



**Condensed Consolidated
Financial Information
for the First Quarter
of the Fiscal Year 2006**
(April 1, 2006 through June 30, 2006)

1Q-FY 2006

SANYO CHEMICAL INDUSTRIES, LTD

~PERFORMANCE CHEMICALS~

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

Cautionary Statement with Respect to Forward-looking Statement

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

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

Ticker code : 4471

Consolidated Financial Highlights (Unaudited)

Results of Operations

	1Q-FY 2006		1Q-FY 2005		FY 2005
	Millions of Yen	Change	Millions of Yen	Change	Millions of Yen
Net sales	¥28,973	14.9%	¥25,217	15.3%	¥108,413
Operating income	1,526	3.5%	1,474	(6.2%)	7,197
Ordinary income	1,880	22.3%	1,538	(16.2%)	7,946
Net income	882	164.7%	333	(70.1%)	3,155

	1Q-FY 2006	1Q-FY 2005	FY 2005
	Yen	Yen	Yen
Net income per share	¥7.99	¥3.02	¥27.95
Net income per share, diluted	7.40	—	27.76

	1Q-FY 2006	1Q-FY 2005	FY 2005
	Millions of Yen	Millions of Yen	Millions of Yen
Total assets	¥142,895	¥120,741	¥144,263
Net assets	89,278	80,805	87,322
Equity ratio	60.9%	66.9%	60.5%
Net assets per share : Yen	788.71	732.18	790.38

Cash Flows

	1Q-FY 2006	1Q-FY 2005	FY 2005
	Millions of Yen	Millions of Yen	Millions of Yen
Operating activities	(¥123)	¥232	¥9,067
Investing activities	181	(1,761)	(16,844)
Financing activities	1,905	(714)	8,148
Cash and cash equivalents at the end of period	16,392	11,606	14,405

Forecast

	Consolidated		Non-consolidated	
	1st Half	Fiscal Year	1st Half	Fiscal Year
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Net sales	¥59,000	¥122,000	¥44,000	¥90,000
Ordinary income	4,300	9,200	3,300	6,600
Net income	2,300	4,200	2,300	4,500
Net income per share : Yen	20.84	38.05	20.84	40.76

Notes:

1. Amounts are rounded down to the nearest million.
2. The percentage change is year-on-year change compared with the same period of the previous fiscal year.
3. The computations of net income per share of common stock are based on the weighted average number of shares outstanding during each period.

Business and Financial Results

(1) Business Review

In the quarter under review (April 1–June 30, 2006), the Japanese economy moved from recovery to a phase of moderate expansion, driven by increased personal consumption and private equipment investment.

But despite high demand in the chemical industry, the surge in crude oil prices narrowed profit margins.

Consolidated net sales increased by 14.9% from the first quarter of the previous fiscal year, to ¥28,973 million. Sustained strength was seen in thermoplastic polyurethane beads (TUB) for the interior parts of automobiles, and polyester beads (PEB) used as a core component of polymerization toners. These are Strategically Developed Products we have developed or are developing as a new pillar of our business. In addition, sales were increased by the beginning of commercial production of superabsorbent polymers at our Chinese subsidiary, San-Dia Polymers (Nantong) Co., Ltd. in April 2005.

Despite the boost from increased sales and improved profitability at our overseas subsidiaries, consolidated operating income increased by only 3.5% from the first quarter of the previous fiscal year, to ¥1,526 million, due to a sharp rise in raw material costs and an increase in depreciation and amortization accompanying large-scale capital expenditure.

Consolidated ordinary income increased by 22.3% from the first quarter of the previous fiscal year, to ¥1,880 million, and consolidated net income increased by 164.7% to ¥882 million. The main factor in the quarterly earnings was the non-repetition of losses on impairment of fixed assets booked in the first quarter of the previous fiscal year (of total impairment losses of ¥920 million, ¥293 million was booked as a loss in equity in earnings of unconsolidated subsidiaries, and ¥626 million was booked as an extraordinary loss).

Results for the quarter compared with our interim performance forecasts (consolidated basis, for the first half) released on April 28, 2006 were as follows: sales amounted to 49.1% of the interim forecast, operating income 38.2%, ordinary income 43.7%, and net income 38.4%. For the time being, we will maintain our performance forecasts, although we are concerned about further pressure on profit margins from a sharp rise in raw material costs. Net sales by product group were as follows.

Surfactants

Sales of industrial surfactants increased, due to the success of the newly developed application of surfactants for electronic components, as well as a favorable growth in detergent base materials with superior biodegradability (nonionic surfactants derived from higher alcohol) in the domestic market, and the rising demand in China for dispersants and defoamers for paints.

In the area of surfactants for textiles, sales of agents used in specialty textile manufacturing processes were strong in the domestic market. However, total sales of surfactants for textiles were weak, due to slackening demand for agents for textile manufacturing and finishing processes for clothing.

As a result, net sales in this product group increased by 2.1% from the first quarter of the previous fiscal year, to ¥5,560 million.

Polyurethane Chemicals

Sales of raw materials for polyurethane foam increased, due to a favorable rise in demand both in Japan and overseas, as well as the growth in sales of high-performance materials to make polyurethane foam for automobiles and other products, with a revision of product prices.

In the area of polyurethane resins, sales of TUB for the interior parts of automobiles increased substantially, both in Japan and overseas, due to the growing number of car models fitted with TUB interiors, the development of waterborne resins for automobile paints, and high demand for polyurethane resins for special gravure inks in overseas markets.

As a result, net sales in this product group increased by 21.4% from the first quarter of the previous fiscal year, to ¥7,035 million.

Lipophilic High-molecular Agents

Sales of styrene-acrylic-type toner resins decreased, but sales of polyester-type toner resins for color copiers increased due to the growing popularity of color copying. Progress in developing PEB for both color and black toners used in high-resolution copiers helped increase total sales.

Sales of lubricating oils and machining-related products increased steadily, with progress in developing

lubrication improvers for diesel fuels, in response to stricter regulations on sulfur content levels, and high demand for viscosity index improvers for automobile transmissions.

In the area of coating and adhesive-related products, demand increased in Japan and overseas for adhesives for medical equipment and glass fibers. This combined with increased sales of coating agents for fertilizers on the back of market expansion, to produce a strong sales performance for this segment.

As a result, net sales in this product group increased by 13.6% from the first quarter of the previous fiscal year, to ¥6,476 million.

Hydrophilic High-molecular Agents

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

Sales of water treatment products were weak due to continued escalation in competition in the polymer flocculants market.

As a result, net sales in this product group increased by 27.1% from the first quarter of the previous fiscal year, to ¥6,137 million.

Specialty Products

Sales of polymer modifier-related products rose, principally as a result of higher sales in permanent antistatic agents, mainly for applications such as packaging materials for electronic components, and increased demand for raw materials for automobile paint resins.

In electric/electronic-related products, demand from manufacturers of digital home appliances drove growth in sales of electrolytes for aluminum electrolytic capacitors. This combined with a surge in sales of our new chemical mechanical planarization (CMP) cleaners and silicon wafer processing agents to generate a major rise in sales.

Sales also increased in other products, with steady performances by epoxy resins for iron reinforcing joints and our new product, paste resins for design models.

As a result, net sales in this product group increased by 11.2% from the first quarter of the previous fiscal year, to ¥3,340 million.

(2) Financial Condition

Total assets at the end of the first quarter (June 30) decreased ¥1,367 million to ¥142,895 million. The equity ratio rose 0.4 percentage point from the previous term-end to 60.9%.

Cash and cash equivalents at the end of the first quarter increased ¥1,987 million compared with the end of the previous term to ¥16,392 million. Below is an overview of cash flows during the period.

Cash Flows from Operating Activities

Net cash used in operating activities amounted to ¥123 million. The ¥1,871 million quarterly income before income taxes and minority interests, and ¥1,909 million in depreciation and amortization expenses were more than offset by an increase of ¥1,157 million in notes and accounts receivables, and ¥1,745 million income tax payment.

Cash Flows from Investment Activities

Net cash provided by investment activities totaled ¥181 million, with an expenditure of ¥4,434 million from acquisition of fixed assets outweighed by inflows of ¥5,000 million in repayment of time deposit.

Cash Flows from Financial Activities

Net cash raised in financial activities amounted to ¥1,905 million. Dividends paid totaling ¥755 million were outweighed by fund procurement totaling ¥2,783 million in long-term loans for capital expenditure.

Consolidated Financial Statements

Consolidated Balance Sheets (Assets)

	1Q-FY 2006		1Q-FY 2005		Reference : FY 2005	
	as of June 30, 2006		as of June 30, 2005		ended March 31, 2006	
	Millions of Yen	Composition	Millions of Yen	Composition	Millions of Yen	Composition
ASSETS						
Current assets	66,262	46.4%	55,391	45.9%	67,461	46.8%
Cash and cash equivalents	16,392		11,606		19,405	
Notes and accounts receivable-trade	31,419		27,605		30,254	
Inventories	15,853		13,643		15,560	
Other current assets	2,597		2,537		2,240	
Fixed assets	76,633	53.6%	65,349	54.1%	76,801	53.2%
Property, plant and equipment	47,755	33.4%	43,898	36.4%	47,868	33.2%
Building and structures	13,713		13,243		13,681	
Machinery and equipment	23,819		19,101		23,044	
Land	7,607		7,176		7,201	
Construction in progress	773		2,529		1,982	
Other Property, plant and equipment	1,842		1,846		1,957	
Intangible assets	1,916	1.3%	2,312	1.9%	2,020	1.4%
Capitalized computer software costs	811		1,041		866	
Consolidated goodwill	861		1,071		905	
Other Intangible assets	244		199		248	
Investments and other assets	26,961	18.9%	19,138	15.8%	26,913	18.6%
Investments in securities	25,392		16,104		25,353	
Long-term loans	69		85		73	
Other Investments and other assets	1,499		2,948		1,485	
Total assets	142,895	100.0%	120,741	100.0%	144,263	100.0%

Consolidated Balance Sheets (Liabilities and shareholders' equity)

	FY 2006-1Q		FY 2005-1Q		Reference : FY 2005,	
	as of June 30, 2006		as of June 30, 2005		ended March 31, 2006	
	Millions of Yen	Composition	Millions of Yen	Composition	Millions of Yen	Composition
LIABILITIES						
Current liabilities	30,568	21.4%	28,316	23.5%	33,981	23.6%
Notes and accounts payable-trade	19,985		17,651		20,089	
Short-term loans	923		573		737	
Current portion of long-term loans	308		280		309	
Accrued expenses	2,773		2,842		2,376	
Accrued income taxes	844		872		1,820	
Allowance for bonuses	750		691		1,655	
Directors' and corporate auditors' bonuse allowances	16		—		—	
Notes payable-plant and equipment	2,669		1,538		3,038	
Other current liabilities	2,296		3,865		3,955	
Long-term liabilities	23,048	16.1%	9,956	8.2%	20,649	14.3%
Unsecured convertible bonds	10,000		—		10,000	
Long-term loans	4,182		1,670		1,397	
Accrued severance indemnities	5,920		6,172		6,019	
Directors' and corporate auditors' retirement allowances	1,091		1,156		1,214	
Other liabilities	1,854		957		2,018	
Total liabilities	53,617	37.5%	38,273	31.7%	54,630	37.9%
Minority interests						
Minority interests	—	—	1,661	1.4%	2,310	1.6%
Shareholders' equity						
Common stock	—	—	13,051	10.8%	13,051	9.0%
Additional paid-in capital	—	—	12,191	10.1%	12,198	8.5%
Retained earnings	—	—	58,631	48.5%	60,626	42.0%
Unrealized gains on securities	—	—	3,353	2.8%	7,169	5.0%
Foreign currency translation adjustments	—	—	(765)	(0.6%)	(81)	(0.1%)
Treasure stock, at cost	—	—	(5,657)	(4.7%)	(5,641)	(3.9%)
Total Shareholders' equity	—	—	80,805	66.9%	87,322	60.5%
Total liabilities, minority interests, and shareholders' equity	—	—	120,741	100.0%	144,263	100.0%
Net assets						
Shareholders' equity						
Common stock	13,051	9.1%	—	—	—	—
Additional paid-in capital	12,199	8.5%	—	—	—	—
Retained earnings	60,609	42.4%	—	—	—	—
Treasure stock, at cost	(5,635)	(3.9%)	—	—	—	—
Total shareholders' equity	80,224	56.1%	—	—	—	—
Valuation and translation adjustments						
Unrealized gains on securities	6,851	4.8%	—	—	—	—
Foreign currency translation adjustments	(2)	(0.0%)	—	—	—	—
Total Valuation and translation adjustments	6,848	4.8%	—	—	—	—
Minority interests	2,205	1.6%	—	—	—	—
Total net assets	89,278	62.5%	—	—	—	—
Total liabilities and net assets	142,895	100.0%	—	—	—	—

Consolidated Statements of Income

	1Q-FY 2006		1Q-FY 2005		Increase or Decrease	Reference : FY 2005	
	April, 2006 through June, 2006		April, 2005 through June, 2005			April, 2005 through May, 2006	
	Millions of Yen	Percentage	Millions of Yen	Percentage	Millions of Yen	Millions of Yen	Percentage
Net sales	28,973	100.0%	25,217	100.0%	3,756	108,413	100.0%
Cost of sales	22,948	79.2%	19,288	76.5%	3,659	83,884	77.4%
Gross profit	6,025	20.8%	5,928	23.5%	96	24,528	22.6%
Selling, general and administrative expenses	4,499	15.5%	4,454	17.7%	44	17,331	16.0%
Operating income	1,526	5.3%	1,474	5.8%	51	7,197	6.6%
Non-operating income	470	1.6%	319	1.3%	151	1,268	1.2%
Interest income	9		6		2	36	
Dividend income	124		107		16	219	
Equity in earnings of unconsolidated affiliates	191		—		191	168	
Other	145		204		(58)	844	
Non-operating expenses	116	0.4%	255	1.0%	(139)	519	0.5%
Interest expenses	28		15		12	86	
Equity in losses of unconsolidated affiliates	—		177		(177)	—	
Other	88		62		26	432	
Ordinary income	1,880	6.5%	1,538	6.1%	342	7,946	7.3%
Extraordinary expenses	9	0.0%	643	2.6%	(633)	1,375	1.2%
Loss on assets impairment	—		626		(626)	1,219	
Loss on disposal of fixed assets	9		13		(4)	134	
Loss on valuation of investment securities	—		3		(3)	22	
Income before income taxes and minority interests	1,871	6.5%	895	3.5%	976	6,570	6.1%
Income taxes	794	2.8%	670	2.6%	123	2,826	2.6%
Minority interests	194	0.7%	(108)	(0.4%)	303	588	0.6%
Net income	882	3.0%	333	1.3%	549	3,155	2.9%

Consolidated Statements of Cash Flows

	1Q-FY 2006 Apr., 2006 through Jun., 2006 Millions of Yen	1Q-FY 2005 Apr., 2005 through Jun., 2005 Millions of Yen	Reference : FY 2005 Apr., 2005 through Mar., 2006 Millions of Yen
Operating Activities			
Income before income taxes and minority interests	1,871	895	6,570
Depreciation and amortization	1,909	1,531	6,998
Loss on fixed assets impairment	—	626	1,219
Amortization of difference between investment costs and equity in net assets acquired	44	46	178
Interest and dividend income	(134)	(114)	(255)
Interest expenses	28	15	86
Equity in losses (earnings) of unconsolidated affiliates	(191)	177	(168)
Decrease (increase) in notes and accounts receivable	(1,157)	(701)	(3,233)
Decrease (increase) in inventories	(284)	(1,252)	(3,040)
Decrease (increase) in other assets net	(692)	(807)	(85)
Increase (decrease) in notes and accounts payable	(107)	952	3,207
Increase (decrease) in other liabilities	1,188	1,094	264
Other	(1,262)	(1,265)	(749)
Sub-total	1,212	1,199	10,994
Interest and cash dividends received	323	471	717
Interest paid	(25)	(14)	(85)
Income taxes paid	(1,745)	(1,472)	(2,726)
Other	111	48	167
Net cash provided by operating activities	(123)	232	9,067
Investing activities			
Increase (decrease) of time deposit	5,000	—	(5,000)
Payments for purchase of fixed assets	(4,434)	(1,715)	(8,836)
Payments for purchase of investments in securities	(586)	(1)	(2,377)
Payments for additional acquisition of stocks of consolidated subsidiaries	—	—	(62)
Disbursements for loans	(138)	(30)	(36)
Payments received on loans	23	3	91
Other	318	(16)	(624)
Net cash used in investing activities	181	(1,761)	(16,844)
Financing Activities			
Increase(decrease) of short-term debt	188	88	198
Proceeds from long-term loans	2,783	25	26
Repayments of long-term loans	—	—	(280)
Proceeds from unsecured convertible bonds	—	—	10,000
Purchase of treasury stock	(3)	(4)	(42)
Dividends paid	(755)	(744)	(1,655)
Other	(307)	(78)	(99)
Net cash used in financing activities	1,905	(714)	8,148
Effects of exchange rate changes on cash and cash equivalents	23	59	243
Net increase (decrease) in cash and cash equivalents	1,987	(2,184)	614
Cash and cash equivalents at beginning of period	14,405	13,790	13,790
Cash and cash equivalents at the end of period	16,392	11,606	14,405

Supplement Data

Results of Operations

Consolidated	1Q-FY 2006			1Q-FY 2005		Reference : FY 2005	
	Millions of Yen	consolidation to parent-only	Change	Millions of Yen	consolidation to parent-only	Millions of Yen	consolidation to parent-only
Net sales	28,973	1.3	14.9%	25,217	1.3	108,413	1.3
Gross profit	6,025	1.4	1.6%	5,928	1.4	24,528	1.4
Operating income	1,526	2.1	3.5%	1,474	1.5	7,197	1.8
Ordinary income	1,880	1.4	22.3%	1,538	1.0	7,946	1.4
Net income	882	1.0	164.7%	333	0.3	3,155	1.3
Investment in plant and equipment	1,687			1,857		11,171	
Depreciation and amortization	1,902			1,527		6,976	

Non-consolidated	1Q-FY 2006		1Q-FY 2005	Reference : FY 2005
	Millions of Yen	Change	Millions of Yen	Millions of Yen
Net sales	21,855	11.3%	19,640	82,107
Gross profit	4,164	(4.4%)	4,354	17,164
Operating income	711	(29.2%)	1,005	4,040
Ordinary income	1,335	(12.8%)	1,531	5,818
Net income	914	(13.1%)	1,052	2,477
Investment in plant and equipment	1,300		1,750	9,777
Depreciation and amortization	1,432		1,100	5,093

Trend of each quarter results

Previous Fiscal Year	FY 2005				
	1Q	2Q	3Q	4Q	Total
	Apr., 2005 through Jun., 2005	Jul., 2005 through Sep., 2005	Oct., 2005 through Dec., 2005	Jan., 2006 through Mar., 2006	Apr., 2005 through Mar., 2006
Net sales	25,217	26,217	28,159	28,818	108,413
Gross profit	5,928	5,877	6,361	6,360	24,528
Operating income	1,474	1,665	2,091	1,966	7,197
Ordinary income	1,538	1,900	2,437	2,070	7,946
Net income	333	1,010	1,361	450	3,155

Current Fiscal Year	FY 2006
	1Q
	Apr., 2006 through Jun., 2006
Net sales	28,973
Gross profit	6,025
Operating income	1,526
Ordinary income	1,880
Net income	882

Net sales by product groups

	FY 2006-1Q		FY 2005-1Q		Reference : FY 2005	
	Apr., 2006 through Jun., 2006		Apr., 2005 through Jun., 2005		Apr., 2005 through Mar., 2006	
	Millions of Yen	Composition	Millions of Yen	Composition	Millions of Yen	Composition
Surfactants	5,560	19.2%	5,447	21.6%	21,943	20.2%
Polyurethane chemicals	7,035	24.3%	5,795	23.0%	25,358	23.4%
Lipophilic high-molecular agents	6,476	22.3%	5,700	22.6%	23,663	21.8%
Hydrophilic high-molecular agents	6,137	21.2%	4,827	19.1%	23,145	21.4%
Specialty products	3,340	11.5%	3,002	11.9%	12,468	11.5%
Total of chemical products	28,550	98.5%	24,773	98.2%	106,578	98.3%
Non-chemical products, and other	422	1.5%	443	1.8%	1,835	1.7%
Total	28,973	100.0%	25,217	100.0%	108,413	100.0%

Sales to Foreign Customers

	FY 2006-1st Quarter		FY 2005-1st Quarter		Reference : FY 2005	
	Apr., 2006 through Jun., 2006		Apr., 2005 through Jun., 2005		Apr., 2005 through Mar., 2006	
	Millions of Yen	Ratio to net sales	Millions of Yen	Ratio to net sales	Millions of Yen	Ratio to net sales
Asia	5,170	17.8%	3,377	13.4%	16,241	15.0%
America	1,755	6.1%	1,261	5.0%	5,663	5.2%
Other	2,114	7.3%	1,876	7.4%	8,724	8.0%
Total	9,039	31.2%	6,515	25.8%	30,629	28.2%

Notes:

- Overseas sales refers to sales generated by the parent company or its consolidated subsidiaries outside Japan. Formerly, non-consolidated overseas sales were expressed as sales under the overseas marketing division, but from this first quarter we have changed to the method of recording them as overseas sales when the final user is confirmed as being overseas, for the sake of greater accuracy of reporting. (In line with this change, we have made the following changes to the financial reporting for the previous term).
- Areas included in each country or region are determined based on their degree of proximity.
- Main countries or regions included in the areas other than Japan.
 - Asia: Korea, China, Indonesia, Thailand, and others
 - America: U.S.A., Mexico, Brazil, and others
 - Other: Australia, Europe, Middle East, and others

Reference: Reclassification of Overseas Sales

	Previous fiscal 1st quarter : FY 2005-1Q						Previous fiscal year : FY 2005					
	Apr., 2005 through Jun., 2005						Apr., 2005 through Mar., 2006					
	Previous Standard		New Standard		Increase or decrease		Previous Standard		New Standard		Increase or decrease	
Millions of Yen	Ratio to net sales	Millions of Yen	Ratio to net sales	Millions of Yen	Ratio to net sales	Millions of Yen	Ratio to net sales	Millions of Yen	Ratio to net sales	Millions of Yen	Ratio to net sales	
Asia	2,857	11.4%	3,377	13.4%	520	2.0%	13,941	12.9%	16,241	15.0%	2,300	2.1%
America	1,188	4.7%	1,261	5.0%	73	0.3%	5,294	4.8%	5,663	5.2%	369	0.4%
Other	1,363	5.4%	1,876	7.4%	513	2.0%	6,498	6.0%	8,724	8.0%	2,226	2.0%
Total	5,409	21.5%	6,515	25.8%	1,105	4.3%	25,734	23.7%	30,629	28.2%	4,895	4.5%