July, 2014

Annual Report

For the year ended March 31, 2014

SUMITOMO BAKELITE CO., LTD.

Profile

Among the various plastics, phenolic resin has the oldest history. It was developed by Dr. Leo H. Baekeland, an American of Belgian ancestry, in 1907 and he named that synthetic resin "Bakelite". In 1911, Sankyo Company (currently Daiichi Sankyo Co., Ltd.) was assigned the rights to execute the patents in Japan through the good offices of Dr. Jokichi Takamine, a close friend of Dr. Baekeland. Trial production of phenolic resin was started at the Shinagawa Plant of Sankyo Company. That was the origin of the Japan's plastics industry, and the name of our company came from this achievement.

In 1932, the phenolic resin business of Sankyo Co., Ltd. was separated and formed Nippon Bakelite Co., Ltd. In 1955, Nippon Bakelite Co., Ltd. merged with Sumitomo Synthetic Resin Industries, Ltd. to found Sumitomo Bakelite Co., Ltd.

As a pioneer in plastics, with our expertise in and up-to-date facilities for plastics, we have been always developing new technologies for use in various fields in order to contribute to establishing safe and comfortable living.

Financial Highlights

	Millions of yen			Thousands of U.S. dollars
	FY2013 ended March 31, 2014	FY2012 ended March 31, 2013	FY2011 ended March 31, 2012	FY2013 ended March 31, 2014
Net sales	**¥206,047**	¥183,362	¥185,237	**$2,002,020**
Net income	**6,493**	3,443	2,525	**63,096**
Total assets	**236,825**	213,826	201,315	**2,301,060**
Shareholders' equity	**143,730**	139,654	138,621	**1,396,530**

	Yen			U.S. dollars
Net income per share	**¥26.96**	¥14.29	¥10.48	**$0.26**
Diluted net income per share	**—**	—	—	**—**
Cash dividends per share	**10.00**	10.00	12.50	**0.09**

Note: U.S. dollar amounts are translated from yen at the rate of ¥102.92 to US$1, the approximate exchange rate as of March 31, 2014.

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

As a pioneer in plastics, we strive to contribute to creating value for customers through discovering and providing new functions of plastics, which will lead to growth of the Company. We will strive to become "a company loved and trusted by customers" through promoting customer satisfaction activities along with combining the individual capabilities, the organizational capabilities, and the group competence.

Operating Environment in Fiscal 2013

During fiscal 2013, ended March 31, 2014, the global economy generally remained in a state of moderate recovery, with the U.S. continuing on its gradual economic expansion against the backdrop of improvement in housing market conditions and consumer spending, while the European countries remaining on a low note despite seeing some signs of picking up and China and other emerging nations showing stronger deceleration of the economic growth. Meanwhile, partly due to economic policies of the government and the continuingly weak yen, the Japanese economy maintained a trend of recovery.

Turning to the environment surrounding the Company's business, the market for semiconductors remained sluggish overall. Although sales of smartphones and tablet devices increased substantially primarily in China, the demand for high-performance models has saturated and sales of personal computers and digital electronic appliances remained stagnant. In automobiles, the sales were strong in North America and China, the sales in Europe took a favorable turn, and the sales in Japan indicated moderate recovery partly due to last-minute demand before the increase of consumption tax. Meanwhile, housing starts in Japan increased due to reconstruction demand after the Great East Japan Earthquake as well as a similar last-minute demand before the increase of consumption tax.

Overview of Fiscal 2013 Results

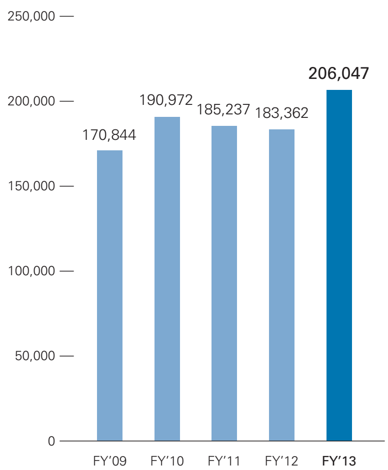
In the operating environment explained above, the Company worked to maintain its lean management structure and leveraged its collective strength toward new growth, while adhering to the following policies:

1. Revitalization of existing business and redefinition of business models;
2. Expeditious launch of new products and new businesses;
3. Expansion of business scale and profitability in growing overseas markets.

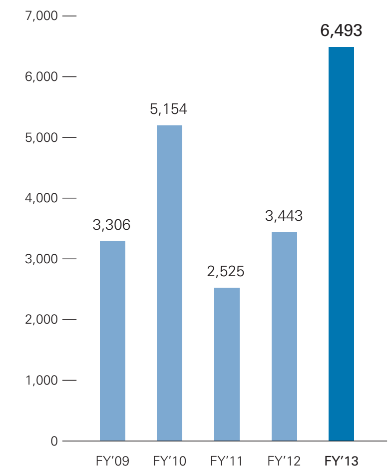
As a result, in terms of the Company's performance, consolidated net sales increased by 12.4% from fiscal 2012 to ¥206,047 million. This was mainly due to the increase in net sales of overseas subsidiaries when translated into Japanese yen, in addition to adjustments in relation to fiscal periods of overseas subsidiaries falling under the consolidated fiscal period.

On the earnings front, consolidated operating income increased by 34.5% year on year to ¥10,702 million and consolidated ordinary income similarly increased by 34.5% year on year to ¥11,498 million. This was mainly due to the effects of the weak yen and the amount of actuarial adjustment in retirement allowances, as well as a reduction of fixed costs. Consolidated net income of ¥6,493 million, up 88.6% from fiscal 2012, was recorded partly due to a reduction in extraordinary losses.

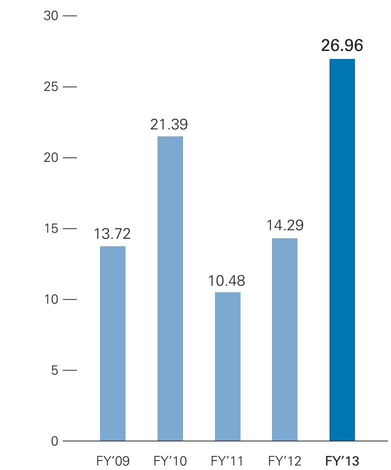
Net sales
(Millions of yen)



Net income
(Millions of yen)



Net income per share
(Yen)



In terms of the fiscal year-ends of the Company's consolidated subsidiaries, from fiscal 2012 to fiscal 2013, the Company has been taking steps to unify the fiscal year-ends of the subsidiaries into March, the consolidated fiscal year-end. The performances between the 13-month to 15-month period were consolidated for some domestic and European consolidated subsidiaries for the previous fiscal year. For fiscal 2013, the performances of the 15-month period are consolidated for 17 consolidated subsidiaries in China, Taiwan, ASEAN region and North America. A year on year comparison of the Company's performance on an actual basis that excludes the effects of these changes in the fiscal year-ends of these subsidiaries and the actuarial adjustment in retirement allowances are shown in the following page.

As for dividends, the Company has declared a year-end divided of ¥5.0 per common share. (Added to the interim dividend paid, the full fiscal year cash dividend for fiscal 2013 is ¥10.0 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 for the period under review amounted to ¥13,263 million.

Basic Policies

In the near future, although the European economy is on a moderate recovery trend, it must be pointed out that there are several concerns regarding the global economy, including impact of curtailment of the quantitative easing in the U.S. and deceleration of the Chinese economic growth. In addition, the Japanese economy, although on a recovery trend, is also considered to remain in an uncertain condition, partly due to declining consumer consumption caused by the increase in consumption tax rate.

In this business environment, the Company maintains its thorough lean management strategies such as reduction of fixed costs, and pursues its expansion of sales, in the hope of being able to return to the growth path as soon as possible.

For this purpose, the Company continues to carry forward the following basic business policies:

1. Revitalization of existing business and construction of clear business models;
2. Expeditious launch of new products and new businesses at an early stage and contribution of the products and the businesses to the management goals;
3. Aggressive investment and expansion of business scale in growing segments in overseas markets in the U.S., Europe and China;

In addition to these, the Company added a new policy:

4. Development of the quality of life products business as a third main pillar in addition to our two previous pillars, the semiconductor materials business and high-performance plastics business.

More specifically, the Company will pour its management resources into the medical devices, bio-related and packaging businesses to expand its domain identity.

The Group places "becoming a company loved and trusted by customers" at the center of our efforts, promotes CS (Customer Satisfaction) activities, and devotes itself to achievement of that target by combining the individual capabilities, the organizational capabilities, and the group competence.

The business policies of each segment are as follows.

(Semiconductor materials business)

The Company will increase its contact with customers and pursue and work on themes in line with customer needs in order to provide functions and solutions that only the Company can provide. The Company will also make

Comparison of actual performance (consolidated)

(Billions of yen)

	FY2013 ended March, 2014	FY2012 ended March, 2013	Change (%)
Net sales	189.6	178.9	6.0
Operating income	7.9	7.2	9.6
Ordinary income	8.6	7.8	10.0
Net income	4.6	3.0	52.4

Note: Performance presented above excludes effects of the change in fiscal year-ends of subsidiaries and the amounts of actuarial adjustments for retirement allowances.

use of facilities and functions of each of its bases in its global business structure and aim to win shares of the volume zone.

As for LαZ substrate materials for semiconductor packages, the Company has been utilizing its new production lines of the Utsunomiya Plant to reinforce its cost competitive edge with the aim of winning market shares in the volume zones of not only smartphones, but also memory chips, modules and other personal computer applications.

(High-performance plastics business)

The Company aims to double its sales by rigorously expanding its current global business areas as well as new businesses. In addition, it is steadily expanding businesses in China, branching out to uncultivated markets such as India, and expanding businesses in new segments including products for shale gas and oil production as well as for aerospace interior component, which is a new business area whose entry was made possible by a recent business acquisition.

(Quality of life products business)

<Medical devices business>

The Company will pursue expansion of sales through upgrading and expanding its community-based sales framework to promote sales of existing products, launching new products, and branching out to overseas markets.

<Films & sheets business>

The Company will appropriately respond to the needs of growing markets and promote its sales activities aggressively, with the start of production of films & sheets for food packaging and industry use in China, incorporation of demand within China, and cultivation of new markets for "P-Plus" freshness-keeping film.

<Building materials business>

The Company aims to live up to the requirements of its customers with high value added products such as polycarbonate resin plates with excellent soil-resistant performance and ultra-thin and non-combustible melamine decorative sheets, while at the same time developing and promoting high-profitability products such as industrial polarizing plates.

Moreover, the Company as a whole makes efforts to launch new businesses at an early stage, such as optical-electrical composite waveguides, anode carbon materials for rechargeable batteries and bio-related businesses, and to develop next generation products by reinforcing cooperation of the research and development framework and production technology framework with the business divisions and invigorating our human resources.

The Company engages in these business activities placing top priority on CS, while always keeping in mind environmental conservation, safety, thorough compliance, etc. as its corporate social responsibility.

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

June 2014

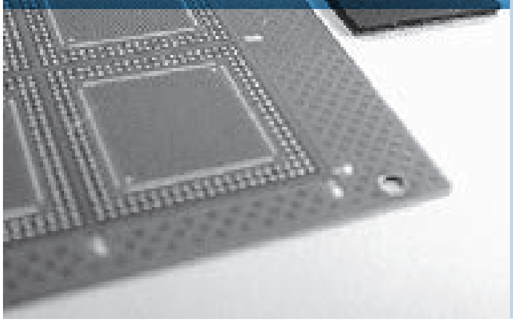
Shigeru Hayashi
President

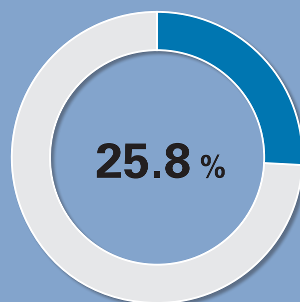
At a Glance

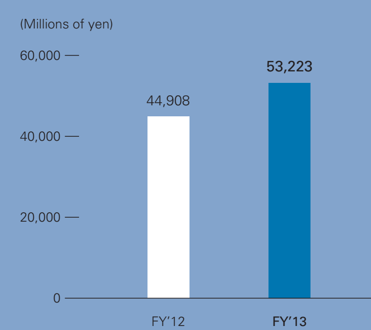
From fiscal 2013, the "Circuit Products segment" was eliminated and phenolic resin copper-clad laminates, epoxy resin copper-clad laminates and other products that used to be handled by the segment were transferred to the "High-Performance Plastics segment". In addition, products related to carrier tapes for mounting semiconductor components included in the "Semiconductor Materials segment" were transferred to the "Quality of Life Products segment". Note that the values for fiscal 2012 were calculated according to the divisions after these transfers.

Segment | Segment Sales to Total Sales | Net Sales

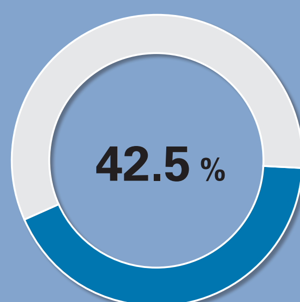
Semiconductor Materials

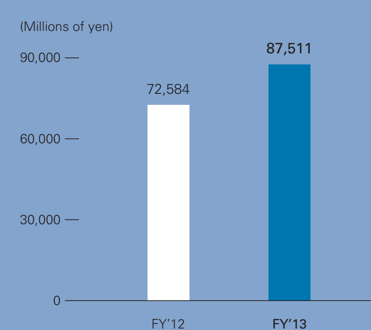




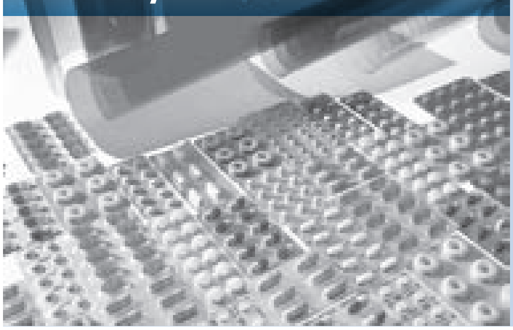


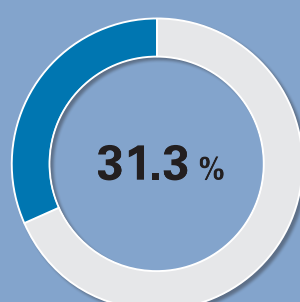
High-Performance Plastics

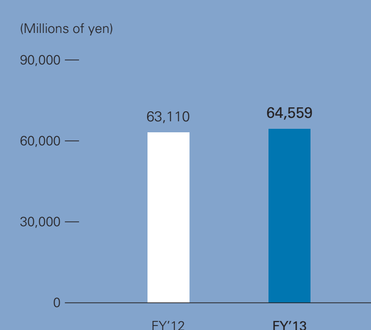




Quality of Life Products







Note: The Others segment recorded net sales of ¥753 million in fiscal 2013.

Overview

Although the market for epoxy resin molding compounds for encapsulation of semiconductor devices and liquid resins for semiconductor devices to be used in personal computers and digital electronic appliances continued to be severe, sales increased partly due to sales expansion in China and other growth markets and the effect of the weak yen. Sales of LαZ substrate materials for semiconductor packages decreased, greatly affected by customers' production volume adjustments and delays in the launch of new models. Construction of the second production base for LαZ within the Utsunomiya Plant was completed, and preparations are currently being made for mass-production, along with efforts to raise cost competitiveness in order to meet future demand.

Sales of phenolic molding compounds and phenolic resins for industrial use and molded products were buoyant in the North American automobile market, helped along by corrections of sales prices to reflect increasing material cost as well as the effect of the weak yen. Sales of epoxy resin copper-clad laminates increased primarily due to expanded sales on the automobile market, whereas the demand for phenolic resin copper-clad laminates stagnated in the market for consumer products such as flat-screen TVs; overall, the total sales thus decreased.

The Company incorporated its new product models such as a subcutaneous implanting type central venous port "Orphis CV Kit" and a low-pressure/constant-pressure drainage kit for abdominal cavity "Clio Drain Vac", but they were not enough to compensate for order losses brought about by inventory adjustments by customers at the beginning of the fiscal year, and sales thus decreased. The sales of vinyl resin sheets and multilayer sheets increased because there were active demands for pharmaceutical packaging materials, leading to a shipment increase to manufacturers of new medicines and generic pharmaceuticals. In the plates business, which includes polycarbonate resin plates and vinyl resin plates, although there was a backlash in demands compared to the last year's special repair demands caused by the effects of the extreme weather, the sales remained at the same level as the previous year due to the steady efforts to obtain orders relating to the restoration demands from the Great East Japan Earthquake and last-minute demands in response to the announcement of an increase in the consumption tax rate. In the Decola business, which handles melamine resin decorative laminates and fireproof laminates, the thin fireproof melamine resin decorative sheet "Decola Innovair" began to get orders as they were well received by our customers due to its unique product features; the Company continued to promote efforts to win further orders with aggressive marketing activities. In the waterproof systems business, sales climbed because the number of housing starts in Japan remained bullish and new housings and renovations remained favorable.

Corporate Governance

Basic Approach

Today, the Company is witnessing dynamic changes in operating conditions in Japan and overseas. To sustain its corporate growth in such an environment, the Company 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 the Company states: "Our company places prime importance on trust and sureness, and shall commit itself to contributing to the progress of society and enhancement of people's welfare and livelihood through its business activities." By always embracing this philosophy, the Company is continuing to enhance its corporate governance, thereby gaining global recognition as a socially responsible corporate group.

Corporate Governance Structure

The Company has adopted a corporate auditor system. Based on this system, the Company has appointed seven 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 Company 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.

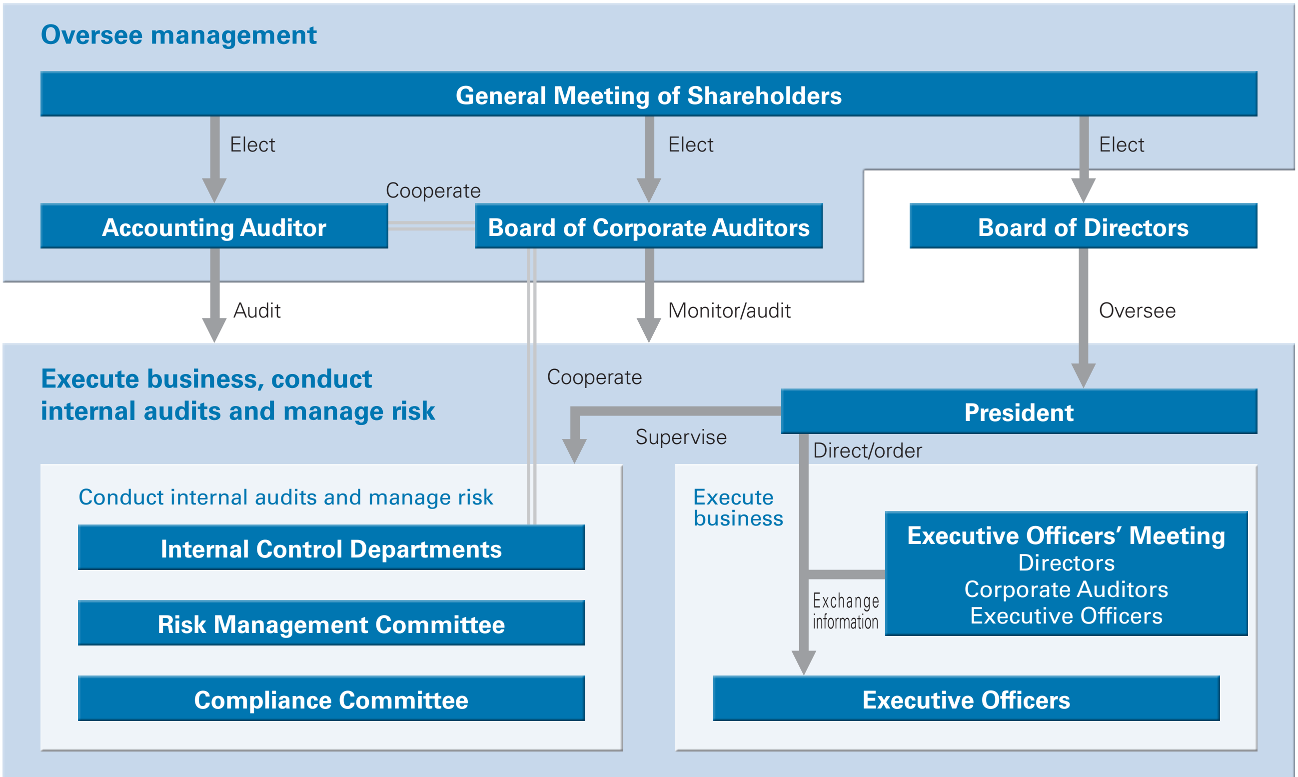
Accounting Audits

Corporate auditors collaborate with the auditing firm, who conducts accounting audits for the Company. 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 the Company 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 27, 2014)

Board of Directors

President
Shigeru Hayashi*

Directors
Tamotsu Yahata*
Kiyohiko Nakae**
Tsuneo Terasawa
Shigeki Muto
Noboru Yamawaki
Kazuhiko Fujiwara

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 Presidents
Tamotsu Yahata
Tsuneo Terasawa

Senior Managing Executive Officers
Shigeki Muto
Noboru Yamawaki

Managing Executive Officers
Kazuhiko Fujiwara
Masayuki Inagaki
Tatsuo Yoshihara
Sumitoshi Asakuma
Henny Van Dijk

Executive Officers
Shintaro Ishiwata
Goichiro Kuwaki
Takashi Kobayashi
Atsushi Suzuki
Seiji Suzuki
Koji Choki
Masaya Fumita

Major Topics

Acquisition of Aerospace Interior Components and Medical Devices Businesses in the U.S.

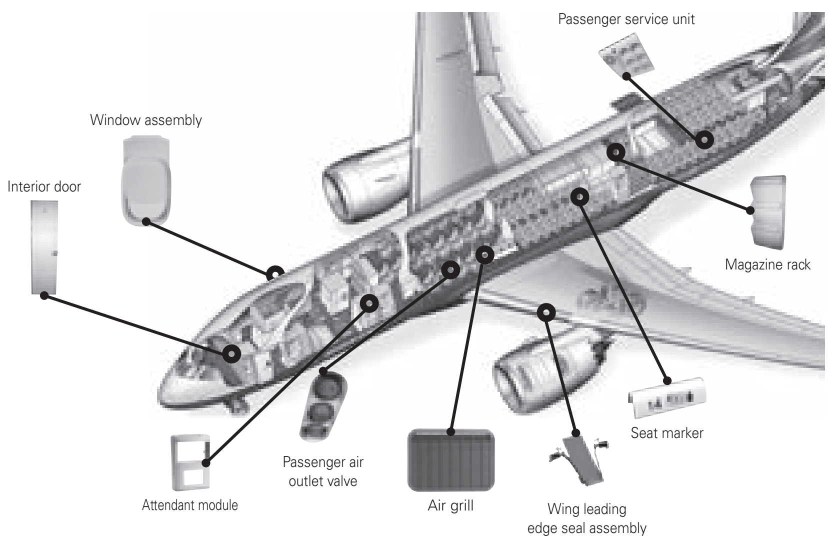
The Company entered into a definitive agreement with an affiliate of H.I.G. Capital LLC to acquire all of the outstanding shares of common stock of Vaupell Holdings, Inc.(hereinafter referred to Vaupell) in the U.S. for the sum of U.S. $265 million as of April 21, 2014.

Founded in 1947, Vaupell has a proven track record in delivering aerospace interior assemblies to Boeing in the U.S. and other aircraft manufacturers over the years as well as supplying various OEM medical device components to world famous medical device manufacturers.

Our high performance plastics business operates globally, primarily with phenolic resin, and has aimed to expand its business area to the aerospace field where the demand is anticipated to increase in the future. With this acquisition, the Company is seizing the opportunity to make inroads into the market for aerospace interior components as an integrated supplier, making use of its proprietary technologies in materials and composition including long-fiber phenolic molding compound.

Moreover, our medical devices business, too, is carrying forward business expansion through advance into overseas markets. The Company aims to step up these activities further by promoting fusion with technologies owned by Vaupell and making use of its network with medical device manufacturers.

●Aerospace interior components business

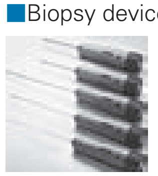


●Medical devices business

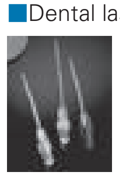
■Bio-absorbables

■Abdominal surgical devices

■Biopsy devices



■Dental laser tip



Expansion of Market of Freshness-Keeping Films for Fruit and Vegetables

The Company has been selling "P-Plus" freshness-keeping film that slows quality deterioration of fruit and vegetables by suppressing their respiration, by controlling oxygen transmission through the film. It has been adopted for packaging of soybeans in pods in all over Japan and used for about 60 kinds of fruit and vegetables. Recently, its demands for cut vegetables have been growing rapidly as well.

Cut vegetables are becoming popular in the U.S. and Europe due to their convenience, as they are ready to eat and eliminate kitchen garbage and their sales at convenient stores in Japan have also been increasing, and the market is growing continuously. "P-Plus" is very effective in eliminating the special odor often generated by sealing, allowing delivering of cut vegetables to tables in a more delicious condition.

Moreover, for citrus fruits, it allows reducing loss during long-term storage and selling products on later dates; it is increasingly being used, including for sumo mandarins produced in Kumamoto prefecture.

The Company will continue to cultivate new demands by satisfying the needs of the distribution industry and consumers, including further improvement of quality, long-term sales, and long-distant transportation.

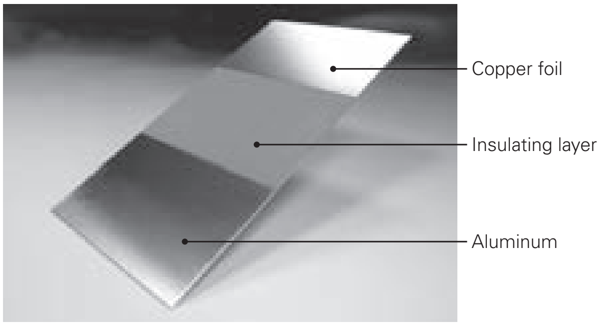
Usage examples of P-Plus

Development of High Heat Radiation Aluminum-based Copper-clad Laminates

The Company developed high heat radiation aluminum-based copper-clad laminates with the industry's highest thermal conductivity (high heat radiation) and heat resistance, "Sumilite ALC-1371".

Aluminum-based copper-clad laminates have a 3-layer structure, where an insulation layer is sandwiched by an aluminum plate and a copper foil. "Sumilite ALC-1371" achieves a thermal conductivity of more than twice that of conventional products by feeding highly conductive filler into the epoxy resin forming the insulation layer under high pressure. Moreover, it is certified by UL as having a rated heat resistance living up to the world's highest standard among aluminum-based copper-clad laminates in the world.

It can thus be expected to be used for power devices (semiconductor elements for electric power control) for power steering of automobiles and air conditioners as well as substrates for high-intensity LEDs for scoreboards and illuminations for large-scale facilities. The Company is currently actively providing samples to users. Note that conventional "ALC-1331" laminates are used for substrates for backlight of LED bulbs and liquid crystal display TVs.



Sumilite ALC-1371


Example of usage in LED bulbs

Five-Year Financial Summary

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries

	Millions of yen					Thousands of U.S. dollars
	FY2013 ended March 31, 2014	FY2012 ended March 31, 2013	FY2011 ended March 31, 2012	FY2010 ended March 31, 2011	FY2009 ended March 31, 2010	FY2013 ended March 31, 2014
For the year:						
Net sales	¥ 206,047	¥ 183,362	¥ 185,237	¥ 190,972	¥ 170,844	$ 2,002,020
Operating income	10,702	7,956	4,726	11,182	7,541	103,990
Income before income taxes and minority interests	10,540	6,532	3,689	8,322	4,014	102,415
Net income	6,493	3,443	2,525	5,154	3,306	63,096
Capital expenditures	13,263	17,588	14,566	10,656	9,261	128,869
Depreciation and amortization	10,969	10,393	10,466	11,014	11,968	106,580
Research and development expenses	11,881	12,325	13,048	12,441	12,568	115,445
Cash flows:						
Cash flows from operating activities	17,852	16,644	6,731	16,293	15,337	173,460
Cash flows from investing activities	(15,220)	(13,088)	(13,340)	(10,692)	(7,582)	(147,887)
Cash flows from financing activities	2,722	(642)	(3,942)	2,152	(13,927)	26,451
At year-end:						
Total assets	236,825	213,826	201,315	205,090	207,259	2,301,060
Net assets	150,344	131,311	119,023	122,025	128,574	1,460,794
Interest-bearing liabilities	35,063	29,553	27,433	27,659	22,510	340,691
Per-share data:	Yen					U.S. dollars
Net income	¥ 26.96	¥ 14.29	¥ 10.48	¥ 21.39	¥ 13.72	$ 0.26
Net assets	618.28	539.81	489.78	501.95	528.96	6.00
Cash dividends	10.00	10.00	12.50	15.00	10.00	0.09
Financial indicators:	%					
ROE	4.7	2.8	2.1	4.2	2.6	
ROA	5.1	4.1	2.9	6.1	4.1	
Ratio of operating income to net sales	5.2	4.3	2.6	5.9	4.4	
Equity ratio	62.9	60.8	58.6	59.0	61.5	
Ratio of interest-bearing liabilities to total assets	14.8	13.8	13.6	13.5	10.9	
Debt-to-equity ratio	23.5	22.7	23.2	22.9	17.7	

Notes:

1. The U.S. dollar amounts are translated from yen, for the convenience of the readers, at the rate of ¥102.92 = US$1 on March 31, 2014.
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. In FY2013, the closing date of 17 consolidated subsidiaries in Asia and North America has been changed to March 31 (Please refer to “Consolidation” in p.18 for details). Accordingly, for those subsidiaries that have changed their closing dates, the financial results for 15 months are consolidated for the year.
9. In FY2012, the closing date of 6 consolidated subsidiaries in Japan and Europe has been changed to March 31. Accordingly, for those subsidiaries that have changed their closing dates, the financial results for 13, 14 or 15 months are consolidated for the year except for the one had been consolidated based on provisional settlement of accounts.

Consolidated Balance Sheets

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
as of March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	FY2013 as of March 31, 2014	FY2012 as of March 31, 2013	FY2013 as of March 31, 2014
Current assets:			
Cash and cash equivalents (Note 14)	¥ 41,341	¥ 31,778	$ 401,690
Trade notes and accounts receivable (Note 14):			
Notes (Note 4)	6,515	7,265	63,307
Accounts	35,417	33,407	344,123
Inventories (Note 5)	26,977	25,077	262,116
Deferred tax assets (Note 9)	2,191	3,335	21,297
Others	3,814	4,083	37,057
Provision for doubtful accounts (Note 14)	(55)	(70)	(537)
Total current assets	116,202	104,877	1,129,056
Property, plant and equipment (Note 12):			
Land	9,915	9,803	96,339
Buildings and structures	72,935	68,767	708,661
Machinery and equipment	139,159	123,751	1,352,115
Lease assets	143	103	1,396
Construction in progress	14,603	11,288	141,893
	236,757	213,714	2,300,406
Less accumulated depreciation	(149,330)	(133,428)	(1,450,941)
Net property, plant and equipment	87,426	80,286	849,465
Intangible assets:			
Goodwill	4,404	4,557	42,790
Others	1,549	1,523	15,057
Total intangible assets	5,953	6,080	57,848
Investments and other assets:			
Investment securities (Notes 6 and 14):			
Unconsolidated subsidiaries and affiliates	2,223	1,442	21,603
Others	19,292	16,166	187,455
Long-term loans receivable (Note 14):			
Unconsolidated subsidiaries and affiliates	2,914	2,971	28,318
Others	1,715	1,574	16,666
Net defined benefit asset (Note 8)	1,279	–	12,434
Deferred tax assets (Note 9)	650	1,248	6,315
Others	2,664	2,676	25,884
Provision for doubtful accounts (Note 14)	(3,498)	(3,496)	(33,988)
Total investments and other assets	27,242	22,582	264,691
Total assets	¥ 236,825	¥ 213,826	$ 2,301,060

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen FY2013 as of March 31, 2014	 FY2012 as of March 31, 2013	Thousands of U.S. dollars (Note 1) FY2013 as of March 31, 2014
Current liabilities:			
Short-term debt (Notes 7 and 14)	¥ 22,363	¥ 15,953	$ 217,294
Long-term debt due within one year (Notes 7 and 14)	1,400	5,900	13,602
Trade notes and accounts payable (Note 14):			
Notes (Note 4)	3,247	4,138	31,549
Accounts	27,340	24,511	265,648
Accrued expenses	6,710	6,740	65,201
Income taxes payable	1,084	813	10,538
Provision for cost of business restructuring	–	207	–
Others	5,991	8,771	58,216
Total current liabilities	68,138	67,035	662,052
Long-term liabilities:			
Long-term debt (Notes 7 and 14)	11,300	7,700	109,794
Deferred tax liabilities (Note 9)	2,949	1,361	28,658
Employees' retirement benefits (Note 8)	–	5,399	–
Net defined benefit liability (Note 8)	3,133	–	30,447
Provision for environmental measures	124	177	1,207
Negative goodwill	–	52	–
Others	834	788	8,106
Total long-term liabilities	18,341	15,479	178,213
Net assets (Note 10)**:**			
Shareholders' equity:			
Common stock:			
Authorized: 800,000,000 shares			
Issued : 262,952,394 shares in FY2013 and FY2012	37,143	37,143	360,892
Capital surplus	35,358	35,358	343,551
Retained earnings	83,169	79,085	808,102
Treasury stock, at cost			
22,064,282 shares in FY2013 and			
22,042,713 shares in FY2012	(11,940)	(11,932)	(116,016)
Total shareholders' equity	143,730	139,654	1,396,530
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	6,317	4,226	61,383
Foreign currency translation adjustments	(501)	(12,672)	(4,869)
Remeasurements of defined benefit plans	(611)	(1,163)	(5,937)
Total accumulated other comprehensive income	5,205	(9,609)	50,576
Minority interests	1,408	1,266	13,687
Total net assets	150,344	131,311	1,460,794
Total liabilities and net assets	¥ 236,825	¥ 213,826	$ 2,301,060

Consolidated Statements of Income

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2013 ended March 31, 2014	FY2012 ended March 31, 2013	FY2013 ended March 31, 2014
Net sales (Note 17)	¥ 206,047	¥ 183,362	$ 2,002,020
Cost of sales	150,330	131,528	1,460,654
Selling, general and administrative expenses	45,014	43,878	437,375
Operating income (Note 17)	10,702	7,956	103,990
Other income (expense):			
Interest and dividend income	564	458	5,481
Interest expense	(273)	(322)	(2,658)
Amortization of negative goodwill (Note 17)	52	156	508
Equity in earnings (losses) of affiliates	122	(151)	1,191
Foreign exchange gain, net	427	443	4,150
Loss on sale or disposal of property, plant and equipment	(403)	(172)	(3,920)
Loss on devaluation of investment securities (Note 6)	(1)	(163)	(16)
Cost of business restructuring (Note 11)	(332)	(291)	(3,225)
Impairment loss (Note 12)	(184)	(881)	(1,792)
Settlement	(18)	(35)	(175)
Insurance income	42	71	408
Reversal of provision for retirement benefits	–	21	–
Environmental expense	–	(438)	–
Others, net	(156)	(118)	(1,524)
	(162)	(1,423)	(1,574)
Income before income taxes and minority interests	10,540	6,532	102,415
Income taxes (Note 9)**:**			
Current	2,092	2,066	20,328
Deferred	1,836	823	17,841
	3,928	2,890	38,169
Income before minority interests	6,612	3,642	64,246
Minority interests	118	199	1,149
Net income	¥ 6,493	¥ 3,443	$ 63,096

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock (Note 16)**:**			
Net income	¥ 26.96	¥ 14.29	$ 0.26
Diluted net income	–	–	–
Cash dividends applicable to the year	¥ 10.00	¥ 10.00	$ 0.09

See accompanying notes.

Consolidated Statements of Comprehensive Income

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2013 ended March 31, 2014	FY2012 ended March 31, 2013	FY2013 ended March 31, 2014
Income before minority interests	¥ 6,612	¥ 3,642	$ 64,246
Other comprehensive income (Note 13)			
Valuation difference on available-for-sale securities	2,091	2,055	20,317
Foreign currency translation adjustments	12,373	8,360	120,224
Remeasurements of defined benefit plans	548	782	5,333
Share of other comprehensive income of associates accounted for using the equity method	(12)	5	(124)
Total other comprehensive income	15,000	11,204	145,751
Comprehensive income	¥ 21,613	¥ 14,846	$ 209,998
Comprehensive income attributable to:			
Owners of the parent	¥ 21,308	¥ 14,459	$ 207,037
Minority interests	304	387	2,960

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Shares of common stock (thousands)	Millions of yen Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Minority interests	Total net assets
Balance at April 1, 2012	262,952	¥ 37,143	¥ 35,358	¥ 78,051	¥ (11,931)	¥ 2,171	¥ (20,850)	¥ (1,945)	¥ 1,026	¥ 119,023
Net income	–	–	–	3,443	–	–	–	–	–	3,443
Valuation difference arising during the year	–	–	–	–	–	2,055	–	–	–	2,055
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	8,177	–	–	8,177
Remeasurements of defined benefit plans	–	–	–	–	–	–	–	782	–	782
Purchase of treasury stock	–	–	–	–	(3)	–	–	–	–	(3)
Cash dividends paid (¥10 per share)	–	–	–	(2,409)	–	–	–	–	–	(2,409)
Disposal of treasury stock	–	–	–	(0)	1	–	–	–	–	0
Increase (decrease) in minority interests	–	–	–	–	–	–	–	–	240	240
Balance at April 1, 2013	262,952	¥ 37,143	¥ 35,358	¥ 79,085	¥ (11,932)	¥ 4,226	¥ (12,672)	¥ (1,163)	¥ 1,266	¥ 131,311
Net income	–	–	–	6,493	–	–	–	–	–	6,493
Valuation difference arising during the year	–	–	–	–	–	2,091	–	–	–	2,091
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	12,171	–	–	12,171
Remeasurements of defined benefit plans	–	–	–	–	–	–	–	551	–	551
Purchase of treasury stock	–	–	–	–	(8)	–	–	–	–	(8)
Cash dividends paid (¥10 per share)	–	–	–	(2,409)	–	–	–	–	–	(2,409)
Disposal of treasury stock	–	–	–	(0)	1	–	–	–	–	0
Increase (decrease) in minority interests	–	–	–	–	–	–	–	–	142	142
Balance at March 31, 2014	262,952	¥ 37,143	¥ 35,358	¥ 83,169	¥ (11,940)	¥ 6,317	¥ (501)	¥ (611)	¥ 1,408	¥ 150,344

	Shares of common stock (thousands)	Thousands of U.S. dollars (Note 1) Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Minority interests	Total net assets
Balance at April 1, 2013	262,952	$ 360,892	$ 343,551	$ 768,416	$ (115,942)	$ 41,065	$ (123,129)	$ (11,300)	$ 12,303	$ 1,275,856
Net income	–	–	–	63,096	–	–	–	–	–	63,096
Valuation difference arising during the year	–	–	–	–	–	20,317	–	–	–	20,317
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	118,260	–	–	118,260
Remeasurements of defined benefit plans	–	–	–	–	–	–	–	5,363	–	5,363
Purchase of treasury stock	–	–	–	–	(84)	–	–	–	–	(84)
Cash dividends paid ($0.09 per share)	–	–	–	(23,406)	–	–	–	–	–	(23,406)
Disposal of treasury stock	–	–	–	(2)	9	–	–	–	–	6
Increase (decrease) in minority interests	–	–	–	–	–	–	–	–	1,384	1,384
Balance at March 31, 2014	262,952	$ 360,892	$ 343,551	$ 808,102	$ (116,016)	$ 61,383	$ (4,869)	$ (5,937)	$ 13,687	$ 1,460,794

See accompanying notes.

Consolidated Statements of Cash Flows

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2013 ended March 31, 2014	FY2012 ended March 31, 2013	FY2013 ended March 31, 2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 10,540	¥ 6,532	$ 102,415
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	10,969	10,393	106,580
Impairment loss	184	881	1,792
Increase (decrease) in employees' retirement benefits	–	(2,144)	–
Increase (decrease) in net defined benefit liability	(2,698)	–	(26,215)
(Gain) loss on sale or disposal of property, plant and equipment	403	172	3,920
Interest and dividend income	(564)	(458)	(5,481)
Interest expense	273	322	2,658
(Gain) loss on devaluation of investment securities	1	163	16
Cost of business restructuring	(94)	378	(922)
(Increase) decrease in notes and accounts receivable	904	2,810	8,788
(Increase) decrease in inventories	337	(887)	3,275
(Increase) decrease in other current assets	(476)	(972)	(4,628)
Increase (decrease) in notes and accounts payable	875	691	8,501
Increase (decrease) in other current liabilities	(1,059)	337	(10,295)
Others, net	(10)	17	(97)
Subtotal	19,586	18,239	190,309
Interest and dividends received	569	464	5,531
Interest paid	(283)	(289)	(2,755)
Income taxes paid	(2,019)	(1,769)	(19,625)
Net cash provided by operating activities	17,852	16,644	173,460
Cash flows from investing activities:			
Purchases of property, plant and equipment	(14,722)	(15,176)	(143,049)
Proceeds from sale of property, plant and equipment	87	1,003	854
Purchases of investment securities	(15)	(25)	(153)
Purchases of isvestments in subsidiaries	(725)	–	(7,049)
Proceeds from equity transfer of subsidiary resulting in a change in scope of consolidation	–	755	–
Others, net	155	353	1,509
Net cash used in investing activities	(15,220)	(13,088)	(147,887)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	6,244	(101)	60,671
Proceeds from long-term debt	5,000	3,000	48,581
Repayment of long-term debt	(5,900)	(900)	(57,326)
Cash dividends paid	(2,409)	(2,409)	(23,406)
Cash dividends paid to minority shareholders	(162)	(147)	(1,576)
Others, net	(50)	(85)	(492)
Net cash provided by (used in) financing activities	2,722	(642)	26,451
Effect of exchange rate changes on cash and cash equivalents	4,208	2,031	40,895
Net increase (decrease) in cash and cash equivalents	9,563	4,944	92,919
Cash and cash equivalents at beginning of year	31,778	26,834	308,770
Cash and cash equivalents at end of year	¥ 41,341	¥ 31,778	$ 401,690

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 and is one of the affiliates of Sumitomo Chemical Co., Ltd. which directly owns 19.98% (as of March 31, 2014) 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. Moreover, the accounts of consolidated other overseas subsidiaries are based on 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 Companies, 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 Act. Some supplementary information included in the statutory Japanese consolidated financial statements, 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 31, 2014, which was ¥102.92 to US$1. For translation of millions of Japanese yen to thousands of U.S. dollars, amounts of less than one thousand dollar have been omitted for the year ended March 31, 2014. 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 33 significant subsidiaries for the years ended March 31, 2014 and 2013, respectively. All significant intercompany balances and transactions have been eliminated in consolidation.

Among the consolidated subsidiaries, the following companies have different fiscal year-end (December 31) from the consolidated fiscal year-end (March 31):

Sumicarrier Singapore Pte. Ltd., P.T. Indopherin Jaya, Sumitomo Bakelite (Suzhou) Co., Ltd., Sumitomo Bakelite (Shanghai) Co., Ltd., Sumitomo Bakelite (Nantong) Co., Ltd., Basec Hong Kong Limited, Sumitomo Bakelite Hong Kong Co., Ltd. and Sumitomo Bakelite Macau Co., Ltd.

In preparing consolidated financial statements, P.T. Indopherin Jaya, Sumitomo Bakelite (Suzhou) Co., Ltd., Sumitomo Bakelite (Shanghai) Co., Ltd., Sumitomo Bakelite (Nantong) Co., Ltd. and Sumitomo Bakelite Macau Co., Ltd. have been consolidated based on provisional settlement of accounts as of the consolidated fiscal year-end (March 31). In addition, for Sumicarrier Singapore Pte. Ltd., Basec Hong Kong Limited and Sumitomo Bakelite Hong Kong Co., Ltd., the Company used their financial statements as of their own fiscal year-end after making adjustments when necessary, for significant transactions that occurred in the period in between their fiscal year-end and consolidated fiscal year-end.

Certain 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 affiliates (2 affiliates in 2014 and 2013, 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 affiliates 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 consolidated 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 affiliates 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. Negative goodwill incurred before March 31, 2010 is amortized on a straight-line basis over five years.

(Change in accounting period for consolidated subsidiaries)
Sumitomo Bakelite Singapore Pte. Ltd., SumiDurez Singapore Pte. Ltd., SNC Industrial Laminates Sdn. Bhd., P.T. SBP Indonesia, Sumitomo Bakelite (Thailand) Co., Ltd., Sumitomo Bakelite (Taiwan) Co., Ltd., Sumitomo Bakelite North America Holding, Inc., Durez Corporation, Promerus LLC, Sumitomo Plastics America, Inc., Sumitomo Bakelite North America, Inc. and Durez Canada Co., Ltd. changed their fiscal year end date to March 31.

In addition, the Company has changed its method to consolidate P.T. Indopherin Jaya, Sumitomo Bakelite (Suzhou) Co., Ltd., Sumitomo Bakelite (Shanghai) Co., Ltd., Sumitomo Bakelite (Nantong) Co., Ltd. and Sumitomo Bakelite Macau Co., Ltd. based on provisional settlement of accounts complying with the regular settlement as of March 31, which is the consolidated fiscal year end date.

Accordingly, the accounting period for the above mentioned 17 subsidiaries for this fiscal year was 15 months from January 1, 2013 to March 31, 2014.

As a result, net sales, operating income, income before income taxes and minority interests and net income increased by approximately ¥16,453 million ($159,869 thousand), ¥1,372 million ($13,334 thousand), ¥1,412 million ($13,724 thousand), and ¥968 million ($9,409 thousand), respectively.

Securities

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.

Derivatives and hedge accounting

(1) Derivative and hedge accounting method

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 and interest rate swap 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.
4. If interest rate swap contracts are used as hedges and meet certain hedging criteria, interest rate swaps are not remeasured at market value, and the net amount to be paid or received under the interest rate swap contracts is added to or deducted from the interests on the assets or liabilities for which the interest rate swap contracts were executed (special treatment).

(2) Hedging instruments and targets

The Companies use foreign exchange contracts to hedge foreign currency risk for receivables and payables denominated in foreign currencies and future transactions denominated in foreign currencies. The Companies similarly use interest rate swaps to hedge the interest rate risk for long-term debt.

(3) Hedging policy

The Companies maintain a policy of limiting the use of derivative transactions to actual demand and do not engage in such transactions for speculative purposes.

(4) Method of assessing hedge effectiveness

The Companies have confirmed that 1) the hedging instruments and targets can offset the effects of fluctuations and 2) these interrelations are continuously present after implementing hedges.

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.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally by the weighted average method for merchandise, finished goods, semi-finished goods, work in process and raw materials, and by the average method for supplies.

Property, plant and equipment (excluding leases)

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, the depreciation limit amounts 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 the 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.

Provision for doubtful accounts

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

Employees' retirement benefits and net defined benefit liability

The Company and certain domestic consolidated subsidiaries provide two types of defined 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 consolidated overseas subsidiaries adopt both defined contribution pension plans and defined benefit pension plans. In addition, the Company has 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. The estimated amount of all retirement benefits to be paid at future retirement dates is mainly 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 incurred.

Certain domestic consolidated subsidiaries, which provide unfunded lump-sum payment plans and funded non-contributory pension plans, calculate net defined benefit liability and severance and retirement benefit expenses by using a simplified method.

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 "PCB Special Measures Law."

Research and development

Research and development expenses are charged to income when incurred. The amounts for the years ended March 31, 2014 and 2013 were ¥11,881 million ($115,445 thousand) and ¥12, 325 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.

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.

Cash dividends per share represent the cash dividends approved by the shareholders and paid in the respective years, including payment after the year-end.

Consumption taxes

With respect to the Companies, consumption taxes are accounted for with the tax exclusion method.

3. Supplemental information

Changes in accounting policies

The Company and certain consolidated subsidiaries have adopted "Accounting Standard for Retirement Benefits" (the Accounting Standard Board of Japan (hereinafter "ASBJ") Statement No. 26, May 17, 2012, hereinafter "Retirement Benefits Standard") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012, hereinafter "Retirement Benefits Guidance"), excluding those set forth in paragraph 35 of "Retirement Benefits Standard" and paragraph 67 of "Retirement Benefits Guidance" from the end of the fiscal year ended March 31, 2014. The Company and its subsidiaries changed their accounting to recognize the difference between projected benefit obligation and plan assets as net defined benefit liability. Also, in the event that amount of plan assets exceeds the projected benefit obligation, the excess is accounted for as net defined benefit asset.

As a result, net defined benefit liability of ¥3,133 million ($30,447 thousand) and net defined benefit asset of ¥1,279 ($12,434 thousand) are recognized at the end of the fiscal year.

This change has no effect on accumulated other comprehensive income as of March 31, 2014.

Unapplied accounting standards

Accounting standards for retirement benefits

"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012)

"Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012)

(1) Overview

The accounting standard for retirement benefits has been revised from the viewpoint of improvements to financial reporting and international convergence, mainly focusing on: (a) how unrealized actual differences and prior service costs should be accounted for: (b) how project benefit obligations and service costs should be determined; and (c) enhancement of disclosures.

(2) Date of adoption

The Company and its certain consolidated subsidiaries will adopt the amendments to the method for calculating projected benefit obligation and service costs from the beginning of the fiscal year ending March 31, 2015.

(3) The effect of adopting the accounting standards

The effect of adopting these accounting standards is under evaluation at the time consolidated financial statements were prepared.

Accounting standards for business combinations

"Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013)

"Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013)

"Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013)

"Accounting Standard for Earnings per Share" (ASBJ Statement No. 2, September 13, 2013)

"Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013)

"Guidance on Accounting Standard for Earnings per Share" (ASBJ Guidance No. 4, September 13, 2013)

(1) Overview

The following items have been mainly revised; (a) accounting treatment for changes in the parent's ownership interests in a subsidiary when the parent continues to retain control of that subsidiary after the additional acquisition of the parent's ownership interest in that subsidiary (b) accounting treatment for acquisition-related costs, (c) presentation of net income as well as the change of minority interests to non-controlling interests, and (d) provisional accounting treatment.

(2) Date of adoption

The Companies will adopt the accounting standards effective from the beginning of the fiscal year ending March 31, 2016.

In addition, the Companies will adopt the provisional accounting for those business combinations initiated after the beginning of the fiscal year ending March 31, 2016.

(3) The effect of adopting the accounting standards

The effect has not been determined at the time consolidated financial statements were prepared.

4. Notes due at the end of the fiscal year

Matured notes are settled on the date of clearing.

As the end of the fiscal year ended March 31, 2013 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
	FY2013 as of March 31, 2014	FY2012 as of March 31, 2013	FY2013 as of March 31, 2014
Notes receivable	¥ –	¥ 1,036	$ –
Notes payable	–	752	–

5. Inventories

Inventories as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2013 as of March 31, 2014	FY2012 as of March 31, 2013	FY2013 as of March 31, 2014
Merchandise and finished goods	¥ 11,849	¥ 10,950	$ 115,129
Semi-finished goods	3,449	3,107	33,519
Work in process	536	559	5,214
Raw materials and supplies	11,141	10,459	108,253
Total	¥ 26,977	¥ 25,077	$ 262,116

The amounts of write-down charged to cost of sales due to the decline in profitability of inventories held in the normal course of business were ¥(99) million ($(962) thousand) and ¥28 million for the years ended March 31, 2014 and 2013, respectively.

6. Investment securities

The following tables summarized carrying amounts and acquisition costs of available-for-sale securities with available fair values as of March 31, 2014 and 2013:

	Millions of yen		
As of March 31, 2014	Carrying amount	Acquisition cost	Difference
Securities with carrying amounts exceeding acquisition costs:			
Equity securities	¥ 18,221	¥ 8,752	¥ 9,468
Debt securities	–	–	–
Others	–	–	–
Subtotal	18,221	8,752	9,468
Securities with carrying amounts not exceeding acquisition costs:			
Equity securities	¥ 317	¥ 322	¥ (4)
Debt securities	–	–	–
Others	–	–	–
Subtotal	317	322	(4)
Total	¥ 18,538	¥ 9,075	¥ 9,463

	Millions of yen		
As of March 31, 2013	Carrying amount	Acquisition cost	Difference
Securities with carrying amounts exceeding acquisition costs:			
Equity securities	¥ 14,323	¥ 7,909	¥ 6,414
Debt securities	–	–	–
Others	–	–	–
Subtotal	14,323	7,909	6,414
Securities with carrying amounts not exceeding acquisition costs:			
Equity securities	¥ 1,088	¥ 1,150	¥ (61)
Debt securities	–	–	–
Others	–	–	–
Subtotal	1,088	1,150	(61)
Total	¥ 15,411	¥ 9,059	¥ 6,352

	Thousands of U.S. dollars		
As of March 31, 2014	Carrying amount	Acquisition cost	Difference
Securities with carrying amounts exceeding acquisition costs:			
Equity securities	$ 177,043	$ 85,044	$ 91,999
Debt securities	–	–	–
Others	–	–	–
Subtotal	177,043	85,044	91,999
Securities with carrying amounts not exceeding acquisition costs:			
Equity securities	$ 3,085	$ 3,132	$ (46)
Debt securities	–	–	–
Others	–	–	–
Subtotal	3,085	3,132	(46)
Total	$ 180,128	$ 88,176	$ 91,952

Impairment losses were ¥163 million for the year ended March 31, 2013.

The Companies recognize impairment losses on securities whose available fair values decline more than 50% below the acquisition cost. In addition, the Companies also recognize impairment losses, when the available fair values decline more than 30% to 50% below the acquisition cost, with respect to the amount deemed to be necessary in light of the potential of recovery and other factors.

7. Short-term debt and long-term debt

Short-term debt as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2013 as of March 31, 2014	FY2012 as of March 31, 2013	FY2013 as of March 31, 2014
Short-term bank loans	¥ 4,363	¥ 3,953	$ 42,401
Commercial paper	18,000	12,000	174,893
Total	¥ 22,363	¥ 15,953	$ 217,294

Annual average interest rates on short-term bank loans for the years ended March 31, 2014 and 2013 were 0.6% and 0.7%, respectively. Annual average interest rates on commercial paper for the years ended March 31, 2014 and 2013 were 0.1%.

Long-term debt as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2013 as of March 31, 2014	FY2012 as of March 31, 2013	FY2013 as of March 31, 2014
Unsecured loans from banks due through 2021	¥ 12,700	¥ 13,600	$ 123,396
Less amounts due within one year	(1,400)	(5,900)	(13,602)
Total	¥ 11,300	¥ 7,700	$ 109,794

Annual average interest rates on unsecured loans from banks (excluding amounts due within one year) for the years ended March 31, 2014 and 2013 were 0.9% and 1.2%, respectively. Annual average interest rates on amounts due within one year of unsecured loans from banks for the years ended March 31, 2014 and 2013 were 1.7%.

The annual maturities of long-term debt as of March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
FY2014 ending March 31, 2015	¥ 1,400	$ 13,602
FY2015 ending March 31, 2016	3,300	32,063
FY2016 ending March 31, 2017	–	–
FY2017 ending March 31, 2018	3,000	29,148
FY2018 ending March 31, 2019	–	–
FY2019 ending March 31, 2020 and thereafter	5,000	48,581
Total	¥ 12,700	$ 123,396

8. Employees' retirement benefits and net defined benefit liability

As explained in Note 2 (Employees' retirement benefits and net defined benefit liability), the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

FY2013 ended March 31, 2014

A. Defined benefit plans

(i) Change in projected benefit obligation

	Millions of yen	Thousands of U.S. dollars
Balance at beginning of year	¥ 29,052	$ 282,286
Service cost	1,208	11,737
Interest cost	591	5,743
Actuarial (gain)/loss	(497)	(4,835)
Benefits paid	(1,557)	(15,129)
Settlements, curtailments and terminations	(1,160)	(11,276)
Exchange difference	845	8,216
Others	78	758
Balance at end of year	¥ 28,560	$ 277,502

(ii) Change in plan assets

	Millions of yen	Thousands of U.S. dollars
Balance at beginning of year	¥ 23,820	$ 231,442
Expected return on plan assets	632	6,142
Actuarial gain/(loss)	1,671	16,239
Employer contributions	2,400	23,322
Benefits paid	(1,498)	(14,562)
Settlements, curtailments and terminations	(704)	(6,848)
Exchange difference	354	3,445
Others	31	306
Balance at end of year	¥ 26,706	$ 259,489

(iii) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits funded retirement benefit obligations

	Millions of yen	Thousands of U.S. dollars
Funded projected benefit obligation	¥ 27,826	$ 270,367
Plan assets	(26,706)	(259,489)
	1,119	10,878
Unfunded projected benefit obligation	734	7,134
Net amount of liability and asset recognized in consolidated balance sheet	1,853	18,012
Net defined benefit liability	3,133	30,447
Net defined benefit asset	1,279	12,434
Net amount of liability and asset recognized in consolidated balance sheet	¥ 1,853	$ 18,012

(iv) Severance and retirement benefit expenses and its breakdown

	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 1,208	$ 11,737
Interest cost	591	5,743
Expected return on plan assets	(632)	(6,142)
Net actuarial (gain)/loss amortization	(1,313)	(12,759)
Past service costs amortization	(23)	(227)
Others	56	550
Severance and retirement benefit expenses	¥ (113)	$ (1,098)

(v) Remeasurements of defined benefit plans

The components of items recognized in remeasurements of defined benefit plans (pre-tax) were as follows:

	Millions of yen	Thousands of U.S. dollars
Unrecognized past service costs	¥ 21	$ 207
Unrecognized actuarial (gains)/losses	929	9,028
Total	¥ 950	$ 9,236

(vi) Plan assets

(a) Percentage by major category of plan assets was as follows:

Bonds	61%
Equities	34
Cash and deposits	2
Others	3
Total	100%

Total plan assets include 13% of contribution of securities to retirement benefit trust in the corporate pension plan.

(b) Determination procedure of long-term expected rate of return on plan assets

In determining long-term expected rate of return on plan assets, the Companies consider the current and projected asset allocations, as well as current and future long-term rate of returns for various categories of the plan assets.

(vii) Basis for calculation of actuarial assumptions

Discount rates:	
Domestic companies	Mainly, 1.41%
Overseas companies	Mainly, 4.25
Long-term expected rate of return on plan assets	Mainly, 2.40

B. Defined contribution pension plans

The amount to be paid by certain consolidated subsidiaries to the defined contribution pension plans was ¥18 million ($180 thousands) for the year ended March 31, 2014.

FY2012 ended March 31, 2013

Employees' retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2013 consisted of the following:

	Millions of yen
Projected benefit obligation	¥ 29,052
Less fair value of plan assets	(23,820)
Less unrecognized actuarial (gains)/losses	(39)
Unrecognized prior service costs	(29)
Prepaid pension cost	235
Employees' retirement benefits	¥ 5,399

Severance and retirement benefit expenses, included in the consolidated statements of income for the years ended March 31, 2013 were composed of the following:

	Millions of yen
Service cost	¥ 1,130
Interest cost	610
Expected return on plan assets	(436)
Net actuarial (gain)/loss amortization	(603)
Past service costs amortization	(93)
Severance and retirement benefit expenses	¥ 607

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

Discount rates:	
Domestic companies	1.41%
Overseas companies	3.70
Expected return on plan assets	2.02

9. Income taxes

The Companies are subject to several taxes based on income, which are corporation tax, inhabitant tax and enterprise tax.

The aggregate statutory tax rate on income before income taxes was approximately 38.0% for the years ended March 31, 2014 and 2013.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2013 as of March 31, 2014	FY2012 as of March 31, 2013	FY2013 as of March 31, 2014
Deferred tax assets:			
Tax loss carryforwards	¥ 4,721	¥ 4,906	$ 45,873
Tax credit	1,379	1,766	13,403
Provision for doubtful accounts	1,353	1,366	13,151
Employees' retirement benefits	–	1,833	–
Net defined benefit liability	951	–	9,244
Taxable retained income of certain overseas subsidiaries	854	948	8,299
Excess bonuses accrued	825	910	8,022
Impairment loss	675	697	6,558
Shares contributed to employees' retirement benefit trust	361	361	3,512
Accrued expenses	321	518	3,125
Loss on devaluation of investment securities	259	259	2,518
Others	1,984	1,765	19,280
Subtotal	13,687	15,335	132,991
Valuation allowance	(3,915)	(4,039)	(38,043)
Total deferred tax assets	9,772	11,295	94,948
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(3,137)	(2,114)	(30,483)
Additional depreciation in overseas subsidiaries	(2,884)	(2,463)	(28,029)
Deferred gains on property, plant and equipment	(1,674)	(1,714)	(16,269)
Gain on securities contributed to employees' retirement benefit trust	(570)	(570)	(5,544)
Others	(1,612)	(1,210)	(15,666)
Total deferred tax liabilities	(9,879)	(8,072)	(95,993)
Net deferred tax assets	¥ (107)	¥ 3,222	$ (1,045)

The reconciliation between the applicable income tax rate in Japan and the Companies' average income tax rate in the consolidated statements of income for the years ended March 31, 2014 and 2013 were as follows:

	FY2013 ended March 31, 2014	FY2012 ended March 31, 2013
The applicable income tax rate in Japan	–%	38.0%
Permanently non-deductible expenses	–	1.6
Retained earnings of overseas subsidiaries	–	0.3
Change in valuation allowance	–	11.6
Effect of differences between tax rates in Japan and in other countries	–	(12.6)
Others, net	–	5.3
The Companies' average effective income tax rate	–%	44.2%

The note for the year ended March 31, 2014 was omitted, because the difference between the applicable income tax rate in Japan and the Companies' average income tax rate in the consolidated statement of income was less than or equal to 5% of the applicable income tax rate in Japan.

(Revisions to amounts of deferred tax assets and deferred tax liabilities due to change in rate of income taxes)
On March 31, 2014, "Partial Amendment of the Income Tax Act" was promulgated, according to which the Special Reconstruction Corporation Tax will no longer be imposed from the consolidated fiscal year beginning on or after April 1, 2014. Accordingly, for temporary differences expected to be reversed in the fiscal year beginning on April 1, 2014, the effective tax rate applied to the calculation of deferred tax assets and liabilities for this fiscal year, will be lowered from 38.0% in previous fiscal year to 35.6%.

The effect of this change was immaterial.

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 the 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 27, 2014, the shareholders resolved to distribute cash dividends amounting to ¥1,204 million ($11,702 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2014. 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, 2014 and 2013 were as follows:

	Number of shares			
	April 1, 2013	Increase	Decrease	March 31, 2014
Outstanding shares issued:				
Common stock	262,952,394	–	–	262,952,394
Treasury stock	22,042,713	23,457	1,888	22,064,282

	Number of shares			
	April 1, 2012	Increase	Decrease	March 31, 2013
Outstanding shares issued:				
Common stock	262,952,394	–	–	262,952,394
Treasury stock	22,034,107	10,804	2,198	22,042,713

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, 2014 and 2013:

Year ended March 31, 2014

Cash dividends approved at the shareholders' meeting held on June 27, 2013:	Total amount (Millions of yen) (Thousands of U.S. dollars)	Per share amount (Yen) (U.S. dollars)	Dividend record date	Effective date
Common stock	¥ 1,204 $ 11,703	¥ 5.00 $ 0.04	March 31, 2013	June 28, 2013

Cash dividends approved at the Board of Directors' meeting held on October 31, 2013:	Total amount (Millions of yen) (Thousands of U.S. dollars)	Per share amount (Yen) (U.S. dollars)	Dividend record date	Effective date
Common stock	¥ 1,204 $ 11,703	¥ 5.00 $ 0.04	September 30, 2013	December 2, 2013

Year ended March 31, 2013

Cash dividends approved at the shareholders' meeting held on June 28, 2012:	Total amount (Millions of yen)	Per share amount (Yen)	Dividend record date	Effective date
Common stock	¥ 1,204	¥ 5.00	March 31, 2012	June 29, 2012

Cash dividends approved at the Board of Directors' meeting held on October 31, 2012:	Total amount (Millions of yen)	Per share amount (Yen)	Dividend record date	Effective date
Common stock	¥ 1,204	¥ 5.00	September 30, 2012	December 3, 2012

11. Cost of business restructuring

The cost of business restructuring for the years ended March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2013 ended March 31, 2014	FY2012 ended March 31, 2013	FY2013 ended March 31, 2014
Cost of restructuring laboratory	¥ 249	¥ –	$ 2,425
Loss on withdrawal of flexible printed circuit board business	80	59	783
Cost of carrier tape business restructuring	1	222	16
Cost of transferring laboratory	–	26	–
Others	–	(17)	–
Total	¥ 332	¥ 291	$ 3,225

12. Impairment loss

The Companies categorized assets for business use by business segment. Idle assets were categorized by individual property.

The Companies recognized the following impairment losses on dormant fixed assets with no further potential for business use for the years ended March 31, 2014 and 2013:

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, 2014 and 2013. In this case, the recoverable amount was measured at net selling price, calculated using the assessed property tax valuation with reasonable adjustments.

The carrying amounts of idle land in Ibaraki that had significantly declined in market value were written down to the recoverable amount in the year ended March 31, 2013. In this case, the recoverable amount was measured at net selling price, calculated using the assessed property tax valuation with reasonable adjustments.

The carrying amounts of a part of a building and other assets in Shizuoka that had uncertain prospects for future utilization 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, 2013.

The carrying amounts of some machinery and equipment and other assets in China that had uncertain prospects for future utilization were written down to the recoverable amount. In this case, the recoverable amount was measured at net selling prices, which was assessed based on an estimation for the year ended March 31, 2014 and estimated at zero for the year ended March 31, 2013.

			Millions of yen		Thousands of U.S. dollars
Use	Location	Type of assets	FY2013 ended March 31, 2014	FY2012 ended March 31, 2013	FY2013 ended March 31, 2014
Idle assets	Akita, Akita	Land	¥ 30	¥ 471	$ 300
	Inashiki, Ibaraki	Land	–	121	–
Business-use	Fujieda, Shizuoka	Building etc.	–	282	–
assets	China	Machinery and equipment etc.	153	5	1,492
Total			¥ 184	¥ 881	$ 1,792

13. Other comprehensive income

Reclassification adjustments and tax effect amounts of other comprehensive income for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2013 ended March 31, 2014	FY2012 ended March 31, 2013	FY2013 ended March 31, 2014
Valuation difference on available-for-sale securities			
Amount for the year	¥ 3,113	¥ 2,861	$ 30,255
Reclassification adjustment	–	163	–
Amount before tax effect adjustment	3,113	3,025	30,255
Tax effect amount	(1,022)	(969)	(9,937)
Valuation difference on available-for-sale securities	2,091	2,055	20,317
Foreign currency translation adjustments			
Amount for the year	12,410	7,853	120,583
Reclassification adjustment	–	342	–
Amount before tax effect	12,410	8,195	120,583
Tax effect amount	(36)	164	(359)
Foreign currency translation adjustment	12,373	8,360	120,224
Remeasurements of defined benefit plans			
Amount for the year	330	(42)	3,207
Reclassification adjustment	554	278	5,384
Amount before tax effect	884	235	8,592
Tax effect amount	(335)	546	(3,258)
Remeasurements of defined benefit plans	548	782	5,333
Share of other comprehensive income of associates accounted for using the equity method			
Amount for the year	(12)	5	(124)
Total other comprehensive income	¥ 15,000	¥ 11,204	$ 145,751

14. Financial instruments and related disclosures

The information about financial instruments and related disclosures for the years ended March 31, 2014 and 2013 was as follows:

(1) Status of financial instruments

The Companies confine cash management to investing in short-term deposits and procure funds through 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 counterparty's financial situation. Trade notes and accounts receivable denominated in foreign currencies expose the Companies to exchange rate risks. The Company and some consolidated 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 affiliates.

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 balances of trade notes and accounts payable in a foreign currency are basically at a level which does not exceed the balances of trade notes and accounts receivable in the same currency.

Short-term debt, consisting of short-term loans payable and commercial paper, is incurred primarily for operating transactions. Long-term debt is primarily for investments in facilities. Some long-term debts are subject to interest rate fluctuation risk. The Companies hedge the risk of interest rates rising using interest rate swaps within a limited range. The Companies borrow long-term funds with fixed interest rates to hedge the risk of interest rate fluctuations.

In accordance with the internal regulations, the Companies utilize derivative financial instruments to reduce the interest rate fluctuation risk in long-term debt and the market risk of fluctuations in foreign currency exchange rates on assets and liabilities. To further reduce associated credit risk, the Companies contract only with highly-rated financial institutions when utilizing derivative contracts. Please see Note 2 (Derivatives and hedge accounting) 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, 2014	Millions of yen Carrying amount	 Fair value	 Difference
Cash and cash equivalents	¥ 41,341	¥ 41,341	¥ –
Trade notes and accounts receivable:			
Notes	6,515	6,515	–
Accounts	35,417	35,417	–
Investment securities	18,538	18,538	–
Long-term loans receivable	4,629		
Provision for doubtful accounts	(3,046)		
	1,583	1,583	–
Total assets	¥ 103,397	¥ 103,397	¥ –
Trade notes and accounts payable:			
Notes	¥ 3,247	¥ 3,247	¥ –
Accounts	27,340	27,340	–
Short-term debt and long-term debt due within one year	23,763	23,763	–
Long-term debt	11,300	11,328	28
Total liabilities	¥ 65,651	¥ 65,679	¥ 28
Derivative financial instruments	–	–	–

As of March 31, 2013	Millions of yen Carrying amount	 Fair value	 Difference
Cash and cash equivalents	¥ 31,778	¥ 31,778	¥ –
Trade notes and accounts receivable:			
Notes	7,265	7,265	–
Accounts	33,407	33,407	–
Investment securities	15,411	15,411	–
Long-term loans receivable	4,545		
Provision for doubtful accounts	(2,907)		
	1,637	1,648	10
Total assets	¥ 89,501	¥ 89,511	¥ 10
Trade notes and accounts payable:			
Notes	¥ 4,138	¥ 4,138	¥ –
Accounts	24,511	24,511	–
Short-term debt and long-term debt due within one year	21,853	21,853	–
Long-term debt	7,700	7,733	33
Total liabilities	¥ 58,203	¥ 58,236	¥ 33
Derivative financial instruments	19	19	–

As of March 31, 2014	Thousands of U.S. dollars Carrying amount	Fair value	Difference
Cash and cash equivalents	$ 401,690	$ 401,690	$ –
Trade notes and accounts receivable:			
Notes	63,307	63,307	–
Accounts	344,123	344,123	–
Investment securities	180,128	180,128	–
Long-term loans receivable	44,985		
Provision for doubtful accounts	(29,596)		
	15,388	15,388	–
Total assets	$ 1,004,638	$ 1,004,638	$ –
Trade notes and accounts payable:			
Notes	$ 31,549	$ 31,549	$ –
Accounts	265,648	265,648	–
Short-term debt and long-term debt due within one year	230,897	230,897	–
Long-term debt	109,794	110,067	273
Total liabilities	$ 637,889	$ 638,163	$ 273
Derivative financial instruments	–	–	–

Note: Provision for doubtful accounts corresponding to long-term loans receivable is deducted.

(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 of principle and interest, discounted using current assumed rates for similar new debt. Certain long-term debt is subject to special treatment for interest rate swaps and the total principal and interest for these swaps are discounted using rationally estimated interest rates for similar new debt.

Derivative financial instruments

Information on the fair values for derivatives is included in Note 15 (Derivative financial instruments).

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

	Millions of yen		Thousands of U.S. dollars
	FY2013 as of March 31, 2014	FY2012 as of March 31, 2013	FY2013 as of March 31, 2014
Unlisted equity securities	¥ 754	¥ 754	$ 7,326
Investment securities: Unconsolidated subsidiaries and affiliates	1,005	906	9,770
Investment: Unconsolidated subsidiaries and affiliates	1,217	536	11,832
Total	¥ 2,977	¥ 2,197	$ 28,929

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, 2014

	Millions of yen			
As of March 31, 2014	Due in a year or less	1-5 years	5-10 years	Due after 10 years
Cash and cash equivalents	¥ 41,341	¥ –	¥ –	¥ –
Trade notes and accounts receivable:				
Notes	6,515	–	–	–
Accounts	35,417	–	–	–
Long-term loans receivable	–	659	500	221
Total	¥ 83,274	¥ 659	¥ 500	¥ 221

	Thousands of U.S. dollars			
As of March 31, 2014	Due in a year or less	1-5 years	5-10 years	Due after 10 years
Cash and cash equivalents	$ 401,690	$ –	$ –	$ –
Trade notes and accounts receivable:				
Notes	63,307	–	–	–
Accounts	344,123	–	–	–
Long-term loans receivable	–	6,406	4,864	2,147
Total	$ 809,121	$ 6,406	$ 4,864	$ 2,147

Long-term loans receivable of ¥3,248 million ($31,566 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 (Short-term debt and long-term debt).

15. Derivative financial instruments

The outstanding balances of derivative contracts as of March 31, 2014 and 2013 were as follows:

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

Currency related contracts

As of March 31, 2014

Not applicable.

	Millions of yen			
	Contract amount			
As of March 31, 2013	Total	Due after one year	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:				
Buying				
USD	¥ 4,769	¥ –	¥ 19	¥ 19

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

(a) Currency related contracts

		Millions of yen		
		Contract amount		
As of March 31, 2014	Principal hedged items	Total	Due after one year	Fair value
Forward foreign exchange contracts				
Selling:	Trade notes and accounts			
USD	receivable - accounts	¥ 1,698	¥ –	¥ (12)

		Millions of yen		
		Contract amount		
As of March 31, 2013	Principal hedged items	Total	Due after one year	Fair value
Forward foreign exchange contracts				
Selling:	Trade notes and accounts			
USD	receivable - accounts	¥ 1,045	¥ –	¥ (21)

		Thousands of U.S. dollars		
		Contract amount		
As of March 31, 2014	Principal hedged items	Total	Due after one year	Fair value
Forward foreign exchange contracts				
Selling:	Trade notes and accounts			
USD	receivable - accounts	$ 16,503	$ –	$ (121)

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.

(b) Interest rate related contracts

As of March 31, 2014	Principal hedged items	Contract amount (Millions of yen) Total	Due after one year	Fair value
Special treatment for interest rate swaps				
Interest rate swaps:				
Receivable floating rate/				
payable fixed rate	Long-term debt	¥ 3,000	¥ 3,000	(*)

As of March 31, 2013	Principal hedged items	Contract amount (Millions of yen) Total	Due after one year	Fair value
Special treatment for interest rate swaps				
Interest rate swaps:				
Receivable floating rate/				
payable fixed rate	Long-term debt	¥ 3,000	¥ 3,000	(*)

As of March 31, 2014	Principal hedged items	Contract amount (Thousands of U.S. dollars) Total	Due after one year	Fair value
Special treatment for interest rate swaps				
Interest rate swaps:				
Receivable floating rate/				
payable fixed rate	Long-term debt	$ 29,148	$ 29,148	(*)

Notes:

(*)Interest rate swaps subject to the special treatment for interest rate swaps are accounted for together with the long-term debt, accordingly the fair value of the interest rate swaps is included in the fair value of the corresponding long-term debt.

16. Per share information

	Yen		U.S. dollars
	FY2013 ended March 31, 2014	FY2012 ended March 31, 2013	FY2013 ended March 31, 2014
Net assets per share	¥ 618.28	¥ 539.81	$ 6.00
Net income per share	26.96	14.29	0.26

Notes: Diluted net income per share was not presented since potential shares did not exist for the years ended March 31, 2014 and 2013.

Net assets per share and net income per share were calculated based on the following:

	Millions of yen or thousands of shares		Thousands of U.S. dollars
	FY2013 ended March 31, 2014	FY2012 ended March 31, 2013	FY2013 ended March 31, 2014
Net assets per share:			
Total net assets per consolidated balance sheets	¥ 150,344	¥ 131,311	$ 1,460,794
Net assets attributed to common shares	148,936	130,044	1,447,107
Differences-Minority interests	1,408	1,266	13,687
Number of common shares at the end of fiscal year used in computing net assets per share	240,888	240,909	
Net income per share:			
Net income	¥ 6,493	¥ 3,443	$ 63,096
Net income attributable to common shares	6,493	3,443	63,096
Average number of common shares during the year	240,899	240,914	

17. 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 three segments; Semiconductor materials, 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, Semiconductor substrate materials
High-performance plastics	Phenolic molding compounds, Phenolic resins for industrial use, Molded parts and molding dies, Synthetic resin adhesive, Phenolic resin copper-clad laminates, Epoxy resin copper-clad laminates
Quality of life products	Medical devices, Melamine resin decorative and fireproof laminates, Polyvinyl chloride sheets and multilayered films, Freshness preserving films, Polycarbonate resin plates, Polyvinyl chloride plates, Design and construction of sheet waterproof system, Biotechnology related products

(Changes in reportable segments)

The Company has changed its reportable segment classification as follows from the fiscal year ended March 31, 2014.

Since the Company has eliminated "Circuit products," phenolic resin copper-clad laminates and epoxy resin copper-clad laminates, which have been included in this segment, were transferred to "High-performance plastics." Also, flexible printed circuits, which have been included in this segment, are included in "Others" since the Company withdrew from the business in the previous fiscal year.

Carrier tapes for mounting semiconductor components, which have been included in "Semiconductor materials," were transferred to "Quality of life products."

The segment information for the fiscal year ended March 31, 2013 has been modified according to the new classification.

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

The accounting policies of the reportable segments 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 segment sales, segment income (loss), segment assets and other material items

Segment information as of and for the years ended March 31, 2014 and 2013 was as follows:

Millions of yen

Year ended March 31, 2014	Reportable segments				Others	Total	Adjustment	Consolidated
	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal				
Sales:								
Outside customers	¥ 53,223	¥ 87,511	¥ 64,559	¥ 205,294	¥ 753	¥ 206,047	¥ –	¥ 206,047
Inter-segment	–	401	0	401	–	401	(401)	–
Total sales	53,223	87,913	64,560	205,696	753	206,449	(401)	206,047
Segment income (loss)	6,213	4,456	3,537	14,207	(0)	14,206	(3,504)	10,702
Segment assets	¥ 67,795	¥ 97,014	¥ 53,528	¥ 218,338	¥ 766	¥ 219,104	¥17,720	¥ 236,825
Other items:								
Depreciation and amortization	¥ 3,196	¥ 4,226	¥ 2,893	¥ 10,316	¥ 93	¥ 10,409	¥ 508	¥ 10,918
Amortization of goodwill	–	415	–	415	–	415	–	415
Investment amount for affiliates to which equity method is applied	–	219	–	219	–	219	–	219
Increase in property, plant and equipment and intangible assets	4,741	4,437	3,411	12,590	14	12,604	658	13,263

Millions of yen

Year ended March 31, 2013	Reportable segments				Others	Total	Adjustment	Consolidated
	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal				
Sales:								
Outside customers	¥ 44,908	¥ 72,584	¥ 63,110	¥ 180,603	¥ 2,759	¥ 183,362	¥ –	¥ 183,362
Inter-segment	–	157	28	186	–	186	(186)	–
Total sales	44,908	72,742	63,139	180,789	2,759	183,549	(186)	183,362
Segment income	3,970	3,490	4,265	11,726	32	11,759	(3,803)	7,956
Segment assets	¥ 60,235	¥ 82,580	¥ 53,262	¥ 196,078	¥ 1,206	¥ 197,285	¥16,541	¥ 213,826
Other items:								
Depreciation and amortization	¥ 3,066	¥ 3,407	¥ 2,932	¥ 9,406	¥ 483	¥ 9,889	¥ 466	¥ 10,356
Amortization of goodwill	–	459	–	459	–	459	–	459
Investment amount for affiliates to which equity method is applied	–	165	–	165	–	165	–	165
Increase in property, plant and equipment and intangible assets	9,089	4,736	2,851	16,677	154	16,831	757	17,588

Thousands of U.S. dollars

Year ended March 31, 2014	Reportable segments				Others	Total	Adjustment	Consolidated
	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal				
Sales:								
Outside customers	$ 517,132	$ 850,289	$ 627,282	$ 1,994,703	$ 7,316	$ 2,002,020	$ –	$ 2,002,020
Inter-segment	–	3,898	2	3,901	–	3,901	(3,901)	–
Total sales	517,132	854,188	627,284	1,998,604	7,316	2,005,921	(3,901)	2,002,020
Segment income (loss)	60,371	43,300	34,370	138,042	(4)	138,037	(34,047)	103,990
Segment assets	$ 658,719	$ 942,618	$ 520,097	$ 2,121,435	$ 7,448	$ 2,128,883	$ 172,177	$ 2,301,060
Other items:								
Depreciation and amortization	$ 31,060	$ 41,064	$ 28,113	$ 100,237	$ 908	$ 101,145	$ 4,942	$ 106,088
Amortization of goodwill	–	4,036	–	4,036	–	4,036	–	4,036
Investment amount for affiliates to which equity method is applied	–	2,135	–	2,135	–	2,135	–	2,135
Increase in property, plant and equipment and intangible assets	46,072	43,111	33,147	122,331	140	122,472	6,396	128,869

Notes:

1. "Others" for the year ended March 31, 2014 include business segments that are not included in any reportable segment and include contracted testing and research, and leasing of land, etc. "Others" for the year ended March 31, 2013 include business segments that are not included in any reportable segment and include contracted testing and research, leasing of land and flexible printed circuits business, etc.
2. The deductions of ¥(3,504) million ($(34,047) thousand) and ¥(3,803) million listed as an "Adjustment" to "Segment income (loss)" include ¥(5) million ($(52) thousand) and ¥(4) million of elimination of inter-segment transactions and ¥(3,498) million ($(33,995) thousand) and ¥(3,799) million of corporate expenses not allocated to any reportable segment for the years ended March 31, 2014 and 2013, respectively.

   Included in the ¥17,720 million ($172,177 thousand) and ¥16,541 million listed as an "Adjustment" to "Segment assets" are ¥(44) million ($(436) thousand) and ¥(13) million of elimination of inter-segment transactions and ¥17,765 million ($172,613 thousand) and ¥16,554 million of corporate assets not allocated to any reportable segment as of March 31, 2014 and 2013, respectively. Corporate assets principally consist of investment securities, basic research assets and general and administrative division assets held by the Company.

   The ¥658 million ($6,396 thousand) and ¥757 million listed as an "Adjustment" to "Increase in property, plant and equipment and intangible assets" for the years ended March 31, 2014 and 2013, 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, 2014 and 2013 were as follows:

(a) Sales

Millions of yen					
Year ended March 31, 2014					
	Asia				
Japan	China	Others	North America	Europe and others	Total
¥ 88,462	¥ 32,014	¥ 49,391	¥ 17,387	¥ 18,792	¥ 206,047

Millions of yen					
Year ended March 31, 2013					
	Asia				
Japan	China	Others	North America	Europe and others	Total
¥ 88,473	¥ 23,729	¥ 41,295	¥ 12,193	¥ 17,671	¥ 183,362

Thousands of U.S. dollars					
Year ended March 31, 2014					
	Asia				
Japan	China	Others	North America	Europe and others	Total
$ 859,527	$ 311,061	$ 479,898	$ 168,942	$ 182,590	$ 2,002,020

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, 2014					
	Asia				
Japan	China	Others	North America	Europe	Total
¥ 53,022	¥ 12,703	¥ 6,137	¥ 5,614	¥ 9,948	¥ 87,426

Millions of yen					
Year ended March 31, 2013					
	Asia				
Japan	China	Others	North America	Europe	Total
¥ 51,142	¥ 10,392	¥ 5,435	¥ 5,343	¥ 7,972	¥ 80,286

Thousands of U.S. dollars					
Year ended March 31, 2014					
	Asia				
Japan	China	Others	North America	Europe	Total
$ 515,183	$ 123,431	$ 59,633	$ 54,551	$ 96,664	$ 849,465

(2) Impairment loss of property, plant and equipment

Impairment loss of property, plant and equipment by reportable segments for the years ended March 31, 2014 and 2013 was as follows:

	Millions of yen						
	Reportable segments						
Year ended March 31, 2014	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Impairment loss	¥ 18	¥ 135	¥ –	¥ 153	¥ –	¥ 30	¥ 184

	Millions of yen						
	Reportable segments						
Year ended March 31, 2013	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Impairment loss	¥ 282	¥ 5	¥ –	¥ 288	¥ –	¥ 593	¥ 881

	Thousands of U.S. dollars						
	Reportable segments						
Year ended March 31, 2014	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Impairment loss	$ 178	$ 1,313	$ –	$ 1,492	$ –	$ 300	$ 1,792

"Elimination or corporate" was impairment loss for 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, 2014 and 2013 were as follows:

	Millions of yen						
	Reportable segments						
Year ended March 31, 2014	Semi-conductor material	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Goodwill:							
Amortization	¥ –	¥ 415	¥ –	¥ 415	¥ –	¥ –	¥ 415
Unamortized balance	–	4,404	–	4,404	–	–	4,404
Negative goodwill:							
Amortization	–	–	52	52	–	–	52
Unamortized balance	–	–	–	–	–	–	–

	Millions of yen						
	Reportable segments						
Year ended March 31, 2013	Semi-conductor material	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Goodwill:							
Amortization	¥ –	¥ 459	¥ –	¥ 459	¥ –	¥ –	¥ 459
Unamortized balance	–	4,557	–	4,557	–	–	4,557
Negative goodwill:							
Amortization	–	104	52	156	–	–	156
Unamortized balance	–	–	52	52	–	–	52

	Thousands of U.S. dollars						
	Reportable segments						
Year ended March 31, 2014	Semi-conductor material	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Goodwill:							
Amortization	$ –	$ 4,036	$ –	$ 4,036	$ –	$ –	$ 4,036
Unamortized balance	–	42,790	–	42,790	–	–	42,790
Negative goodwill:							
Amortization	–	–	508	508	–	–	508
Unamortized balance	–	–	–	–	–	–	–

18. Related party transactions

Related party transactions for the fiscal year ended March 31, 2014 were as follows:

Category	Company name	Location	Capital	Business activity	Ownership	Relationship with the relevant party	Details of the transaction	Transaction amount (Millions of yen) (Thousands of U.S. dollars)	Account	Year-end balance (Millions of yen) (Thousands of U.S. dollars)
Subsidiary	Sumitomo Bakelite (Dongguan) Co., Ltd.	China	49,981 thousand RMB	Manufacturing and selling of molded parts	100% direct ownership	Two directors serving both companies	Underwriting of capital increase(*)	¥681 /$6,621	–	–

*The Company has underwritten the entirely capital increase made by Sumitomo Bakelite (Dongguan) Co., Ltd.

19. Subsequent events

A. At the general meeting of shareholders held on June 27, 2014, retained earnings as of March 31, 2014, were appropriated as follows:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends ¥5.0 ($0.04) per share	¥ 1,204	$ 11,702

B. Acquisition of a company through acquisition of shares

The Company resolved at the Board of Directors' meeting held on April 21, 2014 to acquire all of the outstanding shares of common stock of Vaupell Holdings, Inc. ("Vaupell") through Sumitomo Bakelite North America Holdings, Inc., a consolidated subsidiary of the Company, and entered into a share acquisition agreement with an affiliate of H.I.G. Capital, LLC on the same day. The Company has acquired all the shares of Vaupell in accordance with the agreement on June 12, 2014.

(1) Purpose of acquiring the target company as a subsidiary

The Companies have expanded its High-Performance Plastics (HPP) business into areas in which it can leverage accumulated technologies related to the automotive industry. A key focus is phenol resin, whose properties include heat resistance, mechanical strength, dimensional stability and FST (anti-flame/anti-smoke/anti-toxicity). It was against this backdrop that three years ago the Company began looking to fully enter the aerospace interiors business, in which it could apply its accumulated technologies, taking advantage of growing demand for aircraft and a transition toward plastic materials that save weight and reduce fuel consumption. At the same time, the Company continued to evaluate the global market and explore potential acquisitions and alliances to secure opportunities for its Medical Products Business Division, which has built a presence in surgical fields over more than 30 years.

These considerations led the Company to acquire Vaupell, which maintains aerospace interiors and medical equipment businesses, primarily in the United States. Vaupell is the global pioneer in aerospace interior plastic components; it began delivering plastics to Boeing in 1947. Vaupell has since amassed a consistent record as a Tier 1 supplier of many molding products and assemblies for all Boeing commercial aircraft platforms. In the medical equipment business, Vaupell provides plastic components to such pre-eminent medical device manufacturers as Stryker, Cooper Surgical, Smith & Nephew and Bard.

This will be a highly strategic acquisition for the Company, enabling it to fully enter the aerospace interiors field while fulfilling a long-sought desire to deploy its medical equipment business internationally.

The acquisition of Vaupell will allow the Company to become an integrated supplier in the aerospace interior business, providing diverse solutions that extend from raw materials to molding processes, painting and assembly. The Company also looks to become a highly reliable partner for aircraft manufacturers, with a healthy financial position and broad technological potential. Building on Vaupell's long, deep relationship with Boeing in the United States, the Company will employ its network in China, Southeast Asia and Europe so it can become one of the few suppliers that can accommodate the growing global demand for aircraft.

In the medical equipment business, the transaction will enable the Company to obtain Vaupell's technology, leverage Vaupell's customer network to leading global medical companies, access the advanced medical trends in the United States, cultivate new customers in Japan and the United States, and expand existing medical operations through Vaupell's current sales channels.

The Company concluded that it can optimize its synergies with Vaupell and further expand business by drawing on Vaupell's deep customer relationships, the technologies it has accumulated over many years, and drawing on collaboration in existing production bases and deepening technological capabilities.

(2) Overview of the target company

(a) Corporate name: Vaupell Holdings, Inc.

(b) Head office: Seattle, Washington in U.S.A.

(c) Business activities: Manufacture and supply of aerospace interior components and medical equipment

(3) Overview of the seller

(a) Corporate name: Funds managed by an affiliate of H.I.G. Capital, LLC

(b) Head office: Miami, Florida, USA

(c) Business activities: Private equity investment

(4) Date of share acquisition

June 12, 2014

(5) Amount of consideration for the acquisition of the target company as a subsidiary

$269 million

Independent Auditor's Report

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

Independent Auditor's Report

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, 2014 and 2013, 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, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

As discussed in Note 19.B. to the consolidated financial statements, the Company acquired all the stocks of Vaupell Holdings, Inc. on June 12, 2014. Our opinion is not modified with respect to this matter.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 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.

June 27, 2014
Tokyo, Japan

Corporate Data

(As of March 31, 2014)

Corporate Name:
SUMITOMO BAKELITE COMPANY LIMITED

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

Corporate General Affairs Div.
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	5,262
Non-consolidated	2,148

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

Investor Information

(As of March 31, 2014)

Common Stock:

Stock trading unit	1,000 shares
Authorized	800,000,000 shares
Issued and outstanding	262,952,394 shares
Number of shareholders	19,271*
*Number of share trading unit holders included in above	14,738

Common Stock Listing:
The Tokyo 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
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,834	4.12
Japan Trustee Services Bank, Ltd. (Trust Account)	10,277	3.91
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	6,444	2.45
Japan Trustee Services Bank, Ltd. (Trust Account 9)	5,082	1.93
Japan Trustee Services Bank, Ltd. (Retirement Payment Account of Sumitomo Mitsui Trust Bank, Ltd.)	4,366	1.66
Sumitomo Mitsui Banking Corporation	4,360	1.66
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	3,482	1.32
Northern Trust Co. (AVFC) Re NVI01	2,825	1.07
Mitsui Sumitomo Insurance Co.,Ltd.	2,637	1.00

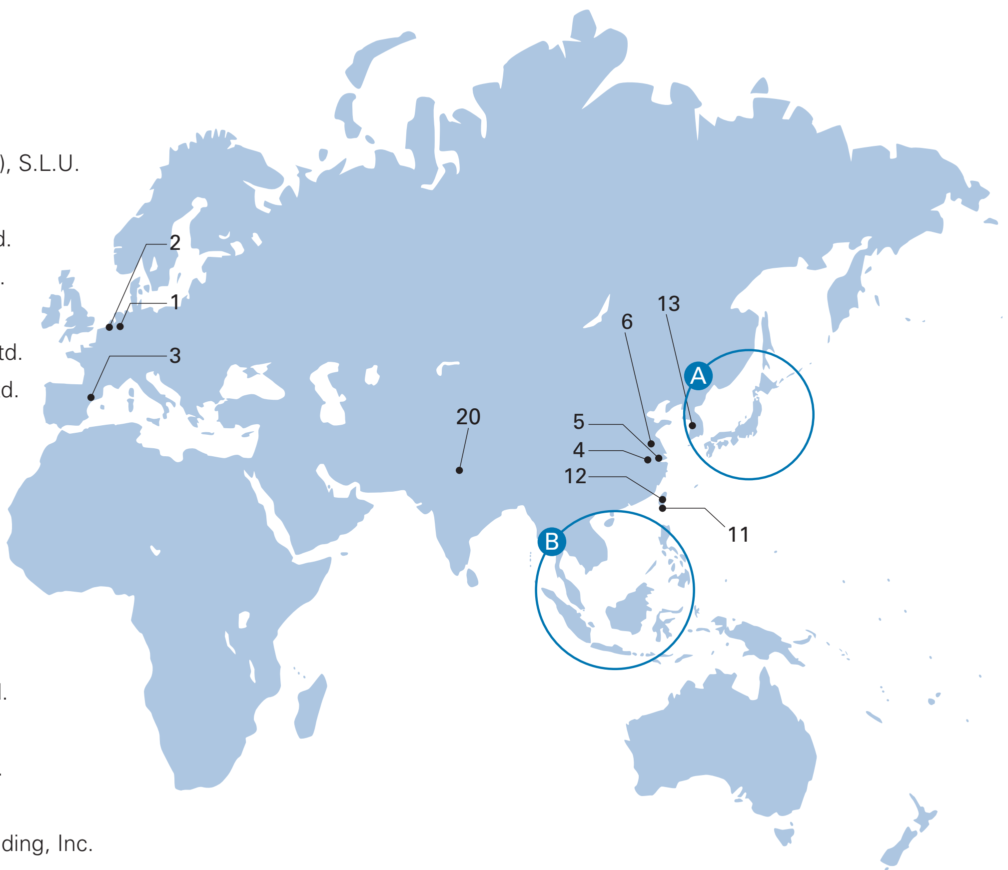
Notes: The Company holds 22,064 thousand shares of treasury stock, which are excluded from stock held by the principal shareholders listed above.

Global and Domestic Network

(As of June 27, 2014)

Overseas

1. N.V. Sumitomo Bakelite Europe S.A.
2. Vyncolit N.V.
3. Sumitomo Bakelite Europe (Barcelona), S.L.U.
4. Sumitomo Bakelite (Suzhou) Co., Ltd.
5. Sumitomo Bakelite (Shanghai) Co., Ltd.
6. Sumitomo Bakelite (Nantong) Co., Ltd.
7. Basec Hong Kong Ltd.
8. Sumitomo Bakelite (Dongguan) Co., Ltd.
9. Sumitomo Bakelite Hong Kong Co., Ltd.
10. Sumitomo Bakelite Macau Co., Ltd.
11. Sumitomo Bakelite (Taiwan) Co., Ltd.
12. Sumibe (Taiwan) Co., Ltd.
13. Sumibe Korea Co., Ltd.
14. P.T. Indopherin Jaya
15. P.T. SBP Indonesia
16. SNC Industrial Laminates Sdn. Bhd.
17. Sumitomo Bakelite Singapore Pte. Ltd.
18. Sumidurez Singapore Pte. Ltd.
19. Sumitomo Bakelite (Thailand) Co., Ltd.
20. SBE India Pvt. Ltd.
21. Sumitomo Bakelite North America Holding, Inc.
22. Sumitomo Plastics America, Inc.
23. Durez Corporation
24. Promerus LLC
25. Sumitomo Bakelite North America, Inc.
26. Durez Canada Co., Ltd.
27. Vaupell Holdings, Inc.



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

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

Laboratories

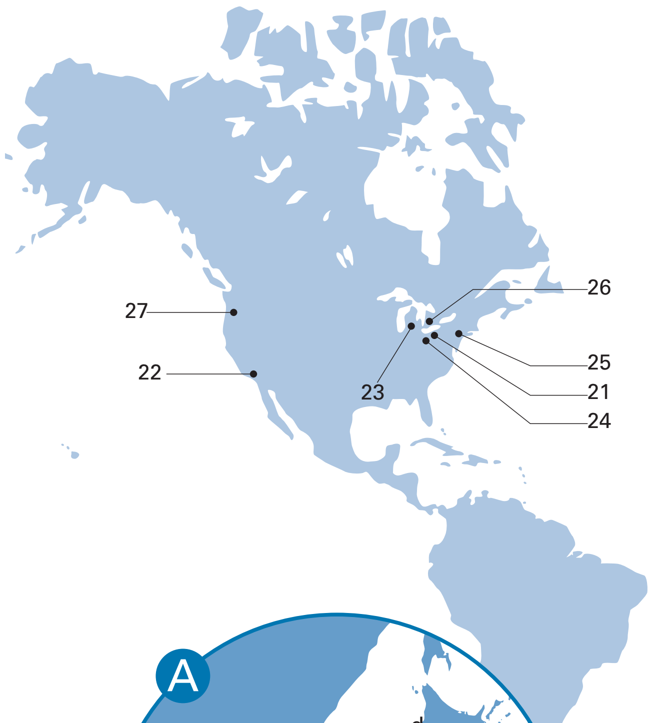
Corporate R&D Center
(Located at Utsunomiya Plant and Kobe Facility Office)

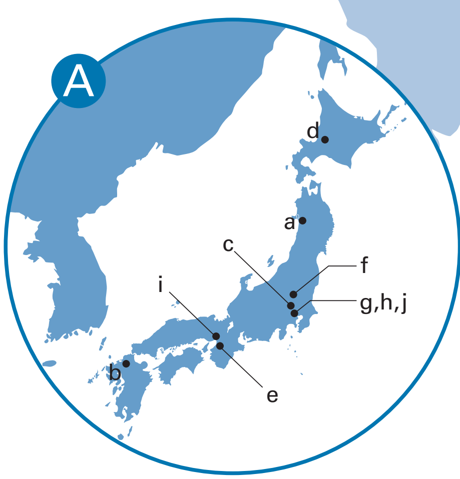
Corporate Engineering Center
(Located at Shizuoka Plant)

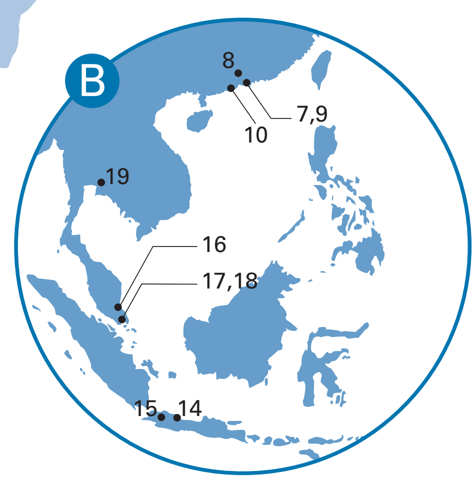
High Performance Plastic Technology Development Laboratory
(Located at Shizuoka Plant)

Domestic

a. Akita Sumitomo Bakelite Co., Ltd.
b. Kyushu Sumitomo Bakelite Co., Ltd.
c. S.B. Techno Plastics Co., Ltd.
d. Hokkai Taiyo Plastic Co., Ltd.
e. Yamaroku Kasei Industry Co., Ltd.
f. S.B. Research Co., Ltd.
g. Sunbake Co., Ltd.
h. S.B. Sheet Waterproof Systems Co., Ltd.
i. Softec Co., Ltd.
j. 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

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2-3-47 Higashi-tsukaguchi-cho,
Amagasaki, Hyogo 661-8588, JAPAN
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