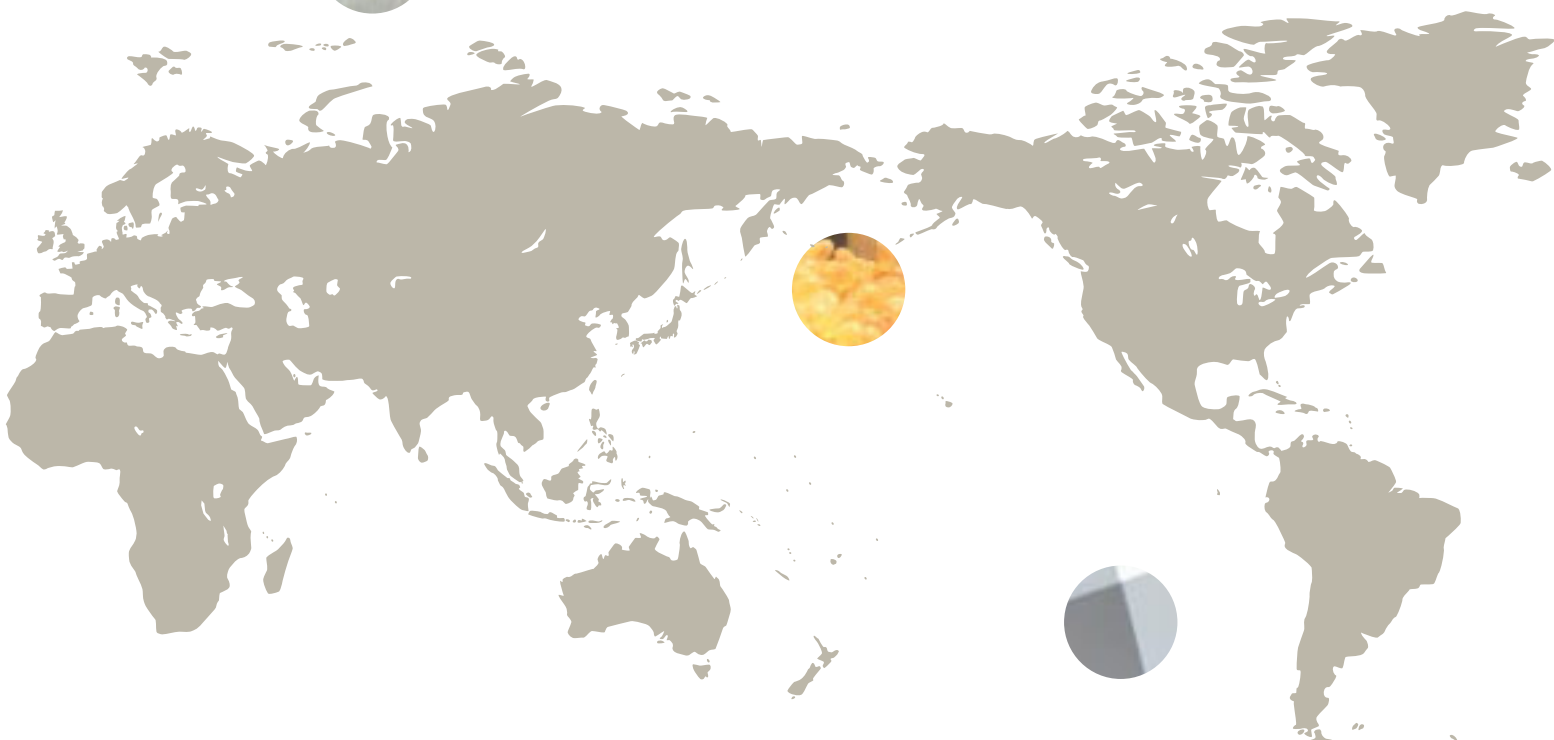




Annual Report 2005

For the Year Ended March 31, 2005



Becoming a Truly Global Chemical Company

— Meeting the Challenges presented by Structural Change —



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.

Sumitomo Chemical is currently implementing its Three-Year Corporate Business Plan covering the fiscal years from 2004 through 2006. The plan is designed to move us towards being a truly global chemical company in the 21st century and a major player in every area of our business. The plan constitutes a key milestone on the path toward achieving this vision.

Today, the chemical industry is facing major structural changes driven by such factors as rapid economic growth in Asia, soaring prices for crude oil and naphtha, the expansion of the IT and consumer electronics markets, and the acceleration of the reorganization taking place in the Japanese pharmaceutical industry. Our Three-Year Corporate Business Plan takes these challenges into account. We intend to take advantage of them as opportunities to exploit as we strive to expand our business.

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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.



Basic Chemicals



Petrochemicals & Plastics



Fine Chemicals



IT-related Chemicals



Agricultural Chemicals



Pharmaceuticals

Consolidated Financial Highlights

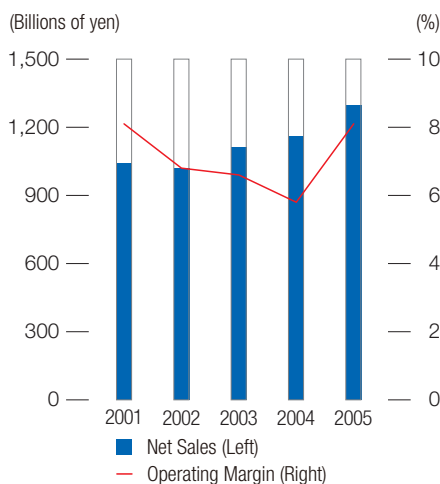
Sumitomo Chemical Company, Limited and Subsidiaries

*Unless otherwise specified

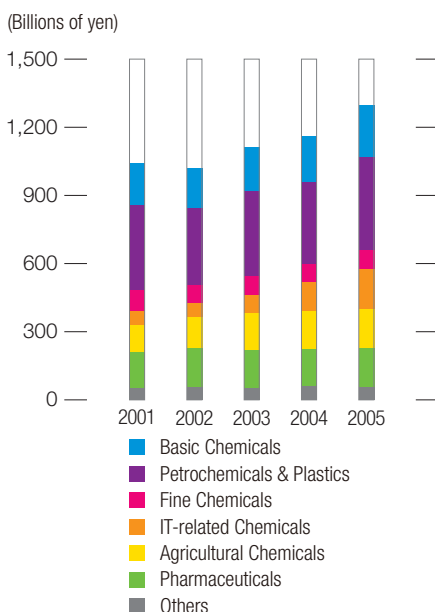
	Percent change (%)		Millions of yen		Thousands of U.S. dollars
For the year:	2005/2004	2005	2004	2003	2005
P/L					
Net sales	11.9	¥1,296,315	¥1,158,402	¥1,111,128	\$12,071,096
Operating income	57.9	105,182	66,620	73,520	979,439
Net interest expense	—	(2,991)	(2,846)	(5,319)	(27,851)
Equity in earnings of affiliates	210.6	26,696	8,596	2,590	248,589
Net income	87.8	64,452	34,318	31,134	600,168
Capital expenditures	14.2	125,785	110,192	152,001	1,171,292
Depreciation and amortization	6.9	88,166	82,482	69,026	820,989
Research and development expenses	4.0	78,208	75,194	72,822	728,261
Cash flows					
Net cash provided from operating activities	64.7	159,819	97,052	141,680	1,488,211
Net cash used in investing activities	—	(117,953)	(103,240)	(129,195)	(1,098,361)
Net cash used in financing activities	—	(31,204)	(9,315)	(5,156)	(290,567)
Free cash flow	—	41,866	(6,188)	12,485	389,850

Note: U.S. dollar amounts are translated from yen, for convenience only, at ¥107.39= \$1, the rate prevailing on March 31, 2005.

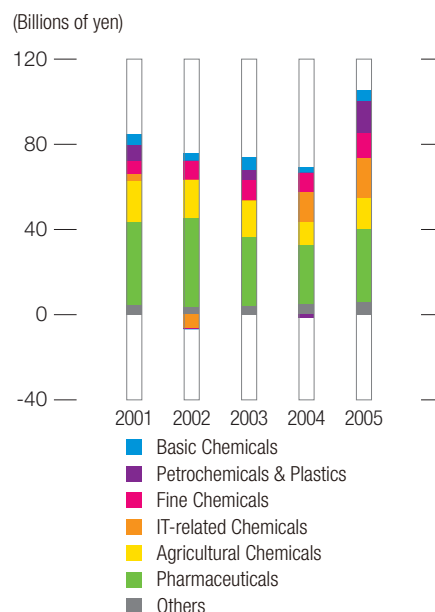
Net Sales and Operating Margin



Net Sales by Segment



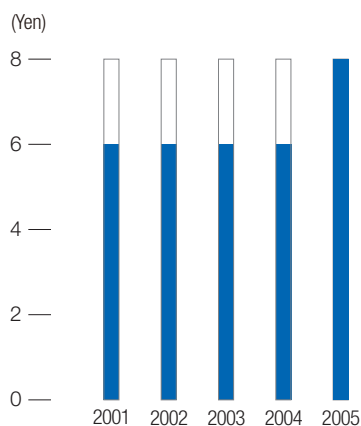
Operating Income by Segment



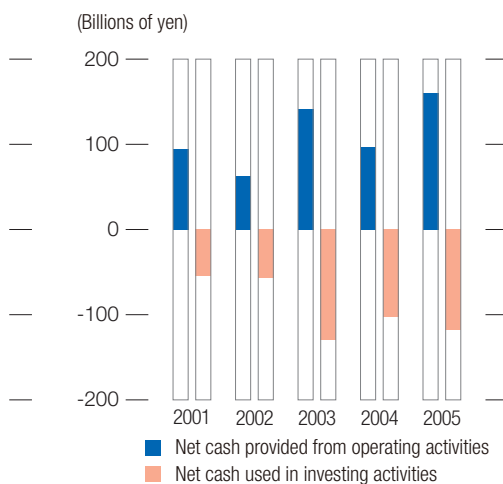
*Unless otherwise specified

	Percent change (%)		Millions of yen		Thousands of U.S. dollars
At year-end:	2005/2004	2005	2004	2003	2005
B/S and others					
Total assets	6.4	¥1,648,796	¥1,549,291	¥1,484,275	\$15,353,348
Total shareholders' equity	12.5	569,601	506,122	444,334	5,304,042
Interest-bearing liabilities	(3.0)	470,656	485,297	485,166	4,382,680
Number of employees	6.1	20,195	19,036	17,906	—
Per share (yen, U.S. dollars):					
Net income	88.0	38.938	20.715	18.742	0.363
Total shareholders' equity	12.6	344.58	306.05	268.62	3.21
Cash dividends	33.3	8.0	6.0	6.0	0.07
Ratios					
ROA (%)		4.0	2.3	2.2	—
ROE (%)		12.0	7.2	7.0	—
Debt equity ratio (Times)		0.83	0.96	1.09	—
Shareholders' equity ratio (%)		34.5	32.7	29.9	—

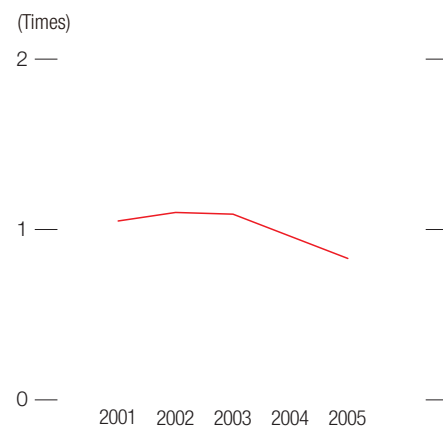
Cash Dividends per Share



Cash Flows



Debt Equity Ratio



To our Shareholders, Customers and Partners

*We focus on strategic investments
in life sciences and IT-related chemicals
while enhancing the profitability of the petrochemicals business
by securing a stable supply of low-cost feedstock.*

During fiscal 2004, which ended March 31, 2005, our business environment was on the whole favorable. In the Basic Chemicals and Petrochemicals Sectors, prices for major feedstock such as naphtha rose sharply, while demand for our products stayed buoyant in Asia, particularly China, driving market prices higher. In the IT-related Chemicals Sector, the overall market continued to expand, supported by robust demand, despite the impact of inventory adjustments on the part of customers in the second half of the year. Under the circumstances, we strove to improve our financial performance by properly reflecting the feedstock cost hike in our product pricing, as well as by strengthening efforts to promote sales and streamline operations. Consequently, we were able to post sales of ¥1,296.3 billion, a 12% increase over the previous year and the third consecutive fiscal year for which the Company has recorded historical highs. Operating income was ¥105.2 billion, an increase of 58%, and net income was ¥64.5 billion, a substantial growth of 88%. Both operating income and net income were also at record levels.

In view of these favorable results, the Company paid a special dividend of ¥2 per share in addition to the ordinary dividend of ¥6, resulting in a dividend of ¥8 per share for the full year.

The chemical industry is now undergoing a number of major structural changes. First, the economies of Asia, particularly China, are experiencing rapid growth; second, prices for crude oil and naphtha are rising sharply; third, the IT and consumer electronics markets are expanding vigorously; and fourth, restructuring is accelerating in the Japanese pharmaceutical industry. All of these changes have important implications for our Company. We are responding to these changes in accordance with the guiding principles provided in our current Three-Year Corporate Business Plan, thereby strengthening our overall business structure. More specifically, we are promoting the globalization of our business by further expanding our operational bases in Asia and elsewhere in the world. We are focusing strategic investments in life sciences and IT-related chemicals while enhancing the profitability of our petrochemicals business by securing a stable supply of low-cost feedstock.

Thanks to our expanded IT-related business in Korea and Taiwan, among other factors, our sales in the Asian region grew by 44% over the previous year to ¥346.4 billion in fiscal 2004, accounting for 27% of the Company's total sales. Taking advantage of the momentum of high economic growth in the region, we intend to intensify

Hiromasa Yonekura
President



efforts to accelerate the growth of our operations in Asia. Most notably, we are determined to further expand our IT-related business in Korea, Taiwan and China, and our MMA business in Singapore.

Given that prices for crude oil and naphtha are expected to stay high for the foreseeable future, the main thrust of our strategy for growth is securing low-cost feedstock for our petrochemical operations through the Rabigh Project. This is a joint venture that we are pursuing together with our partner, the Saudi Arabian Oil Company (Saudi Aramco) for the construction and operation one of the world's largest integrated refining and petrochemical complexes, located on the Red Sea coast. In August of this year, following the successful completion of a joint feasibility study, Sumitomo Chemical and Saudi Aramco signed a joint venture agreement in Dhahran, Saudi Arabia, to form a new company, the Rabigh Refining and Petrochemical Company (Petro-Rabigh). This project will enable us to develop a highly profitable petrochemical business by capitalizing on the distinct advantages of a stable supply of competitively-priced feedstock provided by Saudi Aramco and economies of scale resulting from the operation of the largest complex of its kind ever built at one time.

The total amount of investment in the project has

increased significantly over our initial estimate owing mainly to a recent sharp rise in material and construction costs. However, thanks to the substantial cost advantages mentioned above and, given that the high price of crude oil is likely to continue raising market prices for petroleum products and petrochemical products, the Rabigh Project is expected to be far more profitable than originally estimated. The Rabigh Project represents a rare opportunity for Sumitomo Chemical to strengthen its petrochemical business considerably, and we will put forth our best efforts to construct and operate the integrated complex in the latter half of 2008, as currently scheduled.

Turning to the IT and consumer electronics market, it is anticipated that world demand for LCD televisions will see significant growth this year, thus marking a milestone year for our IT-related chemicals business. We will strive to further enhance the profitability of our business for color filters and polarizing films for LCDs by implementing various measures that include taking maximum advantage of the increased production capacity from new facilities and our renovated existing facilities in Korea and Taiwan; expanding business by further strengthening our partnership with key customers as well as capturing new customers; boosting our cost-competitiveness by thoroughly rational-

*We see the structural changes in the chemical industry
as an opportunity we can seize to expand
our business and enhance our profitability
by making timely investments in accordance with
our Three-Year Corporate Business Plan.*

izing our operations and finally developing higher value-added products.

In the Pharmaceuticals Sector, Sumitomo Pharmaceuticals Co., Ltd. will merge with Dainippon Pharmaceutical Co., Ltd. on October 1, 2005 to establish a new company, Dainippon Sumitomo Pharma Co., Ltd. Pharmaceuticals will continue to be a core business of Sumitomo Chemical, and the new company will operate as a new member of the Sumitomo Chemical Group. The new company will combine the superior R&D capabilities of Sumitomo Pharmaceuticals and Dainippon Pharmaceutical, while Sumitomo Chemical will provide whatever support is necessary in order for Dainippon Sumitomo Pharma to establish a solid position as a leading research-driven company in the rapidly changing pharmaceutical industry.

In the ways described above, our Company is proactively moving ahead to meet the challenges posed by ongoing structural changes in the chemical industry. We see those changes as opportunities we can seize to expand our business and enhance our profitability by making timely investments in accordance with our Three-Year Corporate Business Plan.

As you may be aware, the subject of aid to Africa was an important topic of discussion at various major international conferences held earlier this year, such as the annual meeting of the World Economic Forum in Davos, Switzerland, in January; the Asia-Africa Conference in Jakarta, Indonesia in April; and most recently, the G8 Summit in Gleneagles, Scotland in July. Today, the malaria epidemic is a major cause of Africa's dire poverty. By combining our expertise as the world's largest manufacturer of insecticides and our advanced technical know-how as a producer of synthetic resins, we developed the OLYSET® technology for embedding insecticide in netting material to produce mosquito netting that retains its effectiveness for long periods of time. We are contributing to the Roll Back Malaria campaign, led by the World Health Organization (WHO), to control malaria by providing OLYSET® technology and products that incorporate it. OLYSET® NET is the only net fully approved by the WHO as a Long Lasting Insecticide-treated Net. In order to help the campaign achieve its goal of reducing by half deaths from malaria by 2010, the Company is working to expand its supply capacity. In response to requests by the WHO, we have already provided our OLYSET® technology free of

***Sumitomo Chemical is determined to meet your expectations
by making every effort to fully achieve the goals
set forth in our Three-Year Corporate Business Plan
and to realize the longer-term vision
we have established for our Company,
aiming ultimately to become a truly global chemical company
in the 21st century.***

license fees to a company in Tanzania, which has begun local production of the nets, and we intend to replicate this model elsewhere and thereby also help to boost employment and contribute to Africa's economic development. In addition, looking further ahead, we intend to use part of the revenue from our expanded OLYSET® NET business to build primary schools in sub-Saharan Africa in support of efforts aimed at improving education for children. Sumitomo Chemical will continue to assist initiatives for Africa's future development and economic self-sufficiency. We regard these types of activities as an ideal way to integrate business with social contribution initiatives.

In a similar fashion, we believe it would be a wonderful thing if our new petrochemical project in Saudi Arabia were able to contribute to the further development of the Kingdom's downstream conversion industries, such as plastics processing, and helped to create increased job opportunities for the people of Saudi Arabia. We will continue to actively pursue CSR initiatives to promote our Company's sustainable development, enhance the reputation of our corporate brand and ultimately increase our corporate value.

Sumitomo Chemical is determined to meet your expect-

tations by making every effort to fully achieve the goals set forth in our Three-Year Corporate Business Plan and to realize the longer-term vision we have established for our Company, aiming ultimately to become a truly global chemical company in the 21st century. On behalf of the Company, I would like to thank our shareholders, customers, business partners and the many others who are important to our Company for your continued support of our efforts.

August 2005

米倉弘昌

Hiromasa Yonekura, President

Special Feature:

Advances under the Three-Year Corporate Business Plan

Sumitomo Chemical is currently implementing its Three-Year Corporate Business Plan covering the fiscal years from 2004 through 2006. The plan is designed to move us towards being a truly global chemical company in the 21st century and a major player in every area of our business. The plan constitutes a key milestone on the path toward achieving this vision.

The basic policy for the management of our businesses under this plan is to pursue “Selection and Concentration” based on the optimum positioning of each of our business sectors and to utilize to the fullest extent Sumitomo Chemical’s special strengths. More specifically, we will (1) make strategic investments in the life sciences and IT-related fields in order to lay the groundwork for realizing our targeted portfolio of businesses; (2) seek to increase our profitability by boosting the value-added component in polyolefins and other bulk products as well as by making further advances into downstream businesses in the Agricultural Chemicals and IT-related Chemicals Sectors; and (3) expand overseas operations to strengthen our global presence.

Today, the chemical industry is facing major structural changes driven by such factors as rapid economic growth

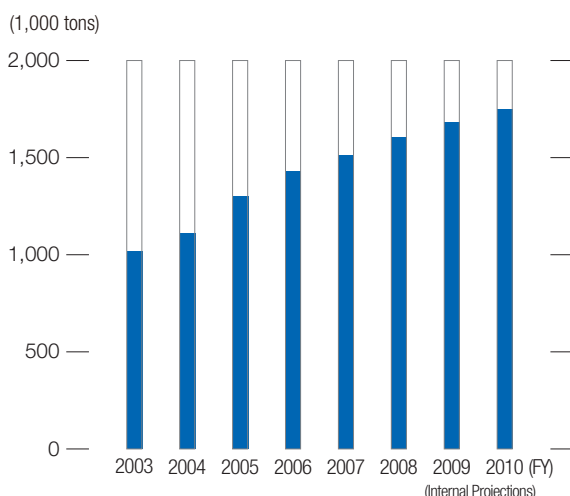
in Asia, soaring prices for crude oil and naphtha, the expansion of the IT and consumer electronics markets, and the acceleration of the reorganization taking place in the Japanese pharmaceutical industry. Our Three-Year Corporate Business Plan takes these challenges into account. We intend to take advantage of them as opportunities to exploit as we strive to expand our business in accordance with our basic policy.

Core Business Strategies and Key Initiatives in Fiscal 2004

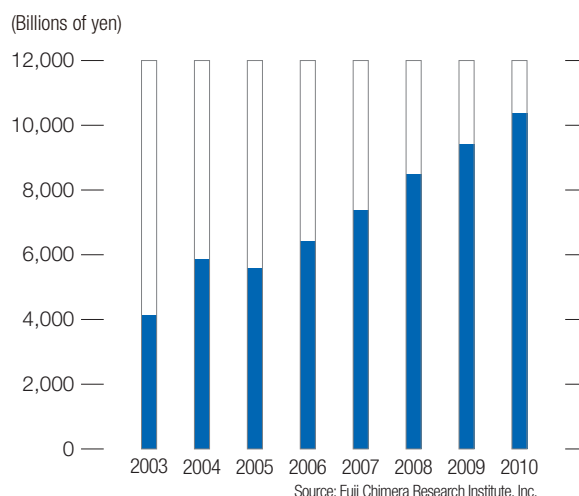
Rapid Economic Growth in Asia

In order to respond to the vigorous expansion of demand in Asia, which is centered on China’s continuing rapid economic growth, we have embarked on a major expansion of our methyl methacrylate (MMA polymer and MMA monomer) business in Singapore. Debottlenecking in August 2004 boosted our MMA polymer production capacity from a previous 35,000 tons to 50,000 tons annually. In MMA monomer as well, an expansion project scheduled to start commercial production in August 2005 will boost annual capacity from 53,000 tons to 133,000

Growth of MMA Demand in Asia (Monomer Base)



Worldwide LCD Demand



tons. Plans are underway, moreover, to establish an additional production line this year to further increase capacity. This will result in new facilities for an additional 90,000 tons of MMA monomer and an additional 50,000 tons of MMA polymer annually. These facilities are scheduled to come on stream in the first quarter of 2008. Demand for MMA in Asia is forecast to grow rapidly, particularly as a key material for such IT-related products as light-guide plates for liquid crystal displays (LCD) and lenses for projection televisions. As a result of this planned expansion, Sumitomo Chemical will become one of the top producers of MMA polymer and MMA monomer in Asia, strongly positioned to respond to the buoyant demand.

Growth of our IT-related Business

Based on our strategy of fostering the development of our IT-related business as a core business for which significant growth can be expected over the medium to long-term, we are aggressively expanding our operations for LCD-related materials such as color filters and polarizing film, mainly in South Korea and Taiwan. Both countries have developed at a startling pace as bases of LCD production. In South Korea, we already operate the world's

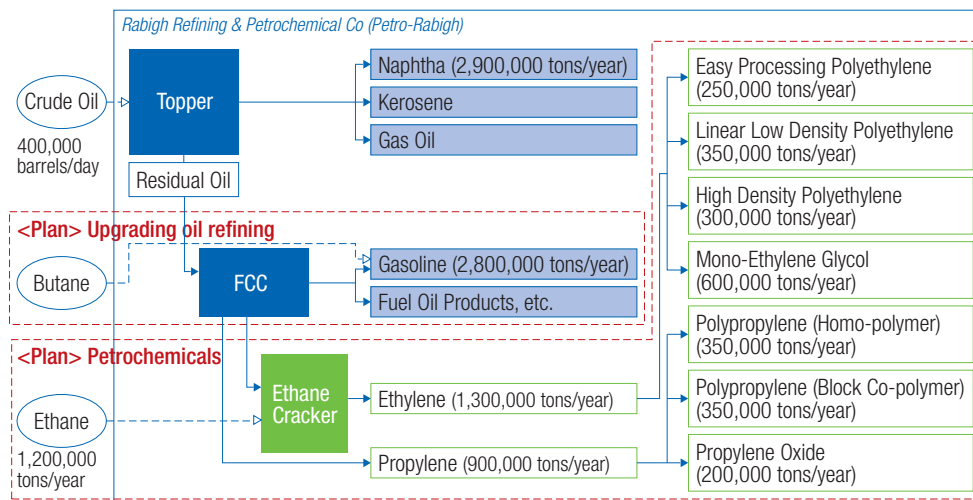
largest production facilities for fifth-generation LCD color filters. In order to keep pace with future demand growth, however, we will further increase capacity through debottlenecking, which should be completed by this summer. In Taiwan, we are also moving ahead with the construction of a new plant for second-generation LCD color filters, which are in great demand for small- and medium-sized displays. Completion is slated for September 2005. Turning to polarizing film, we have been operating plants in South Korea and Taiwan for producing raw material rolls, and in the spring of 2005, construction of an additional production line was completed at each plant, resulting in a significant increase in overall capacity. Another commercial processing plant is under construction in Wuxi, China to supply the rapidly expanding demand in that country.

The Steep Rise of Feedstock Prices

—Securing a stable supply of competitively-priced feedstock—

In the petrochemical business, securing a stable supply of competitively-priced feedstock is essential for strengthening medium- and long-term profitability. This is increasingly important today, when prices for crude oil and naphtha

The Rabigh Project Flow Chart



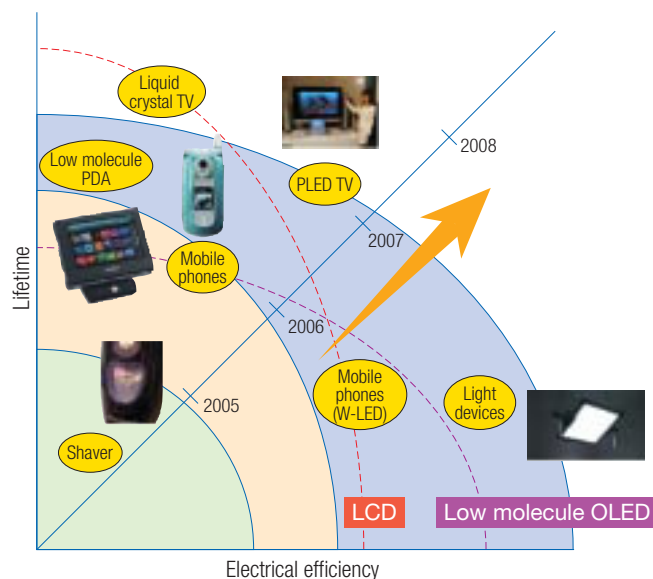
are expected to continue climbing with the growth in worldwide demand. In May of last year, Sumitomo Chemical and Saudi Aramco, the state-owned Saudi Arabian Oil Company, signed a Memorandum of Understanding and began a joint feasibility study for the development of a large, integrated refining and petrochemical complex in the Red Sea town of Rabigh (the “Rabigh Project”). Having verified the viability of the project through the joint feasibility study, Sumitomo Chemical and Saudi Aramco signed an agreement to become joint venture partners on August 1, 2005, marking a major step toward the realization of the project.

The Rabigh Project will augment Saudi Aramco’s existing topping refinery at Rabigh, which has a nominal crude distillation capacity of 400,000 barrels per day, with new secondary refining facilities for the production of gasoline, an ethane cracker and fluid catalytic cracker (FCC), as well as brand-new plants to produce olefin derivatives centering on polyolefins such as polyethylene and polypropylene. A production capacity of 1.3 million tons of ethylene and 900,000 tons of propylene will represent one of the world’s largest petrochemical complexes ever built at one time. These facilities are scheduled for completion

in late 2008.

The estimated total amount of investment has increased to US\$8.5 billion from the original estimate of US\$4.3 billion announced at the commencement of the joint feasibility study. This is due not only to a recent sharp rise in material and construction costs, but also to an expansion in the scope of the project to include a large-scale waterworks and electrical power plant to service the complex. Nevertheless, with the prices of petroleum products and petrochemical products forecast to remain high for the foreseeable future, the project’s ability to secure a supply of low-cost ethane gas, a primary feedstock, for a predetermined price will enable us to enjoy higher sales margins and significantly improved profitability beyond the initial estimate. The Rabigh Project represents a rare chance for Sumitomo Chemical to capitalize on the combined advantages of a stable supply of competitively-priced feedstock and economies of scale to strengthen its petrochemical business dramatically, and we will put forth our best efforts to bring the plan to completion according to schedule.

Applications of Polymer OLEDs



Expansion of the IT and Consumer Electronics Market —Promoting Development of Organic Polymer Light-Emitting Diodes (OLEDs)—

We have been aggressively promoting the expansion of our flat panel display business, particularly in color filters and polarizing films, which are key materials for liquid crystal displays (LCDs). Moreover, in the area of advanced polymer OLEDs, which are expected to find a variety of applications for next-generation displays, we are focusing our efforts on developing polymer electroluminescent materials. Polymer OLEDs have the advantage of being self-luminescent with rapid photoresponsiveness, and a cost-effective printing method can be used to form the luminescent substrate. They are expected to be used increasingly for displays and lighting applications.

Recently, OLEDs have been attracting attention for use in next-generation mobile phones and portable DVD players, and looking further ahead, in televisions as well. This demand is expected to drive rapid growth in the OLED market. Since 2001, we have been pursuing joint research on OLEDs with Cambridge Display Technology (CDT), a UK company that is a pioneer in the field. In May of this year, we signed a Memorandum of Understanding

to establish a 50-50 joint venture company for the purpose of developing, manufacturing and marketing polymer OLED materials.

In May, we also purchased Dow Chemical's LUMATION organic polymer electroluminescence (EL) materials operations. In addition to gaining exclusive access to existing polymer OLED technology from its two parent companies, the new joint venture company will also have the benefit of Dow's technology in this field. By bringing together the excellent technology from all three companies, the new company will be able to respond to user demand for innovative materials in a targeted and timely manner, and will also be able to greatly speed up the process of developing new materials.

Business Reorganization Accelerates in the Pharmaceutical Industry

—Sumitomo Pharmaceuticals and Dainippon Pharmaceutical Conclude Merger Agreement—

The business climate in the drug industry is one of increasingly intense competition because of such factors as the Japanese government's efforts to reduce health-care costs and the increasing presence of foreign phar-



Mr. Okamoto, President of Sumitomo Pharmaceuticals (right) and Mr. Miyatake, President of Dainippon Pharmaceutical (left) at press conference for announcing the merger.

maceutical companies in the Japanese market. In order to survive under such conditions, it is crucial to maintain a strong pipeline and continually bring new products into the market. There is an accelerating trend among pharmaceutical companies to increase their scale of operations through mergers in order to secure the financial resources to support the R&D necessary for maintaining an abundant pipeline.

Against this backdrop, Sumitomo Pharmaceuticals Co., Ltd., the nucleus of Sumitomo Chemical's pharmaceutical business, and Dainippon Pharmaceutical Co., Ltd. signed an agreement on April 28, 2005 to merge the companies on October 1 of this year. The new company, Dainippon Sumitomo Pharma Co., Ltd., will rank among Japan's top ten pharmaceutical companies in terms of domestic ethical pharmaceutical sales. With a combined sales force of approximately 1,500 medical representatives, a number comparable to that of the leading Japanese pharmaceuticals companies, Dainippon Sumitomo Pharma will be further able to strengthen its solid earnings base through its domestic pharmaceutical operations. In addition, aiming for global business expansion in the future, the company will fully leverage its stable cash flow to enhance R&D in

terms of both the amount of investment and the selection of promising drug candidates in areas where the company's resources can be mobilized most effectively, thereby accelerating the process of drug development and commercial launch.

For fiscal 2007, the new company will target net sales of ¥280 billion and an operating income of ¥50 billion, and R&D expenditures for the year are targeted at ¥45 billion.

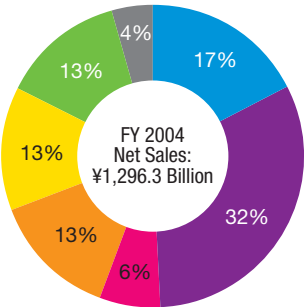
Review of Operations

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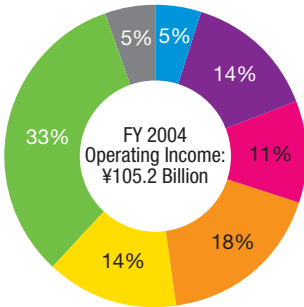
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Sumitomo Chemical At a Glance

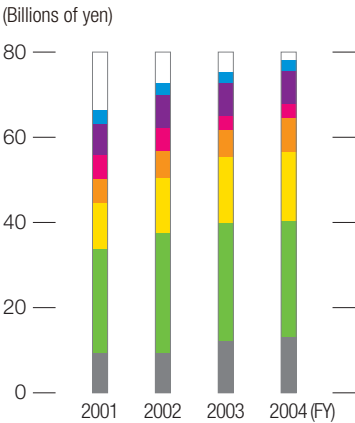
Net Sales by Segment



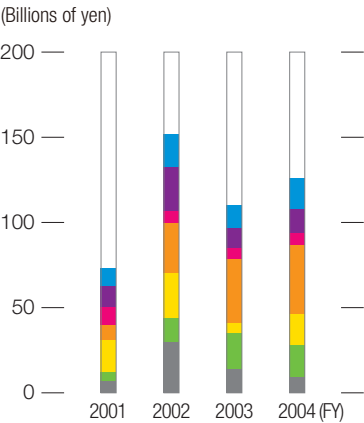
Operating Income by Segment



Research and Development



Capital Expenditures



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

Basic Chemicals

Petrochemicals & Plastics

Fine Chemicals

IT-related Chemicals

Agricultural Chemicals

Pharmaceuticals

Major Products

Acrylonitrile, Caprolactam, Aniline, Methanol, MMA monomer, Polymethyl methacrylate (pellet, sheet), Nitric acid, Caustic soda, Aluminum hydroxide, Alumina, High-purity aluminum, Aluminum

Ethylene, Propylene, Styrene monomer, Propylene oxide, Polyethylene, Polypropylene, Ethylene-vinyl acetate copolymer, Thermoplastic elastomer, Ethylene-propylene rubber, Acrylonitrile butadiene styrene copolymer, Polystyrene, Polycarbonate, Agricultural films, Corrugated polypropylene sheets, Gas-barrier films

Organic intermediates, Active pharmaceutical ingredients, Pharmaceutical intermediates, Polymer additives, Photo chemicals, Imaging chemicals, Organic rubber chemicals, Dyestuffs, Ethylene-vinyl acetate copolymer emulsions

Optical functional films, Pigment dispersion color filters, Photoresists, High-purity chemicals, Sputtering targets, Super engineering plastics, MOEPI wafers, Metal organics, High-purity gallium, Light diffusion plate, Light guide plate

Agricultural insecticides, Agricultural fungicides, Agricultural herbicides, Plant growth regulators, Household insecticides, Public hygiene insecticides, Animal health products, Feed additives, Fertilizers

Pharmaceuticals, Radiopharmaceuticals, *in vitro* diagnostics

Major Subsidiaries and Affiliates

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.

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.

Sumika Chemtex Co., Ltd.
Sumika-Merisol Co., Ltd.
Taoka Chemical Co., Ltd.
Sumitomo Chemical Europe S.A./N.V.
Bara Chemical Co., Ltd.

New STI Technology, Inc.
O.L.S. Corp.
Sumika EPI Solution Co., Ltd.
Dongwoo Fine-Chem Co., Ltd.
Dongwoo STI Co., Ltd.
Dongwoo Optical Materials Co., Ltd.
Sumika Electronic Materials (Shanghai) Co., Ltd.

Sumitomo Chemical Takeda Agro Co., Ltd.
Sumika Agrotech Co., Ltd., Rainbow Chemical Co., Ltd.
Nihon Green & Garden Corp., Nihon EcoAgro Co., Ltd.
Shinto Fine Co., Ltd., Sumika Life Tech Co., Ltd.,
Valent U.S.A. Corp., Valent BioSciences Corp.
KenoGard S.A., Philagro France S.A.S.
Sumitomo Chemical Agro Europe S.A.S.
Sumitomo Chemical Australia Pty. Ltd.

Sumitomo Pharmaceuticals Co., Ltd.
Nihon Medi-Physics Co., Ltd.

Sumika Electronic Materials (Wuxi) Co., Ltd.
Sumika Electronic Materials (HongKong) Co., Ltd.
Sumika Technology Co., Ltd.
Sumika Electronic Materials, Inc.
Sumika-Radel Co., Ltd.
Ooe Optical Techno Co., Ltd.

Philagro South Africa (Pty) Ltd., Isagro Italia S.r.l.
Sumitomo Chemical Agro Seoul, Ltd.
Dalian Sumika Chemphy Chemical Co., Ltd.
Sumitomo Chemical India Private Limited
SC Enviro Agro India Private Ltd.
Sumitomo Chemical Enviro-Agro Asia Pacific Sdn. Bhd.
Sumitomo Chemical Shanghai Co., Ltd.
Sumitomo Chemical do Brasil Repres. Ltd.



Basic Chemicals

Business Performance in Fiscal 2004

Sales in the Basic Chemicals Sector increased by 13.4% to ¥225.8 billion year-on-year in fiscal 2004, while operating income increased by 102% over the previous year to ¥5.2 billion.

The main factors responsible for this growth included a sharp increase in the cost of feedstock for caprolactam, the raw material for nylon, combined with expanding demand in China and Southeast Asia, which raised the market price of caprolactam (CPL), leading to considerable sales growth. In addition, a rise in the market price of aluminum resulting from demand outstripping supply drove sales up.

Core Business Strategies

The Basic Chemicals Sector positions

methyl methacrylate polymer (MMA polymer) and its raw material, methyl methacrylate monomer (MMA monomer), CPL and inorganic materials as its core products. In particular, the Sector focuses on expanding its business in MMA polymer and MMA monomer, demand for which is expected to see significant growth in Asia, driven largely by the expansion of demand for LCD display applications.

Key Initiatives for Fiscal 2004 and Developments from 2005 onward

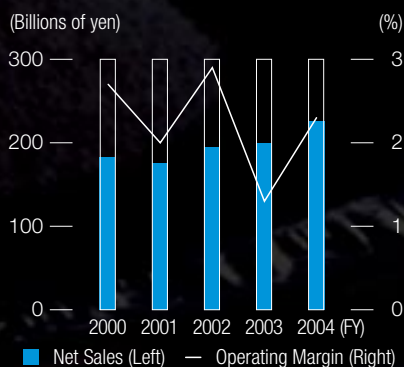
Expansion of MMA Monomer and MMA Polymer Production

MMA polymer is a synthetic resin with excellent transparency and weather resistance that is used for applications

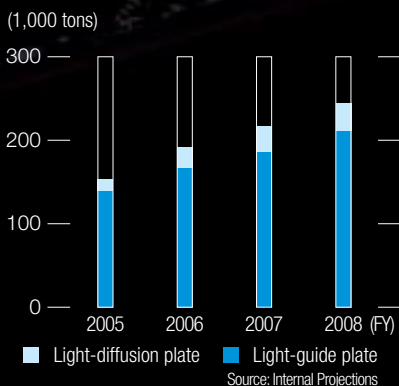
such as automotive parts, home appliances, lighting, and signboards. Recently, demand for MMA has been rapidly increasing in optical applications such as light guide sheets for LCD displays, and demand is expected to grow at a rate exceeding 7% annually, particularly in Asia.

The Company is the world's top maker of MMA polymer for optical applications. Our strengths are: (1) Integrated production of MMA monomer and MMA polymer, not only in Japan but also at our Singapore facilities, which makes us highly cost-competitive. (2) Existing infrastructure in Singapore, which allows us to increase production efficiently for a minimal investment, and (3) our various advanced proprietary technologies

Net Sales and Operating Margin



Demand of MMA for Optical Uses



developed in-house, such as our direct oxidation process for producing MMA monomer from isobutylene feedstock and our continuous bulk polymerization process, which enable us to provide high quality, cost-competitive products for the rigorous demands of optical applications as well as for other conventional uses.

The Company will increase production capacity in Singapore by capitalizing on its strengths. In August 2004, we stepped up production of MMA polymer by debottlenecking, which increased our yearly production capacity from a previous 35,000 tons to 50,000 tons. We are also to increase our capacity for production of MMA monomer from 53,000 tons annually to 133,000 tons in August

2005. In addition, we have decided to further increase production of MMA monomer by 90,000 tons and MMA polymer by 50,000 tons to meet the vigorously growing demand in Asia. Commercial operations are scheduled to begin in the first quarter of 2008.

Meanwhile, we have licensed our continuous bulk polymerization technology to our Korean affiliate, LG MMA, which increased production of MMA polymer by approximately 40,000 tons in July 2005. They have also decided on a plan to expand capacity for MMA monomer by 76,000 tons. This plan will start commercial operations in April 2008.

The total production capacity of the entire Sumitomo Chemical group will be 489,000 tons of MMA monomer and 245,000 tons of MMA polymer once plants are completed in 2008. This is expected to make us one of the largest manufacturers of both MMA monomer and polymer in Asia.

New Methods of Manufacturing Caprolactam and Securing Feedstock

CPL is the raw material for nylon, which is used for nylon fibers and high-performance resins such as engineering plastics. Worldwide demand for caprolactam is estimated at 4 million tons annually and is expected to grow by 5-7% per year in Asia, where demand, particularly for the textile market in China, is expanding at a remarkable pace.

The strengths the Company gains through our proprietary technologies developed in-house are the ability 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; this eliminates the need for facilities to produce fuming sulfuric acid and recover the co-produced ammonium sulfate, and thus results in highly cost-competitive CPL. At present, we are operating a 160,000 ton-capacity production line that uses this technology at our Ehime Works and have decided to increase capacity another 20,000 tons as of November 2005 to meet increasing demand. Furthermore, we are actively conducting studies on the construction of additional new facilities elsewhere in Asia that employ this process.

Strengthening Our Inorganic Materials Business

The Company is developing its business in high-performance inorganic products worldwide, focused primarily on alumina.

We are developing alumina products for various applications, including fine alumina used in glass for LCDs, fine-particle aluminum hydroxide for halogen-free flame retardant, and high-purity alumina for mono-crystal, oxygen sensors and use in semiconductor manufacturing equipment.

Responding to an upswing in demand for high-purity aluminum, the Company increased its annual production capacity in November 2004 from 1000 tons to 1500 tons.

In addition, in the field of inorganic chemicals, the Company continues to explore applications for visible light-responsive photocatalysts that can be used indoors as well as outdoors, and have deodorizing, anti-bacterial and self-cleaning properties.



Petrochemicals & Plastics

Business Performance in Fiscal 2004

Sales in fiscal 2004 were ¥412.6 billion, an increase of 13.8% over the previous year, and operating income was ¥15 billion, a significant increase over losses of ¥1.6 billion the previous year.

With the soaring prices for naphtha and benzene feedstocks, the prices of petrochemical products such as styrene monomer and propylene oxide increased considerably. Bolstered also by strong demand, sales of these products increased greatly. Synthetic resins also posted improved sales and profits thanks to major overseas price increases spurred by vigorous demand in China.

Core Business Strategies

Our Petrochemicals Sector focuses on two key product groups: polyolefins, which include polyethylene and polypropylene; and propylene oxide.

Demand for petrochemical products in Asia is expected to continue to grow,

particularly in China, while the price for naphtha feedstock is also likely to remain high. In addition, Asian chemical manufacturers are facing the competitive challenge of leading producers in the US and Europe, who have the advantage of integrated petrochemical refining and production, as well as Middle Eastern producers, who utilize inexpensive natural gas feedstocks and are accelerating the expansion of their operations in Asia.

Under these conditions, Sumitomo Chemical's top strategic priority is to secure a stable supply of cost-competitive feedstock in order to strengthen its solid profit base and expand its profitable operations. The Company's other strategic priorities include: (1) Realigning our manufacturing operations and developing superior production technologies to promote greater cost efficiencies; (2) Accelerating the shift in our product portfolio away from commodity products toward higher-value-added products; (3)

Leveraging our strong operational base in Singapore, with its extensive sales channels to dynamic markets in Asia.

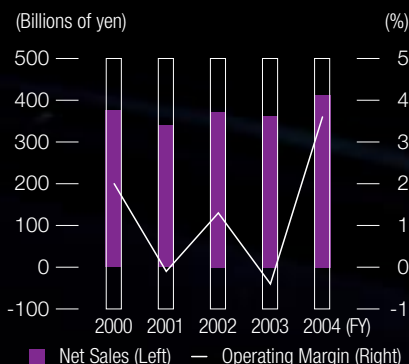
Key Initiatives in Fiscal 2004 and Developments from 2005 onward

Securing a stable supply of cost-competitive feedstock

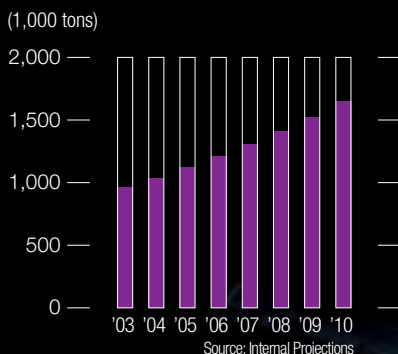
We are taking concrete steps to achieve the strategic objectives mentioned above. In August 2005, we signed a joint venture agreement with Saudi Aramco, the state petroleum company of Saudi Arabia, to start construction of a fully integrated petroleum refining and petrochemical complex, having verified the feasibility of the project through a joint feasibility study.

The joint venture company, which will be called Petro-Rabigh, will receive a supply of cost-competitive feedstocks from Saudi Aramco, including ethane gas at a predetermined low price. This will enable the Company to capitalize on ethane's significant cost advantages over naphtha.

Net Sales and Operating Margin



PO Demand in Asia (Ex. Japan)



Petro-Rabigh will also take advantage of the economies of scale deriving from one of the largest oil refining and petrochemical complexes ever to be built at one time to produce highly cost-competitive products. We plan to upgrade Saudi Aramco's current refinery equipment (crude distillation capacity: 400,000 bbl/day) with the addition of a fluid catalytic cracker to produce not only gasoline and heavy oil, but also 900,000 tons of propylene annually. In addition, we will build the world's largest ethane cracker, capable of producing 1.3 million tons of ethylene per year from ethane gas. The plan calls for the entire output to be used for the production of petrochemical derivatives, namely 900,000 tons of polyethylene annually, 250,000 tons of which will be a new type of polyethylene produced using Sumitomo Chemical's proprietary technology; 600,000 tons of ethylene glycol; 900,000 tons of polypropylene; and 200,000 tons of propylene oxide annually. Construction is planned to begin by the year's end, with operations commencing during 2008.

Accelerating the Shift Towards Higher Value-Added Products

The Polyolefin Company (Singapore) Pte. Ltd. (TPC), a subsidiary of Sumitomo Chemical, is implementing several measures to strengthen its position as a production base for higher value-added products. By the end of 2006, the TPC plant currently producing linear low-density polyethylene (LLDPE) will switch over to the production of polypropylene (PP). As a result, TPC will augment its current annual production from a current 200,000 tons to produce a total of 650,000 tons of polypropylene per year.

LLDPE is a general-purpose synthetic resin used mostly in films, and it faces increasingly stiff competition from Middle-Eastern producers, who can produce it from inexpensive natural gas.

Polypropylene, however, is a higher value-added material used in cars and home electronics, and is expected to see considerable growth in the future.

Sumitomo Chemical plans to begin manufacturing and selling polypropylene compounds for the Chinese auto industry by July 2006. These compounds are high-performance materials containing colorants and flame-retardants, and are used for bumpers and interior fittings. Taking advantage of the growth of China's auto industry, we plan to expand this business by using polypropylene that we produce in Singapore to manufacture polypropylene compounds in China.

The Company is also concentrating on producing higher value-added products at its manufacturing bases in Japan. In the second half of 2004, Sumitomo Chemical began commercial production of Excellen®GMH, a new class of polyethylene. Developed with Sumitomo Chemical's proprietary technology for metallocene catalysts and gas-phase

polymerization, this product combines not only high strength but also excellent processibility. An existing linear low-density polyethylene production line at Sumitomo Chemical's Chiba Works in Japan has been converted into a production base for Excellen® GMH. In addition, our integrated refining and petrochemical complex in Saudi Arabia will also be producing this product, and we intend to market it on a global scale.

Business Strategy for Propylene Oxide

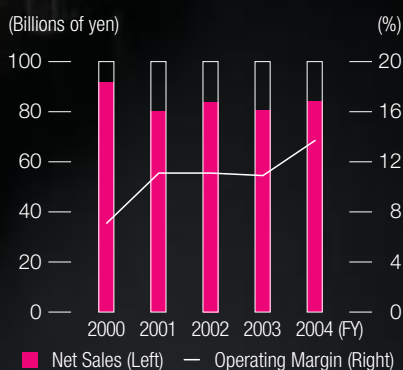
Propylene oxide (PO) is a basic raw material for polyurethane, which is used in cushions and insulation, and for unsaturated polyester resin, which is used for such products as bathtubs and boats. Demand for PO is expected to continue growing, with Asia in particular experiencing high annual growth rates of 7-8%.

With a new plant on stream that utilizes Sumitomo Chemical's proprietary PO-only process (which produces no styrene monomer (SM) or other by-products, and thus allows us to flexibly adjust production of PO as required by the market without being restricted by SM demand) the Company is expanding its PO business in the growing Asian market. In April 2005, we started commercial production of propylene glycol (PG), a PO derivative, on a scale of 100,000 tons annually at our subsidiary, Nihon Oxirane Co., Ltd. With the addition of propylene glycol to our product line, we will be able to respond more flexibly to changes in the market for PO and its derivatives. This will further boost the profitability of our overall PO business.

Fine Chemicals



Net Sales and Operating Margin



Business Performance in Fiscal 2004

Sales in the Fine Chemicals Sector in fiscal 2004 were buoyed by exports of pharmaceutical active ingredients and intermediates and raw materials for adhesives, as well as by increased sales of rubber antioxidants. This represents a 4.3% increase in sales to ¥84.1 billion and a 31% increase in operating income to ¥11.5 billion over the previous year.

Core Business Strategies

The Sector is working to maintain and enhance profitability, focusing on business built on its sophisticated organic synthesis technologies cultivated over many years. While the Sector strives to expand its product line and strengthen competitiveness in its core business of pharmaceutical chemicals, including pharmaceutical active ingredients and intermediates, it also continues to make

efforts to thoroughly rationalize operations for its key products of adhesives raw materials, rubber antioxidants, and polymer additives. In addition, the Sector is continually reviewing its product portfolio and streamlining its operations in mature markets, such as those for dyestuffs, emulsions, and finishing resins for both textiles and paper.

Key Initiatives for Fiscal 2004 and Developments from 2005 onward

Fortifying the Pharmaceutical Chemicals Business

In an effort to fortify its pharmaceutical chemicals business, Sumitomo Chemical integrated the operations of its wholly owned subsidiary, Sumika Fine Chemicals Co., Ltd., into its Fine Chemicals Sector in July 2004. This reorganization has enhanced the efficiency of business operations for both

pharmaceutical active ingredients and intermediates.

The pharmaceutical chemicals industry is estimated to be on the scale of \$US22 billion worldwide, with pharmaceutical companies mainly contracting out the manufacture of active ingredients and intermediates. This rising trend of contract manufacture, in which pharmaceutical companies specialize in development and marketing while outsourcing production, is expected to grow at a rate of 7-8% annually. In addition, Japan's Pharmaceutical Affairs Law, which went into effect in April 2005, will provide pharmaceutical companies with greater freedom to outsource production, and this will both accelerate this activity and intensify competition among makers.

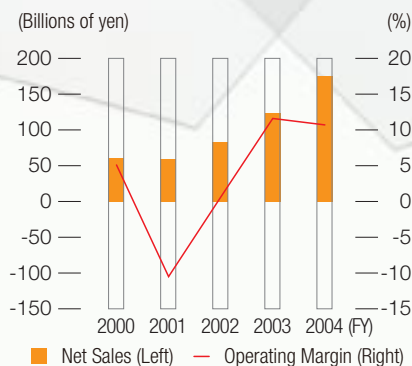
In 2004, the Company showed robust performance, with active ingredients for antidepressants posting favorable sales. However, we anticipate that in 2005 these products will come under increasing price pressure with the intensifying competition. As a preemptive measure, the Company has rationalized its manufacturing, and research and development operations to achieve greater efficiencies, while at the same time aiming for the early commercialization of new products.

Streamlining Existing Businesses

By focusing on competitiveness in each of our businesses, Sumitomo Chemical is pursuing its policy of "Selection and Concentration." As a part of these efforts, we divested our operations for polymer flocculants and finishing resins for both textiles and paper during fiscal 2004.

IT-related Chemicals

Net Sales and Operating Margin



Business Performance in Fiscal 2004

Demand for polarizing film and color filters continued to grow rapidly, spurred by expansion of the liquid crystal display (LCD) display market for televisions, personal computers and mobile phones, coupled with the increasing market shift toward larger display sizes. The commencement of operations at our new facilities in Korea during this period enabled us to meet the brisk demand successfully. Owing to the significant contribution of this LCD business, overall performance in the IT-related Chemicals Sector saw substantial improvement in fiscal 2004, with sales of ¥174.8 billion, up 41.5% over the previous fiscal year, and an operating income of ¥18.7 billion, up 30.8% compared to last year.

Core Business Strategies

The excellent performance of the IT-related Chemicals Sector is attributable mainly to the following strengths of the Sector: (1) Our long-standing and close working relationships with major customers enable us to understand their specific needs accurately and respond to them promptly. (2) Our ability to generate synergy over a broad range of technical expertise that is available only to a diversified chemical company like Sumitomo Chemical allows us to manufacture nearly all the major LCD display materials that our customers require and to provide comprehensive solutions for their needs. (3) We have gained a high degree of trust from our customers through our established track record in aggressive and timely capital investment backed by our management's strong commitment to the business, and (4) We

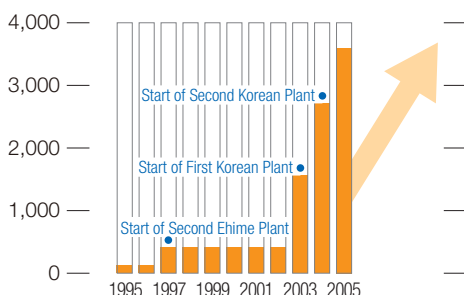
are ahead of our competitors in the research and development of next-generation display technologies such as polymer LEDs.

The growth of demand for LCDs tapered off from the second half of last year as a result of inventory adjustments. However, as the price of LCD televisions comes down and television performance continues to improve with larger-sized screens and higher image quality, consumer demand for LCD televisions will be further stimulated, generating a mass market. We expect that the growth of the LCD market will gather momentum again towards the latter half of this year.

Sumitomo Chemical will continue to allocate its business resources to further enhance its supply capabilities in response to LCD manufacturers' production expansions.

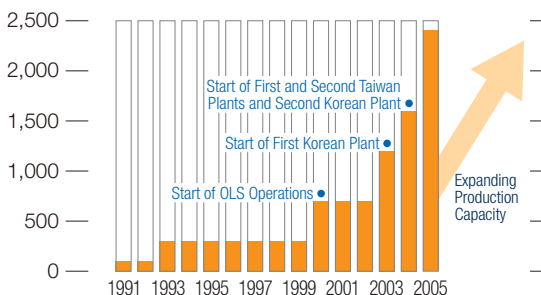
Production Capacity Increase in Color Filters

(10,000 units/year, in terms of 14-inch)



Production Capacity Increase in Polarizing Films

(10,000 square meters/year)



Key Initiatives for Fiscal 2004 and Developments from 2005 onward

LCD Color Filters

Our Korean plants boast one of the world's largest-scale production capacities for fifth-generation LCD color filters at 1.44 million sheets per year.

Sumitomo Chemical has succeeded in commercializing the world's first spinless coating technology, which is highly productive and meets the stringent quality demands of our customers.

We have recently made a small investment in our Korean plant for fifth-generation LCD color filters to improve productivity and expand capacity through debottlenecking. The construction was completed in June 2005 with an increased production capacity of 1.92 million sheets per year.

Our new plant in Taiwan for producing second-generation LCD color filters, which are in high demand for mobile phones and other small- to medium-size LCD applications, is scheduled for completion in September 2005. The new Taiwan plant will have a monthly production capacity of 50,000 sheets.

LCD Polarizing Film

We are also working to expand production capacity for polarizing film, which, along with color filters, is one of the major LCD materials.

Our plants in Korea and Taiwan, each of which has a yearly production capacity of 4 million square meters, came on stream in the first half of 2005. As a result, our total production capacity for polarizing film increased considerably, from 16 million square meters to 24 million square meters annually. This ranks us among the largest producers of polarizing film in Korea and Taiwan, where market expansion is particularly strong.

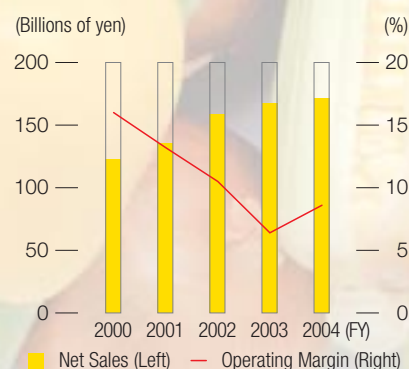
We are ramping up our LCD-related activities in China as well, where demand is expanding rapidly. Our manufacturing plants for polarizing film (producing 10 million sheets monthly) in Wuxi, Jiangsu province, was completed in July 2005. We will also complete the construction of light guide plates and diffusion plates plant (5,000 tons per year) by the end of 2005 at the same site. To keep pace with increasing demand in the future, we will pursue further expansions in the production capacity of these

facilities and will also be considering the construction of plants for color filters and rolls of raw material for polarizing film in China and elsewhere. We will develop this production base as our fourth stronghold of LCD-related business in addition to Japan, Korea and Taiwan.

With the expansion of applications for LCD materials, the competition to develop new products with new functions is becoming increasingly intense. In order to speed up research and development of new products to meet the needs of the market, we built a new research facility in Iksan, Korea as well as a new building within our IT-related Chemicals Research Laboratory in April 2005. Furthermore, to enhance quality assurance, our Quality Assurance Office was newly created in the Sector in July 2004, as an organization independent from production, and a quality control center that incorporates new, advanced quality-testing equipment will be established at our Ehime Works in autumn 2005. This, along with innovations in the production management system, and reductions of inventory and production lead-time will further improve cost-competitiveness.

Agricultural Chemicals

Net Sales and Operating Margin



Business Performance in Fiscal 2004

Sales in the Agricultural Chemicals Sector increased 2.7% over the previous year to ¥171.6 billion. Sales of crop protection chemicals grew thanks to increased sales in the United States and Europe, as well as from the launch in Japan of the new agricultural pesticide PLEO® in August 2004. The launch of SUMI ONE® and other new products contributed to sales of household insecticides. The increase in overseas sales helped contribute to an increase in the Sector's operating income of 38.3% over fiscal 2003 to ¥14.8 billion.

Business Climate and Core Business Strategies

The Agricultural Chemicals Sector is working to bolster profitability by leveraging its superior R&D capabilities to develop a business specializing in leading product lines.

A basic strategy of our Three-Year

Corporate Business Plan is to strengthen the business through strategic acquisitions and to keep our development pipeline full, while continuously bringing new products to market. We are working to improve cost-competitiveness by capitalizing on our manufacturing bases in India and China.

We are making progress in integrating our recent acquisitions effectively, and the Sector also has many new products that will soon be ready for launch. These are examples of our ongoing efforts to boost the profitability of the sector to sustain the Company's growth.

Key Initiatives for Fiscal 2004 and Developments from 2005 onward

Reinforcing our Business through Strategic Acquisitions

In 2002, we acquired the agrochemical operations of Takeda Pharmaceutical Company Limited to form Sumitomo

Chemical Takeda Agro Company, and current plans are to consolidate it into Sumitomo Chemical Co., Ltd. in fiscal 2007. In order to generate business synergies from the merger as early as possible, we have begun to restructure operations. We have merged two agrochemical formulation subsidiaries and consolidated two subsidiaries in the non-farming agricultural chemical field. We are also eliminating duplication by relocating the offices and facilities of both companies to build the optimal operational structure.

Furthermore, focusing on the profitable areas of fruits, vegetables, and non-farming agricultural chemicals, we have been promoting business partnerships to expand into strategic markets with an enhanced product line. For example, in March 2005, the Company concluded an agreement with Kureha Chemical Industry Co., Ltd. to jointly

develop their broad-spectrum fungicide Metconazole, which surpasses existing products in efficacy on major diseases in turf, fruits and vegetables. Sumitomo's North American subsidiary, Valent USA Corporation will develop and market Metconazole in the United States and Canada to further accelerate expansion of the business in this globally important market. Meanwhile, this past February, we licensed the development and marketing rights for one of our newly developed herbicides to Syngenta AG, which is the leading company in the herbicide market. This collaboration will enable Sumitomo Chemical to successfully commercialize the fruits of its R&D.

Continuous Launch of New Products & Early Product Commercialization

In August 2004, PLEO® FLOWABLE, a pesticide for vegetables, went on the market in Japan. This compound has a new structure distinctly different from that of existing pesticides, which, along with providing excellent efficacy against harmful insects, possesses the special characteristic of having a minimal impact on beneficial insects and pollinators such as honeybees.

In the household insecticides segment as well, the pyrethroid insecticide EMINENCE®, which is far more effective against mosquitoes than conventional insecticides, was launched in Japan. This had already been successfully marketed overseas last year under the name SUMI ONE®. Because the active ingredient in this product evaporates at room

New Products Planned for Launch within 7-10 Years

Classification		New Products Planned for Launch
Agricultural Chemicals	Insecticides	6 Products for fruit, vegetables, cotton
	Fungicides	5 Products for fruit and vegetables
	Herbicides	1 Product for rice fields
Household Insecticides		7 products (dust mite pesticide, moth-proofing agents for clothes, pesticides for public hygiene)

temperature, it is expected to have new applications for a variety of household products that will hold promise for further business expansion. Other new insecticides that have been launched include PI WEN LING®, an insecticide targeting the Chinese market, and FAIRYTALE®, a moth repellant for garments.

Other new products slated for ongoing release are shown in the chart above. We will continue to capitalize on our excellent R&D capabilities to expand the business and improve profitability.

Establishing Overseas Facilities to Improve Cost-Competitiveness

In order to manufacture low-cost, high-quality agrochemical intermediates, we have partnered with a local company in China to form Dalian Sumika Chemphy Chemical Co., Ltd. Our recently constructed manufacturing plant was brought smoothly on stream and began production in December 2004. We have plans to enlarge the range of products manufactured there and anticipate that the facility will contribute significantly to improving the cost-competitiveness of the Sector.

Smooth Expansion of the DL-Methionine Business

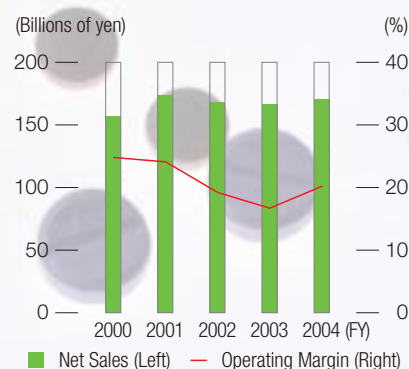
DL-methionine is an essential amino acid used as a feed additive, primarily in poultry farming. Present worldwide demand, estimated to be in the range of 450,000 to 600,000 tons annually, is expected to grow at a rate of 5% or more per year, with the most brisk growth occurring in Asia, where the size of the current market is estimated at 140,000 tons.

Because of our integrated production facilities with all key raw materials manufactured 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 position ourselves as the top player in Asian markets.

Pharmaceuticals

Sumitomo Chemical is engaged in the pharmaceuticals business mainly through its subsidiary Sumitomo Pharmaceuticals Co., Ltd., and Nihon Medi-Physics Co., Ltd., a radiopharmaceutical joint venture between Sumitomo Chemical and GE Healthcare, Ltd.

Net Sales and Operating Margin



Business Performance in Fiscal 2004

Pharmaceutical sales increased 2.5% from the previous fiscal year, to ¥170.7 billion, and operating income increased 23.7%, to ¥34.4 billion. While influenced by the government-mandated drug price reductions in April 2004, these results are primarily due to steadily increasing sales of two mainstay products: Amlodin (therapeutic agent for hypertension and angina pectoris) and Meropen (carbapenem antibiotic).

Core Business Strategies

Drug price reductions and other Japanese government initiatives to contain healthcare costs as well as the increasing market presence of American and European pharmaceutical firms are causing the operating environment in Japan to become increasingly difficult.

Against this backdrop, Sumitomo

Pharmaceuticals and Dainippon Pharmaceutical Co., Ltd. will merge on October 1, 2005 to form Dainippon Sumitomo Pharma Co., Ltd. The new company will rank among Japan's top ten pharmaceutical companies in terms of domestic ethical pharmaceutical sales. With a combined sales force of approximately 1,500 medical representatives (MR), a number comparable to that of the leading Japanese pharmaceuticals companies, Dainippon Sumitomo Pharma will be able to further strengthen its solid earnings base through its domestic pharmaceutical operations. In addition, aiming for global business expansion in the future, the company will fully leverage its stable cash flow to enhance R&D in terms of both the amount of investment and the selection of promising drug candidates in areas where the company's resources

can be mobilized most effectively, thereby accelerating the process of drug development and commercial launch.

The new company will combine the superior R&D capabilities of both firms to establish a solid position as a leading research-driven company. Since life sciences, including pharmaceuticals, continue to be a core business of Sumitomo Chemical, we will provide whatever support is necessary for the new company to achieve maximum corporate value.

Key Initiatives for Fiscal 2004 and Developments from 2005 onward

Dainippon Sumitomo Pharma to be created by merger with Dainippon Pharmaceutical

On April 28, 2005, Sumitomo Pharmaceuticals and Dainippon Pharmaceutical entered into a merger agreement, and are working together

closely to commence the operation of the new company on October 1, 2005.

The targets envisioned for the new company for fiscal 2007 are ¥280 billion in sales, investment of ¥45 billion in R&D, and an operating income of ¥50 billion. The company will focus sales efforts on its four main products: Amlodin (therapeutic agent for hypertension and angina pectoris), Gasmotin (gastroprokinetic agent), Prorenal (agent for the improvement of peripheral circulation), and Meropen (carbapenem antibiotic).

(The sales target for fiscal 2007 is lower than the ¥316.2 billion combined sales for Sumitomo Pharmaceuticals and Dainippon Pharmaceutical in fiscal 2004 because net sales for Dainippon Pharmaceutical in 2004 include ¥46.8 billion under its agreement with Abbott Laboratories, which expires in 2005).

The two companies anticipate that the new company will generate ¥10 billion in sales synergies. In terms of cost-reduction synergies, combining the sales forces of the two companies will enable the new company to realize savings of ¥8 billion in labor costs by limiting increases in sales staff (MRs) and other personnel, ¥4 billion in R&D by leveraging the two companies' numerous commonalities in the direction and fields of R&D and narrowing the focus of strategic research areas, and ¥1.5 billion mainly through the consolidation of sales offices, for a total of ¥13.5 billion in projected savings in fiscal 2007. In addition, by eliminating duplication in capital investment and concentrating operations in existing facilities, Dainippon Sumitomo Pharma expects a cumulative reduction of ¥4.5 billion in capital expenses

from fiscal 2005 to fiscal 2007.

While striving to boost R&D efficiency, the new company will pursue a strategy of building a solid presence in the areas of central nervous system (CNS) and diabetes treatment.

*Early Development and Commercialization Initiatives
—Sumitomo Pharmaceuticals Forms Partnership with Merck for Development and Sales of SM13496 (lurasidone), an Atypical Antipsychotic Compound—*

On July 6, 2005, Sumitomo Pharmaceuticals announced the signing of an agreement with Merck & Co, Inc. to collaborate on SM13496 (generic name lurasidone), an atypical antipsychotic compound discovered by Sumitomo and currently in Phase II development for the treatment of schizophrenia.

Under this agreement, Sumitomo granted Merck an exclusive license for development and marketing of SM13496 in countries around the world (excluding Japan, China, South Korea, and Taiwan). Sumitomo will receive an initial payment and milestone payments in addition to royalties on net sales of SM13496, and will retain the option to co-promote the drug in the United States.

SM13496 has high affinities for both dopamine D2 and serotonin 5-HT2A receptors, and is expected to be effective in ameliorating both positive and negative symptoms of schizophrenia with fewer extra-pyramidal symptoms (EPS) than conventional therapeutic agents. With the progress of clinical studies, the efficacy and safety of this compound have been confirmed. It is

now under preparation for Phase III clinical trials in North America and is under Phase IIb clinical trials in Japan.

Sumitomo sought the best partner to develop and market the drug as an internationally strategic product and decided to collaborate with Merck, a global leader in the clinical development and marketing of innovative drugs. Sumitomo expects this arrangement with Merck to help accelerate the development of SM13496 for early launch and maximize its global market share. This partnership will also provide Sumitomo with opportunities to reinforce its operations in the United States.

Licensing Initiatives

To maximize the efficiency of R&D activities and commercialize new products early, the Company is actively pursuing collaboration with other firms, such as joint research, technology licensing and co-development at the clinical trial phase. In September 2004, the Company acquired Japanese marketing and development rights from Danish firm Novo Nordisk for the diabetes drug repaglinide (generic name), which is currently marketed in more than 80 countries worldwide. Sumitomo Pharmaceuticals is now conducting Phase II clinical trials on the efficacy and safety of the product, aiming for early commercialization in Japan.

To concentrate management resources on major new drug development, the Company is also licensing products from its non-core areas to other firms. In May 2005, the Company transferred Japanese sales rights for the antineoplastic substance (anti-cancer agent) Calsed to Nippon Kayaku Co., Ltd.

Dainippon Sumitomo Pharma R&D Pipeline

Therapeutic Category	Phase 1	Phase 2	Phase 3	Pre-registration/ Registered	Approved
Central Nervous System	AC-5216	AC-3933		Lonasen	
		Lurasidone		Tremode	
Diabetes		Repaglinide	AS-3201		
		Glucophage			
Cardiovascular		SMP-797		Replagal	
Gastrointestinal		Gasmotin*			
Inflammatory & Allergy		SMP-114			Ebastel**
Cancer & Infection		SM-11355	Sumiferon*	AmBisome	
Other	SMP-986				

*Additional indication **New formulation

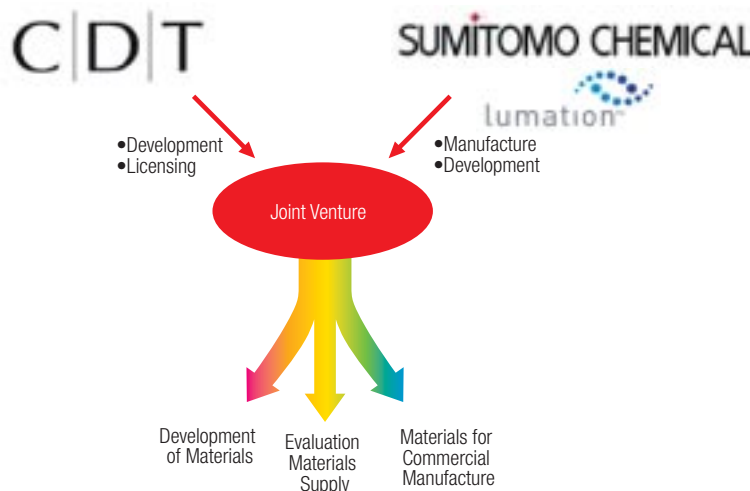
Nihon Medi-Physics to Start PET Diagnostic Drug Business

Nihon Medi-Physics, the other pillar of Sumitomo Chemical's pharmaceutical business, is a leader in Japan in the area of radiodiagnostic drugs, and efforts are underway to further expand this business. In one such initiative, Nihon Medi-Physics is currently applying for approval to commercialize a radiodiagnostic agent for positron emission tomography (PET) examinations. PET diagnostic agents are considered useful in imaging procedures for the early detection of malignant tumors. The limited availability of these agents and the significant

investment that would be required for medical institutions to produce them in-house has created an emerging demand for PET imaging agents to be supplied as pharmaceutical products. Because the half-life of the radioisotope used in the PET procedure is as short as 2 hours, more extensive supply facilities than previously available are necessary to meet requirements for quantity and geographic coverage. Therefore, Nihon Medi-Physics has established nine supply facilities throughout Japan for the product and is working toward commercialization in fiscal 2005.

Research and Development

Formation of Joint Venture Company with CDT



The basic thrust of Sumitomo Chemical's R&D is "Creative Hybrid Chemistry," referring to the fundamental strategy that guides our research and development activities and consists in strengthening and expanding our existing businesses while opening up new business fields. We focus our endeavors mainly in the fields of IT-related materials, life sciences, and catalyst technology. In IT-related materials, we are strengthening our operations to accelerate development and commercialization of new products while working actively on the development of higher value-added products much closer to downstream industries. In life sciences, which consist of agrochemicals and pharmaceuticals, basic research plays a vital role in developing novel products that will bolster our future business. Our research strength lies in the diversity of the advanced technologies we have developed in-house, including genomics technology. In the area of catalyst technology, we are constantly working to improve production efficiencies, not simply for cost reduction, but also to minimize emissions and impact on the environment from the perspective of corporate social responsibility (CSR) initiatives, which constitute the core principles of our corporate management.

IT-related Materials

Polymer Light-Emitting Diodes (PLED)

Sumitomo Chemical is developing Light-Emitting Polymers (LEP) for use in Polymer Light-Emitting Diodes (PLED). Using LEPs in PLED technology makes possible the manufacture of ultra-thin flat panel displays that consume less energy and achieve higher image resolutions than conventional displays.

The Company is engaged in the development of fluorescent and phosphorescent organic electroluminescent (EL) polymer materials, based on our many years of experience with technologies for displays and electrically conductive polymers. At present, we have achieved a brightness half-life of over 60,000 hours at a brightness of 100cd/m² in a blue light source. In our efforts to make this more commercially attractive, we are aiming to develop even brighter, longer-lasting PLED light sources for use in TV and other applications. In addition, we have succeeded in developing PLED materials whose properties make them ideal for manufacture using a printing method that enables us not only to produce large displays simply and inexpensively, but also to further accelerate commercialization.

In May of this year, Sumitomo Chemical acquired Dow Chemical's LUMATION™ organic EL polymer operations.



Cambridge Display Technology (CDT) at Cambridgeshire, UK

We will continue our quest for greater brightness and longer life on the strength of our combined luminescent materials technology.

The Company has also signed a memorandum of understanding for the formation of a joint venture company this year with Cambridge Display Technology (CDT), our long-time partner in the development of ultra-high efficiency materials.

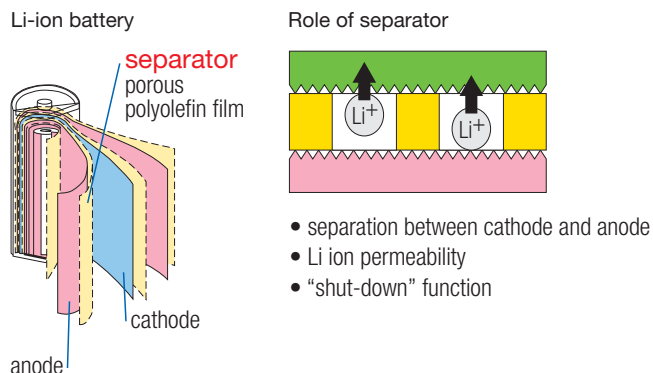
Combining the technologies of both Dow and CDT with our own, we will strive to develop increasingly attractive and distinctive materials, and will not only develop materials for mobile phones and digital cameras, but will also focus future development on television and lighting applications.

Lithium Ion Secondary Battery Separators

In the field of new energy materials, lithium ion batteries are showing rapid growth in recent years as power sources for portable electronic devices. With the spread of mobile phones and other mobile devices such as personal digital assistants (PDAs), the market increasingly requires power sources that can operate continuously for many hours, creating a demand for high-performance batteries.

Lithium ion batteries are composed of a cathode (posi-

Separator for Lithium Ion Secondary Batteries



tive terminal), an anode (negative terminal), and a separator to isolate them from one another. The Company has been developing a new separator component, which is normally considered necessary for its functions of separating the cathode and anode, and providing ion permeability. From a safety standpoint, a shutdown function is also important to prevent ion transference in the event of an abnormal exothermic reaction. Along with increasing the capacity of the batteries, ensuring their safe operation is an important task.

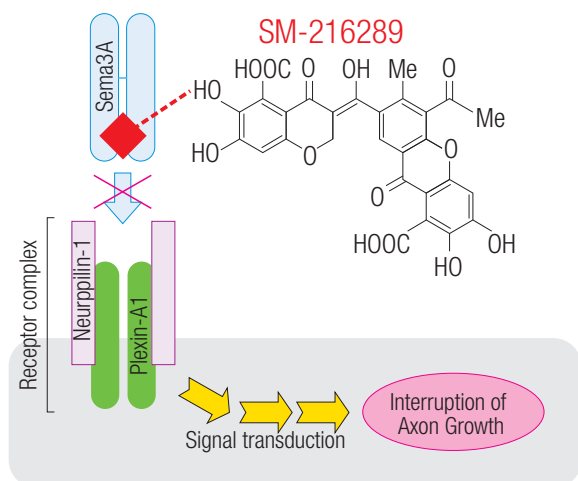
Utilizing the Company's novel proprietary resin processing technologies, we have developed porous, heat-resistant resins that ensure dramatically improved safety in the event of a malfunction and have been highly rated by industry users. We are further accelerating development for early commercialization.

Life Sciences

Therapeutic Agent for Spinal Cord Injuries (Semaphorin 3A Inhibitor SM-216289)

In collaboration with Prof. Okano of Keio University, Sumitomo Pharmaceuticals found that a semaphorin 3A inhibitor SM-216289 was able to promote regeneration of the damaged spinal nerve in an animal model. The

Mode of Action of SM-216289, a Semaphorin 3A Inhibitor



Company also clarified the mode of action of SM-216289, the compound binding directly to semaphorin 3A (a protein that inhibits axon growth) and interrupting the protein from binding to its receptor.

SM-216289 had been identified as a specific semaphorin 3A inhibitor through the large scale screening of approximately 150,000 compounds. The inhibitor is produced by a fungus isolated from the soil of the land on which Osaka Castle is located, close to Sumitomo Pharma's research facility. By using SM-216289 to inhibit semaphorin in the body, our research has proven for the first time that it is possible to promote axonal regeneration in the central nervous system.

Quadriplegia, one of the most serious neurological disorders caused by injuries to the spinal cord, results in loss of motor functions and sensation, and impedes the functioning of the autonomous nervous system. Semaphorin inhibitor shows promise as an effective therapeutic agent for spinal cord injury that causes severe paralysis, and we are committed to advancing studies leading to the development of a commercially viable treatment.

Catalyst Technology

Sumitomo Chemical has long been focusing on green and sustainable chemistry that exerts the least possible impact on the environment based on our accumulated experience in catalysts and process design technologies.

Having won the prestigious Green Sustainable Chemistry (GSC) Prize for our successful commercial development of a highly advanced process for manufacturing caprolactam in 2003, our hydrochloric acid oxidation process won the GSC Prize again in 2004 from the Green & Sustainable Chemistry Network, a Japanese organization advancing green and sustainable chemistry initiatives. This process utilizes a novel proprietary high-performance catalyst developed in-house to convert the hydrochloric acid that is generated as a by-product into chlorine for use at chlorinated chemical plants.

In addition to improving such processes for bulk products, we are developing proprietary high-activity catalysts for various high-performance polymers using our advanced high-throughput system.

We will further promote activities to achieve the goal of zero-emissions, based on the principle of green and sustainable chemistry as part of our CSR endeavors.

Corporate Social Responsibility

Corporate Social Responsibility

Enhancement of Basic CSR Policy

Sumitomo Chemical's origins date back to 1913, when the Company sought to solve environmental problems caused by sulfur dioxide emissions from the Besshi Copper Mine in the Shikoku region of Japan. The Company used the sulfur dioxide to produce sulfuric acid and calcium super phosphate fertilizers. This not only solved the environmental problems by curbing the emission of pollutants, but also helped to increase crop yields by providing useful fertilizers. Thus, ever since its establishment, Sumitomo Chemical has been committed to addressing environmental issues and making positive contributions to society. From its very inception, then, the Company has been conducting business activities based on principles that, in the modern day, have become the core principles of CSR. Since gaining the trust and support of society is essential to the conduct of sound business and is a key objective of CSR, the Company will continue to base its business practices on CSR on its path to becoming a truly global chemical company. In November 2004, Sumitomo Chemical revised and enhanced its Basic CSR Policy, and we will continue to base our initiatives on this policy.

Overview of Basic CSR Policy

By continuously creating and providing useful new technologies and products that have never before existed, Sumitomo Chemical will build corporate value while contributing to both the solution of problems facing our environment and society, and the enrichment of people's lives.

In order to accomplish this, the Company will work to achieve a balance of profitable business operations, the preservation of the environment, safety, health, product quality, and social activity. We will also pursue and promote our CSR activities with consideration for the interests of all our stakeholders, including our stockholders, employees, business partners, and the local residents of all regions in which we conduct business. Through our endeavors in these areas, we hope to play a significant role in building a sustainable society, while continuing to grow in order to realize our goal of becoming a truly global chemical company in the 21st century.

Performance in fiscal 2004

1) Preserving the Environment, Safety, Health, and Product Quality

(i) Assessment and Reduction of Environmental Impact, and Initiatives for Saving Energy and Preventing Global Warming

Sumitomo Chemical advocates minimizing environmental impact through conducting appropriate assessments and taking the appropriate action based on the results of these assessments as a primary objective of its environmental initiatives. The Sumitomo Chemical group companies are working to lower consumption of energy and resources, and reduce CO₂ emissions. Among these efforts in fiscal 2004, the Company formulated shared objectives (specific target values) for the Group. Sumitomo Chemical and its 18 main domestic group companies collaborated in the planning for this initiative. The specific objectives are:



“Africa Live 2005 Roll Back Malaria Concert” in Dakar, Senegal

- Energy saving: Curb fiscal 2010 per-unit energy consumption to 6.4% improvement over 2002 levels.
- Reduction of CO₂ emissions: Curb fiscal 2010 per-unit energy consumption to 4.1% improvement over 2002 levels.

We are actively working toward achieving these challenging goals by improving operating methods, promoting thermal recovery, enhancing the efficiency of equipment, introducing cogeneration systems, and developing new processes and streamlining existing processes through the development of high-performance catalysts. In addition to Sumitomo Chemical's initiatives in these corporate endeavors, we are also directing our efforts toward utilizing the mechanisms provided under the Kyoto Protocol. We have resolved that by fiscal 2017 we will have contributed \$US2.5 million to the BioCarbon Fund established by the World Bank in March 2005.

(ii) Improvement of Environmental and Safety Technologies Supporting Green Procurement—the GTC-ECO System

Sumitomo Chemical is working to improve environmental and safety technologies in order to improve safety and reduce the environmental impact of production processes and of products throughout their entire lifecycles.

The Company and its group company, Sumika Chemical Analysis Service Co., Ltd., capitalizing on our accumulated technology and experience in the management and analysis of chemicals as a diversified chemical manufacturer and an analysis specialist, have developed a green procurement support

system in cooperation with NTT Communications. This is an internet-based system for the collection and dissemination of information over the Web about the quantitative analysis of chemical materials procured by manufacturers, such as those in the electrical equipment and electronics industries. This is called the GTC-ECO System, and it is expected to be used by a great many manufacturers. It was developed in order to help manufacturing industries comply promptly and smoothly with the growing number of environmental regulations, such as prohibitions on certain harmful materials; regulations that are increasingly being adopted worldwide.

The GTC-ECO System currently allows users to access such functions as “Green Procurement”^{*} Support (reply to surveys, analysis), “Gather Safety Information,” “Draft MSDS,” “Search regulations,” and plans are underway to further enhance its functions.

^{*} Green Procurement: The acquisition of materials for the development, production, and distribution of products that exert the least possible environmental impact, and the sharing and management of information that facilitates the procurement and use of materials that have low environmental impact by such industries as the automotive and electronics industries.

2) Society

(i) Enhancing Activities that Contribute to Society —Contributing to the Prevention of Malaria with the OLYSET®NET—

Sumitomo Chemical has developed its proprietary OLYSET®NET technology for embedding insecticide in mosquito netting, and is providing the nets mainly to African coun-

The Global Compact's 10 Principles

Human Rights

- Principle 1: The support and respect of the protection of international human rights;
- Principle 2: The refusal to participate in or condone human rights abuses.

Labor Standards

- Principle 3: The support of freedom of association and the recognition of the right to collective bargaining;
- Principle 4: The abolition of compulsory labor;
- Principle 5: The abolition of child labor;
- Principle 6: The elimination of discrimination in employment and occupation.

Environmental Preservation

- Principle 7: The implementation of a precautionary and effective program on environmental issues;
- Principle 8: Initiatives that demonstrate greater environmental responsibility;
- Principle 9: The promotion of the diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: The promotion and adoption of initiatives to counter all forms of corruption, including extortion and bribery.

tries. This should be instrumental in helping to eradicate malaria, one of the world's three major infectious diseases along with HIV-AIDS and tuberculosis. At present, over 300 million people are infected with malaria and over a million die from it every year. The majority of cases occur in Africa, with most of the victims being children under five years of age. Sumitomo Chemical is participating in the Roll Back Malaria campaign led by the World Health Organization (WHO), which aims to reduce by half the number of fatalities from malaria by 2010. In order to expand supply capacity and provide OLYSET® NET mosquito nets at low cost, the Company has provided the manufacturing technology free of charge to a net manufacturer in Tanzania and is cooperating to promote local production, which reached 2.5 million nets in fiscal 2004. Nevertheless, because more nets must be produced in order to achieve the goals of the Roll Back Malaria campaign, Sumitomo Chemical is working to step up production to 20 million nets within the fiscal year ending March 2006 and will continue to look into ways to increase production, including the promotion of further local production in Africa. The Company also participated as a major sponsor in the "Africa Live 2005 Roll Back Malaria Concert" held in Dakar, Senegal in March 2005 to raise awareness of malaria prevention. Sumitomo Chemical will continue to actively engage in malaria prevention efforts to help contribute to enriching the lives of people worldwide.

(ii) Engaging in Dialogue with Stakeholders from a Global Perspective Participation in the Global Compact

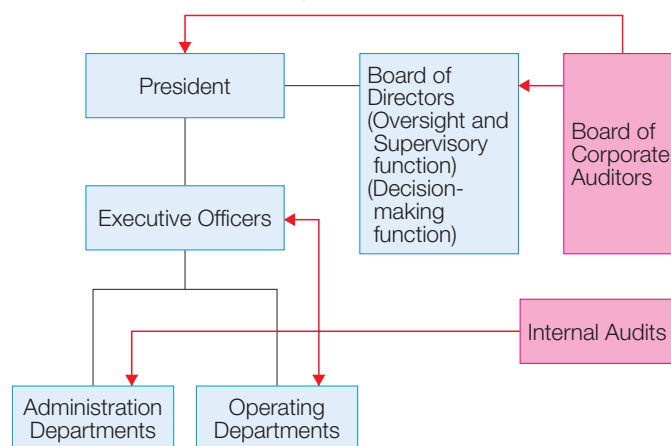
Sumitomo Chemical announced its participation in the United Nations Global Compact on January 1, 2005, becoming the first Japanese chemical company to engage in the initiative. The Global Compact is a voluntary program that seeks to advance responsible corporate citizenship among major companies around the world by promoting 10 principles of conduct covering four areas; human rights, labor standards, environmental preservation, and anti-corruption. The Compact is based on the ideals expressed by United Nations Secretary-General Kofi Annan in his address to the World Economic Forum in Davos in January 1999. The 10 principles of the Global Compact form the basis for Sumitomo Chemical's CSR activities, and the Company will adhere to these 10 principles to further enhance its CSR initiatives.

Promotion and Management of CSR Activities

Sumitomo Chemical has established the "Provisional CSR Promotion Coordinating Board" in order to promote CSR throughout the Company. This Provisional Coordinating Board brings together representatives from all offices, works, and laboratories to coordinate and review plans for the Company's conduct of CSR. The Provisional Coordinating Board office is operated jointly by the General Affairs Department, IR & Public Relations Department, and the Responsible Care Office.

Each department offers concrete proposals for their CSR activities for each fiscal year based on the goals of important

Corporate Governance Organization



medium-term initiatives. The Provisional Coordinating Board reviews and proposes priorities for these proposals and the respective departments, then implements them. Each department reports to the Provisional Coordinating Board on their progress, and the Provisional Coordinating Board office compiles the reports and presents them annually to the Management Committee, which reviews the Company's major CSR initiatives and revises them as necessary.

Corporate Governance

Against a backdrop of changing social and economic conditions, Sumitomo Chemical is striving to maximize shareholder value and reinforce the trust and support of customers, business partners, regional communities, and other stakeholders. We realize that corporate governance is the key to achieving these objectives and will continue to make ongoing efforts to bolster corporate governance by expediting decision making, defining more clearly the executive officers' responsibilities pertaining to the execution of duties, enhancing and strengthening the compliance system and internal audits, and promoting timely disclosure of information.

• Management Structure

The Company's management structure consists of 10 Board members and 25 executive officers, nine of whom serve in dual capacity as Board members, with the number of members determined by a resolution at the 2005 annual shareholders' meeting. The Board of Directors makes decisions regarding important

managerial matters in accordance with the law and the articles of association as well as regulations concerning the Board, and also oversees and supervises the discharge of duties by each individual director. The Representative Directors delegate authority to executive officers to carry out business operations in accordance with the management strategy determined by the Board.

There are four corporate auditors, two of whom are from outside the Company. Corporate auditors inspect the Company's operations and assets in accordance with the auditing policy determined by the Board of Auditors according to their assigned business capacities. They attend meetings of the Board of Directors and review important official documents.

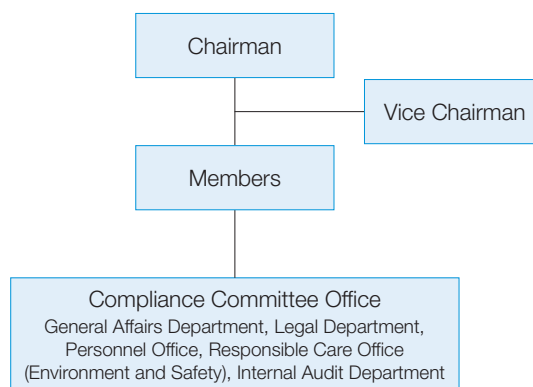
• Internal Auditing

Internal auditing is conducted by a dedicated Internal Auditing Department that functions independently of the Company's business operations. The Internal Auditing Department audits the Company, including Group companies, to ensure both that internal control functions effectively in the conduct of business by executive officers and employees and that business is conducted in a proper and appropriate manner.

In addition, the Group Internal Auditing Implementation Committee has been established to improve the effectiveness and efficiency of internal auditing for our Group companies.

Furthermore, as a part of internal auditing, the Responsible Care Office conducts Responsible Care audits pertaining to matters of the environment, safety, and product liability.

Compliance Committee Organization



• Timely Disclosure

The IR & Public Relations Department continuously provides fair, honest, and timely disclosure of the information necessary for the investment decisions of shareholders and institutional investors.

Compliance

Sumitomo Chemical is committed to promoting compliance-based management through the observance of laws, regulations, and Company rules by all Company employees in all their corporate activities, and also through supervision by various internal committees, including the Responsible Care Committee, the Antitrust Law Compliance Committee, and the Group Companies Auditing Committee.

In July 2003, we took a step toward further reinforcing compliance-based management by formulating the “Sumitomo Chemical Charter for Business Conduct,” which codifies basic standards for corporate activities, and also by providing all employees and Board members with the Sumitomo Chemical Business Conduct Manual to establish concrete guidelines for business conduct in accordance with these basic standards.

At the same time, in order to enhance its strong commitment to legal and ethical compliance, the Company defined more clearly the breadth and depth of the internal audit and Responsible Care audit that, along with other initiatives, constitutes an important means of ensuring the Company’s compliance with laws, regulations and Company rules.

• Sumitomo Chemical Charter for Business Conduct

At Sumitomo Chemical, we believe it is our social obligation to conduct business ethically and lawfully throughout our world-wide operations. To translate this imperative into action, we established the “Sumitomo Chemical Charter for Business Conduct” as the cornerstone of our compliance-based management.

In addition, all employees and Board members are expected to uphold the highest ethical and business standards by observing rules and principles for conduct as enumerated in the Sumitomo Chemical Business Conduct Manual, which encompasses the following five areas: The relationship with society; relations with customers, business partners, and competitors; relationships with shareholders and investors; rules concerning employees; and rules concerning the Company and its assets.

• Sumitomo Chemical’s Compliance System and its Organization

The Compliance Committee is an integral organ of Sumitomo Chemical’s internal control system, through which Board members supervise the Company’s operations with the aim of overseeing and supporting the effective implementation of compliance-based management. It is the Committee’s mission and duty to investigate and supervise legal and ethical compliance throughout the Company and recommend improvements as necessary.

Sumitomo Chemical Charter for Business Conduct

1. We will respect Sumitomo's business philosophy and act as highly esteemed good citizens.
2. We will observe laws and regulations, both at home and abroad, and will carry out activities in accordance with our corporate rules.
3. We will develop and supply useful and safe products and technologies that will contribute significantly to the progress of society.
4. We will engage in voluntary and active initiatives to achieve zero-accident and zero-injury operations and preserve the global environment.
5. We will conduct business transactions based on fair and free competition.
6. We will endeavor to make our workplaces sound and energetic.
7. Every one of us will strive to become a professional and achieve advanced skills and expertise in our field of responsibility.
8. We will actively communicate with our various stakeholders, including shareholders, customers, and local communities.
9. As a corporate member of an international society, we will respect the culture and customs of every region of the world and contribute to the development of those regions.
10. We will strive for the continued development of our Company through business activities conducted in accordance with the guiding principles described herein.

• “Speak-Up System”

We established the “Speak-Up System” for our Compliance Program to provide employees with an avenue for reporting violations or suspected violations of laws, regulations or Company rules, should their immediate resolution through the normal process of reporting to a superior appear difficult or impossible. Employees can choose to report either to the Compliance Committee or to an outside attorney retained by the Company. The Company will not tolerate any reprisal or retaliation in the form of loss of his or her job or position, or any other form of discrimination against a person, who, in good faith, reports a known or suspected violation.

The very existence of the “Speak-Up System” promises to serve as an effective tool for discouraging illegal or improper conduct. Should such conduct take place, the Speak-Up System will enable the Company to promptly identify and rectify the situation.

• Compliance-based management by Group Companies

We also expect Sumitomo Chemical Group companies to recognize the importance of compliance-based management, and have requested that major group companies in Japan and overseas adopt similar compliance programs. Currently, all Group companies in Japan have adopted their own compliance programs, while most of those abroad have already put into practice compliance programs that conform to local laws and regulations where they operate.

Board of Directors & Corporate Auditors



Seated, from left:

Shigehiro Oba
Director & Senior Managing Executive Officer

Masami Nakamoto
Executive Vice President

Hiromasa Yonekura
President

Satoshi Kawachi
Executive Vice President

Ichiro Miyawaki
Director & Senior Managing Executive Officer

Standing, from left:

Osamu Ishitobi
Director & Senior Managing Executive Officer

Masashi Araki
Director & Senior Managing Executive Officer

Hideaki Watanabe
Director & Senior Managing Executive Officer

Naoya Kanda
Director & Senior Managing Executive Officer

Yuji Ito
Director

Board of Directors

President

Hiromasa Yonekura

Executive Vice President

Masami Nakamoto
IT-related Chemicals Sector

Satoshi Kawachi
Technology, Research & Development
New Business Development, Procurement
& Logistics

Director & Senior Managing Executive Officer

Shigehiro Oba
Agricultural Chemicals Sector

Ichiro Miyawaki
Petrochemicals & Plastics Sector

Hideaki Watanabe
Basic Chemicals Sector

Masashi Araki
Fine Chemicals Sector

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

Osamu Ishitobi
Rabigh Project

Director

Yuji Ito
IR & Public Relations, Finance &
Accounting, Internal Audit

Executive Officers

Managing Executive Officer

Yasuo Kamei
Basic Chemicals Sector - Aluminium Div.
Petrochemicals & Plastics Sector - Planning
& Coordination Office / Petrochemicals Div.

Hiroshi Hirose
General Affairs Dept., IR & Public Relations
Dept.

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

Takatsugu Enami
Fine Chemicals Sector - Specialty
Chemicals Div./ Pharmaceutical Bulk
Div./Pharmaceutical Intermediates Div.

Kiyohiko Nakae
Corporate Planning & Coordination Office
(Technology, Research & Development),
New Business Development Office, Tsukuba
Research Laboratory

Executive Officer

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

Shinji Murakami
Oita Works

Yoshimasa Takao
Personnel Office, Procurement & Logistics

Masakazu Tokura
New Business Development Office,
Fine Chemicals Sector -
Planning & Coordination Office, IT-related
Chemicals Sector - Planning & Coordination
Office /
Quality Assurance Office

Yusuke Ueda
Legal Dept., Intellectual Property Dept.

Takatoshi Suzuki
Chiba Works

Kenjiro Fukubayashi
Agricultural Chemicals Sector - Planning &
Coordination Office /Animal Nutrition Div.

Shigenori Tsuda
Agricultural Chemicals Sector -
Environmental Health Div.

Yasuhiko Okamoto
Agricultural Chemicals Sector - Crop
Protection Div.-International / Crop
Protection Div.

Kenichi Hatano
Basic Chemicals Sector - Inorganic
Materials Div. / Industrial Chemicals Div.

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

Corporate Auditors

Kunio Matura
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	1997	1998	1999
For the year:			
Sales by business segment:			
Basic Chemicals	¥ 179.9	¥ 189.8	¥ 157.5
Petrochemicals & Plastics	325.8	339.6	305.6
Fine Chemicals	160.8	133.5	96.7
IT-related Chemicals	45.9	52.7	46.6
Agricultural Chemicals	109.5	120.8	120.8
Pharmaceuticals	156.9	155.3	149.1
Others	32.8	28.6	51.4
Net sales	1,011.6	1,020.3	927.7
Overseas operations	203.8	238.2	232.1
Operating income (loss) by business segment:			
Basic Chemicals	5.0	6.5	2.7
Petrochemicals & Plastics	9.2	10.2	11.1
Fine Chemicals	7.1	13.4	7.3
IT-related Chemicals	(3.4)	0.8	(8.6)
Agricultural Chemicals	24.5	25.7	27.7
Pharmaceuticals	13.1	15.5	15.5
Others	5.6	3.6	3.2
Elimination	1.7	(0.7)	0.4
Operating income	62.8	75.0	59.3
Net interest expense	(12.6)	(11.6)	(9.5)
Equity in earnings of affiliates	6.4	8.2	1.6
Income before income taxes and minority interests	54.4	45.9	36.3
Net income	21.5	22.1	20.1
Capital expenditures	72.0	82.9	67.6
Depreciation and amortization	62.4	58.4	68.4
Research and development expenses	54.9	54.9	59.5
Net cash provided from operating activities	—	—	—
Net cash used in investing activities	—	—	—
Net cash used in financing activities	—	—	—
At year-end:			
Total current assets	624.8	630.7	591.8
Net property, plant and equipment	493.5	475.6	428.1
Investments and other non-current assets	235.1	261.9	266.7
Total assets	1,358.2	1,375.9	1,310.9
Total shareholders' equity	282.7	296.7	325.1
Interest-bearing liabilities	615.5	623.6	585.1
Number of employees	16,262	15,918	15,778
Number of consolidated subsidiaries	62	64	67
Number of shareholders	147,300	144,381	140,257
Per share (yen):			
Net income	13.239	13.637	12.406
Total shareholders' equity	174.35	182.93	200.49
Cash dividends	5.0	5.0	5.0

Billions of yen (unless otherwise specified)

2000	2001	2002	2003	2004	2005
¥ 172.0	¥ 182.8	¥ 175.2	¥ 194.4	¥ 199.1	¥ 225.8
331.8	375.5	338.9	371.6	362.4	412.6
90.6	91.7	80.2	83.9	80.6	84.1
62.1	60.2	59.8	82.5	123.5	174.8
106.1	122.2	135.4	158.7	167.1	171.6
143.1	156.7	174.0	168.4	166.6	170.7
44.6	51.9	54.9	51.6	59.1	56.7
950.3	1,041.0	1,018.4	1,111.1	1,158.4	1,296.3
227.5	276.5	287.2	327.4	364.1	486.2
3.3	5.0	3.5	5.7	2.6	5.2
10.4	7.4	(0.4)	5.0	(1.6)	15.0
7.2	6.5	8.9	9.3	8.8	11.5
(5.0)	3.1	(6.3)	0.5	14.3	18.7
18.9	19.5	17.9	16.7	10.7	14.8
30.8	38.8	42.0	32.3	27.8	34.4
4.5	4.4	3.3	4.2	4.9	5.7
0.0	0.0	(0.1)	(0.2)	(0.9)	(0.1)
70.1	84.7	68.8	73.5	66.6	105.2
(8.7)	(8.5)	(7.4)	(5.3)	(2.9)	(3.0)
6.0	11.0	6.7	2.6	8.6	26.7
32.0	64.4	57.8	63.2	72.3	121.7
18.4	34.1	30.2	31.1	34.3	64.5
81.6	62.1	73.0	152.0	110.2	125.8
75.4	64.6	79.2	69.0	82.5	88.2
59.3	59.1	66.7	72.8	75.2	78.2
156.3	94.7	62.9	141.7	97.1	159.8
(49.5)	(54.9)	(57.2)	(129.2)	(103.2)	(118.0)
(62.2)	(62.6)	(8.8)	(5.2)	(9.3)	(31.2)
584.4	596.5	595.7	634.8	628.3	694.6
409.7	400.7	401.7	465.6	481.9	515.9
272.7	406.4	342.7	307.0	373.1	377.9
1,322.4	1,455.4	1,393.2	1,484.3	1,549.3	1,648.8
345.0	451.8	444.6	444.3	506.1	569.6
530.5	474.2	487.3	485.2	485.3	470.7
17,474	17,392	17,016	17,906	19,036	20,195
92	98	102	110	110	104
134,705	129,835	130,176	124,281	125,463	121,349
11.329	20.756	18.250	18.742	20.715	38.938
210.97	272.91	268.57	268.62	306.05	344.58
5.0	6.0	6.0	6.0	6.0	8.0

Financial Review

The following comments should be read in conjunction with “To Our Shareholders, Customers and Partners” (page 4-7), “Review of Operations” (pages 13-30) and the consolidated financial statements (pages 48-65). U.S. dollar amounts are translated from yen, for convenience only, at ¥107.39=\$1, the rate prevailing on March 31, 2005.

Results of Operations

Net sales in the fiscal year ended March 31, 2005, totaled ¥1,296.3 billion (US\$12,071 million), an 11.9% increase from ¥1,158.4 billion for the previous fiscal year.

Cost of sales was ¥933.9 billion (US\$8,696 million) compared with ¥850.2 billion for the previous fiscal year. The cost of sales ratio was 72.0%, a 1.4% drop from the previous fiscal year. Selling, general and administrative expenses were ¥257.2 billion (US\$2,395 million), a 6.5% increase over the previous fiscal year. Operating income amounted to ¥105.2 billion (US\$979 million), a 57.9% increase from ¥66.6 billion for the previous fiscal year. The ratio of operating income to net sales was 8.1%, as compared with the previous year's 5.8%.

Research and development expenses for the fiscal year ended March 31, 2005, were ¥78.2 billion (US\$728 million), 4.0% higher than the previous fiscal year's ¥75.2 billion.

Annual depreciation and amortization expenses were ¥88.2 billion (US\$821 million), an increase of 6.9% compared with the last fiscal year's ¥82.5 billion.

Interest expense, net of interest and dividend income, slightly increased to ¥3.0 billion (US\$28 million), compared with ¥2.8 billion for the previous year. Equity in earnings of affiliates increased to ¥26.7 (US\$249 million) from ¥8.6 billion in the previous fiscal year.

A gain of ¥2.4 billion (US\$23 million) was recorded as reversal of allowance for doubtful receivables. Net gains on sales of investment securities decreased to ¥1.7 billion (US\$16 million) compared to ¥3.1 billion in the previous year. Restructuring charges decreased to ¥3.4 billion (US\$32 million) from ¥4.5 billion in the previous fiscal year, 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. The Companies recorded impairment loss on fixed assets of ¥2.5 billion (US\$23 million) due to the early application of new accounting standard for impairment of fixed assets.

Income before income taxes and minority interests for the fiscal year ended March 31, 2005 increased to ¥121.7 billion (US\$1,133 million) compared with ¥72.3 billion for the previous year. Income taxes were ¥43.6 billion (US\$406 million), a 40.8% increase from ¥31.0 billion for the previous fiscal year.

Net income for the fiscal year ended March 31, 2005 was ¥64.5 billion (US\$600 million), an 87.8% increase from ¥34.3 billion for the previous fiscal year. Return on equity (ROE) was 12.0%, up 4.8 percentage points from the previous fiscal year's 7.2%. Net income per share, based on the weighted average number of shares outstanding during the fiscal year ended March 31, 2005, was ¥38.938 (US\$0.363), compared with ¥20.715 for the previous fiscal year. Annual dividends for the fiscal year ended March 31, 2005, were ¥8.0 (US\$0.07) per share, increased by ¥2.0 from the previous fiscal year.

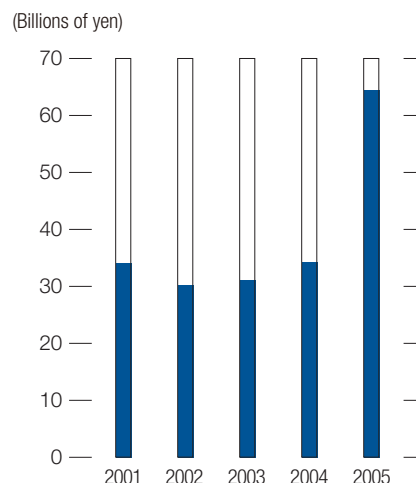
Segment Information

The Company's operations are classified into seven principal business segments; “Basic Chemicals”, “Petrochemicals & Plastics”, “Fine Chemicals”, “IT-related Chemicals”, “Agricultural Chemicals”, “Pharmaceuticals”, and “Others”.

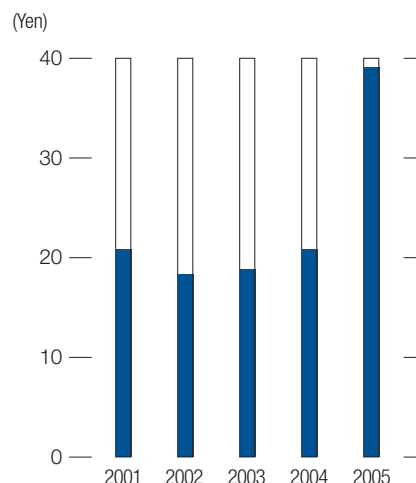
Basic Chemicals;

Sales of the segment were ¥225.8 billion (US\$2,102 million), a 13.4% increase compared with ¥199.1 billion for the previous fiscal year. Sales of caprolactam (a raw material for

Net Income



Net Income per Share



synthetic fiber) grew, reflecting soaring prices of feedstock and rapid expansion of demand in China and South East Asia. In addition, sales of aluminium increased due to the favorable market situation of tight supply.

Operating income of the segment was ¥5.2 billion (US\$49 million), a 102.0% increase from ¥2.6 billion for the previous year.

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

Petrochemicals & Plastics;

Sales of the segment were ¥412.6 billion (US\$3,842 million), a 13.8% increase compared with ¥362.4 billion for the previous fiscal year. Sales of petrochemical products such as styrene monomer and propylene oxide rose significantly under improved market conditions due to the steep hike in prices of feedstock such as naphtha and benzene. Plastics sales grew markedly, because of the overseas market improvement, driven by the brisk demand in China as well as series of successful price revisions in Japan.

The Petrochemicals & Plastics performance substantially improved over FY2003, returning to profitability with operating income of ¥15.0 billion (US\$140 million).

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

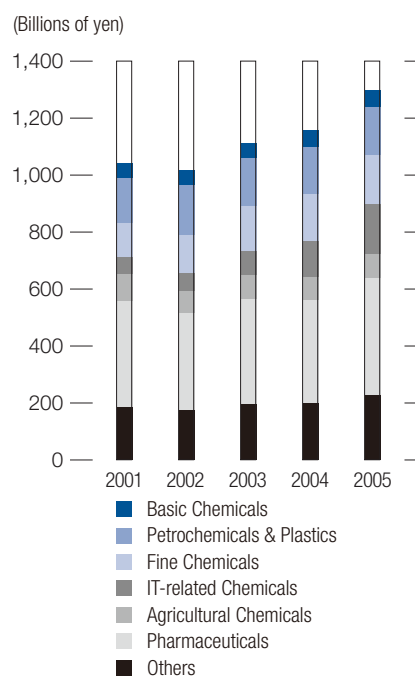
Fine Chemicals;

Sales of the segment were ¥84.1 billion (US\$783 million), a 4.3% increase compared with ¥80.6 billion for the previous fiscal year. Pharmaceutical bulk and intermediates showed increased sales, mainly in exports, due to large shipments of new products as well as the prevailing solid demand. Sales of adhesives raw materials and rubber antioxidants also performed well.

Operating income of Fine Chemicals was ¥11.5 billion (US\$108 million), a 31.0% increase from ¥8.8 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 Business Segment



Industry Segment Results

Fiscal years ended March 31, 2005 and 2004

Segment information by product group	Millions of yen								Consolidated
	Basic Chemicals	Petrochemicals	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Others	Adjustments & Elimination	
Year ended March 31, 2005									
Sales to unaffiliated customers.....	¥225,765	¥412,576	¥84,059	¥174,792	¥171,644	¥170,707	¥56,772		¥1,296,315
Operating income	5,212	14,992	11,545	18,742	14,828	34,440	5,705	(282)	105,182
Operating income ratio	2.3%	3.6%	13.7%	10.7%	8.6%	20.2%	10.0%		8.1%
Operating income growth (decrease) ..	102.0%	—	31.0%	30.7%	38.3%	23.7%	16.6%		57.9%
Year ended March 31, 2004									
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)%

IT-related Chemicals;

The segment showed a 41.5% increase in sales over FY2003 to ¥174.8 billion (US\$1,628 million). Sales of polarizing film and color filters saw a significant increase due to the surging demand that reflects strong expansion of the liquid crystal displays market for televisions, personal computers and mobile phones, coupled with the market shift toward larger sized displays. Production from the new facilities in Korea successfully met the brisk demand for these products. Sales of liquid crystal polymer also remained solid.

As a result, the segment performance improved in operating income 30.7% to ¥18.7 billion (US\$175 million) over FY2003.

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 ¥171.6 billion (US\$1,598 million), a 2.7% growth compared with the previous fiscal year. In agrochemicals, sales expanded due to the release of the new horticulture pesticide, PLEO, in Japan and increased sales in the United States and Europe. Sales of household insecticides also grew thanks to the launch of new products, such as Sumi One, etc.

Operating income of the segment was ¥14.8 billion (US\$138 million), a 38.3% increase compared with ¥10.7 billion for the previous fiscal year.

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 ¥170.7 billion (US\$1,590 million), a 2.5% increase compared with ¥166.6 billion for the previous fiscal year. Despite the drug price reduction in April of last year in Japan, sales of the anchor product Amlodin (a therapeutic agent for hypertension and angina pectoris) and Meropen (a carbapenem antibiotic) performed well.

Operating income of the segment was ¥34.4 billion (US\$321 million), a 23.7% increase compared with ¥27.8 billion for the previous fiscal year.

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, engaged in manufacturing and selling *in vivo* and *in vitro* radioactive diagnostics and related products.

Others;

Sales of the segment decreased 4.0% to ¥56.7 billion (US\$529 million) from the previous fiscal year. Operating income of the segment was ¥5.7 billion (US\$53 million), a 16.6% increase from the previous year's ¥4.9 billion.

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

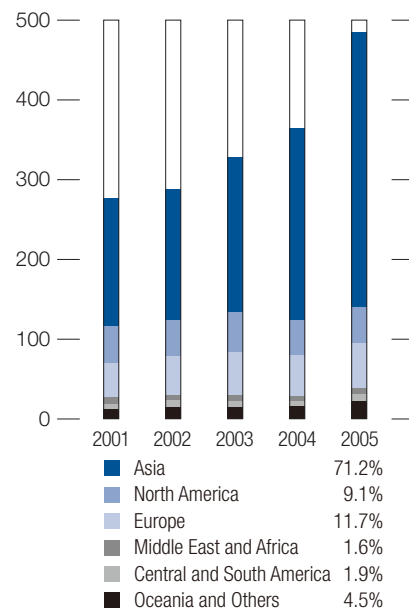
Major companies encompassed by this segment are Sumitomo Joint Electric power Co., Ltd., Sumitomo Chemical Engineering Co., Ltd., and Sumika Chemical Analysis Service, Ltd.

Overseas Operations

Revenue from overseas operations, including both sales by overseas subsidiaries and exports from Japan, for fiscal year ended March 31, 2005, were ¥486.2 billion (US\$4,527 million), 33.5%

Breakdown of Overseas Operations

(Billions of yen)



Note: Percentages are for the fiscal year ended March 31, 2005

higher than ¥364.1 billion in the previous fiscal year, due mainly to the expanded overseas operations of IT-related Chemicals and the increased sales of plastics in South East Asia.

The ratio of revenue from overseas operations to net sales was 37.5%, compared with 31.4% for the previous fiscal year.

Geographic Information

Net sales from operations outside Japan were ¥299.6 billion (US\$2,790 million) and ¥212.2 billion for the year ended March 31, 2005 and 2004, respectively, and accounted for 23.1% and 18.3% of the respective consolidated total sales. Net sales from operations outside Japan increased 41.2% from the previous fiscal year. Net sales in Asia showed a 54.9% increase from the previous year.

Operating income from operations outside Japan for the fiscal year ended March 31, 2005 was ¥31.9 billion (US\$297 million), a 76.4% increase from ¥18.1 billion for the previous fiscal year.

Overseas assets as of March 31, 2005 amounted to ¥267.7 billion (US\$2,493 million), 19.7% higher than the previous fiscal year's ¥223.6 billion.

The ratio of overseas assets to total assets for the fiscal year ended March 31, 2005 was 16.2%, up 1.8 percentage point from the previous fiscal year.

Financial Position

Current assets as of March 31, 2005 amounted to ¥694.6 billion (US\$6,468 million), up 10.5% from ¥628.3 billion as of March 31, 2005. Current liabilities were ¥530.6 billion (US\$4,941 million), the same level as previous fiscal year's ¥533.0 billion. The current ratio was 130.9% compared with 117.9% as of March 31, 2004. Investments and other non-current assets as of March 31, 2005 totaled ¥377.9 billion (US\$3,519 million), compared with ¥373.1 billion as of March 31, 2004. The total value of property, plant and equipment was ¥515.9 billion (US\$4,804 million), a 7.0% increase compared with ¥481.9 billion of the previous fiscal year, due to the investments for reinforcing production facilities in IT-related Chemicals and Agricultural Chemicals. Total assets were ¥1,648.8 billion (US\$15,353 million) and ¥1,549.3 billion at March 31, 2005 and 2004, respectively.

Total debt (short-term and long-term borrowings from banks, debt on bonds and notes, commercial paper, and trade notes discounted) as of March 31, 2005 amounted to ¥470.7 billion (US\$4,383 million), a 3.0% lower than the previous fiscal year's ¥485.3 billion. Shareholders' equity was ¥569.6 billion (US\$5,304 million) at March 31, 2005, a 12.5% increase from ¥506.1 billion for the previous fiscal year. The ratio of shareholders' equity to total assets was 34.5% as of March 31, 2005, compared with 32.7% of the previous fiscal year. Foreign currency translation adjustment amounted to ¥16.7 billion (US\$156 million), compared with ¥18.2 billion as of March 31, 2004. Unrealized gains on investment securities amounted to ¥96.1 billion (US\$895 million), compared with ¥88.0 billion as of March 31, 2004.

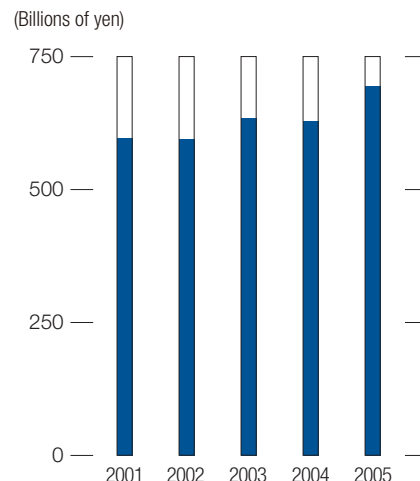
The number of shares issued and outstanding as of March 31, 2005 was 1,652,819,494 shares. Retained earnings amounted to ¥374.2 billion (US\$3,484 million), a 16.2% increase from ¥322.0 billion as of March 31, 2004.

Cash Flows

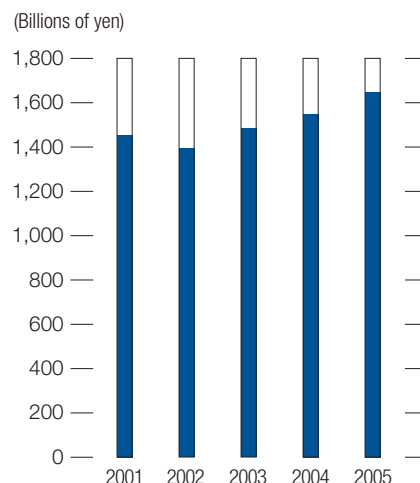
Net cash provided from operating activities for the year ended March 31, 2005 was ¥159.8 billion (US\$1,488 million), ¥62.7 billion higher than ¥97.1 billion for the previous fiscal year. Net income before taxes contributed by ¥121.7 billion (US\$ 1,133 million), ¥49.4 billion higher than previous year's ¥72.3 billion.

Net cash used for investing activities for the year ended March 31, 2005 was ¥118.0 billion

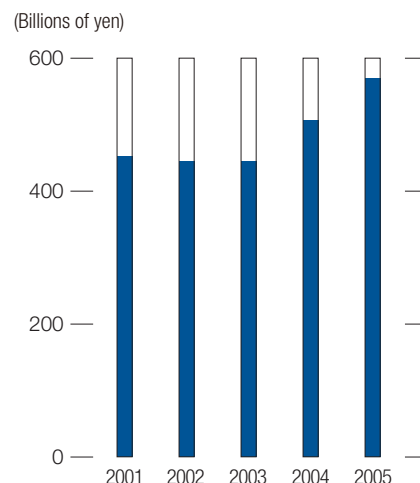
Total Current Assets



Total Assets



Shareholders' Equity



(US\$1,098 million), increased by ¥14.7 billion from the previous fiscal year. Acquisition of property, plant and equipment was ¥133.8 billion (US\$1,246 million) mainly related to expansion of production capacity in IT-related Chemicals.

As a result, free cash flow, which consists of cash flows provided by operating activities and investing activities, turned to a positive ¥41.9 billion (US\$390 million) for the year ended March 31, 2005, compared with a negative ¥6.2 billion for the previous fiscal year.

Net cash used in financing activities increased to ¥31.2 billion (US\$291 million), because of repayment of interest bearing debt and payment of dividends to shareholders.

Cash and cash equivalents was ¥55.2 billion (US\$514 million) for the year ended March 31, 2005, a net increase of ¥10.9 billion over the previous fiscal year.

Capital Expenditure

In the year ended March 31, 2005, the Companies' capital investments totaled ¥125.8 billion (US\$1,171 million) which includes investments for new installations and expansions of manufacturing facilities as well as those for streaming of existing facilities.

In the IT-related Chemicals Segment, the Company invested ¥40.2 billion (US\$375 million) in the construction of a new color filters plant in Korea, and polarizing film production facilities in Korea and Taiwan.

In the Pharmaceuticals Segment, the Company invested ¥19.1 billion (US\$178 million) in the installation of sites across Japan for the production and R&D of the PET imaging agent.

Other segments' investments were ¥18.2 billion (US\$169 million) in the Basic Chemicals Segment, ¥18.0 billion (US\$167 million) in the Agricultural Chemicals Segment, ¥13.7 billion (US\$128 million) in the Petrochemical & Plastics Segment, ¥7.5 billion (US\$70 million) in the Fine Chemicals Segment, and ¥9.0 billion (US\$84 million) in Others.

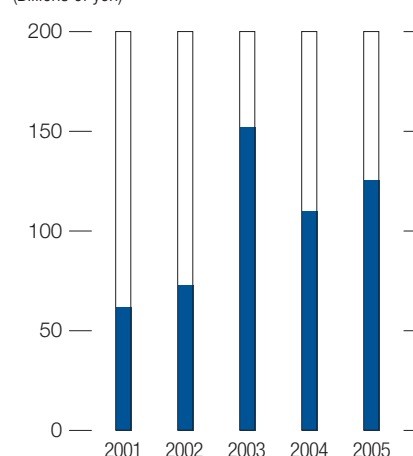
Research and Development

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

Our total R&D expenditure in Fiscal 2004 was ¥78.2 billion (US\$728 million).

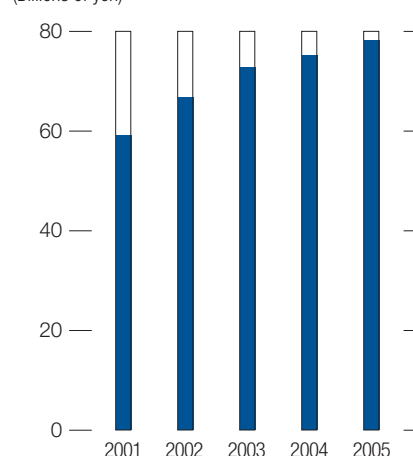
Capital Expenditures

(Billions of yen)



Research and Development Expenses

(Billions of yen)



Breakdown of Capital Expenditures

Billions of yen, %												
Years ended March 31,												
	2000		2001		2002		2003		2004		2005	
New plants and expansions*:												
Basic Chemicals	¥ 5.9	7%	¥ 2.9	4%	¥ 2.4	3%	¥ 11.3	7%	¥ 5.4	5%	¥ 10.2	8%
Petrochemicals	6.7	8	3.2	5	6.3	9	20.3	13	3.6	3	5.7	5
Fine Chemicals	3.9	5	5.5	9	3.3	5	2.1	2	3.6	3	3.7	3
IT-related Chemicals	3.0	4	3.3	5	6.1	8	26.3	17	34.6	31	36.5	29
Agricultural Chemicals	24.4	30	1.7	3	16.4	22	23.5	16	1.7	2	14.0	11
Pharmaceuticals	0.5	1	3.4	6	0.5	1	1.7	1	8.0	7	1.0	1
Others	2.5	3	1.4	2	1.8	2	5.8	4	1.4	2	1.2	1
Subtotal	46.9	58	21.4	34	36.8	50	91.0	60	58.3	53	72.3	58
Rationalization of production processes	4.1	5	3.5	6	5.7	8	6.7	4	4.7	4	7.4	6
Research and development	6.8	8	6.6	11	6.5	9	8.9	6	9.8	9	7.3	6
Others	23.8	29	30.6	49	24.0	33	45.4	30	37.4	34	38.8	31
Total	¥81.6	100%	¥62.1	100%	¥73.0	100%	¥152.0	100%	¥110.2	100%	¥125.8	100%

*Includes acquisition

Financial Risk Management

The Companies are exposed to a variety of market risks arising among others, from the changes of foreign currency exchange rates and interest rates, that may affect their financial results. The Companies take certain measures for minimizing impacts from such risks.

Foreign currency risk

The Companies have both foreign currency revenue related to sales of products and foreign currency payment related mainly to purchase of raw materials. Since the foreign currency revenue is greater than the foreign currency payment, appreciation of the yen exerts a negative effect on financial results. In order to mitigate risks associated with changes in foreign currency exchange rates, the Companies use derivative financial instruments, such as foreign exchange forward contracts and foreign currency swap contracts. The Companies also use export contracts denominated in yen.

Interest rate risk

The Companies choose financial resources most suitable at the time of financing, considering the then financial market conditions. The Companies have short-term and long-term loans with both fixed and floating interest rates. Loans at floating interest rates may have negative effect on financial results when interest rates rise. The Companies reduce interest rate risk by using interest rate swap contracts.

Consolidated Balance Sheets

Sumitomo Chemical Company, Limited and Subsidiaries
March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Assets			
Current assets:			
Cash and cash equivalents (Note 4)	¥ 55,242	¥ 44,395	\$ 514,405
Short-term investments	285	169	2,654
Marketable securities (Note 5)	31	91	289
Receivables—			
Trade notes and accounts	306,093	312,723	2,850,293
Other	60,321	29,286	561,700
Allowance for doubtful receivables	(3,217)	(4,916)	(29,956)
	363,197	337,093	3,382,037
Inventories	234,574	210,369	2,184,319
Deferred tax assets (Note 13)	26,549	22,041	247,220
Other	14,710	14,167	136,978
Total current assets	694,588	628,325	6,467,902
Investments and other non-current assets:			
Investment securities (Notes 5, 6 and 7)	348,973	343,748	3,249,586
Other	30,219	30,643	281,395
Allowance for doubtful receivables	(1,269)	(1,282)	(11,817)
	377,923	373,109	3,519,164
Property, plant and equipment (Note 7 and 10):			
Land	82,052	81,546	764,056
Buildings and structures	412,179	393,301	3,838,151
Machinery and equipment	1,113,831	1,059,202	10,371,832
Construction in progress	46,755	44,647	435,375
	1,654,817	1,578,696	15,409,414
Less accumulated depreciation	(1,138,951)	(1,096,792)	(10,605,745)
	515,866	481,904	4,803,669
Other assets:			
Excess of cost over equity in net assets acquired	1,792	2,605	16,687
Deferred tax assets (Note 13)	19,347	19,014	180,156
Goodwill	10,582	11,484	98,538
Software	11,958	13,679	111,351
Products registration rights	4,982	5,523	46,392
Facilities rights and others	11,758	13,648	109,489
	60,419	65,953	562,613
	¥ 1,648,796	¥ 1,549,291	\$ 15,353,348

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term debt (Note 7)	¥ 120,161	¥ 140,086	\$ 1,118,922
Long-term debt due within one year (Note 7)	43,460	63,948	404,693
Payables—			
Trade notes and accounts	202,273	197,471	1,883,537
Other	72,603	57,524	676,068
	274,876	254,995	2,559,605
Accrued expenses	24,008	23,430	223,559
Income taxes payable	24,637	16,765	229,416
Deferred tax liabilities (Note 13)	200	576	1,862
Other	43,240	33,240	402,645
Total current liabilities	530,582	533,040	4,940,702
Long-term debt due after one year (Note 7)	307,035	281,262	2,859,065
Deferred tax liabilities (Note 13)	58,246	40,572	542,378
Retirement benefits (Note 11)	46,909	60,170	436,810
Other non-current liabilities	29,155	28,093	271,487
Minority interests in consolidated subsidiaries	107,268	100,032	998,864
Contingent liabilities (Note 15)			
Shareholders' equity (Note 14):			
Common stock,			
Authorized — 5,000,000,000 shares			
Issued — 1,655,446,177 shares at March 31, 2005			
1,655,446,177 shares at March 31, 2004	89,699	89,699	835,264
Capital surplus	23,730	21,413	220,970
Retained earnings	374,168	321,990	3,484,198
Land revaluation reserve (Note 16)	3,811	3,982	35,487
Unrealized gains on investment securities	96,111	88,043	894,972
Foreign currency translation adjustments	(16,743)	(18,229)	(155,908)
Treasury stock, at cost			
2,626,683 shares at March 31, 2005			
1,908,227 shares at March 31, 2004	(1,175)	(776)	(10,941)
Total shareholders' equity	569,601	506,122	5,304,042
	¥ 1,648,796	¥ 1,549,291	\$ 15,353,348

See accompanying notes.

Consolidated Statements of Income

Sumitomo Chemical Company, Limited and Subsidiaries
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Net sales	¥ 1,296,315	¥ 1,158,402	¥ 1,111,128	\$ 12,071,096
Cost of sales	933,892	850,188	798,001	8,696,266
Selling, general and administrative expenses	257,241	241,594	239,607	2,395,391
Operating income	105,182	66,620	73,520	979,439
Other income (expenses):				
Interest and dividend income	4,206	4,962	3,986	39,166
Interest expenses	(7,197)	(7,808)	(9,305)	(67,017)
Equity in earnings of affiliates	26,696	8,596	2,590	248,589
Net gain (loss) on foreign currency transactions	5,820	(1,790)	2,740	54,195
Reversal of allowance for doubtful receivables	2,417	720	2,185	22,507
Net gain on sale of securities	1,718	3,138	1,268	15,998
Net (loss) gain on sale of property, plant and equipment	(397)	9,060	2,189	(3,697)
Loss on disposal of inventories	(3,884)	(3,075)	(2,390)	(36,167)
Restructuring charges (Note 12)	(3,436)	(4,486)	(6,423)	(31,996)
Impairment loss on fixed assets (Note 10)	(2,515)	—	—	(23,419)
Loss associated with lease contract cancellation	—	(2,451)	—	—
Loss on write-down of investment securities	—	—	(4,042)	—
Other, net	(6,950)	(1,177)	(3,104)	(64,718)
Income before income taxes and minority interests	121,660	72,309	63,214	1,132,880
Income taxes (Note 13):				
Current	36,218	26,224	35,332	337,257
Deferred	7,384	4,744	(9,571)	68,758
	43,602	30,968	25,761	406,015
Minority interests	13,606	7,023	6,319	126,697
Net income	¥ 64,452	¥ 34,318	¥ 31,134	\$ 600,168

	Yen			U.S. dollars (Note 1)
	2005	2004	2003	2005
Net income per share	¥ 38.938	¥ 20.715	¥ 18.742	\$ 0.363
Dilutive net income per share	38.688	20.572	18.528	0.360

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Sumitomo Chemical Company, Limited and Subsidiaries
Years ended March 31, 2005, 2004 and 2003

	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
Balance at March 31, 2002	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)
Balance at March 31, 2003	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 subsidiaries				(13)				
Decrease mainly due to changes in accounting policies by overseas subsidiaries and affiliates ..				(2,157)				
Surplus from sales of treasury stock			2					
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)
Balance at March 31, 2004	1,655,446	89,699	21,413	321,990	3,982	88,043	(18,229)	(776)
Net income				64,452				
Cash dividends at ¥6.0 per share				(9,924)				
Bonuses to directors and statutory auditors				(63)				
Transfer from retained earnings to capital surplus for merger of consolidated subsidiaries			2,284	(2,284)				
Adjustment for changes in consolidated subsidiaries and affiliates accounted for by the equity method				(3)				
Surplus from sales of treasury stock			33					
Net increase in unrealized gains on investment securities, net of tax						8,068		
Revaluation of land by certain affiliates, net of tax ..					(171)			
Foreign currency translation adjustments							1,486	
Net increase in treasury stock								(399)
Balance at March 31, 2005	1,655,446	¥ 89,699	¥ 23,730	¥ 374,168	¥ 3,811	¥ 96,111	¥ (16,743)	¥ (1,175)

	Thousands of U.S. dollars (Note 1)						
Balance at March 31, 2004	\$ 835,264	\$ 199,395	\$ 2,998,324	\$ 37,079	\$ 819,844	\$ (169,745)	\$ (7,226)
Net income			600,168				
Cash dividends at ¥6.0 (US\$0.056) per share			(92,411)				
Bonuses to directors and statutory auditors			(587)				
Transfer from retained earnings to capital surplus for merger of consolidated subsidiaries		21,268	(21,268)				
Adjustment for changes in consolidated subsidiaries and affiliates accounted for by the equity method			(28)				
Surplus from sales of treasury stock		307					
Net increase in unrealized gains on investment securities, net of tax					75,128		
Revaluation of land by certain affiliates, net of tax				(1,592)			
Foreign currency translation adjustments						13,837	
Net increase in treasury stock							(3,715)
Balance at March 31, 2005	\$ 835,264	\$ 220,970	\$ 3,484,198	\$ 35,487	\$ 894,972	\$ (155,908)	\$ (10,941)

See accompanying notes.

Consolidated Statements of Cash Flows

Sumitomo Chemical Company, Limited and Subsidiaries
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 121,660	¥ 72,309	¥ 63,214	\$ 1,132,880
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities—				
Depreciation and amortization	88,166	82,482	69,026	820,989
Loss on impairment of fixed assets	2,515	—	—	23,419
Equity in (earnings) losses of affiliates	(1,020)	(1,536)	1,930	(9,498)
Interest and dividend income	(4,206)	(4,962)	(3,986)	(39,166)
Interest expenses	7,197	7,808	9,305	67,017
Gain on sale of securities	(1,754)	(3,226)	(1,255)	(16,333)
Loss (gain) on sale of property, plant and equipment	397	(9,060)	(2,189)	3,697
Restructuring charges	2,312	3,398	5,031	21,529
(Decrease) increase of provision for retirement benefits and others ..	(12,568)	(1,359)	1,629	(117,031)
Decrease (increase) in notes and accounts receivable	6,970	(18,328)	(9,693)	64,904
(Increase) decrease in inventories	(24,103)	7,183	(8,803)	(224,444)
Increase in notes and accounts payable	4,195	11,115	37,187	39,063
Other, net	2,011	(11,018)	10,413	18,727
Subtotal	191,772	134,806	171,809	1,785,753
Interest and dividends received	4,304	3,485	4,041	40,078
Interest paid	(7,135)	(7,866)	(9,683)	(66,440)
Income taxes paid	(29,122)	(33,373)	(24,487)	(271,180)
Net cash provided by operating activities	159,819	97,052	141,680	1,488,211
Cash flows from investing activities:				
Acquisition of securities	(1,200)	(11,252)	(6,921)	(11,174)
Proceeds from sale of securities	12,737	18,959	7,558	118,605
Acquisition of property, plant and equipment	(133,796)	(132,868)	(90,984)	(1,245,889)
Proceeds from sale of property, plant and equipment	991	19,141	3,161	9,228
Proceeds from sales of subsidiaries' shares resulting in changes in consolidation	2,440	—	—	22,721
Acquisition of business, net of cash acquired	—	—	(36,363)	—
Time deposits, maturing after three months and other, net	875	2,780	(5,646)	8,148
Net cash used in investing activities	(117,953)	(103,240)	(129,195)	(1,098,361)
Cash flows from financing activities:				
Dividends paid	(9,924)	(9,925)	(9,931)	(92,411)
(Decrease) increase in commercial paper	(17,500)	7,500	13,000	(162,957)
Proceeds from other short-term debt	192,590	121,828	138,089	1,793,370
Repayments of other short-term debt	(195,444)	(126,890)	(141,021)	(1,819,946)
Proceeds from long-term debt	99,743	100,473	89,744	928,792
Repayments of long-term debt	(94,792)	(99,114)	(98,378)	(882,689)
Distributions to minority shareholders	(6,400)	(3,888)	(4,536)	(59,596)
Capital contributions from minority shareholders	918	782	8,541	8,548
Purchase of treasury stocks and other, net	(395)	(81)	(664)	(3,678)
Net cash used in financing activities	(31,204)	(9,315)	(5,156)	(290,567)
Effect of exchange rate changes on cash and cash equivalents ..	190	(2,007)	(643)	1,769
Net increase (decrease) in cash and cash equivalents	10,852	(17,510)	6,686	101,052
Increase in cash due to merger of consolidated subsidiaries	45	58	—	419
Decrease in cash resulting from changes in the number of consolidated subsidiaries	(50)	(44)	(97)	(466)
Cash and cash equivalents at beginning of year	44,395	61,891	55,302	413,400
Cash and cash equivalents at end of year	¥ 55,242	¥ 44,395	¥ 61,891	\$ 514,405

See accompanying notes.

Notes to Consolidated Financial Statements

Sumitomo Chemical Company, Limited and Subsidiaries
Years ended March 31, 2005, 2004 and 2003

1. Basis of Financial Statements

(a) The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. 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, 2005, which was ¥107.39 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 104, 110 and 110 significant subsidiaries for the

years ended March 31, 2005, 2004 and 2003, 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 in operating and financial policies, are accounted for by the equity method. The equity method is applied to 35, 38, and 40 significant affiliates for the years ended March 31, 2005, 2004 and 2003, 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

The 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 consolidated subsidiaries) over estimated useful lives. Useful lives are based on Japanese tax laws.

(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 ¥78,208 million (US\$728,261 thousand), ¥75,194 million and ¥72,822 million for the years ended March 31, 2005, 2004 and 2003, 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 loss carry forwards and 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 gain or loss is being amortized mainly over three years. Past period service costs are being amortized mainly over three years.

(ii) Directors and statutory auditors: On June 29, 2004 the Company terminated its retirement benefits plan for directors and statutory auditors. The benefits granted prior to the terminate date are included in other non-current liabilities.

(o) Reserve for periodic repairs

The Company and several consolidated subsidiaries provide for the costs of periodic repairs of production facilities at plants.

In the consolidated balance sheets ¥6,100 million

(US\$56,802 thousand) and ¥3,534 million were included in Other current liabilities and Other non-current liabilities at March 31, 2005 and 2004, respectively.

(p) Net income per share

The computation of net income per share, 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 share 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.

(q) 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.

3. Change in accounting policies

Impairment of fixed assets

In August 2002, the Business Accounting Deliberation Council in Japan issued the Opinion Concerning Establishment of 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 adoption is permitted. The Companies adopted the Opinion in the year ended March 31, 2005. The effect of this early adoption was to decrease income before income taxes by ¥2,515 million (US\$23,419 thousand).

4. Cash and Cash Equivalents

At March 31, 2005 and 2004, cash and cash equivalents were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash	¥ 47,541	¥ 34,092	\$ 442,695
Cash equivalents	7,701	10,303	71,710
	¥ 55,242	¥ 44,395	\$ 514,405

5. Securities

Securities with available fair values included in investment securities as of March 31, 2005 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	¥ 46,243	¥214,529	¥ 168,286
Bonds	5	5	0
Total	¥ 46,248	¥214,534	¥ 168,286

(b) Other securities

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 764	¥ 683	¥ (81)

Available-for-sale securities

(a) Securities with book values exceeding acquisition cost

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities	\$ 430,608	\$ 1,997,663	\$ 1,567,055
Bonds	47	47	0
Total	\$ 430,655	\$ 1,997,710	\$ 1,567,055

(b) Other securities

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities	\$ 7,114	\$ 6,360	\$ (754)

Securities with no available fair values included in cash equivalents, marketable securities and investment securities as of March 31, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars
Held-to-maturity debt securities		
Local government bonds and other	¥ 201	\$ 1,872
Available-for-sale securities;		
Non-listed equity securities	9,604	89,431
Preferred securities	13,007	121,119
Certificate of deposit and others	1,700	15,830
Investments in non-consolidated subsidiaries and affiliates	110,976	1,033,392
Total	¥ 135,488	\$ 1,261,644

Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2005 were as follows:

	Millions of yen		
	Within one year	Over one year but within five years	Over five years but within ten years
Bonds	¥ 5	¥ —	¥ —
Local government bonds and other	42	96	63
Total	¥ 47	¥ 96	¥ 63

	Thousands of U.S. dollars		
	Within one year	Over one year but within five years	Over five years but within ten years
Bonds	\$ 47	\$ —	\$ —
Local government bonds and other	391	894	587
Total	\$ 438	\$ 894	\$ 587

Total sales of available-for-sale securities in the year ended March 31, 2005 amounted to ¥11,743 million (US\$109,349 thousand) and the related gains and losses amounted to ¥1,733 million (US\$16,137 thousand) and ¥30 million (US\$279 thousand), respectively.

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)

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
Held-to-maturity debt securities	
National and local government bonds and other	¥ 241
Available-for-sale securities;	
Non-listed equity securities	20,998
Preferred securities	13,007
Certificate of deposit and others	1,860
Investments in non-consolidated subsidiaries and affiliates	108,475
Total	¥ 144,581

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

Total sales of available-for-sale securities in the year ended March 31, 2004 amounted to ¥12,853 million and the related gains and losses amounted to ¥3,200 million and ¥2 million, respectively.

6. Investments in Related Companies

Investments in non-consolidated subsidiaries and affiliates included in the balance sheet at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Investment securities	¥ 110,976	¥ 108,475	\$ 1,033,392
Other non-current assets	6,960	7,541	64,811

7. Short-term Debt and Long-term Debt

Interest rates of short-term bank loans ranged from 0.28% to 13.5% and from 0.07% to 10.5% at March 31, 2005 and 2004, respectively.

Short-term debt at March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Bank loans	¥ 100,161	¥ 102,586	\$ 932,685
Commercial paper	20,000	37,500	186,237
	¥ 120,161	¥ 140,086	\$ 1,118,922

Long-term debt at March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
1.6% convertible bonds due 2004	¥ —	¥ 19,914	\$ —
0.06%-1.35% Euro notes under medium-term note programs due 2005-2006	8,723	12,292	81,227
0.44%-3.0% debentures due 2005-2015	237,500	222,000	2,211,565
0.51%-7.5% long-term bank loans payable due through 2032	104,272	91,004	970,966
	350,495	345,210	3,263,758
Less amounts due within one year	(43,460)	(63,948)	(404,693)
	¥ 307,035	¥ 281,262	\$ 2,859,065

The aggregate annual maturities of long-term debt subsequent to March 31, 2005, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 43,460	\$ 404,693
2007	41,725	388,537
2008	39,705	369,727
2009	57,524	535,655
2010	32,709	304,581
2011 and thereafter	135,372	1,260,565
	¥ 350,495	\$ 3,263,758

At March 31, 2005, 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	¥ 23,739	\$ 221,054
Investment securities and others	8,376	77,996
	¥ 32,115	\$ 299,050
Liabilities secured thereby	¥ 18,693	\$ 174,066

8. Lease

At March 31, 2005 and 2004, assets leased under non-capitalized financial leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Machinery and equipment	¥ 8,222	¥ 9,629	\$ 76,562
Buildings and structures	1	27	9
Less accumulated depreciation and amortization	(4,609)	(4,787)	(42,918)
Total	¥ 3,614	¥ 4,869	\$ 33,653

The above “as if capitalized” depreciation and amortization are calculated on the straight line method over lease terms. If the above leases were capitalized, interest of ¥49 million (US\$456 thousand) and ¥75 million and depreciation and amortization of ¥1,765 million (US\$16,435 thousand) and ¥2,065 million would have been recorded for the years ended March 31, 2005 and 2004, respectively.

Total lease payments under non-capitalized finance leases were ¥1,812 million (US\$16,873 thousand), ¥2,169 million and ¥1,981 million for the years ended March 31, 2005, 2004, and 2003, respectively.

Obligations under non-capitalized finance leases at March 31, 2005 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥ 1,678	¥ 1,918	\$ 15,625
Due after one year	1,985	2,971	18,484
Total	¥ 3,663	¥ 4,889	\$ 34,109

Obligations under operating leases at March 31, 2005 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥ 3,075	¥ 1,447	\$ 28,634
Due after one year	11,404	12,055	106,192
Total	¥ 14,479	¥ 13,502	\$ 134,826

9. Derivative Transactions and Hedge 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.

10. Impairment of Fixed Assets

The Companies recognized impairment losses on fixed assets for the year ended March 31, 2005, as follows:

Grouping	Location	Account	Millions of yen	Thousands of U.S. dollars
Assets for lease	Osaka, Japan	Land	¥ 1,978	\$ 18,419
Assets for lease	Osaka, Japan	Buildings	117	1,089
Assets for business	Osaka, Japan	Buildings and structures	319	2,970
Assets for business	Osaka, Japan	Machinery and equipment	101	941
Total			¥ 2,515	\$ 23,419

The Companies group business assets based on business units, idle assets and assets for lease based on each asset. The Companies recognized impairment losses on the assets for lease and others, writing them down to the recoverable amounts. The recoverable amounts of these assets are their net realizable values. The net realizable values of the assets for lease are based on amounts determined by valuations made in accordance with real estate appraisal standards. Recognized impairment losses, except impairment of land, are included in accumulated depreciation on the consolidated balance sheets. With regard to land, the amount is deducted directly from acquisition costs.

11. Retirement Benefits

The liabilities for retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected retirement benefit obligation	¥ (244,983)	¥ (243,812)	\$ (2,281,246)
Plan assets	210,699	188,302	1,961,998
Unfunded retirement benefit obligation	(34,284)	(55,510)	(319,248)
Unrecognized actuarial differences	(11,690)	(3,207)	(108,856)
Unrecognized past period service cost	(935)	(1,453)	(8,706)
Provision for employees' retirement benefits	¥ (46,909)	¥ (60,170)	\$ (436,810)

Net periodic costs for the years ended March 31, 2005, 2004 and 2003 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Service cost	¥ 8,855	¥ 10,160	¥ 10,813	\$ 82,456
Interest cost	3,635	4,299	4,313	33,849
Expected return on retirement benefit plan assets	(2,795)	(2,822)	(2,901)	(26,027)
Amortization of actuarial differences	2,684	12,301	9,281	24,993
Amortization of past period service cost	(537)	(145)	12	(5,000)
Net periodic cost	¥ 11,842	¥ 23,793	¥ 21,518	\$ 110,271

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

	2005	2004	2003
Discount rate	mainly 1.5%	mainly 1.5%	mainly 1.7%
Expected return rate for plan assets	mainly 1.5%	mainly 1.7%	mainly 1.7%
Amortization period for actuarial differences	mainly 3 years	mainly 3 years	mainly 3 years
Amortization period for past period service cost	mainly 3 years	mainly 3 years	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.

12. Restructuring Charges

Restructuring charges consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Loss on disposal of property, plant and equipment	¥ 3,055	¥ 1,507	¥ 2,824	\$ 28,448
Loss on investments in and loans to related companies	240	781	314	2,235
Loss associated with the withdrawal from the composite pension fund ...	—	1,300	—	—
Special severance benefits	—	350	540	—
Impairment loss on intangible assets in accordance with SFAS No.142 and No.144 (Note 2(h) and (i))	—	—	2,573	—
Others	141	548	172	1,313
	¥ 3,436	¥ 4,486	¥ 6,423	\$ 31,996

13. Deferred Taxes

Significant components of deferred tax assets and liabilities at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Depreciation and amortization	¥ 17,863	¥ 18,484	\$ 166,338
Retirement benefits	17,323	21,497	161,309
Accrued bonuses	6,412	6,165	59,708
Unrealized intercompany profit	5,393	2,547	50,219
Inventories	4,552	3,726	42,388
Tax loss carry forwards	1,012	4,191	9,424
Other	18,060	17,124	168,171
Total deferred tax assets	70,615	73,734	657,557
Unrealized gain on investment securities	(65,983)	(60,819)	(614,424)
Foreign affiliates' undistributed earnings	(8,157)	(3,053)	(75,957)
Deferred gain on property, plant and equipment	(4,224)	(5,263)	(39,333)
Other	(4,801)	(4,692)	(44,707)
Total deferred tax liabilities	(83,165)	(73,827)	(774,421)
Net deferred tax liabilities	¥ (12,550)	¥ (93)	\$ (116,864)

Significant items in the reconciliations of the normal income tax rate to the effective income tax rate for the years ended March 31, 2005, 2004 and 2003 were as follows:

	2005	2004	2003
Normal income tax rate in Japan	40.7%	40.9%	40.9%
Permanently non-deductible expenses	1.4	2.0	2.7
Permanently non-taxable dividends received	(0.6)	(1.1)	(0.8)
R&D expenses deductible from income taxes	(2.3)	—	—
IT investments deductible from income taxes	(0.9)	—	—
Other	(2.5)	1.0	(2.0)
Effective income tax rate	35.8%	42.8%	40.8%

14. 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.

15. Contingent Liabilities

At March 31, 2005, the Companies were contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of notes discounted or endorsed	¥ 5	\$ 47
As guarantor of indebtedness	15,047	140,115
As issuer of letters of comfort	1,348	12,553
	¥ 16,395	\$ 152,668

16. 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.

17. Segment Information

The operations of the Companies for the years ended March 31, 2005, 2004 and 2003 were summarized by product group and geographic area as follows:

	Millions of yen								
Segment information by product group	Basic Chemicals	Petrochemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Others	Adjustments & Elimination	Consolidated
Year ended March 31, 2005									
Sales to unaffiliated customers	¥ 225,765	¥ 412,576	¥ 84,059	¥ 174,792	¥ 171,644	¥ 170,707	¥ 56,772	¥ —	¥ 1,296,315
Inter-segment transfers	10,326	7,177	3,543	2,109	1,919	77	68,923	(94,074)	—
Total sales	236,091	419,753	87,602	176,901	173,563	170,784	125,695	(94,074)	1,296,315
Operating cost	230,879	404,761	76,057	158,159	158,735	136,344	119,990	(93,792)	1,191,133
Operating income	¥ 5,212	¥ 14,992	¥ 11,545	¥ 18,742	¥ 14,828	¥ 34,440	¥ 5,705	¥ (282)	¥ 105,182
Assets									
Depreciation and amortization	¥ 192,904	¥ 386,509	¥ 90,167	¥ 200,759	¥ 217,000	¥ 257,929	¥ 230,063	¥ 73,465	¥ 1,648,796
Impairment loss on fixed assets	10,779	17,823	6,328	18,363	12,049	10,476	7,033	5,315	88,166
Capital expenditure	—	420	—	—	—	—	2,095	—	2,515
	18,163	13,714	7,532	40,237	17,986	19,115	4,945	4,093	125,785
Millions of yen									
Segment information by product group	Basic Chemicals	Petrochemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Others	Adjustments & Elimination	Consolidated
Year ended March 31, 2004									
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									
Depreciation and amortization	¥ 185,530	¥ 346,419	¥ 94,307	¥ 164,418	¥ 210,610	¥ 248,764	¥ 213,047	¥ 86,196	¥ 1,549,291
Capital expenditure	11,349	18,241	6,821	10,471	11,861	12,153	8,366	3,220	82,482
	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								Consolidated
	Basic Chemicals	Petrochemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharma- ceuticals	Others	Adjustments & Elimination	
Year ended March 31, 2003									
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	¥ 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	Thousands of U.S. dollars								
	Basic Chemicals	Petrochemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Others	Adjustments & Elimination	Consolidated
Year ended March 31, 2005									
Sales to unaffiliated customers	\$ 2,102,291	\$ 3,841,847	\$ 782,745	\$ 1,627,638	\$ 1,598,324	\$ 1,589,599	\$ 528,652	\$ —	\$ 12,071,096
Inter-segment transfers	96,154	66,832	32,992	19,638	17,869	717	641,801	(876,003)	—
Total sales	2,198,445	3,908,679	815,737	1,647,276	1,616,193	1,590,316	1,170,453	(876,003)	12,071,096
Operating cost	2,149,912	3,769,076	708,232	1,472,753	1,478,117	1,269,616	1,117,329	(873,378)	11,091,657
Operating income	\$ 48,533	\$ 139,603	\$ 107,505	\$ 174,523	\$ 138,076	\$ 320,700	\$ 53,124	\$ (2,625)	\$ 979,439
Assets	\$ 1,796,294	\$ 3,599,115	\$ 839,622	\$ 1,869,438	\$ 2,020,672	\$ 2,401,797	\$ 2,142,315	\$ 684,095	\$ 15,353,348
Depreciation and amortization	100,372	165,965	58,925	170,994	112,199	97,551	65,490	49,493	820,989
Impairment loss on fixed assets ...	—	3,911	—	—	—	—	19,508	—	23,419
Capital expenditure	169,131	127,703	70,137	374,681	167,483	177,996	46,048	38,113	1,171,292

Segment information by geographic area	Millions of yen				
	Japan	Asia	Others	Adjustments & Elimination	Consolidated
Year ended March 31, 2005					
Sales to unaffiliated customers	¥ 996,668	¥ 221,314	¥ 78,333	¥ —	¥ 1,296,315
Inter-segment transfers	78,606	4,812	15,375	(98,793)	—
Total sales	1,075,274	226,126	93,708	(98,793)	1,296,315
Operating cost	1,000,545	202,277	85,701	(97,390)	1,191,133
Operating income	¥ 74,729	¥ 23,849	¥ 8,007	¥ (1,403)	¥ 105,182
Assets	¥ 1,295,554	¥ 195,730	¥ 71,947	¥ 85,565	¥ 1,648,796

Segment information by geographic area	Millions of yen				
	Japan	Asia	Others	Adjustments & Elimination	Consolidated
Year ended March 31, 2004					
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
Year ended March 31, 2003					
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	Thousands of U.S. dollars				
	Japan	Asia	Others	Adjustments & Elimination	Consolidated
Year ended March 31, 2005					
Sales to unaffiliated customers	\$ 9,280,827	\$ 2,060,844	\$ 729,425	\$ —	\$ 12,071,096
Inter-segment transfers	731,968	44,808	143,170	(919,946)	—
Total sales	10,012,795	2,105,652	872,595	(919,946)	12,071,096
Operating cost	9,316,929	1,883,574	798,035	(906,881)	11,091,657
Operating income	\$ 695,866	\$ 222,078	\$ 74,560	\$ (13,065)	\$ 979,439
Assets	\$ 12,064,010	\$ 1,822,609	\$ 669,960	\$ 796,769	\$ 15,353,348

Corporate assets of ¥218,910 million (US\$2,038,458 thousand), ¥181,149 million and ¥139,994 million, included in the adjustments and elimination column for the years ended March 31, 2005, 2004 and 2003, 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 ¥486,195 million (US\$4,527,377 thousand), ¥364,107 million and ¥327,427 million and accounted for 37.5%, 31.4% and 29.5% of the total sales to unaffiliated customers for the years ended March 31, 2005, 2004 and 2003, respectively. Overseas operations in the Asian region were ¥346,378 million (US\$3,225,421 thousand), ¥239,912 million and ¥194,178 million for the years ended March 31, 2005, 2004 and 2003, respectively.

18. Subsequent Events

At the ordinary shareholders' meeting of the Company held on June 24, 2005, the appropriation of retained earnings at March 31, 2005 was duly approved as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends at ¥5.0 (US\$0.047) per share	¥ 8,267	\$ 76,981
Bonuses to directors and statutory auditors	79	736

Independent Auditors' Report



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, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2005, 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 3 to the consolidated financial statements. Effective April 1, 2004, the Company and consolidated domestic subsidiaries adopted early the new accounting standard for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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 24, 2005

KPMG AZSA & Co., an audit corporation incorporated
under the Japanese Certified Public Accountants Law,
is the Japan member firm of KPMG International,
a Swiss corporation.

Subsidiaries and Affiliates

Company Name	Major Business Fields	Sumitomo Chemical's Share (%)	Telephone	Facsimile
JAPAN				
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) 5634-7006	(3) 5634-5170
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) 5644-4750	(3) 5644-4821
Sumitomo Joint Electric Power Co., Ltd.	Supply of electricity	52.5	(897) 37-2142	(897) 32-9862
Sumitomo Pharmaceuticals Co., Ltd.	Pharmaceuticals	85.7	(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
SINGAPORE				
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
ASIA AND OCEANIA				
CHINA				
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
Sumika Electronic Materials (Wuxi) Co., Ltd.	Polarizing films, light guide plates and light diffusion plates	100.0	(510) 522-8641	(510) 522-9641
Sumitomo Chemical Shanghai Co., Ltd.	Plant protection chemicals, household insecticides, and feed additive products	100.0	(21) 6881-7700	(21) 6880-0188
INDIA				
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
SOUTH KOREA				
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
MALAYSIA				
Sumitomo Chemical Enviro-Agro Asia Pacific Sdn. Bhd.	Household insecticides	100.0	(6) 679-3711	(6) 679-3698
TAIWAN				
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) 2506-4528	(2) 2506-4551
THAILAND				
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
AUSTRALIA				
Sumitomo Chemical Australia Pty. Ltd.	Plant protection chemicals and household insecticides	100.0	(2) 9904-6499	(2) 9904-7499
NEW ZEALAND				
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
AMERICAS				
UNITED STATES				
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
MEXICO				
Valent de Mexico, S.A. de C.V.	Plant protection chemicals	100.0	(3) 110-01-62	(3) 110-17-54
BRAZIL				
Sumitomo Chemical do Brasil Representações Limitada	Plant protection chemicals household insecticides, and feed additive products	100.0	(11) 3174-0355	(11) 3174-0377
EUROPE AND AFRICA				
BELGIUM				
Sumitomo Chemical Europe S.A./N.V.	Chemical products	100.0	(2) 251-0650	(2) 251-2991
FRANCE				
Philagro France S.A.S.	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
ITALY				
Isagro Italia S.r.l.	Plant protection chemicals	50.0	(02) 45280-1	(02) 45280-210
SPAIN				
KenoGard S.A.	Plant protection chemicals	75.0	(93) 4481270	(93) 4881889
UNITED KINGDOM				
Sumitomo Chemical (U.K.) plc	Household insecticides and financing	100.0	(20) 8600-7700	(20) 8600-7717
SOUTH AFRICA				
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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Fax: (732) 205-1524

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France
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Fax: (478) 47-25-45

Sumitomo Chemical (U.K.) plc

Horatio House
77-85 Fulham Palace Road
London W6 8JA
U.K.
Tel: (20) 8600-7700
Fax: (20) 8600-7717

Investor Information and Corporate Information

(As of March 31, 2005)

Paid-In Capital:

¥89,699 million

Number of Employees:

Non-Consolidated: 5,640

Consolidated: 20,195

Common Stock:

Authorized: 5,000,000 thousand shares

Issued: 1,655,446 thousand shares

(Book value: ¥89,699 million)

Number of Shareholders:

121,349

Listings:

Tokyo and Osaka

Transfer Agent and Registrar:

Sumitomo Trust & Banking Co., Ltd.

Stock Transfer Agency Division

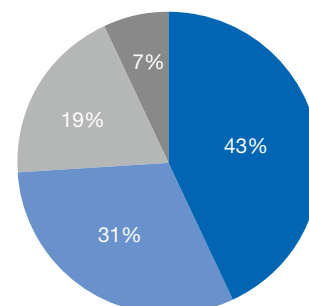
4-4, Marunouchi 1-chome, Chiyoda-ku,

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.

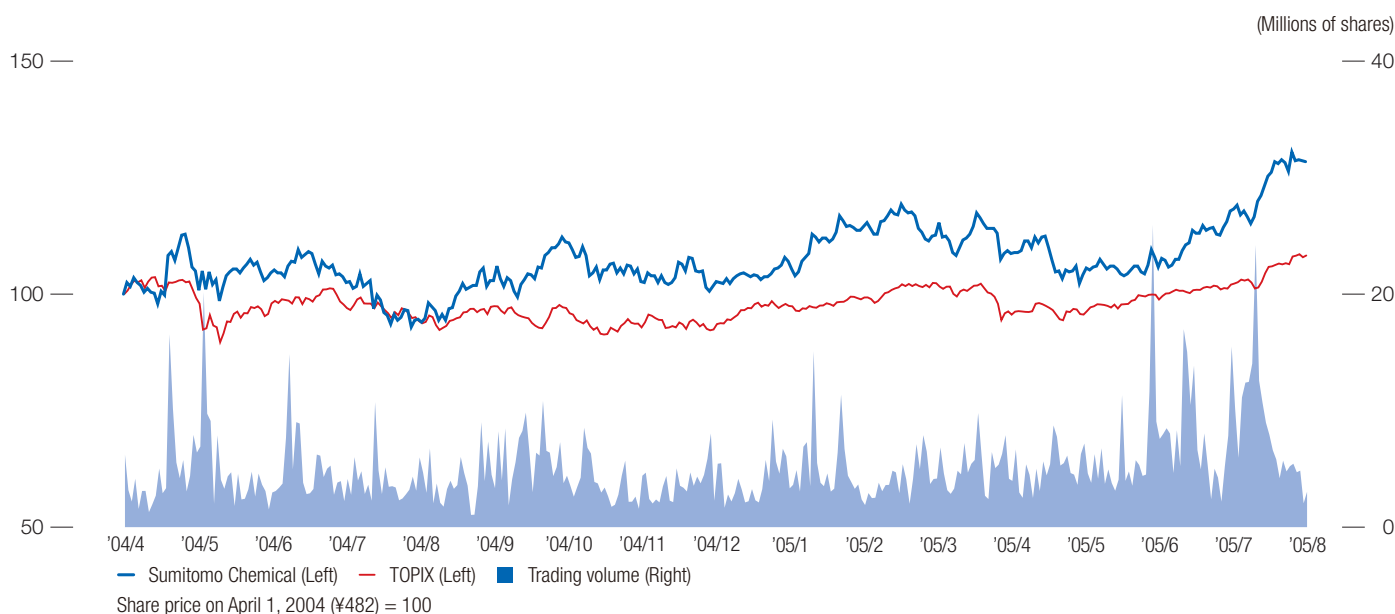
Tel: +81-3-5543-5102

Fax: +81-3-5543-5901

Major Shareholders

	Number of shares held (1,000 shares)	Shareholding ratio (%)
Japan Trustee Services Bank, Ltd.	96,782	5.85
The Master Trust Bank of Japan, Ltd.	91,753	5.54
Sumitomo Life Insurance Company.....	81,000	4.89
Nippon Life Insurance Company	72,290	4.37
Sumitomo Mitsui Banking Corporation	38,453	2.32
The Chase Manhattan Bank NA, London	37,488	2.26
The Sumitomo Trust & Banking Co., Ltd.	31,007	1.87
State Street Bank and Trust Company 505041	27,512	1.66
State Street Bank and Trust Company 505103	26,321	1.59
The Norinchukin Bank.....	21,825	1.32

Share Performance





Responsible Care

Sumitomo Chemical is a
Responsible Care company.

 **SUMITOMO CHEMICAL COMPANY, LIMITED**

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