SUMITOMO BAKELITE CO., LTD.

For the year ended March 31, 2007

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
	2007	2006	2005	**2007**
Net Sales	¥ 255,374	¥ 241,086	¥ 223,474	$ 2,162,354
Net Income	11,921	15,212	9,948	100,940
Total Assets	301,754	302,276	253,822	2,555,072
Shareholders' Equity	174,549	152,303	125,689	1,477,976
	Yen			U.S. dollars
Net Income per Share	¥ 47.18	¥ 63.60	¥ 41.48	$ 0.40
Diluted Net Income per Share	45.33	57.46	37.64	0.38
Cash Dividends per Share	15.00	15.00	10.00	0.13

Note: U.S. dollar amounts are translated from yen at the rate of ¥118.1 to US$1, the approximate exchange rate as of March 31, 2007.

Contents

President's Message

Tomitaro Ogawa
President

Business Environment around Sumitomo Bakelite

In fiscal 2007, ended March 31, 2007, there were fears about the impact from spiraling crude oil prices and the gradually decelerating U.S. economy. However, on the back of a robust Asian economy and the recovery of the European economy, the Japanese economy saw gradual expansion, which was buoyed by brisk exports and increased capital expenditure.

In the Sumitomo Bakelite Group's major businesses, sales of semiconductors were strong due to robust demand for digital appliances and mobile phones in the first half of fiscal 2007, but sales began to decelerate in the second half of fiscal 2007 due to the impact of inventory adjustments in the Asian region. On the other hand, automobile manufacturing volume and new housing starts remained strong in Japan, and sales of mobile phones showed a gradual recovery in the second half of fiscal 2007.

Overview of Fiscal 2007 Results

Under these circumstances, Sumitomo Bakelite and its Group companies set up a core objective in their business strategies of offering products and services globally that would be useful in customers' innovation efforts and strived to expand core businesses and reinforce profitability by strengthening their marketing and manufacturing capabilities.

As a result, the Group's consolidated net sales rose ¥14,289 million, or 5.9% from the previous fiscal year, to ¥255,374 million.

On the earnings front, profit from actuarial adjustment for retirement allowances declined ¥7,278 million from ¥7,906 million to ¥628 million. Reflecting this, consolidated operating income declined ¥9,484 million, or 34.8% to ¥17,765 million, while consolidated recurring profit fell ¥8,875 million, or 31.1% to ¥19,695 million.

Consolidated net income decreased ¥3,292 million, or 21.6%, to ¥11,920 million. Excluding the actuarial adjustment for retirement allowances, consolidated operating income declined 11.4% to ¥17,137 million and consolidated recurring profit decreased 7.7% to ¥19,067 million. This was attributable to insufficient adjustment of sales prices to meet spiraling raw material costs, despite favorable factors in the business upturn, such as increased sales. Consolidated net income increased 9.8% to ¥11,547 million due to a decline in litigation expenses in other expenses.

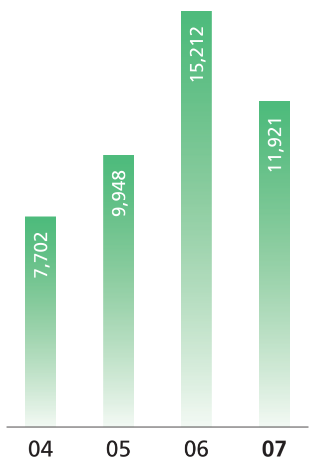
On a non-consolidated basis, net sales fell ¥3,490 million from the previous fiscal year to ¥103,695 million. With the impact of the actuarial adjustment for retirement allowances, operating income dropped ¥9,825 million to ¥6,836 million. Recurring profit decreased ¥8,986 million to ¥11,373 million, and net income declined ¥1,470 million to ¥6,628 million.

For the fiscal year under review, Sumitomo Bakelite declared a fiscal year-end dividend of ¥7.5 per common share, which brought the full-year cash dividend to ¥15 per share.

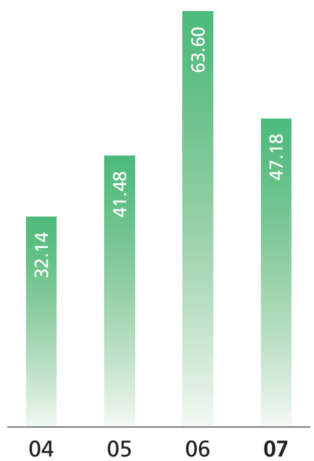
In the context of its fund procurement activities, the Company acquired Tsutsunaka Plastic Industry Co., Ltd. and procured a settlement fund of ¥9,000 million through issuance of commercial paper, with ¥5,000 million of the ¥9,000 million being reacquired as long-term debt. Other capital increase, issuance of corporate bonds or extraordinary fund procurement was not conducted during the fiscal year under review. Total capital expenditure in fiscal 2007 stood at ¥9,064 million.

Net Sales (Millions of yen)

Net Income (Millions of yen)



Net Income per Share (yen)



Aiming to Achieve the Goals of the Medium-Term Management Plan

Despite concerns surrounding the decelerated U.S. economy, the sharp rise in raw material prices, including crude oil and copper, and the inventory adjustment in the semiconductor market, 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, striving for global excellence as a company that boasts sustainable growth in functional chemical products by creating plastics that feature higher performance, thereby enhancing customer value.

In the Three-Year Medium-Term Management Plan starting from the fiscal year ended March 31, 2007, we set a goal of consolidated recurring profit of ¥35,000 million for the final year. Fiscal 2007, the first year of this plan, fell below the initial target. Given this, we established a new Medium-Term Management Plan starting from the fiscal year ending March 31, 2008 and extending to the fiscal year ending March 31, 2010, with a goal of attaining a consolidated recurring profit of ¥35,000 million in the final year. To that end, we will strive to further reinforce our marketing skills, along with manufacturing capabilities that support product quality, while nurturing human resources to achieve this goal. Furthermore, as a specific example of customer satisfaction improvement activities, we will continue our efforts to offer total solutions to customers. We established the three major challenges we must meet to achieve our goals, and we will take all possible measures to meet these targets.

1. Creation of stable earnings from M&A projects such as the merger with Tsutsunaka Plastic Industry Co., Ltd. and the acquisition of the phenol resin business in the United States and Europe
2. Commercialization of new products and businesses
3. Elimination and rationalization of unprofitable business

In addition to these efforts, we will continue to bolster compliance and enhance the internal control system in order to fulfill corporate social responsibility. Together with this, we will promote environmental preservation and other activities that will meet people's expectations.

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

September 2007

Tomitaro Ogawa
President

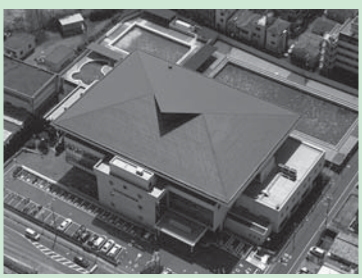
Major Developments

1

Business Consolidation with Tsutsunaka Plastic Industry Co., Ltd.


Advertising displays


A plastic building material used for transom windows


Waterproof sheet used on a building's roof

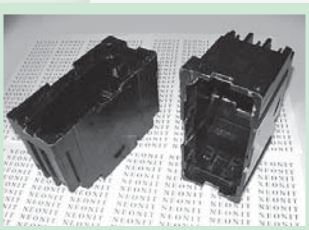
On March 1, 2007, Tsutsunaka Plastic Industry Co., Ltd. (hereafter "Tsutsunaka Plastic") became Sumitomo Bakelite's wholly owned subsidiary, and the Company and Tsutsunaka Plastic integrated as of July 1, 2007.

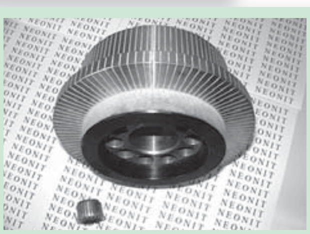
Since its foundation in 1929, Tsutsunaka Plastic has been involved in the manufacture and sales of various plastic sheets and films, along with the design, construction, and installation of sheet waterproofing systems. Sumitomo Bakelite acquired a capital stake in Tsutsunaka Plastic in 1958, and in March 2004, Tsutsunaka Plastic became Sumitomo Bakelite's consolidated subsidiary.

With the aim of improving the competitiveness of the two companies to assure sustainable growth, Sumitomo Bakelite reached the conclusion that the two companies would need to work together closely to achieve this goal and then decided on business consolidation through a merger. Sumitomo Bakelite will strengthen its cost competitiveness and R&D capacities in the Interior Décor Material-Related and Industrial Films, Sheets and Plates businesses in the Quality of Life Products Division, utilize the sales channels of both companies and improve the efficiency of the distribution system, thereby strengthening the Company's collective competitiveness.

2

Acquisition of Long Fiber Filler Molding Material Business in Switzerland


Explosion-proof circuit cover


Commutator of large motors

In February 2007, through its Belgian subsidiary, Vyncolit N. V., Sumitomo Bakelite acquired all the shares of Neopreg AG, a Swiss company. Neopreg AG focuses on thermosetting molding materials based on long fiber filler, which boasts superior strength compared with conventional materials based on glass short-fiber filler. Applying the Group's technology to this product, Sumitomo Bakelite will promote market development in the automotive and aircraft industries.

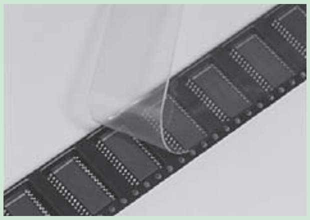
3

Establishment of New Production Facility for Cover Tapes at Amagasaki Plant

Carrier tapes used as a packaging material to mount and transport semiconductors and electronic components are comprised of a carrier tape to store components and a cover tape to cover it. Cover tape is the Company's mainstay product in the Carrier Tape Business Division. In pursuit of stronger competitiveness, the Company built a new production facility on the premises of the Amagasaki Plant to establish an integrated production system.

This facility will strengthen the production capacity, improve product quality with the introduction of a cleanroom environment and high-precision inspection devices at the plant, and significantly reduce lead time, thereby pursuing the enhancement of customer satisfaction. In addition, the Company will aim for the accelerated development of new products.

Reference: http://www. sumibe. co. jp/english/products/03_07. html



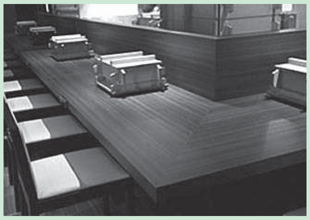
Cover tape

New production facilities

4

DeQUA Melamine Facing Plate to Offer Highly Realistic Texture

DECOLANITTO CORPORATION launched a new brand of DeQUA in 2006 based on the concept of "embodying people's wishes" as specified by architects and interior designers. With textures close to real wood or fabrics and the high functionality of the melamine facing plate, DeQUA has received high praise from customers at restaurants, public facilities and hotels and is seeing steadily increasing sales. In 2007, a new product with a glass-like texture was added to the lineup, and its use has been expanding in condominiums, office buildings, hospitals and shops.



Texture like wood

Texture like glass

Texture like fabric

Consolidated Balance Sheets

Sumitomo Bakelite Company, Limited and Consolidated Subsidiaries
March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2007**	2006	**2007**
Current assets:			
Cash and cash equivalents	¥ 54,565	¥ 47,055	$ 462,024
Trade receivables:			
Notes (Note 5)	12,178	11,236	103,116
Accounts	52,775	50,111	446,867
Allowance for doubtful accounts	(452)	(434)	(3,827)
Inventories (Note 8)	29,139	28,292	246,732
Deferred tax assets (Note 10)	2,799	2,571	23,700
Other current assets (Note 9)	8,004	15,422	67,772
Total current assets	159,008	154,253	1,346,384
Property, plant and equipment (Notes 3, 9 and 16)**:**			
Land	11,825	11,774	100,127
Buildings and structures	77,192	75,452	653,616
Machinery and equipment	147,673	143,006	1,250,406
Construction in progress	3,523	4,626	29,831
	240,213	234,858	2,033,980
Accumulated depreciation	(149,097)	(140,556)	(1,262,464)
Net property, plant and equipment	91,116	94,302	771,516
Goodwill	7,771	8,044	65,800
Investments and other assets:			
Investment securities (Note 6):			
Unconsolidated subsidiaries and affiliates	5,040	5,512	42,676
Other	26,341	27,674	223,040
Long-term loans receivable:			
Unconsolidated subsidiaries and affiliates	1,132	1,100	9,585
Employees and other	85	103	720
Deferred tax assets (Note 10)	1,561	1,642	13,218
Other assets (Notes 3, 11 and 16)	10,881	10,464	92,133
Allowance for doubtful accounts	(1,181)	(818)	(10,000)
Total investments and other assets	43,859	45,677	371,372
Total assets	¥ 301,754	¥ 302,276	$ 2,555,072

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 1) 2007
Current liabilities:			
Short-term debt (Note 9)	¥ 20,864	¥ 22,513	$ 176,664
Long-term debt due within one year (Note 9)	851	17,610	7,206
Trade payables:			
Notes (Note 5)	7,552	7,420	63,946
Accounts	37,006	35,775	313,345
Accrued expenses	8,537	8,028	72,286
Income taxes payable (Note 10)	6,369	3,333	53,929
Other current liabilities	7,374	7,006	62,438
Total current liabilities	88,553	101,685	749,814
Long-term liabilities:			
Long-term debt due after one year (Note 9)	12,218	8,061	103,455
Deferred tax liabilities (Note 10)	11,485	12,591	97,248
Retirement benefits:			
Employees (Notes 3 and 11)	5,739	5,852	48,594
Directors, statutory auditors and officers	60	792	508
Negative goodwill	3,702	1,236	31,346
Other long-term liabilities	399	362	3,379
Total long-term liabilities	33,603	28,894	284,530
Contingent liabilities (Notes 9 and 18)			
Net assets (Notes 3 and 12)**:**			
Shareholders' equity:			
Common stock:			
Authorized — 800,000,000 shares			
Issued — 265,852,394 shares in 2007 and 242,454,415 shares in 2006	37,143	28,767	314,505
Capital surplus	35,358	26,983	299,390
Retained earnings	93,908	86,820	795,156
Treasury stock, at cost	(3,107)	(190)	(26,308)
Valuation and translation adjustments:			
Net unrealized holding gains on securities	6,265	6,769	53,048
Foreign currency translation adjustments	4,982	3,154	42,185
Minority interests	5,049	19,394	42,752
Total net assets	179,598	171,697	1,520,728
Total liabilities and net assets	¥ 301,754	¥ 302,276	$ 2,555,072

Consolidated Statements of Income

Sumitomo Bakelite Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Net sales (Note 17)	¥255,374	¥241,086	¥223,474	$2,162,354
Costs and expenses:				
Cost of sales (Note 17)	187,891	171,424	159,785	1,590,948
Selling, general and administrative expenses (Note 17)	49,717	42,413	44,018	420,974
	237,608	213,837	203,803	2,011,922
Operating income (Note 17)	17,766	27,249	19,671	150,432
Other income (expenses):				
Interest and dividend income	1,630	987	471	13,802
Interest expense	(462)	(661)	(403)	(3,912)
Amortization of negative goodwill	706	441	443	5,978
Equity in gains (losses) of affiliated companies	(376)	198	323	(3,184)
Loss on sale/disposal of property, plant and equipment	(609)	(142)	(814)	(5,157)
Gain on sale of investment securities (Note 6)	2,118	421	148	17,934
Loss on devaluation of investment securities (Note 6)	(620)	(114)	(65)	(5,250)
Foreign exchange gain (loss), net	350	411	(43)	2,964
Lawsuit expense	–	(5,520)	(2,634)	–
Prior-period adjustment loss	–	–	(216)	–
Provision for allowance for doubtful accounts	(336)	–	–	(2,845)
Cost of business restructuring (Notes 15 and 16)	(1,563)	(449)	–	(13,235)
Impairment loss of goodwill	–	–	(769)	–
Impairment loss (Notes 3, 16 and 17)	(696)	(1,067)	–	(5,893)
Other, net	(39)	(133)	(135)	(330)
	103	(5,628)	(3,694)	872
Income before income taxes and minority interests	17,869	21,621	15,977	151,304
Income taxes (Note 10)**:**				
Current	6,972	3,848	3,363	59,034
Prior year adjustment	(405)	–	–	(3,429)
Deferred	(999)	2,298	1,868	(8,459)
	5,568	6,146	5,231	47,146
Minority interests	(380)	(263)	(798)	(3,218)
Net income	¥ 11,921	¥ 15,212	¥ 9,948	$ 100,940

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income	¥47.18	¥63.30	¥41.48	$0.40
Diluted net income	45.33	57.46	37.64	0.38
Cash dividends applicable to the year	15.00	15.00	10.00	0.13

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Sumitomo Bakelite Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2007, 2006 and 2005

		Millions of yen						
	Thousands of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Minority interests
Balance at March 31, 2004	237,674	¥27,055	¥25,270	¥66,686	¥ (118)	¥2,298	¥(3,758)	¥19,909
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	–	–	–	–	–
Decrease in minority interests	–	–	–	–	–	–	–	94
Balance at March 31, 2005	237,674	27,055	25,271	74,168	(150)	2,204	(2,859)	20,003
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 gains 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	–	–	–	–	–
Increase in minority interests	–	–	–	–	–	–	–	(609)
Balance at March 31, 2006	242,454	28,767	26,983	86,820	(190)	6,769	3,154	19,394
Shares issued upon conversion of bonds	23,398	8,376	8,376	–	–	–	–	–
Net income	–	–	–	11,921	–	–	–	–
Net unrealized holding losses arising during the year	–	–	–	–	–	(504)	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	1,828	–
Treasury stock	–	–	–	–	(5,264)	–	–	–
Stock exchange	–	–	–	–	2,347	–	–	–
Cash dividends paid (¥17.5 per share)	–	–	–	(4,391)	–	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(90)	–	–	–	–
Decrease in capital surplus due to sale of treasury stock	–	–	(0)	–	–	–	–	–
Decrease in capital surplus due to stock exchange	–	–	(353)	–	–	–	–	–
Decrease in minority interests	–	–	–	–	–	–	–	(14,345)
Transfer of negative balance on other capital surplus	–	–	352	(352)	–	–	–	–
Balance at March 31, 2007	265,852	¥37,143	¥35,358	¥93,908	¥(3,107)	¥6,265	¥ 4,982	¥ 5,049

		Thousands of U.S. dollars (Note 1)						
	Thousands of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Minority interests
Balance at March 31, 2006	242,454	$243,582	$228,476	$735,139	$(1,609)	$57,316	$26,706	$164,217
Shares issued upon conversion of bonds	23,398	70,923	70,923	–	–	–	–	–
Net income	–	–	–	100,940	–	–	–	–
Net unrealized holding losses arising during the year	–	–	–	–	–	(4,268)	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	15,479	–
Treasury stock	–	–	–	–	(44,572)	–	–	–
Stock exchange	–	–	–	–	19,873	–	–	–
Cash dividends paid ($0.15 per share)	–	–	–	(37,180)	–	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(763)	–	–	–	–
Decrease in capital surplus due to sale of treasury stock	–	–	(0)	–	–	–	–	–
Decrease in capital surplus due to stock exchange	–	–	(2,989)	–	–	–	–	–
Decrease in minority interests	–	–	–	–	–	–	–	(121,465)
Transfer of negative balance on other capital surplus	–	–	2,980	(2,980)	–	–	–	–
Balance at March 31, 2007	265,852	$314,505	$299,390	$795,156	$(26,308)	$53,048	$42,185	$ 42,752

See accompanying notes.

Consolidated Statements of Cash Flows

Sumitomo Bakelite Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Cash flows from operating activities:				
Net income	¥ 11,921	¥ 15,212	¥ 9,948	$ 100,940
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	12,952	12,345	11,551	109,670
Loss on sale/disposal of property, plant and equipment	609	142	814	5,157
Gain on sale of investment securities	(2,118)	(421)	(148)	(17,934)
Minority interests	380	263	798	3,218
Loss on devaluation of investment securities	620	114	65	5,250
Impairment loss of goodwill	–	–	769	–
Impairment loss	696	1,067	–	5,893
Deferred income taxes	(999)	2,298	1,868	(8,459)
(Increase) decrease in notes and accounts receivable	(3,262)	156	192	(27,621)
(Increase) decrease in inventories	(1,064)	1,202	(1,692)	(9,009)
Decrease (increase) in other current assets	7,979	(8,714)	(1,187)	67,561
Increase in notes and accounts payable	1,276	1,728	1,317	10,804
Increase (decrease) in income taxes payable	3,087	(172)	1,354	26,139
Increase (decrease) in other current liabilities	632	(304)	1,035	5,351
Decrease in employee retirement benefits	(923)	(7,506)	(4,301)	(7,815)
Other, net	1,080	(542)	22	9,145
Net cash provided by operating activities	32,866	16,868	22,405	278,290
Cash flows from investing activities:				
Purchases of investment securities	(9,785)	(1,736)	(420)	(82,854)
Proceeds from sale of marketable securities and investment securities	2,789	1,345	2,274	23,616
Purchases of property, plant and equipment	(9,595)	(11,030)	(8,736)	(81,245)
Proceeds from sale of property, plant and equipment	230	607	178	1,948
Payment for business acquisition	–	–	(397)	–
Purchase of subsidiaries securities with change in scope of consolidation (Note 4)	–	(10,806)	–	–
Payment of subsidiaries securities with change in scope of consolidation	(3)	–	–	(25)
Increase in short-term loans receivable	–	–	(11)	–
(Increase) decrease in long-term loans receivable	(36)	(1,505)	28	(305)
Other	(1,304)	(760)	(371)	(11,042)
Net cash used in investing activities	(17,704)	(23,885)	(7,455)	(149,907)
Cash flows from financing activities:				
(Decrease) increase in short-term debt	(1,822)	3,808	(4,142)	(15,428)
Proceeds from long-term debt	5,007	8,400	–	42,396
Repayments of long-term debt	–	–	(1,220)	–
Purchase of treasury stock	(5,266)	(44)	(37)	(44,589)
Deposit of fund for redemption of convertible bond	(12,349)	–	–	(104,564)
Payback of fund for redemption of convertible bond	12,349	–	–	104,564
Cash dividends paid	(4,391)	(2,374)	(2,375)	(37,180)
Cash dividends paid to minority shareholders	(557)	(585)	(703)	(4,716)
Fixed deposits pledged	–	–	(2,069)	–
Other	(975)	(233)	(13)	(8,256)
Net cash (used in) provided by financing activities	(8,004)	8,972	(10,559)	(67,773)
Effect of exchange rate changes on cash and cash equivalents	352	2,025	310	2,980
Net increase in cash and cash equivalents	7,510	3,980	4,701	63,590
Cash and cash equivalents at beginning of year	47,055	42,667	37,966	398,434
Increase in cash and cash equivalents due to merger of consolidated subsidiaries	–	115	–	–
Increase in cash and cash equivalents due to addition of consolidated subsidiaries	–	442	–	–
Decrease in cash and cash equivalents due to exception of consolidated subsidiaries	–	(149)	–	–
Cash and cash equivalents at end of year	¥ 54,565	¥ 47,055	¥42,667	$ 462,024
Supplemental information on cash flows:				
Cash paid during the year for:				
Interest	¥ 499	¥ 649	¥ 418	$ 4,225
Income taxes	3,458	3,884	2,141	29,280
Cash received for interest and dividend income	1,765	1,084	561	14,945
Non-cash investing and financing activities (Note 14):				
Conversion of bonds into common stock and capital surplus	16,752	3,423	–	141,846
Dissolution of the employee retirement benefit trust	–	8,139	–	–

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 20.1% (at March 31, 2007) 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 Corporate Law (the "Law") 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 Financial Reporting 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 changes in the net assets for 2006 and 2005 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, 2007, which was ¥118.1 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 44 subsidiaries in 2007, 45 subsidiaries in 2006 and 44 subsidiaries in 2005. 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 (6 affiliates in 2007 and 7 affiliates in 2006 and 2005, 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 or twenty 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 net assets. 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.

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.

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.

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, 2007, 2006 and 2005 were ¥12,752 million ($107,976 thousand), ¥11,409 million and ¥11,043 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 2007 presentation. Also, as described in Note 3, the consolidated balance sheet for 2006 has been adapted to conform to new presentation rules of 2007. Also, in lieu of the consolidated statement of shareholders' equity for the year ended March 31, 2006, which was prepared on a voluntary basis for inclusion in the 2006 consolidated financial statements, the Company prepared the consolidated statement of changes in the net assets for 2006 as well as for 2007. These changes had no impact on previously reported results of operations or retained earnings.

3. Change in accounting policies

Effective from April 1, 2006, the Company and its consolidated subsidiaries adopted the new accounting standard for presentation of net assets in the balance sheet (Statement No. 5, "Accounting Standard for Presentation of Net Assets in the Balance Sheet," issued by the Accounting Standards Board of Japan on December 9, 2005) and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8, issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

Under the New Accounting Standards, the balance sheet comprises three sections, which are the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests, as applicable, and the shareholders' equity sections.

Due to the adoption of the New Accounting Standards, the following items are presented differently compared to the previous presentation rules. Minority interests are included in the net assets under the New Accounting Standards. Under the previous presentation rules, minority interests were presented between the non-current liabilities and shareholders' equity section.

The consolidated balance sheet as of March 31, 2006 have been restated to conform to the 2007 presentation. There were no effects on the total assets or total liabilities from applying the New Accounting Standards to the balance sheet as of March 31, 2006.

If the New Accounting Standards had not been adopted, the shareholders' equity at March 31, 2007 and 2006, which comprised common stock, capital surplus, retained earnings, net unrealized gains on securities, foreign currency translation adjustments and treasury stock, at cost, would have been ¥174,549 million ($1,477,976 thousand) and ¥152,303 million.

The adoption of the New Accounting Standards had no impact on the consolidated statements of income for the years ended March 31, 2007 and 2006.

Effective from April 1, 2006, the Company and its consolidated subsidiaries adopted the new accounting standard for statement of changes in net assets (Statement No. 6, "Accounting Standard for Statement of Changes in Net Assets," issued by the Accounting Standards Board of Japan on December 27, 2005) and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9, issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statement of changes in net assets for 2006 and 2005 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

Effective April 1, 2006, the Company adopted the new accounting standard for business combinations ("Opinion Concerning Establishment of Accounting Standard for Business Combinations," issued by Business Accounting Deliberation Council on October 31, 2003) and the implementation guidance for the accounting standard for business combinations and the accounting standard for business divestitures (the Financial Accounting Standards Implementation Guidance No. 10, issued by the Accounting Standards Board of Japan on December 27, 2005 and revised on December 22, 2006).

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 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) The Companies acquired shares of Sumitomo Bakelite North America, Inc. and Vyncolit N.V. in the year ended March 31, 2006.

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

	Millions of yen
	2006
Current assets	¥ 3,613
Fixed assets	7,553
Total assets	¥11,166
Current liabilities	¥ 1,555
Fixed liabilities	3,114
Total liabilities	¥ 4,669

(2) The Company acquired all shares of Tsutsunaka Plastic Industry Co., Ltd., one of the consolidated subsidiaries in the financial year ended March 31, 2007.

1. Name of acquired company, business description, legal structure of business combinations, company name after business combinations and outline of the transactions including the purpose
   (a) Name of acquired company and business description
      i) Name of acquired company
         Tsutsunaka Plastic Industry Co., Ltd. (hereinafter "Tsutsunaka Plastic")
      ii) Business description
         Manufacture and sales of various plastic sheets and films, along with the design, construction and installation of sheet waterproofing systems

(b) Legal structure of business combinations
Stock exchange

(c) Company name after business combinations
Sumitomo Bakelite Co., Ltd.

(d) Outline of the transactions including the purpose
The Company acquired all the outstanding interests of minority shareholders of Tsutsunaka Plastic by stock exchange, to strengthen the cost competitiveness through reducing the overlapped indirect expenses and to add more high performance to the products through integrating the Company's research, development and marketing resources into Tsutsunaka Plastic's core business.

2. Outline of accounting treatments
The Company applied the accounting treatments for the consolidated financial statements mentioned in "(2) Transactions with minority shareholders" of "5. Accounting treatments for the transactions under common control" in "Opinion Concerning Establishment of Accounting Standard for Business Combinations" as described in Note 3.

3. Items on acquisition of subsidiary's stock
(a) Cost of acquisition

The Company's stock for exchange	¥1,994 million ($16,884 thousand)
Other directly related expenses	¥ 5 million ($ 42 thousand)
Total acquisition cost	¥1,999 million ($16,926 thousand)

(b) Stock exchange ratio by each class of issued stocks, basis of calculation and number and fair value of issued stocks
i) Class of stock and exchange ratio
The Company issued 0.61 common stocks for each Tsutsunaka Plastic common stock.
ii) Method of calculation for exchange ratio
The Company and Tsutsunaka Plastic calculated the stock exchange ratio jointly with reference of analyses prepared by the third party advisors for each company.
iii) Number and fair value of issued stocks
2,425,314 shares and ¥1,994 million ($16,884 thousand)

(c) Amount of recognized negative goodwill, reason of recognition, method and period of amortization
i) Amount of recognized negative goodwill
¥737 million ($6,240 thousand)
ii) Reason of recognition of negative goodwill
The Company accounted the deference between the cost of acquisition and the corresponding minority interests as negative goodwill.
iii) Method and period of amortization of negative goodwill
Straight-line basis over a period of five years

5. Effect of bank holiday on March 31, 2007

As financial institutions in Japan were closed on March 31, 2007, ¥1,360 million ($11,516 thousand) of notes receivable and ¥919 million ($7,782 thousand) of notes payable maturing on March 31, 2007 were settled on the following business day, April 2, 2007 and accounted for accordingly.

6. Securities

(1) The following tables summarize acquisition costs and book values of available-for-sale securities with available fair values as of March 31, 2007 and 2006:

Securities with book values exceeding acquisition costs:

At March 31, 2007	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥7,639	¥19,176	¥11,537
Bonds	–	–	–
Others	–	–	–
Total	¥7,639	¥19,176	¥11,537

At March 31, 2006	Millions of yen		
	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

At March 31, 2007	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities	$64,682	$162,371	$97,689
Bonds	–	–	–
Others	–	–	–
Total	$64,682	$162,371	$97,689

Securities with available fair values not exceeding book values:

At March 31, 2007	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥7,043	¥6,440	¥(603)
Bonds	–	–	–
Others	–	–	–
Total	¥7,043	¥6,440	¥(603)

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

At March 31, 2007	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Equity securities	$59,636	$54,530	$(5,106)
Bonds	–	–	–
Others	–	–	–
Total	$59,636	$54,530	$(5,106)

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, 2007 was ¥608 million ($5,148 thousand). As impairment loss was recognized in the statements of income, the above tables of available-for-sale securities exclude such securities written down to fair values.

(2) Total sales of available-for-sale securities sold and the related gains and losses in the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Sales of available-for-sale securities	¥265	¥1,345	¥2,274	$2,244
Gains on sales of available-for-sale securities	103	421	148	872
Losses on sales of available-for-sale securities	1	–	–	8

(3) The following table summarizes book values of available-for-sale securities with no available fair values as of March 31, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars
At March 31	**2007**	2006	**2007**
Non-listed equity securities	¥717	¥720	$6,071
Others	8	9	68
Total	¥725	¥729	$6,139

7. 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, 2007 and 2006 are not subjected to disclosure because the Companies adopted hedge accounting for those instruments.

8. Inventories

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Finished goods	¥13,575	¥13,558	$114,945
Semi-finished goods	2,848	2,700	24,115
Work in process	1,651	1,535	13,980
Raw materials and supplies	11,065	10,499	93,692
	¥29,139	¥28,292	$246,732

9. 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, 2007 and 2006 was as follows:

At March 31, 2007	Millions of yen	Thousands of U.S. dollars	Interest rates
Loans from banks and other companies	¥ 7,864	$ 66,588	0.76%–5.83%
Commercial paper	13,000	110,076	0.53%–0.61%
	¥20,864	$176,664	

At March 31, 2006	Millions of yen	Interest rates
Loans from banks and other companies	¥11,013	0.00%–5.20%
Commercial paper	11,500	0.07%–0.17%
	¥22,513	

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
1.2% domestic convertible bonds convertible into common stock at ¥716 per share due 2006	¥ –	¥ 16,760	$ –
Secured loans from an organization due through 2007 with an interest rate of 5.30% at March 31, 2007	248	494	2,100
Unsecured loans from banks and organizations due through 2016 with interest rates ranging from 0.00% to 1.90% at March 31, 2007	12,821	8,417	108,561
	13,069	25,671	110,661
Less amount due within one year	(851)	(17,610)	(7,206)
	¥12,218	¥ 8,061	$103,455

The annual maturities of long-term debt at March 31, 2007 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 851	$ 7,206
2009	1,405	11,897
2010	605	5,123
2011	2,205	18,670
2012	603	5,106
2013 and thereafter	7,400	62,659

At March 31, 2007, assets pledged as collateral were as follows:

	Millions of yen	Thousands of U.S. dollars
Fixed deposits	¥2,272	$19,238
Buildings	27	229
Land	98	830

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

At March 31, 2007, obligations with collateral pledged were as follows:

	Millions of yen	Thousands of U.S. dollars
Short-term debt	¥454	$3,844
Long-term debt	248	2,100
	702	5,944
Contingent liability	234	1,981
	¥936	$7,925

10. 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, 2007 and 2006.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred tax assets:			
Retirement benefits of employees	¥ 4,072	¥ 4,038	$ 34,480
Excess depreciation in overseas subsidiaries	3,131	3,095	26,511
Tax loss carryforwards	2,892	2,048	24,488
Amortization of prior service cost of the pension plan	1,536	1,439	13,006
Excess bonuses accrued	1,140	1,110	9,653
Loss on devaluation of investment securities	698	–	5,910
Tax effect arising from investments in affiliates	561	–	4,750
Accrued expenses	561	852	4,750
Impairment loss	476	427	4,030
Provision for doubtful accounts	426	285	3,607
Loss on write-off of property, plant and equipment and inventories	403	275	3,412
Accrued enterprise tax	358	218	3,031
Unrealized gains on inventory	336	349	2,845
Loss on devaluation of golf membership	237	248	2,007
Others	2,019	1,928	17,096
Total deferred tax assets	18,846	16,312	159,576
Valuation allowance	(4,701)	(3,763)	(39,805)
Net deferred tax assets	¥ 14,145	¥ 12,549	$ 119,771
Deferred tax liabilities:			
Net unrealized holding gains on securities	¥ (4,369)	¥ (4,721)	$ (36,994)
Contribution to funded non-contributory pension plan	(4,281)	(3,724)	(36,249)
Additional depreciation in overseas subsidiaries	(4,076)	(3,850)	(34,513)
Gain on securities contributed to employees' retirement benefit trust	(3,248)	(3,269)	(27,502)
Deferred gains on property, plant and equipment	(2,331)	(2,320)	(19,738)
Gain on dissolution of employees' retirement benefit trust	(927)	(927)	(7,849)
Excess of fair value over the book value of the assets and liabilities of consolidated subsidiaries at the acquisition date	(733)	(766)	(6,207)
Others	(1,305)	(1,350)	(11,049)
Total deferred tax liabilities	(21,270)	(20,927)	(180,101)
Net deferred tax assets	¥ (7,125)	¥ (8,378)	$ (60,330)

The differences between the statutory tax rate and the Companies' actual effective tax rate for financial statement purposes for the years ended March 31, 2007, 2006 and 2005 were as follows:

	2007	2006	2005
Statutory tax rate	40.6%	40.6%	40.6%
Permanently non-deductible expenses	2.0	1.0	1.1
Permanently non-taxable income	(5.3)	(3.4)	(1.8)
Tax loss carryforwards	5.0	3.4	6.2
Dividend income eliminated in consolidation	10.4	5.7	4.8
Devaluation of consolidated subsidiaries' securities and affiliates' securities	(3.1)	(3.0)	–
Tax credit	(4.0)	(3.9)	(3.9)
Adjustment on prior year income taxes	(2.3)	–	–
Tax effect arising from investments in affiliates	(3.0)	–	–
Effect of differences between tax rates in Japan and in other countries	(9.5)	(12.0)	(14.8)
Other, net	0.4	0.0	0.5
Actual effective tax rate	31.2%	28.4%	32.7%

11. 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, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
At March 31	**2007**	2006	**2007**
Projected benefit obligation	¥ 30,240	¥ 30,632	$ 256,054
Less fair value of pension assets	(28,885)	(28,199)	(244,581)
Less unrecognized actuarial differences	(990)	(1,246)	(8,383)
Unrecognized prior service costs	541	615	4,581
Prepaid benefit expenses (Other assets)	4,833	4,050	40,923
Liability for severance and retirement benefits	¥ 5,739	¥ 5,852	$ 48,594

Severance and retirement benefit expenses, included in the consolidated statements of income for the years ended March 31, 2007, 2006 and 2005 are comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Service costs—benefits earned during the year	¥1,389	¥ 1,311	¥ 1,340	$11,762
Interest cost on projected benefit obligation	814	753	734	6,892
Expected return on plan assets	(609)	(590)	(579)	(5,157)
Amortization of actuarial differences	(394)	(7,733)	(3,154)	(3,336)
Amortization of prior service costs	(77)	(138)	(73)	(652)
Severance and retirement benefit expenses	¥1,123	¥(6,397)	¥(1,732)	$ 9,509

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

	2007	2006	2005
Discount rate:			
Domestic companies	2.0%	2.0%	2.0%
Overseas companies	4.5%–5.5%	4.5%–5.5%	4.5%–6.3%
Expected return on plan assets	2.0%	2.0%	2.0%

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 difference are mainly recognized in the statements of income when they are determined actuarially.

12. Net assets

As described in Note 3, net assets comprises three subsections, which are the shareholders' equity, valuation and translation adjustments and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in the case where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividends or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by the resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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 Japanese laws and regulations.

As described in Note 3, at the annual shareholders' meeting held on June 28, 2007, the shareholders resolved cash dividends amounting to ¥1,969 million ($16,672 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2007. Such appropriations are recognized in the period in which they were resolved.

13. 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, 2007 and 2006, 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, 2007	Machinery and equipment	Other assets	Total
Acquisition cost, accumulated depreciation and net book value of leased assets:			
Acquisition cost	¥792	¥117	¥909
Accumulated depreciation	445	106	551
Net book value	¥347	¥ 11	¥358

	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

	Thousands of U.S. dollars		
At March 31, 2007	Machinery and equipment	Other assets	Total
Acquisition cost, accumulated depreciation and net book value of leased assets:			
Acquisition cost	$6,706	$991	$7,697
Accumulated depreciation	3,768	898	4,666
Net book value	$2,938	$ 93	$3,031

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Future lease payments:			
Due within one year	¥166	¥204	$1,406
Due after one year	202	209	1,710
Total	¥368	¥413	$3,116

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Lease payments, depreciation and interest expense:				
Lease payments	¥266	¥269	¥356	$2,252
Depreciation	208	222	318	1,761
Interest expense	43	50	37	364

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
	2007	2006	**2007**
Future lease payments:			
Due within one year	¥ –	¥4	$ –
Due after one year	–	–	–
Total	¥ –	¥4	$ –

14. Non-cash transactions

Significant non-cash transactions for the year ended March 31, 2007 and 2006 were as follows:

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Increase in common stock	¥ 8,376	¥1,712	$ 70,923
Increase in capital surplus	8,376	1,711	70,923
Decrease in convertible bonds	¥16,752	¥3,423	$141,846

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Increase in investment securities	¥ –	¥8,139	$ –

15. Cost of business restructuring

Cost of business restructuring for the year ended March 31, 2007 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Loss on disposal of inventories	¥ 491	$ 4,157
Loss on disposal of property, plant and equipment	61	516
Employees' severance expense	558	4,725
Office transfer expense	271	2,295
Impairment loss	136	1,152
Others	46	390
Total	¥1,563	$13,235

16. Impairment loss

The Company and consolidated subsidiaries categorized business-use assets into groups by 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 and the book value of business-use assets which was not recovered by estimated future cash flows were written down to a recoverable amount.

The recoverable amount with respect to business-use assets in 2007 was calculated based on estimated value in use with a discount rate of 9.7%, and the recoverable amount with respect to idle assets and assets for rent in 2006 was calculated on real estate appraisal value and assessed value for fixed assets tax, with reasonable adjustments.

The impairment loss for the years ended March 31, 2007 and 2006 was as follows:

			Millions of yen		Thousands of U.S. dollars
Use	Location	Type of assets	**2007**	2006	**2007**
Business-use assets	China (Macao)	Buildings and structures	¥298	¥ –	$2,523
		Machinery and equipment	397	–	3,362
		Other	1	–	8
Idle assets	Yuzawa, Akita	Land	–	108	–
Assets for rent	Kashiwa, Chiba	Land and Building	–	959	–
Total			¥696	¥1,067	$5,893

And as explained in Note 15, the cost of business restructuring for the year ended March 31, 2007 included impairment loss as follows:

Use	Location	Type of assets	Millions of yen	Thousands of U.S. dollars
Business-use assets	Inashiki, Ibaraki	Machinery and equipment	¥136	$1,152

With respect to the above assets held by the consolidated subsidiary which decided to withdraw from its business, the recoverable amount was calculated on fair value less costs to sell.

17. Segment information

Information by business segment for the years ended March 31, 2007 and 2006 is as follows :

Year ended March 31, 2007	Millions of yen Semiconductor and display materials	Circuit products	High-performance plastics	Quality of life products	Others	Total	Eliminations or corporate	Consolidated
Sales:								
Outside customers	¥65,947	¥46,101	¥66,773	¥75,515	¥1,038	¥255,374	¥ –	¥255,374
Inter-segment	8	–	784	526	–	1,318	(1,318)	–
Total sales	65,955	46,101	67,557	76,041	1,038	256,692	(1,318)	255,374
Operating expenses	50,792	48,066	63,464	72,049	699	235,070	2,538	237,608
Operating income	¥15,163	¥ (1,965)	¥ 4,093	¥ 3,992	¥ 339	¥ 21,622	¥ (3,856)	¥ 17,766
Identifiable assets	¥71,353	¥46,929	¥79,639	¥76,963	¥1,007	¥275,891	¥25,863	¥301,754
Depreciation and amortization	3,030	2,510	4,109	2,817	140	12,606	346	12,952
Impairment loss	–	696	–	136	–	832	–	832
Capital expenditures	2,989	1,303	3,277	1,701	168	9,438	229	9,667

"Eliminations or corporate" in the "Operating expenses" row of the above information includes corporate expenses of ¥3,865 million ($32,727 thousand) in the year ended March 31, 2007, 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 includes corporate assets of ¥26,203 million ($221,871 thousand) at March 31, 2007, 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, 2006	Millions of yen 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 includes corporate expenses of ¥1,720 million 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 includes corporate assets of ¥27,535 million 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.

Year ended March 31, 2007	Semiconductor and display materials	Circuit products	High-performance plastics	Quality of life products	Others	Total	Eliminations or corporate	Consolidated
	Thousands of U.S. dollars							
Sales:								
Outside customers	$558,399	$390,356	$565,394	$639,416	$8,789	$2,162,354	$ –	$2,162,354
Inter-segment	68	–	6,638	4,454	–	11,160	(11,160)	–
Total sales	558,467	390,356	572,032	643,870	8,789	2,173,514	(11,160)	2,162,354
Operating expenses	430,076	406,994	537,375	610,068	5,919	1,990,432	21,490	2,011,922
Operating income	$128,391	$ (16,638)	$ 34,657	$ 33,802	$2,870	$ 183,082	$ (32,650)	$ 150,432
Identifiable assets	$604,174	$397,367	$674,335	$651,677	$8,527	$2,336,080	$218,992	$2,555,072
Depreciation and amortization	25,656	21,253	34,793	23,853	1,185	106,740	2,930	109,670
Impairment loss	–	5,893	–	1,152	–	7,045	–	7,045
Capital expenditures	25,309	11,033	27,747	14,403	1,423	79,915	1,939	81,854

Information by geographic area for the years ended March 31, 2007 and 2006 is as follows:

Year ended March 31, 2007	Domestic	Asia	North America	Europe and others	Total	Eliminations or corporate	Consolidated
	Millions of yen						
Sales:							
Outside customers	¥143,683	¥72,458	¥19,345	¥19,888	¥255,374	¥ –	¥255,374
Inter-segment	17,658	14,181	759	24	32,622	(32,622)	–
Total sales	161,341	86,639	20,104	19,912	287,996	(32,622)	255,374
Operating expenses	148,085	79,113	19,502	19,685	266,385	(28,777)	237,608
Operating income	¥ 13,256	¥ 7,526	¥ 602	¥ 227	¥ 21,611	¥ (3,845)	¥ 17,766
Identifiable assets	¥214,410	¥78,972	¥20,468	¥27,773	¥341,623	¥(39,869)	¥301,754

"Eliminations or corporate" in the "Operating expenses" row of the above information includes corporate expenses of ¥3,865 million ($32,727 thousand) in the year ended March 31, 2007, 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 includes corporate assets of ¥26,203 million ($221,871 thousand) at March 31, 2007, 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, 2006	Domestic	Asia	North America	Europe and others	Total	Eliminations or corporate	Consolidated
	Millions of yen						
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 includes corporate expenses of ¥1,720 million 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 includes corporate assets of ¥27,535 million 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.

	Thousands of U.S. dollars						
Year ended March 31, 2007	Domestic	Asia	North America	Europe and others	Total	Eliminations or corporate	Consolidated
Sales:							
Outside customers	$1,216,621	$613,531	$163,802	$168,400	$2,162,354	$ –	$2,162,354
Inter-segment	149,517	120,076	6,427	203	276,223	(276,223)	–
Total sales	1,366,138	733,607	170,229	168,603	2,438,577	(276,223)	2,162,354
Operating expenses	1,253,894	669,881	165,132	166,681	2,255,588	(243,666)	2,011,922
Operating income	$ 112,244	$ 63,726	$ 5,097	$ 1,922	$ 182,989	$ (32,557)	$ 150,432
Identifiable assets	$1,815,495	$668,688	$173,311	$235,165	$2,892,659	$(337,587)	$2,555,072

Overseas sales for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen			
Year ended March 31, 2007	Asia	North America	Europe and others	Total
Overseas sales	¥93,712	¥18,984	¥19,446	¥132,142
Consolidated net sales				255,374
Percent of consolidated net sales	36.7%	7.4%	7.6%	51.7%

	Millions of yen			
Year ended March 31, 2006	Asia	North America	Europe and others	Total
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%

	Thousands of U.S. dollars			
Year ended March 31, 2007	Asia	North America	Europe and others	Total
Overseas sales	$793,497	$160,745	$164,657	$1,118,899
Consolidated net sales				2,162,354
Percent of consolidated net sales	36.7%	7.4%	7.6%	51.7%

18. Contingent liabilities

At March 31, 2007, the Companies were contingently liable as follows:

(i) Repurchase of notes discounted and endorsed:	¥ 68 million	($ 576 thousand)
(ii) Guarantees for bank borrowings of employees:	¥ 1 million	($ 8 thousand)
(iii) Guarantee for bank borrowings of an association:	¥234 million	($1,981 thousand)

19. Subsequent events

At the general meeting of shareholders of the Company held on June 28, 2007, retained earnings at March 31, 2007, were appropriated as follows:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends ¥7.5 ($0.06) per share	¥1,969	$16,672

20. Additional information

The Company contracted with Tsutsunaka Plastic at March 12, 2007 that the Company merged with Tsutsunaka Plastic effective at July 1, 2007. The outline of the merger is as follows:

1. Schedule of merger
   Effective date of the merger July 1, 2007
2. Structure of merger
   The Company is the surviving entity and Tsutsunaka Plastic is dissolved.
3. Merger ratio
   As the Company owned all the outstanding stocks of Tsutsunaka Plastic, the Company did not issue any new shares for the merger.

Independent Auditors' Report

Sumitomo Bakelite Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2007, 2006 and 2005

To the Shareholders and 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, 2007 and 2006, and the related consolidated statements of income, changes in net assets and cash flows for the three years in the period ended March 31, 2007, 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. 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 subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
As explained in Note 3 to the consolidated financial statements, Sumitomo Bakelite Company, Limited 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) for the year ended March 31, 2006.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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 28, 2007

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 costs and benefits 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 our compilation 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 bellow).

Environmental Conservation Costs for Fiscal 2007

Item	Investment (Millions of yen)	Expenses (Millions of yen)	Description
(A) Reduction of environmentally hazardous emissions	¥ 119	¥ 318	• Conversion of fuel for boilers • Renovation of asbestos seals
(B) Energy conservation	159	30	• Installation of a steam turbine compressor
(C) Reduction of industrial waste, promotion of recycling, and waste treatment	5	634	• Waste treatment
(D) Product initiatives at the R&D stage	200	1,847	• R&D for environmentally friendly products
(E) Reduction of up & downstream environmental burden	—	21	• Analysis of environment-related substances • Consignment fee to the Japan Containers and Packaging Recycling Association
(F) Environmental management activities	0	278	• Personnel costs for environmental management activities • Greening activities and maintenance for green space
(G) Contributions to social activities	—	1	• Activities for external communications
(H) Response to environmental damage	—	13	• Inspections of soil and groundwater contamination at Sano Plastic Co., Ltd.
Total	¥ 483	¥3,142	

Period: April 2006 to March 2007

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

Plants and Laboratories:

Amagasaki Plant*, Shizuoka Plant*, Industrial Resin & Molding Compounds Plant, Utsunomiya Plant, Tsu Plant, Kanuma Plant and Nara 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 Plastic Co., Ltd.; Hokkai Taiyo Plastic Co., Ltd.; Yamaroku Kasei Industry Co., Ltd.; Kyushu Bakelite Industry Co., Ltd.; Decolanitto Corporation's Suzuka Plant; Kyodo Co., Ltd.; Y-Techs Co., Ltd.

Note 1: Underlined business sites joined in fiscal 2007.

Note 2: Regarding item (H), we compiled costs concerning inspections of soil and groundwater contamination at Sano Plastic Co., Ltd., which was closed in 2002.

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 the complex costs that include costs other than for environmental conservation purposes, the additional costs were complied after deducting from costs as usual.
- Economic benefits were recorded for items compiled based on substantial evidence. Such presumptive calculations as risk avoidance benefits 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

Environmental Conservation Benefits for Fiscal 2007

Environmental Burden	Fiscal 2006	Fiscal 2007	Reduction
Atmospheric emissions of solvents and other chemical substances	460 tons	400 tons	60 tons
Carbon dioxide emissions	118,308 tons	134,785 tons	(16,477) tons
Waste generated	9,514 tons	11,317 tons	(1,803) tons
Landfilled and incinerated waste without energy recovery	548 tons	287 tons	261 tons

Economic Benefits for Fiscal 2007

Item	Amount (Millions of yen)		
	Fiscal 2006	Fiscal 2007	Change
(1) Reduction in costs due to energy conservation	¥ 224	¥ 52	¥ (172)
(2) Reduction in costs through waste reduction	42	1	(41)
(3) Income from recycling	113	188	75
(4) Reduction in costs through recycling	309	694	385
(5) Others	5	4	(1)
Total	¥ 693	¥ 939	¥ 246

The "**Environmental & Social Report 2007**" of Sumitomo Bakelite, Co., Ltd., including environmental accounting, was independently reviewed by KPMG AZSA Sustainability Co., Ltd.

Board of Directors, Corporate Auditors and Executive Officers

Board of Directors

Chairman

Tsuneo Moriya

President

Tomitaro Ogawa

Directors

Satoshi Kawachi*
Shigeru Hayashi
Tamotsu Yahata
Hisao Sawafuji
Hideaki Ezaki
Takeshi Uchimura
Atsumi Okayama
Masuo Mizuno

Corporate Auditors

Standing Auditors

Osamu Kono
Takao Yanagisawa**

Auditors

Hiroyuki Abe**
Kenkichi Fuse**

* Outside director
** Outside auditor

Executive Officers

President

Tomitaro Ogawa

Senior Managing Executive Officers

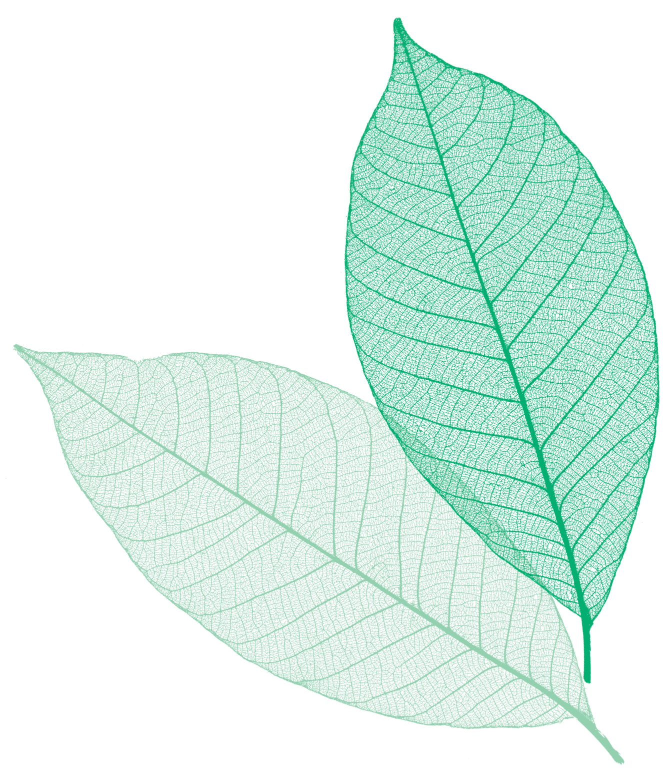
Shigeru Hayashi
Tamotsu Yahata
Hisao Sawafuji
Hideaki Ezaki

Managing Executive Officers

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

Executive Officers

Koichiro Sekine
Masaei Yamada
Kazuhisa Hirano
Shigeki Muto
Takashi Wada
Akira Takada
Koichi Tanaka
Masatoshi Yamazaki
Shinichi Nawata
Kimimasa Nishimura



Corporate Data

Head Office

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

General Affairs & Corporate Legal Dept.
Phone: +81-(0)3-5462-3434
Facsimile: +81-(0)3-5462-4873

Corporate Finance & Planning Div.
Phone: +81-(0)3-5462-3449
Facsimile: +81-(0)3-5462-4876

Offices

Osaka Office
2-3-47 Higashi-tsukaguchi-cho,
Amagasaki, Hyogo 661-8588, JAPAN
Phone: +81-(0)6-6429-6941
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
495 Akiba-cho, Totsuka-ku, 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

Production Engineering Research Laboratory
(Located at Kobe Fundamental Research Laboratory)

Film & Plate Research Laboratory
(Located at Amagasaki Plant and Kanuma 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
Facsimile: +81-(0)6-6427-8055

Kanuma Plant
7-1 Satsuki-cho, Kanuma,
Tochigi 322-0014, JAPAN
Phone: +81-(0)28-976-2131
Facsimile: +81-(0)28-976-2135

Nara Plant
1-2 Techno Park Nara Kogyo Danchi,
Sugawa-cho, Gojo, Nara 637-0014,
JAPAN
Phone: +81-(0)74-726-3111
Facsimile: +81-(0)74-726-3110

Shizuoka Plant, Industrial Resin & Molding Compounds Plant
2100 Takayanagi, Fujieda, Shizuoka 426-0041, JAPAN
Phone: +81-(0)54-635-2420
Facsimile: +81-(0)54-636-0294

Utsunomiya Plant
20-7 Kiyohara-Kogyodanchi,
Utsunomiya, Tochigi 321-3231, JAPAN
Phone: +81-(0)28-667-6211
Facsimile: +81-(0)28-667-5519

Tsu Plant
5-7-1 Takachaya, Tsu, Mie 514-0819,
JAPAN
Phone: +81-(0)59-234-2181
Facsimile: +81-(0)59-234-8728

Incorporated

January 25,1932

Number of Employees

2,255

Major Subsidiaries and Affiliates

* Akita Sumitomo Bakelite Co., Ltd.
* Artlite Kogyo Co., Ltd.
* Bakelite Precision Molding (Shanghai) Co., Ltd.
* Bakelite Trading (Shanghai) Co., Ltd.
* BASEC Hong Kong Limited
* Chubu Jushi Co., Ltd.
**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.
Kanto Tsutsunakakosan Co., Ltd.
* Kyodo Co., Ltd.
* Kyushu Bakelite Industry Co., Ltd.
Neopreg AG
**Nippon Denkai Co., Ltd.
Otomo Chemical Co., Ltd.
**P. T. Pamolite Adhesive Industry
* P.T.SBP Indonesia
* 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.
Seibu Jushi Co., Ltd.
* SNC Industrial Laminates Sdn. Bhd.
SPD Co., Ltd.
* Softec Co., Ltd.
* S.B.Research Co., Ltd.
Sumibe Service Co., Ltd.
* Sumicarrier Singapore Pte. Ltd.
* SumiDurez Canada, G. P.
* 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.
* Thanxs Trading Co., Ltd.
* Tsu-Kong Co., Ltd.
Tsutsunakakosan Co., Ltd.
* Tsutsunaka Sheet Waterproof System Co., Ltd.
* Vyncolit N. V.
* Yamaroku Kasei Industry Co., Ltd.
* Y-Techs Co., Ltd.

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

(As of September 2007)

SUMITOMO BAKELITE CO., LTD.

Responsible Care®

Printed in Japan on recycled paper