

Toward a better lifestyle for  
all people around the world

Annual Report 2006

Year ended March 31, 2007  
Fiscal Year 2006

# Company Profile

In 1949, Sanyo Chemical Industries, Ltd. was founded as a surfactant manufacturer in Kyoto, Japan. Since then, guided by our company motto, ***Let us contribute to building a better society through corporate activities***, we have been endeavoring to continually evolve along with our changing society. As the needs of society and industry have changed, we have responded by introducing new technologies, designing and developing high value-added products.

Today's Sanyo Chemical is not just a surfactant manufacturer, but also a performance chemicals manufacturer with a variety of technologies and the capability to develop rapidly. We continue to evolve as we provide performance chemicals and chemical products that satisfy the performance and capability requirements of our customers in various industries.

Global environmental conservation and sustainable development are both demanded by today's society. As we continue our development of technologies and performance chemicals, we will endeavor to make an active contribution to society as good corporate citizens, and will strive to become a truly unique and excellent corporate group that operates on a global scale.

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### Cautionary Statement with Respect to Forward-Looking Statements

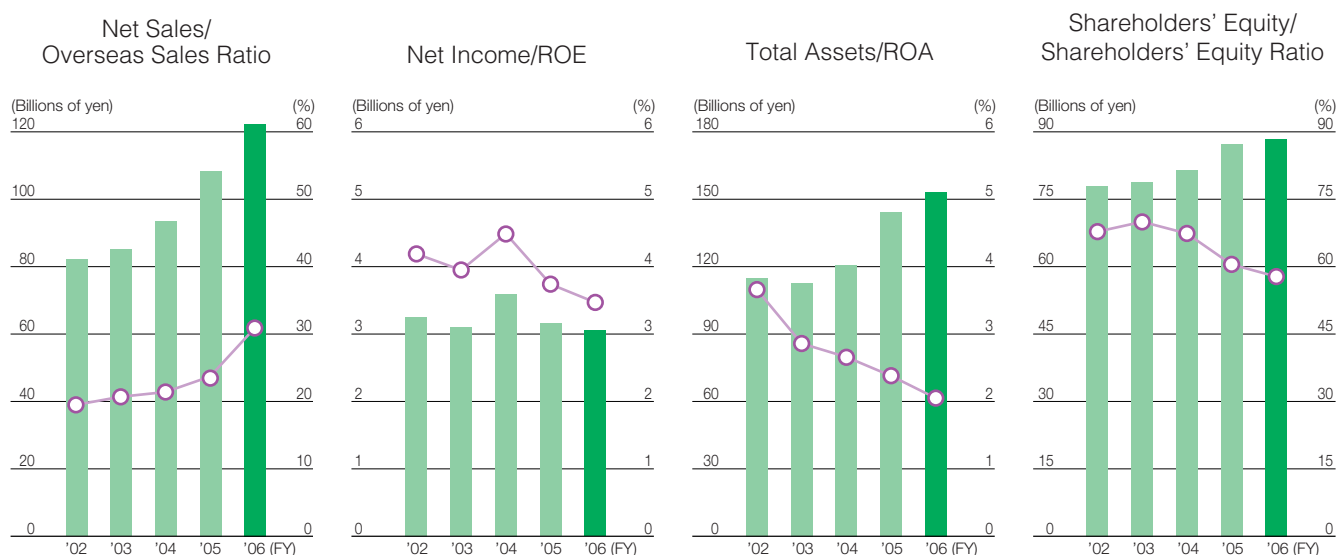
This annual report includes projections of future plans, strategies and performance results of Sanyo Chemical Group.

These projections were determined by Sanyo Chemical's executives based on information available to them at the time of writing. Please be advised that actual performance results may vary significantly due to a variety of factors affecting our group's sphere of business that include but are not limited to: economic climate, competitive position, changes in status of product development, related legislation and variations in exchange rates.


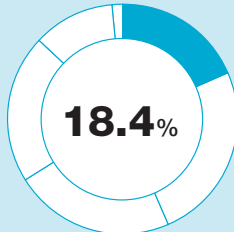

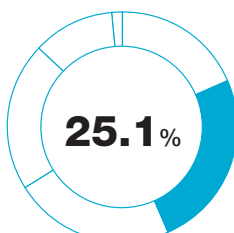

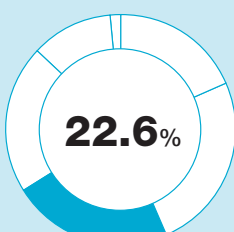

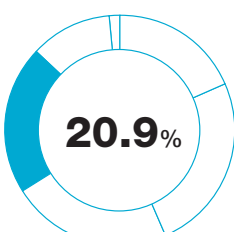

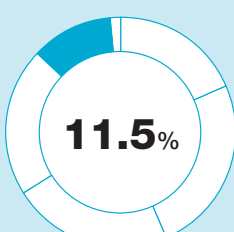
# Consolidated Financial Highlights

	Millions of Yen				Thousands of U.S. Dollars
	FY2006	% change (06/05)	FY2005	FY2004	FY2006
<b>For the fiscal year:</b>					
Net sales.....	¥122,397	12.9%	¥108,414	¥ 93,454	\$1,036,473
(Overseas sales) .....	37,765	46.7%	25,735	20,045	319,796
Operating income.....	6,553	(9.0%)	7,198	5,988	55,494
Income before income taxes and minority interests .....	6,472	(1.5%)	6,571	5,955	54,805
Net income .....	3,052	(3.3%)	3,156	3,599	25,844
<b>At fiscal year-end:</b>					
Total assets .....	¥153,166	6.2%	¥144,263	¥120,866	\$1,297,027
Shareholders' equity.....	88,467	1.3%	87,322	81,398	749,145
<b>Per share (yen and U.S. dollars):</b>					
Net income .....	¥ 27.65	(1.1%)	¥ 27.95	¥ 32.01	\$ 0.23
Cash dividends .....	15.00	—	15.00	15.00	0.13
Shareholders' equity.....	801.52	1.4%	790.38	736.91	6.79
<b>Ratios:(%)</b>					
Overseas sales ratio.....	30.9%	—	23.7%	21.4%	30.9%
Operating income ratio.....	5.4	—	6.6	6.4	5.4
Return on equity .....	3.5	—	3.7	4.5	3.5
Shareholders' equity ratio.....	57.8	—	60.5	67.4	57.8
Return on assets.....	2.1	—	2.4	3.1	2.1

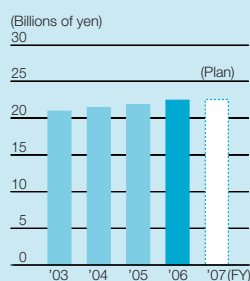
- Notes: 1. U.S. dollars have been converted at the rate of ¥118.09 to US\$1, the effective rate of exchange at March 31, 2007.  
 2. The computations of net income per share of common stock are based on the weighted average number of shares outstanding during each fiscal year.  
 3. Since FY2006, presentation of net assets is based on "Accounting Standard for Presentation of Net Assets in the Balance Sheet ("Business Accounting Standard No. 5")." Figures of FY2005 or earlier are based on the old standard.  
 4. Since FY2006, overseas sales were sales of which final destination was foreign customers.



# Business Review (Sanyo Chemical at a Glance)

	Organization in Charge	Principal Products	Sales Ratio
 <h2>Surfactants</h2>	<p><b>Yasui Business Unit</b></p> <p><b>San Nopco Sanyo Kasei (Thailand) Sanyo Kasei (Nantong)</b></p>	<p><b>Surfactants for textiles</b> Agents for textile manufacturing, scouring and cleaning agents, dyeing auxiliaries, textile finishing agents, flame retardants for fibers, agents for glass fibers</p> <p><b>Industrial surfactants</b> Surfactants for hair care products, base materials for cosmetics, surfactants for detergents and cleaners, germicide disinfectants, antibacterial agents, emulsifiers for emulsion polymerization, defoamers, dispersants</p>	 <p><b>18.4%</b></p>
 <h2>Polyurethane Chemicals</h2>	<p><b>Usami Business Unit</b></p> <p><b>Yasui Business Unit</b></p> <p><b>Bessho business Unit</b></p> <p><b>Sanyo Kasei (Thailand) Sanyo Kasei (Nantong) Sanyo Chemical &amp; Resins Sanyo Chemical Texas</b></p>	<p><b>Raw materials for polyurethane</b> Raw materials for polyurethane foam, raw materials for polyurethane resins</p> <p><b>Polyurethane resins</b> Thermoplastic polyurethane beads (TUB) for the interior parts of automobiles, polyurethane resins for synthetic leather, polyurethane resins for paints, polyurethane resins for gravure inks, polyurethane emulsions</p>	 <p><b>25.1%</b></p>
 <h2>Lipophilic High-Molecular Agents</h2>	<p><b>Bessho Business Unit</b></p> <p><b>Sono Business Unit</b></p> <p><b>Yasui Business Unit</b></p>	<p><b>Copier-related products</b> Polyester-type toner resins, styrene-acrylic-type toner resins, polyester beads (PEB) as a core component of polymerization toners</p> <p><b>Lubricating oil and machine-related products</b> Viscosity index improvers, base materials for synthetic lubricating oils, machinery processing agents, fuel oil additives</p> <p><b>Coating and adhesive-related products</b> UV and EB curing resins, potting resins for artificial kidneys, pressure-sensitive adhesives, sizing agents for glass fibers</p>	 <p><b>22.6%</b></p>
 <h2>Hydrophilic High-Molecular Agents</h2>	<p><b>Sono Business Unit</b></p> <p><b>SAP Application Intracorporation</b></p> <p><b>San-Dia Polymers San-Dia Polymers (Nantong)</b></p>	<p><b>Superabsorbent polymers</b> Superabsorbent polymers (SAP) for hygiene use, SAP for non-hygiene use</p> <p><b>Water treatment-related products</b> Polymer flocculants for municipal wastewater treatment, polymeric flocculants for industrial wastewater treatment</p>	 <p><b>20.9%</b></p>
 <h2>Specialty Products</h2>	<p><b>Bessho Business Unit</b></p> <p><b>Yasui Business Unit</b></p> <p><b>Sono Business Unit</b></p> <p><b>Construction Systems and Materials Intracorporation Polymer Application Intracorporation</b></p> <p><b>San-Apro</b></p>	<p><b>Electric/electronic-related products</b> Electrolytes for aluminum electrolytic capacitors, electrolytes for electric double-layer capacitors, agents for silicon wafer processing, special catalysts for epoxy resins</p> <p><b>Resin and polymer modifiers</b> Permanent antistatic agents, pigment dispersants, denatured olefin oligomers</p> <p><b>Other</b> Polymers for enhanced oil recovery, hot melt adhesives, enteric-soluble coating agents, civil engineering and construction-related products, paste resins for design models</p>	 <p><b>11.5%</b></p>

## Sales



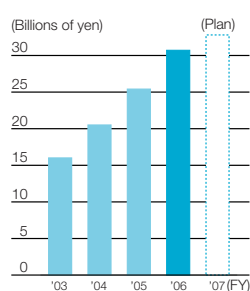
## Review of FY2006

Sales of industrial surfactants grew smoothly due to an expansion in sales of cleaning agents for electronic components, and strong sales of detergent base materials with superior biodegradability, as well as raw materials for cosmetic products. Dispersants and defoamers for paints also increased briskly due mainly to rising demand in China.

In the area of surfactants for textiles, sales of agents used in textile manufacturing processes for industrial materials, such as carbon fiber, were

strong. However, overall sales of surfactants for textiles remained weak due to slackening demand for textile agents for clothing.

As a result, total sales in this product group increased by 2.4% from the previous fiscal year to ¥22,481 million.

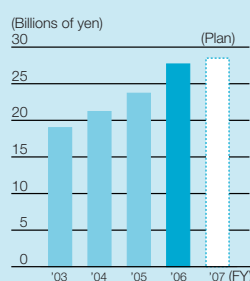


Sales of raw materials for polyurethane foam increased substantially, owing to continuing vigorous demand both in Japan and overseas. Growth in sales is attributable to the expansion of new high-performance raw materials for polyurethane foam for automobiles and a revision of product prices that correspond to higher raw material costs.

In the area of polyurethane resins, sales increased substantially, due to the increasing number of automobile models both in Japan and

overseas using thermoplastic polyurethane beads (TUB) for the interior parts of automobiles. A rise in sales of waterborne resins for automobile paints also contributed to the growth in sales.

As a result, total sales in this product group increased by 20.9% from the previous fiscal year to ¥30,670 million.



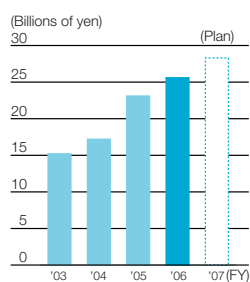
Sales increased in polyester beads (PEB) used as a core component of polymerization toners due to the growing popularity of highly-functional copiers. Demand was strong for PEB for both color and black toners. In addition, our sales of toner resins used for pulverized toner increased thanks to the launch of high-performance polyester-type toner resins. As a result, sales of office machine-related products increased substantially.

Sales of lubricating oils and machining-related products increased briskly, due largely to efforts to

expand sales of viscosity index improvers for automobile transmissions.

In coating and adhesive-related products, demand increased for adhesives for medical equipment and glass fibers. This and increased sales of coating agents for fertilizers produced a steady sales performance for the product group.

As a result, total sales in this product group increased by 17.1% from the previous fiscal year to ¥27,714 million.

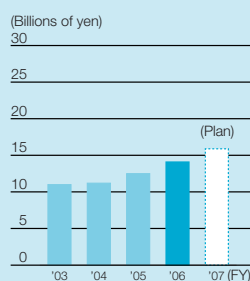


Sales of superabsorbent polymers increased substantially in response to strong overseas demand for hygiene-use materials such as disposable diapers, with steady production at San-Dia Polymers (Nantong) Co., Ltd. in China, which began commercial production in April 2005.

Sales of water treatment products decreased slightly due to continued intensification of competition in the polymer flocculants market.

As a result, total sales in this product group

increased by 10.6% from the previous fiscal year to ¥25,597 million.



In the field of polymer modifier-related products, sales increased as a result of expansion into new areas, such as permanent antistatic agents for use in packaging materials for electronic components, and an increase in sales of resins for automobile paints. Consequently, sales expanded steadily.

In electric/electronic-related products, demand from manufacturers of digital home appliances drove growth in sales of electrolytes for aluminum electrolytic capacitors. This and a surge in sales of

our chemical mechanical planarization cleaners and silicon wafer processing agents helped to generate brisk sales.

Sales also increased in other products, with steady performances by products used in civil engineering and construction, such as epoxy resins for iron reinforcing joints and concrete agents.

As a result, total sales in this product group increased by 13.4% from the same period of the previous fiscal year to ¥14,137 million.

## Review of Performance in FY2006

Net sales of Sanyo Chemical for FY2006 (April 1, 2006 to March 31, 2007) increased 12.9% from the previous fiscal year to ¥122.4 billion on a consolidated basis, marking a rise in net sales for six straight years. The four main reasons for the year-on-year increase in net sales were as follows:

1. A dramatic sales increase for Strategically Developed Products (Strategic Products)\*, such as polyester beads (PEB), used as a core component of polymerization toners and thermoplastic polyurethane beads (TUB) for the interior parts of automobiles

\*Products developed and currently under development, which have strong potential for contributing substantially to future business expansion.

2. Strong sales of automobile-related materials, such as raw materials for the polyurethane foam used in automobile seat cushions
3. Brisk sales of superabsorbent polymers (SAP) thanks to high demand for hygiene-use materials, such as disposable diapers, particularly in the Chinese market

4. An upward revision in product prices for SAP and the raw materials for polyurethane foam, in response to surging raw material costs amid strong demand and a tight supply situation for these products

In terms of profit, operating income decreased 9% from the previous fiscal year, to ¥6.6 billion. This was mainly due to the impact of surging raw material costs, which could not be covered entirely by an increase in sales and an upward revision in product prices. However, ordinary income increased 1.0% from the previous fiscal year to ¥8.0 billion. This was primarily the result of an increase in gains on equity-method investments. Although ordinary income increased only slightly from the previous fiscal year, it nonetheless marks three straight years of growth. Net income declined 3.3% to ¥3.1 billion, primarily as a result of the posting of impairment losses on fixed assets of overseas subsidiaries in the amount of approx. ¥0.7 billion, as well as losses on valuation of inventories of approx. ¥0.5 billion.

Consequently, earnings per share came to ¥27.65, and the return on equity (ROE) came to 3.5%.

Meanwhile, we have maintained dividends per share at the same level as the previous fiscal year of ¥15 (payout ratio: 54.2%).



Masaaki Ienaga  
President, Representative Director

A handwritten signature in black ink that reads "Masaaki Ienaga". The signature is written in a cursive, flowing style.

## Review of Business Activities in FY2006

In FY2006, we achieved net sales that dramatically surpassed the ¥100 billion mark on a consolidated basis, one of our targets under the Sixth Medium-Term Management Strategy (FY2003-2006). This achievement was largely due to the ongoing recovery of the Japanese economy and strong growth in overseas demand, especially in China, as well as to the success of our efforts to expand our Strategic Products and expand our overseas operations. In the meantime, our business environment remained harsh, due to the downward pressure on profits resulting from the rise in petrochemical material prices, caused by surging crude oil prices. Under these circumstances, Sanyo Chemical focused on 1) further increasing the sales and improving the profitability of Strategic Products, 2) reducing costs and revising product prices, 3) improving the profitability of overseas consolidated subsidiaries, 4) strengthening R&D activities for business expansion and 5) securing and training personnel.

Sales of Strategic Products increased sharply from ¥10.7 billion to ¥15.8 billion. This was primarily attributable to such factors as the full-scale launch of PEB for color toners, following the introduction of PEB for black toners, and growing demand for TUB in new overseas markets as well as in Japan. However, the rise in depreciation costs resulting from previous aggressive investment in plant and equipment, as well as higher overseas distribution costs, have impeded efforts to sufficiently recover profitability.

With respect to existing products, we succeeded in reducing costs through technological innovations and process reforms. Thanks to the growing global demand for SAP and the raw materials for polyurethane foam, we were able to revise upward the prices for these products. In general, however, we were unable to pass the entire increase for the raw material costs onto product prices.

Regarding overseas consolidated subsidiaries, San-Dia Polymers (Nantong) Co., Ltd. (SDN) started

commercial production in April 2005, and production and sales have steadily expanded, contributing to improved profitability. However, improvements in profitability of other overseas consolidated subsidiaries were insufficient, although they recorded improved sales figures (Sanyo Chemical Texas Inc. has not begun operation yet). Following the establishment of satellite laboratories at Sanyo Kasei (Nantong) Co., Ltd. (SKN), SDN, and Sanyo Chemical & Resins Inc. (SCR), we also established a satellite laboratory at Sanyo Kasei (Thailand) Ltd. (SKT) in FY2006. This is aimed at realizing further expansion in sales and improvement in profitability by developing and improving products close to overseas users. In this way, we have created an overseas network of production bases, overseas sales bases and overseas liaison offices, while working to coordinate production, sales and research activities.

Concerning the securing and training of personnel, we have improved and enriched our in-house training system and substantially increased our workforce.

## Review of CSR in FY2006

Against the backdrop of a stronger focus on corporate social responsibility (CSR), companies are under pressure to make full disclosure of information regarding their business performance, financial positions, measures they take in the fields of environmental conservation, safety, and social contributions. To this end, from FY2005 onward we have started publishing a Responsible Care and Social Report instead of an Environmental Report, providing more detailed information about the company's social contributions and employee development, and gaining third-party verification of contents by the Japan Responsible Care Council.

With concern for environmental activities, in addition to conducting our company-wide environmental conservation program, called "S-TEC21" (Sanyo Tactics for Eco Challenge 21st Century), we cooperated with the government's "Cool-Biz" and "Warm-Biz" initiatives as our way of helping to prevent global warming. In terms of social contributions,

we continued performing chemical experiments and holding lectures entitled, "The Chemistry Around Us and the Environment," at elementary schools near the head office, holding Kyoto Factory tours for junior high school students, making contributions to local community events near our branch offices and factories, and providing research grants and instructors to universities. In terms of employee development, we awarded four "challenge" contracts under our Challenge System\*, aiding self-actualization for our employees. Furthermore, we extended further the total number of days for maternity and parental leave, and decided to allow for the rehiring of employees who reach retirement age, in the wake of a recent revision to employment-related laws to encourage the increased employment of older people.

\*With Company approval, employees formally conclude an agreement with the Company President, which allows them to take on the challenge of solving a specific problem.

## Results of the Sixth Medium-Term Management Strategy and Issues to Be Addressed

In the late 1990s and the early 2000s, our ratio of ordinary income to net sales exceeded 12%, and Sanyo Chemical drew attention as a high profitability company. Subsequently, product prices fell and the profit margin also declined despite a rise in sales on a volume basis, amid intensified competition in overseas markets and the persistence of deflation in the domestic market ever since the bursting of Japan's economic bubble. Against this backdrop, Sanyo Chemical, under its Sixth Medium-Term Management Strategy (April 1, 2003 to March 31, 2007), worked to achieve a recovery in profitability and simultaneously expand the scale of its operations in order to improve its competitiveness amid increasingly intense competition on a global basis. Targeting future growth, in 2002, we drafted our basic strategies for becoming a truly unique and excellent corporate group that operates on a global scale. We targeted net sales of over ¥100 billion, an ROE of 8% or higher, and expansion of our Strategic Products business, as well as a faster

pace of expansion of our business operations globally.

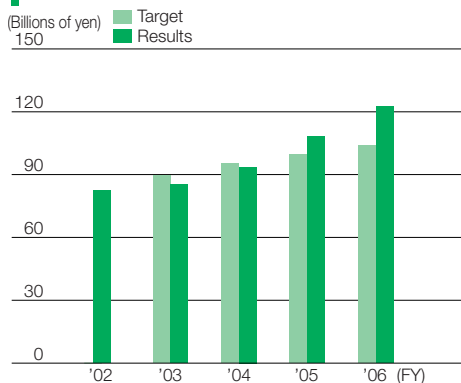
Regarding the expansion of our Strategic Products, we realized steady sales of such products as PEB and TUB, and consequently were able to exceed our sales target. As for our plan to extend overseas operations, we have succeeded in setting up overseas bases in North America, Southeast Asia, and China and have achieved our target of raising the overseas sales ratio. However, the sharp rise in crude oil prices pushed up the price of petrochemical products, creating a severe operating environment. The rise in raw material costs was a significant factor that could not have been foreseen in the drafting of the Sixth Medium-Term Management Strategy.

As a result, net sales totaled ¥122.4 billion, exceeding our target by ¥18.6 billion (up 49% over FY2002). In contrast, profitability deteriorated. The ROE in FY2006 was 3.5%, down 0.7 percentage point from FY2002 and far short of our target of 8.0%.

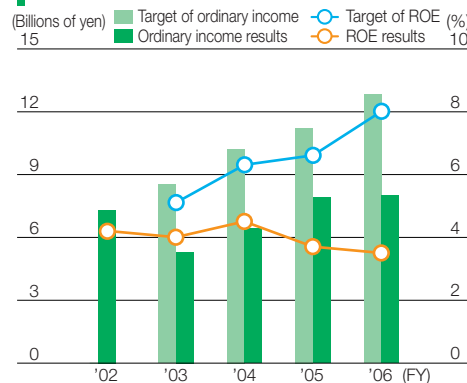
At the end of the Sixth Medium-Term Management

## Main results of Sixth Medium-Term Management Strategy

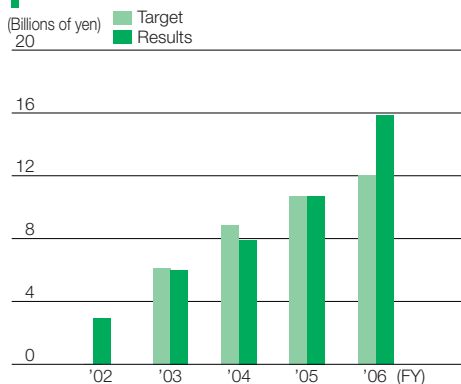
### Net Sales



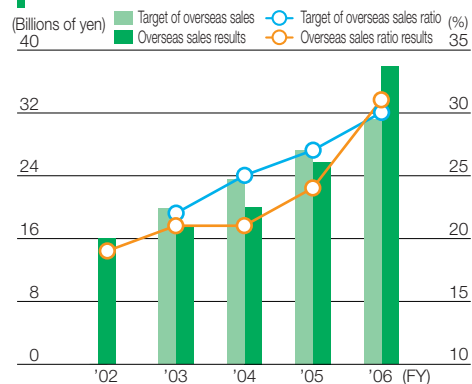
### ROE and Ordinary Income



### Net Sales of Strategic Products



### Overseas Sales and Overseas Sales Ratio



Note: Since FY2006, overseas sales were sales of which final destination was foreign customers.

Strategy, we now consider our foremost priority for the time being to be the improvement of profitability. Taking into account the economic progress being made by such countries as China and India, it is unlikely that crude oil prices will return to the previous level, and a reduction in the price of petrochemical products cannot be expected. Therefore, in line with the Seventh Medium-Term Management Plan, which began in FY2007, it is necessary for us to improve our profitability by:

1. Increasing sales of high-value-added products — primarily Strategic Products
2. Making efforts to cut costs through technological innovation and business process reforms
3. Continuing the upward revision of product prices
4. Quickly returning all of our overseas consolidated subsidiaries to the black

In recent years, CSR is becoming a pressing issue for companies. Through our individual-based management, our employees are working to achieve their self-actualization through the performance of their work, and all Sanyo Chemical employees are working together to uphold the Company's motto,

*Let us contribute to building a better society through corporate activities.* In the future, we will continue our efforts to raise corporate value, achieve environmental conservation and contribute to society, as we work to achieve sustainable growth as a group and to realize our goal of being a truly unique and excellent corporate group that operates on a global scale.



# Seventh Medium-Term Management Plan

By being a truly unique and excellent corporate group that operates on a global scale, we aim to be both highly profitable and able to compete successfully in the world market. To this end, we have devised our Seventh Medium-Term Management Plan incorporating strategies for the global expansion of operations.

Our new four-year management plan covers the period from FY2007 to FY2010 (April 2007 to March 2011). Under the slogan of “Challenge 10\*1,” we will work to expand our sales of Strategic Products\*2 and other products by further bolstering our research and development capabilities, and aggressively implementing capital investment. By the final fiscal year, FY2010, we aim for net sales of ¥170 billion or higher, ordinary income of ¥18 billion or higher, a ratio of ordinary income to net sales of 10% or higher, and an ROE of 10% or higher.

Notes: \*1. “Challenge 10” refers to our targets of an ordinary income ratio of 10% or higher, and an ROE of 10%, to be achieved by FY2010.

\*2. There are a total of 15 items designated as Strategic Products in our Seventh Medium-Term Management Plan. Five products have been carried over from the preceding Sixth Medium-Term Management Strategy, and 10 items are new.

## Overview of our Seventh Medium-Term Management Plan

### I Our Management Principles

Guided by our Company motto, *Let us contribute to building a better society through our corporate activities*, we will put into practice the following seven management principles, with the aim of achieving the growth that will enable us to become a truly unique and excellent corporate group that operates on a global scale.

1. Our *individual-based management* enables individual employees to maximize their potential. This, in turn, contributes to the realization of a strong and attractive company.
2. In the course of your actions, keep firmly in mind: without rigorous legal and ethical compliance no company can be an excellent company, and we must also fulfill our corporate social responsibility.
3. Work with thoroughness to ensure safety. Also seek to maintain harmony with society, as well as the natural environment.
4. Take pride in the satisfaction your actions will bring to customers. Also, demonstrate a willingness to undertake challenges, and *acting with thinking*.
5. Make aggressive R&D investments to expand revenues and profits.
6. By bolstering management on a consolidated basis, maximize the synergies of Sanyo Chemical.
7. Make a fair distribution of profits among internal reserves, our shareholders, executives and employees.

## II Basic Targets

### 1. Sales target

Our sights are set on achieving ¥200 billion on a consolidated basis in the near future. In the process of achieving this goal, we aim to realize net sales of ¥170 billion by FY2010.

Main Strategic Products in focus fields

Business fields targeted for their potential to improve our profitability and net sales

#### Copiers and electronics:

Core components of polymerization toners\*, energy-saving toner resins, permanent antistatic agents\*, materials for flat panel displays (FPDs), electrolytes for electric double-layer capacitors\*, etc.

#### Automobile products:

Thermoplastic polyurethane beads for the interior parts of automobiles\*, lightweight seat cushion materials, lubricating oil additives for continuously variable transmission fluid

Note: Items with an asterisk indicate Strategic Products carried over from the Sixth Medium-Term Management Strategy.

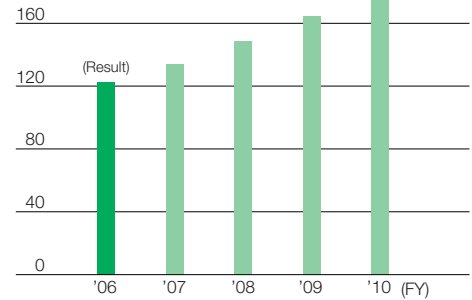
Business development fields targeting next-generation advances

#### Environmental and biotechnology products:

High-performance polymer flocculants, plasticizers used for biodegradable plastics, materials to stop bleeding during surgery, surfactants for biotechnology applications

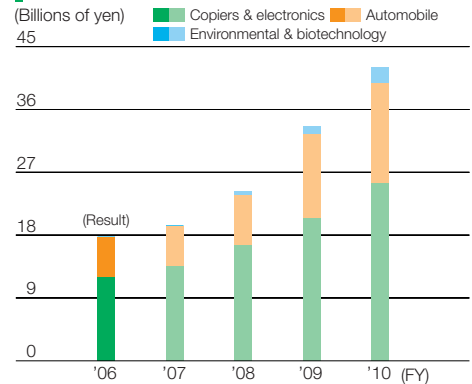
### Net Sales

(Billions of yen)  
200



### Net Sales of Strategic Products by Segment

(Billions of yen)  
45



**2. Profitability target**

By increasing the sale of Strategic Products, expanding the lineup and reducing costs for other products, as well as by improving the profitability of consolidated subsidiaries, we aim to achieve an ordinary income of ¥18 billion or higher, an ordinary income ratio (Ordinary Income Ratio = Ordinary Income/Net Sales x 100) of 10% or higher, and an ROE of 10% or higher.

**3. Capital investment and R&D expenses**

To achieve the aforementioned targets for sales and profitability, we will undertake the following capital investment under our Seventh Medium-Term Management Plan.

**Capital investment**

We plan to invest a total of approx. ¥54 billion during a four-year period under the Seventh Medium-Term Management Plan.

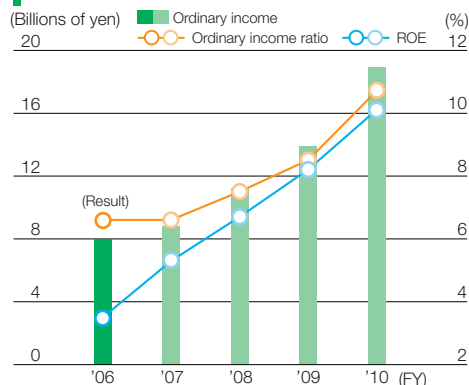
Main capital investment plan:

- Approx. ¥11 billion for the construction of manufacturing plants at the Kinuura Satellite Factory
- Approx. ¥6.6 billion for expansion of manufacturing plants for superabsorbent polymers (SAP)
- Approx. ¥2.4 billion for the construction of the new research laboratory at Katsura, Kyoto

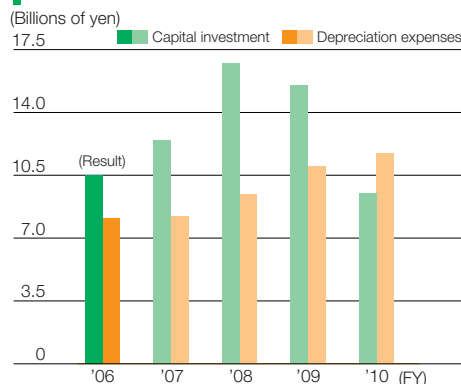
**R&D expenses**

We plan to invest approx. 4% of total net sales on an annual basis in R&D, and a total of approx. ¥25 billion over the four years covered by the Seventh Medium-Term Management Plan.

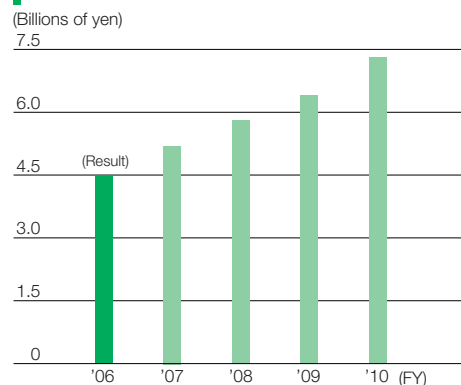
**Profitability**



**Capital Investment and Depreciation**



**R&D Expenses**



## III Basic Strategies

### 1. Utilizing *individual-based management*

We aim to maximize the potential of individual employees by more effectively utilizing the organizational structure, a wide range of career development and benefits programs, and the technical infrastructure within our organization, as well as through other means.

### 2. Strengthening group management

- 1) Build an internal control system
- 2) Optimize the intra-group synergy
- 3) Create a system for securing and training talented personnel
- 4) Be proactive in capital investment
- 5) Withdraw from unprofitable businesses and reconsider the Company's business domains (including M&A strategy)

### 3. Improving profitability

- 1) Launch new Strategic Products, and expand sales of existing Strategic Products
- 2) Improve profitability by upgrading the features of the other existing products
- 3) Pursue cost reductions
- 4) Secure sustainable profitability for overseas consolidated subsidiaries

### 4. Bolstering research and development capabilities

- 1) Commence research at a new research laboratory at Katsura, Kyoto and achieve positive results at an early stage
- 2) Promote development of Strategic Products
- 3) Expand the core businesses through technological innovation
- 4) Develop nanotechnology, microfabrication technology and medical technology

### 5. Promoting overseas operations

- 1) Increase overseas sales ratio to 40% or higher
- 2) Encourage the hiring of local managers at overseas consolidated subsidiaries, and promote marketing strategies tailored to local markets
- 3) Strengthen the overseas sales network

# Corporate Governance and Compliance

## Management Philosophy

We have undertaken a thorough reorganization of our corporate governance system to enable us to realize the aims of our company motto, ***Let us contribute to building a better society through our corporate activities.***

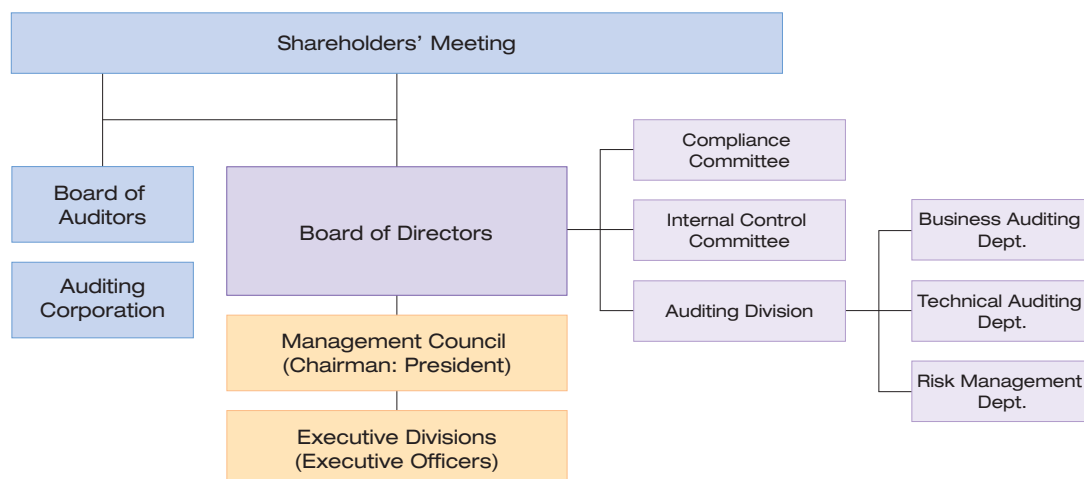
Our management philosophy aims at fulfilling our corporate social responsibility by operating a strict system of corporate governance and enhancing our corporate value. We have also adopted an *individual-based management* style that places importance upon *self-set commitments* as well as *acting with thinking*. Additionally, we encourage our employees not to be afraid of taking on challenges in their work. We do our utmost to promote the realization of individual potential, as well as the evolution of the Company as a whole.

## Corporate Governance

The management of all the member companies in Sanyo Chemical, in recognition of the responsibilities they bear toward their shareholders and all the Group's other stakeholders, have positioned corporate governance as one of their top-priority management issues.

In October 2006, we further strengthened our overall corporate governance system with the establishment of the Internal Control Committee, which exercises control over all corporate activities under the direct supervision of the Board of Directors. In addition, a specialist unit has been set up to oversee, develop and assess the system of internal control of the Group's financial reporting in line with the policies laid down by the Internal Control Committee.

Corporate Governance Organization Overview (as of June 22, 2007)



## Board of Directors

The Board of Directors consists of eight members and is convened by the Chairman of the Board. Auditors also attend and participate in discussions. Of the eight members, one is an outside director, and six serve concurrently as executive officers. The Board of Directors operates in accordance with all applicable laws and ordinances as well as the regulations of the Board of Directors. The Board of Directors can also appoint executive officers to perform such duties as prescribed to them by the Board.

## Management Council

The Company President serves as the Chairman of the Management Council, and the council members comprise directors who concurrently serve as executive officers, full-time auditors and other executive officers. The Management Council is convened regularly twice a month to discuss and make decisions on important business matters in accordance with the fundamental policies determined by the Board of Directors.

## Auditing System

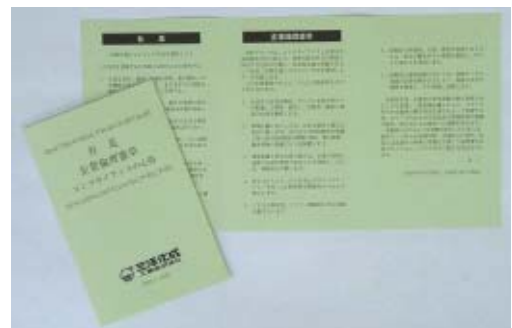
Independent auditors conduct external audits in compliance with the Securities and Exchange Law and Corporate Law. The audit results are reported to the Board of Auditors, consisting of four auditors. The Board of Auditors presents the audit report to the Representative Directors and also at the general shareholders' meeting.

The Auditing Division conducts internal auditing under the direct jurisdiction of the Board of Directors and the Business Auditing Department and Technical Auditing Department are contained within this division.

## Compliance System

As part of our compliance efforts, we have placed our Senior Managing Executive Officer in charge of corporate ethics, instituted a Compliance Committee (chaired by the Chairman of the Board of Directors), and established an Auditing Division under the direct jurisdiction of the Board of Directors, in order to ensure the effectiveness of our internal auditing function.

The Compliance Committee was established to serve as the ultimate authority on and to take responsibility for deliberations and decisions made concerning compliance matters within the Company. This committee meets regularly once every quarter and at other times when deemed necessary. To promote in-house compliance education, the sales and research divisions conduct study sessions on laws and regulations. It goes without saying that as the Company deals with chemical products, we take great care to ensure that all stipulations in Japan's 1973 Chemical Substances Control Law are followed to the letter. Leaflets on how to comply with this important law are distributed to all employees. Study sessions are also held, and we require all of our employees to pass an internal certification exam. To promote awareness of compliance issues throughout the company, we also require our employees to carry with them a Company Motto/Code of Corporate Ethics/Advice on Compliance leaflet. In addition, a hotline has been established to allow us to respond to any questions regarding compliance that may arise. Information concerning this leaflet is also available on our website.



Company Motto/Code of Corporate Ethics/Advice on Compliance Leaflet

## Risk Management

A Risk Management Department was established in the Auditing Division which is under the direct jurisdiction of the Board of Directors. The functions of this department include the identification of the risk factors within the various divisions; a periodic review of these risk factors and the planning of preventive measures; and this department also responds to inquiries from outside the Company. Deliberations on risk matters are also carried out by the Compliance Committee, and the Technology, Sanitation, Environment and Safety Auditing Committee assists with risk auditing.

## Internal Control

Guided by our Company motto, *Let us contribute to building a better society through our corporate activities*, we have created an internal control system that encompasses all employees and executives of Sanyo Chemical. The system not only ensures that the Company, in its business activities, strictly observes all relevant laws and regulations, but also helps to improve the effectiveness and efficiency of business operations and ensures the reliability of our financial reports.

Pursuant to the Corporation Law and its enforcement regulations, in May 2006, the Board of Directors made a resolution on the Company's basic policy regarding the creation of an internal control system and announced it publicly to ensure that the Company's operations are conducted in an appropriate manner. This basic policy for the Company's internal control system focuses primarily on measures for strengthening corporate governance, enhancing compliance, and upgrading the risk management system.

The Internal Control Committee was established in October 2006. This committee, as the ultimate deliberative assembly on internal control within the Company, reports directly to the Board of Directors, and is headed by the President. The Internal Control Committee is responsible for creating the policy governing the Company's internal control system, for operating that system, and for assessing its effectiveness. The committee also provides guidance and monitors internal controls.

In addition, an Internal Control System (Financial Reporting) Promotion Dept. has been set up in the General Affairs Division, which is in charge of the creation, operation, and assessment of the internal control system on financial reporting stipulated in the Financial Instruments and Exchange Law. The Internal Control System (Financial Reporting) Promotion Dept., comprising experts in accounting, IT, production, sales, and research from our headquarters as well as in consolidated subsidiaries, conducts reviews of the existing internal control system. They focus on identifying the specific aspects of financial reporting that are weak in terms of reliability and might pose an undue risk. The experts indicate ways to manage those risks that have been identified, and then take the initiative to explain each part of the business process to the extent deemed necessary. This process of describing on paper actual operations must be undertaken before the President can inspect the financial report and make his own assessment. Based on this assessment, he prepares a draft that will ultimately become the Internal Control Report. An adequate explanation of business processes will also serve to enhance the efficiency of operations and ensure that the next generation of employees understand the requirements of each position.

As part of the internal control system relating to financial reporting, in February 2007, we completed a description of the order-taking operations as a model case, as well as developed a manual for the creation of internal controls, their implementation in operations, and assessment of those controls. From February onward, we will expand the scope of the assessment of the internal controls to include all our company-wide operations. We will also unify control systems for operational procedures for everything from sales to the financial reporting process, as well as IT procedures. We will eventually expand the scope of our internal control system to include all of our consolidated subsidiaries and equity method affiliates, implement this new system, and assess its effectiveness.

The results of our internal control initiatives will be reviewed by independent auditors, and the necessary changes will be made before the new amendments to the Financial Instruments and Exchange Law come into effect in FY2008.

## Company Motto

### *Let us contribute to building a better society through our corporate activities*

To achieve this purpose, we will endeavor to promote the followings:

- 1 ► We believe that the Company is an organic entity of capital, management, and labor harmoniously linked together. Keeping this in mind, we will strive to achieve dynamic growth.
- 2 ► Trusting that our inventive power has no limits, we will ceaselessly try to develop new business areas and supply original and high-quality products to the market.
- 3 ► We believe that perpetual profits come only from the creation of value, and we do not seek superficial profits.
- 4 ► We will fulfill the customers' expectation and earn their trust by providing high-quality cost-effective products and superior technical service.
- 5 ► When all the members of the Company share the same vision for the Company's future and challenge for innovation on our own initiative, we will be rewarded with an abundant profit. This profit will then be fairly distributed among internal reserves, shareholders, management and employees.
- 6 ► We will strive for perfection in safety and harmony with the environment, which is the first required mission in the society.

## Compliance Philosophy

Believing that it is essential corporate behavior to ensure legal compliance and to fulfill Corporate Social Responsibility, we Sanyo Chemical Group are introducing a Code of Corporate Ethics, which will be applied to maintain sustainable society. With good sense and integrity we are committed to improving our society and are following our Company motto *Let us contribute to building a better society through our corporate activities*.

Based on these company business ethics, we prescribe our principles of corporate behavior as follows:

1. We Sanyo, by the development and provision of socially beneficial goods and services, in a safe and responsible manner, shall strive to earn the confidence of our consumers and clients.
2. We shall promote fairness, transparency, free competition and right trade. We shall also ensure to protect our own intellectual property as well as that of any third party while taking necessary measures to protect personal data and customer related information.
3. We shall recognize that a positive involvement in environmental issues and an active effort towards accident prevention are indispensable requirements for the sustainability and activity of our business.
4. We shall engage in active and fair disclosure of corporate information, not only to shareholders, but also to a wide range of members of society.
5. As "good corporate citizens," we shall actively engage in philanthropy and other activities of social benefit.
6. We shall strive to respect the diversity and individuality of our employees, to promote safe and comfortable workplaces, and to ensure the physical and mental well being of our employees.
7. We shall observe all laws and regulations applying to our overseas activities, respect the culture and customs of other nations and strive to manage our overseas activities in such a way as to promote and contribute to the development of local communities.

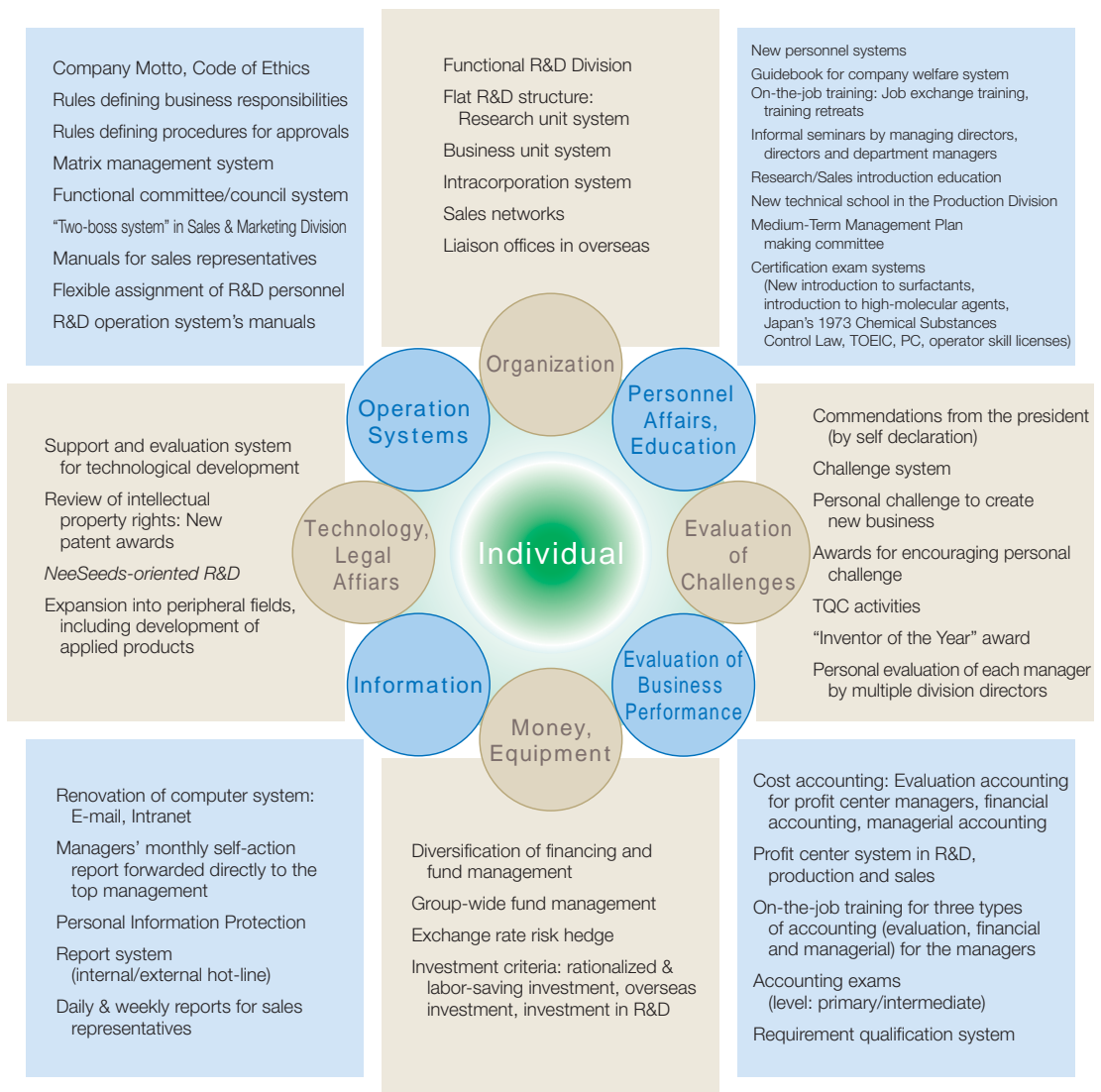
All high levels of management, cooperating with other managers, must assume the responsibility for implementing this code and take all necessary action in order to promote awareness within Sanyo Chemical Group and inform the group companies and business partners of their responsibility. Management must also promote the development and implementation of systems that will contribute to the achievement of ethical corporate behavior. In the event of any violation of these principles, members of management must investigate the cause of the violation, develop reforms to prevent its recurrence, and make information publicly available regarding the intended actions for reform. After the prompt public disclosure of appropriate information regarding the violation, responsibility for the violation and its effect should be clarified, and disciplinary action should be taken, regardless of the offending member's position in the Company.

Established: April 1, 2003

2nd version released: January 1, 2005

## Individual-Based Management

Sanyo Chemical is adapting to the new age by introducing *Individual-based management*, a concept unique to Sanyo Chemical. *Individual-based management* is aimed at enhancing people’s capabilities and placing value on *self-set commitment* and *acting with thinking*. It is said that people make the company, and in the years to come, the quality and challenging spirit of each individual will become more and more important. Based on the motto “With Enthusiasm and Passion,” Sanyo Chemical is striving to create a shared vision and in unison with all group companies, is aiming to be a unique and excellent company.



# Environmental and Social Contributions

We aim to realize a sustainable, recycling-oriented society by living up to our Company motto: *Let us contribute to building a better society through our corporate activities.* As good corporate citizens, we acknowledge our duty to contribute to the good of society as a whole. We not only develop and produce environmentally-friendly products as a chemical company, but also actively dedicate ourselves to environmental conservation, safety and accident prevention, and make a positive contribution to society.

## Environmental Activities

### Responsible Care

We place great importance on pursuing safety (including both occupational and product safety) and promoting harmony between our business operations and the environment. Since joining the Japan Responsible Care Council in 1996, we have actively engaged in environmental conservation, as well as safety and accident prevention, through our company-wide responsible care activities.

All Sanyo Chemical factories and all domestic subsidiaries with production facilities have acquired ISO14001 certification. Their activities are in compliance with the ISO14001 standards for environmental management systems.

### Environmental Conservation Priority Project: S-TEC21 (Level III, FY2004-FY2006)

We are conducting a Company-wide environmental conservation program called "S-TEC21 (Sanyo Tactics for ECO Challenge 21st Century)," which focuses on energy conservation and the reduction of greenhouse gas emissions. We have completed the third stage (Level III, FY2004 - FY2006) of the program, but our results in the categories of energy conservation and reduction of greenhouse gases fell well short of our targets.

Activities	Objectives by End of FY2006	Results
Energy conservation	Reduce energy intensity (energy consumption per unit of production) by 6.6% from FY2003 levels	Increased by 2.4% compared with FY2003
Reduction of greenhouse gas emissions	Reduce energy-derived CO <sub>2</sub> emissions to less than 120,000 tons (non-consolidated) and less than 160,000 tons (consolidated)	Non-consolidated: 168,000 tons (up 10,000 tons or 6.4% year-on-year ) Consolidated: 217,000 tons (up 8,000 tons or 3.8% year-on-year )
Reduction of chemical substance emissions	Reduce emissions into the environment of chemical substances regulated by the Pollutant Release and Transfer Register (PRTR) Law by 60% from FY2003 levels	Reduced by 44% since FY2003 (Total waste volume 66 tons)
Zero waste	Reduce final disposal (landfill) waste volume to less than 0.1% of overall waste volume	Ratio of landfill waste to total waste volume: 0.21% (Improved by 80% compared with FY2003)
C&C (Check & Clean) activities	Voluntarily investigate contamination of groundwater and soil on our premises; take appropriate action if problems are found.	In FY2005 PCB levels exceeding the Japanese environmental quality standard were detected on the premises of our Kyoto Factory. In FY2006 we undertook work to ensure that PCBs would not be released to the outside of Sanyo Chemical property under any circumstances, and continually monitored the groundwater in the area. No leakage outside our premises was observed. Each of our factories has undertaken its own surveys of the groundwater and soil quality in its immediate surroundings.

( S-TEC21 : Sanyo Tactics for ECO Challenge 21st century)

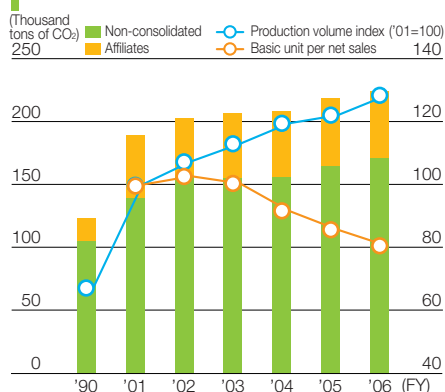
### Green Procurement

We procure raw materials and resources produced with low environmental impact, and also give careful consideration to the products themselves. This *green procurement* is important for environmentally-friendly product development. Sanyo Chemical has established its own green procurement standards to acquire production materials that comply with its Chemical Substances Management Guideline. We promote the adoption of green procurement practices by suppliers to help us gain the cooperation of material manufacturers.

### Reduction of Greenhouse Gas Emissions

In view of the targets set under the Kyoto Protocol, we determined on our action program and are striving to achieve product development that would be conducive to the reduction of greenhouse gas emissions as well as the conservation of energy and other precious resources at both the manufacturing and distribution stage. The Company as a whole, in addition to its employees as individuals, are also participating in the government-led “Team Minus 6%” campaign, including such initiatives as Cool-Biz and Warm-Biz (i.e., raising the thermostat settings on air-conditioning in our offices and plants in the summer, and lowering them in the winter, while encouraging staff to wear cooler or warmer clothing, as appropriate). Sanyo Chemical is also cooperating with anti-global warming initiatives at local government level.

Greenhouse Gas Emissions



### S-TEC21 TM6 (FY2007-2010)

We have set out our environmental conservation objectives for the next four years, based on an assessment of the effect of measures taken in the reporting period.

The name of our new environmental activity plan includes the addendum “TM6,” which stands for Team Minus 6%, and indicates our commitment to responding to the nationwide movement — led by the government — to reduce emissions of greenhouse gases. In line with this, we have revised our targets for emissions of greenhouse gases (calculated in terms of carbon dioxide equivalent). Our target figure for total emissions in FY2010, at 116,000 tons, now represents a decrease of 6% from the FY1990 level.

Activities	Objectives by End of FY2010
Reduction of greenhouse gas emissions	Target for total emissions of greenhouse gases by business facilities in Japan set at 116,000 tons or less
Energy conservation	Reduce energy consumption per unit of production by 6.1% or more from FY2006 levels
Reduction of chemical substance emissions	Target for emissions of VOC* by operations in Japan set at 50% of FY2006 level
Zero waste	(1) Reduce final disposal (landfill) waste volume to less than 0.1% of overall waste volume (2) Target for reduction of industrial waste generated per unit of production set at 19% or more since FY2006
C&C (Check & Clean) activities	Voluntarily investigate contamination of groundwater and soil on our premises; take appropriate action if problems are found.

\*volatile organic compounds

## Social Contributions

As good corporate citizens, We are energetically participating in community activities and local accident-prevention campaigns, to help create a safer and wealthier community. Since our head office and our Kyoto Factory are located in a residential area, we have also asked four local residents to serve as local monitors, and we hold a local monitors' meeting twice a year to facilitate mutual understanding with the local community.

### Charitable Activities

Sanyo Chemical contributes to a wide variety of charitable activities, including the provision of research grants and the dispatch of instructors to universities, as well as making regular contributions to events held in the communities in which we operate.

### Contributions to our Local Communities

Sanyo Chemical researchers visit nearby elementary schools to perform chemistry experiments with students and give lectures to help students understand the relationship between chemistry around us and the environment. We also organize hands-on work-study sessions for local junior high school students and conduct factory tours. In addition, we carry out joint fire drills that give our factory fire-fighting teams an opportunity to work with local fire departments.

## Employee Development

Individual-based management involves establishing various business systems and corporate administrative systems centered on individuals, providing opportunities for them to grow as human beings and achieve self-actualization by *honoring self-set commitments*. Two examples of programs that have been created with this aim are our Challenge System and our Personal Challenge to Create New Businesses, which are explained below.

### Challenge System

In this system, our employees identify a managerial problem they believe to be important, and officially propose a solution, performance goals and a deadline, which are announced to all the staff. With Company approval, employees conclude an agreement with the President and then take on the challenge of solving the problem. The agreement stipulates the reward that will be given for success and the penalty that will be imposed for failure. An example of a reward might be the opportunity to train overseas, while a possible penalty could involve cleaning a factory or a public facility such as a park. As a general rule, participants are trusted to make an honest report of their success or failure. The success rate for past attempts is approximately 40%, and there are currently six employees participating in this program.

### Personal Challenge to Create New Businesses

This system gives researchers the chance to investigate new areas of research with the aim of creating new business opportunities for Sanyo Chemical. Researchers work to realize new commercial applications for technologies whose basic principles have been verified. If successful, a researcher's project is transferred to the business development stage, and researchers realize their own potential in the process. Approximately five researchers undertake this program each year.

## Our Research and Development Activities

Sanyo Chemical has been able to meet the diverse needs of its customers with its original performance chemicals, and this has led to increased sales and profits. In R&D our continued efforts on both the *creation of a new product lineup incorporating unique technologies* and the *upgrading of existing products through technological innovation* proceed together in a highly coordinated manner. We actively maintain this policy by placing approximately 30% of all employees in the R&D Division.

at front; Dr. Fusayoshi Masuda  
(in charge of Research & Development),  
from left, in back; Keiji Tanaka  
(General Manager of Research & Development Division),  
Kohei Maeda  
(General Manager of Research &  
Application Division and Research Administration Division)



### R&D Strategies

#### Creating New Products Incorporating Unique Technologies

By blending technologies that we have developed over many years with new technologies, we are creating new *performance chemicals* which possess functional elements not found in existing products. Recently, we have been concentrating on the manufacturing of polyester beads (PEB) used as a core component of polymerization toners, and thermoplastic polyurethane beads (TUB) for the interior parts of automobiles, leveraging our proprietary technology for manufacturing spherical and uniform beads. We are also focusing efforts on electric and electronic materials as well as biotechnology and environment-related fields, as these markets are showing dramatic growth. To further accelerate our speed in development, we are constructing a new research laboratory in Katsura, Kyoto, and will collaborate with universities and other research institutions to develop cutting-edge technologies in the future.

#### Upgrading Existing Products through Technological Innovation

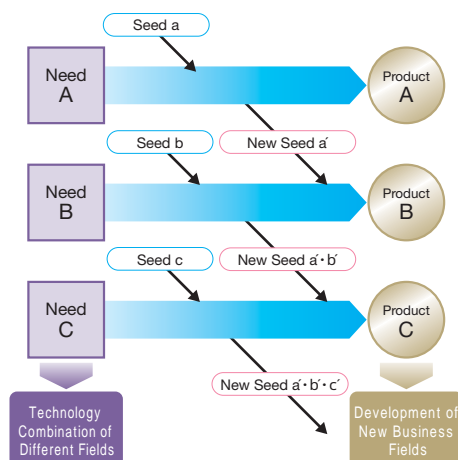
For any product, the market will eventually reach maturity. Sanyo Chemical is constantly working to develop new technologies for products in mature markets in an attempt to create additional elements of value, and therefore better meet the needs of our customers.

### NeeSeeds-Oriented R&D Spawns a Stream of New Products and New Technologies

The *NeeSeeds-oriented R&D* is one special feature of Sanyo Chemical's R&D. This term, created by Sanyo Chemical, is a combination of "needs-oriented R&D" and "seeds-oriented R&D."

With this approach, a technology developed to meet a certain need is blended with another technology to create a new seed technology for new products. By blending technologies for different fields, we can develop highly original products in new areas.

Our *NeeSeeds-oriented R&D* broadens the range of in-house technologies, leading to as many as 3,000 different types of products.



## R&D Index (Ratio of New/Improved Products)

We call the ratio of net sales of new or improved products that have been introduced to the market in the past five years to total net sales our “ratio of new/improved products.” This is the most important index of our R&D activities. The ratio of new/improved products was 44.3% in FY2006. Under our Seventh Medium-Term Management Plan we aim to keep this ratio above the 40% level.

## R&D Investment

In order to develop unique products while quickly responding to diverse needs, we invested ¥4.5 billion in the R&D Division in FY2006. The ratio of R&D costs to net sales was 3.7%. We have also assigned approx. 380 employees to the R&D Division. We plan to increase these numbers to further enhance our R&D capabilities.

## Construction of New Research Laboratory

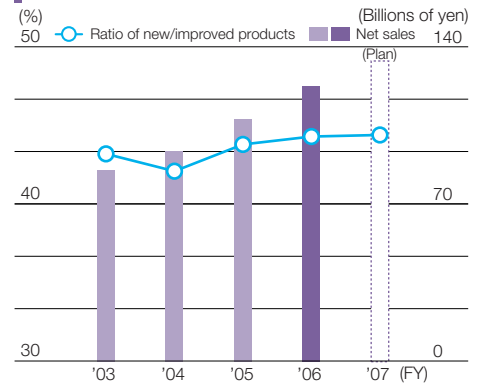
The rise in the number of researchers has led to crowding at our existing research laboratories (in Higashiyama-ku, Kyoto). For this reason, we have acquired a 6,000m<sup>2</sup> site for a new research laboratory at Katsura Innovation Park (in Nishikyō-ku, Kyoto), adjacent to Kyoto University Katsura campus. Eventually, the facility is expected to have a total floor space of 9,000m<sup>2</sup> and will accommodate a total of 200 researchers. The first stage of the project comprises a laboratory with a floor space of 6,500m<sup>2</sup>, and offices for approx. 100 researchers. The laboratory is scheduled to begin operation in summer 2008.

The new research laboratory, working together with our research laboratory at our head office, will take advantage of its close proximity to Kyoto University Katsura campus, Osaka University and Kansai University to effectively develop innovative technologies for existing business segments and create new technologies for electric and electronic materials as well as biotechnology and environment-related fields.

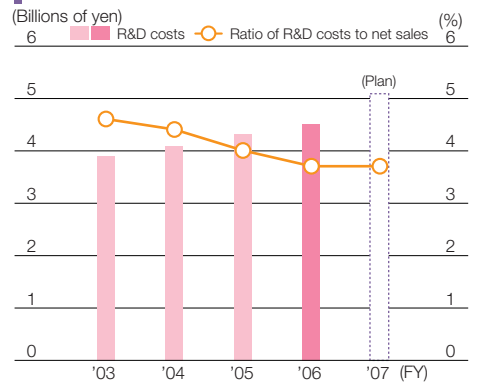


Image of the New Research Laboratory

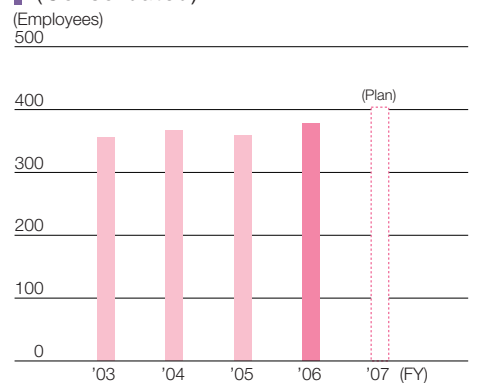
## Ratio of New/Improved Products and Net Sales



## R&D Costs/Ratio of R&D Costs to Net Sales



## Research Staff (Consolidated)

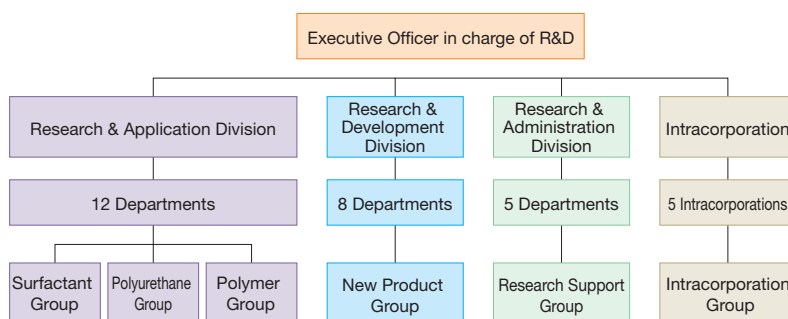


## Our R&D Organization

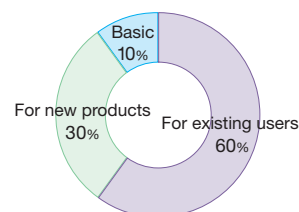
Within the Company, research is undertaken by three divisions: the Research & Application Division, the Research & Development Division, and the Research Administration Division. R&D activities are also carried out by intracorporations. These research organizations provide support for the R&D activities of our affiliates.

The Research & Application Division, through technological innovations, promotes lifecycle renewal and process innovation for existing products, and aggressively pursues new markets to expand our horizon for new business. The Research & Development Division focuses on bringing new businesses into being through the creation of new technologies, as well as achieving process innovations. In order to support these two research divisions, the Research Administration Division handles intellectual property rights, trial manufacturing, and composition analyses, etc.

### Personnel Distribution (Non-Consolidated)



### Allocation of R&D staff

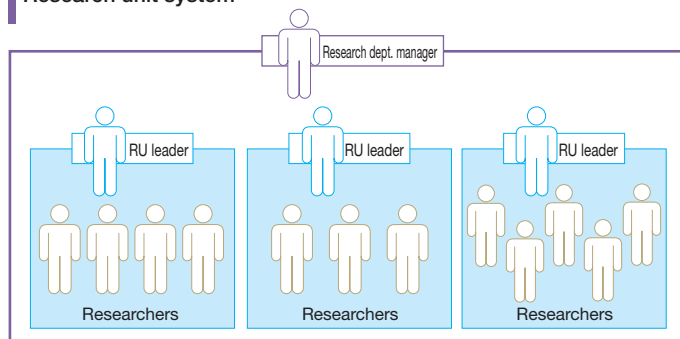


## Flat-Structured and Responsive Research Unit System

For research and development we have created a research unit (RU) system, and operate this system as a flat organizational structure. Each research unit (RU) comprises approximately four researchers. Within each research division, a research department manager supervises multiple research units.

Having the RU report directly to the research department manager allows for speed and flexibility in decision-making. Younger researchers have the opportunity to become a unit chief. In this way, we provide young researchers with ample opportunity to make optimal use of their talents.

### Research unit system

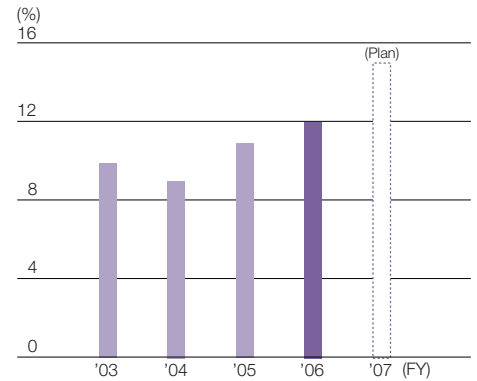


A Research Unit (RU) Meeting

## Eliminating Organizational Barriers for Dynamic Administration

The free exchange of technologies and ideas between organizations is vital to our *NeeSeeds-oriented* approach. To this end, we have established cross-organizational interaction programs for our researchers which include the programs In-House Exchange, Joint Research, and On-the-Job Training in Other Departments. We call the ratio of researchers dispatched to departments other than their own to the entire research population our “personnel deployment ratio.” We dispatch one out of every five or six researchers to other departments, and try to maintain our personnel deployment ratio at least 10%.

### Personnel Deployment Ratio (Non-Consolidated)

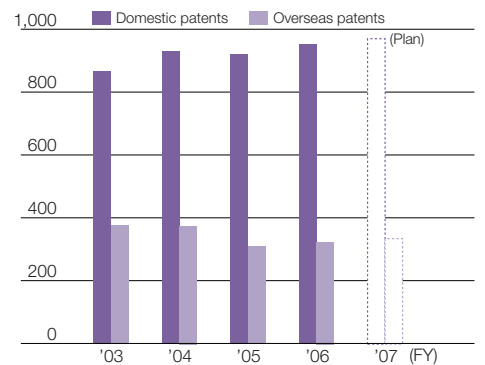


## Strategic Accumulation and Utilization of Intellectual Property

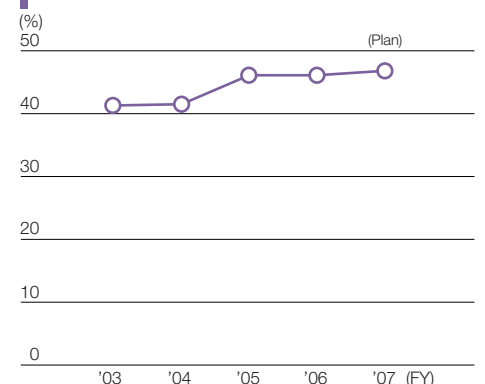
By actively claiming the patent rights for the innovative technologies that we develop, we are working to raise the competitiveness of our products. Our target is to make an average of 1.2 patent applications per researcher each year, and as a company, we apply for over 300 patents yearly. To encourage the submission of patent applications and raise the quality of those patent applications, we hold an “Invention Feast” every year, at which we present our “Inventor of the Year” award to the researcher whose invention is judged to be the most outstanding.

We employ the ratio of sales of patented products to total sales as an indicator of competitiveness. The ratio of sales of patented products to total sales, which indicates the extent to which the products we sell are protected by patents, has risen to 46%. We will continue working to increase this ratio further.

### Number of Patents Held



### Ratio of Patented Product Sales to Net Sales



Masashi Minaki  
Inventor of the Year in FY2006

## Summary of Production Activities in FY2006



During FY2006, we continued focusing on safety and quality control, and worked to raise awareness within our organization using the key concepts of *thoroughness and mutual learning*. In addition, at our subsidiary San Chemical Co, Ltd. (SCC), we expanded production facilities for alkylene oxide adducts (AOA). At our Nagoya Factory, we expanded our capacity for continuous polymerization of polymer polyol, to produce polyurethane foam. In both the Nagoya and Kashima factories, we have installed a new type of equipment to reduce the generation of waste fluids in production processes. In addition, we made progress in reducing the process costs and variable distribution costs of our Strategic Products.

We are working to achieve our goal of completely eliminating all accidents, and will maintain our unyielding emphasis on *safety first* in our production activities. We are supplying high quality products on time and at competitive prices to our customers.

at front; Yuji Imaru (in charge of Production), from left, in back; Takashi Yoshino (General Manager of Production Technology Division), Kazuyuki Hirakawa (General Manager of Production Administration Division), Keiyu Horii (General Manager of Production Division)

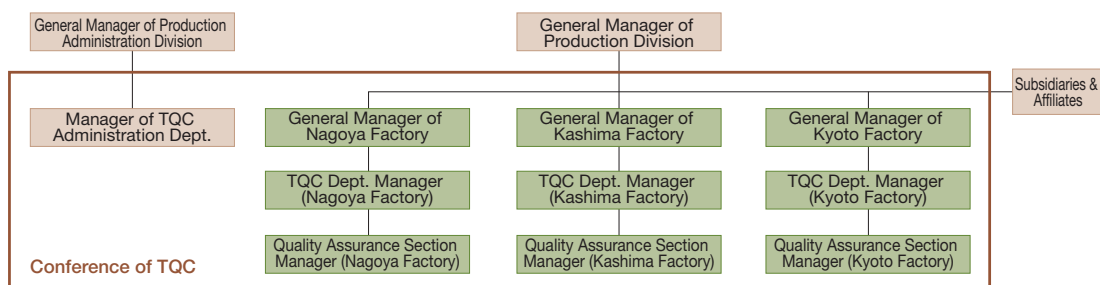
## Production & Quality Control System

Manufacturing of performance chemicals is characterized by high-mix, variable-volume production. This makes it difficult to implement factory automation. Sanyo Chemical is working hard to introduce as much automation as possible by having the plants designed by in-house engineering staff. Total Quality Control (TQC), among other activities, also contributes to improvements in quality and productivity. By September 2000, all Sanyo Chemical factories had obtained ISO 9002 certification. To expand the scope of certification, we obtained the FY2000 version of the ISO 9001 certification in the spring of 2003.

Sanyo Chemical is continuing to construct more unique and advanced production systems so as to create the model plant for performance chemicals.

Any information on quality control provided to us by our customers is sent, either directly or through our sales representatives, to the Quality Assurance Section at each factory and then entered into a database. This system helps us to avoid the recurrence of any problems affecting quality, and also allows us to respond promptly to inquiries from our customers.

### Quality Control

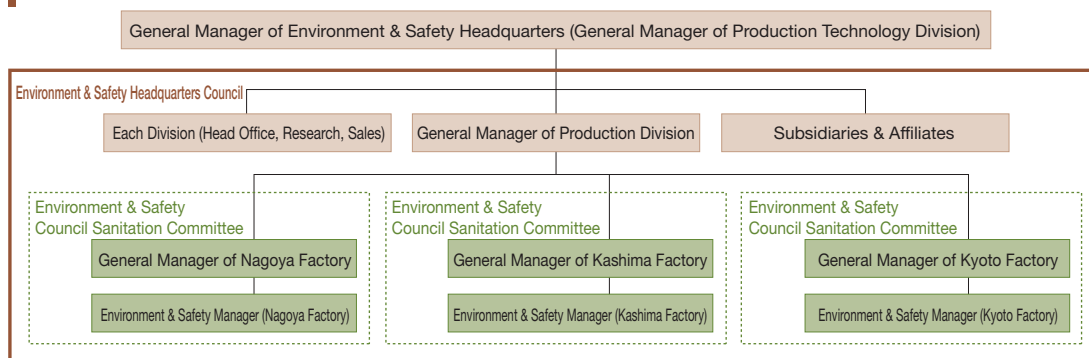


## Environment & Safety Control System

We recognize that the thoroughness of our approach toward safety and environmental conservation is fundamental to our existence as a company. Our management policy dictates that we ensure safety and environmental conservation throughout the lifecycle of a chemical substance, from its development and production to its final consumption and disposal, and we engage in responsible care activities with the voluntary implementation of strategies to protect the environment and improve safety. In addition, our Environment & Safety Headquarters oversees the implementation of a variety of safety and environmental conservation measures. Principal measures are as follows:

1. Compliance not only with laws and ordinances, but also with internal company rules. In order to ensure safety, the Yellow Card/Green Card System has been implemented, in which employees are asked to inform one another of any errors they make.
2. Thorough observance of the basic rules of safety: organization, orderliness, cleanliness, sanitation, and discipline.
3. Improvement of working conditions in jobs known as the Three Ds, i.e. difficult, dirty and dangerous.
4. Implementation of emergency drills and comprehensive disaster prevention drills conducted by the Environment & Safety Dept. of each factory.

### Safety Control



## FY2006 Topics

### AOA Production Capacity Enhanced at SCC

Following our expansion in AOA production capacity at the Nagoya Factory in FY2005, our subsidiary SCC expanded production capacity for AOA in FY2006. Production on the new line commenced in October 2006.



AOA Production Facility at SCC

### Installation of Innovative Equipment for Reducing Waste Fluids

The Nagoya Factory has installed a new type of effluent condensing equipment to reduce the generation of waste fluids in production processes. The new system, which is equipped with a waste concentrator and a combustion chamber for burning off gas emissions containing volatile organic compounds to break them down into harmless substances, commenced operation in October 2006. The Kashima Factory has installed a similar system, which began operation in April 2007.



Effluent Condensing Equipment at Nagoya Factory

# Sales and Marketing Division

## Summary of FY2006 Business Activities (Non-Consolidated)



from left, at front;  
 Tatsushi Yano (General Manager of Sales & Marketing Administration Division),  
 Yoshihide Yamamoto (in charge of Sales & Marketing), Ken Usami (General  
 Manager of Usami Business Unit)  
 from left, in back;  
 Dr. Takao Ando (General Manager of International Project Promotion Division),  
 Akihiro Yasui (General Manager of Yasui Business Unit), Toshiharu Bessho  
 (General Manager of Bessho Business Unit), Atsushi Aritomi (General Manager  
 of Purchasing Division), Sunao Sono (General Manager of Sono Business Unit)

Non-consolidated net sales for FY2006 increased by 13% (¥10.6 billion) from the previous fiscal year, mainly due to increased sales of Strategic Products such as thermoplastic polyurethane beads (TUB) for the interior parts of automobiles and polyester beads (PEB) used as a core component of polymerization toners. Other factors behind the increase include the launching of newly developed products, a growth in sales resulting from strong demand for alkylene oxide adduct (AOA) products (one of our leading product categories), and the upward revision in product prices corresponding to surging raw material costs.

To strengthen our overseas business, we undertook an organizational restructuring in FY2006. Specifically, we abolished the Overseas Marketing Dept., and the business previously handled by this department has since been taken over by each Business Unit. Under this new structure, the contribution of overseas sales to total net sales has been increased from 21% in the previous fiscal year to 23% in FY2006.

In FY2007, the first fiscal year under the Seventh Medium-Term Management Plan, we will work to enhance profitability through the development of high-value-added products in new product development, and revise upward product prices to counter the effects of surging raw material costs. In addition, to further strengthen our overseas network, we will focus on expanding production at our overseas bases, and pursue sales and marketing activities. We expect that domestic and overseas business operations will proceed together in a highly coordinated manner.

Usami Business Unit

- ▶ 1st Sales & Marketing Dept. of Transport & Polyurethane Foam Industry
- ▶ 2nd Sales & Marketing Dept. of Transport & Polyurethane Foam Industry

General Manager of Usami Business Unit  
**Ken Usami**

Sales Results & Forecast

(Billions of yen)

Fiscal Year	Sales (Billions of yen)
'04	~15
'05	~18
'06	~25
'07 (Plan)	~27

**Principal products**

Polyurethane beads: THERPUS

Raw materials for polyurethane foam: SANNIX

Raw materials for high-performance Polyurethane foam: ULTIFLOW, PRIMEPOL and EXELFLOW

This unit handles business of polyurethane chemicals used in automobiles. In FY2006, net sales of ¥25.9 billion were achieved in this unit (a 22% increase from the previous fiscal year). Net sales for FY2007 are projected to reach ¥27.6 billion (a 7% increase from the reporting term). We expect that the automobile industry will continue to grow globally, and that Japanese automobile makers will remain world leaders, thanks to their advantage of possessing the most sophisticated environmental and safety focused technology. Sanyo Chemical is expanding its business operations globally, making best use of the long-standing relationships we have cultivated within the Japanese automobile industry. Sales of our TUB, a new environmentally-friendly material, are increasing not only for Toyota Motor Corporation, which jointly developed the material, but also for other automobile makers. We expect to commence production of TUB in the USA. In the summer of 2007, to meet the rapid growth in demand that is expected in the North American market. We have also developed high-performance products for use as base materials for polyurethane foam, to address environmental concerns about volatile organic compounds (VOC), and have launched these products both in domestic and overseas markets. Furthermore, we expect to enhance our production capacity to expand our business, taking full advantage of our stable supply system, which utilizes large-scale storage tanks for propylene oxide (a raw material).

26 Sanyo Chemical Industries, Ltd.

## Sono Business Unit





General Manager of Sono Business Unit  
**Sunao Sono**

Sales Results & Forecast

(Billions of yen)



Fiscal Year	Sales (Billions of yen)
'04	10
'05	12
'06	15
'07 (Plan)	18

- ▶ Sales & Marketing Dept. of Environment Industry
- ▶ Sales & Marketing Dept. of Petroleum & Machinery Industry

**Principal products**

Polymer flocculants for wastewater treatment: SANFLOC

Viscosity index improvers: ACLUBE and SANLUBE

Fuel oil additives: CARRYOL

Lubricity improvers for low-sulfur diesel fuels: SANFRIC

Agents for machine processing: HIGHCLEAN

Base materials for environmentally-friendly cutting fluids: BLEMBER

This unit handles business of polymer flocculants for wastewater treatment in the environmental protection field, as well as additives for lubricating oils and fuel oils, and base materials for cutting fluids and hydraulic fluids for the petroleum and machinery industries. In FY2006, net sales of ¥10.9 billion were achieved in this unit (a 7% increase from the previous fiscal year), and net sales for FY2007 are projected to reach ¥12.0 billion (a 10% increase from the reporting term).

In view of the continuing intense competition for sales of polymer flocculants for wastewater treatment, we plan to boost business performance by focusing on developing and expanding sales of new, higher performance products.

We are enjoying continuing strong growth in the petroleum and machinery industries, and we lead the Japanese market in sales of viscosity index improvers for automobile transmissions. As Japanese vehicle makers expand their overseas production capacity, we will strive to increase our overseas sales of these products. In the area of fuel oil additives, we are working to expand the business pertaining to lubricity improvers for diesel fuels in compliance with the new regulations on low-sulfur content in diesel fuels as well as base materials for environmentally-friendly water-soluble cutting fluids.

## Yasui Business Unit





General Manager of Yasui Business Unit  
**Akihiro Yasui**

Sales Results & Forecast

(Billions of yen)



Fiscal Year	Sales (Billions of yen)
'04	20
'05	22
'06	25
'07 (Plan)	28

- ▶ Sales & Marketing Dept. of Resins Industry
- ▶ Sales & Marketing Dept. of Toiletry Industry
- ▶ Sales & Marketing Dept. of Pharmaceutical & Agrochemicals Industry
- ▶ Sales & Marketing Dept. of Textile Industry

**Principal products**

Permanent antistatic agents for synthetic resins: PELESTAT

Processing agents for silicon wafers: HISTAT

Higher alcohol-based nonionic surfactants: NAROACTY, EMULMIN, and SANNOIC

Pharmaceutical additives: MACROGOL

Oil for synthetic fibers: SANOIL

Agents for carbon fibers: CHEMITYLEN and ACROBINDER

This unit handles business of resins, toiletries, detergents, cosmetics, pharmaceuticals, agrochemicals, and textiles. In FY2006, net sales of ¥25.8 billion were achieved in this unit (a 7% increase from the previous fiscal year), and net sales for FY2007 are projected to reach ¥28.5 billion (a 10% increase from the reporting term).

Business expansion is underway in each of these fields, with an emphasis on the applied products of our core businesses, mostly surfactants and high-performance AOA products.

We are especially focused on our performance chemicals, which include permanent antistatic agents and binders for artificial kidneys in the field of resins; various surfactants for cosmetics, cleaners and detergents in the toiletries field; pharmaceutical additives produced using our new GMP-compliant plant for the pharmaceutical and agrochemical industries; spin finish for seat belts and airbags, and agents for spandex, carbon fibers and glass fibers for the textile industry.

We intend to further promote the global expansion of our business operations by emphasizing the concepts of high performance, the environment, safety, and comfort.

**Bessho Business Unit**



General Manager of Bessho Business Unit  
**Toshiharu Bessho**

Sales Results & Forecast  
(Billions of yen)

Fiscal Year	Sales (Billions of yen)
'04	15
'05	18
'06	22
'07 (Plan)	25



- ▶ Sales & Marketing Dept. of Information Industry
- ▶ Sales & Marketing Dept. of Electronic Materials Industry
- ▶ Sales & Marketing Dept. of Coloring Materials Industry

**Principal products**

Polyester beads for polymerization toners: APEXNARROW

Electrolytes for aluminum electrolytic capacitors: SANELEK

Electrolytes for electric double-layer capacitors: WERELEK

UV/EB curing resins: SANRAD and NEOMER

Paint resins: UCOAT and SANPRENE

This unit handles business of copiers, electric/electronic equipment and coating materials. In FY2006, net sales of ¥24.4 billion were achieved in this unit (a 15% increase from the previous fiscal year). In the copier industry, we were first in the world to successfully develop PEB for black polymerization toners. We subsequently launched PEB for color polymerization toners, and achieved year-on-year growth of 22% in net sales in this field. In the electric/electronics industry, net sales increased 14% year-on-year, thanks to increased exports of existing high-performance electrolytes for aluminum electrolytic capacitors, and an increase in automobile applications for electrolytes for electric double-layer capacitors. In the coating industry, we increased net sales by 5%, by focusing mainly on resins for automobile paints and coating agents for optical materials.



Net sales for FY2007 are projected to reach ¥25.7 billion, (a 5% increase from the reporting term). In the copier industry, we plan to expand sales of PEB for color polymerization toners. In the electric/electronics industry, we will develop molding encapsulation of light-emitting diode (LED) and other new products for electronic materials. In the coating industry, we will launch resins for use in automobile paints overseas and promote new coating materials for liquid crystal displays. In this way, we aim to grow our business by expanding operations both in Japan and overseas, as well as through new product development.

**Incorporations (In-house companies)**

Incorporations are development-oriented internal corporate ventures with both marketing and research (and sometimes production) functions. Incorporations act as “incubators” for these start-up businesses, which have developed by taking full advantage of the Company’s technologies and materials.

Following the successful launch of an incorporation initiative, options regarding operation and centralization, including the question of whether to transfer the operation to our business units, are aggressively pursued. In FY2006, we dissolved the Adhesive Incorporation, and operations performed by the Adhesive Incorporation were absorbed into each of the business units. There are currently five incorporations in

operation. Net sales for FY2007 are projected to reach ¥6.2 billion (a 17% increase from the reporting term) for the commercial production carried out by the five incorporations listed below.






**Medical Care Incorporation**

Enzyme immunoassay diagnostic reagents and biochemical-related products

- ▶ Spherelight, GLAOZYME, etc.

President **Masakazu Sugiura**






**Polymer Application Incorporation**

Chemical boards, paste resins for design models, and other molding products

- ▶ SANMODUR, etc.

President **Jiro Ryugo**

**SAP Application Incorporation**

SAP for non-hygiene use and applied products

- ▶ SANYO SEEDBED SHEET, PET SHEET, etc.

President **Yoji Fujiura**




**Construction Systems and Materials Incorporation**

Products that meet the needs of new civil engineering techniques and new building materials

- ▶ SUPER SLURRY, LEVEFLOW, etc.

President **Katsumi Matsui**




**Planary Incorporation**

Semiconductor manufacturing process-related products, such as CMP slurry and CMP cleaners, photoresist residue cleaning agent

- ▶ JUSPEN, PlanarChem, etc.

President **Masahisa Fujita**

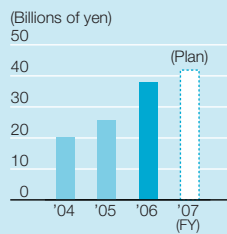
## International Project Promotion Division



General Manager of International Project Promotion Division  
Dr. Takao Ando



Overseas Sales Results & Forecast



The International Project Promotion Division works to further globalize our operations while overseeing our production sites in North America, Thailand and China, as well as our liaison offices in Shanghai, Mumbai, Seoul and Taipei.

Sanyo Chemical Texas, Inc. was established in May 2005 with the aim of producing TUB in the USA. In March 2007, construction of a factory for TUB in Texas was finished, with operation scheduled to begin in the summer of 2007. San-Dia Polymers (Nantong) Co., Ltd. (SDN) is a Chinese subsidiary of San-Dia Polymers, Ltd. that has been commercially producing superabsorbent polymers (SAP) since April 2005. However, due to the strong demand for SAP, SDN is about to expand its facilities, which are scheduled to begin operation in the summer of 2007. We have succeeded in increasing the number of items produced as well as the sales volume at our other overseas production subsidiaries Sanyo Kasei (Thailand) Ltd., Sanyo Chemical & Resins Inc., and Sanyo Kasei (Nantong) Co., Ltd. We have established satellite laboratories at these overseas production sites to increase our capacity to respond promptly to local needs.

By uniting our research, marketing, production, administration capabilities and the expertise of our four overseas liaison offices, we will work toward the further expansion of operations at our overseas production sites. We also aim to realize profitability at all of our overseas production sites as early as possible.

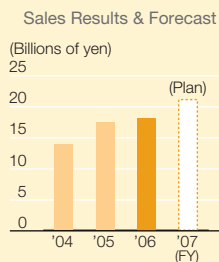


# Main Subsidiaries

## San-Dia Polymers, Ltd.



President  
Akira Kuroda



San-Dia Polymers, a joint venture between Sanyo Chemical Industries, Ltd. (60%) and Mitsubishi Chemical Corporation (40%), manufactures and sells superabsorbent polymers (SAP). In FY2006, net sales of ¥18.1 billion were achieved (a 4% increase from the previous fiscal year). The modest nature of this year-on-year rise was partly due to a one-time increase in demand in the previous fiscal year. Net sales for FY2007 are projected to reach ¥21 billion (a 16% increase from the reporting term).

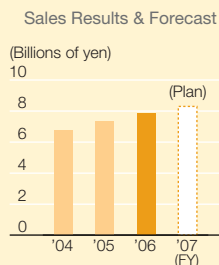
San-Dia Polymers is the only company in the world that produces SAP using two different polymerization technologies. We are leveraging this great advantage to develop high-performance products, and while expanding our businesses to provide these products to our domestic and overseas customers, we are also working to explore new markets.

San-Dia Polymers (Nantong) Co., Ltd. (SDN) has been running at full capacity right from the start of operations in April 2005. To meet the robust demand in the Chinese and other overseas markets, SDN is about to expand its facilities, with operation scheduled to commence in the summer of 2007.

## San Nopco Limited



President,  
Representative Director  
Koji Hirose



San Nopco is a wholly-owned subsidiary of Sanyo Chemical Industries, Ltd. that manufactures and sells various agents such as defoamers, lubricants and dispersants. In FY2006, net sales of ¥7.8 billion were achieved (a 7% increase from the previous fiscal year).

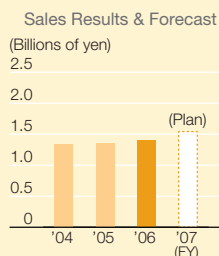
Net sales for FY2007 are projected to reach ¥8.3 billion (a 6% increase from the reporting term) through continued efforts to improve synergy with other Group companies and through the full-scale launch of its proprietary products such as UV coating materials. We have drawn up our Seventh Medium-Term Management Plan, which covers the period between April 1, 2007 and March 31, 2011. We are targeting sales of ¥10 billion by FY2010, the final fiscal year.

We are especially strong in the fields of pulp and paper, as well as paint and ink. In order to strengthen the high-profit structure of this company and promote its growth, we are aiming to expand its business operations by strengthening its corporate foundation, and raising the value of the San Nopco brand through the thorough implementation of a compliance program. The enrichment of R&D capabilities, the further development of existing technologies, and the cultivation of a new business field to nurture a third core business are considered necessary to achieve this goal. Also necessary will be the enhancement of synergy between each department of San Nopco and the corresponding sector of the Sanyo Chemical Group, and the further expansion of sales in the fast-growing Chinese market.

## San-Apro Limited

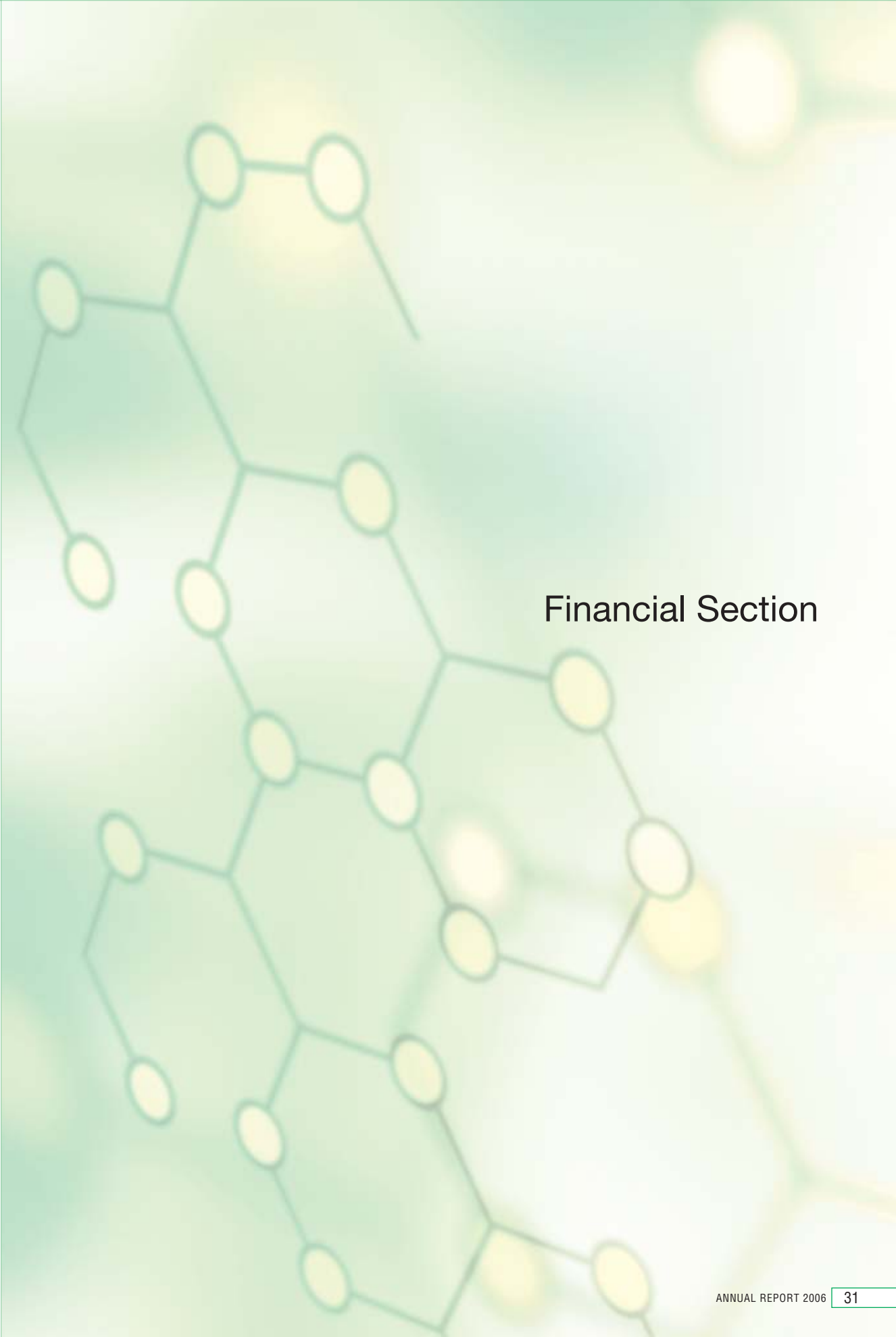


President  
Toshihiro Saji



San-Apro is a 50-50 joint venture established between Sanyo Chemical Industries, Ltd. and Air Products and Chemicals, Inc., of the USA. San-Apro manufactures and sells super-base compounds, as well as catalysts for polyurethane foam and special catalysts for epoxy resins. In FY2006, net sales of ¥1.4 billion were achieved (a 3% increase from the previous fiscal year). This rise is due to the success of our new product launched in the previous fiscal year, a cationic photo initiator for epoxy resins to be used in can-coating and three-dimensional optic modeling, as well as a rise in sales of special catalysts for epoxy resins. Sales for FY2007 are projected to reach ¥1.5 billion (an 11% increase from the reporting term).

Focusing on our core strengths in synthetic organic technology and various application evaluation techniques, we intend to expand the business of catalysts for polyurethane foam and epoxy resin curing accelerators, while promoting the further expansion of our operations through the development of high-performance special catalysts, such as cationic photo initiators.



## Financial Section

# Main Indexes over a Seven-Year Period

(Millions of Yen)	FY2006	FY2005	FY2004	FY2003	FY2002	FY2001	FY2000
<b>For the fiscal year:</b>							
Net sales .....	122,397	108,414	93,454	85,062	82,183	79,987	81,557
Domestic .....	84,632	82,679	73,409	67,427	66,157	64,740	68,761
Overseas .....	37,765	25,735	20,045	17,635	16,026	15,247	12,796
Cost of sales .....	97,640	83,885	71,055	64,120	58,926	56,788	55,828
Selling, general and administrative expenses .....	18,204	17,331	16,411	16,052	16,339	16,019	15,826
Operating income .....	6,553	7,198	5,988	4,890	6,918	7,180	9,903
Interest and cash dividends received .....	462	256	168	127	130	208	201
Interest expenses .....	188	87	54	46	49	52	25
Ordinary income.....	8,024	7,947	6,434	5,309	7,260	7,454	10,693
Income before income taxes and minority interests .....	6,472	6,571	5,955	5,072	6,579	7,702	5,526
Income taxes .....	2,687	2,826	2,272	1,876	3,070	3,394	2,453
Minority interests.....	733	589	84	95	254	155	229
Net income .....	3,052	3,156	3,599	3,101	3,255	4,153	2,844
Return on equity (%).....	3.47	3.74	4.49	3.95	4.19	5.37	3.67
Investment in plant and equipment...	10,469	11,172	11,369	7,333	10,381	8,308	5,373
Depreciation and amortization.....	8,167	6,999	6,480	6,587	5,946	5,471	5,081
Research and development expenses .....	4,541	4,317	4,078	3,886	4,144	4,131	4,141
<b>Net cash provided by (used in):</b>							
Operating activities .....	9,290	9,068	10,451	8,836	10,062	9,176	9,788
Investing activities .....	(10,643)	(16,845)	(10,767)	(13,297)	(8,748)	(10,848)	(8,935)
Financing activities.....	1,758	8,148	(1,676)	(2,927)	(2,864)	(2,292)	(3,789)
Cash and cash equivalents at the end of period.....	15,287	14,405	13,790	15,710	23,377	25,015	28,994
<b>At fiscal year-end:</b>							
Total assets .....	153,166	144,263	120,866	112,633	115,013	112,023	111,265
Long-term debt.....	15,139	11,398	1,635	1,473	1,169	1,020	130
Shareholders' equity .....	88,467	87,322	81,398	78,872	77,957	77,500	77,235
Shareholders' equity ratio (%).....	57.8	60.5	67.4	70.0	67.8	69.2	69.4
<b>Per share data and others:</b>							
Net income (yen) .....	27.65	27.95	32.01	27.38	27.97	35.80	24.15
Cash dividends paid (yen) .....	15	15	15	15	15	15	15
Total shareholders' equity (yen) .....	801.52	790.38	736.91	713.88	689.77	679.15	659.51
Stock price at the end of period (yen).....	809	1,065	830	715	698	900	862
Price earnings ratio (times) .....	29.26	38.10	25.93	26.11	24.96	25.14	35.69
Price book-value ratio (times) .....	0.99	1.35	1.13	1.00	1.01	1.33	1.31
Weighted average number of shares (thousands of shares).....	110,384	110,359	110,388	111,176	113,594	116,019	117,743
Employees .....	1,623	1,555	1,477	1,398	1,379	1,342	1,328

# Management's Discussion and Analysis

This section reports our consolidated results.

## Highlights of FY2006

- **Net sales for both Strategic Products and existing businesses remained strong. We achieved net sales totaling ¥122.4 billion, an increase of 12.9% from the previous fiscal year.**
- **Operating income decreased by 9.0% from the previous fiscal year owing to such factors as an increase in raw material and fuel costs, and increases in depreciation and amortization expenses.**
- **Although non-operating income and expenses showed improvement, net income fell 3.3% from the previous fiscal year, mainly as a result of the recognition of impairment losses by overseas subsidiaries.**
- **Return on equity (ROE) stayed at 3.5%, reflecting the decline in profitability caused by higher raw material and fuel costs, increased depreciation and amortization expenses, and other factors.**

Details are as follows:

## Business Environment

The Japanese economy sustained a modest but stable pace of growth during the business term under review, as favorable corporate performance drove growth in private-sector capital investment, and personal consumption showed signs of a recovery in response to improved employment conditions.

In the chemicals industry, domestic demand and exports were strong. However, high crude oil prices and robust demand kept raw material and fuel costs at high levels, and the business environment remained difficult.

Under circumstances, Sanyo Chemical focused on expanding the market for its Strategic Products and on globalizing its operations. The Company also took steps to improve its performance by reducing costs and revising product prices upward to reflect the increase in raw material and fuel costs.

## Net Sales

Consolidated net sales increased 12.9% from the previous fiscal year, to ¥122.397 billion surpassing, by a large margin, the ¥100 billion consolidated net sales target set by the "Challenge Win 1000" slogan in the Sixth Medium-Term Management Strategy (FY2003 – FY2006).

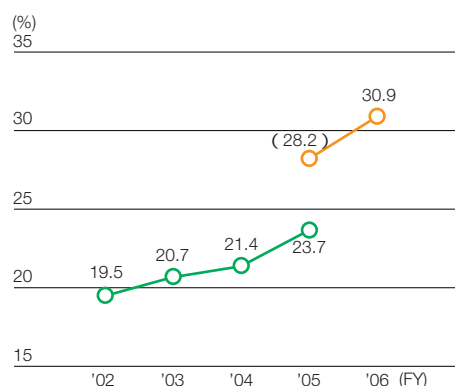
Net sales by product group were as follows:

	FY2006		FY2005		Growth (%)
	Amount	Ratio (%)	Amount	Ratio (%)	
Surfactants	22,481	18.4	21,943	20.2	2.4
Polyurethane chemicals	30,670	25.1	25,358	23.4	20.9
Lipophilic high-molecular agents	27,714	22.6	23,663	21.8	17.1
Hydrophilic high-molecular agents	25,597	20.9	23,145	21.4	10.6
Specialty products	14,137	11.5	12,469	11.5	13.4
<b>Total chemical product net sales</b>	<b>120,599</b>	<b>98.5</b>	<b>106,578</b>	<b>98.3</b>	<b>13.2</b>
Earnings from non-chemical products/technology	1,798	1.5	1,836	1.7	(2.0)
<b>Total</b>	<b>122,397</b>	<b>100.0</b>	<b>108,414</b>	<b>100.0</b>	<b>12.9</b>

We enjoyed strong double-digit growth during the term under review in every product group except surfactants. This robust performance is due to business expansion in Strategic Products, such as thermoplastic polyurethane beads (TUB) for the interior parts of automobiles (polyurethane chemicals), polyester beads (PEB) used as a core component of polymerization toners (lipophilic high-molecular agents) and permanent antistatic agents (specialty products). This robust performance is also due to steady sales of existing products such as raw materials for polyurethane foam (polyurethane chemicals) and superabsorbent polymers (hydrophilic high-molecular agents).

As shown in the following chart, overseas sales accounted for 30.9% of total revenues in FY2006, surpassing the level of 30% that was one of the numerical targets of the Sixth Medium-Term Management Strategy. This was a reflection of our efforts to achieve more global operations.

Overseas Sales Ratio



(Note) To bring overseas sales closer to the actual figure, we changed the standard for counting overseas sales starting with the term under review. The figures in parentheses indicate sales for the previous business year translated to conform to the new standards.

## Cost of Sales and SG&A Expenses

The ratio of the cost of sales increased 2.4 percentage points, from 77.4% recorded in the previous fiscal year to 79.8%. In addition to the rise in raw material and fuel costs, increases in depreciation and amortization expenses caused by large-scale capital investment in production equipment for Strategic Products were contributing factors.

The ratio of selling, general and administrative (SG&A) expenses to net sales decreased 1.2 percentage points, from 16.0% to 14.8% from the previous fiscal year, despite increases in logistics costs, thanks to a sharp increase in net sales.

Research and development expenses were up 5.2% from the previous fiscal year. However, the ratio of R&D expenses to net sales decreased 0.3 percentage point, from 4.0% to 3.7% from the previous fiscal year, on strong growth in net sales.

## Operating and Net Income

Consolidated operating income for the reporting term fell 9.0% from the previous fiscal year to ¥6.553 billion. The ratio of operating income to net sales also declined 1.2 percentage points from the previous fiscal year, to 5.4%. These results show that the Company was unable to offset adverse factors such as surging raw material and fuel costs and higher depreciation and amortization expenses caused by investments in large equipment, with positive factors such as the increase in sales volume

of Strategic Products and other products, the upward revision of product prices and the improved performance of San-Dia Polymers (Nantong) Co., Ltd. (SDN), which produces superabsorbent polymers. In particular, the increase in raw material and fuel costs has pushed up costs by approx. ¥15 billion over the last three years. In contrast, we have been able to pass on only about 70% of the increase in our costs to our product selling prices. Responding to the increases of raw material and fuel costs will be key to our effort to recover profitability.

Non-operating income and expenses showed improvement, thanks to factors such as an increase in equity in earnings of affiliates. However, consolidated net income decreased 3.3% from the previous fiscal year, to ¥3.052 billion, mainly because of the ¥0.67 billion appropriated by overseas subsidiaries as an impairment loss for tangible fixed assets, and the ¥0.505 billion reported as a valuation loss on inventories that had been on the books beyond a fixed period.

As a result, net income per share decreased ¥0.30 from the previous fiscal year's figure of ¥27.95, to ¥27.65. Taking stock options and unsecured convertible bonds into consideration, diluted net income per share fell ¥2.17, from ¥27.76 in the previous fiscal year, to ¥25.59.

## Investment in Plant and Equipment

Capital expenditure totaled ¥10.468 billion on a consolidated basis and ¥5.004 billion on a non-consolidated basis, with the majority of funds being allocated to expanding overseas production facilities, raising production capacity for Strategic Products, and rationalizing operations.

Investments made by the Company to boost production capacity, mainly in Strategic Products, totaled ¥0.961 billion, while ¥0.682 billion was invested in rationalizing operations. San Chemical Co., Ltd. (SCC) also made an outlay of ¥0.664 billion for production facilities for alkylene oxide adducts (AOA).

Looking overseas, Sanyo Chemical Texas, Inc. (SCTI) in the USA invested ¥1.612 billion in production facilities for polyurethane beads at a new plant. In China, SDN allocated ¥1.701 billion to production facilities for hydrophilic high-molecular agents.

To bolster its R&D capabilities, the Company invested a total ¥0.844 billion in research facilities, including ¥0.384 billion for the acquisition of a site for a research institute in Katsura Innovation Park.

The major capital investment projects completed during the reporting term include production facilities for polyurethane beads and polymer polyols at the Nagoya Factory and production facilities for AOA at SCC.

All of the capital expenditures described above were financed from a portion of the ¥10 billion unsecured convertible bonds issued in the previous fiscal year, or from internal sources and loans.

In the current term, the fiscal year ending March 2008, we plan to invest a total of ¥12.7 billion in facilities to increase production capacity, streamline operations, and in programs for strengthening R&D capabilities.

We intend to finance all capital expenditure in FY2007 from internal sources and loans.

Depreciation and amortization expenses for FY2006 increased 16.7% from the previous fiscal year, to ¥8.167 billion.

## Financial Position

Total assets at the end of FY2006 amounted to ¥153.166 billion, an increase of ¥8.903 billion from the previous fiscal year-end.

Current assets at the term-end were up by ¥5.098 billion from the previous fiscal year-end, to ¥72.559 billion. This is primarily attributable to the fact that trade receivables increased by ¥7.919 billion (as a result of the settlement date falling on a bank holiday), and inventories increased by ¥1.547 billion. These factors offset a decline of ¥4.118 billion in cash and cash equivalents resulting from capital investment, mainly for the purpose of boosting production capacity for Strategic Products.

Net property, plant and equipment increased by ¥2.249 billion from the previous fiscal year-end, to ¥50.117 billion as a result of capital investment in raising our production capacity of Strategic Products, as well as equipment investments at SDN and SCTI.

Intangible assets declined by ¥0.459 billion from the previous fiscal year-end, to ¥1.561 billion. Investments and other assets registered an increase of ¥2.015 billion to ¥28.929 billion as a result of the acquisition of investments in securities.

Current liabilities increased by ¥4.149 billion to ¥38.131 billion. Although notes payable – plant and equipment declined by ¥3.050 billion, trade payables increased by ¥6.452 billion, principally owing to the fact that the settlement date for the reporting period fell on a bank holiday.

Long-term liabilities stood at ¥23.834 billion, an increase of ¥3.185 from the previous fiscal year-end, as a result of a ¥3.741 billion increase in long-term loans resulting from the procurement of funds to finance capital investments in overseas subsidiaries.

Working capital, obtained by subtracting current liabilities from current assets, came to ¥34.428 billion at term-end, and the current ratio was 190.3%.

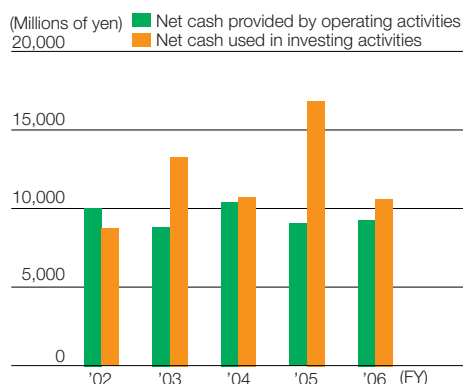
Retained earnings increased by ¥1.325 billion to ¥61.952 billion, and net assets at term-end stood at ¥91.201 billion. The equity ratio (net assets after deduction of minority interests to total assets) stood at 57.8%, compared with the corresponding ratio (shareholders' equity to total assets) under the accounting standards applied in the previous fiscal year of 60.5%. Net assets per share (after deduction of minority interests) stood at ¥801.52, compared with ¥790.38 for the corresponding shareholders' equity per share for the previous fiscal year.

## Cash Flows

Net cash provided by operating activities came to ¥9.290 billion, an increase of ¥0.222 billion compared with the previous term. The main factors were income before income taxes of ¥6.472 billion, depreciation and amortization amounting to ¥8.167 billion, and an increase in trade payables of ¥6.351 billion. These cash inflows outweighed outflows consisting of ¥7.832 billion in trade receivables and ¥3.377 billion in income tax payments.

Net cash used in investing activities totaled ¥10.643 billion, a decline of ¥6.201 billion compared with the previous term. This figure included ¥12.999 billion in payments for the purchase of property, plant and equipment, and ¥2.951 billion in payments for the acquisition of investments in securities. These outflows surpassed inflows including ¥5.0 billion in the repayment of funds deposited with banks in term deposits.

The graph below shows the comparison of net cash provided by operating activities with net cash used in investing activities over the past five years. As a result of large-scale investments made by the Company over the past few years in furthering its globalization strategy and in developing its Strategic Products, net cash used in investing activities has consistently surpassed net cash provided by operating activities.



Net cash provided by financing activities totaled ¥1.758 billion, down ¥6.390 billion from the previous business term, when the Company issued corporate bonds in the amount of ¥10.0 billion. The net cash inflow for the reporting period was due to the fact that the ¥4.067 billion in long-term funds raised exceeded the cash outflow of ¥1.656 billion in payments of dividends to shareholders in the parent company.

As a result of the above, cash and cash equivalents at the reporting term-end stood at ¥15.287 million, an increase of ¥0.882 billion over the previous term-end.

## Business Risks

The following factors may have a significant impact on the business performance, stock values, financial position, etc. of the Sanyo Chemical Group.

### (1) Economic Conditions

Demand for the Sanyo Chemical products is affected by the conditions of the economies of the countries and regions where the Group's products are sold.

Consequently, if demand diminishes due to a recession in any of our main markets, including Japan, North America, Europe and Asia, it may have a negative impact on the Group's performance and financial position.

### (2) Foreign Exchange Rates

As the Group's businesses develop overseas, there is an increased possibility of foreign exchange rates adversely affecting our performance and financial position.

### (3) Change in Raw Material Costs

While the majority of the raw materials used by the Group are derived from petroleum, oil prices vary due to a variety of reasons, including the situation in the Middle East, the balance of supply and demand, and foreign exchange rates. A rise in raw material costs in conjunction with increased oil prices would be likely to have an adverse impact on the Group's business performance.

### (4) Earthquakes and other Natural Disasters

The Tokai region, which includes Aichi Prefecture where our main factory, the Nagoya Factory, is located, has a relatively high likelihood of being hit by a major earthquake in the foreseeable future.

The Group has been working on anti-earthquake measures, such as improving the anti-seismic structure of our facilities as well as decentralizing our production sites.

However, in the case of a major earthquake, shutdown or damage to production facilities may have an adverse impact on the Group's performance.

### (5) Country Risks

The Group has been expanding its overseas businesses by constructing production sites in China, following those in the USA and Thailand.

Such advancement in globalization may have an adverse impact on the Group's performance and financial position through (a) unexpected change in laws or regulations, (b) social upheaval for political reasons in regions in which we operate.

# Consolidated Balance Sheets

Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries  
March 31, 2007 (FY2006) and 2006 (FY2005)

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	FY2006	FY2005	FY2006
<b>Current assets</b>			
Cash and deposits (Note 5) .....	¥ 15,287	¥ 19,405	\$ 129,453
Notes and accounts receivable-trade .....	38,173	30,255	323,254
Inventories (Note 7) .....	17,108	15,561	144,875
Deferred tax assets (Note 15) .....	1,282	1,007	10,853
Other current assets .....	738	1,259	6,246
Allowance for doubtful accounts .....	(29)	(26)	(246)
Total current assets .....	72,559	67,461	614,435
<b>Property, plant and equipment</b>			
Buildings and structures .....	29,926	29,029	253,414
Machinery and equipment .....	87,774	82,330	743,283
Land .....	7,751	7,201	65,635
Construction in progress .....	3,677	1,983	31,140
Other .....	9,934	9,602	84,120
	139,062	130,145	1,177,592
Accumulated depreciation .....	(88,945)	(82,277)	(753,196)
Net property, plant and equipment .....	50,117	47,868	424,396
<b>Intangible assets</b> .....	1,561	2,020	13,222
<b>Investments and other assets</b>			
Investments in securities (Note 6) .....	27,276	25,354	230,974
Long-term loans receivable .....	59	74	495
Deferred tax assets (Note 15) .....	328	365	2,779
Other .....	1,339	1,194	11,345
Allowance for doubtful accounts .....	(73)	(73)	(619)
Total investments and other assets .....	28,929	26,914	244,974
<b>Total assets</b> .....	¥153,166	¥144,263	\$1,297,027

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	FY2006	FY2005	FY2006
<b>Current liabilities</b>			
Notes and accounts payable-trade .....	¥ 26,542	¥ 20,090	\$ 224,763
Short-term debt (Note 10) .....	828	737	7,012
Current portion of long-term debt (Note 10) .....	359	310	3,038
Accrued expenses .....	3,020	2,376	25,573
Accrued income taxes (Note 15) .....	1,127	1,820	9,544
Allowance for employees' bonuses .....	1,678	1,655	14,205
Allowance for directors' bonuses .....	72	—	607
Notes payable-plant and equipment .....	1,994	3,039	16,887
Other current liabilities .....	2,511	3,955	21,266
Total current liabilities .....	<b>38,131</b>	<b>33,982</b>	<b>322,895</b>
<b>Long-term liabilities</b>			
Bond (Note 10) .....	10,000	10,000	84,681
Long-term debt (Note 10) .....	5,139	1,398	43,516
Deferred tax liabilities (Note 15) .....	1,033	1,159	8,748
Accrued severance indemnities (Note 16) .....	5,665	6,019	47,968
Directors' and corporate auditors' retirement allowances ...	1,154	1,214	9,772
Other liabilities .....	843	859	7,149
Total long-term liabilities .....	<b>23,834</b>	<b>20,649</b>	<b>201,834</b>
Total liabilities .....	<b>61,965</b>	<b>54,631</b>	<b>524,729</b>
<b>Contingent liabilities (Note 11)</b>			
<b>Net assets (Notes 12, 17, 18)</b>			
<b>Shareholders' equity</b>			
Common stock			
Authorized: 257,956,000 shares			
Issued: 117,673,760 shares .....	13,051	13,051	110,519
Additional paid-in capital .....	12,200	12,199	103,311
Retained earnings .....	61,952	60,626	524,612
Treasury stock, at cost .....	(5,658)	(5,642)	(47,909)
<b>Gains or losses from revaluation and translation adjustments</b>			
Unrealized gains on securities .....	6,617	7,169	56,028
Foreign currency translation adjustments .....	305	(81)	2,584
<b>Minority interests .....</b>	<b>2,734</b>	<b>2,310</b>	<b>23,153</b>
Total net assets .....	<b>91,201</b>	<b>89,632</b>	<b>772,298</b>
Total liabilities and net assets .....	<b>¥153,166</b>	<b>¥144,263</b>	<b>\$1,297,027</b>

The accompanying notes are an integral part of these consolidated statements.

# Consolidated Statements of Income

Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2007 (FY2006) and 2006 (FY2005)

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	FY2006	FY2005	FY2006
<b>Net sales (Note 19)</b> .....	¥122,397	¥108,414	\$1,036,473
<b>Operating costs and expenses</b>			
Cost of sales.....	97,640	83,885	826,823
Selling, general and administrative expenses (Note 13) ....	18,204	17,331	154,156
Total operating costs and expenses.....	115,844	101,216	980,979
<b>Operating income</b> .....	6,553	7,198	55,494
<b>Other income (expenses)</b>			
Interest and dividend income .....	462	256	3,914
Equity in earnings of unconsolidated subsidiaries and affiliates .....	687	169	5,820
Interest expenses.....	(188)	(87)	(1,588)
Loss on valuation of inventories .....	(505)	(73)	(4,277)
Loss on disposal of fixed assets .....	(225)	(135)	(1,905)
Impairment loss of fixed assets (Note 14).....	(670)	(1,219)	(5,669)
Other, net .....	358	462	3,016
Total other income (expenses), net .....	(81)	(627)	(689)
<b>Income before income taxes and minority interests</b> .....	6,472	6,571	54,805
<b>Income taxes (Note 15)</b>			
Current .....	2,730	2,990	23,119
Deferred .....	(43)	(164)	(364)
Total .....	2,687	2,826	22,755
<b>Minority interests</b> .....	733	589	6,206
<b>Net income</b> .....	¥ 3,052	¥ 3,156	\$ 25,844

	Yen		U.S.Dollars (Note 4)
<b>Amount per share</b>			
Net income .....	¥ 27.65	¥ 27.95	\$ 0.23
Net income-diluted.....	25.59	27.76	0.22
Cash dividends .....	15.00	15.00	0.13
<b>Weighted average number of shares (Thousands)</b> .....	110,384	110,359	110,384

The accompanying notes are an integral part of these consolidated statements.

# Consolidated Statements of Changes in Net Assets

Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2007 (FY2006) and 2006 (FY2005)

	Millions of Yen									
	Shareholders' equity					Valuation and translation adjustment				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total Shareholders' equity	Unrealized gains on securities	Foreign currency translation adjustments	Total valuation and translation adjustment	Minority Interests	Total net assets
<b>Balance at March 31, 2005</b> .....	¥13,051	¥12,191	¥59,192	¥(5,652)	¥78,782	¥3,564	¥(948)	¥2,616	¥1,829	¥83,227
Changes in this fiscal year										
Cash dividends paid .....	—	—	(1,656)	—	(1,656)	—	—	—	—	(1,656)
Bonuses to directors and corporate auditors....	—	—	(66)	—	(66)	—	—	—	—	(66)
Net income .....	—	—	3,156	—	3,156	—	—	—	—	3,156
Gain on sales of treasury stock .....	—	8	—	—	8	—	—	—	—	8
Purchase of treasury stock .....	—	—	—	(42)	(42)	—	—	—	—	(42)
Decrease of treasury stock.....	—	—	—	52	52	—	—	—	—	52
Net changes of other than shareholders' equity in this fiscal year .....	—	—	—	—	—	3,605	867	4,472	481	4,953
<b>Total changes in this fiscal year</b> .....	—	8	1,434	10	1,452	3,605	867	4,472	481	6,405
<b>Balance at March 31, 2006</b> .....	13,051	12,199	60,626	(5,642)	80,234	7,169	(81)	7,088	2,310	89,632
Changes in this fiscal year										
Cash dividends paid .....	—	—	(1,655)	—	(1,655)	—	—	—	—	(1,655)
Bonuses to directors and corporate auditors....	—	—	(71)	—	(71)	—	—	—	—	(71)
Net income .....	—	—	3,052	—	3,052	—	—	—	—	3,052
Gain from disposal of treasury stock .....	—	1	—	—	1	—	—	—	—	1
Purchase of treasury stock .....	—	—	—	(28)	(28)	—	—	—	—	(28)
Decrease of treasury stock.....	—	—	—	12	12	—	—	—	—	12
Net changes of other than shareholders' equity in this fiscal year .....	—	—	—	—	—	(552)	386	(166)	424	258
<b>Total changes in this fiscal year</b> .....	—	1	1,326	(16)	1,311	(552)	386	(166)	424	1,569
<b>Balance at March 31, 2007</b> .....	¥13,051	¥12,200	¥61,952	¥(5,658)	¥81,545	¥6,617	¥305	¥6,922	¥2,734	¥91,201

	Thousands of U.S. Dollars (Note 4)									
	Shareholders' equity					Valuation and translation adjustment				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total Shareholders' equity	Unrealized gains on securities	Foreign currency translation adjustments	Total valuation and translation adjustment	Minority Interests	Total net assets
<b>Balance at March 31, 2006</b> .....	\$110,519	\$103,299	\$513,391	\$(47,777)	\$679,432	\$60,712	\$ (688)	\$60,024	\$19,561	\$759,017
Changes in this fiscal year										
Cash dividends paid .....	—	—	(14,022)	—	(14,022)	—	—	—	—	(14,022)
Bonuses to directors and corporate auditors....	—	—	(601)	—	(601)	—	—	—	—	(601)
Net income .....	—	—	25,844	—	25,844	—	—	—	—	25,844
Gain from disposal of treasury stock .....	—	12	—	—	12	—	—	—	—	12
Purchase of treasury stock .....	—	—	—	(238)	(238)	—	—	—	—	(238)
Decrease of treasury stock.....	—	—	—	106	106	—	—	—	—	106
Net changes of other than shareholders' equity in this fiscal year .....	—	—	—	—	—	(4,684)	3,272	(1,412)	3,592	2,180
<b>Total changes in this fiscal year</b> .....	—	12	11,221	(132)	11,101	(4,684)	3,272	(1,412)	3,592	13,281
<b>Balance at March 31, 2007</b> .....	\$110,519	\$103,311	\$524,612	\$(47,909)	\$690,533	\$56,028	\$2,584	\$58,612	\$23,153	\$772,298

The accompanying notes are an integral part of these consolidated statements.

# Consolidated Statements of Cash Flows

Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2007 (FY2006) and 2006 (FY2005)

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	FY2006	FY2005	FY2006
<b>Operating activities</b>			
Income before income taxes and minority interests .....	¥ 6,472	¥ 6,571	\$ 54,805
Depreciation and amortization .....	8,167	6,999	69,157
Loss on disposal of fixed assets .....	225	135	1,905
Impairment loss of fixed assets .....	670	1,219	5,669
Amortization of goodwill .....	179	179	1,514
Net increase (decrease) in accrued severance indemnities .....	(354)	(227)	(3,001)
Loss on valuation of inventories .....	505	—	4,277
Interest and dividend income .....	(462)	(256)	(3,914)
Interest expenses .....	188	87	1,588
Loss on valuation of investments in securities .....	—	22	—
Decrease (increase) in notes and accounts receivable .....	(7,832)	(3,233)	(66,319)
Decrease (increase) in inventories .....	(1,964)	(3,040)	(16,633)
Increase (decrease) in notes and accounts payable .....	6,351	3,207	53,778
Other, net .....	(546)	(668)	(4,608)
Sub-total .....	11,599	10,995	98,218
Interest and dividend income received .....	926	718	7,841
Interest expenses paid .....	(189)	(86)	(1,596)
Income taxes paid .....	(3,377)	(2,727)	(28,593)
Other, net .....	331	168	2,797
Net cash provided by operating activities .....	9,290	9,068	78,667
<b>Investing activities</b>			
Payments into time deposits .....	—	(5,000)	—
Proceeds from time deposits .....	5,000	—	42,341
Payments for purchase of fixed assets .....	(12,999)	(8,836)	(110,077)
Payments for purchase of investments in securities .....	(2,951)	(2,378)	(24,989)
Other, net .....	307	(631)	2,598
Net cash used in investing activities .....	(10,643)	(16,845)	(90,127)
<b>Financing activities</b>			
Proceeds from long-term loans payable .....	4,067	27	34,438
Proceeds from corporate bond .....	—	10,000	—
Payments for purchase of treasury stock .....	(28)	(42)	(238)
Cash dividends paid .....	(1,656)	(1,656)	(14,022)
Other, net .....	(625)	(181)	(5,288)
Net cash provided by (used in) financing activities .....	1,758	8,148	14,890
<b>Effects of exchange rate changes on cash and cash equivalents .....</b>			
	123	244	1,040
Net increase (decrease) in cash and cash equivalents .....	528	615	4,470
Cash and cash equivalents at beginning of the year .....	14,405	13,790	121,983
Proceeds from purchase of newly consolidated subsidiaries .....	354	—	3,000
Cash and cash equivalents at end of the year (Note 5) .....	¥15,287	¥14,405	\$129,453

The accompanying notes are an integral part of these consolidated statements.

# Notes to Consolidated Financial Statements

Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Sanyo Chemical Industries, Ltd. (the "Company") and its domestic consolidated subsidiaries in accordance with the provisions set forth in the Corporation Law of Japan and Japanese Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards (IFRS).

The accounts of overseas subsidiaries consolidated with the Company are based on the financial statements prepared in conformity with generally accepted accounting principles ("GAAP") and practices prevailing in the countries where the subsidiaries have been incorporated. Financial statements have not been materially affected by the differences between the GAAP prevailing in these countries and Japanese GAAP.

Therefore, no adjustments have been reflected in the accompanying consolidated financial statements to present the accounts of the subsidiaries in compliance with Japanese accounting principles and practices.

Certain account balances, as disclosed in the basic consolidated financial statements in Japan, have been summarized or reclassified to the extent deemed necessary to enable presentation in a form which is more familiar to readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operation and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

## 2. Summary of Significant Accounting Policies

### (1) Principles of Consolidation

The Company had fifteen subsidiaries as of March 31, 2007. The accompanying consolidated financial statements include the accounts of the Company and ten of its subsidiaries (abbreviated below as the "Companies"), which are listed below:

Name	Country of incorporation	Equity ownership percentage at March 31, 2007	Fiscal year-end
San-Dia Polymers, Ltd. ....	Japan	60.0%	March 31
San Nopco Ltd. ....	Japan	100.0	March 31
San Chemical Co., Ltd. ....	Japan	50.0	March 31
San-Apro Ltd. ....	Japan	50.0	March 31
Sanyo Kasei (Thailand) Ltd. ....	Thailand	89.0	December 31
SANAM Corporation ....	U.S.	100.0	December 31
Sanyo Chemical & Resins Inc. ....	U.S.	100.0	December 31
Sanyo Chemical Texas, Inc. ....	U.S.	100.0	December 31
Sanyo Kasei (Nantong) Co., Ltd. ....	China	100.0	December 31
San-Dia Polymers (Nantong) Co., Ltd. ....	China	60.0	December 31

The remaining five subsidiaries at March 31, 2007 were excluded from the scope of consolidation because their combined assets, net sales, net income (equity portion) and retained earnings (equity portion) in the aggregate do not have a material impact on the consolidated figures.

Sanyo Chemical & Resins Inc. (SCR) has been included in the scope of consolidation as SANAM Corp., a wholly-owned subsidiary of Sanyo Chemical, conducted a takeover of shares (50%) of SCR and the equity stake of Sanyo Chemical is subsequently 100%. Although the equity share of Sanyo Chemical in both San Chemical Co., Ltd. and San-Apro Ltd. was 50% as of March 31, 2007, the Company consolidated said subsidiaries since it essentially has control over their operations.

San-Dia Polymers (Nantong) Co., Ltd. is a wholly-owned subsidiary of San-Dia Polymers, Ltd., which is a subsidiary of the Company.

Sanyo Chemical Texas, Inc. is included in the scope of consolidation as the importance of the company has increased.

For the purpose of preparing the accompanying consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated. The amounts of certain subsidiaries have been included on the basis of fiscal periods ended within three months prior to March 31.

The Company had five non-consolidated subsidiaries as of March 31, 2007 and five affiliates as of March 31, 2007. The equity method is applied to the investments in three non-consolidated subsidiaries, including Sanyo Transport Co., Ltd., and in three affiliates, including San-Petrochemicals Co., Ltd.

The equity method is not applied to the investments in the remaining two non-consolidated subsidiaries and two affiliates since their total net income and retained earnings are not material to the consolidated results of total net income and total retained earnings.

Assets and liabilities of consolidated subsidiaries at the time of investment are all valued at fair value. The consolidated goodwill is amortized evenly over 10 year period.

## (2) Translation of Foreign Currency Financial Statements

The accounts of the overseas consolidated subsidiaries are translated into Japanese yen by the method prescribed under the Accounting Standards for Foreign Currency Translations which was issued by the Business Accounting Deliberation Council of Japan. Under this method, all assets and liabilities are translated at current rates in effect at each balance sheet date while net assets is translated at historic rates, and revenue and expense items are translated at the average rate of exchange over the year.

Translation adjustments of foreign currency financial statements are reported in minority interests and "Foreign currency translation adjustment" which are listed in net assets.

## (3) Valuation of Securities

The Company and its consolidated subsidiaries adopted the Accounting Standards for Financial Instruments, which was issued by the Business Accounting Deliberation Council. In accordance with the standards, securities are classified into trading securities, held-to-maturity debt securities, equity investments in associates and other securities. Those classified as other would be reported at market value with unrealized gains, net of related taxes reported in equity. Under the Corporation Law, unrealized holding gains on securities, net of related taxes is not available for distribution as dividends and bonuses to directors and corporate auditors.

Realized gains and losses and declines in value judged to be other than temporary on other securities are charged to income.

## (4) Inventories

Inventories are valued and stated principally at cost determined by the average method.

## (5) Property, Plant and Equipment

Depreciation for the Company and its domestic consolidated subsidiaries is computed by the declining-balance method.

Depreciation of buildings excluding facilities incidental to buildings which were acquired on or after April 1, 1998 for the Company and its domestic consolidated subsidiaries is computed by the straight-line method.

Depreciation for overseas consolidated subsidiaries is principally computed by the straight-line method.

The principal estimated useful lives used for computing depreciation are as follows:

Buildings and structures	3 – 50 years
Machinery and equipment	4 – 8 years

## (6) Capitalized Computer Software Costs

Amortization of computer software, which is included in "intangible assets" in the accompanying balance sheets and comprise costs of software used in the Companies' business, is principally computed by the straight-line method over five years, for the estimated useful life of

computer software.

## (7) Impairment for Fixed Assets

The Companies have adopted "Accounting for Impairment of Fixed Assets" issued by the Business Accounting Council on August 9, 2002 and Accounting Standard Board of Japan (ASBJ) Guidance No.6 "Guidance for Accounting Standard for Impairment of Fixed Assets" issued by the ASBJ on October 31, 2003 from the year ended March 31, 2006.

## (8) Foreign Currency Translation

Foreign currency assets and liabilities are translated into Japanese yen at the relevant exchange rates prevailing at the respective balance sheet dates. The resulting transaction gains or losses are included in "Other income (expenses)" for the year.

## (9) Leases

Where the financing leases do not transfer ownership of the leased property to the lessee during the terms of the leases, the leased property is not capitalized and the related lease expenses are charged to income in the periods incurred, as per the statements issued by the Business Accounting Deliberation Council.

## (10) Income Taxes

The Companies computed and recorded income taxes currently payable based upon taxable income determined in accordance with applicable tax laws.

The Company and its domestic subsidiaries adopted the Financial Accounting Standard on Accounting for Effects of Income Taxes which was issued by the Business Accounting Deliberation Council. This standard requires that income taxes are accounted for under the assets and liabilities method.

## (11) Allowance for Employees' Bonuses

The allowance for employees' bonuses is computed based on the estimated amount of bonus payments.

## (12) Allowance for Directors' Bonuses

The allowance for directors' bonuses is computed based on the estimated amount of bonus payments.

## (13) Accrued Severance Indemnities

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted the Accounting Standards for Retirement Benefit, which was issued by the Business Accounting Deliberation Council. In accordance with the standards, accrued severance indemnities are provided based on the amount of projected benefit obligation reduced by pension plan assets at fair value at the end of the fiscal year.

The Company and its domestic consolidated subsidiaries have adopted a qualified pension plan system as their defined pension benefit plan.

#### (14) Directors' and Corporate Auditors' Retirement Allowances

The Company, with respect to directors and corporate auditors, provides for lump-sum severance benefits. Any amounts payable to officers upon retirement are subject to approval at the general shareholders' meeting.

#### (15) Research and Development Expenses

Research and development expenses are charged to income as incurred.

#### (16) Appropriation of Retained Earnings

Effective from the reporting term, distribution of unappropriated retained earnings is subject to a resolution of the Company's Board of Directors pursuant to the regulations of the Corporation Law of Japan and the Company's Articles of Incorporation, which waives the requirement for approval by general meeting of shareholders. The appropriation of retained earnings reflected in the accompanying consolidated financial statements for each fiscal year represents the appropriations which were approved at the general shareholders' meeting and disposed of during that year but which related to the immediately preceding fiscal year.

Until the preceding year, payment of bonuses to directors and corporate auditors had been made out of retained earnings and constituted a part of appropriations referred to above. Since FY2006, it is charged to income for the year.

#### (17) Net Income and Dividend per Share

Basic net income per share is calculated based on the Accounting Standard for Earnings per Share.

Cash dividends per share represent interim dividends paid and annual dividends declared as applicable to the respective fiscal years.

#### (18) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows refer to cash on hand and bank deposits that can be withdrawn or converted to cash on demand with insignificant risk of changes in value and original maturities of three months or less at the date of acquisition.

#### (19) Reclassification

Certain amounts of the prior fiscal period have been reclassified to conform to the current fiscal year's presentation.

### 3. Changes to the Summary of Significant Accounting Policies

#### *Accounting standard for presentation of net assets in balance sheet*

The Companies have adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" ("Business Accounting Standard No. 5, December 9, 2005") and "Guidance for Accounting Standard for Presentation of Net Assets in the Balance Sheet" ("Guidance for Business Accounting Standard No. 8, December 9, 2005"). If "Shareholders' Equity" were calculated using the conventional method, "Shareholders' Equity" of the consolidated balance sheet for the year ended March 31, 2007 would be ¥88,467 million (U.S.\$749,145 thousand).

#### *Accounting standard for directors' bonuses*

The Companies have adopted "Accounting Standard for Directors' bonuses" ("Business Accounting Standard No. 4, November 29, 2005"). As a result of this change, operating income and income before income taxes and minority interests decreased by ¥72 million (U.S.\$607 thousand).

### 4. United States Dollar Amounts

The Company prepares its consolidated financial statements in Japanese yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetical results of translating yen into dollars at the rate of ¥118.09 to U.S.\$1, being the effective rate of exchange at March 31, 2007. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at the rate of ¥118.09 to U.S.\$1 or at any rate.

### 5. Cash and Cash Equivalents

Reconciliation of cash and cash equivalents on the consolidated statements of cash flows to the amounts disclosed on the balance sheets at March 31, 2007 (FY2006) and 2006 (FY2005) were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	FY2006	FY2005	FY2006
Cash and deposits.....	¥15,287	¥19,405	\$129,453
Time deposits with deposit term of over 3 months.....	—	(5,000)	—
Cash and cash equivalents .....	¥15,287	¥14,405	\$129,453

## 6. Investments in Securities

As of March 31, 2007 (FY2006) there were no trading securities and as of March 31, 2006 (FY2005) there were no trading securities nor held-to-maturity debt securities.

Held-to-maturity securities for which market prices at March 31, 2007 (FY2006) were available were summarized as follows:

	Millions of Yen		
	FY2006		
	Book value per balance sheet	Market value	Gross unrealized gains
<b>Bonds whose market value exceeds their balance sheet amount</b>			
Government bond, municipal bond, etc. ....	¥100	¥100	¥0
<b>Bonds whose market value does not exceed their balance sheet amount</b>			
Government bond, municipal bond, etc. ....	—	—	—
<b>Total</b> .....	<b>¥100</b>	<b>¥100</b>	<b>¥0</b>

	Thousands of U.S. Dollars (Note 4)		
	FY2006		
	Book value per balance sheet	Market value	Gross unrealized gains
<b>Bonds whose market value exceeds their balance sheet amount</b>			
Government bond, municipal bond, etc. ....	\$847	\$848	\$1
<b>Bonds whose market value does not exceed their balance sheet amount</b>			
Government bond, municipal bond, etc. ....	—	—	—
<b>Total</b> .....	<b>\$847</b>	<b>\$848</b>	<b>\$1</b>

Marketable securities classified as other securities were summarized as follows:

	Millions of Yen		
	FY2006		
	carrying amounts	Book value per balance sheet	Gross unrealized gains
<b>Securities whose balance sheet amount exceeds their acquisition cost</b>			
Equity securities.....	¥9,360	¥20,452	¥11,092
<b>Securities whose balance sheet amount does not exceed their acquisition cost</b>			
Equity securities.....	40	35	(5)
<b>Total</b> .....	<b>¥9,400</b>	<b>¥20,487</b>	<b>¥11,087</b>

	Thousands of U.S. Dollars (Note 4)		
	FY2006		
	carrying amounts	Book value per balance sheet	Gross unrealized gains
<b>Securities whose balance sheet amount exceeds their acquisition cost</b>			
Equity securities.....	\$79,257	\$173,185	\$93,928
<b>Securities whose balance sheet amount does not exceed their acquisition cost</b>			
Equity securities.....	340	297	(43)
<b>Total</b> .....	<b>\$79,598</b>	<b>\$173,482</b>	<b>\$93,884</b>

	Millions of Yen		
	FY2005		
	carrying amounts	Book value per balance sheet	Gross unrealized gains
<b>Securities whose balance sheet amount exceeds their acquisition cost</b>			
Equity securities.....	¥8,048	¥20,062	¥12,014
<b>Securities whose balance sheet amount does not exceed their acquisition cost</b>			
Equity securities.....	—	—	—
<b>Total</b> .....	<b>¥8,048</b>	<b>¥20,062</b>	<b>¥12,014</b>

Held-to-maturity securities and other securities without market value were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	FY2006	FY2005	FY2006
Held-to-maturity securities.....	—	—	—
Other securities			
Unlisted securities .....	¥6,689	¥5,292	\$56,645

## 7. Inventories

Inventories as of March 31, 2007 (FY2006) and 2006 (FY2005) consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	FY2006	FY2005	FY2006
Finished goods .....	¥ 9,940	¥ 8,397	\$ 84,177
Semi-finished goods .....	3,625	3,717	30,695
Raw materials .....	2,851	2,696	24,144
Cases .....	92	87	780
Work in process .....	393	428	3,327
Supplies .....	207	236	1,752
<b>Total</b> .....	<b>¥17,108</b>	<b>¥15,561</b>	<b>\$144,875</b>

## 8. Derivative Financial Instruments

There are no items to report.

## 9. Lease Commitments

The Company and its domestic consolidated subsidiaries lease certain machinery and equipment and other assets. Total lease payments under financing lease arrangements that do not transfer ownership of the leased property to the Company and its domestic subsidiaries were ¥6 million (U.S.\$49 thousand) and ¥10 million for the years ended March 31, 2007 (FY2006) and 2006 (FY2005), respectively.

Additional information such as notional acquisition costs and accumulated depreciation as of March 31, 2007 (FY2006) and 2006 (FY2005), requested by the Business Accounting Deliberation Council to be disclosed as not included in the accompanying consolidated balance sheets was as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	FY2006	FY2005	FY2006
Machinery and equipment and other assets .....	¥33	¥60	\$283
Less: Accumulated depreciation...	(27)	(45)	(228)
Net lease property .....	¥ 6	¥15	\$ 55

The aggregate future lease payments under finance leases as of March 31, 2007 (FY2006) and 2006 (FY2005) were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	FY2006	FY2005	FY2006
Due within one year .....	¥3	¥ 8	\$26
Due after one year .....	3	7	29
	¥6	¥15	\$55

(Note) The amount of notional acquisition costs and future lease payments under finance leases included the imputed interest expense portion.

Notional depreciation expense for the years ended March 31, 2007 (FY2006) and 2006 (FY2005), were ¥6 million (U.S.\$49 thousand) and ¥10 million, respectively.

Notional depreciation expense is calculated by the straight-line method assuming that there is no scrap value over the terms of the lease based on notional acquisition costs.

## 10. Short-term and Long-term Debt

Short-term loans at March 31, 2007 (FY2006) and 2006 (FY2005) were ¥828 million (U.S.\$7,012 thousand) and ¥737 million, and annual average interest rate applicable to short-term loans for the year ended March 31, 2007 (FY2006) was 4.090%.

Long-term debt at March 31, 2007 (FY2006) and 2006 (FY2005) consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	FY2006	FY2005	FY2006
Bond .....	¥10,000	¥10,000	\$ 84,681
Long-term loans with annual average interest rates of 3.248% for current portion and 2.864% for non-current portion.....	5,498	1,707	46,555
Other interest-bearing debt .....	—	—	—
Total long-term debt .....	15,498	11,707	131,236
Less current portion .....	359	309	3,038
	¥15,139	¥11,398	\$128,198

The aggregate amounts of annual maturity of long-term debt during the next five years are as follows:

Fiscal year	Millions of Yen	Thousands of U.S. Dollars (Note 4)
2007 .....	¥ 359	\$ 3,038
2008 .....	989	8,376
2009 .....	1,153	9,763
2010 .....	1,069	9,051
2011 and thereafter .....	1,928	16,327

## 11. Contingent Liabilities

Contingent liabilities at March 31, 2007 (FY2006) and 2006 (FY2005) were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	FY2006	FY2005	FY2006
Guarantee of obligation (Employees' housing loan) ....	¥ 5	¥ 15	\$ 45
Guarantee of obligation concerning lease contracts ...	1,337	1,534	11,318

## 12. Shareholders' Equity

Effective October 1, 2001, the Commercial Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value. Prior to the amendments, legal reserves could be set aside until such legal reserve equaled 25% of stated capital. With the amendments, legal reserves can be set aside until the aggregated amount of capital surplus and legal reserve equals 25% of stated capital. The amount of capital surplus and legal reserve which exceeds 25% of stated capital can be transferred to retained earnings subject to approval at the general shareholders' meeting.

Prior to October 1, 2001, the Commercial Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Commercial Code eliminated these restrictions allowing companies to repurchase, retain and dispose of treasury stock by a resolution of the shareholders.

## 13. Selling, General and Administrative Expenses

Selling, general and administrative for the years ended March 31, 2007 (FY2006) and 2006 (FY2005) consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	FY2006	FY2005	FY2006
Freight and storage charge .....	¥ 5,173	¥ 4,703	\$ 43,803
Employees' salary and bonuses .....	3,756	3,639	31,803
Research and development expenses .....	4,541	4,317	38,452
Other .....	4,734	4,672	40,098
	¥18,204	¥17,331	\$154,156

## 14. Impairment loss of Fixed Assets

The Companies have recognized impairment loss on the following class of assets for the year ended March 31, 2007 (FY2006) and 2006 (FY2005).

Location	Main use	Class	Millions of Yen	Thousands of U.S. Dollars (Note 4)
			FY2006	FY2006
Pennsylvania, U.S.	Lipophilic High-molecular Agents production facilities	Buildings and Machinery	¥582	\$4,928
Nantong City Jiangsu, China	Surfactants production facilities	Buildings and Machinery	88	742

The Companies group the assets basically based on product category or factory. The carrying amount of the assets group which incurred consecutive operating losses is reduced to recoverable amount and the Companies recognized ¥670 million (U.S.\$5,669 thousand) of impairment loss. The recoverable amount is the higher of the discounted cash flows from the continued use or net selling price at disposal.

Location	Main use	Class	Millions of Yen
			FY2005
Tokai city, Aichi	Hydrophilic High-molecular Agents production facilities	Machinery	¥ 61
Ogaki city, Gifu	Hydrophilic High-molecular Agents production facilities	Buildings and Machinery	566
Nantong city, Jiangsu China	Surfactants production facilities	Buildings and Machinery	592
Kamisu city, Ibaraki	Idle assets	Land	294

The Companies group the assets basically based on product category or factory. The carrying amount of the assets group which incurred consecutive operating losses and idle assets is reduced to recoverable amount and the Companies recognized ¥1,513 million of impairment loss.

## 15. Income Taxes

The Company and its domestic subsidiaries are subject to a number of different taxes based on income, which in the aggregate indicated a normal effective statutory income tax rate were 40.3% for the years ended March 31, 2007 (FY2006) and 2006 (FY2005), respectively.

Foreign consolidated subsidiaries are subject to income taxes of the countries in which they operate.

The significant components of deferred tax assets and liabilities as of March 31, 2007 (FY2006) and 2006 (FY2005) were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	FY2006	FY2005	FY2006
Deferred tax assets:			
Accrued enterprise taxes.....	¥ 116	¥ 172	\$ 980
Allowance for accrued severance indemnities.....	2,284	2,427	19,341
Directors' and corporate auditors' retirement allowances.....	474	500	4,017
Other .....	2,193	1,982	18,568
Sub-total.....	¥5,067	¥5,081	\$42,906
Deferred tax liabilities:			
Deferred profits on sales of fixed assets .....	(19)	(20)	(158)
Special depreciation .....	(1)	(4)	(11)
Unrealized gains on securities.....	(4,470)	(4,844)	(37,853)
Sub-total.....	(4,490)	(4,868)	(38,022)
Net deferred tax assets.....	¥ 577	¥ 213	\$ 4,884

Net deferred tax assets were included in the consolidated balance sheets as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	FY2006	FY2005	FY2006
Current assets:			
Deferred tax assets .....	¥1,282	¥1,007	\$10,853
Investments and other assets:			
Deferred tax assets .....	328	365	2,779
Current liabilities:			
Deferred tax liabilities .....	¥ —	¥ —	\$ —
Long-term liabilities:			
Deferred tax liabilities .....	(1,033)	(1,159)	(8,748)
Net deferred tax assets .....	¥ 577	¥ 213	\$ 4,884

Summary of the significant differences between the statutory tax rate and the effective income tax rate for financial statement purposes for the years ended March 31, 2006 (FY2005) is as follows:

Data for the year ended March 31, 2007 (FY2006) has been omitted, because the difference between statutory tax rate and effective income tax rate was not material.

	FY2005
Statutory tax rate .....	40.3(%)
Non-deducted expenses (including entertainment expenses) .....	0.9
Non-taxable income (including dividend income) .....	(0.5)
Deduction of income taxes .....	(5.5)
Equity in earnings of unconsolidated subsidiaries and affiliates .....	0.1
Amortization of consolidated goodwill .....	1.1
Losses at consolidated subsidiaries .....	8.0
Differences between the Japanese statutory income tax rate and the foreign consolidated subsidiaries' tax rate .....	(1.6)
Tax refund .....	—
Other .....	0.2
Effective income tax rate .....	43.0

## 16. Accrued Severance Indemnities

The Company and its domestic consolidated subsidiaries have adopted a qualified pension plan system as their defined pension benefit plan.

The accrued severance indemnities at March 31, 2007 (FY2006) and 2006 (FY2005) consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	FY2006	FY2005	FY2006
① Projected benefit obligation .....	¥(14,494)	¥(14,492)	\$(122,738)
② Fair value of plan assets .....	8,844	8,306	74,893
③ Unfounded retirement benefit obligation (①+②) .....	(5,650)	(6,186)	(47,845)
④ Unrecognized actuarial loss .....	147	347	1,245
⑤ Unrecognized past service liabilities .....	(162)	(180)	(1,368)
⑥ Net (③+④+⑤) .....	¥ (5,665)	¥ (6,019)	\$ (47,968)

Note: With effect from April 1, 2007, the Company changed its pension system from a qualified pension plan to a defined pension benefit plan (a form of cash balance plan). As a result, retirement benefit obligations declined by ¥866 million and will be accounted for as prior service costs over a 14-year period.

The components of net periodic benefit costs for the years ended March 31, 2007 (FY2006) and 2006 (FY2005) were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	FY2006	FY2005	FY2006
① Service cost.....	¥689	¥658	\$5,835
② Interest cost.....	285	284	2,417
③ Expected return on plan assets.....	(166)	(130)	(1,407)
④ Amortization of net actuarial loss.....	81	176	686
⑤ Amortization of unrecognized past service liabilities.....	(18)	(18)	(152)

Assumptions used for the years ended March 31, 2007 (FY2006) and 2006 (FY2005) were principally set forth as follows:

	FY2006	FY2005
① Method of attributing benefit to period of service	Straight-line base	Straight-line base
② Discount rate	2.0%	2.0%
③ Expected rate of return on plan assets	2.0%	2.0%
④ Amortization period for past service liabilities	14years	14years
⑤ Recognition period for actuarial gain (loss)	14years	14years

## 17. Shares outstanding and treasury stocks

Shares outstanding and treasury stocks for the year ended March 31, 2007 (FY2006) were as follows:

	March 31, 2006 (Thousands of shares)	Increase in this fiscal year (Thousands of shares)	Decrease in this fiscal year (Thousands of shares)	March 31, 2007 (Thousands of shares)
Shares outstanding				
Common stock.....	117,674	—	—	117,674
Total.....	117,674	—	—	117,674
Treasury stock				
Common stock.....	7,282	34	16	7,300
Total.....	7,282	34	16	7,300

## 18. Cash Dividends

Cash dividends paid for the year ended March 31, 2007 (FY2006) were as follows:

Resolution	Type of shares	Gross amount (Millions of Yen)	Gross amount (Thousands of U.S. Dollars)	Per share (Yen)	Per share (U.S. Dollars)	Record date	Date in effect of dividend
23-Jun-06 Annual shareholders' meeting	Common stock	¥828	\$7,011	¥7.50	\$0.06	31-Mar-06	23-Jun-06
31-Aug-06 Board of directors	Common stock	¥828	\$7,011	¥7.50	\$0.06	30-Sep-06	1-Dec-06

Dividends of which record date were in the year ended March 31, 2007(FY2006) but date in effect is in the next consolidated fiscal year were as follows:

Resolution	Type of shares	Gross amount (Millions of Yen)	Gross amount (Thousands of U.S. Dollars)	Resource	Per share (Yen)	Per share (U.S. Dollars)	Record date	Date in effect of dividend
17-May-07 Board of directors	Common stock	¥828	\$7,010	Retained earnings	¥7.50	\$0.06	31-Mar-07	5-Jun-07

## 19. Segment Information

Segment information of the Companies for the years ended March 31, 2007 (FY2006) and 2006 (FY2005) are presented below:

### (1) Industry Segments

The Companies' main operations are manufacturing and distributing chemical products. The Companies' operations by business segment for the years ended March 31, 2007 (FY2006) and 2006 (FY2005) are not disclosed since most of the products have common characteristics, manufacturing methods and markets as stipulated in the Japanese Disclosure Rule of Consolidated Financial Statements.

### (2) Geographic Segments

The Companies' operations by geographical segment for the years ended March 31, 2007 (FY2006) and 2006 (FY2005) are not disclosed since the ratios of business outside Japan described above with respect to sales and assets are not material, being less than 10% as stipulated in the Japanese Disclosure Rule of Consolidated Financial Statements.

### (3) Overseas Sales

Overseas sales for the years ended March 31, 2007 (FY2006) and 2006 (FY2005) consisted of the following:

FY2006	Millions of Yen				
	Asia	(China)	America	Other	Total
Overseas sales.....	¥19,842	¥(8,835)	¥8,619	¥9,304	¥ 37,765
Consolidated net sales.....	—	—	—	—	122,397
Percentage of overseas sales to consolidated net sales.....	16.2%	(7.2%)	7.1%	7.6%	30.9%

FY2005	Millions of Yen				
	Asia	(China)	America	Other	Total
Overseas sales.....	¥16,242	¥(6,627)	¥5,663	¥8,725	¥ 30,630
Consolidated net sales.....	—	—	—	—	108,414
Percentage of overseas sales to consolidated net sales.....	15.0%	(6.1%)	5.2%	8.0%	28.2%

FY2006	Thousands of U.S. Dollars (Note 4)				
	Asia	(China)	America	Other	Total
Overseas sales.....	\$168,025	\$(74,818)	\$72,984	\$78,787	\$ 319,796
Consolidated net sales.....	—	—	—	—	1,036,473
Percentage of overseas sales to consolidated net sales.....	16.2%	(7.2%)	7.1%	7.6%	30.9%

In the past, overseas sales were sales by overseas sale department, but since the year ended March 31, 2007 (FY2006) overseas sales were sales of which final destination was foreign customers to present a true picture of overseas sales.

Overseas sales for the year ended March 31, 2006 (FY2005) by the previous way consisted of the following:

FY2005	Millions of Yen				
	Asia	(China)	America	Other	Total
Overseas sales.....	¥13,941	¥(5,433)	¥5,295	¥6,499	¥ 25,735
Consolidated net sales.....	—	—	—	—	108,414
Percentage of overseas sales to consolidated net sales.....	12.9%	(5.0%)	4.8%	6.0%	23.7%

# Report of Independent Auditors

## Report of Independent Auditors

To the Board of Directors and Shareholders of  
SANYO CHEMICAL INDUSTRIES, Ltd.

We have audited the accompanying consolidated balance sheet of SANYO CHEMICAL INDUSTRIES, Ltd. and its subsidiaries as of March 31, 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SANYO CHEMICAL INDUSTRIES, Ltd. and its subsidiaries as of March 31, 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 4 to the accompanying consolidated financial statements.



Kyoritsu

Osaka, Japan

June 22, 2007

## Report of Independent Auditors

To the Board of Directors and Shareholders of  
SANYO CHEMICAL INDUSTRIES, Ltd.

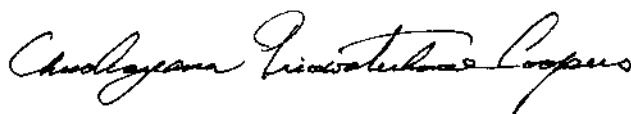
We have audited the accompanying consolidated balance sheets of SANYO CHEMICAL INDUSTRIES, Ltd. and its subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SANYO CHEMICAL INDUSTRIES, Ltd. and its subsidiaries as of March 31, 2005 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

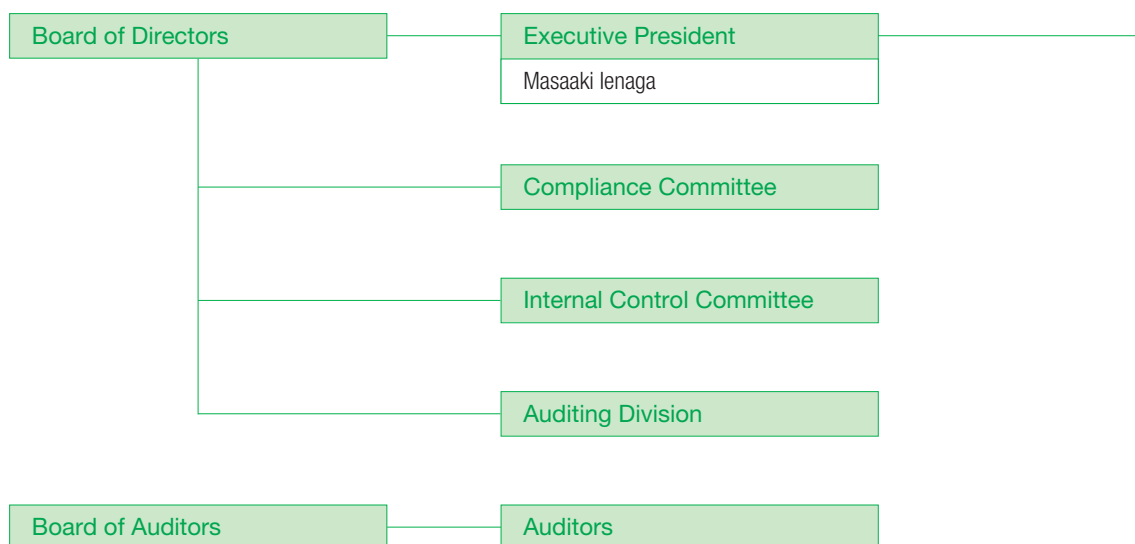
As described in Note 2(7) to the accompanying consolidated financial statements, effective for the year ended March 31, 2006, SANYO CHEMICAL INDUSTRIES, Ltd. and its subsidiaries adopted a new accounting standard for impairment accounting of fixed assets.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.



ChuoAoyama PricewaterhouseCoopers  
Kyoto, Japan  
June 23, 2006

# Organization Chart (as of June 26, 2007)



**M. Ienaga**  
Executive President



**Dr. F. Masuda**  
Executive Vice President



**Y. Yamamoto**  
Senior Managing Executive Officer



**M. Honjo**  
Senior Managing Executive Officer



**K. Hirakawa**  
Senior Managing Executive Officer



**K. Usami**  
Managing Executive Officer



**K. Hirose**  
Managing Executive Officer



**T. Yano**  
Executive Officer



**Dr. T. Ando**  
Executive Officer



**T. Yoshino**  
Executive Officer



**M. Kawai**  
Executive Officer



**H. Azuma**  
Executive Officer



**A. Yasui**  
Executive Officer



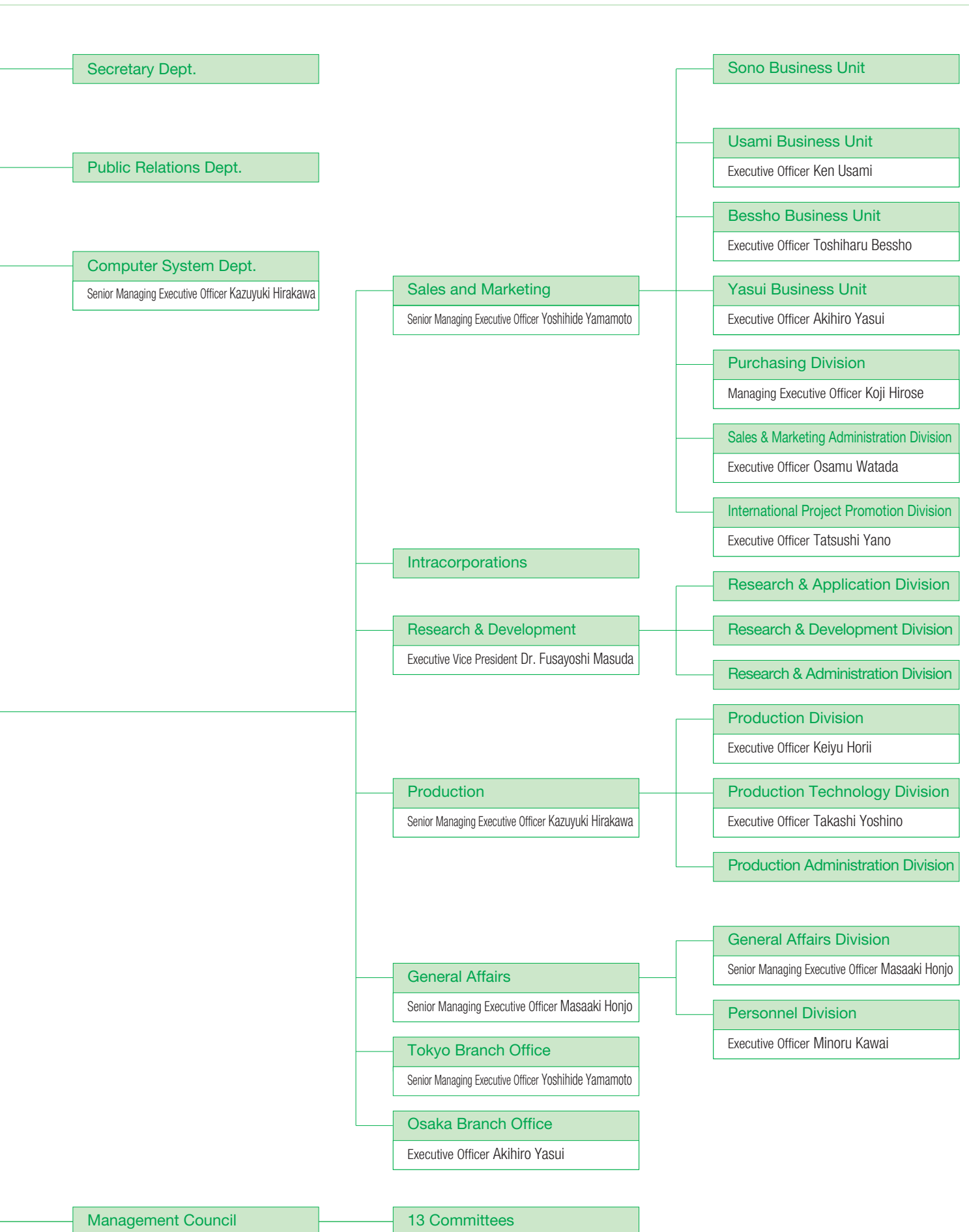
**T. Bessho**  
Executive Officer



**K. Horii**  
Executive Officer



**O. Watada**  
Executive Officer



# Subsidiaries and Affiliates

## Subsidiaries

Name	Abbr.	Est.	Head Office
San-Dia Polymers, Ltd.	SDP	2001	No.10 Chuo Bldg., 5-6, Honcho 1-chome, Nihonbashi, Chuo-ku, Tokyo 103-0023, Japan
San Nopco Ltd.	SNL	1966	11-1 Ikkyo Nomoto-cho, Higashiyama-ku, Kyoto 605-0995, Japan
San Chemical Co., Ltd.	SCC	1982	13-2 Chidori-cho, Kawasaki-ku, Kawasaki, Kanagawa 210-0865, Japan
San-Apro Ltd.	SA	1966	11-1 Ikkyo Nomoto-cho, Higashiyama-ku, Kyoto 605-0995, Japan
Sanyo Kasei (Thailand) Ltd.	SKT	1997	22 Soi Sukhumvit 42, Sukhumvit Road, Prakanong, Klongtoey, Bangkok 10110, Thailand
SANAM Corporation	SANAM	1989	State Highway 837, P.O.Box 567, West Elizabeth, Pennsylvania 15088-0567, USA
Sanyo Chemical & Resins Inc.	SCR	1992	State Highway 837, P.O.Box 567, West Elizabeth, Pennsylvania 15088-0567, USA
Sanyo Chemical Texas, Inc.	SCTI	2005	10536 Bay Area Boulevard, Pasadena, TX 77507, USA
Sanyo Kasei (Nantong) Co., Ltd.	SKN	2003	Nantong Jingji Jishu Kaifaqu 7 Xinkai South Road, Jiangsu 226009, China
San-Dia Polymers (Nantong) Co., Ltd.	SDN	2003	Nantong Jingji Jishu Kaifaqu 5 Xinkai South Road, Jiangsu 226009, China

## Affiliates

Name	Abbr.	Est.	Head Office
San-Petrochemicals Co., Ltd.	SPCC	1977	11-2 Sunayama, Kamisu, Ibaraki 314-0255, Japan
Sunrise Chemical LLC	SRC	2000	10500 Bay Area Boulevard, Pasadena Texas 77507, USA
Sanyo Transport Co., Ltd.	—	1964	1-35 Karasakinaka 3-chome, Takatsuki, Osaka 569-0832, Japan
Nagoya Sanyo Warehouse Co., Ltd.	—	1979	31-1 Shinpou-cho, Tokai, Aichi 476-0005, Japan
Shiohama Chemicals Warehouse Co., Ltd.	—	1983	2-6 Yakou 2-chome, Kawasaki-ku, Kawasaki, Kanagawa 210-0863, Japan
Sanliving Ltd.	SL	1973	21 Ikkyo Nomoto-cho, Higashiyama-ku, Kyoto 605-0995, Japan

Lines of Business	Capital	Equity Ownership	Tel.
Manufacture and sale of superabsorbent polymers	¥2,000 million	Sanyo Chemical 60%, Mitsubishi Chemical 40%	+81-3-5200-3939
Manufacture and sale of specialty chemicals	¥400 million	Sanyo Chemical 100%	+81-3-3279-3030
Manufacture and sale of polyether polyols and polyethylene glycols	¥400 million	Sanyo Chemical 50%, Nippon Oil Corporation 50%	+81-44-276-1811
Manufacture and sale of curing accelerators for epoxy resin, catalysts for polyurethane foam, etc.	¥60 million	Sanyo Chemical 50%, Air-Products 50%	+81-75-531-4743
Manufacture and sale of surfactants, polyurethane resins	490.95 million baht	Sanyo Chemical 89%, Toyota Tsusho 10%, VIV Interchem 1%	+66-2-390-2061
Trading in Sanyo Chemical's products	US\$0.4 million	Sanyo Chemical 100%	+1-412-382-0300
Manufacture and sale of toner resins, polyurethane resins	US\$6,200	Sanyo Chemical 50%, SANAM 50%	+1-412-384-5700
Manufacture of TUB	US\$1,000	SANAM 100%	+1-281-909-8971
Manufacture and sale of surfactants, polyurethane resins	US\$15.4 million	Sanyo Chemical 100%	+86-513-8596-0205
Manufacture and sale of superabsorbent polymers	US\$24 million	San-Dia Polymers 100%	+86-513-8598-1251

Lines of Business	Capital	Equity Ownership	Tel.
Manufacture and sale of ethylidene norbornene, etc. (raw material for EPDM)	¥400 million	Sanyo Chemical 50%, Nippon Oil Corporation 50%	+81-479-46-3031
Manufacture and sale of ethylidene norbornene, etc. (raw material for EPDM)	US\$37.397 million	SANAM 50%, Nisseki Chemical Texas 50%	+1-713-754-1000
General trucking	¥65 million	Sanyo Chemical 100%	+81-72-678-2934
Warehousing	¥30 million	Sanyo Chemical 100%	+81-52-601-0777
Warehousing	¥30 million	Sanyo Chemical 50%, Nippon Oil Corporation 50%	+81-44-266-1086
Real estate, insurance and travel agency business	¥55 million	Sanyo Chemical 100%	+81-75-525-1982

# Offices, Laboratories and Factories

## Head Office & Research Laboratories

Name	Address	Tel.
Head Office & Research Laboratory	11-1, Ikkyo Nomoto-cho, Higashiyama-ku, Kyoto 605-0995, Japan	+81-75-541-4311
Katsura Satellite Laboratory	Rohm Plaza Kyoto Daigaku-Katsura, Nishikyoku-ku, Kyoto 615-8520, Japan	+81-75-383-3083

## Domestic Offices

Name	Address	Tel.
Tokyo Branch Office	No.10 Chuo Bldg., 5-6, Honcho 1-chome, Nihonbashi, Chuo-ku, Tokyo 103-0023, Japan	+81-3-5200-3400
Osaka Branch Office	Nihonseimei Sakai-suji Honmachi Bldg., 8-12, Honmachi 1- chome, Chuo-ku, Osaka 541-0053, Japan	+81-6-6267-3410
Nagoya Area Sales & Marketing Office	Nagoya Mitsui North Bldg. 8-14, Meieki 4-chome, Nakamura-ku, Nagoya, Aichi 450-0002, Japan	+81-52-581-8511
Hokuriku Area Sales & Marketing Office	Daidoseimei Toyama Bldg., 9-10, Honmachi, Toyama 930-0029, Japan	+81-76-442-8900
Chugoku Area Sales & Marketing Office	Hiroshima Daiichiseimei OS Bldg., 2-21, Matoba-cho 1-chome, Minami-ku, Hiroshima 732-0824, Japan	+81-82-264-6743
Nishi-Nihon Area Sales & Marketing Office	Kogin Bldg., 13-2, Tenjin 1-chome, Chuo-ku, Fukuoka 810-0001, Japan	+81-92-714-3436

## Overseas Offices

Name	Address	Tel.
Shanghai Office	Rm.1612, Ruijin Bldg., 205, Maoming Road(S), Shanghai 200020, China	+86-21-5466-0300
Mumbai Liaison Office	10, Kanchanjunga, 9th Floor, 72, Peddar Road, Kemp's Corner, Mumbai-400 026, India	+91-22-2387-7643
Seoul Liaison Office	Dong Kyung Bldg., 6th. Fl., 824-19, Yeoksam-dong, Kangnam-ku, Seoul 135-080, Korea	+82-2-561-0904
Taipei Liaison Office	7th. Fl., NO46., SEC.2, Chung Shan N. Road, Taipei 104	+886-2-2563-1620

## Domestic Factories

Name	Address	Tel.
Nagoya Factory	31-1, Shinpo-cho, Tokai, Aichi 476-0005, Japan	+81-52-604-1161
Kinuura Satellite Factory	4-43, Nitto-cho, Handa, Aichi 475-0033, Japan	+81-569-25-7855
Kashima Factory	11-2, Sunayama, Kamisu, Ibaraki 314-0255, Japan	+81-479-46-3131
Kyoto Factory	11-721, Honmachi, Higashiyama-ku, Kyoto 605-0981, Japan	+81-75-541-6380

### Nagoya Factory

The Nagoya Factory is Sanyo Chemical's largest production facility and is located in the South of Nagoya Coastal Industrial Areas. Products manufactured at this facility include TUB, polyurethane chemicals, polymer flocculants, surfactants and specialty products. It went into operation in 1968. The factory site is approximately 100,000 m<sup>2</sup>.



### Kinuura Satellite Factory

The Kinuura Satellite Factory began operations as a distribution base in 1999. Plans are in motion to construct a production plant there in this year. The factory site is approximately 77,000 m<sup>2</sup>.



### Kashima Factory

The Kashima Factory is Sanyo Chemical's principal production and distribution facility in the Kanto area. Located on a 130,000 m<sup>2</sup> site in Ibaraki Prefecture, this factory is responsible for the manufacture of products such as PEB, toner resins, polymer flocculants for municipal wastewater treatment, water-soluble polymers, and permanent anti-static agents. It went into operation in 1976.



### Kyoto Factory

The Kyoto Factory, located on a 26,000 m<sup>2</sup> site (including the research division and head office), is the company's first production facility. Products manufactured at this factory include lubricating oil additives, coating agents, adhesives and surfactants. In addition, it also contains a development plant that produces trial products.



# Board of Directors & Auditors (as of June 22, 2007)



**Tetsuo Kakehi**  
Chairman of the Board



**Masaaki Ienaga**  
President,  
Representative Director



**Dr. Fusayoshi  
Masuda**  
Representative Director



**Yoshihide  
Yamamoto**  
Director



**Masaaki Honjo**  
Director



**Kazuyuki  
Hirakawa**  
Director



**Tatsushi Yano**  
Director



**Hideki Matsui**  
Director



**Masakazu Hirata**  
Auditor



**Hajime Akiyama**  
Auditor



**Junzo Shimizu**  
Auditor



**Takeshi  
Yasukochi**  
Auditor

## Chairman of the Board

Tetsuo Kakehi

## President, Representative Director

Masaaki Ienaga

## Representative Director

Dr. Fusayoshi Masuda

## Directors

Yoshihide Yamamoto

Masaaki Honjo

Kazuyuki Hirakawa

Tatsushi Yano

Hideki Matsui

## Auditors

Masakazu Hirata

Hajime Akiyama

Junzo Shimizu

Takeshi Yasukochi

# Corporate Data (as of March 31, 2007)

Company Name : Sanyo Chemical Industries, Ltd.

Date of Establishment : November 1, 1949

Number of Employees : Approx. 1,600 (consolidated)

Capital : ¥13,051 million

Head Office : 11-1, Ikkyo Nomoto-cho, Higashiyama-ku,  
Kyoto 605-0995, Japan

Tel : +81-75-541-4311

Fax : +81-75-551-2557

URL : <http://www.sanyo-chemical.co.jp/>

# Investor Information

## Common Stock (As of March 31, 2007)

Authorized	257,956,000 shares
Issued	117,673,760 shares
Number of shareholders	7,928

(Note) Number of shares is rounded down to the nearest thousand for this entire section.

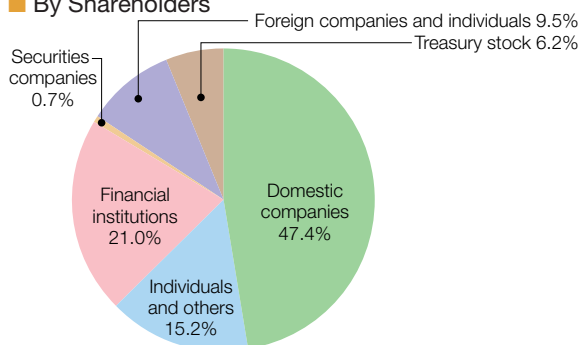
## Major Shareholders (As of March 31, 2007)

Name	Number of Shares (thousand shares)	Ratio of Voting Rights (%)
Toyota Tsusho Corporation	21,431	18.2
Toray Industries, Inc.	19,133	16.3
Nippon Shokubai Co., Ltd.	5,528	4.7
The Master Trust Bank of Japan, Ltd. (trust account)	4,131	3.5
Nippon Oil Corporation	3,993	3.4
Japan Trustee Services Bank, Ltd. (trust account)	3,493	3.0
National Mutual Insurance Federation of Agricultural Cooperatives	2,546	2.2
Northern Trust Company AVFC Sub-account American Clients	2,115	1.8
Mitsui Sumitomo Insurance Co., Ltd.	1,520	1.3
Sanyo Chemical Industries Employees' Stockholding Association	1,469	1.2

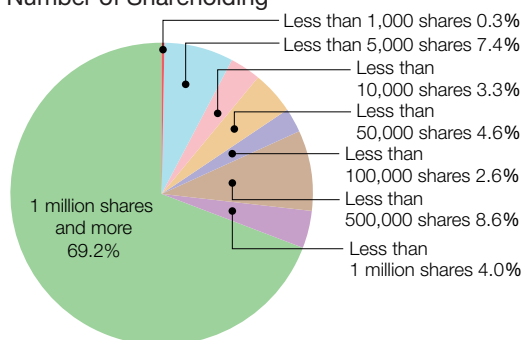
(Note) Treasury stock of 7,299 thousand shares are excluded from the above.

## Distribution of Shares (As of March 31, 2007)

### By Shareholders

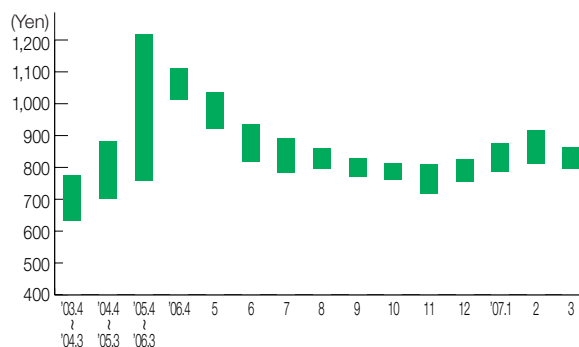


### By Number of Shareholding

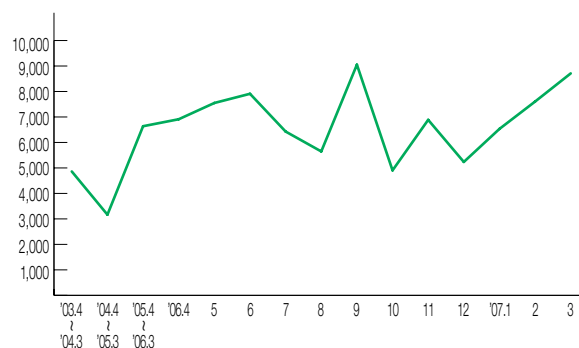


## Stock Price Range and Trading Volume

### Stock Price Range



### Trading Volume (thousand shares)



(Notes) 1. According to Tokyo Stock Exchange.  
2. Trading volumes up March 2006 are average of monthly turnover.

## Shareholder Information

Fiscal year end.....March 31

Year-end dividend record date.....March 31

Interim dividend record end.....September 30

General shareholders' meeting.....Latter half of June

Transfer agent.....The Chuo Mitsui Trust & Banking Co., Ltd.

33-1 Shiba 3-chome, Minato-ku,

Tokyo 105-0014, Japan

Main address: The Chuo Mitsui Trust & Banking Co., Ltd.  
Transfer Agency Department 8-4 Izumi 2-chome,  
Suginami-ku, Tokyo, 168-0063 Japan

Telephone: +81-3-3323-7111 (main)

Transfer agent offices: All branches of The Chuo Mitsui Trust & Banking Co., Ltd. nationwide  
Head office and all branches of Japan Securities Agents, Ltd. nationwide

Publicity available

fiscal results.....Sanyo Chemical web site at  
<http://www.sanyo-chemical.co.jp/>

Stock listings.....Tokyo and Osaka Exchanges  
(Ticker Symbol Number 4471)



<http://www.sanyo-chemical.co.jp/>

For further information, please contact us.

**Public Relations Dept.  
Sanyo Chemical Industries, Ltd.**

Tel: +81-75-541-4312 FAX: +81-75-551-2557

E-mail: [pr-group@sanyo-chemical.com](mailto:pr-group@sanyo-chemical.com)

