



**Becoming  
a Truly Global  
Chemical Company**



**Annual Report 2004**  
Year Ended March 31, 2004

**SUMITOMO CHEMICAL**

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## Forward-looking Statements

Statements made in this annual report with respect to plans, strategies and future performance that are not historical facts are forward-looking statements involving risks and uncertainties. Sumitomo Chemical cautions that a number of factors could cause actual results to differ materially from such statements including, but 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.

# Profile

Sumitomo Chemical is one of Japan's leading chemical companies, offering a diverse range of products in the fields of basic chemicals, petrochemicals, fine chemicals, IT-related chemicals, agricultural chemicals, and pharmaceuticals. While expanding business worldwide and aggressively pursuing cutting-edge R&D, we continually strive to contribute to the sustainable development of society through our Responsible Care activities.

Over the past three years, we dedicated our efforts to achieve the objectives set out in our Three-Year Corporate Business Plan covering fiscal 2001-2003. In addition to continuing to restructure our business and strengthen our financial position, we aggressively invested in core business areas with the aim of establishing a firmer foundation for future growth.

Our new Three-Year Corporate Business Plan, which builds on our accomplishments over the last three years, commenced in April of this year. The new plan is designed to move us toward being a truly global chemical company in the 21st century and a major player in every area of our business. By implementing the business strategy outlined in the plan, we aim to achieve stable, high growth in profitability and maximize shareholder value. At Sumitomo Chemical, we strive every day to achieve our goal of becoming a global company.

# Consolidated Financial Highlights

Sumitomo Chemical Company, Limited and Subsidiaries

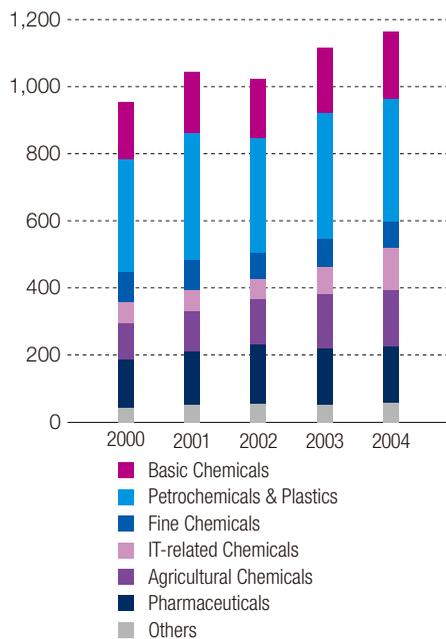
\*Unless otherwise specified

Years Ended March 31	Percent change	Millions of yen			Thousands of
	(%)	2004/2003	2004	2003	2002
<b>For the year:</b>					
Net sales .....	4.3	¥1,158,402	¥1,111,128	¥1,018,352	\$10,960,375
Operating income .....	(9.4)	66,620	73,520	68,836	630,334
Net income .....	10.2	34,318	31,134	30,211	324,704
Capital expenditures .....	(27.5)	110,192	152,001	72,983	1,042,596
Depreciation and amortization .....	19.5	82,482	69,026	79,247	780,414
Research and development expenses .....	3.3	75,194	72,822	66,670	711,458
Net cash provided from operating activities .....	(31.5)	97,052	141,680	62,855	918,270
Free cash flow .....	—	(6,188)	12,485	5,639	(58,549)
<b>At year-end:</b>					
Total assets .....	4.4	1,549,291	1,484,275	1,393,159	14,658,823
Total shareholders' equity .....	13.9	506,122	444,334	444,579	4,788,741
Interest-bearing liabilities .....	0.0	485,297	485,166	487,569	4,591,702
Number of employees .....	6.3	19,036	17,906	17,016	—
<b>Per share (yen, U.S. dollars):</b>					
Net income .....	10.5	20.715	18.742	18.250	0.196
Total shareholders' equity .....	13.9	306.05	268.62	268.57	2.90
Cash dividends .....	0.0	6.0	6.0	6.0	0.06
<b>Ratios (%)</b>					
ROA .....		2.3	2.2	2.1	—
ROE .....		7.2	7.0	6.7	—
Debt equity ratio .....		0.96	1.09	1.10	—
Shareholders' equity ratio .....		32.7	29.9	31.9	—

Note: U.S. dollar amounts are translated from yen, for convenience only, at ¥105.69= \$1, the rate prevailing on March 31, 2004.

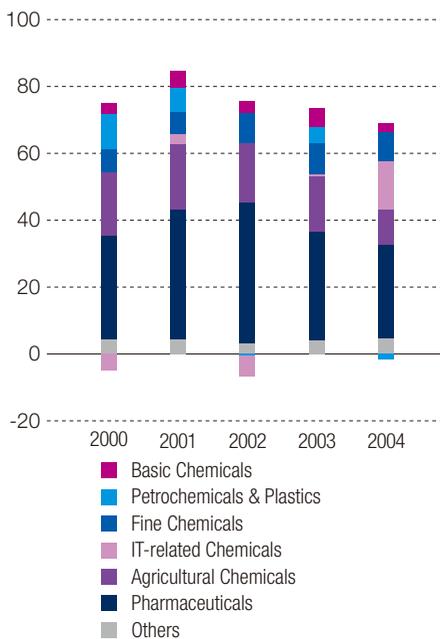
## Net Sales

(Billions of yen)



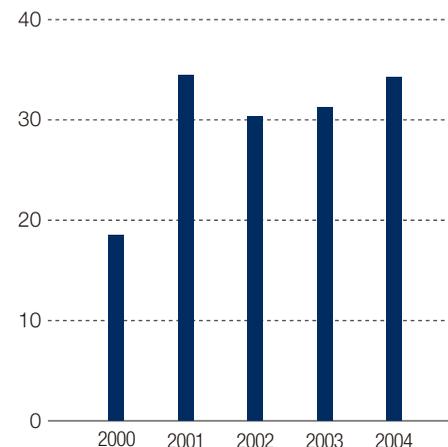
## Operating Income (Loss)

(Billions of yen)



## Net Income

(Billions of yen)



## To Our Shareholders, Customers and Partners



Hiromasa Yonekura, President

### **Fiscal 2003 Results and the Business Environment**

During fiscal 2003, ended March 31, 2004, our business environment continued to be challenging. We saw demand for IT and electronics-related products, especially for liquid crystal displays, expand rapidly. On the other hand, the price for naphtha, the primary feedstock for petrochemical products, climbed to ¥25,600/ Kl on a yearly average from about ¥24,000/ Kl the year before, reflecting the continuing instability in the Middle East.

Under the circumstances, we made every effort to improve our profitability through continuing initiatives to restructure and streamline our business operations and rationalize production. As a result of these efforts, we achieved net sales in fiscal 2003 of ¥1,158.4 billion, up 4.3% from the previous fiscal year. Operating income, however, fell 9.4% to ¥66.6 billion, due in part to increased amortization of an actuarial loss on the employees' retirement pension plan assets. The operating income ratio also declined from

6.6% last year to 5.8% this fiscal year. Net income for the year rose 10.3% to ¥34.3 billion, however, partly as a result of extraordinary gains recorded on the sale of fixed assets. ROE improved by 0.2 percentage points over the previous fiscal year to reach 7.2%.

### **Review of the 2001-2003 Corporate Business Plan**

#### **Status of Projects**

We made steady progress in implementing a number of projects under our three-year corporate business plan (fiscal 2001–2003). For example, in the Agricultural Chemicals Sector, we acquired Aventis' household insecticide business and Takeda Chemical's agricultural chemicals business, and in the IT-related Chemicals Sector, we made aggressive investments in polarizing film and color filter operations in the liquid crystal display fields. In addition, based on our own innovative technologies, we completed large-scale production plants for caprolactam and propylene oxide in the Basic Chemicals Sector and the Petrochemicals & Plastics Sector, respectively.

In spite of our efforts, however, financial results fell short of the performance targets set out in the corporate business plan. While the plan called for consolidated net income of ¥50.0 billion, we posted ¥34.3 billion, ¥15.7 billion below our target. The shortfall was primarily due to increased amortization expenses for actuarial losses on pension plan assets and a strategic increase in R&D investment. Continuing high prices for naphtha and other raw materials and the sluggish

market conditions due in part to the SARS epidemic in early fiscal 2003 were also contributing factors.

In April of this year, we commenced our new Three-Year Corporate Business Plan as outlined below. I am strongly determined that, regardless of any changes in the business environment, we will meet the targets set out in the Business Plan.

### **The New Three-Year Corporate Business Plan**

#### **(1) A Vision of the Company for the 21st Century**

The new plan is designed to move us toward being a truly global chemical company in the 21st century and a strong competitor in every area of our business. The plan sets forth key milestones in the path toward achieving this vision. Specifically, it means having operations that can compete around the world; and it means expanding in global markets, with a focus on operations with high added value and high profitability, built on a strong technological base developed over many years. It also means operating the company in accordance with international standards, focusing on shareholder value, and being sensitive to the needs of employees. I believe that our most important task at present is to maximize shareholder value and meet the expectations of all stakeholders, particularly shareholders, by establishing a solid foundation for stable, high earnings growth.

#### **(2) A Businesses Portfolio for 10 Years Ahead**

Prior to the construction of the new Three-Year Corporate Business Plan, we asked ourselves what we wanted

Sumitomo Chemical to look like in 10 years' time, which will mark the centennial of our founding. Then we considered what kind of business portfolio would be the most appropriate for the vision we had established for the company and what types of business targets we would have to set in order to make such a portfolio a reality. The general principles behind the portfolio remain unchanged. We will maintain our "creative hybrid chemistry" strategy, and by combining the technologies we have cultivated in a variety of fields, we will generate and sustain high-value-added and high-earnings businesses.

To create the new corporate business plan, we classified our six Business Sectors into 40 narrowly focused operating units. Each of these units was subjected to both a financial assessment and a strategic analysis, based on which the most appropriate business portfolio was constructed. As a result, we concluded that we should aim to expand, in both scale and proportion, those businesses that have high potential of growth and profitability and in which Sumitomo Chemical has superior technological competencies. To expand those businesses, we will direct 70% of our strategic investment toward life science businesses, consisting of pharmaceuticals and agricultural chemicals, and IT-related chemicals businesses. We also looked very closely at our technology portfolio and identified energy, IT-related, life science and bulk chemistry as the key R&D areas in which to concentrate corporate resources, so as to foster them as our core businesses of the future.

Based on the above business portfolio, we aim to achieve consolidated net income of ¥100 billion by the year 2010. The new Three-Year Corporate Business Plan is our first step toward this goal.

### **(3) Guiding Principles of the New Three-Year Corporate Plan**

During the coming three years, we expect the market in Asia, especially China, to grow substantially for our products and services. In particular, the outlook for LCD related businesses is bright. On the other hand, we are also faced with many challenges. Domestically, we are encountering stronger competition as tariff reductions on petrochemical products leads to increased imports. We also expect increasing pressure on our pharmaceuticals business owing to initiatives to reduce medical costs in connection with reforms in the Japanese health-care system. Outside Japan, competition from generics is making for a tougher business climate in the agricultural chemicals market.

Despite these challenges, I firmly believe that we will be able to achieve strong earnings growth for two reasons. First, we expect to reap the rewards of the aggressive strategic investments we made in IT-related business and other areas under the prior three-year corporate business plan. Second, we expect to benefit from the robust financial position that we have built up as well as from the efforts we have made to expand and strengthen our operations in Asian markets.

Under the new Corporate Business Plan, we will implement even more rig-

orously than in the past our policy of “Selection and Concentration,” in keeping with the strategic positioning of our various businesses, so that we can achieve the highest possible earnings level as early as possible. Specifically, in addition to laying the foundation for future growth through focused investment, we will also seek to expand the high-value-added product mix of polyolefins and other bulk chemicals, and advance further into downstream businesses in the Agricultural Chemicals and IT-related Chemicals Sectors. We will also enhance our overseas operational bases, particularly those in high-growth Asian markets, to further promote our business activities on a global scale.

### **(4) Strengthening Business Fundamentals for High Earnings Growth**

In terms of the company’s financial fundamentals, we will strive to increase shareholders’ equity through earnings growth. We will work concurrently to further improve our financial strength by being more selective in making investments, increasing ROIs (return on investment) and minimizing risks as much as possible.

In addition, we will utilize to the fullest possible extent the integrated management information system (MIS) that we are launching this year to help make our operations more efficient. We will also proactively work on such management issues as Corporate Social Responsibility (CSR) and strive to put the company as a whole on a firmer foundation for achieving greater profitability. I am aware that in order to ensure our long-term competitiveness,

we must give greater consideration to our various stakeholders and gain wide support from them in such areas as corporate compliance, promotion of business ethics, environmental safety, appropriate employment opportunities and social contributions. I intend to spare no effort in this regard.

#### **(5) Management Targets under the New Corporate Business Plan**

By fiscal 2006, the final year of the new Three-Year Corporate Business Plan, we aim to post sales of ¥1,330 billion, operating income of ¥120 billion and net income of ¥65 billion.

#### **The Saudi Arabia Rabigh Project: Aiming for Long-term Growth in the Petrochemical Business**

Sumitomo Chemical Company and Saudi Aramco, which is wholly owned by the Saudi Arabian government, signed a Memorandum of Understanding on May 9, 2004 to initiate a joint feasibility study regarding a project to construct and operate one of the world's largest integrated refining and petrochemical complexes in the Red Sea town of Rabigh, in the Kingdom of Saudi Arabia. Sumitomo has identified petrochemicals, particularly polyolefins, as one of its core businesses, and considers securing low-price feedstock on a stable basis fundamental to its strategy for increasing the profitability of the business. The Rabigh project is aimed at developing a highly cost competitive petrochemical business through the combination of low-cost feedstock, including ethane, provided by our partner Saudi Aramco and cost economies resulting from the very large scale of

production.

The total investment required for the project is currently estimated at approximately US\$4.3 billion. The necessary financing will be provided by direct investment from the two companies as well as loans floated by the joint venture company that we will establish. Sumitomo Chemical is strongly committed to ensuring the project's success, in order to build the foundation for the long-term growth of our petrochemical business. I also hope that the project's success will provide the Kingdom of Saudi Arabia with an opportunity for promoting the development of downstream industries, including processed petrochemical products, and thereby help expand employment opportunities for people in Saudi Arabia.

I am confident that by implementing the business strategy outlined above, we will achieve stable, high growth in profitability and maximize shareholder value. Sumitomo Chemical is making real progress toward its goal of becoming a truly global chemical company. I would like to express my sincere appreciation to our shareholders, customers and partners for their continued understanding and support for our endeavors.

July 2004

米倉弘昌

Hiromasa Yonekura, President

## The New Three-Year Corporate Business Plan: Fiscal Years 2004–2006

### Results of the Prior Three-Year Corporate Business Plan: Fiscal Years 2001–2003

Over the past three years, we dedicated our efforts to achieve the objectives set out in our prior Three-Year Corporate Business Plan covering fiscal 2001–2003, entitled “A Road Map for Future Growth.” In addition to continuing to restructure our business and strengthen our financial position, we aggressively invested in three core business areas—petrochemicals such as polyolefin; life sciences; and IT-related materials—with the aim of establishing a firmer foundation for future growth.

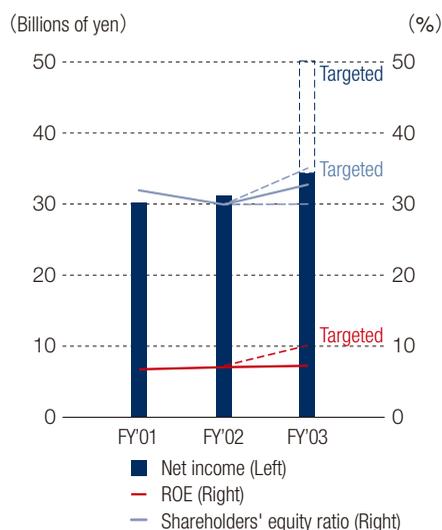
#### 1. Achievement of Performance Targets

The performance targets we set for fiscal 2003 were ¥50.0 billion in net income, ROE of 10% and a shareholders’ equity ratio of 30–35%. Our actual results, however, were net income of ¥34.3 billion, ROE of 7.2% and a shareholders’ equity ratio of 32.7%. Aside from the shareholders’ equity ratio, we fell short of our targets.

There were two special factors behind the shortfall in our earnings.

First, stock market declines in Japan resulted in a large gap between actual and expected returns on pension plan assets. We amortized most of this unrecognized actuarial variance in a relatively short time-frame of three years upon its occurrence.

#### Achievement of Performance Targets



Thus, the write-off in fiscal 2003 amounted to ¥12.3 billion, resulting in a negative impact on earnings and the gap that developed over the three years through fiscal 2003 totaled ¥42.7 billion. Since we have already amortized most of this large gap, the amount of such write-offs will be significantly less from fiscal 2004 onwards.

Second, we made a major strategic increase in R&D investments primarily in the field of life sciences. In fiscal 2003, these investments exceeded the original budget by ¥5.2 billion.

#### 2. Steady Progress on Projects

During the fiscal years 2001–2003, we implemented a range of projects designed to build a foundation for future growth, as called for by the Business Plan. At the same time, we focused on carrying out business restructuring, including exiting from or reorganizing unprofitable businesses. Some of the major activities we undertook during the three years are as follows: (Figures in brackets are total investment over the three-year period)

- Basic Chemicals (¥43.6 billion) —Started commercial production of caprolactam based on a new process. Began work to expand the methyl methacrylate (MMA) production facility in Singapore.
- Petrochemicals & Plastics (¥50.1 billion) — Commenced commercial operation of the new propylene oxide (PO) plant with a novel process that produces PO only. Decided to produce TPE (olefin thermoplastic elastomer) in North America and began plant construction. Withdrew from styrene butadiene rubber production.
- Fine Chemicals (¥23.2 billion) — Made investment to augment production facilities for pharmaceutical chemicals. Completed a large-volume production plant to produce and sell new polymer additive, GP series. Withdrew from BHT, an antioxidant business, and the polymer flocculants business. Decided to merge subsidiary Sumika Fine Chemicals Co., Ltd. into the company, fortifying the pharmaceutical chemical business.

- IT-related Chemicals (¥75.4 billion) —Made a substantial investment in LCD materials production in South Korea, Taiwan and China. Began commercial operation of a liquid crystal polymer plant based on a newly developed production process.
- Agricultural Chemicals (¥51.4 billion) — Acquired Aventis CropSciences's household insecticide business and Takeda Chemical's agrochemical business. Established a subsidiary company in China for production of agrochemical intermediates.
- Pharmaceuticals (¥40.2 billion) — Built fully cGMP compliant facilities for bulk pharmaceutical production and Meropen formulation at Sumitomo Pharmaceutical's Oita Works. Constructed a new pharmacology research laboratory building to strengthen research capabilities. Decided to enter the positron emission tomography (PET) imaging agent business and started construction of production and R&D facilities at various locations throughout Japan.

### A Vision for the 21st Century and Business Portfolio

The new Three-Year Corporate Business Plan is designed to move us toward being a truly global chemical company in the 21st century and a major player in every area of our business.

Before formulating the new Business Plan, we considered what kind of business portfolio would be most appropriate for our vision of the company in ten years' time and what kind of business targets should be achieved.

### Increased Investment in Life Sciences and IT-related Chemicals

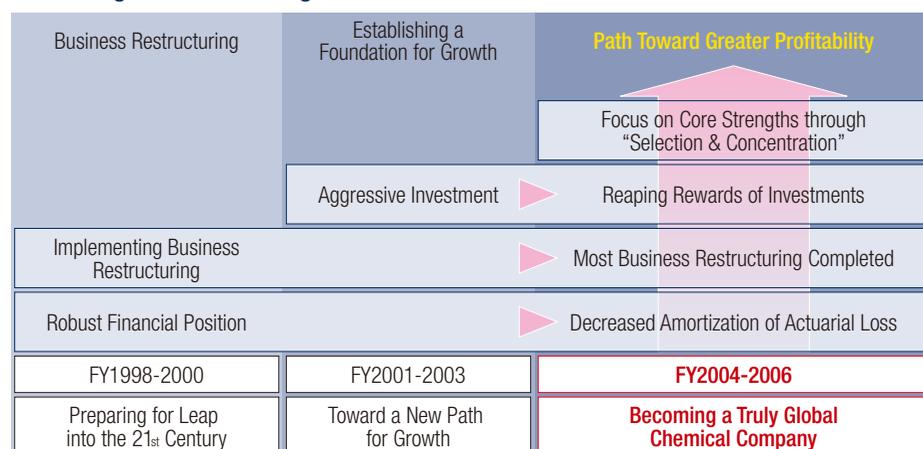
In order to determine the most appropriate portfolio, we divided the present six business sectors into 40 separate business units and analyzed each of them from the viewpoint of financial return—namely, return on investment—as well as corporate strategy in terms of potential market growth, technological competencies, cost competitiveness and other factors. Based on this analysis, we classified the business units into the following three categories.

- Businesses targeted for growth in scale
- Businesses targeted for an improvement in profitability
- Businesses targeted for restructuring, including exit

The businesses targeted for growth in scale are those that have high potential of growth and profitability and in which we have a strong technological advantage. Most of such businesses are in the life sciences (Agricultural Chemicals and Pharmaceuticals) and the IT-related chemicals fields. Accordingly we decided to allocate 70% of our strategic investment over the next ten years to the expansion of these businesses.

Based on the above business portfolio, we aim to achieve consolidated net income of ¥100.0 billion, a shareholders' equity ratio of 40% and a debt equity ratio of 0.8 by 2010.

### Advancing to the Next Stage with the New Three-Year Business Plan



## Overview of the New Three-Year Corporate Business Plan

### 1. The Basic Policies of the New Three-Year Corporate Business Plan

Under the new Three-Year Business Plan, we will strengthen our efforts to deliver high earnings growth by capitalizing on our robust financial position and the successful businesses we have built overseas, particularly in the rapidly growing Asian market, as well as steadily harvesting returns on the investments we made in recent years. To that end, we will move ahead in line with the following policies:

#### (1) Focusing on Core Competencies through "Selection and Concentration"

We will lay a strong groundwork for the future by investing in the core areas of life sciences and IT-related chemicals, areas with high growth potential and in which our company has strong technological capabilities.

#### (2) Shifting to Higher Value-Added Products

We will raise profitability by moving toward higher added-value bulk products such as polyolefin, expanding downstream business in agrochemicals and IT-related chemicals as well as strength-

ening our solution businesses in which we work closely with our customers to offer solutions to their problems.

#### (3) Extending our Global Presence

We will strengthen our overseas operations, focusing on accelerating the further expansion of our business in Asian markets. Based on the expansion of our LCD materials business in Korea, Taiwan, and China, and our petrochemical and MMA businesses in Singapore, we project that our overseas sales will rise from 31% of our total revenues in fiscal 2003 to 40% in fiscal 2006.

## 2. Performance Targets for Fiscal 2006

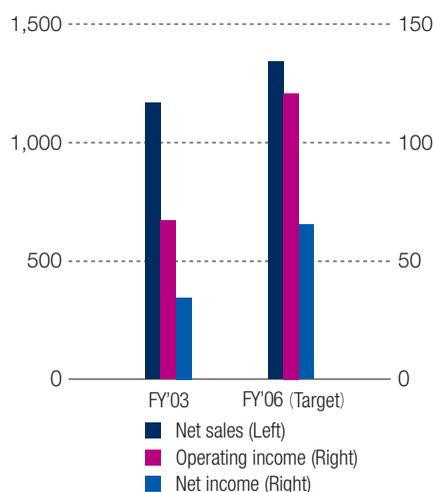
### (1) Corporate Targets

We will aim for net sales of ¥1,330.0 billion in fiscal 2006, an increase of 15% over fiscal 2003, operating income of ¥120.0 billion, 1.8 times the level of fiscal 2003, and net income of ¥65.0 billion, a 1.9-fold increase.

A key factor behind the projected increase in operating income is an anticipated ¥37.0 billion contribution from sales growth in IT-related Chemicals and other business sectors in addition to improved efficiencies resulting from the further streamlining of operation. Future decreases in write-offs covering the dif-

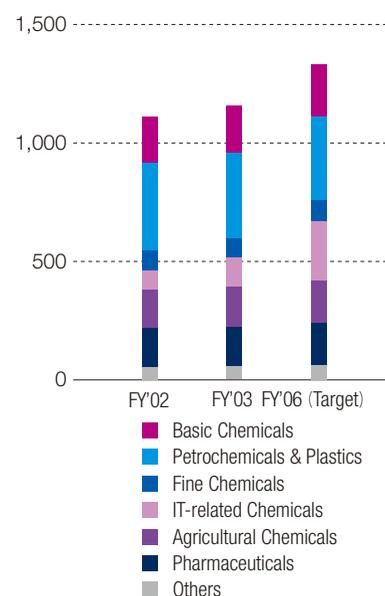
### Targets of New Three-Year Corporate Business Plan

(Billions of yen)



### Net Sales by Segment

(Billions of yen)



ference between actual and expected returns on pension plan assets (pension plan actuarial variance) will also make a positive contribution. In addition to completing the write-offs in fiscal 2005, the amortization of the surplus of actual over expected returns on pension plan assets that arose in fiscal 2003 will contribute ¥5.0 billion each year in the three fiscal years from 2004 to 2006.

< Assumptions in Preparation of the Plan >

The yen exchange rate is assumed to be ¥100/\$1.00 and the price of naphtha ¥24,000.

(2) Maintaining and Improving our Robust Financial Position

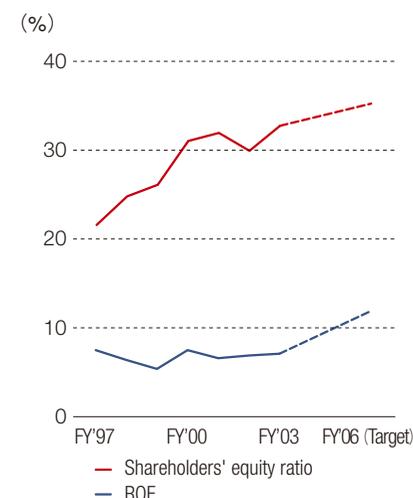
We plan to keep the three-year total investment of ¥360.0 billion within the limit of the three-year cash flow from operations of ¥410.0 billion. We also intend to maintain the present level of interest-bearing liabilities, and increase the shareholders' equity ratio from 32.7% in fiscal 2003 to 35% in fiscal 2006, as well as to increase the ROE from 7.2% to 12%.

(3) Performance Targets by Sector

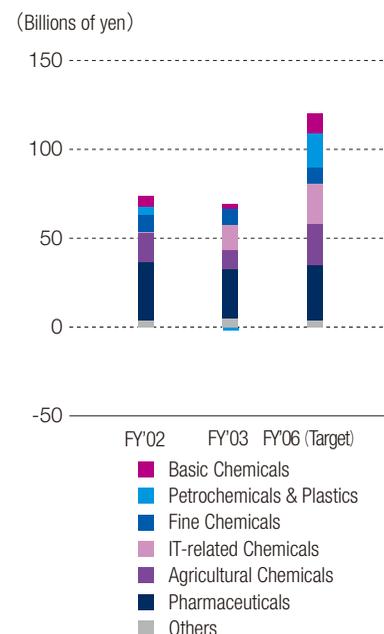
Basic Chemicals

The Basic Chemicals Sector plans to achieve net sales in fiscal 2006 of ¥220.0 billion, an increase of 10% over fiscal 2003, and operating income of ¥11.0 billion, an increase of 323%. The completion of the MMA facilities expansion in Singapore and improved profitability of the caprolactam business resulting from improved cost efficiency of production will both contribute to the increase in earnings.

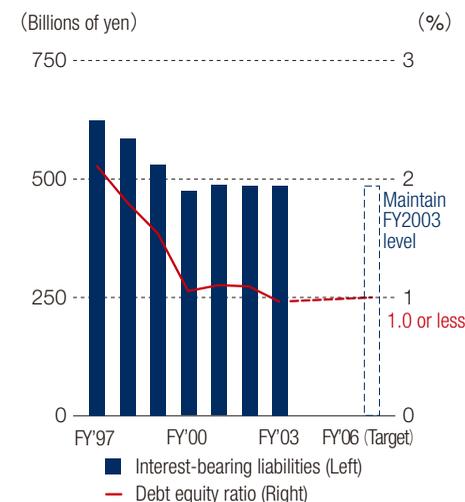
Maintaining and Improving our Robust Financial Position (1)



Operating Income (Loss) by Segment



Maintaining and Improving our Robust Financial Position (2)



#### Petrochemicals & Plastics

The fiscal 2006 performance targets for the Petrochemicals & Plastics Sector call for net sales of ¥350.0 billion, approximately the same level as in fiscal 2003, and operating income of about ¥19.0 billion, an increase of ¥20.6 billion. The projected increased income is predicated on increased sales from the expansion of production of polypropylene in Singapore and cost reductions from rationalization of production facilities in Japan, as well as decreased depreciation related to the past investments in facilities and decreased expenses for actuarial losses on pension plan assets allocated to this business sector. Because the Rabigh Project in Saudi Arabia is planned to begin operation in late 2008, subject to the ongoing feasibility study, the new Three-Year Corporate Business Plan does not reflect this project.

#### Fine Chemicals

The Fine Chemicals Sector plans to reach net sales in fiscal 2006 of ¥90.0 billion, an increase of 12% over fiscal 2003, and operating income of ¥9.0 billion, up 2%. The Fine Chemicals sector will continue to shift towards higher value-added products that build on its strong foundation in organic-synthesis and fine synthesis technologies. It will increase its profitability by positioning pharmaceutical chemicals as its core business.

#### IT-related Chemicals

The IT-related Chemicals Sector plans to achieve net sales in fiscal 2006 of ¥250.0 billion, twice the level of fiscal 2003, and operating income of ¥23.0 billion, an increase of 61% over fiscal 2003. With the growth in LCD television in particular, we expect significant future increases in the demand for LCD-related materials. We will take advantage of this opportunity to expand our LCD-related business. While we anticipate a rapid decline in prices for these products, we also expect that the lower prices will be more than

offset by volume growth resulting from increased market demand, which we will fill through increased investment in production facilities expansion. In addition, by making our manufacturing operations more efficient, we expect to achieve increases in both sales and earnings.

#### Agricultural Chemicals

The Agricultural Chemicals Sector plans to achieve net sales of ¥180.0 billion in fiscal 2006, an 8% increase over fiscal 2003, and operating income of ¥23.0 billion, an increase of 115%. Operating income has been adversely impacted by the depreciation of goodwill resulting from the acquisitions carried out over the past several years as well as by declining sales. The new Business Plan calls for increased earnings as we expand our business of DL-methionine, a feed additive for poultry, with substantially increased production capacity to meet growing demand in Asia. Other contributing factors for higher earnings include newly launched products and businesses recently acquired from other companies.

#### Pharmaceuticals

The Pharmaceuticals Sector plans to achieve net sales in fiscal 2006 of ¥180.0 billion, an increase of 8% over fiscal 2003, and operating income of ¥31.0 billion, an increase of 12%.

Sumitomo Pharmaceuticals is making dedicated efforts to achieve continued growth under its five-year Corporate Business Plan developed last year, which placed emphasis on strengthening sales capabilities in Japan, enhancing R&D efficiency, and building a strong foundation for global operations.

Nihon Medi-Physics, a leading company in *in-vivo* radiopharmaceuticals in Japan, will further strengthen its position, by not only reinforcing sales of its existing products with evidence-based-medicine (EBM) data, but also entering and expanding new businesses, including nuclear therapeutics and positron emission tomography (PET) diagnostics.

## Review of Operations

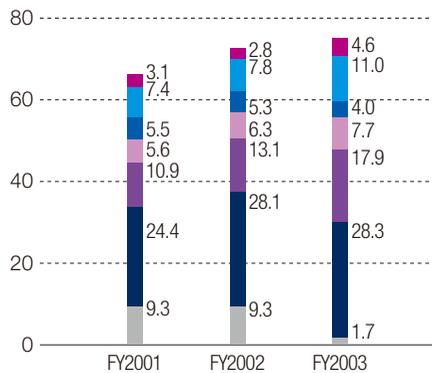
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# Sumitomo Chemical At a Glance

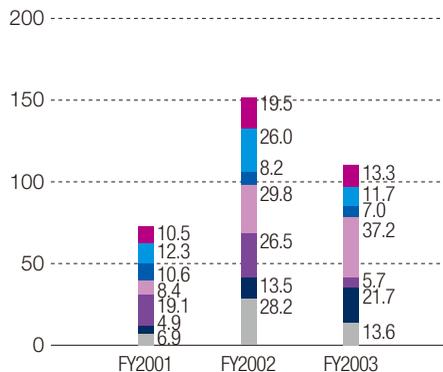
## Research and Development

(Billions of yen)



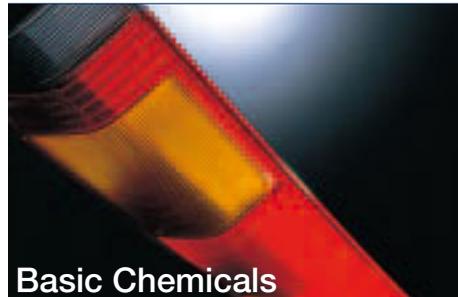
## Capital Expenditures

(Billions of yen)



- Basic Chemicals
- Petrochemicals & Plastics
- Fine Chemicals
- IT-related Chemicals
- Agricultural Chemicals
- Pharmaceuticals
- Others

## Major Product Lines



Basic Chemicals

Organic chemicals  
Methyl methacrylate (MMA)  
Inorganic chemicals  
Aluminum



Petrochemicals & Plastics

Organic chemicals  
Plastics  
Elastomers and Synthetic rubber  
Downstream plastics products



Fine Chemicals

Specialty chemicals  
Pharmaceutical bulk and intermediates



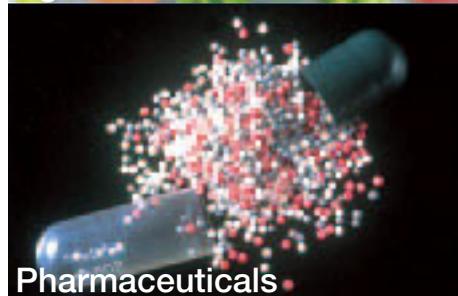
IT-Related Chemicals

Optical materials  
Semiconductor process materials  
Display materials  
Electronic materials  
Compound semiconductor materials



Agricultural Chemicals

Crop protection chemicals  
Environmental health chemicals  
Fertilizer and Animal nutrition materials  
Farm materials



Pharmaceuticals

Pharmaceuticals  
Radiopharmaceuticals and other related products

Note: Operations not covered in the above six sectors are classified as Others. Chemical engineering and construction, chemical analysis, electric power supply, and physical distribution and trading activities are included in this category.

Major Products	Works and Laboratories	Major Subsidiaries and Affiliates
Acrylonitrile, Caprolactam, Aniline, Methanol, MMA monomer, Polymethyl methacrylate (pellet, sheet), Nitric acid, Caustic soda, Aluminum hydroxide, Alumina, High-purity aluminum, Aluminum	Ehime Works Basic Chemicals Research Laboratory	Sumitomo Chemical Singapore Pte. Ltd. Singapore Methyl Methacrylate Pte Ltd. Asahi Chemical Co., Ltd. Sumika-Bayer Urethane Co., Ltd. Ceratec Co., Ltd. Sumipex (Thailand) Co., Ltd. LG MMA Corp.
Ethylene, Propylene, Styrene monomer, Propylene oxide Polyethylene, Polypropylene, Ethylene-vinyl acetate copolymer, Thermoplastic elastomer, Ethylene-propylene rubber, Acrylonitrile butadiene styrene copolymer, Polystyrene, Agricultural films, Corrugated polypropylene sheets, Gas-barrier films	Chiba Works Ehime Works (Petrochemicals & Plastics) Petrochemicals Research Laboratory Plastics Technical Center	Petrochemical Corporation of Singapore (Pte) Ltd. The Polyolefin Company (Singapore) Pte. Ltd. Phillips Sumika Polypropylene Company Nihon Oxirane Co., Ltd. Japan Polystyrene Inc. Nippon A&L Inc. Sumitomo Dow Ltd. Sumika Plastech Co., Ltd.
Organic intermediates, Pharmaceutical active ingredient and intermediates, Polymer additives, Photo chemicals, Imaging chemicals, Organic rubber chemicals, Dyestuffs, Ethylene-vinylacetate copolymer emulsions	Osaka Works Ehime Works (Fine Chemicals) Chiba Works (Fine Chemicals) Oita Works (Fine Chemicals) Fine Chemicals Research Laboratory	Sumika Chemtex Co., Ltd. Sumika-Merisol Co., Ltd. Taoka Chemical Co., Ltd. Sumitomo Chemical Europe S.A./N.V. Bara Chemical Co., Ltd.
Optical functional films, Pigment dispersion color filters, Photoresists, High-purity chemicals, Sputtering targets, Super engineering plastics, MOEPI wafers, Metal organics, High-purity gallium	Ehime Works (IT-related Chemicals) Chiba Works (IT-related Chemicals) Osaka Works (IT-related Chemicals) IT-related Chemicals Research Laboratory	New STI Technology, Inc. O.L.S. Corp. Sumika EPI Solution Co., Ltd. Dongwoo Fine-Chem Co., Ltd. Dongwoo STI Co., Ltd. Dongwoo Optical Film Co., Ltd. Sumika Electronic Materials (Shanghai) Co., Ltd. Sumika Technology Co., Ltd. Sumika Electronic Materials, Inc.
Agricultural insecticides, Agricultural fungicides, Agricultural herbicides, Plant growth regulators, Household insecticides, Public hygiene insecticides, Animal health products, Feed additives, Fertilizers	Oita Works Misawa Works Ehime Works (Agricultural Chemicals) Agricultural Chemicals Research Laboratory	Sumitomo Chemical Takeda Agro Co., Ltd. Shinto Fine Co., Ltd., Sumika Agrotech Co., Ltd. Sumika Life Tech Co., Ltd., Nihon EcoAgro Co., Ltd. Rainbow Chemical Co., Ltd. SC Enviro Agro India Private Ltd. KenoGard S.A. Dalian Sumika Chemphy Chemical Co., Ltd. Sumitomo Chemical Agro Europe S.A. Sumitomo Chemical India Private Limited Sumitomo Chemical Enviro-Agro Asia Pacific Sdn. Bhd. Sumitomo Chemical Australia Pty. Ltd. Sumitomo Chemical Shanghai Co., Ltd. Philagro South Africa (Pty) Ltd., Philagro France S.A. Isagro Italia S.r.l. Valent U.S.A. Corp., Valent Biosciences Corp.
Pharmaceuticals, Radiopharmaceuticals, OTC drugs, <i>in vitro</i> diagnostics		Sumitomo Pharmaceuticals Co., Ltd. Nihon Medi-Physics Co., Ltd.

# Basic Chemicals

## Business Performance in Fiscal 2003

Among the Basic Chemicals Sector's major products, sales of caprolactam (CPL) increased, as a new production plant based on a novel proprietary process came on stream during the fiscal year. However, a sharp rise in the cost of benzene, the CPL feedstock, caused profits to fall below the level of the previous fiscal year. While sales of aluminum declined, sales of polymethyl methacrylate (PMMA) grew both in Japan and overseas, primarily for optical uses. Overall sales in the Basic Chemicals Sector rose 2.4% compared to the previous fiscal year, to ¥199.1 billion. Operating income, however, fell by 55%, to ¥2.6 billion.

## Core Business Strategies and Major Initiatives in Fiscal 2003

The Basic Chemicals Sector positions MMA, CPL and inorganic materials as its core products. In particular, the Sector focuses on the business expansion of MMA, demand for which is expected to grow strongly in China and other Asian markets, primarily for optical applications such as LCDs.

### (1) Capacity Expansion of MMA Monomer and PMMA

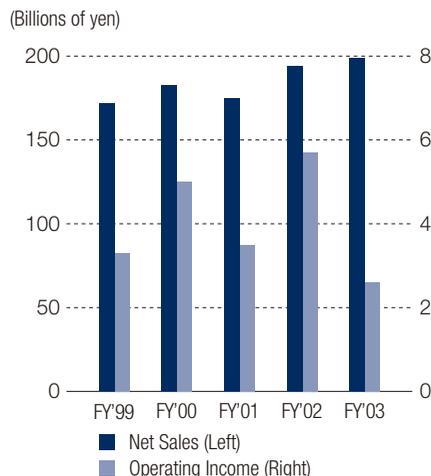
PMMA is a synthetic resin with excellent transparency and weather resistance. In addition to PMMA demand for use in automobile parts, home appliances, light-

ing and signboards, demand is also rapidly increasing for such LCD-related applications as light-guide plates and diffusion plates (used to evenly disperse the light from the light source over LCD display screens).

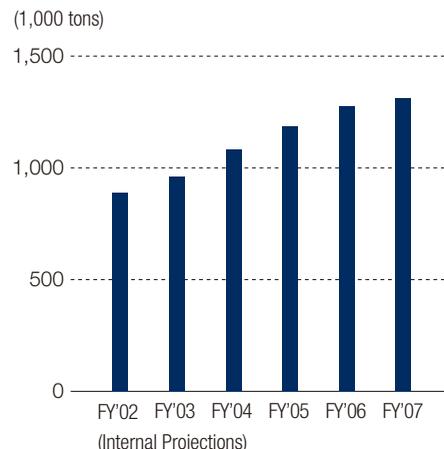
The Company is the world's top producer of optical-grade PMMA and intends to aggressively expand this business further. We have production bases in Japan and Singapore. In view of the strong market growth likely to continue in Asia, we are actively expanding our production capacity in Singapore. During fiscal 2003, we started expanding production capacities for both MMA monomer and PMMA, with completion targeted for mid-2005 for MMA monomer, and August 2004 for PMMA. Furthermore, we will expand the PMMA production capacity of our Korean affiliate, LG MMA Corp., by 40,000 tons per year, under our technology license to manufacture optical grade PMMA. The expansion will be completed by the end of July 2005. Once all of these new facilities are on stream, Sumitomo Chemical Group's total annual production capacity will be the largest in Asia for MMA monomer, at 323,000 tons, and PMMA, at 195,000 tons.

The Singapore plant is highly cost competitive, as it carries out integrated production of MMA monomer and PMMA. Another advantage is that it has a stable supply of feedstock via pipelines

## Net Sales and Operating Income



## Growth of MMA Demand in Asia (Monomer Base)



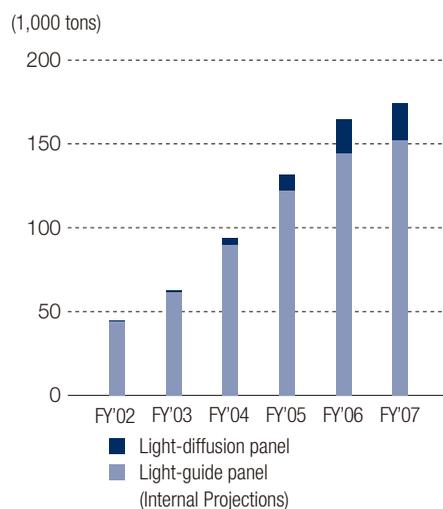


New Caprolactam Manufacturing Plant at Ehime Works

from Petrochemical Corporation of Singapore, a Sumitomo Chemical Group company located nearby. In addition, by fully utilizing existing infrastructure, the Singapore operation can efficiently increase production capacity with only a minimal additional investment. Sumitomo has, moreover, a number of advanced proprietary technologies developed in-house. These include a process to produce MMA monomer via direct oxidation of isobutylene and a continuous bulk polymerization process for producing optical-grade PMMA. These strengths enable the Company to provide high quality, cost competitive products to the market.

As demand for MMA monomer and PMMA is likely to continue to grow,

#### Demand for Optical Uses



especially in Asia, we will study possible further expansion of our production capabilities.

#### (2) Start-up of New Caprolactam Manufacturing Plant

Utilizing a novel proprietary process, in April 2003 we began commercial operation of a new caprolactam production line in our Ehime Works, bringing our total annual production capacity to 160,000 tons, including the existing 93,000 ton/year plant.

This new technology enables us to manufacture CPL without co-producing ammonium sulfate, a chemical co-produced in large quantities by the conventional process. Unlike the conventional process, the new technology does not require the use of sulfuric acid, eliminating the need for facilities to produce fuming sulfuric acid and recover the co-produced ammonium sulfate, resulting in highly cost competitive production of CPL.

Current global demand for CPL is around 3,850,000 tons, about 40% of which is from Asia. It is expected that demand in Asia will grow by 500,000 tons or more during 2004 to 2006 from the textile, resin and film industries. We are, therefore, looking into the possibility of building new plants utilizing our new proprietary process in additional locations in Asia, outside of Japan.

#### (3) Strengthening Our Inorganic Materials Business

The Company conducts business in inorganic products, such as alumina products, worldwide. One current focus of our efforts is on developing new applications for a visible light-responsive titanium oxide for use as a photocatalyst that can be used indoors as well as outdoors, with deodorizing, anti-bacterial and self-cleaning properties. Capitalizing on our proprietary process technology, which produces titanium oxide in large quantities, we are focused on expanding our inorganic materials business.

## Petrochemicals & Plastics

### Business Performance in Fiscal 2003

Sales of the Petrochemicals & Plastics Sector were ¥362.4 billion, a 2.5% decrease from fiscal year 2002. The primary reason for the decline was that, at the end of fiscal 2002, Nihon Oxirane Co., Ltd. (NOC) became a consolidated subsidiary and consequently fiscal 2003 results no longer include sales of raw materials to NOC. The Sector posted an operating loss of ¥1.6 billion, compared to operating income of ¥5.0 billion in fiscal 2002, due mainly to an increase in depreciation expenses related to a new propylene oxide (PO) production plant that has commenced operation.

### Core Business Strategies and Key Initiatives in Fiscal 2003

The current market conditions facing the Sector are characterized by soaring prices of naphtha and other feedstock; brisk demand in Asia, particularly in China, that exceeds supply capacity; and an anticipated influx of low-priced products into Japan. In order to increase its profitability in this challenging environment, the Sector focuses on polyolefin and propylene oxide as its core businesses and is pursuing the following basic business strategies:

- further shift its product portfolio away from commodity products toward higher value-added products;
- rigorously promoting greater cost efficiency by reorganizing its manufactur-

ing operations and improving production technologies;

- pursuing further global business expansion, including building an optimal production structure by fully exploiting the expertise and strengths of its overseas operations, particularly in Singapore; and
- striving to secure stable, low-cost sources of feedstock.

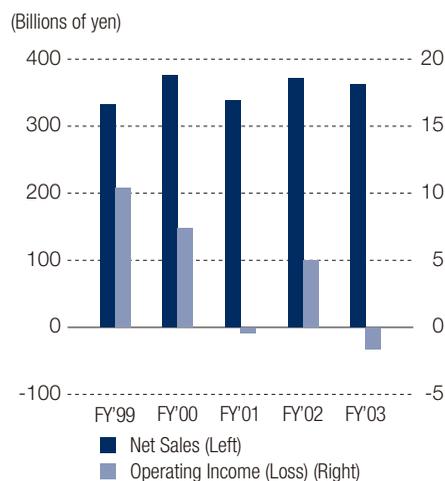
#### (1) Shifting to Higher Value-Added Products

In polyolefin business, in the fall of 2004, we plan to launch a new class of polyethylene that features high strength and excellent processability. We are also focusing our efforts on expanding our high-performance resins business in Japan, Europe and the U.S. with such products as *TPE* (olefin thermoplastic elastomer) and *Acryft* (ethylene/MMA copolymer). In the U.S., where demand is very strong for automobile applications, we are constructing a new plant to manufacture *TPE* that is scheduled to come on stream in the second half of 2004.

#### (2) Further Reducing Production Costs

At Sumitomo Chemical's Chiba Works in Japan, work is under way to expand the production capacity of two existing lines for polypropylene, while closing down a relatively small production line, which will substantially reduce production costs. In Singapore we are implementing a project to convert the existing linear low-density polyethylene (LLDPE) production plant to a higher value-added polypropylene plant. Once the project is completed in 2006, our polypropylene capacity in Singapore will increase from the present 420 thousand tons to 640 thousand tons. At the same time, we plan to modify the naphtha cracker to increase production of propylene to accommodate the expanded polypropylene production.

### Net Sales and Operating Income (Loss)





Mr Yonekura, President of Sumitomo Chemical (left) and Mr Abdallah S. Jum'ah, President of Saudi Aramco, signed a comprehensive Memorandum of Understanding on the Rabigh Project.



Saudi Aramco Rabigh Refinery

### (3) Securing a Stable Supply of Low-Cost Feedstock

In the petrochemicals business, securing a low-cost, stable supply of feedstock is vital to ensure long-term high-earnings growth. At the Singapore complex, we have taken a variety of measures to increase the cost competitiveness of production, including constructing a condensate splitter to use feedstock other

than purchased naphtha, thereby diversifying feedstock sources. Given today's high cost of naphtha, it is crucial that we secure supplies of low-cost feedstock to maintain our cost competitiveness vis-à-vis major European and U.S. companies that have the distinct advantage of integrated refining and petrochemical production operations, as well as companies operating in the Middle East that produce ethylene from low-cost natural gas feedstock.

It was against this backdrop that we agreed in May 2004, with the Saudi Arabian Oil Company (Saudi Aramco), to undertake a joint feasibility study of a plan to build a fully integrated oil refining and petrochemical complex in the Kingdom of Saudi Arabia. Under the proposed plan, we will be able to obtain low cost feedstock, including ethane gas. Together with the significant economies of scale in production we can enjoy in this project, the availability of the low-cost feedstock will enable us to ensure highly cost-competitive production of petrochemicals such as polyethylene and polypropylene.

### Business Strategy for Propylene Oxide

In April 2003, we began commercial operation of a new 150,000-ton/year propylene oxide (PO) plant at Sumitomo Chemical's Chiba Works based on a novel proprietary process that produces only PO. While many PO processes co-produce styrene monomer (SM), our new PO process does not produce SM, allowing us to flexibly adjust production of PO as required by the market without being restricted by SM demand. In fiscal 2003, the depreciation expenses related to investment in this new facility had a large impact on the profitability of this product. Looking ahead, however, such depreciation costs will decrease, and their impact on profits will diminish. In addition, a new plant to produce propylene glycol, a derivative product of PO, is under construction and will be completed by the end of 2004. With the addition of propylene glycol to our business lines, we will be able to respond more flexibly to changes in the market for PO and its derivatives.

#### Comparison of PO Production Process

	1st Generation (1910~)	2nd Generation (1960~)	3rd Generation (2003~)
Process	Chloro-hydrin Process	Co-Production Process	PO-Only Process
Raw materials for oxides	Chlorine	Ethyl Benzene	Cumene
By-Product	CaCl <sub>2</sub>	SM	—
By-Product Quantity (Per unit of PO)	2.0	2.5	~0
Propylene Selectivity	Low	Low	High

## Driving Growth in the Petrochemicals & Plastics Sectors

### An Overview of the New Petrochemical “Rabigh” Project in Saudi Arabia

Sumitomo Chemical and Saudi Aramco, which is wholly owned by the Saudi Arabian government, signed a Memorandum of Understanding on May 9, 2004 to initiate a joint feasibility study of a project to construct and operate one of the world’s largest integrated refining and petrochemical complexes, located in the Red Sea town of Rabigh in the Kingdom of Saudi Arabia. The project calls for construction to begin at the end of 2005, with the start-up of operations scheduled for late 2008. The project is also expected to contribute to the development of the downstream conversion industry in Saudi Arabia and create opportunities for private investment in related industries.

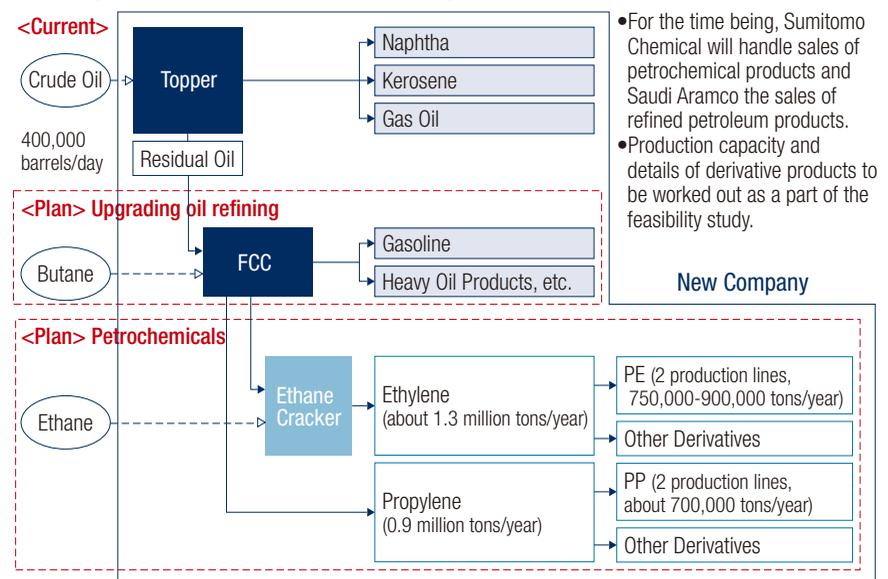
Direct investment costs for the project are currently estimated at approximately US\$4.3 billion, subject to change based on the results of the ongoing feasibility study. The costs will be funded on an equal basis by Sumitomo Chemical and

Saudi Aramco as well as from borrowing by a joint venture company that the two companies will establish with equal ownership.

### World Largest Integrated Refining and Petrochemical Complex

With a fluid catalytic cracker installed at Saudi Aramco’s existing topping refinery (nominal crude distillation capacity of 400,000 barrels per day), the new complex will produce not only gasoline and heavy oil but also 900,000 tons per year of propylene. In addition, one of the world’s largest ethane based crackers, capable of producing approximately 1.3 million tons per year of ethylene, will be built at the complex. The entire production of olefins will be consumed at the complex to manufacture polypropylene (approximately 700,000 tons per year) and polyethylene (approximately 750,000 – 900,000 tons per year) as well as other olefin derivatives, including possibly propylene oxide.

### An Integrated Complex from Oil Refining to Petrochemicals



## Fine Chemicals

### Business Performance in Fiscal 2003

Sales of pharmaceutical intermediates, particularly exports, increased thanks to robust demand from overseas customers. Sales of general fine chemicals, however, such as resorcinol as well as dyestuffs, were sluggish due to the effects of the strong yen and stagnant demand. As a result, overall sales in the Sector decreased by 3.9% from fiscal 2002, to ¥80.6 billion, and operating income fell 5.0% from the previous fiscal year, to ¥8.8 billion.

### Core Business Strategies and Key Initiatives in Fiscal 2003

The Fine Chemicals Sector is business consists of pharmaceutical chemicals, including their active ingredients and intermediates, and general fine chemicals such as adhesive intermediates, polymer additives and dyestuffs. The Sector defines its business domain as "Synthetic Specialty Chemicals" based on the Company's sophisticated organic synthesis technology. A key objective is to fortify the pharmaceutical chemicals operation as the core business of the Sector. For general fine chemicals, we will vigorously carry out cost-cutting measures and maximize efficiency, while constantly renewing our product portfolio by developing new products, thereby seeking to further improve profitability.

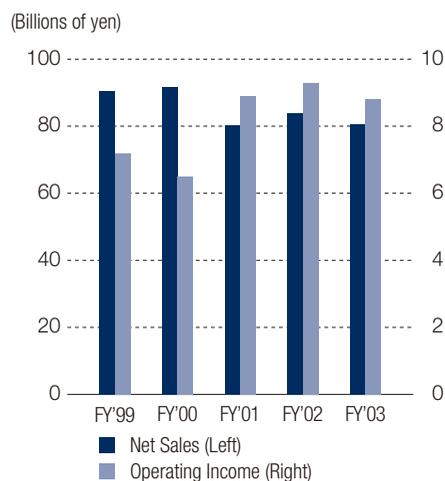
### (1) Fortifying the Pharmaceutical Chemicals Operation

In July 2004, the Company integrated the operations of its 100% owned subsidiary, Sumika Fine Chemicals Co., Ltd. (SFC), into its Fine Chemicals Sector. The Sector engages in the pharmaceutical chemicals by capitalizing on its strengths in a variety of specialized organic syntheses and production technologies and expertise in operating multipurpose production facilities. SFC has also played a vital role in the Sector's business, including pharmaceutical active ingredients and intermediates as well as generic pharmaceuticals. The company has won praise from pharmaceutical companies both in Japan and abroad for its high technological level, its reliable quality assurance, and its ability to provide products tailored to the customer's needs in a timely manner.

In recent years, pharmaceutical companies have increasingly tended to specialize in drug development and marketing and contract out manufacturing to other companies. The scheduled amendment to the Japanese Pharmaceutical Affairs Law in 2005 will provide companies with greater freedom to contract out pharmaceuticals manufacturing. Thus, it is anticipated that even the trend toward outsourcing the manufacture of pharmaceutical active ingredients and intermediates will accelerate.

We perceive this business environment as offering the best opportunity to secure competitive advantage by drawing on our diverse strengths, prompting us to fold the operations of SFC into the Fine Chemicals Sector. By combining our ample management resources and broad portfolio of technologies with SFC's great flexibility and agility, we are in a much stronger position to provide customers with higher-level solutions in terms of product quality, cost and speed.

### Net Sales and Operating Income



## IT-related Chemicals

### Business Performance in Fiscal 2003

Sales of color filters and polarizing films, our mainstay products in this Sector, grew by 3.0 and 1.7 times, respectively, over the previous fiscal year, supported by greatly increased demand for liquid crystal displays (LCDs). Semiconductor processing materials such as photoresists and electronic component materials such as liquid crystal polymers also performed well. As a result, the Sector recorded sales of ¥123.5 billion, up 1.5 times from the previous fiscal year, and operating income jumped substantially from ¥0.5 billion in the previous fiscal year to ¥14.3 billion in the current period. Moreover, the operating income ratio climbed sharply from 0.6% in the previous fiscal year to 11.6% in fiscal 2003.

### Core Business Strategies and Key Initiatives in Fiscal 2003

Since the Sector was established in 2001, we have demonstrated a strong management commitment to the expansion and enhancement of our IT-related business through aggressive investment, highly responsive customer service, and speedy decision-making. Looking ahead, the growing popularity of liquid crystal television, in particular, should bring significant growth to the LCD market, generating vigorous demand for color filters, polarizing films, and other materials used in LCD manufacturing. To capitalize on this opportunity to its fullest extent, we

will further expand our IT-related chemicals business on the strength of our longstanding and close working relationships with major customers in Korea and Taiwan, making the most of the accumulated technological expertise in a broad spectrum of fields that only a diversified chemical company like us can offer. (Refer to "Our Products" P26-27)

### (1) Boosting Production Capacity for Color Filters

In order to meet the rapidly growing demand for LCD color filters, in March 2004 our second plant in South Korea came on stream with production of fifth-generation LCD color filters. Total annual production capacity of 1,440,000 panels at our two Korean plants makes us the world's largest producer of this generation of color filters.

Compared with fourth generation LCD color filters, the glass substrates for the fifth generation are considerably larger, making the production process more complex. Accordingly, the conventional spin-coating method used to apply color resists, etc. to glass substrates makes it extremely difficult to achieve satisfactory productivity and yields for production of fifth generation color filters. The Company successfully commercialized the world's first spinless-coating technology that is capable of producing the fifth generation LCD color filters with high productivity and yields as well as the high quality that

### Net Sales and Operating Income (Loss)

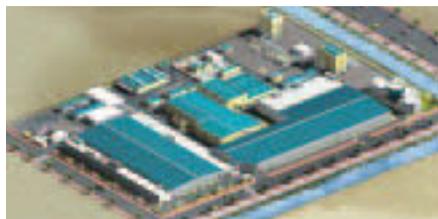


### Production Capacity Increase in Color Filter





Color filter plant in Korea



IT-related chemicals production site in Korea

customers require.

To seek further business opportunities, in response to the investment plans of the LCD makers, we are working to commercialize seventh-generation LCD color filter technology and undertake a study for the construction of a new plant that will incorporate the newest technology.

## (2) Expanding Production Capacity for Polarizing Films

With regard to polarizing films, one of the major materials for LCDs, we started production in August 2003 at a new plant adjacent to our color filter plant in South Korea, with annual capacity of four million square meters. In addition, in March 2004 we completed a new plant for production of LCD polarizing films in Taiwan with comparable annual capacity. These investments show how we are moving quickly to respond to soaring demand for larger-screen displays used in LCD televisions and computer monitors.

In light of the rapid and tremendous expansion of demand, we have decided to build second plants in both South Korea and Taiwan, each with another four million square meters of annual capacity. These new facilities are expected to come on stream early 2005. With their completion, our annual polarizing film capacity (including domestic production) will reach 24 million square meters, or 1.5 times the present level, ranking us among the world's largest producers of polarizing films.

Moreover, as demand for these products is also expanding in China, we decided to build a new plant in Wuxi with a capacity of 10 million sheets per month. The plant is expected to come on stream in summer 2005.

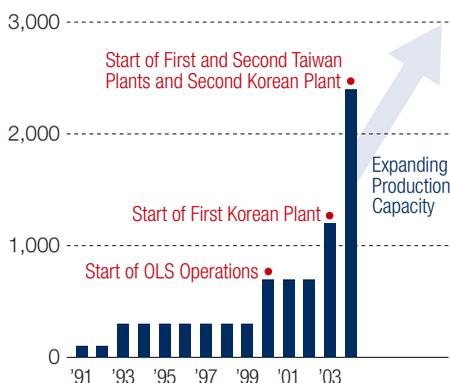
## Further Expansion of Display Materials Business

Capitalizing on the variety of production technology expertise we have cultivated, we will continue to promote research & development for our future module businesses, such as sheet displays. We will also accelerate development of phosphors for plasma display panels and organic light emitting diodes—demand for which, like LCDs, is expected to grow substantially in the future—in order to commercialize these products as early as possible.

(Refer to "Research and Development" P28-29)

### Production Capacity Increase in Optically Functional Films

(10,000 square meters/year)



## Agricultural Chemicals

### Business Performance in Fiscal 2003

Sales in the Agricultural Chemicals segment rose by 5.3% over the previous fiscal year, to ¥167.1 billion. In addition to the full-year contribution of Sumitomo Chemical Takeda Agro Company, which started business the previous fiscal year, household insecticides posted strong sales overseas. Operating income, however, declined by 36%, to ¥10.7 billion, partly as a result of lower overseas prices for the feed additive biotin (vitamin H).

### Core Business Strategies and Key Initiatives in Fiscal 2003

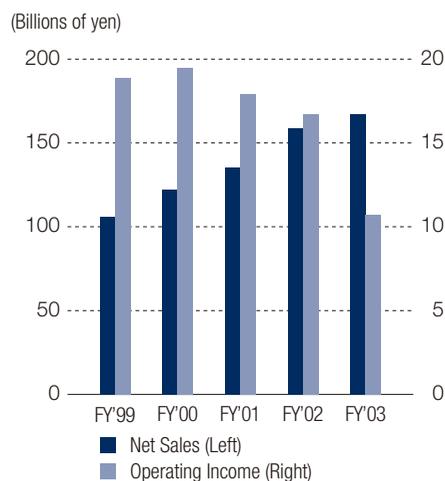
Our strength in the Agricultural Chemicals segment stems, above all, from our highly advanced R&D capabilities. The segment is, accordingly, pursuing a business strategy focused on the product lines where we can best mobilize our competitive technological advantage. In addition, we are expanding our businesses globally and strengthening them by pursuing acquisitions as well as alliances with other companies, both in Japan and overseas. We are also aggressively developing our businesses into highly profitable downstream sectors and neighboring fields in which we can leverage the experience and expertise of our existing businesses. As outlined below, over the course of our three-year corporate business plan covering the fiscal years 2001-2003, we were able to make significant progress in our longstanding, ongoing efforts to pursue

business alliances and consolidations and enhance our cost competitiveness.

### (1) Reinforcing Our Business Through Strategic Acquisitions

In fiscal 2001 we acquired the household insecticide business of Aventis Crop Science of France in order to expand and strengthen our operations in this sector. Through this acquisition we fortified our leading position in this market. To further reinforce our agrochemical business, in fiscal 2002 we acquired the agrochemical operations of Takeda Chemical Industries, Ltd. in Japan and established a joint venture Sumitomo Chemical Takeda Agro Company. We plan to fully consolidate that unit into Sumitomo Chemical Company, Ltd., the parent company, during fiscal 2007. To lay the groundwork for generating business synergies promptly once the consolidation is complete, we have already begun to restructure the agrochemical operations currently undertaken by the subsidiaries of Sumitomo Chemical Takeda Agro Company and Sumitomo Chemical Company. For example, in fiscal 2003 we merged two agrochemical formulation subsidiaries to establish Sumika Agro Manufacturing Co., Ltd., and consolidated two subsidiaries in the non-farming agricultural chemicals field as Nihon Green and Garden Co, Ltd. Coupled with such business restructuring, we are striving to build an optimal operational structure in agrochemical R&D, production and marketing that will generate various synergies and greater operational efficiencies as early as possible.

### Net Sales and Operating Income



Products of Sumitomo Chemical Takeda Agro Company

## (2) Establishing Manufacturing Facilities in India and China to Improve Cost Competitiveness

To enhance our cost competitiveness through low-cost production, in fiscal 2000 we established a manufacturing subsidiary for household insecticides and agrochemicals in India. Ever since, the subsidiary has been greatly contributing to the enhancement of our cost advantage. Moreover, in fiscal 2003, in order to assure a supply of low-cost and high quality agrochemical intermediates, we partnered with a Chinese local company to jointly establish a manufacturing subsidiary in China, called Dalian Sumika Chemphy Chemical Co., Ltd., in which we hold a 60% stake. Now under construction, the company's production facility is scheduled to start operation by the end of 2004.

## Future Drivers of Growth in the Agricultural Chemicals Sector

### (1) Growth of the DL-Methionine Business

DL-methionine is an essential amino acid used as a feed additive, primarily in poultry farming. Present worldwide demand, estimated to be in the range of 450,000 to 600,000 tons annually, is expected to grow at a rate of 5% or more a year, with the greatest growth occurring in Asia, where the size of the current market is estimated to be 140,000 tons. With such strong demand prospects, we have begun construction of a new DL-methionine facility at our Ehime Works, which is expected to come on stream during fiscal 2005. Upon completion, our annual production capacity will more than double, to 90,000 tons. Because of integrated production with all key raw materials manu-

factured on-site, we are able to achieve superior cost competitiveness. We possess the sophisticated technological expertise required for handling the key raw materials, and are far better positioned than our competitors for quick delivery to high-growth markets in Asia. Leveraging these competitive strengths, we will use our increased production capacity to position ourselves as the top player in Asian markets.

### (2) Continuous Launch of New Products

In the field of agricultural chemicals and household insecticides, we ranked fourth in the world in terms of the number of new active ingredients launched (25 compounds) in the 1980 – 2002 period, following Bayer, Syngenta and BASF. Looking ahead, we plan to continue to launch new active ingredients, as shown in the table below. Based on our advanced R&D capabilities, we are committed to expanding our business and generating high earnings growth.



DL-methionine, an essential feed additive primarily in poultry farming

## New Products Planned for Launch within 7-10 Years

Classification	New Products Planned for Launch	
Agricultural Chemicals	Insecticides	5 products for fruit, vegetables, cotton (3 compounds waiting for registration)
	Fungicides	6 products for fruit and vegetables
	Herbicides	1 product for rice fields
Household Insecticides	7 products (dust mite pesticide, moth proofing agents for clothes, pesticide for public hygiene, etc.), 4 of which have been submitted for registration	

## Pharmaceuticals

Sumitomo Chemical is engaged in the pharmaceutical business mainly through its subsidiary Sumitomo Pharmaceuticals Co., Ltd., and Nihon Medi-Physics Co., Ltd., a radiopharmaceutical joint venture between Sumitomo Chemical and the General Electric Group (Amersham).

### Business Performance in Fiscal 2003

The financial performance of the Pharmaceuticals Sector in fiscal 2003 remained weak. Sales totaled ¥166.6 billion, a 1.1% decline from the previous fiscal year, and operating income decreased 13.8% to ¥27.8 billion.

Sumitomo Pharmaceuticals' major products, such as *Amlodin* (therapeutic agent for hypertension and angina pectoris) and *Meropen* (carbapenem antibiotic), continued to show solid sales growth. On the other hand, revenue from Meropenem bulk supply to its overseas licensee decreased. As a result, the company's total sales were down 1.0% to ¥136.9 billion from the previous fiscal year. Operating income declined 12.2% to ¥21.2 billion, because of a decrease in Meropenem bulk supply as well as increased strategic investments to enhance R&D and marketing capabilities, including expansion of the sales force in Japan. Nihon Medi-Physics posted a slight sales decline to ¥29.7 billion for the year, 1.7% below the previous fiscal year.

### Core Business Strategies and Key Initiatives in Fiscal 2003

Intensifying competition in the market as well as Japanese government initiatives to contain healthcare cost are resulting in an increasingly difficult operating environment for our pharmaceutical business. Given this business climate, it is essential that we develop and launch promising new products as swiftly as possible, strengthen marketing capability to

bolster our domestic business and expand our operations with a global perspective. Some of the initiatives we took to attain these objectives during fiscal 2003 are as outlined below:

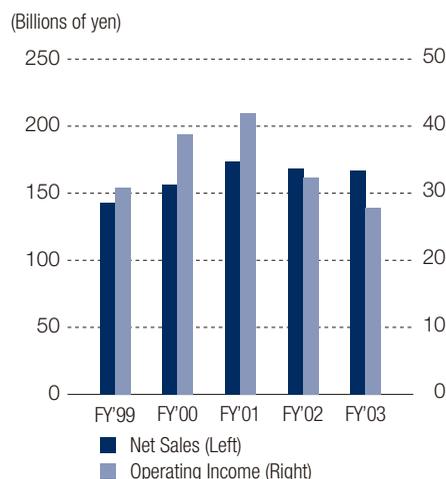
#### (1) Early Product Commercialization

To develop promising new drugs as early as possible, we need to conduct focused and efficient research. Sumitomo Pharmaceuticals concentrates its R&D resources on three major therapeutic areas: cardiovascular & diabetes, immunology and neurology. In promoting our new drug discovery and clinical development in these areas, we not only carry out research in-house, but also seek collaborative research or undertake license arrangements with other companies. In late 2003, Sumitomo Pharmaceuticals entered into an agreement with AstraZeneca of the United Kingdom for respiratory research collaboration on a series of drug candidates recently discovered by Sumitomo in the immunology area. The two companies will work together to accelerate the research program and identify promising novel compounds for clinical development.

Sumitomo Pharmaceuticals is also seeking opportunities to license products in the clinical development stage from other companies. In May 2004, it obtained rights from Merckle GmbH to develop and market in Japan an anti-arthritis agent, *Licofelone* (generic name), for which Merckle is currently undergoing Phase III trials in Europe.

In addition to new drug research, we are also working vigorously to develop additional indications and dosage forms of those drugs that have already been approved and sold on the market, which will maximize the commercial value of those products and contribute to increased sales for the company. In April 2004, we obtained regulatory approval for *Meropen* for pediatric use as well as for the treatment of meningitis purulenta and neisseria meningitidis.

### Net Sales and Operating Income



### (2) Supply of Competitive Products with Assured Quality

We are firmly committed to manufacturing and supplying those products that are not only competitive on the market, but also that meet increasingly stringent GMP standards worldwide. We have invested approximately ¥10 billion in building new, fully cGMP compliant facilities for bulk pharmaceuticals production and *Meropen* formulation in Oita, Japan. The facilities were completed in September 2003 and will be brought on stream commercially in the autumn of 2004, further increasing production efficiency, ensuring quality assurance and strengthening competitiveness.

### (3) Enhancing Global Operations

Sumitomo Pharmaceuticals is building a solid foundation for expanding its international operations in the future, while re-doubling efforts to promote existing products and develop commercially a number of drugs in the pipeline as quickly as possible.

In the US and Europe, we are currently conducting clinical trials on promising products such as SM-13496 (schizophrenia, Phase II), SMP-114 (Rheumatoid arthritis, Phase II) and SMP-797 (antilipemic, Phase I). With a longer and broader perspective, we are looking into opportunities to establish our own marketing base in these regions as well as seeking co-marketing/promotion arrangements with suitable partners.

Among Asian countries, China is the country where Sumitomo Pharmaceuticals is strengthening its efforts to expand business in light of the vast growth potential of the health-care market in the country. In 2003, we obtained government approval in China for

*Sediel*, a serotonin-agonist anti-anxiety drug, making it the fourth Sumitomo product being sold in this important market, following *Sepatren* (cephalosporin antibiotic), *Almarl* (alpha-, beta-blocker), and *Meropen*. *Sediel* is Sumitomo Pharmaceutical's new proprietary drug and acts selectively only on the serotonin nerves in the brain that play an important role in the formation of anxiety and depression.

### (4) Reinforcing the Radiopharmaceutical Business

Nihon Medi-Physics is another important member of our Pharmaceuticals Sector. Being a leading company in the *in-vivo* radiopharmaceutical market in Japan for a long time, Nihon Medi-Physics is diversifying its business to ensure strong, sustainable growth in the future. One such effort is the commercial manufacture and supply of a radio-labeled diagnostic agent for PET (Positron Emission Tomography) procedures that enable early detection of malignant tumors. Having filed a new drug application for the agent, Nihon Medi-Physics is actively implementing preparatory work at the moment so that it can begin production of the agent at nine locations across the country and distribute it as soon as regulatory approval is obtained. Another initiative is an entry into the radio-therapeutic field. As one example of such products, in 2003 it successfully launched *Oncoseed*, a medical device for brachytherapy of prostate cancer with tiny radioactive seeds.

### Pipeline of Major Drugs

	Phase	Product Name/Code	Therapeutic Area	Partner
Japan	Under Application	Replagal SMP-536	Fabry's Disease	TransKaryotic Therapies (U.S.)
	Phase III	SM-26000	Profound Mycosis	Gilead Science (U.S.)
	Phase III	Sumiferon (Additional Indication)	Combination Therapy with Ribavirin (Antibiotic)	GlaxoSmithKline (U.K.)
	Phase II	SM-11355	Liver Cancer	In-house
		SMP-114	Rheumatoid Arthritis	In-house
		SM-13496	Schizophrenia	In-house
Didronel (Additional Indication)		Ossification of the Posterior Longitudinal Ligament	Procter & Gamble(U.S.)	
Calsed (Additional Indication)		Malignant Lymphoma	In-house	
Overseas	Phase II	U.S. SM-13496	Schizophrenia	In-house
	Phase I	Europe SMP-114	Rheumatoid Arthritis	In-house
		Europe SMP-797	Antilipemic	In-house

## Our Products

Sumitomo Chemical offers a diverse range of products including basic chemicals, petrochemicals, fine chemicals, IT-related chemicals, agricultural chemicals, and pharmaceuticals. The products handled by each of the Sectors are listed on pages 12-13. Some of the products covered in the Review of Operations and their markets are briefly described here.

### Basic Chemicals

#### Polymethyl methacrylate (PMMA)

PMMA is a synthetic resin with particularly superior transparency and weather resistance. In addition to its wide use in automobile parts, home appliances, lighting and signboards, recently demand for such LCD-related applications, as light-guide plates and diffusion plates, is rapidly increasing. These plates are used to disperse the light from the light source evenly over LCD display screens. The demand in Asia is expected to increase 5-6% annually, however, supply shortages are prevailing since new MMA monomer (raw material for PMMA) plant installation is not viable in Asia due to limited access to a stable and efficient supply of necessary raw materials in the region, and the large investment required to construct new plants on a grassroots basis.

#### Caprolactam (CPL)

Caprolactam is a key raw material for Nylon 6, which has diverse applications such as apparel, automotive and electric appliance parts and food packaging films. It is expected that demand for Nylon 6 will continue to enjoy steady growth in Japan, particularly for engineering plastics. Given the continuing growth in Asia, demand is expected to reach as high as 7% annually for engineering plastic and film applications and 4% for fiber applications.

### Petrochemicals & Plastics

#### Polyolefin

Polyolefin is the generic name for olefin based polymers such as polyethylene (PE) and polypropylene (PP) which are



Caprolactam is a key raw material for Nylon products

widely used in a diverse number of applications. Some of the examples for PE are shopping bags, food wrap, greenhouses and coating for electric cables, while for PP are automobile exterior and interior parts, a variety of household electric appliances, and containers for beverages and foods.

Among those, some of the industrial applications such as food wrap and automobile parts require higher quality and better performances of polyolefin such as processability and strength, in comparison with those of the commodity usages. We are focusing on the research and development of such higher performance polyolefin responding to these market requirements.

#### Propylene Oxide (PO)

PO is the raw material for making propylene glycol (PG) and polyols. PG is the raw material used to produce unsaturated polyester resins, which is used in a number of varying applications; for example, the manufacture of bathtubs and boat hulls, as well as food additives and moisturizing agents used in cosmetics. Polyols, on the other hand, are processed into polyurethane products, which are used to make insulation and cushioning materials for automobiles and housing. Global demand for PO is expected to remain steady, while the demand in Asia is likely to enjoy high growth of 7-8% per year, particularly in the polyurethane market.

### Fine Chemicals

#### Pharmaceutical chemicals

The pharmaceutical chemicals business, estimated to comprise of a US\$22 billion (¥2.6 trillion) market worldwide, centers around the contract manufacturing of active pharmaceutical ingredients (API) and pharmaceutical intermediates. Contract manufacturing is a rising trend, with the API and intermediates market forecast to grow 7-8% annually as pharmaceutical companies themselves increasingly specialize in drug development and marketing. In Japan, the revision of the Pharmaceutical Affairs Law goes into effect in April 2005, making it

easier to contract out entire manufacturing. As a result, pharmaceutical companies are expected to accelerate outsourcing API and intermediate production, setting off fierce competition among contract manufacturers.

#### IT-related Chemicals

A large number of Sumitomo Chemical's products are used in IT-related industries, particularly in the production of Liquid Crystal Displays and Semiconductor Chip manufacturing. (Please refer to the diagrams below)

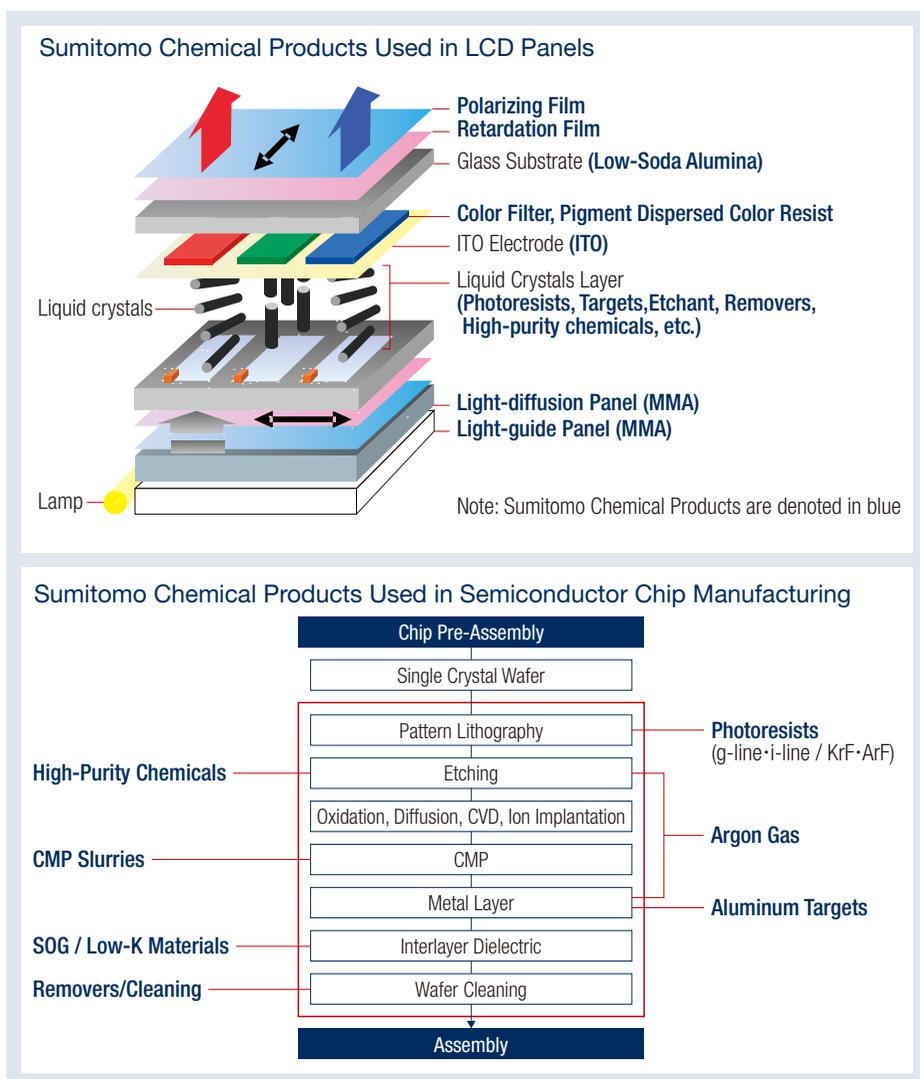
#### Agricultural Chemicals

##### DL-Methionine

DL-methionine is a major amino acid used as a feed additive, primarily in poultry farming. It is also generally known to be an "essential amino acid" that we need to consume from food in order to

synthesize the proteins that make up our bodies.

Current global demand for DL-methionine is around 450,000 - 500,000 tons per year. However, this demand is expected to grow more than five percent annually, particularly in Asia, as poultry consumption increases alongside growing populations and rising standards of living in industrializing nations. Tighter environmental regulations calling for decreases in livestock waste will also increase demand for DL-methionine. And with recent outbreaks of BSE (bovine spongiform encephalopathy), demand has grown for DL-methionine as an additive, which is not derived from the meat and bones of cattle. However, there are only a small number of companies worldwide that manufacture DL-methionine, to meet these growths in demand.



## Research and Development

The basic thrust of Sumitomo Chemical's R&D strategy lies in the pursuit of "Creative Hybrid Chemistry" by which we combine the diverse technologies that we have developed in a wide range of fields to create and expand a variety of businesses. Based on this strategy, we have consistently taken on the challenges of creating "innovative processes" by utilizing our core catalytic technologies and developing "innovative products" through the combination of our core polymer design and processing technologies. In addition, we are making strong efforts to promote basic research in the field of life sciences, including genomic research, that will bolster the future business of Sumitomo Chemical.

Our major achievements in these areas during fiscal 2003 are briefly explained here.

### R&D Topics

#### (1) Process Innovation

Capitalizing on our many achievements in catalyst and process design technologies, Sumitomo Chemical places special emphasis on developing processes that have higher production efficiency while imposing as little impact as possible on the environment. Our recent successes in commercial developments include highly advanced processes for manufacturing bulk chemicals, such as caprolactam (CPL) and propylene oxide (PO) and for converting hydrochloric acid to chlorine at a chlorinated chemicals plant.

The CPL production technology that we have developed is a novel process that carries out the Beckmann rearrangement in a vapor phase through the use of our new proprietary catalyst, without producing the co-product that the conventional process generates in large quantities. The new CPL process enables highly efficient production and ensures environmental-friendly production of CPL (please refer to page 15). In March 2004, the process was awarded the prestigious Green Sustainable Chemistry Prize from Green & Sustainable Chemistry Network, a Japanese organization advancing green sustainable chemistry initiatives. For the production of PO, we have developed an innovative process, utilizing our proprietary high-performance epoxy catalyst, that does not co-produce styrene monomer. This new process allows us to flexibly produce PO as the market requires, without being restricted by the production of styrene monomer (please refer to page 17). Our hydrochloric acid oxidation process is also a very unique environmental-friendly technology that uses our proprietary high-performance catalyst to efficiently convert hydrochloric acid, a by-product generated at a chlorinated chemicals plant, into chlorine for use as raw materials. The process makes it possible to use resources effectively in this

manner and also to reduce the volume of chlorine that needs to be transported to chlorinated chemicals manufacturing facilities. We have granted a license for this novel technology to chlorinated chemicals manufacturers.

Moving forward, we will continue to pursue process innovations in the bulk chemicals field by developing innovative new catalysts.

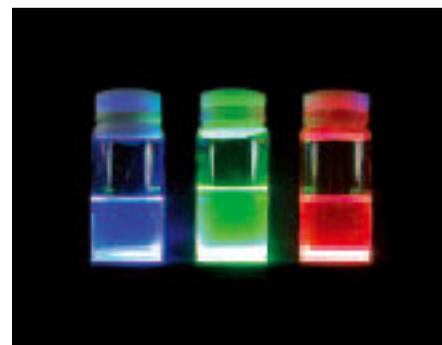
#### (2) Product Innovation

##### Light Emitting Polymers (LEP)

Sumitomo Chemical is developing LEP for Polymer Light-Emitting Diodes (PLED). PLED technology makes it possible to manufacture ultra-thin flat panel displays, and in comparison with the existing flat panel displays, it boosts lower energy consumption and higher image quality.

We have recently succeeded in significantly extending the expected lifetime for blue, green and red light-emitting diodes and are accelerating our R&D efforts in this area for early commercialization.

We have also been conducting a joint research program with Cambridge Display Technologies (CDT), a U.K. venture firm, targeting development of new high efficiency light-emitting materials. The materials under development possess strong luminescence and the elements are easy to manufacture because of their good solubility in organic solvents. In addition to applications in displays for such equipment as mobile tele-



LEP for Polymer Light-Emitting Diodes



Basic Research in Life Sciences –Genomic Science Laboratories–

phones and digital cameras, the materials are also expected to find applications for TV displays and lighting devices in the future.

### (3) Basic Research in Life Sciences

#### Toxicogenomics

In the last few years, genomic data available on laboratory animals has become abundant as a result of the remarkable progress made in genomic research. Technology has been developed for DNA chips (micro-arrays) that can comprehensively analyze expression of genes using slides on which DNA fragments and synthetic oligonucleotides are mounted. In the area of toxicology as well, the new research field called “toxicogenomics” has come into existence based on the utilization of these DNA chips.

Sumitomo Chemical began investigating this technology early on and is undertaking research on the efficient development of chemical compounds and the early elucidation of toxicity development mechanisms. Since 2001, we have been actively participating in a national toxicogenomics project that aims to develop techniques for the early prediction of potential carcinogenic effects of chemical substances.

At present, we have completed a collection of gene identification data for key carcinogenic substances and are working towards improving predictive methodologies. Great hopes are being placed on the development of new methodologies that can predict, with a high degree of accuracy, potential carcinogenic effects.

#### Neurological Disease Related Genes (a factor called ‘NXF’)

Utilizing the receptor research technologies we have developed to evaluate the safety of chemical substances, we have discovered a new neural disease-related gene (NXF). *In vitro* studies suggest that NXF is one of the regulatory transcription factors and functions antagonistically with Sim2, which is thought to be a causative gene for Down syndrome. NXF controls several factors and also appears to possibly control the effectiveness of neurotransmissions over synapses, which are inter-neuronal sites for signal transduction in the brain. NXF is, moreover, considered to play an important role in learning and memory.

We are currently producing laboratory mice with altered genes that change the functionality of NXF in order to analyze its functions. Data is being obtained suggesting that improved gene expression might enable improved learning and memory function. Work is also underway to develop screening techniques and search for new compounds that could be used as pharmaceuticals for the treatment of brain disorders. We will carry out pharmacological testing on model disease laboratory animals to study the effectiveness of potential drugs, selecting out those compounds with the highest degree of safety.

## Corporate Social Responsibility

With the increasing public attention on the social responsibility of corporations, we can no longer simply pursue economic goals and profits. More than ever before, we have a responsibility to integrate social and environmental concerns into our everyday business operations. Our new Three-Year Corporate Business Plan, which took effect in April 2004, positions further progress in Corporate Social Responsibility (CSR) activities as one of its important initiatives.

At Sumitomo Chemical, while we aim to improve our financial performance, we are also committed to contributing to the sustainable development of society through our Responsible Care activities, community activities, and corporate compliance management. We are, in essence, seeking to achieve best possible performance against environmental, social, and financial parameters—what has been called the “triple bottom line.”

### Corporate Governance

Improving corporate governance is essential to achieving progress in CSR initiatives. While maximizing shareholder value, we are focused on earning the greatest possible trust and support of all of our stakeholders, including our customers, suppliers and partners, and the communities in which we operate. That is what we consider to be the essence of corporate governance, and we are working to strengthen this area by making important decisions with greater speed and continuing to fortify clear operational responsibilities, our compliance management and internal audit systems, and the timeliness of our corporate disclosures.

### The Pursuit of Sustainable Chemistry

Sumitomo Chemical is using its unique technological competencies to promote ‘Sustainable Chemistry’ as a component of its CSR initiatives. Sustainable Chemistry refers to the continuous pursuit and development of technological innovations in chemistry to economically provide society with useful products and services while minimizing the environmental impact. Based on advanced technologies accumulated over the years, we are dedicated to incorporating Sustainable Chemistry into our operations to further contribute to society.

As an example, during fiscal 2003, we brought a new vapor phase caprolactam (CPL) production plant on stream. Because the new CPL process does not produce the by-product that the conventional process produced in large quantities, it is much more efficient and environmentally friendly as it has a lower consumption of resources and energy. Another example is our new propylene oxide (PO) plant which began production based on a proprietary process that produces no co-product, thereby resulting in higher cost efficiency and a lower impact on the environment as it consumes less energy and reduces the amount of waste.

### Responsible Care Initiatives

Responsible Care constitutes a vital cornerstone of Sumitomo Chemical’s corporate management.

Responsible Care refers to voluntary activities by companies aimed at preserving the environment, safety, and health in all phases of the product life cycle and enhancing the dialogue with society on the issue in order to deepen mutual bonds of trust.

We set specific targets every year for environmental preservation, process safety and disaster prevention, occupational safety and health, chemical product safety, and quality assurance, and make every endeavor to meet these targets.

### Response to Chemical Risk Assessments -Pollutant Release and Transfer Register (PRTR)-

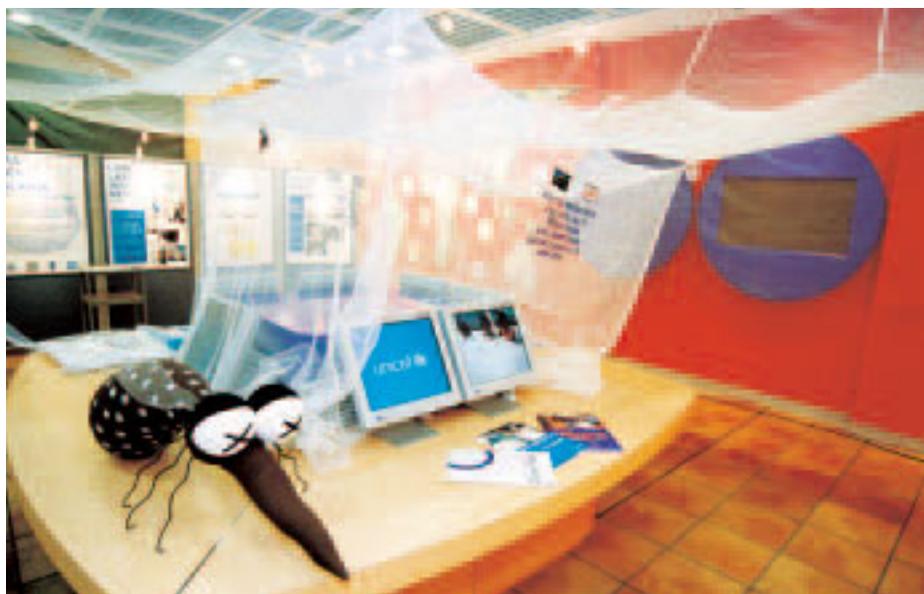
Sumitomo Chemical Co., Ltd. has completed risk assessments at all its facilities of chemical substances designated by the PRTR Law that are emitted in large volumes. In fiscal 2003, based on this assessment, we set a target of a 50% reduction of 2002 emission levels by 2010. In order to achieve this target, an action plan has been formulated, and we are making good progress towards fulfilling this goal.

### Occupational Safety and Health Management System

Given our basic philosophy of “Putting Safety First and Foremost”, we implemented our Occupational Safety and Health Management System (OSHMS) during fiscal 2003 throughout all of the production facilities and research laboratories of Sumitomo Chemical Co., Ltd. OSHMS is a voluntary management system designed to promote the continuous organizational safety and health-oriented activities in order to minimize the potential risks of work-related accidents and improve the levels of occupational safety and health at all our work sites.

### Community Service Activities Initiative to Eradicate Malaria

As one example of our community service initiatives, Sumitomo Chemical has provided its Olyset mosquito net manufacturing technology to help prevent malaria in Africa. Every year, more than one million people in Africa die of malaria, a disease that is transmitted by mosquitoes. Partnering with the World Health Organization (WHO) and other organizations in the fight to eradicate malaria in Africa, Sumitomo Chemical has granted free license on its WHO-approved production technology for Long-Lasting Insecticide Treated Nets (LLIN) to a Tanzanian mosquito net maker, A to Z Textile Mills Limited. Because Sumitomo’s Olyset mosquito nets



UNICEF staged a ceremony in September 2003 to officially announce an international partnership on anti-malarial Olyset mosquito nets.

incorporate insecticide into the resin material of the thread used to weave the nets, even if the active ingredients are removed from the surface when washed, they seep out again to provide long-lasting mosquito control. The aim of this technology transfer is to promote local mass production of mosquito nets so that they can be quickly and affordably provided to large numbers of people, and thereby contribute to the control of malaria in Africa.

#### **Reinforcement of Corporate Compliance Management**

At Sumitomo Chemical Co., Ltd., we have always placed paramount importance on our compliance with all laws and regulations, as well as our own corporate rules, in the conduct of our business. We carry out our responsibilities for corporate compliance through function-specific committees such as the Responsible Care Committee, Antitrust Law Compliance Committee, and Group Companies Auditing Committee.

To further reinforce our corporate compliance management and more clearly define

our basic standards of behavior in the conduct of our business, we established the *Sumitomo Chemical Charter for Business Conduct* as of July 1, 2003 and prepared a manual, the *Sumitomo Chemical Business Conduct Manual*, that sets down the various rules to be observed by all Board members and employees. At the same time, we created the Compliance Committee by re-organizing and reinforcing an internal former committee of a similar nature, to oversee compliance on a company-wide basis.

Our consolidated group companies throughout the world have also been instructed to adopt comparable compliance programs as early as possible. We are steadily progressing toward the implementation of a comparable system that is responsive to the respective business customs and practices as well as laws and regulations of the countries where we operate, and some group companies have already implemented such systems based on a new Code of Ethics under which all board members and employees affirm their firm commitment to compliance.

#### **Highly Ranked in Sustainable Management Ratings**

The Rating Institute for Sustainable Management, a non-profit organization that carries out the most detailed investigation of the companies' sustainable management in Japan, awarded Sumitomo Chemical Co., Ltd. its highest rating for sustainable management in fiscal 2003.

The rating evaluates the company's environmental preservation initiatives, the soundness of its management, and its contributions to society.

We are very proud of this recognition, as the rating is one of the most important measures in Japan to represent a company's commitment to CSR.

## Board of Directors & Corporate Auditors



*Seated, from left:*

**Masami Nakamoto**  
Executive Vice President

**Hiromasa Yonekura**  
President

**Satoshi Kawachi**  
Executive Vice President

*Standing, from left:*

**Yuji Ito**  
Director

**Hideaki Watanabe**  
Director & Senior Managing Executive Officer

**Shigehiro Oba**  
Director & Senior Managing Executive Officer

**Ichiro Miyawaki**  
Director & Senior Managing Executive Officer

**Yasuo Okamoto**  
Director & Executive Officer

**Masashi Araki**  
Director & Managing Executive Officer

### Board of Directors

#### President

**Hiromasa Yonekura**

#### Executive Vice President

**Masami Nakamoto**

IT-related Chemicals Sector

**Satoshi Kawachi**

Technology, Research & Development

#### Director & Senior Managing Executive Officer

**Shigehiro Oba**

Agricultural Chemicals Sector

**Ichiro Miyawaki**

Petrochemicals & Plastics Sector

**Hideaki Watanabe**

Basic Chemicals Sector

#### Director

**Yuji Ito**

IR & Public Relations, Finance & Accounting, Procurement & Logistics, Internal Audit

#### Director & Managing Executive Officer

**Masashi Araki**

Fine Chemicals Sector

#### Director & Executive Officer

**Yasuo Okamoto**

Pharmaceuticals  
(President, Sumitomo Pharmaceuticals Co., Ltd.)

### Executive Officers

#### Senior Managing Executive Officer

**Naoya Kanda**

IT-related Chemicals Sector - Optical Materials Div./Semiconductor & Display Materials Div./Electronic Materials Div./Ehime Works/Chiba Works/Osaka Works /IT-Related Chemicals Research Laboratory

#### Managing Executive Officer

**Osamu Ishitobi**

Petrochemicals & Plastics Sector - Planning & Coordination Office / Petrochemicals Div.

**Masayo Tada**

Agricultural Chemicals Sector - Plant Protection Div. - Domestic / International

**Masanori Hayashi**

Basic Chemicals Sector - Planning & Coordination Office / Industrial Chemicals Div./ Inorganic Materials Div./ Aluminium Div.

**Yasuo Kamei**

Corporate Planning & Coordination Office (Corporate Planning), Finance & Accounting Office

**Hiroshi Hirose**

General Affairs Dept., IR & Public Relations Dept.

#### Executive Officer

**Yoshitsugu Sakamoto**

Petrochemicals & Plastics Sector - Polyethylene Div./ Polypropylene Div./ Advanced Polymers Div.

**Hirokazu Hosaka**

Fine Chemicals Sector - Specialty Chemicals Div./ Pharmaceutical Bulk Div./ Pharmaceutical Intermediates Div./ Fine Chemicals Research Laboratory

**Iwao Nakatsuka**

Responsible Care Office, Organic Synthesis Research Laboratory, Environmental Health Science Laboratory

**Takatsugu Enami**

Agricultural Chemicals Sector - Environmental Health Div.

**Kiyohiko Nakae**

Corporate Planning & Coordination Office (Technology, Research & Development), Tsukuba Research Laboratory

**Shinji Murakami**

Oita works, Sumitomo Pharmaceuticals Co., Ltd.

**Yoshimasa Takao**

Personnel Office

**Masakazu Tokura**

Corporate Planning & Coordination Office (Business Planning), Fine Chemicals Sector - Planning & Coordination Office

**Yusuke Ueda**

Legal Dept., Intellectual Property Dept.

**Takatoshi Suzuki**

Chiba Works

**Kenjiro Fukubayashi**

Agricultural Chemicals Sector - Planning & Coordination Office

### Corporate Auditors

**Kunio Matsura**

Standing Corporate Auditor

**Hiroaki Ninomiya**

Standing Corporate Auditor

**Hiroshi Hayasaki**

Corporate Auditor

**Yoji Arakawa**

Corporate Auditor

## Financial Section

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# Consolidated Financial Summary

Sumitomo Chemical Company, Limited and Subsidiaries

Billions of yen (unless otherwise specified)

Years ended March 31	1999	2000	2001	2002	2003	2004
<b>For the year:</b>						
Sales by business segment:						
Basic Chemicals .....	¥ 157.5	¥ 172.0	¥ 182.8	¥ 175.2	¥ 194.4	¥ 199.1
Petrochemicals & Plastics .....	305.6	331.8	375.5	338.9	371.6	362.4
Fine Chemicals .....	96.7	90.6	91.7	80.2	83.9	80.6
IT-related Chemicals .....	46.6	62.1	60.2	59.8	82.5	123.5
Agricultural Chemicals .....	120.8	106.1	122.2	135.4	158.7	167.1
Pharmaceuticals .....	149.1	143.1	156.7	174.0	168.4	166.6
Others .....	51.4	44.6	51.9	54.9	51.6	59.1
Net sales .....	927.7	950.3	1,041.0	1,018.4	1,111.1	1,158.4
Overseas operations .....	232.1	227.5	276.5	287.2	327.4	364.1
Operating income (loss) by business segment:						
Basic Chemicals .....	2.7	3.3	5.0	3.5	5.7	2.6
Petrochemicals & Plastics .....	11.1	10.4	7.4	(0.4)	5.0	(1.6)
Fine Chemicals .....	7.3	7.2	6.5	8.9	9.3	8.8
IT-related Chemicals .....	(8.6)	(5.0)	3.1	(6.3)	0.5	14.3
Agricultural Chemicals .....	27.7	18.9	19.5	17.9	16.7	10.7
Pharmaceuticals .....	15.5	30.8	38.8	42.0	32.3	27.8
Others .....	3.2	4.5	4.4	3.3	4.2	4.9
Elimination .....	0.4	0.0	0.0	(0.1)	(0.2)	(0.9)
Operating income .....	59.3	70.1	84.7	68.8	73.5	66.6
Income before income taxes and minority interests .....						
	36.3	32.0	64.4	57.8	63.2	72.3
Net income .....	20.1	18.4	34.1	30.2	31.1	34.3
Capital expenditures .....						
	67.6	81.6	62.1	73.0	152.0	110.2
Depreciation and amortization .....	68.4	75.4	64.6	79.2	69.0	82.5
Research and development expenses .....	59.5	59.3	59.1	66.7	72.8	75.2
<b>At year-end:</b>						
Total current assets .....	591.8	584.4	596.5	595.7	634.8	628.3
Net property, plant and equipment .....	428.1	409.7	400.7	401.7	465.6	481.9
Investments and other non-current assets .....	266.7	272.7	406.4	342.7	307.0	373.1
Total assets .....	1,310.9	1,322.4	1,455.4	1,393.2	1,484.3	1,549.3
Total shareholders' equity .....	325.1	345.0	451.8	444.6	444.3	506.1
Number of employees .....						
	15,778	17,474	17,392	17,016	17,906	19,036
Number of consolidated subsidiaries .....						
	67	92	98	102	110	110
Number of shareholders .....						
	140,257	134,705	129,835	130,176	124,281	125,463
<b>Per share (yen):</b>						
Net income .....	12.406	11.329	20.756	18.250	18.742	20.715
Total shareholders' equity .....	200.49	210.97	272.91	268.57	268.62	306.05
Cash dividends .....	5.0	5.0	6.0	6.0	6.0	6.0

## Financial Review

The Following comments should be read in conjunction with “To Our Shareholders, Customers and Partners” (pages 2-5), “Review of Operations” (pages 11-25) and the consolidated financial statements (pages 40-57). U.S. dollar amounts are translated from yen, for convenience only, at ¥105.69= \$1, the rate prevailing on March 31, 2004.

### Results of Operations

Net sales in the fiscal year ended March 31, 2004, totaled ¥1,158.4 billion (US\$10,960 million), a 4.3% increase from ¥1,111.1 billion for the previous fiscal year.

Cost of sales was ¥850.2 billion (US\$8,044 million), compared with ¥798.0 billion for the previous fiscal year. The cost of sales ratio was 73%, a 1.6% increase over the previous fiscal year. Selling, general and administrative expenses were ¥241.6 billion (US\$2,286 million), the same level as the previous year. Operating income amounted to ¥66.6 billion (US\$630 million), a 9.4% drop from ¥73.5 billion for the previous fiscal year. The ratio of operating income to net sales was 5.8%, as compared with the previous year’s 6.6%

Research and development expenses for the fiscal year ended March 31, 2004, were ¥75.2 billion (US\$711 million), 3.3% higher than the previous fiscal year’s ¥72.8 billion. Annual depreciation and amortization expenses were ¥82.5 billion (US\$780 million), an increase of 19.5% compared with the last fiscal year’s ¥69.0 billion.

Interest expense, net of interest and dividend income, decreased 46.5% to ¥2.8 billion (US\$27 million), compared with ¥5.3 billion for the previous year. Equity in earnings of affiliates increased to ¥8.6 billion (US\$81 million) from ¥2.6 billion in the previous fiscal year.

Gain on sales of property, plant and equipment increased to ¥9.1 billion (US\$86 million) from ¥2.2 billion in the previous year. Restructuring charges, which mainly consisted of loss on disposal of property, plant and equipment, special severance benefits, and loss on investments in and loans to related companies, decreased to ¥4.5 billion (US\$42 million) compared to ¥6.4 billion in the previous year. Net gains on sales of investment securities increased to ¥3.1 billion (US\$30 million), a ¥1.9 billion over the previous year. The Company recorded loss of ¥2.5 billion (US\$23 million) associated with lease contract cancellations.

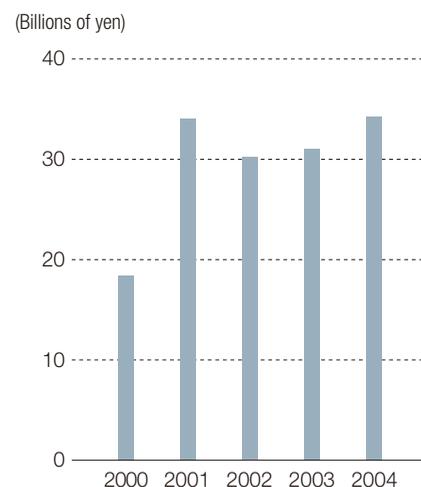
Income before income taxes and minority interests for the fiscal year ended March 31, 2004 was ¥72.3 billion (US\$684 million) compared with ¥63.2 billion for the previous year. Income taxes were ¥31.0 billion (US\$293 million), up 20.2% from ¥25.8 billion for the previous fiscal year.

Net income for the fiscal year ended March 31, 2004 was ¥34.3 billion yen (US\$325 million), a 10.2% increase from ¥31.1 billion for the previous fiscal year. Return on equity (ROE) was 7.2%, up 0.2 percentage points from the previous year’s 7.0%. Net income per 1,000 shares, based on the weighted average number of shares outstanding during the fiscal year ended March 31, 2004, was ¥20,715 (US\$196.00), compared with ¥18,742 for the previous fiscal year. Annual dividends for the fiscal year ended March 31, 2004, were ¥6,000 (US\$56.76) per 1,000 shares, the same as for the previous fiscal year.

### Segment Information

Sumitomo Chemical’s operations are classified into seven principal business segments; “Basic Chemicals”, “Petrochemicals & Plastics”, “Fine Chemicals”, “IT-related Chemicals”, “Agricultural Chemicals”, “Pharmaceuticals”, and “Others”. Beginning this fiscal year, the Company has reclassified certain subsidiaries and affiliates in term of business segments to which they belong. Prior period statements has been restated to conform to the current period.

### Net Income



### Net Income per 1,000 Shares



**Basic Chemicals;**

Sales of the segment were ¥199.1 billion (US\$1,883 million), a 2.4% increase compared with ¥194.4 billion for the previous fiscal year. Sales of methyl methacrylate (MMA) increased both in Japan and overseas thanks to favorable demand mainly for optical applications, while sales of aluminum decreased. Shipments of caprolactam increased with the start-up of an additional production facility based on a new process.

Operating income of the segment was ¥2.6 billion (US\$24 million), a 55.0% decrease from ¥5.7 billion for the previous year, due to an increase in fixed costs.

Major consolidated subsidiaries of this segment include Sumitomo Chemical Singapore Pte. Ltd. and its subsidiaries, which engage in the MMA and acrylic acid businesses in Singapore.

**Petrochemicals & Plastics;**

Sales of the segment were ¥362.4 billion (US\$3,429 million), a 2.5% decrease from ¥371.6 billion for the previous fiscal year. Domestic sales of plastics performed well, but plastics sales in Southeast Asia were on par with the year prior because the appreciation of the yen pushed down overseas sales amount on a yen basis. Sales of propylene oxide increased, thanks to the launch of full-scale production at a new plant. Since Nihon Oxirane Co., Ltd. (NOC) has been added as a consolidated subsidiary, as of April 1, 2003, results no longer include sales of feedstock to NOC.

Operating loss of the segment was ¥1.6 billion (US\$16 million), compared to operating income of ¥5.0 billion in the previous fiscal year, due to an increase in depreciation and maintenance costs.

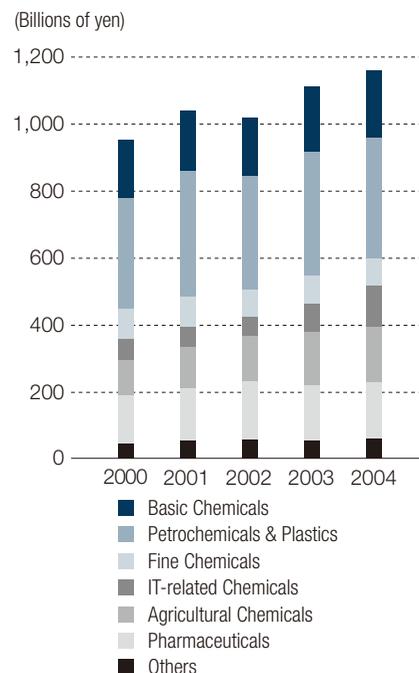
Major consolidated subsidiaries of this segment include The Polyolefin Company (Singapore) Pte. Ltd., a producer of low-density polyethylene and polypropylene.

**Fine Chemicals;**

Sales of the segment were ¥80.6 billion (US\$763 million), a 3.9% decrease from the previous fiscal year's ¥83.9 billion. Sales of pharmaceutical intermediates increased, primarily in overseas markets, while those of speciality products, such as adhesives raw materials, and dyestuffs remained at a low level.

Operating income of Fine Chemicals was ¥8.8 billion (US\$83 million), a 5.0% decrease from ¥9.3 billion for the previous fiscal year.

Major consolidated subsidiaries of this segment include Taoka Chemical Co., Ltd., engaged principally in manufacturing and selling pharmaceutical intermediates, agricultural chemical intermediates, etc.

**Breakdown of Sales by Product****Industry Segment Results**

Fiscal years ended March 31, 2004 and 2003

Segment information by product group	Millions of yen							Adjustments & Elimination	Consolidated
	Basic Chemicals	Petrochemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Others		
<b>Year ended March 31, 2004</b>									
Sales to unaffiliated customers .....	¥199,050	¥362,411	¥80,594	¥123,525	¥167,105	¥166,561	¥59,156		¥1,158,402
Operating income (loss) .....	2,580	(1,639)	8,812	14,335	10,719	27,839	4,892	(918)	66,620
Operating income (loss) ratio .....	1.3%	(0.5)%	10.9%	11.6%	6.4%	16.7%	8.3%		5.8%
Operating income growth (decrease) .....	(55.0)%	—	(5.0)%	2924.3%	(35.8)%	(13.8)%	16.7%		(9.4)%
<b>Year ended March 31, 2003</b>									
Sales to unaffiliated customers .....	¥194,388	¥371,630	¥83,859	¥82,516	¥158,712	¥168,446	¥51,577		¥1,111,128
Operating income (loss) .....	5,731	5,017	9,274	474	16,685	32,299	4,191	(151)	73,520
Operating income (loss) ratio .....	2.9%	1.3%	11.1%	0.6%	10.5%	19.2%	8.1%		6.6%
Operating income growth (decrease) .....	64.5%	—	3.8%	—	(6.9)%	(23.1)%	25.3%		6.8%

### IT-related Chemicals;

The segment showed continued strong growth, with sales rising 49.7% to ¥123.5 billion (US\$1,169 million), from ¥82.5 billion in the previous fiscal year. Sales of polarizing films for LCD expanded, supported by strong demand in the LCD market. Semiconductor process materials, such as liquid crystal polymer and photoresist, also maintained steady shipments. In addition, a new LCD color filter production facility started operation at Dongwoo STI Co., Ltd. in Korea, and SC-IK Technology Co., Ltd., a Taiwanese LCD optical film producer and processor which became a consolidated subsidiary in the second half of last year, contributed to improve sales and operating income through the year.

The segment recorded operating income of ¥14.3 billion (US\$136 million), a significant increase from ¥0.5 billion in the previous year.

Major consolidated subsidiaries of this segment include Dongwoo Fine-Chem Co., Ltd., engaged in manufacturing and selling IT-related products.

### Agricultural Chemicals;

The Agricultural Chemicals segment reported sales of ¥167.1 billion (US\$1,581 million), a 5.3% growth compared with the previous fiscal year. Among others, sales of plant protection chemicals grew strongly thanks to the contribution of Sumitomo Chemical Takeda Agro Co., Ltd. throughout the year, in contrast with the previous year, in which that unit's contribution was limited to the five months following the acquisition of business from Takeda Chemical Industries, Ltd.. Moreover, shipments of household insecticides increased both in Japan and overseas. However, sales of feed additives declined, mainly because of lower prices in overseas markets.

Operating income of the segment was ¥10.7 billion (US\$101 million), a 35.8% decrease compared with ¥16.7 billion for the previous fiscal year, due mainly to a decline in selling prices.

Major consolidated subsidiaries of this segment include: Valent U.S.A. Corporation, a U.S.-based subsidiary for the development and marketing of plant protection chemicals in North America; and Valent Biosciences Corporation, a subsidiary of Valent U.S.A. Corporation, for the development and marketing of biological pesticides.

### Pharmaceuticals;

Sales of the Pharmaceuticals segment were ¥166.6 billion (US\$1,576 million), a 1.1% decrease compared with ¥168.4 billion for the previous fiscal year. Amlodin (a therapeutic agent for hypertension and angina pectoris) and Meropen (a carbapenem antibiotic) posted strong sales. On the other hand, sales of products manufactured for other companies on a consignment basis decreased.

Operating income of the segment was ¥27.8 billion (US\$263 million), a 13.8% decrease compared with ¥32.3 billion for the previous fiscal year, owing to increased goodwill amortization.

Major consolidated subsidiaries of this segment include: Sumitomo Pharmaceuticals Co., Ltd., a core entity of pharmaceuticals business; and Nihon Medi-Physics Co., Ltd., a joint venture with the General Electric Group (Amersham), engaged in manufacturing and selling *in vivo* and *in vitro* radioactive diagnostics and related products.

### Others;

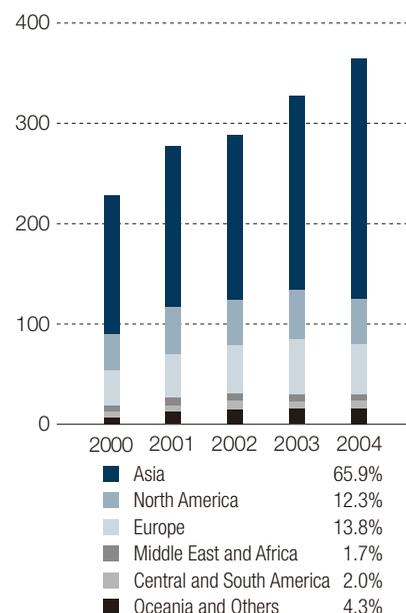
Sales of the segment increased 14.7% to ¥59.1 billion (US\$560 million) from the previous fiscal year. Operating income of the segment was ¥4.9 billion (US\$46 million), a 16.7% increase from the previous year's ¥4.2 billion.

This segment includes electric power supply, engineering service for plant construction, chemical and mechanical analysis service and cargo transportation service.

Major companies encompassed by this segment are Sumitomo Joint Electric power Co., Ltd., Sumitomo Chemical Engineering Co., Ltd., and Sumika Chemical Analysis Service, Ltd.

### Breakdown of Overseas Operations

(Billions of yen)



Note: Percentages are for the fiscal year ended March 31, 2004

### Overseas Operations

Revenue from overseas operations, including both sales by overseas subsidiaries and exports from Japan, for fiscal year ended March 31, 2004, were ¥364.1 billion (US\$3,445 million), 11.2% higher than ¥327.4 billion in the previous fiscal year, in spite of the appreciation of the yen, due mainly to the expanded overseas operations of IT-related chemicals. The ratio of revenue from overseas operations to net sales was 31.4%, compared with 29.5% for the previous fiscal year.

### Financial Position

Current assets as of March 31, 2004 amounted to ¥628.3 billion (US\$5,945 million), 1.0% below ¥634.8 billion as of March 31, 2003. Current liabilities were ¥533.0 billion (US\$5,043 million), under 7.5% lower than ¥576.0 billion at the end of the previous fiscal year. The current ratio was 117.9% compared with 110.2% as of March 31, 2003. Investments and other non-current assets as of March 31, 2004 totaled ¥373.1 billion (US\$3,530 million), compared with ¥307.0 billion as of March 31, 2003, due to increase of fair value of investment securities attendant on an increase in the market value of stock holdings. The total value of property, plant and equipment was ¥481.9 billion (US\$4,560 million), compared with ¥465.6 billion at the end of the previous fiscal year, because of investments for priority businesses. Total assets were ¥1,549.3 billion (US\$14,659 million) and ¥1,484.3 billion at March 31, 2004 and 2003, respectively. Foreign currency transaction adjustment amounted to ¥18.2 billion (US\$172 million), compared with ¥12.9 billion as of March 31, 2003. Unrealized gains on investment securities amounted to ¥88.0 billion (US\$833 million), compared with ¥43.0 billion as of March 31, 2003.

Total debt (short-term and long-term borrowings from banks, debt on bonds and notes, commercial paper, and trade note discounted) as of March 31, 2004 amounted to ¥485.3 billion (US\$4,592 million), the same level as ¥485.2 billion as of March 31, 2003. Shareholders' equity was ¥506.1 billion (US\$4,789 million) at March 31, 2004, 13.9% higher than ¥444.3 billion at the end of the previous fiscal year. The ratio of shareholders' equity to total assets was 32.7% as of March 31, 2004, compared with 29.9% as of March 31, 2003. The number of shares issued and outstanding as of March 31, 2004 was 1,653,537,950 shares. Retained earnings amounted to ¥322.0 billion (US\$3,047 million), a 7.4% increase from ¥299.9 billion as of March 31, 2003.

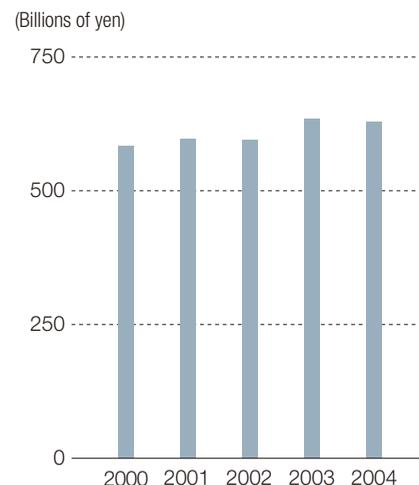
### Geographic Information

Net sales from operations outside Japan were ¥212.2 billion (US\$2,008 million) and ¥183.1 billion for the year ended March 31, 2004 and 2003, respectively, and accounted for 18.3% and 16.5% of the respective consolidated total sales. Net sales from operations outside Japan increased 15.9% from the previous fiscal year. Especially, net sales in Asia recorded a 32.8% growth from the previous year. Operating income from operations outside Japan for the fiscal year ended March 31, 2004 was ¥18.1 billion (US\$171 million), up 37.8% from ¥13.1 billion for the previous fiscal year. Overseas assets as of March 31, 2004 amounted to ¥223.6 billion (US\$2,116 million), 11.6% higher than the previous fiscal year's ¥200.3 billion. The ratio of overseas assets to total assets for the fiscal year ended March 31, 2004 was 14.4%, up 0.9 percentage point from the previous fiscal year.

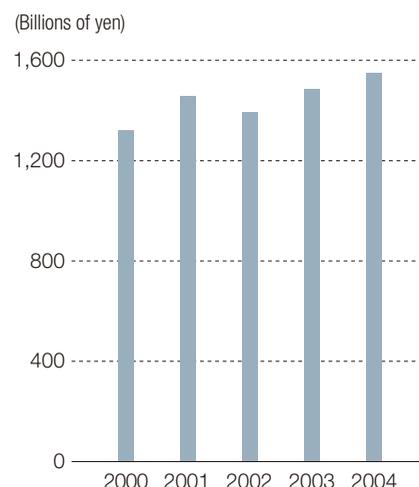
### Cash Flows

Net cash provided from operating activities for the year ended March 31, 2004 was ¥97.1 billion (US\$918 million), ¥44.6 billion less than ¥141.7 billion for the previous fiscal year. Net cash used for investing activities for the year ended March 31, 2004 was ¥103.2 billion (US\$977 million), a 20.1% decrease from ¥129.2 billion for the previous fiscal year. As a result, free cash flow for the year ended March 31, 2004 was negative ¥6.2 billion (US\$59 million), ¥18.7 billion decline from the previous fiscal year.

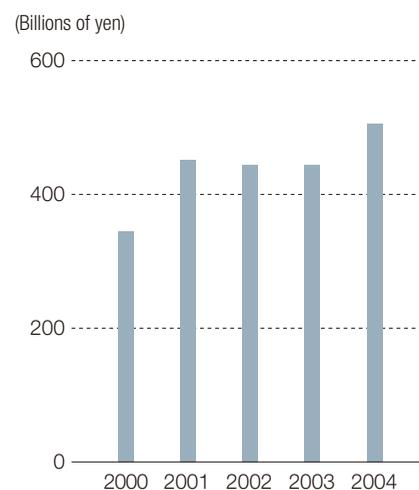
### Total Current Assets



### Total Assets



### Shareholders' Equity



## Capital Expenditure

In the year ended March 31, 2004, the Company's capital investments totaled ¥110.2 billion (US\$1,043 million) which includes investments for new installations and expansions of manufacturing facilities as well as those for streamlining of existing facilities.

In the IT-related Chemicals Sector, we invested ¥37.2 billion (US\$352 million) in the construction of the second 5th generation color filters plant in Korea, and polarizing film production facilities in Korea and Taiwan, in order to respond to an expected surge in demand for LCD materials, spurred by the growth of the LCD market.

In the Pharmaceuticals Sector, we invested ¥21.7 billion (US\$205 million) into the expansion of the manufacturing facilities for bulk pharmaceuticals and Meropen formulation in our Oita Works, and installation of sites across Japan for the production and R&D of the PET imaging agent.

Other segments investments were ¥13.3 billion (US\$126 million) in Basic Chemicals Sector, ¥11.7 billion (US\$111 million) in Petrochemicals & Plastics Sector, ¥7.0 billion (US\$66 million) in Fine Chemicals Sector, ¥5.7 billion (US\$54 million) in Agricultural Chemicals Sector, and ¥13.6 billion (US\$129 million) in Others Sector.

## Research and Development

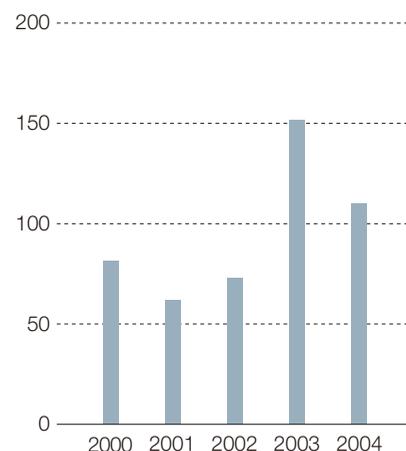
Our basic R&D policy is to develop proprietary superior technologies that will contribute to higher profitability and expanded business operation. We are promoting R&D proactively through close collaboration between a number of corporate and business sector laboratories while bearing in mind that the best possible overall efficiency should be achieved.

The year ended March 31, 2004 was the final year of our previous Three-Year Corporate Business Plan, which called for taking strategic steps towards long-term sustainable growth. We have aggressively invested our research resources into key technologies in IT-related materials, biotechnologies, and catalysts technology.

Our total R&D expenditure in Fiscal 2003 was ¥75.2 billion (US\$711 million).

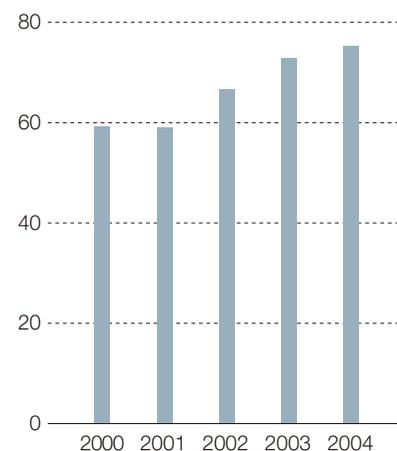
## Capital Expenditures

(Billions of yen)



## Research and Development Expenses

(Billions of yen)



## Breakdown of Capital Expenditures

	Billions of yen, %											
	1999		2000		2001		2002		2003		2004	
<b>New plants and expansions*:</b>												
Basic Chemicals .....	¥12.8	19%	¥ 5.9	7%	¥ 2.9	4%	¥ 2.4	3%	¥ 11.3	7%	¥ 5.4	5%
Petrochemicals & Plastics .....	2.2	3	6.7	8	3.2	5	6.3	9	20.3	13	3.6	3
Fine Chemicals .....	3.2	5	3.9	5	5.5	9	3.3	5	2.1	2	3.6	3
IT-related Chemicals .....	6.4	10	3.0	4	3.3	5	6.1	8	26.3	17	34.6	31
Agricultural Chemicals .....	2.6	4	24.4	30	1.7	3	16.4	22	23.5	16	1.7	2
Pharmaceuticals .....	1.0	1	0.5	1	3.4	6	0.5	1	1.7	1	8.0	7
Others .....	2.9	4	2.5	3	1.4	2	1.8	2	5.8	4	1.4	2
Subtotal .....	31.1	46	46.9	58	21.4	34	36.8	50	91.0	60	58.3	53
<b>Rationalization of production processes .....</b>	2.9	4	4.1	5	3.5	6	5.7	8	6.7	4	4.7	4
<b>Research and development .....</b>	13.0	19	6.8	8	6.6	11	6.5	9	8.9	6	9.8	9
<b>Others .....</b>	20.6	31	23.8	29	30.6	49	24.0	33	45.4	30	37.4	34
<b>Total .....</b>	<b>¥67.6</b>	<b>100%</b>	<b>¥81.6</b>	<b>100%</b>	<b>¥62.1</b>	<b>100%</b>	<b>¥73.0</b>	<b>100%</b>	<b>¥152.0</b>	<b>100%</b>	<b>¥110.2</b>	<b>100%</b>

\*Includes acquisition

# Consolidated Balance Sheets

Sumitomo Chemical Company, Limited and Subsidiaries  
March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents (Note 3) .....	¥ 44,395	¥ 61,891	\$ 420,049
Short-term investments .....	169	59	1,599
Marketable securities (Note 3) .....	91	20	861
Receivables—			
Trade notes and accounts .....	312,723	294,824	2,958,870
Other .....	29,286	30,429	277,093
Allowance for doubtful receivables .....	(4,916)	(4,752)	(46,513)
	337,093	320,501	3,189,450
Inventories .....	210,369	218,983	1,990,434
Deferred tax assets (Note 10) .....	22,041	22,010	208,544
Other .....	14,167	11,332	134,044
Total current assets .....	628,325	634,796	5,944,981
<b>Investments and other non-current assets:</b>			
Investment securities (Notes 3, 4 and 5) .....	343,748	275,442	3,252,417
Other .....	30,643	33,053	289,933
Allowance for doubtful receivables .....	(1,282)	(1,466)	(12,130)
	373,109	307,029	3,530,220
<b>Property, plant and equipment (Note 5):</b>			
Land .....	81,546	79,507	771,558
Buildings and structures .....	393,301	394,450	3,721,270
Machinery and equipment .....	1,059,202	1,001,959	10,021,781
Construction in progress .....	44,647	56,668	422,433
	1,578,696	1,532,584	14,937,042
Less accumulated depreciation .....	(1,096,792)	(1,066,968)	(10,377,443)
	481,904	465,616	4,559,599
<b>Other assets:</b>			
Excess of cost over equity in net assets acquired .....	2,605	3,753	24,648
Deferred tax assets (Note 10) .....	19,014	23,170	179,903
Goodwill .....	11,484	18,688	108,657
Software .....	13,679	8,396	129,426
Products registration rights .....	5,523	6,746	52,257
Facilities rights and others .....	13,648	16,081	129,132
	65,953	76,834	624,023
	¥1,549,291	¥1,484,275	\$14,658,823

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities:</b>			
Short-term debt (Note 5) .....	¥ 140,086	¥ 136,714	\$ 1,325,442
Long-term debt due within one year (Note 5) .....	63,948	76,559	605,053
Payables—			
Trade notes and accounts .....	197,471	186,584	1,868,398
Other .....	57,524	83,489	544,271
	254,995	270,073	2,412,669
Accrued expenses .....	23,430	23,721	221,686
Income taxes payable .....	16,765	22,984	158,624
Deferred tax liabilities (Note 10) .....	576	52	5,450
Other .....	33,240	45,847	314,505
Total current liabilities .....	533,040	575,950	5,043,429
Long-term debt due after one year (Note 5) .....	281,262	271,891	2,661,198
Deferred tax liabilities (Note 10) .....	40,572	9,529	383,877
Retirement benefits (Note 8) .....	60,170	58,508	569,306
Other non-current liabilities .....	28,093	28,330	265,806
Minority interests in consolidated subsidiaries .....	100,032	95,733	946,466
Contingent liabilities (Note 12)			
<b>Shareholders' equity (Note 11):</b>			
Common stock,			
Authorized — 5,000,000,000 shares			
Issued — 1,655,446,177 shares at March 31, 2004			
1,655,446,177 shares at March 31, 2003 .....	89,699	89,699	848,699
Capital surplus .....	21,413	21,411	202,602
Retained earnings .....	321,990	299,896	3,046,551
Land revaluation reserve (Note 13) .....	3,982	3,982	37,676
Unrealized gains on investment securities .....	88,043	42,951	833,031
Foreign currency translation adjustments .....	(18,229)	(12,892)	(172,476)
Treasury stock, at cost			
1,908,227 shares at March 31, 2004			
1,762,518 shares at March 31, 2003 .....	(776)	(713)	(7,342)
Total shareholders' equity .....	506,122	444,334	4,788,741
	¥1,549,291	¥1,484,275	\$14,658,823

See accompanying notes.

# Consolidated Statements of Income

Sumitomo Chemical Company, Limited and Subsidiaries  
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	2004
<b>Net sales</b> .....	¥1,158,402	¥1,111,128	¥1,018,352	\$10,960,375
<b>Cost of sales</b> .....	850,188	798,001	724,947	8,044,167
<b>Selling, general and administrative expenses</b> .....	241,594	239,607	224,569	2,285,874
Operating income .....	66,620	73,520	68,836	630,334
<b>Other income (expenses):</b>				
Interest and dividend income .....	4,962	3,986	4,530	46,949
Interest expense .....	(7,808)	(9,305)	(11,940)	(73,876)
Equity in earnings of affiliates .....	8,596	2,590	6,660	81,332
Gain on sale of property, plant and equipment .....	9,060	2,189	1,937	85,722
Net gain on sale of securities .....	3,138	1,268	13,317	29,691
Reversal of (allowance for) doubtful receivables .....	720	2,185	(1,785)	6,812
Restructuring charges (Note 9) .....	(4,486)	(6,423)	(5,039)	(42,445)
Loss on disposal of inventories .....	(3,075)	(2,390)	(1,607)	(29,095)
Loss associated with lease contract cancellation .....	(2,451)	—	—	(23,190)
Loss on write-down of investment securities .....	—	(4,042)	(611)	—
Amortization of goodwill .....	—	—	(11,294)	—
Loss on settlement of patent dispute .....	—	—	(6,111)	—
Other, net .....	(2,967)	(364)	872	(28,073)
Income before income taxes and minority interests .....	72,309	63,214	57,765	684,161
<b>Income taxes</b> (Note 10):				
Current .....	26,224	35,332	24,912	248,122
Deferred .....	4,744	(9,571)	(1,589)	44,886
	30,968	25,761	23,323	293,008
<b>Minority interests</b> .....	7,023	6,319	4,231	66,449
<b>Net income</b> .....	¥ 34,318	¥ 31,134	¥ 30,211	\$ 324,704

	Yen			U.S. dollars (Note 1)
	2004	2003	2002	2004
<b>Net income per 1,000 shares</b> .....	¥ 20,715	¥ 18,742	¥ 18,250	\$ 196.00
<b>Dilutive net income per 1,000 shares</b> .....	20,572	18,528	18,047	194.64

See accompanying notes.

## Consolidated Statements of Shareholders' Equity

Sumitomo Chemical Company, Limited and Subsidiaries  
Years ended March 31, 2004, 2003 and 2002

	Millions of yen							
	Shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Land revaluation reserve	Unrealized gains on investment securities	Foreign currency translation adjustments	Treasury stock
<b>Balance at March 31, 2001</b> .....	1,655,446	¥89,699	¥21,411	¥259,464	¥4,345	¥98,155	¥(21,293)	¥ (2)
Net income .....				30,211				
Cash dividends at ¥6.0 per share .....				(9,933)				
Bonuses to directors and statutory auditors .....				(129)				
Net decrease in unrealized gains on investment securities, net of tax .....						(37,935)		
Revaluation of land by certain affiliates, net of tax .....				429	(429)			
Foreign currency translation adjustments .....							10,635	
Net increase in treasury stock .....								(49)
<b>Balance at March 31, 2002</b> .....	1,655,446	89,699	21,411	280,042	3,916	60,220	(10,658)	(51)
Net income .....				31,134				
Cash dividends at ¥6.0 per share .....				(9,931)				
Bonuses to directors and statutory auditors .....				(129)				
Adjustment for decrease in consolidated subsidiaries and affiliates accounted for by the equity method .....				535				
Decrease mainly due to changes in accounting policies by overseas subsidiaries and affiliates ..				(1,759)				
Net decrease in unrealized gains on investment securities, net of tax .....						(17,269)		
Revaluation of land by certain affiliates, net of tax .....				4	66			
Foreign currency translation adjustments .....							(2,234)	
Net increase in treasury stock .....								(662)
<b>Balance at March 31, 2003</b> .....	1,655,446	89,699	21,411	299,896	3,982	42,951	(12,892)	(713)
Net income .....				34,318				
Cash dividends at ¥6.0 per share .....				(9,925)				
Bonuses to directors and statutory auditors .....				(129)				
Adjustment for decrease in consolidated subsidiary Decrease mainly due to changes in accounting policies by overseas subsidiaries and affiliates ..				(13)				
Surplus from sales of treasury stock .....			2	(2,157)				
Net increase in unrealized gains on investment securities, net of tax .....						45,092		
Foreign currency translation adjustments .....							(5,337)	
Net increase in treasury stock .....								(63)
<b>Balance at March 31, 2004</b> .....	1,655,446	¥89,699	¥21,413	¥321,990	¥3,982	¥88,043	¥(18,229)	¥(776)

Thousands of U.S. dollars (Note 1)

<b>Balance at March 31, 2003</b> .....	\$848,699	\$202,583	\$2,837,507	\$37,676	\$406,387	\$(121,979)	\$(6,746)
Net income .....			324,704				
Cash dividends at ¥6.0 (US\$0.057) per share .....			(93,907)				
Bonuses to directors and statutory auditors .....			(1,221)				
Adjustment for decrease in consolidated subsidiary Decrease mainly due to changes in accounting policies by overseas subsidiaries and affiliates .....			(123)				
Surplus from sales of treasury stock .....		19	(20,409)				
Net increase in unrealized gains on investment securities, net of tax .....					426,644		
Foreign currency translation adjustments .....						(50,497)	
Net increase in treasury stock .....							(596)
<b>Balance at March 31, 2004</b> .....	\$848,699	\$202,602	\$3,046,551	\$37,676	\$833,031	\$(172,476)	\$(7,342)

See accompanying notes.

# Consolidated Statements of Cash Flows

Sumitomo Chemical Company, Limited and Subsidiaries  
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	2004
<b>Cash flows from operating activities:</b>				
Income before income taxes and minority interests .....	¥ 72,309	¥ 63,214	¥ 57,765	\$ 684,161
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities—				
Depreciation and amortization .....	82,482	69,026	79,247	780,414
Equity in (earnings) losses of affiliates .....	(1,536)	1,930	(2,686)	(14,533)
Interest and dividend income .....	(4,962)	(3,986)	(4,530)	(46,949)
Interest expense .....	7,808	9,305	11,940	73,876
Gain on sale of securities .....	(3,226)	(1,255)	(13,317)	(30,523)
Gain on sale of property, plant and equipment .....	(9,060)	(2,189)	(1,937)	(85,722)
Restructuring charges .....	3,398	5,031	2,541	32,151
(Decrease) increase of provision for retirement benefits and others .....	(1,359)	1,629	(10,660)	(12,858)
(Increase) decrease in notes and accounts receivable .....	(18,328)	(9,693)	20,481	(173,413)
Decrease (increase) in inventories .....	7,183	(8,803)	(6,450)	67,963
Increase (decrease) in notes and accounts payable .....	11,115	37,187	(21,110)	105,166
Other, net .....	(11,018)	10,413	(7,103)	(104,248)
Subtotal .....	134,806	171,809	104,181	1,275,485
Interest and dividends received .....	3,485	4,041	4,191	32,974
Interest paid .....	(7,866)	(9,683)	(12,081)	(74,425)
Income taxes paid .....	(33,373)	(24,487)	(33,436)	(315,764)
Net cash provided by operating activities .....	97,052	141,680	62,855	918,270
<b>Cash flows from investing activities:</b>				
Acquisition of securities .....	(11,252)	(6,921)	(3,616)	(106,462)
Proceeds from sale of securities .....	18,959	7,558	19,914	179,383
Acquisition of property, plant and equipment .....	(132,868)	(90,984)	(71,943)	(1,257,148)
Proceeds from sale of property, plant and equipment .....	19,141	3,161	3,073	181,105
Advance of long-term loans receivable .....	(3,662)	(4,085)	(6,586)	(34,649)
Collection of long-term loans receivable .....	6,055	3,351	3,408	57,290
Acquisition of business, net of cash acquired .....	—	(36,363)	—	—
Time deposits, maturing after three months and other, net .....	387	(4,912)	(1,466)	3,662
Net cash used in investing activities .....	(103,240)	(129,195)	(57,216)	(976,819)
<b>Cash flows from financing activities:</b>				
Dividends paid .....	(9,925)	(9,931)	(9,933)	(93,907)
Net increase in commercial paper .....	7,500	13,000	—	70,962
Proceeds from other short-term debt .....	121,828	138,089	141,641	1,152,692
Repayments of other short-term debt .....	(126,890)	(141,021)	(132,381)	(1,200,587)
Proceeds from long-term debt .....	100,473	89,744	93,732	950,639
Repayments of long-term debt .....	(99,114)	(98,378)	(96,606)	(937,780)
Distributions to minority shareholders .....	(3,888)	(4,536)	(5,841)	(36,787)
Capital contributions from minority shareholders .....	782	8,541	589	7,399
Purchase of treasury stocks .....	(81)	(664)	(47)	(766)
Net cash used in financing activities .....	(9,315)	(5,156)	(8,846)	(88,135)
Effect of exchange rate changes on cash and cash equivalents .....	(2,007)	(643)	1,874	(18,989)
Net (decrease) increase in cash and cash equivalents .....	(17,510)	6,686	(1,333)	(165,673)
Increase in cash due to merger of consolidated subsidiary .....	58	—	—	548
(Decrease) increase in cash resulting from changes in the number of consolidated subsidiaries .....	(44)	(97)	66	(416)
Cash and cash equivalents at beginning of year .....	61,891	55,302	56,569	585,590
Cash and cash equivalents at end of year .....	¥ 44,395	¥ 61,891	¥ 55,302	\$ 420,049

See accompanying notes.

# Notes to Consolidated Financial Statements

Sumitomo Chemical Company, Limited and Subsidiaries  
Years ended March 31, 2004, 2003 and 2002

## 1. Basis of Financial Statements

(a) The Company and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation is not presented in the accompanying consolidated financial statements.

Certain reclassifications have been made in the previous consolidated financial statements to conform to the presentation for the current year.

(b) The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥105.69 to U.S.\$1.00. Such translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

(c) In these notes, the "Company" means Sumitomo Chemical Company, Limited and the "Companies" means the Company and its consolidated subsidiaries.

## 2. Significant Accounting Policies

### (a) Consolidation

The consolidated financial statements include the accounts of the Company and 110, 110 and 102 significant subsidiaries for the years ended March 31, 2004, 2003 and 2002, respectively. All significant intercompany transactions and accounts have been eliminated. Accounts of subsidiaries whose business year-ends precede that of the Company by more than three months have been included using appropriate interim financial information.

The accompanying consolidated financial statements include the accounts of the Company and significant companies, over which the Company has control through majority voting right or certain other conditions evidencing control by the Company. Investments in non-consolidated subsidiaries and affiliates (generally 20% - 50% ownership), over which the Company has the ability to exercise significant influence over operating and financial policies, are accounted for by the equity method. The equity method is applied to 38, 40 and 42 significant affiliates for the years ended March 31, 2004, 2003 and 2002, respectively.

Excess of cost over equity in net assets acquired is amortized within twenty years.

### (b) Foreign currency translation

Foreign currency monetary assets and liabilities are translated into Japanese yen at the current rate at the end of the year and the resulting translation gains or losses are included in earnings.

All assets, liabilities, revenues and expenses of foreign subsidiaries and affiliates are translated into Japanese yen at the current rate at the end of the year and shareholders' equity at historical rates.

The resulting foreign currency translation adjustments are included in shareholders' equity and in minority interests.

### (c) Allowance for doubtful receivables

The Companies provide for doubtful accounts principally at an amount computed based on the actual ratio of bad debts in the past plus the estimated uncollectible amounts based on the analysis of certain individual receivables.

*(d) Securities*

Under the Japanese accounting standard for financial instruments, all companies are required to examine the intent of holding each security and classify those securities as 1) securities held for trading purposes (“trading securities”), 2) debt securities intended to be held to maturity (“held-to-maturity debt securities”), 3) equity securities issued by subsidiaries and affiliates, and 4) all other securities that are not classified in any of the above categories (“available-for-sale securities”).

The Companies have no trading securities.

Held-to maturity debt securities are stated at amortized cost.

Equity securities issued by subsidiaries and affiliates which are not consolidated or accounted for using the equity method are stated at moving average cost.

Available-for-sale securities whose fair value is readily determinable are stated at fair value as of the end of the year with unrealized gains and losses, net of applicable deferred tax assets/liabilities and minority interests, not reflected in earnings but directly reported as a separate component of shareholders' equity. Realized gains or losses on sales of such securities are computed using moving-average cost. Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving average cost.

If a decline in fair value below cost of an individual security is judged to be material and other than temporary, the carrying value of the individual security is written down.

*(e) Derivatives and hedge accounting*

The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative instruments are used for hedging purposes. If derivative financial instruments meet certain hedging criteria, the Companies defer gains and losses resulting from changes in fair value of derivative financial instruments until the hedged transactions occur. When a foreign exchange forward contract or foreign currency swap contract meets certain conditions, the hedged item is stated by the forward exchange contract rate. If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

*(f) Inventories*

The Companies' inventories are stated at the lower of cost or market. Cost is determined by the last-in, first-out (LIFO) method. Inventories of certain consolidated subsidiaries are stated at average cost.

*(g) Property, plant and equipment*

Property, plant and equipment are carried at cost and depreciated by the declining balance method (straight-line method for certain subsidiaries) over estimated useful lives.

*(h) Intangible assets*

Goodwill, products registration rights and other intangible assets are amortized on the straight-line method over the estimated useful lives. However, goodwill of the Company is fully amortized at the time of acquisition.

The Company's U.S. consolidated subsidiaries have adopted SFAS No. 142, “Goodwill and Other Intangible Assets,” in their fiscal year ended December 31, 2002. In accordance with SFAS No. 142, goodwill and other intangible assets that are determined to have an indefinite useful life are not amortized, but must be tested at least annually for impairment.

*(i) Impairment of Long-Lived Assets*

The Company's U.S. consolidated subsidiaries have adopted SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” in their fiscal year ended December 31, 2002. Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If an asset is considered impaired, the impairment loss to be recognized is measured as the amount by which the asset's carrying amount exceeds its fair value.

*(j) Finance leases*

Finance leases which do not transfer ownership are accounted for in the same manner as operating leases in accordance with Japanese GAAP. Under Japanese accounting policies for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the lessee's financial statements.

*(k) Research and development*

Expenses relating to research and development activities are charged to income as incurred. Research and development expenses were ¥75,194 million (US\$711,458 thousand), ¥72,822 million and ¥66,670 million for the years ended March 31, 2004, 2003 and 2002, respectively.

*(l) Bond issue expenses*

Bond issue expenses are charged to income as incurred.

*(m) Income taxes*

Income taxes comprise corporation tax, prefectural and municipal inhabitants taxes and enterprise tax. Deferred taxes are accounted for using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying amount and tax basis of assets and liabilities using enacted tax rates.

*(n) Retirement benefits*

*(i) Employees:* The Company has two retirement plans in effect, a lump-sum benefit plan and a defined benefit pension plan. Under the terms of the lump-sum benefit plan, generally all employees are entitled, upon mandatory retirement or earlier voluntary severance, to indemnities based on compensation at the time of severance, and years of service. The Company's defined benefit plan is funded through outside trustees and covers all eligible employees. Certain consolidated subsidiaries also have similar plans.

The Company and its domestic consolidated subsidiaries provided for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the pension assets.

The unrecognized net actuarial Differences is being amortized mainly over three years. The past period service cost is being amortized mainly over three years.

*(ii) Directors and statutory auditors:* The liability for directors' and statutory auditors' retirement benefits of the Company and certain subsidiaries is provided based on the Companies' standards and ¥2,291 million (US\$21,677 thousand) and ¥2,675 million were included in the other non-current liabilities at March 31, 2004 and 2003, respectively.

*(o) Net income per 1,000 shares*

The computation of net income per 1,000 shares of common stock shown in the consolidated statements of income is based on the weighted average number of shares outstanding during the period and net income available to common shareholders. The computation of dilutive net income per 1,000 shares of common stock is based on the weighted average number of shares of common stock outstanding increased by the number of shares which would have been outstanding assuming the conversion of outstanding dilutive bonds at the beginning of the period. The related interest expense, net of income taxes, has been eliminated for the purposes of this calculation.

Effective April 1, 2002, the Company and its domestic subsidiaries adopted a new accounting standard for earnings per share and related guidance (Accounting Standards Boards Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002). The adoption had no significant effect on earnings per share.

*(p) Cash and cash equivalents*

Cash and cash equivalents include cash on hand, readily-available deposits and short-term investments, which are easily convertible into cash and present insignificant risk of changes in value, with original maturities of three months or less.

*(q) Impairment of fixed assets*

In August 2002, the Business Accounting Council in Japan issued the Opinion on Accounting Standard for Impairment of Fixed Assets, which requires that the book value of fixed assets should be devalued to the recoverable amount. The opinion requires the standard to be adopted for the fiscal year beginning after March 31, 2005, but early application is permitted. The Companies did not adopt the opinion in the year ended March 31, 2004.

### 3. Securities

Securities with available fair values included in investment securities as of March 31, 2004 were as follows:

#### Available-for-sale securities

(a) Securities with book values exceeding acquisition cost

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities .....	¥44,560	¥200,136	¥155,576
Bonds .....	11	11	0
Total .....	¥44,571	¥200,147	¥155,576

(b) Other securities

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities .....	¥1,049	¥914	¥(135)

#### Available-for-sale securities

(a) Securities with book values exceeding acquisition cost

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities .....	\$421,610	\$1,893,613	\$1,472,003
Bonds .....	104	104	0
Total .....	\$421,714	\$1,893,717	\$1,472,003

(b) Other securities

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities .....	\$9,925	\$8,648	\$(1,277)

Securities with no available fair values included in cash equivalents, marketable securities and investment securities as of March 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars
Held-to-maturity debt securities		
National and local government bonds and other .....	¥ 241	\$ 2,280
Available-for-sale securities;		
Non-listed equity securities .....	20,998	198,675
Preferred securities .....	13,007	123,067
Certificates of deposit and others .....	1,860	17,599
Investment securities in non-consolidated subsidiaries and affiliates .....	108,475	1,026,351
Total .....	¥144,581	\$1,367,972

Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2004 were as follows:

	Millions of yen		
	Within one year	Over one year but within five years	Over five years but within ten years
Bonds .....	¥11	¥ —	¥—
National and local government bonds and other .....	51	105	85
Total .....	¥62	¥105	¥85

	Thousands of U.S. dollars		
	Within one year	Over one year but within five years	Over five years but within ten years
Bonds .....	\$104	\$ —	\$ —
National and local government bonds and other .....	483	993	804
Total .....	\$587	\$993	\$804

Total sales of available-for-sale securities in the year ended March 31, 2004 amounted to ¥12,853 million (US\$121,610 thousand) and the related gains and losses amounted to ¥3,200 million (US\$30,277 thousand) and ¥2 million (US\$19 thousand), respectively.

Securities with available fair values included in investment securities as of March 31, 2003 were as follows:

#### Available-for-sale securities

(a) Securities with book values exceeding acquisition cost

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities .....	¥32,431	¥114,784	¥82,353
Bonds .....	15	15	0
Total .....	¥32,446	¥114,799	¥82,353

(b) Other securities

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities .....	¥17,248	¥14,379	¥(2,869)

Securities with no available fair values included in cash equivalents, marketable securities and investment securities as of March 31, 2003 were as follows:

	Millions of yen
Held-to-maturity debt securities	
Subordinated bonds and other .....	¥ 2,280
Available-for-sale securities;	
Non-listed equity securities .....	11,581
Preferred securities .....	18,009
Public and corporate bond investment trusts .....	60
Investment securities in non-consolidated subsidiaries and affiliates .....	114,414
Total .....	¥146,344

Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2003 were as follows:

	Millions of yen		
	Within one year	Over one year but within five years	Over five years but within ten years
Bonds .....	¥37	¥105	¥ 106
Subordinated bonds and other .....	32	15	2,000
Total .....	¥69	¥120	¥2,106

Total sales of available-for-sale securities in the year ended March 31, 2003 amounted to ¥7,170 million and the related gains and losses amounted to ¥3,081 million and ¥1,869 million, respectively.

#### 4. Investments in Related Companies

Investments in non-consolidated subsidiaries and affiliates included in the balance sheet at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Investment securities .....	¥108,475	¥114,414	\$1,026,351
Other non-current assets .....	7,541	7,544	71,350

#### 5. Short-term Debt and Long-term Debt

Interest rates of short-term bank loans ranged from 0.07% to 10.5% and from 0.28% to 13.5% at March 31, 2004 and 2003, respectively.

Short-term debt at March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Bank loans .....	¥102,586	¥106,714	\$ 970,631
Commercial paper .....	37,500	30,000	354,811
	¥140,086	¥136,714	\$1,325,442

Long-term debt at March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
1.7% convertible bonds due 2003 .....	¥ —	¥ 19,548	\$ —
1.6% convertible bonds due 2004, convertible into shares of the Company's common stock at a price of ¥965.80 per share .....	19,914	19,914	188,419
0.03%-1.35% euro notes under medium-term note programs due 2004-2006 .....	12,292	16,047	116,302
0.44%-3.0% debentures due 2004-2015 .....	222,000	187,000	2,100,483
0.24%-7.5% long-term bank loans payable due through 2032 .....	91,004	105,941	861,047
	345,210	348,450	3,266,251
Less amounts due within one year .....	(63,948)	(76,559)	(605,053)
	¥281,262	¥271,891	\$2,661,198

The aggregate annual maturities of long-term debt subsequent to March 31, 2004, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005 .....	¥ 63,948	\$ 605,053
2006 .....	38,944	368,474
2007 .....	38,157	361,028
2008 .....	34,582	327,202
2009 .....	52,994	501,410
2010 and thereafter .....	116,585	1,103,084
	<b>¥345,210</b>	<b>\$3,266,251</b>

At March 31, 2004, assets pledged as collateral for short-term debt, long-term debt and others were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, net of accumulated depreciation .....	¥28,526	\$269,903
Investment securities and other .....	9,839	93,093
	<b>¥38,365</b>	<b>\$362,996</b>
Liabilities secured thereby .....	¥20,656	\$195,439

## 6. Leases

At March 31, 2004 and 2003, assets leased under non-capitalized financial leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Machinery and equipment .....	¥9,629	¥9,771	\$91,107
Buildings and structures .....	27	27	255
Less accumulated depreciation and amortization .....	(4,787)	(4,147)	(45,293)
Total .....	<b>¥4,869</b>	<b>¥5,651</b>	<b>\$46,069</b>

The above "as if capitalized" depreciation and amortization is calculated on the straight line method over lease terms. If the above leases were capitalized, interest of ¥75 million (US\$710 thousand) and ¥97 million and depreciation and amortization of ¥2,065 million (US\$19,538 thousand) and ¥1,856 million would have been recorded for the years ended March 31, 2004 and 2003, respectively.

Total lease payments under non-capitalized finance leases were ¥2,169 million (US\$20,522 thousand), ¥1,981 million and ¥2,282 million for the years ended March 31, 2004, 2003 and 2002, respectively.

Obligations under non-capitalized finance leases at March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Due within one year .....	¥1,918	¥1,961	\$18,147
Due after one year .....	2,971	3,781	28,111
Total .....	<b>¥4,889</b>	<b>¥5,742</b>	<b>\$46,258</b>

Obligations under operating leases at March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Due within one year .....	¥ 1,447	¥1,357	\$ 13,691
Due after one year .....	12,055	8,200	114,060
Total .....	<b>¥13,502</b>	<b>¥9,557</b>	<b>\$127,751</b>

## 7. Derivative Transactions and Hedging Accounting

The Companies enter into forward exchange contracts and currency swaps to hedge exchange rate risk associated with monetary items receivable and payable denominated in foreign currencies, interest rate swaps to hedge the risk related to interest on borrowings and reduce financing costs, and commodity forward contracts to manage exposures to fluctuations in market prices of aluminum. The Companies use derivative transactions for hedging market risk and not for speculation or dealing purposes. The Companies have established policies to manage both market and credit risk. In accordance with these policies, the Companies use highly-rated financial institutions and trading companies as counterparties, limit transaction types and amounts and require reporting to the Board of Directors.

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments	Hedging items
Forward foreign exchange contracts	Foreign currency receivables and payables
Currency swap contracts	Foreign currency bonds and loans
Interest rate swap contracts	Interest on bonds and loans
Commodity forward contracts	Sales and purchase of Aluminum

The Companies evaluate hedge effectiveness by comparing total cash flow of hedging instruments and hedged items.

## 8. Retirement Benefits

The liabilities for retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected retirement benefit obligation .....	¥(243,812)	¥(250,696)	\$(2,306,860)
Plan assets .....	188,302	161,554	1,781,645
Unfunded retirement benefit obligation .....	(55,510)	(89,142)	(525,215)
Unrecognized actuarial differences .....	(3,207)	30,677	(30,343)
Unrecognized past period service cost .....	(1,453)	(43)	(13,748)
Provision for employees' retirement benefits .....	¥ (60,170)	¥ (58,508)	\$ (569,306)

Net periodic costs for the years ended March 31, 2004, 2003 and 2002 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Service cost .....	¥10,160	¥10,813	¥ 9,268	\$ 96,130
Interest cost .....	4,299	4,313	4,254	40,676
Expected return on retirement benefit plan assets .....	(2,822)	(2,901)	(2,752)	(26,701)
Amortization of actuarial differences .....	12,301	9,281	5,992	116,388
Amortization of past period service cost .....	(145)	12	1	(1,372)
Net periodic cost .....	¥23,793	¥21,518	¥16,763	\$225,121

The assumptions and basis used for the calculation of retirement benefit obligations were as follows:

Discount rate .....	mainly 1.5%
Expected return rate for plan assets .....	mainly 1.7%
Amortization period for actuarial differences .....	mainly 3 years
Amortization period for past period service cost .....	mainly 3 years

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years.

## 9. Restructuring Charges

Restructuring charges consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Loss on disposal of property, plant and equipment .....	¥1,507	¥2,824	¥1,897	\$14,259
Loss associated with the withdrawal from the composite pension fund .....	1,300	—	—	12,300
Loss on investments in and loans to related companies .....	781	314	2,130	7,390
Special severance benefits .....	350	540	927	3,312
Impairment loss on intangible assets in accordance with SFAS No.142 and No.144 (Note 2(h) and (i)) .....	—	2,573	—	—
Others .....	548	172	85	5,184
	¥4,486	¥6,423	¥5,039	\$42,445

## 10. Deferred Taxes

Significant components of deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Retirement benefits .....	¥21,497	¥18,543	\$203,397
Depreciation and amortization .....	18,484	20,010	174,889
Accrued bonuses .....	6,165	5,256	58,331
Tax loss carry forwards .....	4,191	1,244	39,654
Inventories .....	3,726	3,596	35,254
Unrealized intercompany profit .....	2,547	2,042	24,099
Other .....	17,124	24,512	162,020
Total deferred tax assets .....	73,734	75,203	697,644
Unrealized gain on investment securities .....	(60,819)	(30,748)	(575,447)
Deferred gain on property, plant and equipment .....	(5,263)	(3,763)	(49,797)
Foreign affiliates' undistributed earnings .....	(3,053)	(2,595)	(28,886)
Other .....	(4,692)	(2,498)	(44,394)
Total deferred tax liabilities .....	(73,827)	(39,604)	(698,524)
Net deferred tax assets .....	¥ (93)	¥35,599	\$ (880)

Significant items in the reconciliations of the normal income tax rate to the effective income tax rate for the years ended March 31, 2004, 2003 and 2002 were as follows:

	2004	2003	2002
Normal income tax rate in Japan .....	40.9%	40.9%	40.9%
Permanently non-deductible expenses .....	2.0	2.7	3.1
Permanently non-taxable dividends received .....	(1.1)	(0.8)	(1.8)
Other .....	1.0	(2.0)	(1.8)
Effective income tax rate .....	42.8%	40.8%	40.4%

## 11. Shareholders' Equity

Under the Japanese Commercial Code, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital which is included in capital surplus.

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital are not available for dividends unless the total amount of legal reserve and additional paid-in capital exceeds 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the stockholders or may be capitalized by resolution of the Board of Directors. Legal reserve is included in retained earnings.

## 12. Contingent Liabilities

At March 31, 2004, the Companies were contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of notes discounted or endorsed .....	¥ 6	\$ 57
As guarantor of indebtedness .....	16,308	154,300
As issuer of letters of comfort .....	2,996	28,347
	<b>¥19,304</b>	<b>\$182,647</b>

## 13. Land Revaluation Reserve

In the year ended March 31, 2000, certain affiliates, accounted for by the equity method, revalued land under the Land Revaluation Law and recorded unrealized gains on revaluation, net of tax, as a revaluation reserve directly in shareholders' equity. Investments in these affiliates increased in an amount equal to the Companies' equity in their reserves, as presented as Land revaluation reserve.

## 14. Segment Information

The operations of the Companies for the years ended March 31, 2004, 2003 and 2002 were summarized by product group and geographic area as follows:

The Companies have reclassified certain subsidiaries and affiliates in terms of business segments to which they belong and net sales of "Asia" is separately shown for the year ended March 31, 2004, since sales in the region are expected to increase continuously hereafter. Prior period statements have been restated to conform to the current period.

Segment information by product group	Millions of yen								
	Basic Chemicals	Petrochemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Others	Adjustments & Elimination	Consolidated
<b>Year ended March 31, 2004</b>									
Sales to unaffiliated customers .....	¥199,050	¥362,411	¥80,594	¥123,525	¥167,105	¥166,561	¥ 59,156	¥ —	¥1,158,402
Inter-segment transfers .....	9,391	8,678	4,767	2,208	2,010	69	86,054	(113,177)	—
Total sales .....	208,441	371,089	85,361	125,733	169,115	166,630	145,210	(113,177)	1,158,402
Operating cost .....	205,861	372,728	76,549	111,398	158,396	138,791	140,318	(112,259)	1,091,782
Operating income (loss) .....	¥ 2,580	¥ (1,639)	¥ 8,812	¥ 14,335	¥ 10,719	¥ 27,839	¥ 4,892	¥ (918)	¥ 66,620
Assets .....	¥185,530	¥346,419	¥94,307	¥164,418	¥210,610	¥248,764	¥213,047	¥ 86,196	¥1,549,291
Depreciation and amortization .....	11,349	18,241	6,821	10,471	11,861	12,153	8,366	3,220	82,482
Capital expenditure .....	13,268	11,736	6,954	37,194	5,685	21,692	4,742	8,921	110,192

Segment information by product group	Millions of yen								
	Basic Chemicals	Petrochemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Others	Adjustments & Elimination	Consolidated
<b>Year ended March 31, 2003</b>									
Sales to unaffiliated customers .....	¥194,388	¥371,630	¥ 83,859	¥ 82,516	¥158,712	¥168,446	¥ 51,577	¥ —	¥1,111,128
Inter-segment transfers .....	7,301	6,674	13,843	1,811	1,704	63	92,048	(123,444)	—
Total sales .....	201,689	378,304	97,702	84,327	160,416	168,509	143,625	(123,444)	1,111,128
Operating cost .....	195,958	373,287	88,428	83,853	143,731	136,210	139,434	(123,293)	1,037,608
Operating income (loss) .....	¥5,731	¥ 5,017	¥ 9,274	¥ 474	¥ 16,685	¥ 32,299	¥ 4,191	¥ (151)	¥ 73,520
Assets .....	¥176,493	¥341,384	¥109,511	¥129,909	¥219,359	¥228,497	¥235,820	¥ 43,302	¥1,484,275
Depreciation and amortization .....	9,307	13,925	8,857	7,390	11,569	9,535	6,350	2,093	69,026
Capital expenditure .....	19,587	26,079	6,688	29,831	26,546	13,527	22,575	7,168	152,001

Segment information by product group	Millions of yen								Consolidated
	Basic Chemicals	Petrochemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Others	Adjustments & Elimination	
<b>Year ended March 31, 2002</b>									
Sales to unaffiliated customers .....	¥175,226	¥338,889	¥ 80,222	¥59,799	¥135,384	¥173,982	¥ 54,850	¥ —	¥1,018,352
Inter-segment transfers .....	7,026	4,395	13,620	29	1,312	77	74,970	(101,429)	—
Total sales .....	182,252	343,284	93,842	59,828	136,696	174,059	129,820	(101,429)	1,018,352
Operating cost .....	178,769	343,674	84,905	66,135	118,773	132,042	126,476	(101,258)	949,516
Operating income (loss) .....	¥ 3,483	¥ (390)	¥ 8,937	¥ (6,307)	¥ 17,923	¥ 42,017	¥ 3,344	¥ (171)	¥ 68,836
Assets .....	¥158,919	¥314,399	¥118,466	¥84,237	¥184,442	¥215,143	¥212,546	¥105,007	¥1,393,159
Depreciation and amortization .....	9,056	14,210	9,272	7,316	20,076	9,462	6,645	3,210	79,247
Capital expenditure .....	10,743	12,311	9,558	8,414	19,187	4,981	5,725	2,064	72,983
<b>Thousands of U.S. dollars</b>									
Segment information by product group	Basic Chemicals	Petrochemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Others	Adjustments & Elimination	Consolidated
<b>Year ended March 31, 2004</b>									
Sales to unaffiliated customers .....	\$1,883,338	\$3,429,000	\$762,551	\$1,168,748	\$1,581,086	\$1,575,939	\$ 559,713	\$ —	\$10,960,375
Inter-segment transfers .....	88,854	82,108	45,103	20,892	19,018	653	814,211	(1,070,839)	—
Total sales .....	1,972,192	3,511,108	807,654	1,189,640	1,600,104	1,576,592	1,373,924	(1,070,839)	10,960,375
Operating cost .....	1,947,781	3,526,616	724,278	1,054,007	1,498,685	1,313,190	1,327,638	(1,062,154)	10,330,041
Operating income (loss) .....	\$ 24,411	\$ (15,508)	\$ 83,376	\$ 135,633	\$ 101,419	\$ 263,402	\$ 46,286	\$ (8,685)	\$ 630,334
Assets .....	\$1,755,417	\$3,277,689	\$892,298	\$1,555,663	\$1,992,715	\$2,353,714	\$2,015,772	\$ 815,555	\$14,658,823
Depreciation and amortization .....	107,380	172,590	64,538	99,073	112,224	114,987	79,156	30,466	780,414
Capital expenditure .....	125,537	111,042	65,796	351,916	53,789	205,242	44,867	84,407	1,042,596

Segment information by geographic area	Millions of yen				
	Japan	Asia	Others	Adjustments & Elimination	Consolidated
<b>Year ended March 31, 2004</b>					
Sales to unaffiliated customers .....	¥ 946,173	¥142,857	¥69,372	¥ —	¥1,158,402
Inter-segment transfers .....	61,397	4,003	14,957	(80,357)	—
Total sales .....	1,007,570	146,860	84,329	(80,357)	1,158,402
Operating cost .....	957,005	133,907	79,223	(78,353)	1,091,782
Operating income .....	¥ 50,565	¥ 12,953	¥ 5,106	¥ (2,004)	¥ 66,620
Assets .....	¥1,260,326	¥150,631	¥72,995	¥65,339	¥1,549,291

Segment information by geographic area	Millions of yen				
	Japan	Asia	Others	Adjustments & Elimination	Consolidated
<b>Year ended March 31, 2003</b>					
Sales to unaffiliated customers .....	¥ 928,029	¥107,567	¥75,532	¥ —	¥1,111,128
Inter-segment transfers .....	48,943	2,354	16,240	(67,537)	—
Total sales .....	976,972	109,921	91,772	(67,537)	1,111,128
Operating cost .....	918,157	104,025	84,562	(69,136)	1,037,608
Operating income .....	¥ 58,815	¥ 5,896	¥ 7,210	¥ 1,599	¥ 73,520
Assets .....	¥1,231,656	¥126,632	¥73,692	¥52,295	¥1,484,275

Segment information by geographic area	Millions of yen				
	Japan	Asia	Others	Adjustments & Elimination	Consolidated
<b>Year ended March 31, 2002</b>					
Sales to unaffiliated customers .....	¥ 857,134	¥94,478	¥66,740	¥ —	¥1,018,352
Inter-segment transfers .....	41,486	1,609	16,304	(59,399)	—
Total sales .....	898,620	96,087	83,044	(59,399)	1,018,352
Operating cost .....	835,497	93,895	78,069	(57,945)	949,516
Operating income .....	¥ 63,123	¥ 2,192	¥ 4,975	¥ (1,454)	¥ 68,836
Assets .....	¥1,094,292	¥96,022	¥79,952	¥122,893	¥1,393,159

Segment information by geographic area	Thousands of U.S. dollars				
	Japan	Asia	Others	Adjustments & Elimination	Consolidated
<b>Year ended March 31, 2004</b>					
Sales to unaffiliated customers .....	\$ 8,952,342	\$1,351,661	\$656,372	\$ —	\$10,960,375
Inter-segment transfers .....	580,916	37,874	141,518	(760,308)	—
Total sales .....	9,533,258	1,389,535	797,890	(760,308)	10,960,375
Operating cost .....	9,054,831	1,266,979	749,578	(741,347)	10,330,041
Operating income .....	\$ 478,427	\$ 122,556	\$ 48,312	\$ (18,961)	\$ 630,334
Assets .....	\$11,924,742	\$1,425,215	\$690,652	\$618,214	\$14,658,823

Corporate assets of ¥181,149 million (US\$1,713,965 thousand), ¥139,994 million and ¥187,440 million, included in the adjustments and elimination column for the years ended March 31, 2004, 2003 and 2002, respectively, consisted mainly of cash and cash equivalents, investment securities, deferred tax assets, and shared research facilities of the Company.

Overseas operations, which represent sales to unaffiliated customers outside Japan, of the Companies totaled ¥364,107 million (US\$3,445,047 thousand), ¥327,427 million and ¥287,191 million and accounted for 31.4%, 29.5% and 28.2% of the total sales to unaffiliated customers for the years ended March 31, 2004, 2003 and 2002, respectively. Overseas operations in the Asian region were ¥239,912 million (US\$2,269,959 thousand), ¥194,178 million and ¥163,388 million for the years ended March 31, 2004, 2003 and 2002, respectively.

### 15. Subsequent Events

At the ordinary shareholders' meeting of the Company held on June 29, 2004, the appropriation of retained earnings at March 31, 2004 was duly approved as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends at ¥3.0 (US\$0.028) per share .....	¥4,962	\$46,949
Bonuses to directors and statutory auditors .....	63	596

## Independent Auditors' Report

To the Board of Directors of  
Sumitomo Chemical Company, Limited:

We have audited the accompanying consolidated balance sheets of Sumitomo Chemical Company, Limited and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2004, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 consolidated financial position of Sumitomo Chemical Company, Limited and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1(b) to the consolidated financial statements.

*KPMG AZSA & Co.*

Osaka, Japan  
June 29, 2004

## Subsidiaries and Affiliates

Company Name	Major Business Fields	Sumitomo Chemical's Share (%)	Telephone	Facsimile
<b>JAPAN</b>				
AstraZeneca K.K.	Pharmaceuticals	20.0	(6) 6453-7500	(6) 6453-7894
Asahi Chemical Co., Ltd.	Inorganics	91.4	(6) 6220-8796	(6) 6220-8799
Ceratec Co., Ltd.	Alumina, ITO and catalysts	100.0	(897) 33-8541	(897) 33-6005
Dow Kakoh K.K.	Formed polystyrene	35.0	(3) 5460-2351	(3) 5460-6288
GlaxoSmithKline K.K.	Pharmaceuticals	15.0	(3) 5786-5000	(3) 5786-5200
Inabata & Co., Ltd.*	Trading in industrial chemicals, fine chemicals, and plastics	24.6	(6) 6267-6051	(6) 6267-6042
Japan-Singapore Petrochemicals Co., Ltd.	Equity holder in Petrochemical Corporation of Singapore (Pte) Ltd.	54.7	(3) 5543-5867	(3) 5543-5947
Japan Polystyrene Co., Ltd.	Polystyrene	50.0	(3) 5640-1551	(3) 5640-1573
Keiyo Ethylene Co., Ltd.	Ethylene and propylene	22.5	(3) 3552-9373	(3) 3552-9443
Koei Chemical Co., Ltd.*	Formaldehydes and pyridines	56.2	(6) 6204-1515	(6) 6204-1530
New STI Technology, Inc.	Color filters for LCDs	93.3	(3) 5543-5861	(3) 5543-5937
Nihon EcoAgro Co., Ltd.	Environment-friendly farm materials	100.0	(3) 5543-5686	(3) 5543-5929
Nihon Methacryl Monomer Co., Ltd.	Methyl methacrylate monomer and methacrylic acid	64.0	(3) 5543-5302	(3) 5543-5907
Nihon Medi-Physics Co., Ltd.	Radiopharmaceuticals	50.0	(3) 3234-2910	(3) 3264-6749
Nihon Oxirane Co., Ltd.	Propylene oxide and styrene monomer	60.0	(3) 3272-0401	(3) 3271-6050
Nihon Singapore Polyolefin Co., Ltd.	Equity holder in The Polyolefin Company (Singapore) Pte. Ltd.	95.7	(3) 5543-5309	(3) 5543-5911
Nippon A&L Inc.	ABS resin and SBR latex	67.0	(6) 6220-3633	(6) 6220-3699
O.L.S. Corp.	Optical functional films	50.0	(3) 5543-5820	(3) 5543-5919
Rainbow Chemical Co., Ltd.	Agricultural chemicals for home and garden uses	60.4	(3) 3942-5631	(3) 3942-7571
Shinto Fine Co., Ltd.	Household and public hygiene chemicals	100.0	(6) 6320-4961	(6) 6329-5189
Shinto Paint Co., Ltd.*	Paints	45.1	(6) 6426-3355	(6) 6429-6188
Sumika Agrotech Co., Ltd.	Agricultural and horticultural materials	100.0	(6) 6204-1245	(6) 6204-1207
Sumika Bayer Urethane Co., Ltd.	Polyurethane raw materials	40.0	(6) 6497-2151	(6) 6499-9461
Sumika Chemtex Co., Ltd.	Dyestuffs and functional chemicals	100.0	(6) 6466-5146	(6) 6466-5457
Sumika EPI Solution Co., Ltd.	MOEPI wafers	100.0	(436) 61-4771	(436) 61-4746
Sumika Life Tech Co., Ltd.	Public hygiene materials	100.0	(797) 74-1161	(797) 74-1045
Sumika Plastech Co., Ltd.	Plastic sheets and films	100.0	(3) 5543-5438	(3) 5543-5935
Sumika-Takeda Garden Products Co., Ltd.	Agricultural chemicals for home and garden uses	100.0	(3) 3270-9758	(3) 3270-9779
Sumitomo Bakelite Co., Ltd.*	Resins and resin products	20.7	(3) 5462-4111	(3) 5462-4874
Sumitomo Chemical Engineering Co., Ltd.	Engineering, procurement, maintenance and construction for chemical plants	100.0	(43) 299-0200	(43) 299-0210
Sumitomo Chemical Takeda Agro Co., Ltd.	Agrochemicals and agricultural materials	60.0	(3) 3278-2816	(3) 3278-2750
Sumitomo Dow Ltd.	Polycarbonates	50.0	(3) 3231-0405	(3) 3231-0406
Sumitomo Joint Electric Power Co., Ltd.	Supply of electricity	52.5	(897) 37-2142	(897) 32-9862
Sumitomo Pharmaceuticals Co., Ltd.	Pharmaceuticals	77.8	(6) 6229-5711	(6) 6233-2288
Sumitomo Seika Chemicals Co., Ltd.*	Industrial chemicals and organic sulfur compounds	30.7	(6) 6220-8508	(6) 6220-8541
Taoka Chemical Co., Ltd.*	Dyestuffs, industrial chemicals and adhesives	51.0	(6) 6394-1221	(6) 6394-1658

Notes: Companies indicated by an asterisk are those listed on stock exchange markets in Japan.

Company Name	Major Business Fields	Sumitomo Chemical's Share (%)	Telephone	Facsimile
<b>SINGAPORE</b>				
Petrochemical Corporation of Singapore (Pte) Ltd.	Ethylene and propylene	50.0	6867-2758	6867-9274
Chevron Phillips Singapore Chemicals (Pte) Ltd	High-density polyethylene	20.0	6337-9700	6337-9619
Sumitomo Chemical Singapore Pte Ltd	MMA monomer, MMA polymer, household insecticides, dyestuffs and other products.	100.0	6291-2968	6296-3779
Singapore Methyl Methacrylate Pte Ltd	MMA monomer and MMA polymer	100.0	—	—
The Polyolefin Company (Singapore) Pte. Ltd.	Polyethylene and polypropylene	70.0	6292-9622	6293-8890
<b>ASIA AND OCEANIA</b>				
<b>CHINA</b>				
Dalian Sumika Chemphy Chemical Co.,Ltd.	Agrochemical intermediates	60.0	(411) 751-6068	(411) 751-6038
Shanghai Lifetech Household Products Co., Ltd.	Products relating to household insecticides	100.0	(21) 6463-4770	(21) 6463-4779
Sumika Electronic Materials (Shanghai) Co., Ltd.	Optical functional film and high purity gallium	90.0	(21) 5046-2296	(21) 5046-3133
Sumitomo Chemical Shanghai Co., Ltd.	Plant protection chemicals household insecticides, and feed addictive products	100.0	(21) 6881-7700	(21) 6880-0188
<b>INDIA</b>				
SC Enviro Agro India Private Limited	Household insecticides	90.0	(25) 25-272172	(25) 25-272158
Sumitomo Chemical India Private Limited	Chemical products	100.0	(22) 2204-0730	(22) 2204-0722
<b>SOUTH KOREA</b>				
Dongwoo Fine-Chem Co., Ltd.	Fine chemicals	88.6	(2) 6250-1100	(2) 6250-1198
Dongwoo Optical Film Co., Ltd.	Optical functional films	100.0	(31) 681-4162	(31) 681-4161
Dongwoo STI Co., Ltd.	Color filters for LCDs	100.0	(31) 680-8028	(31) 682-8226
LG MMA Corp.	Methyl methacrylate	25.0	(2) 3770-1220	(2) 3770-1209
<b>MALAYSIA</b>				
Sumitomo Chemical Enviro-Agro Asia Pacific Sdn. Bhd.	Household insecticides	100.0	(6) 679-3711	(6) 679-3698
<b>TAIWAN</b>				
Sumika Technology Co., Ltd.	Optical functional film	80.0	(7) 364-1316	(7) 364-6994
Sumitomo Chemical Taiwan Co., Ltd.	Plant protection chemicals	100.0	(2) 2545-6345	(2) 2545-6333
<b>THAILAND</b>				
Bara Chemical Co., Ltd.	Resins, optical brightening agents, and adhesives	55.0	(2) 709-4598	(2) 323-9997
Sumipex (Thailand) Co., Ltd.	Polymethyl methacrylate sheets	51.0	(2) 632-1820	(2) 632-1831
<b>AUSTRALIA</b>				
Sumitomo Chemical Australia Pty. Ltd.	Plant protection chemicals and household insecticides	100.0	(2) 9904-6499	(2) 9904-7499
<b>NEW ZEALAND</b>				
New Zealand Aluminium Smelters Ltd.	Aluminum ingots	20.6	(3) 218-5999	(3) 218-9747

Company Name	Major Business Fields	Sumitomo Chemical's Share (%)	Telephone	Facsimile
<b>AMERICAS</b>				
<b>UNITED STATES</b>				
Phillips Sumika Polypropylene Co.	Polypropylene	40.2	(832) 813-4847	(832) 813-4175
Sumika Electronic Materials, Inc.	MOEPI wafers and other IT-related materials	100.0	(602) 659-2500	(602) 438-2277
Sumika Polymers America Corp.	Plastics	100.0	(212) 572-8200	(212) 572-8234
Sumitomo Chemical America, Inc.	Chemical products	100.0	(212) 572-8200	(212) 572-8234
Sumitomo Chemical Capital America, Inc.	Financing	100.0	—	—
Valent Biosciences Corp.	Plant protection chemicals	100.0	(847) 968-4700	(847) 968-4802
Valent U.S.A. Corp.	Plant protection chemicals	100.0	(925) 256-2700	(925) 256-2776
<b>MEXICO</b>				
Valent de Mexico, S.A. de C.V.	Plant protection chemicals	100.0	(3) 110-01-62	(3) 110-17-54
<b>BRAZIL</b>				
Sumitomo Chemical do Brasil Representações Limitada	Plant protection chemicals household insecticides, and feed additive products	100.0	(11) 3174-0355	(11) 3174-0377
<b>EUROPE AND AFRICA</b>				
<b>BELGIUM</b>				
Sumitomo Chemical Europe S.A./N.V.	Chemical products	100.0	(2) 251-0650	(2) 251-2991
<b>FRANCE</b>				
Philagro France S.A.	Plant protection chemicals	100.0	(478) 64-3227	(478) 47-7128
Philagro Holding S.A.	Holding company for Philagro France S.A.	60.0	(478) 64-3227	(478) 47-7128
Sumitomo Chemical Agro Europe S.A.S.	Plant protection chemicals	100.0	(478) 64-32-60	(478) 47-25-45
<b>ITALY</b>				
Isagro Italia S.r.l.	Plant protection chemicals	50.0	(02) 45280-1	(02) 45280-210
<b>SPAIN</b>				
KenoGard S.A.	Plant protection chemicals	75.0	(93) 4481270	(93) 4881889
<b>UNITED KINGDOM</b>				
Sumitomo Chemical (U.K.) plc	Household insecticides and financing	100.0	(20) 8600-7700	(20) 8600-7717
<b>SOUTH AFRICA</b>				
Philagro South Africa (Pty) Ltd.	Plant protection chemicals and household insecticides	51.0	(12) 348-8808	(12) 348-3500

## Principal Overseas Operational Headquarters and Offices

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150 Beach Road  
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Shanghai Co., Ltd.**  
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People's Republic of China  
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Fax: (21) 6880-0188

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Fax: (2) 2545-6333

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Khusus Malaysia  
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Fax: (2) 9904-7499

**Sumitomo Chemical Co., Ltd.  
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New Zealand  
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Fax: (4) 473-1123

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Fax: (212) 572-8234

**Houston Office**  
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The Woodlands, TX 77380  
U.S.A.  
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Representações Limitada**  
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Edifício Top Center, São Paulo, SP  
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Fax: (11) 3174-0377

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**Sumitomo Chemical  
Agro Europe S.A.S.**  
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69370 Saint Didier au Mont d'Or  
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Fax: (478) 47-25-45

**Sumitomo Chemical (U.K.) plc**  
Horatio House  
77-85 Fulham Palace Road  
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U.K.  
Tel: (20) 8600-7700  
Fax: (20) 8600-7717

# Investor Information and Corporate Information

(As of March 31, 2004)

## Paid-In Capital:

¥89,699 million

## Number of Employees:

Non-Consolidated: 5,191  
Consolidated: 19,036

## Common Stock:

Authorized: 5,000,000 thousand shares  
Issued: 1,655,446 thousand shares  
(Book value: ¥89,699 million)

## Number of Shareholders:

125,463

## Listings:

Tokyo and Osaka

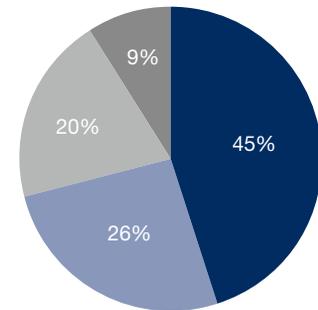
## Transfer Agent and Registrar:

Sumitomo Trust & Banking Co., Ltd.  
Stock Transfer Agency Division  
4-4, Marunouchi 1-chome, Chiyoda-ku,  
Tokyo 100-8233, Japan

## Independent Certified Public Accountants:

KPMG AZSA&Co.

## Distribution of Shareholders



■ Financial Institutions  
■ Foreign Investors  
■ Individuals and Others  
■ Domestic Corporations

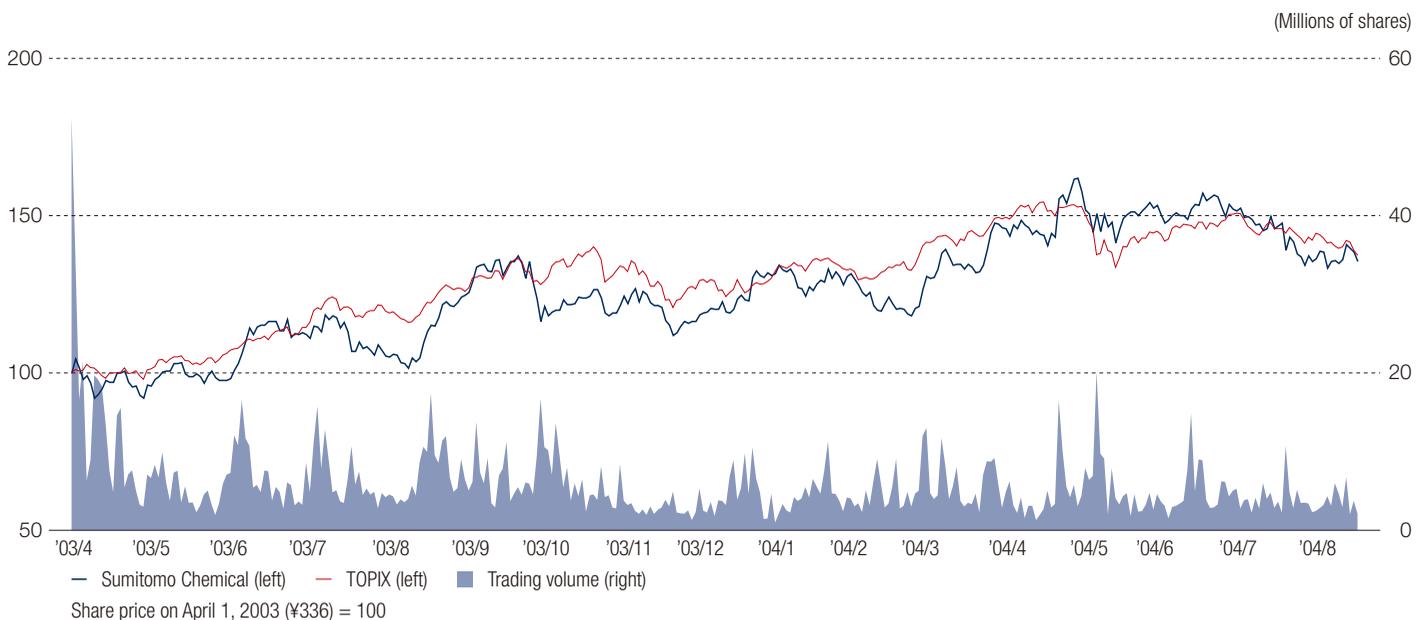
## Contact Information:

IR & Public Relations Dept.  
Tel: +81-3-5543-5102  
Fax: +81-3-5543-5901

## Major Shareholders

	Number of shares held (1,000 shares)	Shareholding ratio (%)
Japan Trustee Services Bank, Ltd.....	133,450	8.06
The Master Trust Bank of Japan, Ltd. ....	106,221	6.42
Nippon Life Insurance Company .....	87,468	5.28
Sumitomo Life Insurance Company.....	82,742	5.00
The Sumitomo Trust & Banking Co., Ltd. ....	64,910	3.92
The Chase Manhattan Bank NA, London .....	40,766	2.46
Sumitomo Mitsui Banking Corporation .....	38,453	2.32
The Chase Manhattan Bank NA, London SL Omnibus Account .....	25,792	1.56
State Street Bank and Trust Company 505041 .....	25,697	1.55
Trust & Custody Services Bank, Ltd.....	24,781	1.50

## Share Performance





**Responsible Care**

Sumitomo Chemical is a  
Responsible Care company.

 **SUMITOMO CHEMICAL COMPANY, LIMITED**

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