

SUMITOMO CHEMICAL



Reaching New Heights as a Global Company

Annual Report 2008

For the Year Ended March 31, 2008

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.

We continue our efforts to expand our business globally and achieve higher profitability in order to enhance value for our shareholders and other stakeholders. At the same time, we remain dedicated to the sustainable development of society by continually delivering innovative products and technologies and committing ourselves to quality, health, safety and the environment in all aspects of business.

We are currently implementing our Corporate Business Plan for the three years of fiscal 2007 to fiscal 2009 with the goal of reaching new heights as a global company.

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	2
Snapshot by Sector	4
Reaching New Heights as a Global Company	5
To Our Shareholders, Customers and Partners	8
Special Feature: Research and Development	11
Creative Hybrid Chemistry	12
Focus Areas of R&D	13
Sumitomo Chemical at a Glance	16
Basic Chemicals	18
Petrochemicals & Plastics	20
Fine Chemicals	22
IT-related Chemicals	24
Agricultural Chemicals	26
Pharmaceuticals	28
Corporate Social Responsibility	32
Corporate Governance	37
Compliance	38
Board of Directors & Corporate Auditors	40
Financial Section	41
Subsidiaries and Affiliates	74
Principal Overseas Operational Headquarters and Offices	78
Investor Information and Corporate Information	79

Contents

Consolidated Financial Highlights

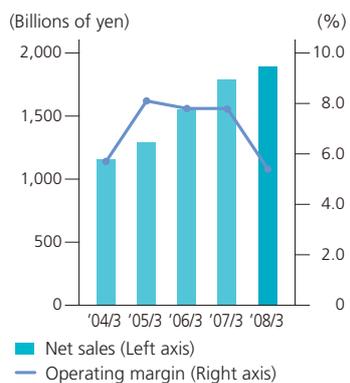
Sumitomo Chemical Company, Limited and Subsidiaries

*Unless otherwise specified

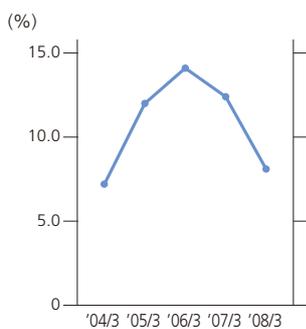
Years ended March 31	Billions of yen*					Thousands of U.S. dollars*	
	2004	2005	2006	2007	2008	2008	
Income statement							
Net sales							
Basic Chemicals	¥ 199.1	¥ 225.8	¥ 252.4	¥ 314.0	¥ 314.7	\$ 3,141,212	
Petrochemicals & Plastics	362.4	412.6	486.1	539.1	603.3	6,021,819	
Fine Chemicals	80.6	84.1	79.0	90.9	92.9	927,608	
IT-related Chemicals	123.5	174.8	229.2	266.4	297.5	2,969,508	
Agricultural Chemicals	167.1	171.6	186.2	198.3	200.4	1,999,980	
Pharmaceuticals	166.6	170.7	233.1	234.5	237.6	2,371,414	
Others	59.1	56.7	90.6	146.8	150.1	1,497,884	
Total	1,158.4	1,296.3	1,556.6	1,790.0	1,896.5	18,929,424	
Net sales from overseas operations	364.1	486.2	611.0	747.8	788.8	7,873,081	
Operating income (loss)							
Basic Chemicals	2.6	5.2	10.0	13.5	10.6	105,390	
Petrochemicals & Plastics	(1.6)	15.0	17.9	23.6	4.5	45,094	
Fine Chemicals	8.8	11.5	9.8	13.1	11.4	114,083	
IT-related Chemicals	14.3	18.7	21.7	3.5	6.3	62,781	
Agricultural Chemicals	10.7	14.8	16.6	23.3	20.9	208,743	
Pharmaceuticals	27.8	34.4	38.3	56.2	46.5	463,759	
Others	4.9	5.7	5.8	8.0	3.7	36,810	
Elimination	(0.9)	(0.1)	0.7	(1.5)	(1.5)	(14,632)	
Total	66.6	105.2	120.8	139.6	102.4	1,022,028	
Net interest expense	(2.9)	(3.0)	(2.2)	(3.9)	(2.8)	(27,487)	
Equity in earnings of affiliates	8.6	26.7	26.8	23.6	11.2	111,398	
Net income	34.3	64.5	90.7	93.9	63.1	629,634	
Depreciation and amortization expenses ...	82.5	88.2	104.9	113.9	125.0	1,247,430	
Research and development expenses	75.2	78.2	91.9	97.7	105.4	1,052,041	
Cash flows							
Cash flows from operating activities	97.1	159.8	122.8	142.9	156.6	1,562,811	
Cash flows from investing activities	(103.2)	(118.0)	(180.7)	(164.2)	(182.7)	(1,823,326)	
Free cash flows	(6.1)	41.8	(57.9)	(21.3)	(26.1)	(260,515)	
Cash flows from financing activities	(9.3)	(31.2)	70.6	35.6	7.1	70,766	
Balance sheet							
Total assets	1,549.3	1,648.8	2,178.4	2,324.9	2,358.9	23,544,555	
Total net assets	506.1	569.6	719.8	1,030.5	1,006.0	10,041,381	
Interest-bearing liabilities	485.3	470.7	578.6	641.0	673.9	6,726,041	
Others							
Capital expenditures	110.2	125.8	124.9	159.8	142.5	1,422,507	
Number of employees	19,036	20,195	24,160	24,691	25,588	—	
Per share (yen, U.S. dollars)							
Earnings	20.72	38.94	54.80	56.82	38.20	0.381	
Book-value	306.05	344.58	435.51	479.87	465.21	4.643	
Dividends	6.0	8.0	10.0	12.0	12.0	0.120	
Ratios							
ROA (%)	4.4	6.6	6.3	6.2	4.4	—	
ROE (%)	7.2	12.0	14.1	12.4	8.1	—	
Debt equity ratio (times)	0.80	0.70	0.61	0.62	0.67	—	
Shareholders' equity ratio (%)	32.7	34.5	33.0	34.1	32.6	—	

Note: U.S. dollar amounts are translated from yen, for convenience only, at ¥100.19 = \$1, the rate prevailing on March 31, 2008.

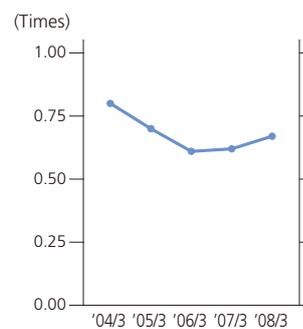
Net Sales & Operating Margin



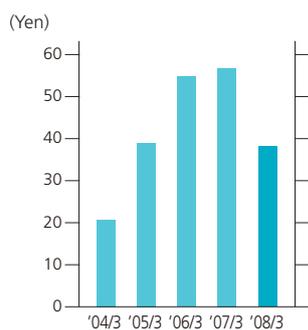
ROE



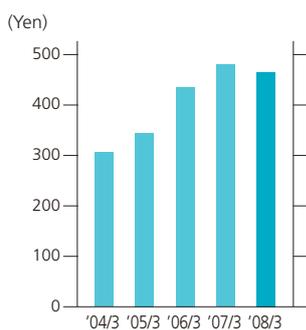
Debt Equity Ratio



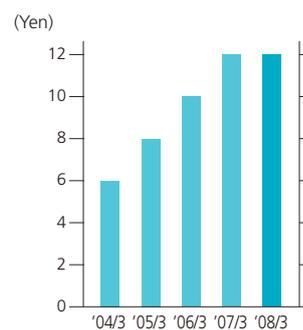
Earnings Per Share



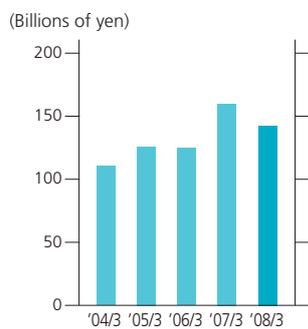
Book-Value Per Share



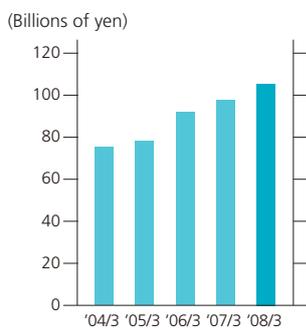
Dividends Per Share



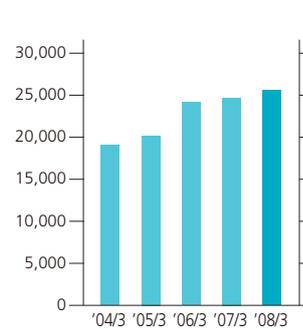
Capital Expenditures



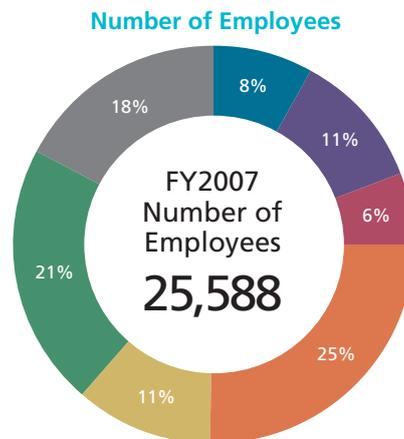
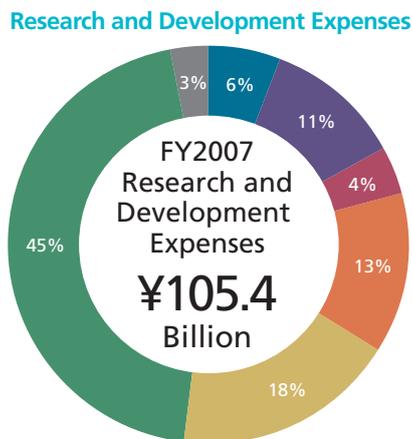
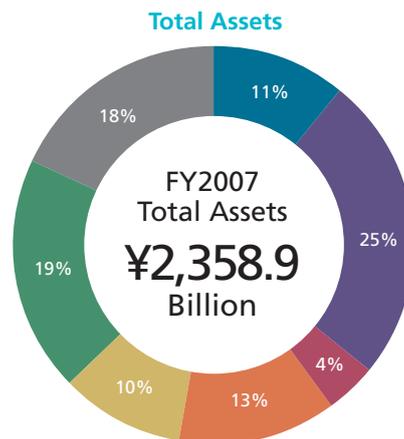
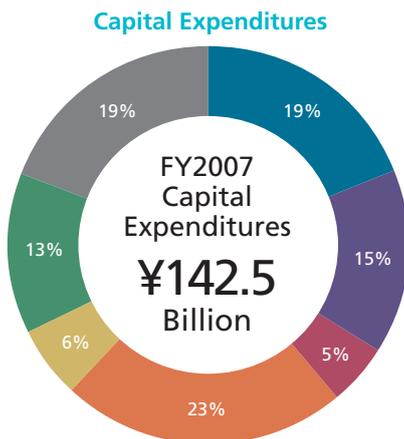
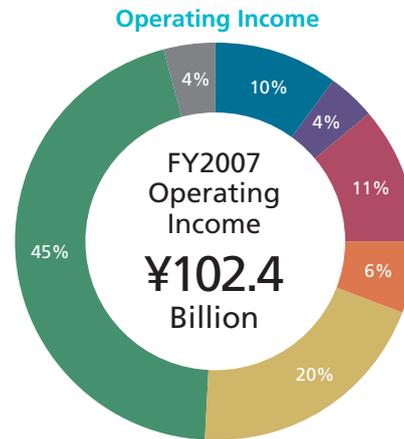
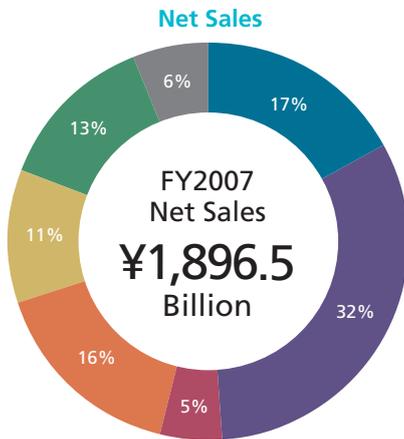
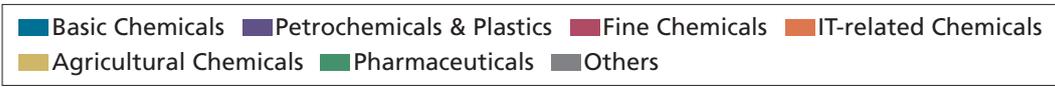
Research and Development Expenses



Number of Employees



Snapshot by Sector



Reaching New Heights as a Global Company

Basic Principle

Reaching New Heights as a Global Company—Generate the added-value that meets our shareholders' expectations by achieving high profitability and securing sustained growth



Performance Targets for Fiscal 2009

(Billions of yen)

Net sales.....	2,400
Net income.....	150

Assumptions

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

Rabigh Project

“We expect this flagship project to drive the competitiveness of our petrochemical business to new heights and boost the globalization of the Sumitomo Chemical Group.”





Polymer Organic Light Emitting Diodes

“We are focusing our R&D on innovative, advanced products and technologies that we expect to become new engines for further business growth. The front-runner is polymer organic light emitting diode technology.”

To Our Shareholders, Customers and Partners



Hiromasa Yonekura
President

Performance for Fiscal 2007

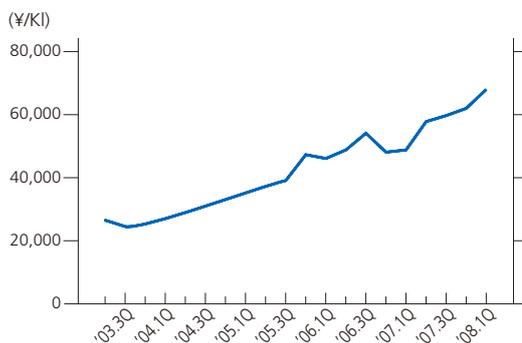
I am pleased to report to you that in fiscal 2007, the Sumitomo Chemical Group achieved sales of ¥1,896.5 billion, an increase of ¥106.5 billion over fiscal 2006 and a record high for the sixth consecutive year, supported mainly by higher selling prices for polyolefins and other petrochemical products and increased sales volumes for polarizing film and other materials for liquid crystal displays (LCDs).

Operating income, however, dropped by ¥37.2 billion from the previous year to ¥102.4 billion, because of soaring prices for our main feedstocks, such as naphtha, and increased research and development expenses for pharmaceuticals and polymer organic LEDs (PLEDs), in addition to the impact of a large-scale maintenance shutdown of plants in Japan that we perform once every four years. Ordinary income decreased by ¥65.2 billion to ¥92.8 billion. The factors responsible for this difference include lower operating income, lower equity income from our overseas subsidiaries, and the strong yen that resulted in increased non-operating losses on foreign currency translations. Although we posted an extraordinary, non-cash valuation gain of ¥28.8 billion on change in equity resulting from the initial stock offering of Petro Rabigh, our Saudi Arabian affiliate founded with Saudi Aramco, net income declined by ¥30.8 billion to ¥63.1 billion. We maintained a full-year dividend for fiscal 2007 of ¥12, the same as for fiscal 2006.

Progress on the Initiatives under Our Three-Year Corporate Business Plan

During this fiscal year, we made great advances in the major initiatives under our Corporate Business Plan for the three years spanning fiscal 2007 to fiscal 2009.

Domestic Naphtha Price



Exchange Rate



Progress on the Rabigh Project

The Rabigh Project, our joint undertaking with our partner Saudi Aramco to build a world-scale integrated refining and petrochemical complex in Rabigh, Saudi Arabia, has progressed steadily toward the start of its commercial operation planned for the fourth quarter of 2008. In spite of very tight engineering, procurement and construction markets, Petro Rabigh completed 95% of planned construction as of the end of March 2008 and began trial operation of some units of the complex. Capitalizing on a stable supply of cost-advantaged feedstock, this project promises outstanding competitiveness that is resilient in the current era of high crude oil prices. Aiming to realize the full value of this project immediately after the startup, we have reinforced our marketing and supply chain capabilities in Asia and Europe, our primary target markets for Petro Rabigh's petrochemical products. Currently, our pre-marketing campaigns are well under way in these regions. We expect this flagship project to drive the competitiveness of our petrochemical business to new heights and boost the globalization of the Sumitomo Chemical Group.

Initiatives for Core Businesses

In our core businesses, we have successfully been implementing a range of initiatives to expand our potential for sustained growth and achieve higher profitability. For methyl methacrylate (MMA) monomer and polymer, we completed our Phase III capacity expansion in Singapore in March 2008, which further strengthened our position as Asia's top manufacturer. In our polypropylene business, we have taken active steps to enhance our global supply capabilities for polypropylene compounds targeting high value-added automotive applications. For example, we acquired production facilities in England and France and also started construction of a new plant in the U.S., which is scheduled to begin commercial operations in 2009. In addition, we have decided to expand our production capacity in China and to set up new production bases in Thailand and Saudi Arabia. For resorcinol, a raw material for adhesives, we expanded our capacity in Chiba, Japan and recently decided to build another plant in Oita, Japan in order to meet the increasing demand in Asia. In the area of IT-related materials, in response to robust demand for LCDs, we brought on stream a new polarizing film production line in Korea in April 2008 and will start operation of another new line in Japan in the second half of fiscal 2008. In our agricultural chemicals business, we integrated our joint venture Sumitomo Chemical Takeda Agro into Sumitomo Chemical's agrochemical business to achieve greater operational efficiency and further reinforce our crop protection business. In pharmaceuticals, Dainippon Sumitomo Pharma is increasing efforts to further expand sales of its core products in Japan and enhance its development capabilities in the U.S., while implementing focused R&D investment in its core areas, such as diabetes and central nervous system disorders.

Progress in Research and Development

We are focusing our R&D on innovative, advanced products and technologies that we expect to become new engines for further business growth. The front-runner in this initiative is the development of PLED technology, which is now attracting great attention as a next-generation display technology. This fiscal year has marked the achievement of vast improvements in our luminescent materials in all three primary colors, which have reached a level of performance suitable for use in commercial display applications. In order to further accelerate our drive to bring PLEDs to market, we acquired Cambridge Display Technology, a pioneer in this field with extensive technologies, ranging from PLED materials to displays. We aim to develop PLED businesses in large-screen televisions and lighting products during 2010.

In the area of energy-related materials, our high-performance separator for lithium-ion secondary batteries is highly rated by battery manufacturers for its safety and reliability, and we have recently decided to significantly expand our production capacity for this separator. In addition, we succeeded in developing a cobalt-free high power-output cathode material for lithium-ion secondary batteries. Contrary to conventional wisdom, our cathode material has achieved excellent performance without using cobalt, a rare metal that is in short supply worldwide in recent years. We are studying commercial scale production of this innovative material targeting lithium-ion secondary batteries for hybrid cars.

Reaching New Heights as a Global Company

Under our Three-Year Corporate Business Plan, we seek to achieve sales of ¥2.4 trillion and net income of ¥150 billion for fiscal 2009, the final year of the period covered by the Plan. During this fiscal year, we experienced more difficult business conditions than anticipated, including surging feedstock prices and a strong yen. Though challenges still lie ahead as we enter fiscal 2008, we are determined to carry our initiatives through and accomplish our goals for reaching new heights as a global company under our Corporate Business Plan.

In order to enhance value for our shareholders and, indeed, all stakeholders, we will step up our efforts to expand our business and achieve higher profitability. At the same time, we remain dedicated to creating greater value for society through our business activities. As a global corporate citizen, we will continue to help improve the lives of people in many parts of the world by delivering innovative products and technologies and committing ourselves to quality, health, safety and the environment. I would like to express my deep appreciation to you for your continued support and encouragement.

July 2008

米倉弘昌

Hikomasa Yonekura
President
Sumitomo Chemical Co., Ltd.

Special Feature: Research and Development

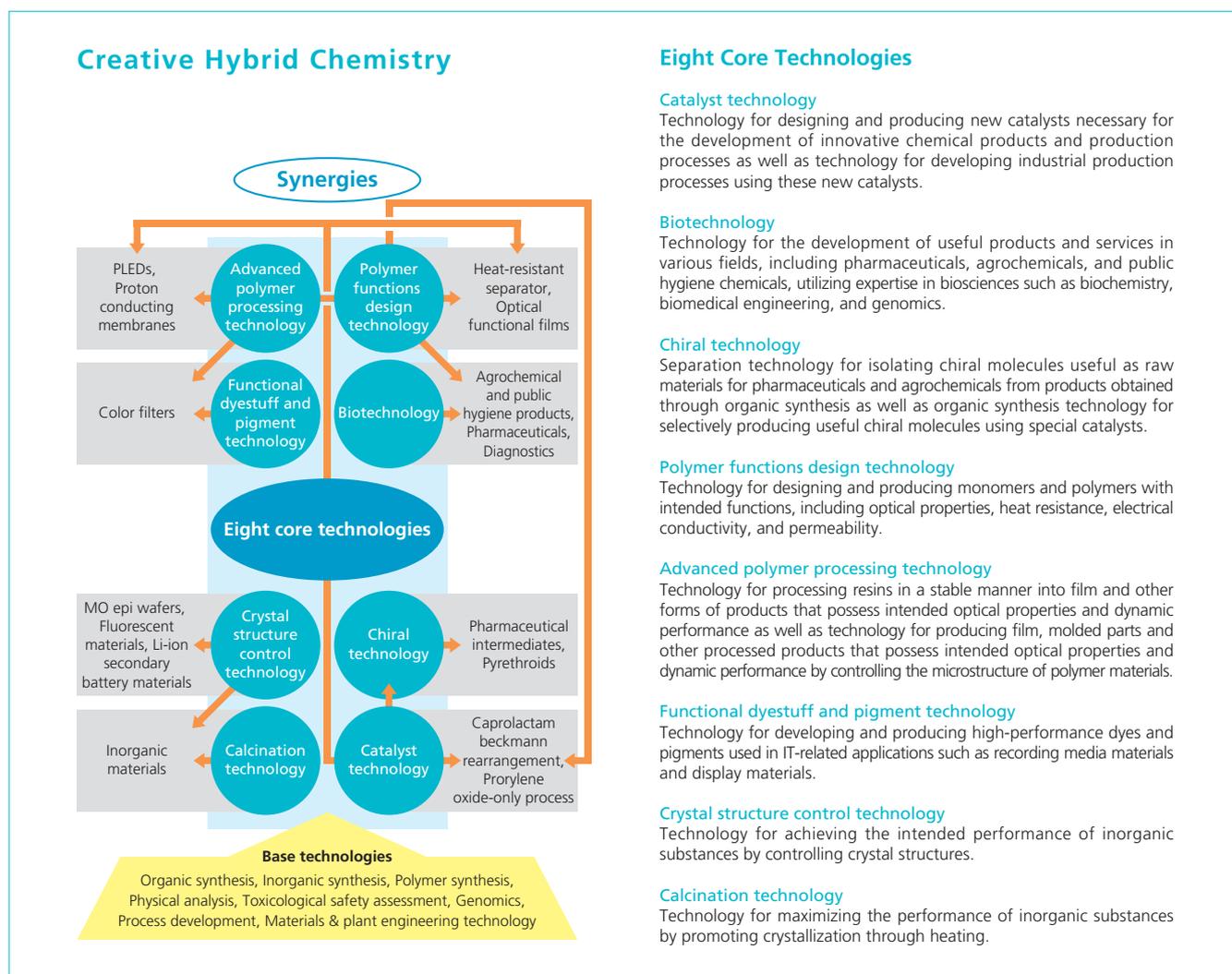
Creative Hybrid Chemistry.....	12
Focus Areas of R&D	13

Special Feature: Research and Development

Creative Hybrid Chemistry

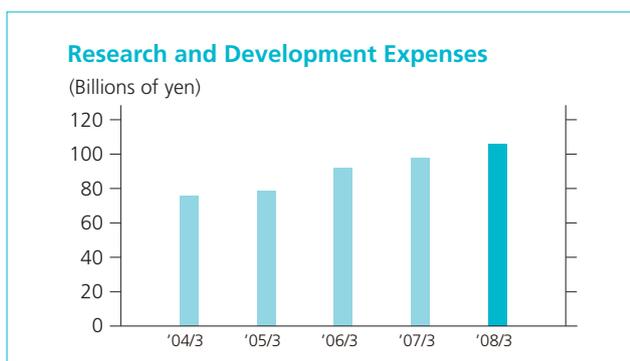
We consider research and development the engine of our future growth. Over the course of many years, we have cultivated a variety of technologies in a diverse range of fields. Out of this reservoir of expertise and technology, we have identified the following eight areas as our core technologies: catalyst technology, biotechnology, chiral technology, polymer functions design technology, advanced polymer processing technology, functional dyestuff and pigment technology, crystal structure control technology, and calcination technology. By

combining these core technologies, we have created innovative new products and technologies. We call this basic R&D strategy "Creative Hybrid Chemistry." A good example of the achievements of our Creative Hybrid Chemistry is our polarizing film used in liquid crystal displays (LCDs). We developed this specialty film by combining our technologies in polymer function design, advanced polymer processing and functional dyestuff and pigment technology. Our polarizing film business has now grown to be a core business of our IT-related Chemicals Sector.



Focus Areas of R&D

The basic policy for R&D under our Three-Year Corporate Business Plan is to focus our efforts on the development and fostering of new business areas that will propel our further growth. Currently, we are focusing our R&D resources on the areas of IT-related materials, energy-related materials and life sciences in particular.



IT-related Materials

The Competitive Advantages of PLEDs

In the area of IT-related materials, we are devoting our efforts to the development of polymer organic light emitting diodes (PLEDs), which are gaining attention as a next-generation display technology.

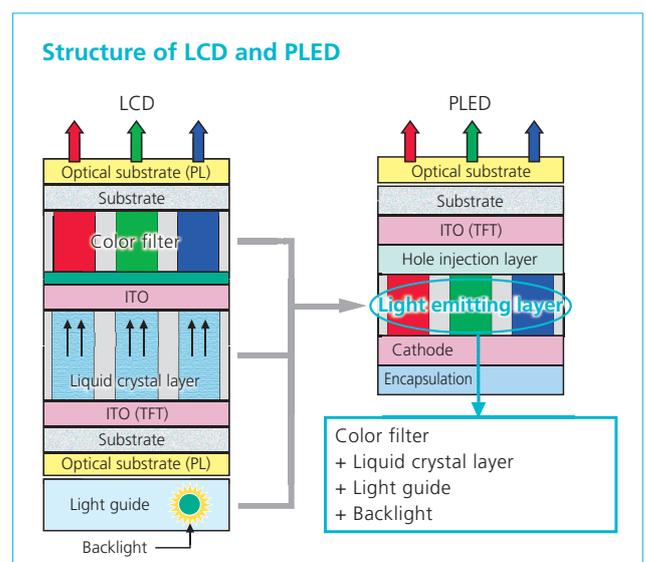
PLEDs have numerous advantages over LCDs, such as higher contrast, higher resolution, wider viewing angles, higher response speeds, and lower energy consumption. In addition, because the light emitting materials for PLEDs are self-luminescent, emitting light in the three primary colors of red, green and blue, PLED displays do not require the backlights, and often even the color filters, that are necessary for LCDs, making their structure simpler. As a result, it is possible to produce thinner, lighter display panels with PLEDs.

Compared with small molecule organic LED (SMOLED) technology, moreover, PLED technology has great potential to realize more cost-effective production of display panels. SMOLEDs use the vacuum deposition method to form the light-emitting layer on each pixel of the display panels, a process

that requires complex facilities and equipment. PLEDs, on the other hand, enable the light-emitting layer to be formed using printing methods such as ink jet printing. Therefore, PLEDs do not require costly vacuum processing equipment and can save investment in production facilities. We expect PLED technology to deliver considerable cost advantages, particularly when applied in the production of large displays.

Accelerating Development to Bring PLEDs to Market

We began development of PLEDs in the late 1980s, and since then have accumulated a wealth of technologies in this field. To strengthen our PLED development capabilities, we acquired Dow Chemical's PLED business in 2005. Later the same year, we formed the joint venture SUMATION with Cambridge Display Technology (CDT), a pioneer in this field, for the development, production and sales of PLED materials. Through these efforts, we have vastly improved the performance of our luminescent materials, which have reached the level of commercial use in display panels. Our red luminescent material has achieved a lifetime nearly 90,000 hours, and our green material, a lifetime close to 80,000 hours, at 1,000 candelas per square meter. For blue luminescent materials, which have



Applications of PLEDs



Mobile phone



Large screen display



Flexible display



Lighting equipment

the shortest lifetimes among the three primary colors, our material has achieved a lifetime of over 15,000 hours. In order to further step up our development of luminescent materials and PLED display technologies and accelerate our drive to bring PLEDs to market, we acquired CDT, which possesses extensive technologies and patents ranging from PLED materials to displays, in September 2007.

Commercialization

The global market for organic light emitting diodes, including PLEDs and SMOLEDs, estimated at approximately US\$600 million

as of 2007, is expected to see rapid growth and reach \$3 billion in 2010 and \$5 billion in 2015, according to the forecasts by DisplaySearch, a well-known marketing research company.

We are considering alliances with display manufacturers, and are working to develop PLED businesses targeting applications for various flat panel displays, from small displays for mobile phones to large displays for high-definition televisions. In May 2008, a wearable mobile display headset using our PLED materials was commercialized. In addition, we are developing flexible displays and applications for lighting using PLEDs, taking advantage of the special characteristics that make possible light, thin, flexible panels.

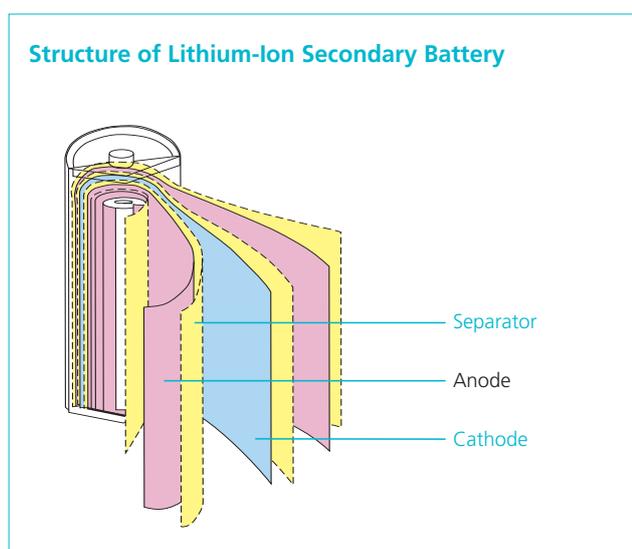
Energy-related Materials

Development of Energy-related Materials

In the area of energy-related materials, we are developing a wide range of materials, from heat-resistant separators and cathode materials for lithium ion secondary batteries to carbon materials for automotive capacitors, polymer electrolyte membranes for fuel cells, and silicon for solar batteries. We have been making extensive use of our Creative Hybrid Chemistry in this field, combining our core technologies in polymer functions design, advanced polymer processing, crystal structure control and calcinations.

Heat-Resistant Separators

Worldwide demand for lithium-ion secondary batteries is growing for applications in mobile devices such as mobile phones and notebook computers, and is anticipated to increase from 2.7 billion units in 2007 to 3.4 billion units in 2011. A heat-resistant separator is one of the key components of lithium-ion secondary batteries. Because customers are seeking longer life and higher capacity in lithium-ion secondary batteries, safety and durability have become increasingly important performance requirements for separators. Our high-performance separator, Pervio®, composed of an aramid layer and a polyolefin substrate, exhibits greater heat resistance than conventional products, and has been evaluated favorably by battery manufacturers for its safety



and reliability. From the middle of 2008 to the beginning of 2009, we will expand our production capacity for Pervio® in stages to 25 million square meters per year.

Cathode Materials

In the area of cathode materials for lithium-ion secondary batteries, we are continuing to make advances in the development of high-capacity, highly reliable nickel-type cathode materials as well as an innovative new high-output cobalt-free cathode material. Until now, it was thought to be difficult to manufacture high performance cathodes without using the rare metal cobalt, which is in short supply worldwide. Our cobalt-free cathode material does not use cobalt but has achieved a higher output and the same level of capacity as conventional cathodes that include cobalt. Our cobalt-free cathode material is expected to find applications in lithium-ion secondary batteries for use in hybrid automobiles, which are forecast to see rapid demand growth from 2011 onward, and we have received praise for the performance of this material from both automobile and battery manufacturers. We are accelerating development to commercialize the cobalt-free cathode material as soon as possible, and conducting a detailed study of plans for commercial-scale production.

Life Sciences

In life sciences, we have applied genomic technology to our research and development of new pharmaceuticals and agrochemicals. In the area of pharmaceuticals, we have discovered a lead compound, called HSc025, for the treatment of fibrosis through our research to elucidate the mechanism of tissue fibrosis suppression on a genetic level. We are now planning to enter into joint development with other companies and out-licensing agreements in order to commercialize HSc025 at the earliest opportunity.

In the area of agrochemicals, we are pursuing the joint development of a new insecticide with the Belgian bio-venture Devgen, which owns a substantial genomic data library and an advanced high-throughput screening technology. Through these efforts, Sumitomo Chemical aims to make the discovery and screening of target compounds for new insecticides more effective and shorten development time.

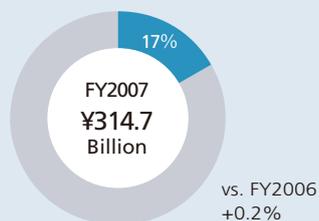
Sumitomo Chemical at a Glance

Sector

Net Sales by Sector

Operating Income by Sector

Basic Chemicals



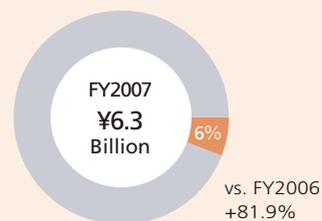
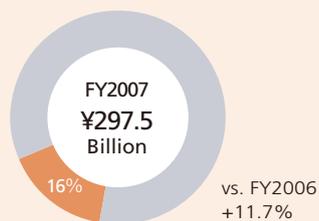
Petrochemicals & Plastics



Fine Chemicals



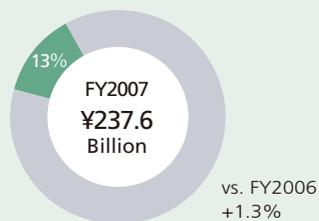
IT-related Chemicals



Agricultural Chemicals



Pharmaceuticals



Major Products

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

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

Organic intermediates, Active pharmaceutical ingredients, Pharmaceutical intermediates, Polymer additives, Photo and imaging chemicals, Organic rubber chemicals, Dyestuffs, Ethylene-vinylacetate copolymer emulsions

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

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

Ethical pharmaceuticals, Radiopharmaceuticals, Radiation therapy equipment

Major Subsidiaries and Affiliates

Sumitomo Chemical Singapore Pte. Ltd.
Singapore Methyl Methacrylate Pte. Ltd.
Asahi Chemical Co., Ltd.
Sumika Bayer Urethane Co., Ltd.
Ceratec Co., Ltd.
Sumipex (Thailand) Co., Ltd.
LG MMA Corp.

Petrochemical Corporation of Singapore (Pte.) Ltd.
The Polyolefin Company (Singapore) Pte. Ltd.
Phillips Sumika Polypropylene Company
Rabigh Refining and Petrochemical Company
Nihon Oxirane Co., Ltd.

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

O.L.S. Corp.
Dongwoo Fine-Chem Co., Ltd.
Sumika Electronic Materials (Shanghai) Co., Ltd.
Sumika Electronic Materials (Wuxi) Co., Ltd.

Sumika Agrotech Co., Ltd.
Rainbow Chemical Co., Ltd.
Nihon Green & Garden Corp.
Sumika Enviro-Science Co., Ltd.
Sumika Life Tech Co., Ltd.
Valent U.S.A. Corp.
Valent BioSciences Corp.
Sumitomo Chemical do Brasil Repres. Ltd.
Kenogard S.A., Isagro Italia S.r.l.

Dainippon Sumitomo Pharma Co., Ltd.
Nihon Medi-Physics Co., Ltd.

Japan Polystyrene Inc.
Nippon A&L Inc.
Sumitomo Dow Ltd.
Sumika Color Co., Ltd.
Sumika Plastech Co., Ltd.

Sumika Technology Co., Ltd.
Sumika Electronic Materials, Inc.
Sumika Electronic Materials Poland Sp. Z o.o.

Philagro France S.A.S.
Sumitomo Chemical Agro Europe S.A.S.
Sumitomo Chemical (U.K.) plc.
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 Australia Pty. Ltd.
Philagro South Africa (Pty) Ltd.



Basic Chemicals



Basic Chemicals Sector

The Basic Chemicals Sector engages in the development, manufacture and sale of methyl methacrylate (MMA) monomer and polymer, raw materials for synthetic textile fibers such as caprolactam, and a wide variety of basic chemicals used in various manufacturing industries, as well as alumina and other inorganic materials and aluminum.

We have positioned MMA, caprolactam and inorganic materials as the core businesses of the Sector. We are working to strengthen the profitability of these businesses while at the same time seeking to continue growing them globally with a focus on Asia, where demand growth continues to be high.

Performance for Fiscal 2007

In fiscal 2007, the Sector's sales remained almost flat from the previous year at ¥314.7 billion. Sales for caprolactam and acrylonitrile, raw materials for synthetic textile fibers, as well as MMA and other products, increased thanks to firm demand and higher prices, while sales for alu-

minum decreased. Operating income decreased by ¥2.9 billion to ¥10.6 billion, because of increased fixed costs and a rise in feedstock prices that exceeded the increase in selling prices. Under our Three-Year Corporate Business Plan, we aim to achieve sales of ¥320 billion and operating income of ¥24 billion for fiscal 2009.

MMA Business

MMA polymer exhibits outstanding transparency and weather resistance, making it an excellent material for a broad range of uses, such as in optical components for liquid crystal displays (LCDs), automotive applications, showcases, and outdoor signboards. Solid demand is forecast for Asia, thanks to expanding production of LCD

panels and automobiles as well as increasing demand for construction. Demand for MMA polymer in the region is expected to grow by 5% to 7% annually from the current 600,000 tons per year.

The Sumitomo Chemical Group manufactures MMA monomer and polymer in Japan, Korea and Singapore. In order to meet the growing demand in Asia, our subsidiary, Sumitomo Chemical Singapore, completed its Phase III capacity expansion in March 2008, increasing its annual MMA monomer capacity by 90,000 tons to 223,000 tons, and its annual capacity for MMA polymer by 50,000 tons to 100,000 tons. In November 2007, our Korean joint venture, LG MMA, expanded its capacity for MMA monomer by 76,000 tons to

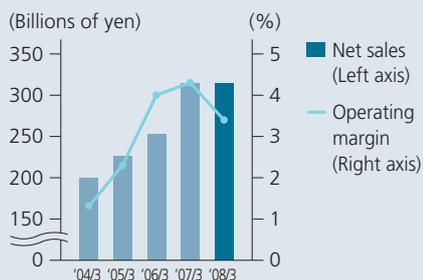


■ Faceplates for wireless phone made of MMA polymer

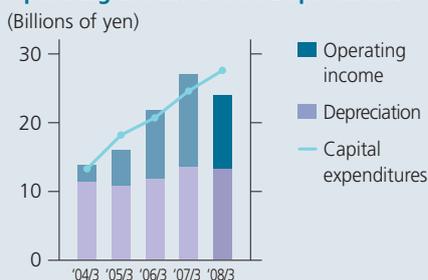


■ MMA plant in Singapore

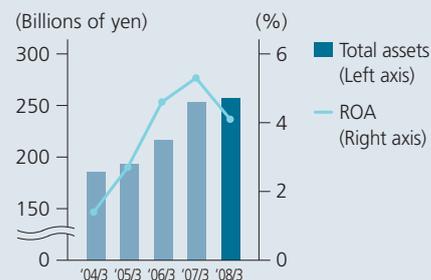
Net Sales & Operating Margin



Capital Expenditures & Operating Income before Depreciation



Total Assets & ROA



176,000 tons annually. With overall annual capacities of 489,000 tons of MMA monomer and 262,000 tons of MMA polymer, the Sumitomo Chemical Group further solidified its position as Asia's top manufacturer.

Caprolactam Business

Caprolactam is a raw material for nylon 6, which is used in synthetic fibers, films and engineering plastics. Demand for nylon 6 in Asia, particularly China, is very strong for applications in clothing textiles, engineering plastics and tire cords, and demand for caprolactam in the region is forecast to see sustained growth of 4% to 5% from the current 2.0 million tons per year.

Sumitomo Chemical has a production capacity of 180,000 tons of caprolactam per year in Japan. We are using our proprietary high-yield vapor phase Beckmann rearrangement process, which avoids the production of ammonium sulfate, a by-product generated in large quantities by the conventional process, allowing the elimination of the additional facilities needed to recover it. The process

also has the advantage of being more energy- and resource-efficient than conventional processes. We will continue to further strengthen the profitability of our caprolactam business by leveraging our proprietary technology that enables us to achieve outstanding productivity and cost competitiveness.



■ Caprolactam for nylon products

Inorganic Materials Business

Sumitomo Chemical provides distinctive high performance inorganic materials, using its advanced technologies for controlling such physical properties as particle size and form. We are the world's leading manufacturer of high-purity alumina, which is increasingly in demand for uses in LED substrates, light-emitting phosphors for LCD backlights and for plasma dis-

plays, semiconductor materials, lithium-ion secondary battery materials and other applications. We also manufacture and sell fine alumina for LCD glass substrates and aluminum hydroxide for halogen-free flame-retardants and artificial marble. In addition, we are working to develop the market for photocatalysts, which eliminate odors and dirt through chemical reactions triggered by the absorption of light. Sumitomo Chemical will continue to expand this business by offering a product line that includes both visible-light sensitive photocatalysts for indoor use and ultraviolet-sensitive photocatalysts for outdoor use, and by developing innovative new products that meet its customers' needs.



■ Alumina powder for ceramic products

Petrochemicals & Plastics



Petrochemicals & Plastics Sector

The Petrochemicals & Plastics Sector engages in the development, manufacture and sale of a wide range of petrochemical products, including: synthetic resins such as polyethylene and polypropylene; synthetic rubber; and organic chemicals such as propylene oxide.

Positioning polyethylene, polypropylene and propylene oxide as the core businesses of this Sector, we are actively investing to expand these businesses and enhance their profitability. We are also seeking to further globalize our operations by leveraging the distinctive competitive advantages of each of our manufacturing bases in Japan, Singapore and North America as well as our new base in Saudi Arabia, where we are constructing a world-scale integrated oil refining and petrochemical complex. Meanwhile, we continue the shift toward higher value-added businesses in this sector by continually developing advanced products and processes.

Performance for Fiscal 2007

In fiscal 2007, the Sector's sales increased by ¥64.3 billion to ¥603.3 billion. Sales of polyethylene and polypropylene increased because of higher selling prices in Japan and elsewhere in Asia. Sales of other petrochemical products also increased as a result of higher market prices. Operating income decreased by ¥19.1 billion to ¥4.5 billion, because of selling price increases that lagged behind the rise in feedstock prices, as well as the impact of a large-scale maintenance shutdown of manufacturing plants undertaken once in four years. Under our Three-Year Corporate Business Plan, we aim to achieve sales of ¥860 billion and operating income of ¥25 billion for fiscal 2009.

Rabigh Project

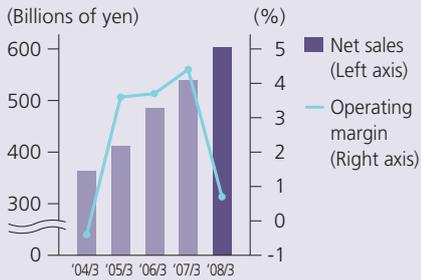
Petro Rabigh, our affiliate founded with Saudi Aramco, the world's largest oil company, is currently constructing a world-scale integrated oil refining and petrochemical complex in Rabigh, Saudi Arabia. Construction of the complex, which started in March 2006, is progressing toward the start of commercial operations in the fourth quarter of 2008. Using 400,000 barrels per day of crude oil and 1.2 million tons

per year of ethane as feedstock, Petro Rabigh will produce a wide range of refined petroleum products and petrochemical products, including 900,000 tons of polyethylene, 700,000 tons of polypropylene, 200,000 tons of propylene oxide and 600,000 tons of mono-ethylene glycol annually. Capitalizing on the outstanding cost competitiveness of the complex, we will actively market its petrochemical products mainly to Asia, and, at the same time to Europe, taking advantage of its geographic proximity. We are currently engaged in pre-marketing activities in these markets. Petro Rabigh was listed on the Saudi Arabian stock exchange on January 27, 2008, following its initial public offering (IPO). Sumitomo Chemical and Saudi Aramco will continue to provide strong support to Petro Rabigh under our close cooperative framework.

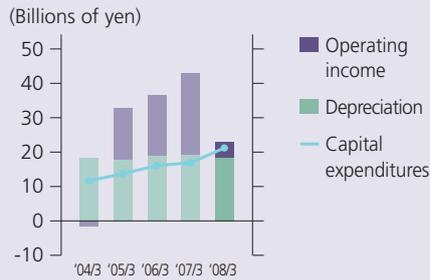
Polyethylene Business

Global demand for polyethylene (PE) is estimated at 65 million tons annually and is expected to grow at an annual rate of nearly 5%. We operate PE manufacturing facilities in Japan and Singapore. With the aim of further enhancing the profitability of the business, we are stepping up marketing efforts for our Easy

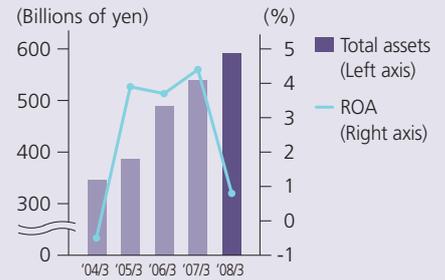
Net Sales & Operating Margin



Capital Expenditures & Operating Income before Depreciation



Total Assets & ROA



Processing Polyethylene (EPPE), which combines high strength and ease of processibility. We are also actively working to expand our low-density polyethylene (LDPE) business in the area of high value-added applications, such as waterproof laminates for paper and plastic films, and surface protecting films for electronic products. The start of Petro Rabigh's commercial operations will give us a third PE manufacturing base and will bring our global PE production capacity to 1.5 million tons per year.



■ Polyethylene products

Polypropylene Business

Global demand for polypropylene (PP) is estimated at 44 million tons annually and expected to grow at an annual rate of over 6%. We have PP production facilities in Japan, Singapore and North America. With the startup of Petro Rabigh's new

facility in Saudi Arabia, our global PP production capacity will reach 2.0 million tons per year. We will shift our PP business toward higher value-added applications, including our PP compounds for automotive parts. In 2006, we started operation of a new PP compound plant in Zhuhai in southern China, where we will soon expand production capacity. We acquired PP compound manufacturing facilities in England and France in 2007, establishing an operational base in Europe, in addition to beginning construction of a new compound manufacturing plant outside Atlanta in the U.S., which will commence commercial operation in 2009. We also have decided to build new compound manufacturing bases in Thailand and Saudi Arabia.



■ Polypropylene compound plant in France

Propylene Oxide Business

Propylene oxide (PO) is used mainly as a raw material for polyurethanes. In Japan, Sumitomo Chemical has an annual PO production capacity of 200,000 tons using its PO-only process, and Nihon Oxirane, our joint venture with LyondellBasell, has a production capacity of 181,000 tons utilizing the PO/SM (styrene monomer) process. An additional capacity of 200,000 tons of PO per year using our PO-only process is under construction at Petro Rabigh's complex in Saudi Arabia, further reinforcing our position as Asia's number-one player in the industry.



■ Propylene oxide plant

Fine Chemicals



Fine Chemicals Sector

The Fine Chemicals Sector engages in the development, manufacture and sale of specialty chemicals, such as resorcinol, rubber additives, and polymer additives; as well as pharmaceutical chemicals.

While maintaining our high profitability, we are working to further enlarge the scale of our business by concentrating our business resources in the Sector's core businesses of resorcinol, polymer additives and pharmaceutical chemicals.

Performance for Fiscal 2007

In fiscal 2007, the Sector's sales increased by ¥2.1 billion to ¥92.9 billion. Sales of pharmaceutical chemicals increased thanks to strong shipments, while sales of resorcinol remained flat from the previous year, mainly because of weak demand in construction applications. Operating income decreased by ¥1.7 billion to ¥11.4 billion, mainly due to rise in feedstock costs. Under our Three-Year Corporate Business Plan, we aim to achieve sales of ¥110 billion and operating income of ¥15 billion for fiscal 2009.

Resorcinol Business

Resorcinol is used as a raw material for adhesives for bonding tire rubber with reinforcing material, adhesives for wood and flame-retardants used in construction applications, as well as raw materials for ultra-violet absorbents and other functional chemicals. The worldwide demand for resorcinol is estimated at 60,000 tons per year, and is expected to grow at an annual rate of 4% with an increase in demand for automobiles in emerging markets, particularly Asia.



■ Resorcinol plant

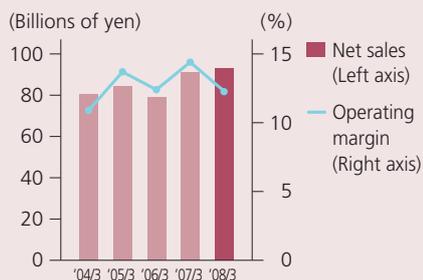
We are supplying highly cost-competitive resorcinol by leveraging our outstanding manufacturing technology and world-scale production capacity at our operational base in Chiba, Japan. In order to meet the

increasing demand in Asia, we expanded resorcinol production capacity to over 20,000 tons annually in September 2007. In addition, we will construct a new resorcinol plant in Oita, Japan. The plant, which is scheduled to start operation in early 2010, will boost our production capacity to 30,000 tons annually. Along with these capacity expansions, we are stepping up our sales activities in Asia. Through these efforts, we seek to consolidate our position as the top manufacturer of resorcinol and also expand our resorcinol business and enhance its profitability as the main driving force of medium- to long-term growth for the Sector.

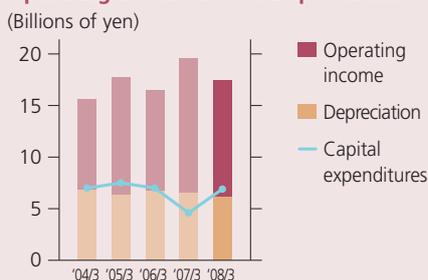
Polymer Additives Business

Polymer additives are specialty chemicals added to synthetic resins and synthetic rubber to inhibit their deterioration during manufacture, processing and use. Our main products are Sumilizer GP, used in processing synthetic resins to improve their stability, and Sumilizer GA-80, used to inhibit the deterioration of synthetic resins resulting from oxidation.

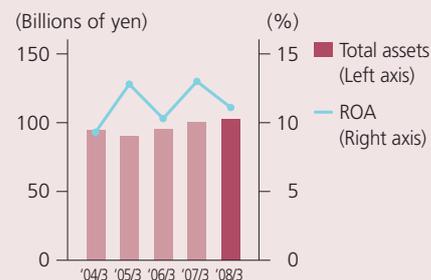
Net Sales & Operating Margin



Capital Expenditures & Operating Income before Depreciation



Total Assets & ROA



Capitalizing on our outstanding R&D capabilities, we have been providing high-performance polymer additives that outperform competing products. As competition in the market for synthetic resins has become increasingly intense in recent years, resin manufacturers are striving to differentiate their products. By providing high-performance products that satisfy our customers' growing needs for differentiation, we will continue to expand our polymer additives business.



■ Polymer additives

Pharmaceutical Chemicals Business

We are supplying pharmaceutical manufacturers with active pharmaceutical ingredients (API) and their intermediates. Facing intense competition, global pharmaceu-

tical majors are concentrating their resources on research and development of new drugs as well as marketing, while outsourcing non-core activities, in particular industrial-scale production of APIs and their intermediates, to boost their competitiveness. Against this backdrop, the global market for pharmaceutical chemicals, currently estimated at ¥3 trillion, is expected to more than double over the next several years.

We are one of the world's top manufacturers of pharmaceutical chemicals and possess the latest GMP-compliant quality assurance capabilities and advanced organic synthesis and process industrialization technologies. By leveraging our accumulated technology and expertise, and integrating R&D, manufacturing and sales capabilities, we are meeting the exact needs of pharmaceutical manufacturers in a timely manner and providing a stable supply of high quality products.

Working with our subsidiaries, Sumitomo Chemical Europe and Sumitomo Chemical America, we are undertaking various initiatives to seize new business opportunities in Europe and the U.S. For example,

we are increasing our sales force in those regions and expanding our local GMP-compliant warehouses to enhance our logistics capabilities. We are also developing closer collaboration with major European and U.S. pharmaceutical manufacturers for the development of new projects.



■ Pharmaceutical chemical products

IT-related Chemicals



IT-related Chemicals Sector

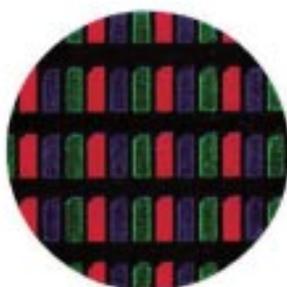
The IT-related Chemicals Sector engages in the development, manufacture and sale of polarizing film, color filters and other materials for liquid crystal displays (LCDs), photoresists used in the manufacture of semiconductors, super engineering plastics and other materials for IT-related products.

The Sector seeks to achieve further growth by focusing its business resources on the three key areas of polarizing film, super engineering plastics, and photoresists.

Performance for Fiscal 2007

In fiscal 2007, the Sector's sales increased by ¥31.1 billion to ¥297.5 billion. Sales volumes of polarizing film increased significantly, spurred by production capacity expansions in response to strong demand in Korea, Taiwan and China. Sales of other LCD materials such as color filters and diffusion panels, super engineering plastics and other products also increased thanks to strong demand. Operating income increased by ¥2.8 billion to ¥6.3 billion, with higher sales volumes and cost reductions exceeding the annual decline in average selling price for LCD materials. Under our Three-Year Corporate Business

Plan, we aim to achieve sales of ¥470 billion and operating income of ¥40 billion for fiscal 2009.



■ Color filter

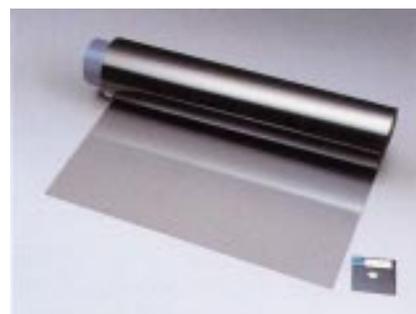
Polarizing Film Business

Our polarizing film business is the mainstay of the Sector's core LCD-related materials business. According to DisplaySearch projections, worldwide demand for large-screen LCDs will increase at an annual rate of 14%, from 274.4 million units in 2006 to 346.1 million units in 2007 and 446.5 million units in 2009.

Sumitomo Chemical currently boasts the second largest market share globally for polarizing film, a key material used in LCDs, and operates production facilities in Japan, Taiwan, Korea, China and Poland. Thanks to improvement in functionality and cost reductions resulting from mass production

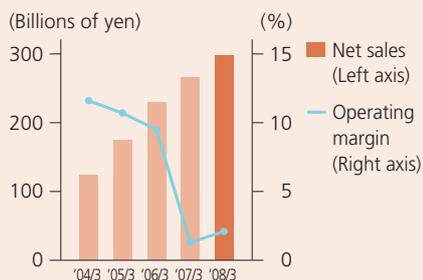
technologies, large-screen LCD televisions have become more widely used, driving an increasing demand for polarizing film. In response to this situation, we started operation of a new production line for polarizing film in Korea in April 2008 and will start another production line in Japan in the second half of 2008. This has increased our total annual production capacity by 24 million square meters to 71 million square meters. Going forward, we will fully capitalize on our five manufacturing bases to promptly and flexibly meet the needs of LCD panel manufacturers worldwide.

On the development front, we are working to expand our polarizing film product line to meet the diverse needs of our customers. We are developing high-performance materials with high contrast and excellent visibility from wider viewing angles for the high-end LCD market, while intro-

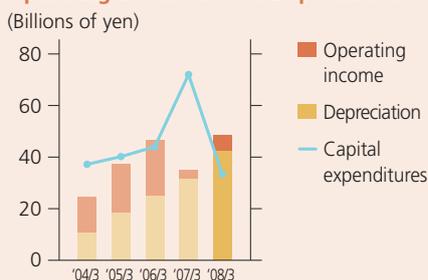


■ Polarizing film

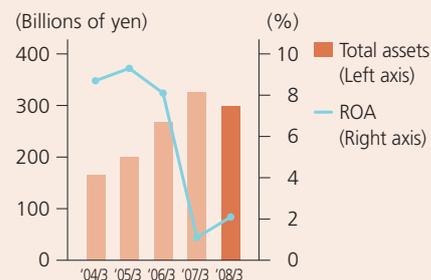
Net Sales & Operating Margin



Capital Expenditures & Operating Income before Depreciation



Total Assets & ROA



ducing cost competitive materials for the low-end LCD market.

Super Engineering Plastics Business

Sumitomo Chemical is engaged in the development, manufacture and sale of super engineering plastics such as liquid crystal polymer (LCP) and polyethersulfone (PES). LCP is a high-strength, heat-resistant and chemical-resistant resin used in such applications as electronics components and parts for office automation equipment. PES is a heat-resistant, impact-resistant resin with a high degree of dimensional accuracy used in composite materials for aircraft, parts for hard disc drives and other applications. High growth in global demand for both LCP and PES is expected, thanks to increasing demand for these materials in electronic equipment and aircraft.

In order to meet the growing demand, we expanded our annual production capacity for PES in 2007 from 2,500 tons to 3,000 tons. For LCP, we have decided to increase neat resin production capacity by the end of 2008 from 7,000 tons to 9,200 tons annually and also to start production of LCP compound in China at the beginning of

2009, with a capacity of 2,400 tons per year. In order to step up our marketing of LCP, we established a customer support center in Shanghai, China. The new center enables us to provide effective and prompt technical support directly to major global customers who locate production bases in China.



■ Polyethersulfone

Photoresists Business

Photoresists are chemicals used in semiconductor manufacturing processes. Semiconductor manufacturers are fiercely competing to develop new manufacturing processes to further miniaturize circuits, which require more advanced lithographic technology to pattern finer circuit lines. Sumitomo Chemical has been developing high-performance photoresists to satisfy customer requirements that are becoming increasingly stringent as rapid

strides are made in micro-patterning process technology. At present, in addition to the conventional dry ArF exposure process, the semiconductor industry is beginning to adopt the new ArF immersion exposure process. Through focused R&D efforts, we have developed a new photoresist for this cutting-edge semiconductor manufacturing process. A major industry user has adopted this product, and we anticipate broad acceptance of the product in the industry. We decided, therefore, to construct a new dedicated production facility in Osaka equipped with devices for performance evaluation, including the latest ArF immersion scanner. Sumitomo Chemical will continue to develop and launch advanced photoresists in a timely manner in response to further advances in semiconductor manufacturing processes.



■ Photoresists

Agricultural Chemicals



Agricultural Chemicals Sector

The Agricultural Chemicals Sector engages in the development, manufacture and sale of agrochemicals, such as insecticides, fungicides, herbicides and plant growth regulators; fertilizers; household and public hygiene insecticides; and feed additives for poultry and other livestock farming.

In this Sector, we are working to make our R&D stronger and more efficient, and shorten the time to market in order to achieve business expansion and higher profitability. We are also fully capitalizing on the global development and marketing capabilities that we have established not only in the major markets of Japan, the U.S. and Europe, but also in the growing markets of Africa, South America, Oceania and Asia.

Performance for Fiscal 2007

In fiscal 2007, the Sector's sales increased by ¥2.1 billion to ¥200.4 billion. Sales of agrochemicals in Japan increased thanks to a recovery in shipments following a wave of inventory adjustments by customers. Feed additives saw an increase in sales owing to higher selling prices resulting from growing demand. Shipments of

household insecticides in overseas markets were strong. Despite the rise in sales prices and increase in shipment volumes, operating income decreased by ¥2.3 billion to ¥20.9 billion, because of one-time costs associated with the integration of our subsidiary Sumitomo Chemical Takeda Agro, our joint venture with Takeda Pharmaceutical Co., Ltd. Under our Three-Year Corporate Business Plan, we aim to achieve sales of ¥230 billion and operating income of ¥35 billion for fiscal 2009.

Agrochemical Business

In our agrochemical business in Japan, we are aiming to increase our market share and broaden the scope of our business by developing attractive new products in-house, and through mergers and acquisitions. In November 2007, we integrated Sumitomo Chemical Takeda Agro into Sumitomo Chemical's agrochemical business. Through this integration, we seek to achieve greater efficiency in our operations. We are also working to strengthen our relationship with farmers, who are end users of our products, in order to consolidate our revenue base. Our initiatives include offering farmers total solutions that combine the supply of agrochemicals and fertilizers with various kinds of

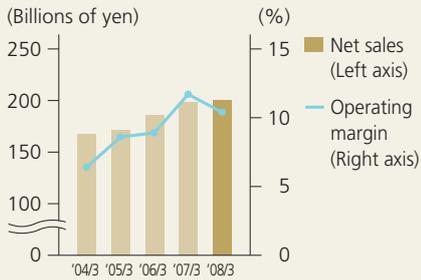
technical services as well as logistics support for the distribution of their produce.



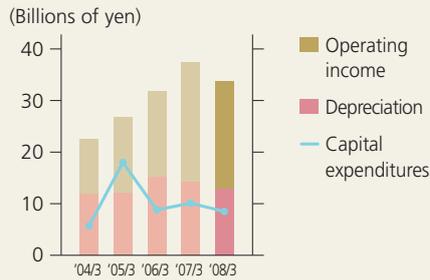
■ Crop protection products

Our overseas agrochemical business continues to face intense competition from multinational majors and generic manufacturers. We are responding to this situation by concentrating our business resources on selected product segments and regions where we have competitive advantages. At present, we are focusing our efforts in specialty areas such as insecticides and fungicides for fruits and vegetables as well as plant growth regulators. In addition, we are continuing the drive to distribute the excellent agrochemical products of Japanese manufacturers to overseas markets, taking advantage of our capabilities for the development and registration of agrochemicals overseas as well as our global sales network.

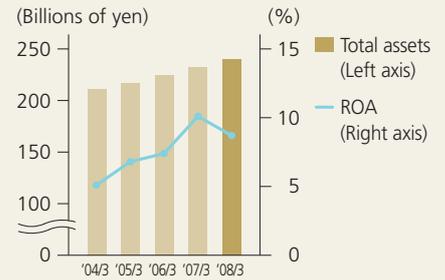
Net Sales & Operating Margin



Capital Expenditures & Operating Income before Depreciation



Total Assets & ROA



In July 2007, we acquired an 80% stake in Interfarm, a company engaged in the development and distribution of crop protection products in the UK, Europe's fourth largest crop protection market. This acquisition has further strengthened the presence of our agrochemical business in Europe.

Environmental Health Chemicals Business

We are working to expand our environmental health chemicals business not only in the Japanese market, but also in North America and Asia, particularly in high-growth markets such as China, by actively developing the market for our new products such as Eminence®/SumiOne®, an active ingredient for household insecticides that evaporates at room temperature, and Fairytale®, a moth repellent for garments.



■ Household insecticides containing our products

We are also stepping up marketing activities for our OLYSET® Net, a long-lasting insecticidal bed net for malaria control, made from polyethylene fibers impregnated with the insecticide permethrin. In 2007, a joint venture in Tanzania started operation of a new OLYSET® Net production plant, bringing our total worldwide production capacity to 30 million nets per year.



■ OLYSET® Net

In Japan, our subsidiary Shinto Fine Co., Ltd. integrated its operations with those of YUKO Chemical Industries Co., Ltd. to form Sumika Enviro-Science Co., Ltd. in March 2007. The integration will expand our product line in the area of formulated products for pest control and help strengthen our downstream activities in the environmental health chemical business.

Feed Additives Business

Our feed additives business engages in the manufacture and sale of DL-methionine, a feed additive used primarily in poultry farming. DL-methionine is expected to see continuing high demand growth, particularly in Asia, as the region's emerging economies prosper and their populations grow. We have been expanding our production capacity to meet the growing demand, and currently boast a highly cost competitive capacity of 96,000 tons per year. In order to better meet our customers' needs, we have enhanced our product line to offer not only conventional DL-methionine in a powdered form but also liquid hydroxy analog methionine. By leveraging these strengths, we will further consolidate our position as Asia's top producer.



■ DL-methionine

Pharmaceuticals



Pharmaceuticals Sector

Sumitomo Chemical's Pharmaceuticals Sector is centered on Dainippon Sumitomo Pharma's ethical pharmaceuticals business and Nihon Medi-Physics' radiopharmaceuticals business.

Performance for Fiscal 2007

In fiscal 2007, the Sector's sales increased by ¥3.0 billion to ¥237.6 billion. Sales of Dainippon Sumitomo Pharma's four main products, *Amlodin* (therapeutic agent for hypertension and angina pectoris), *Gasmotin* (gastroprokinetic), *Prorenal* (vasodilator) and *Meropen* (carbapenem antibiotic), remained strong. Operating income decreased by ¥9.8 billion to ¥46.5 billion because of increases in research and development and other expenses. Under our Three-Year Corporate Business Plan, we aim to achieve sales of ¥265 billion and operating income of ¥51 billion for fiscal 2009.

Dainippon Sumitomo Pharma

Mid- to Long-Term Vision

Dainippon Sumitomo Pharma (DSP) has developed its Mid- to Long-Term Vision,

under which the company will become a research-driven pharmaceuticals company with the capabilities for competing in the global market by further strengthening the revenue base of its domestic operations, developing overseas sales capabilities for its products and enriching its product pipeline over the next ten years.

DSP's Initiatives under its Mid-Term Business Plan

As a first step toward achieving this vision, the company formulated its Mid-Term Business Plan for the three years through 2009 and is working on the following initiatives under the Plan.



■ Amlodin OD tablet

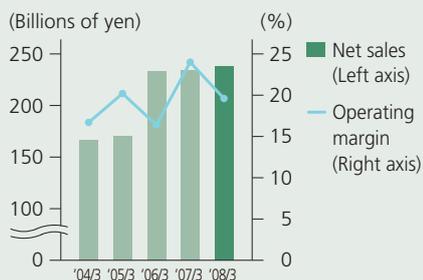
(1) Establish More Solid Revenue Base in Domestic Business

In order to further strengthen the revenue base of its domestic business, DSP will continue its efforts to expand the sales of its four main products. One of the avenues DSP is employing for sales expansion is leveraging a web-based marketing support system to actively provide doctors with information about its products. At the same time DSP will accelerate market development for its new product, *Lonasen* (agent for the treatment of schizophrenia), by increasing the number of medical representatives who serve psychiatric hospitals.

(2) Develop Overseas Sales Operation

DSP is working to expand its overseas business, with a primary focus on the US, the world's largest pharmaceutical market. In August 2007, DSP's agent for the treatment of schizophrenia, lurasidone, entered Phase III clinical trials in the U.S. DSP expects lurasidone to become a foundation for the expansion of its sales in the US market. In the U.S., DSP is currently expanding its development capabilities by enhancing its local clinical research staff, and the company is also planning to start developing its own sales operations.

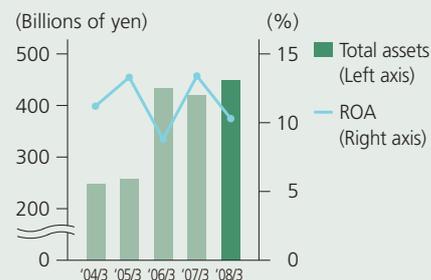
Net Sales & Operating Margin



Capital Expenditures & Operating Income before Depreciation



Total Assets & ROA



(3) Enrich the Product Pipeline

In order to develop a strong product pipeline, DSP is strengthening its research capabilities through various initiatives. The company is implementing focused R&D investment in priority areas, such as diabetes and cardiovascular diseases, central nervous system disorders, and inflammation and allergies. DSP is also collaborating with outside research organizations in exploring promising drug leads, while engaging in co-development as well as licensing to enhance its late-stage pipeline.

Nihon Medi-Physics

Nihon Medi-Physics (NMP) is engaged in the research and development, manufacture and supply of radiopharmaceuticals, which are effective in the early detection of brain and heart diseases and malignant tumors. NMP's major business is diagnostic radiopharmaceuticals for in-vivo administration, where NMP holds the largest share in the Japanese market.

PET Diagnostic Radiopharmaceutical Business

PET (positron emission tomography) is an innovative diagnostic imaging procedure

that utilizes a tiny amount of radiopharmaceutical as a tracer. It is useful in the early diagnosis of diseases, such as in detecting malignant tumors. By injecting the radiopharmaceutical 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. NMP has actively been promoting FDGScan Injectable, its radiopharmaceutical for PET.

FDGScan Injectable, which has been covered by Japan's National Health Insurance since 2005, has been enjoying steady demand growth. In Japan, NMP has established nine manufacturing facilities and the company's co-development partner has also established one facility. These facilities enable the speedy, reliable delivery of FDGScan Injectable, which uses a

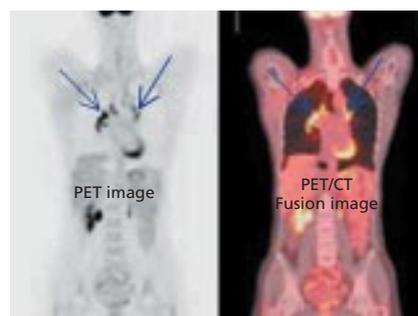
radioisotope (^{18}F) with a remarkably short half-life of about two hours.

Expanding beyond the Diagnostic Field

Beyond the diagnostic field, NMP is selling radiation therapy equipment used in brachytherapy for prostate cancer. In addition, in October 2007, the company began sales of Metastron, a therapeutic radiopharmaceutical that provides pain relief for cancer patients suffering from bone metastasis.



Metastron injectable



PET images of breast cancer (lung metastasis)

DSP's Product Pipeline

Brand Name/ Product Code	Generic Name	Formulation	Efficacy or New Indication	Development Location	Development Stage				Remarks
					Phase I	Phase II	Phase III	NDA Filed	
Diabetes									
SMP-508	repaglinide	Oral	Diabetes	Japan	██████	██████	██████		In-licensed from Novo Nordisk AS
AS-3201	ranirestat	Oral	Diabetic neuropathy	Japan	██████	██████			Developed in-house; co-developed with Kyorin Pharmaceutical Co., Ltd.
				U.S.	██████	██████	██████		Licensed to Eisai Co., Ltd.
SMP-862	metformin hydrochloride	Oral	Diabetes	Japan	██████	██████			In-licensed from Merck Santé SAS
DSP-3235	Not determined	Oral	Diabetes	Japan	██████				In-licensed from Kissei Pharmaceutical
DSP-7238	Not determined	Oral	Diabetes	Europe	██████				Developed in-house
DSP-8658	Not determined	Oral	Diabetes	U.S.	██████				Developed in-house Preparing for Phase I
Central Nervous System Disorders									
AD-810N	zonisamide	Oral	Parkinson's disease (new indication)	Japan	██████	██████	██████	██████	Developed in-house
SM-13496	lurasidone	Oral	Schizophrenia	Japan	██████	██████	██████		Developed in-house
				U.S./ Europe, etc.	██████	██████	██████		
AD-5423	blonanserin	Oral	Schizophrenia	U.S./Europe	██████	██████			Developed in-house
AC-3933	radequinil	Oral	Dementia	Japan	██████	██████			Developed in-house
				U.S./Europe	██████	██████			
Inflammation and Allergy									
SMP-114	rimacalib	Oral	Rheumatoid arthritis	Japan	██████	██████			Developed in-house
				Europe	██████	██████			
SMP-028	Not determined	Oral	Bronchial asthma	U.S.	██████				Developed in-house
TLR7 agonist	Not determined		Bronchial asthma, allergic rhinitis	Japan	██████				Developed in-house Preparing for Phase I
				Europe	██████				Licensed to AstraZeneca
Others									
SUMIFERON®	interferon-alfa (NAMALWA)	Injection	Compensated cirrhosis associated with chronic hepatitis C (new indication)	Japan	██████	██████	██████	██████	In-licensed from GSK
GASMOTIN®	mosapride citrate	Oral	Improvement in bowel cleansing by orally gastrointestinal lavage solution prior to barium enema X-ray examination	Japan	██████	██████	██████	██████	Co-development with Ajinomoto Co., Inc.
SM-11355	miriplatin hydrate	Injection	Hepatocellular carcinoma	Japan	██████	██████	██████	██████	Developed in-house
MEROPEN®	meropenem hydrate	Injection	Febrile neutropenia (new indication)	Japan	██████	██████	██████		Developed in-house
SMP-986	Not determined	Oral	Overactive bladder syndrome	Japan	██████				Developed in-house
				U.S./Europe	██████	██████			
CALSED®	amrubicin hydrochloride	Injection	Cancer	U.S./Europe	██████	██████	██████		Licensed to Celgene (transferred from Pharmion)
DOPS	droxidopa	Oral	Synthetic precursor of norepinephrine	U.S./Europe	██████	██████	██████		Licensed to Chelsea
AG-7352	Not determined	Injection	Cancer	North America	██████	██████			Licensed to Sunesis Pharmaceuticals Inc.
SMP-601	Not determined	Injection	Life-threatening infection	U.S.	██████	██████			Licensed to Protez Pharmaceuticals Inc.

(As of May 9, 2008)

Corporate Social Responsibility..... 32

Corporate Governance 37

Compliance 38

Board of Directors & Corporate Auditors 40

Corporate Social Responsibility

Our Corporate Social Responsibility

Sumitomo Chemical's business dates back to 1913, when the Company sought to solve the problem of pollution caused by sulfur dioxide emissions from smelting operations at the Besshi Copper Mine in the Shikoku region of Japan. The Company got its start by using the emitted sulfur dioxide to produce sulfuric acid and calcium superphosphate fertilizers. This not only mitigated an environmental problem by curbing the emission of pollutants, but also helped to increase crop yields by providing useful fertilizers.

Since then, we have been working toward building a better life for people and remain committed to addressing environmental issues and making positive contributions to society. This commitment constitutes the core principles of our corporate social responsibility (CSR). CSR helps foster the trust and support from society that is essential to the conduct of sound business.

In November 2004, we developed our "Basic CSR Policy" reflecting our business philosophy, management principles and charter for business conduct. We will continue to strengthen our CSR initiatives based on this policy.

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.



CSR Management

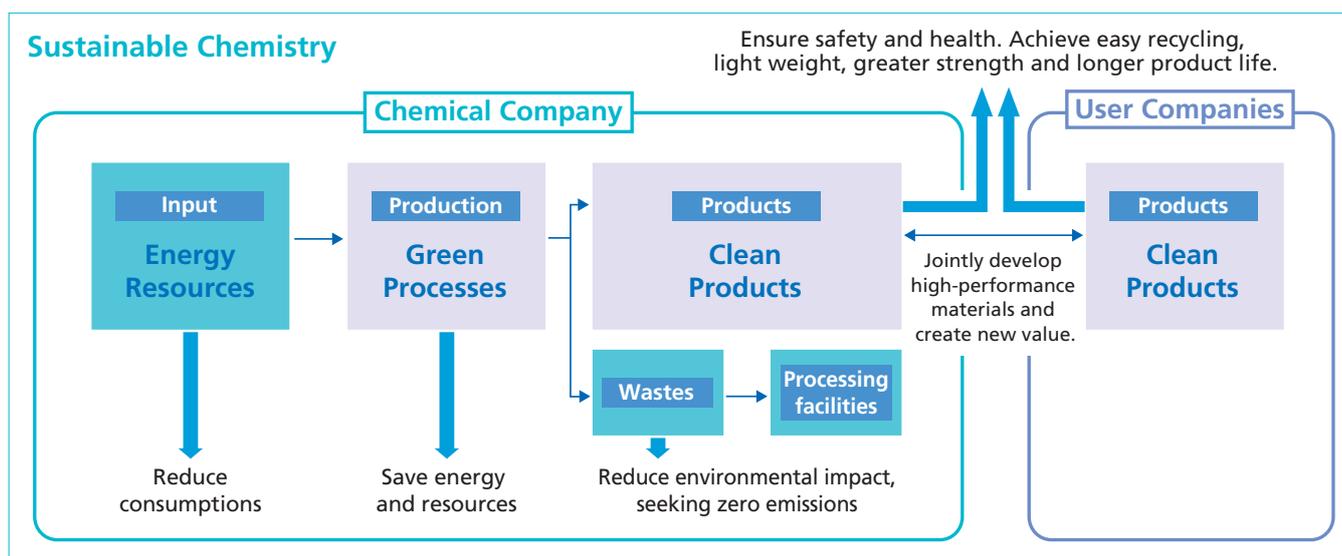
We consider CSR a form of contribution to the sustainable development of society through our business activities. In our operations, we seek to realize “sustainable chemistry,” continually providing useful products and technologies through innovation in a manner more beneficial to society and the environment while balancing the pursuit of business growth with both Responsible Care and social action.

Sustainable Chemistry

Sumitomo Chemical, as a member of the chemical industry, is working to realize sustainable chemistry—contributing to the

enrichment and comfort of people’s lives and the economic growth and sustainable development of society by providing better products and technologies in a more environmentally and socially friendly manner.

While chemical products are used for various applications, and support a host of industries and many aspects of people’s daily lives, they consume significant quantities of valuable resources and energy and generate effluents, emissions and solid wastes in their production. Through continuous innovation, we are working to develop “green processes,” which minimize the environmental impact of chemical production as well as “clean products,” which are more environmentally friendly, safer and better for the health.



Green Processes

One example of a green process is our proprietary PO-only process for the production of propylene oxide. This is an energy-efficient process that enables the production of propylene oxide alone without producing any by-products. In addition, unlike the conventional chlorohydrin process, it does not generate chlorine-containing wastes or wastewater.

Clean Products

The foamed polypropylene resin we have developed is an example of a clean product. Foaming of polypropylene resin was believed to be extremely difficult, but we successfully developed a technology for foaming the resin without compromising its strength by improving the processing method while at the same time enhancing the functions of the resin. This material is contributing to the lightweighting of plastic automotive parts, thereby helping to improve automobile fuel efficiency and reduce greenhouse gas emissions.

Responsible Care Activities

In our effort to realize sustainable chemistry, we actively engage in Responsible Care activities that aim to protect the environment, ensure safety and health, and maintain high product quality throughout the entire life cycle of our products. Such voluntary activities are undertaken not only at Sumitomo Chemical but also extend globally to include our Group companies both in Japan and overseas. We segment our Responsible Care activities into such areas as environmental protection and chemical safety, and set targets individually for each of these areas. In working to achieve these targets, we seek to gain the further trust of society.

We are also strongly supporting the chemical industry's efforts to realize sustainable development that are being led by the International Council of Chemical Associations (ICCA), the global organization of the world's major chemical industry associations representing chemical manufacturers and producers worldwide. ICCA recently identified "Energy and Climate Change," "Chemical Policy and Health" and "Responsible Care" as the industry's global priority issues and organized work groups to initiate responses to each challenge. Sumitomo Chemical's senior management are taking leadership positions in the Energy and Climate Change work group and the Responsible Care work group, and we will continue to play an active role in these industry-led global initiatives.

Environmental Protection Initiatives

Our environmental protection initiatives aim to reduce CO₂ emissions and waste, improve energy efficiency and conserve natural resources. In particular, we have been working to improve operating processes, recover waste energy from our production facilities, increase the efficiency of facilities and equipment, streamline processes, and transform our produc-

tion processes with our proprietary catalyst technology. Progress in these initiatives is described on page 35.

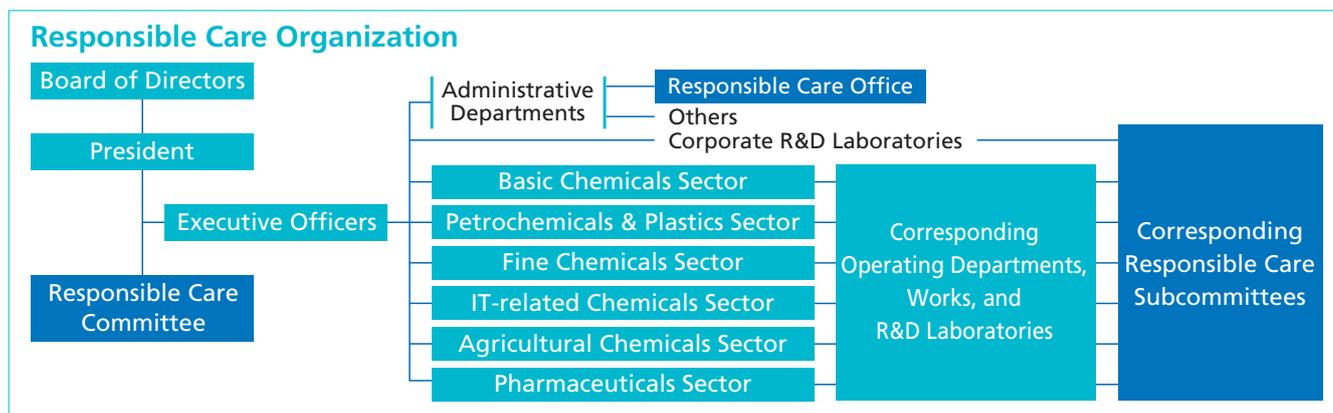
Chemical Safety Initiatives

In recent years, there is a growing requirement in many countries around the world for rigorous risk assessment for chemical substances and their appropriate management. Our Environmental Health Science Laboratory (EHSL) plays a central role in the Company's chemical management initiatives. The EHSL conducts advanced research on chemical safety and management, leveraging a wealth of expertise in safety assessment accumulated over many years and utilizing the latest scientific knowledge and state-of-the-art technologies. Recent efforts by EHSL include improving the accuracy of risk assessment through the use of newly developed simulation models and assembling a comprehensive database of chemical hazards based on the information from in-house and external sources.

The EHSL communicates safety information and the results of risk assessments across the Sumitomo Chemical organization, with a view to ensuring safety and protecting the environment and people's health throughout the life cycle of our products, from development to use and disposal. Europe's REACH (the Registration, Evaluation, Authorization and Restriction of Chemical substances) legislation, which requires stricter chemical substance risk assessment and management, went into effect in June 2007. We will fully utilize our abundant safety information and robust risk assessment capabilities to meet the requirements of the new legislation.

Responsible Care Audits

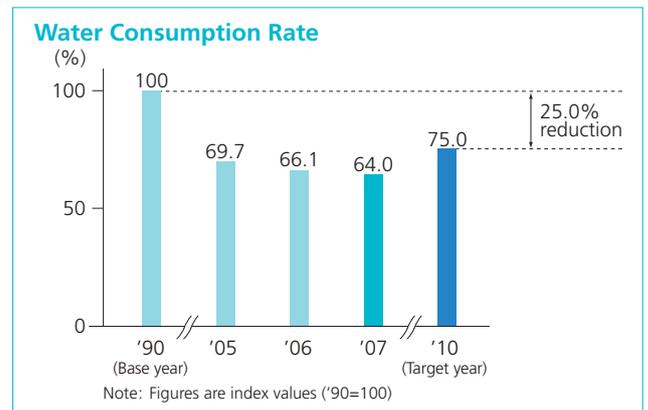
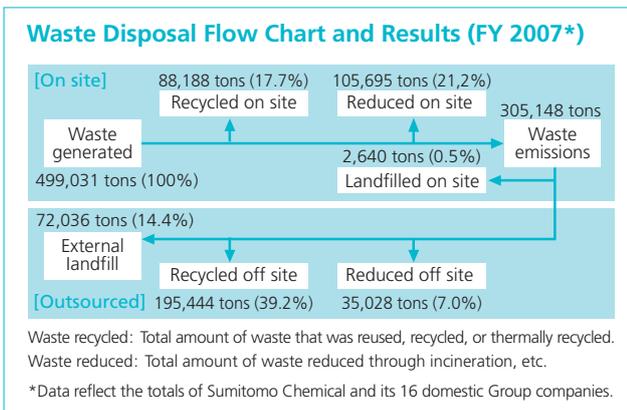
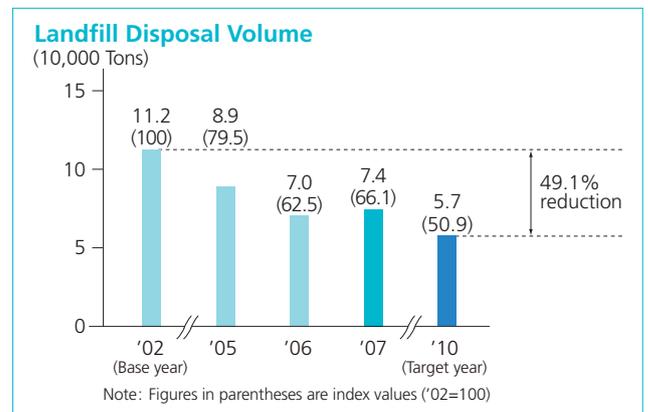
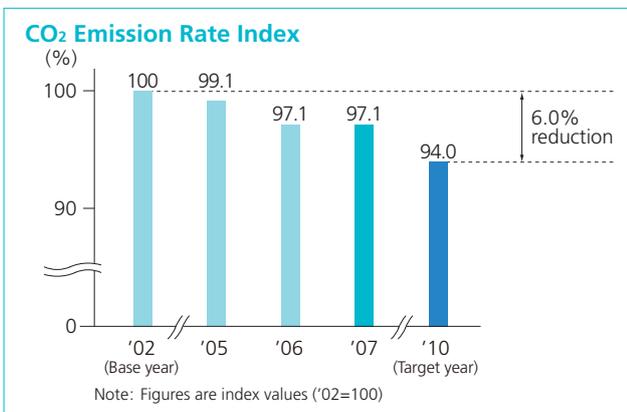
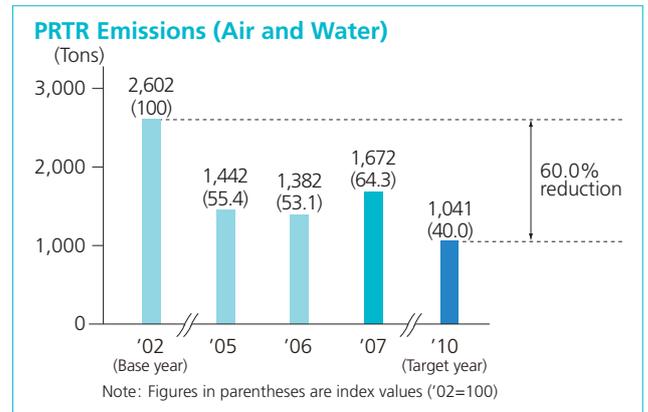
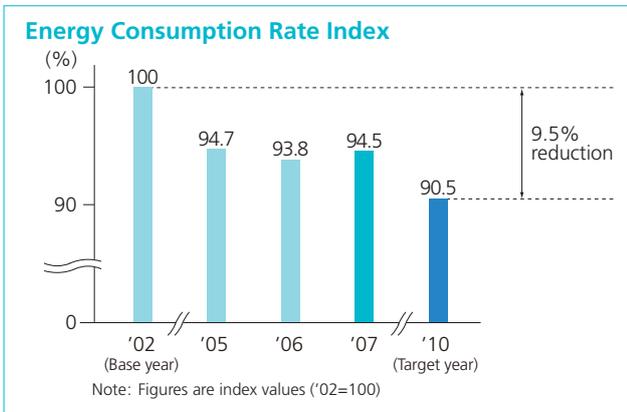
We conduct Responsible Care audits to ensure that Responsible Care activities are carried out properly. The Executive Officer in charge of Responsible Care and members



of the internal Responsible Care Committee conduct management audits of Sumitomo Chemical's plants and laboratories, and Sumitomo Chemical specialists conduct specialized audits of the parent company's plants, laboratories and business sectors and of our Group companies both in Japan and overseas. In fiscal 2007, a total of 38 audits were conducted for Sumitomo Chemical and 40 Group companies.

Promoting Responsible Care Throughout the Group

We are promoting Responsible Care activities throughout the entire Sumitomo Chemical Group. We hold Responsible Care conferences for Japanese Group companies twice a year and a Global Responsible Care Meeting for overseas Group companies once a year. These meetings facilitate the sharing of policies and targets for Responsible Care activities as well as the exchange of information about specific initiatives by Group companies and their progress.



Social Actions—Support for Africa

As part of our CSR activities, we are also working on a variety of social action programs, including efforts centering on malaria prevention to provide support for Africa.

Malaria Control Initiatives

Every year three hundred million people worldwide become infected with malaria, with over a million people dying from the disease, and it continues to inflict serious damage. The majority of fatalities from malaria are concentrated in Sub-Saharan Africa. Efforts to control malaria have not been effective in the region, which suffers from some of the worst poverty in the world today.

Because malaria is carried by mosquitoes, the most effective form of prevention is to protect people from mosquitoes. Capitalizing on our long years of expertise in the development and production of plastics and active ingredients for household insecticides, we developed the Olyset® Net insecticidal mosquito net for malaria control. Olyset® Net is woven with fibers made of polyethylene resin impregnated with household insecticide that migrates to the surface of the fibers, and it has the unique characteristic of retaining its effectiveness over an extended period, even after repeated washings. In 2001, our Olyset® Net was endorsed by the WHO as a Long-Lasting Insecticidal Net (LLIN), and it has been contributing to the prevention of malaria worldwide, particularly in Africa.

In order to meet the increasing demand for our Olyset® Net, we licensed our production technology free of charge to A to Z Textile Mills Limited, a mosquito net manufacturer in

Tanzania, to establish local production capabilities. In addition, we started operation of a new factory in the country, partnering with A to Z Textile Mills to form the joint venture Vector Health International Limited. Our Olyset® Net operations in Tanzania now employ as many as 3,200 people, contributing to local economic development and the creation of employment opportunities.



■ Olyset® Net production in Tanzania

Support for Education in Africa

We have 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, we have been involved in seven projects in five countries to build schools and cafeterias and also have been providing educational materials. In addition, in fiscal 2007, we donated 230,000 Olyset® Nets through supporting organizations.



■ Olyset® Net delivered to local communities



■ Olyset® Net in use

Corporate Governance

Serving the interests of shareholders and other stakeholders in the midst of changing social and economic conditions is the very foundation of our corporate governance.

To further bolster our corporate governance, we will make continuous efforts to promote sound decision making, ensure accountability in the execution of business duties, enhance and strengthen the compliance system and internal audit functions and ensure timely disclosure of important information to the public.

Management Structure

The Company's management currently consists of 12 board directors and 31 executive officers, 12 of whom serve in dual capacity as board directors. The Board of Directors makes decisions regarding important managerial matters and also oversees and supervises the discharge of duties by each individual director in compliance with relevant laws and regulations as well as our articles of incorporation and regulations concerning the Board. The executive officers carry out business operations in accordance with the management strategy determined by the Board. Under the Companies Act of Japan, the company has five corporate auditors with two standing corporate auditors and three outside corporate auditors.

Timely Disclosure

We are committed to providing shareholders, investors, mass media and other stakeholders with important information in a fair, honest and timely manner. The Corporate Communications Department, which has expertise in public and investor relations, leads these efforts to promote effective communication with our stakeholders.

Internal Auditing Structure

Internal auditing is conducted by the Internal Audit Department, which functions independently of the Company's operating departments. The Internal Audit Department audits Sumitomo Chemical as well as its group companies to ensure that internal control functions effectively in the conduct of business by executive officers and employees and also that business is conducted in a proper and appropriate manner. The department reports the results of the audits to the Internal Audit Working Group, which devises measures to improve internal control in Sumitomo Chemical and Group companies in Japan and overseas.

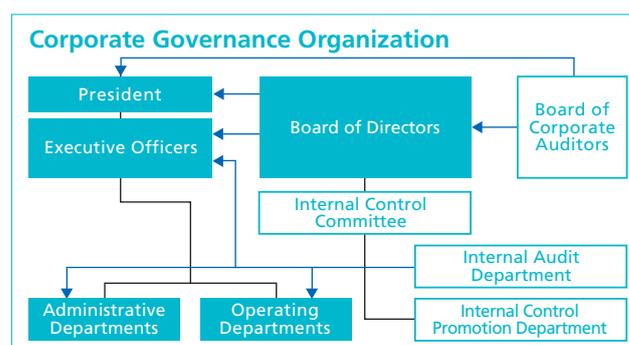
The Responsible Care Office conducts Responsible Care Auditing for all matters concerning the environment, safety, product liability (PL) and product quality.

Enhancing our Internal Control System

We established our Internal Control Promotion Department in April 2007 with the aim of formulating and implementing various measures for enhancing our internal control system. In addition, in May 2007, we established the Internal Control Committee, which deliberates on measures for strengthening the internal control system for the entire Sumitomo Chemical Group and submits proposals for such measures to the Board of Directors. The President acts as Chairman of the Internal Control Committee, while the Executive Vice-President and the executive officer in charge of the Internal Control Promotion Department act as the Committee's Vice-Chairmen. The executive officers in charge of each Sector and the administrative departments make up the Committee's membership. At present, related departments are implementing the measures proposed by the Internal Control Committee, including initiatives to enhance corporate management systems for Group companies and revise internal regulations in order to provide appropriate management practices for the Group.

In April 2008, we began implementing an internal control reporting system in accordance with Japan's Financial Instruments and Exchange Law (J-SOX). In order to meet the standards of J-SOX, we at Sumitomo Chemical and our major Group companies in Japan and overseas have been working to make visible each company's internal control processes, with a view to evaluating and improving the effectiveness of the system.

We believe that a robust internal control system will not only help ensure sound management of the corporation, but will also contribute to achieving the corporation's goals by enhancing the effectiveness and efficiency of its operations. We therefore will go beyond simply responding to regulatory requirements, and make proactive efforts to continuously improve our internal control system.



Compliance

We conduct our business with the strong belief that compliance should constitute the most important cornerstone of corporate management and that we must not violate ethics or the rules of society in any aspect of operations. In order to ensure lawful and ethical undertaking of business throughout our Company, we have created the “Sumitomo Chemical Charter of Business Conduct” which codifies basic criteria for business conduct and the “Sumitomo Chemical Business Conduct Manual”, commonly called “Compliance Manual”, that sets forth concrete guidelines for all our employees, officers and Board members to follow. Sumitomo Chemical's overall compliance management is supported by the Compliance Committee, under which special committees such as the Responsible Care Committee, the Antitrust Law Compliance Committee and the Internal Audit Working Group are working to promote day-to-day compliance activities.

Our firm commitment to compliance also extends to the consolidated companies of the Sumitomo Chemical Group operating in Japan and overseas, in line with our corporate policy to strengthen consolidated management of the Group companies as well as our intensified efforts to enhance internal controls systems across the entire Group. We will continue to work jointly and closely with each of our Group companies to further promote compliance-based management so that we will be able to gain greater trust and confidence from our stakeholders worldwide as a global company.

Sumitomo Chemical Charter for Business Conduct and Business Conduct Manual

We believe it is our social responsibility to conduct business with the highest ethical standard and act on its own responsibility. The “Sumitomo Chemical Charter for Business Conduct” spells out basic guiding principles on which our compliance system is built, while the “Sumitomo Chemical Business Conduct Manual” or the Compliance Manual has been developed on the basis of the Charter to provide specific rules for all our Board members, officers and employees to abide by in the performance of their respective activities, focusing on our relations with society, customers, business partners, competitors, shareholders and investors as well as our conduct to follow when dealing with employees and the company assets.

Organizations for Compliance Management

The Compliance Committee monitors and supports the activities of the Company in ensuring that compliance-based management is always promoted in all quarters of operations throughout the Company. The Committee has the mission and authority to investigate and supervise legal and ethical compliance across the Company and recommend improvements as necessary.

Speak-Up System

We have in place a “Speak-Up System” for our compliance program that enables employees and others working at our Company to report to the Compliance Committee or designated outside lawyers any violations or suspected violations of laws, regulations or Company rules when their immediate resolution through the ordinary channel of reporting to his or her superiors appears difficult or impractical. All information provided by an informant is kept strictly confidential, and the informant does not risk unfair treatment, such as dismissal, transfer or discrimination, for the reporting conduct itself. The Speak-Up System is expected to serve as an effective tool for restraining illegal or unethical practices to occur and stimulating self-governing effect against such practices.

Compliance of Sumitomo Chemical Group

We require consolidated Group companies to adopt compliance systems comparable to those of the Company, including the Compliance Manual and the Speak-Up System, in order to promote compliance-based management throughout the Group. With respect to overseas Group companies, we request each of them to create and adopt a Code of Ethics, in place of the Company's Compliance Manual, which reflects relevant laws, regulations and business practices legitimately followed in the countries in which they operate, and to build and establish an effective compliance system based on the Code.

Recent Initiatives

In April this year, we updated the Company's Compliance Manual to reflect legislative and other changes such as amendments to or new enactment of Japan's various laws, revisions of our Company rules, and changes in the social environment seeking greater importance on compliance. The

Manual has been provided to all our Board members, officers, employees and others working at our Company. To help them fully understand the latest update and raise the level of their awareness about compliance, we intend to implement a series of company-wide educational programs about compliance.

In parallel, we have conducted comprehensive surveys about the status of compliance systems in operation at each

of our consolidated Group companies both in Japan and overseas. The surveys were intended to determine how effectively the Group companies are operating their compliance systems and what improvements are desired. Based on the results of these surveys, we will provide better support and guidance to enable each of our Group companies to further enhance their compliance-based management.

Sumitomo Chemical Charter for Business Conduct

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

Board of Directors & Corporate Auditors (As of June 20, 2008)



Hiromasa Yonekura
President



Osamu Ishitobi
Executive Vice President



Naoya Kanda
Executive Vice President



Hiroshi Hirose
Executive Vice President



Yasuo Kamei
Director & Senior
Managing Executive Officer



Takatsugu Enami
Director & Managing
Executive Officer



Yoshitsugu Sakamoto
Director & Managing
Executive Officer



Masakazu Tokura
Director & Managing
Executive Officer



Kenjiro Fukubayashi
Director & Managing
Executive Officer



Kiyohiko Nakae
Director & Managing
Executive Officer



Yoshimasa Takao
Director & Managing
Executive Officer



Yusuke Ueda
Director & Managing
Executive Officer

Board of Directors

President

Hiromasa Yonekura

Executive Vice President

Osamu Ishitobi

Rabigh Project

Naoya Kanda

*Intellectual Property, Responsible Care,
Research & Development*

Hiroshi Hirose

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

Director & Senior Managing Executive Officer

Yasuo Kamei

Basic Chemicals Sector

Director & Managing Executive Officer

Takatsugu Enami

Fine Chemicals Sector

Yoshitsugu Sakamoto

Petrochemicals & Plastics Sector

Masakazu Tokura

IT-related Chemicals Sector

Kenjiro Fukubayashi

Agricultural Chemicals Sector

Kiyohiko Nakae

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

Yoshimasa Takao

*General Affairs Dept., Secretarial Dept.,
Human Resources Dept., Procurement
Office, Logistics Dept., Internal Audit
Dept., CSR*

Yusuke Ueda

*Legal Dept., Corporate Planning &
Coordination Office (Corporate Planning),
New Business Development Office,
Intellectual Property Dept.*

Executive Officers

Managing Executive Officer

Kenichi Hatano

*Basic Chemicals Sector - Industrial
Chemicals Div., Inorganic Materials Div.,
Methacrylates Div.*

Makoto Hara

*Rabigh Project Office, Rabigh Project -
Planning & Coordination Office*

Yoshihiko Okamoto

*Agricultural Chemicals Sector -
Environmental Health Div., Animal
Nutrition Div.*

Executive Officer

Shigenori Tsuda

*Agricultural Chemicals Sector -
Crop Protection Div. -International,
Agricultural Chemicals Research Laboratory*

Yoshitaka Izumi

*Basic Chemicals Sector -
Planning & Coordination Office,
Aluminium Div.*

Toshihisa Deguchi

*IT-related Chemicals Sector -
Optical Materials Div., Color Filter Div.*

Minou Uemura

Ehime Works

Ryuhei Tamamura

Secretarial Dept., General Affairs Dept.

Shigeyuki Yoneda

*Rabigh Refining and Petrochemical
Company, Rabigh Project Office*

Kunio Nozaki

Finance & Accounting Office

Hisashi Shimoda

Corporate Communications Dept.

Toshio Sasaki

*Fine Chemicals Sector -
Planning & Coordination Office,
Quality Assurance Office*

Yasumi Shiozaki

Responsible Care Office

Masataka Morimoto

Procurement Office, Logistics Dept.

Tomohisa Ohno

*Petrochemicals & Plastics Sector -
Polyethylene Div., Advanced Polymers
Div., Polypropylene Div.*

Takatoshi Suzuki

*Petrochemical Corporation of Singapore
(Pte.) Ltd.*

Toshiki Matsumura

*Rabigh Refining and
Petrochemical Company*

Heechul Moon

Dongwoo Fine-Chem Co. Ltd.

Trevor Thorley

Valent U.S.A. Corporation

Corporate Auditors

Hiroaki Ninomiya

Standing Corporate Auditor

Itshide Yamano

Standing Corporate Auditor

Hiroshi Hayasaki

Corporate Auditor

Yoji Arakawa

Corporate Auditor

Toshiomi Uragami

Corporate Auditor

Financial Section

Consolidated Financial Summary	42
Financial Review	44
Consolidated Balance Sheets	52
Consolidated Statements of Income	54
Consolidated Statements of Shareholders' Equity and Changes in Net Assets	55
Consolidated Statements of Cash Flows	56
Notes to Consolidated Financial Statements	57
Independent Auditors' Report	73

Consolidated Financial Summary

Sumitomo Chemical Company, Limited and Subsidiaries

Billions of yen (unless otherwise specified)

Years ended March 31	1998	1999	2000	2001
For the year:				
Sales by business segment:				
Basic Chemicals	¥ 189.8	¥ 157.5	¥ 172.0	¥ 182.8
Petrochemicals & Plastics	339.6	305.6	331.8	375.5
Fine Chemicals	133.5	96.7	90.6	91.7
IT-related Chemicals	52.7	46.6	62.1	60.2
Agricultural Chemicals	120.8	120.8	106.1	122.2
Pharmaceuticals	155.3	149.1	143.1	156.7
Others	28.6	51.4	44.6	51.9
Net sales	1,020.3	927.7	950.3	1,041.0
Overseas operations	238.2	232.1	227.5	276.5
Operating income (loss) by business segment:				
Basic Chemicals	6.5	2.7	3.3	5.0
Petrochemicals & Plastics	10.2	11.1	10.4	7.4
Fine Chemicals	13.4	7.3	7.2	6.5
IT-related Chemicals	0.8	(8.6)	(5.0)	3.1
Agricultural Chemicals	25.7	27.7	18.9	19.5
Pharmaceuticals	15.5	15.5	30.8	38.8
Others	3.6	3.2	4.5	4.4
Elimination	(0.7)	0.4	0.0	0.0
Operating income	75.0	59.3	70.1	84.7
Net interest expense	(11.6)	(9.5)	(8.7)	(8.5)
Equity in earnings of affiliates	8.2	1.6	6.0	11.0
Income before income taxes and minority interests	45.9	36.3	32.0	64.4
Net income	22.1	20.1	18.4	34.1
Capital expenditures	82.9	67.6	81.6	62.1
Depreciation and amortization	58.4	68.4	75.4	64.6
Research and development expenses	54.9	59.5	59.3	59.1
Net cash provided by operating activities	—	—	156.3	94.7
Net cash used in investing activities	—	—	(49.5)	(54.9)
Net cash used in financing activities	—	—	(62.2)	(62.6)
At year-end:				
Total current assets	630.7	591.8	584.4	596.5
Net property, plant and equipment	475.6	428.1	409.7	400.7
Investments and other non-current assets	261.9	266.7	272.7	406.4
Total assets	1,375.9	1,310.9	1,322.4	1,455.4
Total shareholders' equity / Net assets*	296.7	325.1	345.0	451.8
Interest-bearing liabilities	623.6	585.1	530.5	474.2
Number of employees	15,918	15,778	17,474	17,392
Number of consolidated subsidiaries	64	67	92	98
Number of shareholders	144,381	140,257	134,705	129,835
Per share (yen):				
Net income	13.64	12.41	11.33	20.76
Total shareholders' equity	182.93	200.49	210.97	272.91
Cash dividends	5.0	5.0	5.0	6.0

* 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 interests, are reclassified to net assets.

Billions of yen (unless otherwise specified)

	2002	2003	2004	2005	2006	2007	2008
¥	175.2	¥ 194.4	¥ 199.1	¥ 225.8	¥ 252.4	¥ 314.0	¥ 314.7
	338.9	371.6	362.4	412.6	486.1	539.1	603.3
	80.2	83.9	80.6	84.1	79.0	90.9	92.9
	59.8	82.5	123.5	174.8	229.2	266.4	297.5
	135.4	158.7	167.1	171.6	186.2	198.3	200.4
	174.0	168.4	166.6	170.7	233.1	234.5	237.6
	54.9	51.6	59.1	56.7	90.6	146.8	150.1
	1,018.4	1,111.1	1,158.4	1,296.3	1,556.6	1,790.0	1,896.5
	287.2	327.4	364.1	486.2	611.0	747.8	788.8
	3.5	5.7	2.6	5.2	10.0	13.5	10.6
	(0.4)	5.0	(1.6)	15.0	17.9	23.6	4.5
	8.9	9.3	8.8	11.5	9.8	13.1	11.4
	(6.3)	0.5	14.3	18.7	21.7	3.5	6.3
	17.9	16.7	10.7	14.8	16.6	23.3	20.9
	42.0	32.3	27.8	34.4	38.3	56.2	46.5
	3.3	4.2	4.9	5.7	5.8	8.0	3.7
	(0.1)	(0.2)	(0.9)	(0.1)	0.7	(1.5)	(1.5)
	68.8	73.5	66.6	105.2	120.8	139.6	102.4
	(7.4)	(5.3)	(2.9)	(3.0)	(2.2)	(3.9)	(2.8)
	6.7	2.6	8.6	26.7	26.8	23.6	11.2
	57.8	63.2	72.3	121.7	158.6	181.1	128.2
	30.2	31.1	34.3	64.5	90.7	93.9	63.1
	73.0	152.0	110.2	125.8	124.9	159.8	142.5
	79.2	69.0	82.5	88.2	104.9	113.9	125.0
	66.7	72.8	75.2	78.2	91.9	97.7	105.4
	62.9	141.7	97.1	159.8	122.8	142.9	156.6
	(57.2)	(129.2)	(103.2)	(118.0)	(180.7)	(164.2)	(182.7)
	(8.8)	(5.2)	(9.3)	(31.2)	70.6	35.6	7.1
	595.7	634.8	628.3	694.6	946.6	995.9	1,003.2
	401.7	465.6	481.9	515.9	570.3	623.5	636.5
	342.7	307.0	373.1	377.9	600.4	651.9	622.8
	1,393.2	1,484.3	1,549.3	1,648.8	2,178.4	2,324.9	2,358.9
	444.6	444.3	506.1	569.6	719.8	1,030.5	1,006.0
	487.3	485.2	485.3	470.7	578.6	641.0	673.9
	17,016	17,906	19,036	20,195	24,160	24,691	25,588
	102	110	110	104	105	105	116
	130,176	124,281	125,463	121,349	116,509	115,249	108,027
	18.25	18.74	20.72	38.94	54.80	56.82	38.20
	268.57	268.62	306.05	344.58	435.51	479.87	465.21
	6.0	6.0	6.0	8.0	10.0	12.0	12.0

Financial Review

1. Results of Operations

(1) Net Sales and Operating Income

Net sales in the fiscal year ended March 31, 2008 totaled ¥1,896.5 billion (US\$18,929 million), a 6.0% increase from ¥1,790.0 billion for the previous fiscal year. Thanks to improved market conditions, sales in 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 ¥1,454.4 billion (US\$14,517 million) compared with ¥1,338.1 billion for the previous fiscal year. The ratio of cost of sales was 76.7%, 1.9% higher than the previous fiscal year. Selling, general and administrative expenses were ¥339.7 billion (US\$3,391 million), an 8.8% increase from the previous fiscal year.

Research and development expenses for the fiscal year ended March 31, 2008, were ¥105.4 billion (US\$1,052 million), 7.9% higher than the previous fiscal year's ¥97.7 billion, mainly because Dainippon Sumitomo Pharma increased its research and development expenses. Annual depreciation and amortization expenses were ¥125.0 billion (US\$1,247 million), an increase of 9.8% compared with the previous fiscal year's ¥113.9 billion.

Operating income amounted to ¥102.4 billion (US\$1,022 million), a 26.7% decrease from ¥139.6 billion for the previous fiscal year. The ratio of operating income to net sales was 5.4%, a 2.4% decrease from the previous fiscal year.

(2) Non-Operating Expenses and Net Income

Interest expenses, net of interest and dividend income, were ¥2.8 billion (US\$27 million), a 29.3% decrease compared with ¥3.9 billion for the previous fiscal year. Equity in earnings of affiliates decreased by 52.7% to ¥11.2 billion (US\$111 million) because primarily of an expense incurred by Rabigh Refining and Petrochemical Company and a decline in net income of Petrochemical Corporation of Singapore (Pte) Ltd.

The Company recorded a 28.8 billion (US\$287 million) gain on change in equity by affiliate stock offering from Rabigh Refining and Petrochemical Company's listing on the Saudi Stock Exchange. The Company recorded gain on sale of securities of ¥6.7 billion (US\$67 million) and gain on sale of property, plant and equipment of ¥4.7 billion (US\$47 million). The Company also recorded loss on disposing of inactive property, plant and equipment involving restructuring charges of ¥4.8 billion (US\$48 million).

As a result, income before income taxes and minority interests for the fiscal year ended March 31, 2008 was ¥128.2 billion (US\$1,280 million). Income taxes for the fiscal year ended March 31, 2008 were ¥44.1 billion (US\$440 million).

Net income for the fiscal year ended March 31, 2008 was ¥63.1 billion (US\$630 million), a 32.8% decrease from ¥93.9 billion for the previous fiscal year. Return on Equity (ROE) was 8.1%, down 4.3 percentage points from the previous fiscal year's 12.4%. Net income per share, based on the weighted average number of shares outstanding during the fiscal year ended March 31, 2008 was ¥38.203 (US\$0.381), compared with ¥56.824 for the previous fiscal year.

(3) Dividends

The Company paid year-end dividends of ¥6 per share, making the annual dividends ¥12 per share for the fiscal year ended March 31, 2008, remained the same as the previous fiscal year.

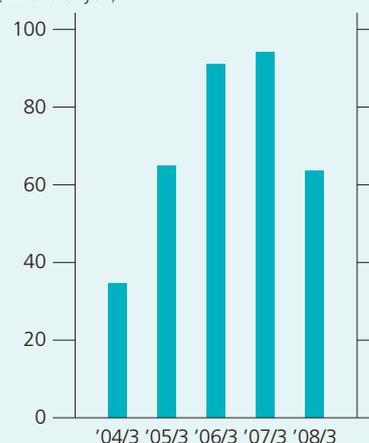
2. Segment Information

(1) Basic Chemicals

In the Basic Chemicals segment, sales for caprolactam and acrylonitrile, raw materials for synthetic textile fibers, as well as methyl methacrylate and other products increased thanks to firm demand and improved prices, while sales for aluminum decreased since the Company curtailed a portion of its aluminum resale operations. Consequently, the segment's sales remained almost flat at the previous year's level of ¥314.7 billion (US\$3,141 million), while operating income decreased by 21.7% over the previous year to ¥10.6 billion (US\$105 million) because of a rise in feedstock prices that exceeded the increase in selling price and increased fixed costs.

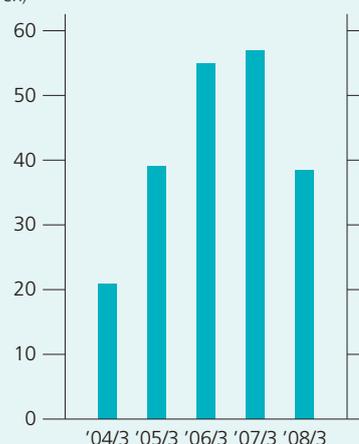
Net Income

(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

In the Petrochemicals and Plastics segment, sales of polyolefins increased because of higher selling prices in Japan and elsewhere in Asia. Sales of other petrochemical products also increased with higher market prices.

The segment's sales increased by 11.9% over last year to ¥603.3 billion (US\$6,022 million), while operating income decreased by 80.9% from the previous year to ¥4.5 billion (US\$45 million), reflecting a fine lag between selling price increases and the rise in feedstock prices as well as the impact of a large-scale maintenance shutdown of manufacturing plants undertaken once in four years.

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

(3) Fine Chemicals

In the Fine Chemicals segment, sales of pharmaceutical intermediates increased thanks to strong shipments. Sales of resorcinol, a raw material for adhesives used in tire cords and architectural wood products remained flat at the previous year's level mainly because of weak demand from the housing sector. As a result, sales increased by 2.3% to ¥92.9 billion (US\$928 million), while operating income decreased by 12.6% to ¥11.4 billion (US\$114 million).

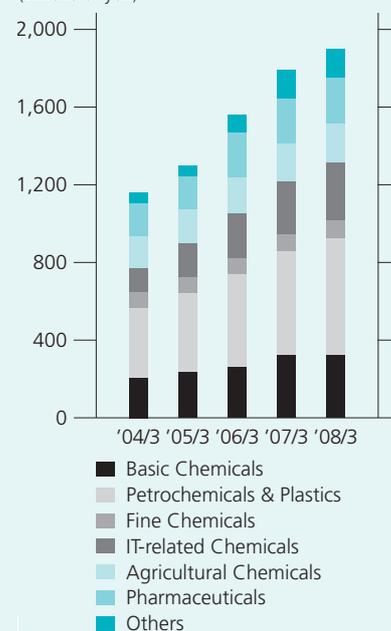
Major consolidated subsidiaries of this segment include Taoka Chemical Co., Ltd. engaged principally in manufacturing and selling pharmaceutical intermediates, agricultural chemical intermediates, etc.

(4) IT-related Chemicals

In the IT-related Chemicals segment, sales volumes of polarizing film, a material for liquid crystal displays (LCDs), increased significantly, helped by production capacity expansions in response to strong demand in Korea, Taiwan and China. Sales of color filters, diffusion panels, liquid crystal polymers and other products also increased thanks to strong demand. As a result, sales increased by 11.7% to ¥297.5 billion (US\$2,970 million) and operating income increased by 81.9% to ¥6.3 billion (US\$63 million), with growth in sales volumes and cost reductions exceeding the annual decline in average selling price.

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, 2008 and 2007

Segment information by product group	Millions of yen							Adjustments & Elimination	Consolidated
	Basic Chemicals	Petrochemicals	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Others		
Year ended March 31, 2008									
Sales to unaffiliated customers	¥314,718	¥603,326	¥92,937	¥297,515	¥200,378	¥237,592	¥150,073		¥1,896,539
Operating income	10,559	4,518	11,430	6,290	20,914	46,464	3,688	(1,466)	102,397
Operating income ratio	3.4%	0.7%	12.3%	2.1%	10.4%	19.6%	2.5%		5.4%
Operating income growth (decrease) ..	(21.7)%	(80.9)%	(12.6)%	81.9%	(10.1)%	(17.4)%	(54.0)%		(26.7)%
Year ended March 31, 2007									
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%

(5) Agricultural Chemicals

In the Agricultural Chemicals segment, sales of crop protection chemicals in Japan increased because of a recovery in shipments following a wave of inventory adjustments by customers. Feed additives saw an increase in sales owing to higher selling prices on the back of an increase in demand. Shipments of household insecticides in the overseas market were strong. Consequently, sales increased by 1.0% over last year to ¥200.4 billion (US\$2,000 million). Despite the rise in sales prices and increase in shipment volumes, operating income decreased by 10.1% to ¥20.9 billion (US\$209 million) because of one-time costs associated with the integration of our subsidiary Sumitomo Chemical Takeda Agro.

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

In the Pharmaceuticals segment, sales of Dainippon Sumitomo Pharma's four main products, Amlodin (therapeutic agent for hypertension and angina), Gasmotin (gastroprokinetic), Meropen (carbapenem antibiotic), and Prorenal (vasodilator) remained strong. The segment's sales increased by 1.3% over last year to ¥237.6 billion (US\$2,371 million), while operating income decreased by 17.4% from the previous year to ¥46.5 billion (US\$464 million) because of increases in research and development and other expenses.

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 Limited and GE Healthcare Holding Nederland B.V. engaged in manufacturing and selling in vivo and in vitro radioactive diagnostics and related products.

(7) Others

In addition to the above six segments, we are engaged in providing various services such as electrical power and steam supply, chemical plant design and engineering, logistics, and materials and environmental analysis, as well as promoting business development in new fields such as Polymer Organic Light Emitting Diodes (PLEDs). Sales of the others segment increased by 2.2% over the previous year to ¥150.1 billion (US\$1,498 million), while operating income declined by 54.0% to ¥3.7 billion (US\$37 million).

Major companies encompassed by this segment are Cambridge Display Technology Inc, 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, 2008, were ¥788.8 billion (US\$7,873 million), 5.5% higher than ¥747.8 billion in the previous fiscal year, due principally to increased shipments of polarizing films, helped by production capacity expansions, and increased sales of petrochemical products with higher market prices.

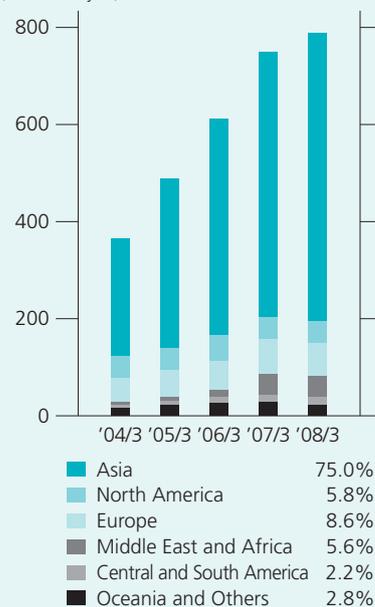
The ratio of revenue from overseas operations to net sales was 41.6%, compared with 41.8% for the previous fiscal year.

4. Geographic Information

Net sales from operations outside Japan were ¥552.0 billion (US\$5,509 million) and ¥495.2 billion for the year ended March 31, 2008 and 2007, respectively, and accounted for 29.1% and 27.7% of the respective consolidated total sales. Net sales in Asia were ¥452.4 billion (US\$4,515 million), a 15.1% increase from ¥393.1 billion for the previous fiscal year.

Breakdown of Overseas Operations

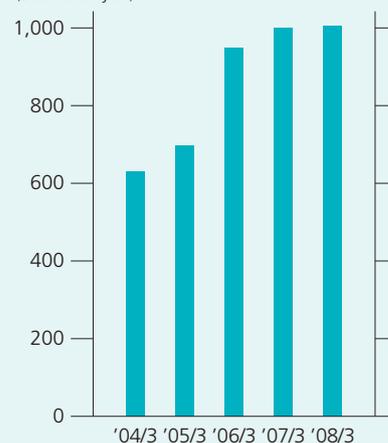
(Billions of yen)



Note: Percentages are for the fiscal year ended March 31, 2008

Total Current Assets

(Billions of yen)



Operating income from operation outside Japan for the fiscal year ended March 31, 2008 was ¥33.9 billion (US\$339 million), a 3.7% increase from ¥32.7 billion for the previous fiscal year. Operating income in Asia was ¥27.3 billion (US\$273 million), a 31.6% increase from ¥20.8 billion for the previous fiscal year.

Overseas assets as of March 31, 2008 amounted to ¥475.9 billion (US\$4,750 million), 10.6% higher than the previous fiscal year's ¥430.4 billion, while assets in Asia as of March 31, 2008 amounted to ¥334.1 billion (US\$3,335 million), 0.8% lower than the previous fiscal year's ¥336.8 billion.

The ratio of overseas assets to total assets for the fiscal year ended March 31, 2008 was 20.2%, up 1.7 percentage points from the previous fiscal year and the ratio of assets in Asia to total assets for the fiscal year ended March 31, 2008 was 14.2%, down 0.3 percentage points from the previous fiscal year.

5. Financial Position

Total assets as of March 31, 2008 increased by ¥34.0 billion to ¥2,358.9 billion (US\$23,545 million) from ¥2,324.9 billion as of March 31, 2007. Current assets as of March 31, 2008 amounted to ¥1,003.2 billion (US\$10,013 million), up 0.7% from ¥995.9 billion as of March 31, 2007 because of an increase in accounts receivable and inventories although cash and cash equivalents decreased. Non-Current Assets as of March 31, 2008 increased to ¥1,355.8 billion (US\$13,532 million), up 2.0% from ¥1,329.0 billion as of March 31, 2007 mainly because Intangible Assets increased by an acquisition of Cambridge Display Technology Inc.

Current liabilities were ¥805.5 billion (US\$8,040 million), up 13.9% from ¥707.2 billion as of March 31, 2007 because of increases in other current liabilities including non-trade notes payable, commercial paper and bonds and notes due within one year. The current ratio was 124.5% compared with 140.8% as of March 31, 2007.

Long-term liabilities decreased to ¥547.3 billion (US\$5,463 million), down 6.8% from ¥587.2 billion as of March 31, 2007 mainly due to a decrease in bonds and notes due after one year.

Investments and other non-current assets as of March 31, 2008 totaled ¥622.8 billion (US\$6,216 million), compared with ¥651.9 billion as of March 31, 2007.

Total debt (short-term and long-term borrowings from banks, debt on bonds and notes, and commercial paper) as of March 31, 2008 amounted to ¥673.9 billion (US\$6,726 million), 5.1% higher than ¥641.0 billion as of March 31, 2007.

Net assets were ¥1,006.0 billion (US\$10,041 million) at March 31, 2008, a 2.4% decrease from ¥1,030.5 billion, as of March 31, 2007. The ratio of net assets to total assets was 32.6% as of March 31, 2008, compared with 34.1% as of March 31, 2007. Minority interests were ¥237.9 billion (US\$2,375 million), compared with ¥238.0 billion as of March 31, 2007. Unrealized gains on investment securities amounted to ¥91.2 billion (US\$910 million), compared with ¥146.3 billion as of March 31, 2007. Foreign currency translation adjustments amounted to ¥2.2 billion (US\$22 million), compared with ¥12.1 billion as of March 31, 2007.

The number of shares issued and outstanding as of March 31, 2008 was 1,651,092,041 shares. Retained earnings amounted to ¥562.2 billion (US\$5,612 million), a 7.8% increase from ¥521.4 billion as of March 31, 2007.

6. Cash Flows

Net cash provided by operating activities for the year ended March 31, 2008 was ¥156.6 billion (US\$1,563 million), ¥13.7 billion higher than ¥142.9 billion for the previous fiscal year. Improvement in working capital contributed to the growth in operating cash flows.

Net cash used in investing activities for the year ended March 31, 2008 was ¥182.7 billion (US\$1,823 million), which was higher by ¥18.4 billion than the previous fiscal year. Acquisition of shares of Cambridge Display Tecnology Inc. was a main factor of this increase.

As a result, free cash flow, which consists of cash flows provided by operating activities and those used in investing activities, was negative ¥26.1 billion (US\$261 million) for the year ended March 31, 2008, compared with negative ¥21.3 billion for the previous fiscal year.

Net cash acquired in financing activities was a positive ¥7.1 billion (US\$71 million), because of an

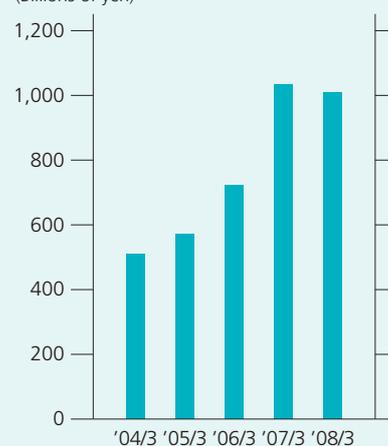
Total Assets

(Billions of yen)



Shareholders' Equity / Net Assets*

(Billions of yen)



* From the fiscal year ended March 31, 2007, the Companies adopted the accounting standards for the presentation of net assets in the balance sheet and certain accounts, such as minority interests, are reclassified to net assets.

increase in proceeds from short-term and long-term debt.

Cash and cash equivalents were ¥107.4 billion (US\$1,072 million) for the year ended March 31, 2008, a net decrease of ¥18.6 billion over the previous fiscal year.

7. Capital Expenditures

In the year ended March 31, 2008, the Companies' capital investments totaled ¥142.5 billion (US\$1,423 million) a decrease of ¥17.3 billion from last year in which the Companies undertook a high level of capital expenditure in order to expand production capacity for polarizing film and color filters.

Major investments made in fiscal year ended March, 31, 2008 were the construction of a new production plant in Singapore for MMA in the Basic Chemicals segment, a new production plant in the Pharmaceuticals segment, and a thermal electric power plant in the Others segment.

Each segment's capital investments were ¥27.6 billion (US\$276 million) in the Basic Chemicals segment, ¥21.2 billion (US\$212 million) in the Petrochemicals & Plastics segment, ¥6.9 billion (US\$69 million) in the Fine Chemicals segment, ¥33.4 billion (US\$333 million) in the IT-related Chemicals segment, and ¥8.5 billion (US\$84 million) in the Agricultural Chemicals segment, and ¥18.3 billion (US\$182 million) in the Pharmaceuticals segment, and ¥18.4 billion (US\$184 million) in the Others segment.

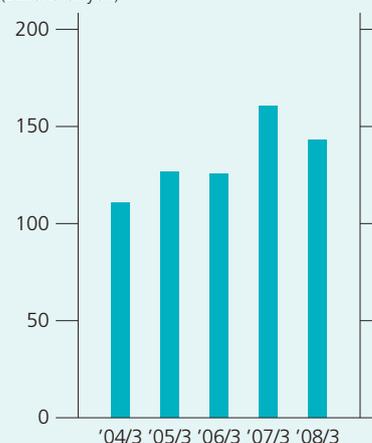
8. Research and Development

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 ¥105.4 billion (US\$1,052 million), up 7.9% from the fiscal year ended March 31, 2007. The start of Phase III clinical trials in the US for Lurasidone in the Pharmaceuticals segment was a main factor responsible for this increase.

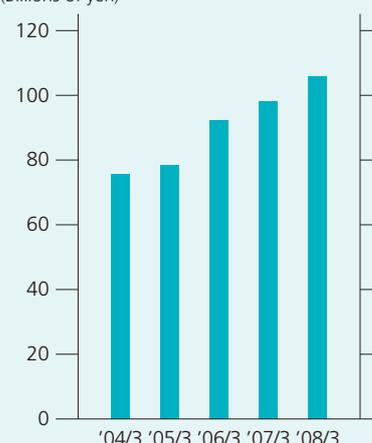
Capital Expenditures

(Billions of yen)



Research and Development Expenses

(Billions of yen)



Breakdown of Capital Expenditures

	Billions of yen, %											
	2003		2004		2005		2006		2007		2008	
New plants and expansions:												
Basic Chemicals	¥ 11.3	7%	¥ 5.4	5%	¥ 10.2	8%	¥ 11.4	9%	¥ 18.7	12%	¥ 13.1	9%
Petrochemicals	20.3	13	3.6	3	5.7	5	4.2	3	4.3	3	1.3	1
Fine Chemicals	2.1	2	3.6	3	3.7	3	1.9	2	1.9	1	3.1	2
IT-related Chemicals	26.3	17	34.6	31	36.5	29	34.8	28	66.6	42	27.6	19
Agricultural Chemicals	23.5	16	1.7	2	14.0	11	4.0	3	4.7	3	2.1	1
Pharmaceuticals	1.7	1	8.0	7	1.0	1	0.7	1	1.9	1	11.2	8
Others	5.8	4	1.4	2	1.2	1	3.0	2	5.5	3	3.2	2
Total	91.0	60	58.3	53	72.3	58	60.0	48	103.6	65	61.6	42
Rationalization of production processes ..	6.7	4	4.7	4	7.4	6	6.2	5	6.8	4	5.1	4
Research and development	8.9	6	9.8	9	7.3	6	9.0	7	7.1	4	6.5	5
Others	45.4	30	37.4	34	38.8	31	49.7	40	42.3	27	69.3	49
Total	¥152.0	100%	¥110.2	100%	¥125.8	100%	¥124.9	100%	¥159.8	100%	¥142.5	100%

9. Risk Factors

Primary risks that may affect operational results, share prices, and the financial condition of the Companies are described below. Matters concerning the future with regard to the following information were those deemed relevant as of the end of this fiscal year.

(1) Market and supply

The Companies engage in a wide range of businesses, including Basic Chemicals, Petrochemicals and Plastics, Fine Chemicals, IT-related Chemicals, Agricultural Chemicals, and Pharmaceuticals. Accordingly, the Companies face a wide variety of risks in conducting their businesses. Risks associated with market volatility and feedstock supply shortage concerning the Companies' businesses are mainly as follows.

(a) The Companies' businesses are exposed to price competition. It is expected that the product lines of the Companies will be exposed to severe price competition for various reasons, such as the participation of foreign enterprises in the domestic market, the inflow of imported products as a result of reductions in tariffs, and the increasing market entry of generic products. Although the Companies are trying to reduce costs, failure to overcome the price competition may have an adverse effect on operational results and the financial conditions of the Companies.

(b) Overseas sales of the Companies account for more than 40% of total sales, and sales volume in the Basic Chemicals and Petrochemicals and Plastics segment is large especially in the Asian market. Furthermore, a large proportion of sales in the IT-related Chemicals segment depends on specific customers in Korea and Taiwan, and some of the products in the Fine Chemicals segment are being supplied to specific customers under the custom manufacturing arrangement. Given this situation, in the event that the Companies are required to cut prices due to deteriorating economic conditions in the Asian market or changes in the business standings of client enterprises, such circumstances may have an adverse effect on the operational results and the financial conditions of the Companies.

(c) Naphtha, a main feedstock for the Petrochemical and Plastics segment, is sometimes subjected to radical price fluctuations that could take place for various reasons including public security problems in the Middle East or economic situation in the world. If the price of naphtha radically increases, it may have an adverse effect on the operational results of the Companies due to a delay in having such cost increases reflected in product selling prices.

(d) The supply of naphtha and some of other raw materials are dependent on particular geographical areas or suppliers. Although the Companies are trying to reduce the risk associated with their inability to procure major raw materials by developing multiple supply sources, there is no guarantee that no supply shortage of such major raw materials will occur. In the event that the Companies cannot procure necessary major raw materials by themselves, such circumstances may have an adverse effect on the operational results of the Companies.

(e) Since the speed of technical innovation for products in the IT-related Chemicals segment is extremely fast, it is essential that the Companies develop and supply new products to their customers in a timely manner. In the event that the Companies are unable to effectively develop new products that satisfy customer needs, or if an important technical innovation is made by another company ahead of them, the business results and the financial conditions of the Companies may be adversely affected.

(f) With respect to agrichemicals and household insecticides in the Agricultural Chemicals segment, the shipments of these products are affected by the cultivation status of target crops, outbreak of crop diseases or infestation of pests, factors dependent on abnormal climate in various parts of the world, etc. With regard to feed additives, drastic price fluctuations may also occur. If the crop growth is not as good as expected, if disease occurrence or pest infestation does not develop as anticipated, or if drastic price fluctuations occur, such circumstances may have an adverse effect on the operational results and the financial conditions of the Companies.

(g) In the Pharmaceuticals segment, healthcare insurance reforms are in progress in Japan with a rapidly aging population combined with the declining birthrate. As a part of such reforms, there are ongoing arguments concerning a review of the system of medical treatment fees and reformation of the drug price system. The medical expenses

reduction policy by the government, including revision of medical treatment fees, may have an adverse effect on the operational results and the financial conditions of the Companies.

(2) Exchange rate fluctuations

The Company and its domestic consolidated subsidiaries import raw materials from overseas and export finished products manufactured in Japan; the export value of finished products is higher than the import value of raw materials. If the Japanese yen appreciates against foreign currencies, the products will be less competitive in price compared with products made in foreign countries; moreover, the reduction in the proceeds received from exports will become greater than the reduction in the payments for imports. In order to cope with these circumstances, the Companies are trying to minimize the risks by entering into forward-exchange contracts or making export transactions in Japanese yen. However, since it is impossible to completely hedge risks due to the mid- or long-term fluctuations in the currency exchange rate, there is a possibility that the appreciation of the Japanese yen should exert an adverse effect on the operational results and the financial conditions of the Companies.

Furthermore, the operational results of the consolidated subsidiaries and equity method affiliates in foreign countries are converted into Japanese yen for the purpose of preparing the consolidated financial statement. Depending on the exchange rate at the time of conversion, the values after the conversion into Japanese yen may be potentially impacted and may negatively affect the operational results and the financial conditions of the Companies.

(3) Interest volatility

With respect to the demand for finance, the Companies determine the amount, term, and method of fund procurement in consideration of the demand for finance, financial position, and financial environment. In preparation for fluctuations in the interest rate in future, the Companies raise funds by combining, as applicable, both fixed interest rates and floating interest rates; however, if the interest rate rises, the increase in interest expenses may have an adverse effect on the operational results and the financial conditions of the Companies.

(4) Fluctuation in stock market prices

Since most of the securities held by the Companies are negotiable securities with market prices, if stock market prices decline drastically, the shrinkage loss may have an adverse effect on the operational results and the financial conditions of the Companies.

(5) Liability for retirement benefits

The expenses and obligations with regard to retirement benefits for employees of the Companies are calculated on the basis of the investment earning rate and discount factors for pension assets. However, in the event of any deterioration in the environment of pension assets management that disrupts assumption and performance, the retirement benefit expenses in future may increase, which may have an adverse effect on the operational results and the financial conditions of the Companies.

(6) Overall management

(a) Overseas business expansion

The Companies intend to expand their business operations in overseas markets including Middle East and Asia in the future. In conducting business activities in foreign countries, the Companies have to address the potential risks of changes in laws and restrictions, disputes due to differences in working conditions, difficulties in hiring and procuring human resources, social dislocations caused by terrorism and war, or other factors. In the event that these risks materialize, there is a possibility that such events might adversely affect business results and the financial conditions of the Companies.

In the case of the Rabigh Project the total project cost is expected to be around US\$9.8 billion of this total project cost, funds for US\$5.8 billion will be raised by Rabigh Refining and Petrochemical Company through bank loans based on the execution of the Project Financing Agreement with the banking syndicate that includes the Japan Bank for International Cooperation. The Company guarantees the payment of 50% of thus raised funds upon completion of the plant, and in the event that the plant cannot satisfy the prescribed performance conditions following the plant start-up, the execution of such guarantee might adversely affect the operational results and the financial conditions of the Company. In case the Company should become liable for damage resulting from contingent circumstances, it has obtained overseas investment insurance covering the total investment, including the said guaranteed amount, in accordance with the rules and maximum insurance amount of Independent Administrative Institute Nippon Export and Investment Insurance.

(b) Research and development

The Companies are vigorously carrying out research and development to rapidly commercialize new technologies and new products that will meet customer needs. The research and development by the Companies may sometimes extend over a long period of time particularly when it includes discovery research in order to create next-generation businesses. In the event that the subject of such research and development is not put to practical use or if the development of new products is extremely delayed or abandoned, the competitiveness of the Companies will be deteriorated, which may have an adverse effect on operational results and the financial conditions of the Companies.

(c) Intellectual property rights

The Companies have been strengthening competitiveness by developing and accumulating proprietary technology and know-how that will differentiate the companies from competitors. Although such technology and know-how are under strict control by the Companies, there is a possibility that some of the proprietary technologies, products, and know-how of the Companies may be leaked out to others under unexpected circumstances. These intellectual properties may not be completely protected in particular geographical areas, especially where there is a possibility that the Companies could not prevent effectively a third party from manufacturing equivalent products that are covered by the Companies' intellectual property rights. Furthermore, the Companies may be involved in a dispute about intellectual property rights in future, which might result in an outcome against the interests of the Companies.

(d) Quality of products

Although the Companies manufacture a wide variety of products in accordance with globally recognized strict quality control standards, there is no assurance that all the products are free from defects or that no product recall problems will occur in future. Massive scale product liability lawsuits will be extremely expensive and have a significant influence on the valuation of the Companies, which may adversely affect the operational results and the financial conditions of the Companies.

Although our Agricultural Chemicals and Pharmaceuticals which are on the market have been approved in accordance with strict quality examinations in each country, new quality problems or side effects may be identified as a result of progress in science and technology, as well as from accumulated critical experiences. If such unexpected quality problems or side effects are discovered after products have been placed on the market, there is a possibility that such circumstances may adversely affect the operation results and the financial conditions of the Companies.

(e) Accidents and Disasters

In order to minimize the potential risks of the shutdown of production facilities or accidents involving the production facilities which will cause adverse effects to the Companies, the Companies carry out periodic inspections for all manufacturing facilities. However, there is no guarantee that such accidents arising out of production facilities or negative effects caused by natural disasters will be completely prevented or reduced. Also, the business activities of the Companies are increasing their dependence on the computer network system year by year, and although the Companies are working to protect their systems or data by using sophisticated security systems, there is still the possibility that system network failures may occur owing to electric power interruptions, natural disasters, or criminal attacks on the system including computer viruses and hackers.

In the event of an accident that causes property damage and/or human injury near the plant or a system network failure, such circumstances may, in addition to undermining the business activities, involve major costs and have a significant impact on the valuation of the Companies, which may adversely affect the operational results and the financial conditions of the Companies.

(f) Change in regulations

The Companies are carrying out their businesses in accordance with the laws and regulations of each country where they operate. Changes in laws, regulations, government policies, business customs, interpretations or others, and the situations resulting therefore may have adverse effects on the operational results and the financial conditions of the Companies. Moreover, there is a possibility that legal restrictions on environment and safety for chemical goods may be tightened in future and additional cost may become necessary to take new measures against the tightened situation.

(g) Lawsuits

As the Companies' businesses develop in Japan and elsewhere in the world, they remain exposed to the risks of becoming the target of lawsuits, disputes, or other legal proceedings, and in the event of any significant lawsuits filed against the Companies in future, there is a possibility that they may adversely affect the operational results and the financial conditions of the Companies.

Consolidated Balance Sheets

Sumitomo Chemical Company, Limited and Subsidiaries
March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Assets			
Current assets:			
Cash and cash equivalents (Note 4 and 15)	¥ 107,408	¥ 125,990	\$ 1,072,043
Short-term investments	1,832	4,191	18,285
Marketable securities (Note 4)	1,996	2,006	19,922
Receivables—			
Trade notes and accounts	423,827	407,563	4,230,233
Other	80,548	73,662	803,952
Allowance for doubtful receivables	(1,783)	(2,010)	(17,796)
	502,592	479,215	5,016,389
Inventories	338,159	327,747	3,375,177
Deferred tax assets (Note 11)	33,392	36,198	333,287
Other	17,776	20,548	177,422
Total current assets	1,003,155	995,895	10,012,525
Investments and other non-current assets:			
Investment securities (Notes 4, 5 and 6)	518,870	486,109	5,178,860
Other (Note 5 and 9)	105,288	167,300	1,050,884
Allowance for doubtful receivables	(1,328)	(1,554)	(13,255)
	622,830	651,855	6,216,489
Property, plant and equipment (Note 3 and 6):			
Land	80,065	78,940	799,132
Buildings and structures	508,011	486,809	5,070,476
Machinery and equipment	1,346,449	1,303,030	13,438,956
Construction in progress	84,305	63,159	841,451
	2,018,830	1,931,938	20,150,015
Less accumulated depreciation	(1,382,353)	(1,308,451)	(13,797,315)
	636,477	623,487	6,352,700
Other assets:			
Deferred tax assets (Note 11)	12,541	10,865	125,172
Goodwill (Note 19)	20,463	6,200	204,242
Patents	36,953	4,983	368,829
Software	12,513	13,788	124,893
Products registration rights	4,252	5,133	42,439
Facilities rights and others	9,745	12,700	97,266
	96,467	53,669	962,841
	¥ 2,358,929	¥ 2,324,906	\$ 23,544,555

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Liabilities and Net assets			
Current liabilities:			
Short-term debt (Note 6)	¥ 202,649	¥ 190,384	\$ 2,022,647
Long-term debt due within one year (Note 6)	85,555	43,248	853,928
Payables—			
Trade notes and accounts	282,662	261,860	2,821,259
Other	123,402	91,243	1,231,680
	406,064	353,103	4,052,939
Accrued expenses	29,524	26,151	294,680
Income taxes payable	18,993	32,067	189,570
Reserve for litigation	1,054	1,010	10,520
Deferred tax liabilities (Note 11)	1,232	309	12,297
Other	60,476	60,896	603,613
Total current liabilities	805,547	707,168	8,040,194
Long-term liabilities:			
Long-term debt due after one year (Note 6)	385,678	407,357	3,849,466
Deferred tax liabilities (Note 11)	89,300	107,549	891,306
Retirement benefits (Note 9)	43,660	42,750	435,772
Other	28,698	29,561	286,436
Total long-term liabilities	547,336	587,217	5,462,980
Contingent liabilities (Note 13)			
Net assets (Note 12):			
Common stock,			
Authorized—5,000,000,000 shares			
Issued —1,655,446,177 shares at March 31, 2008			
1,655,446,177 shares at March 31, 2007	89,699	89,699	895,289
Capital surplus	23,777	23,763	237,319
Retained earnings	562,233	521,433	5,611,668
Treasury stock, at cost			
4,354,136 shares at March 31, 2008			
3,886,613 shares at March 31, 2007	(2,674)	(2,293)	(26,689)
Unrealized gains on investment securities	91,171	146,301	909,981
Unrealized losses on hedging derivatives, net of taxes	(2,143)	(2,301)	(21,389)
Land revaluation reserve (Note 14)	3,811	3,811	38,038
Foreign currency translation adjustments	2,236	12,125	22,317
Minority interests	237,936	237,983	2,374,847
Total net assets	1,006,046	1,030,521	10,041,381
	¥ 2,358,929	¥ 2,324,906	\$ 23,544,555

See accompanying notes.

Consolidated Statements of Income

Sumitomo Chemical Company, Limited and Subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Net sales	¥ 1,896,539	¥ 1,790,026	¥ 1,556,606	\$ 18,929,424
Cost of sales	1,454,416	1,338,142	1,138,536	14,516,579
Selling, general and administrative expenses	339,726	312,261	297,280	3,390,817
Operating income	102,397	139,623	120,790	1,022,028
Other income (expenses):				
Interest and dividend income	9,250	7,137	5,698	92,325
Interest expenses	(12,004)	(11,034)	(7,917)	(119,812)
Equity in earnings of affiliates	11,161	23,607	26,815	111,398
Gain on change in equity by affiliate stock offering	28,767	—	—	287,124
Net gain on sale of securities	6,719	31,079	8,276	67,063
Net gain on sale of property, plant and equipment	4,734	299	2,368	47,250
Loss on disposal of inventories	(10,678)	(5,423)	(5,091)	(106,578)
Net (loss) gain on foreign currency transactions	(7,093)	6,319	5,746	(70,795)
Restructuring charges (Note 10)	(4,766)	(6,378)	(5,853)	(47,570)
Expenses related to litigation	—	(1,010)	—	—
Loss on reform of retirement benefits plan	—	(611)	—	—
Gain on change in interests in consolidated subsidiary	—	—	14,273	—
Gain on business transfer	—	—	4,516	—
Expenses for subsidiary merger	—	—	(6,116)	—
Other, net	(243)	(2,547)	(4,914)	(2,425)
Income before income taxes and minority interests	128,244	181,061	158,591	1,280,008
Income taxes (Note 11):				
Current	29,993	51,772	42,750	299,361
Deferred	14,140	14,144	8,775	141,132
	44,133	65,916	51,525	440,493
Minority interests	21,028	21,285	16,401	209,881
Net income	¥ 63,083	¥ 93,860	¥ 90,665	\$ 629,634

	Yen			U.S. dollars (Note 1)
	2008	2007	2006	2008
Net income per share (Note 17)	¥ 38.20	¥ 56.82	¥ 54.80	\$ 0.381
Dilutive net income per share (Note 17)	—	56.81	—	—

Dilutive net incomes per share in 2006 and 2008 are not disclosed because they are anti-dilutive.

	Yen			U.S. dollars (Note 1)
	2008	2007	2006	2008
Cash dividends per share (applicable to the year)	¥ 12.00	¥ 12.00	¥ 10.00	\$ 0.120

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 March 31, 2008 and 2007

	Millions of yen										
	Shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains on investment securities	Unrealized gains on hedging derivatives, net of taxes	Land revaluation reserve	Foreign currency translation adjustments	Minority interests	Total net assets
Shareholders' Equity											
Balance at March 31, 2005	1,655,446	¥ 89,699	¥ 23,730	¥ 374,168	¥ (1,175)	¥ 96,111	¥ —	¥ 3,811	¥ (16,743)	¥ —	¥ —
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								18,934			
Net increase in treasury stock					(291)						
Balance at March 31, 2006	1,655,446	¥ 89,699	¥ 23,754	¥ 445,915	¥ (1,466)	¥ 155,856	¥ —	¥ 3,811	¥ 2,191	¥ —	¥ 719,760
Changes in Net Assets											
Balance at March 31, 2006	1,655,446	¥ 89,699	¥ 23,754	¥ 445,915	¥ (1,466)	¥ 155,856	¥ —	¥ 3,811	¥ 2,191	¥ —	¥ 719,760
Reclassification due to adoption of new accounting standards (Note 1)										224,464	224,464
Net income				93,860							93,860
Cash dividends at ¥11.0 per share				(18,182)							(18,182)
Bonuses to directors and statutory auditors				(109)							(109)
Adjustment for changes in consolidated subsidiaries and affiliates accounted for by the equity method				(51)							(51)
Net decrease in unrealized gains on investment securities, net of tax						(9,555)					(9,555)
Foreign currency translation adjustments								9,934			9,934
Surplus from sales of treasury stock			9								9
Net increase in treasury stock					(827)						(827)
Other							(2,301)			13,519	11,218
Balance at March 31, 2007	1,655,446	¥ 89,699	¥ 23,763	¥ 521,433	¥ (2,293)	¥ 146,301	¥ (2,301)	¥ 3,811	¥ 12,125	¥ 237,983	¥ 1,030,521
Net income				63,083							63,083
Cash dividends at ¥13.0 per share				(21,482)							(21,482)
Adjustment for changes in consolidated subsidiaries and affiliates accounted for by the equity method				(801)							(801)
Net decrease in unrealized gains on investment securities, net of tax						(55,130)					(55,130)
Foreign currency translation adjustments								(9,889)			(9,889)
Surplus from sales of treasury stock			14								14
Net increase in treasury stock					(381)						(381)
Other							158			(47)	111
Balance at March 31, 2008	1,655,446	¥ 89,699	¥ 23,777	¥ 562,233	¥ (2,674)	¥ 91,171	¥ (2,143)	¥ 3,811	¥ 2,236	¥ 237,936	¥ 1,006,046

	Thousands of U.S. dollars (Note 1)									
Balance at March 31, 2007	\$ 895,289	\$ 237,179	\$ 5,204,442	\$ (22,887)	\$ 1,460,236	\$ (22,966)	\$ 38,038	\$ 121,020	\$ 2,375,317	\$ 10,285,668
Net income			629,634							629,634
Cash dividends at ¥13.0 (US\$0.13) per share			(214,413)							(214,413)
Adjustment for changes in consolidated subsidiaries and affiliates accounted for by the equity method			(7,995)							(7,995)
Net decrease in unrealized gains on investment securities, net of tax					(550,255)					(550,255)
Foreign currency translation adjustments								(98,703)		(98,703)
Surplus from sales of treasury stock			140							140
Net increase in treasury stock					(3,802)					(3,802)
Other						1,577			(470)	1,107
Balance at March 31, 2008	\$ 895,289	\$ 237,319	\$ 5,611,668	\$ (26,689)	\$ 909,981	\$ (21,389)	\$ 38,038	\$ 22,317	\$ 2,374,847	\$ 10,041,381

See accompanying notes.

Consolidated Statements of Cash Flows

Sumitomo Chemical Company, Limited and Subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 128,244	¥ 181,061	¥ 158,591	\$ 1,280,008
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities—				
Depreciation and amortization	124,980	113,870	104,906	1,247,430
Equity in earnings of affiliates	(1,793)	(2,969)	(9,597)	(17,896)
(Decrease) increase of provision for retirement benefits and others	(5,305)	(2,209)	2,405	(52,949)
Interest and dividend income	(9,250)	(7,137)	(5,698)	(92,325)
Interest expenses	12,004	11,034	7,917	119,812
Gain on sale of securities	(6,719)	(31,079)	(8,276)	(67,063)
Restructuring charges	4,030	1,986	3,547	40,224
Gain on change in equity by affiliate stock offering	(28,767)	—	—	(287,124)
Gain on sale of property, plant and equipment	(4,734)	(299)	(2,368)	(47,250)
Gain on change in interests in consolidated subsidiary	—	—	(14,273)	—
Gain on business transfer	—	—	(4,516)	—
Increase in notes and accounts receivable	(15,463)	(5,714)	(39,548)	(154,337)
Increase in inventories	(10,555)	(30,308)	(37,209)	(105,350)
Increase (decrease) in notes and accounts payable	21,362	(6,953)	39,545	213,215
Other, net	1,147	(35,244)	(20,401)	11,448
Subtotal	209,181	186,039	175,025	2,087,843
Interest and dividends received	9,523	6,967	5,782	95,050
Interest paid	(11,848)	(10,722)	(7,728)	(118,255)
Income taxes paid	(50,278)	(39,367)	(50,296)	(501,827)
Net cash provided by operating activities	156,578	142,917	122,783	1,562,811
Cash flows from investing activities:				
Acquisition of investment securities	(27,659)	(10,188)	(30,384)	(276,065)
Proceeds from sale of securities	15,469	44,557	12,024	154,397
Acquisition of other investments	(22,319)	(33,212)	(41,983)	(222,767)
Acquisition of property, plant and equipment	(127,083)	(156,924)	(121,601)	(1,268,420)
Proceeds from sale of property, plant and equipment	7,166	571	13,367	71,524
Advance of loans receivable	(2,830)	(4,210)	(21,044)	(28,246)
Collection of loans receivable	2,611	5,628	23,915	26,060
Acquisition of shares of newly consolidated subsidiaries	(30,561)	—	—	(305,030)
Proceeds from sale of business	—	—	1,786	—
Other, net	2,527	(10,461)	(16,759)	25,221
Net cash used in investing activities	(182,679)	(164,239)	(180,679)	(1,823,326)
Cash flows from financing activities:				
Increase (decrease) in commercial paper	38,000	(6,000)	40,000	379,279
(Decrease) increase in other short-term debt	(23,583)	37,108	(1,816)	(235,383)
Proceeds from long-term debt	68,982	94,025	116,048	688,512
Repayments of long-term debt	(46,237)	(64,042)	(58,217)	(461,493)
Purchase of treasury stocks and other, net	(309)	(365)	(280)	(3,084)
Dividends paid	(21,482)	(18,182)	(14,880)	(214,413)
Distributions to minority shareholders	(9,903)	(8,462)	(12,063)	(98,841)
Capital contributions from minority shareholders	1,622	1,476	1,789	16,189
Net cash provided by financing activities	7,090	35,558	70,581	70,766
Effect of exchange rate changes on cash and cash equivalents	252	781	1,002	2,515
Net change in cash and cash equivalents	(18,759)	15,017	13,687	(187,234)
Increase in cash due to merger of consolidated subsidiaries	98	—	42,121	978
Increase (decrease) in cash resulting from changes in the number of consolidated subsidiaries	79	1	(78)	788
Cash and cash equivalents at beginning of year	125,990	110,972	55,242	1,257,511
Cash and cash equivalents at end of year (Note 15)	¥ 107,408	¥ 125,990	¥ 110,972	\$ 1,072,043

See accompanying notes.

Notes to Consolidated Financial Statements

Sumitomo Chemical Company, Limited and Subsidiaries
Years ended March 31, 2008, 2007 and 2006

1. Basis of Financial Statements

(a) The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments 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 Japanese Financial Instruments 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.

Effective from the year ended March 31, 2007, the Companies adopted the 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). The consolidated statements of changes in net assets for the years ended March 31, 2008 and 2007 were prepared in accordance with this accounting standards. The consolidated statement of shareholders’ equity for the year ended March 31, 2006 was 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, 2008, which was ¥100.19 to US\$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” refers to Sumitomo Chemical Company, Limited and the “Companies” means the Company and its consolidated subsidiaries.

2. Significant Accounting Policies

(a) Consolidation

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.

The consolidated financial statements include the accounts of the Company and 116, 105 and 105 significant subsidiaries for the years ended March 31, 2008, 2007 and 2006, respectively. 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 36 significant affiliates for the years ended March 31, 2008, 2007 and 2006, respectively. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary. 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. Some subsidiaries and affiliates are consolidated with year-ends that differ from that of the Company. However, necessary adjustments have been made if the effect of the difference is material.

Excess of cost over equity in net assets acquired is amortized within twenty years on the straight-line method 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 the allowance 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

Goodwill is amortized on the straight-line method within twenty years. Patents, 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

"Accounting Standard for Impairment of Fixed Assets" and "Implementation Guidance on Accounting Standard for Impairment of Fixed Assets" require 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.

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.

(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 ¥105,404 million (US\$1,052,041 thousand), ¥97,715 million and ¥91,866 million for the years ended March 31, 2008, 2007 and 2006, 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 commencing with the following fiscal year. 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 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 ¥1,086 million (US\$10,839 thousand) and ¥1,139 million

were included in the other long-term liabilities at March 31, 2008 and 2007, 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 ¥4,912 million (US\$49,027 thousand) and ¥11,289 million were included in "other current liabilities" and "other long-term liabilities" at March 31, 2008 and 2007, 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 share subscription rights 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

Change in depreciation method for Property, Plant and Equipment

Effective from the fiscal year beginning April 1, 2007, the Company and its consolidated domestic subsidiaries changed the depreciation method for property, plant and equipment acquired on or after April 1, 2007 in accordance with the revised Corporate Tax Law of Japan. As a result, operating income decreased by ¥2,130 million (US\$21,260 thousand), and income before income taxes and minority interests decreased by ¥2,444 million (US\$24,394 thousand), respectively.

The effects on Segment information are described in the relevant notes.

Supplementary information

As for property, plant and equipment acquired before April 1, 2007, the Company and its consolidated domestic subsidiaries applied the pre-revised depreciation method during the fiscal year beginning April 1, 2007. Among these, property, plant and equipment for which the allowable limit on the depreciable amount (95% of the acquisition cost) has been reached are to be depreciated evenly over five years

beginning from the following fiscal year. As a result, operating income decreased by ¥1,660 million (US\$16,569 thousand), and income before income taxes and minority interests decreased by ¥2,226 million (US\$22,218 thousand), respectively.

The effects on Segment information are described in the relevant notes.

4. Securities

Securities with available fair values included in marketable securities and investment securities as of March 31, 2008 were as follows:

Held-to-maturity debt securities

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

	Millions of yen		
	Book value	Fair value	Difference
Bonds	¥ 1,998	¥ 2,011	¥ 13

(b) Other held-to-maturity debt securities

	Millions of yen		
	Book value	Fair value	Difference
Bonds	¥ 6,987	¥ 6,940	¥ (47)

Held-to-maturity debt securities

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

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
Bonds	\$ 19,942	\$ 20,072	\$ 130

(b) Other held-to-maturity debt securities

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
Bonds	\$ 69,737	\$ 69,268	\$ (469)

Available-for-sale securities

(a) Securities with book values exceeding acquisition cost

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 50,278	¥ 222,686	¥ 172,408

(b) Other securities

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 13,663	¥ 11,036	¥ (2,627)
Other	500	495	(5)
Total	¥ 14,163	¥ 11,531	¥ (2,632)

Available-for-sale securities

(a) Securities with book values exceeding acquisition cost

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities	\$ 501,827	\$2,222,637	\$1,720,810

(b) Other securities

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities	\$ 136,371	\$ 110,151	\$ (26,220)
Other	4,990	4,940	(50)
Total	\$ 141,361	\$ 115,091	\$ (26,270)

Securities with no available fair values included in cash equivalents, marketable securities and investment securities as of March 31, 2008 were as follows:

	Millions of yen	U.S. dollars
Held-to-maturity debt securities		
Local government bonds and other	¥ 106	\$ 1,058
Commercial paper	6,990	69,767
Available-for-sale securities		
Non-listed equity securities	12,620	125,961
Preferred securities	13,001	129,763
Negotiable certificates of deposit	24,740	246,931
Other	1,224	12,218
Investment in non-consolidated subsidiaries and affiliates	250,713	2,502,375
Total	¥ 309,394	\$3,088,073

Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2008 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	¥ —
Bonds	1,996	6,989	—
Commercial paper	6,990	—	—
Negotiable certificates of deposit	24,740	495	—
Total	¥ 33,726	¥ 7,590	¥ —

	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	\$ —	\$ 1,058	\$ —
Bonds	19,922	69,757	—
Commercial paper	69,767	—	—
Negotiable certificates of deposit	246,931	4,940	—
Total	\$ 336,620	\$ 75,755	\$ —

Total sales of available-for-sale securities in the year ended March 31, 2008 amounted to ¥8,801 million (US\$87,843 thousand) and the related gains and losses amounted to ¥6,650 million (US\$66,374 thousand) and ¥2 million (US\$20 thousand), respectively.

Securities with available fair values included in marketable securities and 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)

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)

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

	Millions of yen
Held-to-maturity debt securities	
Local government bonds and other	¥ 127
Commercial paper	25,957
Available-for-sale securities	
Non-listed equity securities	14,699
Preferred securities	13,001
Others	73
Investment in non-consolidated subsidiaries and affiliates	128,609
Total	¥ 182,466

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

Total sales of available-for-sale securities in the year ended March 31, 2007 amounted to ¥6,379 million and the related gains and losses amounted to ¥5,579 million and ¥7 million, respectively.

5. Investments in Related Companies

Investments in non-consolidated subsidiaries and affiliates included in the balance sheet at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Investment securities	¥ 250,713	¥ 128,609	\$2,502,375
Other non-current assets	8,794	89,104	87,773
Total	¥ 259,507	¥ 217,713	\$2,590,148

6. Short-term Debt and Long-term Debt

Interest rates on short-term bank loans ranged from 0.62% to 10.5% and from 0.08% to 13.5% at March 31, 2008 and 2007, respectively.

Short-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Bank loans	¥ 110,649	¥ 136,384	\$1,104,392
Commercial paper	92,000	54,000	918,255
	¥ 202,649	¥ 190,384	\$2,022,647

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
0.19%-5.19% Euro notes under medium-term note programs due through 2008 ...	¥ 6,298	¥ 3,995	\$ 62,861
0.44%-3.00% debentures due through 2017	298,020	302,400	2,974,548
0.43%-6.48% long-term bank loans payable due through 2021	166,915	144,210	1,665,985
	471,233	450,605	4,703,394
Less amounts due within one year	(85,555)	(43,248)	(853,928)
	¥ 385,678	¥ 407,357	\$3,849,466

The aggregate annual maturities of long-term debt subsequent to March 31, 2008 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 85,555	\$ 853,928
2010	39,832	397,565
2011	51,747	516,489
2012	52,255	521,559
2013	48,322	482,304
2014 and thereafter	193,522	1,931,549
	¥ 471,233	\$4,703,394

At March 31, 2008, assets pledged as collateral for short-term debt, long-term debt and others were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, net of accumulated depreciation	¥ 28,714	\$ 286,595
Investment securities	120,876	1,206,468
	¥ 149,590	\$1,493,063
Liabilities secured thereby	¥ 16,325	\$ 162,940

7. Leases

At March 31, 2008 and 2007, assets leased under non-capitalized financial leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Machinery and equipment	¥ 7,892	¥ 9,175	\$ 78,770
Buildings and structures	15	37	150
Less accumulated depreciation and amortization	(4,541)	(5,166)	(45,324)
Total	¥ 3,366	¥ 4,046	\$ 33,596

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\$269 thousand) and ¥27 million and depreciation and amortization of ¥1,939 million (US\$19,353 thousand) and ¥2,427 million would have been recorded for the years ended March 31, 2008 and 2007, respectively.

Total lease payments under non-capitalized finance leases were ¥1,978 million (US\$19,742 thousand), ¥2,455 million and ¥2,135 million for the years ended March 31, 2008, 2007 and 2006 respectively.

Obligations under non-capitalized finance leases at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥ 1,536	¥ 1,691	\$ 15,331
Due after one year	1,838	2,380	18,345
Total	¥ 3,374	¥ 4,071	\$ 33,676

Obligations under operating leases at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥ 1,741	¥ 1,775	\$ 17,377
Due after one year	11,025	10,276	110,041
Total	¥ 12,766	¥ 12,051	\$ 127,418

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. Retirement Benefits

The liabilities for retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected retirement benefit obligation	¥ (289,703)	¥ (288,600)	\$(2,891,536)
Plan assets	276,365	309,002	2,758,409
Funded status (Unfunded retirement benefit obligation)	(13,338)	20,402	(133,127)
Unrecognized actuarial differences	19,318	(33,100)	192,814
Unrecognized prior service cost	996	846	9,941
Net amount recognized	6,976	(11,852)	69,628
Prepaid pension expense	(50,636)	(30,898)	(505,400)
Provision for employees' retirement benefits.....	¥ (43,660)	¥ (42,750)	\$ (435,772)

The prepaid pension expense included in other non-current assets.

Net periodic costs for the years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Service cost	¥ 11,587	¥ 10,943	¥ 10,365	\$ 115,650
Interest cost	4,111	4,599	4,119	41,032
Expected return on retirement benefit plan assets	(4,187)	(4,702)	(3,663)	(41,791)
Amortization of prior service cost	328	(997)	(923)	3,274
Amortization of actuarial differences	(16,685)	(24,834)	(1,320)	(166,534)
Net periodic cost	¥ (4,846)	¥ (14,991)	¥ 8,578	\$ (48,369)
Loss on reform of retirement benefits plan	—	611	—	—
Other	502	348	—	5,010
Total	¥ (4,344)	¥ (14,032)	¥ 8,578	\$ (43,359)

In addition to the above cost, a certain domestic subsidiary expensed ¥2,939 million 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:

	2008	2007	2006
Discount rate	mainly 1.2%	mainly 1.2%	mainly 1.5%
Expected return rate for plan assets	mainly 1.2%	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.

10. Restructuring Charges

Restructuring charges for the years of 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Loss on disposal of property, plant and equipment	¥ 4,766	¥ 3,439	¥ 3,384	\$47,570
Loss on investments in and loans to related companies	—	—	1,629	—
Special severance benefits	—	2,939	711	—
Other	—	—	129	—
	¥ 4,766	¥ 6,378	¥ 5,853	\$47,570

11. Deferred Taxes

Significant components of deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Retirement benefits	¥ 17,321	¥ 17,181	\$ 172,882
Depreciation and amortization	16,333	17,453	163,020
Accrued bonuses	8,539	8,828	85,228
Inventories	7,784	5,328	77,692
Tax loss carryforwards	3,918	913	39,106
Unrealized intercompany profit	3,807	6,443	37,998
Other	23,582	25,708	235,373
Total deferred tax assets	81,284	81,854	811,299
Unrealized gains on investment securities	(66,829)	(104,414)	(667,023)
Prepaid pension expenses	(20,278)	(12,369)	(202,396)
Foreign affiliates' undistributed earnings	(18,309)	(14,225)	(182,743)
Valuation differences due to an application of purchase accounting method	(8,417)	—	(84,010)
Deferred gain on property, plant and equipment	(6,838)	(5,625)	(68,250)
Other	(5,212)	(6,016)	(52,021)
Total deferred tax liabilities	(125,883)	(142,649)	(1,256,443)
Net deferred tax liabilities	¥ (44,599)	¥ (60,795)	\$ (445,144)

Significant items in the reconciliations of the normal income tax rate to the effective income tax rate for the years ended March 31, 2008, 2007 and 2006 were as follows:

	2008	2007	2006
Statutory income tax rate in Japan	40.7%	40.7%	40.7%
Permanently non-deductible expenses	1.8	1.4	1.7
Permanently non-taxable dividends received	(0.9)	(1.1)	(0.6)
R&D expenses deductible from income taxes	(2.4)	(3.4)	(3.0)
Gain on change in equity by affiliate stock offering	(9.1)	—	—
Gain on change in interests in consolidated subsidiary	—	—	(3.7)
IT investments deductible from income taxes	—	—	(1.0)
Other	4.3	(1.2)	(1.6)
Effective income tax rate	34.4%	36.4%	32.5%

12. Net Assets

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

Under the Japanese Commercial Code, the entire amount of the issue price of shares was 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 provided that an amount equal to at least 10% of cash dividends and other cash appropriations should 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 were 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 might be used to eliminate or reduce a deficit by resolution of the stockholders or might 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.

13. 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, 2008 and 2007, the Companies were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
As guarantor of project completion	¥ 272,065	¥ 132,650	\$2,715,491
As guarantor of indebtedness	10,882	11,970	108,614
As issuer of letters of comfort	86	173	858
	¥ 283,033	¥ 144,793	\$2,824,963

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 were ¥271,489 million (US\$2,709,741 thousand) and ¥129,522 million for the years ended March 31, 2008 and 2007, respectively. The Company also guaranteed payment to the EPC contractors for construction regarding "The Rabigh Project." The amount guaranteed were ¥576 million (US\$5,749 thousand) and ¥3,128 million for the years ended March 31, 2008 and 2007, respectively .

14. 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.

15. Supplementary Cash Flow Information

1) Cash and cash equivalents

At March 31, 2008, 2007 and 2006, cash and cash equivalents were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Cash	¥ 75,678	¥ 100,033	¥ 97,981	\$ 755,345
Cash equivalents	31,730	25,957	12,991	316,698
	¥ 107,408	¥ 125,990	¥ 110,972	\$ 1,072,043

2) Significant non-cash transaction

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

As a result of the acquisition of Cambridge Display Technology Inc. ("CDT") dated September 19, 2007, the Companies have increased assets and liabilities in the amount of ¥37,224 million (US\$371,534 thousand) and ¥11,092 million (US\$110,710 thousand), respectively. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the end of acquisition and payment for acquisition of CDT, net of cash acquired, respectively.

	Millions of yen	Thousands of U.S. dollars
Current Assets.....	¥ 3,403	\$ 33,965
Non-current Assets	33,821	337,569
Goodwill	7,445	74,309
Current Liabilities	(3,041)	(30,352)
Long-term Liabilities	(8,051)	(80,358)
Net assets acquired	33,577	335,133
Cash and cash equivalent of CDT	(3,036)	(30,302)
Payment for acquisition of CDT, net of cash acquired.....	30,541	304,831

16. Related Party Transactions

Significant transactions, contingent liabilities and pledged assets with related parties as of and for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Rabigh Refining and Petrochemical Company (an affiliated company)			
Contingent liabilities	¥ 272,065	¥ 132,650	\$ 2,715,491
Pledged assets	271,489	129,522	2,709,741
Capital increase / Investment	20,939	42,412	208,993
Glaxo Smithkline K.K. (an affiliated company)			
Sale of shares	—	20,105	—

17. 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, 2008, 2007 and 2006 were as follows:

Income (Numerator)	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Net income	¥ 63,083	¥ 93,860	¥ 90,665	\$629,634
Bonuses to directors and statutory auditors	—	—	109	—
Net income - basic	63,083	93,860	90,556	629,634
Effect of dilutive securities:				
Share subscription rights issued by a consolidated subsidiary	—	(30)	—	—
Net income - diluted	¥ —	¥ 93,830	¥ —	\$ —

Shares (Denominator)	Number of shares		
	2008	2007	2006
Average shares - basic	1,651,254,850	1,651,757,344	1,652,610,708
Average shares - diluted	—	1,651,757,344	—

Net income per share	Yen			U.S. dollars
	2008	2007	2006	2008
Basic	¥38.20	¥56.82	¥54.80	\$0.381
Diluted	—	56.81	—	—

18. Segment Information

The operations of the Companies for the years ended March 31, 2008, 2007 and 2006 were summarized by product group and geographic area as follows:

Segment information by product group	Millions of yen								Consolidated
	Basic Chemicals	Petrochemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Other	Adjustments & Elimination	
Year ended March 31, 2008									
Sales to unaffiliated customers	¥ 314,718	¥ 603,326	¥ 92,937	¥ 297,515	¥ 200,378	¥ 237,592	¥ 150,073	¥ —	¥1,896,539
Inter-segment transfers	11,962	10,533	8,521	5,925	1,786	17	62,007	(100,751)	—
Total sales	326,680	613,859	101,458	303,440	202,164	237,609	212,080	(100,751)	1,896,539
Operating cost	316,121	609,341	90,028	297,150	181,250	191,145	208,392	(99,285)	1,794,142
Operating income	¥ 10,559	¥ 4,518	¥ 11,430	¥ 6,290	¥ 20,914	¥ 46,464	¥ 3,688	¥ (1,466)	¥ 102,397
Assets	¥ 257,102	¥ 591,226	¥ 102,930	¥ 299,498	¥ 240,398	¥ 449,496	¥ 337,518	¥ 80,761	¥2,358,929
Depreciation and amortization	13,305	18,377	6,080	42,190	12,791	15,370	11,064	5,803	124,980
Capital expenditure	27,646	21,199	6,929	33,355	8,451	18,283	18,448	8,210	142,521

Segment information by product group	Millions of yen								Consolidated
	Basic Chemicals	Petrochemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Other	Adjustments & Elimination	
Year ended March 31, 2007									
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								Consolidated
	Basic Chemicals	Petrochemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Other	Adjustments & Elimination	
Year ended March 31, 2006									
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	Thousands of U.S. dollars								Consolidated
	Basic Chemicals	Petrochemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Other	Adjustments & Elimination	
Year ended March 31, 2008									
Sales to unaffiliated customers	\$ 3,141,212	\$ 6,021,819	\$ 927,608	\$ 2,969,508	\$ 1,999,980	\$ 2,371,414	\$ 1,497,883	\$ —	\$ 18,929,424
Inter-segment transfers	119,393	105,130	85,048	59,138	17,826	170	618,894	(1,005,599)	—
Total sales	3,260,605	6,126,949	1,012,656	3,028,646	2,017,806	2,371,584	2,116,777	(1,005,599)	18,929,424
Operating cost	3,155,215	6,081,855	898,573	2,965,865	1,809,063	1,907,825	2,079,967	(990,967)	17,907,396
Operating income	\$ 105,390	\$ 45,094	\$ 114,083	\$ 62,781	\$ 208,743	\$ 463,759	\$ 36,810	\$ (14,632)	\$ 1,022,028
Assets	\$ 2,566,144	\$ 5,901,048	\$ 1,027,348	\$ 2,989,300	\$ 2,399,421	\$ 4,486,436	\$ 3,368,780	\$ 806,078	\$ 23,544,555
Depreciation and amortization	132,798	183,421	60,685	421,100	127,667	153,409	110,430	57,920	1,247,430
Capital expenditure	275,936	211,588	69,159	332,917	84,350	182,483	184,130	81,944	1,422,507

As described in "Change in accounting policies", effective from the fiscal year beginning April 1, 2007, the Company and its consolidated domestic subsidiaries have changed depreciation method. As a consequence, operating income in this fiscal year decreased by ¥244 million (US\$2,435 thousand) in Basic Chemicals, ¥444 million (US\$4,432 thousand) in Petrochemicals & Plastics, ¥152 million (US\$1,517 thousand) in Fine Chemicals, ¥171 million (US\$1,707 thousand) in IT-related Chemicals, ¥157 million (US\$1,567 thousand) in Agricultural Chemicals, ¥360 million (US\$3,593 thousand) in Pharmaceuticals, ¥602 million (US\$6,009 thousand) in Others segment, respectively, compared to the case in which the previous depreciation method is applied.

As supplementary information in "Change in accounting policies" shows, with regard to property, plant and equipment acquired before April 1, 2007, the Company and its consolidated domestic subsidiaries applied the pre-revised depreciation method during the fiscal year beginning April 1, 2007. Among these, property, plant and equipment for which the allowable limit on the depreciable amount (95% of acquisition cost) has been reached are to be depreciated evenly over five years beginning from the following fiscal year. As a result, operating income in this fiscal year decreased by ¥191 million (US\$1,906 thousand) in Basic Chemicals, 312 million (US\$3,114 thousand) in Petrochemicals & Plastics, ¥41 million (US\$409 thousand) in Fine Chemicals, ¥86 million (US\$858 thousand) in IT-related Chemicals, ¥127 million (US\$1,268 thousand) in Agricultural Chemicals, ¥301 million (US\$3,004 thousand) in Pharmaceuticals, ¥602 million (US\$6,009 thousand) in Others segment, respectively.

Segment information by geographic area	Millions of yen				Consolidated
	Japan	Asia	Other	Adjustments & Elimination	
Year ended March 31, 2008					
Sales to unaffiliated customers	¥ 1,344,571	¥ 452,354	¥ 99,614	¥ —	¥ 1,896,539
Inter-segment transfers	131,102	9,971	27,927	(169,000)	—
Total sales	1,475,673	462,325	127,541	(169,000)	1,896,539
Operating cost	1,406,095	434,988	120,958	(167,899)	1,794,142
Operating income	¥ 69,578	¥ 27,337	¥ 6,583	¥ (1,101)	¥ 102,397
Assets	¥ 1,871,025	¥ 334,107	¥ 141,839	¥ 11,958	¥ 2,358,929

Segment information by geographic area	Millions of yen				
	Japan	Asia	Other	Adjustments & Elimination	Consolidated
Year ended March 31, 2007					
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
Year ended March 31, 2006					
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	Thousands of U.S. dollars				
	Japan	Asia	Other	Adjustments & Elimination	Consolidated
Year ended March 31, 2008					
Sales to unaffiliated customers	\$ 13,420,211	\$ 4,514,962	\$ 994,251	\$ —	\$ 18,929,424
Inter-segment transfers	1,308,534	99,521	278,740	(1,686,795)	—
Total sales	14,728,745	4,614,483	1,272,991	(1,686,795)	18,929,424
Operating cost	14,034,285	4,341,631	1,207,286	(1,675,806)	17,907,396
Operating income	\$ 694,460	\$ 272,852	\$ 65,705	\$ (10,989)	\$ 1,022,028
Assets	\$ 18,674,768	\$ 3,334,734	\$ 1,415,700	\$ 119,353	\$ 23,544,555

As described in "Change in accounting policies", effective from the fiscal year beginning April 1, 2007, the Company and its consolidated domestic subsidiaries have changed the depreciation method. As a consequence, operating income in this fiscal year decreased by ¥2,130 million (US\$21,260 thousand) in Japan, compared to the case in which the previous depreciation method is applied.

As supplementary information in "Change in accounting policies" shows, with regard to property, plant and equipment acquired before April 1, 2007, the Company and its consolidated domestic subsidiaries applied the pre-revised depreciation method during the fiscal year beginning April 1, 2007. Among these, property, plant and equipment for which the allowable limit on the depreciable amount (95% of acquisition cost) has been reached are to be depreciated evenly over five years beginning from the following fiscal year. As a result, operating income in this fiscal year decreased by ¥1,660 million (US\$16,569 thousand) in Japan.

Corporate assets of ¥217,843 million (US\$2,174,299 thousand), ¥266,035 million and ¥283,701 million, included in the adjustments and elimination column for the years ended March 31, 2008, 2007 and 2006, 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 ¥788,804 million (US\$7,873,081 thousand), ¥747,770 million and ¥610,951 million and accounted for 41.6%, 41.8% and 39.2% of the total sales to unaffiliated customers for the years ended March 31, 2008, 2007 and 2006, respectively. Overseas operations in the Asian region were ¥591,677 million (US\$5,905,549 thousand), ¥543,310 million and ¥443,962 million for the years ended March 31, 2008, 2007 and 2006, respectively.

19. Business Combination

On September 19, 2007, the Companies acquired 100% of the issued common stock of Cambridge Display Technology Inc. ("CDT"). This legal form of business combination was Reverse triangular cash-out merger, and surviving company and extinguished company were CDT and Rosy future Inc. which was wholly owned subsidiary, respectively. This acquisition was to promote the commercialization of Polymer Organic Light Emitting Diodes (PLEDs).

The consolidated financial statement for the year ended March 31, 2008 include the operating results of CDT from September 20, 2007 to December 31, 2007 (fiscal year-end).

In connection with this acquisition, the Companies acquired net assets as ¥33,577 million (US\$335,133 thousand). In these, ¥30,599 million (US\$305,410 thousand) was assigned to intangible assets of patents with a thirteen year amortization period, ¥628 million (US\$6,268 thousand) was assigned to sales, general and administrative expenses and ¥525 million (US\$5,240 thousand) was assigned to intangible assets of customer relationships with a five year amortization period. ¥7,445 million (US\$74,309 thousand) was assigned to goodwill with a five year amortization period by the straight-line method, which was the difference between the net assets at fair value at the date of acquisition and the acquisition cost.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

	Millions of yen	Thousands of U.S. dollars
Current Assets.....	¥ 3,403	\$ 33,965
Non-current Assets.....	33,821	337,569
Goodwill	7,445	74,309
Current Liabilities	(3,041)	(30,352)
Long-term Liabilities	(8,051)	(80,358)
Net assets acquired	¥ 33,577	\$ 335,133

Pro forma information of the Companies' consolidated operating results and net income per share, which would have been recorded if the acquisition of CDT had taken place at the beginning of this fiscal year.

	Millions of yen	Thousands of U.S. dollars
Net sales	¥1,897,508	\$ 18,939,096
Operating income	96,040	958,579
Income before income taxes and minority interests	121,445	1,212,147
Net income	56,846	567,382

	Yen	U.S. dollars
Net income per share	¥ 34.43	\$ 0.344

Pro forma information has been prepared for comparative purpose only and is not intended to be indicative of what the Companies' results would have been had the acquisition occurred as the periods presented or the results which may occur in the future.

These amounts have not been audited by the independent auditor as allowed under the relevant accounting standards and auditing guidance.

20. Subsequent Events

At the Board of Directors meeting of the Company held on May 9, 2008, year-end cash dividends were resolved as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends at ¥6.0 (US\$0.060) per share.....	¥ 9,913	\$ 98,942

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, 2008 and 2007, the related consolidated statements of income for each of the three years in the period ended March 31, 2008, the consolidated statements of changes in net assets for each of the two years in the period ended March 31, 2008, the consolidated statement of shareholders' equity for the year ended March 31, 2006, and the consolidated statements of cash flows for each of the three years in the period ended March 31, 2008, 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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 20, 2008

Subsidiaries and Affiliates

Company Name	Major Business	Sumitomo Chemical's Shareholding Ratio (%)	Telephone	Facsimile
Japan				
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
Ceratec Co., Ltd.	Alumina	100.0	(897) 33-8541	(897) 33-6005
Chiba Styrene Monomer Limited Company	Styrene monomer, ethyl benzene	40.0	(3) 5290-5310	(3) 5290-5083
Dainippon Sumitomo Pharma Co., Ltd.*	Pharmaceuticals	50.1	(6) 6203-5321	(6) 6202-6028
Dow Kakoh K.K.	Polystyrene for building	35.0	(3) 5460-2351	(3) 5460-2390
Inabata & Co., Ltd.*	Trading in industrial chemicals, fine chemicals, and plastics	21.3	(6) 6267-6051	(6) 6267-6042
Japan Aldehyde Co., Ltd.	Acetaldehyde	60.0	(3) 5543-5319	—
Japan Exlan Co., Ltd.	Functional acrylic fibers	20.0	(6) 6348-4327	(6) 6348-4168
Japan-Singapore Petrochemicals Co., Ltd.	Equity holder in Petrochemical Corporation of Singapore (Pte.) Ltd.	54.9	(3) 5543-5867	(3) 5543-5867
Japan Polystyrene Inc.	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	56.2	(3) 6667-8280	(3) 6667-8287
Kyoyu Agri Co., Ltd.	Agrochemicals	32.9	(44) 813-4200	(44) 813-5299
Nihon EcoAgro Co., Ltd.	Environmentally-friendly farm materials	100.0	(3) 5543-5686	(3) 5543-5929
Nihon Green & Garden Corporation	Agrochemicals and horticultural materials	73.8	(3) 3669-5888	(3) 3669-5889
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) 6740-7777	(3) 6740-7000
SanTerra Co., Ltd.	Agricultural materials	87.3	(3) 5632-3130	(3) 5632-3131
Shinto Paint Co., Ltd.*	Paints	45.1	(6) 6426-3355	(6) 6429-6188
Sumation Co., Ltd.	PLEDs	50.0	(3) 5543-5141	(3) 5543-5966
Sumika Acryl Co., Ltd.	Sales of acrylic sheet	100.0	(3) 5542-8620	(3) 5542-8640
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 Chemical Analysis Service, Ltd.	Analytical services in environmental, electronic, and pharmaceutical sectors	100.0	(6) 6202-1810	(6) 6202-0115
Sumika Chemtex Co., Ltd.	Dyestuffs and functional chemicals	100.0	(6) 6466-5146	(6) 6466-5457
Sumika Color Co., Ltd.	Organic pigments, color compounds for various polymers	88.2	(6) 6205-4300	(6) 6205-4301
Sumika Enviro-Science Co., Ltd.	Public hygiene materials	70.6	(798) 38-2330	(798) 38-2325
Sumika Finance Co., Ltd.	Financing	100.0	(3) 5543-5163	(3) 5543-5905
Sumika Fukuei Agro K.K.	Fertilizers	50.0	(6) 6412-5251	(6) 6413-1333
Sumika High-purity Gas Company	Oxygen, nitrogen, and argon	60.0	(897) 37-1716	—
Sumika Kakoushi Co., Ltd.	Release paper	100.0	(3) 3663-8376	(3) 3663-7365

Company Name	Major Business	Sumitomo Chemical's Shareholding Ratio (%)	Telephone	Facsimile
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 Real Estate Co., Ltd.	Estate and insurance agency	100.0	(6) 6220-3263	(6) 6220-3267
Sumika Technical Information Service	Information service about the chemical industry	100.0	(6) 6220-3364	(6) 6220-3361
Sumitomo Chemical Garden Products Co., Ltd.	Horticultural materials	100.0	(3) 3270-9661	(3) 3270-9779
Sumitomo Bakelite Co., Ltd.*	Resins and resin products	20.4	(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 System Service Co., Ltd.	Computer-system development, information processing	100.0	(3) 5543-5201	(3) 5543-5997
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	30.7	(6) 6220-8508	(6) 6220-8541
Taoka Chemical Co., Ltd.*	Dyestuffs, industrial chemicals and adhesives	51.2	(6) 6394-1221	(6) 6394-1658
Thermo Co., Ltd.	Polyethylene and polypropylene film	100.0	(3) 5825-7737	(3) 5825-7866
Tobu Butadiene Co., Ltd.	Butadiene	50.0	(3) 5565-6521	(3) 5565-6645
T.S. Agro Co., Ltd.	Fertilizers	50.0	(79) 436-0222	—
Yashima Sangyo Co., Ltd.	Agrochemicals	85.0	(44) 833-2211	(44) 833-1152
Singapore				
Chevron Phillips Singapore Chemicals (Pte.) Ltd.	High-density polyethylene	20.0	+65-6517-3239	—
Petrochemical Corporation of Singapore (Pte.) Ltd.	Ethylene and propylene	50.0	+65-6867-2000	+65-6867-9274
Sumitomo Chemical Asia Pte. Ltd.	Sales of petrochemical products	100.0	+65-6303-5188	+65-6298-9621
Sumitomo Chemical Singapore Pte. Ltd.	MMA monomer, MMA polymer, Agricultural chemicals, IT-related chemicals and other products.	100.0	+65-6296-8183	+65-6295-2765
Singapore Methyl Methacrylate Pte. Ltd.	MMA monomer and MMA polymer	100.0	+65-6296-8183	+65-6295-2765
The Polyolefin Company (Singapore) Pte. Ltd.	Polyethylene and polypropylene	70.0	+65-6292-9622	+65-6293-2748
China				
Dalian Sumika Chemphy Chemical Co., Ltd.	Agrochemical intermediates	60.0	+86-(411) 8751-3688	+86-(411) 8751-6038
Shanghai Lifetech Household Products Co., Ltd.	Products relating to household insecticides	100.0	+86-(21) 5159-3281	+86-(21) 5159-3282
Sumitomo Chemical Shanghai Co., Ltd.	Agrochemicals, feed additives and environment health products	100.0	+86-(21) 6881-7700	+86-(21) 6880-0188
Sumika Electronic Materials (Shanghai) Co., Ltd.	Optical functional film	90.0	+86-(21) 5046-2296	+86-(21) 5046-3133
Sumika Electronic Materials (Wuxi) Co., Ltd.	Optical functional film and light diffusion plates	100.0	+86-(510)-522-8640	+86-(510)-522-9641
Zhuhai Sumika Polymer Compounds Co., Ltd.	Polypropylene compounds	55.0	+86-(756) 5655-689	+86-(756) 5655-690

Company Name	Major Business	Sumitomo Chemical's Shareholding Ratio (%)	Telephone	Facsimile
India				
SC Enviro Agro India Private Limited	Agrochemicals and household insecticides	90.0	+91-(25) 25-272172	+91-(25) 25-272158
Sumitomo Chemical India Private Limited	Agrochemicals and household insecticides	100.0	+91-(22) 2289-2610	+91-(22) 2289-2600
South Korea				
Dongwoo Fine-Chem Co., Ltd.	Fine chemicals	95.0	+82-(2) 6250-1110	+82-(2) 6250-1198
LG MMA Corp.	Methyl methacrylate	25.0	+82-(2) 3770-1201	+82-(2) 3770-1209
Sumitomo Chemical Agro Seoul, Ltd.	Agrochemicals	100.0	+82-(2) 558-4814	+82-(2) 558-5471
Malaysia				
Sumitomo Chemical Enviro-Agro Asia Pacific Sdn. Bhd.	Agrochemicals	100.0	+60-(6) 679-3711	+60-(6) 679-3698
Taiwan				
Sumika Technology Co., Ltd.	Optical functional film	85.0	+886-(7) 364-1316	+886-(7) 364-6994
Sumitomo Chemical Taiwan Co., Ltd.	Agrochemicals	100.0	+886-(2) 2506-4528	+886-(2) 2506-4551
Thailand				
Bara Chemical Co., Ltd.	Resins, optical brightening agents, and adhesives	55.0	+66-(2) 709-4598	+66-(2) 323-9997
Sumipex (Thailand) Co., Ltd.	Polymethyl methacrylate sheet	51.0	+66-(2) 632-1820	+66-(2) 632-1831
Australia				
Sumitomo Chemical Australia Pty. Ltd.	Agrochemicals and environment health products	100.0	+61-(2) 9904-6499	+61-(2) 9904-7499
New Zealand				
New Zealand Aluminium Smelters Ltd.	Aluminum ingots	20.6	+643-(3) 218-5999	+643-(3) 218-9747
United States				
McLaughlin Gormley King Company	Marketing of household insecticides	32.9	+1-612-544-0341	—
Phillips Sumika Polypropylene Co.	Polypropylene	40.2	+1-(832) 813-4847	+1-(832) 813-4175
Sumitomo Chemical America, Inc.	Chemical products	100.0	+1-(212) 572-8200	+1-(212) 572-8234
Sumitomo Chemical Capital America, Inc.	Financing	100.0	—	—
Sumika Electronic Materials, Inc.	MOEPI wafers and other IT-related materials	100.0	+1-(602) 659-2500	+1-(602) 438-2277
Sumika Polymers America Corp.	Plastics	100.0	—	—
Sumika Polymer Compounds America, Inc.	Polypropylene Compounds	55.0	—	—
Valent Biosciences Corp.	Agrochemicals	100.0**	+1-(847) 968-4700	+1-(847) 968-4806
Valent U.S.A. Corp.	Agrochemicals	100.0	+1-(925) 256-2700	+1-(925) 256-2776
Mexico				
Valent de Mexico, S.A. de C.V.	Agrochemicals	100.0**	+52-(333)-110-01-62	+52-(333)-110-17-54
Brazil				
Sumitomo Chemical do Brasil Representações Limitada	Agrochemicals, household insecticides, and feed additives	100.0	+55-(11) 3174-0355	+55-(11) 3174-0377

Company Name	Major Business	Sumitomo Chemical's Shareholding Ratio (%)	Telephone	Facsimile
Saudi Arabia				
Rabigh Refining and Petrochemical Company	Refined petroleum products and petrochemicals	37.5	+966-(2) 425-1855	+966-(2) 425-2732
Belgium				
Sumitomo Chemical Europe S.A./N.V.	Chemical products	100.0	+32-(2) 251-0650	+32-(2) 251-2991
France				
Philagro France S.A.S.	Agrochemicals	60.0**	+33-(478) 64-3227	+33-(478) 47-7128
Philagro Holding S.A.	Holding company for Philagro France S.A.	60.0	+33-(478) 64-3227	+33-(478) 64-7128
Sumitomo Chemical Agro Europe S.A.S.	Agrochemicals	100.0	+33-(478) 64-32-60	+33-(478) 47-25-45
Italy				
Isagro Italia S.r.l.	Agrochemicals	50.0	+39-(02) 45280-1	+39-(02) 45280-210
Slovakia				
Dongwoo Fine-Chem Slovakia s.r.o.	IT-related chemicals	100.0	+421-33-593-6537	—
Spain				
Kenogard S.A.	Agrochemicals	75.0	+34-(93) 4881270	+34-(93) 4873845
United Kingdom				
Cambridge Display Technology, Inc.	R&D and licenses in OLED displays and materials	100.0	+44-1954-713-600	+44-1954-713-620
Sumika Polymer Compounds Europe Limited	Polypropylene compounds	50.0	+44-2392-486350	+44-2392-472388
Sumitomo Chemical (U.K.) plc.	Household insecticides and financing	100.0	+44-(20) 8600-7700	+44-(20) 8600-7717
Poland				
Sumika Electronic Materials Poland Sp. Z o.o.	Optical functional film and light diffusion plates	100.0	+48-(56) 612-02-32	+48-(56) 612-91-22
Tanzania				
Vector Health International Ltd.	OLYSET® Net	50.0	—	—
South Africa				
Philagro South Africa (Pty) Ltd.	Agrochemicals	51.0	+27-(12) 348-8808	+27-(12) 348-3500

* Companies listed on the stock exchange

** 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: +65-6296-8183
Fax: +65-6295-2765

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: +86-(10) 6590-8542
Fax: +86-(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: +86-(21) 6881-7700
Fax: +86-(21) 6880-0188

Sumitomo Chemical Taiwan Co., Ltd.

13/F-4, 206, Nanjing East Rd., Sec.2
Taipei 104 Taiwan
Tel: +886-(2) 2506-4528
Fax: +886-(2) 2506-4551

Sumitomo Chemical Agro Seoul, Ltd.

2F KTF Tower, 890-20, Doechi-doug
Kangnam-ku, Seoul, 135-737
Korea
Tel: +82-(2) 558-4814
Fax: +82-(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: +60-(6) 679-3711
Fax: +60-(6) 679-3698

Sumitomo Chemical India Private Limited

Moti Mahl, 7th Floor 195, J. Tata Road
Churchgate, Mumbai 400 020, India
Tel: +91-(22) 2289-2610
Fax: +91-(22) 2289-2600

Sumitomo Chemical Australia Pty. Ltd.

501 Victoria Ave.
Chatswood 2067 NSW
Australia
Tel: +61-(2) 9904-6499
Fax: +61-(2) 9904-7499

Sumitomo Chemical Co., Ltd. Wellington Office

Level 16, ASB Bank Tower
2 Hunter Street, PO Box 2278
Wellington
New Zealand
Tel: +64-(4) 472-4512
Fax: +64-(4) 473-1123

Sumitomo Chemical America, Inc.

New York Head Office
335 Madison Avenue, Suite 830
New York, NY 10017
U.S.A.
Tel: +1-(212) 572-8200
Fax: +1-(212) 572-8234

Edison Office

379 Thornall Street, 7th Floor
Edison, NJ 08837
U.S.A.
Tel: +1-(732) 205-1520
Fax: +1-(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
Edifício Top Center, São Paulo, SP
CEP 01310-913, Brazil
Tel: +55-(11) 3174-0355
Fax: +55-(11) 3174-0377

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

Woluwelaan 57
B-1830 Machelen
Belgium
Tel: +32-(2) 251-0650
Fax: +32-(2) 251-2991

Sumitomo Chemical Agro Europe S.A.S.

Parc D'affaires de Crecy
2, rue Claude Chappe
69370 Saint Didier au Mont d'Or
France
Tel: +33-(478) 64-32-60
Fax: +33-(478) 47-25-45

Sumitomo Chemical (U.K.) plc.

Horatio House
77-85 Fulham Palace Road
London W6 8JA
U.K.
Tel: +44-(20) 8600-7700
Fax: +44-(20) 8600-7717

Investor Information and Corporate Information (As of March 31, 2008)

Paid-In Capital:

¥89.7 billion

Number of Employees:

Non-consolidated: 6,039
Consolidated: 25,588

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:

106,309

Listings:

Tokyo and Osaka

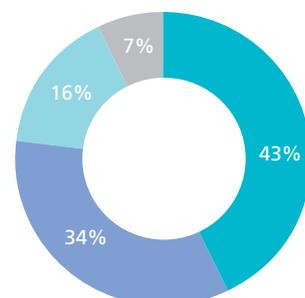
Transfer Agent and Registrar:

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



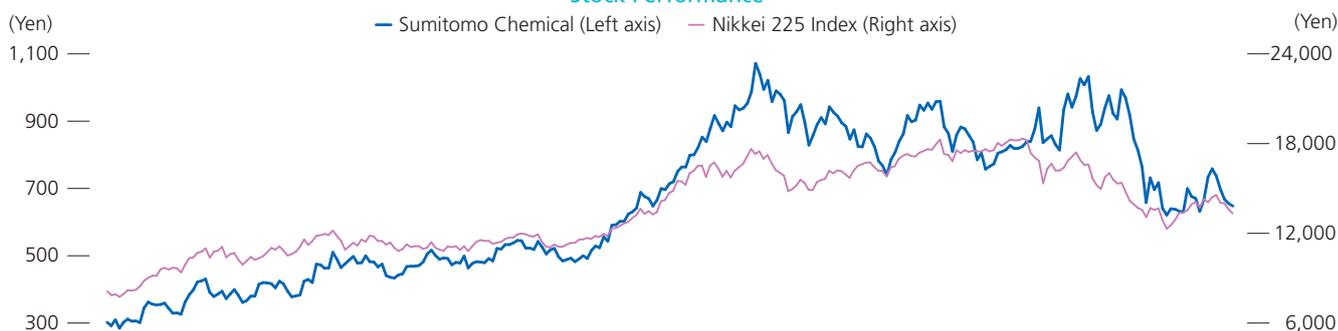
■ Japanese financial institutions
■ Foreign investors
■ Japanese individuals and others
■ Other Japanese corporations

Contact Information:

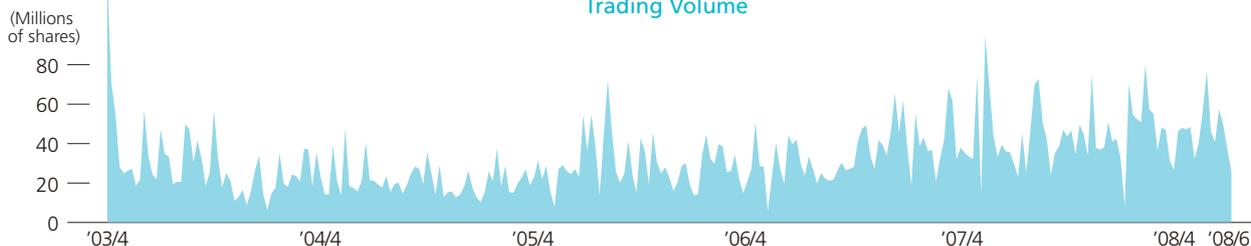
Corporate Communications Dept.
Tel: +81-3-5543-5102
Fax: +81-3-5543-5901

Major Shareholders	Number of Shares Held (1,000 shares)	Shareholding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	103,133	6.23
Japan Trustee Services Bank, Ltd. (Trust Account)	84,329	5.09
Sumitomo Life Insurance Company	71,000	4.29
Nippon Life Insurance Company	61,516	3.72
Sumitomo Mitsui Banking Corporation	38,453	2.32
The Sumitomo Trust & Banking Company, Ltd.	31,007	1.87
Japan Trustee Services Bank, Ltd. (Trust Account No.4)	30,480	1.84
Japan Trustee Services Bank, Ltd. (The Sumitomo Trust & Banking Co., Ltd. Retrust Account / Sumitomo Life Insurance Company Employee Pension Trust Account)	29,000	1.75
State Street Bank and Trust Company 505103	25,823	1.56
The Norinchukin Bank	21,825	1.32

Stock Performance



Trading Volume





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: +81(3) 5543-5102 Fax: +81(3) 5543-5901

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



This annual report was printed with vegetable-based ink on FSC-certified paper.

Printed in Japan 08-07IM