July, 2012

Annual Report

For the year ended March 31, 2012

SUMITOMO BAKELITE CO., LTD.

Profile

Among the various plastics, phenolic resin has the oldest history. It was developed in 1907 by Dr. Leo H. Baekeland, an American of Belgian ancestry, who named his creation "Bakelite". In 1911, Sankyo Company (currently Daiichi Sankyo Co., Ltd.) was granted exclusive license to the patent rights of this plastic in Japan through the agency of Dr. Jokichi Takamine, a close friend of Dr. Baekeland, and trial production of phenolic resin commenced at the Shinagawa Plant of Sankyo Company. This achievement marked the beginning of Japan's plastics industry and is also the origin of our company name.

In 1932, the Bakelite department was separated from Sankyo Company to form Nippon Bakelite Co., Ltd. In 1955, Nippon Bakelite Co., Ltd. merged with Sumitomo Synthetic Resin Industries, Ltd. and formed Sumitomo Bakelite Co., Ltd., which continues to this day.

As a pioneer in plastics, we have been leveraging our advanced expertise and state-of-the-art facilities to continually develop new technologies for use in various fields in order to contribute to the creation of safe and comfortable living environments.

Financial Highlights

	Millions of yen			Thousands of U.S. dollars
	FY2011 Year ended March 31, 2012	FY2010 Year ended March 31, 2011	FY2009 Year ended March 31, 2010	FY2011 Year ended March 31, 2012
Net sales	**¥185,237**	¥190,972	¥170,844	**$2,253,491**
Net income (loss)	**2,525**	5,154	3,306	**30,718**
Total assets	**201,315**	205,090	207,259	**2,449,087**
Shareholders' equity	**117,997**	120,933	127,453	**1,435,486**

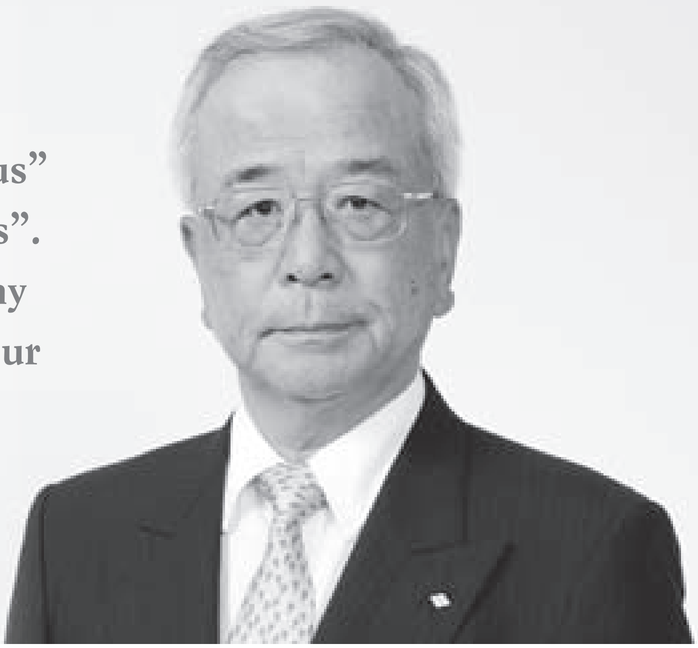
	Yen			U.S. dollars
Net income (loss) per share	**¥10.48**	¥21.39	¥13.72	**$0.13**
Diluted net income per share	**—**	—	—	**—**
Cash dividends per share	**12.50**	15.00	10.00	**0.15**

Note: U.S. dollar amounts are translated from yen at the rate of ¥82.2 to US$1, the approximate exchange rate as of March 31, 2012.

Contents

In this publication, the name of the companies may be represented in simplified forms by omitting "Company Limited", "Inc." and/or other legal entity identifications. For example, "Sumitomo Bakelite Company Limited" may be represented as "Sumitomo Bakelite Co., Ltd.", "Sumitomo Bakelite", or "the Company".

President's Message



We will take "brave and courageous" steps toward "remarkable progress". We are determined to be a company offering "joy and pleasure" to all our stakeholders.

Operating Environment in Fiscal 2011

During fiscal 2011, ended March 31, 2012, the global economy witnessed the U.S. continue to maintain low-level growth, despite signs of moderate recovery, and Europe plunge into negative growth from early fall in the wake of austerity measures necessitated by fiscal and credit uncertainties and the deterioration of the employment environment. Moreover, signs of an economic slowdown became increasingly prevalent, as growth softened even in the emerging economies including China, which had previously been the driving force behind the global economy, as a result of monetary tightening to control inflation and the deceleration of exports.

The Japanese economy, while making moderate gains from the slump precipitated by the Great East Japan Earthquake and the massive flooding in Thailand, continued to languish under harsh conditions as the world economy faltered and the Japanese yen maintained historical highs.

Turning to the environment surrounding Sumitomo Bakelite's business, in semiconductors, robust growth was recorded in certain sectors such as smartphones, tablet devices and other mobile information terminals. However, the overall semiconductor market displayed weak trends, reflecting the flagging demand for flat-screen TVs and personal computers. In automobiles, the Japanese market was severely impacted by the disruption of the supply chain caused by natural disasters and the ensuing parts shortage, while despite moderate recovery in the North American market, slow growth was also reported on the global market overall, as sales declined in China as a result of massive cuts in the government's incentive packages. Moreover, in Japan, housing starts remained weak, as reconstruction demand failed to shift into full swing.

Overview of Fiscal 2011 Results

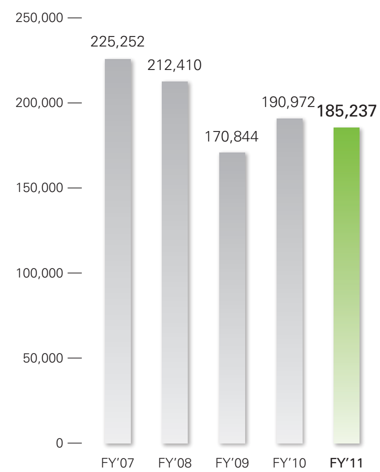
In the operating environment explained above, Sumitomo Bakelite worked to maintain its lean management structure and leveraged its collective strength toward new growth, while adhering to the following policies.

1. Expand sales and demand for existing products
2. Expand operations in growing markets and fields
3. Turn new products into driving forces at an early stage, and create and provide solutions

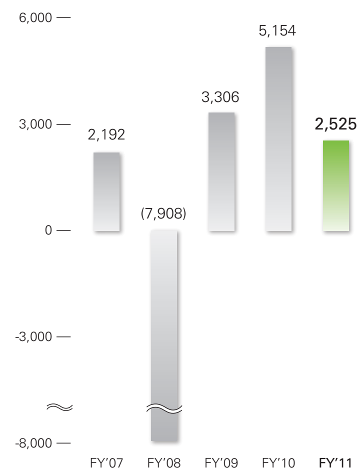
As a result, Sumitomo Bakelite's consolidated net sales decreased by 3.0% from fiscal 2010 to ¥185,237 million. This was mainly due to the decline in sales volume of semi conductor and circuit materials, as well as the decrease in net sales of overseas subsidiaries when translated into Japanese yen, despite the increase in sales of high-performance plastics and medical devices.

On the earnings front, consolidated operating income fell by 57.7% year on year to ¥4,726 million and consolidated ordinary income similarly declined by 52.6% year on year to ¥5,931 million. While the Company made an earnest effort to improve its profit structure through the reduction of fixed costs, restructuring of less profitable businesses and other initiatives, such efforts were not enough to offset the massive effects of declining sales and soaring raw material costs. Moreover, a loss of ¥1,507 million was recorded as actuarial adjustment for retirement allowances in fiscal 2011, compared to a gain of ¥180 million in fiscal 2010. After posting extraordinary losses, including ¥1,839 million from the transfer of the Company's equity interest in a Vietnamese subsidiary in conjunction with the Company's withdrawal from the flexible printed circuits business, a consolidated net income of ¥2,525 million, down 51.0% from fiscal 2010, was recorded.

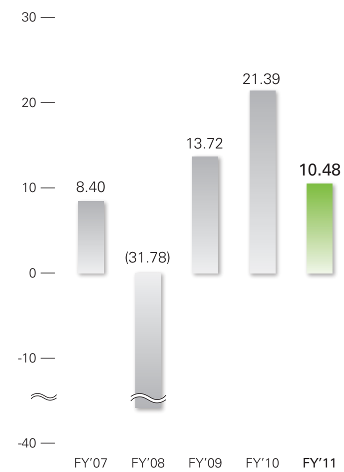
Net sales
(Millions of yen)



Net income (loss)
(Millions of yen)



Net income (loss) per share
(Millions of yen)



The increase in losses from actuarial adjustment for retirement allowances was due to the fact that although the return on pension assets during the fiscal year under review was more or less as initially anticipated, projected benefit obligations at the end of fiscal 2011 increased as result of the decline in the discount rate used for calculating the projected benefit obligations reflecting the drop in long-term interest rates and other factors. The table on the next page shows a year on year comparison of the Group's performance, which excludes the amounts of such adjustment.

As explained above, Sumitomo Bakelite during fiscal 2011 was surrounded by a weak business environment reflecting the harsh economic conditions prevailing in both Japan and overseas, which, in turn, has resulted in the recording of current consolidated performance that has fallen far short of expectations. Consequently, in light of such a performance and the need to secure funds toward future growth, including investments required to reinforce new products as driving forces behind sales, Sumitomo Bakelite has declared a year-end dividend of ¥5.0 per common share, which is ¥2.5 less than the previous year-end. (Added to the interim dividend paid, the full fiscal year cash dividend for fiscal year 2011 is ¥12.5 per common share.)

During the period under review, the Company issued neither new shares nor corporate bonds, while not undertaking other extraordinary steps to procure funds. Meanwhile, total capital expenditures amounted to ¥14,565 million.

Business Strategies for Fiscal 2012 Onward

Looking at the global economy, while the U.S. is expected to continue on its moderate recovery trajectory, the economic outlook overall remains grim, as Europe becomes further embroiled in uncertainty over the current fiscal and credit crises. Meanwhile, China and the other emerging countries are expected to sustain their economic expansion, although their economic growth is expected to slow down somewhat and the state of uncertainty will continue for the time being. In terms of the Japanese economy, on the other hand, while expectations are mounting for the economy to pick up through reconstruction demand following the Great East Japan Earthquake, the situation remains at best unpredictable, as causes for concern persist, including electricity shortages due to the shutdown of the nuclear power plants and the soaring prices of crude oil and raw materials.

In the environment surrounding operations of the Sumitomo Bakelite Group, expectations are high for a turnaround in automobile production and housing starts, while demand for digital appliances including personal computers and flat-screen TVs is expected to stagnate. Amid this dismal outlook, demand for smartphones and other mobile information terminals is expected to remain high.

The Sumitomo Bakelite Group has been implementing initiatives toward achieving targets set in the mid-term business plan formulated in the previous year—namely, posting net sales of ¥300,000 million and operating income of ¥35,000 million in five years—under the following basic policies.

1. Expand and strengthen the three core business fields: (1) IT components and materials, (2) high-performance plastics, and (3) quality of life-related products
2. Expand and strengthen operations in growing markets and growing fields
3. Introduce new products as additional driving forces

In the newly formulated mid-term business plan, which began from April of this year, the above targets have been maintained, while the following tasks have also been added to the end of achieving such targets.

Comparison of actual performance (consolidated)

(Billions of yen)

	FY2011 ended March, 2012	FY2010 ended March, 2011	Change (%)
Net sales	185.2	191.0	(3.0)
Operating income	6.2	11.0	(43.3)
Ordinary income	7.4	12.3	(39.7)
Net income	3.5	5.0	(30.7)

Note: Operating income and net income presented above exclude the amounts of actuarial adjustments for retirement allowances.

Basic Policies

The first tasks to be addressed are the revitalization of the existing business in Japan and the change of the business model. Sumitomo Bakelite will need to thoroughly promote its customer-oriented strategy and expand its threshold for incorporating true customer needs in order to propose and provide solutions, as well as practice selection and concentration of its businesses in order to reinforce its strengths while weeding out its weaknesses. The Company intends to reinforce its manufacturing capabilities by utilizing the Sumitomo Bakelite Production System (SBPS), build a collaborative relationship with its customers, accelerate commercialization through the selection and concentration of research themes, and develop a business structure in which every employee is capable of contributing to earnings by improving the productivity of indirect departments.

The second task to be addressed is the launch and creation of new businesses. Sumitomo Bakelite will accelerate the launch of new product groups that have been under development, while promoting the commercialization of next-generation products that preemptively accommodate customer needs. To this end, the Company has been developing the application of LαZ substrate materials for semiconductor packages to enlarge business considerably, and has launched the business of hard carbon anode materials for lithium-ion rechargeable batteries, as well as making preparations to launch the optical-electrical composite waveguide business. Additionally, the Company has also been focusing its efforts toward the launch of micro active catheters and other biotechnology-related products.

The final task to be addressed is reinforcing the profitability of Sumitomo Bakelite's overseas business and expanding its scope. Sumitomo Bakelite intends to make further investments in the phenolic resin business in Europe and the U.S. and expand the phenolic resin business of Sumitomo Bakelite (Nantong) Co., Ltd. in China. Additionally, in the global expansion of its IT components and materials and high-performance plastics businesses, the Company intends to manage local research, production and sales and thoroughly promote the concept of local production for local consumption. In terms of medical devices, films & sheets products and other quality of life products, the Company has been establishing overseas bases with a focus on product differentiation in preparation for overseas introduction.

Furthermore, the entire Sumitomo Bakelite Group will make a concerted effort to enhance its performance, while at the same time striving to become more socially and environmentally compatible by thoroughly enforcing compliance, improving internal controls and developing systems to mitigate the burden on the environment. Through these efforts, the Group hopes to win the trust and appreciation of each and every one of its stakeholders.

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

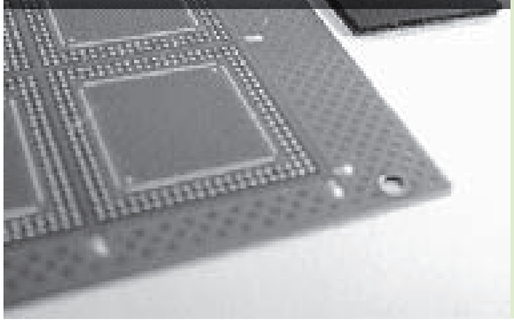
June 2012

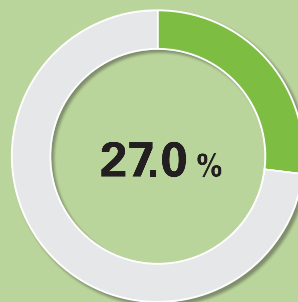
Shigeru Hayashi
President

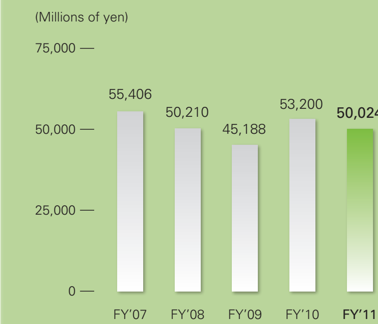
At a Glance

Segment	Segment Sales to Total Sales	Net Sales

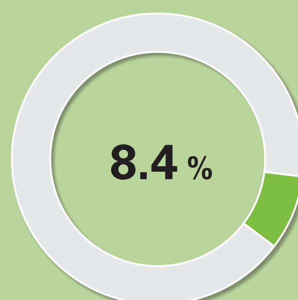
Semiconductor Materials

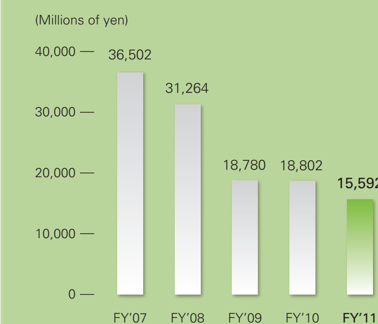




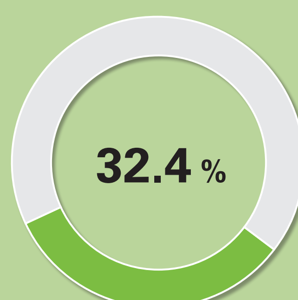


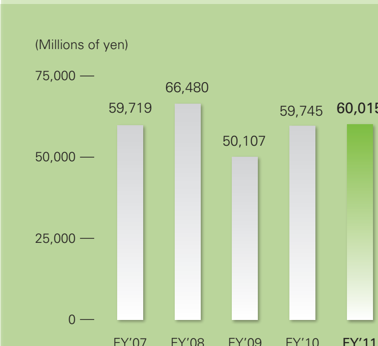
Circuit materials



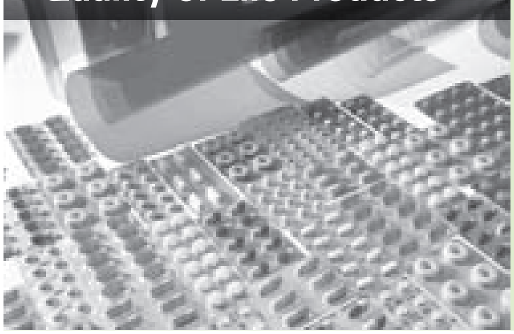


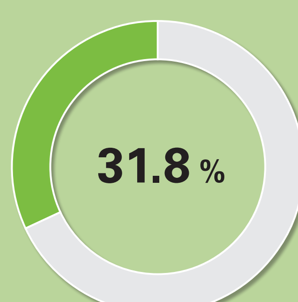
High-Performance Plastics

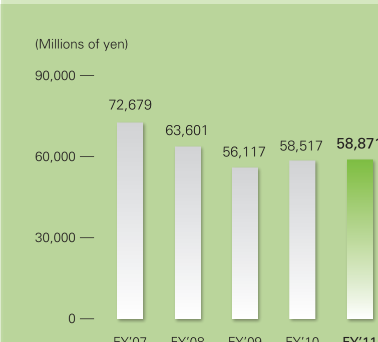




Quality of Life Products







Note: The Others segment recorded net sales of ¥735 million in fiscal 2011.

Overview

Although epoxy resin molding compounds for encapsulation of semiconductor devices and carrier tapes for mounting semiconductor components performed well in the new fields of smartphones and tablet devices, sales declined overall due to the effects of the strong yen and poor sales in the existing fields, including electrical appliances such as flat-screen TVs and personal computers, and conventional mobile phones. The Company has decided to consolidate the production operations of carrier tapes for mounting semiconductor components at Sumitomo Bakelite (Thailand) Co., Ltd., its consolidated subsidiary, which was damaged by flooding in the previous year, by relocating to Sumicarrier Singapore Pte. Ltd., also a consolidated subsidiary, and to reinforce its revenue base by such means as reducing redundant costs. Strong sales of LαZ substrate materials for semiconductor packages were recorded, due to the use of these materials in smartphones and tablet devices for existing customers, as well as the increase in the number of new customers and new models using these materials. Additionally, as the Company also expects substantial demand to continue into the future, it has decided to establish a second production base within its Utsunomiya Plant, in addition to reinforcing production capacity at the existing facilities of its Shizuoka Plant, and preparations are being made accordingly.

Development was underway for the use of epoxy resin copper-clad laminates and phenolic resin copper-clad laminates in the promising automobile and LED markets. However, sales declined mainly as a result of the slowdown in the consumer products market, including flat-screen TVs, and also due to the inventory adjustments conducted by the assembly manufacturers, who were faced with difficulties in procuring parts following the Great East Japan Earthquake and the flooding in Thailand. Sales of flexible printed circuits also fell, owing to the poor performance of its mainstay products, i.e., circuits intended for conventional mobile phones, as well as the Company's withdrawal from certain less profitable products. In terms of the flexible printed circuits business, the Company, based on its approach of selection and concentration, has decided to withdraw from the business as of the end of September 2012, so that it may allocate its resources to other growth areas. In conjunction with this withdrawal, the Company has entered into a basic agreement with Sumitomo Electric Industries, Ltd. to transfer its entire equity interest in Sumitomo Bakelite Vietnam Co., Ltd., a production base for flexible printed circuits, effective end of September 2012.

While overseas sales of phenolic molding compounds, phenolic resins for industrial use and precision molded products declined as a result of the strong yen, sales overall managed to increase slightly, thanks to increased sales in the automobile and housing equipment fields. Progress was also made in the development of new products to be used in the mining of shale gas. Construction was completed in April of this year on the new plant for the manufacture of phenolic molding compounds within the site of Sumitomo Bakelite (Nantong) Co., Ltd. in Nantong of Jiangsu Province, China, which manufactures and sells phenolic resins for industrial use, and preparations are being made for the commencement of operations.

Sales increases in medical devices were recorded for the eight consecutive year, thanks to the increasing sales of percutaneous endoscopic gastrostomy (PEG) buttons and PEG catheter kits, as well as the strong sales of new products including the "Clio Drain Vac," which is a low-pressure drainage system for the abdominal cavity, and the "Bolheal Spray Set," a styptic injection kit. Although the demand for polyvinyl chloride sheets and multilayered films for medical applications grew, owing to the special demand arising from the earthquake and the growth of generic pharmaceutical manufacturers, sales overall declined as a result of the sharp drop in demand for industrial applications due to the effects of inventory adjustments. In the Plates & Decola Division, which handles polycarbonate resin plates, vinyl resin plates, and melamine resin decorative and fireproof laminates, sales declined due to the effects of the Great East Japan Earthquake as well as the slump in the electric and electronic fields, including flat-screen TVs. The newly developed, flame retardant-certified, melamine-faced decorative solid panel, "Decola Innovea," which combines both superior design properties and the properties offered by a melamine surface, has been used extensively in building elevators and hospitals. In the waterproof systems business, sales climbed, thanks to the increase in housing starts backed by the government's home acquisition incentives and the large orders received for heat storage tanks. In July 2011, the Company's manufacturing division was transferred to S.B. Sheet Waterproof Systems Co., Ltd. and an integrated system was established in which every process from production of the materials to construction would be managed by that company. Through this move, the Company intends to pinpoint accountability, direct the incentives of the related parties toward the customer and aim for further business expansion.

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 the steadiness. 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 two 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. 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 executing 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 primarily 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 and two outside corporate auditors.

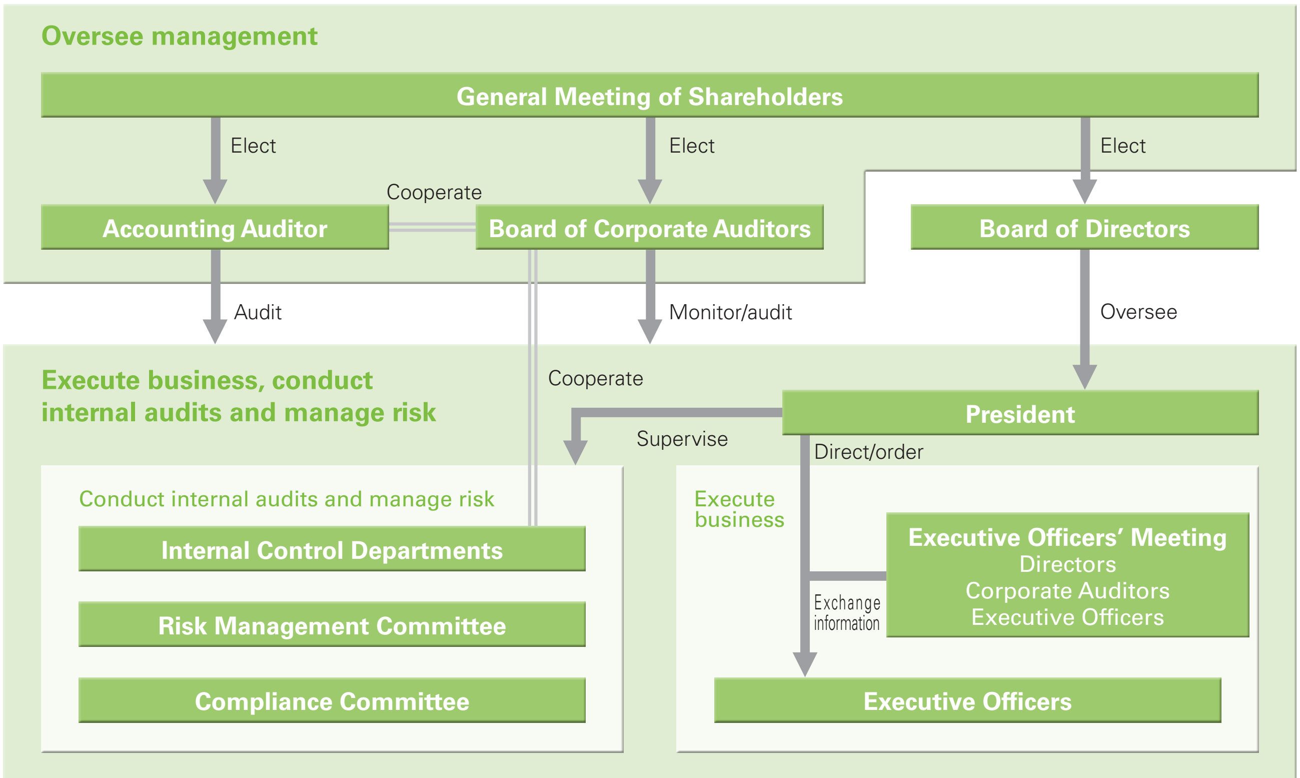
Accounting Audits

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. These meetings also help Sumitomo Bakelite 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.

Corporate Governance Structure



Board of Directors, Corporate Auditors and Executive Officers

(As of June 28, 2012)

Board of Directors

Chairman of the Board of Directors
Tomitaro Ogawa*

President
Shigeru Hayashi*

Directors
Tamotsu Yahata*
Kiyohiko Nakae**
Tsuneo Terasawa
Shinichiro Ito
Shigeki Muto
Kazuhisa Hirano
Noboru Yamawaki

Corporate Auditors

Standing Corporate Auditors
Takeshi Uchimura
Toshihiro Nyugaku

Corporate Auditors
Hiroyuki Abe***
Kenkichi Fuse***

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

Executive Officers

President
Shigeru Hayashi

Executive Vice President
Tamotsu Yahata

Senior Managing Executive Officers
Tsuneo Terasawa
Shinichiro Ito

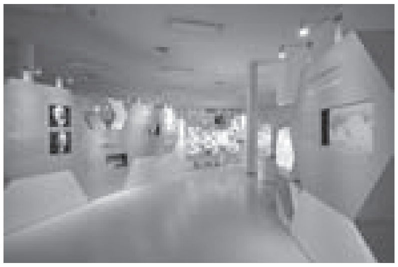
Managing Executive Officers
Shigeki Muto
Kazuhisa Hirano
Noboru Yamawaki
Koichiro Sekine

Executive Officers
Kazuhiko Fujiwara
Masayuki Inagaki
Tatsuo Yoshihara
Yukihiro Okabe
Sumitoshi Asakuma
Shintaro Ishiwata
Noriyoshi Honda
Henny Van Dijk

Commemorating the 100th anniversary of the plastics industry in Japan

An event to commemorate the 100th anniversary of the birth of phenolic resin in Japan was held at the Science Museum in Chiyoda-ku, Tokyo from December 22 to 25, 2011. The event, entitled "The Past, Present and Future of Plastics," presented an overview of the history of phenolic resin from its inception to the present, as well as an outlook on the new possibilities of plastics in the future. The event consisted of exhibitions of various plastic products, workshops where children were introduced to the wonders of science through experiments, and the screening of a biographical film of Dr. Jokichi Takamine, who contributed to the first trial production of plastics (phenolic resin) in Japan. A talk was held with Dr. Hideki Shirakawa, the Nobel Prize winner in Chemistry, and Shigeru Hayashi, President of the Company. During the talk, Dr. Shirakawa gave precious insights into his past experiences and his relationship with plastics, and Mr. Hayashi spoke about the businesses of the Company, while both speakers were able to conduct a fulfilling discussion on the possibilities and future of plastics.

Sumitomo Bakelite considers the utilization of the infinite possibilities of plastics for the good of society to be its mission and intends to make every effort to this end while moving forward towards the next 100 years.



Exhibition of the 100-year history and the future

Demonstrating the wonders of science to children

Discussing the future of plastics with Dr. Shirakawa (left)

Integration of the Fundamental Research Laboratory and the Kobe Fundamental Research Laboratory to form the Advanced Technologies R&D Laboratory

On June 29, 2011, the Fundamental Research Laboratory in Totsuka-ku, Yokohama and the Kobe Fundamental Research Laboratory in Nishi-ku, Kobe were integrated to form the Advanced Technologies R&D Laboratory, which was established within the Kobe Office.

The Fundamental Research Laboratory was established in 1962 as the Central Research Laboratory, which changed its name to the Fundamental Research Laboratory in 1987 and has been responsible for the creation of products and fundamental technologies that have been the backbone of Sumitomo Bakelite's businesses. The Kobe Fundamental Research Laboratory was launched in 1993 as a research laboratory responsible for the development of new products and technologies based mainly on thermoplastic resins and has contributed to the development of a multitude of technologies.

Amid the recent changes taking place in the business environment and intensified competition in global business development, the tasks of enhancing R&D efficiency, developing technologies with greater sophistication and speeding up development have gained even greater importance. Even in the field of fundamental research, R&D must play the role of solidifying the basic infrastructure for creating research themes that will enable sustainable growth from a long-term perspective and for the manufacture of differentiated products.

Against such a backdrop, the two research laboratories were integrated and named the Advanced Technologies R&D Laboratory to consolidate research resources and to maximize the interaction between researchers. By developing a new R&D structure and further enhancing its R&D capabilities, Sumitomo Bakelite will actively engage in the creation of new products and technologies that will forge next generation of the Company.

Advanced Technologies R&D Laboratory

Construction of a phenolic molding compound plant at Sumitomo Bakelite (Nantong) Co., Ltd.

The Company has been expanding its phenolic molding compound business around the world and currently there are manufacturing bases in Japan, Europe, North America, and Asia. In China, while the Company's Suzhou plant had been producing phenolic molding compounds since 2002, the production facilities were running at near full capacity, in response to China's robust demand. Consequently, construction began on a phenolic molding compound plant on the site adjoining Sumitomo Bakelite (Nantong) Co., Ltd., which had already been operating as a phenolic resin manufacturer from 2009 in Nantong of Jiangsu Province, China. The plant was completed in April 2012 as the second Chinese manufacturing base for phenolic molding compounds.

The phenolic molding compound plant, which was added to the facilities of Sumitomo Bakelite (Nantong) Co., Ltd., has an annual production capacity of approximately 12,000 tons and receives its supply of raw materials from the adjoining phenolic resin plant. The new plant, which operates under an integrated production system covering every process from raw materials to the completed product, is the culmination of the Group's state-of-the-art production technologies. The plant offers world-class quality to its customers, while also providing the Company with the competitive advantage required to expand its share in the Chinese high-performance plastics market.

By providing such high-quality phenolic molding compounds, Sumitomo Bakelite hopes to enhance the quality and the competitiveness of phenolic molding compounds in the domestic Chinese market, thereby solidifying its relationship with domestic Chinese customers, and to ultimately contribute to the Chinese business community, which is currently coming under pressure to shift its emphasis from quantity to quality.

Full view of the plant. The tall building on the upper right is the phenolic molding compound plant.

Development of “LBV-1” hard carbon anode material for lithium-ion rechargeable batteries

Utilizing its mainstay phenolic resin technology, Sumitomo Bakelite has developed “LBV-1,” a new hard carbon material, as the anode material for lithium-ion rechargeable batteries, which are expected to see increasing demand for use in electric and hybrid vehicles, as well as for use as stationary secondary cells to cover electricity demands. “LBV-1” has been highly regarded by users both in Japan and abroad, as its rapid charge-discharge properties and low water absorption rate have made it possible to fabricate electrodes through a water-based process that uses no solvents and thus poses less of a burden on the environment. Mass-production facilities with an annual production capacity of 600 tons have recently been completed at Akita Sumitomo Bakelite Co., Ltd., and production is scheduled to begin from the latter half of fiscal 2012.

Mass-production facilities at Akita Sumitomo Bakelite Co., Ltd.

Development of phenolic resin materials for mining shale gas

U.S. shale gas has been receiving widespread attention in recent years as a new natural gas resource. Although commercial production of shale gas began in the 1970’s, it is only with the recent development of the mining method called “fracking” (hydraulic fracturing) that output has increased exponentially, making shale gas an attractive new source of energy.

Coated sand, which is a proppant integral to the fracking process, uses phenolic resins produced by Sumitomo Bakelite’s U.S. subsidiary, while the plugs used in the mining process also contain parts made with the molding compounds provided by the U.S. subsidiary.

Sumitomo Bakelite’s phenolic resins and molding compounds have excellent thermo stability at high temperatures, strength properties and chemical resistance. Particularly, as the molding compounds filled with ultra-long fibers are extremely resistant, making them the pillars of mining technology innovation.

In the future, shale gas production is expected to expand beyond North America to other areas such as Europe and Asia, and Sumitomo Bakelite intends to provide the necessary materials from the Group’s plants around the world.

Five-Year Financial Summary

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries

	Millions of yen					Thousands of U.S. dollars
	FY2011	FY2010	FY2009	FY2008	FY2007	FY2011
For the year:						
Net sales	¥ 185,237	¥ 190,972	¥ 170,844	¥ 212,410	¥ 225,252	$2,253,491
Operating income (loss)	4,726	11,182	7,541	(1,639)	9,026	57,494
Income (loss) before income taxes and minority interests	3,689	8,322	4,014	(11,492)	1,108	44,878
Net income (loss)	2,525	5,154	3,306	(7,908)	2,192	30,718
Capital expenditures	14,566	10,656	9,261	13,568	10,516	177,202
Depreciation and amortization	10,466	11,014	11,968	13,056	11,716	127,324
Research and development expenses	13,048	12,441	12,568	13,079	12,910	158,735
Cash flows:						
Cash flows from operating activities	6,731	16,293	15,337	20,577	18,223	81,886
Cash flows from investing activities	(13,340)	(10,692)	(7,582)	(13,229)	(14,748)	(162,288)
Cash flows from financing activities	(3,942)	2,152	(13,927)	(5,839)	(13,818)	(47,956)
At year-end:						
Total assets	201,315	205,090	207,259	215,853	267,422	2,449,087
Net assets	119,023	122,025	128,574	125,604	166,365	1,447,968
Interest-bearing liabilities	27,433	27,659	22,510	32,722	26,972	333,735
Per-share data:	Yen					U.S. dollars
Net income (loss)	¥ 10.48	¥ 21.39	¥ 13.72	¥ (31.78)	¥ 8.40	$ 0.13
Net assets	489.78	501.95	528.96	516.97	634.46	5.96
Cash dividends	12.50	15.00	10.00	15.00	15.00	0.15
Financial indicators:	%					
ROE	2.1	4.2	2.6	(5.5)	1.3	
ROA	2.9	6.1	4.1	0.2	3.4	
Ratio of operating income (loss) to net sales	2.6	5.9	4.4	(0.8)	4.0	
Equity ratio	58.6	59.0	61.5	57.7	61.3	
Ratio of interest-bearing liabilities to total assets	13.6	13.5	10.9	15.2	10.1	
Debt-to-equity ratio	23.2	22.9	17.7	26.3	16.5	

Notes:
1. The U.S. dollar amounts are translated from yen, for the convenience of the readers, at the rate of ¥82.2 = US$1 on March 30, 2012.
2. Capital expenditures = Increase in property, plant and equipment and intangible assets
3. Net assets per share is based on net assets less minority interests
4. ROE = Net income / Average net assets less minority interests
5. ROA = Ordinary income / Average total assets
6. Equity ratio = Net assets less minority interests / Total assets
7. Debt-to-equity ratio = Interest-bearing liabilities / Net assets less minority interests
8. Prior to the fiscal year ended March 31, 2008, the Company prepared its consolidated financial statements based on the non-consolidated financial statements of overseas subsidiaries. From the above fiscal year, the Company has based its consolidated reporting on such statements for their fiscal years that end on December 31. Accordingly, net sales and income items for the above fiscal year 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, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	FY2011 March 31, 2012	FY2010 March 31, 2011	FY2011 March 31, 2012
Current assets:			
Cash and cash equivalents (Note 15)	¥ 26,834	¥ 37,834	$ 326,448
Trade notes and accounts receivable (Note 15):			
Notes	7,967	6,475	96,922
Accounts	34,342	34,085	417,786
Inventories (Note 5)	23,153	20,994	281,667
Deferred tax assets (Note 9)	4,315	3,712	52,494
Others	3,605	3,572	43,856
Provision for doubtful accounts	(63)	(179)	(767)
Total current assets	100,153	106,493	1,218,406
Property, plant and equipment (Note 12):			
Land	10,468	10,687	127,348
Buildings and structures	67,634	68,742	822,798
Machinery and equipment	116,515	116,093	1,417,457
Lease assets	77	23	937
Construction in progress	9,530	6,264	115,937
	204,224	201,809	2,484,477
Less accumulated depreciation	(129,478)	(128,618)	(1,575,158)
Net property, plant and equipment	74,746	73,191	909,319
Intangible assets:			
Goodwill	4,787	5,255	58,236
Others	1,556	1,131	18,929
Total intangible assets	6,343	6,386	77,165
Investments and other assets:			
Investment securities (Notes 6 and 15):			
Unconsolidated subsidiaries and affiliates	1,390	1,496	16,910
Others	13,293	11,081	161,715
Long-term loans receivable (Note 15):			
Unconsolidated subsidiaries and affiliates	3,487	3,903	42,421
Employees and other	1,398	1,418	17,007
Deferred tax assets (Note 9)	1,313	1,560	15,973
Others	2,876	3,365	34,988
Provision for doubtful accounts	(3,684)	(3,803)	(44,817)
Total investments and other assets	20,073	19,020	244,197
Total assets	¥ 201,315	¥ 205,090	$ 2,449,087

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen FY2011 March 31, 2012	 FY2010 March 31, 2011	Thousands of U.S. dollars (Note 1) FY2011 March 31, 2012
Current liabilities:			
Short-term debt (Notes 7 and 15)	¥ 15,933	¥ 15,257	$ 193,832
Long-term debt due within one year (Note 7)	900	900	10,949
Trade notes and accounts payable (Note 15):			
Notes	4,173	3,539	50,766
Accounts	23,180	25,142	281,995
Accrued expenses	6,264	6,674	76,204
Income taxes payable	972	1,199	11,825
Provision for cost of business restructuring	2,199	–	26,752
Provision for loss on disaster	–	1,034	–
Others	7,850	6,829	95,499
Total current liabilities	61,471	60,574	747,822
Long-term liabilities:			
Long-term debt (Notes 7 and 15)	10,600	11,502	128,954
Deferred tax liabilities (Note 9)	1,122	1,223	13,650
Retirement benefits:			
Employees (Note 8)	6,997	6,702	85,122
Directors, statutory auditors and officers	11	17	134
Provision for environmental measures	178	180	2,165
Provision for loss on business liquidation	165	172	2,007
Provision for cost of business restructuring	–	364	–
Negative goodwill	209	791	2,542
Others	1,539	1,540	18,723
Total long-term liabilities	20,821	22,491	253,297
Net assets (Note 10):			
Shareholders' equity:			
Common stock:			
Authorized: 800,000,000 shares			
Issued :262,952,394 shares in FY2011 and FY2010	37,143	37,143	451,861
Capital surplus	35,358	35,358	430,146
Retained earnings	78,051	79,140	949,526
Treasury stock, at cost			
22,034,107 shares in FY 2011 and			
22,024,150 shares in FY 2010	(11,931)	(11,926)	(145,146)
Total shareholders' equity	138,621	139,715	1,686,387
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	2,171	1,287	26,411
Foreign currency translation adjustments	(20,850)	(18,570)	(253,650)
Postretirement liability adjustments for foreign			
consolidated subsidiaries	(1,945)	(1,499)	(23,662)
Total accumulated other comprehensive income	(20,624)	(18,782)	(250,901)
Minority interests	1,026	1,092	12,482
Total net assets	119,023	122,025	1,447,968
Total liabilities and net assets	¥ 201,315	¥ 205,090	$ 2,449,087

Consolidated Statements of Income

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2011 ended March, 2012	FY2010 ended March, 2011	FY2011 ended March, 2012
Net sales (Note 19)	¥ 185,237	¥ 190,972	$ 2,253,491
Cost of sales	135,141	136,090	1,644,051
Selling, general and administrative expenses	45,370	43,700	551,946
Operating income (Note 19)	4,726	11,182	57,494
Other income (expense):			
Interest and dividend income	653	723	7,944
Interest expense	(328)	(340)	(3,990)
Amortization of negative goodwill (Note 19)	582	821	7,080
Equity in earnings of affiliates	10	64	122
Foreign exchange gain, net	398	228	4,842
Gain (loss) on sale or disposal of property, plant and equipment	311	(468)	3,783
Loss on devaluation of investment securities (Note 6)	(588)	(318)	(7,153)
Loss on devaluation of investment securities of subsidiaries and affiliates	–	(6)	–
Cost of business restructuring (Note 11)	(2,218)	(692)	(26,983)
Loss on disaster	–	(1,345)	–
Impairment loss (Note 12)	(122)	(515)	(1,484)
Settlement (Note 13)	(681)	(593)	(8,285)
Gain on sales of subsidiaries and affiliates' stocks	373	–	4,538
Insurance income	343	–	4,173
Reversal of provision for retirement benefits	303	–	3,686
Reversal of provision for loss on disaster	208	–	2,530
Loss on provision for environmental measures	–	(74)	–
Loss on adjustment for changes in accounting standard for asset retirement obligations	–	(79)	–
Others, net	(281)	(266)	(3,419)
	(1,037)	(2,860)	(12,616)
Income before income taxes and minority interests	3,689	8,322	44,878
Income taxes (Note 9)			
Current	1,658	1,953	20,170
Deferred	(633)	1,051	(7,701)
	1,025	3,004	12,469
Income before minority interests	2,664	5,318	32,409
Minority interests	139	164	1,691
Net income	¥ 2,525	¥ 5,154	$ 30,718

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock (Note 18):			
Net income	¥ 10.48	¥ 21.39	$ 0.13
Diluted net income	–	–	–
Cash dividends applicable to the year	¥ 12.50	¥ 15.00	$ 0.15

See accompanying notes.

Consolidated Statements of Comprehensive Income

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2011 ended March, 2012	FY2010 ended March, 2011	FY2011 ended March, 2012
Income before minority interests	¥2,664	¥ 5,318	$ 32,409
Other comprehensive income (Note 14)			
Valuation difference on available-for-sale securities	884	(819)	10,754
Foreign currency translation adjustments	(2,358)	(7,532)	(28,686)
Postretirement liability adjustments for foreign consolidated subsidiaries	(446)	(297)	(5,426)
Share of other comprehensive income of associates accounted for using the equity method	(7)	(9)	(85)
Total other comprehensive income	(1,927)	(8,657)	(23,443)
Comprehensive income	¥ 737	¥(3,339)	$ 8,966
Comprehensive income attributable to:			
Owners of the parent	¥ 683	¥(3,449)	$ 8,309
Minority interests	54	110	657

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

		Millions of yen								
	Shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Postretirement liability adjustments for foreign consolidated subsidiaries	Minority interests	Total net assets
Balance at April 1, 2010	262,952	¥37,143	¥35,358	¥75,845	¥(11,916)	¥2,106	¥(11,083)	¥ –	¥1,121	¥128,574
Transfer to postretirement liability adjustments from retained earnings	–	–	–	1,202	–	–	–	(1,202)	–	–
Net income	–	–	–	5,154	–	–	–	–	–	5,154
Valuation difference arising during the year	–	–	–	–	–	(819)	–	–	–	(819)
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	(7,487)	–	–	(7,487)
Postretirement liability adjustments for foreign consolidated subsidiaries	–	–	–	–	–	–	–	(297)	–	(297)
Purchase of treasury stock	–	–	–	–	(11)	–	–	–	–	(11)
Cash dividends paid (¥12.5 per share)	–	–	–	(3,012)	–	–	–	–	–	(3,012)
Disposal of treasury stock	–	–	–	(0)	1	–	–	–	–	1
Others	–	–	–	(49)	–	–	–	–	–	(49)
Decrease in minority interests	–	–	–	–	–	–	–	–	(29)	(29)
Balance at April 1, 2011	262,952	¥37,143	¥35,358	¥79,140	¥(11,926)	¥1,287	¥(18,570)	¥(1,499)	¥1,092	¥122,025
Net income	–	–	–	2,525	–	–	–	–	–	2,525
Valuation difference arising during the year	–	–	–	–	–	884	–	–	–	884
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	(2,280)	–	–	(2,280)
Postretirement liability adjustments for foreign consolidated subsidiaries	–	–	–	–	–	–	–	(446)	–	(446)
Purchase of treasury stock	–	–	–	–	(6)	–	–	–	–	(6)
Cash dividends paid (¥15 per share)	–	–	–	(3,614)	–	–	–	–	–	(3,614)
Disposal of treasury stock	–	–	–	(0)	1	–	–	–	–	1
Decrease in minority interests	–	–	–	–	–	–	–	–	(66)	(66)
Balance at March 31, 2012	262,952	¥37,143	¥35,358	¥78,051	¥(11,931)	¥2,171	¥(20,850)	¥(1,945)	¥1,026	¥119,023

		Thousands of U.S. dollars (Note 1)								
	Shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Postretirement liability adjustments for foreign consolidated subsidiaries	Minority interests	Total net assets
Balance at April 1, 2011	262,952	$451,861	$430,146	$962,774	$(145,085)	$15,657	$(225,913)	$(18,236)	$13,285	$1,484,489
Net income	–	–	–	30,718	–	–	–	–	–	30,718
Valuation difference arising during the year	–	–	–	–	–	10,754	–	–	–	10,754
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	(27,737)	–	–	(27,737)
Postretirement liability adjustments for foreign consolidated subsidiaries	–	–	–	–	–	–	–	(5,426)	–	(5,426)
Purchase of treasury stock	–	–	–	–	(73)	–	–	–	–	(73)
Cash dividends paid ($0.18 per share)	–	–	–	(43,966)	–	–	–	–	–	(43,966)
Disposal of treasury stock	–	–	–	(0)	12	–	–	–	–	12
Decrease in minority interests	–	–	–	–	–	–	–	–	(803)	(803)
Balance at March 31, 2012	262,952	$451,861	$430,146	$949,526	$(145,146)	$26,411	$(253,650)	$(23,662)	$12,482	$1,447,968

See accompanying notes.

Consolidated Statements of Cash Flows

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2011 ended March, 2012	FY2010 ended March, 2011	FY2011 ended March, 2012
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 3,689	¥ 8,322	$ 44,878
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	10,466	11,014	127,324
Impairment loss	122	515	1,484
Decrease in employee's retirement benefits	(83)	(1,322)	(1,010)
(Gain) loss on sale or disposal of property, plant and equipment	(311)	468	(3,783)
Interest and dividend income	(653)	(723)	(7,944)
Interest expense	328	340	3,990
Loss on devaluation of investment securities	587	318	7,141
Cost of business restructuring	2,161	295	26,289
Loss on disaster	(686)	1,094	(8,345)
Increase in notes and accounts receivable	(2,471)	(207)	(30,061)
Increase in inventories	(2,834)	(3,409)	(34,477)
(Increase) decrease in other current assets	(377)	414	(4,586)
(Decrease) increase in notes and accounts payable	(1,051)	1,288	(12,786)
Increase in other current liabilities	46	359	560
Others, net	(740)	(1,051)	(9,002)
Subtotal	8,193	17,715	99,672
Interest and dividends received	653	723	7,944
Interest paid	(331)	(411)	(4,027)
Income taxes paid	(1,784)	(1,734)	(21,703)
Net cash provided by operating activities	6,731	16,293	81,886
Cash flows from investing activities:			
Purchases of property, plant and equipment	(12,652)	(9,889)	(153,917)
Proceeds from sale of property, plant and equipment	746	319	9,075
Purchases of investment securities	(1,581)	(13)	(19,234)
Others, net	147	(1,109)	1,788
Net cash used in investing activities	(13,340)	(10,692)	(162,288)
Cash flows from financing activities:			
Increase in short-term debt	727	7,825	8,845
Cash dividends paid	(3,614)	(3,012)	(43,966)
Cash dividends paid to minority shareholders	(120)	(138)	(1,460)
Repayment of long-term loans payable	(900)	(2,501)	(10,949)
Others, net	(35)	(22)	(426)
Net cash (used in) provided by financing activities	(3,942)	2,152	(47,956)
Effect of exchange rate changes on cash and cash equivalents	(449)	(2,324)	(5,462)
Net (decrease) increase in cash and cash equivalents	(11,000)	5,429	(133,820)
Cash and cash equivalents at beginning of year	37,834	32,405	460,268
Cash and cash equivalents at end of year	¥26,834	¥37,834	$326,448

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 19.98% (as of march 31, 2012) of the Company's shares. The accompanying consolidated financial statements of the Company and its consolidated subsidiaries (collectively the "Companies") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. 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"). Moreover, the accounts of consolidated other overseas subsidiaries are based on in conformity with International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from 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. Some supplementary information included in the statutory Japanese consolidated financial statement, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

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 outside Japan, using the prevailing exchange rate as of March 30, 2012, which was ¥82.2 to US$1. Such 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 34 and 35 significant subsidiaries for the years ended March 31, 2012 and 2011, respectively. All significant intercompany balances and transactions have been eliminated in consolidation. Certain subsidiaries are consolidated with year-ends that differ from that of the company. However, necessary adjustments have been made if the effect of the differences is material.

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 is immaterial.

Investments in significant affiliated companies (2 affiliates in 2012 and 2011, generally 20% – 50% owned) which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method.

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 over the respective subsidiaries.

Differences between the acquisition costs and the underlying net assets of investments in consolidated subsidiaries and other companies accounted for by the equity method at the date of acquisition are charged (or credited) 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.

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 neither consolidated nor accounted for using the equity method, are stated at moving-average cost.

Available-for-sale securities with available fair values are stated at fair value. Unrealized gains or unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets via the consolidated statements of comprehensive income. Other available-for-sale securities with no available fair values are stated at moving- average cost.

Significant declines in fair 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 forward foreign exchange contracts meet specific hedging criteria, the hedged foreign currency receivables are translated at the corresponding forward foreign exchange contract rate.
2. 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 carrying amounts 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.
3. 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 cost, determined principally by the weighted average method for merchandise, finished goods, semi-finished goods, work in process and raw materials, and by the gross average method for supplies, or net realizable value.

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. 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.

Intangible assets (excluding leases)

Intangible assets are amortized using the straight-line method. Software for internal use is amortized over its estimated useful life (five years).

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 by the accounting standard for leases, 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.

Provision for doubtful accounts

The Provision for doubtful accounts is determined by adding the uncollectible amounts and individually estimated for doubtful accounts to the amount calculated by a certain rate, based on past collection experience.

Accrued employees' bonuses

The Company and certain consolidated subsidiaries accrue the amounts of employees' bonuses based on estimated amounts to be paid in the subsequent period.

Provision for cost of business restructuring

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

Employees' severance and retirement benefits

The Company and certain domestic 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. In certain circumstances, employees are entitled to receive additional payments when they leave the company before retirement age. Certain overseas consolidated subsidiaries adopt both defined contribution pension plans and defined benefit pension plans. In addition, the company have established a retirement benefit trust.

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. Prior service costs and actuarial gains or losses are mainly recognized in the consolidated statements of income when they are incurred.

Certain consolidated subsidiaries provide an allowance for directors, corporate auditors and officers at balance sheet dates based on the amounts required by the internal rules for retirement benefits.

Provision for environmental measures

The provision for environmental measures is stated at amounts based on the estimated cost required at the end of the fiscal year for the waste disposal of Polychlorinated Biphenyls (PCBs) in accordance with the "Act on Special Measures concerning Promotion of Appropriate Disposal of PCBs waste".

Provision for loss on business liquidation

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase.

Research and development

Research and development expenses are charged to income when incurred. The amounts for the years ended March 31, 2012 and 2011 were ¥13,048 million ($158,735 thousand) and ¥12,441 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 pre-tax 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.

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. Supplemental information

Accounting changes and error corrections

For accounting changes and corrections of prior period errors which are made on and after the beginning of the fiscal year, the Company adopted the "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan "ASBJ" Statement No. 24 issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24 issued on December 4, 2009).

4. Notes due at the end of the fiscal year

Matured notes are settled on the date of clearing.

As the ending day of the fiscal year fell on a bank holiday, the following notes due at the end of the fiscal year are included in the balance at the end of the fiscal year.

	Millions of yen		Thousands of U.S. dollars
	FY2011 March 31, 2012	FY2010 March 31, 2011	FY2011 March 31, 2012
Notes receivable	¥ 1,054	¥ –	$ 12,822
Notes payable	716	–	8,710

5. Inventories

Inventories as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2011 March 31, 2012	FY2010 March 31, 2011	FY2011 March 31, 2012
Merchandise and finished goods	¥ 9,843	¥ 8,709	$119,745
Semi-finished goods	2,691	2,574	32,737
Work in process	687	582	8,358
Raw materials and supplies	9,932	9,129	120,827
Total	¥ 23,153	¥ 20,994	$281,667

The amounts of write-down charged to cost of sales due to the decline of profitability of inventories held in the normal course of business were ¥40 million ($487 thousand) and ¥(211) million for the years ended March 31, 2012 and 2011, respectively.

6. Investment securities

(1) The following tables summarized carrying amounts and acquisition costs of available-for-sale securities with available fair values as of March 31, 2012 and 2011:

	Millions of yen		
As of March 31, 2012	Carrying amount	Acquisition cost	Difference
Securities with carrying amounts exceeding acquisition costs:			
Equity securities	¥ 9,492	¥ 5,815	¥ 3,677
Debt securities	–	–	–
Others	–	–	–
Subtotal	¥ 9,492	¥ 5,815	¥ 3,677
Securities with carrying amounts not exceeding acquisition costs:			
Equity securities	¥ 3,049	¥ 3,392	¥ (343)
Debt securities	–	–	–
Others	–	–	–
Subtotal	¥ 3,049	¥ 3,392	¥ (343)
Total	¥ 12,541	¥ 9,207	¥ 3,334

	Millions of yen		
As of March 31, 2011	Carrying amount	Acquisition cost	Difference
Securities with carrying amounts exceeding acquisition costs:			
Equity securities	¥ 7,362	¥ 4,554	¥ 2,808
Debt securities	–	–	–
Others	–	–	–
Subtotal	¥ 7,362	¥ 4,554	¥ 2,808
Securities with carrying amounts not exceeding acquisition costs:			
Equity securities	¥ 2,968	¥ 3,660	¥ (692)
Debt securities	–	–	–
Others	–	–	–
Subtotal	¥ 2,968	¥ 3,660	¥ (692)
Total	¥ 10,330	¥ 8,214	¥ 2,116

As of March 31, 2012	Thousands of U.S. dollars Carrying amount	 Acquisition cost	 Difference
Securities with carrying amounts exceeding acquisition costs:			
Equity securities	$115,474	$ 70,742	$44,732
Debt securities	–	–	–
Others	–	–	–
Subtotal	$115,474	$ 70,742	$44,732
Securities with carrying amounts not exceeding acquisition costs:			
Equity securities	$ 37,092	$ 41,265	$ (4,173)
Debt securities	–	–	–
Others	–	–	–
Subtotal	$ 37,092	$ 41,265	$ (4,173)
Total	$152,566	$112,007	$40,559

The Companies recognize impairment loss on 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 at the end of two consecutive semi-annual periods.

Impairment loss was ¥587 million ($7,141 thousand) and ¥313 million for the years ended March 31, 2012 and 2011, respectively. As impairment loss was recognized in the consolidated 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 for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2011 ended March, 2012	FY2010 ended March, 2011	FY2011 ended March, 2012
Sales proceeds of available-for-sale securities	¥ –	¥ 103	$ –
Gains on sales of available-for-sale securities	–	–	–
Losses on sales of available-for-sale securities	–	15	–

7. Short-term debt and long-term debt

Short-term debt as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2011 March 31, 2012	FY2010 March 31, 2011	FY2011 March 31, 2012
Short-term bank loans	¥ 3,933	¥ 4,257	$ 47,847
Commercial paper	12,000	11,000	145,985
Total	¥ 15,933	¥ 15,257	$ 193,832

Annual average interest rates on short-term bank loans for the years ended March 31, 2012 and 2011 were 0.7%. Annual average interest rates on commercial paper for the years ended March 31, 2012 and 2011 were 0.1% and 0.2%, respectively.

Long-term debt as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2011 March 31, 2012	FY2010 March 31, 2011	FY2011 March 31, 2012
Unsecured loans from banks and others repayable due through 2016 with average interest rate of 1.7% at March 31, 2012 (1.7% at March 31, 2011)	¥ 11,500	¥ 12,402	$ 139,903
Less amounts due within one year	(900)	(900)	(10,949)
Total	¥ 10,600	¥ 11,502	$ 128,954

The annual maturities of long-term debt as of March 31, 2012 were as follows:

	Millions of yen	Thousands of U.S. dollars
FY 2012 ending March 31, 2013	¥ 900	$ 10,949
FY 2013 ending March 31, 2014	5,900	71,776
FY 2014 ending March 31, 2015	1,400	17,032
FY 2015 ending March 31, 2016	3,300	40,146
FY 2016 ending March 31, 2017	–	–
FY 2017 ending March 31, 2018 and thereafter	–	–
Total	¥ 11,500	$ 139,903

8. 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, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2011 March 31, 2012	FY2010 March 31, 2011	FY2011 March 31, 2012
Projected benefit obligation	¥ 27,597	¥ 26,936	$ 335,730
Less fair value of plan assets	(20,559)	(20,219)	(250,109)
Less unrecognized actuarial differences	(41)	(13)	(499)
Unrecognized prior service costs	(2)	(2)	(24)
Prepaid pension cost	2	–	24
Employees' retirement benefits	¥ 6,997	¥ 6,702	$ 85,122

Severance and retirement benefit expenses, included in the consolidated statements of income for the years ended March 31, 2012 and 2011 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2011 ended March, 2012	FY2010 ended March, 2011	FY2011 ended March, 2012
Service costs-benefits earned during the year	¥ 1,060	¥ 1,137	$ 12,895
Interest cost on projected benefit obligation	795	815	9,672
Expected return on plan assets	(471)	(551)	(5,730)
Amortization of actuarial differences	1,317	(93)	16,022
Amortization of prior service costs	(64)	(69)	(779)
Severance and retirement benefit expenses	¥ 2,637	¥ 1,239	$ 32,080

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

	FY2011 ended March, 2012	FY2010 ended March, 2011
Discount rates:		
Domestic companies	1.85%	2.43%
Overseas companies	4.1	5.5
Expected return on plan assets	2.1%	2.5%

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 consolidated statements of income when they are determined actuarially.

9. Income taxes

The Companies are subject to several taxes based on income, which are corporation tax, inhabitants tax and enterprise tax. The aggregate statutory tax rate on income before income taxes was approximately 40.6% for the years ended March 31, 2012 and 2011.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2011 March 31, 2012	FY2010 March 31, 2011	FY2011 March 31, 2012
Deferred tax assets:			
Tax loss carryforwards	¥ 3,298	¥ 4,374	$ 40,122
Employees' retirement benefits	2,910	3,180	35,401
Provision for cost of business restructuring	2,443	147	29,720
Excess depreciation in overseas subsidiaries	2,058	2,201	25,036
Tax credit	1,852	1,547	22,530
Provision for doubtful accounts	1,350	1,767	16,423
Excess bonuses accrued	877	998	10,669
Taxable retainage of certain foreign subsidiaries	869	909	10,572
Accrued expenses	386	478	4,696
Impairment loss	318	437	3,869
Provision for loss on disaster	–	418	–
Others	1,799	1,729	21,886
Subtotal	18,160	18,185	220,924
Valuation allowance	(6,228)	(6,655)	(75,766)
Total deferred tax assets	11,932	11,530	145,158
Deferred tax liabilities:			
Additional depreciation in overseas subsidiaries	(2,289)	(2,125)	(27,847)
Deferred gains on property, plant and equipment	(1,786)	(2,099)	(21,727)
Valuation difference on available-for-sale securities	(1,145)	(808)	(13,929)
Gain on securities contributed to employees' retirement benefit trust	(1,046)	(1,392)	(12,725)
Others	(1,160)	(1,057)	(14,112)
Total deferred tax liabilities	(7,426)	(7,481)	(90,340)
Net deferred tax assets	¥ 4,506	¥ 4,049	$ 54,818

The differences between the statutory tax rate and the Companies' actual effective tax rate for financial statement purposes for the years ended March 31, 2012 and 2011 were as follows:

	FY2011 ended March, 2012	FY2010 ended March, 2011
Statutory tax rate	40.6%	40.6%
Permanently non-deductible expenses	3.7	2.4
Retained earnings of foreign subsidiaries	10.7	0.0
Change in valuation allowance	2.0	14.0
Effect of differences between tax rates in Japan and in other countries	(45.4)	(14.1)
Others, net	2.9	(6.8)
Effect of tax system revisions	13.3	–
Actual effective tax rates	27.8%	36.1%

Following the promulgation of the "Act for Partial Amendment of the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114, 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117, 2011) (collectively, hereinafter "revised Corporate Tax Act, etc.") on December 2, 2011, the corporate tax rate will be lowered and Special Restoration Corporate Tax will be imposed from the fiscal years beginning on and after April 1, 2012. In conjunction with these changes, the effective statutory tax rate to measure deferred tax assets and deferred tax liabilities uses the rate under revised Corporate Tax Act, etc.

As a result of these changes, the amount of deferred tax assets (less the amount of deferred tax liabilities) has decreased by ¥343 million ($4,173 thousand), the amounts of income taxes-deferred and valuation difference on available-for-sale securities recorded for the fiscal year have increased by ¥491 million ($5,973 thousand) and ¥148 million ($1,800 thousand), respectively, compared to the amounts calculated by the tax rate prior to the changes.

10. Net assets

Under the Companies Act, 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.

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital, depending on the equity account charged upon payment of such dividends, until the aggregate amount of additional paid-in capital and legal reserve equals 25% of common stock. Under the Companies Act, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of common stock may be made available for dividends by resolution of the shareholders. Under the Companies Act, the total amount of additional paid-in capital; and legal reserve may be reversed without limitation of such threshold. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

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 Japanese laws and regulations.

At the annual shareholders' meeting held on June 28, 2012, the shareholders resolved to distribute cash dividends amounting to ¥1,205 million ($14,659 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2012. Such appropriations are recognized in the period in which they were resolved.

The Company's capital stock consists of only common stock.

The changes in the number of outstanding common stock and treasury stock during the years ended March 31, 2012 and 2011 are as follows:

	Number of shares			
	April 1, 2011	Increase	Decrease	March 31, 2012
Outstanding shares issued:				
Common stock	262,952,394	–	–	262,952,394
Treasury stock	22,024,150	11,807	1,850	22,034,107

	Number of shares			
	April 1, 2010	Increase	Decrease	March 31, 2011
Outstanding shares issued:				
Common stock	262,952,394	–	–	262,952,394
Treasury stock	22,002,232	24,411	2,493	22,024,150

Notes:

1. Increase in treasury stock is due to purchase of shares less than one unit.
2. Decrease in treasury stock is due to sales of shares less than one unit.

The Company paid the following cash dividends during the years ended March 31, 2012 and 2011:

Year ended March 31, 2012

Cash dividends approved at the shareholders' meeting held on June 29, 2011:	Total amount (Millions of yen) (Thousands of U.S. dollars)	Per share amount (Yen) (U.S. dollars)	Dividend record date	Effective date
Common stock	¥ 1,807	¥ 7.50		
	$ 21,983	$ 0.09	Mar. 31, 2011	Jun. 30, 2011

Cash dividends approved at the Board of Directors' meeting held on October 31, 2011:	Total amount (Millions of yen) (Thousands of U.S. dollars)	Per share amount (Yen) (U.S. dollars)	Dividend record date	Effective date
Common stock	¥ 1,807	¥ 7.50		
	$ 21,983	$ 0.09	Sep. 30, 2011	Dec. 2, 2011

Year ended March 31, 2011

Cash dividends approved at the shareholders' meeting held on June 29, 2010:	Total amount (Millions of yen)	Per share amount (Yen)	Dividend record date	Effective date
Common stock	¥ 1,205	¥ 5.00	Mar. 31, 2010	Jun. 30, 2010

Cash dividends approved at the Board of Directors' meeting held on October 29, 2010:	Total amount (Millions of yen)	Per share amount (Yen)	Dividend record date	Effective date
Common stock	¥ 1,807	¥ 7.50	Sep. 30, 2010	Dec. 3, 2010

11. Cost of business restructuring

The cost of business restructuring for the years ended March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2011 ended March, 2012	FY2010 ended March, 2011	FY2011 ended March, 2012
Loss on withdrawal of flexible printed circuit board business	¥ 1,840	¥ –	$ 22,384
Cost of centralizing carrier tape manufacturing bases	293	–	3,565
Restructuring of flexible printed circuit board business	–	401	–
Cost of transferring laboratory	72	302	876
Others	13	(11)	158
Total	¥ 2,218	¥ 692	$ 26,983

12. Impairment loss

The Company and consolidated subsidiaries categorize assets for business use by business segment. Idle assets were also categorized by individual property.

The Company recognized the following impairment losses on dormant fixed assets with no further potential for business use for the years ended March 31, 2012 and 2011:

The carrying amounts of dormant assets in Utsunomiya were written down to the recoverable amount. In this case, the recoverable amount was measured at net selling prices, estimated at zero for the year ended March 31, 2011.

The carrying amounts of dormant assets in Taiwan were written down to the recoverable amount. The recoverable amount was measured at net selling prices, estimated at zero for the year ended March 31, 2011.

The carrying amounts of idle land in Akita that had significantly declined in market value were written down to the recoverable amount in the years ended March 31, 2012 and 2011.

The recoverable amount was measured at net selling price, calculated using the assessed property tax valuation with reasonable adjustments.

In the year ended March 31, 2011, the carrying amounts of idle buildings and structures in Akita that had significantly declined in market value were written down to the recoverable amount.

The recoverable amount was measured at net selling price, calculated using the assessed property tax valuation.

Impairment losses for the years ended March 31, 2012 and 2011 were as follows:

			Millions of yen		Thousands of U.S. dollars
Use	Location	Type of assets	FY2011 ended March, 2012	FY2010 ended March, 2011	FY2011 ended March, 2012
Business-use assets	Utsunomiya, Tochigi	Machinery and equipment	¥ –	¥ 74	$ –
	Taiwan	Construction in progress	–	21	–
Idle assets	Akita, Akita	Land	122	123	1,484
		Buildings and structures	–	297	–
Total			¥ 122	¥ 515	$ 1,484

13. Settlement

Settlement for the years ended March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2011 ended March, 2012	FY2010 ended March, 2011	FY2011 ended March, 2012
Compensation payment of claim	¥ 374	¥ 433	$ 4,550
Compensation for damage	129	–	1,570
Settlement package	111	–	1,350
Attorney's fee	67	108	815
Cost of purification of river	–	48	–
Others	–	4	–
Total	¥ 681	¥ 593	$ 8,285

14. Other comprehensive income

Reclassification adjustments and tax effect amounts of other comprehensive income for the year ended March 31, 2012 were as follows:

	Millions of yen	Thousands of U.S. dollars
	FY2011 ended March, 2012	FY2011 ended March, 2012
Valuation difference on available-for-sale securities		
Amount for the year	636	7,737
Reclassification adjustment	587	7,141
Amount before tax effect adjustment	1,223	14,878
Tax effect amount	(339)	(4,124)
Valuation difference on available-for-sale securities	884	10,754
Foreign currency translation adjustments		
Amount for the year	(2,336)	(28,418)
Amount before tax effect	(2,336)	(28,418)
Tax effect amount	(22)	(268)
Foreign currency translation adjustment	(2,358)	(28,686)
Postretirement liability adjustments for foreign consolidated subsidiaries		
Amount for the year	(1,219)	(14,829)
Reclassification adjustment	679	8,260
Amount before tax effect	(540)	(6,569)
Tax effect amount	94	1,143
Postretirement liability adjustments for foreign consolidated subsidiaries	(446)	(5,426)
Share of other comprehensive income of associates accounted for using the equity method		
Amount for the year	(7)	(85)
Total other comprehensive income	(1,927)	(23,443)

15. Financial instruments and related disclosures

The information about financial instruments and related disclosures for the years ended March 31, 2012 and 2011 were as follows:

(1) Status of financial instruments

The Companies confine cash management to investing in short-term deposits and procure funds through short-term bank loans and corporate bond issuance (including commercial paper). The Companies utilize derivative financial instruments to minimize market risks, especially the effect of fluctuations in foreign currency exchange rates on assets and liabilities. The Companies do not hold or issue derivative financial instruments for speculative purposes.

The Companies are exposed to credit risks in relation to trade notes and accounts receivable from customers. The Companies regularly monitor the business condition, due date and balance of receivables of major counterparties according to the Companies' credit management regulations in order to reduce credit risk by identifying and minimizing risks at early stages, including deterioration in a counterparty's financial situation. Trade notes and accounts receivable denominated in foreign currencies expose the Companies to exchange rate risks. The Company and some subsidiaries categorize trade notes and accounts receivable denominated in foreign currencies based on currencies and repayment schedule, and hedge exchange rate risks by utilizing forward foreign exchange contracts.

Investment securities owned by the Companies consist primarily of investments in companies with which the Companies have a business relationship. These investments are exposed to market risks arising from fluctuations in their market price.

The Companies review the fair value of these investments on a quarterly basis.

Long-term loans receivable are primarily from affiliated companies.

Trade notes and accounts payable are primarily short-term liabilities due within one year. Some trade notes and accounts payable that arise from the procurement of raw materials are denominated in foreign currencies, exposing the Companies to foreign exchange risk. The Companies are to stay the balances of trade notes and accounts payable in a foreign currency within the balances of trade notes and accounts receivable 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 facilities. 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 the market risk of fluctuations in foreign currency exchange rates on assets and liabilities in accordance with the internal regulations. To further reduce associated credit risk, the Companies contract only with highly-rated financial institutions when utilizing derivative contracts. Please see Note 2 for more details regarding derivatives.

The Companies manage liquidity risk in relation to trade notes and accounts payable and loans payable by preparing cash management plans and maintaining sufficient working capital.

The fair values of financial instruments are based on market prices, and on estimates calculated using reasonable values when the financial instruments do not have market prices.

Since certain assumptions are adopted for such calculations, the values may vary under different assumptions.

(2) Fair value of financial instruments

As of March 31, 2012	Carrying amount (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
Cash and cash equivalents	¥26,834	¥26,834	¥ –
Trade notes and accounts receivable:			
Notes	7,967	7,967	–
Accounts	34,342	34,342	–
Investment securities	12,541	12,541	–
Long-term loans receivable	4,884		
Provision for doubtful accounts	(3,060)		
	1,824	1,824	
Total assets	¥83,508	¥83,508	¥ –
Trade notes and accounts payable:			
Notes	¥ 4,173	¥ 4,173	¥ –
Accounts	23,180	23,180	–
Short-term debt and long-term debt due within one year	16,833	16,833	–
Long-term debt	10,600	10,661	61
Total liabilities	¥54,786	¥54,847	¥61
Derivative financial instruments	(640)	(640)	–

As of March 31, 2011	Carrying amount (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
Cash and cash equivalents	¥37,834	¥37,834	¥ –
Trade notes and accounts receivable:			
Notes	6,475	6,475	–
Accounts	34,085	34,085	–
Investment securities	10,331	10,331	–
Long-term loans receivable	5,321		
Provision for doubtful accounts	(3,060)		
	2,261	2,264	3
Total assets	¥90,986	¥90,989	¥ 3
Trade notes and accounts payable:			
Notes	¥ 3,539	¥ 3,539	¥ –
Accounts	25,142	25,142	–
Short-term debt and long-term debt due within one year	16,157	16,157	–
Long-term debt	11,502	11,583	81
Total liabilities	¥56,340	¥56,421	¥81
Derivative financial instruments	(703)	(703)	–

As of March 31, 2012	Thousands of U.S. dollars Carrying amount	Fair value	Difference
Cash and cash equivalents	$ 326,448	$ 326,448	$ –
Trade notes and accounts receivable:			
Notes	96,922	96,922	–
Accounts	417,786	417,786	–
Investment securities	152,567	152,567	–
Long-term loans receivable	59,416		
Provision for doubtful accounts	(37,226)		
	22,190	22,190	
Total assets	$1,015,913	$1,015,913	$ –
Trade notes and accounts payable:			
Notes	$ 50,766	$ 50,766	$ –
Accounts	281,995	281,995	–
Short-term debt and long-term debt due within one year	204,781	204,781	–
Long-term debt	128,954	129,696	742
Total liabilities	$ 666,496	$ 667,238	$ 742
Derivative financial instruments	(7,786)	(7,786)	–

Notes:

1. Provision for doubtful accounts corresponding to long-term loans receivable is deducted.
2. Amounts recorded in liabilities are presented in parentheses.

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

Assets

Cash and cash equivalents, trade notes and accounts receivable

The carrying amounts of cash and cash equivalents, trade notes and accounts receivable approximate their fair value because of their short maturities.

Investment securities

The fair value of listed equity securities is measured at the quoted market price of the stock exchange. Information on fair value of investment securities categorized by holding purposes is described in Note 6.

Long-term loans receivable

The fair value of long-term loans receivable is based on the present value determined by discounting the future cash flows using interest rates that would be applied to new loans under similar terms and conditions.

Liabilities

Trade notes and accounts payable, 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

The fair value of long-term debt is based on the present value determined by discounting the future cash flows using interest rates reflecting the fluctuations of the interest rate market on the contract interest rates.

Derivative financial instruments

Information on the fair values for derivatives is included in Note 16.

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

As of March 31	Millions of yen FY2011 March 31, 2012	FY2010 March 31, 2011	Thousands of U.S. dollars FY2011 March 31, 2012
Unlisted equity securities	¥ 753	¥ 751	$ 9,161
Investment securities: Unconsolidated subsidiaries and affiliates	853	959	10,377
Investment: Unconsolidated subsidiaries and affiliates	536	536	6,521
Total	¥2,142	¥2,246	$ 26,059

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

(c) Maturity analysis for financial assets subsequent to March 31, 2012

	Millions of yen			
As of March 31, 2012	Due in a year or less	1-5 years	5-10 years	Due after 10 years
Cash and cash equivalents	¥ 26,834	¥ –	¥ –	¥ –
Trade notes and accounts receivable:				
Notes	7,967	–	–	–
Accounts	34,342	–	–	–
Long-term loans receivable	–	431	505	570
Total	¥ 69,143	¥ 431	¥ 505	¥ 570

	Thousands of U.S. dollars			
As of March 31, 2012	Due in a year or less	1-5 years	5-10 years	Due after 10 years
Cash and cash equivalents	$ 326,448	$ –	$ –	$ –
Trade notes and accounts receivable:				
Notes	96,922	–	–	–
Accounts	417,786	–	–	–
Long-term loans receivable	–	5,243	6,144	6,934
Total	$ 841,156	$ 5,243	$ 6,144	$ 6,934

Long-term loans receivable of ¥3,379 million ($41,107 thousand) was not included in the above schedule, because the repayment schedule could not be determined.

(d) Repayment schedule of long-term debt is described in Note 7.

16. Derivative financial instruments

The outstanding balances of derivative contracts as of March 31, 2012 and 2011 were as follows:

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

Currency related contracts

	Millions of yen			
	Contract amount			
March 31, 2012	Total	Due after one year	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:				
Buying				
USD	¥ 4,955	¥ 4,769	¥ (640)	¥ (640)
Total	¥ 4,955	¥ 4,769	¥ (640)	¥ (640)

	Millions of yen			
	Contract amount			
March 31, 2011	Total	Due after one year	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:				
Selling				
USD	¥ 327	¥ –	¥ (5)	¥ (5)
Buying				
USD	5,147	4,955	(698)	(698)
Total	¥5,474	¥4,955	¥ (703)	¥ (703)

	Thousands of U.S. dollars			
	Contract amount			
March 31, 2012	Total	Due after one year	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:				
Buying				
USD	$ 60,280	$ 58,017	$ (7,786)	$ (7,786)
Total	$ 60,280	$ 58,017	$ (7,786)	$ (7,786)

Note: The fair value of forward foreign exchange contracts is determined by the quoted price on the forward foreign exchange market.

(2) Derivative contracts to which hedge accounting was applied

Currency related contracts

		Millions of yen		
		Contract amount		
March 31, 2012	Principal hedged items	Total	Due after one year	Fair value
Forward foreign exchange contracts				
Selling:	Trade notes and accounts			
USD	receivable - accounts	¥ 1,057	¥ –	¥ (24)

		Millions of yen		
		Contract amount		
March 31, 2011	Principal hedged items	Total	Due after one year	Fair value
Forward foreign exchange contracts				
Selling:	Trade notes and accounts			
USD	receivable - accounts	¥ 1,420	¥ –	¥ (22)

		Thousands of U.S. dollars		
		Contract amount		
March 31, 2012	Principal hedged items	Total	Due after one year	Fair value
Forward foreign exchange contracts				
Selling:	Trade notes and accounts			
USD	receivable - accounts	$ 12,859	$ –	$ (292)

Notes:

1. Hedge accounting method
   Hedged items are translated into Japanese yen using the forward contract rates.
2. The fair value of forward foreign exchange contracts is determined by the quoted price on the forward foreign exchange market.

17. Leases

As lessee:
The following pro forma amounts present the acquisition cost, accumulated depreciation and net carrying amounts of the leased property as of March 31, 2012 and 2011, which would have been reflected in the consolidated 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		
As of March 31, 2012	Machinery and equipment	Other assets	Total
Acquisition cost	¥ 41	¥ 69	¥110
Accumulated depreciation	37	69	106
Net carrying amounts	¥ 4	¥ 0	¥ 4

	Millions of yen		
As of March 31, 2011	Machinery and equipment	Other assets	Total
Acquisition cost	¥126	¥81	¥207
Accumulated depreciation	104	79	183
Net carrying amounts	¥ 22	¥ 2	¥ 24

	Thousands of U.S. dollars		
As of March 31, 2012	Machinery and equipment	Other assets	Total
Acquisition cost	$499	$839	$1,338
Accumulated depreciation	450	839	1,289
Net carrying amounts	$ 49	$ 0	$ 49

	Millions of yen		Thousands of U.S. dollars
As of March 31	FY2011 March 31, 2012	FY2010 March 31, 2011	FY2011 March 31, 2012
Future lease payments:			
Due within one year	¥ 4	¥ 21	$ 49
Due after one year	0	5	0
Total	¥ 4	¥ 26	$ 49

	Millions of yen		Thousands of U.S. dollars
	FY2011 ended March, 2012	FY2010 ended March, 2011	FY2011 ended March, 2012
Lease payments	¥ 19	¥ 41	$ 231
Depreciation	18	39	219
Interest expense	0	1	0

Depreciation is calculated based on the useful life of the lease term and a residual value of zero.

Total interest expense is the difference between total lease payments and the acquisition cost of leased assets, and is allocated over the lease term by the interest method.

Operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	FY2011 March 31, 2012	FY2010 March 31, 2011	FY2011 March 31, 2012
Future lease payments under non-cancelable operating leases:			
Due within one year	¥ 10	¥ 11	$ 122
Due after one year	8	7	97
Total	¥ 18	¥ 18	$ 219

18. Per share information

March 31	Yen FY2011 March 31, 2012	Yen FY2010 March 31, 2011	U.S. dollars FY2011 March 31, 2012
Net assets per share	¥ 489.78	¥ 501.95	$ 5.96
Net income per share	10.48	21.39	0.13

*Diluted net income per share was not presented since the potential shares did not exist for the years ended March 31, 2012 and 2011.

Net income per share is calculated based on the following:

	Millions of yen FY2011 ended March, 2012	Millions of yen FY2010 ended March, 2011	Thousands of U.S. dollars FY2011 ended March, 2012
Net income	¥ 2,525	¥ 5,154	$ 30,718
Net income attributable to common shares	2,525	5,154	30,718

	Number of shares (in thousands) FY2011 ended March, 2012	Number of shares (in thousands) FY2010 ended March, 2011
Average number of common shares during the year	240,923	240,942

19. Segment information

1. General information about reportable segments

Reportable segments of the Company include items in the constituent units of our business, for which separate financial information is available, and those items to be reviewed regularly by the Board of Directors to determine the distribution of management resources and evaluate business results.

Taking into consideration the major applications of our products in the market and the similarities of our businesses, the Company's reportable segments consist of the four segments; Semiconductor materials, Circuit products, High-performance plastics and Quality of life products.

The major products and services categorized in each reportable segment

Reportable Segments	Major products and services
Semiconductor materials	Epoxy resin molding compounds for encapsulation of semiconductor devices, Positive-type photosensitive coating resins for semiconductor wafers, Pastes for die bonding, Carrier tapes for mounting semiconductor components, Adhesive tapes for assembling semiconductors, Semiconductor substrate materials
Circuit products	Flexible printed circuits, Phenolic resin copper-clad laminates, Epoxy resin copper-clad laminates
High-performance plastics	Phenolic molding compounds, Phenolic resins for industrial use, Precision molded products, Synthetic resin adhesive
Quality of life products	Medical devices, Melamine resin decorative and fireproof laminates, Polyvinyl chloride sheets and multilayered films, Freshness preserving films, Polycarbonate resin plates, Design and construction of sheet waterproof system, Biotechnology related products

2. Basis of measurement about reported segment sales, segment income (loss), segment assets and other material items

The accounting policies of the reportable segment are consistent with the description of the summary of significant accounting policies (see Note 2). Segment income (loss) is operating income (loss) of consolidated statements of income. Inter-segment sales are calculated based on market prices.

3. Information about reported segment sales, segment income (loss), segment assets and other material items

Segment information as of and for the years ended March 31, 2012 and 2011 was as follows:

Millions of yen

Year ended March 31, 2012	Reportable segments: Semi-conductor material	Circuit products	High-performance plastics	Quality of life products	Subtotal	Others	Total	Adjustment	Consolidated
Sales:									
Outside customers	¥50,024	¥15,592	¥60,015	¥58,871	¥184,502	¥735	¥185,237	¥ –	¥185,237
Inter-segment	–	–	322	74	396	–	396	(396)	–
Total sales	50,024	15,592	60,337	58,945	184,898	735	185,633	(396)	185,237
Segment income (loss)	2,260	(875)	4,930	2,275	8,590	33	8,623	(3,897)	4,726
Segment assets	¥53,933	¥17,945	¥63,971	¥52,453	¥188,302	¥920	¥189,222	¥12,093	¥201,315
Other items:									
Depreciation and amortization	¥ 3,190	¥ 922	¥ 3,008	¥ 2,711	¥ 9,831	¥131	¥ 9,962	¥ 257	¥ 10,219
Amortization of goodwill	–	–	378	–	378	–	378	–	378
Investment amount for affiliates to which equity method is applied	–	–	123	–	123	–	123	–	123
Increase in property, plant and equipment and intangible assets	6,142	159	5,857	2,078	14,236	121	14,357	209	14,566

Millions of yen

Year ended March 31, 2011	Reportable segments: Semi-conductor material	Circuit products	High-performance plastics	Quality of life products	Subtotal	Others	Total	Adjustment	Consolidated
Sales:									
Outside customers	¥ 53,200	¥18,802	¥59,745	¥ 58,517	¥190,264	¥708	¥190,972	¥ –	¥190,972
Inter-segment	–	–	360	206	566	–	566	(566)	–
Total sales	53,200	18,802	60,105	58,723	190,830	708	191,538	(566)	190,972
Segment income (loss)	6,816	(1,662)	6,450	3,122	14,726	10	14,736	(3,554)	11,182
Segment assets	¥ 52,866	¥19,846	¥62,652	¥ 56,300	¥191,664	¥874	¥192,538	¥12,552	¥205,090
Other items:									
Depreciation and amortization	¥ 2,812	¥ 1,126	¥ 3,156	¥ 2,946	¥ 10,040	¥149	¥ 10,189	¥ 305	¥ 10,494
Amortization of goodwill	–	–	386	–	386	–	386	–	386
Investment amount for affiliates to which equity method is applied	–	–	121	–	121	–	121	–	121
Increase in property, plant and equipment and intangible assets	3,342	1,261	3,542	2,284	10,429	24	10,453	203	10,656

Thousands of U.S. dollars

Year ended March 31, 2012	Reportable segments: Semi-conductor material	Circuit products	High-performance plastics	Quality of life products	Subtotal	Others	Total	Adjustment	Consolidated
Sales:									
Outside customers	$ 608,564	$ 189,684	$ 730,109	$ 716,192	$2,244,549	$ 8,942	$2,253,491	$ –	$2,253,491
Inter-segment	–	–	3,918	900	4,818	–	4,818	(4,818)	–
Total sales	608,564	189,684	734,027	717,092	2,249,367	8,942	2,258,309	(4,818)	2,253,491
Segment income (loss)	27,494	(10,645)	59,976	27,676	104,501	402	104,903	(47,409)	57,494
Segment assets	$ 656,119	$ 218,309	$ 778,236	$ 638,115	$2,290,779	$11,192	$2,301,971	$147,116	$2,449,087
Other items:									
Depreciation and amortization	$ 38,808	$ 11,217	$ 36,594	$ 32,980	$ 119,599	$ 1,593	$ 121,192	$ 3,127	$ 124,319
Amortization of goodwill	–	–	4,599	–	4,599	–	4,599	–	4,599
Investment amount for affiliates to which equity method is applied	–	–	1,496	–	1,496	–	1,496	–	1,496
Increase in property, plant and equipment and intangible assets	74,720	1,934	71,253	25,280	173,187	1,472	174,659	2,543	177,202

Notes:
1. "Others" include business segments that are not included in any reportable segment and include contracted testing and research, and leasing of land, etc.
2. The deductions of ¥3,897 million ($47,409 thousand) and ¥3,554 million listed as an "Adjustment" to "Segment income (loss)" include ¥7 million ($85 thousand) and ¥10 million of elimination of inter-segment transactions and ¥3,904 million ($47,494 thousand) and ¥3,564 million of corporate expenses not allocated to any reportable segment for the years ended March 31, 2012 and 2011, respectively.
   Included in the ¥12,093 million ($147,116 thousand) and ¥12,552 million listed as an "Adjustment" to "Segment assets" are ¥(142) million ($(1,727) thousand) and ¥(83) million of elimination of inter-segment transactions and ¥12,236 million ($148,856 thousand) and ¥12,635 million of corporate assets not allocated to any reportable segment as of March 31, 2012 and 2011, respectively. Corporate assets principally consist of investment securities, basic research assets and general and administrative division assets held by the Company.
   The ¥209 million ($2,543 thousand) and ¥203 million listed as an "Adjustment" to "Increase in property, plant and equipment and intangible assets" for the years ended March 31, 2012 and 2011, respectively, principally consist of capital investments in basic research assets and general and administrative division assets held by the Company.
3. Segment income (loss) is adjusted to agree with operating income in the consolidated statements of income.
4. "Depreciation" and "Increase in property, plant and equipment and intangible assets" include depreciation and increase in long-term prepaid expenses.

Related information

(1) Information about geographical areas

Sales and property, plant and equipment by regions for the years ended March 31, 2012 and 2011 were as follows:

(a) Sales

Millions of yen					
Year ended March 31, 2012					
	Asia				
Japan	China	Others	North America	Europe and others	Total
¥ 92,462	¥ 23,682	¥ 40,847	¥ 12,956	¥ 15,290	¥ 185,237

Millions of yen					
Year ended March 31, 2011					
	Asia				
Japan	China	Others	North America	Europe and others	Total
¥ 92,304	¥ 26,576	¥ 45,230	¥ 12,855	¥ 14,007	¥ 190,972

Thousands of U.S. dollars					
Year ended March 31, 2012					
	Asia				
Japan	China	Others	North America	Europe and others	Total
$ 1,124,842	$ 288,102	$ 496,922	$ 157,615	$ 186,010	$ 2,253,491

Sales were classified into country or area based on the customer's location.

(b) Property, plant and equipment

Millions of yen					
Year ended March 31, 2012					
	Asia				
Japan	China	Others	North America	Europe and others	Total
¥ 47,939	¥ 8,918	¥ 7,251	¥ 4,647	¥ 5,991	¥ 74,746

Millions of yen					
Year ended March 31, 2011					
	Asia				
Japan	China	Others	North America	Europe and others	Total
¥ 46,995	¥ 6,737	¥ 8,431	¥ 5,048	¥ 5,980	¥ 73,191

Thousands of U.S. dollars					
Year ended March 31, 2012					
	Asia				
Japan	China	Others	North America	Europe and others	Total
$ 583,200	$ 108,491	$ 88,212	$ 56,533	$ 72,883	$ 909,319

(2) Impairment loss of property, plant and equipment

Impairment loss of property, plant and equipment by reportable segments for the years ended March 31, 2012 and 2011 was as follows:

	Millions of yen							
	Reportable segments							
Year ended March 31, 2012	Semi-conductor material	Circuit products	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Impairment loss	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –	¥ 122	¥ 122

	Millions of yen							
	Reportable segments							
Year ended March 31, 2011	Semi-conductor material	Circuit products	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Impairment loss	¥ 21	¥ –	¥ 74	¥ –	¥ 95	¥ –	¥ 420	¥ 515

	Thousands of U.S. dollars							
	Reportable segments							
Year ended March 31, 2012	Semi-conductor material	Circuit products	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Impairment loss	$ –	$ –	$ –	$ –	$ –	$ –	$ 1,484	$ 1,484

"Elimination or corporate" was impairment loss of corporate assets.

(3) Goodwill and negative goodwill by reportable segment

The amortization and unamortized balance of goodwill and negative goodwill by reportable segment for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen							
	Reportable segments							
Year ended March 31, 2012	Semi-conductor material	Circuit products	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Goodwill:								
Amortization	¥ –	¥ –	¥ 378	¥ –	¥ 378	¥ –	¥ –	¥ 378
Unamortized balance	–	–	4,787	–	4,787	–	–	4,787
Negative goodwill:								
Amortization	–	139	–	443	582	–	–	582
Unamortized balance	–	104	–	105	209	–	–	209

	Millions of yen							
	Reportable segments							
Year ended March 31, 2011	Semi-conductor material	Circuit products	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Goodwill:								
Amortization	¥ –	¥ –	¥ 386	¥ –	¥ 386	¥ –	¥ –	¥ 386
Unamortized balance	–	–	5,255	–	5,255	–	–	5,255
Negative goodwill:								
Amortization	–	139	–	682	821	–	–	821
Unamortized balance	–	243	–	548	791	–	–	791

	Thousands of U.S. dollars							
	Reportable segments							
Year ended March 31, 2012	Semi-conductor material	Circuit products	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Goodwill:								
Amortization	$ –	$ –	$ 4,599	$ –	$ 4,599	$ –	$ –	$ 4,599
Unamortized balance	–	–	58,236	–	58,236	–	–	58,236
Negative goodwill:								
Amortization	–	1,691	–	5,389	7,080	–	–	7,080
Unamortized balance	–	1,265	–	1,278	2,543	–	–	2,543

20. Subsequent events

At the general meeting of shareholders held on June 28, 2012, retained earnings as of March 31, 2012, were appropriated as follows:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends ¥5.0 ($0.06) per share	¥ 1,205	$ 14,659

Independent Auditors' Report

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

To the Board of Directors of
Sumitomo Bakelite Company Limited:

We have audited the accompanying consolidated financial statements of Sumitomo Bakelite Company Limited and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sumitomo Bakelite Company Limited and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 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 LLC

KPMG AZSA LLC

July 12, 2012
Tokyo, Japan

Corporate Data

(As of March 31, 2012)

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)3-5462-4899

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	6,997
Non-consolidated	2,194

URL:

http://www.sumibe.co.jp/english

Investor Information

(As of March 31, 2012)

Common Stock:

Stock trading unit	1,000 shares
Authorized	800,000,000 shares
Issued and outstanding	262,952,394 shares
Number of shareholders	17,808*
*Number of share trading unit holders included in above	13,129

Common Stock Listing:

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

Independent Auditor:

KPMG AZSA LLC

Administrator of Shareholders' Register:

Sumitomo Mitsui Trust Bank, Limited
1-4-1 Marunouchi, Chiyoda-ku, Tokyo 100-8233, JAPAN

Principal Shareholders:

Name	Number of stocks held (thousands)	Percentage of total number of issued stocks
Sumitomo Chemical Co., Ltd.	52,549	19.98
Japan Trustee Services Bank, Ltd. (Trust Account)	19,447	7.40
The Master Trust Bank of Japan, Ltd. (Trust Account)	16,000	6.08
Japan Trustee Services Bank, Ltd. (Trust Account 9)	4,410	1.68
Japan Trustee Services Bank, Ltd. (Retirement Payment Account of The Sumitomo Trust & Banking Co.,Ltd.)	4,366	1.66
The Mitsui Sumitomo Bank, Limited	4,360	1.66
JUNIPER	4,181	1.59
Trust & Custody Services Bank, Ltd. (Trust Account B)	3,594	1.37
Mitsui Sumitomo Insurance Company,Limited	2,637	1.00
Sumitomo Life Insurance Company	2,617	1.00

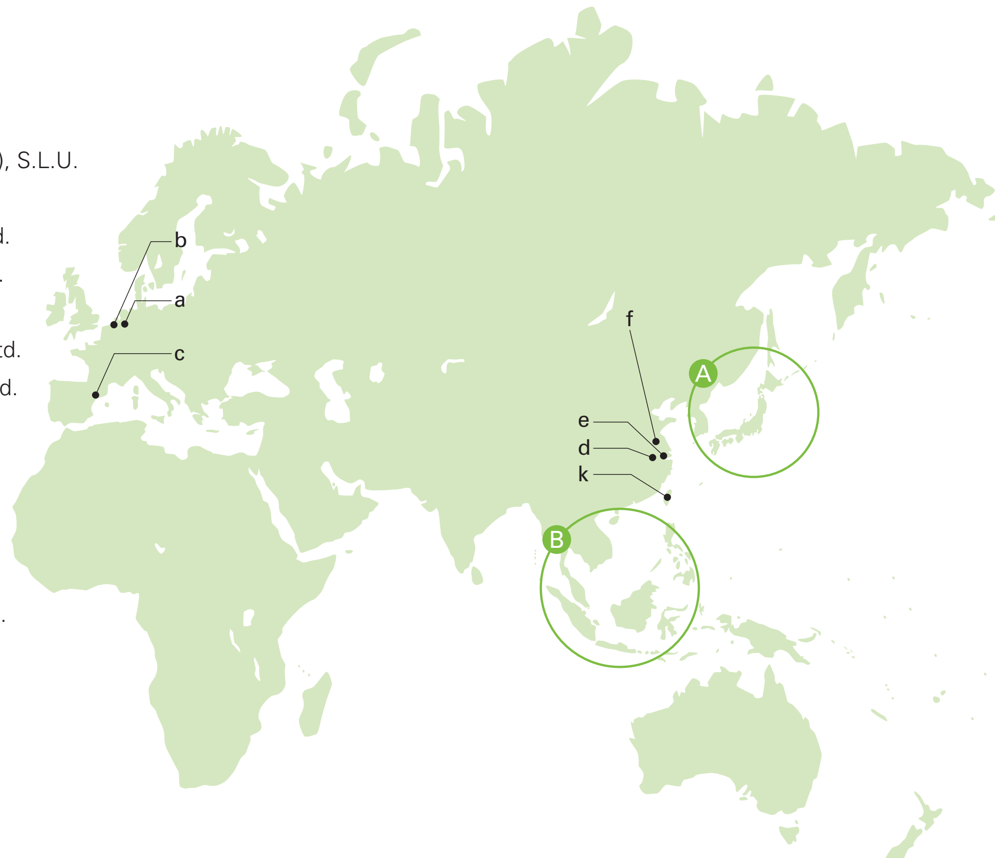
Notes: The Company holds 22,034 thousand shares of treasury stock, which are excluded from stock held by the principal shareholders listed above.

Global and Domestic Network

(As of June 28,2012)

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. Sumitomo Bakelite (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.



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)3-5462-4899

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

Offices

Osaka Office
2-3-47 Higashi-tsukaguchi-cho,
Amagasaki, Hyogo 661-8588, JAPAN
Phone: +81-(0)6-6429-6941
Facsimile: +81-(0)6-6427-8055

Nagoya Office
3-71 Hongo, Meito-ku, Nagoya,
Aichi 465-0024, JAPAN
Phone: +81-(0)52-726-8351
Facsimile: +81-(0)52-726-8398

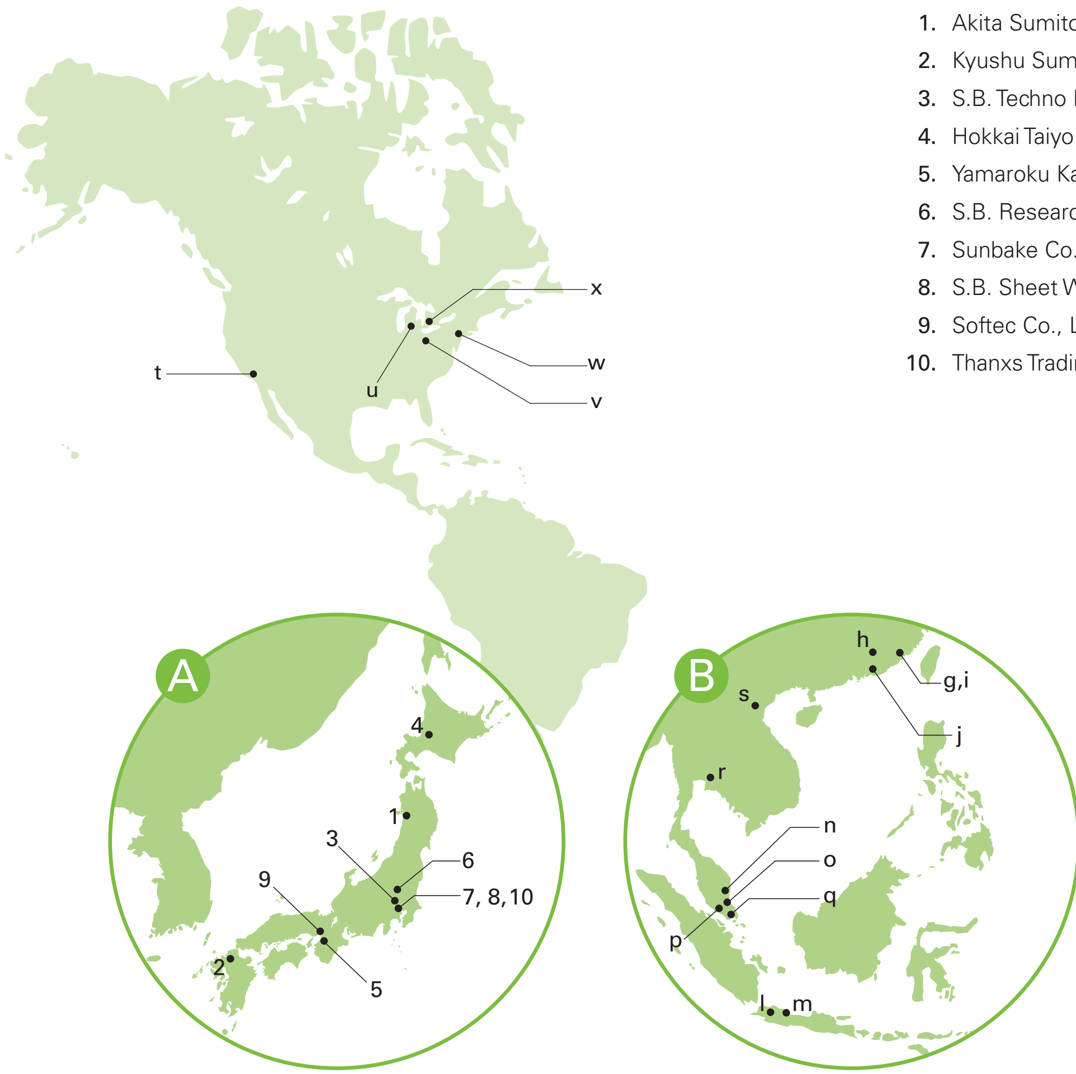
Laboratories

Advanced Technologies R&D Laboratory
1-1-5 Murotani, Nishi-ku, Kobe,
Hyogo 651-2241, JAPAN
Phone: +81-(0)78-992-3900
Facsimile: +81-(0)78-992-3919

Production Engineering Research Laboratory

High Performance Plastic Technology Development Laboratory
(Located at Shizuoka Plant)

Information & Telecommunication Material Laboratories
(Located at Utsunomiya Plant)



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. S.B. Sheet Waterproof Systems Co., Ltd.
9. Softec Co., Ltd.
10. Thanxs Trading Co., Ltd.

Films & Sheets Research Laboratory
(Located at Amagasaki Plant)

Plates Research Laboratory
(Located at Kanuma Plant)

Electronic Device Materials Research Laboratory
(Located at Kyushu Sumitomo Bakelite Co., Ltd.)

Plants

Amagasaki Plant
2-3-47 Higashi-tsukaguchi-cho,
Amagasaki, Hyogo 661-8588, JAPAN
Phone: +81-(0)6-6429-6941
Facsimile: +81-(0)6-6427-8055

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

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

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

SUMITOMO BAKELITE CO., LTD.

FSC www.fsc.org
MIX
Paper from responsible sources
FSC® C022915

VEGETABLE OIL INK