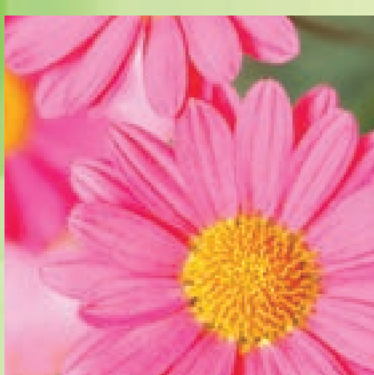
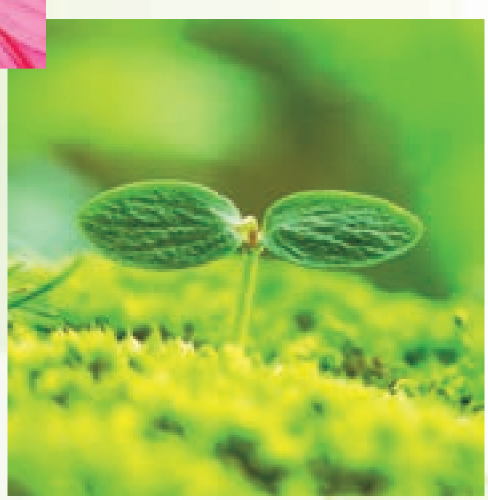
July, 2017





Annual Report

For the year ended March 31, 2017

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
	FY2016 ended March 31, 2017	FY2015 ended March 31, 2016	FY2014 ended March 31, 2015	FY2016 ended March 31, 2017
Net sales	¥198,199	¥206,956	¥209,659	$1,766,642
Profit attributable to owners of parent	10,622	3,828	7,113	94,683
Total assets	263,742	260,122	285,927	2,350,853
Shareholders' equity	154,561	146,300	147,381	1,377,672

	Yen			U.S. dollars
Basic earnings per share	¥45.14	¥16.01	¥29.53	$0.40
Diluted earnings per share	—	—	—	—
Cash dividends per share	10.00	10.00	10.00	0.08

Note: U.S. dollar amounts are translated from yen at the rate of ¥112.19 to US$1, the approximate exchange rate as of March 31, 2017.

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

With its basic policy to "Leverage fundamental plastics technologies, to build more value-added business structure," the Company will evolve by actively working to deepen relationships with priority customers under the "Customer Satisfaction (CS) First" policy as well as pursuing cooperation and collaboration in-house and with outside partners.

Operating Environment in Fiscal 2016

With respect to the global economy during fiscal 2016, ended March 31, 2017, the United States continued on its path of steady economy recovery, while the economies of Europe only demonstrated moderate recovery, as political uncertainty prevailed due to Brexit and other issues. Signs of economic recovery were also seen in China through investment activities in infrastructures including roads and railways. In the Japanese economy, corporate earnings and the employment situation improved while personal consumption also began to pick up.

In terms of the business environment surrounding the Company, the market for semiconductors was robust, despite the weak demand for personal computers, thanks to strong demand for multifunctional portable terminals and semiconductors for automotive use mainly in the emerging economies including China. In the automobiles, new car sales in the United States and Europe maintained a favorable trend, while demand also grew in China due to tax breaks for compact cars. The Japanese automobile market also had an increase in shipment volume due to the effects of the launch of new vehicles. The number of housing starts in the domestic market also maintained an increasing trend.

Overview of Fiscal 2016 Results

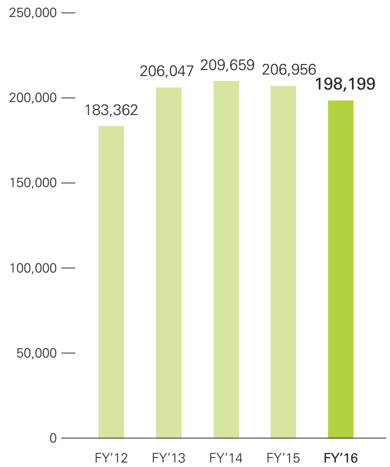
In the operating environment explained above, the Company defines its management policies as pursuing sustainable growth by identifying the real needs in the market through active in-house and outside cooperation and collaboration in addition to concentrating the strength of individuals, organizations and the Company group under the basic policy of "CS First" in its business activities. Furthermore, the Company has been reinforcing its management base by carrying out reforms on its business structure and making efforts towards the mid- to long-term improvement of corporate value under the following basic strategies:

(i) New business start-ups and creation
(ii) Increase in profitability and scale of growing areas
(iii) New growth in existing businesses and change of business model

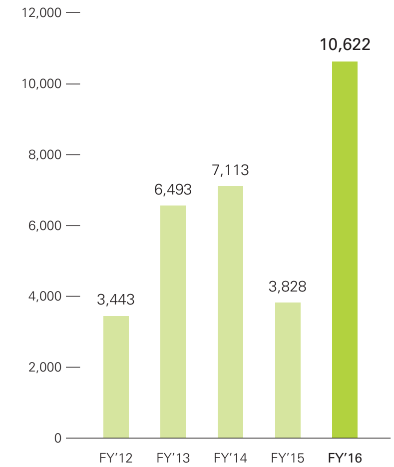
As a result, while sales volume increased, consolidated net sales for fiscal 2016 decreased by 4.2% from fiscal 2015 to ¥198,199 million mainly due to the effects of a decrease in overseas sales owing to the appreciation of the yen and sales price reductions following the decline in raw material prices.

On the earnings front, consolidated operating income increased by 64.8% year on year to ¥16,879 million, and consolidated ordinary income increased by 63.5% year on year to ¥17,324 million, thanks to the increase in sales volume of semiconductor materials and high-performance plastic products, the contribution made by the downsizing of unprofitable products through business structure reforms and the reduction of fixed costs, as well as the upturn in actuarial adjustment in retirement allowances. Profit attributable to owners of parent also increased by 177.4% year on year to ¥10,622 million, despite posting extraordinary losses

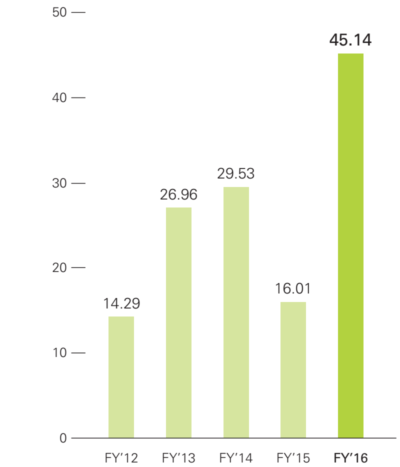
Net sales
(Millions of yen)



Profit attributable to owners of parent
(Millions of yen)



Basic earnings per share
(Yen)



for special retirement expenses to volunteers for early retirement and impairment losses on idle land and buildings in conjunction with the integration of production facilities.

Profit from the impact of actuarial adjustment in retirement allowances amounted to ¥1,332 million in this fiscal year compared with a loss of ¥1,950 million in the previous fiscal year. The performance comparison on an actual basis excluding such impact is presented in the table in page 3.

As for dividends, the Company has declared the year-end dividend of ¥5.0 per share (Added to the interim dividend paid, the full fiscal year cash dividend for fiscal 2016 is ¥10.0 per common share).

During the period under review, the Company issued neither new shares nor corporate bonds, nor undertook other extraordinary steps to procure funds. Total capital expenditures for the period under review amounted to ¥10,341 million.

Basic Policy and Target

The Company has formulated a new three-year Mid-term Business Plan starting from fiscal 2016 based on the reinforcement of its management base through the business reforms, which the Company has been carrying out since fiscal 2015 mainly on its unprofitable businesses and the structural reforms including the personnel adjustment according to business volume both in Japan and overseas. This plan defines its basic policy as "Leverage fundamental plastics technologies, to build more value-added business structure," and the following initiatives will be implemented:

· The Company will uphold the customer-oriented "CS First" policy, deepen its relationship with priority customers and aspire to become a company chosen by customers.
· The Company will pursue active in-house cooperation and outside collaboration and reinforce its corporate strength.
· The Company will transform its business operations by implementing reforms on its cost structure.

Through these initiatives, the Company will aim to achieve ¥250.0 billion in consolidated net sales and ¥20.0 billion in consolidated operating income as targets which have been set for fiscal 2018.

The Company sets out the following three as its basic strategies:

(i) New business start-ups and creation
(ii) Increase in profitability and scale of growing areas
(iii) New growth in existing businesses and change of business model

The Company will strive to make new products competitive as early as possible, while designating the four domains of aerospace, automotive, highly-integrated devices and healthcare as creation areas and promote research and development therein. The Company will also aim for revitalization and further development in the existing businesses, while at the same time reinforce and expand its operations through active investments in growth businesses and through M&As and cooperation/collaboration. Furthermore, the Company will promote initiatives to apply its products and technology towards the realization of the smart community and expand its business into the area of social infrastructure.

Comparison of performance (consolidated)

(Unit: billion yen; rounded to the nearest full unit)

	FY2016	FY2015	Change (%)
Net sales	198.2	207.0	Down 4.2%
Operating income [Actual]	16.9 [15.5]	10.2 [12.2]	Up 64.8% [Up 27.5%]
Ordinary income [Actual]	17.3 [16.0]	10.6 [12.5]	Up 63.5% [Up 27.4%]
Profit attributable to owners of parent [Actual]	10.6 [9.7]	3.8 [5.2]	Up 177.4% [Up 87.1%]

Note: Actual figures are presented in the amount excluding the impact of actuarial adjustments in retirement allowances.

The key targets of each business segment are as follows.

(Semiconductor materials)

Solidify relationships with customers by joining forces for manufacturing, sales and R&D, and increase sales through a globally optimized structure. Further secure customer base of high value-added materials for mold underfill and in the growing area of automotive applications.

Make "LαZ," substrate materials for semiconductor packages, profitable as early as possible by capturing volume users, such as middle- and low-end users.

(Note) Mold underfill (MUF) is the method of one-set semiconductor encapsulation, in which underfill of the space between the substrate and the semiconductor element is conducted at the same time as overmolding of the semiconductor element, which has the effect of reducing the assembly costs and man-hours of semiconductor packages.

(High-performance plastics)

Reinforce the cooperation of sales, marketing and technology between the global bases, and increase sales of products and uses by leveraging the strengths of each base.

Expand business by strengthening in-house and outside collaboration in the growing areas of automobiles and aerospace.

(Medical/Bio-related products)

Develop and launch new products mainly in the cutting-edge fields of endoscopic and endovascular treatments and reinforce product line-up. Expand business through the aggressive research of M&As and by establishing a global business structure.

(Films & sheets-related products and P-Plus)

Expand uses and sales by enhancing the performance of films, increasing their added-value and by reinforcing product lineup.

Make sales and production at the production facility in China competitive as early as possible.

(Plate products, Decola products and waterproof systems)

Develop a structure that emphasizes contact points with customers and accurately captures user needs.

Expand uses for plate products in the non-construction materials field through the pursuit of high value-added products.

As the leader 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.

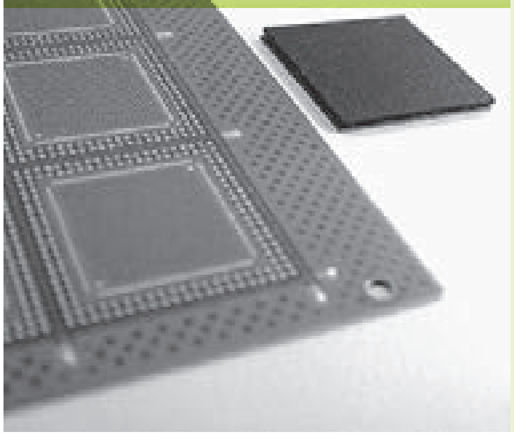
June 2017

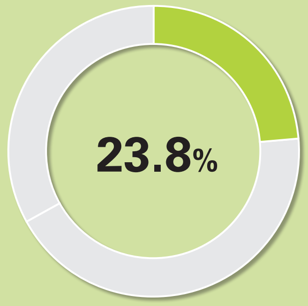
Shigeru Hayashi
President

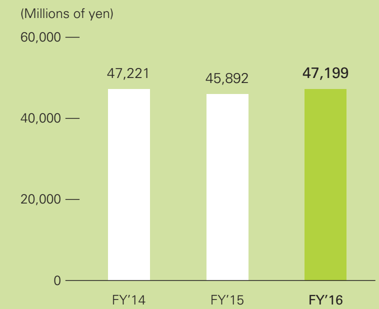
At a Glance

Segment	Segment Sales to Total Sales	Net Sales

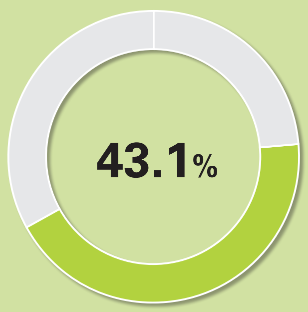
Semiconductor Materials

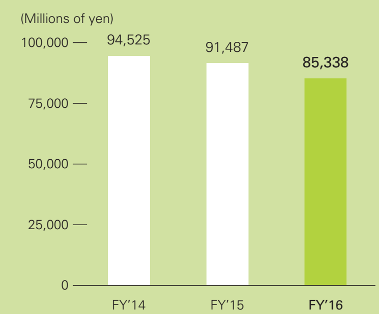




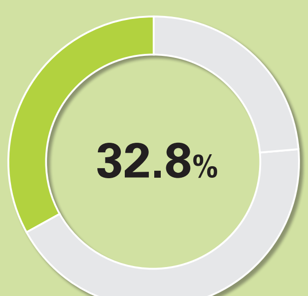


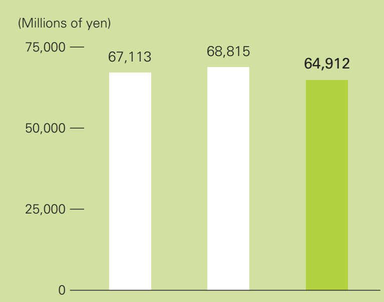
High-Performance Plastics





Quality of Life Products





Note: Net sales of the others segment amounted to ¥749 million in fiscal 2016.

Overview

Sales of epoxy resin molding compounds for encapsulation of semiconductor devices increased, despite the negative effects of the appreciation of the yen, owing to the strong demand for mold underfill materials for use in smartphones and other multifunctional portable devices as well as the increase in sales for automobile applications. Although sales remained flat for "LαZ," substrate materials for semiconductor packages, it is expected to increase going forward, as it has been adopted for use in application processors and for memory use.

Sales of phenolic molding compounds and phenolic resins for industrial use decreased due to the effects of the appreciating yen and the adjustments of sales prices following the decline in raw material prices, despite the increase in sales volume mainly as a result of recovering demand in the Asian region and the increase in automotive uses in Europe. Sales of aerospace and automotive molded products decreased due to the stagnant demand of the customers and the effects of the appreciating yen. Although sales of copper-clad laminates decreased due to the downsizing of the single-sided, phenolic resin copper-clad laminates business, profits increased.

Sales of medical device products decreased, due to inventory adjustments by a customer in existing products. Thanks to efforts to reinforce the minimally invasive treatment field, the "Steerable Microcatheter," the strategic endovascular treatment device has been selling briskly both in Japan and overseas. Sales of vinyl resin sheets and multi-layer sheets decreased reflecting stagnant sales for industrial uses such as release films, despite the strong sales for medical packaging uses of generic pharmaceuticals. Meanwhile, sales of "P-Plus," the freshness keeping film, increased owing to an increase in uses for pre-cut vegetables and farm-fresh vegetables. Sales of plate products including polycarbonate resin plates and vinyl chloride resin plates decreased due to a decline in the demand for polarizing plates for sunglasses and electrical insulation film, despite an increase in construction material use. Furthermore, in terms of Decola products, sales decreased as a result of the Company withdrawing from unprofitable businesses at the end of March 2016 but profits improved substantially due to the effects of the reforms on the business structure. Going forward the Company will continue to target new business development by specializing in high-performance/high value-added areas including interiors of railway vehicles and "Decola Innovair," the industry's thinnest non-flammable melamine sheets. Sales of waterproofing products increased due to the robust new housing market.

Corporate Governance

Basic Policies

<Principles concerning corporate governance>
The Company aims to contribute to value creation for various stakeholders of the Company including customers by creating advanced function with plastics as a pioneer in plastics and by offering "Joy and Pleasure" in the use of our products. Accordingly, it is important for the Company to be trusted and needed by society and therefore the Company undertakes the establishment of the business management system which is highly adapted to society and the environment including thorough compliance as well as the system in which responses to risks surrounding business management are efficiently and effectively implemented.

<Basic policies concerning corporate governance>

- The Company substantially secures shareholders' rights and makes efforts to establish an appropriate environment for the exercise of rights at the General Meeting of Shareholders.
- The Company aims at sustainable growth through business activities that respect stakeholders surrounding the Company, enhance the value thereof and contribute to society.
- The Company appropriately discloses information in accordance with laws and regulations, makes efforts to disclose information useful to stakeholders including shareholders and thereby secure the transparency of business management.
- The Board of Directors recognizes its fiduciary duties to shareholders, performs supervision concerning the effectiveness of internal control and the validity of business decisions, etc., in good faith and fulfills its duties based on its roles to urge proactive business execution by management.
- Corporate Auditors and the Board of Corporate Auditors recognize their fiduciary duties to shareholders, audit legality and validity concerning the execution of duties by Directors and perform their roles proactively including the provision of opinions that contribute to ensuring the effectiveness of the Board of Directors.
- The Company undertakes constructive dialogue with shareholders proactively to deeply understand each other and promotes initiatives that will contribute to sustainable growth and the mid- to long-term enhancement of the corporate value of the Company.

Corporate Governance Structure

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

At its monthly meetings, the Board of Directors makes decisions on important matters regarding the management of the 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.

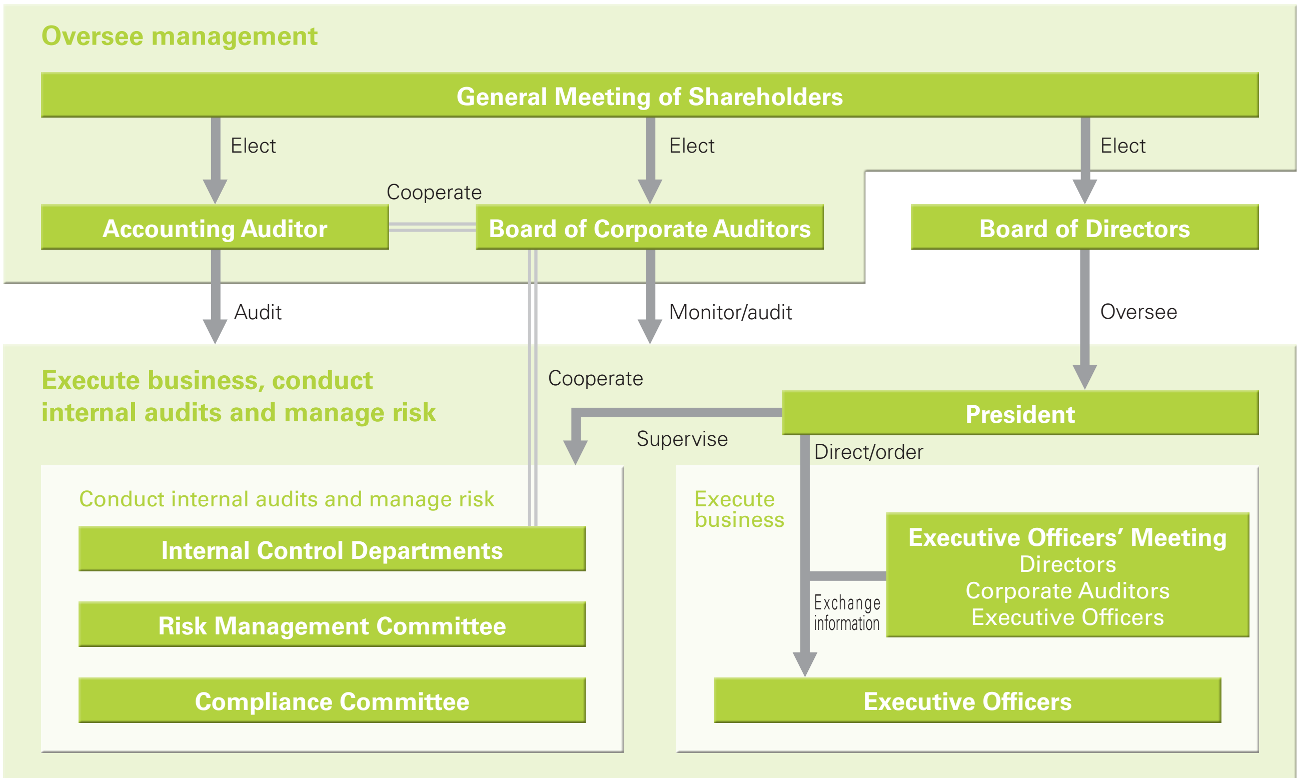
Accounting Audits

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 23, 2017)

Board of Directors and Corporate Auditors

President
Shigeru Hayashi*

Directors
Tsuneo Terasawa*
Shigeki Muto*
Noboru Yamawaki
Kazuhiko Fujiwara
Masayuki Inagaki
Sumitoshi Asakuma

Outside Directors
Hiroyuki Abe
Kazuo Matsuda
Ikuzo Ogawa

Standing Corporate Auditors
Tamotsu Yahata
Takao Akasaka

Outside Corporate Auditors
Junji Tomita
Yoshiko Koizumi

Note: *=Representative Director

Executive Officers

President
Shigeru Hayashi

Executive Vice Presidents
Tsuneo Terasawa
Shigeki Muto

Senior Managing Executive Officers
Noboru Yamawaki
Kazuhiko Fujiwara
Masayuki Inagaki

Managing Executive Officers
Sumitoshi Asakuma
Henny Van Dijk
Takashi Nakamura
Goichiro Kuwaki
Takashi Kobayashi

Executive Officers
Atsushi Suzuki
Koji Choki
Masaya Fumita
Yoshikazu Takezaki
Keisuke Kurachi
Nobuyuki Sashida
Makoto Suzuki
Alex Geskens

Support for Cultivating New Customers of Growing Areas by All Products and Technologies

The "Smart Community Marketing & Developing Division" ("SCM"), which was established on January 1, 2016 has dramatically changed the way in which the Company communicates with its customers.

SCM strives to facilitate growth of all business segments of the Company. Unlike existing business divisions which specialize in certain products or a technology area, SCM introduces the products of all business segments across the board, including the technology of Corporate Research & Development to customers.

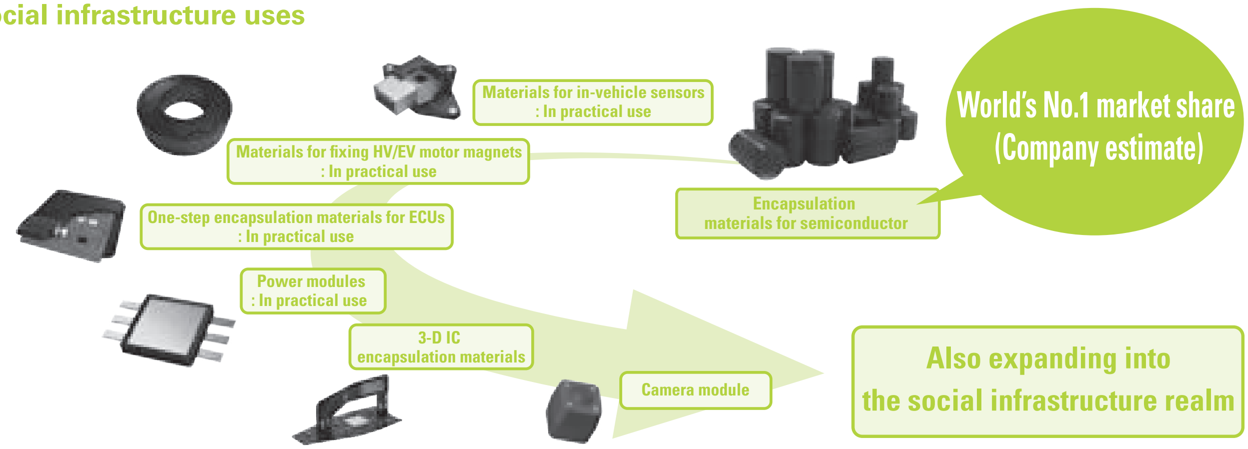
A Smart Community refers to urban areas, which have been electronified to become safe, secure and comfortable cities that grow sustainably. The Company considers the realization of this Smart Community through zero emission, IoT, autonomous/connected cars, HEMS (Home Energy Management System, a system to manage household energy) and other innovations, as one of the significantly growing areas. SCM has become the center for promoting sales in such high-potential growth areas.

SCM is involved in introducing existing products and related technology of business segments other than those of existing customers and putting them into practical use. One such example is the encapsulation materials for automotive use. SCM proposed taking epoxy resin molding compounds for encapsulation of semiconductor devices, a core product of the IT Components & Material segment and applying it to an area for which it was not originally intended, specifically to ECU (electronic control units), which are electrical components for automotive use. Upon subsequent joint development with a customer, reliability of the customer's products was enhanced; costs were cut; the product became lightweight and commercialization has begun from the end of 2016. The market for this product is immense, and the Company is promoting this business in the hopes that it will develop into a business that will go far and beyond the encapsulation materials of semiconductor devices.

Furthermore, the Company has been proposing products that have been developed as application of encapsulation materials to customers in the social infrastructure realm and promoting development support in high growth areas such as motion systems and medical devices. The Company has begun to employ similar methods in introducing high-performance plastics, films & sheets and plate products, in addition to encapsulation materials, to new customers in growing areas and has found that it has tapped into an area with immense potential.

In order to collaborate with customers, it is necessary to assess and process the Company's products together with the customers in a way that matches the customer's needs. From such a perspective, the Company is promoting the establishment of open labs for conducting verification experiments. The first lab opened in Utsunomiya in 2011, followed by a lab in Kyushu and another lab was opened in Belgium this year, which will be followed by another lab in the United States (Manchester) next year. Through these initiatives, the Company aims to gain further understanding of the Company's products and accelerate the customers' development by making them aware of their strengths and challenges.

Utilizing the Company's track record in semiconductor use to expand into automotive and social infrastructure uses



Initiatives of IT Components & Material Business: Target of Encapsulation Materials for Semiconductor

The semiconductor encapsulation materials market in fiscal 2016 reversed its previous decreasing trend and increased by approximately 5% year on year. This may be attributed to the increase in the number of semiconductors mounted for automotive uses and for smart electrical appliances, in addition to robust demand for semiconductors overall, such as for memory use, despite the trend moving toward smaller packaging and less resin use due to greater efficiency. The Company's strategy for expanding its share is based on (i) capturing an overwhelming share in the advanced areas such as Flip Chips, (ii) further increasing the market share in the Lead Frame (L/F) realm where high reliability is required and (iii) capturing volume in growing areas mainly in China.

(i) Advanced area

The market for MUF is expanding to include uses for memory and modules in addition to application processors for smartphones. Granule type encapsulation materials are also expanding its use beyond memory and modules to Wafer Level Package. The Company will leverage its technology accumulated in a wide-range of uses and continue to increase its market share.

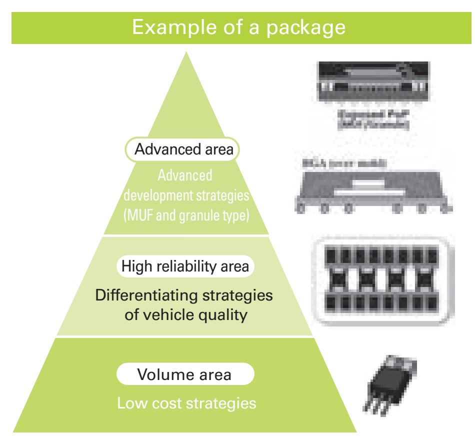
(ii) High reliability area

In automotive uses, further growth in the L/F realm is expected as the number of semiconductors mounted per vehicle is increasing due to the addition of driving-assistance functions. To meet customer demand for greater reliability in packages to ensure safety and security, the Company will proactively propose high reliability materials and increase its market share.

(iii) Volume area

In China, robust capital investments are being made by major semiconductor manufacturers that have benefitted from preferential policies including government subsidies. The Company, by effectively utilizing the plants of its Chinese subsidiary, Sumitomo Bakelite (Suzhou) Co., Ltd., and joint ventures, and by taking advantage of the strengths of a local supply network, is proactively capturing business and maintaining growth of more than 10% per year.

The Company will increase its market share by implementing the above three strategies and aim to capture an overwhelming world share.



Opening of sbDrive™ Demo Center

The Company opened the sbDrive™ Demo Center at its Belgian base in April 2017.

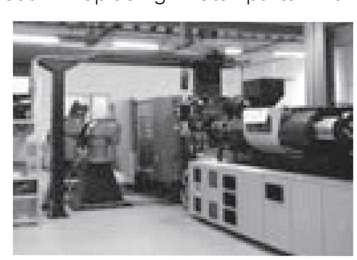
sbDrive™ refers to the Company's initiative to replace large and heavy, metal automobile parts with resin parts using Company group's molding compounds using glass fiber-reinforced thermoset plastic in an effort to reduce CO_2 and to contribute to consumer products and customer satisfaction. In addition to the engine's structural parts (cylinder head, crankcase and the like), the Company intends to expand this initiative to the various parts of the powertrain including transmission and brakes.

Large structural automobile parts are conventionally made of aluminum casting or cast iron. Replacing them with resin will not only make them lightweight and improve fuel consumption but also contribute to reducing greenhouse gases, an issue faced by the automobile industry, from the perspective of Life Cycle Assessment (LCA) which measures CO_2 emission from the amount of energy consumed in the formation of these parts from raw materials to final product.

The sbDrive™ Demo Center is equipped with a 500-ton injection molding machine and a parts-feeding robot for automatic molding, which enables the customer to visualize the actual facilities when conducting process design for mass production, in addition to helping customers intuitively understand the flow in which large metal parts are replaced with resin parts.

Furthermore, there is a system in place in which the parts development team of the sbDrive™ Demo Center provides advice on optimizing the design for replacing metal parts with resin and supports the customers' resin parts development.

Following the PR activities geared towards European automobile and automobile parts manufacturers, who have shown the greatest interest in replacing metal parts with resin, the Company has also embarked on PR activities geared towards Japanese and North American manufacturers.

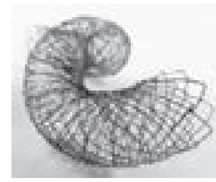


sbDrive™ Demo Center

Initiatives of Medical Device Business

The Medical Device Business aims to expand business volume and secure profits through the enhanced lineup of products in the growing areas of endovascular treatment and endoscopic treatment and by increasing market share through M&As.

With respect to "Steerable Microcatheter," endovascular treatment device, the Company signed an exclusive worldwide distribution agreement excluding Japan with Merit Medical Systems, Inc. in the U.S. and has been marketing the device in Europe; but in November 2016, the Company received approval from the US Food and Drug Administration (FDA) and has since then began marketing the device in the U.S. The Company intends to market this device worldwide and is currently applying for approval in other countries including Canada and Australia. This product is the first in the world which enables the user to bend the head of the catheter by hand operations as an endovascular treatment device. Currently, it is mainly used in trans-catheter arterial embolization therapy as one of the therapies for liver cancer (therapy to annihilate cancer cells by injecting anticancer agent into a blood vessel and emblazing it) but by enhancing its product lineup the Company intends to expand its uses to therapy for peripheral arterial disease and other therapies.


Biliary stent

In the endoscopic treatment field, up until now the Company had mainly marketed the digestive endoscope "SB Knife" and other products for endoscopic submucosal dissection (ESD) and hemostatic devices but in April 2017, it signed an exclusive Japanese distribution agreement for endoscopic gastrointestinal metal stents with S&G Biotech Inc. in South Korea and began marketing metallic biliary stents. Through these efforts, the Company was able to enter the areas of Hepato-Biliary-Pancreas and intends to increase sales by further enhancing its product lineup.

In the drainage field, the Company succeeded the active mechanical suction drain business from INNOMEDICS Medical Instruments, Inc. and began marketing its products in May 2017. Together with its proprietary drainage devices, the Company intends to further increase its market share.

The Company's Initiatives to Preserve Biodiversity (Initiatives to Create a Biotope at Shizuoka Plant)

Biotope of Sumitomo Bakelite Co., Ltd.

住友ベークライト・ビオトープ
憩いの杜
IKOINO MORI

Calming Woods

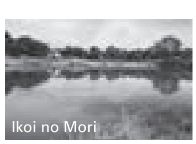
The Company is engaged in initiatives to preserve biodiversity, as it recognizes that while it depends on nature's bounties for the procurement of the raw materials necessary for its business activities and for the supply of water and energy, it is also directly and indirectly affecting the natural environment through waste and chemical substances, the emission of CO_2 and waste water, among others. Additionally, the Company participated in the "Japan Business Federation's (Keidanren) Declaration of Biodiversity as a Promotion Partner" in 2010 and has undertaken initiatives in accordance with the Declaration.

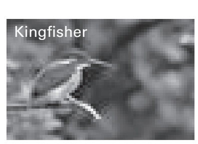
In the Company's main business of manufacturing plastics, it is undertaking environmental preservation measures on a company-wide basis such as reduction of CO_2 emission, waste reduction and appropriate control of chemical substances.

Moreover, the Company has created "Ikoi no Mori," a biotope on the premises of the Shizuoka Plant as an initiative based on the Declaration under the instruction of Professor Tatsumi Yamada of Tokoha University, and has opened the biotope to the public from April 2017.

"Ikoi no Mori" provides an environment in which various fauna and flora indigenous to the area can grow and thrive, including the Oga Lotus, an ancient lotus given to the Company from another company with a biotope; the Japanese minami medaka fish (Oryzias latipes) which is on the endangered list of Shizuoka Prefecture; jewel beetles with rainbow-colored wings; beautiful, blue kingfishers; and the golden lace (Patrinia scabiosaefolia), one of the autumn flowers in Japan. In addition, the water flowing through the biotope is factory effluent which has been detoxified by an effluent treatment facility.

Going forward, the Company hopes that visitors to the biotope and local residents will recognize the importance of biodiversity, become more aware of the environment and utilize the biotope as a tool for environmental education.


Ikoi no Mori


Kingfisher


Jewel beetle


Japanese minami medaka fish


Oga lotus

Five-Year Financial Summary

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries

	Millions of yen					Thousands of U.S. dollars
	FY2016 ended March 31, 2017	FY2015 ended March 31, 2016	FY2014 ended March 31, 2015	FY2013 ended March 31, 2014	FY2012 ended March 31, 2013	FY2016 ended March 31, 2017
For the year:						
Net sales	¥ 198,199	¥ 206,956	¥ 209,659	¥ 206,047	¥ 183,362	$ 1,766,642
Operating income	16,879	10,241	10,904	10,702	7,956	150,459
Income before income taxes and non-controlling interests	14,466	7,410	11,344	10,540	6,532	128,944
Profit attributable to owners of parent	10,622	3,828	7,113	6,493	3,443	94,683
Capital expenditures	10,341	9,697	11,812	13,263	17,588	92,181
Depreciation and amortization	10,003	10,843	9,256	10,969	10,393	89,169
Research and development expenses	9,659	10,448	10,253	11,881	12,325	86,101
Cash flows:						
Cash flows from operating activities	23,427	19,233	15,672	17,852	16,644	208,817
Cash flows from investing activities	(7,987)	(6,962)	(36,353)	(15,220)	(13,088)	(71,198)
Cash flows from financing activities	(10,245)	(15,530)	23,467	2,722	(642)	(91,322)
At year-end:						
Total assets	263,742	260,122	285,927	236,825	213,826	2,350,853
Net assets	167,167	158,908	170,949	150,344	131,311	1,490,040
Interest-bearing liabilities	43,133	50,898	61,066	35,063	29,553	384,468
Per-share data:			Yen			U.S. dollars
Basic earnings	¥ 45.14	¥ 16.01	¥ 29.53	¥ 26.96	¥ 14.29	$ 0.40
Net assets	702.63	668.44	702.53	618.28	539.81	6.26
Cash dividends	10.00	10.00	10.00	10.00	10.00	0.08
Financial indicators:			%			
ROE	6.6	2.3	4.5	4.7	2.8	
ROA	6.6	3.9	4.3	5.1	4.1	
Ratio of operating income to net sales	8.5	4.9	5.2	5.2	4.3	
Equity ratio	62.7	60.5	59.2	62.9	60.8	
Ratio of interest-bearing liabilities to total assets	16.4	19.6	21.4	14.8	13.8	
Debt-to-equity ratio	26.1	32.4	36.1	23.5	22.7	

Notes:

1. The U.S. dollar amounts are translated from yen, for the convenience of the readers, at the rate of ¥112.19 = US$1 on March 31, 2017.
2. Capital expenditures = Increase in property, plant and equipment and intangible assets
3. Net assets per share is based on net assets less non-controlling interests
4. ROE = Profit attributable to owners of parent / Average net assets less non-controlling interests
5. ROA = Ordinary income / Average total assets
6. Equity ratio = Net assets less non-controlling interests / Total assets
7. Debt-to-equity ratio = Interest-bearing liabilities / Net assets less non-controlling interests
8. In FY2014, the closing date of 2 consolidated subsidiaries in Asia has been changed from December 31 to March 31.
   Accordingly, for those subsidiaries that have changed their closing dates, the financial results for 15 months are consolidated for the year.
9. In FY2013, the closing date of 17 consolidated subsidiaries in Asia and North America has been changed to March 31.
   Accordingly, for those subsidiaries that have changed their closing dates, the financial results for 15 months are consolidated for the year.
10. From FY2014, the performances of Vaupell Holdings, Inc. and 4 of its affiliates have been included in the consolidated statements.
11. The Company and certain subsidiaries adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013) and other related standards from the fiscal year ended March 31, 2016. Accordingly, "Net income," previously presented, has changed to "Profit attributable to owners of parent."

Consolidated Balance Sheets

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
as of March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	FY2016 as of March 31, 2017	FY2015 as of March 31, 2016	FY2016 as of March 31, 2017
Current assets:			
Cash and deposits (Note 14)	¥ 49,497	¥ 44,868	$ 441,196
Trade notes and accounts receivable (Note 14)	42,450	41,783	378,381
Inventories (Note 4)	29,176	29,089	260,061
Deferred tax assets (Note 8)	2,599	2,469	23,168
Others	4,774	5,357	42,557
Provision for doubtful accounts	(55)	(55)	(497)
Total current assets	128,442	123,514	1,144,868
Property, plant and equipment (Note 12)**:**			
Land	9,689	9,623	86,371
Buildings and structures	79,049	79,033	704,608
Machinery and equipment	145,588	145,780	1,297,691
Construction in progress	4,199	3,534	37,428
Others	16,340	16,004	145,648
Total property, plant and equipment	254,867	253,976	2,271,748
Less accumulated depreciation	(169,380)	(166,651)	(1,509,764)
Net property, plant and equipment	85,486	87,325	761,983
Intangible assets:			
Goodwill (Note 12)	23,089	24,318	205,808
Others	1,647	2,128	14,686
Total intangible assets	24,737	26,446	220,494
Investments and other assets:			
Investment securities (Notes 5 and 14):			
Unconsolidated subsidiaries and affiliates	2,538	2,489	22,627
Others	19,091	15,890	170,171
Long-term loans receivable (Note 14):			
Unconsolidated subsidiaries and affiliates	–	2,795	–
Others	2,177	2,064	19,408
Net defined benefit asset (Note 7)	419	249	3,735
Deferred tax assets (Note 8)	608	486	5,426
Others	2,371	2,378	21,142
Provision for doubtful accounts (Note 14)	(2,132)	(3,517)	(19,005)
Total investments and other assets	25,075	22,836	223,506
Total assets	¥ 263,742	¥ 260,122	$ 2,350,853

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen FY2016 as of March 31, 2017	 FY2015 as of March 31, 2016	Thousands of U.S. dollars (Note 1) FY2016 as of March 31, 2017
Current liabilities:			
Short-term debt (Notes 6 and 14)	¥ 6,115	¥ 13,399	$ 54,514
Long-term debt due within one year (Notes 6 and 14)	3,480	480	31,018
Trade notes and accounts payable (Note 14)	28,258	26,115	251,878
Accrued expenses	4,412	4,449	39,328
Income taxes payable	2,549	2,870	22,724
Provision for bonuses	2,747	2,730	24,494
Provision for cost of business restructuring	162	1,088	1,445
Others	6,293	4,934	56,097
Total current liabilities	54,019	56,068	481,500
Long-term liabilities:			
Long-term debt (Notes 6 and 14)	33,537	37,018	298,934
Deferred tax liabilities (Note 8)	5,191	2,994	46,277
Net defined benefit liability (Note 7)	2,855	4,333	25,454
Provision for environmental measures	194	82	1,730
Others	775	716	6,913
Total long-term liabilities	42,554	45,145	379,311
Net assets (Note 9):			
Shareholders' equity:			
Common stock:			
Authorized: 800,000,000 shares			
Issued : 247,952,394 shares in FY2016 and			
262,952,394 shares in FY2015	37,143	37,143	331,073
Capital surplus	35,358	35,358	315,164
Retained earnings	88,801	88,548	791,528
Treasury stock, at cost			
12,615,524 shares in FY2016 and			
27,600,108 shares in FY2015	(6,741)	(14,748)	(60,094)
Total shareholders' equity	154,561	146,300	1,377,672
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	7,451	5,206	66,420
Foreign currency translation adjustments	3,879	6,551	34,581
Remeasurements of defined benefit plans (Note 7)	(538)	(739)	(4,802)
Total accumulated other comprehensive income	10,792	11,018	96,199
Non-controlling interests	1,813	1,589	16,168
Total net assets	167,167	158,908	1,490,040
Total liabilities and net assets	¥ 263,742	¥ 260,122	$ 2,350,853

Consolidated Statements of Income

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2016 ended March 31, 2017	FY2015 ended March 31, 2016	FY2016 ended March 31, 2017
Net sales (Note 17)	¥ 198,199	¥ 206,956	$ 1,766,642
Cost of sales	135,241	146,084	1,205,468
Selling, general and administrative expenses	46,078	50,630	410,715
Operating income (Note 17)	16,879	10,241	150,459
Other income (expense):			
Interest and dividend income	672	671	5,995
Interest expense	(250)	(301)	(2,233)
Equity in earnings of affiliates	127	247	1,139
Foreign exchange gains, net	42	138	380
Taxes and dues	–	(226)	–
Gain (loss) on sale or disposal of property, plant and equipment	(279)	(211)	(2,495)
Gain on sale of investment securities (Note 5)	252	1,232	2,252
Loss on sale of shares of subsidiaries	(14)	–	(132)
Insurance income	–	1,788	–
Loss on devaluation of investment securities	(10)	–	(96)
Cost of business restructuring (Note 10)	(1,999)	(3,991)	(17,823)
Loss on disaster (Note 11)	–	(235)	–
Provision for environmental measures	(112)	–	(999)
Impairment loss (Note 12)	(691)	(1,765)	(6,161)
Others, net	(150)	(177)	(1,342)
	(2,413)	(2,830)	(21,514)
Income before income taxes and non-controlling interests	14,466	7,410	128,944
Income taxes (Note 8):			
Current	3,116	3,120	27,781
Deferred	488	284	4,356
	3,605	3,405	32,138
Profit	10,860	4,005	96,806
Profit attributable to non-controlling interests	238	176	2,123
Profit attributable to owners of parent	¥ 10,622	¥ 3,828	$ 94,683

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock (Note 16):			
Basic earnings per share	¥ 45.14	¥ 16.01	$ 0.40
Diluted earnings per share	–	–	–
Cash dividends applicable to the year	¥ 10.00	¥ 10.00	$ 0.08

See accompanying notes.

Consolidated Statements of Comprehensive Income

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2016 ended March 31, 2017	FY2015 ended March 31, 2016	FY2016 ended March 31, 2017
Profit	¥ 10,860	¥ 4,005	$ 96,806
Other comprehensive income (Note 13):			
Valuation difference on available-for-sale securities	2,245	(3,440)	20,013
Foreign currency translation adjustments	(2,598)	(7,825)	(23,161)
Remeasurements of defined benefit plans (Note 7)	205	341	1,828
Share of other comprehensive income of associates accounted for using equity method	(1)	(33)	(12)
Total other comprehensive income	(149)	(10,958)	(1,332)
Comprehensive income	¥ 10,711	¥ (6,953)	$ 95,473
Comprehensive income attributable to:			
Owners of parent	¥ 10,396	¥ (6,990)	$ 92,670
Non-controlling interests	314	37	2,803

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

		Millions of yen								
	Shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at April 1, 2015	262,952	¥ 37,143	¥ 35,358	¥ 86,829	¥ (11,949)	¥ 8,643	¥ 14,270	¥ (1,080)	¥ 1,734	¥ 170,949
Profit attributable to owners of parent	–	–	–	3,828	–	–	–	–	–	3,828
Valuation difference arising during the year	–	–	–	–	–	(3,436)	–	–	–	(3,436)
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	(7,719)	–	–	(7,719)
Remeasurements of defined benefit plans	–	–	–	–	–	–	–	340	–	340
Purchase of treasury stock	–	–	–	–	(2,799)	–	–	–	–	(2,799)
Cash dividends paid (¥10 per share)	–	–	–	(2,408)	–	–	–	–	–	(2,408)
Disposal of treasury stock	–	–	0	–	0	–	–	–	–	0
Retirement of treasury stock	–	–	–	–	–	–	–	–	–	–
Change of scope of consolidation	–	–	–	298	–	–	–	–	–	298
Increase (decrease) in non-controlling interests	–	–	–	–	–	–	–	–	(145)	(145)
Balance at March 31, 2016	262,952	¥ 37,143	¥ 35,358	¥ 88,548	¥ (14,748)	¥ 5,206	¥ 6,551	¥ (739)	¥ 1,589	¥ 158,908
Profit attributable to owners of parent	–	–	–	10,622	–	–	–	–	–	10,622
Valuation difference arising during the year	–	–	–	–	–	2,245	–	–	–	2,245
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	(2,671)	–	–	(2,671)
Remeasurements of defined benefit plans	–	–	–	–	–	–	–	200	–	200
Purchase of treasury stock	–	–	–	–	(8)	–	–	–	–	(8)
Cash dividends paid (¥10 per share)	–	–	–	(2,353)	–	–	–	–	–	(2,353)
Disposal of treasury stock	–	–	–	–	–	–	–	–	–	–
Retirement of treasury stock	(15,000)	–	(0)	(8,015)	8,015	–	–	–	–	–
Change of scope of consolidation	–	–	–	–	–	–	–	–	–	–
Increase (decrease) in non-controlling interests	–	–	–	–	–	–	–	–	224	224
Balance at March 31, 2017	247,952	¥ 37,143	¥ 35,358	¥ 88,801	¥ (6,741)	¥ 7,451	¥ 3,879	¥ (538)	¥ 1,813	¥ 167,167

		Thousands of U.S. dollars (Note 1)								
	Shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at April 1, 2016	262,952	$ 331,073	$ 315,164	$ 789,269	$ (131,461)	$ 46,407	$ 58,396	$ (6,592)	$ 14,167	$ 1,416,425
Profit attributable to owners of parent	–	–	–	94,683	–	–	–	–	–	94,683
Valuation difference arising during the year	–	–	–	–	–	20,013	–	–	–	20,013
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	(23,815)	–	–	(23,815)
Remeasurements of defined benefit plans	–	–	–	–	–	–	–	1,789	–	1,789
Purchase of treasury stock	–	–	–	–	(79)	–	–	–	–	(79)
Cash dividends paid ($0.08 per share)	–	–	–	(20,977)	–	–	–	–	–	(20,977)
Disposal of treasury stock	–	–	–	–	–	–	–	–	–	–
Retirement of treasury stock	(15,000)	–	(0)	(71,446)	71,446	–	–	–	–	–
Change of scope of consolidation	–	–	–	–	–	–	–	–	–	–
Increase (decrease) in non-controlling interests	–	–	–	–	–	–	–	–	2,001	2,001
Balance at March 31, 2017	247,952	$ 331,073	$ 315,164	$ 791,528	$ (60,094)	$ 66,420	$ 34,581	$ (4,802)	$ 16,168	$ 1,490,040

See accompanying notes.

Consolidated Statements of Cash Flows

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2016 ended March 31, 2017	FY2015 ended March 31, 2016	FY2016 ended March 31, 2017
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 14,466	¥ 7,410	$ 128,944
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation and amortization	10,003	10,843	89,169
Impairment loss	691	1,765	6,161
Amortization of goodwill	1,476	1,651	13,158
Increase (decrease) in net defined benefit asset and liability	(1,449)	1,812	(12,920)
(Gain) loss on sale or disposal of property, plant and equipment	279	211	2,495
Interest and dividend income	(672)	(671)	(5,995)
Interest expense	250	301	2,233
(Gain) loss on sales of investment securities	(237)	(1,232)	(2,119)
(Gain) loss on devaluation of investment securities	10	–	96
(Increase) decrease in notes and accounts receivable	(1,269)	2,112	(11,312)
(Increase) decrease in inventories	(476)	894	(4,248)
(Increase) decrease in other current assets	296	(265)	2,640
Increase (decrease) in notes and accounts payable	2,593	(3,239)	23,113
Increase (decrease) in other current liabilities	(255)	206	(2,275)
Others, net	465	61	4,151
Subtotal	26,173	21,862	233,292
Interest and dividends received	689	694	6,147
Interest paid	(243)	(305)	(2,172)
Income taxes paid	(3,191)	(3,016)	(28,450)
Net cash provided by operating activities	23,427	19,233	208,817
Cash flows from investing activities:			
Purchases of property, plant and equipment	(8,954)	(9,437)	(79,818)
Proceeds from sale of property, plant and equipment	272	112	2,426
Purchases of investment securities	(192)	(26)	(1,716)
Proceeds from sales of investment securities	379	2,485	3,386
Collection of long-term loans receivable	1,439	171	12,833
Others, net	(932)	(269)	(8,309)
Net cash used in investing activities	(7,987)	(6,962)	(71,198)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	(7,309)	(9,222)	(65,156)
Proceeds from long-term debt	50	2,412	445
Repayment of long-term debt	(480)	(3,300)	(4,278)
Cash dividends paid	(2,353)	(2,408)	(20,977)
Purchase of treasury stock	(8)	(2,799)	(79)
Cash dividends paid to non-controlling interests	(89)	(182)	(801)
Others, net	(53)	(31)	(475)
Net cash used in financing activities	(10,245)	(15,530)	(91,322)
Effect of exchange rate changes on cash and cash equivalents	(564)	(2,090)	(5,036)
Net increase (decrease) in cash and cash equivalents	4,628	(5,350)	41,259
Cash and cash equivalents at beginning of year	44,868	49,966	399,936
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	–	252	–
Cash and cash equivalents at end of year	¥ 49,497	¥ 44,868	$ 441,196

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 21.19% (as of March 31, 2017) 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 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. In addition, certain reclassifications have been made in the FY2015 consolidated financial statements to conform to the classifications used in FY2016.

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, 2017, which was ¥112.19 to US$1. For translation of millions of Japanese yen to thousands of U.S. dollars, amounts of less than one thousand dollars have been omitted for the year ended March 31, 2017. 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 38 and 39 significant subsidiaries as of March 31, 2017 and 2016, respectively. All significant intercompany balances and transactions have been eliminated in consolidation.

From the year ended March 31, 2017, Thanxs Trading Co., Ltd. was excluded from the scope of consolidation due to the selling out of all shares held by the Company.

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

Sumitomo Bakelite (Suzhou) Co., Ltd., Sumitomo Bakelite (Shanghai) Co., Ltd., Sumitomo Bakelite (Nantong) Co., Ltd., Sumitomo Bakelite (Dongguan) Co., Ltd., Sumitomo Bakelite Hong Kong Co., Ltd. and Sumitomo Bakelite Macau Co., Ltd.

In preparing consolidated financial statements, these subsidiaries have been consolidated based on provisional settlement of accounts as of the consolidated fiscal year-end (March 31).

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 (1 affiliate in 2017 and 2 affiliates in 2016, 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 non-controlling interests, are evaluated using the fair value at the time the Company acquired control over the respective subsidiaries.

Goodwill is amortized on the straight-line method within 20 years with the exception of minor amounts which are charged to income in the year of acquisition.

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. Cost of securities sold is calculated primarily using the moving-average method. Other available-for-sale securities with no available fair values are stated at moving-average cost.

Derivatives and hedge accounting

(1) Derivatives 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.

However, in cases where interest rate swap contracts and interest rate currency 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 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. If interest rate currency swap contracts are used as hedges and meet hedging certain criteria, interest rate currency swaps is not remeasured at market value, and the net amount to be paid or received under the interest rate currency swap contracts is added to or deducted from the interests on the assets or liabilities for which the interest rate currency swap contracts was executed. Moreover, the long-term debts hedged by the swap contracts are translated at the swap contract rate ("integral treatment").

(2) Hedging instruments and targets

The Companies use interest rate swaps to hedge the interest rate risk for long-term debt and use interest rate currency swaps to hedge both the interest rate risk and the exchange rate risk for long-term debt denominated in foreign currencies.

(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

An assessment of hedge effectiveness is omitted for interest swap contracts and interest rate currency swap contracts that are accounted for by the special treatment and integral treatment, respectively.

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 acquisition.

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)

The Companies calculate depreciation principally by the straight-line method.

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 lease transactions that do not transfer ownership are capitalized and depreciated by the straight-line method with zero residual value over the lease term.

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 calculated 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 the 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 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 by the benefit formula basis (the estimated amount of all retirement benefits is allocated to periods of service under the plan's benefit formula). 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 cost of business restructuring

The provision for cost of business restructuring is stated at the amounts based on the cost expected to be incurred in the process of business restructuring.

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, 2017 and 2016 were ¥9,659 million ($86,101 thousand) and ¥10,448 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 basic earnings 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

Forward foreign exchange contracts on foreign currency receivables and payables that meet certain criteria were previously accounted for using the deferral hedge accounting. However, from the year ended March 31, 2017, the accounting was changed to the principle method in order to more accurately reflect the status of foreign currency receivables and payables and derivative transactions in the consolidated financial statements.

The change in accounting policy has immaterial impact on the past periods; therefore, no adjustment has been made retrospectively. In addition, there is immaterial effect of this change on income or losses for the year ended March 31, 2017.

Changes in presentation

"Collection of long-term loans receivable", which had been included in "Others, net", under "Cash flows from investing activities" in the previous fiscal year, has been presented separately from the year ended March 31, 2017 due to its increased significance. The consolidated financial statements for the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, the amount of ¥ (97) million, which had been presented as "Others, net" under "Cash flows from investing activities" in the consolidated statements of cash flows for the previous fiscal year, has been reclassified as "Collection of long-term loans receivable" of ¥ 171 million and "Others, net" of ¥ (269) million, respectively.

Additional information

The Company and its domestic subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the year ended March 31, 2017.

4. Inventories

Inventories as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2016 as of March 31, 2017	FY2015 as of March 31, 2016	FY2016 as of March 31, 2017
Merchandise and finished goods	¥ 11,996	¥ 12,529	$ 106,927
Semi-finished goods	4,145	3,754	36,950
Work in process	1,296	1,367	11,559
Raw materials and supplies	11,737	11,438	104,624
Total	¥ 29,176	¥ 29,089	$ 260,061

The amounts written down charged to cost of sales due to the decline in profitability for inventories held in the normal course of business were ¥(94) million ($(839) thousand) and ¥243 million for the years ended March 31, 2017 and 2016, respectively.

5. Investment securities

The following tables summarized carrying amounts and acquisition costs of available-for-sale securities with available fair values as of March 31, 2017 and 2016:

	Millions of yen		
As of March 31, 2017	Carrying amount	Acquisition cost	Difference
Securities with carrying amounts exceeding acquisition costs:			
Equity securities	¥ 18,351	¥ 7,854	¥ 10,497
Debt securities	–	–	–
Others	–	–	–
Subtotal	18,351	7,854	10,497
Securities with carrying amounts not exceeding acquisition costs:			
Equity securities	¥ –	¥ –	¥ –
Debt securities	–	–	–
Others	–	–	–
Subtotal	–	–	–
Total	¥ 18,351	¥ 7,854	¥ 10,497

	Millions of yen		
As of March 31, 2016	Carrying amount	Acquisition cost	Difference
Securities with carrying amounts exceeding acquisition costs:			
Equity securities	¥ 15,141	¥ 7,860	¥ 7,281
Debt securities	–	–	–
Others	–	–	–
Subtotal	15,141	7,860	7,281
Securities with carrying amounts not exceeding acquisition costs:			
Equity securities	¥ 0	¥ 0	¥ (0)
Debt securities	–	–	–
Others	–	–	–
Subtotal	0	0	(0)
Total	¥ 15,142	¥ 7,860	¥ 7,281

As of March 31, 2017	Thousands of U.S. dollars Carrying amount	Acquisition cost	Difference
Securities with carrying amounts exceeding acquisition costs:			
Equity securities	$ 163,578	$ 70,010	$ 93,568
Debt securities	–	–	–
Others	–	–	–
Subtotal	163,578	70,010	93,568
Securities with carrying amounts not exceeding acquisition costs:			
Equity securities	$ –	$ –	$ –
Debt securities	–	–	–
Others	–	–	–
Subtotal	–	–	–
Total	$ 163,578	$ 70,010	$ 93,568

The following table summarized proceeds and realized gains or losses on available-for-sale securities sold during the years ended March 31, 2017 and 2016:

For the year ended March 31, 2017	Millions of yen Proceeds	Realized gains	Realized losses
Equity securities	¥ 28	¥ 6	¥ –
Debt securities	–	–	–
Others	–	–	–
Total	¥ 28	¥ 6	¥ –

For the year ended March 31, 2016	Millions of yen Proceeds	Realized gains	Realized losses
Equity securities	¥ 2,485	¥ 1,232	¥ –
Debt securities	–	–	–
Others	–	–	–
Total	¥ 2,485	¥ 1,232	¥ –

For the year ended March 31, 2017	Thousands of U.S. dollars Proceeds	Realized gains	Realized losses
Equity securities	$ 254	$ 60	$ –
Debt securities	–	–	–
Others	–	–	–
Total	$ 254	$ 60	$ –

6. Short-term debt and long-term debt

Short-term debt as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2016 as of March 31, 2017	FY2015 as of March 31, 2016	FY2016 as of March 31, 2017
Short-term bank loans	¥ 5,115	¥ 4,399	$ 45,600
Commercial paper	1,000	9,000	8,913
Total	¥ 6,115	¥ 13,399	$ 54,514

Annual average interest rates on short-term bank loans for the years ended March 31, 2017 and 2016 were 0.8% and 0.6%, respectively. Annual average interest rates on commercial paper for the years ended March 31, 2017 and 2016 were 0.0% and 0.0%, respectively.

Long-term debt as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2016 as of March 31, 2017	FY2015 as of March 31, 2016	FY2016 as of March 31, 2017
Unsecured loans from banks due through 2025	¥ 37,017	¥ 37,498	$ 329,953
Less amounts due within one year	(3,480)	(480)	(31,018)
Total	¥ 33,537	¥ 37,018	$ 298,934

Annual average interest rates on unsecured loans from banks (excluding amounts due within one year) for the years ended March 31, 2017 and 2016 were 0.5% and 0.5%, respectively. Annual average interest rates on amounts due within one year of unsecured loans from banks for the years ended March 31, 2017 and 2016 were 0.3% and 0.2%, respectively.

The annual maturities of long-term debt as of March 31, 2017 were as follows:

	Millions of yen	Thousands of U.S. dollars
FY2017 ending March 31, 2018	¥ 3,480	$ 31,018
FY2018 ending March 31, 2019	482	4,302
FY2019 ending March 31, 2020	6,666	59,420
FY2020 ending March 31, 2021	5,482	48,869
FY2021 ending March 31, 2022	6,686	59,599
FY2022 ending March 31, 2023 and thereafter	14,219	126,743
Total	¥ 37,017	$ 329,953

7. 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.

(1) Defined benefit plans

(a) Change in projected benefit obligation

	Millions of yen		Thousands of U.S. dollars
	FY2016 ended March 31, 2017	FY2015 ended March 31, 2016	FY2016 ended March 31, 2017
Balance at beginning of year	¥ 32,683	¥ 33,216	$ 291,323
Service cost	1,558	1,634	13,887
Interest cost	235	342	2,101
Actuarial (gain)/loss	(559)	270	(4,985)
Benefits paid	(2,694)	(2,610)	(24,019)
Exchange difference	(57)	(488)	(515)
Others	81	319	724
Balance at end of year	¥ 31,246	¥ 32,683	$ 278,516

Note: The amount calculated by using a simplified method was included in the table above.

(b) Change in plan assets

	Millions of yen		Thousands of U.S. dollars
	FY2016 ended March 31, 2017	FY2015 ended March 31, 2016	FY2016 ended March 31, 2017
Balance at beginning of year	¥ 28,598	¥ 30,424	$ 254,911
Expected return on plan assets	672	721	5,993
Actuarial gain/(loss)	946	(1,345)	8,438
Employer contributions	1,073	1,671	9,570
Benefits paid	(2,466)	(2,577)	(21,989)
Exchange difference	(18)	(337)	(161)
Others	3	40	33
Balance at end of year	¥ 28,810	¥ 28,598	$ 256,796

Note: The amount calculated by using a simplified method was included in the table above.

(c) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability (asset) funded retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	FY2016 as of March 31, 2017	FY2015 as of March 31, 2016	FY2016 as of March 31, 2017
Funded projected benefit obligation	¥ 30,380	¥ 31,808	$ 270,797
Plan assets	(28,810)	(28,598)	(256,796)
	1,570	3,209	14,001
Unfunded projected benefit obligation	865	875	7,718
Net amount of liabilities and assets recognized in consolidated balance sheet	2,436	4,084	21,719
Net defined benefit liability	2,855	4,333	25,454
Net defined benefit asset	419	249	3,735
Net amount of liability and asset recognized in consolidated balance sheet	¥ 2,436	¥ 4,084	$ 21,719

Note: The amount calculated by using a simplified method was included in the table above.

(d) Severance and retirement benefit expenses and its breakdown

	Millions of yen		Thousands of U.S. dollars
	FY2016 ended March 31, 2017	FY2015 ended March 31, 2016	FY2016 ended March 31, 2017
Service cost	¥ 1,558	¥ 1,634	$ 13,887
Interest cost	235	342	2,101
Expected return on plan assets	(672)	(721)	(5,993)
Net actuarial (gain)/loss amortization	(1,187)	2,061	(10,580)
Past service costs amortization	4	(14)	42
Others	(78)	(9)	(697)
Severance and retirement benefit expenses	¥ (139)	¥ 3,292	$ (1,239)

Notes:

1. Severance and retirement benefits expenses for certain consolidated subsidiaries applying the simplified method are included in service cost.
2. In addition to the above severance and retirement benefit expenses, special severance payments of ¥1,602 million ($14,284 thousand) and ¥2,807 million were recognized as "cost of business restructuring" under other income (expense) for the years ended March 31, 2017 and 2016, respectively.

(e) Remeasurements of defined benefit plans on other comprehensive income

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

	Millions of yen		Thousands of U.S. dollars
	FY2016 ended March 31, 2017	FY2015 ended March 31, 2016	FY2016 ended March 31, 2017
Past service costs	¥ 5	¥ 4	$ 44
Actuarial (gain)/loss	386	541	3,443
Total	¥ 391	¥ 545	$ 3,488

(f) Remeasurements of defined benefit plans on accumulated other comprehensive income

The components of items recognized in remeasurements of defined benefit plans (pre-tax) on accumulated other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2016 as of March 31, 2017	FY2015 as of March 31, 2016	FY2016 as of March 31, 2017
Unrecognized past service costs	¥ (11)	¥ (16)	$ (102)
Unrecognized actuarial (gain)/loss	(731)	(1,117)	(6,516)
Total	¥ (742)	¥ (1,133)	$ (6,618)

(g) Plan assets

(i) Percentage by major category of plans assets was as follows:

	FY2016 as of March 31, 2017	FY2015 as of March 31, 2016
Bonds	62%	63%
Equities	35	32
Cash and deposits	0	2
Others	3	3
Total	100%	100%

Total plan assets include 12% and 11% of contribution of securities to retirement benefit trust in the corporate pension plan for the years ended March 31, 2017 and 2016, respectively.

(ii) 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.

(h) Basis for calculation of actuarial assumptions

	FY2016 ended March 31, 2017	FY2015 ended March 31, 2016
Discount rates:		
Domestic companies	Mainly, 0.37%	Mainly, 0.32%
Overseas companies	Mainly, 4.00	Mainly, 3.25
Long-term expected rate of return on plan assets	Mainly, 2.40	Mainly, 2.40

(2) Defined contribution pension plans

The amounts to be paid by certain consolidated subsidiaries to the defined contribution pension plans were ¥206 million ($1,841 thousands) and ¥190 million for the years ended March 31, 2017 and 2016, respectively.

8. Income taxes

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

The statutory effective tax rate on income before income taxes and non-controlling interests was approximately 30.8% and 33.0% for the years ended March 31, 2017 and 2016, respectively.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2016 as of March 31, 2017	FY2015 as of March 31, 2016	FY2016 as of March 31, 2017
Deferred tax assets:			
Tax loss carryforwards	¥ 2,398	¥ 1,833	$ 21,379
Tax credit	1,303	1,652	11,614
Impairment loss	936	811	8,349
Net defined benefit liability	785	1,303	7,003
Excess bonuses accrued	680	642	6,066
Provision for doubtful accounts	664	1,111	5,921
Accrued expenses	317	385	2,833
Shares contributed to employees' retirement benefit trust	310	310	2,769
Loss on devaluation of investment securities	178	175	1,589
Provision for cost of business restructuring	40	335	364
Others	2,427	1,738	21,641
Subtotal	10,044	10,298	89,533
Valuation allowance	(2,897)	(3,094)	(25,826)
Total deferred tax assets	7,147	7,204	63,707
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(3,043)	(2,070)	(27,127)
Additional depreciation in overseas subsidiaries	(2,726)	(2,984)	(24,300)
Gain on securities contributed to employees' retirement benefit trust	(490)	(490)	(4,372)
Others	(2,870)	(1,695)	(25,590)
Total deferred tax liabilities	(9,131)	(7,241)	(81,389)
Net deferred tax assets (liabilities)	¥ (1,983)	¥ (37)	$ (17,682)

The following summarizes the reconciliation between the statutory effective tax rate and the Companies' average income tax rate for the years ended March 31, 2017 and 2016:

	FY2016 as of March 31, 2017	FY2015 as of March 31, 2016
Statutory effective tax rate	30.8%	33.0%
Reconciliation:		
Permanently non-deductible expenses	0.6	1.3
Permanently non-taxable income	(2.2)	(55.4)
Change in valuation allowance	3.5	3.0
Inhabitant taxes per capital basis	0.3	0.7
Withholding taxes for the cash dividends paid by foreign subsidiaries	0.3	1.1
Tax credit	(1.5)	(7.0)
Effect of differences between tax rates in Japan and in other countries	(7.7)	(13.0)
Elimination of dividends received in consolidation	1.9	57.8
Amortization of goodwill	3.1	7.4
Taxable retained earnings of specified foreign subsidiaries	–	8.3
Effect of revision to taxation system	–	2.8
Impairment loss of goodwill	–	2.2
Others	(4.3)	3.9
Companies' average income tax rate	24.9%	46.0%

9. 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 23, 2017, the shareholders resolved to distribute cash dividends amounting to ¥1,176 million ($10,488 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2017. 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, 2017 and 2016 were as follows:

	Number of shares			
	April 1, 2016	Increase	Decrease	March 31, 2017
Outstanding shares issued:				
Common stock	262,952,394	–	15,000,000	247,952,394
Treasury stock	27,600,108	15,416	15,000,000	12,615,524

Notes:

1. Increase in treasury stock is due to purchase of shares less than one unit.
2. Decrease in treasury stock is due to retirement of treasury stock by the resolution at Board of Directors meeting held on March 24, 2016.

	Number of shares			
	April 1, 2015	Increase	Decrease	March 31, 2016
Outstanding shares issued:				
Common stock	262,952,394	–	–	262,952,394
Treasury stock	22,085,400	5,514,725	17	27,600,108

Notes:

1. Increase in treasury stock is due to purchase of treasury stock by the resolution of Board of Directors meeting held on November 11, 2015 and 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, 2017 and 2016:

Year ended March 31, 2017

Cash dividends approved at the shareholders' meeting held on June 22, 2016:	Total amount (Millions of yen) (Thousands of U.S. dollars)	Per share amount (Yen) (U.S. dollars)	Dividend record date	Effective date
Common stock	¥ 1,176 $ 10,489	¥ 5.00 $ 0.04	March 31, 2016	June 23, 2016

Cash dividends approved at the Board of Directors' meeting held on October 31, 2016:	Total amount (Millions of yen) (Thousands of U.S. dollars)	Per share amount (Yen) (U.S. dollars)	Dividend record date	Effective date
Common stock	¥ 1,176 $ 10,488	¥ 5.00 $ 0.04	September 30, 2016	December 1, 2016

Year ended March 31, 2016

Cash dividends approved at the shareholders' meeting held on June 25, 2015:	Total amount (Millions of yen)	Per share amount (Yen)	Dividend record date	Effective date
Common stock	¥ 1,204	¥ 5.00	March 31, 2015	June 26, 2015

Cash dividends approved at the Board of Directors' meeting held on October 29, 2015:	Total amount (Millions of yen)	Per share amount (Yen)	Dividend record date	Effective date
Common stock	¥ 1,204	¥ 5.00	September 30, 2015	December 1, 2015

10. Cost of business restructuring

The cost of business restructuring for the years ended March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2016 ended March 31, 2017	FY2015 ended March 31, 2016	FY2016 ended March 31, 2017
Special retirement expenses	¥1,742	¥3,125	$ 15,532
Loss on disposal of property, plant and equipment	236	170	2,105
Loss on liquidation of subsidiaries	–	311	–
Loss on disposal of inventories	–	383	–
Others	20	–	185
Total	¥1,999	¥3,991	$ 17,823

11. Loss on disaster

The loss on disaster for the year ended March 31, 2016 is extinguishment loss on inventories and non-current assets, and removal and recovery costs from fire accident occurred at the subsidiary in Europe in February 2015.

12. Impairment loss

The Companies recognized the following impairment loss for the years ended March 31, 2017 and 2016:

			Millions of yen		Thousands of U.S. dollars
Use	Location	Type of assets	FY2016 ended March 31, 2017	FY2015 ended March 31, 2016	FY2016 ended March 31, 2017
Idle assets	Fujieda, Shizuoka	Machinery and equipment, etc.	¥ –	¥1,302	$ –
	Kanuma, Tochigi	Buildings and land, etc.	691	–	6,161
Goodwill	U.S.	Goodwill	–	462	–
Total			¥ 691	¥1,765	$ 6,161

The assets for business use were categorized by business segment of the Company and consolidated subsidiaries. Idle assets (including assets that were substantially in unutilized condition caused by the significant drop of operating rates) were categorized by individual property.

For the year ended March 31, 2017, the carrying amount of idle buildings and land, etc. in Tochigi that were expected to have no future use due to the restructuring of manufacturing sites was written down to the recoverable amount. The amount mainly consisted of impairment loss of buildings and structures in an amount of ¥440 million ($3,925 thousand) and impairment loss of land in an amount of ¥243 million ($2,172 thousand). In this case, the recoverable amounts of the aforementioned buildings and land, etc. were measured at the net selling prices. Land was calculated by making reasonable adjustments to the assessed value of non-current assets for property tax and assets other than land were assessed according to their memorandum values because they were determined to have no real value.

For the year ended March 31, 2016, the carrying amount of (substantive) idle machinery and equipment, etc. in Shizuoka that had significant decrease in the expected future use due to the restructuring of manufacturing sites was written down to the recoverable amount. In this case, the recoverable amounts of the aforementioned machinery and equipment, etc. were measured at the net selling prices. Considering the potential sale, these were assessed according to their memorandum values because these were determined to have no real value.

In addition, as a result of the impairment test performed on goodwill of subsidiaries in the U.S. based on US GAAP, the fair value was lower than the carrying amount. The difference between the carrying amount on consolidated basis (amortization of goodwill previously recognized based on Japanese GAAP were deducted) and the fair value was recognized as impairment loss of ¥462 million. In this case, the fair value was measured primarily by the income approach based on US GAAP, using the discount rate of 15%.

13. Other comprehensive income

Reclassification adjustments and tax effect amounts of other comprehensive income for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2016 ended March 31, 2017	FY2015 ended March 31, 2016	FY2016 ended March 31, 2017
Valuation difference on available-for-sale securities			
Amount for the year	¥ 3,225	¥ (3,914)	$ 28,747
Reclassification adjustment	(6)	(1,232)	(60)
Amount before tax effect adjustment	3,218	(5,146)	28,686
Tax effect amount	(972)	1,706	(8,672)
Valuation difference on available-for-sale securities	2,245	(3,440)	20,013
Foreign currency translation adjustments			
Amount for the year	(2,598)	(8,023)	(23,161)
Reclassification adjustment	–	293	–
Amount before tax effect	(2,598)	(7,730)	(23,161)
Tax effect amount	–	(95)	–
Foreign currency translation adjustment	(2,598)	(7,825)	(23,161)
Remeasurements of defined benefit plans			
Amount for the year	241	431	2,151
Reclassification adjustment	149	114	1,336
Amount before tax effect	391	545	3,488
Tax effect amount	(186)	(204)	(1,660)
Remeasurements of defined benefit plans	205	341	1,828
Share of other comprehensive income of associates accounted for using equity method			
Amount for the year	(1)	(33)	(12)
Total other comprehensive income	¥ (149)	¥ (10,958)	$ (1,332)

14. Financial instruments and related disclosures

The information about financial instruments and related disclosures for the years ended March 31, 2017 and 2016 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 or exchange rates fluctuation risk. To hedge those risks, the Companies use interest rate swaps or interest rate currency swaps.

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. Also, the contract amount, etc. shown in Note 15. Derivative financial instruments do not indicate the amounts of market risk to which the derivative transactions are exposed.

(2) Fair value of financial instruments

As of March 31, 2017	Carrying amount (Millions of yen)	Fair value	Difference
Cash and deposits	¥ 49,497	¥ 49,497	¥ –
Trade notes and accounts receivable	42,450	42,450	–
Investment securities	18,351	18,351	–
Long-term loans receivable	2,177		
Provision for doubtful accounts	(1,728)		
	448	448	–
Total assets	¥ 110,749	¥ 110,749	¥ –
Trade notes and accounts payable	¥ 28,258	¥ 28,258	¥ –
Short-term debt	6,115	6,115	–
Long-term debt due within one year	3,480	3,487	7
Long-term debt	33,537	33,884	347
Total liabilities	¥ 71,391	¥ 71,746	¥ 354
Derivative financial instruments	¥ 8	¥ 8	¥ –

As of March 31, 2016	Carrying amount (Millions of yen)	Fair value	Difference
Cash and deposits	¥ 44,868	¥ 44,868	¥ –
Trade notes and accounts receivable	41,783	41,783	–
Investment securities	15,142	15,142	–
Long-term loans receivable	4,859		
Provision for doubtful accounts	(3,130)		
	1,729	1,729	–
Total assets	¥ 103,524	¥ 103,524	¥ –
Trade notes and accounts payable	¥ 26,115	¥ 26,115	¥ –
Short-term debt	13,399	13,399	–
Long-term debt due within one year	480	480	–
Long-term debt	37,018	37,316	298
Total liabilities	¥ 77,014	¥ 77,312	¥ 298
Derivative financial instruments	¥ –	¥ –	¥ –

As of March 31, 2017	Thousands of U.S. dollars Carrying amount	Fair value	Difference
Cash and deposits	$ 441,196	$ 441,196	$ –
Trade notes and accounts receivable	378,381	378,381	–
Investment securities	163,578	163,578	–
Long-term loans receivable	19,408		
Provision for doubtful accounts	(15,406)		
	4,001	4,001	–
Total assets	$ 987,158	$ 987,158	$ –
Trade notes and accounts payable	$ 251,878	$ 251,878	$ –
Short-term debt	54,514	54,514	–
Long-term debt due within one year	31,018	31,086	67
Long-term debt	298,934	302,028	3,093
Total liabilities	$ 636,346	$ 639,507	$ 3,161
Derivative financial instruments	$ 77	$ 77	$ –

Notes:

1. Provision for doubtful accounts corresponding to long-term loans receivable is deducted.
2. Receivables and payables incurred by derivative transactions are presented in net. Values in parentheses indicate net liabilities.

(Changes in presentation)

"Long-term debt due within one year," which had been included in "Short-term debt and long-term debt due within one year" as of March 31, 2016, has been presented separately from the year ended March 31, 2017 due to its increased significance. The consolidated financial statements for the year ended March 31, 2016 have been reclassified to reflect this change in presentation.

As a result, the amount of ¥13,879 million, which had been presented as "Short-term debt and long-term debt due within one year" as of March 31, 2016, has been reclassified as ¥480 million of "Long-term debt due within one year" and ¥13,399 million of "Short-term debt", respectively.

(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 5 (Investment securities).

Long-term loans receivable

The fair value of long-term loans receivable, to which variable rates are applied, approximates the carrying amount because the variable rates reflect market interest rates over a short term.

Liabilities

Trade notes and accounts payable and short-term debt

The carrying amount of short-term debt and commercial paper approximate their fair value because of their short maturities.

Long-term debt (including long-term debt due within one year)

The fair value of long-term debt is based on the present value of principal 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. Certain long-term debt is subject to integral treatment for interest rate currency swaps and the total principal and interest for these swaps are also 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
	FY2016 as of March 31, 2017	FY2015 as of March 31, 2016	FY2016 as of March 31, 2017
Unlisted equity securities	¥ 739	¥ 747	$ 6,592
Investment securities: Unconsolidated subsidiaries and affiliates	2,094	2,045	18,668
Investment: Unconsolidated subsidiaries and affiliates	444	444	3,959
Total	¥ 3,278	¥ 3,237	$ 29,220

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, 2017

	Millions of yen			
As of March 31, 2017	Due in a year or less	1-5 years	5-10 years	Due after 10 years
Cash and deposits	¥ 49,497	¥ –	¥ –	¥ –
Trade notes and accounts receivable	42,450	–	–	–
Long-term loans receivable	–	120	79	–
Total	¥ 91,948	¥ 120	¥ 79	¥ –

	Thousands of U.S. dollars			
As of March 31, 2017	Due in a year or less	1-5 years	5-10 years	Due after 10 years
Cash and deposits	$ 441,196	$ –	$ –	$ –
Trade notes and accounts receivable	378,381	–	–	–
Long-term loans receivable	–	1,075	704	–
Total	$ 819,578	$ 1,075	$ 704	$ –

Long-term loans receivable of ¥1,977 million ($17,628 thousand) was not included in the above schedule, because the repayment schedule was not be determined.

(d) Repayment schedule of long-term debt is described in Note 6 (Short-term debt and long-term debt).

15. Derivative financial instruments

The outstanding balances of derivative contracts as of March 31, 2017 and 2016 were as follows:
(1) Derivative contracts to which hedge accounting was not applied

		Millions of yen			
		Contract amount			
As of March 31, 2017		Total	Due after one year	Fair value	Unrealized gains/(losses)
Off market transactions	Forward foreign exchange contracts				
	Selling:				
	USD	¥ 3,249	–	¥ 11	¥ 11
	Buying:				
	USD	764	–	(2)	(2)

		Thousands of U.S. dollars			
		Contract amount			
		Total	Due after one year	Fair value	Unrealized gains/(losses)
Off market transactions	Forward foreign exchange contracts				
	Selling:				
	USD	$ 28,966	–	$ 103	$ 103
	Buying:				
	USD	6,814	–	(26)	(26)

Note: Fair value is determined based on the quoted price obtained from the financial institutions.

As of March 31, 2016
Not applicable.

(2) Derivative contracts to which hedge accounting was applied
(a) Currency related contracts
As of March 31, 2017
Not applicable.

		Millions of yen		
		Contract amount		
As of March 31, 2016	Principal hedged items	Total	Due after one year	Fair value
Forward foreign exchange contracts				
Selling:	Trade accounts receivable			
USD		¥ 1,947	¥ –	(*)
Buying:	Trade accounts payable			
USD		549	–	(*)

Note:
(*)Forward foreign exchange contracts subject to allocation method are accounted for together with the trade accounts receivable and trade accounts payable, accordingly the fair value of the forward foreign exchange contracts is included in the fair value of the corresponding trade accounts receivable and trade accounts payable.

(b) Interest rate related contracts

As of March 31, 2017	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	¥ 8,000	¥ 5,000	(*)
Integral treatment for interest rate currency swaps: (Special treatment and allocation method)				
Receivable USD and floating rate/ payable YEN and fixed rate	Long-term debt	11,577	11,577	(*)

As of March 31, 2016	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	¥ 8,000	¥ 8,000	(*)
Integral treatment for interest rate currency swaps: (Special treatment and allocation method)				
Receivable USD and floating rate/ payable YEN and fixed rate	Long-term debt	11,577	11,577	(*)

As of March 31, 2017	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	$ 71,307	$ 44,567	(*)
Integral treatment for interest rate currency swaps (Special treatment and allocation method)				
Receivable USD and floating rate/ payable YEN and fixed rate	Long-term debt	103,195	103,195	(*)

Note:

(*)Interest rate swaps subject to the special treatment for interest rate swaps and interest rate currency swaps subject to integral treatment for interest rate currency 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

Amounts per share as of March 31, 2017 and 2016 and for the years then ended were summarized as follows:

	Yen		U.S. dollars
	FY2016 ended March 31, 2017	FY2015 ended March 31, 2016	FY2016 ended March 31, 2017
Net assets per share	¥ 702.63	¥ 668.44	$ 6.26
Basic earnings per share	45.14	16.01	0.40

Note: Diluted earnings per share was not presented since potential shares did not exist for the years ended March 31, 2017 and 2016.

Net assets per share and basic earnings per share were calculated based on the following:

	Millions of yen or thousands of shares		Thousands of U.S. dollars
	FY2016 ended March 31, 2017	FY2015 ended March 31, 2016	FY2016 ended March 31, 2017
Net assets per share:			
Total net assets on consolidated balance sheets	¥ 167,167	¥ 158,908	$ 1,490,040
Net assets attributable to common shareholders	165,353	157,319	1,473,872
Differences- Non-controlling interests	1,813	1,589	16,168
Number of common shares at the end of fiscal year used in computing net assets per share	235,336	235,352	
Basic earnings per share:			
Profit attributable to owners of parent	¥ 10,622	¥ 3,828	$ 94,683
Profit attributable to common shareholders of the parent	10,622	3,828	94,683
Average number of common shares during the year	235,345	239,139	

17. Segment information

1. General information about reportable segments

Reportable segments of the Companies 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, Aerospace interior components
Quality of life products	Medical devices, Melamine resin decorative laminates and sheets, 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

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 is operating income 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, 2017 and 2016 was as follows:

	Millions of yen							
	Reportable segments							
Year ended March 31, 2017	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal	Others	Total	Adjustment	Consolidated
Sales:								
Outside customers	¥ 47,199	¥ 85,338	¥ 64,912	¥ 197,450	¥ 749	¥ 198,199	¥ –	¥ 198,199
Inter-segment	–	125	0	125	–	125	(125)	–
Total sales	47,199	85,463	64,913	197,576	749	198,325	(125)	198,199
Segment income	7,756	7,159	4,466	19,382	211	19,593	(2,713)	16,879
Segment assets	¥ 64,558	¥ 115,285	¥ 64,917	¥ 244,760	¥ 1,933	¥ 246,694	¥ 17,047	¥ 263,742
Other items:								
Depreciation and amortization	¥ 2,534	¥ 4,150	¥ 2,778	¥ 9,463	¥ 39	¥ 9,502	¥ 490	¥ 9,992
Amortization of goodwill	–	1,227	248	1,476	–	1,476	–	1,476
Investment amount for affiliates to which equity method is applied	–	424	–	424	–	424	–	424
Increase in property, plant and equipment and intangible assets	1,467	5,151	3,327	9,946	10	9,957	384	10,341

Year ended March 31, 2016	Millions of yen							
	Reportable segments							
	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal	Others	Total	Adjustment	Consolidated
Sales:								
Outside customers	¥ 45,892	¥ 91,487	¥ 68,815	¥ 206,195	¥ 760	¥206,956	¥ –	¥ 206,956
Inter-segment	–	244	0	245	–	245	(245)	–
Total sales	45,892	91,731	68,816	206,440	760	207,201	(245)	206,956
Segment income	5,796	4,696	2,916	13,408	210	13,619	(3,378)	10,241
Segment assets	¥ 59,357	¥ 116,902	¥ 65,485	¥ 241,744	¥ 1,991	¥ 243,736	¥ 16,385	¥ 260,122
Other items:								
Depreciation and amortization	¥ 2,857	¥ 4,523	¥ 2,865	¥ 10,246	¥ 45	¥ 10,291	¥ 538	¥ 10,830
Amortization of goodwill	–	1,378	273	1,651	–	1,651	–	1,651
Investment amount for affiliates to which equity method is applied	–	435	–	435	–	435	–	435
Increase in property, plant and equipment and intangible assets	1,416	4,890	2,772	9,079	10	9,089	607	9,697

Year ended March 31, 2017	Thousands of U.S. dollars							
	Reportable segments							
	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal	Others	Total	Adjustment	Consolidated
Sales:								
Outside customers	$ 420,706	$ 760,661	$ 578,595	$ 1,759,964	$ 6,678	$ 1,766,642	$ –	$ 1,766,642
Inter-segment	–	1,116	3	1,120	–	1,120	(1,120)	–
Total sales	420,706	761,778	578,599	1,761,084	6,678	1,767,763	(1,120)	1,766,642
Segment income	69,138	63,812	39,810	172,760	1,889	174,649	(24,190)	150,459
Segment assets	$ 575,437	$ 1,027,591	$ 578,634	$ 2,181,663	$ 17,236	$ 2,198,899	$ 151,953	$ 2,350,853
Other items:								
Depreciation and amortization	$ 22,589	$ 36,996	$ 24,761	$ 84,348	$ 348	$ 84,696	$ 4,372	$ 89,069
Amortization of goodwill	–	10,942	2,216	13,158	–	13,158	–	13,158
Investment amount for affiliates to which equity method is applied	–	3,787	–	3,787	–	3,787	–	3,787
Increase in property, plant and equipment and intangible assets	13,083	45,916	29,660	88,659	97	88,756	3,425	92,181

Notes:

1. "Others" for the years ended March 31, 2017 and 2016 include business segments that are not included in any reportable segment and include contracted testing and research, and leasing of land, etc.
2. The "Adjustment" of ¥(2,713) million ($(24,190) thousand) and ¥(3,378) million for "Segment income" include ¥(24) million ($(217) thousand) and ¥2 million of elimination of inter-segment transactions and ¥(2,689) million ($(23,973) thousand) and ¥(3,380) million of corporate expenses not allocated to any reportable segment for the years ended March 31, 2017 and 2016, respectively. Corporate expenses primarily consist of basic research spending not attributable to any reportable segments.

   The "Adjustment" of ¥17,047 million ($151,953 thousand) and ¥16,385 million for "Segment assets" include ¥(46) million ($(416) thousand) and ¥(24) million of elimination of inter-segment transactions and ¥17,094 million ($152,369 thousand) and ¥16,410 million of corporate assets not allocated to any reportable segments as of March 31, 2017 and 2016, respectively. Corporate assets principally consist of investment securities, basic research assets and general and administrative division assets held by the Company.

   The "Adjustment" of ¥384 million ($3,425 thousand) and ¥607 million for "Increase in property, plant and equipment and intangible assets" for the years ended March 31, 2017 and 2016, respectively, principally consist of capital investments in basic research assets and general and administrative division assets held by the Company.
3. Segment income 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, 2017 and 2016 were as follows:

(a) Sales

Millions of yen					
Year ended March 31, 2017					
	Asia				
Japan	China	Others	North America	Europe and others	Total
¥ 82,403	¥ 30,253	¥ 41,763	¥ 26,145	¥ 17,634	¥ 198,199

Millions of yen					
Year ended March 31, 2016					
	Asia				
Japan	China	Others	North America	Europe and others	Total
¥ 84,737	¥ 31,044	¥ 41,942	¥ 29,630	¥ 19,601	¥ 206,956

Thousands of U.S. dollars					
Year ended March 31, 2017					
	Asia				
Japan	China	Others	North America	Europe and others	Total
$ 734,497	$ 269,661	$ 372,255	$ 233,042	$ 157,184	$ 1,766,642

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, 2017					
	Asia				
Japan	China	Others	North America	Europe	Total
¥ 47,509	¥ 12,943	¥ 6,234	¥ 8,389	¥ 10,409	¥ 85,486

Millions of yen					
Year ended March 31, 2016					
	Asia				
Japan	China	Others	North America	Europe	Total
¥ 48,843	¥ 14,679	¥ 6,358	¥ 7,180	¥ 10,263	¥ 87,325

Thousands of U.S. dollars					
Year ended March 31, 2017					
	Asia				
Japan	China	Others	North America	Europe	Total
$ 423,475	$ 115,370	$ 55,571	$ 74,779	$ 92,787	$ 761,983

(2) Impairment loss of property, plant and equipment

Impairment loss of property, plant and equipment by reportable segments for the years ended March 31, 2017 and 2016 was as follows:

	Millions of yen						
	Reportable segments						
Year ended March 31, 2017	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Impairment loss	¥ –	¥ –	¥ 691	¥ 691	¥ –	¥ –	¥ 691

	Millions of yen						
	Reportable segments						
Year ended March 31, 2016	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Impairment loss	¥ 1,302	¥ 462	¥ –	¥ 1,765	¥ –	¥ –	¥ 1,765

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

	Thousands of U.S. dollars						
	Reportable segments						
Year ended March 31, 2017	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Impairment loss	$ –	$ –	$ 6,161	$ 6,161	$ –	$ –	$ 6,161

(3) Goodwill and negative goodwill by reportable segment

The amortization and unamortized balance of goodwill by reportable segment for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen						
	Reportable segments						
Year ended March 31, 2017	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Goodwill:							
Amortization	¥ –	¥ 1,227	¥ 248	¥ 1,476	¥ –	¥ –	¥ 1,476
Unamortized balance	–	18,067	5,022	23,089	–	–	23,089

	Millions of yen						
	Reportable segments						
Year ended March 31, 2016	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Goodwill:							
Amortization	¥ –	¥ 1,378	¥ 273	¥ 1,651	¥ –	¥ –	¥ 1,651
Unamortized balance	–	19,634	4,683	24,318	–	–	24,318

	Thousands of U.S. dollars						
	Reportable segments						
Year ended March 31, 2017	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Goodwill:							
Amortization	$ –	$ 10,942	$ 2,216	$ 13,158	$ –	$ –	$ 13,158
Unamortized balance	–	161,042	44,766	205,808	–	–	205,808

18. Related party transactions

(1) Transactions between the company filing the consolidated financial statements and related parties

Transactions with the Company and significant unconsolidated subsidiaries and affiliates, etc. for the years ended March 31, 2017 and 2016 were as follows:

Year ended March 31, 2017

Type	Name of company	Location	Capital stock	Details of business	Percentage of voting rights (%)	Relationship	Transaction	Transaction amount (Millions of yen, Thousands of U.S. dollars)	Account item	Year-end balance (Millions of yen, Thousands of U.S. dollars)
Subsidiary	Sumibe Korea Co., Ltd.	South Korea	KRW 300,000 Thousand	Technical support and marketing to customers using products related to telecommunication materials	Directly owned: 100%	Interlocking director: 1	Underwriting of capital increase	¥ 14 $ 133	–	¥ – $ –

Note: The Company has underwritten the full amount of capital increase conducted by Sumibe Korea Co., Ltd.

Year ended March 31, 2016

Not applicable.

(2) Transactions between the consolidated subsidiaries of the company filing the consolidated financial statements and related parties.

Not applicable.

19. Subsequent events

At the general meeting of shareholders held on June 23, 2017, retained earnings as of March 31, 2017, were resolved as follows:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends ¥5.0 ($0.04) per share	¥ 1,176	$ 10,488

Independent Auditor's Report

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

KPMG

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, 2017 and 2016, 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 expressed in Japanese yen.

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 misstatement, 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, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

KPMG AZSA LLC
June 23, 2017
Tokyo, Japan

Corporate Data

(As of March 31, 2017)

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)3-5462-4873
Corporate Finance & Planning Div.
Phone: +81-(0)3-5462-3447
Facsimile: +81-(0)3-5462-4876

Established:
January 25, 1932

Capital:
¥37,143,093,785

Employees:
5,958 (Consolidated)

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

Investor Information

(As of March 31, 2017)

Common Stock:

Stock trading unit	1,000 shares
Authorized	800,000,000 shares
Issued and outstanding	247,952,394 shares
Number of shareholders	13,190
(Number of share trading unit holders included in above	9,076)

(Note) Due to the retirement of treasury stock conducted by the Company effective April 14, 2016, the number of stocks issued and outstanding has decreased by 15,000,000 shares from the end of the previous fiscal year.

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	21.19
Japan Trustee Services Bank, Ltd. (Trust Account)	15,848	6.39
The Master Trust Bank of Japan, Ltd. (Trust Account)	12,582	5.07
Japan Trustee Services Bank, Ltd. (Trust Account 9)	6,484	2.62
Japan Trustee Services Bank, Ltd. (Retirement Payment Account of Sumitomo Mitsui Trust Bank)	4,366	1.76
Sumitomo Mitsui Banking Corporation	4,360	1.76
Chase Manhattan Bank GTS Clients Account Escrow	3,554	1.43
Japan Trustee Services Bank, Ltd. (Trust Account 5)	3,397	1.37
DFA Intl Small Cap Value Portfolio	3,143	1.27
The Bank Of New York Mellon 140040	3,074	1.24

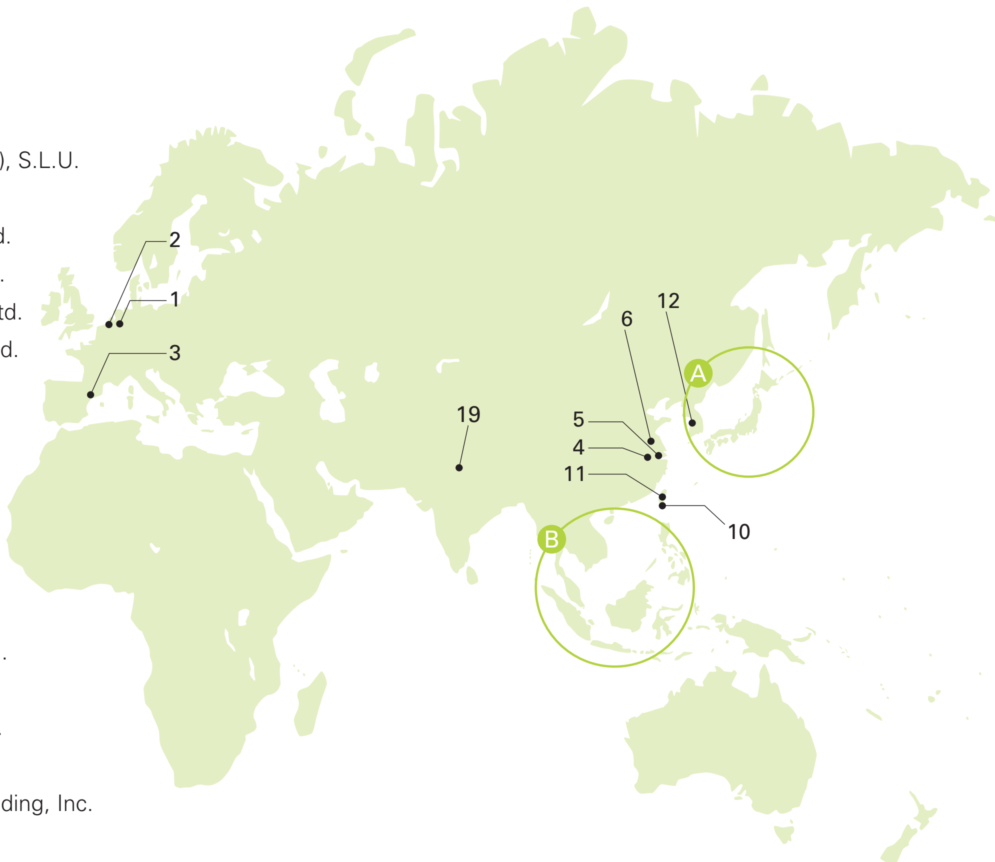
(Note)
The Company holds 12,615 thousand shares of treasury stock, which are excluded from stock held by the principal shareholders listed above.

Global and Domestic Network

(As of June 23, 2017)

Overseas

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



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)3-5462-4873

Corporate Finance & Planning Div.
Phone: +81-(0)3-5462-3447
Facsimile: +81-(0)3-5462-4876

Offices

Osaka Office
4-7-28 Kitahama, Chuo-ku, Osaka,
Osaka 541-0041, JAPAN
Phone: +81-(0)6-6232-5288
Facsimile: +81-(0)6-6232-5312

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

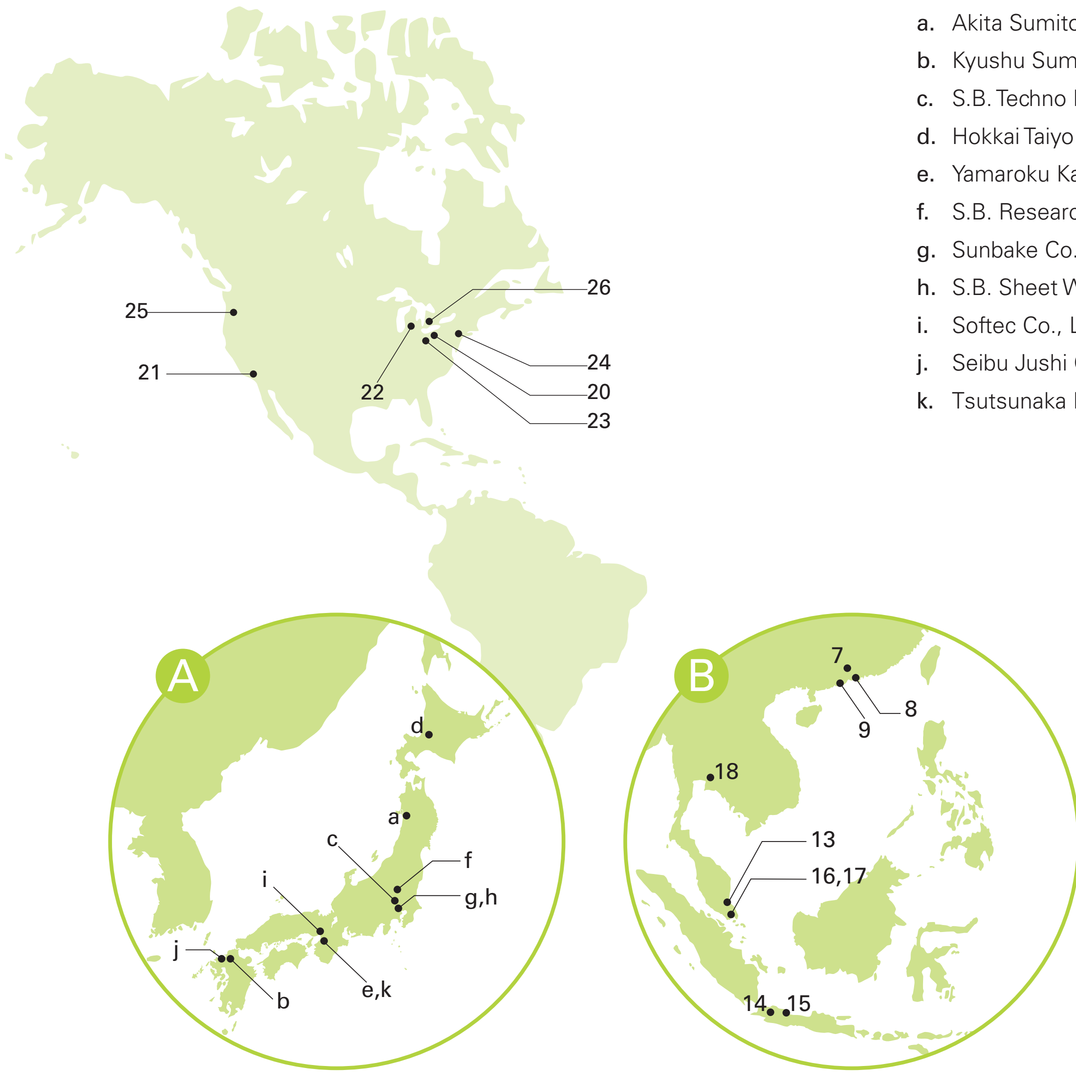
Kobe Facility Office
1-1-5 Murotani, Nishi-ku, Kobe,
Hyogo 651-2241, JAPAN
Phone: +81-(0)78-992-3900
Facsimile: +81-(0)78-992-3919

Laboratories

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

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. Seibu Jushi Co., Ltd.
k. Tsutsunaka Kosan Co., Ltd.

Films & Sheets Research Laboratory
(Located at Amagasaki Plant)

Plates Research Laboratory
(Located at Kanuma Plant)

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

Plants

Amagasaki Plant
2-3-47 Higashi-tsukaguchi-cho,
Amagasaki, Hyogo 661-0011, JAPAN
Phone: +81-(0)6-6429-6941
Facsimile: +81-(0)6-6427-8055

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

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

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

SUMITOMO BAKELITE CO., LTD.