# ANNUAL REPORT 2002

SUMITOMO BAKELITE CO., LTD.

# PROFILE

The phenolic resin Bakelite, one of the oldest plastics in use today, was developed more than 80 years ago by a Belgian-American, Dr. Leo H. Baekeland. Shortly thereafter, Sumitomo Bakelite became the first Japanese company to succeed in the industrial production of the material. Ever since, the Company has led the plastics processing field, providing customers with an ever-widening variety of superior products and technologies. Today, Sumitomo Bakelite is moving decisively to develop more sophisticated technologies that will provide current and future generations with the highest quality products available.

# CONTENTS

# FINANCIAL HIGHLIGHTS

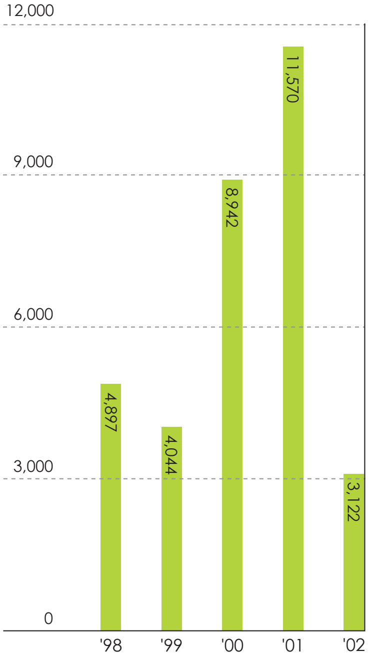
| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 2002 |
| Net Sales | ¥154,771 | ¥187,168 | ¥192,706 | $1,163,692 |
| Net Income | 3,122 | 11,570 | 8,942 | 23,474 |
| Total Assets | 209,512 | 211,397 | 226,289 | 1,575,278 |
| Shareholders' Equity | 121,978 | 114,585 | 104,943 | 917,128 |

| | Yen | | | U.S. dollars |
|---|---|---|---|---|
| Net Income per Share | ¥ 13.18 | ¥ 48.88 | ¥ 37.85 | $ 0.10 |
| Diluted Net Income per Share | 12.33 | 44.11 | 34.23 | 0.09 |
| Cash Dividends per Share | 10.00 | 9.00 | 8.00 | 0.08 |

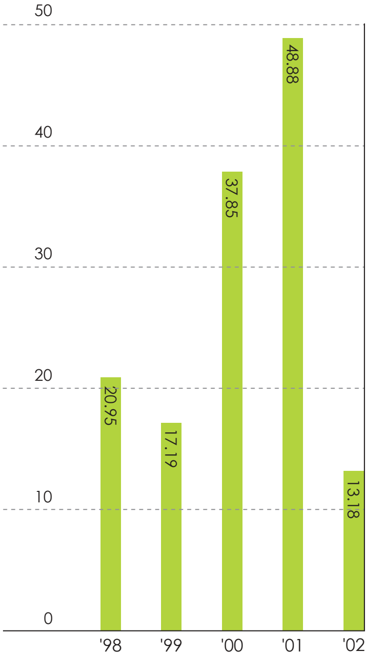
Note: U.S. dollar amounts are translated from yen at the rate of ¥133 to US$1, the approximate exchange rate prevailing at March 31, 2002.

**NET SALES**
(Millions of yen)


**NET INCOME**
(Millions of yen)




**NET INCOME PER SHARE**
(Yen)



# PRESIDENT'S MESSAGE

Tsuneo Moriya

**Tsuneo Moriya**
**President**

During the fiscal period under review, Japan's domestic economy continued to struggle to rise from the stagnation that has characterized it since the collapse of Japan's economic bubble in the early 1990s. In addition, since operating in Japan is relatively expensive, we are witnessing a continued "hollowing out" of the country's manufacturing base as producers move overseas. Considering the current slump in the previously high-growth IT sector, economic progress, not only in Japan but also globally is currently facing a headwind.

As for Sumitomo Bakelite Co., Ltd.'s main businesses and their related industries, the business areas that have traditionally provided the largest share of sales—the semiconductor and information and communication industries—have seen a sharp drop-off in aggregate demand for such products as personal computers, mobile communication applications, and home appliances. High levels of previously existing inventory have exacerbated the situation, prompting large reductions in output of semiconductors and electronic components. In contrast, regional differences in the automotive market accounted for a solid performance in that sector.

Against this backdrop, we have continued to focus on our consolidated management, strengthening the basis of core areas. The Company acquired the phenolic resin operations of Occidental Chemical Corporation of the U.S. in October 2000, and the electronic materials research division of U.S.-based Goodrich Corporation in July 2001. We established a new corporation in the U.S., Promerus, to focus on research and development in the area of semiconductor and display materials. Also, to cope with the dramatic fall in demand for semiconductor materials, we have rationalized and coordinated our operations in Japan, Taiwan, China, and Singapore so that we always carry out manufacturing operations in the optimal location. We have also shifted the manufacture of precision goods and medical instruments to China.

However, because the current slowdown in the market for our main products has been much more severe than had been anticipated, there has inevitably been an effect on our business results. Net sales for the period under review decreased 17.3% to ¥154,771 million ($1,163.7 million). Consolidated operating income for the period declined 71.7% to ¥5,321 million ($40.0 million). Consolidated net income fell 73.0% to ¥3,122 million ($23.5 million) compared with that of the previous period.

While there is some evidence that the U.S. economy may be turning around, for the time being the economic outlook is still unclear. In addition, the structure of manufacturing industries around the world is changing rapidly, especially that of semiconductor-related industries and of information and communication industries, where horizontal international specialization/horizontal labor specialization and supply chain management principles are becoming increasingly predominant.

Against this backdrop, the Company will use its reformed and strengthened business structure to expand its business and become even more competitive on a global scale. To this end, we will base our management strategy on the following five points.

First, we shall strengthen and expand our activities in our three basic business areas: semiconductor, information, and telecommunication applications; high-performance plastic applications; and quality-of-life applications.

Second, as a part of our efforts to increase the level of customer satisfaction, we will make the provision of total solutions to users a fundamental business activity and engage in more activities that enhance customer satisfaction.

Third, we shall strive to achieve an even greater level of global competitiveness by undertaking more production overseas, and focus on becoming more immune to the economic vagaries of any given geographical region. Further, we will optimize the high-value created by our entire Group.

Fourth, we will continue to focus on consolidating our management. While clarifying the strategy of each of our business groups, we will strengthen our strategies by region and nation, in accordance with each market's specific demands, and strive to become a company in which the objectives and strategies of the Group as a whole are shared by all member companies.

Fifth, Sumitomo Bakelite will continue to promote management that is consistent with social and environmental values. From R&D and design through to the manufacturing process, we shall minimize environmental impact at every stage. To help conserve the environment, we introduced environmental accounting in fiscal 2001 and followed up by publishing our *Annual Environmental Report*, and we shall continue striving to become a firm that is responsive to the needs of the environment.

On behalf of Sumitomo Bakelite, I thank you for your ongoing support.

June 2002
Tsuneo Moriya
President

## 1 Completion of New Research Wing at Utsunomiya Plant

We have recently completed the establishment of the Information and Communications Materials Research Center, which had formerly been located at our Fundamental Research Laboratory in Yokohama, on the grounds of our Utsunomiya Plant. We will make preparations to offer customers total solutions in all areas of semiconductor-related plastics. We also integrated our research on high-precision packaging into the activities of the new research center. We will strive to speed up our research through collaborations with customers as well as developing the advanced packaging that is expected to earn acclaim for high reliability.

## 2 Acquisition of Goodrich Corporation's Electronic Materials Research Division

We acquired the electronic materials research division of U.S.-based Goodrich Corporation in August 2001, and established the wholly owned subsidiary Promerus. The facility we purchased carries out R&D on plastics, including such cutting-edge materials as materials for the electronics industry and display materials. This is one of the business areas we focus on, and we expect the synergies with domestic research activities to be high. Further, the center is located in the U.S., the cutting edge of technological research, so we will be able to move into the vanguard of research activities.

## 3 Development of Flexible Printed Circuit Business Overseas

Flexible Printed Circuits are used chiefly in mobile telephones and the moving parts of PC peripherals. We recently completed, and commenced operations at, a portion of Sumitomo Bakelite Vietnam's new manufacturing facility. This facility will help us meet the large projected increases in demand for components used in mobile phones, liquid crystal displays, and others.


## 4 Development of New Printed Circuit Board (PCB) Materials Suitable for High-Density Packaging

With the technological trends in telecommunications being toward increasing information volumes and more high-speed communication with higher frequency signals, printed circuit boards (PCBs) with higher performance are becoming increasingly necessary.

We have developed state-of-the-art PCB materials in response to customer demands, based on technological breakthroughs. Sales are steadily increasing of such highly acclaimed products as insulation materials with the exact thickness necessary to optimize impedance control, low-dielectric materials with applications in conventional equipment, low CTE (coefficient of thermal expansion) materials that provide excellent reliability and connectivity, and environmentally friendly systems that eliminate halogen and antinomy. We have also introduced a new product, an interposer that connects integrated circuits directly to the PCB.

# CONSOLIDATED BALANCE SHEETS

Sumitomo Bakelite Company Limited
March 31, 2002 and 2001

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| **ASSETS** | 2002 | 2001 | 2002 |
| **Current assets:** | | | |
| Cash and cash equivalents | ¥ 27,224 | ¥ 20,420 | $ 204,692 |
| Marketable securities (Note 5) | – | 500 | – |
| Trade receivables: | | | |
| Notes | 9,995 | 15,369 | 75,150 |
| Accounts | 33,706 | 38,321 | 253,428 |
| Allowance for doubtful accounts | (423) | (434) | (3,180) |
| Inventories (Note 7) | 21,154 | 22,224 | 159,053 |
| Deferred tax assets (Note 9) | 1,302 | 1,231 | 9,789 |
| Other current assets | 3,666 | 4,164 | 27,564 |
| Total current assets | 96,624 | 101,795 | 726,496 |
| **Property, plant and equipment** (Note 8): | | | |
| Land | 7,766 | 7,814 | 58,391 |
| Buildings and structures | 54,608 | 56,067 | 410,586 |
| Machinery and equipment | 101,041 | 100,914 | 759,707 |
| Construction in progress | 7,578 | 4,007 | 56,977 |
| | 170,993 | 168,802 | 1,285,661 |
| Accumulated depreciation | (90,308) | (93,343) | (679,007) |
| Net property, plant and equipment | 80,685 | 75,459 | 606,654 |
| **Goodwill** | 1,835 | 2,104 | 13,797 |
| **Investments and other assets:** | | | |
| Investment securities (Notes 5 and 8): | | | |
| Unconsolidated subsidiaries and affiliates | 17,305 | 15,711 | 130,113 |
| Other | 8,421 | 12,112 | 63,316 |
| Long-term loans receivable: | | | |
| Unconsolidated subsidiaries and affiliates | 302 | 433 | 2,271 |
| Employees and other | 306 | 405 | 2,301 |
| Deferred tax assets (Note 9) | 236 | 488 | 1,774 |
| Other assets | 4,448 | 3,319 | 33,443 |
| Allowance for doubtful accounts | (650) | (429) | (4,887) |
| Total investments and other assets | 30,368 | 32,039 | 228,331 |
| | ¥209,512 | ¥211,397 | $1,575,278 |

See accompanying notes.

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of yen 2002 | 2001 | Thousands of U.S. dollars (Note 1) 2002 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term debt (Note 8) | ¥ 14,703 | ¥ 12,369 | $ 110,549 |
| Long-term debt due within one year (Note 8) | 1,143 | 1,009 | 8,594 |
| Trade payables: | | | |
| Notes | 7,405 | 10,477 | 55,677 |
| Accounts | 20,091 | 25,131 | 151,060 |
| Accrued expenses | 5,519 | 5,646 | 41,496 |
| Income taxes payable (Note 9) | 1,521 | 3,989 | 11,436 |
| Other current liabilities | 4,525 | 6,600 | 34,022 |
| Total current liabilities | 54,907 | 65,221 | 412,834 |
| **Long-term debt due after one year** (Note 8) | 20,863 | 22,143 | 156,865 |
| **Deferred tax liabilities** (Note 9) | 2,364 | 1,308 | 17,774 |
| **Retirement benefits** (Note 10): | | | |
| **Employees** | 3,267 | 3,589 | 24,564 |
| **Directors and statutory auditors** | 666 | 573 | 5,007 |
| **Other long-term liabilities** | 196 | 187 | 1,474 |
| **Contingent liabilities** (Note 14) | | | |
| **Minority interests** | 5,271 | 3,791 | 39,632 |
| **Shareholders' equity** (Note 11): | | | |
| Common stock: | | | |
| Authorized —800,000,000 shares | | | |
| Issued —237,139,403 shares in 2002 and | | | |
| 236,863,633 shares in 2001 | 26,917 | 26,827 | 202,383 |
| Additional paid-in capital | 25,038 | 24,948 | 188,256 |
| Retained earnings | 64,053 | 63,120 | 481,602 |
| Net unrealized holding gains on securities | 1,533 | 16 | 11,526 |
| Foreign currency translation adjustments | 4,452 | (325) | 33,474 |
| Treasury stock, at cost | (15) | (1) | (113) |
| Total shareholders' equity | 121,978 | 114,585 | 917,128 |
| | ¥209,512 | ¥211,397 | $1,575,278 |

# CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Bakelite Company Limited
Years ended March 31, 2002, 2001 and 2000

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 2002 |
| **Net sales** (Note 13) | ¥154,771 | ¥187,168 | ¥192,706 | $1,163,692 |
| **Costs and expenses:** | | | | |
| Cost of sales (Note 13) | 115,557 | 134,921 | 143,399 | 868,850 |
| Selling, general and administrative expenses (Note 13) | 33,893 | 33,463 | 32,668 | 254,834 |
| | 149,450 | 168,384 | 176,067 | 1,123,684 |
| **Operating income** (Note 13) | 5,321 | 18,784 | 16,639 | 40,008 |
| **Other income (expenses):** | | | | |
| Interest and dividend income | 711 | 984 | 818 | 5,346 |
| Interest expense | (736) | (807) | (940) | (5,534) |
| Equity in earnings (losses) of affiliated companies | (260) | 571 | (209) | (1,955) |
| Loss on sale/disposal of property | (161) | (852) | (585) | (1,211) |
| Gain on sale of marketable securities and investment securities | 1,996 | 4,516 | 3,738 | 15,008 |
| Loss on devaluation of securities | (539) | (716) | (258) | (4,053) |
| Foreign exchange gain (loss), net | 548 | 563 | (205) | 4,120 |
| Cost of business acquisition (Note 4) | (1,018) | (1,976) | – | (7,654) |
| Merger cost | – | (277) | – | – |
| Retirement benefits expense | (3,014) | (5,542) | – | (22,662) |
| Prior service cost due to reassessment of pension plan (Note 3) | – | – | (2,777) | – |
| Gain on securities contributed to employees' retirement benefit trust | 2,035 | 5,030 | – | 15,301 |
| Other, net | (205) | (474) | (464) | (1,541) |
| | (643) | 1,020 | (882) | (4,835) |
| **Income before income taxes and minority interests** | 4,678 | 19,804 | 15,757 | 35,173 |
| **Income taxes** (Note 9): | | | | |
| Current | 1,612 | 7,072 | 7,505 | 12,120 |
| Deferred | (209) | 508 | (1,099) | (1,571) |
| | 1,403 | 7,580 | 6,406 | 10,549 |
| Minority interests | (153) | (654) | (409) | (1,150) |
| **Net income** | ¥ 3,122 | ¥ 11,570 | ¥ 8,942 | $ 23,474 |

| | Yen | | | U.S. dollars |
|---|---|---|---|---|
| **Amounts per share of common stock:** | | | | |
| Net income | ¥13.18 | ¥48.88 | ¥37.85 | $0.10 |
| Diluted net income | 12.33 | 44.11 | 34.23 | 0.09 |
| Cash dividends applicable to the year | 10.00 | 9.00 | 8.00 | 0.08 |

See accompanying notes.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Sumitomo Bakelite Company Limited
Years ended March 31, 2002, 2001 and 2000

| | Thousands of shares of common stock | Millions of yen | | | | | |
|---|---|---|---|---|---|---|---|
| | | Common stock | Additional paid-in capital | Retained earnings | Net unrealized holding gains on securities | Foreign currency translation adjustments | Treasury stock |
| **Balance at March 31, 1999** | 235,735 | ¥26,460 | ¥24,518 | ¥45,757 | ¥ – | ¥ – | ¥ (1) |
| Net income | – | – | – | 8,942 | – | – | – |
| Cumulative effect of adopting deferred income tax accounting | – | – | – | 962 | – | – | – |
| Treasury stock | – | – | – | – | – | – | (2) |
| 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) | – | – | – |
| **Balance at March 31, 2000** | 236,477 | 26,720 | 24,777 | 53,449 | – | – | (3) |
| Net income | – | – | – | 11,570 | – | – | – |
| Adjustments from translation of foreign currency financial statements | – | – | – | – | – | (325) | – |
| Adoption of new accounting standard for financial instruments of an affiliated company | – | – | – | – | 16 | – | – |
| Shares issued by merger and share exchange (Note 11) | 75 | 3 | 68 | 1 | – | – | – |
| Treasury stock | – | – | – | – | – | – | 2 |
| Cash dividends paid (¥9 per share) | – | – | – | (2,130) | – | – | – |
| Bonuses to directors and statutory auditors | – | – | – | (87) | – | – | – |
| Shares issued upon conversion of bonds | 312 | 104 | 103 | – | – | – | – |
| Increase in retained earnings due to addition of consolidated subsidiaries | – | – | – | 317 | – | – | – |
| **Balance at March 31, 2001** | 236,864 | 26,827 | 24,948 | 63,120 | 16 | (325) | (1) |
| Net income | – | – | – | 3,122 | – | – | – |
| Adjustments from translation of foreign currency financial statements | – | – | – | – | – | 4,777 | – |
| Adoption of new accounting standard for financial instruments | – | – | – | – | 1,517 | – | – |
| Treasury stock | – | – | – | – | – | – | (14) |
| Cash dividends paid (¥10 per share) | – | – | – | (2,368) | – | – | – |
| Bonuses to directors and statutory auditors | – | – | – | (88) | – | – | – |
| Shares issued upon conversion of bonds | 275 | 90 | 90 | – | – | – | – |
| Increase in retained earnings due to addition of consolidated subsidiaries | – | – | – | 267 | – | – | – |
| **Balance at March 31, 2002** | 237,139 | ¥26,917 | ¥25,038 | ¥64,053 | ¥1,533 | ¥4,452 | ¥(15) |

| | Thousands of shares of common stock | Thousands of U.S. dollars (Note 1) | | | | | |
|---|---|---|---|---|---|---|---|
| | | Common stock | Additional paid-in capital | Retained earnings | Net unrealized holding gains on securities | Foreign currency translation adjustments | Treasury stock |
| **Balance at March 31, 2001** | 236,864 | $201,706 | $187,579 | $474,586 | $ 120 | $ (2,443) | $ (8) |
| Net income | – | – | – | 23,474 | – | – | – |
| Adjustments from translation of foreign currency financial statements | – | – | – | – | – | 35,917 | – |
| Adoption of new accounting standard for financial instruments | – | – | – | – | 11,406 | – | – |
| Treasury stock | – | – | – | – | – | – | (105) |
| Cash dividends paid ($0.08 per share) | – | – | – | (17,804) | – | – | – |
| Bonuses to directors and statutory auditors | – | – | – | (662) | – | – | – |
| Shares issued upon conversion of bonds | 275 | 677 | 677 | – | – | – | – |
| Increase in retained earnings due to addition of consolidated subsidiaries | – | – | – | 2,008 | – | – | – |
| **Balance at March 31, 2002** | 237,139 | $202,383 | $188,256 | $481,602 | $11,526 | $33,474 | $(113) |

See accompanying notes.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Sumitomo Bakelite Company Limited
Years ended March 31, 2002, 2001 and 2000

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 2002 |
| **Cash flows from operating activities:** | | | | |
| Net income | ¥ 3,122 | ¥ 11,570 | ¥ 8,942 | $ 23,474 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 10,074 | 8,570 | 8,554 | 75,744 |
| Loss on sale/disposal of property, plant and equipment | 161 | 852 | 585 | 1,211 |
| Gain on sale of marketable securities and investment securities | (1,996) | (4,516) | (3,738) | (15,008) |
| Minority interests | 153 | 654 | 409 | 1,150 |
| Loss on devaluation of securities | 539 | 716 | 258 | 4,053 |
| Equity in losses (earnings) of affiliated companies | 260 | (571) | 209 | 1,955 |
| Deferred income taxes | (209) | 508 | (1,099) | (1,571) |
| Decrease (increase) in notes and accounts receivable | 11,486 | 8,632 | (3,059) | 86,361 |
| Decrease (increase) in inventories | 2,118 | (1,028) | (615) | 15,925 |
| Decrease (increase) in other current assets | 1,154 | (852) | (42) | 8,677 |
| (Decrease) increase in notes and accounts payable | (9,840) | (6,748) | 3,070 | (73,985) |
| (Decrease) increase in income taxes payable | (2,319) | (2,133) | 4,069 | (17,436) |
| (Decrease) increase in other current liabilities | (1,643) | 941 | 574 | (12,353) |
| Decrease in retirement benefits | (28) | (1,996) | (48) | (211) |
| Other, net | 670 | 402 | 764 | 5,037 |
| Net cash provided by operating activities | 13,702 | 15,001 | 18,833 | 103,023 |
| **Cash flows from investing activities:** | | | | |
| Purchases of marketable securities and investment securities | (2,739) | (2,109) | (2,446) | (20,594) |
| Proceeds from sale of marketable securities and investment securities | 8,023 | 10,168 | 7,871 | 60,324 |
| Purchases of property, plant and equipment | (12,080) | (6,449) | (5,461) | (90,827) |
| Proceeds from sale of property, plant and equipment | 760 | 543 | 372 | 5,714 |
| Payment for business acquisition (Note 4) | (2,484) | (16,654) | – | (18,677) |
| Proceeds from sale of consolidated subsidiaries with change in scope of consolidation | (69) | (409) | – | (519) |
| Increase (decrease) in long-term loans receivable | 657 | 601 | (312) | 4,940 |
| Other | 88 | (568) | (336) | 662 |
| Net cash used in investing activities | (7,844) | (14,877) | (312) | (58,977) |
| **Cash flows from financing activities:** | | | | |
| Increase (decrease) in short-term debt | 1,836 | (12,908) | (8,391) | 13,804 |
| Proceeds from long-term debt | – | – | 800 | – |
| Repayments of long-term debt | (1,116) | (1,784) | (172) | (8,391) |
| Cash dividends paid | (2,434) | (2,172) | (1,943) | (18,301) |
| Proceeds from issuance of stock to minority interests | 666 | – | – | 5,008 |
| Other | (14) | (232) | (52) | (105) |
| Net cash used in financing activities | (1,062) | (17,096) | (9,758) | (7,985) |
| **Effect of exchange rate changes on cash** | 1,105 | 1,131 | (484) | 8,308 |
| **Net increase (decrease) in cash and cash equivalents** | 5,901 | (15,841) | 8,279 | 44,369 |
| **Cash and cash equivalents at beginning of year** | 20,420 | 35,992 | 27,549 | 153,534 |
| **Increase in cash and cash equivalents due to addition of consolidated subsidiaries** | 903 | 465 | 213 | 6,789 |
| **Decrease in cash and cash equivalents due to substraction of consolidated subsidiaries** | – | (196) | (49) | – |
| **Cash and cash equivalents at end of year** | ¥ 27,224 | ¥ 20,420 | ¥35,992 | $204,692 |
| **Supplemental information on cash flows:** | | | | |
| Cash paid during the year for: | | | | |
| Interest | ¥ 771 | ¥ 826 | ¥ 908 | $ 5,797 |
| Income taxes | 3,931 | 9,204 | 3,383 | 29,556 |
| Non-cash investing and financing activities: | | | | |
| Conversion of convertible bonds into common stock and additional paid-in capital | 180 | 207 | 519 | 1,353 |

See accompanying notes.

## 1. Basis of presenting consolidated financial statements

Sumitomo Bakelite Company Limited (the "Company") is a Japanese corporation, one of the affiliated companies of Sumitomo Chemical Co., Ltd., which directly owns 20.8% (at March 31, 2002) 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 (the "Code") and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). 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. Certain Japanese GAAP are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese GAAP.

The accompanying consolidated financial statements are the translation of the audited consolidated financial statements of the Company which were prepared in accordance with Japanese GAAP and were filed with the appropriate Local Finance Bureau of the Ministry of Finance 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 in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of shareholders' equity for 2002, 2001 and 2000 have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements were not required for domestic purposes and were not filed with the regulatory authorities.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2002, which was ¥133 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 (32 subsidiaries in 2002, 31 subsidiaries in 2001 and 29 subsidiaries in 2000). All significant intercompany balances and transactions have been eliminated.

Investments in 8 significant affiliated companies (generally 20%-50% owned), over which the Company has the ability to exercise significant influence over operating and financial policies in 2002, 2001 and 2000 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 by the equity method 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.

### Securities

Prior to April 1, 2000, marketable securities and investment securities except for equity securities of affiliated companies were accounted for at cost determined mainly by the moving-average method. However, such securities were written down to an estimated realizable value if they had been significantly impaired.

Effective April 1, 2000, the Company and its consolidated subsidiaries (the "Companies") adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the new accounting standard, all companies are required to examine the intention of holding each security and classify those securities as (a) securities held for trading purposes ("trading securities"), (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories ("available-for-sale securities"). The Companies had no trading securities at March 31, 2002 and 2001.

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost.

Companies were obliged to evaluate available-for-sale securities at fair market value from the fiscal year beginning on or after April 1, 2001, although early adoption was available. In this connection, the Companies stated the available-for-sale securities at moving-average cost at March 31, 2001, even though they had available fair market value. Net unrealized holding gains on available-for-sale securities in 2001 were recognized in an affiliated company accounted for using the equity method and reported, net of applicable income taxes, as a separate component of shareholders' equity.

Effective April 1, 2001, the Companies adopted the above new accounting standard that available-for-sale securities with available market value are stated at market values. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities is not readily available, such securities should be written down to net asset value with a corresponding charge to the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

The new accounting standard also requires companies to apply the accounting of impairment loss for not only securities but also various financial instruments such as golf membership rights and account receivables more strictly than before. As a result of adopting the new accounting standard for financial instruments, operating income and income before income taxes and minority interests in 2001 decreased by ¥58 million and ¥666 million, respectively.

**Derivatives and hedge accounting**

The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

**Allowance for doubtful accounts**

The allowance for doubtful accounts is determined by adding the uncollectible amounts individually estimated for doubtful accounts to the amount calculated by a certain rate, based on past collection experience.

**Inventories**

Inventories are accounted for mainly at cost determined by the weighted average method, except for raw materials, which are stated 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 at rates based on the estimated useful lives of the assets. Buildings, excluding building fixtures, acquired after March 31, 1998 are depreciated using the straight-line method.

**Accounting for certain lease transactions**

Finance leases which do not transfer ownership or those which do not have bargain purchase option provision are accounted for in the same manner as operating leases in accordance with Japanese GAAP.

**Accrued employees' bonuses**

The Company and its consolidated domestic subsidiaries accrue the amounts of employees' bonuses based on estimated amounts to be paid in the subsequent period.

**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.

**Employees' severance and retirement benefits**

The Company and certain consolidated subsidiaries provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

As to the unfunded lump-sum payment plans, the Company and certain consolidated subsidiaries accrued liabilities for lump-sum severance and retirement payments equal to the present value of the amount required had all eligible employees voluntarily terminated their employment at March 31, 2000. As to the funded pension plans, see Note 3.

Effective April 1, 2000, the Companies adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits," issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and certain consolidated subsidiaries provided allowance for employees' severance and retirement benefits at March 31, 2002 and 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at these dates.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounting to ¥3,043 million, was fully recognized as an expense in the year ended March 31, 2001. The Company and certain consolidated subsidiaries contributed investment securities worth ¥2,545 million ($19,135 thousand) and ¥6,988 million to the employees' retirement benefit trust, and the resulting gains amounting to ¥2,035 million ($15,301 thousand) and ¥5,030 million were recognized in the years ended March 31, 2002 and 2001, respectively. Prior service costs and actuarial gains and losses are recognized in the statements of income when they are determined actuarially.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥2,483 million, operating income increased by ¥362 million and income before income taxes and minority interests decreased by ¥2,483 million compared with what would have been recorded under the previous accounting standard.

**Research and development**

Research and development expenses are charged to income when incurred. The amounts for the years ended March 31, 2002, 2001 and 2000 were ¥9,775 million ($73,496 thousand), ¥8,127 million and ¥7,269 million, respectively.

**Income taxes**
The Companies provided income taxes at the amount currently payable for the year ended March 31, 1999. 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 statements 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 was reflected as an adjustment to the retained earnings brought forward from the previous year. Cumulative effect of adopting the new accounting standard was ¥962 million. The effect for the year ended March 31, 2000 was to increase net income by ¥1,071 million.

**Translation of foreign currencies**
Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Prior to April 1, 2000, long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Companies adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation," issued by the Business Accounting Deliberation Council on October 22, 1999 (the "Revised Accounting Standard"). Under the Revised Accounting Standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the year-end rates.

The effect on the statements of income of adopting the Revised Accounting Standard for the year ended March 31, 2001 was to decrease income before income taxes and minority interests by ¥104 million as compared to the prior method.

**Translation of foreign currency financial statements**
Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rates for balance sheets and at the annual average rates for statements of income, except that shareholders' equity accounts are translated at historical rates and income statement items relating to transactions with the Company at the rates used by the Company.

**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 the year 2002 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 would be effective from April 1, 2000. Based on the recent severe economic environment, the

Company and certain consolidated subsidiaries decided to adopt a 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 and to decrease income before income taxes and minority interests by ¥1,634 million as compared to the prior method.

## 4. Business acquisition

In the year ended March 31, 2002, the Companies acquired the research and development department, related to electronics materials, of Goodrich Corporation, and paid ¥2,484 million ($18,677 thousand).

In the statement of income, the Companies recognized related expenses amounting to ¥1,018 million ($7,654 thousand) as cost of business acquisition.

In the year ended March 31, 2001, the Companies acquired the phenolic resin business and related assets of Occidental Chemical Corporation, and paid ¥16,654 million.

Components of this purchase were as follows:

| | Millions of yen |
|---|---|
| Purchase for investments in subsidiaries | ¥ 3,511 |
| Others for business acquisition | 13,143 |
| | ¥16,654 |

In the statement of income, the Companies recognized the related expenses amounting to ¥1,976 million as cost of business acquisition.

## 5. Securities

(1) The following tables summarize acquisition costs and book values of available-for-sale securities with available fair values as of March 31, 2002:

Securities with book values exceeding acquisition costs:

| | Millions of yen | | |
|---|---|---|---|
| At March 31, 2002 | Acquisition cost | Book value | Difference |
| Equity securities | ¥3,693 | ¥6,587 | ¥2,894 |
| Bonds | – | – | – |
| Others | – | – | – |
| Total | ¥3,693 | ¥6,587 | ¥2,894 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| At March 31, 2002 | Acquisition cost | Book value | Difference |
| Equity securities | $27,767 | $49,527 | $21,760 |
| Bonds | – | – | – |
| Others | – | – | – |
| Total | $27,767 | $49,527 | $21,760 |

Securities with book values not exceeding acquisition costs:

| At March 31, 2002 | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| Equity securities | ¥1,456 | ¥1,212 | ¥(244) |
| Bonds | – | – | – |
| Others | – | – | – |
| Total | ¥1,456 | ¥1,212 | ¥(244) |

| At March 31, 2002 | Thousands of U.S. dollars | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| Equity securities | $10,947 | $9,112 | $(1,835) |
| Bonds | – | – | – |
| Others | – | – | – |
| Total | $10,947 | $9,112 | $(1,835) |

The Companies recognize impairment loss for the securities, whose available fair values decline more than 50% of the carrying amount. In addition, the Companies also recognize impairment loss, when the available fair values decline more than 30% to 50% of the carrying amount and such situation continues twice at the end of each semi-annual period. The amount of impairment loss for the year ended March 31, 2002 was ¥530 million ($3,985 thousand). As impairment loss was recognized in the statements of income, the above tables of available-for-sale securities exclude such securities written down to fair values.

As mentioned in Note 2 [Securities], the Companies stated the available-for-sale securities at moving-average costs for the year ended March 31, 2001, even though they had available fair market values.

The following table summarizes book value and fair market value of the available-for-sale securities with available fair market values as of March 31, 2001:

| At March 31, 2001 | Millions of yen |
|---|---|
| Book value | ¥ 7,414 |
| Fair market value | 18,179 |
| Difference | 10,765 |
| (Net unrealized holding gains on securities) | 6,248 |
| (Deferred tax liabilities) | 4,517 |

(2) The following tables summarize book value and fair values of held-to-maturity debt securities with available fair values as of March 31, 2001 (The Companies had no held-to-maturity debt securities as of March 31, 2002.):

Securities with available fair values exceeding book values:

| At March 31, 2001 | Millions of yen |
|---|---|
| Bonds: | |
| Book value | ¥4,028 |
| Fair value | 4,727 |
| Difference | 699 |

Securities with available fair values not exceeding book values:

| At March 31, 2001 | Millions of yen |
|---|---|
| Bonds: | |
| Book value | ¥500 |
| Fair value | 500 |
| Difference | – |

(3) The following table summarizes available-for-sale securities with maturities and held-to-maturity debt securities as of March 31, 2001 (The Companies had no available-for-sale securities with maturities nor held-to-maturity debt securities as of March 31, 2002.):

| | Millions of yen | | | |
|---|---|---|---|---|
| At March 31, 2001 | Within 1 year | Within 5 years | Over 5 years | Total |
| Bonds | ¥500 | ¥4,037 | ¥ – | ¥4,537 |

(4) Total sales of held-to-maturity debt securities sold and the related gains and losses in the year ended March 31, 2002 were as follows (The Companies had no sales of held-to-maturity debt securities in the year ended March 31, 2001.):

| Year ended March 31, 2002 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Book value | ¥4,027 | $30,278 |
| Sales of held-to-maturity debt securities | 4,644 | 34,917 |
| Gain on sale | 617 | 4,639 |

The Companies sold all held-to-maturity debt securities in the year ended March 31, 2002, mainly to appropriate the financing for establishment of subsidiaries.

(5) Total sales of available-for-sale securities sold and the related gains and losses in the years ended March 31, 2002 and 2001 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Year ended March 31 | 2002 | 2001 | 2002 |
| Sales of available-for-sale securities | ¥2,878 | ¥6,991 | $21,639 |
| Gains on sales of available-for-sale securities | 1,554 | 4,010 | 11,684 |
| Losses on sales of available-for-sale securities | 175 | 162 | 1,316 |

(6) The following table summarizes book values of available-for-sale securities with no available fair values as of March 31, 2002 and 2001:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| At March 31 | 2002 | 2001 | 2002 |
| Non-listed equity securities | ¥606 | ¥653 | $4,557 |
| Others | 16 | 16 | 120 |
| Total | ¥622 | ¥669 | $4,677 |

## 6. Derivative financial instruments

The Companies utilize derivative financial instruments such as foreign currency forward contracts and currency and interest rate swaps to reduce market risks of fluctuations in foreign currency exchange rates and interest rates 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.

Market value information as of March 31, 2001 of derivative transactions for which hedge accounting had not been applied was as follows:

| At March 31, 2001 | Millions of yen | | |
|---|---|---|---|
| | Contract amounts (Excess of one year) | Market value | Unrealized gains |
| Currency and interest rate swaps | | | |
| Receiving fixed interest in Japanese yen | ¥748 | ¥99 | ¥99 |
| Paying floating interest in Canadian dollars | (¥733) | | |
| Total | ¥748<br>(¥733) | ¥99 | ¥99 |

Market value and other information on derivative financial instruments at March 31, 2002 is not disclosed, because the Companies adopted hedge accounting for such instruments.

## 7. Inventories

Inventories at March 31, 2002 and 2001 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2002 | 2001 | 2002 |
| Finished goods | ¥11,246 | ¥12,348 | $ 84,556 |
| Semi-finished goods | 2,039 | 1,612 | 15,331 |
| Work in process | 1,324 | 1,401 | 9,955 |
| Raw materials and supplies | 6,545 | 6,863 | 49,211 |
| | ¥21,154 | ¥22,224 | $159,053 |

## 8. 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 31, 2002 and 2001 was as follows:

| At March 31, 2002 | Millions of yen | Thousands of U.S. dollars | Interest rates |
|---|---|---|---|
| Bank loans | ¥ 9,703 | $ 72,955 | 0.32%–5.58% |
| Commercial paper | 5,000 | 37,594 | 0.03% |
| | ¥14,703 | $110,549 | |

| At March 31, 2001 | Millions of yen | Interest rates |
|---|---|---|
| Bank loans | ¥ 9,369 | 0.45%–7.40% |
| Commercial paper | 3,000 | 0.21% |
| | ¥12,369 | |

Long-term debt at March 31, 2002 and 2001 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2002 | 2001 | 2002 |
| 2.2% domestic convertible sinking fund bonds convertible into common stock at ¥651 ($4.89) per share due May 2002 | ¥ 345 | ¥ 521 | $ 2,594 |
| 1.2% domestic convertible bonds convertible into common stock at ¥716 ($5.38) per share due 2006 | 20,183 | 20,187 | 151,752 |
| Secured loans from banks and government agencies due through 2006 with interest rates ranging from 2.08% to 5.50% at March 31, 2002 | 1,136 | 2,309 | 8,542 |
| Unsecured loans from banks and a company due through 2006 with interest rates ranging from 2.96% to 6.86% at March 31, 2002 | 342 | 135 | 2,571 |
| | 22,006 | 23,152 | 165,459 |
| Less amount due within one year | (1,143) | (1,009) | (8,594) |
| | ¥20,863 | ¥22,143 | $156,865 |

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 ($28,571 thousand) plus the aggregate amount of earnings of the Company (as defined in the indentures) during the years for which the bonds are outstanding. In this connection interim cash dividends are regarded as a part of the cash dividends made in the previous period.

At March 31, 2002, the number of common stock issuable upon full conversion of outstanding convertible bonds was 28,718 thousand shares.

The annual maturities of long-term debt at March 31, 2002 were as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2003 | ¥ 1,143 | $ 8,594 |
| 2004 | 276 | 2,075 |
| 2005 | 201 | 1,511 |
| 2006 | 203 | 1,527 |
| 2007 | 20,183 | 151,752 |

At March 31, 2002, assets pledged as collateral were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Investment securities | ¥ 451 | $ 3,391 |
| Property, plant and equipment | 2,490 | 18,722 |
| Land | 41 | 308 |

At March 31, 2002, obligations with collateral pledged were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Short-term debt | ¥ 32 | $ 241 |
| Long-term debt | 1,136 | 8,541 |
| | ¥1,168 | $8,782 |

## 9. 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 rates on income before income taxes were approximately 42% for the years ended March 31, 2002, 2001 and 2000.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2002 and 2001 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2002 | 2001 | 2002 |
| Deferred tax assets: | | | |
| Retirement benefits of employees | ¥ 3,298 | ¥ 1,655 | $ 24,797 |
| Amortization of prior service cost of the pension plan | 2,565 | 1,677 | 19,286 |
| Excess bonuses accrued | 640 | 516 | 4,812 |
| Cost of business acquisition | 537 | 298 | 4,038 |
| Unrealized gains on property, plant and equipment | 512 | 692 | 3,850 |
| Retirement benefits of directors and statutory auditors | 278 | 234 | 2,090 |
| Loss on devaluation of securities | 234 | – | 1,759 |
| Net operating loss carryforwards | 220 | 140 | 1,654 |
| Provision for doubtful accounts | 195 | 256 | 1,466 |
| Unrealized gains on inventories | – | 319 | – |
| Enterprise tax | – | 271 | – |
| Others | 1,409 | 675 | 10,594 |
| Total deferred tax assets | 9,888 | 6,733 | 74,346 |
| Valuation allowance | (1,222) | (177) | (9,188) |
| Net deferred tax assets | ¥ 8,666 | ¥ 6,556 | $ 65,158 |
| Deferred tax liabilities: | | | |
| Gain on securities contributed to employee retirement benefits trust | ¥(2,968) | ¥(2,113) | $(22,316) |
| Deferred gains on property, plant and equipment | (2,457) | (2,530) | (18,474) |
| Contribution to retirement benefits of employees' | (1,439) | (487) | (10,820) |
| Net unrealized holding gains on securities | (1,112) | - | (8,361) |
| Others | (1,516) | (1,015) | (11,398) |
| Total deferred tax liabilities | ¥(9,492) | ¥(6,145) | $(71,369) |
| Net deferred tax assets (liabilities) | ¥ (826) | ¥ 411 | $ (6,211) |

The differences between the statutory tax rate and the Companies' actual effective tax rate for financial statement purposes for the years ended March 31, 2002 and 2001 were as follows:

| | 2002 | 2001 |
|---|---|---|
| Statutory tax rate | 42.0% | 42.0% |
| Permanently non-deductible expenses | 2.7 | 0.9 |
| Permanently non-taxable income | (4.8) | (1.4) |
| Effect of differences between tax rates in Japan and in other countries | (12.2) | (4.2) |
| Other, net | 2.3 | 1.0 |
| Actual effective tax rate | 30.0% | 38.3% |

## 10. Employees' severance and pension benefits

As explained in Note 2 (Employees' severance and retirement benefits), effective April 1, 2000, the Companies adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2002 and 2001 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| At March 31 | 2002 | 2001 | 2002 |
| Projected benefit obligation | ¥ 24,119 | ¥ 23,476 | $ 181,346 |
| Less fair value of pension assets | (21,068) | (19,968) | (158,406) |
| Less unrecognized actuarial differences | (219) | – | (1,647) |
| Prepaid benefit expenses | 435 | 81 | 3,271 |
| Liability for severance and retirement benefits | ¥ 3,267 | ¥ 3,589 | $ 24,564 |

Severance and retirement benefit expenses, included in the consolidated statements of income for the years ended March 31, 2002 and 2001, are comprised of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Year ended March 31 | 2002 | 2001 | 2002 |
| Service costs—benefits earned during the year | ¥ 984 | ¥ 846 | $ 7,399 |
| Interest cost on projected benefit obligation | 858 | 520 | 6,451 |
| Expected return on plan assets | (431) | (301) | (3,241) |
| Amortization of prior service costs | – | 543 | – |
| Amortization of actuarial differences | 3,014 | 1,955 | 22,662 |
| Amortization of net transition obligation | – | 3,043 | – |
| Severance and retirement benefit expenses | ¥4,425 | ¥6,606 | $33,271 |

The discount rates and rates of expected return on plan assets used by the Companies are as follows:

| | 2002 | 2001 |
|---|---|---|
| Discount rate: | | |
| Domestic companies | 3.0% | 3.0% |
| Overseas companies | 7.3%–7.5% | 7.3%–7.5% |
| Expected return on plan assets | 1.5% | 3.0% |

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Prior service cost and actuarial gains/losses are recognized in the statements of income when they are determined actuarially.

Total charges with respect to retirement benefits and pension costs included in costs and expenses were ¥3,781 million for the year ended March 31, 2000.

## 11. Shareholders' equity

Under the Code, at least 50% of the issue price of new shares 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 provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains equal to or exceeds 25% of common stock, it is available for distributions by resolution of the shareholders' meeting. At March 31, 2002 and 2001, legal reserve of the Company amounting to ¥4,137 million ($31,105 thousand) and ¥4,010 million were included in retained earnings in the accompanying consolidated financial statements, respectively.

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

In the year ended March 31, 2001, the Company issued shares relating to a merger with Bakelite Shoji Co., Ltd., a former consolidated subsidiary, and relating to a share exchange with minority shareholders of Artlite Kogyo Co., Ltd.

## 12. Information on lease transactions

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

| | Millions of yen | | |
|---|---|---|---|
| At March 31, 2002 | Machinery and equipment | Other assets | Total |
| Acquisition cost, accumulated depreciation and ending balance of leased assets: | | | |
| Acquisition cost | ¥1,306 | ¥163 | ¥1,469 |
| Accumulated depreciation | 686 | 103 | 789 |
| Ending balance | ¥ 620 | ¥ 60 | ¥ 680 |
| At March 31, 2001 | | | |
| Acquisition cost, accumulated depreciation and ending balance of leased assets: | | | |
| Acquisition cost | ¥1,427 | ¥200 | ¥1,627 |
| Accumulated depreciation | 696 | 112 | 808 |
| Ending balance | ¥ 731 | ¥ 88 | ¥ 819 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| At March 31, 2002 | Machinery and equipment | Other assets | Total |
| Acquisition cost, accumulated depreciation and ending balance of leased assets: | | | |
| Acquisition cost | $9,820 | $1,225 | $11,045 |
| Accumulated depreciation | 5,158 | 774 | 5,932 |
| Ending balance | $4,662 | $ 451 | $ 5,113 |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2002 | 2001 | 2002 |
| Future lease payments: | | | |
| Due within one year | ¥303 | ¥313 | $2,278 |
| Due after one year | 399 | 519 | 3,000 |
| Total | ¥702 | ¥832 | $5,278 |

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 2002 |
| Lease payments, depreciation and interest expense: | | | | |
| Lease payments | ¥371 | ¥383 | ¥395 | $2,789 |
| Depreciation | 341 | 348 | 364 | 2,564 |
| Interest expense | 30 | 37 | 34 | 225 |

An amount equal to the depreciation is calculated on the basis of a useful life of the lease term and residual value of 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 |
|---|---|---|---|
| | 2002 | 2001 | 2002 |
| Future lease payments: | | | |
| Due within one year | ¥ 6 | ¥1 | $45 |
| Due after one year | 6 | 2 | 45 |
| Total | ¥12 | ¥3 | $90 |

## 13. Segment information

Information by business segment for the years ended March 31, 2002 and 2001 is as follows:

The Companies operate principally in five industry segments: Semiconductor and display materials, Circuits and electronic component materials, High performance plastics, Quality of life products and Others. In the year ended March 31, 2002, the Companies changed their segmentation from three segments (Electronic products, Industrial products and Sales of chemical products and machinery, etc.) to the above five segments. This change was done in order to reflect the present realities of their business more clearly, in the situation where their business areas were expanding.

In addition, in the year ended March 31, 2002, the Companies changed the ranges of corporate assets and corporate expenses. This change was also done in order to reflect the present realities of the segment information more clearly, in the situation where research and development costs and information technology costs increased.

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year ended March 31, 2002 | Semiconductor and display materials | Circuits and electronic component materials | High performance plastics | Quality of life products | Others | Total | Eliminations or corporate | Consolidated |
| Sale: | | | | | | | | |
| Outside customers | ¥41,733 | ¥42,263 | ¥40,256 | ¥29,956 | ¥563 | ¥154,771 | ¥ – | ¥154,771 |
| Inter-segment | 10 | – | 310 | 152 | – | 472 | (472) | – |
| Total sales | 41,743 | 42,263 | 40,566 | 30,108 | 563 | 155,243 | (472) | 154,771 |
| Operating expenses | 37,882 | 40,167 | 39,897 | 28,639 | 213 | 146,798 | 2,652 | 149,450 |
| Operating income | ¥ 3,861 | ¥ 2,096 | ¥ 669 | ¥ 1,469 | ¥350 | ¥ 8,445 | ¥ (3,124) | ¥ 5,321 |
| Identifiable assets | ¥47,697 | ¥53,396 | ¥53,055 | ¥39,191 | ¥764 | ¥194,103 | ¥15,409 | ¥209,512 |
| Depreciation and amortization | 2,872 | 2,797 | 2,770 | 1,168 | 85 | 9,692 | 271 | 9,963 |
| Capital expenditures | 3,019 | 3,060 | 3,939 | 1,708 | 135 | 11,861 | 1,111 | 12,972 |

"Eliminations or corporate" in the "Operating expenses" column of the preceding information included corporate expenses of ¥3,071 million ($23,090 thousand) in the year ended March 31, 2002, which consisted principally of basic research and development costs and general and administrative costs accounted by the Company.

"Eliminations or corporate" in the "Identifiable assets" column of the above information included corporate assets of ¥15,583 million ($117,165 thousand) at March 31, 2002, which consisted principally of cash, time deposits, loans receivable, investments in securities, basic research and development assets and general and administrative assets held by the Company.

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year ended March 31, 2001 | Semiconductor and display materials | Circuits and electronic component materials | High performance plastics | Quality of life products | Others | Total | Eliminations or corporate | Consolidated |
| Sale: | | | | | | | | |
| Outside customers | ¥56,236 | ¥46,831 | ¥31,698 | ¥35,198 | ¥17,205 | ¥187,168 | ¥ – | ¥187,168 |
| Inter-segment | – | – | 315 | 792 | 1,477 | 2,584 | (2,584) | – |
| Total sales | 56,236 | 46,831 | 32,013 | 35,990 | 18,682 | 189,752 | (2,584) | 187,168 |
| Operating expenses | 42,790 | 44,853 | 29,262 | 33,331 | 18,119 | 168,355 | 29 | 168,384 |
| Operating income | ¥13,446 | ¥ 1,978 | ¥ 2,751 | ¥ 2,659 | ¥ 563 | ¥ 21,397 | ¥ (2,613) | ¥ 18,784 |
| Identifiable assets | ¥53,321 | ¥49,347 | ¥50,895 | ¥38,083 | ¥ 2,231 | ¥193,877 | ¥17,520 | ¥211,397 |
| Depreciation and amortization | 2,669 | 2,599 | 1,708 | 1,231 | 120 | 8,327 | 213 | 8,540 |
| Capital expenditures | 3,357 | 2,333 | 11,849 | 754 | 183 | 18,476 | 157 | 18,633 |

"Eliminations or corporate" in the "Operating expenses" column of the above information included corporate expenses of ¥2,691 million in the year ended March 31, 2001, which consisted principally of basic research and development costs and general and administrative costs accounted by the Company.

"Eliminations or corporate" in the "Identifiable assets" column of the above information included corporate assets of ¥17,792 million at March 31, 2001, which consisted principally of cash, time deposits, loans receivable, investments in securities, basic research and development assets and general and administrative assets held by the Company.

| | Thousands of U.S. dollars | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year ended March 31, 2002 | Semiconductor and display materials | Circuits and electronic component materials | High performance plastics | Quality of life products | Others | Total | Eliminations or corporate | Consolidated |
| Sale: | | | | | | | | |
| Outside customers | $313,782 | $317,767 | $302,677 | $225,233 | $4,233 | $1,163,692 | $ – | $1,163,692 |
| Inter-segment | 75 | – | 2,331 | 1,143 | – | 3,549 | (3,549) | – |
| Total sales | 313,857 | 317,767 | 305,008 | 226,376 | 4,233 | 1,167,241 | (3,549) | 1,163,692 |
| Operating expenses | 284,827 | 302,008 | 299,977 | 215,331 | 1,602 | 1,103,745 | 19,939 | 1,123,684 |
| Operating income | $ 29,030 | $ 15,759 | $ 5,031 | $ 11,045 | $2,631 | $ 63,496 | $(23,488) | $ 40,008 |
| Identifiable assets | $358,624 | $401,474 | $398,910 | $294,669 | $5,744 | $1,459,421 | $115,857 | $1,575,278 |
| Depreciation and amortization | 21,594 | 21,030 | 20,827 | 8,782 | 639 | 72,872 | 2,038 | 74,910 |
| Capital expenditures | 22,699 | 23,008 | 29,617 | 12,842 | 1,015 | 89,181 | 8,353 | 97,534 |

Information by the former three industry segments for the years ended March 31, 2001 and 2000 is as follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| Year ended March 31, 2001 | Electronic products | Industrial products | Sales of chemical products and machinery, etc. | Total | Eliminations or corporate | Consolidated |
| Sales: | | | | | | |
| Outside customers | ¥103,067 | ¥66,895 | ¥17,206 | ¥187,168 | ¥ – | ¥187,168 |
| Inter-segment | – | 1,109 | 1,477 | 2,586 | (2,586) | – |
| Total sales | 103,067 | 68,004 | 18,683 | 189,754 | (2,586) | 187,168 |
| Operating expenses | 89,248 | 63,654 | 18,119 | 171,021 | (2,637) | 168,384 |
| Operating income | ¥ 13,819 | ¥ 4,350 | ¥ 564 | ¥ 18,733 | ¥ 51 | ¥ 18,784 |
| Identifiable assets | ¥104,080 | ¥89,724 | ¥ 2,231 | ¥196,035 | ¥15,362 | ¥211,397 |
| Depreciation and amortization | 5,364 | 2,985 | 119 | 8,468 | 72 | 8,540 |
| Capital expenditures | 5,818 | 12,632 | 183 | 18,633 | 0 | 18,633 |

"Eliminations or corporate" in the "Identifiable assets" column of the above information included corporate assets of ¥15,633 million at March 31, 2001, which consisted principally of cash, time deposits, loans receivable, investments in securities and administrative departments' assets.

The Companies adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999) as described in Note 2. The effect of the new accounting standard for the year ended March 31, 2001 was immaterial.

In addition, the Companies adopted the new Japanese accounting standard for retirement benefits ("Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits" issued by the Business Accounting Deliberation Council on June 16, 1998) as described in Note 2. As a result of the adoption of the new accounting standard, operating income for the year ended March 31, 2001 increased by ¥217 million for Electronic products, and by ¥154 million for Industrial products and decreased by ¥8 million for Sale of chemical products and machinery, etc, respectively.

Capital expenditures for Industrial products, in the year ended March 31, 2001, included increase of property, plant and equipment by business acquisition.

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| Year ended March 31, 2000 | 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 | ¥ 561 | ¥ 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 |

"Eliminations or corporate" in the "Identifiable assets" column of the above information included corporate assets of ¥47,383 million at March 31, 2000, which consisted principally of cash, time deposits, loans receivable, investments in securities and administrative departments' assets.

Information by geographic area for the years ended March 31, 2002 and 2001 is as follows:

In the year ended March 31, 2002, "North America" was separated from "Others," because the segment's materiality increased.

In addition, in the year ended March 31, 2002, the Companies changed the ranges of corporate assets and corporate expenses. This change was done in order to reflect the present realities of the segment information, in the situation where research and development costs and information technology costs increased.

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| Year ended March 31, 2002 | Domestic | Asia | North America | Others | Total | Eliminations or corporate | Consolidated |
| Sale: | | | | | | | |
| Outside customers | ¥ 96,516 | ¥34,531 | ¥17,805 | ¥5,919 | ¥154,771 | ¥ – | ¥154,771 |
| Inter-segment | 10,016 | 4,450 | 304 | 100 | 14,870 | (14,870) | – |
| Total sales | 106,532 | 38,981 | 18,109 | 6,019 | 169,641 | (14,870) | 154,771 |
| Operating expenses | 100,408 | 37,305 | 18,008 | 5,981 | 161,702 | (12,252) | 149,450 |
| Operating income | ¥ 6,124 | ¥ 1,676 | ¥ 101 | ¥ 38 | ¥ 7,939 | ¥ (2,618) | ¥ 5,321 |
| Identifiable assets | ¥159,257 | ¥43,184 | ¥20,968 | ¥3,563 | ¥226,972 | ¥(17,460) | ¥209,512 |

"Eliminations or corporate" in the "Operating expenses" column of the above information included corporate expenses of ¥3,071 million ($23,090 thousand) in the year ended March 31, 2002, which consisted principally of basic research and development costs and general and administrative costs accounted by the Company.

"Eliminations or corporate" in the "Identifiable assets" column of the above information included corporate assets of ¥15,583 million ($117,165 thousand) at March 31, 2002, which consisted principally of cash, time deposits, loans receivable, investments in securities, basic research and development assets and general and administrative assets held by the Company.

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| Year ended March 31, 2001 | Domestic | Asia | North America | Others | Total | Eliminations or corporate | Consolidated |
| Sale: | | | | | | | |
| Outside customers | ¥138,890 | ¥36,702 | ¥ 8,672 | ¥2,904 | ¥187,168 | ¥ – | ¥187,168 |
| Inter-segment | 13,921 | 5,625 | 131 | 2 | 19,679 | (19,679) | – |
| Total sales | 152,811 | 42,327 | 8,803 | 2,906 | 206,847 | (19,679) | 187,168 |
| Operating expenses | 136,970 | 36,426 | 8,904 | 2,899 | 185,199 | (16,815) | 168,384 |
| Operating income (loss) | ¥ 15,841 | ¥ 5,901 | ¥ (101) | ¥ 7 | ¥ 21,648 | ¥ (2,864) | ¥ 18,784 |
| Identifiable assets | ¥165,412 | ¥36,903 | ¥19,646 | ¥2,787 | ¥224,748 | ¥(13,351) | ¥211,397 |

"Eliminations or corporate" in the "Operating expenses" column of the above information included the corporate expenses of ¥2,691 million in the year ended March 31, 2001, which consisted principally of basic research and development costs and general administrative costs accounted by the Company.

"Eliminations or corporate" in the "Identifiable assets" column of the above information included the corporate assets of ¥17,792 million at March 31, 2001, which consisted principally of cash, time deposits, loans receivable, investments in securities, basic research and development assets and general and administrative assets held by the Company.

| Year ended March 31, 2002 | Domestic | Asia | North America | Others | Total | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| | Thousands of U.S. dollars | | | | | | |
| Sale: | | | | | | | |
| Outside customers | $ 725,684 | $259,632 | $133,872 | $44,504 | $1,163,692 | $ – | $1,163,692 |
| Inter-segment | 75,308 | 33,459 | 2,286 | 752 | 111,805 | (111,805) | – |
| Total sales | 800,992 | 293,091 | 136,158 | 45,256 | 1,275,497 | (111,805) | 1,163,692 |
| Operating expenses | 754,947 | 280,489 | 135,398 | 44,970 | 1,215,804 | (92,120) | 1,123,684 |
| Operating income | $ 46,045 | $ 12,602 | $ 760 | $ 286 | $ 59,693 | $ (19,685) | $ 40,008 |
| Identifiable assets | $1,197,421 | $324,692 | $157,654 | $26,789 | $1,706,556 | $(131,278) | $1,575,278 |

Information by the former three geographic segments for the years ended March 31, 2001 and 2000 is as follows:

| Year ended March 31, 2001 | Domestic | Asia | Other | Total | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|
| | Millions of yen | | | | | |
| Sales: | | | | | | |
| Outside customers | ¥138,889 | ¥36,702 | ¥11,577 | ¥187,168 | ¥ – | ¥187,168 |
| Inter-segment | 13,921 | 5,625 | 132 | 19,678 | (19,678) | – |
| Total sales | 152,810 | 42,327 | 11,709 | 206,846 | (19,678) | 187,168 |
| Operating expenses | 139,662 | 36,426 | 11,802 | 187,890 | (19,506) | 168,384 |
| Operating income (loss) | ¥ 13,148 | ¥ 5,901 | ¥ (93) | ¥ 18,956 | ¥ (172) | ¥ 18,784 |
| Identifiable assets | ¥167,570 | ¥36,903 | ¥22,433 | ¥226,906 | ¥(15,509) | ¥211,397 |

"Eliminations or corporate" in the "Identifiable assets" column of the above information included the corporate assets of ¥15,633 million at March 31, 2001, which consisted principally of cash, time deposits, loans receivable, investments in securities and administrative departments' assets.

The Companies adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999) as described in Note 2. The effect of the new accounting standard for the year ended March 31, 2001 was immaterial.

In addition, the Companies adopted the new Japanese accounting standard for retirement benefits ("Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits" issued by the Business Accounting Deliberation Council on June 16, 1998) as described in Note 2. As a result of the adoption of the new accounting standard, operating income for the year ended March 31, 2001 increased by ¥363 million for Domestic.

| Year ended March 31, 2000 | Domestic | Asia | Other | Total | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|
| | Millions of yen | | | | | |
| Sales: | | | | | | |
| 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 (loss) | ¥ 12,672 | ¥ 3,650 | ¥ (37) | ¥ 16,285 | ¥ 354 | ¥ 16,639 |
| Identifiable assets | ¥163,672 | ¥26,525 | ¥2,939 | ¥193,136 | ¥ 33,153 | ¥226,289 |

"Eliminations or corporate" in the "Identifiable assets" column of the above information included corporate assets of ¥47,383 million at March 31, 2000, which consisted principally of cash, time deposits, loans receivable, investments in securities and administrative departments' assets.

Overseas sales for the years ended March 31, 2002 and 2001 were as follows:

In the year ended March 31, 2002, "North America" was separated from "Others," because this segment's materiality increased.

| | Millions of yen | | | |
|---|---|---|---|---|
| Year ended March 31, 2002 | Asia | North America | Other | Total |
| Overseas sales | ¥44,261 | ¥15,491 | ¥5,588 | ¥ 65,340 |
| Consolidated net sales | | | | 154,771 |
| Percent against consolidated net sales | 28.6% | 10.0% | 3.6% | 42.2% |
| Year ended March 31, 2001 | | | | |
| Overseas sales | ¥53,894 | ¥3,354 | ¥4,269 | ¥ 61,517 |
| Consolidated net sales | | | | 187,168 |
| Percent against consolidated net sales | 28.8% | 1.8% | 2.3% | 32.9% |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| Year ended March 31, 2002 | Asia | North America | Other | Total |
| Overseas sales | $332,789 | $116,474 | $42,015 | $ 491,278 |
| Consolidated net sales | | | | 1,163,692 |
| Percent against consolidated net sales | 28.6% | 10.0% | 3.6% | 42.2% |

Information by the former two segments for the years ended March 31, 2001 and 2000 is as follows:

| | Millions of yen | | |
|---|---|---|---|
| Year ended March 31, 2001 | Asia | Other | Total |
| Overseas sales | ¥53,894 | ¥7,623 | ¥ 61,517 |
| Consolidated net sales | | | 187,168 |
| Percent against consolidated net sales | 28.8% | 4.1% | 32.9% |
| Year ended March 31, 2000 | 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% |

## 14. Contingent liabilities

At March 31, 2002, the Companies were contingently liable as follows:

(i) Repurchase of notes discounted or endorsed: ¥22 million ($165 thousand)
(ii) Repurchase of installment accounts receivable sold to a commercial finance company: ¥354 million ($2,662 thousand)
(iii) Guarantees for bank borrowings of employees: ¥3 million ($23 thousand)
(iv) Guarantees for an affiliated company's receivables due: ¥7 million ($53 thousand)

## 15. Subsequent events

At the general meeting of shareholders of the Company held on June 27, 2002, retained earnings at March 31, 2002, were appropriated as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Year-end cash dividends ¥5 ($0.04) per share | ¥1,185 | $8,910 |
| Bonuses to directors and statutory auditors | 70 | 526 |

# REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Sumitomo Bakelite Company Limited
Years ended March 31, 2002, 2001 and 2000

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, 2002 and 2001, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2002, 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, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2002 in conformity with accounting principles generally accepted in Japan (Note 1) applied on a consistent basis, except as noted in the following paragraphs.

As explained in Note 3 to the consolidated financial statements, effective April 1, 1999, Sumitomo Bakelite Company Limited and certain subsidiaries changed the method of accounting for prior service cost with respect to the pension plan, with which we concur.

As explained in Note 2 to the consolidated financial statements, Sumitomo Bakelite Company Limited and subsidiaries have adopted new accounting standards for employees' severance and retirement benefits, financial instruments and foreign currency translation for the year ended March 31, 2001, and new accounting standard for income taxes for the year ended March 31, 2000.

As explained in Note 13 to the consolidated financial statements, in the year ended March 31, 2002, Sumitomo Bakelite Company Limited and subsidiaries changed their segmentation and the ranges of corporate assets and the corporate expenses, 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.

Asahi & Co.

Tokyo, Japan
June 27, 2002

# ENVIRONMENTAL ACCOUNTING
Sumitomo Bakelite Company Limited

In fiscal 2000, Sumitomo Bakelite adopted environmental accounting as an effective tool to implement business activities in tune with the environment. Environmental accounting quantifies the effect and cost in association with environmental conservation. It is an excellent tool to promote environmentally conscious business activities more efficiently and enhance understanding of the Company's efforts through the disclosure to external stakeholders.

With reference to "Guideline for Introducing an Environmental Accounting System (2000 Version)" published by the Ministry of the Environment, the Company established a framework for quantitatively measuring progress in its activities to reduce environmental burden. Under the framework, we continue to make efforts to evaluate the environmental conservation activities based on our own compilation methods. We continue to enhance the effectiveness of our compilation methods through ongoing reviews and reassessment.

In fiscal 2000, we first applied environmental accounting to five plants and two laboratories. In fiscal 2001, we expanded the scope of our environmental accounting to six more domestic group companies (outlined below).

## Environmental Conservation Costs for Fiscal 2001

| Category | Investment (Millions of yen) | Expenses (Millions of yen) | Description |
|---|---|---|---|
| (A) Restrain emissions to the environment | ¥103 | ¥122 | Installation of exhaust gas processing<br>Installation of scrubber |
| (B) Energy saving | 39 | 2 | Renovation of air conditioner<br>Replacement of energy-saving transformers |
| (C) Reduction of industrial waste, promotion of recycling, and waste treatment | 23 | 462 | Facilities compatible with recycling<br>Waste treatment |
| (D) Product evaluation at R&D stage | – | 320 | R&D for environmentally friendly products |
| (E) Environmental management activities | – | 174 | Maintenance of ISO 14001 certification<br>Personnel cost for environmental management activities |
| (F) Contributions to social activities | 3 | 59 | Greening activities and maintenance<br>Pollution burden fund |
| (G) Response to environmental damage | – | – | |
| Total | ¥168 | ¥1,139 | |

Period: April 2001 through March 2002

Facilities included in scope of accounting: Amagasaki, including subsidiaries and affiliated companies on the same site, Shizuoka, including subsidiaries and affiliated companies on the same site, Utsunomiya and Tsu Plants, Fundamental Research Laboratory and Kobe Fundamental Research Laboratory of Sumitomo Bakelite Co., Ltd., Akita Plant of Akita Sumitomo Bakelite Co., Ltd., **Artlite Kogyo Co., Ltd.**, **Tokyo Kakohin Co., Ltd.**, **Hokkai Taiyo Plastic Co., Ltd.**, **Sano Plastic Co., Ltd.**, **Yamaroku Kasei Industry Co., Ltd.**, **Kyushu Bakelite Industry Co., Ltd.**

(The six domestic group companies included from fiscal 2001 are in bold.)

## Compilation

- Compilations were based on the Company's *Environmental Accounting Compilation Guideline* with reference to Environmental Accounting Guidelines (2000 Version and 2002 Version) both published by the Ministry of the Environment.
- Costs were computed within the scope of expenses exclusively allocated for environmental preservation.
- Economic effects were recorded for items calculated based on substantial evidence. Such subjective calculations as risk avoidance effects for items were excluded.
- Expenses do not include depreciation costs.
- With regard to R&D, investment outlays and expenses were compiled along environment-related categories.
- With regard to Green Procurement, cost benefits were unmeasurable, so these are not included in environmental conservation costs.

## Effects of Environmental Conservation for Fiscal 2001

| **Reduction in Environmental Burden*** (Compared with previous fiscal year) | **Environmental Burden** (Fiscal 2001) |
|---|---|
| Reduction in atmospheric emissions of solvents and others: 509 tons | Atmospheric emissions of solvents and others: 2,802 tons |
| Reduction in carbon dioxide emissions: 12,275 tons | Carbon dioxide emissions: 116,187 tons |
| Reduction in industrial waste generated: 2,849 tons<br>Reduction in landfill and external incineration of waste: 762 tons | Industrial waste generated: 10,416 tons<br>Landfill and external incineration of waste: 4,046 tons |

* Reduction in environmental burden was adjusted for the inclusion of six additional group companies.

## Economic Effects for Fiscal 2001

| **Category** | **Amount** (Millions of yen) |
|---|---|
| Reduction in costs due to energy conservation | ¥ 45 |
| Income from recycling | 41 |
| Reduction in costs by circulation of factory drain water | 298 |
| Total | ¥384 |

The *Environmental Report 2002* of Sumitomo Bakelite Co., Ltd., including environmental accounting, was independently reviewed by Asahi & Co.

## DIRECTORS AND CORPORATE AUDITORS

**President**
Tsuneo Moriya

**Executive Vice President**
Osamu Kohno

**Senior Managing Director**
Tomitaroh Ogawa

**Managing Directors**
Takaharu Hayashi
Iwao Yamaguchi
Tetsuya Tokunaga
Shosuke Hachisuka

**Directors**
Akio Kohsai
Tetsuroh Tomita
Shigeru Hayashi
Takeichi Higashiguchi
Hideaki Ezaki
Takeshi Uchimura
Toyoji Okunishi
Nobuaki Sugimoto
Masuo Mizuno
Tsuneo Terasawa
Atsumi Okayama

**Corporate Auditors**
Yamato Matoh
Shoji Kosaka
Hidetaka Kurauchi
Fumio Ogawa

(As of June 27, 2002)

## 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:**
2,463

**Securities Traded:**
Tokyo Stock Exchange, Osaka Securities Exchange, Nagoya Stock Exchange

**Major Subsidiaries and Affiliates:**
** Advanced Plastics Compound Company
* Akita Sumitomo Bakelite Co., Ltd.
* Artlite Kogyo Co., Ltd.
* Bakelite Precision Molding (Shanghai) Co., Ltd.
Bakelite Shoji (Thailand) Co., Ltd.
Bakelite Trading (Shanghai) Co., Ltd.
* BASEC Hong Kong Limited
CMK Europe N.V.
** CMK Singapore (Pte.) Ltd.
** CMKS (Malaysia) Sdn. Bhd.
* Decolanitto Co., Ltd.
* Durez Corporation
* Durez Canada Co., Ltd.
* Hokkai Taiyo Plastic Co., Ltd.
Japan Communication Accessories Manufacturing Co., Ltd.
* Kyushu Bakelite Industry Co., Ltd.
** Nippon Denkai, Ltd.
* N. V. Durez Europe S. A.
Otomo Chemical Co., Ltd.
* P.T. Indopherin Jaya
** P.T. Pamolite Adhesive Industry
* Promerus, Llc.
* Rigidtex Sdn. Bhd.
* S.B. Durez Holding, Inc.
* S.B. Flex Philippines, Inc.
S.B. Information System 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.
* SumiDurez Singapore Pte. Ltd.
* Sumitomo Bakelite Europe B.V.
* Sumitomo Bakelite Hong Kong Co., Ltd.
Sumitomo Bakelite Macau Co., Ltd.
* Sumitomo Bakelite Singapore Pte. Ltd.
* Sumitomo Bakelite (Suzhou) Co., Ltd.
* Sumitomo Bakelite (Taiwan) Co., Ltd.
Sumitomo Bakelite Vietnam 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 to which the equity method is applied

(As of June 27, 2002)

SUMITOMO BAKELITE CO., LTD.

Responsible Care

PRINTED IN JAPAN