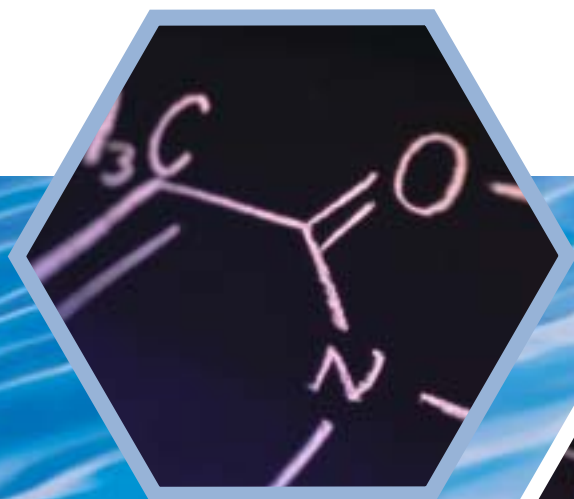


PERFORMANCE
CHEMICALS



COMPANY PROFILE

Sanyo Chemical Industries, Ltd. was founded in Kyoto, Japan in 1949 as a manufacturer of surfactants. In the years since then, guided by the company motto, *Let us contribute to building a better society through our corporate activities*, we have constantly endeavored to enhance our competence in research and development (R&D) and to develop new technologies and high-value-added products to meet the ever-changing needs of society and industry.

In today's Japanese chemical industry, we have firmly established our position as a unique performance chemicals manufacturer with diversified technologies. In addition to surfactants, Sanyo Chemical also develops and provides polyurethane chemicals, various high-molecular agents, including toner resins and superabsorbent polymers, and specialty products such as electrolytes for capacitors and UV-curing resins.

Expectations surrounding performance chemicals are continually increasing in the 21st century. Sanyo Chemical is responding to new customer needs on a global scale by leveraging our diversified technologies, accumulated with over 50 years of experience, while fulfilling our commitment to always challenging the frontiers of performance chemicals.

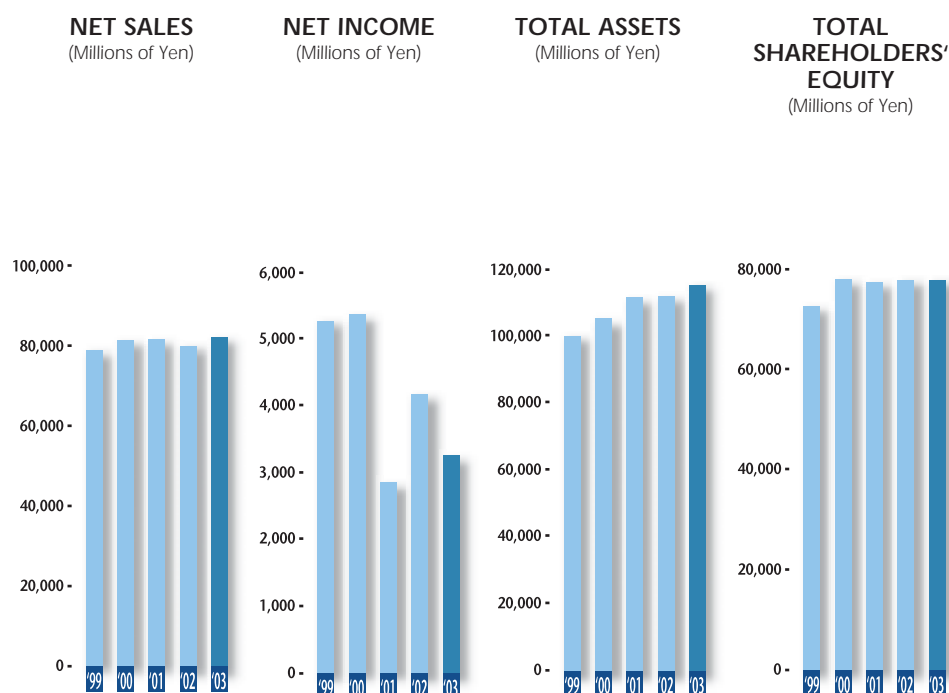


Consolidated Financial Highlights	1
To Our Shareholders and Investors	2
Review of Operations	4
Topics	9
Eco Awareness	10
Financial Review	12
Consolidated Balance Sheets	14
Consolidated Statements of Income	16
Consolidated Statements of Shareholders' Equity	17
Consolidated Statements of Cash Flows	18
Notes to Consolidated Financial Statements	19
Report of Independent Certified Public Accountants	29
Board of Directors	30
Corporate Data	30

CONSOLIDATED FINANCIAL HIGHLIGHTS

For the years ended March 31	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	2003
For the year:				
Net sales	¥ 82,183	¥ 79,987	¥ 81,557	\$ 683,718
Operating income	6,918	7,180	9,903	57,555
Net income	3,255	4,153	2,844	27,080
Per share (yen and dollars):				
Net income	¥ 27.97	¥ 35.80	¥ 24.15	\$ 0.23
Cash dividends	15.00	15.00	15.00	0.12
At year-end:				
Total assets	¥ 115,013	¥ 112,023	¥ 111,265	\$ 956,848
Total shareholders' equity	77,957	77,500	77,235	648,558

Note: U.S. dollars have been converted at the rate of ¥120.20 to US\$1, the effective rate of exchange at March 31, 2003.



TO OUR SHAREHOLDERS AND INVESTORS



Chairman of the Board Tetsuo Kakehi



President Masaaki Ienaga



Review of the Year Ended March 2003

The harsh climate surrounding the Japanese economy during the year ended March 31, 2003 gave no clear signs of recovery, further exacerbated by declining stock prices, problems regarding nonperforming loans and a decelerating U.S. economy. The chemical industry was once again plagued with spiraling deflation, which was reflected in an unremitting drop in product sales prices and dwindling demand. Mounting uncertainty over raw material prices caused primarily by the intensifying political situation in Iraq further catapulted the business environment into disarray.

To counter these negative circumstances, Sanyo Chemical endeavored to generate top business results across-the-board by focusing on R&D, streamlining production and logistics systems, conducting a review of business operations and increasing efficiency in management spending. In conjunction with these measures, we advanced moves towards globalization with the establishment of local production sites in China.

Amid such circumstances, consolidated net sales rose 2.7% over the previous fiscal period, to ¥82,183 million, mainly on account of strong sales of polyurethane chemicals and specialty products. Due primarily to rising depreciation costs from large-scale investments, consolidated operating income stood at ¥6,918 million, down 3.7%.

Consolidated net income decreased 21.6% year on year, to ¥3,255 million, largely owing to a loss of ¥632 million in investments in securities (valuation losses were recognized when the market values of securities dropped more than 30% in comparison with their book values).



Sixth Medium-term Management Strategy

Sanyo Chemical formulated the Sixth Medium-term Management Strategy during the fiscal term as a basic strategy to outperform our major global competitors and enhance growth as a unique and world-class group. The program was initiated in April 2003 and will continue through to March 2007. Based on the slogan, "Challenge Win 1000," we aim to capture ¥1,000 oku (¥100,000 million) in consolidated net sales and ROE of 8% in the year ending March 2007, by expanding the development of strategically focused products and further pursuing an international-oriented approach.

The aforementioned strategic products are items that have already been or are currently being developed, and will be promoted as a new pillar of growth for the Company. Specifically, we will focus on: urethane

beads for the interior parts of automobiles; polyester beads, which are core components of polymerization toners; permanent antistatic agents for plastics; and, electrolytes for electric double-layer capacitors, with research underway for their use as an auxiliary power source for fuel-cell vehicles. We intend to develop these high-value-added products into extremely profitable businesses within a few years, with the objective of driving profits and growth, in line with our medium-term strategy.

In addition to bolstering our lineup of such strategic products, we will also strive to further strengthen our R&D system to create new products and application products in existing fields. At present, a total of approximately 5.6% of sales (non-consolidated base) is invested in research. We plan to increase this amount to 7.5% by the year ending March 2007. The establishment of local research facilities to ensure the development of products that closely match the needs of overseas customers is also being considered.



Promoting Globalization

As a complement to our existing overseas production facilities in North America and South East Asian countries, Sanyo Chemical established Sanyo Kasei (Nantong) Co., Ltd., a wholly-owned subsidiary, in Nantong City, China, in April 2003. We plan to manufacture and market such products as surfactants for textiles, agents for papermaking and polyurethane resins at this site. Factory construction is progressing smoothly, with operations expected to commence in July 2004.

In addition to advancing full-scale entry into the Chinese market through the creation of the factory in Nantong, we are also working to expand our South East Asian and North American businesses. In South East Asia, we bolstered production capacity at Sanyo Kasei (Thailand) Ltd., increasing the number of products to meet diversifying local demand. In North America, we boosted the scale of operations at Sanyo Chemical & Resins Inc., which previously only manufactured toner resins, through the introduction of technology to produce polyurethane resins.

Based on these measures to develop our worldwide businesses, we plan to raise the proportion of overseas sales from the present figure of around 20% to 30% in fiscal 2007.

With regard to operations in China, San-Dia Polymers, Ltd. set up San-Dia Polymers (Nantong) Co., Ltd. for the manufacture of superabsorbent polymers in June 2003, while San Nopco Ltd. established San Nopco (Shanghai) Trading Co., Ltd. in Shanghai in July 2003. Both of these entities are wholly-owned subsidiaries of the respective companies.



Strengthening Corporate Governance

Based on our Sixth Medium-term Management Strategy, it was decided at the general shareholders' meeting held on June 20, 2003 and the subsequent Board of Directors' Meeting to implement an all-new structure, in which Tetsuo Kakehi was reassigned from President to Chairman of the Board and Masaaki Ienaga was appointed as President.

From the perspective of enhancing corporate governance, we increased the number of outside auditors and introduced a corporate executive officer system to clearly demarcate Group management from business operations. In line with this move, we decreased the number of board members. The board now focuses on conducting discussions and making resolutions concerning management policies and strategies, thereby enabling speedier decision-making as a whole.

We will strive to further develop the business operations of the Company under this new management system. We look forward to the continued support and understanding of all our shareholders and investors.

Chairman of the Board Tetsuo Kakehi

President Masaaki Ienaga

REVIEW OF OPERATIONS



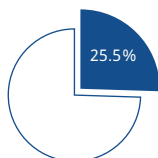
Principal products:

- Spinning oils
- Scouring agents/dyeing auxiliaries
- Softeners
- Antistatic agents
- Polyethylene glycols
- Shampoo/hair conditioner surfactants
- Emulsifiers for emulsion polymerization
- Pigment dispersants
- Disinfectants
- Base materials for detergents

Sales of surfactants
(Millions of Yen)



Proportion of total sales
derived from surfactants



SURFACTANTS

Sales of surfactants decreased 1.0% year on year, to ¥20,979 million. Despite a solid showing in exports of textile manufacturing agents to China and Korea, the negative impact of a constriction in similar markets in Japan led to a decline in overall sales of agents for textile processing.

In industrial surfactants, an increase in sales of base materials for hair conditioners, polyethylene glycol and eco-friendly surfactants, among others, was offset by lower sales of emulsifiers, dispersants, disinfectants, antibacterial agents and base materials for shampoos. As a result, sales in this sector remained roughly on par with the previous fiscal year.

Sanyo Chemical developed *Osmorin DA-50*, an antibacterial agent for industrial use, during the period. This new product not only possesses extensive antibiotic properties to fight bacteria but is also different from conventional cation-type antibacterial agents in that it does not contain any halogens such as chlorine. Consequently, metallic rusting is kept to a minimum and no dioxins are emitted upon combustion, demonstrating its environmentally friendly characteristics. Sanyo Chemical expects high demand for this product to be used in combination with nonionic surfactants.



For production of yarn



For conditioning of hair



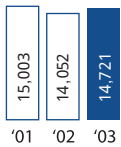
As antibacterial agents for food manufacturers



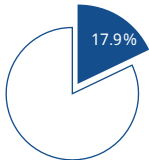
Principal products:

- Raw materials for polyurethane foam
- Raw materials for automotive sound absorbers
- Raw materials for polyurethane insulation materials
- Polyurethane resin solutions for poromeric and synthetic leather
- Raw materials for polyurethane elastomers
- Raw materials for polyurethane sealants
- Polyurethane resin emulsions
- Polyurethane resins for printing ink
- Urethane beads for surface material of automotive interior parts

Sales of polyurethane chemicals (Millions of Yen)



Proportion of total sales derived from polyurethane chemicals



POLYURETHANE CHEMICALS

Sales of polyurethane chemicals rose 4.8% in comparison with the previous fiscal year, to ¥14,721 million. Raw materials for polyurethane foam produced a solid performance in line with increasing demand for use in automobiles in Japan and expanded sales in the Asian market.

Despite sluggish sales of resins for poromeric and synthetic leather, the increasing use of fine, spherical urethane beads in the interior parts of new automobiles, coupled with higher sales of eco-friendly resins for ink, resulted in a significant jump in sales of polyurethane resins.

During the period under review, Sanyo Chemical developed three new product series as raw materials for polyurethane foam: *Excellflow*, *Viselaflow* and *Ultiflow*. Polyurethane foam has a wide variety of applications, including cushion materials for automobiles and mattresses, and insulation materials for refrigerators. The aforementioned new products are advanced polyols that react with isocyanates to form polyurethane foam with superior physical properties. They were developed in response to global needs for high quality and low production costs of polyurethane foam. It is anticipated that they will develop into core revenue earners for the Company's polyol business in the near future.



For automobile seats



For sofas and cushions in the home



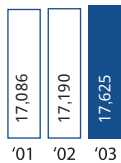
For thermal insulation in houses



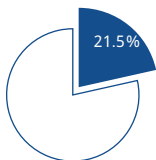
Principal products:

- Toner resins for photocopiers and printers
- Lubricating oil additives
- Cold flow improvers for fuel oils
- Film-lamination adhesives
- Pressure-sensitive adhesives
- Adhesives for the electronics industry
- Adhesives for medical devices

Sales of lipophilic high-molecular agents (Millions of Yen)



Proportion of total sales derived from lipophilic high-molecular agents



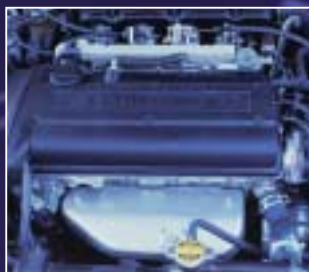
Lipophilic High-Molecular Agents

Sales of lipophilic high-molecular agents grew 2.5% year on year, to ¥17,625 million. Amid intense market competition, Sanyo Chemical strove to boost sales of lubricating oil and fuel oil additives. In conjunction with this, revitalization in sales of machine- and metal-related products due to the rise in automobile production led to augmented sales of lubricating oil- and machine-related products.

Sanyo Chemical enjoyed a strong showing in coating- and adhesive-related products owing to expanded sales of adhesives for medical devices and binders for glass fibers.

Despite the contribution from new product sales and steady demand in the domestic market, a downturn overseas resulted in a decrease in sales of information-related products.

Using toner resins as the key component in powdered inks (toner) for photocopiers and printers, the Company is now the top manufacturer and marketer of toner resins, including styrene and acrylic types as well as polyester types. Sanyo Chemical also worked to strengthen production to cope with a marked rise in demand for polyester-type toner resins in line with the shift to colorized and digitized printers.



For lubricating oils and fuel oils



For photocopier toners



For artificial kidneys



Principal products:

- Superabsorbent polymers for paper diapers
- Superabsorbent polymers for sanitary napkins
- Deodorizing superabsorbent polymers
- Superabsorbent polymers for industrial use
- Polymer flocculants for sewage treatment
- Polymer flocculants for industrial wastewater treatment

Hydrophilic High-Molecular Agents

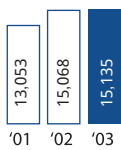
Sales of hydrophilic high-molecular agents rose 0.4% in relation to the previous fiscal term, to ¥15,135 million.

Sales of superabsorbent polymers grew steadily as a result of increased application in sanitary-related materials in Japan, such as paper diapers, as well as in other areas, which countered a reduction in export sales due to the strong yen.

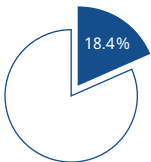
Although Sanyo Chemical achieved higher unit sales of polymer flocculants by aggressively expanding sales in the domestic market, a drop in product prices significantly affected exports. As a result, sales in this area were down.

San-Dia Polymers, Ltd. (SDP), a subsidiary of Sanyo Chemical, released new products to the market during the year: superabsorbent polymers with improved water absorbency and liquid diffusion between resins; and superabsorbent polymers combined with antibacterial agents. SDP increased production capacity by 10,000 tons at both the Nagoya Plant and Ogaki Plant during the year ended March 2003. Although annual production now stands at 115,000 tons, the company is advancing construction to further boost capacity by 10,000 tons at the Nagoya Plant to meet the rapid rise in demand for superabsorbent polymers. Operations are expected to begin in August 2003.

Sales of hydrophilic high-molecular agents (Millions of Yen)



Proportion of total sales derived from hydrophilic high-molecular agents



For paper diapers



For kitty litter



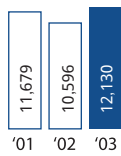
For deodorants



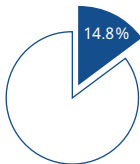
Principal products:

- Low-molecular-weight polyethylene
- Antistatic agents for synthetic resins
 - Resin modifiers
 - UV/EB curing resins
 - Hot melt adhesives
- Electrolytes for capacitors
- Resins for powder coating
- Waterproofing agents for concrete

Sales of specialty products (Millions of Yen)



Proportion of total sales derived from specialty products



Specialty Products

Sales of specialty products surged 14.5% year on year, to ¥12,130 million. Sales of electrolytes for capacitors rose significantly due to higher exports to Asian markets in the first half of the fiscal year and steady domestic demand in the second half.

Extremely solid growth was also recorded in permanent antistatic agents for plastics used in home appliances and electronics, hot melt adhesives for paper diapers, antistatic agents for inks and polymers for enhanced oil recovery.

Sales of chemicals for construction and public work dropped due to a downturn in market conditions.

Sanyo Chemical introduced *Pelestat 300* during the period, an antistatic agent that imparts semi-permanent antistatic properties to polyolefins such as polyethylene and polypropylene. The properties of this product remain intact even if the surface of the molded object is rinsed or wiped with a cloth. Furthermore, *Pelestat 300* displays the same effects with fifty percent less additives than conventional antistatic agents. With superior dispersibility to polyolefins, molding processes also become easier. Sanyo Chemical forecasts an increase in demand for this product in line with the development of high-value-added polyolefins, which are highly versatile plastics.



For electric double-layer capacitors



As antistatic agent for plastic products



For wood-plastic composites

Established a Local Production Subsidiary in China

As part of its global strategy, Sanyo Chemical established Sanyo Kasei (Nantong) Co., Ltd., a wholly-owned subsidiary, in Nantong City, China, in April 2003. This is the Company's third overseas production facility, complementing existing sites in the United States and Thailand.

China is in the midst of implementing its Tenth Five-year Plan aimed at driving economic growth through the development of various industries, including fabrics, automobiles, petrochemicals and steel. It is anticipated that the demand for Sanyo Chemical's performance chemicals will grow rapidly in line with the development of these industries.

The factory at the new company commands an area of approximately 130,000m² and is located in Nantong, a region that is now undergoing economic and technological development. Surfactants as well as paint and ink resins will be the major production items. Construction of the factory began in summer 2003, with plans for annual production capacity to reach 10,000 tons. Operations are expected to commence in July 2004.

In addition, San-Dia Polymers, Ltd., another subsidiary of Sanyo Chemical, set up a locally-incorporated company in China for the manufacture of superabsorbent polymers.

Created a Factory for Core Components of Polymerization Toners

To meet rising demand for polyester beads, a core component of polymerization toner, Sanyo Chemical erected a plant at its Kashima Factory with an annual production capacity of 1,500 tons as the first stage of construction for polyester beads at the site. It was completed in February 2003.

Polyester beads were developed using the Company's original technique to prepare resin beads by chemical processing. Developed as one of Sanyo Chemical's strategically focused products, there are high expectations for a favorable market response.

The Company aims to develop its toner-related businesses into a key area of growth through the expansion of the business for core components of polymerization toners and its current toner resin business.

Doubled Sales of Urethane Beads

Urethane beads have been gaining attention as an eco-friendly skin material used for automotive interior parts as an alternative to polyvinylchloride powder.

The beads were first employed in the interior parts of Toyota automobiles, namely the Lexus in August 2000, and subsequently in the Hilux Surf and foreign produced models such as the Sienna from summer 2002. Lately, the beads have been used in the Legacy produced by Fuji Heavy Industries, Ltd.

As a result of their increased usage in automobiles, sales of urethane beads totaled around ¥0.9 billion for the period, or twice the amount recorded in the previous fiscal year. It is expected that sales of this product will continue to grow in the future.



Groundbreaking ceremony for the new plant at Sanyo Kasei (Nantong) Co., Ltd.



Plant at the Kashima Factory to produce toner resins



Urethane beads and the skin material made of them



For the interior of automobiles

Eco Awareness

Sanyo Chemical conducts business operations based on the Company motto, *Let us contribute to building a better society through our corporate activities*. In conjunction with the development of environmentally friendly products and products that facilitate environmental preservation, Sanyo Chemical is actively promoting environmental protection. The following outlines the main activities undertaken in fiscal March 2003. The Company is actively striving to disclose information as efficiently as possible and details can be seen in the Environmental Report 2003.

Environmental Preservation Activities

Sanyo Tactics for Eco Challenge-21 (S-TEC 21) was established in June 2000 as a unique set of environmental preservation activities for the Company. Certain goals were accomplished during fiscal March 2001, and accordingly, we are currently striving to attain even higher targets under S-TEC 21 Level II.

1. Energy-saving measures

Sanyo Chemical has set the reduction of energy consumption in terms of crude oil by 15% as a target for fiscal March 2004, as compared with fiscal March 1999. The launch of a number of energy-intensive products during the year, however, negated efforts to save energy at the Nagoya Factory through the initiation of our "Co-generation System," which uses liquefied natural gas (LNG). As a result, energy consumption decreased 0.2% year-on-year, representing a 6.0% reduction when measured against the fiscal March 1999 standard.

2. Zero-waste* campaign

Sanyo Chemical aims to achieve "zero-waste" by fiscal March 2004. Although the amount of waste produced increased by 14,180 tons, or 43%, relative to the prior fiscal year, the amount of recycled materials grew by 8,830 tons. As a result, the total of final waste disposal (waste sent to a landfill) remained on par with the previous fiscal term at 1,047 tons. The Company's goal of zero-waste was achieved at the Kyoto Factory and Kashima Factory.

*Zero-waste refers to realizing final waste disposal at less than 0.5% of industrial waste.

3. Reduction of chemical substance emissions

■ PRTR substances

The amount of the Company's use and emission into the environment (air, water and soil) of 354 chemical substances designated by the Pollutant Release and Transfer Register (PRTR) Law is shown in the following table. The figures in parentheses represent fiscal March 2002 results. Emissions into both the air and water decreased for the period.

Sanyo Chemical is striving to reduce the amount of PRTR substances emitted into the environment in fiscal March 2004 by half, in comparison with fiscal March 2001 results.

(Unit: t)

	Number of chemicals	Total use	Amount emitted into air	Amount emitted into water	Amount emitted into soil	Amount of substances transferred as waste
Sanyo Chemical (Non-consolidated)	90 (97)	148,220 (134,188)	128.5 (167.5)	0.9 (6.5)	0 (0)	351.0 (254.9)
Domestic affiliates	41 (34)	74,211 (69,594)	9.2 (9.4)	0.8 (1.0)	0 (0)	4.9 (2.5)
Total	97 (105) [in total]	222,441 (203,782)	137.7 (176.9)	1.7 (7.5)	0 (0)	355.9 (257.4)

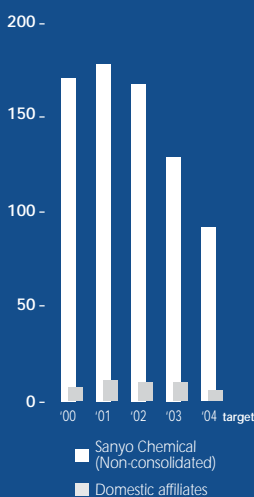
■ Chemicals requiring careful management

Sanyo Chemical assigns all substances, including low-boiling organic compounds not designated by the PRTR Law, with an emission level into the air of over 1 ton annually as "Chemicals Requiring Careful Management." Reducing the emission of these chemicals is a top priority. The Company reduced the emission of propylene oxide, which had the highest emission level of the 18 assigned substances in the previous fiscal term at 50 tons, to 8.7 tons in fiscal March 2003. Sanyo Chemical will continue to promote efforts aimed at reducing the amount of chemicals emitted into the air by improving production processes and introducing preventative equipment at our factories, as well as conducting research into restricting emissions throughout the life-cycle, beginning with R&D.

■ Dioxin pollution containment

With regard to the Company's four incinerators, in 2001, we eliminated the use of the incinerator at the Kashima Factory and replaced the one at the Kyoto Factory with the latest model. We also made renovations to the two incinerators at the Nagoya Factory in August 2002 to clear new regulations introduced as of December 2002. There are no incinerators at any domestic affiliates. We have thus completed measures to reduce pollution caused by dioxins in our incinerators. Consequently, we were able to slash emissions into the air and water by 86% in fiscal March 2003, relative to the prior fiscal year.

Emissions of PRTR Substances into Air (t)



4. Reduction of environmental load

Sanyo Chemical also pursues activities to reduce environmental impact, such as air and water pollution. The chemical oxygen demand (COD) of wastewater discharged by factories, which causes water pollution, has been reduced every year. Moreover, the Company has cut COD in relation to total production by 46%, in comparison with the fiscal March 1996 standard.

Environmental Accounting

The effects and costs of our environmental preservation activities in fiscal March 2003 are shown in the tables below. The period of accounting was from April 1, 2002 to March 31, 2003, and covers our two overseas affiliates in addition to the parent company and all domestic affiliates.

Environmental Preservation Costs

(Unit: Millions of Yen)

Category	Investment	Cost (*1)	Main activities
Costs in:			
1. Pollution prevention	260	231	Prevent air and water pollution
2. Global environmental preservation	415	219	Promote energy-saving measures
3. Resource recycling	16	1,112	Promote measures to reduce waste
Upstream and downstream production process	—	14	Investigation of the toxic substance contained in the product, etc.
Management activities	—	164	Maintain ISO14001 and conform to environmental regulations
Research and development	—	737	Develop environmentally friendly products
Social activities	—	57	Donate to environmental agencies and promote beautification activities
Amelioration of environmental damage	—	0	NA
Total	691	2,534	

(*1) These costs include depreciation allowances

Environmental Preservation Effects

Content	Unit	Increase/Decrease (*2) (compared with fiscal March 2002)
Pollution prevention Reduction of emission of environmental pollutants	SOx	t +1.1 (+37%)
	NOx	t -2.2 (-3%)
	Soot and particulates	t +1.9 (+26%)
	COD	t -2.7 (-7%)
	PRTR emissions	t into air -39.1 (-22%)
Global environmental preservation Reduction of Greenhouse gas emissions Reduction of energy usage	CO ₂	t +8,236 (+4%)
	Converted to crude oil	kL +4,715 (+5%)
Resource recycling Reduction of final waste at landfill sites	Landfill amount	t +63 (+5%)

(*2) The symbol (+) refers to an increase, whereas (-) refers to a decrease.

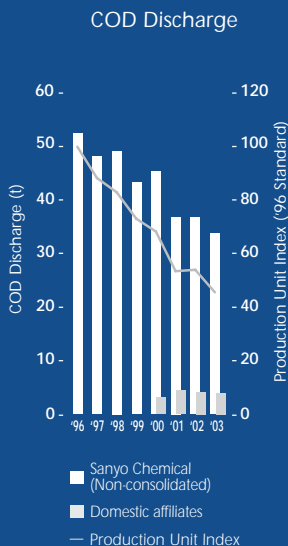
Cost Reduction Through Environmental Preservation Activities

(Unit: Millions of Yen)

Contents	Amount saved
Energy savings	277
Resource reduction	
Waste reduction	33
Raw material usage reduction	349
Total	659

Environmental Monitoring

Sanyo Chemical conducts internal examinations of all factories and business sites that have acquired ISO certification on a six-month or yearly basis in compliance with ISO regulations. By checking whether systems are constantly upgraded and rules are complied with through appropriate management, we are able to improve our Environmental Management System (EMS). The Company satisfactorily passes all routine investigations conducted by relevant evaluating organizations.



FINANCIAL REVIEW

This section reports the consolidated financial results of the Company.

Net Sales

The Japanese economy during the year ended March 31, 2003 gave no clear signs of recovery. The severe situation was in fact further exacerbated by declining stock prices, nonperforming loans and a decelerating U.S. economy. A relentless drop in product sales prices and falling demand caused by spiraling deflation once again plunged the chemical industry into a dismal state. Increasing uncertainty over raw material prices due to the intensifying political situation in Iraq pushed the economic environment into further disarray.

Amid such difficult circumstances, Sanyo Chemical undertook concerted efforts to achieve top business performance throughout the Group by concentrating resources into R&D, streamlining production and logistics systems, reviewing business operations and increasing efficiency in management spending. The Company also promoted moves towards globalization with the establishment of local production sites in China.

Consolidated net sales rose 2.7% over the previous fiscal period, to ¥82,183 million, mainly on account of strong sales of polyurethane chemicals and specialty products.

Cost of Sales & SGA Expenses

Despite efforts to cut costs in raw materials, production and logistics during the fiscal period, rising depreciation costs from large-scale investment caused the cost of sales to increase 0.7 percentage point from 71.0% in the previous fiscal year to 71.7%, amounting to ¥58,926 million. The increase in gross profit stopped at 0.2%, totaling ¥23,257 million.

Higher depreciation costs related to the upgrading of computer systems was the primary factor in the 2.0% increase in selling, general and administrative (SGA) expenses to ¥16,339 million, while the ratio of SGA expenses to sales was basically on par with the previous fiscal period at 19.9%.

Operating & Net Income

Despite an increase in net sales, the aforementioned rise in depreciation and fixed costs led to a decline in operating income of 3.7% to ¥6,918 million. At 8.4%, the operating margin was 0.6 percentage points lower than the prior fiscal term.

In other income and expenses, the Company recorded a loss on valuation of investment in securities of ¥632 million (valuation losses were recognized when the market values of securities dropped more than 30% in comparison with their book values). Income before income taxes and minority interests decreased 14.6% to ¥6,579 million, while consolidated net income dropped 21.6% to ¥3,255 million.

Capital Expenditure

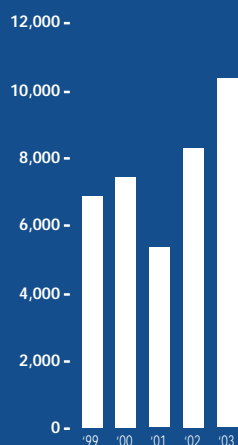
Capital expenditure on a consolidated basis during the fiscal year totaled ¥10,381 million, with the majority of funds being allocated to enhance R&D facilities, increase production capacity and streamline manufacturing systems.

Efforts to strengthen manufacturing capabilities included investing ¥2,909 million and ¥151 million in facilities for the production of information-related items at the Kashima Factory and the Kyoto Factory, respectively. In addition, San-Dia Polymers, Ltd. (SDP) spent ¥680 million and ¥170 million on facilities for superabsorbent polymers at its Ogaki Plant and Nagoya Plant, respectively. San Chemical Co., Ltd. invested ¥175 million on production facilities for polyurethane chemicals.

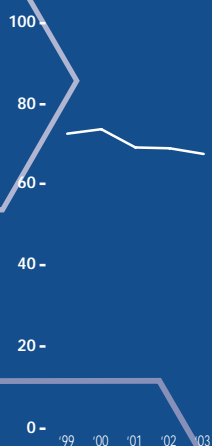
Furthermore, ¥641 million was used to create an automatic warehousing system for hazardous materials at the Kinuura Satellite Factory. A total of ¥189 million was also spent on construction to prevent pollution caused by dioxins at the Nagoya Factory. SDP invested ¥410 million on streamlining manufacturing systems at its Nagoya Plant.

In line with the upgrading of computer systems, ¥1,585 million was used to acquire software and other necessary equipment.

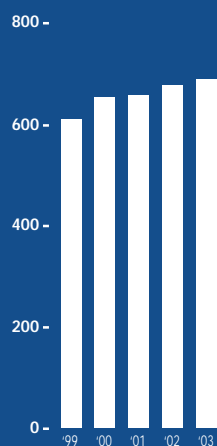
Capital Expenditure
(Millions of Yen)



Shareholders' Equity Ratio (%)



Shareholders' Equity per Share (Yen)



In an effort to expand business operations, ¥401 million was invested in research facilities across the entire Sanyo Chemical Group.

The main capital investment projects that were completed during the fiscal year on a consolidated basis entailed the manufacturing facility for urethane beads at the Nagoya Factory, the automatic warehousing system for hazardous materials at the Kinuura Satellite Factory, and production facilities for information-related products at the Kashima Factory and the Kyoto Factory.

All capital expenditure for the fiscal year was financed from internal sources and loans.

For the year ending March 2004, ¥15,124 million is to be allotted to further strengthen R&D capabilities, increase production capacity and streamline manufacturing systems. All capital expenditure here will also be financed from internal sources and loans.

Depreciation and amortization for the year ended March 2003 rose 8.7% to ¥5,946 million.

Financial Condition

At ¥115,013 million, total assets at fiscal year-end were 2.7% higher than the previous fiscal year-end.

Current assets dropped 2.2% to ¥59,444 million, primarily due to a decrease of ¥1,678 million in cash and cash equivalents, and ¥1,873 million in notes and accounts receivable as well as other such factors as the end of the fiscal period falling on a holiday.

Net property, plant and equipment rose 9.1% to ¥39,265 million due mainly to investment in new facilities.

Intangible assets jumped 33.4% to ¥2,966 million as a result of an increase in spending on software in accordance with the upgrading of the Company's computer systems.

Investments and other assets rose 2.2% to ¥13,338 million relative to the prior fiscal term.

Current liabilities rose 9.7% over the previous fiscal year-end to ¥25,041 million, primarily due to an increase in notes payable - plant and equipment.

Long-term liabilities decreased 0.5% to ¥9,977 million.

Operating capital, derived from the differential between current assets and current liabilities, was ¥34,403 million. The ratio of current assets to liabilities was 237.4%.

Retained earnings increased ¥1,474 million over the previous year-end to ¥55,959 million, with total shareholders' equity totaling ¥77,957 million.

The ratio of shareholders' equity to total assets decreased 1.4 percentage points to 67.8%, while shareholders' equity per share rose 1.6% over the prior fiscal term to ¥689.77.

Cash Flows

Net cash provided by operating activities was ¥10,062 million. The main factors were income before income taxes and minority interests of ¥6,579 million, depreciation and amortization of ¥5,946 million, a decrease in notes and accounts receivable of ¥1,832 million, a decrease in notes and accounts payable of ¥454 million and income taxes paid of ¥2,784 million.

Net cash used in investing activities amounted to ¥8,748 million, including ¥8,979 million in payments for purchase of property, plant and equipment.

Net cash used in financing activities stood at ¥2,864 million, predominantly as a result of ¥912 million for payments for purchase of treasury stock and ¥1,708 million in cash dividends paid.

As a result of the above, cash and cash equivalents at end of year decreased from ¥25,015 million to ¥23,337 million.

Consolidated Balance Sheets

Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries
March 31, 2003 and 2002

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
Current assets			
Cash and cash equivalents	¥ 23,337	¥ 25,015	\$194,154
Notes and accounts receivable - trade	22,461	24,334	186,865
Inventories (Note 5)	12,083	9,971	100,523
Deferred tax assets (Note 11)	616	403	5,121
Other current assets	964	1,092	8,018
Allowance for doubtful accounts	(17)	(45)	(142)
Total current assets	59,444	60,770	494,539
Property, plant and equipment			
Buildings and structures	23,781	22,453	197,846
Machinery and equipment	64,037	58,060	532,752
Land	6,670	6,402	55,487
Construction in progress	3,181	3,226	26,460
Other	8,253	7,991	68,664
	105,922	98,132	881,209
Accumulated depreciation	(66,657)	(62,152)	(554,547)
Net property, plant and equipment	39,265	35,980	326,662
Intangible assets	2,966	2,223	24,678
Investments and other assets			
Investments in securities (Note 4)	8,550	8,113	71,129
Long-term loans	155	290	1,295
Deferred tax assets (Note 11)	3,537	3,293	29,426
Other	1,286	1,548	10,698
Allowance for doubtful accounts	(190)	(194)	(1,579)
Total investments and other assets	13,338	13,050	110,969
Total assets	¥115,013	¥112,023	\$956,848

The accompanying notes are an integral part of these statements.

Thousands of U.S.
Dollars (Note 3)

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		2003
	2003	2002	
Current liabilities			
Notes and accounts payable - trade	¥ 13,303	¥ 13,794	\$ 110,674
Short-term debt	288	440	2,396
Current portion of long-term debt	152	228	1,260
Accrued expenses	2,016	1,390	16,774
Accrued income taxes (Note 11)	1,990	1,137	16,552
Allowance for bonuses	1,168	1,131	9,720
Notes payable - plant and equipment	2,009	1,856	16,712
Other current liabilities	4,115	2,853	34,243
Total current liabilities	25,041	22,829	208,331
Long-term liabilities			
Long-term debt	1,169	1,020	9,721
Accrued severance indemnities (Note 12)	6,409	6,619	53,318
Directors' retirement allowances	1,621	1,532	13,484
Deferred tax liabilities (Note 11)	117	152	977
Other liabilities	661	702	5,501
Total long-term liabilities	9,977	10,025	83,001
Total liabilities	35,018	32,854	291,332
Minority interests	2,038	1,669	16,958
Contingent liabilities (Note 8)			
Shareholders' equity (Note 9)			
Common stock			
Authorized: 257,956,000 shares			
Issued: 117,673,760 shares	13,051	13,051	108,579
Additional paid-in capital	12,191	12,191	101,427
Retained earnings	55,959	54,485	465,552
Unrealized gains on securities	842	673	7,005
Foreign currency translation adjustments	(247)	27	(2,068)
Treasury stock, at cost	(3,839)	(2,927)	(31,937)
Total shareholders' equity	77,957	77,500	648,558
Total liabilities and shareholders' equity	¥115,013	¥112,023	\$956,848

Consolidated Statements of Income

Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
Net sales (Note 13)	¥ 82,183	¥ 79,987	\$683,718
Operating costs and expenses			
Cost of sales	58,926	56,788	490,235
Selling, general and administrative expenses (Note 10)	16,339	16,019	135,928
Total operating costs and expenses	75,265	72,807	626,163
Operating income	6,918	7,180	57,555
Other income (expenses)			
Interest and dividend income	130	208	1,083
Equity in earnings of unconsolidated subsidiaries and affiliates	244	196	2,029
Insurance premium	65	—	539
Gain on sales of investments in subsidiaries and affiliates	135	—	1,125
Income from the return of commercial rights	—	428	—
Interest expenses	(49)	(52)	(410)
Loss on disposal of obsolete inventories	(160)	(384)	(1,332)
Loss on disposal of property, plant and equipment	(222)	(106)	(1,847)
Loss on sales of property, plant and equipment	(24)	—	(197)
Loss on valuation of investment in securities	(632)	(21)	(5,254)
Other, net	174	253	1,443
Total other income (expenses), net	(339)	522	(2,821)
Income before income taxes and minority interests	6,579	7,702	54,734
Income taxes (Note 11)			
Current	3,597	3,468	29,927
Deferred	(527)	(74)	(4,384)
Total	3,070	3,394	25,543
Minority interests	254	155	2,111
Net income	¥ 3,255	¥ 4,153	\$ 27,080
	Yen		U.S. Dollars (Note 3)
Amount per share			
Net income	¥ 27.97	¥ 35.80	\$ 0.23
Net income - diluted	—	—	—
Cash dividends	15.00	15.00	0.12
Weighted average number of shares (Thousands)	113,594	116,019	113,594

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2002

	Millions of Yen						
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2001	117,673,760	¥13,051	¥12,191	¥52,179	¥620	¥(242)	¥(564)
Net income	—	—	—	4,153	—	—	—
Adjustment of retained earnings for newly consolidated subsidiaries	—	—	—	118	—	—	—
Unrealized gains on securities	—	—	—	—	53	—	—
Foreign currency translation adjustments	—	—	—	—	—	269	—
Cash dividends paid	—	—	—	(1,749)	—	—	—
Bonuses to directors	—	—	—	(98)	—	—	—
Decrease in companies accounted for by the equity method	—	—	—	(118)	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	(2,409)
Decrease of treasury stock	—	—	—	—	—	—	46
Balance at March 31, 2002	117,673,760	13,051	12,191	54,485	673	27	(2,927)
Net income	—	—	—	3,255	—	—	—
Unrealized gains on securities	—	—	—	—	169	—	—
Foreign currency translation adjustments	—	—	—	—	—	(274)	—
Cash dividends paid	—	—	—	(1,710)	—	—	—
Bonuses to directors	—	—	—	(71)	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	(912)
Balance at March 31, 2003	117,673,760	¥13,051	¥12,191	¥55,959	¥842	¥(247)	¥(3,839)

	Thousands of U.S. Dollars (Note 3)						
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2002	117,673,760	\$ 108,579	\$ 101,427	\$ 453,284	\$ 5,597	\$ 230	\$ (24,353)
Net income	—	—	—	27,080	—	—	—
Unrealized gains on securities	—	—	—	—	1,408	—	—
Foreign currency translation adjustments	—	—	—	—	—	(2,298)	—
Cash dividends paid	—	—	—	(14,219)	—	—	—
Bonuses to directors	—	—	—	(593)	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	(7,584)
Balance at March 31, 2003	117,673,760	\$108,579	\$101,427	\$465,552	\$7,005	\$(2,068)	\$(31,937)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
Operating activities			
Income before income taxes and minority interests	¥ 6,579	¥ 7,702	\$ 54,734
Depreciation and amortization	5,946	5,471	49,470
Net loss on disposal of property, plant and equipment	222	106	1,847
Loss on valuation of investments in securities	632	21	5,254
Amortization of difference between investment costs and equity in net assets acquired	192	173	1,599
Net increase (decrease) in accrued severance indemnities and directors retirement allowance	(121)	(232)	(1,008)
Interest and dividend income	(130)	(208)	(1,083)
Interest expenses	49	52	410
Decrease (increase) in notes and accounts receivable	1,832	2,057	15,239
Decrease (increase) in inventories	(2,288)	400	(19,031)
Increase (decrease) in notes and accounts payable	(454)	(1,242)	(3,778)
Other, net	(185)	(1,363)	(1,540)
Sub-total	12,274	12,937	102,113
Interest and dividend income received	260	353	2,164
Interest expenses paid	(45)	(52)	(378)
Income taxes paid	(2,784)	(4,644)	(23,161)
Other, net	357	582	2,975
Net cash provided by operating activities	10,062	9,176	83,713
Investing activities			
Payments for purchase of property, plant and equipment	(8,979)	(5,860)	(74,702)
Payments for purchase of investments in securities	(834)	(606)	(6,935)
Payments for acquisition of subsidiaries	—	(4,551)	—
Proceeds from sales of subsidiaries with a change of the scope of consolidation	403	—	3,349
Other, net	662	169	5,509
Net cash used in investing activities	(8,748)	(10,848)	(72,779)
Financing activities			
Payments for purchase of treasury stock	(912)	(2,409)	(7,584)
Cash dividends paid	(1,708)	(1,749)	(14,220)
Other, net	(244)	1,866	(2,019)
Net cash used in financing activities	(2,864)	(2,292)	(23,823)
Effects of exchange rate changes on cash and cash equivalents	(128)	(62)	(1,067)
Net increase (decrease) in cash and cash equivalents	(1,678)	(4,026)	(13,956)
Cash and cash equivalents at beginning of the year	25,015	28,994	208,110
Increase in cash and cash equivalents due to additional consolidation of subsidiaries	—	47	—
Cash and cash equivalents at end of the year	¥23,337	¥25,015	\$194,154

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries

I. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Sanyo Chemical Industries, Ltd. (the "Company") and its domestic consolidated subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code (the "Commercial Code") and Japanese Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards (IAS).

The accounts of overseas subsidiaries consolidated with the Company are based on the financial statements prepared in conformity with generally accepted accounting principles ("GAAP") and practices prevailing in the countries where the subsidiaries have been incorporated. Financial statements have not been

materially affected by the differences between the GAAP prevailing in these countries and Japanese GAAP.

Therefore, no adjustments have been reflected in the accompanying consolidated financial statements to present the accounts of the subsidiaries in compliance with Japanese accounting principles and practices.

Certain account balances, as disclosed in the basic consolidated financial statements in Japan, have been summarized or reclassified to the extent deemed necessary to enable presentation in a form which is more familiar to readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operation and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

The Company had eleven subsidiaries as of March 31, 2003. The accompanying consolidated financial statements include the accounts of the Company and

seven of its subsidiaries (abbreviated below as the "Companies"), which are listed below:

Name	Country of incorporation	Equity ownership percentage at March 31, 2003	Fiscal year-end
San-Dia Polymers, Ltd.	Japan	60	March 31
San Nopco Ltd.	Japan	100	March 31
San Chemical Co., Ltd.	Japan	50	March 31
San-Apro Ltd.	Japan	50	March 31
Sanyo Kasei (Thailand) Ltd.	Thailand	93.4	December 31
SANAM Corporation	U.S.	100	December 31
Sanyo Chemical & Resins Incorporated	U.S.	100	December 31

The remaining four subsidiaries at March 31, 2003 were not consolidated because their combined assets, net sales, net income and retained earnings in the aggregate are not significant compared to those of the consolidated financial statements of the Companies.

The Company sold part of its share in San Chemical Co., Ltd. during the year under review. Although the equity stake decreased from 65% to 50%, San Chemical continues to be a subsidiary of Sanyo Chemical as the Company essentially has controlling authority. Sanyo

Chemical & Resins Inc. (SCR) has been included in the scope of consolidation as SANAM Corp., a wholly-owned subsidiary of Sanyo Chemical, conducted a takeover of shares (50%) of SCR and the equity stake of Sanyo Chemical is subsequently 100%. Although the equity share of Sanyo Chemical in San-Apro Ltd. was 50% as of March 31, 2003, the Company consolidated said subsidiary since the Company essentially has control over the company's operations.

For the purpose of preparing the accompanying consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated. The amounts of certain subsidiaries have been included on the basis of fiscal periods ended within three months prior to March 31.

The Company had four non-consolidated subsidiaries as of March 31, 2003 and four affiliates as of March 31, 2003. The equity method is applied to the investments in three non-consolidated subsidiaries, including Sanyo Transport Co., Ltd., and in two affiliates, including San-Petrochemicals Co., Ltd.

The equity method is not applied to the investments in the remaining non-consolidated subsidiary and two affiliates since their total net income and retained earnings are not material to the consolidated results of total net income and total retained earnings.

(2) Translation of Foreign Currency Financial Statements

The accounts of the overseas consolidated subsidiaries are translated into Japanese yen by the method prescribed under the Accounting Standards for Foreign Currency Translations which was issued by the Business Accounting Deliberation Council of Japan. Under this method, all assets and liabilities are translated at current rates in effect at each balance sheet date while shareholders' equity is translated at historic rates, and revenue and expense items are translated at the average rate of exchange over the year.

Translation adjustments of foreign currency financial statements are reported in "Foreign currency translation adjustments" in minority interests and shareholders' equity.

(3) Valuation of Securities

The Company and its consolidated subsidiaries adopted the Accounting Standards for Financial Instruments,

which was issued by the Business Accounting Deliberation Council. In accordance with the standards, securities are classified into trading securities, held-to-maturity debt securities, equity investments in associates and other securities. Those classified as other would be reported at market value with unrealized gains, net of related taxes reported in equity. Under the Commercial Code, unrealized holding gains on securities, net of related taxes is not available for distribution as dividends and bonuses to directors and corporate auditors.

Realized gains and losses and declines in value judged to be other than temporary on other securities are charged to income.

(4) Inventories

Inventories are valued and stated principally at cost determined by the average method.

(5) Property, Plant and Equipment

Depreciation for the Company and its domestic consolidated subsidiaries is computed by the declining-balance method.

Depreciation of buildings excluding facilities incidental to buildings which were acquired on or after April 1, 1998 for the Company and its domestic consolidated subsidiaries is computed by the straight-line method.

Depreciation for overseas consolidated subsidiaries is principally computed by the straight-line method.

The principal estimated useful lives used for computing depreciation are as follows:

Building and structures	3 – 50 years
Machinery and equipment	4 – 8 years

(6) Capitalized Computer Software Costs

Amortization of computer software, which is included in "Intangible assets" in the accompanying balance sheets and comprise costs of software used in the Companies' business, is principally computed by the straight-line method over five years, for the estimated useful life of computer software.

(7) Foreign Currency Translation

Foreign currency assets and liabilities are translated into Japanese yen at the relevant exchange rates prevailing at the respective balance sheet dates. The resulting transaction gains or losses are included in "Other income (expenses)" for the year.

(8) Leases

Where the financing leases do not transfer ownership of the leased property to the lessee during the terms of the leases, the leased property is not capitalized and the related lease expenses are charged to income in the periods incurred, as per the statements issued by the Business Accounting Deliberation Council.

(9) Income Taxes

The Companies computed and recorded income taxes currently payable based upon taxable income determined in accordance with applicable tax laws.

The Company and its domestic subsidiaries adopted the Financial Accounting Standard on Accounting for Effects of Income Taxes which was issued by the Business Accounting Deliberation Council. This standard requires that income taxes are accounted for under the assets and liabilities method.

(10) Allowance for Bonuses

The allowance for employees' bonuses is computed based on the estimated amount of bonus payments.

(11) Accrued Severance Indemnities

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted the Accounting Standards for Retirement Benefit, which was issued by the Business Accounting Deliberation Council. In accordance with the standards, accrued severance indemnities are provided based on the amount of projected benefit obligation reduced by pension plan assets at fair value at the end of the annual period.

(12) Directors' Retirement Allowances

The Company, with respect to directors and corporate auditors, provides for lump-sum severance benefits.

While the Company has no legal obligation, it is a customary practice in Japan to make lump-sum payments to a director or a corporate auditor upon retirement. Any amounts payable to officers upon retirement are subject to approval at the general shareholders' meeting.

(13) Research and Development Expenses

Research and development expenses are charged to income as incurred.

(14) Appropriation of Retained Earnings

Under the Commercial Code and the Articles of Incorporation of the Company, proposals by the Board

of Directors for the appropriation of retained earnings (principally the payment of annual cash dividends) should be approved by shareholders at a meeting, which must be held within three months after the end of each fiscal year. The appropriation of retained earnings reflected in the accompanying consolidated financial statements for each fiscal year represents the appropriations which were approved at the general shareholders' meeting and disposed of during that year but which related to the immediately preceding fiscal year.

The payment of bonuses to directors is made out of retained earnings instead of being charged to income for the year and constitutes a part of appropriations referred to above.

(15) Net Income and Dividend per Share

From this fiscal year, basic net income per share is calculated based on the Accounting Standard for Earnings per Share, in which the amount not belonging to ordinary shareholders is deducted from the total.

Diluted net income per share is not applicable, as the Company does not possess any shares with dilutive effect.

Cash dividends per share represent interim dividends paid and annual dividends declared as applicable to the respective fiscal years.

(16) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows refer to cash on hand and bank deposits that can be withdrawn or converted to cash on demand with insignificant risk of changes in value and original maturities of three months or less at the date of acquisition.

(17) Reclassification

Certain prior-year amounts have been reclassified to conform to the current year's presentation.

3. United States Dollar Amounts

The Company prepares its consolidated financial statements in Japanese yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetical results of translating yen into dollars at the rate of ¥120.20 to US\$1, being the effective rate of exchange at

March 31, 2003. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at the rate of ¥120.20 to US\$1 or at any rate.

4. Investments in Securities

As of March 31, 2003 and 2002, there were no trading securities nor held-to-maturity debt securities.

The following is a summary of other securities at March 31, 2003 and 2002.

	Millions of Yen				
	March 31, 2003				
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Market value	Book value per balance sheet
Equity securities:					
Market value available	¥ 3,694	¥ 1,445	¥ 34	¥ 5,105	¥ 5,105
Market value not available	3,442				3,442
	7,136				8,547
Others:	3				3
Total	¥ 7,139				¥ 8,550

	Millions of Yen				
	March 31, 2002				
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Market value	Book value per balance sheet
Equity securities:					
Market value available	¥ 4,317	¥ 1,486	¥ 334	¥ 5,469	¥ 5,469
Market value not available	2,641				2,641
	6,958				8,110
Others:	3				3
Total	¥ 6,961				¥ 8,113

Thousands of U.S. Dollars					
March 31, 2003					
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Market value	Book value per balance sheet
Equity securities:					
Market value available	\$30,729	<u>\$12,018</u>	<u>\$282</u>	<u>\$42,465</u>	\$42,465
Market value not available	<u>28,639</u>				<u>28,639</u>
	59,368				71,104
Others:	<u>25</u>				<u>25</u>
Total	<u>\$59,393</u>				<u>\$71,129</u>

5. Inventories

Inventories as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
Finished goods	¥ 6,401	¥5,758	\$ 53,256
Semi-finished goods	3,501	2,503	29,116
Raw materials and supplies	1,676	1,226	13,945
Cases	44	27	368
Work in process	256	199	2,130
Supplies	205	258	1,708
	<u>¥12,083</u>	<u>¥9,971</u>	<u>\$100,523</u>

6. Derivative Financial Instruments

There are no items to report.

7. Lease Commitments

The Company and its domestic consolidated subsidiaries lease certain machinery and equipment and other assets. Total lease payments under financing lease arrangements that do not transfer ownership of the leased property to the Company and its domestic subsidiaries were ¥17 million (\$141 thousand) and ¥15 million (\$127 thousand) for the years ended March 31, 2003 and 2002, respectively.

Additional information such as notional acquisition costs and accumulated depreciation as of March 31, 2003 and 2002, requested by the Business Accounting Deliberation Council to be disclosed as not included in the accompanying consolidated balance sheets was as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
Machinery and equipment and other assets	¥101	¥95	\$842
Less : Accumulated depreciation	(49)	(60)	(408)
Net lease property	¥ 52	¥35	\$434

The aggregate future lease payments under finance leases as of March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
Due within one year	¥19	¥13	\$155
Due after one year	33	22	278
Net lease property	¥52	¥35	\$433

(Note) The amount of notional acquisition costs and future lease payments under finance leases included the imputed interest expense portion.

Notional depreciation expense for the years ended March 31, 2003 and 2002, were ¥17 million (\$141 thousand) and ¥15 million (\$127 thousand), respectively.

Notional depreciation expense is calculated by the straight-line method assuming that there is no scrap value over the terms of the lease based on notional acquisition costs.

8. Contingent Liabilities

Contingent liabilities at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
Guarantee of obligation (Employees' housing loan)	¥82	¥122	\$683

9. Shareholders' Equity

Effective October 1, 2001, the Commercial Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value. Prior to the amendments, legal reserves could be set aside until such legal reserve equaled 25% of stated capital. With the amendments, legal reserves can be set aside until the aggregated amount of capital surplus and legal reserve equals 25% of stated capital. The amount of capital surplus and legal reserve which exceeds 25% of stated capital can

be transferred to retained earnings subject to approval at the general shareholders' meeting.

Prior to October 1, 2001, the Commercial Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Commercial Code eliminated these restrictions allowing companies to repurchase, retain and dispose of treasury stock by a resolution of the shareholders.

10. Selling, General and Administrative Expenses

Selling, general and administrative expenses in the accompanying consolidated statements of income, for the

years ended March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
Freight and storage charge	¥ 4,670	¥ 4,607	\$ 38,856
Employees' salary and bonuses	3,571	3,555	29,705
Research and development expenses	4,144	4,131	34,473
Other	3,954	3,726	32,894
	<u>¥16,339</u>	<u>¥16,019</u>	<u>\$135,928</u>

I I. Income Taxes

The Company and its domestic subsidiaries are subject to a number of different taxes based on income, which in the aggregate indicated a normal effective statutory income tax rate of 41.7% for the year ended March 31, 2002. In accordance with a change in the tax regulations in fiscal 2003, the normal effective statutory income tax rate decreases to 40.3% in aggregate with effect for the

fiscal year ending March 31, 2005. Foreign consolidated subsidiaries are subject to income taxes of the countries in which they operate.

The significant components of deferred tax assets and liabilities as of March 31, 2003 and 2002 were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
Deferred tax assets:			
Accrued enterprise taxes	¥ 164	¥ 101	\$ 1,368
Excess to allowance for accrued severance indemnities	2,577	2,552	21,438
Directors' retirement allowance	653	639	5,435
Other	1,368	934	11,370
Sub-total	4,762	4,226	39,611
Deferred tax liabilities:			
Deferred profits on sales of fixed assets	25	30	211
Special depreciation	15	18	121
Unrealized gains on securities	569	482	4,732
Other	117	152	977
Sub-total	726	682	6,041
Net deferred tax assets	¥4,036	¥3,544	\$33,570

Net deferred tax assets were included in the consolidated balance sheets as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
Current assets: Deferred tax assets	¥ 616	¥ 403	\$ 5,121
Investments and other assets: Deferred tax assets	3,537	3,293	29,426
Current liabilities: Deferred tax liabilities	—	—	—
Long-term liabilities: Deferred tax liabilities	117	152	977
Net deferred tax assets	¥4,036	¥3,544	\$33,570

12. Accrued Severance Indemnities

The accrued severance indemnities at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
① Projected benefit obligation	¥(14,670)	¥(14,231)	\$ (122,044)
② Fair value of plan assets	5,329	5,771	44,329
③ Unfounded retirement benefit obligation (① + ②)	(9,341)	(8,460)	(77,715)
④ Unrecognized actuarial loss	3,166	1,841	26,340
⑤ Unrecognized past service liabilities	(234)	—	(1,943)
⑥ Net (③ + ④ + ⑤)	¥ (6,409)	¥(6,619)	\$ (53,318)

(Note) As of April 1, 2002, the total of lump-sum severance payment plans was included in tax-qualified pension plans. As a result, retirement benefit obligation decreased by ¥251 million and is being amortized as prior service cost over 14 years.

The components of net periodic benefit costs for the year ended March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
① Service cost	¥ 540	¥ 557	\$ 4,494
② Interest cost	349	475	2,905
③ Expected return on plan assets	(144)	(211)	(1,200)
④ Amortization of net actuarial gain (loss)	135	51	1,123
⑤ Amortization of unrecognized past service liabilities	(18)	—	(149)

Assumptions used for the year ended March 31, 2003 and 2002 were principally set forth as follows:

	2003	2002
① Method of attributing benefit to period of service	Straight-line base	Straight-line base
② Discount rate	2.0%	2.5%
③ Expected rate of return on plan assets	2.5%	3.5%
④ Amortization period for past service liabilities	14 years	14 years
⑤ Recognition period for actuarial gain (loss)	14 years	14 years
⑥ Amortization period for transitional obligation at date of adoption	-	-

(Note) The discount rate has been readjusted from 3.5% to 2.5% as of March 31, 2002, and 2.5% to 2.0% as of March 31, 2003.

13. Segment Information

Segment information of the Companies for the years ended March 31, 2003 and 2002 are presented below:

(1) Industry Segments

The Companies' main operations are manufacturing and distributing chemical products. The Companies' operations by business segment for the years ended March 31, 2003 and 2002 are not disclosed since most of the products have common characteristics, manufacturing methods and markets as stipulated in the Japanese Disclosure Rule of Consolidated Financial Statements.

(2) Geographic Segments

The Companies' operations by geographical segment for the years ended March 31, 2003 and 2002 are not disclosed since the ratios of business outside Japan described above with respect to sales and assets are not material, being less than 10% as stipulated in the Japanese Disclosure Rule of Consolidated Financial Statements.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2003 and 2002 consisted of the following:

Year ended March 31, 2003	Millions of Yen			
	Asia	America	Other	Total
Overseas sales	¥ 8,740	¥ 4,290	¥ 2,996	¥ 16,026
Consolidated net sales	—	—	—	82,183
Percentage of overseas sales to consolidated net sales	10.6%	5.2%	3.6%	19.5%

Year ended March 31, 2002	Millions of Yen			
	Asia	America	Other	Total
Overseas sales	¥ 7,654	¥ 5,425	¥ 2,168	¥ 15,247
Consolidated net sales	—	—	—	79,987
Percentage of overseas sales to consolidated net sales	9.6%	6.8%	2.7%	19.1%

Year ended March 31, 2003	Thousands of U.S. Dollars			
	Asia	America	Other	Total
Overseas sales	\$72,710	\$35,694	\$24,921	\$133,325
Consolidated net sales	—	—	—	683,718
Percentage of overseas sales to consolidated net sales	10.6%	5.2%	3.6%	19.5%

14. Subsequent Event

At the general shareholders' meeting of the Company held on June 20, 2003, payments of cash dividends of ¥7.50 (\$0.06) per share and directors' bonuses were

approved, which amounted to ¥847 million (\$7,045 thousand) and ¥60 million (\$499 thousand), respectively.

Report of Independent Certified Public Accountants

To the Shareholders and Board of Directors of SANYO CHEMICAL INDUSTRIES, Ltd.

We have audited the accompanying consolidated balance sheets of SANYO CHEMICAL INDUSTRIES, Ltd. and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SANYO CHEMICAL INDUSTRIES, Ltd. and subsidiaries as of March 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in Japan (see Note 1).

The U.S. dollar amounts in the consolidated financial statements, provided solely for the convenience of the reader, have been translated from Japanese yen on the basis set forth in Note 3.


Kyoritsu Audit Corporation

Japan
Sep 8, 2003

Board of Directors

As of June 20, 2003

Chairman of the Board

Tetsuo Kakehi

President

Masaaki Ienaga

Directors

Yoshio Nishizawa

Fusayoshi Masuda

Zuiichi Nakamura

Yoshihide Yomamoto

Masaaki Honjo

Hideki Matsui

Auditors

Yoshitaka Nishimura

Takashi Nishibe

Masakazu Hirata

Shinichi Wanaka

Corporate Data

As of March 31, 2003

Date of Establishment:

November 1, 1949

Number of Employees:

Approx. 1,400 (Consolidated)

Common Stock:

Authorized: 257,956,000 shares

Issued: 117,673,760 shares

Stock Exchanges:

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Higashiyama-ku, Kyoto

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Fax: +81-75-551-2557

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Fax: +81-3-3245-1697

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541-0046, Japan

Tel: +81-6-6203-3871

Fax: +81-6-6222-5656

Sales Offices:

Tokyo, Osaka, Nagoya, Utsunomiya,

Hiratsuka, Toyama, Hamamatsu,

Otsu, Hiroshima, Fukuoka

Factories:

Nagoya, Kashima, Kyoto

Transfer Agent and Registrar:

The Chuo Mitsui Trust & Banking Co., Ltd.

33-1, Shiba 3-chome, Minato-ku,

Tokyo 105-0014, Japan



Sanyo Chemical Industries, Ltd.

11-1, Ikkyo Nomoto-cho, Higashiyama-ku,

Kyoto 605-0995, Japan

Tel: +81-75-541-4311

Fax: +81-75-551-2557

URL <http://www.sanyo-chemical.co.jp/>



Responsible Care

As a member of the Japan Responsible Care Council (JRCC), Sanyo Chemical places top priority on management methods that protect the environment and ensure safety.