

SUMITOMO CHEMICAL

CSR Report 2006

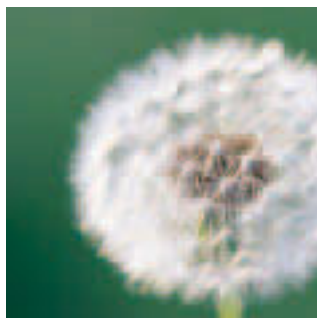
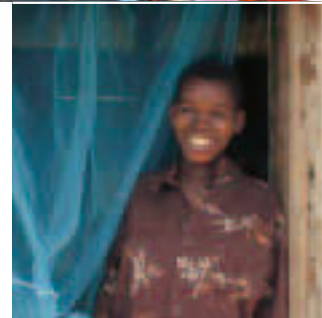


Responsible Care designates a range of voluntary corporate activities relating to the environment, health, safety, and product quality, applied throughout a product's entire life cycle. As of July 2005, there were Responsible Care associations in 52 countries worldwide.



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Sustainable Chemistry



CSR Report 2006

Since fiscal 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” in fiscal 2004 to reflect broader coverage of corporate social responsibility (CSR) initiatives, which include social and economic activities.

We have worked to make the report more concise and easier to understand and added columns introducing specific examples to ensure that readers from a wide range of backgrounds will be able to gain an understanding 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 of 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). Azusa Sustainability Co., Ltd., conducted an independent review of this report to ensure the veracity of its contents.

Your frank opinions and impressions of this report would be most welcome.

[Scope of this report]

- Environmental performance (excluding environmental accounting and environmental efficiency)
The environmental performance data included in this report cover financially consolidated companies whose production divisions have sales above a certain level or whose environmental impact is relatively large: Sumitomo Chemical and 17 Group companies in Japan, and nine Group companies overseas (the environmental performance data for overseas companies is also available in the Data Book).
- Environmental accounting
The environmental accounting data included in this report cover financially consolidated companies whose production divisions have sales above a certain level: Sumitomo Chemical and 17 Group companies (13 domestic, 4 overseas).
- Environmental efficiency
The environmental efficiency data included in this report cover financially consolidated companies with production divisions: Sumitomo Chemical and 12 domestic Group companies.

In this report, “Sumitomo Chemical” and “Sumitomo Chemical Group” are distinguished as follows.

Sumitomo Chemical: Sumitomo Chemical Co., Ltd.
Sumitomo Chemical Group:

Sumitomo Chemical and Group companies
(consolidated subsidiaries)
(The applicable scope of Group companies
is indicated as necessary.)

Period covered by this report: April 1, 2005–March 31, 2006

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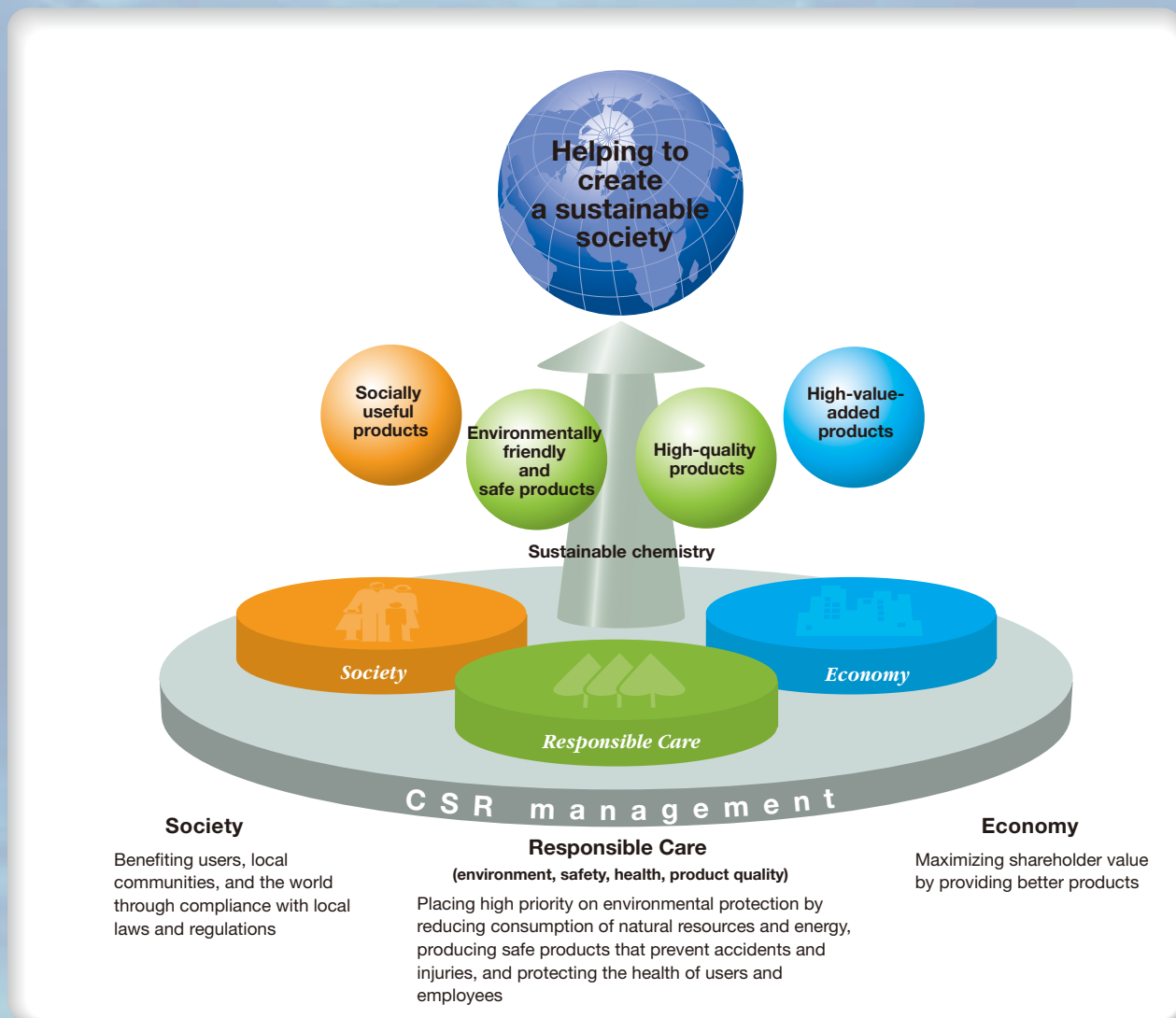
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Sumitomo Chemical is leading the way to a sustainable future: CSR through Sustainable Chemistry

“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 created through Sustainable Chemistry, thereby helping to build a sustainable society.



Becoming a truly global chemical company that contributes to a better world

Benefiting the Future of Humanity and the Earth

Sumitomo Chemical's progress from environmental protection to CSR

Sumitomo Chemical's origins date back to 1913, when the Company sought to solve the problem of sulfur dioxide emissions from the Besshi Copper Mine in the Shikoku region of Japan by using them to produce fertilizer. Sumitomo Chemical thus began by tackling an environmental problem, while at the same time helping to improve living standards of the time by producing fertilizer that increased crop yields. Since the Company's founding, making valuable contributions to society while seeking to increase profits has been one of Sumitomo Chemical's most cherished business principles.

CSR, which stands for "corporate social responsibility," has been gaining considerable attention in recent years. Earning the trust and confidence of society through its CSR initiatives constitutes the cornerstone of Sumitomo Chemical's business activities as it works to become a truly global chemical company. Reaffirming the spirit in which it was founded, the Company formulated anew its "Basic CSR Policy" in November 2004, which forms the basis for the various initiatives the Company is currently undertaking.

The Company will step up its efforts to promote CSR-based management for the benefit of individuals, society, and the Earth by working to achieve a careful balance of activities that seek to achieve economic viability, promote preservation of the environment, assure safety, and product quality, and also serve the interests of society.

Aiming for Greater Profitability

While prices for raw materials and resources continued to rise sharply worldwide during fiscal 2005, marketing drives, successful price increases and streamlining efforts helped propel the Company's sales and profits to record highs. We are pleased that the Sumitomo Chemical Group is posting strong growth in performance in this challenging business climate.

In addition to achieving record performance, the Company has been successfully paving the way to future growth through several major projects at home

and overseas. The largest of these projects is the Rabigh Project for the construction of an integrated refining and petrochemical complex in Rabigh, Saudi Arabia. In August 2005, we signed the joint venture agreement with our partner, Saudi Aramco, and held the groundbreaking ceremony for the complex in March 2006.

The Company's pharmaceutical subsidiary, Sumitomo Pharmaceuticals Co., Ltd. merged with Dainippon Pharmaceutical Co., Ltd. in October 2005 to form the newest member of the Sumitomo Chemical Group, Dainippon Sumitomo Pharma Co., Ltd. which now ranks among Japan's top ten ethical pharmaceuticals companies.

The fundamental strategy that guides our R&D is the concept of "Creative Hybrid Chemistry." By integrating core technologies from each Business Sector and through outside partnerships, we are working to develop new products and novel technologies that are useful and beneficial to society.

Working toward Sustainable Chemistry throughout the Sumitomo Chemical Group

With the enactment of the Kyoto Protocol in February 2005, industrialized countries that ratified the Protocol have committed themselves to continuing to reduce emissions of greenhouse gasses, and requirements for the safer use of chemical substances are becoming stricter worldwide.

Sumitomo Chemical has long conducted numerous voluntary Responsible Care activities aimed at preserving the environment, and assuring safety, health, and quality throughout the life cycles of products it manufactures or supplies. In addition, the Company has strongly encouraged other Group companies to engage in similar activities. In 2005, we further strengthened our Responsible Care activities by signing the Responsible Care Global Charter, a global initiative to promote the sound management of chemical substances.

Furthermore, not limiting itself to the concept of Responsible Care, the Company actively promotes Sustainable Chemistry, which is another initiative to

raise the economic added value as well as the value and benefit to society of the chemical products it supplies. We are actively advancing Sustainable Chemistry as an integral component of our CSR activities that is essential to our further development as a future-oriented chemical company.

Developing CSR Activities Unique to Sumitomo Chemical from a Global Perspective

The Company is supporting development in Africa through supply of its proprietary Olyset Net mosquito nets to the Roll Back Malaria Campaign led by the World Health Organization. We have substantially increased our production capacity for these nets, which, along with our donation of 330 thousand Olyset Nets to the US NGO, Millennium Promise, is contributing to the control of malaria-carrying mosquitoes, thereby preventing malaria infection in Africa and elsewhere in the world. In addition, the expansion of our local production operations is creating many employment opportunities in Africa. We are also supporting education through the construction of primary-school facilities in Africa, devoting a portion of the revenues from our Olyset Net business to help finance the construction. These activities have won high acclaim from the governments of each of the countries involved, the UN and WHO, and other international organizations and NGOs.

Going forward, the Company will continue to pursue CSR activities from a global perspective, leveraging the strengths that are unique to Sumitomo Chemical.

During the course of the past year, the Company has been making steady progress in its CSR initiatives in all three of the spheres essential to CSR, namely the economic, environmental and social spheres. We will continue to provide even more new technologies and products that have the potential to improve standards of living, while at the same time we contribute to finding solutions to the pressing problems facing society and the global environment. Through these efforts, we will promote the further growth of the Sumitomo Chemical Group as we work toward becoming a truly global chemical company with distinctive strengths in every aspect of its business operations.

In this report, we have endeavored to take a global perspective in presenting a broad picture of our CSR activities that aim to develop us into a truly global chemical company.

Hiromasa Yonekura
President of Sumitomo Chemical

米倉弘昌



Realizing Sustainable Chemistry

Sumitomo Chemical combines its technological expertise cultivated over many years in a wide range of businesses that include petrochemicals, pharmaceuticals and agricultural chemicals in the life sciences, and the IT-related field. The Company concentrates on the development of products that are essential to the enhancement and safety of people's lives as well as industrial growth, and also on the development of environmentally friendly processes.

● Green Processes and Green Products

Valuable resources and energy are required for the manufacture of chemical products. Processes sometimes produce unwanted byproducts and may also generate waste or hazardous substances.

Sumitomo Chemical calls processes that minimize environmental impact or eliminate it entirely Green Processes. Such processes not only reduce the waste released by manufacturing plants, but also eliminate harmful or unnecessary substances from the start.

Likewise, Green Products are products that are more environmentally friendly, safer and better for the health than other products used for similar purposes.

Sumitomo Chemical aims to realize sustainable chemistry by reducing environmental impact through the use of Green Processes and the production of Green Products.

● Organic Electroluminescence Polymers (PLEDs)



(Energy Conservation)

Polymer light-emitting diodes (PLEDs) are expected to replace liquid crystal display (LCD) technology in ultra-thin panel displays. Compared to LCDs, the luminescent materials being developed by Sumitomo Chemical using PLEDs have the advantages of (1) self-luminescence that eliminates the need for a backlight; (2) the ability to view from wider angles; and (3) superior contrast for improved visibility. Furthermore, these materials are capable of displaying images at lower voltages than conventional displays.

In addition, PLEDs can be manufactured using an ink jet printing process that is more efficient than the complex processes required for small-molecule luminescent materials.



Organic EL display

Research & Development

- Developing high-performance catalysts with unprecedentedly high performance
- Designing high-quality, highly functional ecologically sound products
- Developing production processes that conserve energy and resources, and reduce environmental impact



Tsukuba Research Laboratory

● Polypropylene for Foam Molding



(Lightweight)



Car door panel



Cross section of foam product

Energy
(electricity, gas, fuel)

Resources
(water, raw materials, etc.)

Consumption

Reduction of amount consumed

● Proprietary Propylene Oxide-Only Process (PO-Only Process)



(Green Process)

Our proprietary PO-Only process developed in-house is a compact and energy-efficient process that enables the production of propylene oxide without producing by-products. In addition to being highly economical, it does not generate wastes containing chlorine or waste water that are co-produced in the conventional process.



PO-Only plant

- (Conserves Energy)
- (Recyclable)

Polypropylene is used widely for automotive parts but is extremely difficult to produce as a foam with conventional technology. Development of the resin itself as well as improvements in processing methods have made it possible to produce polypropylene foam. This material is contributing to lightweighting in an automotive industry that is moving increasingly toward the production of highly fuel-efficient vehicles. It can also be recycled in the same way as ordinary polypropylene.

● Visible Light-Responsive Photocatalysts

- (Conserves Resources)
- (Healthy)

Visible light-responsive photocatalysts respond to both ultra-violet light and visible light to break down surrounding organic matter, inhibiting the deposition of dirt. They are used to break down volatile organic compounds (VOCs) and eliminate odors from the interior of buildings.



A window blind incorporating visible light-responsive photocatalysts

● OLYSET NET—Mosquito Nets for the Prevention of Malaria

- (Safe)
- (Healthy)

Our OLYSET NET is made using Sumitomo Chemical's proprietary technology for impregnating the mosquito netting fibers with insecticide and is used to protect against mosquitoes that carry malaria. The insecticide is gradually released from within the fibers and retains its effectiveness for over five years, even with repeated washings.



OLYSET NET

Reducing Environmental Impact & Improving Safety

Production

Green Processes

Use of Products

Chemicals, resins and rubber, pharmaceuticals, agrochemicals, IT components, automotive components, raw materials for synthetic fibers, etc.

Clean Products

Waste

Wastewater
Waste gas
Solid waste

Processing Facility

- Energy conservation
- Resource conservation
- Increased recyclability
- Low environmental impact

Reducing environmental impact with the goal of zero emissions

Working toward eliminating the need for such facilities

● Lano Tape Pesticidal Adhesive Tape

- (Safe)

Lano Tape is an adhesive tape that incorporates a pesticide using lano, an insect growth hormone, as its active ingredient and enables the control of harmful insects without the need to spray pesticides. Insects are attracted by the tape's yellow color and are killed by the pesticide when they come in contact with it.



Lano Tape

● Sumitomo S-SBR Styrene Butadiene Rubber

- (Conserves Energy)
- (Conserves Resources)

Sumitomo S-SBR makes possible a wide range of polymer designs and is used for tire treads, where it contributes to increased fuel efficiency and longer useful life.



Automotive tire

● Sumifix HF Environmentally-friendly Dye

- (Conserves Resources)
- (Reduces Waste)

Sumifix HF is a type of dye that reacts with the fibers themselves. Because it exhibits a high degree of effectiveness in the dyeing process using only small amounts of inorganic salts, it contributes to reductions in both the coloring of wastewater and the amount of organic salts discharged from dyeing factories.

● Hydrochloric Acid Oxidation Process

- (Green Process)

Chlorine is generated as a by-product in the production of caustic soda (sodium hydroxide). Therefore, until now the amount of chlorine produced has been determined by the demand for caustic soda. Sumitomo Chemical's hydrochloric acid oxidation process, however, enables the low-cost production of chlorine from excess hydrochloric acid generated in other processes. This not only makes possible the effective use of waste products, but also makes possible the stable supply of chlorine. In addition, this process is considerably more energy-efficient than conventional processes.

● Vapor-Phase Caprolactam Process

- (Green Process)

This is a new process for the production of caprolactam, the raw material for nylon-6. The major advantages of this process are that it produces no ammonium sulfate, a by-product produced in large quantities by the conventional process; it reduces the amount of raw material required; it shortens the entire production process; and uses a safer catalyst.

● Electrolytic Cell-Controlling Process

- (Green Process)

Sodium electrolysis is an energy-intensive process whereby caustic soda (sodium hydroxide), chlorine and hydrogen are produced from seawater by means of electrolysis. The cost of electric power makes up a relatively large part of the total production costs, making reductions in power consumption one of the major challenges of this process. Sumitomo Chemical has introduced a transient operation support system developed in-house and an advanced control system to regulate this process. This has stabilized operation of the process and has achieved considerable reductions in consumption of electric power. Furthermore, the Company's investment in these facilities was relatively small, making operation of the facilities highly cost-effective.

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

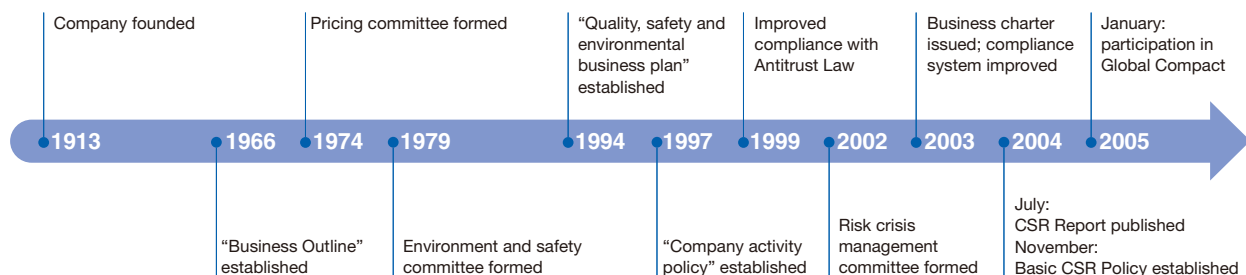
Sumitomo will act with foresight and flexibility to cope with changing times. Under no circumstances, however, will the Company pursue easy gains or act imprudently.

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 scan-

dals 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



Economic aims

Becoming a highly profitable company

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.

P57



Responsible Care

Eliminating accidents and injuries

Eliminating accidents and injuries by making safety top priority

P37

Assessing and reducing environmental impact

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

P22

Improved environmental and safety technologies

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

P31



Society

Strict compliance

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

P10

Expanding social activities

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

P51

Dialogue with stakeholders from a global perspective

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

P51,56

CSR Promotion

Sumitomo Chemical has established a company-wide Provisional CSR Promotion Coordinating Board to promote CSR activities (the Board met twice in fiscal 2005). This Board includes representatives from each department and division, overseeing liaison and coordination of relevant activities and compiling company-wide CSR implementation plans. The Provisional Coordinating Board is operated jointly by the General Affairs Department, the Corporate Communications Department, and the Responsible Care Office.

CSR activities involve first the establishment by individual departments of detailed proposals for initiatives based on the targets for key medium-term initiatives (see page 8 for details). These detailed proposals are then reviewed by the Provisional CSR Promotion Coordinating Board to determine priority before departmental implementation. The Provisional CSR Promotion Coordinating Board confirms the status of implementation in individual departments, summarizing its findings in an annual CSR report (such as this one) for interested outside parties.

Corporate Governance

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

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

● Management Structure

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

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

● Internal Auditing Structure

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

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

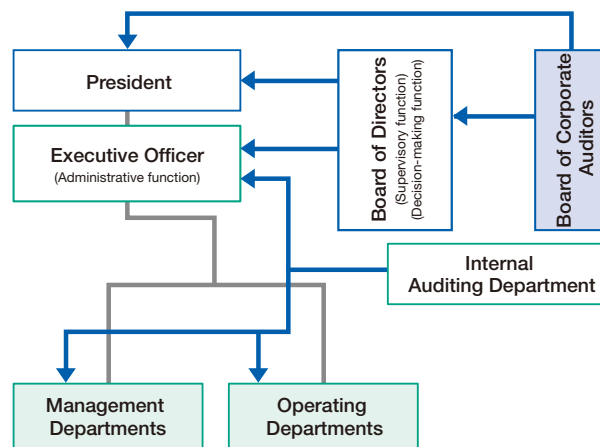
● Timely Disclosure

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

● Defining the Basic Policy to Enhance our Internal Control System

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

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.

Each of the Sumitomo Chemical Group Companies both in Japan and overseas is also required to adopt comparable compliance programs, reflecting the laws and regulations of the country where it operates.

● Sumitomo Chemical Charter for Business Conduct

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

In addition, all employees and



Sumitomo Chemical Charter for Business Conduct

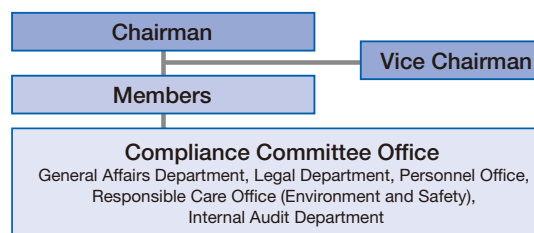
1. We will respect Sumitomo's business philosophy and act as highly esteemed good citizens.
2. We will observe laws and regulations, both at home and abroad, and will carry out activities in accordance with our corporate rules.
3. We will develop and supply useful and safe products and technologies that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

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

● Sumitomo Chemical's Compliance System and its Organization

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

Compliance Committee Organization



● Speak Up System

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

Employees may report either to the Compliance Committee or to an outside attorney retained by the Company. In either case, the actual investigation is carried out by the Compliance Committee, while reporting to an outside attorney allows the informant's name to be withheld from the Compliance Committee.

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

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

Participation in the UN Global Compact

In a first for a Japanese chemical company, Sumitomo Chemical announced in January 2005 that it would participate in the Global Compact advocated by United Nations Secretary-General Kofi Annan. As it expands its business globally, Sumitomo Chemical will comply with the ten principles of the Global Compact, augment its activities

while networking with the UN and other institutions, and report on the status of its efforts through this 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.

COLUMN

The Global Compact

The United Nations Global Compact is a program that aims to make better global citizens of participating companies worldwide through the implementation of ten principles in four categories: human rights, labor, the environment, and anti-corruption activities. Companies will engage as global citizens in voluntary efforts in concert with United Nations organizations, labor organizations, and NGOs to resolve various issues stemming from economic globalization.



UN Global Compact website
<http://www.unglobalcompact.org/>

● Background to Participation in the UN Global Compact

Participation in the Global Compact is a manifestation of our Company's policy of building global networks with a wide spectrum of international organizations and actively pursuing CSR activities in keeping with the Company's founding principles.

Initiatives such as our malaria eradication efforts involving our OLYSET NET mosquito nets reported on in the Highlights (page 13) reflect our Company's history and philosophy of contributing to society through chemical and technological innovation.

● Contributing to Society through Our Core Business

The spirit of the Global Compact is very much in harmony with our own founding principles, and thus our participation in the Global Compact by no means represents a radically new undertaking. We believe it important that

each and every employee be closely connected with his or her community and that our business benefit not only the Company itself but also society as a whole.

In response to requests from the World Health Organization (WHO) and other organizations, we have expanded annual production of our OLYSET NET mosquito nets from 5 million to 20 million, and have provided production technology to local communities in Africa. United Nations organizations have encouraged us not to ignore costs, but to pursue an appropriate level of profit, acknowledging the importance of profits to sustaining this business. We will endeavor to ensure a steady supply of products, giving due consideration to the principles on human rights, labor, and the environment enumerated in the Global Compact.

COLUMN

Cooperation in Global Citizens Summit

Sumitomo Chemical served as a special sponsor of the "Global Citizens Summit Leaders Forum—What We Can Do for a Sustainable Society" hosted on November 28, 2005 by the United Nations Information Centre and others to commemorate the United Nations' 60th anniversary.

The keynote address by Klaus Leisinger, Special Advisor to the UN Secretary-General, was followed by panel discussions among Global Compact participant companies that included consideration of CSR issues for Japanese companies pursuing further globalization and exchanges on CSR activities being implemented by individual companies.



Panel discussion



Commemorative forum pamphlet



Fiscal 2005 Highlights



Improving Health and Education in Africa – Sumitomo Chemical's Aid to Africa

OLYSET NET Helping to Prevent Malaria

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

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

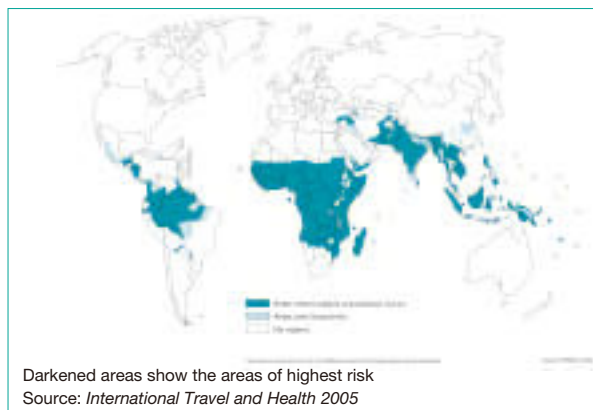
OLYSET NET's effectiveness has been acknowledged by the WHO, and these nets are widely supplied to Africa and other locations. We have also provided OLYSET NET production technology free of charge to a Tanzanian mosquito net manufacturer, thereby creating employment for approximately 1,000 local residents.



Local OLYSET NET factory in Tanzania

* 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."

Malaria Danger Zones Worldwide



Announcing Participation in UN Projects

In March 2006 Sumitomo Chemical announced that it would be donating approximately 330 thousand OLYSET NET mosquito nets to the US nonprofit organization Millennium Promise. Organized through the cooperation of international institutions with the aim of eliminating extreme poverty in Africa in accordance with the UN's Millennium Development Goals (see Column on page 14 for details), this NPO will select a total of 112 model villages in Tanzania, Kenya and eight other countries and seek to provide them with comprehensive support, including agricultural technology, foodstuffs, medical care, and education.

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



Millennium Promise website:
<http://www.millenniumpromise.org>

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

Sumitomo Chemical has joined with the global NGO World Vision to provide elementary schools and other educational support to children in Africa, where serious poverty issues have drawn international attention.

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

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



School construction



An old wooden schoolhouse used as an elementary school in Kenya. Drafts blowing in stir up dirt on the floor, covering the classroom in a layer of white dust.



Schoolhouse built by World Vision

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Poverty and Disease in Africa and the UN Millennium Development Goals

The issue of poverty, and above all the critical situation in Africa, has been the focus of much international attention in recent years. One billion people worldwide presently live on less than one US dollar per day—the definition of extreme poverty—and more than 300 million of them live in Sub-Saharan Africa, where about half of the population is said to suffer from extreme poverty.

The United Nations has created a list of Millennium Development Goals stipulating numerical targets to be achieved by 2015 in eight areas, eradicating extreme poverty and hunger, and combating HIV/AIDS, malaria and other diseases being prominent among them.

Millennium Development Goals (MDGs)

Goals for humanity to achieve by 2015

- 1: Eradicate extreme poverty and hunger
- 2: Achieve universal primary education
- 3: Promote gender equality and empower women
- 4: Reduce child mortality
- 5: Improve maternal health
- 6: Combat HIV/AIDS, malaria and other diseases
- 7: Ensure environmental sustainability
- 8: Develop a global partnership for development

Implementing the Rabigh Project in Saudi Arabia

Sumitomo Chemical and the Saudi Arabian Oil Company (Saudi Aramco) have formed a fifty-fifty joint venture company in the Saudi Arabian city of Rabigh-Rabigh Refining and Petrochemical Company (Petro-Rabigh)-and together have undertaken a project (Rabigh Project) to build one of the world's largest integrated refining and petrochemical complexes. Construction of this complex will also involve the transfer of energy and environmental conservation technology on par with that used in Japan.

This project calls for the construction of a new secondary processing unit for gasoline production at Saudi Aramco's Rabigh topping refinery on Saudi Arabia's Red Sea coast, which has a nominal crude distillation capacity of 400 thousand barrels per day, erecting new ethane-based and fluid catalytic crackers (FCC), and constructing a new production plant for ethylene and propylene derivative products, particularly polyolefins such as polyethylene and polypropylene. These facilities are scheduled for completion in the third quarter of 2008.

This project will contribute to the diversification of Saudi Arabia's industrial sector, generate employment, and support sustained economic development through the expansion of downstream industries. Relations between Japan and Saudi Arabia are expected to grow even closer as a result.



Representatives from each company and government officials in the groundbreaking ceremony (March 2006)

Endorsing and Implementing the RC Global Charter

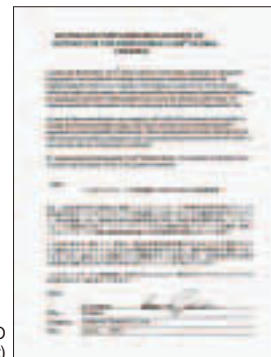
In January 2006, Sumitomo Chemical's CEO declared the Company's firm commitment to the Responsible Care (RC) Global Charter drafted by the International Council of Chemical Associations and supported by Kofi Annan, Secretary-General of the United Nations, and made known its intent to implement the same.

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

In view of this Declaration, the RC Global Charter offers common guidelines for voluntary steps by the chemical industry to review its Responsible Care (RC)

activities and to implement and further strengthen the management of chemical substances.

As of the end of April 2006, the CEOs of 92 companies worldwide, including the Dow Chemical Company and Shell Chemicals as well as Sumitomo Chemical and five other Japanese companies, have signed the RC Global Charter and are enthusiastically promoting its implementation.



Document signed by CEO
(Declaration of Support)

Environmental Communication in Chiba: Environmental Dialogue Meeting

In February 2006, Sumitomo Chemical held the first environmental dialogue meeting for Chiba Prefecture and the two cities of Ichihara and Sodegaura. The Company's Chiba Plant served as the meeting venue, and representatives from community associations and local companies as well as government officials were among the 100 or so participants.

This meeting offered an opportunity to exchange views on Sumitomo Chemical's environmental conservation activities and on environmental efforts by the prefectural government, and to encourage community-wide efforts to reduce the environmental risks posed by chemicals.

After tours of facilities connected with environmental conservation, including plant facilities for processing wastewater and chemical substances, the Company briefed participants on its basic chemical management policies, emission and transfer volumes, the results of risk assessments, and measures taken to reduce emissions. The prefectural government then offered a presentation on future policies governing chemical management. These were followed by lively exchanges on the handling and disposition of chemicals, disaster response and other matters by experts in risk communication, environmental NPOs, university students, chemical advisors, and local officials.

Sumitomo Chemical will pursue further sharing of information and mutual understanding on environmental risk reduction through future dialogues to enhance and promote environmental communication.



Environmental Dialogue Meeting



Plant tour

Winner of Encouragement Award, Eco-Efficiency Awards 2005

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

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

This Encouragement Award in the Corporate Performance Division signifies appreciation for the approaches taken by Sumitomo Chemical as a whole. More specifically, this award was presented for the introduction of an environmental efficiency indicator for use at individual facilities based on the JEPIX* methodology as described in the 2005 CSR Report, and for the development of product-specific CO₂ emission rate management methods to address the pressing issue of reducing CO₂ emissions.

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

The product-specific CO₂ emission rate management methods developed by Sumitomo Chemical complement traditional approaches to reducing CO₂ emissions at individual facilities by making it possible to propose product-specific reduction plans grounded on an assessment of the emission volumes for each product and to construct mechanisms for achieving reductions more effectively and efficiently.

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



Eco-Efficiency
Award Ceremony

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.



Discussion: Improving Responsible Care Activities and Ensuring Their Transparency

In the following discussion, Yasuo Tanaka, Chief Director of the Responsible Care Verification Center at the Japan Responsible Care Council (JRCC), and Yasuyoshi Shiozaki, General Manager of the Responsible Care Office share their thoughts on improving RC activities and ensuring their transparency.

The Current State of RC and RC Verification

Shiozaki: Sumitomo Chemical began conducting RC activities in 1995, so we celebrated their tenth anniversary last year. We've been involved in RC verification since the days of the pilot project, and I think enhancing the transparency of RC activities will continue to be important.

Tanaka: The JRCC has 103 companies as members, and 23 of them have already had their RC activities verified. There are two types of verification: the verification of written reports, and the verification of RC activities. Thirteen companies have had their written reports verified, and 16 have had their activities verified, so some companies have been doing both.

Shiozaki: What's the difference between the verification procedure and ISO 14001?

Tanaka: With our verifications, two people examine the same items to eliminate bias. And unlike ISO 14001, the aim is to conduct a "how to" examination. To be more specific, our attitude is that improvements that occurred without taking any action are unacceptable. But if action was taken that ended up making things worse, this shouldn't be viewed as a bad thing.

Shiozaki: RC activities are basically voluntary, so what do you see as the significance and purpose of verifying them?

Tanaka: Yes, they are voluntary. And if we ask ourselves who it is that ultimately evaluates voluntary activities, the answer is the public. So our verifications are aimed at helping the public make their own evaluations. Another goal is to help our member companies raise the performance of their RC activities. I think that these are the two purposes of our verifications.

Shiozaki: Fiscal 2005 saw a lot happen in the field of chemicals management around the world. The Strategic Approach to International Chemicals Management (SAICM) was adopted in February 2006, while the RC Global Charter, which is aimed at facilitating the realization of the SAICM and incorporates the Global Product Strategy (GPS), was also unveiled (see page 15 for details). In addition, the Japan Chemical Industry Association announced its new Basic Policy on the Environment and Safety.

Tanaka: And at the JRCC, we're implementing an initiative called Capacity Building, which provides essential educational support to enable the Asian chemical industry to carry out RC activities. We've already conducted sessions in Thailand, the Philippines, and Vietnam, and because we've also received requests from other countries in Asia, we intend to expand this initiative.

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Responsible Care (RC) Verification

This is a verification system that was launched by the Japan Responsible Care Council (JRCC) with the aim of raising the quality of member companies' RC activities, ensuring public accountability for these activities through verification and disclosure, and raising the reliability of RC activities. The verification of RC activities began in 2002, and that of written reports in 2003. Verifications are carried out by the independent Responsible Care Verification Center.



Shiozaki: Our Group company in Singapore has also started conducting RC activities, and the Capacity Building sessions that JRCC came and delivered there have produced real results. I get the impression that enthusiasm for RC is really mounting in Asia.

Tanaka: You're absolutely right. As well as teaching the nuts and bolts of RC implementation, we also give advice on how to turn the results of RC activities into good PR, as well as stressing the importance of verification. As a result, we've received lots of thanks in all the countries we've been to.

The Future Direction of RC Activities and Verification

Shiozaki: The RC Global Charter emphasizes the importance of accountability, and the Japan Chemical Industry Association's new medium-term RC activity plan mentions the "exercise of accountability through proper verification activities." Verification obviously plays a crucial role in the exercise of accountability, but how do you think accountability and RC verification are related?

Tanaka: To start with, I think it's useful to think about what Responsible Care actually is. Responsible Care is based on three principles. The first is to do what is ethically right voluntarily at every phase of the chemical life cycle, the second is to take preventive action, and the third is to respect the public's right to be informed.

Voluntary activities are conducted by individual companies, so the aim of verification is to help protect the public's right to know by finding out whether a company is actually doing what it says it's doing.

Preventive action, meanwhile, should be based on scientific evidence. While this evidence need not be watertight, we do want to see scientific evidence of some kind, even if it isn't perfect. I think the public demands it, because more and more people have enough knowledge of science to understand what levels of chemicals are safe, the hazardous nature of chemicals, and whether certain chemicals constitute risks.

It's important to build a relationship of trust with the

public by regularly disclosing information and engaging in communication with them.

Enhancing the Public's Understanding Through Communication

Shiozaki: On the subject of communication, Sumitomo Chemical makes a continuous effort to nurture understanding by attending environmental meetings and RC-related regional dialog sessions.

Tanaka: I think it's fantastic that your company conducts its regional dialog sessions at the plant level, getting each plant to produce a report and then presenting it to the public. If this practice spreads to other companies inside and outside your corporate group, it will help deepen the public's understanding.

Last year the JRCC marked the tenth year of RC by producing, with the help of our member companies, a DVD to explain RC activities to the general public. I hope it gets played in all kinds of places. There's an English version, too, and its been very well received.

Shiozaki: There's a need for risk communication, which means nurturing relationships of trust by joining meetings and taking advantage of opportunities to communicate. And I think this communication needs to be based on what you're doing in your own backyard, in other words the way you take pride in the RC activities you're engaged in.

Tanaka: That's right. RC activities are voluntary activities, so one's own beliefs are obviously important. At the same time, however, it's important to listen to opinions from various quarters. I think it's great that your company listens to the views of lots of different outsiders: the Verification Center, auditors, the public, local governments, and so on.

Shiozaki: Thank you very much. The Sumitomo Chemical Group will continue conducting RC activities and seeking their verification in the future. But anyway, thank you very much for giving us your time today.



Yasuyoshi Shiozaki,
General Manager of the Responsible Care Office,
Sumitomo Chemical Co., Ltd.



Yasuo Tanaka,
Chief Director of the Responsible Care Verification Center
at the Japan Responsible Care Council (JRCC)

Responsible Care Management

Sumitomo Chemical has created a management structure for its activities based on the concept of Responsible Care to implement effective measures for 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 Safety, Environment, and product Quality

On November 1, 2005, Sumitomo Chemical unveiled its Corporate policy on Safety, Environment, and product Quality. This new policy replaced the Corporate Policy on Product Quality, Safety, and the Environment, introduced on April 1, 1994. In addition to the name change, the content has been revised to reflect our basic principle of making safety top priority.

Furthermore, in response to major external events such as the establishment of the RC Global Charter by the International Council of Chemical Associations (September 2005), and a fundamental revision of the Japan Chemical Industry Association Basic Policy on the Environment and Safety by the Japan Chemical Industry Association (November 2005), we made sweeping changes to our Policy for Responsible Care Activities on

March 2, 2006. These changes were aimed at combining the Policy for Responsible Care Activities (established in January 1995) and the Policy for Quality Assurance Activities (established in November 1994) into a single document.

The content of the Corporate policy on Safety, Environment, and product Quality and the Policy for Responsible Care Activities is distributed to all employees as a pocket booklet about the size of a diary. We encourage everyone to be aware of the policy, comply with the law, and make continuous efforts to improve performance.

Corporate policy on Safety, Environment, and product Quality

Revised: November 1, 2005
(Established: 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. With the concept of "Making Safety First Priority" being fundamental to all the Company's operations, Sumitomo Chemical has based the management of its activities on the principles of (i) maintaining "zero-accident and zero-injury operations," (ii) ensuring "customer satisfaction," 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 safety, the environment and product quality.

1. To maintain zero-accident and zero-injury operations and the safety of neighboring communities and our employees
2. 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
3. To supply high-quality products and services that satisfy customers' needs and ensure safety in their use
4. To assess and reduce environmental impact at all operational stages, from product development to disposal, and to undertake all practical environmental protection measures

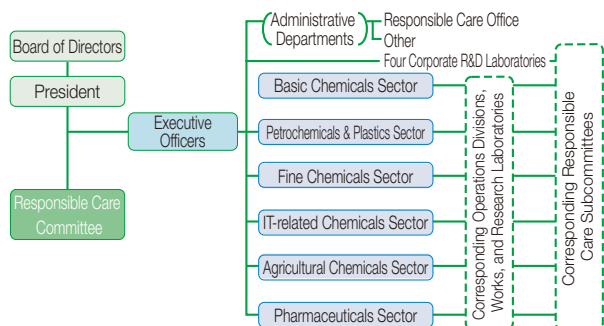
All sections and employees of our Company shall be fully aware of the significance of this policy and shall always strive to improve operational performance while, of course, abiding by all relevant laws, regulations, and standards.


Hiromasa Yonekura, President
Sumitomo Chemical Company, Limited

● Organization of Responsible Care Activities

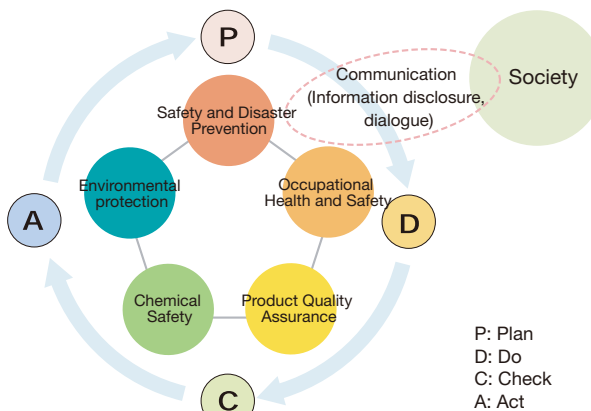
The Responsible Care Committee (RC Committee) was established to promote comprehensive, efficient Responsible Care initiatives with a long-term perspective. The RC Committee consists of the chairman, directors in charge of the Company's six business sectors, directors in charge of the administrative 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



PDCA for Responsible Care Activities

Sumitomo Chemical's Responsible Care activities can be broadly classified into five fields: environmental protection; safety and disaster prevention; occupational health and safety; product quality assurance; and chemical safety. And by repeating the PDCA cycle for all the Company's Responsible Care activities, we strive to improve the performance of these activities.



Policy on Responsible Care Activities

Revised: March 2, 2006
 (Established: January 1995)

Responsible Care Committee

In accordance with the Corporate Policy on Safety, Environment and Product Quality, Sumitomo Chemical will actively strive to promote responsible care activities in developing our business, and will also do its utmost to achieve sustainable development and earn the trust of society.

- 1) We will achieve our zero-accident, zero-injury targets to ensure stable operations.
- 2) We will conduct risk management throughout the life cycle of our products, including development, manufacturing, transport and disposal, and strive to conserve the environment, as well as to ensure the safety and health of our employees as well as that of the local community.
- 3) We will comply with domestic and international laws and standards relating to safety and the environment, and strive to meet even stricter targets than required by law.
- 4) We will promote both risk-reduction and accident-prevention from the perspective of product safety and quality.
- 5) We will promote energy and resource conservation and seek to reduce environmental impact.
- 6) We will implement the requisite education and training of our employees relating to safety, the environment and product quality, and will promote effective responsible care activities.
- 7) We will be mindful of the interest of both local citizens and regulatory authorities in terms of safety, the environment and product quality, and will fulfill our responsibility to provide information through dialogue.
- 8) We will evaluate the content of our activities and seek to implement improvements through responsible care audits pertaining to occupational health and safety, security and disaster prevention, environmental protection, chemical safety, product safety, and quality assurance.
- 9) We will support the responsible care activities of our group companies, contractors, and other business partners, including those located overseas.

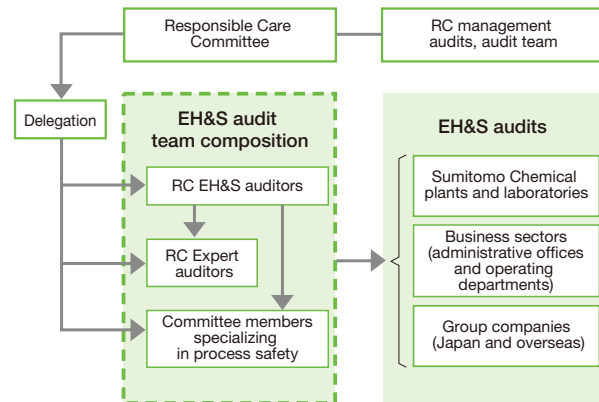
Auditing Framework

● Responsible Care Internal Audits

To continuously improve our RC activities, we conduct RC audits to verify the PDCA cycle.

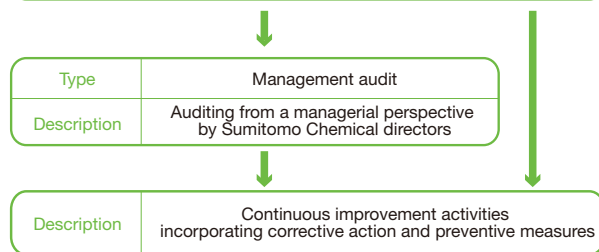
Sumitomo Chemical plants and laboratories are subject to two types of audits: (1) Environment, Health & Safety (EH&S) audits using specialized staff and advance evaluations using checklists; and (2) management audits involving RC committee members led by the head of Responsible Care, who acts as the audit team director. Environment, Health & Safety (EH&S) audits are also conducted at the operating departments of the head office and at Group companies in Japan and overseas.

RC Auditing Framework



Responsible Care Audits

Type	EH&S audits		
Field	Environmental audit	Health & Safety audit	PL audit
Description	Expert auditing of systems and operations		
Scope	Sumitomo Chemical facilities (works and laboratories)	Sumitomo Chemical business sectors, logistics centers, Group companies	



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● Fiscal 2005 RC Audit Results

A total of 29 audits were conducted, at plants and laboratories in Ehime, Chiba, Osaka, Oita, Misawa, Utajima, and Gifu; five business sectors; the Sakurajima logistics center; and 11 Group companies.



● A Review of Fiscal 2005 Audits

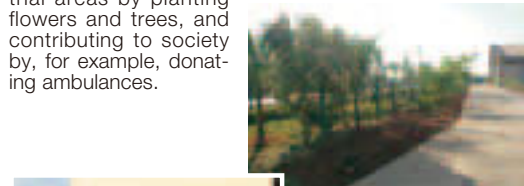
Our fiscal 2005 audits focused on evaluating efforts to strengthen legal compliance and completely eliminate accidents.

Although both Sumitomo Chemical itself and its Group companies are aggressively implementing RC activities and these activities are going well, we pointed out areas in which further improvements could be made. By ensuring that audit findings result in the implementation of corrective and preventive measures, we are aiming for continuous improvement.

● Audits at Overseas Group Companies

We conducted an RC audit at SCEAI (SC Enviro Agro India Private Limited), which manufactures agricultural chemicals, and confirmed that it was enthusiastically implementing RC and that its RC activities were being conducted to an extremely high standard.

We also discovered that, as part of its CSR activities, the company has been reducing the bleakness of industrial areas by planting flowers and trees, and contributing to society by, for example, donating ambulances.



Trees and flower beds



SCEAI employees with the audit team



An ambulance donated by the company

Results of Fiscal 2005 Responsible Care Activities

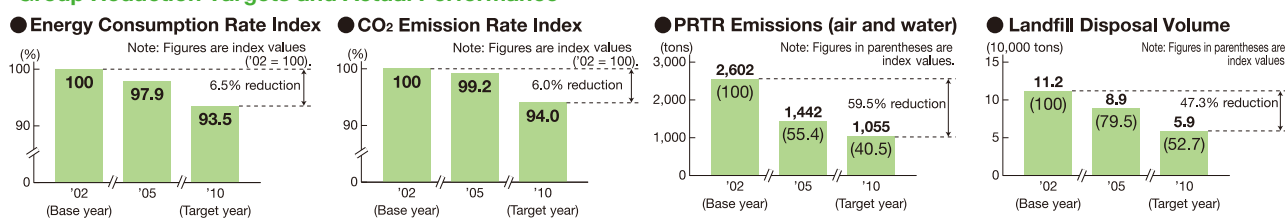
Sumitomo Chemical has set specific targets for its Responsible Care activities in the areas of environmental protection, safety and disaster prevention, occupational health and safety, chemical safety, product quality assurance, and audits. Highlights of Sumitomo Chemical's Responsible Care Activities in fiscal 2005 in environmental protection, safety, and quality assurance are presented below.

Follow-up on the Establishment of Shared Targets for the Sumitomo Chemical Group

The Sumitomo Chemical Group, while striving to raise productivity throughout the entire Group, is aiming to reduce the environmental impact of its activities. To this end, we have set shared targets to be met by fiscal 2010

(the target year) for energy-consumption and CO₂-emission rates, the volume of PRTR emissions, and the amount of waste disposed of in landfills, and are taking concerted action to meet these targets.

Group Reduction Targets and Actual Performance



Notes:

1. The targets for each category (for fiscal 2010) were determined by aggregating the targets set individually by Sumitomo Chemical and 17 domestic Group companies. (For more details, see pages 12 to 14 in the CSR Report 2006 Data Book.)
2. Because each company revised its targets in June 2006, the targets for the entire Group were also revised.

COLUMN



Finding Uses for Coal Ash

Tatsuhiro Arisawa
Supervisor
Technology and Planning Department
Sumitomo Joint Electric Power Co., Ltd.

Sumitomo Joint Electric Power Co., Ltd. owns three coal-fired power stations. They produce around 170 thousand tons of coal ash per year, which we dispose of in landfills. Our company has been given the task of finding uses for this ash in order to reduce the amount that ends up in landfills. In an effort to recycle the ash, we have established a dedicated team to identify and assess potential users.

As a result of our efforts, in fiscal 2005 the amount of coal ash finding uses was 93 thousand tons, around seven times the fiscal 2002 figure of 13 thousand tons. It is mainly finding applications in boards for construction, as an ingredient in cement (where it is used as a substitute for clay), and for civil engineering. Actually, in fiscal 2005 we began supplying coal ash for use in civil engineering to a new user.

Japanese demand for cement is declining, and domestic use of cement ingredients is unlikely to increase much in the future. We are therefore making efforts to export our coal ash to cement companies overseas.

We are going to continue to strengthen these efforts, and are forecasting a year-on-year increase of over 20 thousand tons in the amount of coal ash utilized in fiscal 2006. We will also try to reach our 2010 target of raising the rate of utilization of the coal ash we produce to 70%.



Reducing PRTR Emissions

Norimasa Nishiyama
Supervisor
Ehime Plant,
Nippon A&L Inc.

Our plant has been working to reduce the amount of acrylonitrile we release into the atmosphere since 1998, and we have continued to study ways of reducing these emissions since switching to PRTR-based management.

At our plant, acrylonitrile that did not react during the polymerization process used to be released into the air during the salt-ing-out and powder-making processes that followed. To start with, we studied ways of reducing the amount of acrylonitrile that does not react during the polymerization process. To reduce the emissions even further, we also looked at other things we could do. This culminated in the completion in October 2004 of an emission combustion and deodorization facility (of the regenerative combustion type). This facility cost 170 million yen and took seven months to build. The new facility helped reduce atmospheric emissions in the second half of fiscal 2004, and led to a substantial drop in such emissions in fiscal 2005.

We will continue to develop technology to reduce PRTR emissions in the future, with the aim of making our plant more environmentally friendly.

The combustion and deodorization facility



Primary Responsible Care Initiatives: Targets and Progress

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

	Theme	Goal	Measures Taken	Target		
Environmental protection	Sustainable management	Promotion of sustainable management throughout the Group	Reduction in the environmental impact of the Group's activities	Individual/Group		
	Global environmental protection	Prevention of global warming	Reduction in CO ₂ emissions	Individual		
		Prevention of ozone layer depletion	Reduction in CFC emissions	Individual/Group		
	Establishing a recycling-oriented society	Energy conservation	Improvement in energy efficiency	Individual		
		Waste reduction	Reduction in the amount of generated waste; promotion of recycling	Individual		
	Preservation of the living environment and prevention of health hazards	Water-use reduction	Improvement in efficiency of water use	Individual		
		Proper handling of PRTR* substances	Promotion of PRTR substance risk management	Individual		
		Volatile organic compound (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		
Audits	Continuous improvement of RC activities Strengthening of corporate governance	Use of audits to evaluate and improve RC activities Strengthening of compliance	Promotion of integrated RC activities and RC audits throughout the Group Determination of priority areas for auditing: Zero accidents, measures to strengthen compliance	Individual/Group		

* PRTR: System for recording the emission and movement of environmental pollutants. Stands for "Pollutant Release and Transfer Register."

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

Target	Performance in Fiscal 2005	Progress
<ul style="list-style-type: none"> Meet Group environmental protection management targets Study the possibility of introducing environmental efficiency training within the Group 	<ul style="list-style-type: none"> Conducted follow-ups to ensure targets will be achieved Aggregated environmental impact; introduced environmental efficiency training and evaluated its effectiveness 	●
<ul style="list-style-type: none"> Reduce CO₂ emission rate from fossil fuel for captive consumption by 10% relative to fiscal 1990 levels by fiscal 2010 	<ul style="list-style-type: none"> Reduced CO₂ emission rate by 5.5% relative to the previous fiscal year Target achieved by reducing CO₂ emission rate by 13.8% relative to fiscal 1990 	●
<ul style="list-style-type: none"> Reduce CO₂ emission rate by 6.0% relative to fiscal 2002 levels by fiscal 2010 	<ul style="list-style-type: none"> Reduced CO₂ emission rate by 0.8% relative to fiscal 2002 	■
<ul style="list-style-type: none"> Eliminate the use of refrigeration units that use specified CFCs as coolants by fiscal 2025 	<ul style="list-style-type: none"> Promoted systematic replacement of refrigeration units No coolant leaks occurred 	●
<ul style="list-style-type: none"> Reduce the annual energy consumption rate by 1% 	<ul style="list-style-type: none"> Reduced annual consumption rate by 2.5% relative to the previous fiscal year Reduced annual consumption rate by 15.4% relative to fiscal 1990 (110% target achievement rate) 	●
<ul style="list-style-type: none"> Reduce the energy consumption rate by 6.5% relative to fiscal 2002 levels by fiscal 2010 	<ul style="list-style-type: none"> Reduced consumption rate by 2.1% relative to fiscal 2002 	◆
<ul style="list-style-type: none"> Reduce landfill disposal volume by 85% relative to fiscal 1990 levels by fiscal 2010 Reduce the amount of red bauxite disposed of through sea dumping by 10% relative to fiscal 2000 levels by fiscal 2005 Cease the disposal of red bauxite through seas dumping by fiscal 2015 	<p>Landfill:</p> <ul style="list-style-type: none"> Reduced landfill disposal volume by 3.4% relative to the previous fiscal year (74.3% reduction from fiscal 1990) <p>Sea dumping:</p> <ul style="list-style-type: none"> Reduced sea dumping volume by 1.2% relative to the previous fiscal year (10.0% reduction from fiscal 2000-target achieved) Continued studying ways of promoting sustainable development of the aluminum products business and ceasing landfill disposal 	●
<ul style="list-style-type: none"> Reduce landfill disposal volume by 47.3% relative to fiscal 2002 levels by fiscal 2010 	<ul style="list-style-type: none"> Reduced landfill disposal volume by 21.0% relative to fiscal 2002 	●
<ul style="list-style-type: none"> Reduce water use rate by 25% relative to fiscal 1990 levels by fiscal 2010 	<ul style="list-style-type: none"> Improved water-use rate by 8.9% relative to the previous fiscal year (29.2% reduction relative to fiscal 1990-target achieved) 	●
<ul style="list-style-type: none"> Reduce total emissions (air and water) of substances subject to the PRTR Law by 50% relative to fiscal 2002 levels by fiscal 2010 	<ul style="list-style-type: none"> Reduced total emissions by 1.8% relative to the previous fiscal year (28.7% reduction relative to fiscal 2002) 	●
<ul style="list-style-type: none"> Reduce total emissions (air and water) of substances subject to the PRTR Law by 59.5% relative to fiscal 2002 levels by fiscal 2010 	<ul style="list-style-type: none"> Reduced total emissions by 12.2% relative to the previous fiscal year (44.6% reduction relative to fiscal 2002) 	●
<ul style="list-style-type: none"> Reduce VOC emissions by 30% relative to fiscal 2000 levels by fiscal 2010 	<ul style="list-style-type: none"> Total emissions increased by 15.9% relative to the previous fiscal year (10.5% reduction relative to fiscal 2000) 	■
<p>Keep hazardous materials strictly within Company premises and ensure careful management of these materials</p>	<ul style="list-style-type: none"> Soil contamination surveys, evaluations, and required improvements currently near completion Monitoring of groundwater near boundaries has confirmed levels of hazardous materials below those stipulated under environmental standards Continued monitoring of groundwater by Sumitomo Chemical 	●
<p>Promote the appropriate storage and recovery of PCB waste and complete PCB waste treatment by March 2014</p>	<p>Continued Company implementation of strict recovery and appropriate storage of PCB waste</p>	●
<ul style="list-style-type: none"> Eliminate accidents and serious problems 	<ul style="list-style-type: none"> Achieved target of zero accidents or serious problems 	●
<p>Eliminate all accidents resulting in lost workdays for employees of Sumitomo Chemical or its contractors/affiliate companies</p> <p>Frequency rate of lost-workday injuries: Less than or equal to 0.1</p> <p>Severity rate of lost-workday injuries: Less than or equal to 0.01</p> <p>Frequency rate of lost-workday injuries = (number of lost-workday injuries/man-hours) x one million</p> <p>Severity rate of lost-workday injuries = (number of lost-workdays/man-hours) x 1,000</p>	<p>There were three accidents resulting in lost workdays at Sumitomo Chemical and five at the companies of contractors/affiliate companies</p> <p>Sumitomo Chemical: Frequency rate of lost-workday injuries: 0.19</p> <p>Severity rate of lost-workday injuries: 0.006</p> <p>Affiliate companies: Frequency rate of lost-workday injuries: 0.53</p> <p>Severity rate of lost-workday injuries: 0.052</p>	■
<p>Eliminate major accidents</p>	<ul style="list-style-type: none"> Achieved target of zero major accidents Conducted process risk assessment and implemented safety measures Revised the long-term earthquake retrofitting plan Implemented disaster prevention assessment guidelines 	●
<p>Conduct various studies and risk assessments and enhance safety information related to Responsible Care of chemical products</p>	<p>Conducted surveys and risk assessments for 134 chemical products (these include health risk assessments of chemicals emitted into the atmosphere, environmental risk assessments for wastewater, occupational safety risk assessments of chemical substances handled by the Company, and consumer safety risk assessments of newly developed chemicals, etc.)</p>	●
<p>Promote advanced measures for the management of chemical substances</p>	<p>Sumitomo Chemical is actively involved in the Japan Challenge Program (officially called the "Government and Industry Cooperative Program for Gathering and Disseminating Safety Information on Existing Chemical Substances"), which started in June 2005.</p>	●
<p>Continue to implement Basic Measures to Prevent Serious Product Quality Problems</p>	<ul style="list-style-type: none"> Made the Policy to Prevent Serious Product Quality Problems more informative by incorporating case studies (both failures and successes) from inside and outside the Company. Implemented measures to raise quality awareness <ol style="list-style-type: none"> Solicited quality assurance slogans and displayed them at every site Established "quality prizes" 	●
<p>Review the systems and rules for RC audits to improve RC audits at Sumitomo Chemical and its Group companies</p>	<ul style="list-style-type: none"> Clarified the role of RC audits, strengthened their independence, and established company rules Strengthened and expanded audits of Group companies Strengthened and expanded compliance audits 	●

Group Company Initiatives

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

Dongwoo Fine-Chem Co., Ltd.

Since merging with two affiliates (Dongwoo Optical Materials and Dongwoo STI) in fiscal 2005, Dongwoo Fine-Chem has rewritten its relevant company-wide regulations. We have constructed an operational structure based on the laws and regulations governing the management of hazardous chemicals, which have become stricter in recent years. In addition, to ensure compliance with laws and regulations concerning RoHS green purchasing and strategic materials, we have put together operational structures for each of our sites. At present, we are studying operational benefits, procedures, etc. and exploring the possibility of deploying electronic systems for matters related to laws and regulations wherever this is possible.

In addition, we have had a Responsible Care committee since before the merger of the company with the two affiliates, and this committee had met three times before 2006. We also set company-wide annual targets for safety, utility, and reductions in the amount of waste we generate.

We are also implementing a quality-cost initiative, involving workshops for frontline managers and supervisors to provide them with specialized education concerning cost of quality. Moreover, to ensure the aggressive imple-

mentation of the quality-cost initiative, we have set up and deployed a T.F. team. We are also collecting monthly data on costs for failed cases, and continuously looking for matters that can be improved.



Pyongtaek Plant



Lee-Jong Min
RC Team Manager, Technology Division
Dongwoo Fine-Chem Co., Ltd.

Shinto Paint Co., Ltd.

Shinto Paint Co., Ltd.'s business mission is to "use the production of paint to protect materials and create rich, colorful, and refreshing environments that support comfortable living." And with a basic business policy of "protecting the global environment and coexisting with local residents," we are leveraging the expertise of all our employees to come up with activities for protecting the environment.

Although the function of paint is to protect metals and other materials from corrosion or degradation, it is also ideal for creating soothing spaces in whatever color you choose. However, because the solvents in paint (which contain VOCs) are harmful to the environment, reducing the amount of these solvents in paint is an important task for us.

To tackle this task, the company has developed products such as water-based paints that hardly contain any solvents, and its product line-up now features environmentally friendly products such as water-based paints, powdered paints, solvent-free paints, which together account for over 82 percent of our sales, an outstanding ratio even by industry standards. However, to achieve an even higher ratio to—90 percent or more—we are work-

ing to deliver environmentally friendly paints that are high-quality, easy to work with, and low-cost.

In the area of production, the environmental task we're devoting extra special attention to is odor reduction. Most ingredients in paint are chemicals that emit odors. We have therefore tightly sealed our production facilities, installed ducts to take in volatile constituents and transfer them to treatment equipment, increased production of odorless products, and have taken steps to recover volatile constituents. In this way, we are working to ensure a comfortable living environment for local residents and safeguard the health of our employees.



Amagasaki Works



Masao Shikata
Manager Quality and Environment Department
Shinto Paint Co., Ltd.

Sumitomo Chemical Singapore Pte. Ltd.

Sumitomo Chemical Singapore Pte. Ltd. is the Sumitomo Group's largest producer of MMA, producing 130 thousand tons of MMA monomer and 50 thousand tons of MMA polymer every year.

RC declaration: This fiscal year, for the first time, we have integrated the safety and disaster prevention activities we have been engaged in until now and publicly issued a declaration concerning our RC activities. We have positioned safety and disaster prevention at the top of the list of the six RC activities we are conducting here in Singapore, and regard it as our most important task.

Joint drills with the SCDF: We always conduct a disaster drill once a month at one of our plants, and each year two of these drills are joint drills with the SCDF (Singapore Civil Defense Force).

TTE (table-top exercises): Before we conduct a disaster drill, we always hold a table-top exercise in which everyone takes part. We are therefore working to make workplace drills even more effective.

IPP (in-place protection): Once a year, we conduct a unique kind of drill called IPP. The rationale behind this exercise is that in the event of a major gas leak or terrorist attack, rather than waste time trying to evacuate, it would be safer to retreat to the central measuring instruments room, which is designed to be airtight.

As well as conducting disaster drills at the company

level, we also play an active part in the major evacuation drills conducted on Jurong Island.

Risk assessment: In addition to practicing what to do after a disaster, we aim to prevent disasters by employing the matrix method to conduct risk assessments of all processes. We are obliged to review the nature of these assessments annually, and submit a report to the Ministry of Manpower.

We are therefore continuing to take safety and disaster prevention measures, both in terms of facilities and training, to enable us react flexibly in emergencies.



MMA plant



Katsuo Baba
Technical and Coordination Manager
Sumitomo Chemical Singapore Pte. Ltd.

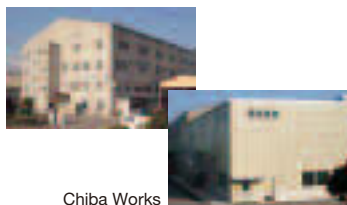
Sumika Color Co., Ltd.

Based on its business mission of "moving with the times and the changing needs of society, while taking pride in using work to contribute to improvements in living," Sumika Color Co., Ltd. is voluntarily and enthusiastically taking action to protect the environment in the manner demanded of a 21st century company. In 2003, we established the Sumika Color Co., Ltd. Environmental Policy based on the Corporate Policy on Product Quality, Safety, and the Environment, and have made continuous efforts to protect and improve the environment since then. In 2006 we obtained a combined ISO 14001:2004 certification for our three plants in Osaka (in Itami, Hyogo Prefecture), Tokyo (in Adachi, Tokyo), and Chiba (in Sodegaura, Chiba Prefecture).

Among our environmental protection activities, our most important task is to reduce greenhouse-gas emissions through energy conservation. To accomplish this task, we are renovating aging facilities (at the Osaka and Chiba works), concentrating facilities (at the Tokyo and Osaka works), using new technology to transform production methods (at all three plants), and so on. Through these efforts, we are hoping to achieve our target of reducing CO₂ emissions to or below the level they were in fiscal 1990 by fiscal 2010. In fiscal 2006, the introduction of a gas boiler at the Osaka works should reduce annual CO₂ emissions by around 300 tons, while a project to concentrate production of organic pigments at the Tokyo

works is expected to reduce annual CO₂ emissions by around 1,000 tons.

One of the basic policies in our Three-Year Corporate Business Plan is to reduce our use of resources. We are developing production technology to cut the use of resources and energy in production processes, and developing and marketing products that use less energy and have less of an impact on the environment when they are used. This has enabled our customers to use our products to achieve better environmental performance. Products that they have developed incorporate new technologies such as two-layer palettes and include additives for recyclable plastic food trays, organic pigments for organic-solvent-free products, and functional agents and coloring agents for vinyl-chloride-substitute and biodegradable resins.



Chiba Works



Yasuo Hattori
Quality, Environment, and Safety Promotion Office
Sumika Color Co., Ltd.

Environmental Impact and Environmental Accounting

Among its Responsible Care activities, Sumitomo Chemical places great importance on reducing its environmental impact and collecting basic 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*1

	Sumitomo Chemical Group	Sumitomo Chemical
Energy Electricity Gas/fuel (calculated as kL of crude oil)	thousands of kL 2,338	thousands of kL 1,549
Exhaustible resources Hydrocarbons Metals*2 (excluding rare metals) Rare metals*3	10,000 tons 321 14.3 0.022	10,000 tons 301 13.9 0.016
Water Industrial water Drinking water Seawater Groundwater Other water	millions of tons 1,254 72.0 1.1 1,145.7 33.7 1.5	millions of tons 702 64.9 0.5 604.5 30.6 1.5

INPUT

Sumitomo Chemical Group*4

Use of PCB/CFCs	Number of electrical devices containing PCBs	1,540	764	Number of refrigeration units using specified CFCs as coolant	90	44
	PCB volume	37.6m ³	33.9m ³			

OUTPUT

Output: Product Manufacturing and Environmental Impact

Products*5 (calculated on the basis of ethylene production)	10,000 tons 246	10,000 tons 167
Water pollutant emissions	tons	tons
COD	1,993	1,473
Nitrogen	2,504	2,007
Phosphorous	70	63
Substances covered by PRTR	184	87
Waste materials	thousands of tons	thousands of tons
Waste generated	298	69
Landfill (final disposal)	88.5	11.4
On-site landfill	3.5	3.5
External landfill	85.0	7.9
Red bauxite sea dumping	496	496
Atmospheric emissions	thousands of tons of CO ₂	thousands of tons of CO ₂
Greenhouse gases (six gases)		4,750
CO ₂		4,693
N ₂ O		57
HFC		<0.1
PFC		0
Methane		0.1
Sulfur hexafluoride		0
Energy source (CO ₂)	6,396	4,085
Fuel consumption*6	4,644	2,512
Purchased electricity, and steam	1,752	1,573
Other	tons	tons
NOx	5,393	3,141
SOx	6,233	2,921
Particulates	427	266
Substances covered by PRTR	1,258	739

*1. Performance data for major overseas Group companies for energy consumption, CO₂ emission, water use, and landfill disposal volume is given on page 15 of the CSR Report 2006 Data Book.

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

*3. 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.

*4. Group companies consist of the following 17 domestic Group companies: Dainippon Sumitomo Pharma 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.; Nippon A&L Inc.; Thermo Co., Ltd.; Sanzen Kako Co., Ltd.; Sumika Kakoushi 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.

*5. Certain assumptions were made in calculations due to the difficulty of obtaining weight-based figures for some products.

*6. CO₂ 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 17 domestic and overseas Group companies*¹
- (2) Period under review: Fiscal 2005 (April 1, 2005 to March 31, 2006)
- (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: 17 principal consolidated affiliates (13 domestic, four overseas). In fiscal 2004, tabulations were made for 19 consolidated affiliates (14 domestic, five overseas).

● Environmental Accounting Results

The Sumitomo Chemical Group's environmental accounting for fiscal 2005 shows investments of ¥3.3 billion, expenses of ¥25 billion, and economic effects of ¥4.4 billion on a consolidated basis.

In comparison with fiscal 2004, Sumitomo Chemical's investments decreased by ¥0.5 billion while expenses and economic effects increased by ¥4.7 billion and ¥1.2 billion, respectively. The significant increases in expenses and economic effects were due to factors such as net increases from Dainippon Sumitomo Pharma Co., Ltd., which was created through the merger on October 1, 2005 of Dainippon Pharmaceutical Co., Ltd., and Sumitomo Pharmaceuticals Co., Ltd.

Environmental Protection Costs

Unit: 0.1 billions of yen

Classification	Main Implementation Details	Fiscal 2004* ²				Fiscal 2005			
		Sumitomo Chemical only		Consolidated		Sumitomo Chemical only		Consolidated	
		Investment	Expense	Investment	Expense	Investment	Expense	Investment	Expense
Business Area Costs		23	106	32	157	22	132	29	191
Breakdown	Pollution Prevention Costs	(20)	(71)	(28)	(104)	(14)	(92)	(19)	(128)
	Global Environmental Protection Costs	(0)	(0)	(0)	(1)	(0)	(0)	(0)	(1)
	Resource Recycling Costs	(3)	(34)	(4)	(52)	(9)	(40)	(10)	(62)
Upstream/Downstream Costs		0	0	1	2	0	0	0	2
Administrative costs		0	7	0	9	0	6	0	13
R&D Costs		4	24	4	25	4	32	4	33
Social Activity Costs		0	5	0	8	0	6	0	9
Environmental Remediation Costs		1	3	1	3	0	1	0	1
Total* ³		28	145	38	203	27	177	33	250

Economic Effects*⁴

Unit: 0.1 billions of yen

Results	Fiscal 2004		Fiscal 2005	
	Sumitomo Chemical only	Consolidated	Sumitomo Chemical only	Consolidated
Expense Reductions Due to Energy Conservation	3	4	7	9
Expense Reductions Due to Resource Conservation	11	13	10	12
Expense Reductions Due to Recycling Activities	11	15	20	23
Total	26	32	37	44

*1. Seventeen domestic and overseas Group companies: Dainippon Sumitomo Pharma 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.; Nippon A&L Inc.; Thermo Co., Ltd.; Sanzen Kako Co., Ltd.; Sumika Kakoushi Co., Ltd.; New STI Technology, Inc.; Nihon Oxirane Co., Ltd.; Sumika Takeda Agrochemical Co., Ltd.; Dongwoo Fine-Chem Co., Ltd.; Sumitomo Chemical Singapore Pte Ltd.; TPC; and Sumika Technology Co., Ltd.

*2. Figures for investment in pollution prevention costs under business area costs were revised because of the improved accuracy of data.

*3. The total of indicated figures may not match indicated total because of rounding.

*4. 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 assumptions.

Introduction of Environmental Efficiency Indicators

The Sumitomo Chemical Group has been aggregating the environmental impact of its activities and studying ways of assessing relationships between production efficiency, the cost of environmental activities, and environmental impact. Through these studies, we are attempting to develop environmental efficiency indicators that will enable us to reduce the environmental impact of our activities more effectively.

Results of Environmental Efficiency Indicator Studies Using JEPIX^{*1}

In fiscal 2004, Sumitomo Chemical participated in the second JEPIX Benchmark Project^{*2}, which saw us aggregate the environmental impact of each of the Company's production sites and calculate their environmental efficiency (output per EIP). We reported the results of these calculations, as well as the relationship between environmental efficiency and production efficiency, in last year's CSR Report.

In fiscal 2005 we expanded the scope of our studies to include major Group companies^{*3}. The consolidated results are shown in the table on the right.

As well as assessing year-on-year rates of change in environmental efficiency, we also compared and assessed relationships between environmental efficiency and production efficiency (output per unit of energy consumed). We found that this enabled us to assess the degree of improvement more accurately.

We also made an attempt this time to assess the cost efficiency of reducing environmental impact (EIP per unit of cost).

In the future, we will exchange original ideas, make even more detailed studies, and continue to evaluate the usefulness of these techniques (i.e. explore their potential for use in corporate strategy).

Trends in Aggregate Values for Environmental Impact (Environmental Impact Points or ecopoints) (Unit: 10⁹EIP)

	Fiscal 2003	Fiscal 2004	Fiscal 2005
Sumitomo Chemical (non-consolidated)	498 (100)	420 (84.3)	419 (84.1)
Group (consolidated)		599 (100)	567 (94.7)

Note: Figures in parentheses are index numbers.

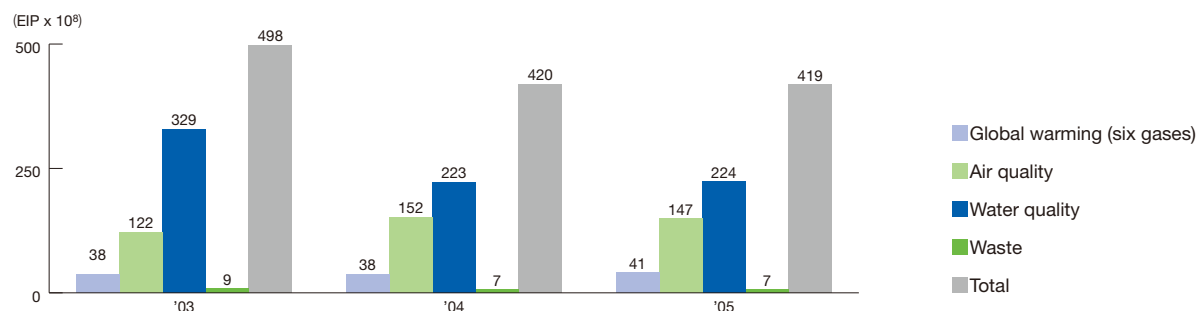
*1. JEPIX (Environmental Policy Priorities Index for Japan): This method, which employs a uniform single indicator (Environmental Impact Points or ecopoints) for evaluating environmental effects, is derived from the Swiss LCIA Eco Scarcity methodology. The current method evaluates the discrepancy between 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.

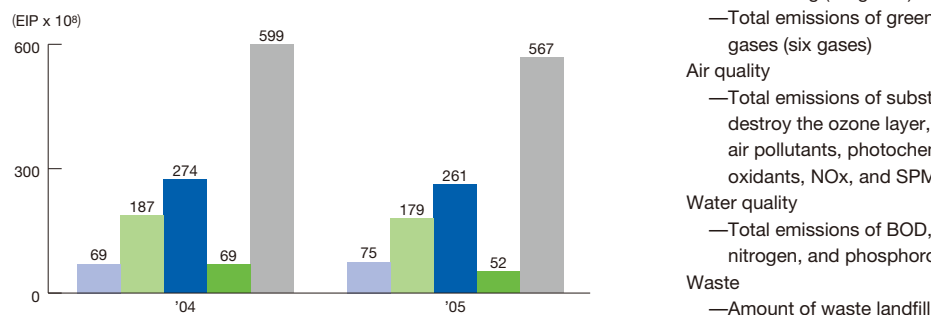
*3. The major Group companies were Sumitomo Chemical and 12 domestic Group companies: Asahi Chemical Co., Ltd.; Koei Chemical Co., Ltd.; Thermo Co., Ltd.; Sanzen Kako Co., Ltd.; Shinto Paint Co., Ltd.; Sumika Color Co., Ltd.; Sumitomo Joint Electric Power Co., Ltd.; Sumitomo Dow Ltd.; Taoka Chemical Co., Ltd.; Sumika Takeda Agrochemical Co., Ltd.; Nihon Medi-Physics Co., Ltd.; and Sumika Kakoushi Co., Ltd.

Ecopoint Breakdown for Each Fiscal Year

Sumitomo Chemical (non-consolidated)



Group (consolidated)



Note:

Global warming (six gases)

—Total emissions of greenhouse gases (six gases)

Air quality

—Total emissions of substances that destroy the ozone layer, toxic air pollutants, photochemical oxidants, NOx, and SPM10

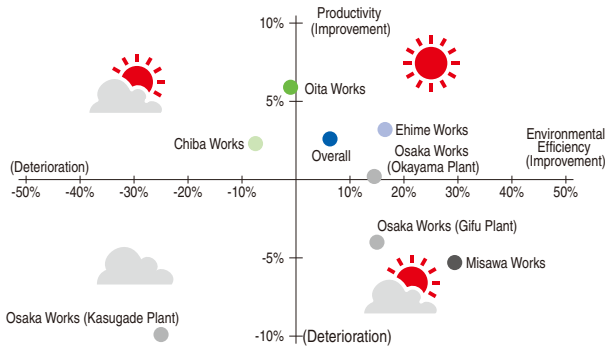
Water quality

—Total emissions of BOD, COD, nitrogen, and phosphorous

Waste

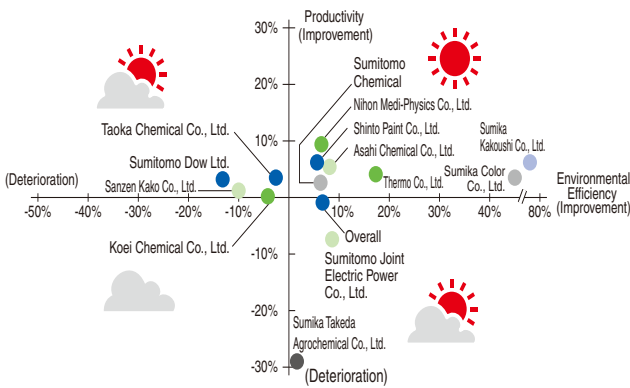
—Amount of waste landfill

Relationship between Environmental Efficiency and Production Efficiency (Sumitomo Chemical Only)



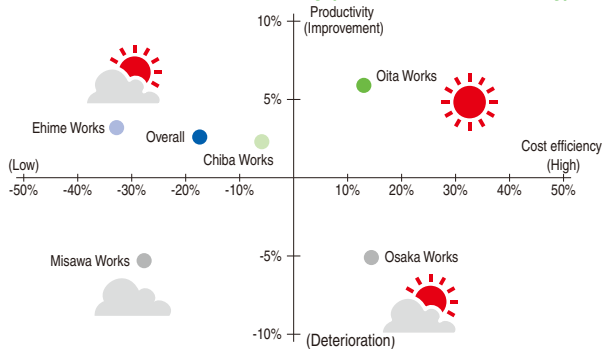
Note: This graph plots fiscal 2005 year-on-year percentage increases or decreases in efficiency indicators.
 Environmental efficiency = Output (tons) / Ecopoints (EIP)
 Production efficiency = Output (tons) / Energy consumed (kL)

Relationship between Environmental Efficiency and Production Efficiency (Group)



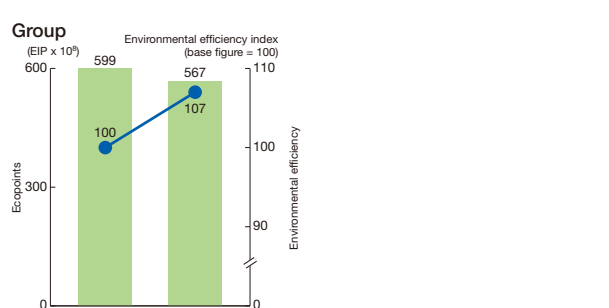
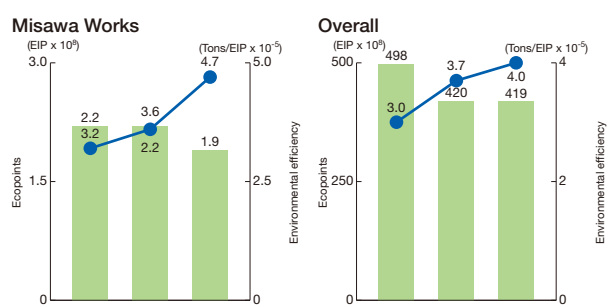
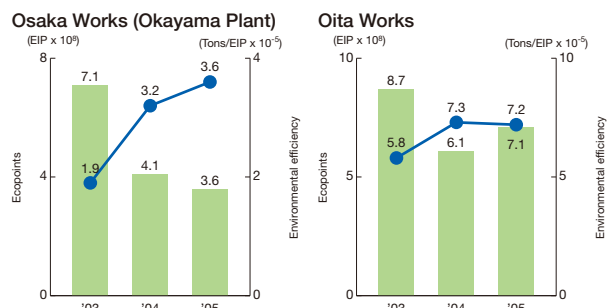
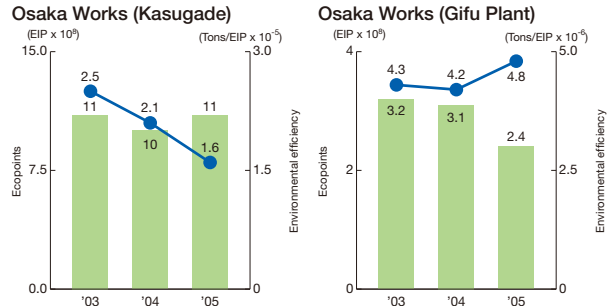
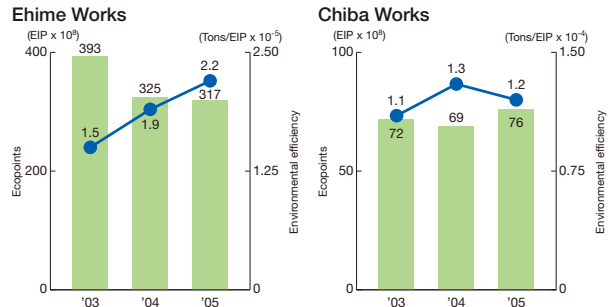
Note: This graph plots fiscal 2005 year-on-year percentage increases or decreases in efficiency indicators.
 • Environmental efficiency = Output (tons) or Sales (100 million yen) or Electricity generated (kWh) / Ecopoints (EIP)
 • Production efficiency = Output (tons) or Sales (100 million yen) or Electricity generated (kWh) / Energy consumed (kL)

Relationship between Cost Efficiency of Environmental Impact Reduction and Production Efficiency (Sumitomo Chemical Only)



Note:
 1. This graph plots fiscal 2005 year-on-year percentage increases or decreases in efficiency indicators.
 • Cost efficiency of environmental impact reduction = Ecopoints (EIP) / Cost (in 100 million yen; costs calculated using environmental accounting)
 • Production efficiency = Output (tons) / Energy consumed (kL)
 2. The figure for Osaka Works is the total of those for Kasugade Plant, Gifu Plant, and Okayama Plant.

Environmental Efficiency and Ecopoint Changes for Each Plant and the Entire Company



Note: The base year for the environmental efficiency index is fiscal 2004.

Environmental Protection Activities

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

Energy Conservation and Prevention of Global Warming

Targets	Performance in Fiscal 2005
Reduce the energy consumption rate by 1% each year	Achieved a 2.5% reduction relative to the previous fiscal year (15.4% reduction from fiscal 1990)
Reduce the CO ₂ emission rate from fossil fuel consumption by 10% relative to fiscal 1990 by fiscal 2010	Achieved a 5.5% reduction relative to the previous fiscal year (13.8% reduction from fiscal 1990-target achieved)

Summary of Initiatives

Sumitomo Chemical's annual consumption of energy (as fuel and electricity) is equivalent to around 1.5 million kL of crude oil. This results in the release into the atmosphere of approximately 4 million tons of carbon dioxide (from energy consumption).

Sumitomo Chemical has made wide-ranging, across-the-board efforts to conserve energy and use it more efficiently. These have included improving methods of operating equipment, recovering waste energy from emissions, streamlining processes, improving the efficiency of facilities and equipment, as well as using our proprietary catalyst technology to radically improve processes. These efforts have produced results, with actual performance being reasonable in terms of the targets we have set.

We are also actively making use of the Kyoto Mechanisms. In March 2005, We invested in the Bio Carbon Fund, established by the World Bank, and in the 13 years to 2017, expect to acquire carbon credits worth between 300 thousand and 400 thousand tons of CO₂.

Sumitomo Chemical will continue working to reduce greenhouse gas emissions by focusing on conserving energy and developing innovative production processes. However, we will also make detailed studies of ways to utilize the Kyoto Mechanisms, such as the BioCarbon Fund, CDM, and emissions trading. We will also strategically implement and strengthen comprehensive measures aimed at preventing global warming.

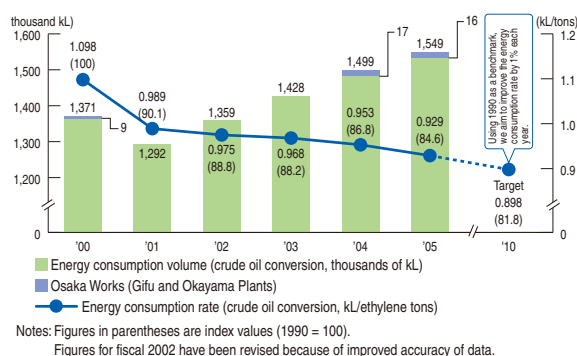
In fiscal 2005, our emissions of greenhouse gases (six gases, including CO₂) increased 8.6 percent from the previous year to 4.75 million tons of CO₂ (For details, see page 5 of the CSR Report 2006 Data Book.).

Development and Implementation of Methods for Managing CO₂ Emission Rates by Product

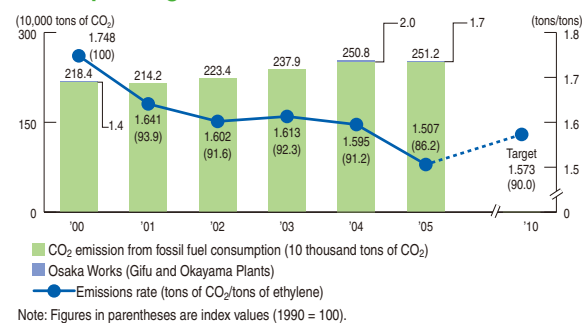
We have established a company-wide system for totaling the volume of CO₂ emissions from each plant, or the volume of such emissions associated with the production of each product or product group. We have also standardized calculation methods.

In the future, we hope to be able to reduce our CO₂ emissions more efficiently by making detailed analyses of the impact on CO₂ emission volumes of both output and emission rates (For detailed examples of such analyses, see page 5 to 6 of the CSR Report 2006 Data Book.).

Energy Consumption Volume and Rate



CO₂ Emissions from Fossil Fuel Consumption and Corresponding Emission Rates



Volume of CO₂ emissions

Fiscal Year	Total Emissions	Energy Consumption		Environmental Treatment		Process
		Fossil Fuel Consumption	Purchased Electricity	Incineration	Wastewater	
1990	367.6	218.4	103.8	28.2	2.2	15.0
2002	401.6	223.4	123.2	28.4	2.2	24.4
2003	428.6	237.9	132.8	32.3	2.1	23.5
2004	432.1	250.8	125.7	30.7	2.6	22.3
2005	469.3	251.2	157.3	31.1	2.8	26.9

Unit: 10,000 tons of CO₂

Notes:

- "Process" refers to production process emissions other than energy consumption.
- Figures for fuel consumption do not include electricity or steam sold outside the Company.
- The data for fiscal 1990, 2004, and 2005 include emissions for the Osaka Works (Gifu and Okayama Plants).
- Figures for fiscal 1990 and from fiscal 2002 to 2004 have been revised because of improved accuracy of data.

COLUMN

● Introduction of Environmentally Friendly Gas-Engine and Cogeneration Systems

In April 2006 the Osaka Works (in Kasugade) introduced five gas-engine cogeneration systems. As well as conserving energy, their use of low-carbon fuel (municipal gas) enables the volume of CO₂ emissions to be cut by 500 tons per year.

We took the local environment into consideration when introducing the systems, conducting an environmental impact assessment, installing noise-buffering walls, planting trees in the surrounding area, and taking other measures. We will ensure that the five power-generation systems conserve even more energy and also ensure that they do not affect the load of electric power in the local area by finely adjusting their operation to meet demand for electricity.



Gas engines installed inside a power and service facility

● Optimizing an Entire Industrial Complex by Recovering Waste Heat

At the Chiba Works, waste heat from the plant has been used to generate steam and as a source of heat. Nevertheless, the plant itself has not been able to use all the waste heat. An adjacent affiliate's plant, however, has been using steam after reducing its pressure. This led us, in September 2005, to optimize the use of waste heat throughout the entire complex, including this affiliate.

The steam produced by a steam-generating heat exchanger at the Chiba Works is compressed and supplied to our affiliate. This has reduced their use of medium-pressure steam by the equivalent of 3,000 kL of crude oil or 7,000 tons of CO₂ emissions per year.



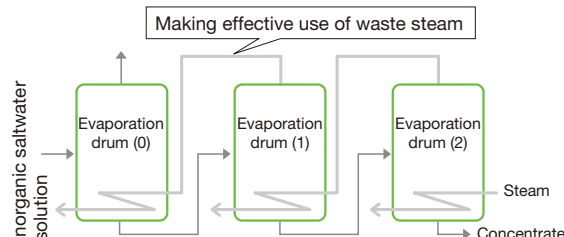
Heat exchanger

● Multi-Effect System Reuses Steam and Conserves Energy

At the Ehime Works, an inorganic saltwater solution is superheated to evaporate and concentrate it. In this process, concentration takes place in two phases. Until now, the steam generated in the second, higher-temperature evaporation/concentration phase has been used as the heat source for the first phase. Now, however, we are also using evaporation drums before the first phase. This allows us to utilize the steam generated in the first phase, which was previously wasted. Systems such as this are called multi-effect systems, and our system is a triple-effect system. The system has provided annual energy savings equivalent to 1,400 kL of crude oil.

We also received a Ministry of Economy, Trade and Industry subsidy for the construction of the facilities for the system aimed at supporting companies that are making efforts to reduce their use of energy.

Diagram of the Triple-Effect Concentration Process



Note: A multi-effect system reuses generated steam to reduce the amount of energy used for heating. How many effects the system provides is determined by the balance between the cost of investment and the energy conserved.

Initiatives to Reduce the Release of PRTR Substances and VOCs

Targets	Performance in Fiscal 2005
Reduce total releases of PRTR Law-targeted substances (into the air and water) by 50% relative to fiscal 2002 by fiscal 2010	Total releases of PRTR Law-targeted substances fell by 1.8% relative to the previous fiscal year (28.7% reduction from fiscal 2002)
Reduce releases of VOCs by 30% relative to fiscal 2000 by fiscal 2010	Releases of VOCs rose by 15.9% relative to the previous fiscal year (10.5% reduction from fiscal 2000)

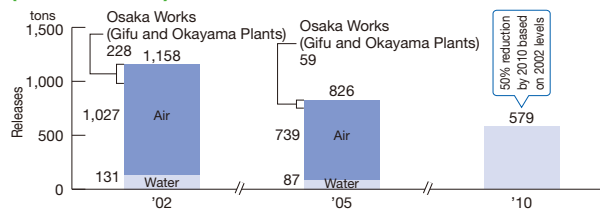
Sumitomo Chemical used the latest data to conduct risk assessments for all the substances it handles that are targeted under the Pollutant Release and Transfer Register (PRTR) Law (102 substances in all). We used the results of these assessments to draw up an action plan for the period to fiscal 2010, and are aiming to implement this plan in full.

In fiscal 2005, releases of PRTR-targeted substances totaled 826 tons, a reduction of 1.8 percent compared with the previous fiscal year. This drop was achieved by

using flare stacks to incinerate waste gases containing vinyl acetate and acrylonitrile, and reducing our use of substances such as epichlorohydrin, 1,4-dioxane, and vinyl chloride monomer.

We compile the Company's PRTR data centrally using a computer system we developed in-house. The system came on line in April 2002, and links corporate headquarters and our business sites through a network. We also take considerable care to ensure the accuracy and precision of data.

PRTR Law-Targeted Substance Releases (Air and Water)



Release and Transfer of PRTR Law-Targeted Substances

(Unit: tons)

	Amount Released			Amount Transferred		
	Air	Water	Subtotal	Sewage	Waste	Subtotal
PRTR Law-targeted substances (102 substances) (Non-consolidated)	739.1	87.0	826.1	0.6	5,139.4	5,140.0

Notes

1. The amount of waste transferred has increased because of changes in the methods of calculation used for some plants.
2. In addition to monitoring PRTR Law-targeted substances, Sumitomo Chemical also conducts its own PRTR studies, which are organized by the Japan Chemical Industry Association. Details are given on pages 7 to 9 of the CSR Report 2006 Data Book.

Initiatives to Reduce the Release of VOCs

To meet our VOC reduction targets, we are putting together plans, which are based on the results of risk assessments, to reduce the release of PRTR Law-targeted substances. We are also developing a VOC-release reduction plan that reflects the new regulations on VOC-release concentrations stipulated by the revised Air Pollution Control Law.

In fiscal 2005, however, the amount of VOCs we released increased over the previous year by 15.9 percent to 3,327 tons. This increase was due to a large increase in the amount of hexane released into the atmosphere. This was caused in large part by problems with a facility at the Chiba Works that uses activated charcoal to absorb waste gas.

COLUMN

Major Reduction in the Amount of Vinyl Acetate and Other Substances Released into the Atmosphere (Incineration)

At the Chiba Works, we are using existing facilities to incinerate waste gas safely in order to reduce the amount of vinyl acetate released. This is because more vinyl acetate is released than any other PRTR Law-targeted substance. Using this method, we are planning to reduce the annual amount of vinyl acetate released by 60 percent relative to fiscal 2002 by the end of fiscal 2008.

In addition, we have also installed inner floats in the small storage tanks we use to store benzene, which has reduced the amount of volatility by approximately 25%. We have also reduced the amount of vinyl chloride released by improving the efficiency of a facility that uses activated charcoal to adsorb waste gas.



A flare stack for incinerating waste gases

Initiatives to Prevent Air, Water, and Sensory Pollution

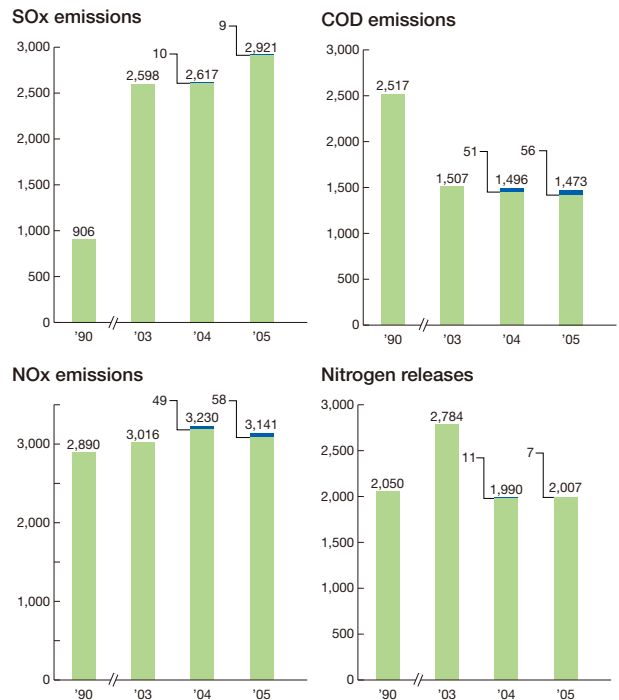
Targets	Performance in Fiscal 2005
Continue to keep emissions of SOx, NOx, soot and dust, COD, nitrogen, and phosphorous at or below commonly-agreed-upon levels	Emissions were at or below commonly-agreed-upon levels
Reduce the water use rate by 25% relative to fiscal 1990 by fiscal 2010	Reduced the water use rate by 8.9% relative to the previous fiscal year (29.2% reduction from fiscal 1990-target achieved)

Initiatives to Prevent Air and Water Pollution

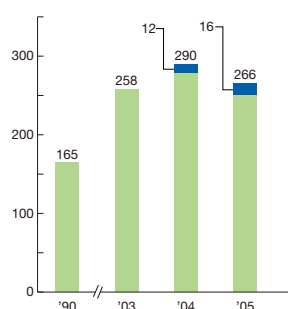
Sumitomo Chemical is working actively to preserve the purity of the atmosphere and water, by developing numerous technologies designed to prevent air and water pollution; working to reduce the amount of SOx (sulfur oxides), NOx (nitrogen oxides), and soot and dust released into the atmosphere; reducing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

Emissions and Releases into the Atmosphere and Waterways

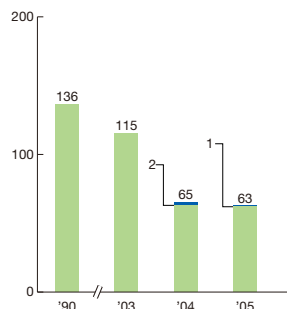
■ Total emissions for five plants ■ Emissions for Osaka Works (Gifu and Okayama plants)
Unit for all graphs: tons



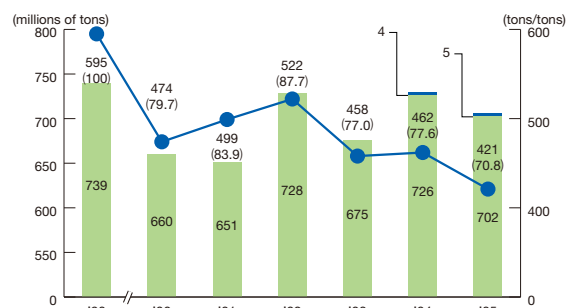
Soot and dust emissions



Phosphorous releases



Water Use and Water Use Rate



■ Water use for five plants (millions of tons)
 ■ Water use for Osaka Works (Gifu and Okayama plants) (millions of tons)
 ● Water use rate (tons of water used/tons of production volume (tons of ethylene equivalent))
 Figures in parentheses are index values (1990 = 100).
 Note: Figures for fiscal 1990, 2002, and 2004 have been revised because of improved accuracy of data.

● Initiatives to Prevent Sensory Pollution

Sensory pollution refers to unpleasant sensations such as offensive odors, noise, and vibrations. To minimize such pollution, we not only comply with standards such as legal limits and limits agreed on with local governments, but also seek to make further improvements by soliciting the opinions of people living in the vicinity of our sites.

COLUMN

● Measures to Counteract Offensive Odors at a Wastewater Treatment Facility

Because the Osaka Works' Gifu Plant is situated near residential areas, we are particularly careful to ensure that it does not produce unpleasant odors. The measures we take include a daily stench patrol aimed at quickly discovering and dealing with offensive odors. And in June 2005, we stepped up our anti-odor measures by making the plant's activated sludge treatment (a wastewater treatment process using microorganisms) facility airtight.



Activated charcoal adsorption tower

We did this by covering the top of the activated sludge treatment facility with a tent. The air inside the tent is adsorbed by activated charcoal to remove odors. Before installing the facility, we created an odor map to determine the sources of offensive odors, making the facility more effective. Thanks to this initiative, the area around the plant is a pleasant to live in even during the summer.

COLUMN

● Advanced Wastewater Treatment (Third-Generation Treatment and Quality Monitoring Using Fish)

The Misawa Works synthesizes and manufactures active ingredients for household insecticides such as mosquito coils.

Because many chemicals are used in the production process, and wastewater from the plant contains various chemical substances, we use an advanced water treatment process.

In the first phase of the treatment process (primary treatment), oil is separated from the wastewater. In the second phase (secondary treatment), after the water has been rendered pH neutral and chemically treated, microorganisms are used to break down substances (activated sludge process), and suspended solids are removed using a sand filtration process.

Although this is sufficient to remove the majority of chemical substances, we also conduct a third phase of treatment (tertiary treatment) in which activated charcoal is used to adsorb the remaining impurities.

The quality of the treated water is monitored using an analyzer, and passed through a tank containing fish before being released into the Pacific Ocean. We constantly monitor the condition of the fish to ensure that the treatment process is working properly.



Fish Monitoring Room



Activated charcoal adsorption tower



Tent containing aeration tanks



Wastewater storage tanks

Initiatives to Reduce the Volume of Waste Disposed of in Landfills

Target	Performance in Fiscal 2005
Reduce industrial waste landfill disposal volume by 85% relative to fiscal 1990 by fiscal 2010	Reduced industrial waste landfill disposal volume by 3.4% relative to the previous fiscal year (74.3% reduction relative to fiscal 1990)

● Initiatives to Reduce the Volume of Waste Disposed of in Landfills

Most landfill waste generated by Sumitomo Chemical consists of incinerator ash sludge. Reducing and recycling this waste is thus key to achieving the Company's waste landfill disposal volume reduction target.

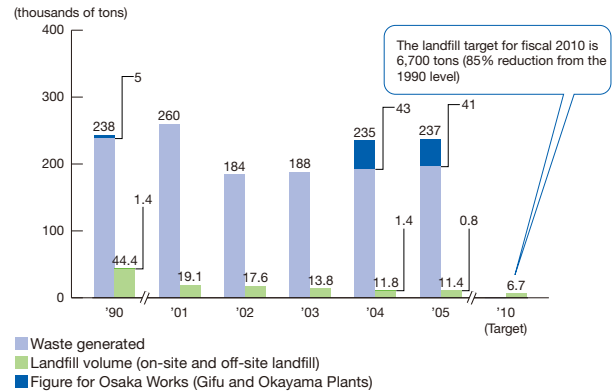
In fiscal 2005, we implemented related initiatives, such as reducing the volume of inorganic salt produced and discharged into wastewater treatment facilities during manufacturing processes, and recycling incinerator ash sludge and waste acid for use in cement production. These initiatives resulted in a reduction of 3.4 percent compared with the previous year to 11,400 tons. In addition, three of our five plants (the Oita, Osaka, and Misawa works) have achieved their targets of producing zero

emissions*.

In the future, Sumitomo Chemical will continue to try to reduce the volume of waste it disposes of in landfills.

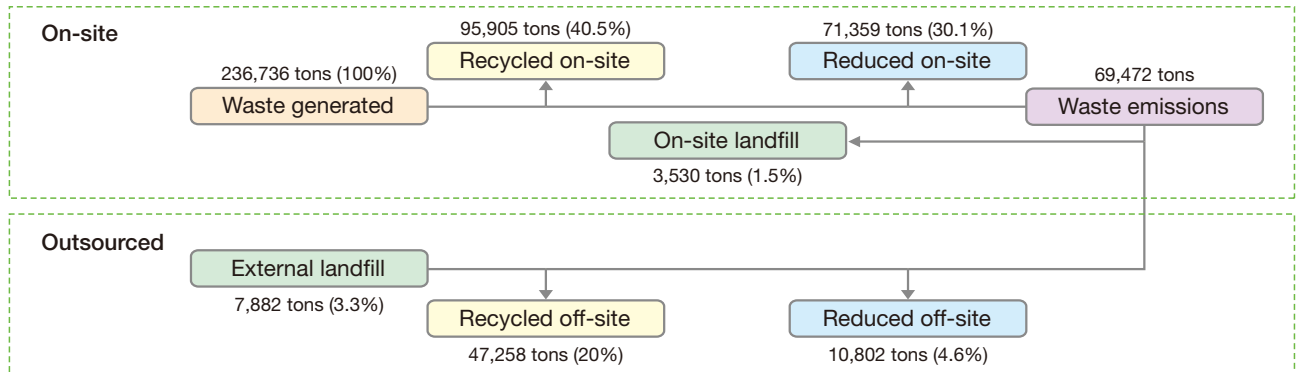
* Zero emissions: Disposal of less than 3 percent of generated waste in landfills

Trends in Generated Waste and Landfill Disposal Volumes



Waste Disposal Flow Chart and Results (Fiscal 2005)

Non-consolidated



Waste recycled: Total amount of waste reused, recycled, or thermally recycled

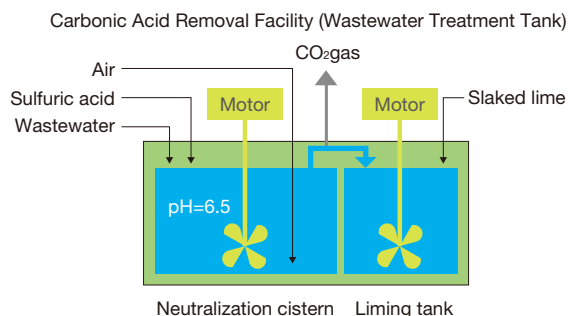
Waste reduced: Total amount reduced by incineration, etc.

COLUMN

Initiative to Significantly Reduce Sludge from Wastewater (Discharged Water) Treatment

The Oita Works produces large amounts of phosphorous-based agricultural chemicals such as Sumithion. To comply with regulations on the release of wastewater containing phosphorous, slaked lime is added to the wastewater to remove the phosphorous as sludge. However, although this removes the phosphorous, the reaction of the slaked lime with CO₂ in the wastewater results in the production of an enormous amount of sludge. We have therefore introduced a new treatment method in which sulfuric acid is added to the wastewater before the slaked lime, the pH of the wastewater is continually adjusted to keep it at a fixed level, and the wastewater is aerated. This method has enabled us to remove CO₂ successfully.

Thanks to the introduction of this new method, we have been able to reduce the amount of sludge produced during the wastewater treatment process. Because the sludge is ultimately disposed of in landfills, the new method has also helped us achieve a significant reduction in landfill disposal volume.



Initiatives to Reduce Red Bauxite

Target	Performance in Fiscal 2005
Reduce the amount of red bauxite disposed of through sea dumping by 10% relative to fiscal 2000 levels by fiscal 2005 Cease sea dumping of red bauxite by fiscal 2015	Reduced sea dumping volume by 1.2% relative to the previous fiscal year (10.0% reduction from fiscal 2000-target achieved)

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. This is carried out in accordance with Japanese laws such as the Law Relating to the Prevention of Marine Pollution and Maritime Disasters. Materials are appropriately disposed of only after the safety of dumping has been confirmed by conducting legally mandated analytical tests.

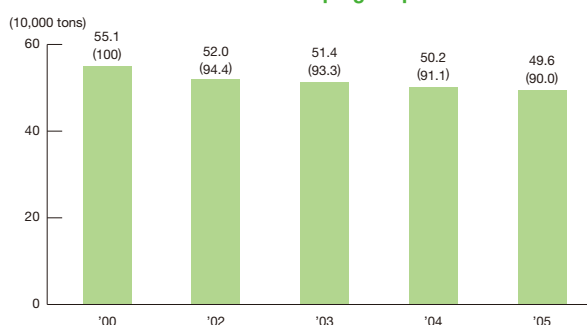
The Company has been working to achieve its voluntary target of reducing the volume of red bauxite disposed of through sea dumping in fiscal 2005 to 10% below fiscal 2000 levels. We have now met this target, reducing the amount of red bauxite disposed of through sea dumping by 10.0% from 551 thousand tons in fiscal 2000 to 496 thousand tons in fiscal 2005.

In addition, Sumitomo Chemical has begun studying ways of ceasing all sea dumping of red bauxite by 2015,

while at the same time continuing to develop our aluminum products business. We have also been seeking effective uses for red bauxite, and in fiscal 2006 teamed up with a cement company to implement a plan to have approximately 1,000 tons of red bauxite used as an ingredient in cement.

We have also completed a study of the environmental impact of our disposal of red bauxite through sea dumping, and are planning to file the applications necessary to acquire a permit for sea dumping from the Minister of the Environment during this fiscal year, as revisions to the law have made the acquisition of such a permit compulsory.

Trends in Red Bauxite Sea Dumping Disposal Volumes



Measures to Prevent Soil Pollution

Target	Performance in Fiscal 2005
Keep hazardous materials strictly within Company premises and ensure careful management of these materials	Soil contamination surveys, evaluations, and required improvements currently near completion Monitoring of groundwater near boundaries has confirmed levels of hazardous materials below those stipulated under environmental standards (Continued monitoring of groundwater by Sumitomo Chemical)

Sumitomo Chemical has long considered soil pollution an important issue, and has implemented the measures necessary to combat this problem.

The Group will continue to work as one to ensure thorough compliance with voluntary management policies centered on keeping the handling of hazardous materials strictly within Company premises and ensuring the careful management of these materials.

COLUMN

Participation in Environmental Restoration Project in Chiba Prefecture and the City of Ichihara (Free Treatment of Wastewater and Waste Activated Charcoal)

Chiba Prefecture and the City of Ichihara are working to restore a former landfill site in the Myoko district of Ichihara by pumping out contaminated groundwater and using activated charcoal to adsorb gases.

As a corporate member of the Environmental Conservation Association of Chiba Prefecture, the Chiba Works has been involved in this clean-up project since 2003. The Chiba Works uses its wastewater treatment and waste incineration facilities to make contaminated water from the groundwater extraction facility and waste activated charcoal from the gas adsorption facility safe, and this service is provided free of charge.

We intend to continue to do whatever we can to restore the environment of this area to its natural state.



Fluidized-bed incinerator for treating wastewater and other material

PCB Recovery, Storage, and Treatment

In accordance with the Law Concerning Special Measures for PCB Waste (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 PCBs (low-concentration PCB waste) is analyzed prior to dis-

posal, and any devices with PCB levels exceeding 0.5mg/kg are treated as PCB waste, as legally required.

PCB Waste Storage and Control as of December 31, 2005

	Number of PCB Containers	Total PCB Volume (m ³)
Non-consolidated	764 (720 stored, 44 in use)	33.9
Consolidated	1,540 (1,040 stored, 500 in use)	37.6

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 has a strict policy for the management of 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 alternative coolants, 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 top priority.

Occupational Health and Safety

● Safety Performance

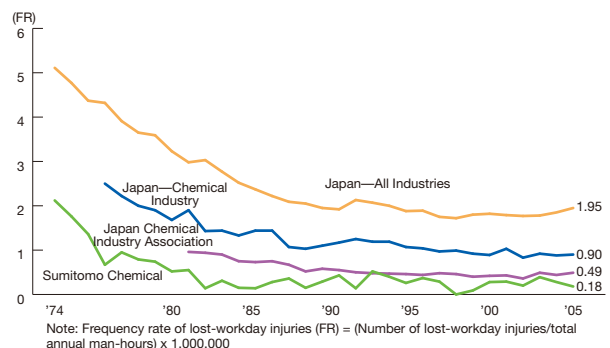
In fiscal 2005, two accidents resulted in lost workdays at Sumitomo Chemical, with five such accidents at affiliate companies. A safety message from the Responsible Care Office was sent to all employees of Sumitomo Chemical and its contractors, and all employees are now newly committed to determined efforts aimed at achieving our "zero-accident" target.

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

The high incidence of major disasters such as fires and explosions at large-scale industrial sites nationwide since summer 2003 has prompted the introduction of an OSHMS. Sumitomo Chemical was quick to recognize the effectiveness of the OSHMS, and in November 1999 selected the Chiba Works to be the first of the Company's domestic sites to introduce an OSHMS. The OSHMS went into operation there in July 2000. Certification was also obtained by the Ehime and Osaka

Works in fiscal 2004, and the Misawa Works and Tsukuba Research Laboratory in fiscal 2005. The Oita Works and Takarazuka Research Laboratory are scheduled to obtain certification in fiscal 2006, with all sites eventually to be certified.

Trends in the Frequency Rate of Lost-Workday Injuries



● Completion of 5S Activity Guidelines, Labeling and Sign Guidelines and Basic Conduct Rules at the Tsukuba Research Laboratory

The Tsukuba Research Laboratory has been active in the area of health and safety, with the aim of establishing itself as research laboratory with a robust and safe infrastructure. In December 2005 it became the first independent research laboratory in the country to obtain OSHMS certification.

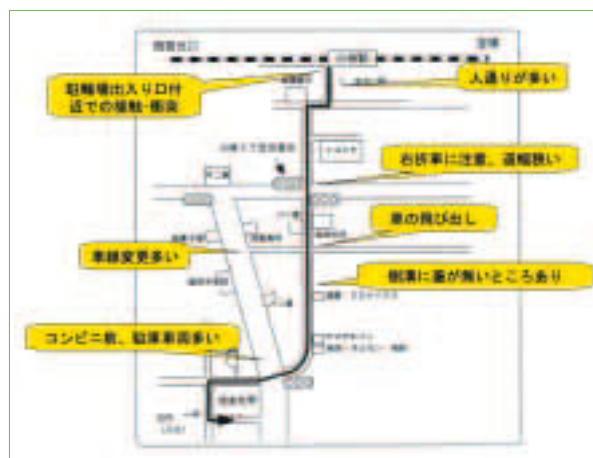
In addition, each group is currently constructing two model labs. The construction is being based on two sets of guidelines: the 5S Activity Guidelines and the Labeling and Sign Guidelines. Both sets of guidelines were drawn up and are being implemented under the leadership of a health and safety adviser.

Moreover, with the goal of creating a pleasant accident- and disaster-free workplace, the Tsukuba Research Laboratory has also put together a set of basic rules of conduct for all employees to follow.

● Map of Hazardous Places on Commuting Routes Contributes to Achievement of Zero Accident Goal at Agricultural Chemicals Research Laboratory in Takarazuka

At the Agricultural Chemicals Research Laboratory in Takarazuka, Group companies and affiliate companies are working together to develop RC activities. One of the laboratory's key initiatives for the annual National Labor Safety Week was to compile a map showing danger points on routes into work, with the aim of achieving our goal of zero accidents.

This initiative has its roots in May 2003, when an employee of a Group firm was seriously injured while cycling to work after colliding with the door of a parked car when the door was suddenly opened. To prevent the occurrence of similar accidents, the laboratory has (1) produced a map showing hazardous places it has identified on commuting routes, (2) ensured that everyone is made well aware of its rules governing commuting, and (3) invited officers from the local police station to come and give lectures. Since then no accidents have occurred involving employees on their way to and from work (as of July 2006).



Map of the area around the laboratory showing hazardous places

Initiatives to Address the Asbestos Problem

Because Sumitomo Chemical has been using materials containing asbestos at various locations, including plant production facilities and buildings, it is taking the following action:

● Buildings Constructed Using Materials Containing Asbestos

Sumitomo Chemical surveyed all its buildings to find out if they had been constructed using materials containing asbestos. The asbestos in places found to contain it was removed, enclosed, or surrounded, in accordance with Ministry of Health, Labor and Welfare regulations for the prevention of asbestos-related diseases. All such work was completed by December 2005.

● Manufacturing Equipment that uses Materials Containing Asbestos

Some of our manufacturing equipment makes use of sealing and heat insulating materials that contain asbestos, and we are gradually replacing these materials with asbestos-free alternatives.

There is no danger of exposure to asbestos during the normal operation of this manufacturing equipment. If, however, there is a risk of dust being produced when handling these sealing and heat insulating materials, we take measures to prevent exposure, requiring persons

handling the material to wear protective clothes, for example. (Sealing materials are unlikely to produce dust when handled normally, but will do so when, for example, they are cut. Under such circumstances, therefore, anti-exposure measures, such as the wearing of protective garments, become necessary.)

COLUMN

Maintaining the Health of Former Employees

If former employees handled materials containing asbestos while working at Sumitomo Chemical and so request, we will arrange for them to have a physical examination and will discuss their concerns with them, regardless of the degree to which they handled those materials. So far we have organized physical examinations for 1,117 people, one of whom has been deemed eligible for workers compensation insurance benefits (as of July 5, 2006).

Information on the physical examination is provided on the Sumitomo Chemical website.

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 improvement and comprehensive self-regulated safety management. In fiscal 2005, there were no major accidents.

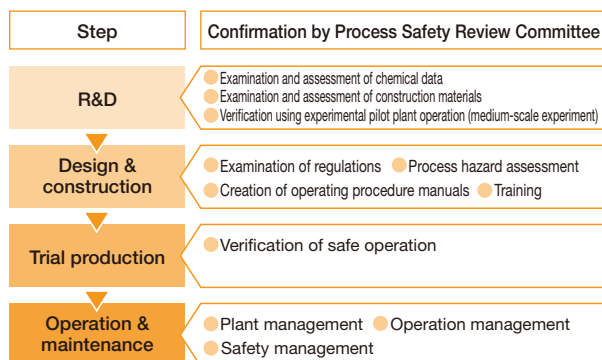
● Process Safety Management

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 detailed in-house regulations, and designates those in charge of the various R&D and commercialization stages. The system is employed both at Sumitomo Chemical and Group companies.

Safety Confirmation Process



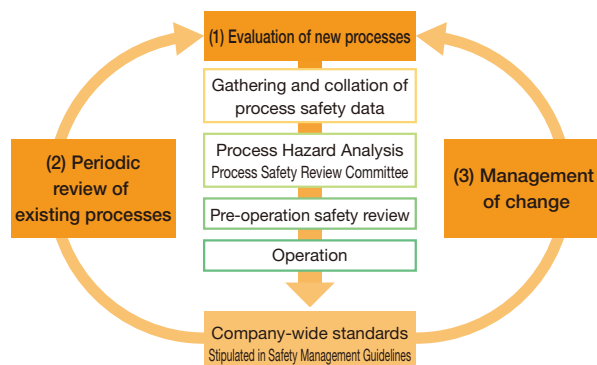
2) R&D Safety Confirmation

At the R&D stage, safety data and other related data about the chemicals to be handled are examined and assessed in detail. These data are then used to select the safest chemicals and to assess the required amounts in order to ensure that the R&D will entail only fundamentally safe chemical processes. The construction materials for new chemical plants are also examined and evaluated to select the optimum materials. In making these selections, small and medium-scale experiments are conducted 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 safety precautions into the design and construction processes. Operational manuals are created and training is provided for operators. We also conduct process hazard evaluations periodically after the start of plant operations and any time there is a change in operating parameters.

Risk Management Outline



COLUMN

Firefighting Drill at an Industrial Complex Without Advance Knowledge of the Drill Scenario (Oita Works)

In October 2005, a comprehensive disaster drill for the Oita Prefecture Oil Industry Complex was held at Sumitomo Chemical's Oita Works. It marked the first time that a Japanese industrial complex has conducted a drill in which the participants were not informed of the disaster scenario beforehand and had to take action based on the information they were given and their own judgment. Two hundred eighty people from 16 organizations, including the police, fire department, coast guard, and local companies, took part. The drill began with the announcement that a fire had broken out, after which employees took preliminary

action to control the fire and notified the emergency services. The police and fire department then rushed to the plant, where they were led to the location of the fire by some employees. As the fire was being battled and injured people were being rescued, the Disaster Countermeasures Headquarters communicated with and coordinated the activities of the participating organizations. The drill not only highlighted matters that need to be improved, but also proved useful in improving the danger-management abilities of the participants.



A fire department fire truck being used to fight a blaze

● Plant Risk Management

In order to prevent unforeseen accidents, we equip our plants with a range of sensors to detect process irregularities at an early stage during operation, and these sensors are continually monitored by a process computer. Procedural manuals are prepared and operators undergo systematic training according to annual plans to ensure that appropriate actions are taken and the emergency services are contacted promptly in the event of an emergency. All Company plants are equipped with fire-fighting vehicles, fire-fighting pumps, fire hydrants, and fire extinguishing chemicals to provide first-response fire-fighting capability until emergency services arrive.

● Risk Management Program

Sumitomo Chemical ensures the safety of all people, both those in areas near our plants and those on-site, by examining accident-scenario risks for substances handled at our plants in accordance with US standards. A new integrated production center 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. The main accident scenario management software tool used at 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 any possible chemical accident by predicting weather-related consequences.

● Advanced Self-Administered Safety Management

We have made a voluntary commitment to preserving the environment and ensuring even higher levels 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 field. These specialists participate in the Process Safety Review Committee and Safety Audits (Responsible Care Internal Audit).

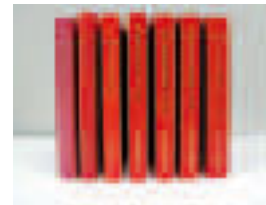
2) Process hazard assessment initiatives

To ensure that adequate process safety analysis is conducted, the following safety and disaster prevention guidelines are prepared and distributed to each depart-

ment (office) and Group company. They are also distributed over the intranet.

- (1) Guidelines for applying disaster prevention assessment
- (2) Guidelines on safety precautions 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 of the CSR Report 2006 Data Book for details.)



Safety and disaster prevention guidelines

● Self-Administered High-Pressure Gas Safety Management

Sumitomo Chemical has obtained "Certified Safety Inspector" and "Certified Completion Inspector" certification in accordance with the High-Pressure Gas Safety Law to ensure safe operations at its 47 sites. These certifications are granted by the national government to industrial sites with outstanding safety engineering and management upon the satisfaction of conditions stipulated by law. Such certifications allow 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. Since obtaining certification in 1987, the Chiba Works has continually renewed this certification to ensure stable continuous operation of its plants.

Safety Inspector and Completion Inspector Certification Status

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

COLUMN

SOLAS-Convention-Related Wharf Safety Drill (Ehime Works)

Since July 2004, ships and ports throughout the world have been required to implement safety measures based on international standards, in accordance with the SOLAS (Safety of Life at Sea) convention. At the Ehime Works, five berths are subject to the new rules because they are classed as international port facilities. The safety measures include the monitoring of people and vehicles entering and leaving through the gate, the construction of fences where the wharf meets plant premises, the monitoring of loading and unloading, the management of cargo, and on-site

security patrols.

In November 2005, the plant held a wharf safety drill in which it was assumed that a suspicious person had been spotted near the berths. The drill was organized by the Niihama Port Harbor Safety Measures Council, and other participants included the Ministry of Land, Infrastructure and Transport, the city government, the Japan Coast Guard, the police, and local companies. In the future, we will regularly participate in drills to ensure that we can deal with emergencies promptly and appropriately.



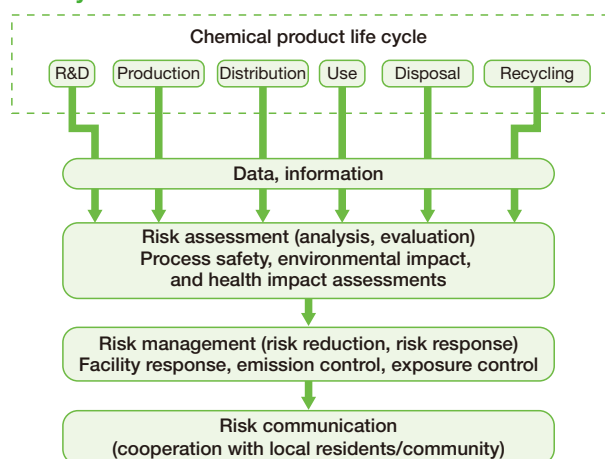
The wharf safety drill in progress

Chemical Safety Activities

The Implementation Plan for sustainable development adopted at the World Summit on Sustainable Development in 2002 calls on nations to reconfirm their commitment to manage chemical substances and hazardous waste appropriately, embodied in documents such as the U.N. Conference on Environment and Development's Agenda 21. It also aims to promote the adoption of risk assessments and management techniques to minimize by 2020 significant adverse effects on human health and the environment caused by the use and production of chemicals. This led to the development of the Strategic Approach to International Chemicals Management (SAICM), administered by the U.N. Environment Program (UNEP). This process has resulted in the implementation of various initiatives to harmonize the management of chemicals internationally. These initiatives include a Globally Harmonized System of Classification and Labelling of Chemicals (GHS), and safety inspections for existing chemicals.

These circumstances led to the establishment by the

Management of Chemicals Throughout the Product Life Cycle



chemical industry of the Responsible Care Global Charter. Sumitomo Chemical's top management has also signed the Declaration of Support for the Global Charter (see page 15), and, with sustainability in mind, the Company is implementing even more ambitious Responsible Care activities. We are also actively involved in the chemical industry's development of concrete policies for implementing the Global Charter.

● Implementation of Surveys and Risk Assessments

The Environmental Health Science Laboratory (EHSL) plays a central role in assessing the safety of the various products developed by the Sumitomo Chemical Group.

It conducts sophisticated research in diverse fields ranging from genetics to the global environment, making use of the latest scientific knowledge and technologies as well as the Company's know-how and long experience in chemical safety assessments.

In addition, as the core laboratory supporting the technological aspects of Responsible Care activities for chemical safety, the EHSL conducts surveys on environmental fate and hazard information for chemicals and carries out risk assessments for each division of the Company in order to ensure safety and protect the environment throughout the life cycle of chemical products, from development to use and disposal.

In fiscal 2005, as a part of its Responsible Care activities, the EHSL conducted surveys and risk assessments for 134 chemical products. These included health risk assessments of chemicals emitted into the atmosphere, environmental risk assessments for wastewater, occupational safety risk assessments of chemical substances handled by the Company, and consumer safety risk assessments of newly developed chemicals, all of which are similar to those conducted in fiscal 2004. It also screened 358 chemical substances for toxicity, conducting such tests as sensitization and AMES tests.

The EHSL also launched a "Challenge Program" aimed at improving safety information for the chemicals

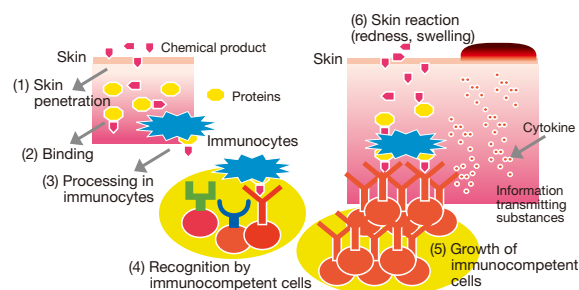
COLUMN

A Screening Method for Detecting Skin Sensitizers

Some chemicals cause allergic contact dermatitis (ACD, characterized by redness or swelling of the skin) to workers in factories, and are called skin sensitizers. Because ACD is known to be hard to treat, it is important to prevent it by protecting workers from exposure to skin sensitizers. However, conventional tests for detecting skin sensitizers take a long time. This led the EHSL to join forces with the Organic Synthesis Research Laboratory to develop a screening method for detecting skin sensitizers.

The mechanism of ACD is shown in the diagram on the right. Skin sensitizers have to bind to a carrier protein to trigger ACD. Therefore, we attempted and succeeded in distinguishing skin sensitizers by their ability to bind to proteins in vitro.

This screening method takes one day to evaluate a chemical substance, while the conventional test takes one month. In addition to reducing the testing period, the screening method also allows us to evaluate many more chemical substances.



the Company handles. In addition to compiling existing data we have determined to be reliable, the Challenge Program will involve new tests for rectifying identified data gaps and thus improving data further.

We have also focused on developing new methods of assessment with the aim of improving the efficiency and precision of our assessments and our ability to deal with new subjects. These new methods include a screening method for detecting skin sensitizers, a method for predicting liver carcinogenicity, and a method of assessing the safety of visible-light photocatalysts.

● Enhancement and Proper Management of Safety Information for Chemical Substances

To facilitate sharing 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 2005, 358 new items were entered into the database, bringing the total number of entries to 3,598. 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).

Furthermore, we are conducting appropriate chemical-related-risk assessments in various fields and working to improve the quality of our risk assessments using the Chemical Safety Assessment System developed by the EHSL.

Following a revision to the Chemical Substance Control Law in 2004, we are now required to report adverse effect to the authorities. Therefore, we have also put together and deployed a new Chemical Substance Control Law-compliant reporting system to accompany the existing American TSCA (Toxic Substance Control Act) reporting system. These systems manage toxicological information based on toxicity tests carried out both inside and outside the Company.

● Contributions to Voluntary Domestic and Overseas Initiatives

(1) Participation in the OECD HPV (High Production Volume) Testing Program

Sumitomo Chemical has a leadership role in compiling reports on some of the chemicals covered in the ICCA's (International Council of Chemical Associations) voluntary "HPV program which involves the gathering of essential safety data and the conduct of hazard assessments." We also provide data on other chemicals that the Company handles, both as a member of the industry and as a sponsor of the program.

We are also involved with a Japanese version of the HPV program, which started in June 2005. Officially called the "Government and Industry Cooperative Program for Gathering and Disseminating Safety Information on Existing Chemical Substances," it is popularly known as the Japan Challenge Program. Our active involvement goes further than just sponsorship; we also participate in data-entry trials to create models for organizing the data collected, for example.

(2) Participation in and Support for the LRI (Long-Range Research Initiative)

We are also active participants in, and are providing continuous support for, the Long-Range Research Initiative,

which, like the HPV program, was initiated by the ICCA. This initiative is being implemented on a voluntary basis by chemical industry associations in Japan, the U.S., and Europe, and promotes long-term research into the impact of chemicals on human health and the environment.

COLUMN

Participation in NEDO Projects

Predicting Liver Cancer with a High Degree of Precision

For a five-year period from fiscal 2001, the EHSL took part in a project run by the New Energy and Industrial Technology Development Organization (NEDO) during which it conducted research into predicting the likelihood of chemical substances to cause liver cancer.

For this study, the EHSL made a systematic investigation of gene expression and biological responses caused by more than 80 types of chemicals containing carcinogenic substances. The data that were collected were then analyzed using a method called bioinformatics, which enabled us to create a technique for quickly and accurately predicting whether a chemical would cause liver cancer.

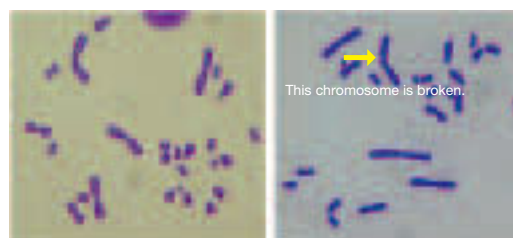
In the future, we intend to use this technique to assess the safety of the chemicals the Company handles, and will also try to improve the technique to make it even more accurate.

Safety Evaluation of Visible Light-Responsive Photocatalysts

For two and a half years starting in September 2003, the EHSL participated in a NEDO project to evaluate the safety of the visible light-responsive photocatalyst titanium dioxide through toxicity studies using bacteria, mammalian cells, and animals.

Photocatalysts have the ability to decompose organic substances under UV light, and have recently been put to practical use in self-cleaning tiles for buildings. Visible light-responsive photocatalysts can be activated by visible light as well as UV light, and, therefore, are expected to find uses in indoor applications such as air purification and sterilization.

Our research has confirmed that the visible light-responsive photocatalyst developed by Sumitomo Chemical does not damage genes (DNA or chromosomes), and does not irritate or sensitize the skin. In addition, no adverse effects were observed in the blood or body weight of guinea pigs exposed to the photocatalyst.



Effects on chromosomes (left: normal; right: damaged)

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 logistics companies we work with, is engaged in activities relating to safety and the environment as well as 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, we also provide guidance and support to shipping companies to enable them to take measures that ensure safe transportation, such as obtaining the Trucking Company Demonstrating Outstanding Safety certification from the Japan Trucking Association.

● Emergency Accident Response Procedures

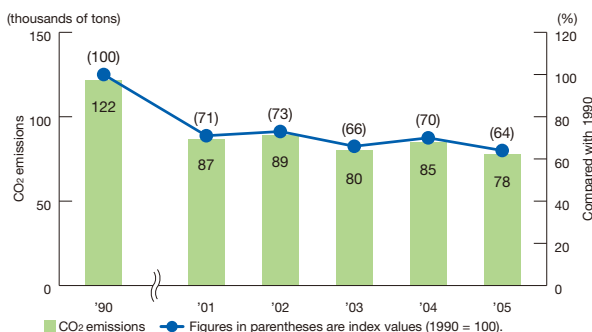
Sumitomo Chemical is establishing a nationwide rescue system covering the routes between plants and logistics companies to facilitate rapid response in the event of an accident during transport. We also implement emergency drills that include participation by shipping companies and work to ensure that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

● Environmental Protection Considerations for Transportation

We have long been promoting a modal shift to rail and ocean shipping, which cause less environmental impact, and have been developing logistics systems to reduce environmental impact further—for example, by improving logistics efficiency through the use of larger containers.

CO₂ emissions generated by the Logistics Division within Japan were 78 thousand tons in fiscal 2005, a decrease of 36% relative to fiscal 1990.

CO₂ Emission Trends



● 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.

● Enhancing Logistics Quality Assurance

Sumika Logistics (West) and Sumika Logistics (East) obtained ISO 9001 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 has as its members the major domestic shipping companies with which Sumitomo Chemical conducts business. It helps its members tackle logistics-related problems in the areas of safety, the environment, and quality by enabling them to share their expertise and encouraging them to improve their management.



General meeting of the Sumitomo Chemical Logistics Council

COLUMN

Conserving energy and reducing environmental impact by introducing rail transport of large bulk containers

The Chiba Works has adopted larger containers for the domestic rail transport of synthetic resin products, and has begun using these containers on a trial basis with the aim of reducing CO₂ emissions, improving transport efficiency, and increasing operational efficiency (simplifying container cleaning and maintenance operations when changing out products).

This switchover entails a shift from conventional 10-ton containers to 16-ton containers with removable resin liners.

The Chiba Works plans over the next three to five years to replace all of its 10-ton containers (650 in total) with 16-ton containers, to build new replenishment and storage facilities, and to strengthen its infrastructure. It is also working to redesign its logistics network to allow containers empty after product delivery to be used on return trips.

This undertaking was proposed jointly with SLC Transport East Japan Co., Ltd., and Senko Co., Ltd. for inclusion in the Green Partnership program being implemented by the Ministry of Economy, Trade and Industry and other partners, and was selected as a "Fiscal 2006 Dissemination Project."



Rail transport of products via large container

*Bulk container rail transport offers a means of loading granulated products directly onto containers without packaging/boxing and then transporting them by rail.

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 Basic Policy on Safety, the Environment, and Product Quality.

Our Quality-Assurance Activities

Under its Basic Policy on Safety, the Environment, and Product Quality, Sumitomo Chemical's top priorities are to provide quality products and services that ensure customer satisfaction and peace of mind.

Sumitomo Chemical's quality assurance activities are based on a company-wide quality assurance policy for the fiscal year, which is discussed and approved by the Responsible Care Committee each year. Based on this policy, each business sector, plant, and purchasing department formulates and executes its own quality assurance fiscal-year plan. In addition, the quality committee at each site and the quality control group for each business sector work to improve the level of quality assurance by following the PDCA cycle for quality assurance.

We designated fiscal 2005 the first year of a gradual shift away from steady, inconspicuous quality assurance activities to conspicuous quality assurance activities that will cause customers to regard us as a quality-first company, and accordingly we have implemented quality assurance activities on a company-wide basis.

● Measures to Prevent Serious Quality Problems

Manufacturers who purchase products from us for use in advanced technological fields have little experience in using these products. They are therefore unable to predict adequately the effect of certain quality characteristics on the function of the products, which means that sometimes problems are only identified after the products have been used. Because the end products in such fields tend to be highly priced, if problems occur, there's a risk of a huge financial loss for both the customer and Sumitomo Chemical. To address such quality risks, Sumitomo Chemical has drafted basic measures to prevent serious quality problems, and is implementing various preventive measures.

(1) Revision of the Company-wide Quality-Related Rules and Compliance Regarding Their Implementation (Preventive Action)

In March 2005, we conducted a review of company-wide rules concerning quality assurance, which resulted in a major revision. The new rules are designed to prevent the occurrence of quality problems, and require far more meticulous quality management. For example, information on product quality received from customers must now be processed and managed, while work conducted by outside contractors and materials procured from outside are now both subject to quality control. In addition, our business sectors are implementing business-sector rules and plant rules that comply with the company-wide rules but are oriented more toward practical implementation. We are therefore working to achieve increased customer satisfaction in the products we produce and market.

(2) Introduction of Guidelines for Managing Serious Quality Problems

Although we have long had internal guidelines for managing the occurrence of serious quality problems, we formulated new guidelines in March 2005. These new guidelines define basic procedures for company-wide cooperation in addressing serious quality problems when they occur. We have introduced these company-wide rules to respond quickly and appropriately to quality problems faced by our customers so individual problems will not harm the Company's overall reputation for quality.

(3) Product Evaluation Technology That Stays Ahead of Advances in Product Development Technology

Even with a fully functioning quality management system in place, unforeseen problems may still occur with products that incorporate cutting-edge technology. In order to win the trust of customers, our quality evaluation technology must

COLUMN

Quality Control of Each Individual Particle

Most of the grains and powders developed at the Tsukuba Research Laboratory have complex elemental compositions, and to ensure high performance, the elemental composition of each individual grain must be controlled. However, while conventional analysis technology allows analysis of the overall elemental composition, detecting the elemental composition of individual grains still presents difficulties.

In an effort to solve such problems, the Tsukuba Research Laboratory has introduced a device called a particle analyzer, which has made it possible to analyze the elemental composition of indi-

vidual grains. For example, we are now able to analyze phenomena such as the poor blending of ingredients resulting in samples having the same overall composition but variation in the elemental composition of the constituent grains. Using the particle analyzer to analyze elemental composition should enable us to improve the precision of our quality control in the manufacture of grains and powders.



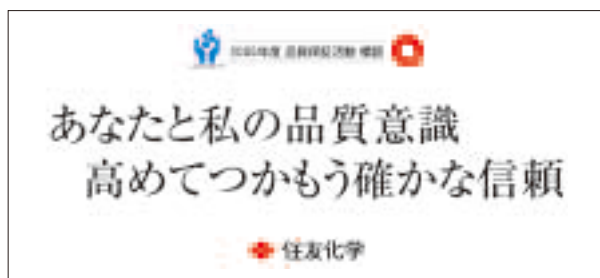
Particle analyzer

also be cutting-edge. To meet this challenge, Sumitomo Chemical takes a long-range perspective in its efforts to develop evaluation technology that stays abreast of advances in product development technology.

● Soliciting a Slogan for Company-wide Quality Assurance

We asked all our employees to submit suggestions for a slogan to define Sumitomo Chemical's fiscal 2005 quality assurance activities with the aim of building consensus among employees and providing high-quality products and services to our customers.

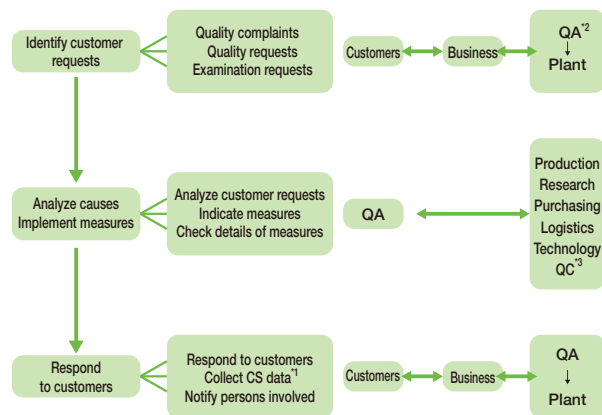
The winning slogan was "Earning trust by raising quality awareness," which has been made into a poster that is now displayed at all the Company's plants and sites. The slogan is also posted on the Company intranet, along with five runner-up slogans. By displaying these slogans, we hope to raise awareness of the importance of quality assurance.



● Promoting Customer Satisfaction

Sumitomo Chemical switched to a computerized product quality data management system in 2002 to handle customer complaints and requests more quickly and reliably. Specifically, each business sector organizes and analyzes the data in the system and takes action to prevent the recurrence of problems for each individual product. In addition, complaints or suggestions for improvement from customers regarding product quality are shared among our production, research, and sales departments. In fiscal 2005, our quality assurance slogan proclaimed that we should always be vigilant regarding information about

Customer Quality Data Management



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

product quality because ignoring it is the fast track to serious complaints. We promoted this slogan to encourage everyone in the Company to be more diligent in recording quality data.



Status display screen on the product quality data management system

● Quality Award Program Launched

To reinvigorate the Company's quality assurance activities, we established a quality award program in April 2006. The awards are presented to organizations for achievements that raise product quality. For example, an award might be presented to an organization that has devised solutions to quality-related requests from customers or raised product quality through efforts to improve quality evaluation technology.

● Initiatives to Ensure the Safety of Pharmaceuticals

Sumitomo Chemical produces pharmaceutical bulk and intermediates with a particular focus on active pharmaceutical ingredients for both domestic and overseas markets. These products are manufactured in compliance with domestic and overseas Good Manufacturing Practice (GMP)¹ requirements as part of the Company's efforts to maintain and improve daily management standards.

In fiscal 2005, in addition to being subject to GMP surveys by various customers and domestic government agencies, we were also subject to two inspections by the US FDA. We passed both these inspections, and were praised for our excellent management and controls.

As part of our in-house Responsible Care activities, we conduct periodic GMP Internal Quality Audits. These not only allow us to verify that our GMP management and controls are adequate, but also help us identify areas where we can improve.

We are also engaged in the manufacture and sale of general pharmaceuticals, and ensure the quality and safety of these products by complying with Good Quality Practices (GQP)² and Good Vigilance Practices (GVP)³ requirements stipulated in the revised Pharmaceutical Affairs Law. Our GQP and GVP management has also passed inspections for manufacturing and sales operations.

Sumitomo Chemical will continue to enhance its quality assurance initiatives in order earn the trust of its customers by providing high-quality, safe pharmaceutical chemicals.

*1.GMP : Standards for the manufacturing management and quality control of pharmaceuticals etc. (cGMP in the US)
 *2.GQP : Standards for quality control of pharmaceuticals etc.
 *3.GVP : Standards for the safety management of pharmaceuticals etc. after their manufacture and sale

● Product Safety Initiatives

Ensuring the safety of the products we provide to customers is one of the Company's top priorities and an essential part of our CSR.

Our basic principle of making safety top priority also applies to the safety of the people who actually handle and use our products. 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 after-sales service.

Accurate assessment of product safety and the implementation of reliable risk-reduction measures requires advanced technology and extensive experience applied within a company-wide framework. Sumitomo Chemical has the highly 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.

The movement to set international standards for the communication of safety data are gathering momentum worldwide. These aim to improve safety evaluations for chemical products and ensure that they are handled properly.

For example, common global standards for classifying and labeling dangerous or harmful properties of chemical products have already been drafted. These standards, known as the GHS (Global Harmonization System), will be introduced and implemented worldwide by 2008.

Although information on the dangerous or harmful properties of chemical products and essential information on their proper handling is already communicated to employees and other persons handling these chemicals using MSDSs (Material Data Safety Sheets) and labels, producing and providing MSDSs and labels that comply with the GHS stan-

dards will become compulsory. This makes it imperative for government regulators, associations and industry groups to formulate some basic rules. In addition to playing an active role in this process through, for example, the Japan Chemical Industry Association, the Company is also taking independent action to ensure that our in-house classifications of dangerous and harmful product properties and our MSDSs and labels comply with GHS standards.



A device at the EHSL for testing biodegradability

● Green Procurement Activities

As part of its Responsible Care activities, Sumitomo Chemical carries out green procurement on a company-wide basis in accordance with a green-procurement policy, and our approach has been highly praised by many of our customers.

While complying with the wishes of our customers is our first priority, we are also participants in green procurement programs being implemented by the Japan Chemical Industry Association, the electronic/electrical equipment industry, and the global automotive industry. We are also involved in government efforts to improve the transmission of information along the supply chain, and are therefore working to make our supply chains function better.

COLUMN

More Simply. More Safely.

Needlestick accidents—pricking by used hypodermic needles—is a common type of accident in the modern medical care field. Such accidents are potentially dangerous because they expose the person pricked to the risk of viral infection, and it has been reported that needlestick accidents account for 80% of all accidents resulting in exposure to blood or bodily fluids. Most needlestick accidents are caused by failure to replace the cap on the needle after use or improper disposal of needles.

Dainippon Sumitomo Pharma's Sumiferon DS, launched in 1997, is a disposable syringe filled with Sumiferon, a natural interferon- α preparation. Marketing Sumiferon in this form makes it much easier to administer. In July 2005, a new Sumiferon DS product was launched that features a mechanism to prevent needlestick accidents. This mechanism allows the user to contain the needle after administering the injection by following a series of simple steps.

Because Sumiferon is used to treat type-B and type-C hepatitis, extra care is necessary to prevent needlestick accidents. Since April 2005,

people with hepatitis C have been allowed to inject themselves with interferon- α preparations. This means that Sumiferon DS is now used in a wide variety of locations, including the home.



Sumiferon DS300

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 create a workplace environment in which individual employees can make the most of their motivation and skills, and to eliminate discrimination from every aspect of corporate activity in the spirit of the UN Global Compact.

Key Human Resource Objectives

As its business expands globally, Sumitomo Chemical has set out three priority human resource objectives— 1) appointing competent personnel to appropriate positions 2) operating in an increasingly global business world, and 3) utilizing a diverse workforce suited to a wide range of operations—so that employees can make the best use of their abilities in their work and enjoy a sense of purpose and satisfaction.

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. The Company will make institutional improvements so that in future employees are assigned to those areas in which they demonstrate the most aptitude, enabling them to perform their duties with enthusiasm and to enjoy a sense of purpose and satisfaction in their work and lives, with the result that they enhance the vigor of the Company as a whole.

2) Operating in an increasingly global business world

In today's increasingly global business world, we now have 42 overseas affiliates in 18 countries with a total overseas workforce exceeding 6,000 persons, a figure greater than Sumitomo Chemical's own total workforce. As the Company pursues large-scale overseas projects such as the Rabigh Project, the number of employees working overseas will increase further, as will the percentage of foreign nationals employed by the Company. Sumitomo Chemical has also endeavored to hire and train personnel capable of playing an active role on the international stage in confronting the human resources needs stemming from the globalization of business.

3) Utilizing 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 operations of the business or organization. Sumitomo Chemical has endeavored to secure and utilize its workforce in a planned manner that will enable it to respond flexibly to future business expansions and the need to hand down its technology to future generations.



Global HR Managers Forum

Fiscal 2005 Efforts

Sumitomo Chemical has been pursuing the following approaches to achieving these key objectives.

● Training Rotation

Since 2004 the Company has been carrying out systematic training rotations of younger employees to ensure future placement of individuals to positions for which they are best suited. In certain juncture years (administrative employees: 4th, 7th, and 11th years with the Company; engineers: 5th, 9th, and 12th years with the Company), employees are rotated among a range of fields, including overseas assignments, to enable them to gain broader experience; the wishes of the employees themselves and their competency (ability to produce results) are taken into account in these rotations. In fiscal 2005, 60 employees went through training rotation.

● Common Ground with Overseas Affiliates

To ensure that overseas affiliates share the Company's strategies and sense of values as members of the Sumitomo Chemical Group and achieve the Group's stipulated objectives, the 1st Global HR Managers Forum was held in April 2005 and the 2nd Global Managers Meeting in December in order to provide HR managers at overseas affiliate companies and supervisors with opportunities to exchange views.

On the basis of the discussions at these two meetings, we compiled the "Global Leader HR Values" booklet (February 2006), which enumerates the values we expect leaders worldwide in the Sumitomo Chemical Group to embrace. These HR Values will be incorporated into future HR training programs to ensure that they are adopted and implemented at all levels of the organization.

● Language Instruction

TOEIC English-language proficiency testing continues to be implemented Group-wide with the aim of improving language skills, an essential element in developing human resources for global business. Level-specific training programs based on the TOEIC scores of individual participants are also being implemented. Sumitomo Chemical has been awarding certificates to persons achieving a score of 730 or more, the level of English ability regarded

as a prerequisite for overseas assignments. The percentage of persons in all Group companies who have been so certified rose from 15.0% in the previous fiscal year to 17.5% in fiscal 2005.

Participation in Language Training Programs (Fiscal 2005)

Priority level-specific English-language training	A training program comprising e-learning and in-class lessons given by foreign instructors for persons with TOEIC scores of 600 or higher but less than 730	Course participants: 131
English-language business skills training	A training program aimed at improving the English-language business writing skills of persons with TOEIC scores of 730 or higher	Course participants: 277

● Introduction of Retiree Re-employment Program

In 2001, Sumitomo Chemical began a re-employment program for retirees, and in April 2006 introduced a new re-employment program in conformity with the Revised Law for the Stabilization of Employment of Seniors. This program is expected to enable employees to continue putting to use the skills and experience they have cultivated during the course of their careers, ensuring the seamless dissemination of business practices and skills in the workplace.

Number of Re-employed Retirees on Payroll

End of March 2003	End of March 2004	End of March 2005	End of March 2006	End of March 2007 (projected) After introduction of re-employment program
21	33	48	48	150

COLUMN

Global Leader HR Values

As part of its globalization effort, the Sumitomo Chemical Group has set forth a summary of "HR Values" using a series of keywords indicating how leaders in Japan and overseas should think and act, and how they should manage their organizations. These HR Values describe the type of personnel Sumitomo Chemical seeks to foster in terms of "abilities," "feelings," and "actions" in accordance with its management philosophy and vision.

The Company encourages its leaders to manage their organizations by acting in accordance with these HR Values, aiming to foster organizations that embrace our HR Values in the conduct of their business and encourage each and every employee to develop a truly international outlook.



Global Leader HR Values Booklet

Human Resources Systems

Sumitomo Chemical has introduced an HR system premised on the concept of eliminating age-related factors and seniority to ensure that treatment with respect to promotion and advancement fairly reflects work performance and accomplishments.

● Salary System

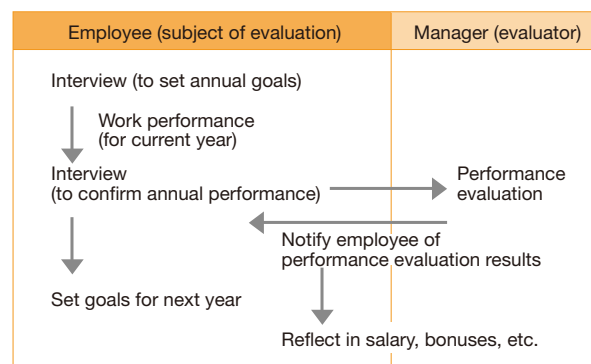
The seniority system has been eliminated and replaced with a salary system based directly on job description and work performance. The retirement benefit system has also been changed to a point-based scheme in order to minimize the correlation between pay and age, and to reflect more accurately differences in job description and performance.

● Performance Evaluation System

Interviews have been incorporated into the performance evaluation system to properly evaluate employees' skills and performance as demonstrated in their work. Interviews and one-on-one discussions between individual employees and their direct superiors are used to set beginning-of-term work objectives and confirm achieve-

ment of end-of-term targets. Notifying employees of their evaluation results makes them aware of problems and provides feedback that enables them to set objectives for the next fiscal year.

Outline of Work Performance Evaluation System



Creating an Attractive Workplace Environment

● Reduction of Designated Working Hours

Sumitomo Chemical began reducing working hours starting in April 2006. In a related effort, joint labor-management meetings of the Working Hours Committee were convened between April and September 2005 to discuss ways of improving work productivity in order to reduce working hours. The Company has been implementing other measures to reduce working hours in the future, including the designation by facilities and workplaces of one day each week on which employees may return home early ("Refresh Day").

Comparison of Annual Designated Working Hours



● Employee Assistance Programs for Childcare and Nursing Care

Sumitomo Chemical has improved its employee assistance programs to allow employees needing to provide childcare or nursing care to manage both their work and household responsibilities.

- Childcare Leave and Nursing Care Leave
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.
- 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.
- 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.
- Accumulation of Lost Vacation Days
Up to 60 days of unused paid vacation may be used as conserved leave from the following year by employees needing to care for children or family members.

Employee Assistance Programs Usage

	Fiscal 2004	Fiscal 2005
Childcare/nursing care leave	50 employees	51 employees
Shorter workday measures	4 employees	7 employees
Exemption from late-night work and limited overtime	0 employees	0 employees
Accumulation of lost vacation days	7 employees	8 employees

● **Employment of the Physically Challenged**

Sumitomo Chemical is enthusiastically employing physically challenged persons to enable them to participate more actively in society and to develop their skills. When assigning physically challenged persons to workplaces, the Company devises work duties in accordance with the particular situations of individuals and their degrees of disability, and makes the necessary adjustments to the

Employment of Physically Challenged Individuals

Fiscal year	2001	2002	2003	2004	2005
Employment rate	1.97%	1.99%	2.08%	1.93%	1.85%

Employee Training Programs

Sumitomo Chemical has been offering a range of human resource development and support programs to train world-class professional personnel and to enable motivated personnel to utilize their skills to their full potential. These programs include training for competency development and the acquisition of knowledge and skills needed in present and prospective positions, as well as training to produce the leaders of the next generation to ensure early on that the Company has personnel capable of responding to globalization and enacting reforms.

The Company has also been providing Responsible Care education for all its employees—from new employ-

HR Development and Support Program

Knowledge/skills	Basic course
	Primary course
	Specialist technical training
	Specialist knowledge training (legal affairs, intellectual property, quality control, etc.)
Competency	Competency development training
	Competency development guide
International business	TOEIC test preparation
	Conversational English training by priority level
	Basic training in overseas business skills
	Overseas dispatch/study overseas/trainee system
Early cultivation of global leaders	Early training of global leaders
	Leadership training
Other	Training in life design
	Central Social Integration Issues Training Promotion Committee

Protection of Human Rights

Sumitomo Chemical is striving to create a workplace in which all employees understand and are aware of human rights issues and the importance of respecting the rights of others. In January 2005 the Company announced its participation in the UN Global Compact, and has declared its intent to eliminate any human rights infringements from its corporate activities .

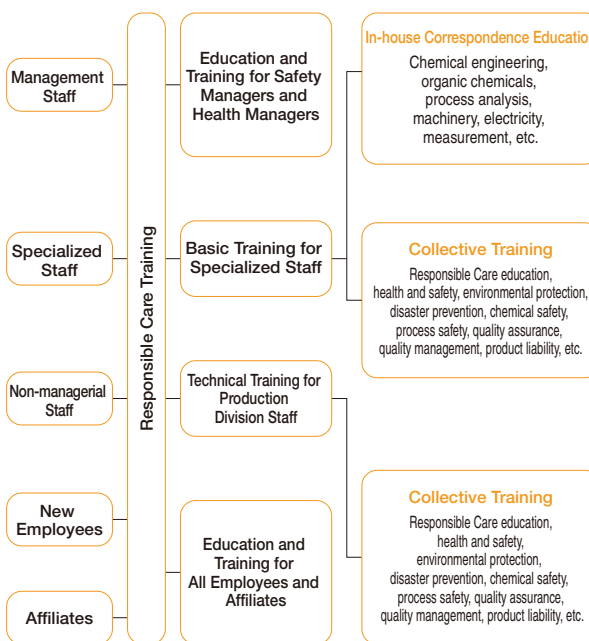
workplace environment (e.g., the addition of wheelchair ramps) to ensure that physically challenged persons can fully exercise their abilities.

● **Protection of Personal Data**

With the full enforcement of the Personal Information Protection Law in April 2005, the Company has been introducing ever more sophisticated measures for handling the personal information in its possession. Both hardware and software approaches are being taken, including improved training for employees who handle personal data and limits on the number of terminals from which personal data can be accessed.

ees to management—and even for those of Group companies in order to inculcate the RC philosophy.

Responsible Care Training



● **Initiatives against Sexual Harassment**

Sumitomo Chemical has undertaken Company-wide efforts to prevent sexual harassment and similar behavior. These entail not simply determining whether specific behavior in individual cases qualifies as sexual harassment, but rather addressing issues within the larger framework of creating a workplace in which people can demonstrate their skills regardless of gender. Sexual harassment counseling centers have been set up in all facilities as part of these efforts.

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.

Promotion of Social Contribution Activities and Community Communication

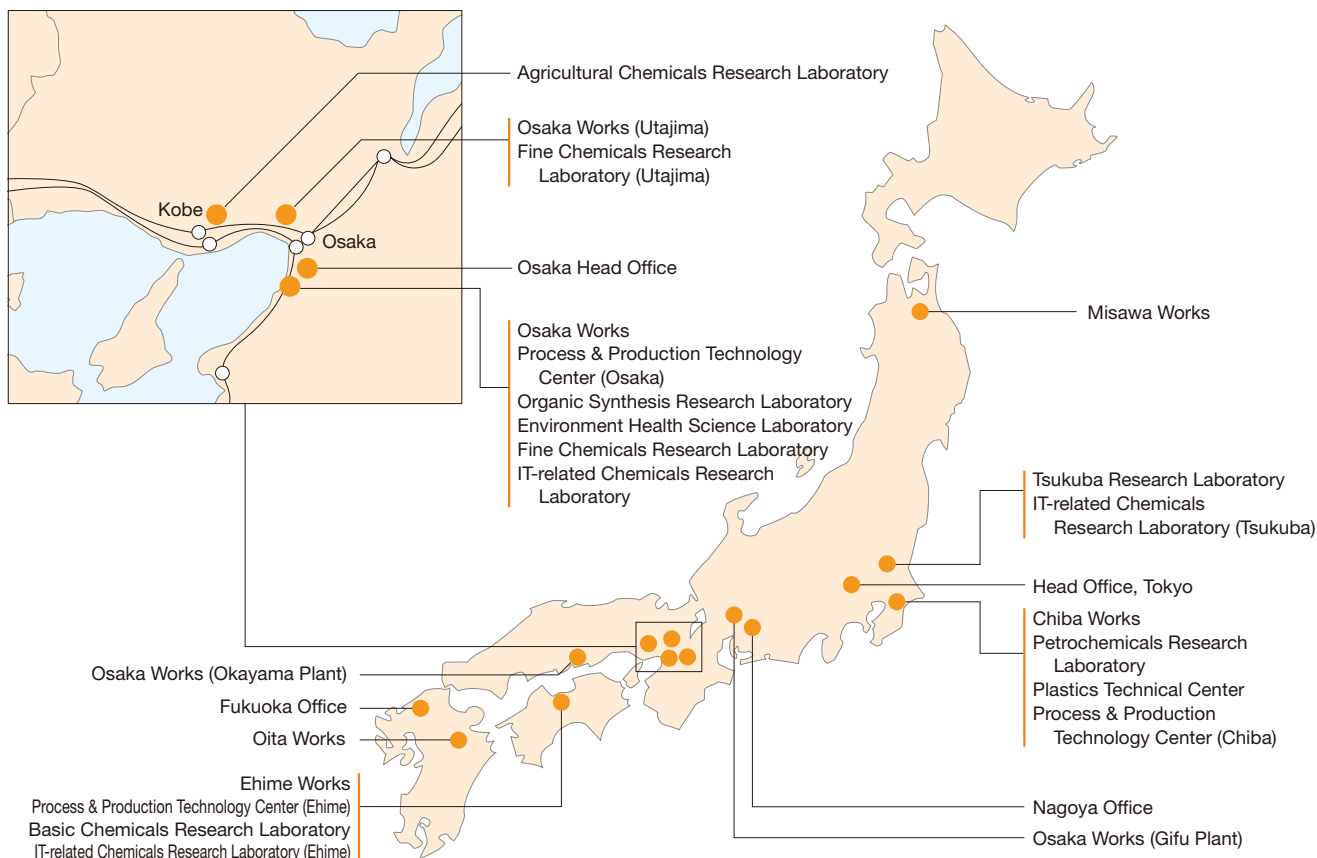
Sumitomo Chemical has been promoting activities to contribute to society and enhance communication between local communities and its facilities and Group companies, plotting its efforts on the vertical axes of (1) assuring due attention to the environment, safety and health, (2) raising the children who will lead the next generation, and (3) assisting in natural disasters, and on the horizontal axes of (1) “contributing to communities” near facilities, (2) “contributing to the future,” starting with educational assistance for young children, and (3) “contributing to the world” by providing assistance to the international community.

Envisioned Matrix of Activities

	(1) Contributing to communities	(2) Contributing to the future	(3) Contributing to the world
(1) Assuring due attention to the environment, safety, and health	<ul style="list-style-type: none"> Plant tours Dialogue through RC gatherings Distribution of community newspapers 	<ul style="list-style-type: none"> Investment in BioCarbon Fund 	<ul style="list-style-type: none"> Support for the Roll Back Malaria Campaign
(2) Raising children who will lead the next generation	<ul style="list-style-type: none"> Assistance for: Young Inventors' Clubs School science visits Cooperation in civic and university courses 	<ul style="list-style-type: none"> Educational assistance in Africa University scholarships in China and Hungary Acceptance of environmental technology trainees 	
(3) Assisting in natural disasters	<ul style="list-style-type: none"> Relief activities after typhoons and other disasters Preparations for opening facilities to the public after large-scale disasters 		<ul style="list-style-type: none"> Monetary donations for victims of Sumatra earthquake, hurricanes in the US, earthquake in Pakistan, etc.

Sumitomo Chemical Domestic Facilities

Locations of head office, branches, plants, and laboratories



Plant/Laboratory Tours (Contributing to the Community)

The relationship between Sumitomo Chemical's Works and the surrounding communities is not merely a relationship between the local government and the site operator. These communities are also the places where employees

live. Sumitomo Chemical's Works are pursuing various means of communicating with others in their communities on a day-to-day basis.

Plant/Laboratory Tours

● Environmental Monitor Meetings (Oita Works)

The Oita Works has been contacted from time to time by local residents about its impact on the environment in the surrounding community and especially about offensive odors. In addition, the Oita Works has been asking nearby residents recommended by the neighborhood community association as well as present and former Sumitomo Chemical employees to serve as environmental monitors so that the Company can develop faster responses. Meetings for all environmental monitors recommended by the community association are held twice each year to solicit their opinions on the environment.

In collaboration with the Oita Petrochemical Complex, the Oita Works has also been holding Responsible Care (RC) Community Dialogue Mini-assemblies once every two years at the Works for persons in the local school district. With the Works seeking close communication with nearby residents, these gatherings are built around exchanges of opinions in dialogues with residents to promote greater understanding of chemical plants and RC among local residents.



Environmental monitor meeting



RC Community Dialogue Mini-assembly

● Plant Tour Offered by "Misawa Watching" (Misawa Works)

On August 4, 2005, 16 residents of Misawa participated in a tour of the Misawa Works in connection with the "Misawa Watching" Project being implemented by Misawa City's Public Relations Department. This "Misawa Watching" Project offers three different bus tours for local residents to learn more about Misawa, and the Misawa Works was selected as a tour destination for factory tours.

The Misawa Works has been praised by a variety of people for its environmental conservation efforts, and tour visitors to the works were surprised to find a landscaped area around the plant.

The Company hopes to deepen local residents' understanding of the Misawa Works' business activities and to make the plant a familiar presence in their community.



Local residents touring Misawa Works

Educational Support (Contributing to the Community and to the Future)

Among Sumitomo Chemical's educational support efforts are the Young Inventors' Clubs set up jointly with local governments, and school science visits in which employees are dispatched to elementary and junior high schools

offer lessons to the children who will lead the future with the aim of encouraging them to take an interest in science and technology. The Company is also engaged in other activities tailored to the particular needs of communities.

Examples of Educational Assistance

● Learning the Pleasure and Thrill of Creating Things: Ichihara-Sodegaura Young Inventors' Club (Chiba Works)

The Young Inventors' Club for the cities of Ichihara and Sodegaura was set up four years ago, and the number of applicants has far exceeded the quota in each of those years; 147 children from the third to eighth grades were selected by lottery to participate last year. This club ranks fifth in size among the 190 Young Inventors' Clubs nationwide.

The Chiba Works started the Young Inventors' Club four years ago in commemoration of its own 35th anniversary to contribute to the development and invigoration of local communities. This approach has received a great deal of praise from various quarters.

The enthusiasm and steadfast cooperation of numerous parties have been essential to the continuation of these activities: the Ichihara and Sodegaura Boards of Education, the Anesaki Elementary School (which allows us to use vacant classrooms), and 47 volunteer instructors comprising Sumitomo Chemical employees, school alumni, and regular teachers.



Science experiment on urethane foam elicits a spontaneous shouts of joy from students entering the unknown world of chemistry.



● "Mystery, Experience, Chemistry" (Oita Works)

On October 14, 2005 the Oita Works conducted a school science visit entitled "Mystery, Experience, Chemistry" at the local Tsurusaki Junior High School.

Engineers from the Oita Works and Showa Denko KK have been sent to local elementary and junior high schools since fiscal 2004 on such visits. As these visits have been so well received, the program was expanded from three schools in the previous year to 11 schools this year.

The ultimate aim of enabling children to experience the fascination, the fun and the mystery of chemistry through these school science visits is to spark in them interest and curiosity about chemistry and to promote science education in some small way.



School science visit

● Experiences via School Science Visits (Gifu Plant, Osaka Works)

The Gifu Plant has been conducting annual plant tours for nearby residents. As a new activity for contributing to the community, the plant offered on December 8, 2005 a school science visit entitled "Chemical Separation and Change of State" for 26 sixth-grade students at the local Maki Elementary School. Under the guidance of engineers from the plant, the students carried out three experiments.

- (1) Separation of ink constituents from a water-based felt-tip pen through paper chromatography
- (2) Recrystallization of sodium acetate trihydrate
- (3) Instantaneous freezing of roses, balloons and rubber balls

using liquid nitrogen

The students discovered that the black ink in felt-tip pens is composed of several color elements, emitted gasps of delighted surprise at the "crystallized flower" in a Petri dish, and showed great interest in phenomena occurring at 196 degrees below freezing.



School science visit

International Exchange (Contributing to the World)

Examples of International Exchange (Special Focus on Japan-Korea Ties)

● Co-sponsorship for Japan-South Korea Joint Dance Production “Karamai: White Dojoji”

To mark the 40th anniversary of the normalization of diplomatic relations between Japan and South Korea, “Karamai: White Dojoji,” a joint Japan-South Korea dance production co-sponsored by Sumitomo Chemical and Dongwoo Fine-Chem Co., Ltd., a Sumitomo Chemical Group company in South Korea, went on tour in 2005, with performances in Seoul on November 3 and 4 and in Kitakyushu, Nagoya, Tokyo and Osaka from November 13 to 17.

Many narratives about Dojoji can still be found in Japan, and it has frequently been taken up as subject matter in the performing arts. This new work by Rie Kim, born in Japan but an heir to Korean traditional dance, features an interpretation rooted

in Korean culture using white, the symbol for the White-clad People (the Koreans), as a theme.

The Tokyo performance held in the New National Theater on November 15 was attended by many guests, and upon its conclusion was deemed a major success.



Karamai (Korean dance)

● Darasan Association—Community Contribution Activities in South Korea

With the support of Dongwoo Fine-Chem, a South Korean member of the Sumitomo Chemical Group, a volunteer group of employees from Dongwoo’s Pyongtaek and Iksan Plants known as the Darasan Association has been engaged in activities that contribute to their communities, which have included paying visits to the homes of elderly persons living alone and providing assistance to orphanages.

In addition to carrying out their annual fundraising activities in fiscal 2005, the members of the Darasan Association paid direct visits to facilities and engaged in voluntary activities to contribute to their communities, ranging from the provision of meals, snacks, heating fuel, soap & detergent, and year-end and New Year presents to assisting with day-to-day housecleaning and bathing.

Dongwoo Fine-Chem also provides assistance in the form of funding for beautification projects at local elementary schools, and clothing and food & beverages for running competitions for the physically challenged.



Supporting a race for the physically challenged



Visiting an elderly resident living at home alone

● Assisting in the introduction of Korea’s first total water pollutant load control system

South Korea is presently considering the introduction of its first total water pollutant load control system (a system to keep below a stipulated level the total volume of pollutants discharged into a body of water, with the aim of preserving the water quality) on the Han River and tributaries. In this connection, a team from South Korea’s Han River Basin Environmental Agency visited the Chiba Works on March 9, 2006 to gather information on its wastewater processing and incineration facilities.

The Han River Basin Environmental Agency is engaged in producing instructional and educational materials (videos) for the Korean public to disseminate information on, and promote the adoption of, this system. Accordingly, it decided to collect information on the pioneering efforts of local governments and companies in Japan, where total water pollutant load control systems are already in place. Sumitomo Chemical’s Chiba Works was singled out to represent Japanese companies.

The Chiba Works offered across-the-board cooperation to the team, one of whom remarked at the end of his visit: “The care taken throughout the works is evident, and I was surprised at how clean the facilities were. Our visit to gather information has been extremely worthwhile, and I hope to use this information effectively in our own country’s efforts.”



Gathering information



Together with staff from the Han River Basin Environmental Agency

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Participation by Volunteers in Japan Table Tennis Championships for the Disabled (Osaka Works)

During the 6th Japan Table Tennis Championships for the Disabled held at the Maishima Sports Center for the Disabled in Osaka's Konohana Ward on November 19 and 20, 2005, a total of 89 employees from the Osaka Works, laboratories in Osaka, and other Group companies participated as volunteer ball persons. Ball persons retrieve balls from spots unreachable by players in wheelchairs and other disabled players and return them to the players.

This championship tournament, hosted by the Japan Disabled Table Tennis Association, categorizes participants by handicap, with the top ranking winners sent to represent Japan in international tournaments. About 250 players from around the country participated, engaging in hard-fought individual and group matches during the two-day event.

The tournament officials remarked that assistance with preparations, during play, and with post-tournament cleanup enabled them to run their best tournament ever, and the volunteers also received thanks from all of the players. It was particularly memorable when players with serious disabilities took the trouble after their matches to come to the volunteer waiting area and thank the volunteers for serving as their ball persons.



Volunteers outfitted in blue jerseys participating

Activities for Donating to Society

Sumitomo Chemical ranks activities for donating to society alongside those for contributing to communities among its key social responsibilities as a company.

Under the banners of "contributing to communities," "contributing to the world," and "contributing to the future," Sumitomo Chemical takes into consideration social significance, relevance to its business, long-term continuity and urgency when making donations.

Principal donations

(Unit: million yen)

World Vision Japan—educational assistance project in Africa	30
The University of Tokyo Fund	20
Global AIDS, Tuberculosis, and Malaria Fund	11
Donation for victims of Hurricane Katrina (US)	10
Donation for victims of earthquake in northern Pakistan	5

Fiscal 2005 Donations

National/local public organizations	16 donations
Culture/sports	34 donations
Overseas assistance	22 donations
Public-service corporations, schools, and other groups	184 donations
Disaster donation funds	3 donations
Other	148 donations
Total	407 donations

(Total: 180.42 million yen)



Olyset Net proving useful in malaria prevention

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.

Policies and Achievements in Information Disclosure and Communication

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

● Joint “Environmental Dialogue Meeting” (Chiba Works)

On February 4, 2006, Sumitomo Chemical held the “Environmental Communication in Chiba—Environmental Dialogue Meeting” with the cities of Ichihara and Sodegaura in Chiba Prefecture at the Company's Chiba Works. Local residents, experts in risk communication, environmental NPOs, chemical advisors, and local officials were among the 100 or so participants. After tours of the Chiba Works, the Company briefed participants on its basic chemical management policies and risk assessments and measures taken to reduce emissions, and then hosted a lively exchange of views on the handling and disposition of chemicals and disaster response. This environmental dialogue meeting was subsequently presented as an example of Sumitomo Chemical's risk communication in the “Chemical Risk Communication Seminar” hosted by Chiba Prefecture on March 6 (see page 16 for details).



Environmental Dialogue Meeting

● Joint “Responsible Care Regional Dialogue” (Oita Works)

On February 25, 2006, the Japan Responsible Care Council (JRCC) together with JRCC member companies in the Oita region hosted the 5th Oita Region Responsible Care Regional Dialogue at the Oita Works. The program consisted of four parts—presentations of examples (Sumitomo Chemical and other two companies), a panel discussion (11 panelists from Sumitomo Chemical and other companies), a plant tour (Sumitomo Chemical's Oita Works), and an exchange of views—and 107 nearby residents and others participated in the dialogue.

A questionnaire survey was conducted beforehand so that the wishes and opinions of local residents could

be reflected as much as possible in the dialogue proceedings, and Sumitomo Chemical's presentation of examples focused on the hot topics of earthquake and asbestos countermeasures. The National Institute of Technology and Evaluation (NITE), another participant, commented that the Oita area maintains close ties with companies, and is thus an ideal area for open presentations.



Regional Dialogue

● Lecture at Public PRTR Seminar (Ehime Works)

On December 3, 2005, the environmental NPO Toxic Watch Network hosted a public seminar on “PRTR and Environmental Conservation in the Seto Inland Sea,” at which the Environment & Safety Department of the Ehime Works offered a lecture on “Our Plant's Approaches to Chemical Management and Other Matters.” Together with introducing Sumitomo Chemical's views on Responsible Care and presenting examples of reductions of PRTR-targeted substances at the Ehime Works, examples of communication with communities, and examples of risk management, the Company also participated in the panel discussion, seeking out exchange with members of the general public.



Lecture at Public PRTR Seminar

Economic Activities

Focusing efforts in six business Sectors, Sumitomo Chemical is currently working to boost profitability by continuously developing and supplying products and services that enhance people's lives.



Business Sectors

Basic Chemicals Sector:	Inorganic chemicals, synthetic fiber materials, organic chemicals, methacrylates, alumina products, aluminum
Petrochemicals & Plastics Sector:	Petrochemical products, synthetic resins, synthetic rubber, processed synthetic resin products
Fine Chemicals Sector:	Functional materials, additives, dyestuffs, pharmaceutical chemicals
IT-Related Chemicals Sector:	Optical products, color filters, 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. One that operates with competitive strength in global markets
2. One that continues to grow on the strength of accumulated technologies, with a focus on high added value and profitability
3. One that operates in accordance with global standards, places importance on shareholder value, and instills a sense of purpose in its employees

During fiscal 2005, the second year of our current Three-Year Corporate Business Plan, we continued to implement our growth strategy in each of our business Sectors based on the three fundamental principles of the Plan: (1) Thorough "Selection & Concentration" to Focus

on Core Competencies (2) The "Shift to Higher Value-Added Products," and (3) "Extending our Global Reach."

Sumitomo Chemical will steadily continue making focused investments to expand the scale of our business in fields such as life sciences and IT-related materials where the Company possesses technological strengths and which are also high-growth, highly profitable areas. During fiscal 2005, the Company made strategic investments in the IT-related Chemicals Sector in particular, undertaking capacity expansions in our liquid crystal display (LCD) business.

In order to accelerate the shift to higher value-added products, we commenced market sales of our proprietary Easy-Processing Polyethylene (EPPE), a new type of polyethylene that combines superior processibility and strength. In addition, the conversion of our plant in Singapore from the production of linear low-density polyethylene (LLDPE) to the production of polypropylene (PP), a more profitable product, is scheduled for completion in the summer of 2006.

We have been expanding our IT-related Chemicals business in Korea, Taiwan and China, and strengthening our petrochemical operations and our methyl methacrylate (MMA) business in Singapore as well as reinforcing the foundations of our Agricultural Chemicals operations in China, India and Vietnam. We are also making efforts to

expand our business operations into Asian markets such as those of India and Vietnam that show high growth

potential, in addition to the remarkably high-growth markets of China.

Growth Strategy

● The IT-related Chemicals Sector Makes Strides through Focused Investment Under Our Three-Year Corporate Business Plan

In accordance with the basic principles of Sumitomo Chemical's current Three-Year Corporate Business Plan, we have been pursuing focused investment in the IT-related Chemicals field. The IT-related Chemicals Sector manufactures most of the major constituent materials for liquid crystal displays (LCDs), and because of continued growth in the market for LCDs along with the trend

toward increasingly large display sizes, demand is forecast to increase considerably in the future.

The IT-related Chemicals Sector has been working to expand its production infrastructure to enable it to meet demand for our LCD-related materials amid the vigorous growth in the market for LCD televisions. In February 2006, the Company decided on expansions in production capacity for polarizing film at each of its production bases in Japan, Korea and China.

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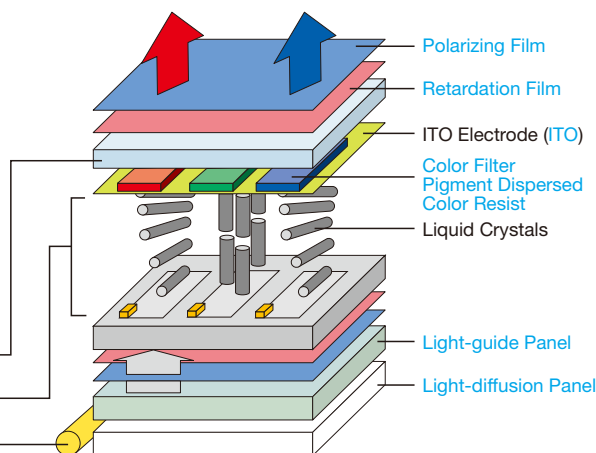
Sumitomo Chemical Products Used in LCD Panels

As this diagram shows, Sumitomo Chemical manufactures many of the constituent materials used in LCD panels. LCD panels are used in a wide variety of electronic devices such as mobile phones, televisions, watches and calculators, and are forecast to see steadily increasing market growth in the future.

Structure of Liquid Crystal Displays

Sumitomo products are indicated by blue text. Parentheses indicate raw materials.

Glass Substrate (Low-soda Alumina)
Liquid Crystal Layer (Photoresists, Targets, Etchant, Removers, High-purity Chemicals, etc.)



● Progress on the Rabigh Project

(Please refer to page 15 for an overview of the Rabigh Project)

In March 2006, we held the groundbreaking ceremony on site in Rabigh. On that occasion, we welcomed many involved in the project, including personnel from the governments, banks, and construction contractors from both Japan and Saudi Arabia. It was a particular honor to welcome His Excellency Minister Naimi, Saudi Arabia's Minister of Petroleum and Mineral Resources, and Japan's then Ambassador to Saudi Arabia, Ambassador Saito.

The Company has also concluded contracts for the project finance with the Japan Bank for International Cooperation (JBIC), Saudi Arabian national financial institutions, commercial banks from both countries, and a consortium of private financial institutions. We have also conducted thorough risk management for our investment in the Project, with the associated risks being hedged in

part through Overseas Investment Insurance from Nippon Export and Investment Insurance (NEXI).



From left to right, Hiromasa Yonekura, President of Sumitomo Chemical, Minister Naimi, Saudi Arabia's Minister of Petroleum and Mineral Resources, and Mr. Jum'ah, CEO of Saudi Aramco pressing the button to start a large earth drill that broke ground for the Rabigh Project.

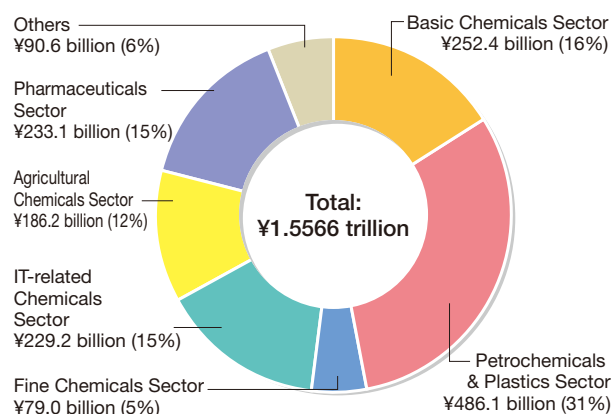
Business Performance in Fiscal 2005

Fiscal 2005 Results: Net sales:	¥1.5566 trillion
(Consolidated) Ordinary profit:	¥141.1 billion
Net income:	¥90.7 billion
Capital expenditures:	¥124.9 billion
R&D expenses:	¥91.9 billion

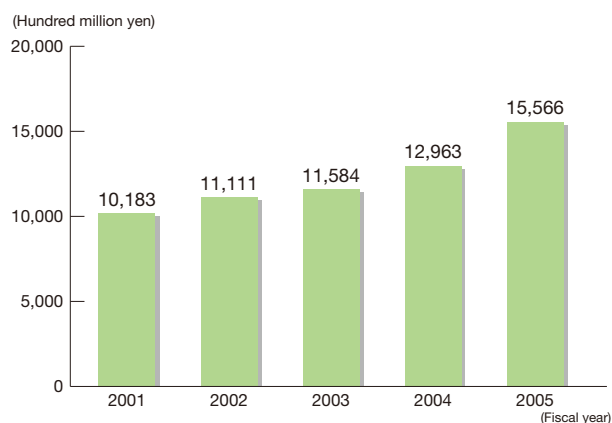
Number of employees: 24,160 (as of March 31, 2006)

Subsidiaries and Affiliates: Dainippon Sumitomo Pharma Co., Ltd., Sumika Takeda Agro Co., Ltd., Valent U.S.A. Corp., Dongwoo Fine-Chem, Co., Ltd., The Polyolefin Company (Singapore) Pte. Ltd., and others. Total: 105 companies (as of March 31, 2006).

Sales by Sector in FY2005



Sales Trends (Consolidated)



Summary of Fiscal 2005 and Status of each Sector

Basic Chemicals Sector

Breaking Ground for MMA Production Capacity Expansion

In April 2006 in Singapore, the Company held the ground-breaking ceremony for a planned large-scale expansion of our facilities for the production of MMA, the raw material for acrylonitrile resins.

In August 2005, we completed an 80 thousand ton-per-year MMA monomer facility. Construction has begun on the new facilities, which will add another 90 thousand tons of MMA monomer and 50 thousand tons of MMA polymer annually to meet the vigorous demand growth occurring mainly in Asia.

This planned expansion will leverage our revamped procurement infrastructure and logistics system in Singapore while at the same time capitalizing on our proprietary technology and highly efficient methods of operation to achieve high cost-competitiveness and further increase profitability.



Groundbreaking ceremony

Petrochemicals & Plastics Sector

Expanding Our Propylene Oxide Business

Expansion of the Company's business in propylene oxide (PO) and its derivatives involves efforts throughout the Sumitomo Chemical Group. Our subsidiary, Nihon Oxirane Co., Ltd. completed facilities in Chiba for the manufacture of propylene glycol (PG), which have now been in commercial operation since spring of 2005. PG is used as a raw material in resins used for bathtubs and boat hulls and also as a surfactant, and is expected to see high market growth in Asia.

The Company also plans to construct new facilities for the production of PO with an annual capacity of 200 thousand tons as part of its Rabigh Project. The PO produced at the Rabigh plant will be marketed through Nihon Oxirane to China and other Asian markets.



Nihon Oxirane's facilities for manufacturing propylene glycol

Fine Chemicals Sector

Expanding Production Capacity for Automotive Tire Adhesives

The Company's specialty chemicals business, built on our proprietary organic synthesis technology, provides high value-added specialty chemicals to countries around the world.

Adhesives for automotive applications such as tires and interior components as well as stabilizers are seeing steady market growth as the automotive industry, particularly in Asia, continues to grow. The Company will implement production capacity expansions as necessary to provide the industry with a stable supply of these materials.

In November 2005, the Company expanded capacity at its Ehime Works for the production of rubber antioxidants, and in January 2006, we completed a capacity expansion at our facilities in Thailand for the production of automotive tire adhesives. In addition, we are starting on a production capacity expansion at our Chiba Works for adhesives raw materials.



Manufacturing facilities for rubber antioxidants at the Ehime Works

IT-Related Chemicals Sector

Increasing Production of Polarizing Film for Large-Screen TVs

The Company has decided to implement large-scale production increases for raw material rolls of polarizing film for large-screen LCDs at its facilities in Japan, Korea and China by an annual total of 34 million square meters. These capacity expansions are scheduled for completion in June–July 2007, and will bring the Company's total annual production capacity for polarizing film to 76 million square meters.

Large-screen LCD televisions are gaining an increasingly large market with remarkable speed, and this is driving demand for polarizing film, one of the main components of LCD panels. Sumitomo Chemical has long been making advances in the development of polarizing film for large-screen displays. Our products have gained a reputation among our customers in the LCD manufacturing industry for their high quality and functionality, and are beginning to set the industry standard. Our new facilities will include lines dedicated to the production of polarizing film for large-screen televisions, and will incorporate the latest technology to achieve even higher standards of productivity and quality control.



Polarizing film manufacturing facilities at our subsidiary in China

Agricultural Chemicals Sector

New household insecticide launched in Asia

The Company has developed a new pyrethroid active ingredient for use in household insecticides that is considerably

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

Furthermore, its high efficacy that allows it to be used in very small amounts makes it an attractive product in a consumer market where demand for products that contain fewer chemical substances is increasing.



Mosquito coils are only one example of the many applications for our products

Pharmaceutical Sector

Distribution of Positron Emission Tomography (PET) Diagnostic Agent Commences for Insurance Examinations

Nihon Medi-Physics has developed and is now manufacturing and distributing its PET (positron emission tomography) diagnostic radiodiagnostic, FDGScan Injectable (generic name: Fludeoxyglucose (18 FDG)), in Japan. The PET procedure allows early diagnosis of malignant tumors utilizing an innovative imaging procedure that uses a tiny amount of radiopharmaceutical as a tracer. By injecting the agent into a patient's body and taking an image of the agent accumulating in the targeted organ or lesion from outside the body, the PET procedure is able to provide vital diagnostic information about the condition of diseases. Previously, 18 FDG for diagnostic use was prepared in-house by medical institutions and its use was limited to examinations conducted at those institutions.

Because of the significant investment required for an institution to produce the diagnostic agent in-house, only a very few offered PET examinations. In July 2005, Nihon Medi-Physics obtained approval for the use of FDGScan Injectable as a pharmaceutical, and this PET diagnostic agent began to be covered under Japan's national health insurance in September of the same year. Approval of 18 FDG and its health insurance coverage have increased the likelihood that a greater number of medical institutions will be able to introduce the PET procedure. Because the half-life of 18 FDG is as short as 2 hours, Nihon Medi-Physics has established nine supply facilities located close to major medical institutions for timely distribution throughout Japan. This will make PET diagnostics the new cornerstone of the company's core business of diagnostic nuclear medicine.



A patient undergoing the PET procedure

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.

Sustainable Management Rating

In fiscal 2005, Sumitomo Chemical underwent the fourth consecutive evaluation of its sustainable management rating* (this evaluation covered key companies consolidated on a financial basis) by the Sustainable Management Rating Institute (SMRI), an organization affiliated with the non-profit organization Sustainable Management Forum of Japan.

The results were published on June 26, 2006. Of the 63 areas evaluated for Sumitomo Chemical (business: 15; environment: 24; social: 24), 45 were rated as superb, 17 as excellent, and one as good, with none rated as fair or poor. The average score achieved was 93.6 percent.

SMRI's findings (comprehensive evaluation) and a tree diagram of the assessment results are given to the right.

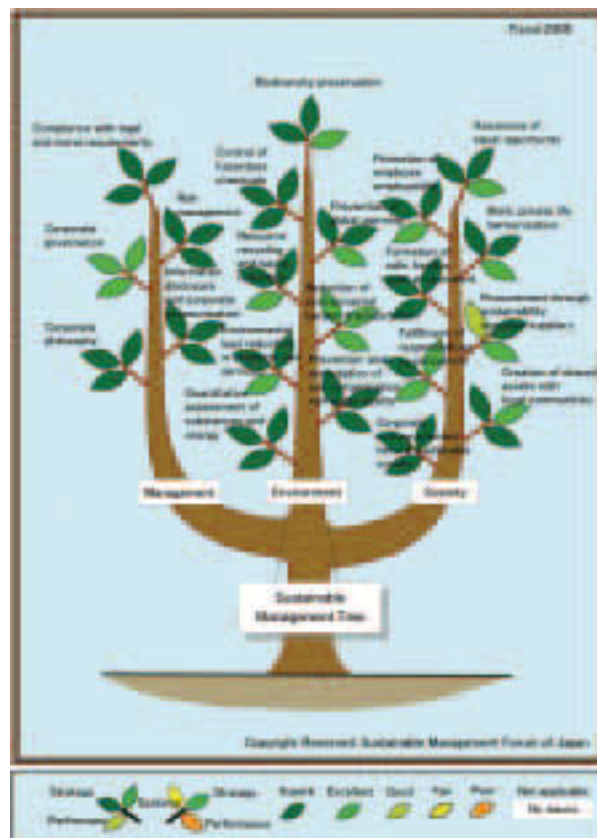
Sumitomo Chemical considers this rating review an excellent indicator for evaluating the degree to which the Company is objectively tackling CSR issues. The Company plans to participate actively in similar audits in the future to improve its CSR activities further.

* Sustainable Management Rating: This rating was previously conducted three times under the name of Environmental Management Rating, but was renamed the Sustainable Management Rating in fiscal 2005 (the fourth rating). The assessment methods were determined through an across-the-board review of the earlier Environmental Management Rating.

Comments from the Sustainable Management Rating Institute (comprehensive evaluation)

We have confirmed in this assessment of sustainable management that Sumitomo Chemical has undertaken a broad range of high-level measures for each item. The Company has, since its founding, regarded prospering alongside and contributing to society as its corporate mission (evidenced in its resolution of pollution issues at the Besshi Copper Mine and the development of technology to convert waste to fertilizer), and it is our understanding that today's Sumitomo Chemical embodies this long-standing approach. We believe that the Company has constructed a scheme that seamlessly incorporates CSR efforts by synchronizing the business spirit it has cultivated thus far with the Company's proprietary technology in order to better meet society's CSR demands and broadened social boundaries.

We anticipate that Sumitomo Chemical, as a leading company in sustainable management, will contribute to the development of a sustainable society as its efforts transcend boundaries and receive greater recognition from other industries and the general public.



COLUMN

"A" rating in TECO Environmental Rating

In April 2006, the Tohatsu Evaluation and Certification Organization Co., Ltd. (TECO) announced environmental ratings of 491 companies issuing environmental reports as well as the results of evaluations carried out using these companies' most recent environmental reports (fiscal 2005 edition) and other publicly released information.

TECO gave Sumitomo Chemical received a single A rating.

Thirty-four companies were rated A or higher*, and companies rated A are regarded as "companies with positive approaches toward the environment that present little risk of creating serious environmental problems."

* There are a total of nine ratings, with the highest rating of AAA (two companies) followed by AA (11 companies), A (21 companies), BBB, BB, B, CCC, CC, and C.

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 Review Report

COLUMN

Independent auditor's comments

It seems clear that Sumitomo Chemical dedicated particular effort to Group management in its Responsible Care approaches for fiscal 2005. This review did discover redundancies in the collection of environmental impact data among Group companies and inconsistencies in collection standards. Although these issues were addressed during the period of the review, this brought to light once again the difficulty of ensuring integrated management across the Group. Sumitomo Chemical has demonstrated a firm commitment to overcoming this difficulty and strengthening Group management, and I take pride in the fact that our review has been helpful in this regard.

I also recognized that efforts to bolster Group management were being made in the area of human resources, as exemplified by the convening of meetings for the human resources division managers at domestic and overseas Group companies.

Attention is also being paid to improving transparency. Sumitomo Chemical regards communication with the public as one of its Responsible Care activities, and has endeavored in drafting this CSR Report to ensure a wider audience by avoiding technical terminology/commentary wherever possible and by introducing a greater number of specific examples. Environmental performance data for overseas sites have been disclosed in the Data Book appended to this CSR Report. Sumitomo Chemical's efforts to exchange views with Chief Director of the Responsible Care Verification Center and its willingness to seek Sustainable Management Rating as well as an independent review by KPMG AZSA Sustainability illustrate its eagerness to employ outside perspectives to strengthen its own corporate governance.

I anticipate that the Sumitomo Chemical Group, both domestic and overseas Group companies, will continue to pursue CSR activities globally and prove a valuable asset in building a sustainable society.



Yukinobu Matsuo
 Manager
 KPMG AZSA Sustainability Co., Ltd.



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.

SUMITOMO CHEMICAL

CORPORATE COMMUNICATIONS DEPARTMENT
Tokyo Sumitomo Twin Building (East)
27-1, Shinkawa 2-chome, Chuo-ku,
Tokyo 104-8260, Japan
Tel: +81-3-5543-5102
Fax: +81-3-5543-5901



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