Annual Report 2006

SUMITOMO BAKELITE CO., LTD.

For the year ended March 31, 2006

Profile

The phenolic resin Bakelite, one of the oldest plastics in use today, was developed about 100 years ago by a Belgian-American, Dr. Leo H. Baekeland. Shortly thereafter, Sumitomo Bakelite Company, Limited 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.

Financial Highlights

Years ended March 31	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Net Sales	¥ 241,086	¥ 223,474	¥ 170,249	$ 2,051,796
Net Income	15,212	9,948	7,702	129,464
Total Assets	302,276	253,822	244,712	2,572,562
Shareholders' Equity	152,303	125,689	117,433	1,296,198
	Yen			U.S. dollars
Net Income per Share	¥ 63.30	¥ 41.48	¥ 32.14	$ 0.54
Diluted Net Income per Share	57.46	37.64	29.28	0.49
Cash Dividends per Share	15.00	10.00	10.00	0.13

Note: U.S. dollar amounts are translated from yen at the rate of ¥117.5 to US$1, the approximate exchange rate prevailing at March 31, 2006.

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President's Message

Tomitaro Ogawa
President

In fiscal 2006, ended March 31, 2006, the Japanese economy experienced a steady recovery, despite inventory adjustments in the information and telecommunications industry in the first half and the impact of a sharp rise in crude oil prices. This was attributed to the increase in capital investment and higher private consumption, as well as robust export activity that supported economic growth in the United States and Asia, especially in China.

From a global perspective, capital investment and private consumption remained robust, despite higher crude oil prices and increased labor costs, which placed upward pressure on consumer prices in the U.S. The Asian economy continued its forward march, particularly in China, where capital investment increased after the revaluation of the yuan. The euro-based economies also reported a mild recovery.

Within the Sumitomo Bakelite Group's main businesses and related industries, in the first half, semiconductors started to suffer from the remaining effects of inventory adjustments, which had started in the fall of 2004, both domestically and internationally. Entering the second half, conditions improved, laying the groundwork for a soft recovery. Demand for mobile telephones, personal computers and other items grew internationally, although the market was sluggish at home. In Japan, automobile production remained robust, and there was also an increase in housing starts.

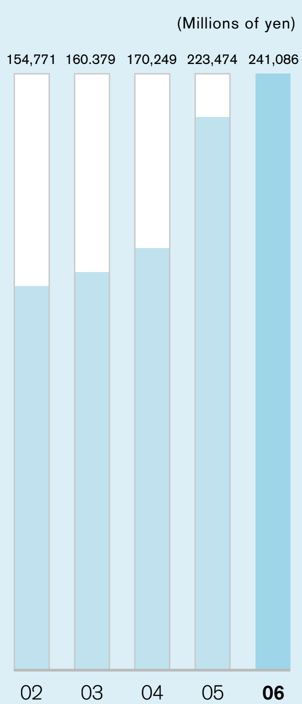
Overview of Fiscal 2006 Results

Under these circumstances, Sumitomo Bakelite and the Sumitomo Bakelite Group worked to strengthen and expand profitability in core businesses by reinforcing their marketing and production capabilities. Placing efforts to enhance customer value at the heart of its business strategies, Sumitomo Bakelite continues to take steps to ensure greater social and environmental awareness in every facet of its business activities.

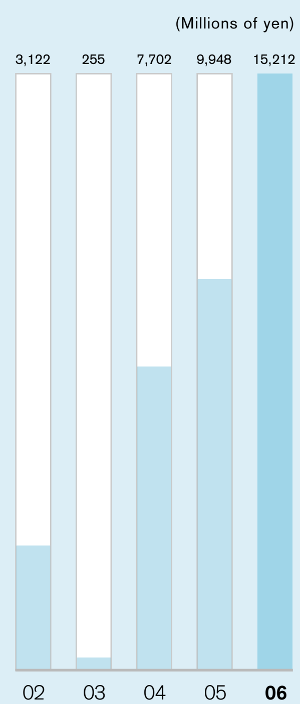
Underpinned by these efforts and initiatives, the Company enjoyed a variety of highlights during the fiscal year under review. Our efforts to bring total solutions in semiconductor and display materials to customers began to bear fruit. And in April 2005, the Company acquired Belgium-based Vyncolit N.V. and Vyncolit North America, Inc. (now Sumitomo Bakelite North America, Inc.) to boost its high-performance plastics business. Both of these companies were included in the Company's scope of consolidation as subsidiary companies.

As a result, consolidated net sales during the fiscal year under review amounted to ¥241,086 million, an increase of ¥17,612 million, or 7.9% from the previous fiscal year. On the earnings front, semiconductor and display materials and high-performance plastics showed a solid improvement. In the fiscal year under review, Sumitomo Bakelite reported a profit of ¥7,906 million (against ¥3,317 million in the previous fiscal year), representing an actuarial adjustment for retirement allowances. Consequently, consolidated operating income climbed ¥7,578 million, or 38.5%, to ¥27,249 million, while consolidated recurring profit rose ¥8,035 million, or 39.1%, to ¥28,570 million. In fiscal 2006, consolidated net income was ¥15,212 million, an increase of ¥5,264 million, or 52.9%, compared with the previous fiscal year. This was despite litigation expenses and extraordinary losses, including an amount for impairment of fixed assets. In the fiscal year under review, Sumitomo Bakelite and its U.S.-based subsidiary settled four out of five claims concerning alleged electrical shorts in certain IC packages that

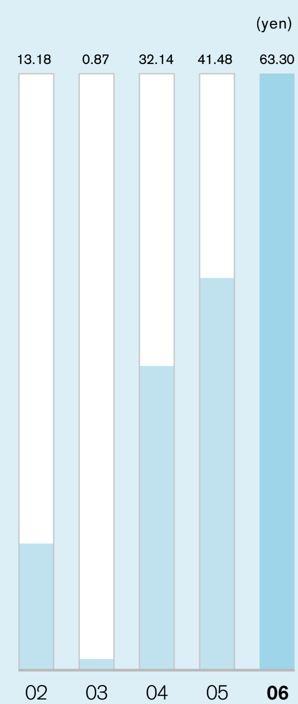
Net Sales



Net Income



Net Income per Share



utilized the Company's epoxy molding compounds. The remaining claim was settled in April 2006.

In the context of its funds procurement activities, Sumitomo Bakelite incurred additional short-term debt of 70 million euro (¥9,751 million) in connection with the acquisition of Vyncolit N.V. During the fiscal year under review, the Company took steps to convert ¥8,400 million to long-term debt. With the exception of the aforementioned, Sumitomo Bakelite and the Sumitomo Bakelite Group did not pursue extraordinary measures to secure funds, such as an increase in capital or the issue of corporate bonds. Looking further ahead, our capital investment in fiscal 2006 amounted to ¥11,545 million.

Our Strategies for Future Growth

Despite concerns surrounding the sharp rise in raw material prices, including crude oil and copper, and the upward swing in global interest rates, economic conditions in the principal markets in which the Sumitomo Bakelite Group operates are expected to continue along a path of moderate recovery.

Under these circumstances, we will redouble our efforts to realize the Group's business strategies with the aims of enhancing value for customers through optimal marketing activities, securing a solid platform to facilitate sustainable growth and achieving our goals and mission to become a leading transnational company in functional chemical products.

In specific terms, Sumitomo Bakelite has formulated its Medium-Term Management Plan, commencing fiscal 2007, and identified a consolidated recurring profit target of ¥35,000 million by fiscal 2009, the final year of the plan. To achieve this target, Sumitomo Bakelite will focus on strengthening its marketing and production capabilities.

As a Group, Sumitomo Bakelite continues to confront four key issues. First, we aim to strengthen activities in electronic component materials by providing total solutions to our customers through semiconductor package materials that address a variety of needs. Second, we are implementing restructuring measures in connection with those businesses where profits have currently stalled but still exhibit potential for future profit growth. Third, we are working toward the elimination of loss-making operations. Lastly, we are accelerating efforts in research and development with the aim of bringing to market new products in a prompt and timely manner. While making steady progress in each of these endeavors, Sumitomo Bakelite will redouble its efforts through the implementation of various astute measures.

As a good corporate citizen, Sumitomo Bakelite is also conscious of its corporate social responsibility. In this context, the Group is committed to bolstering compliance, actively promoting environmental protection and fulfilling the expectations of the communities it serves.

We thank all stakeholders for their continued understanding and support as we pursue our endeavors.

September 2006

Tomitaro Ogawa
President

Major Developments

1. Production Expanded at Kyushu Bakelite Industry Co., Ltd.'s Plant for Photosensitive Wafer Coating Resin

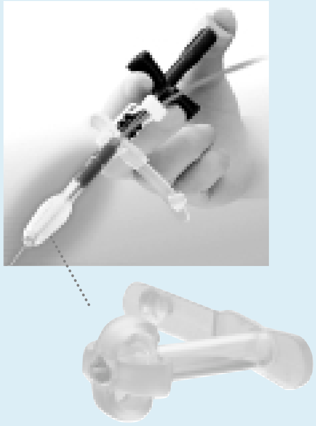
The new extension at Kyushu Bakelite Industry's plant

To enable it to offer total solutions that match the needs of its customers, Sumitomo Bakelite handles a wide range of products that cover various types of semiconductor-related material applications. These include its mainstay SUMIKON®EME epoxy molding compounds and SUMIRESIN EXCEL®CRP liquid epoxy resins for the encapsulation of semiconductor devices, SUMIRESIN EXCEL®CRM pastes for die bonding and SUMIRESIN EXCEL®CRC coating resins for semiconductor wafers.

Sales of photosensitive wafer coating resin for semiconductors are expanding at a steady pace for a wide variety of customer applications, centered on dynamic random access memory (DRAM) technology. Up to now produced at the Company's Utsunomiya Plant, following the February 2006 completion of a new extension, Kyushu Bakelite Industry's plant in Nogata, Fukuoka Prefecture, has also commenced production. The plant is now the principal Japanese production base for epoxy molding compounds for the encapsulation of semiconductor devices. The increased capacity has enabled the Company to respond to increasing demand, with the added intention of strengthening its risk management system with regard to the stabilization of supply.

Sumitomo Bakelite is endeavoring to improve its total solutions and offer products that fully satisfy the needs of its customers.

2. New Expansion in Medical Devices & Laboratory Wares Business



Ideal Button disposable gastrostomy replacement catheter

In October 2005, having concluded an exclusive sales contract with Olympus Medical Systems Corp., the Company began developing the Ideal Button disposable gastrostomy replacement catheter, which is used in the percutaneous endoscopic gastrostomy (PEG).

Under this procedure, an external opening is made from the abdomen into the stomach for people who receive directly administered nutritional supplements because they cannot take food orally. The Ideal Button is a medical device used in this procedure. Often used in cases where medical treatment is given at home, the procedure demonstrates a high degree of safety, and the Company has developed a product that further aims to assure that the insertion into the abdomen is carried out safely with minimal risk of complications. The Company has received plaudits since it commenced sales of the Ideal Button in October 2005.

Olympus Medical Systems Corp. has an unrivalled presence in the endoscope market. By collaborating in its strongpoint field of plastic engineering, Sumitomo Bakelite is aiming for growth in the feeding market with the Ideal Button, capitalizing on the mutual strengths of both companies.

Forging ahead with other such business collaborations, the Company is planning to expand its medical devices & laboratory wares business.

3. Environmental Protection Activities

Cogeneration system

Implementing CO_2 Emission Reductions

To reduce the levels of CO_2 emissions that are present in greenhouse gases, the Group is implementing a variety of energy reduction activities. A cogeneration system introduced at the Shizuoka Plant has been fully operational since August 2004 and has contributed to a decrease in energy use and reduced the volume of CO_2 emissions.

Cogeneration systems generate electricity through gas turbines powered by natural gas combustion, and efficiently convert into energy steam produced from the waste heat in the flue gas of the gas turbines. In this way CO_2 emissions are reduced. The Company plans to reduce sulfur oxide (SOx) as well as soot and dust by reducing the amount of heavy oil used as conventional boiler fuel.

In fiscal 2006, the Group's CO_2 emissions amounted to 118,308 tons, a 19.4% reduction compared with the fiscal 1991 level.

Chemical Recycling Activities for Phenolic Resin Products

The recycling of phenolic resin products is currently limited to thermal recycling (energy recovery), which involves their reuse merely as raw materials. However, the Company established a project team tasked with developing a commercially viable chemical recycling process that would result in such products being reused as high-value-added chemical feedstock. The team applied supercritical fluid technology and succeeded in becoming the first in the world to develop a new chemical recycling method for phenolic resin products. The exceptional innovation demonstrated by this method was acknowledged in July 2005, when the New Energy and Industrial Technology Development Organization (NEDO) adopted it as a subsidized project. With a test plant having been established at the Shizuoka Plant, efforts are currently being mounted with a view to commercializing the method.

By expanding the commercialization of thermosetting resin recycling, including phenolic resins, Sumitomo Bakelite will be making a valuable contribution to the establishment of a sustainable recycling-based society.

Consolidated Balance Sheets

Sumitomo Bakelite Company, Limited and Consolidated Subsidiaries
March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2006**	2005	**2006**
Current assets:			
Cash and cash equivalents	¥ 47,055	¥ 42,667	$ 400,468
Trade receivables:			
Notes	11,236	11,543	95,626
Accounts	50,111	46,958	426,477
Allowance for doubtful accounts	(434)	(441)	(3,694)
Inventories (Note 7)	28,292	26,644	240,783
Deferred tax assets (Note 9)	2,571	1,950	21,881
Other current assets (Notes 5 and 8)	15,422	7,555	131,251
Total current assets	154,253	136,876	1,312,792
Property, plant and equipment (Notes 3, 8 and 14):			
Land	11,774	12,211	100,204
Buildings and structures	75,452	70,251	642,145
Machinery and equipment	143,006	131,746	1,217,072
Construction in progress	4,626	2,901	39,370
	234,858	217,109	1,998,791
Accumulated depreciation	(140,556)	(129,850)	(1,196,221)
Net property, plant and equipment	94,302	87,259	802,570
Goodwill	8,044	2,129	68,460
Investments and other assets:			
Investment securities (Note 5):			
Unconsolidated subsidiaries and affiliates	5,512	4,856	46,911
Other	27,674	11,965	235,523
Long-term loans receivable:			
Unconsolidated subsidiaries and affiliates	1,100	1,130	9,362
Employees and other	103	114	877
Deferred tax assets (Note 9)	1,642	1,069	13,974
Other assets (Notes 3 and 10)	10,464	9,155	89,055
Allowance for doubtful accounts	(818)	(731)	(6,962)
Total investments and other assets	45,677	27,558	388,740
	¥ 302,276	¥ 253,822	$ 2,572,562

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2006	2005	Thousands of U.S. dollars (Note 1) 2006
Current liabilities:			
Short-term debt (Note 8)	¥ 22,513	¥ 18,024	$ 191,600
Long-term debt due within one year (Note 8)	17,610	204	149,872
Trade payables:			
Notes	7,420	7,898	63,149
Accounts	35,775	32,502	304,468
Accrued expenses (Note 8)	8,028	7,108	68,323
Income taxes payable (Note 9)	3,333	3,240	28,366
Deferred tax liabilities (Note 9)	–	16	–
Other current liabilities	7,006	6,432	59,626
Total current liabilities	101,685	75,424	865,404
Long-term liabilities:			
Long-term debt due after one year (Note 8)	8,061	20,200	68,604
Deferred tax liabilities (Note 9)	12,591	4,781	107,157
Retirement benefits:			
Employees (Notes 3 and 10)	5,852	5,271	49,804
Directors, statutory auditors and officers	792	719	6,740
Consolidation adjustment	1,236	1,588	10,519
Other long-term liabilities	362	147	3,081
Total long-term liabilities	28,894	32,706	245,905
Contingent liabilities (Notes 8 and 16)			
Minority interests	19,394	20,003	165,055
Shareholders' equity (Note 11):			
Common stock:			
Authorized — 800,000,000 shares			
Issued — 242,454,415 shares in 2006 and 237,673,694 shares in 2005	28,767	27,055	244,826
Capital surplus	26,983	25,271	229,643
Retained earnings	86,820	74,168	738,894
Net unrealized holding gains on securities	6,769	2,204	57,609
Foreign currency translation adjustments	3,154	(2,859)	26,843
Treasury stock, at cost	(190)	(150)	(1,617)
Total shareholders' equity	152,303	125,689	1,296,198
	¥ 302,276	¥ 253,822	$ 2,572,562

Consolidated Statements of Income

Sumitomo Bakelite Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	**2006**
Net sales (Note 15)	¥241,086	¥223,474	¥170,249	$2,051,796
Costs and expenses:				
Cost of sales (Note 15)	171,424	159,785	119,834	1,458,928
Selling, general and administrative expenses (Note 15)	42,413	44,018	35,487	360,962
	213,837	203,803	155,321	1,819,890
Operating income (Note 15)	27,249	19,671	14,928	231,906
Other income (expenses):				
Interest and dividend income	987	471	406	8,400
Interest expense	(661)	(403)	(403)	(5,626)
Amortization of consolidation adjustment	441	443	–	3,753
Equity in gains (losses) of affiliated companies	198	323	(886)	1,685
Loss on sale/disposal of property, plant and equipment	(142)	(814)	(273)	(1,209)
Gain on sale of investment securities (Note 5)	421	148	–	3,583
Loss on devaluation of investment securities	(114)	(65)	(373)	(970)
Foreign exchange gain (loss), net	411	(43)	41	3,498
Cost of business acquisition (Note 4)	(25)	(109)	(144)	(213)
Lawsuit expense	(5,520)	(2,634)	(2,468)	(46,979)
Gain on termination of employees' retirement benefit trust (Note 2)	–	–	1,217	–
Prior-period adjustment loss	–	(216)	–	–
Cost of business restructuring	(449)	–	–	(3,821)
Impairment loss of goodwill	–	(769)	–	–
Impairment loss (Notes 3,14 and 15)	(1,067)	–	–	(9,081)
Other, net	(108)	(26)	(380)	(918)
	(5,628)	(3,694)	(3,263)	(47,898)
Income before income taxes and minority interests	21,621	15,977	11,665	184,008
Income taxes (Note 9):				
Current	3,848	3,363	1,845	32,749
Deferred	2,298	1,868	1,542	19,557
	6,146	5,231	3,387	52,306
Minority interests	(263)	(798)	(576)	(2,238)
Net income	¥ 15,212	¥ 9,948	¥ 7,702	$ 129,464

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income	¥63.30	¥41.48	¥32.14	$0.54
Diluted net income	57.46	37.64	29.28	0.49
Cash dividends applicable to the year	15.00	10.00	10.00	0.13

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Sumitomo Bakelite Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	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, at cost
Balance at March 31, 2003	237,674	¥27,055	¥25,270	¥62,192	¥ (509)	¥ 532	¥ (98)
Net income	–	–	–	7,702	–	–	–
Net unrealized holding gains arising during the year	–	–	–	–	2,807	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	(4,290)	–
Treasury stock	–	–	–	–	–	–	(20)
Cash dividends paid (¥10 per share)	–	–	–	(2,375)	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(51)	–	–	–
Increase in capital surplus due to sale of treasury stock	–	–	0	–	–	–	–
Decrease in retained earnings due to addition of consolidated subsidiaries	–	–	–	(849)	–	–	–
Other	–	–	–	67	–	–	–
Balance at March 31, 2004	237,674	27,055	25,270	66,686	2,298	(3,758)	(118)
Net income	–	–	–	9,948	–	–	–
Net unrealized holding losses arising during the year	–	–	–	–	(94)	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	899	–
Treasury stock	–	–	–	–	–	–	(32)
Cash dividends paid (¥10 per share)	–	–	–	(2,375)	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(91)	–	–	–
Increase in capital surplus due to sale of treasury stock	–	–	1	–	–	–	–
Balance at March 31, 2005	237,674	27,055	25,271	74,168	2,204	(2,859)	(150)
Shares issued upon conversion of bonds	4,780	1,712	1,711	–	–	–	–
Net income	–	–	–	15,212	–	–	–
Increase in retained earnings due to merger of consolidated subsidiaries	–	–	–	59	–	–	–
Increase in retained earnings due to addition of consolidated subsidiaries	–	–	–	93	–	–	–
Decrease in retained earnings due to addition of consolidated subsidiaries	–	–	–	(24)	–	–	–
Decrease in retained earnings due to exception of consolidated subsidiaries	–	–	–	(213)	–	–	–
Net unrealized holding losses arising during the year	–	–	–	–	4,565	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	6,013	–
Treasury stock	–	–	–	–	–	–	(40)
Cash dividends paid (¥10 per share)	–	–	–	(2,374)	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(101)	–	–	–
Increase in capital surplus due to sale of treasury stock	–	–	1	–	–	–	–
Balance at March 31, 2006	242,454	¥28,767	¥26,983	¥86,820	¥6,769	¥ 3,154	¥(190)

	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, at cost
Balance at March 31, 2005	237,674	$230,255	$215,072	$631,217	$18,757	$(24,332)	$(1,277)
Shares issued upon conversion of bonds	4,780	14,571	14,562	–	–	–	–
Net income	–	–	–	129,464	–	–	–
Increase in retained earnings due to merger of consolidated subsidiaries	–	–	–	502	–	–	–
Increase in retained earnings due to addition of consolidated subsidiaries	–	–	–	791	–	–	–
Decrease in retained earnings due to addition of consolidated subsidiaries	–	–	–	(203)	–	–	–
Decrease in retained earnings due to exception of consolidated subsidiaries	–	–	–	(1,813)	–	–	–
Net unrealized holding losses arising during the year	–	–	–	–	38,852	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	51,175	–
Treasury stock	–	–	–	–	–	–	(340)
Cash dividends paid ($0.09 per share)	–	–	–	(20,204)	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(860)	–	–	–
Increase in capital surplus due to sale of treasury stock	–	–	9	–	–	–	–
Balance at March 31, 2006	242,454	$244,826	$229,643	$738,894	$57,609	$ 26,843	$(1,617)

See accompanying notes.

Consolidated Statements of Cash Flows

Sumitomo Bakelite Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	**2006**
Cash flows from operating activities:				
Net income	¥ 15,212	¥ 9,948	¥ 7,702	$ 129,464
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	12,345	11,551	9,746	105,064
Loss on sale/disposal of property, plant and equipment	142	814	273	1,209
Gain on sale of investment securities	(421)	(148)	–	(3,583)
Minority interests	263	798	576	2,238
Gain on termination of employees' retirement benefit trust	–	–	(1,217)	–
Loss on devaluation of investment securities	114	65	373	970
Equity in gains (losses) of affiliated companies	(198)	(323)	886	(1,685)
Impairment loss of goodwill	–	769	–	–
Impairment loss	1,067	–	–	9,081
Deferred income taxes	2,298	1,868	1,542	19,557
Decrease (increase) in notes and accounts receivable	156	192	(1,113)	1,328
Decrease (increase) in inventories	1,202	(1,692)	2,165	10,230
(Increase) decrease in other current assets	(8,714)	(1,187)	427	(74,162)
(Decrease) increase in notes and accounts payable	1,728	1,317	(2,267)	14,706
(Decrease) increase in income taxes payable	(172)	1,354	(210)	(1,464)
Increase (decrease) in other current liabilities	(304)	1,035	250	(2,587)
Decrease in employee retirement benefits	(7,506)	(4,301)	(2,182)	(63,881)
Other, net	(344)	345	1,072	(2,928)
Net cash provided by operating activities	16,868	22,405	18,023	143,557
Cash flows from investing activities:				
Purchases of investment securities (Note 4)	(1,736)	(420)	(3,582)	(14,774)
Proceeds from sale of marketable securities and investment securities	1,345	2,274	0	11,447
Purchases of property, plant and equipment	(11,030)	(8,736)	(6,489)	(93,872)
Proceeds from sale of property, plant and equipment	607	178	199	5,166
Payment for business acquisition (Note 4)	–	(397)	(517)	–
Proceeds from purchase of investment securities with change in scope of consolidation (Note 4)	–	–	4,076	–
Purchase of subsidiaries securities with change in scope of consolidation (Note 4)	(10,806)	–	–	(91,966)
Increase in short-term loans receivable (Note 4)	–	(11)	(3,893)	–
(Increase) decrease in long-term loans receivable	(1,505)	28	64	(12,809)
Other	(760)	(371)	328	(6,469)
Net cash used in investing activities	(23,885)	(7,455)	(9,814)	(203,277)
Cash flows from financing activities:				
Increase (decrease) in short-term debt	3,808	(4,142)	4,221	32,409
Proceeds from long-term debt	8,400	–	–	71,489
Repayments of long-term debt	–	(1,220)	(292)	–
Cash dividends paid	(2,374)	(2,375)	(2,375)	(20,204)
Cash dividends paid to minority shareholders	(585)	(703)	(477)	(4,979)
Proceeds from issuance of stock to minority interests	–	–	500	–
Fixed deposits pledged	–	(2,069)	–	–
Other	(277)	(50)	(20)	(2,357)
Net cash (used in) provided by financing activities	8,972	(10,559)	1,557	76,358
Effect of exchange rate changes on cash and cash equivalents	2,025	310	(1,557)	17,234
Net increase in cash and cash equivalents	3,980	4,701	8,209	33,872
Cash and cash equivalents at beginning of year	42,667	37,966	29,361	363,123
Increase in cash and cash equivalents due to merger of consolidated subsidiaries	115	–	–	979
Increase in cash and cash equivalents due to addition of consolidated subsidiaries	442	–	539	3,762
Decrease in cash and cash equivalents due to exception of consolidated subsidiaries	(149)	–	–	(1,268)
Other (Note 2)	–	–	(143)	–
Cash and cash equivalents at end of year	¥ 47,055	¥ 42,667	¥37,966	$ 400,468
Supplemental information on cash flows:				
Cash paid during the year for:				
Interest	¥ 649	¥ 418	¥ 390	$ 5,523
Income taxes	3,884	2,141	2,054	33,055
Cash received for interest and dividend income	1,084	561	610	9,226
Non-cash investing and financing activities (Note 13):				
Conversion of bonds into common stock and capital surplus	3,423	–	–	29,133
Dissolution of the employee retirement benefit trust	8,139	–	–	69,268

See accompanying notes.

Notes to Consolidated Financial Statements

Sumitomo Bakelite Company, Limited and Consolidated Subsidiaries

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 20.4% (at March 31, 2006) 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 consolidated overseas 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.

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 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 2006, 2005 and 2004 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, 2006, which was ¥117.5 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 (the "Companies"), numbering 45 subsidiaries in 2006, 44 subsidiaries in 2005 and 2004. All significant intercompany balances and transactions have been eliminated in consolidation.

The other subsidiaries are excluded from the scope of consolidation because the effect of their net sales, net income or losses, total assets and retained earnings on the accompanying consolidated financial statements are immaterial.

Investments in significant affiliated companies (7 affiliates in 2006, 2005 and 2004, generally 20% – 50% owned) over which the Company has the ability to exercise significant influence over operating and financial policies are stated at cost, adjusted for equity in undistributed earnings and losses since acquisition.

The investments in unconsolidated subsidiaries and certain affiliated companies are not accounted for by the equity method, and are stated at cost because the effect of their net income or losses and retained earnings on the accompanying consolidated financial statements is immaterial.

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 not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Securities

Securities are classified into one of the following categories based on the intent of holding, resulting in the different measurement and accounting for the changes in fair value. 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. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Other available-for-sale securities with no available fair market values are stated at moving-average cost.

Significant declines in fair market value or the net asset value of held-to-maturity debt securities, equity securities, not on the equity method, issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, judged to be other than temporary, are charged to income.

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 will be 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 moving-average method.

Property, plant and equipment

Property, plant and equipment are carried at cost. The Company and its consolidated domestic subsidiaries calculate depreciation principally by the declining-balance method at rates based on the estimated useful lives of assets. Buildings and structures of the Company's head office and other buildings, excluding building fixtures, acquired after March 31, 1998 are depreciated using the straight-line method. The consolidated overseas subsidiaries calculate depreciation principally by the straight-line method over estimated useful lives.

Effective April 1, 2003, some consolidated overseas subsidiaries changed the estimated useful lives of buildings, machinery and equipment. This change was made in order to conform their estimated useful lives to actual operating level. The effect of this change was to increase operating income and income before income taxes and minority interests by ¥397 million for the year ended March 31, 2004 as compared to the prior useful lives.

Accounting for certain lease transactions

Finance leases, which do not transfer ownership, or those which do not have a 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.

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 an allowance for employees' severance and retirement benefits at balance sheet dates based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at these dates.

Prior service costs and actuarial gains and losses are mainly recognized in the statements of income when they are determined actuarially.

In fiscal 2004, the Company terminated a certain portion of the employees' retirement benefit trust, and the resulting gain amounting to ¥1,217 million was recognized in the year ended March 31, 2004.

The Company discontinued its unfunded lumpsum payment plan and integrated it into a funded non-contributory pension plan as of April 1, 2006.

Research and development

Research and development expenses are charged to income when incurred. The amounts for the years ended March 31, 2006, 2005 and 2004 were ¥11,409 million ($97,098 thousand), ¥11,043 million and ¥10,139 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 rates.

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 2006 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Change in accounting policies

Effective April 1, 2005, the Company and domestic consolidated subsidiaries adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets," issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standards Implementation Guidance No.6, issued by the Accounting Standards Board of Japan on October 31, 2003).

The effect of this change was to decrease income before income taxes by ¥1,067 million ($9,081 thousand) for the year ended March 31, 2006 as compared to the prior method.

Accumulated loss on impairment is deducted directly from the acquisition cost of related assets in accordance with the revised disclosure requirements.

Effective from the year ended March 31, 2005, the Company adopted the new accounting standard for employees' severance and retirement benefits (Accounting Standards Board Statement No. 3, "Partial Revision of the Accounting Standard for Retirement Benefits," and the Financial Accounting Standards Implementation Guidance No. 7, "Implementation Guidance for Partial Revision of the Accounting Standard for Retirement Benefits," issued by the Accounting Standards Board of Japan on March 16, 2005), as the accounting standard and the implementation guidance may be adopted from the year ended March 31, 2005.

The effect of this change was to increase operating income and income before income taxes by ¥3,318 million for the year ended March 31, 2005 as compared to the prior method.

4. Business acquisition

(1) In the year ended March 31, 2004, the Companies acquired Fers Resins, S.A. and its subsidiaries, (the "Fers Group"), which manufacture industrial phenolic resins mainly used for friction materials, and an epoxy molding compounds business for encapsulation of semiconductor devises and related assets of Toray Industries Inc.

Components of these purchases were as follows:

	Millions of yen
Purchase of shares of the Fers Group	¥4,907
Purchase of properties and equipment	373
Various expenses related with the acquisitions	144
	¥5,424

In the statement of income for the year ended March 31, 2004, the Companies recognized the related expenses amounting to ¥144 million as cost of business acquisition. In addition, in the statement of cash flows for the year ended March 31, 2004, payment for purchase of shares of the Fers Group was included in purchases of investment securities and increase in short-term receivables, amounting to ¥1,059 million and ¥3,848 million, respectively.

(2) The Companies acquired shares of Sumitomo Bakelite North America, Inc. and Vyncolit N.V. in the year ended March 31, 2006, and Tsutsunaka Plastic Industry Co., Ltd. and its 7 subsidiaries in the year ended March 31, 2004.

Assets and liabilities of the subsidiaries newly consolidated by means of an acquisition at the inception of consolidation were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Current assets	¥ 3,613	¥ –	¥36,330	$30,749
Fixed assets	7,553	–	20,275	64,281
Total assets	¥11,166	¥ –	¥56,605	$95,030
Current liabilities	¥ 1,555	¥ –	¥21,942	$12,234
Fixed liabilities	3,114	–	1,891	26,502
Total liabilities	¥ 4,669	¥ –	¥23,833	$39,736

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, 2006 and 2005:

Securities with book values exceeding acquisition costs:

	Millions of yen		
At March 31, 2006	Acquisition cost	Book value	Difference
Equity securities	¥11,726	¥23,358	¥11,632
Bonds	49	50	1
Others	–	–	–
Total	¥11,775	¥23,408	¥11,633

	Millions of yen		
At March 31, 2005	Acquisition cost	Book value	Difference
Equity securities	¥4,130	¥8,353	¥4,223
Bonds	56	58	2
Others	–	–	–
Total	¥4,186	¥8,411	¥4,225

	Thousands of U.S. dollars		
At March 31, 2006	Acquisition cost	Book value	Difference
Equity securities	$ 99,796	$198,791	$98,995
Bonds	417	426	9
Others	–	–	–
Total	$100,213	$199,217	$99,004

Securities with available fair values not exceeding book values:

	Millions of yen		
At March 31, 2006	Acquisition cost	Book value	Difference
Equity securities	¥3,543	¥3,537	¥(6)
Bonds	–	–	–
Others	–	–	–
Total	¥3,543	¥3,537	¥(6)

	Millions of yen		
At March 31, 2005	Acquisition cost	Book value	Difference
Equity securities	¥2,590	¥2,377	¥(213)
Bonds	–	–	–
Others	–	–	–
Total	¥2,590	¥2,377	¥(213)

	Thousands of U.S. dollars		
At March 31, 2006	Acquisition cost	Book value	Difference
Equity securities	$30,153	$30,102	$(51)
Bonds	–	–	–
Others	–	–	–
Total	$30,153	$30,102	$(51)

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 amounts of impairment loss for the years ended March 31, 2004 was ¥73 million. 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 available-for-sale securities sold and the related gains and losses in the years ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Sales of available-for-sale securities	¥1,345	¥2,274	¥0	$11,447
Gains on sales of available-for-sale securities	421	148	0	3,583
Losses on sales of available-for-sale securities	–	–	–	–

(3) The following table summarizes book values of available-for-sale securities with no available fair values as of March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
At March 31	**2006**	2005	**2006**
Non-listed equity securities	¥720	¥ 877	$6,128
Non-listed convertible bonds	–	300	–
Others	9	7	76
Total	¥729	¥1,184	$6,204

(4) Available-for-sale securities with maturities at March 31, 2006 are as follows:

	Millions of yen				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds					
Government bonds	¥ –	¥ –	–	–	¥ –
Corporate bonds	–	50	–	–	50
Others	–	–	–	–	–
Total	¥ –	¥50	–	–	¥50

	Thousands of U.S. dollars				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds					
Government bonds	$ –	$ –	–	–	$ –
Corporate bonds	–	426	–	–	426
Others	–	–	–	–	–
Total	$ –	$426	–	–	$426

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, 2006 and 2005 are not subjected to disclosure because the Companies adopted hedge accounting for those instruments.

7. Inventories

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Finished goods	¥13,558	¥12,794	$115,387
Semi-finished goods	2,700	2,774	22,979
Work in process	1,535	1,631	13,064
Raw materials and supplies	10,499	9,445	89,353
	¥28,292	¥26,644	$240,783

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, 2006 and 2005 was as follows:

At March 31, 2006	Millions of yen	Thousands of U.S. dollars	Interest rates
Loans from banks and other companies	¥11,013	$ 93,728	0.00%–5.20%
Commercial paper	11,500	97,872	0.07%–0.17%
	¥22,513	$191,600	

At March 31, 2005	Millions of yen	Interest rates
Loans from banks and other companies	¥10,024	0.26%–6.75%
Commercial paper	8,000	0.02%
	¥18,024	

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
1.2% domestic convertible bonds convertible into common stock at ¥716 ($6) per share due 2006	¥ 16,760	¥20,183	$142,638
Secured loans from banks due through 2006 with an interest rate of 5.80% at March 31, 2006	494	187	4,204
Unsecured loans from a bank and organizations due through 2016 with interest rates ranging from 0.88% to 1.90% at March 31, 2006	8,417	34	71,634
	25,671	20,404	218,476
Less amount due within one year	(17,610)	(204)	(149,872)
	¥ 8,061	¥20,200	$ 68,604

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 ($32,340 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, 2006, the number of common stock issuable upon full conversion of outstanding convertible bonds was 23,408 thousand shares.

The annual maturities of long-term debt at March 31, 2006 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥17,610	$149,872
2008	850	7,234
2009	1,403	11,940
2010	603	5,132
2011	2,203	18,749
2012 and thereafter	3,002	25,549

At March 31, 2006, assets pledged as collateral were as follows:

	Millions of yen	Thousands of U.S. dollars
Fixed deposits	¥2,261	$19,243
Buildings	149	1,268
Land	139	1,183

In addition, all assets (except goodwill) held by Sumitomo Bakelite North America, Inc. were pledged as collateral.

At March 31, 2006, obligations with collateral pledged were as follows:

	Millions of yen	Thousands of U.S. dollars
Short-term debt	¥ 678	$ 5,770
Accrued expenses	112	953
Long-term debt	493	4,196
	1,283	10,919
Contingent liability	286	2,434
	¥1,569	$13,353

9. Income taxes

The Companies are subject to several taxes based on income, which are corporation tax, inhabitants tax and enterprise tax. The aggregate statutory tax rate on income before income taxes was approximately 40.6% for the years ended March 31, 2006 and 2005.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Deferred tax assets:			
Retirement benefits of employees	¥ 4,038	¥ 4,826	$ 34,366
Excess depreciation in overseas subsidiaries	3,095	2,714	26,340
Tax loss carryforwards	2,048	1,655	17,430
Amortization of prior service cost of the pension plan	1,439	3,403	12,247
Excess bonuses accrued	1,110	1,174	9,447
Accrued expenses	852	511	7,251
Impairment loss	427	–	3,634
Unrealized gains on inventory	349	306	2,970
Retirement benefits of directors, statutory auditors and officers	313	284	2,664
Provision for doubtful accounts	285	277	2,426
Loss on devaluation of golf membership	248	263	2,111
Cost of business acquisition	219	294	1,864
Unrealized gains on property, plant and equipment	159	206	1,353
Others	1,730	761	14,723
Total deferred tax assets	16,312	16,674	138,826
Valuation allowance	(3,763)	(3,139)	(32,026)
Net deferred tax assets	¥ 12,549	¥ 13,535	$ 106,800
Deferred tax liabilities:			
Net unrealized holding gains on securities	¥ (4,721)	¥ (1,625)	$ (40,179)
Additional depreciation in overseas subsidiaries	(3,850)	(2,944)	(32,766)
Contribution to funded non-contributory pension plan	(3,724)	(3,374)	(31,694)
Gain on securities contributed to employees' retirement benefit trust	(3,269)	(3,289)	(27,821)
Deferred gains on property, plant and equipment	(2,320)	(2,410)	(19,745)
Gain on dissolution of employees' retirement benefit trust	(927)	(927)	(7,889)
Excess of fair value over the book value of the assets and liabilities of consolidated subsidiaries at the acquisition date	(766)	(247)	(6,519)
Others	(1,350)	(497)	(11,489)
Total deferred tax liabilities	¥(20,927)	¥(15,313)	$(178,102)
Net deferred tax assets	¥ (8,378)	¥ (1,778)	$ (71,302)

The differences between the statutory tax rate and the Companies' actual effective tax rate for financial statement purposes for the years ended March 31, 2006, 2005 and 2004 were as follows:

	2006	2005	2004
Statutory tax rate	40.6%	40.6%	42.0%
Permanently non-deductible expenses	1.0	1.1	2.4
Permanently non-taxable income	(3.4)	(1.8)	(5.3)
Tax loss carryforwards	3.4	6.2	1.9
Dividend income eliminated in consolidation	5.7	4.8	8.7
Devaluation of consolidated subsidiaries' securities	(3.0)	–	–
Equity in losses of affiliated companies	(0.4)	(0.8)	3.2
Tax credit	(3.9)	(3.9)	(7.1)
Effect of differences between tax rates in Japan and in other countries	(12.0)	(14.8)	(16.6)
Other, net	0.4	1.3	(0.2)
Actual effective tax rate	28.4%	32.7%	29.0%

10. Employees' severance and pension benefits

As explained in Note 2 (Employees' severance and retirement benefits), 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, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
At March 31	**2006**	2005	**2006**
Projected benefit obligation	¥ 30,632	¥ 29,679	$ 260,697
Less fair value of pension assets	(28,199)	(28,283)	(239,991)
Less unrecognized actuarial differences	(1,246)	(1,475)	(10,604)
Unrecognized prior service costs	615	646	5,234
Prepaid benefit expenses (Other assets)	4,050	4,704	34,468
Liability for severance and retirement benefits	¥ 5,852	¥ 5,271	$ 49,804

Severance and retirement benefit expenses, included in the consolidated statements of income for the years ended March 31, 2006, 2005 and 2004 are comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Service costs—benefits earned during the year	¥ 1,311	¥ 1,340	¥1,003	$ 11,157
Interest cost on projected benefit obligation	753	734	814	6,409
Expected return on plan assets	(590)	(579)	(144)	(5,021)
Amortization of actuarial differences	(7,733)	(3,154)	(601)	(65,813)
Amortization of prior service costs	(138)	(73)	(76)	(1,174)
Severance and retirement benefit expenses	¥(6,397)	¥(1,732)	¥ 996	$(54,442)
Reversal of severance and retirement benefit expenses upon dissolution of the employee retirement benefit trust	–	–	(1,065)	–
Net	¥(6,397)	¥(1,732)	¥ (69)	$(54,442)

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

	2006	2005	2004
Discount rate:			
Domestic companies	2.0%	2.0%	2.0%
Overseas companies	4.5%–5.5%	4.5%–6.3%	6.5%–7.3%
Expected return on plan assets	2.0%	2.0%	0.0%

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 that 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 distribution by resolution of the shareholders' meeting. At March 31, 2006 and 2005, legal reserves of the Company amounting to ¥4,137 million ($35,209 thousand) were included in retained earnings in the accompanying consolidated financial statements.

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.

12. Information on lease transactions

The following proforma amounts present the acquisition cost, accumulated depreciation and net book value of the property leased to the Companies as of March 31, 2006 and 2005, which would have been reflected in the balance sheets if finance leases other than those that transfer the ownership of the leased property to the Companies (which are currently accounted for in the same manner as operating leases) were capitalized.

	Millions of yen		
At March 31, 2006	Machinery and equipment	Other assets	Total
Acquisition cost, accumulated depreciation and net book value of leased assets:			
Acquisition cost	¥820	¥116	¥936
Accumulated depreciation	457	87	544
Net book value	¥363	¥ 29	¥392

At March 31, 2005	Millions of yen Machinery and equipment	 Other assets	 Total
Acquisition cost, accumulated depreciation and net book value of leased assets:			
Acquisition cost	¥1,075	¥164	¥1,239
Accumulated depreciation	624	121	745
Net book value	¥ 451	¥ 43	¥ 494

At March 31, 2006	Thousands of U.S. dollars Machinery and equipment	 Other assets	 Total
Acquisition cost, accumulated depreciation and net book value of leased assets:			
Acquisition cost	$6,979	$987	$7,966
Accumulated depreciation	3,889	740	4,629
Net book value	$3,090	$247	$3,337

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Future lease payments:			
Due within one year	¥204	¥221	$1,736
Due after one year	209	292	1,779
Total	¥413	¥513	$3,515

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Lease payments, depreciation and interest expense:				
Lease payments	¥269	¥356	¥339	$2,289
Depreciation	222	318	287	1,889
Interest expense	50	37	44	426

An amount equal to the depreciation is calculated based on the useful life of the lease term and a 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 mainly by the interest method.

Operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Future lease payments:			
Due within one year	¥4	¥11	$34
Due after one year	–	8	–
Total	¥4	¥19	$34

13. Non-cash transactions

Significant non-cash transactions for the year ended March 31, 2006 were as follows:

(1) The conversion of bonds into common stock and capital surplus:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Increase in common stock	¥1,712	$14,571
Increase in capital surplus	1,711	14,562
Decrease in convertible bonds	¥3,423	$29,133

(2) The dissolution of the employee retirement benefit trust:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Increase in investment securities	¥8,139	$69,268

14. Impairment loss

The Company and consolidated domestic subsidiaries categorized business-use assets into groups by the business segment. Idle assets and assets for rent were also categorized into groups by individual properties.

The book value of idle assets and assets for rent that had significantly declined in market value was written down to a recoverable amount.

The recoverable amount was calculated based on real estate appraisal value and assessed value for fixed assets tax, with reasonable adjustments.

The impairment loss for the year ended March 31, 2006 was as follows:

			Millions of yen	Thousands of U.S. dollars
Use	Location	Type of assets	2006	2006
Idle assets	Yuzawa, Akita	Land	¥ 108	$ 919
Assets for rent	Kashiwa, Chiba	Land and Building	959	8,162
Total			¥1,067	$9,081

15. Segment information

Information by business segment for the years ended March 31, 2006 and 2005 is as follows :

	Millions of yen							
Year ended March 31, 2006	Semiconductor and display materials	Circuit products	High performance plastics	Quality of life products	Others	Total	Eliminations or corporate	Consolidated
Sales:								
Outside customers	¥64,550	¥40,121	¥61,635	¥73,835	¥945	¥241,086	¥ –	¥241,086
Inter-segment	12	–	1,033	477	–	1,522	(1,522)	–
Total sales	64,562	40,121	62,668	74,312	945	242,608	(1,522)	241,086
Operating expenses	46,965	38,580	57,858	69,802	451	213,656	181	213,837
Operating income	¥17,597	¥ 1,541	¥ 4,810	¥ 4,510	¥494	¥ 28,952	¥ (1,703)	¥ 27,249
Identifiable assets	¥66,891	¥49,884	¥79,337	¥77,994	¥996	¥275,102	¥27,174	¥302,276
Depreciation and amortization	2,623	2,589	4,021	2,719	116	12,068	277	12,345
Impairment loss	–	–	–	959	–	959	108	1,067
Capital expenditures	3,876	1,621	3,807	2,547	141	11,992	188	12,180

"Eliminations or corporate" in the "Operating expenses" row of the above information included corporate expenses of ¥1,720 million ($14,638 thousand) in the year ended March 31, 2006, 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" row of the above information included corporate assets of ¥27,535 million ($234,340 thousand) at March 31, 2006, 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, 2005	Semiconductor and display materials	Circuit products	High performance plastics	Quality of life products	Others	Total	Eliminations or corporate	Consolidated
Sales:								
Outside customers	¥56,442	¥41,369	¥52,742	¥72,151	¥770	¥223,474	¥ –	¥223,474
Inter-segment	22	–	1,269	397	144	1,832	(1,832)	–
Total sales	56,464	41,369	54,011	72,548	914	225,306	(1,832)	223,474
Operating expenses	43,778	38,340	51,991	68,781	552	203,442	361	203,803
Operating income	¥12,686	¥ 3,029	¥ 2,020	¥ 3,767	¥362	¥ 21,864	¥ (2,193)	¥ 19,671
Identifiable assets	¥55,109	¥48,777	¥57,566	¥77,446	¥809	¥239,707	¥14,115	¥253,822
Depreciation and amortization	2,694	2,598	3,055	2,807	129	11,283	268	11,551
Capital expenditures	1,719	1,979	2,555	3,294	63	9,610	214	9,824

"Eliminations or corporate" in the "Operating expenses" row of the above information included corporate expenses of ¥2,178 million in the year ended March 31, 2005, 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" row of the above information included corporate assets of ¥14,645 million at March 31, 2005, 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.

Certain products that were previously included in the Circuit products segment are included in the High performance plastics segment from the year ended March 31, 2005. In light of the recent changes in product-mix, the Company reexamined its products in terms of their primary uses and their classification for internal control purposes.

As a result, the Company decided to change segmentation of certain products from the Circuit products segment to the High performance plastics segment in order to more appropriately present the Companies' operations.

As a result of this change, sales, operating income, identifiable assets, depreciation and amortization, and capital expenditures decreased in the Circuit products segment by ¥2,175 million, ¥328 million, ¥2,188 million, ¥123 million, and ¥21 million, respectively, and in the meanwhile, sales, operating income, identifiable assets, depreciation and amortization, and capital expenditures increased in the High performance plastics segment by the same amounts respectively compared with the previous accounting measures.

As explained in Note 3, effective from the year ended March 31, 2005, the Company adopted the new accounting standard for employees' severance and retirement benefits (Accounting Standards Board Statement No. 3, "Partial Revision of the Accounting Standard for Retirement Benefits," and the Financial Accounting Standards Implementation Guidance No. 7, "Implementation Guidance for Partial Revision of the Accounting Standard for Retirement Benefits," issued by the Accounting Standards Board of Japan on March 16, 2005), as the accounting standard and the implementation guidance may be adopted from the year ended March 31, 2005.

Such change had the following effects on each segment compared with the previous accounting measures:

(1) Operating income increased in the Semiconductor and display materials segment by ¥907 million.
(2) Operating income increased in the Circuit products segment by ¥393 million.
(3) Operating income increased in the High performance plastics segment by ¥851 million.
(4) Operating income increased in the Quality of life products segment by ¥512 million.
(5) Operating income increased in the Others segment by ¥0 million.
(6) Unallocated operating expenses decreased in Eliminations or corporate by ¥655 million.

	Thousands of U.S. dollars							
Year ended March 31, 2006	Semiconductor and display materials	Circuit products	High performance plastics	Quality of life products	Others	Total	Eliminations or corporate	Consolidated
Sales:								
Outside customers	$549,362	$341,455	$524,553	$628,383	$8,043	$2,051,796	$ –	$2,051,796
Inter-segment	102	–	8,791	4,060	–	12,953	(12,953)	–
Total sales	549,464	341,455	533,344	632,443	8,043	2,064,749	(12,953)	2,051,796
Operating expenses	399,702	328,340	492,409	594,060	3,839	1,818,350	1,540	1,819,890
Operating income	$149,762	$ 13,115	$ 40,935	$ 38,383	$4,204	$ 246,399	$(14,493)	$ 231,906
Identifiable assets	$569,285	$424,545	$675,209	$663,779	$8,477	$2,341,295	$231,267	$2,572,562
Depreciation and amortization	22,323	22,034	34,221	23,140	988	102,706	2,358	105,064
Impairment loss	–	–	–	8,162	–	8,162	919	9,081
Capital expenditures	32,987	13,796	32,400	21,677	1,200	102,060	1,600	103,660

Information by geographic area for the years ended March 31, 2006 and 2005 is as follows:

	Millions of yen						
Year ended March 31, 2006	Domestic	Asia	North America	Europe and others	Total	Eliminations or corporate	Consolidated
Sales:							
Outside customers	¥144,353	¥60,145	¥19,221	¥17,367	¥241,086	¥ –	¥241,086
Inter-segment	18,898	15,899	704	41	35,542	(35,542)	–
Total sales	163,251	76,044	19,925	17,408	276,628	(35,542)	241,086
Operating expenses	143,175	67,102	19,790	17,716	247,783	(33,946)	213,837
Operating income	¥ 20,076	¥ 8,942	¥ 135	¥ (308)	¥ 28,845	¥ (1,596)	¥ 27,249
Identifiable assets	¥222,195	¥71,459	¥21,288	¥22,679	¥337,621	¥(35,345)	¥302,276

"Eliminations or corporate" in the "Operating expenses" row of the above information included corporate expenses of ¥1,720 million ($14,638 thousand) in the year ended March 31, 2006, 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" row of the above information included corporate assets of ¥27,535 million ($234,340 thousand) at March 31, 2006, 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, 2005	Domestic	Asia	North America	Europe and others	Total	Eliminations or corporate	Consolidated
Sales:							
Outside customers	¥142,384	¥53,041	¥15,687	¥12,362	¥223,474	¥ –	¥223,474
Inter-segment	14,641	14,862	335	74	29,912	(29,912)	–
Total sales	157,025	67,903	16,022	12,436	253,386	(29,912)	223,474
Operating expenses	143,081	59,323	16,318	12,962	231,684	(27,881)	203,803
Operating income	¥ 13,944	¥ 8,580	¥ (296)	¥ (526)	¥ 21,702	¥ (2,031)	¥ 19,671
Identifiable assets	¥200,147	¥59,457	¥15,789	¥10,724	¥286,117	¥(32,295)	¥253,822

"Eliminations or corporate" in the "Operating expenses" row of the above information included corporate expenses of ¥2,178 million in the year ended March 31, 2005, 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" row of the above information included corporate assets of ¥14,645 million at March 31, 2005, 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 explained in Note 3, effective from the year ended March 31, 2005, the Company adopted the new accounting standard for employees' severance and retirement benefits (Accounting Standards Board Statement No. 3, "Partial Revision of the Accounting Standard for Retirement Benefits," and the Financial Accounting Standards Implementation Guidance No. 7, "Implementation Guidance for Partial Revision of the Accounting Standard for Retirement Benefits," issued by the Accounting Standards Board of Japan on March 16, 2005), as the accounting standard and the implementation guidance may be adopted from the year ended March 31, 2005.

Such change had the following effects on each segment compared with the previous accounting measures:

(1) Operating income increased in the Domestic segment by ¥2,663 million.

(2) Unallocated operating expenses decreased in Eliminations or corporate by ¥655 million.

Year ended March 31, 2006	Domestic	Asia	North America	Europe and others	Total	Eliminations or corporate	Consolidated
	Thousands of U.S. dollars						
Sales:							
Outside customers	$1,228,537	$511,872	$163,583	$147,804	$2,051,796	$ –	$2,051,796
Inter-segment	160,834	135,311	5,991	349	302,485	(302,485)	–
Total sales	1,389,371	647,183	169,574	148,153	2,354,281	(302,485)	2,051,796
Operating expenses	1,218,511	571,081	168,426	150,774	2,108,792	(288,902)	1,819,890
Operating income	$ 170,860	$ 76,102	$ 1,148	$ (2,621)	$ 245,489	$ (13,583)	$ 231,906
Identifiable assets	$1,891,021	$608,162	$181,174	$193,013	$2,873,370	$(300,808)	$2,572,562

Overseas sales for the years ended March 31, 2006 and 2005 were as follows:

Year ended March 31, 2006	Asia	North America	Europe and others	Total
	Millions of yen			
Overseas sales	¥82,302	¥19,461	¥16,816	¥118,579
Consolidated net sales				241,086
Percent of consolidated net sales	34.1%	8.1%	7.0%	49.2%

Year ended March 31, 2005	Asia	North America	Europe and others	Total
	Millions of yen			
Overseas sales	¥70,364	¥15,990	¥12,229	¥ 98,583
Consolidated net sales				223,474
Percent of consolidated net sales	31.5%	7.2%	5.4%	44.1%

Year ended March 31, 2006	Asia	North America	Europe and others	Total
	Thousands of U.S. dollars			
Overseas sales	$700,443	$165,626	$143,115	$1,009,184
Consolidated net sales				2,051,796
Percent of consolidated net sales	34.1%	8.1%	7.0%	49.2%

16. Contingent liabilities

At March 31, 2006, the Companies were contingently liable as follows:

(i) Repurchase of notes discounted and endorsed:	¥ 33 million	($ 281 thousand)
(ii) Repurchase of installment accounts receivable sold to a commercial finance company:	¥ 3 million	($ 26 thousand)
(iii) Guarantees for bank borrowings of employees:	¥ 2 million	($ 17 thousand)
(iv) Guarantee for bank borrowings of an association:	¥286 million	($2,434 thousand)

17. Subsequent events

(1) At the general meeting of shareholders of the Company held on June 29, 2006, retained earnings at March 31, 2006, were appropriated as follows:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends ¥10 ($0.09) per share	¥2,422	$20,613
Bonuses to directors and statutory auditors	90	766

(2) The Company acquired 2,900 thousand shares of treasury stock at an aggregate cost of ¥3,091 million ($26,306 thousand) on May 31, 2006, based on a resolution of the Board of Directors at a meeting held on May 30, 2006.

Independent Auditors' Report

Sumitomo Bakelite Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2006, 2005 and 2004

To 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, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2006, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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. These 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

(1) As explained in Note 3 to the consolidated financial statements, Sumitomo Bakelite Company, Limited adopted the new accounting standard for employees' severance and retirement benefits (Accounting Standards Board Statement No. 3, "Partial Revision of the Accounting Standard for Retirement Benefits" and the Financial Accounting Standards Implementation Guidance No. 7, "Implementation Guidance for Partial Revision of the Accounting Standard for Retirement Benefits," issued by the Accounting Standards Board of Japan on March 16, 2005) for the year ended March 31, 2005.

(2) As explained in Note 3 to the consolidated financial statements, Sumitomo Bakelite Company, Limited and domestic consolidated subsidiaries adopted the accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets," issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standards Implementation Guidance No. 6, issued by the Accounting Standards Board of Japan on October 31, 2003) for the year ended March 31, 2006.

(3) As explained in Note 17 to the consolidated financial statements, Sumitomo Bakelite Company, Limited acquired 2,900 thousand shares of treasury stock on May 31, 2006, based on a resolution of the Board of Directors at a meeting held on May 30, 2006.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2006

Environmental Accounting

Sumitomo Bakelite Company, Limited

In fiscal 2001, Sumitomo Bakelite introduced environmental accounting as an effective tool to implement business activities in line with environmental conservation. Environmental accounting quantifies the cost and effects associated with environmental conservation activities. It is an excellent tool to promote environmentally conscious business activities more efficiently and enhance the understanding of our efforts through disclosure to our stakeholders.

With reference to "Environmental Accounting Guidelines 2000, 2002, 2005," released by the Ministry of the Environment, we established a framework for quantitatively measuring progress to reduce environmental burden. Under the framework, we continuously make efforts to evaluate environmental conservation activities based on our own compilation methods and enhance the effectiveness of these methods through ongoing reviews and reassessment.

In fiscal 2001, we introduced environmental accounting at our five plants and two laboratories and subsequently, expanded its scope to all of our domestic business establishments including our affiliated companies (listed below).

Environmental Conservation Costs for Fiscal 2006

Item	Investment (Millions of yen)	Expenses (Millions of yen)	Description
(A) Reduction of environmentally hazardous emissions	¥ 43	¥ 262	• Prevention of asbestos scattering
(B) Energy conservation	21	20	• Installation of ceiling/roof insulation • Air conditioning equipment
(C) Reduction of industrial waste, promotion of recycling, and waste treatment	1	626	• Introduction of energy saving lighting equipment for waste solvents • Waste treatment
(D) Product evaluation at R&D stage	—	1,389	• R&D for environmentally friendly products
(E) Reduction of upstream and downstream environmental burden	—	26	• Analysis of environmental-related substances • Consignment fee to the Japan Containers and Packaging Recycling Association
(F) Environmental management activities	1	267	• Personnel cost for environmental management activities • Greening activities and maintenance for green space
(G) Contributions to social activities	—	4	• Activities for external communications
(H) Response to environmental damage	—	—	
Total	¥ 66	¥2,594	

Period: April 1, 2005 to March 31, 2006

Domestic scope of consolidation of Sumitomo Bakelite Co., Ltd.

Plants and Laboratories:

Amagasaki Plant*, Shizuoka Plant*, Industrial Resin & Molding Compounds Plant, Utsunomiya Plant and Tsu Plant; Fundamental Research Laboratory and Kobe Fundamental Research Laboratory.

*Including subsidiaries and affiliated companies on the premise

Subsidiaries:

Akita Sumitomo Bakelite Co., Ltd.; Artlite Kogyo Co., Ltd.; S. B. Techno Plastics Co., Ltd.; Hokkai Taiyo Plastic Co., Ltd.; Yamaroku Kasei Industry Co., Ltd.; Kyushu Bakelite Industry Co., Ltd.; Decolanitto Corporation's Suzuka Plant

Compilation Method

- Compilations were implemented by the Company's Environmental Accounting Compilation Guideline based on Environmental Accounting Guidelines 2000, 2002, 2005, released by the Ministry of the Environment.
- With regard to complex costs that include costs other than those for environmental conservation purposes, the additional costs were compiled after deducting from costs as usual.
- 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 in environment-related categories.

Effects of Environmental Conservation for Fiscal 2006

Environmental Burden	Fiscal 2005	Fiscal 2006	Reduction
Atmospheric emissions of solvents and others	653 tons	460 tons	193 tons
Carbon dioxide emissions	121,936 tons*	118,308 tons	3,628 tons
Waste generated	10,206 tons*	9,514 tons	692 tons
Landfill and simple incineration of waste	1,620 tons*	548 tons	1,072 tons

*Figures for fiscal 2005 have been revised following further inspection.

Economic Effects for Fiscal 2006

Item	Amount (Millions of yen)		
	Fiscal 2005	Fiscal 2006	Change
(1) Reduction in costs due to energy conservation	¥ 29	¥ 224	¥ 195
(2) Reduction in costs through waste reduction	19	42	23
(3) Income from recycling	63	113	50
(4) Reduction in costs through internal recycling	291	309	18
(5) Others	18	5	(13)
Total	¥ 420	¥ 693	¥ 273

The **Environmental & Social Report 2006** of Sumitomo Bakelite Co., Ltd., including environmental accounting, was independently reviewed by AZSA Sustainability Co., Ltd.

Board of Directors, Corporate Auditors and Executive Officers

Board of Directors

Chairman

Tsuneo Moriya

President

Tomitaro Ogawa

Directors

Akio Kosai*
Shigeru Hayashi
Tamotsu Yahata
Takeshi Uchimura
Atsumi Okayama
Masuo Mizuno

Corporate Auditors

Standing Auditors

Osamu Kono
Takaharu Hayashi

Auditors

Kenkichi Fuse**
Takao Yanagisawa**

* Outside director
** Outside auditor

Executive Officers

President

Tomitaro Ogawa

Senior Managing Executive Officers

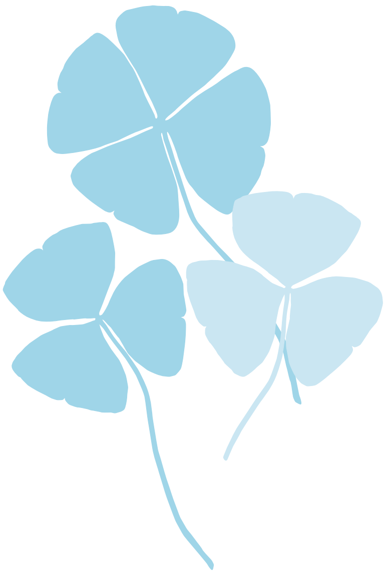
Shigeru Hayashi
Tamotsu Yahata

Managing Executive Officers

Takeshi Uchimura
Atsumi Okayama
Masuo Mizuno
Nobuaki Sugimoto
Kiyoshi Fujita
Tsuneo Terasawa
Shinichiro Ito

Executive Officers

Koichiro Sekine
Masaei Yamada
Kazuhisa Hirano
Shigeki Muto
Takashi Wada
Ryuzo Sukeyasu
Akira Takada
Koichi Tanaka
Masatoshi Yamazaki



Corporate Data

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Corporate Finance & Planning Div.

Phone: +81-(0)3-5462-3449
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Facsimile: +81-(0)6-6427-8055

Nagoya Office

87 Choda-cho, Meito-ku, Nagoya,
Aichi 465-0027, JAPAN
Phone: +81-(0)52-726-8351
Facsimile: +81-(0)52-726-8396

Laboratories

Fundamental Research Laboratory

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Yokohama, Kanagawa 245-0052,
JAPAN
Phone: +81-(0)45-811-1661
Facsimile: +81-(0)45-812-4898

Kobe Fundamental Research Laboratory

1-1-5 Murotani, Nishi-ku, Kobe, Hyogo
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 Resin & Molding Compounds Plant)

Molding Compounds Research Laboratory

(Located at Shizuoka Plant, Industrial Resin & Molding Compounds Plant)

Industrial Resin Research Laboratory

(Located at Shizuoka Plant, Industrial Resin & Molding Compounds Plant)

High Performance Thermoset Plastics Application Development Center

(Located at Shizuoka Plant, Industrial Resin & Molding Compounds Plant)

Information & Telecommunication Material Laboratories
Electronic Device Materials Research Laboratory I
Electronic Device Materials Research Laboratory II
Electronic Device Materials Research Laboratory III

(Located at Utsunomiya Plant)

Plants

Amagasaki Plant

2-3-47 Higashi-tsukaguchi-cho,
Amagasaki, Hyogo 661-8588, JAPAN
Phone: +81-(0)6-6429-6941
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Shizuoka Plant, Industrial Resin & Molding Compounds Plant

2100 Takayanagi, Fujieda, Shizuoka
426-0041, JAPAN
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Utsunomiya Plant

20-7 Kiyohara-Kogyodanchi,
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5-7-1 Takachaya, Tsu, Mie 514-0819,
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Facsimile: +81-(0)59-234-8728

Incorporated

January 25,1932

Number of Employees

2,296

Major Subsidiaries and Affiliates

** Advanced Plastics Compound Company
* Akita Sumitomo Bakelite Co., Ltd.
* Artlite Kogyo Co., Ltd.
* Bakelite Precision Molding (Shanghai) Co., Ltd.
Bakelite Trading (Shanghai) Co., Ltd.
* BASEC Hong Kong Limited
** CMK Singapore (Pte.) Ltd.
** CMKS (Malaysia) Sdn. Bhd.
* Decolanitto Corporation
* Durez Canada Co., Ltd.
* Durez Corporation
* Hokkai Taiyo Plastic Co., Ltd.
* P. T. Indopherin Jaya
Japan Communication Accessories Manufacturing Co., Ltd.
* Kyushu Bakelite Industry Co., Ltd.
** Nippon Denkai Co., Ltd.
Otomo Chemical Co., Ltd.
** P. T. Pamolite Adhesive Industry
* Promerus, Llc.
* Rigidtex Sdn. Bhd.
* SB Flex Philippines, Inc.
S. B. Information System Co., Ltd.
S. B. Recycle Co., Ltd.
* S. B. Techno Plastics Co., Ltd.
S. B. TEG Co., Ltd.
* SNC Industrial Laminates Sdn. Bhd.
SPD Co., Ltd.
* ST Film Sheet Co., Ltd.
* ST-Techno Co., Ltd.
Sumibe Service Co., Ltd.
* Sumicarrier Singapore Pte. Ltd.
* SumiDurez Singapore Pte. Ltd.
* N. V. Sumitomo Bakelite Europe S. A.
* Sumitomo Bakelite Europe (Barcelona), S. L. U.
* Sumitomo Bakelite Hong Kong Co., Ltd.
* Sumitomo Bakelite Macau Co., Ltd.
* Sumitomo Bakelite North America, Inc.
* Sumitomo Bakelite North America Holding, Inc.
* Sumitomo Bakelite Singapore Pte. Ltd.
* Sumitomo Bakelite (Suzhou) Co., Ltd.
* Sumitomo Bakelite (Taiwan) Co., Ltd.
Sumitomo Bakelite (Thailand) Co., Ltd.
* Sumitomo Bakelite Vietnam Co., Ltd.
* Sumitomo Plastics America, Inc.
** Sunbake Co., Ltd.
* Tsu-Kong Co., Ltd.
* Tsutsunaka Plastic Industry Co., Ltd.
* Vyncolit N. V.
* Yamaroku Kasei Industry Co., Ltd.

* Consolidated subsidiaries
** Affiliates to which the equity method is applied

(As of September 2006)

SUMITOMO BAKELITE CO., LTD.

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