

Sumitomo Chemical Company, Limited Announces Consolidated Financial Results

During the first half of the fiscal year ending March 31, 2008 (FY2007), Japan's economy continued its moderate growth supported by continued strong exports as well as increased capital expenditures owing to improved corporate earnings. However, during the second half, further hikes in the price of crude oil, fears of a recession in the US from the subprime mortgage crisis, and the sharp rise in the yen resulted in lower corporate earnings and tightened capital expenditures, causing Japan's economic growth to slow toward the end of FY2007.

In FY2007 the Company faced a challenging operating environment. Prices of naphtha, benzene and other major feedstocks increased considerably and the yen rose sharply, though shipments for products such as IT-related materials saw a recovery in the overseas market.

Under these circumstances, the Company sought to improve its earnings by expanding sales, reducing costs and increasing sales prices in response to the hikes in raw material costs. As a result, consolidated net sales for FY2007 increased by ¥106.5 billion over the previous year to ¥1,896.5 billion. The Company posted operating income of ¥102.4 billion, ordinary income of ¥92.8 billion, and net income of ¥63.1 billion, all of which represent a decrease compared with the previous fiscal year owing to rising feedstock costs and increased depreciation and research and development expenses.

The Company's consolidated financial performance for FY2007 by segment is as follows.

In the Basic Chemicals segment, sales for caprolactam and acrylonitrile, raw materials for synthetic textile fibers, as well as methyl methacrylate and other products increased thanks to firm demand and improved prices reflecting higher raw materials costs. Meanwhile, sales for aluminum decreased since the Company curtailed a portion of its aluminum resale operations. Consequently, the segment's sales remained almost flat from the previous year at ¥314.7 billion, while operating income decreased by ¥2.9 billion to ¥10.6 billion because of rising feedstock prices and increased in fixed costs.

In the Petrochemicals and Plastics segment, sales of synthetic resins increased on the back of higher prices in Asian markets and increases in selling prices in Japan made in response to the rising cost of feedstocks. Sales of petrochemical products also increased with higher market prices. The segment's sales increased by ¥64.3 billion to ¥603.3 billion, while operating income decreased by ¥19.1 billion to ¥4.5 billion, reflecting the effects of a rise in feedstock prices that exceeded the increase in selling prices as well as the impact of a large-scale periodical maintenance shutdown of manufacturing plants undertaken once in four years.

In the Fine Chemicals segment, sales of pharmaceutical intermediates increased thanks to firm shipments. Sales of specialty chemicals remained flat from the previous year because of weak demand from the housing sector and other factors. As a result, sales increased by ¥2.1 billion to ¥92.9 billion, while operating income decreased ¥1.7 billion to ¥11.4 billion.

In the IT-related Chemicals segment, sales volumes of polarizing film, a material for liquid crystal displays (LCDs) increased significantly, helped by production capacity expansions in response to strong demand in Korea, Taiwan and China. Though the decline in selling prices moderated somewhat from the beginning of FY2007, the average selling price for FY2007 represented a considerable decrease compared with the previous year. Sales of color filters, diffusion panels, liquid crystal polymers and other products increased thanks to firm shipments. The segment's sales increased ¥31.1 billion to ¥297.5 billion, and operating income increased by ¥2.8 billion to ¥6.3 billion.

In the Agricultural Chemicals segment, sales of agrochemicals in Japan increased because of a recovery in shipments due to the completion of inventory adjustments by customers. Feed additives saw an increase in sales owing to higher selling prices on the back of an increase in demand. Shipments of household insecticides in the overseas market were firm. Consequently, sales increased by ¥2.1 billion to ¥200.4 billion. Despite the rise in sales prices and increase in shipment volumes, operating income decreased by ¥2.3 billion to ¥20.9 billion because of one-time costs associated with the integration of Sumitomo Chemical Takeda Agro.

In the Pharmaceuticals segment, sales of Dainippon Sumitomo Pharma's four main products, Amlodin (therapeutic agent for hypertension and angina), Gasmotin (gastroprokinetic), Meropen (carbapenem antibiotic), and Prorenal (vasodilator) remained firm. The segment's sales increased by ¥3.0 billion to ¥237.6 billion, while operating income decreased by ¥9.8 billion to ¥46.5 billion because of increases in research and development and other expenses.

In the Others segment, the Company provides electrical power and steam, services for chemical plant engineering and design, transport and warehousing, and materials and environmental analysis, and conducts business development in new fields such as Polymer Organic Light Emitting Diodes (PLEDs). Sales increased ¥3.3 billion over the previous year to ¥150.1 billion, while operating income declined ¥4.3 billion to ¥3.7 billion.

While, the Company posted a ¥28.8 billion special gain on change in equity by affiliate stock offering from Petro Rabigh's listing on the Saudi Stock Exchange, net income decreased by ¥30.8 billion to ¥63.1 billion. This was caused by a decrease in operating income and losses on foreign currency transactions.

Sumitomo Chemical plans to pay a year-end dividend of 6 yen per share. The Company's annual dividend of 12 yen per share, including its interim dividend, will remain the same as for FY2006.

Net cash provided by operating activities in FY2007 was ¥156.6 billion, and net cash used for investing activities totaled ¥182.7 billion, including the acquisition of a PLED company and investment in the Rabigh Project. This resulted in a free cash flow of negative ¥26.1 billion, a ¥4.8 billion decrease compared with the previous year.

The Company projects FY2008 consolidated sales of ¥2,080.0 billion, an increase of 9.7% over FY2007. Operating income is anticipated to be ¥95.0 billion, a 7.2% decrease due to the stronger yen and increased research and development expenses. The Company expects no special gain, which it posted in FY2007, and net income is anticipated to be ¥55.0 billion, a decrease of 12.8%. The estimated dividend for FY 2008 is ¥12 per share, the same level as for FY2007.

Consolidated Statements of Income
Years ended March 31, 2008(FY2007) and 2007(FY2006)

	FY2007		FY2006
	(¥Million)	(US\$1,000)*	(¥Million)
Sales	¥ 1,896,539	\$18,929,424	¥ 1,790,026
Cost of sales	1,454,416	14,516,579	1,338,142
Selling, general and administrative expenses	339,726	3,390,817	312,261
Operating income	102,397	1,022,028	139,623
Other income (expenses):			
Interest and dividend income	9,250	92,325	7,137
Interest expense	(12,004)	(119,812)	(11,034)
Equity in earnings of affiliates	11,161	111,398	23,607
Gain on sale of securities	6,719	67,063	31,079
Restructuring charges	(4,766)	(47,570)	(6,378)
Gain on change in equity by affiliate stock offering	28,767	287,124	-
Gain on sale of property, plant and equipment	4,734	47,250	-
Expenses related to litigation	-	-	(1,010)
Loss on reform of retirement benefits plan	-	-	(611)
Other, net	(18,014)	(179,798)	(1,352)
Income before income taxes and minority interests	128,244	1,280,008	181,061
Income taxes, net of tax effect	44,133	440,493	65,916
Minority interests	21,028	209,881	21,285
Net income	¥ 63,083	\$ 629,634	¥ 93,860

	FY2007		FY2006
	(Yen)	(US dollar)*	(Yen)
Net income per share	¥ 38.20	\$ 0.38	¥ 56.82
Dividends per share:			
Interim dividends	¥ 6.00	\$ 0.06	¥ 5.00
Year-end dividends	¥ 6.00	\$ 0.06	¥ 7.00
For the year	¥ 12.00	\$ 0.12	¥ 12.00

(Note)

*U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥100.19= \$1 prevailing on March 31, 2008.

Consolidated Statements of Cash Flows
Years ended March 31, 2008(FY2007) and 2007(FY2006)

	FY2007		FY2006
	(¥Million)	(US\$1,000)*	(¥Million)
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 128,244	\$ 1,280,008	¥ 181,061
Depreciation and amortization	124,980	1,247,430	113,870
Gain on change in equity by affiliate stock offering	(28,767)	(287,124)	-
Gain on sale of investment securities	(6,719)	(67,063)	(31,079)
Income taxes paid	(50,278)	(501,827)	(39,367)
Other, net	(10,882)	(108,613)	(81,568)
Net cash provided by operating activities	156,578	1,562,811	142,917
Cash flows from investing activities:			
Acquisition of securities	(27,659)	(276,065)	(10,188)
Proceeds from sale of securities	15,469	154,397	44,557
Acquisition of investments	(22,319)	(222,767)	(33,212)
Acquisition of property, plant and equipment	(127,083)	(1,268,420)	(156,924)
Acquisition of shares of newly consolidated subsidiaries	(30,561)	(305,030)	-
Other, net	9,474	94,559	(8,472)
Net cash used in investing activities	(182,679)	(1,823,326)	(164,239)
Cash flows from financing activities:			
Dividends paid	(21,482)	(214,413)	(18,182)
Net increase in short-term debt	14,417	143,897	31,108
Net increase in long-term debt	22,745	227,019	29,983
Other, net	(8,590)	(85,737)	(7,351)
Net cash provided by (used in) financing activities	7,090	70,766	35,558
Effect of exchange rate changes on cash and cash equivalents	252	2,515	781
Net increase(Decrease) in cash and cash equivalents	(18,759)	(187,234)	15,017
Increase in cash due to merger of consolidated subsidiaries	98	978	-
Net increase (Decrease) in cash resulting from changes in the number of consolidated subsidiaries	79	788	1
Cash and cash equivalents at beginning of year	125,990	1,257,511	110,972
Cash and cash equivalents at end of year	¥ 107,408	\$ 1,072,043	¥ 125,990

(Note)

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¥100.19= \$1 prevailing on March 31, 2008.

Industry Segment Results
Years ended March 31, 2008(FY2007) and 2007(FY2006)

									(¥Million)	
		Basic Chemicals	Petro- chemicals& Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharma- ceuticals	Others	Adjustments & Elimination	Consoli- dated
FY2007										
Sales	[a]	¥ 314,718	¥ 603,326	¥ 92,937	¥ 297,515	¥ 200,378	¥ 237,592	¥ 150,073		¥ 1,896,539
(Share)		(16.6%)	(31.8%)	(4.9%)	(15.7%)	(10.6%)	(12.5%)	(7.9%)		(100.0%)
(Growth)		(0.2%)	(11.9%)	(2.3%)	(11.7%)	(1.0%)	(1.3%)	(2.2%)		(6.0%)
Operating income (loss)	[b]	¥ 10,559	¥ 4,518	¥ 11,430	¥ 6,290	¥ 20,914	¥ 46,464	¥ 3,688	¥ (1,466)	¥ 102,397
[b] / [a]		(3.4%)	(0.7%)	(12.3%)	(2.1%)	(10.4%)	(19.6%)	(2.5%)		(5.4%)
Total assets		¥ 257,102	¥ 591,226	¥ 102,930	¥ 299,498	¥ 240,398	¥ 449,496	¥ 337,518	¥ 80,761	¥ 2,358,929
Depreciation		13,305	18,377	6,080	42,190	12,791	15,370	11,064	5,803	124,980
Capital expenditures		27,646	21,199	6,929	33,355	8,451	18,283	18,448	8,210	142,521
FY2006										
Sales	[a]	¥ 314,004	¥ 539,065	¥ 90,882	¥ 266,436	¥ 198,310	¥ 234,546	¥ 146,783		¥ 1,790,026
(Share)		(17.5%)	(30.1%)	(5.1%)	(14.9%)	(11.1%)	(13.1%)	(8.2%)		(100.0%)
(Growth)		(24.4%)	(10.9%)	(15.0%)	(16.2%)	(6.5%)	(0.6%)	(62.1%)		(15.0%)
Operating income (loss)	[b]	¥ 13,483	¥ 23,596	¥ 13,085	¥ 3,457	¥ 23,251	¥ 56,231	¥ 8,012	¥ (1,492)	¥ 139,623
[b] / [a]		(4.3%)	(4.4%)	(14.4%)	(1.3%)	(11.7%)	(24.0%)	(5.5%)		(7.8%)
Total assets		¥ 253,604	¥ 539,466	¥ 100,697	¥ 325,647	¥ 232,120	¥ 419,526	¥ 281,380	¥ 172,466	¥ 2,324,906
Depreciation		13,515	19,156	6,538	31,453	14,213	16,207	6,740	6,048	113,870
Capital expenditures		24,633	16,878	4,635	72,034	10,122	12,496	13,697	5,354	159,849

Overseas Operations
Years ended March 31, 2008(FY2007) and 2007(FY2006)

	FY2007				FY2006
	(¥Million)	(\$1,000)*	Share (%)	Growth (%)	(¥Million)
Overseas operations	¥ 788,804	\$7,873,081	41.6	5.5	¥ 747,770

(Note)

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Non-consolidated Statements of Income
Years ended March 31, 2008(FY2007) and 2007(FY2006)

	FY2007		FY2006
	(¥Million)	(US\$1,000)*	(¥Million)
Sales	¥ 933,291	\$ 9,315,211	¥ 885,557
Cost of sales	805,079	8,035,523	738,224
Selling, general and administrative expenses	113,921	1,137,039	101,405
Operating income	14,292	142,649	45,928
Other income	37,142	370,716	38,509
Other expenses	21,151	211,109	13,841
Ordinary income	30,283	302,256	70,595
Special gains	7,169	71,554	43,301
Special losses	8,211	81,955	2,197
Income before income taxes	29,241	291,855	111,699
Income taxes	5,875	58,638	27,988
Net income	¥ 23,366	\$ 233,217	¥ 83,711

(Note)

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(Cautionary Statement)

Statements made in this release with respect to the Company's current plans, estimates, strategies and beliefs that are not historical facts are forward-looking statements about the future performance of Sumitomo Chemical. These statements are based on management's assumptions and beliefs in light of the information currently available to it, and involve risks and uncertainties. The important factors that could cause actual results to differ materially from those discussed in the forward-looking statements include, but are not limited to, general economic conditions in Sumitomo Chemical's markets; demand for, and competitive pricing pressure on, Sumitomo Chemical's products in the marketplace; Sumitomo Chemical's ability to continue to win acceptance for its products in these highly competitive markets; and movements of currency exchange rates.