

SUMITOMO CHEMICAL

***Becoming a Truly Global Chemical Company***

***Annual Report 2006***  
*For the Year Ended March 31, 2006*

Basic Chemicals

Petrochemicals & Plastics

Fine Chemicals

IT-related Chemicals

Agricultural Chemicals

Pharmaceuticals

# Profile

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

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

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

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## Forward-looking Statements

Statements made in this annual report with respect to plans, strategies and future performance that are not historical facts are forward-looking statements involving risks and uncertainties. Sumitomo Chemical cautions that a number of factors could cause actual results to differ materially from such statements including, but not limited to, general economic conditions in Sumitomo Chemical's markets; demand for, and competitive pricing pressure on, Sumitomo Chemical's products in the marketplace; Sumitomo Chemical's ability to continue to win acceptance for its products in these highly competitive markets; and movements of currency exchange rates.

# Consolidated Financial Highlights

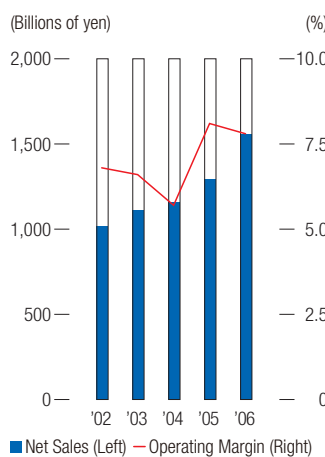
Sumitomo Chemical Company, Limited and Subsidiaries

\*Unless otherwise specified

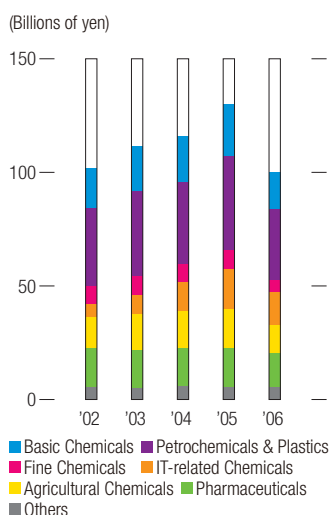
Years ended March 31	Percent change (%)	Billions of yen			Thousands of U.S. dollars
	2006/2005	2006	2005	2004	2006
<b>For the year:</b>					
<b>P/L</b>					
Net sales .....	20.1	¥ 1,556.6	¥ 1,296.3	¥ 1,158.4	\$ 13,251,094
Operating income .....	14.8	120.8	105.2	66.6	1,028,263
Net interest expense .....	—	(2.2)	(3.0)	(2.9)	(18,890)
Equity in earnings of affiliates .....	0.4	26.8	26.7	8.6	228,271
Net income .....	40.7	90.7	64.5	34.3	771,814
Capital expenditures .....	(0.7)	124.9	125.8	110.2	1,063,463
Depreciation and amortization .....	19.0	104.9	88.2	82.5	893,045
Research and development expenses .....	17.5	91.9	78.2	75.2	782,038
<b>Cash flows</b>					
Net cash provided by operating activities .....	(23.2)	122.8	159.8	97.1	1,045,229
Net cash used in investing activities .....	—	(180.7)	(118.0)	(103.2)	(1,538,086)
Net cash provided by (used in) financing activities .....	—	70.6	(31.2)	(9.3)	600,843
Free cash flow .....	—	(57.9)	41.9	(6.2)	(492,857)
<b>For the year:</b>					
<b>B/S and others</b>					
Total assets .....	32.1	¥ 2,178.4	¥ 1,648.8	¥ 1,549.3	\$ 18,544,113
Total shareholders' equity .....	26.3	719.8	569.6	506.1	6,127,181
Interest-bearing liabilities .....	22.9	578.6	470.7	485.3	4,925,350
Number of employees .....	19.6	24,160	20,195	19,036	—
<b>Per share (yen, U.S. dollars):</b>					
Net income .....	40.7	54.80	38.94	20.72	0.466
Total shareholders' equity .....	26.4	435.51	344.58	306.05	3.707
Cash dividends .....	25.0	10.0	8.0	6.0	0.085
<b>Ratios</b>					
ROA (%) .....		4.7	4.0	2.3	—
ROE (%) .....		14.1	12.0	7.2	—
Debt equity ratio (Times) .....		0.80	0.83	0.96	—
Shareholders' equity ratio (%) .....		33.0	34.5	32.7	—

Note: U.S. dollar amounts are translated from yen, for convenience only, at ¥117.47= \$1, the rate prevailing on March 31, 2006.

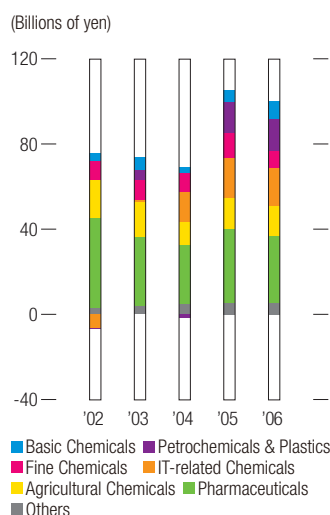
## Net Sales and Operating Margin



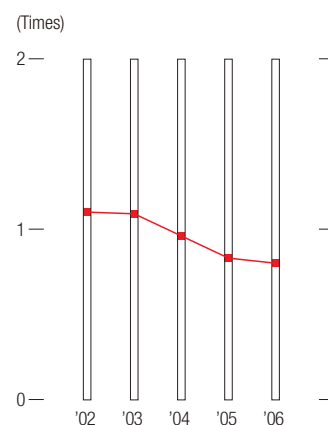
## Net Sales by Segment



## Operating Income by Segment

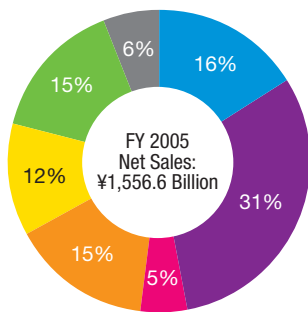


## Debt Equity Ratio

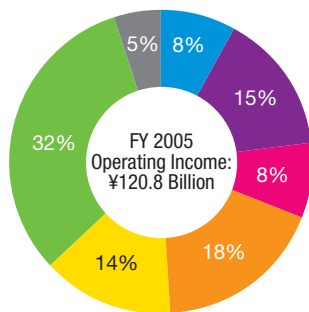


# Sumitomo Chemical At a Glance

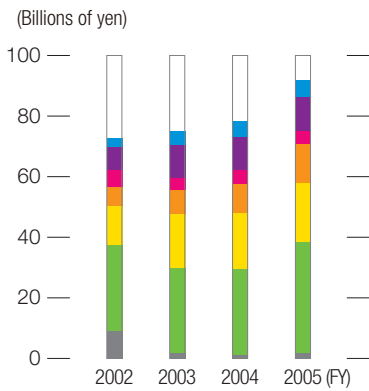
Net Sales by Segment



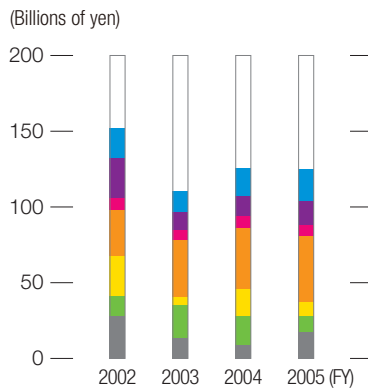
Operating Income by Segment



Research and Development



Capital Expenditures



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

Basic Chemicals



Petrochemicals & Plastics



Fine Chemicals



IT-related Chemicals



Agricultural Chemicals



Pharmaceuticals



## Major Products

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

## Major Subsidiaries and Affiliates

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

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

Petrochemical Corporation of Singapore (Pte) Ltd.  
The Polyolefin Company (Singapore) Pte. Ltd.  
Phillips Sumika Polypropylene Company  
Nihon Oxirane Co., Ltd.  
Japan Polystyrene Inc.  
Nippon A&L Inc.  
Sumitomo Dow Ltd.  
Sumika Plastech Co., Ltd.

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

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

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

O.L.S. Corp.  
Sumika EPI Solution Co., Ltd.  
Dongwoo Fine-Chem Co., Ltd.  
Sumika Electronic Materials (Shanghai) Co., Ltd.  
Sumika Electronic Materials (Wuxi) Co., Ltd.  
Sumika Electronic Materials (HongKong) Co., Ltd.  
Sumika Technology Co., Ltd.  
Sumika Electronic Materials, Inc.  
Sumika Electronic Materials Poland Sp. Zo. o.  
Ooe Optical Techno Co.,Ltd.

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

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

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

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Pharmaceuticals, Radiopharmaceuticals, radioactive medical device

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

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Hiromasa Yonekura President

The Japanese chemical industry in fiscal 2005 faced a business climate that saw the continuation of significant rises in the prices for naphtha and other feedstocks as the price of crude oil continued its sharp climb. However, against the backdrop of Japan's economic recovery, supported by solid demand in the private sector and increasing capital expenditure, and growth in Asian markets, particularly in China, shipments of basic chemicals and petrochemicals generally remained strong, and market conditions continued to be favorable. Furthermore, demand for IT-related products showed steady growth as the market for LCD televisions entered a period of full-scale expansion.

## To our Shareholders, Customers and Partners

Under these conditions, the Sumitomo Chemical Group stepped up marketing drives and endeavored to realize price increases for its products, while at the same time working to rationalize operations in our efforts to achieve further business growth. Among other factors, price increases in both the Basic Chemicals and Petrochemicals & Plastics Sectors, expanded sales of LCD-related materials in the IT-related Chemicals Sector, and, in the Pharmaceuticals Sector, the establishment of Dainippon Sumitomo Pharma as well as increased sales of its main products resulted in an increase in consolidated sales of 20.1% over last year to ¥1 trillion 556.6 billion, and an increase in operating income of 14.8% to ¥120.8 billion. Net income also increased by 40.7% over the previous year to ¥90.7 billion, including an extraordinary gain of ¥14.3 billion from the establishment of Dainippon Sumitomo Pharma. I am pleased to report that all these figures represent new record highs for the Company.

Thanks to this favorable performance, the Company was able to pay a full-year dividend of ¥10 per share, a ¥2 per-share increase over the previous year. Sumitomo Chemical places an emphasis on increasing the share of profits distributed to our shareholders as one of the important objectives in the operation of our business. While we seek to



# “Selection & Concentration,” aims to capitalize on the Company’s excellent technological capabilities in fields where we can expect a high level of business growth, namely the life sciences and the IT-related business. We are making focused strategic investments in these areas in our efforts to strengthen and expand our businesses to achieve increased profitability.

achieve stable increases in our dividend by improving our future business performance, we also take into account the total level of retained earnings necessary to continue to develop our businesses in each successive period.

Fiscal 2006 is the final year of our current Three-Year Corporate Business Plan. In terms of business performance, we had already achieved our targets of a consolidated sales of ¥1 trillion 330 billion, an operating income of ¥120 billion, and a net income of ¥65 billion in fiscal 2005, one year ahead of time. In fiscal 2006, we are working to surpass our fiscal 2005 performance in both sales and operating income, and making efforts to achieve a net income that will exceed our fiscal 2005 performance in real terms, that is, excluding extraordinary gains.

The basic principles of the current Three-Year Corporate Business Plan started in fiscal 2004 are “Selection & Concentration to Focus on Core Competencies,” “The Shift Toward Higher Value-Added Products,” and “Extending our Global Reach.” These principles aim to build a foundation for higher profitability and stable growth to meet our shareholders’ expectations.

The first principle, “Selection & Concentration,” aims to capitalize on the Company’s excellent technological capabilities in fields where we can expect a high level of busi-

ness growth, namely the life sciences and the IT-related business. We are making focused strategic investments in these areas in our efforts to strengthen and expand our businesses to achieve increased profitability in the near term. In October 2005, our pharmaceutical subsidiary, Sumitomo Pharmaceuticals, merged with Dainippon Pharmaceutical to form the newest member of the Group, Dainippon Sumitomo Pharma. In the Agricultural Chemicals Sector, increasing shipments by doubling our capacity for the feed additive methionine contributed to steady growth for the Sector. In the IT-related Chemicals Sector, we undertook large-scale capacity expansions for the production of polarizing film and color filters and other LCD-related materials to meet the rapidly growing demand.

Furthermore, in our Petrochemicals & Plastics Sector, our plan to build one of the world’s largest integrated refining and petrochemical complexes in Saudi Arabia, the Rabigh Project, represents a quantum leap for the Sector in terms of achieving high profitability and extending our global reach. In August 2005, we concluded the joint venture agreement with our partner, Saudi Aramco, and held the groundbreaking ceremony in March 2006 to mark the start of construction. Construction is proceeding on

# Sumitomo Chemical will continue to work toward its goal of becoming a truly global chemical company. In order to put the Company firmly on track to higher profitability in the near term, we are implementing the various measures incorporated into our Three-Year Corporate Business Plan.

schedule, with the complex due to commence operations late in 2008.

The second principle, “The Shift Toward Higher Value-Added Products,” aims to increase the ratio of high value-added products in the Company’s product portfolio, particularly in the life sciences and the IT-related field, as mentioned above. In the Petrochemicals & Plastics Sector, we are developing the markets for high-grade polypropylene for the automotive industry and our new class of polyethylene that combines excellent processibility and high strength. Thus, the Company is steadily increasing the ratio of high value-added materials that make up its product line.

The third principle, “Extending our Global Reach,” aims to enhance our overseas bases of operation. We are making steady progress in this area, with 39% of total sales generated from overseas markets in fiscal 2005, which represents the achievement one year ahead of schedule of a level very close to the target under our Three-Year Corporate Business Plan. The rapid growth of our LCD-related materials business in Korea and Taiwan as well as expansion of our basic chemicals and petrochemicals operations in Singapore and our other businesses in the high-growth markets of Asia have contributed to the early

achievement of this target.

Sumitomo Chemical will continue to work toward its goal of becoming a truly global chemical company. In order to put the Company firmly on track to higher profitability in the near term, we are implementing the various measures incorporated into our Three-Year Corporate Business Plan. In addition, we are actively working to develop our full compliance and CSR activities to gain the further trust of society as a global corporate citizen.

I would like to take this opportunity to express my sincere appreciation to our shareholders, customers and business partners for your continued understanding and support.

August 2006

A stylized Japanese signature in black ink, reading '米倉弘昌' (Hiromasa Yonekura).

Hiromasa Yonekura, President



# Review of Operations

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# BASIC CHEMICALS



The Basic Chemicals Sector is composed of (1) the Industrial Chemicals Division, (2) the Inorganic Materials Division, (3) the Methacrylate Division, and (4) the Aluminum Division.

The Industrial Chemicals Division provides various industries with a broad range of inorganic materials and industrial chemicals, including ammonia, nitric acid, caustic soda, chlorine and hydrochloric acid used in a wide variety of materials from household to industrial products, and also caprolactam and acrylonitrile, raw materials for synthetic fibers, and many other basic chemicals.

The Inorganic Materials Division focuses primarily on alumina products, providing fine alumina used as a raw material in the manufacture of glass for liquid crystal displays, and boasting the world's largest market share in high-purity alumina used in sapphire crystal for LED substrate. The Division continues to explore applications for these fine materials and also for visible light-responsive photocatalysts that can be used indoors as well as outdoors, and have deodorizing, anti-bacterial and self-cleaning properties.

The Methacrylate Division provides MMA monomer and its derivative, MMA polymer, which exhibits excellent transparency and weather resistance, and is used for applications such as automotive parts and home appliances. In recent years, MMA is also being used for optical applications as well as films that control the transmission of light.

The Aluminum Division actively participates in overseas aluminum smelting projects in Indonesia, Australia, New Zealand, Venezuela, and Brazil, and imports aluminum ingots from these overseas bases to supply the Japanese market.

## FY2005 Business Performance

Rising market prices sustained continued increases in both sales and profits

In the Basic Chemicals Sector, sales increased by 11.8% over the previous year to ¥252.4 billion, while operating income rose substantially by 91.7% to ¥10.0 billion. The increased sales were attributable to a rise in market prices for aluminum in the second half of the fiscal year and an increase in market prices over the previous year for caprolactam and acrylonitrile, the raw materials for synthetic fibers.

## Business Summary

### *Business Climate and Basic Strategy*

Active business expansion efforts focused on our high-growth MMA business

The Basic Chemicals Sector provides various manufacturing industries with a

wide variety of products including industrial chemicals and inorganic materials, alumina products, methyl methacrylate (MMA) polymer, and aluminum.

The Sector's core businesses are (1) caprolactam, the raw material for nylon fiber; (2) MMA monomer, the raw material for another of the Sector's key products, MMA polymer, which is used for automobile parts and lighting components as well as LCD-related materials, which are showing strong demand growth in recent years; and (3) high-performance inorganic materials, with a particular focus on alumina products. Among the products in the Sector's portfolio, we are actively expanding our business in MMA monomer and polymer, for which we expect a high rate of market growth in Asia.

### **Key Initiatives for FY2005 and Developments from FY2006 Onward**

#### **Expanding our MMA business in Asia** *Consolidating our position as a global player*

The Company is capitalizing on the advantages of its proprietary production technologies and is accelerating its marketing drive into regions that are showing continued high market growth to expand its MMA business and enhance its market presence.

Demand for MMA monomer in Asia is increasing for applications in special resins like polymethacrylate butadiene styrene (MBS) and transparent acrylonitrile butadiene styrene (Transparent ABS). MMA polymer is also showing rapid demand growth as a material for optical components in LCD panels and in other IT-related applications that utilize its outstanding transparency. Combined demand for MMA monomer

and polymer continues to grow at the brisk rate of over 7% per year.

The Company possesses competitive strengths in the manufacture of MMA, including (1) cost competitiveness deriving from the integrated production of both MMA monomer and polymer, (2) large production capacity in Singapore that is able to satisfy the rapidly growing demand, (3) established marketing channels in Singapore, through which we have ready access to major customers in the high-growth Asian market, and (4) the excellence of our proprietary production technologies, such as our direct oxidation process for MMA monomer, which enables efficient, cost-competitive production, and our continuous bulk polymerization process for optical grade MMA polymer, which meets the rigorous quality standards required for optical applications.

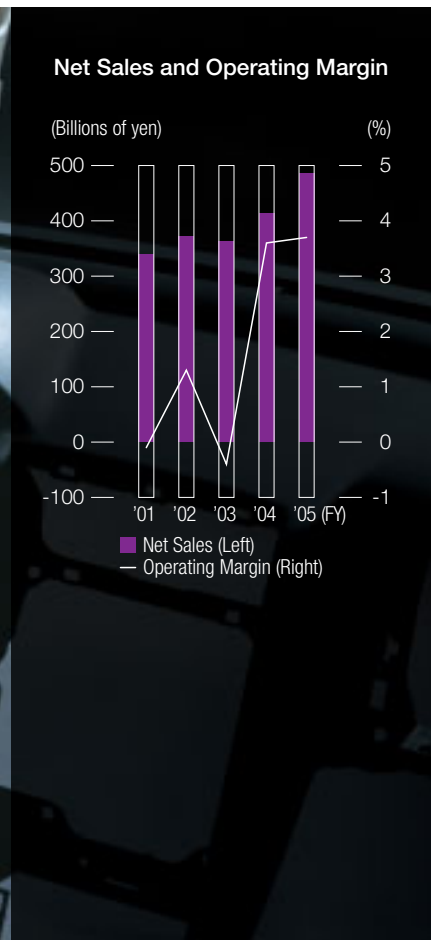
To summarize briefly our MMA operations in Singapore, Korea and Japan, we completed the second-phase expansion of our MMA monomer plant in Singapore from a previous 53 thousand tons to 133 thousand tons annually, and the plant started operations in August 2005. In April 2006, we began construction of MMA monomer and polymer plants for the third-phase expansion to increase our annual capacity by 90 thousand tons of MMA monomer and 50 thousand tons of MMA polymer. The plants will begin commercial operations in the first quarter of 2008. This will bring the Company's total annual production capacity in Singapore to 223 thousand tons of MMA monomer and 100 thousand tons of MMA polymer. In addition, our Korean affiliate, LG MMA Corporation, commenced operations at its 40 thousand ton-per-year MMA poly-

mer plant using our continuous bulk polymerization process. LG MMA has also decided to construct a third MMA monomer plant utilizing our proprietary technology with an annual capacity of 76 thousand tons, with the start of commercial operations planned for April 2008. These expansions will bring the Sumitomo Chemical Group's total Asian production capacity, including its existing operations in Japan, to 489 thousand tons of MMA monomer and 244 thousand tons of MMA polymer annually, strengthening the Company's position as the largest manufacturer in Asia.

#### **Caprolactam**

Caprolactam, the raw material for nylon-6, is used for textiles, films, and engineering plastics. The product is forecast to see market growth of 5-7% annually in Asia, and large-scale plant expansions planned by nylon manufacturers in China and Taiwan are also expected to spur intense demand growth. In light of this high growth potential, the Company has expanded its production capacity for caprolactam at its Ehime Works in Japan to 180 thousand tons annually. Our proprietary processes developed in-house enable us to manufacture caprolactam without generating ammonium sulfate, co-produced in large quantities by the conventional process and requiring additional facilities for its recovery. Eliminating the need for these facilities makes the Company's manufacture of caprolactam highly cost competitive. Because of the sustained high growth of the caprolactam market, the Company is actively studying the possible construction of additional production facilities elsewhere in Asia.

# PETROCHEMICALS & PLASTICS



The Petrochemicals & Plastics Sector is composed of (1) the Petrochemicals Division, (2) the Polyethylene Division, (3) the Polypropylene Division, and (4) the Advanced Polymers Division. Group companies include The Polyolefin Company (Singapore) Pte. Ltd., which manufactures polyethylene (PE) and polypropylene (PP), and Nihon Oxirane Co., Ltd., which manufactures styrene monomer and propylene oxide (PO).

The Petrochemicals Division markets olefins, including ethylene and propylene, as well as other petrochemical products. These organic chemicals are used as the basic chemical constituents in a broad range of applications, including construction and automotive materials, home electronics, and paints. The other three Divisions market a wide variety of synthetic resins and synthetic rubber for a number of industries, including the automotive, home electronics, and food industries.

Production bases include petrochemical complexes in Chiba, Japan, and Singapore, while the oil refining and petrochemical complex in Saudi Arabia is scheduled for completion in 2008. The Company also operates a polypropylene plant in Texas jointly with Chevron Phillips Chemical Company, which provides the automotive and home electronics industries with high-performance materials.

## FY2005 Business Performance

Solid demand and rising market prices drive increased sales and profits

In the Petrochemicals & Plastics Sector, sales in fiscal 2005 rose 17.8% over the previous year to ¥486.1 billion, and operating income increased 19.5% to ¥17.9 billion. The main factors were a significant increase in sales of polyolefins, supported by solid demand in Asia, and brisk sales of styrene monomer, propylene oxide and other petrochemical products, buoyed mainly by a rise in market prices on the back of steep increases in the prices of naphtha and other primary feedstocks.

## Business Summary

### Business Climate and Basic Strategy

#### • Business Climate

Global demand for petrochemical products continues to increase, with strong growth in Asian markets, particularly in China. Looking ahead to the next several years, demand for ethylene derivatives is expected to grow at an average annual rate of 4.3% worldwide until 2010, with China seeing a particularly strong growth of 7.0% per year.

Meanwhile, the current business climate presents many challenges. The price of naphtha, the main feedstock, continues to rise because of soaring crude oil prices and robust demand for petrochemical derivatives. Competition in the Asian market continues to intensify as major US and European producers, who have the competitive strength of operations that are integrated from the oil refinery to the petrochemical plant, and Middle-Eastern producers, who have the competitive advantage of low-cost natural gas feedstocks, are accelerating the expansion of their operations.

#### • Core Business Strategy

In this business climate, our Petrochemicals & Plastics Sector focuses on two key product groups: polyolefins, which include polyethylene (PE) and polypropylene (PP); and propylene oxide (PO). Sumitomo Chemical's strategic priorities in this business include: 1) securing stable supplies of cost-competitive feedstocks in order to establish a stable earnings base and increase earnings, 2) optimizing our production and developing new proprietary production technologies to realize greater cost efficiencies, and 3) accelerating the shift in our product portfolio away from commodity products toward higher value-added products.

## Key Initiatives for FY2005 and Developments from FY2006 Onward

#### • Thoroughly Strengthening Cost Competitiveness

##### Start of Construction on the Rabigh Project in Saudi Arabia

The price of naphtha continues to rise, driven by a number of factors, including the steadily rising price of crude oil, growing demand for petrochemical products in Asia, and new construction and expansion of petrochemical production facilities to meet the increasing demand for petrochemicals. The announcement of plans for the construction of a number of new naphtha-based petrochemical plants in China and elsewhere make it likely that the price of naphtha will remain high for the foreseeable future. Under these circumstances, the most critical challenge to meet in order to boost the long-term growth of our petrochemical business is securing stable supplies of cost-competitive feedstocks. Our affiliate, Petrochemical Corporation of Singapore (Pte) Ltd., or PCS, has taken a series of measures over the years to enhance competitiveness by diversifying the feedstocks they are capable of utilizing. In 2000, PCS installed a condensate splitter, enabling them to utilize a variety of feedstocks other than purchased naphtha.

In order to bolster the competitive strength of our petrochemical business well into the future, the Company has joined with the Saudi Arabian Oil Company (Saudi Aramco) to establish a joint venture for oil refining and petrochemical production in the town of Rabigh on Saudi Arabia's Red Sea coast. This project represents one of the largest integrated refining and petrochemical complexes ever built. The complex will take maximum advantage of a stable supply of low-cost feedstocks provided by Saudi Aramco and

economies of scale deriving from the enormous capacity of the complex. Following conclusion of contracts for the project finance with a consortium of banks and for the engineering, procurement and construction (EPC), the groundbreaking ceremony was held on site in March 2006, marking the start of construction. Completion of the complex is scheduled for the third quarter of 2008.

In our existing polypropylene operations in Japan, we continue to make progress in our efforts to improve production efficiency and strengthen the cost competitiveness of the business. During a period spanning 2004 and 2005, the Company expanded the capacity of its existing two production lines, which will be followed by the shutdown of a smaller production line in the very near future.

#### • Further Progress in the Shift Toward Higher Value-Added Products

The Company is continuing its shift from commodity products to higher value-added products. In September 2006, we completed the conversion of our plant in Singapore from the production of linear low-density polyethylene to the production of polypropylene, a higher value-added resin used mainly in automotive applications and home electronics.

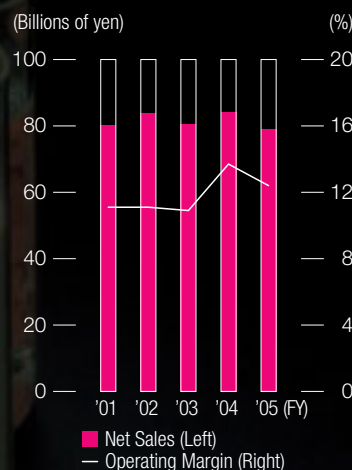
In Japan, we are working actively to develop the market for a new class of polyethylene, Excellen GMH and Sumikathene EP. These products have been developed using our proprietary technology and exhibit the unique property of a combination of excellent processibility and high strength. We also plan to produce these products at the Rabigh complex in Saudi Arabia in order to expand sales into global markets.



# FINE CHEMICALS



Net Sales and Operating Margin



The Fine Chemicals Sector is composed of (1) the Specialty Chemicals Division, (2) the Pharmaceutical Bulk Division, and (3) the Pharmaceutical Intermediates Division.

The specialty chemicals business provides markets in countries around the globe with chemicals that are essential to improving the quality of existing industrial materials. These include resorcinol, a raw material used in adhesives; polymer additives; rubber chemicals; dyestuffs; and EVA emulsions.

The Pharmaceutical Bulk and Pharmaceutical Intermediates Divisions engage in the contract manufacture of API and pharmaceutical intermediates as well as the manufacture and sales of API based on our proprietary process technologies. The accelerating trend of contract manufacture, in which pharmaceutical companies specialize in development and marketing while outsourcing production of API and intermediates to outside companies, is adding momentum to the considerable growth occurring in the market for custom pharmaceuticals. In this operating environment, the Company's product quality assurance system, which makes possible a high level of GMP compliance, as well as its advanced organic synthesis technology and other technologies for developing products from the research stage through the industrial production stage are designed to allow us always to meet our customers' exact needs.

## FY2005 Business Performance

Sales of adhesives raw materials remained strong, while sales of active pharmaceutical ingredients (API) decreased.

The Fine Chemicals Sector saw a 6% decrease in sales compared with FY2005 to ¥79 billion and operating income declined 15% to ¥9.8 billion. Sales of adhesives raw materials, rubber antioxidants and pharmaceutical intermediates firmed up, while sales of active pharmaceutical ingredients (API) decreased because of intensifying competition mainly from China and India.

## **Business Summary**

### ***Business Climate and Core Business Strategy***

*Providing high-quality products worldwide based on our proprietary technology.*

The Fine Chemicals Sector is concentrating on its core businesses in specialty chemicals such as adhesives raw materials and rubber antioxidants, and pharmaceutical chemicals such as active pharmaceutical ingredients (API) and intermediates. The Sector is strengthening its stable base of profitability, and reorganizing to streamline its operations in accordance with its principle of Selection & Concentration under its Three-Year Corporate Business Plan, by taking maximum advantage of its advanced organic synthesis technology accumulated over many years, and state-of-the-art quality assurance capabilities. It responds flexibly to the growing demand and changing needs of the market, and by consistently providing highly functional, high-quality products, continues to strengthen its businesses further.

### **Key Initiatives for FY2005 and Developments from FY2006 Onward**

#### ***Enhancing Overseas Bases in the Pharmaceutical Chemicals Business and Expanding Capacity for Core Chemicals***

Sumitomo Chemical has continued to expand and strengthen its pharmaceutical chemicals business by realizing synergies from the integration of its wholly owned subsidiary, Sumika Fine Chemicals Co., Ltd., into its Fine Chemicals Sector in July 2004. As part of the Company's globalization efforts,

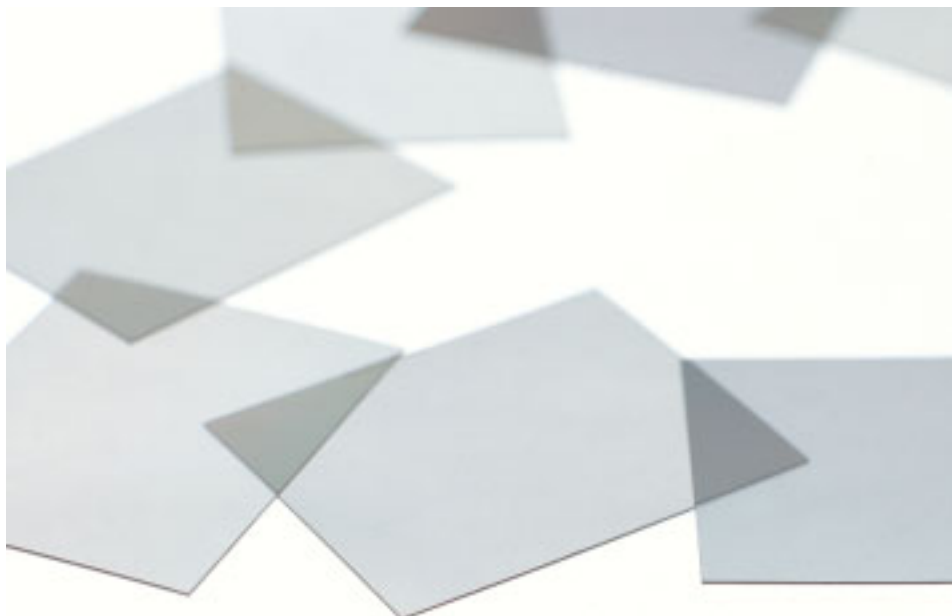
Sumitomo Chemical Europe upgraded its warehousing facilities in FY2005 to comply with GMP standards and brought them into operation to enhance its infrastructure for supplying our global customers with high-quality products. In order to meet the exact needs of customers more promptly, the Company will continue to strengthen the Sector's global bases of operation further and expand its business going forward.

In its specialty chemicals business, the Sector also provides a variety of adhesives and stabilizers for use in tires and automotive interior applications as core products. The Company is undertaking production capacity expansions to take advantage of the steadily increasing demand spurred by vigorous growth in the automotive industry, mainly in Asia.

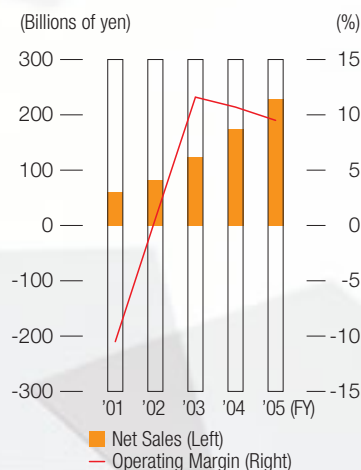
In November 2005, the Company expanded the capacity of its facilities in Ehime, Japan for the production of rubber antioxidants, and in January 2006, completed an expansion of facilities at its subsidiary in Thailand for the production of adhesives used in the manufacture of tires. The Company has also begun a capacity expansion for adhesives raw materials at its Chiba Works. These expansions will strengthen the Company's specialty chemicals business, providing us with a stable base for global expansion.



# IT-RELATED CHEMICALS



Net Sales and Operating Margin



The IT-related Chemicals Sector is composed of (1) the Optical Materials Division, (2) the Semiconductors and Display Materials Division, (3) the Electronic Materials Division, and (4) the Color Filter Division, and also includes Group companies engaged in the LCD-related business in Korea, Taiwan and China.

The Optical Materials Division focuses on the manufacture and sale of polarizing film, an essential material for LCDs, with bases of operation in Japan, Korea, Taiwan and China. The Semiconductors and Display Materials Division manufactures and sells photoresists and semiconductors, and various chemical products, including mainly high-performance resins used for display materials. The Electronic Materials Division manufactures and sells super engineering plastics, focusing mainly on liquid crystal polymers (LCP) and other products used in electronics and electrical devices. The Color Filter Division has bases of operation in Japan, Korea and Taiwan for the manufacture and sale of color filters, a major component of LCDs, which it provides to LCD manufacturers in each of these regions.

## FY2005 Business Performance

Greatly increased sales of LCD panel materials drive an increase in profits

In the IT-related Chemicals Sector, consolidated sales for fiscal 2005 increased by a significant 31.2% over the previous year to ¥229.2 billion, and operating income grew by a brisk 15.8% to ¥21.7 billion

Significant increases in sales volume boosted revenues in the Sector. The start of operations at our No. 2 polarizing film plant in Korea in July 2005 was one factor that contributed to this favorable performance in spite of falling sales prices for polarizing film and color filters, main materials for liquid crystal displays (LCDs).

## Business Summary

### Business Climate and Basic Strategy

Building infrastructure to meet the rapidly growing demand for LCDs

The IT-related Chemicals Sector leverages the Company's basic technologies accumulated over many years in such

diverse fields as industrial chemicals, organic synthesis, and polymers to manufacture and supply a variety of IT-related materials and chemicals with a particular focus on LCD-related components.

The steady decrease in prices for LCD televisions in recent years is driving rapid demand growth for these products in the consumer market, and this, in turn, is driving rapid growth in the market for polarizing film, one of the main materials used in LCDs. Given this business climate, the Company has developed a new polarizing film especially for large-screen LCD televisions while at the same time actively investing in new facilities to expand production capacity in order to take advantage of the rapid demand growth. The Company seeks to expand its business by building infrastructure to meet the growing needs of LCD manufacturers in a timely manner.

### **Key Initiatives for FY2005 and Developments from FY2006 Onward**

*Strengthening product development and supply infrastructure targeting the large-screen LCD television market*

#### **• Polarizing Film**

In order to meet demand as large-screen LCD televisions become increasingly prevalent, the Company has used its proprietary technology to develop a new product specially designed for large-screen LCD televisions that integrates our improved polycyclo-olefin retardation film with our polarizing film. The advantages of using Sumitomo Chemical's technology are that it enables LCD television screens to be viewed from wider angles, reduces irregularities in image quality to achieve greater resolution, and contributes to reductions in production

costs. The Company will expand its production capacity for this polarizing film by 18 million square meters by the end of fiscal 2006 and by 34 million square meters in June-July 2007.

In addition, the Company is enhancing its facilities for the production of raw material rolls of this polarizing film in Japan, Korea and Taiwan by locating them close to the operations of major LCD panel manufacturers who are our customers. The Company currently has a total annual production capacity of 24 million square meters in these countries, and through the capacity expansions mentioned above we plan to increase our total production, centering on polarizing film for use in large-screen televisions, to 42 million square meters in 2006, and 76 million square meters in 2007. Furthermore, with LCD manufacturers establishing production bases for large-screen LCD panels in China, Sumitomo Chemical is also increasing its presence in China, and is due to complete construction of a plant with an annual capacity of 8.5 million square meters in July 2007. The Company has also decided to build facilities for the chip-cut processing of polarizing film in China, adding to its existing processing facilities in Taiwan and Korea.

#### **• Color Filters**

The Company engages in the manufacture and sale of color filters, another important LCD-related component, and we are stepping up production to meet increasing demand. In October 2005, we began production of second-generation color filters for small- and medium-size LCD panels at our facility in Taiwan. We also achieved a capacity increase from 120 thousand to 200 thousand sheets per month through the debottle-

necking of our existing fifth-generation color filter production facilities in Korea.

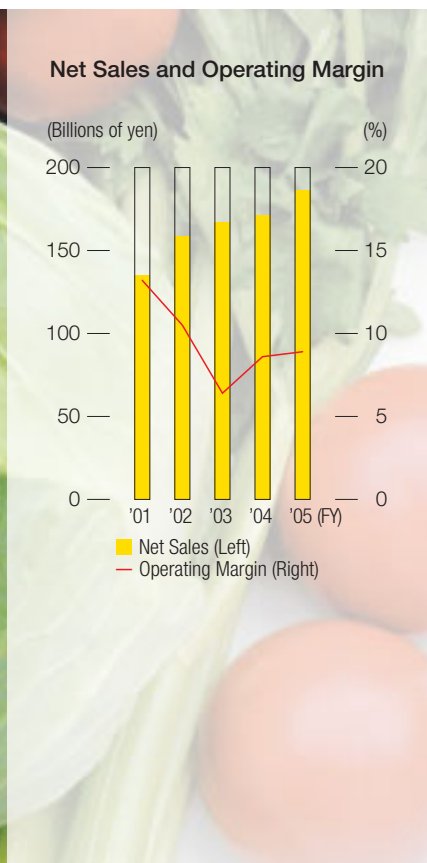
### **Improving Product Quality and Strengthening Cost-Competitiveness**

As the size of large-screen television displays continues to increase, films for LCD panels require increasingly high quality-control standards to ensure such characteristics as greater uniformity, which is more difficult to achieve in larger size films. In addition, as prices for large-screen LCD televisions continue to decrease, materials are subject to intensifying price pressure, requiring manufacturers to respond by strengthening cost-competitiveness.

The Company is working constantly on the development of cutting-edge technology to achieve further improvements in product quality. We are also achieving considerable gains in productivity through the integration of every process from stretching and coating to completion of the finished product, and this is serving to reduce costs.

One recent example of the Company's cost-cutting measures is Sumitomo Chemical's absorption of New STI Technology, Inc., its subsidiary responsible for the manufacture and sale of color filters in Japan. In Korea as well, Dongwoo Optical Materials Co., Ltd., a company engaged in the manufacture and sale of polarizing film, and Dongwoo STI Co., Ltd., a Group company engaged in the manufacture and sale of color filters, were merged successively into Dongwoo Fine-Chem Co., Ltd. The cost rationalizations as well as the effective utilization of technology, and human and financial resources realized through the integration of these business operations has enabled us to structure the business to meet the needs of our customers more efficiently.

# AGRICULTURAL CHEMICALS



The Agricultural Chemicals Sector is composed of the (1) Crop Protection Division, (2) International Crop Protection Division, (3) Environmental Health Division, and (4) Animal Nutrition Division, and Group companies both domestically and overseas that conduct business in each of these divisions.

The Crop Protection and International Crop Protection Divisions engage in the development and sales of agricultural pesticides and other agrochemicals. Sumitomo Chemical prides itself in having the largest market share for agrochemicals in Japan.

The Environmental Health Division engages in the development and sales of household insecticides, public hygiene insecticides and other similar products, and enjoys the largest market share in the world in these categories.

The Animal Nutrition Division engages in the sales of feed additives, such as its representative product, methionine.

Group companies within the Sector include Valent U.S.A. Corp. in the agrochemical business in North America and Valent Biosciences Corp., which develops and sells biological agrochemicals globally, and many other companies in countries around the world that work together to promote the further globalization of the business.

## FY2005 Business Performance

Solid overseas sales of agrochemicals drove a continued increase in both sales and profits

In the Agricultural Chemicals Sector, FY2005 sales increased 8.5% over the previous year to ¥186.2 billion, while operating income increased 12.2% to ¥16.6 billion. The major reasons for this growth were expanded overseas sales of products such as herbicides in the North American market as well as an increase in shipments thanks to effective sales promotions for feed additives.

## Business Summary

### *Business Climate and Basic Strategy*

*Achieving solid profitability by improving our competitive strengths in our focus markets*

The Agricultural Chemicals Sector has been aiming to improve profitability by leveraging its outstanding product development capabilities in its agrochemicals business, focusing on fruits and vegetables and non-farm agriculture, and by expanding its household insecticide business. The Sector's primary goal is to strengthen cost competitiveness by pursuing the Company's principle of Selection and Concentration in markets and fields where we are the No.1 or No.2 global player. We aim to accomplish this by (1) promoting strategic M&A, (2) expanding the business through the continuous launch of new products, and (3) taking advantage of the low manufacturing costs of our overseas manufacturing bases.

In its strategic M&A, the Company acquired the agrochemical business of Takeda Pharmaceutical Co., Ltd. to form Sumitomo Chemical Takeda Agro Co., Ltd. in 2002, and has been progressing steadily toward the agreed target of full integration into the company in 2007. The Company has been realizing synergies through the integration of research facilities and plants.

In its development of new products, the Company plans to launch as many as 20 new products over the next ten years. We have been aiming for a ratio of over 20% of sales from new products launched since 2004 to total sales, including new active ingredients, formulations and combination products as well as label expansions. We will achieve our targeted ratio in fiscal

2006.

The Company continues to achieve enhanced cost competitiveness by capitalizing on the cost advantages of its manufacturing bases in India, China and other regions, and has also been reducing its inventories and reorganizing its supply chain in efforts to streamline its operations.

### **Key Initiatives for FY2005 and Developments from FY2006 Onward**

#### *Launch of New Products*

The Company has developed two new active ingredients for use in household insecticides that are considerably more effective than conventional ingredients. One of these ingredients is being marketed as EMINENCE® in Japan, and elsewhere as SumiOne®, while the other is marketed as PI WEN LING® in China, and these are used in various household products that target mosquitos, such as mosquito coils. Not only do these products demonstrate a high degree of efficacy when used in mosquito coils, electric mats, liquid mosquito insecticides and similar products, but it also has the unique characteristic of evaporating at room temperature. This makes it particularly suitable for use in products that can be activated without using fire or electricity, such as portable fan-type mosquito repellent devices, which are becoming popular in Japan. This active ingredient is coming into widespread use throughout the major markets for insecticides in Asia.

Furthermore, its high efficacy that allows it to be used in very small amounts makes it an attractive product in a consumer market where demand

for products that contain fewer chemical substances is increasing.

In agricultural chemicals as well, PLEO®, a pesticide for vegetables launched in 2004, provides excellent efficacy against harmful insects while having a minimal impact on beneficial insects and pollinators such as honeybees, and has posted steadily increasing sales.

#### *Enhancing Overseas Manufacturing Bases*

The Company engages in the manufacture of agrochemical intermediates, the raw materials for a wide variety of agricultural chemicals, at production bases in China. In 2003, we partnered with a local company in China to form Dalian Sumika Chemphy Chemical Co., Ltd., which began operations in August 2005. This will contribute to strengthening the Sector's cost-competitiveness even further by enabling the Company to manufacture low-cost, high-quality agrochemical intermediates. The Company will continue to seek opportunities to strengthen this area of its business in the future.

The Company has been participating in the Roll Back Malaria campaign led by the WHO by providing its OLYSET®NET mosquito nets. The campaign aims to halve the number of malaria fatalities by 2010, an ambitious goal that will require a large number of nets in the coming years. To meet the growing need for its OLYSET®NETs, Sumitomo Chemical has established a joint venture company in Tanzania for local manufacture of its nets and has also expanded and started new production operations in China and Vietnam. This will raise our combined production capacity in

Tanzania, China and Vietnam to 30 million nets during fiscal 2006. The Company hopes that by undertaking these capacity expansions, we will be able to supply a sufficient number of nets to make a significant contribution to the prevention of malaria.

### ***Expansion of DL-Methionine Business***

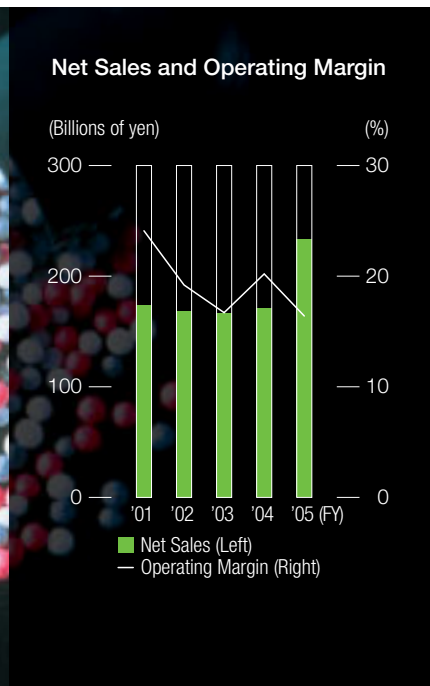
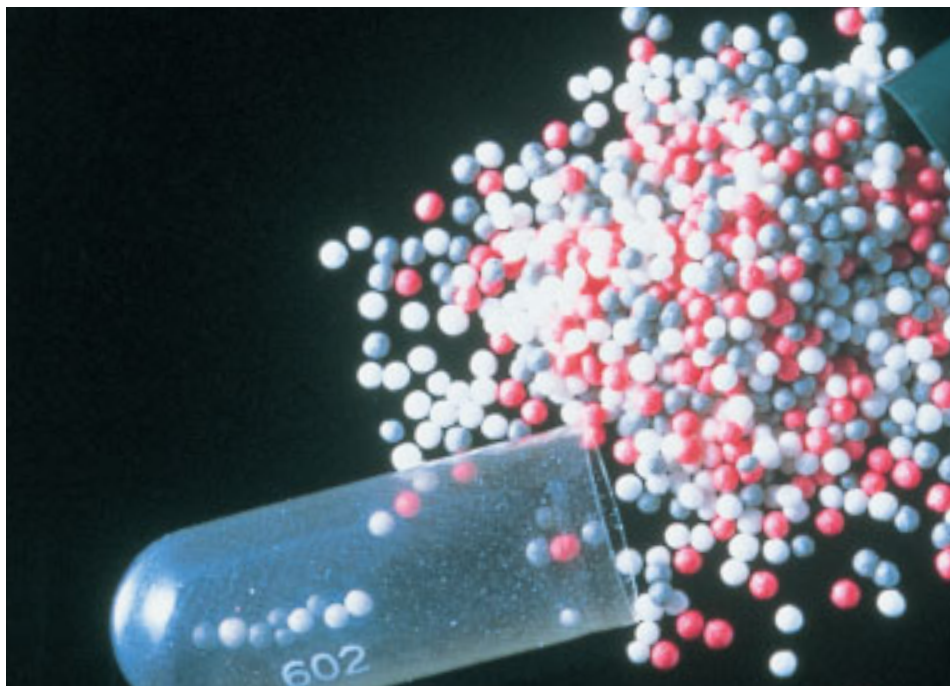
#### ***Positioning ourselves firmly in the market through steady expansion of the business***

One of the major initiatives undertaken in the Agricultural Chemicals Sector in fiscal 2005 was a large-scale expansion of our production capacity for DL-methionine, an essential amino acid used as a feed additive, primarily in poultry farming. Annual production capacity was more than doubled, from a previous 40 thousand tons to 90 thousand tons and, given the increasing demand for methionine, this business is expected to drive future revenue growth for the Sector. Demand for DL-methionine is increasing with the growth in popula-

tion and rising personal incomes of developing economies and the trend toward healthier white meats increasing the demand for chicken meat, with demand growth expected to be particularly strong in Asia. Another factor driving accelerating growth in demand for DL-methionine is the trend in developed economies to increase the proportion of amino acids in feeds to reduce the environmental impact from livestock excrement. Because of our integrated production facilities with all key raw materials manufactured on-site, we are able to achieve superior cost competitiveness. We possess the sophisticated technological expertise required for handling the key raw materials, and are far better positioned than our competitors for quick delivery to high-growth markets in Asia. Leveraging these competitive strengths, we are establishing a position as a top player in Asian markets.



# PHARMACEUTICALS



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

Dainippon Sumitomo Pharma aims to contribute broadly to society through the creation of useful products based on innovative research and development activities for the betterment of healthcare and fuller lives of people worldwide. In addition to the four key offerings, AMLODIN®, GASMOTIN®, PRORENAL®, and MEROPEN®, in Dainippon Sumitomo Pharma's broad product line, the company also offers EBASTEL®, an anti-allergy drug that exhibits potent antihistamine action, and is cooperatively promoting SEIBULE® for the treatment of diabetes along with the drug's developer, Sanwa Kagaku Kenkyusho Co., Ltd. In June 2005, DSP launched AmBisome®, a treatment for systemic fungal infection, and in July of the same year, launched AMLODIN® OD tablets, an orally disintegrating tablet. Active in other areas, including CNS (central nervous system); diabetes; osteopathy, inflammation, and allergies; and cancer and infection, Dainippon Sumitomo Pharma is committed to meeting a wide range of treatment needs.

Nihon Medi-Physics, a 50-50 joint venture with GE Healthcare in the UK, engages in all phases of the radiopharmaceuticals business from research to the production and distribution of its radiopharmaceuticals and related products in an effort to contribute to a more healthy society. These products are useful in the early diagnosis of chronic diseases and malignant tumors, on the increase in Japan's aging society. Its main business focus is in-vivo diagnostic radiopharmaceuticals used in the highly specialized field of nuclear medicine. Nihon Medi-Physics is making steady progress in the promotion of its PET agent for the early detection of malignant tumors.

## FY2005 Business Performance

### Major products lead earnings growth

The Pharmaceuticals Sector in fiscal 2005 posted a 36.6% increase in sales over the previous year to ¥233.1 billion and an increase in operating income of 11.2% to ¥38.3 billion. The Company's subsidiary, Sumitomo Pharmaceuticals Co., Ltd., merged with Dainippon Pharmaceutical Co., Ltd. in October 2005 to form Dainippon Sumitomo Pharma Co., Ltd. Favorable sales of its major products, AMLODIN® (therapeutic agent for hypertension and angina), MEROPEN® (carbapenem antibiotic), GASMOTIN® (gastroprokinetic), and PRORENAL® (vasodilator) contributed to the Sector's excellent performance.

## Business Summary

### Business Climate and Basic Strategy

The pharmaceuticals business is the

mainstay of our Life Sciences, one of the Company's core business fields, and revolves around the ethical pharmaceuticals business of Dainippon Sumitomo Pharma and the radiopharmaceuticals business of Nihon Medi-Physics Co., Ltd, a joint venture with GE Healthcare in the UK.

### **Key Initiatives for FY2005 and Developments from FY2006 Onward**

#### ***Dainippon Sumitomo Pharma Commences Operations***

The business climate in Japan is becoming increasingly challenging because of stringent Japanese government initiatives to contain health care costs, including drug price reductions, as well as increasing competition from American and European pharmaceutical firms. In order to further consolidate the basis of profitability of our Japanese pharmaceuticals operations in this business climate, Sumitomo Pharmaceuticals and Dainippon Pharmaceutical merged in October 2005 to form Dainippon Sumitomo Pharma. Dainippon Sumitomo Pharma (DSP) ranks among Japan's top ten pharmaceutical companies in terms of domestic ethical pharmaceutical sales, and its combined sales force of approximately 1,500 medical representatives (MR) puts it on equal footing with the leading Japanese pharmaceuticals companies. DSP is leveraging its stable cash flow to focus its R&D resources in the areas where the former Dainippon Pharmaceutical and Sumitomo Pharmaceuticals possessed common strengths, namely the fields of central nervous system (CNS) and diabetes treatment, and aims to enhance its R&D pipeline by integrating the accumulated

expertise and technical prowess of both companies in these fields. Furthermore, the new company will fully leverage its outstanding drug discovery technologies in genomics and bioinformatics, while at the same time further expanding its collaborative relationships with research institutes both in Japan and overseas to accelerate its R&D.

In fiscal 2005, DSP's four main products, AMLODIN®, GASMOTIN®, PRORENAL®, and MEROPEN®, posted a 110.2% increase in sales over the previous year. Going forward, DSP seeks to establish a system to enable its 1500 MRs to cover a greater number of medical institutions throughout Japan, and to introduce a system of MR specialists with expertise in CNS and other focus areas in order to further enhance its business strengths. The process of achieving cost synergies through the integration of facilities has been making ongoing progress and will conclude when elimination and consolidation of the former Dainippon Pharmaceutical and Sumitomo Pharmaceuticals' logistics facilities is completed in April 2007. Furthermore, ongoing initiatives to reduce labor costs by streamlining the work force as well as measures to reduce procurement costs by unifying procurement functions have been realizing further cost synergies. Moreover, eliminating duplication of investment and consolidating existing facilities are expected to trim capital expenditure by over ¥4 billion from fiscal 2005 to 2007. DSP's financial targets for fiscal 2007 are sales of ¥280 billion, an operating income of ¥50 billion, and R&D expenditures of ¥45 billion.

#### ***Nihon Medi-Physics begins sales of diagnostic radiopharmaceutical "FDGScan Injectable"***

Nihon Medi-Physics has developed and is now manufacturing and distributing its PET (positron emission tomography) radiodiagnostic, FDGScan Injectable (generic name: Fludeoxyglucose (<sup>18</sup>FDG)), in Japan. The PET procedure allows early diagnosis of malignant tumors utilizing an innovative imaging procedure that uses a tiny amount of radiopharmaceutical as a tracer. By injecting the agent into a patient's body and taking an image of the agent accumulating in the targeted organ or lesion from outside the body, the PET procedure is able to provide vital diagnostic information about the condition of diseases. Previously, <sup>18</sup>FDG for diagnostic use was prepared in-house by medical institutions and its use was limited to examinations conducted at those institutions. Because of the significant investment required for an institution to produce the diagnostic agent in-house, only a very few offered PET examinations. In July 2005, Nihon Medi-Physics obtained approval for the use of FDGScan Injectable as a pharmaceutical, and this PET diagnostic agent began to be covered under Japan's national health insurance in September of the same year. Approval of <sup>18</sup>FDG and its health insurance coverage have increased the likelihood that a greater number of medical institutions will be able to introduce the PET procedure. Because the half-life of <sup>18</sup>FDG is as short as 2 hours, Nihon Medi-Physics has established nine supply facilities located close to major medical institutions for timely distribution throughout Japan. This will make PET diagnostics the new cornerstone of the company's core business of diagnostic nuclear medicine.



# RESEARCH AND DEVELOPMENT

## Preface

The basic thrust of Sumitomo Chemical's R&D is "Creative Hybrid Chemistry," referring to the fundamental strategy that guides our research and development activities and consists in strengthening and expanding our existing businesses while opening up new business fields through the integration of technologies from different fields. We focus our endeavors mainly in the fields of IT-related materials and energy-related fields, life sciences, and catalyst technology. In IT-related and energy-related fields, we are reorganizing our operations to accelerate development and commercialization of new products while working actively on the development of higher value-added materials much closer to downstream industries. In life sciences, we are conducting basic research to break into new fields that will allow us to bolster our future business. This research is based on our state-of-the-art technologies, including our advanced genomics technology, which is playing an important role in safety assessments for chemical substances. In the area of catalyst technology, we are focusing our efforts on achieving the optimum production efficiency in our existing processes and developing new processes that minimize their impact on the environment.

## R&D Topics

### *IT-related and Energy-related R&D*

#### • Polymer LED

Sumitomo Chemical is developing Light-Emitting Polymers (LEP) for use in Polymer Light-Emitting Diodes (PLED), which hold promise for use in ultra-thin

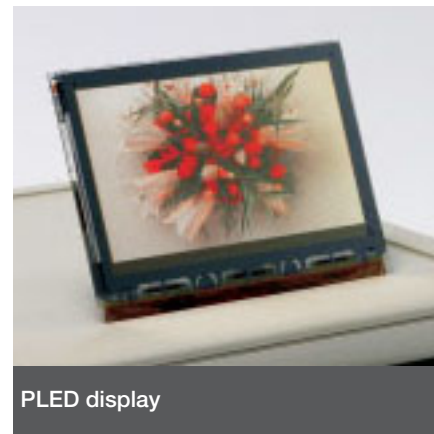
flat panel displays. The special characteristics of PLED technology using LEPs that gives it an advantage over liquid crystal display technology include (1) self-luminescence that renders a backlight unnecessary, (2) a wide angle of view, and (3) superior contrast for higher resolution and greater ease of viewing.

The display materials field is one of the Company's major areas of focus, and in addition to expanding its LCD-related materials business, the Company is also focusing its research efforts toward the development of next-generation display materials. The Company has been conducting research on fluorescent and phosphorescent organic electroluminescent (EL) polymer materials. Of these two types, phosphorescent materials are attracting considerable attention because they exhibit a luminescence several times greater than that of fluorescent materials. Sumitomo Chemical has been researching the development of ultra high-efficiency phosphorescent materials in collaboration with the English company Cambridge Display Technology (CDT). In addition to their ultra high-efficiency, these materials are highly soluble, unlike existing phosphorescent materials, making it possible to use an ink jet printing method to form the luminescent pixels, and enabling greater efficiency in the manufacture of displays than the vacuum deposition method used with small-molecule organic EL materials.

In May of 2005, Sumitomo Chemical acquired Dow Chemical's organic EL polymer business, including proprietary materials developed by Dow as well as technologies for their synthesis and evaluation. Then, in November 2005, Sumitomo Chemical and CDT established a joint venture, SUMATION, for

the development and sales of organic EL polymer materials. SUMATION provides customers with organic EL polymer materials manufactured by Sumitomo Chemical.

Combining the technologies of both Dow and CDT with our own to realize synergies, we will accelerate the development of increasingly attractive, high-performance materials, aiming at their future application in such areas as television and lighting.



#### • Materials for Lithium Ion Secondary Batteries

Lithium ion secondary batteries are showing rapid demand growth in recent years in mobile phone applications. With the spread of mobile phones and other mobile devices such as PDAs, the market increasingly requires power sources that can operate continuously for many hours, and demand for such high-performance batteries is expected to grow even further.

Lithium ion batteries are composed of a cathode (positive terminal), an anode (negative terminal), an electrolyte, and a separator to isolate them from one another, and Sumitomo Chemical has been developing materials for the cath-

ode and other components. The Company's accumulated proprietary technologies for synthesis and control of the crystal structure of inorganic compounds have been applied to the development of materials that contribute to increases in the capacity of the batteries as well as their improved safety in the event of an abnormal exothermic reaction. The high performance of these materials in battery applications has been evaluated favorably by users, and the Company is accelerating the development of these materials to further improve their characteristics.

### **The Life Science Field**

#### **• Toxicogenomics**

Genomic research has made remarkable strides in recent years, improving our ability to acquire genomic information about laboratory animals. One recent development is the DNA chip (microarray), which enables detailed analysis of gene expression using slides to which a large variety of DNA fragments or synthetic oligonucleotides have been affixed. Using DNA chips for toxicological research has given rise to a new research discipline known as toxicogenomics.

Sumitomo Chemical was one of the first to begin working on this technology, and is conducting research aimed at early elucidation of the mechanism of toxic expression for the efficient development of compounds. For example, the Company participated in the Toxicogenomics Project in Japan, a project organized by Japan's National Institute of Health Sciences, the objective of which was to enable pharmaceutical companies to shorten the drug development process by predicting possible side effects in the early stage of

research. The Company participated from fiscal 2001 to 2005 with the goal of early prediction of the carcinogenicity of chemical compounds. By conducting a comprehensive analysis of DNA chips to track changes in the expression of many genes sampled from the bodies of laboratory animals to which compounds were administered over a short period (approx. 1 month), the Company developed a method by which the carcinogenicity of compounds, which normally takes 2 years to determine, was able to be assessed in the remarkably short period of approximately 40 days. This technology has significantly reduced the time necessary to determine the carcinogenicity of compounds and promises to be useful in advancing the efficient development of compounds.

Furthermore, in order to elucidate in minute detail the effect of chemical substances on the human body, the Company analyzed the genes of the common marmoset, which is a primate with a close genetic relation to humans, and was the first to map marmoset genes on a DNA chip. The genetic expression within the bodies of marmosets to which chemical compounds have been administered can be analyzed on the chip, and should enable a greater degree of predictive accuracy in safety evaluations and verification of the effectiveness of pharmaceuticals.

#### **Catalyst Technology**

Sumitomo Chemical has long focused its accumulated expertise in catalysts and process design technologies on green, sustainable chemistry (GSC) that exerts the least possible impact on the environment.

The Company won the prestigious Green Sustainable Chemistry Prize in

2003 for our successful commercial development of a highly advanced process for the manufacture of caprolactam. We won the same Prize again in 2004 for our hydrochloric acid oxidation process. The Prize was awarded by the Green & Sustainable Chemistry Network, a Japanese voluntary organization established in 2000 by chemical associations and national research institutes to promote the advancement of chemistry initiatives that minimize environmental impact and are sustainable.

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

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

# Corporate Social Responsibility

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# Corporate Social Responsibility (CSR)

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

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

## **Basic CSR Policy**

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

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

## Performance in Fiscal 2005



Sumitomo Chemical's OLYSET® NETs contribute to the prevention of malaria

### *OLYSET® NET Helping to Prevent*

#### *Malaria*

Malaria currently infects more than 300 million people and kills more than one million people worldwide every year. While the majority of Africans infected with HIV are adults, most of those infected with malaria are children under the age of five, and it could well be said that the future of Africa lies in its success in eradicating malaria.

Sumitomo Chemical developed its OLYSET® NET mosquito net to protect people from the mosquitoes that carry malaria. The active ingredient in the insecticide, impregnated into the net's fibers using our proprietary technology, is gradually released to retain insecticidal efficacy for five years, even after repeated washings.

OLYSET® NET's effectiveness has been acknowledged by the WHO, and these nets are widely supplied to Africa and other locations. We have also provided OLYSET® NET production technology free of charge to a Tanzanian mosquito net manufacturer, which is producing 2 million nets annually and creating employment for approximately 1,000 local resi-

dents.

In March 2006 Sumitomo Chemical announced that it would be donating approximately 330,000 OLYSET® NET mosquito nets to the US nonprofit organization Millennium Promise. Organized through the cooperation of international institutions with the aim of eliminating extreme poverty in Africa in accordance with the UN's Millennium Development Goals, this NPO will select a total of 112 model villages in Tanzania, Kenya and eight other countries and seek to provide them with comprehensive support, including agricultural technology, food-stuffs, medical care, and education.

Our Company's donation represents complete cooperation in the malaria prevention efforts at the core of the Millennium Promise program, which are expected to save more than 500,000 lives.

#### *Educational Support for Africa's Future*

Sumitomo Chemical has joined with the global NGO World Vision to provide elementary schools and other forms of educational support to children in Africa,

where serious poverty-related issues have drawn international attention.

Establishing primary education facilities in Africa is of prime importance in building the foundations for the region's future development. Sumitomo Chemical has begun construction of elementary schools in Tanzania and Kenya, where it has close ties through the manufacture of its OLYSET® NET and the purchase of permethrin, the raw material for the active insecticidal ingredient used in the nets, and is working with three other companies that share an interest in this issue to provide support for a school each in Tanzania, Kenya, Uganda and Zambia.

Our OLYSET® NET business has steadily grown because of the high demand from Africa. By building infrastructure for increased production, Sumitomo Chemical aims to contribute to society through the prevention of malaria and the creation of employment opportunities. Furthermore, we are striving to play a useful role in supporting self-sustainability efforts by returning some of the revenues from this business to local communities.

### *Endorsing and Implementing the RC Global Charter*

In January 2006, Sumitomo Chemical's CEO declared the Company's firm commitment to the Responsible Care (RC) Global Charter drafted by the International Council of Chemical Associations and supported by Kofi Annan, Secretary-General of the United Nations, and made known its intent to implement the same.

The Johannesburg Declaration on Sustainable Development, adopted at the 2002 Global Summit Meeting (World Environment Summit) held in Johannesburg, South Africa, featured an agreement on UN-centered efforts to minimize by 2020 the adverse impacts of the production and use of chemicals on human health and the environment.

In view of this Declaration, the RC Global Charter offers common guidelines for voluntary steps by the chemical industry to review its Responsible Care (RC) activities and to implement and further strengthen the management of chemical substances.

As of the end of April 2006, the CEOs of 92 companies worldwide, including

The Dow Chemical Company and Shell Chemicals as well as Sumitomo Chemical and five other Japanese companies, have signed the RC Global Charter and are enthusiastically promoting its implementation.

### *Designing Environmental Efficiency Indicators – Winner of 2005 Environmental Efficiency Award*

In December 2005, Sumitomo Chemical received the Encouragement Award in the Corporate Performance Division of the Eco-Efficiency Awards 2005.

This award was established in fiscal 2005 by the Japan Eco-Efficiency Forum, with backing from the Ministry of Economy, Trade and Industry, to recognize companies actively working to improve environmental efficiency (reducing environmental impact through greater economy) whose performance in implementing, developing and popularizing environmental activities has been particularly outstanding.

This Encouragement Award in the Corporate Performance Division signifies appreciation for the approaches taken by

Sumitomo Chemical as a whole. More specifically, this award was presented for the introduction of an environmental efficiency indicator for use at individual facilities based on the JEPIX\* methodology as described in the 2005 CSR Report, and for the development of product-specific CO<sub>2</sub> emission rate management methods to address the pressing issue of reducing CO<sub>2</sub> emissions.

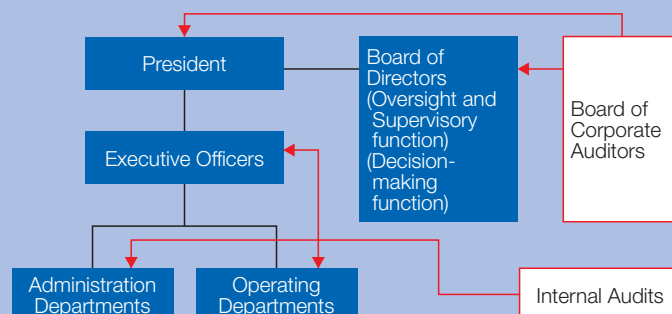
The environmental efficiency indicator for use at individual facilities reveals quantitatively and in comparisons among facilities the degree of improvement achieved in reducing environmental impact.

The product-specific CO<sub>2</sub> emission rate management methods developed by Sumitomo Chemical complement traditional approaches to reducing CO<sub>2</sub> emissions at individual facilities by making it possible to propose product-specific reduction plans grounded on an assessment of the emission volumes for each product and to construct mechanisms for achieving reductions more effectively and efficiently.

\*JEPIX (Japan Environmental Policy Priorities Index): a method for assessing environmental impact through a single integrated indicator (Environmental Impact Points = EIP, or Ecopoints) inspired by the Swiss Eco-Scarcity method

# Corporate Governance

Corporate Governance Organization



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

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

## Management Structure

The Company's management structure consists of 10 board members and 27 executive officers, 10 of whom serve in dual capacity as board members. The Board of Directors makes decisions regarding important managerial matters in accordance with the law and the articles of association as well as regulations concerning the Board, and also oversees and supervises the discharge of duties by each individual director. The executive officers carry out business operations in

accordance with the management strategy determined by the Board.

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

## Internal Auditing Structure

Internal auditing is conducted by a dedicated Internal Audit Department that functions independently of the Company's business operations. The Internal Audit Department audits the Sumitomo Chemical Group to ensure both that internal control functions effectively in the conduct of business by executive officers and employees, and that business is conducted in a proper and appropriate manner. A Group Internal Auditing Committee has been established to improve the effectiveness and efficiency of internal auditing of Group companies.

Areas of internal auditing connected with the environment, safety, and product liability (PL) are subject to Responsible Care Auditing by the Responsible Care Office.

## Timely Disclosure

The Company's Corporate Communications Department continually provides fair, honest and timely disclosure of the information necessary for the investment decisions of shareholders and institutional investors, and to strengthen and promote corporate communications activities.

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

The May 2006 meeting of the Board of Directors determined an expressly written basic policy, in compliance with regulations under Corporate Law, to define our Internal Control System in order to enhance mechanisms for ensuring that business is conducted in a proper and appropriate manner. We consider our Internal Control System essential to maintaining a sound organization, and believe this system should be actively utilized for the achievement of business objectives. We will work to maintain and improve this system in the future.



# Compliance

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

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

Each of the Sumitomo Chemical Group companies both in Japan and overseas is also required to adopt comparable compliance programs,

reflecting the laws and regulations of the country in which it operates.

## *Sumitomo Chemical Charter for Business Conduct*

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

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

## *Sumitomo Chemical’s Compliance System and its Organization*

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

## *Speak Up System*

We have in place a “Speak-Up System” for our Compliance Program to provide employees with an avenue for reporting violations or suspected violations of laws, regulations or Company rules should their immediate resolution through the normal process of reporting to a superior appear difficult or impossible.

Employees may report either to the Compliance Committee or to an outside attorney retained by the Company. In either case, the actual investigation is carried out by the

Compliance Committee, while reporting to an outside attorney allows the informant's name to be withheld from the Compliance Committee.

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

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

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

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

# Board of Directors & Corporate Auditors

(As of June 23, 2006)



**Hiromasa Yonekura**  
President



**Masami Nakamoto**  
Executive Vice President



**Satoshi Kawachi**  
Executive Vice President



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



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



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



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



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



**Yasuo Kamei**  
Director & Managing Executive  
Officer



**Hiroshi Hirose**  
Director & Managing Executive  
Officer

## Board of Directors

### President

Hiromasa Yonekura

### Executive Vice President

**Masami Nakamoto**  
IT-related Chemicals Sector

**Satoshi Kawachi**  
Technology, Research & Development,  
Intellectual Property, Responsible Care,  
Procurement & Logistics

### Director & Senior Managing Executive Officer

**Shigehiro Oba**  
Agricultural Chemicals Sector

**Hideaki Watanabe**  
Basic Chemicals Sector

**Masashi Araki**  
Fine Chemicals Sector

**Osamu Ishitobi**  
Rabigh Project

**Naoya Kanda**  
IT-related Chemicals Sector - Optical  
Materials Div. / Semiconductor & Display  
Materials Div. /  
Electronic Materials Div. / Color-Filter Div. /  
Ehime Works / Chiba Works / Osaka Works /  
IT-related Chemicals Research Laboratory

### Director & Managing Executive Officer

**Yasuo Kamei**  
Petrochemicals & Plastics Sector

**Hiroshi Hirose**  
IR & Public Relations, Finance &  
Accounting, Internal Audit

## Executive Officers

### Managing Executive Officer

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

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

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

**Yoshimasa Takao**  
General Affairs Dept., Personnel Office,  
Procurement & Logistics

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

**Yusuke Ueda**  
Legal Dept., Intellectual Property Dept.

### Executive Officer

**Takatoshi Suzuki**  
Rabigh Project Office

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

**Shigenori Tsuda**  
Agricultural Chemicals Sector -  
Environmental Health Div.

**Yoshihiko Okamoto**  
Agricultural Chemicals Sector - Crop  
Protection Div. / Crop Protection Div.-  
International

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

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

**Toshiki Matsumura**  
Rabigh Refining and Petrochemical Co.

**Yoshitaka Izumi**  
Basic Chemicals Sector - Planning &  
Coordination Office / Aluminium Div.,  
Ehime Works

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

**Minou Uemura**  
Osaka Works

**Ryuhei Tamamura**  
General Affairs Dept.

## Corporate Auditors

**Kunio Matsura**  
Standing Corporate Auditor

**Hiroaki Ninomiya**  
Standing Corporate Auditor

**Hiroshi Hayasaki**  
Corporate Auditor

**Yoji Arakawa**  
Corporate Auditor

**Toshiomi Uragami**  
Corporate Auditor

# Financial Section

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# Consolidated Financial Summary

Sumitomo Chemical Company, Limited and Subsidiaries

Billions of yen (unless otherwise specified)

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

Billions of yen (unless otherwise specified)

2000	2001	2002	2003	2004	2005	2006
¥ 172.0	¥ 182.8	¥ 175.2	¥ 194.4	¥ 199.1	¥ 225.8	¥ 252.4
331.8	375.5	338.9	371.6	362.4	412.6	486.1
90.6	91.7	80.2	83.9	80.6	84.1	79.0
62.1	60.2	59.8	82.5	123.5	174.8	229.2
106.1	122.2	135.4	158.7	167.1	171.6	186.2
143.1	156.7	174.0	168.4	166.6	170.7	233.1
44.6	51.9	54.9	51.6	59.1	56.7	90.6
950.3	1,041.0	1,018.4	1,111.1	1,158.4	1,296.3	1,556.6
227.5	276.5	287.2	327.4	364.1	486.2	611.0
3.3	5.0	3.5	5.7	2.6	5.2	10.0
10.4	7.4	(0.4)	5.0	(1.6)	15.0	17.9
7.2	6.5	8.9	9.3	8.8	11.5	9.8
(5.0)	3.1	(6.3)	0.5	14.3	18.7	21.7
18.9	19.5	17.9	16.7	10.7	14.8	16.6
30.8	38.8	42.0	32.3	27.8	34.4	38.3
4.5	4.4	3.3	4.2	4.9	5.7	5.8
0.0	0.0	(0.1)	(0.2)	(0.9)	(0.1)	0.7
70.1	84.7	68.8	73.5	66.6	105.2	120.8
(8.7)	(8.5)	(7.4)	(5.3)	(2.9)	(3.0)	(2.2)
6.0	11.0	6.7	2.6	8.6	26.7	26.8
32.0	64.4	57.8	63.2	72.3	121.7	158.6
18.4	34.1	30.2	31.1	34.3	64.5	90.7
81.6	62.1	73.0	152.0	110.2	125.8	124.9
75.4	64.6	79.2	69.0	82.5	88.2	104.9
59.3	59.1	66.7	72.8	75.2	78.2	91.9
156.3	94.7	62.9	141.7	97.1	159.8	122.8
(49.5)	(54.9)	(57.2)	(129.2)	(103.2)	(118.0)	(180.7)
(62.2)	(62.6)	(8.8)	(5.2)	(9.3)	(31.2)	70.6
584.4	596.5	595.7	634.8	628.3	694.6	946.6
409.7	400.7	401.7	465.6	481.9	515.9	570.3
272.7	406.4	342.7	307.0	373.1	377.9	600.4
1,322.4	1,455.4	1,393.2	1,484.3	1,549.3	1,648.8	2,178.4
345.0	451.8	444.6	444.3	506.1	569.6	719.8
530.5	474.2	487.3	485.2	485.3	470.7	578.6
17,474	17,392	17,016	17,906	19,036	20,195	24,160
92	98	102	110	110	104	105
134,705	129,835	130,176	124,281	125,463	121,349	116,509
11.33	20.76	18.25	18.74	20.72	38.94	54.80
210.97	272.91	268.57	268.62	306.05	344.58	435.51
5.0	6.0	6.0	6.0	6.0	8.0	10.0

# Financial Review

## 1. Results of Operations

Net sales in the fiscal year ended March 31, 2006 totaled ¥1,556.6 billion (US\$13,251 million), a 20.1% increase from ¥1,296.3 billion for the previous fiscal year. Thanks to improved market conditions, sales in the Basic Chemicals segment and the Petrochemicals & Plastics segment increased, while sales in the IT-related Chemicals segment rose as a result of production capacity expansions. In addition, the merger of Sumitomo Pharmaceuticals Co., Ltd. and Dainippon Pharmaceutical Co. Ltd. in October 2005 boosted sales in the Pharmaceuticals segment.

Cost of sales was ¥1,138.5 billion (US\$9,692 million) compared with ¥933.9 billion for the previous fiscal year. The ratio of cost of sales was 73.1%, 1.1% higher than the previous fiscal year. Selling, general and administrative expenses were ¥297.3 billion (US\$2,531 million), a 15.6% increase from the previous fiscal year. The merger of Sumitomo Pharmaceuticals Co., Ltd. and Dainippon Pharmaceutical Co. Ltd. was a primary factor of increases in both cost of sales and selling, general and administrative expenses.

Research and development expenses for the fiscal year ended March 31, 2006, were ¥91.9 billion (US\$782 million), 17.5% higher than the previous fiscal year's ¥78.2 billion, due mainly to the merger of Sumitomo Pharmaceuticals Co., Ltd. and Dainippon Pharmaceutical Co. Ltd. Annual depreciation and amortization expenses were ¥104.9 billion (US\$893 million), an increase of 19.0% compared with the previous fiscal year's ¥88.2 billion.

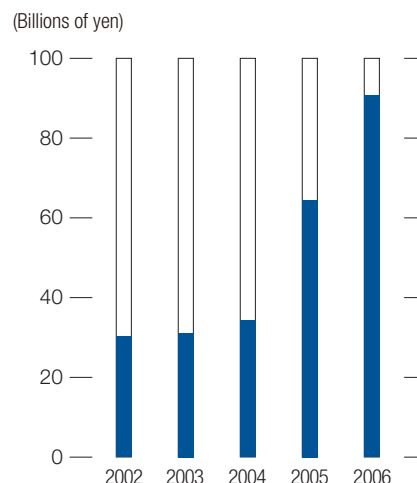
Operating income amounted to ¥120.8 billion (US\$1,028 million), a 14.8% increase from ¥105.2 billion for the previous fiscal year. The ratio of operating income to net sales was 7.8%, compared with the previous fiscal year's 8.1%.

Interest expenses, net of interest and dividend income, were ¥2.2 billion (US\$19 million), a 25.8% decrease compared with ¥3.0 billion for the previous fiscal year. Equity in earnings of affiliates remained at the previous fiscal year's level of ¥26.8 billion. The Company recorded gain on a change in interests in a consolidated subsidiary of ¥14.3 billion (US\$122 million) and expenses for subsidiary merger of ¥6.1 billion (US\$52 million) with regard to the merger of Sumitomo Pharmaceuticals Co., Ltd. and Dainippon Pharmaceutical Co. Ltd. Net gain on sales of securities significantly increased to ¥8.3 billion (US\$70 million) from ¥1.7 billion for the previous fiscal year. The Company recorded gain on business transfer of ¥4.5 billion (US\$38 million) and net gain on sales of property, plant and equipment of ¥2.4 billion (US\$20 million). As a result, income before income taxes and minority interests for the fiscal year ended March 31, 2006 was ¥158.6 billion (US\$1,350 million). Income taxes for the fiscal year ended March 31, 2006 were ¥51.5 billion (US\$439 million).

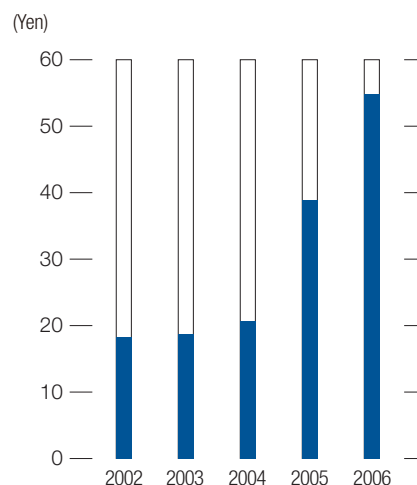
Net income for the fiscal year ended March 31, 2006 was ¥90.7 billion (US\$ 772 million), a 40.7% increase from ¥64.5 billion for the previous fiscal year. Return on Equity (ROE) was 14.1%, up 2.1 percentage points from the previous fiscal year's 12.0%. Net income per share, based on the weighted average number of shares outstanding during the fiscal year ended March 31, 2006 was ¥54.796 (US\$0.466), compared with ¥38.938 for the previous fiscal year.

The Company paid year-end dividend of ¥6 per share, making the annual dividend ¥10 per share for the fiscal year ended March 31, 2006, which was higher by ¥2 per share than the previous fiscal year.

## Net Income



## Net Income per Share





## 2. Segment Information

### (1) Basic Chemicals

Sales in the Basic Chemicals segment rose by 11.8% over the previous fiscal year to ¥252.4 billion (US\$2,149 million). Growth in sales of caprolactam and acrylonitrile (raw materials for synthetic fiber) was driven by favorable market conditions. Sales of aluminum expanded considerably thanks to price increases in the second half.

As a result, operating income in the Basic Chemicals segment rose by 91.7% over the previous fiscal year to ¥10.0 billion (US\$85 million).

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

### (2) Petrochemicals & Plastics

The Petrochemicals & Plastics segment saw a sales increase of 17.8% to ¥486.1 billion (US\$4,138 million). Sales of synthetic resins grew significantly, thanks to solid demand in Asia. Sales of petrochemical products such as styrene monomer and propylene oxide increased in spite of the challenging business climate because sustained market growth absorbed the negative impact of higher selling prices driven by price hikes for feedstocks such as naphtha.

Operating income in the Petrochemicals & Plastics segment improved by 19.5% to ¥17.9 billion (US\$153 million), buoyed by favorable market conditions in Asia.

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

### (3) Fine Chemicals

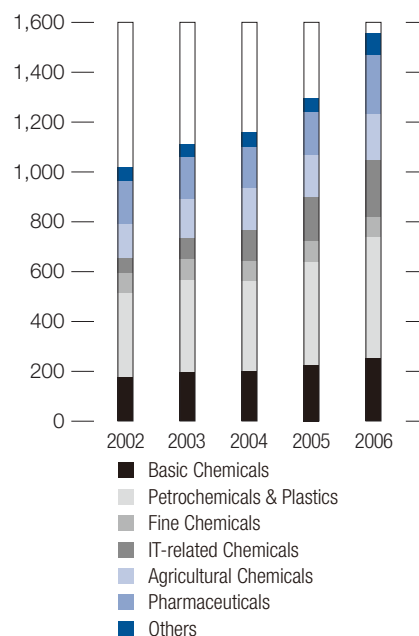
Sales in the Fine Chemicals segment decreased by 6.0% to ¥79.0 billion (US\$673 million). Sales of adhesives raw materials firmed up, while intensifying competition caused a decrease in sales of bulk pharmaceuticals.

As a result, operating income in the Fine Chemicals segments showed a decrease of 14.9% to ¥9.8 billion (US\$84 million) due particularly to the impact of fierce market condition about bulk pharmaceuticals.

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

## Breakdown of Sales by Business Segment

(Billions of yen)



## Industry Segment Results

Fiscal years ended March 31, 2006 and 2005

Segment information by product group	Millions of yen								Consolidated
	Basic Chemicals	Petrochemicals	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Others	Adjustments & Elimination	
<b>Year ended March 31, 2006</b>									
Sales to unaffiliated customers.....	¥252,399	¥486,054	¥79,011	¥229,240	¥186,232	¥233,101	¥90,569		¥1,556,606
Operating income .....	9,994	17,918	9,826	21,704	16,578	38,286	5,762	722	120,790
Operating income ratio .....	4.0%	3.7%	12.4%	9.5%	8.9%	16.4%	6.4%		7.8%
Operating income growth (decrease) ..	91.7%	19.5%	(14.9)%	15.8%	11.8%	11.2%	1.0%		14.8%
<b>Year ended March 31, 2005</b>									
Sales to unaffiliated customers.....	¥225,765	¥412,576	¥84,059	¥174,792	¥171,644	¥170,707	¥56,772		¥1,296,315
Operating income.....	5,212	14,992	11,545	18,742	14,828	34,440	5,705	(282)	105,182
Operating income ratio.....	2.3%	3.6%	13.7%	10.7%	8.6%	20.2%	10.0%		8.1%
Operating income growth (decrease) ..	102.0%	—	31.0%	30.7%	38.3%	23.7%	16.6%		57.9%

#### (4) IT-related Chemicals

Sales in the IT-related Chemicals segment rose by 31.2% to ¥229.2 billion (US\$1,951 million). Although selling prices of color filters and polarizing films, materials for liquid crystal displays, decreased, shipments of these products increased significantly as a result of production capacity expansion, most notably in Korea.

As a result, the segment's operating income improved by 15.8% to ¥21.7 billion (US\$185 million).

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

#### (5) Agricultural Chemicals

Sales in the Agricultural Chemicals segment were boosted by 8.5% over the previous fiscal year to ¥186.2 billion (US\$1,585 million). Overseas sales of agrochemicals were brisk, driven especially by expanded sales of herbicides in the North American market. In addition, shipments of feed additives increased as a result of expanded sales promotion.

Consequently, operating income of the Agricultural Chemicals segment increased by 11.8% to ¥16.6 billion (US\$141 million).

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

#### (6) Pharmaceuticals

Sales in the Pharmaceuticals segment expanded by 36.6% over the previous fiscal year to ¥233.1 billion (US\$1,984 million). In October 2005, Sumitomo Pharmaceuticals Co., Ltd. and Dainippon Pharmaceutical Co. Ltd. merged to form Dainippon Sumitomo Pharma Co. Ltd. Each of the major products in the segment, including former Sumitomo Pharmaceuticals' products, Amlodin (a therapeutic agent for hypertension and angina pectoris) and Meropen (a carbapenem antibiotic), and products of the former Dainippon Pharmaceutical, Gasmotin (a gastroprokinetic agent) and Prorenal (a peripheral circulation improvement agent), posted firm sales.

The Pharmaceuticals segment saw an increase in operating income 11.2% to ¥38.3 billion (US\$326 million).

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

#### (7) Others

Sales in the Others segment increased by 59.5% from the previous fiscal year to ¥90.6 billion (US\$771 million), mainly because former Dainippon Pharmaceutical products outside the category of pharmaceuticals, such as special therapeutic pet food, joined this segment.

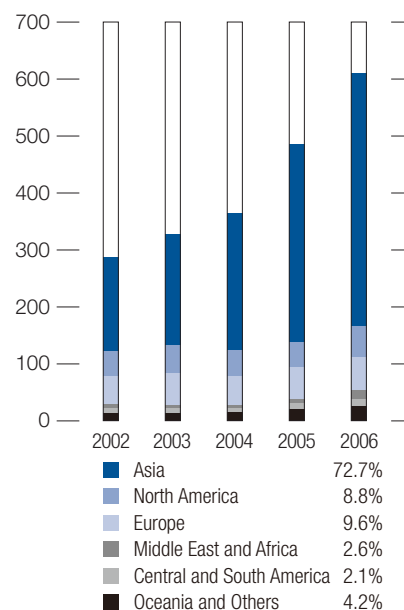
The segment's operating income improved by 1.0% to ¥5.8 billion (US\$49 million).

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

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

#### Breakdown of Overseas Operations

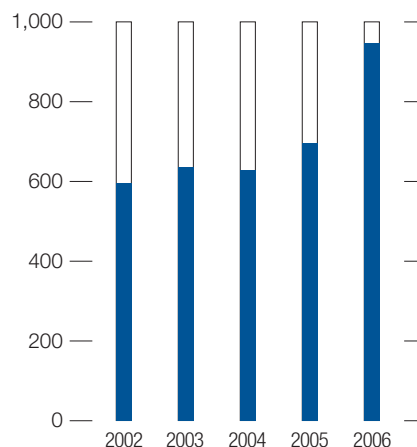
(Billions of yen)



Note: Percentages are for the fiscal year ended March 31, 2006

#### Total Current Assets

(Billions of yen)



### 3. Overseas Operations

Revenue from overseas operations, including both sales by overseas subsidiaries and exports from Japan, for the fiscal year ended March 31, 2006, were ¥611.0 billion (US\$5,201 million), 25.7% higher than ¥486.2 billion in the previous fiscal year, due mainly to capacity expansions in the IT-related business and the improvement of market conditions for petrochemical products mainly in China, Korea and other Asian countries.

The ratio of revenue from overseas operations to net sales was 39.2%, compared with 37.5% for the previous fiscal year.

### 4. Geographic Information

Net sales from operations outside Japan were ¥404.4 billion (US\$3,442 million) and ¥299.6 billion for the year ended March 31, 2006 and 2005, respectively, and accounted for 26.0% and 23.1% of the respective consolidated total sales. Net sales in Asia were ¥319.2 billion (US\$2,717 million), a 44.2% increase from ¥221.3 billion for the previous fiscal year.

Operating income from operation outside Japan for the fiscal year ended March 31, 2006 was ¥41.7 billion (US\$355 million), a 36.8% increase from ¥30.5 billion for the previous fiscal year. Operating income in Asia was ¥33.4 billion (US\$285 million), a 40.2% increase from ¥23.8 billion for the previous fiscal year.

Overseas assets as of March 31, 2006 amounted to ¥483.7 billion (US\$4,118 million), 36.9% higher than the previous fiscal year's ¥353.2 billion, while assets in Asia as of March 31, 2006 amounted to ¥270.0 billion (US\$2,298 million), 37.9% higher than the previous fiscal year's ¥195.7 billion

The ratio of overseas assets to total assets for the fiscal year ended March 31, 2006 was 22.2%, up 0.8 percentage point from the previous fiscal year and the ratio of assets in Asia to total assets for the fiscal year ended March 31, 2006 was 12.4%, up 0.5 percentage point from the previous fiscal year.

### 5. Financial Position

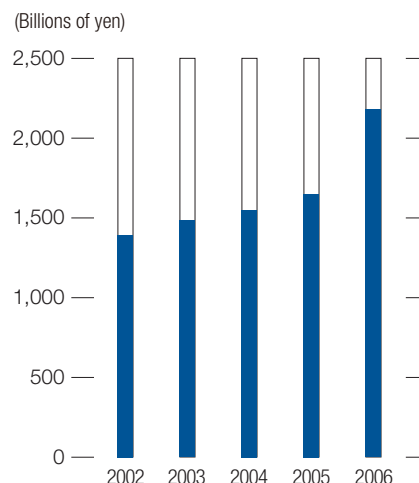
Total assets as of March 31, 2006 increased to ¥2,178.4 billion (US\$18,544 million), compared with ¥1,648.8 billion as of March 31, 2005, due to the merger of Sumitomo Pharmaceuticals Co., Ltd. and Dainippon Pharmaceutical Co. Ltd. as well as the following other reasons.

Current assets as of March 31, 2006 amounted to ¥946.6 billion (US\$8,058 million), up 36.3% from ¥694.6 billion as of March 31, 2005. Increase in accounts receivable and inventories resulting from a rise in sales led to the increase in current assets. Current liabilities were ¥666.9 billion (US\$5,677 million), up 25.7% from ¥530.6 billion as of March 31, 2005. Increase in issues commercial paper resulted in increased in current liabilities. The current ratio was 141.9% compared with 130.9% as of March 31, 2005. Investments and other non-current assets as of March 31, 2006 totaled ¥600.4 billion (US\$ 5111 million), compared with ¥377.9 billion as of March 31, 2005. Increase in fair market value of securities and investment in Rabigh Refining and Petrochemical Company were the main factors of the increase in Investments and other non-current assets.

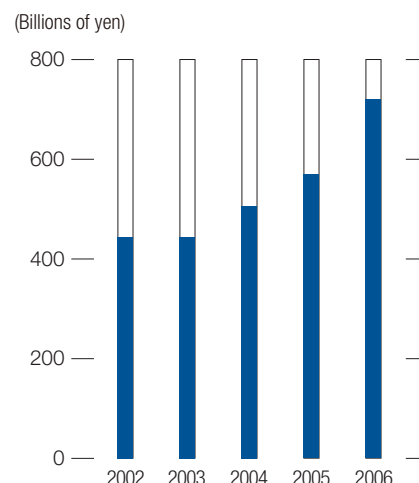
Total debt (short-term and long-term borrowings from banks, debt on bonds and notes, and commercial paper) as of March 31, 2006 amounted to ¥ 578.6 billion (US\$4,925 million), 22.9% higher than ¥470.7 billion as of March 31, 2005.

Shareholders' equity was ¥ 719.8 billion (US\$6,127 million) at March 31, 2006, a 26.3% increase from ¥569.6 billion as of March 31, 2005. The ratio of shareholders' equity to total assets was 33.0% as of March 31, 2006, compared with 34.5% as of March 31, 2005. Unrealized gains on investment securities amounted to ¥155.9 billion (US\$1,327 million), compared with ¥96.1 billion as of March 31, 2005. Foreign currency translation

### Total Assets



### Shareholders' Equity



adjustment amounted to ¥2.2 billion (US\$19 million), compared with negative ¥16.7 billion as of March 31, 2005.

The number of shares issued and outstanding as of March 31, 2006 was 1,652,432,094 shares. Retained earnings amounted to ¥ 445.9 billion (US\$3,796 million), a 19.2% increase from ¥374.2 billion as of March 31, 2005.

## 6. Cash Flows

Net cash provided from operating activities for the year ended March 31, 2006 was ¥122.8 billion (US\$1,045 million), ¥37.0 billion lower than ¥159.8 billion for the previous fiscal year. While contribution of net income before income taxes and minority interests, which was ¥158.6 billion (US\$1,350 million), exceeded the previous fiscal year's ¥121.7 billion, increase in accounts receivable and inventories resulted in the decrease in operating cash flows. Increase in income taxes paid also accounted for the decrease in operating cash flows.

Net cash used for investing activities for the year ended March 31, 2006 was ¥180.7 billion (US\$1,538 million), which increased by ¥62.7 billion from the previous fiscal year. Acquisition of investment ¥42.0 billion (US\$357 million) related to investment in Rabigh Refining and Petrochemical Company was the main factor of this increase.

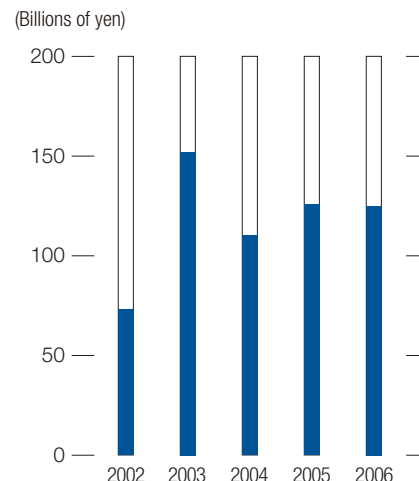
As a result, free cash flow, which consists of cash flows provided by operating activities and investing activities, turned to a negative ¥57.9 billion (US\$493 million) for the year ended March 31, 2006, compared with a positive ¥41.9 billion for the previous fiscal year.

Net cash acquired in financing activities was ¥70.6 billion (US\$601 million), because of increase in short-term and long-term debt.

Increase in cash due to merger of consolidated subsidiaries was recorded with ¥42.1 billion (US\$359 million) pertaining to the merger of Sumitomo Pharmaceuticals Co., Ltd. and Dainippon Pharmaceutical Co. Ltd.

Cash and cash equivalents were ¥111.0 billion (US\$945 million) for the year ended March 31, 2006, a net increase of ¥55.7 billion over the previous fiscal year.

## Capital Expenditures



## Breakdown of Capital Expenditures

	Billions of yen, %											
	2001		2002		2003		2004		2005		2006	
<b>New plants and expansions*:</b>												
Basic Chemicals .....	¥ 2.9	4%	¥ 2.4	3%	¥ 11.3	7%	¥ 5.4	5%	¥ 10.2	8%	¥ 11.4	9%
Petrochemicals .....	3.2	5	6.3	9	20.3	13	3.6	3	5.7	5	4.2	3
Fine Chemicals .....	5.5	9	3.3	5	2.1	2	3.6	3	3.7	3	1.9	2
IT-related Chemicals .....	3.3	5	6.1	8	26.3	17	34.6	31	36.5	29	34.8	28
Agricultural Chemicals .....	1.7	3	16.4	22	23.5	16	1.7	2	14.0	11	4.0	3
Pharmaceuticals .....	3.4	6	0.5	1	1.7	1	8.0	7	1.0	1	0.7	1
Others .....	1.4	2	1.8	2	5.8	4	1.4	2	1.2	1	3.0	2
Subtotal .....	21.4	34	36.8	50	91.0	60	58.3	53	72.3	58	60.0	48
<b>Rationalization of production processes .....</b>	3.5	6	5.7	8	6.7	4	4.7	4	7.4	6	6.2	5
<b>Research and development .....</b>	6.6	11	6.5	9	8.9	6	9.8	9	7.3	6	9.0	7
<b>Others .....</b>	30.6	49	24.0	33	45.4	30	37.4	34	38.8	31	49.7	40
<b>Total .....</b>	¥62.1	100%	¥73.0	100%	¥152.0	100%	¥110.2	100%	¥125.8	100%	¥124.9	100%

\*Includes acquisition

## 7. Capital Expenditures

In the year ended March 31, 2006, the Companies' capital investments totaled ¥124.9 billion (US\$1,063 million) which includes investment for new installations and expansions of manufacturing facilities as well as those for streamlining of existing facilities.

In the IT-related Chemicals segment, capital investments of ¥44.0 billion (US\$374 million) were directed at increasing production capacity of polarizing film and color filter facilities in Korea and new production lines of polarizing film in China.

In the Basic Chemicals segment, the Company invested ¥20.7 billion (US\$176 million) to reinforce manufacturing facilities in Singapore.

Other segments' investments were ¥16.1 billion (US\$137 million) in the Petrochemicals & Plastic segment, ¥10.6 billion (US\$90 million) in the Pharmaceuticals segment, ¥8.8 billion (US\$75 million) in the Agricultural Chemicals segment, ¥7.0 billion (US\$60 million) in the Fine Chemicals segment, and ¥8.0 billion (US\$68 million) in Others.

## 8. Research and Development

The Company's basic R&D policy is to develop superior proprietary technologies that will contribute to higher profitability and expanded business operations. The Company is promoting R&D proactively through close collaboration between a number of corporate laboratories and business segment laboratories to generate best possible overall achievements in both efficiency and technological synergies.

R&D expenses were ¥91.9 billion (US\$782 million), up 17.5% from the fiscal year ended March 31, 2006, due mainly to the impact of the merger of Sumitomo Pharmaceuticals Co., Ltd. and Daiippon Pharmaceutical Co. Ltd.

## 9. Financial Risk Management

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

### (1) Foreign currency risk

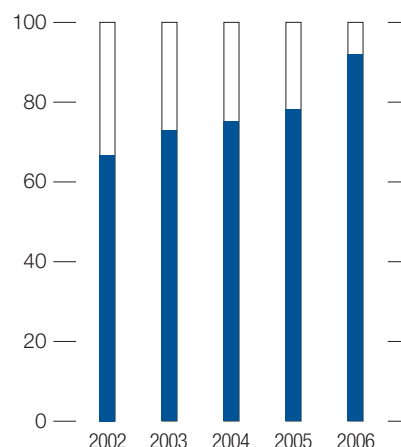
The Companies have foreign currency revenue from sales of products and foreign currency payment mainly for purchase of raw materials. Since the Companies' foreign currency revenue is greater than their foreign currency payment, appreciation of the yen exerts a negative effect on financial results. In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

### (2) Interest risk

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

## Research and Development Expenses

(Billions of yen)



# Consolidated Balance Sheets

Sumitomo Chemical Company, Limited and Subsidiaries  
March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents (Note 16) .....	¥ 110,972	¥ 55,242	\$ 944,684
Short-term investments .....	2,273	285	19,350
Marketable securities (Note 4) .....	—	31	—
Receivables—			
Trade notes and accounts (Note 6) .....	399,255	306,093	3,398,783
Other .....	81,935	60,321	697,497
Allowance for doubtful receivables .....	(2,804)	(3,217)	(23,870)
	478,386	363,197	4,072,410
Inventories .....	294,820	234,574	2,509,747
Deferred tax assets (Note 12) .....	31,478	26,549	267,966
Other .....	28,625	14,710	243,679
Total current assets .....	946,554	694,588	8,057,836
<b>Investments and other non-current assets:</b>			
Investment securities (Notes 4, 5 and 6) .....	502,963	348,973	4,281,629
Other (Note 5 and 6) .....	99,086	30,219	843,501
Allowance for doubtful receivables .....	(1,645)	(1,269)	(14,004)
	600,404	377,923	5,111,126
<b>Property, plant and equipment (Note 6 and 9):</b>			
Land .....	78,073	82,052	664,621
Buildings and structures .....	470,139	412,179	4,002,205
Machinery and equipment .....	1,222,314	1,113,831	10,405,329
Construction in progress .....	31,907	46,755	271,618
	1,802,433	1,654,817	15,343,773
Less accumulated depreciation .....	(1,232,111)	(1,138,951)	(10,488,729)
	570,322	515,866	4,855,044
<b>Other assets:</b>			
Excess of cost over equity in net assets acquired .....	998	1,792	8,496
Deferred tax assets (Note 12) .....	15,878	19,347	135,166
Goodwill .....	7,311	10,582	62,237
Software .....	12,958	11,958	110,309
Products registration rights .....	5,393	4,982	45,910
Facilities rights and others .....	18,559	11,758	157,989
	61,097	60,419	520,107
	¥ 2,178,377	¥ 1,648,796	\$ 18,544,113

See accompanying notes.



	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities:</b>			
Short-term debt (Note 6) .....	¥ 159,217	¥ 120,161	\$ 1,355,384
Long-term debt due within one year (Note 6) .....	44,635	43,460	379,969
Payables—			
Trade notes and accounts .....	265,232	202,273	2,257,870
Other .....	96,809	72,603	824,117
	<b>362,041</b>	<b>274,876</b>	<b>3,081,987</b>
Accrued expenses .....	25,220	24,008	214,693
Income taxes payable .....	20,135	24,637	171,405
Deferred tax liabilities (Note 12) .....	163	200	1,388
Other .....	55,467	43,240	472,181
Total current liabilities .....	<b>666,878</b>	<b>530,582</b>	<b>5,677,007</b>
<b>Long-term liabilities:</b>			
Long-term debt due after one year (Note 6) .....	374,729	307,035	3,189,997
Deferred tax liabilities (Note 12) .....	102,045	58,246	868,690
Retirement benefits (Note 10) .....	52,917	46,909	450,472
Other .....	37,584	29,155	319,946
Total long-term liabilities .....	<b>567,275</b>	<b>441,345</b>	<b>4,829,105</b>
Minority interests in consolidated subsidiaries .....	224,464	107,268	1,910,820
<b>Contingent liabilities (Note 14)</b>			
<b>Shareholders' equity (Note 13):</b>			
Common stock,			
Authorized — 5,000,000,000 shares			
Issued — 1,655,446,177 shares at March 31, 2006			
1,655,446,177 shares at March 31, 2005 .....	89,699	89,699	763,591
Capital surplus .....	23,754	23,730	202,213
Retained earnings .....	445,915	374,168	3,795,990
Land revaluation reserve (Note 15) .....	3,811	3,811	32,442
Unrealized gains on investment securities .....	155,856	96,111	1,326,773
Foreign currency translation adjustments .....	2,191	(16,743)	18,652
Treasury stock, at cost			
3,014,083 shares at March 31, 2006			
2,626,683 shares at March 31, 2005 .....	(1,466)	(1,175)	(12,480)
Total shareholders' equity .....	<b>719,760</b>	<b>569,601</b>	<b>6,127,181</b>
	<b>¥ 2,178,377</b>	<b>¥ 1,648,796</b>	<b>\$18,544,113</b>

See accompanying notes.

# Consolidated Statements of Income

Sumitomo Chemical Company, Limited and Subsidiaries  
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
<b>Net sales</b> .....	¥ 1,556,606	¥ 1,296,315	¥ 1,158,402	\$ 13,251,094
<b>Cost of sales</b> .....	1,138,536	933,892	850,188	9,692,143
<b>Selling, general and administrative expenses</b> .....	297,280	257,241	241,594	2,530,688
Operating income .....	120,790	105,182	66,620	1,028,263
<b>Other income (expenses):</b>				
Interest and dividend income .....	5,698	4,206	4,962	48,506
Interest expenses .....	(7,917)	(7,197)	(7,808)	(67,396)
Equity in earnings of affiliates .....	26,815	26,696	8,596	228,271
Gain on change in interests in consolidated subsidiary .....	14,273	—	—	121,503
Net gain on sale of securities .....	8,276	1,718	3,138	70,452
Net gain (loss) on foreign currency transactions .....	5,746	5,820	(1,790)	48,915
Gain on business transfer .....	4,516	—	—	38,444
Net gain (loss) on sale of property, plant and equipment .....	2,368	(397)	9,060	20,158
Expenses for subsidiary merger .....	(6,116)	—	—	(52,064)
Restructuring charges (Note 11) .....	(5,853)	(3,436)	(4,486)	(49,825)
Loss on disposal of inventories .....	(5,091)	(3,884)	(3,075)	(43,339)
Reversal of allowance for doubtful receivables .....	—	2,417	720	—
Loss on impairment of fixed assets (Note 9) .....	—	(2,515)	—	—
Loss associated with lease contract cancellation .....	—	—	(2,451)	—
Other, net .....	(4,914)	(6,950)	(1,177)	(41,833)
Income before income taxes and minority interests .....	158,591	121,660	72,309	1,350,055
<b>Income taxes (Note 12):</b>				
Current .....	42,750	36,218	26,224	363,922
Deferred .....	8,775	7,384	4,744	74,700
	51,525	43,602	30,968	438,622
<b>Minority interests</b> .....	16,401	13,606	7,023	139,619
<b>Net income</b> .....	¥ 90,665	¥ 64,452	¥ 34,318	\$ 771,814

	Yen			U.S. dollars (Note 1)
	2006	2005	2004	2006
<b>Net income per share</b> .....	¥ 54.80	¥ 38.94	¥ 20.72	\$ 0.466
<b>Dilutive net income per share</b> .....	—	38.69	20.57	—

Dilutive net income per share in 2006 is not disclosed because it is anti-dilutive.

See accompanying notes.

# Consolidated Statements of Shareholders' Equity

Sumitomo Chemical Company, Limited and Subsidiaries  
Years ended March 31, 2006, 2005 and 2004

	Millions of yen							
	Shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Land revaluation reserve	Unrealized gains on investment securities	Foreign currency translation adjustments	Treasury stock
<b>Balance at March 31, 2003</b>	1,655,446	¥ 89,699	¥ 21,411	¥ 299,896	¥ 3,982	¥ 42,951	¥ (12,892)	¥ (713)
Net income				34,318				
Cash dividends at ¥6.0 per share				(9,925)				
Bonuses to directors and statutory auditors				(129)				
Adjustment for decrease in consolidated subsidiaries				(13)				
Decrease mainly due to changes in accounting policies by overseas subsidiaries and affiliates				(2,157)				
Surplus from sales of treasury stock			2					
Net increase in unrealized gains on investment securities, net of tax						45,092		
Foreign currency translation adjustments							(5,337)	
Net increase in treasury stock								(63)
<b>Balance at March 31, 2004</b>	1,655,446	89,699	21,413	321,990	3,982	88,043	(18,229)	(776)
Net income				64,452				
Cash dividends at ¥6.0 per share				(9,924)				
Bonuses to directors and statutory auditors				(63)				
Transfer from retained earnings to capital surplus for merger of consolidated subsidiaries			2,284	(2,284)				
Adjustment for changes in consolidated subsidiaries and affiliates accounted for by the equity method				(3)				
Surplus from sales of treasury stock			33					
Net increase in unrealized gains on investment securities, net of tax						8,068		
Revaluation of land by certain affiliates, net of tax					(171)			
Foreign currency translation adjustments							1,486	
Net increase in treasury stock								(399)
<b>Balance at March 31, 2005</b>	1,655,446	89,699	23,730	374,168	3,811	96,111	(16,743)	(1,175)
Net income				90,665				
Cash dividends at ¥9.0 per share				(14,880)				
Bonuses to directors and statutory auditors				(79)				
Adjustment for changes in consolidated subsidiaries and affiliates accounted for by the equity method				(3,959)				
Surplus from sales of treasury stock			24					
Net increase in unrealized gains on investment securities, net of tax						59,745		
Foreign currency translation adjustments							18,934	
Net increase in treasury stock								(291)
<b>Balance at March 31, 2006</b>	1,655,446	¥ 89,699	¥ 23,754	¥ 445,915	¥ 3,811	¥ 155,856	¥ 2,191	¥ (1,466)

	Thousands of U.S. dollars (Note 1)							
<b>Balance at March 31, 2005</b>	\$ 763,591	\$ 202,009	\$ 3,185,222	\$ 32,442	\$ 818,175	\$ (142,530)	\$ (10,003)	
Net income			771,814					
Cash dividends at ¥9.0 (US\$0.077) per share			(126,671)					
Bonuses to directors and statutory auditors			(673)					
Adjustment for changes in consolidated subsidiaries and affiliates accounted for by the equity method			(33,702)					
Surplus from sales of treasury stock			204					
Net increase in unrealized gains on investment securities, net or tax						508,598		
Foreign currency translation adjustments							161,182	
Net increase in treasury stock								(2,477)
<b>Balance at March 31, 2006</b>	\$ 763,591	\$ 202,213	\$ 3,795,990	\$ 32,442	\$ 1,326,773	\$ 18,652	\$ (12,480)	

See accompanying notes.

# Consolidated Statements of Cash Flows

Sumitomo Chemical Company, Limited and Subsidiaries  
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
<b>Cash flows from operating activities:</b>				
Income before income taxes and minority interests .....	¥ 158,591	¥ 121,660	¥ 72,309	\$ 1,350,055
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities—				
Depreciation and amortization .....	104,906	88,166	82,482	893,045
Loss on impairment of fixed assets .....	—	2,515	—	—
Equity in earnings of affiliates .....	(9,597)	(1,020)	(1,536)	(81,697)
Interest and dividend income .....	(5,698)	(4,206)	(4,962)	(48,506)
Interest expenses .....	7,917	7,197	7,808	67,396
Gain on sale of securities .....	(8,276)	(1,754)	(3,226)	(70,452)
(Gain) loss on sale of property, plant and equipment .....	(2,368)	397	(9,060)	(20,158)
Gain on change in interests in consolidated subsidiary .....	(14,273)	—	—	(121,503)
Gain on business transfer .....	(4,516)	—	—	(38,444)
Restructuring charges .....	3,547	2,312	3,398	30,195
Increase (decrease) of provision for retirement benefits and others ..	2,405	(12,568)	(1,359)	20,473
(Increase) decrease in notes and accounts receivable .....	(39,548)	6,970	(18,328)	(336,665)
(Increase) decrease in inventories .....	(37,209)	(24,103)	7,183	(316,753)
Increase in notes and accounts payable .....	39,545	4,195	11,115	336,639
Other, net .....	(20,401)	2,011	(11,018)	(173,670)
Subtotal .....	175,025	191,772	134,806	1,489,955
Interest and dividends received .....	5,782	4,304	3,485	49,221
Interest paid .....	(7,728)	(7,135)	(7,866)	(65,787)
Income taxes paid .....	(50,296)	(29,122)	(33,373)	(428,160)
Net cash provided by operating activities .....	122,783	159,819	97,052	1,045,229
<b>Cash flows from investing activities:</b>				
Acquisition of securities .....	(30,384)	(1,200)	(11,252)	(258,653)
Proceeds from sale of securities .....	12,024	12,737	18,959	102,358
Acquisition of investments .....	(41,983)	(188)	—	(357,393)
Acquisition of property, plant and equipment .....	(121,601)	(133,796)	(132,868)	(1,035,167)
Proceeds from sale of property, plant and equipment .....	13,367	991	19,141	113,791
Proceeds from sale of business .....	1,786	—	—	15,204
Proceeds from sales of subsidiaries' shares resulting in changes in consolidation .....	—	2,440	—	—
Advance of loans receivable .....	(21,044)	(2,972)	(3,662)	(179,144)
Collection of loans receivable .....	23,915	2,411	6,055	203,584
Other, net .....	(16,759)	1,624	387	(142,666)
Net cash used in investing activities .....	(180,679)	(117,953)	(103,240)	(1,538,086)
<b>Cash flows from financing activities:</b>				
Dividends paid .....	(14,880)	(9,924)	(9,925)	(126,671)
Increase (decrease) in commercial paper .....	40,000	(17,500)	7,500	340,512
Proceeds from other short-term debt .....	200,650	192,590	121,828	1,708,096
Repayments of other short-term debt .....	(202,466)	(195,444)	(126,890)	(1,723,555)
Proceeds from long-term debt .....	116,048	99,743	100,473	987,895
Repayments of long-term debt .....	(58,217)	(94,792)	(99,114)	(495,589)
Distributions to minority shareholders .....	(12,063)	(6,400)	(3,888)	(102,690)
Capital contributions from minority shareholders .....	1,789	918	782	15,229
Purchase of treasury stocks and other, net .....	(280)	(395)	(81)	(2,384)
Net cash provided by financing activities .....	70,581	(31,204)	(9,315)	600,843
Effect of exchange rate changes on cash and cash equivalents .....	1,002	190	(2,007)	8,529
Net increase (decrease) in cash and cash equivalents .....	13,687	10,852	(17,510)	116,515
Increase in cash due to merger of consolidated subsidiaries .....	42,121	45	58	358,568
Decrease in cash resulting from changes in the number of consolidated subsidiaries .....	(78)	(50)	(44)	(664)
Cash and cash equivalents at beginning of year .....	55,242	44,395	61,891	470,265
Cash and cash equivalents at end of year (Note 16) .....	¥ 110,972	¥ 55,242	¥ 44,395	\$ 944,684

See accompanying notes.

# Notes to Consolidated Financial Statements

Sumitomo Chemical Company, Limited and Subsidiaries  
Years ended March 31, 2006, 2005 and 2004

## 1. Basis of Financial Statements

(a) The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

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

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

(b) The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117.47 to U.S.\$1.00. Such translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

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

## 2. Significant Accounting Policies

### (a) Consolidation

The consolidated financial statements include the accounts of the Company and 105, 104 and 110 significant subsidiaries for the years ended March 31, 2006, 2005 and 2004, respectively. All significant intercompany transactions and accounts have been eliminated. Accounts of subsidiaries whose business year-ends precede that of the Company by more than three months have been included using appropriate interim financial information.

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has control through majority voting rights or certain other conditions evidencing control by the Company. Investments in non-consolidated subsidiaries and affiliates (generally 20% - 50% ownership) over which the Company has the ability to exercise significant influence in operating and financial policies are accounted for by the equity method. The equity method is applied to 36, 35, and 38 significant affiliates for the years ended March 31, 2006, 2005 and 2004, respectively.

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

### (b) Foreign currency translation

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

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

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

### (c) Allowance for doubtful receivables

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

### (d) Securities

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

The Companies have no trading securities.

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

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

Available-for-sale securities whose fair value is readily determinable are stated at fair value as of the end of the year with unrealized gains and losses, net of applicable deferred tax assets/liabilities and minority interests, not reflected in earnings but directly reported as a separate component of shareholders’ equity. Realized gains or losses on sales of such securities are

computed using moving-average cost. Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving average cost.

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

*(e) Derivatives and hedge accounting*

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

*(f) Inventories*

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

*(g) Property, plant and equipment*

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

*(h) Intangible assets*

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

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

*(i) Impairment of long-lived Assets*

The Company's U.S. consolidated subsidiaries adopted SFAS

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

*(j) Finance leases*

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

*(k) Research and development*

Expenses relating to research and development activities are charged to income as incurred. Research and development expenses were ¥91,866 million (US\$782,038 thousand), ¥78,208 million and ¥75,194 million for the years ended March 31, 2006, 2005 and 2004, respectively.

*(l) Bond issue expenses*

Bond issue expenses are charged to income as incurred.

*(m) Income taxes*

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

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

*(n) Retirement benefits*

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



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

The unrecognized net actuarial gain or loss is amortized mainly over three years. Past period service costs are amortized mainly over three years.

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

(o) Reserve for periodic repairs

The Company and several consolidated subsidiaries provide for the costs of periodic repairs of production facilities at plants. In the consolidated balance sheets ¥6,480 million (US\$55,163 thousand) and ¥6,100 million were included in "other current liabilities" and "other long-term liabilities" at March 31, 2006 and 2005, respectively.

(p) Net income per share

The computation of net income per share of common stock shown in the consolidated statements of income is based on the weighted average number of shares outstanding during the

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

(q) Cash and cash equivalents

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

### 3. Change in accounting policies

#### Impairment of fixed assets

In August 2002, the Business Accounting Deliberation Council in Japan issued the Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets, which requires that the book value of fixed assets should be devalued to the recoverable amount. The Companies adopted the Opinion in the year ended March 31, 2005.

## 4. Securities

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

### Held-to-maturity debt securities

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

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

(b) Other held-to-maturity debt securities

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

### Held-to-maturity debt securities

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

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
Bonds .....	\$ 4,290	\$ 4,290	\$ 0

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

	Thousands of U.S. dollars		
	Book value	Fair value	Difference
Bonds .....	\$ 12,727	\$ 12,301	\$ (426)

**Available-for-sale securities**

## (a) Securities with book values exceeding acquisition cost

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

## (b) Other securities

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

**Available-for-sale securities**

## (a) Securities with book values exceeding acquisition cost

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities .....	\$ 527,760	\$ 2,911,050	\$ 2,383,290
Other .....	647	672	25
	\$ 528,407	\$ 2,911,722	\$ 2,383,315

## (b) Other securities

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities .....	\$ 2,401	\$ 2,052	\$ (349)

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

	Millions of yen	U.S. dollars
Held-to-maturity debt securities		
Local government bonds and other .....	¥ 162	\$ 1,379
Available-for-sale securities		
Non-listed equity securities .....	13,754	117,085
Preferred securities .....	13,007	110,726
Commercial paper and others .....	12,992	110,598
Investment in non-consolidated subsidiaries and affiliates .....	131,759	1,121,640
Total .....	¥ 171,674	\$ 1,461,428

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

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

	Thousands of U.S. dollars		
	Within one year	Over one year but within five years	Over five years but within ten years
Local government bonds	\$ —	\$ 903	\$ 358
Bonds .....	—	17,017	—
Commercial paper and other .....	110,590	119	—
Total .....	\$ 110,590	\$ 18,039	\$ 358

Total sales of available-for-sale securities in the year ended March 31, 2006 amounted to ¥11,318 million (US\$96,348 thousand) and the related gains amounted to ¥8,190 million (US\$69,720 thousand).

Securities with available fair values included in investment securities as of March 31, 2005 were as follows:

#### Available-for-sale securities

(a) Securities with book values exceeding acquisition cost

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities .....	¥ 46,243	¥ 214,529	¥ 168,286
Bonds .....	5	5	0
Total .....	¥ 46,248	¥ 214,534	¥ 168,286

(b) Other securities

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

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

	Millions of yen
Held-to-maturity debt securities	
Local government bonds and other .....	¥ 201
Available-for-sale securities	
Non-listed equity securities .....	9,604
Preferred securities .....	13,007
Certificate of deposit and others .....	1,700
Investment in non-consolidated subsidiaries and affiliates .....	110,976
Total .....	¥ 135,488

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

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

Total sales of available-for-sale securities in the year ended March 31, 2005 amounted to ¥11,743 million and the related gains and losses amounted to ¥1,733 million and ¥30 million, respectively

## 5. Investments in Related Companies

Investments in non-consolidated subsidiaries and affiliates included in the balance sheet at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Investment securities .....	¥ 131,759	¥ 110,976	\$ 1,121,640
Other non-current assets .....	49,125	6,960	418,192
Total .....	¥ 180,884	¥ 117,936	\$ 1,539,832

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

Interest rates on short-term bank loans ranged from 0.07% to 13.5% and from 0.28% to 13.5% at March 31, 2006 and 2005, respectively.

Short-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Bank loans .....	¥ 99,217	¥ 100,161	\$ 844,615
Commercial paper .....	60,000	20,000	510,769
	¥ 159,217	¥ 120,161	\$ 1,355,384

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
0.05%-0.34% Euro notes under medium-term note programs due 2006 .....	¥ 6,000	¥ 8,723	\$ 51,077
0.44%-3.0% debentures due 2006-2015 .....	267,500	237,500	2,277,176
0.43%-7.5% long-term bank loans payable due through 2032 .....	145,864	104,272	1,241,713
	419,364	350,495	3,569,966
Less amounts due within one year .....	(44,635)	(43,460)	(379,969)
	¥ 374,729	¥ 307,035	\$ 3,189,997

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007 .....	¥ 44,635	\$ 379,969
2008 .....	48,133	409,747
2009 .....	68,890	586,448
2010 .....	33,896	288,550
2011 .....	34,659	295,046
2012 and thereafter .....	189,151	1,610,206
	<b>¥ 419,364</b>	<b>\$ 3,569,966</b>

At March 31, 2006, assets pledged as collateral for short-term debt, long-term debt and others were as follows:

	Millions of yen	Thousands of U.S. dollars
Trade notes and accounts receivable .....	¥ 93	\$ 792
Property, plant and equipment, net of accumulated depreciation .....	20,699	176,206
Investment securities and other non-current assets .....	44,016	374,700
	<b>¥ 64,808</b>	<b>\$ 551,698</b>
Liabilities secured thereby .....	¥ 16,009	\$ 136,282

## 7. Leases

At March 31, 2006 and 2005, assets leased under non-capitalized financial leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Machinery and equipment .....	¥ 10,025	¥ 8,222	\$ 85,341
Buildings and structures .....	—	1	—
Less accumulated depreciation and amortization .....	(5,441)	(4,609)	(46,318)
Total .....	<b>¥ 4,584</b>	<b>¥ 3,614</b>	<b>\$ 39,023</b>

The above “as if capitalized” depreciation and amortization is calculated on the straight line method over lease terms. If the above leases were capitalized, interest of ¥ 35 million (US\$298 thousand) and ¥ 49 million and depreciation and amortization of ¥ 2,088 million (US\$17,775 thousand) and ¥ 1,765 million would have been recorded for the years ended March 31, 2006 and 2005, respectively.

Total lease payments under non-capitalized finance leases were ¥ 2,135 million (US\$18,175 thousand), ¥ 1,812 million and ¥ 2,169 million for the years ended March 31, 2006, 2005 and 2004 respectively.

Obligations under non-capitalized finance leases at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year .....	¥ 1,992	¥ 1,678	\$ 16,958
Due after one year .....	2,624	1,985	22,337
Total .....	<b>¥ 4,616</b>	<b>¥ 3,663</b>	<b>\$ 39,295</b>

Obligations under operating leases at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year .....	¥ 1,369	¥ 3,075	\$ 11,654
Due after one year .....	10,278	11,404	87,495
Total .....	¥ 11,647	¥ 14,479	\$ 99,149

## 8. Derivative Transactions and Hedge Accounting

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

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

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

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

## 9. Impairment of Fixed Assets

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

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

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



## 10. Retirement Benefits

The liabilities for retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected retirement benefit obligation .....	¥ (284,206)	¥ (244,983)	\$ (2,419,392)
Plan assets .....	299,534	210,699	2,549,876
Unfunded retirement benefit obligation .....	15,328	(34,284)	130,484
Unrecognized actuarial differences .....	(60,188)	(11,690)	(512,369)
Unrecognized past period service cost .....	(1,078)	(935)	(9,177)
Net amount recognized .....	(45,938)	(46,909)	(391,062)
Prepaid pension expense .....	6,979	—	59,410
Provision for employees' retirement benefits .....	¥ (52,917)	¥ (46,909)	\$ (450,472)

Net periodic costs for the years ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Service cost .....	¥ 10,365	¥ 8,855	¥ 10,160	\$ 88,235
Interest cost .....	4,119	3,635	4,299	35,064
Expected return on retirement benefit plan assets .....	(3,663)	(2,795)	(2,822)	(31,182)
Amortization of past period service cost .....	(923)	(537)	(145)	(7,857)
Amortization of actuarial differences .....	(1,320)	2,684	12,301	(11,237)
Net periodic cost .....	¥ 8,578	¥ 11,842	¥ 23,793	\$ 73,023

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

	2006	2005	2004
Discount rate .....	mainly 1.5%	mainly 1.5%	mainly 1.5%
Expected return rate for plan assets .....	mainly 1.5%	mainly 1.5%	mainly 1.7%
Amortization period for actuarial differences .....	mainly 3 years	mainly 3 years	mainly 3 years
Amortization period for past period service cost .....	mainly 3 years	mainly 3 years	mainly 3 years

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

## 11. Restructuring Charges

Restructuring charges consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Loss on disposal of property, plant and equipment .....	¥ 3,384	¥ 3,055	¥ 1,507	\$ 28,807
Loss on investments in and loans to related companies .....	1,629	240	781	13,867
Special severance benefits .....	711	—	350	6,053
Loss associated with the withdrawal from the composite pension fund .....	—	—	1,300	—
Others .....	129	141	548	1,098
	¥ 5,853	¥ 3,436	¥ 4,486	\$ 49,825

## 12. Deferred Taxes

Significant components of deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Retirement benefits .....	¥ 21,239	¥ 17,323	\$ 180,804
Depreciation and amortization .....	17,692	17,863	150,609
Accrued bonuses .....	8,497	6,412	72,333
Unrealized intercompany profit .....	5,826	5,393	49,596
Inventories .....	5,672	4,552	48,285
Tax loss carryforwards .....	770	1,012	6,555
Other .....	22,567	18,060	192,107
Total deferred tax assets .....	82,263	70,615	700,289
Unrealized gain on investment securities .....	(111,146)	(65,983)	(946,165)
Foreign affiliates' undistributed earnings .....	(11,934)	(8,157)	(101,592)
Deferred gain on property, plant and equipment .....	(5,879)	(4,224)	(50,047)
Other .....	(8,156)	(4,801)	(69,430)
Total deferred tax liabilities .....	(137,115)	(83,165)	(1,167,234)
Net deferred tax liabilities .....	¥ (54,852)	¥ (12,550)	\$ (466,945)

Significant items in the reconciliations of the normal income tax rate to the effective income tax rate for the years ended March 31, 2006, 2005 and 2004 were as follows:

	2006	2005	2004
Normal income tax rate in Japan .....	40.7%	40.7%	40.9%
Permanently non-deductible expenses .....	1.7	1.4	2.0
Permanently non-taxable dividends received .....	(0.6)	(0.6)	(1.1)
Gain on change in interests in consolidated subsidiary .....	(3.7)	—	—
R&D expenses deductible from income taxes .....	(3.0)	(2.3)	—
IT investments deductible from income taxes .....	(1.0)	(0.9)	—
Other .....	(1.6)	(2.5)	1.0
Effective income tax rate .....	32.5%	35.8%	42.8%

## 13. Shareholders' Equity

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

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

## 14. Contingent Liabilities

At March 31, 2006, the Companies were contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
As guarantor of project completion .....	¥ 53,913	\$ 458,951
As guarantor of indebtedness .....	14,051	119,614
As issuer of letters of comfort .....	741	6,308
	¥ 68,705	\$ 584,873

## 15. Land Revaluation Reserve

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

## 16. Supplementary Cash Flow Information

1) Cash and cash equivalents

At March 31, 2006 and 2005, cash and cash equivalents were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash .....	¥ 97,981	¥ 47,541	\$ 834,094
Cash equivalents .....	12,991	7,701	110,590
	¥ 110,972	¥ 55,242	\$ 944,684

2) Significant non-cash transaction

As a result of the merger of Sumitomo Pharmaceuticals and Dainippon Pharmaceutical dated October 1, 2005, the Company and its consolidated subsidiaries have increased assets and liabilities in the amount of ¥198,884 million (US\$1,693,062 thousand) and ¥57,938 million (US\$493,215 thousand) respectively.

## 17. Segment Information

The operations of the Companies for the years ended March 31, 2006, 2005 and 2004 were summarized by product group and geographic area as follows:

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

Segment information by product group	Millions of yen								
	Basic Chemicals	Petrochemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Others	Adjustments & Elimination	Consolidated
<b>Year ended March 31, 2005</b>									
Sales to unaffiliated customers ....	¥ 225,765	¥ 412,576	¥ 84,059	¥ 174,792	¥ 171,644	¥ 170,707	¥ 56,772	¥ —	¥ 1,296,315
Inter-segment transfers .....	10,326	7,177	3,543	2,109	1,919	77	68,923	(94,074)	—
Total sales .....	236,091	419,753	87,602	176,901	173,563	170,784	125,695	(94,074)	1,296,315
Operating cost .....	230,879	404,761	76,057	158,159	158,735	136,344	119,990	(93,792)	1,191,133
Operating income .....	¥ 5,212	¥ 14,992	¥ 11,545	¥ 18,742	¥ 14,828	¥ 34,440	¥ 5,705	¥ (282)	¥ 105,182
Assets .....	¥ 192,904	¥ 386,509	¥ 90,167	¥ 200,759	¥ 217,000	¥ 257,929	¥ 230,063	¥ 73,465	¥ 1,648,796
Depreciation and amortization .....	10,779	17,823	6,328	18,363	12,049	10,476	7,033	5,315	88,166
Impairment loss on fixed assets ...	—	420	—	—	—	—	2,095	—	2,515
Capital expenditure .....	18,163	13,714	7,532	40,237	17,986	19,115	4,945	4,093	125,785

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

Segment information by product group	Thousands of U.S. dollars								
	Basic Chemicals	Petrochemicals & Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharmaceuticals	Others	Adjustments & Elimination	Consolidated
<b>Year ended March 31, 2006</b>									
Sales to unaffiliated customers	\$2,148,625	\$4,137,686	\$672,606	\$1,951,477	\$1,585,358	\$1,984,345	\$ 770,997	\$ —	\$13,251,094
Inter-segment transfers	81,391	79,757	39,031	23,623	20,848	179	489,444	(734,273)	—
Total sales	2,230,016	4,217,443	711,637	1,975,100	1,606,206	1,984,524	1,260,441	(734,273)	13,251,094
Operating cost	2,144,939	4,064,910	627,990	1,790,338	1,465,080	1,658,602	1,211,390	(740,418)	12,222,831
Operating income	\$ 85,077	\$ 152,533	\$ 83,647	\$ 184,762	\$ 141,126	\$ 325,922	\$ 49,051	\$ 6,145	\$ 1,028,263
Assets	\$1,842,853	\$4,157,172	\$809,109	\$2,271,125	\$1,909,756	\$3,697,361	\$2,265,020	\$1,591,717	\$18,544,113
Depreciation and amortization	100,647	159,837	57,283	212,258	129,471	120,771	59,420	53,358	893,045
Capital expenditure	176,471	137,073	59,649	374,479	75,279	89,946	67,915	82,651	1,063,463

Segment information by geographic area	Millions of yen				
	Japan	Asia	Others	Adjustments & Elimination	Consolidated
<b>Year ended March 31, 2006</b>					
Sales to unaffiliated customers	¥ 1,152,231	¥ 319,214	¥ 85,161	¥ —	¥ 1,556,606
Inter-segment transfers	104,150	6,391	21,046	(131,587)	—
Total sales	1,256,381	325,605	106,207	(131,587)	1,556,606
Operating cost	1,177,255	292,180	96,969	(130,588)	1,435,816
Operating income	¥ 79,126	¥ 33,425	¥ 9,238	¥ (999)	¥ 120,790
Assets	¥ 1,694,630	¥ 269,957	¥ 79,949	¥ 133,841	¥ 2,178,377

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

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

Segment information by geographic area	Thousands of U.S. dollars				
	Japan	Asia	Others	Adjustments & Elimination	Consolidated
<b>Year ended March 31, 2006</b>					
Sales to unaffiliated customers .....	\$ 9,808,726	\$ 2,717,409	\$ 724,959	\$ —	\$ 13,251,094
Inter-segment transfers .....	886,609	54,405	179,161	(1,120,175)	—
Total sales .....	10,695,335	2,771,814	904,120	(1,120,175)	13,251,094
Operating cost .....	10,021,750	2,487,273	825,479	(1,111,671)	12,222,831
Operating income .....	\$ 673,585	\$ 284,541	\$ 78,641	\$ (8,504)	\$ 1,028,263
Assets .....	\$ 14,426,066	\$ 2,298,093	\$ 680,591	\$ 1,139,363	\$ 18,544,113

Corporate assets of ¥283,701 million (US\$2,415,093 thousand), ¥218,910 million and ¥181,149 million, included in the adjustments and elimination column for the years ended March 31, 2006, 2005 and 2004, respectively, consisted mainly of cash and cash equivalents, investment securities, deferred tax assets, and shared research facilities of the Company.

Overseas operations, which represent sales to unaffiliated customers outside Japan, of the Companies totaled ¥610,951 million (US\$5,200,911 thousand), ¥486,195 million and ¥364,107 million and accounted for 39.2%, 37.5% and 31.4% of the total sales to unaffiliated customers for the years ended March 31, 2006, 2005 and 2004, respectively. Overseas operations in the Asian region were ¥443,962 million (US\$3,779,365 thousand), ¥346,378 million and ¥239,912 million for the years ended March 31, 2006, 2005 and 2004, respectively.

## 18. Subsequent Events

At the ordinary shareholders' meeting of the Company held on June 23, 2006, the appropriation of retained earnings at March 31, 2006 was duly approved as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends at ¥6.0 (US\$0.051) per share .....	¥ 9,918	\$ 84,430
Bonuses to directors and statutory auditors .....	109	928

# Independent Auditors' Report

## Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Sumitomo Chemical Company, Limited and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2006, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Chemical Company, Limited and subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

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

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1(b) to the consolidated financial statements.

*KPMG AZSA & Co.*

Osaka, Japan  
June 23, 2006



## Subsidiaries and Affiliates

Company Name	Major Business Fields	Sumitomo Chemical's Share (%)	Telephone	Facsimile
<b>JAPAN</b>				
AstraZeneca K.K.	Pharmaceuticals	20.0	(6) 6453-7500	(6) 6453-7894
Asahi Chemical Co., Ltd.	Inorganics	91.4	(6) 6220-8796	(6) 6220-8799
Ceratec Co., Ltd.	Alumina, ITO and catalysts	100.0	(897) 33-8541	(897) 33-6005
Dainippon Sumitomo Pharma Co., Ltd.*	Pharmaceuticals	50.4	(6) 6203-5321	(6) 6203-6028
Dow Kakoh K.K.	Formed polystyrene	35.0	(3) 5460-2351	(3) 5460-6288
Inabata & Co., Ltd.*	Trading in industrial chemicals, fine chemicals, and plastics	22.1	(6) 6267-6051	(6) 6267-6042
Japan-Singapore Petrochemicals Co., Ltd.	Equity holder in Petrochemical Corporation of Singapore (Pte) Ltd.	54.7	(3) 5543-5867	(3) 5543-5947
Japan Polystyrene Co., Ltd.	Polystyrene	50.0	(3) 5640-1551	(3) 5640-1573
Keiyo Ethylene Co., Ltd.	Ethylene and propylene	22.5	(3) 3552-9373	(3) 3552-9443
Koei Chemical Co., Ltd.*	Formaldehydes and pyridines	56.2	(6) 6204-1515	(6) 6204-1530
Nihon EcoAgro Co., Ltd.	Environment-friendly farm materials	100.0	(3) 5543-5686	(3) 5543-5929
Nihon Methacryl Monomer Co., Ltd.	Methyl methacrylate monomer and methacrylic acid	64.0	(3) 5543-5302	(3) 5543-5907
Nihon Medi-Physics Co., Ltd.	Radiopharmaceuticals	50.0	(3) 5634-7006	(3) 5634-5170
Nihon Oxirane Co., Ltd.	Propylene oxide and styrene monomer	60.0	(3) 3272-0401	(3) 3271-6050
Nihon Singapore Polyolefin Co., Ltd.	Equity holder in The Polyolefin Company (Singapore) Pte. Ltd.	95.7	(3) 5543-5309	(3) 5543-5911
Nippon A&L Inc.	ABS resin and SBR latex	67.0	(6) 6220-3633	(6) 6220-3699
O.L.S. Corp.	Optical functional films	50.0	(3) 5543-5820	(3) 5543-5919
Rainbow Chemical Co., Ltd.	Agricultural chemicals for home and garden uses	60.4	(3) 3942-5631	(3) 3942-7571
Shinto Fine Co., Ltd.	Household and public hygiene chemicals	100.0	(6) 6320-4961	(6) 6329-5189
Shinto Paint Co., Ltd.*	Paints	45.1	(6) 6426-3355	(6) 6429-6188
Sumation Co., Ltd.	OLED	50.0	(3) 5543-5142	(3) 5543-5966
Sumika Agrotech Co., Ltd.	Agricultural and horticultural materials	100.0	(6) 6204-1245	(6) 6204-1207
Sumika Bayer Urethane Co., Ltd.	Polyurethane raw materials	40.0	(6) 6497-2151	(6) 6499-9461
Sumika Chemtex Co., Ltd.	Dyestuffs and functional chemicals	100.0	(6) 6466-5146	(6) 6466-5457
Sumika EPI Solution Co., Ltd.	MOEPI wafers	100.0	(436) 61-4771	(436) 61-4746
Sumika Life Tech Co., Ltd.	Public hygiene materials	100.0	(797) 74-1161	(797) 74-1045
Sumika Plastech Co., Ltd.	Plastic sheets and films	100.0	(3) 5543-5438	(3) 5543-5935
Sumika-Takeda Garden Products Co., Ltd.	Agricultural chemicals for home and garden uses	100.0	(3) 3270-9758	(3) 3270-9779
Sumitomo Bakelite Co., Ltd.*	Resins and resin products	20.7	(3) 5462-4111	(3) 5462-4874
Sumitomo Chemical Engineering Co., Ltd.	Engineering, procurement, maintenance and construction for chemical plants	100.0	(43) 299-0200	(43) 299-0210
Sumitomo Chemical Takeda Agro Co., Ltd.	Agrochemicals and agricultural materials	60.0	(3) 3278-2816	(3) 3278-2750
Sumitomo Dow Ltd.	Polycarbonates	50.0	(3) 5644-4750	(3) 5644-4821
Sumitomo Joint Electric Power Co., Ltd.	Supply of electricity	52.5	(897) 37-2142	(897) 32-9862
Sumitomo Seika Chemicals Co., Ltd.*	Industrial chemicals and organic sulfur compounds	30.7	(6) 6220-8508	(6) 6220-8541
Taoka Chemical Co., Ltd.*	Dyestuffs, industrial chemicals and adhesives	51.0	(6) 6394-1221	(6) 6394-1658

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

Company Name	Major Business Fields	Sumitomo Chemical's Share (%)	Telephone	Facsimile
<b>SINGAPORE</b>				
Petrochemical Corporation of Singapore (Pte) Ltd.	Ethylene and propylene	50.0	6867-2758	6867-9274
Chevron Phillips Singapore Chemicals (Pte) Ltd	High-density polyethylene	20.0	6337-9700	6337-9619
Sumitomo Chemical Singapore Pte Ltd	MMA monomer, MMA polymer, household insecticides, dyestuffs and other products.	100.0	6291-2968	6296-3779
Singapore Methyl Methacrylate Pte Ltd	MMA monomer and MMA polymer	100.0	—	—
The Polyolefin Company (Singapore) Pte. Ltd.	Polyethylene and polypropylene	70.0	6292-9622	6293-8890
<b>ASIA AND OCEANIA</b>				
<b>CHINA</b>				
Dalian Sumika Chemphy Chemical Co.,Ltd.	Agrochemical intermediates	60.0	(411) 751-6068	(411) 751-6038
Shanghai Lifetech Household Products Co., Ltd.	Products relating to household insecticides	100.0	(21) 6463-4770	(21) 6463-4779
Sumika Electronic Materials (Shanghai) Co., Ltd.	Optical functional film and high purity gallium	90.0	(21) 5046-2296	(21) 5046-3133
Sumika Electronic Materials (Wuxi) Co., Ltd.	Polarizing films, light guide plates and light diffusion plates	100.0	(510) 8532-2688	(510) 8532-2788
Sumitomo Chemical Shanghai Co., Ltd.	Plant protection chemicals, household insecticides, and feed additive products	100.0	(21) 6881-7700	(21) 6880-0188
Zhuhai Sumika Polymer Compounds Co., Ltd.	Polypropylen compounds	55.0	—	—
<b>INDIA</b>				
SC Enviro Agro India Private Limited	Household insecticides	90.0	(25) 25-272172	(25) 25-272158
Sumitomo Chemical India Private Limited	Chemical products	100.0	(22) 2204-0730	(22) 2204-0722
<b>SOUTH KOREA</b>				
Dongwoo Fine-Chem Co., Ltd.	Fine chemicals	95.0	(2) 6250-1100	(2) 6250-1198
LG MMA Corp.	Methyl methacrylate	25.0	(2) 3770-1220	(2) 3770-1209
Sumitomo Chemical Agro Soul, Ltd.	Agricultural Chemicals	100.0	(2) 597-1002	(2) 597-1072
<b>MALAYSIA</b>				
Sumitomo Chemical Enviro-Agro Asia Pacific Sdn. Bhd.	Household insecticides	100.0	(6) 679-3711	(6) 679-3698
<b>TAIWAN</b>				
Sumika Technology Co., Ltd.	Optical functional film	85.0	(7) 364-1316	(7) 364-6994
Sumitomo Chemical Taiwan Co., Ltd.	Plant protection chemicals	100.0	(2) 2506-4528	(2) 2506-4551
<b>THAILAND</b>				
Bara Chemical Co., Ltd.	Resins, optical brightening agents, and adhesives	55.0	(2) 709-4598	(2) 323-9997
Sumipex (Thailand) Co., Ltd.	Polymethyl methacrylate sheets	51.0	(2) 632-1820	(2) 632-1831
<b>AUSTRALIA</b>				
Sumitomo Chemical Australia Pty. Ltd.	Plant protection chemicals and household insecticides	100.0	(2) 9904-6499	(2) 9904-7499
<b>SAUDI ARABIA</b>				
Rabigh Refining and Petrochemical Company	Refined Petroleum Products and Petrochemicals	50.0	(2) 425-8800	(2) 425-8615
<b>NEW ZEALAND</b>				
New Zealand Aluminium Smelters Ltd.	Aluminum ingots	20.6	(3) 218-5999	(3) 218-9747

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

# Principal Overseas Operational Headquarters and Offices

## Sumitomo Chemical Singapore Pte Ltd

150 Beach Road  
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Fax: 6296-3779

## Sumitomo Chemical Co., Ltd. Beijing Office

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## Sumitomo Chemical Agro Soul, Ltd.

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Fax: (6) 679-3698

## Sumitomo Chemical India Private Limited

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Fax: (22) 2204-0722

## Sumitomo Chemical Australia Pty. Ltd.

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Fax: (2) 9904-7499

## Sumitomo Chemical Co., Ltd. New Zealand Office

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Fax: (4) 473-1123

## Sumitomo Chemical America, Inc.

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## Edison Office

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## Sumitomo Chemical Capital America, Inc.

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## Sumitomo Chemical do Brasil Representações Limitada

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Fax: (11) 3174-0377

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Fax: (2) 251-2991

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

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## Sumitomo Chemical (U.K.) plc

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U.K.  
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Fax: (20) 8600-7717

# Investor Information and Corporate Information

(As of March 31, 2006)

## Paid-In Capital:

¥89.7 billion

## Number of Employees:

Non-Consolidated: 5,579

Consolidated: 24,160

## Common Stock:

Authorized: 5,000,000,000 shares

Issued: 1,655,446,177 shares

(Book value: ¥89.7 billion)

## Listings:

Tokyo and Osaka

## Transfer Agent and Registrar:

The Sumitomo Trust & Banking Co., Ltd.

Stock Transfer Agency Division

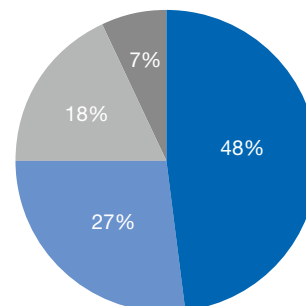
4-4, Marunouchi 1-chome, Chiyoda-ku,

Tokyo 100-8233, Japan

## Independent Certified Public Accountants:

KPMG AZSA&Co.

## Distribution of Shareholders



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

## Stock Transaction Units:

1,000 - share units

## Number of Shareholders:

116,509

## Contact Information:

Corporate Communications Dept.

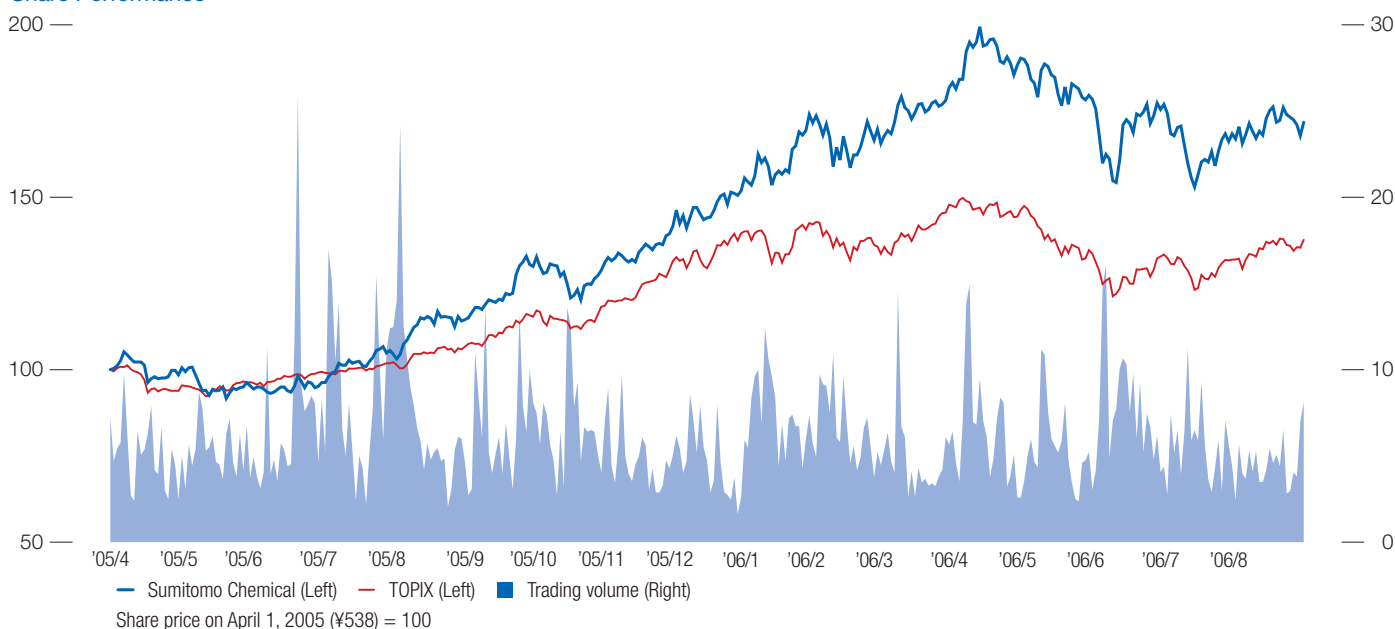
Tel: +81-3-5543-5102

Fax: +81-3-5543-5901

## Major Shareholders

	Number of shares held (1,000 shares)	Shareholding ratio (%)
Japan Trustee Services Bank, Ltd. ....	123,269	7.45
The Master Trust Bank of Japan, Ltd. ....	103,171	6.23
Sumitomo Life Insurance Company ....	81,000	4.89
Nippon Life Insurance Company ....	61,516	3.72
Sumitomo Mitsui Banking Corporation ....	38,453	2.32
The Sumitomo Trust & Banking Co., Ltd. ....	31,007	1.87
Japan Trustee Services Bank, Ltd. ....	27,480	1.66
The Norinchukin Bank ....	21,825	1.32
The Sumitomo Trust & Banking Co., Ltd. ....	19,583	1.18
Japan Trustee Services Bank, Ltd. ....	19,000	1.15

## Share Performance





**Responsible Care**

Sumitomo Chemical is a  
Responsible Care company.

 **SUMITOMO CHEMICAL COMPANY, LIMITED**

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