

# SUMITOMO CHEMICAL

*Reaching New Heights  
as a Global Company*



**Annual Report 2007**  
For the Year Ended March 31, 2007

# 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 and materials, agricultural chemicals, and pharmaceuticals. While expanding our business worldwide and aggressively pursuing cutting-edge R&D, we also continually strive to contribute to the sustainable development of society through our Responsible Care activities.

We are currently implementing our Three-Year Corporate Business Plan covering the fiscal years from 2007 through 2009. The plan aims to strengthen the competitiveness and improve the profitability of our existing core businesses where we have strengths and at the same time accelerate our growth through concentrating our business resources on life sciences and the IT-related field. Moreover, we are stepping up our Research and Development in focus areas such as polymer organic light emitting diodes to pave the way for further growth beyond fiscal 2010.

Currently, the Company's most important undertaking is the Rabigh Project for the construction of a world-scale integrated oil refining and petrochemical complex, which is progressing smoothly toward its scheduled completion in 2008. The completion and smooth transition to commercial operation according to schedule will involve the efforts of the whole company.

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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.

# Consolidated Financial Highlights

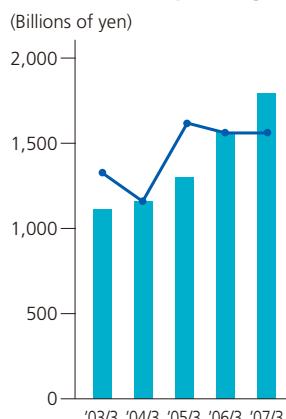
Sumitomo Chemical Company, Limited and Subsidiaries

\*Unless otherwise specified

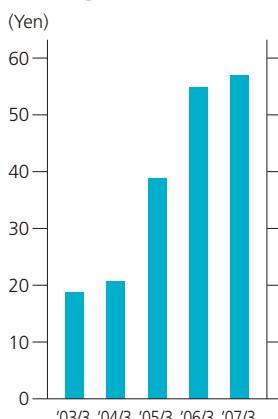
Years ended March 31	Percent change (%)	Billions of yen		Thousands of U.S. dollars		
		2007/2006	2007	2006	2005	
<b>For the year:</b>						
<b>P/L</b>						
Net sales .....	15.0	¥ 1,790.0	¥ 1,556.6	¥ 1,296.3	\$15,163,287	
Operating income .....	15.6	139.6	120.8	105.2	1,182,745	
Net interest expense .....	—	(3.9)	(2.2)	(3.0)	(33,011)	
Equity in earnings of affiliates .....	(12.0)	23.6	26.8	26.7	199,975	
Net income .....	3.5	93.9	90.7	64.5	795,087	
Capital expenditures .....	28.0	159.8	124.9	125.8	1,354,079	
Depreciation and amortization .....	8.5	113.9	104.9	88.2	964,591	
Research and development expenses .....	6.3	97.7	91.9	78.2	827,615	
<b>Cash flows</b>						
Net cash provided by operating activities .....	—	142.9	122.8	159.8	1,210,648	
Net cash used in investing activities .....	—	(164.2)	(180.7)	(118.0)	(1,391,266)	
Net cash provided by (used in) financing activities .....	—	35.6	70.6	(31.2)	301,211	
Free cash flow .....	—	(21.3)	(57.9)	41.9	(180,618)	
<b>For the year:</b>						
<b>B/S and others</b>						
Total assets .....	6.7	¥ 2,324.9	¥ 2,178.4	¥ 1,648.8	\$19,694,248	
Total net assets .....	—	1,030.5	719.8	569.6	8,729,530	
Interest-bearing liabilities .....	10.8	641.0	578.6	470.7	5,429,809	
Number of employees .....	2.2	24,691	24,160	20,195	—	
<b>Per share (yen, U.S. dollars):</b>						
Net income .....	3.7	56.82	54.80	38.94	0.481	
Total net assets .....	10.2	479.87	435.51	344.58	4.065	
Cash dividends .....	20.0	12.0	10.0	8.0	0.102	
<b>Ratios</b>						
ROA (%) .....	—	6.2	6.3	6.6	—	
ROE (%) .....	—	12.4	14.1	12.0	—	
Debt equity ratio (Times) .....	—	0.62	0.61	0.70	—	
Shareholders' equity ratio (%) .....	—	34.1	33.0	34.5	—	

Note: U.S. dollar amounts are translated from yen, for convenience only, at ¥118.05= \$1, the rate prevailing on March 31, 2007.

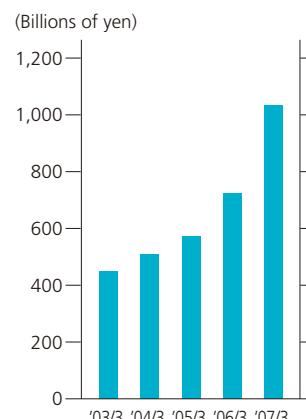
## Net Sales and Operating Margin



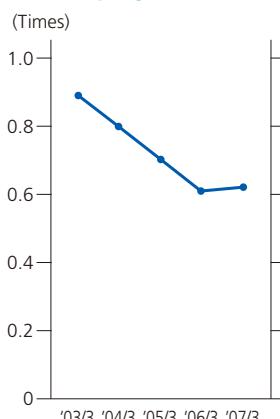
## Earnings Per Share



## Total Net Assets



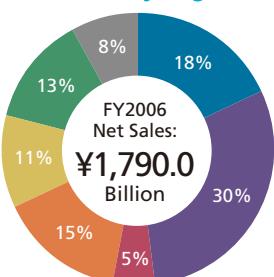
## Debt Equity Ratio



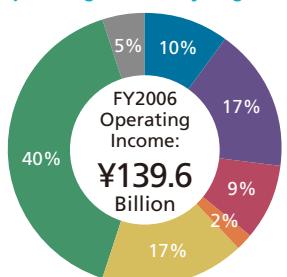
■ Net Sales (Left Axis)  
— Operating Margin (Right Axis)

# Sumitomo Chemical At a Glance

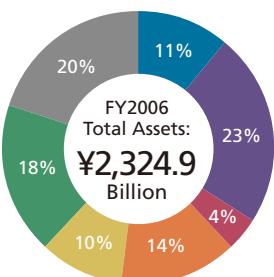
**Net Sales by Segment**



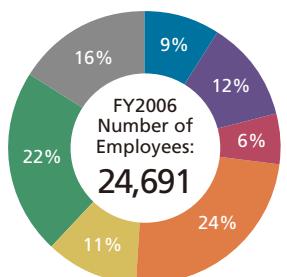
**Operating Income by Segment**



**Total Assets by Segment**

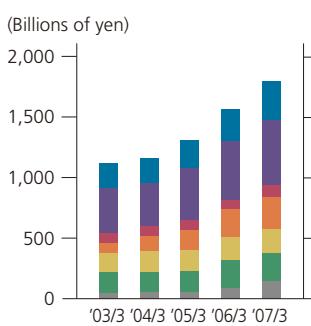


**Number of Employees by Segment**

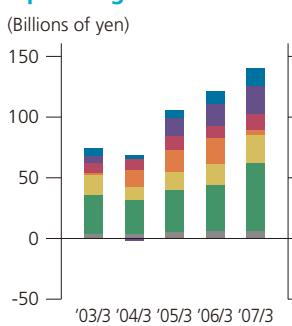


■ Basic Chemicals    ■ Petrochemicals & Plastics  
■ Fine Chemicals    ■ IT-related Chemicals  
■ Agricultural Chemicals    ■ Pharmaceuticals    ■ Others

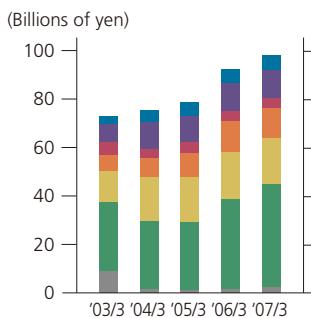
**Net Sales**



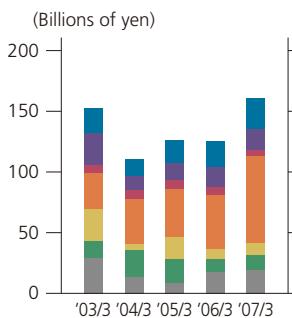
**Operating Income**



**Research and Development**



**Capital Expenditures**



## Basic Chemicals

**Operating Income:**  
**¥13.5 Billion**

**+34.9 %**  
(YoY Changes)

## Petrochemicals & Plastics

**Operating Income:**  
**¥23.6 Billion**

**+31.7 %**  
(YoY Changes)

## Fine Chemicals

**Operating Income:**  
**¥13.1 Billion**

**+33.2 %**  
(YoY Changes)

## IT-related Chemicals

**Operating Income:**  
**¥3.5 Billion**

**-84.1 %**  
(YoY Changes)

## Agricultural Chemicals

**Operating Income:**  
**¥23.3 Billion**

**+40.3 %**  
(YoY Changes)

## Pharmaceuticals

**Operating Income:**  
**¥56.2 Billion**

**+46.9 %**  
(YoY Changes)

## Major Products

## Major Subsidiaries and Affiliates

<p>Acrylonitrile, Caprolactam, Aniline, Methanol, MMA monomer, Polymethyl methacrylate (pellet, sheet), Nitric acid, Caustic soda, Aluminum hydroxide, Alumina, High-purity aluminum, Aluminum</p>	<p>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.</p>	
<p>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</p>	<p>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&amp;L Inc. Sumitomo Dow Ltd. Sumika Color Co., Ltd. Sumika Plastech Co., Ltd.</p>	
<p>Organic intermediates, Active pharmaceutical ingredients, Pharmaceutical intermediates, Polymer additives, Photo and imaging chemicals, Organic rubber chemicals, Dyestuffs, Ethylene-vinylacetate copolymer emulsions</p>	<p>Sumika Chemtex Co., Ltd. Sumika-Merisol Co., Ltd. Taoka Chemical Co., Ltd. Sumitomo Chemical Europe S.A./N.V. Bara Chemical Co., Ltd.</p>	
<p>Optical functional films, Pigment dispersed color filters, Photoresists, High-purity chemicals, Sputtering targets, Super engineering plastics, MOEPI wafers, Metal organics, High-purity gallium, Light diffusion plates, Light guide plates</p>	<p>O.L.S. Corp. Sumika EPI Solution Co., Ltd. Dongwoo Fine-Chem Co., Ltd. Sumika Electronic Materials (Shanghai) Co., Ltd. Sumika Electronic Materials (Wuxi) Co., Ltd. Sumika Electronic Materials (HongKong) Co., Ltd. Sumika Technology Co., Ltd.</p>	
<p>Crop protection products (Insecticides, Fungicides, Herbicides and Plant growth regulators), Household insecticides, Public hygiene insecticides, Long lasting insecticidal nets, Animal health products, Feed additives, Fertilizers</p>	<p>Sumitomo Chemical Takeda Agro Co., Ltd. Sumika Agrotech Co., Ltd. Sumika-Takeda Garden Products Co., Ltd. Rainbow Chemical Co., Ltd. Nihon Green &amp; Garden Corp. Sumika Enviro-Science 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 (U.K.) plc.</p>	<p>Sumitomo Chemical Agro Europe S.A.S. Sumitomo Chemical Australia Pty. Ltd. Philagro South Africa (Pty) Ltd., Isagro Italia S.r.l. Sumitomo Chemical Agro Seoul, Ltd. Sumitomo Chemical India Private Limited Sumitomo Chemical Enviro-Agro Asia Pacific Sdn. Bhd. Sumitomo Chemical Shanghai Co., Ltd. Sumitomo Chemical do Brasil Repres. Ltd.</p>
<p>Ethical Pharmaceuticals, Radiopharmaceuticals, Radioactive medical devices</p>	<p>Dainippon Sumitomo Pharma Co., Ltd. Nihon Medi-Physics Co., Ltd.</p>	

# To our Shareholders, Customers and Partners



Hiromasa Yonekura  
President

## **Summary of Fiscal 2006 Business Performance**

In fiscal 2006, Japan's economy continued its moderate growth, thanks to exports boosted by economic growth in the US and China, increased capital expenditure supported by solid corporate earnings, and a recovery in consumer spending. While naphtha and feedstock prices remained high due to a rise in crude oil prices, the Sumitomo Chemical Group during fiscal 2006 enjoyed the favorable effects of generally strong demand in Japan and overseas.

Under these conditions, the Sumitomo Chemical Group achieved a 15% increase in sales over the past fiscal year, to ¥1 trillion 790 billion, a 16% increase in operating income, to ¥139.6 billion, a 12% increase in ordinary income, to ¥158.0 billion, and a 4% increase in net income, to ¥93.9 billion. This sales figure represents a Group record high for the fifth consecutive year, while all income figures represent record highs for the third consecutive year. The Company's core businesses, which comprise methyl methacrylate (MMA) in the Basic Chemicals Sector, polyolefins in the Petrochemicals & Plastics Sector, pharmaceutical intermediates in the Fine Chemicals Sector, feed additives and household insecticides in the Agricultural Chemicals Sector, and the Pharmaceutical Sector's strategic products, have all continued to see strong sales growth. Looking at the Company's performance sector by sector, although the IT-related Chemicals Sector reported a decrease in operating income due to declining selling prices for polarizing film, a material used in liquid crystal displays (LCDs), every other sector has recorded an increase in both revenues and profits.

We increased our fiscal 2006 full-year dividend by ¥2 over the previous year, to ¥12 per share. The Company has been raising its per-share dividend progressively from ¥6 in fiscal 2003 to ¥8 in fiscal 2004 and ¥10 in fiscal 2005. We will continue our efforts to improve earnings to increase our dividend in stages, while giving due consideration to the results for each fiscal year and the level of retained earnings necessary for growth.

Fiscal 2006 was the final year of our Three-Year Corporate Business Plan. Our basic principles under the Plan were the thorough selection & concentration of our businesses to focus on core competencies, the shift to higher value-added products, and extending our global reach. Based on these principles we undertook a variety of projects to strengthen our business foundations, such as the establishment of Dainippon Sumitomo Pharma and the expansion of our production capacity for products such as MMA, polypropylene, and polarizing film and other LCD-related materials in Asia. As a result, our targets for fiscal 2006, the final year of our Three-Year Corporate Business Plan, which were consolidated sales of ¥1 trillion 330 billion, operating income of ¥120 billion, and net income of ¥65 billion, were achieved in fiscal 2005, one year ahead of the Plan. Moreover, our results further surpassed these figures in fiscal 2006. During this three-year period, we achieved a high rate of earnings growth, with sales increasing by 16% per year and operating income increasing by 28% per year. At the same time we started new projects such as the Rabigh Project for the construction of a world-scale integrated refining and petrochemical complex in Saudi Arabia, paving the way for a major leap in the future growth of the Company.

### **Initiatives for Achieving the Objectives of Our New Three-Year Corporate Business Plan**

We have developed a new Corporate Business Plan for the three years ending in fiscal 2009. Envisioning further expansion of our business on a global scale, the basic principle we determined for the Plan is to achieve and consolidate high profitability and secure sustained growth potential to generate the added value our shareholders expect in our business as we work to reach new heights as a global company. Our new Corporate Business Plan, founded on the concepts of our previous Plan, places a high priority on realizing solid returns on the significant business investments we made between fiscal 2004 and 2006, and at the same time, this new plan also incorporates concepts aimed to propel the Company to further heights in business growth. In particular, we will devote our best efforts to major initiatives such as successful completion of the Rabigh Project, enhancing global management, enlarging the economic value added of each business Sector, expanding life sciences and IT related materials businesses and enhancing their competitiveness, and paving the way for further growth.

The Rabigh Project, a project with our partner Saudi Aramco to build an integrated refining and petrochemical complex in Rabigh, Saudi Arabia, has been progressing smoothly since the groundbreaking in March 2006 and is expected to be completed and start commercial operation on schedule in autumn of 2008. The Rabigh Project will strengthen the fundamentals and improve the profitability of our petrochemical business as well as greatly accelerate the globalization of the Sumitomo Chemical Group. Completing the Rabigh Project according to schedule and making a smooth transition to commercial operation is a major priority. The whole Company will be involved in efforts to ensure the success of this project.

In addition, in the Company's existing core businesses, we are expanding our production capacity and developing new products as well as implementing cost rationalizations with the aim of expanding sales, adding new value to our products, and strengthening the cost competitiveness of each of our businesses to further improve performance.

Life sciences and IT-related materials are the fields where we forecast high market growth and expect continued high performance, capitalizing on our technological and other strengths. In life sciences, we are both stepping up our investments in R&D and devoting our efforts to fortifying our business foundations for further global expansion. In the IT-related field, we will strengthen our competitiveness and improve the profitability of our LCD materials businesses, such as our polarizing film business, where we expect strong demand growth. At the same time, based on a long-term outlook, we are investing our business resources in the research and development of organic polymer LEDs, which hold promise as materials for next-generation displays that exhibit high image quality combined with low electrical consumption, and are accelerating our efforts toward the earliest possible commercialization of these materials.

In the chemical industry, a company's fundamental source of growth is its R&D activities. Under our new Three-Year Corporate Business Plan, we are directing a special focus in our R&D efforts to the development and cultivation of new business fields. In addition to the development of organic polymer LEDs, we will strengthen and accelerate our R&D in other areas, as well, particularly in IT-related materials, energy and life sciences. For example, we are focusing on battery materials, such as heat-resistant separators that improve the safety of lithium ion batteries.

Through the implementation of these initiatives, the Company is aiming to achieve performance targets for fiscal 2009, the final year of our Three-Year Corporate Business Plan, of sales of ¥2 trillion 400 billion, ordinary income of ¥250 billion, and net income of ¥150 billion. The Rabigh Project is expected to contribute approximately ¥50 billion in equity earnings to the Company's ordinary income.

We will further strengthen and expand our business in order to increase shareholder value. At the same time, we seek to earn the greater trust of society as a good corporate citizen through our proactive and ongoing CSR activities. I would like to express my sincere appreciation to our shareholders, customers and business partners for your continued understanding and support.

August 2007

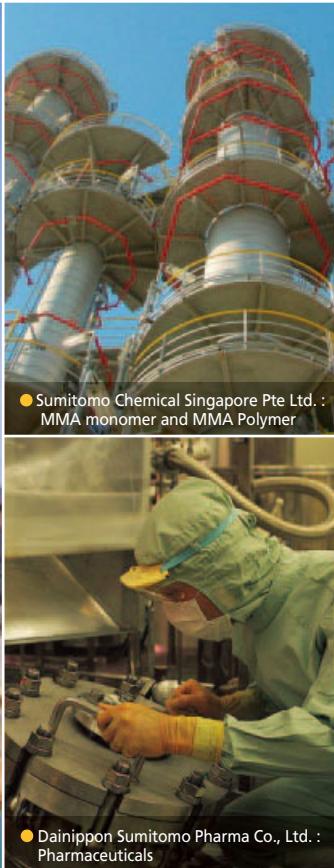
米倉弘昌

Hiromasa Yonekura  
President, Sumitomo Chemical Co., Ltd.

## Special Feature:

# The New Three-Year Corporate Business Plan: Fiscal Years 2007-2009

- Rabigh Refining and Petrochemical Company : Refined Petroleum Products and Petrochemicals



- Sumitomo Chemical Singapore Pte Ltd. : MMA monomer and MMA Polymer



- Dongwoo Fine-Chem Co., Ltd. : IT-related Materials



- Dainippon Sumitomo Pharma Co., Ltd. : Pharmaceuticals

- Valent U.S.A Corp. : Crop Protection products

*Reaching New Heights as a Global Company*



## Special Feature:

# The New Three-Year Corporate Business Plan: Fiscal Years 2007-2009

### Past Achievement of our Corporate Business Plan

Every three years, Sumitomo Chemical formulates its Three-Year Corporate Business Plan for promoting the selection and concentration of its high-growth businesses to enable the Company to adapt to changes in the business climate and steadily increase its revenues and profits. Our theme from fiscal 1998 to 2000 was "Preparing for Leap into the 21st Century," and our Corporate Business Plan involved initiatives focused on the challenges of building robust financial underpinnings and restructuring our businesses. Then, from fiscal 2001 to 2003, in addition to building robust financial underpinnings and restructuring our businesses, we began aggressive investment to establish a basis for growth under the theme "Toward a New Path for Growth".

### FY2004-2006 Corporate Business Plan

Building on the achievements of our previous Plans, we chose the theme of "Becoming a Truly Global Chemical Company" for our Corporate Business Plan from fiscal 2004 to 2006, during which we undertook initiatives for (1) Thorough Selection & Concentration of our Businesses, (2) the Shift to Higher Value-Added Products, and (3) Extending our Global Reach.

#### (1) Thorough Selection & Concentration of our Businesses

In the life sciences field, which we position as one of our areas of focus, we established Dainippon Sumitomo Pharma through a merger in October 2005 in order to strengthen our pharmaceutical business. Meanwhile, in the IT-related field, another of our focus businesses, we consolidated the foundations of our polarizing film and other LCD materials businesses in expectation of future growth.

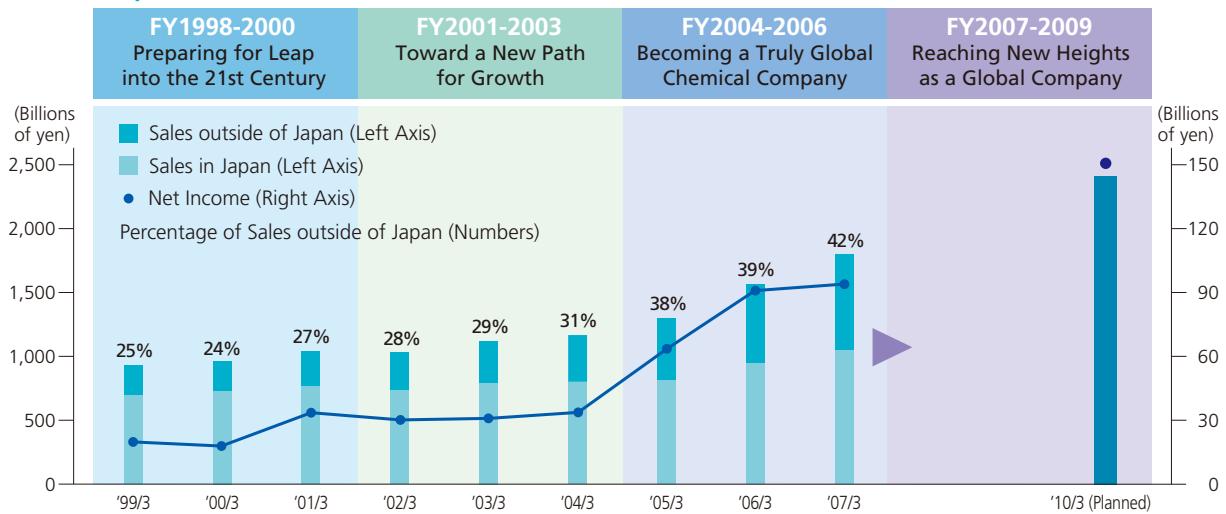
#### (2) Shift to Higher Value-Added Products

We launched our EPPE (Easy-Processing Polyethylene) product, a new type of polyethylene which combines excellent strength and processibility, and also converted a linear low-density polyethylene plant at TPC in Singapore for the manufacture of high value-added polypropylene, which is in great demand in a wide range of fields, including automotive applications, electrical and electronic devices, and packaging films.

#### (3) Extending our Global Reach

We established new IT-related facilities in China and Taiwan to serve our customers who are rapidly expanding their operations there, and also increased our production capacity in Korea. In addition, we worked to increase production capacity and marketing capabilities for MMA and petrochemicals in Singapore as part of an initiative to capture demand in Asia, which is seeing a remarkable rate of economic growth, and to improve our cost-competitiveness.

### Corporate Business Plans and Performance Trends



## Achievement of Performance Targets

As a result, the Company's sales grew from ¥1,158.4 billion in fiscal 2003 to ¥1,790.0 billion in fiscal 2006, and net income grew from ¥34.3 billion to ¥93.9 billion in the same period. Thus, our Three-Year Corporate Business Plan has been successful in greatly enlarging the scale of our business, and as a result, we achieved the final-year targets of our Corporate Business Plan and also succeeded in greatly surpassing the Company's previous performance records in terms of both sales and profits in fiscal 2006.

During this period, the Company was not content merely to increase its sales and net income; it also succeeded in improving its capital efficiency while at the same time strengthening its financial position. We improved ROE considerably, from 7.2% in fiscal 2003 to 12.4% in fiscal 2006, and improved our D/E ratio (including minority interests from consolidated subsidiaries) from 0.8 in fiscal 2003 to 0.6 in fiscal 2006. Accordingly, we raised our full-year dividend in stages from ¥6 per share in fiscal 2003 to ¥8 per share in fiscal 2004, ¥10 in fiscal 2005, and ¥12 in fiscal 2006.

## The Company We Aim to Become in 2010

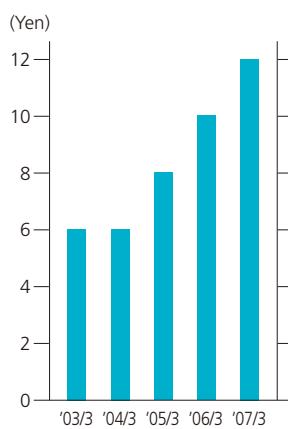
Since a large number of our business activities take a long period of time from the start of research and development to the realization of business results, we envisioned our ideal for the company we aim to become by 2010 separately from our Corporate Business Plan for fiscal 2004 through 2006. "Becoming a Truly Global Chemical Company" was the ideal we envisioned for 2010. We are aiming to become a company that earns long-term, stable high profits and continues to grow by combining our various technologies to accelerate the development of new products while at the same time promoting the further selection and concentration of our businesses. In order to achieve this vision, we will, more specifically, focus our business resources on life sciences and IT-related materials, fields that are expected to see continued high growth.

### Achieved All Targets in FY2006

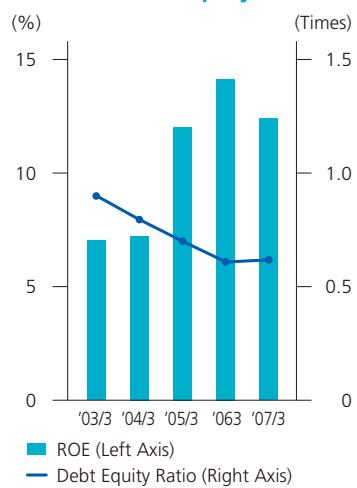
(Billions of yen)

	2007/3 (Planned)	2007/3 (Actual)	Achievement Rate
Net Sales	1,330.0	1,790.0	134.6%
Operating Income	120.0	139.6	116.3%
Net Income	65.0	93.9	144.4%

### Dividend Per Share



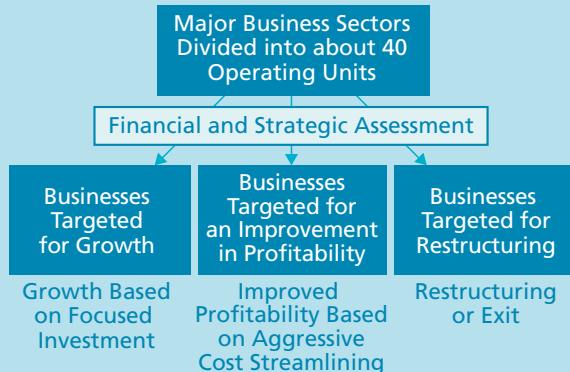
### ROE and Debt Equity Ratio



## Managing our Business Portfolio

Sumitomo Chemical develops businesses in a broad range of areas, providing products ranging from industrial chemicals like sulfuric acid to materials for LCD televisions and pharmaceuticals. The continual selection and concentration of our businesses is essential to ensure optimum utilization of our business resources in order for the Company to achieve both stable high profits and sustained profit growth. To achieve these targets, we segment our six business Sectors into some 40 business units for optimum utilization of our business resources. We assess these 40 business units both from the financial (return on invested capital) and strategic viewpoints (potential for market growth, the Company's technological capabilities, cost-competitiveness, etc.). Based on this, we categorize them as "businesses targeted for growth," "businesses targeted for an improvement in profitability," or "businesses targeted for restructuring." For "businesses targeted for growth," we undertake focused investment to expand the scale of the business. For "businesses targeted for an improvement in profitability," we seek to strengthen the position of the business by implementing rationalizations to strengthen profitability and achieve profits that exceed the cost of capital. For "businesses targeted for restructuring," we take appropriate measures either to reorganize or exit the business. In addition, when we conduct financial assessments of each business unit, we set benchmarks for the weighted average cost of capital each business unit must achieve and promote operations with a clear awareness of the cost of capital in each unit.

## Managing our Business Portfolio



## Three-Year Corporate Business Plan

In formulating our Three-Year Corporate Business Plan spanning fiscal 2007 to 2009, we built on the results and challenges arising from the Corporate Business Plans we had been implementing in previous years. Following on the successful conclusion of our previous Corporate Business Plan at the end of fiscal 2006, the theme for our new Corporate Business Plan is Reaching New Heights as a Global Company. Under this new Plan we intend to reap the fruits of the investments we have made in the Rabigh Project and our display materials business and sow the seeds for further growth from fiscal 2010 onward.

The basic principle of our Three-Year Corporate Business Plan is to achieve and consolidate high profitability and secure sustained growth potential to generate the added value our shareholders expect in our business as we work to reach new heights as a global company. The specific approach we will take to realize this basic principle consists of (1) Successful Accomplishment of the Rabigh Project, (2) Enhancing our Global Management, (3) Enlarging the Value-Added Component of Every Business Sector, (4) Expanding the Company's Businesses in Life Sciences and IT-related materials and Strengthening their Competitiveness, and (5) Paving the Way for Further Growth. These are the primary challenges we will be addressing over the next three years.

### Performance Targets

(Billions of yen)

	2007/3	2010/3 (Planned)	Annual Growth
Net Sales	1,790.0	2,400.0	<b>10.3%</b>
Operating Income	139.6	200.0	<b>12.7%</b>
Ordinary Income	158.0	250.0	<b>16.5%</b>
Net Income	93.9	150.0	<b>16.9%</b>
Equity in earnings of affiliates	23.6	65.0	<b>40.2%</b>
From Rabigh Project	—	50.0	—

#### Assumptions

Exchange rate .....	¥110/\$
Naphtha price .....	¥48,000/kl
Oil price (WTI) .....	\$55/bbl

### **(1) Successful Accomplishment of the Rabigh Project**

The Rabigh Project is a world-scale integrated refining and petrochemical complex, and is currently under construction in Rabigh on Saudi Arabia's Red Sea coast. We aim to complete the construction of this Project in 2008 and begin commercial operation according to plan. (See separate article for details.)

### **(2) Enhancing our Global Management**

We will significantly advance the Company's further globalization with our involvement in the Rabigh Project and, in light of this, are aiming to enhance our management fundamentals to support our expanded global business development. More specifically, by building globally integrated human resources, accounting, internal control and other management systems, and by implementing global information systems and dispatching corporate staff from Sumitomo Chemical to our main overseas subsidiaries, we seek to enhance our support capabilities for our overseas bases of operation.

### **(3) Enlarging the Value-Added Component of Every Business Sector**

We aim to improve the profitability of all our core businesses by concentrating our business resources on strategic products. In the Basic Chemicals Sector, we are expanding production capacity for MMA and improving the cost-competitiveness of caprolactam. In the Petrochemicals & Plastics Sector, we are working toward the successful completion of the Rabigh Project and also strengthening the value-added operations in our plastics businesses, such as

our polypropylene compounds business. In the Fine Chemicals Sector, we are strengthening the competitiveness of our resorcinol and pharmaceutical chemicals businesses, while in our IT-related Chemicals Sector we are improving the profitability of LCD-related materials operations and developing new materials. In the Agricultural Chemicals Sector, we are expanding our marketing efforts for such growth products as Sumisoya® herbicide, Eminence® insecticide, and Hydroxy Analog Methionine feed additive, as well as realizing further synergies through the integration of Sumitomo Chemical Takeda Agro Co., Ltd. In the Pharmaceuticals Sector, we will continue to expand marketing for four main strategic products: *Amlodin* (therapeutic agent for hypertension and angina pectoris), *Gasmotin* (gastroprotective agent), *Prorenal* (vasodilator), and *Meropen* (carbapenem antibiotic).

### **(4) Expanding the Company's Businesses in Life Sciences and IT-related Materials and Strengthening their Competitiveness**

We will focus our investment of business resources in Life Sciences and IT-related materials to accelerate profit growth in these areas. The fields of life sciences, including pharmaceuticals and agricultural chemicals, and IT-related materials are both expected to experience high market growth, and because the Company has technological strengths in these areas, we can expect them to drive income growth. Therefore, we will continue to allocate our business resources to them in a timely manner. Under our Three-Year Corporate Business Plan, we plan to allocate 70% of our strategic investment to such undertakings as new large-scale projects in

#### ***The Rabigh Project: Progressing smoothly toward its scheduled completion***

Sumitomo Chemical established the Rabigh Refining and Petrochemical Company (Petro Rabigh) in partnership with the Saudi Arabian Oil Company (Saudi Aramco), one of the world's largest oil companies, in September 2005, and is currently undertaking the construction of a world-scale integrated refining and petrochemical complex in the town of Rabigh on Saudi Arabia's Red Sea coast. This complex will utilize 400 thousand barrels of crude oil per day and 1.2 million tons per year of ethane and other feedstocks for the production of petroleum products such as naphtha and gasoline, and petrochemical products such as polyolefins and propylene oxide.

The Rabigh Project is situated on a 14 square kilometer site where a number of large-scale facilities are currently under construction. This project will involve the efforts of over 30 thousand workers at its peak. In spite of the construction rush in the Middle East, the large-scale equipment has been shipped in and installed, and the project is progressing smoothly toward its scheduled completion in 2008.

Petro Rabigh will receive a stable supply of competitive feedstock from Saudi Aramco and will also take maximum advantage of economies of scale to become one of the most competitive refining and petrochemical businesses ever established. The Company will market the competitive petrochemicals produced by Petro Rabigh in Asia and other regions. The Rabigh Project will enable the Company to further develop its Global petrochemical strategy, building on our existing production bases in Japan, Singapore and the U.S.A.

the Fine Chemicals, IT-related Chemicals, Agricultural Chemicals and Pharmaceuticals Sectors. Furthermore, in the IT-related Chemicals Sector, where results have suffered because of price erosion, we will implement thorough cost rationalizations, develop new technologies and launch new products to improve competitiveness, as well as step up research and development efforts in order to seize every available business opportunity.

#### **(5) Paving the Way for Further Growth**

In conducting our R&D and capital investment, which support our future growth, we will rigorously select areas for strategic expenditure. Over the past several years, the Company has been increasing its R&D expenditures, and we plan to increase them to ¥120.0 billion in fiscal 2009. In R&D, in the IT field, we are making focused investments in development of display and device materials for organic electroluminescent polymers (PLEDs), which show promise as next-generation materials for flat panel displays. In the field of energy, we have been focusing our R&D on materials for lithium ion batteries. In life sciences, we are investing in the development of treatments for fibrosis and other disease areas. The Company will continue to invest strategically in R&D in areas with strong potential to drive future growth.

Over the next three years, the Company plans to devote ¥370.0 billion to capital investment, mainly in the Fine Chemicals, IT-related Chemicals, Agricultural Chemicals and Pharmaceuticals Sectors. Meanwhile, the Company envisions an operating cash flow of

¥530.0 billion generated from its business activities over the next three years, and based on free cash flow, we will set aside a maximum of ¥200.0 billion as a "growth reserve fund" to be used for investment opportunities that may arise with the potential to drive further growth beyond 2010.

The targets the Company aims to achieve through the implementation of these measures in fiscal 2009, the final year of our Three-Year Corporate Business Plan, are sales of ¥2,400.0 billion, ordinary income of ¥250.0 billion, and net income of ¥150.0 billion. The assumptions used in determining these targets are a foreign exchange rate of ¥110 to the US dollar, a naphtha price of ¥48,000 per kiloliter, and a crude oil price of US\$55 per barrel of WTI. If we are able to achieve these targets, we will have realized, one year ahead of time, the targeted net income of ¥100.0 billion we envisioned for the Company in 2010.

Although the levels of interest-bearing debt at the end of fiscal 2009 will likely be maintained at the same levels as fiscal 2006, we anticipate further strengthening of our balance sheet as increases in shareholder equity improve our shareholders' equity ratio to 37% and our D/E ratio to 0.5. In spite of the anticipated increase in shareholders' equity, return on equity is expected to continue to increase to over 15% by fiscal 2009, and thus we expect to be able to maintain strong fundamentals and improve our return on equity. In addition, we expect our return on invested capital to exceed the weighted average cost of capital in fiscal 2009, and this should contribute to an increase in shareholder value.

**Sales by Segment**

(Billions of yen)

	2007/3	2010/3 (Planned)	Annual Growth
Basic Chemicals	314.0	320.0	0.6%
Petrochemicals & Plastics	539.1	860.0	16.8%
Fine Chemicals	90.9	110.0	6.6%
IT-related Chemicals	266.4	470.0	20.8%
Agricultural Chemicals	198.3	230.0	5.1%
Pharmaceuticals	234.5	265.0	4.2%
Others	146.8	145.0	-0.4%
Total	1,790.0	2,400.0	10.3%

**Operating Income by Segment**

(Billions of yen)

	2007/3	2010/3 (Planned)	Annual Growth
Basic Chemicals	13.5	24.0	21.2%
Petrochemicals & Plastics	23.6	25.0	1.9%
Fine Chemicals	13.1	15.0	4.7%
IT-related Chemicals	3.5	40.0	126.2%
Agricultural Chemicals	23.3	35.0	14.6%
Pharmaceuticals	56.2	51.0	-3.2%
Others	6.5	10.0	15.3%
Total	139.6	200.0	12.7%

# Review of Operations

Basic Chemicals

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Petrochemicals & Plastics

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Fine Chemicals

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IT-related Chemicals

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Agricultural Chemicals

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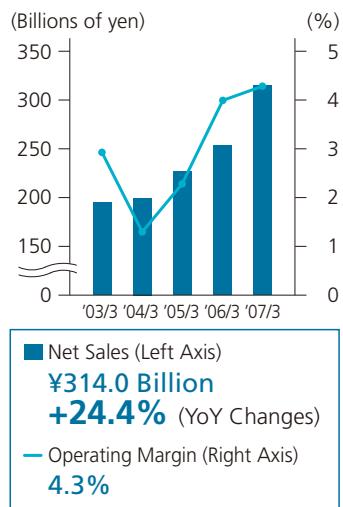
Pharmaceuticals

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# Basic Chemicals

The Basic Chemicals Sector provides various manufacturing industries with a wide variety of products including industrial chemicals and inorganic materials, alumina products, methyl methacrylate (MMA) monomer and polymer, and aluminum. Among these, the Company is actively working to develop its core businesses in MMA and caprolactam as well as inorganic materials such as alumina. MMA polymer exhibits outstanding transparency and weather resistance, making it an excellent material for a broad range of uses including automotive applications, home electronics, architectural materials and aquarium tanks, and optical components. With the rapid increase in the production of digital consumer electronics in Asia, demand for MMA polymer is increasing. Sumitomo Chemical has the largest production capacity for MMA polymer and its raw material MMA monomer in Asia, and will continue to undertake active capital investment to fortify its robust market position. Caprolactam is the raw material for nylon 6, which is processed into textiles and resins used for clothing, medical containers, automotive parts, home electronics components, and food wrap films. Stable growth is expected for both textiles and resins in the economically vibrant Asian region. In addition, the Company possesses world-class production capacity for high-purity alumina, used in materials for electronics components as well as fine alumina used as a material in glass for LCD displays, for which applications are expected to increase.

## Net Sales & Operating Margin



## FY2006 Business Performance

The Basic Chemicals Sector in fiscal 2006 posted a 24.4% increase in sales to ¥314.0 billion and a 34.9% increase in operating income to ¥13.5 billion. An increase in shipping volume due to production capacity expansions for caprolactam as well as favorable prices supported by strong demand drove a significant increase in profits. In addition, the completion in August 2005 of our Phase II MMA production capacity expansion in Singapore contributed to an increase in full-year sales volumes. A rise in the market for aluminum also contributed to the Sector's revenue growth. Selling price increases and increased sales volumes resulted in a significant year-on-year increase in operating income against the headwind of rising raw materials prices.

## Key Initiatives for FY2006 and Developments from FY2007 Onward

The Company has been actively investing in the Basic Chemicals Sector's core businesses of MMA, caprolactam, and inorganic materials.

The Company produces MMA monomer and polymer at its Ehime Works in Japan, its subsidiaries Nihon Methacryl Monomer in Japan and Sumitomo Chemical Singapore, and its equity method company LG MMA in Korea. Total combined MMA production capacity for the above companies accounts for nearly 30% of all the MMA produced in Asia, and

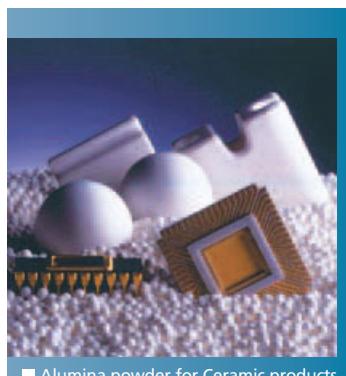
we are positioned as the top Asian maker. MMA polymer exhibits outstanding transparency and weather resistance and is used for a broad range of applications. Recently demand for IT applications, particularly LCDs, is growing.

Since economic growth in Asia can be expected with Asia's development as a global manufacturing base for digital products, we anticipate continued stable demand growth for our MMA products. The Company and its affiliates are implementing plans to expand their production capacity for MMA monomer and polymer to reinforce the Company's position as the top maker in Asia. Sumitomo Chemical Singapore has begun construction on its Phase III capacity expansion of its MMA plant from an annual 133 thousand tons to 223 thousand tons of MMA monomer and an annual 50 thousand tons to 100 thousand tons of MMA polymer. Also, LG MMA has begun construction on a capacity expansion from an annual 100 thousand tons to 176 thousand tons of MMA monomer. Both companies plan to complete the capacity expansions and start operations in early 2008.

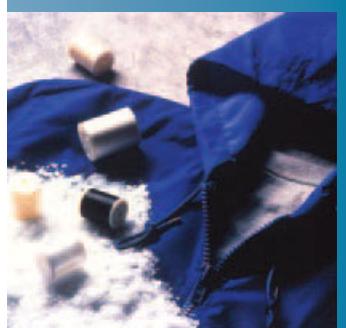
With a caprolactam production capacity of 180 thousand tons per year, Sumitomo Chemical is among the top five producers in Asia. The Company manufactures caprolactam using its proprietary high-yield vapor phase Beckmann rearrangement process, which avoids the production of ammonium sulfate, generated in large quantities by the conventional process, and allows the elimination of the additional facilities needed to recover that by-product. This makes the Company's production of caprolactam not only more compact and cost-effective, but also more environmentally friendly than conventional processes. Although demand for caprolactam is expected to maintain solid growth, there are no plans for large-scale capital investment within the industry at present, and therefore supply and demand are anticipated to remain tight for the foreseeable future. Sumitomo Chemical will take this opportunity to boost production by maintaining stable high rates of operation to fully realize returns on its investments in production capacity expansions and promote the reduction of utility costs as well as other rationalizations and cost cutting measures to strengthen its competitiveness.

In the area of inorganic materials, the Company possesses technological strengths in such materials as fine alumina for LCD glass, spark plug tip resistors, fine aluminum hydroxide for halogen-free flame-retardants and artificial marble, activated alumina for catalyst support and desiccants. We are also continuing to develop applications for these and other products. The Company is among the world's largest producers of high-purity alumina, which is finding increasing applications in such materials as LED substrates, fluorescent materials for backlights for LCD displays and plasma displays, materials for semiconductor manufacturing tools, and materials for spray coating. As the leading company in this field, Sumitomo Chemical will continue to work together with its customers to develop new applications to actively expand its business in the future.

Under our Three-Year Corporate Business Plan, the Company's basic principle for the Basic Chemicals Sector is to strengthen its basis of profitability in the MMA, caprolactam and inorganic materials businesses as the core of the Sector's global development to enlarge the scale of its business and achieve competitive advantages. The Sector's performance targets for fiscal 2009 are sales of ¥320.0 billion and an operating income of ¥24.0 billion, which represent an annual 0.6% increase in sales and an annual 21.2% increase in operating income over the next three years.

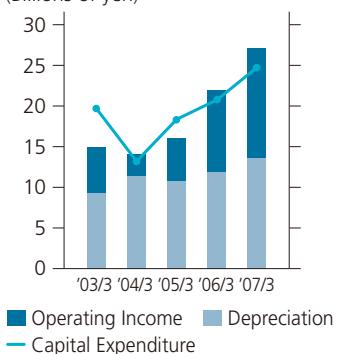


■ Alumina powder for Ceramic products

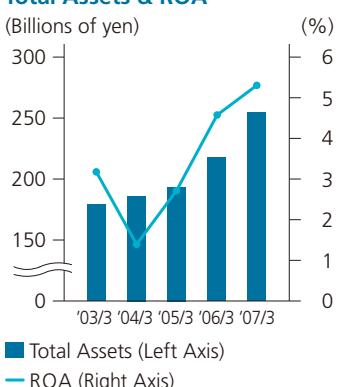


■ Caprolactum for Nylon products

#### Operating Income before Depreciation & Capital Expenditure (Billions of yen)



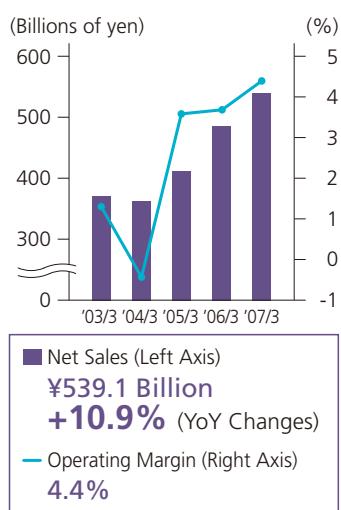
#### Total Assets & ROA



# Petrochemicals & Plastics

The Petrochemicals & Plastics Sector engages in the manufacture and sale of a wide range of petrochemical products, including organic chemicals like propylene oxide and styrene monomer, synthetic resins like polyethylene and polypropylene, and synthetic rubber. The Sector has extended its business beyond Japan to span the globe, with manufacturing operations in Singapore since 1984 and polypropylene manufacturing and sales operations in Texas, USA. In addition, Sumitomo Chemical is currently constructing a world-scale integrated refining and petrochemical complex in Saudi Arabia (please see page 11 for details of the Rabigh Project). The completion of this project will represent a large-scale expansion of the Sector's overseas business and a major step in the further globalization of the Company.

Net Sales & Operating Margin



## FY2006 Business Performance

The Petrochemicals & Plastics Sector in fiscal 2006 posted a 10.9% increase in sales to ¥539.1 billion and a 31.7% increase in operating income to ¥23.6 billion. Rising prices for naphtha and other feedstocks on the back of sharply rising crude oil had a major impact on the Sector's performance. Increases in prices for petrochemical products like propylene oxide and styrene monomer as well as for polyethylene and polypropylene drove a considerable increase in sales over the previous year. Also, in addition to robust selling prices for the Company's products, cost reductions contributed 0.7% to the increase in operating margin year on year.

## Key Initiatives for FY2006 and Developments from FY2007 Onward

The Petrochemicals & Plastics Sector positions the polyolefins such as polyethylene and polypropylene, as well as propylene oxide as its focus businesses. The Company endeavors to optimize and streamline its production capabilities, while at the same time increasing the value-added component of its businesses.

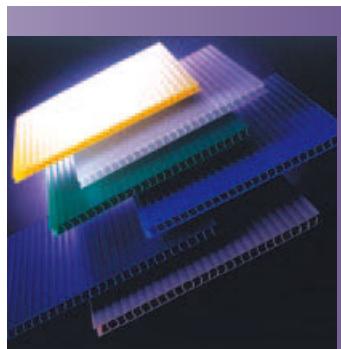
Polypropylene (PP), one of the polyolefins used for automotive applications, electrical and electronic devices, packaging films, and various other everyday items, is seeing an increase in global demand. In addition to its domestic operations at its Chiba Works, the Company produces polypropylene both in Singapore and the United States, and already possesses

three global bases of operation as a platform for meeting its customers' global procurement requirements. Our R&D facilities in Japan focus on the development of new processes and high-performance products for use around the world to meet the needs of our customers. Polypropylene's light weight and excellent impact strength, in particular, contribute to the improvement of fuel-efficiency when used for automotive applications, and thus the material plays a part in reducing overall environmental impact. Demand is expected to continue to see vigorous growth, and is also growing for polypropylene compounds for use in automotive applications, which demonstrate even greater impact strength than polypropylene. For example, in 2006, we began operation of a new plant producing polypropylene compounds in the South China city of Zhuhai to serve automobile makers expanding production there. We will continue studying the establishment of other compound production plants to supply automobile manufacturers in the major markets of Asia, North America and Europe.

Polyethylene (PE), also a polyolefin, is a plastic in which the Company is competitive. We are currently working to expand the market for EPPE (Easy Processing Polyethylene), which was developed using our proprietary technology. EPPE combines excellent strength and processibility. By substituting EPPE for low-density polyethylene and linear low-density polyethylene, odors can be minimized and it can also be used outdoors without degrading. Also, because the adhesion of fine contaminants to the plastic during processing is eliminated, it is possible to manufacture higher quality films and containers. Its ease of processing and ability to be molded at low temperatures has the potential to save electrical power and speed up molding processes for our customers in downstream industries, allowing them to achieve superior cost performance. Therefore, EPPE is expected to find widespread use, especially in films for packaging of food and fine products like electronic and optical components.

Propylene oxide (PO) is another of the Sector's major products, and Sumitomo Chemical, along with its subsidiary Nihon Oxirane, boasts one of the top production capacities in Asia. Propylene oxide is mainly used as a raw material for polyurethanes, and continued solid growth is forecast in Asian markets. The Company produces an annual 200 thousand tons of PO at its Chiba Works using its proprietary PO-only process developed in-house. This process has such advantages as its not generating chlorinated wastes, eliminating dependence on the market for co-products such as styrene monomer, and achieving high yields. Nihon Oxirane, in which Sumitomo Chemical owns a 60% stake, operates a plant with an annual capacity of 180 thousand tons of PO in Chiba using the styrene monomer co-production process. In addition, our Rabigh complex will have an annual production capacity of 200 thousand tons of PO using our PO-only process to be sold in Asian markets, which will secure our position as the No. 1 supplier in Asia.

Under our Three-Year Corporate Business Plan, the Company's basic principle for the Petrochemicals & Plastics Sector is to become a world-class high value-added petrochemical business through the selection & concentration of our existing businesses, the production of higher-performance, higher value-added products, and by devoting our efforts to the successful accomplishment of the Rabigh Project. Through these initiatives, the Sector is targeting fiscal 2009 sales of ¥860.0 billion and an operating income of ¥25.0 billion, which represent an annual sales increase of 16.8% and an annual increase in operating income of 1.9% over the next three years.

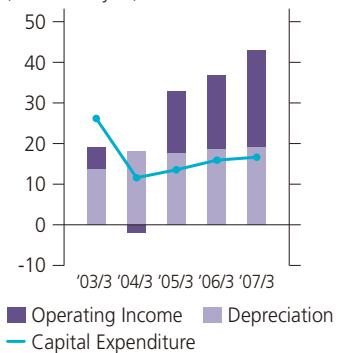


■ Plastic cardboard SUNPLY



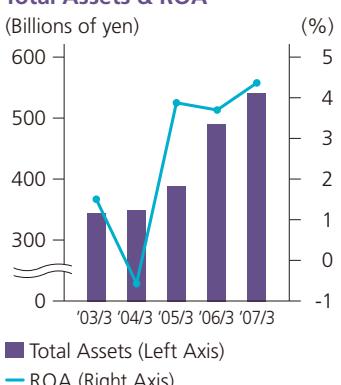
■ Polyethylene products

**Operating Income before Depreciation & Capital Expenditure**  
(Billions of yen)



■ Operating Income   ■ Depreciation  
■ Capital Expenditure

**Total Assets & ROA**

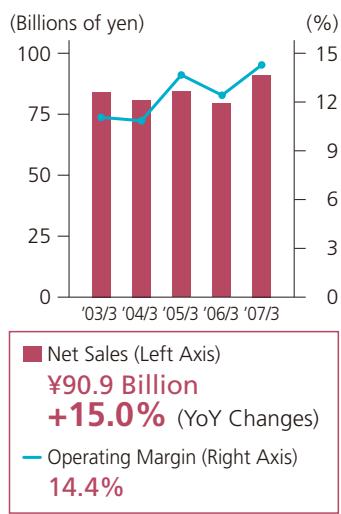


■ Total Assets (Left Axis)  
■ ROA (Right Axis)

# Fine Chemicals

The Fine Chemicals Sector engages mainly in the production of specialty chemicals and pharmaceutical chemicals. The Sector's specialty chemicals business focuses on resorcinol, a raw material used in adhesives for wood and tire cords as well as flame retardants; rubber antioxidants and other rubber chemicals; and polymer additives used to improve the quality of synthetic resins. Among these products, Sumitomo Chemical is the world's leading manufacturer of resorcinol with one of the largest production capacities. The Sector's pharmaceutical chemicals business capitalizes on the Company's organic synthesis technologies accumulated over many years and our cutting-edge quality assurance capabilities for the custom development of active pharmaceutical ingredients (API) and intermediates as well as the manufacture and sale of pharmaceutical intermediates based on our proprietary manufacturing technologies.

## Net Sales & Operating Margin



## FY2006 Business Performance

The Fine Chemicals Sector in fiscal 2006 posted a 15.0% increase in sales to ¥90.9 billion and a 33.2% increase in operating income to ¥13.1 billion. Sales of pharmaceutical chemicals rose because of an increase in shipments of new pharmaceutical intermediates, while sales of the adhesives raw material resorcinol remained firm. Meanwhile, in addition to the effects of a weak yen, continued cost reductions helped improve operating margin by 2.0% over the previous year.

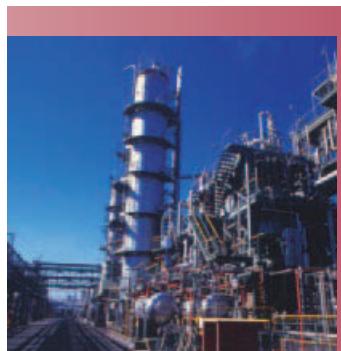
## Key Initiatives for FY2006 and Developments from FY2007 Onward

Resorcinol is one of the Fine Chemicals Sector's main products, and is used as raw materials in adhesives for tire cords and wood in architectural applications, and in flame retardants as well as ultra-violet absorbent materials. Sumitomo Chemical's resorcinol business possesses outstanding manufacturing technologies and boasts one of the largest-scale operations in the world, making it extremely cost-competitive, and we are strengthening our manufacturing and marketing capabilities to consolidate our position in this industry. Demand for resorcinol is strong, particularly in Asia, where booming growth in the automotive industry is anticipated to fuel a steady increase in demand going forward. In order to meet this growing demand, the Company plans to increase production capacity by

20% through debottlenecking of its Chiba Works during a periodical maintenance shutdown in autumn 2007. In addition, we are studying further production capacity increases to meet future increases in demand. Moreover, we are strengthening our marketing activities, particularly in Asia, in order to further enhance our global sales capabilities.

The Company's pharmaceutical chemicals business is ranked among the world's top companies in terms of sales, possessing cutting-edge quality assurance capabilities with a high level of GMP compliance and advanced organic synthesis and industrialization technologies. Leveraging these accumulated technologies and expertise, the Company aims to provide a stable supply of high-quality products at prices attractive to our customers, such as pharmaceutical companies, to meet their exact needs, thereby increasing our sales of pharmaceutical chemicals. In fiscal 2006, we upgraded our pharmaceutical chemicals quality assurance systems, and also implemented measures to expand our pharmaceutical chemicals manufacturing facilities and further improve product quality. We increased the number of advanced analytical instruments at our R&D facilities to enhance development capabilities for the manufacture of pharmaceutical chemicals. Going forward, the research, manufacturing and quality assurance departments will operate in concert to leverage technological strengths and unified quality assurance systems to contribute to the new drug development efforts of our customers in the pharmaceutical industry. Furthermore, we will increase the number of salespeople in Europe and America, and will construct and expand our GMP-compliant warehouses in these areas to build capabilities for prompt and stable logistics in order to strengthen our ability to serve major European and American pharmaceutical manufacturers.

Under our Three-Year Corporate Business Plan, the Company's basic principle for the Fine Chemicals Sector is to maintain a high rate of return on invested capital and secure stable high profitability. To this end, we aim to further strengthen the competitive position of our existing businesses in the global market and also develop new high-performance chemicals in growth fields. As mentioned above, expanding sales of resorcinol and enhancing our line of high-performance chemicals is expected to realize fiscal 2009 sales of ¥110.0 billion and an operating income of ¥15.0 billion, which represents an annual sales increase of 6.6% and an annual increase in operating income of 4.7% over the next three years.

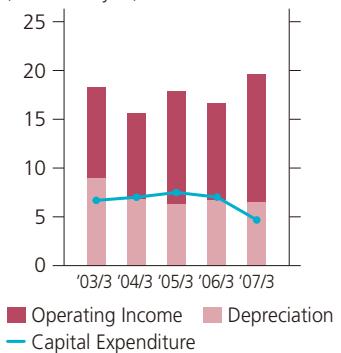


■ Resorcinol plant

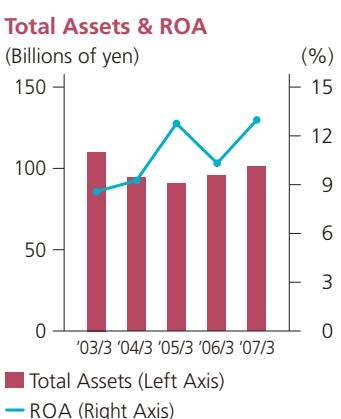


■ Pharmaceutical chemical products

#### Operating Income before Depreciation & Capital Expenditure (Billions of yen)



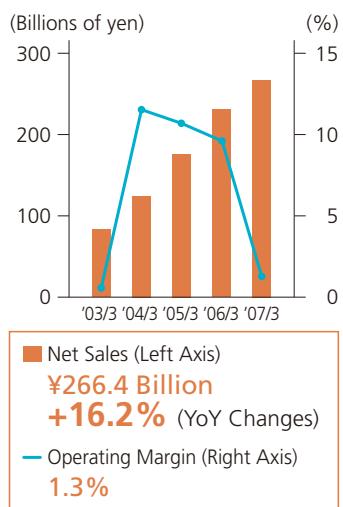
#### Total Assets & ROA (Billions of yen) (%)



# IT-related Chemicals

The IT-related Chemicals Sector is positioned as one of the areas for focused investment in the continuing selection and concentration of our businesses, and we are developing the business globally through aggressive R&D and capital investment. The Sector's main products are polarizing film, color filters and other liquid crystal display (LCD) materials, and we are continuing with the expansion of our manufacturing bases in East Asia, mainly in Korea, Taiwan and China, where LCD panel manufacturers are rapidly increasing their production. Other materials we manufacture include materials for LCD backlights such as light diffusion sheets and aluminum sputtering targets, LCD panel processing materials such as etchants, and pigment-dispersed resists for color filters. These products reflect our broad range of technological development capabilities and the synergies among the various technologies that we possess as a diversified chemical company and which enable us to develop a wide variety of products in the sphere of LCD-related materials. In addition to LCD-related materials, the Company also manufactures high-purity chemicals, photoresists and other semiconductor processing materials, advanced and light-weight super engineering plastics such as materials used in electronics parts and carbon fiber composites. We are also focusing our efforts on discovering opportunities for the development of new businesses, and are actively working to further develop our businesses in next-generation high-efficiency solar batteries and air cavity packages for semiconductors using liquid crystal polymers, which are expected to replace existing ceramic packages.

## Net Sales & Operating Margin



## FY2006 Business Performance

The IT-related Chemicals Sector in fiscal 2006 posted a 16.2% year-on-year increase in sales to ¥266.4 billion, while operating income decreased 84.1% to ¥3.5 billion. On the one hand, our production capacity expansions in Korea and elsewhere in response to an increased demand for LCD televisions increased polarizing film sales volumes and boosted the Sector's overall sales considerably. On the other hand, selling prices for polarizing film, color filters and other LCD-related materials fell further than expected, while fixed costs including depreciation costs for new facilities that came into operation during fiscal 2006 and trial production expenses increased, resulting in a significant decline in operating income compared with the previous year.

## Key Initiatives for FY2006 and Developments from FY2007 Onward

The IT-related Chemicals Sector positions its LCD-related materials business as its core business. To date, the Company has grown the business at a rapid pace by developing technologies that meet customers' needs, continuously improving quality assurance, and establishing production facilities locally to meet the booming demand in Korea, Taiwan and China. We are also establishing and expanding bases for marketing and technical services in these same locations, as well as strengthening new product development capabilities by increasing the number of personnel involved in developing prototypes of new

products in Japan and enhancing our quality assurance capabilities. According to projections by DisplaySearch, renowned for its market research in the flat panel display market, the market for large-screen LCDs will increase 1.8 times from 274.4 million units in 2006 to 491.8 million units in 2010, and of this, demand for LCD televisions during this period is expected to continue its high growth, increasing by a factor of 2.6 times. While our LCD materials business has achieved rapid growth in scale, it has been affected by rapid changes in the business climate such as the shift of the manufacturing base for small- and medium-size displays from Japan overseas and the large drop in selling prices for polarizing film and other materials that exceeded our forecasts.

In order to consolidate our position as the leading company in the area of LCD-related materials going forward, the Company will steadily implement all appropriate measures to establish a solid revenue base.

In our polarizing film business, which is expected to see a great deal of growth in the future, we have been working to meet the growing demand by implementing production capacity expansions at each of our manufacturing bases, and, going forward, will continue to expand capacity in pace with increasing market demand. Additionally, we are improving productivity by implementing such measures as chip-cutting from wider sheets of film to minimize waste and improving adhesives to increase the speed of the stretching process. Furthermore, in response to the large decrease in market prices, the Company is improving its profitability and competitiveness not only by raising productivity, but also by improving yields and implementing thorough rationalizations to reduce costs as well as adopting new materials jointly developed with raw materials manufacturers. We are also developing new high-performance, multi-function value-added materials to improve our profitability and strengthen our competitiveness. Moreover, we will meet our customers' requests in a timely manner by capitalizing on the strength of our production and marketing capabilities situated close to our customers and by enhancing the technical services we provide.

The Company also aims to expand its businesses in other LCD-related materials like light diffusion sheets and aluminum sputtering targets. Outside the LCD materials field, we also intend to strengthen our revenue base and expand our businesses in photoresists and etchants, pigment-dispersed resists, super engineering plastics and other products. Further, in addition to our bases of operation in Korea, Taiwan and China, we are working to get our operations in Poland on track, which will enable us to meet the needs of our customers who are expanding their production bases globally.

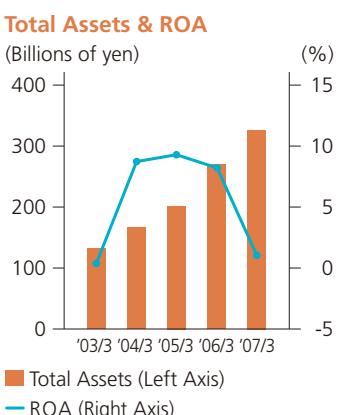
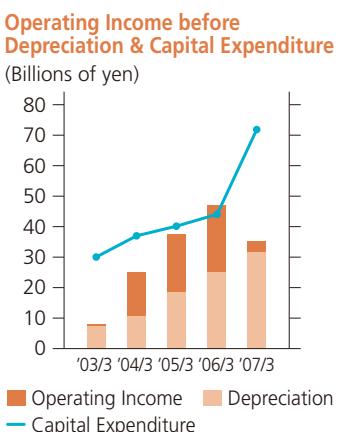
Under our Three-Year Corporate Business Plan, the basic principle for the IT-related Chemicals Sector is to establish a basis of stable high profitability supported by innovative technology. The Sector is targeting fiscal 2009 sales of ¥470.0 billion and an operating income of ¥40.0 billion, which represent an annual growth of 20.8% and 126.2% respectively.



■ Polyether Sulfone for all applications



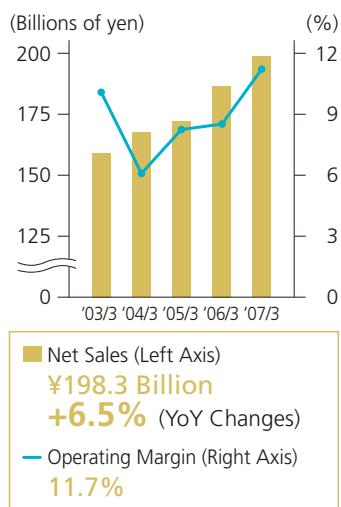
■ Photoresists



# Agricultural Chemicals

The Agricultural Chemicals Sector is one of the Company's most globalized Sectors, with more than half of its sales coming from its overseas operations. The Sector is composed of the Crop Protection Division, the Crop Protection Division – International, the Environmental Health Division, and the Animal Nutrition Division. The Crop Protection Divisions have been building a global sales network for such products as insecticides, fungicides, herbicides and plant growth regulators. They hold one of the largest shares of the market for agrochemicals in Japan and rank among the top ten players in the world. The Environmental Health Division engages in the development, manufacture and sale of household insecticides and various products for public health including the anti-malarial OLYSET® Net, a long lasting insecticidal net, and counts itself among the top makers in the world. The Animal Nutrition Division is one of the world's major makers of feed additives like DL-methionine, an amino acid feed additive used primarily in poultry farming, which it manufactures and markets mainly in Asia. The Sector places a great emphasis on R&D as the source of its long-term competitiveness to launch a continuous stream of unique products with a view to capturing one of the two top positions in niche markets or particular regions.

## Net Sales & Operating Margin



## FY2006 Business Performance

The Agricultural Chemicals Sector in fiscal 2006 achieved a 6.5% increase in sales to ¥198.3 billion and a 40.3% increase in operating income to ¥23.3 billion. The Sector expanded its sales of feed additives and household insecticides outside of Japan. Meanwhile, although shipments of herbicides increased outside of Japan, shipments declined in the Japanese market owing to inventory adjustments by customers. The effects of a weak yen as well as cost reduction measures contributed to a 2.8% improvement in operating margin.

## Key Initiatives for FY2006 and Developments from FY2007 Onward

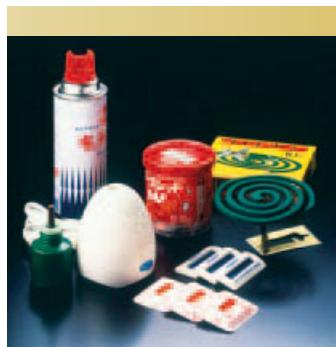
In the domestic crop protection market, the Company is increasing its market share and expanding its business fields through mergers and acquisitions as well as integrating operations to improve administrative efficiency. In addition, we are providing agricultural chemicals integrated with management support systems to begin proposing total solutions to farmers by expanding into downstream and peripheral industries. These measures should enable us to secure increased revenues while also improving the profitability of our businesses in Japan's challenging business climate.

In 2002, Sumitomo Chemical and Takeda Pharmaceutical Co., Ltd. formed the joint venture Sumitomo Chemical Takeda Agro Co., Ltd. with plans to complete the integration of the joint venture company into Sumitomo Chemical's operations in November 2007. We anticipate realizing further synergies from this merger going forward. In terms of providing total solutions, the Company aims to build win-win relationships with farmers to increase mutual profit-earning opportunities by providing services that go beyond the conventional sale of agrochemicals and farm materials to include advice on efficient methods of using agrochemicals and other products, the institution of cost-management for farmers and flavor analysis for quality-control of agricultural produce and other assistance to help the farmers who use our products to more efficiently raise high-quality, high value-added crops.

Meanwhile, in overseas markets, where competition with major multinational companies as well as generic manufacturers has been intensifying, the Company is capitalizing on its strengths by concentrating its efforts on high value-added markets in its aim to secure a top position in niche markets or specific regions. We are also aiming to distinguish ourselves from other major overseas agrochemical companies to achieve sustained growth by establishing our own unique business model and developing it globally while further strengthening our R&D activities. We are leveraging our product line to focus on the niche areas of insecticides, fungicides and plant growth regulators for fruits and vegetables, rather than on the market for cereals, which, though large, is occupied by highly competitive major companies. In addition, we aim to develop our own unique business model globally, developing our solutions business overseas and taking advantage of both our expertise in the overseas registration of agrochemicals and our global sales network in order to expand sales for the excellent products of domestic agrochemical makers outside of Japan.

In the Environmental Health Division, on the domestic front, Sumitomo Chemical established Sumika Enviro-Science Co., Ltd. to integrate the operations of its subsidiary Shinto Fine Co., Ltd., engaged in the manufacture and sale of wood preservatives and a biocide for industrial use, with those of YUKO Chemical Industries Co., Ltd. to strengthen its R&D, manufacturing and sales capabilities and improve administrative efficiency. The Company also increased production capacity for its OLYSET® mosquito nets for the prevention of malaria overseas in order to meet the increasing demand. In addition, the Company is working to meet the needs of the market by launching attractive new products. For example, insecticides such as EMINENCE® in Japan (or SUMI ONE® in overseas markets) and PI Wen Ling® (in China) are far more effective against mosquitoes than conventional insecticides. These new insecticides are expected to have new applications in a variety of household products that hold promise for further business expansion.

In the Animal Nutrition Division, the Company is focusing its efforts on its DL-methionine business, where, because of our integrated production facilities with all key raw materials manufactured on-site, we are able to achieve superior cost competitiveness. DL-Methionine is a feed additive primarily used in poultry farming, and is expected to see

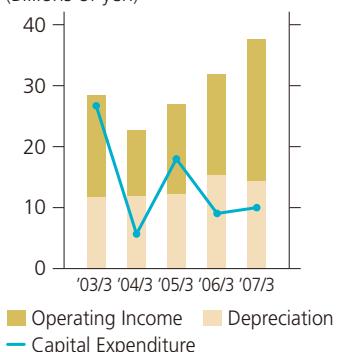


■ Household insecticides containing our products



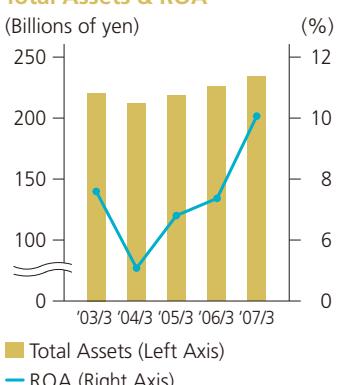
■ Crop protection products

#### Operating Income before Depreciation & Capital Expenditure (Billions of yen)



■ Operating Income   ■ Depreciation  
— Capital Expenditure

#### Total Assets & ROA



■ Total Assets (Left Axis)  
— ROA (Right Axis)

considerable demand growth, particularly in Asia, as developing nations prosper economically and their populations grow. In order to position itself as the top maker in Asia, where high growth is anticipated, the Company expanded its production capacity for DL-methionine considerably in 2005 from an annual 40 thousand tons to 70 thousand tons. In addition, the Company has enhanced its product line to offer not only conventional DL-methionine (powdered), but also Hydroxy Analog Methionine (liquid) as well in order to better meet the needs of its customers.

In response to the increasing presence of generic products and stricter regulations, and also to expand our operations to compete with major multinational companies, it is necessary to accelerate the development of new products to increase the proportion of sales they account for. Therefore, in the Company's crop protection business, in addition to the integration of Sumitomo Chemical Takeda Agro's operations and the strengthening of R&D activities, we will also license new products from other companies as well as developing new applications for our existing compounds and actively expanding the areas where our products are sold.

The basic principles for the Agricultural Chemicals Sector under our Three-Year Corporate Business Plan are to realize further returns on the strategic investments we have made to date and actively expand marketing of growth products to enlarge each business, establish a firm basis of profitability and extend our global reach. The Sector's targets for fiscal 2009, the final year of the Plan, are sales of ¥230.0 billion and operating income of ¥35.0 billion, representing an annual increase of 5.1% and 14.6% respectively.

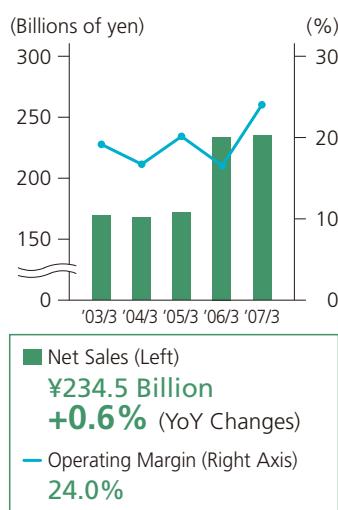
# Pharmaceuticals

Sumitomo Chemical's Pharmaceuticals Sector is centered on Dainippon Sumitomo Pharma's ethical pharmaceuticals business and Nihon Medi-Physics' radiopharmaceuticals business as well as these companies' related operations.

Dainippon Sumitomo Pharma (DSP) was formed in October 2005 from the merger of Sumitomo Pharmaceuticals and Dainippon Pharmaceutical with the aim of creating a pharmaceutical company with the capabilities to compete on a global scale, and currently boasts a position as Japan's 8th largest ethical pharmaceutical company in terms of sales. DSP possesses particular R&D strengths in the fields of diabetes and central nervous system (CNS), and is focusing its efforts on the development of new medicines in these areas. DSP's four main products are *Amlodin* (therapeutic agent for hypertension and angina pectoris), *Gasmotin* (gastropotokinetic agent), *Prorenal* (vasodilator), and *Meropen* (carbapenem antibiotic).

Nihon Medi-Physics specializes in the research & development, manufacture and supply of diagnostic radio-pharmaceuticals for the early detection of heart and brain diseases, as well as malignant tumors. It is the leading company in diagnostic nuclear medicine in Japan. In recent years, Nihon Medi-Physics has been focusing on the sale of diagnostic agents for positron emission tomography (PET), a procedure considered useful for the early diagnosis of diseases such as malignant tumors, as well as the sale of Iodine-125 radioactive seeds used in brachytherapy for the treatment of prostate cancer, a radiation treatment procedure where tiny Iodine-125 radioactive seeds that emit small amount of radiation are implanted into cancerous tissue.

## Net Sales & Operating Margin



## FY2006 Business Performance

The Pharmaceutical Sector in fiscal 2006 posted a 0.6% increase in sales over the previous year to ¥234.5 billion and a 46.9% increase in operating income to ¥56.2 billion. While the Sector's sales were impacted by NHI drug price reductions in April 2006 as well as the dissolution of its sales partnership with Abbott Laboratories, sales of its four main products, *Amlodin* (therapeutic agent for hypertension and angina pectoris), *Gasmotin* (gastropotokinetic agent), *Prorenal* (vasodilator) and *Meropen* (carbapenem antibiotic), remained favorable. In addition, cost synergies from the merger added 7.6% to the Sector's operating margin.

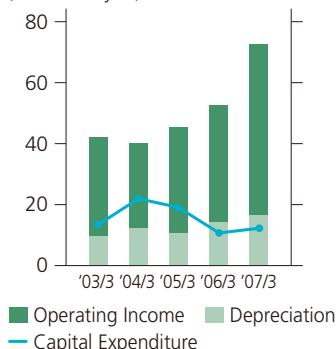
## Key Initiatives for FY2006 and Developments from FY2007 Onward

Under Dainippon Sumitomo Pharma's Mid-term Business Plan spanning the period from fiscal 2007 to 2009, DSP will develop and strengthen its business foundation in preparation for achieving its mid- to long-term vision and robust growth as a globally competitive research-driven company. In order to accomplish this, DSP will further the selection and concentration of its business while at the same time fundamentally strengthening its new drug development and sales capabilities to establish stable profitability and an efficient business organization.

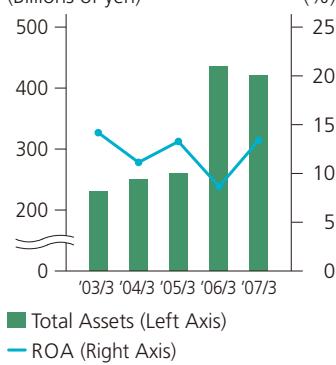
DSP has formulated the mainstays of its mid- to long-term vision for the company it aims to become in ten year's time: (1) Establish a solid foundation for domestic business, (2) Expand international business operations, and (3) Enrich the R&D product pipeline. Through the implementation of these basic principles, DSP envisions becoming a globally



#### Operating Income before Depreciation & Capital Expenditure (Billions of yen)



#### Total Assets & ROA (Billions of yen)



competitive research-driven company and developing new sources of profit overseas in addition to its existing domestic business over the next 15 years.

DSP's Mid-term Business Plan represents the first step toward attaining its mid- to long-term vision. Over the next three years, DSP will implement the following six basic principles in its business activities: (1) Strengthen domestic business foundation, (2) Strengthen R&D organization for a continuous flow of new pipeline products, (3) Prepare structures for international operations, (4) Strengthen strategic partnerships, (5) Continuously pursue more efficient management and a more profitable corporate structure, and (6) Establish a management unique to DSP.

During the next three years, DSP's sales force will concentrate on its four main products in order to strengthen the company's basis of profitability domestically, while also strengthening its new drug discovery capabilities in the areas of diabetes/cardiovascular system, the central nervous system (CNS), and inflammatory diseases/allergies, as well as strengthening its in-licensing activities. DSP is currently working on obtaining regulatory approval in the US and elsewhere overseas for lurasidone, an atypical antipsychotic for the treatment of schizophrenia. The company is planning to spend over ¥30.0 billion in strategic investment for future growth over the next three years, including the necessary Phase III clinical development expenditures for lurasidone. In addition, DSP's performance targets for fiscal 2009, the final year of its Mid-term Business Plan, are sales of ¥295.0 billion (¥233.0 billion in its Pharmaceuticals segment), an operating income of ¥50.0 billion, a net income of ¥30.0 billion, and R&D expenditures of ¥55.0 billion.

Nihon Medi-Physics is now manufacturing and distributing FDGScan Injectable (generic name: Fludeoxyglucose ( $^{18}\text{FDG}$ )) for PET (positron emission tomography) in Japan. PET is an innovative diagnostic imaging procedure that utilizes a tiny amount of radiopharmaceutical as a tracer, and is useful in the early diagnosis of diseases such as malignant tumors. By injecting the agent into a patient's body and taking an image of the agent accumulating in the targeted organ or lesion from outside the body, the PET procedure is able to provide vital diagnostic information about the condition of diseases. Conventionally,  $^{18}\text{FDG}$  for diagnostic use was prepared in-house by medical institutions and its use was limited to examinations conducted at those institutions. Because of the significant investment required for an institution to produce the diagnostic agent in-house, only a very few could offer PET procedures. Nihon Medi-Physics obtained approval from Japan's Ministry of Health, Labor and Welfare in July 2005 for the production of "FDGScan Injectable" as a radiopharmaceutical to be used in PET procedures, and in September 2005, the Ministry of Health, Labor and Welfare authorized the use of this agent in medical care covered under the National Health Insurance. This enabled a broader use of PET procedures with  $^{18}\text{FDG}$  at greater number of medical institutions nationwide. Because the radioisotope ( $^{18}\text{F}$ ) used in this radiopharmaceutical has an extremely short half-life of about 2 hours, Nihon Medi-Physics has established eight manufacturing facilities (nine including the company's co-development partner for the product) for the timely distribution to medical institutions in the surrounding areas. In addition, Nihon Medi-Physics established a ninth facility of its own in Kitakami City, Iwate Prefecture to supply medical institutions in the Tohoku region in the Northern part of Japan's main island. This nation-wide network of supply facilities will make PET diagnostics the new cornerstone of the company's core business of diagnostic nuclear medicine.

Through the above initiatives, the Pharmaceuticals Sector is working to achieve fiscal 2009 performance targets of ¥265.0 billion in sales and an operating income of ¥51.0 billion yen.

# Research and Development

## Sumitomo Chemical's R&D Structure and the Concepts behind it

Sumitomo Chemical conducts its R&D at six research laboratories in its business sectors as well as four corporate research laboratories. The R&D conducted at our business research laboratories helps maintain, strengthen, and expand business activities in each of our business sectors. Meanwhile, our corporate research laboratories engage in new organic synthesis research, industrial scale process development, and toxicology research as well as other work to discover and develop the new technologies and products that bear the Company's future. The corporate research laboratories also support the business research laboratories to commercialize new technologies.

This R&D structure best enables the Company to pursue its R&D under the concept of Creative Hybrid Chemistry. This concept aims to realize new chemical technologies through the integration of our core technologies accumulated over many years as a diversified chemical company in a broad range of fields, such as functional design of polymers, fine polymer processing, functional dyes & pigments, chiral synthesis, catalysts, control of crystalline structures, sintering, and biotechnology. Our efforts in these areas are responsible for the results we have achieved in optical functional films, heat-resistant battery separators, organic electroluminescence (EL) polymers (PLED), LCD color filters, and high-performance household insecticides, among others. To achieve future R&D advances under the concept of Creative Hybrid Chemistry, we will strengthen initiatives such as the conduct of our R&D according to a project system that brings together specialists from across every discipline within the Company. We will continue working to develop technologies for the manufacture of useful products that contribute to bettering the lives of people around the world.

In recent years, R&D has become increasingly competitive, and as can be plainly seen in the semiconductor and flat panel display industries, is tending to accelerate more and more intensely. Keys to establishing competitive advantages in R&D under this operating environment are the abilities, first, to specify and work on exploratory research subjects much earlier than others by anticipating the future, and secondly, to develop the results of our research into commercial technologies as soon as possible to manufacture products in large quantity efficiently and consistently that meet customers' quality requirements. Therefore, the Company makes constant efforts to anticipate the future direc-



■ Propylene oxide plant in Chiba using our proprietary propylene oxide-only process

tion of technological development while at the same time setting up pilot facilities for experimental commercial-scale production. To date, we have brought into operation pilot facilities with commercial scale production capabilities for inorganic materials and new polymers and are also close to the completion of a similar pilot production facility for fine processing of polymers. The completion of these facilities will enable the Company to provide its customers, in a shorter period of time than previously, with new products having high-performance and consistently high quality.

## R&D Strategy Under Our Three-Year Corporate Business Plan

Under our new Three-Year Corporate Business Plan, spanning the period from fiscal 2007 to fiscal 2009, we will continue to focus our R&D resources on the fields of IT-related materials, energy related materials, catalyst technology, and the life sciences. We will also strengthen our R&D efforts in new areas to pave the way for future growth. In addition, based on the concept of promoting CSR through the practice of Green Sustainable Chemistry, the corporate research laboratories work in concert with each business sector to strengthen our existing core technologies while also working to rapidly launch new businesses with a view to expanding into downstream industries.

The Company is placing a particular focus on the following R&D areas.

### Organic Electroluminescence Polymers

The Company positions materials for display components as one of its core businesses and continues to expand its business in materials for LCD displays. Meanwhile, we are working on the development of next-generation display materials, and have been putting a great deal of effort into the development of organic light emitting diode (OLED) materials, which show promise as materials for ultra-thin flat panel displays.

The special characteristics of OLED technology that gives it an advantage over liquid crystal display technology include (1) self-luminescence that renders a backlight unnecessary, (2) ultra-thinness and light weight, (3) superior contrast for higher resolution, (4) a wide angle of view, and (5) low energy consumption for environmentally friendly performance. There are two types of OLED technology; small molecule organic light emitting diode technology and polymer organic light emitting diode (PLED) technology. Small molecule organic LED technology has already been put to practical use in screens for mobile phones, and PLED technology is making rapid advances.

Sumitomo Chemical has been researching and developing PLED materials since 1989. In addition to the above advantages over small molecule organic LEDs that rely on the vacuum deposition method, PLEDs can be used to form the luminescent component of display screens with inkjet and other printing techniques using solutions, making it possible to achieve a lower cost production processes and the production of larger size screens.

In 2005, Sumitomo Chemical acquired Dow Chemical's PLED business and later the same year formed the joint venture SUMATION with the English company Cambridge Display Technology Ltd.



■ PLED Display (Note) Picture provided by CDT Ltd.

(CDT Ltd.). Combining the technologies of both Dow and CDT Ltd. with our own to realize synergies, we achieved remarkable strides in materials performance during 2006. In terms of useful lifetime, luminous efficiency, color purity and other performance characteristics, PLEDs have reached a level that rivals small molecule organic LEDs, which had been ahead in development, and we are close to developing practical applications for them.

PLED displays are expected to find increasing commercial application as the main screens for mobile phones and small size displays during 2008, and for large-screen high-definition televisions in 2009. They are expected to enter into widespread use in 2010. Anticipating this, Sumitomo Chemical is accelerating its development of these materials, and, even beyond that, we are looking to possible device production in the future while working in close collaboration with device makers in this field.

In addition, we are taking advantage of the special characteristics of PLEDs to develop applications in lighting and materials for printer heads. Furthermore, we plan to apply PLEDs to flexible displays in the future, and will focus our R&D efforts not only on luminescent materials, but also on materials for device peripherals and process development.

In July 2007, Sumitomo Chemical entered into an agreement with Cambridge Display Technology Inc. (CDT Inc.), a US holding company of CDT Ltd., to acquire CDT Inc. as a wholly owned subsidiary in order to strengthen and accelerate the Company's materials development to meet demand in the rapidly expanding market for PLEDs. The integration of the two companies' business resources will give rise to a group of researchers who will lead the world in the area of PLEDs, and this will enable Sumitomo Chemical both to improve the performance of light-emitting materials and OLED display-related materials and also to further accelerate the development of commercial technologies for the manufacture of OLED displays. Sumitomo Chemical aims to serve its customers as a total solutions provider to meet their diverse requirements from materials to processes. Moreover, the Company will step up its efforts toward the early commercialization of PLED displays, particularly large-screen, high-definition televisions, with a view to the possibility of alliances with display manufacturers.

### Materials for Lithium Ion Secondary Batteries

In recent years, the market for lithium ion secondary batteries requires small, lightweight batteries with long operating lives to power the latest high-performance laptop computers, mobile

phones and various digital devices. In addition, large-size batteries for electric cars are a typical example of applications being explored for lithium ion secondary batteries, which can be made smaller and lighter weight than conventional batteries. Therefore, high-performance lithium ion secondary batteries are expected to see a considerable increase in market demand going forward.

Lithium ion batteries are composed of a cathode (positive terminal), an anode (negative terminal), an electrolyte, and a separator to isolate them from one another, and Sumitomo Chemical has been developing materials for the cathode and separator (Pervio®). Our cathode materials were developed using our accumulated expertise in synthesis and inorganic compound crystal control technologies to achieve batteries with increased output and capacity. In addition, we have developed materials for the separator that achieve a significant increase in safety in the event of an abnormal exothermic reaction. The high performance of these materials in battery applications has been evaluated favorably by users, and the Company is accelerating the development of these materials to further improve their characteristics.

## Life Sciences

Sumitomo Chemical has long been conducting research aimed at early elucidation of the mechanism of toxicity at the genomic level. The Company was the first in the world to elucidate a new mechanism for the suppression of tissue fibrosis and is currently exploring targets for new drugs in the field. In our research on specific chemical substances causing inflammation leading to tissue fibrosis, we have confirmed the anti-fibrotic effects of IFN- $\gamma$  in clinical trials, and as a result of analyzing its action of collagen suppression, have discovered a new anti-fibrotic mechanism. Based on this knowledge, we have found a new candidate compound for the treatment of fibrosis called HSc025 that makes use of this mechanism. This compound exhibits effectiveness in animal models for scleroderma and pulmonary fibrosis, forms of fibrosis for which no effective drugs have existed before now in spite of ongoing efforts to discover treatments. In addition, HSc025 shows remarkable effectiveness in animal models for hepatic cirrhosis, suffered by some 200 thousand patients in Japan. Furthermore, pharmacokinetics and toxicity tests have made it clear that use of the compound is quite safe.

The Company plans to collaborate in the development of HSc025 with other companies or actively pursue out-licensing. We will also take advantage of this experience as an opportunity to further advance our drug discovery deriving from our toxicology research efforts in order to contribute to a healthier society.

## Catalyst Technology

Sumitomo Chemical has focused on developing cost-competitive production processes, leveraging its accumulated expertise in catalysts and process design technologies. At the same time, we also focus on green, sustainable chemistry (GSC) that exerts the least possible impact on the environment.

The Company developed its proprietary propylene oxide-only process, an energy-saving process to produce propylene oxide, the raw material for polyurethane and other products, without generating any by-products or co-products, and completed a new plant that utilizes this process in fiscal 2002. This process has an advantage over conventional processes because it does not co-produce styrene monomer and therefore profitability is not dependent on the market demand for this co-product. Sumitomo Chemical also developed and commercialized its proprietary vapor-phase Beckmann rearrangement technology, an efficient process for producing caprolactam, the raw material for nylon, that does not produce the ammonium sulfate generated in large quantities by the conventional process, and thus allows elimination of the additional facilities conventionally needed to recover that by-product. This enables the Company to produce highly cost-competitive caprolactam.

Such processes are not only economical, but are also outstanding from the perspective of Green Sustainable Chemistry. The Company won the Chemistry Society of Japan's (CSJ) 53rd Award for Technical Development in 2005 for our vapor-phase Beckmann rearrangement caprolactam process on the merit of its not co-producing ammonium sulphate. In 2006, the Company won the 54th CSJ Award for Technical Development for our PO-only process on the merit of its not generating chlorinated waste byproducts.

The Company has been placing an increasing emphasis on its Responsible Care (RC) endeavors in recent years, and from this perspective, will work to further promote activities based on the principle of green, sustainable chemistry and will also strive to achieve the goal of zero-emissions processes.

The fundamental innovations in processes for the manufacture of commodity chemicals, such as the award-winning processes mentioned above, are, in large part, due to the Company's proprietary catalysis technologies developed in-house. We continue to strive to further develop new catalysts in our aim to achieve the greatest possible advances in process innovation to minimize environmental impact and maximize cost-competitiveness.

# Corporate Social Responsibility (CSR)

## **Sumitomo Chemical's progress from environmental protection to CSR**

Sumitomo Chemical's business dates back to 1913, when the Company sought to solve the problem of sulfur dioxide emissions from smelting operations at the Besshi Copper Mine in the Shikoku region of Japan. The Company got its beginnings producing sulfuric acid and calcium super phosphate fertilizers using the emitted sulfur dioxide. 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 as it makes further strides in its growth as a global company. In November 2004, Sumitomo Chemical defined its Basic CSR Policy (see below) based on our business philosophy, management principles and charter for business conduct, and we will continue to base our initiatives on this policy.

In our Three-Year Corporate Business Plan spanning the period from fiscal 2007 to 2009, we have identified six areas in which to focus on specific initiatives. One of these is the promotion of rigorous compliance and CSR. Sumitomo Chemical will continue to promote and strengthen a CSR management that will contribute to society with products and services created through the practice of Sustainable Chemistry.

## **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.

## Topics in Fiscal 2006

### *Sumitomo Chemical Chosen as Recipient of the "2006 PRTR Grand Prize" for Proper Management of Chemical Substances*

In February 2007, Sumitomo Chemical was awarded the "PRTR Grand Prize" sponsored by Japan's Center for Environmental Information Science (CEIS) under the auspices of the Ministry of Economy, Trade and Industry and the Ministry of the Environment and other organizations. The company is the first leading chemical company to win this prize.

CEIS established the Awards Program for Chemical Management and Risk Communication to publicly honor companies that support promotion of the PRTR system, take the initiative in implementing chemical substances management, and are proactive in keeping the public informed through communications activities. This year is the third time CEIS has awarded the prize.

Sumitomo Chemical was awarded the Grand Prize, meriting the following high praise from CEIS: "The whole company pulls together to practice rigorous risk-based chemical substances management, the formulation of specific action plans and their practice. Additionally, all the company's plants demonstrate creativity and independence in line with regional characteristics and other factors in their active promotion of multi-faceted risk communication activities."

### *Aiming for Greater Safety in the Workplace*

Sumitomo Chemical has been implementing experiential training for fire and explosion hazards for certain members of the operating staff of its Ehime Works. Beginning in January 2007, we innovated this training to start anew our Experiential Fire and Explosion Training. This training targets technicians key to the manufacturing and research departments throughout the Company, combining preparatory study of the Company guidelines, training (experiential training and schooling) along with the submission of follow-up reports to impart learning by experience. The objective of this training is to prevent the occurrence of accidents and various other problems by educating employees to master the Company's internal disaster-prevention guidelines, while at the same time cultivating the abilities to discover and respond to latent hazards. This experiential training consists of 12 items, including intermixture hazards, static electricity, gas and dust explosions, ignition



■ Experimental training for dust explosions

combustibility, thermal stability and other items selected from a broad range of safety issues. Development of instructional materials for experiential training and schooling is undertaken by the Safety Engineering Laboratory at our Process and Production Technology Center, and this development is based on the technologies actually in use at Sumitomo Chemical.

### *Helping Promote Health and Education in Africa*

As part of Sumitomo Chemical's social contribution activities over the past several years, we have been strengthening our activities to help eliminate poverty through initiatives in Africa for the prevention of malaria and other infectious diseases and providing support for education. Every year, malaria infects over 300 million people and more than one million of them die from the disease. Unlike AIDS, which primarily affects adults, 90% of malaria victims are children under 5 years of age. The Sub-Saharan region, South of the Sahara Desert on the African continent, is where the majority of fatalities from malaria are concentrated, and this area is also a region suffering from the world's most extreme poverty. In this region, poverty hinders adequate prevention and treatment of malaria, and the disease spreads further, resulting in an increase in long-term absences from school or work and causing the region's economy to stagnate.

Furthermore, because malaria raises the child mortality rate, women must bear more children to replace the ones who do not survive, raising the birth rate, and because children must often work to help support the household, they are not able to receive an adequate education. Thus, poverty and malaria as well as inadequate education are inextricably linked, forming a vicious cycle.



■ OLYSET® Net plant in Tanzania

One of the earliest opportunities for Sumitomo Chemical to begin its initiatives to eradicate malaria in Africa was our participation in the Roll Back Malaria campaign started by the WHO in 1998. Sumitomo Chemical developed the anti-malarial OLYSET® mosquito net by combining our household insecticide and synthetic resin technologies to impregnate the fibers from which the net is woven with insecticide. Because the insecticide comes to the surface of the net fibers gradually over time, the net retains its insecticidal efficacy even after repeated washings. This is the net's most attractive feature, and our OLYSET® Net was approved by the WHO as a Long-Lasting Insecticidal Net (LLIN) in 2001, better enabling the Company to contribute to the prevention of malaria.

In order to meet the increasing demand for our OLYSET® Net, we provided our production technology free of charge to a mosquito net manufacturer in Tanzania to establish local production capabilities, which has also helped create employment opportunities. In addition, Sumitomo Chemical has been returning a portion of the revenues from our OLYSET® Net business to African communities by supporting education in Africa in collaboration with the NPO World Vision Japan. To date, the Company has been involved in 6 projects in 4 countries to build school buildings and residences for teachers, and is currently constructing school buildings in Ethiopia. In addition, beginning in April 2006, we started donating our mosquito nets to the US NPO

Millennium Promise, which aims for the elimination of extreme poverty, and in fiscal 2006 we provided 330 thousand OLYSET® Nets. Our support for Africa's independent development through our OLYSET® Net has been broadly recognized. In October 2006, the Asahi Shimbun, Japan's second most widely circulated newspaper, awarded Sumitomo Chemical its third annual Asahi Corporate Citizen Award. Also, in October 2006, The Tech Museum of Innovation in San Jose, California, in the heart of Silicon Valley, selected Sumitomo Chemical as a Prize Laureate for its 2006 Tech Museum Award in the category of health for our OLYSET® Net as a technology that contributes to solving the problems humanity faces and brings sustainable benefit.



■ Magadani primary school in Tanzania

# Corporate Governance

Sumitomo Chemical realizes that serving the interests of shareholders and other stakeholders in the midst of changing social and economic conditions is the very foundation of corporate governance, and we have endeavored to improve our approaches to this end.

To further bolster these efforts, we will expedite decision-making, define more clearly executive officers' responsibilities pertaining to the execution of duties, enhance and strengthen the compliance system and internal audits, and promote timely disclosure of information.

## ***Management Structure***

The Company's management structure currently consists of 9 board members and 29 executive officers, 9 of whom serve in dual capacity as board members. The Board of Directors makes decisions regarding important managerial matters in accordance with the law and the articles of incorporation as well as regulations concerning the Board, and also oversees and supervises the discharge of duties by each individual director. The executive officers carry out business operations in accordance with the management strategy determined by the Board.

There are five corporate auditors, three of whom are from outside the Company.

## ***Internal Auditing Structure***

Internal auditing is conducted by an Internal Audit Department that functions independently of the Company's operating departments. The Internal Audit Department audits the Sumitomo Chemical Group 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. A Group Internal Auditing Committee has been established to improve the effectiveness and efficiency of internal auditing of Group companies.

The Responsible Care Office conducts Responsible Care Auditing for all matters concerning the environment, safety, and product quality.

## ***Timely Disclosure***

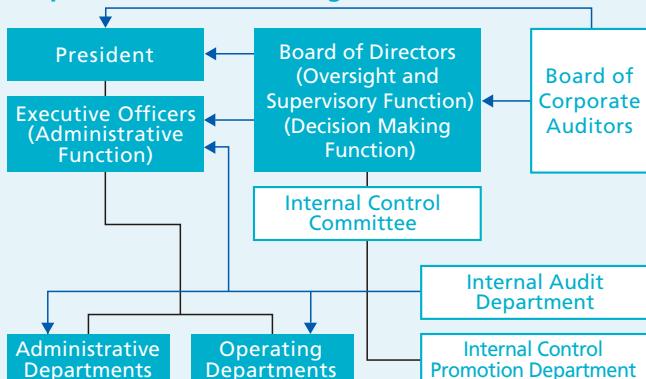
The Company will continually provide fair and honest information and disclose the information necessary for the investment decisions of shareholders and institutional investors in a timely manner through the Corporate Communications Department, and will also strengthen and promote good relations with our investors.

## ***Defining Basic Policy to Enhance our Internal Control System***

The May 2006 meeting of the Board of Directors determined basic policy in compliance with regulations under Corporate Law to define our Internal Control System in order to enhance mechanisms for ensuring that business is conducted in a proper and appropriate manner. In accordance with this basic policy, the Internal Control Committee was established in May 2007 to structure the internal control systems for Sumitomo Chemical as well as the Sumitomo Chemical Group to ensure that duties are executed in an appropriate manner and to continually review and update the system in response to changing conditions. This committee is administrated by secretariats in the Internal Control Promotion Department established in April 2007. The purpose of establishing the Internal Control Promotion Department is to propose and promote various measures to enhance the Company's internal control system.

We consider the preparation of our internal control system a necessary process for maintaining a sound organization, and believe this system should be actively utilized for the achievement of business objectives. We will work to maintain and improve this system in the future.

## ***Corporate Governance Organization***



# Compliance

Sumitomo Chemical is committed to promoting compliance-based management through the observance of laws, regulations, and Company rules by all Company employees and executive officers 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.

All of Sumitomo Chemical's consolidated subsidiaries and affiliates both in Japan and overseas are also required to adopt comparable compliance programs, reflecting the laws and regulations of the country in which it operates.

## *Sumitomo Chemical Charter for Business Conduct*

At Sumitomo Chemical, we believe it is our social obligation to conduct business ethically and lawfully throughout our worldwide 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 oversees and supports the effective implementation of compliance-based management. It is the Committee's role and duty to investigate and supervise legal and ethical compliance throughout the Company and recommend improvements as necessary.

### **Compliance Committee Organization**



### **Speak Up System**

We have in place a "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 may report either to the Compliance Committee or to an outside attorney retained by the Company. In either case, the actual investigation is carried out by the Compliance Committee, while reporting to an outside attorney allows the informant's name to be withheld from the Compliance Committee.

Informants are not granted immunity against disciplinary action if they have also been involved in the illegal or unethical conduct being reported, but they do not risk dismissal, transfer, or discrimination for simply reporting incidents.

The "Speak Up System" promises to serve as an effective tool to prevent illegal or unethical practices and to promote self-regulation through the rapid identification and rectification of any such acts.

## **Sumitomo Chemical Charter for Business Conduct**

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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.

# Board of Directors & Corporate Auditors

(As of June 22, 2007)



**Hiromasa Yonekura**  
President



**Satoshi Kawachi**  
Executive Vice President



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



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



**Masashi Araki**  
Director & Senior Managing Executive Officer



**Osamu Ishitobi**  
Director & Senior Managing Executive Officer



**Naoya Kanda**  
Director & Senior Managing Executive Officer



**Yasuo Kamei**  
Director & Senior Managing Executive Officer



**Hiroshi Hirose**  
Director & Senior Managing Executive Officer

## Board of Directors

### President

Hiromasa Yonekura

### Executive Vice President

Satoshi Kawachi

Technology, Research & Development,  
Intellectual Property, Responsible Care,  
Procurement & Logistics

### Director & Senior Managing Executive Officer

Shigehiro Oba

Agricultural Chemicals Sector

Hideaki Watanabe

Basic Chemicals Sector

Masashi Araki

Fine Chemicals Sector

Osamu Ishitobi

Rabigh Project

Naoya Kanda

IT-related Chemicals Sector

Yasuo Kamei

Petrochemicals & Plastics Sector

Hiroshi Hirose

Internal Control Promotion,  
Corporate Communications,  
Finance & Accounting, Internal Audit

## Executive Officers

### Managing Executive Officer

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

Yoshitsugu Sakamoto

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

Yoshimasa Takao

General Affairs Dept., Secretarial Dept.,  
Human Resources Dept., Procurement &  
Logistics Office

Masakazu Tokura

IT-related Chemicals Sector - Planning &  
Coordination Office /  
Quality Assurance Office

Yusuke Ueda

Legal Dept., Intellectual Property Dept.

Kenjiro Fukubayashi

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

### Executive Officer

Takatoshi Suzuki

Rabigh Refining and Petrochemical Co.,  
Rabigh Project Office

Shigenori Tsuda

Agricultural Chemicals Sector -  
Environmental Health Div.

Yoshihiko Okamoto

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

Kenichi Hatano

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

Makoto Hara

Corporate Planning & Coordination Office  
(Corporate Planning), New Business  
Development Office

Toshiki Matsumura

Rabigh Refining and Petrochemical Co.

Yoshitaka Izumi

Basic Chemicals Sector - Planning &  
Coordination Office / Methacrylates Div. /  
Aluminum Div.

Toshihisa Deguchi

IT-related Chemicals Sector - Optical  
Materials Div. / Color-Filter Div.

Minou Uemura

Fine Chemicals Sector - Planning &  
Coordination Office / Quality Assurance  
Office

Ryuhei Tamamura

Secretarial Dept., General Affairs Dept.

Shigeyuki Yoneda

Rabigh Refining and Petrochemical Co.,  
Rabigh Project Office

Kunio Nozaki

Finance & Accounting Office

Hisashi Shimoda

Corporate Communications Dept.

## Corporate Auditors

Hiroaki Ninomiya

Standing Corporate Auditor

Itsuhide Yamano

Standing Corporate Auditor

Hiroshi Hayasaki

Corporate Auditor

Yoji Arakawa

Corporate Auditor

Toshiomi Uragami

Corporate Auditor

# Financial Section

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# Consolidated Financial Summary

Sumitomo Chemical Company, Limited and Subsidiaries

Years ended March 31	Billions of yen (unless otherwise specified)			
	1997	1998	1999	2000
<b>For the year:</b>				
Sales by business segment:				
Basic Chemicals .....	¥ 179.9	¥ 189.8	¥ 157.5	¥ 172.0
Petrochemicals & Plastics .....	325.8	339.6	305.6	331.8
Fine Chemicals .....	160.8	133.5	96.7	90.6
IT-related Chemicals .....	45.9	52.7	46.6	62.1
Agricultural Chemicals .....	109.5	120.8	120.8	106.1
Pharmaceuticals .....	156.9	155.3	149.1	143.1
Others .....	32.8	28.6	51.4	44.6
Net sales .....	1,011.6	1,020.3	927.7	950.3
Overseas operations .....	203.8	238.2	232.1	227.5
Operating income (loss) by business segment:				
Basic Chemicals .....	5.0	6.5	2.7	3.3
Petrochemicals & Plastics .....	9.2	10.2	11.1	10.4
Fine Chemicals .....	7.1	13.4	7.3	7.2
IT-related Chemicals .....	(3.4)	0.8	(8.6)	(5.0)
Agricultural Chemicals .....	24.5	25.7	27.7	18.9
Pharmaceuticals .....	13.1	15.5	15.5	30.8
Others .....	5.6	3.6	3.2	4.5
Elimination .....	1.7	(0.7)	0.4	0.0
Operating income .....	62.8	75.0	59.3	70.1
Net interest expense .....	(12.6)	(11.6)	(9.5)	(8.7)
Equity in earnings of affiliates .....	6.4	8.2	1.6	6.0
Income before income taxes and minority interests .....	54.4	45.9	36.3	32.0
Net income .....	21.5	22.1	20.1	18.4
Capital expenditures .....	72.0	82.9	67.6	81.6
Depreciation and amortization .....	62.4	58.4	68.4	75.4
Research and development expenses .....	54.9	54.9	59.5	59.3
Net cash provided by operating activities .....	—	—	—	156.3
Net cash used in investing activities .....	—	—	—	(49.5)
Net cash used in financing activities .....	—	—	—	(62.2)
<b>At year-end:</b>				
Total current assets .....	624.8	630.7	591.8	584.4
Net property, plant and equipment .....	493.5	475.6	428.1	409.7
Investments and other non-current assets .....	235.1	261.9	266.7	272.7
Total assets .....	1,358.2	1,375.9	1,310.9	1,322.4
Total shareholders' equity / Net assets*	282.7	296.7	325.1	345.0
Interest-bearing liabilities .....	615.5	623.6	585.1	530.5
Number of employees .....	16,262	15,918	15,778	17,474
Number of consolidated subsidiaries .....	62	64	67	92
Number of shareholders .....	147,300	144,381	140,257	134,705
<b>Per share (yen):</b>				
Net income .....	13.24	13.64	12.41	11.33
Total shareholders' equity .....	174.35	182.93	200.49	210.97
Cash dividends .....	5.0	5.0	5.0	5.0

\* As of May 1, 2006, the Companies adopted ASBJ statement No.5, *Accounting Standard for Presentation of Net Assets in the Balance Sheet*, and ASBJ Guidance No.8, *Implementation Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet*, which require the Companies to divide the balance sheet into sections on assets, liabilities and net assets and certain accounts, such as minority interest, are reclassified to net assets.

Billions of yen (unless otherwise specified)

	2001	2002	2003	2004	2005	2006	2007
¥	182.8	¥ 175.2	¥ 194.4	¥ 199.1	¥ 225.8	¥ 252.4	¥ 314.0
	375.5	338.9	371.6	362.4	412.6	486.1	539.1
	91.7	80.2	83.9	80.6	84.1	79.0	90.9
	60.2	59.8	82.5	123.5	174.8	229.2	266.4
	122.2	135.4	158.7	167.1	171.6	186.2	198.3
	156.7	174.0	168.4	166.6	170.7	233.1	234.5
	51.9	54.9	51.6	59.1	56.7	90.6	146.8
	1,041.0	1,018.4	1,111.1	1,158.4	1,296.3	1,556.6	1,790.0
	276.5	287.2	327.4	364.1	486.2	611.0	747.8
	5.0	3.5	5.7	2.6	5.2	10.0	13.5
	7.4	(0.4)	5.0	(1.6)	15.0	17.9	23.6
	6.5	8.9	9.3	8.8	11.5	9.8	13.1
	3.1	(6.3)	0.5	14.3	18.7	21.7	3.5
	19.5	17.9	16.7	10.7	14.8	16.6	23.3
	38.8	42.0	32.3	27.8	34.4	38.3	56.2
	4.4	3.3	4.2	4.9	5.7	5.8	8.0
	0.0	(0.1)	(0.2)	(0.9)	(0.1)	0.7	(1.5)
	84.7	68.8	73.5	66.6	105.2	120.8	139.6
	(8.5)	(7.4)	(5.3)	(2.9)	(3.0)	(2.2)	(3.9)
	11.0	6.7	2.6	8.6	26.7	26.8	23.6
	64.4	57.8	63.2	72.3	121.7	158.6	181.1
	34.1	30.2	31.1	34.3	64.5	90.7	93.9
	62.1	73.0	152.0	110.2	125.8	124.9	159.8
	64.6	79.2	69.0	82.5	88.2	104.9	113.9
	59.1	66.7	72.8	75.2	78.2	91.9	97.7
	94.7	62.9	141.7	97.1	159.8	122.8	142.9
	(54.9)	(57.2)	(129.2)	(103.2)	(118.0)	(180.7)	(164.2)
	(62.6)	(8.8)	(5.2)	(9.3)	(31.2)	70.6	35.6
	596.5	595.7	634.8	628.3	694.6	946.6	995.9
	400.7	401.7	465.6	481.9	515.9	570.3	623.5
	406.4	342.7	307.0	373.1	377.9	600.4	651.9
	1,455.4	1,393.2	1,484.3	1,549.3	1,648.8	2,178.4	2,324.9
	451.8	444.6	444.3	506.1	569.6	719.8	1,030.5
	474.2	487.3	485.2	485.3	470.7	578.6	641.0
	17,392	17,016	17,906	19,036	20,195	24,160	24,691
	98	102	110	110	104	105	105
	129,835	130,176	124,281	125,463	121,349	116,509	115,249
	20.76	18.25	18.74	20.72	38.94	54.80	56.82
	272.91	268.57	268.62	306.05	344.58	435.51	479.87
	6.0	6.0	6.0	6.0	8.0	10.0	12.0

# Financial Review

## 1. Results of Operations

### (1) Net Sales and Operating Income

Net sales in the fiscal year ended March 31, 2007 totaled ¥1,790.0 billion (US\$15,163 million), a 15.0% increase from ¥1,556.6 billion for the previous fiscal year. Thanks to improved market conditions, sales in the Basic Chemicals segment and the Petrochemicals & Plastics segment increased, while sales in the IT-related Chemicals segment rose as a result of production capacity expansions.

Cost of sales was ¥1,338.1 billion (US\$11,335 million) compared with ¥1,138.5 billion for the previous fiscal year. The ratio of cost of sales was 74.8%, 1.7% higher than the previous fiscal year. Selling, general and administrative expenses were ¥312.3 billion (US\$2,645 million), a 5.0% increase from the previous fiscal year. The merger of Sumitomo Pharmaceuticals Co., Ltd. and Dainippon Pharmaceutical Co., Ltd. was a primary factor of increases in both cost of sales and selling, general and administrative expenses.

Research and development expenses for the fiscal year ended March 31, 2007, were ¥97.7 billion (US\$828 million), 6.4% higher than the previous fiscal year's ¥91.9 billion, due mainly to the merger of Sumitomo Pharmaceuticals Co., Ltd. and Dainippon Pharmaceutical Co., Ltd. Annual depreciation and amortization expenses were ¥113.9 billion (US\$965 million), an increase of 8.5% compared with the previous fiscal year's ¥104.9 billion.

Operating income amounted to ¥139.6 billion (US\$1,183 million), a 15.6% increase from ¥120.8 billion for the previous fiscal year. The ratio of operating income to net sales was 7.8%, the same as the previous fiscal year.

### (2) Non-Operating Expenses and Net Income

Interest expenses, net of interest and dividend income, were ¥3.9 billion (US\$33 million), a 75.6% increase compared with ¥2.2 billion for the previous fiscal year. Equity in earnings of affiliates decreased by 11.9% to ¥23.6 billion (US\$200 million) because primarily of a loss incurred by Raigh Refining and Petrochemical Company and a decline in net income of Petrochemical Corporation of Singapore (Pte) Ltd.

The Company recorded net gain on sale of securities of ¥31.1 billion (US\$263 million) as a result of selling shares in GlaxoSmithKline K.K. and disposing of inactive property, plant and equipment involving restructuring charges of ¥6.4 billion (US\$54 million). The Company also recorded expenses related to litigation of ¥1.0 billion (US\$9 million) and loss on reform of retirement benefits plan of ¥0.6 billion (US\$5 million) incurred by Dainippon Sumitomo Pharma Co., Ltd.

As a result, income before income taxes and minority interests for the fiscal year ended March 31, 2007 was ¥181.1 billion (US\$1,534 million). Income taxes for the fiscal year ended March 31, 2007 were ¥65.9 billion (US\$558 million).

Net income for the fiscal year ended March 31, 2007 was ¥93.9 billion (US\$ 795 million), a 3.5% increase from ¥90.7 billion for the previous fiscal year. Return on Equity (ROE) was 12.4%, down 1.7 percentage points from the previous fiscal year's 14.1%. Net income per share, based on the weighted average number of shares outstanding during the fiscal year ended March 31, 2007 was ¥56.824 (US\$0.481), compared with ¥54.796 for the previous fiscal year.

### (3) Dividends

The Company paid year-end dividends of ¥7 per share, making the annual dividends ¥12 per share for the fiscal year ended March 31, 2007, which were higher by ¥2 per share than the previous fiscal year.

## 2. Segment Information

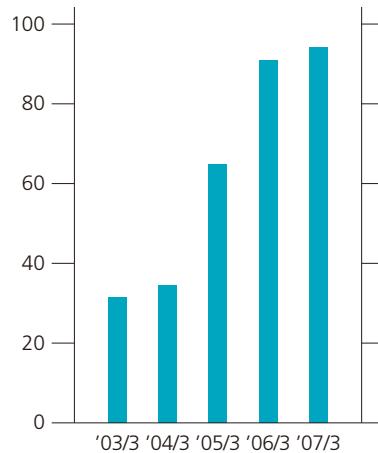
### (1) Basic Chemicals

Sales in the Basic Chemicals segment increased by 24.4% over last year to ¥314.0 billion (US\$2,660 million). The increase was due to a substantial increase in sales of aluminum because of a rise in the market price compared with last year. Also production capacity expansions for both methyl methacrylate (MMA) and caprolactam, the raw material for synthetic fibers, contributed to the sales growth.

As a result, operating income in the Basic Chemicals segment increased by 34.9% over the previous year to ¥13.5 billion (US\$114 million).

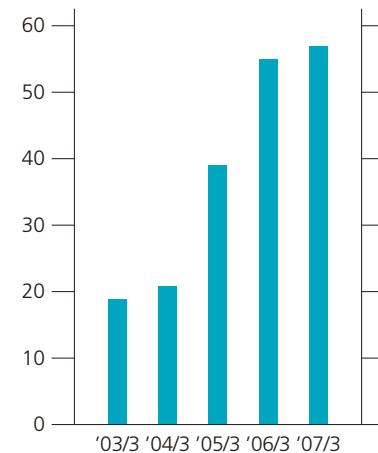
### Net Income

(Billions of yen)



### Net Income per Share

(Yen)



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

## (2) Petrochemicals & Plastics

Petrochemicals & Plastics segment saw sales rise by 10.9% over last year to ¥539.1 billion (US\$4,566 million). Sales of styrene monomer and other petrochemicals increased on the back of favorable market conditions that supported price increases taken in response to the rising prices of feedstocks such as naphtha. Firm sales of synthetic resins also contributed to the segment's improved year-on-year performance.

As a result, operating income in Petrochemicals & Plastics segment increased by 31.7% year on year to ¥23.6 billion (US\$200 million).

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

## (3) Fine Chemicals

Sales in the Fine Chemicals segment increased by 15.0% to ¥90.9 billion (US\$770 million). The increase was due to favorable sales of adhesives raw materials driven by firm demand as well as increased sales of pharmaceutical chemicals thanks to an increase in shipments of pharmaceutical intermediates.

As a result, operating income in the Fine Chemicals segment increased by 33.2% to ¥13.1 billion (US\$111 million).

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

## (4) IT-related Chemicals

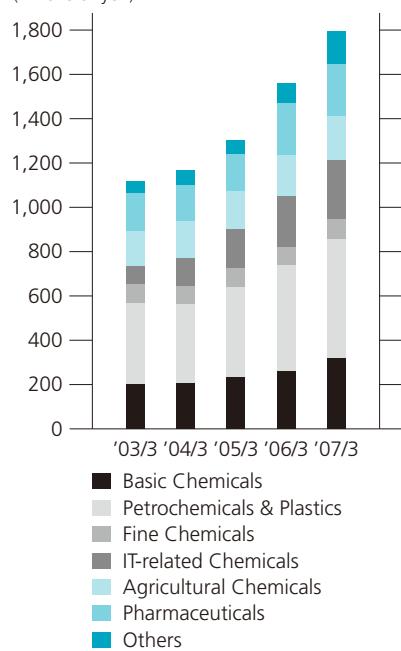
Although sales prices for optical materials fell, total sales in the IT-related Chemicals segment increased by 16.2% over last year to ¥266.4 billion (US\$2,257 million) as a result of capacity expansions in Korea etc, for polarizing films, a primary material for liquid crystal displays.

Operating income in the IT-related Chemicals segment declined by 84.1% year on year to ¥3.5 billion because of decreasing selling prices as well as increases in depreciation and various fixed costs (US\$29 million).

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

## Breakdown of Sales by Business Segment

(Billions of yen)



## Industry Segment Results

Fiscal years ended March 31, 2007 and 2006

Segment information by product group	Millions of yen									
	Basic Chemicals	Petrochemicals	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Others	Adjustments & Elimination	Consolidated	
<b>Year ended March 31, 2007</b>										
Sales to unaffiliated customers .....	¥314,004	¥539,065	¥90,882	¥266,436	¥198,310	¥234,546	¥146,783		¥1,790,026	
Operating income .....	13,483	23,596	13,085	3,457	23,251	56,231	8,012	(1,492)	139,623	
Operating income ratio .....	4.3%	4.4%	14.4%	1.3%	11.7%	24.0%	5.5%		7.8%	
Operating income growth (decrease) ..	34.9%	31.7%	33.2%	(84.1)%	40.3%	46.9%	39.0%		15.6%	
<b>Year ended March 31, 2006</b>										
Sales to unaffiliated customers .....	¥252,399	¥486,054	¥79,011	¥229,240	¥186,232	¥233,101	¥90,569		¥1,556,606	
Operating income.....	9,994	17,918	9,826	21,704	16,578	38,286	5,762	722	120,790	
Operating income ratio.....	4.0%	3.7%	12.4%	9.5%	8.9%	16.4%	6.4%		7.8%	
Operating income growth (decrease) ..	91.7%	19.5%	(14.9)%	15.8%	11.8%	11.2%	1.0%		14.8%	

## (5) Agricultural Chemicals

Sales in the Agricultural Chemicals segment increased by 6.5% over last year to ¥198.3 billion (US\$1,680 million). Feed additives and household insecticides saw increases in overseas sales owing to active marketing drives. Production capacity expansion enabled an increase in OLYSET® Net shipments. Sales of agrochemicals declined because of weak demand in the Japanese market, while overseas sales of herbicides remained firm thanks to solid shipments.

Consequently, in the Agricultural Chemicals segment, operating income increased by 40.3% to ¥23.3 billion (US\$197 million).

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.

## (6) Pharmaceuticals

Sales in the Pharmaceuticals segment increased by 0.6% over the previous year to ¥234.5 billion (US\$1,987 million). In spite of NHI drug price reduction in April of last year, sales of Dainippon Sumitomo Pharma Co., Ltd.'s four main products, Amlodin (therapeutic agent for hypertension and angina), Gasmotin (gastroprokinetic), Meropen (carbapenem antibiotic), and Prorenal (vasodilator) remained firm.

In the Pharmaceuticals segment, operating income increased by 46.9% to ¥56.2 billion (US\$476 million). The merger of the Company's pharmaceutical subsidiary, Sumitomo Pharmaceuticals Co., Ltd., with Dainippon Pharmaceutical Co., Ltd. in October 2005 to form Dainippon Sumitomo Pharma Co., Ltd. increased the scale of the segment's operations.

Major consolidated subsidiaries of this segment include: Dainippon Sumitomo Pharma Co. Ltd., a core entity of pharmaceuticals business; and Nihon Medi-Physics Co., Ltd., a joint venture with GE Healthcare Bio-Sciences KK, engaged in manufacturing and selling in vivo and in vitro radioactive diagnostics and related products.

## (7) Others

Sales in the Others segment increased by 62.1% from the previous fiscal year to ¥146.8 billion (US\$1,243 million), because former Dainippon Pharmaceutical products outside the category of pharmaceuticals, such as special therapeutic pet food, joined this segment.

The segment's operating income improved by 39.0% to ¥8.0 billion (US\$68 million).

This segment also 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.

## 3. Overseas Operations

Revenue from overseas operations, including both sales by overseas subsidiaries and exports from Japan, for the fiscal year ended March 31, 2007, were ¥747.8 billion (US\$6,334 million), 22.4% higher than ¥611.0 billion in the previous fiscal year, due principally to increased shipments of polarizing films, methyl methacrylate (MMA) and caprolactam as a result of capacity expansions.

The ratio of revenue from overseas operations to net sales was 41.8%, compared with 39.2% for the previous fiscal year.

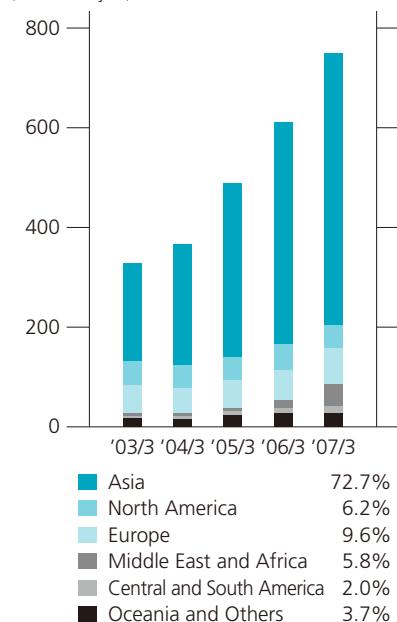
## 4. Geographic Information

Net sales from operations outside Japan were ¥495.2 billion (US\$4,195 million) and ¥404.4 billion for the year ended March 31, 2007 and 2006, respectively, and accounted for 27.7% and 26.0% of the respective consolidated total sales. Net sales in Asia were ¥393.1 billion (US\$3,330 million), a 23.1% increase from ¥319.2 billion for the previous fiscal year.

Operating income from operation outside Japan for the fiscal year ended March 31, 2007 was ¥32.7

### Breakdown of Overseas Operations

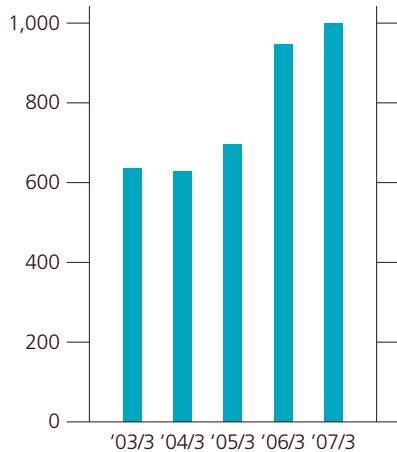
(Billions of yen)



Note: Percentages are for the fiscal year ended March 31, 2007

### Total Current Assets

(Billions of yen)



billion (US\$277 million), a 23.3% decrease from ¥42.7 billion for the previous fiscal year. Operating income in Asia was ¥20.8 billion (US\$176 million), a 37.9% decrease from ¥33.4 billion for the previous fiscal year.

Overseas assets as of March 31, 2007 amounted to ¥430.4 billion (US\$3,646 million), 23.0% higher than the previous fiscal year's ¥349.9 billion, while assets in Asia as of March 31, 2007 amounted to ¥336.8 billion (US\$2,853 million), 24.7% higher than the previous fiscal year's ¥270.0 billion.

The ratio of overseas assets to total assets for the fiscal year ended March 31, 2007 was 18.5%, up 2.4 percentage point from the previous fiscal year and the ratio of assets in Asia to total assets for the fiscal year ended March 31, 2007 was 14.5%, up 2.1 percentage points from the previous fiscal year.

## 5. Financial Position

Total assets as of March 31, 2007 increased to ¥2,324.9 billion (US\$19,694 million), compared with ¥2,178.4 billion as of March 31, 2006, due mostly to an increase in investments in affiliates and an acquisition of property, plant and equipment by the Company's Korean subsidiary, as well as the following other reasons.

Current assets as of March 31, 2007 amounted to ¥995.9 billion (US\$8,436 million), up 5.2% from ¥946.6 billion as of March 31, 2006. An increase in inventories to counterbalance reduced production due to a scheduled maintenance shutdown of petrochemical facilities at the Company's Chiba Works led to the increase in current assets. Current liabilities were ¥707.2 billion (US\$5,990 million), up 6.0% from ¥666.9 billion as of March 31, 2006. An increase in short-term debt to finance an acquisition of property, plant and equipment in the Company's Korean subsidiary resulted in the increased current liabilities. The current ratio was 140.8% compared with 141.9% as of March 31, 2006.

Investments and other non-current assets as of March 31, 2007 totaled ¥651.9 billion (US\$ 5,522 million), compared with ¥600.4 billion as of March 31, 2006. Increases in an investment in Rabigh Refining and Petrochemical Company and prepaid pension expense were main factors of the increase.

Total debt (short-term and long-term borrowings from banks, debt on bonds and notes, and commercial paper) as of March 31, 2007 amounted to ¥ 641.0 billion (US\$5,430 million), 10.8% higher than ¥578.6 billion as of March 31, 2006.

In accordance with a new Japanese Corporate Law, taking effect on May 1, 2006, the Company divided balance sheets into assets, liabilities and net assets and certain accounts, such as minority interests, are reclassified to net assets. Net assets were ¥ 1,030.5 billion (US\$8,730 million) at March 31, 2007, a 9.1% increase from ¥944.2 billion, a total of shareholders' equity and minority interests as of March 31, 2006. The ratio of net assets to total assets was 34.1% as of March 31, 2007, compared with 33.0% as of March 31, 2006. Minority interests were ¥238.0 billion (US\$2,016 million), compared with ¥224.5 billion as of March 31, 2006. Unrealized gains on investment securities amounted to ¥146.3 billion (US\$1,239 million), compared with ¥155.9 billion as of March 31, 2006. Foreign currency translation adjustments amounted to ¥12.1 billion (US\$103 million), compared with ¥2.2 billion as of March 31, 2006.

The number of shares issued and outstanding as of March 31, 2007 was 1,651,559,564 shares. Retained earnings amounted to ¥ 521.4 billion (US\$4,417 million), a 16.9% increase from ¥445.9 billion as of March 31, 2006.

## 6. Cash Flows

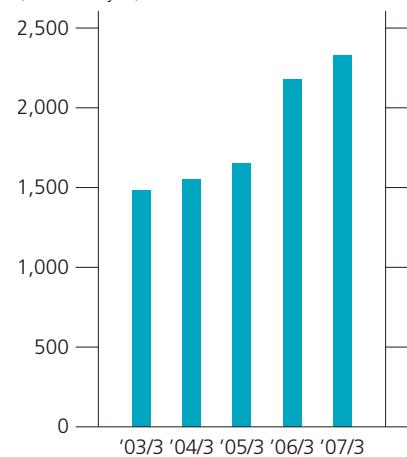
Net cash provided by operating activities for the year ended March 31, 2007 was ¥142.9 billion (US\$1,211 million), ¥20.1 billion higher than ¥122.8 billion for the previous fiscal year. Although prepaid pension expenses, included in other, increased, an increase in net income before income taxes and minority interests, together with a decrease in income taxes paid, contributed to the growth in operating cash flows.

Net cash used in investing activities for the year ended March 31, 2007 was ¥164.2 billion (US\$1,391 million), which was lower by ¥16.4 billion than the previous fiscal year. Although acquisition of property, plant and equipment increased, proceeds from sale of securities amounting to ¥44.6 billion (US\$377 million) earned mostly by sale of investment in GlaxoSmithKline K.K. led this decrease.

As a result, free cash flow, which consists of cash flows provided by operating activities and those used in investing activities, was negative ¥21.3 billion (US\$181 million) for the year ended March 31,

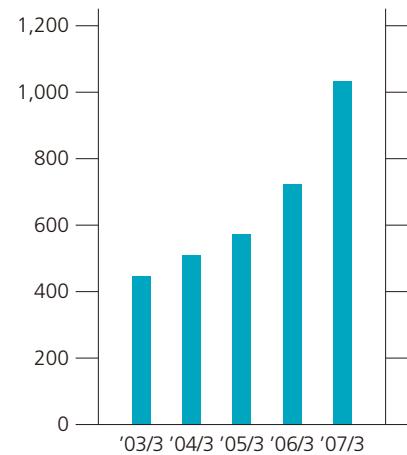
### Total Assets

(Billions of yen)



### Shareholders' Equity / Net Assets\*

(Billions of yen)



\*The Companies adopted the new accounting standards for the presentation of net assets in the balance sheet and certain accounts, such as minority interest ,are reclassified to net assets.

2007, compared with negative ¥57.9 billion for the previous fiscal year.

Net cash acquired in financing activities was ¥35.6 billion (US\$301 million), because of an increase in proceeds from short-term and long-term debt.

Cash and cash equivalents were ¥126.0 billion (US\$1,067 million) for the year ended March 31, 2007, a net increase of ¥15.0 billion over the previous fiscal year.

## 7. Capital Expenditures

In the year ended March 31, 2007, the Companies' capital investments totaled ¥159.8 billion (US\$1,354 million) which includes investments for new installations and expansions of manufacturing facilities as well as those for streamlining of existing facilities.

In the IT-related Chemicals segment, capital investments of ¥72.0 billion (US\$610 million) were directed at increasing production capacity of polarizing film and color filter facilities in Korea and new production lines of polarizing film in China. In the Basic Chemicals segment, the Company invested ¥24.6 billion (US\$209 million) to reinforce manufacturing facilities in Singapore.

Other segments' investments were ¥16.9 billion (US\$143 million) in the Petrochemicals & Plastic segment, ¥12.5 billion (US\$106 million) in the Pharmaceuticals segment, ¥10.1 billion (US\$86 million) in the Agricultural Chemicals segment, ¥4.6 billion (US\$39 million) in the Fine Chemicals segment, and ¥13.7 billion (US\$116 million) in Others.

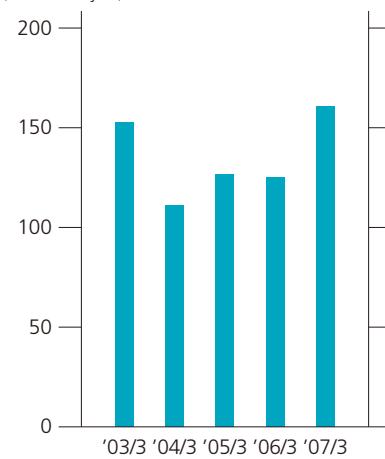
## 8. Research and Development

The Company's 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 to generate best possible overall achievements in both efficiency and technological synergies.

R&D expenses were ¥97.7 billion (US\$828 million), up 6.4% from the fiscal year ended March 31, 2007, due mainly to impact of the merger of Sumitomo Pharmaceuticals Co., Ltd. and Dainippon Pharmaceutical Co., Ltd.

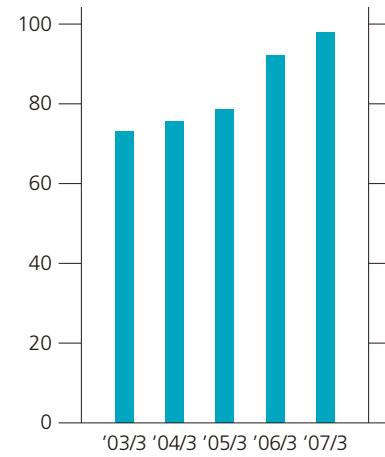
### Capital Expenditures

(Billions of yen)



### Research and Development Expenses

(Billions of yen)



### Breakdown of Capital Expenditures

	Billions of yen, %											
	Years ended March 31,											
	2002		2003		2004		2005		2006		2007	
<b>New plants and expansions:</b>												
Basic Chemicals .....	¥ 2.4	3%	¥ 11.3	7%	¥ 5.4	5%	¥ 10.2	8%	¥ 11.4	9%	¥ 18.7	12%
Petrochemicals .....	6.3	9	20.3	13	3.6	3	5.7	5	4.2	3	4.3	3
Fine Chemicals .....	3.3	5	2.1	2	3.6	3	3.7	3	1.9	2	1.9	1
IT-related Chemicals .....	6.1	8	26.3	17	34.6	31	36.5	29	34.8	28	66.6	42
Agricultural Chemicals .....	16.4	22	23.5	16	1.7	2	14.0	11	4.0	3	4.7	3
Pharmaceuticals .....	0.5	1	1.7	1	8.0	7	1.0	1	0.7	1	1.9	1
Others .....	1.8	2	5.8	4	1.4	2	1.2	1	3.0	2	5.5	3
Total .....	36.8	50	91.0	60	58.3	53	72.3	58	60.0	48	103.6	65
<b>Rationalization of production processes ..</b>	5.7	8	6.7	4	4.7	4	7.4	6	6.2	5	6.8	4
<b>Research and development ..</b>	6.5	9	8.9	6	9.8	9	7.3	6	9.0	7	7.1	4
<b>Others .....</b>	24.0	33	45.4	30	37.4	34	38.8	31	49.7	40	42.3	27
<b>Total .....</b>	¥73.0		100%	¥152.0		100%	¥110.2		100%	¥125.8		100%
	¥124.9		100%	¥159.8		100%						

## **9. Financial Risk Management**

The Companies are exposed to a variety of market risks arising, among others, from the changes of the following factors that may affect their financial results. The Companies assess such risks and undertake certain measures as follows:

### **(1) Foreign Currency Risk**

The Companies have foreign currency revenue from sales of products and foreign currency payment mainly for purchase of raw materials. Since the Companies' foreign currency revenue is greater than their 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.

### **(2) Interest 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 a 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, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents (Note 16) .....	¥ 125,990	¥ 110,972	\$ 1,067,260
Short-term investments .....	4,191	2,273	35,502
Marketable securities (Note 4) .....	2,006	—	16,993
Receivables—			
Trade notes and accounts .....	407,563	399,255	3,452,461
Other .....	73,662	81,935	623,990
Allowance for doubtful receivables .....	(2,010)	(2,804)	(17,027)
	479,215	478,386	4,059,424
Inventories .....	327,747	294,820	2,776,341
Deferred tax assets (Note 12) .....	36,198	31,478	306,633
Other .....	20,548	28,625	174,061
Total current assets .....	995,895	946,554	8,436,214
<b>Investments and other non-current assets:</b>			
Investment securities (Notes 4, 5 and 6) .....	486,109	502,963	4,117,823
Other (Note 5 and 6) .....	167,300	99,086	1,417,196
Allowance for doubtful receivables .....	(1,554)	(1,645)	(13,164)
	651,855	600,404	5,521,855
<b>Property, plant and equipment (Note 6 and 9):</b>			
Land .....	78,940	78,073	668,700
Buildings and structures .....	486,809	470,139	4,123,753
Machinery and equipment .....	1,303,030	1,222,314	11,037,950
Construction in progress .....	63,159	31,907	535,018
	1,931,938	1,802,433	16,365,421
Less accumulated depreciation .....	(1,308,451)	(1,232,111)	(11,083,871)
	623,487	570,322	5,281,550
<b>Other assets:</b>			
Deferred tax assets (Note 12) .....	10,865	15,878	92,037
Goodwill .....	6,200	8,309	52,520
Software .....	13,788	12,958	116,798
Products registration rights .....	5,133	5,393	43,482
Facilities rights and others .....	17,683	18,559	149,792
	53,669	61,097	454,629
	¥ 2,324,906	¥ 2,178,377	\$ 19,694,248

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
<b>Liabilities, Net assets and Shareholders' equity</b>			
<b>Current liabilities:</b>			
Short-term debt (Note 6) .....	¥ 190,384	¥ 159,217	\$ 1,612,740
Long-term debt due within one year (Note 6) .....	43,248	44,635	366,353
Payables—			
Trade notes and accounts .....	261,860	265,232	2,218,213
Other .....	91,243	96,809	772,918
	353,103	362,041	2,991,131
Accrued expenses .....	26,151	25,220	221,525
Income taxes payable .....	32,067	20,135	271,639
Reserve for litigation .....	1,010	—	8,556
Deferred tax liabilities (Note 12) .....	309	163	2,618
Other .....	60,896	55,467	515,849
Total current liabilities .....	707,168	666,878	5,990,411
<b>Long-term liabilities:</b>			
Long-term debt due after one year (Note 6) .....	407,357	374,729	3,450,716
Deferred tax liabilities (Note 12) .....	107,549	102,045	911,046
Retirement benefits (Note 10) .....	42,750	52,917	362,135
Other .....	29,561	37,584	250,410
Total long-term liabilities .....	587,217	567,275	4,974,307
Minority interests in consolidated subsidiaries .....	—	224,464	—
<b>Contingent liabilities (Note 14)</b>			
<b>Net assets and Shareholders' equity (Note 3 and 13):</b>			
Common stock,			
Authorized—5,000,000,000 shares			
Issued —1,655,446,177 shares at March 31, 2007			
1,655,446,177 shares at March 31, 2006 .....	89,699	89,699	759,839
Capital surplus .....	23,763	23,754	201,296
Retained earnings .....	521,433	445,915	4,417,052
Treasury stock, at cost			
3,886,613 shares at March 31, 2007			
3,014,083 shares at March 31, 2006 .....	(2,293)	(1,466)	(19,424)
Unrealized gains on investment securities .....	146,301	155,856	1,239,314
Unrealized gains on hedging derivatives, net of taxes .....	(2,301)	—	(19,492)
Land revaluation reserve (Note 15) .....	3,811	3,811	32,283
Foreign currency translation adjustments .....	12,125	2,191	102,711
Minority interests .....	237,983	—	2,015,951
Total net assets .....	1,030,521	719,760	8,729,530
	¥ 2,324,906	¥ 2,178,377	\$ 19,694,248

See accompanying notes.

# Consolidated Statements of Income

Sumitomo Chemical Company, Limited and Subsidiaries  
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
<b>Net sales</b>	<b>¥ 1,790,026</b>	¥ 1,556,606	¥ 1,296,315	<b>\$15,163,287</b>
<b>Cost of sales</b>	<b>1,338,142</b>	1,138,536	933,892	<b>11,335,383</b>
<b>Selling, general and administrative expenses</b>	<b>312,261</b>	297,280	257,241	<b>2,645,159</b>
Operating income	139,623	120,790	105,182	<b>1,182,745</b>
 <b>Other income (expenses):</b>				
Interest and dividend income	7,137	5,698	4,206	<b>60,457</b>
Interest expenses	(11,034)	(7,917)	(7,197)	<b>(93,469)</b>
Net gain on sale of securities	31,079	8,276	1,718	<b>263,270</b>
Equity in earnings of affiliates	23,607	26,815	26,696	<b>199,975</b>
Net gain on foreign currency transactions	6,319	5,746	5,820	<b>53,528</b>
Restructuring charges (Note 11)	(6,378)	(5,853)	(3,436)	<b>(54,028)</b>
Loss on disposal of inventories	(5,423)	(5,091)	(3,884)	<b>(45,938)</b>
Expenses related to litigation	(1,010)	—	—	<b>(8,556)</b>
Loss on reform of retirement benefits plan	(611)	—	—	<b>(5,176)</b>
Gain on change in interests in consolidated subsidiary	—	14,273	—	—
Gain on business transfer	—	4,516	—	—
Net gain (loss) on sale of property, plant and equipment	—	2,368	(397)	—
Expenses for subsidiary merger	—	(6,116)	—	—
Reversal of allowance for doubtful receivables	—	—	2,417	—
Loss on impairment of fixed assets (Note 9)	—	—	(2,515)	—
Other, net	(2,248)	(4,914)	(6,950)	<b>(19,043)</b>
Income before income taxes and minority interests	181,061	158,591	121,660	<b>1,533,765</b>
 <b>Income taxes (Note 12):</b>				
Current	51,772	42,750	36,218	<b>438,560</b>
Deferred	14,144	8,775	7,384	<b>119,814</b>
	65,916	51,525	43,602	<b>558,374</b>
 <b>Minority interests</b>	<b>21,285</b>	16,401	13,606	<b>180,304</b>
 <b>Net income</b>	<b>¥ 93,860</b>	¥ 90,665	¥ 64,452	<b>\$ 795,087</b>
	Yen			U.S. dollars (Note 1)
	2007	2006	2005	2007
<b>Net income per share (Note 18)</b>	<b>¥ 56.82</b>	¥ 54.80	¥ 38.94	<b>\$ 0.481</b>
<b>Dilutive net income per share (Note 18)</b>	<b>56.81</b>	—	38.69	<b>0.481</b>
Dilutive net income per share in 2006 is not disclosed because it is anti-dilutive.				
	Yen			U.S. dollars (Note 1)
	2007	2006	2005	2007
 <b>Cash dividends per share (applicable to the year)</b>	<b>¥ 12.00</b>	¥ 10.00	¥ 8.00	<b>\$ 0.102</b>

See accompanying notes.

## Consolidated Statements of Shareholders' Equity and Changes in Net Assets

Sumitomo Chemical Company, Limited and Subsidiaries  
Years ended March 31, 2006 and 2005 and March 31, 2007, respectively

	Shares of common stock (thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains on investment securities	
<b>Shareholders' Equity</b>							
<b>Balance at March 31, 2004</b>	1,655,446	¥ 89,699	¥ 21,413	¥ 321,990	¥ (776)	¥ 88,043	
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 ..							
Foreign currency translation adjustments .....							
Net increase in treasury stock .....						(399)	
<b>Balance at March 31, 2005</b>	1,655,446	¥ 89,699	¥ 23,730	¥ 374,168	¥ (1,175)	¥ 96,111	
Net income .....				90,665			
Cash dividends at ¥9.0 per share .....				(14,880)			
Bonuses to directors and statutory auditors .....				(79)			
Adjustment for changes in consolidated subsidiaries and affiliates accounted for by the equity method ..						(3,959)	
Surplus from sales of treasury stock .....			24				
Net increase in unrealized gains on investment securities, net of tax .....							59,745
Foreign currency translation adjustments .....							
Net increase in treasury stock .....						(291)	
<b>Balance at March 31, 2006</b>	1,655,446	¥ 89,699	¥ 23,754	¥ 445,915	¥ (1,466)	¥ 155,856	

## Changes in Net Assets

<b>Balance at March 31, 2006</b>	1,655,446	¥	89,699	¥	23,754	¥	445,915	¥	(1,466)	¥	155,856
Reclassification due to adoption of new accounting standards (Note 3)											
Net income									93,860		
Cash dividends at ¥11.0 per share									(18,182)		
Bonuses to directors and statutory auditors									(109)		
Adjustment for changes in consolidated subsidiaries and affiliates accounted for by the equity method ..									(51)		
Net decrease in unrealized gains on investment securities, net of tax .....											(9,555)
Foreign currency translation adjustments .....								9			
Surplus from sales of treasury stock .....											
Net increase in treasury stock .....											(827)
Other .....											
<b>Balance at March 31, 2007</b>	<b>1,655,446</b>	<b>¥</b>	<b>89,699</b>	<b>¥</b>	<b>23,763</b>	<b>¥</b>	<b>521,433</b>	<b>¥</b>	<b>(2,293)</b>	<b>¥</b>	<b>146,301</b>

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Thousands of U.S. dollars (Note 1)

<b>Balance at March 31, 2006</b>	\$ 759,839	\$ 201,220	\$ 3,777,340	\$ (12,418)	\$ 1,320,254
Reclassification due to adoption of new accounting standards (Note 3) .....					
Net income .....				<b>795,087</b>	
Cash dividends at ¥11.0 (US\$0.093) per share .....				(154,019)	
Bonuses to directors and statutory auditors .....				(923)	
Adjustment for changes in consolidated subsidiaries and affiliates accounted for by the equity method .....				(433)	
Net increase in unrealized gains on investment securities, net of tax .....					(80,940)
Foreign currency translation adjustments .....					
Surplus from sales of treasury stock .....			<b>76</b>		
Net increase in treasury stock .....					(7,006)
Other .....					
<b>Balance at March 31, 2007</b>	<b>\$ 759,839</b>	<b>\$ 201,296</b>	<b>\$ 4,417,052</b>	<b>\$ (19,424)</b>	<b>\$ 1,239,314</b>

See accompanying notes

<b>Balance at March 31, 2006</b>	\$	—	\$ 32,283	\$ 18,560	\$ —	\$ 6,097,078
Reclassification due to adoption of new accounting standards (Note 3)					<b>1,901,432</b>	<b>1,901,432</b>
Net income					<b>795,087</b>	<b>(154,019)</b>
Cash dividends at ¥11.0 (US\$0.093) per share					<b>(923)</b>	<b>(432)</b>
Bonuses to directors and statutory auditors						
Adjustment for changes in consolidated subsidiaries and affiliates accounted for by the equity method						
Net increase in unrealized gains on investment securities, net of tax						<b>(80,940)</b>
Foreign currency translation adjustments				<b>84,151</b>		<b>84,151</b>
Surplus from sales of treasury stock						<b>76</b>
Net increase in treasury stock						<b>(7,006)</b>
Other			<b>(19,492)</b>		<b>114,519</b>	<b>95,026</b>
<b>Balance at March 31, 2007</b>	<b>\$</b>	<b>(19,492)</b>	<b>\$ 32,283</b>	<b>\$ 102,711</b>	<b>\$ 2,015,951</b>	<b>\$ 8,729,530</b>

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See accompanying notes.

# Consolidated Statements of Cash Flows

Sumitomo Chemical Company, Limited and Subsidiaries  
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
<b>Cash flows from operating activities:</b>				
Income before income taxes and minority interests .....	¥ 181,061	¥ 158,591	¥ 121,660	\$ 1,533,765
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities—				
Depreciation and amortization .....	113,870	104,906	88,166	964,591
Loss on impairment of fixed assets .....	—	—	2,515	—
Equity in earnings of affiliates .....	(2,969)	(9,597)	(1,020)	(25,150)
Interest and dividend income .....	(7,137)	(5,698)	(4,206)	(60,457)
Interest expenses .....	11,034	7,917	7,197	93,469
Gain on sale of securities .....	(31,079)	(8,276)	(1,754)	(263,270)
(Gain) loss on sale of property, plant and equipment .....	(299)	(2,368)	397	(2,533)
Gain on change in interests in consolidated subsidiary .....	—	(14,273)	—	—
Gain on business transfer .....	—	(4,516)	—	—
Restructuring charges .....	1,986	3,547	2,312	16,823
Increase (decrease) of provision for retirement benefits and others .....	(2,209)	2,405	(12,568)	(18,712)
(Increase) decrease in notes and accounts receivable .....	(5,714)	(39,548)	6,970	(48,403)
(Increase) decrease in inventories .....	(30,308)	(37,209)	(24,103)	(256,739)
Increase in notes and accounts payable .....	(6,953)	39,545	4,195	(58,899)
Other, net .....	(35,244)	(20,401)	2,011	(298,551)
Subtotal .....	186,039	175,025	191,772	1,575,934
Interest and dividends received .....	6,967	5,782	4,304	59,017
Interest paid .....	(10,722)	(7,728)	(7,135)	(90,826)
Income taxes paid .....	(39,367)	(50,296)	(29,122)	(333,477)
Net cash provided by operating activities .....	142,917	122,783	159,819	1,210,648
<b>Cash flows from investing activities:</b>				
Acquisition of securities .....	(10,188)	(30,384)	(1,200)	(86,302)
Proceeds from sale of securities .....	44,557	12,024	12,737	377,442
Acquisition of investments .....	(33,212)	(41,983)	(188)	(281,338)
Acquisition of property, plant and equipment .....	(156,924)	(121,601)	(133,796)	(1,329,301)
Proceeds from sale of property, plant and equipment .....	571	13,367	991	4,837
Proceeds from sale of business .....	—	1,786	—	—
Proceeds from sales of subsidiaries' shares resulting in changes in consolidation .....	—	—	2,440	—
Advance of loans receivable .....	(4,210)	(21,044)	(2,972)	(35,663)
Collection of loans receivable .....	5,628	23,915	2,411	47,675
Other, net .....	(10,461)	(16,759)	1,624	(88,616)
Net cash used in investing activities .....	(164,239)	(180,679)	(117,953)	(1,391,266)
<b>Cash flows from financing activities:</b>				
Dividends paid .....	(18,182)	(14,880)	(9,924)	(154,019)
Increase (decrease) in commercial paper .....	(6,000)	40,000	(17,500)	(50,826)
Increase (decrease) in other short-term debt .....	37,108	(1,816)	(2,854)	314,341
Proceeds from long-term debt .....	94,025	116,048	99,743	796,485
Repayments of long-term debt .....	(64,042)	(58,217)	(94,792)	(542,499)
Distributions to minority shareholders .....	(8,462)	(12,063)	(6,400)	(71,682)
Capital contributions from minority shareholders .....	1,476	1,789	918	12,503
Purchase of treasury stocks and other, net .....	(365)	(280)	(395)	(3,092)
Net cash provided by financing activities .....	35,558	70,581	(31,204)	301,211
Effect of exchange rate changes on cash and cash equivalents .....	781	1,002	190	6,616
Net increase in cash and cash equivalents .....	15,017	13,687	10,852	127,209
Increase in cash due to merger of consolidated subsidiaries .....	—	42,121	45	—
Decrease in cash resulting from changes in the number of consolidated subsidiaries .....	1	(78)	(50)	9
Cash and cash equivalents at beginning of year .....	110,972	55,242	44,395	940,042
Cash and cash equivalents at end of year (Note 16) .....	¥ 125,990	¥ 110,972	¥ 55,242	¥ 1,067,260

See accompanying notes.

# Notes to Consolidated Financial Statements

Sumitomo Chemical Company, Limited and Subsidiaries  
Years ended March 31, 2007, 2006 and 2005

## 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 and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) 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 current presentation. The consolidated balance sheet as of March 31, 2007, which was prepared in accordance with the new accounting standards as discussed in Note 3 (a), is presented with the consolidated balance sheet as of March 31, 2006, prepared in accordance with the previous presentation rules.

Also, as discussed in Note 3 (b), the consolidated statement of changes in net assets for the year ended March 31, 2007 was prepared in accordance with the new accounting standards. The consolidated statements of shareholders' equity for the years ended March 31, 2006 and 2005 were voluntarily prepared for the purpose of inclusion in the consolidated financial statements although not required to be filed with the Local Financial Bureau.

(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, 2007, which was ¥118.05 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 105, 105 and 104 significant subsidiaries for the years ended March 31, 2007, 2006 and 2005, 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 of voting rights 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 36, 36, and 35 significant affiliates for the years ended March 31, 2007, 2006 and 2005, respectively.

Excess of cost over equity in net assets acquired is amortized within twenty years and is presented as goodwill.

### (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 equity is translated at historical rates.

The resulting foreign currency translation adjustments are included in net assets.

### (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 net assets. Realized gains and 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 the derivative instruments are used for hedging purposes. If the derivative financial instruments meet certain hedging criteria, the Companies defer gains and losses resulting from changes in fair value of the 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 contracts is added to or deducted from the interests on the assets or liabilities for which the interest rate swap contracts were executed.

#### (f) Inventories

The Companies' inventories are stated at the lower of cost or market value. 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

The Companies reclassified the former "excess of cost over equity in net assets acquired" to "goodwill", effective this fiscal year. Goodwill is amortized on the straight-line method within twenty years. Software, products registration rights and other intangible assets are amortized on the straight-line method over the estimated useful lives.

The Company's U.S. consolidated subsidiaries 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 fixed assets

In the year ended March 31, 2005, the Companies adopted early "Accounting Standard for Impairment of Fixed Assets" and "Implementation Guidance on Accounting Standard for Impairment of Fixed Assets."

The standard requires that fixed assets be reviewed and evaluated for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. If a fixed asset is considered impaired, the impairment loss to be recognized is measured as the amount by which the carrying amount of the fixed asset exceeds the recoverable amount.

#### (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 audited financial statements.

#### (k) Research and development

Expenses relating to research and development activities are charged to income as incurred. Research and development expenses were ¥97,715 million (US\$827,742 thousand), ¥91,866 million and ¥78,208 million for the years ended March 31, 2007, 2006 and 2005, 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 and certain consolidated subsidiaries have 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. A certain consolidated subsidiary has a defined contribution pension plan.

The Company and certain consolidated subsidiaries provide 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 amortized mainly over three years. Prior service costs are amortized mainly over three years.

A certain domestic consolidated subsidiary made a transfer from a tax-qualified benefit plan to a defined benefit plan after returning individual contributions to employees, and had a portion of a lump-sum benefit plan transferred to a defined contribution benefit plan. It thereby recognized ¥611 million (US\$5,176 thousand) for the year ended March 31, 2007 as "Loss on reform of retirement benefits plan," which led to an increase in liabilities for retirement benefits by the same amount in accordance with "Accounting for the Transfer between Retirement Benefit Plans" (the Financial Accounting Standard Implementation Guidance No.1 issued by the Accounting Standards Board of Japan on January 31, 2002).

(ii) Directors and statutory auditors: The liability for directors' and statutory auditors' retirement benefits of certain subsidiaries is provided based on the companies' standards and ¥1,139 million (US\$9,648 thousand) and ¥1,040 million were included in the other non-current liabilities at March 31, 2007 and 2006, respectively.

(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 ¥11,289 million (US\$95,629 thousand) and ¥6,480 million were included in "other current liabilities" and "other long-term liabilities" at March 31, 2007 and 2006, respectively.

(p) Reserve for litigation

A certain subsidiary provided a reserve for anticipated costs, including the payment of compensation, associated with litigation.

(q) Net income per share

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 of common stock 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. Related interest expenses, net of income taxes, have been eliminated for the purposes of this calculation.

(r) 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

(a) Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and "Implementation Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "New Accounting Standards").

The consolidated balance sheet as of March 31, 2007, prepared in accordance with the New Accounting Standards, comprises three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheet as of

March 31, 2006, prepared pursuant to the previous presentation rules, comprises the assets, liabilities, minority interests and shareholders' equity sections.

Under the New Accounting Standards, the following items are presented differently at March 31, 2007 from at March 31, 2006. The net assets section includes unrealized gains/losses on hedging derivatives, net of taxes. Under the previous presentation rules, unrealized gains/losses on hedging derivatives were included in the assets or liabilities section without considering the related income tax effects. Minority interests are included in the net assets section at March 31, 2007. Under the previous presentation rules, companies were required to present minority interests between the non-current liabilities and the shareholders' equity section.

The adoption of the New Accounting Standards had no impact on the consolidated statement of income for the year ended March 31, 2007.

#### (b) Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets"(Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005) and "Implementation Guidance on Accounting Standard for Statement of Changes in Net Assets"(the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the "Additional New Accounting Standards").

The Companies prepared the consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. The consolidated statements of shareholders' equity for the years ended March 31, 2006 and 2005, which were voluntarily prepared for inclusion in the consolidated financial statements, were not adapted to the new presentation rules of 2007.

## 4. Securities

Securities with available fair values included in investment securities as of March 31, 2007 were as follows:

### Held-to-maturity debt securities

#### (a) Other held-to-maturity debt securities

	Millions of yen		
	Book value	Fair value	Difference
Local government bonds .....	¥ 1,009	¥ 1,009	¥ (0)
Bonds .....	4,991	4,971	(20)
Total .....	¥ 6,000	¥ 5,980	¥ (20)

### Held-to-maturity debt securities

#### (a) Other held-to-maturity debt securities

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
Local government bonds .....	\$ 8,547	\$ 8,547	\$ (0)
Bonds .....	42,279	42,110	(169)
Total .....	\$ 50,826	\$ 50,657	\$ (169)

**Available-for-sale securities**

(a) Securities with book values exceeding acquisition cost

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities .....	¥ 60,709	¥ 324,325	¥ 263,616

(b) Other securities

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities .....	¥ 1,531	¥ 1,281	¥ (250)

**Available-for-sale securities**

(a) Securities with book values exceeding acquisition cost

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities .....	\$ 514,265	\$ 2,747,353	\$ 2,233,088

(b) Other securities

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities .....	\$ 12,969	\$ 10,851	\$ (2,118)

Securities with no available fair values included in cash equivalents and investment securities as of March 31, 2007 were as follows:

	Millions of yen	U.S. dollars
Held-to-maturity debt securities		
Local government bonds and other .....	¥ 127	\$ 1,076
Commercial paper .....	25,957	219,881
Available-for-sale securities		
Non-listed equity securities .....	14,699	124,515
Preferred securities .....	13,001	110,131
Other .....	73	619
Investment in non-consolidated subsidiaries and affiliates .....	128,609	1,089,445
Total .....	¥ 182,466	\$ 1,545,667

Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2007 were as follows:

	Millions of yen		
	Within one year	Over one year but within five years	Over five years but within ten years
Local government bonds .....	¥ 1,009	¥ 106	¥ 21
Bonds .....	997	3,994	—
Commercial paper and other .....	25,957	—	—
Total .....	¥ 27,963	¥ 4,100	¥ 21

	Thousands of U.S. dollars		
	Within one year	Over one year but within five years	Over five years but within ten years
Local government bonds .....	\$ 8,547	\$ 898	\$ 178
Bonds .....	8,446	33,833	—
Commercial paper and other .....	219,881	—	—
Total .....	\$236,874	\$ 34,731	\$ 178

Total sales of available-for-sale securities in the year ended March 31, 2007 amounted to ¥6,379 million (US\$54,036 thousand) and the related gains and losses amounted to ¥5,579 million (US\$47,260 thousand) and ¥7 million (US\$59 thousand), respectively.

Securities with available fair values included in investment securities as of March 31, 2006 were as follows:

#### Held-to-maturity debt securities

(a) Securities with known fair value exceeding their book value

	Millions of yen		
	Book value	Fair value	Difference
Bonds .....	¥ 504	¥ 504	¥ 0

(b) Other held-to-maturity debt securities

	Millions of yen		
	Book value	Fair value	Difference
Bonds .....	¥ 1,495	¥ 1,445	¥ (50)

#### Available-for-sale securities

(a) Securities with book values exceeding acquisition cost

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities .....	¥ 61,996	¥341,961	¥279,965
Other .....	76	79	3
	¥ 62,072	¥342,040	¥279,968

(b) Other securities

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities .....	¥ 282	¥ 241	¥ (41)

Securities with no available fair values included in cash equivalents and investment securities as of March 31, 2006 were as follows:

	Millions of yen
Held-to-maturity debt securities	
Local government bonds and other .....	¥ 162
Available-for-sale securities	
Non-listed equity securities .....	13,754
Preferred securities .....	13,007
Commercial paper and others .....	12,992
Investment in non-consolidated subsidiaries and affiliates .....	131,759
Total .....	¥ 171,674

Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2006 were as follows:

	Millions of yen		
	Within one year	Over one year but within five years	Over five years but within ten years
Local government bonds .....	¥ —	¥ 106	¥ 42
Bonds .....	—	1,999	—
Commercial paper and other .....	12,991	14	—
Total .....	¥ 12,991	¥ 2,119	¥ 42

Total sales of available-for-sale securities in the year ended March 31, 2006 amounted to ¥11,318 million and the related gains amounted to ¥8,190 million.

## 5. Investments in Related Companies

Investments in non-consolidated subsidiaries and affiliates included in the balance sheet at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Investment securities .....	¥ 128,609	¥ 131,759	\$1,089,445
Other non-current assets .....	89,104	49,125	754,799
Total .....	¥ 217,713	¥ 180,884	\$1,844,244

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

Interest rates on short-term bank loans ranged from 0.08% to 13.5% and from 0.07% to 13.5% at March 31, 2007 and 2006, respectively.

Short-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Bank loans .....	¥ 136,384	¥ 99,217	\$1,155,307
Commercial paper .....	54,000	60,000	457,433
Total .....	¥ 190,384	¥ 159,217	\$1,612,740

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen	Thousands of U.S. dollars	
	2007	2006	2007
0.19%-0.51% Euro notes under medium-term note programs due 2007 ....	¥ 3,995	¥ 6,000	\$ 33,842
0.44%-3.0% debentures due 2007-2017 .....	302,400	267,500	2,561,626
0.43%-6.47% long-term bank loans payable due through 2021 .....	144,210	145,864	1,221,601
	<b>450,605</b>	419,364	<b>3,817,069</b>
Less amounts due within one year .....	(43,248)	(44,635)	(366,353)
	<b>¥ 407,357</b>	¥ 374,729	<b>\$3,450,716</b>

The aggregate annual maturities of long-term debt subsequent to March 31, 2007 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008 .....	¥ 43,248	\$ 366,353
2009 .....	79,134	670,343
2010 .....	39,407	333,816
2011 .....	39,048	330,775
2012 .....	32,705	277,044
2013 and thereafter .....	217,063	1,838,738
	<b>¥ 450,605</b>	<b>\$3,817,069</b>

At March 31, 2007, 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 .....	¥ 19,748	\$ 167,285
Investment securities and other non-current assets .....	81,867	693,494
	<b>¥ 101,615</b>	<b>\$ 860,779</b>
Liabilities secured thereby .....	¥ 16,339	\$ 138,407

## 7. Leases

At March 31, 2007 and 2006, assets leased under non-capitalized financial leases were as follows:

	Millions of yen	Thousands of U.S. dollars	
	2007	2006	2007
Machinery and equipment .....	¥ 9,175	¥ 10,025	\$ 77,721
Buildings and structures .....	37	—	313
Less accumulated depreciation and amortization .....	(5,166)	(5,441)	(43,761)
Total .....	<b>¥ 4,046</b>	¥ 4,584	<b>\$ 34,273</b>

The above "as if capitalized" depreciation and amortization is calculated on the straight line method over lease terms. If the above leases were capitalized, interest of ¥27 million (US\$229 thousand) and ¥35 million and depreciation and amortization of ¥2,427 million (US\$20,559 thousand) and ¥2,088 million would have been recorded for the years ended March 31, 2007 and 2006, respectively.

Total lease payments under non-capitalized finance leases were ¥2,455 million (US\$20,796 thousand), ¥2,135 million and ¥1,812 million for the years ended March 31, 2007, 2006 and 2005 respectively.

Obligations under non-capitalized finance leases at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year .....	¥ 1,691	¥ 1,992	\$ 14,324
Due after one year .....	2,380	2,624	20,161
Total .....	¥ 4,071	¥ 4,616	\$ 34,485

Obligations under operating leases at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year .....	¥ 1,775	¥ 1,369	\$ 15,036
Due after one year .....	10,276	10,278	87,048
Total .....	¥ 12,051	¥ 11,647	\$ 102,084

## 8. Derivative Transactions and Hedge Accounting

The Companies enter into forward foreign exchange contracts and currency swap contracts 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 exposure to fluctuations in the market price 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	Items hedged
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 items hedged.

## 9. Impairment of Fixed Assets

The Companies recognized impairment losses on fixed assets for the year ended March 31, 2007, 2006 and 2005 as follows:

Grouping	Location	Account	Millions of yen			Thousands of U.S. dollars
			2007	2006	2005	
Assets for lease	Osaka, Japan	Land .....	¥ —	¥ —	¥ 1,978	\$ —
Assets for lease	Osaka, Japan	Buildings .....	—	—	117	—
Assets for business	Osaka, Japan	Buildings and structures .....	—	—	319	—
Assets for business	Osaka, Japan	Machinery and equipment ....	—	—	101	—
			¥ —	¥ —	¥ 2,515	\$ —

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.

## 10. Retirement Benefits

The liabilities for retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	
Projected retirement benefit obligation .....	¥ (288,600)	¥ (284,206)	\$ (2,444,727)
Plan assets .....	309,002	299,534	2,617,552
Unfunded retirement benefit obligation .....	20,402	15,328	172,825
Unrecognized actuarial differences .....	(33,100)	(60,188)	(280,390)
Unrecognized prior service cost .....	846	(1,078)	7,166
Net amount recognized .....	(11,852)	(45,938)	(100,399)
Prepaid pension expense .....	(30,898)	(6,979)	(261,736)
Provision for employees' retirement benefits .....	¥ (42,750)	¥ (52,917)	\$ (362,135)

Net periodic costs for the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	
Service cost .....	¥ 10,943	¥ 10,365	¥ 8,855
Interest cost .....	4,599	4,119	3,635
Expected return on retirement benefit plan assets .....	(4,702)	(3,663)	(2,795)
Amortization of prior service cost .....	(997)	(923)	(537)
Amortization of actuarial differences .....	(24,834)	(1,320)	2,684
Net periodic cost .....	¥ (14,991)	¥ 8,578	¥ 11,842
Loss on reform of retirement benefits plan .....	611	—	—
Other .....	348	—	—
Total .....	¥ (14,032)	¥ 8,578	¥ 11,842
			\$ (126,989)
			5,176
			2,948
			\$ (118,865)

In addition to the above cost, a certain domestic subsidiary expensed ¥2,939 million (US\$24,896 thousand) as special retirement benefit, which was recorded as "Restructuring Charges" in the consolidated statements of income for the year ended March 31, 2007.

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

	2007	2006	2005
Discount rate .....	mainly 1.2%	mainly 1.5%	mainly 1.5%
Expected return rate for plan assets .....	mainly 1.5%	mainly 1.5%	mainly 1.5%
Amortization period for actuarial differences .....	mainly 3 years	mainly 3 years	mainly 3 years
Amortization period for prior 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.

## 11. Restructuring Charges

Restructuring charges for the years of 2007, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Loss on disposal of property, plant and equipment .....	¥ 3,439	¥ 3,384	¥ 3,055	\$29,132
Loss on investments in and loans to related companies .....	—	1,629	240	—
Special severance benefits .....	2,939	711	—	24,896
Other .....	—	129	141	—
	¥ 6,378	¥ 5,853	¥ 3,436	\$54,028

## 12. Deferred Taxes

Significant components of deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	
Retirement benefits .....	¥ 17,181	¥ 21,239	\$ 145,540	
Depreciation and amortization .....	17,453	17,692	147,844	
Accrued bonuses .....	8,828	8,497	74,782	
Unrealized intercompany profit .....	6,443	5,826	54,579	
Inventories .....	5,328	5,672	45,133	
Tax loss carryforwards .....	913	770	7,734	
Other .....	25,708	22,567	217,772	
Total deferred tax assets .....	81,854	82,263	693,384	
Unrealized gain on investment securities .....	(104,414)	(111,146)	(884,490)	
Foreign affiliates' undistributed earnings .....	(14,225)	(11,934)	(120,500)	
Prepaid pension expenses .....	(12,369)	(2,791)	(104,778)	
Deferred gain on property, plant and equipment .....	(5,625)	(5,879)	(47,649)	
Other .....	(6,016)	(5,365)	(50,961)	
Total deferred tax liabilities .....	(142,649)	(137,115)	(1,208,378)	
Net deferred tax liabilities .....	¥ (60,795)	¥ (54,852)	\$ (514,994)	

Significant items in the reconciliations of the normal income tax rate to the effective income tax rate for the years ended March 31, 2007, 2006 and 2005 were as follows:

	2007	2006	2005
Statutory income tax rate in Japan .....	40.7%	40.7%	40.7%
Permanently non-deductible expenses .....	1.4	1.7	1.4
Permanently non-taxable dividends received .....	(1.1)	(0.6)	(0.6)
Gain on change in interests in consolidated subsidiary .....	—	(3.7)	—
R&D expenses deductible from income taxes .....	(3.4)	(3.0)	(2.3)
IT investments deductible from income taxes .....	—	(1.0)	(0.9)
Other .....	(1.2)	(1.6)	(2.5)
Effective income tax rate .....	36.4%	32.5%	35.8%

### **13. Net assets**

Through May 1, 2006, Japanese companies are subject to the Japanese Commercial Code.

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.

On May 1, 2006, a new Corporate Law became effective, and replaced the Japanese Commercial Code with various revisions that would, for the most part, be applicable to events or transactions which occurred on or after May 1, 2006.

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of common stock. Under the Corporate Law, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

### **14. Contingent Liabilities**

The Companies guaranteed debt of affiliated companies and third parties in the ordinary course of business. Should the guaranteed parties fail to make payments, the Companies would be required to make such payments under those guarantees.

At March 31, 2007, the Companies were contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars
As guarantor of project completion .....	¥ 132,650	\$1,123,677
As guarantor of indebtedness .....	11,970	101,398
As issuer of letters of comfort .....	173	1,465
	<b>¥ 144,793</b>	<b>\$1,226,540</b>

The Company guaranteed debt of its affiliated company, Rabigh Refining and Petrochemical Company, concerning "The Rabigh Project" in Saudi Arabia and the amount of the contingent liability at March 31, 2007 was ¥129,522 million (US\$1,097,179 thousand). The Company also guaranteed payment to the EPC contractors for construction regarding "The Rabigh Project." The amount guaranteed at March 31, 2007 was ¥3,128 million (US\$26,498 thousand).

### **15. Land Revaluation Reserve**

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 net assets. Investments in these affiliates increased in an amount equal to the Companies' equity in their reserves, as presented as land revaluation reserve.

## 16. Supplementary Cash Flow Information

### 1) Cash and cash equivalents

At March 31, 2007 and 2006, cash and cash equivalents were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash .....	¥ 100,033	¥ 97,981	\$ 847,378
Cash equivalents .....	25,957	12,991	219,882
	¥ 125,990	¥ 110,972	\$ 1,067,260

### 2) Significant non-cash transaction

As a result of the merger of Sumitomo Pharmaceuticals and Dainippon Pharmaceutical dated October 1, 2005, the Company and its consolidated subsidiaries have increased assets and liabilities in the amount of ¥198,884 million and ¥57,938 million, respectively.

## 17. Related Party Transactions

Significant transactions, contingent liabilities and pledged assets with related parties as of and for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Rabigh Refining and Petrochemical Company (an affiliated company)			
Capital increase / Investment .....	¥ 42,412	¥ 41,227	\$ 359,271
Contingent liabilities .....	132,650	53,913	1,123,676
Pledged assets .....	129,522	41,227	1,097,179
Glaxo Smithkline K.K. (an affiliated company)			
Sale of shares .....	20,105	—	170,309

## 18. Net Income Per Share

A reconciliation of the numerators and denominators of the basic and diluted net income per share computations for the years ended March 31, 2007, 2006 and 2005 were as follows:

Income (Numerator)	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Net income .....	¥ 93,860	¥ 90,665	¥ 64,452	\$ 795,087
Bonuses to directors and statutory auditors .....	—	109	79	—
Net income - basic .....	93,860	90,556	64,373	795,087
Effect of dilutive securities:				
Convertible debentures due 2005 .....	—	—	184	—
Convertible debentures issued by a consolidated subsidiary ....	(30)	—	—	(254)
Net income - diluted .....	¥ 93,830	¥ —	¥ 64,557	\$ 794,833

Shares (Denominator)	Number of shares		
	2007	2006	2005
Average shares - basic .....	1,651,757,344	1,652,610,708	1,653,207,533
Effect of dilutive securities			
Convertible debentures due 2005 .....	—	—	15,464,381
Average shares - diluted .....	1,651,757,344	—	1,668,671,914

Net income per share	Yen			U.S. dollars
	2007	2006	2005	2007
Basic .....	¥56.82	¥54.80	¥38.94	\$0.481
Diluted .....	56.81	—	38.69	0.481

## 19. Segment Information

The operations of the Companies for the years ended March 31, 2007, 2006 and 2005 were summarized by product group and geographic area as follows:

Segment information by product group	Millions of yen								
	Basic Chemicals	Petrochemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Other	Adjustments & Elimination	Consolidated
<b>Year ended March 31, 2007</b>									
Sales to unaffiliated customers .....	¥ 314,004	¥ 539,065	¥ 90,882	¥ 266,436	¥ 198,310	¥ 234,546	¥ 146,783	—	¥1,790,026
Inter-segment transfers .....	11,788	10,887	7,699	6,328	1,853	13	59,271	(97,839)	—
Total sales .....	325,792	549,952	98,581	272,764	200,163	234,559	206,054	(97,839)	1,790,026
Operating cost .....	312,309	526,356	85,496	269,307	176,912	178,328	198,042	(96,347)	1,650,403
Operating income .....	¥ 13,483	¥ 23,596	¥ 13,085	¥ 3,457	¥ 23,251	¥ 56,231	¥ 8,012	¥ (1,492)	¥ 139,623
Assets .....	¥ 253,604	¥ 539,466	¥ 100,697	¥ 325,647	¥ 232,120	¥ 419,526	¥ 281,380	¥ 172,466	¥2,324,906
Depreciation and amortization .....	13,515	19,156	6,538	31,453	14,213	16,207	6,740	6,048	113,870
Capital expenditure .....	24,633	16,878	4,635	72,034	10,122	12,496	13,697	5,354	159,849

Segment information by product group	Millions of yen								
	Basic Chemicals	Petrochemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Other	Adjustments & Elimination	Consolidated
<b>Year ended March 31, 2006</b>									
Sales to unaffiliated customers .....	¥ 252,399	¥ 486,054	¥ 79,011	¥ 229,240	¥ 186,232	¥ 233,101	¥ 90,569	—	¥1,556,606
Inter-segment transfers .....	9,561	9,369	4,585	2,775	2,449	21	57,495	(86,255)	—
Total sales .....	261,960	495,423	83,596	232,015	188,681	233,122	148,064	(86,255)	1,556,606
Operating cost .....	251,966	477,505	73,770	210,311	172,103	194,836	142,302	(86,977)	1,435,816
Operating income .....	¥ 9,994	¥ 17,918	¥ 9,826	¥ 21,704	¥ 16,578	¥ 38,286	¥ 5,762	¥ 722	¥ 120,790
Assets .....	¥ 216,480	¥ 488,343	¥ 95,046	¥ 266,789	¥ 224,339	¥ 434,329	¥ 266,072	¥ 186,979	¥2,178,377
Depreciation and amortization .....	11,823	18,776	6,729	24,934	15,209	14,187	6,980	6,268	104,906
Capital expenditure .....	20,730	16,102	7,007	43,990	8,843	10,566	7,978	9,709	124,925

Segment information by product group	Millions of yen								
	Basic Chemicals	Petrochemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Other	Adjustments & Elimination	Consolidated
<b>Year ended March 31, 2005</b>									
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 .....	¥ 192,904	¥ 386,509	¥ 90,167	¥ 200,759	¥ 217,000	¥ 257,929	¥ 230,063	¥ 73,465	¥1,648,796
Depreciation and amortization .....	10,779	17,823	6,328	18,363	12,049	10,476	7,033	5,315	88,166
Impairment loss on fixed assets .....	—	420	—	—	—	—	2,095	—	2,515
Capital expenditure .....	18,163	13,714	7,532	40,237	17,986	19,115	4,945	4,093	125,785

Segment information by product group	Thousands of U.S. dollars								
	Basic Chemicals	Petrochemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Other	Adjustments & Elimination	Consolidated
<b>Year ended March 31, 2007</b>									
Sales to unaffiliated customers .....	\$ 2,659,924	\$ 4,566,413	\$ 769,860	\$ 2,256,976	\$ 1,679,881	\$ 1,986,836	\$ 1,243,397	\$ —	\$ 15,163,287
Inter-segment transfers .....	99,856	92,223	65,218	53,604	15,697	110	502,085	(828,793)	—
Total sales .....	2,759,780	4,658,636	835,078	2,310,580	1,695,578	1,986,946	1,745,482	(828,793)	15,163,287
Operating cost .....	2,645,566	4,458,755	724,235	2,281,296	1,498,618	1,510,614	1,677,612	(816,154)	13,980,542
Operating income .....	\$ 114,214	\$ 199,881	\$ 110,843	\$ 29,284	\$ 196,960	\$ 476,332	\$ 67,870	\$ (12,639)	\$ 1,182,745
Assets .....	\$ 2,148,276	\$ 4,569,809	\$ 853,003	\$ 2,758,551	\$ 1,966,285	\$ 3,553,799	\$ 2,383,568	\$ 1,460,957	\$ 19,694,248
Depreciation and amortization .....	114,485	162,270	55,383	266,438	120,398	137,289	57,095	51,233	964,591
Capital expenditure .....	208,666	142,973	39,263	610,199	85,743	105,853	116,028	45,354	1,354,079
Segment information by geographic area	Millions of yen								
	Japan	Asia	Other		Adjustments & Elimination				Consolidated
<b>Year ended March 31, 2007</b>									
Sales to unaffiliated customers .....	¥ 1,294,827	¥ 393,086	¥ 102,113	¥ —	¥ —	¥ 1,790,026			
Inter-segment transfers .....	128,057	11,849	23,267	(163,173)		—			
Total sales .....	1,422,884	404,935	125,380	(163,173)		1,790,026			
Operating cost .....	1,315,532	384,163	113,449	(162,741)		1,650,403			
Operating income .....	¥ 107,352	¥ 20,772	¥ 11,931	¥ (432)		¥ 139,623			
Assets .....	¥ 1,796,836	¥ 336,750	¥ 93,636	¥ 97,684		¥ 2,324,906			
Segment information by geographic area	Millions of yen								
	Japan	Asia	Other		Adjustments & Elimination				Consolidated
<b>Year ended March 31, 2006</b>									
Sales to unaffiliated customers .....	¥ 1,152,231	¥ 319,214	¥ 85,161	¥ —	¥ —	¥ 1,556,606			
Inter-segment transfers .....	104,150	6,391	21,046	(131,587)		—			
Total sales .....	1,256,381	325,605	106,207	(131,587)		1,556,606			
Operating cost .....	1,177,255	292,180	96,969	(130,588)		1,435,816			
Operating income .....	¥ 79,126	¥ 33,425	¥ 9,238	¥ (999)		¥ 120,790			
Assets .....	¥ 1,694,630	¥ 269,957	¥ 79,949	¥ 133,841		¥ 2,178,377			
Segment information by geographic area	Millions of yen								
	Japan	Asia	Other		Adjustments & Elimination				Consolidated
<b>Year ended March 31, 2005</b>									
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	Thousands of U.S. dollars				
	Japan	Asia	Other	Adjustments & Elimination	Consolidated
<b>Year ended March 31, 2007</b>					
Sales to unaffiliated customers .....	\$ 10,968,463	\$ 3,329,826	\$ 864,998	\$ —	\$ 15,163,287
Inter-segment transfers .....	1,084,769	100,373	197,094	(1,382,236)	—
Total sales .....	12,053,232	3,430,199	1,062,092	(1,382,236)	15,163,287
Operating cost .....	11,143,855	3,254,240	961,025	(1,378,578)	13,980,542
Operating income .....	\$ 909,377	\$ 175,959	\$ 101,067	\$ (3,658)	\$ 1,182,745
Assets .....	\$ 15,220,974	\$ 2,852,605	\$ 793,189	\$ 827,480	\$ 19,694,248

Corporate assets of ¥266,035 million (US\$2,253,579 thousand), ¥283,701 million and ¥218,910 million, included in the adjustments and elimination column for the years ended March 31, 2007, 2006 and 2005, 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 ¥747,770 million (US\$6,334,350 thousand), ¥610,951 million and ¥486,195 million and accounted for 41.8%, 39.2% and 37.5% of the total sales to unaffiliated customers for the years ended March 31, 2007, 2006 and 2005, respectively. Overseas operations in the Asian region were ¥543,310 million (US\$4,602,372 thousand), ¥443,962 million and ¥346,378 million for the years ended March 31, 2007, 2006 and 2005, respectively.

## 20. Subsequent Events

At the Board of Directors meeting of the Company held on May 10, 2007, year-end cash dividends were resolved as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends at ¥7.0 (US\$0.059) per share .....	¥ 11,568	\$ 97,992

# 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, 2007 and 2006, the related consolidated statements of income for each of the three years in the period ended March 31, 2007, the consolidated statement of changes in net assets for the year ended March 31, 2007, the consolidated statement of shareholders' equity for each of the two years in the period ended March 31, 2006, and the consolidated statements of cash flows for each of the three years in the period ended March 31, 2007, 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 consolidated subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:  
As discussed in Note 3(a) to the consolidated financial statements, effective from the year ended March 31, 2007, Sumitomo Chemical Company, Limited and consolidated subsidiaries adopted the new accounting standards for the presentation of net assets in the balance sheet.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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 22, 2007

# Subsidiaries and Affiliates

Company Name	Major Business Fields	Sumitomo Chemical's Share (%)	Telephone	Facsimile
<b>JAPAN</b>				
AstraZeneca K.K.	Pharmaceuticals	20.0	(6) 6453-7500	(6) 6453-7894
Asahi Chemical Co., Ltd.	Inorganics	100.0	(6) 6220-8796	(6) 6220-8799
Dainippon Sumitomo Pharma Co., Ltd.*	Pharmaceuticals	50.1	(6) 6203-5321	(6) 6202-6028
Inabata & Co., Ltd.*	Trading in industrial chemicals, fine chemicals, and plastics	21.3	(6) 6267-6051	(6) 6267-6042
Japan-Singapore Petrochemicals Co., Ltd.	Equity holder in Petrochemical Corporation of Singapore (Pte) Ltd.	54.9	(3) 5543-5867	(3) 5543-5867
Japan Polystyrene Co., Ltd.	Polystyrene	50.0	(3) 5640-1551	(3) 5640-1573
Keiyo Ethylene Co., Ltd.	Ethylene and propylene	22.5	(3) 3552-9361	—
Koei Chemical Co., Ltd.*	Formaldehydes and pyridines	55.8	(3) 6667-8280	(3) 6667-8287
Nihon EcoAgro Co., Ltd.	Environmentally-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) 5159-1601	(3) 5195-1605
Nihon Singapore Polyolefin Co., Ltd.	Equity holder in The Polyolefin Company (Singapore) Pte. Ltd.	95.7	(3) 5543-5319	—
Nippon A&L Inc.	ABS resin and SBR latex	85.2	(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.	Horticultural materials and pet medicines	87.1	(3) 3942-5631	(3) 3942-7571
Shinto Paint Co., Ltd.*	Paints	45.1	(6) 6426-3355	(6) 6429-6188
Sumation Co., Ltd.	OLED	50.0	(3) 5543-5141	(3) 5543-5966
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 Enviro-Science Co., Ltd.	Public hygiene materials	70.6	(798) 38-2330	(798) 38-2325
Sumika EPI Solution Co., Ltd.	MOEPI wafers	100.0	(436) 61-4771	(436) 61-4746
Sumika Life Tech Co., Ltd.	Household and public hygiene materials	100.0	(6) 6220-3640	(6) 6220-3644
Sumika Plastech Co., Ltd.	Plastic sheets and films	100.0	(3) 5543-5438	(3) 5543-5935
Sumika-Takeda Garden Products Co., Ltd.	Horticultural materials	60.0**	(3) 3270-9661	(3) 3270-9779
Sumitomo Bakelite Co., Ltd.*	Resins and resin products	19.8	(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	60.0	(3) 3537-8621	(3) 3537-8649
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 Seika Chemicals Co., Ltd.*	Industrial chemicals and organic sulfur compounds	30.3	(6) 6220-8508	(6) 6220-8541
Taoka Chemical Co., Ltd.*	Dyestuffs, industrial chemicals and adhesives	51.0	(6) 6394-1221	(6) 6394-1658

\* Companies listed on the stock exchange

\*\* This ratio includes shares held by our subsidiaries

Company Name	Major Business Fields	Sumitomo Chemical's Share (%)	Telephone	Facsimile
<b>SINGAPORE</b>				
Chevron Phillips Singapore Chemicals (Pte.) Ltd.	High-density polyethylene	20.0	6517-3239	—
Petrochemical Corporation of Singapore (Pte.) Ltd.	Ethylene and propylene	50.0	6867-2000	—
Singapore Methyl Methacrylate Pte. Ltd.	MMA monomer and MMA polymer	100.0	6296-8183	6296-8938
Sumitomo Chemical Asia Pte. Ltd.	Sales of petrochemical products	100.0	6203-5188	6298-9621
Sumitomo Chemical Singapore Pte. Ltd.	MMA monomer, MMA polymer, Agricultural chemicals, IT-related chemicals and other products.	100.0	6296-8183	6296-8938
The Polyolefin Company (Singapore) Pte. Ltd.	Polyethylene and polypropylene	70.0	6292-9622	6293-8890
<b>ASIA AND OCEANIA</b>				
• CHINA				
Dalian Sumika Chemphy Chemical Co., Ltd.	Agrochemical intermediates	60.0	(411) 8751-6068	(411) 8751-6038
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	90.0	(21) 5046-2296	(21) 5046-3133
Sumika Electronic Materials (Wuxi) Co., Ltd.	Optical functional films and light diffusion plates	100.0	(510) 8532-2688	(510) 8532-2788
Sumitomo Chemical Shanghai Co., Ltd.	Agrochemicals, feed additives and environment health products	100.0	(21) 6881-7700	(21) 6880-0188
Zhuhai Sumika Polymer Compounds Co., Ltd.	Polypropylene compounds	55.0	(756) 5655-689	(756) 5655-690
• INDIA				
SC Enviro Agro India Private Limited	Agrochemicals and household insecticides	90.0	(25) 25-272172	(25) 25-272158
Sumitomo Chemical India Private Limited	Agrochemicals and household insecticides	100.0	(22) 2289-2610	(22) 2289-2600
• SOUTH KOREA				
Dongwoo Fine-Chem Co., Ltd.	Fine chemicals	95.0	(2) 6250-1110	(2) 6250-1198
LG MMA Corp.	Methyl methacrylate	25.0	(2) 3770-1201	(2) 3770-1209
Sumitomo Chemical Agro Seoul, Ltd.	Agrochemicals	100.0	(2) 558-4814	(2) 558-5471
• MALAYSIA				
Sumitomo Chemical Enviro-Agro Asia Pacific Sdn. Bhd.	Agrochemicals	100.0	(6) 679-3711	(6) 679-3698
• TAIWAN				
Sumika Technology Co., Ltd.	Optical functional film	85.0	(7) 364-1316	(7) 364-6994
Sumitomo Chemical Taiwan Co., Ltd.	Agrochemicals	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.	Agrochemicals and environment health products	100.0	(2) 9904-6499	(2) 9904-7499
• SAUDI ARABIA				
Rabigh Refining and Petrochemical Company	Refined petroleum products and petrochemicals	50.0	(2) 425-1855	(2) 425-2732
• NEW ZEALAND				
New Zealand Aluminium Smelters Ltd.	Aluminum ingots	20.6	(3) 218-5999	(3) 218-9747

\* \* This ratio includes shares held by our subsidiaries

Company Name	Major Business Fields	Sumitomo Chemical's Share (%)	Telephone	Facsimile
<b>AMERICAS</b>				
<b>• UNITED STATES</b>				
Phillips Sumika Polypropylene Co.	Polypropylene	40.2	(832) 813-4847	(832) 813-4175
Sumika Electronic Materials, Inc.	MOEPI wafers and other IT-related materials	100.0	(602) 659-2500	(602) 438-2277
Sumika Polymers America Corp.	Plastics	100.0	—	—
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.	Agrochemicals	100.0**	(847) 968-4700	(847) 968-4802
Valent U.S.A. Corp.	Agrochemicals	100.0	(925) 256-2700	(925) 256-2776
<b>• MEXICO</b>				
Valent de Mexico, S.A. de C.V.	Agrochemicals	100.0**	(3) 110-01-62	(3) 110-17-54
<b>• BRAZIL</b>				
Sumitomo Chemical do Brasil Representações Limitada	Agrochemicals household insecticides, and feed additives	100.0	(11) 3174-0355	(11) 3174-0377
<b>EUROPE AND AFRICA</b>				
<b>• BELGIUM</b>				
Sumitomo Chemical Europe S.A./N.V.	Chemical products	100.0	(2) 251-0650	(2) 251-2991
<b>• FRANCE</b>				
Philagro France S.A.S.	Agrochemicals	60.0**	(478) 64-3227	(478) 47-7128
Philagro Holding S.A.	Holding company for Philagro France S.A.	60.0	(478) 64-3227	(478) 64-7128
Sumitomo Chemical Agro Europe S.A.S.	Agrochemicals	100.0	(478) 64-32-60	(478) 47-25-45
<b>• ITALY</b>				
Isagro Italia S.r.l.	Agrochemicals	50.0	(02) 45280-1	(02) 45280-210
<b>• SPAIN</b>				
KenoGard S.A.	Agrochemicals	75.0	(93) 4481270	(93) 4881889
<b>• UNITED KINGDOM</b>				
Sumitomo Chemical (U.K.) plc.	Household insecticides and financing	100.0	(20) 8600-7700	(20) 8600-7717
<b>• TANZANIA</b>				
Vector Health International Ltd.	OLYSET® Net	50.0	—	—
<b>• SOUTH AFRICA</b>				
Philagro South Africa (Pty) Ltd.	Agrochemicals	51.0	(12) 348-8808	(12) 348-3500
<b>• Poland</b>				
Sumika Electronic Materials Poland Sp. zo. o	Optical functional films and light diffusion plates	100.0	(56) 612-02-32	(56) 612-91-22

\*\* This ratio includes shares held by our subsidiaries

# Principal Overseas Operational Headquarters and Offices

## Sumitomo Chemical Singapore Pte. Ltd.

150 Beach Road  
#19-05 Gateway West  
Singapore 189720  
Tel: 6296-8183  
Fax: 6296-8938

## Sumitomo Chemical Co., Ltd. Beijing Office

1012, Beijing Fortune Bldg.  
5 Dong San Huan Bei Lu  
Chaoyang District, Beijing 100004  
People's Republic of China  
Tel: (10) 6590-8541  
Fax: (10) 6590-8540

## Sumitomo Chemical Shanghai Co., Ltd.

Room S2402-2403  
Shanghai Stock Exchange Building  
No. 528 South Pudong Road,  
Shanghai 200120  
People's Republic of China  
Tel: (21) 6881-7700  
Fax: (21) 6880-0188

## Sumitomo Chemical Taiwan Co., Ltd.

13/F-4, 206, Nanjing East Rd., Sec.2,  
Taipei 104 Taiwan, R.O.C.  
Tel: (2) 2506-4528  
Fax: (2) 2506-4551

## Sumitomo Chemical Agro Seoul, Ltd.

2F KTF Tower, 890-20, Doechi-doug,  
Kangnam-ku, Seoul, 135-737,  
Korea  
Tel: (2) 558-4814  
Fax: (2) 558-5471

## Sumitomo Chemical Enviro-Agro Asia Pacific Sdn. Bhd.

Lot 62A, Persiaran Bunga Tanjung 1  
Senawang Industrial Park 70400  
Seremban, Negeri Sembilan Darul  
Khusus Malaysia  
Tel: (6) 679-3711  
Fax: (6) 679-3698

## Sumitomo Chemical India Private Limited

7th Floor, Moti Mahl, J.Tata Road,  
Churchgate, Mumbai 400 020, India  
Tel: (22) 2289-2610  
Fax: (22) 2289-2600

## Sumitomo Chemical Australia Pty. Ltd.

501 Victoria Ave.  
Chatswood 2067 NSW  
Australia  
Tel: (2) 9904-6499  
Fax: (2) 9904-7499

## Sumitomo Chemical Co., Ltd. Wellington Office

Level 16, ASB Bank Tower  
2 Hunter Street, PO Box 2278,  
Wellington  
New Zealand  
Tel: (4) 472-4512  
Fax: (4) 473-1123

## Sumitomo Chemical America, Inc.

### New York Head Office

335 Madison Avenue, Suite 830  
New York, NY 10017  
U.S.A.  
Tel: (212) 572-8200  
Fax: (212) 572-8234

## Edison Office

379 Thornall Street, 7th Floor,  
Edison, NJ 08837  
U.S.A.  
Tel: (732)205-1520  
Fax: (732)205-1524

## Sumitomo Chemical Capital America, Inc.

1013 Centre Road  
Wilmington, DE 19805  
U.S.A.

## Sumitomo Chemical do Brasil Representações Limitada

Av. Paulista 854, 11° andar conj. 112  
Edificio Top Center, São Paulo, SP  
CEP 01310-913, Brazil  
Tel: (11) 3174-0355  
Fax: (11) 3174-0377

## Sumitomo Chemical Europe S.A./N.V.

Woluwelaan 57  
B-1830 Machelen  
Belgium  
Tel: (2) 251-0650  
Fax: (2) 251-2991

## Sumitomo Chemical Agro Europe S.A.S.

Parc D'affaires de Tele base  
2, rue Claude Chappe  
69370 Saint Didier au Mont d'Or  
France  
Tel: (478) 64-32-60  
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, 2007)

**Paid-In Capital:**  
¥89.7 billion

**Number of Employees:**  
Non-Consolidated: 5,703  
Consolidated: 24,691

**Common Stock:**  
Authorized: 5,000,000,000 shares  
Issued: 1,655,446,177 shares  
(Book value: ¥89.7 billion)

**Stock Transaction Units:**  
1,000 - share units

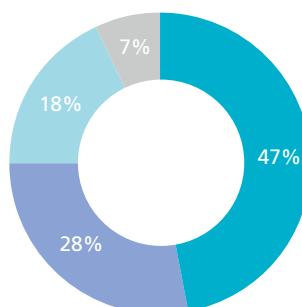
**Number of Shareholders:**  
115,249

**Listings:**  
Tokyo and Osaka

**Transfer Agent and Registrar:**  
The 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



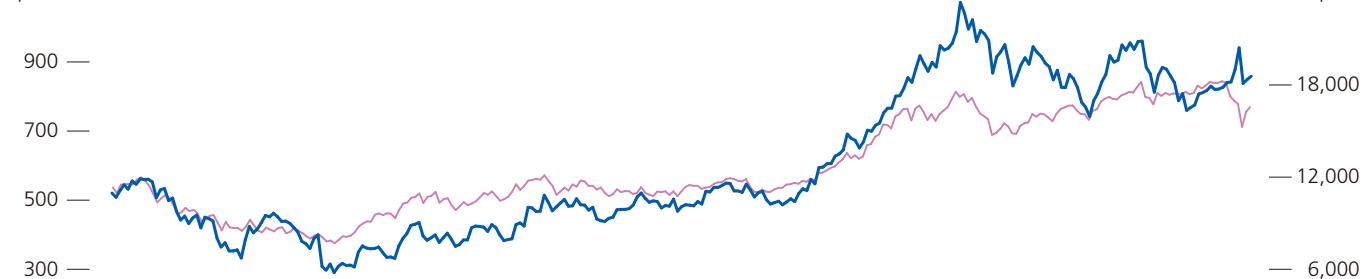
█ Financial Institutions  
█ Foreign Investors  
█ Individuals and Others  
█ Domestic Corporations

**Contact Information:**  
Corporate Communications 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. (Trust Account) .....	110,517	6.68
The Master Trust Bank of Japan, Ltd. (Trust Account) .....	106,281	6.42
Sumitomo Life Insurance Company .....	81,000	4.89
Nippon Life Insurance Company .....	61,516	3.72
Japan Trustee Services Bank, Ltd. (Trust Account No.4) .....	46,246	2.79
Sumitomo Mitsui Banking Corporation .....	38,453	2.32
The Sumitomo Trust & Banking Company, Ltd. .....	31,007	1.87
The Sumitomo Trust & Banking Company, Ltd. (Trust Account B) .....	26,827	1.62
The Norinchukin Bank .....	21,825	1.32
Japan Trustee Services Bank, Ltd. (The Sumitomo Trust & Banking Co., Ltd. Retrust Account / Sumitomo Life Insurance Company Employee Pension Trust Account) .....	19,000	1.15

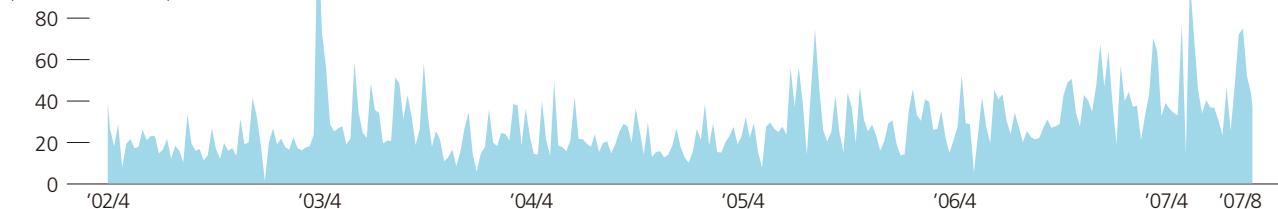
## Stock Performance

(Yen) — Sumitomo Chemical (Left) — Nikkei 225 Index (Right) (Yen)



## Trading Volume

(Millions of shares)





**Responsible Care**

Sumitomo Chemical is a  
Responsible Care company.

 **SUMITOMO CHEMICAL COMPANY, LIMITED**

27-1, Shinkawa 2-chome, Chuo-ku, Tokyo 104-8260, Japan

Tel: (3) 5543-5102 Fax: (3) 5543-5901

URL: <http://www.sumitomo-chem.co.jp>