

Sumitomo Chemical Reports Interim Consolidated Financial Results

(1) Overview of Interim Results

The Japanese economy continued its moderate growth because of an increase in capital expenditure thanks to improving corporate profits, as well as solid exports supported by Asian economic growth, particularly in China. Meanwhile, factors such as rising crude oil prices and a sense of instability in international financial markets may be causes for concern about their impact on corporate performance and consumer spending. Although shipments of products such as IT-related products showed signs of a recovery, Sumitomo Chemical's overall business faced a challenging operating environment, with prices for naphtha, benzene and other feedstocks rising sharply and competition in each business area intensifying.

Under these circumstances, the Sumitomo Chemical Group worked to improve business performance by promoting price increases, cutting costs by streamlining and expanding sales through marketing drives. As a result, consolidated interim sales increased by ¥77.3 billion over the same period the previous year to ¥931.9 billion, while factors such as a steep rise in the price of feedstocks resulted in year-on-year declines in profits. Operating income was ¥48.4 billion, ordinary income was ¥57.7 billion, and interim net income was ¥26.4 billion.

Non-consolidated interim sales were ¥444.9 billion and net income was ¥18.7 billion.

Sumitomo Chemical decided to pay an interim dividend of ¥6 per share.

Consolidated interim financial results by business segment are as follows.

Basic Chemicals

Sales of raw materials for synthetic textile fibers such as caprolactam and acrylonitrile as well as methyl methacrylate and other products increased because of a rise in product prices on the back of solid demand and a rise in feedstock costs. As a result, the segment's sales increased by ¥10.3 billion over the same period last year to ¥159.8 billion. Operating income increased by ¥2.0 billion year on year to ¥7.9 billion, benefiting from rising Asian market prices for methyl methacrylate.

Petrochemicals & Plastics

Sales of synthetic resins increased thanks to price rises in Asia and price increases in Japan that reflected the high cost of feedstocks. Sales of petrochemical products such as styrene monomer increased on the back of a price rise due to rising prices for naphtha and other feedstocks. As a result, the segment's sales increased by ¥30.2 billion over the same period the previous year to ¥290.6 billion, while operating income decreased by ¥5.4 billion year on year to ¥2.0 billion because of rising feedstock costs as well as the economic impact of a large-scale maintenance shutdown of a manufacturing plant in Japan occurring once every four years.

Fine Chemicals

Sales of pharmaceutical intermediates increased thanks to active marketing drives. As a result, the segment's sales increased by ¥0.4 billion over the same period last year to ¥47.5 billion. Operating income declined year on year by ¥1.1 billion to ¥6.1 billion from the impact of high feedstock costs.

IT-related Chemicals

Sales of polarizing film, a liquid crystal display material, increased thanks to factors such as production capacity expansions in Korea, which resulted in an increase in shipment volumes, and active marketing drives. Selling prices have seen a large decline compared with the same period last year. However, the price decline moderated during the interim period. Meanwhile, shipments of light diffusion sheets, semiconductor processing materials and liquid crystal polymers and other products remained strong, and sales for these products increased. As a result, the segment's sales increased by ¥9.0 billion over the same period the previous year to ¥137.7 billion. However, operating income decreased year on year by ¥12.6 billion to a loss of ¥6.3 billion on account of a decline in selling prices for polarizing film, in addition to factors such as increased fixed costs accompanying production capacity expansions as well as decreased yields at the start of production of new products.

Agricultural Chemicals

Sales of feed additives increased thanks to active marketing drives and a rise in selling prices. In addition, shipments of household insecticides outside Japan remained solid. Meanwhile, in addition to the impact of inventory adjustments in the Company's distribution channels in Japan, decreased prices for some of the Company's agrochemicals outside of Japan caused a decline in sales. As a result, the segment's sales increased by ¥5.4 billion year on year to ¥100.6 billion. Operating income decreased by ¥1.4 billion compared with the same period last year, to ¥10.8 billion, because of a decrease in selling prices for agrochemicals outside of Japan and other factors.

Pharmaceuticals

Sales of the segment's four main products, *Amlodin* (therapeutic agent for hypertension and angina), *Gasmotin* (gastroprokinetic), *Meropen* (carbapenem antibiotic) and *Prorenal* (vasodilator) remained firm. As a result, the segment's sales increased by ¥1.8 billion over the same period the previous year to ¥116.4 billion, while operating income remained flat year on year at ¥26.0 billion.

Others

In addition to the above six segments, the Company operates businesses such as providing electrical power and steam, design and engineering of chemical plants, transport and warehousing, and materials and environmental analysis. Sales in the segment have increased considerably as construction on the integrated refining and petrochemical complex for the Rabigh Project progresses. As a result, the segment's sales increased by ¥20.2 billion year on year to ¥79.4 billion, while operating income decreased by ¥1.2 billion compared with the same period the previous year, to ¥2.2 billion.

In addition to the decrease in operating income, extraordinary gains on the sale of securities decreased from the interim period last year. Net income decreased by ¥26.9 billion compared with the same period the previous year, to ¥26.4 billion.

Interim operating cash flow was ¥64.5 billion, while investment cash flow became negative ¥135.1 billion due to the acquisition of a new organic polymer LED business as well as investment in the Rabigh Project. As a result, free cash flow decreased ¥70.4 billion compared to the same period the previous year, to negative ¥70.6 billion.

(2) Full-Year Forecast

Japan's economy is expected to continue its moderate recovery going forward, buoyed by continued strong corporate earnings and increasing employment. However, factors such as a slowdown in the US economy and the direction of crude oil prices remain causes for concern about the effects on the global economy, and have heightened uncertainty about future economic conditions. In terms of the business climate the Sumitomo Chemical Group is facing, prices for feedstocks such as naphtha and benzene are forecast to remain high. In addition, foreign exchange rates as well as demand from the IT-related industry will continue to merit close attention.

In response to these conditions, the Company will work promptly and steadily, under its new Three-Year Corporate Business Plan begun this fiscal year, to review pricing and marketing strategies, actively expand its businesses, and strive to cut costs in order to improve the Company's performance. In addition, the Sumitomo Chemical Group is focusing its efforts on the successful completion of the Rabigh Project for the construction of a highly cost competitive integrated oil refining and petrochemical complex in Saudi Arabia as scheduled.

Assuming an exchange rate of ¥115/US\$ and a naphtha price of ¥62,000/kl for the second-half, the full-year performance forecast is for an increase in sales of ¥150.0 billion to ¥1,940.0 billion. Taking into account aggressive investments, including those for R&D, aimed at future growth, in addition to other items, the Company forecasts full-year operating income of ¥120.0 billion, ordinary income of ¥125.0 billion, and net income of ¥70.0 billion.

With regard to the IPO of Petro Rabigh, the business entity of the Rabigh Project, on the Saudi Arabian stock exchange announced on November 5, 2007, the financial impact on the Company has not been incorporated into the current consolidated forecast because the price of the Petro Rabigh stock issue has yet to be determined. Upon determination of the issue price, the Company will revise its consolidated performance forecast as necessary.

Industry Segment Results
Six Months ended September 30, 2007 and 2006

									(¥Million)	
		Basic Chemicals	Petro- chemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharma- ceuticals	Others	Adjustments & Elimination	Consoli- dated
FY2007										
Sales	[a]	¥ 159,809	¥ 290,608	¥ 47,461	¥ 137,670	¥ 100,623	¥ 116,350	¥ 79,375		¥ 931,896
(Share)		(17.1%)	(31.2%)	(5.1%)	(14.8%)	(10.8%)	(12.5%)	(8.5%)		(100.0%)
(Growth)		(6.9%)	(11.6%)	(0.8%)	(7.0%)	(5.6%)	(1.6%)	(34.1%)		(9.0%)
Operating income (loss)	[b]	¥ 7,910	¥ 2,044	¥ 6,141	¥ (6,279)	¥ 10,815	¥ 25,980	¥ 2,205	¥ (452)	¥ 48,364
[b] / [a]		(4.9%)	(0.7%)	(12.9%)	(-4.6%)	(10.7%)	(22.3%)	(2.8%)		(5.2%)
FY2006										
Sales	[a]	¥ 149,491	¥ 260,394	¥ 47,070	¥ 128,705	¥ 95,254	¥ 114,529	¥ 59,178		¥ 854,621
(Share)		(17.5%)	(30.5%)	(5.5%)	(15.1%)	(11.1%)	(13.4%)	(6.9%)		(100.0%)
(Growth)		(27.9%)	(13.4%)	(26.7%)	(28.4%)	(5.4%)	(32.4%)	(114.4%)		(24.1%)
Operating income (loss)	[b]	¥ 5,915	¥ 7,439	¥ 7,276	¥ 6,313	¥ 12,245	¥ 26,242	¥ 3,368	¥ (584)	¥ 68,214
[b] / [a]		(4.0%)	(2.9%)	(15.5%)	(4.9%)	(12.9%)	(22.9%)	(5.7%)		(8.0%)

Overseas Operations
Six Months ended September 30, 2007 and 2006

	FY2007				FY2006
	(¥Million)	(\$1,000)*	Share (%)	Growth (%)	(¥Million)
Overseas operations	¥ 404,578	\$3,504,964	43.4	15.7	¥ 349,621

(Note)

*U. S. dollar amounts are translated from yen, for convenience only, at the rate of ¥115.43 = \$1 prevailing on September 30, 2007.

Consolidated Statements of Cash Flows
Six Months ended September 30, 2007 and 2006

	FY2007		FY2006
	(¥Million)	(US\$1,000)*	(¥Million)
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 57,933	\$ 501,889	¥ 94,713
Depreciation and amortization	59,134	512,293	51,532
Income taxes paid	(33,530)	(290,479)	(22,077)
Gain on sale of investment securities	(900)	(7,797)	(23,055)
Other, net	(18,144)	(157,186)	(44,157)
Net cash provided by operating activities	64,493	558,720	56,956
Cash flows from investing activities:			
Acquisition of investments	(21,634)	(187,421)	(414)
Acquisition of property, plant and equipment	(73,626)	(637,841)	(85,153)
Acquisition of shares of newly consolidated subsidiaries	(30,561)	(264,758)	-
Other, net	(9,291)	(80,490)	28,375
Net cash used in investing activities	(135,112)	(1,170,510)	(57,192)
Cash flows from financing activities:			
Dividends paid	(11,568)	(100,217)	(9,918)
Net increase (decrease) in short-term debt	53,311	461,847	(11,006)
Net increase (decrease) in long-term debt	(2,559)	(22,169)	32,754
Other, net	(5,381)	(46,617)	(4,477)
Net cash provided by (used in) financing activities	33,803	292,844	7,353
Effect of exchange rate changes on cash and cash equivalents	1,160	10,049	(33)
Cash and cash equivalents at beginning of period	125,990	1,091,484	110,972
Increase in cash due to merger of consolidated subsidiaries	98	849	-
Net increase (decrease) in cash resulting from changes in the number of consolidated subsidiaries	79	684	(102)
Cash and cash equivalents at end of period	¥ 90,511	\$ 784,120	¥ 117,954

(Note)

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¥115.43= \$1 prevailing on September 30, 2007.

(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.