

A N N U A L   R E P O R T   2 0 0 0



✦ SUMITOMO BAKELITE CO., LTD.



# FINANCIAL HIGHLIGHTS

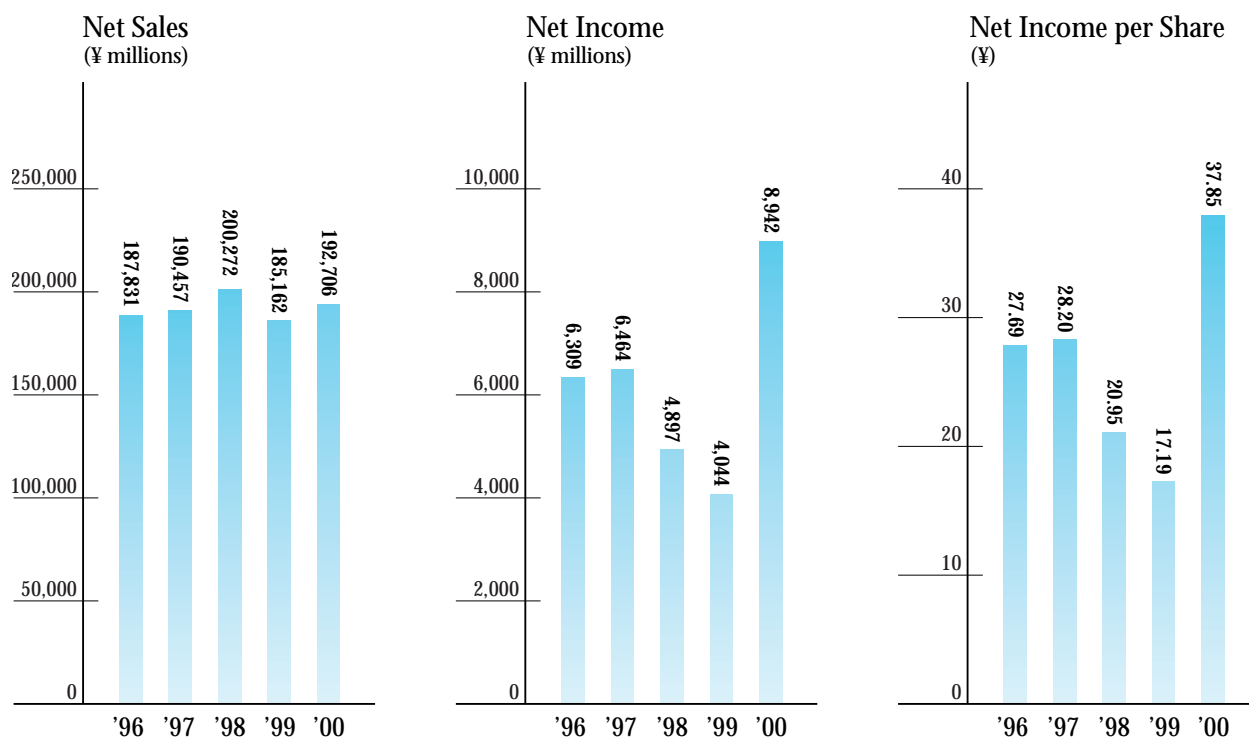
Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	2000
Net Sales	¥192,706	¥185,162	¥200,272	\$1,817,986
Net Income	8,942	4,044	4,897	84,358
Total Assets	226,289	217,593	240,243	2,134,806
Shareholders' Equity	104,943	96,734	94,596	990,027

	Yen			U.S. dollars
	¥	¥	¥	\$
Net Income per Share	37.85	17.19	20.95	0.36
Diluted Net Income per Share	34.23	15.76	18.28	0.32
Cash Dividends per Share	8.00	8.00	8.00	0.08

Note: U.S. dollar amounts are translated from yen at the rate of ¥106 to US\$1, the approximate exchange rate prevailing at March 31, 2000.



## PRESIDENT'S MESSAGE

During the fiscal year ended March 31, 2000, the Japanese economy showed signs of a broad-based recovery on the back of such government stimulus measures for stabilizing the financial system as injecting public funds, public works investment and housing tax reductions. A full economic recovery failed to materialize, as there was no noticeable improvement in consumer spending and unemployment. In the United States, the economy continued to grow despite rising concerns about inflation. In Asia, economies emerged from crisis conditions, and principal countries entered a clear stage of growth.

In industries related to the Sumitomo Bakelite Group, comprising Sumitomo Bakelite Co., Ltd., consolidated subsidiaries and subsidiaries accounted for by the equity method, the semiconductor and electronic equipment industries appear to have recovered and entered an extended period of expansion, as personal computer (PC) and peripheral applications have generated strong demand. In the automotive industry, domestic sales remained flat, despite an upswing in exports of vehicles and parts to Asia. In the housing industry, although housing starts were on the rise, concerns for the future persisted.

Under these conditions, the Sumitomo Bakelite Group aimed to maximize consolidated earnings by advancing measures implemented during the previous fiscal year to reduce costs Groupwide and to withdraw from or sell unprofitable businesses. We are advancing operations in line with our policy to promote aggressive business expansion in important product fields.

During the fiscal year ended March 31, 2000, consolidated net sales rose 4.1% to ¥192,706 million (US\$1,818 million) as a result of selling and curtailing unprofitable businesses while aggressively marketing core and new products.

Operating income advanced 103.7% to ¥16,639 million (US\$157 million). Income before income taxes climbed 95.3% to ¥15,757 million (US\$149 million) and net income grew 121.1% to ¥8,942 million (US\$84 million), including the effects of introducing tax-effect accounting.

Looking at the next fiscal year, signs of a recovery in the Japanese economy may appear as private capital investment rebounds, backed by a rally in the field of information technology (IT). However, consumer spending remains weak due to stagnant income, and a revival in private demand is expected to require more time.

In overseas markets, the prolonged expansion of the United States economy may be slowed by concerns of inflation. Nascent growth in Asian economies may also be undercut by inflation.

In this operating environment, Sumitomo Bakelite is focusing efforts on advancing Groupwide reforms to the business structure, enhancing the position of the Company and strengthening competitiveness in international markets.

To achieve these objectives, Sumitomo Bakelite will continue to push through structural reforms, enhance efforts to grow business and promote the following five critical management issues.

First, we aim to strengthen and expand core businesses

by flexibly and precisely responding to trends in technological innovation. These trends include the development of environmentally friendly products and the provision of materials and processing technologies for the IT revolution. In addition, these trends include innovations for a safe and pleasant lifestyle, and the realization of materials technology that improves economic efficiency by contributing to energy conservation and lower costs.

Second, Sumitomo Bakelite is advancing efforts to increase the level of customer satisfaction. We are introducing supply chain management to organize through computers an optimal procurement, production and sales system with users. In this way, we will make concrete efforts to create a system that is more responsive to customer needs.

Third, we will continue to advance global business development, constantly promoting core businesses on the international market.

Fourth, Sumitomo Bakelite will continue to promote management that is consistent with social and environmental values. As a part of this policy, we have aggressively promoted environmental efforts centered on Responsible Care activities, and released an environmental report. We will introduce environmental accounting, backing our efforts even further.

Fifth, Sumitomo Bakelite will further increase management efficiency by investing in IT. We are already focusing on various efforts that include improving efficiency in receiving orders and integrating peripheral divisions.

With regards to the Year 2000 issue, Sumitomo Bakelite reports no problems, thanks to its efforts



preparing a system to respond to unforeseen situations. We are in position to enact sufficient countermeasures in the future.

We thank our shareholders for their continued loyalty and support.

*Tsuneo Moriya*

Tsuneo Moriya  
President

### New Semiconductor Encapsulation Materials Factory Completed in Taiwan

Sumitomo Bakelite, in a joint venture with Chang Chun Plastics Co., Ltd. of Taiwan, established Sumitomo Bakelite (Taiwan) Co., Ltd. and began construction on a factory. The new factory was completed in December 1999 and commenced commercial production in May 2000. A production base for epoxy molding compounds for



semiconductor encapsulation, Sumitomo Bakelite (Taiwan) was founded with Sumitomo Bakelite providing 70% and Chang Chun Plastics 30% of the financing. This marks the third overseas production base of the Company, complementing bases in Singapore and Suzhou City, China.

In Taiwan, Chang Chun Plastics had produced epoxy molding compounds for discrete device encapsulation through a licensing agreement with Sumitomo Bakelite. More advanced grades for memory and cutting-edge ICs were supplied from Japan and Singapore. Amid growing demand for high-quality grade epoxy molding compounds for semiconductor encapsulation on the Taiwan market, we aim to strengthen our competitiveness in response to customer's local production with Sumitomo Bakelite (Taiwan) as a supply base.

### Joint Ventures with Other Companies

In line with reorganizing its business structure, Sumitomo Bakelite established two new joint-venture companies for polyvinyl chloride molding compounds and wood adhesives.

For polyvinyl chloride molding compounds, we established Advanced Plastics Compound Company on October 1, 1999, in a joint venture with Mitsubishi Chemical MKV Co. With Mitsubishi Chemical MKV providing 70% and Sumitomo Bakelite 30% of the financing, the new company engages in the manufacturing, marketing and R&D of polyvinyl chloride molding compounds in Japan. Manufacturing facilities have been integrated as of

March 2000, and plans call for transferring marketing and research functions in July.

For wood adhesives, we established Sunbake Co., Ltd. on April 3, 2000, in a joint venture with Mitsui Chemicals, Inc. With Mitsui Chemicals providing 60% and Sumitomo Bakelite 40% of the financing, the new company engages in the manufacturing, marketing and R&D of wood adhesives in Japan. Operations were transferred to the new company at the time it was established.

Sumitomo Bakelite aims to bolster its competitive position in Japan by promoting increased business efficiency through tie-ups in these operations.

## Construction of New Factory for Precision Molds in China

Sumitomo Bakelite established the wholly owned subsidiary Bakelite Precision Molding (Shanghai) Co., Ltd. in August 1999 as an overseas production



base for precision molds. A factory under construction was completed, and commercial production started in May 2000.

Precision molds are used in such electronic equipment as computers and mobile communications devices as well as in parts for automobiles. Production was centered at Tsu Plant and subsidiary Sano Plastic Co., Ltd. In response to users shifting production overseas, we established the new company, as demand is projected to increase, especially on the Chinese marketplace. The new company aims to expand orders in the Asian region for such electronic components as optical pickups and parts for mobile telephones.

## DecolaFunen Boasts Superior Design and High Quality

The melamine decorative non-combustible laminated sheet DecolaFunen has steadily increased in sales since its release in 1998, as it is widely praised among customers as a decorative laminated sheet that features strong non-combustible qualities, high strength and various designs. The product offers superior resistance to water and humidity and is environmentally friendly, as it contains no asbestos. As the field of non-combustible laminated sheets is plagued with poor designs, Sumitomo Bakelite aims to promote DecolaFunen as a material featuring greater freedom in interior design construction for the construction materials market and especially the construction market. Employed in system kitchens, bathroom walls and public building interiors, we expect demand to continue increasing.



## CONSOLIDATED BALANCE SHEETS

Sumitomo Bakelite Company Limited  
March 31, 2000 and 1999

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
<b>Current assets:</b>			
Cash and cash equivalents	¥ 35,992	¥ 27,549	\$ 339,549
Marketable securities (Note 4)	1,097	18,280	10,347
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	2,278	2,799	21,490
Trade	57,900	55,204	546,226
Allowance for doubtful accounts	(391)	(403)	(3,690)
Inventories (Note 6)	17,039	16,835	160,750
Deferred tax assets (Note 8)	1,878	23	17,714
Other current assets	3,046	2,656	28,741
<b>Total current assets</b>	<b>118,839</b>	<b>122,943</b>	<b>1,121,127</b>
<b>Property, plant and equipment (Note 7):</b>			
Land	7,762	7,606	73,224
Buildings and structures	51,778	51,442	488,473
Machinery and equipment	88,034	90,130	830,511
Construction in progress	2,896	2,526	27,325
	150,470	151,704	1,419,533
Accumulated depreciation	(86,805)	(84,262)	(818,917)
<b>Net property, plant and equipment</b>	<b>63,665</b>	<b>67,442</b>	<b>600,616</b>
<b>Investments and other assets:</b>			
Investment securities (Notes 4 and 7):			
Unconsolidated subsidiaries and affiliates	18,541	18,408	174,913
Other	15,964	1,735	150,607
Long-term loans receivable:			
Unconsolidated subsidiaries and affiliates	1,222	170	11,528
Employees and other	674	1,497	6,362
Deferred tax assets (Note 8)	671	–	6,329
Other assets	3,402	4,743	32,093
Allowance for doubtful accounts	(263)	(751)	(2,485)
<b>Total investments and other assets</b>	<b>40,211</b>	<b>25,802</b>	<b>379,347</b>
<b>Foreign currency translation adjustment</b>	<b>3,574</b>	<b>1,406</b>	<b>33,716</b>
	<b>¥ 226,289</b>	<b>¥ 217,593</b>	<b>\$ 2,134,806</b>

See accompanying notes.



LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
<b>Current liabilities:</b>			
Short-term debt (Note 7)	¥ 25,211	¥ 33,386	\$ 237,840
Long-term debt due within one year (Note 7)	1,017	1,396	9,597
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	1,276	1,625	12,033
Trade	42,738	39,467	403,186
Accrued liabilities	4,403	4,760	41,537
Income tax payable (Note 8)	5,916	1,955	55,816
Other current liabilities	6,418	4,095	60,552
Total current liabilities	<b>86,979</b>	<b>86,684</b>	<b>820,561</b>
Long-term debt due after one year (Note 7)	23,366	24,194	220,431
Deferred tax liabilities (Note 8)	1,539	1,029	14,516
Retirement benefits (Note 9)	4,585	4,633	43,264
Other long-term liabilities	455	343	4,291
Contingent liabilities (Note 13)			
Minority interests	4,422	3,976	41,716
Shareholders' equity (Note 10):			
Common stock, par value ¥50 per share:			
Authorized —800,000,000 shares			
Issued —236,476,720 shares			
(235,734,698 shares in 1999)	26,720	26,460	252,076
Additional paid-in capital	24,777	24,518	233,745
Retained earnings	53,449	45,757	504,238
	<b>104,946</b>	<b>96,735</b>	<b>990,059</b>
Treasury stock at cost	(3)	(1)	(32)
Total shareholders' equity	<b>104,943</b>	<b>96,734</b>	<b>990,027</b>
	<b>¥ 226,289</b>	<b>¥ 217,593</b>	<b>\$2,134,806</b>

## CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Bakelite Company Limited  
Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2000	1999	1998	2000
<b>Net sales</b> (Note 12)	<b>¥192,706</b>	<b>¥185,162</b>	<b>¥200,272</b>	<b>\$ 1,817,986</b>
<b>Costs and expenses:</b>				
Cost of sales (Note 12)	143,399	142,533	152,273	1,352,825
Selling, general and administrative expenses (Note 12)	32,668	34,461	34,945	308,193
	176,067	176,994	187,218	1,661,018
<b>Operating income</b>	<b>16,639</b>	<b>8,168</b>	<b>13,054</b>	<b>156,968</b>
<b>Other income (expenses):</b>				
Interest and dividend income	818	1,296	1,600	7,717
Interest expense	(940)	(1,598)	(1,711)	(8,865)
Equity in earnings (losses) of affiliated companies	(209)	206	106	(1,967)
Loss on sale/disposal of property	(585)	(273)	(90)	(5,518)
Gain on sale of marketable securities and investment securities	3,738	1,725	821	35,260
Loss on devaluation of securities	(258)	(354)	(157)	(2,433)
Loss on devaluation of investments in golf membership	(376)	–	–	(3,551)
Foreign exchange loss	(205)	(418)	(2,818)	(1,933)
Special retirement allowance	–	(291)	–	–
Prior service cost due to reassessment of pension plan (Note 3)	(2,777)	–	–	(26,194)
Other, net	(88)	(392)	(67)	(829)
	(882)	(99)	(2,316)	(8,313)
<b>Income before income taxes</b>	<b>15,757</b>	<b>8,069</b>	<b>10,738</b>	<b>148,655</b>
<b>Income taxes</b> (Note 8)				
Current	7,505	3,877	7,068	70,807
Deferred	(1,099)	40	169	(10,369)
Current	6,406	3,917	7,237	60,438
Minority interests	(409)	(108)	1,396	(3,859)
<b>Net income</b>	<b>¥ 8,942</b>	<b>¥ 4,044</b>	<b>¥ 4,897</b>	<b>\$ 84,358</b>
<b>Amounts per share of common stock:</b>		Yen		U.S. dollars
Net income	¥37.85	¥17.19	¥20.95	\$0.36
Diluted net income	34.23	15.76	18.28	0.32
Cash dividends applicable to the year	8.00	8.00	8.00	0.08

See accompanying notes.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Sumitomo Bakelite Company Limited  
Years ended March 31, 2000, 1999 and 1998

	Thousands of shares of common stock	Millions of yen		
		Common stock	Additional paid-in capital	Retained earnings
<b>Balance at March 31, 1997</b>	229,712	¥24,321	¥22,379	¥41,402
Net income	–	–	–	4,897
Cash dividends paid (¥8 per share)	–	–	–	(1,857)
Bonuses to directors and statutory auditors	–	–	–	(98)
Shares issued upon conversion of bonds	5,072	1,813	1,813	–
Decrease in retained earnings due to addition of consolidated subsidiaries	–	–	–	(73)
<b>Balance at March 31, 1998</b>	234,784	26,134	24,192	44,271
Net income	–	–	–	4,044
Cash dividends paid (¥8 per share)	–	–	–	(1,880)
Bonuses to directors and statutory auditors	–	–	–	(96)
Shares issued upon conversion of bonds	951	326	326	–
Decrease in retained earnings due to addition of consolidated subsidiaries	–	–	–	(582)
<b>Balance at March 31, 1999</b>	235,735	26,460	24,518	45,757
Net income	–	–	–	8,942
Cumulative effect of adopting deferred income tax accounting	–	–	–	962
Cash dividends paid (¥8 per share)	–	–	–	(1,889)
Bonuses to directors and statutory auditors	–	–	–	(70)
Shares issued upon conversion of bonds	742	260	259	–
Decrease in retained earnings due to addition of consolidated subsidiaries	–	–	–	(253)
<b>Balance at March 31, 2000</b>	<b>236,477</b>	<b>¥26,720</b>	<b>¥24,777</b>	<b>¥53,449</b>

	Thousands of shares of common stock	Thousands of U.S. dollars (Note 1)		
		Common stock	Additional paid-in capital	Retained earnings
<b>Balance at March 31, 1999</b>	235,735	\$249,628	\$231,297	\$431,674
Net income	–	–	–	84,358
Cumulative effect of adopting deferred income tax accounting	–	–	–	9,074
Cash dividends paid (\$0.08 per share)	–	–	–	(17,819)
Bonuses to directors and statutory auditors	–	–	–	(660)
Shares issued upon conversion of bonds	742	2,448	2,448	–
Decrease in retained earnings due to addition of consolidated subsidiaries	–	–	–	(2,389)
<b>Balance at March 31, 2000</b>	<b>236,477</b>	<b>\$252,076</b>	<b>\$233,745</b>	<b>\$504,238</b>

See accompanying notes.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Sumitomo Bakelite Company Limited  
Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2000	1999	1998	2000
<b>Cash flows from operating activities:</b>				
Net income	¥ 8,942	¥ 4,044	¥ 4,897	\$ 84,358
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	8,554	8,515	8,185	80,698
Loss on sale/disposal of property, plant and equipment	585	273	90	5,518
Gain on sale of marketable securities and investment securities	(3,738)	(1,725)	(821)	(35,260)
Minority interests	409	108	(1,396)	3,859
Loss on devaluation of securities	258	354	157	2,433
Loss on devaluation of investments in golf membership	376	–	–	3,551
Equity in (earnings) losses of affiliated companies	209	(206)	(106)	1,967
Deferred income taxes	(1,099)	40	169	(10,369)
(Increase) decrease in notes and accounts receivable	(3,059)	4,863	(6,256)	(28,857)
Increase in inventories	(615)	(382)	(88)	(5,801)
(Increase) decrease in other current assets	(42)	401	(946)	(401)
Increase (decrease) in notes and account payables	3,070	(5,580)	(181)	28,961
Increase (decrease) in income taxes payable	4,069	(1,837)	(194)	38,387
Increase (decrease) in other current liabilities	574	(587)	(208)	5,418
Other, net	340	211	2,510	3,208
Net cash provided by operating activities	18,833	8,492	5,812	177,670
<b>Cash flows from investing activities:</b>				
Purchases of marketable securities and investment securities	(2,446)	(5,569)	(361)	(23,075)
Proceeds from sale of marketable securities and investment securities	7,871	16,767	1,425	74,257
Purchases of property, plant and equipment	(5,461)	(8,615)	(12,289)	(51,519)
Proceeds from sale of property, plant and equipment	372	569	1,219	3,509
(Increase) decrease in long-term loans receivable	(312)	180	(1,251)	(2,943)
Investment in a joint venture	–	(131)	–	–
Other	(336)	5,625	2,395	(3,170)
Net cash provided by (used in) investing activities	(312)	8,826	(8,862)	(2,941)
<b>Cash flows from financing activities:</b>				
(Increase) decrease in short-term debt	(8,391)	13,788	12,976	(79,160)
Proceeds from long-term debt	800	–	1,288	7,547
Repayments of long-term debt	(172)	(28,956)	(1,574)	(1,623)
Cash dividends paid	(1,943)	(2,038)	(1,857)	(18,330)
Other	(52)	979	–	(494)
Net cash provided by (used in) financing activities	(9,758)	(16,227)	10,833	(92,060)
<b>Effect of exchange rate changes on cash</b>	<b>(484)</b>	<b>5</b>	<b>187</b>	<b>(4,567)</b>
<b>Net increase in cash</b>	<b>8,279</b>	<b>1,096</b>	<b>7,970</b>	<b>78,102</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>27,549</b>	<b>26,060</b>	<b>17,837</b>	<b>259,900</b>
<b>Increase in cash due to addition of consolidated subsidiaries</b>	<b>213</b>	<b>393</b>	<b>253</b>	<b>2,009</b>
<b>Decrease in cash due to subtraction of consolidated subsidiaries</b>	<b>(49)</b>	<b>–</b>	<b>–</b>	<b>(462)</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥35,992</b>	<b>¥ 27,549</b>	<b>¥ 26,060</b>	<b>\$339,549</b>
<b>Supplemental information on cash flows:</b>				
Cash paid during the year for:				
Interest	¥ 908	¥ 1,556	¥ 1,923	\$ 8,566
Income taxes	3,383	4,509	6,694	31,912
Noncash investing and financing activities:				
Conversion of convertible bonds into common stock and additional paid-in capital	519	652	3,626	4,896

See accompanying notes.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sumitomo Bakelite Company Limited

## 1. Basis of presenting consolidated financial statements

Sumitomo Bakelite Company Limited (the “Company”) is a Japanese corporation, one of the affiliate companies of Sumitomo Chemical Company, Limited, which directly owns 20.8% (at March 31, 2000) of the Company’s voting shares. The Company and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are the translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries (the “Companies”) and were filed with the Ministry of Finance (“MOF”) as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically, including the 2000 consolidated cash flow statement prepared in accordance with the “Standards for Preparation of Consolidated Cash Flow Statements, etc.” effective in 2000, in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows for 1999 and 1998 have been prepared for the purpose of inclusion in the accompanying consolidated financial statements even though such statements were not customarily prepared in Japan and not required to be filed with MOF at that time.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2000, which was ¥106 to U.S.\$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 2. Summary of significant accounting policies

### Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (29 subsidiaries in 2000, 26 subsidiaries in 1999 and 24 subsidiaries in 1998). All significant intercompany balances and transactions have been eliminated.

Investments in 8 significant affiliated companies (20% to 50% owned) in 2000 and 4 companies in 1999 and 1998 are stated at cost adjusted for equity in undistributed earnings and losses since acquisition.

Investments in the other unconsolidated subsidiaries and affiliated companies are stated at cost, because the Company’s equity in the income or losses of these companies is not significant.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

The excess of the cost over underlying net equity of investments in consolidated subsidiaries and other companies accounted for on an equity basis, at the date of acquisition, is charged to income as incurred. However, when it is significant, it is deferred and amortized on a straight-line basis over a period of five years from the date of acquisition.

### Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

### Marketable securities and investment securities

Marketable securities and investment securities except for equity securities of affiliated companies are accounted for mainly at cost determined by the moving average method. However, such securities are written down to an estimated realizable value if they have been significantly impaired.

**Allowance for doubtful accounts**

Allowance for doubtful accounts is provided for amounts sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to specific items and a maximum amount deductible for tax purposes.

**Inventories**

Inventories are accounted for mainly at cost determined by the weighted average method, except for raw materials, which are valued at moving average cost.

**Property, plant and equipment**

Property, plant and equipment are carried at cost. Depreciation is computed mainly using the declining-balance method over their estimated useful lives of the assets. Buildings, excluding building fixtures, acquired after March 31, 1998 are depreciated using the straight-line method.

Also effective April 1, 1998, in accordance with revisions of the Corporation Tax Law, the Company and its consolidated domestic subsidiaries shortened the estimated useful lives of buildings, excluding building fixtures. The effect for the year ended March 31, 1999 was to decrease operating income and income before income taxes by ¥105 million.

**Accounting for certain lease transactions**

Finance leases which do not transfer ownership or those do not have bargain purchase option provision are accounted for in the same manner as operating leases in accordance with generally accepted accounting principles in Japan.

**Accrued employees' bonuses**

The Company and its consolidated domestic subsidiaries accrue the estimated amounts of employees' accrued bonuses based on estimated amounts to be paid in the subsequent period. Bonuses were computed in accordance with the Japanese tax regulations until March 31, 1999. The effect of this change for the year ended March 31, 1999 was immaterial.

**Bonuses to directors and statutory auditors**

Bonuses to directors and statutory auditors, which are subject to shareholders' approval at the annual shareholders' meeting, are accounted for as an appropriation of retained earnings.

**Retirement benefits**

Upon retirement or termination of employment, employees of the Company and domestic consolidated subsidiaries are generally entitled to lump-sum or annuity payments based on their current rate of pay, length of service and cause of termination. The Company and certain subsidiaries have two arrangements of retirement benefits covering those employees: an unfunded lump-sum benefit plan and a noncontributory funded pension plan.

The liability for employees' retirement benefits is stated at the present value of the amount which would be required if all the employees retired voluntarily at the balance sheet date, less the portion covered by the pension plan.

Retirement benefits also include estimated liabilities for the unfunded lump-sum benefit plan covering directors and statutory auditors.

**Research and development**

Research and development expenses are charged to income when incurred. The amount for the year ended March 31, 2000 was ¥7,269 million (\$68,576 thousand).

**Income taxes**

The Companies provided income taxes at the amounts currently payable for the years ended March 31, 1999 and 1998. Effective April 1, 1999, the Companies adopted the new accounting standard, which recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. Under the new accounting standard, the provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1999 is reflected as an adjustment to the retained earnings brought forward from the previous year. Cumulative effect of adopting the new accounting standard is ¥962 million (\$9,074 thousand), which is directly added to the retained earnings brought forward from March 31, 1999. The effect for the year ended March 31, 2000 was to increase net income by ¥1,071 million (\$10,100 thousand). Prior years' financial statements have not been restated.

**Translation of foreign currency**

Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing on the balance sheet date.

Long-term receivables and payables denominated in foreign currencies are translated using historical rates, with the exception that the exchange rate at the balance sheet date is used when the exchange rate has significantly changed and the use of the exchange rate at the balance sheet date would result in an exchange loss.

**Translation of foreign currency financial statements**

Financial statements of foreign subsidiaries are translated into yen at the exchange rate prevailing on the balance sheet date for assets and liabilities, at historical rates for retained earnings and at the annual average rate for revenue and expense accounts.

**Amounts per share of common stock**

The computations of net income per share are based on the weighted average number of shares outstanding during the relevant year.

Diluted net income per share is computed based on the average number of shares of common stock and contingent issuances of common stock from convertible bonds.

Cash dividends per share represent the cash dividends approved by the shareholders and paid in the respective year, including payment after the year-end.

**Reclassifications**

Certain prior year amounts have been reclassified to conform to 2000 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

**3. Change in accounting policies**

Effective from the year ended March 31, 2000, the Company and certain consolidated subsidiaries changed the method of accounting for prior service cost with respect to the pension plan to include such cost in earnings when prior service cost is determined actuarially. Until March 31, 1999, it was charged to income when paid to the pension plan. The change was made because this fiscal year was the re-measurement period for the pension fund to recognize the amount of unamortized prior service cost and because a new accounting standard for employees' retirement benefits will be effective from April 1, 2000. Based on the recent severe economic environment, the Company and certain consolidated subsidiaries decided to adopt more prudent accounting method for prior service cost in order to achieve more appropriate allocation of pension costs over years of service and to strengthen the Company's and these subsidiaries' financial position furthermore.

The effect of this change was to increase operating income by ¥1,143 million (\$10,782 thousand) and to decrease income before income tax by ¥1,634 million (\$15,412 thousand) as compared to the prior method.

#### 4. Market value information for securities

At March 31, 2000 and 1999, book value, market value and net unrealized gains (losses) of quoted securities were as follows:

At March 31, 2000	Millions of yen		
	Book value	Market value	Unrealized gains (losses)
<b>Current assets:</b>			
Shares	¥ 972	¥ 3,725	¥ 2,753
Bonds	4	4	0
	<b>976</b>	<b>3,729</b>	<b>2,753</b>
<b>Non-current assets:</b>			
Shares	18,385	34,788	16,403
Bonds	4,757	5,612	855
	<b>23,142</b>	<b>40,400</b>	<b>17,258</b>
	<b>¥24,118</b>	<b>¥44,129</b>	<b>¥20,011</b>

At March 31, 1999

<b>Current assets:</b>			
Shares	¥13,765	¥31,627	¥17,862
Bonds	4,388	5,117	729
Other	100	95	(5)
	<b>18,253</b>	<b>36,839</b>	<b>18,586</b>
<b>Non-current assets:</b>			
Shares	5,715	5,241	(474)
Bonds	500	485	(15)
	<b>6,215</b>	<b>5,726</b>	<b>(489)</b>
	<b>¥24,468</b>	<b>¥42,565</b>	<b>¥18,097</b>

At March 31, 2000	Thousands of U.S. dollars		
	Book value	Market value	Unrealized gains (losses)
<b>Current assets:</b>			
Shares	\$ 9,171	\$ 35,144	\$ 25,973
Bonds	39	40	1
	<b>9,210</b>	<b>35,184</b>	<b>25,974</b>
<b>Non-current assets:</b>			
Shares	173,445	328,190	154,745
Bonds	44,875	52,941	8,066
	<b>218,320</b>	<b>381,131</b>	<b>162,811</b>
	<b>\$227,530</b>	<b>\$416,315</b>	<b>\$188,785</b>

These amounts do not include unquoted securities.



## 5. Derivative financial instruments

The Companies utilize derivative financial instruments such as foreign currency forward contracts and currency swaps to reduce market risks of fluctuations in foreign currency exchange rate on assets and liabilities. The Companies do not hold or issue derivative financial instruments for trading purposes.

The Companies are exposed to credit risk in the event of nonperformance by counterparties to derivative financial instruments, but such risk is considered minor because of the high credit rating of the counterparties.

The Companies enter into derivative financial instruments, as a hedge for existing assets and liabilities denominated in foreign currencies, arising from operating activities.

Derivatives in connection with currencies at March 31, 2000 were as follows:

At March 31, 2000	Millions of yen		
	Contract amounts (Excess of one year)	Market value	Unrealized gains (losses)
<b>Foreign currency forward contracts</b>			
Sell			
U.S. Dollars	¥ 10 (-)	¥ 10	¥ 0
Purchase			
U.S. Dollars	307 (-)	306	(1)
Singapore Dollars	1 (-)	1	(0)
<b>Total</b>	<b>¥318</b> (-)	<b>¥317</b>	<b>¥(1)</b>

At March 31, 2000	Thousands of U.S.dollars		
	Contract amounts (Excess of one year)	Market value	Unrealized gains (losses)
<b>Foreign currency forward contracts</b>			
Sell			
U.S. Dollars	\$ 96 (-)	\$ 97	\$ 1
Purchase			
U.S. Dollars	2,895 (-)	2,886	(9)
Singapore Dollars	5 (-)	5	(0)
<b>Total</b>	<b>\$2,996</b> (-)	<b>\$2,988</b>	<b>\$(8)</b>

## 6. Inventories

Inventories at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Finished goods	¥ 8,334	¥ 8,912	\$ 78,628
Semi-finished goods	1,571	1,068	14,821
Work in process	1,368	1,267	12,907
Raw materials and supplies	5,766	5,588	54,394
	¥17,039	¥16,835	\$160,750

## 7. Short-term debt and long-term debt

Short-term debt consists of bank loans and commercial paper. The composition of short-term debt and its interest rates at March, 2000 and 1999 were as follows:

At March 31, 2000	Millions of yen	Thousands of U.S. dollars	Interest rates
Bank loans	¥20,211	\$190,670	0.51%–7.63%
Commercial paper	5,000	47,170	0.06%
	¥25,211	\$237,840	

At March 31, 1999	Millions of yen	Interest rates
Bank loans	¥23,386	1.01%–10.87%
Commercial paper	10,000	0.35%– 0.59%
	\$33,386	

Long-term debt at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
2.2% domestic convertible sinking fund bonds convertible into common stock at ¥651 (\$6.14) per share due 2002	¥ 683	¥ 807	\$ 6,443
1.2% domestic convertible bonds convertible into common stock at ¥716 (\$6.75) per share due 2006	20,232	20,627	190,868
Secured loans from banks and government agencies due through 2006 with interest rates ranging from 2.08% to 7.21% at March 31, 2000	3,091	3,176	29,159
Unsecured loans from banks and a company due through 2001 with interest rates ranging from 6.26% to 7.59% at March 31, 2000	377	980	3,558
	24,383	25,590	230,028
Less amount due within one year	(1,017)	(1,396)	(9,597)
	¥23,366	¥24,194	\$220,431

At March 31, 2000, assets pledged as collateral for long-term debt were as follows:

	Millions of yen	Thousands of U.S. dollars
Investment securities	¥1,276	\$12,044
Property, plant and equipment	2,550	24,053

The indentures relating to the 2.2% and 1.2% domestic convertible bonds place a limitation on the payment of cash dividends which shall not exceed, on a cumulative basis, ¥3,800 million (\$35,849 thousand) plus the aggregate amount of earnings of the Company (as defined in the indentures) during the years for which the bonds have been outstanding. In this connection interim cash dividends are regarded as a part of the cash dividends made in the previous period.

At March 31, 2000, the number of common stock issuable upon full conversion of outstanding convertible bonds was 29,305 thousand shares.

The annual maturities of long-term debt at March 31, 2000 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2001	¥ 1,017	\$ 9,597
2002	1,043	9,835
2003	1,411	13,314
2004	276	2,603
2005	201	1,895
2006 and thereafter	20,435	192,784

## 8. Income taxes

The Companies are subject to several taxes based on income, which are corporation tax, inhabitants taxes and enterprise tax. The aggregate statutory tax rate on income before income taxes was approximately 42%, 47% and 51% for the years ended March 31, 2000, 1999 and 1998, respectively.

The actual effective tax rates in the accompanying consolidated statements of income differ from the statutory tax rates principally because of the effect of (1) temporary differences in recognizing revenues and expenses for financial statements and tax returns, (2) expenses not deductible for tax purposes, and (3) tax credits based on increased research and development expenses.

The differences between the statutory tax rate and the Companies' actual effective tax rate for financial statement purposes for the year ended March 31, 2000 were immaterial.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2000 are as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Retirement benefits of employees	¥ 1,004	\$ 9,476
Unrealized gains of property, plant and equipment	912	8,602
Amortization of prior service cost of the pension plan	558	5,266
Enterprise tax	477	4,502
Excess bonuses accrued	327	3,088
Retirement benefits of directors and statutory auditors	279	2,631
Unrealized gains of inventories	245	2,307
Loss on devaluation of securities	200	1,887
Loss on devaluation of investments in golf memberships	157	1,477
Loss on devaluation of non-consolidated subsidiaries	155	1,466
Others	322	3,033
Total deferred tax assets	4,636	43,735
Valuation allowance	-	-
Net deferred tax assets	¥ 4,636	\$ 43,735
Deferred tax liabilities:		
Deferred gains on property, plant and equipment	¥(2,606)	\$(24,583)
Other	(1,020)	(9,625)
Total deferred tax liabilities	¥(3,626)	\$(34,208)
Net deferred tax assets	¥ 1,010	\$ 9,527

## 9. Retirement benefits and pension costs

Total charges with respect to retirement benefits and pension costs included in costs and expenses, were ¥3,781 million (\$35,672 thousand), ¥1,332 million and ¥1,758 million for the years ended March 31, 2000, 1999 and 1998, respectively.

## 10. Shareholders' equity

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital.

The Code also provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as legal reserve until such reserve equals 25% of common stock. This legal reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. At March 31, 2000, legal reserve of the Company amounting to ¥3,654 (\$34,480) was included in retained earnings.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code.

## 11. Information on lease transactions

Finance leases which do not transfer ownership to lessees were as follows:

At March 31, 2000	Millions of yen		
	Machinery and equipment	Other assets	Total
Acquisition cost, accumulated depreciation and ending balance of leased assets:			
Acquisition cost	¥1,302	¥194	¥1,496
Accumulated depreciation	660	65	725
Ending balance	¥ 642	¥129	¥ 771
At March 31, 1999			
Acquisition cost, accumulated depreciation and ending balance of leased assets:			
Acquisition cost	¥1,533	¥74	¥1,607
Accumulated depreciation	942	34	976
Ending balance	¥ 591	¥40	¥ 631
At March 31, 2000	Thousands of U.S. dollars		
	Machinery and equipment	Other assets	Total
Acquisition cost, accumulated depreciation and ending balance of leased assets:			
Acquisition cost	\$12,288	\$1,832	\$14,120
Accumulated depreciation	6,234	611	6,845
Ending balance	\$ 6,054	\$1,221	\$ 7,275

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Future lease payments:			
Due within one year	¥295	¥297	\$2,783
Due after one year	497	356	4,690
<b>Total</b>	<b>¥792</b>	<b>¥653</b>	<b>\$7,473</b>

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Lease payments, depreciation and interest paid:			
Lease payments	¥395	¥450	\$3,730
Depreciation	364	410	3,435
Interest expense	34	30	323

Lease payments for the year ended March 31, 1998 were ¥520 million.

An amount equal to the depreciation is calculated on a basis that useful life is lease term and residual value is zero.

An amount equal to the total interest expense is the difference between the total lease payments and the acquisition cost of leased assets, and is allocated over the lease term by the interest method.

Operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Future lease payments:			
Due within one year	¥1	¥2	\$13
Due after one year	2	3	15
<b>Total</b>	<b>¥3</b>	<b>¥5</b>	<b>\$28</b>

## 12. Segment information

The Companies operate principally in the production and sales of Electronic products, Industrial products and Sales of chemical products and machinery, etc. Information by business segment for the year ended March 31, 2000, 1999 and 1998 are as follows:

Year ended March 31, 2000	Millions of yen					
	Electronic products	Industrial products	Sales of chemical products and machinery, etc.	Total	Eliminations or corporate	Consolidated
Sales:						
Outside customers	¥91,492	¥67,330	¥33,884	¥192,706	¥ –	¥192,706
Inter-segment	–	1,009	2,363	3,372	3,372	–
Total sales	91,492	68,339	36,247	196,078	3,372	192,706
Operating expenses	80,255	63,473	35,686	179,414	3,347	176,067
Operating income	¥11,237	¥4,866	¥562	¥16,664	¥25	¥16,639
Identifiable assets	¥92,819	¥70,108	¥18,661	¥181,588	¥44,701	¥226,289
Depreciation and amortization	5,020	3,165	186	8,371	73	8,444
Capital expenditures	4,721	1,848	76	6,645	–	6,645

Thousands of U.S. dollars						
Year ended March 31, 2000	Electronic products	Industrial products	Sales of chemical products and machinery, etc.	Total	Eliminations or corporate	Consolidated
<b>Sales:</b>						
Outside customers	\$863,130	\$635,194	\$319,662	\$1,817,986	\$ –	\$1,817,986
Inter-segment	–	9,515	22,292	31,807	31,807	–
Total sales	863,130	644,709	341,954	1,849,793	31,807	1,817,986
Operating expenses	757,119	598,807	336,656	1,692,582	31,564	1,661,018
Operating income	\$106,011	\$ 45,902	\$ 5,298	\$ 157,211	\$ 243	\$ 156,968
Identifiable assets	\$875,654	\$661,394	\$176,050	\$1,713,098	\$421,708	\$2,134,806
Depreciation and amortization	47,361	29,858	1,755	78,974	686	79,660
Capital expenditures	44,534	17,433	720	62,686	–	62,686

The Company and certain consolidated subsidiaries changed the method of accounting for prior service cost with respect to the pension plan as described in Note 2.

As a result of this change, operating income for the year ended March 31, 2000 was to increase by ¥573 million (\$5,407thousand) for Electronic products, by ¥533 million (\$5,025 thousand) for Industrial products and by ¥37 million (\$350 thousand) for Sale of chemical products and machinery, etc.

Millions of yen						
Year ended March 31, 1999	Electronic products	Industrial products	Sales of chemical products and machinery, etc.	Total	Eliminations or corporate	Consolidated
<b>Sales:</b>						
Outside customers	¥ 84,582	¥ 58,891	¥41,689	¥ 185,162	¥ –	¥ 185,162
Inter-segment	–	461	8,185	8,646	(8,646)	–
Total sales	84,582	59,352	49,874	193,808	(8,646)	185,162
Operating expenses	77,761	57,582	50,305	185,648	(8,654)	176,994
Operating income	¥ 6,821	¥ 1,770	¥ (431)	¥ 8,160	¥ 8	¥ 8,168
Identifiable assets	¥ 85,905	¥ 67,366	¥ 23,534	¥ 176,805	¥ 40,788	¥ 217,593
Depreciation and amortization	4,614	3,452	216	8,282	81	8,363
Capital expenditures	5,524	2,508	130	8,162	–	8,162
<b>Year ended March 31, 1998</b>						
<b>Sales:</b>						
Outside customers	¥ 90,486	¥ 63,890	¥ 45,896	¥ 200,272	¥ –	¥ 200,272
Inter-segment	–	354	7,909	8,263	(8,263)	–
Total sales	90,486	64,244	53,805	208,535	(8,263)	200,272
Operating expenses	80,235	61,531	53,707	195,473	(8,255)	187,218
Operating income	¥ 10,251	¥ 2,713	¥ 98	¥ 13,062	¥ (8)	¥ 13,054
Identifiable assets	¥ 89,478	¥ 74,091	¥ 25,066	¥ 188,635	¥ 51,608	¥ 240,243
Depreciation and amortization	4,555	2,978	260	7,793	82	7,875
Capital expenditures	8,315	3,440	155	11,910	8	11,918

As a result of the revisions of the Corporation Tax Law described in Note 2 about property, plant and equipment and accrued employees' bonuses, operating income for the year ended March 31, 1999 was to decrease by ¥43 million for Electronic products, by ¥51 million for Industrial products, by ¥3 million for Sales of chemical products and machinery, etc. and by ¥6 million for Corporate.

Information by geographic area for the years ended March 31, 2000, 1999 and 1998 are as follows:

Year ended March 31, 2000	Millions of yen					
	Domestic	Asia	Other	Total	Eliminations or corporate	Consolidated
<b>Sales:</b>						
Outside customers	¥158,434	¥26,166	¥8,106	¥192,706	¥ –	¥192,706
Inter-segment	12,335	5,764	152	18,251	18,251	–
Total sales	170,769	31,930	8,258	210,957	18,251	192,706
Operating expenses	158,097	28,280	8,295	194,672	18,605	176,067
Operating income	¥ 12,672	¥ 3,650	¥ (37)	¥ 16,285	¥ (354)	¥ 16,639
Identifiable assets	¥163,762	¥26,525	¥2,939	¥193,136	¥ 33,153	¥226,289
Thousands of U.S. dollars						
Year ended March 31, 2000	Domestic	Asia	Other	Total	Eliminations or corporate	Consolidated
<b>Sales:</b>						
Outside customers	\$ 1,494,660	\$ 246,848	\$ 76,478	\$ 1,817,986	\$ –	\$ 1,817,986
Inter-segment	116,366	54,374	1,438	172,178	172,178	–
Total sales	1,611,026	301,222	77,916	1,990,164	172,178	1,817,986
Operating expenses	1,491,477	266,791	78,261	1,836,529	175,511	1,661,018
Operating income	\$ 119,549	\$ 34,431	\$ (345)	\$ 153,635	\$ (3,333)	\$ 156,968
Identifiable assets	\$ 1,544,074	\$ 250,239	\$ 27,729	\$ 1,822,042	\$ 312,764	\$ 2,134,806

The Company and certain consolidated subsidiaries changed the method of accounting for prior service cost with respect to the pension plan as described in Note 2.

As a result of this change, operating income for the year ended March 31, 2000 was to increase by ¥1,143 millions (\$10,782 thousand) for Japan.

Millions of yen						
Year ended March 31, 1999	Domestic	Asia	Other	Total	Eliminations or corporate	Consolidated
<b>Sales:</b>						
Outside customers	¥ 151,245	¥ 26,178	¥ 7,739	¥ 185,162	¥ –	¥ 185,162
Inter-segment	10,040	4,081	249	14,370	(14,370)	–
Total sales	161,285	30,259	7,988	199,532	(14,370)	185,162
Operating expenses	155,067	28,453	8,076	191,596	(14,602)	176,994
Operating income	¥ 6,218	¥ 1,806	¥ (88)	¥ 7,936	¥ 232	¥ 8,168
Identifiable assets	¥ 157,384	¥ 26,374	¥ 2,574	¥ 186,332	¥ 31,261	¥ 217,593
<b>Year ended March 31, 1998</b>						
<b>Sales:</b>						
Outside customers	¥ 164,280	¥ 26,654	¥ 9,338	¥ 200,272	¥ –	¥ 200,272
Inter-segment	13,495	5,404	256	19,155	(19,155)	–
Total sales	177,775	32,058	9,594	219,427	(19,155)	200,272
Operating expenses	166,075	30,451	9,592	206,118	(18,900)	187,218
Operating income	¥ 11,700	¥ 1,607	¥ 2	¥ 13,309	¥ (255)	¥ 13,054
Identifiable assets	¥ 165,599	¥ 30,856	¥ 3,444	¥ 199,899	¥ 40,344	¥ 240,243

As a result of the revisions of the Corporation Tax Law described in Note 2 about property, plant and equipment and accrued employees' bonuses, operating incomes for the year ended March 31, 1999 were to decrease by ¥97 million for Japan and by ¥6 million for Corporate.

Corporate assets are principally cash and cash equivalents, marketable securities, certain investment securities of the Company and foreign currency translation adjustment.

Overseas sales for the year ended March 31, 2000 and 1999 are as follows:

Year ended March 31, 2000	Millions of yen		
	Asia	Other	Total
Overseas sales	¥45,890	¥5,761	¥ 51,651
Consolidated net sales			192,706
Percent against consolidated net sales	23.8%	3.0%	26.8%
<b>Year ended March 31, 1999</b>			
Overseas sales	¥42,255	¥5,131	¥ 47,386
Consolidated net sales			185,162
Percent against consolidated net sales	22.8%	2.8%	25.6%
Year ended March 31, 2000	Thousands of U.S. dollars		
	Asia	Other	Total
Overseas sales	\$432,921	\$54,348	\$ 487,269
Consolidated net sales			1,817,986
Percent against consolidated net sales	23.8%	3.0%	26.8%

Overseas sales for the year ended March 31, 1998 amounted to ¥53,910 million and accounted for 26.9% of the consolidated net sales.



### 13. Contingent liabilities

At March 31, 2000, the Companies were contingently liable as follows:

(i) Repurchase of notes discounted or endorsed:	¥ 627 million (\$5,916 thousand)
(ii) Repurchase of installment accounts receivable sold to a commercial finance company:	¥ 713 million (\$ 6,727 thousand)
(iii) Guarantees for bank borrowings of employees:	¥ 43 million (\$ 405 thousand)
(iv) Guarantees for forward exchange contracts of an affiliated company with a bank:	¥ 46 million (\$ 432 thousand)
(v) Letters of awareness for lease contracts of an affiliated company with a lessor:	¥1,424 million (\$13,440 thousand)

### 14. Subsequent events

At the general meeting of shareholders the Company held on June 29, 2000, retained earnings at March 31, 2000, were appropriated as follows:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends ¥4 (\$0.04) per share	¥946	\$8,924
Bonuses to directors and statutory auditors	70	660

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and the Board of Directors of  
Sumitomo Bakelite Company Limited:

We have audited the accompanying consolidated balance sheets of Sumitomo Bakelite Company Limited (a Japanese corporation) and subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2000, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Sumitomo Bakelite Company Limited and subsidiaries as of March 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2000 in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Notes 2 and 8, in the year ended March 31, 2000 Sumitomo Bakelite Company Limited and certain subsidiaries prospectively adopted new Japanese accounting standards for consolidation and equity method accounting and income taxes. Also, Sumitomo Bakelite Company Limited and certain subsidiaries changed the method of accounting for prior service cost with respect to the pension plan, effective April 1, 1999, as referred to in Note 3, with which we concur.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.



Tokyo, Japan  
June 29, 2000

### **Statement on Accounting Principles and Auditing Standards**

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

## DIRECTORS AND CORPORATE AUDITORS

### Chairman of the Board

Naoto Enda

### President

Tsuneo Moriya

### Executive Vice President

Osamu Kohno

### Senior Managing Directors

Shigenori Yamaoka

Masao Kakehi

### Managing Director

Tomitaroh Ogawa

### Directors

Hideo Mori

Takaharu Hayashi

Iwao Yamaguchi

Tetsuya Tokunaga

Shigeki Bitoh

Shosuke Hachisuka

Shoji Kitaura

Tetsuroh Tomita

Shigeru Hayashi

Takeichi Higashiguchi

Hideaki Ezaki

Ken Uchimura

### Corporate Auditors

Yamato Matoh

Shoji Kosaka

Hidetaka Kurauchi

Fumio Ogawa

(As of June 29, 2000)

## CORPORATE DATA

### Head Office:

Tennoz Parkside Building, 2-5-8  
Higashishinagawa, Shinagawa-ku,  
Tokyo 140-0002, JAPAN

### General Affairs Dept.

Phone: +81-(0)3-5462-3434

Facsimile: +81-(0)3-5462-4873

### Corporate Finance & Planning Div.

Phone: +81-(0)3-5462-3449

Facsimile: +81-(0)3-5462-4876

### Offices:

#### Osaka Office

3-47 Higashi-tsukaguchi-cho 2-chome,

Amagasaki, Hyogo 661-8588, JAPAN

Phone: +81-(0)6-429-6941

Facsimile: +81-(0)6-427-8055

#### Nagoya Office

15-15, Nishiki 3-chome, Naka-ku,

Nagoya 460-0003, JAPAN

Phone: +81-(0)52-955-3521

Facsimile: +81-(0)52-955-3526

### Laboratories:

#### Fundamental Research Laboratory

495 Akiba-cho, Totsuka-ku,

Yokohama 245-0052, JAPAN

Phone: +81-(0)45-811-1661

Facsimile: +81-(0)45-812-4898

#### Kobe Fundamental Research Laboratory

1-5, Murotani 1-chome, Nishi-ku,

Kobe 651-2241, JAPAN

Phone: +81-(0)78-992-3900

Facsimile: +81-(0)78-992-3919

#### Thermoplastic Products Research

Laboratory (Located at Amagasaki Plant)

#### Circuitry Materials Research Laboratory

(Located at Shizuoka Plant)

### Industrial Resins & Molding Compounds Research Laboratory

(Located at Shizuoka Plant)

### Corporate Research Center Information & Communications Materials

### Electronic Device Materials Research Laboratory I

### Electronic Device Materials Research Laboratory II

(Located at Utsunomiya Plant)

### Plants:

#### Amagasaki Plant

3-47 Higashi-tsukaguchi-cho 2-chome,

Amagasaki, Hyogo 661-8588, JAPAN

Phone: +81-(0)6-429-6941

Facsimile: +81-(0)6-427-8055

#### Shizuoka Plant

2100 Takayanagi, Fujieda,

Shizuoka 426-0041, JAPAN

Phone: +81-(0)54-635-2420

Facsimile: +81-(0)54-636-0294

#### Utsunomiya Plant

20-7, Kiyohara-Kogyodanchi,

Utsunomiya 321-3231, JAPAN

Phone: +81-(0)28-667-6211

Facsimile: +81-(0)28-667-5519

#### Tsu Plant

7-1, Takachaya 5-chome,

Tsu 514-0819, JAPAN

Phone: +81-(0)59-234-2181

Facsimile: +81-(0)59-234-8728

### Incorporated:

January 25, 1932

### Number of Employees:

2,179

### Securities Traded:

Tokyo Stock Exchange, Osaka Securities  
Exchange, Nagoya Stock Exchange

### Major Subsidiaries and Affiliates:

Advanced Plastics Compound Company

\* Akita Sumitomo Bakelite Co., Ltd.

\* Arlrite Industry Co., Ltd.

\* B.S. Machinery Sales Co., Ltd.

\* Bakelite Precision Molding (Shanghai) Co., Ltd.

\* Bakelite Shoji Co., Ltd.

\* Bakelite Shoji Hong Kong Co., Ltd.

\* Bakelite Shoji Singapore Pte. Ltd.

\* Bakelite Shoji (Thailand) Co., Ltd.

\* Bakelite Trading (Shanghai) Co., Ltd.

\* BASEC Hong Kong Co., Ltd.

\* Besho Plastic Co., Ltd.

\* CMK Europe N.V.

\*\* CMK Singapore (Pte.) Ltd.

\*\* CMKS (Malaysia) Sdn. Bhd.

\* Himeji Adhesive Industry Co., Ltd.

\* Hokkai Taiyo Plastic Co., Ltd.

\* Hokuyou Kizai Co., Ltd.

\* Japan Communication Accessories

Manufacturing Co., Ltd.

\* Kyushu Bakelite Industry Co., Ltd.

\* Miyagi Electronics Co., Ltd.

\*\* Nippon Denka, Ltd.

\* Otomo Chemical Co., Ltd.

\* P.T. CMKS Indonesia

\* P.T. Indopherin Jaya

\* P.T. Pamolite Adhesive Industry

\* S.B. "DECOLA" & Building Materials Co., Ltd.

\* S.B. Flex Philippines, Inc.

\* S.B. Information System Co., Ltd.

\* S.B. Medical Care Co., Ltd.

\* S.B. Recycle Co., Ltd.

\* S.B. Techno-Research Co., Ltd.

\* Sano Plastic Co., Ltd.

\* SBTEG Co., Ltd.

\* SNC Industrial Laminates Sdn. Bhd.

\* SPD Co., Ltd.

\* ST Film Sheet Co., Ltd.

\* Sumibe Service Company Ltd.

\* Sumicarrier Singapore Pte. Ltd.

\* Sumikon Specialties Corporation

\* Sumidurez Singapore Pte. Ltd.

\* Sumiflex Corporation

\* Sumitomo Bakelite Europe B.V.

\* Sumitomo Bakelite Singapore Pte. Ltd.

\* Sumitomo Bakelite (Suzhou) Co., Ltd.

\* Sumitomo Bakelite (Taiwan) Co., Ltd.

\* Sumitomo Durez Co., Ltd.

\* Sumitomo Plastics America, Inc.

\* Sunbake Co., Ltd.

\* Tokyo Kakohin Co., Ltd.

\* Tsu Kong Co., Ltd.

\*\* Tsutsunaka Plastic Industry Co., Ltd.

\* Yamaroku Kasei Industry Co., Ltd.

\* Consolidated Subsidiaries

\*\* Affiliates applied the equity method

 **SUMITOMO BAKELITE CO., LTD.**



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