

# First Half Financial Results & Outlook for FY2006



**Nov. 9, 2006**



**Sumitomo Chemical Co., Ltd.**



### **(Cautionary Statement)**

*Statements made in this material with respect to Sumitomo Chemical'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.*



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# 1. Consolidated Financial Results for First Half of FY 2006 Ending March 31, 2007





# Financial Summary

Unit; billions of yen

	1st Half of FY2006	1st Half of FY2005	Difference	Growth
Net Sales	854.6	688.4	166.2	24.1%
Operating Income	68.2	56.6	11.6	20.5%
Ordinary Income	75.9	72.0	3.9	5.4%
(Equity in earnings of affiliates, included in ordinary income)	(8.2)	(14.9)	(-6.8)	(-45.4%)
Net Income	53.3	39.4	13.9	35.4%
ROE	7.3%	6.6%		
Exchange Rate (yen/US\$)	115.38	109.52		
Naphtha Price (yen/KL)	51,500	38,000		



# Net Sales by Segment

Unit; billions of yen

	1st Half of FY2006	1st Half of FY2005	Difference	Growth	Sales Price Variance	Shipping Volume Variance
Basic Chemicals	149.5	116.9	32.6	27.9%	17.5	15.1
Petrochemicals	260.4	229.7	30.7	13.4%	26.5	4.2
Fine Chemicals	47.1	37.2	9.9	26.7%	1.5	8.4
IT-related Chemicals	128.7	100.3	28.5	28.4%	-17.0	45.5
Agricultural Chemicals	95.3	90.4	4.9	5.4%	2.5	2.4
Pharmaceuticals	114.5	86.5	28.0	32.4%	-5.0	33.0
Others	59.2	27.6	31.6	114.4%	0.0	31.6
<b>Total</b>	<b>854.6</b>	<b>688.4</b>	<b>166.2</b>	<b>24.1%</b>	<b>26.0</b>	<b>140.2</b>

Overseas Operations	349.6	276.5	73.1	26.4%
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# Operating Income by Segment

Unit ; billions of yen

<b>Operating Income</b>									
1st Half of FY2006	5.9	7.4	7.3	6.3	12.2	26.2	2.8	68.2	
1st Half of FY2005	5.9	8.9	4.7	8.8	8.3	18.6	1.4	56.6	
<b>Difference</b>	<b>0.0</b>	<b>-1.4</b>	<b>2.6</b>	<b>-2.5</b>	<b>3.9</b>	<b>7.6</b>	<b>1.4</b>	<b>11.6</b>	

<b>Price Variance</b>	<b>-6.0</b>	<b>-3.5</b>	<b>-0.5</b>	<b>-17.0</b>	1.0	<b>-5.0</b>	0.0	<b>-31.0</b>
Sales Price Variance	17.5	26.5	1.5	<b>-17.0</b>	2.5	<b>-5.0</b>	0.0	26.0
Purchase Price Variance	<b>-23.5</b>	<b>-30.0</b>	<b>-2.0</b>	0.0	<b>-1.5</b>	0.0	0.0	<b>-57.0</b>
<b>Cost Variance</b>	<b>-0.5</b>	0.0	1.5	4.0	1.0	<b>-18.0</b>	<b>-3.0</b>	<b>-15.0</b>
VC	0.5	1.0	0.5	13.0	0.5	0.0	0.0	15.5
FC	<b>-1.0</b>	<b>-1.0</b>	1.0	<b>-9.0</b>	0.5	<b>-18.0</b>	<b>-3.0</b>	<b>-30.5</b>
Shipping Volume Variance	6.5	2.0	1.6	10.5	1.9	30.6	4.4	57.6
<b>Total</b>	<b>0.0</b>	<b>-1.4</b>	<b>2.6</b>	<b>-2.5</b>	<b>3.9</b>	<b>7.6</b>	<b>1.4</b>	<b>11.6</b>



# Elements of Major Costs

Unit ; billions of yen

Labor Costs	100.1	89.5	10.5
Maintenance Costs	23.0	20.6	2.4
Depreciation and Amortization	51.5	45.8	5.7
Research & Development Expenses	48.1	39.1	9.0
Capital Expenditures	83.6	51.7	31.8
Number of employees (at September 30)	24,773	20,632	4,141





# Special Gains / Losses

Unit; billions of yen

	1st Half of FY2006	1st Half of FY2005	Difference
Gain on sale of investment securities	23.1	1.9	21.2
Gain on business transfer	-	4.5	-4.5
<b>Special Gains</b>	<b>23.1</b>	<b>6.4</b>	<b>16.6</b>
Restructuring charges	3.7	3.3	0.4
Loss on reform of retirement benefits plan	0.6	-	0.6
Expenses for subsidiary merger	-	2.4	-2.4
<b>Special Losses</b>	<b>4.3</b>	<b>5.7</b>	<b>-1.4</b>
<b>Special Gains / Losses</b>	<b>18.8</b>	<b>0.7</b>	<b>18.1</b>



# Consolidated Balance Sheets

Unit ; billions of yen

	30-Sep-06	31-Mar-06		30-Sep-06	31-Mar-06
<b>Current Assets</b>	<b>964.0</b>	<b>946.6</b>	<b>Liabilities</b>	<b>1,232.2</b>	<b>1,234.2</b>
Cash and cash equivalents	118.0	111.0	Trade notes and accounts	273.2	265.2
Trade notes and accounts	390.1	399.3	Short-term debt	148.0	159.2
Inventories	319.2	294.8	Long-term debt due within one year	58.4	44.6
Others	136.7	141.5	Long-term debt due after one year	393.0	374.7
<b>Non-current Assets</b>	<b>1,244.3</b>	<b>1,231.8</b>	Others	359.6	390.4
Property, plant and equipment	602.0	570.3	Minority interests in consolidated subsidiaries	227.3	224.5
Intangible assets	42.7	45.2	<b>Shareholders' equity</b>	<b>748.8</b>	<b>719.8</b>
Investment securities	479.5	503.0	Common stock	89.7	89.7
Others	120.1	113.3	Capital surplus	23.8	23.8
			Retained earnings	489.2	445.9
			Revaluation reserve	3.8	3.8
			Unrealized gains on investment securities	143.8	155.9
			Foreign currency translation adjustments	1.9	2.2
			Deferred gain or loss on hedging instruments	-1.3	-
			Treasury stock, at cost	-2.1	-1.5
<b>Total</b>	<b>2,208.3</b>	<b>2,178.4</b>	<b>Total</b>	<b>2,208.3</b>	<b>2,178.4</b>

Interest-bearing debt balance	599.4	578.6
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# Consolidated Statements of Cash Flows

Unit; billions of yen

	1st Half of FY2006	1st Half of FY2005	Difference
Cash flows from operating activities	57.0	52.1	4.9
Cash flows from investing activities	-57.2	-76.6	19.4
Free cash flows	-0.2	-24.6	24.3
Cash flows from financing activities	7.4	48.3	-40.9
Effect of exchange rate changes on cash and cash equivalents	0.0	0.8	-0.8
Net increase (decrease) in cash and cash equivalents	7.1	24.5	-17.4
Cash and cash equivalents at end of year	118.0	79.7	-



# Major Subsidiaries

Unit; billions of yen

Company	Net Sales		Operating Income Status
	FY06.1H	FY05.1H	
<b>The Polyolefin Company (Singapore)</b>	<b>56.5</b>	<b>52.4</b>	Slightly decreased because of the products margins down by rises in feedstock prices
<b>Petrochemical Corporation of Singapore</b>	<b>138.1</b>	<b>116.6</b>	Decreased because of the products margins down by rises in feedstock prices.
<b>Dongwoo Fine-Chem</b>	<b>75.7</b>	<b>54.3</b>	Increased because of increase in shipments led by expanded production capacity
<b>Valent U.S.A. and Subsidiaries</b>	<b>25.5</b>	<b>25.8</b>	Decreased because of increased R&D expenses



## 2. Outlook for FY2006



# Financial Summary

Unit; billions of yen

	FY2006 (estimated)	FY2005	Difference	Growth
Net Sales	1,785.0	1,556.6	228.4	14.7%
Operating Income	145.0	120.8	24.2	20.0%
Ordinary Income	150.0	141.1	8.9	6.3%
(Equity in earnings of affiliates, included in ordinary income)	(18.0)	(26.8)	(-8.8)	(-32.9%)
Net Income	91.0	90.7	0.3	0.4%
ROE	12.2%	14.1%		
Exchange Rate (yen/US\$)	115.19	113.32		
Naphtha Price (yen/KL)	50,800	42,400		



# Net Sales by Segment

Unit; billions of yen

	FY2006 (estimated)	FY2005	Difference	Growth	Sales Price Variance	Shipping Volume Variance
Basic Chemicals	300.0	252.4	47.6	18.9%	25.5	22.1
Petrochemicals	540.0	486.1	53.9	11.1%	51.5	2.4
Fine Chemicals	90.0	79.0	11.0	13.9%	2.5	8.5
IT-related Chemicals	275.0	229.2	45.8	20.0%	-45.0	90.8
Agricultural Chemicals	195.0	186.2	8.8	4.7%	3.5	5.3
Pharmaceuticals	235.0	233.1	1.9	0.8%	-13.5	15.4
Others	150.0	90.7	59.3	65.4%	-	59.3
<b>Total</b>	<b>1,785.0</b>	<b>1,556.6</b>	<b>228.4</b>	<b>14.7%</b>	<b>24.5</b>	<b>203.9</b>



# Operating Income by Segment

Unit; billions of yen

	Basic Chemicals	Petro-chemicals	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Others	Total
Operating Income								
FY2006 (estimated)	15.0	17.0	14.0	17.0	24.0	51.0	7.0	145.0
FY2005	10.0	17.9	9.8	21.7	16.6	38.3	6.5	120.8
Difference	5.0	-0.9	4.2	-4.7	7.4	12.7	0.5	24.2

Price Variance	-5.0	-3.5	-0.5	-45.0	1.5	-13.5	0.0	-66.0
Sales Price Variance	25.5	51.5	2.5	-45.0	3.5	-13.5	0.0	24.5
Purchase Price Variance	-30.5	-55.0	-3.0	0.0	-2.0	0.0	0.0	-90.5
Cost Variance	0.0	0.0	2.5	17.0	4.0	-13.5	-3.0	7.0
VC	1.0	1.5	0.5	38.5	1.0	0.0	0.0	42.5
FC	-1.0	-1.5	2.0	-21.5	3.0	-13.5	-3.0	-35.5
Shipping Volume Variance	10.0	2.6	2.2	23.3	1.9	39.7	3.5	83.2
Total	5.0	-0.9	4.2	-4.7	7.4	12.7	0.5	24.2





# Elements of Major Costs

Unit ; billions of yen

	FY2006 (estimated)	FY2005	Difference
Labor Costs	202.0	196.8	5.2
Maintenance Costs	52.0	42.8	9.2
Depreciation and Amortization	110.0	104.9	5.1
Research & Development Expenses	101.0	91.9	9.1
Capital Expenditures	166.0	124.9	41.1
Number of Employees (at March 31)	25,600	24,160	1,440



# Consolidated Statements of Cash Flows

Unit; billions of yen

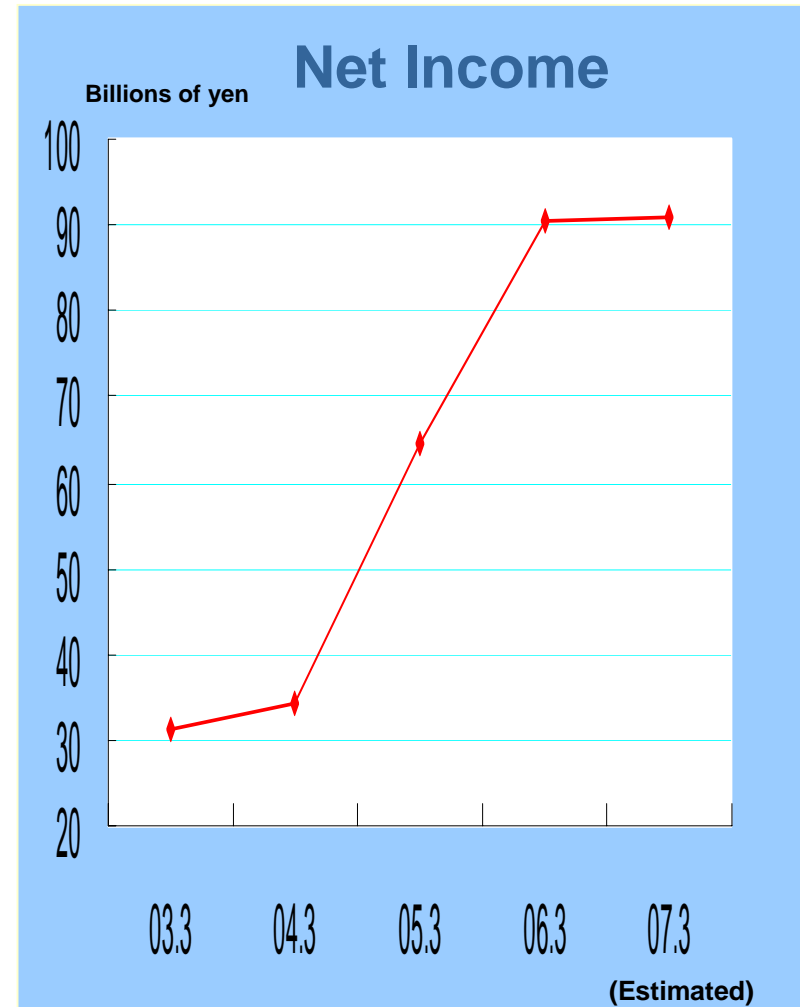
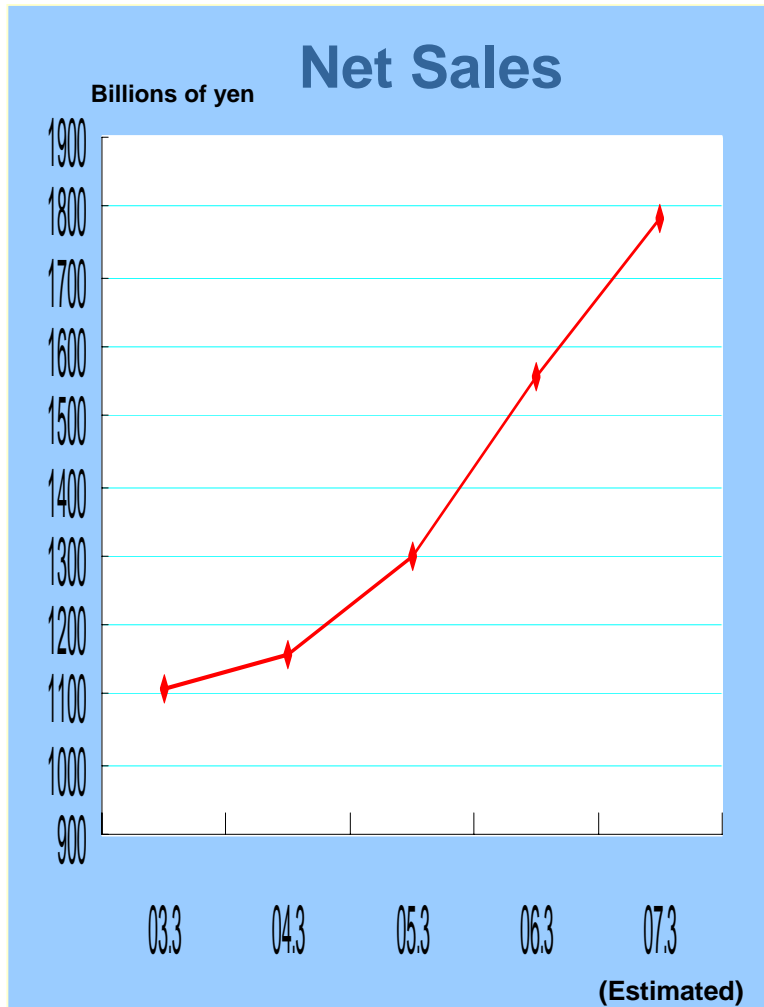
	FY2006 (estimated)	FY2005	Difference
Cash flows from operating activities	170.0	122.8	47.2
Cash flows from investing activities	-170.0	-180.7	10.8
Free cash flows	0.0	-57.9	57.9
Cash flows from financing activities	20.0	70.6	-50.6
Effect of exchange rate changes on cash and cash equivalents	-	1.0	-1.0
Net increase (decrease) in cash and cash equivalents	20.0	13.7	6.3
Interest-Bearing Debt Balance	620.0	578.6	41.4



# 3. Financial Analysis

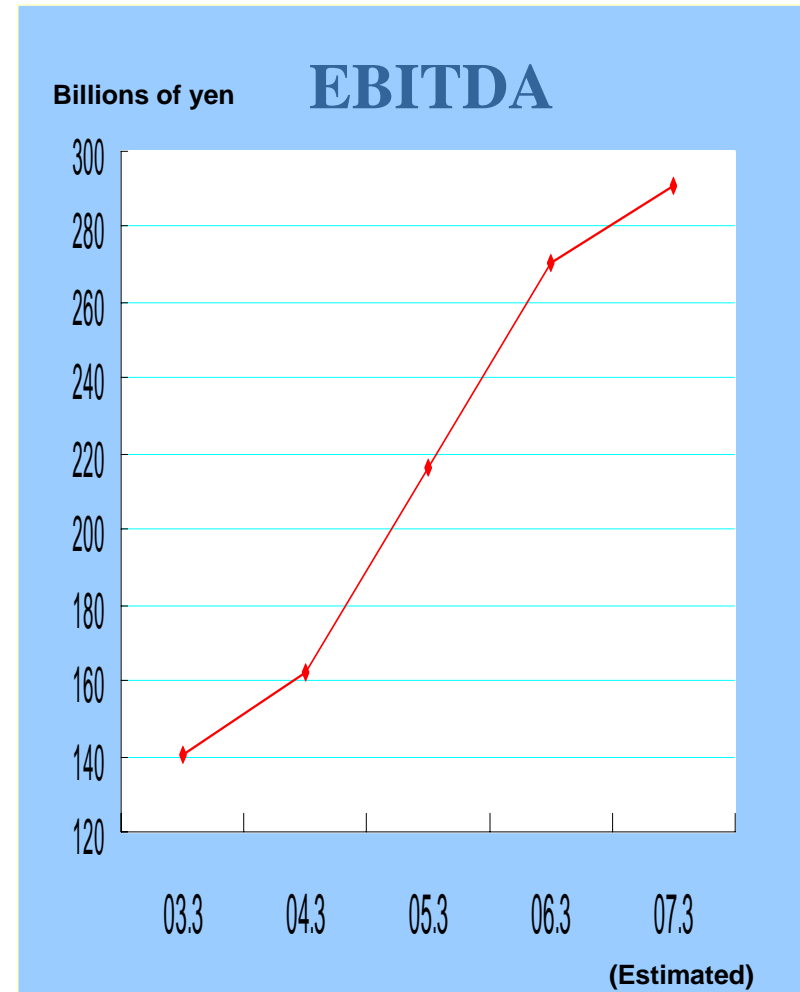
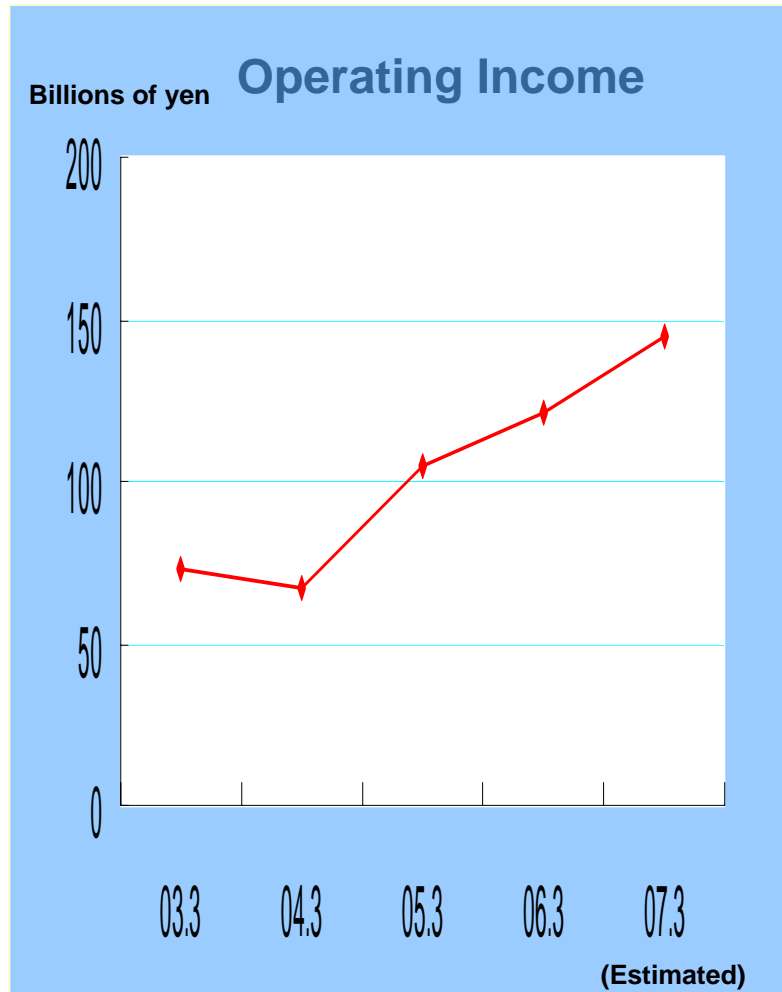


# Financial Analysis - 1



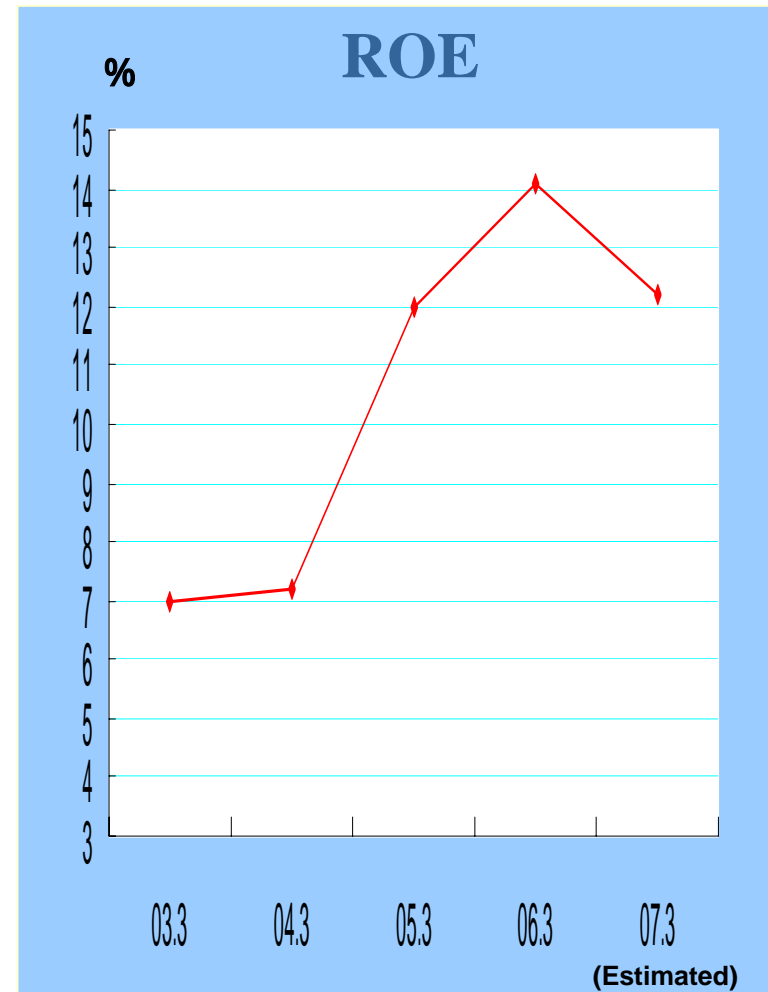
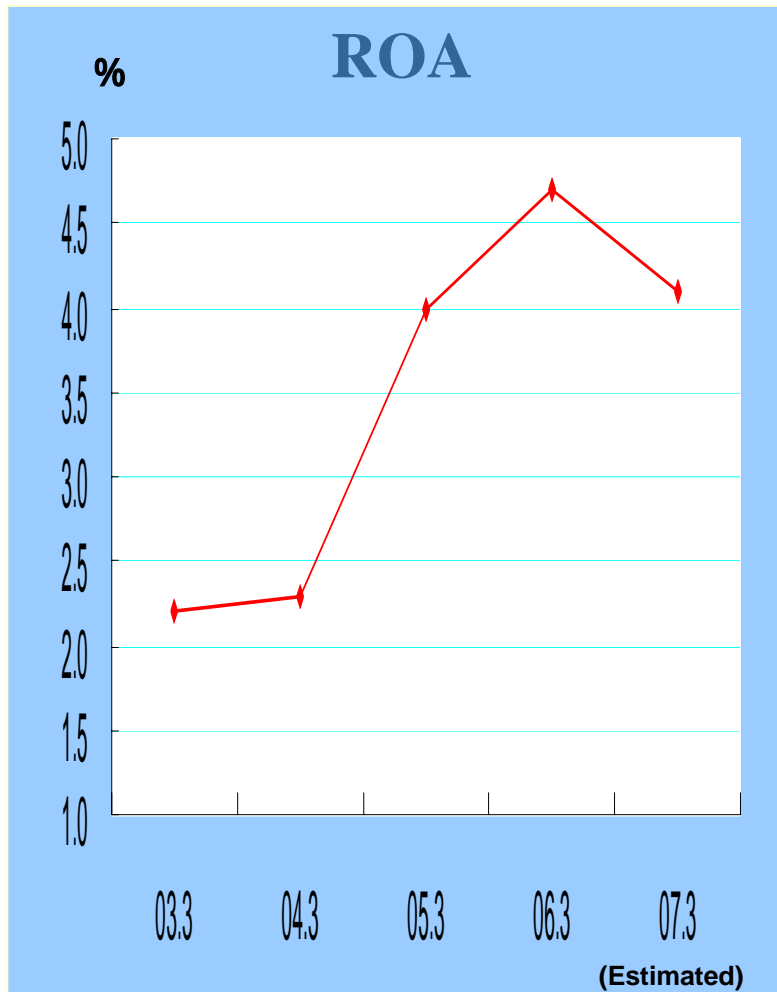


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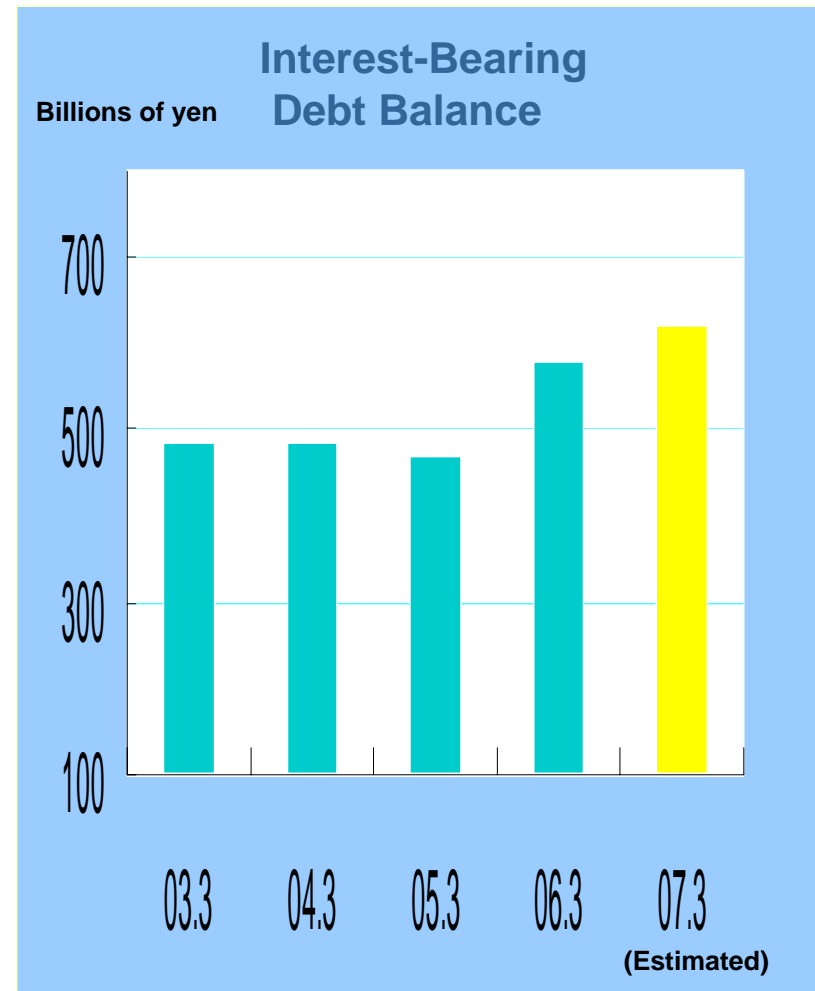
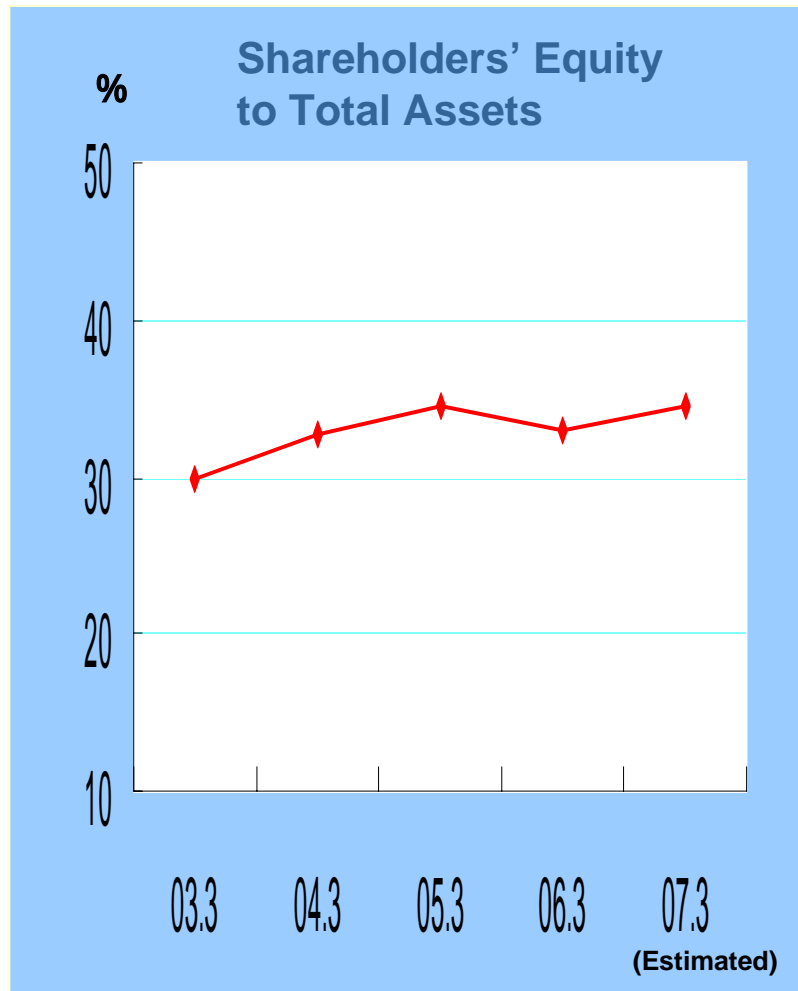


# Financial Analysis - 3





# Financial Analysis - 4





(Reference; Segment Information)





# Capital Expenditures by Segment

Unit; billions of yen

	1st Half of FY2006	1st Half of FY2005	Difference
<b>Basic Chemicals</b>	<b>11.2</b>	<b>6.2</b>	<b>5.0</b>
<b>Petrochemicals</b>	<b>7.1</b>	<b>7.5</b>	<b>-0.4</b>
<b>Fine Chemicals</b>	<b>2.2</b>	<b>3.1</b>	<b>-0.9</b>
<b>IT-related Chemicals</b>	<b>39.9</b>	<b>14.7</b>	<b>25.2</b>
<b>Agricultural Chemicals</b>	<b>4.3</b>	<b>5.9</b>	<b>-1.6</b>
<b>Pharmaceuticals</b>	<b>6.7</b>	<b>4.2</b>	<b>2.5</b>
<b>Others</b>	<b>12.2</b>	<b>10.1</b>	<b>2.1</b>
<b>Total</b>	<b>83.6</b>	<b>51.7</b>	<b>31.8</b>



# Depreciation and Amortization by Segment

Unit; billions of yen

	1st Half of FY2006	1st Half of FY2005	Difference
Basic Chemicals	6.3	5.4	0.9
Petrochemicals	8.9	8.4	0.5
Fine Chemicals	3.1	3.1	-0.0
IT-related Chemicals	12.5	9.8	2.7
Agricultural Chemicals	6.8	7.3	-0.5
Pharmaceuticals	7.7	5.5	2.2
Others	6.2	6.2	-0.0
<b>Total</b>	<b>51.5</b>	<b>45.8</b>	<b>5.7</b>



# Research & Development Expenses by Segment

Unit; billions of yen

	1st Half of FY2006	1st Half of FY2005	Difference
<b>Basic Chemicals</b>	<b>2.6</b>	<b>2.6</b>	<b>0.0</b>
<b>Petrochemicals</b>	<b>5.6</b>	<b>5.5</b>	<b>0.1</b>
<b>Fine Chemicals</b>	<b>1.9</b>	<b>2.2</b>	<b>-0.4</b>
<b>IT-related Chemicals</b>	<b>6.0</b>	<b>6.0</b>	<b>-0.0</b>
<b>Agricultural Chemicals</b>	<b>8.8</b>	<b>8.6</b>	<b>0.2</b>
<b>Pharmaceuticals</b>	<b>21.8</b>	<b>13.4</b>	<b>8.4</b>
<b>Others</b>	<b>1.5</b>	<b>0.8</b>	<b>0.7</b>
<b>Total</b>	<b>48.1</b>	<b>39.1</b>	<b>9.0</b>

Corporate R&D expenses are allocated to each business segments.



# Estimated Capital Expenditures by Segment

Unit; billions of yen

	FY2006 (estimated)	FY2005	Difference
Basic Chemicals	27.0	20.7	6.3
Petrochemicals	18.0	16.1	1.9
Fine Chemicals	5.0	7.0	-2.0
IT-related Chemicals	71.0	44.0	27.0
Agricultural Chemicals	10.0	8.8	1.2
Pharmaceuticals	13.0	10.6	2.4
Others	22.0	17.7	4.3
<b>Total</b>	<b>166.0</b>	<b>124.9</b>	<b>41.1</b>



## Estimated Depreciation and Amortization by Segment

Unit; billions of yen

	<b>FY2006 (estimated)</b>	<b>FY2005</b>	<b>Difference</b>
<b>Basic Chemicals</b>	12.5	11.8	0.7
<b>Petrochemicals</b>	18.5	18.8	-0.3
<b>Fine Chemicals</b>	5.5	6.7	-1.2
<b>IT-related Chemicals</b>	30.0	24.9	5.1
<b>Agricultural Chemicals</b>	14.0	15.2	-1.2
<b>Pharmaceuticals</b>	16.0	14.2	1.8
<b>Others</b>	13.5	13.2	0.3
<b>Total</b>	<b>110.0</b>	<b>104.9</b>	<b>5.1</b>



## Estimated Research & Development Expenses by Segment

Unit; billions of yen

	FY2006 (estimated)	FY2005	Difference
Basic Chemicals	5.5	5.3	0.2
Petrochemicals	11.5	11.4	0.1
Fine Chemicals	4.0	4.4	-0.4
IT-related Chemicals	14.0	12.8	1.2
Agricultural Chemicals	18.0	19.4	-1.4
Pharmaceuticals	45.0	36.7	8.3
Others	3.0	1.9	1.1
<b>Total</b>	<b>101.0</b>	<b>91.9</b>	<b>9.1</b>

Corporate R&D expenses are allocated to each business segments.