Annual Report 2010

For the year
ended March 31, 2010

SUMITOMO BAKELITE CO., LTD.

Profile

Phenolic resin, 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 (hereinafter called Sumitomo Bakelite) became the first Japanese company to succeed in the industrial production of the material. Ever since, the Company has led the plastics processing field, providing customers with an ever-widening variety of superior products and technologies. Today, Sumitomo Bakelite is moving decisively to develop more sophisticated technologies that will benefit current and future generations.

Financial Highlights

Years ended March 31	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Net Sales	**¥170,844**	¥212,410	¥225,252	**$1,837,032**
Net Income (Loss)	**3,306**	(7,908)	2,192	**35,548**
Total Assets	**207,259**	215,853	267,422	**2,228,591**
Shareholders' Equity	**127,453**	124,573	163,835	**1,370,462**

	Yen			U.S. dollars
Net Income (Loss) per Share	**¥13.72**	¥ (31.78)	¥ 8.40	**$0.15**
Diluted Net Income per Share	**—**	—	—	**—**
Cash Dividends per Share	**10.00**	15.00	15.00	**0.11**

Note: U.S. dollar amounts are translated from yen at the rate of ¥93.0 to US$1, the approximate exchange rate as of March 31, 2010.

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President's Message

Shigeru Hayashi
President

Operating Environment in Fiscal 2010

During fiscal 2010, ended March 31, 2010, the global economy seemed to have exited the worst period, supported by the fiscal and financial policies implemented in a highly coordinated manner by nations throughout the world to overcome the worldwide recession triggered in the autumn of 2008. Nevertheless, economic uncertainties continued to persist. Similarly, the Japanese economy seemed to have bottomed out, buoyed by a mild recovery in exports and the government's economic stimulus package to promote sales of such products as home appliances and automobiles. However, in many industries, companies continued to reduce their capital expenditures, and employment conditions kept deteriorating during the period under review. These and other factors added to severe conditions in the domestic economy.

Turning to the global economic conditions surrounding the Sumitomo Bakelite Group, the semiconductor industry began to see a gradual recovery in market conditions in the second half of fiscal 2010, supported by the completion of a round of inventory adjustments and the strong performance of netbooks, smartphones and other products. The automobile industry suffered a rapid decline in demand in many countries, but later in the reporting period, demand was boosted by governments' policies to encourage consumers to replace their cars in Europe, the United States and Japan. Meanwhile, automobile demand is expanding in China and other emerging countries, and this also contributed to the recovery of the automobile industry. In Japan, replacement demand for mobile phones was stagnant, while housing starts significantly declined year on year.

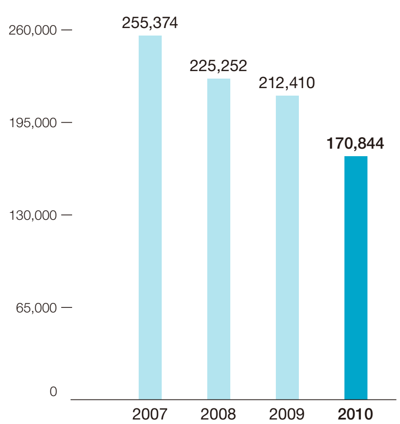
Overview of Fiscal 2010 Results

In the operating environment explained above, the entire Sumitomo Bakelite Group has promoted initiatives aimed at transforming its production and sales structures to effectively meet actual demand and achieving cost reductions in all business operations. At the same time, the Group has taken a stringent selection and concentration approach in allocating its management resources, thereby advancing business restructuring.

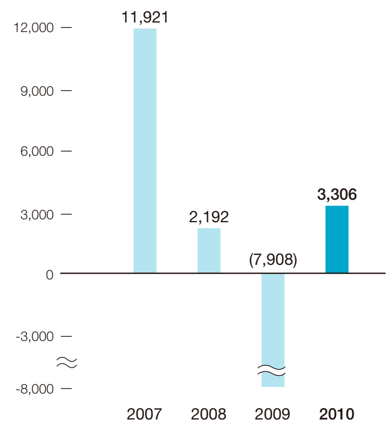
Despite a mild recovery in market conditions, consolidated net sales dropped 19.6% year on year to ¥170,844 million. This net sales decline was primarily attributable to the Group's stagnant results in the first quarter of fiscal 2010, which reflected the weak performance of overseas subsidiaries in the last quarter of fiscal 2009.

On the earnings front, owing to the Group's efforts in such areas as the reduction of fixed and other costs and the restructuring of unprofitable businesses, actual consolidated operating income, which excludes the amount of actuarial adjustment for retirement allowances, increased ¥2,886 million year on year to ¥5,011 million. In fact, with actuarial adjustment for retirement allowances resulting in a positive figure totaling ¥2,530 million in fiscal 2010, the Group posted consolidated operating income amounting to ¥7,541 million, a turnaround of ¥9,180 million from fiscal 2009. Consolidated ordinary income also rose ¥8,153 million to ¥8,643 million. Although the Sumitomo Bakelite Group posted such items under other expenses as cost of business restructuring, totaling ¥2,253 million, and loss on devaluation of investment securities, amounting to ¥876 million, it recorded ¥3,306 million in

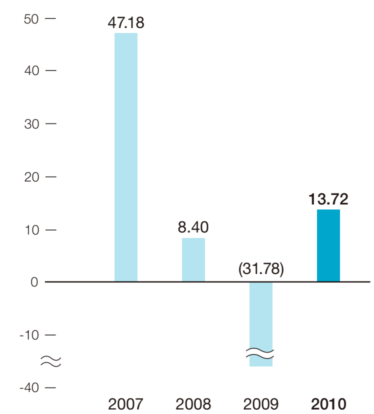
Net Sales
(Millions of yen)



Net Income (Loss)
(Millions of yen)



Net Income (Loss) per Share
(Millions of yen)



net income. The following table shows a year-on-year comparison of the Group's performance, which excludes the amounts of actuarial adjustments of retirement allowances.

In fiscal 2010, although it managed to post a net income, the Sumitomo Bakelite Group was unable to improve its revenue and earnings back to the levels prior to the ongoing global recession triggered in 2008. With due consideration given to such results, the Company declared a fiscal year-end dividend of ¥5.0 per common share. Added to the interim dividend paid, the full fiscal year cash dividend for fiscal 2010 is ¥10.0 per common share.

During fiscal 2010, the Company issued neither new shares nor corporate bonds while not undertaking other extraordinary steps to procure funds. Meanwhile, total capital expenditures amounted to ¥9,261 million in fiscal 2010.

Business Strategies for Fiscal 2011 Onward

Looking at the global economy, China, India and other emerging countries are expected to realize additional economic growth. Meanwhile, the economies of Western countries have shown signs of exiting a stagnation phase, and the Japanese economy is also showing signs of recovery.

Given these conditions, the Sumitomo Bakelite Group is anticipating an increase in demand from emerging countries for its IT-related materials and automotive materials. At the same time, however, certain harsh conditions are slated to persist, including a surge in raw material prices and weak demand on the domestic front.

In such an environment, the Sumitomo Bakelite Group will work to maintain its corporate structure, which has been streamlined and optimized through emergency measures to respond to rapid economic deterioration caused by the global recession. Moreover, the Group will further accelerate initiatives aimed at reinforcing its production and marketing structures, thereby cultivating new demand. In doing so, we will strictly adhere to the following basic policies and, consequently, return to a path leading to renewed growth.

Basic Policies

1. Bolster competitiveness of the three core business fields

Sumitomo Bakelite has defined its three core business fields. They are: (1) IT-related materials; (2) high-performance plastics; and (3) quality of life-related products. In these fields, the Sumitomo Bakelite Group will take full advantage of its streamlined and optimized business structures to expand the sales of products and services that effectively meet the needs of customers in the rapidly growing markets of China, ASEAN nations and countries.

In the field of IT-related materials, the Company has established a new processing method for materials for encapsulation of semiconductor devices. This innovative method will enable us to expand our market share and quickly develop next-generation materials in the field.

In the field of high-performance plastics, Sumitomo Bakelite will make investments aimed at boosting its automotive product supply capacity in the Asian market.

Regarding quality of life-related products, the Group will strive to expand sales of medical devices and films and sheets in the Chinese market. In addition, in the area of construction materials, the Company will work to strengthen its residential

Comparison of Actual Performance (consolidated)

(Billions of yen)

	FY2010	FY2009	Change (%)
Net Sales	**170.8**	212.4	(19.6)
Operating Income	**5.0**	2.1	135.9
Ordinary Income	**6.1**	4.3	43.7
Net Income (Loss)	**1.8**	(5.7)	

Note: Operating income, ordinary income and net income (loss) presented above exclude the amounts of actuarial adjustments for retirement allowances.

renovation-related businesses while swiftly increasing sales of a new waterproof sheet and a waterproof sheet integrated with photovoltaic modules.

2. Promote new products and businesses by anticipating future market needs

During fiscal 2010, the application of the Company's LαZ® substrate materials for semiconductor packages in smartphones and other finished products, based on leading-edge technologies, steadily expanded. Looking ahead, Sumitomo Bakelite will continue to launch products in a timely manner by anticipating future market needs. Meanwhile, the Company will step up the provision of proposals for new applications to promote the adoption of a group of new materials and other products that follow the launch of LαZ. These materials and products include optical waveguide materials, metal-substitute plastic automotive materials, light-emitting diode (LED)-related materials, high-performance materials for rechargeable batteries, medical devices and biotechnology-related devices. Through these proposals, the Sumitomo Bakelite Group aims to cultivate new demand in wide-ranging markets and contribute to its customers' business growth, thereby realizing its own business growth.

3. Enhance the Group's competitiveness in production activities

At Sumitomo Bakelite, we define manufacturing capability as the ability to bring product design into reality. With the aim of continuing to create high-value-added products for customers based on the ideas and concepts developed by its R&D and marketing divisions, the Company will work to continue strengthening such manufacturing capability. Also, adhering to our key catchphrase, "Manufacturing starts with human resource development," we are promoting activities to spread and instill a Sumitomo Bakelite Product System (SBPS) throughout the Group.

In the meantime, fulfilling its corporate social responsibility is equally important for the Sumitomo Bakelite Group. Accordingly, the Group is tackling the development of environment-friendly products to better contribute to the protection of the global environment. Also, the Group is constantly endeavoring to ensure legal and ethical compliance and reinforce its internal control. These activities are binding the Group together, allowing for well-coordinated management and operations on a Groupwide basis.

As the new leader of the Sumitomo Bakelite Group, and on behalf of all Group employees, I thank all stakeholders for their unwavering support and understanding.

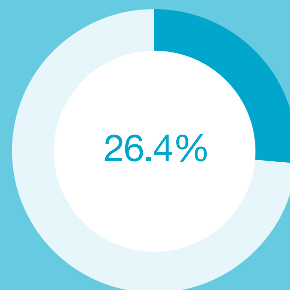
June 2010

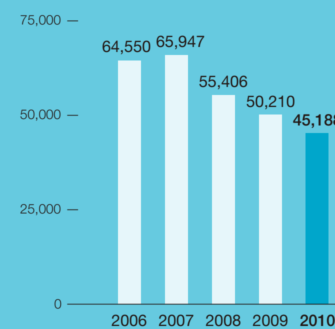
Shigeru Hayashi
President

At a Glance

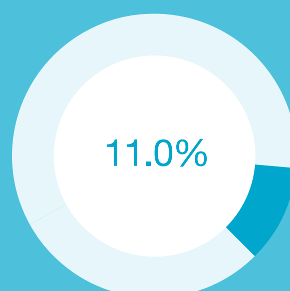
Segment | Segment Sales to Total Sales | Net Sales

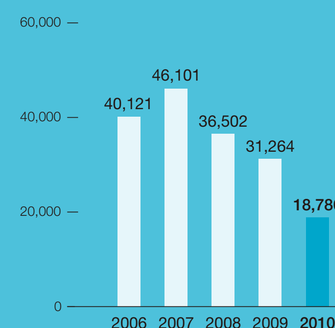
Semiconductors and Display Materials



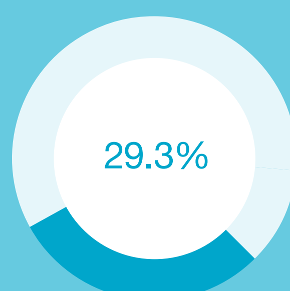


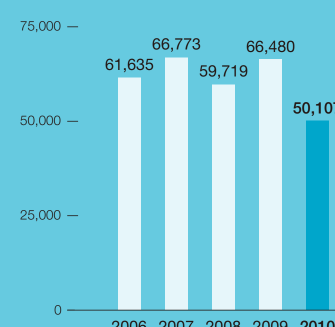
Circuit Products



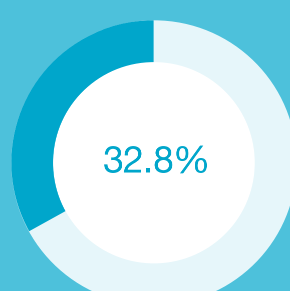


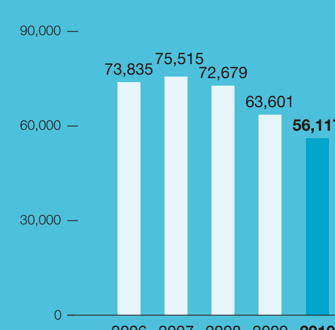
High-Performance Plastics





Quality of Life Products





Note: The Others segment recorded net sales of ¥652 million.

Overview

Sales in this segment declined year on year, mainly due to weak results in the first quarter of fiscal 2010. However, in the second quarter of fiscal 2010, the production of semiconductor and display materials started to pick up, as industry players completed inventory adjustments that they had been accelerating since the second half of fiscal 2009. This situation allowed Sumitomo Bakelite to improve segment sales each quarter. With regard to the L α Z® substrate materials for semiconductor packages, their applications are steadily increasing for smartphones and other types of mobile equipment. In response, the Company is bolstering its L α Z production capacity.

Sales in the flexible printed circuits business fell year on year, adversely affected by a slump in demand for mobile phones and digital appliances, in which these circuits are used. In the Circuit Products segment, Sumitomo Bakelite implemented various initiatives in preparation for discontinuing the production activities at its Akita site and consolidating its overall production functions into Sumitomo Bakelite Vietnam Co., Ltd. Meanwhile, sales of epoxy resin copper-clad laminates and phenolic resin copper-clad laminates showed some year-on-year improvement, supported by recovering demand for automotive and white-goods applications.

Sales of phenolic molding compounds, phenolic resins for industrial use and precision molded products decreased year on year, negatively impacted by the rapid deterioration in the conditions of automobile-related product markets in the first half of fiscal 2010. In the second half, however, sales of these products returned to a recovery course, buoyed by a pickup in automobile sales in China, India and other emerging countries and by increased demand in Europe for such applications as tires and heat insulation materials. Meanwhile, Sumitomo Bakelite advanced business restructuring in this segment by, for example, streamlining and consolidating its production bases in the United States.

Sales of medical devices slightly increased year on year, supported by the stable expansion of sales of such products as percutaneous endoscopic gastrostomy (PEG) buttons and PEG catheter kits. In June 2009, Sumitomo Bakelite released SB Knife, an endoscopic submucosal dissection (ESD) device. Meanwhile, sales of vinyl resin films and multilayered films and sheets increased steadily, buoyed by the expansion of their medical applications and by a recovery in their electronics applications. In the Plate & Decola Division, which handles polycarbonate resin plates, vinyl resin plates, and melamine resin decorative and fireproof laminates, sales declined year on year, adversely affected by decreases in housing-related demand and in capital expenditures in the corporate sector. The Company worked to expand sales of Sunloid Lumiking® acrylic resin light guide panels for signboards through the cultivation of the product's demand for use in such applications as signboards for facilities and shops within station buildings. In the waterproof systems business, despite its efforts to boost sales in the building renovation field, the Company suffered a sales decline due to stagnant housing starts.

Major Developments

1 Bolstering Operations in China for High-Performance Plastics and Quality of Life Products

High-Performance Plastics Business

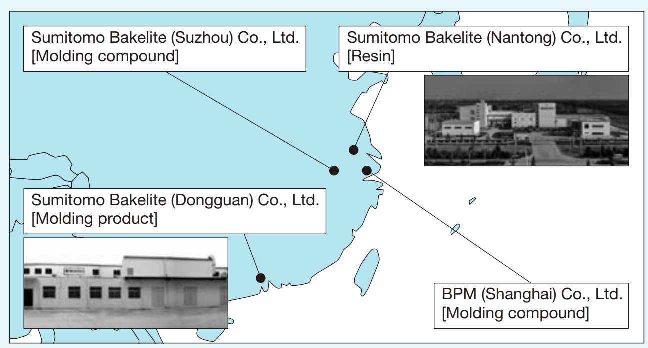
The Sumitomo Bakelite Group's phenolic resin business operates 17 production bases in Japan and other Asian nations, North America and Europe. Leveraging the value chain covering resins, molding compounds and molded products, the Group is working to develop the business on a global scale.

In China, Sumitomo Bakelite started the production and marketing of resins in April 2009 through Sumitomo Bakelite (Nantong) Co., Ltd., adding to its existing business portfolio that includes molded products operations in Shanghai and Dongguan and molding compounds operations in Suzhou. With the commencement of resin production and marketing, the Company has completed a comprehensive value chain for high-performance plastics in China. Also, in March 2010, the Company established Sumitomo Bakelite (Dongguan) Co., Ltd. within a Dongguan plant to which it outsources the production of certain products. Sumitomo Bakelite (Dongguan) Co., Ltd. began the production and marketing of molded products for use in automobiles in May 2010. More recently, the Company has decided to build a new production line for molding compounds at Sumitomo Bakelite (Nantong).

Quality of Life Products Business

Sumitomo Bakelite outsources the production of medical devices to a plant located in Dongguan City. At this plant, the Company completed a new plant building in September 2008 and, consequently, bolstered the production capacity for its medical devices. Also, in July 2009, the Company opened a new representative office in Shanghai. This Shanghai office is promoting research on the marketability of the Company's high-value-added products and the acquisition of chemical and pharmaceutical approvals in China, while bolstering sales activities. Meanwhile, Sumitomo Bakelite is working to expand sales of films and sheets for food packaging in the country. To this end, the Company is currently considering the establishment of local production and marketing bases.

The Chinese market is expected to grow further. In this promising market, Sumitomo Bakelite will continue to provide products and services that effectively accommodate market and customer needs. In this way, we will create added value for out customers and thereby expand the scale of our Chinese operations.



2 Expanding Our Medical Devices Business

In June 2009, Sumitomo Bakelite released SB Knife, which is used for the treatment of mucosal stomach and esophageal cancers. As the population of elderly people has continued to increase in recent years, the number of patients in Japan diagnosed with these cancers also continues to grow, possibly owing to the increasingly westernized dietary habits of Japanese people as well as to the development of advanced endoscopic devices that can detect such cancers. Among various treatment methods, the endoscopic submucosal dissection (ESD) method has become the main means for treating these cancers. Conventional ESD devices tend to require operators to have a certain level of experience in using similar devices. This means that inexperienced operators can cause organ perforation and other complications during medical operations. On the other hand, the Company's SB Knife provides for much simpler operations. More specifically, working through a scissor-like mechanism, SB Knife allows the operator to pick up and pull a submucosal layer toward himself or herself and to remove the affected area with an electric knife. Accordingly, SB Knife realizes easy operations while helping remove mucosal stomach and esophageal cancers in a safe and accurate manner. Since its release, SB Knife has earned high acclaim from the market.

SB Knife

3 Strengthening and Expanding Our Business in Information- and Telecommunication-Related Materials

Promoting L α Z® Applications in Multifunction Mobile Equipment

Sumitomo Bakelite's IT material-related business is witnessing an increase in applications of L α Z—a low-thermal expansive, heat-resistant copper-clad laminate—for semiconductor packages, which are embedded in smartphones and other advanced multifunction thin mobile equipment. As the use of substrate materials for thin packages is expanding in the semiconductor industry, concern is ballooning about the deterioration of package reliability owing to the warping of substrate materials. Sumitomo Bakelite's L α Z provides a solution to this problem.

The L α Z substrate materials for thin packages are used together with the package-on-package (POP) technique, in which two semiconductor packages are stacked. This package architecture enables the development of advanced, compact and slim mobile equipment. Due to its low thermal expansion and superior heat resistance, L α Z helps minimize and suppress warping during the mounting process for thin substrates. This feature ensures the stable connection between the upper and bottom packages and, accordingly, the excellent reliability of mobile equipment. Looking ahead, Sumitomo Bakelite will strategically respond to a potential increase in demand for L α Z.

Accelerating Our Business in Materials for Encapsulation of Semiconductor Devices

In addition to meeting requirements that stem from the development of more compact, slim semiconductor packages, Sumitomo Bakelite is increasingly required to provide leading-edge materials for encapsulation of semiconductor devices that minimize the occurrence of unexpected electric conduction attributable to the accidental incorporation of foreign metallic substances into these materials. In response, Kyushu Sumitomo Bakelite Co., Ltd. has started operations of new mass-production facilities for these materials that eliminate the accidental admixture of foreign metallic substances.

At the same time, with the aim of maintaining the superior quality-competitiveness of its encapsulation materials for semiconductor devices on a global scale, Sumitomo Bakelite has reinforced its production facilities at Sumitomo Bakelite (Taiwan) Co., Ltd. By standardizing the quality of these materials manufactured at its facilities in Japan, Taiwan, Singapore and China, the Company will continue to strengthen the competitiveness of its business.

Furthermore, Sumitomo Bakelite is cultivating new demand for these materials by accelerating the promotion of applications for use in the automotive industry. Through applications based on a new packaging method, we are striving to meet ever-diversifying customer needs.

4 Sunloid Lumiking® Applications Expanded to Include Signboards within Station Buildings

Concerns about energy saving and environmental preservation continue to heighten worldwide. This trend is affecting all industries and businesses.

Sumitomo Bakelite's Sunloid Lumiking—a next-generation, energy-efficient acrylic resin light guide panel for signboards—boasts excellent luminous efficiency, which results in high surface luminance with limited power consumption. This feature allows Sunloid Lumiking-based signboards to reduce their environmental impact, making Sunloid Lumiking a product fit for today's environmental preservation-conscious society.

Station buildings and other related facilities consume a significant amount of energy. Targeting these energy-intensive facilities, Sumitomo Bakelite is currently working to create and capture new demand by promoting the use of energy-saving Sunloid Lumiking. Specifically, the Company is encouraging the operators of such facilities to replace existing fluorescent lighting-based signboards with signboards based on light-emitting diode (LED) light guide panels. Such replacement will enable substantial energy savings. At the same time, we are promoting the use of double-faced Sunloid Lumiking panels for suspended signboards to reduce the number of LEDs used in these signboards. Through these activities, Sumitomo Bakelite is steadily increasing the adoption of Sunloid Lumiking.

Sunloid Lumiking has been adopted for signboards at JR Kokura Station in Fukuoka Prefecture, Japan.

Corporate Governance

Basic Approach

Today, Sumitomo Bakelite is witnessing dynamic changes in operating conditions in Japan and overseas. To sustain its corporate growth in such an environment, Sumitomo Bakelite must continue to meet the expectations of its stakeholders without fail. To this end, the Company believes that it is indispensable to constantly improve management transparency and promote socially correct corporate management, and this belief is the very foundation of our corporate governance. The Business Philosophy of Sumitomo Bakelite states: "Our philosophy is to value trust and maintain stability. Based on this, we strive through our business activities to make contributions to social progress and improvements to the quality of life worldwide." By always embracing this philosophy, the Sumitomo Bakelite Group is continuing to enhance its corporate governance, thereby gaining global recognition as a socially responsible corporate group.

Corporate Governance Structure

Sumitomo Bakelite has adopted a corporate auditor system. Based on this system, the Company has appointed nine directors, including one outside director and four corporate auditors, including three outside corporate auditors. Also, the Company has introduced an executive officer system. Appointed by the Board of Directors, executive officers promote the Company's business operations under the direction of the president, in accordance with the management policy determined by the Board of Directors.

At its monthly meetings, the Board of Directors makes decisions on important matters regarding the management of the Sumitomo Bakelite Group, the Company's monthly performance is reported, and individual directors report the status of the execution of their duties relating to such important matters. At these meetings, the chairman is in charge of facilitating sufficient deliberation, while corporate auditors report on certain matters and offer opinions and advice as necessary. In addition, the Company's directors, executive officers and corporate auditors together convene an Executive Officers' Meeting once a month. At this meeting, important management policies and decisions made by the Board of Directors, along with the Company's performance, are reported to the attendees, while individual executive officers report the status of the execution of their business operations. Also, through this meeting, attendees review important management matters and share important information regarding the Company's status.

The executive officer system enables a clear separation between the decision-making function of the Board of Directors and the executive function of executive officers. Such functional division clarifies the responsibility of each party, enabling the Board of Directors to better focus on the supervision of business execution and allowing executive officers to promote swift business execution. Corporate auditors audit the execution of duties by directors to ensure that the Board of Directors is functioning effectively.

Auditing Systems

Internal Audits

Positioned directly under the president, the Internal Audit Department performs audits on the Company's business execution as well as internal control over financial reporting pursuant to the Financial Instruments and Exchange Law of Japan. These audits are conducted in accordance with audit plans. The Internal Audit Department reports the results of these audits to the president while monitoring the status of the implementation of corrective measures.

Audits by Corporate Auditors

Corporate auditors perform audits through: (1) regular meetings with representative directors; (2) interviews with directors and employees; (3) attendance at important meetings; (4) review of important documents; and (5) visits to business sites and subsidiaries. At meetings of the Board of Corporate Auditors, corporate auditors report the results of these audits and make decisions relating to their audits. The Board of Corporate Auditors consists of two standing corporate auditors, one of whom has been externally appointed, and two part-time corporate auditors.

Accounting Audits

Corporate auditors (the Board of Corporate Auditors) collaborate with the auditing firm, who conducts accounting audits for Sumitomo Bakelite. More specifically, corporate auditors and the accounting auditor mutually exchange information with regard to the formulation of annual audit plans and the settlement of accounts. Furthermore, corporate auditors attend audit review meetings and thereby maintain a close relationship with the accounting auditor. In this way, the Company is striving to improve the quality of accounting audits and ensure efficiency in carrying out such audits.

Coordination of Audits

Corporate auditors attend meetings to review the results of internal and accounting audits while regularly holding meetings with related parties. Through these meetings, Sumitomo Bakelite is working to strengthen collaborative relationships with corporate auditors, the accounting auditor and the Internal Audit Department. Cooperation among these parties is helping the Company enhance the efficiency and effectiveness of its audits.

Five-Year Financial Summary

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2010	2009	2008	2007	2006	**2010**
For the year:						
Net sales	**¥170,844**	¥212,410	¥225,252	¥255,374	¥241,086	**$1,837,032**
Operating income (loss)	**7,541**	(1,639)	9,026	17,766	27,249	**81,086**
Ordinary income	**8,643**	490	9,739	19,696	28,570	**92,935**
Income (loss) before income taxes and minority interests	**4,014**	(11,492)	1,108	17,869	21,621	**43,161**
Net income (loss)	**3,306**	(7,908)	2,192	11,921	15,212	**35,548**
Capital expenditures	**9,261**	13,568	10,516	9,667	12,180	**99,581**
Depreciation and amortization	**11,968**	13,056	11,716	12,952	12,345	**128,688**
Research and development expenses	**12,568**	13,079	12,910	12,752	11,409	**135,140**
Cash flows:						
Cash flows from operating activities	**15,337**	20,577	18,223	32,866	16,868	**164,914**
Cash flows from investing activities	**(7,582)**	(13,229)	(14,748)	(17,704)	(23,885)	**(81,527)**
Cash flows from financing activities	**(13,927)**	(5,839)	(13,818)	(8,004)	8,972	**(149,753)**
At year-end:						
Total assets	**207,259**	215,853	267,422	301,754	302,276	**2,228,591**
Net assets	**128,574**	125,604	166,365	179,598	152,303	**1,382,516**
Interest-bearing liabilities	**22,510**	32,722	26,972	33,933	48,184	**242,043**
Per-share data (Yen):						
Net income (loss)	**¥ 13.72**	¥ (31.78)	¥ 8.40	¥ 47.18	¥ 63.60	**$0.15**
Net assets	**528.96**	516.97	634.46	664.75	628.56	**5.69**
Cash dividends	**10.00**	15.00	15.00	15.00	15.00	**0.11**
Financial indicators (%):						
Return on equity (ROE)	**2.6**	(5.5)	1.3	7.3	10.9	
Return on assets (ROA)	**4.1**	0.2	3.4	6.5	10.3	
Ratio of operating income (loss) to net sales	**4.4**	(0.8)	4.0	7.0	11.3	
Equity ratio	**61.5**	57.7	61.3	57.8	50.4	
Interest-bearing liabilities ratio	**10.9**	15.2	10.1	11.3	15.9	
Debt-to-equity ratio	**17.9**	22.7	15.9	20.8	34.7	

Notes:
1. The U.S. dollar amounts have been translated from yen, for the convenience of the readers, at the rate of ¥93.00 = US$1.00, the approximate rate on the Tokyo foreign exchange market on March 31, 2010.
2. Effective from the fiscal year ended March 31, 2007, Sumitomo Bakelite has adopted the Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No. 5, December 9, 2005) and the Implementation Guidance on the Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No. 8, December 9, 2005). In the table above, net assets for the fiscal year ended March 31, 2006—prior to the adoption of the said accounting standard and implementation guidance—represent conventional shareholders' equity.
3. Effective from the fiscal year ended March 31, 2007, the calculation of net assets per share has used the amount of total net assets less the amounts of share subscription rights and minority interests. In the table above, net assets per share for the fiscal year ended March 31, 2006 represent conventional shareholders' equity per share.
4. Effective from the fiscal year ended March 31, 2007, the calculation of ROE, equity ratio and debt-to-equity ratio has used the amount of total net assets less the amounts of share subscription rights and minority interests as the amount of shareholders' equity. In particular, the calculation of ROE and debt-to-equity ratio have used the average of such shareholders' equity amounts at the beginning and end of each applicable year. The calculation of these indicators for the fiscal year ended March 31, 2006 used the amount of shareholders' equity as presented in the consolidated balance sheets of that fiscal year.
5. ROA = Ordinary income ÷ Average total assets
6. Interest-bearing liabilities ratio = Interest-bearing liabilities ÷ Total assets
7. Prior to the fiscal year ended March 31, 2008, the Company prepared its consolidated financial statements using the non-consolidated financial statements of its overseas subsidiaries for the years that ended March 31. Effective from the fiscal year ended March 31, 2008, the Company started to use the non-consolidated financial statements of these subsidiaries for their statutory fiscal years that end on December 31 for its consolidated reporting purposes. Accordingly, net sales and income items for the fiscal year ended March 31, 2008, presented in the table above, include the net sales and income items posted by these subsidiaries over the nine-month period from April 1, 2007 to December 31, 2007.

Consolidated Balance Sheets

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2010	2009	2010
Current assets:			
Cash and cash equivalents (Note 15)	¥ 32,405	¥ 38,981	$ 348,441
Trade receivables (Note 15):			
Notes (Note 5)	6,673	7,154	71,753
Accounts	35,182	29,457	378,301
Allowance for doubtful accounts	(403)	(412)	(4,333)
Merchandise and finished goods	7,871	10,272	84,634
Semi-finished goods	2,152	2,168	23,140
Work in process	791	939	8,505
Raw materials and supplies	8,165	9,989	87,796
Deferred tax assets (Note 19)	2,391	1,628	25,710
Other current assets (Note 22)	3,360	5,627	36,128
Total current assets	98,587	105,803	1,060,075
Property, plant and equipment (Note 6)**:**			
Land	10,978	11,390	118,043
Buildings and structures	70,493	70,167	757,989
Machinery and equipment	125,965	123,967	1,354,462
Lease assets	10	–	108
Construction in progress	5,379	5,385	57,839
	212,825	210,909	2,288,441
Accumulated depreciation	(134,123)	(130,136)	(1,442,183)
Net property, plant and equipment	78,702	80,773	846,258
Goodwill	5,976	6,324	64,258
Investments and other assets:			
Investment securities (Notes 15 and 16):			
Unconsolidated subsidiaries and affiliates	1,419	2,824	15,258
Other	12,863	9,942	138,312
Long-term loans receivable (Note 15):			
Unconsolidated subsidiaries and affiliates	4,422	2,622	47,548
Employees and other	1,568	1,685	16,860
Deferred tax assets (Note 19)	3,253	4,640	34,978
Other assets (Note 6)	4,718	4,947	50,732
Allowance for doubtful accounts (Note 15)	(4,249)	(3,707)	(45,688)
Total investments and other assets	23,994	22,953	258,000
Total assets	¥ 207,259	¥ 215,853	$ 2,228,591

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2010	2009	Thousands of U.S. dollars (Note 1) 2010
Current liabilities:			
Short-term debt (Notes 15 and 22)	¥ 7,609	¥ 16,919	$ 81,817
Long-term debt due within one year (Notes 15 and 22)	2,500	900	26,882
Trade payables (Note 15):			
Notes (Note 5)	3,930	4,692	42,258
Accounts	24,247	19,418	260,720
Accrued expenses	6,804	5,998	73,161
Income taxes payable	927	870	9,968
Other current liabilities	6,708	7,558	72,129
Total current liabilities	52,725	56,355	566,935
Long-term liabilities:			
Long-term debt due after one year (Notes 15 and 22)	12,401	14,903	133,344
Deferred tax liabilities (Note 19)	1,236	1,177	13,290
Retirement benefits:			
Employees (Note 18)	8,233	11,164	88,527
Directors, statutory auditors and officers	25	29	269
Provision for loss on business liquidation	180	1,233	1,935
Provision for cost of business restructuring	1,103	2,193	11,860
Negative goodwill	1,611	2,465	17,323
Other long-term liabilities	1,171	730	12,592
Total long-term liabilities	25,960	33,894	279,140
Contingent liabilities (Notes 4 and 22)			
Net assets (Note 13)**:**			
Shareholders' equity:			
Common stock:			
Authorized — 800,000,000 shares			
Issued — 262,952,394 shares in 2010 and 2009	37,143	37,143	399,387
Capital surplus	35,358	35,358	380,194
Retained earnings	75,845	76,187	815,538
Treasury stock, at cost	(11,916)	(11,908)	(128,129)
Valuation and translation adjustments:			
Net unrealized holding (losses) gains on securities	2,106	(145)	22,645
Foreign currency translation adjustments	(11,083)	(12,062)	(119,173)
Minority interests	1,121	1,031	12,054
Total net assets	128,574	125,604	1,382,516
Total liabilities and net assets	¥ 207,259	¥ 215,853	$ 2,228,591

Consolidated Statements of Income

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	2010
Net sales (Note 21)	¥ 170,844	¥ 212,410	¥ 225,252	$ 1,837,032
Costs and expenses (Note 21):				
Cost of sales	122,052	164,210	166,514	1,312,387
Selling, general and administrative expenses	41,251	49,839	49,712	443,559
	163,303	214,049	216,226	1,755,946
Operating income (Note 21)	7,541	(1,639)	9,026	81,086
Other income (expenses):				
Interest and dividend income	470	1,112	1,494	5,054
Interest expense	(388)	(458)	(464)	(4,172)
Amortization of negative goodwill	854	1,343	1,139	9,183
Equity in (losses) gains of affiliated companies	174	(286)	(695)	1,871
Loss on sale/disposal of property, plant and equipment	(506)	(361)	(711)	(5,441)
Gain on sale of investment securities (Note 16)	1	44	129	11
Gain on sales of subsidiaries and affiliates' stocks	197	–	–	2,118
Loss on devaluation of investment securities (Note 16)	(876)	(2,469)	(1,174)	(9,419)
Loss on devaluation of investment securities of subsidiaries and affiliates	–	(1,706)	–	–
Foreign exchange (loss) gain, net	131	497	(367)	1,409
Prior-period adjustment (loss) gain (Note 7)	(127)	–	444	(1,366)
Cost of business restructuring (Note 8)	(2,253)	(3,118)	(420)	(24,226)
Loss on liquidation of business (Note 9)	(182)	(963)	(3,194)	(1,957)
Loss on settlement of arbitration (Note 10)	–	–	(3,061)	–
Settlement (Note 11)	(692)	(376)	–	(7,441)
Loss on valuation of inventories	–	(731)	–	–
Prior service cost recognized on qualified pension plan	–	(758)	–	–
Cost of merger	–	–	(401)	–
Impairment loss (Notes 6 and 21)	(180)	(1,514)	(28)	(1,935)
Other, net	(150)	(109)	(609)	(1,614)
	(3,527)	(9,853)	(7,918)	(37,925)
Income before income taxes and minority interests	4,014	(11,492)	1,108	43,161
Income taxes (Note 19):				
Current	1,580	1,378	1,887	16,989
Refund	–	(298)	(364)	–
Prior year adjustment	–	–	(430)	–
Deferred	(986)	(4,526)	(2,232)	(10,602)
	594	(3,446)	(1,139)	6,387
Minority interests	114	(138)	55	1,226
Net income	¥ 3,306	¥ (7,908)	¥ 2,192	$ 35,548

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income	¥ 13.72	¥ (31.78)	¥ 8.40	$ 0.15
Diluted net income	–	–	–	–
Cash dividends applicable to the year	10.00	15.00	15.00	0.11

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2010, 2009 and 2008

	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, 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
Net income	–	–	–	(7,908)	–	–	–	–
Net unrealized holding losses arising during the year	–	–	–	–	–	(1,407)	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	(15,833)	–
Treasury stock	–	–	–	–	(8,025)	–	–	–
Retirement of treasury stock	(2,900)	–	–	(2,034)	2,034	–	–	–
Cash dividends paid (¥15 per share)	–	–	–	(3,814)	–	–	–	–
Decrease in capital surplus due to sale of treasury stock	–	–	–	(6)	16	–	–	–
Other (Note 12)	–	–	–	(2,285)	–	–	–	–
Decrease in minority interests	–	–	–	–	–	–	–	(1,499)
Balance at March 31, 2009	262,952	37,143	35,358	76,187	(11,908)	(145)	(12,062)	1,031
Net income	–	–	–	3,306	–	–	–	–
Net unrealized holding gains arising during the year	–	–	–	–	–	2,251	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	979	–
Treasury stock	–	–	–	–	(10)	–	–	–
Cash dividends paid (¥10 per share)	–	–	–	(3,012)	–	–	–	–
Decrease in capital surplus due to sale of treasury stock	–	–	–	(0)	2	–	–	–
Change of scope of consolidation	–	–	–	(729)	–	–	–	–
Other (Note 12)	–	–	–	93	–	–	–	–
Increase in minority interests	–	–	–	–	–	–	–	90
Balance at March 31, 2010	262,952	37,143	35,358	75,845	(11,916)	2,106	(11,083)	1,121

	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, 2009	262,952	399,387	380,194	891,215	(128,043)	(1,559)	(129,699)	11,086
Net income	–	–	–	35,548	–	–	–	–
Net unrealized holding gains arising during the year	–	–	–	–	–	24,204	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	10,526	–
Treasury stock	–	–	–	–	(108)	–	–	–
Cash dividends paid ($0.11 per share)	–	–	–	(32,387)	–	–	–	–
Decrease in capital surplus due to sale of treasury stock	–	–	–	(0)	22	–	–	–
Change of scope of consolidation	–	–	–	(7,839)	–	–	–	–
Other (Note 12)	–	–	–	1,001	–	–	–	–
Increase in minority interests	–	–	–	–	–	–	–	968
Balance at March 31, 2010	262,952	399,387	380,194	815,538	(128,129)	22,645	(119,173)	12,054

See accompanying notes.

Consolidated Statements of Cash Flows

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	2010
Cash flows from operating activities:				
Net income	¥ 3,306	¥ (7,908)	¥ 2,192	$ 35,548
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	11,968	13,056	11,716	128,688
Loss on sale/disposal of property, plant and equipment	506	361	711	5,441
Gain on sale of investment securities	–	(44)	(129)	–
Loss (gain) on sales of subsidiaries and affiliates' stocks	(197)	–	–	(2,118)
Minority interests	114	(138)	55	1,226
Loss on devaluation of investment securities	876	2,469	1,174	9,419
Loss on valuation of investment securities of subsidiaries and affiliates	–	1,706	–	–
Loss on liquidation of business	18	963	3,194	194
Cost of business restructuring	920	2,307	–	9,892
Impairment loss	180	1,514	28	1,935
Deferred income taxes	(986)	(4,526)	(2,232)	(10,602)
(Increase) decrease in notes and accounts receivable	(5,506)	18,693	7,496	(59,204)
(Increase) decrease in inventories	4,551	2,277	(186)	48,935
(Increase) decrease in other current assets	790	4,813	(2,378)	8,495
Increase (decrease) in notes and accounts payable	4,140	(15,274)	(4,032)	44,516
Increase (decrease) in income taxes payable	45	(600)	(4,531)	484
Increase (decrease) in other current liabilities	(94)	(3,394)	163	(1,011)
Increase (decrease) in employee retirement benefits	(2,884)	4,594	5,025	(31,011)
Other, net	(2,410)	(292)	(43)	(25,913)
Net cash provided by operating activities	15,337	20,577	18,223	164,914
Cash flows from investing activities:				
Purchases of investment securities	(42)	(159)	(4,686)	(452)
Proceeds from sale of marketable securities and investment securities	–	53	3,319	–
Purchases of property, plant and equipment	(8,794)	(13,396)	(9,213)	(94,559)
Proceeds from sale of property, plant and equipment	815	548	415	8,763
Purchase of subsidiaries' securities with change in scope of consolidation (Note 20)	–	–	(322)	–
Increase in long-term loans receivable	(698)	(338)	(3,397)	(7,505)
Other	1,137	63	(864)	12,226
Net cash used in investing activities	(7,582)	(13,229)	(14,748)	(81,527)
Cash flows from financing activities:				
Increase (decrease) in short-term debt	(9,901)	2,737	(6,180)	(106,462)
Proceeds from long-term debt	–	5,000	–	–
Purchase of treasury stock	(10)	(8,025)	(2,837)	(108)
Cash dividends paid	(3,012)	(3,814)	(3,938)	(32,387)
Cash dividends paid to minority shareholders	(96)	(326)	–	(1,032)
Other	(908)	(1,411)	(863)	(9,764)
Net cash used in financing activities	(13,927)	(5,839)	(13,818)	(149,753)
Effect of exchange rate changes on cash and cash equivalents	540	(5,906)	(844)	5,807
Net (decrease) increase in cash and cash equivalents	(5,632)	(4,397)	(11,187)	(60,559)
Cash and cash equivalents at beginning of year	38,981	43,378	54,565	419,151
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	(944)	–	–	(10,151)
Cash and cash equivalents at end of year	¥ 32,405	¥ 38,981	¥ 43,378	$ 348,441
Supplemental information on cash flows:				
Cash paid during the year for:				
Interest	¥ 329	¥ 440	¥ 454	$ 3,538
Income taxes	791	1,350	6,970	8,505
Cash received for interest and dividend income	476	1,116	1,565	5,118

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 21.8% (at March 31, 2010) 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 North American subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the United States of America ("U.S. GAAP"). And, the accounts of consolidated other overseas subsidiaries are based on International Financial Reporting Standards. 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 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, 2010, which was ¥93.0 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 35 subsidiaries in 2010, 42 subsidiaries in 2009 and 44 subsidiaries in 2008. 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 (2 affiliates in 2010, 3 affiliates in 2009 and 3 affiliates in 2008, 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.

Differences between the acquisition costs and the underlying net equities of investments in consolidated subsidiaries and other companies accounted for by the equity method at the date of acquisition are 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 2009 and 2010, for the purposes of appropriate and prompt response to the forthcoming accounting regulations, "Quarterly report," etc., the Company utilized the non-consolidated financial statements of overseas subsidiaries for the statutory fiscal year ended December 31. In past years, the Company prepared its consolidated financial statements utilizing the financial statements of overseas subsidiaries for the years ended March 31 which were prepared only for the Company's consolidated reporting purposes, 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 2008 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, ¥2,067 million, ¥2,410 million and ¥1,935 million, respectively, compared to the amount that would have resulted had the Company utilized the 12-month period from January 1, 2007 to December 31, 2007 for overseas subsidiaries.

Securities

Securities are classified into one of the following categories based on the intent of holding, resulting in 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 issued by unconsolidated subsidiaries and affiliated companies not accounted for by the equity method, 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.

Inventories

Inventories are stated at the lower of weighted-average cost or net realizable value. In addition, the Company changed accounting policies for inventories in 2009. Details are described in Note 3.

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. And 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. The consolidated overseas subsidiaries calculate depreciation principally by the straight-line method over estimated useful lives. In addition, the Company changed accounting policies about depreciation method of tangible fixed assets in 2008. Details are described in Note 3.

(Additional information)

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 operating income and income before income taxes and minority interests in the amount of ¥512 million, respectively.

Accounting for lease transactions as lessee
Finance leases, except for certain immaterial leases, are capitalized and depreciated over the estimated useful lives or lease terms, as applicable. However, as permitted and discussed in Note 3, the Company and its consolidated domestic subsidiaries account for finance leases commencing prior to April 1, 2008 which do not transfer ownership of the leased property to the lessee as operating leases with disclosure of certain “as if capitalized” information.

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.

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 provide 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. In addition, the Company changed accounting policies for retirement benefits in 2009. Details are described in Note 3.

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

Provision for loss on business liquidation
The provision for loss on business liquidation is stated at an amount based on the estimated loss on business liquidation at the end of the fiscal year.

Provision for cost of business restructuring
The provision for cost of business restructuring is stated at an amount based on the estimated cost of business restructuring at the end of the fiscal year.

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.

Research and development
Research and development expenses are charged to income when incurred. The amounts for the years ended March 31, 2010, 2009 and 2008 were ¥12,568 million ($135,140 thousand), ¥13,079 million and ¥12,910 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.

3. Changes in accounting policies

(Depreciation method of tangible fixed assets)
Effective April 1, 2007, following the amendments of the Corporation Tax Law of Japan, 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, operating income and income before taxes and minority interest were ¥244 million less, respectively, compared with what would have been reported if the depreciation method prior to the change had been applied.

(New accounting standard for measurement of inventories)
Prior to April 1, 2008, inventories of the Company and its consolidated domestic subsidiaries are stated at cost determined by the moving average method.

Effective April 1, 2008, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for measurement of inventories (Statement No. 9, "Accounting Standard for Measurement of Inventories," issued by Accounting Standards Board of Japan on July 5, 2006), and inventories are measured by means of the cost method mainly based on the moving average method, which evaluates the amount of the inventories at the lower of weighted-average cost or net realizable value at March 31, 2009.

As a result, operating loss increased by ¥397 million and loss before income taxes increased by ¥1,128 million. The impact on segment results is illustrated in Note 22.

(Unification of accounting policies applied to foreign subsidiaries for consolidated financial statements)
On March 17, 2006, the Accounting Standards Board of Japan issued Practical Issues Task Force No.18 "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" ("PITF No. 18"). PITF No. 18 requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries' financial statements prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. In this case, adjustments for the following six items are required in the consolidation process so that their impact on net income is accounted for in accordance with Japanese GAAP unless the impact is not material.

(a) Goodwill not subject to amortization
(b) Actuarial gains and losses of defined-benefit retirement plans recognized outside profit or loss
(c) Capital expenditures for research and development activities
(d) Fair value measurement of investment properties, and revaluation of property, plant and equipment and intangible assets
(e) Retrospective treatment of a change in accounting policies
(f) Accounting for net income attributable to minority interests

The impact of this change on income is immaterial.

(New accounting standards for lease transactions as lessee)
Effective from the fiscal year ended March 31, 2009, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for lease transactions (Statement No. 13, "Accounting Standard for Leases Transactions," issued by Business Accounting Deliberation Council on June 17, 1993, revised on March 30, 2007) and the implementation guidance for the accounting standard for lease transactions (the Financial Accounting Standards Implementation Guidance No. 16, issued by The Japanese Institute of Certified Public Accountants on January 18, 1994, revised March 30, 2007), and lease transactions are now accounted for as ordinary sales and purchase transactions except for certain immaterial or short-term finance leases, which are accounted for as operating leases. As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases with disclosure of certain "as if capitalized" information.

There is no impact of this change on income.

(Partial amendments to accounting standard for retirement benefits (Part 3))
Effective from the fiscal ended March 31, 2009, the Company adopted the new accounting standard for retirement benefits (Statement No. 19, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)," issued by Accounting Standards Board of Japan on July 31, 2008).

Under the existing accounting standard, an entity may use the discount rate determined taking into consideration fluctuations in the yield of bonds over a certain period.

The revised accounting standard requires that the discount rate of retirement benefit obligations be determined by reference to market yields at the balance sheet date on high-quality bonds.

Due to this change, operating loss and loss before income taxes decreased by ¥633 million.

4. Contingent liabilities

At March 31, 2010, the Companies were contingently liable as follows:

(i)	Guarantees for bank borrowings of employees:	¥ 0 million ($ 0 thousand)
(ii)	Guarantee for bank borrowings of affiliates excluded from equity method:	¥104 million ($1,118 thousand)

At March 31, 2009, the Companies were contingently liable as follows:

(i)	Guarantees for bank borrowings of employees:	¥ 1 million ($ 10 thousand)
(ii)	Guarantee for bank borrowings of affiliates excluded from equity method:	¥110 million ($1,120 thousand)

5. Effect of bank holiday

As financial institutions in Japan were closed on January 31, 2010 and February 28, 2010, that are the account closing dates of certain consolidated subsidiaries, their notes receivable of ¥111 million ($1,194 thousand) and notes payable of ¥97 million ($1,043 thousand) were matured on the above dates but settled on the following business dates. The accompanying consolidated balance sheets as at March 31, 2010 included such account balances of subsidiaries.

As financial institutions in Japan were closed on January 31, 2009 and February 28, 2009, that are the account closing dates of certain consolidated subsidiaries, their notes receivable of ¥125 million and notes payable of ¥270 million were matured on the above dates but settled on the following business dates. The accompanying consolidated balance sheets as at March 31, 2009 included such account balances of subsidiaries.

6. 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 business-use assets in the United States of America in 2010 that had no potential to be used due to a decrease in products sales were written down to the recoverable amounts. The recoverable amounts were measured at net selling prices that were calculated based on market prices.

The book value of business-use assets in China in 2009 that had significantly declined in profitability were written down to the recoverable amounts. The recoverable amounts were measured at the assets' value in use, which were estimated by their future cash flows discounted at a rate of 12.3%.

The book value of business-use assets in Vietnam in 2009 that had significantly declined in profitability were written down to the recoverable amounts. The recoverable amounts were measured at net selling prices that were the estimated sale value less the costs of disposal.

The book value of idle assets in Akita in 2010 and 2009 that had significantly declined in market value was written down to the recoverable amount. The recoverable amount was measured at net selling price that was calculated by assessed the value of property tax with reasonable adjustments.

The book value of idle assets in Indonesia in 2009 that the Company had determined to sell were written down to the recoverable amounts. The recoverable amounts were measured at net selling prices that were calculated by the planed sales agreement prices.

The book value of idle assets and assets for rent in Hyogo in 2008 that had significantly declined in market value were written down to the recoverable amounts. The recoverable amounts were measured at net selling prices.

The impairment loss for the years ended March 31, 2010, 2009 and 2008 was as follows:

Use	Location	Type of assets	Millions of yen 2010	2009	2008	Thousands of U.S. dollars 2010
Business-use assets	America	Machinery and equipment	¥ 57	¥ –	¥ –	$ 613
	China (Macao)	Buildings and structures	–	332	–	–
		Machinery and equipment	–	391	–	–
	Vietnam	Machinery and equipment	–	542	–	–
Idle assets	Akita, Akita	Land	123	165	–	1,322
	Indonesia	Buildings	–	84	–	–
	Amagasaki, Hyogo	Machinery and equipment	–	–	9	–
		Other	–	–	19	–
Total			¥180	¥1,514	¥28	$1,935

7. Prior-period adjustment (loss) gain

Prior-period adjustment (loss) gain for the year ended March 31, 2010 and 2008 consisted of the following:

	Millions of yen 2010	2009	2008	Thousands of U.S. dollars 2010
Adjustment of loss on disposal of inventories	¥(127)	¥ –	¥ –	$(1,366)
Adjustment of evaluation of land	–	–	444	–
Total	¥(127)	¥ –	¥444	$(1,366)

8. Cost of business restructuring

Cost of business restructuring for the year ended March 31, 2010, 2009 and 2008 consisted of the following:

	Millions of yen 2010	2009	2008	Thousands of U.S. dollars 2010
Employees' severance expense	¥1,284	¥1,326	¥164	$13,806
Loss on disposal of property, plant and equipment	669	1,552	54	7,194
Loss on disposal of inventories	132	109	–	1,419
Office transfer expense	–	–	138	–
Others	168	131	64	1,807
Total	¥2,253	¥3,118	¥420	$24,226

9. Loss on liquidation of business

Loss on liquidation of business for the year ended March 31, 2010, 2009 and 2008 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	2010
Investment loss of affiliates liquidation	¥ 175	¥240	¥ –	$ 1,882
Loss on disposal of inventories	70	170	–	753
Loss on disposal of property, plant and equipment	18	458	–	194
Employees' severance expense	16	89	–	172
Allowance for doubtful accounts	–	–	1,963	–
Restoration expense of soil contamination	–	–	770	–
Loss on sale of affiliates securities	–	–	407	–
Reversal of provision for loss on liquidation of business	(160)	–	–	(1,720)
Others	63	6	54	676
Total	¥ 182	¥963	¥3,194	$ 1,957

10. 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
	2010	2009	2008	2010
Arbitrations	¥ –	¥ –	¥ 4,893	$ –
Professional fees	–	–	292	–
Insurance	–	–	(2,124)	–
Total	¥ –	¥ –	¥ 3,061	$ –

11. Settlement

Settlement for the year ended March 31, 2010 and 2009 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	2010
Compensation payment of claim	¥459	¥310	¥ –	$4,935
Settlement	175	–	–	1,882
Attorney's fee	58	–	–	624
Cost on disposal of sludge in adjacent area of factory	–	54	–	–
Restoration expense of soil contamination	–	12	–	–
Total	¥692	¥376	¥ –	$7,441

12. Notes to the consolidated statements of changes in net assets

The major contents of "Other" in the year ended March 31, 2010 are as follows:

(1) An increase of retained earnings due to a decrease of the unrecognized projected benefits obligation and prior service costs of employees' retirement benefits of certain consolidated overseas subsidiaries, which prepared their financial statements in conformity with U.S. GAAP and reported these unrecognized items as components of "Other Comprehensive Income":

¥96 million ($1,032 thousand)

The major contents of "Other" in the year ended March 31, 2009 are as follows:

(1) A decrease of retained earnings at the beginning of the year ended March 31, 2009 due to implementation of PITF No.18 described in Note 3:

¥1,244 million

(2) A decrease of retained earnings due to a decrease of the unrecognized projected benefits obligation and prior service costs of employees' retirement benefits of certain consolidated overseas subsidiaries, which prepared their financial statements in conformity with U.S. GAAP and reported these unrecognized items as components of "Other Comprehensive Income":

¥1,002 million

13. 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 29, 2010, the shareholders resolved to distribute cash dividends amounting to ¥1,205 million ($12,957 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2010. Such appropriations are recognized in the period in which they were resolved.

14. Information on lease transactions

The following pro forma amounts present the acquisition cost, accumulated depreciation and net book value of the property leased to the Companies as of March 31, 2010 and 2009, 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, 2010	Machinery and equipment	Other assets	Total
Acquisition cost, accumulated depreciation and net book value of leased assets:			
Acquisition cost	¥233	¥83	¥316
Accumulated depreciation	173	77	250
Net book value	¥ 60	¥ 6	¥ 66

	Millions of yen		
At March 31, 2009	Machinery and equipment	Other assets	Total
Acquisition cost, accumulated depreciation and net book value of leased assets:			
Acquisition cost	¥379	¥84	¥463
Accumulated depreciation	241	73	314
Net book value	¥138	¥11	¥149

	Thousands of U.S. dollars		
At March 31, 2010	Machinery and equipment	Other assets	Total
Acquisition cost, accumulated depreciation and net book value of leased assets:			
Acquisition cost	$2,505	$893	$3,398
Accumulated depreciation	1,860	828	2,688
Net book value	$ 645	$ 65	$ 710

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Future lease payments:			
Due within one year	¥42	¥ 73	$452
Due after one year	26	77	280
Total	¥68	¥150	$732

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	2010
Lease payments, depreciation and interest expense:				
Lease payments	¥81	¥109	¥160	$871
Depreciation	78	107	153	839
Interest expense	2	4	313	22

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
	2010	2009	**2010**
Future lease payments:			
Due within one year	**¥3**	¥16	**$32**
Due after one year	**4**	17	**43**
Total	**¥7**	¥33	**$75**

15. Financial instruments

Supplementary information

Effective from the fiscal year ended March 31, 2010, the Companies adopted the revised Account Standard, "Accounting Standard for Financial Instruments" (ASBJ Statement No.10 revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19 revised on March 10, 2008). Information on financial instruments for fiscal year ended March 31, 2010 required pursuant to the revised accounting standards was as follows.

(1) Status of financial instruments

The Companies confine cash management to short-term deposits and use short-term bank loans and corporate bond issuance (including commercial paper issuance) for cash funding. The Companies utilize derivative financial instruments 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 the credit risks in relation to trade receivables from customers. In order to respond to such risks, the Companies regularly monitor the business condition, due date and balance of receivables of major counterparties, review the trade policies according to the Companies' regulation for credit management, and aim to grasp the counterparties' credit risk due to deterioration of the financial situation etc., at a early stage and reducing the credit risk. As to trade receivables denominated in foreign currencies arisen from global business deployment, the Companies are exposed to exchange rate risks. The Company and some subsidiaries categorize trade receivables denominated in foreign currencies based on currencies and repayment schedule, and hedge the exchange rate risks by utilizing forward foreign exchange contracts.

The Companies are exposed to the risk of market price fluctuations in relation to investment securities. They are primarily investments in companies, which have a business relationship with the Companies, and the Companies review the fair value on a quarterly basis.

Long-term loans receivable are primarily from affiliated companies.

Trade payables are primarily short-term liabilities due within one year. Some of them are foreign currency payable liabilities that arise from procurement of raw materials and have foreign exchange exposure. The Companies are to stay the balances of trade payables in a foreign currency within the balances of trade receivables in the same currency.

Short-term loans payable and commercial paper are primarily for operating transactions. Long-term loans payable are primarily for investments in facility. The Companies borrow long-term funds with fixed interest rates to hedge the risk of interest rate fluctuations. The Companies utilize derivative financial instruments to reduce market risks of fluctuations in foreign currency exchange rates on assets and liabilities in accordance with the Companies' regulations. Besides, the Companies contract only with highly-rated financial institutions when they utilize derivative contracts to reduce the credit risk. Please see Note 1 for more details regarding derivatives.

Also the Companies are exposed to liquidity risk in relation to trade payables and loans payable. The Companies respectively control them with monthly statements of cash receipts and disbursement.

Fair value of financial instruments includes the values based on market prices, and the assumed values calculated using reasonable estimate when the financial instruments do not have market prices. Since certain assumptions and others are adopted for calculating such values, they may differ when adopting different assumptions and others.

(2) Fair value of financial instruments

March 31, 2010	Millions of yen Carrying amount	Fair value	Unrecognized gain (loss)
Cash and cash equivalents	¥32,405	¥32,405	¥ –
Trade receivables: Notes	6,673	6,673	–
Trade receivables: Accounts	35,182	35,182	–
Investment securities	12,024	12,024	–
Long-term loans receivable	5,990		
Allowance for doubtful accounts	(3,490)		
	2,500	2,516	16
Total assets	¥88,784	¥88,800	¥16
Trade payables: Notes	¥ 3,930	¥ 3,930	–
Trade payables: Accounts	24,247	24,247	–
Short-term debt and Long-term debt due within one year	10,109	10,109	–
Long-term debt due after one year	12,401	12,445	44
Total liabilities	¥50,687	¥50,731	¥44
Derivative financial instruments	(330)	(330)	–

March 31, 2010	Thousands of U.S. dollars Carrying amount	Fair value	Unrecognized gain (loss)
Cash and cash equivalents	$348,441	$348,441	$ –
Trade receivables: Notes	71,753	71,753	–
Trade receivables: Accounts	378,301	378,301	–
Investment securities	129,290	129,290	–
Long-term loans receivable	64,409		
Allowance for doubtful accounts	(37,527)		
	26,882	27,054	172
Total assets	$954,667	$954,839	$172
Trade payables: Notes	$ 42,258	$ 42,258	–
Trade payables: Accounts	260,720	260,720	–
Short-term debt and Long-term debt due within one year	108,699	108,699	–
Long-term debt due after one year	133,344	133,817	473
Total liabilities	$545,021	$545,494	$473
Derivative financial instruments	(3,548)	(3,548)	–

(a) Fair values of financial instruments, and matters pertaining to securities and a derivative transactions

Assets

Cash and cash equivalents and Trade receivables

The carrying amounts of cash and equivalents and trade receivables approximate their fair value because of their short maturities.

Investment securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments and at the quoted price obtained from financial institutions for certain debt instruments. The information of fair values for the investments securities by classification is included in Note 17.

Long-term loans receivable

The discounted cash flow method was used to estimate fair values, based on marginal loan rates as discount rates.

Liabilities

Trade payables, Short-term debt, and Long-term debt due within one year

The carrying amount of Short-term debt, Long-term debt due within one year and Commercial paper approximate their fair value because of their short maturities.

Long-term debt due after one year

The discounted cash flow method was used to estimate fair values, based on interest rates reflected in the move of benchmark rate of return.

Derivative financial instruments

The information of the fair values for derivatives is included in Note 18.

(b) Financial instruments whose fair value cannot be reliably determined

	Carrying Amount	
March 31, 2010	Millions of yen	Thousands of U.S. dollars
Unlisted securities	¥ 839	$ 9,022
Investment securities: Unconsolidated subsidiaries and affiliates	975	10,484
Investment : Unconsolidated subsidiaries and affiliates	444	4,774
Total	¥2,258	$24,280

These instruments were not included in (2) Fair value of financial instruments, because their fair value cannot be reliably determined.

(c) Maturity analysis for financial assets

	Millions of yen			
March 31, 2010	Due in a year or less	1 – 5 years	5 – 10 years	Due after 10 years
Cash and cash equivalents	¥32,405	¥ –	¥ –	¥ –
Trade receivables: Notes	6,673	–	–	–
Trade receivables: Accounts	35,182	–	–	–
Long-term loans receivable	–	634	509	766
Total	¥74,260	¥634	¥509	¥766

	Thousands of U.S. dollars			
March 31, 2010	Due in a year or less	1 – 5 years	5 – 10 years	Due after 10 years
Cash and cash equivalents	$348,441	$ –	$ –	$ –
Trade receivables: Notes	71,753	–	–	–
Trade receivables: Accounts	378,301	–	–	–
Long-term loans receivable	–	6,817	5,473	8,237
Total	$798,495	$6,817	$5,473	$8,237

Long-term loans receivable of ¥4,080 million ($43,871 thousand) was not included in the above schedule, because the repayment schedule could not be determined.

(d) Maturity analysis for Long-term debt due after one year

	Millions of yen					
March 31, 2010	Due in a year or less	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	Due after 5 years
Long-term debt due after one year	¥ –	¥901	¥900	¥5,900	¥1,400	¥3,300
Total	¥ –	¥901	¥900	¥5,900	¥1,400	¥3,300

	Thousands of U.S. dollars					
March 31, 2010	Due in a year or less	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	Due after 5 years
Long-term debt due after one year	$ –	$9,688	$9,677	$63,441	$15,054	$35,484
Total	$ –	$9,688	$9,677	$63,441	$15,054	$35,484

16. Securities

(1) The following tables summarize acquisition costs and book values of available-for-sale securities with available fair values as of March 31, 2010 and 2009:

Securities with book values exceeding acquisition costs:

	Millions of yen		
At March 31, 2010	Acquisition cost	Book value	Difference
Equity securities	¥9,929	¥6,112	¥3,817
Bonds	–	–	–
Others	–	–	–
Total	¥9,929	¥6,112	¥3,817

	Millions of yen		
At March 31, 2009	Acquisition cost	Book value	Difference
Equity securities	¥3,536	¥4,801	¥1,265
Bonds	–	–	–
Others	–	–	–
Total	¥3,536	¥4,801	¥1,265

	Thousands of U.S. dollars		
At March 31, 2010	Acquisition cost	Book value	Difference
Equity securities	$106,763	$65,720	$41,043
Bonds	–	–	–
Others	–	–	–
Total	$106,763	$65,720	$41,043

Securities with book values not exceeding acquisition costs:

	Millions of yen		
At March 31, 2010	Acquisition cost	Book value	Difference
Equity securities	¥2,095	¥2,399	¥(304)
Bonds	–	–	–
Others	–	–	–
Total	¥2,095	¥2,399	¥(304)

	Millions of yen		
At March 31, 2009	Acquisition cost	Book value	Difference
Equity securities	¥5,847	¥4,328	¥(1,519)
Bonds	–	–	–
Others	–	–	–
Total	¥5,847	¥4,328	¥(1,519)

	Thousands of U.S. dollars		
At March 31, 2010	Acquisition cost	Book value	Difference
Equity securities	$22,527	$25,796	$(3,269)
Bonds	–	–	–
Others	–	–	–
Total	$22,527	$25,796	$(3,269)

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, 2010 was ¥876 million ($9,419 thousand). As impairment loss was recognized in the statements of income, the aforementioned 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, 2010, 2009 and 2008 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	2010
Sales of available-for-sale securities	¥1	¥52	¥1,525	$11
Gains on sales of available-for-sale securities	1	44	129	11
Losses on sales of available-for-sale securities	–	–	–	–

(3) The following table summarizes book values of available-for-sale securities with no available fair values as of March 31, 2009:

	Millions of yen
	2009
Non-listed equity securities	¥805
Others	8
Total	¥813

17. 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 is not subject to disclosure because the Companies adopted hedge accounting for those instruments.

The outstanding balance of derivative contracts at March 31, 2010 is as follows:

(1) Derivative contracts to which hedge accounting is not applied

Currency related contracts

	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts						
To buy foreign currencies						
U.S. dollars	¥5,344	¥(330)	¥(330)	$57,462	$(3,548)	$(3,548)

(2) Derivative contracts to which hedge accounting is applied

Currency related contracts

Hedge accounting method	Sort	Hedged item	Millions of yen: Contract amount	Millions of yen: Fair value	Thousands of U.S. dollars: Contract amount	Thousands of U.S. dollars: Fair value
Deferral hedge accounting	Forward foreign exchange contracts To sell foreign currencies U.S. dollars	Trade receivables	¥2,417	¥(59)	$25,989	$(634)

The outstanding balance of derivative contracts at March 31, 2009 is as follows:

Currency related contracts

	Millions of yen		
	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts To buy foreign currencies U.S. dollars	¥5,547	¥5,394	¥(153)

18. 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, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Projected benefit obligation	¥ 28,754	¥29,051	$ 309,182
Less fair value of pension assets	(20,511)	(17,887)	$(220,548)
Less unrecognized actuarial differences	(7)	2	(75)
Unrecognized prior service costs	(3)	(2)	(32)
Employees' retirement benefits	¥ 8,233	¥11,164	$ 88,527

Severance and retirement benefit expenses, included in the consolidated statements of income for the years ended March 31, 2010, 2009 and 2008 are composed of the following:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	2010
Service costs—benefits earned during the year	¥ 1,211	¥1,336	¥1,245	$ 13,022
Interest cost on projected benefit obligation	857	870	731	9,215
Expected return on plan assets	(161)	(626)	(717)	(1,731)
Amortization of actuarial differences	(2,359)	4,065	4,419	(25,366)
Amortization of prior service costs	(77)	672	(85)	(828)
Severance and retirement benefit expenses	¥ (529)	¥6,317	¥5,593	$ (5,688)

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

At March 31	2010	2009	2008
Discount			
Domestic companies	2.29%	2.25%	2.0%
Overseas companies	6.0	6.65	6.8
Expected return on plan assets	0.0%	2.08%	2.8%

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.

19. 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, 2010 and 2009.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Amortization of prior service costs of the pension plan	¥ 5,809	¥ 6,245	$ 62,462
Retirement benefits of employees	4,134	4,118	44,452
Excess depreciation in overseas subsidiaries	2,260	2,370	24,301
Tax loss carryforwards	4,890	2,918	52,581
Provision for doubtful accounts	1,758	1,541	18,903
Taxable retainage of certain foreign subsidiaries	866	890	9,312
Excess bonuses accrued	899	800	9,667
Provision for cost of business restructuring	436	719	4,688
Accrued expenses	527	404	5,667
Impairment loss	276	633	2,968
Tax credit	1,282	510	13,785
Loss on devaluation of investment securities	343	287	3,688
Loss on valuation of inventories	366	266	3,935
Loss on devaluation of golf membership	–	206	–
Provision for loss on business liquidation	–	513	–
Others	1,527	1,545	16,419
Total deferred tax assets	25,373	23,965	272,828
Valuation allowance	(6,369)	(5,110)	(68,484)
Net deferred tax assets	19,004	18,855	204,344
Deferred tax liabilities:			
Contribution to funded non-contributory pension plan	(6,158)	(5,494)	(66,215)
Additional depreciation in overseas subsidiaries	(2,308)	(3,157)	(24,817)
Gain on securities contributed to employees' retirement benefit trust	(1,442)	(1,782)	(15,505)
Deferred gains on property, plant and equipment	(2,149)	(2,268)	(23,108)
Net unrealized holding gains on securities	(1,378)	–	(14,817)
Others	(1,161)	(1,063)	(12,484)
Total deferred tax liabilities	(14,596)	(13,764)	(156,946)
Net deferred tax assets	¥ 4,408	¥ 5,091	$ 47,398

The differences between the statutory tax rate and the Companies' actual effective tax rate for financial statement purposes for the years ended March 31, 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Statutory tax rate	40.6%	40.6%	40.6%
Permanently non-deductible expenses	3.6	(2.1)	19.8
Permanently non-taxable income	(37.3)	1.8	(35.2)
Inhabitants' per-capita taxes	–	–	9.3
Effect of change in statutory tax rate	–	–	(2.8)
Change in valuation allowance	31.1	(14.4)	46.1
Dividend income eliminated in consolidation	35.1	(27.7)	144.3
Devaluation of consolidated subsidiaries' securities and affiliates' securities	(25.3)	4.2	(28.6)
Tax credit	(8.6)	4.3	(89.9)
Adjustment on prior year income taxes	–	–	(38.8)
Adjustment on deferred tax	–	–	13.8
Amortization of goodwill and negative goodwill	(4.9)	3.4	(31.3)
Effect of merged with a subsidiary	–	10.7	–
Effect of differences between tax rates in Japan and in other countries	(21.3)	8.1	(147.4)
Other, net	1.8	1.1	(2.7)
Actual effective tax rate	14.8%	30.0%	(102.8)%

20. 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
	2008
Current assets	¥1,845
Fixed assets	320
Total assets	¥2,165
Current liabilities	¥1,252
Fixed liabilities	–
Total liabilities	¥1,252

(2) The Company acquired all shares of Tsutsunaka Plastic Industry Co., Ltd., one of the consolidated subsidiaries in the financial year ended March 31, 2007 and merged with Tsutsunaka Plastic Industry Co., Ltd. effective on July 1, 2007.

1. Name of acquired company, business description, legal structure of business combination, company name after business combination and outline of the transaction 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 combination
Stock exchange and merger

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

(d) Outline of the transaction, including the purpose
The Company acquired the entire shares of Tsutsunaka Plastic through the stock exchange and merged with Tsutsunaka Plastic effective on July 1, 2007 to strengthen cost-competitiveness through the reduction of overlapped 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 treatment of 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 with an entity 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. This transaction had no impact on the consolidated financial statements, for it was eliminated as an internal transaction.

(3) The Company acquired all shares of Decola-Nitto Co., Ltd. one of the consolidated subsidiary at August 28, 2008 and merged with Decola-Nitto Co., Ltd. on October 1, 2008.

1. Name of acquired company, business description, legal structure of business combination, company name after business combination and outline of the transaction, including the purpose were as follows:

(a) Name of acquired company and business description

i) Name of acquired company
Decola-Nitto Co., Ltd.
(hereinafter "Decola-Nitto")

ii) Business description
Manufacture and sales of Melamine resin decorative laminates

(b) Legal structure of business combination
Merger

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

(d) Outline of the transaction, including the purpose
The Company merged with Decola-Nitto on October 1, 2008 to realize synergy effects on the business management side and the research and development side.

2. Outline of accounting treatment of the merger is summarized as follows:
As the merger was with an entity under common control, the Company booked the assets and liabilities from Decola-Nitto at book value as of September 30, 2008. And the Company recognized the difference between the book value of shares of Decola-Nitto and shareholder's equity increased by the transaction as gain on extinguishment of tie-in shares on the non-consolidated income statement of the Company. This transaction had no impact on the consolidated financial statements, for it was eliminated as an internal transaction.

21. Segment information

Information by business segment for the years ended March 31, 2010, 2009 and 2008 is as follows:

	Millions of yen							
Year ended March 31, 2010	Semiconductor and display materials	Circuit products	High-performance plastics	Quality of life products	Others	Total	Eliminations or corporate	Consolidated
Sales:								
Outside customers	¥45,188	¥18,780	¥50,107	¥56,117	¥652	¥170,844	¥ –	¥170,844
Inter-segment	–	–	305	368	–	673	(673)	–
Total sales	45,188	18,780	50,412	56,485	652	171,517	(673)	170,844
Operating expenses	38,807	20,439	46,894	53,322	677	160,139	3,164	163,303
Operating income	¥ 6,381	¥ (1,659)	¥ 3,518	¥ 3,163	¥ (25)	¥ 11,378	¥ (3,837)	¥ 7,541
Identifiable assets	¥51,542	¥24,679	¥61,220	¥54,235	¥904	¥192,580	¥14,679	¥207,259
Depreciation and amortization	2,995	1,565	3,827	3,116	142	11,645	323	11,968
Impairment loss	–	–	57	–	–	57	123	180
Capital expenditures	2,434	1,638	2,685	2,174	166	9,097	164	9,261

"Eliminations or corporate" in the "Operating expenses" row of the above information includes corporate expenses of ¥3,821 million ($41,086 thousand) in the year ended March 31, 2010, which consisted principally of basic research and development costs and general and administrative costs accounted by the Company.

"Eliminations or corporate" in the "Identifiable assets" row of the above information includes corporate assets of ¥14,774 million ($158,860 thousand) at March 31, 2010, 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, 2009	Semiconductor and display materials	Circuit products	High-performance plastics	Quality of life products	Others	Total	Eliminations or corporate	Consolidated
Sales:								
Outside customers	¥50,210	¥31,264	¥66,480	¥63,601	¥855	¥212,410	¥ –	¥212,410
Inter-segment	–	–	403	367	–	770	(770)	–
Total sales	50,210	31,264	66,883	63,968	855	213,180	(770)	212,410
Operating expenses	45,535	34,809	65,558	63,003	771	209,676	4,373	214,049
Operating income	¥ 4,675	¥ (3,545)	¥ 1,325	¥ 965	¥ 84	¥ 3,504	¥ (5,143)	¥ (1,639)
Identifiable assets	¥53,005	¥26,265	¥61,726	¥60,326	¥838	¥202,160	¥13,693	¥215,853
Depreciation and amortization	3,204	2,235	3,923	3,190	136	12,688	368	13,056
Impairment loss	–	1,265	–	84	–	1,349	165	1,514
Capital expenditures	4,397	2,449	2,958	3,289	163	13,256	312	13,568

"Eliminations or corporate" in the "Operating expenses" row of the above information includes corporate expenses of ¥5,174 million in the year ended March 31, 2009, which consisted principally of basic research and development costs and general and administrative costs accounted by the Company.

"Eliminations or corporate" in the "Identifiable assets" row of the above information includes corporate assets of ¥13,729 million at March 31, 2009, 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 "Changes in accounting policies," effective from this fiscal year, "Accounting standard for measurement of inventories" (ASBJ Statement No.9) has been applied. As a result, operating income decreased by ¥60 million in the Semiconductor and display materials segment, by ¥134 million in the High performance plastics segment, by ¥90 million in the Quality of life products segment, increased by ¥3 million in the Other segment, and operating losses increased by ¥116 million in the Circuit products segment.

As mentioned in "Changes in accounting policies," effective from this fiscal year, "Partial amendments to accounting standard for retirement benefits (Part 3)" (ASBJ Statement No.19) has been applied. As a result, operating income increased by ¥167 million in the Semiconductor and display materials segment, by ¥126 million in the High performance plastics segment, by ¥212 million in the Quality of life products segment, increased by ¥0 million in the Other segment, and operating losses decreased by ¥55 million in the Circuit products segment. And Corporate expenses in "Eliminations or corporate" decreased by ¥73 million.

	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 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 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, ¥36 million, ¥25 million, ¥61 million, ¥12 million and ¥45 million, 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, ¥84 million, ¥133 million, ¥189 million, ¥1 million and ¥24 million, respectively. Accordingly, operating income decreased by the same amount.

Year ended March 31, 2010	Semiconductor and display materials	Circuit products	High-performance plastics	Quality of life products	Others	Total	Eliminations or corporate	Consolidated
	Thousands of U.S. dollars							
Sales:								
Outside customers	$485,892	$201,935	$538,785	$603,409	$7,011	$1,837,032	$ –	$1,837,032
Inter-segment	–	–	3,280	3,957	–	7,237	(7,237)	–
Total sales	485,892	201,935	542,065	607,366	7,011	1,844,269	(7,237)	1,837,032
Operating expenses	417,280	219,774	504,236	573,355	7,280	1,721,925	34,021	1,755,946
Operating income	$ 68,612	$ (17,839)	$ 37,829	$ 34,011	$ (269)	$ 122,344	$ (41,258)	$ 81,086
Identifiable assets	$554,215	$265,366	$658,280	$583,172	$9,720	$2,070,753	$157,838	$2,228,591
Depreciation and amortization	32,204	16,828	41,151	33,505	1,527	125,215	3,473	128,688
Impairment loss	–	–	613	–	–	613	1,322	1,935
Capital expenditures	26,172	17,613	28,871	23,376	1,785	97,817	1,764	99,581

Information by geographic area for the years ended March 31, 2010, 2009 and 2008 is as follows:

Year ended March 31, 2010	Domestic	Asia	North America	Europe and others	Total	Eliminations or corporate	Consolidated
	Millions of yen						
Sales:							
Outside customers	¥103,800	¥44,470	¥10,180	¥12,394	¥170,844	¥ –	¥170,844
Inter-segment	10,078	6,554	297	9	16,938	(16,938)	–
Total sales	113,878	51,024	10,477	12,403	187,782	(16,938)	170,844
Operating expenses	106,674	46,666	11,110	12,163	176,613	(13,310)	163,303
Operating income	¥ 7,204	¥ 4,358	¥ (633)	¥ 240	¥ 11,169	¥ (3,628)	¥ 7,541
Identifiable assets	¥172,773	¥60,219	¥11,263	¥18,486	¥262,741	¥(55,482)	¥207,259

"Eliminations or corporate" in the "Operating expenses" row of the above information includes corporate expenses of ¥3,821 million ($41,086 thousand) in the year ended March 31, 2010, which consisted principally of basic research and development costs and general and administrative costs accounted by the Company.

"Eliminations or corporate" in the "Identifiable assets" row of the above information includes corporate expenses of ¥14,774 million ($158,860 thousand) at March 31, 2010, which consisted principally of cash, investment in securities, basic research and development assets and general and administrative assets held by the Company.

Year ended March 31, 2009	Domestic	Asia	North America	Europe and others	Total	Eliminations or corporate	Consolidated
	Millions of yen						
Sales:							
Outside customers	¥113,355	¥63,923	¥15,948	¥19,184	¥212,410	¥ –	¥212,410
Inter-segment	10,424	9,845	611	1	20,881	(20,881)	–
Total sales	123,779	73,768	16,559	19,185	233,291	(20,881)	212,410
Operating expenses	126,450	67,996	17,225	18,595	230,266	(16,217)	214,049
Operating income	¥ (2,671)	¥ 5,772	¥ (666)	¥ 590	¥ 3,025	¥ (4,664)	¥ (1,639)
Identifiable assets	¥184,479	¥59,693	¥13,049	¥18,013	¥275,234	¥(59,381)	¥215,853

"Eliminations or corporate" in the "Operating expenses" row of the above information includes corporate expenses of ¥5,174 million in the year ended March 31, 2009, which consisted principally of basic research and development costs and general and administrative costs accounted by the Company.

"Eliminations or corporate" in the "Identifiable assets" row of the above information includes corporate expenses of ¥13,729 million at March 31, 2009, which consisted principally of cash, investment in securities, basic research and development assets and general and administrative assets held by the Company.

As mentioned in "Changes in accounting policies," effective from this fiscal year, "Accounting standard for measurement of inventories" (ASBJ Statement No.9) has been applied. As a result, operating losses increased by ¥397 million in the Japan segment.

As mentioned in "Changes in accounting policies," effective from this fiscal year, "Partial amendments to accounting standard for retirement benefits (Part 3)" (ASBJ Statement No.19) has been applied. As a result, operating losses decreased by ¥560 million in the Japan segment. And Corporate expenses in "Eliminations or corporate" decreased by ¥73 million.

	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 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 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 and ¥44 million, 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 and ¥24 million, respectively. Accordingly, operating income decreased by the same amount.

	Thousands of U.S. dollars						
Year ended March 31, 2010	Domestic	Asia	North America	Europe and others	Total	Eliminations or corporate	Consolidated
Sales:							
Outside customers	**$1,116,129**	**$478,172**	**$109,462**	**$133,269**	**$1,837,032**	**$ –**	**$1,837,032**
Inter-segment	**108,365**	**70,473**	**3,194**	**97**	**182,129**	**(182,129)**	**–**
Total sales	**1,224,494**	**548,645**	**112,656**	**133,366**	**2,019,161**	**(182,129)**	**1,837,032**
Operating expenses	**1,147,032**	**501,785**	**119,462**	**130,785**	**1,899,064**	**(143,118)**	**1,755,946**
Operating income	**$ 77,462**	**$ 46,860**	**$ (6,806)**	**$ 2,581**	**$ 120,097**	**$ (39,011)**	**$ 81,086**
Identifiable assets	**$1,857,774**	**$647,516**	**$121,108**	**$198,774**	**$2,825,172**	**$(596,581)**	**$2,228,591**

Overseas sales for the years ended March 31, 2010, 2009 and 2008 were as follows:

	Millions of yen			
Year ended March 31, 2010	Asia	North America	Europe and others	Total
Overseas sales	¥59,807	¥10,238	¥11,854	¥ 81,899
Consolidated net sales				170,844
Percent of consolidated net sales	35.0%	6.0%	6.9%	47.9%

	Millions of yen			
Year ended March 31, 2009	Asia	North America	Europe and others	Total
Overseas sales	¥74,036	¥16,310	¥18,348	¥108,694
Consolidated net sales				212,410
Percent of consolidated net sales	34.9%	7.7%	8.6%	51.2%

	Millions of yen			
Year ended March 31, 2008	Asia	North America	Europe and others	Total
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%

	Thousands of U.S. dollars			
Year ended March 31, 2010	Asia	North America	Europe and others	Total
Overseas sales	$643,086	$110,086	$127,462	$ 880,634
Consolidated net sales				1,837,032
Percent of consolidated net sales	35.0%	6.0%	6.9%	47.9%

22. 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, 2010 and 2009 was as follows:

At March 31, 2010	Millions of yen	Thousands of U.S. dollars	Interest rates
Loans from banks and other companies	¥4,609	$49,559	0.35%–3.00%
Commercial paper	3,000	32,258	0.114%
	¥7,609	$81,817	

At March 31, 2009	Millions of yen	Interest rates
Loans from banks and other companies	¥ 5,419	1.00%–5.00%
Commercial paper	11,500	0.20%–0.53%
	¥16,919	

Long-term debt at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Unsecured loans from banks and organizations due through 2016 with interest rates ranging from 0.00% to 1.83% at March 31, 2010 (from 0.00% to 1.83% at March 31, 2009)	¥14,901	¥15,803	$160,226
	14,901	15,803	160,226
Less amount due within one year	2,500	900	26,882
Total	¥12,401	¥14,903	$133,344

The annual maturities of long-term debt at March 31, 2010 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥2,500	$26,882
2012	901	9,688
2013	900	9,677
2014	5,900	63,441
2015	1,400	15,054
2016 and thereafter	3,300	35,484

At March 31, 2009, assets pledged as collateral were as follows:

	Millions of yen
Fixed deposits	¥728

At March 31, 2009, obligations with collateral were as follows:

	Millions of yen
Short-term debt	¥280

23. Subsequent events

At the general meeting of shareholders of the Company held on June 29, 2010, retained earnings at March 31, 2010, were appropriated as follows:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends ¥5.0 ($0.05) per share	¥1,205	$12,957

Independent Auditors' Report

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2010, 2009 and 2008

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, 2010 and 2009, 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, 2010, 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, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in Japan.

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

(1) As discussed in Note 3 to the consolidated financial statements, effective April 1, 2008, Sumitomo Bakelite Company Limited and consolidated domestic subsidiaries adopted the new accounting standards for measurement of inventories.

(2) As discussed in Note 3 to the consolidated financial statements, effective April 1, 2008, Sumitomo Bakelite Company Limited adopted Partial Amendments to Accounting Standard for Retirement Benefits (Part 3).

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2010

Environmental Accounting

Sumitomo Bakelite implemented environmental accounting in fiscal 2001 to quantify the costs and benefits of environmental conservation and effectively promote environmental management as well as disclose information to stakeholders and give them an understanding of the Company's initiatives. Environmental accounting was introduced at five plants and the Company's two research laboratories in fiscal 2001 and, since fiscal 2002, has been successively implemented at affiliated companies in Japan, figures for which are included in data compilation. The Company tabulates figures for environmental accounting based on the Ministry of the Environment's Environmental Accounting Guidelines (2005 version). Furthermore, the Group is working to develop its own accounting standards, with the view that environmental accounting is a means of quantitatively evaluating the progress of activities to reduce environmental impact. In addition, we review the standards every year to obtain more-useful information through environmental accounting.

Environmental Conservation Costs for Fiscal 2010

Item	Environmental conservation costs		Description
	Investment (Millions of yen)	Expenses (Millions of yen)	
Emissions control	69	255	• Fuel switching for boilers
Energy conservation	73	75	• Charge in boiler fuel • Energy conservation through improved equipment operating efficiency
Waste reduction, recycling, and treatment	44	494	• Waste treatment
Product initiatives at the R&D stage	20	2,370	• R&D related to environment-friendly products and recycling technologies
Reduction of upstream and downstream	–	23	• Analysis of environmental substances • Commission fees to the Japan Containers and Packaging Recycling Association (JCPRA)
Environmental management activities	–	271	• Personnel expenses for environmental management activities • Beautification activities and maintenance of green spaces • Publication of *Environmental & Social Report*
Contributions to community activities	–	2	• Outside communications activities
Response to environmental damage	–	85	• Inspections to check the possibility of soil and groundwater contamination at each current and former business site and implementation of associated remediation measures
Total	207	3,575	

Note: Due to rounding, the total investment figure may not correspond to the sum of the individual category investment figures.

Period: April 2009 to March 2010

Boundary: Domestic site of consolidation of Sumitomo Bakelite Company Limited

Plants and Laboratories:

Amagasaki Plant, Kanuma Plant, Nara Plant, Shizuoka Plant (including High Performance Plastic Products Plant and Industrial Laminates Plant until September 2009), Utsunomiya Plant, Tsu Plant (until September, 2009); Fundamental Research Laboratory, Kobe Fundamental Research Laboratory

Subsidiaries:

Akita Sumitomo Bakelite Co., Ltd.; Artlite Kogyo Co., Ltd. (until September 2009); S.B. Techno Plastics Co., Ltd.; Hokkai Taiyo Plastic Co., Ltd.; Yamaroku Kasei Industry Co., Ltd.; Kyushu Sumitomo Bakelite Co., Ltd.; Y-Techs Co., Ltd. (until October 2009); Tsutsunaka Kosan Co., Ltd.; S.B. Research Co., Ltd. Osaka Center

Compilation Methods

- Figures have been tabulated based on the Company's Environmental Accounting Compilation Standards with reference to the Ministry of the Environment's Environmental Accounting Guidelines (2005 version).
- In cases where composite costs include costs other than those related to environmental conservation, environmental conservation costs have been tabulated based on the proportion used for environmental conservation purposes.
- Economic benefits have been calculated by adding up benefits that can be measured based on certain premises, and such theoretical benefits as risk aversion are not included.
- Expenses do not include depreciation.
- Research and development investments and expenses are compiled for each environment-related category.

Environmental Conservation Benefits for Fiscal 2010

	Reduction of environmental impact (compared with fiscal 2009)	Environmental impact (fiscal 2010)
CO_2 emissions	(2,337) tons	106,231 tons
Disposal in landfills and simple incineration	(107) tons	94 tons
Volume of waste generated	(356) tons	7,462 tons
Reduction in amount of air emissions and other substances	12 tons	222 tons

Economic Benefits for Fiscal 2010

Item	**Amount** (Millions of yen)
(1) Cost reductions resulting from energy conservation	59
(2) Cost reductions resulting from waste reduction	9
(3) Income from external recycling	89
(4) Cost reductions resulting from internal recycling	769
(5) Others	1
Total	926

*Due to rounding, the total benefit figure may not correspond to the sum of the individual category benefit figures.

The **"Environmental & Social Report 2010"** of Sumitomo Bakelite Company Limited, including environmental accounting, was independently reviewed by KPMG AZSA Sustainability Co., Ltd.

Board of Directors, Executive Officers and Corporate Auditors

(As of June 29, 2010)

Board of Directors

Chairman

Tomitaro Ogawa*

President

Shigeru Hayashi*

Directors

Tamotsu Yahata*
Satoshi Kawachi**
Tsuneo Terasawa
Shinichiro Ito
Ryuzo Sukeyasu
Shigeki Muto
Kazuhisa Hirano

Executive Officers

President

Shigeru Hayashi

Executive Vice President

Tamotsu Yahata

Senior Managing Executive Officers

Tsuneo Terasawa
Shinichiro Ito

Managing Executive Officers

Ryuzo Sukeyasu
Shigeki Muto
Kazuhisa Hirano
Koichiro Sekine
Akira Takada

Executive Officers

Masatoshi Yamazaki
Noboru Yamawaki
Kazuhiko Fujiwara
Masayuki Inagaki
Tatsuo Yoshihara
Yukihiro Okabe
Sumitoshi Asakuma
Shintaro Ishiwata

Corporate Auditors

Standing Auditors

Takeshi Uchimura
Takao Yanagisawa***

Auditors

Hiroyuki Abe***
Kenkichi Fuse***

* Representative director
** Outside director
*** Outside auditor

Corporate Data

(As of March 31, 2010)

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)3-5462-4111
Facsimile: +81-(0)3-5462-4873

Corporate Finance & Planning Div.
Phone: +81-(0)3-5462-3452
Facsimile: +81-(0)3-5462-4876

Established:

January 25, 1932

Capital:

¥37,143,093,785

Employees:

Consolidated	7,537
Non-consolidated	2,757*
*Including employees on loan	486

Investor Information

(As of March 31, 2010)

Common Stock:

Stock trading unit	1,000 shares
Authorized	800,000,000 shares
Issued and outstanding	262,952,394 shares
Number of shareholders	18,207*
*Number of share trading unit holders included in above	13,383

Common Stock Listing:

The Tokyo Stock Exchange 1st Section
The Osaka Stock Exchange 1st Section

Independent Auditor:

KPMG AZSA LLC

Administrator of Shareholders' Register:

The Sumitomo Trust & Banking Co., Ltd.
2-3-1 Yaesu, Chuo-ku, Tokyo 104-8476, Japan

Principal Shareholders:

Name	Number of stocks held (thousands)	Percentage of total shares issued and outstanding
Sumitomo Chemical Co., Ltd.	52,549	21.81
Northern Trust Co. (AVFC) Sub A/C American Clients	16,005	6.64
Japan Trustee Services Bank, Ltd. (trust account)	15,517	6.44
The Master Trust Bank of Japan, Ltd. (trust account)	6,505	2.70
Northern Trust Co. AVFC Re U.S. Tax Exempted Pension Funds	5,816	2.41
Japan Trustee Services Bank, Ltd. (trust account 4)	4,547	1.89
Japan Trustee Services Bank, Ltd. (retirement payment account of The Sumitomo Trust & Banking Co., Ltd.)	4,366	1.81
The Mitsui Sumitomo Bank, Limited	4,360	1.81
The Bank of New York, Treaty Jasdec Account	2,754	1.14
Mitsui Sumitomo Insurance Company, Limited	2,637	1.09

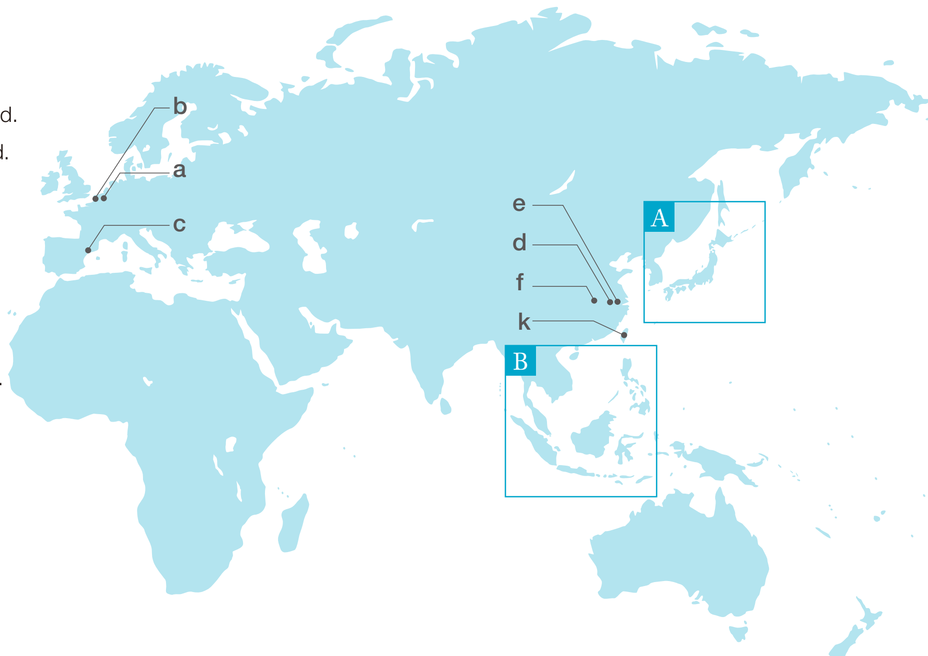
Notes: 1.The Company holds 22,002 thousand shares of treasury stock, that are excluded from the principal shareholders listed above.
2.The calculation of the percentage of total shares issued and outstanding presented above excludes treasury stock.

Global and Domestic Network

(As of June 29, 2010)

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.** BPM (Shanghai) Co., Ltd.
- **f.** Sumitomo Bakelite (Nantong) Co., Ltd.
- **g.** Basec Hong Kong Limited
- **h.** Sumitomo Bakelite (Dongguan) Co., Ltd.
- **i.** Sumitomo Bakelite Hong Kong Co., Ltd.
- **j.** Sumitomo Bakelite Macau Co., Ltd.
- **k.** Sumitomo Bakelite (Taiwan) Co., Ltd.
- **l.** P.T. Indopherin Jaya
- **m.** P.T. SBP Indonesia
- **n.** SNC Industrial Laminates Sdn. Bhd.
- **o.** Sumitomo Bakelite Singapore Pte. Ltd.
- **p.** Sumicarrier Singapore Pte. Ltd.
- **q.** Sumidurez Singapore Pte. Ltd.
- **r.** Sumitomo Bakelite (Thailand) Co., Ltd.
- **s.** Sumitomo Bakelite Vietnam Co., Ltd.
- **t.** Sumitomo Plastics America, Inc.
- **u.** Durez Corporation
- **v.** Promerus LLC.
- **w.** Sumitomo Bakelite North America, Inc.
- **x.** Durez Canada Co., Ltd.



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Laboratories

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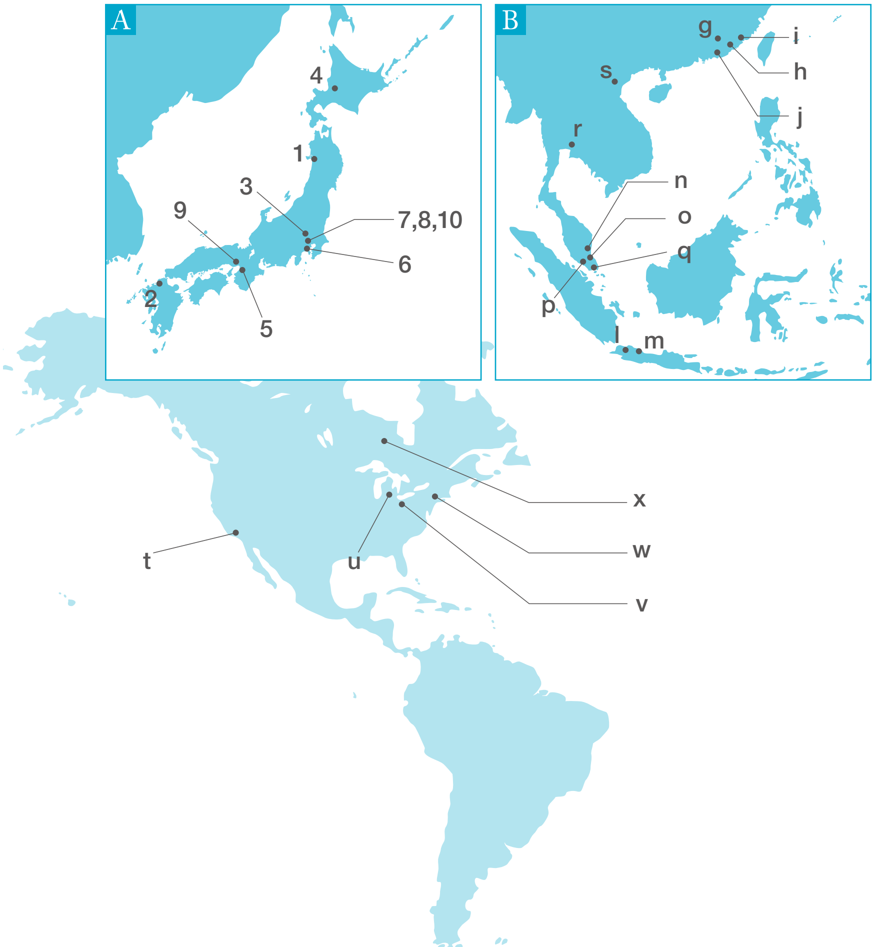
Facsimile: +81-(0)78-992-3919

Film & Sheets Research Laboratory
(Located at Amagasaki Plant)

Plate & Decola Research Laboratory
(Located at Kanuma and Shizuoka Plant)

Production Engineering Research Laboratory

High Performance Plastic Products Laboratories



Domestic

1. Akita Sumitomo Bakelite Co., Ltd.
2. Kyushu Sumitomo Bakelite Co., Ltd.
3. S.B. Techno Plastics Co., Ltd.
4. Hokkai Taiyo Plastic Co., Ltd.
5. Yamaroku Kasei Industry Co., Ltd.
6. S.B. Research Co., Ltd.
7. Sunbake Co., Ltd.
8. Tsutsunaka Sheet Waterproof Systems Co., Ltd.
9. Softec Co., Ltd.
10. Thanxs Trading Co., Ltd.

Automotive Products Development Laboratory

Circuitry, Electric & Industrial Plastics Development Laboratory
(Located at Shizuoka Plant)

Information & Telecommunication Material Laboratories

Electronic Device Materials Research Laboratory I

Electronic Device Materials Research Laboratory II

Circuitry Process Technology Laboratory
(Located at Utsunomiya Plant)

Plants

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