

SUMITOMO CHEMICAL

ANNUAL REPORT 2001
Year Ended March 31, 2001



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PROFILE

Established in 1913, Sumitomo Chemical Co., Ltd. is one of Japan's leading chemical manufacturers, offering a diverse range of products, including basic chemicals, petrochemicals, fine chemicals, agricultural chemicals, and pharmaceuticals.

While expanding our business activities worldwide, we are constantly conducting vigorous research into state-of-the-art technologies and fulfilling our responsibility to ensure product quality, safety, and environmental protection.

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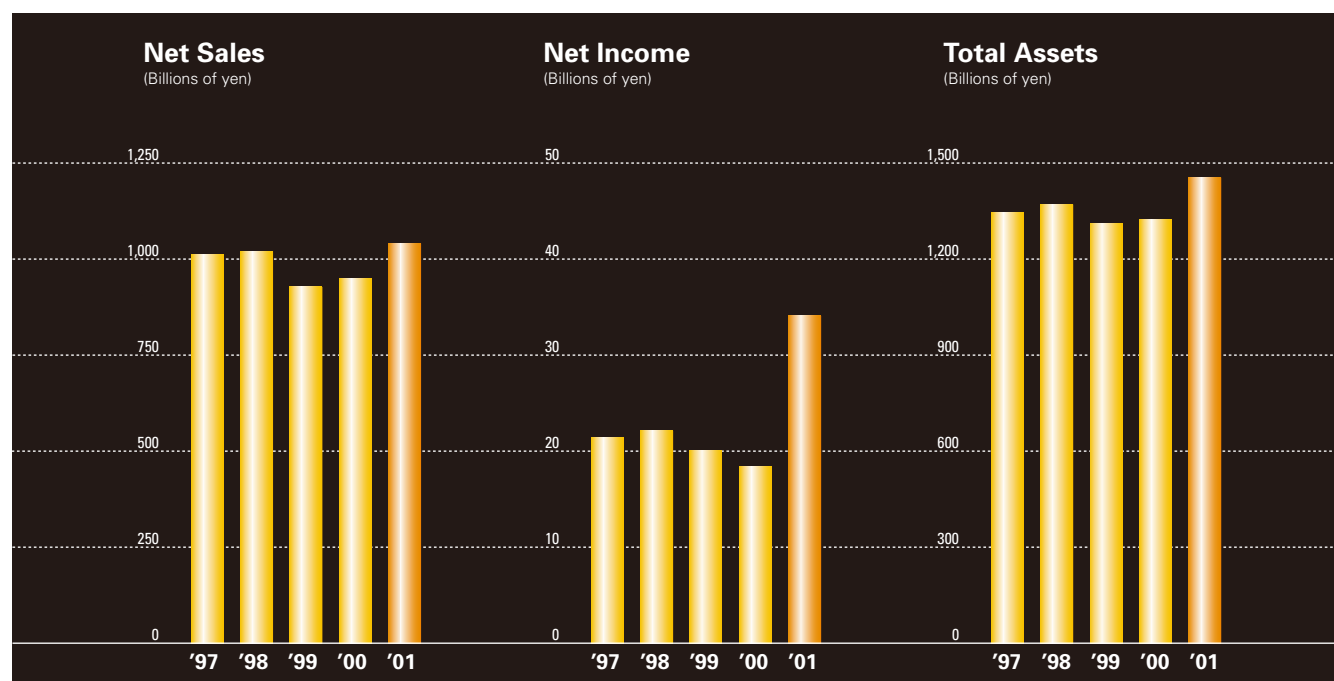
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CONSOLIDATED FINANCIAL HIGHLIGHTS

| | Millions of yen | | Thousands of U.S. dollars (Note) |
|--|----------------------|-----------|----------------------------------|
| | Years ended March 31 | | Year ended March 31 |
| | 2001 | 2000 | 2001 |
| Operating results: | | | |
| Net sales | ¥1,040,950 | ¥ 950,339 | \$ 8,401,533 |
| Operating income | 84,673 | 70,149 | 683,397 |
| Net income | 34,079 | 18,425 | 275,052 |
| Capital expenditures | 62,138 | 81,614 | 501,517 |
| Research and development expenses | 59,127 | 59,344 | 477,215 |
| Financial position (at year-end): | | | |
| Total assets | 1,455,397 | 1,322,378 | 11,746,546 |
| Total shareholders' equity | 451,779 | 344,961 | 3,646,320 |

| | Yen | | U.S. dollars (Note) |
|-------------------------------|----------------------|----------|---------------------|
| | Years ended March 31 | | Year ended March 31 |
| | 2001 | 2000 | 2001 |
| Data per 1,000 shares: | | | |
| Net income | ¥ 20,756 | ¥ 11,329 | \$ 167.52 |
| Cash dividends | 6,000 | 5,000 | 48.43 |

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥123.90=US\$1, the rate prevailing on March 30, 2001.



TO OUR SHAREHOLDERS AND CUSTOMERS



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Akio Kosai, **Chairman** (left) and
Hiromasa Yonekura, **President**

Sumitomo Chemical Co., Ltd. recorded net sales of ¥1,040.9 billion for fiscal 2000, ended March 31, 2001, an increase of 9.5% over the previous year. Operating income rose 20.7% to ¥84.6 billion. Net income soared 85.0% to ¥34.0 billion. These results reflect our efforts to reduce costs and improve operational efficiency in line with its three-year corporate plan, while keeping in mind its long-term strategy for promoting core businesses and placing high priority on the development of new ones.

As part of an ongoing process, we improved operational practices and strengthened our financial position. This involved absorbing both restructuring charges and additional costs associated with the adoption of the new Japanese accounting standard for employees' retirement plan, with the amount totaling ¥25.6 billion. A dividend of ¥6 per share was paid, compared with ¥5 per

During fiscal 2000, the Japanese economy continued to be sluggish. The growth rate in real terms was 0.8%, and there was no sign of a recovery. Structural reform of the banking and monetary system remained unfinished, and many high tech ventures were still in the incubation process and lacked full-fledged dynamism. Personal consumption, which accounts for about 60% of Japan's GDP, was stagnant mainly due to the lack of consumer confidence throughout the year. In addition, reflecting the sharp slowdown of IT-related businesses in the United States and elsewhere, Japan's exports of semiconductors and manufacturing equipment dropped. This in turn caused a decline in capital investment by Japanese companies in the latter half of the year. The stock market also continued a bearish trend.

In this economic environment, Sumitomo Chemical implemented a series of performance-boosting

measures in areas of anticipated growth, including overseas operations. To cite just a few examples, the Company established a subsidiary, New STI Technologies, Inc., to streamline its LCD color filter business operations, and another company, OLS Co., Ltd., was set up to manufacture optically functional films for LCDs. In Singapore, Petrochemical Corporation of Singapore (Pte) Ltd. (PSC) completed the construction of a condensate splitter in May 2000 that enabled PCS to diversify its feedstock sources. In South Africa, the Company formed a joint venture with Merisol GP LLC. It began work on installing a new unit for the production of a principal raw material of integrated circuit (IC) encapsulation epoxy resins with completion expected by the autumn of 2001.

As part of our growth strategy, we pursued opportunities for mergers and acquisitions. In April 2000, we acquired the manufacturing facilities

of Household Remedies Ltd., and formed SC Enviro Agro India Private Limited. The business operations of the new Indian subsidiary have enabled us to better serve our overseas customers through the introduction of cost-competitive insecticides. We plan to expand the product mix, which presently consists of household and public hygiene chemicals, by adding plant protection chemicals for agricultural use. Moreover, immediately following this reporting period, we acquired the household insecticide business of Aventis. We will continue to actively look for new opportunities for mergers and acquisitions.

Our commitment to pharmaceutical business remained strong. We supported the activities of Sumitomo Pharmaceuticals, our subsidiary, by supplying it with intermediates and also providing it with strong technological assistance covering organic chemical synthesis process development, biotechnology-related research and toxicological studies.

The outlook for the Japanese economy in the current fiscal year is precarious. Demand for IT-related products has decreased markedly and personal consumption continues to be stagnant. We have also witnessed a continuing slowdown of the U.S. economy, which has had an adverse effect on the economic performance of Singapore, Korea, and Taiwan as well as most of the developing countries in Asia. Against this economic background, the business prospects for the Japanese chemical industry look very challenging, especially in light of relatively higher raw materials prices and the competitive global market situation.

With a view to further improving our profitability, we set forth a new three-year corporate plan covering the period through March 31, 2004. This corporate plan is aimed at creating a road map for future growth with particular emphasis on developing the Sumitomo Chemical Group's

businesses in high priority fields. We have set the following goals for ourselves: to maintain a shareholders' equity ratio of 30–35%, achieve net income of ¥50 billion, and deliver an ROE of 10% in fiscal 2003.

Our basic strategy for achieving these goals is to promote growth by capitalizing on the special strengths of each of our five business sectors: Basic Chemicals, Petrochemicals and Plastics, Fine Chemicals, Agricultural Chemicals, and Pharmaceuticals. At the same time, under the motto "Achieving Stable Growth through Creative Hybrid Chemistry," we will seek to maximize synergies among these sectors.

The Company places special priority on such areas as polyolefins, life sciences, and electronics materials. Our electronic materials business, which comprises a variety of highly promising products, has seen modest growth. We plan to expand our operations in that IT-related field by making it a new business sector.

Sumitomo Chemical has always stressed technological innovation as the principal driving force behind our endeavors. We achieved some major breakthroughs during the past year. One example is a unique process for the production of caprolactam without producing its usual by-product, ammonium sulfate. Another is an innovative technology for the production of propylene oxide. The Company will continue utmost efforts to achieve further technological successes.

To support long-term growth, the Company will vigorously pursue the development of key technologies by allocating resources to promising research in the areas of electronics, materials, biotechnology, and catalyst technology. In the exciting new field of genome research, the Company formed strategic alliances with Incyte Genomics and Gene Logic of the United States. In October 2000, we established the Genomic Science

Laboratories to strengthen our research capabilities in genomic technology.

Sumitomo Chemical announced the decision by the Board of Directors to consolidate its entire business with that of Mitsui Chemicals, Inc. It is expected that the process will be completed by the end of fiscal 2003. The name of the new company will be Sumitomo Mitsui Chemical Company, Ltd., with its headquarters in Tokyo. The managements of both companies share the same business philosophy and vision for the future. We are making steady progress in preparing for a smooth implementation of the consolidation. With combined sales estimated at around ¥2,400 billion, the new entity will become one of the top 10 chemical companies in the world and the largest in Asia. It will be well positioned to take advantage of the enormous synergistic effects of the various technologies that the two companies have accumulated.

On behalf of Sumitomo Chemical, we would like to sincerely thank our shareholders and customers for their continued support and cooperation. We pledge that we will do our utmost to successfully meet the challenges and capitalize on the opportunities that lie ahead.

June 28, 2001

香西昭夫

Akio Kosai, Chairman

米倉弘昌

Hiromasa Yonekura, President

SUMITOMO CHEMICAL AT A GLANCE

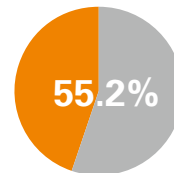
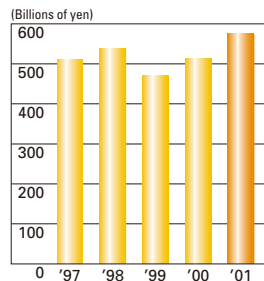
BUSINESS SECTORS NET SALES NET SALES CONTRIBUTION

Basic Chemicals & Petrochemicals Group

Basic Chemicals Sector

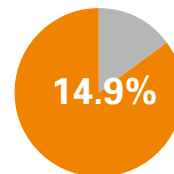
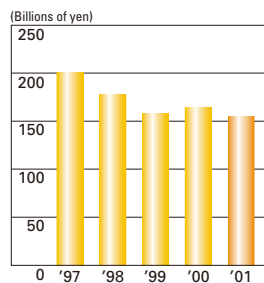


Petrochemicals & Plastics Sector

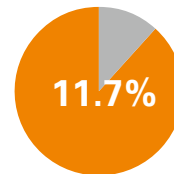
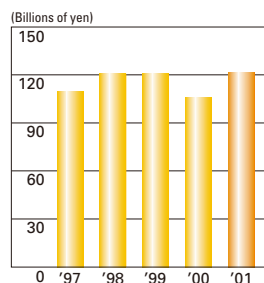


Specialty Chemicals Group

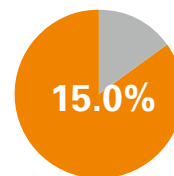
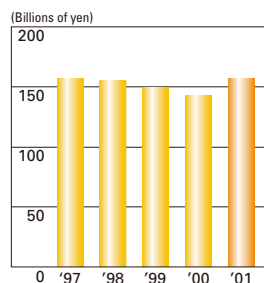
Fine Chemicals Sector



Agricultural Chemicals Sector



Pharmaceuticals Sector



Note: Operations not covered in the above two groups, classified as Others, accounted for 3.2% of consolidated net sales during the fiscal year in review. Chemical engineering and construction, chemical analysis, electric power supply, and physical distribution and trading activities are included in this category.

MAJOR PRODUCT LINES

Inorganics: sulfuric acid, nitric acid, ammonium nitrate, liquid ammonia, caustic soda, hydrochloric acid, aluminum hydroxide, alumina, high-purity alumina, aluminum sulfate, active alumina, polyaluminum chloride, sodium aluminate

Organics: acrylic acid, acrylonitrile, caprolactam, adipic acid, aniline, methanol, formalin, urea, epichlorohydrin, phenylethyl alcohol

Composite Products: alumina fiber

Methyl Methacrylate (MMA): MMA monomer, polymethyl methacrylate

Optical Materials: retardation films, polarizing films, antireflection films, view control adhesive films, surface protection sheets for plasma display panels

Aluminum: aluminum, high-purity aluminum

Organics: ethylene, propylene, butadiene, isobutylene, butene-1, benzene, toluene, xylene, n-hexane, styrene monomer, propylene oxide, acetaldehyde

Plastics & Elastomers: low-density polyethylene, ethylene-vinyl acetate copolymer, polypropylene, thermoplastic elastomer, styrene butadiene rubber, ethylene-propylene rubber

Processed Products: agricultural films, corrugated polypropylene sheets, floor-heating systems, gas-barrier films, foamed polypropylene

Dyestuffs: disperse dyes, reactive dyes, direct dyes, vat dyes, azoic dyes, acid dyes, acid mordant dyes, cationic dyes

Pigments: carbazole violet

Fluorescent Brighteners

Organic Intermediates: aniline, cresol, resorcinol, pharmaceutical intermediates, heat-sensitive dye intermediates, phenylhydrazine

Bulk Pharmaceuticals: bulk pharmaceuticals for analgesics, antibiotics, other drugs

Polymer Additives: antioxidants, light stabilizers

Organic Rubber Chemicals: antioxidants, vulcanization agents, antiozonants

Functional Materials: epoxy resins, paper-finishing resins, textile-finishing resins, paint resins, ethylene-vinylacetate copolymer emulsions, liquid crystalline polymer, polyether sulfone, polyether etherketone, flocculants, ion-exchange resins

Electronic Materials: photoresists, high-purity chemicals, high-performance cleaning agents, spin-on glass, sputtering targets, super-high-purity aluminum, high-purity gallium, metal organic epitaxial wafers, organo-metals

Agricultural Insecticides: *Sumithion, Sumicidin, Sumi-Alpha, Danitol, Rody, Virk, Adion, Agrothrin, Parmathion, Hakusap, Vegiphon, Mikantop, Cyanox, Bassa, Malathion, Dimethoate, Admiral, Orthene, Esmark, Zoom, DiPel, Biobit, Foray, XenTari, Florbac, VectoBac, Bactimos, VectoLex, Spherimos, DiTera*

Agricultural Fungicides: *Sumilex (Sumisclex), Rizolex, Starner, Powmyl, Sumiblend, Sumi-8, Grancer, Limber, Sumico, Delaus*

Agricultural Herbicides: *Resource, Sumisoya, Cremart, Sumiherb, Frenock, Select*

Plant Growth Regulators: *Sumiseven, Lomica, ProGibb, Release, Activol, Berelex, RyzUp, Regulex, ProVide, Promalin, Cylex, Accel, ReTain, EcoLyst*

Household Insecticides: *Pynamin, Pynamin Forte, Neo-Pynamin, Neo-Pynamin Forte, Eksmin, Vaporthrin, Gokilaht, Elemic, Etoc, Pralle, Sumithrin, Gokilaht-S*

Animal Health Products: *Ingelvac PRRC MLV, Ramos SG, Sumilarv SG, Durnam Spot, Triserve Injection, Rapita*

Public Hygiene Insecticides: *Premium Sumithion, Kareit MC, Sumilarv, Baktop MC, Kareit Oil, Holsar EC, Lambert MC, Zaol FL, Wazary FL, Rarap MC, Bacoda*

Feed Additives: DL-methionine, biotin, vitamin B₁₂

Fertilizers: ammonium sulfate, urea, ammonium nitrate, fertilizers, liquid fertilizers, soil conditioners, *Sumishort, SR Coat, Super SR Coat*

Pharmaceuticals: *Sumiferon, Amlodin, Almarl, Didronel, Meropen, Sediell, Zyrtec, Growject, Dops, Catlep, Inteban*

Diagnostic Reagents: *Osteolinks-DPD, Osteolinks-BAP, Pylilinks, Aqueck-10, Aqueck-Type II*

Health Care Products: *Dan Ace Tablet, Dan Plus C, Dan 12, Sumitomo Ichoyaku Scope, Sumitomo Ichoyaku GF, Cartepa Cream, Uronamin Enteric Tablet, Sumithrin L Shampoo-type*

Biomaterials: *Boneceram-P*

Radio-Diagnostic Reagents (In Vivo Products): Thallium chloride (²⁰¹Tl) injectable NMP, *Clearbone* injectable, *Perfusamine* injectable, *Gallium* citrate (⁶⁷Ga) injectable NMP, *Myoview* injectable

Radio-Diagnostic Reagents (In Vitro Products): *Allegro* Intact PTH kit, *Allegro* ACTH kit, *Allegro Lite* series

REVIEW OF OPERATIONS

Basic Chemicals & Petrochemicals Group

Basic Chemicals Sector

The Basic Chemicals Sector posted higher sales in fiscal 2000 than in the previous period. During the first half of the fiscal year, the Sector achieved favorable results, thanks to brisk demand not only for commodity products such as caprolactam and MMA but high-value-added products such as optical functional films for LCD.

In the second half of fiscal 2000, demand weakened as the economies of Japan and other Asian countries slowed down. In addition, raw materials prices rose rapidly because of soaring crude oil prices, while chemical manufacturers were unable to pass the cost increases of raw materials on to the selling prices of their products due to the stagnant market conditions. These developments undermined performance badly in this period. For fiscal 2000 overall, however, we recorded a substantial improvement in operating income due to efforts to expand sales and rationalize operations throughout the year as well as by selling stocks of our affiliated companies to trim the Sector's assets.

**DEVELOPMENT OF NEW
CAPROLACTAM PROCESS**

In fiscal 2000, our research group succeeded in developing an innovative gas-phase Beckmann rearrangement process applicable to caprolactam production. This new process, employing our proprietary high-performance catalyst developed for this reaction, does not produce ammonium sulfate as a by-product and obviates the bulky facilities conventionally needed to produce sulfuric acid and to treat ammonium sulfate. Through collaboration with Enichem of Italy, our process has been combined with their ammoxidation process for cyclohexanone to complete a revolutionary development in caprolactam manufacturing. This new process offers several distinctive advantages, including a reduction in capital investment for plant construction and a significant lowering of variable operating costs. We are planning to debottleneck our existing caprolactam

plant with this new process and increase its capacity from 93,000 tons per year to 160,000 tons in 2003. At the same time, we are investigating the feasibility of building a large-scale caprolactam plant with this technology in Southeast Asia where demand for nylon 6 is expected to grow in future.

**BUSINESS EXPANSION
OF OPTICAL FILMS**

Our optical functional materials, including *Sumikalan* polarizing film and *Sumikalight* retardation film, are expected to experience a remarkable growth in demand for use in electronics- and IT-related fields. These high-value-added products have witnessed rapid strides in innovation as exemplified by thin-film transistors (TFTs) for LCDs, while user demands have become increasingly stringent in terms of quality and cost. We will step up R&D activities that lead to the development of next-generation technologies and

applications to satisfy the sophisticated requirements of customers.

To meet with the vigorous demand for polarizing films to be applied to personal computers, large monitors, and LCD TVs, we have operated our plant for manufacturing them at full load at the Ehime Works. In addition, we established a joint venture—OLS Co., Ltd.—with Okura Industrial Co., Ltd. during the fiscal year under review. The joint venture started production of optical films at a state-of-the-art facility in Marugame City in Kagawa Prefecture, Japan in October 2000. Production is being carried out, using precision film-stretching techniques developed through collaboration between the two companies. The new facility is part of a structure for ensuring stable supplies of high-quality products to users in Japan and overseas.



Caprolactam is a key material of various nylon made products.



Polarizing film is used in LCD monitors.



Dioxin-absorbent film used in garbage bags

REINFORCING OTHER BASIC CHEMICALS BUSINESS

We boast superior development capabilities and cost-competitiveness of MMA monomer and polymer. We will continue working to improve manufacturing processes and further raise their quality, while strengthening our marketing activities in China and Southeast Asia. In fiscal 2000, we commenced production of MMA polymer film (with a 0.05–0.8mm thickness and 1,450mm width) in a clean room at our Ehime Works. This MMA specialty film is being used mainly for high-grade printing and coating applications.

The Sector's product line includes various inorganic and organic chemicals, aluminum ingot, aluminum-related chemicals, and other diverse products. Though they are regarded as mature commodity chemicals, they are critical in the production of a variety of downstream chemicals and to satisfy a wide range of applications in assembly industries. Thus, these operations represent an important component of our business and contribute significantly to our cash flow. Over the years, we have implemented effective measures to rationalize operations of our mature commodity products. In fiscal 2000, for example, we consolidated the production activities of inorganic flocculants

such as aluminum sulfate, polyaluminum chloride, and sodium aluminate by our two subsidiaries, Koei Chemical, Co., Ltd. and Asahi Chemical Co., Ltd.

LOOKING AHEAD

As mentioned, the Basic Chemicals Sector has taken steps to solidify its business structure and improve its operating profitability. They include strengthening competitiveness by rationalizing existing businesses, shifting its product mix to higher-value-added products and allocating management resources toward growing business fields. Looking ahead to the autumn of 2003, when we merge our operations with those of Mitsui Chemicals, we are progressing with efforts to strengthen the foundations of our principal businesses and are conducting a strategic rebuilding of our operations to optimize the benefits of the merger in sectors with such overlapping operations as chlorine/caustic soda, aniline, ammonia, and their derivatives with Mitsui Chemicals' counterparts.

We place heavy emphasis on the development of products contributing to environmental protection under the spirit of Responsible Care. This Sector is developing and selling various products that prevent pollution of the environment. As a prime example, we are

marketing a translucent high-density polyethylene film containing a special aluminum hydroxide for garbage bags. During the incineration process, the aluminum hydroxide in these films works to reduce the generation of dioxins by facilitating combustion of hydrocarbons and, in addition, becomes an absorptive, activated alumina, which effectively absorbs dioxins and other harmful substances. At the same time, because this product is effective in reducing carbon monoxide levels, it is expected to help contribute to the controlling of environmental pollution.

REVIEW OF OPERATIONS

Basic Chemicals & Petrochemicals Group

Petrochemicals & Plastics Sector

Sales for the Petrochemicals and Plastics Sector in fiscal 2000 increased more than 10% from the previous fiscal year. In the first half of the period, our performance was underpinned by brisk domestic demand in such industries as electronics, automobiles, and housing, supported by a recovery in the Japanese economy and active exports to Southeast Asia.

In the second half of the fiscal year, however, market conditions at home and abroad deteriorated markedly as soaring feedstock prices led to a sharp rise in manufacturing costs for petrochemical products. In addition, export sales decelerated owing to the spillover effects of a slowing U.S. economy, while a deflationary trend in Japan became increasingly pronounced. Amid unfavorable market conditions, rising costs of raw materials could not be passed on through higher product prices, and, as a result, the Petrochemicals and Plastics Sector posted a slight decline in operating income in fiscal 2000.

EXTENSIVE BUSINESS RESTRUCTURING AND SUCCESS OF OVERSEAS PROJECTS

Over past years, the Petrochemicals and Plastics Sector has proceeded with a strategy of streamlining its core businesses, centering on polyolefins. Concurrently, to enhance profits in its other undertakings, including the polyvinyl chloride, polystyrene, and ABSSBR latex businesses, the sector has formed alliances with other companies aiming to achieve synergies by setting up joint ventures. In fiscal 2000, the results of these efforts became apparent, as we significantly advanced the rationalization of our operations.

Overseas, our petrochemical business in Singapore recorded solid financial results amid a harsh business environment. Within our petrochemical businesses, Petrochemical Corporation of Singapore (Pte) Ltd. (PCS), a core company in the petrochemical complex, received the highest evaluation in

the categories of energy consumption and process optimization among the 96 ethylene plants worldwide given by Solomon Associates in their World Olefin Plant Performance Analysis. As part of efforts to diversify the Company's supply sources of feedstock, PCS and Shell Eastern Petroleum (Private) Limited constructed jointly a condensate splitter with a capacity of 70,000 barrels per day on Bukom Island, which was put onstream smoothly in May 2000. To further ensure availability of usable feedstock, PCS is planning to start up a new gas-oil cracking furnace attached to its No. 2 ethylene plant in August 2001, thereby raising its ethylene production capacity to 1.1 million tons per year.

STRATEGIC DEVELOPMENT OF OUR POLYOLEFIN BUSINESS

Our core polyolefin business is to merge with that of Mitsui Chemicals

ahead of the consolidation of our entire business. The new company, Sumitomo Mitsui Polyolefin Co., Ltd., will have an annual production capacity in Japan of 340,000 tons of low-density polyethylene (LDPE), 400,000 tons of linear low-density polyethylene (L-LDPE), 200,000 tons of high-density polyethylene (HDPE), and 940,000 tons of polypropylene. Each of these figures represents a large share of the domestic market. Overseas, The Polyolefin Company (Singapore) Pte. Ltd. (TPC), a subsidiary in Singapore, is operating plants that have an annual production capacity of 230,000 tons of LDPE, 150,000 tons of L-LDPE, and 360,000 tons of polypropylene. Phillips Sumika Polypropylene Company (PSPC), located in Houston, the United States, is producing 360,000 tons of polypropylene annually. In total, our polyolefin production capacity will reach approximately three million tons per year worldwide.



Control room at Petrochemical Corporation of Singapore



Gas phase polypropylene plant



Propylene oxide is a raw material of polyurethane broadly used in car seats.

Above all, the sector's polypropylene business has outstanding strength. It is supported by prominent technologies that combine our gas-phase polymerization process with our proprietary high-activity catalyst. Advanced technologies make it possible to produce quality polypropylene at very competitive costs.

As the demand for polypropylene is expected to continue growing steadily in world markets, the sector is determined to improve its manufacturing technologies and develop new, versatile grades to expand its business activities.

COMMERCIALIZING A NEW MANUFACTURING PROCESS FOR PROPYLENE OXIDE

In the field of monomers, we developed a unique manufacturing process for propylene oxide (PO) during the term under review—a process regarded as too difficult to develop until now. Employing a high-activity catalyst developed by Sumitomo Chemical, this landmark process' distinguishing features are the elimination of the co-product styrene monomer (SM) and the compactness of plant configuration. Our new process enables us to not only reduce variable operating costs but allow production unaffected

by the profitability of coproduced SM. These features give remarkable advantages, compared with conventional technologies.

Since 1975, Sumitomo Chemical has been involved in the PO/SM businesses through its affiliate Nihon Oxirane Co., Ltd. Nihon Oxirane owns a PO plant with an annual capacity of 170,000 tons that utilizes conventional manufacturing process. To meet growing demand for PO in Japan and overseas, we are constructing a 200,000-ton-per-year PO plant utilizing our new process at our Chiba Works.

STRATEGIC PROSPECTS FOR THE FUTURE

Entering the 21st century, the Japanese petrochemical industry is facing an increasingly severe business environment. From the middle of 2000, five world-class ethylene plants of 800,000 tons per year or larger and corresponding large-scale polymer plants came onstream in succession throughout the Middle East, Southeast Asia, and Taiwan. However, growth in demand for petrochemicals has slumped, owing to the slowdown of the world economy, and the over-supply situation is likely to persist worldwide for the time being. In Japan,

the current tariffs applied to some imported polyolefins is scheduled to be lowered significantly by 2004. As a result, over the next several years, the Japanese petrochemical industry is likely to face a bleak business environment due to a loss of export markets and an increase in imports, including processed products, which will likely erode prices in the domestic market.

Amid such an adverse business environment, we will strengthen our cost-competitiveness, build the infrastructure to ensure continued growth in world markets, and expand our business foundations, mainly in our core businesses. To accomplish these objectives, we will strive to raise profitability by diversifying feedstock raw materials and strengthening our technological capabilities; promote the internationalization of our operations, which includes expanding our operations in Singapore; and realize synergies in production, marketing, and research activities through the integration of our business with Mitsui Chemicals.

We will meet new challenges by implementing these strategies steadily as we solidify our position as the leader in the petrochemical industry in Asia.

REVIEW OF OPERATIONS

Specialty Chemicals Group

Fine Chemicals Sector

The Fine Chemicals Sector manufactures and supplies a variety of functional and specialty chemicals, including intermediates and dyes. During the fiscal year under review, the sector recorded nearly the same level of sales as in the previous fiscal year. Our medium- to long-term business plan aimed at improving profitability calls for the development of new products that are in high demand in the market, increasing sales through the smooth commercialization of new products, and expanding core businesses on a global scale.

OVERSEAS BUSINESS DEVELOPMENT

Last year, the sector solidified its production capabilities through a joint venture in Thailand, Bara Chemical Co., Ltd., of which Sumitomo Chemical owns a 42.5% stake. Bara Chemical manufactures textile finishing resins, optical brightening agents, paper processing resins, and adhesives for tires. To meet growing demand, Bara Chemical has increased its production capacity for optical brightening agents and commenced full-scale commercial operations of new lines in September 2000. In addition, they completed construction of a new plant, which produces liquid crystalline polymer (LCP), a type of super-engineering plastic, in May 2001. The polymer, which is highly heat resistant, is being sold to customers in Southeast Asia, China, and Taiwan, mainly for producing connectors for personal computers and mobile telephones.

In July 2000, the sector concluded an agreement with China Great Wall Aluminium Corp., one of the leading

alumina producers in China. We licenced to the Chinese company our proprietary technology, which enables gallium to be extracted from the Bayer liquid available in the alumina production process, using our chelate resin adsorption technique. They will manufacture crude gallium for Sumitomo Chemical, which will then refine it into high-purity gallium in either China or Japan. This, in turn, will be supplied to wafer manufacturers. High-purity gallium is indispensable in the manufacture of compound semiconductor wafers, which are widely used in mobile phones and other high-frequency telecommunication devices. A new plant, employing our efficient mercury-free process, is scheduled to be completed in summer 2001. Sumitomo Chemical is one of the world's largest suppliers of high-purity gallium today.

Dongwoo Fine-Chem Co., Ltd., in Korea, in which we hold 90% equity, completed construction of a research laboratory in the Pyontek Industrial Zone in June. This laboratory will develop various application technologies

for fine chemicals, including high-purity chemicals and photoresists. In July 2000, the Korean subsidiary constructed a new plant for producing pigment dispersion-based color resists developed using Sumitomo Chemical's technology. The high-value-added products are now being supplied to our customers for the production of LCD color filters.

In December 2000, we established Sumika-Merisol RSA (Pty) Ltd. in South Africa, a joint venture with Merisol GP LLC, of the United Kingdom. This joint venture, is now constructing a plant for the production of ortho-cresol novolac (OCN) resin in Sasolburg, South Africa. The new facilities are expected to commence commercial operations in October 2001. Sumitomo Chemical is one of the world's largest suppliers of OCN epoxy resin, which is used for the encapsulation of semiconductors. The South African joint venture was set up in line with efforts to expand production capacity for our epoxy resins in Japan. This is our first manufacturing plant on the African continent.



New research laboratory of Dongwoo Fine-Chem



Sumika-Merisol RSA was established with Merisol GP LLC.



Compound semiconductor epitaxial wafer plant

POSITIVE PERFORMANCE OF NEW STI TECHNOLOGY, INC.

This Company was formed in Japan in May 2000, as a joint venture between CANDO of Taiwan (50%), Sumitomo Chemical (40%) and TECO Electric and Machinery of Taiwan (10%) by taking over the color filter business of the former STI Technology. Since then, they have been showing good performance under favorable market conditions, as a result of their restructuring and ongoing process improvement efforts.

EXPANSION OF ORGANO-METAL PRODUCTION CAPACITY

In December 2000, our production capacity for organo-metal (MO) at the Ehime Works was increased approximately fivefold. MO is required for manufacturing gallium-arsenic metal organic epitaxial (MOEPI) wafers, using the metal organic chemical vapor deposition technology at our Chiba Works. MOEPI wafers are used in mobile phones and high-frequency telecommunication devices, which are enjoying rapid growth in demand. We manufacture MO not only for internal use but also for external sales in Japan

and overseas. Sumitomo Chemical satisfies more than 60% of total MO demand in Japan.

SUPER ENGINEERING PLASTICS

During the fiscal year, we expanded our LCP production capacity and recorded a satisfactory level of shipments of LCP for use in electronics components, which are utilized in office automation equipment, communication devices, and mobile phones. We export LCP products mainly to Taiwan, China, and Southeast Asia. Export volumes decreased in the latter half of fiscal 2000, due to sluggish demand for personal computers and communication devices worldwide. Our polyether sulfone (PES) production plant, which expanded its production capacity in the fiscal year under review, is operating at full capacity, thanks to growth in demand for the use of films, aircraft composite materials, heat resistant coatings, and membrane filters.

COMMENCEMENT OF e-BUSINESS

To offer its customers an additional means of conducting efficient business transactions, in May 2000 the sector launched a membership-based e-business for several primary products. Furthermore, in our dyestuffs operations, in May 2001, we opened a technical information web site through which our customers can carry out transactions with ease.

REVIEW OF OPERATIONS

Specialty Chemicals Group

Agricultural Chemicals Sector

The Agricultural Chemicals Sector manufactures and sells plant protection chemicals, environmental health products, feed additives, fertilizers, and animal health products. Business results in the fiscal year ended March 31, 2001, improved slightly compared with the previous fiscal year owing to the commencement of domestic sales of *Delaus*, a new rice blast fungicide, in April 2000. Also contributing to this increase was a mild rise in market prices for such feed additives as methionine, and biotin (vitamin H) that was caused by the easing of a worldwide oversupply. Other factors supporting higher sales included an expansion of production capabilities of biotin and the addition of sales from Abbott's bio-pesticides and plant-growth regulators, a result of the Company's acquisition of Abbotts.

BUSINESS CONDITIONS

In the field of agricultural chemicals, large multinational companies are continuing to pursue strategic M&A, while demand rises for enhanced product safety and environmental protection. In addition, the rate of growth in world markets is slowing down, while in Japan a reduction in rice cultivation acreage is continuing. Influenced by these developments, the market for agricultural-use materials is shrinking and the creation of new agricultural chemicals is becoming increasingly difficult. Under these conditions, to ensure their survival in the future, such medium-sized companies as Sumitomo Chemical must shift from a business concept that emphasizes being a mere supplier of individual agricultural-use materials toward models that focus on providing comprehensive support for agricultural concerns. To facilitate such a transformation, we intend to research new cultivation methods, supply all the essential materials, provide guidance regarding cultivation techniques needed for vegetable growers and horticulture facilities, and act as a go-between for

agricultural producers and the consumers of their products.

NEW BUSINESS UNDER FRESH CONCEPTS

As an example of our business approach based on such new concepts, while taking into consideration the start of Japan's Foodstuffs Recycling Law enacted in April 2001, we established Nihon EcoAgro Company, Ltd. This new company acquires—for the purpose of producing highly functional compost and organic fertilizers—the raw materials through contracts with such companies and organizations as central wholesale markets, food processing companies, supermarkets, restaurant chains, and consumer cooperative organizations—which must daily dispose of large amounts of left-over and foodstuff-related organic waste. By adding growth-promoting fungi to organic waste-based compost, Nihon EcoAgro makes compost that is supplied to farmers throughout Japan to promote organic farming. Such farmers have a strong desire to find new routes for selling their

products, while supermarkets and restaurants chain are seeking suppliers who can assure ample and stable supplies of high-quality products grown organically or in conditions that use a lesser amount of chemical fertilizers and pesticides. Nihon EcoAgro provides mutual benefits to organizations and companies that dispose of foodstuff-related organic waste as well as to farmers engaged in organic farming.

AN ONGOING COMMITMENT TO R&D AND GLOBALIZATION

From a global perspective, we believe that the agricultural chemical business has a high-growth potential. In addition to the previously mentioned businesses, we make efforts to maintain our position as an R&D-based company by continually investing our business resources in our fields of strength to create new products that will yield fresh business opportunities. In world markets, we are progressing with our own development and sales activities as we expand global operations with the aim of carrying out business closer to customers to



Farmer engaged in organic farming



Our household insecticide active ingredients are widely used in various products.



SC Enviro Agro India was formed by acquiring an Indian company.

ensure their satisfaction. We will also carry out M&A when appropriate opportunities arise.

ACQUISITION OF AVENTIS' HOUSEHOLD INSECTICIDE-RELATED BUSINESS

In May 2001, Sumitomo Chemical reached an agreement with Aventis Environment Science (AES), a unit of Aventis Crop Science of France, under which Sumitomo Chemical will acquire AES's household insecticide-related business. The household insecticide business is one of our traditional core businesses worldwide. Through this acquisition, which is highly significant from a strategic perspective, the Company will strengthen its overseas business in this field as well as raise its product development capabilities, enabling it to lessen the burden of ever-increasing R&D expenses for new active ingredients by achieving economies of scale. Lawn and gardening-related businesses are also included in this acquisition. In the field of household insecticides, we acquired a share in a mosquito coil manufacturing and sales company in Latin America in 1990, established an R&D subsidiary in Malaysia in 1996, and acquired an active ingredient

manufacturing company in India in 2000.

A NEW NATURAL ENEMY PESTICIDE

Sumitomo Chemical has obtained registration approval in Japan to sell *Oristar-A*, a beneficial insect, in January 2001. This insect is effective in controlling thrips, which are difficult to control with chemically synthesized pesticides. *Oristar-A* uses a pirate bug, *orius strigicollis*, a strain that is active in greenhouses even in winter. This beneficial insect demonstrates an excellent ability in preying on thrips even when daytime hours are short and temperatures are low. *Oristar-A* is packaged in plastic bottles, each containing 250 insects that can be released directly onto plants.

ANIMAL HEALTH, ENVIRONMENTAL HEALTH, AND FEED ADDITIVES

In these business categories, the sector is involved in such diverse operations as the supply of amenity-care, pet care and environment-related goods. In addition, we focus on developing products with applications in peripheral areas. Also, in our environmental health business, we are shifting emphasis

away from traditional chemical pyrethroids for household use, toward the development of other innovative chemical structures and natural substances. Regarding feed additives, in order to maintain our position as one of the world's main suppliers, we are strengthening our global sales structure and progressing with a new plan for increasing production capabilities for methionine and biotin while taking into consideration possible M&A opportunities. We also intend to develop new vitamin-related products in addition to vitamin H and B₁₂.

REVIEW OF OPERATIONS

Specialty Chemicals Group

Pharmaceuticals Sector

Sumitomo Chemical operates its pharmaceutical business mainly through Sumitomo Pharmaceuticals Co., Ltd. (77.8% owned by the Company) and Nihon Medi-Physics Co., Ltd. (50% owned by the Company). The Company consistently strives to expand this highly R&D-oriented operation by focusing the Group's resources on fields in which each company has a particular competence. Sumitomo Chemical also has Japanese joint ventures with GlaxoSmithKline plc (GlaxoSmithKline K.K.; 15% owned by the Company) and AstraZeneca plc (AstraZeneca K.K.; 20% owned by the Company).

COMMITMENT TO GENOMIC RESEARCH

At the Genomic Science Laboratories, established jointly by the Company and Sumitomo Pharmaceuticals in October 2000, the Company is actively engaged in genomic-related research, broadly targeting life science applications, including agrochemicals. In the pharmaceutical field, the Laboratories aims to accelerate the drug discovery and development process by utilizing various genomic-based technologies and to create new diagnostics and diagnostic systems. The Company regards external collaboration as essential to its aggressively exploring various opportunities. Examples include the collaboration with Incyte Genomics, Inc., of the United States, in November 2000, for access to Incyte's DNA sequence database and that with Gene Logic Inc., also of the United States, in December 2000, for the use of their gene expression profile database. We continue to commit ourselves to strengthening our activities in genomic research by expanding the number of specialist staff we employ

and forming further strategic tie-ups with outside organizations.

STRENGTHENING THE DIAGNOSTICS BUSINESS

In April 2001, we created a separate entity specializing in the *in vitro* diagnostics business, Sumitomo Seiyaku Biomedical Co., Ltd. (SSBM), by integrating the relevant operations of Sumitomo Pharmaceuticals and Nihon Medi-Physics. Based on a belief that *in vitro* diagnostics will increase in importance as a means of drug detection as well as ensure proper use of medicines, we seek to expand this business, using SSBM as a fresh vehicle. SSBM has initially expanded its business in the fields of bone and calcium metabolism but intends to enter other promising fields such as Point of Care (POC) testing, by pursuing aggressive in-licensing and acquisition strategies.

SUMITOMO PHARMACEUTICALS CO., LTD.

In April 2000, drug reimbursement prices were revised under the Japanese national health insurance program. The average reduction rate in the pharmaceutical industry was 7%. Yet despite such a substantial reduction, Sumitomo Pharmaceuticals recorded an increase in sales of approximately 10% thanks to improved results for the company's main products, including a 15% rise in sales of *Amlodin* (a drug for hypertension and angina pectoris); a 33% jump in sales of *Didronel* (a bone disorder drug); a 111% surge in sales of *Growject* (a recombinant human growth hormone); and a 15% gain in sales of *Zyrtec* (an antiallergy agent). While domestic sales of *Meropen* (a carbapenem antibiotic) rose just 3% from the previous fiscal year, strong growth in exports, including those to China, Korea, and Taiwan, led to a sharp increase in total sales of *Meropen*.

Other products contributing to the Company's sales results were *Hibitane* (a disinfectant transferred from AstraZeneca K.K. in July 2000), *Lullan* (an



The Genomic Science Laboratories was established in the Sumitomo Pharmaceutical Research Laboratory.



Image analysis at Sumitomo Pharmaceutical Research Laboratory



Nihon Medi-Physics' highly trained medical representative play a vital role.

antipsychotic—serotonin-dopamine antagonist—approved in December 2000), and *Tagamet* (a H₂ receptor antagonist for which business rights were transferred from SmithKline Beecham Seiyaku K.K. in February 2001).

In Japan, repeated treatment with *Sumiferon* (a natural alpha interferon) became eligible for health insurance coverage for the indication of chronic hepatitis C in April 2000. However, total sales of *Sumiferon* increased only slightly because of a simultaneous rise in the use of beta interferon, a competing product for the same purpose.

Sumitomo Pharmaceuticals' major R&D domains are the cardiovascular system, immunology, neurology, and diabetes-related fields. New products under application for government registration and expected to be approved in fiscal 2001 include *Fulstan* (a drug for hyperparathyroidism), *Skipron* (an ointment for skin ulcers), and *Calsed* (a completely synthetic antibiotic for lung and bladder cancers).

Sumitomo Pharmaceuticals and the Karolinska Institute, of Sweden, signed a joint research agreement in June 2000 for the development of Alzheimer disease remedies.

Drugs under clinical development in Japan include *SMP-140* (a recombinant human growth hormone licensed from Genentech, Inc., of the United States), *SM-11355* (a lipo-soluble platinum complex for the treatment of liver cell carcinoma), and *IS-741* (for the treatment of acute pancreatitis). Drugs under clinical development overseas include *DOPS* (for the treatment of neurogenic orthostatic hypotension) in Europe, *SM-13496* (an antipsychotic) in the United States, and *Sediel* (a serotonin-agonist antianxiety drug) in China.

NIHON MEDI-PHYSICS CO., LTD.

Nihon Medi-Physics is a 50/50 joint venture between Sumitomo Chemical and Nycomed Amersham plc, of the United Kingdom. This company is a leader in *in vivo* radiopharmaceuticals in Japan. Nihon Medi-Physics' products were influenced only slightly by the drug reimbursement price reduction under the Japanese national health insurance program in April 2000, and sales in fiscal 2000 were up 1.1% from the previous fiscal year. Sales of *in vivo* products increased

2.7% from the previous year. Among these, *Clearbone* (a bone imaging agent) and *Myoview* injectable syringe (for the diagnosis of cardiovascular disease) made significant contributions to the company's sales increase. The company will make efforts to maintain growth by launching new radiopharmaceuticals and non-radio imaging products in addition to continued efforts to raise the efficiency of its marketing and R&D activities.

BOARD OF DIRECTORS AND STATUTORY AUDITORS

(As of July 1, 2001)

Chairman



Akio Kosai

President



Hiromasa Yonekura

Executive Vice Presidents



Akio Kobayashi



Masatoshi Takahashi

Senior Managing Directors



Ryuichi Sonoda



Mitsuhiro Moroishi



Yasuo Okamoto



Masami Nakamoto

Chairman

Akio Kosai

President

Hiromasa Yonekura

Executive Vice Presidents

Akio Kobayashi

Agricultural Chemicals Sector

Masatoshi Takahashi

Technology, Research
& Development

Senior Managing Directors

Ryuichi Sonoda

Petrochemicals & Plastics Sector

Mitsuhiro Moroishi

General Affairs, Personnel, Legal,
Sumitomo Mitsui Alliance Promotion,
Intellectual Property

Yasuo Okamoto

Finance, Accounting, Procurement
& Logistics, Internal Audit

Masami Nakamoto

Fine Chemicals Sector

Managing Directors

Satoshi Kawachi

Technology, Research & Development,
Responsible Care (Process & Production
Technology, Environment, Safety, Quality
Assurance), Process & Production
Technology Center, Tsukuba Research
Laboratory

Shigehiro Oba

Basic Chemicals Sector

Masaaki Nagao

Agricultural Chemicals Sector—
Planning & Coordination Office/
Environmental Health Division/
Farm Chemicals & Materials Division

Akira Takeshita

Fine Chemicals Sector—
Specialty Chemicals Division/
Functional Chemicals Division

Ichiro Miyawaki

Basic Chemicals Sector—
Planning & Coordination Office/
Aluminium Division

Hideaki Watanabe

Personnel Office

Naoya Kanda

Basic Chemicals Sector—
Methacrylates Division/
Optical Materials Division

Yuji Ito

Finance & Accounting Office

Directors

Osamu Ishitobi

Petrochemicals & Plastics Sector—
Planning & Coordination Office/
Petrochemicals Division/Polymer
Products & Market Development Dept.

Masayo Tada

Agricultural Chemicals Sector—
Plant Protection Division

Toshiro Kato

Agricultural Chemicals Sector—
Environmental Health Division/
Farm Chemicals & Materials Division/
Agricultural Chemicals Research
Laboratory

Masashi Araki

Chiba Works, Petrochemicals Research
Laboratory, Plastics Technical Center

Masanori Hayashi

Ehime Works, Basic Chemicals
Research Laboratory

Yoshitsugu Sakamoto

Petrochemicals & Plastics Sector—
Polyethylene Division/Polypropylene
Division/Synthetic Rubber Division

Yasuo Kamei

Corporate Planning & Coordination,
Sumitomo Mitsui Alliance Promotion
Office

Hiroshi Hirose

General Affairs Department

Masaaki Yokotsuka

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

Statutory Auditors

Kunio Matsura

Hiroaki Ninomiya

Yoichiro Mori

Hiroshi Hayasaki

FINANCIAL SECTION

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CONSOLIDATED FINANCIAL SUMMARY

Sumitomo Chemical Company, Limited

Billions of yen (except per 1,000 shares)

Years ended March 31,

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|----------|-----------|-----------|----------|----------|-----------|
| Results of operations: | | | | | | |
| Sales by business segment: | | | | | | |
| Basic Chemicals & Petrochemicals | ¥ 470.9 | ¥ 511.2 | ¥ 538.2 | ¥ 471.1 | ¥ 513.7 | ¥ 574.6 |
| Specialty Chemicals: | | | | | | |
| Fine chemicals..... | 174.5 | 201.2 | 177.4 | 158.6 | 164.4 | 155.2 |
| Agricultural chemicals | 101.6 | 109.5 | 120.8 | 120.8 | 105.6 | 121.6 |
| Pharmaceuticals | 174.4 | 156.9 | 155.3 | 149.1 | 143.1 | 156.7 |
| | 450.5 | 467.6 | 453.5 | 428.5 | 413.1 | 433.5 |
| Others | 30.5 | 32.8 | 28.6 | 28.1 | 23.5 | 32.8 |
| Net sales | ¥ 951.9 | ¥ 1,011.6 | ¥ 1,020.3 | ¥ 927.7 | ¥ 950.3 | ¥ 1,041.0 |
| Overseas operations | ¥ 171.6 | ¥ 203.8 | ¥ 238.2 | ¥ 232.1 | ¥ 227.5 | ¥ 276.5 |
| Operating income by business segment: | | | | | | |
| Basic Chemicals & Petrochemicals | ¥ 14.0 | ¥ 11.2 | ¥ 14.2 | ¥ 11.5 | ¥ 11.8 | ¥ 13.3 |
| Specialty Chemicals | 37.2 | 46.0 | 57.0 | 46.4 | 55.3 | 67.5 |
| Others | 4.2 | 5.8 | 3.7 | 1.3 | 3.0 | 3.9 |
| Elimination..... | 0.1 | (0.2) | 0.1 | 0.1 | 0.0 | 0.0 |
| Operating income | ¥ 55.5 | ¥ 62.8 | ¥ 75.0 | ¥ 59.3 | ¥ 70.1 | ¥ 84.7 |
| Income before income taxes and minority interests.... | ¥ 33.1 | ¥ 54.4 | ¥ 45.9 | ¥ 36.3 | ¥ 32.0 | ¥ 64.4 |
| Net income..... | 18.5 | 21.5 | 22.1 | 20.1 | 18.4 | 34.1 |
| Net income per 1,000 shares (yen) | ¥ 11,425 | ¥ 13,239 | ¥ 13,637 | ¥ 12,406 | ¥ 11,329 | ¥ 20,756 |
| Financial position (at year-end): | | | | | | |
| Total current assets | ¥ 625.1 | ¥ 624.8 | ¥ 630.7 | ¥ 591.8 | ¥ 584.4 | ¥ 596.5 |
| Net property, plant and equipment | 474.7 | 493.5 | 475.6 | 428.1 | 409.7 | 400.7 |
| Investments and other non-current assets | 222.7 | 235.1 | 261.9 | 266.7 | 272.7 | 406.4 |
| Total assets | 1,333.6 | 1,358.2 | 1,375.9 | 1,310.9 | 1,322.4 | 1,455.4 |
| Total shareholders' equity | 265.7 | 282.7 | 296.7 | 325.1 | 345.0 | 451.8 |
| Book value per 1,000 shares (yen) | ¥163,851 | ¥174,356 | ¥182,931 | ¥200,485 | ¥210,965 | ¥272,905 |
| General: | | | | | | |
| For the year: | | | | | | |
| Capital expenditures | ¥ 63.7 | ¥ 72.0 | ¥ 82.9 | ¥ 67.6 | ¥ 81.6 | ¥ 62.1 |
| Depreciation and amortization | 67.1 | 62.4 | 58.4 | 68.4 | 75.4 | 64.6 |
| Research and development expenses | 54.5 | 54.9 | 54.9 | 59.5 | 59.3 | 59.1 |
| Dividends per 1,000 shares (yen) | ¥ 3,000 | ¥ 5,000 | ¥ 5,000 | ¥ 5,000 | ¥ 5,000 | ¥ 6,000 |
| At year-end: | | | | | | |
| Employees..... | 16,769 | 16,262 | 15,918 | 15,778 | 17,474 | 17,392 |
| Shareholders of record | 151,398 | 147,300 | 144,381 | 140,257 | 134,705 | 129,835 |
| Consolidated subsidiaries..... | 57 | 62 | 64 | 67 | 92 | 98 |

FINANCIAL REVIEW

The following comments should be read in conjunction with "To Our Shareholders and Customers" (pages 2-3), "Review of Operations" (pages 6-15), and the consolidated financial statements (pages 24-40). U.S. dollar amounts are translated from yen, for convenience only, at ¥123.90=US\$1, the rate prevailing on March 30, 2001.

Consolidated net sales for the fiscal year ended March 31, 2001, totaled ¥1,041.0 billion (US\$8,402 million), a 9.5% increase from ¥950.3 billion for the fiscal year ended March 31, 2000. Operating income increased 21%, to ¥84.7 billion (US\$683 million), income before income taxes and minority interests rose to ¥64.4 billion (US\$520 million), and net income increased 85%, to ¥34.1 billion (US\$275 million).

Analysis of Sales

Net sales for the fiscal year ended March 31, 2001 increased 9.5% from the previous fiscal year. Sales for the Basic Chemicals & Petrochemicals segment were up 11.9%, to ¥574.6 billion (US\$4,638 million), due mainly to the strong demand for optically functional films for LCDs, brisk market conditions for aluminum, favorable market conditions in East Asia for MMA (methyl methacrylate), and boosted demand for styrene monomer from related industries. Higher sales prices of petrochemicals reflecting naphtha price hikes were also attributable for the sales growth of this segment.

Sales for the Specialty Chemicals segment increased 4.9%, to ¥433.5 billion (US\$3,499 million). Fine chemicals sales, however, decreased 5.6% because the color filters business for TFT-type LCDs was transferred to an affiliate which was accounted for by the equity method. On the other hand, the sales of other electronics-related products increased. The sales of agricultural chemicals increased 15.1%, due mainly to the new acquisition of the biological agricultural business as well as to the favorable market condition of the feed

additive business. The sales of pharmaceuticals also increased 9.5%. *Amlodin* (hypertension and angina pectoris) and *Growject* (a genetically engineered natural human growth hormone) showed steady growth in sales. Besides *Tagamet* (an antiulcer agent), the ethical drug business that was transferred from SmithKline Beecham Seiyaku also contributed to the sales increase.

Sales for the Others segment were ¥32.8 billion (US\$265 million), 39.7% higher than in the previous fiscal year.

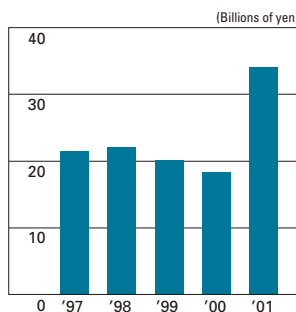
Results of Operations

Cost of sales for the fiscal year ended March 31, 2001, was ¥746.7 billion (US\$6,026 million), compared with ¥684.6 billion for the previous fiscal year. The cost of sales ratio was 72%, the same level as the previous fiscal year. Selling, general and administrative expenses were ¥209.6 billion (US\$1,692 million), a 7.2% increase over the previous fiscal year. Operating income amounted to ¥84.7 billion (US\$683 million), up 20.7% from ¥70.1 billion for the last fiscal year. The ratio of operating income to net sales was 8.1%, as compared with the previous year's 7.4%.

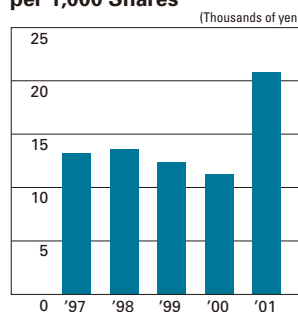
Research and development expenses for the fiscal year ended March 31, 2001, were ¥59.1 billion (US\$477 million), the same level as the previous fiscal year's ¥59.3 billion. Annual depreciation and amortization expenses were ¥64.6 billion (US\$521 million), a decrease of 14% from the previous fiscal year's ¥75.4 billion.

Interest expense, net of interest and dividend income for the fiscal year ended March 31, 2001, was ¥8.5 billion (US\$69 million), compared with ¥8.7 billion for the previous fiscal year. Equity in earnings of non-consolidated subsidiaries and affiliates amounted to ¥11.0 billion (US\$89 million), compared with ¥6.0 billion for the previous fiscal year.

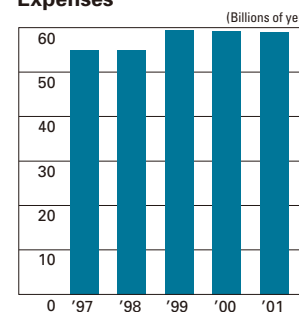
Net Income



Net Income per 1,000 Shares



Research and Development Expenses



The gain on sale of securities for the fiscal year ended March 31, 2001 was ¥9.6 billion (US\$77 million), compared with ¥14.0 billion for the previous fiscal year. The past period service costs of employees' retirement plan were recorded as ¥14.3 billion (US\$116 million) in non-operating expenses for the fiscal year ended March 31, 2001. This amount was a one-time expense of the increased net benefit obligation incurred by the adoption of the new Japanese accounting standard for "retirement benefits" effective in April 2000 and also by lowering the discount rate to 1.7% for Sumitomo Chemical and one of its subsidiaries. A loss of ¥11.3 billion (US\$91 million) was recorded as restructuring charges, which consisted of loss on investments in and loans to related companies and loss on disposal of property, plant and equipment.

Income before income taxes and minority interests for the fiscal year ended March 31, 2001 was ¥64.4 billion (US\$520 million) compared with ¥32.0 billion for the previous fiscal year. Income taxes were ¥24.8 billion (US\$200 million), up 48% from ¥16.7 billion for the previous fiscal year.

Net income was ¥34.1 billion (US\$275 million), an 85% increase from ¥18.4 billion for the previous fiscal year. Return on equity (ROE) was 7.6%, up 2.1 percentage point from the previous fiscal year's 5.5% even after adopting the new Japanese accounting standard for financial instrument (a mark to market basis accounting). Under this new standard, investment securities increased ¥174.4 billion (US\$1,408 million) for the year ended March 31, 2001 and unrealized gains on investment securities, net of tax and minority interests, amounting to ¥98.2 billion (US\$792 million) were recorded in shareholders' equity. Net income per 1,000 shares, based on the weighted average number of shares outstanding

during the fiscal year ended March 31, 2001, was ¥20,756 (US\$167.52), compared with ¥11,329 for the previous fiscal year. Annual dividends for the fiscal year ended March 31, 2001 were ¥6,000 (US\$48.43) per 1,000 shares, compared to ¥5,000 for the previous fiscal year.

Segment Information

Sumitomo Chemical's operations are classified into three principal business segments: Basic Chemicals & Petrochemicals, Specialty Chemicals, and Others.

Basic Chemicals & Petrochemicals:

This segment encompasses such products as organics, inorganics, plastics, synthetic rubber, MMA, optically functional films, and aluminum. Operating income for the fiscal year ended March 31, 2001 increased 12.8%, to ¥13.3 billion (US\$107 million), from ¥11.8 billion for the previous fiscal year. The operating income ratio of the Basic Chemicals & Petrochemicals segment was 2.3%, the same level as in the previous fiscal year.

As for basic chemicals, the sales of optically functional films for LCDs and aluminium increased significantly due to the favorable market conditions. Operations of MMA in Singapore expanded thanks to the growing demand in the East Asian market. As for petrochemicals, sales of styrene monomer increased due to boosted demand from related industries. The growth in plastics sales was achieved by both an increase in shipping volume in the domestic market and higher sales prices in the East Asian market.

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

Industry Segment Results

Fiscal years ended March 31, 2001 and 2000

| | Millions of yen | | | | |
|---------------------------------------|----------------------------------|---------------------|----------------|-------------|-------------------|
| | Basic Chemicals & Petrochemicals | Specialty Chemicals | Others | Unallocated | Consolidated |
| Year ended March 31, 2001 | | | | | |
| Sales to unaffiliated customers | ¥574,627 | ¥433,484 | ¥32,839 | | ¥1,040,950 |
| Operating income | 13,293 | 67,460 | 3,857 | ¥63 | 84,673 |
| Operating income ratio | 2.3% | 15.6% | 11.7% | | 8.1% |
| Operating income growth..... | 12.8% | 22.0% | 28.5% | | 20.7% |
| Year ended March 31, 2000 | | | | | |
| Sales to unaffiliated customers | ¥513,720 | ¥413,110 | ¥23,509 | | ¥950,339 |
| Operating income | 11,786 | 55,296 | 3,002 | ¥65 | 70,149 |
| Operating income ratio | 2.3% | 13.4% | 12.8% | | 7.4% |
| Operating income growth..... | 2.6% | 19.2% | 127.6% | | 18.4% |

and Sumitomo Chemical Singapore Pte. Ltd and its subsidiaries, which engage in the MMA and acrylic acid businesses in Singapore.

Specialty Chemicals:

The Specialty Chemicals segment consists of three businesses: fine chemicals, agricultural chemicals, and pharmaceuticals. Operating income of this segment for the fiscal year ended March 31, 2001, amounted to ¥67.5 billion (US\$544 million), an increase of 22.0% from ¥55.3 billion for the previous fiscal year. The operating income ratio was 15.6%, compared with 13.4% for the previous fiscal year.

The sales of fine chemicals decreased 5.6%, to ¥155.2 billion. Electronics-related materials posted an increase in sales volume, due to the demand recovery in the semiconductor industry. The color filters business was restructured in May 2000 by transferring the business from STI Technology to New STI Technology. As a result of the restructuring, STI Technology was excluded from consolidation and New STI Technology, of which Sumitomo Chemical owns 40%, was accounted for by the equity method for the fiscal year ended March 31, 2001. This resulted in a decrease in the sales of fine chemicals by ¥16 billion. The sales of agricultural chemicals increased 15%, to ¥121.6 billion, even under the intensifying competition in the international market. Valent Biosciences Corporation, established to acquire Abbott Laboratories' biological pesticides and plant growth regulators, began its operations in January 2000 and contributed fully to the sales increase for the year. The sales of pharmaceuticals were ¥156.7 billion, up 9.5% from the previous year. *Amlodin* (hypertension and angina pectoris) and *Growject* (genetically engineered natural human growth hormone)

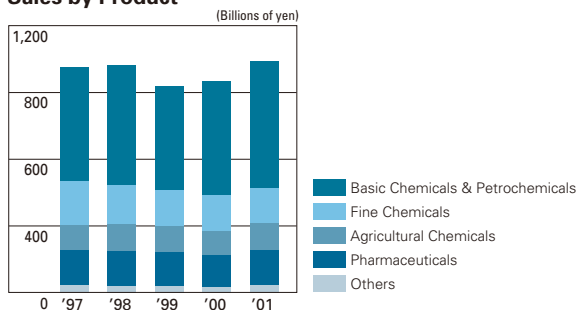
showed steady growth in sales. The sales also increased thanks to *Hibitane* (disinfectant) and *Tagamet* (antiulcer), which were acquired from Zeneka Yakuhin and SmithKline Beecham Seiyaku respectively during the year.

Major consolidated subsidiaries of this segment include: Valent U.S.A. Corporation, a U.S.-based subsidiary for the development and marketing of plant protection chemicals in the North Americas; Valent Biosciences Corporation, a subsidiary of Valent U.S.A. Corporation, for the development and marketing of biological pesticides; and Philagro France, a subsidiary for the development and marketing of plant protection chemicals; Sumitomo Pharmaceuticals Co., Ltd., a core entity of the pharmaceuticals business; and Nihon Medi-Physics Co., Ltd., a joint venture with Nycomed Amersham plc, of the United Kingdom, engaged in manufacturing and selling *in vivo* and *in vitro* radioactive diagnostics and related products.

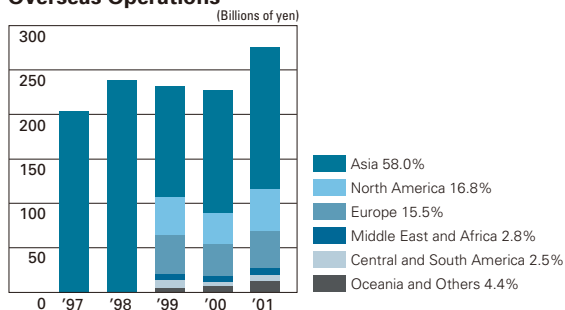
Others:

Operating income of the Others segment was ¥3.9 billion (US\$31 million), 28.5% up over the previous fiscal year's ¥3.0 billion. The operating income ratio of this segment was 11.7%, compared with 12.8% of the previous fiscal year. This segment encompasses electricity power supply by Sumitomo Joint Electric Power Co., Ltd., engineering services for plant construction by Sumitomo Chemical Engineering Co., Ltd., and chemical and mechanical analysis services by Sumika Chemical Analysis Service, Ltd.

Breakdown of Sales by Product



Breakdown of Overseas Operations



Note: Percentages are for the fiscal year ended March 31, 2001.

Overseas Operations

Revenues from overseas operations, including both sales by overseas subsidiaries and exports from Japan, for the fiscal year ended March 31, 2001 were ¥276.5 billion (US\$2,232 million), 22% higher than the ¥227.5 billion in the previous fiscal year. The ratio of revenues from overseas operations to net sales was 26.6%, compared with 23.9% for the previous fiscal year.

Financial Position

Current assets as of March 31, 2001 amounted to ¥596.5 billion (US\$4,815 million), up 2% from ¥584.4 billion as of March 31, 2000. Current liabilities were ¥470.7 billion (US\$3,799 million), down 4% from ¥491.5 billion at the end of the previous fiscal year. The current ratio was 126.7%, compared with 118.9% as of March 31, 2000. Investments and other non-current assets as of March 31, 2001 totaled ¥406.4 billion (US\$3,280 million), compared with ¥272.7 billion as of March 31, 2000. The total value of property, plant and equipment was ¥400.7 billion (US\$3,234 million), compared with ¥409.7 billion at the end of the previous fiscal year. Total assets were ¥1,455.4 billion (US\$11,747 million) and ¥1,322.4 billion at March 31, 2001 and March 31, 2000, respectively. Foreign currency translation adjustments amounting to ¥21.3 billion (US\$172 million) were reclassified to a separate component of shareholders' equity for the year ended March 31, 2001 in accordance with the revised Japanese accounting standard for foreign currency translation, although these were included in a section of investments and other non-current assets in prior years. Unrealized gains on investment securities amounting to ¥98.2 billion (US\$792 million) were included in a separate component of shareholders'

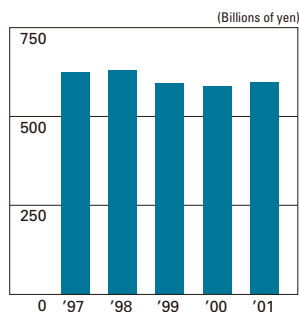
equity for the year ended March 31, 2001 in accordance with the new Japanese accounting standard for financial instruments.

Total debt (short-term and long-term borrowings from banks, debt on bonds and notes, commercial paper, and trade notes discounted) as of March 31, 2001 amounted to ¥474.8 billion (US\$3,832 million), an 11% decrease from ¥531.0 billion as of March 31, 2000. Shareholders' equity was ¥451.8 billion (US\$3,646 million) at March 31, 2001, 31% higher than ¥345.0 billion at the end of the previous fiscal year. The ratio of shareholders' equity to total assets was 31.0% as of March 31, 2001, compared with 26.1% as of March 31, 2000. The number of shares issued and outstanding as of March 31, 2001 was 1,655,446,177 shares. Retained earnings amounted to ¥259.5 billion (US\$2,094 million), an 8% increase from ¥239.4 billion as of March 31, 2000.

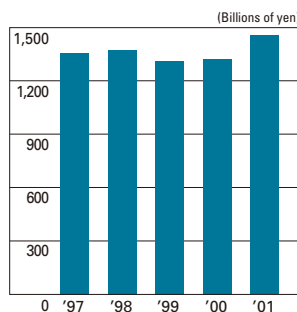
Geographic Information

Net sales from operations outside Japan were ¥151.6 billion (US\$1,224 million) and ¥108.4 billion for the years ended March 31, 2001 and 2000, respectively, and accounted for 14.6% and 11.4% of the respective consolidated total sales. Net sales from operations outside Japan increased 40% from the previous fiscal year. Operating income from operations outside Japan for the fiscal year ended March 31, 2001 was ¥7.8 billion (US\$63 million), up 61% from ¥4.8 billion for the previous fiscal year. Overseas assets as of March 31, 2001 amounted to ¥163.3 billion (US\$1,318 million), 5% higher than the previous fiscal year's ¥155.8 billion. The ratio of overseas assets to total assets for the fiscal year ended March 31, 2001 was 11%, down 1 percentage point from the previous fiscal year.

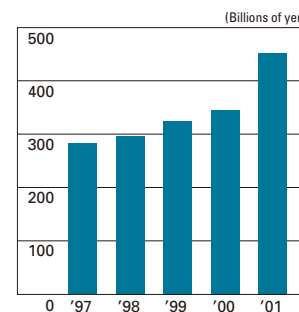
Total Current Assets



Total Assets



Shareholders' Equity



Cash Flows

Net cash provided by operating activities for the year ended March 31, 2001 was ¥94.7 billion (US\$764 million), down 21.3% from ¥120.3 billion for the previous fiscal year, due mainly to the increase of working capital required by the sales increase. Net cash used in investing activities for the year ended March 31, 2001 was ¥54.9 billion (US\$443 million), a 10.9% increase from ¥49.5 billion for the previous fiscal year. As a result, free cash flow for the year ended March 31, 2001 was ¥39.8 billion (US\$321 million), down 44% from ¥70.8 billion for the previous fiscal year. The free cash flow was used mainly for reduction of debt.

Capital Expenditures

Capital expenditures for the fiscal year ended March 31, 2001 decreased 24% to ¥62.1 billion (US\$501 million) from ¥81.6 billion for the fiscal year ended March 31, 2000.

Expenditures for new plants and expansions accounted for 34% of the total outlays for the fiscal year ended March 31, 2001 and 53% for the fiscal year ended March 31, 2000.

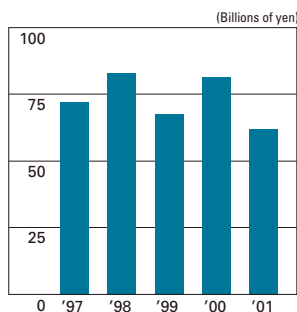
The breakdown of capital expenditures is shown below.

Breakdown of Capital Expenditures

| | Billions of yen, % | | | | | | | | | | | | |
|---|-----------------------|------|-------|------|-------|------|-------|------|-------|------|-------|------|--|
| | Years ended March 31, | | | | | | | | | | | | |
| | 1996 | | 1997 | | 1998 | | 1999 | | 2000 | | 2001 | | |
| New plants and expansions*: | | | | | | | | | | | | | |
| Basic Chemicals & Petrochemicals | ¥11.3 | 18% | ¥28.3 | 39% | ¥27.4 | 33% | ¥15.5 | 23% | ¥ 8.9 | 11% | ¥ 6.4 | 10% | |
| Specialty Chemicals | 12.1 | 19 | 13.7 | 19 | 26.9 | 32 | 14.1 | 21 | 33.1 | 41 | 13.7 | 22 | |
| Others | 9.9 | 15 | 1.1 | 2 | 0.8 | 1 | 1.5 | 2 | 0.8 | 1 | 1.3 | 2 | |
| Subtotal | 33.3 | 52 | 43.1 | 60 | 55.1 | 66 | 31.1 | 46 | 42.8 | 53 | 21.4 | 34 | |
| Rationalization of production processes | 4.7 | 7 | 5.1 | 7 | 3.8 | 5 | 2.9 | 4 | 4.1 | 5 | 3.5 | 6 | |
| Research and development | 4.5 | 7 | 3.7 | 5 | 5.1 | 6 | 13.0 | 19 | 6.8 | 8 | 6.6 | 11 | |
| Others | 21.2 | 34 | 20.1 | 28 | 18.9 | 23 | 20.6 | 31 | 27.9 | 34 | 30.6 | 49 | |
| Total | ¥63.7 | 100% | ¥72.0 | 100% | ¥82.9 | 100% | ¥67.6 | 100% | ¥81.6 | 100% | ¥62.1 | 100% | |

*Includes acquisition

Capital Expenditures



CONSOLIDATED BALANCE SHEETS

Sumitomo Chemical Company, Limited
March 31, 2001 and 2000

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-------------------|-------------------|---------------------------------------|
| | 2001 | 2000 | 2001 |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 56,569 | ¥ 77,835 | \$ 456,570 |
| Short-term investments..... | 181 | 1,455 | 1,461 |
| Marketable securities (Note 4) | 1,026 | 322 | 8,281 |
| Receivables— | | | |
| Trade notes and accounts | 306,511 | 283,806 | 2,473,858 |
| Other | 28,338 | 22,798 | 228,717 |
| Allowance for doubtful receivables | (4,513) | (3,035) | (36,425) |
| | 330,336 | 303,569 | 2,666,150 |
| Inventories | 185,952 | 175,698 | 1,500,823 |
| Deferred tax assets (Note 10) | 19,018 | 20,448 | 153,495 |
| Other | 3,466 | 5,121 | 27,974 |
| Total current assets | 596,548 | 584,448 | 4,814,754 |
| Investments and other non-current assets: | | | |
| Investment securities (Notes 4, 5 and 6)..... | 376,213 | 201,187 | 3,036,425 |
| Foreign currency translation adjustments (Note 3)..... | — | 30,805 | — |
| Other (Note 5)..... | 31,443 | 41,433 | 253,777 |
| Allowance for doubtful receivables | (1,300) | (683) | (10,492) |
| | 406,356 | 272,742 | 3,279,710 |
| Property, plant and equipment (Note 6): | | | |
| Land..... | 73,410 | 73,361 | 592,494 |
| Buildings and structures | 368,353 | 363,416 | 2,972,986 |
| Machinery and equipment..... | 933,749 | 936,750 | 7,536,312 |
| Construction in progress | 15,039 | 11,827 | 121,380 |
| | 1,390,551 | 1,385,354 | 11,223,172 |
| Less accumulated depreciation | (989,874) | (975,654) | (7,989,298) |
| | 400,677 | 409,700 | 3,233,874 |
| Other assets: | | | |
| Excess of cost over equity in net assets acquired | 1,214 | 2,019 | 9,798 |
| Deferred tax assets (Note 10) | 15,122 | 28,556 | 122,050 |
| Goodwill..... | 12,329 | 4,964 | 99,508 |
| Products registration rights | 7,542 | 6,707 | 60,872 |
| Facilities rights and others..... | 15,609 | 13,242 | 125,980 |
| | 51,816 | 55,488 | 418,208 |
| | ¥1,455,397 | ¥1,322,378 | \$11,746,546 |

See accompanying notes.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-------------------|------------|---------------------------------------|
| | 2001 | 2000 | 2001 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Short-term debt (Note 6) | ¥ 118,636 | ¥ 146,954 | \$ 957,514 |
| Long-term debt due within one year (Note 6) | 49,014 | 57,250 | 395,593 |
| Payables— | | | |
| Trade notes and accounts | 177,125 | 166,213 | 1,429,580 |
| Other | 24,228 | 28,708 | 195,546 |
| | 201,353 | 194,921 | 1,625,126 |
| Accrued expenses | 37,315 | 30,320 | 301,170 |
| Income taxes payable | 19,665 | 22,695 | 158,717 |
| Deferred tax liabilities (Note 10) | 27 | — | 218 |
| Other | 44,733 | 39,327 | 361,041 |
| Total current liabilities | 470,743 | 491,467 | 3,799,379 |
| Long-term debt due after one year (Note 6) | 306,569 | 326,294 | 2,474,326 |
| Deferred tax liabilities (Note 10) | 45,792 | 2,467 | 369,588 |
| Retirement benefits (Note 8) | 70,091 | 60,322 | 565,706 |
| Other non-current liabilities | 26,079 | 27,062 | 210,484 |
| Minority interests in consolidated subsidiaries | 84,344 | 69,805 | 680,743 |
| Contingent liabilities (Note 12) | | | |
| Shareholders' equity: | | | |
| Common stock, par value ¥50 per share: | | | |
| Authorized —5,000,000,000 shares | | | |
| Issued —1,655,446,177 shares at March 31, 2001 | | | |
| 1,635,154,622 shares at March 31, 2000 | 89,699 | 84,748 | 723,963 |
| Capital surplus | 21,411 | 16,480 | 172,809 |
| Revaluation reserve (Note 14) | 4,345 | 4,345 | 35,069 |
| Retained earnings | 259,464 | 239,397 | 2,094,140 |
| Unrealized gains on investment securities (Note 3) | 98,155 | — | 792,211 |
| Foreign currency translation adjustments | (21,293) | — | (171,856) |
| Treasury stock, at cost | (2) | (9) | (16) |
| Total shareholders' equity | 451,779 | 344,961 | 3,646,320 |
| | ¥1,455,397 | ¥1,322,378 | \$11,746,546 |

CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Chemical Company, Limited
Years ended March 31, 2001, 2000 and 1999

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|-------------------|----------|----------|---------------------------------------|
| | 2001 | 2000 | 1999 | 2001 |
| Net sales | ¥1,040,950 | ¥950,339 | ¥927,655 | \$8,401,533 |
| Cost of sales | 746,651 | 684,627 | 682,329 | 6,026,239 |
| Selling, general and administrative expenses | 209,626 | 195,563 | 186,065 | 1,691,897 |
| Operating income | 84,673 | 70,149 | 59,261 | 683,397 |
| Other income (expenses): | | | | |
| Interest and dividend income | 5,485 | 4,875 | 4,990 | 44,270 |
| Interest expense | (13,984) | (13,598) | (14,498) | (112,865) |
| Equity in earnings of non-consolidated subsidiaries and affiliates | 11,015 | 6,034 | 1,588 | 88,902 |
| Gain on sale of securities | 9,594 | 13,952 | 1,412 | 77,433 |
| Gain on sale of property, plant and equipment | — | 1,844 | 6,088 | — |
| Past period service costs of employees' retirement plan (Note 3) | (14,338) | (1,209) | (9,906) | (115,722) |
| Effect of change of accounting for employees' retirement plan (Note 2) | — | (21,238) | — | — |
| Restructuring charges (Note 9) | (11,317) | (24,761) | (10,552) | (91,340) |
| Other-net | (6,753) | (4,009) | (2,066) | (54,503) |
| Income before income taxes and minority interests | 64,375 | 32,039 | 36,317 | 519,572 |
| Income taxes (Note 10): | | | | |
| Current | 34,966 | 34,533 | 24,045 | 282,211 |
| Deferred | (10,130) | (17,799) | (8,719) | (81,759) |
| | 24,836 | 16,734 | 15,326 | 200,452 |
| Minority interests | 5,460 | (3,120) | 873 | 44,068 |
| Net income | ¥ 34,079 | ¥ 18,425 | ¥ 20,118 | \$ 275,052 |

| | Yen | | | U.S. dollars (Note 1) |
|---|----------------|---------|---------|-----------------------|
| | 2001 | 2000 | 1999 | 2001 |
| Net income per 1,000 shares | ¥20,756 | ¥11,329 | ¥12,406 | \$167.52 |
| Dilutive net income per 1,000 shares | 20,420 | 11,261 | 12,314 | 164.81 |

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Sumitomo Chemical Company, Limited
Years ended March 31, 2001, 2000 and 1999

| | Millions of yen | | | | | | | |
|--|---|-----------------|--------------------|------------------------|----------------------|--|---|-------------------|
| | Shares of common stock (thousands) | Common stock | Capital surplus | Revaluation reserve | Retained earnings | Unrealized gains on investment securities | Foreign currency translation adjustments | Treasury stock |
| Balance at March 31, 1998 | 1,621,699 | ¥81,465 | ¥13,211 | ¥ — | ¥201,984 | ¥ — | ¥ — | ¥(1) |
| Net income | | | | | 20,118 | | | |
| Adjustment for the adoption of deferred tax accounting | | | | | 16,999 | | | |
| Cash dividends at ¥5.0 per share | | | | | (8,108) | | | |
| Bonuses to directors and statutory auditors... | | | | | (112) | | | |
| Adjustment for increase in affiliates accounted for by the equity method | | | | | (427) | | | |
| Net increase in treasury stock | | | | | | | | (2) |
| Balance at March 31, 1999 | 1,621,699 | 81,465 | 13,211 | — | 230,454 | — | — | (3) |
| Net income | | | | | 18,425 | | | |
| Cash dividends at ¥5.0 per share | | | | | (8,108) | | | |
| Bonuses to directors and statutory auditors | | | | | (112) | | | |
| Conversion of convertible bonds | 13,456 | 3,283 | 3,269 | | | | | |
| Revaluation of land by certain affiliates, net of tax (Note 14) | | | | 4,345 | | | | |
| Adjustment for increase in consolidated subsidiaries and affiliates accounted for by the equity method | | | | | (1,262) | | | |
| Net increase in treasury stock | | | | | | | | (6) |
| Balance at March 31, 2000 | 1,635,155 | 84,748 | 16,480 | 4,345 | 239,397 | — | — | (9) |
| Net income | | | | | 34,079 | | | |
| Cash dividends at ¥8.0 per share | | | | | (13,081) | | | |
| Bonuses to directors and statutory auditors | | | | | (112) | | | |
| Conversion of convertible bonds | 20,291 | 4,951 | 4,931 | | | | | |
| Unrealized gains on investment securities | | | | | | 98,155 | | |
| Foreign currency translation adjustments | | | | | | | (21,293) | |
| Revaluation of property, plant and equipment by an affiliate, net of tax | | | | | 675 | | | |
| Adjustment for changes in affiliates accounted for by the equity method | | | | | (1,494) | | | |
| Net decrease in treasury stock | | | | | | | | 7 |
| Balance at March 31, 2001 | 1,655,446 | ¥89,699 | ¥21,411 | ¥4,345 | ¥259,464 | ¥98,155 | ¥(21,293) | ¥(2) |

| | Thousands of U.S. dollars (Note 1) | | | | | | | |
|---|------------------------------------|--------------------|------------------------|----------------------|--|---|-------------------|--|
| | Common stock | Capital surplus | Revaluation reserve | Retained earnings | Unrealized gains on investment securities | Foreign currency translation adjustments | Treasury stock | |
| Balance at March 31, 2000 | \$684,003 | \$133,011 | \$35,069 | \$1,932,179 | \$ — | \$ — | \$(72) | |
| Net income | | | | 275,052 | | | | |
| Cash dividends at ¥8.0 (US\$0.065) per share | | | | (105,577) | | | | |
| Bonuses to directors and statutory auditors..... | | | | (904) | | | | |
| Conversion of convertible bonds | 39,960 | 39,798 | | | | | | |
| Unrealized gains on investment securities | | | | | 792,211 | | | |
| Foreign currency translation adjustments..... | | | | | | (171,856) | | |
| Revaluation of property, plant and equipment by an affiliate, net of tax | | | | 5,448 | | | | |
| Adjustment for changes in affiliates accounted for by the equity method..... | | | | (12,058) | | | | |
| Net decrease in treasury stock | | | | | | | 56 | |
| Balance at March 31, 2001 | \$723,963 | \$172,809 | \$35,069 | \$2,094,140 | \$792,211 | \$(171,856) | \$(16) | |

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sumitomo Chemical Company, Limited
Years ended March 31, 2001, 2000 and 1999

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|-----------------|-----------------|-----------------|---------------------------------------|
| | 2001 | 2000 | 1999 | 2001 |
| Cash flows from operating activities: | | | | |
| Income before income taxes and minority interests | ¥ 64,375 | ¥ 32,039 | ¥ 36,317 | \$ 519,572 |
| Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities— | | | | |
| Depreciation and amortization | 64,609 | 75,362 | 68,386 | 521,461 |
| Equity in earnings of non-consolidated subsidiaries and affiliates | 633 | 12,677 | 5,664 | 5,109 |
| Interest and dividend income | (5,485) | (4,875) | (4,990) | (44,270) |
| Interest expense | 13,984 | 13,598 | 14,498 | 112,865 |
| Gain on sale of securities | (9,594) | (13,952) | (1,412) | (77,433) |
| Gain on sale of property, plant and equipment | — | (1,844) | (6,088) | — |
| Restructuring charges | 10,845 | 22,213 | 8,260 | 87,530 |
| Increase of provision for retirement benefits and others | 14,304 | 11,155 | 2,036 | 115,448 |
| (Increase) decrease in notes and accounts receivable | (21,414) | (3,332) | 36,068 | (172,833) |
| (Increase) decrease in inventories | (8,172) | 3,679 | 8,856 | (65,956) |
| Increase (decrease) in notes and accounts payable | 7,569 | 7,486 | (42,107) | 61,090 |
| Other—net | 9,041 | 2,083 | 4,717 | 72,970 |
| Subtotal | 140,695 | 156,289 | 130,205 | 1,135,553 |
| Interest and dividend received | 6,079 | 4,888 | 5,566 | 49,064 |
| Interest paid | (14,070) | (13,730) | (14,848) | (113,559) |
| Income taxes paid | (38,008) | (27,141) | (26,823) | (306,764) |
| Net cash provided by operating activities | 94,696 | 120,306 | 94,100 | 764,294 |
| Cash flows from investing activities: | | | | |
| Acquisition of securities | (9,098) | (3,353) | (21,505) | (73,430) |
| Proceeds from sale of securities | 16,908 | 16,171 | 11,341 | 136,465 |
| Acquisition of property, plant and equipment | (70,690) | (70,215) | (68,405) | (570,541) |
| Proceeds from sale of property, plant and equipment | 3,853 | 3,505 | 5,860 | 31,098 |
| Advance of long-term loans receivable | (2,261) | (2,088) | (3,937) | (18,249) |
| Collection of long-term loans receivable | 4,122 | 3,979 | 3,547 | 33,269 |
| Time deposits, maturing after three months and other, net | 2,254 | 2,497 | 351 | 18,192 |
| Net cash used in investing activities | (54,912) | (49,504) | (72,748) | (443,196) |
| Cash flows from financing activities: | | | | |
| Dividends paid | (13,081) | (8,108) | (8,108) | (105,577) |
| Net increase (decrease) in commercial paper | 17,000 | (53,013) | (11,461) | 137,207 |
| Proceeds from other short-term debt | 146,909 | 138,518 | 135,647 | 1,185,706 |
| Repayments of other short-term debt | (189,112) | (133,385) | (147,082) | (1,526,328) |
| Proceeds from long-term debt | 56,866 | 86,299 | 133,110 | 458,967 |
| Repayments of long-term debt | (75,321) | (87,565) | (109,092) | (607,918) |
| Distributions to minority shareholders | (5,989) | (6,944) | (2,231) | (48,336) |
| Capital contributions from minority shareholders | 79 | 1,989 | 301 | 638 |
| Net cash used in financing activities | (62,649) | (62,209) | (8,916) | (505,641) |
| Effect of exchange rate changes on cash and cash equivalents | 1,581 | (2,514) | (450) | 12,760 |
| Net (decrease) increase in cash and cash equivalents | (21,284) | 6,079 | 11,986 | (171,783) |
| Increase in cash and cash equivalents by newly consolidated subsidiaries | 18 | 8,176 | 801 | 145 |
| Cash and cash equivalents at beginning of year | 77,835 | 63,580 | 50,793 | 628,208 |
| Cash and cash equivalents at end of year | ¥ 56,569 | ¥ 77,835 | ¥ 63,580 | \$ 456,570 |
| Supplemental schedule of non-cash transactions: | | | | |
| Conversion of convertible bonds | ¥ 9,882 | ¥ 6,552 | ¥ — | \$ 79,758 |

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sumitomo Chemical Company, Limited
Years ended March 31, 2001, 2000 and 1999

1. Basis of Financial Statements

(a) The Company and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated 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 translated from the financial statements that are prepared for Japanese domestic purposes in accordance with Japanese GAAP, and filed with the appropriate Local Finance Bureau of the Minister of Finance as required by the Securities and Exchange Law. Certain reclassifications have been made in the previous financial statements to conform to the presentation for the current year. Certain modifications have been made in the accompanying consolidated financial statements and notes to facilitate understanding by non-Japanese readers, but no change has been made in the application of accounting policies.

In accordance with the Regulation Concerning Terminology, Forms and Preparation Method of Consolidated Financial Statements, effective from the year ended March 31, 2000, the Company is required to prepare consolidated cash flow statements. The prior year's consolidated cash flow statements have been restated to conform to the 2001 presentation.

(b) The U.S. dollar amounts herein are included solely for the convenience of readers outside Japan and translated, as a matter of arithmetical computation only, at the rate of ¥123.90 per US\$1, the rate prevailing on March 30, 2001.

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

2. Accounting Change

(Accounting change in the year ended March 31, 2000)

The Company has two employees' retirement benefit plans, a lump-sum benefit plan and a defined benefit pension plan. Through the year ended March 31, 1999, the liability for the lump-sum payments was provided at 40% of the amount which would be required if all employees mandatorily retired as of the balance sheet date. For the defined benefit pension plan, the current period cost was funded through outside trustees and amortization of past period service costs arising from changes of the discount rate were charged as expenses by the 50% declining balance method.

However, in the year ended March 31, 2000, the Company and some of its consolidated subsidiaries adopted a new accounting method. Under this method, the provision for employees' retirement benefits is calculated by subtracting the current value of pension assets from the present value of employees' future retirement benefits, i.e., projected benefit obligation for services rendered to the balance sheet date. As a result, additional costs for the employees' retirement benefit plan amounting to ¥21,238 million were charged to income. Due to this accounting

change, operating expenses decreased ¥669 million, other expenses increased ¥18,065 million and net income before income taxes decreased ¥17,396 million compared with the previous method of accounting.

3. Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and 98 significant subsidiaries for the year ended March 31, 2001, 92 significant subsidiaries for the year ended March 31, 2000 and 67 significant subsidiaries for the year ended March 31, 1999. All significant intercompany transactions and accounts have been eliminated. Accounts of subsidiaries whose business year-ends precede that of the Company by more than three months have been included using appropriate interim financial information.

The Company prepared the consolidated financial statements for the years ended March 31, 2001 and 2000 in accordance with the revised Accounting Principles for Consolidated Financial Statements effective from the year ended March 31, 2000. The accompanying consolidated financial statements include the accounts of the Company and significant companies, over which the Company has control through majority voting right or certain other conditions evidencing control by the Company. Investments in non-consolidated subsidiaries and affiliates (generally 20%–50% ownership), over which the Company has the ability to exercise significant influence over operating and financial policies, are accounted for by the equity method.

Excess of cost over equity in net assets acquired after March 31, 1999 is amortized within twenty years (over five years for assets acquired in prior years).

(b) Foreign currency translation

Foreign currency monetary assets and liabilities are translated into Japanese yen at the current rate at the end of the year and the resulting translation gains or losses are included in earnings currently, although prior to April 1, 2000, long-term receivables and payables dominated in foreign currencies were translated at historical rates.

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

Effective April 1, 2000, the Companies adopted the revised accounting standard for foreign currency translation ("Opinion Concerning Revision of Accounting Standard for Foreign Currency Transactions" issued by the Business Accounting Deliberation Council on October 22, 1999). The adoption had no significant effect on net income. Due to the accounting standard, foreign currency translation adjustments at March 31, 2001 are included in shareholders' equity and in minority interests. The prior year's amount, which was included in investments and other non-current assets, has not been reclassified.

(c) Allowance for doubtful receivables

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

(d) Securities

Prior to April 1, 2000, except for investments accounted for by the equity method, listed securities in both current assets and investments were stated at the lower of moving average cost or market. Other securities were stated at moving average cost.

Effective April 1, 2000, the Company and its domestic subsidiaries adopted a new accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999). Upon applying the new accounting standard, all companies are required to examine the intent of holding each security and classify those securities as 1) securities held for trading purposes ("trading securities"), 2) debt securities intended to be held to maturity ("held-to-maturity debt securities"), 3) equity securities issued by subsidiaries and affiliated companies, and 4) for 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 affiliated companies 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 in a separate component of shareholders' equity. Realized gains or losses on sales of such securities are computed using moving-average cost. Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving average cost.

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

As a result, investment securities increased by ¥174,449 million (US\$1,407,982 thousand) and unrealized gains on investment securities, net of tax and minority interests, amounting to ¥98,155 million (US\$792,211 thousand) are recorded in shareholders' equity. The adoption had no significant effect on net income.

(e) Derivatives and hedge accounting

The Companies enter into forward exchange contracts and currency swaps to hedge exchange rate risk associated with monetary items receivable and payable denominated in foreign currencies, interest rate swaps to hedge the risk related to interest on borrowings and reduce financing costs, and commodity forward contracts to manage exposures to fluctuations in market prices of aluminum. The Companies use derivative transactions for hedging market risk and not for speculation or dealing purposes. The Companies have established policies and controls to manage both market and credit risk, including using highly-rated financial institutions and trading companies as counterparties, limits on transaction types and amounts and reporting to the Board of Directors. The Companies evaluate hedge effectiveness by comparing total cash flow fluctuation of hedging instruments and hedged items.

The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative

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

(f) Inventories

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

(g) Property, plant and equipment

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

(h) Intangible assets

Goodwill, products registration rights and other intangible assets are amortized on the straight-line method over the estimated useful lives.

(i) Finance leases

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

(j) Research and development

Expenses relating to research and development activities are charged to income as incurred. Research and development expenses for the year ended March 31, 2001 were ¥59,127 million (US\$477,215 thousand) and ¥59,344 million for the year ended March 31, 2000.

(k) Bond issue expenses

Bond issue expenses are charged to income as incurred.

(l) Income taxes

Income taxes comprise corporation tax, prefectural and municipal inhabitants taxes and enterprise tax.

Deferred taxes are accounted for using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying amount and tax basis of assets and liabilities using enacted tax rates.

(m) Retirement benefits

(i) Employees: The Company has two retirement plans in effect, a lump-sum benefit plan and a defined benefit pension plan. Under the terms of the lump-sum benefit plan, generally all employees are entitled, upon mandatory retirement or earlier voluntary severance, to indemnities based on compensation at the time of severance and years of service. The Company's

defined benefit plan is funded through outside trustees and covers all eligible employees. Certain consolidated subsidiaries also have similar plans.

Through the year ended March 31, 1999, the liability for lump-sum payments was provided at 40% of the amount which would be required if all employees mandatorily retired as of the balance sheet date. For the defined benefit pension plan, the current period cost was funded through outside trustees, and amortization of past period service costs arising from changes of the discount rates were charged to expenses by the 50% declining-balance method. The Company lowered the discount rate of the plan from 4.0% to 2.3% in 1998 following the change from 5.5% to 4.0% in 1997 and, as a result, expensed past period service cost amounting to ¥9,906 million for the year ended March 31, 1999. However, the Company and some of its consolidated subsidiaries adopted a new accounting method from the year ended March 31, 2000 as stated in Note 2. Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted the new accounting standard "Accounting for Retirement Benefits" ("Opinion Concerning the Establishment of Accounting Standard for Retirement Benefits" issued by the Business Accounting Deliberation Council on June 16, 1998), which is similar to the method the Company and some of its consolidated subsidiaries already adopted in the year ended March 31, 2000.

The unamortized net transition obligation at the adoption of the new accounting standard amounting to ¥14,338 million (US\$115,722 thousand), which included effects of reducing the

discount rate to 1.7%, was fully expensed in the year ended March 31, 2001.

(ii) *Directors and statutory auditors:* The liability for directors' and statutory auditors' retirement benefits of the Company and certain subsidiaries is provided based on the Companies' standards, and ¥2,302 million (US\$18,579 thousand) and ¥2,499 million were included in the other non-current liabilities at March 31, 2001 and 2000, respectively.

(n) Net income per 1,000 shares

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

(o) 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.

4. Securities

The following tables summarize acquisition costs, book values and fair value of securities with available fair values as of March 31, 2001:

Available-for-sale securities

(a) Securities with book values exceeding acquisition cost

| | Millions of yen | | |
|-------------------------|------------------|------------|------------|
| | Acquisition cost | Book value | Difference |
| Equity securities | ¥57,323 | ¥231,832 | ¥174,509 |
| Bonds | 119 | 142 | 23 |
| Total | ¥57,442 | ¥231,974 | ¥174,532 |

(b) Other securities

| | Millions of yen | | |
|-------------------------|------------------|------------|------------|
| | Acquisition cost | Book value | Difference |
| Equity securities | ¥3,919 | ¥3,211 | ¥(708) |
| Bonds and other | 41 | 30 | (11) |
| Total | ¥3,960 | ¥3,241 | ¥(719) |

Available-for-sale securities

(a) Securities with book values exceeding acquisition cost

| | Thousands of U.S. dollars | | |
|-------------------------|---------------------------|-------------|-------------|
| | Acquisition cost | Book value | Difference |
| Equity securities | \$462,655 | \$1,871,122 | \$1,408,467 |
| Bonds | 961 | 1,146 | 185 |
| Total | \$463,616 | \$1,872,268 | \$1,408,652 |

(b) Other securities

| | Thousands of U.S. dollars | | |
|-------------------------|---------------------------|------------|------------|
| | Acquisition cost | Book value | Difference |
| Equity securities | \$31,630 | \$25,916 | \$(5,714) |
| Bonds and other | 331 | 242 | (89) |
| Total | \$31,961 | \$26,158 | \$(5,803) |

The following table summarizes book values of securities with no available fair values as of March 31, 2001:

| | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
| Held-to-maturity debt securities: | | |
| Subordinated bonds and other | ¥ 2,330 | \$ 18,805 |
| Available-for-sale securities: | | |
| Non-listed equity securities | 13,959 | 112,663 |
| Preferred securities | 18,009 | 145,351 |
| Commercial paper | 7,289 | 58,830 |
| Money management fund..... | 3,323 | 26,820 |
| Investment securities in non-consolidated subsidiaries and affiliates..... | 106,738 | 861,485 |
| Total..... | ¥151,648 | \$1,223,954 |

Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2001 mature as follows:

| | Millions of yen | | | |
|-----------------------------------|-----------------|-------------------------------------|--------------------------------------|----------------|
| | Within one year | Over one year but within five years | Over five years but within ten years | Over ten years |
| Bonds..... | ¥ 21 | ¥271 | ¥ 104 | ¥46 |
| Commercial paper..... | 7,289 | — | — | — |
| Subordinated bonds and other..... | 1,026 | 22 | 2,000 | — |
| Total..... | ¥8,336 | ¥293 | ¥2,104 | ¥46 |

| | Thousands of U.S. dollars | | | |
|-----------------------------------|---------------------------|-------------------------------------|--------------------------------------|----------------|
| | Within one year | Over one year but within five years | Over five years but within ten years | Over ten years |
| Bonds..... | \$ 169 | \$2,187 | \$ 839 | \$371 |
| Commercial paper..... | 58,830 | — | — | — |
| Subordinated bonds and other..... | 8,281 | 178 | 16,142 | — |
| Total..... | \$67,280 | \$2,365 | \$16,981 | \$371 |

Total sales of available-for-sale securities in the year ended March 31, 2001 amounted to ¥12,385 million (US\$99,960 thousand) and the related gains or losses amounted to ¥10,071 million (US\$81,283 thousand) and ¥24 million (US\$194 thousand), respectively.

5. Investments in Related Companies

Investments in non-consolidated subsidiaries and affiliates included in the balance sheet at March 31, 2001 and 2000 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|-------------------------------|-----------------|----------|---------------------------|
| | 2001 | 2000 | 2001 |
| Investment securities | ¥106,738 | ¥106,535 | \$861,485 |
| Other non-current assets..... | 6,946 | 12,964 | 56,061 |

6. Short-Term Debt and Long-Term Debt

Interest rates of short-term bank loans ranged from 0.437% to 18.5% and from 0.44% to 0.795% at March 31, 2001 and 2000, respectively.

Short-term debt at March 31, 2001 and 2000 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------|-----------------|----------|---------------------------|
| | 2001 | 2000 | 2001 |
| Bank loans | ¥101,636 | ¥146,954 | \$820,307 |
| Commercial paper | 17,000 | — | 137,207 |
| Total..... | ¥118,636 | ¥146,954 | \$957,514 |

Long-term debt at March 31, 2001 and 2000 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|------------------------------|
| | 2001 | 2000 | 2001 |
| 1.7% convertible bonds due 2003, convertible into shares of the Company's common stock at a price of ¥983.20 per share..... | ¥ 19,548 | ¥ 19,548 | \$ 157,772 |
| 1.6% convertible bonds due 2004, convertible into shares of the Company's common stock at a price of ¥965.80 per share..... | 19,914 | 19,914 | 160,726 |
| 4.7% convertible bonds due 2000, convertible into shares of the Company's common stock at a price of ¥487.00 per share..... | — | 9,989 | — |
| 0.2%–2.8% euro notes under medium-term note programs due 2001–2005..... | 27,705 | 16,328 | 223,608 |
| 1.4%–3.25% debentures due 2001–2009..... | 187,000 | 192,000 | 1,509,282 |
| 0.533%–7.5% long-term bank loans payable, due through 2033..... | 64,856 | 83,421 | 523,454 |
| 5.35%–13.5% long-term bank loans payable in foreign currencies due through 2006..... | 36,560 | 42,344 | 295,077 |
| | 355,583 | 383,544 | 2,869,919 |
| Less amounts due within one year..... | (49,014) | (57,250) | (395,593) |
| | ¥306,569 | ¥326,294 | \$2,474,326 |

The aggregate annual maturities of long-term debt subsequent to March 31, 2001 were as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|--------------------------|-----------------|------------------------------|
| 2002..... | ¥ 49,014 | \$ 395,593 |
| 2003..... | 56,741 | 457,958 |
| 2004..... | 63,744 | 514,479 |
| 2005..... | 53,391 | 430,920 |
| 2006..... | 32,335 | 260,977 |
| 2007 and thereafter..... | 100,358 | 809,992 |
| | ¥355,583 | \$2,869,919 |

At March 31, 2001, assets pledged as collateral for short-term debt and long-term debt were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|------------------------------|
| Property, plant and equipment, net of accumulated depreciation..... | ¥72,582 | \$585,811 |
| Investment securities..... | 12,224 | 98,660 |
| | ¥84,806 | \$684,471 |
| Liabilities secured thereby..... | ¥27,664 | \$223,277 |

7. Leases

At March 31, 2001 and 2000, assets leased under non-capitalized financial leases were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|------------------------------|
| | 2001 | 2000 | 2001 |
| Machinery and equipment..... | ¥15,060 | ¥16,188 | \$121,550 |
| Buildings and structures..... | 31 | 31 | 250 |
| Less accumulated depreciation and amortization..... | (10,076) | (9,709) | (81,324) |
| Total..... | ¥ 5,015 | ¥ 6,510 | \$ 40,476 |

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 ¥162 million (US\$1,308 thousand) and ¥196 million and depreciation and amortization of ¥2,827 million (US\$22,817 thousand) and ¥3,430 million would have been recorded for the years ended March 31, 2001 and 2000, respectively.

Total lease payments under non-capitalized finance leases were ¥3,335 million (US\$26,917 thousand), ¥3,674 million and ¥3,730 million for the years ended March 31, 2001, 2000 and 1999, respectively.

Obligations under finance leases at March 31, 2001 and 2000 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------------|-----------------|--------|---------------------------|
| | 2001 | 2000 | 2001 |
| Due within one year | ¥2,505 | ¥2,944 | \$20,218 |
| Due after one year | 2,727 | 3,778 | 22,010 |
| Total | ¥5,232 | ¥6,722 | \$42,228 |

Obligations under operating leases at March 31, 2001 and 2000 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------------|-----------------|--------|---------------------------|
| | 2001 | 2000 | 2001 |
| Due within one year | ¥1,754 | ¥1,121 | \$14,157 |
| Due after one year | 7,401 | 6,803 | 59,733 |
| Total | ¥9,155 | ¥7,924 | \$73,890 |

8. Retirement Benefits

The liability for retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2001 consists of the following:

| | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
| Projected retirement benefit obligation | ¥(246,241) | \$(1,987,417) |
| Plan assets | 160,167 | 1,292,712 |
| Unfunded retirement benefit obligation | (86,074) | (694,705) |
| Unrecognized actuarial changes in assumption | 16,038 | 129,443 |
| Unrecognized past period service cost | (55) | (444) |
| Provision for employees' retirement benefits | ¥ (70,091) | \$ (565,706) |

Net periodic cost for the year ended March 31, 2001 was as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|---------------------------|
| Service cost | ¥ 9,523 | \$ 76,860 |
| Interest cost | 4,121 | 33,261 |
| Expected return on retirement benefit plan assets | (2,654) | (21,420) |
| Net transition obligation | 14,338 | 115,722 |
| Amortization of actuarial loss | 3,328 | 26,860 |
| Net periodic cost | ¥28,656 | \$231,283 |

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

| | |
|---|----------------|
| Discount rate | Mainly 1.7% |
| Expected return rate for plan assets | Mainly 1.7% |
| Amortization period for actuarial changes | Mainly 3 years |

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

9. Restructuring Charges

Restructuring charges as of March 31, 2001, 2000 and 1999 consisted of the following:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|-----------------|---------|---------|---------------------------|
| | 2001 | 2000 | 1999 | 2001 |
| Loss on investments in and loans to related companies | ¥ 6,892 | ¥ 5,048 | ¥ 8,671 | \$55,626 |
| Loss on disposal of property, plant and equipment | 4,425 | 17,161 | 1,881 | 35,714 |
| Special severance benefits | — | 2,552 | — | — |
| | ¥11,317 | ¥24,761 | ¥10,552 | \$91,340 |

10. Deferred Taxes

Significant components of deferred tax assets and liabilities at March 31, 2001 and 2000 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
| | 2001 | 2000 | 2001 |
| Retirement benefits..... | ¥ 18,897 | ¥15,362 | \$152,518 |
| Depreciation and amortization | 11,196 | 8,991 | 90,363 |
| Inventories..... | 4,132 | 4,021 | 33,349 |
| Intercompany profit | 2,769 | 2,375 | 22,349 |
| Investment securities..... | 2,407 | 2,878 | 19,427 |
| Tax deductible reserves..... | (3,937) | (4,534) | (31,775) |
| Unrealized gain on investment securities..... | (68,786) | — | (555,173) |
| Other | 21,643 | 17,444 | 174,681 |
| Net deferred tax assets (liabilities) | ¥(11,679) | ¥46,537 | \$ (94,261) |

Significant items in the reconciliation of the normal income tax rate to the effective income tax rate for the years ended March 31, 2001, 2000 and 1999 were as follows:

| | 2001 | 2000 | 1999 |
|---|-------|-------|--------|
| Normal income tax rate in Japan | 40.9% | 40.9% | 46.4% |
| Permanently non-deductible expenses | 2.9 | 5.8 | 5.4 |
| Permanently non-taxable dividends received | (1.4) | (3.6) | (2.8) |
| Investment valuation loss of consolidated subsidiaries..... | — | — | (11.6) |
| Other | (3.8) | 9.1 | 4.8 |
| Effective income tax rate..... | 38.6% | 52.2% | 42.2% |

11. Shareholders' Equity

The Commercial Code of Japan provides that an amount equal to at least 10% of the amount of cash dividends and other cash appropriations of unappropriated retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of the amount of common stock. The legal reserve is not available for dividends but may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be transferred to common stock by resolution of the Board of Directors. The legal reserve is included in retained earnings.

12. Contingent Liabilities

At March 31, 2001, the Companies were contingently liable as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|---------------------------|
| | ¥ | \$ |
| As endorser of notes discounted or endorsed | 559 | 4,512 |
| As guarantor of indebtedness | 22,225 | 179,378 |
| As issuer of letters of comfort | 13,582 | 109,621 |
| | ¥35,807 | \$288,999 |

The Companies' share of the above liabilities was ¥34,059 million (US\$274,891 thousand).

| | | |
|---|---------|-----------|
| As original debtor with respect to 4.05% bonds due 2001, issued on May 31, 1994 assumed by banks in accordance with debt assumption agreements..... | ¥20,000 | \$161,421 |
|---|---------|-----------|

13. Derivatives

The Companies adopted hedge accounting for derivative transactions from the year ended March 31, 2001 as stated in Note 3 (e) and thus did not have open outstanding positions at year-end.

Outstanding positions at March 31, 2000 were as follows:

| | Millions of yen | | | |
|--|-------------------|-------------------------|------------|------------------------|
| | Contracted amount | Maturing after one year | Fair value | Unrealized gain (loss) |
| Forward exchange contracts*1, 2 | | | | |
| To sell foreign currencies | | | | |
| U.S. dollars | ¥ 44 | ¥ — | ¥ 42 | ¥ 2 |
| German marks | 18 | — | 18 | 0 |
| To buy foreign currencies | | | | |
| U.S. dollars | 613 | 74 | 617 | 4 |
| New Zealand dollars | 2,231 | 760 | 2,129 | (102) |
| Australian dollars | 74 | — | 71 | (3) |
| Currency interest rate swap contracts*3 | | | | |
| U.S. dollars | 14,600 | — | 1,516 | 1,516 |
| Interest rate swap contracts | | | | |
| To receive fixed and to pay floating rates | 2,000 | 1,000 | 69 | 69 |
| To receive floating and to pay fixed rates | 637 | 400 | (2) | (2) |
| Commodities forward contracts | | | | |
| To sell aluminum | 14,615 | 4,104 | 14,871 | (256) |
| To buy aluminum | 10,377 | 1,821 | 10,511 | 134 |
| Total | | | | <u>¥1,362</u> |

*1. Fair values are based on the forward rate at March 31, 2000.

*2. Forward exchange contracts for which the forward rates were used to translate year-end receivables or payables denominated in foreign currencies are excluded from this schedule.

*3. Contract amounts of currency interest rate swap contracts represents the notional amount of agreements.

14. Revaluation Reserve

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

15. Segment Information

The operations of the Companies for the years ended March 31, 2001, 2000 and 1999 are summarized by product group and geographic area as follows:

| Segment information by product group | Millions of yen | | | | |
|---------------------------------------|----------------------------------|---------------------|-----------------|---------------------------|-------------------|
| | Basic Chemicals & Petrochemicals | Specialty Chemicals | Others | Adjustments & Elimination | Consolidated |
| Year ended March 31, 2001 | | | | | |
| Sales to unaffiliated customers | ¥574,627 | ¥433,484 | ¥ 32,839 | ¥ — | ¥1,040,950 |
| Intersegment transfers | 5,051 | 2,255 | 81,313 | (88,619) | — |
| Total sales | 579,678 | 435,739 | 114,152 | (88,619) | 1,040,950 |
| Operating cost | 566,385 | 368,279 | 110,295 | (88,682) | 956,277 |
| Operating income | ¥ 13,293 | ¥ 67,460 | ¥ 3,857 | ¥ 63 | ¥ 84,673 |
| Assets | ¥537,150 | ¥570,426 | ¥164,720 | ¥183,101 | ¥1,455,397 |
| Depreciation and amortization | 24,148 | 32,349 | 5,273 | 2,839 | 64,609 |
| Capital expenditure | 17,772 | 37,835 | 3,926 | 2,605 | 62,138 |

Due to the new accounting standard, foreign currency translation adjustments, included in assets of the adjustments and elimination column in prior years, are presented in the shareholders' equity at March 31, 2001. For the year ended March 31, 2000, foreign currency translation adjustments amounting to ¥30,805 million were included in assets of the adjustments and elimination column.

| | Millions of yen | | | | |
|---------------------------------------|-------------------------------------|------------------------|----------|------------------------------|--------------|
| | Basic Chemicals & Petrochemicals | Specialty Chemicals | Others | Adjustments & Elimination | Consolidated |
| Year ended March 31, 2000 | | | | | |
| Sales to unaffiliated customers | ¥513,720 | ¥413,110 | ¥ 23,509 | ¥ — | ¥ 950,339 |
| Intersegment transfers | 6,165 | 1,823 | 87,318 | (95,306) | — |
| Total sales | 519,885 | 414,933 | 110,827 | (95,306) | 950,339 |
| Operating cost | 508,099 | 359,637 | 107,825 | (95,371) | 880,190 |
| Operating income | ¥ 11,786 | ¥ 55,296 | ¥ 3,002 | ¥ 65 | ¥ 70,149 |
| Assets | ¥541,851 | ¥533,819 | ¥138,202 | ¥108,506 | ¥1,322,378 |
| Depreciation and amortization | 26,548 | 41,345 | 4,674 | 2,795 | 75,362 |
| Capital expenditure | 25,460 | 47,984 | 5,284 | 2,886 | 81,614 |

Due to the accounting change with respect to employees' retirement benefits, operating incomes of Basic Chemicals & Petrochemicals and Specialty Chemicals for the year ended March 31, 2000 increased ¥496 million and ¥173 million, respectively, compared with the previous method of accounting.

| | Millions of yen | | | | |
|---------------------------------------|-------------------------------------|------------------------|----------|------------------------------|--------------|
| | Basic Chemicals & Petrochemicals | Specialty Chemicals | Others | Adjustments & Elimination | Consolidated |
| Year ended March 31, 1999 | | | | | |
| Sales to unaffiliated customers | ¥471,109 | ¥428,513 | ¥ 28,033 | ¥ — | ¥ 927,655 |
| Intersegment transfers | 5,063 | 2,719 | 81,433 | (89,215) | — |
| Total sales | 476,172 | 431,232 | 109,466 | (89,215) | 927,655 |
| Operating cost | 464,680 | 384,853 | 108,147 | (89,286) | 868,394 |
| Operating income | ¥ 11,492 | ¥ 46,379 | ¥ 1,319 | ¥ 71 | ¥ 59,261 |
| Assets | ¥542,217 | ¥522,881 | ¥135,259 | ¥110,579 | ¥1,310,936 |
| Depreciation and amortization | 25,120 | 36,075 | 4,454 | 2,737 | 68,386 |
| Capital expenditure | 25,665 | 33,627 | 4,655 | 3,636 | 67,583 |

| | Thousands of U.S. dollars | | | | |
|---------------------------------------|-------------------------------------|------------------------|--------------------|------------------------------|---------------------|
| | Basic Chemicals & Petrochemicals | Specialty Chemicals | Others | Adjustments & Elimination | Consolidated |
| Year ended March 31, 2001 | | | | | |
| Sales to unaffiliated customers | \$4,637,829 | \$3,498,660 | \$ 265,044 | \$ — | \$ 8,401,533 |
| Intersegment transfers | 40,767 | 18,200 | 656,279 | (715,246) | — |
| Total sales | 4,678,596 | 3,516,860 | 921,323 | (715,246) | 8,401,533 |
| Operating cost | 4,571,308 | 2,972,389 | 890,194 | (715,755) | 7,718,136 |
| Operating income | \$ 107,288 | \$ 544,471 | \$ 31,129 | \$ 509 | \$ 683,397 |
| Assets | \$4,335,351 | \$4,603,923 | \$1,329,459 | \$1,477,813 | \$11,746,546 |
| Depreciation and amortization | 194,899 | 261,090 | 42,559 | 22,913 | 521,461 |
| Capital expenditure | 143,438 | 305,367 | 31,687 | 21,025 | 501,517 |

| Segment information by geographic area | Millions of yen | | | |
|--|--------------------|--------------------|---------------------------|--------------|
| | Domestic Companies | Overseas Companies | Adjustments & Elimination | Consolidated |
| Year ended March 31, 2001 | | | | |
| Sales to unaffiliated customers | ¥ 889,332 | ¥151,618 | ¥ — | ¥1,040,950 |
| Intersegment transfers | 31,874 | 15,729 | (47,603) | — |
| Total sales | 921,206 | 167,347 | (47,603) | 1,040,950 |
| Operating cost | 844,913 | 159,569 | (48,205) | 956,277 |
| Operating income | ¥ 76,293 | ¥ 7,778 | ¥ 602 | ¥ 84,673 |
| Assets | ¥1,097,387 | ¥163,300 | ¥194,710 | ¥1,455,397 |

Due to the new accounting standard, foreign currency translation adjustments, included in assets of the adjustments and elimination column in prior years, are presented in the shareholders' equity at March 31, 2001. For the year ended March 31, 2000, foreign currency translation adjustments amounting to ¥30,805 million were included in assets of the adjustments and elimination column.

| Year ended March 31, 2000 | Millions of yen | | | |
|---------------------------------------|--------------------|--------------------|---------------------------|--------------|
| | Domestic Companies | Overseas Companies | Adjustments & Elimination | Consolidated |
| Sales to unaffiliated customers | ¥ 841,890 | ¥108,449 | ¥ — | ¥ 950,339 |
| Intersegment transfers | 28,006 | 13,454 | (41,460) | — |
| Total sales | 869,896 | 121,903 | (41,460) | 950,339 |
| Operating cost | 804,129 | 117,079 | (41,018) | 880,190 |
| Operating income | ¥ 65,767 | ¥ 4,824 | ¥ (442) | ¥ 70,149 |
| Assets | ¥1,055,228 | ¥155,802 | ¥111,348 | ¥1,322,378 |

Due to the accounting change with respect to employees' retirement benefits, operating income in Domestic Companies for the year ended March 31, 2000 increased ¥669 million compared with the previous method of accounting.

| Year ended March 31, 1999 | Millions of yen | | | |
|---------------------------------------|--------------------|--------------------|---------------------------|--------------|
| | Domestic Companies | Overseas Companies | Adjustments & Elimination | Consolidated |
| Sales to unaffiliated customers | ¥ 808,955 | ¥118,700 | ¥ — | ¥ 927,655 |
| Intersegment transfers | 44,947 | 15,389 | (60,336) | — |
| Total sales | 853,902 | 134,089 | (60,336) | 927,655 |
| Operating cost | 798,757 | 128,532 | (58,895) | 868,394 |
| Operating income | ¥ 55,145 | ¥ 5,557 | ¥ (1,441) | ¥ 59,261 |
| Assets | ¥1,051,427 | ¥158,313 | ¥101,196 | ¥1,310,936 |

| Year ended March 31, 2001 | Thousands of U.S. dollars | | | |
|---------------------------------------|---------------------------|--------------------|---------------------------|--------------|
| | Domestic Companies | Overseas Companies | Adjustments & Elimination | Consolidated |
| Sales to unaffiliated customers | \$7,177,821 | \$1,223,712 | \$ — | \$ 8,401,533 |
| Intersegment transfers | 257,256 | 126,949 | (384,205) | — |
| Total sales | 7,435,077 | 1,350,661 | (384,205) | 8,401,533 |
| Operating cost | 6,819,314 | 1,287,885 | (389,063) | 7,718,136 |
| Operating income | \$ 615,763 | \$ 62,776 | \$ 4,858 | \$ 683,397 |
| Assets | \$8,857,039 | \$1,317,998 | \$1,571,509 | \$11,746,546 |

Corporate assets of ¥252,363 million (US\$2,036,828 thousand), ¥168,933 million and ¥149,065 million, included in the adjustments and elimination column for the years ended March 31, 2001, 2000 and 1999, respectively, consist mainly of cash and cash equivalents, short-term investments, marketable securities, 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 ¥276,500 million (US\$2,231,638 thousand), ¥227,450 million and ¥232,086 million and accounted for 26.6%, 23.9% and 25.0% of the total sales to unaffiliated customers for the years ended March 31, 2001, 2000 and 1999, respectively. Overseas operations in the Asian region were ¥160,447 million (US\$1,294,972 thousand), ¥138,691 million and ¥125,034 million for the years ended March 31, 2001, 2000 and 1999, respectively.

16. Subsequent Events

(a) At the ordinary shareholders' meeting of the Company held on June 28, 2001, the appropriation of retained earnings at March 31, 2001 was duly approved as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|---------------------------|
| Cash dividends at ¥3.0 (US\$0.024) per share..... | ¥4,966 | \$40,081 |
| Bonuses to directors and statutory auditors..... | 129 | 1,041 |

(b) The Company and Mitsui Chemicals, Inc. ("Mitsui") announced on November 17, 2000 consolidation of all businesses of the two companies by around October 2003 and the integration of the polyolefin businesses by October 2001, preceding the entire business consolidation. With respect to the polyolefin business, the Company obtained shareholders' approval at the ordinary shareholders' meeting of the Company held on June 28, 2001 on transfer of a part of the polyolefin businesses to a joint venture ("Sumitomo Mitsui Polyolefin Company, Limited") with Mitsui on October 1, 2001.

Outline of the business transfer is as follows.

1. Transfer a part of the Company's polyolefin business

Object of transfer: Sales and R&D activities

Operations of the polyolefin business for the year ended March 31, 2001:

Sales: ¥69.7 billion

Operating loss: ¥1.8 billion

Assets transferred and transfer price:

Assets transferred are those related to the polyolefin business, and the basis for the transfer price is market value as of October 1, 2001.

Book value of assets to be transferred as of March 31, 2001:

Current assets: ¥ 9.8 billion

Fixed assets: ¥ 0.5 billion

Total: ¥10.3 billion

2. Outline of the joint venture (tentative)

Company Name: Sumitomo Mitsui Polyolefin Company, Limited

Head Office: 27-1, Shinkawa 2-chome, Chuo-ku, Tokyo

Business Commencement Date: October 1, 2001

Initial Paid-in Capital: ¥7 billion (the Company—50%, Mitsui—50%)

Scope of Business: Sales and R&D activities of polyethylene and polypropylene

Chairman: Ryuichi Sonoda (Senior Managing Director of Sumitomo Chemical Company, Limited)

President: Yoshiyuki Sakaki (Senior Managing Director of Mitsui Chemicals, Inc.)

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Sumitomo Chemical Company, Limited and subsidiaries at March 31, 2001 and 2000, the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2001, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated results of their operations and cash flows for each of the three years in the period ended March 31, 2001 in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except for the new accounting policies and change in accounting policy, with which we concur, in the following paragraph.

As described in Note 3 (b), (d), (e) and (m), in the year ended March 31, 2001, Sumitomo Chemical Company, Limited and some of its subsidiaries adopted new accounting standards for foreign currency translation, financial instruments and retirement benefits. As explained in Note 3 (a), in the year ended March 31, 2000 Sumitomo Chemical Company, Limited and some of its consolidated subsidiaries changed their method of accounting for retirement benefits, effective April 1, 1999, as described in Notes 2 and 15.

We have also reviewed the translation of the consolidated financial statements into U.S. dollars on the basis described in Note 1. In our opinion, such statements have been properly translated on such basis.



Asahi & Co
(A Member Firm of Arthur Andersen)
Osaka, Japan
June 28, 2001

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles, auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying consolidated financial statements and auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

SUBSIDIARIES AND AFFILIATES

| Company Name | Major Business Fields | The Company's Share (%) | Tel. | Fax |
|--|---|-------------------------|---------------|---------------|
| JAPAN | | | | |
| ● AstraZeneca K.K. | Pharmaceuticals | 20.0 | (6) 6453-7500 | (6) 6453-7894 |
| ● Dow Kakoh K.K. | Formed polystyrene | 35.0 | (3) 5460-2351 | (3) 5460-6288 |
| ● GlaxoSmithKline K.K. | Pharmaceuticals | 20.0 | (3) 5786-5000 | (3) 5786-5200 |
| ● Inabata & Co., Ltd.* | Trading in industrial chemicals, fine chemicals, and plastics | 24.6 | (6) 6267-6051 | (6) 6267-6042 |
| ● Japan-Singapore Petrochemicals Co., Ltd. | Equity holder in Petrochemical Corporation of Singapore (Pte) Ltd. | 53.9 | (3) 5543-5867 | (3) 5543-5947 |
| ● Keiyo Ethylene Co., Ltd. | Ethylene and propylene | 22.5 | (3) 3552-9373 | (3) 3552-9443 |
| ● Koei Chemical Co., Ltd.* | Formaldehydes and pyridines | 56.1 | (6) 6204-1515 | (6) 6204-1530 |
| ● New STI Technology, Inc. | Color filters for LCDs | 40.0 | (3) 5543-5861 | (3) 5543-5937 |
| ● Nihon Medi-Physics Co., Ltd. | Radiopharmaceuticals | 50.0 | (3) 3234-2910 | (3) 3264-6749 |
| ● Nihon Oxirane Co., Ltd. | Propylene oxide and styrene monomer | 44.8 | (3) 3272-0401 | (3) 3271-6050 |
| ● Nihon Singapore Polyolefin Co., Ltd. | Equity holder in The Polyolefin Company (Singapore) Pte. Ltd. | 95.7 | (3) 5543-5309 | (3) 5543-5911 |
| ● Nippon A&L Inc. | ABS resin and SBR latex | 67.0 | (6) 6220-3633 | (6) 6220-3699 |
| ● Shinto Paint Co., Ltd.* | Paints | 45.2 | (6) 6426-3355 | (6) 6429-6188 |
| ● Sumika Chemtex Co., Ltd. | Dyestuffs and functional chemicals | 100 | (6) 6466-5146 | (6) 6466-5457 |
| ● Sumika Fine Chemicals Co., Ltd. | Pharmaceutical intermediates, organic rubber chemicals, agricultural chemicals, photographic chemicals, and information storage media | 100 | (6) 6473-0331 | (6) 6474-7329 |
| ● Sumika Plastech Co., Ltd. | Plastic sheets and films | 100 | (3) 5543-5438 | (3) 5543-5935 |
| ● Sumitomo Bakelite Co., Ltd.* | Resins and resin products | 20.8 | (3) 5462-4111 | (3) 5462-4874 |
| ● Sumika Bayer Urethane Co., Ltd. | Polyurethane raw materials | 40.0 | (6) 6497-2151 | (6) 6499-9461 |
| ● Sumitomo Chemical Engineering Co., Ltd. | Engineering, procurement, and maintenance and construction for chemical plants | 94.0 | (43) 299-0200 | (43) 299-0210 |
| ● Sumitomo Dow Ltd. | Polycarbonates | 50.0 | (3) 3231-0405 | (3) 3231-0406 |
| ● Sumitomo Joint Electric Power Co., Ltd. | Supply of electricity | 52.5 | (897) 37-2142 | (897) 32-9862 |
| ● Sumitomo Pharmaceuticals Co., Ltd. | Pharmaceuticals | 77.8 | (6) 6229-5711 | (6) 6233-2288 |
| ● Sumitomo Seika Chemicals Co., Ltd.* | Industrial chemicals and organic sulfur compounds | 30.2 | (6) 6220-8508 | (6) 6220-8541 |
| ● Taoka Chemical Co., Ltd.* | Dyestuffs and industrial chemicals and adhesives | 50.7 | (6) 6394-1221 | (6) 6394-1658 |

Notes: 1. Colors indicate the following: ● The Basic Chemicals & Petrochemicals Group
 ● The Specialty Chemicals Group
 ● The Others Group

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

| Company Name | Major Business Fields | The Company's Share (%) | Tel. | Fax |
|--|--|-------------------------|----------------|----------------|
| SINGAPORE | | | | |
| ● Petrochemical Corporation of Singapore (Pte) Ltd. | Ethylene and propylene | <u>50.0</u> | 291-0911 | 291-7661 |
| ● Chevron Phillips Singapore Chemicals (Pte) Ltd | High-density polyethylene | 20.0 | 337-9700 | 337-9619 |
| ● Sumitomo Chemical Asia Pte Ltd | Household insecticides, dyestuffs, and other products | 100 | 291-9636 | 296-3779 |
| ● Sumitomo Chemical Singapore Pte Ltd | Crude acrylic acid, acrylic ester, glacial acrylic acid, super-absorbent polymer, MMA monomer, and MMA polymer | 100 | 296-8183 | 296-8938 |
| ● Singapore Acrylic Ester Pte Ltd | Acrylic ester | <u>25.0</u> | " | " |
| ● Singapore Acrylic Pte Ltd | Crude acrylic acid | <u>60.0</u> | " | " |
| ● Singapore MMA Monomer Pte Ltd | Methyl methacrylate monomer | <u>60.0</u> | " | " |
| ● Sumika Glacial Acrylic Pte Ltd | Glacial acrylic acid | <u>100</u> | " | " |
| ● Sumika MMA Polymer Pte Ltd | Methyl methacrylate polymer | <u>100</u> | " | " |
| ● Sumitomo Seika Singapore Pte. Ltd. | Super water-absorbent polymer | <u>20.0</u> | " | " |
| ● The Polyolefin Company (Singapore) Pte. Ltd. | Polyethylene and polypropylene | <u>70.0</u> | 292-9622 | 293-8890 |
| ASIA AND OCEANIA | | | | |
| CHINA | | | | |
| ● Shanghai Lifetech Household Products Co., Ltd. | Products relating to household insecticides | 80.0 | (21) 6463-4770 | (21) 6463-4778 |
| ● Sumitomo Chemical Shanghai Co., Ltd. | Plant protection chemicals and household insecticides | 100 | (21) 5885-7700 | (21) 5852-8191 |
| INDIA | | | | |
| ● SC Enviro Agro India Private Limited | Household insecticides | 100 | (25) 25-72172 | (25) 25-73332 |
| ● Sumitomo Chemical India Private Limited | Chemical products | 100 | (22) 204-0730 | (22) 204-0722 |
| KOREA | | | | |
| ● Dongwoo Fine-Chem Co., Ltd. | Fine chemicals | 90.0 | (2) 3452-7744 | (2) 3452-3615 |
| ● LG MMA Corp. | Methyl methacrylate | 25.0 | (2) 3770-1220 | (2) 3770-1209 |
| MALAYSIA | | | | |
| ● Sumitomo Chemical Enviro-Agro Asia Pacific Sdn. Bhd. | Household insecticides | 100 | (6) 679-3711 | (6) 679-3698 |
| TAIWAN | | | | |
| ● Sumitomo Chemical Taiwan Co., Ltd. | Plant protection chemicals | 100 | (2) 2545-6345 | (2) 2545-6333 |
| THAILAND | | | | |
| ● Bara Chemical Co., Ltd. | Resins, optical brightening agents, and adhesives | 42.5 | (2) 709-4598 | (2) 323-9997 |
| AUSTRALIA | | | | |
| ● Sumitomo Chemical Australia Pty. Ltd. | Plant protection chemicals and household insecticides | 100 | (2) 9904-6499 | (2) 9904-7499 |
| NEW ZEALAND | | | | |
| ● New Zealand Aluminium Smelters Ltd. | Aluminum ingots | 20.6 | (3) 218-5999 | (3) 218-9747 |
| Notes: 1. Colors indicate the following: ● The Basic Chemicals & Petrochemicals Group ● The Specialty Chemicals Group ● The Others Group | | | | |
| 2. For those companies in bold type, office addresses, phone numbers, and other information can be found on page 44. | | | | |
| 3. For those companies with underlined company shares, the underline indicates the ratio of shares owned by the following companies: Petrochemical Corporation of Singapore (Pte) Ltd. shares that are owned by Japan-Singapore Petrochemicals Co., Ltd.; The Polyolefin Company (Singapore) Pte. Ltd. shares that are owned by Nihon Singapore Polyolefin Co., Ltd.; and the shares of Singapore Acrylic Ester Pte Ltd, Singapore Acrylic Pte Ltd, Singapore MMA Monomer Pte Ltd, Sumika MMA Polymer Pte Ltd, Sumika Glacial Acrylic Pte Ltd, and Sumitomo Seika Singapore Pte. Ltd. that are owned by Sumitomo Chemical Singapore Pte Ltd. | | | | |

| Company Name | Major Business Fields | The Company's Share (%) | Tel. | Fax |
|---|---|-------------------------|----------------|-----------------|
| AMERICAS | | | | |
| UNITED STATES | | | | |
| ● Phillips Sumika Polypropylene Co. | Polypropylene | <u>48.3</u> | (281) 244-3078 | (281) 244-3068 |
| ● Sumika Polymers America Corp. | Plastics | <u>100</u> | (212) 572-8200 | (212) 572-8234 |
| ● Sumitomo Chemical America, Inc. | Chemical products | <u>100</u> | (212) 572-8200 | (212) 572-8234 |
| ● Sumitomo Chemical Capital America, Inc. | Financing | 100 | — | — |
| ● Valent Biosciences Corp. | Plant protection chemicals | <u>100</u> | (847) 968-4700 | (847) 968-4802 |
| ● Valent U.S.A. Corp. | Plant protection chemicals | 100 | (925) 256-2700 | (925) 256-2776 |
| MEXICO | | | | |
| ● Valent de Mexico, S.A. de C.V. | Plant protection chemicals | <u>100</u> | (3) 110-01-62 | (3) 110-17-54 |
| BRAZIL | | | | |
| ● Sumitomo Chemical do Brasil Representações Limitada | Plant protection chemicals and household insecticides | 100 | (11) 3174-0355 | (11) 3174-0377 |
| EUROPE AND AFRICA | | | | |
| BELGIUM | | | | |
| ● Sumitomo Chemical Belgium S.A./N.V. | Chemical products | <u>100</u> | (2) 251-0650 | (2) 251-2991 |
| FRANCE | | | | |
| ● Philagro France S.A. | Plant protection chemicals | <u>100</u> | (478) 64-3227 | (478) 47-7128 |
| ● Philagro Holding S.A. | Holding company for Philagro France S.A. | 60.0 | (478) 64-3227 | (478) 47-7128 |
| ● Sumitomo Chemical Agro Europe S.A. | Plant protection chemicals | 100 | (478) 64-32-60 | (478) 47-25-45 |
| GERMANY | | | | |
| ● Sumitomo Chemical Deutschland GmbH | Chemical products | 100 | (211) 518791-0 | (211) 518791-40 |
| THE NETHERLANDS | | | | |
| ● Sumitomo Chemical Nederland B.V. | Financing | 100 | — | — |
| SPAIN | | | | |
| ● KenoGard S.A. | Plant protection chemicals | 65.0 | (93) 4481270 | (93) 4881889 |
| UNITED KINGDOM | | | | |
| ● Sumitomo Chemical (U.K.) plc | Household insecticides and financing | 100 | (20) 8600-7700 | (20) 8600-7717 |
| SOUTH AFRICA | | | | |
| ● Philagro South Africa (Pty) Ltd. | Plant protection chemicals and household insecticides | 80.0 | (12) 362-3430 | (12) 362-2860 |
| ● Sumika-Merisol RSA (Pty) Ltd. | Ortho-cresol novolac resins | 80.0 | (16) 960-3130 | (16) 960-3732 |

Notes: 1. Colors indicate the following: ● The Basic Chemicals & Petrochemicals Group

● The Specialty Chemicals Group

● The Others Group

2. For those companies in bold type, office addresses, phone numbers, and other information can be found on page 44.

3. For those companies with underlined company shares, the underline indicates the ratio of shares owned by the following companies: Sumika Polymers America Corp. shares that are owned by Sumitomo Chemical America, Inc.; Phillips Sumika Polypropylene Co. shares that are owned by Sumika Polymers America Corp.; Valent Biosciences Corp. shares and Valent de Mexico, S.A. de C.V. shares that are owned by Valent U.S.A. Corp.; Sumitomo Chemical Belgium S.A./N.V. shares that are owned by Sumitomo Chemical Deutschland GmbH; and Philagro France S.A. shares that are owned by Philagro Holding S.A.

CORPORATE DATA

Principal Overseas Operational Headquarters and Offices

Sumitomo Chemical Asia Pte Ltd

150 Beach Road,
#19-05/07 Gateway West,
Singapore 189720
Tel: 291-9636
Fax: 296-3779

Sumitomo Chemical Singapore Pte Ltd

150 Beach Road,
#19-08 Gateway West,
Singapore 189720
Tel: 296-8183
Fax: 296-8938

Sumitomo Chemical Beijing Office

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

Sumitomo Chemical Shanghai Co., Ltd.

204, CITIC Plaza Pent-Ox Metropolis,
1085 Pudong Ave.,
Shanghai 200135,
People's Republic of China
Tel: (21) 5885-7700
Fax: (21) 5852-8191

Sumitomo Chemical Taiwan Co., Ltd.

6F-3, No. 369, Fu-Shing North Road,
Taipei, Taiwan, R.O.C.
Tel: (2) 2545-6345
Fax: (2) 2545-6333

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

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

Sumitomo Chemical India Private Limited

93/9th Floor, Maker Chambers VI,
220, Nariman Point,
Mumbai 400 021, India
Tel: (22) 204-0730
Fax: (22) 204-0722

Sumitomo Chemical Australia Pty. Ltd.

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

Sumitomo Chemical Wellington Office

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

Sumitomo Chemical America, Inc.**New York Head Office**

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

Santa Clara Office

2350 Mission College Boulevard,
Suite 360, Santa Clara,
CA 95054, U.S.A.
Tel: (408) 987-8989
Fax: (408) 987-8990

Houston Office

10077 George's Mill Road,
Suite 125, The Woodlands,
TX 77380, U.S.A.
Tel: (281) 298-7779
Fax: (281) 362-4103

Sumitomo Chemical Capital America, Inc.

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

**Sumitomo Chemical do Brasil
Representações Limitada**

Av. Paulista 854, 11° andar conj. 112,
Edifício Top Center São Paulo SP,
CEP 01311-913, Brazil
Tel: (11) 3174-0355
Fax: (11) 3174-0377

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

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

Sumitomo Chemical Agro Europe S.A.

2, rue Claude Chappe,
69370 Saint Didier au Mont d'Or,
France
Tel: (478) 64-32-60
Fax: (478) 47-25-45

Sumitomo Chemical Deutschland GmbH

Georg-Glock-Str.14,
D-40474 Düsseldorf, Germany
Tel: (211) 518791-0
Fax: (211) 518791-40

Sumitomo Chemical Nederland B.V.

Officia 1, De Boelelaan 7,
1083 HJ Amsterdam, The Netherlands

Sumitomo Chemical (U.K.) plc

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

INVESTOR INFORMATION

(As of March 31, 2001)

Common Stock:

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

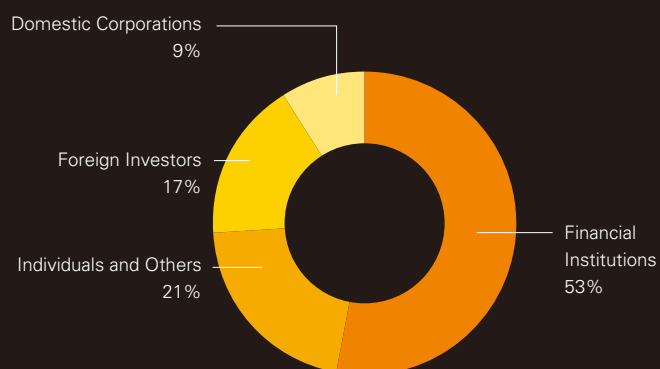
Transfer Agent and Registrar:

Sumitomo Trust & Banking Co., Ltd.,
 Stock Transfer Agency Division,
 Sumitomo Building, 5-33, Kitahama 4-chome,
 Chuo-ku, Osaka 541-0041, Japan

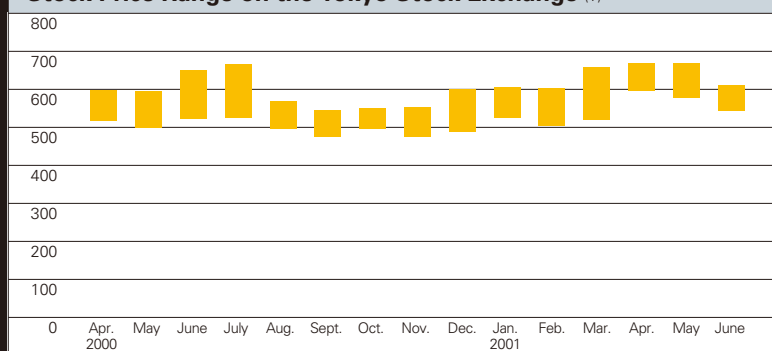
Number of Shareholders: 129,835

Independent Certified Public Accountants: Asahi & Co.

Distribution of Shareholders



Stock Price Range on the Tokyo Stock Exchange (¥)



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

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