ANNUAL REPORT 2001

SUMITOMO BAKELITE CO., LTD.

PROFILE

The phenolic resin Bakelite, one of the oldest plastics in use today, was developed more than 80 years ago by a Belgian-American, Dr. Leo H. Baekeland. Shortly thereafter, Sumitomo Bakelite became the first Japanese company to succeed in the industrial production of the material. Ever since, the Company has led the plastics processing field, providing customers with an ever-widening variety of superior products and technologies. Today, Sumitomo Bakelite is moving decisively to develop more sophisticated technologies that will provide current and future generations with the highest quality products available.

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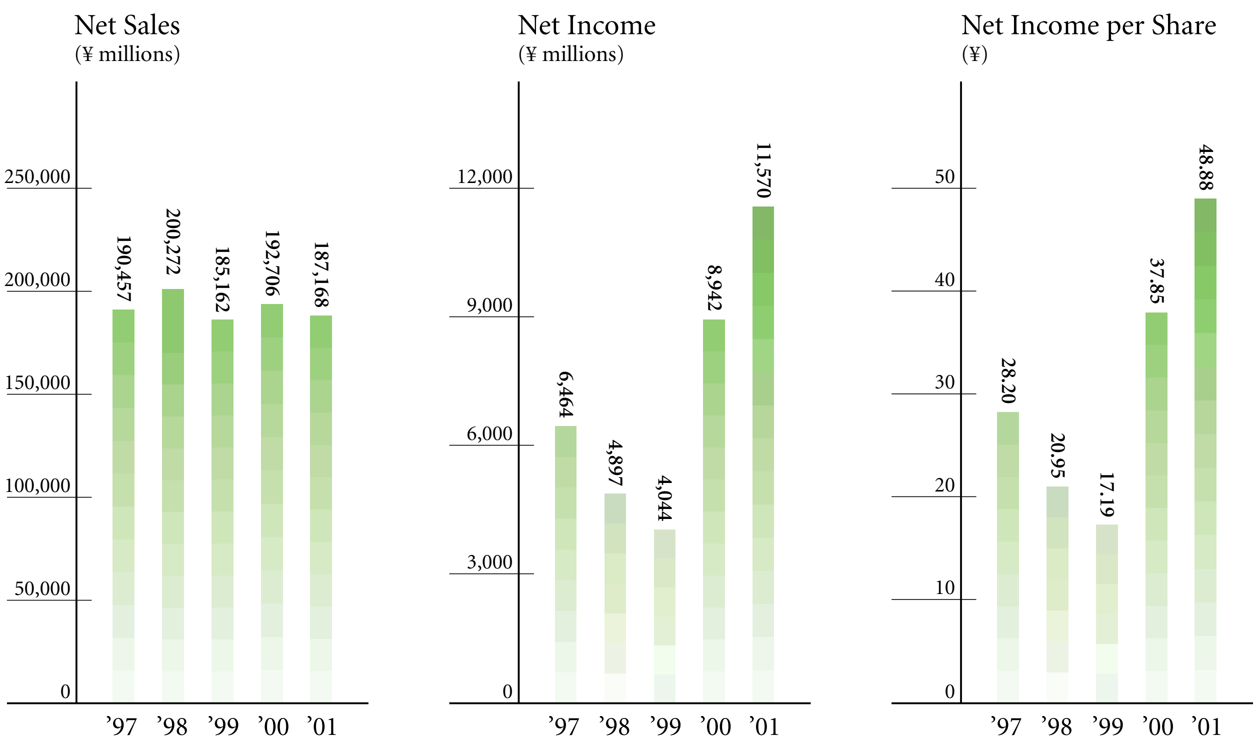
FINANCIAL HIGHLIGHTS

Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Net Sales	**¥187,168**	¥192,706	¥185,162	**$1,509,419**
Net Income	**11,570**	8,942	4,044	**93,306**
Total Assets	**211,397**	226,289	217,593	**1,704,814**
Shareholders' Equity	**114,585**	104,943	96,734	**924,073**
	Yen			U.S. dollars
Net Income per Share	**¥ 48.88**	¥ 37.85	¥ 17.19	**$ 0.39**
Diluted Net Income per Share	**44.11**	34.23	15.76	**0.36**
Cash Dividends per Share	**9.00**	8.00	8.00	**0.07**

Note: U.S. dollar amounts are translated from yen at the rate of ¥124 to US$1, the approximate exchange rate prevailing at March 31, 2001.



During the fiscal year ended March 31, 2001, though economic conditions remained severe, with a recovery in consumer spending still failing to materialize, the Japanese economy continued to move toward an autonomous recovery in the first half of the fiscal year, mainly in the area of private-sector capital investment. Overall, the economy continued to recover moderately, but in the second half of the fiscal year, the growth of the United States economy suddenly slowed, heightening concerns about a recession.

As for the global economy, manufacturing activity became stagnant and an employment adjustment occurred in the United States as inventory adjustments in the manufacturing sector were implemented at the onset of the second half of the fiscal year. In Asia, as well, the pace of economic expansion decelerated due to the slowing of export growth.

In the major industries related to the Sumitomo Bakelite Group, comprising Sumitomo Bakelite Co., Ltd., consolidated subsidiaries and subsidiaries accounted for by the equity method, the semiconductor and electronic equipment industries performed strongly with the support of vigorous demand for personal computers (PCs) and mobile communications in the first half. In the second half of the fiscal year, however, demand declined rapidly in response to inventory adjustments in the PC industry and sluggish demand for audiovisual (AV) equipment. In the automotive industry, production remained strong, as domestic sales were comparatively favorable. At the same time, housing construction registered flat growth in general.

In addition, the price of raw materials was stable in the first half of the fiscal year, but in the second half the price of naphtha jumped suddenly and successive rises occurred in the price of such major raw materials as phenol, polyvinyl chloride resin and glass cloth resulting from gaps in supply and demand.

Against this backdrop, Sumitomo Bakelite focused on its consolidated business operations and endeavored to concentrate management resources in core businesses with the aim of establishing a more durable corporate structure. To this end, we continued to engage in business alliances with other companies, to transfer or acquire businesses, and to merge subsidiaries. Such measures, which included the acquisition of the phenolic resin operations of Occidental Chemical Corporation (headquartered in the United States) and the absorption and merger of our subsidiary Bakelite Shoji Co., Ltd., led to an improvement in the Company's business structure.

As a result, consolidated net sales declined 2.9% to ¥187,168 million (US$1,509 million). Operating income rose 12.9% to ¥18,784 million (US$151 million). Income before income taxes increased 25.7% to ¥19,804 million (US$160 million) partly due to a change in the method of accounting for gains on the sale of share crossholdings. However, net income climbed 29.4% to ¥11,570 million (US$93 million).

The Japanese economy is unlikely to recover substantially for the time being due to weak consumer spending, slower corporate earnings growth and restrained private-sector capital investment. In addition, the outlook for the U.S. economy is highly uncertain due to declining stock prices, while the pace of economic expansion in Asia is decelerating.

In such an environment, Sumitomo Bakelite will further reorganize the operations of the whole Group, reinforce its corporate structure and strive to expand business by strengthening the Group's competitiveness in the international market.

First, we will define our three core business areas as semiconductor, information and telecommunication applications; high-performance plastic applications; and quality-of-life applications, and aggressively expand these operations.

Second, as a part of our efforts to increase the level of customer satisfaction, we will make the provision of total solutions to users a fundamental business activity and engage in more activities that enhance customer satisfaction.

Third, we will constantly promote all core businesses in the international market while continuing to cater to the international expansion of our clients' businesses and advance our own global business development.

Fourth, to maximize the Group's earnings power, we will place an even greater emphasis on improving consolidated management and speeding up decision making in the Group through the use of electronic information, by introducing such systems as a consolidated management information system.

Fifth, Sumitomo Bakelite will continue to promote management that is consistent with social and environmental values. As a part of this policy, to help conserve the environment we introduced environmental accounting in the year under review and we will make further efforts in this area in the future.

I look forward to the continued support and encouragement of all our shareholders.

Tsuneo Moriya

Tsuneo Moriya
President

International Development of Phenolic Resin Operations

In October 2000, the Company acquired the phenolic resin operations of Occidental Chemical Corporation (headquartered in the United States) as well as the shares of joint ventures between Occidental Chemical and Sumitomo Bakelite in Japan, Singapore, the United States and Canada. As a consequence, we established Durez Corporation in the United States, Durez Canada Co., Ltd. in Canada, and N.V. Durez Europe S.A. in Belgium. As a result, the Company has established itself as the sole manufacturer of phenolic molding compounds and phenolic resin in the world with manufacturing bases in Japan, the United States, Europe and Asia. Moreover, at our subsidiary in China, we are in the process of building a factory for the production of phenolic molding compounds on the site occupied by Sumitomo Bakelite (Suzhou) Co., Ltd. and expect to complete construction in 2002.

By establishing and strengthening a global supply network through these four companies in key locations, we intend to further expand internationally our phenolic resin business in the high-performance plastic products field, one of our core operations.

Malaysian Functional Film Manufacturer Made into Subsidiary

In October 2000, Sumitomo Bakelite acquired a 51% stake in Rigidtex Sdn. Bhd. of Malaysia, making it a Southeast Asian production base for functional film (hard polyvinyl chloride film) operations. We installed an additional production line at the company for a total of two and began production in April 2001. Backed by advanced technologies, the Company has worked to expand business mainly in the domestic market for functional films, and as a result has attained the top position as manufacturer for the medical and industrial materials fields. As users have shifted production overseas—the globalization of pharmaceutical makers has been especially pronounced—the Company has decided to secure an overseas

production base in Malaysia to meet growth in Asian markets and improve customer satisfaction.

Establishment of New Plant for Flexible Printed Circuits in the Philippines

Sumitomo Bakelite established S.B. Flex Philippines, Inc. (SFP) in 1998 in the Philippines as an overseas production base for flexible circuits used in notebook PCs and such peripheral equipment as CD-ROM drives. We installed the new facilities in February 2001 in response to users shifting production overseas and to strengthen competitiveness by reducing costs. SFP is responsible for such post-production processing as die punching and inspection following production processes at manufacturing subsidiary Akita Sumitomo Bakelite Co., Ltd. including circuit formation and connector plating.

Development of Green Products

Amid rising awareness of environmental issues, demand has risen for industrial products to be environmentally friendly. Combining its accumulated core technologies, including resin synthesis, mixing and blending technologies, Sumitomo Bakelite continues to make concerted efforts to develop green products that have little impact on the environment.

The Company has brought to market more than ten types of products, including products that do not contain halogen and antimony compounds in molding compounds for semiconductor encapsulation, circuit boards and epoxy resin powder coatings; molding compounds for semiconductor encapsulation compatible with lead-free soldering in the electrical component mounting process; and paste for die bonding used as an alternative to lead soldering.

Sumitomo Bakelite is making various efforts to preserve the environment, including the recycling of hardened products of thermosetting resins and the development of solvent-free production technologies.

CONSOLIDATED BALANCE SHEETS

Sumitomo Bakelite Company Limited
March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2001**	2000	**2001**
Current assets:			
Cash and cash equivalents	**¥ 20,420**	¥ 35,992	**$ 164,677**
Marketable securities (Note 5)	**500**	1,097	**4,032**
Trade receivable:			
Notes	**15,369**	21,231	**123,944**
Accounts	**38,321**	38,947	**309,040**
Allowance for doubtful accounts	**(434)**	(391)	**(3,500)**
Inventories (Note 7)	**22,224**	17,039	**179,226**
Deferred tax assets (Note 9)	**1,231**	1,878	**9,928**
Other current assets	**4,164**	3,046	**33,580**
Total current assets	**101,795**	118,839	**820,927**
Property, plant and equipment (Note 8):			
Land	**7,814**	7,762	**63,016**
Buildings and structures	**56,067**	51,778	**452,153**
Machinery and equipment	**100,914**	88,034	**813,823**
Construction in progress	**4,007**	2,896	**32,314**
	168,802	150,470	**1,361,306**
Accumulated depreciation	**(93,343)**	(86,805)	**(752,766)**
Net property, plant and equipment	**75,459**	63,665	**608,540**
Goodwill	**2,104**	–	**16,968**
Investments and other assets:			
Investment securities (Notes 5 and 8):			
Unconsolidated subsidiaries and affiliates	**11,516**	18,541	**92,871**
Other	**16,307**	15,964	**131,508**
Long-term loans receivable:			
Unconsolidated subsidiaries and affiliates	**433**	1,222	**3,492**
Employees and other	**405**	674	**3,266**
Deferred tax assets (Note 9)	**488**	671	**3,935**
Other assets	**3,319**	3,402	**26,767**
Allowance for doubtful accounts	**(429)**	(263)	**(3,460)**
Total investments and other assets	**32,039**	40,211	**258,379**
Foreign currency translation adjustments	**–**	3,574	**–**
	¥211,397	¥226,289	**$1,704,814**

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 1) 2001
Current liabilities:			
Short-term debt (Note 8)	**¥ 12,369**	¥ 25,211	**$ 99,750**
Long-term debt due within one year (Note 8)	**1,009**	1,017	**8,137**
Trade payable:			
Notes	**10,477**	13,405	**84,492**
Accounts	**25,131**	30,609	**202,669**
Accrued expenses	**5,646**	4,403	**45,532**
Income taxes payable (Note 9)	**3,989**	5,916	**32,169**
Other current liabilities	**6,600**	6,418	**53,226**
Total current liabilities	**65,221**	86,979	**525,975**
Long-term debt due after one year (Note 8)	**22,143**	23,366	**178,573**
Deferred tax liabilities (Note 9)	**1,308**	1,539	**10,548**
Retirement benefits (Note 10):			
Employees	**3,589**	3,905	**28,944**
Directors and statutory auditors	**573**	680	**4,621**
Other long-term liabilities	**187**	455	**1,508**
Contingent liabilities (Note 14)			
Minority interests	**3,791**	4,422	**30,572**
Shareholders' equity (Note 11):			
Common stock, par value ¥50 per share:			
Authorized —800,000,000 shares			
Issued —236,863,633 shares in 2001 and			
236,476,720 shares in 2000	**26,827**	26,720	**216,346**
Additional paid-in capital	**24,948**	24,777	**201,194**
Retained earnings	**63,120**	53,449	**509,032**
	114,895	104,946	**926,572**
Net unrealized holding gains on securities	**16**	–	**129**
Foreign currency translation adjustments	**(325)**	–	**(2,620)**
Treasury stock at cost	**(1)**	(3)	**(8)**
Total shareholders' equity	**114,585**	104,943	**924,073**
	¥211,397	¥226,289	**$1,704,814**

CONSOLIDATED STATEMENTS OF INCOME

Sumitomo Bakelite Company Limited
Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2000	1999	**2001**
Net sales (Note 13)	**¥187,168**	¥192,706	¥185,162	**$1,509,419**
Costs and expenses:				
Cost of sales (Note 13)	**134,921**	143,399	142,533	**1,088,072**
Selling, general and administrative expenses (Note 13)	**33,463**	32,668	34,461	**269,863**
	168,384	176,067	176,994	**1,357,935**
Operating income	**18,784**	16,639	8,168	**151,484**
Other income (expenses):				
Interest and dividend income	**984**	818	1,296	**7,935**
Interest expense	**(807)**	(940)	(1,598)	**(6,508)**
Equity in earnings (losses) of affiliated companies	**571**	(209)	206	**4,605**
Loss on sale/disposal of property	**(852)**	(585)	(273)	**(6,871)**
Gain on sale of marketable securities and investment securities	**4,516**	3,738	1,725	**36,419**
Loss on devaluation of securities	**(716)**	(258)	(354)	**(5,774)**
Loss on devaluation of investments in golf membership	**(109)**	(376)	–	**(879)**
Foreign exchange gain (loss), net	**563**	(205)	(418)	**4,540**
Cost of business acquisition (Note 4)	**(1,976)**	–	–	**(15,935)**
Merger cost (Note 4)	**(277)**	–	–	**(2,234)**
Retirement benefits expense	**(5,542)**	–	–	**(44,694)**
Special retirement allowance	**–**	–	(291)	**–**
Prior service cost due to reassessment of pension plan (Note 3)	**–**	(2,777)	–	**–**
Gain on securities contributed to employee retirement benefit trust	**5,030**	–	–	**40,565**
Other, net	**(365)**	(88)	(392)	**(2,943)**
	1,020	(882)	(99)	**8,226**
Income before income taxes and minority interests	**19,804**	15,757	8,069	**159,710**
Income taxes (Note 9):				
Current	**7,072**	7,505	3,877	**57,032**
Deferred	**508**	(1,099)	40	**4,098**
	7,580	6,406	3,917	**61,130**
Minority interests	**(654)**	(409)	(108)	**(5,274)**
Net income	**¥ 11,570**	¥ 8,942	¥ 4,044	**$ 93,306**
	Yen			U.S. dollars
Amounts per share of common stock:				
Net income	**¥48.88**	¥37.85	¥17.19	**$0.39**
Diluted net income	**44.11**	34.23	15.76	**0.36**
Cash dividends applicable to the year	**9.00**	8.00	8.00	**0.07**

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Sumitomo Bakelite Company Limited
Years ended March 31, 2001, 2000 and 1999

	Thousands of shares of common stock	Millions of yen					
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 1998	234,784	¥26,134	¥24,192	¥44,271	¥ –	¥ –	¥(1)
Net income	–	–	–	4,044	–	–	–
Treasury stock	–	–	–	–	–	–	(0)
Cash dividends paid (¥8 per share)	–	–	–	(1,880)	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(96)	–	–	–
Shares issued upon conversion of bonds	951	326	326	–	–	–	–
Decrease in retained earnings due to addition of consolidated subsidiaries	–	–	–	(582)	–	–	–
Balance at March 31, 1999	235,735	26,460	24,518	45,757	–	–	(1)
Net income	–	–	–	8,942	–	–	–
Cumulative effect of adopting deferred income tax accounting	–	–	–	962	–	–	–
Treasury stock	–	–	–	–	–	–	(2)
Cash dividends paid (¥8 per share)	–	–	–	(1,889)	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(70)	–	–	–
Shares issued upon conversion of bonds	742	260	259	–	–	–	–
Decrease in retained earnings due to addition of consolidated subsidiaries	–	–	–	(253)	–	–	–
Balance at March 31, 2000	236,477	26,720	24,777	53,449	–	–	(3)
Net income	–	–	–	11,570	–	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	(325)	–
Adoption of new accounting standard for financial instruments of an affiliated company	–	–	–	–	16	–	–
Shares issued by merger and share exchange (Note 11)	75	3	68	1	–	–	–
Treasury stock	–	–	–	–	–	–	2
Cash dividends paid (¥9 per share)	–	–	–	(2,130)	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(87)	–	–	–
Shares issued upon conversion of bonds	312	104	103	–	–	–	–
Increase in retained earnings due to addition of consolidated subsidiaries	–	–	–	317	–	–	–
Balance at March 31, 2001	**236,864**	**¥26,827**	**¥24,948**	**¥63,120**	**¥16**	**¥(325)**	**¥(1)**

	Thousands of shares of common stock	Thousands of U.S. dollars (Note 1)					
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2000	236,477	$215,484	$199,815	$431,040	$ –	$ –	$(24)
Net income	–	–	–	93,306	–	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	(2,620)	–
Adoption of new accounting standard for financial instruments of an affiliated company	–	–	–	–	129	–	–
Shares issued by merger and share exchange (Note 11)	75	24	548	8	–	–	–
Treasury stock	–	–	–	–	–	–	16
Cash dividends paid ($0.07 per share)	–	–	–	(17,177)	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(702)	–	–	–
Shares issued upon conversion of bonds	312	838	831	–	–	–	–
Increase in retained earnings due to addition of consolidated subsidiaries	–	–	–	2,557	–	–	–
Balance at March 31, 2001	**236,864**	**$216,346**	**$201,194**	**$509,032**	**$129**	**$(2,620)**	**$ (8)**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sumitomo Bakelite Company Limited
Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2000	1999	**2001**
Cash flows from operating activities:				
Net income	**¥11,570**	¥ 8,942	¥ 4,044	**$ 93,306**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**8,570**	8,554	8,515	**69,113**
Loss on sale/disposal of property, plant and equipment	**852**	585	273	**6,871**
Gain on sale of marketable securities and investment securities	**(4,516)**	(3,738)	(1,725)	**(36,419)**
Minority interests	**654**	409	108	**5,274**
Loss on devaluation of securities	**716**	258	354	**5,774**
Loss on devaluation of investments in golf membership	**109**	376	–	**879**
Equity in (earnings) losses of affiliated companies	**(571)**	209	(206)	**(4,605)**
Deferred income taxes	**508**	(1,099)	40	**4,098**
(Increase) decrease in notes and accounts receivable	**8,632**	(3,059)	4,863	**69,613**
Increase in inventories	**(1,028)**	(615)	(382)	**(8,290)**
(Increase) decrease in other current assets	**(852)**	(42)	401	**(6,871)**
Increase (decrease) in notes and accounts payable	**(6,748)**	3,070	(5,580)	**(54,419)**
Increase (decrease) in income taxes payable	**(2,133)**	4,069	(1,837)	**(17,202)**
Increase (decrease) in other current liabilities	**941**	574	(587)	**7,589**
Decrease in retirement benefits	**(1,996)**	(48)	(325)	**(16,097)**
Other, net	**293**	388	536	**2,362**
Net cash provided by operating activities	**15,001**	18,833	8,492	**120,976**
Cash flows from investing activities:				
Purchases of marketable securities and investment securities	**(2,109)**	(2,446)	(5,569)	**(17,008)**
Proceeds from sale of marketable securities and investment securities	**10,168**	7,871	16,767	**82,000**
Purchases of property, plant and equipment	**(6,449)**	(5,461)	(8,615)	**(52,008)**
Proceeds from sale of property, plant and equipment	**543**	372	569	**4,379**
Payment for business acquisition (Note 4)	**(16,654)**	–	–	**(134,306)**
Proceeds from sale of consolidated subsidiaries with change in scope of consolidation	**(409)**	–	–	**(3,298)**
(Increase) decrease in long-term loans receivable	**601**	(312)	180	**4,846**
Investment in a joint venture	**–**	–	(131)	**–**
Other	**(568)**	(336)	5,625	**(4,581)**
Net cash provided by (used in) investing activities	**(14,877)**	(312)	8,826	**(119,976)**
Cash flows from financing activities:				
(Increase) decrease in short-term debt	**(12,908)**	(8,391)	13,788	**(104,097)**
Proceeds from long-term debt	**–**	800	–	**–**
Repayments of long-term debt	**(1,784)**	(172)	(28,956)	**(14,387)**
Cash dividends paid	**(2,172)**	(1,943)	(2,038)	**(17,516)**
Other	**(232)**	(52)	979	**(1,871)**
Net cash used in financing activities	**(17,096)**	(9,758)	(16,227)	**(137,871)**
Effect of exchange rate changes on cash	**1,131**	(484)	5	**9,121**
Net increase (decrease) in cash and cash equivalents	**(15,841)**	8,279	1,096	**(127,750)**
Cash and cash equivalents at beginning of year	**35,992**	27,549	26,060	**290,258**
Increase in cash and cash equivalents due to addition of consolidated subsidiaries	**465**	213	393	**3,750**
Decrease in cash and cash equivalents due to substraction of consolidated subsidiaries	**(196)**	(49)	–	**(1,581)**
Cash and cash equivalents at end of year	**¥20,420**	¥ 35,992	¥ 27,549	**$164,677**
Supplemental information on cash flows:				
Cash paid during the year for:				
Interest	**¥ 826**	¥ 908	¥ 1,556	**$ 6,661**
Income taxes	**9,204**	3,383	4,509	**74,226**
Non-cash investing and financing activities:				
Conversion of convertible bonds into common stock and additional paid-in capital	**207**	519	652	**1,669**

See accompanying notes.

1. Basis of presenting consolidated financial statements

Sumitomo Bakelite Company Limited (the "Company") is a Japanese corporation, one of the affiliated companies of Sumitomo Chemical Co., Ltd., which directly owns 20.8% (at March 31, 2001) of the Company's voting shares. The Company and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are the translation of the audited consolidated financial statements of the Company which were prepared in accordance with Japanese GAAP and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows for 1999 and shareholders' equity for 2001, 2000 and 1999 have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements were not required for domestic purposes and were not filed with the regulatory authorities.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2001, which was ¥124 to U.S.$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (31 subsidiaries in 2001, 29 subsidiaries in 2000 and 26 subsidiaries in 1999). All significant intercompany balances and transactions have been eliminated.

In the year ended March 31, 2001, the Company sold investments in 3 subsidiaries and excluded these subsidiaries from the consolidated financial statements. The total assets, total liabilities and minority interests, excluded from consolidation at the transaction dates, were ¥3,760 million ($30,323 thousand), ¥3,745 million ($30,202 thousand) and ¥6 million ($48 thousand), respectively.

Investments in 8 significant affiliated companies (20% to 50% owned) in 2001 and 2000 and 4 companies in 1999 are stated at cost adjusted for equity in undistributed earnings and losses since acquisition.

Investments in the other unconsolidated subsidiaries and affiliated companies are stated at cost, because the Company's equity in the income or losses of these companies is not significant.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

The excess of the cost over underlying net equity of investments in consolidated subsidiaries and other companies accounted for on an equity basis at the date of acquisition is charged to income as incurred. However, when it is significant, it is deferred and amortized on a straight-line basis over a period of five years from the date of acquisition.

Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Securities

Prior to April 1, 2000, marketable securities and investment securities except for equity securities of affiliated companies were accounted for at cost determined mainly by the moving-average method. However, such securities were written down to an estimated realizable value if they had been significantly impaired.

Effective April 1, 2000, the Company and its consolidated subsidiaries (the "Companies") adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the new accounting standard, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes ("trading securities"), (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories ("available-for-sale securities").

The companies had no trading securities at March 31, 2001. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost.

The companies are obliged to evaluate available-for-sale securities at fair market value from the fiscal year beginning on or after April 1, 2001, although early adoption is available. In this connection, the Companies stated the available-for-sale securities at moving-average cost at March 31, 2001, even though they had available fair market value. Net unrealized holding gains on available-for-sale securities were recognized in an affiliated company accounted for using the equity method and reported, net of applicable income taxes, as a separate component of shareholders' equity.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

Based on the examination of the intent in holding each security upon application of the new accounting standard on April 1, 2000, held-to-maturity debt securities and available-for-sale securities maturing within one year from the balance sheet date are included in current assets, and other securities are included in investments and other assets.

As a result, at March 31, 2001, securities in current assets increased by ¥500 million ($4,032 thousand) and investment securities decreased by the same amount compared with what would have been reported under the previous accounting policy.

The new accounting standard also requires the companies to apply the accounting of impairment loss for not only securities but also various financial instruments such as golf membership rights and accounts receivable more strictly than before. As a result of adopting the new accounting standard for financial instruments, operating income and income before income taxes and minority interests decreased by ¥58 million ($467 thousand) and ¥666 million ($5,371 thousand), respectively.

Derivatives and hedge accounting

The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires the Companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, at March 31, 2001, as no derivative financial instruments used by the Companies met certain hedging criteria, the Companies recognized changes in the fair value as gains.

Allowance for doubtful accounts

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

Inventories

Inventories are accounted for mainly at cost determined by the weighted average method, except for raw materials, which are stated at moving average cost.

Property, plant and equipment

Property, plant and equipment are carried at cost. Depreciation is computed mainly using the declining-balance method at rates based on the estimated useful lives of the assets. Buildings, excluding building fixtures, acquired after March 31, 1998 are depreciated using the straight-line method.

Accounting for certain lease transactions

Finance leases which do not transfer ownership or those which do not have bargain purchase option provision are accounted for in the same manner as operating leases in accordance with Japanese GAAP.

Accrued employees' bonuses
The Company and its consolidated domestic subsidiaries accrue the amounts of employees' bonuses based on estimated amounts to be paid in the subsequent period. Accrued bonuses were computed in accordance with the Japanese tax regulations until March 31, 1999. The effect of this change for the year ended March 31, 1999 was immaterial.

Bonuses to directors and statutory auditors
Bonuses to directors and statutory auditors, which are subject to shareholders' approval at the annual shareholders' meeting, are accounted for as an appropriation of retained earnings.

Employees' severance and retirement benefits
The Company and certain consolidated subsidiaries provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

As to the unfunded lump-sum payment plans, the Company and certain consolidated subsidiaries accrued mainly liabilities for lump-sum severance and retirement payments equal to the present value of the amount required had all eligible employees voluntarily terminated their employment at March 31, 2000. As to the funded pension plans, see Note 3.

Effective April 1, 2000, the Companies adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits," issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and certain consolidated subsidiaries provided allowance for employees' severance and retirement benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥3,043 million ($24,540 thousand), was fully recognized as an expense in the year ended March 31, 2001. The Company and certain consolidated subsidiaries contributed investment securities worth ¥6,998 million ($56,435 thousand) to the employee retirement benefit trust in the year ended March 31, 2001. The resulting gain amounting to ¥5,030 million ($40,565 thousand) is reflected in the statement of income. Prior service costs and actuarial gains and losses are recognized in the statement of income when they are determined actuarially.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥2,483 million ($20,024 thousand), operating income increased by ¥362 million ($2,919 thousand) and income before income taxes and minority interests decreased by ¥2,483 million ($20,024 thousand) compared with what would have been recorded under the previous accounting standard.

Research and development
Research and development expenses are charged to income when incurred. The amount for the years ended March 31, 2001 and 2000 were ¥8,127 million ($65,540 thousand) and ¥7,269 million, respectively.

Income taxes
The Companies provided income taxes at the amount currently payable for the year ended March 31, 1999. Effective April 1, 1999, the Companies adopted the new accounting standard, which recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. Under the new accounting standard, the provision for income taxes is computed based on the pretax income included in the consolidated statement 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.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1999 was reflected as an adjustment to the retained earnings brought forward from the previous year. Cumulative effect of adopting the new accounting standard was ¥962 million, which was directly added to the retained earnings brought forward from March 31, 1999. The effect for the year ended March 31, 2000 was to increase net income by ¥1,071 million. The prior year's financial statements have not been restated.

Translation of foreign currency

Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Prior to April 1, 2000, long-term receivables and payable denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Companies adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation," issued by the Business Accounting Deliberation Council on October 22, 1999 (the "Revised Accounting Standard"). Under the Revised Accounting Standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the year-end rates.

The effect on the statement of income of adopting the Revised Accounting Standard for the year ended March 31, 2001 was to decrease income before income taxes and minority interests by ¥104 million ($839 thousand) as compared to the prior method.

Translation of foreign currency financial statements

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rates for balance sheets and at the annual average rates for statements of income, except that shareholders' equity accounts are translated at historical rates and income statement items relating to transactions with the Company at the rates used by the Company.

Due to the adoption of the Revised Accounting Standard, the Company and its domestic subsidiaries report foreign currency translation adjustments in the shareholders' equity and minority interests. The prior year's amount, which is included in assets, has not been reclassified.

Amounts per share of common stock

The computations of net income per share are based on the weighted average number of shares outstanding during the relevant year.

Diluted net income per share is computed based on the average number of shares of common stock and contingent issuances of common stock from convertible bonds.

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

Reclassifications

Certain prior year amounts have been reclassified to conform to 2001 presentation except foreign currency translation adjustments as mentioned in Note 2 (Translation of foreign currency financial statements). These changes had no impact on previously reported results of operations or shareholders' equity.

3. Change in accounting policies

Effective from the year ended March 31, 2000, the Company and certain consolidated subsidiaries changed the method of accounting for prior service cost with respect to the pension plan to include such cost in earnings when prior service cost is determined actuarially. Until March 31, 1999, it was charged to income when paid to the pension plan. The change was made because this fiscal year was the re-measurement period for the pension fund to recognize the amount of unamortized prior service cost and because a new accounting standard for employees' retirement benefits will be effective from April 1, 2000. Based on the recent severe economic environment, the Company and certain consolidated subsidiaries decided to adopt a more prudent accounting method for prior service cost in order to achieve more appropriate allocation of pension costs over years of service and to strengthen the Company's and these subsidiaries' financial position furthermore.

The effect of this change was to increase operating income by ¥1,143 million and to decrease income before income taxes and minority interests by ¥1,634 million as compared to the prior method.

4. Business acquisition

In the year ended March 31, 2001, the Companies acquired the phenolic resin business and related assets of Occidental Chemical Corporation, and paid ¥16,654 million ($134,306 thousand).
Components of this purchase were as follows:

	Millions of yen	Thousands of U.S. dollars
Purchase for investments in subsidiaries	¥ 3,511	$ 28,314
Others for business acquisition	13,143	105,992
	¥16,654	$134,306

In the statement of income, the Companies recognized that the related expenses amounted to ¥1,976 million ($15,935 thousand) as cost of business acquisition.

5. Securities

The following tables summarize book values and fair values of held-to-maturity debt securities with available fair values as of March 31, 2001:

Securities with available fair values exceeding book values:

At March 31, 2001	Millions of yen	Thousands of U.S. dollars
Bonds:		
Book value	¥4,028	$32,484
Fair value	4,727	38,121
Difference	699	5,637

Securities with available fair values not exceeding book values:

At March 31, 2001	Millions of yen	Thousands of U.S. dollars
Bonds:		
Book value	¥500	$4,032
Fair value	500	4,032
Difference	–	–

The following table summarizes book values of available-for-sale securities with no available fair values as of March 31, 2001:

At March 31, 2001	Millions of yen	Thousands of U.S. dollars
Non-listed equity securities	¥653	$5,266
Others	16	129
Total	¥669	$5,395

The following table summarizes available-for-sale securities with maturities and held-to-maturity debt securities:

	Millions of yen			
At March 31, 2001	Within 1 year	Within 5 years	Over 5 years	Total
Bonds	¥500	¥4,037	¥ –	¥4,537

	Thousands of U.S. dollars			
At March 31, 2001	Within 1 year	Within 5 years	Over 5 years	Total
Bonds	$4,032	$32,557	$ –	$36,589

Total sales of available-for-sale securities sold in the year ended March 31, 2001 amounted to ¥6,991 million ($56,379 thousand) and the related gains and losses amounted to ¥4,010 million ($32,339 thousand) and ¥162 million ($1,306 thousand), respectively.

In September 2000 and March 2001, the Company contributed, receiving no cash, certain investment securities to its employee retirement benefit trust. The market values of the contributed securities at the time of contribution were ¥3,044 million ($24,548 thousand) and ¥3,954 million ($31,887 thousand), respectively.

As mentioned in Note 2 (Securities), the Companies stated the available-for-sale securities at moving-average costs for the year ended March 31, 2001, even though they had available fair market value.

The following table summarizes book value and fair market value of the available-for-sale securities with available fair market values as of March 31, 2001:

At March 31, 2001	Millions of yen	Thousands of U.S. dollars
Book value	¥ 7,414	$ 59,790
Fair market value	18,179	146,605
Difference	10,765	86,815
(Net unrealized holding gains on securities)	6,248	50,387
(Deferred tax liabilities)	4,517	36,428

At March 31, 2000, book value, market value and net unrealized gains of quoted securities were as follows:

	Millions of yen		
At March 31, 2000	Book value	Market value	Unrealized gains
Current assets:			
Shares	¥ 972	¥ 3,725	¥ 2,753
Bonds	4	4	0
	976	3,729	2,753
Non-current assets:			
Shares	18,385	34,788	16,403
Bonds	4,757	5,612	855
	23,142	40,400	17,258
	¥24,118	¥44,129	¥20,011

These amounts did not include unquoted securities.

6. Derivative financial instruments

The Companies utilize derivative financial instruments such as foreign currency forward contracts and currency and interest rate swap to reduce market risks of fluctuations in foreign currency exchange rates and interest rates on assets and liabilities. The Companies do not hold or issue derivative financial instruments for trading purposes.

The Companies are exposed to credit risk in the event of nonperformance by counterparties to derivative financial instruments, but such risk is considered minor because of the high credit rating of the counterparties.

The Companies enter into derivative financial instruments, as a hedge for existing assets and liabilities denominated in foreign currencies, arising from operating activities.

Market value information as of March 31, 2001 of derivative transactions for which hedge accounting has not been applied was as follows:
(Prior to April 1, 2000, foreign currency forward contracts and currency and interest rate swaps, by which amounts of assets and liabilities in foreign currency were fixed in Japanese yen, were not disclosed.)

	Millions of yen		
At March 31, 2001	Contract amounts (Excess of one year)	Market value	Unrealized gains
Currency and interest rate swap			
Receiving fixed interest in Japanese yen	¥748	¥99	¥99
Paying floating interest in Canadian dollars	(¥733)		
Total	¥748 (¥733)	¥99	¥99

At March 31, 2001	Thousands of U.S. dollars		
	Contract amounts (Excess of one year)	Market value	Unrealized gains
Currency and interest rate swap			
Japanese yen—Canadian dollars, Receive fixed—Pay variable	**$6,032** **($5,911)**	**$798**	**$798**
Total	**$6,032** **($5,911)**	**$798**	**$798**

Derivatives in connection with currencies at March 31, 2000 were as follows:

At March 31, 2000	Millions of yen		
	Contract amounts (Excess of one year)	Market value	Unrealized gains (losses)
Foreign currency forward contracts			
Sell			
U.S. dollars	¥ 10 (–)	¥ 10	¥ 0
Purchase			
U.S. dollars	307 (–)	306	(1)
Singapore dollars	1 (–)	1	(0)
Total	¥318 (–)	¥317	¥(1)

7. Inventories

Inventories at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Finished goods	**¥12,348**	¥ 8,334	**$ 99,581**
Semi-finished goods	**1,612**	1,571	**13,000**
Work in process	**1,401**	1,368	**11,298**
Raw materials and supplies	**6,863**	5,766	**55,347**
	¥22,224	¥17,039	**$179,226**

8. Short-term debt and long-term debt

Short-term debt consists of bank loans and commercial paper. The composition of short-term debt and its interest rates at March, 2001 and 2000 were as follows:

At March 31, 2001	Millions of yen	Thousands of U.S. dollars	Interest rates
Bank loans	**¥ 9,369**	**$75,556**	**0.45%–7.40%**
Commercial paper	**3,000**	**24,194**	**0.21%**
	¥12,369	**$99,750**	

At March 31, 2000	Millions of yen	Interest rates
Bank loans	¥20,211	0.51%–7.63%
Commercial paper	5,000	0.06%
	¥25,211	

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
2.2% domestic convertible sinking fund bonds convertible into common stock at ¥651 ($5.25) per share due 2002	¥ 521	¥ 683	$ 4,202
1.2% domestic convertible bonds convertible into common stock at ¥716 ($5.77) per share due 2006	20,187	20,232	162,798
Secured loans from banks and government agencies due through 2006 with interest rates ranging from 2.08% to 7.40% at March 31, 2001	2,309	3,091	18,621
Unsecured loans from banks and a company due through 2001 with interest rate 7.45% at March 31, 2001	135	377	1,089
	23,152	24,383	186,710
Less amount due within one year	(1,009)	(1,017)	(8,137)
	¥22,143	¥23,366	$178,573

The indentures relating to the 2.2% and 1.2% domestic convertible bonds place a limitation on the payment of cash dividends which shall not exceed, on a cumulative basis, ¥3,800 million ($30,645 thousand) plus the aggregate amount of earnings of the Company (as defined in the indentures) during the years for which the bonds are outstanding. In this connection interim cash dividends are regarded as a part of the cash dividends made in the previous period.

At March 31, 2001, the number of common stock issuable upon full conversion of outstanding convertible bonds was 28,994 thousand shares.

The annual maturities of long-term debt at March 31, 2001 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2002	¥ 1,009	$ 8,137
2003	1,277	10,298
2004	275	2,218
2005	201	1,621
2006	203	1,637
2007 and thereafter	20,187	162,799

At March 31, 2001, assets pledged as collateral were as follows:

At March 31, 2001	Millions of yen	Thousands of U.S. dollars
Investment securities	¥ 965	$ 7,782
Property, plant and equipment	2,602	20,984
Land	88	710

At March 31, 2001, obligations with collateral pledged were:

At March 31, 2001	Millions of yen	Thousands of U.S. dollars
Short-term debt	¥ 50	$ 403
Long-term debt	2,086	16,823
Long-term debt of an affiliated company	122	984
	2,258	18,210

9. Income taxes

The Companies are subject to several taxes based on income, which are corporation tax, inhabitants taxes and enterprise tax. The aggregate statutory tax rates on income before income taxes were approximately 42%, 42% and 47% for the years ended March 31, 2001, 2000 and 1999, respectively.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Deferred tax assets:			
Amortization of prior service cost of the pension plan	**¥ 1,677**	¥ 558	**$ 13,524**
Retirement benefits of employees	**1,655**	1,004	**13,347**
Unrealized gains on property, plant and equipment	**692**	912	**5,581**
Excess bonuses accrued	**516**	327	**4,161**
Unrealized gains on inventories	**319**	245	**2,573**
Cost of business acquisition	**298**	–	**2,403**
Enterprise tax	**271**	477	**2,185**
Retirement benefits of directors and statutory auditors	**234**	279	**1,887**
Loss on devaluation of securities	**–**	200	**–**
Loss on devaluation of investments in golf memberships	**–**	157	**–**
Loss on devaluation of non-consolidated subsidiaries	**–**	155	**–**
Net operating loss carryforwards	**140**	–	**1,129**
Others	**931**	322	**7,508**
Total deferred tax assets	**6,733**	4,636	**54,298**
Valuation allowance	**(177)**	–	**(1,427)**
Net deferred tax assets	**¥ 6,556**	¥ 4,636	**$ 52,871**
Deferred tax liabilities:			
Deferred gains on property, plant and equipment	**¥(2,530)**	¥(2,606)	**$(20,403)**
Gain on securities contributed to employee retirement benefits trust	**(2,113)**	–	**(17,040)**
Contribution to retirement benefits of employees	**(487)**	–	**(3,927)**
Other	**(1,015)**	(1,020)	**(8,186)**
Total deferred tax liabilities	**¥(6,145)**	¥(3,626)	**$(49,556)**
Net deferred tax assets	**¥ 411**	¥ 1,010	**$ 3,315**

The differences between the statutory tax rate and the Companies' actual effective tax rate for financial statement purposes for the year ended March 31, 2001 were as follows:

Statutory tax rate	42.0%
Permanently non-deductible expenses	0.9
Permanently non-taxable income	(1.4)
Effect of differences between tax rates in Japan and in other countries	(4.2)
Other, net	1.0
Actual effective tax rate	38.3

The differences for the year ended March 31, 2000 were immaterial.

10. Employees' severance and pension benefits

As explained in Note 2 (Employee's severance and retirement benefits) effective April 1, 2000, the Companies adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2001 consisted of the following:

At March 31, 2001	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	**¥ 23,476**	**$ 189,323**
Less fair value of pension assets	**(19,968)**	**(161,032)**
Prepaid benefit expenses	**81**	**653**
Liability for severance and retirement benefits	**¥ 3,589**	**$ 28,944**

Included in the consolidated statement of income for the year ended March 31, 2001 were severance and retirement benefit expenses comprising the following:

Year ended March 31, 2001	Millions of yen	Thousands of U.S. dollars
Service costs—benefits earned during the year	¥ 846	$ 6,823
Interest cost on projected benefit obligation	520	4,194
Expected return on plan assets	(301)	(2,428)
Amortization of prior service costs	543	4,379
Amortization of actuarial differences	1,955	15,766
Amortization of net transition obligation	3,043	24,540
Severance and retirement benefit expenses	¥6,606	$53,274

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

	Domestic companies	Foreign companies
Discount rate	3.0%	7.5%
Expected return on plan assets	3.0%	3.0%

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Prior service cost and actuarial gains/losses are recognized in the statement of income when they are determined actuarially.

Total charges with respect to retirement benefits and pension costs included in costs and expenses, were ¥3,781 million and ¥1,332 million for the years ended March 31, 2000 and 1999 respectively.

11. Shareholders' equity

Under the Code, at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital.

The Code also provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as legal reserve until such reserve equals 25% of common stock. This legal reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. At March 31, 2001 and 2000, legal reserve of the Company amounting to ¥4,010 million ($32,339 thousand) and ¥3,654 million were included in retained earnings respectively.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code.

In the year ended March 31, 2001, the Company issued shares relating to a merger with Bakelite Shoji Co., Ltd., a former consolidated subsidiary, and relating to a share exchange with minority shareholders of Artlite Kogyo Co., Ltd.

12. Information on lease transactions

Finance leases which do not transfer ownership to lessees were as follows:

	Millions of yen		
At March 31, 2001	Machinery and equipment	Other assets	Total
Acquisition cost, accumulated depreciation and ending balance of leased assets:			
Acquisition cost	¥1,427	¥200	¥1,627
Accumulated depreciation	696	112	808
Ending balance	¥ 731	¥ 88	¥ 819

At March 31, 2000			
Acquisition cost, accumulated depreciation and ending balance of leased assets:			
Acquisition cost	¥1,302	¥194	¥1,496
Accumulated depreciation	660	65	725
Ending balance	¥ 642	¥129	¥ 771

	Thousands of U.S. dollars		
At March 31, 2001	Machinery and equipment	Other assets	Total
Acquisition cost, accumulated depreciation and ending balance of leased assets:			
Acquisition cost	**$11,508**	**$1,613**	**$13,121**
Accumulated depreciation	**5,613**	**903**	**6,516**
Ending balance	**$ 5,895**	**$ 710**	**$ 6,605**

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Future lease payments:			
Due within one year	**¥313**	¥295	**$2,524**
Due after one year	**519**	497	**4,186**
Total	**¥832**	¥792	**$6,710**

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Lease payments, depreciation and interest paid:				
Lease payments	**¥383**	¥395	¥450	**$3,085**
Depreciation	**348**	364	310	**2,810**
Interest expense	**37**	34	30	**295**

An amount equal to the depreciation is calculated on a basis that useful life is lease term and residual value is zero.

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

Operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Future lease payments:			
Due within one year	**¥1**	¥1	**$ 8**
Due after one year	**2**	2	**16**
Total	**¥3**	¥3	**$24**

13. Segment information

The Companies operate principally in the production and sales of Electronic products, Industrial products and Sales of chemical products and machinery, etc. Information by business segment for the years ended March 31, 2001, 2000 and 1999 is as follows:

	Millions of yen					
Year ended March 31, 2001	Electronic products	Industrial products	Sales of chemical products and machinery, etc.	Total	Eliminations or corporate	Consolidated
Sales:						
Outside customers	¥103,067	¥66,895	¥17,206	¥187,168	¥ –	¥187,168
Inter-segment	–	1,109	1,477	2,586	(2,586)	–
Total sales	103,067	68,004	18,683	189,754	(2,586)	187,168
Operating expenses	89,248	63,654	18,119	171,021	(2,637)	168,384
Operating income	¥ 13,819	¥ 4,350	¥ 564	¥ 18,733	¥ 51	¥ 18,784
Identifiable assets	¥104,080	¥89,724	¥ 2,232	¥196,036	¥15,362	¥211,397
Depreciation and amortization	5,364	2,985	119	8,468	72	8,540
Capital expenditures	5,818	12,632	183	18,633	0	18,633

	Thousands of U.S. dollars					
Year ended March 31, 2001	Electronic products	Industrial products	Sales of chemical products and machinery, etc.	Total	Eliminations or corporate	Consolidated
Sales:						
Outside customers	$831,185	$539,476	$138,758	$1,509,419	$ –	$1,509,419
Inter-segment	–	8,944	11,911	20,855	(20,855)	–
Total sales	831,185	548,420	150,669	1,530,274	(20,855)	1,509,419
Operating expenses	719,742	513,338	146,121	1,379,201	(21,266)	1,357,935
Operating income	$111,443	$ 35,082	$ 4,548	$ 151,073	$ 411	$ 151,484
Identifiable assets	$839,355	$723,580	$ 17,992	$1,580,927	$123,887	$1,704,814
Depreciation and amortization	43,258	24,072	960	68,290	581	68,871
Capital expenditures	46,919	101,871	1,476	150,266	0	150,266

The Companies adopted the new Japanese accounting standard for financial instruments (“Opinion Concerning Establishment of Accounting Standard for Financial Instruments” issued by the Business Accounting Deliberation Council on January 22, 1999) as described in Note 2. The effect on the new accounting standard for the year ended March 31, 2001, was immaterial.

In addition, the Companies adopted the new Japanese accounting standard for retirement benefits (“Opinion on Setting Accounting Standard for Employees’ Severance and Pension Benefits” issued by the Business Accounting Deliberation Council on June 16, 1998) as described in Note 2.

As a result of the adoption of the new accounting standard, operating income for the year ended March 31, 2001 increased by ¥217 million ($1,750 thousand) for Electronic products, and by ¥154 million ($1,242 thousand) for Industrial products and decreased by ¥8 million ($65 thousand) for Sale of chemical products and machinery, etc, respectively.

Capital expenditures for Industrial products, in the year ended March 31, 2001, included increase of property, plant and equipment by business acquisition.

Year ended March 31, 2000	Millions of yen Electronic products	Industrial products	Sales of chemical products and machinery, etc.	Total	Eliminations or corporate	Consolidated
Sales:						
Outside customers	¥91,492	¥67,330	¥33,884	¥192,706	¥ –	¥192,706
Inter-segment	–	1,009	2,363	3,372	(3,372)	–
Total sales	91,492	68,339	36,247	196,078	(3,372)	192,706
Operating expenses	80,255	63,473	35,686	179,414	(3,347)	176,067
Operating income	¥11,237	¥ 4,866	¥ 561	¥ 16,664	¥ 25	¥ 16,639
Identifiable assets	¥92,819	¥70,108	¥18,661	¥181,588	¥44,701	¥226,289
Depreciation and amortization	5,020	3,165	186	8,371	73	8,444
Capital expenditures	4,721	1,848	76	6,645	–	6,645

The Company and certain consolidated subsidiaries changed the method of accounting for prior service cost with respect to the pension plan as described in Note 3.

As a result of this change, operating income for the year ended March 31, 2000 increased by ¥573 million for Electronic products, by ¥533 million for Industrial products and by ¥37 million for Sale of chemical products and machinery, etc, respectively.

Year ended March 31, 1999	Millions of yen Electronic products	Industrial products	Sales of chemical products and machinery, etc.	Total	Eliminations or corporate	Consolidated
Sales:						
Outside customers	¥84,582	¥58,891	¥41,689	¥185,162	¥ –	¥185,162
Inter-segment	–	461	8,185	8,646	(8,646)	–
Total sales	84,582	59,352	49,874	193,808	(8,646)	185,162
Operating expenses	77,761	57,582	50,305	185,648	(8,654)	176,994
Operating income	¥ 6,821	¥ 1,770	¥ (431)	¥ 8,160	¥ 8	¥ 8,168
Identifiable assets	¥85,905	¥67,366	¥23,534	¥176,805	¥40,788	¥217,593
Depreciation and amortization	4,614	3,452	216	8,282	81	8,363
Capital expenditures	5,524	2,508	130	8,162	–	8,162

Information by geographic area for the years ended March 31, 2001, 2000 and 1999 is as follows:

Year ended March 31, 2001	Millions of yen Domestic	Asia	Other	Total	Eliminations or corporate	Consolidated
Sales:						
Outside customers	**¥138,889**	**¥36,702**	**¥11,577**	**¥187,168**	**¥ –**	**¥187,168**
Inter-segment	**13,921**	**5,625**	**132**	**19,678**	**(19,678)**	**–**
Total sales	**152,810**	**42,327**	**11,709**	**206,846**	**(19,678)**	**187,168**
Operating expenses	**139,662**	**36,426**	**11,802**	**187,890**	**(19,506)**	**168,384**
Operating income	**¥ 13,148**	**¥ 5,901**	**¥ (93)**	**¥ 18,956**	**¥ (172)**	**¥ 18,784**
Identifiable assets	**¥167,570**	**¥36,903**	**¥22,433**	**¥226,906**	**¥(15,509)**	**¥211,397**

Year ended March 31, 2001	Thousands of U.S. dollars Domestic	Asia	Other	Total	Eliminations or corporate	Consolidated
Sales:						
Outside customers	$1,120,073	$295,984	$ 93,362	$1,509,419	$ –	$1,509,419
Inter-segment	112,266	45,363	1,065	158,694	(158,694)	–
Total sales	1,232,339	341,347	94,427	1,668,113	(158,694)	1,509,419
Operating expenses	1,126,307	293,758	95,177	1,515,242	(157,307)	1,357,935
Operating income	$ 106,032	$ 47,589	$ (750)	$ 152,871	$ (1,387)	$ 151,484
Identifiable assets	$1,351,371	$297,605	$180,911	$1,829,887	$(125,073)	$1,704,814

The Companies adopted the new Japanese accounting standard for financial instruments for retirement benefits (“Opinion Concerning Establishment of Accounting Standard for Financial Instruments” issued by the Business Accounting Deliberation Council on January 22, 1999) as described in Note 2. The effect on the new accounting standard for the year ended March 31, 2001, was immaterial.

In addition, the Companies adopted the new Japanese accounting standard (“Opinion on Setting Accounting Standard for Employees’ Severance and Pension Benefits” issued by the Business Accounting Deliberation Council on June 16, 1998) as described in Note 3.

As a result of the adoption of the new accounting standard, operating income for the year ended March 31, 2001 increased by ¥363 million ($2,927 thousand) for Domestic.

Year ended March 31, 2000	Millions of yen Domestic	Asia	Other	Total	Eliminations or corporate	Consolidated
Sales:						
Outside customers	¥158,434	¥26,166	¥8,106	¥192,706	¥ –	¥192,706
Inter-segment	12,335	5,764	152	18,251	18,251	–
Total sales	170,769	31,930	8,258	210,957	18,251	192,706
Operating expenses	158,097	28,280	8,295	194,672	18,605	176,067
Operating income	¥ 12,672	¥ 3,650	¥ (37)	¥ 16,285	¥ (354)	¥ 16,639
Identifiable assets	¥163,762	¥26,525	¥2,939	¥193,136	¥ 33,153	¥226,289

The Company and certain consolidated subsidiaries changed the method of accounting for prior service cost with respect to the pension plan as described in Note 3.

As a result of this change, operating income for the year ended March 31, 2000 increased by ¥1,143 million for Domestic.

Year ended March 31, 1999	Millions of yen Domestic	Asia	Other	Total	Eliminations or corporate	Consolidated
Sales:						
Outside customers	¥151,245	¥26,178	¥7,739	¥185,162	¥ –	¥185,162
Inter-segment	10,040	4,081	249	14,370	(14,370)	–
Total sales	161,285	30,259	7,988	199,532	(14,370)	185,162
Operating expenses	155,067	28,453	8,076	191,596	(14,602)	176,994
Operating income	¥ 6,218	¥ 1,806	¥ (88)	¥ 7,936	¥ 232	¥ 8,168
Identifiable assets	¥157,384	¥26,374	¥2,574	¥186,332	¥ 31,261	¥217,593

Overseas sales for the years ended March 31, 2001 and 2000 were as follows:

	Millions of yen		
Year ended March 31, 2001	Asia	Other	Total
Overseas sales	**¥53,894**	**¥7,623**	**¥61,517**
Consolidated net sales			**187,168**
Percent against consolidated net sales	**28.8%**	**4.1%**	**32.9%**
Year ended March 31, 2000			
Overseas sales	¥45,890	¥5,761	¥ 51,651
Consolidated net sales			192,706
Percent against consolidated net sales	23.8%	3.0%	26.8%

	Thousands of U.S. dollars		
Year ended March 31, 2001	Asia	Other	Total
Overseas sales	**$434,626**	**$61,476**	**$ 496,102**
Consolidated net sales			**1,509,419**
Percent against consolidated net sales	**28.8%**	**4.1%**	**32.9%**

Overseas sales for the year ended March 31, 1999 amounted to ¥47,386 million and accounted for 25.6% of the consolidated net sales.

14. Contingent liabilities

At March 31, 2001, the Companies were contingently liable as follows:

(i)	Repurchase of notes discounted or endorsed:	¥ 69 million ($ 556 thousand)
(ii)	Repurchase of installment accounts receivable sold to a commercial finance company:	¥538 million ($4,339 thousand)
(iii)	Guarantees for bank borrowings of employees:	¥ 29 million ($ 234 thousand)
(iv)	Guarantees for forward exchange contracts of an affiliated company with a bank:	¥ 20 million ($ 161 thousand)
(v)	Guarantees for an affiliated company's receivable due:	¥114 million ($ 919 thousand)

15. Subsequent events

(Disposition of a subsidiary)

In May 2001, the Company sold all of the outstanding shares (9,800 shares) of Miyagi Electronics Co., Ltd. to Nihon Auto Giken Kogyo Co., Ltd. for an aggregate sales amount of ¥0 million ($0 thousand).

At the same time, the Company gave the renunciation of loans receivable to Miyagi Electronics Co., Ltd. The sale and the renunciation resulted in a loss of ¥598 million ($4,822 thousand).

(Business separation and foundation of a corporate joint venture)

In June 2001, the Company agreed basically with Nitto Boseki Co., Ltd. to integrate their high-pressure melamine decorative sheet business, and found a corporate joint venture.

This joint venture contract will be concluded in July 2001, and the corporate joint venture will be founded in October 2001.

The corporate joint venture's business contents, capital amounts, and shareholding rate are designed as follows:

Business contents:	Manufacture, sales, and research and development of high-pressure melamine decorative sheets and related products
Capital amounts:	¥2,000 million ($16,129 thousand)
Shareholding rate:	The Company 66.7%, Nitto Boseki Co., Ltd. 33.3%

At the general meeting of shareholders the Company held on June 28, 2001, retained earnings at March 31, 2001, were appropriated as follows:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends ¥5 ($0.04) per share	**¥1,184**	**$9,548**
Bonuses to directors and statutory auditors	**80**	**645**

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and the Board of Directors of
Sumitomo Bakelite Company Limited:

We have audited the accompanying consolidated balance sheets of Sumitomo Bakelite Company Limited (a Japanese corporation) and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2001, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Sumitomo Bakelite Company Limited and subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2001 in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraphs.

As explained in Note 3 to the consolidated financial statements, effective April 1, 1999, Sumitomo Bakelite Company Limited and certain subsidiaries changed the method of accounting for prior service cost with respect to the pension plan, with which we concur.

As explained in Note 2 to the consolidated financial statements, Sumitomo Bakelite Company Limited and subsidiaries have adopted new accounting standards for employees' severance and retirement benefits, financial instruments and foreign currency translation for the year ended March 31, 2001, and new accounting standard for income taxes for the year ended March 31, 2000.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

Tokyo, Japan
June 28, 2001

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

Environmental accounting quantifies the results and costs associated with environmental conservation. It is an excellent tool to advance environmentally friendly business activities efficiently and enhance understanding of the Company's efforts through the disclosure of information to stakeholders.

Sumitomo Bakelite decided to adopt environmental accounting after the Ministry of the Environment released "*Developing an Environmental Accounting System* (Year 2000 Report)" as a guideline in May 2000.

With reference to the guideline, the Company established a framework for quantitatively measuring progress in its activities to reduce environmental burden. Under the framework, we continue to make efforts to evaluate the environmental conservation activities based on our own compilation methods.

In fiscal 2000, we first applied environmental accounting to the five plants and two laboratories listed in the following table. From fiscal 2001 onward, we will keep introducing environmental accounting among all of the Group's domestic and overseas subsidiaries and affiliated companies while enhancing the effectiveness of our compilation methods through ongoing reviews and reassessment.

Environmental Conservation Costs for Fiscal 2000

Category	Investment (Millions of yen)	Expenses (Millions of yen)	Description
(A) Restrain emissions to the environment	¥ 72	¥ 49	Ethylene oxide gas emission treatment equipment Factory drain water circulation usage equipment Anti-vibration construction on activated sludge treatment facilities
(B) Energy conservation	64	1	Steam pipe expansion to integrate boilers Replacement of energy-saving transformers Renovation of methanol sludge boilers
(C) Reduction of industrial waste, promotion of recycling, and waste treatment	22	405	Renewal of belt press for sludge dehydration Facilities compatible with recycling Waste treatment
(D) Product evaluation at R&D stage	62	265	R&D for environmentally friendly products Purchase of recycling research facilities
(E) Green procurement activities	–	1	Purchase of office supplies in compliance with green procurement standards
(F) Environmental management activities	–	137	Acquisition and maintenance of ISO 14001 certification Efforts in environmental education Personnel cost for environmental management activities
(G) Contributions to social activities	15	62	Greening activities and maintenance Communication with local communities Pollution burden fund
(H) Response to environmental damage	–	–	
Total	¥235	¥920	

Facilities applied to compilation: Amagasaki, including subsidiaries and affiliated companies on the same site, Shizuoka, including subsidiaries and affiliated companies on the same site, Utsunomiya and Tsu Plants of Sumitomo Bakelite Co., Ltd., Akita Plant of Akita Sumitomo Bakelite Co., Ltd., Fundamental Research Laboratory and Kobe Fundamental Research Laboratory

Period: April 2000 through March 2001

Compilation

- Compilations were based on the Company's Environmental Accounting Compilation Guideline with reference to the Ministry of the Environment's guideline released in 2000.
- Costs were computed within the scope of expenses exclusively allocated for environmental preservation.
- Economic effects were recorded for items calculated based on substantial evidence. Such subjective calculations as risk avoidance effects for items were excluded.
- Expenses do not include depreciation costs.
- With regard to R&D, investment outlays and expenses were compiled along environment-related categories.
- Reduction in environmental burden was adjusted by the net production valuation (production volume × unit sales price) in the calculation.

Effects of Environmental Conservation for Fiscal 2000

Category	Reduction (Increase) in Environmental Burden (Compared with previous fiscal year)	Environmental Burden (Fiscal 2000)
Atmospheric emissions of solvents and others	233 tons	3,307 tons
Carbon dioxide emissions	2,275 tons	114,029 tons
Industrial waste generated	(545) tons	11,587 tons
Landfill and external incineration of waste	129 tons	3,843 tons

Economic Effects for Fiscal 2000

Category	Amount (Millions of yen)
(1) Reduction in costs due to energy conservation	¥ 48
(2) Income from recycling	44
(3) Reduction in costs by circulation of factory drain water	298
Total	¥390

The "Environmental report 2001" of Sumitomo Bakelite, Co. Ltd., including environmental accounting, was independently reviewed by Asahi & Co.

DIRECTORS AND CORPORATE AUDITORS

Chairman of the Board
Naoto Enda

President
Tsuneo Moriya

Executive Vice President
Osamu Kohno

Senior Managing Directors
Shigenori Yamaoka
Masao Kakehi

Managing Directors
Tomitaroh Ogawa
Takaharu Hayashi

Directors
Iwao Yamaguchi
Tetsuya Tokunaga
Shigeki Bitoh
Shosuke Hachisuka
Shoji Kitaura
Tetsuroh Tomita
Shigeru Hayashi
Takeichi Higashiguchi
Hideaki Ezaki
Takeshi Uchimura

Corporate Auditors
Yamato Matoh
Shoji Kosaka
Hidetaka Kurauchi
Fumio Ogawa

(As of June 28, 2001)

CORPORATE DATA

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Thermoplastic Products Research Laboratory (Located at Amagasaki Plant)

Circuitry Materials Research Laboratory
(Located at Shizuoka Plant)

Industrial Resins & Molding Compounds Research Laboratory
(Located at Shizuoka Plant)

Corporate Research Center Information & Communications Materials
Electronic Device Materials Research Laboratory I
Electronic Device Materials Research Laboratory II
(Located at Utsunomiya Plant)

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Incorporated:
January 25, 1932

Number of Employees:
2,329

Securities Traded:
Tokyo Stock Exchange, Osaka Securities Exchange, Nagoya Stock Exchange

Major Subsidiaries and Affiliates:
** Advanced Plastics Compound Company
* Akita Sumitomo Bakelite Co., Ltd.
* Artlite Kogyo Co., Ltd.
* Bakelite Precision Molding (Shanghai) Co., Ltd.
Bakelite Shoji (Thailand) Co., Ltd.
* Bakelite Trading (Shanghai) Co., Ltd.
* BASEC Hong Kong Co., Ltd.
CMK Europe N.V.
** CMK Singapore (Pte.) Ltd.
** CMKS (Malaysia) Sdn. Bhd.
* Durez Corporation
* Durez Canada Co., Ltd.
** Gary Evode Sumiflex (GES) Company
* Hokkai Taiyo Plastic Co., Ltd.
Japan Communication Accessories Manufacturing Co., Ltd.
* Kyushu Bakelite Industry Co., Ltd.
** Nippon Denkai, Ltd.
* N. V. Durez Europe S. A.
Otomo Chemical Co., Ltd.
* P.T. Indopherin Jaya
P.T. Pamolite Adhesive Industry
Rigidtex Sdn. Bhd.
* S.B. "DECOLA" & Building Materials Co., Ltd.
* S.B. Flex Philippines, Inc.
S.B. Information System Co., Ltd.
* S.B. Medical Care Co., Ltd.
S.B. Recycle Co., Ltd.
* S.B. Techno-Research Co., Ltd.
* Sano Plastic Co., Ltd.
SBTEG Co., Ltd.
* SNC Industrial Laminates Sdn. Bhd.
SPD Co., Ltd.
* ST Film Sheet Co., Ltd.
Sumibe Service Company Ltd.
* Sumicarrier Singapore Pte. Ltd.
* SumiDurez Canada G. P.
* SumiDurez Singapore Pte. Ltd.
* Sumiflex Corporation
** Sumifleland Realty, Inc.
* Sumitomo Bakelite Europe B.V.
* Sumitomo Bakelite Hong Kong Co., Ltd.
* Sumitomo Bakelite Singapore Pte. Ltd.
* Sumitomo Bakelite (Suzhou) Co., Ltd.
* Sumitomo Bakelite (Taiwan) Co., Ltd.
* Sumitomo Durez Co., Ltd.
* Sumitomo Plastics America, Inc.
** Sunbake Co., Ltd.
* Tokyo Kakohin Co., Ltd.
Tsu Kong Co., Ltd.
** Tsutsunaka Plastic Industry Co., Ltd.
* Yamaroku Kasei Industry Co., Ltd.

* Consolidated Subsidiaries
** Affiliates applied the equity method

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Responsible Care

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