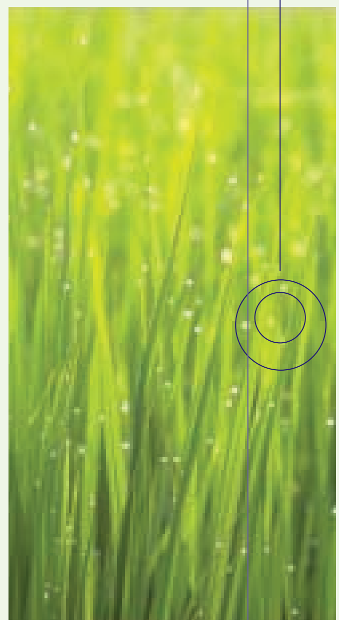
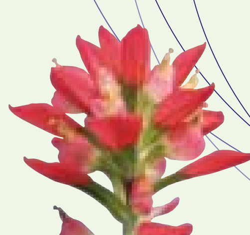
ANNUAL REPORT 2003

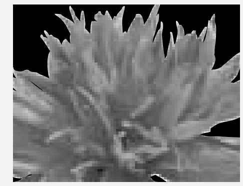


SUMITOMO BAKELITE CO., LTD.



Profile

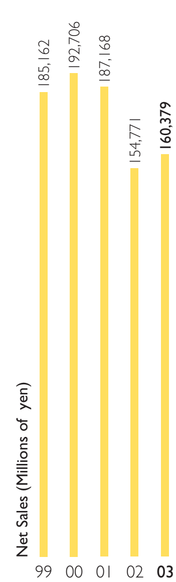
The phenolic resin Bakelite, one of the oldest plastics in use today, was developed more than 80 years ago by a Belgian-American, Dr. Leo H. Baekeland. Shortly thereafter, Sumitomo Bakelite became the first Japanese company to succeed in the industrial production of the material. Ever since, the Company 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.

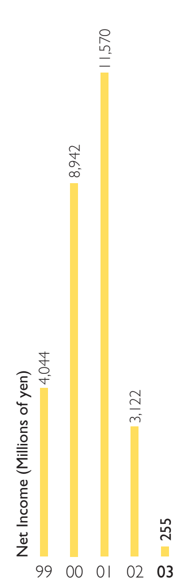


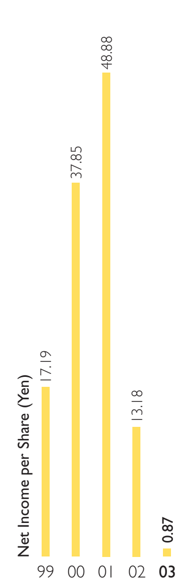
Contents

Years ended March 31	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	2003
Net Sales	¥160,379	¥154,771	¥187,168	$1,336,492
Net Income	255	3,122	11,570	2,125
Total Assets	198,320	209,512	211,397	1,652,667
Shareholders' Equity	114,442	121,978	114,585	953,683
	Yen			U.S. dollars
Net Income per Share	¥ 0.87	¥ 13.18	¥ 48.88	$ 0.00
Diluted Net Income per Share (Note 2)	–	12.33	44.11	–
Cash Dividends per Share	10.00	10.00	9.00	0.08

Notes: 1. U.S. dollar amounts are translated from yen at the rate of ¥120 to US$1, the approximate exchange rate prevailing at March 31, 2003.
2. Diluted Net Income per Share in 2003 is not disclosed, because there was no latent stock that diluted net income per share at March 31, 2003.







Tsuneo Moriya, President

During the fiscal year ended March 31, 2003, the Japanese economy was poised to enter a recovery on the back of increased exports following a rebound in overseas demand at the start of the term. Export growth tapered off in the summer, however, compounded by weak consumer spending and corporate capital investment, extinguishing expectations for a substantial economic recovery. Another significant factor that affected the global economy was a slowdown in consumer demand in the United States, and concerns mounted for a long-term deflationary cycle as seen in Japan.

In Sumitomo Bakelite Co., Ltd.'s main businesses and their related industries, semiconductors showed a slight year-on-year increase, while replacement demand emerged in the second half for mobile phones. However, demand for PCs from corporations continued to stagnate. Automobiles were relatively firm in Japan and overseas.

In this operating environment, Sumitomo Bakelite made every effort to strengthen and expand core businesses, restructure operations, and extend its international reach. Altogether, these effects resulted in consolidated net sales of

¥160,379 million (US$1,336 million), an increase of 3.6% from the previous fiscal year. Consolidated operating income advanced 19.6% to ¥6,363 million (US$53 million), while net income fell 91.8% to ¥255 million (US$2 million).

In the fiscal year ending March 31, 2004, the operating environment looks to remain unclear, with the global economy hinging on a recovery in the U.S. economy after the Iraq war. Growth in the Japanese economy is expected to remain flat, and a recovery is far off on the horizon due to weak exports, falling stock prices and sluggish consumer spending.

Under these circumstances, management has prioritized the following four focal points for the Company's efforts.

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

Second, we will strive to build a rock-solid management foundation that is more immune to the economic vagaries of any given geographical region by raising the ratio of overseas production to over 50%. Further, we will make strenuous efforts to reduce costs by continuing to promote overseas production of precision molded products, medical devices, flexible printed circuit boards, epoxy resin copper-clad laminates and other products.

Third, we aim to develop a higher responsiveness to customer demands from the perspective of quality, delivery, cost and service by leveraging our global network of production bases.

Fourth, we aim to maintain our high level of commitment to contributing to society and protecting the environment.

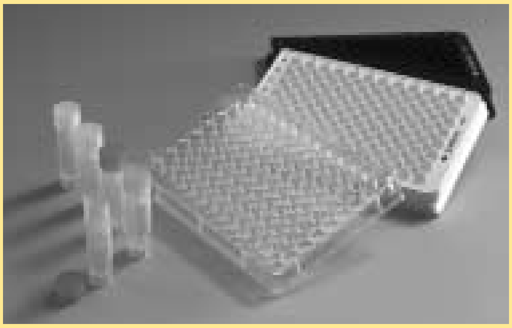
On behalf of Sumitomo Bakelite, I thank you for your ongoing support.

June 2003

Tsuneo Moriya

Tsuneo Moriya
President

Protein Non-Adsorbent Devices



Around the world, medical research is exploring new technologies such as genetic analysis and tailor-made medicines that apply biotechnology. Backed by its accumulated plastic processing technologies, Sumitomo Bakelite provides a variety of plastic vessels, plates and devices for reagent research, inspection and analysis that contribute to the development of new medical technologies. These products feature protein non-adsorbent surfaces made possible by the Company's proprietary surface treatment technologies. They have earned a strong reputation in the protein science field, and Sumitomo Bakelite aims to bolster its product lineup further.

Epoxy resin copper-clad laminates are mainly used in PCs, communications devices and digital home electronics. Sumitomo Bakelite has established Sumitomo Bakelite Macau Co., Ltd. as an overseas production base in Macau, a region near growth markets that features excellent distribution facilities and stable infrastructure. We expect to increase our competitiveness through reductions in material procurement and production costs. Transferring the latest technologies to the new base, we aim to make it into a facility capable of meeting the needs of the IT equipment industry.

Epoxy Resin Copper-Clad Laminates

Expanding Phenolic Resin Operations

In October 2000, Sumitomo Bakelite acquired the phenolic resin division of Occidental Chemical Corporation in the U.S. in a move to expand its international phenolic resin operations. The Company then increased capital investment in two overseas production bases. First, we completed our investment in facilities for automobile components at n.v. Durez Europe s.a. in Belgium in March 2003. This move was made to expand the Company's European market share of resins for automobile components, for which demand is rapidly growing, and to develop new markets in Japan and Asia. Second, we completed expansion of production facilities at P.T. Indopherin Jaya in Indonesia in April 2003. This investment was in response to increasing demand for resins for electronic materials and abrasives.

Environmental preservation is one of the most important issues facing the world today. In Europe, environmental regulations are being tightened ahead of the pending elimination of lead, mercury and bromine-based heat-resistant solvents in nearly all electric and electronic equipment sold in the European Union in July 2006. In response to these social demands, we are speeding up the expansion of our lineup of green products that are easy on the environment. We have developed and are selling the SUMIKON®EME-G Series of semiconductor encapsulation materials, the SUMILITE®ELC-GS Series of multilayer boards, and flexible printed circuit boards that do not use halogen or antimony compounds for adhesives. By March 31, 2006, we aim to increase the ratio of our green products to 30% of total products.

Expanding Lineup of Green Products

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2003	2002	2003
Current assets:			
Cash and cash equivalents	¥ 29,361	¥ 27,224	$ 244,675
Trade receivables:			
Notes	6,548	9,995	54,567
Accounts	31,980	33,706	266,500
Allowance for doubtful accounts	(462)	(423)	(3,850)
Inventories (Notes 3 and 7)	22,246	21,154	185,383
Deferred tax assets (Note 9)	1,403	1,302	11,692
Other current assets	3,348	3,666	27,900
Total current assets	94,424	96,624	786,867
Property, plant and equipment (Note 8):			
Land	7,539	7,766	62,825
Buildings and structures	57,177	54,608	476,475
Machinery and equipment	104,288	101,041	869,067
Construction in progress	2,793	7,578	23,275
	171,797	170,993	1,431,642
Accumulated depreciation	(95,871)	(90,308)	(798,925)
Net property, plant and equipment	75,926	80,685	632,717
Goodwill	1,629	1,835	13,575
Investments and other assets:			
Investment securities (Note 5):			
Unconsolidated subsidiaries and affiliates	15,399	17,305	128,325
Other	3,268	8,421	27,233
Long-term loans receivable:			
Unconsolidated subsidiaries and affiliates	1,194	302	9,950
Employees and other	189	306	1,575
Deferred tax assets (Note 9)	2,132	236	17,767
Other assets	4,968	4,448	41,400
Allowance for doubtful accounts	(809)	(650)	(6,742)
Total investments and other assets	26,341	30,368	219,508
	¥198,320	¥209,512	$1,652,667

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 1) 2003
Current liabilities:			
Short-term debt (Note 8)	¥ 16,308	¥ 14,703	$ 135,900
Long-term debt due within one year (Note 8)	270	1,143	2,250
Trade payables:			
Notes	5,195	7,405	43,292
Accounts	20,927	20,091	174,392
Accrued expenses	5,278	5,519	43,983
Income taxes payable (Note 9)	1,699	1,521	14,158
Deferred tax liabilities (Note 9)	74	—	617
Other current liabilities	2,811	4,525	23,425
Total current liabilities	52,562	54,907	438,017
Long-term debt due after one year (Note 8)	20,587	20,863	171,558
Deferred tax liabilities (Note 9)	914	2,364	7,617
Retirement benefits:			
Employees (Note 10)	4,861	3,267	40,508
Directors and statutory auditors	485	666	4,042
Other long-term liabilities	152	196	1,267
Contingent liabilities (Note 14)			
Minority interests	4,317	5,271	35,975
Shareholders' equity (Note 11):			
Common stock:			
Authorized —800,000,000 shares			
Issued —237,673,694 shares in 2003 and 237,139,403 shares in 2002	27,055	26,917	225,458
Capital surplus	25,270	25,038	210,583
Retained earnings	62,192	64,053	518,267
Net unrealized holding gains (losses) on securities	(509)	1,533	(4,241)
Foreign currency translation adjustments	532	4,452	4,433
Treasury stock, at cost	(98)	(15)	(817)
Total shareholders' equity	114,442	121,978	953,683
	¥198,320	¥209,512	$1,652,667

Consolidated Statements of Income

Sumitomo Bakelite Company Limited
Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	2003
Net sales (Note 13)	¥160,379	¥154,771	¥187,168	$1,336,492
Costs and expenses:				
Cost of sales (Note 13)	117,276	115,557	134,921	977,300
Selling, general and administrative expenses (Note 13)	36,740	33,893	33,463	306,167
	154,016	149,450	168,384	1,283,467
Operating income (Note 13)	6,363	5,321	18,784	53,025
Other income (expenses):				
Interest and dividend income	299	711	984	2,492
Interest expense	(393)	(736)	(807)	(3,275)
Equity in earnings (losses) of affiliated companies	(738)	(260)	571	(6,150)
Loss on sale/disposal of property	(243)	(161)	(852)	(2,025)
Gain on sale of investment securities	182	1,996	4,516	1,517
Loss on devaluation of investment securities	(393)	(539)	(716)	(3,275)
Foreign exchange gain (loss), net	(458)	548	563	(3,817)
Cost of business acquisition (Note 4)	–	(1,018)	(1,976)	–
Merger cost	–	–	(277)	–
Retirement benefits expense	(4,212)	(3,014)	(5,542)	(35,100)
Gain on securities contributed to employees' retirement benefit trust	904	2,035	5,030	7,533
Other, net	(190)	(205)	(474)	(1,583)
	(5,242)	(643)	1,020	(43,683)
Income before income taxes and minority interests	1,121	4,678	19,804	9,342
Income taxes (Note 9):				
Current	2,410	1,612	7,072	20,083
Deferred	(1,546)	(209)	508	(12,883)
	864	1,403	7,580	7,200
Minority interests	(2)	(153)	(654)	(17)
Net income	¥ 255	¥ 3,122	¥ 11,570	$ 2,125

	Yen			U.S. dollars
Amounts per share of common stock:				
Net income	¥ 0.87	¥13.18	¥48.88	$0.00
Diluted net income	–	12.33	44.11	–
Cash dividends applicable to the year	10.00	10.00	9.00	0.08

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Sumitomo Bakelite Company Limited
Years ended March 31, 2003, 2002 and 2001

	Thousands of shares of common stock	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
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)
Net income	–	–	–	255	–	–	–
Net unrealized holding losses arising during the year	–	–	–	–	(2,042)	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	(3,920)	–
Treasury stock	–	–	–	–	–	–	(83)
Cash dividends paid (¥10 per share)	–	–	–	(2,373)	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(70)	–	–	–
Shares issued upon conversion of bonds	423	138	138	–	–	–	–
Shares issued by share exchange (Note 11)	112	–	94	–	–	–	–
Increase in capital surplus due to sale of treasury stock	–	–	0	–	–	–	–
Decrease in retained earnings due to addition of consolidated subsidiaries	–	–	–	(49)	–	–	–
Decrease in retained earnings due to exception of consolidated subsidiaries	–	–	–	(103)	–	–	–
Other (Note 2)	–	–	–	479	–	–	–
Balance at March 31, 2003	237,674	¥27,055	¥25,270	¥62,192	¥ (509)	¥532	¥(98)

	Thousands of shares of common stock	Thousands of U.S. dollars (Note 1)					
		Common stock	Capital surplus	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2002	237,139	$224,308	$208,650	$533,775	$ 12,775	$ 37,100	$(125)
Net income	–	–	–	2,125	–	–	–
Net unrealized holding losses arising during the year	–	–	–	–	(17,016)	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	(32,667)	–
Treasury stock	–	–	–	–	–	–	(692)
Cash dividends paid ($0.08 per share)	–	–	–	(19,775)	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(583)	–	–	–
Shares issued upon conversion of bonds	423	1,150	1,150	–	–	–	–
Shares issued by share exchange (Note 11)	112	–	783	–	–	–	–
Increase in capital surplus due to sale of treasury stock	–	–	0	–	–	–	–
Decrease in retained earnings due to addition of consolidated subsidiaries	–	–	–	(408)	–	–	–
Decrease in retained earnings due to exception of consolidated subsidiaries	–	–	–	(858)	–	–	–
Other (Note 2)	–	–	–	3,991	–	–	–
Balance at March 31, 2003	237,674	$225,458	$210,583	$518,267	$ (4,241)	$ 4,433	$(817)

See accompanying notes.

Consolidated Statements of Cash Flows

Sumitomo Bakelite Company Limited
Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	2003
Cash flows from operating activities:				
Net income	¥ 255	¥ 3,122	¥ 11,570	$ 2,125
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	10,650	10,074	8,570	88,750
Loss on sale/disposal of property, plant and equipment	243	161	852	2,025
Gain on sale of investment securities	(182)	(1,996)	(4,516)	(1,517)
Minority interests	2	153	654	17
Loss on devaluation of investment securities	393	539	716	3,275
Equity in losses (earnings) of affiliated companies	738	260	(571)	6,150
Deferred income taxes	(1,546)	(209)	508	(12,883)
Decrease in notes and accounts receivable	5,568	11,486	8,632	46,400
Decrease (increase) in inventories	(2,050)	2,118	(1,028)	(17,083)
Decrease (increase) in other current assets	763	1,154	(852)	6,358
Decrease in notes and accounts payable	(564)	(9,840)	(6,748)	(4,700)
(Decrease) increase in income taxes payable	143	(2,319)	(2,133)	1,192
(Decrease) increase in other current liabilities	(350)	(1,643)	941	(2,917)
(Decrease) increase in retirement benefits	2,602	(28)	(1,996)	21,683
Other, net	868	670	402	7,233
Net cash provided by operating activities	17,533	13,702	15,001	146,108
Cash flows from investing activities:				
Purchases of investment securities	(1,389)	(2,739)	(2,109)	(11,575)
Proceeds from sale of marketable securities and investment securities	330	8,023	10,168	2,750
Purchases of property, plant and equipment	(10,576)	(12,080)	(6,449)	(88,133)
Proceeds from sale of property, plant and equipment	451	760	543	3,758
Payment for business acquisition (Note 4)	–	(2,484)	(16,654)	–
Proceeds from sale of consolidated subsidiaries with change in scope of consolidation	–	(69)	(409)	–
Decrease (increase) in long-term loans receivable	(155)	657	601	(1,292)
Other	(710)	88	(568)	(5,916)
Net cash used in investing activities	(12,049)	(7,844)	(14,877)	(100,408)
Cash flows from financing activities:				
Increase (decrease) in short-term debt	1,974	1,836	(12,908)	16,450
Repayments of long-term debt	(634)	(1,116)	(1,784)	(5,283)
Cash dividends paid	(2,851)	(2,434)	(2,172)	(23,758)
Proceeds from issuance of stock to minority interests	–	666	–	–
Other	(86)	(14)	(232)	(717)
Net cash used in financing activities	(1,597)	(1,062)	(17,096)	(13,308)
Effect of exchange rate changes on cash	(525)	1,105	1,131	(4,375)
Net increase (decrease) in cash and cash equivalents	3,362	5,901	(15,841)	28,017
Cash and cash equivalents at beginning of year	27,224	20,420	35,992	226,867
Increase in cash and cash equivalents due to addition of consolidated subsidiaries	154	903	465	1,283
Decrease in cash and cash equivalents due to exception of consolidated subsidiaries	(288)	–	(196)	(2,400)
Other (Note 2)	(1,091)	–	–	(9,092)
Cash and cash equivalents at end of year	¥ 29,361	¥27,224	¥ 20,420	$244,675
Supplemental information on cash flows:				
Cash paid during the year for:				
Interest	¥ 399	¥ 771	¥ 826	$ 3,325
Income taxes	2,266	3,931	9,204	18,883
Non-cash investing and financing activities:				
Conversion of convertible bonds into common stock and capital surplus	276	180	207	2,300
Increase in capital surplus due to share exchange	94	–	–	783

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 20.9% (at March 31, 2003) 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 2003, 2002 and 2001 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, 2003, which was ¥120 to US$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 (31 subsidiaries in 2003, 32 subsidiaries in 2002 and 31 subsidiaries in 2001). All significant intercompany balances and transactions have been eliminated in consolidation.

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 2003, 2002 and 2001 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.

The fiscal year of the Company is beginning from April 1 and ending at March 31. On the other hand, all consolidated overseas subsidiaries and a domestic subsidiary have the fiscal year ending at December 31. Up to the fiscal year ended March 31, 2002, the consolidated financial statements had included their financial statements for the year ended December 31, and the certain adjustments had been made for the effects of significant transactions or other events that had occurred from January 1 to March 31.

At the beginning of the fiscal year ended March 31, 2003, the Companies changed the consolidated closing date for all consolidated overseas subsidiaries and a domestic subsidiary from December 31 to March 31.

As a result of this change, net income of these companies for three-months period ended March 31, 2002, amounting to ¥479 million ($3,991 thousand), was not reflected to the consolidated statement of income but to the consolidated statement of shareholders' equity for the year ended March 31, 2003. In addition, this change also gave effect to the statement of cash flows and decreased cash and cash equivalents by ¥1,091 million ($9,092 thousand) for the year ended March 31, 2003.

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 and held-to-maturity debt securities at March 31, 2003 and 2002.

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.

The 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 had been 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. Other securities with no available fair market value are stated at moving-average cost.

If the market value of 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 Companies are required 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.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, hedging instruments and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable,
   (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable translated using the spot rate at the inception date of the contract and the book value of the receivable is recognized in the income statement in the period which includes the inception date, and
   (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized. However, the Companies have never made a forward foreign exchange contract for a future transaction.

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 moving-average method.

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.

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, 2003 and 2002 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 ¥2,066 million ($17,217 thousand), ¥2,545 million and ¥6,988 million to the employees' retirement benefit trust, and the resulting gains amounting to ¥904 million ($7,533 thousand), ¥2,035 million and ¥5,030 million were recognized in the years ended March 31, 2003, 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, 2003, 2002 and 2001 were ¥10,234 million ($85,283 thousand), ¥9,775 million and ¥8,127 million, respectively.

Income taxes

The Companies recognize tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. 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.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at year-end rate.

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. Diluted net income per share in 2003 is not disclosed, because there was no latent stock that diluted net income per share at March 31, 2003.

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

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No.2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No.4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

Net income per share for the year ended March 31, 2002 would have been reported as follows, if this new accounting standard were applied retroactively.

Year ended March 31, 2002	
Net income per share	
Basic	¥12.88
Diluted	12.06

Treasury stock and reversal of statutory reserves

Effective April 1, 2002, the Company and consolidated domestic subsidiaries adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No.1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002).

The effect on net income of the adoption of the new accounting standard was not material.

Reclassifications

Certain prior year amounts have been reclassified to conform to the year 2003 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Change in accounting policies

Effective April 1, 2002, the Company changed the method of valuation for finished goods, semi-finished goods and work in process from the weighted average method to the moving-average method. This change was made in order to strengthen the Company's monthly profit control, by means of introduction of a new cost accounting system.

The effect of this change was to increase operating income and income before income taxes and minority interests by ¥152 million ($1,267 thousand) for the year ended March 31, 2003 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. In the accompanying statement of income for the year ended March 31, 2002, the Companies recognized related expenses amounting to ¥1,018 million 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 for the year ended March 31, 2001, 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, 2003 and 2002:

Securities with book values exceeding acquisition costs:

	Millions of yen		
At March 31, 2003	Acquisition cost	Book value	Difference
Equity securities	¥295	¥389	¥94
Bonds	–	–	–
Others	–	–	–
Total	¥295	¥389	¥94

	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, 2003	Acquisition cost	Book value	Difference
Equity securities	$2,458	$3,241	$783
Bonds	–	–	–
Others	–	–	–
Total	$2,458	$3,241	$783

Securities with available fair values not exceeding book values:

	Millions of yen		
At March 31, 2003	Acquisition cost	Book value	Difference
Equity securities	¥3,203	¥2,278	¥(925)
Bonds	–	–	–
Others	–	–	–
Total	¥3,203	¥2,278	¥(925)

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

	Thousands of U.S. dollars		
At March 31, 2003	Acquisition cost	Book value	Difference
Equity securities	$26,692	$18,984	$(7,708)
Bonds	–	–	–
Others	–	–	–
Total	$26,692	$18,984	$(7,708)

The Companies recognize impairment loss for the securities, whose available fair values significantly 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, 2003 and 2002 were ¥393 million ($3,275 thousand) and ¥530 million, respectively. 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.

(2) 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:

Year ended March 31, 2002	Millions of yen
Book value	¥4,027
Sales of held-to-maturity debt securities	4,644
Gain on sale	617

The Companies sold all held-to-maturity debt securities in the year ended March 31, 2002, to appropriate the financing for establishment of subsidiaries. (In addition, the Companies had no sales of held-to-maturity debt securities in the year ended March 31, 2001.)

(3) Total sales of available-for-sale securities sold and the related gains and losses in the years ended March 31, 2003, 2002 and 2001 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Sales of available-for-sale securities	¥330	¥2,878	¥6,991	$2,750
Gains on sales of available-for-sale securities	182	1,554	4,010	1,517
Losses on sales of available-for-sale securities	–	175	162	–

(4) The following table summarizes book values of available-for-sale securities with no available fair values as of March 31, 2003 and 2002:

	Millions of yen		Thousands of U.S. dollars
At March 31	2003	2002	2003
Non-listed equity securities	¥585	¥606	$4,875
Others	16	16	133
Total	¥601	¥622	$5,008

6. Derivative financial instruments

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

According to the accounting standard for financial instruments, market value and other information on derivative financial instruments at March 31, 2003 and 2002 are not subjected to disclose, because the Companies adopted hedge accounting for those instruments.

7. Inventories

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Finished goods	¥11,152	¥11,246	$ 92,933
Semi-finished goods	1,876	2,039	15,633
Work in process	1,704	1,324	14,200
Raw materials and supplies	7,514	6,545	62,617
	¥22,246	¥21,154	$185,383

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, 2003 and 2002 was as follows:

At March 31, 2003	Millions of yen	Thousands of U.S. dollars	Interest rates
Bank loans	¥11,308	$ 94,233	0.30%–6.90%
Commercial paper	5,000	41,667	0.04%
	¥16,308	$135,900	

At March 31, 2002	Millions of yen	Interest rates
Bank loans	¥ 9,703	0.32%–5.58%
Commercial paper	5,000	0.03%
	¥14,703	

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
2.2% domestic convertible sinking fund bonds convertible into common stock at ¥651 per share due May 2002	¥ –	¥ 345	$ –
1.2% domestic convertible bonds convertible into common stock at ¥716 ($5.96) per share due 2006	20,183	20,183	168,192
Secured loans from banks and government agencies due through 2006 with interest rates ranging from 2.08% to 3.65% at March 31, 2003	641	1,136	5,342
Unsecured loans from banks and a company due through 2006 with interest rates ranging 2.96% at March 31, 2003	33	342	274
	20,857	22,006	173,808
Less amount due within one year	(270)	(1,143)	(2,250)
	¥20,587	¥20,863	$171,558

The indentures relating to the 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 ($31,667 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, 2003, the number of common stock issuable upon full conversion of outstanding convertible bonds was 28,189 thousand shares.

The annual maturities of long-term debt at March 31, 2003 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥ 270	$ 2,250
2005	200	1,666
2006	204	1,700
2007	20,183	168,192

At March 31, 2003, assets pledged as collateral were as follows:

	Millions of yen	Thousands of U.S. dollars
Buildings	¥2,579	$21,492
Land	41	342

At March 31, 2003, obligations with collateral pledged were as follows:

	Millions of yen	Thousands of U.S. dollars
Short-term debt	¥ 60	$ 500
Long-term debt	641	5,342
	¥701	$5,842

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, 2003, 2002 and 2001.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Retirement benefits of employees	¥ 4,310	¥ 3,298	$ 35,917
Amortization of prior service cost of the pension plan	3,974	2,565	33,117
Net operating loss carryforwards	1,124	220	9,367
Excess bonuses accrued	661	640	5,508
Cost of business acquisition	444	537	3,700
Provision for doubtful accounts	369	195	3,075
Unrealized gains on property, plant and equipment	365	512	3,042
Loss on devaluation of securities	341	234	2,842
Net unrealized holding losses on securities	337	–	2,808
Retirement benefits of directors and statutory auditors	192	278	1,600
Others	1,588	1,409	13,232
Total deferred tax assets	13,705	9,888	114,208
Valuation allowance	(1,315)	(1,222)	(10,958)
Net deferred tax assets	¥12,390	¥ 8,666	$103,250
Deferred tax liabilities:			
Gain on securities contributed to employee retirement benefits trust	¥ (3,229)	¥(2,968)	$ (26,908)
Deferred gains on property, plant and equipment	(2,295)	(2,457)	(19,125)
Contribution to funded non-contributory pension plan	(2,061)	(1,439)	(17,175)
Additional depreciation in overseas subsidiaries	(728)	(978)	(6,067)
Net unrealized holding gains on securities	–	(1,112)	–
Others	(1,530)	(538)	(12,750)
Total deferred tax liabilities	¥ (9,843)	¥(9,492)	$ (82,025)
Net deferred tax assets (liabilities)	¥ 2,547	¥ (826)	$ 21,225

The differences between the statutory tax rate and the Companies' actual effective tax rate for financial statement purposes for the years ended March 31, 2003, 2002 and 2001 were as follows:

	2003	2002	2001
Statutory tax rate	42.0%	42.0%	42.0%
Permanently non-deductible expenses	10.8	2.7	0.9
Permanently non-taxable income	(34.5)	(4.8)	(1.4)
Deficits of consolidated subsidiaries	64.7	3.4	–
Dividend income eliminated in consolidation	67.4	–	–
Equity in losses of affiliated companies	27.6	–	–
Tax credit	(14.3)	–	–
Effect of differences between tax rates in Japan and in other countries	(87.3)	(12.2)	(4.2)
Other, net	0.6	(1.1)	1.0
Actual effective tax rate	77.0%	30.0%	38.3%

The effective tax rate used for calculation of deferred taxes assets and liabilities was 42.0% for the year ended March 31, 2002. Effective for the year commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred taxes assets and liabilities, the Company and consolidated domestic subsidiaries used the effective tax rates of 42.0% and 40.8% for current items and non-current items, respectively, for the year ended March 31, 2003.

As the result of the change in the effective tax rates, deferred taxes assets decreased by ¥53 million ($442 thousand) and income taxes-deferred decreased by ¥41 million ($336 thousand) and net unrealized holding losses on securities increased by ¥11 million ($92 thousand) compared with what would have been recorded under the previous local tax law.

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, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
At March 31	2003	2002	2003
Projected benefit obligation	¥ 23,413	¥ 24,119	$ 195,109
Less fair value of pension assets	(19,058)	(21,068)	(158,817)
Less unrecognized actuarial differences	(468)	(219)	(3,900)
Unrecognized prior service costs	886	–	7,383
Prepaid benefit expenses	88	435	733
Liability for severance and retirement benefits	¥ 4,861	¥ 3,267	$ 40,508

Severance and retirement benefit expenses, included in the consolidated statements of income for the years ended March 31, 2003, 2002 and 2001 are comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Service costs—benefits earned during the year	¥ 963	¥ 984	¥ 846	$ 8,025
Interest cost on projected benefit obligation	837	858	520	6,975
Expected return on plan assets	(402)	(431)	(301)	(3,350)
Amortization of actuarial differences	4,631	3,014	1,955	38,592
Amortization of prior service costs	(27)	–	543	(225)
Amortization of net transition obligation	–	–	3,043	–
Severance and retirement benefit expenses	¥6,002	¥4,425	¥6,606	$50,017

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

	2003	2002	2001
Discount rate:			
Domestic companies	3.0%	3.0%	3.0%
Overseas companies	6.5%	7.3%–7.5%	7.3%–7.5%
Expected return on plan assets	1.5%	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 mainly recognized in the statements of income when they are determined actuarially.

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, which is included in capital surplus.

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, 2003 and 2002, legal reserves of the Company amounting to ¥4,137 million ($34,475 thousand) 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.

In the year ended March 31, 2003, the Company issued shares relating to a share exchange with minority shareholders of Yamaroku Kasei Industry 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, 2003	Machinery and equipment	Other assets	Total
Acquisition cost, accumulated depreciation and ending balance of leased assets:			
Acquisition cost	¥1,308	¥139	¥1,447
Accumulated depreciation	783	97	880
Ending balance	¥ 525	¥ 42	¥ 567

	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

	Thousands of U.S. dollars		
At March 31, 2003	Machinery and equipment	Other assets	Total
Acquisition cost, accumulated depreciation and ending balance of leased assets:			
Acquisition cost	$10,900	$1,158	$12,058
Accumulated depreciation	6,525	808	7,333
Ending balance	$ 4,375	$ 350	$ 4,725

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Future lease payments:			
Due within one year	¥293	¥303	$2,442
Due after one year	296	399	2,466
Total	¥589	¥702	$4,908

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Lease payments, depreciation and interest expense:				
Lease payments	¥352	¥371	¥383	$2,933
Depreciation	318	341	348	2,650
Interest expense	32	30	37	267

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
	2003	2002	2003
Future lease payments:			
Due within one year	¥6	¥ 6	$50
Due after one year	2	6	17
Total	¥8	¥12	$67

13. Segment information

Information by business segment for the years ended March 31, 2003, 2002 and 2001 is as follows:

	Millions of yen							
Year ended March 31, 2003	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	¥49,229	¥38,310	¥42,829	¥29,386	¥625	¥160,379	¥ –	¥160,379
Inter-segment	26	–	980	467	332	1,805	(1,805)	–
Total sales	49,255	38,310	43,809	29,853	957	162,184	(1,805)	160,379
Operating expenses	40,653	38,349	42,517	28,918	801	151,238	2,778	154,016
Operating income (loss)	¥ 8,602	¥ (39)	¥ 1,292	¥ 935	¥156	¥ 10,946	¥ (4,583)	¥ 6,363
Identifiable assets	¥50,909	¥49,896	¥50,709	¥35,905	¥688	¥188,107	¥10,213	¥198,320
Depreciation and amortization	2,877	3,077	2,984	1,119	94	10,151	350	10,501
Capital expenditures	1,987	3,149	2,498	684	65	8,383	290	8,673

"Eliminations or corporate" in the "Operating expenses" column of the above information included corporate expenses of ¥4,577 million ($38,142 thousand) in the year ended March 31, 2003, 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 ¥10,464 million ($87,200 thousand) at March 31, 2003, 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.

As described in Note 3, the Company changed the method of valuation for finished goods, semi-finished goods and work in process from the weighted average method to the moving-average method in the year ended March 31, 2003.

As a result of this change, operating income increased in the Semiconductor and display materials segment by ¥84 million ($700 thousand) and in the Circuits and electronic component materials segment by ¥20 million ($167 thousand), decreased in the High performance plastics segment by ¥49 million ($408 thousand), and increased in the Quality of life products segment by ¥97 million ($808 thousand).

	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 above information included corporate expenses of ¥3,071 million 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 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.

Year ended March 31, 2001	Millions of yen 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.

Year ended March 31, 2003	Thousands of U.S. dollars 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	$410,242	$319,250	$356,908	$244,883	$5,209	$1,336,492	$ –	$1,336,492
Inter-segment	217	–	8,167	3,892	2,766	15,042	(15,042)	–
Total sales	410,459	319,250	365,075	248,775	7,975	1,351,534	(15,042)	1,336,492
Operating expenses	338,775	319,575	354,308	240,983	6,676	1,260,317	23,150	1,283,467
Operating income (loss)	$ 71,684	$ (325)	$ 10,767	$ 7,792	$1,299	$ 91,217	$(38,192)	$ 53,025
Identifiable assets	$424,242	$415,800	$422,575	$299,208	$5,733	$1,567,558	$ 85,109	$1,652,667
Depreciation and amortization	23,975	25,642	24,867	9,325	783	84,592	2,916	87,508
Capital expenditures	16,558	26,242	20,817	5,700	542	69,859	2,416	72,275

Information by geographic area for the years ended March 31, 2003, 2002 and 2001 is as follows:

	Millions of yen						
Year ended March 31, 2003	Domestic	Asia	North America	Others	Total	Eliminations or corporate	Consolidated
Sale:							
Outside customers	¥ 93,445	¥44,793	¥15,790	¥6,351	¥160,379	¥ –	¥160,379
Inter-segment	12,477	4,738	460	71	17,746	(17,746)	–
Total sales	105,922	49,531	16,250	6,422	178,125	(17,746)	160,379
Operating expenses	99,529	45,581	15,967	6,410	167,487	(13,471)	154,016
Operating income	¥ 6,393	¥ 3,950	¥ 283	¥ 12	¥ 10,638	¥ (4,275)	¥ 6,363
Identifiable assets	¥154,427	¥47,365	¥18,694	¥3,935	¥224,421	¥(26,101)	¥198,320

"Eliminations or corporate" in the "Operating expenses" column of the above information included corporate expenses of ¥4,577 million ($38,142 thousand) in the year ended March 31, 2003, 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 ¥10,464 million ($87,200 thousand) at March 31, 2003, 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.

As described in Note 3, the Company changed the method of valuation for finished goods, semi-finished goods and work in process from the weighted average method to the moving-average method in the year ended March 31, 2003.

As a result of this change, operating income increased in the Domestic segment by ¥152 million ($1,267 thousand).

	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 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 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.

Year ended March 31, 2001	Domestic	Asia	North America	Others	Total	Eliminations or corporate	Consolidated
	Millions of yen						
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, 2003	Domestic	Asia	North America	Others	Total	Eliminations or corporate	Consolidated
	Thousands of U.S. dollars						
Sale:							
Outside customers	$778,709	$373,275	$131,583	$52,925	$1,336,492	$ –	$1,336,492
Inter-segment	103,975	39,483	3,833	592	147,883	(147,883)	–
Total sales	882,684	412,758	135,416	53,517	1,484,375	(147,883)	1,336,492
Operating expenses	829,408	379,842	133,058	53,417	1,395,725	(112,258)	1,283,467
Operating income	$ 53,276	$ 32,916	$ 2,358	$ 100	$ 88,650	$ (35,625)	$ 53,025
Identifiable assets	$1,286,892	$394,708	$155,783	$32,792	$1,870,175	$(217,508)	$1,652,667

Overseas sales for the years ended March 31, 2003, 2002 and 2001 were as follows:

	Millions of yen			
Year ended March 31, 2003	Asia	North America	Other	Total
Overseas sales	¥54,490	¥15,684	¥6,546	¥ 76,720
Consolidated net sales				160,379
Percent against consolidated net sales	34.0%	9.8%	4.1%	47.9%

	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%

	Millions of yen			
Year ended March 31, 2001	Asia	North America	Other	Total
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, 2003	Asia	North America	Other	Total
Overseas sales	$454,083	$130,700	$54,550	$ 639,333
Consolidated net sales				1,336,492
Percent against consolidated net sales	34.0%	9.8%	4.1%	47.9%

14. Contingent liabilities

At March 31, 2003, the Companies were contingently liable as follows:

(i) Repurchase of notes discounted or endorsed:	¥4 million ($33 thousand)
(ii) Repurchase of installment accounts receivable sold to a commercial finance company:	¥206 million ($1,717 thousand)
(iii) Guarantees for bank borrowings of employees:	¥2 million ($17 thousand)
(iv) Guarantees for bank borrowings of an unconsolidated subsidiary:	¥1,537 million ($12,808 thousand)

15. Subsequent events

At the general meeting of shareholders of the Company held on June 27, 2003, retained earnings at March 31, 2003, were appropriated as follows:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends ¥5 ($0.04) per share	¥1,187	$9,892
Bonuses to directors and statutory auditors	50	417

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 consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2003, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Bakelite Company Limited and consolidated subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

Without qualifying our opinion, we draw attention to the following.
(1) As described in Note 2 to the consolidated financial statements, effective April 1, 2000, Sumitomo Bakelite Company Limited and domestic subsidiaries prospectively adopted the new Japanese accounting standards for financial instruments and employees' retirement benefits and the revised Japanese accounting standard for foreign currency translation.
(2) As explained in Note 3 to the consolidated financial statements, effective April 1, 2002, Sumitomo Bakelite Company Limited has changed the method of valuation for finished goods, semi-finished goods and work in process.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Asahi & Co.

Tokyo, Japan
June 27, 2003

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

With reference to "Environmental Accounting Guidelines 2000, 2002" released by the Ministry of the Environment, we established a framework for quantitatively measuring progress in our activities to reduce environmental burden. Under the framework, we continuously make efforts to evaluate the environmental conservation activities based on our own compilation methods and enhance the effectiveness of our compilation methods through ongoing reviews and reassessment.

In fiscal 2000, we introduced environmental accounting to our five plants and two laboratories and subsequently expanded its scope to all of our domestic business establishments including affiliated companies (listed below).

Environmental Conservation Costs for Fiscal 2002

Item	Investment (Millions of yen)	Expenses (Millions of yen)	Description
(A) Restrain emissions to the environment	¥123	¥163	• Installation of exhaust gas processing • Renovation of deodorizing equipment
(B) Energy conservation	58	13	• Renovation of air conditioners • Replacement of energy-saving transformers
(C) Reduction of industrial waste, promotion of recycling, and waste treatment	25	571	• Installation of sludge reduction equipment • Waste treatment
(D) Product evaluation at R&D stage	1	271	• R&D for environmentally friendly products
(E) Reduction of environmental burden of up and downstream	–	34	• Consignment fee to the Japan Containers and Packaging Recycling Association
(F) Environmental management activities	1	225	• Personnel cost for environmental management activities • Greening activities and maintenance for green space
(G) Contributions to social activities	–	19	• Activities for external communications
(H) Response to environmental damage	–	–	
Total	¥208	¥1,296	

Period: April 2002 to March 2003

Scope of Compilation: Sumitomo Bakelite Co., Ltd.

Amagasaki Plant, including subsidiaries and affiliated companies on the premise; Shizuoka Plant, including subsidiaries and affiliated companies on the premise; Utsunomiya Plant and Tsu Plants; Fundamental Research Laboratory and Kobe Fundamental Research Laboratory of Sumitomo Bakelite Co., Ltd.; Akita Sumitomo Bakelite Co., Ltd.; Artlite Kogyo Co., Ltd.; Tokyo Kakohin Co., Ltd.; Hokkai Taiyo Plastic Co., Ltd.; Yamaroku Kasei Industry Co., Ltd.; Kyushu Bakelite Industry Co., Ltd.

(Sano Plastic was disintegrated and part of its operation was transferred into Tokyo Kakohin Co., Ltd.)

Compilation Method

- Compilations were implemented by the Company's Environmental Accounting Compilation Guideline with reference to Environmental Accounting Guidelines 2000, 2002 released by the Ministry of the Environment.
- Composite costs, containing costs with the purposes not only for the environmental conservation but also for the business operation, are allocated in proportion to the expected contribution for the environmental conservation.
- Economic effects were recorded for items compiled based on substantial evidence. Such presumptive 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.

Effects of Environmental Conservation for Fiscal 2002

Reduction in Environmental Burden (Compared to the previous fiscal year)	**Environmental Burden** (Fiscal 2002)
Reduction in atmospheric emissions of solvents and others 1,404 tons	Atmospheric emissions of solvents and others 1,398 tons
Reduction in carbon dioxide emissions -10,982 tons (*)	Carbon dioxide emissions 127,169 tons
Reduction in industrial waste generated 1,945 tons	Industrial waste generated 8,471 tons
Reduction in landfill and external incineration of waste 1,633 tons	Landfill and external incineration of waste 2,413 tons

(*) Carbon dioxide emissions increased compared to the previous fiscal year's, through the installation of exhaust gas processing which restrains atmospheric emissions of solvents and others.

Economic Effects for Fiscal 2002

Item	**Amount** (Millions of yen)
(1) Reduction in costs due to energy conservation	¥ 32
(2) Reduction in costs by waste reduction	16
(3) Income from recycling	45
(4) Reduction in costs by internal recycling	247
(5) Reduction in costs by circulation of factory drain water	23
Total	¥363

The *Environmental Report 2003* 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
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
Takaharu Hayashi
Shoji Kosaka
Yamato Matoh
Fumio Ogawa

(As of June 27, 2003)

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Thermoplastic Products Research Laboratory
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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
Electronic Device Materials Research Laboratory III
(Located at Utsunomiya Plant)

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Incorporated:
January 25, 1932

Number of Employees:
2,406

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.
SBTEG Co., Ltd.
* SNC Industrial Laminates Sdn. Bhd.
SPD Co., Ltd.
* ST Film Sheet Co., Ltd.
Sumibe Service Co., Ltd.
* Sumicarrier Singapore Pte. Ltd.
* Sumicarrier (Thailand) Co., 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, 2003)

SUMITOMO BAKELITE CO., LTD.

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