

ANNUAL REPORT 2006



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Company Outline

(as of June 29, 2006)

Company Name

Sumitomo Seika Chemicals Company Limited

Head Offices

Osaka The Sumitomo Building
4-5-33 Kitahama, Chuo-ku, Osaka 541-0041, Japan
TEL. 06-6220-8508 / FAX. 06-6220-8541

Tokyo Nihon Jisho Building No. 1
1-13-5 Kudan Kita, Chiyoda-ku, Tokyo 102-0073, Japan
TEL. 03-3230-8527 / FAX. 03-3230-8520

Established

July 20, 1944

Types of Business

Fine Chemical Products
Basic Chemical Products
Functional Polymers
Gas Products
Oxygen & Other Gas Generators
Various Kinds Of Equipment

Capital

¥9,698 million

Employees (as of March 31, 2006)

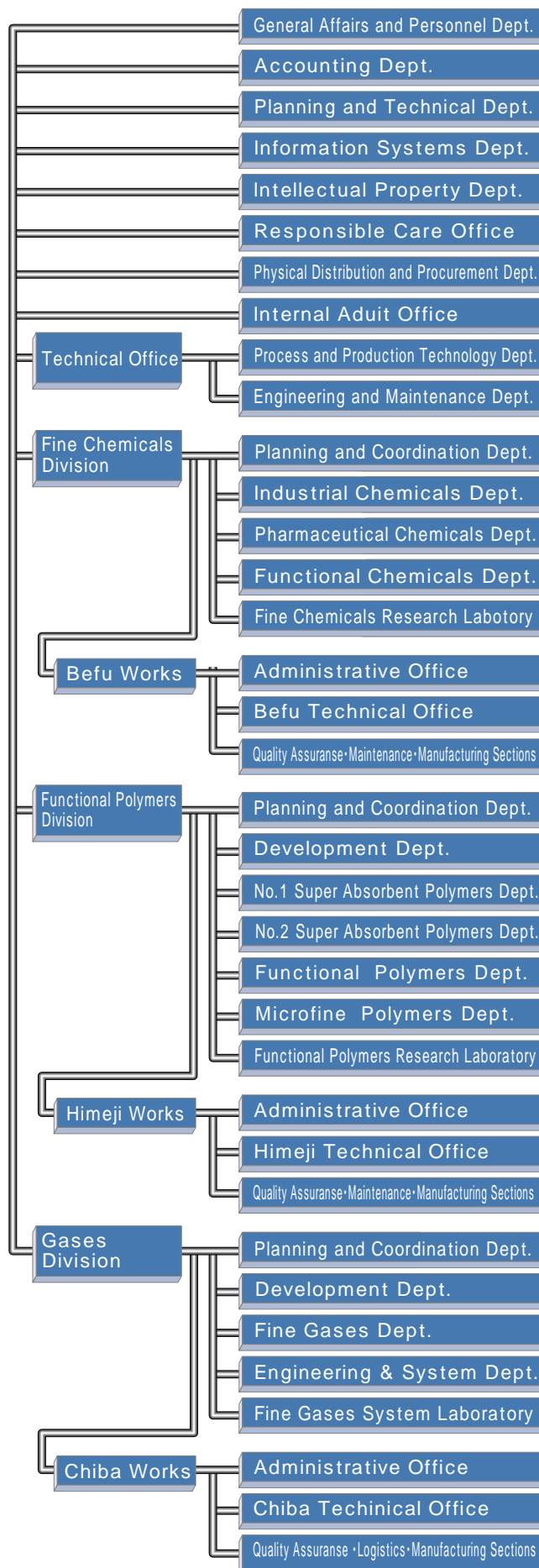
Employees: 977 (consolidated basis)

Board of Directors

President	Ryuichi Sonoda
Senior Managing Director (General Manager of Technical Department)	Masataka Tsuchiya
Senior Managing Director (General Manager of Functional Polymers Division)	Masaru Uno
Managing Director (General Manager of Fine Chemicals Division)	Kazuhiro Tada
Director (External Director)	Akio Kosai
Director (General Manager of General Affairs and Personnel Department)	Hiroshi Honjoh
Director (General Manager of Gases Division)	Johji Ogasawara
Director (General Manager of Accounting and corporate Planning, in charge of information systems)	Shoichi Hara
Director (General Manager of Himeji Works, Functional Polymers Division)	Mitsuji Adachi
Corporate Auditor (Full-time Auditor)	Takashi Torii
Corporate Auditor	Yutaka Tomita
Corporate Auditor (External Auditor)	Hiroaki Ninomiya
Corporate Auditor (External Auditor)	Kiyoshi Ohta

Organization

(as of June 29, 2006)



Share Information

(as of March 31, 2006)

Number of Shares Issued (thousands of shares)

69,864

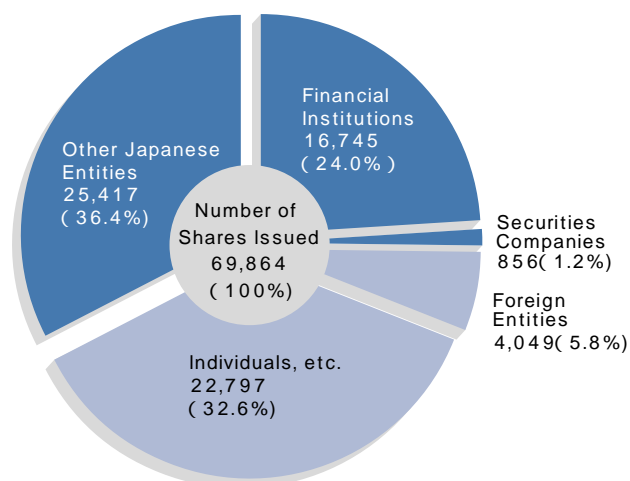
Number of Shareholders

8,551

Major Shareholders (thousands of shares) (%)

Sumitomo Chemical Co., Ltd.	20,978	30.03
The Sumitomo Mitsui Banking Corporation	2,800	4.01
The Sumitomo Trust & Banking Co., Ltd.	2,417	3.46
State Street Trust and Banking Company, Ltd.	2,383	3.41
Mitsui Sumitomo Insurance Company Limited	1,600	2.29
Sumitomo Life Insurance Company	1,551	2.22
Japan Trustee Services Bank, Ltd	1,495	2.14
The Master Trust Bank of Japan, Ltd.	1,381	1.98
Taki Chemical Co., Ltd.	1,032	1.48
Sumitomo Seika Employee Stock Ownership Plan	913	1.31

Shareholder Breakdown (thousands of shares)



Management Policies

Basic Management Policy

Our basic policy is to bring prosperity and progress to society; to contribute to social development through the development of world-class original technologies in chemistry and the provision of unique, high-quality products both domestically and internationally.

Basic Policy on Profit Sharing

Sumitomo Seika makes profit-sharing decisions based on annual earnings, while also ensuring stable dividends and the internal reserves required for future business development. We apply those internal reserves to investments that will boost business performance and strengthen our management base in the future, such as upgrading and expanding our production system, improving cost competitiveness, and R&D focused on developing products that answer market needs. The per share dividend for this period is ¥8, including a ¥3 mid-term distribution.

Mid- to Long-term Management Strategy and Targeted Management Indices

Our corporate group is working on the following goals in order to build the foundation for corporate expansion while emphasizing profitability:

- (1) Build a foundation for continued growth
- (2) Promote the next generation of core businesses
- (3) Create an organization for global development
- (4) Establish an efficient production system

In addition, with an emphasis on capital efficiency and profitability, we are conducting management operations aimed at improvement of consolidated ROE (return on shareholders' equity) and consolidated ROA (return on total assets).

Issues Being Addressed

We are working to establish an efficient production system and build a solid path for growth while strengthening operations and rapidly bringing new products to market.

In the chemical products industry, the Fine Chemicals Division is strengthening its operations through expanding our specialty, organic sulfur compound synthesis, into growth areas such as pharmaceutical intermediates and markers and semiconductor-related materials. The Functional Polymers Division is further expanding the scope of its operations in super water-absorbent polymers and is looking to strengthen its competitiveness through broadening the make up of its product line by improving production methods and developing special grade products. With regard to water absorbency and fine particle polymers, we are further refining our advanced technologies and are pushing ahead with the development of distinctive new products.

In the area of gas engineering, the Gases Division is developing new applications for medical gases, chemical gases, and standard gases through the application of technologies that have been developed. At the same time, the Division is expanding its semiconductor gases domestically and in Asia and, taking advantage of our technical abilities as a chemical manufacturer, is pushing the development of new semiconductor gases. The Engineering Division, anticipating the coming of a hydrogen society, is expanding its operations developmentally through the development of new energy-related equipment and other new products. We are also actively pioneering new demand overseas for gas generation equipment.

Basic Stance on Corporate Governance

Our corporate group has outlined a management policy aimed at building a solid business infrastructure and contributing to social progress in response to the mandate from our stakeholders. To gain the unfailing trust of our stakeholders, we will implement corporate governance aimed at quickly and properly disclosing information on the processes and results involved in carrying out efficient and fair management practices.

Basic Stance on Internal Control Systems

Based on our fundamental management policy, we are conducting operations to deal seriously with the important problems of legal compliance, quality assurance, and environmental safety. In order to achieve these aims, we are further improving our internal control systems.

Business Risks

The following are important risks that could affect our management results and financial circumstances and we believe they could seriously influence an investor's judgment. This is not, however, an exhaustive list of all risks possibly affecting the company.

(1) Fuel and Raw Material Price Fluctuations

The purchase price of raw materials, fuel, and other materials fluctuates with the supply-demand balance of materials such as petroleum and naphtha as well as market conditions. There are times when the price rise cannot be completely shifted to the selling price, so fluctuations in purchase prices may affect business results.

(2) Currency Rate Fluctuations

Our corporate group exports products and imports raw materials on a local-currency denominated basis, and the value of exports exceeds the value of imports. With a stronger yen, the decrease in export income is thus greater than the decrease in the amount paid for imports. Continued strengthening of the yen may affect business results.

(3) Matters Concerning Product Quality

Our corporate group manufactures all products following the strictest product quality control standards, but we cannot guarantee that all products will be defect free or that the need for a recall will not arise in the future. We do have product liability insurance, but there is no guarantee that this insurance would be able to cover the total amount of liability we may ultimately bear. Accordingly, product defects could impact our corporate business results.

(4) Competition

Our corporate group faces intense competition in the markets in which we do business. There is a possibility that we may have to lower prices or that sales volume may decrease because of the competitive situation and this could have an impact on our business results.

(5) Natural Disasters, Power Outages, etc.

Our corporate group regularly conducts disaster prevention checks, inspections, and maintenance of all production facilities, but should a situation arise in which, because of a natural disaster or power outage, production should be halted for an extended period of time, our business results could be impacted.

(6) Protection of Intellectual Property

Protection of intellectual property is extremely important to the business development of our corporate group and we have implemented a system for intellectual property protection. However, should our intellectual property rights be illegally violated, this could impact our business results.

(7) Environmental Problems

Our corporate group is required to meet environmental standards both domestically and abroad, and we believe that laws and regulations currently in effect pose no risk to our business results. However, future restrictions could affect our business results.

(8) Country Risk

Besides Japan, our corporate group conducts business operations in Singapore, Taiwan, and other overseas locations. There exist political and societal risks in these overseas operational bases and should these risks materialize, it could affect our business results.

Operating Results

(for the year ended March 31, 2006)

Operating Results

In this consolidated accounting year, despite soaring petroleum prices the Japanese economy has gradually recovered, backed by improvement in corporate prices and increased facility investment. Within this context, our corporate group has worked to expand sales of our principal products and to correct product prices following the rise in petroleum prices. We have also focused on improving business results through continued rationalization of production and improved production efficiency.

As a result, in this consolidated accounting year the results of our corporate group (in million yen units) were: sales ¥46,737 (increase of 12% over last year), operating income ¥4,502 (69.5% increase), ordinary income ¥4,401 (68.7% increase), and net income for the period ¥2,208 (43.1% increase).

On a non-consolidated basis, our corporate results (in million yen units) were: sales ¥38,864 (11.9% increase), operating income ¥3,672 (50.5% increase), ordinary income ¥3,687 (52.2% increase) and net income for the period ¥1,703 (20.6% increase).

The results by segment are described below.

Chemicals

In Fine Chemicals, shipments of industrial chemicals decreased, but exports, centered on pharmaceuticals, increased and sales surpassed those of the previous period.

In Functional Polymers, due to an increase in shipments of super water-absorbent polymers to meet abundant demand and the contribution of facilities improvements at the Himeji Works that went into operation in the previous period, sales increased. In addition, although sales of water-soluble polymers remained at the level of the previous period, shipments of fine particle polymers increased.

As a result, division sales (in million yen units) were ¥35,476 (13.9% increase) and operating income was ¥3,686 (92.1% increase).

Gases and Engineering

In Gases, sales of medical gases, chemical gases, and standard gases remained at roughly the level of the previous period, but shipments of semiconductor gases increased due to facility improvements and firm demand, primarily in Asia.

In Engineering, sales of gas generators and remediation equipment decreased, but sales of general chemical equipment increased, so overall sales were about the same level as the previous period.

As a result, division sales (in million yen units) were ¥11,260 (6.4% increase) and operating income was ¥839 (10.7% increase).

Financial Position

(as of March 31, 2006)

Financial Position

(Unit: million yen)

Item	Current FY	Previous FY	Increase/Decrease
Cash flow from operating activities	5,510	5,268	252
Cash flow from investment activities	2,511	1,702	808
Cash flow from financing activities	2,416	2,602	186
Conversion adjustment	20	8	11
Increase in cash and cash equivalents	603	962	358
Cash and cash equivalents at beginning of year	2,310	1,348	962
Increase in Cash or Cash Equivalents due to New Consolidation	144		144
Cash and cash equivalents at end of year	3,058	2,310	747

Item	2003/3	2004/3	2005/3	2006/3
Shareholder equity ratio (%)	46.7	50.9	52.6	54.5
Shareholder equity ratio based on market value (%)	35.5	48.1	48.1	92.1
Debt redemption years	3.1	2.0	1.4	1.1
Interest coverage ratio	17.3	25.0	54.3	46.3

Notes:

Shareholder equity ratio = shareholder equity/total assets

Shareholder equity ratio based on market value = Market value of shares/total assets

Debt redemption years = interest-bearing debts/business cash flow

Interest coverage ratio = business cash flow/interest expense

Consolidated Balance Sheet

Assets	ITEM	AMOUNT
(Unit: million yen)	Current assets	24,124
	Cash and deposits	3,087
	Notes and accounts receivable	14,154
	Inventory	5,682
	Other	1,285
	Allowance for doubtful accounts	86
	Fixed assets	24,469
	Tangible fixed assets	18,898
	Intangible fixed assets	72
	Investments and other assets	5,499
	Total assets	48,594

Liabilities	ITEM	AMOUNT
(Unit: million yen)	Current liabilities	13,624
	Notes and accounts payable	7,968
	Short-term loans payable	1,496
	Other	4,157
	Fixed liabilities	8,028
	Long-term loans payable	4,381
	Other	3,645
	Total liabilities	21,652
Minority Interests	Minority Interests	480
(Unit: million yen)		
Shareholders' Equity	Paid-in capital	9,698
(Unit: million yen)	Capital surplus	7,539
	Profit surplus	8,309
	Other: Difference in valuation of marketable securities	1,086
	Translation adjustment	76
	Treasury stocks	247
	Total shareholders' equity	26,461
	Total liabilities, minority interests, and shareholders' equity	48,594

Consolidated Statement of Income

(Unit: million yen)	ITEM	AMOUNT
	Sales	46,737
	Cost of sales	34,180
	Selling, general, and administrative expense	8,055
	Operating income	4,502
	Non-operating income	170
	Non-operating expense	271
	Ordinary income	4,401
	Extraordinary profit	477
	Extraordinary loss	1,195
	Income before taxes and adjustments	3,684
	Corporate taxes, inhabitant taxes, and business taxes	1,655
	Adjustment for corporate and other taxes	288
	Minority interests	108
	Net income	2,208

Consolidated Statement of Retained Earnings

Capital Surplus	ITEM	AMOUNT
(Unit: million yen)	Capital surplus at beginning of period	7,539
	Increase in capital surplus	
	Decrease in capital surplus	
	Capital surplus at end of period	7,539
Profit Surplus	Profit surplus at beginning of year	6,742
(Unit: million yen)	Increase in Profit surplus	2,208
	Increase in Profit surplus	640
	Profit surplus at end of year	8,309

Consolidated Cash Flow Statement

(Unit: million yen)	ITEM	AMOUNT
	Cash flow from operating activities	5,510
	Cash flow from investment activities	2,511
	Cash flow from financing activities	2,416
	Conversion adjustment for cash and cash equivalents	20
	Increase in cash and cash equivalents	603
	Cash and cash equivalents at beginning of year	2,310
	Increase in Cash or Cash Equivalents due to New Consolidation	144
	Cash and cash equivalents at end of year	3,058

Non-consolidated Balance Sheet

Assets	ITEM	AMOUNT
(Unit: million yen)	Current assets	20,605
	Cash and deposits	2,274
	Notes and accounts receivable	11,907
	Inventory	4,978
	Other	1,541
	Allowance for doubtful accounts	98
	Fixed assets	24,162
	Tangible fixed assets	15,183
	Intangible fixed assets	67
	Investments and other assets	8,912
	Total assets	44,768

Liabilities	ITEM	AMOUNT
(Unit: million yen)	Current liabilities	10,852
	Notes and accounts payable	6,060
	Short-term loans payable	1,300
	Other	3,491
	Fixed liabilities	7,964
	Long-term loans payable	4,381
	Retirement Benefits Allowance	3,582
	Total liabilities	18,816
Shareholders' Equity	Paid-in capital	9,698
(Unit: million yen)	Capital surplus	7,539
	Profit surplus	7,940
	Profit reserves	773
	Voluntary reserve	4,098
	Unappropriated retained earnings at end of term	3,068
	Unrealized gains on securities	1,021
	Treasury stocks	247
	Total shareholders' equity	25,951
	Total liabilities and shareholders' equity	44,768

Non-consolidated Statement of Income

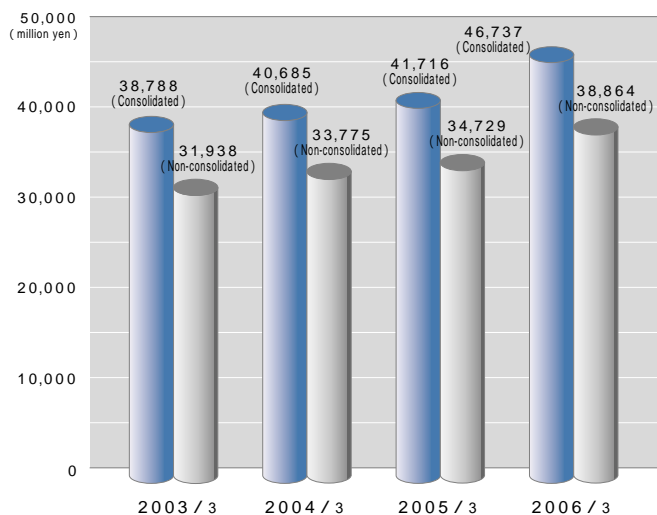
(Unit: million yen)	ITEM	AMOUNT
	Sales	38,864
	Cost of sales	27,996
	Selling, general, and administrative expense	7,195
	Operating income	3,672
	Non-operating income	246
	Non-operating expense	231
	Ordinary income	3,687
	Extraordinary profit	477
	Extraordinary loss	1,194
	Net income before taxes	2,970
	Corporate taxes, inhabitant taxes, and business taxes	1,554
	Adjustment for corporate and other taxes	287
	Net income	1,703
	Net income carried forward from preceding term	1,572
	Mid-term Distribution	206
	Ending balance of unappropriated retained earnings	3,068

Disposition of Profit

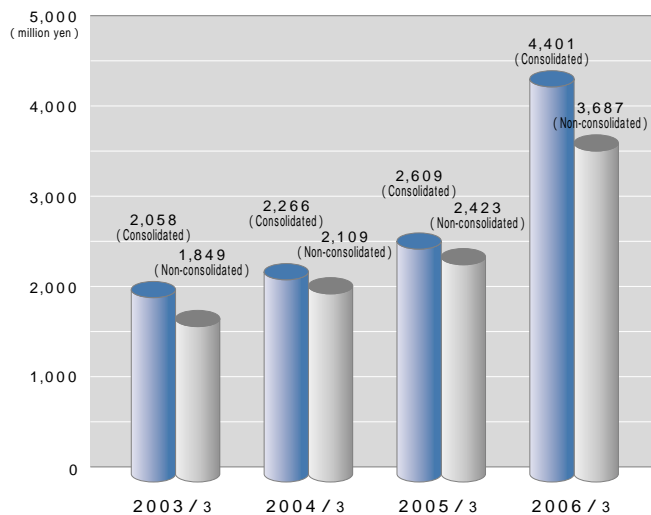
(Units: million yen)	ITEM	AMOUNT
	Unappropriated profit for the term	3,068
	Transfer from reserve for special depreciation	8
	Transfer from reserve for fixed asset reduction	2
	Total	3,079
	Disposition as follows	
	Dividend (5 yen per share)	344
	Directors' bonuses	27
	Auditors' bonuses	3
	Special reserve fund	2,000
	Net income carried forward to next term	704

(Note) A mid-term dividend distribution of 206 million (¥3 per share) was made in December, 2005.

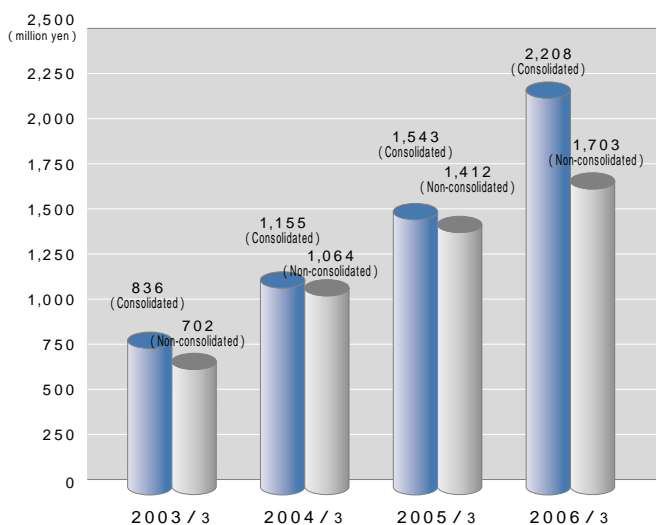
Sales



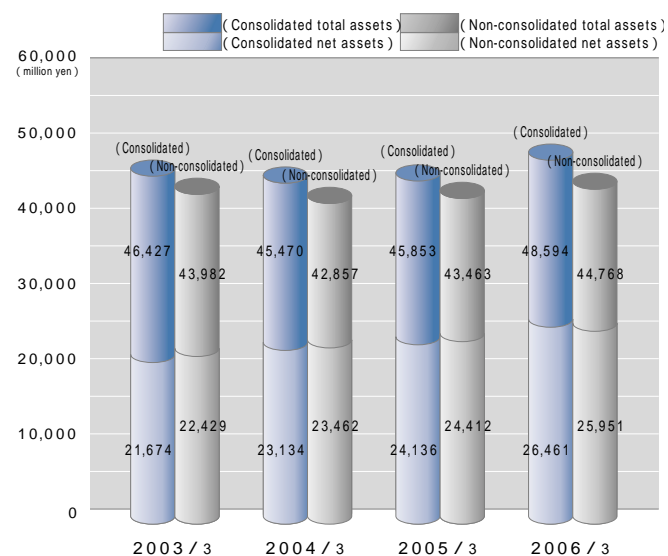
Ordinary Income



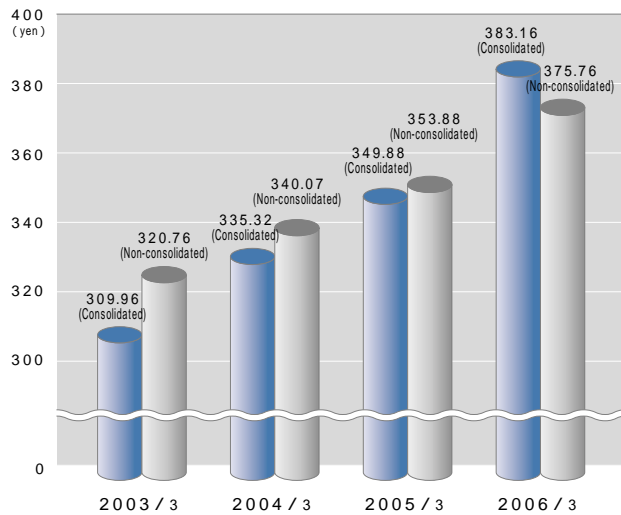
Net Income



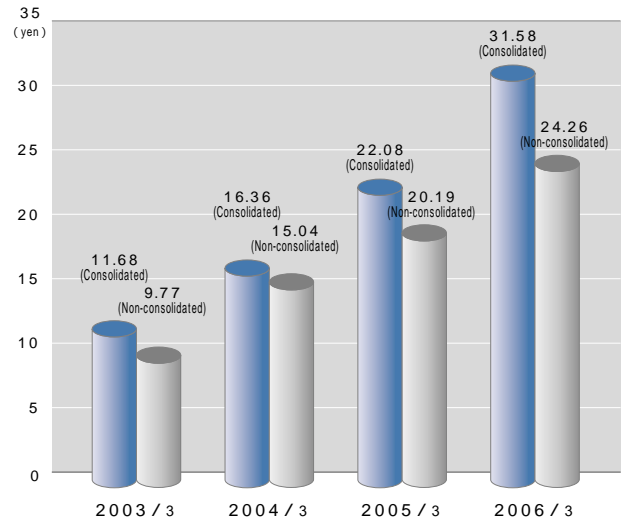
Total Assets and Net Assets



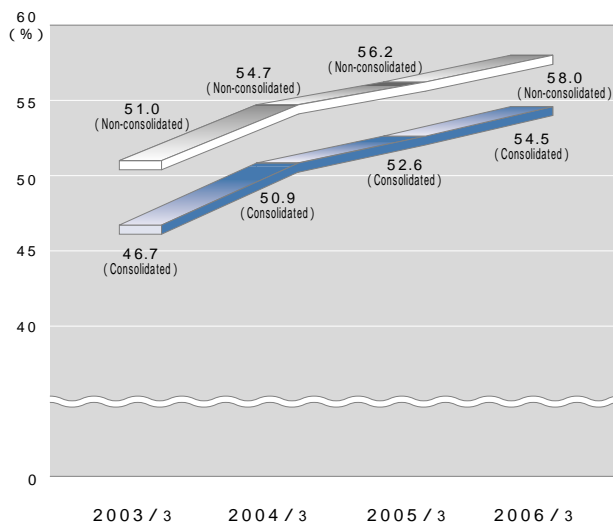
Net Assets Per Share



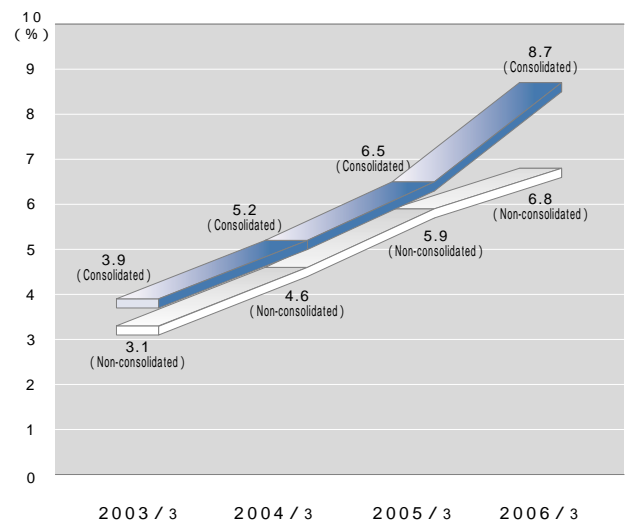
Net Income Per Share for the Term



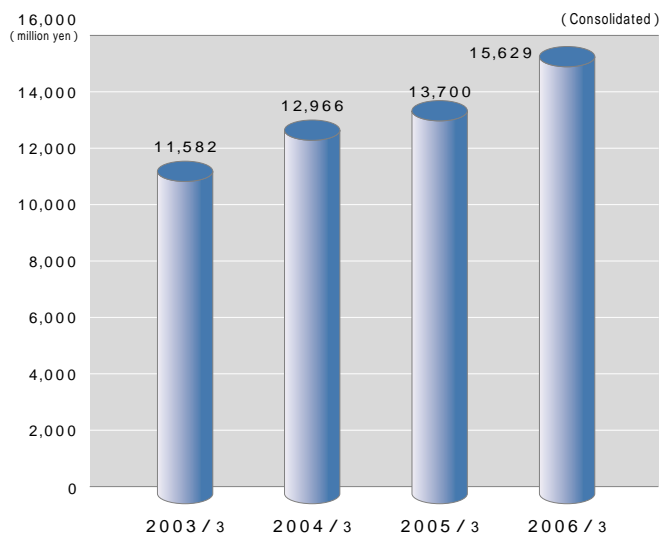
Shareholder Equity Ratio



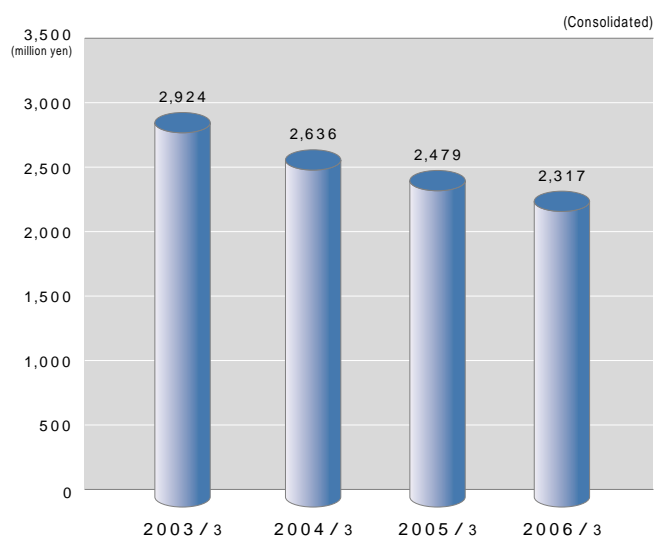
Shareholder Return on Equity



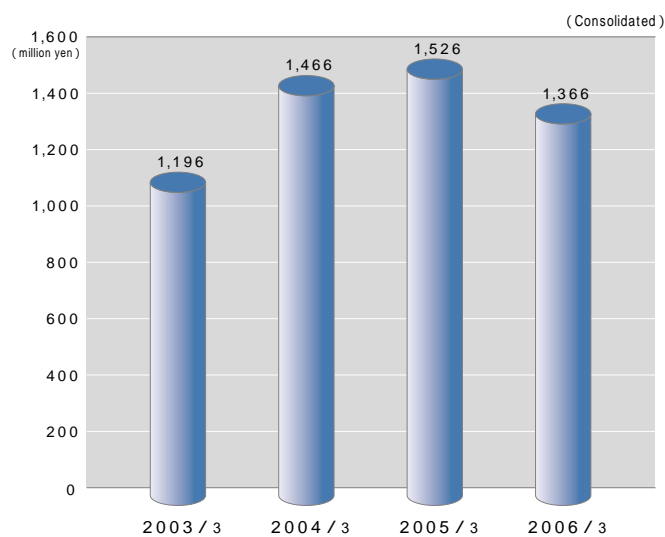
Overseas Sales (consolidated)



Depreciation Expense(consolidated)



Research and Development Expense (consolidated)



Business Locations

Head Office (Osaka)

The Sumitomo Building
4-5-33, Kitahama, Chuo-ku, Osaka 541-0041, Japan
TEL. 06-6220-8508 / FAX. 06-6220-8541

Head Office (Tokyo)

Nihon Jisho Building No. 1
1-13-5 Kudan Kita, Chiyoda-ku, Tokyo 102-0073, Japan
TEL. 03-3230-8527 / FAX. 03-3230-8520

Research Laboratories

Fine Chemicals Research Laboratory

(at Befu Works)
346-1 Miyanishi, Harima-cho, Kako-gun,
Hyogo 675-0145, Japan
TEL. 079-437-2151 / FAX. 079-437-2635

Functional Polymers Research Laboratory

(at Himeji Works)
1 Irifune-cho, Shikama-ku, Himeji City,
Hyogo 672-8076, Japan
TEL. 079-235-1305 / FAX. 079-235-8883

Plants

Befu Works

346-1 Miyanishi, Harima-cho, Kako-gun
Hyogo 675-0145, Japan
TEL. 079-437-2101 / FAX. 079-435-2244
Site area: 250,000 m² Employees: 270

Himeji Works

1 Irifune-cho, Shikama-ku, Himeji City
Hyogo 672-8076, Japan
TEL. 079-235-1301 / FAX. 079-234-7150
Site area: 270,000 m² Employees: 200

Chiba Works

1384-1 Kamikoya, Yachiyo City, Chiba
276-0022, Japan
TEL. 047-483-0115 / FAX. 047-485-8841
Site area: 33,000 m² Employees: 70

Representative Offices

Düsseldorf Representative Office

Immermannstr.11
40210 Düsseldorf, Germany
TEL. 211-479940 / FAX. 211-9430390

New York Representative Office

335 Madison Avenue, Suite 830, New York
NY 10017, U.S.A.
TEL. 212-572-8245 / FAX. 212-421-1179

Consolidated Subsidiaries

Sumitomo Seika Singapore Pte. Ltd.

Head Office: 20 Cecil Street #20-08, Equity Plaza,
Singapore 049705
Line of business: Manufacture and sales of super absorbent
resins (joint venture with Sumitomo
Chemical Singapore)
Investment ratio: 80%

Harima Kosan Co., Ltd.

Head Office: 346-1 Miyanishi, Harima-cho, Kako-gun,
Hyogo, Japan
Line of Business: Facility operation and management, building
maintenance service, dispatch of temporary
staff
Investment Ratio: 100%

Seika Engineering Co., Ltd.

Head Office: 346-1 Miyanishi, Harima-cho, Kako-gun,
Hyogo, Japan
Line of business: Design and construction of various kinds of
plants and tanks.
Investment ratio: 100%

Futawa Co., Ltd.

Head Office: The Sumitomo Building,
4-5-33 Kitahama, Chuo-ku, Osaka, Japan
Line of business: Sales of various types of industrial chemicals,
high-pressure gases, and synthetic resins
Investment ratio: 100%



General Affairs and Personnel Dept. (Public Relations)
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