SUMITOMO CHEMICAL

# CSR Report 2005

## Responsible Care, Social Initiatives, and Economic Activities at Sumitomo Chemical Company, Limited

Responsible Care designates a range of voluntary corporate activities relating to the environment, health, safety, and product quality, applied throughout a product's entire life cycle. As of July 2005, there were Responsible Care associations in 52 countries worldwide.





*Sustainable Chemistry*

THE GLOBAL COMPACT

## CSR Report 2005

Since 1998, Sumitomo Chemical Company, Limited has issued an annual "Environment, Health, and Safety Report" focusing on the Company's Responsible Care activities, in particular those involving safety and the environment. This title was changed to "CSR Report" last year to reflect broader coverage of corporate social responsibility (CSR) initiatives, which include social and economic activities. This report is the second to carry the new title.

We have worked to make the report more concise and easier to understand, with straightforward language, diagrams, and photographs to ensure that readers from a wide range of backgrounds will be able to gain a grasp of Sumitomo Chemical's CSR activities. We have compiled detailed numerical data in a separate booklet for easy reference, including data on the environmental impact for individual factories — information of particular interest to local communities.

This report was prepared with reference to the Global Reporting Initiative (GRI) "Sustainability Reporting Guidelines" (2002 edition), the Japanese Ministry of the Environment's "Environmental Reporting Guidelines" (fiscal 2003 edition), and "Environmental Performance Indicators for Businesses" (fiscal 2002 edition).

### Scope of this report

The environmental performance data included in this report covers Sumitomo Chemical and 18 major consolidated subsidiaries with manufacturing operations in Japan. The environmental accounting data applies to Sumitomo Chemical and 19 major consolidated subsidiaries (14 domestic, five overseas).

The major consolidated subsidiaries included in the environmental accounting data generate annual sales of 10 billion yen or more.

In this report, "Sumitomo Chemical Group" refers to Sumitomo Chemical Company, Limited and its major consolidated subsidiaries, and "Sumitomo Chemical" refers to Sumitomo Chemical Company, Limited.

Period covered by this report:
April 1, 2004 to March 31, 2005
Date of publication:
November 2005 (The next issue is scheduled to be published in July 2006.)

*Data regarding Sumitomo Pharmaceuticals only applies to the Company prior to their merger with Dainippon Pharmaceutical on October 1, 2005.

## C O N T E N T S

# Sumitomo Chemical is leading the way to a sustainable future: CSR through Sustainable Chemistry

"Sustainable Chemistry" describes the use of chemical innovation to provide more effective products in forms that are kinder to the environment and to society. In practice this involves the development of chemical technologies that neither use nor generate chemicals harmful to health or to the environment using processes that achieve reductions in the consumption of energy and natural resources.

Sumitomo Chemical remains continually aware of the actual practice of Sustainable Chemistry with regard to Responsible Care (of the environment, safety, health, and product quality), the needs of society, and economic requirements in all aspects of its operations, and is promoting CSR by contributing to society through the products and services produced through Sustainable Chemistry, thereby helping to build a sustainable society.


**Society**

Benefiting users, local communities, and the world through compliance with local laws and regulations

**Responsible Care**

**(environment, safety, health, product quality)**

Placing high priority on environmental protection by reducing consumption of natural resources and energy, producing safe products that prevent accidents and injuries, and protecting the health of users and employees

**Economy**

Maximizing shareholder value by providing better products

Becoming a global chemical company through CSR

# Benefiting society and protecting the earth

## Advancing 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 by using them to produce fertilizer. Sumitomo Chemical thus began by tackling an environmental problem, while at the same time helping to improve the living standards of the time by producing fertilizer that increased crop yields.

From the start, Sumitomo Chemical has looked beyond profits to take into account the benefit of society as a whole.

CSR, which stands for "corporate social responsibility," has gained significant attention in recent years. This concept is an essential component of the business principles of Sumitomo Chemical, which recognizes the importance of maintaining the confidence of society as it works to become a truly global chemical company. As part of this effort, the Company conducted an in-depth review of its "Basic CSR Policy" to ensure that it complies with current regulations and meets the constantly changing needs of society, and issued a revised edition of the Policy in November 2004.

The Company is determined to further enhance CSR activities for benefiting individuals, society, and the world while maintaining a careful balance among three segments — economic needs; environment, safety and health, and quality assurance activities; and the interests of society.

## Growing as a Highly Profitable Company Capitalizing on High-value-added Businesses

Sumitomo Chemical is now implementing its Three-year Corporate Business Plan, initiated in fiscal 2004, which focuses on promoting "Selection and Concentration" and globalization of its business activities.

The Japanese chemical industry is currently under the influence of significant market changes, including soaring prices for raw materials such as crude oil and the rapid economic growth in China.

The Sumitomo Chemical Group's management strategies thus call for stable and sustained high revenue growth through concentrated investment in businesses with high potential for growth or which can be built on the Group's strengths in technology and cost-competitiveness. Fiscal 2004 showed a promising start in meeting targets in all Business Sectors, including the launch of major undertakings to strengthen the Company's operations in the petrochemical and pharmaceutical fields.

## Reducing environmental impact through Sustainable Chemistry

The Kyoto Protocol, which came into effect in February 2005, requires countries to reduce greenhouse gas emissions. It is expected that strict controls will be introduced in EU countries and worldwide governing the use of chemicals in motor vehicles and electrical products. The chemical industry must be prepared to respond responsibly.

Sumitomo Chemical was among the first in Japan to conduct numerous voluntary Responsible Care activities targeting the environment, safety, health, and quality throughout the full life cycles of its products. Beginning in the last fiscal year, the Company has successfully lowered its per unit consumption of energy and per unit $CO_2$ emissions and has reduced the volume of landfill waste materials.

Sumitomo Chemical places the utmost importance on safety evaluations for the chemical substances it supplies. The Company not only carries out chemical risk assessment in-house, but also participates actively in a number of associated projects, such as the Global Product Strategy (GPS)

overseen by the ICCA (International Council of Chemical Associations).

The Company will continue to enhance its Sustainable Chemistry initiatives, which will contribute to the creation of a sustainable society through the benefits of chemistry by reducing environmental impact throughout the entire product life cycle from manufacturing through to use and finally product recycling.

## Declaration of participation in the Global Compact

Among its social activities, Sumitomo Chemical remains actively involved in the Roll Back Malaria Campaign, a strategy promoted by the WHO to control malaria, a disease affecting a reported 300 million people per year and killing over one million. Sumitomo Chemical is extremely pleased that its insecticide-embedded OLYSET® NET mosquito nets are now being put to effective use worldwide.

Coinciding with the creation of the Company's Basic CSR Policy, Sumitomo Chemical announced in January of this year that it would participate in the Global Compact advocated by United Nations Secretary-General Kofi Annan. This program involves agreeing to and implementing ten principles in four categories: human rights, labor, the environment, and fighting corruption. Sumitomo Chemical will continue to promote global communication by building broad networks with UN organizations. Moreover, the Company will further develop CSR activities that are uniquely its own.

## Becoming a global chemical company

I am confident that the spirit behind our CSR initiatives will drive us to keep providing new technologies and products that will improve standards of living, while at that same time addressing the pressing problems facing society and the global environment. In these endeavors, we will continue our steady progress toward becoming a truly global chemical company, one that is vigilant with respect to the economic, environmental, and social issues we face.

This report covers the Company's approach to CSR in relation to its efforts to develop into a truly global chemical company.

**Hiromasa Yonekura**
President of Sumitomo Chemical

米倉弘昌

# Sumitomo Chemical's CSR

Sumitomo Chemical's origins date to the "House of Sumitomo," an enterprise with a copper-mining history spanning more than 300 years. The fundamental principles of this business continue even today, and are reflected in Sumitomo Chemical's Basic CSR Policy (published in November 2004). In addition to these basic principles, however, the policy presents a number of new concepts in CSR that will affect all Company employees.

## Sumitomo Chemical's business principles

### Sumitomo's business principles

Pledge 1

Sumitomo will achieve strength and prosperity through integrity and sound management.

Pledge 2

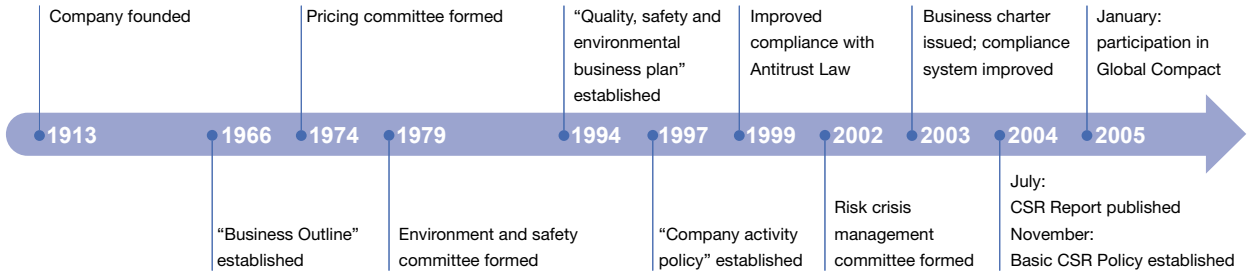
Sumitomo will act with foresight and flexibility to cope with changing times. Under no circumstances, however, will the Company pursue easy gains or act imprudently.

The first pledge, advocating "integrity and sound management," reflects the importance of maintaining the trust of the Company's business partners and of society as a whole. The second pledge calls for refraining from the pursuit of easy gains — conducting thorough investigations and giving serious thought to business decisions so as not to be blinded by the prospect of immediate gains.

While not expressly contained in the pledges above, another traditional concept applies: harmony between the individual, the nation, and society. This concept is manifested in Sumitomo's reliance not only on its own strengths, but also on the support of the nation and society as a whole, and in the Company's emphasis on harmony between its interests and those of the public.

These principles have been applied to this day throughout the various Sumitomo Group companies, including Sumitomo Chemical.

## CSR milestones




Sumitomo Chemical started out in 1913, when the Company produced fertilizer by removing harmful sulfur dioxide gas from emissions generated during copper smelting at the Besshi Copper Mine in Niihama, Ehime prefecture. The Company thus began as a firm working for the benefit of society.

In the 1960s and 1970s, society's attention turned to pollution and related business activities. During this period, the Company worked hard to improve its oversight in this area, beginning with the formation of an environment and safety committee.

From the 1990s onward, a number of corporate scandals focused particular attention on corporate governance. This period also saw increasing demands for measures reflecting corporate social responsibilities, from addressing environmental issues such as global warming to counteracting the inequalities of globalization. Sumitomo Chemical approached these issues by establishing policies governing quality, safety, the environment, risk management, and business activities.

In 2004, the Company established its Basic CSR Policy. In January 2005, it announced its participation in the Global Compact.

## Basic CSR Policy

Sumitomo Chemical established its Basic CSR Policy in November 2004 based on its business principles, management philosophy, and corporate charter. Work is currently underway to determine how the Policy will be implemented in terms of specific activities.

### Basic CSR Policy

Sumitomo Chemical has continued to create and provide innovative technologies and products to increase corporate value, improve standards of living, and resolve the problems facing society and the global environment.

Accordingly, the Company has promoted CSR activities to maintain a careful balance among economic needs, the environment, safety, quality, and the interests of society. Similarly, we must simultaneously take into consideration the concerns of shareholders, employees, customers, local communities, and other stakeholders. We believe that these initiatives will play an important role in achieving sustainable development throughout society, while at the same time enabling the Company to develop into a modern, truly global chemical company in the 21st century.

## Targets for key Medium-term initiatives


### Becoming a highly profitable company

P45

Implementing our 2004—2006 Three-year Corporate Business Plan to achieve stable high-profit growth and maximize corporate value in our efforts to become a truly global chemical company and a major player in every area of our business.


### Eliminating accidents and injuries

P28

Eliminating accidents and injuries by making safety top priority

### Assessing and reducing environmental impact

P23

Appropriate assessments on reducing the environmental impact of business activities; implementation of effective activities based on these assessments

### Improved environmental and safety technologies

P23

Improving technologies for greater safety and reduced environmental impact throughout the product life cycle


### Strict compliance

P8

Enhancing compliance among group companies both in Japan and worldwide based on a recognition of the importance of complying with local laws and social regulations

### Expanding social activities

P44

Promoting social activities in line with basic Sumitomo Chemical's basic principles, including contributing to local society, global society, and the future development of society

### Dialogue with stakeholders from a global perspective

P39,43

Furthering dialogue from a global perspective with all of our stakeholders, including customers, consumers, business partners, shareholders, employees, community residents, NGOs, governments, and the media

## CSR promotion and management

Sumitomo Chemical has established a company-wide Provisional CSR Promotion Coordinating Board. This Board includes representatives from each department and division, overseeing liaison and coordination of the relevant activities and summarizing company-wide CSR implementation. The Provisional Coordinating Board is operated jointly by the General Affairs Department, the IR & Public Relations Department, and the Responsible Care Office.

CSR activities involve first the establishment by the individual departments of detailed proposals for initiatives based on the targets for key medium-term initiatives (described on page 6). These detailed proposals are then reviewed by the Provisional CSR Promotion Coordinating Board to determine priority before departmental implementation. Individual departments report back to the Provisional CSR Promotion Coordinating Board on the status of implementation, and the secretary reports annually on a summary of company initiatives to the Management Committee. When necessary, the medium-term key initiative targets are reviewed at meetings of the Management Committee.

## Corporate governance

Against the backdrop of changing social and economic conditions, Sumitomo Chemical is striving to maximize shareholder value and to reinforce the trust and support of customers, business partners, regional communities, and other stakeholders. We realize that strengthening corporate governance is the key to achieving these objectives, and will continue to make ongoing efforts to bolster corporate governance by expediting decision making, defining more clearly the executive officers' responsibilities pertaining to the execution of duties, enhancing and strengthening the compliance system and internal audits, and promoting timely disclosure of information.

### Management Structure

The Company's management structure consists of 10 board members and 25 executive officers, 9 of whom serve in dual capacity as board members, with the number of members determined by a resolution at the 2005 annual shareholders' meeting. 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 Representative Directors delegate authority to executive officers to carry out business operations in accordance with the management strategy determined by the Board.

There are 4 corporate auditors, 2 of whom are from outside the Company. Corporate auditors inspect the Company's operations and assets in accordance with the auditing policy determined by the Board of Auditors according to their assigned business capacities. They attend meetings of the Board of Directors and review important official documents.

### Internal Auditing Structure

Internal auditing is conducted by a dedicated Internal Auditing Department that functions independently of the Company's business operations. The Internal Auditing Department audits the Company, including Group companies, 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.

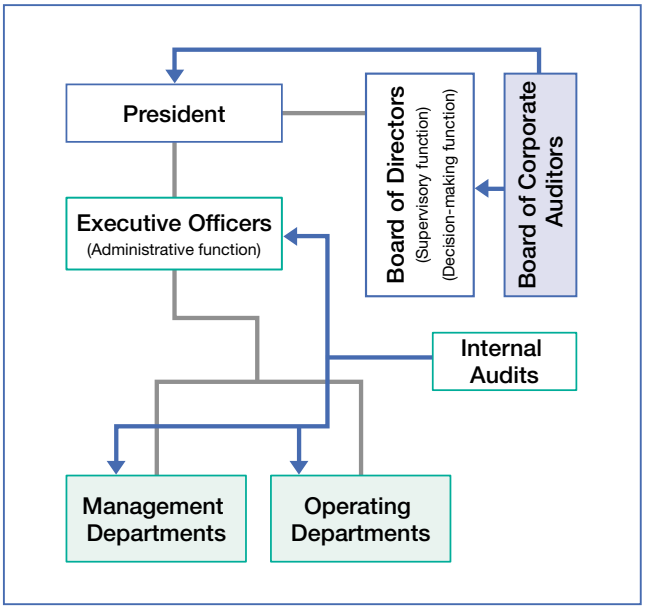
A Group Internal Auditing Committee has been established to improve the effectiveness and efficiency of internal auditing within Group companies.

Areas of internal auditing that affect the environment, safety, and PL (product liability) are subject to Responsible Care Auditing by the Responsible Care Office. (See page 15 for details.)

### Timely Disclosure

The IR & Public Relations Department continuously provides fair, honest, and timely disclosure of the information necessary for the investment decisions of shareholders and institutional investors.

### Corporate Governance Organization



# Compliance

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

We are also promoting compliance throughout the Group, encouraging Group companies in Japan and overseas to adopt similar compliance programs.

## Sumitomo Chemical Charter for Business Conduct

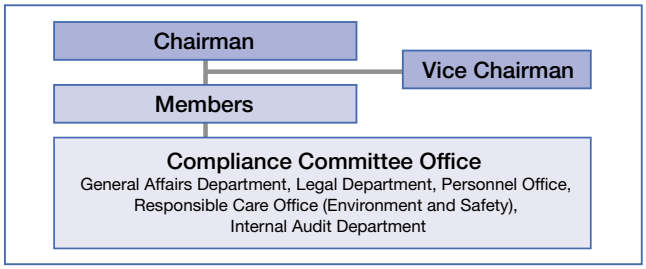
At Sumitomo Chemical, we believe it is our social obligation to conduct business ethically and lawfully throughout our worldwide operations. To translate this imperative into action, we established the "Sumitomo Chemical Charter for Business Conduct" as the cornerstone of our compliance-based management.

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, through which Board members supervise the Company's operations with the aim of 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.

Compliance Committee Organization




### 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.

## Speak Up System

We established the "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.

# Fiscal 2004 Highlights

## Statement of participation in the Global Compact

On January 1, 2005, Sumitomo Chemical announced that it would participate in the Global Compact advocated by United Nations Secretary-General Kofi Annan.

In the Global Compact program, major companies worldwide work to become better global citizens in concert with United Nations organizations, labor organizations, and NGOs through the implementation of ten principles in four categories: human rights, labor, the environment, and anti-corruption activities. The Global Compact was unveiled at the World Economic Forum held in Davos in January 1999.

A large number of companies worldwide have since pledged to participate. As of July 2005, there are approximately 2,000 participating organizations.

The ten principles in the Global Compact form the basis for all of Sumitomo Chemical's CSR activities. In the future the Company will expand its CSR activities by building broad global networks with the UN and other organizations; progress in this area is reported in the CSR Report.

### The Global Compact's ten principles

**[Human Rights]**

Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2. make sure that they are not complicit in human rights abuses.

**[Labour Standards]**

Principle 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4. the elimination of all forms of forced and compulsory labour;

Principle 5. the effective abolition of child labour; and

Principle 6. the elimination of discrimination in respect of employment and occupation.

**[Environment]**

Principle 7. Businesses should support a precautionary approach to environmental challenges;

Principle 8. undertake initiatives to promote greater environmental responsibility; and

Principle 9. encourage the development and diffusion of environmentally friendly technologies.

**[Anti-Corruption]**

Principle 10. Businesses should work against all forms of corruption, including extortion and bribery.

THE GLOBAL COMPACT

**Global Compact official website http://www.unglobalcompact.org/**

# OLYSET® NET Helping to Eradicate Malaria

Malaria currently infects 300 million people and kills more than one million people worldwide every year. The vast majority of victims are in Africa, with children under the age of five being particularly vulnerable. A key to preventing malaria is to avoid being bitten by the mosquitoes that transmit the disease.

Accordingly, Sumitomo Chemical has joined the Roll Back Malaria Campaign promoted by the World Health Organization (WHO) in its efforts to eradicate malaria. The aim of this campaign is to halve the number of malaria fatalities by the year 2010.

Sumitomo Chemical developed its OLYSET® NET mosquito nets* using a special technology to impregnate the fibers with insecticide, thereby helping to control mosquitoes and prevent infection. The active ingredient is gradually released from the mosquito netting fibers to retain insecticidal efficacy for five years, even after repeated washings. The nets have been widely distributed in Africa and have won high acclaim for their excellent mosquito control and environmental safety.

Some 2.45 million OLYSET® NET mosquito nets were supplied in fiscal 2004, and production is scheduled to increase to 20 million in fiscal 2005. According to WHO figures, annual demand is as high as 30 to 40 million nets, and production has been increased significantly. In September 2003, OLYSET® NET production technology was provided free of charge to the Tanzanian mosquito net manufacturer A to Z Textile Mills, Ltd. at the request of the WHO to increase supply capacity and reduce transportation costs. This initiative also helped to create employment in the local community.

The main destinations for OLYSET® NETs are Red Cross organizations in the respective countries, UNICEF, and the WHO. These entities then distribute the nets to those in Africa who need them most. In this project as in others, Sumitomo Chemical works to ensure sustainable profit, allowing the Company to continue to combine social contribution with its business activities.

Sumitomo Chemical participated as a major sponsor in the "Africa Live 2005 Roll Back Malaria Concert" staged in Dakar in Senegal on March 12 and 13, 2005 as part of the Roll Back Malaria Campaign. Lasting some 18 hours and featuring the famous African musician Youssou N'Dour, the concert conveyed the importance of malaria prevention and specifically the use of mosquito nets. Coverage of the concert was broadcast throughout Africa and Europe, reaching a potentially enormous number of viewers.

Sumitomo Chemical will participate in various activities to help eradicate malaria and contribute to enhancing the lives of people around the world.

* OLYSET® NET is the only net fully approved by the WHO as a Long-Lasting Insecticidal Net (LLIN). The insecticide (permethrin) is incorporated into the resin from which the net's thread is spun, so the active ingredient continues to be released, enabling it to retain long-term insecticidal efficacy even after repeated washings. The US magazine Time voted this one of the "Coolest Inventions of 2004."

Unlike mosquito nets in Japan, nets are also used over entrances and windows to prevent mosquitoes from entering the home.


"Africa Live 2005 Roll Back Malaria Concert" staged in Dakar

## New Hydrochloric Acid Oxidation Process Wins Green and Sustainable Chemistry Award

Chlorine is used in PVC and many other types of plastic, and is an indispensable material in the manufacture of industrial products.

Chlorine is normally produced together with caustic soda (sodium hydroxide) through the electrical decomposition of salt (sodium chloride). Chlorine production capacity is therefore dependent on the demand for caustic soda, which has in the past resulted in shortages of chlorine on the market.

Chlorine is also used in the manufacture of urethane for use in thermal insulation materials, but the excessive amounts of hydrochloric acid produced in this process also create disposal problems. Using the excess hydrochloric acid to create chlorine would resolve the problem of byproduct disposal, make efficient use of resources, and ameliorate shortages in chlorine supply. Other companies have previously developed technologies to make this possible, but these technologies did not enter the mainstream due to prohibitive plant investment and operating costs.

The new hydrochloric acid oxidation process developed by Sumitomo Chemical minimizes plant investment and increases scale by using a special high-performance, long-life catalyst. This catalyst enables the effective reuse of hydrochloric acid in the form of chlorine, offering an alternative to external disposal.

This technology won the Green and Sustainable Chemistry Award from the Green and Sustainable Chemistry Network*.

Experimental hydrochloric acid oxidation plant

* The Green and Sustainable Chemistry Network (GSCN) is a private organization formed in March 2000 by chemical associations, organizations, and national laboratories to promote the effective application in Japan of GSC ("Green and Sustainable Chemistry," which encourages the use of chemical technology to ensure the health and safety of people and the environment, as well as the conservation of resources and energy through technological innovation throughout the product life cycle). The Green and Sustainable Chemistry Award is presented to organizations and individuals that have contributed significantly to the promotion of GSC. In addition, Sumitomo Chemical was awarded the Minister of Economy, Trade and Industry Award (a GSC award) in 2002 for its gas-phase caprolactam production process.

## Investment in the World Bank Bio Carbon Fund

In March 2005, Sumitomo Chemical agreed to invest a total of US $2.5 million through 2017 in the Bio Carbon Fund established by the World Bank. This investment is expected to procure carbon credits*1 corresponding to approximately 400,000 tons of $CO_2$ over the 13 years through the end of 2017.

The Bio Carbon Fund was established by the World Bank in May 2004 to improve the global environment through forestry protection, tree planting, and bio-fuel power generation. Of the Kyoto Mechanisms*2 stipulated in the Kyoto Protocol, the fund uses CDM*3 for cooperation between developed and developing nations and JI*4 for cooperation between developed nations.

In addition to procuring carbon credits, the fund also helps improve the environment and enhance society through projects designed to protect the environment and improve the basic infrastructure in developing nations. Sumitomo Chemical has a history of reducing greenhouse gases through energy-saving, innovative production processes. Going forward, the Company will also promote initiatives to prevent global warming through such means as the Kyoto Mechanisms in addition to the processes implemented to date.

*1 Carbon credits: Emission rights issued corresponding to the extent of reductions and absorption amounts resulting from the implementation of projects to cut greenhouse gases. These credits can be applied to meet required reduction targets.

*2 Kyoto Mechanisms: Economic mechanisms stipulated in the Kyoto Protocol to provide more flexibility in methods of reducing greenhouse gases. Nations such as Japan, with high energy efficiency overall, are limited in the extent to which they can reduce their own emissions, and so they can invest in reductions in other nations and have these reductions recognized fully or partially as their own.

*3 CDM (Clean Development Mechanism): One of the Kyoto Mechanisms in which developed nations implement projects to reduce greenhouse gases in cooperation with developing nations and then divide the extent of reductions and absorption amounts (carbon credits) among project participants.

*4 JI (Joint Implementation): A Kyoto Mechanism through which developed nations implement joint projects and then divide the extent of reductions and absorption amounts (carbon credits) among the project participants.

## Provision of Insecticide and OLYSET® NET mosquito nets to Sumatra Earthquake Victims

We would like to express our deepest condolences to victims and their families following the earthquake that hit Sumatra, Indonesia, and the subsequent Indian Ocean tsunami on December 26, 2004. We pray for a swift recovery in the affected areas.

The earthquake and tsunami destroyed a large number of homes and in many places left vital wells unusable, leading to a serious deterioration of sanitary conditions and the accompanying risk of epidemic disease. In response, Sumitomo Chemical acted swiftly to donate disease-preventing insecticides as well as 3,200 OLYSET® NETs to protect against mosquito-borne malaria.

On January 4, 2005, the Company also donated ¥10 million in relief funds through the Japan Platform international relief organization via the Japan Business Federation (Nippon Keidanren) to provide local relief and to assist in recovery. A donation totaling ¥41.5 million (as of February 2005) was also raised by directors and employees of the 71 Sumitomo Group companies (49 in Japan, 22 overseas), including Sumitomo Chemical.

Scene of damage showing the huge volume of debris left by the earthquake and tsunami

Japan Platform support staff provide individual assistance by asking about specific needs of victims living in tents

Children's smiles are the biggest motivating force in recovery efforts

Photographs courtesy of Japan Platform

## Green Procurement Support — GTC-ECO System

Sumitomo Chemical has developed the GTC-ECO System together with Sumika Chemical Analysis Service, Ltd., and in collaboration with NTT Communications, Inc., Konishi Co., Ltd., Japan Chemical Database Ltd., and Uchida Spectrum, Inc. This system enables electrical and electronic component assembly manufacturers to perform chemical constituent management and constituent mass spectrometry of products procured from component and material manufacturers using a standard Web browser.

This system is designed to allow manufacturers to cope with environmental restrictions (such as prohibitions on toxic substances) that are growing increasingly common, particularly in Europe and the USA. The system also provides green procurement* support (e.g., survey responses and chemical analysis) and collection of safety related data, delivered to manufacturers over the Internet.

The GTC-ECO System is currently designed to provide support in green procurement (e.g., through survey responses and analysis), the collection of safety-related data, preparation of MSDS, and searches for applicable regulations. Functions scheduled for future addition include support in publicizing emergency countermeasures in response to accidents in distribution processes, proper generation of warning labels in distribution processes, support in trade and customs clearance procedures, assessments of compliance with regulations, and training.

* Green Procurement: Development, production, and sale of environmentally friendly products through chemical constituent data management by electrical and electronic equipment manufacturers for each supplier. One aspect of such management calls for component and material manufacturers to indicate the constituent components of materials they supply.

# Responsible Care Activities

Responsible Care (RC) refers to voluntary corporate activities aimed at preserving the environment, safety, health, and product quality in all phases of the product life cycle, while at the same time earning the trust of society through dialogue.

## Promoting RC Activities in the Sumitomo Chemical Group

**Sumitomo Chemical is actively involved in RC activities throughout the Group. The following is a transcript of an interview with Yasuyoshi Shiozaki, General Manager of the Responsible Care Office (Environment and Safety) on the subject of past and future RC activities of the Sumitomo Chemical Group.**

**Q: How much importance is placed on Responsible Care (RC) activities within the Company?**

A: The chemical industry has been at the forefront of RC activities in Japan for the past decade, and Sumitomo Chemical has been actively involved in RC activities from the start. Treating RC activities as one of the key pillars of business operations has enabled all of the Group companies in Japan and overseas, as well as the Company's factories and laboratories in Japan, to expand on a global scale. And we intend to expand our RC activities even further.

**Q: What relationship do you envision between RC activities and CSR?**

A: Sumitomo Chemical views CSR promotion as one of the basic policies of its Three-year Corporate Business Plan, and because RC initiatives form the foundation for CSR, the establishment of such initiatives is becoming increasingly important.

Sumitomo Chemical's CSR involves a well-balanced approach to activities in three basic areas: RC (covering environment, safety, health, and quality), society, and the economy. Our aim is to continue our business operations in harmony with society, contributing to overall growth in the process. In short, we expect RC activities to play an extremely important role in promoting CSR throughout Sumitomo Chemical.

**Q: What exactly is meant by "sustainable management" in terms of RC activities?**

A: In order for society to achieve continuous growth, it is vital to promote energy efficiency and eliminate the wasteful use of limited resources, rather than to pursue mere economic gain and convenience. It will therefore become even more important to promote sustainable management and to produce concrete results through a balance between the demands of business and the environment.

From fiscal 2005, Sumitomo Chemical has included sustainable management as a new area of management focus. We have an initiative underway to share environmental protection management targets with our main affiliated companies and work together to achieve these targets.

These initiatives may appear to be small steps, but we're confident that they represent an important stage in the promotion of effective sustainable management for the Group.

**Q: What is the role of RC in sustainable chemistry?**

A: Sumitomo Chemical has successfully developed a number of revolutionary green processes that enable unprecedented energy savings, conservation of resources, reduction of the environmental impact on the atmosphere and water resources, and reduction of waste products through the use of innovative, specially developed catalysts. The Company has also constructed commercial plants, produced clean products, and granted licenses for manufacturing technology to other firms.

Initiatives such as these represent the sort of sustainable chemistry the Company is aiming to promote, and reflect our philosophy of creating new and useful products through pursuing innovations in chemical technology and thereby contributing both to society and the environment.

The promotion of sustainable chemistry is the driving force behind effective RC activities, and success in RC would be difficult to achieve without creative technological initiatives.

**Q: What issues remain to be tackled in the future?**

A: We believe that the key to RC activities in the future lies in the increased promotion of RC activities within the Group. We're aiming at steady progress in our global RC activities, including those at Group companies, in our efforts to fulfill the Company's corporate responsibilities to society — by protecting the global environment, eliminating accidents and injuries, and ensuring the safety of chemical products. This will increase society's trust in our organization and help establish the "recycling -based society" that is urgently demanded both in Japan and worldwide.

Yasuyoshi Shiozaki,
Responsible Care Office
(Environment and Safety)

# Responsible Care Management

**Sumitomo Chemical has created a management structure for its activities based on the concept of Responsible Care to protect the environment, safety, health, and product quality throughout all phases of the product life cycle, at the same time earning the trust of society through dialogue.**

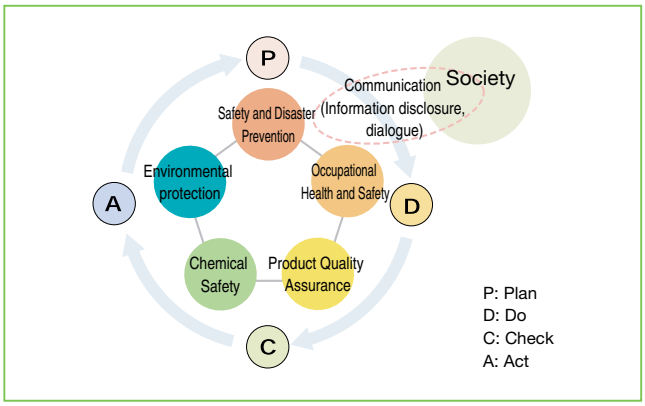
## Promoting Group RC Management

### Corporate Policy on Product Quality, Safety, and the Environment

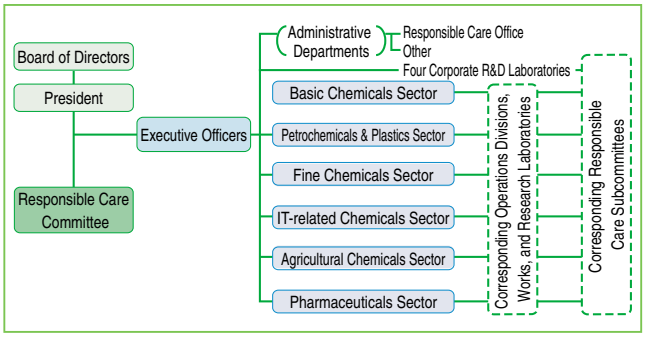
In January 1995, Sumitomo Chemical formulated its Policy for Responsible Care Activities. The policy's clear specification of objectives and methods, in turn, enhanced the relevance of the Corporate Policy on Product Quality, Safety and the Environment, which was introduced in April 1994. All employees are aware of the new policy and have pledged to work continually to improve operational performance while, of course, observing all applicable laws.

### Organization of Responsible Care Activities

The Responsible Care Committee (RC Committee) was established to promote comprehensive, efficient Responsible Care initiatives with a long-term perspective. The RC Committee consists of directors in charge of the Company's six business sectors, directors in charge of the administrative departments (general affairs, legal, human resources, IR & public relations, corporate planning & coordination, finance & accounting, procurement & logistics, Responsible Care), and the heads of our manufacturing plants.




### Organizational Summary




**Corporate Policy on Product Quality, Safety, and the Environment**

June 29, 2000
(Introduced April 1, 1994)

In conformity with the business philosophy of the Sumitomo Group, our Company fulfills its responsibility to develop, manufacture and supply a variety of products which satisfy the fundamental necessities of human life and contribute to the growth of society. Since its establishment, Sumitomo Chemical has managed its activities on the basic principles of (i) ensuring "customer satisfaction," (ii) maintaining "zero-accident and zero-injury operations," and (iii) promoting "co-prosperity with society."

With due respect to these principles, our Company is determined to conduct all activities, including production, R&D, marketing and sales, and logistics, in accordance with the following policy related to product quality, safety, and the environment.

1. To supply high-quality products and services that satisfy customer needs and ensure safety in their use
2. To maintain zero-accident and zero-injury operations and the safety of neighboring communities and our employees
3. To ascertain the safety of raw materials, intermediates, and products, and prevent our employees, distributors, customers, and consumers from being exposed to any possible hazard
4. To assess and reduce environmental impact at all operational stages, from product development to disposal, and to exert all practical environmental protection measures

All sections and employees of our Company shall be fully aware of the significance of this policy and shall always strive to improve operational performance while, of course, abiding by all relevant laws, regulations, and standards.

Hiromasa Yonekura, President
米倉弘昌
Sumitomo Chemical Company, Limited

**Policy for Responsible Care Activities**

Established January 1995
Responsible Care Committee

To implement the Corporate Policy on Product Quality, Safety and the Environment, the Company has determined specific objectives and methods as follows:

**1. Objectives**

1) Stable operations without accidents or injuries, and a good working environment
2) Assessment and reduction of environmental load to maintain co-prosperity with society
3) Technological improvement to ensure environmental protection and safety throughout the life cycle of a product, thereby contributing to the growth of business

**2. Methods**

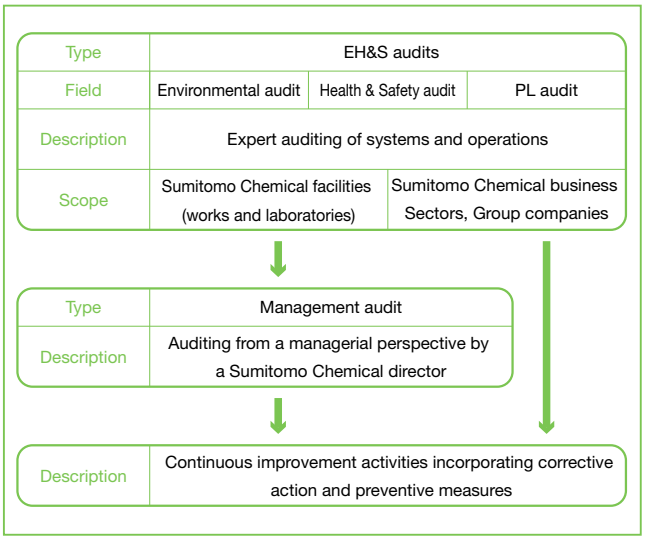
1) To abide by regulations on the environment and safety at home and abroad, and improve environmental and safety management standards while abiding by international standards
2) To keep the Company well organized, including in such areas as internal regulations, with clearly defined responsibilities of each section carried out in a timely manner
3) To promote the planning, implementation, and improvement of management of environment and safety through Responsible Care audits
4) To educate and train employees to better understand and implement Responsible Care activities
5) To develop technologies and products to reduce environmental impact at every stage of the product life cycle, from R&D, manufacture, and distribution to disposal, to satisfy social needs
6) To support the Responsible Care activities of affiliated companies, including those located overseas

# Auditing Framework

### Responsible Care Internal Audits

By completing the full Plan Do, Check, Act (PDCA) cycle for Responsible Care activities, we are ensuring that these activities are executed in the most effective way. In addition, we periodically conduct Responsible Care audits to determine objectively whether Responsible Care activities are being implemented correctly. Sumitomo Chemical plants and laboratories are subject to two types of audits: (1) Environment, Health & Safety (EH&S) audits using specialized staff and advance evaluations using checklists; and (2) management audits involving RC committee members led by the head of Responsible Care, who acts as committee director. Environment, Health & Safety (EH&S) audits are also conducted of the operating departments of the head office and of Group companies in Japan and overseas. In fiscal 2004, Responsible Care audits took place according to the schedule below. Each location is working to improve its Responsible Care activities by implementing corrective actions and preventive measures based on audit results.

### Responsible Care Audits




### Responsible Care auditing schedule for works and laboratories

| | Ehime Region | Chiba Region | Osaka Region | Oita Region | Misawa Region | Takarazuka Region |
|---|---|---|---|---|---|---|
| Management Audit | October 1 | October 18 | September 3 | November 5 | September 22 | December 1 |
| EH&S Audit | July 22-23 | August 5-6 | July 8-9 | September 9-10 | July 30 | October 12 |

## A Review of Fiscal 2004 Audits

### Remarks from Daisaburo Imai, General Manager, Responsible Care Office (Responsible Care Audits)

**Could you give us an overview of the fiscal 2004 Responsible Care audits?**

In fiscal 2004, 32 audits in total were conducted at all six facilities (works and laboratories) within the Company and at five head office operating departments, 12 Group companies in Japan, and three companies overseas.

The audits placed a higher emphasis on compliance in fiscal 2004 to promote stricter observance of regulations, however, even under the more rigorous standards the Sumitomo Chemical and Group company audits all achieved satisfactory compliance.

Our Responsible Care activities are now in their tenth year at Sumitomo Chemical, and the systems and their implementation were also deemed satisfactory. However, to ensure further progress, ten areas for improvement were highlighted among our various divisions. The second round of audits is currently underway for Group companies. I am happy to say that we have seen significant improvement in Responsible Care initiatives since the first round of audits, and the level of Responsible Care activities within the Sumitomo Chemical Group is steadily improving.

**What is being done to ensure the effectiveness and efficiency of these audits?**

Following a review of the previous year's Responsible Care activities and audit results, each year we carry out intensive audits in order to determine priorities for our audits. To improve the efficiency of audits, we work continuously to standardize and systemize auditing procedures, expand advance auditing (using checklists), and improve the qualifications of our auditors.

We have developed methods to help improve auditing efficiency. For example, we bring in specialized researchers to implement process safety engineering through process safety checks, and we employ local consultants for overseas audits in order to ensure a detailed understanding of local laws and regulations.

Daisaburo Imai,
Responsible Care Office
(Responsible Care Audits)

# Introduction of Environmental Efficiency Indicators

**Sumitomo Chemical is currently examining methods for evaluating proposed environmental efficiency indicators. This involves integrating environmental impact into our assessment, and is aimed at clarifying the correlation between the cost of environmental activities and environmental impact. This approach will, in turn, help ensure the more efficient reduction of environmental impact associated with particular activities.**

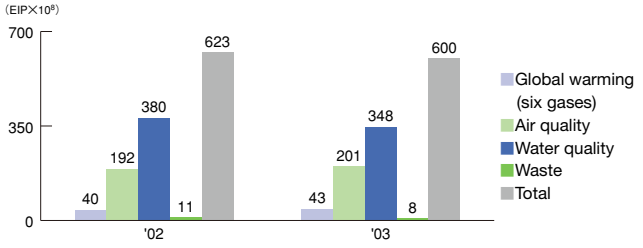
## Results of Environmental Efficiency Indicator Studies Using JEPIX*1

Sumitomo Chemical participated in the second JEPIX Benchmark Project*2, which calculates environmental efficiency indicators by integrating environmental impact based on actual data (fiscal 2002-2003) for the Company's five production sites (five works). The results showed that the combined environmental impact for fiscal 2003 for the entire Company (five works) was reduced by 2.3 billion EIP (environmental impact points: ecopoints) compared with the previous year and that environmental efficiency increased by 9.9%. Illustrating these results in graph form, with the X axis representing the percentage increase in environmental efficiency and the Y axis representing production efficiency indicators, clearly shows the improvements at the individual sites. Based on this method, we intend to make further progress in studying the effectiveness of the environmental efficiency indicators (i.e., their usefulness as indicators in formulating business strategy) by conducting similar evaluations for Group affiliate companies and by expanding the amount of data collected.

*1 JEPIX (Environmental Policy Priorities Index for Japan): This method, which employs a uniform single indicator (EIP, or ecopoints) for evaluating environmental effects, is derived from the Swiss LCIA Eco Scarcity methodology. The current method evaluates the discrepancy between targets (e.g. laws and environmental policies) and actual conditions based on the material flow data.

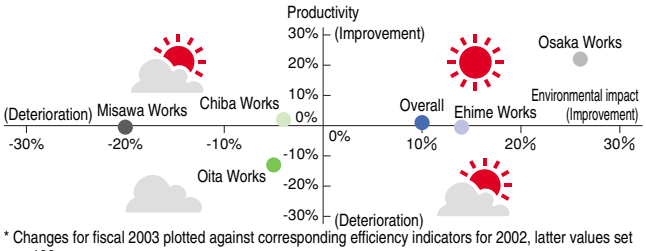
*2 Second JEPIX Benchmark Project: A project organized by Yamatake Corporation and carried out in 2004 under the leadership of Professor Miyazaki of the International Christian University. Over 30 companies participated , including Sumitomo Chemical

### Changes in overall company ecopoints (EIP)



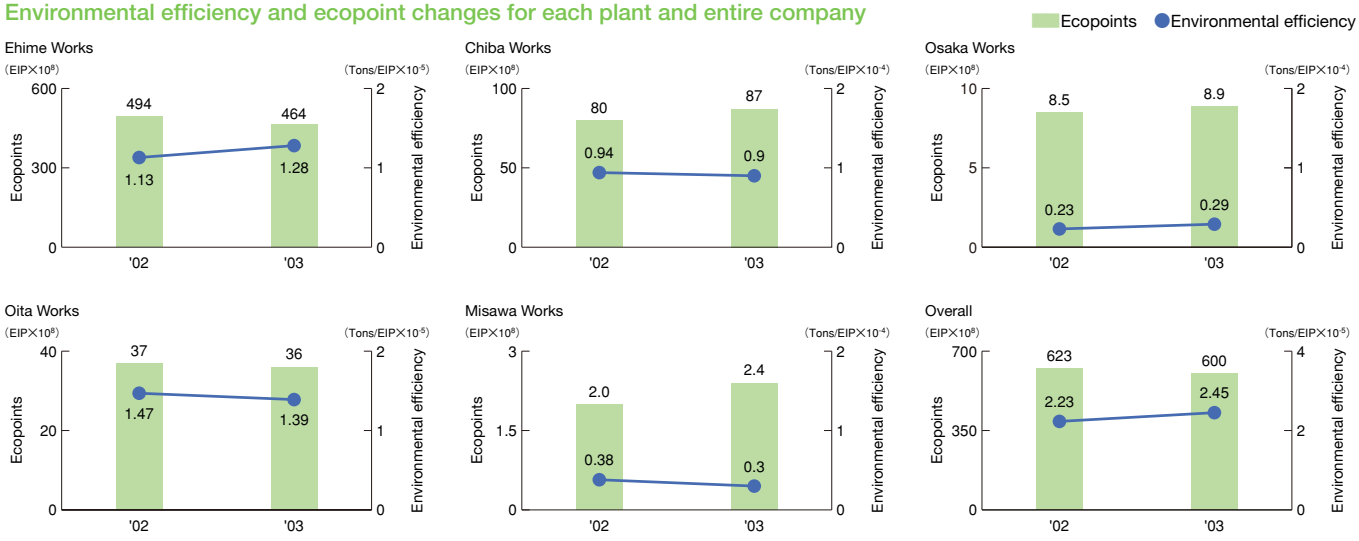

* Global warming (six gases) — Total emissions of greenhouse gases (six gases)
Air quality — Total emissions of substances that destroy the ozone layer, self-managed toxic air pollutants, photochemical oxidants, NOx, and SPM10
Water quality — Total emissions of BOD, COD, nitrogen, phosphorous
Waste — Amount of waste landfill

### Correlation between environmental efficiency and production efficiency




* Changes for fiscal 2003 plotted against corresponding efficiency indicators for 2002, latter values set as 100.
Environmental efficiency = Production amount (tons) / Ecopoints (EIP)
Production efficiency = Production amount (tons) / Energy consumption (kL)

### Environmental efficiency and ecopoint changes for each plant and entire company



# Topics: Group Company Initiatives

**The Sumitomo Chemical Group is actively involved in promoting and expanding Responsible Care activities throughout the Group.**

## Use of woody biomass fuel in Sumitomo Joint Electric Power's coal-fired power stations — Sumitomo Joint Electric Power Co., Ltd.

Sumitomo Joint Electric Power, reflecting an explicit commitment in its corporate policy, has long been actively involved in initiatives to tackle environmental issues such as global warming. One such initiative involves the use of woody biomass fuel at Niihama West Thermal Power Station (output 75MWx2), which will begin in autumn 2005.

The woody biomass fuel used consists of wood chips from construction material, approximately 3,600 tons per year of which is mixed with coal. Use of this material will cut coal consumption by approximately 2,300 tons and achieve a reduction in $CO_2$ emissions of approximately 6,000 tons.

Compared with the overall $CO_2$ emissions of Sumitomo Joint Electric Power, this is a small reduction, representing approximately 0.2% of the total. However, expanding the scheme to include other power stations is envisioned. In addition, a greater variety of woody biomass fuels will be used (based on combustion experiments using Japanese cedar and cypress bark).

Shuichiro Manabe, General Manager, Engineering Planning Department, Sumitomo Joint Electric Power Co., Ltd.

## Accident Prevention and Safety at Koei Chemical — Koei Chemical Co., Ltd.

As a producer of a wide range of chemical products, Koei Chemical views the protection of the environment, safety, health, and product quality as the foundation of its business operations. In 1996, the organization became a member of the Responsible Care Committee, and it has since added significantly to the scope of Responsible Care activities throughout the company.

In the area of accident prevention and safety, zero-accident and zero-injury targets have been established, and ISO management systems have been applied to the implementation of the activities in each department. These activities mainly include those of the Health and Safety Committee, the Health and Safety Promotion Committee, the Safety Review Committee, the Responsible Care Patrols, and the Near-Miss and Failure Case Study Review Team.

The Safety Review Committee has long been involved in carrying out assessments to ensure that no health, safety, or environmental problems are created by the introduction of new processes or by the construction or modification of plant equipment. Last year, at the recommendation of Sumitomo Chemical, the company also introduced HAZOP and Sumitomo Chemical hazard assessment methods. Additionally, systematic assessments are now being carried out on existing as well as new processes. Realistic disaster prevention drills are also being carried out in conjunction with the Fire Department in preparation for worst-case scenarios.

Toshio Fukuoka, General Manager, Responsible Care Office, Koei Chemical Co., Ltd.

## Environmental Protection Activities by Sumitomo Pharmaceuticals — Sumitomo Pharmaceuticals Co., Ltd.

Sumitomo Pharmaceuticals recognizes that voluntary and active initiatives to protect the environment are an essential challenge to a pharmaceutical business dedicated to saving lives and protecting health. The company has therefore established a range of environmental initiatives in its Standards for Business Conduct. The company also demonstrated its active support for environmental activities in fiscal 2003 by establishing a Voluntary Environmental Activity Program (medium-/long-term plan) as part of its Basic Environmental and Safety Policy.

The biggest issue in the Voluntary Environmental Activity Program is the reduction of greenhouse gas emissions through energy savings. Efforts are being made at plants and laboratories to meet the targeted reduction of $CO_2$ emissions in 2010 to below 1990 levels, as recommended by the Japan Business Federation (Nippon Keidanren) and the Japan Pharmaceutical Manufacturers Association.

Initiatives at the main plant in Ibaraki include the installation of a new refrigeration system in February 2004. While initial investment was almost 20% higher than for a conventional system, the use of a more energy-efficient gas-absorbent refrigeration system resulted in energy savings of 10% compared with conventional systems. In February 2005, a new cogeneration system was installed that features the world's most advanced power-generation efficiency. This system is expected to cut total energy consumption at the Ibaraki plant by approximately 7% and to reduce $CO_2$ emissions by approximately 2,600 tons (compared with thermal power generation).

However, with steady business growth since 1990, the company's $CO_2$ emissions have also increased considerably relative to 1990 levels. The company therefore intends to work hard to achieve its targets through a range of new and creative initiatives, in addition to strengthening those initiatives already underway.

Norio Miyoshi, General Manager, Environmental & Occupational Safety Department, Sumitomo Pharmaceuticals Co., Ltd.

## Chemical Safety Activities by Taoka Chemical — Taoka Chemical Co., Ltd.

Taoka Chemical actively promotes chemical safety in the context of its Responsible Care activities.

As one example, the latest MSDS (material safety data sheets) for company products and their raw materials are provided by the Responsible Care Office and accessible from any department company-wide. This innovation has been combined with system registration, which allows searches of in-house network computers and batch processing using copies of the MSDS. Currently, approximately 1,300 products are registered, including those from within Japan and overseas, in addition to approximately 950 registered raw materials.

A "yellow-card" system has also been established in case of unforeseen accidents while transporting products, and drivers carry these yellow cards at all times.

The number of inquiries from customers about green procurement has been increasing steadily, currently standing at around 40 to 50 per month, and we often respond to customers' requests through the analysis of individual substances.

Other activities include surveys and legally required actions, such as implementation of revised laws covering regulations on chemical screening and manufacture; examination of existing data and collection of new data for non-assessed substances (as required under laws to prevent marine pollution); and the collection of Ames test data as required when submitting new substances for approval under existing health and safety laws.

We are also involved in forward-looking Responsible Care activities, including surveys of Taoka Chemical products applicable under Japan's Program to Collect and Provide Safety Information on Current Chemicals, an initiative currently underway with international cooperation.

In summary, Taoka Chemical will continue promoting Responsible Care activities in the future, with an emphasis on the needs of society.

Osamu Hirotomi, Associate Director, and General Manager of the Responsible Care Office, Taoka Chemical Co., Ltd.

# Results of Fiscal 2004 Responsible Care Activities

Sumitomo Chemical has set specific targets for its Responsible Care activities in the areas of environmental protection, disaster prevention/process safety, occupational health and safety, chemical product safety, quality assurance, and audits. Highlights of Sumitomo Chemical's Responsible Care activities in fiscal 2004 in environmental protection, safety, and quality assurance are presented below.

## Primary Responsible Care Initiatives: Targets and Progress

### Major environmental protection, safety, and quality assurance initiatives

| | Theme | Goal | Measures Taken | Target | |
|---|---|---|---|---|---|
| Environmental protection | Sustainable management | Reduction of Group's overall environmental impact | Environmental protection management in conjunction with Group companies | Individual/Group | |
| | Global environmental protection | Prevention of global warming | Reduction in $CO_2$ emissions | Individual | |
| | | | | Group | |
| | | Prevention of ozone layer depletion | Reduction in CFC emissions | Individual/Group | |
| | Establishing a recycling-oriented society | Energy conservation | Improvement in energy efficiency | Individual | |
| | | | | Group | |
| | | Waste reduction | Reduction in the amount of generated waste; promotion of recycling | Individual | |
| | | | | Group | |
| | Preservation of the living environment and prevention of health hazards | Proper handling of PRTR* substances | Promotion of PRTR substance risk management | Individual | |
| | | | | Group | |
| | | VOC countermeasures | Reduction in VOC emissions | Individual | |
| | | Prevention of soil and groundwater contamination | Promotion of soil and groundwater contamination risk management | Individual/Group | |
| | | PCB countermeasures | Proper storage and disposal of PCB waste | Individual/Group | |
| Safety | Promotion of occupational health and safety | Prevention of occupational accidents | Use of OSHMS (Occupational Safety and Health Management System) to reduce potential occupational safety risks | Individual | |
| | | | Prevention of problems caused by human factors | | |
| | Promotion of disaster prevention activities | Prevention of major accidents | Reduction of process-related risks | Individual | |
| | Promotion of chemical product safety management | Ensuring the safety of chemical products | Enhancement of safety information and proper management of chemical substances | Individual | |
| Quality assurance | Promotion of quality assurance activities | Prevention of quality problems | Promotion of measures to prevent serious quality problems | Individual | |

* PRTR: Pollutant Release and Transfer Register

●=Target Achieved or Satisfactory Progress ◆=Nearly Achieved ■=To Be Achieved

| Target | Performance in Fiscal 2004 | Progress |
|---|---|---|
| Standardize environmental protection management targets with major affiliated companies and work to reach these targets | Established standard targets (covering eight items, including energy conservation)<br>Countermeasures to help achieve the target were under examination. | ● |
| Reduce $CO_2$ emission rate from fossil fuel consumption by 10% relative to the fiscal 1990 level by fiscal 2010 | Reduced $CO_2$ emission rate from fossil fuel consumption by 0.1% relative to the previous fiscal year<br>Reduced $CO_2$ emission rate from fossil fuel consumption by 9.0% relative to fiscal 1990 | ● |
| Reduce $CO_2$ emission rate by 4.1% relative to fiscal 2002 levels by fiscal 2010 | Reduced $CO_2$ emission rate by 2.6% relative to fiscal 2002 | ● |
| Eliminate the use of refrigeration units that use specified CFCs as coolants by 2025 | Promoted systematic replacement of refrigeration units<br>No coolant leaks occurred | ● |
| Reduce the annual energy consumption rate by 1% | Reduced annual consumption rate by 1.5% relative to the previous fiscal year<br>Reduced annual consumption rate by 13.2% relative to fiscal 1990 (100.8% target achievement rate) | ● |
| Reduce the energy consumption rate by 6.4% relative to fiscal 2002 levels by fiscal 2010 | Reduced consumption rate by 2.9% relative to fiscal 2002 | ● |
| Reduce landfill disposal volume by 85% relative to fiscal 1990 levels by fiscal 2010<br>Reduce the amount of red bauxite disposed of through sea dumping by 10% relative to fiscal 2000 levels by fiscal 2005 | Landfill:<br>Reduced landfill disposal volume by 14.5% relative to the previous fiscal year (73.4% reduction from fiscal 1990)<br>Sea dumping:<br>Reduced sea dumping volume by 2.3% relative to the previous fiscal year (8.9% reduction from fiscal 2000) | ● |
| Reduce landfill disposal volume by 49% relative to fiscal 2002 levels by fiscal 2010 | Landfill disposal volume increased by 0.9% relative to fiscal 2002 | ◆ |
| Reduce total emissions (air and water) of substances subject to the PRTR Law by 50% relative to fiscal 2002 levels by fiscal 2010 | Reduced total emissions by 27.3% relative to fiscal 2002 | ● |
| Reduce total emissions (air and water) of substances subject to the PRTR Law by 56% relative to fiscal 2002 levels by fiscal 2010 | Reduced total emissions by 37% relative to fiscal 2002 | ● |
| Reduce VOC emissions by 30% relative to fiscal 2000 levels by fiscal 2010<br>Standardize method for calculating past VOC emissions and establish emission reduction plan | Steady reduction in VOC emissions as required for PRTR compliance<br>Standardized method for calculating VOC emissions; continued to examine actual emission reduction plan | ● |
| Keep hazardous materials strictly within Company premises and ensure careful management of these materials | Soil contamination surveys, evaluations, and required improvements currently near completion<br>Monitoring of groundwater near boundaries has confirmed levels of hazardous materials below those stipulated under environmental standards<br>Continued monitoring of groundwater by Sumitomo Chemical | ● |
| Promote the appropriate storage and recovery of PCB waste and complete PCB waste treatment by March 2014 | Continued Company implementation of strict recovery and appropriate storage of PCB waste | ● |
| Eliminate all accidents resulting in lost workdays for employees of Sumitomo Chemical or its contractors<br>Frequency rate of lost-workday injuries: Less than 0.1<br>Severity rate of lost-workday injuries: Less than 0.01<br>Frequency rate of lost-workday injuries = (number of lost-workday injuries/man-hours) x one million<br>Severity rate of lost-workday injuries = (number of lost-workdays/man-hours) x 1,000 | There were three accidents resulting in lost workdays at Sumitomo Chemical and seven at the companies of contractors; affiliate companies; we therefore failed to reach our target of zero accidents.<br>Sumitomo Chemical: Frequency rate of lost-workday injuries: 0.28<br>Severity rate of lost-workday injuries: 0.03<br>Affiliate companies: Frequency rate of lost-workday injuries: 0.71<br>Severity rate of lost-workday injuries: 1.55 | ■ |
| Eliminate major accidents | Achieved target of zero major accidents<br>Conducted process risk assessment and implemented safety measures<br>Revised the long-term earthquake retrofitting plan<br>Implemented disaster prevention assessment guidelines | ● |
| Conduct risk assessments to evaluate the impact of chemical products on the environment | Conducted risk assessments of 65 chemical products | ● |
| Establish hazardous material information reporting system to comply with revised Law Concerning the Examination and Regulation of Manufacture, etc., of Chemical Substances | Created a reporting system for information on hazardous materials gathered from toxicity studies conducted by Sumitomo Chemical and other parties; new system complies with the recently revised Law Concerning the Examination and Regulation of Manufacture, etc., of Chemical Substances | ● |
| Establish and implement Basic Measures to Prevent Serious Product Quality Problems | Established and implemented Basic Measures to Prevent Serious Product Quality Problems<br>Revised company-wide quality assurance regulations (Issue 2, Revision 4)<br>Began formulation of Policy to Prevent Serious Product Quality Problems | ● |

# Environmental Impact and Environmental Accounting

Among its Responsible Care activities, Sumitomo Chemical places a high importance on reducing its environmental impact and collects basic environmental impact data on a Group level. The Company has also introduced environmental accounting to assist in managing environmental protection activities.

## Environmental Impact of Production Activities

### Input: Energy and resources

Sumitomo Chemical Group | Sumitomo Chemical

| Energy | thousands of kL | thousands of kL |
|---|---|---|
| Electricity | 2,321 | 1,499 |
| Gas/fuel | 492 | 379 |
| (calculated as kL of crude oil) | 1,829 | 1,120 |

| Exhaustible resources | 10,000 tons | 10,000 tons |
|---|---|---|
| Hydrocarbons | 315 | 296 |
| Metals*1 (excluding rare metals) | 1.8 | 1.5 |
| Rare metals*2 | 0.03 | 0.02 |

| Water | millions of tons | millions of tons |
|---|---|---|
| Industrial water | 1,260 | 726 |
| Drinking water | 71.8 | 65.0 |
| Seawater | 1.0 | 0.6 |
| Groundwater | 1,148.5 | 624.8 |
| Other water | 36.8 | 33.7 |
| | 1.7 | 1.7 |

**INPUT**

## Sumitomo Chemical Group*3

| | | | | | |
|---|---|---|---|---|---|
| Use of PCB/CFCs | Number of electric machines containing PCBs | 1,531 | 756 | Number of refrigeration units using specified CFCs as a coolant | 111 | 39 |
| | PCB volume | 46.1m$^3$ | 42.2m$^3$ | | | |

**OUTPUT**

### Output: Product Manufacturing and Environmental Impact

| Products*4 (calculated on the basis of ethylene production) | 10,000 tons | 10,000 tons |
|---|---|---|
| | 238 | 157 |

| Water pollutant emissions | tons | tons |
|---|---|---|
| COD | 1,951 | 1,496 |
| Nitrogen | 2,493 | 1,990 |
| Phosphorous | 69 | 65 |
| Substances covered by PRTR | 155 | 57 |

| Waste materials | thousands of tons | thousands of tons |
|---|---|---|
| Waste generated | 295 | 79 |
| Landfill (final disposal) | 118 | 12 |
| On-site landfill | 5 | 5 |
| External landfill | 113 | 7 |
| Red bauxite sea dumping | 502 | 502 |

| Atmospheric emissions | thousands of tons of $CO_2$ | thousands of tons of $CO_2$ |
|---|---|---|
| Greenhouse gases (six gases) | | 4,366 |
| $CO_2$ | | 4,315 |
| $N_2O$ | | 51 |
| HFC | | 0 |
| PFC | | 0 |
| Methane | | 0.1 |
| Sulfur hexafluoride | | 0 |
| Energy source ($CO_2$) | 6,215 | 3,759 |
| (Consisting of fuel consumption*5, | 4,774 | 2,502 |
| purchased electricity, and steam) | 1,441 | 1,257 |

| Other | tons | tons |
|---|---|---|
| NOx | 5,668 | 3,230 |
| SOx | 6,340 | 2,617 |
| Particulates | 428 | 290 |
| Substances covered by PRTR | 1,464 | 784 |

*1 Metals: Calculations include the following 12 metals: iron, gold, silver, copper, zinc, aluminum, lead, platinum, titanium, palladium, gallium, and lithium.

*2 Rare metals: Calculations include the following seven rare metals, which are part of an extremely delicate supply system and are stockpiled by the Japanese government: nickel, chromium, tungsten, cobalt, molybdenum, manganese, and vanadium.

*3 Group companies consist of the following 18 domestic group companies: Sumitomo Pharmaceuticals Co., Ltd.; Koei Chemical Co., Ltd.; Taoka Chemical Co., Ltd.; Sumitomo Joint Electric Power Co., Ltd.; Sumika Color Co., Ltd.; Nihon Medi-Physics Co., Ltd.; Chiba Polyethylene Co., Ltd.; Nippon A&L Inc.; Thermo Co., Ltd.; Sanzen Kako Co., Ltd.; Kaito Chemical Industry Co., Ltd.; New STI Technology, Inc.; Asahi Chemical Co., Ltd.; Shinto Paint Co., Ltd.; Sumitomo Dow Ltd.; Sumika Bayer Urethane Co., Ltd.; Nihon Oxirane Co., Ltd.; and Sumika Takeda Agrochemical Co., Ltd. (The former Sumika Fine Chemicals Co., Ltd. merged with Sumitomo Chemical in July 2004, but calculations were combined with those for Sumitomo Chemical for the entire period of fiscal 2004, from April 2004 to March 2005.)

*4 Certain assumptions were made in calculations due to the difficulty in attaining weight-based figures for some products.

*5 $CO_2$ emissions are not included for energy (electricity and steam) sold outside the Sumitomo Chemical Group. Emissions are, however, included for Sumitomo Joint Electric Power Co., Ltd., as sales of energy form its primary business.

# Environmental Accounting

Sumitomo Chemical continuously gathers and evaluates data on environment-related expenses, investments, and economic results, in line with the Company's environmental accounting program introduced in fiscal 2000.

## Environmental Accounting Objectives

(1) Improve effectiveness of environmental protection activities through numerical analysis
(2) Decision-making based on a long-term environmental perspective
(3) Improve industry transparency through disclosure of information

## Items Pertaining to Environmental Accounting

(1) Scope: Sumitomo Chemical and 19 domestic and overseas Group companies
(2) Period under review: Fiscal 2004 (April 1, 2004 to March 31, 2005)
(3) Classification: Based on Ministry of the Environment guidelines
(4) Independent review: Conducted by AZSA Sustainability Co., Ltd.
(5) Tabulations are made on a consolidated basis: 19 principal consolidated affiliates (14 domestic, five overseas). In fiscal 2003, tabulations were made for 17 consolidated affiliates (14 domestic, three overseas).

## Environmental Accounting Results

The Sumitomo Chemical Group's environmental accounting for fiscal 2004 shows investments of ¥2.9 billion, expenses of ¥20.3 billion, and economic effects of ¥3.2 billion on a consolidated basis.

In comparison with fiscal 2003, Sumitomo Chemical's investments decreased by ¥5.9 billion, expenses decreased by ¥1.4 billion, and economic effects decreased by ¥1.3 billion. Increases in investment of ¥0.3 billion and expenses of ¥0.6 million were seen due to the inclusion of additional new Group companies in this year's calculations.

The reductions in investments, expenses, and economic effects were due to major business launches by Sumitomo Chemical (including vapor-phase caprolactam and a byproduct-free propylene oxide production process) as well as the introduction of environmental measures by Sumitomo Chemical Group companies in fiscal 2003.

## Environmental Protection Costs

(Unit: 0.1 billions of yen)

| Classification | | Main Implementation Details | Fiscal 2003 | | | | Fiscal 2004 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Sumitomo Chemical only | | Consolidated | | Sumitomo Chemical only | | Consolidated | |
| | | | Investment | Expense | Investment | Expense | Investment | Expense | Investment | Expense |
| Business Area Costs | | | 40 | 105 | 85 | 164 | 14 | 106 | 23 | 157 |
| Breakdown | Pollution Prevention Costs | Prevention of air pollution, water pollution, soil contamination, noise pollution, odors, ground subsidence, etc. | (11) | (61) | (53) | (99) | (11) | (71) | (19) | (104) |
| Breakdown | Global Environmental Protection Costs | Prevention of global warming, ozone depletion, etc. | (0) | (2) | (0) | (2) | (0) | (0) | (0) | (1) |
| Breakdown | Resource Recycling Costs | Resource and energy conservation, water conservation and rainwater use, reducing and disposing of waste, recycling waste, etc. | (29) | (42) | (32) | (63) | (3) | (34) | (4) | (52) |
| Upstream/Downstream Costs | | Green purchasing, recycling and recovery procedures for products, remanufacturing, appropriate processing, recycling costs associated with containers and packaging, environment-friendly products and services | 0 | 0 | 0 | 2 | 0 | 0 | 1 | 2 |
| Administrative Costs | | Costs associated with environmental education, environmental management systems, and monitoring and measuring the environmental impact of business activities and products; environmental organization operation, etc. | 0 | 6 | 0 | 8 | 0 | 7 | 0 | 9 |
| R&D Costs | | Development of products contributing to environmental safety, research into energy-conservation processes | 3 | 30 | 3 | 31 | 4 | 24 | 4 | 25 |
| Social Activity Costs | | Protecting the natural environment and enhancing its scenic beauty and greenery, supporting community initiatives aimed at environmental protection, supporting environmental protection groups, environment-related paid contributions and surcharges, etc. | 0 | 5 | 0 | 9 | 0 | 5 | 0 | 8 |
| Environmental Remediation Costs | | Environmental rehabilitation of contaminated environments and other environmental damage, reserve funds to cover environmental rehabilitation | 0 | 3 | 0 | 3 | 1 | 3 | 1 | 3 |
| Total | | | 43 | 149 | 88 | 217 | 19 | 145 | 29 | 203 |

## Economic Effects

(Unit: 0.1 billions of yen)

| Results | Fiscal 2003 | | Fiscal 2004 | |
|---|---|---|---|---|
| | Sumitomo Chemical only | Consolidated | Sumitomo Chemical only | Consolidated |
| Expense Reductions Due to Energy Conservation | 7 | 7 | 3 | 4 |
| Expense Reductions Due to Resource Conservation | 19 | 23 | 11 | 13 |
| Expense Reductions Due to Recycling Activities | 12 | 16 | 11 | 15 |
| Total | 38 | 45 | 26 | 32 |

*1 Economic effects are limited to those achieved through energy conservation, resource conservation, and recycling activities, and are calculated on the basis of a number of defined premises.
*2 The former Sumika Fine Chemicals Co., Ltd. merged with Sumitomo Chemical in July 2004, but figures were combined with those for Sumitomo Chemical for the entire period of fiscal 2004 (April 2004 to March 2005).
*3 The total of individual figures may not match indicated total due to rounding.

# Environmental Protection Activities

**Sumitomo Chemical has achieved solid results in conserving energy and resources and in reducing environmental impact, doing its part to protect the global environment through the efficient use of limited resources.**

## Energy Conservation Initiatives — 1.5% improvement in energy consumption rate over previous year
## Global Warming Prevention Initiatives — No increase in $CO_2$ emission rate from fossil fuels consumed

Sumitomo Chemical is working to achieve its goals of reducing its energy consumption rate by an average of 1% per year and reducing $CO_2$ emission rate from fossil fuels by 10% relative to 1990 levels by 2010.

The energy consumption rate for fiscal 2004 increased by 5.0% over the previous year, to 1.499 million kL (calculated as crude oil), due to the acquisition of Sumika Fine Chemicals Co., Ltd. (Gifu and Okayama Plants) by Sumitomo Chemical and also to increased production at existing plants. However, the energy consumption rate was reduced by 1.5% over the previous year due to waste heat recovery and an increase in high-efficiency power generation.

The $CO_2$ emission rate derived from fossil fuels in fiscal 2004 remained nearly constant (0.1% reduction over the previous year), and was reduced by 9.0% relative to fiscal 1990.

$CO_2$ emissions for fiscal 2004 increased by 1.4% over the previous year, to 4.315 million tons, due to a 6.6% increase in production. This represents a 17.3% increase over fiscal 1990 levels.

In addition to these efforts in emissions reduction, Sumitomo Chemical is also studying the application of additional measures, including the Kyoto Mechanisms. One initiative in March 2005 was the decision to invest a total of US $2.5 million by 2017 in the Bio Carbon Fund established by the World Bank. This move is expected to garner approximately 400,000 tons of carbon credits. (See page 11 for details.)

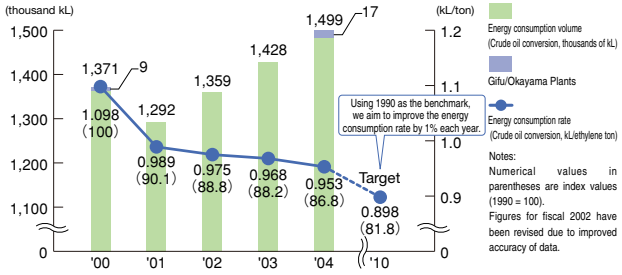
### Emissions of the six greenhouse gases

Sumitomo Chemical released approximately 4.366 million tons ($CO_2$ conversion) of the six greenhouse gases regulated by the Law Concerning the Promotion of Measures to Cope with Global Warming, reflecting a 1.4% increase over the previous fiscal year. $CO_2$ emissions accounted for 4.315 million tons, and emissions of the remaining five gases totaled 0.051 million tons. (See page 5 of Data Book for details.)

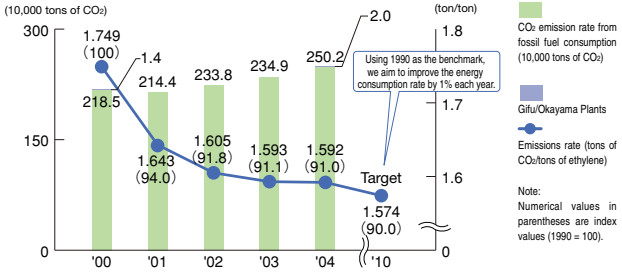
### Development of Greenhouse Gas Emission Calculation System and Examination of Analysis Methods

Sumitomo Chemical is working to improve the accuracy and precision of methods used to calculate greenhouse gas emissions through greater standardization and systemization of

### Energy Consumption Volume and Rate




### $CO_2$ Emissions from Fossil Fuel Consumption and Corresponding Emission Rates



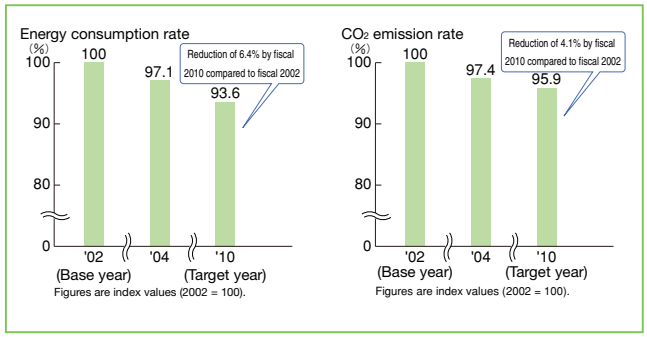

### Volume of $CO_2$ Emissions

(Unit: 10,000 tons of $CO_2$)

| Fiscal Year | Total Emissions | Energy Consumption | | Environmental Treatment | | Process |
|---|---|---|---|---|---|---|
| | | Fossil Fuel Consumption | Purchased Electricity | Incineration | Wastwater | |
| 1990 | 367.8 | 218.5 | 103.8 | 28.2 | 2.3 | 15.0 |
| 2002 | 402.0 | 223.8 | 123.2 | 28.4 | 2.2 | 24.4 |
| 2003 | 425.5 | 234.9 | 132.8 | 32.2 | 2.1 | 23.5 |
| 2004 | 431.5 | 250.2 | 125.7 | 30.7 | 2.6 | 22.3 |

Notes:
1. "Process" refers to production process emissions other than energy consumption.
2. Figures for fuel consumption do not include electricity or steam sold outside the Company.
3. The data for fiscal 1990 and 2004 include emissions for the Gifu and Okayama Plants.
4. Figures for fiscal 2002 and 2003 have been revised due to improved accuracy of data.

### Group Targets and Performance



these methods.

Calculation of emissions will be possible on an individual-plant basis and also by product type, making it easier to quantitatively analyze the effects of technological innovations and energy conservation activities.

Once the system is operating, the Company intends to analyze in greater depth the effects on the production volumes of different product groups as well as the effects of improvements designed to reduce the rate of greenhouse gas emissions. Such analysis will, in turn, enable more efficient and effective reductions in greenhouse gas emissions overall.

### Standardization of Energy Conservation and $CO_2$ Reduction Targets with Main Affiliated Companies

New targets were established for the Group in fiscal 2004, as shown below. Increased efforts involving a variety of initiatives will be made across the Group to help reach these targets.

Energy conservation: Reduce energy consumption rate by 6.4% from fiscal 2002 by 2010
(An actual reduction of 2.9% was achieved in fiscal 2004 compared with fiscal 2002.)
Global warming prevention: Reduce $CO_2$ emission rate by 4.1% from fiscal 2002 by 2010
(An actual reduction of 2.6% was achieved in fiscal 2004 compared with fiscal 2002.)

## PRTR Initiatives — 3.5% Increase in Total (Air and Water) Release of PRTR Law-Targeted Substances Over Previous Year; 27.3% Reduction relative to Fiscal 2002

In fiscal 2004 Sumitomo Chemical worked to promote systematic initiatives to reduce release volumes (in both air and water) of substances targeted under the Pollutant Release and Transfer Register (PRTR) Law, aiming for a 50% reduction relative to fiscal 2002 levels by fiscal 2010, based on the results of risk assessments and release evaluations.

In fiscal 2004, however, releases of PRTR-targeted substances totaled 841.2 tons, an increase of 3.5% over the previous year and a reduction of 27.3% compared with fiscal 2002. This was due to the increase in release volumes at plants following the merging of Sumika Fine Chemicals Co., Ltd. (Gifu and Okayama Plants) with Sumitomo Chemical. Subtracting this increase, however, would result in a reduction in total release volumes of 8.4% compared with the previous year.

Sumitomo Chemical has already completed chemical risk assessments for all of the major substances generating high release volumes, but plans to complete risk assessment using the latest data in fiscal 2005, expanding the scope to cover all substances handled.

### Release and Transfer of PRTR Law-Targeted Substances

(Unit: tons)

| | Amount Released | | | Amount Transferred | | |
|---|---|---|---|---|---|---|
| | Air | Water | Subtotal | Sewage | Waste | Subtotal |
| PRTR Law-targeted (102 substances) (Non-consolidated) | 784.2 | 57.0 | 841.2 | 0.8 | 2,691.7 | 2,692.5 |
| PRTR Law-targeted (Consolidated) | 1,464.4 | 155.2 | 1,619.6 | 24.8 | 4,247.2 | 4,272.0 |

### Sumitomo Chemical PRTR Initiatives

Since fiscal 1994, Sumitomo Chemical has conducted annual PRTR inspections to track the release and transfer of materials targeted by the Japan Chemical Industry Association (JCIA), and has worked to reduce the release volumes of such materials. The JCIA initially targeted 43 substances, but from fiscal 2000 the scope of inspections was expanded to include 480 chemical substances, including 354 chemicals identified by the PRTR Law.

Sumitomo Chemical will continue systematically to implement the measures necessary to reduce release volumes based on risk assessment results.

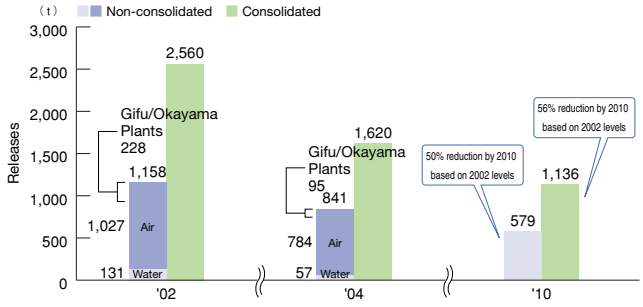
Note: Full data for released and transferred amounts of PRTR Law-targeted substances and JCIA-targeted substances are included in the Data Book.

### Standardization of Reduction Targets for the Release of PRTR Law-targeted Substances (Air and Water) with Main Affiliated Companies

The new target shown below was established in fiscal 2004. Efforts will now be stepped up to achieve these targets on a Group-wide basis.

Target: Reduction of PRTR Law-targeted substance releases by 56% relative to fiscal 2002 by fiscal 2010
(Total releases in fiscal 2004 comprised 1,620 tons, a reduction of 37% relative to 2002.)

### PRTR Law-targeted Substance Releases (Air and Water)




### Initiatives to Reduce the Release of Volatile Organic Compounds (VOCs)

VOCs have become subject to new regulations following revisions to the existing Air Pollution Control Law. Therefore, in fiscal 2004, Sumitomo Chemical established a new target to reduce the release of VOCs by 30% relative to fiscal 2000 levels by fiscal 2010, incorporating its voluntary initiatives into this new target.

Feasibility studies of the plan to reduce VOC releases are currently underway.

# Initiatives to Prevent Air and Water Pollution — Achieving major reductions in the release of COD, nitrogen, and phosphorous into waterways compared with previous year

Sumitomo Chemical is working actively to preserve the purity of the atmosphere and water, by developing numerous technologies designed to prevent air and water pollution; working to reduce the amount of SOx (sulfur oxides), NOx (nitrogen oxides), and soot and dust released into the atmosphere; reducing amounts of COD (chemical oxygen demand), nitrogen, and phosphorous released into waterways; and making concerted efforts to conserve water.

To this end, Sumitomo Chemical has set targets to maintain COD levels and emissions of NOx, SOx, soot and dust, nitrogen, and phosphorous that are consistently below commonly agreed-upon (voluntary) levels. Additionally, the Company endeavors to make the most efficient use of water resources.

## Atmospheric Emissions of SOx, NOx and soot and dust

Since 1970, Sumitomo Chemical has achieved a marked reduction in the release of SOx, NOx, and soot and dust into the atmosphere, and has maintained this low level of emissions from 1980 to the present. Further, the Company has concluded cooperative agreements with local municipal governments at each of its manufacturing plants, establishing voluntary control levels that are even stricter than those established under the applicable laws and regulations. Although emissions of SOx and soot and dust have risen over the past several years due to increased use of high-sulfur heavy oil, these amounts are still substantially lower than commonly agreed-upon (voluntary) levels.

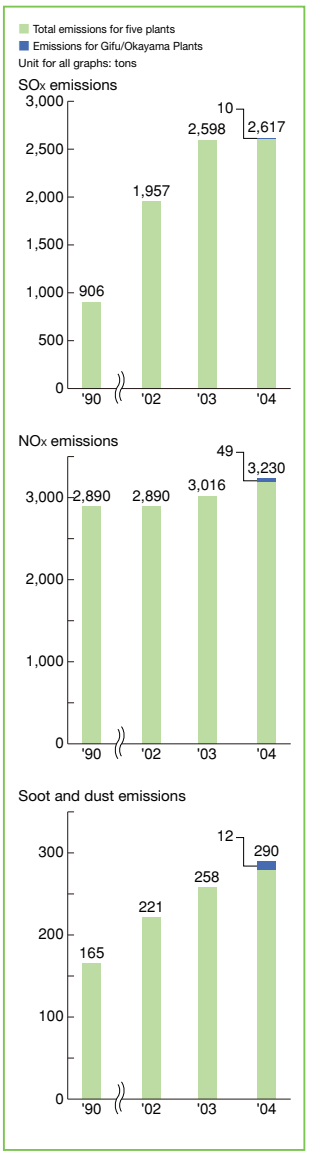
## Releases of COD, Nitrogen, and Phosphorous into Waterways

Sumitomo Chemical has also concluded cooperative agreements with local municipal governments to establish voluntary control levels for amounts of COD, nitrogen, and phosphorous released into waterways. These voluntary levels are stricter than those stipulated under the standards of applicable laws and regulations. The figures for these release amounts showed significant reductions in fiscal 2004 over the previous year — 0.7% for COD, 28.5% for nitrogen, and 43.5% for phosphorous — largely due to the implementation of measures based on fifth-generation Water Quality Standards.

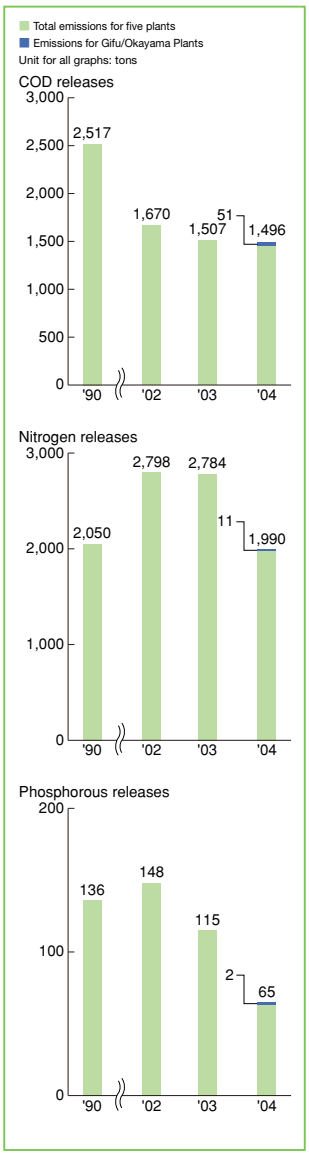
## Water Use

In fiscal 2004, water use increased by 7.6% over the previous fiscal year, to 726 million tons, due to the acquisition of Sumika Fine Chemicals Co., Ltd. (Gifu and Okayama Plants) by Sumitomo Chemical and increased production at existing plants. However, the increase in the rate of water use was limited to 0.9%, thanks to increased productivity and more efficient use of water resources.

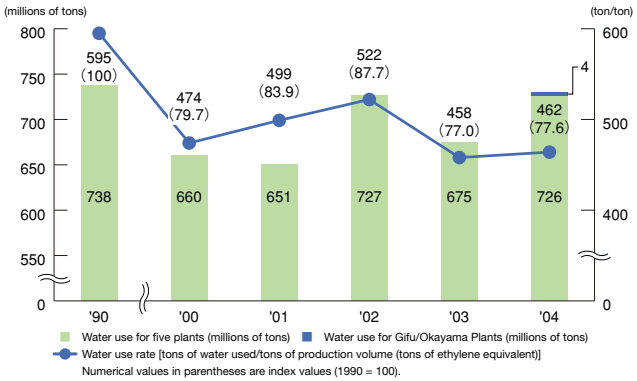
## Atmospheric Emissions




## Water releases




## Water Use and Water Use Rate



## Measures to Prevent Soil Pollution

Sumitomo Chemical has long considered soil pollution an important issue; accordingly, the Company has conducted a number of investigations into soil contamination and has implemented a range of measures to combat this problem. In line with voluntary management policies centered on keeping the handling of hazardous materials strictly within Company premises and ensuring the careful management of these materials, Sumitomo Chemical has initiated surveys at all plants to assess performance in this area. The Company has nearly completed the necessary surveys.

As a result, in fiscal 2004, environmental damage costs stood at ¥0.3 billion, roughly the same as for fiscal 2003. Fiscal 2004 environmental damage costs were primarily attributable to groundwater monitoring and to the additional installation of monitoring wells associated with the voluntary management policies mentioned above. Groundwater monitoring near the boundary of Company premises has confirmed that the concentration of hazardous materials are below the levels stipulated under the Environmental Quality Standards.

Sumitomo Chemical plans to continue such groundwater monitoring far into the future.

## Initiatives to Reduce Waste — Reduction in waste landfill of 15% compared with previous year

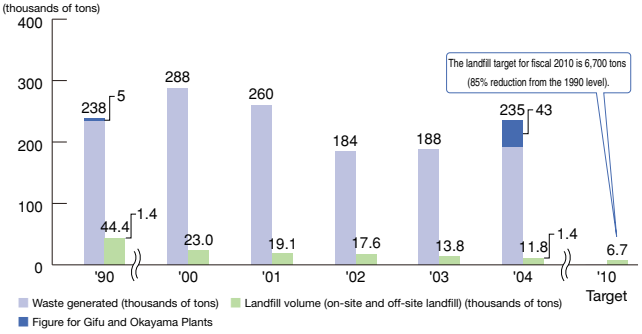
Most landfill waste generated by Sumitomo Chemical consists of incinerator ash sludge. Reducing this waste is thus the key to achieving the Company's target of reducing waste landfill volume by 85% relative to fiscal 1990 by fiscal 2010.

In fiscal 2004, Sumitomo Chemical implemented a number of related initiatives, such as significantly reducing the generation of inorganic sludge from carbonates during wastewater treatment (Oita Works) and recycling incinerator ash sludge for use in cement production (Chiba and Oita Works).

This resulted in a reduction of 14.5% of waste landfill compared with the previous year to 11,800 tons, representing a reduction of 73.4% relative to 1990 levels.

Further, Sumitomo Chemical will continue to promote waste reduction by reducing incinerator ash sludge output.

### Trends in Generated Waste and Landfill Disposal Volumes

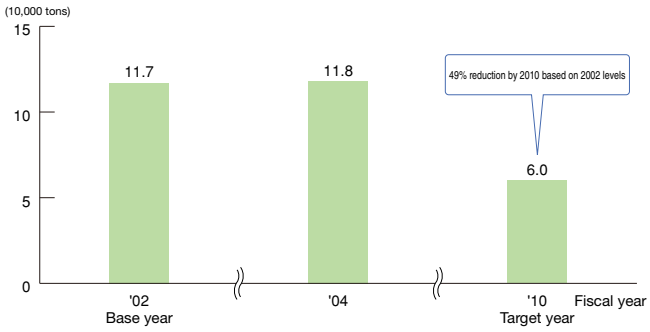



### Standardization of Reduction Targets for Waste Landfill with Main Affiliated Companies

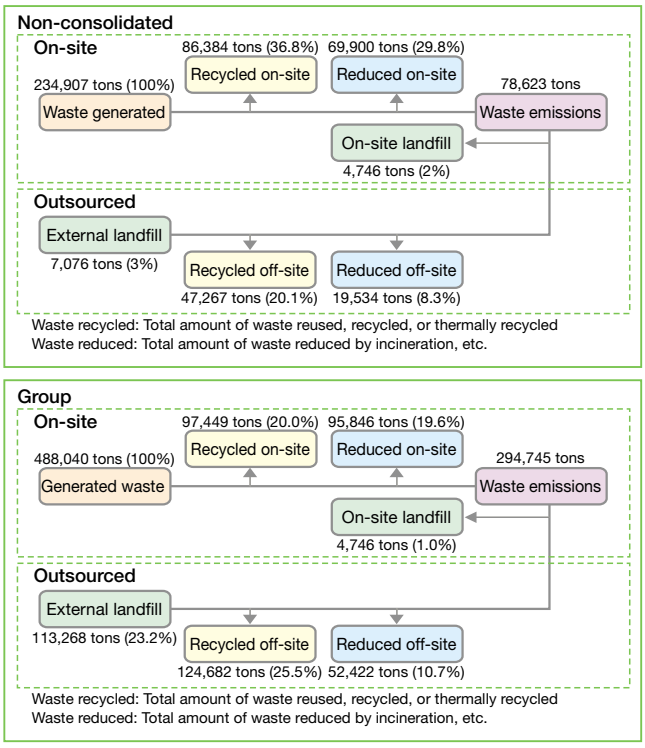
The new Group target shown below was established in fiscal 2004. We are now bolstering efforts to achieve these targets among all Group companies.

Target: Reduction of waste landfill by 49% relative to fiscal 2002 by fiscal 2010
(Results for fiscal 2004 showed an increase of 0.9% relative to fiscal 2002.)

### Group Waste Landfill Reduction Target and Performance




### Waste Disposal Flow Chart and Results (Fiscal 2004)



## Initiatives to Reduce Red Bauxite — 2.3% Reduction in Sea Dumping compared with Previous Year

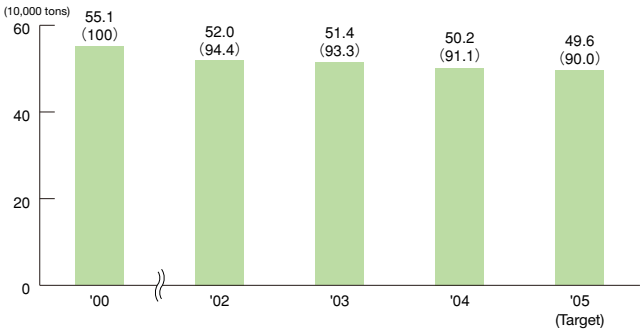
Red bauxite is the residue of natural bauxite from which aluminum hydroxide, the raw material for aluminum products, has been extracted. This substance is composed of insoluble mineral constituents and saltwater.

Sumitomo Chemical currently disposes of red bauxite through sea dumping. Previously, Sumitomo Chemical disposed of red bauxite in landfill sites, but volume-based restrictions at such sites led the Company to begin disposing of small volumes of red bauxite through sea dumping in 1991, with all red bauxite disposed of through sea dumping from 1994 onward. Sea dumping is carried out in accordance with Japanese law, and materials are appropriately disposed of only after the safety of dumping has been confirmed by analytical testing. Sumitomo Chemical conducts surveys of ocean areas used for dumping in cooperation with other companies in the chemical industry to assess the effects on the environment.

While Sumitomo Chemical continues to use sea dumping to dispose of red bauxite, the Company is working to achieve its voluntary target of reducing the volume of red bauxite disposed of through sea dumping in fiscal 2005 to 10% below fiscal 2000 levels. In fiscal 2004, the volume of red bauxite disposed of through sea dumping was reduced by 2.3% compared with the previous fiscal year to 502,000 tons, representing a reduction of 8.9% relative to fiscal 2000 levels.

Following the enactment of the Law Relating to the Prevention of Marine Pollution and Maritime Disasters, which was revised in 2004, disposal by dumping at sea now requires permission from the Minister of the Environment based on the results of environmental impact assessments. Sumitomo Chemical is currently making the necessary preparations to obtain permission for sea dumping, but will nevertheless continue to reduce the volumes of material it disposes of in this manner. In fact, Sumitomo Chemical plans to eliminate all sea dumping by fiscal 2015.

### Trends in Red Bauxite Sea Dumping Disposal Volumes




## PCB Recovery, Storage, and Treatment

In accordance with the Law for Special Management for PCBs (polychlorinated biphenyls), Sumitomo Chemical recovers PCB waste (capacitors, transformers, and other electronic devices that contain PCB insulating oil). The Company then stores this industrial waste, which is subject to special control, in specified areas within the Company's waste storage facilities, thereby ensuring strict control of these materials.

Sumitomo Chemical plans to treat all of its PCB waste completely by March 2014, ahead of the deadline specified in the Law Concerning Special Measures for PCB Waste.

Moreover, the concentration of PCBs in the insulating oil of devices that are believed to contain little or no PCB insulating oil (low-concentration PCB waste) is analyzed prior to disposal, and any devices with PCB levels exceeding 0.5 mg/kg are treated as PCB waste, as legally required.

### PCB Waste Storage and Control as of December 31, 2004

| | Number of PCB Containers | Total PCB Volume (kL) |
|---|---|---|
| Non-consolidated | 756 (717 stored, 39 in use) | 42.2 |
| Consolidated | 1,531 (1,030 stored, 501 in use) | 46.1 |

Note: Containers for low-concentration PCB waste are not included in the number of PCB containers.

## Initiatives to Prevent Ozone Layer Damage — Eliminating the Use of Refrigeration Units that Employ Specified CFCs

Sumitomo Chemical controls cooling devices that use specified CFCs (substances specified in the Law Concerning the Protection of the Ozone Layer through the Control of Specified Substances and Other Measures) that are highly damaging to the ozone layer. The Company is committed to ensuring that CFCs are not accidentally released into the atmosphere from these devices and carries out proper recovery, transportation, and destruction of specific CFCs from refrigeration units upon disposal. The Company is systematically replacing these cooling devices with units that use CFC substitutes, as it works toward the individual and Group goal of eliminating by 2025 the use of refrigeration units employing the specified CFC coolants (CFC11, CFC12, CFC113, CFC114, and CFC115).

# Safety Initiatives

**Working to ensure the safety and health of employees based on the fundamental principle of making safety first priority.**

## Occupational Health and Safety

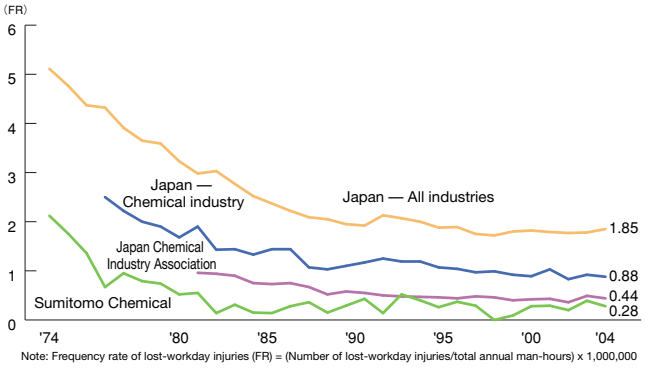
### Safety Performance

In fiscal 2004, three accidents resulted in lost workdays at Sumitomo Chemical, with seven such accidents at affiliate companies. A message from the Vice-President was sent to all employees urging the elimination of all potential causes of accidents, and all employees are now newly committed to determined efforts aimed at achieving our "zero-accident" target.

- Sumitomo Chemical: Frequency rate of lost-workday injuries: 0.28; severity rate of lost-workday injuries: 0.03
- Contractors: Frequency rate of lost-workday injuries: 0.71; severity rate of lost-workday injuries: 1.55

Note: "Frequency rate of lost-workday injuries" refers to the frequency of injuries resulting in at least one lost workday per million man-hours. "Severity rate of lost-workday injuries" refers to the number of lost workdays per thousand man-hours and indicates the severity of injuries.

### Trends in the Frequency Rate of Lost-Workday Injuries




Note: Frequency rate of lost-workday injuries (FR) = (Number of lost-workday injuries/total annual man-hours) x 1,000,000

### Successful Operation and Certification of OSHMS (Occupational Safety and Health Management System)

The high incidence of major accidents and disasters such as fires and explosions at large-scale industrial sites nationwide since summer 2003 has resulted in the introduction of legislation requiring the operation of an OSHMS. Sumitomo Chemical was quick to recognize the effectiveness of the OSHMS, and led the way in creating an OSHMS in November 1999 at its Chiba Works to make it a model site, with operation commencing in July 2000. Certification was also obtained by the Company's Ehime and Osaka Works in fiscal 2004. The Misawa Works and Tsukuba Research Laboratory are scheduled to obtain certification in fiscal 2005, with all sites eventually to be certified.

Ehime Works OSHMS recognition ceremony

Several of the Company's plants and research laboratories have received occupational health and safety awards for their outstanding efforts in this field.

July 2004: Zero Occupational Accidents Certificate 1st Class (Chiba Works, received in September 2003)
July 2004: Hyogo Prefecture Labor Standards Federation Business Director's Award for Safety Excellence (Takarazuka Agricultural Chemicals Research Laboratory)
January 2005: Minister of Health, Labour and Welfare's Safety Excellence Supervisor Award (Hideki Noguchi, Ehime Works)

### Promoting Good Health

Sumitomo Chemical provides health maintenance support as an important item in its occupational safety management plan, in its efforts to promote physical and mental well-being among employees and to create a pleasant working environment. The Misawa Works was designated a model workplace in terms of mental health in fiscal 2004, resulting in such initiatives as the administration of mental health questionnaires, lectures by occupational physicians, and monthly workplace visits by an industrial health professional. At the Chiba Works, approximately 50 workplace health supervisors have been sent on an ongoing basis to training sessions outside the Company. Employees benefit from a full range of initiatives in this area, including mental health seminars at various company sites.

**A wide variety of activities at Sumitomo Chemical sites help prevent problems attributable to human factors.**

- Ehime Works: Basic safety rule testing and surveys on safe behavior (2,098 people)
- Chiba Works: Personnel safety declaration, use of a recite-and-report problem calendar, 7S activities
- Osaka Works: Training at different levels, first-aid drills, creation of standard site rule book
- Oita Works: Strict enforcement of so-called "point-and-say" working procedures, use of new safety training simulations (e.g. for explosions and fires)
- Misawa Works: Promotion of risk assessments using "near-miss" activities
- Tsukuba Research Laboratory: Creation of accident calendar, increased use of "near-miss" risk assessments
- Agricultural Chemicals Research Laboratory: Increased application of policy measures to prevent human error

# Disaster Prevention

The foremost task in disaster prevention management is to prevent unforeseen plant accidents by ensuring process safety and plant integrity, and plants must also be protected against natural disasters and terrorist attacks. Stringent risk assessments are therefore conducted, in addition to continuous safety improvements and comprehensive self-regulated safety management. In fiscal 2004, there were no major accidents.

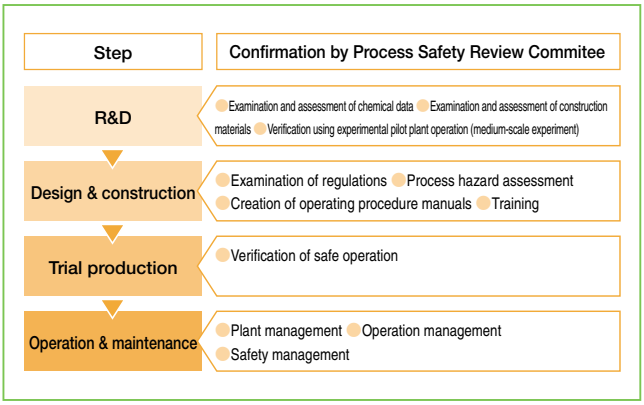
## Process Safety Management

In an effort to reduce environmental impact and achieve zero-accident and zero-injury operations, Sumitomo Chemical performs safety assessments at each stage of development, from new chemical process R&D to plant design, construction, operation, maintenance, and dismantling.

**1) Examination of Process Safety**

The Process Safety Review Committee convenes at every stage of the R&D and commercialization processes to oversee a system in which the safety of each stage is thoroughly verified before moving on to the next stage. The system is governed by in-house Process Development and Commercialization Regulations, and Safety Management Guidelines, and designates those in charge of the various R&D and commercialization stages. In-house operations are publicized among the relevant Group companies.

### Safety Confirmation Process



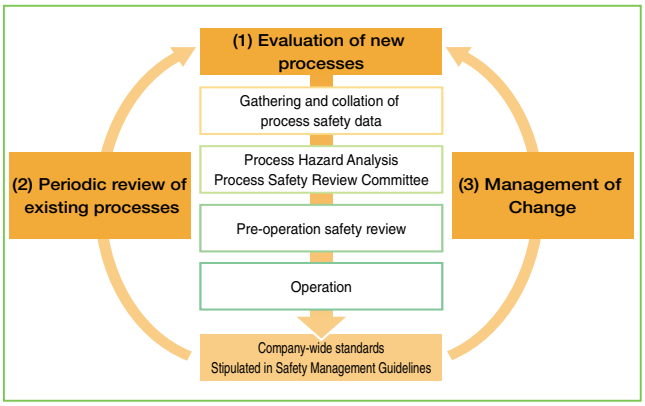

**2) R&D Safety Confirmation**

At the R&D stage, safety data and other related data about the chemicals to be handled is examined and assessed in detail. This data is then used to select the safest chemicals for raw materials and to assess the required amounts in order to ensure that the R&D will entail only fundamentally safe chemical processes. The construction materials used for new chemical plants are also examined and evaluated to select the optimum materials. These are verified using small- and medium-scale experiments to confirm that the developed process is safe.

**3) Plant Safety Confirmation**

While plant design and construction are based on legal technical standards, processes are additionally subjected to hazard assessment in order to highlight potential dangers and incorporate more stringent voluntary safety precautions into the design and construction processes. Operational manuals are created and training is provided for operators. To improve safety precautions further, Sumitomo Chemical also conducts process hazard evaluations periodically after the start of plant operations and any time there is a change in operating parameters.

### Risk Management Outline

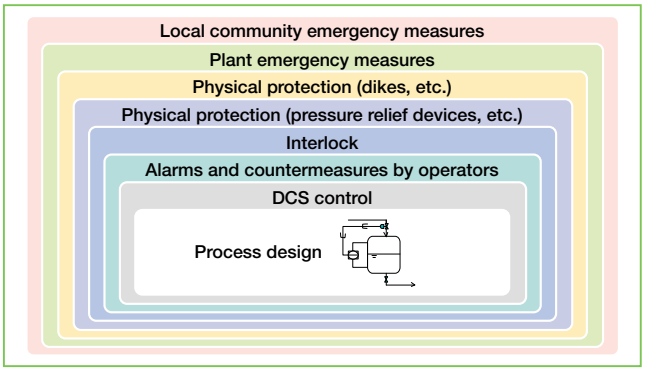



## Plant Risk Management

In order to prevent unforeseen accidents, Sumitomo Chemical equips its plants with a range of sensors to detect process irregularities at an early stage during operation, and these sensors are continuously monitored by a process computer.

Procedural manuals are prepared and operators undergo systematic training to ensure that appropriate actions are taken and reports are prepared promptly in the event of an emergency. All Company plants are equipped with fire-fighting vehicles, high-capacity fire-fighting pumps, fire hydrants, and fire extinguishing chemicals to provide first-response fire-fighting capability until emergency services arrive.

### Concept of Independent Protection Layers at Chemical Plants



### Risk Management Program

Sumitomo Chemical places the utmost priority on the safety of persons entering Company sites and the surrounding community. Accident scenario risks based on US standards have therefore been examined for toxic substances handled at existing plants. A new integrated instrument monitoring room was also constructed at the Ehime Works based on the concept of integrated disaster prevention, and it is designed to cope with explosions or fires and ensure the safety of plant personnel. The main accident scenario management software tool used at all Company plants and research laboratories is TRACE, made by SAFER Systems in the US. At the Ehime Works, weather data measured at points around the site are collected in real time and used to establish a framework to minimize the damage from a chemical accident by predicting weather-related consequences.

### Earthquake Risk Countermeasures

Procedural and infrastructural countermeasures are in place to cope with the risk of natural disasters such as earthquakes. Procedural countermeasures include emergency information gathering and communication, a local-area support structure, procedural manuals covering measures to prevent secondary disasters, and regular training sessions. Infrastructural countermeasures include confirmation of earthquake resistance standards for the foundations and basic structural integrity of external storage tanks for hazardous substances (as specified by law), and systematic efforts are being made to reinforce tanks where necessary. The Company's Ehime, Osaka, and Oita Works are located within the region targeted for disaster countermeasures under the Special Measures Law for Earthquakes in East Nankai and Nankai. In addition to countermeasures such as tsunami protection in accordance with applicable directives, the Company is also systematically proceeding with reinforcement where necessary based on reassessment of the earthquake resistance of offices and monitoring rooms in an effort to place the utmost priority on ensuring the safety of personnel within the plant.

Ehime Works office reinforced with earthquake-resistant steel girders

### Advanced Self-Administered Safety Management

Sumitomo Chemical is committed in its own right to preserving the environment and ensuring an even higher level of safety. Management systems and support tools are provided and operated to protect the environment and to achieve zero-accident and zero-disaster targets.

**1) Specialized process safety**

Engineers (Process Safety Specialists) based in the Process & Production Technology Center and other areas throughout the company specialize in process safety and disaster prevention for each department. These specialists participate in the Process Safety Review Committee and the Safety Audits (Responsible Care Internal Audit).

**2) Process hazard assessment initiatives**

To ensure that adequate process safety analysis is conducted, the following safety and disaster prevention guidelines are prepared and distributed to each department (office) and Group Company. They are also distributed over the Intranet.

(1) Guidelines for applying disaster prevention assessment
(2) Guidelines on safety coutermeasures for static electricity
(3) Guidelines on chemical compatibility

A database has also been created with safety data for individual substances and disaster prevention information required to implement process hazard assessments. This database allows for comprehensive access to information. (See page 11 in the Data Book for details.)

Safety and disaster prevention guidelines

### Self-Administered High-Pressure Gas Safety Management

Sumitomo Chemical has obtained "Certified Safety Inspector" and "Completion Inspector" certification in accordance with the High-pressure Gas Safety Law to ensure safe operations at its 47 sites. Since obtaining certification in 1987, the Chiba Works has continually renewed this certification to ensure stable continuous operation in its plants. This certification is granted by the national government to industrial sites with outstanding safety engineering and management upon the satisfaction of conditions stipulated by law. Such certification allows self-administered safety inspections in addition to the inspections stipulated by law. Government certification involves an audit by an inspection team (comprising academics and other experts) to assess the validity of daily safety inspection data and safety management systems. Sumitomo Chemical has received high evaluations in the course of each renewal audit.

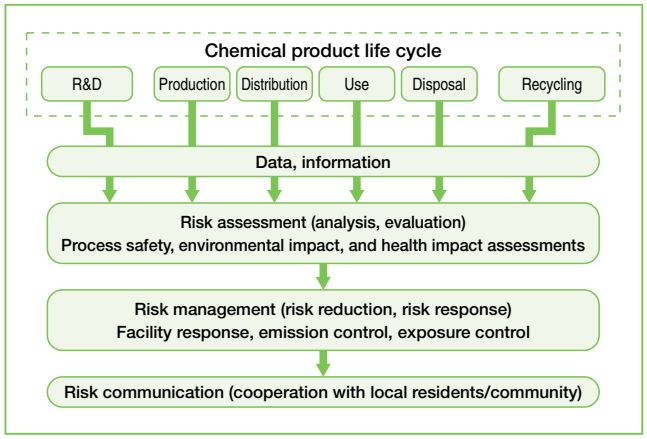
#### Safety Inspector and Completion Inspector Certification Status

| Works | Region | Date Certified | Sites Certified |
|---|---|---|---|
| Ehime | Niihama | September 2003 | 13 |
| | Kikumoto | March 2004 | 7 |
| Chiba | Anesaki | May 2004 | 11 |
| | Sodegaura | May 2004 | 16 |

## Chemical Safety Activities

Sumitomo Chemical's Environmental Health Science Laboratory (EHSL) conducts sophisticated toxicological research in diverse fields ranging from genetics to the global environment, making full use of the latest scientific knowledge and technologies as well as the Company's know-how and long experience in toxicological evaluations. In addition, as the core laboratory supporting the technological aspects of Responsible Care activities for chemical safety, the EHSL provides toxicological information and the results of risk assessments for each division of the Company. In these and many other ways the Company is working to ensure safety and protect the environment throughout the life cycle of its chemical products, from development to use and disposal.

### Management of Chemicals throughout the Product Life Cycle




### Implementation of Surveys and Risk Assessments

In fiscal 2004, the EHSL conducted Responsible Care surveys and risk assessments for 65 chemical products.

These included evaluations of the environmental impact of gas emissions, the safety of wastewater from plants engaged in the manufacture of new chemical compounds (including ecotoxicity tests), and the effects of accidental contact with chemicals (e.g., through animal sensitization testing). In particular, the EHSL focused on research into the safety of newly-developed visible-light photocatalysts (titanium oxides). These catalysts can rapidly decompose formalin, the substance believed to cause "sick building syndrome," under indoor lighting conditions, and its use on walls can help to purify the interior environment. Japan leads the world in the development of these materials, and the Ministry of Economy, Trade and Industry has established various NEDO (New Energy and Industrial Technology Development Organization) projects to study and research their effectiveness, quality, and safety. Sumitomo Chemical is closely involved in many of these projects, evaluating safety through the development of new safety testing systems and equipment for performing tests using bacteria, cultured cells, and mammals. A simple dioxin measurement method using genetically modified cultured cells was also developed as a refinement of current exposure evaluation techniques. This method was adopted as an official measurement method following evaluation studies by the Ministry of the Environment.

### Enhancement and Proper Management of Chemical Safety Information

To facilitate the transfer of information within the Company, data on products, intermediates, and raw materials are stored in a chemical safety database referred to as CHEMSAFE2.

In fiscal 2004, 163 new items were entered into the database, bringing the total number of entries to 3,240. In addition to supporting the smooth and prompt dissemination of data within the Company, this is also used as the basic database for Material Safety Data Sheets (MSDS).

### Contributions to Voluntary International Initiatives (ICCA: International Council of Chemical Associations)

Sumitomo Chemical continues its active involvement in the OECD HPV program (including hazard assessments and collection of required safety data).

The Company has also recently been involved in studies of new international chemical strategies, doing its part in working toward the targets set in 2002 by the World Summit on Sustainable Development (WSSD) to achive, by 2020, ways of using and producing chemicals that minimize significant adverse effects on human health and the environment.

Sumitomo Chemical also continues to support and actively participate in the Long-Range Research Initiative (LRI), a long-term voluntary research program assessing the effects of chemical substances on human health and the environment, promoted by chemical industry associations in Japan, Europe, and the United States.

Environmental Health Science Laboratory

# Safety in Logistics Operations

Based on Sumitomo Chemical's policy of making safety top priority, the Logistics Division has formulated its "Division Policies for Responsible Care Activities and Product Quality Control." The division as a whole, including concerned logistics companies, is engaged in activities relating to safety and the environment as well as to quality control.

### Safety Measures during Transport

To prevent accidents during transport, we notify shipping companies of the relevant laws and regulations using a dedicated database, and we work to promote adherence to all applicable transportation safety rules and standards.

In addition, the Group company Sumika Logistics (West) Co., Ltd., received certification as a "trucking company demonstrating outstanding safety" under a recognition program launched in fiscal 2003 by the Japan Trucking Association.

### Emergency Accident Response Procedures

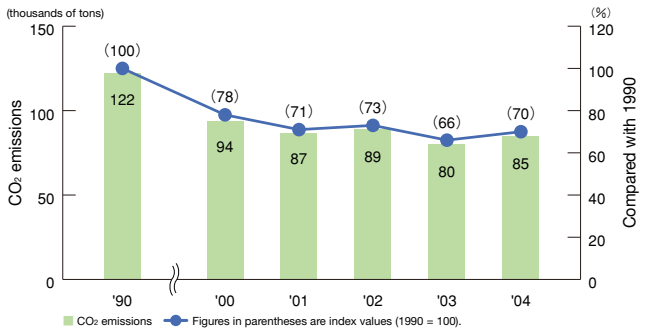
Sumitomo Chemical is establishing a nationwide rescue system covering the routes between plants and logistics companies to facilitate rapid response in the event of an accident during transport. We also implement emergency drills that include participation by shipping companies and work to ensure that Yellow Cards (emergency response instruction cards) are carried by personnel as required.

### Environmental Protection Considerations for Transportation

Sumitomo Chemical has long been promoting a modal shift by reducing the environmental impact of rail and ocean shipping, and has been developing logistics systems to reduce environmental impact further—for example, by improving logistics efficiency through the use of larger containers.

The graph below shows the trends for $CO_2$ emissions generated by the Logistics Division within Japan over the past several years based on 1990 levels. The actual emissions for fiscal 2004 were 85,000 tons, a decrease of approximately 30% relative to 1990.

### $CO_2$ Emission Trends




Sumitomo Chemical has also served as a member of the Green Logistics Partnership Committee, which was formed to promote unified environmental measures within the logistics field through coordination and collaboration between shippers and logistics companies.

Sumitomo Chemical also provides guidance and support for environmental protection activities in logistics companies, including the acquisition of both ISO 14001 and Green Management certification. Group company Sumika Logistics (West) Co., Ltd. obtained ISO 14001 certification in October 2003, and SLC Transport (East) Co., Ltd. earned Green Management certification from the EcoMo Foundation in February 2004.

### Reducing Packaging

Sumitomo Chemical promotes the reduction of packaging (such as the paper sacks used in transporting products) and the reuse of packaging and shipping materials through the shared use of pallets within the industry.

Specific initiatives include switching from paper sacks to flexible containers or hoppers, and also expanding the reuse of shipping containers by switching from steel drums to medium-size shipping containers. In the past, film was wrapped around loaded pallets to prevent the paper sacks from falling off, but this film inevitably ended up as waste. The use of film has therefore been reduced by incorporating other measures to secure loads.

### Enhancing Logistics Quality Assurance

Sumika Logistics (West) and Sumika Logistics (East) obtained ISO9001 certification in June 2001 and June 2002, respectively.

In addition, Sumitomo Chemical provides guidance and support for quality assurance activities at logistics companies through Responsible Care and quality-control audits.

### Sumitomo Chemical Logistics Council Activities

The Sumitomo Chemical Logistics Council was established with the participation of the major domestic shipping companies with which Sumitomo Chemical conducts business. The Council provides support in tackling logistics problems with its wide information base, and investigates specific issues with the aim of sharing expertise and improving management.

# Product Quality Assurance Initiatives

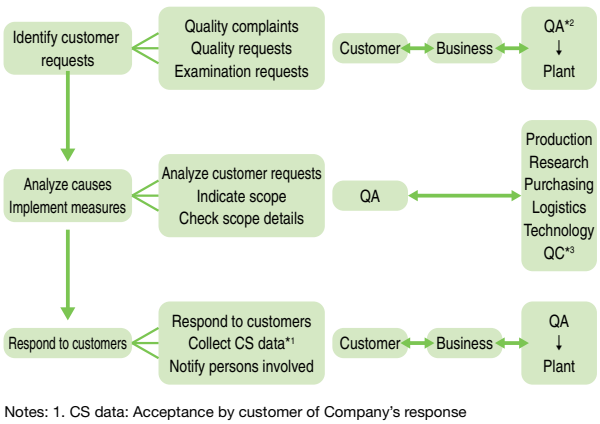
**Sumitomo Chemical strives to provide quality products and services that ensure customer satisfaction and peace of mind — top priorities under the Company's "Corporate Policy on Product Quality, Safety, and the Environment."**

## Measures to Promote Customer Satisfaction

### Promoting Customer Satisfaction

Sumitomo Chemical's quality assurance activities efforts are based on the ISO 9001: 2000 quality management system. As part of its program to increase customer satisfaction, Sumitomo Chemical switched to a computerized product quality data management system in 2002 to process customer complaints and requests more quickly and reliably. This has enabled the Company to incorporate customer feedback more extensively into its quality assurance activities. In particular, this makes it possible to analyze, organize, and distribute system information horizontally, helping to prevent similar problems in other product lines.

### Customer Quality Data Management




Notes: 1. CS data: Acceptance by customer of Company's response
2. QA: Plant Quality Assurance Department
3. QC: Quality Control

A survey was sent out in fiscal 2005 to devise a slogan to unite the entire workforce behind the Company's quality assurance activities. The slogan ultimately selected was "earning trust by improving quality awareness." The entire workforce is now enthusiastically engaged in quality assurance activities under this slogan.

Osaka Works Manufacturing Department No.3 Manufacturing Section displaying the 2005 Quality Assurance Activity Slogan

### Reinforcing the Product Quality Assurance Structure

Sumitomo Chemical constantly reviews the ways it conducts its quality assurance activities as a diversified chemical company. On July 1, 2004, a new companywide product quality assurance system was implemented to further clarify the responsibilities and the sphere of authority of each employee working in this area. The Company also established a Quality Assurance Office for its IT-related Chemicals Sector (centering on IT-related products) and its Fine Chemicals Sector (focusing on pharmaceutical chemicals) in order to provide a structure for the uniform management and administration of quality-related issues. In addition, the offices of the Basic Chemicals Sector, the Petrochemicals & Plastics Sector, and the Agricultural Chemicals Sector have each established a quality assurance team consisting of specialized staff in order to create a clear quality assurance framework.

Sumitomo Chemical aims to use these systems to reinforce quality assurance and further enhance customer satisfaction.

### Good Manufacturing Practice (GMP) Initiatives

Sumitomo Chemical is engaged in the manufacture of pharmaceutical chemicals and pharmaceutical intermediates for both domestic and overseas markets, and as part of the Company's efforts to maintain and improve daily management standards, these products are manufactured in compliance with Good Manufacturing Practice (GMP)* requirements.

Sumitomo Chemical manufactures pharmaceuticals and pharmaceutical intermediates at four plants: the Osaka Works, Oita Works, Misawa Works, and Ehime Works. Appropriate management structures are in place at each plant to ensure compliance with domestic and overseas GMP requirements for applicable products. For example, when the Oita Works passed the US FDA pre-approval inspection in October 2004, GMP management was rated highly and not a single problem area was noted. In addition, periodic GMP Internal Quality Audits are conducted at each plant based on Company regulations to verify that GMP management is being properly implemented and to help raise management standards generally.

Going forward, Sumitomo Chemical will redouble its efforts to enhance GMP activities so that the Company can supply safe, high-quality pharmaceutical products to its customers.

* Good Manufacturing Practice (GMP): Standards for the manufacturing management and quality control of pharmaceuticals, etc.

## Product Safety Initiatives

Ensuring the safety of the products provided to customers is one of the Company's top priorities. Sumitomo Chemical recognizes that this is an essential part of CSR as well as being vitally important to the operation of a sound business.

Even before the introduction of the Product Liability Law, Sumitomo Chemical recognized the importance of product safety activities — not least in terms of maintaining customer trust — and began systematically implementing measures to ensure product safety in all corporate activities, including development, production, sales, and aftercare service.

Accurate assessment of product safety and implementation of measures to reduce risk reliably demands advanced technology and extensive experience applied within a company-wide framework. The Sumitomo Chemical Group has the advanced technology and experience required for a wide range of tests and analyses, including testing on health effects, environmental impact, safety engineering, application-related quality and functions, and trace constituent analysis. These tests are integrated in a company-wide system to ensure reliable safety assessments and risk reduction.

## Green Procurement Activities

**1) Responding to customers' green procurement requirements**

Advances have been made in recent years, particularly in the automotive and electronic/electrical equipment industries, in designing products that facilitate recycling and in reducing the amounts of hazardous materials these products contain. As a supplier of raw materials, Sumitomo Chemical has actively responded to customer demands in these areas.

The development and operation of systems that prevent hazardous materials from contaminating raw materials or from being introduced during manufacturing processes are fundamental to green procurement. Products must also be analyzed to confirm that they do not contain hazardous impurities. Sumitomo Chemical is actively engaged in green procurement activities as part of its broad range of product safety initiatives, and the Company is earning a reputation among customers for its high product reliability.

**2) Company green procurement**

Green procurement practices (procurement that prioritizes the reduction of environmental impact) are applied to Company purchases of office supplies and equipment.

For a large supplier of raw materials like Sumitomo Chemical, a large proportion of the raw materials purchased, such as naphtha, are derived from natural resources, making green procurement more difficult. However, the Company strives to implement green procurement wherever possible.

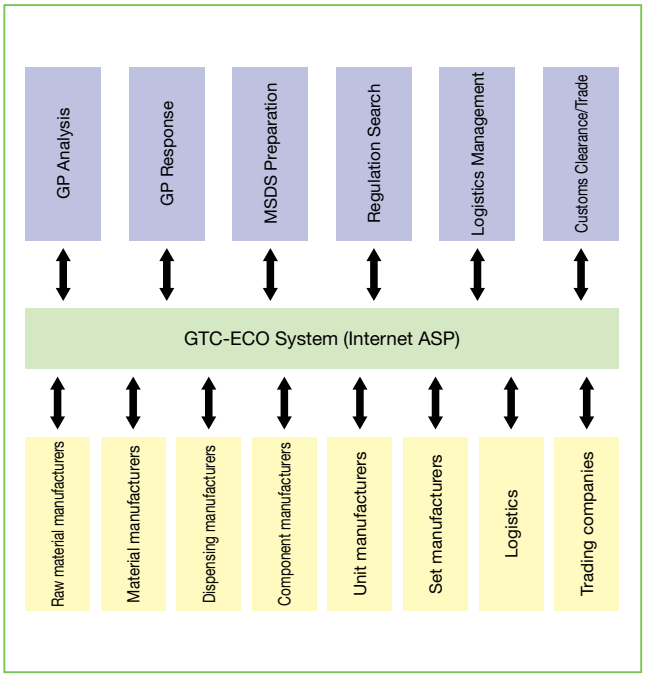
**3) Green procurement support system**

Green procurement activities — that is, demanding products that are kind to both humans and the environment — are becoming increasingly widespread. It is therefore necessary to ensure proper management of hazardous substances contained in materials or products and to communicate these results to customers.

Requirements have become increasingly stringent recently, with increases in the number of different types of products and ingredients, applications, customers, and regulations, making it difficult to manage manually. This has led to the need for a support system that allows for electronic processing on an Internet web browser screen.

It is also necessary for manufacturers of raw materials, materials, components, and finished products to cooperate with shipping and trading companies to implement joint measures in this area.

GTC-ECO System



# Social Activities

As a member of society, Sumitomo Chemical strives to enhance its relationships with local communities and employees.

## Hand in Hand with Employees

**Sumitomo Chemical is working to eliminate all forms of employment or occupational discrimination in accordance with the spirit of the Global Compact. It is also actively involved in workforce training through a wide range of programs designed to produce world-class professionals.**

### Key Human Resource Initiatives

To ensure continuous Company growth based on the abilities of its workforce and to ensure that employees gain a sense of satisfaction from their work, Sumitomo Chemical is involved in a variety of initiatives focusing on three key areas: 1) appointing competent personnel to appropriate positions, 2) promoting international compliance in operations, and 3) utilizing a diverse workforce suited for a wide range of operations.

**1) Appointing competent personnel to appropriate positions**

Employee placement is reviewed comprehensively to ensure that employees are engaged in work to which they are most ideally suited. As part of this policy, the Company systematically rotates younger employees among a range of fields including overseas placements, taking into account individuals' wishes and abilities. Our aim is to ensure that employees are eventually placed in the fields to which they are best suited.

**2) Operating in an increasingly global business world**

In today's increasingly global business world, we now have 35 overseas affiliates with a total overseas workforce exceeding 5,000 persons, a figure comparable to Sumitomo Chemical's own total workforce.

It is therefore increasingly important to secure personnel capable of working globally. To achieve this goal, the Company actively employs foreign nationals and Japanese exchange students in addition to implementing systematic training and rotation schemes for overseas personnel.

In December 2004, the first Global Managers Meeting was held, with managers from overseas Group companies in attendance. This meeting provided a forum for outlining the Company's business strategies and exchanging opinions, helping overseas affiliates work as Sumitomo Chemical Group members and aim at achieving targets using the same strategies and values as those of Sumitomo Chemical. In April 2005, the first Global HR Managers Meeting was held to discuss the establishment of a global human resources system based on discussions raised at the Global Managers Meeting. Attended by HR managers from overseas affiliate companies, the meeting provided a forum for discussion and the exchange of opinions on global HR systems and training programs. Similar regular meetings are planned for the future.

**3) Using a diverse workforce suited to operations**

The Company's philosophy regarding workforce utilization is to ensure the optimum combination of an ideally suited, diverse workforce and work methods appropriate to the aims of the business or organization. This philosophy will be applied in order to establish the ideal workforce equipped to handle future business growth.

Global HR Managers Meeting

# Human Resources System

Sumitomo Chemical began a new HR policy in April 2004 for all employees, based on the elimination of factors related to age and seniority and ensuring that treatment with respect to promotion and advancement fairly reflects work performance and accomplishments.

### Managerial staff

An HR system based on job descriptions has been in place since fiscal 2001. This system was revised in April 2004 with a strengthened focus on job descriptions and actual accomplishments.

### Non-managerial staff

**Salary system**

The seniority system has been abolished and replaced by a salary system more directly based on job description and work performance. The retirement benefit system has also been changed to a point-based scheme to lessen the correlation between pay and age, and to reflect more appropriately differences in job description and performance.

**Performance evaluation system**

A new performance evaluation system was introduced whereby performance goals are set at the start of periods, followed by interviews at the end of these periods to confirm progress toward goals. This system is intended to allow for the appropriate evaluation of ability and demonstrated work performance. The individuals concerned are then given feedback about their evaluation results.

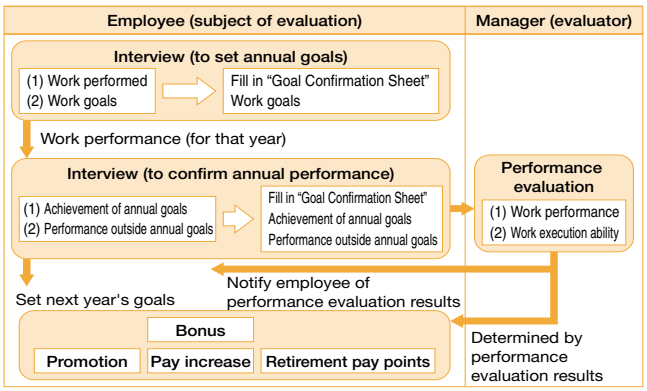
**Special testing**

A special testing system has been established to promote non-managerial employees with extensive practical knowledge. Targeted employees include those who have demonstrated the willingness and ability to develop their abilities to advance to higher grades (i.e., higher qualifications) and to apply these abilities to the appropriate work.

**Job transfer testing**

A job transfer testing system has been established to allow employees to make greater use of their abilities in other areas. For example, non-managerial employees who wish to utilize their abilities in more specialized work areas can transfer to specialized job positions on passing this test.

### Outline of Work Performance Evaluation System




# Employee Training Schemes

Sumitomo Chemical aims to develop world-class professionals, and the Company bases its employee education on self-responsibility and voluntary, independent work toward specific personnel development targets. The aim is to develop motivated employees equipped to succeed in their current positions and ready to move on to achieve their professional goals. The Company provides programs that assist employees in these efforts. Specifically, Sumitomo Chemical offers competency, knowledge, and skill development programs in which employees set and work toward individual development goals. Competency is defined as the ability to produce results. The Company's goal is for all staff to work proactively to develop and enhance their own competency to achieve annual performance targets, which will lead to improved job performance and, in turn, better Company performance. The Company also offers knowledge and skills training in the form of graded programs for management and staff as well as technological training to provide instruction on manufacturing technologies and the enhancement of technological skills. Specific graded programs include global leadership and comprehensive business training courses beginning in April 2005 designed to train the next generation of leaders. In addition, the Company provides training on subjects such as management strategy, marketing and other areas of business that enable trainees to acquire fundamental business knowledge.

Also, as part of its program to train personnel to promote

### Personnel Development Support Programs

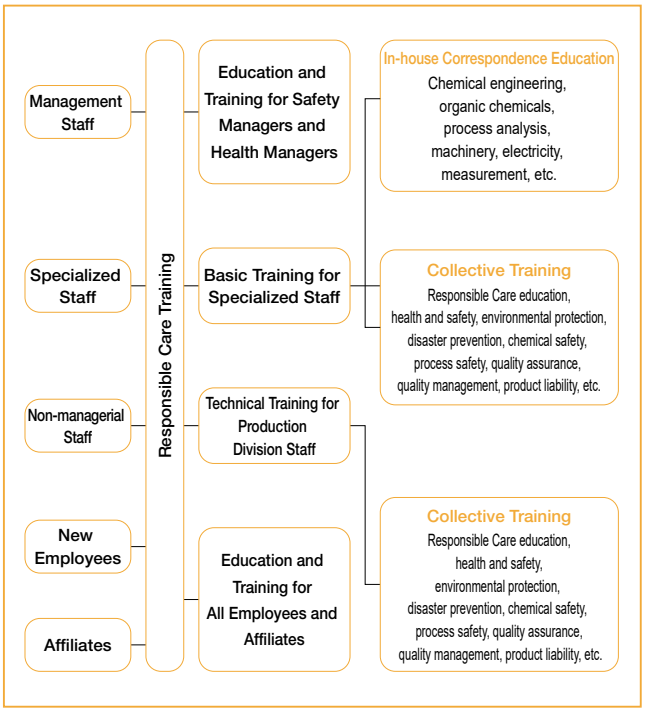
Education and training for developing successful, world-class professionals

| OJT | OFFJT | Support for Personal Development |
|---|---|---|
| Development of skills related to execution of work | Knowledge and skill development training, advanced course (including dispatch to business schools)<br>Competency development training (graded courses according to job position)<br>Basic training for specialists<br>Technical training<br>Next-generation leadership training<br>Language training<br>Overseas study program (business schools, accounting offices, law schools) | Knowledge and skill development training, basic course<br>Competency development guide<br>External seminars, correspondence education, etc.<br>Graded training for employees upon promotion |

global business expansion, the Company implements company-wide TOEIC English-language proficiency testing and designates employees with scores of 730 or higher as eligible for posts overseas. English-language training courses are also provided in the form of English writing and business English conversation courses, together with overseas study programs to law schools and business schools. Beginning this year, the Company has also started dispatching language students recruited from within the Company to China. There are also schemes to dispatch employees to research centers and universities in Japan and overseas to increase expertise in advanced technologies.

Sumitomo Chemical regards the development of world-class professionals as an important task; the key to achieving its vision of becoming a truly global chemical company in the 21st century.

### Responsible Care Training




## Creating an Attractive Workplace Environment

### Employee Assistance Programs

Against the backdrop of an aging population and falling birthrate, Sumitomo Chemical has put in place a variety of employee assistance programs designed to enable employees who need to take an active role in childcare or the care of senior citizens to continue to work while achieving a balance between work and family. Of note is the Senior Care Leave Program, which the Company introduced in 1991, before such programs were legally required. A large number of employees have used this system to provide care for family members.

**Leave of Absence**

Employees taking care of children may take a leave of absence until the child reaches the age of one year (up to 18 months in certain cases), and employees providing care for family members may take a leave of absence of up to one year. Fifty employees made use of this system in fiscal 2004.

**Shorter Workday Measures**

Employees transporting children to and from daycare and employees taking care of family members may shorten their workday by up to three hours. Four employees made use of this system in fiscal 2004.

**Exemption from Late-Night Work and Limited Overtime**

Employees providing care for children or family members are exempt from working late at night and may limit their overtime. No employees made use of this system in fiscal 2004.

**Accumulation of Lost Vacation Days**

Up to 60 days of cumulative lost paid vacation may be used by employees needing to care for children or family members. Seven employees made use of this system in fiscal 2004.

### Mental Health

In January 2005, Sumitomo Chemical started a mental health counseling service in conjunction with the Tokyo Counseling Center. Employees based at all Company sites have the option of receiving counseling in person or by telephone.

The Company's website now includes a link for a "Simple Occupational Stress Evaluation," which lets employees check their stress levels easily by themselves.

### Employment of the Physically Challenged

Sumitomo Chemical believes that society as a whole is responsible for improving the collective welfare through the employment of physically challenged individuals, and the Company is actively playing a role in this effort. The Company's employment rate for physically challenged individuals in fiscal 2004 was 1.9 percent, exceeding legal requirements. In addition, the Company is working to build a framework to ensure that physically challenged individuals can work comfortably. To this end, we take into account each individual's particular situation when determining job placement and design a suitable position that will enable a staff member to

maximize his or her abilities. We also make adjustments to facilities if necessary, including the construction of wheelchair ramps.

### Employment Rate Trends for Physically Challenged Individuals

| Fiscal year | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Employment rate | 2.0 | 2.0 | 2.0 | 2.1 | 1.9 |

### Employment of Senior Citizens

In October 2001, Sumitomo Chemical introduced a re-employment program for retirees in order to make use of the skills and experience of personnel who have reached retirement age that would otherwise be lost. As of April 2005, 45 employees have made use of this system.

A study group has also been set up with the labor unions in order to examine practical methods to ensure proper compliance with the revised Law for the Stabilization of Employment of seniors.

### Protection of Personal Data

Sumitomo Chemical has long treated the management and handling of personal employee data held by the Company with the appropriate level of respect and confidentiality. However, with the full enactment of the Personal Information Protection Law in April 2005, measures have been introduced to increase awareness of compliance with legal requirements in terms of both infrastructure and procedures, including the training of staff handling such personal information and limiting access to personal information to a restricted number of terminals.

### Patent Application Incentive Program

Since 1998, Sumitomo Chemical has instituted a patent application incentive program. This program was reviewed in fiscal 2005 based on the results achieved to date. This review clarified the criteria for calculating bonuses and the procedures for submitting questions and comments.

### Human Rights Protection

Human rights have become a key international concern, and Sumitomo Chemical is striving to create a positive workplace in which all employees understand and are aware of human rights issues and the importance of respecting the rights of others.

**Sumitomo Chemical Business Conduct Manual (Abridged excerpts)**

**Respect for Human Rights**

- Every member of this organization is expected to respect and accept differences in individual personalities and values.
- In the interest of preventing any act of sexual harassment within the Company, sexually explicit language as well as any expression that is suggestive of physical differences between men and women is strictly prohibited at any site where work is carried out.

**Prohibition of Unjust Discrimination**

We are committed to cultivating awareness of human rights and of the need to cultivate rewarding social relationships and business careers, in which each person respects the differences of others.

- Each individual must fully understand that gender differences have no relation whatsoever to the execution of job duties, and sexual discrimination must be prevented.

### Initiatives against Sexual Harassment

Sumitomo Chemical is actively engaged on a company-wide basis in preventing sexual harassment. As part of these activities, sexual harassment counseling centers were established at each site in 1999.

The Company is continuing to work to raise awareness in the workplace, not based on the strict specification of behaviors or language that constitute sexual harassment, but rather on the overall understanding that all sexually discriminatory behavior or language must be eliminated if we are to create a workplace in which everyone can work freely without concern over matters of gender.

## Healthy Labor Relations

Sumitomo Chemical works together with the Sumitomo Chemical Labor Union as good business partners to resolve issues cooperatively based on positive labor relations founded on mutual understanding and trust.

As the result of a union shop agreement, all employees with the exception of managerial staff are considered union members.

# Mutual Prosperity with Local Communities and Society

**Sumitomo Chemical upholds its mission of prospering together with the local community through the conduct of its operations. In this spirit, Sumitomo Chemical, as a responsible member of society, strives to foster good relations between local communities and employees.**

## Local Communication

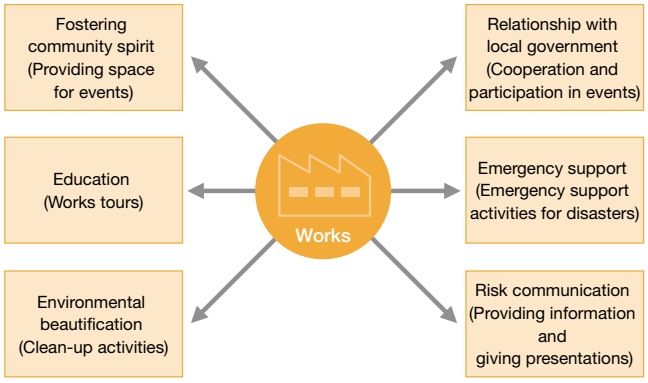
The relationship between Sumitomo Chemical's Works and the surrounding communities is not merely a relationship between the local government and the site operator. The community also forms the area in which employees live. Moreover, the community could also be affected if a serious accident were to occur.

Steps are therefore taken at works to promote communication with the local communities through a variety of avenues. Tours of the works help serve an educational purpose, and providing space for local events helps foster a community atmosphere within the area. The works also strive to improve the local environment through various clean-up activities.

Risk control to cope with emergency situations is also important. Explaining the risks and safety precautions in place at chemical plants on a regular basis helps to avoid uncertainty and confusion.

Sumitomo Chemical will continue to provide information and communication regularly, placing great importance on the relationship with the local community.

### Aims of Communication with Local Community and Actual Initiatives




### Works tours

Sumitomo Chemical actively conducts works tours to help educate young people and to provide information to local residents and the local government. Tour programs are provided at each of our works and are tailored to the needs of a variety of visitors.

### Works Tour Data

| Works | Details |
|---|---|
| Misawa Works | There were 45 tours attended by approximately 600 visitors including the prefectural governor, local teachers, agricultural cooperative officials, PTA members, women's organization members, and schoolchildren |
| Chiba Works | There were 95 tours attended by approximately 1,000 visitors including local government officials, fishery association members, residents' association members, local residents, and neighborhood children |
| Osaka Works | There were 10 tours attended by approximately 150 visitors including the police force, town assembly leader, residents' association members, and women's organization members |
| Ehime Works | There were 7 tours attended by approximately 300 visitors including students of elementary, junior high, and high schools in the area, and residents' association members |
| Oita Works | There were 24 tours attended by approximately 950 visitors including the prefectural governor, mayor, fire service officials, residents' association members, and women's organization members |
| Tsukuba Research Laboratory | 5 students visited from local elementary and junior high schools, along with 69 high school students who came on a school field trip |
| Agricultural Chemicals Research Laboratory | There were 33 tours attended by approximately 370 visitors, including the local residents' association members, agricultural cooperative officials, and university students on a field trip |

Works tour party

### Comments from Osaka Works Supervisor

A tour of the works was held on May 23, 2005, and was attended by 15 officials from the local Okijima Women's Association. The tour included an explanation outlining the works operations, an explanation of Responsible Care activities, a video presentation on the history of the Sumitomo Group, and a tour of the works.

A typical visitor notes, "The site was extremely clean. The landscaped areas were well maintained, with not a single piece or rubbish anywhere. Seeing such a well-kept plant makes us feel comfortable and proud to live nearby." Another noted, "The video on the history of Sumitomo was extremely interesting. I was surprised to learn that Sumitomo is involved in a wide range of areas in addition to chemicals."

### Chiba Works: Ichihara and Sodegaura Young Inventors Club*

In April 2002, as part of Sumitomo Chemical's local charitable activities, the Chiba Works established the Ichihara and Sodegaura Young Inventors Club in collaboration with the Japan Institute of Invention and Innovation (JIII) and the local residents' associations. The Chiba Works provides full support for the club in terms of both management and funding. This activity was started to mark the 35th anniversary of the works in 2002.

The Ichihara and Sodegaura Young Inventors Club is extremely popular, with more applicants for membership each year than it can accept. In 2004, 135 schoolchildren were selected by lottery, and participants included students from the 3rd through 8th grades.


Ichihara and Sodegaura Young Inventors Club

#### Comments from Chiba Works Supervisor

A dozen or so engineers and former employees from the Chiba Works provide instruction on a voluntary basis. Our specialty is scientific experiments, which seem to be disappearing from school lessons these days, and which are always extremely popular with the children. The lack of interest in science and technology among children has been highlighted as a problem in recent years, but we hope that by providing this opportunity for children to see and experience the excitement and drama of experimentation, we can stimulate an interest in science and technology and help these children to develop as creative individuals. (Hiromitsu Shirato, Chiba Works General Affairs Department)

* The JIII has established approximately 150 "inventors clubs" throughout Japan to provide elementary and junior high school students with an arena in which to pursue their scientific interests by taking part in craft projects and chemistry experiments.

### Oita Works: School Science Visits at Elementary and Junior High Schools

School science visits were made to Tsurusaki Elementary School, Misa Elementary School, and Tsurusaki Junior High School in both October and November 2004.

These visits were aimed at generating an interest in science and technology under the banner of "Chemistry: an Amazing Experience." The visits primarily involved experiments that allowed the students to experience some of the mysteries of chemistry.

These school visits, carried out jointly by engineers from the Sumitomo Chemical Oita Works and the Showa Denko KK, were a big hit with the students.

Oita Works School Science Visit

### Misawa Works: Beautification Activities

During the lunch break on June 3, 2004, the employees of the Misawa Works in Aomori Prefecture joined in Misawa City's beautification activities, which generally involve the coordinated planting of flowers and other gardening activities. On that very hot day, around 80 participants brightened up a 400-meter stretch of road in front of the work's main entrance by planting it with 2,000 marigold seedlings.

Beautification Activities

### Misawa Works: Open House and Rubbish Collection Walk

The Misawa Works stages its annual "Open House" and "Rubbish Collection Walk" every autumn. The event was scheduled to coincide with the Misawa City Industry and Culture Festival. Approximately 140 local residents took the opportunity to tour the works and hear presentations explaining product safety and environmental protection initiatives.

During the Rubbish Collection Walk, some 40 employees and their families picked up the rubbish and empty cans that littered the roadsides around the works site.

Rubbish Collection Walk

A letter of thanks from a visitor to the Open House

### Osaka Works: Wakaba Cup Goodwill Volleyball and Softball Tournaments

The Osaka Works actively supports sports in the local community. In particular, the Wakaba Cup Goodwill volleyball and softball tournaments, held each April since 1977 to promote health and to deepen friendships with local residents, have become well known in the region over the course of nearly 30 years.

This year (2005), the volleyball and softball tournaments were held on April 10 at the Sumitomo Chemical sports hall and grounds, and were attended by approximately 600 people, mainly from the Konohana Ward kindergarten, elementary school, and junior high school PTAs.

### Ehime Works: Launch of Local Newsletter "Kagaku"

In April 2005, the Ehime Works launched a new local newsletter called "*Kagaku*" to increase the flow of information and communication to residents in the surrounding areas. The newsletter includes explanations of the products manufactured at the works, descriptions of environmental initiatives, and also features a fun quiz.

The first edition of 69,000 copies, printed at the works, was distributed along with daily newspapers to all residents in the cities of Niihama and Saijo in Ehime Prefecture. Copies were also distributed directly to various government offices, educational organizations, and nearby residents' associations. The newsletter, which will be produced twice a year, aims to improve the exchange of information and communication while taking into account the specific requirements of local readers.

Similar local newsletters are produced and distributed by other Sumitomo Chemical works.

"Kagaku" (Ehime Works)

"Kasugade" (Osaka Works)

"Tsurusaki" (Oita Works)

### Ehime Works: Relief Work in Areas Hit by Typhoons and Torrential Rains

Between August and October 2004, the city of Niihama in Ehime Prefecture was hit by five typhoons and suffered localized torrential rains in which eight people lost their lives, 233 houses were totally or partially destroyed, and more than 3,500 homes were flooded up to or above the floorboards. Two hundred and fourteen members of Sumitomo Chemical's employees association, the "Sumitomo Chemical Shinwa Association," assisted in relief activities in the areas hit on August 28, September 2, and October 10, devoting two hundred and fourteen man-days to the effort. These activities included responding to local needs by cleaning up houses and streets that had been affected by the typhoons.

Donations collected by both the Shinwa Association and the Sumitomo Chemical Group were presented to Niihama City in order to help the disaster victims.

#### Comments from a participant

"The hot weather made the work extremely tough, but I was really moved by the thank-you letters we received from the residents afterwards. Having a large number of employees volunteer immediately after the disaster allowed the Company to play an important role in helping the area to recover that went beyond simply providing supplies and financial aid."

### "Environment, Health & Safety Report" Issued by each Company Site

Sumitomo Chemical has issued an Environment, Health & Safety Report since fiscal 1998, and since fiscal 2004, it has also issued the annual CSR Report. Since fiscal 2004, each works site has also produced an Environment, Health & Safety Report presenting its own environmental impact data and environmental protection initiatives.

These reports can be read on the Sumitomo Chemical website. They are also distributed to local residents' associations and to residents living in the areas surrounding the works as well as to visitors on works tours.

Environment, Health & Safety Report issued by each of the Company's sites

### Sponsoring the "Chogori 2000" Korean Costume Show

This year (2005) marks the 40th anniversary of the normalization of relations between Japan and Korea. In December 2004, the "Chogori 2000" Korean costume show was held at the Setagaya Culture Life Information Center in Tokyo. This event was organized by the Korean Cultural Center under the auspices of the Embassy of the Republic of Korea in Japan. Sumitomo Chemical sponsored the event in conjunction with the Sumitomo Chemical Group companies based in the Republic of Korea (Dongwoo Fine-Chem Co., Ltd., Dongwoo STI Co., Ltd., and Dongwoo Optical Film Co., Ltd.).

Korean costume show

### Corporate Benefactor Lectures* for University Students and Residents

Since April 2002, Sumitomo Chemical has provided support for lecture courses at the University of Tokyo's Graduate School in conjunction with Asahi Kasei Corporation, Asahi Glass Co., Ltd., and Mitsui Chemicals, Inc. Lectures entitled "Overview of Environmental Engineering" provided at the graduate school cover ongoing research aimed at optimizing the overall chemical system by analyzing a wide range of information and technologies related to tackling global environmental problems.

Evening lectures on the general management of chemicals were also given at Ochanomizu University and were open to the public.

* Corporate benefactor lectures: Lectures provided by private sector businesses to expand and stimulate educational and research activities at universities.

"Overview of Environmental Engineering" Benefactor Lecture website

# Dialogue with Stakeholders

**As a corporate citizen, Sumitomo Chemical promotes activities to improve the public's understanding of the Company and to respond in good faith to comments it receives by disclosing information and engaging in dialogue with stakeholders.**

## Communication Policy and Achievements

Sumitomo Chemical is actively working to improve communication with stakeholders by providing as much information as possible.

### 4th Oita Area Responsible Care Regional Dialogue (Oita Works)

On February 28 2004, the Oita Works held a Responsible Care Regional Dialogue in conjunction with other member companies to provide a greater understanding of the chemical industry and Responsible Care among local residents. The dialogue consisted of three sessions: case study presentations, works tours, and a question-and-answer session. Approximately 100 people attended the event.

The environmental protection case studies presented by the Oita Works covered the pollutant release and transfer register (PRTR) system and the initiatives of ten member companies to reduce emissions of hazardous air pollutants. The presentation generated considerable interest among education officials, local residents, and Oita city environmental officials.

The Oita Works also prepared and distributed pamphlets on safety and accident prevention, and explained how the site would respond to the types of accidents that have occurred elsewhere in the industry and have raised the level of public concern.

Oita Area Responsible Care Regional Dialogue

### Participation in the "Chemical Communication Conference" (Osaka Works Gifu Plant)

On December 2, 2004, the Osaka Works Gifu Plant participated in a risk-communication discussion organized as part of the "Gifu Seino Region Chemical Communication Conference" aimed at promoting dialogue and understanding with local residents.

The presentation included explanations of the company's operations, environmental policies, and activities such as PRTR, which are aimed at reducing environmental impact. Technical terms were kept to a minimum and photographs and diagrams were used extensively in order to make the presentation as easy as possible to understand.

The local residents showed particular interest in the risks presented by earthquakes, and questions were asked about countermeasures and emergency communication systems. In response to these questions, the measures put in place by the Company were explained with the aid of illustrative photographs. This was the first such event attended by representatives from the works, but it resulted in a remarkable increase in mutual understanding with the local community.

Chemical Communication Conference

### Achievements in Dialogue and Communication

| | |
|---|---|
| Consumers and customers | Creation of Quality Assurance Office in Operating Department<br>Establishment of Quality Complaint Database<br>Creation of Personal Data Protection Department |
| Suppliers | Regular staging of logistics meetings |
| Investors | Improved IR Presentations (in Japan and overseas)<br>Appropriate and timely disclosure of information to Stock Exchange |
| Employees | Staging of labor-management council (central and site)<br>Promotion of communication through company newsletters |
| Local community | Staging of works tours<br>Presentations explaining regular facility renewals<br>Distribution of local newsletters |
| NPO/NGOs | Participation in Global Compact |

# Social Contribution Initiatives and Awards Received

**Sumitomo Chemical considers its contributions to society an important part of its social responsibilities and engages in social contribution on a global scale based on the slogan "Contributing to the community - Contributing to the world - Contributing to the future."**

## Social Contribution Initiatives

Company operations are based on a fundamental mission to produce and supply effective and safe products and technologies. The Company also places a high priority on activities that contribute to the local society in all regions where it operates, and sees these activities as being among its many social responsibilities.

The Company undertakes its social contribution initiatives based on the slogan "Contributing to the community - Contributing to the world - Contributing to the future," and these are chosen according to their social significance, relevance to the Company's operations, long-term viability, and urgency.

### Social Contribution Initiatives in Fiscal 2004

| | |
|---|---|
| National/regional public organizations/local communities | 99 |
| Charitable organizations | 62 |
| Culture and sports | 51 |
| Overseas relief | 17 |
| Other | 169 |
| Total | 398 (¥175 million) |

### Major Charitable Initiatives

| | |
|---|---|
| Involvement in Malaria Reduction Campaign | ¥44 million |
| Aid Donation to Sumatra Earthquake Victims | ¥10 million |
| Donation to Expo 2005 Aichi, Japan | ¥10 million |
| Corporate Benefactor Lectures at University of Tokyo's Graduate School | ¥10 million |
| Aid Donation to Niigata-Chuetsu Earthquake Victims | ¥ 5 million |

Supporting Roll Back the Malaria Campaign

### Support Program for Education in Africa

Sumitomo Chemical is establishing a program of educational support, including collaborative efforts with NPOs, as part of its fiscal 2005 world relief program. The aim of this program is to assist in regional self-support by providing education to children in Africa who are most severely affected by poverty.

## Awards Received

### 36th JCIA Technology Award

Sumitomo Chemical won the overall prize in the 36th JCIA Technology Awards organized by the Japan Chemical Industry Association.

The prize was awarded for the development and commercialization of an ammonium-sulfate-free caprolactam process. This process is the first in the world that does not generate ammonium sulfate as a by-product, and in addition to offering economic savings, it is a green sustainable technology that minimizes impact on the environment.

### 4th Green and Sustainable Chemistry Award

Sumitomo Chemical won the 4th Green and Sustainable Chemistry Award sponsored by the Green and Sustainable Chemistry Network for chemistry that is "kind to humans and to the Earth."

The award was presented for the development and commercialization of a hydrochloric acid oxidation process that saves energy and resources and offers high yield rates using a revolutionary high-activity catalyst. (See page 11 for details.)

# Economic Activities

Focusing on its six business Sectors, Sumitomo Chemical is currently working to boost profitability by continuously developing and supplying products and services that improve the quality of people's lives.

## Business Sectors

| | |
|---|---|
| Basic Chemicals Sector | Inorganic chemicals, synthetic fiber materials, organic chemicals, methacrylate, alumina products, aluminum |
| Petrochemicals & Plastics Sector | Ethylene, propylene, styrene monomer, propylene oxide, polyethylene, polypropylene |
| Fine Chemicals Sector | Functional materials, additives, dyestuffs, pharmaceutical chemicals |
| IT-related Chemicals Sector | Optical functional films, color filters for LCDs, semiconductor process materials, electronic materials, compound semiconductor materials |
| Agricultural Chemicals Sector | Agricultural chemicals, household insecticides, animal feed additives, fertilizers, agricultural materials |
| Pharmaceuticals Sector | Pharmaceuticals, radio-diagnostic reagents |

## Three-Year Corporate Business Plan

Sumitomo Chemical is currently engaged in its Three-Year Corporate Business Plan, which extends from fiscal 2004 to 2006. This plan forms an important milestone in the Company's progress toward its goal of becoming a truly global chemical company in the 21st century and a major player in every area of its business.

### The Sumitomo Chemical Group's Corporate Vision for the 21st Century

To Become a Truly Global Chemical Company

1. A company that operates with competitive strength in global markets
2. A company that continues to grow on the strength of accumulated technologies, with a focus on high added value and profitability
3. A company that operates in accordance with global standards, places importance on shareholder value, and is sensitive to the aspirations of its employees

The basic aim of the Company's Three-Year Corporate Business Plan is to maximize the strengths of Sumitomo Chemical by focusing on Selection and Concentration through its strategic positioning of businesses. Actual initiatives to achieve this include 1) making strategic investments in the life-sciences and IT-related fields in order to lay the groundwork for realizing the Company's targeted portfolio of businesses; 2) promoting a shift to higher-value-added polyolefins and other bulk products and enhancing downstream capabilities in the Agricultural Chemicals and IT-related Chemicals Sectors; and 3) expanding overseas operations to further strengthen the Company's global presence.

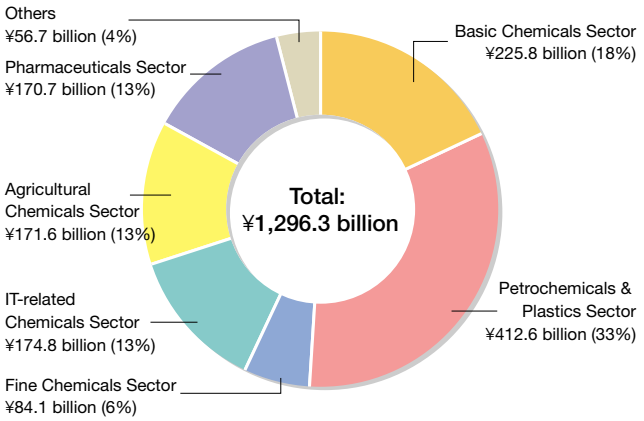
Today, the chemical industry is facing major structural changes driven by such factors as rapid economic growth in Asia, soaring prices for crude oil and naphtha, the expansion of the IT and consumer electronics markets, and the acceleration of the reorganization taking place in the Japanese pharmaceutical industry. Sumitomo Chemical's Three-Year Corporate Business Plan takes these challenges into account. The Company intends to take advantage of them as opportunities to exploit as it strives to expand its business in accordance with its basic policy.

# Business Performance in Fiscal 2004

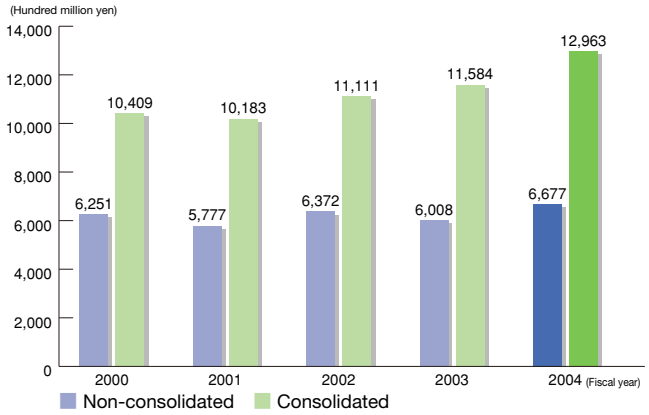
**Fiscal 2004 Results (Consolidated):**
Net sales: ¥1,296.3 billion
Operating income: ¥105.2 billion
Net income: ¥64.5 billion
Capital expenditures: ¥125.8 billion
R&D expenses: ¥78.2 billion
Number of employees: 20,195 (as of March 31, 2005)

**Subsidiaries and Affiliates:**
Sumitomo Pharmaceuticals Co., Ltd., Koei Chemical Co., Ltd., Taoka Chemical Co., Ltd., The Polyolefin Company (Singapore) Pte. Ltd., Sumitomo Chemical America, Inc., Valent U.S.A. Corp., and others. Total: 104 companies (as of March 31, 2005).

### Sales by Sector in FY2004




### Sales Trends




# Summary of Fiscal 2004 Results and Status of Each Sector

### Summary of Fiscal 2004

The key issue affecting the Sumitomo Chemical Group in fiscal 2004 was the sharp rise in the price of raw materials and feedstocks, such as naphtha. However, the rapidly growing demand in Asia, particularly in China, led to an expansion of the markets for basic chemicals and petrochemicals. There were signs of inventory adjustment in the IT-related chemicals market, but the market expanded as a whole, with demand maintaining brisk growth.

Given this situation, the Sumitomo Chemical Group strived to properly reflect the feedstock cost hike in its product pricing and worked to improve business performance by making efforts to promote sales and streamline operations. As a result, net sales for the period rose to ¥1,296.3 billion, an increase of 12% over the previous year. Operating income was ¥105.2 billion, and net income was ¥64.5 billion. All of these figures showed significant increases over the previous year and represent record highs for the Company.

The non-consolidated figures for the Company were ¥667.7 billion for net sales and ¥34.9 billion for net income.

Details for each sector are described below.

### Basic Chemicals Sector

Sales of caprolactam, the raw material for nylon, increased with the dramatic market rise caused by the sharp increase in raw material prices and growing demand in China and Southeast Asia. Sales of aluminum and other metals also increased because of the market increase arising from tight supply and demand conditions. As a result, net sales rose to ¥225.8 billion, an increase of ¥26.7 billion over the previous fiscal year. Operating income rose by ¥2.6 billion to ¥5.2 billion.

### Petrochemicals & Plastics Sector

Sales of petrochemicals, such as styrene monomer and propylene oxide, increased in step with the market increase caused by the sharp rise in prices for feedstocks such as naphtha and benzene. Sales of synthetic resins grew following four separate price revisions in Japan, but profit and loss benefits remained minimal. Overseas, the market saw a major rise due to briskly growing demand in China, which led to improved sales and profits. As a result, net sales rose to ¥412.6 billion, an increase of ¥50.2 billion over the previous fiscal year, and operating profits and losses showed a profit of ¥15.0 billion, an improvement of ¥16.6 billion over the previous fiscal year.

### Fine Chemicals Sector

Sales of pharmaceutical active ingredients and intermediates showed an increase, particularly for exports, due to the

increase in shipments of new products and solid demand. Sales of raw materials for adhesives and rubber antioxidants also showed steady performance. As a result, net sales rose to ¥84.1 billion, an increase of ¥3.5 billion over the previous fiscal year. Operating income rose by ¥2.7 billion to ¥11.5 billion.

### IT-related Chemicals Sector

Demand grew rapidly for polarizing film and color filters thanks to market growth and demand for large LCD displays for televisions, computers, and mobile phones. The start of operations at the new facility in Korea also contributed to a significant increase in sales. Sales of liquid crystal polymers also showed steady performance. As a result, net sales rose to ¥174.8 billion, an increase of ¥51.3 billion over the previous fiscal year. Operating income rose by ¥4.4 billion to ¥18.7 billion.

### Agricultural Chemicals Sector

Sales of agricultural chemicals showed an increase due to sales growth in the United States and Europe.

Domestic sales of household insecticides also increased following the successful launch of new products. As a result, net sales rose to ¥171.6 billion, an increase of ¥4.5 billion over the previous year. Operating income rose by ¥4.1 billion to ¥14.8 billion.

### Pharmaceuticals Sector

Sales were affected by government-mandated drug price reductions in April 2004, but sales increased for the main products Amlodin (therapeutic agent for hypertension and angina pectoris) and Meropen (carbapenem antibiotic). As a result, net sales rose to ¥170.7 billion, an increase of ¥4.1 billion over the previous fiscal year. Operating income rose by ¥6.6 billion to ¥34.4 billion.

## Key Initiatives for Fiscal 2004

**Rapidly Growing Asian Market**

### Major Expansion of MMA Business

Sumitomo Chemical is currently engaged in a major expansion of its MMA business in Singapore in response to the strong demand in China and other Asian countries, which continues to see rapid growth. In August 2004, production of MMA polymer was stepped up through debottlenecking, which increased annual production capacity from 35 thousand tons to 50 thousand tons. Improvements were also undertaken in August 2005 to increase annual production capacity for MMA monomer from 53 thousand tons to 133 thousand tons. In addition, work has also commenced on the construction of a new plant with a production capacity of 90 thousand tons of MMA monomer and 50 thousand tons of MMA polymer. Production is scheduled to begin in the first quarter of fiscal 2008. The demand for both MMA monomer and MMA polymer on the Asian market is expected to show rapid growth, primarily for use in IT-related products such as light-guide plates for liquid crystal displays (LCD) and lenses for projection televisions. As a result of this planned expansion, Sumitomo Chemical will become the world's top producer of MMA polymer and the third largest producer of MMA monomer, strongly positioned to respond to the buoyant demand.

### Expansion of IT-related Business

Based on Sumitomo Chemical's strategy of fostering the development of its IT-related business as a core business for which significant growth can be expected over the medium- to long-term, the Company is aggressively expanding its operations for LCD-related materials such as color filters and polarizing film, mainly in South Korea and Taiwan. Both countries have developed at a startling pace as bases of LCD production. In South Korea, Sumitomo Chemical already operates the world's largest production facilities for fifth-generation LCD color filters. In order to keep pace with future demand growth, however, the Company further increased capacity through debottlenecking, which was completed this past summer. In Taiwan, the Company has also moved ahead with the construction of a new plant for second-generation LCD color filters, which are in great demand for small- and medium-sized displays. Sumitomo Chemical is also a major producer of polarizing film, and has been operating plants in South Korea and Taiwan for producing raw material rolls. In the spring of 2005, construction of an additional production line was completed at each plant, resulting in a significant increase in overall capacity. Another commercial processing plant is under construction in Wuxi, China to supply the rapidly expanding demand in that country.

**Soaring Feedstock Costs**

### Rabigh Project

In the Petrochemical business, securing a stable supply of competitively priced feedstock is essential for strengthening medium- and long-term profitability. This is increasingly important today, when the prices of crude oil and naphtha are expected to continue climbing with the growth in worldwide demand. In May of last year, Sumitomo Chemical and Saudi Aramco, the state-owned Saudi Arabian Oil Company, signed a Memorandum of Understanding and began a joint feasibility study for the development of a large, integrated refining and petrochemical complex in the Red Sea town of Rabigh (the "Rabigh Project"). Having confirmed the viability of the project

through the joint feasibility study, Sumitomo Chemical and Saudi Aramco signed an agreement to become joint venture partners on August 1, 2005, marking a major step toward the realization of the project. Construction work on what will be one of the world's largest integrated refining and petrochemical complexes is due to begin early in 2006, with operations scheduled to begin in late 2008. The complex will produce 1.30 million tons per year of ethylene, and 900 thousand tons per year of propylene, naphtha, and gasoline. Once completed, the facility will ensure a stable supply of competitively priced feedstocks — overcoming one of the biggest issues currently facing the petrochemical business.

**Growth in the IT and Digital Consumer Electronics Market**

**Reinforcing Efforts in Response to the Expected Increase in Demand for LCD TVs**

The excellent performance of the IT-related Chemicals Sector is attributable mainly to the following strengths of the Sector: (1) The Company's longstanding and close working relationships with major customers enable it to understand their specific needs accurately and respond to them promptly. (2) The Company's ability to generate synergy over a broad range of technical expertise that is available only to a diversified chemical company like Sumitomo Chemical allows it to manufacture nearly all the major LCD display materials that its customers require and to provide comprehensive solutions for their needs. (3) Sumitomo Chemical has gained a high degree of trust from its customers through its established track record in aggressive and timely capital expenditures backed by its management's strong commitment to the business, and (4) Sumitomo Chemical is ahead of its competitors in the research and development of next-generation display technologies such as polymer LEDs.

The growth of demand for LCDs tapered off from the second half of last year as a result of inventory adjustments. However, as the price of LCD televisions comes down and television performance continues to improve with larger-sized screens and higher image quality, consumer demand for LCD televisions will be further stimulated, generating a mass market. The Company expects that the growth of the LCD market will gather momentum again toward the latter half of this year.

Sumitomo Chemical will continue to allocate its business resources to further enhance its supply capabilities in response to LCD manufacturers' production expansions.

**Establishment of Joint Venture Company in the Organic Polymer EL Business**

Sumitomo Chemical has been aggressively promoting the expansion of its flat panel display business, particularly in color filters and polarizing films, which are key materials for liquid crystal displays (LCDs). Moreover, in the area of advanced polymer OLEDs, which are expected to be used for next-generation displays, the Company is focusing its efforts on developing polymer electro-luminescent materials. Polymer OLEDs have the advantage of being self-luminescent with rapid photo-responsiveness, and a cost-effective printing method can be used to form the luminescent substrate. They are expected to find growing use in displays and lighting applications. Recently, OLEDs have been attracting attention for use in next-generation mobile phones and portable DVD players and, looking further ahead, in televisions as well. This demand is expected to drive rapid growth in the OLED market. Since 2001, the Company has been pursuing joint research on OLEDs with Cambridge Display Technology (CDT), a UK company that is a pioneer in the field. In May of this year, Sumitomo Chemical signed a Memorandum of Understanding to establish a 50-50 joint venture company for the purpose of developing, manufacturing and marketing polymer OLED materials. In May, The Company also purchased Dow Chemical's LUMATION organic polymer electroluminescence (EL) materials operations. In addition to gaining exclusive access to existing polymer OLED technology from its two parent companies, the new joint venture company will also have the benefit of Dow's technology in this field. By bringing together the excellent technology from all three companies, the new company will be able to respond to user demand for innovative materials in a targeted and timely manner, and will also be able to greatly speed up the process of developing new materials.

**Accelerated Restructuring in Pharmaceuticals Business**

**Sumitomo Pharmaceuticals and Dainippon Pharmaceutical Conclude Merger Agreement**

Sumitomo Pharmaceuticals Co., Ltd., the nucleus of Sumitomo Chemical's pharmaceutical business, and Dainippon Pharmaceutical Co., Ltd. signed an agreement on April 28, 2005 to merge the companies on October 1st of this year. The new company, Dainippon Sumitomo Pharma, Co., Ltd., will rank among Japan's top ten pharmaceutical companies in terms of domestic ethical pharmaceutical sales. With a combined sales force of approximately 1,500 medical representatives, a number comparable to that of the leading Japanese pharmaceuticals companies, Dainippon Sumitomo Pharma will be further able to strengthen its solid earnings base from its domestic pharmaceutical operations. In addition, aiming for global business expansion in the future, the company will fully leverage its stable cash flow to enhance R&D in terms of both the amount of investment and the selection of promising drug candidates in areas where the company's resources can be mobilized most effectively, thereby accelerating the process of drug development and commercial launch. For fiscal 2007, the new company will target net sales of ¥280 billion and operating income of ¥50 billion, and R&D expenditures for the year are targeted at ¥45 billion.

# Independent Assessment

**Sumitomo Chemical undergoes independent evaluations to increase the transparency of its activities, and strives to make improvements based on the results of these assessments.**

## Responsible Care Verification by Japan Responsible Care Council

The Japan Responsible Care Council (JRCC) operates a Responsible Care verification program to improve the Responsible Care activities of member corporations. This program involves the quantitative verification and evaluation of the initiatives of member corporations based on the Responsible Care Code standards determined by the JRCC.

Objectively evaluating the content and results of responsible care activities is intended to increase the quality of such activities in the future and to increase reliability overall. The Responsible Care Code consists of the Environmental Protection Code, the Accident Prevention Code, the Occupational Health and Safety Code, the Logistics Safety Code, the Chemical and Product Safety Code, and the Social Dialogue Code, with a Management System Code in place to coordinate the operation of these six codes.

In January 2005, Sumitomo Chemical underwent Responsible Care verification for four codes: the Social Dialogue Code, Chemical and Product Safety Code, Logistics Safety Code, and Occupational Health and Safety Code.

Note: Verification was performed for the Environmental Protection Code and Accident Prevention Code in January 2002.

A summary of the Verification Report dated February 7, 2005 is shown below.

### 1. Scope of Verification

| Evaluation code | Site covered | Date |
|---|---|---|
| Social Dialogue | Tokyo Head Office, Osaka Works | 2005/1/27 |
| Chemical and Product Safety | Tokyo Head Office, Ehime Works | 2005/1/27 |
| Logistics Safety | Tokyo Head Office, Sumika Logistics (East) | 2005/1/28 |
| Occupational Health and Safety | Misawa Works | 2005/1/28 |

### 2. Comments on Responsible Care Activities

**General**

- Managers of the concerned departments are working to promote increased awareness and understanding of Responsible Care activities among employees, and are leading by example in Responsible Care activities.
- Responsible Care information, including Responsible Care codes and verification details, should be circulated to employees more thoroughly.

**Social Dialogue**

- A number of reports are issued, each with their own individual flavor, including the company-wide CSR Report and individual site Environment, Health & Safety Report.
- There is significant communication with local residents.
- Some study of the setting of measurable targets is recommended.

**Chemical and Product Safety**

- Advanced management systems are in place, including risk assessment, safety data collection, and database systems.
- The company plays a leadership role within the industry.
- It was recommended that the training of operations managers and sales agents be more detailed and conducted in a more considerate manner.

**Logistics Safety**

- Safety and quality activities are conducted thoroughly by each section involved in the distribution work of Sumika Logistics (East).
- It is recommended that the number of presentations explaining the concepts and necessity of Responsible Care be increased.
- The annual activity policy tasks and measures are comprehensive, and there is no distinction between regular daily management and strategic policy management. More distinct management styles are recommended.

**Occupational Health and Safety**

- A plan is in place to obtain OSHMS certification from the Japan Industrial Safety and Health Association (JISHA) for each site by the end of fiscal 2006. Operations to this end have already commenced at each site and this has been evaluated highly.
- The annual policies for Responsible Care activities, targets, and measures, are broken down consistently by individual site from the head office to the Misawa Works, and then by individual department, section, and terminal.
- It is recommended that these policies, targets, and measures be prioritized and then evaluated individually and objectively as to whether training will provide significant benefits.

## Sustainable Management Rating (Sustainable Management Rating Institute)

In fiscal 2004, for the third year in succession, Sumitomo Chemical received a Sustainable Management Rating from the Sustainable Management Rating Institute (SMRI), an organization affiliated with the non-profit organization Sustainable Management Forum of Japan.

The results were published on March 25, 2005. Of the 69 areas evaluated for Sumitomo Chemical (business: 15; environment: 27; social: 27), 60 were rated as superb, five as excellent, and four as good, with none rated as fair or poor. The total score achieved was 199.8 out of a maximum possible 207 points.

A summary of comments and a report of this year's review are given below.

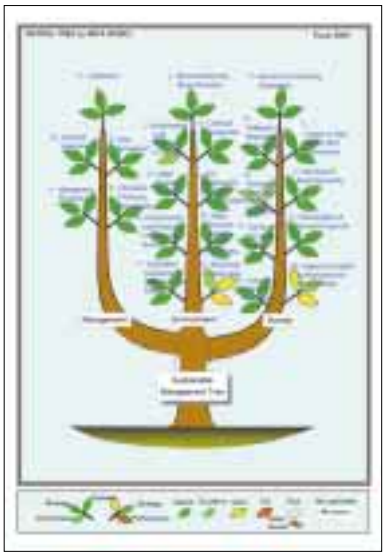
Sumitomo Chemical considers this rating review an excellent indicator for evaluating the degree to which the Company is objectively tackling CSR issues. The Company plans to participate actively in similar audits in the future to improve its CSR activities further.

### Comments from Sustainable Management Rating Institute

Sumitomo Chemical has a clear vision and medium-term policy with regard to CSR, and shows a sincere approach to continuously tackling CSR issues, outlining their CSR policy to employees rather than simply keeping it on the books for show. We sense that CSR provides the momentum behind the active implementation and development of the Sumitomo Family's Business Philosophy of "the importance of maintaining the trust of business partners and society" and "making strategic business decisions in response to the changing social environment."

The CSR concepts of "contributing through the core business" and "global social contribution" have been demonstrated tangibly in the form of providing Olyset mosquito net production technology free of charge to prevent the spread of malaria.

We can expect further social contributions together with an active dialogue with society in the future.



## Independent Review by KPMG AZSA Sustainability Co., Ltd.

Sumitomo Chemical underwent an independent review performed by KPMG AZSA Sustainability Co., Ltd. to increase the reliability and transparency of the CSR Report. The conduct of independent reviews has continued since the fiscal 2001 Environment, Health & Safety Report.

A summary of this year's report and comments are given below.

### Independent auditor's comments

Sumitomo Chemical established its Basic CSR Policy in fiscal 2004, and strategies based on this policy are now incorporated into important medium-term initiatives. Common environmental targets among the main group companies are tackled as a group, but I also look forward to seeing greater group activity in other areas as well. I recognize that the Company actively seeks external evaluation in the form of sustainable management ratings, independent review of the report, and this Responsible Care Verification.

Yukinobu Matsuo, Manager
KPMG AZSA Sustainability Co., Ltd.

Independent Review Report

Responsible Care

As a Responsible Care Company, Sumitomo Chemical Company, Limited, voluntarily implements policies that take safety, health, and the environment into consideration, from chemical product development to disposal. The Responsible Care mark and logo may only be used by those companies that are members of the Japan Responsible Care Council.

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