SUMITOMO BAKELITE CO., LTD.

For the year ended March 31, 2008

Annual Report 2008

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 benefit current and future generations.

Financial Highlights

Years ended March 31	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Net Sales	¥ 225,252	¥ 255,374	¥ 241,086	$ 2,248,024
Net Income	2,192	11,921	15,212	21,876
Total Assets	267,422	301,754	302,276	2,668,882
Shareholders' Equity	163,835	174,549	152,303	1,635,080
	Yen			U.S. dollars
Net Income per Share	¥ 8.40	¥ 47.18	¥ 63.60	$ 0.08
Diluted Net Income per Share	—	45.33	57.46	—
Cash Dividends per Share	15.00	15.00	15.00	0.15

Note: U.S. dollar amounts are translated from yen at the rate of ¥100.2 to US$1, the approximate exchange rate as of March 31, 2008.

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President's Message

Business Environment Around Sumitomo Bakelite

Economic conditions throughout fiscal 2008, ended March 31, 2008, were mixed. Despite fears of a slowdown in the U.S. economy, the first half of the fiscal year under review was characterized by overall growth in most major economies. Conditions throughout Asia, and particularly in China, were robust, while economic activity in Europe remained firm. Buoyed by export activity and an upswing in capital investment, Japan's economy also experienced moderate growth. Conditions in the second half, however, took a sharp downturn. Impacted by global financial market instability, triggered by the subprime loan crisis in the United States, the sharp rise in crude oil prices and anxieties surrounding the cost of raw materials, a growing sense of uncertainty in connection with domestic and overseas conditions took hold across most economies worldwide.

In spite of increased demand for semiconductors used in personal computers, digital appliances and mobile phones, overseas sales of semiconductors came under increasing downward pressure due to delays in a positive turnaround following a period of inventory adjustment and a drop in product prices.

In the automobile sector, sales volumes increased substantially in newly emerging countries and improved slightly in Europe. In North America, however, sales experienced a substantive decline. On the domestic front, activity in the mobile phone market was boosted by the influx of "one-seg" compatible models. Production volumes of automobiles were, however, held to a nominal year-on-year increase, and new housing starts declined dramatically following implementation of revisions to the Building Standards Law.

Overview of Fiscal 2008 Results

Against the backdrop of a difficult operating environment, the Group's consolidated net sales declined ¥30,122 million, or 11.8%, compared with the previous fiscal year to ¥225,252 million. In the fiscal year under review, Sumitomo Bakelite changed its accounting policies with

Tomitaro Ogawa
President

respect to the accounting period of overseas subsidiaries consolidated into the Group's financial statements and performance. Historically, the Company had adopted a fiscal period commencing April 1 and ending March 31 of the following year. From the fiscal year ended March 31, 2008, however, Sumitomo Bakelite's overseas subsidiaries financial statements are consolidated on the basis of a fiscal year commencing January 1 and ending December 31. As a result, overseas subsidiaries' performance included in the Company's consolidated financial statements is the outcome of a nine-month period commencing April 1, 2007 to December 31, 2007.

Taking the aforementioned into consideration, year-on-year consolidated net sales fell by approximately ¥26,900 million. Excluding the effect of this accounting policy change, consolidated net sales declined by approximately ¥3,300 million compared with the previous fiscal year.

From a profit perspective, the impact of this change in accounting policy with respect to the period of consolidation applied to overseas subsidiaries resulted in an approximate ¥1,900 million decrease in consolidated operating income. Coupled with the ¥5,251 million deterioration compared to fiscal 2007, which was due to a turnaround in profits from actuarial adjustments for retirement allowances of ¥628 million in fiscal 2007 to a loss of ¥4,623 million, as well as a real loss of approximately

¥1,600 million due to the lag in passing on the rising costs of raw materials to customers and the slump in the semiconductor industry, Sumitomo Bakelite's consolidated operating income for fiscal 2008 declined ¥8,739 million, or 49.2% year on year, to ¥9,026 million while consolidated recurring profit fell ¥9,956 million, or 50.6%, to ¥9,739 million.

Accounting for business liquidation losses relating to the withdrawal from underperforming activities and an extraordinary loss in connection with an arbitrated settlement with regard to quality claims in Europe over epoxy resin molding compounds for encapsulation of semiconductor devices in the previous fiscal year, consolidated net income dropped ¥9,729 million, or 81.6%, to ¥2,192 million.

Restating the Group's operating performance after excluding the aforementioned change in the overseas subsidiaries consolidated accounting period and actuarial adjustments for retirement allowances, consolidated net sales amounted to approximately ¥252,100 million, down around 1% year on year, consolidated operating income was approximately ¥15,500 million, a decrease of around 9%, consolidated recurring profit totaled approximately ¥16,500 million, a decrease of around 13%, and consolidated net income was approximately ¥6,700 million, around 42% lower than the previous fiscal year.

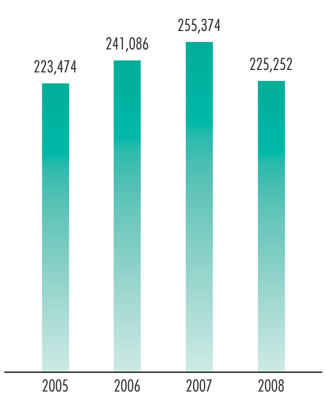
Sumitomo Bakelite's decision to adopt the change in the overseas subsidiaries consolidated accounting period was to ensure prompt and accurate financial reporting in response to new accounting system changes, including the unification of accounting treatment between parent and subsidiary in the consolidated financial statements. Specifically, this change is in regard to the preparation of the financial statements of all overseas subsidiaries in accordance with International Financial Reporting Standards, the so-called Japanese SOX Act and quarterly reporting, as required under Japan's Financial Instruments and Exchange Law, which came into effect from April 1, 2008.

On a non-consolidated basis, net sales increased ¥15,684 million compared with the previous fiscal year to ¥119,379 million. With the impact of the actuarial adjustments for retirement allowances, operating income declined ¥5,374 million to ¥1,462 million. Recurring profit decreased ¥6,336 million to ¥5,037 million and net income fell ¥2,642 million to ¥3,986 million.

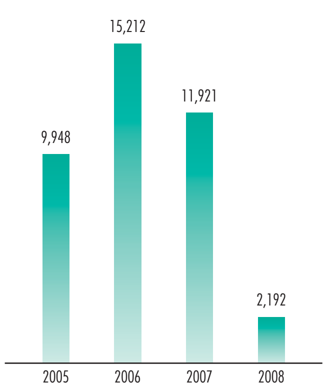
For the fiscal year under review, Sumitomo Bakelite declared a fiscal year-end dividend of ¥7.50 per common share. Added to the interim dividend paid, the full fiscal year cash dividend for fiscal 2008 is ¥15.00 per common share.

In the context of its fund procurement activities in the fiscal year under review, the Company did not increase its capital, issue corporate bonds or undertake extraordinary steps to raise funds. Total capital expenditure in fiscal 2008 amounted to ¥10,065 million.

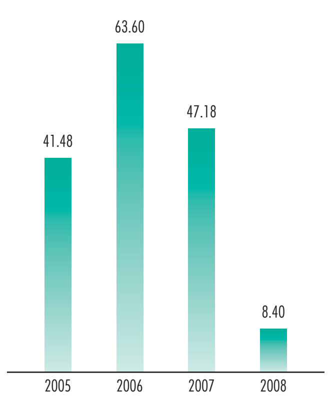
Net Sales (Millions of yen)



Net Income (Millions of yen)



Net Income per Share (Millions of yen)



Our Strategies for Future Growth

The Sumitomo Bakelite Group is expected to confront continued harsh economic conditions. In addition to a persistent downturn in the U.S. economy, the price of such raw materials as crude oil and copper are forecast to remain high, with ongoing concern surrounding delays in semiconductor market recovery.

Under these circumstances, the Sumitomo Bakelite Group will return to its fundamental premise and strategy "to create plastics that feature higher performance and enhance customer value and thereby aim to become an excellent global company that secures sustainable growth in functional chemical products." Each and every member of the Group will work tirelessly toward this medium- to long-term goal.

As previously mentioned, Sumitomo Bakelite was unable to avoid a substantial drop in profit due mainly to an actuarial adjustment for retirement allowances and a change in the accounting period for overseas subsidiaries used in the preparation of consolidated financial accounts. Despite a certain level of success, the Group was also unable to fully accomplish its stated objectives of creating stable earnings from M&A projects, commercializing new products and businesses and eliminating and rationalizing unprofitable businesses.

Amid expectations of increasingly difficult business conditions in the fiscal year ending March 31, 2009, the Sumitomo Bakelite Group will endeavor to reestablish its sustainable growth trajectory by building an operating platform capable of generating earnings growth and implementing a variety of additional initiatives. To this end, the Group is committed to accomplishing the aforementioned stated objectives and to pursue certain basic policies identified in its new three-year Medium-Term Management Plan, outlined briefly as follows.

1. Taking a significant leap forward to becoming a high-earnings company by adopting a policy of selection and focus
   Sumitomo Bakelite will proactively allocate management resources focusing on the priority fields of information and telecommunications, life science and environmental energy.
2. Providing next-generation solutions that anticipate customer needs
   The Company will work to expand revenues in growth fields by providing next-generation, highly functional solution materials in the semiconductor and electronic circuit businesses, expanding applications and operating fields through unrivaled products in the high-performance plastics business and delivering cutting-edge operating solutions in support of the quality of life business.
3. Strengthening core businesses to increase earnings
   Sumitomo Bakelite will expand activities in high-value-added businesses by creating stable profits from its core activities and accelerating the market release of new products, while bolstering profits by building a business portfolio that exhibits an optimal balance between growth and stability.

Every facet of the Sumitomo Bakelite Group's business and activities, including the aforementioned goals, initiatives and policies are underpinned by its basic philosophy to value "trust" and maintain "steadiness." To this end, the Group will make every effort to further gain the respect and confidence of all stakeholders by fulfilling its responsibilities as a good corporate citizen, reinforcing its corporate governance focus and placing the utmost emphasis on environmental protection as well as product safety and quality.

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

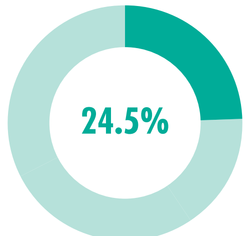
June 2008

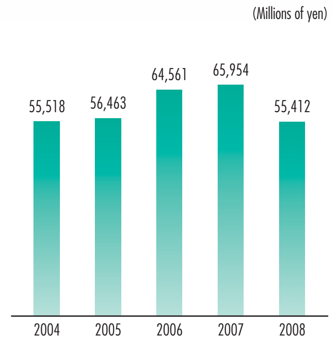
Tomitaro Ogawa
President

At a Glance

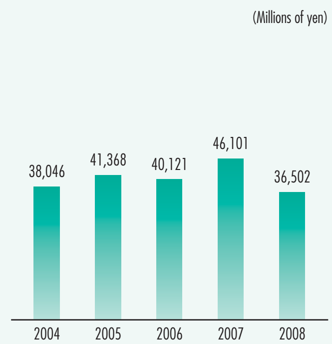
Segment	Segment Sales to Total Sales	Net Sales

Semiconductors and Display Materials

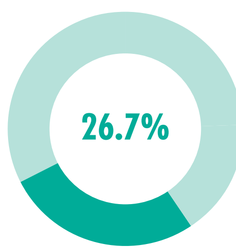


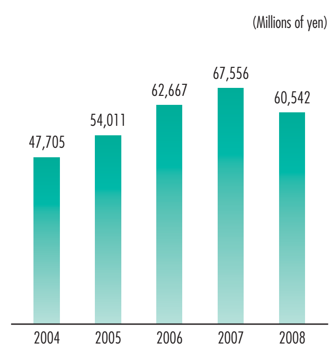


Circuit Products

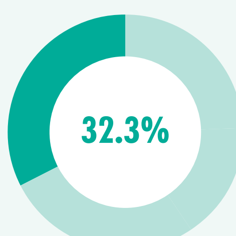


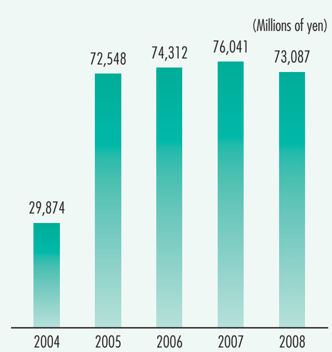
High-Performance Plastics





Quality of Life Products





Overview

Despite a slight recovery toward the middle of the fiscal year, sales of epoxy molding compounds for encapsulation of semiconductor devices declined year on year in line with market deterioration during the second half. In liquid resins for semiconductor devices, photosensitive coating resins for semiconductor wafers increased owing to growth in 300mm wafer memory applications. Liquid resins for semiconductor encapsulation, on the other hand, declined following inventory adjustments by customers, while pastes for die bonding saw a nominal rise. In carrier and cover tapes for mounting semiconductors and electronic components, sales of cover tape for IC and discrete applications grew. Buoyed by an upswing in dicing die attach film demand, sales of adhesive tapes for semiconductor devices grew.

In its flexible printed circuit business, the Company continued to reorganize its overall operations, liquidating SB Flex Philippines, Inc., a company that was engaged solely in the flexible printed circuit post-process, and consolidating the manufacture of general-purpose products at Sumitomo Bakelite Vietnam Co., Ltd. Taking advantage of this opportunity, the Company implemented a review of its product lineup and carried out a triage of its client base. As a result, sales of flexible printed circuits decreased year on year. Buffeted by cutbacks in production items in Japan of epoxy resin copper-clad laminates and a drop in audio-visual device-related orders for phenolic resin copper-clad laminates in the second half, sales saw a slight decline.

Sales of phenolic molding compounds increased on the back of expanded application for automobile components in Japan, Asia and Europe. Buoyed by robust demand for tire resins across Europe, sales of phenolic resins for industrial use surged substantially year on year. Sales of precision molded products also rose reflecting growth in mobile phone and automobile component applications.

Medical device sales increased year on year owing to the release of such new products as the Percutaneous Endoscopic Gastrostomy (PEG) catheter kit and the ORCA CV, a central venous access port. Despite stagnant conditions in the food application field, sales of vinyl resin films and multilayered films and sheets improved on the back of electronics and medical application growth. While sales of melamine resin decorative and fireproof laminates were boosted by contributions from the release of new products including DeQUA, overall results declined due to the slump in fireproof laminates and processed products on the back of revisions to the Building Standards Law. Impacted by the slump in the industrial and construction sectors, sales of polycarbonate resin, vinyl resin and acrylic styrene resin boards contracted year on year. Despite growth in the renovation field, overall results in waterproofing system products declined owing mainly to the impact of revisions to the Building Standards Law.

Major Developments

Overseas Development of the Phenolic Resin Business

Rendering of facilities of Nantong Sumitomo Bakelite Co., Ltd.

In June 2007, Sumitomo Bakelite established the wholly owned subsidiary Nantong Sumitomo Bakelite Co., Ltd. in Nantong, Changshu, China, to manufacture and sell phenolic resins for industrial use. By the end of 2008, the new Company plans to commence operations of the plant with a production capacity of 15,000 tons per year.

Nantong Sumitomo Bakelite was set up with the intention of responding to demand for high-performance phenolic resins in various industrial sectors, including the automobile industry, that are bolstering China's high economic growth.

Sumitomo Bakelite has established seven phenolic resin production bases in the six countries of Japan, the United States, Canada, Belgium, Spain and Indonesia. Spurred by the establishment of the new subsidiary in China, Sumitomo Bakelite will further reinforce its global supply system.

Integrated Production in the Flexible Printed Circuit Board Business

Sumitomo Bakelite Vietnam Co., Ltd. (Hanoi, Vietnam)

The Company usually divides the labor entailed in the Flexible Printed Circuit Board business among the three plants of Akita Sumitomo Bakelite Co., Ltd. in Japan, SB Flex Philippines, Inc. in the Philippines and Sumitomo Bakelite Vietnam Co., Ltd., which commenced operations in 2002 in Vietnam, based on production processes. On this occasion, however, the Company set up an integrated production structure organized by process type—the R&D, prototype manufacturing and production of new sophisticated products will be conducted in Akita, while most other product manufacturing will be handled in Vietnam. With this production integration, the plant in the Philippines was closed.

With the exception of leading-edge R&D, the Vietnam plant is now equipped to carry out all functions, including circuit design, component mounting, quality assurance and marketing on top of its primary production function. With a business structure that can ensure long-term competitiveness, Sumitomo Bakelite enhanced its Flexible Printed Circuit Board business's competitive edge over its rivals in China, Taiwan and South Korea while concentrating the energies of its domestic plant on developing state-of-the-art technologies.

A New Medical Devices Production Plant Established in China

Sumitomo Bakelite is enjoying growing sales of various medical devices used for treatment and testing at hospitals.

Responding to this robust demand, the Company decided to reinforce the production capacity of its outsourcing company in Dongguan City, Guangdong, China, where most of the Company's medical devices are manufactured. To this end, the outsourcing company is constructing a new production plant and is rearranging the plant layout under the advice of Sumitomo Bakelite's consolidated subsidiary BASEC HONG KONG LTD., which leases plant facilities to the outsourcing company. The new production plant has been completed in September 2008 and will commence full-scale operations from the following month.

The Company offers a full range of medical devices under the "sumius®" brand. Sumitomo Bakelite will make every effort to meet customer satisfaction by providing safe and reliable products under the "sumius®" brand.

Rendering of the new production plant in Dongguan, China

New Product Development in Core Business Areas

<Proposal of Comprehensive Solution in the Electronic Material-Related Business>

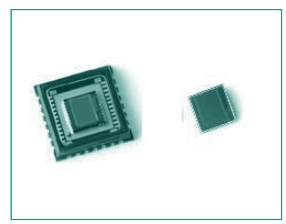
In the electronic material-related business, Sumitomo Bakelite is shifting from an existing proposal-style model focused on marketing individual items to a total solution services model that packages its offerings.

Along with the recent trends toward increased multifunctionality of mobile phones and other mobile devices, there is growing demand for thinner and smaller components and modules.

To assist customers in easily making their components and modules ever-smaller and thinner, the Company is proposing an optimized combination of materials, such as encapsulation resin, substrate materials and materials for mounting chips, which enable ever smaller and thinner components.

Furthermore, with regard to modules, the Company plans to propose products that are slimmer and smaller at the module level due to the integration of components and a connector-free flexible printed circuit board.

In addition, to improve the fabrication process for CMOS image sensors used in cameras, Sumitomo Bakelite has developed and launched a photosensitive material that enables every glass lid on a wafer to be cemented at the same time, thus contributing to the creation of smaller modules.



Modules incorporating photosensitive material (Left: Size of existing products; Right: Product package equal to the size of small chip)

<Release of "Sunloid Lumiking®" Acrylic Resin Light Guide Panel>

In January 2008, Sumitomo Bakelite launched the "Sunloid Lumiking®" light guide panel that is appropriate for information boards, advertisements, signs and displays. By forming a unique light guide pattern on the material surface at the processing stage, this new product can realize optical homogeneity, even in high-intensity light situations, without secondary processing. Owing to this characteristic, "Sunloid Lumiking®" is used for various signs and displays, including illumination panels and store interior designs.

"Sunloid Lumiking®" in use

Consolidated Balance Sheets

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
March 31, 2008 and 2007

ASSETS	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 1) 2008
Current assets:			
Cash and cash equivalents	¥ 43,378	¥ 54,565	$ 432,914
Trade receivables:			
Notes (Note 5)	10,886	12,178	108,643
Accounts	47,892	52,775	477,964
Allowance for doubtful accounts	(493)	(452)	(4,920)
Inventories (Note 8)	29,189	29,139	291,307
Deferred tax assets (Note 10)	2,250	2,799	22,455
Other current assets (Note 9)	9,773	8,004	97,535
Total current assets	142,875	159,008	1,425,898
Property, plant and equipment (Notes 9 and 18):			
Land	12,363	11,825	123,383
Buildings and structures	73,386	77,192	732,395
Machinery and equipment	131,771	147,673	1,315,080
Construction in progress	3,845	3,523	38,373
	221,365	240,213	2,209,231
Accumulated depreciation	(131,384)	(149,097)	(1,311,217)
Net property, plant and equipment	89,981	91,116	898,014
Goodwill	7,555	7,771	75,399
Investments and other assets:			
Investment securities (Note 6):			
Unconsolidated subsidiaries and affiliates	2,908	5,040	29,022
Other	16,339	26,341	163,064
Long-term loans receivable:			
Unconsolidated subsidiaries and affiliates	3,169	1,132	31,627
Employees and other	1,745	85	17,415
Deferred tax assets (Note 10)	798	1,561	7,964
Other assets (Notes 11 and 18)	5,473	10,881	54,621
Allowance for doubtful accounts	(3,421)	(1,181)	(34,142)
Total investments and other assets	27,011	43,859	269,571
Total assets	¥ 267,422	¥ 301,754	$2,668,882

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 1) 2008
Current liabilities:			
Short-term debt (Note 9)	¥ 14,756	¥ 20,864	$ 147,265
Long-term debt due within one year (Note 9)	1,403	851	14,002
Trade payables:			
Notes (Note 5)	5,487	7,552	54,760
Accounts	35,644	37,006	355,729
Accrued expenses	8,058	8,537	80,419
Income taxes payable (Note 10)	1,671	6,369	16,677
Other current liabilities	8,417	7,374	84,002
Total current liabilities	75,436	88,553	752,854
Long-term liabilities:			
Long-term debt due after one year (Note 9)	10,813	12,218	107,914
Deferred tax liabilities (Note 10)	4,190	11,485	41,816
Retirement benefits:			
Employees (Note 11)	5,839	5,739	58,273
Directors, statutory auditors and officers	51	60	509
Allowance for discontinuing operations	428	–	4,271
Negative goodwill (Note 4)	3,468	3,702	34,611
Other long-term liabilities	832	399	8,305
Total long-term liabilities	25,621	33,603	255,699
Contingent liabilities (Notes 9 and 20)			
Net assets (Note 12):			
Shareholders' equity:			
Common stock:			
Authorized — 800,000,000 shares			
Issued — 265,852,394 shares in 2008 and 265,852,394 shares in 2007	37,143	37,143	370,689
Capital surplus	35,358	35,358	352,874
Retained earnings	92,234	93,908	920,499
Treasury stock, at cost	(5,933)	(3,107)	(59,212)
Valuation and translation adjustments:			
Net unrealized holding gains on securities	1,262	6,265	12,595
Foreign currency translation adjustments	3,771	4,982	37,635
Minority interests	2,530	5,049	25,249
Total net assets	166,365	179,598	1,660,329
Total liabilities and net assets	¥ 267,422	¥ 301,754	$2,668,882

Consolidated Statements of Income

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Net sales (Note 19)	¥225,252	¥255,374	¥241,086	$2,248,024
Costs and expenses:				
Cost of sales (Note 19)	166,514	187,891	171,424	1,661,816
Selling, general and administrative expenses (Note 19)	49,712	49,717	42,413	496,128
	216,226	237,608	213,837	2,157,944
Operating income (Note 19)	9,026	17,766	27,249	90,080
Other income (expenses):				
Interest and dividend income	1,494	1,630	987	14,910
Interest expense	(464)	(462)	(661)	(4,631)
Amortization of negative goodwill	1,139	706	441	11,367
Equity in (losses) gains of affiliated companies	(695)	(376)	198	(6,936)
Loss on sale/disposal of property, plant and equipment	(711)	(609)	(142)	(7,096)
Gain on sale of investment securities (Note 6)	129	2,118	421	1,287
Loss on devaluation of investment securities (Note 6)	(1,174)	(620)	(114)	(11,717)
Foreign exchange (loss) gain, net	(367)	350	411	(3,662)
Lawsuit expense	–	–	(5,520)	–
Prior-period adjustment gain	444	–	–	4,431
Provision for allowance for doubtful accounts	–	(336)	–	–
Cost of business restructuring (Notes 15 and 18)	(420)	(1,563)	(449)	(4,192)
Loss on discontinuing operations (Note 16)	(3,194)	–	–	(31,876)
Loss on settlement of arbitration (Note 17)	(3,061)	–	–	(30,549)
Cost of merger	(401)	–	–	(4,002)
Impairment loss (Notes 18 and 19)	(28)	(696)	(1,067)	(279)
Other, net	(609)	(39)	(133)	(6,077)
	(7,918)	103	(5,628)	(79,022)
Income before income taxes and minority interests	1,108	17,869	21,621	11,058
Income taxes (Note 10):				
Current	1,887	6,972	3,848	18,832
Refund	(364)	–	–	(3,633)
Prior year adjustment	(430)	(405)	–	(4,291)
Deferred	(2,232)	(999)	2,298	(22,275)
	(1,139)	5,568	6,146	(11,367)
Minority interests	55	(380)	(263)	549
Net income	¥ 2,192	¥ 11,921	¥ 15,212	$ 21,876

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income	¥ 8.40	¥47.18	¥63.30	$0.08
Diluted net income	–	45.33	57.46	–
Cash dividends applicable to the year	15.00	15.00	15.00	0.15

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Thousands of shares of common stock	Millions of yen						
		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, 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
Net income	–	–	–	2,192	–	–	–	–
Net unrealized holding losses arising during the year	–	–	–	–	–	(5,003)	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	(1,211)	–
Treasury stock	–	–	–	–	(2,826)	–	–	–
Cash dividends paid (¥15 per share)	–	–	–	(3,938)	–	–	–	–
Decrease in capital surplus due to sale of treasury stock	–	–	(2)	–	–	–	–	–
Other increase in retained earnings	–	–	–	83	–	–	–	–
Other decrease in retained earnings	–	–	–	(9)	–	–	–	–
Decrease in minority interests	–	–	–	–	–	–	–	(2,519)
Transfer of negative balance on other capital surplus	–	–	2	(2)	–	–	–	–
Balance at March 31, 2008	265,852	¥ 37,143	¥ 35,358	¥ 92,234	¥ (5,933)	¥ 1,262	¥ 3,771	¥ 2,530

	Thousands of shares of common stock	Thousands of U.S. dollars (Note 1)						
		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, 2007	265,852	$370,689	$352,874	$937,206	$(31,008)	$ 62,525	$ 49,721	$ 50,389
Net income	–	–	–	21,876	–	–	–	–
Net unrealized holding losses arising during the year	–	–	–	–	–	(49,930)	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	(12,086)	–
Treasury stock	–	–	–	–	(28,204)	–	–	–
Cash dividends paid ($0.15 per share)	–	–	–	(39,301)	–	–	–	–
Decrease in capital surplus due to sale of treasury stock	–	–	(20)	–	–	–	–	–
Other increase in retained earnings	–	–	–	828	–	–	–	–
Other decrease in retained earnings	–	–	–	(90)	–	–	–	–
Decrease in minority interests	–	–	–	–	–	–	–	(25,140)
Transfer of negative balance on other capital surplus	–	–	20	(20)	–	–	–	–
Balance at March 31, 2008	265,852	$370,689	$352,874	$920,499	$(59,212)	$ 12,595	$ 37,635	$ 25,249

See accompanying notes.

Consolidated Statements of Cash Flows

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Cash flows from operating activities:				
Net income	¥ 2,192	¥11,921	¥15,212	$ 21,876
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	11,716	12,952	12,345	116,926
Loss on sale/disposal of property, plant and equipment	711	609	142	7,096
Gain on sale of investment securities	(129)	(2,118)	(421)	(1,287)
Minority interests	55	380	263	549
Loss on devaluation of investment securities	1,174	620	114	11,717
Loss on discontinuing operations	3,194	–	–	31,876
Impairment loss	28	696	1,067	279
Deferred income taxes	(2,232)	(999)	2,298	(22,275)
(Increase) decrease in notes and accounts receivable	7,496	(3,262)	156	74,810
(Increase) decrease in inventories	(186)	(1,064)	1,202	(1,856)
(Increase) decrease in other current assets	(2,378)	7,979	(8,714)	(23,733)
Increase (decrease) in notes and accounts payable	(4,032)	1,276	1,728	(40,240)
Increase (decrease) in income taxes payable	(4,531)	3,087	(172)	(45,220)
Increase (decrease) in other current liabilities	163	632	(304)	1,627
Increase (decrease) in employee retirement benefits	5,025	(923)	(7,506)	50,150
Other, net	(43)	1,080	(542)	(429)
Net cash provided by operating activities	18,223	32,866	16,868	181,866
Cash flows from investing activities:				
Purchases of investment securities	(4,686)	(9,785)	(1,736)	(46,766)
Proceeds from sale of marketable securities and investment securities	3,319	2,789	1,345	33,124
Purchases of property, plant and equipment	(9,213)	(9,595)	(11,030)	(91,946)
Proceeds from sale of property, plant and equipment	415	230	607	4,142
Purchase of subsidiaries' securities with change in scope of consolidation (Note 4)	(322)	–	(10,806)	(3,214)
Payment of subsidiaries' securities with change in scope of consolidation	–	(3)	–	–
Increase in long-term loans receivable	(3,397)	(36)	(1,505)	(33,902)
Other	(864)	(1,304)	(760)	(8,624)
Net cash used in investing activities	(14,748)	(17,704)	(23,885)	(147,186)
Cash flows from financing activities:				
Increase (decrease) in short-term debt	(6,180)	(1,822)	3,808	(61,677)
Proceeds from long-term debt	–	5,007	8,400	–
Purchase of treasury stock	(2,837)	(5,266)	(44)	(28,313)
Deposit of fund for redemption of convertible bond	–	(12,349)	–	–
Payback of fund for redemption of convertible bond	–	12,349	–	–
Cash dividends paid	(3,938)	(4,391)	(2,374)	(39,301)
Cash dividends paid to minority shareholders	–	(557)	(585)	–
Other	(863)	(975)	(233)	(8,613)
Net cash provided by (used in) financing activities	(13,818)	(8,004)	8,972	(137,904)
Effect of exchange rate changes on cash and cash equivalents	(844)	352	2,025	(8,423)
Net (decrease) increase in cash and cash equivalents	(11,187)	7,510	3,980	(111,647)
Cash and cash equivalents at beginning of year	54,565	47,055	42,667	544,561
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	¥43,378	¥54,565	¥47,055	$432,914
Supplemental information on cash flows:				
Cash paid during the year for:				
Interest	¥ 454	¥ 499	¥ 649	$ 4,531
Income taxes	6,970	3,458	3,884	69,561
Cash received for interest and dividend income	1,565	1,765	1,084	15,619
Non-cash investing and financing activities (Note 14):				
Conversion of bonds into common stock and capital surplus	–	16,752	3,423	–
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 20.5% (at March 31, 2008) 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 Financial Instruments 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 has been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statement was not required for domestic purposes and was 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, 2008, which was ¥100.2 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 2008, 44 subsidiaries in 2007 and 45 subsidiaries in 2006. 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 (3 affiliates in 2008, 6 affiliates in 2007 and 7 affiliates in 2006, 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.

(Additional information)

For the current year, for the purpose of appropriate and prompt response towards the forthcoming accounting regulations "Quarterly report" etc., the Company utilized the non-consolidated financial statements of overseas subsidiaries for their statutory fiscal year ended December 31. In the past years, the Company prepared its consolidated financial statements utilizing their financial statements of overseas subsidiaries for the years ended March 31 which were prepared only for the

Company's consolidated reporting purpose, separately from the statutory financial statements of overseas subsidiaries prepared for the years ended December 31 at each location.

Thus, profit and loss figures for the period of nine months from April 1, 2007 to December 31, 2007 of overseas subsidiaries are included in the consolidated statement of income for the current year of the Company.

As a result, net sales, operating income, income before income taxes and minority interests and net income decreased by approximately ¥28,787 million ($287,295 thousand), ¥2,067 million ($20,629 thousand), ¥2,410 million ($24,052 thousand) and ¥1,935 million ($19,311 thousand), respectively, compared to the amount in the case that the Company would have utilized 12 months (January 1, 2007 to December 31, 2007) of profit and loss figures regarding overseas subsidiaries.

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.

(Change in depreciation method of tangible fixed assets)

Following the amendments of the Corporation Tax Law of Japan, effective April 1, 2007, the method of depreciation applied to the tangible fixed assets acquired by the Company and consolidated domestic subsidiaries after March 31, 2007 has been changed to the revised straight-line method or the revised declining-balance method. Due to this change, the operating income and income before income taxes and minority interests were ¥244 million ($2,435 thousand) less, respectively, compared with what would have been reported if the depreciation method prior to the change had been applied.

Also, due to the amendments of the Corporation Tax Law of Japan, effective April 1, 2007, when tangible fixed assets acquired before April 1, 2007 have been depreciated to their allowable depreciation limits, amounts of such depreciation limits are recognized as depreciation expense equally over five years commencing from the year immediately after the year in which the allowable depreciation limits have been reached.

This resulted in a decrease in the operating income and income before income taxes and minority interests in the amount of ¥512 million ($5,110 thousand), respectively.

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 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.

Allowance for discontinuing operations

The allowance for discontinuing operations is stated at an amount based on the estimated loss from discontinued operations at the end of the fiscal year.

Research and development

Research and development expenses are charged to income when incurred. The amounts for the years ended March 31, 2008, 2007 and 2006 were ¥12,910 million ($128,842 thousand), ¥12,752 million and ¥11,409 million, respectively.

Income taxes

The Companies recognize the 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 years, including payment after the year-end.

Reclassifications

Certain prior year amounts have been reclassified to conform to the year 2008 presentation. 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 and 2008. 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 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 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 New Accounting Standards. Also, the Company voluntarily prepared the consolidated statement of changes in net assets for 2006 in accordance with the 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 from the fiscal year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard for Directors' Bonus (Statement No. 4, "Accounting Standards for Directors' Bonus," issued by the Accounting Standards Board of Japan on November 29, 2005).

The effect of this change was to decrease operating income and income before income taxes by ¥118 million for the year ended March 31, 2007 as compared to the prior method.

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).

4. Business acquisition

(1) The Company acquired shares of Sunbake Co., Ltd. in the year ended March 31, 2008.

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

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Current assets	¥1,845	–	¥18,413
Fixed assets	320	–	3,194
Total assets	¥2,165	–	¥21,607
Current liabilities	¥1,252	–	¥12,495
Fixed liabilities	–	–	–
Total liabilities	¥1,252	–	¥12,495

(2) The Company acquired all shares of Tsutsunaka Plastic Industry Co., Ltd., one of the consolidated subsidiaries for the year ended March 31, 2007 and merged with it effective at July 1, 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 were as follows:
   (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 and merger

   (c) Company name after business combinations
   Sumitomo Bakelite Company Limited

(d) Outline of the transactions including the purpose

The Company acquired the entire shares of Tsutsunaka Plastic through the stock exchange and merged with Tsutsunaka Plastic effective at July 1, 2007 to strengthen cost-competitiveness through the reduction of overlapping indirect expenses and to add more high performance to the products through the integration of the Company's research, development and marketing resources into Tsutsunaka Plastic's core business.

2. Outline of accounting treatments at the stock exchange is summarized as follows:

(a) Cost of acquisition

The Company's stock for exchange	¥1,994 million
Other directly related expenses	¥ 5 million
Total acquisition cost	¥1,999 million

(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 unit of Tsutsunaka Plastic common stock.

ii) Method of calculation for exchange ratio
The Company and Tsutsunaka Plastic calculated the stock exchange ratio jointly with reference to analyses prepared by the third-party advisors to each company.

iii) Number and fair value of issued stocks
2,425,314 shares and ¥1,994 million

(c) Amount of recognized negative goodwill, reason of recognition, method and period of amortization

i) Amount of recognized negative goodwill
¥737 million

ii) Reason of recognition of negative goodwill
The Company accounted the difference between the additional acquisition cost of shares of Tsutsunaka Plastic and the decrease in corresponding minority interests as negative goodwill.

iii) Method and period of amortization of negative goodwill
Straight-line basis over a period of five years

(d) As the merger was the transaction under common control, the Company booked the assets and liabilities from Tsutsunaka Plastic at its fair book value as of June 30, 2007. The Company recognized the difference between the book value of shares of Tsutsunaka Plastic and the increase in the Company's shareholders' equity as a gain on extinguishment of tie-in shares on the non-consolidated income statements of the Company.

These transactions have no impact to the consolidated financial statements, for these were eliminated as the internal transactions.

5. Effect of bank holiday on March 31, 2007

As financial institutions in Japan were closed on March 31, 2007, ¥1,360 million of notes receivable and ¥919 million 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, 2008 and 2007:

Securities with book values exceeding acquisition costs:

	Millions of yen		
At March 31, 2008	Acquisition cost	Book value	Difference
Equity securities	¥3,144	¥7,227	¥4,083
Bonds	–	–	–
Others	–	–	–
Total	¥3,144	¥7,227	¥4,083

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

	Thousands of U.S. dollars		
At March 31, 2008	Acquisition cost	Book value	Difference
Equity securities	$31,377	$72,126	$40,749
Bonds	–	–	–
Others	–	–	–
Total	$31,377	$72,126	$40,749

Securities with book values not exceeding acquisition costs:

	Millions of yen		
At March 31, 2008	Acquisition cost	Book value	Difference
Equity securities	¥10,418	¥8,405	¥(2,013)
Bonds	–	–	–
Others	–	–	–
Total	¥10,418	¥8,405	¥(2,013)

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

	Thousands of U.S. dollars		
At March 31, 2008	Acquisition cost	Book value	Difference
Equity securities	$103,972	$83,882	$(20,090)
Bonds	–	–	–
Others	–	–	–
Total	$103,972	$83,882	$(20,090)

The Companies recognize impairment loss for the securities whose available fair values decline more than 50% below the carrying amount. In addition, the Companies also recognize impairment loss, when the available fair values decline more than 30% to 50% below the carrying amount and such situation continues twice at the end of each semi-annual period. The amount of impairment loss for the years ended March 31, 2008 was ¥1,171 million ($11,687 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) Sales amounts of available-for-sale securities sold and the related gains and losses in the years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Sales of available-for-sale securities	¥1,525	¥265	¥1,345	$15,220
Gains on sales of available-for-sale securities	129	103	421	1,287
Losses on sales of available-for-sale securities	–	1	–	–

(3) The following table summarizes book values of available-for-sale securities with no available fair values as of March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Non-listed equity securities	¥699	¥717	$6,976
Others	8	8	80
Total	¥707	¥725	$7,056

7. Derivative financial instruments

The Companies utilize derivative financial instruments such as foreign currency forward contracts to reduce the effect of 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 risks associated with 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, 2008 and 2007 are not subject to disclosure because the Companies adopted hedge accounting for those instruments.

8. Inventories

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Finished goods	¥12,921	¥13,575	$128,952
Semi-finished goods	2,608	2,848	26,028
Work in process	1,459	1,651	14,561
Raw materials and supplies	12,201	11,065	121,766
	¥29,189	¥29,139	$291,307

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, 2008 and 2007 was as follows:

At March 31, 2008	Millions of yen	Thousands of U.S. dollars	Interest rates
Loans from banks and other companies	¥ 6,756	$ 67,425	0.77%–7.75%
Commercial paper	8,000	79,840	0.53%–0.60%
	¥14,756	$147,265	

At March 31, 2007	Millions of yen	Interest rates
Loans from banks and other companies	¥ 7,864	0.76%–5.83%
Commercial paper	13,000	0.53%–0.61%
	¥20,864	

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Secured loans from an organization due through 2007 with an interest rate of 5.30% at March 31, 2007	¥ –	¥ 248	$ –
Unsecured loans from banks and organizations due through 2016 with interest rates ranging from 0.00% to 2.10% at March 31, 2008 (from 0.00% to 1.90% at March 31, 2007)	12,216	12,821	121,916
	12,216	13,069	121,916
Less amount due within one year	(1,403)	(851)	(14,002)
	¥10,813	¥12,218	$107,914

The annual maturities of long-term debt at March 31, 2008 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥1,403	$14,002
2010	605	6,038
2011	2,205	22,006
2012	603	6,018
2013	600	5,988
2014 and thereafter	6,800	67,864

At March 31, 2008, assets pledged as collateral were as follows:

	Millions of yen	Thousands of U.S. dollars
Fixed deposits	¥2,197	$21,926
Buildings	26	259
Land	98	978

At March 31, 2008, obligations with collateral pledged were as follows:

	Millions of yen	Thousands of U.S. dollars
Short-term debt	¥409	$4,082
Long-term debt	–	–
	409	4,082
Contingent liabilities	182	1,816
	¥591	$5,898

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, 2008 and 2007.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Amortization of prior service costs of the pension plan	¥ 4,678	¥ 1,536	$ 46,687
Retirement benefits of employees	4,100	4,072	40,918
Excess depreciation in overseas subsidiaries	2,913	3,131	29,072
Tax loss carryforwards	2,014	2,892	20,100
Provision for doubtful accounts	1,302	426	12,994
Excess bonuses accrued	1,131	1,140	11,287
Accrued expenses	567	561	5,659
Impairment loss	503	476	5,020
Unrealized gains on inventory	337	336	3,363
Loss on devaluation of investment securities	230	698	2,295
Unrealized gains on property, plant and equipment	203	–	2,026
Loss on devaluation of golf membership	198	237	1,976
Accrued retirement benefits for directors and statutory auditors	177	–	1,766
Allowance for discontinuing operations	174	–	1,737
Tax effect arising from investments in affiliates	–	561	–
Loss on write-off of property, plant and equipment and inventories	–	403	–
Accrued enterprise tax	–	358	–
Others	1,957	2,019	19,531
Total deferred tax assets	20,484	18,846	204,431
Valuation allowance	(4,316)	(4,701)	(43,074)
Net deferred tax assets	¥ 16,168	¥ 14,145	$ 161,357
Deferred tax liabilities:			
Contribution to funded non-contributory pension plan	¥ (4,819)	¥ (4,281)	$ (48,094)
Additional depreciation in overseas subsidiaries	(3,534)	(4,076)	(35,269)
Gain on securities contributed to employees' retirement benefit trust	(3,229)	(3,248)	(32,226)
Deferred gains on property, plant and equipment	(2,277)	(2,331)	(22,725)
Gain on dissolution of employees' retirement benefit trust	(927)	(927)	(9,251)
Net unrealized holding gains on securities	(809)	(4,369)	(8,074)
Excess of fair value over the book value of the assets and liabilities of consolidated subsidiaries at the acquisition date	(695)	(733)	(6,936)
Others	(1,022)	(1,305)	(10,199)
Total deferred tax liabilities	(17,312)	(21,270)	(172,774)
Net deferred tax assets	¥ (1,144)	¥ (7,125)	$ (11,417)

The differences between the statutory tax rate and the Companies' actual effective tax rate for financial statement purposes for the years ended March 31, 2008, 2007 and 2006 were as follows:

	2008	2007	2006
Statutory tax rate	40.6%	40.6%	40.6%
Permanently non-deductible expenses	19.8	2.0	1.0
Permanently non-taxable income	(35.2)	(5.3)	(3.4)
Inhabitants' per-capita taxes	9.3	–	–
Effect of change in statutory tax rate	(2.8)	–	–
Tax loss carryforwards	46.1	5.0	3.4
Dividend income eliminated in consolidation	144.3	10.4	5.7
Devaluation of consolidated subsidiaries' securities and affiliates' securities	(28.6)	(3.1)	(3.0)
Tax credit	(89.9)	(4.0)	(3.9)
Adjustment on prior year income taxes	(38.8)	(2.3)	–
Tax effect arising from investments in affiliates		(3.0)	–
Adjustment on deferred tax	13.8	–	–
Amortization of goodwill and negative goodwill	(31.3)	–	–
Effect of differences between tax rates in Japan and in other countries	(147.4)	(9.5)	(12.0)
Other, net	(2.7)	0.4	0.0
Actual effective tax rate	(102.8)%	31.2%	28.4%

11. Employees' severance and retirement 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.

Employees' retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
At March 31	2008	2007	2008
Projected benefit obligation	¥ 29,744	¥ 30,240	$ 296,846
Less fair value of pension assets	(23,882)	(28,885)	(238,343)
Less unrecognized actuarial differences	(30)	(990)	(300)
Unrecognized prior service costs	7	541	70
Prepaid benefit expenses (Other assets)	–	4,833	–
Employees' retirement benefits	¥ 5,839	¥ 5,739	$ 58,273

Severance and retirement benefit expenses, included in the consolidated statements of income for the years ended March 31, 2008, 2007 and 2006 are composed of the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Service costs—benefits earned during the year	¥1,245	¥1,389	¥ 1,311	$12,425
Interest cost on projected benefit obligation	731	814	753	7,295
Expected return on plan assets	(717)	(609)	(590)	(7,156)
Amortization of actuarial differences	4,419	(394)	(7,733)	44,102
Amortization of prior service costs	(85)	(77)	(138)	(848)
Severance and retirement benefit expenses	¥5,593	¥1,123	¥(6,397)	$55,818

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

At March 31	2008	2007	2006
Discount			
Domestic companies	2.0%	2.0%	2.0%
Overseas companies	6.8	4.5–5.5	4.5–5.5
Expected return on plan assets	2.8%	2.0%	2.0%

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

12. Net assets

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, the 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 the legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of the 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 of the 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.

At the annual shareholders' meeting held on June 27, 2008, the shareholders resolved to distribute cash dividends amounting to ¥1,936 million ($19,321 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2008. 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, 2008 and 2007, 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, 2008	Machinery and equipment	Other assets	Total
Acquisition cost, accumulated depreciation and net book value of leased assets:			
Acquisition cost	¥566	¥95	¥661
Accumulated depreciation	319	83	402
Net book value	¥247	¥12	¥259

	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

	Thousands of U.S. dollars		
At March 31, 2008	Machinery and equipment	Other assets	Total
Acquisition cost, accumulated depreciation and net book value of leased assets:			
Acquisition cost	$5,649	$948	$6,597
Accumulated depreciation	3,184	828	4,012
Net book value	$2,465	$120	$2,585

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Future lease payments:			
Due within one year	¥117	¥166	$1,168
Due after one year	146	202	1,457
Total	¥263	¥368	$2,625

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Lease payments, depreciation and interest expense:				
Lease payments	¥160	¥266	¥269	$1,597
Depreciation	153	208	222	1,527
Interest expense	313	43	50	3,124

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
	2008	2007	2008
Future lease payments:			
Due within one year	¥2	¥ –	$20
Due after one year	6	–	60
Total	¥8	¥ –	$80

14. Non-cash transactions

Significant non-cash transactions for the years ended March 31, 2008, 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
	2008	2007	2006	2008
Increase in common stock	¥ –	¥ 8,376	¥1,712	$ –
Increase in capital surplus	–	8,376	1,711	–
Decrease in convertible bonds	¥ –	¥16,752	¥3,423	$ –

(2) The dissolution of the employees' retirement benefit trust:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Increase in investment securities	¥ –	¥ –	¥8,139	$ –

15. Cost of business restructuring

The cost of business restructuring for the years ended March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Loss on disposal of inventories	¥ –	¥ 491	$ –
Loss on disposal of property, plant and equipment	54	61	539
Employees' severance expense	164	558	1,637
Office transfer expense	138	271	1,377
Impairment loss	–	136	–
Others	64	46	639
Total	¥420	¥1,563	$4,192

16. Loss on discontinuing operations

Loss on discontinuing operations for the year ended March 31, 2008 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Provision for allowance for doubtful accounts	¥1,963	$19,591
Loss on sale of affiliates securities	407	4,062
Restoration expense of soil contamination	770	7,685
Others	54	538
Total	¥3,194	$31,876

17. Loss on settlement of arbitration

Loss on settlement of arbitration for the year ended March 31, 2008 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Arbitration	¥ 4,893	$ 48,832
Professional fees	292	2,914
Insurance	(2,124)	(21,197)
Total	¥ 3,061	$ 30,549

18. 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 idle assets in 2008 was valued at zero based on net selling price, 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 the fixed assets tax purpose, with reasonable adjustments.

The impairment loss for the years ended March 31, 2008, 2007 and 2006 was as follows:

				Millions of yen		Thousands of U.S. dollars
Use	Location	Type of assets	2008	2007	2006	2008
Business-use assets	China (Macao)	Buildings and structures	¥ –	¥298	¥ –	$ –
		Machinery and equipment	–	397	–	–
		Other	–	1	–	–
Idle assets	Amagasaki, Hyogo	Machinery and equipment	9	–	–	90
		Other	19	–	–	189
	Yuzawa, Akita	Land	–	–	108	–
Assets for rent	Kashiwa, Chiba	Land and building	–	–	959	–
Total			¥28	¥696	¥1,067	$279

And as explained in Note 15, the cost of business restructuring for the year ended March 31, 2007 included an 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 sales cost.

19. Segment information

Information by business segment for the years ended March 31, 2008, 2007 and 2006 is as follows:

	Millions of yen							
Year ended March 31, 2008	Semiconductor and display materials	Circuit products	High-performance plastics	Quality of life products	Others	Total	Eliminations or corporate	Consolidated
Sales:								
Outside customers	¥55,406	¥36,502	¥59,719	¥72,679	¥946	¥225,252	¥ –	¥225,252
Inter-segment	6	–	823	408	–	1,237	(1,237)	–
Total sales	55,412	36,502	60,542	73,087	946	226,489	(1,237)	225,252
Operating expenses	44,752	39,183	57,494	70,054	744	212,227	3,999	216,226
Operating income	¥10,660	¥ (2,681)	¥ 3,048	¥ 3,033	¥202	¥ 14,262	¥ (5,236)	¥ 9,026
Identifiable assets	¥67,801	¥39,109	¥78,075	¥63,818	¥932	¥249,735	¥17,687	¥267,422
Depreciation and amortization	2,818	1,962	3,556	2,886	151	11,373	343	11,716
Impairment loss	–	–	–	28	–	28	–	28
Capital expenditures	3,584	2,467	2,220	1,957	156	10,384	132	10,516

"Eliminations or corporate" in the "Operating expenses" row of the above information includes corporate expenses of ¥5,238 million ($52,275 thousand) in the year ended March 31, 2008, which consisted principally of basic research and development expenses and general and administrative expenses recorded by the Company.

"Eliminations or corporate" in the "Identifiable assets" row of the above information includes such corporate assets as ¥18,050 million ($180,140 thousand) at March 31, 2008, 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 mentioned in Note 2 to the consolidated financial statements, in accordance with the revised Japanese Corporation Tax Law, the Company and its domestic subsidiaries changed the depreciation method of tangible fixed assets acquired on or after April 1, 2007. As a result, Operating expenses under the Semiconductor and display materials segment, Circuit products segment, High-performance plastics segment, Quality of life products segment, Others and Eliminations or corporate increased by ¥65 million ($649 thousand), ¥36 million ($358 thousand), ¥25 million ($250 thousand), ¥61 million ($609 thousand), ¥12 million ($120 thousand) and ¥45 million ($449 thousand), respectively, compared with the amount under the formerly applied method. Accordingly, operating income decreased by the same amount.

As mentioned in Note 2 to the consolidated financial statements, in accordance with the revised Japanese Corporation Tax Law, the Company and its domestic subsidiaries depreciate the residual value of tangible fixed assets acquired on or before March 31, 2007, which was depreciated in accordance with former Japanese Corporation Tax Law, to memorandum value in five years using the straight-line method. As a result, Operating expenses under the Semiconductor and display materials segment, Circuit products segment, High-performance plastics segment, Quality of life products segment, Others and Eliminations or corporate increased by ¥81 million ($808 thousand), ¥84 million ($838 thousand), ¥133 million ($1,327 thousand), ¥189 million ($1,886 thousand), ¥1 million ($11 thousand) and ¥24 million ($240 thousand), respectively. Accordingly, operating income decreased by the same amount.

	Millions of yen							
Year ended March 31, 2007	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 in the year ended March 31, 2007, which consisted principally of basic research and development expenses and general and administrative expenses recorded by the Company.

"Eliminations or corporate" in the "Identifiable assets" row of the above information includes corporate assets of ¥26,203 million 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.

	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 includes corporate expenses of ¥1,720 million in the year ended March 31, 2006, which consisted principally of basic research and development expenses and general and administrative expenses recorded 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, 2008	Semiconductor and display materials	Circuit products	High-performance plastics	Quality of life products	Others	Total	Eliminations or corporate	Consolidated
Sales:								
Outside customers	$552,954	$364,291	$595,999	$725,339	$9,441	$2,248,024	$ –	$2,248,024
Inter-segment	60	–	8,213	4,072	–	12,345	(12,345)	–
Total sales	553,014	364,291	604,212	729,411	9,441	2,260,369	(12,345)	2,248,024
Operating expenses	446,627	391,047	573,793	699,142	7,425	2,118,034	39,910	2,157,944
Operating income	$106,387	$ (26,756)	$ 30,419	$ 30,269	$2,016	$ 142,335	$ (52,255)	$ 90,080
Identifiable assets	$676,657	$390,309	$779,192	$636,906	$9,301	$2,492,365	$176,517	$2,668,882
Depreciation and amortization	28,124	19,581	35,489	28,802	1,507	113,503	3,423	116,926
Impairment loss	–	–	–	279	–	279	–	279
Capital expenditures	35,768	24,621	22,156	19,531	1,557	103,633	1,317	104,950

Information by geographic area for the years ended March 31, 2008, 2007 and 2006 is as follows:

	Millions of yen						
Year ended March 31, 2008	Domestic	Asia	North America	Europe and others	Total	Eliminations or corporate	Consolidated
Sales:							
Outside customers	¥135,523	¥59,240	¥14,096	¥16,393	¥225,252	¥ –	¥225,252
Inter-segment	15,117	9,532	617	16	25,282	(25,282)	–
Total sales	150,640	68,772	14,713	16,409	250,534	(25,282)	225,252
Operating expenses	142,557	62,959	14,923	15,823	236,262	(20,036)	216,226
Operating income	¥ 8,083	¥ 5,813	¥ (210)	¥ 586	¥ 14,272	¥ (5,246)	¥ 9,026
Identifiable assets	¥194,808	¥78,391	¥18,124	¥23,732	¥315,055	¥(47,633)	¥267,422

"Eliminations or corporate" in the "Operating expenses" row of the above information includes corporate expenses of ¥5,238 million ($52,275 thousand) in the year ended March 31, 2008, which consisted principally of basic research and development expenses and general and administrative expenses recorded by the Company.

"Eliminations or corporate" in the "Identifiable assets" row of the above information includes corporate assets of ¥18,050 million ($180,140 thousand) at March 31, 2008, 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 mentioned in Note 2 to the consolidated financial statements, in accordance with the revised Japanese Corporation Tax Law, the Company and its domestic subsidiaries changed the depreciation method of tangible fixed assets acquired on or after April 1, 2007. As a result, Operating expenses for Domestic and Eliminations or Corporate increased by ¥200 million ($1,996 thousand) and ¥44 million ($439 thousand), respectively, compared with the amount under the formerly applied method. Accordingly, operating income decreased by the same amount.

As mentioned in Note 2 to the consolidated financial statements, in accordance with the revised Japanese Corporation Tax Law, the Company and its domestic subsidiaries depreciate the residual value of tangible fixed assets acquired on or before March 31, 2007, which was depreciated in accordance with former Japanese Corporation Tax Law, to memorandum value in five years using the straight-line method. As a result, Operating expenses for Domestic and Eliminations or Corporate increased by ¥488 million ($4,870 thousand) and ¥24 million ($240 thousand), respectively. Accordingly, operating income decreased by the same amount.

	Millions of yen						
Year ended March 31, 2007	Domestic	Asia	North America	Europe and others	Total	Eliminations or corporate	Consolidated
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 in the year ended March 31, 2007, which consisted principally of basic research and development expenses and general and administrative expenses recorded by the Company.

"Eliminations or corporate" in the "Identifiable assets" row of the above information includes corporate assets of ¥26,203 million 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.

	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 includes corporate expenses of ¥1,720 million in the year ended March 31, 2006, which consisted principally of basic research and development expenses and general and administrative expenses recorded 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, 2008	Domestic	Asia	North America	Europe and others	Total	Eliminations or corporate	Consolidated
	Thousands of U.S. dollars						
Sales:							
Outside customers	$1,352,525	$591,218	$140,678	$163,603	$2,248,024	$ –	$2,248,024
Inter-segment	150,868	95,130	6,158	159	252,315	(252,315)	–
Total sales	1,503,393	686,348	146,836	163,762	2,500,339	(252,315)	2,248,024
Operating expenses	1,422,724	628,334	148,932	157,914	2,357,904	(199,960)	2,157,944
Operating income	$ 80,669	$ 58,014	$ (2,096)	$ 5,848	$ 142,435	$ (52,355)	$ 90,080
Identifiable assets	$1,944,192	$782,345	$180,878	$236,846	$3,144,261	$(475,379)	$2,668,882

Overseas sales for the years ended March 31, 2008, 2007 and 2006 were as follows:

Year ended March 31, 2008	Asia	North America	Europe and others	Total
	Millions of yen			
Overseas sales	¥78,472	¥13,789	¥15,538	¥107,799
Consolidated net sales				225,252
Percent of consolidated net sales	34.9%	6.1%	6.9%	47.9%

Year ended March 31, 2007	Asia	North America	Europe and others	Total
	Millions of yen			
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%

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, 2008	Asia	North America	Europe and others	Total
	Thousands of U.S. dollars			
Overseas sales	$783,154	$137,615	$155,070	$1,075,839
Consolidated net sales				2,248,024
Percent of consolidated net sales	34.9%	6.1%	6.9%	47.9%

20. Contingent liabilities

At March 31, 2008, the Companies were contingently liable as follows:

(i) Guarantees for bank borrowings of employees:	¥ 1 million ($ 10 thousand)
(ii) Guarantee for bank borrowings of an association:	¥182 million ($1,816 thousand)
(iii) Guarantee for bank borrowings of affiliates excluded from equity method:	¥354 million ($3,533 thousand)

21. Subsequent events

(1) At the general meeting of shareholders of the Company held on June 27, 2008, retained earnings at March 31, 2008, were appropriated as follows:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends ¥7.5 ($0.07) per share	¥1,936	$19,321

(2) The Board of Directors of the Company, at its meeting held on May 8, 2008, resolved that the Company will purchase its own shares in accordance with Article 156 of the Company Law as applied in lieu of Article 165, Section 3 of the same law.

1. Type and aggregate number of shares to be acquired
   Shares of common stock, 10,000,000 shares (maximum)
2. Total amount of acquisition
   ¥5,000 million (maximum)
3. Reason for acquisition
   To enable the Company to implement briskly efficient capital strategies for the changes in business environment
4. Acquisition period
   May 12, 2008 – August 29, 2008
5. Method of transaction
   Repurchase from the market after prior public announcement
6. Details of transaction
   Discretionary trading contract for repurchase of company's own shares with securities firm

Independent Auditors' Report

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2008, 2007 and 2006

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. and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2008, 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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 27, 2008

Environmental Accounting

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries

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 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 2008

Item	Investment (Millions of yen)	Expenses (Millions of yen)	Description
(A) Reduction of environmentally hazardous emissions	¥165	¥ 303	• Conversion of fuel for boilers • Installation of waste gas treatment facilities
(B) Energy conservation	244	27	• Installation of high efficiency boilers
(C) Reduction of industrial waste, promotion of recycling, and waste treatment	4	558	• Waste treatment
(D) Product initiatives at the R&D stage	32	2,441	• R&D for environmentally friendly products
(E) Reduction of up & downstream environmental burden	0	26	• Analysis of environment-related substances • Consignment fee to the Japan Containers and Packaging Recycling Association
(F) Environmental management activities	0	329	• Personnel costs for environmental management activities • Greening activities and maintenance for green space
(G) Contributions to social activities	0	2	• Activities for external communications
(H) Response to environmental damage	0	315	• Inspections of soil and groundwater contamination and cleanup at Sano Plastic Co., Ltd.
Total	¥445	¥4,001	

Period: April 2007 to March 2008

Domestic Scope of consolidation of Sumitomo Bakelite Company Limited

Plants and Laboratories:

Amagasaki Plant, Kanuma Plant, Nara 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 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: Regarding item (H), we compiled costs concerning inspections of soil and groundwater contamination and cleanup 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 the 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 2008

Environmental Burden	Fiscal 2007	Fiscal 2008	Reduction
Atmospheric emissions of solvents and other chemical substances	400 tons	317 tons	83 tons
Carbon dioxide emissions	134,785 tons	122,559 tons	12,226 tons
Waste generated	11,317 tons	10,017 tons	1,300 tons
Landfilled and incinerated waste without energy recovery	287 tons	227 tons	60 tons

Economic Benefits for Fiscal 2008

Item	Amount (Millions of yen)		
	Fiscal 2007	Fiscal 2008	Change
(1) Reduction in costs due to energy conservation	¥ 52	¥ 73	¥ 21
(2) Reduction in costs through waste reduction	1	19	18
(3) Income from recycling	188	205	17
(4) Reduction in costs through recycling	694	728	34
(5) Others	4	4	0
Total	¥939	¥1,029	¥ 90

The **"Environmental & Social Report 2008"** of Sumitomo Bakelite Company Limited, including environmental accounting, was independently reviewed by KPMG AZSA Sustainability Co., Ltd.

Board of Directors, Corporate Auditors and Executive Officers

(As of June 27, 2008)

Board of Directors

President

Tomitaro Ogawa

Directors

Shigeru Hayashi
Satoshi Kawachi*
Tamotsu Yahata
Takeshi Uchimura
Atsumi Okayama
Tsuneo Terasawa
Shinichiro Ito
Ryuzo Sukeyasu

Corporate Auditors

Standing Auditors

Hideaki Ezaki
Takao Yanagisawa**

Auditors

Hiroyuki Abe**
Kenkichi Fuse**

* Outside director
** Outside auditor

Executive Officers

President

Tomitaro Ogawa

Executive Vice President

Shigeru Hayashi

Senior Managing Executive Officer

Tamotsu Yahata

Managing Executive Officers

Takeshi Uchimura
Atsumi Okayama
Kiyoshi Fujita
Tsuneo Terasawa
Shinichiro Ito
Ryuzo Sukeyasu
Shigeki Muto

Executive Officers

Koichiro Sekine
Kazuhisa Hirano
Akira Takada
Koichi Tanaka
Masatoshi Yamazaki
Kimimasa Nishimura
Etienne Mortier

Corporate Data

(As of March 31, 2008)

Corporate Name:
SUMITOMO BAKELITE COMPANY LIMITED

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

Established:
January 25, 1932

Capital:
¥37,143,093,785

Employees:

Consolidated	8,833
Non-consolidated	2,853*

*Including employees on loan 685

Investor Information

(As of March 31, 2008)

Common Stock:

Stock trading unit	1,000 shares
Authorized	800,000,000 shares
Issued and outstanding	265,852,394 shares
Number of shareholders	18,809*

*Including the number of share trading unit holders 13,827

Common Stock Listing:
The Tokyo Stock Exchange 1st Section
The Osaka Stock Exchange 1st Section

Independent Auditors:
KPMG AZSA & Co.

Administrator of Shareholders' Register:
Sumitomo Trust & Banking, Co., Ltd.
1-4-4, Marunouchi Chiyoda-ku,
Tokyo 100-8212, JAPAN

As of October 10, 2008, the new address will be:
2-3-1 Yaesu, Chuo-ku, Tokyo 104-8476, Japan

Principal Shareholders:

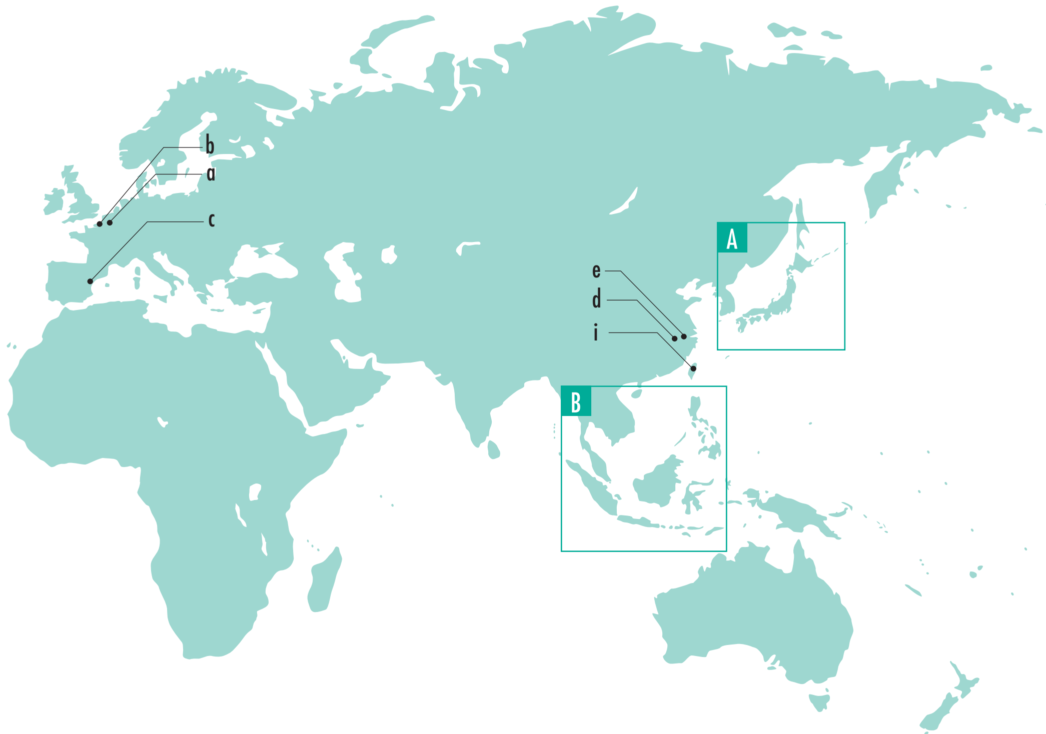
Name	Holding number of stocks (thousands)	Share of voting rights (%)
Sumitomo Chemical Co., Ltd.	52,549	20.46
Northern Trust Company (AVFC) Sub-account American Client	27,112	10.56
The Master Trust Bank of Japan., Ltd. (trust account)	15,439	6.01
Japan Trustee Services Bank, Ltd. (trust account)	12,083	4.71
Japan Trustee Services Bank, Ltd. (trust account 4)	5,292	2.06
Japan Trustee Services Bank., Ltd. (retirement payment account of The Sumitomo Trust and Banking Company, Ltd.)	4,366	1.70
The Mitsui Sumitomo Bank, Limited	4,360	1.70
Trust & Custody Services Bank, Ltd. (securities investment trust account)	3,983	1.55
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	2,970	1.16
The Bank of New York, Treaty Jasdec Account	2,825	1.10

Note: The Company holds 7,625 thousand shares of treasury stock, that are excluded from the principal shareholders listed above.

Global and Domestic Network

Overseas

a. N.V. Sumitomo Bakelite Europe S.A.
b. Vyncolit N.V.
c. Sumitomo Bakelite Europe (Barcelona), S.L.U.
d. Sumitomo Bakelite (Suzhou) Co., Ltd.
e. Bakelite Precision Molding (Shanghai) Co., Ltd.
f. Basec Hong Kong Ltd.
g. Sumitomo Bakelite Hong Kong Co., Ltd.
h. Sumitomo Bakelite Macau Co., Ltd.
i. Sumitomo Bakelite (Taiwan) Co., Ltd.
j. P.T. Indopherin Jaya
k. P.T. SBP Indonesia
l. Rigidtex Sdn. Bhd.
m. SNC Industrial Laminates Sdn. Bhd.
n. Sumitomo Bakelite Singapore Pte. Ltd.
o. Sumicarrier Singapore Pte. Ltd.
p. Sumidurez Singapore Pte. Ltd.
q. Sumitomo Bakelite (Thailand) Co., Ltd.
r. Sumitomo Bakelite Vietnam Co., Ltd.
s. Sumitomo Plastics America, Inc.
t. Durez Corporation
u. Promerus LLC.
v. Sumitomo Bakelite North America, Inc.
w. Durez Canada Co., Ltd.



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

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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

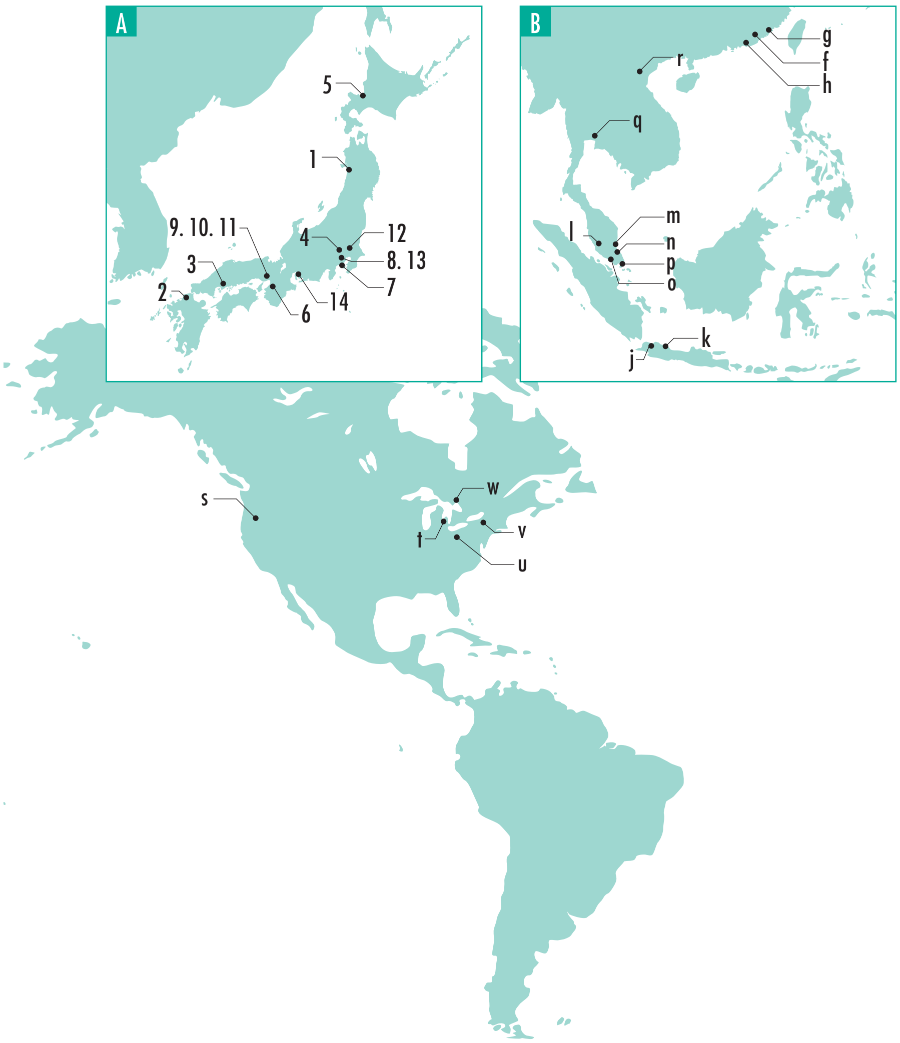
Kobe Fundamental Research Laboratory
1-1-5 Murotani, Nishi-ku, Kobe, Hyogo 651-2241, JAPAN
Phone: +81-(0)78-992-3900
Facsimile: +81-(0)78-992-3919

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 Laminates Plant, Industrial Resin & Molding Compounds Plant)

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



Domestic

1. Akita Sumitomo Bakelite Co., Ltd
2. Kyushu Bakelite Industry Co., Ltd
3. Artlite Kogyo Co., Ltd
4. S.B. Techno Plastics Co., Ltd
5. Hokkai Taiyo Plastic Co., Ltd
6. Yamaroku Kasei Co., Ltd
7. S.B. Research Co., Ltd
8. Sunbake Co., Ltd
9. Tsutsunaka Sheet Waterproof Systems Co., Ltd
10. Kyodo Co., Ltd
11. Softec Co., Ltd
12. Y-Techs Co., Ltd
13. Thanxs Trading Co., Ltd
14. Chubu Jushi Co., Ltd

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

High Performance Thermoset Plastics Application Development Center
(Located at Shizuoka Plant, Industrial Laminates 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 Laminates 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

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