



**Condensed Consolidated  
Financial Information  
for the Third Quarter  
of the Fiscal Year 2005**  
(April 1, 2005 through December 31, 2005)

**SANYO CHEMICAL INDUSTRIES, LTD**  
**PERFORMANCE CHEMICALS**

## **Cautionary Statement with Respect to Forward-looking Statement**

This financial information contains forward-looking statements that are based on Sanyo Chemical Group's current plans, strategies and results. These forward-looking statements were formulated by managers based on currently-available information, but actual results may vary significantly depending on the economic environment where Sanyo Chemical Group conduct its business, competitive conditions, changes in the states of product development, relevant laws and regulations, and fluctuations in the currency exchange rate. Moreover, the factors that can affect these forward-looking statements are not limited to those listed here.

The following summary of the business results that Sanyo Chemical Group submitted Tokyo & Osaka Stock Exchange is unaudited and for reference only.

Ticker code : 4471

## Consolidated Financial Highlights (Unaudited)

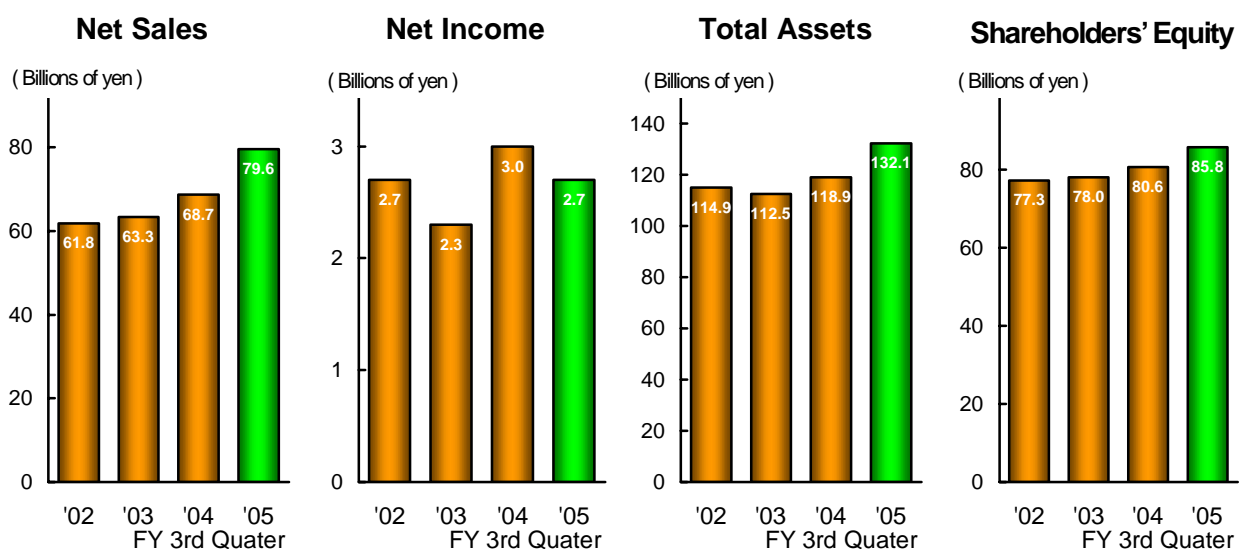
|   | Millions of yen        |                        |                        | Thousands of U.S. dollars |
|---|------------------------|------------------------|------------------------|---------------------------|
|   | FY 2005<br>3rd Quarter | FY 2004<br>3rd Quarter | FY 2003<br>3rd Quarter | FY 2005<br>3rd Quarter    |
| Nine months ended December 31, each Fiscal Year   |                        |                        |                        |                           |
| Net sales   | ¥79,594                | ¥68,742                | ¥63,258                | \$674                     |
| Operating income                                  | 5,230                  | 4,582                  | 3,323                  | 44                        |
| Ordinary income                                   | 5,875                  | 5,071                  | 3,809                  | 50                        |
| Income before income taxes and minority interests | 5,137                  | 4,984                  | 3,750                  | 44                        |
| Net income  | 2,705                  | 2,975                  | 2,281                  | 23                        |
| Return on equity                                  | 4.3%                   | 5.0%                   | 3.9%                   | 4.3%                      |
| Investment in plant and equipment                 | 8,374                  | 7,599                  | 4,310                  | 42                        |
| Depreciation and amortization                     | 4,950                  | 4,709                  | 4,820                  | 71                        |

|                                     | Millions of yen        |                        |                        | Thousands of U.S. dollars |
|-------------------------------------|------------------------|------------------------|------------------------|---------------------------|
|                                     | FY 2005<br>3rd Quarter | FY 2004<br>3rd Quarter | FY 2003<br>3rd Quarter | FY 2005<br>3rd Quarter    |
| As of December 31, each Fiscal Year |                        |                        |                        |                           |
| Total assets                        | ¥132,122               | ¥118,926               | ¥112,477               | \$1,119                   |
| Shareholders' equity                | 85,784                 | 80,580                 | 78,043                 | 727                       |
| Shareholders' equity ratio          | 64.9%                  | 67.8%                  | 69.4%                  | 64.9%                     |

| Per share            | Yen                    |                        |                        | U.S. dollars           |
|----------------------|------------------------|------------------------|------------------------|------------------------|
|                      | FY 2005<br>3rd Quarter | FY 2004<br>3rd Quarter | FY 2003<br>3rd Quarter | FY 2005<br>3rd Quarter |
| Net income           | ¥24.51                 | ¥26.95                 | ¥20.48                 | \$0.21                 |
| Shareholders' equity | 777.44                 | 730.04                 | 706.88                 | 6.58                   |

Note: 1. U.S. dollars have been converted at the rate of ¥118.07 to US\$1, the effective rate of exchange at December 31, 2005.

- The computations of net income per share of common stock are based on the weighted average number of shares outstanding during each semi-annual period.
- The portion of net income unavailable to common shareholders, such as directors' bonuses, is deducted from net income for the calculation at net income per share. The same method is applied to the calculation of total shareholders' equity per share.



# **Business and Financial Results**

## **(1) Business Results**

Japan's economy in the last three quarters (April 1, 2005 through December 31, 2005) is on the track toward recovery with an increase in private business investment with the improvement of corporate performance results as a background and personal consumption continuing going steady.

In the chemical industry, on the other hand, the steep rise in crude oil prices has been blurring business circumstances despite steady demands.

Our consolidated business results for the last three quarters recorded a substantial sales growth of ¥79,594 million or a 15.8% increase from the same period of the previous fiscal year with the sales expansion of strategically developed products (strategic products already developed or under development to be our new pillar products) such as thermoplastic polyurethane beads (TUB) for skin material in the interior parts of automobiles and polyester beads (PEB) used as a core component of polymerization toners, and with sales going favorably for existing business including superabsorbent polymers.

In terms of profit, our operating income and ordinary income recorded a substantial increase of ¥5,230 million or a 14.2% increase from the same period of the previous fiscal year and ¥5,875 million or a 15.9% increase from the same period of the previous fiscal year respectively as a result of profit increase due to the sales growth and efforts for product price revision, cost reduction, etc. despite factors for profit margin decline due to raw material price increase.

On the other hand, net income for the said period was ¥2,705 million or a 9.1% decrease from the same period of the previous fiscal year as a result of loss on assets impairment of ¥920 million, including ¥626 million recorded as a extraordinary loss, for business slump at some subsidiaries and fixed property with substantially dropped land prices owned by some of them.

The achievement ratios of the performance forecast for the whole period published on October 31, 2005 are 73.7%, 72.7%, 73.4% and 67.6% for sales, operating income, ordinary income and net income, respectively.

The sales results by product groups are as follows:

### **<Surfactants>**

Sales increased favorably in general for industrial surfactants including easily biodegradable base materials for detergents (higher alcohol-based nonionic surfactants), base materials for hair care products and paint additives.

Sales of surfactants for textiles were weak due to a decrease in domestic and foreign demands for agents for textile manufacturing processes for clothing and a decrease in domestic demands for textile processing agents despite steady sales of agents for textile manufacturing processes for air bags, sheet belts, etc.

As a result, sales for the entire sector amounted to ¥16,501 million (2.2% increase from the same period of the previous fiscal year).

### **<Polyurethane Chemicals>**

Raw materials for polyurethane recorded a substantial increase in both domestic and foreign sales due to favorable sales growth for high-performance raw materials for polyurethane foam and possibly product price revisions due to steep raw material price rise.

For polyurethane resins, TUB for skin material in the interior parts of automobiles, which is one of the strategic products, recorded a substantial sales growth due to increased domestic demand and a wider range of automobile models newly adopting the same overseas. Resins for printing ink for special gravure, etc. were also strong and recorded substantial sales.

As a result, sales for the entire sector amounted to ¥18,233 million (23.5% increase from the same period of the previous fiscal year).

### <Lipophilic High-molecular Agents>

Office machine-related products recorded a significant sales growth, because sales increased for PEB used as a core component of polymerization toners for black and white copiers, which are strategic products, and sales of PEB for color copiers began, though sales remained flat for toner resins.

Lubricant and machine-related products recorded a substantial sales growth due to sales growth for lubrication improvers for diesel fuels that meet the new regulations for low-sulfur emissions and sales going favorably for other lubricating oil and machine-related products.

Coating and adhesive-related products recorded a substantial sales growth due to sales growth for adhesives for medical equipment and special coating agents in addition to application expansion for UV-curing resins.

As a result, sales for the entire sector amounted to ¥17,537 million (12.1% increase from the same period of the previous fiscal year).

### <Hydrophilic High-molecular Agents>

Superabsorbent polymers recorded a substantial sales growth due to strong domestic and foreign demand and product price revisions due to steep raw material price rise in addition to increased demand in China for hygiene use materials such as disposable diapers. Sales also went favorably for non-hygiene use materials, mainly pet sheets.

Sales of water treatment products remained flat as market competitions intensified for polymer flocculants.

As a result, sales for the entire sector amounted to ¥16,795 million (32.0% increase from the same period of the previous fiscal year).

### <Specialty Products>

As for resin and polymer modifiers, sales of high-molecular-weight permanent antistatic agents, which are strategic products, saw a growth for electronic component-related applications, as well as increased sales of paint resins low in volatile substance content. However, sales of resin and polymer modifiers in general remained flat because demand decreased for fiber modifiers.

Electric/electronic-related products recorded a substantial sales growth due to demand materialization on electrolytes for electric double-layer capacitors, which are strategic products, for car applications, electrolytes for aluminum electrolytic capacitors recording smooth sales, and the effect of launching of new products including chemical mechanical planarization (CMP) cleaner.

As a result, sales for the entire sector amounted to ¥9,176 million (13.9% increase from the same period of the previous fiscal year).

## (2) Financial Condition

The financial condition for the last three quarters is as follows:

Total assets increased by ¥11,256 million to ¥132,122 million from the previous consolidated fiscal year end because of an increase of ¥4,889 million in current value-assessed investment securities, while shareholders' equity increased by ¥4,387 million to ¥85,784 billion, and shareholders' equity ratio dropped by 2.5 points to 64.9%.

Cash and cash equivalents (funds) for the last three quarters decreased ¥3,852 million from the previous consolidated fiscal year end balance, with the balance at the end of the last three quarters staying at ¥9,937 million.

The condition of cash flows and their contributing factors are as follows:

### Cash flow provided by operating activities

The increase in funds resulting from operating activities amounted to ¥5,149 million. This was because fund increase due to net income of ¥5,137 million for the period before income taxes and minority interests, ¥4,966 million for depreciation and amortization, a ¥4,919 million increase in notes and accounts payable, etc. exceeded fund decrease due to a ¥5,485 million increase in notes and accounts receivable, income taxes paid amounting to ¥2,724 million, a ¥1,688 million increase in inventory, etc..

### Cash flow used in investing activities

Net cash for investing activities totaled ¥7,448 million. This is attributable to payments of ¥6,499 million for fixed asset acquisition, ¥859 million for investment securities acquisition, etc..

### Cash flow used in financing activities

Cash balance due to financing activities is a decrease of ¥1,742 million because of payments of ¥1,649 million for dividends, etc..

## (3) Performance forecast for the current fiscal year

Concerning performance forecast for the whole fiscal year 2005, net income for the current fiscal year has been lowered as shown in the table below in consideration of loss on valuation for overseas subsidiary stock and loss on assets impairment for overseas subsidiaries:

(Millions of yen)

|                  | Consolidated  | Non-consolidated |
|------------------|---------------|------------------|
| Net Sales        | 108,000       | 82,000           |
| Operating income | 7,200         | 4,400            |
| Ordinary income  | 8,000         | 6,000            |
| Net income       | 3,200 (4,000) | 2,650 (3,100)    |

Note: Figures in parentheses show performance forecast for the whole fiscal year at announcement of October 31, 2005 interim closing of accounts.

# Consolidated Financial Statements

## Consolidated Balance Sheets (Assets)

| ASSETS                              | Millions of yen                                 |   |                                  |
|-------------------------------------|---|---|----------------------------------|
|                                     | FY 2005<br>3rd Quarter<br>as of<br>Dec.31, 2005 | FY 2004<br>3rd Quarter<br>as of<br>Dec.31, 2004 | FY 2004<br>as of<br>Mar.31, 2004 |
| <b>Current assets</b>               | ¥58,523   | ¥55,043   | ¥54,626                          |
| Cash and cash equivalents           | 9,937   | 12,712  | 13,790                           |
| Notes and accounts receivable-trade | 32,462  | 28,520  | 26,882                           |
| Inventories                         | 14,146  | 12,089  | 12,353                           |
| Other                               | 1,976   | 1,720   | 1,600                            |
| <b>Fixed assets</b>                 | 73,599  | 63,883  | 66,238                           |
| Property, plant and equipment       | 47,436  | 42,367  | 44,034                           |
| Building and structures             | 13,448  | 12,931  | 12,729                           |
| Machinery and equipment             | 20,505  | 17,446  | 17,389                           |
| Land                                | 7,183   | 7,085   | 7,082                            |
| Construction in progress            | 4,443   | 3,235   | 4,917                            |
| Other                               | 1,856   | 1,668   | 1,914                            |
| Intangible assets                   | 2,087   | 2,880   | 2,459                            |
| Capitalized computer software costs | 923   | 1,208   | 1,144                            |
| Consolidated goodwill               | 948   | 1,166   | 1,118                            |
| Other                               | 215   | 505   | 197                              |
| <b>Investments and other assets</b> | 24,074  | 18,635  | 19,744                           |
| Investments in securities           | 22,419  | 15,472  | 16,946                           |
| Long-term loans                     | 77  | 95  | 90                               |
| Other                               | 1,577   | 3,067   | 2,708                            |
| <b>Total assets</b>                 | 132,122   | 118,926   | 120,865                          |

## Consolidated Balance Sheets (Liabilities and shareholders' equity)

| LIABILITIES AND SHAREHOLDERS' EQUITY                     | Millions of yen                                 |   |                                  |
|--|---|---|----------------------------------|
|  | FY 2005<br>3rd Quarter<br>as of<br>Dec.31, 2005 | FY 2004<br>3rd Quarter<br>as of<br>Dec.31, 2004 | FY 2004<br>as of<br>Mar.31, 2004 |
| <b>Liabilities</b>                                       | ¥44,246   | ¥36,575   | ¥37,638                          |
| <b>Current liabilities</b>                               | 33,874  | 26,847  | 27,573                           |
| Notes and accounts payable-trade                         | 21,718  | 18,238  | 16,652                           |
| Short-term debt  | 756   | 506   | 476                              |
| Current portion of long-term debt                        | 297   | 277   | 279                              |
| Accrued expenses   | 2,387   | 2,299   | 2,370                            |
| Accrued income taxes                                     | 994   | 1,014   | 1,544                            |
| Allowance for bonuses                                    | 998   | 930   | 1,530                            |
| Notes payable-plant and equipment                        | 3,629   | 1,683   | 1,262                            |
| Other current liabilities                                | 3,091   | 1,897   | 3,457                            |
| <b>Long-term liabilities</b>                             | 10,372  | 9,728   | 10,065                           |
| Long-term debt   | 1,512   | 1,230   | 1,634                            |
| Accrued severance indemnities                            | 6,067   | 6,287   | 6,246                            |
| Directors' and corporate auditors' retirement allowances | 1,194   | 1,266   | 1,293                            |
| Other liabilities  | 1,597   | 944   | 890                              |
| <b>Minority interests</b>                                | 2,090   | 1,770   | 1,829                            |
| <b>Shareholders' equity</b>                              | 85,784  | 80,580  | 81,397                           |
| Common stock   | 13,051  | 13,051  | 13,051                           |
| Additional paid-in capital                               | 12,192  | 12,191  | 12,191                           |
| Retained earnings  | 60,175  | 58,568  | 59,191                           |
| Unrealized gains on securities                           | 6,481   | 2,997   | 3,563                            |
| Foreign currency translation adjustments                 | (439)   | (583)   | (947)                            |
| Treasure stock, at cost                                  | (5,676)   | (5,645)   | (5,652)                          |
| <b>Total liabilities and shareholders' equity</b>        | 132,122   | 118,926   | 120,865                          |

## Consolidated Statements of Income

|  | Millions of yen   |   |                        |  |
|--|---|---|------------------------|--|
|  | FY 2005<br>3rd Quarter<br>Apr., 2005<br>through<br>Dec., 2005 | FY 2004<br>3rd Quarter<br>Apr., 2004<br>through<br>Dec., 2004 | Increase<br>(Decrease) | FY 2004<br>Apr., 2004<br>through<br>Mar., 2005 |
| <b>Net sales</b>   | ¥79,594   | ¥68,742   | ¥10,852                | ¥93,454  |
| Cost of sales  | 61,426  | 51,865  | 9,561                  | 71,054   |
| <b>Gross profit</b>                                      | 18,168  | 16,876  | 1,291                  | 22,399   |
| Selling, general and administrative expenses             | 12,937  | 12,294  | 642                    | 16,411   |
| <b>Operating income</b>                                  | 5,230   | 4,582   | 648                    | 5,988  |
| Non-operating income                                     | 947   | 751   | 195                    | 1,001  |
| Interest income  | 22  | 25  | (3)                    | 25   |
| Dividend income  | 215   | 138   | 77                     | 141  |
| Equity in earnings of unconsolidated affiliates          | 30  | 239   | (208)                  | 348  |
| Other  | 678   | 348   | 330                    | 485  |
| Non-operating expenses                                   | 302   | 262   | 39                     | 555  |
| Interest expenses  | 59  | 43  | 16                     | 54   |
| Other  | 242   | 219   | 23                     | 501  |
| <b>Ordinary income</b>                                   | 5,875   | 5,071   | 804                    | 6,433  |
| Extraordinary profit                                     | -   | 15  | (15)                   | 17   |
| Gain on sales of fixed assets                            | -   | -   | -                      | 2  |
| Receipts of subsidies                                    | -   | 15  | (15)                   | 15   |
| Extraordinary expenses                                   | 738   | 101   | 636                    | 495  |
| Loss on assets impairment                                | 626   | -   | 626                    | -  |
| Loss on disposal of fixed assets                         | 108   | 90  | 18                     | 477  |
| Loss on valuation of investment securities               | 3   | 5   | (2)                    | 6  |
| Provision for doubtful accounts                          | -   | -   | -                      | 5  |
| Loss on valuation of other investment                    | -   | 5   | (5)                    | 5  |
| <b>Income before income taxes and minority interests</b> | 5,137   | 4,984   | 153                    | 5,955  |
| Income taxes - current                                   | 2,079   | 1,932   | 147                    | 2,272  |
| Minority interests                                       | 352   | 76  | 276                    | 84   |
| <b>Net income</b>  | 2,705   | 2,975   | (270)                  | 3,598  |

## Consolidated Statements of Cash Flows

|   | Millions of yen   |   |  |
|---|---|---|--|
|   | FY 2005<br>3rd Quarter<br>Apr., 2005<br>through<br>Dec., 2005 | FY 2004<br>3rd Quarter<br>Apr., 2004<br>through<br>Dec., 2004 | FY 2004<br>Apr., 2004<br>through<br>Mar., 2005 |
| <b>Net cash used in operating activities</b>  | ¥5,149  | ¥7,265  | ¥10,450  |
| Income before income taxes and minority interests                                     | 5,137   | 4,984   | 5,955  |
| Depreciation and amortization   | 4,966   | 4,719   | 6,479  |
| Loss on assets impairment   | 626   | -   | -  |
| Amortization of difference between investment costs and equity in net assets acquired | 134   | 139   | 185  |
| Interest and dividend income  | (237)   | (163)   | (167)  |
| Interest expenses   | 59  | 43  | 54   |
| Equity in losses (earnings) of unconsolidated affiliates                              | (30)  | (239)   | (348)  |
| Decrease (increase) in notes and accounts receivable                                  | (5,485)   | (5,190)   | (3,582)  |
| Decrease (increase) in inventories  | (1,688)   | (1,171)   | (1,484)  |
| Decrease (increase) in other assets net   | (433)   | (94)  | 262  |
| Increase (decrease) in notes and accounts payable                                     | 4,919   | 5,180   | 3,656  |
| Increase (decrease) in other liabilities  | 454   | 508   | 300  |
| Other   | (1,286)   | (918)   | 9  |
| Sub-total   | 7,137   | 7,796   | 11,321   |
| Interest and cash dividends received  | 697   | 382   | 385  |
| Interest paid   | (60)  | (44)  | (53)   |
| Income taxes paid   | (2,724)   | (1,064)   | (1,306)  |
| Other   | 100   | 195   | 103  |
| <b>Net cash used in investing activities</b>  | (7,448)   | (8,186)   | (10,767)                                       |
| Payments for purchase of fixed assets   | (6,499)   | (7,131)   | (9,297)  |
| Payments for purchase of investments in securities                                    | (859)   | (1,080)   | (1,613)  |
| Disbursements for loans   | (32)  | (171)   | (211)  |
| Payments received on loans  | 64  | 171   | 207  |
| Other   | (121)   | 25  | 147  |
| <b>Net cash used in financing activities</b>  | (1,742)   | (2,097)   | (1,675)  |
| Proceeds from short-term debt   | 1,466   | 540   | 1,068  |
| Repayments of short-term debt   | (1,236)   | (610)   | (1,166)  |
| Proceeds from long-term loans   | 26  | -   | 532  |
| Repayments of long-term loans   | (168)   | (273)   | (381)  |
| Purchase of treasury stock  | (23)  | (23)  | (31)   |
| Dividends paid  | (1,649)   | (1,630)   | (1,656)  |
| Other   | (158)   | (99)  | (40)   |
| <b>Effects of exchange rate changes on cash and cash equivalents</b>                  | 188   | 20  | 72   |
| <b>Net increase (decrease) in cash and cash equivalents</b>                           | (3,852)   | (2,997)   | (1,919)  |
| <b>Cash and cash equivalents at the beginning of the period</b>                       | 13,790  | 15,709  | 15,709   |
| <b>Cash and cash equivalents at the end of the period</b>                             | 9,937   | 12,712  | 13,790   |

## Supplement Data

### Net sales by product groups

|                                   | FY 2005 3rd<br>Apr., 2005 through<br>Dec., 2005 |       | FY 2004 3rd<br>Apr., 2004 through<br>Dec., 2004 |       | FY 2004<br>Apr., 2004 through<br>Mar., 2005 |       |
|-----------------------------------|---|-------|---|-------|---|-------|
|                                   | Millions of yen                                 | %     | Millions of yen                                 | %     | Millions of yen                             | %     |
| Surfactants                       | ¥16,501   | 20.8% | ¥16,146   | 23.5% | ¥21,453                                     | 23.0% |
| Polyurethane chemicals            | 18,233  | 22.9% | 14,759  | 21.5% | 20,457                                      | 21.9% |
| Lipophilic high-molecular agents  | 17,537  | 22.0% | 15,645  | 22.7% | 21,221                                      | 22.7% |
| Hydrophilic high-molecular agents | 16,795  | 21.1% | 12,723  | 18.5% | 17,239                                      | 18.4% |
| Specialty products                | 9,176   | 11.5% | 8,056   | 11.7% | 11,176                                      | 12.0% |
| Total of chemical products        | 78,244  | 98.3% | 67,331  | 97.9% | 91,548                                      | 98.0% |
| Non-chemical products, and other  | 1,349   | 1.7%  | 1,410   | 2.1%  | 1,906                                       | 2.0%  |
| Total                             | 79,594  | 100%  | 68,742  | 100%  | 93,454                                      | 100%  |

### Sales to Foreign Customers

|         | FY 2005 3rd Quarter<br>Apr., 2005 through<br>Dec., 2005 |                   | FY 2004 3rd Quarter<br>Apr., 2004 through<br>Dec., 2004 |                   | FY 2004<br>Apr., 2004 through<br>Mar., 2005 |                   |
|---------|---|-------------------|---|-------------------|---|-------------------|
|         | Millions of yen   | % to<br>Net sales | Millions of yen   | % to<br>Net sales | Millions of yen                             | % to<br>Net sales |
| Asia    | ¥9,685  | 12.2%             | ¥8,323  | 12.1%             | ¥11,276                                     | 12.0%             |
| America | 3,967   | 5.0%              | 3,547   | 5.2%              | 4,583                                       | 4.9%              |
| Other   | 4,705   | 5.9%              | 2,965   | 4.3%              | 4,184                                       | 4.5%              |
| Total   | 18,358  | 23.1%             | 14,835  | 21.6%             | 20,044                                      | 21.4%             |

Notes: 1. Areas included in each country or region are determined based on their degree of proximity.

2. Main countries or regions included in the areas other than Japan.

(1) Asia: Korea, China, Indonesia, Thailand, and others

(2) America: U.S.A., Mexico, Brazil, and others

(3) Other: Australia, Europe, Middle East, and others

3. Overseas sales include sales generated in any place other than Japan by Sanyo Chemical Industries, Ltd. and its consolidated subsidiaries.