



Consolidated Balance Sheets

Sumitomo Chemical Company, Limited and Consolidated Subsidiaries
March 31, 2017 and 2016

	Millions of yen		Thousands of US dollars (Note 1)
	2017	2016	2017
Assets			
Current assets:			
Cash and cash equivalents (Notes 4, 8, and 19)	¥ 193,289	¥ 215,592	\$ 1,722,872
Short-term investments (Note 4)	1,772	2,001	15,795
Securities (Notes 4 and 6)	1	2	9
Trade notes and accounts receivable (Notes 4 and 8)	455,239	414,809	4,057,750
Inventories (Note 5)	409,380	402,255	3,648,988
Deferred tax assets (Note 14)	85,519	86,369	762,269
Other	87,956	68,520	783,992
Allowance for doubtful accounts	(2,022)	(1,619)	(18,023)
Total current assets	1,231,134	1,187,929	10,973,652
Property, plant and equipment (Notes 8 and 11):			
Land	84,764	82,982	755,540
Buildings and structures	657,385	651,675	5,859,569
Machinery and equipment	1,821,219	1,732,483	16,233,345
Construction in progress	41,713	34,263	371,807
	2,605,081	2,501,403	23,220,261
Less accumulated depreciation	(1,978,877)	(1,859,237)	(17,638,622)
Net property, plant and equipment	626,204	642,166	5,581,639
Investments and other assets:			
Investment securities (Notes 4, 6, 7, 8, and 20)	446,773	469,319	3,982,289
Long-term loans (Notes 4 and 20)	68,784	70,107	613,103
Net defined benefit asset (Note 12)	59,097	53,800	526,758
Deferred tax assets (Note 14)	14,790	13,581	131,830
Goodwill	108,256	82,647	964,934
Patents (Note 11)	3,070	4,511	27,364
Software (Note 11)	11,185	11,620	99,697
In-process research and development	193,971	60,145	1,728,951
Other (Notes 7, 11, and 20)	99,798	67,186	889,545
Allowance for doubtful accounts	(1,010)	(861)	(9,003)
Total investments and other assets	1,004,714	832,055	8,955,468
Total assets	¥2,862,052	¥2,662,150	\$25,510,759

See accompanying notes.

	Millions of yen		Thousands of US dollars (Note 1)
	2017	2016	2017
Liabilities and Net assets			
Current liabilities:			
Short-term debt (Notes 4 and 8)	¥ 201,678	¥ 126,659	\$ 1,797,647
Long-term debt due within one year (Notes 4 and 8)	99,885	100,576	890,320
Trade notes and accounts payable (Notes 4 and 8)	243,539	205,188	2,170,773
Income taxes payable	21,853	42,220	194,786
Reserve for sales rebates	65,653	49,224	585,195
Reserve for bonuses	31,061	31,045	276,861
Other (Notes 8 and 14)	243,066	234,518	2,166,556
Total current liabilities	906,735	789,430	8,082,138
Long-term liabilities:			
Long-term debt (Notes 4 and 8)	573,689	604,270	5,113,548
Deferred tax liabilities (Note 14)	92,558	75,490	825,011
Net defined benefit liability (Note 12)	32,782	35,824	292,201
Other	93,762	66,360	835,743
Total long-term liabilities	792,791	781,944	7,066,503
Contingent liabilities (Note 16)			
Net assets (Note 15):			
Common stock:			
Authorized — 5,000,000,000 shares			
Issued — 1,655,446,177 shares at March 31, 2017			
1,655,446,177 shares at March 31, 2016	89,699	89,699	799,528
Capital surplus	22,378	23,475	199,465
Retained earnings	603,908	539,490	5,382,904
Treasury stock, at cost:			
21,284,566 shares at March 31, 2017			
21,206,065 shares at March 31, 2016	(9,004)	(8,953)	(80,257)
Shareholders' equity	706,981	643,711	6,301,640
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	77,388	84,901	689,794
Deferred losses on hedges	(583)	(702)	(5,197)
Land revaluation reserve (Note 17)	4,474	4,472	39,879
Foreign currency translation adjustment	31,537	34,772	281,104
Remeasurements of defined benefit plans	521	(280)	4,644
Total accumulated other comprehensive income	113,337	123,163	1,010,224
Non-controlling interests	342,208	323,902	3,050,254
Total net assets	1,162,526	1,090,776	10,362,118
Total liabilities and net assets	¥2,862,052	¥2,662,150	\$25,510,759

See accompanying notes.

Consolidated Statements of Income

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

	Millions of yen		Thousands of US dollars (Note 1)
	2017	2016	2017
Net sales	¥1,954,283	¥2,101,764	\$17,419,405
Cost of sales	1,285,764	1,404,801	11,460,594
Selling, general and administrative expenses	534,183	532,517	4,761,414
Operating income	134,336	164,446	1,197,397
Other income (expenses):			
Interest and dividend income (Note 20)	8,856	9,321	78,938
Interest expenses	(10,499)	(11,976)	(93,582)
Equity in earnings of affiliates	41,205	20,240	367,279
Net loss on foreign currency transactions	(1,145)	(8,518)	(10,206)
Cost of inactive facilities	(3,385)	(3,209)	(30,172)
Gain on sale of investment securities	27,288	15,831	243,230
Gain on step acquisitions	3,372	—	30,056
Gain on sale of property, plant and equipment	1,035	—	9,225
Impairment loss (Note 11)	(34,271)	(24,688)	(305,473)
Restructuring charges (Note 13)	(18,865)	(4,791)	(168,152)
Other, net	(2,736)	913	(24,387)
Income before income taxes and non-controlling interests	145,191	157,569	1,294,153
Income taxes (Note 14):			
Current	33,795	67,640	301,230
Deferred	(5,657)	(22,469)	(50,423)
Total income taxes	28,138	45,171	250,807
Net income	117,053	112,398	1,043,346
Net income attributable to non-controlling interests	31,571	30,947	281,406
Net income attributable to owners of the parent	¥ 85,482	¥ 81,451	\$ 761,940

	Yen		US dollars (Note 1)
	2017	2016	2017
Net income per share (Note 21)	¥52.31	¥49.84	\$0.466
Diluted net income per share (Note 21)	52.27	49.78	0.466

	Yen		US dollars (Note 1)
	2017	2016	2017
Cash dividends per share (applicable to the year)	¥14.00	¥14.00	\$0.125

See accompanying notes.

Consolidated Statements of Comprehensive Income

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

	Millions of yen		Thousands of US dollars (Note 1)
	2017	2016	2017
Net income	¥117,053	¥112,398	\$1,043,346
Other comprehensive income:			
Valuation difference on available-for-sale securities	(13,867)	(19,852)	(123,603)
Deferred losses on hedges	(145)	(494)	(1,292)
Foreign currency translation adjustment	1,483	(52,613)	13,219
Remeasurements of defined benefit plans	2,825	(19,493)	25,180
Share of other comprehensive income of associates accounted for using equity method	(1,912)	(9,031)	(17,043)
Total other comprehensive income (Note 18)	(11,616)	(101,483)	(103,539)
Comprehensive income	¥105,437	¥ 10,915	\$ 939,807
Comprehensive income attributable to:			
Owners of the parent	¥ 75,745	¥ (4,667)	\$ 675,149
Non-controlling interests	29,692	15,582	264,658

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Sumitomo Chemical 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	Deferred losses on hedges	Land revaluation reserve	Foreign currency translation adjustment	Remeasure- ments of defined benefit plans	Non- controlling interests	Total net assets
Balance at April 1, 2015	1,655,446	¥89,699	¥23,695	¥477,445	¥(8,870)	¥104,841	¥ (97)	¥4,363	¥82,284	¥17,959	¥326,897	¥1,118,216
Net income attributable to owners of the parent				81,451								81,451
Cash dividends at ¥11.00 per share				(17,988)								(17,988)
Decrease due to changes in scope of consolidation and equity method				(3)								(3)
Gain on sale of treasury stock			1									1
Net increase in treasury stock					(83)							(83)
Decrease due to change in fiscal period of consolidated subsidiaries				(1,418)								(1,418)
Other			(221)	3		(19,940)	(605)	109	(47,512)	(18,239)	(2,995)	(89,400)
Balance at April 1, 2016	1,655,446	¥89,699	¥23,475	¥539,490	¥(8,953)	¥ 84,901	¥(702)	¥4,472	¥34,772	¥ (280)	¥323,902	¥1,090,776
Cumulative effects of changes in accounting policies				194		(96)						98
Restated balance at April 1, 2016	1,655,446	89,699	23,475	539,684	(8,953)	84,805	(702)	4,472	34,772	(280)	323,902	1,090,874
Net income attributable to owners of the parent				85,482								85,482
Cash dividends at ¥13.00 per share				(21,258)								(21,258)
Gain on sale of treasury stock			0									0
Net increase in treasury stock					(51)							(51)
Other			(1,097)			(7,417)	119	2	(3,235)	801	18,306	7,479
Balance at March 31, 2017	1,655,446	¥89,699	¥22,378	¥603,908	¥(9,004)	¥ 77,388	¥(583)	¥4,474	¥31,537	¥ 521	¥342,208	¥1,162,526

	Thousands of US dollars (Note 1)										
Balance at April 1, 2016	\$799,528	\$209,243	\$4,808,717	\$(79,802)	\$756,761	\$(6,257)	\$39,861	\$309,939	\$(2,496)	\$2,887,084	\$ 9,722,578
Cumulative effects of changes in accounting policies			1,729		(856)						873
Restated balance at April 1, 2016	799,528	209,243	4,810,446	(79,802)	755,905	(6,257)	39,861	309,939	(2,496)	2,887,084	9,723,451
Net income attributable to owners of the parent			761,940								761,940
Cash dividends at ¥13.00 (US\$0.12) per share			(189,482)								(189,482)
Gain on sale of treasury stock			0								0
Net increase in treasury stock				(455)							(455)
Other		(9,778)			(66,111)	1,060	18	(28,835)	7,140	163,170	66,664
Balance at March 31, 2017	\$799,528	\$199,465	\$5,382,904	\$(80,257)	\$689,794	\$(5,197)	\$39,879	\$281,104	\$4,644	\$3,050,254	\$10,362,118

See accompanying notes.

Consolidated Statements of Cash Flows

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

	Millions of yen		Thousands of US dollars (Note 1)
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥145,191	¥157,569	\$1,294,153
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities—			
Depreciation and amortization	102,137	108,094	910,393
Amortization of goodwill	8,144	8,508	72,591
Impairment loss	34,271	24,688	305,473
Equity in (earnings) losses of affiliates	(5,191)	6,364	(46,270)
Increase in provision	17,153	17,020	152,892
Interest and dividend income	(8,856)	(9,321)	(78,938)
Interest expenses	10,499	11,976	93,582
Gain on sale of investment securities	(27,288)	(15,831)	(243,230)
Gain on step acquisitions	(3,372)	—	(30,056)
Restructuring charges	18,865	4,791	168,152
Gain on sale of property, plant and equipment	(1,035)	—	(9,225)
(Increase) decrease in notes and accounts receivable	(32,164)	24,028	(286,692)
Decrease in inventories	2,449	20,774	21,829
Increase (decrease) in notes and accounts payable	31,197	(35,723)	278,073
Other, net	(19,557)	(14,337)	(174,320)
Subtotal	272,443	308,600	2,428,407
Interest and dividends received	6,853	9,167	61,084
Interest paid	(10,695)	(11,568)	(95,329)
Income taxes paid	(65,088)	(41,227)	(580,159)
Business structure improvement expenses paid	(16,067)	(3,800)	(143,212)
Net cash provided by operating activities	187,446	261,172	1,670,791
Cash flows from investing activities:			
Proceeds from sale and redemption of securities	—	18,499	—
Acquisition of investment securities	(1,330)	(1,290)	(11,855)
Proceeds from sale and redemption of investment securities	35,596	16,752	317,283
Acquisition of property, plant and equipment	(131,755)	(89,765)	(1,174,392)
Proceeds from sale of property, plant and equipment	2,910	1,115	25,938
Purchase of subsidiaries' shares resulting in changes in scope of consolidation (Note 19)	(101,969)	(3,390)	(908,896)
Proceeds from purchase of subsidiaries' shares resulting in changes in scope of consolidation	2,580	—	22,997
Payments for sales of subsidiaries' shares resulting in changes in scope of consolidation	—	(780)	—
Other, net	(5,774)	5,181	(51,465)
Net cash used in investing activities	(199,742)	(53,678)	(1,780,390)
Cash flows from financing activities:			
Net increase (decrease) in short-term debt	76,096	(19,404)	678,278
Proceeds from long-term debt	63,621	19,759	567,083
Repayments of long-term debt	(104,326)	(142,180)	(929,905)
Repayments of finance lease obligations	(1,095)	(992)	(9,760)
Purchase of treasury stock	(51)	(82)	(455)
Purchase of treasury stock of subsidiaries in consolidation	(563)	—	(5,018)
Cash dividends paid	(21,258)	(17,988)	(189,482)
Cash dividends paid to non-controlling interests	(17,538)	(17,898)	(156,324)
Proceeds from share issuance to non-controlling shareholders	1,467	1,447	13,076
Payments from changes in ownership interests in subsidiaries that do not result in changes in scope of consolidation	(4,475)	(618)	(39,888)
Net cash used in financing activities	(8,122)	(177,956)	(72,395)
Effect of exchange rate changes on cash and cash equivalents	(1,885)	(14,252)	(16,803)
Net change in cash and cash equivalents	(22,303)	15,286	(198,797)
Decrease in cash and cash equivalents resulting from change in fiscal period of consolidated subsidiaries	—	(1,691)	—
Cash and cash equivalents at beginning of year	215,592	201,997	1,921,669
Cash and cash equivalents at end of year (Note 19)	¥193,289	¥215,592	\$1,722,872

See accompanying notes.

Notes to Consolidated Financial Statements

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

1 Basis of Financial Statements

(a) The accompanying consolidated financial statements of Sumitomo Chemical Company, Limited ("the Company") and its consolidated subsidiaries 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 generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The accounts of foreign consolidated subsidiaries are prepared in accordance with International Financial Reporting Standards or US generally accepted accounting principles with necessary adjustments for consolidated financial reporting.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in these accompanying consolidated financial statements.

Certain reclassifications have been made in the previous consolidated financial statements to conform to the current presentation.

(b) The translations of Japanese yen amounts into US dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2017, which was ¥112.19 to US\$1.00. 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 US dollars at this or any other rate of exchange.

(c) In these notes, the "Companies" means the Company and its consolidated subsidiaries.

2 Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has control through majority of voting rights or certain other conditions evidencing control by the Company.

The consolidated financial statements include the accounts of the Company and 170 and 160 significant subsidiaries for the years ended March 31, 2017 and 2016, respectively. Investments in non-consolidated subsidiaries and affiliates (generally 20%-50% ownership) over which the Company has the ability to exercise significant influence on operating and financial policies are accounted for by the equity method. The equity method is applied to 37 and 36 significant affiliates for the years ended March 31, 2017 and 2016, respectively. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling shareholders, are evaluated using the fair value at the time the Company acquired

control of the respective subsidiary. All significant intercompany transactions and accounts have been eliminated. Some subsidiaries and affiliates are consolidated with year-ends that differ from that of the Company. However, necessary adjustments have been made if the effect of the differences is material.

(b) Foreign currency translation

Foreign currency monetary assets and liabilities are translated into Japanese yen at the current rate at the end of the year, and the resulting translation gains or losses are included in earnings.

The items of financial statements of foreign subsidiaries and affiliates are translated into Japanese yen at the current rate at the end of the year for all assets and liabilities, and at the average rate during the fiscal year for revenues and expenses.

(c) Securities

The Companies have no trading securities.

Equity securities issued by subsidiaries and affiliates that are not consolidated or accounted for using the equity method are stated at moving-average cost.

Available-for-sale securities whose fair value is readily determinable are stated at fair value as of the end of the year with unrealized gains and losses, net of applicable deferred tax assets/liabilities and non-controlling interests, not reflected in earnings but directly reported as a separate component of net assets. Realized gains and losses on sales of such securities are computed using moving-average cost. Other securities with no available fair market value are stated at moving-average cost.

(d) Derivatives and hedge accounting

The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless the derivative instruments are used for hedging purposes. If the derivative financial instruments meet certain hedging criteria, the Companies defer gains and losses resulting from changes in fair value of the derivative financial instruments until the hedged transactions occur. When a foreign exchange forward contract or foreign currency swap contract meets certain conditions, the hedged item is stated by the forward exchange contract rate. If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contracts is added to or deducted from the interest on the assets or liabilities for which the interest rate swap contracts were executed.

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments	Items hedged
Forward foreign exchange contracts	Foreign currency receivables and payables
Currency swap contracts	Foreign currency bonds and loans
Interest rate swap contracts	Interest on bonds and loans
Commodity forward contracts	Sales and purchase of aluminum

(e) Inventories

Inventories are stated at the lower of weighted-average cost or net realizable value. Certain overseas consolidated subsidiaries use

the FIFO (first-in, first-out) costing method for which inventories are stated at the lower of cost or net realizable value.

(f) Property, plant and equipment

Property, plant and equipment are carried at cost and depreciated by the straight-line method over estimated useful lives. Useful lives are based on Japanese tax laws.

(g) Intangible assets

Goodwill is amortized on the straight-line method within 20 years with the exception of minor amounts that are charged to income in the year of acquisition. Patents, software and other intangible assets are amortized on the straight-line method over the estimated useful lives.

(h) Lease assets

Lease assets under finance lease arrangements that do not transfer the ownership of the leased property to the lessee are capitalized and depreciated to a residual value of zero by the straight-line method using lease period as the useful life.

(i) Research and development

Expenses relating to research and development activities are charged to income as incurred. Research and development expenses were ¥157,599 million (US\$1,404,751 thousand) and ¥155,771 million for the years ended March 31, 2017 and 2016, respectively.

(j) Income taxes

Income taxes comprise corporation tax, prefectural and municipal inhabitant taxes, and enterprise tax.

Deferred taxes are accounted for using the asset and liability method under which deferred tax assets and liabilities are recognized for loss carryforwards and the future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities using enacted tax rates.

The Company and certain consolidated subsidiaries apply the consolidated taxation system.

(k) Retirement benefits

(i) Employees:

The Company and certain consolidated subsidiaries have established the following defined pension plans: a lump-sum benefit plan; a defined benefit corporate pension plan; and a defined contribution pension plan. The defined benefit pension plans of the Company and certain consolidated subsidiaries thereof are funded through outside trusts and cover all eligible employees.

The Company and certain consolidated subsidiaries establish the employee retirement benefit trust.

Certain consolidated subsidiaries use the simplified method for computing their liability for retirement benefits.

Certain consolidated subsidiaries participate in the multiemployer pension plan in which the amount of required contributions is recognized in the same manner as the defined contribution plan.

The Company and certain consolidated subsidiaries provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligations and the fair value of the pension assets.

The unrecognized actuarial differences on pension assets are amortized mainly over three years commencing the year following the current fiscal year.

Other unrecognized actuarial differences are amortized mainly over three years commencing the current fiscal year.

Prior service costs are amortized mainly over three years from the revision date.

(ii) Directors and corporate auditors:

The liability for directors' and corporate auditors' retirement benefits of certain subsidiaries is provided based on the Companies' standards and ¥157 million (US\$1,399 thousand) and ¥144 million were included in the other long-term liabilities on March 31, 2017 and 2016, respectively.

(l) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in amounts sufficient to cover possible losses on collection. Allowance for doubtful accounts consists of the estimated uncollectible amounts with respect to specific items, and the amount calculated using the actual percentage of collection losses in the past with respect to other items.

(m) Reserve for bonuses

To provide for payments for bonuses subsequent to the consolidated year-end date, reserves for bonuses were recorded based on the amounts expected to be paid.

(n) Reserve for sales returns

The reserve for sales returns is provided based on estimated amounts of loss due to sales returns of products and goods. ¥12,287 million (US\$109,520 thousand) and ¥10,287 million were included in "other current liabilities" on March 31, 2017 and 2016, respectively.

(o) Reserve for sales rebates

The reserve for sales rebates mainly related to public programs and contracts with wholesalers is provided based on the amounts expected to be paid subsequent to the consolidated year-end date.

(p) Reserve for periodic repairs

The Company and several consolidated subsidiaries provide for the costs of periodic repairs of production facilities at plants. In the consolidated balance sheets ¥7,161 million (US\$63,829 thousand) and ¥6,778 million were included in "other current liabilities" and "other long-term liabilities" on March 31, 2017 and 2016, respectively.

(q) Reserve for removal cost of property, plant and equipment

The reserve for removal cost of property, plant and equipment is provided based on estimated future removal cost of property, plant and equipment. ¥11,543 million (US\$102,888 thousand) and

¥15,074 million were included in “other current liabilities” and “other long-term liabilities” on March 31, 2017 and 2016, respectively.

(r) Net income per share

Computation of net income per share of common stock shown in the consolidated statements of operations is based on the weighted-average number of shares of common stock outstanding during the period and net income attributable to owners of the parent. The computation of diluted net income per share of common stock is based on the weighted-average number of shares of common stock outstanding increased by the number of shares that would have been outstanding assuming the translation of outstanding share subscription rights at the beginning of the period. Related interest expenses, net of income taxes, have been eliminated for the purposes of this calculation.

(s) Cash and cash equivalents

Cash and cash equivalents include cash on hand, readily available deposits and short-term investments, which are easily convertible into cash and present insignificant risk of changes in value, with original maturities of three months or less.

3 Changes in Accounting Policies

(a) Effective from the year ended March 31, 2017, the Company and its domestic subsidiaries adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, “Guidance No. 26”)) and revised certain accounting for recoverability of deferred tax assets accordingly.

The Company and its domestic subsidiaries followed the provisional treatments in article 49 (4) of Guidance No. 26. The differences between deferred tax assets and liabilities as of April 1, 2016 that were computed in accordance with article 49 (3) and those as of March 31, 2016 were adjusted to retained earnings and other comprehensive income as of April 1, 2016.

The effects on the consolidated financial statements of the year ended March 31, 2017 are immaterial.

(b) Effective from the year ended March 31, 2016, the Company and its domestic subsidiaries adopted “Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013 (hereinafter, “Statement No. 21”)), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013 (hereinafter, “Statement No. 22”)) and “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013 (hereinafter, “Statement No. 7”)) (together, the “Business Combination Accounting Standards”). As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company’s ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition-related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for

the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term “non-controlling interests” is used instead of “minority interests.”

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No. 21, article 44-5 (4) of Statement No. 22 and article 57-4 (4) of Statement No. 7 with application from the beginning of the year ended March 31, 2016 prospectively.

The effects on the consolidated financial statements of the year ended March 31, 2016 are immaterial.

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from financing activities” and cash flows from acquisition-related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from operating activities.”

Information of the effects on segment information and net income per share is omitted because the effects are immaterial.

4 Financial Instruments

(a) Status of financial instruments

The Companies procure funds that are required in light of investment plans and other determining factors through bank loans and corporate bonds issuance in order to carry out business inside and outside Japan, and procure short-term working funds through bank loans and commercial paper issuance.

Temporary surplus funds are to be utilized only for highly safe financial instruments with fixed yields and low probabilities of losses of principal.

Trade notes and accounts receivable are exposed to the credit risks in relation to customers, and in order to reduce such risks, the Company regularly monitors the business condition, the sales turnover, and the balance of receivables of all business counterparties by business sections of each business segment, reviews the dealing policies according to the company regulation for credit management, and aims at the grasp of customers’ credit risks due to deterioration of the financial condition, etc. at the early stage and the reduction of the credit risks. In addition, the Company hedges the exchange rate risks of trade notes and accounts receivable denominated in foreign currencies arisen primarily from exporting by utilizing forward foreign exchange contracts within a certain extent in accordance with the company regulation for management of foreign currency risk.

For securities and investment securities that are mainly shares, the Companies regularly review the fair values or financial positions of the invested companies and revise the portfolio considering the relationship with them.

Among debts, short-term loans payable and commercial paper

are primarily for short-term working capital. Long-term loans payable and corporate bonds are primarily for funding related to capital investment & financing and long-term working capital. Long-term loans payable with floating interest rates are exposed to the rising interest rate risks, which are hedged by interest rate swap contracts used within a certain extent.

The Companies enter into currency swap contracts to hedge exchange rate risk associated with loans denominated in foreign currencies, and commodity forward contracts to manage exposure to fluctuations in the market price of aluminum, in addition to forward foreign exchange contracts and interest rate swap contracts as stated above.

The Companies utilize derivative transactions only for risk

hedging purposes and limit the amounts to actual demand. The Company and certain consolidated subsidiaries establish the company regulation that stipulates the utilization purpose, policy, authorization, and procedures of the derivative transactions and manage the risk arisen from the derivative transactions. Also, the Companies assess effectiveness of the hedge transactions by verifying the hedged items and the corresponding derivatives.

Fair values of financial instruments include the values based on market prices, and the values deemed as market prices assessed by the reasonable estimate when the financial instruments do not have market prices. Since certain assumptions and others are adopted for calculating such values, they may differ when adopting different assumptions and others.

(b) Fair values of financial instruments

Book values and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2017 were as follows.

Certain financial instruments were excluded from the following table as the fair values were not available (see Note 2 below).

	Millions of yen		
	Book value	Fair value	Difference
Cash and cash equivalents	¥ 193,289	¥ 193,289	¥ —
Short-term investments	1,772	1,772	—
Trade notes and accounts receivable	455,239	455,239	—
Securities and investment securities			
Investment in non-consolidated subsidiaries and affiliates	195,611	252,205	56,594
Available-for-sale securities	162,502	162,502	—
Long-term loans* ¹	68,828	68,828	—
Total	¥1,077,241	¥1,133,835	¥56,594
Short-term debt	201,678	201,678	—
Trade notes and accounts payable	243,539	243,539	—
Long-term debt* ¹	673,574	683,360	9,786
Total	¥1,118,791	¥1,128,577	¥ 9,786
Derivative transactions* ²	¥ 129	¥ (4,222)	¥ (4,351)

	Thousands of US dollars		
	Book value	Fair value	Difference
Cash and cash equivalents	\$1,722,872	\$ 1,722,872	\$ —
Short-term investments	15,795	15,795	—
Trade notes and accounts receivable	4,057,750	4,057,750	—
Securities and investment securities			
Investment in non-consolidated subsidiaries and affiliates	1,743,569	2,248,017	504,448
Available-for-sale securities	1,448,453	1,448,453	—
Long-term loans* ¹	613,495	613,495	—
Total	\$9,601,934	\$10,106,382	\$504,448
Short-term debt	1,797,647	1,797,647	—
Trade notes and accounts payable	2,170,773	2,170,773	—
Long-term debt* ¹	6,003,868	6,091,095	87,227
Total	\$9,972,288	\$10,059,515	\$ 87,227
Derivative transactions* ²	\$ 1,150	\$ (37,633)	\$ (38,783)

*1: Long-term loans and long-term debt include those due within one year.

*2: Net receivables/payables arising from derivative transactions are shown and items that are net payables are shown in parentheses.

Book values and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2016 were as follows. Certain financial instruments were excluded from the following table as the fair values were not available (see Note 2 below).

	Millions of yen		
	Book value	Fair value	Difference
Cash and cash equivalents	¥ 215,592	¥ 215,592	¥ —
Short-term investments	2,001	2,001	—
Trade notes and accounts receivable	414,809	414,809	—
Securities and investment securities			
Investment in non-consolidated subsidiaries and affiliates	191,798	195,774	3,976
Available-for-sale securities	191,480	191,480	—
Long-term loans* ¹	70,114	70,114	—
Total	¥1,085,794	¥1,089,770	¥ 3,976
Short-term debt	126,659	126,659	—
Trade notes and accounts payable	205,188	205,188	—
Long-term debt* ¹	704,846	721,525	16,679
Total	¥1,036,693	¥1,053,372	¥16,679
Derivative transactions* ²	¥ 704	¥ (5,349)	¥ (6,053)

*1: Long-term loans and long-term debt include those due within one year.

*2: Net receivables/payables arising from derivative transactions are shown and items that are net payables are shown in parentheses.

(Note 1): Fair values of financial instruments, and matters pertaining to securities and derivative transactions

Assets

Cash and cash equivalents, Short-term investments and Trade notes and accounts receivable

The book values approximate the fair values because of short-term maturities of these instruments.

Securities and investment securities

The market prices and quoted prices were used for shares and bonds except certain short-term deposits, which were recorded at book value. See the notes on "6. Securities."

Long-term loans

The discounted cash flow method was used to estimate fair values, with discount rates calculated as the total of the appropriate baseline rate and the credit risk spread.

Liabilities

Short-term debt, Trade notes and accounts payable

The book values approximate the fair values because of short-term settlement of these instruments.

Long-term debt

The discounted cash flow method was used to estimate fair values of bank loans, with discount rates based on the marginal borrowing rates. Market prices were used for corporate bonds.

Derivative transactions

See the notes on "10. Derivative Transactions and Hedge Accounting."

(Note 2): The financial instruments excluded from the table as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Unlisted equity securities	¥87,180	¥85,032	\$777,075
Preferred securities	446	396	3,975
Other	1,035	615	9,225

These instruments were not included in securities and investment securities as the fair values were not available.

(Note 3): Financial assets subject to redemption at maturities subsequent to March 31, 2017 were as follows:

	Millions of yen			
	Within one year	Over one year, within five years	Over five years, within ten years	Over ten years
Cash and cash equivalents	¥163,094	¥ —	¥—	¥—
Short-term investments	1,772	—	—	—
Trade notes and accounts receivable	448,037	7,202	—	—
Long-term loans *	44	231	18	99
Total	¥612,947	¥7,433	¥18	¥99

	Thousands of US dollars			
	Within one year	Over one year, within five years	Over five years, within ten years	Over ten years
Cash and cash equivalents	\$1,453,730	\$ —	\$ —	\$ —
Short-term investments	15,795	—	—	—
Trade notes and accounts receivable	3,993,555	64,195	—	—
Long-term loans *	393	2,059	160	882
Total	\$5,463,473	\$66,254	\$160	\$882

* A long-term loan of ¥68,436 million (US\$610,000 thousand) to Rabigh Refining and Petrochemical Company (an affiliated company of the Company) was a subordinated loan subject to the terms and conditions stipulated in the project finance agreement concerning "The Rabigh Phase I Project." The loan was not included in the above schedule, because the future cash flows of the said company were uncertain and the repayment schedule could not be determined at the consolidated year-end date.

Financial assets subject to redemption at maturities subsequent to March 31, 2016 were as follows:

	Millions of yen			
	Within one year	Over one year, within five years	Over five years, within ten years	Over ten years
Cash and cash equivalents	¥145,653	¥ —	¥—	¥—
Short-term investments	2,001	—	—	—
Trade notes and accounts receivable	406,913	7,896	—	—
Long-term loans *	7	1,247	27	98
Total	¥554,574	¥9,143	¥27	¥98

* A long-term loan of ¥68,735 million to Rabigh Refining and Petrochemical Company (an affiliated company of the Company) was a subordinated loan subject to the terms and conditions stipulated in the project finance agreement concerning "The Rabigh Phase I Project." The loan was not included in the above schedule, because the future cash flows of the said company were uncertain and the repayment schedule could not be determined at the consolidated year-end date.

(Note 4): See the notes on "8. Short-term Debt and Long-term Debt" for the aggregate annual maturities of long-term debt after the consolidated year-end date.

5 Inventories

Inventories as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Merchandise and finished goods	¥277,550	¥283,037	\$2,473,928
Work in process	17,608	13,229	156,948
Raw materials and supplies	114,222	105,989	1,018,112
Total	¥409,380	¥402,255	\$3,648,988

6 Securities

Securities with available fair values included in securities and investment securities as of March 31, 2017 were as follows:

Available-for-sale securities

(a) Securities with book values exceeding acquisition cost

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥160,682	¥42,724	¥117,958

	Thousands of US dollars		
	Book value	Acquisition cost	Difference
Equity securities	\$1,432,231	\$380,818	\$1,051,413

(b) Securities with book values not exceeding acquisition cost

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥1,820	¥2,013	¥(193)

	Thousands of US dollars		
	Book value	Acquisition cost	Difference
Equity securities	\$16,223	\$17,943	\$(1,720)

Total sales of available-for-sale securities

	Millions of yen		
	Amount of sales	Gain on sales	Loss on sales
Equity securities	¥35,463	¥27,148	¥—
Other securities	—	—	—
Total	¥35,463	¥27,148	¥—

	Thousands of US dollars		
	Amount of sales	Gain on sales	Loss on sales
Equity securities	\$316,098	\$241,982	\$—
Other securities	—	—	—
Total	\$316,098	\$241,982	\$—

Securities with available fair values included in securities and investment securities as of March 31, 2016 were as follows:

Available-for-sale securities

(a) Securities with book values exceeding acquisition cost

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥181,637	¥42,377	¥139,260

(b) Securities with book values not exceeding acquisition cost

	Millions of yen		
	Book value	Acquisition cost	Difference
Equity securities	¥ 9,843	¥11,348	¥(1,505)

Total sales of available-for-sale securities

	Millions of yen		
	Amount of sales	Gain on sales	Loss on sales
Equity securities	¥16,578	¥15,836	¥—
Other securities	51	20	0
Total	¥16,629	¥15,856	¥ 0

7 Investments in Related Companies

Investments in non-consolidated subsidiaries and affiliates included in the consolidated balance sheet as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Investment securities	¥271,530	¥265,690	\$2,420,269
Other (Investments and other assets)	7,574	2,747	67,510
Total	¥279,104	¥268,437	\$2,487,779

8 Short-term Debt and Long-term Debt

Interest rates on short-term bank loans ranged from 0.13% to 4.37% and from 0.07% to 4.14% as of March 31, 2017 and 2016, respectively.

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

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Bank loans	¥201,678	¥102,659	\$1,797,647
Commercial paper	—	24,000	—
Total	¥201,678	¥126,659	\$1,797,647

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

	Millions of yen	Thousands of US dollars
	2017	2017
0.20%-2.10% debentures due through 2036	¥277,500	\$2,473,482
0.20%-5.90% long-term bank loans payable due through 2027	396,074	3,530,386
Subtotal	673,574	6,003,868
Less amounts due within one year	(99,885)	(890,320)
Total	¥573,689	\$5,113,548

	Millions of yen
	2016
0.34%-2.14% debentures due through 2024	¥302,000
0.32%-5.90% long-term bank loans payable due through 2025	402,846
Subtotal	704,846
Less amounts due within one year	(100,576)
Total	¥604,270

Long-term debt with maturities subsequent to March 31, 2017 and 2016 was as follows:

	Millions of yen	Thousands of US dollars
	2017	2017
2018	¥ 99,885	\$ 890,320
2019	126,587	1,128,327
2020	89,633	798,939
2021	88,019	784,553
2022	61,916	551,885
2023 and thereafter	207,534	1,849,844
Total	¥673,574	\$6,003,868

	Millions of yen
	2016
2017	¥100,576
2018	106,127
2019	115,918
2020	87,976
2021	86,775
2022 and thereafter	207,474
Total	¥704,846

As of March 31, 2017 and 2016, assets pledged as collateral for short-term debt, long-term debt and others were as follows:

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Investment securities	¥ 82,696	¥ 86,209	\$737,107
Property, plant and equipment, net of accumulated depreciation	21,884	20,879	195,062
Trade notes and accounts receivable	1,475	8,092	13,147
Cash and cash equivalents	348	386	3,102
Total	¥106,403	¥115,566	\$948,418
Liabilities secured thereby	¥ 9,256	¥ 10,148	\$ 82,503

* ¥82,585 million (US\$736,117 thousand) and ¥86,157 million of investment securities pledged as collateral for affiliates' debt amounted to ¥169,251 million (US\$1,508,610 thousand) and ¥200,965 million are subjected to real guarantee as of March 31, 2017 and 2016, respectively.

9 Leases

Obligations under operating leases as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Due within one year	¥ 4,725	¥ 4,495	\$ 42,116
Due after one year	30,715	31,005	273,777
Total	¥35,440	¥35,500	\$315,893

10 Derivative Transactions and Hedge Accounting

The contract amounts and fair values of derivative transactions as of March 31, 2017 were as follows:

Hedge accounting applied

(a) Currency-related derivative transactions

Main items hedged by foreign exchange forward contracts and currency swap contracts are trade accounts receivable and payable and loans payable, respectively.

Transaction type	Millions of yen		
	Contract amounts, etc.		Fair value
	Total	Due over one year	
Foreign exchange forward contracts			
Sell contracts			
USD	¥ 2,360	¥—	¥ 17
EUR	1,039	—	11
Other	252	—	1
Buy contracts			
USD	10,162	—	(128)
NZD	2,438	—	(6)
Other	5,910	—	58
Currency swap contracts			
Pay USD, receive JPY	924	—	33
Total	¥23,085	¥—	¥ (14)

Transaction type	Thousands of US dollars		
	Contract amounts, etc.		Fair value
	Total	Due over one year	
Foreign exchange forward contracts			
Sell contracts			
USD	\$ 21,036	\$—	\$ 152
EUR	9,261	—	98
Other	2,246	—	9
Buy contracts			
USD	90,578	—	(1,141)
NZD	21,731	—	(53)
Other	52,679	—	516
Currency swap contracts			
Pay USD, receive JPY	8,236	—	294
Total	\$205,767	\$—	\$ (125)

The following foreign exchange forward contracts meet certain conditions and their corresponding hedged items are stated by the forward exchange contract rates. Main items hedged are trade accounts receivable and payable, and their fair values are included in those of their hedged items in the notes of "4. Financial Instruments."

Transaction type	Millions of yen		
	Contract amounts, etc.		Fair value
	Total	Due over one year	
Foreign exchange forward contracts			
Sell contracts			
USD	¥14,329	¥—	¥—
EUR	661	—	—
Other	2,295	—	—
Buy contracts			
USD	5,265	—	—
Other	74	—	—
Total	¥22,624	¥—	¥—

Transaction type	Thousands of US dollars		
	Contract amounts, etc.		Fair value
	Total	Due over one year	
Foreign exchange forward contracts			
Sell contracts			
USD	\$127,721	\$—	\$—
EUR	5,892	—	—
Other	20,456	—	—
Buy contracts			
USD	46,929	—	—
Other	660	—	—
Total	\$201,658	\$—	\$—

(b) Interest-related derivative transactions

Main items hedged by interest rate swap contracts are loans payable.

Transaction type	Millions of yen		
	Contract amounts, etc.		Fair value
	Total	Due over one year	
Interest rate swap contracts			
Pay fixed rate, receive floating rate	¥8,639	¥2,468	¥(12)

Transaction type	Thousands of US dollars		
	Contract amounts, etc.		Fair value
	Total	Due over one year	
Interest rate swap contracts			
Pay fixed rate, receive floating rate	\$77,003	\$21,998	\$(107)

The following interest rate swap contracts are used as hedges and meet certain hedging criteria. The net amount to be paid or received under these interest rate swap contracts is added to or deducted from the interest on the assets or liabilities for which these interest rate swap contracts were executed. Main items hedged are loans payable.

Transaction type	Millions of yen		
	Contract amounts, etc.		Fair value
	Total	Due over one year	
Interest rate swap contracts			
Pay fixed rate, receive floating rate	¥126,160	¥116,100	¥(4,351)

Transaction type	Thousands of US dollars		
	Contract amounts, etc.		Fair value
	Total	Due over one year	
Interest rate swap contracts			
Pay fixed rate, receive floating rate	\$1,124,521	\$1,034,852	\$(38,782)

(c) Commodity-related derivative transactions

Main items hedged are trade accounts receivable and payable arising from sales and purchase transactions of aluminum.

Transaction type	Millions of yen		
	Contract amounts, etc.		Fair value
	Total	Due over one year	
Commodity forward contracts			
Sell contracts			
Metals	¥11,317	¥ 903	¥(1,302)
Buy contracts			
Metals	7,213	371	1,457
Total	¥18,530	¥1,274	¥ 155

Transaction type	Thousands of US dollars		
	Contract amounts, etc.		Fair value
	Total	Due over one year	
Commodity forward contracts			
Sell contracts			
Metals	\$100,873	\$ 8,049	\$(11,605)
Buy contracts			
Metals	64,293	3,307	12,987
Total	\$165,166	\$11,356	\$ 1,382

The contract amounts and fair values of derivative transactions as of March 31, 2016 were as follows:

Hedge accounting is not applied

Currency-related derivative transactions

Transaction type	Millions of yen		
	Contract amounts, etc.		Fair value
	Total	Due over one year	
Foreign exchange forward contracts			
Sell contracts			
USD	¥15,692	¥—	¥201
Buy contracts			
USD	18,010	—	19
SGD	1,235	—	(1)
Total	¥34,937	¥—	¥219

Hedge accounting applied

(a) Currency-related derivative transactions

Main items hedged by foreign exchange forward contracts and currency swap contracts are trade accounts receivable and payable and loans payable, respectively.

Transaction type	Millions of yen		
	Contract amounts, etc.		Fair value
	Total	Due over one year	
Foreign exchange forward contracts			
Sell contracts			
USD	¥ 7,932	¥—	¥149
EUR	936	—	46
Other	313	—	13
Buy contracts			
USD	8,615	—	(116)
NZD	1,911	—	18
Other	5,378	—	144
Currency swap contract			
Pay USD, receive JPY	887	—	58
Total	¥25,972	¥—	¥312

The following foreign exchange forward contracts meet certain conditions and their corresponding hedged items are stated by the forward exchange contract rates. Main items hedged are trade accounts receivable and payable, and their fair values are included in those of their hedged items in the notes of "4. Financial Instruments."

Transaction type	Millions of yen		
	Contract amounts, etc.		Fair value
	Total	Due over one year	
Foreign exchange forward contracts			
Sell contracts			
USD	¥13,004	¥—	¥—
EUR	371	—	—
Other	34	—	—
Buy contracts			
USD	3,767	—	—
Other	484	—	—
Total	¥17,660	¥—	¥—

(b) Interest-related derivative transactions

Main items hedged by interest rate swap contracts are loans payable.

Transaction type	Millions of yen		
	Contract amounts, etc.		Fair value
	Total	Due over one year	
Interest rate swap contracts			
Pay fixed rate, receive floating rate	¥11,944	¥2,479	¥(227)

The following interest rate swap contracts are used as hedges and meet certain hedging criteria. The net amount to be paid or received under these interest rate swap contracts is added to or deducted from the interest on the assets or liabilities for which these interest rate swap contracts were executed. Main items hedged are loans payable.

Transaction type	Millions of yen		
	Contract amounts, etc.		Fair value
	Total	Due over one year	
Interest rate swap contracts			
Pay fixed rate, receive floating rate	¥133,170	¥126,160	¥(6,053)

(c) Commodity-related derivative transactions

Main items hedged are trade accounts receivable and payable arising from sales and purchase transactions of aluminum.

Transaction type	Millions of yen		
	Contract amounts, etc.		Fair value
	Total	Due over one year	
Commodity forward contracts			
Sell contracts			
Metals	¥ 7,067	¥1,437	¥1,130
Buy contracts			
Metals	10,565	2,344	(730)
Total	¥17,632	¥3,781	¥ 400

11 Impairment Loss

The Companies recognized impairment losses on fixed assets for the year ended March 31, 2017. Main assets for which impairment losses were recognized were as follows:

Location	Usage purpose	Type of assets	Millions of yen	Thousands of US dollars
			2017	2017
Ehime, Japan	Optical functional film production facilities	Buildings, structures, machinery and equipment, etc.	¥10,208	\$90,989
Singapore	S-SBR production facilities	Buildings, structures, machinery and equipment, etc.	5,077	45,254
Ehime, Japan	High-purity alumina production facilities, High-purity aluminum production facilities	Buildings, structures, machinery and equipment, etc.	4,360	38,863
Ehime, Japan	Electrolyzers	Buildings, structures, machinery and equipment, etc.	3,379	30,119
Ehime, Japan	Nitric acid, Aniline production facilities	Buildings, structures, machinery and equipment, etc.	2,879	25,662
Korea	High-purity alumina production facilities	Buildings, structures, machinery and equipment, etc.	2,310	20,590

The Companies group business assets based on business segments (of these assets, certain intangible assets are grouped individually based on each asset), and idle assets based on each asset.

The Company and certain consolidated subsidiaries recognized impairment losses on production facilities with decreased profitability due to serious deterioration in the business environment. These were written down to the recoverable amounts. The recoverable amounts of these assets were measured at their value in use, which was calculated by discounting future cash flows with discount rates of 5.6%-14.1%.

The Companies recognized impairment losses on fixed assets for the year ended March 31, 2016. Main assets for which impairment losses were recognized were as follows:

Location	Usage purpose	Type of assets	Millions of yen
			2016
Singapore	S-SBR production facilities	Buildings, structures, machinery and equipment, etc.	¥8,519
Poland	Diesel particulate filter production facilities	Buildings, structures, machinery and equipment, etc.	8,174
Singapore	Methyl methacrylate production facilities	Buildings, structures, machinery and equipment, etc.	5,420

The Companies group business assets based on business segments (of these assets, certain intangible assets are grouped individually based on each asset), and idle assets based on each asset.

The Company and certain consolidated subsidiaries recognized impairment losses on production facilities with decreased profitability due to the revised business plan or serious deterioration in the business environment. These were written down to the recoverable amounts. The recoverable amounts of these assets were measured at their net realizable value or their value in use. The net realizable value was based on the estimated sales value. The value in use was calculated by discounting future cash flows with a discount rate of 6.2%.

12 Retirement Benefits

(a) Defined benefit plans

i) Movement in retirement benefit obligations, except plan applied simplified method

	Millions of yen	Thousands of US dollars
Balance at April 1, 2015	¥288,321	
Service cost	12,060	
Interest cost	3,100	
Actuarial loss	11,282	
Benefits paid	(13,497)	
Prior service costs	161	
Other	(1,466)	
Balance at March 31, 2016	¥299,961	\$2,673,687
Service cost	12,919	115,153
Interest cost	2,275	20,278
Actuarial gain	(1,147)	(10,224)
Benefits paid	(17,559)	(156,511)
Prior service costs	418	3,726
Other	374	3,334
Balance at March 31, 2017	¥297,241	\$2,649,443

ii) Movements in plan assets, except plan applied simplified method

	Millions of yen	Thousands of US dollars
Balance at April 1, 2015	¥327,445	
Expected return on plan assets	4,237	
Actuarial loss	(5,597)	
Contributions paid by the employer	10,533	
Benefits paid	(11,912)	
Other	(1,291)	
Balance at March 31, 2016	¥323,415	\$2,882,744
Expected return on plan assets	3,074	27,400
Actuarial gain	6,004	53,516
Contributions paid by the employer	10,451	93,154
Benefits paid	(14,288)	(127,355)
Other	346	3,084
Balance at March 31, 2017	¥329,002	\$2,932,543

iii) Movements in net defined benefit liability in which the simplified method has been applied

	Millions of yen	Thousands of US dollars
Balance at April 1, 2015	¥5,026	
Retirement benefit costs	1,189	
Benefits paid	(532)	
Contributions paid by the employer	(204)	
Other	(1)	
Balance at March 31, 2016	¥5,478	\$48,828
Retirement benefit costs	870	7,755
Benefits paid	(593)	(5,286)
Contributions paid by the employer	(188)	(1,676)
Other	(120)	(1,069)
Balance at March 31, 2017	¥5,447	\$48,552

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

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Funded retirement benefit obligations	¥278,748	¥279,491	\$2,484,606
Plan assets	(334,326)	(327,543)	(2,979,998)
	(55,578)	(48,052)	(495,392)
Unfunded retirement benefit obligations	29,263	30,076	260,835
Total net defined benefit liability (asset) at March 31, 2017 and 2016	¥ (26,315)	¥ (17,976)	\$ (234,557)
Net defined benefit liability	32,782	35,824	292,201
Net defined benefit asset	(59,097)	(53,800)	(526,758)
Total net defined benefit liability (asset) at March 31, 2017 and 2016	¥ (26,315)	¥ (17,976)	\$ (234,557)

Note: Including the simplified method.

v) Retirement benefit costs

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Service cost	¥12,919	¥12,060	\$115,153
Interest cost	2,275	3,100	20,278
Expected return on retirement benefit plan assets	(3,074)	(4,237)	(27,400)
Amortization of actuarial differences	(1,849)	(8,363)	(16,481)
Amortization of prior service costs	(690)	(2,594)	(6,150)
Total retirement benefit costs on the simplified method	870	1,189	7,755
Other	(178)	156	(1,587)
Total retirement benefit costs for the fiscal years ended March 31, 2017 and 2016	¥10,273	¥ 1,311	\$ 91,568

vi) Remeasurements of defined benefit plans included in other comprehensive income (before deducting the amount of deferred tax assets (liabilities))

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Prior service costs	¥(1,122)	¥ (2,755)	\$(10,001)
Actuarial differences	5,327	(25,002)	47,482
Total for the fiscal years ended March 31, 2017 and 2016	¥ 4,205	¥(27,757)	\$ 37,481

vii) Remeasurements of defined benefit plans included in accumulated other comprehensive income (before deducting the amount of deferred tax assets (liabilities))

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Unrecognized prior service costs	¥ (61)	¥(1,183)	\$ (544)
Unrecognized actuarial differences	(1,566)	3,761	(13,958)
Total balance at March 31, 2017 and 2016	¥(1,627)	¥ 2,578	\$(14,502)

viii) Plan assets

Plan assets comprise:	2017	2016
Bonds	59%	62%
Equity securities	27	25
Cash and cash equivalents	7	7
General account	3	3
Other	4	3
Total	100%	100%

Note: 7% and 7% of the plan assets were contributed to the employee retirement benefit trust as of March 31, 2017 and 2016, respectively.

Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

ix) Actuarial assumptions

The principal actuarial assumptions as of March 31, 2017 and 2016 were as follows:

	2017	2016
Discount rate	Mainly 0.5%	Mainly 0.5%
Long-term expected rate of return	Mainly 0.5%	Mainly 1.0%

In computing retirement benefit obligations, points to be granted in the future on the benefit formula basis are not incorporated and the expected rate of salary increase is omitted.

(b) Defined contribution plans

The amounts of required contributions to the defined contribution plans of the Company and certain consolidated subsidiaries were ¥4,881 million (US\$43,507 thousand) and ¥4,994 million as of March 31, 2017 and 2016, respectively.

Certain information concerning the multi-employer pension plan, which requires contributions recorded as retirement benefit costs was as follows:

i) Accumulated funds for the plan as of March 31, 2016 and 2015

	Millions of yen		Thousands of US dollars
	2016	2015	2016
Plan assets	¥306,491	¥334,668	\$2,731,892
Projected benefit obligation	365,489	381,438	3,257,768
Differences	¥ (58,998)	¥ (46,770)	\$ (525,876)

ii) Ratios of total pension plan accounted for by contributions from the Companies

As of March 31, 2016 1.29%

As of March 31, 2015 1.06%

iii) Supplementary explanation

The difference presented in item i) above is the total of ¥47,872 million (US\$426,705 thousand) in the present value of special contributions and ¥11,126 million (US\$99,171 thousand) in the plan assets shortfall carried forward as of March 31, 2016, and the difference of ¥49,404 million in the present value of special contributions and ¥2,634 million in the general reserve as of March 31, 2015, respectively. The present value of special contributions represents the estimated amount to be amortized over future periods to account for the amount of the past shortfall of plan assets in pension finance, and a certain rate that has been pre-determined under an agreement regarding the welfare pension fund is applied.

Under this plan, the present value of special contributions is amortized using the equal payment method. The remaining years of amortization are 15 years and 0 months and 16 years and 0 months as of March 31, 2016 and 2015, respectively. Special contributions of ¥62 million (US\$553 thousand) and ¥51 million have been accounted for as pension expense on the consolidated financial statements for the years ended March 31, 2016 and 2015, respectively.

As the amount of special contributions is calculated by multiplying the amount of the standard salary at the time of contribution by the pre-determined rate, the ratios under item ii) above do not match the Companies' ratios of actual contributions.

13 Restructuring Charges

Restructuring charges for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Expenses on improving the business structure and organization in subsidiaries	¥10,871	¥ 613	\$ 96,898
Loss on disposal of property, plant and equipment	3,575	3,963	31,866
Loss on business restructuring	2,413	215	21,508
Loss from suspension of research and development	2,006	—	17,880
Total	¥18,865	¥4,791	\$168,152

14 Deferred Taxes

Main components of deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Tax loss carryforwards	¥ 76,733	¥ 62,053	\$ 683,956
Unrealized gain on inventories	28,232	25,273	251,645
Depreciation and amortization	18,618	21,782	165,951
Impairment loss on fixed assets	15,529	7,943	138,417
Net defined benefit liability	14,471	14,736	128,987
Reserve for sales rebates	13,226	17,564	117,889
Accrued bonuses	11,401	8,942	101,622
Prepaid research and development expenses	9,421	9,527	83,974
Inventories	8,049	9,064	71,744
Tax credit for research and development expenses	5,196	3,107	46,314
Reserve for removal cost of property, plant and equipment	3,782	4,253	33,711
Other	22,923	30,883	204,322
Subtotal	227,581	215,127	2,028,532
(Valuation allowance)	(92,442)	(84,999)	(823,977)
Total deferred tax assets	135,139	130,128	1,204,555
Valuation differences due to an application of purchase accounting method	(53,170)	(25,041)	(473,928)
Unrealized gains on investment securities	(35,264)	(41,325)	(314,324)
Net defined benefit asset	(21,086)	(18,350)	(187,949)
Affiliates' undistributed earnings	(8,009)	(8,564)	(71,388)
Revaluation of exchange for assets and liabilities denominated in foreign currencies	—	(2,915)	—
Other	(9,896)	(10,068)	(88,207)
Total deferred tax liabilities	(127,425)	(106,263)	(1,135,796)
Net deferred tax assets	¥ 7,714	¥ 23,865	\$ 68,759

Main items in the reconciliations of the statutory income tax rate to the effective income tax rate for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016
Statutory income tax rate in Japan	30.9%	33.1%
Permanently non-deductible expenses	1.4	1.4
Permanently non-taxable income	(0.1)	(0.3)
Tax credit for research and development expenses	(4.1)	(4.3)
Equity in earnings of affiliates	(9.1)	(4.0)
Affiliates' undistributed earnings	(0.3)	(0.5)
Change in valuation allowance	5.1	(2.8)
Amortization of goodwill	1.5	1.6
Change in income tax rate	0.0	0.9
Other	(5.9)	3.6
Effective income tax rate	19.4%	28.7%

Revisions to the amounts of deferred tax assets and liabilities due to changes in the tax rates of the Japanese Corporation Tax

Since amendments to the Japanese tax regulations were enacted into law on November 18, 2016, the statutory tax rate utilized for the measurement of deferred tax assets and liabilities in the current fiscal year changed from the previous year.

The effects on the consolidated financial statements of the current fiscal year are immaterial.

15 Net Assets

Under the Companies Act, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

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

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

16 Contingent Liabilities

The Companies guaranteed debt of affiliated companies and third parties in the ordinary course of business. Should the guaranteed parties fail to make payments, the Companies would be required to make such payments under those guarantees. Also, the Companies sold certain trade receivables to independent third parties, some of which are with recourse. If the collectability of those receivables with recourse becomes impractical, the Companies are obligated to assume the liabilities.

As of March 31, 2017 and 2016, the Companies were contingently liable as follows:

	Millions of yen		Thousands of US dollars
	2017	2016	2017
As guarantor of project completion	¥281,150	¥229,349	\$2,506,017
As guarantor of indebtedness	75,828	60,651	675,889
Repurchase obligation for the securitization of receivables	2,114	1,843	18,843
Total	¥359,092	¥291,843	\$3,200,749

The Company guaranteed debt of its affiliated company, Rabigh Refining and Petrochemical Company, concerning "The Rabigh Phase II Project" in Saudi Arabia and the amount of the contingent liability was ¥281,150 million (US\$2,506,017 thousand) and 229,349 million on March 31, 2017 and 2016, respectively.

17 Land Revaluation Reserve

Certain affiliates, accounted for by the equity method, revalued land under the Land Revaluation Law and recorded unrealized gains on revaluation, net of tax, as a revaluation reserve directly in net assets. Investments in these affiliates increased in an amount equal to the Companies' equity in their reserves, as presented as land revaluation reserve.

18 Supplementary Comprehensive Income Information

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Valuation difference on available-for-sale securities			
Increase (decrease) during the year	¥ 8,140	¥ (15,398)	\$ 72,555
Reclassification adjustments	(27,914)	(16,959)	(248,810)
Subtotal, before tax	(19,774)	(32,357)	(176,255)
Tax benefit	5,907	12,505	52,652
Subtotal, net of tax	(13,867)	(19,852)	(123,603)
Deferred losses on hedges			
(Decrease) increase during the year	(93)	57	(829)
Reclassification adjustments	70	5	624
Adjustments of acquisition cost of assets	(39)	(526)	(348)
Subtotal, before tax	(62)	(464)	(553)
Tax expense	(83)	(30)	(739)
Subtotal, net of tax	(145)	(494)	(1,292)
Foreign currency translation adjustment			
Increase (decrease) during the year	1,483	(53,558)	13,219
Reclassification adjustments	—	945	—
Subtotal, before tax	1,483	(52,613)	13,219
Tax benefit	—	—	—
Subtotal, net of tax	1,483	(52,613)	13,219
Remeasurements of defined benefit plans			
Increase (decrease) during the year	6,666	(12,774)	59,417
Reclassification adjustments	(2,461)	(14,983)	(21,936)
Subtotal, before tax	4,205	(27,757)	37,481
Tax (expense) benefit	(1,380)	8,264	(12,301)
Subtotal, net of tax	2,825	(19,493)	25,180
Share of other comprehensive income of associates accounted for using equity method			
Decrease during the year	(1,980)	(8,930)	(17,649)
Reclassification adjustments	68	(101)	606
Subtotal, before tax	(1,912)	(9,031)	(17,043)
Total other comprehensive income	¥(11,616)	¥(101,483)	\$ (103,539)

19 Supplementary Cash Flow Information

(a) Cash and cash equivalents

As of March 31, 2017 and 2016, cash and cash equivalents were as follows:

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Cash	¥159,094	¥134,553	\$1,418,077
Cash equivalents	34,195	81,039	304,795
Total	¥193,289	¥215,592	\$1,722,872

(b) Assets and liabilities of newly consolidated subsidiaries through acquisition of shares

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as a result of the acquisition of Cynapsus Therapeutics Inc. (Cynapsus: the present Sunovion CNS Development Canada ULC) and Tolero Pharmaceuticals Inc. (Tolero) and payment for acquisition of Cynapsus and Tolero, net of cash acquired, respectively.

	Millions of yen	Thousands of US dollars
	2017	2017
Current assets	¥ 1,184	\$ 10,554
Non-current assets	129,627	1,155,424
Goodwill	19,840	176,843
Current liabilities	(8,522)	(75,960)
Long-term liabilities	(21,459)	(191,274)
Net assets acquired	120,671	1,075,595
Account payables included in the acquisition price	(35,268)	(314,360)
Cash and cash equivalents of Cynapsus and Tolero	(1,053)	(9,386)
Payment for acquisition of Cynapsus and Tolero, net of cash acquired	¥ 84,348	\$ 751,832

20 Related Party Transactions

Major transactions of the Company with Rabigh Refining and Petrochemical Company (an affiliated company of the Company) for the years ended March 31, 2017 and 2016 were summarized as follows:

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Interest income	¥1,769	¥1,682	\$15,768

The balances of the Company due to or from Rabigh Refining and Petrochemical Company as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Pledged assets	¥169,251	¥200,965	\$1,508,610
Contingent liabilities	352,746	287,715	3,144,184
Long-term loans	68,436	68,735	610,000
Accrued interest receivable	11,840	10,843	105,535

A summary of the total financial information of all affiliates that were the basis for calculating the equity in earnings of affiliates, including that of Rabigh Refining and Petrochemical Company and Petrochemical Corporation of Singapore (Pte.) Ltd., which are significant affiliated companies, for the years ended March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Balance Sheets			
Current assets	¥1,215,057	¥1,044,991	\$10,830,350
Non-current assets	2,131,070	2,063,543	18,995,187
Current liabilities	876,124	723,899	7,809,288
Long-term liabilities	1,460,702	1,427,483	13,019,895
Net assets	1,009,300	957,149	8,996,345

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Statements of Operations			
Net sales	¥2,542,660	¥2,736,125	\$22,663,874
Income before income taxes and non-controlling interests	147,310	80,267	1,313,040
Net income attributable to owners of the parent	116,949	56,148	1,042,419

21 Net Income per Share

A reconciliation of the numerators and denominators of the basic and diluted net income per share computations for the years ended March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Income (Numerator)			
Net income attributable to owners of the parent — basic	¥85,482	¥81,451	\$761,940
Net income attributable to owners of the parent — diluted	85,428	¥81,358	761,458

	Number of shares	
	2017	2016
Shares (Denominator)		
Average shares — basic	1,634,205,664	1,634,294,942
Average shares — diluted	1,634,205,664	1,634,294,942

	Yen		US dollars
	2017	2016	2017
Net income per share			
Basic	¥52.31	¥49.84	\$0.466
Diluted	52.27	49.78	0.466

22 Segment Information

(a) General information on reported segments

The reported segments of the Companies refer to business units for which separate financial information is available and that are reviewed regularly at the Board of Directors meeting in order to determine distribution of management resources and evaluate business results by each reported segment.

The Companies position segments, identified by products and services, which manage operating, sales, and research in an integrated manner. Each business segment proposes comprehensive domestic and overseas strategies with respect to products and services, and operates its business activities.

The Companies consist of five segments identified by products and services, including "Petrochemicals & Plastics," "Energy & Functional Materials," "IT-related Chemicals," "Health & Crop Sciences," and "Pharmaceuticals."

The major products and services of each reported segment are as follows:

Reported Segments	Major Products and Services
Petrochemicals & Plastics	Petrochemical products, inorganic chemicals, raw materials for synthetic fibers, organic chemicals, synthetic resins, methyl methacrylate products, synthetic resin processed products, etc.
Energy & Functional Materials	Alumina products, aluminum, specialty chemicals, additives, dyestuffs, synthetic rubber, engineering plastics, battery materials, etc.
IT-related Chemicals	Optical products, color filters, semiconductor processing materials, compound semiconductor materials, touchscreen panels, etc.
Health & Crop Sciences	Crop protection chemicals, fertilizers, agricultural materials, household and public hygiene insecticides, materials for protection against tropical diseases, feed additives, pharmaceutical chemicals, etc.
Pharmaceuticals	Pharmaceuticals for medical treatment, radiopharmaceuticals, etc.

Change in Business Segment Classification

As of April 1, 2016, battery materials and engineering plastics, which had been included in the IT-related Chemicals Segment, were transferred to the Energy & Functional Materials Segment.

Segment information of the previous fiscal year is based on the segment classification after the change.

(b) Basis of measurement of reported segment profit or loss, segment assets, and other material items

The accounting methods for each reported segment are almost identical to those set forth in the "Significant Accounting Policies." The segment profit or loss for each reported segment is in conformity with the operating income of consolidated statements of income.

Moreover, inter-segment revenues and transfers are based on market prices.

(c) Information on reported segment profit or loss, segment assets, and other material items

Segment information as of and for the fiscal year ended March 31, 2017 was as follows:

	Millions of yen								
	Segment information by product group						Others	Adjustments	Consolidated
	Petrochemicals & Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharmaceuticals	Total			
Year ended March 31, 2017									
Revenue from customers	¥572,017	¥205,934	¥358,426	¥319,271	¥444,189	¥1,899,837	¥ 54,446	¥ —	¥1,954,283
Inter-segment revenues and transfers	8,809	5,480	1,109	4,422	9	19,829	49,708	(69,537)	—
Total sales	580,826	211,414	359,535	323,693	444,198	1,919,666	104,154	(69,537)	1,954,283
Segment profit	¥ 26,604	¥ 7,199	¥ 10,325	¥ 46,154	¥ 55,099	¥ 145,381	¥ 5,705	¥(16,750)	¥ 134,336
Assets	¥696,991	¥231,967	¥337,273	¥483,722	¥856,450	¥2,606,403	¥268,088	¥(12,439)	¥2,862,052
Depreciation and amortization	19,721	10,991	31,720	15,446	15,158	93,036	5,192	3,909	102,137
Amortization of goodwill	402	281	74	1,826	5,560	8,143	1	—	8,144
Investment in affiliates accounted for by the equity method	142,017	27	5,250	25,675	821	173,790	98,441	—	272,231
Expenditure for addition to tangible and intangible assets	27,720	19,063	33,654	23,936	14,927	119,300	4,735	6,080	130,115

	Thousands of US dollars								
	Segment information by product group						Others	Adjustments	Consolidated
	Petrochemicals & Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharmaceuticals	Total			
Year ended March 31, 2017									
Revenue from customers	\$5,098,645	\$1,835,583	\$3,194,812	\$2,845,806	\$3,959,257	\$16,934,103	\$ 485,302	\$ —	\$17,419,405
Inter-segment revenues and transfers	78,519	48,846	9,885	39,415	80	176,745	443,070	(619,815)	—
Total sales	5,177,164	1,884,429	3,204,697	2,885,221	3,959,337	17,110,848	928,372	(619,815)	17,419,405
Segment profit	\$ 237,134	\$ 64,168	\$ 92,031	\$ 411,391	\$ 491,122	\$ 1,295,846	\$ 50,851	\$ (149,300)	\$ 1,197,397
Assets	\$6,212,595	\$2,067,626	\$3,006,266	\$4,311,632	\$7,633,925	\$23,232,044	\$2,389,589	\$ (110,874)	\$25,510,759
Depreciation and amortization	175,782	97,968	282,735	137,677	135,110	829,272	46,278	34,843	910,393
Amortization of goodwill	3,583	2,505	659	16,276	49,559	72,582	9	—	72,591
Investment in affiliates accounted for by the equity method	1,265,861	241	46,796	228,853	7,318	1,549,069	877,449	—	2,426,518
Expenditure for addition to tangible and intangible assets	247,081	169,917	299,973	213,353	133,051	1,063,375	42,205	54,194	1,159,774

Note 1: "Others" represents businesses such as supplying electrical power and steam, providing services for the design, engineering, and construction management of chemical plants, providing transport and warehousing, and conducting materials and environmental analysis, which were not included in reported segments.

Note 2: Amounts in "Adjustments" were as follows.

- ¥(16,750) million (US\$(149,300) thousand) for segment profit in "Adjustments" included inter-segment elimination of ¥(601) million (US\$(5,357) thousand) and corporate expenses of ¥(16,149) million (US\$(143,943) thousand) unallocated to each reported segment. Corporate expenses were mainly R&D expenses for company-wide research, which were not attributed to reported segments.
- Segment assets in "Adjustments" was ¥(12,439) million (US\$(110,874) thousand), which included ¥(158,634) million (US\$(1,413,976) thousand) in eliminations of inter-segment receivables and assets, and ¥146,195 million (US\$1,303,102 thousand) of corporate assets unallocated to each reported segment. Corporate assets mainly consist of cash and deposits, investment securities, deferred tax assets, and the assets related to R&D activities for company-wide research.
- Depreciation and amortization in "Adjustments" was ¥3,909 million (US\$34,843 thousand), mainly related to the assets arising from R&D activities for company-wide research unallocated to each reported segment.
- Expenditure for addition to tangible and intangible assets in "Adjustments" was ¥6,080 million (US\$54,194 thousand), mainly contributed in R&D activities for company-wide research unallocated to each reported segment.

Note 3: Segment profit is adjusted against operating income of consolidated statements of income.

Note 4: Depreciation and expenditure of long-term advanced payments are included in depreciation and amortization, and expenditure for addition to tangible and intangible assets, respectively.

Segment information as of and for the fiscal year ended March 31, 2016 was as follows:

	Millions of yen								
	Segment information by product group						Others	Adjustments	Consolidated
	Petrochemicals & Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharmaceuticals	Total			
Year ended March 31, 2016									
Revenue from customers	¥657,093	¥209,007	¥384,532	¥359,013	¥435,478	¥2,045,123	¥ 56,641	¥ —	¥2,101,764
Inter-segment revenues and transfers	10,581	8,699	1,073	4,918	9	25,280	47,920	(73,200)	—
Total sales	667,674	217,706	385,605	363,931	435,487	2,070,403	104,561	(73,200)	2,101,764
Segment profit	¥ 28,767	¥ 2,809	¥ 19,874	¥ 77,518	¥ 42,686	¥ 171,654	¥ 7,830	¥(15,038)	¥ 164,446
Assets	¥688,186	¥221,447	¥337,069	¥447,357	¥766,357	¥2,460,416	¥254,275	¥(52,541)	¥2,662,150
Depreciation and amortization	21,776	11,765	34,915	14,217	16,258	98,931	5,280	3,883	108,094
Amortization of goodwill	402	15	73	2,037	5,980	8,507	1	—	8,508
Investment in affiliates accounted for by the equity method	145,010	22	458	24,216	772	170,478	91,780	—	262,258
Expenditure for addition to tangible and intangible assets	20,702	20,552	26,737	15,546	13,873	97,410	3,667	2,676	103,753

Note 1: "Others" represents businesses such as supplying electrical power and steam, providing services for the design, engineering, and construction management of chemical plants, providing transport and warehousing, and conducting materials and environmental analysis, which were not included in reported segments.

Note 2: Amounts in "Adjustments" were as follows.

- i) ¥(15,038) million for segment profit in "Adjustments" included inter-segment elimination of ¥555 million and corporate expenses of ¥(15,593) million unallocated to each reported segment. Corporate expenses were mainly R&D expenses for company-wide research, which were not attributed to reported segments.
- ii) Segment assets in "Adjustments" was ¥(52,541) million, which included ¥(196,926) million in eliminations of inter-segment receivables and assets, and ¥144,385 million of corporate assets unallocated to each reported segment. Corporate assets mainly consist of cash and deposits, investment securities, deferred tax assets and the assets related to R&D activities for company-wide research.
- iii) Depreciation and amortization in "Adjustments" was ¥3,883 million, mainly related to the assets arising from R&D activities for company-wide research unallocated to each reported segment.
- iv) Expenditure for addition to tangible and intangible assets in "Adjustments" was ¥2,676 million, mainly contributed in R&D activities for company-wide research unallocated to each reported segment.

Note 3: Segment profit is adjusted against operating income of consolidated statements of income.

Note 4: Depreciation and expenditure of long-term advanced payments are included in depreciation and amortization, and expenditure for addition to tangible and intangible assets, respectively.

Related information

Related information for and as of the fiscal year ended March 31, 2017 was as follows:

(a) Information on geographic areas

i) Revenues

	Millions of yen				
	Japan	China	North America (U.S.)	Other	Total
Year ended March 31, 2017	¥767,571	¥312,469	¥308,445 (299,953)	¥565,798	¥1,954,283

	Thousands of US dollars				
	Japan	China	North America (U.S.)	Other	Total
Year ended March 31, 2017	\$6,841,706	\$2,785,177	\$2,749,309 (2,673,616)	\$5,043,213	\$17,419,405

Note: Revenues are classified by country and region based on customer location.

ii) Tangible fixed assets

	Millions of yen			
	Japan	Korea	Other	Total
Year ended March 31, 2017	¥367,914	¥121,143	¥137,147	¥626,204

	Thousands of US dollars			
	Japan	Korea	Other	Total
Year ended March 31, 2017	\$3,279,383	\$1,079,802	\$1,222,454	\$5,581,639

(b) Information on major customers

No information is shown because no customer accounts for over 10% of the amount of consolidated net sales to external customers.

Related information for and as of the fiscal year ended March 31, 2016 was as follows:

(a) Information on geographic areas

i) Revenues

	Millions of yen				
	Japan	China	North America (U.S.)	Other	Total
Year ended March 31, 2016	¥812,532	¥347,918	¥306,193 (297,103)	¥635,121	¥2,101,764

Note: Revenues are classified by country and region based on customer location.

ii) Tangible fixed assets

	Millions of yen			
	Japan	Korea	Other	Total
Year ended March 31, 2016	¥385,578	¥114,278	¥142,310	¥642,166

(b) Information on major customers

No information is shown because no customer accounts for over 10% of the amount of consolidated net sales to external customers.

Information on impairment loss of fixed assets by reported segments

Information on impairment loss of fixed assets by reported segments for the fiscal year ended March 31, 2017 was as follows:

	Millions of yen							
	Petrochemicals & Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharmaceuticals	Others	Corporate & Elimination	Total
Year ended March 31, 2017								
Impairment loss	¥8,746	¥12,685	¥12,286	¥554	¥—	¥—	¥—	¥34,271

	Thousands of US dollars							
	Petrochemicals & Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharmaceuticals	Others	Corporate & Elimination	Total
Year ended March 31, 2017								
Impairment loss	\$77,957	\$113,067	\$109,511	\$4,938	\$—	\$—	\$—	\$305,473

Information on impairment loss of fixed assets by reported segments for the fiscal year ended March 31, 2016 was as follows:

	Millions of yen							
	Petrochemicals & Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharmaceuticals	Others	Corporate & Elimination	Total
Year ended March 31, 2016								
Impairment loss	¥6,168	¥17,008	¥—	¥846	¥553	¥—	¥113	¥24,688

Note: "Corporate & Elimination" presents the amount of impairment loss related to corporate assets unallocated to each reported segment.

Information on unamortized balance of goodwill by reported segments

Information on unamortized balance of goodwill by reported segments as of the fiscal year ended March 31, 2017 was as follows:

	Millions of yen							
	Petrochemicals & Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharmaceuticals	Others	Corporate & Elimination	Total
Year ended March 31, 2017								
Unamortized balance of goodwill	¥2,243	¥5,008	¥222	¥10,215	¥90,565	¥3	¥—	¥108,256

	Thousands of US dollars							
	Petrochemicals & Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharmaceuticals	Others	Corporate & Elimination	Total
Year ended March 31, 2017								
Unamortized balance of goodwill	\$19,993	\$44,639	\$1,979	\$91,051	\$807,247	\$25	\$—	\$964,934

Information on unamortized balance of goodwill by reported segments as of the fiscal year ended March 31, 2016 was as follows:

	Millions of yen							
	Petrochemicals & Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharmaceuticals	Others	Corporate & Elimination	Total
Year ended March 31, 2016								
Unamortized balance of goodwill	¥501	¥878	¥295	¥4,019	¥76,950	¥4	¥—	¥82,647

23 Business Combination

(a) Acquisition of Cynapsus Therapeutics Inc.

On October 21, 2016, the consolidated subsidiary of the Company, Sunovion Pharmaceuticals Inc., acquired 100% of the shares of Cynapsus Therapeutics Inc. (Cynapsus). This legal form of business combination was acquisition of shares for cash consideration. Due to the Amalgamation on the closing day, Sunovion CNS Development Canada ULC was established in reorganization including Cynapsus.

Sunovion Pharmaceuticals Inc. focuses on the Psychiatry & Neurology area and promotes the atypical antipsychotic agent Latuda® and antiepileptic drug Aptiom®. It is expected that this acquisition will contribute to expanding the Psychiatry & Neurology portfolio, one of its key therapeutic areas, through the acquisition of Cynapsus and their product for Parkinson's disease.

The consolidated financial statements for the year ended March 31, 2017 include the operating results of Sunovion CNS Development Canada ULC from October 21, 2016 to March 31, 2017 (fiscal year-end).

The costs of the acquisition were ¥63,237 million (US\$563,660 thousand). Of this amount, ¥69,686 million (US\$621,143 thousand) was for intangible assets of in-process research and development to be amortized over useful lives. ¥1,255 million (US\$11,186 thousand) was for goodwill with a 20-year amortization period by the straight-line method, which was the difference between the net assets at fair value at the date of acquisition and the acquisition cost.

The allocation of acquisition cost was not completed at the end of the consolidated financial year ended March 31, 2017, and the cost is provisionally recognized based on reasonable information available at that point in time.

Major acquisition-related costs were advisory fees and others, and the total amount was ¥681 million (US\$6,070 thousand).

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

	Millions of yen	Thousands of US dollars
Current Assets	¥ 1,024	\$ 9,127
Non-current Assets	69,774	621,927
Current Liabilities	(8,415)	(75,007)
Long-term Liabilities	(401)	(3,574)

Pro forma information of the Companies' consolidated operating results and net income per share, which would have been recorded if the acquisition of Cynapsus had taken place at the beginning of this fiscal year, is as follows.

	Millions of yen	Thousands of US dollars
Net sales	¥ —	\$ —
Income before income taxes and non-controlling interests	(3,261)	(29,067)
Net income attributable to owners of the parent	(1,637)	(14,591)

	Yen	US dollars
Net income per share	¥ (1.00)	\$ (0.009)

(b) Acquisition of Tolero Pharmaceuticals Inc.

On January 25, 2017, the consolidated subsidiary of the Company, Dainippon Sumitomo Pharma America Holdings, Inc., acquired 100% of the shares of Tolero Pharmaceuticals Inc. (Tolero). This legal form of business combination was acquisition of shares for cash consideration.

Tolero is a biotechnology company in the United States specializing in research and development of therapeutic agents in the areas of oncology and hematological disorders. Tolero possesses excellent drug discovery capabilities for kinase inhibitors and other drug targets, and they are developing six compounds, including cyclin-dependent kinase 9 (CDK9) inhibitor alvocidib, which is under clinical development for hematologic malignancies. It is expected that this acquisition will help to reinforce our oncology pipeline by adding these compounds. In addition, high drug discovery abilities of Tolero will contribute to creating a continuous flow of development compounds going forward to achieve sustainable growth of the Companies.

The consolidated financial statements for the year ended March 31, 2017 include the operating results of Tolero from January 25, 2017 to March 31, 2017 (fiscal year-end).

The costs of the acquisition were ¥57,433 million (US\$511,926 thousand), including fair value of contingent consideration of ¥35,268 million (US\$314,360 thousand). Of this amount, ¥59,843 million (US\$533,408 thousand) was for intangible assets of in-process research and development to be amortized over useful lives. ¥18,585 million (US\$165,656 thousand) was for goodwill with a 20-year amortization period by the straight-line method, which was the difference between the net assets at fair value at the date of acquisition and the acquisition cost.

The allocation of acquisition cost was not completed at the end of the consolidated financial year ended March 31, 2017, and the cost is provisionally recognized based on reasonable information available at that point in time.

Content of the contingent consideration for acquisition set out in the business combination contract and the accounting treatment policy for the current and subsequent consolidated fiscal years:

1. Content of the contingent consideration for acquisition

The contingent consideration for acquisition is in a contract under which an additional payment shall be made upon the achievement of a predetermined milestone.

2. Accounting treatment policy for the relevant and subsequent consolidated fiscal years

The above-mentioned contingent consideration for acquisition has been recognized according to U.S. accounting standards.

Major acquisition-related costs were advisory fees and others, and the total amount was ¥1,066 million (US\$9,502 thousand).

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

	Millions of yen	Thousands of US dollars
Current Assets	¥ 159	\$ 1,417
Non-current Assets	59,852	533,488
Current Liabilities	(106)	(945)
Long-term Liabilities	(21,058)	(187,699)

Pro forma information of the Companies' consolidated operating results and net income per share, which would have been recorded if the acquisition of Tolero had taken place at the beginning of this fiscal year, is as follows.

	Millions of yen	Thousands of US dollars
Net sales	¥ —	\$ —
Income before income taxes and non-controlling interests	(758)	(6,756)
Net income attributable to owners of the parent	(381)	(3,396)

	Yen	US dollars
Net income per share	¥ (0.23)	\$ (0.002)

24 Subsequent Events

Dividend declaration

At the Board of Directors meeting of the Company held on May 16, 2017, year-end cash dividends were resolved as follows:

	Millions of yen	Thousands of US dollars
Cash dividends at ¥7.00 (US\$0.062) per share	¥11,446	\$102,023



Independent Auditor's Report

To the Board of Directors of
Sumitomo Chemical Company, Limited:

We have audited the accompanying consolidated financial statements of Sumitomo Chemical 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.

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 Chemical 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(b) to the consolidated financial statements.

KPMG AZSA LLC

June 21, 2017
Tokyo, Japan

SUMITOMO CHEMICAL