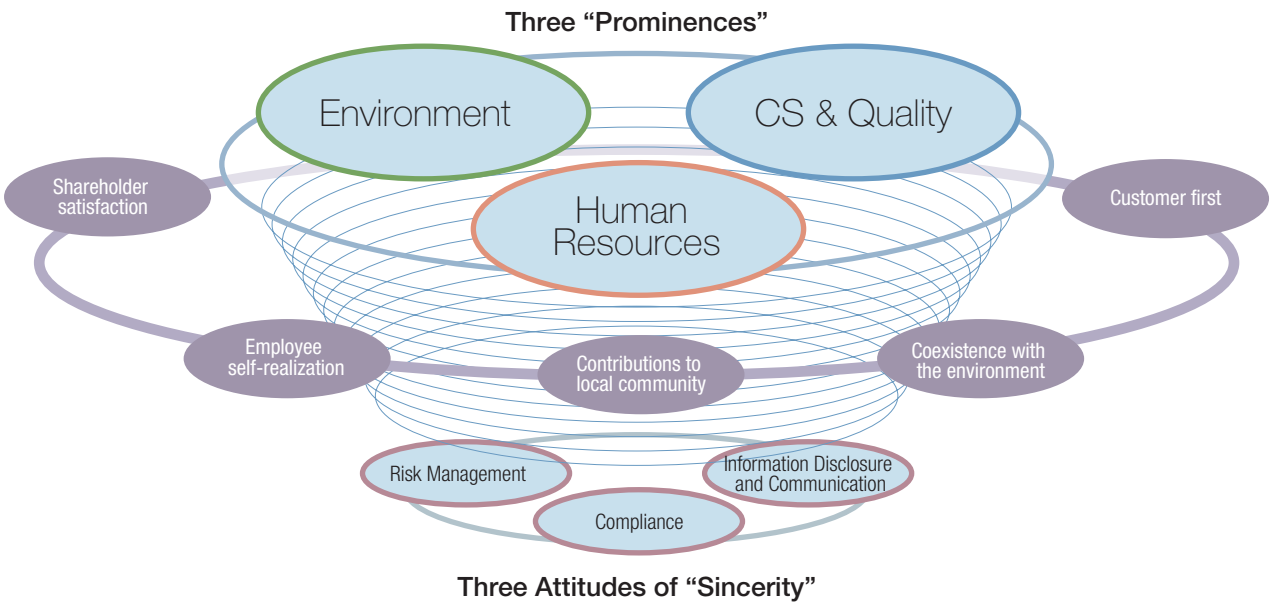
While striking a balance between ecology and economy, we aim to keep expanding the environmental foundations of our company in pursuit of becoming an “environmentally creative organization”. To achieve this, we must first bring to fruition products that are “capable of making a contribution to the environment”. Among our products, our very well received “zero-utility-cost” houses (Zero Heim) have been successful in substantially reducing the amount of energy consumed in daily use. Looking ahead, we hope to greatly expand our range of products that can make a comparable contribution to the environment. We will also continue to focus on a number of environmental areas in which we conduct social contribution activities. These include activities related to consideration and protection of the environment.

This year, we established a new medium-term environmental vision under the title, “Environmental Top Runner Plan”. Targeted at 2010, this plan sets up a number of challenges that we must meet as we continue our efforts toward becoming an “environmentally creative organization”.

**“Prominence” in CS & Quality**

For our company, business only really becomes a justifiable activity when our customers give us positive evaluations on our products and services.

In other words, products and services that fail to receive positive evaluations are of little social value. As a manufacturer, the essence of our business is being preoccupied with “Quality of Products”. This preoccupation with quality is the vehicle whereby we pursue customer satisfaction. Using feedback and evaluations from customers



is very valuable in further improving “Quality of Products”. This is the kind of favorable cycle that we are looking to develop.

Last year, we established the “CS & Quality Management Department” and developed the “CS & Quality Mid-Term Management Plan”. The cornerstone of customer satisfaction has been determined as “Quality of Products”.

We plan to aggressively continue to apply our efforts to “Quality of Products” that meets customer expectations.

**“Prominence” in human resources**

In order to be prominent in “the environment” and “CS & Quality”, it is obviously important to also place emphasis on our “human resources” because they underpin our business activities. We look for personnel who are able to demonstrate their own distinctive attributes while sharpening their strengths to a fine edge, and who challenge themselves professionally by setting higher goals for their assigned tasks. We believe that the activities of our personnel represent a source of growth for our businesses. Seen in a broader light, fostering “active people” can result in greater social contributions. We aim to create a favorable cycle whereby “the business grows” as “our employees grow”. We plan to further apply ourselves to emphasizing employee growth by supporting individuals in their career development and providing them with an environment in which they can best use their skills.

## CSR foundations — three attitudes of “sincerity”

While following the basic principle of contributing to society through our business activities, we hope that through both our awareness of CSR in various business situations and our honest approach to doing business, we can become a company that is trusted by society.

The keys to this goal are the three elements of compliance, risk management and information disclosure and communication.

**Compliance**

Needless to say, compliance is a major precondition for a wide variety of corporate activities; without compliance, the company itself ceases to exist. At the same time, however, we are well aware of the difficulties involved in enforcing compliance throughout the company. Until now, we have worked to develop systems and structures for promoting compliance, including providing education and training. We will continue our efforts to such a degree that awareness of compliance is constant at all levels of the company, from senior management to every workforce in the company.

**Risk management**

Risk exists in a number of forms within the sphere of corporate activities. As with compliance, it is considered that one mistake in risk management can threaten the very existence of a company. Therefore, while developing systems and structures that promote both awareness and control of risk, we will work as a company to improve the sensitivity of every employee to risk issues.

**Information disclosure and communication**

Active information disclosure and increased management transparency represent first steps in appealing to stakeholders as a reliable company. To date, we have conducted communication activities with a wide range of stakeholders. From now on, instead of merely disclosing information in a unidirectional manner, we want to offer greater reciprocal communication opportunities to stakeholders, so that management can act on their feedback.

## Future challenges

Sekisui Chemical Group is working on CSR with the three “prominence” and the three attitudes of “sincerity" as keywords. However, in the course of incorporating these ideas into our activities, we have noted a number of challenges.

One issue is how CSR should be developed within the corporate group in the future. Including our overseas entities, there are approximately 220 companies within Sekisui Chemical Group. What is the best way to roll out this concept?

The second issue relates to penetration into the supply chain. This concerns not just our customers, but also our suppliers of materials and parts, companies we use as subcontractors, and a wide variety of business connections. How will we enlist understanding and cooperation from these entities regarding our adoption of CSR principles?

For both of these issues, there are differences in levels of initiatives taken. Although it is a major and time-consuming task, the first step is to recognize that the problems exist, and then to work to a point where implementation can be effected.

Tetsuji Izu
Managing Director in Charge of CSR

# We promote our CSR management in which the corporate headquarters and division companies work as one.

## Group Management Structure

### Group management built upon division company system

In order to raise the overall corporate value of the whole organization, Sekisui Chemical Group has established a management structure that is built upon a division company system.

Each division company exercises jurisdiction over related companies that are linked to its area of business. While promoting the individuality of each of these related companies, management of division companies is conducted using principles of self-containment and self-responsibility.

Meanwhile, corporate headquarters is involved in the development of strategic plans and the monitoring of division companies. Individually, the division company and corporate headquarters strive to fulfill their respective primary roles; combining their strengths produces a group with "prominence".

### Governance structure

In refining our corporate governance systems, great importance is being placed on strengthening the board of directors and the auditor system.

In order for the board of directors to make responsibly and timely decisions, directors serve concurrently as business executives. There are 21 members on the board. For major management decisions, selected directors sit as members of one of four committees, for detailed discussion of particular topics. The results of such discussions are reported to the board.

There are three internal auditors and one external auditor. Within the Audit Committee, decisions taken by the board of directors are not the only issues considered. The Audit Committee demonstrates wide-ranging appreciation of the company's business affairs and addresses governance functions for the whole group. Furthermore, under the guidance of the President, the Corporate Audit Department carries out onsite inspections of facilities, including those overseas, as part of internal auditing systems.

## CSR Promotion Structure

### Establishment of CSR Committee

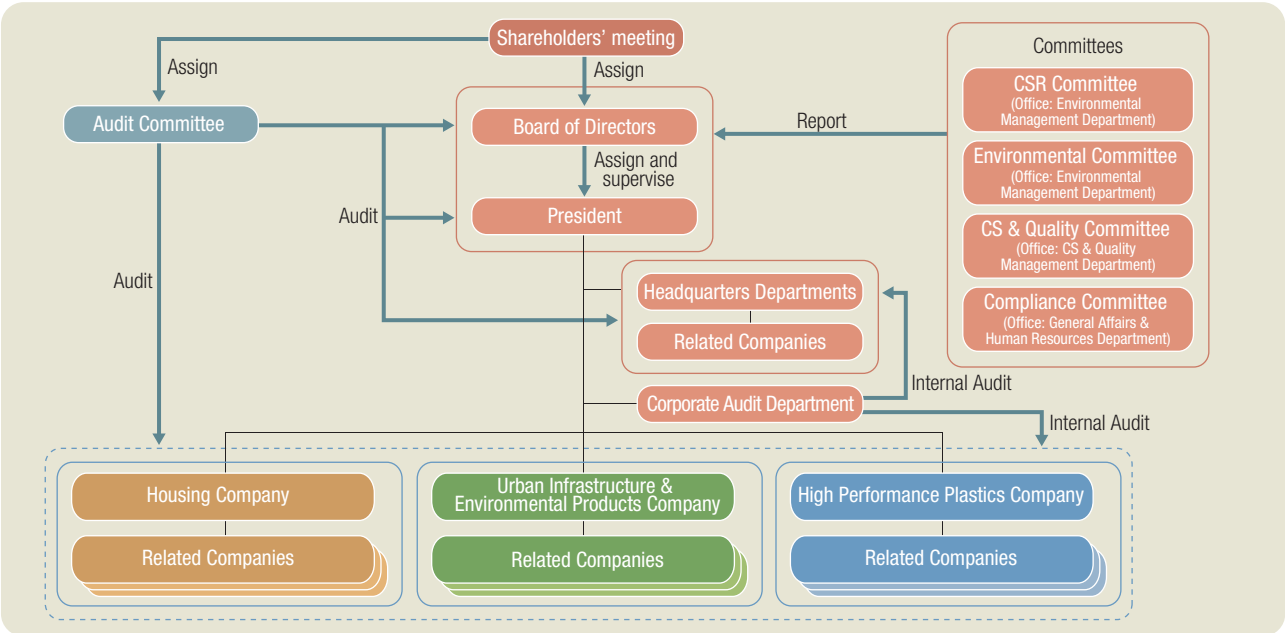
In order to strengthen CSR management, the "CSR Committee" was established in April 2005.

The CSR Committee is chaired by the President . Membership comprises division company presidents and directors responsible for respective headquarters departments. This committee is positioned as the body that makes important decisions. It also develops CSR guidelines, decides plans to be executed, and verifies the status of CSR implementation.

### Four committees

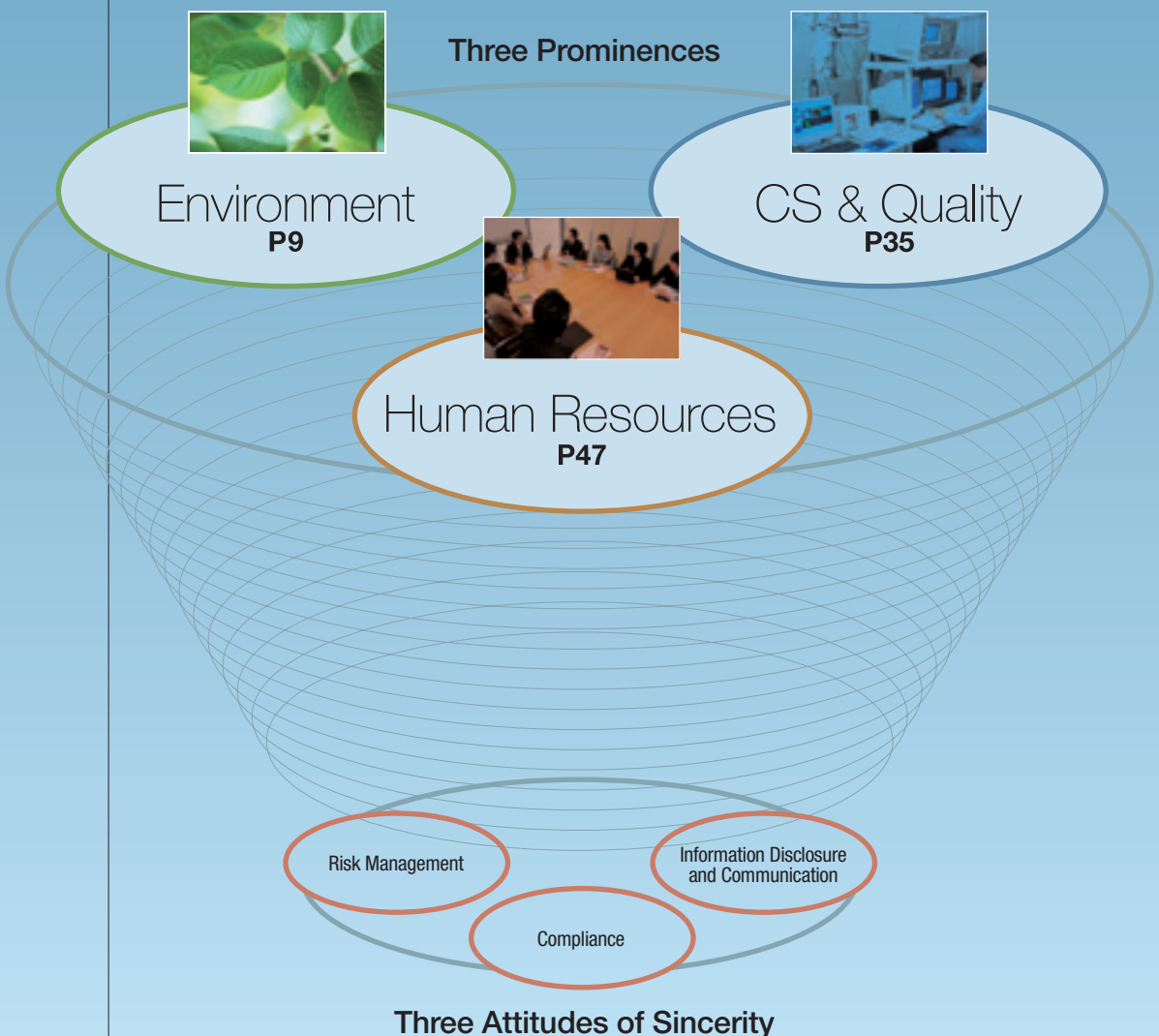
Besides the CSR Committee, there are three other established committees: the Environmental Committee, the CS & Quality Committee and the Compliance Committee. As a rule, each committee meets at least twice a year.

The CSR Committee works within the broad framework of CSR, while the other committees have more specific agendas. All committees exchange information and collaborate closely, in order to optimize the activities of the whole group.



# The Practice of CSR Management

Introducing the Three Prominences that form the core of Sekisui Chemical Group's CSR Efforts



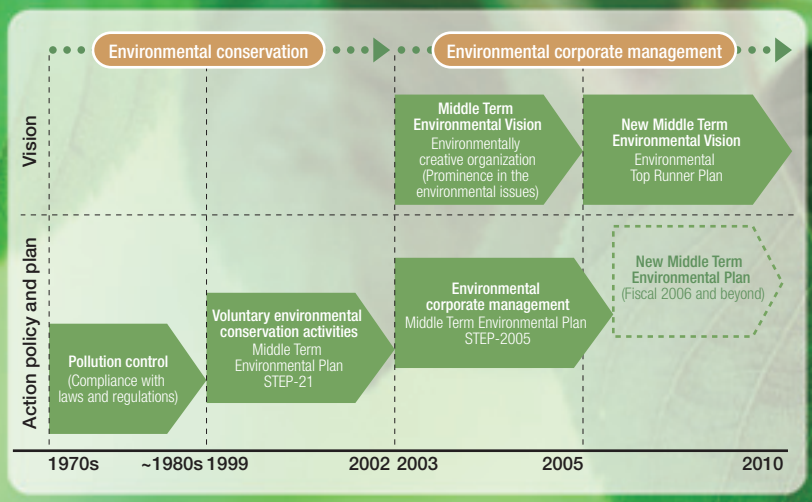
# We aim to become an "environmentally creative organization" pursuing both economic and ecological goals,

**having shifted our emphasis from pollution control to environmental protection, then to environmental corporate management.**

Industrial pollution problems gradually started to become evident in Japan in the mid-1950s, with serious countermeasures being introduced from the 1960s through the early 1970s. In 1972, Sekisui Chemical Group established an "Environmental Control Department" and launched our effort to address environmental problems.

From the 1970s through the '80s, our environmental activities focused mainly on minimizing discharges of chemical substances used or generated in our production plants, as well as other waste outflows, in compliance with statutory standards and government regulations. However, since the late 1990s we have voluntarily pursued development and achievement of environmental conservation goals that go beyond mere compliance with standards and regulations.

Then, in fiscal 2003, we decided to raise our sights even higher, from "environmental conservation" to "environmental corporate management", under which we seek to realize growth while addressing both environmental considerations and economic efficiency. We signaled this new company direction, both internally and publicly, by announcing in April 2003 our "Middle Term Environmental Vision". Since then, Sekisui Chemical Group has been developing activities directed toward becoming an "environmentally creative organization" with commanding prominence in the environmental issues.




## Corporate Policy on the Environment and Safety

### Philosophy

We, Sekisui Chemical Group, recognize that there can be no sustainable development without our total commitment to issues of environmental protection and safety. We are dedicated to the creation of a better environment by continually promoting environment and safety activities, enabling the structuring of a recycling-based society and global environmental protection through our businesses, products and contribution to society.

### Basic Policies

It is our conviction that focus on the environment holds the key to our continued growth into the future, and therefore we are aiming to become an "environmentally creative organization", with a corporate culture based on our environmental concerns, in order to meet the expectations society has placed on us.

1. We have utmost concern for the environment and safety of all our products and business activities from the stages of research and development through procurement, production, sales, use, and to disposal of products, and comply precisely with all requirements on the issue.
2. We promote effective utilization, reuse, and recycling of limited resources to reduce the environmental loads.
3. We enhance positively the environmental performance and safety in handling chemical substances and minimize chemical risks.
4. We not only comply with international and national laws and regulations, but also proactively set our own objectives and targets to promote continual improvements and also to enhance environmental concern through the education of all our staff.
5. We endeavor to secure accountability in cooperation and collaboration with local communities and society as a whole and with governmental and industrial organizations through close communication with them.

Naotake Okubo
President
April 1, 2003

## Activity Guidelines

1. **Environmental Corporate Management**
   (a) We enhance and extend our environmental corporate management systems on a global scale.
   (b) We implement our environmental corporate management and assess the effects continually.
   (c) We create businesses for improvement of the environment which are supported by the market.
2. **Environmental Consideration for Our Products**
   (a) We continue to develop technologies, always having concern for safety and environmental issues, and to supply products which meet environmental demands throughout their entire life cycles.
   (b) We are dedicated to recycling and therefore make efforts to collect as many used products as possible.
3. **Reduction of Environmental Loads and Risks in Production**
   (a) We promote reduction, reuse, and recycling of wastes at our plants and house construction sites.
   (b) We promote energy saving and reduction of greenhouse gas emission.
   (c) We exercise appropriate management of chemical substances, and prevent chemical risks.
4. **Environmental Consideration in Distribution and Sales**
   We reduce environmental loads.
5. **Environmental Conservation in Offices**
   We enhance effective utilization of resources and promote energy saving.
6. **Contribution to the Environment and Enhanced Communications with the Public**
   (a) We participate in global environmental conservation activities in cooperation and collaboration with local communities and NPOs/NGOs.
   (b) We ensure that information we distribute is fully understandable, and we constantly pursue excellent communications with the public.
7. **Education and Enlightenment**
   We enhance the environmental awareness of all staff through our pertinent educational activities.

April 1, 2003

# Environmentally Creative Organization

**(Vision of Sekisui Chemical Group)**

A widely trusted corporation operating with public approval

▲

By ensuring appropriate consideration for environment-friendliness
throughout our operations, we will address both ecology
(consideration for the global environment and coexistence with local community environments)
and economy (economic benefits for consumers and our own profitability).

▲

Corporate culture and climate that sustain continuous growth
and renovation based on consideration for the environment

Sekisui Chemical Group, by simultaneously pursuing ecology and economy, aims to become an "environmentally creative organization" with a commanding prominence in the environmental sphere that can sustain continuous growth based on consideration for the environment. We believe that the activities inherent in becoming an "environmentally creative organization" constitute the environmental corporate management of Sekisui Chemical Group.

## Development of the Environmental Top Runner Plan, a new Middle Term Environmental Vision aimed at becoming an "environmentally creative organization"

Sekisui Chemical Group in April 2005 developed its New Middle Term Environmental Vision, in an effort to further distinguish ourselves in the environmental sphere on the basis of the achievements of our activities to date.

Guided by this vision, we aim to earn public trust and realize sustained growth of our company through our efforts to reduce not only environmental burdens caused by our business activities, but also environmental burdens generated by our customers' use of products derived from our business activities, thereby ultimately reducing environmental impacts created by society in general.

To materialize these visions, we have added further challenging medium- and long-term goals, targeting fiscal 2010, to the four objectives already in place.

**New Middle Term Environmental Vision**
**Environmental Top Runner Plan**

While our products and business operations contribute substantially to reduction of the environmental burdens created by society, our business activities are also rigorously designed to be environment-friendly, thereby developing a positive interactive relationship with society.

### Goals for Fiscal 2010

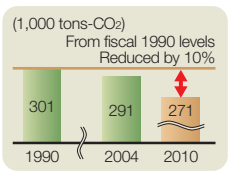
#### 1 Increasing sales mix of environmentally contributing products to 50%

All our products shall be environment-friendly by fiscal 2010, and 50% of them shall further qualify as environmentally contributing products*.

*Environmentally contributing products
This term refers to products which enable our customers to considerably reduce the environmental burdens associated with their use; or to products that are revolutionary in their advanced recyclability or resource-saving effects, compared to other Sekisui or competitive products with equivalent functional features. This definition shall be finalized within fiscal 2005.

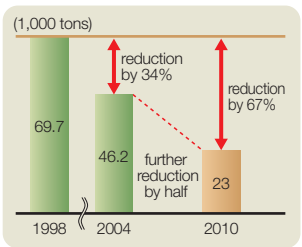
#### 2 Reducing $CO_2$ emissions by 10% (compared with fiscal 1990 levels)

Sekisui Chemical Group had set a 7% reduction target, as against the 6% reduction commitment made by the Japanese government under the Kyoto Protocol. In fact, we are on course to attain an even more challenging 10% reduction target by fiscal 2010.




#### 3 Reducing waste generation to 1/3 of fiscal 1998 levels

In addition to our waste-recycling efforts to date, we are determinedly reducing generation of wastes, with the aim of cutting the quantity of wastes we generate to 1/3 of 1998 levels, by 2010.



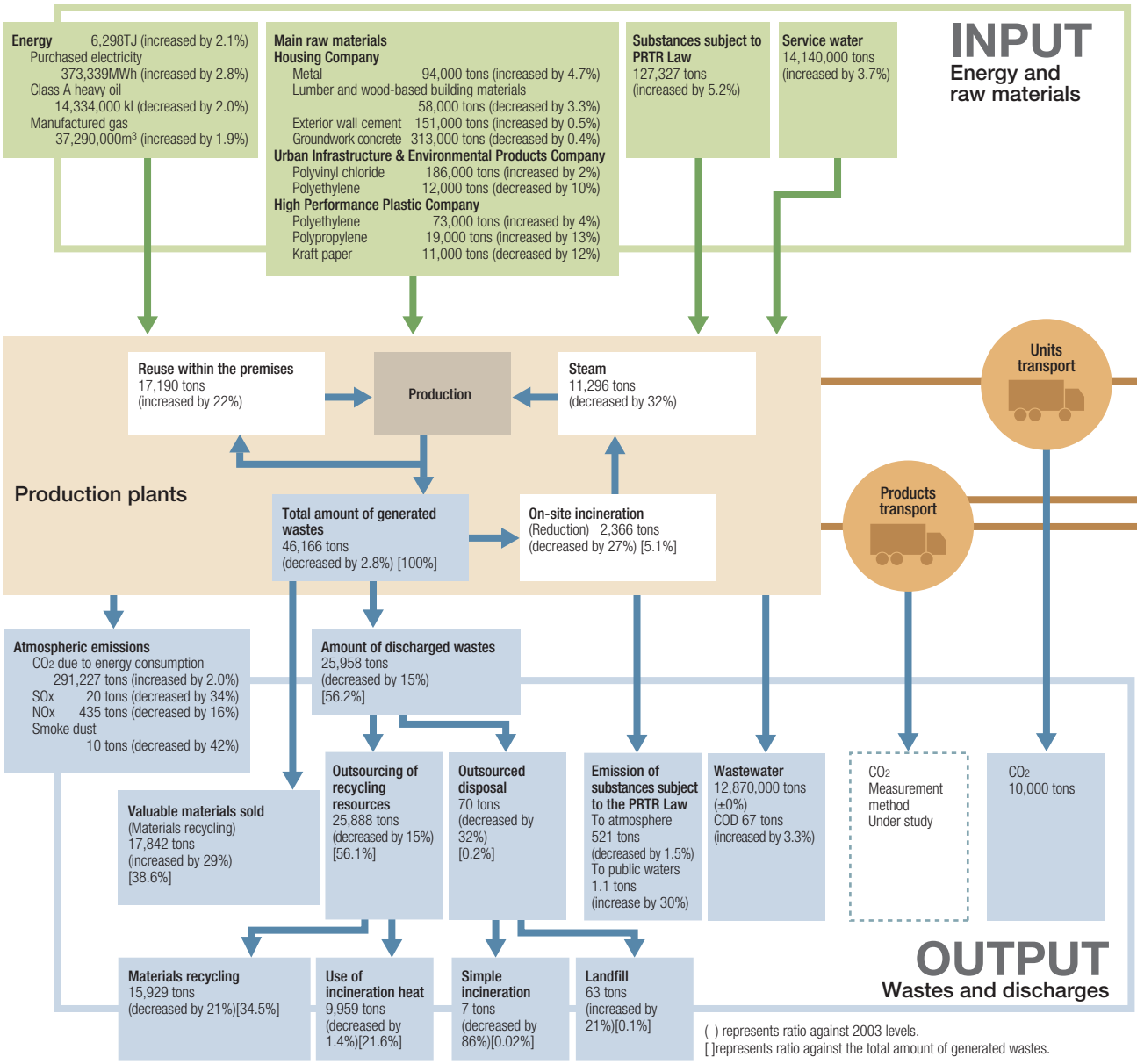

#### 4 Doubling environmental efficiency through the Sekisui Eco Value Index, our indicator for evaluating environmental corporate management (compared with fiscal 2004 levels)

We have introduced the "Sekisui Eco Value Index" as a gauge of overall progress in environmental corporate management activities. This indicates our environmental efficiency; the target for fiscal 2010 is double 2004 levels (P17).

$$\text{Environmental corporate management indicator} = \frac{\text{Environmental value added}}{\text{Overall environmental burden}}$$

## Sekisui Chemical Group's Engagement with the Environment

# We accurately monitor the environmental impact of our products and business activities, while focusing on three areas of activity that will help us become an environmentally creative organization.




### Enterprise group with diversified businesses and products

Sekisui Chemical Group operates a number of businesses with different characteristics, providing products that range from those sold directly to customers for their use, such as housing, to those applied and integrated into the products of other companies both within and outside the Group, such as building/construction materials and intermediate industrial materials.

The environmental impacts of these businesses and products vary in nature and extent, as do the processes for production and building, and end uses.

We are addressing each issue by attempting to accurately understand the environmental impacts of respective business activities and products, and those of the whole Group, based on knowledge of the business characteristics of our own operations.

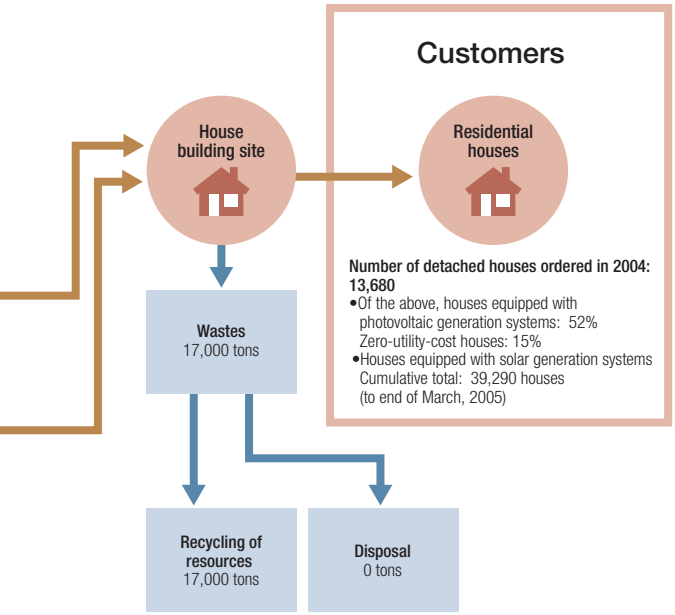
### Environmental activities in consideration of the characteristics of each product and business

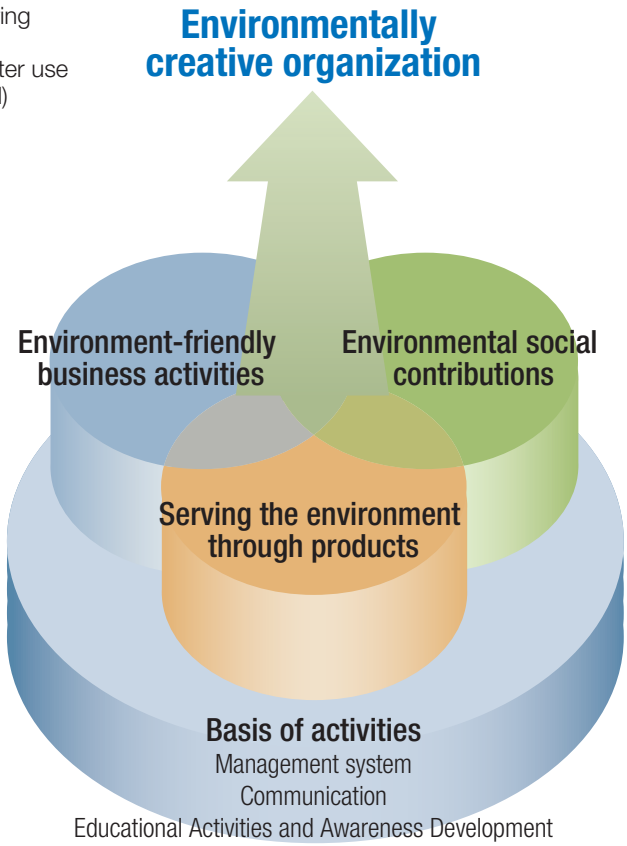
Sekisui Chemical Group rigorously pursues environmental conservation activities appropriate to respective business characteristics, whereby each product is designed to contribute to reduction of the environmental burden on society.

Houses, our flagship product, are built mainly of such raw materials as metal, timber and cement. Manufacturing and building processes consume substantial amounts of natural resources, while end use of the homes consumes energy and renewable resources in the form of electricity and water.

## Environmental impacts of products and businesses

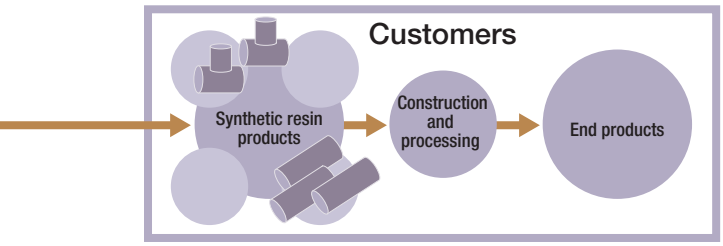
- Requiring large input of resources in the process of manufacturing and building
- Discharging substantial amount of wastes when disposed of after use
- Consuming substantial amount of energy when used (inhabited)




## Environmental impacts of products and businesses

- Substantial energy consumption when manufactured
- Huge environmental burden when disposed of




On the other hand, synthetic resin building/construction materials and intermediate industrial materials, are made from such raw materials as polyvinyl chloride, polyethylene and polypropylene. Manufacture of these products involves significant consumption of energy and water, and generates discharges of wastes and greenhouse gases.

## Toward becoming an environmentally creative organization

As seen above, Sekisui Chemical Group aims to become an "environmentally creative organization" that cares about the global environment and coexists with the local community environment, while providing economic efficiency to our customers and society, To achieve this we are rapidly developing our environmental activity base, including introduction of an environmental management system and an appropriate corporate culture, while concentrating on the following three activities:

1. "Serving the environment through products", in which we address the development of energy-saving products and products that use recycled materials; together with greater use of "greener" materials;
2. "Environment-friendly business activities", which addresses prevention of global warming, recycling of resources, 3R (Reduce, Reuse and Recycle), and reduction of environmental risks associated with chemical substances;
3. "Environmental social contributions" which involve nature protection activities and local community environmental projects.

# Middle Term Environmental Plan "STEP-2005" and Its Progress

## We have achieved our original targets with 28 of the 32 items under the Plan. For the items achieved, we are now working on upgraded targets.

## Environmental Corporate Management

**Development, expansion and maintenance of the Environmental Management System (EMS)··· ○** ▶P15

| | |
|---|---|
| FY2005 target | Redevelopment at each level: of Headquarters, company, branch, functional company |
| FY2004 target | Establishment and promotion of environmental themes at each level: Headquarters, branch, functional company |
| FY2004 actual | Established and promoted environmental themes in each department |

**Development of performance evaluation system··· ○** ▶P16

| | |
|---|---|
| FY2005 target | Introduction and operation of the business site award system |
| FY2004 target | Introduction and operation of the business site award system |
| FY2004 actual | Evaluation carried out based on the rules, 16 departments received awards |

**Extension to overseas associated entities··· ○** ▶P15

| | |
|---|---|
| FY2005 target | Determination of actual environmental status and promotion of the action plan (13 production plants) |
| FY2004 target | Collection of environmental data |
| FY2004 actual | Implemented collection of environmental data and European fact-finding tour |

**Extension of the scope of business sites adopting environmental accounting··· ○** ▶P18

| | |
|---|---|
| FY2005 target | Extension to 39 business sites of housing sales companies |
| FY2004 target | Extension to a total 25 business sites of housing sales companies, effects indicators discussed |
| FY2004 actual | Extended to a total 25 business sites of housing sales companies, environmental impacts evaluation conducted by JEPIX |

## Mitigation of Environmental Burdens Generated by Production Activities and Associated Risks

### 1. Promotion of 3R (Reduce, Reuse, Recycle) at production plants and construction sites

**Reduction in wastes generated at production plants··· ◎** ▶P30

| | |
|---|---|
| FY2005 target | Reduction in basic production output units by 15% or more from fiscal 1998 levels |
| FY2004 target | Reduction by 13% or more |
| FY2004 actual | Reduced by 21.1% |

**Zero emissions at construction sites··· ◎** ▶P29

| | |
|---|---|
| FY2005 target | All Fami S (refurbishing business) business sites to achieve zero emissions ↗ |
| FY2004 target | Activities for zero emissions to be promoted |
| FY2004 actual | All Fami S business sites achieved zero emissions |

**Increase in number of zero emissions business sites··· ◎** ▶P29

| | |
|---|---|
| FY2005 target | Zero emissions to be achieved at 5 more business sites |
| FY2004 target | Activities for zero emissions to be promoted at 5 business sites according to plan |
| FY2004 actual | 3 R&D institutes and 1 overseas business site achieved zero emissions |

**Promotion of recycling of demolition wastes··· ○** ▶P29

| | |
|---|---|
| FY2005 target | 90% or higher recycling ratio for specific construction materials |
| FY2004 target | 90% or higher level to be maintained |
| FY2004 actual | 98% |

### 2. Promotion of energy-saving and reduction of greenhouse gas emissions

**Reduction of aggregate emissions of carbon dioxide ($CO_2$) at production plants··· ◎** ▶P27

| | |
|---|---|
| FY2005 target | Reduction in emissions to 306,000 tons or less |
| FY2004 target | Reduction to 296,000 tons or less |
| FY2004 actual | 291,000 tons |

**Energy saving at production plants··· ×** ▶P27

| | |
|---|---|
| FY2005 target | Reduction in basic production output units by 5% or more, from fiscal 2000 levels |
| FY2004 target | Reduction by 4% or more |
| FY2004 actual | Reduction by 3% |

**Energy-saving at R&D institutes··· ◎** ▶P27

| | |
|---|---|
| FY2005 target | Reduction in electricity usage at institutes/laboratory offices by 10% or more, from fiscal 2000 levels ↗ |
| FY2004 target | Reduction by 8% or more |
| FY2004 actual | Reduction by 13% |

### 3. Adequate control of chemical substances and reduction of risks

**Reduction in amounts of PRTR Law-applicable substances to be emitted or transferred··· ◎** ▶P33

| | |
|---|---|
| FY2005 target | Reduction to 480 tons or less of emisson/transfer ↗ |
| FY2004 target | 545 tons or less |
| FY2004 actual | 522 tons |

**Total abolition of hydro chlorofluorocarbons (HCFCs)··· ◎** ▶P33

| | |
|---|---|
| FY2005 target | Achievement of total abolition of HCFCs |
| FY2004 target | Promotion of changeover according to plan |
| FY2004 actual | Completed changeover to alternative substances |

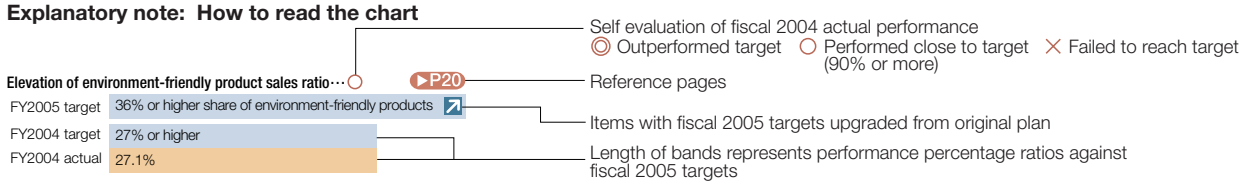
**Measures to control soil contamination by chemical substances··· ○** ▶P34

| | |
|---|---|
| FY2005 target | Completion of survey at applicable business sites |
| FY2004 target | Conducting survey at one business site |
| FY2004 actual | Conducted survey at one business site |

**Total abolition of chlorinated solvent use in fabrication··· ◎** ▶P33

| | |
|---|---|
| FY2005 target | Total abolition of use in fabrication |
| FY2004 target | Review of alternative adhesive agents |
| FY2004 actual | Completed changeover and substitution by alternative adhesive agents |

**Explanatory note: How to read the chart**




## Environment-friendly Products

**Elevation of environment-friendly product sales ratio… ○** ▶P20

| | |
|---|---|
| FY2005 target | 36% or higher share of environment-friendly products |
| FY2004 target | 27% or higher |
| FY2004 actual | 27.1% |

**Development of environmental/recycling technologies… ○** ▶P20

| | |
|---|---|
| FY2005 target | Completion of 15 themes |
| FY2004 target | Completion of 10 themes |
| FY2004 actual | Completed 10 themes |

**Launch of new environment-friendly products… ◎** ▶P20

| | |
|---|---|
| FY2005 target | More than 150 products in cumulative total (2003-2005) |
| FY2004 target | More than 54 products in cumulative total |
| FY2004 actual | 108 products in cumulative total |

**Introduction of LCA… ○** ▶P19

| | |
|---|---|
| FY2005 target | Implementation of LCA for new environment-friendly products |
| FY2004 target | Development of an infrastructure to introduce LCA (Development of an internal database) |
| FY2004 actual | Developed an internal database |

**Countermeasures against Sick House Syndrome… ○** ▶P26

| | |
|---|---|
| FY2005 target | Achieving values set by Ministry of Health, Labour and Welfare guidelines at the time of delivery of houses to users |
| FY2004 target | Maintaining achievement of values set by the guidelines with 3 specific substances |
| FY2004 actual | Maintained achievement of values set by the guidelines with 3 specific substances |

**Collection and recycling of used products (PVC pipes, LP pipes)… ○** ▶P24

| | |
|---|---|
| FY2005 target | Contribution to improvement in recycling ratio, in cooperation with industrial associations |
| FY2004 target | Improvement in recycling ratio |
| FY2004 actual | 56% recycling ratio for PVC pipes |

**Deployment of Green Procurement… ○** ▶P20

| | |
|---|---|
| FY2005 target | 80% or higher Green Procurement ratio |
| FY2004 target | Maintaining 80% or higher level |
| FY2004 actual | 86.3% |

**Collection and recycling of used products (housing units)… ○** ▶P24

| | |
|---|---|
| FY2005 target | Expansion of reuse system for collective housing and house extension purposes |
| FY2004 target | Promotion of detached housing and launch of collective housing |
| FY2004 actual | Reused 539 units, implemented trial building of collective houses |

## Environment-friendly Distribution and Sales

**Deployment of greener distribution… ○** ▶P27

| | |
|---|---|
| FY2005 target | Development of system to monitor $CO_2$ emissions volume |
| FY2004 target | Expansion of scope of products considered for application under the program |
| FY2004 actual | Expanded scope of applicable products and developed method to measure volume of emissions |

**Deployment of greener company cars… ◎** ▶P27

| | |
|---|---|
| FY2005 target | 70% or more of company cars to be compliant with Green Taxation Plan |
| FY2004 target | 60% or more |
| FY2004 actual | 69% |

## Environmental Conservation in Offices

**Zero emissions in head office buildings… ○** ▶P29

| | |
|---|---|
| FY2005 target | Zero emissions to be achieved in the buildings of Tokyo/Osaka Head Offices |
| FY2004 target | Promotion of activities according to plan |
| FY2004 actual | Promoted activities on all floors of both head office buildings |

**Energy saving in head office buildings… ◎** ▶P27

| | |
|---|---|
| FY2005 target | Reduction in electricity usage by 15% or more, from fiscal 2000 levels |
| FY2004 target | Reduction by 12% or more |
| FY2004 actual | Reduced by 21% |

## Environmental Contributions and Communication

**Support for nature protection activities by NGOs… ○** ▶P68

| | |
|---|---|
| FY2005 target | To continue support for projects through Keidanren Nature Conservation Fund |
| FY2004 target | To continue support for projects |
| FY2004 actual | Supported 5 projects (involving donations in the amount of 10 million yen) |

**Introduction of environmental labels… ×**

| | |
|---|---|
| FY2005 target | Introduction in FY 2005 |
| FY2004 target | Decision to be made whether to proceed |
| FY2004 actual | Decided to abort introduction |

**Promotion of local community environmental contribution activities… ◎** ▶P67

| | |
|---|---|
| FY2005 target | 30 points or over activities indicator score* on cumulative basis |
| FY2004 target | 20 points or more on cumulative basis |
| FY2004 actual | 28 points on cumulative basis |

*Activities indicator scores activities according to their particulars and size of participants

**Publication of site reports… ×** ▶P66

| | |
|---|---|
| FY2005 target | ISO14001-certified 35 business sites; and 6 housing sales companies to publish site reports |
| FY2004 target | 9 business sites to publish site reports |
| FY2004 actual | 7 business sites published site reports |

## Educational Activities and Awareness Development

**Development of new leaders for nature protection activities (Sekisui Chemical School of Nature)… ×** ▶P16

| | |
|---|---|
| FY2005 target | Cumulative total of 200 leadership candidates to be developed for leadership 40 to participate in follow-up training (2003-2005) |
| FY2004 target | Cumulative total of 130 leadership candidates to be developed 25 to participate in follow-up training |
| FY2004 actual | Developed cumulative total of 114 leadership candidates 22 participated in follow-up training |

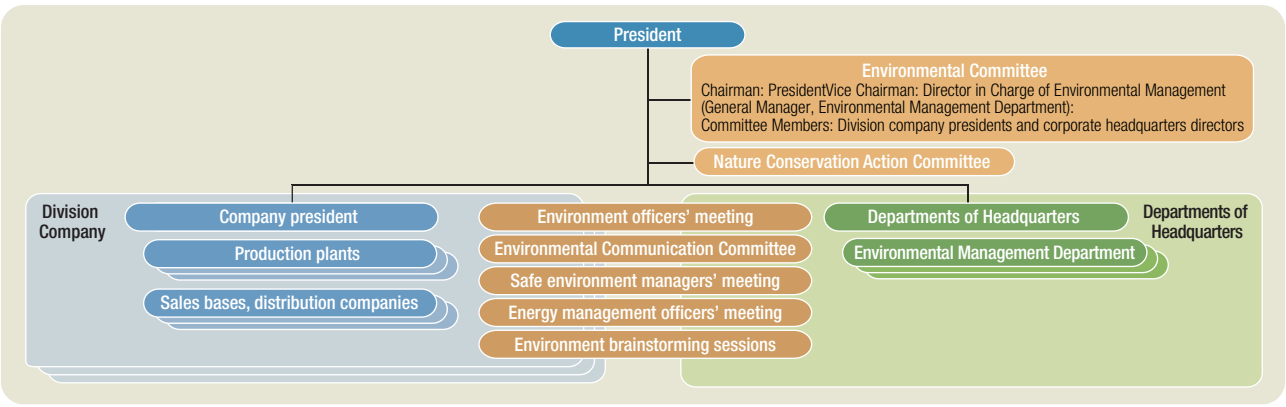
## Building the Foundation for an Environmentally Creative Organization

# We have developed a structure in which corporate headquarters and individual division companies cooperate closely to strengthen corporate governance over our environmental protection activities.

## Promotional System and Roles of Environmental Corporate Management

Sekisui Chemical Group's environmental corporate management strategies and objectives are discussed and decided by the Environmental Committee, and are communicated to corporate headquarters and division companies, which respectively develop and implement concrete plans. Performance by each department of headquarters and respective companies is summarized and reviewed by the Environmental Committee on both term and annual bases, with findings reflected in plans for the following term.

Furthermore, in an effort to enhance and promote these activities, we have set up cross-functional meetings and committees comprising corporate headquarters and division companies, and also corporate headquarters and business sites, in order to enforce company-wide strategies and measures, develop annual action plans, disseminate and share environmental information, and promote energy-saving activities.




## Development and Application Expansion of Environmental Management System

Sekisui Chemical Group has been developing its Environmental Management System (EMS) in an effort to effectively carry out environment-friendly activities, including preventing environmental pollution and reducing environmental burdens.

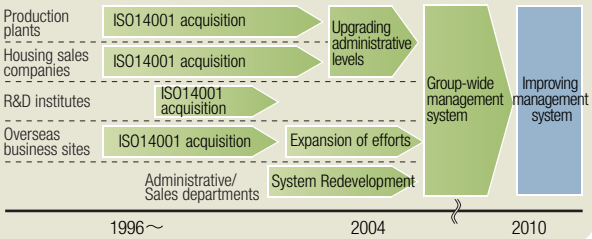
We have been progressively acquiring ISO14001 certification for our business sites since 1996. First to acquire certification were production plants that generate higher environmental burdens, followed by housing sales companies operating at construction sites, and R&D institutes promoting the development of environment-friendly products. As a result, 91% of employees now work at business sites with ISO14001 certification.

Furthermore, in respect of administrative and sales functions at corporate headquarters and division companies, which create relatively less environmental burdens, we are working on development and effective operation of the EMS, based on specific characteristics of each business activity.

While pursuing ISO14001 certification acquisition, our overseas business sites have been regularly conducting environmental performance surveys on the status of locally generated environmental burdens, in response to the increasing volume of offshore production outputs (P79). Subsequent to the previous year's survey, the 2004 survey was conducted with 10 overseas production plants, in tandem with fact-finding research at 4 European production plants. Furthermore, we are planning to expand EMS into all supply chains and outsourcing contractors by 2010. As part of this plan, Housing Company is asking its vendors and suppliers to obtain certifications such as "Eco Action 21"*, and providing relevant support.

* **EcoAction 21**
Certification and registration system developed by the Ministry of the Environment to support small-to-medium enterprises, schools and public offices in developing, operating and maintaining more effective and efficient environmental management systems. EcoAction 21 guidelines help users to set targets, implement appropriate activities and combine, assess and report results.

**Environmental Management System development plan**




## Implementing Environmental Information Collection System

With a view to upgrading our environmental corporate management, we introduced in 2005 a database dedicated to collecting environmental information from business sites. By promptly identifying and sharing environmental information, this system enables us to expedite decision-making and perform attentive progress management, while allowing us to expand the range of subjects and items in such information.

## Environmental Audit System —Mechanism and Results

Production plants and R&D institutes with ISO14001 certification undergo self-imposed internal audits and third party audits. In addition, the Environmental Management Department at corporate headquarters carries out environmental audits in an effort to continuously improve the Environmental Management System (EMS) and environmental performance.

### Environmental audit by Environmental Management Department

The Environmental Management Department audits the status of compliance with environmental laws and regulations, improvement of environmental performance and future plans for environmental management. Audit results are reported to top management while direction and guidance are provided for prompt improvement of any shortcomings (See P77 for 2004 audit results).

Incidentally, in 2003 we introduced an "Environmental Management Evaluation Sheet"* for quantitative evaluation of standards of administrative practice, as well as activity status at each business site.


*Environmental Management Evaluation Sheet
The evaluation checks 72 items in three areas, EMS, preparedness against environmental risks and performance improvement, by giving rating points between 0 (minimum level required under ISO14001 certification) and 3 (highest level in respect of the ideal status targeted by Sekisui Chemical Group). This self-evaluation also makes each business aware of its own standard of administrative practice and problems to be addressed.

## Environmental Performance Evaluation

In an effort to promote environment-friendly business activities, in 2004 we introduced environmental performance evaluations to help make production plants, and business divisions/housing sales companies more aware of their performance in this area.

Reduction in environmental burdens (volumes of generated wastes and $CO_2$ emissions) at production plants, and sales turnover of environment-friendly products by business divisions/housing sales companies, are set up as respective targets for evaluation. Production plants and departments that achieve higher performance against targets are given awards.

In 2004, 6 business sites and 10 departments received awards for reducing environmental burdens and achieving significant sales of environment-friendly products respectively.

## New Measurement Index for the Progress of Environmental Corporate Management

To effectively promote environmental corporate management, we have set up separate environmental index and target values for specific environmental objectives to manage progress at each production plant and housing construction site.

While continuing these efforts, we will also introduce the "Sekisui Eco Value Index' (P17) as an indicator for comprehensively evaluating environmental burdens and environmental added value, and will use this to improve our environmental corporate management.

## Developing Human Resources to Realize Environmentally Creative Organization Status

It is the social obligation of Sekisui Chemical Group employees to carry out environment-friendly business activities and to create products and businesses that contribute to environmental protection.

Accordingly, we provide training programs to help employees develop the awareness, knowledge and know-how needed in their respective positions, such as grade-specific training for employees, environmental technology basic training for development staff, specialist training to develop internal environmental auditors, and training to develop leadership for nature conservation activities. In addition to these programs, we share environmental information via the Intranet and provide environmental education and training at business sites.

### Leadership development for nature conservation activities (Sekisui Chemical School of Nature)

Since 1997, with a view to developing leadership for nature conservation activities in local communities, we have operated regular environmental education sessions under the name, "Sekisui Chemical School of Nature". By the end of 2004, 29 sessions had attracted 423 attendances by 336 employees.

Curricula for these sessions are designed to help participants learn the basics of natural ecosystems and how to guide volunteer activities. In addition, the program provides field exercises such as bird watching and tree planting in the natural environment surrounding the business site, offering participants outdoor enjoyment and opportunities to appreciate the importance of the natural environment (P67).

### Testimonial

"At Sekisui Chemical School of Nature, which was set up as part of the company's environmental education, I learned about the role of a leader in our plant, how to build cooperation among employees and how to run group activities involving children from the local community. We will continue to seek mutually beneficial coexistence with the local community through our nature conservation activities."

Hatsumi Takahashi
Planning & Control Department, Musashi Plant, Sekisui Chemical Co., Ltd.

## Future Challenges

We will build a more comprehensive environmental corporate management structure by developing EMS at all business bases of Sekisui Chemical Group, including overseas operations, and actively using the integrated environmental performance index. To enhance employees' environmental awareness, which must be at the core of our efforts, we are striving to develop environment-friendly human resources by conducting environmental awareness surveys and awareness-enhancing programs.

## Measurement of Environmental Corporate Management

# To upgrade the standard of our environmental corporate management, we will make active use of criteria that reflect not only environmental burdens but also environmental added value.

## Using Multiple Criteria to Evaluate Individual Activities

Effective environmental corporate management requires appropriate evaluation of the individual circumstances and achievements of each activity. Sekisui Chemical Group uses various criteria to evaluate individual activities.

First, for environmental burdens generated at production plants and housing construction sites, we consider individual values such as energy input, resources input, amount of wastes generated and their recycling ratios, and volume of $CO_2$ emissions. These provide a basis for development of annual activity plans and targets. Then, actual performance in terms of each criterion is verified, evaluated and factored into development of next-term plans and targets.

Furthermore, we separate-out expenditure and investment dedicated to environment-friendly business activities and publish these under "environmental accounting" in compliance with the guidelines of the Ministry of the Environment, which we actively use as another criteria for environmental corporate management. At the same time, we closely monitor sales turnover of environment-friendly products and their external effects.

Furthermore, since 2003 we have been actively using "JEPIX" as a criterion for evaluating and effectively reducing environmental burdens across the Group, based on appreciation of the differences between individual business activities.

## Consolidated Evaluation of the Environmental Impacts of Individual Business Activities

Sekisui Chemical Group operations cover a broad spectrum of business activities, which generate a diverse range of environmental burdens (P11 and P12). The respect environmental impacts of such burdens as energy consumption and waste generation also differ significantly in terms of scale and severity.

Thus, in order to accurately measure environmental impact across the Group and effectively reduce it, we need to first calculate individual impact values for environmental burdens, and then integrate these measurements for overall evaluation, as opposed to simply aggregating individual environmental burdens as a Group total. We have been trialing "JEPIX*" as an instrument for this approach since 2003, in an attempt to comprehensively understand the overall severity of environmental impact across the Group.

***JEPIX**
The Environmental Policy Priorities Index for Japan was developed in 2003 as a tool for integrating Japan-based environmental burdens, adopting a theoretical unit called "environmental impact points"- (EIP) as its sole criterion.

### Unique criterion for environmental corporate management "Sekisui Eco Value Index"

"Sekisui Eco Value Index" is a criterion expressed numerically as environmental added value derived from environmental corporate management, divided by overall environmental burdens associated with business activities.

The numerator "environmental added value" represents economic criteria such as sales turnover of environment-contributing products, economic effects produced by products/business activities, and cost-saving effects resulting from environmental corporate management, while the denominator "overall environmental burden" represents group-wide environmental impacts obtained by "JEPIX" or other measures, to calculate environmental efficiency. Precise definitions of both the numerator and the denominator are due to be finalized within 2005.

Our target is to double the efficiency of our environmental corporate management, as calculated by this method, between 2004 and 2010,, in pursuit of maximizing added value while minimizing environmental burdens.

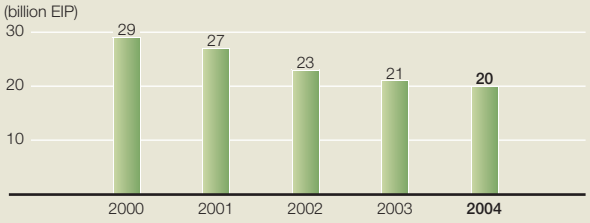
$$\text{Environmental corporate management criterion (Sekisui Eco Value Index)} = \frac{\text{Environmental added value}}{\text{Overall environmental impacts}}$$

**Application of the JEPIX method shows that our environmental impacts have been decreasing since 2000.**

"JEPIX" can calculate and show various environmental burdens including quantity of principal raw materials consumed, amount of energy used, amount of hazardous chemicals used, volume of wastes incinerated or landfilled, by applying an integrated criterion called "eco point (EIP)". In the process of integrating individual environmental burdens, EIP evaluates by weighting the value of each environmental burden with a coefficient that reflects the severity of respective impacts, to give a more accurate overall picture.

We worked out the environmental impact of the whole group by aggregating the EIPs for each division company, calculated by the above method, and discovered that the overall environmental impact caused by production activities of Sekisui Chemical Group has been steadily decreasing since 2000.

**Trend of environmental impacts**



# Environmental Accounting

## Environmental protection cost was 11.3 billion yen (See Table 1), while economic effect was 8.3 billion yen (See Table 3). We also prepared a new Data Section to enhance disclosure.

### Sekisui Chemical Group Environmental Accounting

*For data by division company, please see P75 and P76.

We are pursuing efficient environmental corporate management while fulfilling corporate accountability, by adopting environmental accounting as a means of quantifying the costs and effects of environmental protection activities. We organized environmental accounting by applying Sekisui Chemical Group's own philosophy in terms of estimated effects and customers' economic benefits to the basic framework provided in the "Environmental Accounting Guidelines 2005" prepared by the Ministry of the Environment.

### Major changes from previous year

(1) We expanded the scope of housing sales companies covered by environmental accounting to 25 business sites by adding 8 further companies (11 business sites).
(2) In compliance with the Environmental Accounting Guidelines 2005, we disclosed data for the past two years and organized environmental protection costs according to individual environmental protection measures (P75).

### 2004 activities and results

**Table 1:** Addition of 8 housing sales companies to the scope of environmental accounting raised cost results mainly in the area of waste disposal, while costs excluding housing sales companies showed a 170 million yen increase over those for the previous year. Investments increased by roughly 200 million yen, thanks mainly to investments in the areas of reduced waste generation, recycling and energy-saving.
**Table 2:** In terms of environmental protection effects, despite a slight increase in $CO_2$ emissions all environmental performance criteria showed favorable ongoing improvement. $CO_2$ reduction effects have been steadily reinforced, due mainly to progressive deployment of the photovoltaic generation system, with emissions decreasing by 80,000 tons since the system was launched.
**Table 3:** Cost reduction has mainly been achieved through energy-saving and waste reduction activities, including resource conservation. Customers' economic benefits are also estimated here (P76).

### Future strategies

(1) We will further expand the scope of environmental accounting, mainly in the area of housing sales companies.
(2) We will consider active use of "Sekisui Eco Value Index" in environmental accounting.

**Table1: Environmental protection costs (all companies)**

(unit:million yen)

| Items | | FY2002 | | FY2003 | | FY2004 | |
|---|---|---|---|---|---|---|---|
| Category | Description of main activities | Costs | Investments | Costs | Investments | Costs | Investments |
| 1) Costs within business operations | Prevention of air, water and noise pollution, etc. | 1,068 | 166 | 1,298 | 510 | 1,676 | 172 |
| | Countermeasures against global warming (energy-saving), etc | 115 | 33 | 108 | 144 | 122 | 222 |
| | Waste reduction, recycling, disposal, etc | 1,986 | 276 | 3,331 | 70 | 4,077 | 224 |
| 2) Upstream/downstream costs | Cost increases due to switch to packaging/packing methods involving reduced environmental burdens, greener purchasing, etc | 123 | 0 | 141 | 0 | 153 | 392 |
| 3) Administrative costs | Environmental education, EMS maintenance, organizing and maintaining environmental countermeasures, information disclosure | 1,689 | 0 | 2,260 | 31 | 2,640 | 31 |
| 4) Research & Development costs | Research & Development on environmental protection | 1,385 | 458 | 1,205 | 301 | 1,195 | 182 |
| 5) Social activities costs | Social contributions, etc. | 85 | 0 | 104 | 0 | 136 | 0 |
| 6) Environmental damage costs | Nature restoration, etc. | 188 | 0 | 0 | 0 | 15 | 70 |
| Total | | 6,639 | 933 | 8,447 | 1,056 | 10,014 | 1,293 |

*Number of business sites of housing sales companies included in the scope of environmental accounting FY2002: 4 FY2003:14 FY2004: 25

**Table 2: Effects on environmental protection (all companies)**

| Effects on environmental protection | | | | | | | | | | Environmental performance criteria: per unit of output; Total | | | | Self-evaluation |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Description of effects | | Item | | Unit | FY 2002 | FY 2003 | FY 2004 | Effects (2004-2003) | Reference pages | Item | Unit | FY 2003 | FY 2004 | |
| Effects within business operation areas | Effects on invested resources | Amount of energy usage *2 | (1) Electricity | TJ | 3,689 | 3,570 | 3,670 | 100 | 27 | (1) Energy usage per unit of output (electricity + fuel)*2 | GJ/ton | 1.96 | 1.91 | ○ |
| | | | (2) Fuel | TJ | 2,449 | 2,597 | 2,628 | 31 | 27 | | | | | |
| | Effects on environmental burdens and wastes | (3) $CO_2$ emissions*3 | | 1,000 tons | 290.6 | 285.6 | 291.2 | 5.6 | 27 | — | — | — | — | × |
| | | (4) Volume of environmental pollutants discharged*4 | | tons | 839.7 | 529.8 | 522.3 | -7.5 | 33 | — | — | — | — | ○ |
| | | (5) Wastes generated*5 | | 1,000 tons | 51.8 | 47.5 | 46.2 | -1.3 | 30 | (2) Waste generation per unit of output | Kg/ton | 47.2 | 43.8 | ◎ |
| | | (6) Outsourced disposal*6 | | 1,000 tons | 0.23 | 0.10 | 0.07 | -0.03 | 11 | (3) Outsourced disposal per unit of output | Kg/ton | 0.103 | 0.066 | ◎ |
| Upstream/down-stream effects | Effects due to products/services | $CO_2$ reduction by photovoltaic generation, etc. (cumulative) | | tons | 41,000 | 60,000 | 80,000 | 20,000 | 21 | — | — | — | — | ◎ |
| Other effects on environmental protection | Others | ISO14001 Certification | New acquisitions | No. | 6 | 2 | 3 | — | 74 | Number of business sites acquiring ISO14001 Certification | Total number of business sites | 81 | 84 | ○ |
| | | | Renewals | No. | 11 | 19 | 10 | — | — | | | | | |
| | | Number of business sites achieving zero emission*7 | | No. | 29 | 18 | 41 | — | 29 | Number of business sites achieving zero emission*7 | Total number of business sites | 72 | 113 | ◎ |

*2 Conversion into thermal units uses the coefficient published by the Ministry of Economy, Trade and Industry
*3 Emissions at the time of manufacturing and conversion to $CO_2$ amounts use the coefficient published by the Ministry of the Environment (calculated based on the coefficient for 2000)
*4 Applicable to Class I Designated Chemical Substances specified by PRTR Law *5 Amount discharged + Amount disposed of at price + Amount incinerated within own premises
*6 Simple incineration + Landfill *7 A business site affiliated to multiple companies is counted as one.

**Table 3: Economic effects due to environmental protection measures (all companies)**

(unit:million yen)

| Description of effects | | FY2002 | FY2003 | FY2004 | Remarks |
|---|---|---|---|---|---|
| Revenue | (1) Profit on sales of valuable resources | 51 | 97 | 140 | Profit on sales of valuable resources derived from functional recovery and promotion of recycling |
| Cost-saving | (2) Savings from simplified packaging | 14 | 7 | 7 | |
| | (3) Cost-saving through energy-saving activities | 413 | 479 | 298 | |
| | (4) Cost-saving through waste reduction activities, etc. | 1,138 | 744 | 851 | Including resource-saving activities |
| Sub-total (real effects) | | 1,616 | 1,327 | 1,296 | |
| (5) Contribution to environmental protection activities*8 | | 4,484 | 6,051 | 5,855 | Contribution of environmental protection activities to added value at business sites*9 |
| (6) Contribution of Research & Development activities to environment-friendly new products*8 | | 2,616 | 1,492 | 1,143 | Sales turnover for environment-friendly new products x Ratio of environmental research costs to all research costs |
| Sub-total (estimated effects) | | 7,100 | 7,543 | 6,998 | |
| Total | | 8,716 | 8,870 | 8,294 | |

*8 Excludes housing sales companies
*9 (Added value at business sites excludes environment-friendly new products) x [(Costs within business operation areas + Administrative activities costs) / (Gross manufacturing cost excluding raw materials costs)]

## Environment-friendly Products

# Our mission is to pursue the greening of products and create new products that contribute to environmental protection.

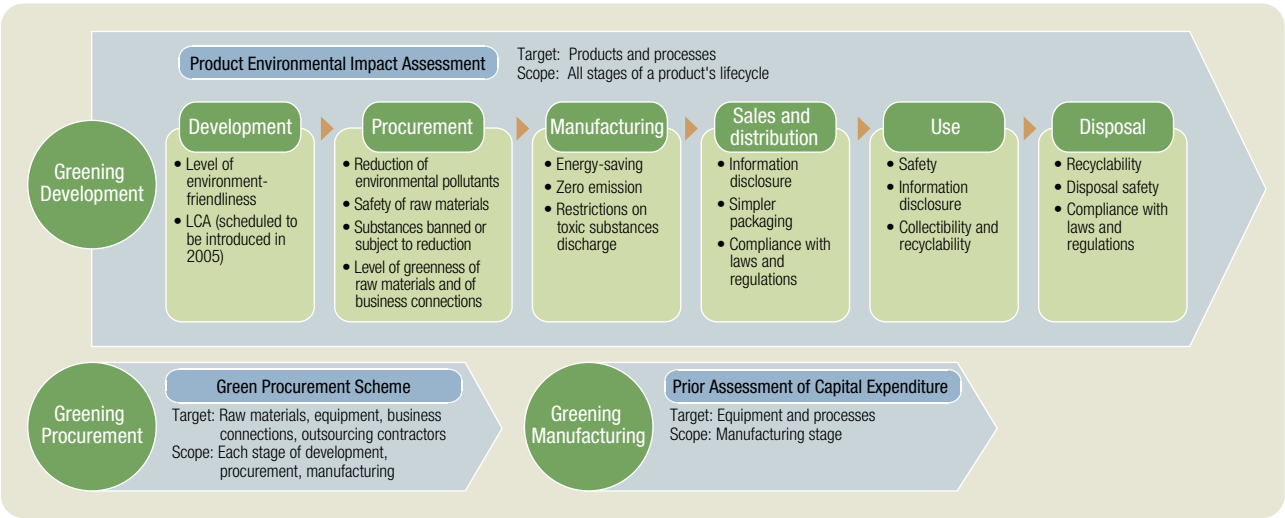
## Our Philosophy on Environment-friendly Products

While Sekisui Chemical Group already pursues reduction of environmental burdens in its business activities, in compliance with environmental legislations and social standards, we also believe that the products we deliver to the public should make their own contributions to protection of the global environment.

Accordingly, we work to reduce environmental burdens throughout the total product lifecycle, from development through procurement, manufacturing, sales/distribution, and use, to ultimate disposal. And, we seek to develop even more environment-friendly products by enhancing recyclability, resource-saving and energy-saving features.

## System of Environment-friendly Product Development (Three Greening Steps)

Sekisui Chemical Group is implementing the Three Greening Steps, which requires environment-friendly practices to be conducted at each of three early stages in a product's lifecycle: upstream development, procurement and manufacturing. To promote these activities, we operate such systems as "Product Environmental Impact Assessment", "Green Procurement", and "Prior Assessment of Capital Expenditure". (See below)




### Greening development (Product Environmental Impact Assessment scheme)

At the product development stage, we have introduced "Product Environmental Impact Assessment", which is designed to assess the environmental impacts of all products and their manufacturing processes at all stages of a product lifecycle, from development to disposal. Based on this assessment, we develop products with reduced environmental impact and/or products that contribute to environmental conservation and improvement.

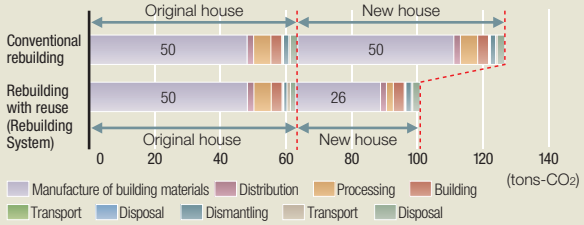
Since Sekisui Chemical Group started operating this scheme in 1993, in addition to subsequently expanding the schedule of banned and reduced substances, we have developed Green Procurement guidelines and environment-friendly product accreditation guidelines to improve the level of environment-friendliness.

As for Life Cycle Assessment (LCA) of the overall product lifecycle, subsequent to basic data accumulation and trial evaluation conducted in 2004 we plan to establish $LCCO_2$ Evaluations from 2005, focusing on measurement of $CO_2$ emissions.

**Trial Case of $LCCO_2$ Evaluation**

The following chart shows comparative results of $CO_2$ emissions-focused $LCCO_2$ evaluations of two units of "Rebuilding System" (P24) housing, housing rebuilt using recycled building materials (without demolition), and two conventionally rebuilt houses. In the case of the Rebuilding System units, while environmental burdens increase slightly when the original house is dismantled, the overall environmental burden is reduced due to construction of the second house consuming considerably fewer new materials.

**$LCCO_2$ comparison between conventional rebuilding and rebuilding with recycled materials (Rebuilding System) (P24)**




*Based on our estimation. Environmental burdens during living and refurbishing phases are not included.

## Greening procurement (Green Procurement scheme)

"Green Procurement", which has been in operation since 2001, is a system set up for our product development and manufacturing activities. It evaluates business accounts and outsourcing contractors to select raw materials and equipment that impose lower environmental burdens during manufacturing. We have achieved a green procurement ratio of over 80%, which was our 2005 target.

Separate "Green Purchase Guidelines" have been established for the purpose of reducing environmental burdens in the area of office supplies and equipment (P77).

| | FY2005 Target | FY2004 Target | FY2004 Actual |
|---|---|---|---|
| Green procurement ratio | Over 80% | Over 80% | 86.3% |

**Evaluation criteria in Green Purchase Guidelines**

| Criteria for business accounts | | Criteria for products | |
|---|---|---|---|
| ISO14001 certification acquired | | | |
| Internal organization | 5 criteria including appointment of an environmental management officer | Product assessment | 3 criteria including assessment carried out during product development |
| Compliance with laws and regulations | 5 criteria including recognition of environmental laws relevant to business | Conditions at the times of use and disposal | 9 criteria including introduction of products with longer lives |
| Management system | 5 criteria including institutionalized internal auditing | Design and structure for recycling | 5 criteria including use of recyclable materials |
| Voluntary activities | 8 criteria including capability to make suggestions regarding environmental burden reduction | Information disclosure | 2 criteria including capability to provide environment-related requirements and relevant information |
| Information disclosure | Disclosure of information regarding own environmental protection activities | Packaging materials | 8 criteria including reduced quantities of packaging materials compared to previous lines |

| | Criteria for business accounts subject to Green Procurement Guidelines | Green Procurement Guidelines not applicable |
|---|---|---|
| Procuring office | Headquarters + Divisions, plants, group manufacturing affiliates | Housing sales companies, engineering contractors and offices |
| Business accounts | • Manufacturers of production materials, trading companies, importers, outsourced manufacturers of our products<br>• Equipment manufacturers (including manufacturers of equipment for buildings, engineering, construction works) | • Service-oriented manufacturers providing office equipment, software, printing services, etc.<br>• Outsourced manufacturers using materials exclusively designated or supplied by the procuring office |

## Greening manufacturing (Prior Assessment of Capital Expenditure scheme)

Sekisui Chemical Group is implementing "Prior Assessment of Capital Expenditure" to assess capital expenditure proposals planned and developed according to internal rules, including the "Capital Expenditure Management Manual" and "CMS (Safety standards for plants construction and equipment design)" from an environmental perspective. Through this assessment scheme, we pursue low-environmental-impact manufacturing processes by analyzing the environmental impacts of proposed capital expenditure in order to determine feasibility.

### Environment-related capital expenditure

In order to reduce environmental burdens derived from product manufacturing, capital expenditure is planned and invested as appropriate.

Examples and achievements of environment-related capital expenditure for fiscal 2004 are as shown in the table below.

**Number of capital expenditures invested: 38**
**Amount invested: 1,130 million yen**

| Subject of investment | Business site | Estimated effect |
|---|---|---|
| Introduction of photovoltaic generation system | Chubu Sekisui Industry Co., Ltd. | Reduction of electricity usage by approximately 30 MWh per year |
| Environmental protection measures in resin manufacturing plants | Shiga-Minakuchi Plant, Sekisui Chemical Co., Ltd | Zero resin dispersal from plant buildings<br>Reduction of rinse water by 1.6% |
| Reuse/recycling of scrapped plastic and waste wood for flooring materials | Shikoku Sekisui Industry Co., Ltd. | Recycled materials mix at 60-70% |

# Performance in Environment-friendly Products

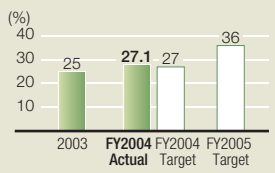
Sekisui Chemical Group classifies products as "environment-friendly" if they meet the following accreditation criteria:
(1) Specifically designed for environmental protection,
(2) Accredited or registered by a third party, (3) Impose less environmental burden than previous or equivalent lines. (See P77 for examples of accreditation criteria and applicable products.)

## Sales performance of environment-friendly products

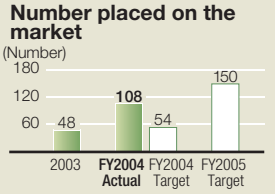
In 2004, we achieved targets based on two of the criteria, sales ratio and number placed on the market. From 2005, we are introducing new definitions of "environment-contributing products" in order for Sekisui Chemical Group's products to further contribute to the reduction of environmental burdens throughout society.

| | FY2005 Target | FY2004 Target | FY2004 Actual |
|---|---|---|---|
| Sales ratio | Over 36% | Over 27% | 27.1% |
| Number placed on the market | Over 150 products marketed | Over 54 products marketed | 108 products marketed |

**Sales ratio**




**Number placed on the market**




## Performance in environmental/recycling technology development

Development of environmental protection/recycling technologies is one of the crucial factors in producing environment-friendly products.

With a target of accomplishing 15 development themes by 2005, Sekisui Chemical Group is working on development of core technologies and applied technologies.

| | FY2005 Target | FY2004 Target | FY2004 Actual |
|---|---|---|---|
| Number of development themes | 15 themes | 10 themes | 10 themes |

**Toward FY2010**

With a view to attaining the target of "over 50% sales ratio with environment-contributing products", stated in the "Environmental Top Runner Plan" (P10), we will continue reviewing the system for promoting environment-friendliness, and accreditation criteria, while focusing on development of environment-contributing products.

## Serving the Environment through Our Products (1)

# Products Contributing to Prevention of Global Warming

## "Zero utility cost house" substantially reduces household $CO_2$ emissions

The most pressing need in the quest to reduce household $CO_2$ emissions is a strategy for minimizing daily energy consumption, which generates over 70% of in-home $CO_2$ production. Sekisui Chemical Group provides homes with designed-in energy-saving features such as improved building insulation efficiency, proactive use of highly efficient equipment and appliances, and use of photovoltaic power generation facilities, to drastically reduce $CO_2$ production from daily energy consumption.

Compared to conventional home-building, utilization of such methods and equipment actually increases $CO_2$ emissions during construction and maintenance; however, the net effect throughout the entire lifecycle of one of our homes, from construction to standard use, is significant control of $CO_2$ production. Thus, the combined savings of daily $CO_2$ emissions across all the homes we have sold to date total some 80,000 tons. This is equivalent to the amount of $CO_2$ absorbed by 10,000 hectares of forest.

### Improvement in thermal insulation performance of buildings

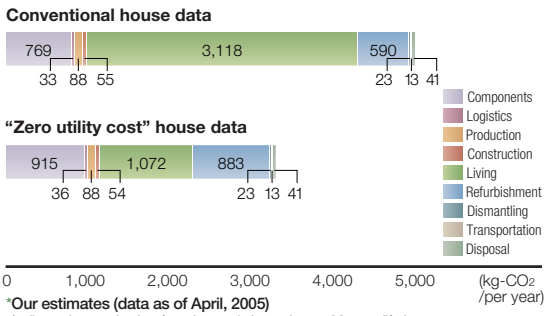
Most "Sekisui Heim" and "Sekisui Two-U" detached houses deliver thermal insulation performance that conforms to the Future Generation Energy Saving Standards. Furthermore, Sekisui has also developed and sells "Grand To You" (P26, P45) and "Chezdan" designs, which achieve thermal insulation performance far in excess of those standards by incorporating superior energy saving qualities and temperature comfort.

**Chezdan**

The Hokkaido region records Japan's highest energy consumption per house, due to the demand for heating in winter. Chezdan (sold on a limited basis in the Hokkaido region) has achieved a Q-value* of 0.99, which greatly exceeds the value prescribed for that region (1.6) in the Next-generation Standards for Energy Saving. The Chezdan design concept has made it possible to reduce heating energy consumption in the region by almost 50%.

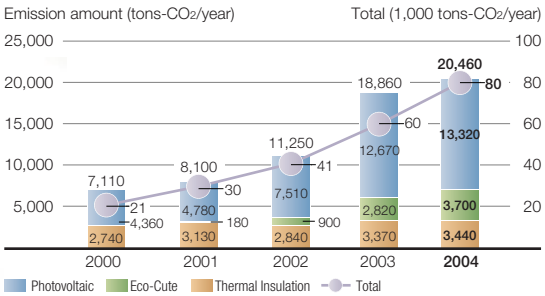
*Q-value
Q-value refers to the "coefficient of heat loss", which is used as an index for measuring the thermal insulation performance of buildings. A smaller value indicates higher performance.

### $LCCO_2$ evaluation findings on detached houses




*Our estimates (data as of April, 2005)
Indicated annual value for a house is based on a 60-year lifetime.
"Zero utility cost" specification: the Next-generation Standards for Energy Saving, Eco-cute, Photovoltaic Generation System 5.5kW.

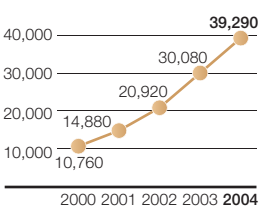
### Effects of reducing household $CO_2$ emissions



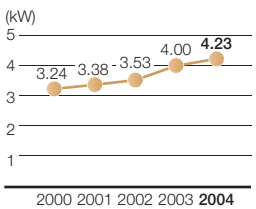

### Use of photovoltaic generation systems

The number of photovoltaic generation systems installed has grown in line with our success in reducing labor and costs by factory-prefabricating roofing materials and the modules for photovoltaic generation as an integrated unit. Furthermore, the system now has a higher capacity as a result of improved roof design, which allows the module to be installed across the entire surface. As of May 2005, we had succeeded in providing a total 40,000 homes equipped with the photovoltaic generation system. This is a record achievement for detached houses.

#### Number of contracts for photovoltaic generation system




#### Installation capacity of photovoltaic generation system in a new house*

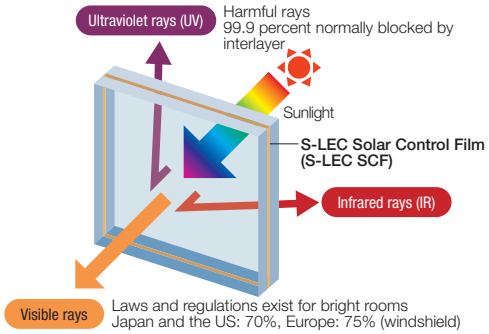


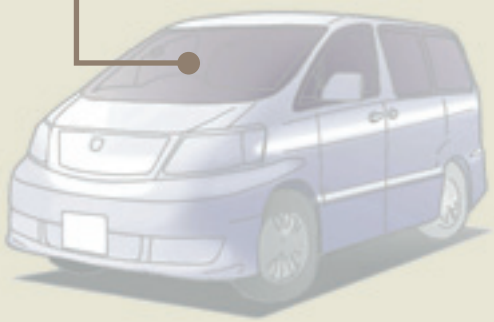

*System installation capacity
Average of all photovoltaic generation systems installed by Sekisui Heim and Sekisui Two-U customers

## S-LEC SCF, interlayers that significantly block heat rays of the sun

The interlayer for laminated glass is designed to significantly block infrared rays (heat rays). When SCF is used in a car windshield, the steering wheel and internal air temperature will be lower by 10 degrees Celsius, while the car is parked. The laminated glass with SCF also reduce the discomfort of thermal skin sensation caused by direct sunlight, and help to control energy consumption by reducing the need for excessive air-conditioning.

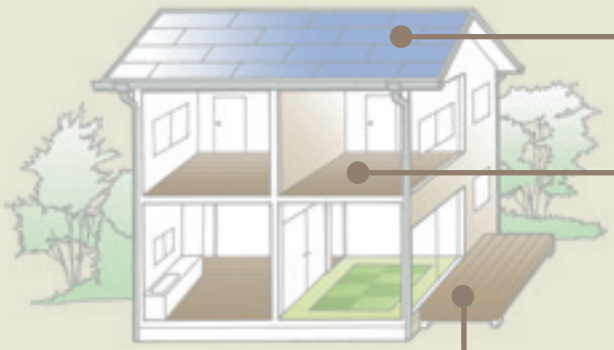
*Less fuel consumption of about 3% has been confirmed in light vehicles using air-conditioning while in traffic jam.
-Excerpt from technical lecture paper presented to the Society of Automotive Engineers of Japan (joint presentation by Asahi Glass Co., Ltd. and Mitsubishi Automotive Engineering Co., Ltd.) -



## Brook Solar H

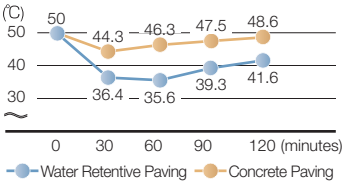
A roof tiling system that combines together tiles and photovoltaic panels.
To the basic tiling functions of protecting the living space and offering a beautiful external appearance, we have successfully added an ability to utilize sunlight to create energy.



## Ecoterior Water-retentive Paving

By employing this on balconies and in other areas, surface temperatures can be kept low because it uses the same principles as the sprinkling of water.

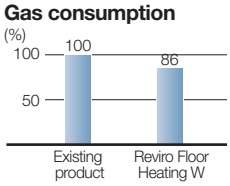
**Surface temperature comparison**

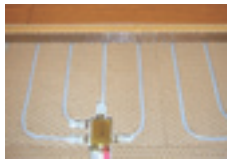



## Reviro Floor Heating W

Reviro Floor Heating W is a new product that uses a hybrid honeycomb cell structured foam "Reviro" and delivers substantially improved sound and thermal insulation properties.

**Gas consumption**





Reviro Floor Heating W

*Our estimates
Calculation basis: Calculated assuming that a room has been heated to achieve a floor-surface temperature of over 30 degrees Celsius (room temperature at 20 degrees Celsius).
Gas boiler: Water heated to 60 degrees Celsius
Period: December-March, 10 hours per day

## Serving the Environment through Our Products (2)

# Resources Recycling — Products Contributing to 3R

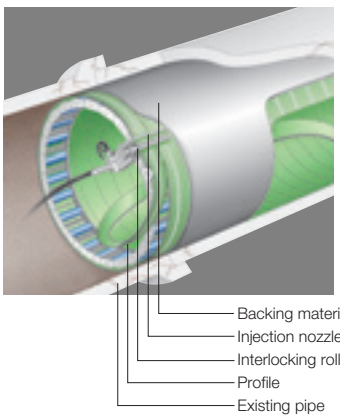
Reduce

## Renovation method for restoring pipelines without excavation

In recent years, it has become apparent that some of our critical lifestyle-support infrastructure, including public sewers and agricultural waterways, is aging. As just one example, there is said to be some 7,000km of 50 year-old sewage systems criss-crossing Japan.

Traditionally, restoration of such pipelines involved excavation and trenching with all the associated noise, vibration, odors and traffic disruption affecting life and livelihoods, and the waste produced by such work causing other problems. Sekisui Chemical Group provides the SPR Method and the Omega Liner Method as non-excavating renovation methods to minimize these requirements and effects.

**SPR Method**

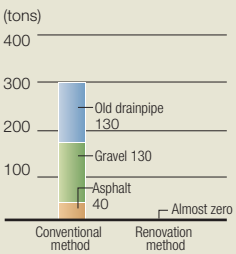



**Omega Liner Method**

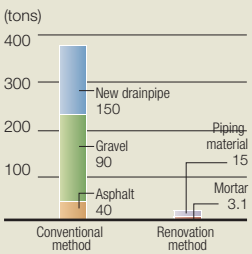
### Effects of the renovation methods

Non-excavating renovation methods, which do not require dredging and backfilling of the sewer system, can reduce wastage of gravel and pipes by 300 tons and the amount of resources used by 380 tons, compared to the demands of a conventional waste materials excavating method, on a typical 30 meter sewer system project. These new methods not only contribute to resource savings and reduced load on waste treatment plants, but also lead to lower labor and waste disposal costs. Moreover, they minimize traffic disruption and noise impacts on the surrounding area.

**Waste materials**

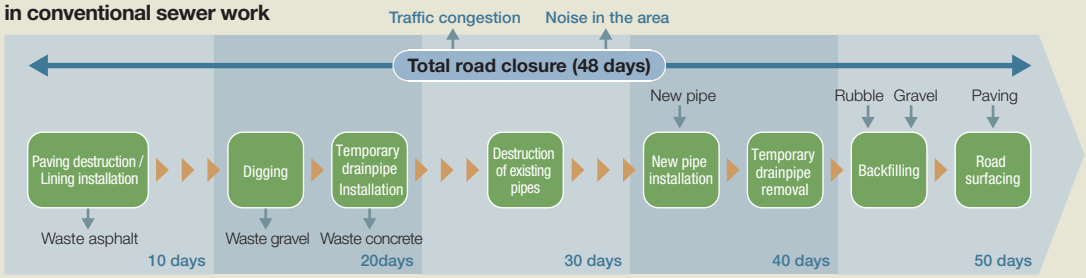



**Provided resources**

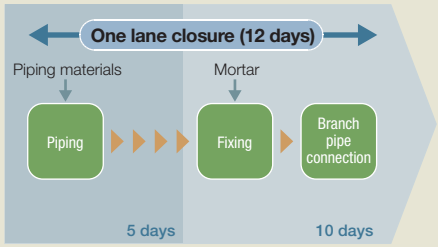



*Our estimates
Basis of calculation: Pipe and drain 1.7 x 1.5mm 30m long Earth covering 1m

**Procedures involved in conventional sewer work**




**Procedures of work based on the renovation methods**

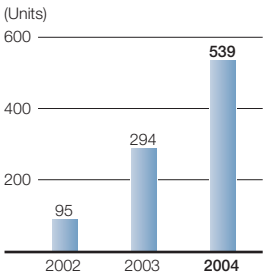


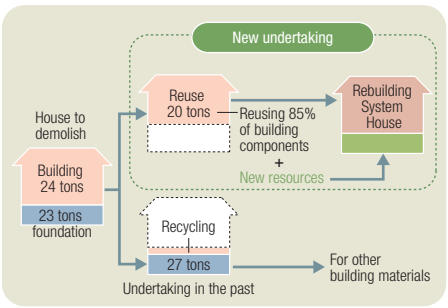
Reuse & Recycle

## Reused system house

Unit houses of the Sekisui Heim system which their owners want to rebuild or relocate are taken back to the factory for renovation, and inspected in a same manner of a newly built house. Then the house is sold as a new house. This has enabled us to reuse the building components effectively, excluding utility facilities and interior fixtures. The reuse rate attains about 85%.

**Reused system house**



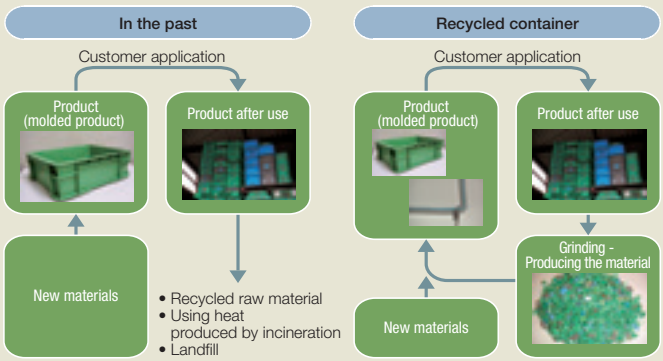

Reuse & Recycle

## Working on resource recycling with the customer — Recycle Container

Plastic containers have a variety of applications, including conveyance of parts and assembly components, and managing freight in the distribution process. Formerly, large numbers of containers were dumped after they had outlived their usefulness.

To reduce this wastage, Sekisui has developed a new, recycled container made from re-processed containers collected with the help of customers. The "sandwich mold" compresses the recovered containers into a new material that delivers both strength and appearance, as well as the social benefit of effective resource recycling.

**Comparative diagram of recycling**

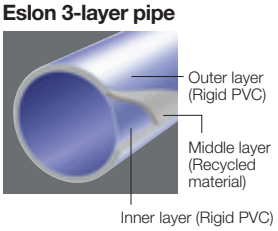



## Recycling of polyvinyl chloride products

Polyvinyl chloride (PVC), 57% composed of industrial salt, is a resource-conserving plastic that helps to control consumption of petroleum, an exhaustible resource. PVC is a superior contributor to energy saving and $CO_2$ emissions reduction, as it consumes less energy even during resin production and fabrication, and offers excellent durability and insulation efficiency.

In an effort to recover and efficiently use resources by taking advantage of PVC's special properties, Sekisui Chemical Group uses the material in production of consumer durables - chiefly as PVC materials-, which are likely to be used for extended periods. The Group also addresses recycling of used PVC products.

**Eslon 3-layer pipe**




These three-layer pipes use the recycled PVC material for their middle layers. There are two types of pipes available: Recycled 3-layer, foamed core pipe; and recycled 3-layer pipe. Both have been designated as specified procurement items in the Law on Promoting Green Purchasing.

### Upgrading the recycling system

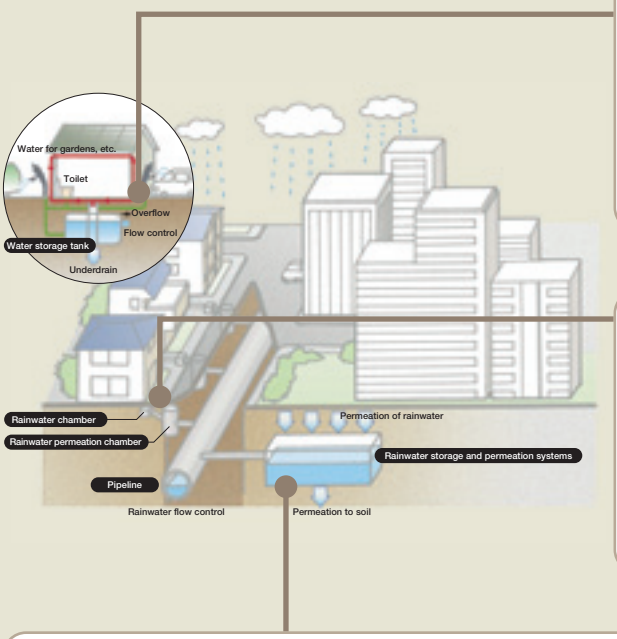
In recycling used products, it is important not only to reduce the cost for collectors, but also to ease the burden on used material generators. For instance, Sekisui Chemical Group is substantially increasing the number of collection centers in the LP pipes recycling system, in collaboration together with various industrial businesses. With the recycling system for PVC pipes and fittings, the group is working to improve availability of contract-based intermediary disposal services for removal of foreign bodies and scraping-off of mud, in order to reduce the workload for used material generators.

Please visit the "Recycle" section on the website of the Japan PVC Pipe and Fittings Association.
**http://www.ppfa.gr.jp/**

## Serving the Environment through Our Products (3)

Housing Company | Urban Infrastructure & Environmental Products Company | High Performance Plastics Company

# Products that Help Improve the Water Environment




## Rainwater storage tanks for detached houses

Easy-to-install storage tank for a detached house with gutter-based rainwater collection function.

Eslon Rainwater Storage

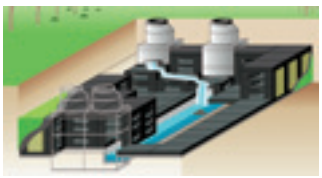
## Rainwater Permeation System

Device that maintains the urban water cycle by channeling the outflow of rainwater into the sewer system via underground permeation.

## Rainwater storage system that controls outflow and recycles stored rainwater

### "Rain Station" (Large-scale Rainwater Storage System)

Easily maintained system offering 50-year durability through the use of unique materials technology. Automatically collects contaminants such as sand through its water-flow control structure.



### "Cross Wave" (waterproof material for underground water storage)

Made of polypropylene, it has excellent water and chemical resistance properties and is easy to work with.

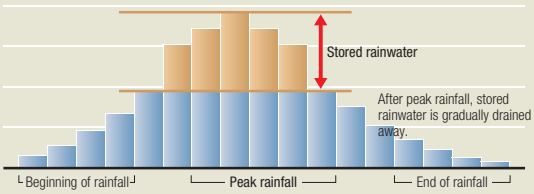
Cross Wave

Example of installation (Regulating reservoir: 4,000m³)

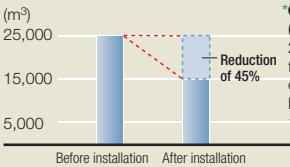
### Effects of rainwater storage (Rain Station example)

During torrential rain, there is a risk of the sewage overflowing and/or rivers flooding due to the inflow of vast amounts of rainwater. However, using the Rainwater Storage System enables flow volume in sewers and rivers to be controlled. Rainwater is captured, stored and then gradually least after the rainfall stops or eases. In addition, the stored rainwater can be reused for certain non-potable purposes, thereby reducing consumption of reticulated fresh water. For example, if a 1,000m³ rainwater storage tank is set up in a shopping center used by 5,000 people a day, and collected rainwater is used to flush the toilets, the amount of reticulated water used can be reduced by 45%.

**Rainfall pattern of torrential rain**




**Volume of water used in toilets**




*Our estimates (basis of calculation)
2004, Tokyo Metropolitan area Area for water collection: 1ha Coefficient of discharge: 0.85 Shopping center Hours open: 10 hours Customers: 1,000 on a steady basis

# Health-conscious Products

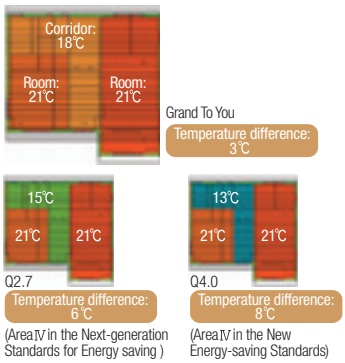
## Providing a safe, comfortable and healthy life

### Efforts toward achieving thermal barrier-free houses

One of the preconditions for a house that anyone can inhabit safely and comfortably is that it must be “universal and barrier-free”. In other words, the various “differences” in the house need to be minimized. These “differences” are not only physical, as in floor levels, etc., but also include temperature differences within or between rooms, which could contribute human health problems.

That is why we have improved thermal comfort - the thermal barrier-free attribute - by enhancing the heat insulation and airtightness properties of our buildings. This promotes healthy living without physical stress by reducing the heat-shock* caused by sudden temperature drops in midwinter, and by temperature differences between rooms and corridors.

**Temperature difference between rooms and corridors**




***Heat shock**
A phenomenon that causes the blood vessels to contract when a person moves from a warm room to an unheated room such as a bathroom. It could cause a cerebral hemorrhage.

## Providing a safe, comfortable and healthy life

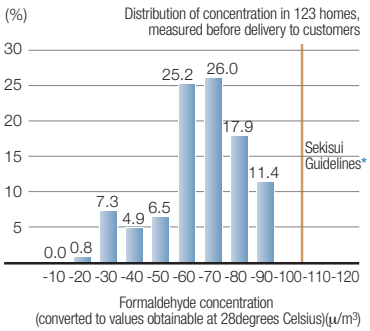
### Measures against sick house syndrome

Measures against sick house syndrome, which adversely affects the health of people living in a newly built house, remains a problem, but we have tackled it at the grassroots level in our “Sekisui Heim” and “Sekisui Two-U Home”, to deliver a safe and healthy indoor living environment. First, we established in-house guidelines covering three particularly harmful substances - formaldehyde, toluene and xylene.

This led to the following practical measures: 1. Installation of a 24-hour ventilation system; 2. Use of low formaldehyde-emitting building materials*; 3. Interior finishing with solvent-free, water-based paints, etc.. Observance of the guidelines is monitored through ongoing measurement tests in actual homes.

***Our estimates (basis of calculation)**
The Building Standards Law (revised July 2003), sets limits on the usable quantities of individual building materials relative to their respective formaldehyde emission levels. However, we use building materials that conform to the “the F☆☆☆☆ (Four Star)” standard (JIS,JAS:minimal emission volumes). For building materials not covered by a compliance standard, Sekisui assesses suitability for use by checking that the concentration levels of formaldehyde emissions do not exceed the standard in actual homes.

**Results of formaldehyde concentration measurements in actual homes**




***Sekisui Guidelines**
The concentration of chemicals at real-life temperatures must be below the guideline values set by the Ministry of Health, Labor and Welfare.- Formaldehyde 0.08ppm (100μg/m3)- Toluene 260μg/m3 - Xylene 870μg/m3

## Reduction of harmful chemicals

### Considerations for products used as materials and components

Sekisui Chemical Group products range from those sold directly to customers for their use, such as housing, to those applied and integrated into the products and processes of other companies, both within and outside the Group, e.g. building/construction materials and intermediate industrial materials. We have taken steps to reduce as far as possible the incidence of harmful chemicals within such supplied materials, in the health and safety interests of all who use or come into contact with those products.


Modified silicon Sealing agent Bond

# Environment-friendly Business Activities: (1) Response to Global Warming Concerns

## We have achieved a 3% reduction in $CO_2$ emissions at the production stage, as compared with the fiscal 1990 level. Efforts will be made to further limit greenhouse gas contributions by raising our future targets.

## Reduction of $CO_2$ Emissions

While Sekisui Chemical Group makes a diverse range of socially useful products, we also consume energy and its source, fossil fuels. Such use produces $CO_2$ emissions, which can contribute to global warming. Therefore, our plants, R&D institutes and corporate headquarters are working to reduce $CO_2$ emissions through energy-saving measures at the sales and distribution stages.

### Promoting reduced $CO_2$ emissions and energy saving at the production stage

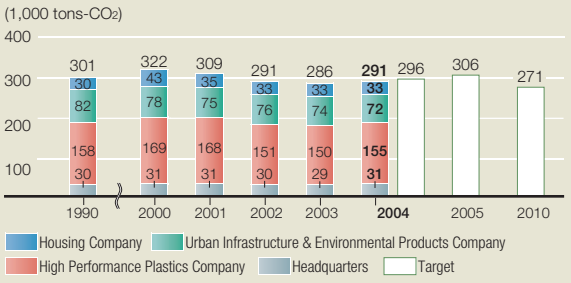
| | Target for FY2005 | Target for FY2004 | Performance in FY2004 |
|---|---|---|---|
| $CO_2$ emissions (compared to FY2000) | Less than 306,000 tons-$CO_2$ (over 5% reduction) | Less than 296,000 tons-$CO_2$ (over 8% reduction) | Less than 291,000 tons-$CO_2$ (over 9% reduction) |
| Specific energy consumption | Over 5% reduction compared to FY2000 | Over 4% reduction compared to FY2000 | Over 3% reduction compared to FY2000 |

Sekisui Chemical Group has set targets for reducing $CO_2$ emissions derived from energy used at the production stage.

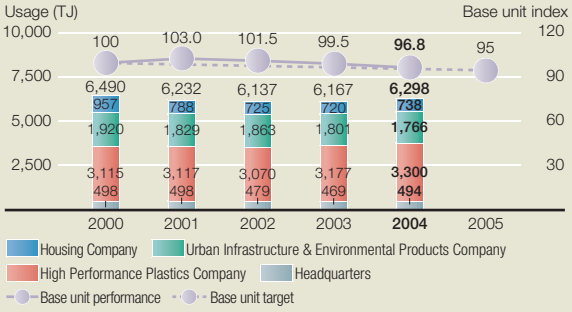
We managed to hit our fiscal 2005 target a year early. Our result for fiscal 2004 was a reduction of approximately 3% compared to that of fiscal 1990, which is the benchmark year for the Kyoto Protocol.

Although the production unit that indicates the efficiency of energy use was 1 point under the fiscal 2004 target, it was an improvement of 2.7 points over that of the previous year, achieved through introduction of energy-saving type machinery such as low-voltage condensers.

**Trend of $CO_2$ emissions in production operations**




**Trend of energy usage and basic unit of production at the production stage**




*Due to a review of the conversion coefficient, the above graphs show some discrepancies from the values in the Environmental Report 2004.

### Energy saving activities at R&D institutes and headquarters

| | Target for FY2005 | Target for FY2004 | Performance in FY2004 |
|---|---|---|---|
| Electricity usage in R&D institutes | Over 10% reduction compared to FY2000 | Over 8% reduction compared to FY2000 | 13% reduction compared to FY2000 |
| Electricity usage in head office | Over 15% reduction compared to FY2000 | Over 12% reduction compared to FY2000 | 21% reduction compared to FY2000 |

As actual achievements of energy-saving activities at R&D institutes and corporate headquarters had already substantially exceeded the fiscal 2005 target by the end of fiscal 2003, the fiscal 2005 target has been upgraded.

While electric power consumption for both R&D institutes and corporate headquarters increased slightly in fiscal 2004, we have been able to surpass the revised 2005 target by continuing to set air-conditioning at an appropriate temperature, and by diligently turning off unnecessary lights (see P78 for changes in electric power consumption).

### Activities in sales and distribution

We are also actively promoting environmental considerations in sales and distribution. For instance, efforts are being made to reduce $CO_2$ emissions in shipping of products, and to introduce cars that comply with the Green Taxation Plan (fuel-efficient cars and low-emission vehicles) set forth by the Japanese Ministry of Land, Infrastructure and Transportation.

**Measures against global warming in distribution**

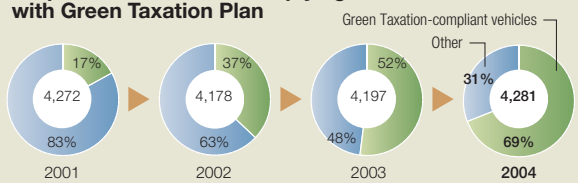
Sekisui Chemical Group entrusts the transportation of all products to external dispatch agents.

Housing Company components are transported directly from the plants to the construction sites by trucks designed exclusively for this purpose, and efforts are being made to improve their carrying efficiency. In other companies, we are implementing measures that conform to the characteristics of the delivery destination or the product form, by using joint delivery with other companies and/or marine container transport.

**Measures against global warming in sales**

We have been introducing cars that comply with the Green Taxation Plan into the company fleet managed by Sekisui Lease Co., Ltd., and the results had already substantially exceeded the target for fiscal 2005 by the end of fiscal 2003. Therefore, the target has been upgraded. The actual introduction rate for fiscal 2004 was 69%, exceeding the revised target of 60%.

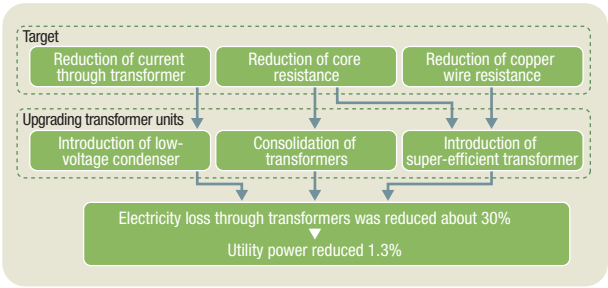
**Proportion of vehicles complying with Green Taxation Plan**



# Example of Activities for Reducing $CO_2$ Emissions

## Introduction of energy-saving facilities

The Sekisui Chemical Tokyo Plant substantially reduced electricity loss in fiscal 2004 by upgrading its various transformer units.



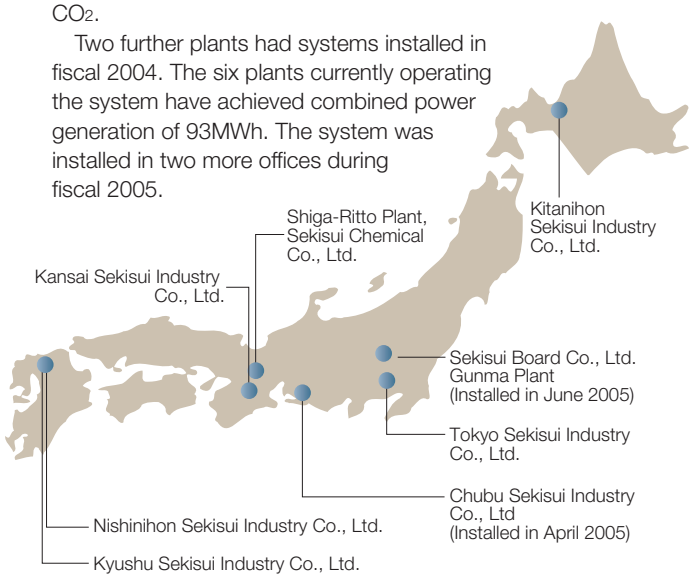

## Private home use of $CO_2$ contained in gas emissions

Sekisui Chemical's Shiga-Ritto Plant, which focuses on acidification of $CO_2$ dissolved in water to neutralize highly alkaline boiler drainage (blowdown water), a process of neutralization using released $CO_2$ was developed and introduced in fiscal 2003. This development succeeded in reducing $CO_2$ emissions to the atmosphere by 700 tons a year, achieving a reduction of approximately 30% of the hydrochloric acid used in neutralization.

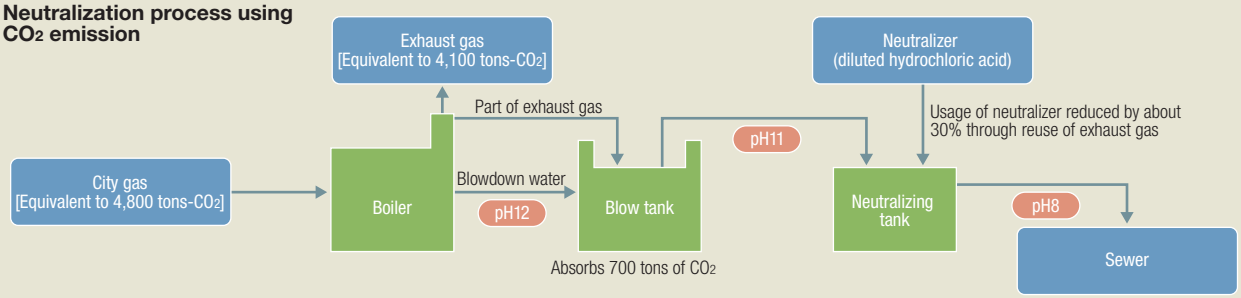
## Utilization of photovoltaic generation

Since fiscal 2000, we have been progressively installing in our plants photovoltaic generation systems, which emit zero $CO_2$.

Two further plants had systems installed in fiscal 2004. The six plants currently operating the system have achieved combined power generation of 93MWh. The system was installed in two more offices during fiscal 2005.




**Neutralization process using $CO_2$ emission**



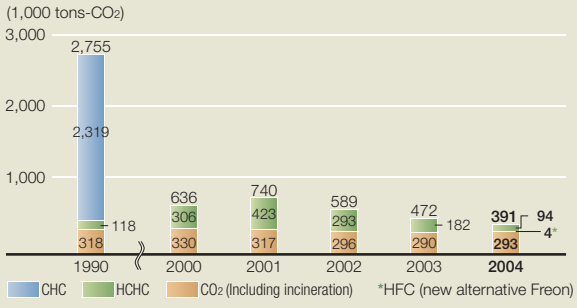

## Reduction of other greenhouse gas emissions

Besides $CO_2$, greenhouse gases discharged by the production activities of Sekisui Chemical Group include Freons.

Use of specific Freons (CFCs) was prohibited in fiscal 1995. And, use of Hydro chlorofluorocarbons (HCFCs) ceased at the end of fiscal 2004.

Furthermore, decommissioning of incinerators formerly used to dispose of fossil fuel-derived wastes such as oil and plastics has led to substantial reduction of $CO_2$ emissions.

**Trend of greenhouse gas emissions ($CO_2$ conversion)**




## Toward FY2010

In reviewing the middle-term environmental vision, the $CO_2$ emissions reduction target has been significantly upgraded by positioning efforts toward prevention of global warming as the most important challenge. To achieve our target, we will be promoting such activities as fuel conversion and introduction of a co-generation system.

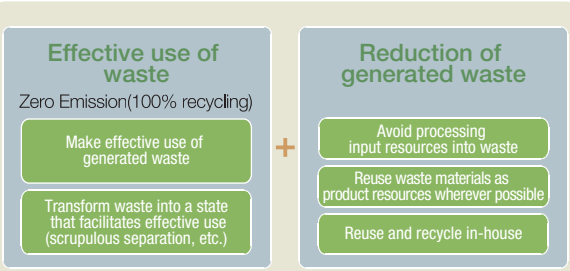
| Original target for FY2010 | Reviewed target for FY2010 |
|---|---|
| 7% reduction compared to FY1990 | 10% reduction compared to FY1990 |

# Environment-friendly Business Activities: (2) Resources Recycling

## We have progressively implemented zero emission regimes. We will be taking on new challenges in pursuit of substantial reduction in waste generation.

## 3R (Reduce, Reuse, Recycle) at Production Plants and Construction Sites

As a manufacturer, Sekisui Chemical Group makes products that consume various resources; it also generates wastes in the process (production plants and construction sites).
In order to utilize input resources more efficiently, the group is working not only to recycle generated wastes (Recycle), but also to reduce waste generation and reuse used products and parts (Reuse). The group will be focusing on making further reduction of waste generation based on its "Environmental Top Runner Plan".

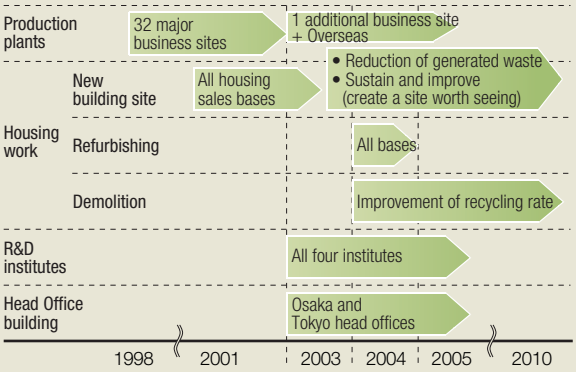



## Effective Use of Discharged Wastes

Some materials that one company generates as waste (unwanted substances) have potential to be reused as resources for other companies or industries. Accordingly, the group has been working toward zero emission by seeking ways to recycle all discharged wastes.

| | Target for FY2005 | Target for FY2004 | Performance in FY2004 |
|---|---|---|---|
| Refurbishing Zero Emission | Accomplished by all bases | Promote activity | Accomplished by all bases |
| Business Site Zero Emission | Accomplished by five business sites | Promote activity | Accomplished by four business sites |
| Head Office building Zero Emission | Accomplished by both head offices | Promote activity | Promote activity |
| Recycling rate of specific building materials | Maintain minimum level of 90% | Over 90% | 98% |

**Involvement in zero emission and future plans**




**Zero emission achievement criteria of Sekisui Chemical Group**
(1) All outside incineration must include thermal utilization, and no landfill outside or inside of facilities (Recycling ratio 100%).
(2) If waste is a small quantity, recycling methods must be made precise and relevant contractors must be specified.(See P78 for details)

### Zero emissions in production plants

Efforts began in 1998. To date, 32 group production plants have achieved zero emission. Currently, the Hinomaru Tosu Plant, which has been a focal point in the Middle Term Environmental Plan "Step-2005", is working toward achieving the goal within fiscal 2005. Efforts are also being made abroad, and Sekisui S-Lec BV achieved zero emission in 2004 (P32).

### Zero emissions in head office buildings

We are working toward achieving zero emission for fiscal 2005. Selection of recycling contractors and arrangements with the building management company are close to completion, and, since fiscal 2004, the standard of separation specific to offices has been applied by separating paper waste into 7 categories on all floors (P79).

### Zero emission at R&D institutes

In fiscal 2003, four Sekisui Chemical institutes began working toward achieving zero emission by the end of fiscal 2005. Three of them actually reached the target by the end of fiscal 2004. They were the Kyoto Research & Development Laboratories, the Tsukuba R&D Site, and the Development Center of R&D Technology Center New Business Office* .

***R&D Technology Center New Business Office**
Promotion department for corporate technology, research, development and new business

### Zero emission at housing construction sites

**New building/Refurbishing work**

With respect to new building construction sites, all of the 40 housing sales companies in the group achieved zero emission by September 2003. In fiscal 2004, work began on achieving zero emission in repair and refurbishing work. All 38 companies concerned met that target a year ahead of the original deadline - end of fiscal 2004.

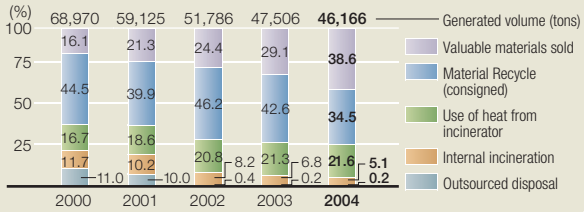
**Demolition work**

Efforts are focused on recycling of waste generated in demolition, with the aim of achieving 100% recycling by fiscal 2010. In fiscal 2004, the recycling rate for specific building materials (e.g. concrete and woodchips) was 98%.

## Status of efficient use of waste in production plants

Each plant is rigorously separating wastes and moving ahead with a review of buyers. The ratio of valuable materials sold is increasing annually. Switching from fee-paid consignment disposal to valuable materials sold has not only led to reduced costs, but has also improved the resource value of such waste materials. Efforts will be made to effectively use resources by continuing to work toward valuable materials sold while prioritizing reduction in waste generation.

**Trend of disposal methods — breakdown**




# Reduction in Waste Generation

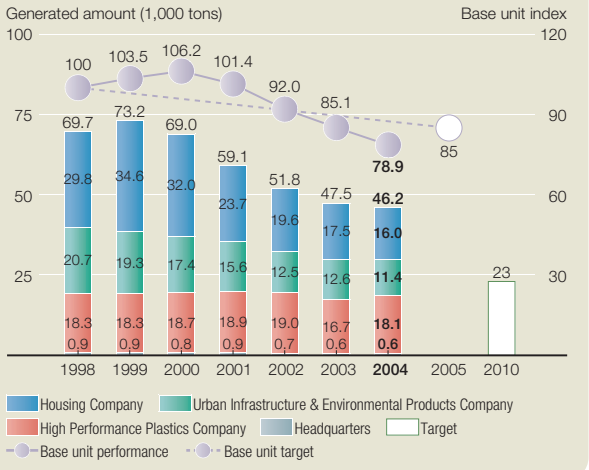
Plants that have achieved zero emission (100% recycling) are continuing to focus on reducing waste generation.

## Reduction activity in production plants

| | Target for FY2005 | Target for FY2004 | Performance in FY2004 |
|---|---|---|---|
| Base production unit for the volume of waste generated | Over 15% reduction compared to FY1998 | Over 13% reduction compared to FY1998 | 21.1% reduction compared to FY1998 |

Believing that reducing the amount of waste generated in producing a given quantity of products leads to effective use of resources and improves business efficiency, we have calculated our waste reduction targets on the basis of production output units. In fiscal 2004, results that exceeded the fiscal 2005 target were accomplished through efforts by individual production plants to improve their production efficiency (reducing quantity of mill ends), reduce packaging for raw materials, recycle mill ends after ensuring satisfactory quality, and reuse transportation supplies.

**Trend of amount of generated waste and base unit of production**



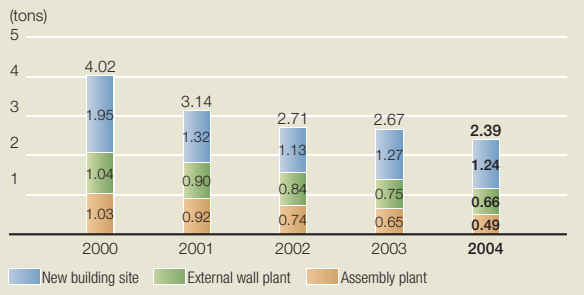

**Examples of involvement in waste reduction (production plants since 2003)**

| | |
|---|---|
| Improvement of production efficiency | • Overall improvement of production efficiency |
| Reduction of transportation supplies waste | • Use of curing materials of components as curing materials in site work.<br>• Reduction of component packaging materials. Use of shipping containers.<br>• Use of unneeded timber components as timber crosspieces for transportation. |
| Recycling of mill ends | • Lamination of chipped materials.<br>• Collection of sawdust from extruded item cutting, for reuse as raw material |
| Other | • Leasing of fluorescent and mercury lights.<br>• Reduction of paint splatters caused by low-pressure and intermittent release of paint. |

## Reduction activity at housing construction sites

Because “Sekisui Heim” and “Sekisui Two-U Home” housing units are 80% factory-prefabricated, they generate less waste at construction sites compared to other construction methods. However, mill ends are still generated in interior work, producing waste. Therefore, construction sites and factories are cooperating to reduce the amount of waste generated by reducing and/or reusing transportation supplies, detecting and minimizing surplus components delivery by factories, and reusing any extra components at the next work site (no disposal).

**Trend of the volume of waste generated during new construction (per house)**

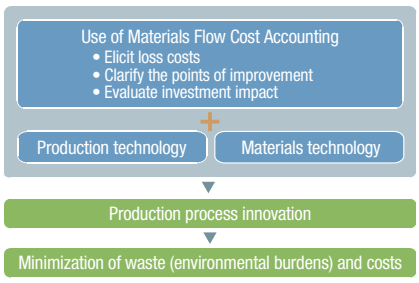



## Toward FY2010

The “Environmental Top Runner Plan” aims to reduce waste generation for fiscal 2010 to one-third of the level achieved in 1998 (half of fiscal 2004 level).

To accomplish this target, the group will work to rigorously reduce various losses by fundamentally reviewing production processes through group-wide use of the Materials Flow Cost Accounting Method*.

*__Materials Flow Cost Accounting__: One of the accounting methods used in environmental management. A method for achieving simultaneous reduction of environmental burdens and costs by focusing on losses incurred in production.



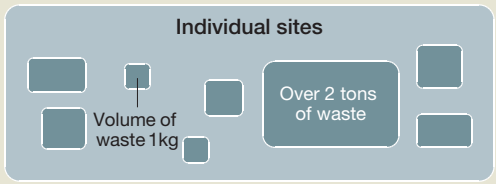
# Case Example of Zero Emission: (1) Refurbishing Sector

## Refurbishing sector achieves zero emission

By the end of March 2005, 38 Japanese bases of Fami S, our refurbishing work sector, had achieved zero emission.

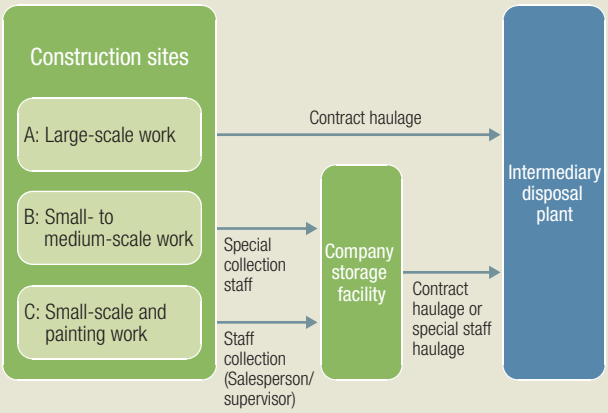
The work of the refurbishing sector is unique in that it ranges from minor maintenance jobs to large-scale remodeling projects, and thus generates varying levels of environmental impact. For example, inspection and repair tasks such as replacement of sash rollers and doorknobs produce less than a kilo of waste, while major refurbishing like replacement of kitchens and unit baths can generate up to 2 tons. It used to be very difficult to collect waste efficiently and properly from such work sites. We are trying to improve efficiency in this area by carrying out the work in the way shown below.

Number of properties: Over 100,000/year
Total volume of waste: 15,700 tons/year
(Equivalent to the volume generated on new building sites)




### Waste collection system

By the end of March 2005, 38 Japanese bases of Fami S, our refurbishing work sector, had achieved zero emission.




A. Due to the greater volume of waste generated by large-scale work, it is collected by a contract hauling service and transported directly to an intermediary disposal plant.

B.C. The waste from medium- to small-scale work is collected by full-time staff using a special vehicle, while waste from small-scale and painting work is collected by the supervisor using a commercial vehicle. Both types of waste go initially to the company's waste storage facility. Once sufficient waste is stockpiled, it is transported by a contract hauling service or full-time staff to an intermediary disposal plant.


Company's waste special vehicle


Company's waste storage facility

## Testimonial

### Discussions with local governments facilitate achievement of zero emission across three prefectures in the Northeast

"We started working on zero emission from October 2004, but it was very difficult for our office, which is responsible for three prefectures - including Iwate with the second largest square footage in Japan - to transport the waste using our own haulage vehicle, as there were problems with haulage outside the prefecture.

We finally decided on the direction for the operation after holding several discussions with officers in each local administration, compiled the procedure manual and started training our staff. There were huge problems in securing storage space for 11 sites, and in making adjustments with the haulage and intermediary disposal services, but we managed to achieve zero emission within the year, thanks to advice and encouragement from our superiors, and cooperation and information offered by our staff, hauling and disposal services. The entire staff will be involved in breaking-down of the separation and processing routes, with a view to increasing orders taken for refurbishing of houses built by other companies."

Nobuhiro Kawamura
Kitanihon Branch, Sekisui Fami S Tohoku Co., Ltd.

## Testimonial

### Zero emission achieved by utilizing local processing facility and with support from staff and cooperating services

"The difficulty we had in achieving zero emission was that some of the waste could not be recycled within the Sanin region, and that thorough separation of waste was prohibited. Although we knew there was a disposal facility outside the prefecture, we kept searching for a facility within the Sanin region until mid-January, as using an outside facility would increase the disposal cost.

As a result, it wasn't until the end of February that we decided on the disposal route, and the decision on the separating standard was ultimately delayed. We explained waste separation issues to our staff through in-house study classes and to service providers in special meetings, but it took time to gain their understanding, as we required four separating standards for the sites and offices of the two bases.

"We achieved zero emission after some difficulty, but we will continue to thoroughly separate waste in order to reduce the disposal cost and to become an environmentally friendly company."

Shinji Yamamoto
Sanin Office, Sekisui Fami S Chugoku Co., Ltd.

## Case Example of Zero Emission: (2) Overseas Office

Sekisui S-LEC B. V., our Netherlands-based plant for laminated-glass interlayers, became the first overseas subsidiary of Sekisui Chemical Group to achieve zero emission.

### Testimonial

**Achieving zero emission represents an important step in our becoming a more professional and profitable organization**

"In the year 2000, Sekisui S-lec B.V. was still committing all of its waste to landfills. By January 2005, however, it had become the first overseas production plant of the Sekisui Chemical Group to obtain a Zero Emissions certificate. To achieve this, we analyzed all our waste, and visited numerous companies to find environmentally-friendly solutions. Finding good waste processors that maintain good traceability was the biggest challenge within the project.

"This milestone is very important for S-lec B.V. in becoming a more professional and profitable organization, because we believe that environmental management should also contribute to business cost reductions. Going forward, we will be practicing what we have learned from this project in many other areas."

J. Jansen
Manager; Environment, Health & Safety
Sekisui S-lec B.V.

## Case Example of Zero Emission: (3) R&D Institutes

By the end of 2004, three R&D institutes had achieved zero emission ahead of schedule: Sekisui Chemical Kyoto Research & Development Laboratories, Tsukuba R&D Site, and the Development Center of R&D Technology Center New Business Office.

### Testimonial

**Zero emission in the R&D institutes is a step toward development of the next product**

"The R&D institutes started out with thorough segregation, in pursuit of our goal of zero emission by 2004. They have been trying to rigorously practice zero emission by using a contract waste disposal service, by establishing a waste storage facility and by exploring methods of simplifying disposal. In the process, they were troubled by the realization that they needed a new separating standard that was different from conventional methods, due to the nature of the business of the R&D institutes, which handle a variety of materials. They resolved the problems by utilizing the inherent properties of the waste and the safety data sheet (compiled by the National Federation of Industrial Waste Management Association).

"We believe that achievement of zero emission is the starting point for the next step, and that it is important to advance to activities that actually generate profit from waste reduction, and also to define 3R technology and apply it in product development."

Yoshiine Takeda
Kyoto Research & Development Laboratories, Sekisui Chemical Co., Ltd.

### Testimonial

**Balancing waste reduction and zero emission by defining the concept**

"In order to achieve zero emission, our office acted early to collect information from waste disposal services and suppliers. We were able to achieve our target a year earlier than planned by practicing zero emission continuously after planning construction of an appropriate framework based on the concepts, "Easy zero emission" and "From thermal recycling to materials recycling."

Our office activities were distinctive in that we satisfied both the achievement of zero emission and waste reduction, by leasing mercury-containing batteries and fluorescent lights, and we struck a balance between confidentiality and materials recycling by contracting a specialist service to recycle shredded confidential documents such as blueprints, which are disposed of in massive quantities. "We are now working to reduce general flammable garbage."

Yuzuru Kawazoe
Development Center, R&D Technology Center New Business Office,
Sekisui Chemical Co., Ltd.

## Working to utilize water resources more effectively

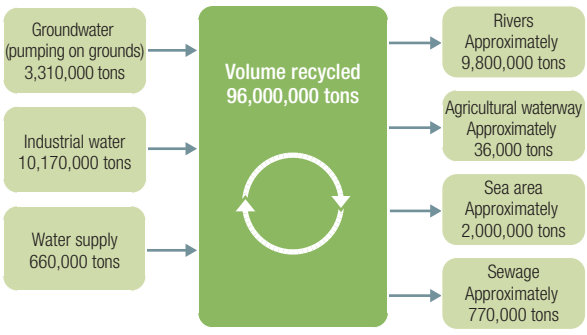
Sekisui Chemical Group uses water to cool metal molds and extruded products, and as a solvent in synthesizing resin.

Each office has been promoting recycling of water, so that it can be utilized as a valuable resource.

In 2005, the Group plans to establish a target within the next Middle Term Plan for reducing group-wide usage, starting with a detailed survey on actual usage status.

### Water usage in FY 2004*

*approximate figures are used for effluents and recycled volume)



# Environment-friendly Business Activities: (3) Risk Reduction of Chemical Substances

## Emission and transfer of chemicals have been reduced to 522 tons. We will continue to work toward further reduction of environmental impacts.

## Risk Reduction of Chemical Substances

Sekisui Chemical Group uses a large variety of chemical substances as raw materials and secondary resources for products. Therefore, we regard as important social responsibilities the pursuit of product safety, occupational safety and health, prevention of environmental pollution, and reduction of environmental burdens through proper management of chemical substances.

Accordingly, we strive to prevent health damage and environmental pollution caused by chemical substances by focusing on controlling them at the development and production stages, which is the basic of chemicals control; and also by using the Product Environmental Impact Assessment Scheme and the Green Procurement Scheme. Moreover, our production centers have set their own targets for reducing emission and transfer of chemicals into the environment, abolishing the most critical substances, and carrying out soil investigations of their premises.

**Development**
- Product Environmental Impact Assessment Scheme
  - Check on prohibited substances
  - Check on substances subject to reduction
  - Check on substances prescribed by law

**Procurement**
- Green Procurement Scheme
  - Evaluation sheet for procured products

**Production**
- Prior Assessment of Capital Expenditure
  - Check on safety and environment
  - Check on energy
- Implementation of various maintenance activities
- Formulation and operation of the Chemicals Management Regulations

**Transportation**
- Information disclosure
  - Issuing of yellow cards

**Sales/Use**
- Information disclosure
  - Issuing of MSDS (P40)

### Reduction of emission and transfer of chemicals into the environment

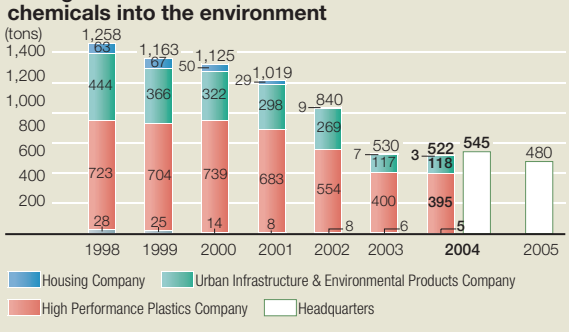
**Emission and transfer of Class I Designated Chemical Substances of PRTR Law**

| Target for FY2005 | Target for FY2004 | Performance in FY2004 |
|---|---|---|
| Max. 480 tons | Max. 545 tons | 522 tons |

We are working to reduce emission and transfer (disposal) into the environment of Class I Designated Chemical Substances specified by the PRTR Law*. Because we had substantially exceeded the original fiscal 2005 target by the end of fiscal 2003, this year's target was upgraded from 760 tons to 480 tons. We estimate that we can achieve the new fiscal 2005 target, as we have completed the switch from chlorinated solvent and hydro chlorofluorocarbons (HCFCs) to alternative substances earlier than planned.

Furthermore, there were 29 substances specified in 2004, and emission and transfer volumes were almost the same as those for the previous year, with a usage volume of 127,000 tons (P80). (Refer to P80 for changes in emission and transfer by substance.)

**Changes in emission and transfer of chemicals into the environment**




*PRTR Law
Law Concerning Reporting, etc. of Releases to the Environment of Specific Chemical Substances and Promoting Improvements in Their Management.

### Total abolition of chlorinated solvent use in fabrication

**Dichloromethane (methylene chloride) for fabrication (excluding the raw materials used in our adhesive products)**

| Target for FY2005 | Target for FY2004 | Performance in FY2004 |
|---|---|---|
| Total abolition by the end of the year | Consider alternatives | Total abolition by the end of the year |

We have been studying alternative materials in a bid to totally abolish dichloromethane use in the production process.

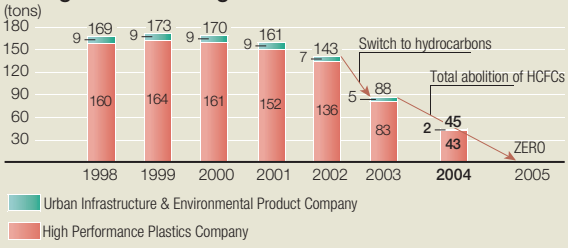
Usage increased in 2004 as a result of increased production, but we completed the switch to an alternative substance earlier than planned, in March 2005.

### Total abolition of hydro chlorofluorocarbons (HCFCs)

We have also been studying alternatives in a bid to totally abolish use of HCFCs as foaming agents for products such as foamed polyethylene and foamed polyurethane. By the end of fiscal 2004, again earlier than planned, we had completed the switch to hydrocarbons and HFCs, which do not harm the ozone layer.

| Target for FY2005 | Target for FY2004 | Performance in FY2004 |
|---|---|---|
| Total abolition by the end of the year | Promote alternatives | Complete replacement |

**Change in HCFC usage**



# Environment-friendly Business Activities:
# (4) Other Environmental Risk Reduction Activities

## We will reinforce the observance of the law and strive for further pollution control and risk reduction.

### Controlling Air Pollution

Sekisui Chemical Group strives to comply with prescribed legal and regulation values by carrying out regular inspections and relevant maintenance of facilities.

However, in fiscal 2004, the concentration level of dioxins in exhaust gas from the waste incinerator at Sekisui Chemical's Shiga-Minakuchi Plant exceeded the regulation value of 10ng-TEQ/m$^3$N at 17ng-TEQ/m$^3$N.

Recognizing this as a critical situation, we immediately shut down the facility in question and launched an investigation into the causes of the problem. We subsequently decided to decommission the facility and submitted an application to that effect to the prefectural authorities. Agreement for this action was obtained from the prefectural government and the community association, following our explanation as to the background and the findings of the investigation.

We believe that the supplementary feed for the scrubber (exhaust gas cleaning device) had become reduced, causing concentrated circulating water to disperse as mist and resulting in the dioxin level exceeding the prescribed standard.

Currently, two small incinerators without scrubbers are used in the Shiga-Minakuchi Plant, and another such incinerator is used by Tokuyama Sekisui Industry Co., Ltd., but in both cases the level of dioxins in the exhaust gas is significantly lower than the prescribed standard. We are maintaining rigorous management of incineration and will continue to move toward abolition.

| Business site | Dioxin concentration (ng-TEQ/m$^3$N) | |
|---|---|---|
| | Regulation value | Measured value |
| Shiga-Minakuchi Plant (1), Sekisui Chemical Co., Ltd. | 10 | 0.12 |
| Shiga-Minakuchi Plant (2), Sekisui Chemical Co., Ltd. | 5 | 0.019 |
| Tokuyama Sekisui Industry Co., Ltd. | 10 | 0.61 |

### Controlling Water Pollution

In July 2004, the pH of drainage from the septic tank at one of our business sites exceeded the prefecture's regulation level (5.7 against the standard pH of 5.8-8.6). To deal with the problem, we changed operation of the septic tank air blower from continuous to intermittent, in order to contain the level within the standard. There have been no subsequent abnormalities.

### Use and Storage of Machines that Use PCB

Currently, transformers and condensers that use PCB are held in 16 establishments, and are used by two establishments. The stored machines are kept under lock and key to prevent loss. While strictly managing such machines, we are preparing to properly dispose of them as soon as the disposal environment is ready.

### Soil Investigation of Site Surroundings

In fiscal 2004, we carried out an investigation of the grounds of Sekisui Film Kyushu Co., Ltd., in compliance with the Soil Contamination Countermeasures Law and in accordance with the Middle Term Environmental Plan "STEP-2005". Levels of contamination in both soil and groundwater were below the prescribed standards (see table below), and the findings were reported to the government.

| Survey item | Survey substance | Survey findings |
|---|---|---|
| Soil | Lead | Zero/66 |
| | Cadmium | Zero/66 |
| | Hexavalent chromium | Zero/66 |
| Groundwater | Lead | Zero/66 |
| | Cadmium | Zero/66 |
| | Hexavalent chromium | Zero/66 |
| | 14 other Class I Designated Chemical Substances | Zero/66 |

### Emergency Response

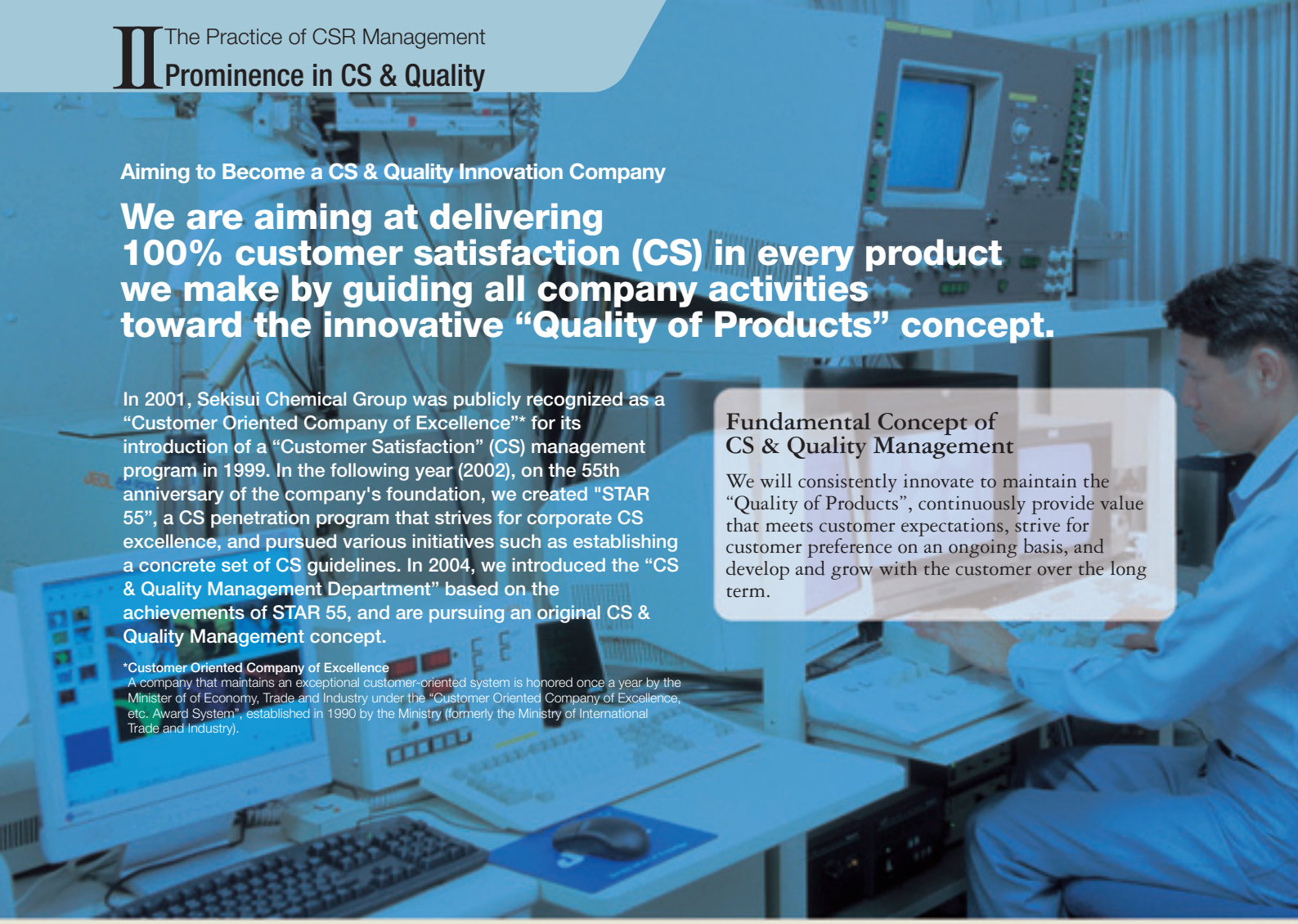
In order to prevent occurrence and spread of environmental contamination in the event of an emergency, our establishments carry out simulated emergency response training exercises at least once a year. Training addresses hypothetical cases relevant to the nature of each site. The following major training exercises took place during fiscal 2004:

| Simulated emergency situation | Number of exercises |
|---|---|
| Leakage and outflow of oils | 49 |
| Atmospheric discharge of solvents | 3 |
| Fire | 76 |
| Earthquake | 11 |
| Emergency communication training | 13 |

### Environment-related Accidents and Complaints

We received 6 complaints in fiscal 2004.

| Contents of complaints | | countermeasures |
|---|---|---|
| Noise | Complaints about continuously emitted metallic noise. | Resonating noise generated by friction in the tubular conveyor used for transporting raw materials. Implemented measures to prevent resonance. |
| | Complaints about the sound of the PA system used for company exercises, broadcast at 9.00 a.m. on a national holiday. | Set up a check column in the inspection table and ensured removal of the sound tape on the day before a national holiday. |
| Odor | Complaints about odors by the adjacent junior high school. | Believed to be caused by the solvent used in the printing process. There has been no odor since changing the height and direction of the dust exhaust. Talked with junior high school personnel regarding the results of measurement on the boundary and obtained their acknowledgement. Currently considering introduction of a deodorizing device. |
| | Complaints about odors of brake by neighboring residents and the Town's Environment Division | A plant inspection was carried out immediately, but no abnormality was found. Explained the situation to neighboring residents and obtained their understanding. |
| | Complaints about odors by neighboring residents. | Implemented a site patrol. Explained efforts for improvement, and details of the odor amelioration project. |
| Leakage | Serious warnings by city authorities concerning dispersion of polymer dust. | Implemented changes in level calculation, regular inspections and training for operation managers. Forwarded an apology and report to the City and the chairman of the neighborhood association. |



### Aiming to Become a CS & Quality Innovation Company

# We are aiming at delivering 100% customer satisfaction (CS) in every product we make by guiding all company activities toward the innovative “Quality of Products” concept.

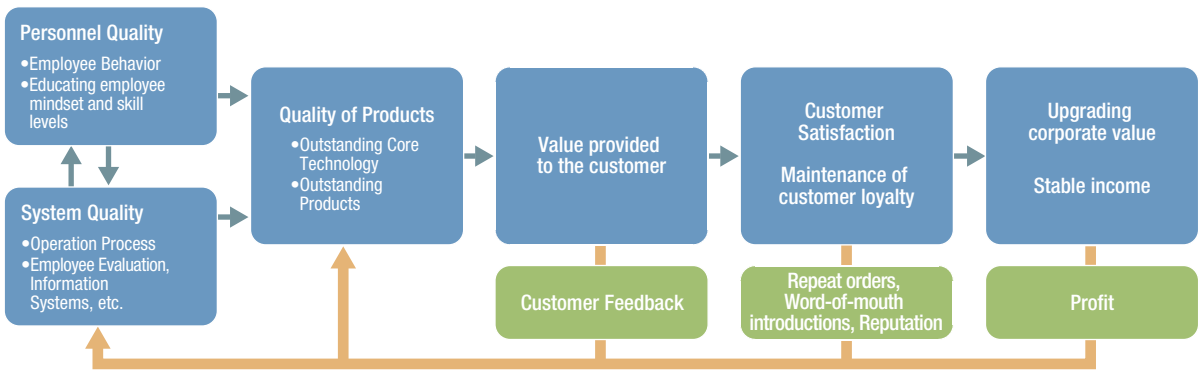
In 2001, Sekisui Chemical Group was publicly recognized as a “Customer Oriented Company of Excellence”* for its introduction of a “Customer Satisfaction” (CS) management program in 1999. In the following year (2002), on the 55th anniversary of the company's foundation, we created "STAR 55”, a CS penetration program that strives for corporate CS excellence, and pursued various initiatives such as establishing a concrete set of CS guidelines. In 2004, we introduced the “CS & Quality Management Department” based on the achievements of STAR 55, and are pursuing an original CS & Quality Management concept.

*Customer Oriented Company of Excellence
A company that maintains an exceptional customer-oriented system is honored once a year by the Minister of of Economy, Trade and Industry under the “Customer Oriented Company of Excellence, etc. Award System”, established in 1990 by the Ministry (formerly the Ministry of International Trade and Industry).

## Fundamental Concept of CS & Quality Management

We will consistently innovate to maintain the “Quality of Products”, continuously provide value that meets customer expectations, strive for customer preference on an ongoing basis, and develop and grow with the customer over the long term.

## We will inject management resources to underpin new developments in the “Quality of Products” program and upgrade the value of the company.




Concentrating management resources on underpin new developments in the “Quality of Products” program.

With the core value being that manufacturers provide “Products = Quality of Products”, Sekisui sees the “Quality of Products” system for satisfying customer needs and expectations as the central concept of management - this is the “CS & Quality Management” of Sekisui Chemical Group. Sekisui is aiming to become a globally recognised “CS & Quality Innovation Company” through continuously meeting customer expectations, and by permeating all company activity with the “Quality of Products” approach.

Under CS & Quality Management, we place importance on “System Quality” and “Personnel Quality”-these constitute the bedrock of the “Quality of Products” concept. “System Quality” includes information systems, employee evaluation, operational processes, etc. while “Personnel Quality” is reflected in the behavior of employees. Innovation in these two areas will lead to a higher “Quality of Products” and higher customer satisfaction.

With this in mind, we are fostering greater awareness of the ability to deliver CS as part of innovations in “Personnel Quality”, and the sharing/utilization of customer information and monitoring of CS & Quality guidelines as an innovation in “System Quality”.

# CS & Quality Management System

We established a “CS & Quality Committee” as a decision-making body and a “Company-wide CS & Quality Conference” as an implementation tool, in order to achieve “CS & Quality Management”.

## CS & Quality Committee

The president is chairman, and the presidents of each division company, General Manager of the R&D and Technology Center New Business Office*, General Manager of the CS & Quality Management Department, and General Manager of the Corporate Management Strategy Department of the corporate headquarters, etc. are the committee members. This committee meets twice a year, and as needed, to discuss and decide basic policy and action plans for “CS & Quality”. In addition, it reviews activities and gives appropriate instructions and advice. Each committee member keeps respective companies/departments under his/her control informed of the decisions made.

The “CS & Quality Committee” established the “CS & Quality Mid-Term Management Plan” in October 2004, progress reports were delivered to the group in February 2005, and the company-wide slogan as well as basic policies of each company for 2005 (P38) were determined.

*R&D Technology
Center New Business Office: A department in the corporate headquarters that promotes technology, R&D, and new businesses.

**CS & Quality Company-wide Slogan**
(revised February, 2005)

“Customer Opinion as the Seed for Product Development”

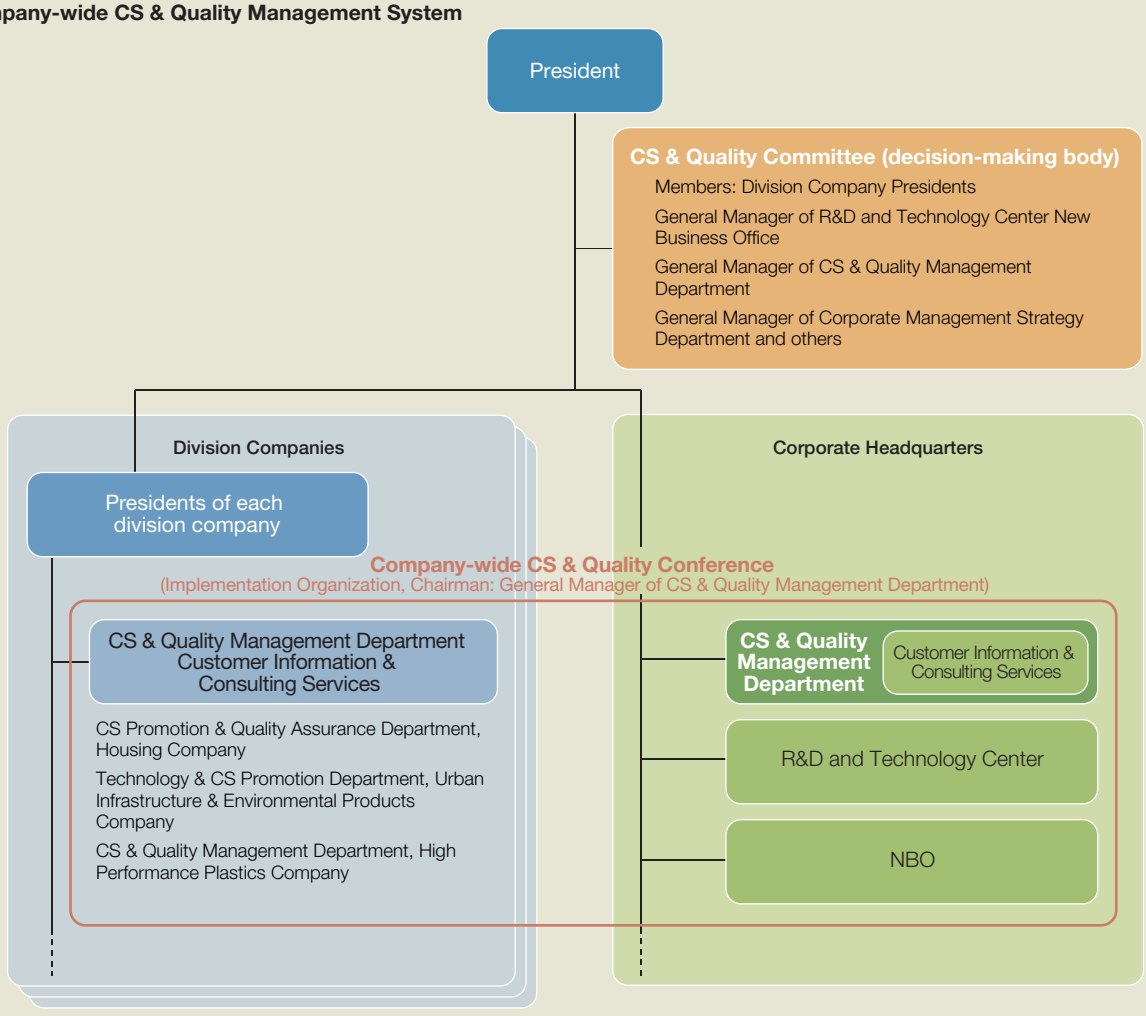
## Company-wide CS & Quality Conference

The conference comprises responsible operational departments promoting CS & Quality Management of the division companies and the corporate headquarters. This conference is held once every two months, to establish basic policy, in addition to planning and implementing the “CS & Quality” action plan.

## CS & Quality Management Department

This department was newly established in April 2004, and is responsible for company-wide promotion of “CS & Quality Management”. The “Customer Information & Consulting Services” established in the department (P39) has the key function of handling all kinds of customer feedback and ensuring the data collected is reflected in all company activities.

**Company-wide CS & Quality Management System**



## CS & Quality Management Mid-term Vision

# Our aim is to impress our customers by uncompromisingly pursuing "Quality of Products".

## 3 Stage Plan for Achieving "CS & Quality Management"

The "CS & Quality Management Mid-Term Plan", launched in October 2004, is a strategy for improving "Quality of Products" through a three-stage process. We can achieve outstanding "Quality of Products" by having all management team and employees constantly think, understand and take action based on the value we are providing to customers, customers' evaluation of that value, and any change in market trends.

### STAGE 1: CS as a result of "Quality of Products"

**Resolving dissatisfactions**

First, we plan to resolve and/or rectify all important quality issues relating to core elements of our products. For instance, in event of a problem arising that causes serious damage to a customer's property, we will immediately solve the problem through the combined expertise of all relevant departments.

We will also strive to precisely understand the nature of customer dissatisfaction (contents, number of cases, cost, etc.) through the "Feedback Alert Network" system (P39). Based on information obtained, we will actively implement preventative and proactive measures, to clarify and redress even the smallest quality issues.

**Achieving satisfaction**

We will conscientiously reflect customer requirements in our products and services, actively researching and collecting such demands by developing and utilizing the Customer Information & Consulting Services and Customer Surveys (P40), based on the understanding that "complaints" and "requests" from customers constitute useful and important input. At this stage, we are primarily providing "Quality of Products" that meets our customers' needs.

### STAGE 2: From "Satisfaction" to "Lasting Impression"

**Creating impression**

We will provide evolutionary products by projecting potential customer needs. We will create a strong impression with the customer by being the first in our field to propose products that will meet currently unrealized customer needs.

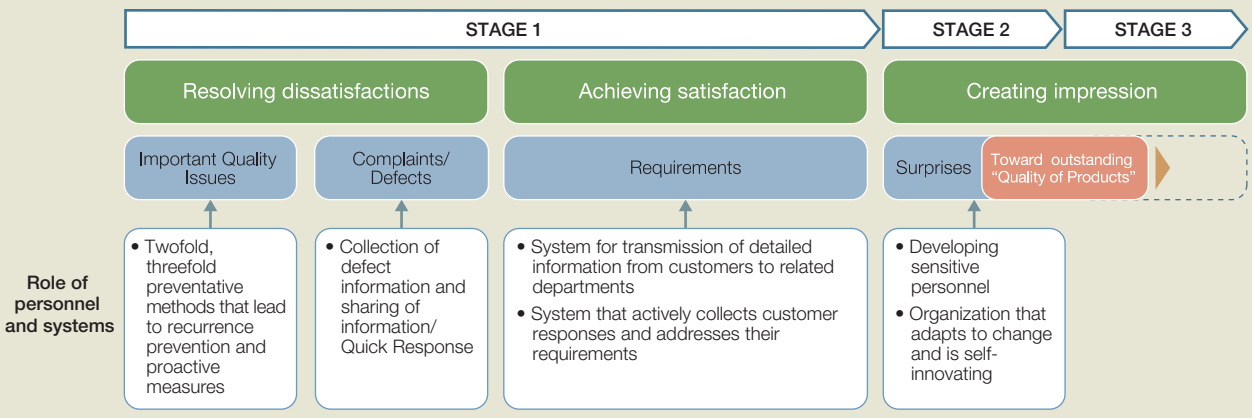
### STAGE 3: Management Begins with "CS"

This is the stage where "CS & Quality Management" is established. We will constantly provide outstanding "Quality of Products" that delight and impress customers.

**Numerical target for 2005**

| Target of measurement | CS indicator | Target |
|---|---|---|
| Toward resolving dissatisfactions | | |
| Measuring customers' dissatisfactions | Important quality issues | Frequency 0 |
| | Number of complaints, claims | -35% (Compared with 2003) |
| Toward creation of customer satisfaction and good impressions | | |
| Measuring degree of responsiveness to new requirements | Ratio of new products to total sales | Over 23% |

**Toward outstanding "Quality of Products"**



# Basic 2005 Policies, Targets and Important Measures for Each Division Company

## Housing Company

**"CS & Quality Management" basic policy**

We will establish the concept of a "high-quality comfortable residence" in which customers can perpetually live in comfort, and strive to earn "most trusted" ranking for Sekisui Heim.

**Numerical targets for 2005**

| Item | Target |
|---|---|
| Important Quality Issues: Frequency | 0 |
| Complaints/Claims (within 2 years of moving-in) (compared with Second Half of 2004) | - 50% |
| Total satisfaction ratio at 5 years after moving-in | Not satisfied: below 7% |

**Targets and important measures for 2005**

We will establish the concept of a "high quality comfortable residence in which customers can perpetually live in comfort", as a step toward realization of the business mission of "offering environment-friendly residential houses that can be lived in safely and comfortably for at least 60 years".

Accordingly, from a "CS & Quality Management" viewpoint, we will review all our activities and seek to establish "Sekisui Heim" as a brand that promises a "spirit of innovation and high quality". Significant measures aimed at ensuring high quality include reviewing manufacturing technology from the ground up, in development/production/construction areas as well as respective "Fami S"* departments. In addition, by strengthening the after-sales service system we will realize reliable, long-term support that is "Quick/Certain/Friendly". We will also establish/reinforce systems for exhaustively collecting customer responses through such means as customer surveys.

***Fami S**
Sekisui Chemical Group's renovation business.

## Urban Infrastructure & Environmental Products Company

**"CS & Quality Management" basic policy**

We will conduct business activities in a manner that places highest priority on quality, by seeing all customer responses from the customer's standpoint.

**Numerical targets for 2005**

| Item | Target |
|---|---|
| Important Quality Issues: Frequency | 0 |
| Number of Claims (compared with Second Half of 2003) | First Half: -35%<br>Second Half: -50% |
| Lead-times for complaint resolution (From receipt at sales div. to factory reporting) (compared with Second Half of 2004) | Second Half:<br>Shortened by 60%<br>(Water Supply & Drainage System Division) |

**Targets and important measures for 2005**

We will tackle the important issues outlined below, under the slogan, "Quality & Quick". We will earn the confidence and trust of customers by implementing "CS & Quality Management" in every division of the company.

First, we aim to halve the number of complaints received by exhaustively analyzing complaint causes from all aspects, including reviewing from the design stage. We will definitely improve the speed of complaint processing, from receipt to resolution, through the concerted efforts of the sales and production departments.

In addition, we will continue our efforts to establish a contact center dedicated to customer care, from ordering to inquiries, in respect of our principle products.

## High Performance Plastics Company

**"CS & Quality Management" basic policy**

We will provide products and services best suited to customer needs, based on accumulated technology packages, in line with the concept that business activities in themselves are CS activities.

**Numerical targets for 2005**

| Item | Target |
|---|---|
| Important Quality Issues: Frequency | 0 |
| Number of Complaints (Compared with the Second Half of 2003) | Second Half: -44% |
| Number of complaints related to delivery | Second Half: -48% |

**Targets and important measures for 2005**

We will innovate in both personnel and organizational areas by introducing the "Management Quality Improvement Program" to all departments. This process will first clarify "important elements of success" and "things to do" according to the "ideal situation" for each business. Then, we will improve CS & Quality by evaluating our own present situation, pinpointing problems and solving them.

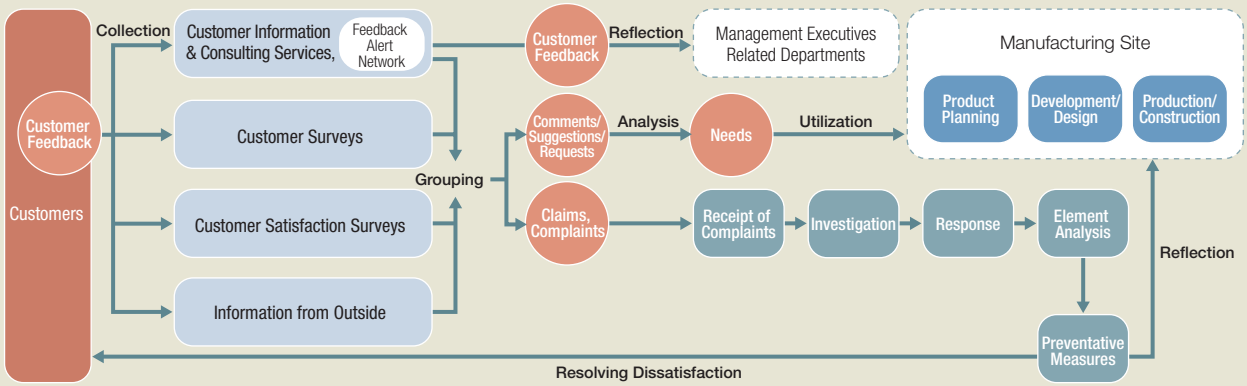
We will also continue to develop our workplace culture through "STAR55" (P41), in order to motivate employees to pursue highly sensitive CS whenever and wherever they interface with customers.

## Status Report 1. — Improvement of System Quality —

# We have established systems to collect and utilize various kinds of feedback from customers, under the slogan, “Customer Opinion as the Seed for Product Development”.

## System for Collecting Information and Reflecting It in Company Activities

**“Customer Opinion as the Seed for Product Development”**




We have established a system for collecting evaluations, expressions of dissatisfaction and requests from customers by various means. The system analyzes and utilizes such information under the slogan, “Customer Opinion as the Seed for Product Development”.

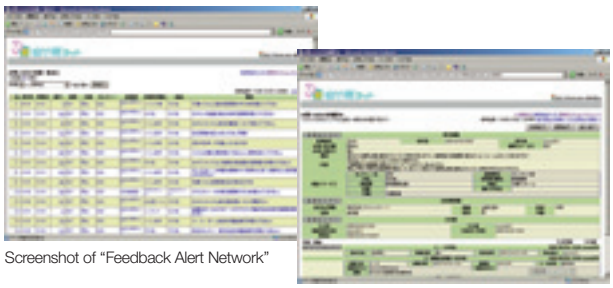
We collect customer feedback through such means as the “Customer Information & Consulting Services” in the CS & Quality Management Department and Customer Satisfaction Surveys, analyze this information, and utilize to guide product planning and development.

In addition, relevant departments immediately take such information on board and ensure that they respond to claims and complaints while exhaustively analyzing direct and indirect causes of problems, in order to take preventative measures.

### “Customer Information & Consulting Services” and “Feedback Alert Network”

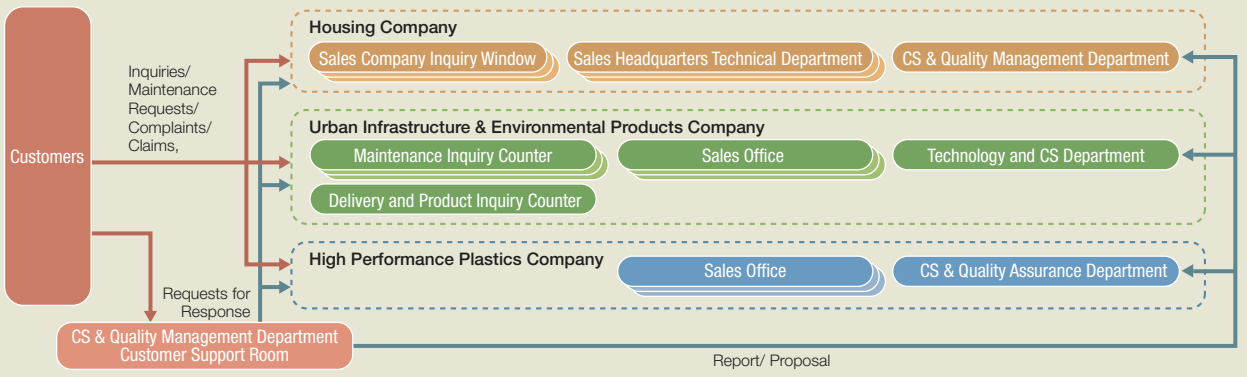
The “Customer Information & Consulting Services” makes every effort to immediately respond to inquiries and complaints from customers, and to resolve problems. Information from customers is passed to appropriate departments and utilized for improvement of products and services.

For this purpose, we have established an internal database, “Feedback Alert Network”, which collates customer responses. Customer input is registered in real time to the “Feedback Alert Network”, whence the information is accessible at any time to relevant departments, e.g. Product Development Department, management executives.



Screenshot of “Feedback Alert Network”

**Customer Information & Consulting Services System**

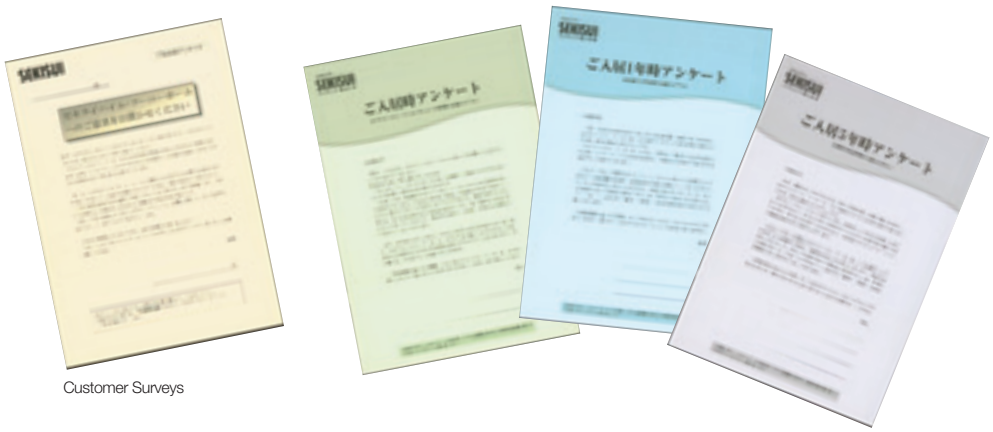


## Continuous customer surveys and revision of questionnaires

Since its foundation, our Housing Company has conducted customer surveys and utilized them in product development, improvement procedures and after-sales service.

Customers are surveyed at the time of contract signing, upon moving-in, one year after occupation, and 5 years after occupation. In fiscal 2005, we revised the contents of the survey in order to elicit more concrete feedback, based on the business mission, “offering environment-friendly residential houses that can be lived in safely and comfortably for at least 60 years”.

Certain departments and sales companies of both Urban Infrastructure & Environmental Products Company and High Performance Plastics Company, which have mainly corporate customers, also conduct corporate customer surveys. They collect as much information as possible. This is collated with feedback obtained through direct communication by sales representatives and utilized in both product development and sales/service activities.



Customer Surveys

# Providing Relevant Information about Our Products

Sekisui Chemical Group provides information to customers, relevant to intended use, to assist them in using our products safely and appropriately.

For instance, Housing Company has prepared information in the form of a “Maintenance Booklet” on how to clean and maintain each part of the house, and how to avoid/prevent potential household accidents and injuries. Upon occupying the house, customers are instructed how to use installed equipment and appliances, and how to report accidents.

In the infrastructure components field, we ensure that accurate construction procedures are followed by providing a “Construction Hand Book” to the actual contractor, with the aim of maximizing the functionality and features of our products.

We also provide information on chemical content in the form of an “MSDS”* in respect of products that are used as components by other manufacturers. We also provide information on our products through our websites.

*1 **MSDS**
Material Safety Data Sheet. Provision of this sheet in regard to the products that contain certain chemical materials is mandated by The Ministry of Economy, Trade and Industry.

### Collaboration with partners for improvement of CS & Quality

In pursuit of CS & Quality improvement, Housing Company holds business briefing sessions with its business partners to explain requests and business policies for each fiscal year. The aim is to cooperate with not only the partners of group companies but also with the partners of components manufacturers.

At the briefing session in February 2005, 160 companies participated and were asked to join in collaborative improvement efforts such as, “shorter delivery lead-times for after-sales maintenance components” and “reduced incidence of defective components”. Numerical goals were presented as part of an on-going effort toward “CS & Quality Management”.

And, in order to reduce redundancy in both the production/manufacturing processes and in resources due to defective components and delivery problems, we promised to continue conducting “procurement audits”, which were introduced in 2003. This entails reviewing the production and distribution sites of problematic supply sources.

In addition, the Housing Company established “Sekisui Heim Kyoeikai” in order to support improvement of products and services provided by our partners. The members of “Kyoeikai” work on quality improvement activities based on the business policies of Housing Company, report on their activities at the sessions, and share results.

Scene from a Sekisui Heim Kyoeikai meeting

## Status Report 2. — Improvement of Personnel Quality —

# We are committed to developing a CS workplace culture in which every employee constantly thinks about providing value to customers.

## STAR55 CS Penetration Program Encourages Everyone to Act

It is the employees who develop and produce our products and deliver them in response to customer orders. Therefore, only when the attitudes and behavior of our employees are customer-oriented is it possible to produce and supply good products (Quality of Products) that satisfy customers. With this in mind, Sekisui Chemical Group since 2002 has been developing a CS Penetration Program called “STAR55”.

STAR55 is an umbrella term covering several programs aimed at improving our customer-oriented workplace culture (CS workplace culture). These programs meet the need for a common language to help fosters CS appreciation and identify opportunities to think about our business and its values from the customer’s point of view. We aim to instill a CS workplace culture throughout the Group by seeking a commitment from every single employee to act in a manner that will help to win customer trust and confidence.

Workplace culture and attitudes do not change easily, and monitoring the process of change is difficult. Instead, we “sense” workplace culture by observing the behavior of those around us; the workplace culture creates attitude, and attitude determines behavior. STAR55 focuses on individuals' behavior, and seeks to improve the workplace culture by influencing appropriate behavioral change.

**STAR55**

“STAR” stands for five key words: Sekisui; Trust; Action (by employees); Revolution (in workplace culture). “55” refers to Sekisui’s 55th Anniversary in 2002 (the year in which the program was launched). As an acronym, “STAR” (principal player) embodies the idea that “every single employee must play a leading role in the process of enhancing CS”.

## STAR55 — Principal Programs

The major programs operated under STAR55 are the “Leaders Program”, “Basic Program” and “Meetings Program”.

Through these programs we have developed a flow process that encourages change in behavior and attitudes in each workplace, starting with individual department leaders.

**Principal programs — implementation flow process**


### Leaders Program — encouraging example-setting by leadership

This is a program designed to change of behavior and attitudes of the leaders in each department. It helps each leader to understand the roles that he/she should play, and teaches the key points and methods of Basic Programs.

Scene from a Leaders Program

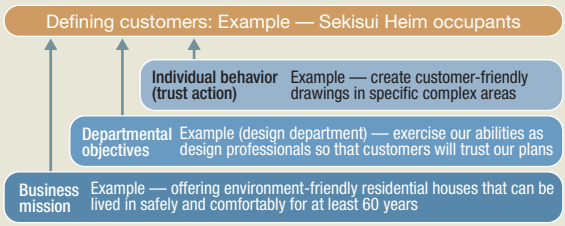
### Basic Program — clarifying departmental objectives and individual employee behavior requirements

This program is initiated by the leader in each department.

It starts by communicating Sekisui Chemical Group’s CS concept. Each staff member is asked to commit to taking certain prioritized actions to gain customers’ trust (trust action) and to review their individual actions from customers’ standpoint, in line with the objectives of the department (raison d’etre), according to the business mission. Every employee receives a card to carry as a constant reminder of his/her designated trust actions.


Card describing trust actions

**Examples of objectives and behavior set under a Basic Program**




### Meetings Program — encouraging continuation of trust action

This program started in 2003 with the aim of maintaining and reinforcing CS workplace culture, and is exercised regularly in each workplace.

All employees, including leaders, discuss issues from the customers’ standpoint, and review the trust actions of every single individual.

## 2004 Results and Future Challenges

Between fiscal 2002 and 2004, we implemented the Leaders Program at all sites listed in the initial plan.

Also, in 2004, we conducted employee surveys to study attitudes with respect to CS, in order to verify the results of these activities up to that time. Compared with the survey results for fiscal 2001, before introduction of STAR55, significant improvements were observed in many areas.

It became obvious, however, that there were differences in levels of actions taken by departments and individuals, and that STAR55 did not appear to have made an acceptable contribution to resolution of customer dissatisfactions.

These are the challenges we face; they will be met by the activities we have planned. From fiscal 2004, we have been extending STAR55 to overseas offices. For example, Sekisui (Hong Kong) Ltd. has implemented the Basic Program for all personnel, as part of the annual company-wide conference.

Scene from Basic Program exercise at Sekisui (Hong Kong) Ltd.

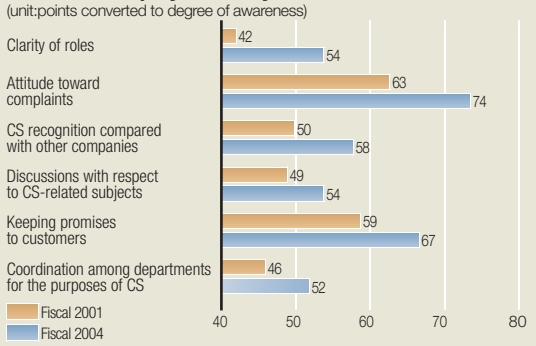
**Number of leaders participating in the Leaders Program**

(unit:people)

| | Fiscal 2002 | Fiscal 2003 | Fiscal 2004 | Total |
|---|---|---|---|---|
| Housing Company | 228 | 1,105 | 0 | 1,333 |
| Urban Infrastructure & Environmental Products Company | 233 | 206 | 55 | 494 |
| High Performance Plastics Company | 309 | 29 | 0 | 338 |
| Corporate Headquarters | 18 | 150 | 0 | 168 |
| Total | 788 | 1,490 | 55 | 2,333 |

**Results of employee surveys**

(unit:points converted to degree of awareness)

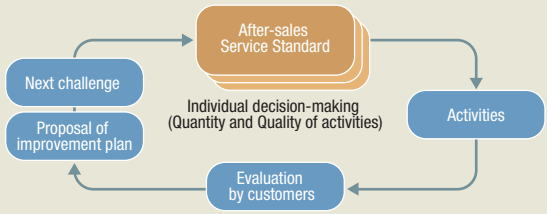



## Challenges — Developing STAR55

Creating a workplace culture that emphasizes CS is an ongoing process. In order to ingrain a customer-oriented approach throughout the organization as a kind of “DNA”, we are enhancing STAR55 contents by encouraging proactive behavior in every single employee.

For instance, certain after-sales service departments of Housing Company offices have established a new code of behavior, the “After-sales Service Standard”, which is an aggregation of trust actions promised by each individual. With all personnel adhering to the same standard, individuals can propose specific solutions to problems, better satisfy the customer, and aim at a higher standard of behavior. We intend to strive harder to link ourworkplace culture development activities with improvement of CS in practice.

**Full diagram of after-sales service quality improvement cycle**

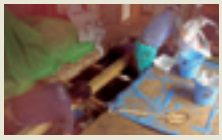



### Providing support service beyond products — actions by the Housing Company during natural disasters in Niigata Prefecture

In order to achieve customer satisfaction, it is important to provide not only the basic residence - our product - but also quality service. Service comes under special scrutiny when accidents or natural disasters that threaten safety and comfort occur.

In 2004, a series of large-scale natural disasters occurred in Niigata Prefecture. Employees and partners of Sekisui Heim Shinetsu Co., Ltd. took the initiative in confirming the safety of customers and supporting recovery efforts, earning major kudos from many customers with respect to our quick response and the earthquake-resistant characteristics of our houses.

In that vein, Sekisui Chemical Group has long focused on strengthening the earthquake resistance of these houses. Their superior performance showed through in the case of the Great Hanshin Awaji Earthquake.



Discharge of polluted mud piled up under the floor, and spreading of lime for

Accumulation of flood-displaced household effects in the neighborhood

**Concentrated heavy rain in Niigata (July 13)**

On the day following collapse of riverbanks in Sanjo (July 14), our employees formed teams to telephone our customers in the region (500 houses) and confirm that they were safe. During the four days, July 17, 18, 21 and 22, a total 396 employees and partners voluntarily conducted under-floor surveys, short-circuit inspections, removed polluted mud and helped with cleanups.

**Niigata Chuetsu Earthquake (October 23)**

We initiated damage surveys on the day after the earthquake. From October 28, a total 144 employees and partners carried out site surveys and repair services. A subsequent survey showed that no loss of life or major structural damage had occurred among the 1,065 Sekisui Heim households in the quake-hit area.

## Status Report 3. — Improvement in Quality of Products —

# We will rigorously improve “Quality of Products” in order to consistently provide values that meet customer expectations.

## Quality Management System Pursues Quality of Products

Sekisui Chemical Group strives to ensure quality management in every stage of the entire production and marketing process, from product development to customer use.

In our business operations, we ensure steady implementation of plans as well as solutions to problems by adopting scientific methods based on the management cycle, “Plan-Do-Check-Act”. To this end, each department has streamlined its product/service quality assurance system by responding to its business circumstances and by complying with related laws and regulations, to carry out daily management with quality indicators and target figures set for each process.

Furthermore, we implement assessment from various perspectives, including those of quality assurance and product safety, to validate the feasibility of plans and implementation of product development, specification changes and quality improvement.

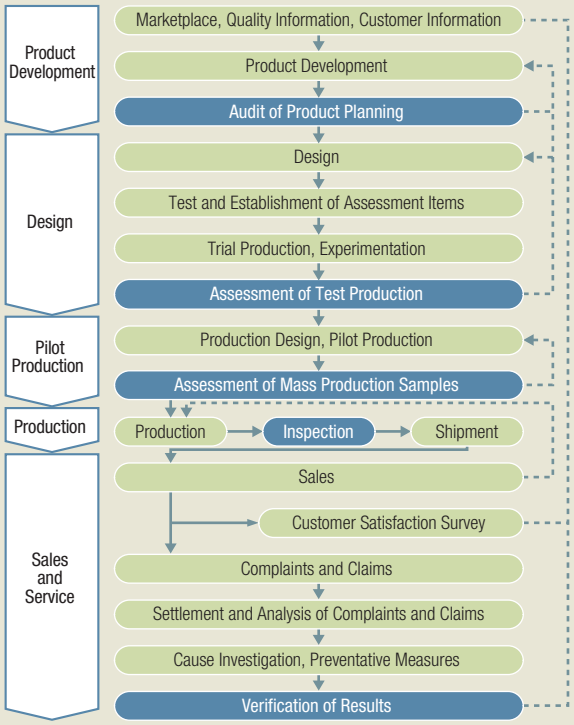
### ISO9001 certification

As part of ongoing improvement and reinforcement of the quality assurance system, 30 offices and departments of Sekisui Chemical Group have obtained ISO9001 International Standards certification with respect to quality assurance and quality management.

### Implementation of safety review

Avoiding safety problems is fundamental to product quality. To this end, all division companies carry out a Safety Review (safety evaluation) of products at three design stages: concept, basic and detail. In addition, they conduct safety audits based on the Product Safety Check List.

**Quality Assurance System (overview)**




## Group Improvement Activities and Company-wide Meeting for Result Announcement

Sekisui Chemical Group still conducts a form of quality-control activity that was first introduced in 1966 and is based on small groups known as “QC (Quality Control) Circles”, in pursuit of excellent “Quality of Products”. Since 1990, we have been expanding this group activity, currently called “Group Improvement Activity”, in related companies, associated companies and overseas offices.

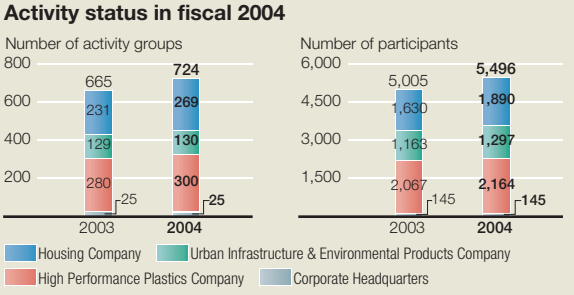
This activity is aimed at establishing a corporate culture of “constant improvement”, developing human resources, and improving business performance through employees’ efforts to improve production and operation efficiency as well as products and quality in the field of product development.

Every year, the main principles of this activity are clearly specified, and important issues are discussed in each workplace, including decisions on policy-setting and implementation of activity themes. Furthermore, we provide education and study sessions on CS methodology to help enhance improvement in a logical and scientific manner, and to develop the skills of each employee. In 2004, we carried out activities directly related to the business policy of each division company and department, under the slogan, “Pursuing competition-beating activities”.


Company-wide Activity Presentation Meeting

The results of these activities are reported and shared at division meetings. In addition, every January a Group Improvement Activities Company-wide Presentation Meeting is held, bringing together Sekisui Chemical Group employees and executive management, including overseas teams, to share reports on activity status and the latest results.

**Activity status in fiscal 2004**



## Company-wide Implementation of Quality Engineering (Taguchi Method)

In 2001, we introduced “Quality Engineering” into the process from product planning to development/design/production, in order to achieve excellent “Quality of Products”. The “Taguchi Method”, developed by Dr. Genichi Taguchi, enables us to predict and evaluate product functionality in the market at the research and development stage.

Since 2001, we have been learning about and experimenting with the concept of Quality Engineering, expanding the range of application from the plant quality improvement theme to the upstream development theme. As a result, successful cases of significant quality improvement and productivity were reported and fully rolled out company-wide from 2004.

In 2004, division companies and research and development department have applied Quality Engineering to 102 themes, obtaining results such as efficiency improvements in production of aluminum and plastic composite tubing, and aggregation failure improvements with LED materials. Moreover, quality improvement has helped reduce defects.

We intend to continue to improve “Quality of Products” by setting numerical targets while providing education and training on Quality Engineering.

**Mid-term (2004-2005) implementation policies**

Based on the results of fiscal 2003, we will expedite company-wide implementation of Quality Engineering through more systematic and organized activities:

1. Support promotion of theme in plants and institutes by positioning Quality Engineering as a CS & Quality Management Realization tool as well as a technology development innovation tool
2. Improve self-implementation systems in all workplaces
3. Improve education and training systems for human resources development
4. Define its contribution for management by focusing on financial interpretation of results

**Target numbers for company-wide development and results for fiscal 2004**

| Item | 2004 Target | 2004 Result | 2005 Target |
|---|---|---|---|
| Number of offices and administrations | 20 | 20 | 55 |
| Number of themes | 100 | 102 | 100 |
| Number of new users | 100 | 91 | 100 |
| Number of leaders | 15 | 17 | 55 |
| Value of contribution(million yen) | 300 | 342 | 700 |

## Introduction of CS & Quality Audit

Since 2004, we have been conducting a “CS & Quality Audit”, in order to fully enforce company activities based on a quality-focused perspective.

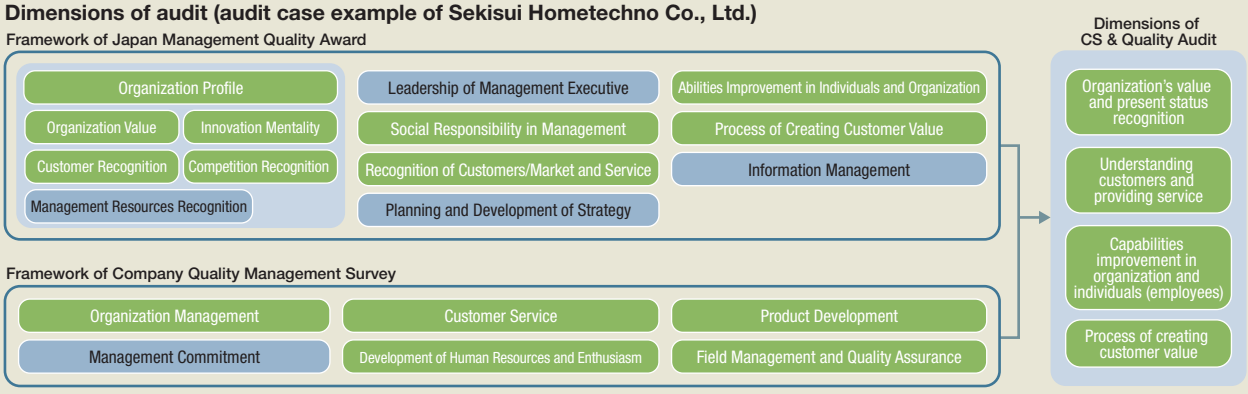
In this audit, the CS & Quality Management Department inspects the activities of Sekisui Chemical Group, using a dimensional definition based on the evaluation criteria of the Japan Management Quality Award*1 and “Company Quality Management Survey”*2.

In 2004, Sekisui Hometechno Co., Ltd. was audited. We will pursue CS & Quality Management by conducting further audits of several selected offices from among production offices, departments and development divisions in the Group, while reflecting the results of these audits in all activities.

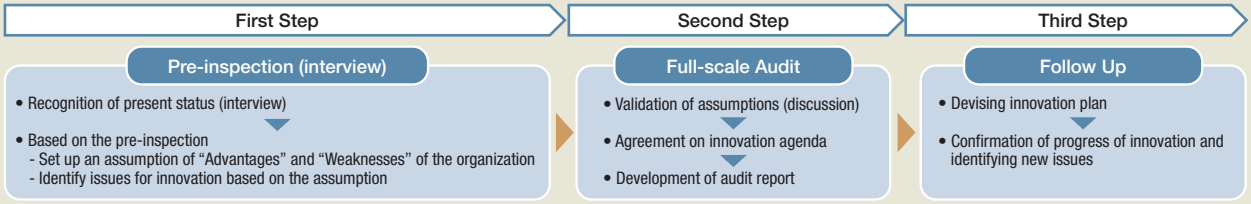
*1 **Japan Management Quality Award**
This is an award established in 1955 by the Japan Productivity Center for Socio-Economic Development. The Center evaluates and recognizes candidates by reviewing overall company management based on its evaluation criteria.

*2 **Company Quality Management Survey**
This survey was jointly launched in 2004 by the Union of Japanese Scientists and Engineers and Nihon Keizai Shimbun, Inc. to evaluate and rank companies - mainly manufacturers - on quality activities in six categories. In the 2004 survey conducted, Sekisui Chemical ranked 71st among the 208 companies surveyed.

**Dimensions of audit (audit case example of Sekisui Hometechno Co., Ltd.)**




**Steps for implementing CS & Quality Audit**



# Product Development and Service to Meet Customer Requirements (results of fiscal 2004)

# All companies manufacture with customer satisfaction as their benchmark.

## Housing Company

### After analyzing the meaning of customer satisfaction, "Grand To You" created premium comfort with zero utility cost *1.

"Grand To You", launched in October 2004, is a timber-frame house design, in which we pursued comfort, the essence of housing.

During development, we analyzed the reasoning behind the positive comment, "almost 100% satisfied" (i.e. "We can go barefoot, even in winter.", "We can get around in light clothing.", "It's comfortable, even in summer, with no need for air-conditioning, just a dehumidifier."), made by occupants of "Crastina", a high-end (high-performance) timber-frame home built by Sekisui Chemical Group. We discovered that the key phrase in respect of comfort expected by customers was "Quality of Air".

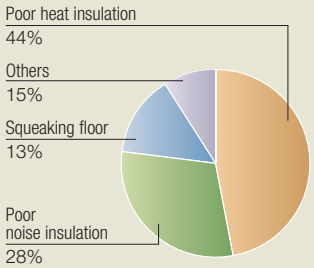

"Grand To You"

Home comfort depends on the quality of the air surrounding the resident and throughout the house. This means that by pursuing better air quality we can provide high-level comfort to more customers. Achieving air quality means controlling 4 elements, namely "temperature, humidity, cleanliness and tranquility (low transmission of vibrations)". This calls for building frames that deliver superior airtightness and heat/noise insulation performance. We developed the airtight, heat/noise insulated building frame for "Grand To You" using large 2 in. x 6 in. lumber. Because these are difficult to process on-site, we prefabricate them in our plant, using a high-accuracy manufacturing process. Thus, we achieved the premium comfort levels of Q-value = 1.6W/m$^2$k and C-value = 2.0cm$^2$/m$^2$ *2. Moreover, we improved air quality by adopting the "Air Quality Unit", which provides clean air by ventilating and dehumidifying the air while eliminating dust and other allergenic agents, together with a total air-conditioning system, which delivers maximum efficiency from a minimum amount of electricity. "Grand To You", which eliminates the discomfort that can be caused by a temperature difference between the ceiling and the floor in a room, is also an advanced residential concept in terms of contributing to resource and energy conservation through its use of solar energy generation and discounted midnight power.

*1 **Zero Utility Cost**
This result is calculated in our test prototype house, assuming a 4-member family. Actual results may vary depending on the area and how it is used.

*2 **Q-value, C-value**
Q-value is an indicator that shows the heat loss coefficient.
C-value is an indicator that shows the ratio of gap to gross floor space. The performance of "Grand To You" - Q-value = 1.6W/m$^2$k, C-value = 2.0cm$^2$/m$^2$ (calculated in our test prototype house) - meets the most stringent criteria for Area 1 (Hokkaido area) in the Next Generation Energy Saving Standard. We have confirmed that "Grand To You" meets the standard by measuring C-values in all houses, following completion and delivery.

**Customer survey to identify occupant dissatisfaction**




In a 2004 survey conducted with occupants of "Sekisui Heim" and "Sekisui Two-U Home" houses, 130 out of 3,161 households expressed dissatisfaction with house performance. This result indicated that insufficient "performance of sound and heat insulation", which affects comfort, were the major cause of their dissatisfaction (survey by Enviro Life Research Institute Co., Ltd.).

### Developer testimonial

Akinori Kawase
Product Development Department II,
Housing Division,
Housing Company, Sekisui Chemical Co., Ltd.

"How to understand and accomplish the intangible value of a "comfortable home" was the key to the development. I believe that we were able to achieve the excellent comfort we targeted by attaining the ultimate in "Air Quality", once we had arrived at the concept."We were conducting continuous day/night capability testing in a purpose-built test prototype house.

"Then, one morning, I found that the warmth from the previous day was still in evidence, causing me to wonder if I had forgotten to turn off the heating. At that point I became confident that the house had excellent thermal retention performance. In wintertime Tokyo, heating at 22 degrees Celsius for two hours from 9 p.m. will keep the room temperature above 16 degrees Celsius until at least 7 a.m. next morning. Since 16 degrees Celsius is the average May temperature in Tokyo, I explain to customers, 'It offers you the pleasure of waking up in springtime, even in the middle of winter.' We had some difficulty producing 2 in. x 6 in. components, which are 1.6 times larger than 2 x 4, in the plant, and improving manufacturing accuracy. However, we were able to develop a structural member that meets the initial performance target.

"We began selling "Grand To You" in October 2004. By March 2005, 604 houses had been sold nationwide. I believe that this reflects widespread customer recognition of the house's key features - premier comfort and zero utility cost."

## Urban Infrastructure & Environmental Products Company

### Eslon Summer Pipe, a less-warp type has been developed in response to plumbers' wish.

Eslon Pipe is a type of PVC pipe that is widely used in household drainage and sewer systems.

In outdoor plumbing work, strong sunlight can heat the front surface of PVC pipes, causing an expansion gap between front and back due to temperature difference. This causes the PVC pipe to bend, and it used to be necessary - especially in summer - to cover the pipes with for storage.

Then, we developed the "less-warp pipe", a pipe that meets builders' need for anti-bend stability during summertime construction. We succeeded in reducing warpage to the half, compared with our conventional product, by constraining temperature rises caused by sunlight. Since the product's release in 2002, it has been highly commended by our customers, who say, "It makes construction work more efficient, even in summer."

Eslon Summer Pipe

We will keep developing and providing products that meet customers' requirement, under our slogan: "Advanced Eslon Pipe21-Eslon Pipe never stops evolving".

#### Developer testimonial

Hiroshi Tomita
Pipe & Related Products Production Department, Shiga-Ritto Plant, Urban Infrastructure & Environmental Products Company,Sekisui Chemical Co., Ltd.

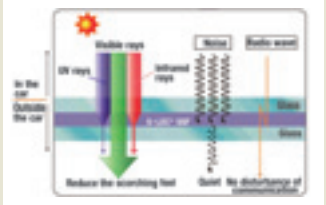
"I am very happy to hear the good reputation we have earned from our customers for Eslon Summer Pipe, which overcomes negative perceptions of PVC pipes. We will continue to surprise and delight customers by developing 'advanced products' that promote CS."

## High Performance Plastics Company

### S-LEC SSF, a new high-performance film with improved sound/heat insulation efficiency

Unbreakable laminated glass is used in automobile windshields and security glazing for buildings. S-LEC SSF (Sound and Solar Film) is a film interlayer that supports the functionality of such laminated glass with fundamental efficiency in "safety, security and ultraviolet ray exclusion". We have long supplied these films to glass manufacturers. Today, however, noise and heat exclusion capabilities are also required in such interlayers, in line with the growing demand for comfort and environmental friendliness in automobile design. In response to these customer requirements, we have developed and provided both a "sound-proof film", which reduces wind roar and engine noise through our unique, superimposed extrusive and nano-disintegration technology, and a "heat-proof film", which constrains rises in temperature by preventing infrared rays from penetrating. In February 2005, we succeeded in developing S-LEC SSF, which offers both "sound-proof" and "heat-proof" capabilities, by distributing fine, heat-proof particles on a multilayered film with a 5-layer structure. With its combination of two required functions in one film, S-LEC SSF contributes to enhanced traveling comfort while improving the environmental friendliness of automobiles in terms of greater energy efficiency and reduced need for air-conditioning.

Windshield



Performance by cross-section

#### Developer testimonial

Masao Suzuki (left), Tsuyoshi Hasegawa (right)
S-lec Film (Interlayer Film) Production Department, Shiga-Minakuchi Plant, High Performance Plastics Company, Sekisui Chemical Co., Ltd.

"People are basically unaware of interlayer films because they are sandwiched between sheets of glass. However, we developed these products with a feeling of responsibility and pride that they will contribute to both enhanced safety and improved comfort for all automobile drivers and passengers."

# Creating a Culture of Volunteering and a Safe and Relaxed Work Environment

At Sekisui Chemical Group, we put our employees first, because we consider them to be precious assets placed in our trust by society. Therefore, we have always strived to create a safe and amenable work atmosphere for our employees. We also believe that sustainable development is achieved by allowing the growth of the individual to contribute to the growth of the whole. So, we earnestly encourage a “culture of volunteering” and a "performance-based remuneration” system, creating an organizational framework that will make the most of its human resources while promoting the growth of the individual.

In recent years, under the system of consolidated management, the relative importance of group companies to the parent company has increased steadily, and business is fast becoming global in outlook. Against this backdrop, we consider it more necessary than ever to push forward as a group, united in our attitudes and philosophies.

That said, we believe there is still a long way to go before our companies and their individual employees can be said to be truly playing their roles as contributors to society at large.

We hope to work as a group toward actively resolving such issues in coming years.

### Culture of Volunteering and Taking on Challenges

We consider it important that employees enjoy their work and are motivated to take on challenges. To facilitate this, we have established several systems that enable employees to choose/realize their own corporate affiliations, job descriptions, education and training.


### Performance-Based Remuneration System

Each employee works with a sense of job-satisfaction and individual growth, while translating this into concrete results. The results are then evaluated, even-handedly considered by the company, and rewarded appropriately. This encourages employees to set themselves even higher targets, which in turn leads to growth of the individual and the overall development of the company. This is the objective of Sekisui Chemical Group’s performance-based remuneration system.

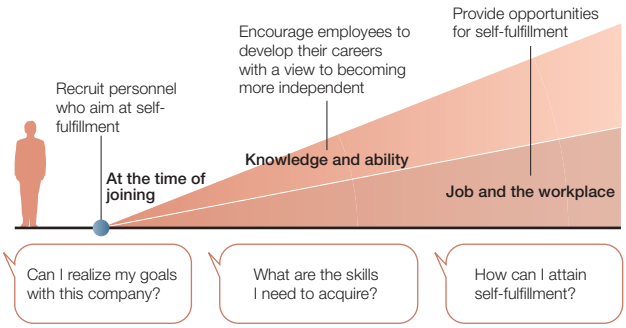
### A Safe and Relaxed Work Environment

Employees of Sekisui Chemical Group are not just members of the corporate organization, but also members of the society.
In light of this, we have developed a system that allows all staff members to feel secure in their employment, while pursuing their chosen vocations in their own way, in keeping with their personal values and life-plans.

## Culture of Volunteering

# At recruitment or toward career development, choose your own affiliation, job description and training program.

Sekisui Chemical Group believes that the foundations of nurturing human resources are laid on the work-floor. Accordingly, we work hard to create and evolve an organizational framework that will enable each staff member to grow on the job, and we value employees who want to enjoy what they do and seek to explore fresh directions; in other words, "individuals who volunteer to take on challenges". Toward this, we have established various systems that allow employees to make their own choices, not just regarding affiliations and job descriptions to be decided at the time of recruitment, but also with respect to transfers, training and/or upgrading their skill programs in the course of their employment.




## Colleagues who Aim at Self-fulfillment (recruitment by each company)

### We take every applicant's choice of affiliation and job description at the time of recruitment very seriously

At Sekisui Chemical, our basic guidelines for recruitment include the selection, based on requirements as per business strategies, of staff who "will volunteer to take on challenges", "are independent", and "will not be enslaved by precedents". In other words, we look for people who can work hard and exercise their own initiative to take steps toward the achievement of higher targets.

Our recruitment criteria, therefore, do not impose restrictions based on gender, age or educational qualifications, and we are open to applications from all sources. In our selection process, too, we respect the human rights of applicants and respond to their applications in a sincere manner, based on our belief that applicants are like business customers.

Furthermore, in order to do justice to each applicant's individuality and character, we never conduct group interviews; instead, we rely on our well-planned system of one-on-one interviews. Right from the screening stage, we insist that candidates must demonstrate a commitment to achieving self-fulfillment. Since fiscal 2000, in addition to our "Choose Your Own Company" system, we have also operated a "Desired Job Description/Wise Selection" system.

This means that candidates themselves select their desired affiliation and job description during the time between the company information session and the preliminary interview. They are then considered for selection by their nominated company. This selection process helps maintain/improve motivation once the candidate commences employment, and prevents mismatches between what job a candidate sought, and what they ended up getting.


Scene from a company information session

### Testimonial

**I work hard every day, doing the job I want to do.**

"The business descriptions of the various companies of Sekisui Chemical Group being quite diverse, I was extremely happy to be given a choice regarding my job description. Initially, to tell the truth, I was a bit insecure about making a choice, but after going through the milk round and interacting with senior staff members, I gained a deeper understanding of the nature of the group's businesses, and was able to get a feel for the kind of job I wanted to do.

"In the end, I chose to work as research and development staff member at High Performance Plastics Company. The reasons for my choice include the fact that this company is very globally oriented, and also the opportunity to put my university research on organic chemistry to good use.

"At this stage, I still have a long way to go before I become fully self-sufficient, but at least I know that I'm working conscientiously, every day, in a job that I really enjoy."

Yasuo Watanabe
Minase Research Laboratories,
Development Institute High Performance Plastics Company
Sekisui Chemical Co., Ltd.

### Declaration of Action

At Sekisui Chemical Group, each member of the staff bases his/her actions on the three commitments.

- **Ownership (Sense of ownership)**
  Work to resolve issues independently and in the spirit of playing a leading role
- **Commitment (Strict observance of targets)**
  Take every necessary action toward achievement of a target, and see through one's responsibility to the end
- **Focus (Choice and concentration)**
  Be deeply, conscientiously and professionally involved in the pursuit of business objectives

# Opportunities for Self-actualization — Intra-group Job Posting

## Employees can volunteer to take on new challenges

In October 2000, Sekisui Chemical established an Intra-group Job Posting System with the slogan, “Shape Your Own Career”. This system allows employees to voluntarily apply for transfers to job postings that the company advertises. It encourages the enthusiasm of employees who are willing to try their hands in different areas: new or expanded business activities, the China strategy, management planning, legal affairs, human resources; and those who aspire to higher achievement in a job of their choice.

By providing these opportunities, Sekisui aims to improve both individual motivation and company performance. When a job description or new opening in a department is notified within the Group, any employee who believes that he/she qualifies for the position may apply. Successful applicants can transfer without requiring approval from their current superiors.

Over the past four years, a total 70 personnel have taken transfers and all are doing well in their new jobs. We consider this internal transfer system to be as significant as our performance-based remuneration system, and we intend to develop it further, with involvement of the entire Group.

Promotions are also initiated by employees themselves. An employee wishing to be promoted and/or to work in a larger arena may apply for promotion by submitting a presentation on his/her business performance. A convincing presentation should result in the desired promotion. Abolition of automatic, across-the-board, annual promotions, often without obvious merit, has resulted in increased transparency and greater employee satisfaction.

### Testimonial

**It was an unforgettable moment when I signed my first contract.**

“I started out in plastic products development, but, after 8 years with the company, I began to give greater thought to my career path. It was around the time that I was building my own house, and I fell in love with Sekisui Heim-their products were so good!”

“Then, I spotted on the intranet an intra-group job opening for a salesperson in the housing business, and began to dream about a change. It was hard to come to a decision, but, after talking it over with my family, I decided to take a chance. So, I put in my application. I am grateful for the intra-group job posting system because it has allowed me to do what I enjoy. The happiest moment was when I signed my first contract with a customer. Until then, I had only been spending company money in my development job, but now I could actually contribute to the company’s sales revenue. I was both excited and relieved. I still have a long way to go, but my goal is to become a sales professional for Sekisui Heim. I am very glad that I put my hand up and seized this opportunity.”

Yasumasa Okada
Shiga Second Sales Office,
Sekisui Heim Keiji Co., Ltd.

## Discussing career with superiors

At Sekisui Chemical, we provide a Career Interview System (CIS), which provides annual opportunities for employees to discuss their careers with their superiors.

During an interview, the employee’s performance, achievements, skills and qualifications acquired during the year, and ambitions regarding work and education are discussed at length, in order to set up targets for the future. The superior is required to fairly consider the employee’s direction and competence, and to advise on suitable positions and training programs, as well as on job transfer opportunities.

CIS Interview

## Opportunity for reviewing the past and planning for the future

In order to support the charting of each employee’s career and life plan, we introduced the Age-wise Career Plan in 2001.

This training targets employees who are at ages considered to be career turning points, namely 30, 40, and 50. Themes relevant to participants’ ages are addressed, and they are given the opportunity to review their work and life achievements to date, and to make plans for the future.

In 2004, this valuable program was extended across the entire Group, as it provides a good opportunity for employees of the same age across the range of posts and job types to share information. A total 42 employees from different Group companies participated in the first year.

In coming years, we hope to further heighten the career-consciousness of all employees.

**Career plan training**

| | Theme |
|---|---|
| 30 years old | • Looking back over his/her career since joining the company, and understanding areas of interest, values, and direction |
| | • Understanding the concept of a career built on the foundations of self-responsibility and market value, and considering a plan for future career development |
| 40 years old | • Making a “reality check” at the half-way point in his/her working life, and reassessing career and life plans |
| | • Evaluating and understanding his/her personal level of professionalism in specialized fields, based on “market value”, and considering a career plan |
| 50 years old | • Reassessing career and life plan with a view to retirement at age 60 |
| | • Considering a life plan for the future, from the point of view of living an active life to the end |

# Supporting Career Development toward Independence — Training Posting System

## Employees can choose a training program that will contribute to development of their careers

While we seek diversity in our personnel and job types, we encourage employees to choose from a variety of courses, training that will help them realize their personal career plans.

The highly diverse education and training curriculum offered by corporate headquarters includes programs for the acquisition of business skills that any employee, regardless of job type, may find useful, together with leadership development programs.

Individual division companies also offer training programs to help individual employees build relevant skills in areas related to the company's specific area of business.

All training programs are open to employees throughout the Group, and share the common objectives of developing skills and nurturing human resources.

**Training posting system**

### Chinese language training course

As of April 2005, Sekisui Chemical Group had 11 affiliated subsidiaries in China. In order to identify and develop human resources who will promote business in China, we introduced in fiscal 2004 an internal system that invites employees to participate in language training in China. In principle, the program lasts for one year and enables participants to learn Chinese at a university in Beijing or Shanghai, while developing a deeper understanding of China through expanded social networks.

Upon completing the course, participants are usually assigned to posts related to business in China.

## Testimonial

### I took up my current position in Wulumuqi, in April 2005.

Morita (3rd from right) with colleagues

"I had always wanted to work abroad someday, so when I heard about the Chinese language training course, I had no hesitation in applying. During my early days in China, I suffered from being unable to pick up Chinese fast enough. But, it allowed me to invest time in studying after entering professional life, to relive the joy of learning, and to make many new friends. I am very happy to have participated in this program."Since April 2005, I have been assigned to Xinjiang Yongchang-Sekisui Composites Co., Ltd. in the Xinjiang Uighur Autonomous Region of China, and my current job deals mainly with company finances and accounting. There are still many things that I am not used to, here, but I am proud to work in the Chinese market arena, which is packed with so much potential."

Taisuke Morita
(First batch of participants in the Chinese language training course)
Xinjiang Yongchang-Sekisui Composites Co., Ltd. (China)

## Self-improvement through exchange with employees from other companies/divisions

Since 2002, Sekisui Chemical Group has operated a training posting system that enables employees Group-wide to participate in their choice of training programs. Employees are not assigned to these training programs by their superiors; instead, they are given opportunities to proactively choose their own courses.

There are two types of training programs: internal and external. Internal training programs in fiscal 2004 included a "Management School", which helped participants to acquire the management literacy required by leaders, and a "workshop for self-innovation", conducted by an executive officer of the company and aimed at developing leadership aspirations in participants.

External training programs included the "Business School" program, in which participants could hone their business skills through exchange with businesspersons from other companies, and a "Chinese language training course" designed to equip future "movers and shakers" for our business in China.

**Training posting system**

### Business School program

In the Business School program, participants attend training courses provided by external business schools for people who are already in regular employment. In fiscal 2004, this program attracted 28 participants. Training programs included discussion sessions with businesspersons from various kinds of companies and industries, to help develop the logical thinking needed to succeed in real-life business practice.

## Testimonial

### My outlook broadened as a result of conversing with people from other companies.

"I was inspired by the participants from other companies, who were all highly conscious of and ambitious about self-development and organizational reforms at the companies where they worked."I also discovered that the attitudes and perceptions of people from different businesses and jobs could be totally different, which not only helped broaden my outlook but also made me more conscious of my mannerisms and ways of thinking. "I gained a lot by participating in this training program because now I find that I am thinking more methodically and systematically, and trying my best to probe to the heart of a problem."

Kazuko Mizukami
Water Supply & Drainage Systems Sales Office, Kinki Sales Headquarters
Urban Infrastructure & Environmental Products Company
Sekisui Chemical Co., Ltd.

**Sekisui Chemical Group training system**

| Skill/Knowledge Acquisition | | Training Posting | Housing Company | Urban Infrastructure & Environmental Products Company | High Performance Plastics Company |
|---|---|---|---|---|---|
| Common Skills | Technology/Manufacturing | | | | |
| **Open Seminars**<br>• Coaching<br>• Debating, etc.<br>**Training by Stage**<br>• Rater Training<br>• Goals and Objectives<br>**Cross-cultural Competence**<br>**Training Basic Skills**<br>• Language (English/Chinese)<br>• Bookkeeping/Safety, etc.<br>**New Employee Training** | **Management Skills Course**<br>• Quality Engineering<br>• SQC/IE, VE<br>• Equipment Diagnostic Technology<br>• Maintenance Skills, etc.<br>**Basic Technology Course**<br>• Polymer Molecule Property<br>• Chemical Engineering<br>• Equipment Introduction<br>• Electrical System Design, etc.<br>**Basic Technology-related Training** | **External Training Posting**<br>• Business School<br>• Japanese MBA, etc.,<br>**Internal Training Posting**<br>• Management School<br>• Workshop for Self innovation<br>**Chinese Language**<br>•Training Course | **Job-specific Training Programs**<br>(Production, Design, After-sales Service, Refurbishing Sales, etc.)<br>**Basic Technology Course**<br>• House Performance Design<br>• Unit Structural Design, etc.<br>**Acquiring Qualifications**<br>• Architecture, Real Estate and Building<br>• FP Artisan-<br>**Housing and Environment Welfare Coordinator**<br>• Various In-house Qualifications, etc. | **Nurturing Sales Leaders**<br>• Pipe Renovation School<br>**Basic Skills Course**<br>• Vinyl Resins<br>• Material Mechanics<br>• Casting Technology, etc.<br>**Acquiring Qualifications**<br>• Construction Managing Engineers<br>• Renovated Pipe Installation<br>**Global Employee Training** | **Building Management Mind**<br>• Marketing Workshop<br>• Management Game<br>**Basic Technology Course**<br>• Adhesion Control<br>• Analysis Check Technology<br>**Technological Research Workshop**<br>• Fine Particles<br>• Nano-dispersion Technology<br>**Technology Management Education**<br>**Global Employee Training** |

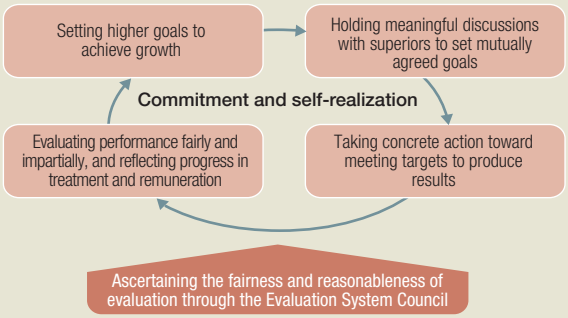
## Perfecting the Performance-based Remuneration System

# We support employees who volunteer to take on new challenges, and we evaluate their performance with fairness and impartiality

Each employee works with a sense of personal growth and job-satisfaction while translating this into concrete results. The results are then assessed and treated with fairness by the company, and rewarded appropriately. This encourages employees to set themselves even higher targets, which in turn leads to growth of the individual and overall development of the company. That is the aim of Sekisui Chemical Group's performance-based remuneration system. In order to implement and firmly establish this system of performance-based remuneration, the fairness of the assessment process must be sustained and faith in such assessment enhanced.

Moreover, it is necessary to establish a framework that provides support for employees who take the initiative to accept challenges.

**Sekisui Chemical Group's performance-based remuneration system**




## Toward Employee Motivation and Company Growth

### Declaration of Action: Making a "Commitment"

Sekisui Chemical's corporate strategy is tailored right to the level of the individual, so that individual performance can directly contribute to the performance of both the employee's organization/department and overall company business.

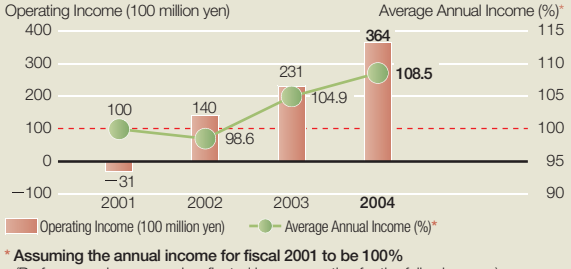
Regarding individual business targets, employees take the initiative in considering and proposing appropriate personal targets in line with their department's policies. The employee discusses his/her proposal with a superior until they agree on a target that satisfies both parties. These one-on-one meetings, which take place four times over a 6-month period (initial , interim , final and feedback meetings), are seen as providing valuable opportunities to stimulate individual contributions to achievement of overall business targets. As for performance assessment, once again employees first review their own performance, and then meet with their superiors to discuss and agree on a formal assessment.

### Remuneration in line with achieved targets (or success)

We have installed a system that translates achieved targets (or success) into appropriate remuneration, in the belief that better performance can be achieved if each employee is satisfied with the treatment he or she receives and finds his or her work satisfying and rewarding. Bonuses are calculated on the basis of the performance of the individual employee as well as overall company and group results.

Moreover, employees' salaries reflect not only their performance, but also their personal growth and progress in target achievement.

**Group-wide operating income and employee' average annual income trends**



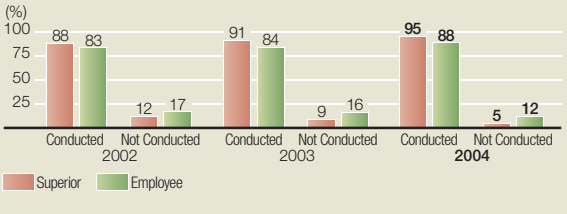

* **Assuming the annual income for fiscal 2001 to be 100%**
(Performance in one year is reflected in remuneration for the following year.)

### Improving fairness and satisfaction levels of assessment

We believe that, in order to improve the fairness and satisfaction levels of performance assessment, it is important to listen to the voices of the people who actually operate the system. Therefore, we regularly conduct questionnaire surveys of both assessors and assessees. The "Evaluation System Council"* considers this feedback and works to improve the system and its application. Specific actions to date include encouraging employees to seek one-on-one meetings more frequently, and improving their level of satisfaction with assessments.

* **Evaluation System Council**
Responses to questionnaire surveys of assessors (conducted by the company) and assessees (conducted by the labor union) are discussed once or twice a year in a committee comprising representatives of the personnel department and the union. Members of this committee exchange opinions and cooperate to improve the fairness and satisfaction levels of assessments.

**Activity status of one to one meeting**

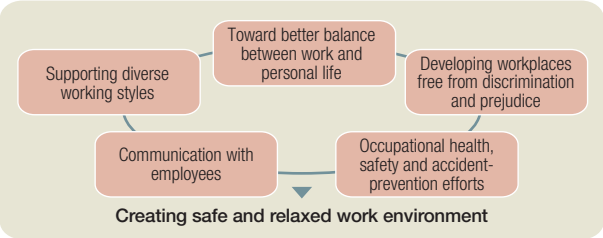



**Results of questionnaire in Fiscal 2004**

## Creating a Safe and Relaxed Work Environment

# While emphasizing our employees' individual human rights and security, we support diversity of working styles based on personal values.

Employees of Sekisui Chemical Group are intrinsic members of the corporate organization as well as of their societies. Therefore, we strive to create a safe working environment. In addition to improving the system that enables employees to choose their work and working styles based on personal values and life plans, we make efforts to create an agreeable working environment by ensuring workplace safety and disaster prevention, and by promoting communication with employees.




## Balancing Work and Life

### Choosing a workplace to suit life plan

This system allows employees to choose career courses that provide a good work/life balance, based on their personal life plans. Since 2001, we have offered the following options: 1. success-oriented remuneration course that gives priority to career without restrictions on the work location. 2. course that gives priority to family stability by providing stable remuneration without transfers. 3. combination of these two career courses. The aim of this system is to help our employees work effectively while acting in the best interests of their private and family circumstances.

### Consideration and support for child-care and nursing-care

Following enactment of the Child-care and Leave Law in 1992, Sekisui Chemical formulated its own rules and systems to support child-care and nursing-care for our employees. These include our child-care leave system, which exceeds standard legal requirements. In April 2005, when the Law for Measures to Support the Development of the Next Generation was implemented, we submitted to the government an action plan on child-care support. Some of the measures to support the development of the next-generation established by the government have been already implemented by our company, and we also intend to introduce child-care leave for male employees in the near future.

**Ratio of employees taking child-care and/or nursing-care leave**


### Improving employee health and supporting mental health care

In order to maintain and improve the health of our employees, Sekisui Chemical Group conducts annual health checkups, special checkups as required by the Occupational Health and Safety Law, and all other checkups stipulated by legislation. In addition, we make continuous efforts to improve our health measures. For example, since 1982, in cooperation with the Sekisui Health Insurance Society, we have been holding regular Health Management Committee seminars, inviting public health professionals to discuss the results of checkups, rate of checkups and checkup-related problems. We also encourage employees to take secondary health checkups.

Moreover, we have begun to support employees' mental healthcare. In 2004, we set up a "counseling office" at the Tokyo Head Office to offer employees fortnightly opportunities to consult with an external counselor (clinical psychotherapist).

### Balancing work and leisure

In 2004, Sekisui Chemical Group received corrective advice and direction on 7 areas from the Labour Standards Inspection Office. We are taking suitable measures in response to these points of advice/suggestions, however, some issues are still pending. We also noted from the Employee Awareness Survey conducted in fiscal 2004, that a large number of our employees feel that "being able to take annual paid leaves without reluctance or concerns" and "appropriate working hours" are key requirements for an agreeable working environment.

Based on this input, we believe it is necessary for us continue making efforts, such as creating a healthy and less stressful working environment for our employees by cutting down on overtime and holiday work, and to come up with ways and means of expanding opportunities for employees to participate in social activities.

### Testimonial

**I hope to see more and more women make use of this system**

"I have taken child-care leave twice, so far. I had no problems taking the leave because our working environment is different from those of other companies, where it is hard to take such leaves. I am grateful, as I believe this is due to the understanding of my co-workers.

"Even so, I was concerned over several things. For instance, documents or memos circulated among staff would not reach me on schedule. Sometimes they arrived afterdeadlines had passed. Also, I found it hard to keep up with schedules and work flow during my leave. It would have been great to get some sort of explanatory note listing what documents would reach me, and when, and the deadlines for submission. Also, since I was assigned to another department when I resumed duty, I initially experienced a fair bit of confusion.

"Working and taking care of kids takes a great deal of energy and it's rather tough for me sometimes, since children can be quite demanding. On the other hand, there is such joy in being able to watch the children growing up that you are also motivated to work harder. I hope more and more women in every workplace won't hesitate to make use of this system."

Kazumi Matsudaira
General Affairs & Human Resources Department, Sekisui Chemical Co., Ltd.

## Supporting Diverse Work Styles

### Realizing a system that allows employees to work until age 65

The official retirement age at Sekisui Chemical is 60. However, in order to make better use of the abilities of retired employees, and make their lives more meaningful, in 1993 we established a "Reemployment" system, which extends the actual retirement age to 65 years.

Under this system, retired employees who wish to continue working can register their desired job and work style with the company; if there is a matching vacancy, they can be reemployed.

Additionally, in response to the government's raising of the pension age, the company has revised the above system so that all those who wish to work until the new pension age can be reemployed by the company. To date, a total 564 employees have made use of these systems.

Such efforts not only counteract recruitment problems resulting from with Japan's declining birthrate and aging population, but also help in the handing-down of technological know-how in the departments concerned.

**Testimonial**

**To continue working is a joy and gives meaning to my life.**

"I made use of the reemployment system, and now work in the 'Customer Information & Consulting Services' section. My work involves responding by phone/email to questions or requests from clients, and giving them accurate information after checking with the relevant departments. I try to put myself in the customers' shoes, and do my best to respond appropriately in order to satisfy their requirements.

"Phone calls and emails received by the Customer Information & Consulting Services average approximately 14,000 a year (based on the average in the past three years). Enquiries are truly varied, ranging from information desk enquiries, to placing orders for parts or repairs, to enquiries regarding the construction or use of a product. In order to respond precisely to such inquiries, I not only make good use of my past experience, but also have to acquire knowledge in areas where I have no experience, and to become familiar with all the relevant departments. To that end, I read trade newspapers and magazines, and, when time permits, I visit factories or exhibitions to gain knowledge about new products.

"Every time I succeed in pleasing my customers through my efforts, I feel good. I look forward to even greater pleasure and sense of reward in coming years."

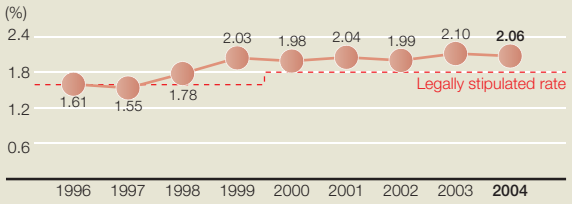
Toshio Murakami
Customer Information & Consulting Services,
CS & Quality Management Department, Sekisui Chemical Co., Ltd.

### Employment for the disabled

Sekisui Chemical is committed to creating a safe working environment for disabled people, in which they can maximize their skill potential. When recruiting, we make sure that we understand each individual's level of competence. We make an effort to expand employment opportunities for the challenged, and to create a work environment that will allow them to work in a variety of fields.

In fiscal 2004, Sekisui Chemical's rate of employment of disabled people was 2.06%, which is higher than the 1.8% stipulated by law. The entire group is committed to further increasing employment of disabled people.

**Trend of disabled people employment rate**




### Women and foreign nationals in our workforce

Employee treatment at Sekisui Chemical is free from gender-based or nationality-based discrimination. However, it is true that the current proportion of female managerial posts is low, as is the employment of foreign nationals in our domestic offices.

However, with numbers of potential younger workers declining and work styles becoming more diversified, we consider it vital and are working to support active employment and career development of women, as well as creating an environment that encourages long-term employment of any interested person regardless of nationality.

In addition, in order to provide our staff with opportunities for greater interaction with society, we are considering a short-time employment, system that will support participation in voluntary activities or career development by employees.

## Respecting Human Rights and Prohibiting Discrimination

In October 2003, Sekisui Chemical Group created a Compliance Manual (P60), and distributed it to all personnel (including sub-subsidiary company employees and temporary staff).

This manual is a summary of stakeholder-oriented rules and regulations to be observed in the workplace. Regarding the relationship between the company and its employees, the manual stipulates: "working to maintain a wholesome workplace environment, respecting individual human rights, and refraining from any act of discrimination." Sexual harassment issues are dealt with in detail, providing in Q&A form easy-to-understand examples of behavior or speech that may cause discomfort, and every workplace is strongly urged to prevent such behavior occurring.

We also established in March 2002 whistleblowing program, "S.C.A.N." (P62), which is a part of our efforts to prevent problems relating to violation of human rights or discrimination, to deal with them appropriately if they do arise, and to work toward preventing recurrence of such problems.

Compliance education is offered in some areas, such as the group-wide class system training courses. Looking ahead, we plan to undertake such education/training based on the business specifics of each workplace, and to take stringent measures to enforce observance of such rules by employees.

# Communication with Employees

## Labor-management relations based on dialogue and cooperation

At Sekisui Chemical Group, in order to develop an orderly labor-management relationship based on dialogue, we make policies related to business activities only after they have been thoroughly discussed with the labor union.

Even in companies of the Group that do not have labor unions, we stress dialogue with employees by having the management explain policies and business situations directly to employees.

## Labor-management dialogue related to management

We have a unique system at Sekisui Chemical for facilitating smooth operation of business and building better labor-management relationships.

One of these is the "Presidential Management Talkfest". This is an active dialogue session, held every six months, in which the President himself explains his management visions to the labor union. Before each session, the labor union gathers input and feedback from employees, and presents this information to the President.

Similarly, once a year, each division company holds a "Company Presidential Management Talkfest", in which the president of that company presents his management policies to the labor union. Another of our efforts to improve labor-management collaboration is the "Labor-Management Committee", which discusses the personnel system operating in its own company.

### Testimonial

**Developing management participation awareness among union members**

"Over the past few years, the Sekisui Chemical labor union has been working to develop awareness among its members (employees) about participation in management and business operations.

"This is based on our belief that having each employee take ownership of his/her duties and expected role will heighten the employee's sense of satisfaction and feeling of reward, and that this will contribute to better performance and healthy growth of their company and business. We also believe that a stable business foundation is the basis for secure employment, not only for union members but for all employees, and for maintaining and improving labor conditions.

"At present, we have over 3,000 active union members spread across various businesses and workplaces in the three separate domain companies (housing, environment and lifeline, high-performance plastics). Proposals based on input from union members working on the front lines in these areas, which contain forward-looking, positive opinions and demands related to business operations, are presented to management by the union at management talkfests and other events.

"Looking ahead, we believe that, as group-level or consolidated management becomes more and more prioritized, it will become important to develop stronger ties between the labor unions of individual group companies of the Group, and to resolve topical issues through exchanges of frank opinion with management."

Katsumi Honma
Chief Secretary, Sekisui Chemical Labor Union

## Direct dialogue between top management and employees

In fiscal 2002, we launched a program of annual presidential site visits. At least once a year, the President personally presents his vision to employees and invites them to express their views or suggestions.

During fiscal 2004, we held thirteen "lunch-meetings", at which the President and employees of all Group companies were able to directly exchange opinions regarding important aspects of that year's management policies.

Such opportunities are considered important in bridging gaps between the goals and attitudes of top management and those of employees, and we hope that these visits will continue.

**Lunch meetings**

At each meeting, close to 20 young members gather, advance their personal opinions, and debate topics based on that year's policies, both with top management executive and among themselves.

Employees who have participated in these meetings speak highly of them: "Hearing the President's opinions at first hand was meaningful." "I learnt a lot through having the opportunity to exchange views and opinions with people from various regions and departments."

## Employee awareness surveys

In October 2004, we conducted the first-ever employee awareness survey of 17,900 employees of Sekisui Chemical Group.

The questionnaire survey addressed 120 issues, including: how employees felt about their daily working lives and their jobs, and what they would like to see; how they interpreted or understood messages from the President of the Group or from their company president; etc.

The results of this survey will be put to use in identifying issues that need to be looked into by Sekisui Chemical Group, and developing appropriate measures to deal with such issues.

**Results of employee awareness survey**

**1. Top five unique Sekisui Chemical cultures as perceived by employees**

| Employees of Sekisui Chemical Co., Ltd. | Employees of the Sekisui Chemical Group of companies |
|---|---|
| (1) Environmentally considerate | (1) Environmentally considerate |
| (2) Committed | (2) Emphasize appearances and principles |
| (3) Emphasize appearances and principles | (3) Committed |
| (4) Lenient | (4) Authoritarian |
| (5) Globalized | (5) Performance-oriented |

**Top three unique strengths of the company as seen by employees**

| Employees of Sekisui Chemical Co., Ltd. | Employees of the Sekisui Chemical Group of companies |
|---|---|
| (1) Brand power*1 | (1) Brand power*1 |
| (2) Scale of the corporation | (2) Quality of products*2 |
| (3) Quality and competence of the workforce | (3) Scale of the corporation |

*1 The Urban Infrastructure & Environmental Products Company brand, "Eslon", and the Housing Company brand, "Sekisui Heim", are seen as major strengths of the company.
*2 The quality of Sekisui Heim is viewed as a strongpoint.

**Summary of survey**

Target : 17,900 employees of Sekisui Chemical Group (including domestic affiliated companies, excluding overseas affiliated companies)
Period of Survey : October 1, 2004 to November 8, 2004
Survey company : Nippon Omni-Management Association (under the supervision of Masahide Sekimoto, professor emeritus at Keio University)
Responses : 16,100 (response rate: 90%)
Effective responses : 14,673

# Occupational Health, Safety and Accident-prevention Activities

Based on its Philosophy on the Environment and Safety, established in April 2003, Sekisui Chemical Group has been implementing a labor safety, health, and accident-prevention program. This is based on the five pillars, "Management, Education, Equipment Improvement, Risk Prevention, and Auditing", and aims at creating a safe and agreeable workplace.

### Sekisui Chemical Group Philosophy on the Environment and Safety (April, 2003)

We, Sekisui Chemical Group, recognize that there can be no sustainable development without our total commitment to issues of environmental protection and safety. We are dedicated to the creation of a better environment by continually promoting environment and safety activities, enabling the structuring of a recycling-based society and global environmental protection through our businesses, products and contribution to society.

**Five pillars of occupational health, safety and accident-prevention activities**


## Developing an Occupational Health and Safety Management System (OHSMS)

Sekisui Chemical Group aims for "Zero-hazards Workplaces". Since 1999, we have been working to establish OHSMS in each production plants and R&D institutes. We achieved full coverage in all 36 plants and laboratories by fiscal 2004, as per schedule.

Currently, we observe the "PDCA" (Plan-Do-Check-Act) cycle of occupational health, safety and accident prevention activities based on OHSMS, and continuously make improvement efforts with the aim of realizing and maintaining Zero-hazards Workplaces.

**OHSMS establishment trend among business sites**

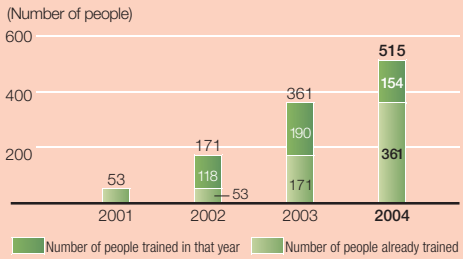

*Business sites that passed the in-house screening (based on relevant documentation and implementation) were recognized as having established OHSMS

## Education and development activities

In light of a generational shift in core staff responsible for labor safety activities and increased outsourcing of production, Sekisui Chemical Group regards education of core personnel involved in occupational health and safety activities as an important issue.

Therefore, we are focusing our efforts on employee education, from senior personnel safety training in fiscal 2004 to hazard prediction training for site leaders (KYT). We plan to further develop our education and development activities in coming years under the slogan, "A Workforce Skilled in Safety".

**Education/training conducted in fiscal 2004**

| Targets | Main points of activity |
|---|---|
| Staff in charge of office safety | **Hierarchical safety education**<br>(1) "Safety Brainstorming Sessions" targeted at section managers of all production plants<br>(2) Inspection tours of other companies' offices with advanced safety measures in place (3 offices)<br>(3) "Site Inspection Exchange Tours" for site managers<br><br>**Training of OHSMS internal auditors**<br>  |
| Site leaders | **Hazard-prediction training (KYT)**<br>  <br>We implemented a site leaders' training program on methods for preventing accidents caused by human error. The program involves short-period meetings, and hazard-prediction activities*. In fiscal 2004, a total 270 personnel participated. |

*Activities conducted by safety personnel at corporate headquarters and in division companies. Office-level education/development activities were also implemented.

## Ensuring intrinsic safety of equipment

We believe that, to eliminate work or equipment-related accidents, it is essential for equipment to be foolproof (impervious to human incompetence or inherent design flaws) and failsafe (designed to minimize harm or damage in the event of failure). Therefore, we encourage installation of new, high-safety equipment and upgrading of old equipment.

**Efforts to ensure intrinsic safety of equipment in fiscal 2004**

| Target equipment | Performance in fiscal 2004 |
|---|---|
| Newly installed equipment | **Development and trial of "New Equipment Safety Design Standards"**<br>Following receipt of the "Guideline for Comprehensive Safety Norm on Machinery" from the Ministry of Health, Labour and Welfare in June 2001, we updated our existing "Equipment Safety Manual" to incorporate the government guidelines. This revised manual takes effect from fiscal 2005. |
| Existing equipment | **Reinforcing equipment safety audits**<br>In fiscal 2004, we conducted equipment safety audits at 13 business sites that handle dangerous goods or high-pressure gas, with the aim of reinforcing disaster-prevention (fires/explosions) capabilities. |

## Implementing health, safety and accident-prevention audits

At Sekisui Chemical Group, each business site observes the PDCA (Plan. Do. Check. Adjust.) cycle, which is based on OHSMS. And, in order to verify that occupational health, safety and accident-prevention activities are being correctly practiced, we conduct annual "Health, Safety and Accident-prevention Audits" at all production plants and R&D institutes.

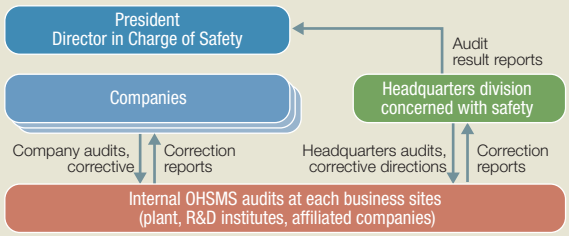
The auditor in charge of corporate safety visits every production plant and laboratory and surveys their activities in line with the 88 items prescribed in the Health, Safety and Accident-prevention Assessment Booklet. Results of these audits are reported to the President and to Directors in Charge of Safety.

**Audit results for fiscal 2004**

| | | Number of cases | Correction completed | Under correction |
|---|---|---|---|---|
| Corporate Headquarters Health, safety, and accident-prevention audits (36 business sites) | Issues of concern*1 | 345 | 228 | 117 |
| | Issues to work on*2 | 185 | 108 | 77 |
| | Proposals*3 | 16 | 7 | 9 |
| | Total | 546 | 343 | 203 |

*1 Issues to be resolved as soon as possible. *2 Issues to be resolved within next 12 months. *3 Issues requiring consideration of resolution methods and/or advice.

**Audit mechanism**




# Safety Scores for January-December, 2004

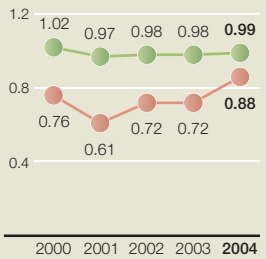
In 2004, under the group slogan, "Motivate Each Individual to be Sensitive to Danger and Realize a Zero-hazards Workplace", we advanced our occupational health, safety and accident-prevention activities. However, work-, equipment- and commuting-related accidents did occur, and come issues remained to be resolved.

Accordingly, we are working to improve the OHSMS and safety performance in 2005.

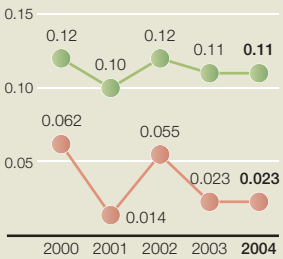
## Work-related accidents

Regarding work-related accidents in 2004, the seriousness of accidents remained at the low 2003 rate of 0.023, but the rate of occurrence was higher. Our aim in 2005 is to lower the rate of occurrence.

**Rate of incidence*1 trends**




**Seriousness*2 trends**




Domestic Manufacturing Industry — Sekisui Chemical Group

*1 Rate of incidence = (number of casualties per each closure of business due to a disaster/total work hours) x 1,000,000

*2 Seriousness = (days of labor lost/total work hours) x 1,000

Source of information for Japanese manufacturing industry: Ministry of Health, Labour and Welfare "Survey on Industrial Accidents"

Sekisui Chemical Group data: 33 production plants, and 3 R&D institutes

## Equipment-related accidents

We continued to work at eliminating equipment-related accidents in 2004, but, unfortunately there was one incidence (fire).

Although this particular accident did not amount to a major disaster, we consider it vital to prevent it happening again, since fire- or explosion-related accidents potentially lead to grave consequences, not just for the staff on-site but also for local residents.

We are committed to further working toward elimination of equipment-related accidents in coming years, by perfecting and reinforcing daily supervision.

## Commuting-related accidents

Commuting-related accidents (personal injury, damage to goods, liabilities etc., incurred during commuting) for 2004 amounted to 77 incidences, the worst figure in the past four years. Most of these accidents occurred to employees in their 20s, and specific offices seemed to be more prone. Therefore, we began offering target-specific Traffic KY (danger prediction) courses and commuting maps that provide guidance for predicting danger en route. These measures will help our employees to become more sensitive to traffic-related danger.

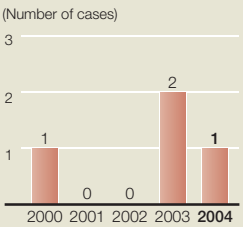
## Long absence due to illness

At each business sites, we do follow-ups based on the results of regular and special health checkups.

However, long absences due to illness among our employees have not decreased since 2002. Having determined that such absences are more common among employees aged 40 to 60, when people are more susceptible to various illnesses such as lifestyle-related diseases, we plan to help our employees to become more health-conscious on a daily basis.

**Equipment-related accidents* incidence trends**

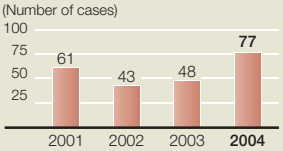
(Number of cases)




***Definition of equipment-related accident:**
Any accident that meets one or more of the following conditions (Sekisui Chemical Group standards):
(1) Personnel-related damage: 30 or more days of loss, and closure of business
(2) Damage related to goods: 10 million yen or more
(3) Loss of Opportunity: 20 million yen or more

**Commuting-related accidents incidence* trends**

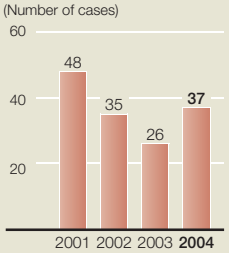
(Number of cases)




***Total number of cases**
including cases of both damage inflicted and damage incurred. Includes damage to both persons and goods.

**Trend in long absence due to illness**

(Number of cases)



## Health, Safety and Accident-prevention Accounting

In order to provide more efficient health, safety, and accident-prevention efforts based on an accurate understanding of the costs and benefits, Sekisui Chemical Group since 2002 has been working on health, safety and accident-prevention accounting based on the concept of environmental accounting.

Compared to the previous year, health, safety and accident-prevention costs for fiscal 2004 were up by 3.5%, investment was up by 18.6%, and investment as a percentage of total investment increased 1.4 points to 5.5%. On the other hand, because equipment-related accidents and major work-related accidents declined, damages were 57% lower than in the previous year.

In response to accidents in fiscal 2004, we are undertaking equipment upgrades, work improvement and employee training.

**Health, safety, and accident-prevention costs** (unit: million yen)

| Item | | Entire group*1 | |
|---|---|---|---|
| Classification | Details | Expense amount | Investment amount |
| 1) Costs within business site area | Health and safety measures, rescue and protective-equipment related, determination of work environment, monitoring health, workers' accident compensation insurance, etc. | 702 | 759 |
| 2) Cost of supervision | Establishment and implementation of OHSMS, safety education, labor costs, etc. | 1,008 | — |
| 3) Other | Awards, etc. | 3 | — |
| Total | | 1,713 | 759 |

| | | |
|---|---|---|
| Total investment amount for the entire group during the relevant period | — | 13.706 |
| Proportion of health, safety and accident-prevention related investment within the total investment amount | — | 5.5% |

| | |
|---|---|
| Amount of loss*2 | 35 |

*1 This includes 36 production plants/R&D institutes + all departments of corporate headquarters + back offices of division companies.
*2 Costs resulting from dealing with work-related or equipment-related accidents, and man-hours lost due to work-related accidents

## Safety at Housing Construction Sites

Sekisui Chemical Group has adopted various measures to ensure the safety not only of its own employees and employees of partner companies working at housing construction sites, but also of customers and other people in the vicinity of such sites.

### Implementing safety checks and work-related accident analyses

We ensure safety at housing construction sites by implementing "safety checks", which investigate the potential causes of work-related accidents on daily basis and formulate measures to prevent them, and "work-related accident analyses", which attempt to prevent recurrence of accidents that have actually occurred.

We also educate construction supervisors and partner companies, to ensure that workers on-site are more sensitive to hazards and observe the rules. In 2004, besides foreman training, we provided courses such as danger prediction training (KYT).

**Summary of safety efforts at construction sites**

| | Efforts undertaken in the course of daily business for prevention of accidents/investigation of causes | | Investigate causes of accidents based on the results |
|---|---|---|---|
| | In-house checks | Company/Headquarters checks | |
| New Construction sector | In-house safety checks | Company/Headquarters safety checks(Housing Sale Company, construction site) | - Analysis of work-related accidents- Checking and guidance for disaster sites where work has to be stopped |
| Fami S sector | In-house safety checks | Company/Headquarters safety checks(Fami S Company, construction site) | - Analysis of work-related accidents- Checking and guidance for disaster sites where work has to be stopped |

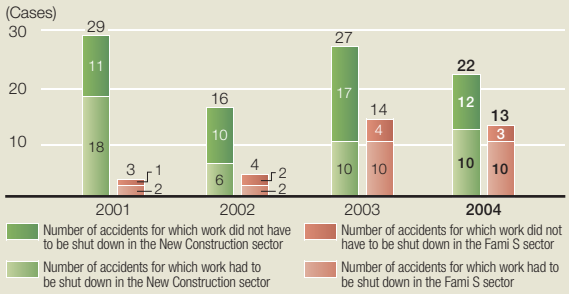
*Sales companies, Fami S companies, and construction sites conducted in-house safety activities in addition to the above

### Safety scores for housing construction sites

Housing construction sites often involve work in high, overhead situations, and/or in occupied buildings, which makes rigorous safety management essential. Therefore, Housing Company is very particular about strengthening safety management and preventing work-related accidents through safety diagnosis, training and education.

In 2004, a total 35 accidents took place in the new construction and Fami S (refurbishing) sectors. Although this was 6 cases less than the previous year's figure, some of the accidents were quite serious, such as workers crashing or falling. We still have much to tackle regarding the safety and accident-prevention training of construction supervisors and partner companies.

**Trend of safety scores at construction sites**




**Other instances of safety efforts**

**Compilation of "Work-related Accident Case Study" (Housing Company)**

In March 2005, Housing Company compiled a "Work-related Accident Case Study", which summarizes the 103 instances of work-related accidents that took place between 1992 and 2004 at housing construction sites. It also lists measures to prevent recurrence and safety tips. The company uses this book in its safety efforts and education.

**Promoting "Healthympic 21" (Shiga-Minakuchi Plant, Sekisui Chemical Co., Ltd.)**

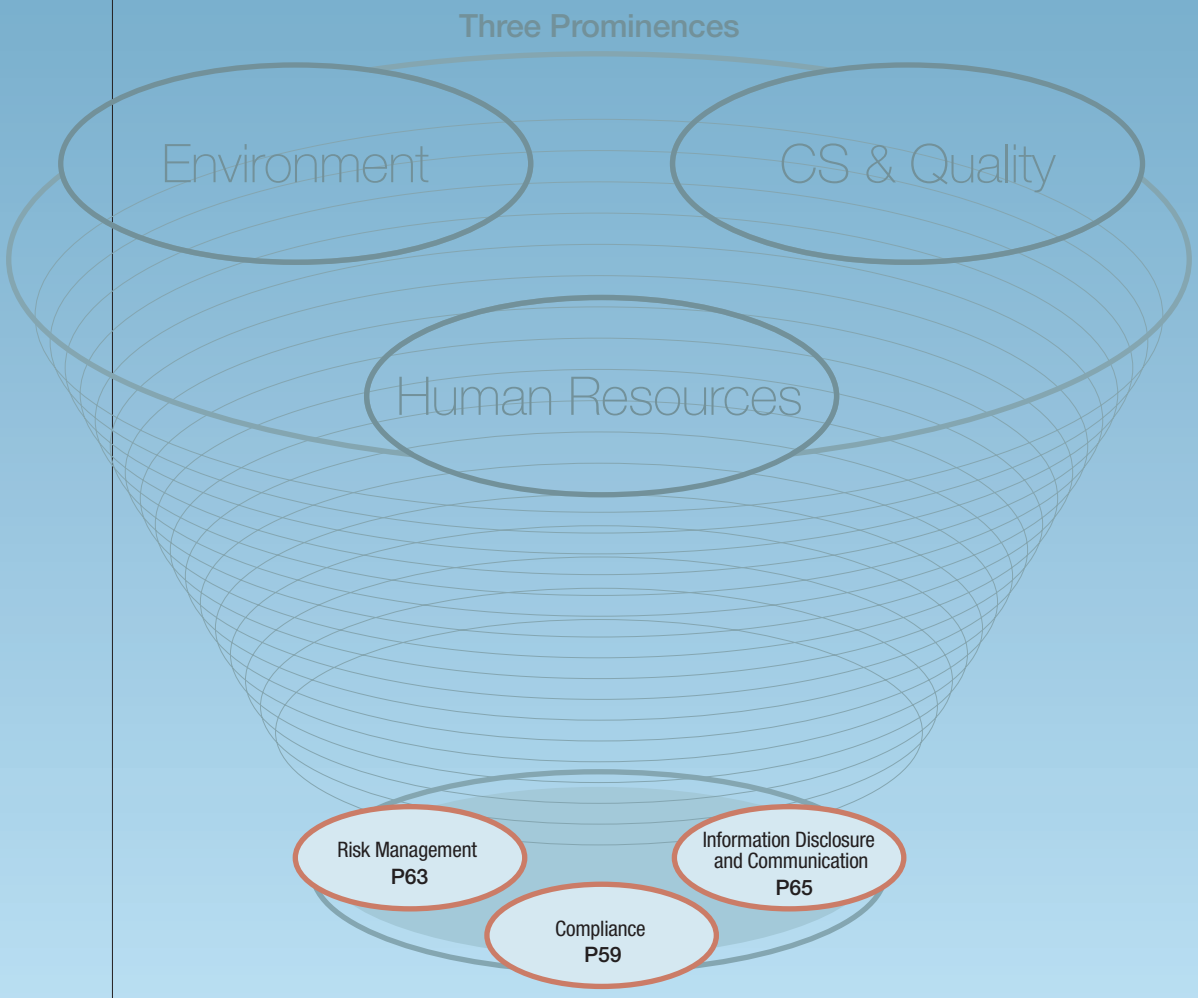
Since April 2001, Sekisui Chemical's Shiga-Minakuchi Plant has held the "Healthympic 21" as part of its efforts to maintain employee health. This is a program for monitoring employee health and comprises a cycle of three stages: (1) Regular health checkups, checkups for adult diseases, and preliminary and secondary special health checkups (mandatory for all employees), (2) Follow-ups by industrial doctors and health workers based on results of checkups, and (3) Ensuring that all procedures, from checkups to follow-ups, are properly implemented. The Minakuchi Plant receives support from Shiga University of Medical Science in this effort.


**High-pressure gas safety measures (Tokuyama Sekisui Chemical, Co., Ltd.)**

In 1999, Tokuyama Sekisui Chemical was designated as an official safety inspection operator in line with the High Pressure Gas Safety Law. Since then, the company has advocated appropriate high-pressure gas safety activity based on five themes: (1) Effective safety inspections and passing-on of technology, (2) Consistent safety inspection supervision, (3) Improving safety management, (4) Passing-on a culture of safety, and (5) Raising equipment safety levels.

# Foundation of CSR Management

Introducing the Three Attitudes of Sincerity that form the basis of Sekisui Chemical Group's CSR Efforts




Three Attitudes of Sincerity

## Compliance-oriented management

# To become a sustainable corporation trusted by all members of society, we are conducting employee training and building framework to foster sound corporate management.

## Basic Philosophy

In March 2003, Sekisui Chemical Group decided to adopt compliance as one of the basics of CSR management and declared that it would promote "compliance-oriented management". This would involve compliance with not only laws and regulations, but also corporate ethics and international business rules.

Since then, under the principle, "Aiming to become a corporation trusted by all members of society, with honesty and integrity as the bywords of each employee", we have been striving to develop a compliance regime. The aims are to raise employees' awareness of compliance issues, prevent potential problems, and introduce education and training programs that develop a compliance-oriented workplace culture.


## Compliance Promotion System

In April 2003, Sekisui Chemical Group set up a "Compliance Committee" chaired by the director in charge of compliance, with a view to the successful introduction of compliance-oriented management.

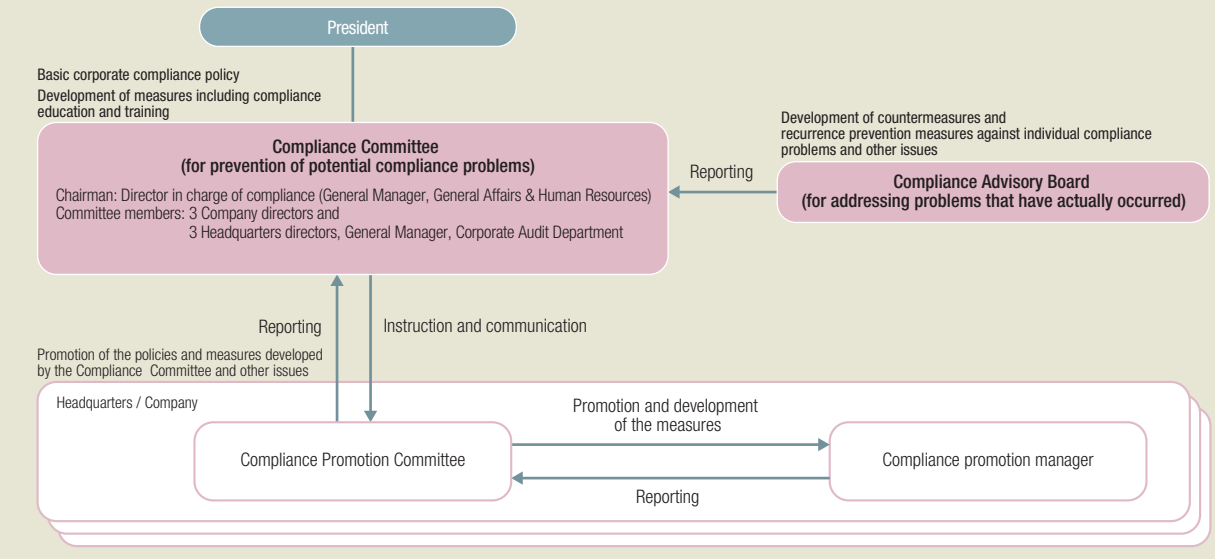
Agenda items addressed at the biannual Compliance Committee include: (1) Establishment of the basic corporate compliance policy, (2) Discussion, determination and progress monitoring of compliance action plans, including compliance education and training, and (3) Decisions on policies and countermeasures regarding major company-wide compliance issues.

The policies and measures decided on by the Compliance Committee shall initially be communicated to the compliance promotion manager at each operating base, through a "Compliance Promotion Committee" set up within each Company and Headquarters, and shall then be promulgated throughout the Sekisui Chemical Group.

Meanwhile, to ensure that the compliance framework is working effectively, the General Affairs & Human Resources Department of Sekisui Chemical Co., Ltd. will be conducting biannual monitoring surveys (see page 61) of all business premises within the Sekisui Chemical Group.

In addition to the Compliance Committee, a "Compliance Advisory Board" is in place to discuss countermeasures and recurrence prevention measures to be implemented in the event of a compliance problem actually occurring.

**Compliance promotion regime**



## Development of a Compliance-oriented Culture

In November 2003, to help individual employees comply with laws, regulations, rules and corporate ethics, Sekisui Chemical Group developed a "Compliance Manual" and distributed it to all Group employees (including employees of sub-subsidiaries and temporary staff).

The company is also holding compliance seminars for newly appointed key staff (section leader level and above) and new recruits, as well as conducting a biannual monitoring survey to check the compliance status in each workplace - with the aim of raising employees' awareness of this issue.

Compliance Manual

### Compliance Manual

The Compliance Manual highlights 20 items involving laws, regulations and rules that must be followed in four main areas. These are: (1) relationships with society, (2) relationships with customers, business connections and competitors, (3) relationships with employees, (4) relationships with the company and company assets. The manual provides a Q&A section for each item, to help employees understand the issues. The guidance includes references to appropriate company office contacts that employees can consult, to prevent compliance problems from occurring.

### Compliance Statement

The Sekisui Chemical Group's "Compliance Statement" is published in the Compliance Manual. The Statement reaffirms our determination to implement compliance-oriented management, emphatically calling on each Group employee to "take compliance seriously as part of his or her own personal agenda, and act accordingly".

Under this Statement, we are reviewing and reinforcing the existing compliance regime, while organizing employee education and training to foster business behaviors that are in harmony with civil society.

### Violations of laws and regulations during 2004, etc.

**Environmental laws and regulations**

In November 2004, dioxin in excess of the regulation concentration level was detected in emissions from the waste incinerator of the Shiga - Minakuchi Plant of Sekisui Chemical Co., Ltd. The incinerator in question was immediately closed down and its decommissioning was duly reported to the authorities. At the same time, an investigation was carried out to determine the cause of this event, while explanatory meetings were organized for the prefectural government and the local community (see page 34 for further details).

### Compliance Manual contents

**1.Relationships with society**

(a) Environmental conservation and protection
(b) Compliance with various business laws
(c) Controls on international trade in compliance with national security
(d) Political donation
(e) Relationship with antisocial groups
(f) Prohibition of insider trading

**2.Relationships with customers, business connections and competitors**

(a) Product safety
(b) Honest trade practice
(c) Compliance with antitrust laws
(d) Fairness in transactions with business connections and compliance with the Subcontracting Law
(e) Entertainment and gifts

**3.Relationships with employees**

(a) Respect for human rights, prohibition of all kinds of discrimination
(b) Sexual harassment
(c) Compliance with the Labor Relation Laws

**4.Relationships with the company and company assets**

(a) Management of trade secrets
(b) Proper use of company assets
(c) Proper use of information systems
(d) Protection of our intellectual property
(e) Proper use of third party intellectual property
(f) Protection of personal information

## Explanation sessions held for 635 key staff

Between November 2003 and February 2004, 26 Compliance Manual explanation sessions were held, involving a total 635 key staff from each Company and Headquarters.

Information shared at the sessions was communicated by participants to colleagues at their respective operating bases.

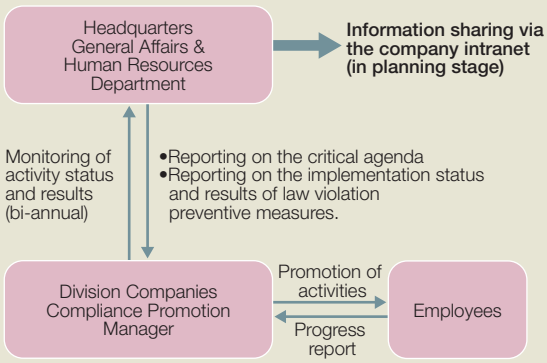
## Biannual monitoring of activity status at each operating base

As a follow-up to circulation of the Compliance Manual, we carry out bi-annual monitoring surveys at 245 Sekisui Chemical Group operating bases.

The purpose of these surveys is to bi-annually check the status of implementation and attainment of the "critical agenda" (priority law violation preventive measures) prescribed for each operating base.

We plan to publish, via the company intranet, successful examples of activities and achievements from each operating base, in order to share knowledge and experience throughout Sekisui Chemical Group.

**Flow of monitoring survey**




## Example of law violation preventive measures

**Environmental preservation and protection**

- Check the license status (expiry and range of waste) of waste disposal contractors on a regular basis

**Compliance with Subcontracting Law**

- Participate actively in seminars conducted by authorities such as the Fair Trade Commission and the Small and Medium Enterprise Agency, to expand employees' knowledge of the Subcontracting Law.
- List contractors defined as subcontractors under the Subcontracting Law, and regularly check outsourcing status, including descriptions of outsourced work.

**Compliance with the Labor Relations Adjustment Law and related regulations**

- Duty reports must be checked by managers on a daily basis
- Ways to streamline operations to be explored and implemented with a view to reducing working hours

**Protection of personal information**

- Use of the reverse side of forms containing personal information must be prohibited.
- Personal information must be handled and maintained within authorized areas of the company premises and must be filed in lockable storage.

## Education and training tailored to employee grades and subject matters

Sekisui Chemical Group provides the following compliance seminars for specific employee grades and topics:
(1) Newly Appointed Key Staff Seminar, (2) New Recruits Seminar, (3) Directors Seminar, (4) Affiliated Company Key Staff Seminar, (5) Antitrust Law Seminar, (6) Subcontracting Law Seminar.

The outlines of the above seminars are as follows.
(1) Newly Appointed Key Staff Seminar (2) New Recruits Seminar - focuses on case studies(3) Directors' Seminar - offers lectures from invited guest speakers(4) Affiliated Company Key Staff Seminar - illustrates Corporation Law and Antitrust Law.

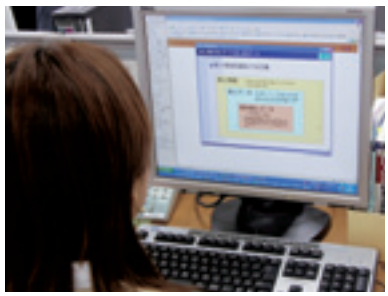
We also plan to implement an E-learning course, utilizing the company intranet, with a view to enhancing awareness among all Group employees.

Scene from a seminar

## E-learning on the Personal Information Protection Law

During March 2005, ahead of full-scale enforcement of "the Personal Information Protection Law" (April 1 2005), we began providing an E-learning course on this law for all employees of Sekisui Chemical Group.

This E-learning course focuses on an outline of the law and special instructions that apply to daily activities in the workplace. Review tests are conducted, to check participants' levels of understanding.



E-learning course sample screenshot

## Development of S.C.A.N. — whistleblowing program

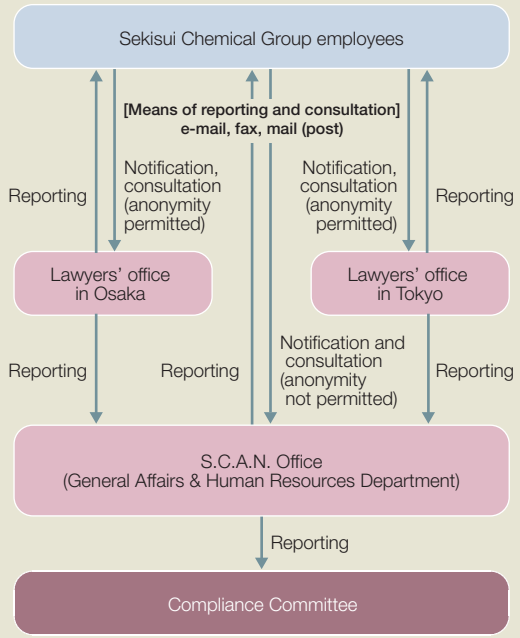
In March 2002, Sekisui Chemical Group developed S.C.A.N. (Sekisui Compliance Assist Network) to deter and prevent violations by employees of laws, rules and corporate ethics.

In 2004, seeking to encourage active use of S.C.A.N., we conducted a review and improved the consultation methods, in an effort to further familiarize employees with the system.

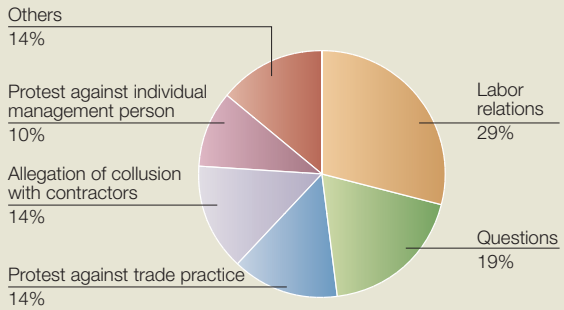
This recent revision of the system included formally prescribing, in the internal rules, protection for whistleblowers, together with the confidentiality obligations on employees who become privy to information provided by such persons. Furthermore, employees can now consult with external lawyers' offices (one each for Tokyo and Osaka), as well as the company's internal S.C.A.N. Office. Employees can now contact an external lawyers' office under condition of anonymity. Notification and consultation will also be accepted via the intranet (e-mail). S.C.A.N. guidelines are provided to promote use in keeping with employees' requirements.

Sample screenshot: reporting and consultation via the intranet

**Mechanism of S.C.A.N.**




**Reported irregularities by category**




### Information disclosure via the intranet

The General Affairs & Human Resources Department and Corporate Management Strategy Department of Sekisui Chemical Co., Ltd. plays a central role in posting compliance-related information, including a PDF version of the Compliance Manual (P60), and Personal Information Protection Law information to the company intranet, in an effort to permeate a compliance-oriented culture throughout the Sekisui Chemical Group.

Sample screenshot: intranet

## Risk Management

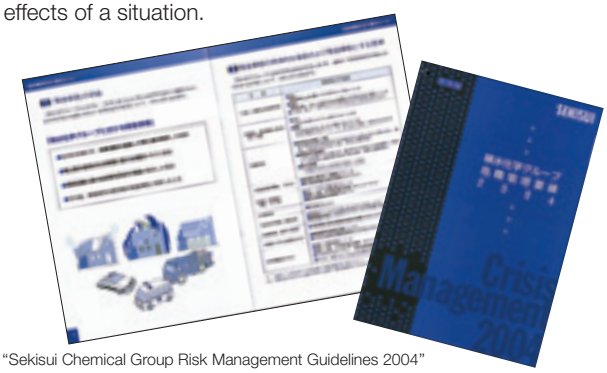
# Acknowledging the various risks associated with corporate management, we have implemented a rigorous program of both preventative measures and procedures to mitigate the potential after-effects of unexpected events.

### Thorough Group-wide Risk Management through Various Relevant Rules

In light of successive corporate scandals and business failures, Sekisui Chemical Group in October 2000 prepared a report, "Current State of Risk Management and Associated Problems". Based on this platform, we analyzed factors that could trigger unexpected events, and classified these into three categories: "management risk", "accident/disaster risk", and "social risk". Then, we developed a responsible department to address respective risks and preventative measures, together with countermeasures to cope with the after-effects of an unexpected event, in order to establish risk management regimes for the respective categories.

Subsequently, a sequence of major disasters, terrorist incidents, corporate scandals, etc. prompted us to reinforce our risk management procedures, resulting in the preparation in March 2004 of a booklet entitled, "Sekisui Chemical Group Risk Management Guidelines 2004". This publication includes "Basic Rules for Dealing with Emergencies" and an "Emergency Response Manual", covering such potential emergencies as natural disasters, fire and explosions, environmental pollution, intimidation and crime, information-related incidents, and overseas incidents. "Basic Rules for Dealing with Emergencies" defines responsible departments, communication networks, action programs, etc., focusing on prompt delivery of accurate information to top management in the event of an emergency. Meanwhile, the "Emergency Response Manual" details "ways to cope with" particularly serious emergencies." Risk Management Guidelines 2004" was distributed to all key personnel within the Group, and in 2004 we organized briefing sessions for Sekisui Chemical Group employees, to ensure that everyone was thoroughly familiar with the guidelines. We intend to have the "Guidelines" well established throughout the Group, and will also reviewing the contents from time to time, and make revisions as necessary.

We focus on risk management ex ante by assuming every possibility, because we recognize the importance of trying to prevent crises from arising in the first place, as distinct from the importance of crisis management to cope with the after-effects of a situation.



"Sekisui Chemical Group Risk Management Guidelines 2004"

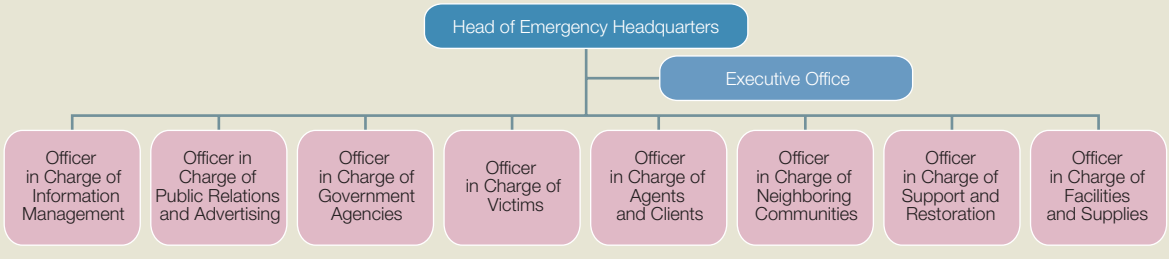
#### *Principal efforts: (1)* Earthquake measures

Sekisui Chemical Group sets forth in "Risk Management Guidelines" emergency measures to be taken in the event of a major earthquake. The guidelines stipulate that, in the event of a major disaster, an Emergency Headquarters must be organized and tasked with promptly determining necessary responses and assigning a responsible staff member to take charge of each measure.

As a result of its experience in the Great Hanshin-Awaji Earthquake, the Osaka Head Office of Sekisui Chemical Co., Ltd. prepared an "Emergency Contact Card" and distributed copies to all employees. This kind of arrangement can facilitate the process of inquiring after employees and their families in the event of a disaster.

Our crisis preparedness arrangements extend to cover the customer base of Sekisui Chemical Group in the event of a disaster. For example, a disaster management manual prepared by Sekisui Heim distributors strictly stipulates that, in the event of an earthquake, assistance to customers must be provided according to priority based on a survey of the extent of damage to each customer's house.

**Emergency Headquarters in the event of a major earthquake (organizational example)**



## *Principal efforts: (2)* Protection of personal information

Prior to full-scale enforcement of the Personal Information Protection Act (April 1, 2005), Sekisui Chemical Group, as part of its management and compliance activities, promulgated the "Protection of Personal Information Guidelines" together with related internal rules, "Protection of Personal Information Rules" and the "Operating Procedure for Protection of Personal Information Rules" (effective February, 2005). Measures implemented to date include:

### Development of the "Protection of Personal Information Guidelines" and related internal rules

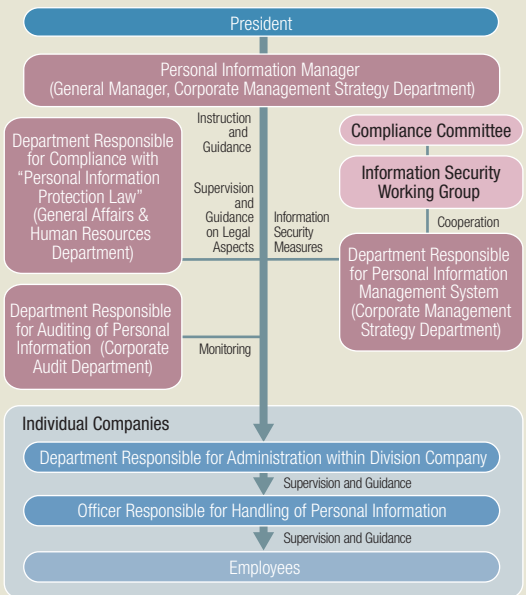
We prepared the "Protection of Personal Information Guidelines", explaining the need for compliance with relevant laws and regulations on protection of personal information, together with procedures for handling personal information in day-to-day work situations. By publishing the guidelines on our website, Sekisui Chemical Group has demonstrated its positive attitude to this issue. Moreover, each Group company has established its own "Contact Office for Personal Information Inquiries", to field inquiries and disclosure requests relating to personal information held by each company.

For further details on the "Protection of Personal Information Guidelines" and the "Contact Office for Personal Information Inquiries", please visit the respective company website.
**Sekisui Chemical Co., Ltd.:**
**http://www.sekisui.co.jp/general/privacy_policy.html**

### Clarification of responsibilities for protection of personal information

Responsible officers and staff members have been appointed within each member company of Sekisui Chemical Group and tasked with establishing a regime for the protection of personal information:

**Protection of personal information regime (outline)**




### Raising awareness among all employees

Since November 2004, we have organized briefing sessions for officers and staff members responsible for protection of personal information in each division company and each Group company, in order to keep all employees thoroughly informed on the "Protection of Personal Information Rules" and the "Operating Procedure for Protection of Personal Information Rules" and achieve an adequate level of protection of personal information. As a follow-up to these briefings, in March 2005 we began using the intranet to educate all Group employees on this subject through e-learning classes (P61).

### Reinforcement of information security measures

Since 2001, as part of our risk management activities, we have been focusing on information security measures, including the introduction of firewalls and anti-virus software to protect our network systems from external attacks and threats. Incidentally, our Kyoto Data Center, which is responsible for all mission-critical systems across the Group, obtained ISMS* certification in May 2004.

Furthermore, in 2004 we took measures to protect personal information from internal risks such as errors or willful misconduct by employees. These measures include: Log-in controls on personal computers and printers through introduction of IT asset management software solutions; log-in certification; restricted access to network resources through introduction of an "electronic employee ID card"; and an office entry control system combining the electronic employee ID card with electronic locks.: 1. Log (record of operation) management on personal computers and printers through introduction of IT asset management software solutions; 2. Log-in certification for personal computers and access control to network resources through introduction of an "electronic employee ID card"; 3. Office entry control system combining the electronic employee ID card with electronic locks.

Implementation of the electronic employee ID card had progressed to cover some 80% of all employees in Japan as at the end of 2004, and is scheduled to be completed in 2005.

Besides these physical measures, we specifically incorporated guidelines on information security into our "Compliance Policy", and prepared various manuals on information security to keep employees thoroughly informed. Meanwhile, we are developing an internal auditing system to monitor the operational status of these regimes and systems for effective supervision. From 2005, the Corporate Management Strategy Department is scheduled to visit each business base for the purpose of carrying out a site audit.

Incidentally, officers responsible for information technology (IT) in each Group company come together monthly as the "Information Security Working Group", in which they share information on the details of these measures and review the progress of individual companies' activities.

*ISMS stands for Information Security Management System, which is a comprehensive risk management regime for effective information control and security protection in corporations and other entities. The Japan Information Processing Development Corporation (JIPDEC) provides certification that a corporate ISMS qualifies as ISO/IEC 17799, under the "ISMS Conformity Assessment System" established by JIPDEC.

### Case study: Theft of a personal computer containing customer information

On the morning of April 15, 2005, a personal computer was found to be missing, presumed stolen, at the Atsugi Office of Sekisui Fami S Tokyo, Inc., a residential renovation company. The missing PC contained personal data (names, addresses, telephone numbers, house product types, delivery dates) on the owners/occupants of 3,803 houses sold as "Sekisui Heim" and "Sekisui Two-U Home".

We searched the office premises without success, and reported the presumed theft to the local police station on the evening of April 16. We also sent written notices, detailing the lost information, to all customers concerned.

The "electronic employee ID card" had not been introduced into this office at that time. However, we are scheduled to employ preventative measures such as tightening entry control by implementing the electronic employee ID card, etc., together with more general physical and non-physical measures, including personal certification for personal computers, and prevention of PC theft or misplacement.

## Information Disclosure and Communication

# Sekisui Chemical Group's business activities reflect our policy of providing all stakeholders with ongoing information disclosure and opportunities for communication.

### Continuous Communication with All Stakeholders

Sekisui Chemical Group recognizes the importance of adequate, positive information disclosure and two-way communication based on such disclosure in promoting mutual understanding and developing trusting relationships with all stakeholders.

The "Corporate Activity Guidelines", developed in 1998, state: "We will communicate meaningfully with our customers, dealers, stockholders and local communities", while "disclosing corporate information in an honest and timely manner", with the aim of becoming a company trusted by society in general. At the same time, individual corporate functions that deal with specific stakeholders are working diligently to provide information disclosure and communication in a "timely, adequate, fair and comprehensible manner".

Information disclosure here includes disclosure of information on product quality, purchase of raw materials, environmental preservation and any other information that may impact on stakeholders, in addition to such information as accounts settlement and business/financial situation reporting, whose disclosure is required by relevant legislation and regulations, including the Securities and Exchange Law and stock listing rules. We are committed to voluntarily disclosing appropriate information in a timely and positive manner, by means of press releases, press conferences and/or briefing sessions, according to the importance and urgency of such information.

We will continue to appropriately disclose how Sekisui Chemical Group is addressing various issues, while promoting communication activities that encourage stakeholder feedback on our business activities.

### In Cooperation with Government and Municipal Offices, Education/Research Institutes, NGOs and NPOs

Sekisui Chemical Group seeks to cooperate with various external organizations in an effort to achieve mutual development and contribution to society through communication.

For instance, we have continuously sponsored the "Sekisui Chemical Grant Program for Research into Manufacturing Based on Learning from Nature" (P69) since 2002, and have published the results of the research supported by this program in scientific journals and on our website. We also sponsor the "Children's Class for Home Development" (P69) through integrated study periods organized in cooperation with local middle schools in each region. And, we promote social contribution activities, mainly in the area of local nature conservation (P67-68), in cooperation with local NPOs and NGOs.

Furthermore, we are developing opportunities to elicit feedback from outside the company, such as hosting information exchanges with government and municipal staff, and joint-research and exchange meetings with universities and academics.

**Contact offices communicating with various stakeholders**

| Stakeholders | Main Functions Dealing with Stakeholders | Means of Dialogue and Information Disclosure, Philosophy of Dealing with Stakeholders, Examples |
|---|---|---|
| Customers and Business Connections | CS & Quality Management Department | Use of customers feedback in product development |
| Shareholders/Investors | Corporate Communication Department | Annual report, statement of operations, briefing sessions, visits to investors |
| Employees | General Affairs & Human Resources Department | Management advisory panel, employee attitude surveys, Intranet, Group bulletin |
| Local Community | Business sites Environmental Management Department | Participation in community activities, factory tours, participation in cleanups/nature conservation activities, environmental site reports |
| Global Environment | Environmental Management Department | Environmental consideration in business activities, reduction in environmental burdens through products and business activities |
| Government and Municipal Offices, Public Administration | Corporate Communication Department | Councils, committee activities, personal calls |
| Education/Research Institutions | R&D Technology Center | Joint research/joint grants |
| NPO/ NGO | Environmental Management Department | Support for environmental NGO activities through Keidanren Nature Conservation Fund, cooperation with local nature conservation activities |
| General public | Corporate Communication Department | News releases, mass-media advertisements, websites/pamphlets Exhibitions |

IR meetings with visiting overseas investors

Scenes from a seminar to present the results of joint research with Toyo University on co-existence between regional industries

*Examples of successful communication: (1)*

## Mutual exchange with local community by organizing factory tours, etc.

In an effort to maintain friendly relationships with local communities through continuous exchange, Sekisui Chemical Group communicates about our business activities as well as providing information on environmental protection, by inviting local residents to take factory tours. And, factory employees actively participate in various community activities.

In 2004, Sekisui Chemical Group factories hosted 36 factory tours involving more than 2,600 students from local primary schools, middle schools and high schools, in addition to general visits arranged for local residents.

Meanwhile, as part of information disclosure on our business activities to local communities, seven production plants are publishing site reports for use as the basis of communication with local residents.

Scene from a factory tour
(Tokyo Sekisui Industry Co., Ltd)

Scene from a factory tour
(Kanto Sekisui Industry Co., Ltd)

*Examples of successful communication: (2)*

## "Ecological Suggestions Open Forum", a platform for online discussion of environmental issues

We participated in an exhibition of environment-conscious products called, "Eco-products 2004" (hosted jointly by Japan Environmental Management Association for Industry and the Nihon Keizai Shimbun, Inc.), with a display of various environment-friendly products made by Sekisui Chemical Group, and hosting of an event entitled, "Ecological Suggestions Open Forum", which invited visitors to submit environment-conscious propositions written on leaf-shaped suggestion forms.

By the end of the exhibition, the branches of the "Eco-Tree" set up on our stand wore a dense "foliage" of valuable suggestions.

This favorable response prompted us to start hosting an "Ecological Suggestions Open Forum" section on the Sekisui Chemical Co., Ltd website. This feature is ongoing and is still attracting a large number of suggestions from various audiences, reflecting how people exercise environmental responsibility in their everyday lives and expressing their attitudes to environmental protection. This activity highlights the extent of public concern about environmental issues.

"Ecological Suggestions Open Forum" is operated as a communication site, where visitors can not only post their own new eco-suggestions, but can also vote on posted suggestions. We are keen to communicate with as many people as possible, while providing incentives to think about environmental issues in their daily lives.

**Ecological Suggestions Open Forum**
**http://www.sekisui.co.jp/eco/eco_teian.html**

"Eco-Tree" (Eco-products 2004)

"Ecological Suggestions Open Forum"

*Examples of successful communication: (3)*

## Information transmission to high school and university students through a series of advertisements

We have been placing advertisements, "Manufacturing Based on Learning from Nature", in the "Newton" science magazine since the July 2004 issue, primarily targeting high school and university students who are interested in natural science.

This advertising series represents an attempt to provide information on the "Sekisui Chemical Grant Program for Research into Manufacturing Based on Learning from Nature" (P69), while stimulating appreciation of and fascination for the wonderful workings of nature. Besides the advertisements, we publish a pamphlet entitled, "Manufacturing Based on Learning from Nature 2004", which provides more details on the program.*

Advertisements placed in "Newton"


G-Mark award

A component of our multimedia communication program-involving print advertising, a pamphlet, the website and symposiums-this advertisement drew favorable responses and won a "Good Design Award 2004 (New Frontier Design)", together with an "Ecology Design Prize" special award.

* **We distribute a variety of free publications on environmental issues, including:** "Manufacturing Based on Learning from Nature 2004", the "Let's Think About Everyone's Earth" series, and "Let's Think About How to Develop Our Own Town", as part of the Sekisui Heim Environmental Library. You can request any of these booklets from the following website of Sekisui Chemical Co., Ltd. (http://www.sekisui.co.jp/general/books_index.html)

**"Manufacturing Based on Learning from Nature" website**
**http://www.sekisui.co.jp/eco/monozukuri.html**


"Manufacturing Based on Learning from Nature 2004" pamphlet

Website screenshot

## Sekisui's Activities for Nature Conservation

# In an effort to preserve the natural environment, each company of the Sekisui Group is working at its business base on nature conservation in cooperation with NPOs and NGOs.

## Activities to Preserve Local Woods and Satoyama (Semi-natural Ecosystem)

### Development of "Sekisui-no-Mori (Sekisui Woods)" (Tokuyama Sekisui Industry Co., Ltd.)

We are developing "Sekisui-no-Mori" (forest maintenance efforts involving thinning and planting) using city-owned groves in Shunan City, Yamaguchi Prefecture, in order to improve people's access to nature. In 2004, 83 people participated in this activity.

### Participation in the planting activities of a local NPO

(Higashinihon Sekisui Industry Co., Ltd.)

Every year, employees and their families participate in planting activities led by the Society to Preserve the Beech and Water of Zao, an NPO specializing in forest and environmental protection in Minami-zao of Yamagata Prefecture. In 2004, 16 people participated in this activity.

### Planting on the factory grounds

(Sekisui Chemical Co., Ltd., Tokyo Plant)

Every year, we invite children from the local community to plant oak trees in a hillside grove within the factory grounds, providing an opportunity for environmental education. In 2004, 14 local pupils participated in this activity.

### Restoration of typhoon-damaged woods

(Chugoku Sekisui Industry Co., Ltd.)

17 employees helped remove fallen trees to restore the woods damaged by Typhoon No. 23, which hit the region in October 2004.

## Conservation of the Local Waterside Combined with Environmental Education Activities

### Organizing a sea turtle watch

(Chubu Sekisui Industry Co., Ltd.)

We organized a sea turtle watch and a cleanup project to help keep the sea clean, along the Omotehama seashore, inviting a children's club from Ohsaki school district in Toyohashi City, Aichi Prefecture. In 2004, 35 people, including local residents and our employees, participated in this activity.

### Cleanup efforts at a feeder of Lake Biwa

(Sekisui Chemical Shiga — Ritto Plant)

Twice a year, we organize a cleanup of the Nakanoi River (a tributary of Lake Biwa), which flows by the plant. In 2004, 69 employees participated in this activity.

### Observing wild birds living in the local nature

(Higashinihon Sekisui Industry Co., Ltd.)

Every year, we organize an annual bird-watching session at the "Sea of Birds" neighboring the plant, inviting local children's clubs and providing an opportunity to learn about the creatures that inhabit the local natural environment. In 2004, 25 local residents and 21 employees participated in this activity.

We have received pictures painted by children who joined-in the activity, as tokens of their gratitude.

In addition, we are engaged in activities for nature conservation, such as cleanups of rivers in the vicinity of the plant and projects given by local NPO.

### We host the "Yakurai School of Nature Experience"

As part of an environmental education program for children in the local community, we host the "Yakurai School of Nature Experience", field education sessions offered to provide experiences of the wonders of nature, at the foot of Mt. Yakurai in Kami County, Miyagi Prefecture.

### "Foster parent" of an 800-year-old Japanese Judas tree

There is an 800-year-old Japanese Judas tree in the Tokyo University' Hokkaido Experiment Forest in Furano City, Hokkaido. Sekisui Chemical Co., Ltd. has become a "foster parent" of the tree, providing protection and funding to support university research, which will lead to perpetuation of a valuable gene resource for the benefit of future generations.

# Natural Environment Development to Foster Diversity of Animals and Plants

## Creation of biotopes and mini-sanctuaries

Volunteer employees at business bases of Sekisui Chemical Group are playing active roles in the development of Biotopes and Mini-Sanctuaries to accommodate a variety of creatures and plants, in an effort to restore a fertile natural environment within the local community.

At Biotopes and Mini-Sanctuaries, we organize events such as Creature-watching Sessions and Tree-planting Festivals, and invite local children to participate and learn.

**Biotope "Gourd Pond"**
**(Chubu Sekisui Industry, Co., Ltd.)**

Masahiro Katsuura
Environmental Safety Office, Chubu Sekisui Industry Co., Ltd.

"Since the establishment of a biotope "Gourd Pond" by volunteer employees in April 2004, an increasing number of creatures have begun inhabiting the pond. On May 15, 2005, we held a "Creature-Watching Session" to celebrate the pond's first anniversary, and invited local children's clubs. The children cheered with joy when they discovered dragonflies and grasshoppers. We will continue these activities with the aim of creating an even richer biotope, featuring a wide variety of animals and plants."

**Biotope "Country Woods"**
**(Kyushu Sekisui Industry Co., Ltd.)**

Yasuhiro Matsumoto
Planning Management Department, Kyushu Sekisui Industry Co., Ltd.

"Among visitors to the "Country Woods" biotope, which marks its 5th anniversary this year, we are always pleased to recognize the familiar faces of middle school pupils who were in primary school when the facility opened. Children cheerfully scamper around the biotope, and many of them joined the Tree-planting Festival held on April 23, 2005."

**Mini-sanctuary "Ancient Capital"**
**(Sekisui Chemical Kyoto Institute)**

Yasuyuki Koori
R&D Planning Center, Kyoto Institute, Sekisui Chemical Co., Ltd.

"Since May, 2004, a team of employees has been working on development of a Mini-Sanctuary named "Ancient Capital" to create an environment that will attract wild birds to the roof of the institute building. The branches and leaves of the trees, which were still young when planted, have matured and now bear fruits favored by wild birds. Employees' appreciation of nature develops as these trees grow."

## Supporting nature conservation activities of NPOs and NGOs

Since 1997, Sekisui Chemical Group has cooperated with a charitable trust called the Keidanren Nature Conservation Fund to support the activities of environmental NGOs at home and abroad, with the aim of helping to protect the natural environment, not just in Japan but throughout the Asia-Pacific region. Apart from our support for a total 48 projects since March 1997, one employee of Sekisui Chemical Co., Ltd. has been seconded to the Nippon Keidanren Committee on Nature Conservation, to support natural conservation activities at home and abroad.

The president of Sekisui Chemical Co., Ltd., who currently serves as chairman of the committee, has actively participated in overseas nature conservation projects, observation trips, international symposiums involving nature conservation bodies, and workshops organized by NGOs.

Furthermore, we hold regular reporting sessions within the company regarding the activity statuses of the NGOs that we support, while our employees participate in exchange meetings between businesses and NGOs, international nature conservation conferences, and NGO project sites.

Forest restoration activities in China

Activities in Indonesia

Exchanges with NPOs

**Examples of supported projects**

| Area of project site | Name of project | Name of NGO (country) |
|---|---|---|
| Indonesia | Marine resources conservation, together with network formation within the marine sanctuaries of the Flores Sea and the Banda Sea | The Nature Conservancy, Indonesia(Indonesia) |
| Asia-wide area | Asian Wetlands Initiative | Ramsar Center (Japan) |
| China | Restoration of forest diversity and a model development in Datong, China | Green Earth Network (Japan) |
| Japan | Promotion of eco-tourism in Shiretoko National Park | Shiretoko Naturalists' Association (Japan) |
| Japan | Development of a model combining natural resources management and regional revitalization in the western region of Lake Biwa | Nippon International Cooperation for Community Development (Japan) |

# Support for Development of Next Generation Technologies and Human Resources

## We provide research grants and educational support for the people who will become the core of the next generation.

### "Sekisui Chemical Grant Program for Research on Manufacturing Based on Learning from Nature"

Since 2002, Sekisui Chemical Group has operated the annual "Sekisui Chemical Grant Program for Research on Manufacturing Based on Learning from Nature", to provide support for university and private sector research into manufacturing applications of basic scientific knowledge learned from nature.

#### 14 research themes awarded grants in 2004

In 2004, we adopted and awarded grants to five research themes out of a record 231 applications received. We also selected nine research themes to be awarded encouragement prizes.

**Research themes awarded grants in 2004**

| Scientist | Affiliation Title | Research Theme |
|---|---|---|
| Osamu Takai | Professor, Nagoya University | Study on Relation between Dynamic Behavior of Water Droplets on Ultra Water-Repellent Leaves and Their Surface Microstructures |
| Tetsuo Kondo | Associate Professor, Kyushu University | A Hierarchical Organizing Design for a Bottom-up 3-D Architecture Using a Nanobuilder, Bacterium Extruding a Cellulose Nanofiber |
| Kyoko Nozaki | Professor, Graduate School, University of Tokyo | Synthesis of Stereoregular Polymers via Carbon Dioxide Fixation: An Alternative to Plants |
| Hiroshi Yamagata | Professor, Kobe University | Large-scale protein production by application of the mechanisms of gene expression in fruits |
| Kentaro Shiraki | Associate Professor, Graduate School University of Tsukuba | Development of additives by hyperthermophilic polyamines that prevent protein aggregation |

**Number of applications and grant awardees for the past three years**

| | Applications | Awardees |
|---|---|---|
| 1st year (2002) | 124 | 13 |
| 2nd year (2003) | 215 | 13 |
| 3rd year (2004) | 231 | 14 |

#### Hosting forums for exchange with researchers

To provide a venue for academic interaction, we host forums involving awardees of the "Sekisui Chemical Grant Program for Research on Manufacturing Based on Learning from Nature" and other researchers involved in various related disciplines.

On October 14 2004, we hosted a forum at Sekisui Chemical's Kyoto Research & Development Laboratories, which was attended by 155 guests from universities, research institutes and business firms, together with 60 participants from Sekisui Chemical Group.

Keynote speeches were delivered by Mr. Takashi Kiuchi, Chairman of Future 500, and Professor Ryohei Kanzaki of the Graduate School, University of Tokyo. Poster sessions featured awardees and members of the Nagoya University "21st Century COE Program"

Poster sessions by awardees


Keynote speech by Professor Ryohei Kanzaki of the Graduate School, University of Tokyo

### "Children's Class for Home Development", an Opportunity to Learn about Housing

Sekisui Chemical Group sponsors the "Children's Class for Home Development", which utilizes integrated study periods or elective courses in middle schools, by providing miniature models of Sekisui Heim. This class is an educational program designed to help children learn about the basics of housing, the overall concept of family and home, and ways to get in touch with society and ultimately environmental issues, through simulations exercises that recreate living basics.

In 2004, 71 students from Nishihama Municipal Middle School in Chigasaki City participated in this program. Meanwhile, in respect of the "Children's Class", we participated in the 2004 "Nikkei Education Program" hosted by the Nihon Keizai Shinbun. The Nikkei Education Program aims to help students learn about real-life corporate activities, utilizing integrated study periods in middle schools and high schools. In 2004 alone, 65 schools and six corporations participated in this program.

In response to our assignment: "Please propose a housing concept, using the Sekisui Heim miniature model house", quite a few creative works were presented that gave full consideration such concepts as happy family gatherings and barrier-free access. On February 28 2005, we organized a presentation by the five teams whose projects had been selected as "excellent", at which opinions were exchanged over the selected model houses. Besides this activity, Sekisui Chemical Group is supporting development of human resources to serve as the core of the next generation, including co-sponsorship for "AIESEC", an NPO that promotes international internship exchange activities, and assistance for university lectureships.

Scenes from the presentation by Nikkei Education Program awardees

## Establishing “Sekisui Scholarship” in Suzhou University in China

Our company name “Sekisui” (“amassed water”) derives from a passage in the ancient Chinese military strategy book, “The Art of War” whose supposed author Sun Tzu Wu is said to have been a very successful general in the kingdom of Wu, now known as Suzhou city. Sekisui Chemical Group decided to establish a “Sekisui Scholarship” at Suzhou University, to commemorate the development and launch, in October 2004, of our new Suzhou production plant for S-LEC film (details P22 and P46).

This scholarship annually provides a fixed amount of financial support to 15 selected students of Suzhou University. Funding of the scholarship will continue for ten years. As a community-based organization, Sekisui Chemical Group promotes favorable relationships with local communities by supporting the development of Next Generation human resources.

Scenes from signing ceremony

## Donations

# We provide financial support, including donations, for various activities, in an effort to make environmental, academic and cultural contributions.

Sekisui Chemical Group provides financial support, including donations, for various activities, in an effort to make environmental, academic and cultural contributions while interacting with society through our business activities and products.

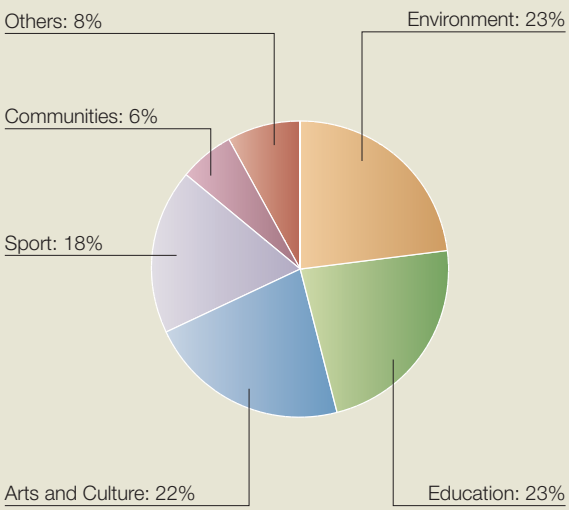
For 2004, our financial support contribution, including donations and the monetary value of employees’ activities, amounted to approximately 190 million yen (see breakdown in the chart at right).

Our most significant support for environmental programs comprises patronage of the NPO and NGO activities through the Keidanren Nature Conservation Fund, and our various community activities (P67 and P68).

Meanwhile, our support for Next Generation research includes the Sekisui Chemical Grant Program for Research on Manufacturing Based on Learning from Nature (P69).

Moreover, we consistently assist young artists, as part of our support for cultural activities. For instance, we are patrons of the Micle Musical Company, a dramatic arts group targeted at high school students mainly in the Kansai region. We also support the Grand Prix Concert organized by the Japan Chamber Music Foundation.

**Our total financial support for 2004 can be broken down by area of activities, as follows**




## External Evaluation of Our Activities

# We received the following external evaluations for our various involvements and communication activities.

**Major evaluations achieved**

- Awarded Excellence Prize in the “Environmental Report Awards” (jointly presented by Green Reporting Forum and Toyo Keizai Inc.) for our “Environmental Report 2004”
- Rated AA in “Tohmatsu Environmental Rating” by the Tohmatsu Evaluation and Certification Organization
- Ranked 71st in “Survey of Quality Management Status at Corporations”, organized jointly by Union of Japanese Scientists and Engineers and Nihon Keizai Shimnbun, Inc.
- Ranked 133rd in “Corporate Social Responsibility (CSR) Survey” by Nihon Keizai Shinmbun, Inc.
- Ranked 112th in “Environmental Management Survey” by Nihon Keizai Shinmbun, Inc.

## Our Response to Your Feedback Regarding Environmental Report 2004

We have received various comments, as well as a third party opinion, on last year's Environmental Report 2004. This year, the report appears under a new title, "Environmental & Social Report", and reflects our response to some of the principal opinions, including our commitments toward environmental perspectives and the details of the report.

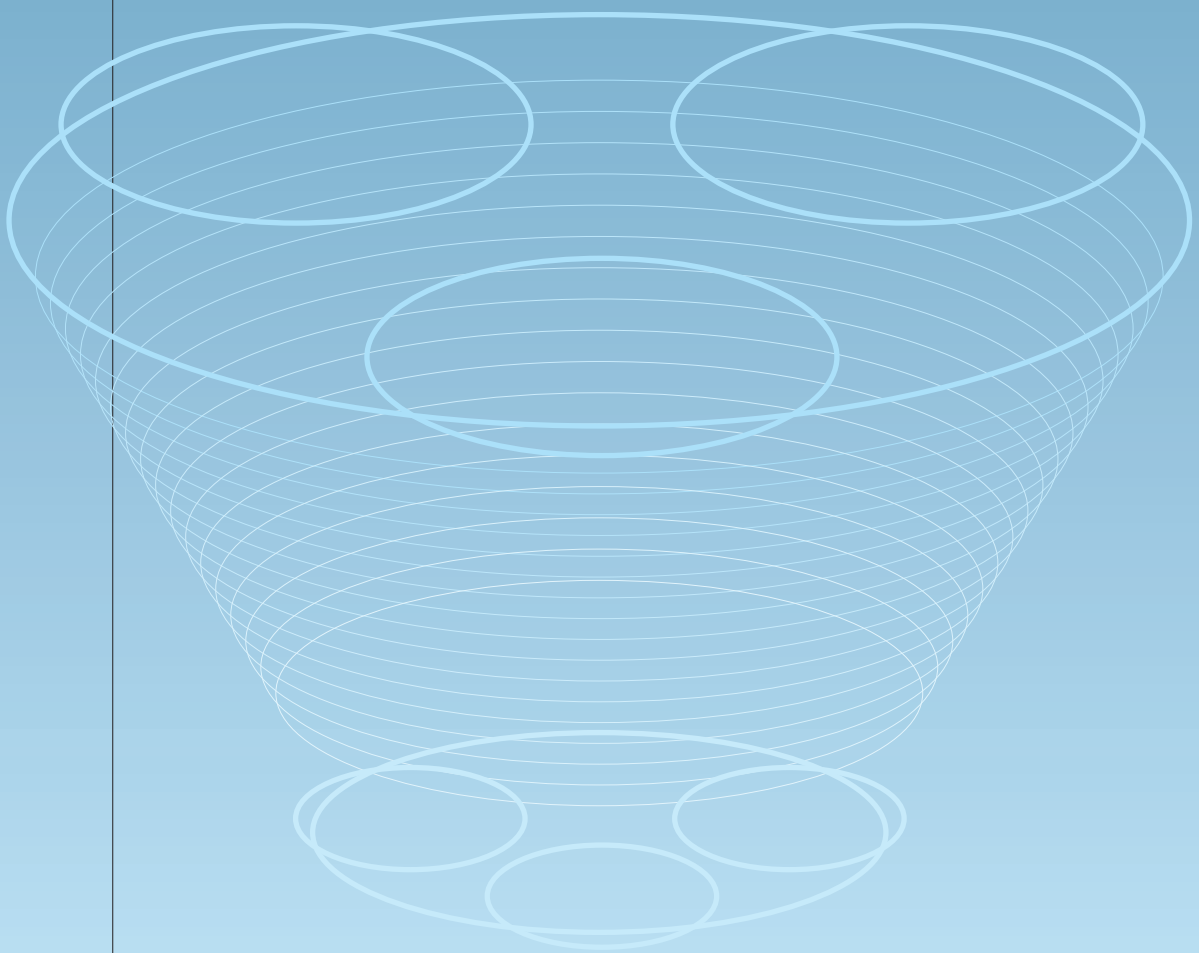
### Our response to last year's third party opinion (summarized)

| Your comments | Our response |
|---|---|
| • Regarding collection of environmental accounting information, we are looking forward to having a structured system through which corporate headquarters can conduct automatic summation and control of data for the plants<br>• The summation format for environmental information management needs to be more tailored, and education and communication activities should be implemented on a regular basis to avoid problems such as mistakes and overlapping summation work. | • We have introduced a dedicated database system which has been operational as of fiscal 2005. Utilizing this, we will endeavor to sharpen our environmental corporate management by seizing this opportunity to speed up and integrate the summation of environmental information, and at the same time, review the format and reinforce education and communication. |
| • It needs to function more effectively, by clarifying the roles of division companies and corporate headquarters, and by arranging integration of the management system. We would also like to see the drive for environmental conservation activities across the entire group further strengthened by effective utilization of an "environment-conscious corporate performance evaluation system". | • By expanding operation of the environment management system and through environmental auditing, we will strive to enhance overall operational efficiency. We also initiated performance assessments in fiscal 2004. |
| • We believe that the company should aim to grasp a complete picture of its supply chain by promoting information-sharing between design/development sectors and parts/components manufacturing sectors in order to reduce wastes, and by implementing zero emission activities at house construction sites, including disassembly/demolition sites, in collaboration with house sales subsidiaries. | • We plan to expand operation of the environment management system to cover the supply chain and external contractors in the near future. We are currently preparing an action plan. |
| • Through reducing generated wastes, improving the recycling ratio, and developing and producing recycling materials, we expect the environmental stance to permeate all our business operations. | • We will promote reduction of not only wastes but also environmental burdens caused by business activities. At the same time, we will expand product lines and businesses that are beneficial in reducing environmental burdens on society in general. |
| • Establishment of investment effects indices and judgment criteria for capital investments in environmental aspects will provide an effective system for Group-wide deployment of capital investment for environmental considerations. | • In our efforts to address environmental issues, we will consider establishing a framework to promote investment with due consideration of the environment. |
| • We believe that, in chemical substances management, it would be effective to incorporate the viewpoint of the reduction of risks caused by chemical substances, in addition to volume reduction. | • Regarding risk management for chemical substances, we will focus primarily on development-to-production phases, such as maintaining various frameworks, reducing emissions and transfers through self-imposed targets, and totally abolishing priority reduction substances. |
| • Environmental cost is not included as an object of "prior management". We would like to see the introduction of environment management accounting being urged for the purpose of internal management, together with further deployment in due course, by introducing materials flow cost accounting into production processes, analyzing expenditure vs. effects by budgeting for environmental expenditure, and establishing capital investment appraisal for environment-friendly equipment.<br>• Waste should not only be analyzed at the substance level, but should also be managed by integrating it with cost. This would be much more effective. | • With regard to internal management for environment management accounting, we have made a start by introducing materials flow cost accounting, which has already operating in parts of the Group. This leads to integrated management and reduction of the volume and cost of wastes. Introduction of capital investment appraisal for environment-friendly equipment is currently under consideration. |

### Our response to comments in the questionnaire

| Your comments | Our response |
|---|---|
| • Please express your high ideals in everyday language.<br>• The report is very detailed and makes good reading, but there are some expressions that are quite technical. | • As of this year, the document becomes the "Environmental & Social Report" and incorporates information that will be useful to a wider range of stakeholders. We have tried to make it easier to understand by reviewing the language and including diagrams. |
| • It lacks the viewpoint of "originating information" in environmental communication. You are only focusing on your activities. | • We understand that not only environmental issues but also disclosure of information and communication are extremely important. A new section introduces our thinking in respect of information disclosure and communication, and how we are addressing these issues. |
| • It would be better if you made public all of your issues and claims. | • We will continue our policy of honestly disclosing or communicating all issues as they arise. |
| • PRTR, toluene-tons is a large amount. I look forward to improvements and greater efforts. | • We are addressing the issues of reducing chemical substance emissions and transfers, primarily in respect of chemical substances designated as Class 1 in Japanese PRTR law. While the figures for fiscal year 2004 were roughly the same as those for the previous year, we will continue to pursue further reductions. |
| • I am involved in raising awareness of "ECO STAGE" environmental corporate management. It would be helpful if you could recommend ECO STAGE to your business partners. | • The Housing Company is asking its medium- and small-sized business partners to acquire certifications such as Eco Action 21, and will support their applications. |
| • From a Corporate Social Responsibility (CSR) standpoint, I would like to see the company making further efforts to increase employee satisfaction. | • We have added a new section to the "Environmental & Social Report" that covers issues relating to employees (human resources). |

# Data



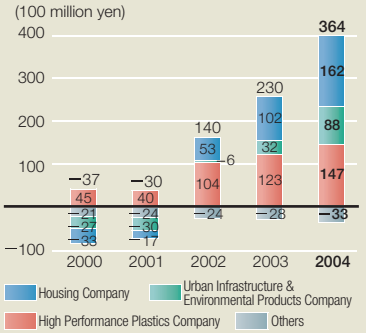
## Management Benchmarks (consolidated)

### Sales (by each division company)

(100 million yen)

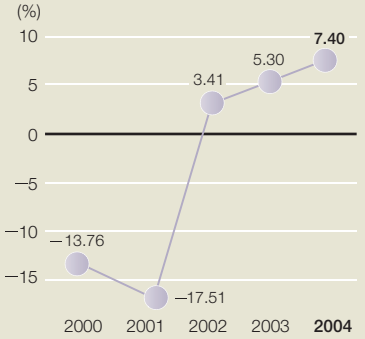

### Operating income (by each division company)

(100 million yen)



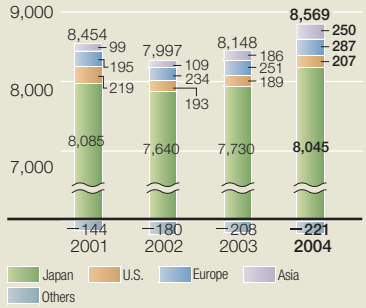

### ROE

(%)




### Composition of sales by geographical segments

(100 million yen)

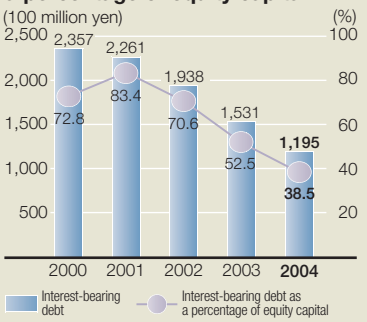



### Total assets

(100 million yen)

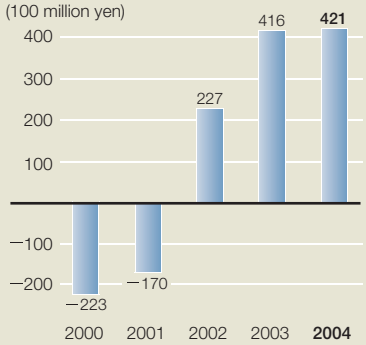

### Interest-bearing debt Interest-bearing debt as a percentage of equity capital

(100 million yen) (%)




### Free cash flows

(100 million yen)




### Capital expenditures

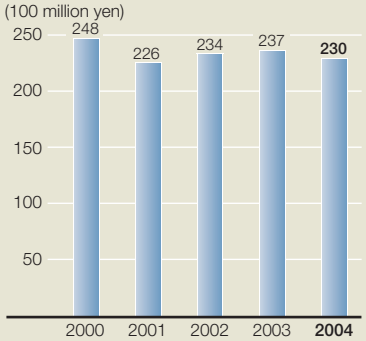
(100 million yen)


### Depreciation and amortization

(100 million yen)

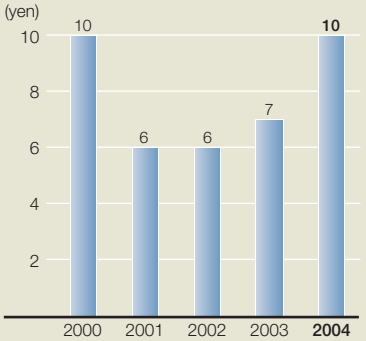

### R&D cost

(100 million yen)




### Annual dividend per share

(yen)




### Number of employees

(persons)

# Object of Environmental Data Summation/Workplace with ISO Certification/ Workplace where Zero Emissions were Attained

◎ Sekisui Chemical Co. business sites ○ Consolidated subsidiaries ● Companies to which the equity method was applied ＊ Sub-subsidiary companies

■ 34 plants and 4 R&D institutes that are objects of summation including environmental accounting

## Housing Company

| Name of workplace | Object of environmental data summation | Acquired ISO 14001 certification | Attained zero emissions | Acquired ISO9001 or 9002 etc. |
|---|---|---|---|---|
| Company back office | ■ | | | ■ |
| ◎ Tsukuba R&D Site | ■ | ■ | ■ | ■ |
| ○ Kitanihon Sekisui Industry Co., Ltd. | ■ | ■ | ■ | ■ |
| ○ Higashinihon Sekisui Industry Co., Ltd. | ■ | ■ | ■ | ■ |
| ○ Kanto Sekisui Industry Co., Ltd. | ■ | ■ | ■ | ■ |
| ○ Tokyo Sekisui Industry Co., Ltd. | ■ | ■ | ■ | ■ |
| ○ Chubu Sekisui Industry Co., Ltd. | ■ | ■ | ■ | ■ |
| ○ Kansai Sekisui Industry Co., Ltd. | ■ | ■ | ■ | ■ |
| ○ Chugoku Sekisui Industry Co., Ltd. | ■ | ■ | ■ | ■ |
| ○ Nishinihon Sekisui Industry Co., Ltd. | ■ | ■ | ■ | ■ |
| ○ Sekisui Board Co., Ltd. Minakuchi Plant | ■ | ■ | ■ | ■ |
| ○ Sekisui Board Co., Ltd. Gunma Plant | ■ | ■ | ■ | ■ |

## Housing Sales Company, Refurbishing Company

| Name of workplace | Object of environmental data summation | Acquired ISO 14001 certification | Attained zero emissions | Acquired ISO9001 or 9002 etc. |
|---|---|---|---|---|
| ◎ Housing Division Crastina Sales Office | ■ | | ■ | |
| ○ Hokkaido Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ○ Sekisui Heim Tohoku Co., Ltd. Miyagi Branch | ■ | ■ | ■ | |
| ○ Sekisui Heim Tohoku Co., Ltd. Fukushima Branch | ■ | ■ | ■ | |
| ○ Sekisui Heim Tohoku Co., Ltd. Kitanihon Branch | ■ | ■ | ■ | |
| ○ Sekisui Heim Tohoku Co., Ltd. Yamagata Branch | ■ | ■ | ■ | |
| ○ Sekisui Heim Tokyo Co., Ltd. | ■ | ■ | ■ | |
| ○ Sekisui Heim Kanagawa Co., Ltd. | ■ | ■ | ■ | |
| ○ Sekisui Heim Chiba Co., Ltd. | ■ | ■ | ■ | |
| ○ Sekisui Heim Saitama Co., Ltd. | ■ | ■ | ■ | |
| ○ Sekisui Heim Yamanashi Co., Ltd. | ■ | ■ | ■ | |
| ● Ibaraki Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ● Tochigi Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ○ Gunma Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ○ Sekisui Heim Shinetsu Co., Ltd. | ■ | ■ | ■ | |
| ○ Nagoya Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ● Sekisui Heim Tokai Co., Ltd. | ■ | | ■ | |
| ○ Gifu Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ○ Mie Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ○ Hokuriku Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ○ Sekisui Heim Keiji Co., Ltd. | ■ | ■ | ■ | |
| ○ Sekisui Heim Osaka Co., Ltd. | ■ | ■ | ■ | |
| ○ Sekisui Heim Hanna Co., Ltd. | ■ | ■ | ■ | |
| ● Sekisui Heim Sanyo Co., Ltd. | ■ | ■ | ■ | |
| ○ Wakayama Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ○ Kitakinki Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ○ Sekisui Heim Chugoku Co., Ltd. Yamaguchi Branch | ■ | ■ | ■ | |
| ○ Sekisui Heim Chugoku Co., Ltd. Hiroshima Branch | ■ | ■ | ■ | |
| ○ Sekisui Heim Chugoku Co., Ltd. Okayama Branch | ■ | ■ | ■ | |
| ○ Sekisui Heim Chugoku Co., Ltd. Sanin Branch | ■ | ■ | ■ | |
| ○ Shikoku Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ○ Tokushima Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ● Kagawa Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ● Kochi Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ○ Oita Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ○ Nagasaki Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ○ Kyuseki Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ○ Kumamoto Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ○ Fukuoka Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ○ Kagoshima Sekisui Heim Co., Ltd. | ■ | ■ | ■ | |
| ＊ Hokkaido Sekisui Fami S Co., Ltd. | ■ | ■ | ■ | |
| ＊ Sekisui Fami S Tohoku Co., Ltd. Miyagi Branch | ■ | | ■ | |
| ＊ Sekisui Fami S Tohoku Co., Ltd. Fukushima Branch | ■ | ■ | ■ | |
| ＊ Sekisui Fami S Tohoku Co., Ltd. Kitanihon Branch | ■ | ■ | ■ | |
| ＊ Sekisui Fami S Tohoku Co., Ltd. Yamagata Branch | ■ | ■ | ■ | |
| Ibaraki Sekisui Fami S Co., Ltd. | ■ | ■ | ■ | |
| Tochigi Sekisui Fami S Co., Ltd. | ■ | | ■ | |
| ＊ Gunma Sekisui Fami S Co., Ltd. | ■ | | ■ | |
| ＊ Sekisui Fami S Shinetsu Co., Ltd. | ■ | ■ | ■ | |
| ○ Sekisui Fami S Tokyo Co., Ltd. Tokyo Branch | ■ | | ■ | |
| ○ Sekisui Fami S Tokyo Co., Ltd. Kanagawa Branch | ■ | | ■ | |
| ○ Sekisui Fami S Chiba Co., Ltd. | ■ | | ■ | |
| ○ Sekisui Fami S Saitama Co., Ltd. | ■ | | ■ | |
| ＊ Nagoya Sekisui Fami S Co., Ltd. | ■ | | ■ | |
| Sekisui Fami S Tokai Co., Ltd. | ■ | | ■ | |
| ＊ Gifu Sekisui Fami S Co., Ltd. | ■ | ■ | ■ | |
| ＊ Mie Sekisui Fami S Co., Ltd. | ■ | ■ | ■ | |
| ＊ Hokuriku Sekisui Fami S Co., Ltd. | ■ | ■ | ■ | |
| ○ Sekisui Fami S Keiji Co., Ltd. | ■ | | ■ | |
| ○ Sekisui Fami S Osaka Co., Ltd. | ■ | | ■ | |
| ○ Sekisui Fami S Hanna Co., Ltd. | ■ | | ■ | |
| Sekisui Fami S Sanyo Co., Ltd. | ■ | ■ | ■ | |
| ＊ Wakayama Sekisui Fami S Co., Ltd. | ■ | ■ | ■ | |
| ＊ Kitakinki Sekisui Fami S Co., Ltd. | ■ | ■ | ■ | |
| ＊ Sekisui Fami S Chugoku Co., Ltd. Okayama Branch | ■ | ■ | ■ | |
| ＊ Sekisui Fami S Chugoku Co., Ltd. Sanin Branch | ■ | ■ | ■ | |
| ＊ Sekisui Fami S Chugoku Co., Ltd. Hiroshima Branch | ■ | ■ | ■ | |
| ＊ Sekisui Fami S Chugoku Co., Ltd. Yamaguchi Branch | ■ | ■ | ■ | |
| ＊ Shikoku Sekisui Fami S Co., Ltd. | ■ | ■ | ■ | |
| Tokushima Sekisui Fami S Co., Ltd. | ■ | ■ | ■ | |
| Kagawa Sekisui Fami S Co., Ltd. | ■ | ■ | ■ | |
| Kochi Sekisui Fami S Co., Ltd. | ■ | ■ | ■ | |
| ＊ Oita Sekisui Fami S Co., Ltd. | ■ | ■ | ■ | |
| ＊ Nagasaki Sekisui Fami S Co., Ltd. | ■ | ■ | ■ | |
| ＊ Kyuseki Sekisui Fami S Co., Ltd. | ■ | ■ | ■ | |
| ＊ Kumamoto Sekisui Fami S Co., Ltd. | ■ | ■ | ■ | |
| ＊ Fukuoka Sekisui Fami S Co., Ltd. | ■ | ■ | ■ | |
| ＊ Kagoshima Sekisui Fami S Co., Ltd. | ■ | ■ | ■ | |

## Urban Infrastructure & Environmental Products Company

| Name of workplace | Object of environmental data summation | Acquired ISO 14001 certification | Attained zero emissions | Acquired ISO9001 or 9002 etc.*1 |
|---|---|---|---|---|
| Company back office | ■ | | | |
| ◎ Kyoto R&D Laboratory | ■ | ■ | ■ | |
| ◎ Shiga-Ritto Plant | ■ | ■ | ■ | ■ |
| ◎ Gunma Plant | ■ | ■ | ■ | ■ |
| ◎ Tokyo Plant | ■ | ■ | ■ | ■ |
| ○ Vantec Co., Ltd. Chiba Plant | ■ | ■ | ■ | ■ |
| ○ Sekisui Chemical Hokkaido Co., Ltd. | ■ | ■ | ■ | ■ |
| ○ Toto Sekisui Co., Ltd. | ■ | ■ | ■ | ■ |
| ○ Okayama Sekisui Industry Co., Ltd. | ■ | ■ | ■ | ■ |
| ○ Shikoku Sekisui Industry Co., Ltd. | ■ | ■ | ■ | ■ |
| ○ Kyusyu Sekisui Industry Co., Ltd. | ■ | ■ | ■ | ■ |
| ○ Ryuseki Jubi Co., Ltd. | ■ | ■ | ■ | ■ |
| ○ Sekisui Aqua Systems Co., Ltd. Shizuoka Plant | | ■ | | ■ |
| ○ Sekisui Aqua Systems Co., Ltd. Machine & Plant Division | | | | ■ |
| ○ Sekisui Hometechno Co., Ltd. | | | | ■ |
| ○ No-Dig Technology Co., Ltd. | | | | ■ |

*1 In addition, ISO9001 certification was acquired for one of Urban Infrastructure & Environmental Products Company's projects

## High Performance Plastics Company

| Name of workplace | Object of environmental data summation | Acquired ISO 14001 certification | Attained zero emissions | Acquired ISO9001 or 9002 etc. |
|---|---|---|---|---|
| Company back office | ■ | | | |
| ◎ Minase Research Laboratories | ■ | ■ | ■ | |
| ◎ Amagasaki Plant | ■ | ■ | ■ | ■ |
| ◎ Musashi Plant | ■ | ■ | ■ | ■ |
| ◎ Shiga-Minakuchi Plant | ■ | ■ | ■ | ■ |
| ○ Sekisui Technol Molding Co., Ltd. Head Office Plant | ■ | ■ | ■ | |
| ○ Sekisui Technol Molding Co., Ltd. Nara Plant 2 | ■ | ■ | | |
| ○ Sekisui Technol Molding Co., Ltd. Mie Plant | ■ | | ■ | |
| ○ Sekisui Technol Molding Co., Ltd. Oigawa Plant | ■ | ■ | ■ | ■ |
| ○ Sekisui Film Co., Ltd. Sendai Plant | ■ | ■ | ■ | |
| ○ Sekisui Film Co., Ltd. Nagoya Plant | ■ | ■ | ■ | ■ |
| ○ Sekisui Film Co., Ltd. Shinshu-Takato Plant | ■ | ■ | ■ | |
| ○ Sekisui Film Co., Ltd. Taga Plant | ■ | ■ | ■ | |
| ○ Sekisui Film Kyushu Co., Ltd. | ■ | ■ | ■ | |
| ○ Sekisui Medical Denshi Co., Ltd. | | | | ■ |
| ○ Sekisui Techno Shoji Higashi Nihon Co., Ltd. | | ■ | | |

## Corporate Headquarters

| Name of workplace | Object of environmental data summation | Acquired ISO 14001 certification | Attained zero emissions | Acquired ISO9001 or 9002 etc. |
|---|---|---|---|---|
| Tokyo Head Office and Osaka Head Office | ■ *2 | | | |
| ◎ New Business Office Development Center | ■ | ■ | ■ | |
| ○ Tokuyama Sekisui Industry Co., Ltd. *Acquired ISO9001 certification or 3 plants | ■ | ■ | ■ | ■ |
| ○ Hinomaru Corp. Tosu Plant | ■ | ■ | ■ | |
| ○ Hinomaru Corp. Kanto Plant | | ■ | | |
| ○ Sekisui Seikei Industry Co., Ltd. | | | | ■ |
| ○ Sekisui Engineering Co., Ltd. | | | | ■ |

*2 Object activities at the Tokyo Head Office building and Osaka Head Office building include departments of division companies, branches and affiliates that are tenants of the Head Office buildings.

## Environmental Accounting (data summation by each division company)

Summation of environmental accounting

(1) Summation period: April 1, 2004 to March 31, 2005

(2) Scope of summation: 34 target production plants (as listed on P74) + 4 R&D institutes + each department of corporate headquarters + back offices of division companies + 22 house sales subsidiaries

(3) Principle of summation

- Depreciation amounts are the same as those for financial accounting.
- Investment amounts are based on budget approvals during the summation period.
- Expenditure and investment that contain other than environmental conservation activities are distributed pro-rata by 10% increments.

### Environmental conservation expenditure (by company)

(million yen)

| Items | | Housing Company *1 | | Urban Infrastructure & Environmental Products Company | | High Performance Plastics Company | | Entire Company *2 | |
|---|---|---|---|---|---|---|---|---|---|
| Category | Main projects | Expenditure | Investment amount | Expenditure | Investment amount | Expenditure | Investment amount | Expenditure | Investment amount |
| 1.Within workplaces | Prevention of air pollution, water contamination, noise | 957 | 7 | 347 | 25 | 370 | 118 | 1,676 | 172 |
| | Prevention of global warming (energy saving) | 54 | 55 | 18 | 82 | 50 | 84 | 122 | 222 |
| | Waste reduction, recycling, disposal, treatment | 3,139 | 6 | 461 | 185 | 470 | 33 | 4,077 | 224 |
| 2.Up/downstream | Reduction of environmental loads in containers and packaging. Payment difference by Green Purchase | 9 | 0 | 82 | 392 | 47 | 0 | 153 | 392 |
| 3.Management activities | Environmental education, EMS maintenance, information disclosure, personnel Research and development | 901 | 0 | 246 | 0 | 246 | 1 | 2,640 | 31 |
| 4.R&D | Research and development | 48 | 4 | 692 | 119 | 307 | 34 | 1,195 | 182 |
| 5.Social activities | Contribution to society | 26 | 0 | 69 | 0 | 31 | 0 | 136 | 0 |
| 6.Environmental damage | Restoration of nature | 0 | 0 | 5 | 0 | 10 | 70 | 15 | 70 |
| Total | | 5,134 | 72 | 1,920 | 803 | 1,531 | 340 | 10,014 | 1,293 |

| Items | Housing Company *1 | | Urban Infrastructure & Environmental Products Company | | High Performance Plastics Company | | Entire Company *2 | |
|---|---|---|---|---|---|---|---|---|
| | R&D cost Investment | Investment amount | R&D cost Investment | Investment amount | R&D cost Investment | Investment amount | R&D cost Investment | Investment amount |
| Total amount of R&D costs and investment in the fiscal period (million yen) | 4,501*3 | 4,298 | 6,029*3 | 3,284 | 8,913*3 | 6,844 | 22,974*3 | 15,928 |
| Ratio of amount related to environmental conservation activities to total (%) | 1.1 | 1.7 | 11.5 | 24.4 | 3.4 | 5.0 | 5.2 | 8.1 |

*1 25 house business units of sales subsidiaries included *2 Total of 3 division companies and departments of corporate headquarters *3 R&D cost is the total for all consolidated companies.

### Environmental conservation expenditure (by environmental conservation measures)

(million yen)

| Items | | Housing Company *1 | | Urban Infrastructure & Environmental Products Company | | High Performance Plastics Company | | Entire Company *2 | |
|---|---|---|---|---|---|---|---|---|---|
| Category | Main projects | Expenditure | Investment amount | Expenditure | Investment amount | Expenditure | Investment amount | Expenditure | Investment amount |
| 1.Prevention of global warming | Reduction of $CO_2$ emissions, etc. | 83 | 55 | 42 | 82 | 83 | 34 | 293 | 188 |
| 2.Ozone layer protection | Reduction of Chlorofluorocarbon emission, etc. | 5 | 0 | 0 | 0 | 16 | 50 | 22 | 50 |
| 3.Conservation of air quality | Prevention of air pollution by reducing pollution substances | 229 | 6 | 165 | 33 | 174 | 36 | 568 | 75 |
| 4.Prevention of noise and vibration | Prevention of noise and vibration pollution | 6 | 0 | 8 | 0 | 6 | 2 | 20 | 2 |
| 5.Conservation of water environment, soil environment, ground quality | Preservation of water quality, prevention of subsidence | 218 | 1 | 107 | 7 | 166 | 150 | 503 | 158 |
| 6.Waste reduction and recycling | Reduction and treatment of waste, recycling | 3,225 | 6 | 1,125 | 654 | 549 | 67 | 4,926 | 727 |
| 7.Reduction of chemical substance | Risk management of chemical substances, etc. | 362 | 0 | 7 | 27 | 210 | 1 | 579 | 49 |
| 8.Conservation of natural environment | Nature protection, etc. | 88 | 0 | 69 | 0 | 36 | 0 | 198 | 0 |
| 9.Others | Others | 918 | 4 | 397 | 0 | 291 | 0 | 2,905 | 44 |
| Total | | 5,134 | 72 | 1,920 | 803 | 1,531 | 340 | 10,014 | 1,293 |

### Environmental conservation effects (by company)

(million yen)

| Category of effect | | Items | | Unit | Housing Company *1 | | | Urban Infrastructure & Environmental Products Company | | | High Performance Plastics Company | | | Entire Company *2 | | | Reference page number |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Fiscal year 2003 | Fiscal year 2004 | Effect (04-03) | Fiscal year 2003 | Fiscal year 2004 | Effect (04-03) | Fiscal year 2003 | Fiscal year 2004 | Effect (04-03) | Fiscal year 2003 | Fiscal year 2004 | Effect (04-03) | |
| Within workplaces | Input of resources | Energy consumption*4 | 1. Electricity | TJ | 517 | 538 | 21 | 1,571 | 1,562 | -9 | 1,246 | 1,318 | 72 | 3,570 | 3,670 | 100 | 27 |
| | | | 2. Fuel | TJ | 203 | 200 | -3 | 230 | 204 | -26 | 1,931 | 1,982 | 51 | 2,597 | 2,628 | 31 | 27 |
| | Environmental burdens and waste | 3. $CO_2$ emission*5 | | Ktons | 32.8 | 33.4 | 0.6 | 73.5 | 71.8 | -1.7 | 149.8 | 155.1 | 5.3 | 285.6 | 291.2 | 5.6 | 27 |
| | | 4. Pollutants emission*6 | | Tons | 7.2 | 3.3 | -3.9 | 117.0 | 118.3 | 1.3 | 400.0 | 395.3 | -4.7 | 529.8 | 522.3 | -7.5 | 33 |
| | | 5. Waste generated *7 | | Ktons | 17.5 | 16.0 | -1.5 | 12.6 | 11.4 | -1.2 | 16.7 | 18.1 | 1.4 | 47.5 | 46.2 | -1.3 | 30 |
| | | 6. Outsourced disposal *8 | | Ktons | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.06 | 0.06 | 0.00 | 0.10 | 0.07 | -0.03 | 11 |
| Up/down stream | Goods and services | $CO_2$ emissions reduction by photovoltaic energy generation, etc. | | Tons | 60,000 | 80,000 | 20,000 | — | — | — | — | — | — | 60,000 | 80,000 | 20,000 | 21 |
| Other environmental conservation effects | Others | No of workplaces with ISO14001 certification | New | Numbers | 1 | 0 | — | 0 | 0 | — | 1 | 2 | — | 2 | 3 | — | 74 |
| | | | Renewed | Numbers | 13 | 6 | — | 2 | 2 | — | 6 | 2 | — | 19 | 10 | — | — |
| | | No. of zero emissions sites*9 | | Numbers | 18 | 39 | — | 0 | 1 | — | 0 | 0 | — | 18 | 41 | — | 29 |

*4 Coefficients are officially announced by the Japanese Ministry of Economy, Trade and Industry as calorific value conversions.
*5 Coefficients are officially announced by the Japanese Ministry of the Environment as emissions from production and $CO_2$ conversions (Coefficients for FY2000 are used for calculation.)
*6 Chemical substances specified as Class 1 in Japanese PRTR law *7 Emissions + volume of saleable materials + internal incineration *8 Simple incineration + landfill
*9 A workplace belonging to more than one company is calculated as one single workplace

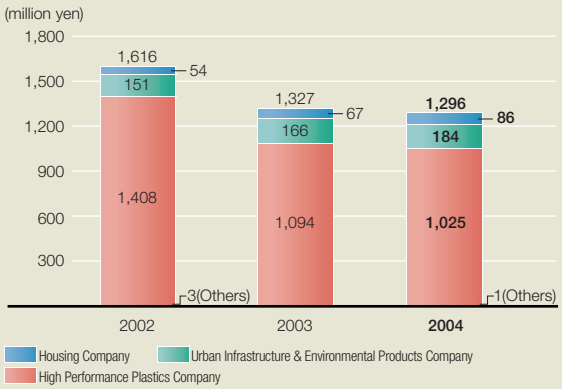
## Economic effects related to environmental conservation measures (by company)

(million yen)

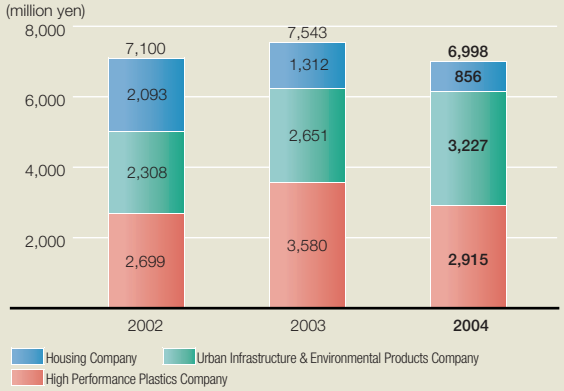
| Category of effects | | Housing Company *1 | Urban Infrastructure & Environmental Products Company | High Performance Plastics Company | Entire Company *2 | Sources |
|---|---|---|---|---|---|---|
| Income | 1. Income from sales of valuable materials | 13 | 14 | 113 | 140 | Segregation and recycling of waste |
| Cost Reduction | 2. Cost reduction from packaging savings | 1 | 4 | 1 | 7 | |
| | 3. Cost reduction from energy-saving activities, etc. | 11 | 24 | 263 | 298 | |
| | 4. Cost reduction from waste reduction activities, etc. | 61 | 142 | 648 | 851 | Including resource-saving activities |
| Sub-total (actual effect) | | 86 | 184 | 1,025 | 1,296 | |
| 5. Contribution portion of environmental conservation activities *10 | | 521 | 2,822 | 2,512 | 5,855 | Contribution portion of environmental conservation activities against added value of plants *11 |
| 6. Contribution portion of R&D on environment-friendly new products *10 | | 335 | 405 | 403 | 1,143 | Sales of enviroment-friendly new products x ratio of environmental R&D expenditure to total R&D expenditure |
| Sub-total (estimated effect) | | 856 | 3,227 | 2,915 | 6,998 | |
| Total | | 942 | 3,411 | 3,940 | 8,294 | |

*10 Excluding house sales subsidiaries *11 (Added value of plants excluding environment-friendly new products) x {(Costs within plants + management activities cost)} / (Total production cost excluding materials cost)

### Trend of actual economic effects related to environmental conservation measures




### Trend of estimated economic effects related to environmental conservation measures




### Economic effects related to environmental conservation effects (economic benefit to customers)

The electricity generated in houses equipped with Sekisui Chemical Group's photovoltaic generation systems amounts to an annual total of 138,894 MWh, and the power-saving effects (reduction in electricity purchases from power companies) for our customers'(occupants') households are worth, on aggregate, 3.2 billion yen per year. Converted into volume of $CO_2$ emissions, the curbing effect would approximate 50,000 tons of $CO_2$.
This is equivalent to the volume of $CO_2$ produced by burning approximately 1.1 million 18-liter cans of kerosene.

| Category of effects | Effect | | Sources |
|---|---|---|---|
| Power-saving effect in houses equipped with photovoltaic generation systems | Annual power generation | Amount saved | Annual generated power in houses equipped with photovoltaic generating systems x Power unit price (¥23 / KWh; based on standard for energy saving effect set by The Energy Conservation Center) |
| | 138,894 MWh per year | 3,195 million yen | |

## Differences in Environmental Audit for Fiscal 2004

(for production plants and R&D institutes, as of end March 2005)

(Subject)

| | | | Number of cases | Correction completed | Undergoing correction |
|---|---|---|---|---|---|
| Corporate Headquarters environmental audit* (33 business sites) | | Audit difference | 166 | 120 | 46 |
| | | Requests | 186 | 112 | 74 |
| | | Proposals | 6 | 1 | 5 |
| | | Total | 358 | 233 | 125 |
| Audit by certification body | Renewal (10 business sites) | Nonconformity (major) | 0 | 0 | 0 |
| | | Nonconformity (minor) | 4 | 4 | 0 |
| | | Observations | 55 | 35 | 20 |
| | | Total | 59 | 39 | 20 |
| | Surveillance (27 business sites) | Nonconformity (major) | 0 | 0 | 0 |
| | | Nonconformity (minor) | 14 | 11 | 3 |
| | | Observations | 162 | 105 | 57 |
| | | Total | 176 | 116 | 60 |
| Internal audit of business sites (36 business sites; 41 audits) | | Nonconformity (major) | 0 | 0 | 0 |
| | | Nonconformity (minor) | 121 | 105 | 16 |
| | | Observations | 513 | 420 | 93 |
| | | Total | 634 | 525 | 109 |

***Category of instructions for Corporate Headquarters environmental audit**
Audit difference: Matters recommended for immediate improvement
Requests: Matters recommended for improvement within one year
Proposals: Matters to be considered for improvement, advice

## Number of Persons with Qualifications

(people)

| | | | | Those who acquired qualifications during fiscal 2004 | Aggregate total |
|---|---|---|---|---|---|
| Number of participants in Environmental Management Systems (EMS) internal auditor development/ training course | Number of internal training course participants | | | 67 | 469 |
| | Number of external training course participants | | | 7 | 171 |
| | Total | | | 74 | 640 |
| Number of participants in Occupational Health and Safety Management Systems (OHSMS) internal auditor development/ training course | Number of internal training course participants | | | 134 | 497 |
| | Number of external training course participants | | | 7 | 51 |
| | Total | | | 141 | 548 |
| Number of persons with major qualifications | Registered examiner of the Center of Environmental Auditor Registration (CEAR) | Qualifications | Lead Auditor | 0 | 4 |
| | | | Auditor | 1 | 2 |
| | | | Provisional Auditor | 1 | 9 |
| | Pollution control manager | Qualifications | Air Classes 1-4 | 4 | 39 |
| | | | Water Classes 1-4 | 0 | 70 |
| | | | Noise | 1 | 30 |
| | | | Vibration | 0 | 16 |
| | | | Dioxins | 0 | 4 |
| | Certified Environmental Measurer | | | 0 | 1 |
| | Qualified Person for Energy Management of Type 1 Designated Factory Heat management/Electricity management | | | 3 | 49 |
| | High-pressure Gas Safety Manager Classes A-C | | | 6 | 233 |
| | Olfactory Measurement Operator | | | 0 | 0 |
| | Environmental Counselor | | | 0 | 2 |

## Accreditation Criteria for Environment-friendly Product

| Accreditation criteria | | | Standard value | Housing Company | Urban Infrastructure & Environmental Products Company | High Performance Plastics Company |
|---|---|---|---|---|---|---|
| Products designed to conserve resources, use reclaimed raw materials, reduce environmental burdens, use the forces of nature, treat waste, promote recycling, utilize unused water, promote composting | | | Basic functions of products | | Sekisui Sinklear, septic tanks, Eslote, rainwater permeation devices, | Cross Wave, Categorized dustbins |
| Products accredited or registered by EcoMark, energy saving awards, NGOs, consumer groups | | | Registration and accreditation | | PET caps | Environment-friendly Tack Paint, Ecora pack kraft tape, Recycled PET cloth tape |
| Products and techniques that can contribute to landscape conservation and greening | | | Direct effects produced by products | | C.C.BOX, Information BOX | |
| Considerations at time of manufacturing | Reducing environmental burdens | Reducing emissions of environmental pollutants stipulated in the law and in self-imposed controls of the industry, etc. as well as chemical substances hazardous to the ecological system | 50% or less | | | Kraft tape |
| Basic considerations | Conserving resources | Reducing the volume of raw materials used (thinner, smaller, refillable) | 30% or more | | Rib pipes | Meditrance tape |
| | | Capable of repeated use | Doubled or more | | | |
| | | Extending usable life | Doubled or more | | Eslon Art Face | Garbage dispenser |
| | | | | | Dropshaft | Hanayaka |
| | | | | | Eslon Neo Lumber FFU | e-Container |
| | Using reclaimed materials, etc. | Using reclaimed raw materials and parts | Rate of use 40% or more | | Eslon three-layer pipe, Rifare EX | Recycled containers |
| Considerations at the time of construction and in use | Reducing environmental burdens | Reducing emissions of environmental pollutants stipulated in the law and in self-imposed controls of the industry, etc. as well as chemical substances hazardous to the ecological system | 50% or less | | Gunmetal fitting (lead-free) | Hollow particles, Modified silicone sealant |
| | | Reducing the amount of energy used | 20% or more | | | Heat-shielding interlayer |
| | | Reducing noise and vibrations | Strength 20% or more | | Calmoon sheet | |
| | | Reducing the volume of waste generated | 30% or more | Rebuilding system house | SPR Method, Omega Liner Method | |
| | Using the forces of nature | Using renewable energy (solar energy, wind power, etc.) | Incorporated into product design | Houses incorporating photovoltaic power generation systems | Brook Solar H | |
| Considerations at time of disposal | Easy to treat and dispose of | Reducing the volume of environmental contaminants as stipulated in the law and in self-imposed controls of the industry, etc. that are generated when incinerated | 50% or less | | | Environment-friendly Paroi, CS film, Micropearl SOL |
| | | Reducing hazardous chemical substances as stipulated in the law and in self-imposed controls of the industry, etc. | Volume used 50% or less | | Kawara-U, Brook | |
| | Easy to recycle | Structures and designs that make it easier to separate and decompose | Incorporated into product design | | | Car ceiling material |
| | | Structures and designs that make it easier to segregate | Incorporated into product design | | Z-lon | |
| | | Reducing the volume of composite materials used | 50% or less | | Forte | |

## Green Procurements for Fiscal 2004

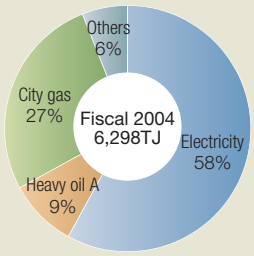
Sekisui Chemical Group is committed to green procurement of office supplies for all its departments and branches. The results for fiscal 2004 are shown below:

(million yen)

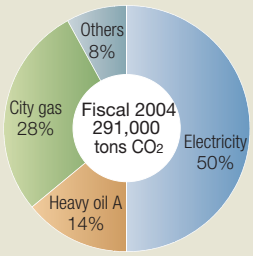
| | Purchased amount |
|---|---|
| Photocopying paper | 41.29 |
| Other office supplies | 136.36 |
| Office automation equipment | 249.19 |
| Total | 426.83 |

# Various Environmental Performance Data

### Breakdown of energy used




### Breakdown of $CO_2$ emissions



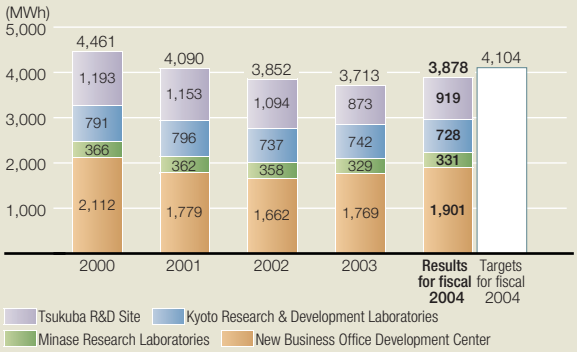

### $CO_2$ emission coefficient

The conversion coefficients listed below have been used across all business sites to calculate volumes of and reductions in $CO_2$ emissions.

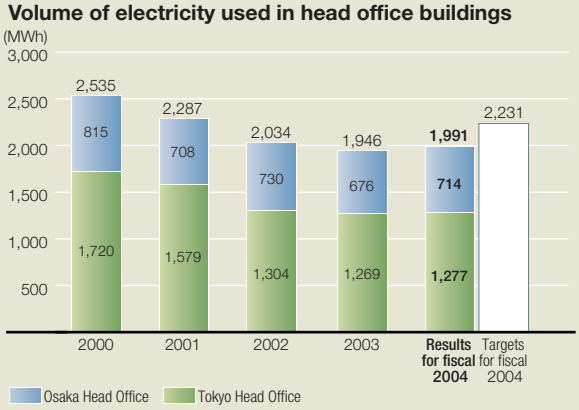
| | |
|---|---|
| Purchased electricity | 0.378 tons of $CO_2$/MWh (purchases from general electric power suppliers) |
| Purchased electricity | 0.602 tons $CO_2$/MWh (purchases from other suppliers) |
| Bunker A | 2.77 tons $CO_2$/kL |
| Heating oil | 2.51 tons $CO_2$/kL |
| Diesel oil | 2.64 tons $CO_2$/kL |
| Gasoline | 2.31 tons $CO_2$/kL |
| LPG | 3.02 tons $CO_2$/ton |
| City gas | 2.15 tons $CO_2$/thousand $m^3$ |
| Purchased steam | 0.200 tons $CO_2$/ton |

Source: "Comprehensive report detailing results of the study regarding calculations on volume of greenhouse gas emissions" (August 2002, Japanese Ministry of the Environment Greenhouse Gas Emissions Volume Calculation Method Study Team)

### Volume of electricity used by R&D institutes (office-use portion only)




### Volume of electricity used in head office buildings

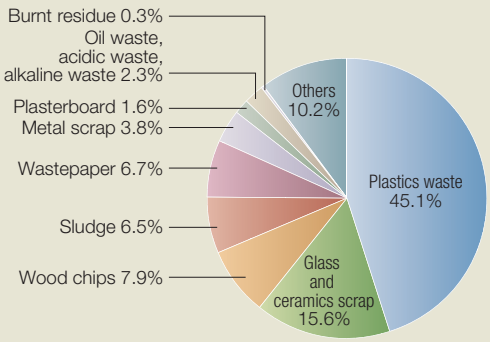



### Zero emission achievement criteria of Sekisui Chemical Group

(1) All outside incineration must include thermal utilization, and no landfill outside or inside of facilities (Recycling ratio 100%).

(2) If the waste quantity is small and it is a type of waste that have never been recycled before, recycling methods and relevant contractors must be identified and a service agreement must be executed. We have also established uniform evaluation criteria named "The Zero Emission Achievement Evaluation List". In addition to the above standards, we conduct our internal examination according to this list on strict compliance with relevant laws and regulations, complete rules and systems for waste segregation as well as clearly legible signs, adequate facilities for waste treatment and planning for and control of waste reduction. The list obliges us to conduct inspection of outside contractors and to clarify treatment routes in order to enhance the management system through these activities.

### Breakdown of generated waste




### Waste subject to reduction referred to in the Middle Term Environmental Plan, "STEP-2005"

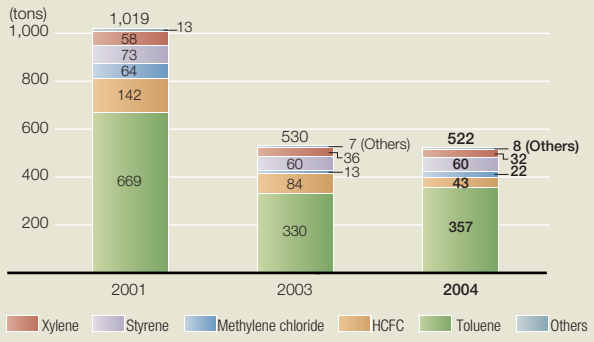
Until now, waste subject to reduction consisted of all waste emissions from plants. However, in accordance with "STEP-2005" we have reviewed the definition of the term "waste subject to reduction" and modified it to relate to production, so that leveraging waste-reduction benchmarks would result in "effective use of resources and efficiency in business activities".

**Waste subject to reduction in "STEP-2005"**

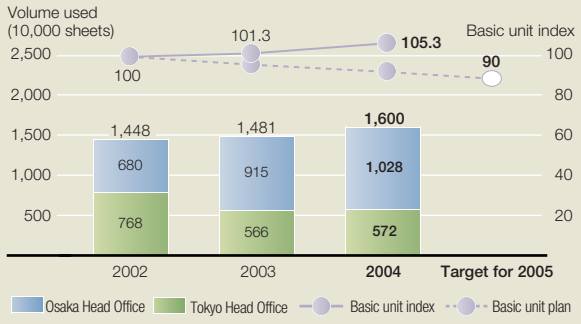
| | Waste subject to reduction | Reason |
|---|---|---|
| Components of volume generated | Waste excluding the items below, and valuable materials sold | Even if it were possible to sell valuable materials at a price, the fact that these are not value-added products, together with fluctuations in market prices, could prevent sale of such resources. |
| Excluded from volume generated* | Waste generated from used products, etc. that have been accepted into the company, such as replacements for the resource-recycling housing system | It is important to make effective use of used products, as a separate form of usable resource. This type of activity should be expanded in future. |
| | Residual material from construction work carried out by business sites (excluding on-site), as well as waste that results from upgrading or disposing of office automation and other equipment | We need to use equipment and hardware for extended periods, while recognizing that timely renewal of equipment and hardware is an unavoidable aspect of maintaining business efficiency. |

*Excluded items, with the exception of those cases where disposal methods are stipulated by law, are also subject to zero emission (100% recycling).

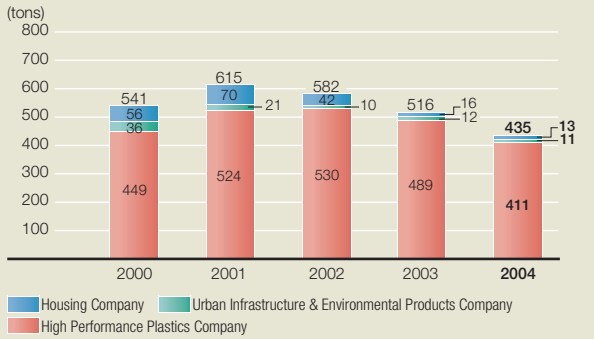
### Trend of emission and transfer volume by substance



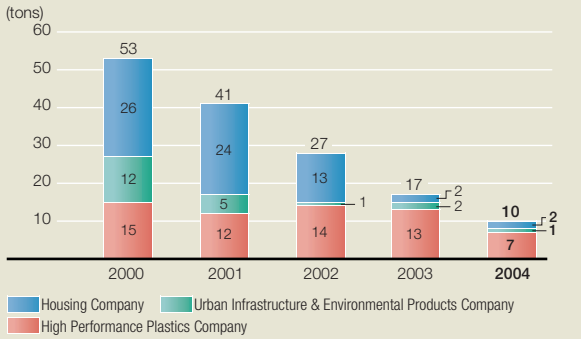

### Trend of office automation paper volume used in head office buildings (Osaka, Tokyo)



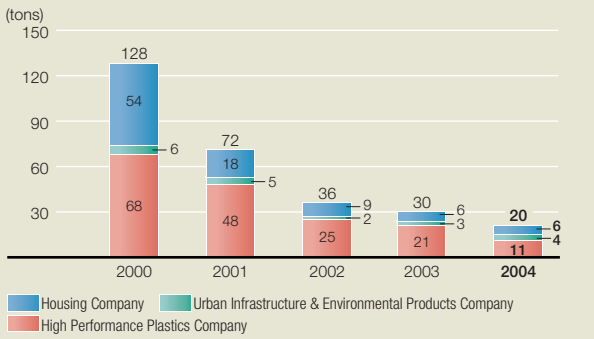

### NOx emission volume



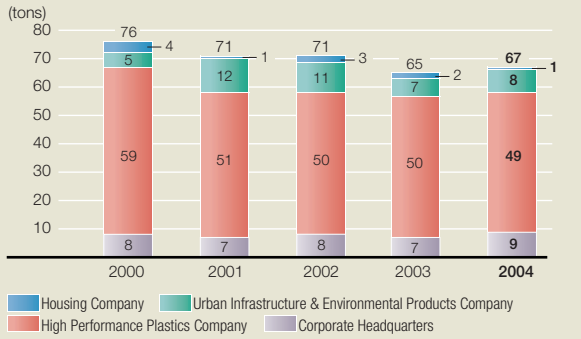

### Soot and dust emission volume




### SOx emission volume



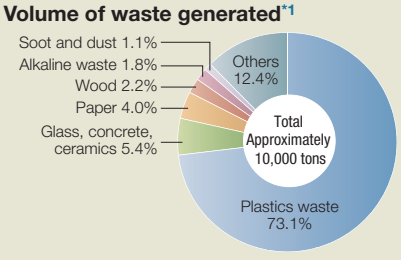

### COD emission volume



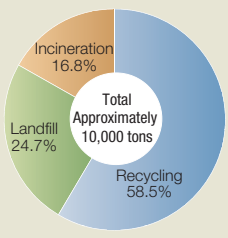

## Fiscal 2004 Performance Data Survey Results for Overseas Business Sites

Sekisui Chemical Group is currently moving ahead with globalization of its businesses. As part of this ongoing effort, we are also advancing globalization of our environmental management. In order to make continuous improvements in areas associated with overseas production, such as environmental burdens, we began monitoring the status of environmental activities and performance data on a regular basis, from fiscal 2003.

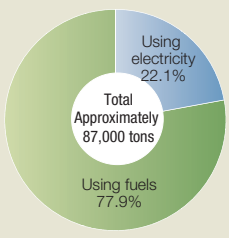
### Volume of waste generated*1




### Waste treatment method*1




### Volume of CO2 emissions*1*2




*1 Objects of summation: Voltek, LLC. (Lawrence Plant), Sekisui TA Industries, LLC. (California Plant), (Tennessee Plant), Kleerdex Company, LLC., Sekisui S-Lec Mexico S.A. De C.V., Sekisui-Alveo B.V., Sekisui (U.K.) Ltd., Eslon B.V., Thai Sekisui Foam Co., Ltd., Pilon Plastics Pty. Ltd.
*2 For $CO_2$ emission coefficients by energy type, data from the Japanese Ministry of the Environment have been used For natural gas, Japanese metropolitan authority gas data have been used

## Summation Results Based on the PRTR Law

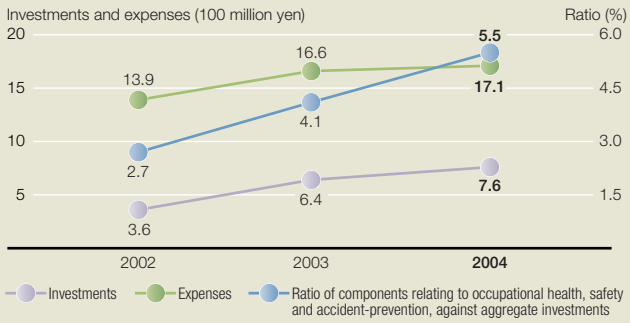
(summation of substances with transaction volumes of one ton or more handled by objects of summation comprised of 34 production plants and 4 R&D institutes)

(tons)

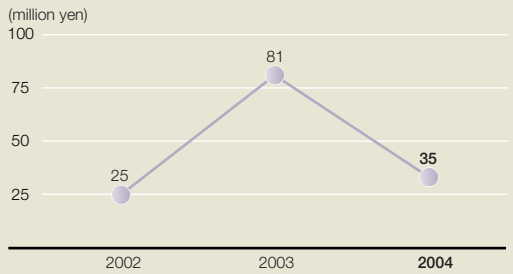
| Government ordinance notification number | Items | Transaction volume | Emission volume | | | | Transfer volume | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Emitted gases | Public area water-zones | In-house soil | In-house landfill | Sewage system | Transfer in waste | |
| | | | | | | | | Disposal | Recycling |
| 3 | Acrylic acid (monomer) | 61.1 | 0 | 0 | 0 | 0 | 0 | 0 | 5.3 |
| 7 | Acrylonitrile (monomer) | 28.9 | 0.066 | 0 | 0 | 0 | 0 | 0 | 0.014 |
| 9 | Bis (2-ethylhexyl) adipate | 4.8 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0048 |
| 11 | Acetaldehyde | 270.6 | 0.20 | 0 | 0 | 0 | 0 | 0 | 0 |
| 25 | Antimony and its compounds | 28.0 | 0 | 0 | 0 | 0 | 0 | 0 | 3.4 |
| 30 | Bisphenol A epoxy resin (liquid form) | 219.8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 40 | Ethylbenzene | 1.1 | 1.1 | 0 | 0 | 0 | 0 | 0 | 0 |
| 43 | Ethylene glycol | 15.0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 63 | Xylene | 125.8 | 32 | 0 | 0 | 0 | 0 | 0 | 3.9 |
| 77 | Vinyl chloride (monomer) | 117,874.0 | 4.7 | 0.63 | 0 | 0 | 0 | 0 | 0 |
| 84 | HCFC-142b | 28.0 | 28 | 0 | 0 | 0 | 0 | 0 | 0 |
| 85 | HCFC-22 | 15.0 | 15 | 0 | 0 | 0 | 0 | 0 | 0 |
| 100 | Cobalt and its compounds | 1.4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 102 | Vinyl acetate (monomer) | 1.5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 132 | HCFC-141b | 1.5 | 0.23 | 0 | 0 | 0 | 0 | 0 | 0.020 |
| 145 | Dichloromethane | 675.4 | 22 | 0 | 0 | 0 | 0 | 0 | 1.0 |
| 176 | Organic tin compounds | 62.8 | 0 | 0.0010 | 0 | 0 | 0 | 0 | 0.45 |
| 177 | Styrene (monomer) | 4,587.3 | 60 | 0.16 | 0 | 0 | 0 | 0 | 0.0013 |
| 197 | Decabromodiphenyl ether | 95.0 | 0 | 0 | 0 | 0 | 0 | 0 | 11.4 |
| 205 | Terephthalic acid | 87.3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 227 | Toluene | 2,042.3 | 357 | 0.34 | 0 | 0 | 0 | 0 | 35.3 |
| 230 | Lead and its compounds | 693.2 | 0.0004 | 0.0050 | 0 | 0 | 0.0001 | 0 | 3.4 |
| 270 | Di-n-butyl phthalate | 6.1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 272 | Bis-(2-ethylhexyl)phthalate | 36.7 | 1.3 | 0 | 0 | 0 | 0 | 0 | 2.2 |
| 310 | Formaldehyde | 6.8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 314 | Methacrylic acid (monomer) | 36.7 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 320 | Methyl methacrylate (monomer) | 305.5 | 0 | 0 | 0 | 0 | 0 | 0 | 0.17 |
| 321 | Methylacrylonitrile (monomer) | 15.7 | 0.070 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Total | 127,327.1 | 521.1 | 1.1 | 0 | 0 | 0.0001 | 0 | 66.6 |
| 179 | Dioxins (Unit: mg-TEQ) | | 433.5 | 8.1 | 0 | 0 | 0 | 0 | 13.2 |

## Occupational Health, Safety and Accident-prevention Accounting

### Trend of expenses and investments



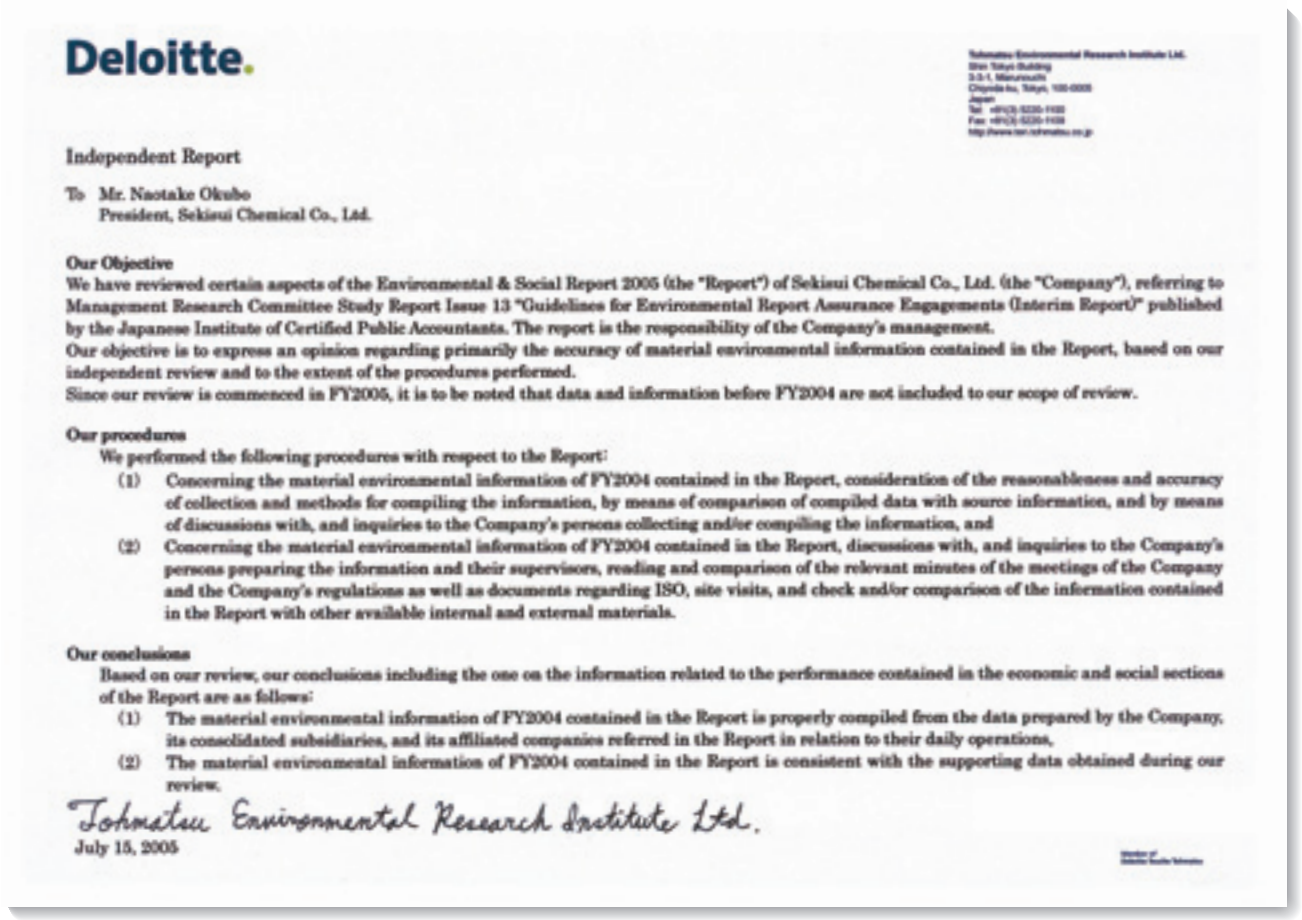

### Trend of losses




## Safety Education for Fiscal 2004 (completed)

| Objects |
|---|
| • Construction Managers<br>• Partner companies' Foremen |

| | Foreman education | Hazard-prediction training |
|---|---|---|
| Housing sales companies | 87 course participants | 66 course participants |
| Refurbishing companies | 239 course participants | 435 course participants |



Deloitte.

Tohmatsu Environmental Research Institute Ltd.
Shin Tokyo Building
3-3-1, Marunouchi
Chiyoda-ku, Tokyo, 100-0005
Japan
Tel +81(3) 5220-1100
Fax +81(3) 5220-1108
http://www.tan.tohmatsu.co.jp

Independent Report

To Mr. Naotake Okubo
President, Sekisui Chemical Co., Ltd.

**Our Objective**
We have reviewed certain aspects of the Environmental & Social Report 2005 (the "Report") of Sekisui Chemical Co., Ltd. (the "Company"), referring to Management Research Committee Study Report Issue 13 "Guidelines for Environmental Report Assurance Engagements (Interim Report)" published by the Japanese Institute of Certified Public Accountants. The report is the responsibility of the Company's management.
Our objective is to express an opinion regarding primarily the accuracy of material environmental information contained in the Report, based on our independent review and to the extent of the procedures performed.
Since our review is commenced in FY2005, it is to be noted that data and information before FY2004 are not included to our scope of review.

**Our procedures**
We performed the following procedures with respect to the Report:
(1) Concerning the material environmental information of FY2004 contained in the Report, consideration of the reasonableness and accuracy of collection and methods for compiling the information, by means of comparison of compiled data with source information, and by means of discussions with, and inquiries to the Company's persons collecting and/or compiling the information, and
(2) Concerning the material environmental information of FY2004 contained in the Report, discussions with, and inquiries to the Company's persons preparing the information and their supervisors, reading and comparison of the relevant minutes of the meetings of the Company and the Company's regulations as well as documents regarding ISO, site visits, and check and/or comparison of the information contained in the Report with other available internal and external materials.

**Our conclusions**
Based on our review, our conclusions including the one on the information related to the performance contained in the economic and social sections of the Report are as follows:
(1) The material environmental information of FY2004 contained in the Report is properly compiled from the data prepared by the Company, its consolidated subsidiaries, and its affiliated companies referred in the Report in relation to their daily operations,
(2) The material environmental information of FY2004 contained in the Report is consistent with the supporting data obtained during our review.

Tohmatsu Environmental Research Institute Ltd.
July 15, 2005

Member of
Deloitte Touche Tohmatsu

# Comments and expectations for CSR activity of the Sekisui Chemical Group

## Our comments through the process of independent review

**(Top interview)**
**(1) Original viewpoint towards CSR**
What CSR means to the company is expressed with original key words, three attitudes of sincerity and three prominences. The CSR report is based on these themes and considered as forming its unique point and making a difference of the report from the other CSR reports. With regard to each one of items in the report, especially in terms of culture of volunteering and taking on challenges, we think through the interview that they include strong philosophy of president.

**(Visit to the head quarters and sites)**
**(2) Well-built motivation on reduction of environmental burdens**
In each one of sites, the company encourages to reduce environmental burdens through, for example, issuing in-house record(manifest) to track the amount of waste generated in each division. In environmental management division, not only it tries various environmental accounting methods such as material flow cost accounting, but also it seriously implements these tools to shrink environmental burdens and financial cost.

**(3) New target of challenge toward 2010**
In Environmental Top Runner Plan, further strengthening the current activities, the company sets up highly motivated target toward 2010 in four areas; products, $CO_2$, waste and environmental efficiency. Especially, the target that aims at achieving over 50% sales ratio with environmental-contributing products is the key to pursue both ecology and economy as company's goal. The activities in coming years, including implementation plan to achieve that target, will receive attentions.

## Expectation for CSR activity in the future

**(1) Proactive measurement for prominences**
Unfortunately, the company has caused non-compliance on dioxin issue at Shiga-Minakuchi Plant. Through such incidents, a company may instantly lose trust and reliance among society, which it had been building for a long time

From now on, proactive measurement to prevent compliance problems need to be thoroughly reviewed in order to seek further prominences.

**(2) Management of information from stakeholders**
With regard to CS & Quality, the company reflects customer feedback to its products and services with catch-line, Customer opinion as the seed for product development. In other area, the company still has opportunities to utilize stakeholder feedback. With adequate information discloser system, each division of the company is expected to employ concerns of stakeholders as a decision-making factor.

**(3) Expansion of CSR activities to the group companies and the supply chain**
Although the company recognizes it as a task, it is increasingly required to expand CSR activities to the group companies and the supply chain, as the business activity is globalized.

**(4) Penetration of collection and calculation method of environmental information to the field**
Although the company promotes to increase efficiency in aggregation of environmental performance information through employing environmental information collection system, it is not operated according to the rule in the field in some cases. In order to ensure the accuracy, the promotion of environmental governance of the whole company is expected, including the penetration of aggregation and calculation method of environmental information.

**1947** Establishment of Sekisui Sangyo Co., Ltd.
Started first injection molding business in Japan.
**1948** Change of company name to Sekisui Chemical Co., Ltd.
**1950** Began selling cellophane tape.
**1952** Started full-scale production of PVC pipe (“Eslon Pipe”).
**1953** Listed on Osaka Stock Exchange.
**1956** Developed Japan’s first plastic rainwater guttering (“Eslon Rain Gutters”).
**1959** Established Sekisui Sponge Industries Co., Ltd. (now Sekisui Plastics Co., Ltd.) with co-financing from Shin-Nippon Chisso Hiryo Co., Ltd., Asahi Kasei Corporation and others, to commercialize plastic foam.
**1960** Established Sekisui House Sangyo Co., Ltd. (now Sekisui House Co., Ltd.) and started the housing business.
**1962** Launched “Movement for Cleaner Towns” featuring our plastic garbage bins (“Poly-Pail”), as a campaign to mark the company’s 15th Anniversary. Cleaning revolution subsequently spread nationwide.
**1963** Started producing plastic bathtubs (first in Japan).
Modular toilet tank commercialized, paving the way for production of modular-style equipment.
**1970** Exhibited modular house (“Sekisui Heim”) at the International Good Living Show in Tokyo.
**1971** Started producing and selling Japan’s first modular house, “Heim M1”.
**1972** Launched company-wide commitment to pollution control.
Established original Environmental Management Department.
**1979** Awarded Deming Prize for quality management in recognition of results of aggressive TQC activities.
**1981** Adopted twin-headquarters system (Osaka and Tokyo), and established Tokyo Head Office at Toranomon, Tokyo. Began producing and selling timber-framed modular house, “Two-U Home”.
**1991** Established Basic Policies on environmental issues.
**1993** Introduced divisional system.
(Pipe & Related Products, Building Materials, Chemicals, Techno-Products, Molded Products, Medical Products, and Housing )
**1994** Began ISO 9000 series certification acquisition activities.
**1996** Excess paid-in capital of 100 billion.
Adopted new corporate logo.
Announced Top Management Policy for Environment and Safety. Began ISO 14001 certification acquisition activities.
**1997** 50th Anniversary of company foundation.
Launched nature protection support activities within and outside Japan, in cooperation with Keidanren Nature Conservation Fund.
Created Women’s Athletic Club.
**1998** Instituted “Corporate Activity Guidelines”.
Initiated zero emission activities.
**1999** Launched Management Vision, “GS21”.
Instituted “Corporate Philosophy”.
Concentrated business into three domains: Housing, Urban Infrastructure and Environmental Products, High Performance Plastics.
Launched Middle Term Environmental Plan, “STEP-21”.
Began publishing Environmental Reports.
**2001** Launched division company system, i.e. Housing Company, Urban Infrastructure & Environmental Products Company and High Performance Plastics Company.
Achieved zero emission in all house production plants and all plants of Sekisui Chemical Co., Ltd.
**2003** Launched “GS21-Premium 600”, our Middle Term Management Vision.
Established Environmental Management Promotion Department (now Environmental Management Department).
Launched new Middle Term Environmental Plan, “STEP-2005”.
Achieved zero emission at all house construction sites.
**2004** Introduced CS & Quality Management Department.
Developed CS & Quality Management Middle Term Plan.
Achieved zero emission in all establishments of home renovation companies.

## Editor’s Note

A number of Corporate Social Responsibility (CSR) reports published by various companies (referred to below as “CSR reports”) over the last few years have their contents divided into sections such as “Environment”, “Society”, “Economy”, or categorized by stakeholders, e.g. “Customers”, “Business partners”, “Characteristics”, “Employees”, etc.

However, in this first-ever CSR Report from Sekisui Chemical Group we have deliberately adopted a different presentation format. This is because, first and foremost, we wanted to clarify our position on the concept of CSR and our commitment toward CSR, so that our readers (stakeholders) could understand the underlining characteristics.

Therefore, this report features two main sections: “Implementing CSR (three prominences)”, and “Basis of CSR (three attitudes of sincerity)”, based on Sekisui Chemical Group's approach to CSR. We acknowledge that, relative to other CSR reports, our document is short on substance as regards describing our commitment and our relationship with stakeholders in such areas as “Environment”, “Society” and “Economy”. We will address this issue in future editions.

On the other hand, our "Environmental Report" publications, which have found favor with their audiences, recently have covered new ground besides environment-related issues, without sacrificing the quality and volume provided in past issues. Furthermore, this CSR report includes a “Data” section at the end, where readers can more easily study detailed support data and charts.

Although we believe that this new approach has considerable merit, we accept that some readers may have different opinions as to the contents and their presentation. Therefore, we invite and welcome your comments and suggestions, which will be taken into account in our ongoing CSR activity and in compiling future reports. Thank you for taking the time to read this report. We hope you find it informative and look forward to receiving your feedback.

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Environmental Management Department

# SEKISUI CHEMICAL CO., LTD.

4-4 Nishitenma 2-chome, Kita-ku, Osaka 530-8565, Japan
URL http://www.sekisui.co.jp

**For further information contact:**
Environmental Management Department
2-3-17 Toranomon, Minato-ku, Tokyo 105-8450, Japan
FAX: +81-3-5521-0519
E-mail: kankyo@sekisui.jp

Customer Information & Consulting Services
E-mail: sekisui-cs@sekisui.jp



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