

Sumitomo Chemical Reports Interim Consolidated Financial Results

Sumitomo Chemical Company, Limited today announced that its consolidated net sales for the six months ended September 30, 2006 totaled ¥854.6 billion (\$7,249 million), an increase of 24.1% over the first half of FY2005. Interim net income increased 35.4% to ¥53.3 billion (\$452 million). Each of these interim results is a record high for the Company.

Sales in the Basic Chemicals segment increased by ¥32.6 billion over the same period last year to ¥149.5 billion. The increase was due to a substantial increase in sales of aluminum on the back of improved market conditions as well as increased sales of caprolactam, the raw material for synthetic textile fibers, and methyl methacrylate (MMA) because of production capacity expansions.

The Petrochemicals & Plastics segment saw a sales rise by ¥30.7 billion over the same period last year to ¥260.4 billion, bolstered by firm sales of synthetic resins both in Japan and overseas. Sales of styrene monomer, propylene oxide, and other petrochemical products also increased on the back of favorable market conditions that supported price increases taken in response to the rising prices of feedstocks such as naphtha.

Sales in the Fine Chemicals segment increased by ¥9.9 billion year on year to ¥47.1 billion. The increases were due to favorable sales of adhesives raw materials driven by firm demand as well as increased sales of pharmaceutical chemicals thanks to an increase in shipments of new pharmaceutical intermediates.

Sales in the IT-related Chemicals segment increased by ¥28.5 billion over the same period last year to ¥128.7 billion as a result of capacity expansions in Korea and Taiwan for polarizing film, a primary material for liquid crystal displays.

Sales in the Agricultural Chemicals segment increased by ¥4.9 billion over the same period last year to ¥95.3 billion. Feed additives saw an increase in sales owing to increases in selling prices reflecting a sharp rise in the price of raw materials, and active marketing drives. Production capacity expansion contributed to an increase in OLYSET®/NET shipments. Sales of agrochemicals declined because of weak demand in the Japanese market, while overseas sales of herbicides remained firm thanks to solid shipments.

Sales in the Pharmaceuticals segment increased by ¥28.0 billion over the previous year to ¥114.5 billion. The Company's pharmaceutical subsidiary, Sumitomo Pharmaceuticals Co., Ltd., merged with Dainippon Pharmaceutical Co., Ltd. in October 2005 to form Dainippon Sumitomo Pharma Co., Ltd. (DSP), increasing the scale of the segment's operations, and sales of DSP's four main products, *Amlodin* (therapeutic agent for hypertension and angina), *Meropen* (carbapenem antibiotic), *Gasmotin* (gastroprokinetic), and *Prorenal* (vasodilator) remained firm.

Total operating income increased by ¥11.6 billion to ¥68.2 billion. Operating income in the Basic Chemicals segment remained flat at ¥5.9 billion, while in the Petrochemicals & Plastics segment it decreased by ¥1.4 billion year on year to ¥7.4 billion, both segments showing the effect of rising prices for raw materials. Operating income in the Fine Chemicals segment increased ¥2.6 billion to ¥7.3 billion thanks to favorable sales, but in the IT-related Chemicals segment, it declined year on year by ¥2.5 billion to ¥6.3 billion because of decreasing selling prices. In the Agricultural Chemicals segment, operating income increased by ¥3.9 billion to ¥12.2 billion, and in the Pharmaceuticals segment it increased by ¥7.6 billion to ¥26.2 billion.

Net income increased by ¥13.9 billion to ¥53.3 billion due mainly to an extraordinary gain on sale of investment securities, including shares of GlaxoSmithKline K.K., in addition to the growth of operating income.

The Company plans to pay an interim dividend of ¥5,000 per 1,000 shares.

Interim net cash provided by operating activities was ¥57.0 billion (\$483 million), while net cash used in investing activities was ¥57.2 billion (\$485 million). Interim free cash flow was improved to negative ¥0.2 billion (\$2 million), compared with negative ¥24.6 billion for the comparable period in FY 2005.

For the fiscal year ending March 31, 2007, the Company estimates that consolidated net sales will be 1,785 billion (\$15,140 million), a 14.7% increase from FY2005, and that consolidated net income will be ¥91 billion (\$772 million), a slight decrease from last year.

(Note)

*U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥117.90= \$1 prevailing on September 30, 2006.

Interim Consolidated Statements of Income
Six Months ended September 30, 2006 and 2005

	FY2006		FY2005
	(¥Million)	(US\$1,000)*	(¥Million)
Sales	¥ 854,621	\$ 7,248,694	¥ 688,432
Cost of sales	633,337	5,371,815	502,400
Selling, general and administrative expenses	153,070	1,298,304	129,407
Operating income	68,214	578,575	56,625
Other income (expenses):			
Interest and dividend income	3,738	31,705	3,250
Interest expense	(5,156)	(43,732)	(3,650)
Equity in earnings of affiliates	8,157	69,186	14,932
Gain on sale of investment securities	23,055	195,547	1,893
Restructuring charges	(3,651)	(30,967)	(3,257)
Loss on reform of retirement benefits plan	(611)	(5,182)	-
Gain on business transfer	-	-	4,516
Expenses for subsidiary merger	-	-	(2,429)
Other, net	967	8,201	878
Income before income taxes and minority interests	94,713	803,333	72,758
Income taxes, net of tax effect	32,872	278,813	27,167
Minority interests	8,558	72,587	6,241
Net income	¥ 53,283	\$ 451,934	¥ 39,350

	FY2006		FY2005
	(Yen)	(US dollar)*	(Yen)
Net income per 1,000 shares	¥ 32,256	\$ 273.59	¥ 23,809
Dividends per 1,000 shares:			
Interim dividends	¥ 5,000	\$ 42.41	¥ 4,000

(Note)

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Industry Segment Results
Six Months ended September 30, 2006 and 2005

									(¥Million)	
		Basic Chemicals	Petro- chemicals& Plastics	Fine Chemicals	IT-related Chemicals	Agricultural Chemicals	Pharma- ceuticals	Others	Adjustments & Elimination	Consoli- dated
FY2006										
Sales	[a]	¥ 149,491	¥ 260,394	¥ 47,070	¥ 128,705	¥ 95,254	¥ 114,529	¥ 59,178		¥ 854,621
(Share)		(17.5%)	(30.5%)	(5.5%)	(15.1%)	(11.1%)	(13.4%)	(6.9%)		(100.0%)
(Growth)		(27.9%)	(13.4%)	(26.7%)	(28.4%)	(5.4%)	(32.4%)	(114.4%)		(24.1%)
Operating income (loss)	[b]	¥ 5,915	¥ 7,439	¥ 7,276	¥ 6,313	¥ 12,245	¥ 26,242	¥ 3,368	¥ (584)	¥ 68,214
[b] / [a]		(4.0%)	(2.9%)	(15.5%)	(4.9%)	(12.9%)	(22.9%)	(5.7%)		(8.0%)
FY2005										
Sales	[a]	¥ 116,856	¥ 229,705	¥ 37,164	¥ 100,255	¥ 90,361	¥ 86,486	¥ 27,605		¥ 688,432
(Share)		(17.0%)	(33.4%)	(5.4%)	(14.6%)	(13.1%)	(12.6%)	(3.9%)		(100.0%)
(Growth)		(4.9%)	(18.8%)	(-10.4%)	(19.1%)	(9.6%)	(4.6%)	(15.5%)		(11.1%)
Operating income (loss)	[b]	¥ 5,873	¥ 8,858	¥ 4,714	¥ 8,803	¥ 8,301	¥ 18,596	¥ 1,398	¥ (-82)	¥ 56,625
[b] / [a]		(5.0%)	(3.9%)	(12.7%)	(8.8%)	(9.2%)	(21.5%)	(5.1%)		(8.2%)

Overseas Operations
Six Months ended September 30, 2006 and 2005

	FY2006				FY2005
	(¥Million)	(\$1,000)*	Share (%)	Growth (%)	(¥Million)
Overseas operations	¥ 349,621	\$2,965,403	40.9	26.4	¥ 276,533

(Note)

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Consolidated Statements of Cash Flows
Six Months ended September 30, 2006 and 2005

	FY2006		FY2005
	(¥Million)	(US\$1,000)*	(¥Million)
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 94,713	\$ 803,333	¥ 72,758
Depreciation and amortization	51,532	437,082	45,823
Income taxes paid	(22,077)	(187,252)	(25,909)
Gain on sale of investment securities	(23,055)	(195,547)	(1,893)
Other, net	(44,157)	(374,529)	(38,712)
Net cash provided by operating activities	56,956	483,087	52,067
Cash flows from investing activities:			
Acquisition of investment securities	(3,247)	(27,540)	(19,621)
Proceeds from sale of securities	38,221	324,182	2,559
Acquisition of property, plant and equipment	(85,153)	(722,248)	(49,533)
Other, net	(7,013)	(59,483)	(10,030)
Net cash used in investing activities	(57,192)	(485,089)	(76,625)
Cash flows from financing activities:			
Dividends paid	(9,918)	(84,122)	(8,267)
Net increase (decrease) in short-term debt	(11,006)	(93,350)	20,384
Net increase (decrease) in long-term debt	32,754	277,812	43,700
Other, net	(4,477)	(37,973)	(7,553)
Net cash provided by (used in) financing activities	7,353	62,366	48,264
Effect of exchange rate changes on cash and cash equivalents	(33)	(280)	801
Cash and cash equivalents at beginning of period	110,972	941,238	55,242
Net increase (decrease) in cash resulting from changes in the number of consolidated subsidiaries	(102)	(865)	(41)
Cash and cash equivalents at end of period	¥ 117,954	\$ 1,000,458	¥ 79,708

(Note)

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¥117.90= \$1 prevailing on September 30, 2006.

(Cautionary Statement)

Statements made in this release with respect to the Company's current plans, estimates, strategies and beliefs that are not historical facts are forward-looking statements about the future performance of Sumitomo Chemical. These statements are based on management's assumptions and beliefs in light of the information currently available to it, and involve risks and uncertainties. The important factors that could cause actual results to differ materially from those discussed in the forward-looking statements include, but are 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.