SUMITOMO CHEMICAL

Consolidated Financial Statements

Years ended March 31, 2018 and 2017

Consolidated Statement of Financial Position

Sumitomo Chemical Company, Limited and Consolidated Subsidiaries
March 31, 2018, 2017 and transition date

	Note	Millions of yen			Thousands of US dollars (Note 2)
		March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)	March 31, 2018
Assets					
Current assets:					
Cash and cash equivalents	8	¥ 231,929	¥ 193,295	¥ 215,631	$ 2,183,067
Trade and other receivables	9	530,571	503,509	445,768	4,994,079
Other financial assets	10	6,720	5,652	6,262	63,253
Inventories	11	446,801	397,400	384,041	4,205,582
Other current assets	12	38,797	41,022	26,426	365,183
Total current assets		1,254,818	1,140,878	1,078,128	11,811,164
Non-current assets:					
Property, plant and equipment	13	675,745	644,059	661,763	6,360,552
Goodwill	14	122,849	120,548	82,647	1,156,335
Intangible assets	14	232,629	232,754	103,402	2,189,655
Investments accounted for using the equity method	16	294,370	268,719	256,324	2,770,802
Other financial assets	10	316,888	294,151	320,767	2,982,756
Retirement benefit assets	23	67,693	58,310	53,567	637,171
Deferred tax assets	17	62,146	80,017	93,104	584,959
Other non-current assets	12	41,547	38,757	26,035	391,066
Total non-current assets		1,813,867	1,737,315	1,597,609	17,073,296
Total assets		¥3,068,685	¥2,878,193	¥2,675,737	$28,884,460

See accompanying notes.

	Note	Millions of yen March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)	Thousands of US dollars (Note 2) March 31, 2018
Liabilities and equity					
Liabilities					
Current liabilities:					
Bonds and borrowings	18, 20	¥ 289,190	¥ 310,619	¥ 227,235	$ 2,722,044
Trade and other payables	22	486,832	417,724	374,090	4,582,380
Other financial liabilities	19, 21	52,244	54,129	47,304	491,755
Income taxes payable		28,078	22,956	43,626	264,288
Provisions	24	94,796	84,996	64,475	892,282
Other current liabilities	25	77,810	65,806	69,678	732,398
Total current liabilities		1,028,950	956,230	826,408	9,685,147
Non-current liabilities:					
Bonds and borrowings	18, 20	552,971	573,476	604,270	5,204,923
Other financial liabilities	19, 21	96,655	113,990	86,337	909,780
Retirement benefit liabilities	23	39,871	35,518	41,405	375,292
Provisions	24	24,620	26,604	28,810	231,739
Deferred tax liabilities	17	58,404	45,743	51,629	549,736
Other non-current liabilities	25	15,000	10,729	7,799	141,190
Total non-current liabilities		787,521	806,060	820,250	7,412,660
Total liabilities		1,816,471	1,762,290	1,646,658	17,097,807
Equity					
Share capital	26	89,699	89,699	89,699	844,305
Capital surplus	26	21,688	22,105	23,389	204,142
Retained earnings	26	738,882	623,508	546,542	6,954,838
Treasury shares	26	(8,296)	(8,228)	(8,186)	(78,087)
Other components of equity	26	85,168	85,528	95,494	801,656
Equity attributable to owners of the parent		927,141	812,612	746,938	8,726,854
Non-controlling interests		325,073	303,291	282,141	3,059,799
Total equity		1,252,214	1,115,903	1,029,079	11,786,653
Total liabilities and equity		¥3,068,685	¥2,878,193	¥2,675,737	$28,884,460

See accompanying notes.

Consolidated Statement of Profit or Loss

Sumitomo Chemical Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Note	Millions of yen 2018	Millions of yen 2017	Thousands of US dollars (Note 2) 2018
Sales revenue	6, 28	¥2,190,509	¥1,939,069	$20,618,496
Cost of sales		(1,440,635)	(1,308,824)	(13,560,194)
Gross profit		749,874	630,245	7,058,302
Selling, general and administrative expenses	29	(557,888)	(533,890)	(5,251,205)
Other operating income	30	25,262	14,661	237,783
Other operating expenses	30	(21,644)	(26,787)	(203,727)
Share of profit of investments accounted for using the equity method	16	55,319	42,238	520,698
Operating income		250,923	126,467	2,361,851
Finance income	31	11,542	10,700	108,641
Finance expenses	31	(21,654)	(14,829)	(203,822)
Income before taxes		240,811	122,338	2,266,670
Income tax expenses	17	(62,653)	(13,238)	(589,731)
Net income		178,158	109,100	1,676,939
Net income attributable to:				
Owners of the parent		133,768	76,540	1,259,111
Non-controlling interests		44,390	32,560	417,828
Net income		¥ 178,158	¥ 109,100	$ 1,676,939

	Note	Yen 2018	Yen 2017	US dollars (Note 2) 2018
Earnings per share:	33			
Basic earnings per share		¥81.81	¥46.81	$0.770
Diluted earnings per share		81.77	46.77	0.770

See accompanying notes.

Consolidated Statement of Comprehensive Income

Sumitomo Chemical Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Note	Millions of yen		Thousands of US dollars (Note 2)
		2018	2017	2018
Net income		¥178,158	¥109,100	$1,676,939
Other comprehensive income:				
Items that will not be reclassified to profit or loss				
Remeasurements of financial assets measured at fair value through other comprehensive income	32	18,236	5,619	171,649
Remeasurements of defined benefit plans	23, 32	4,975	7,258	46,828
Share of other comprehensive income of investments accounted for using the equity method	16, 32	455	1,954	4,283
Total items that will not be reclassified to profit or loss		23,666	14,831	222,760
Items that may be subsequently reclassified to profit or loss				
Cash flow hedge	32, 34	2,349	(483)	22,110
Exchange differences on translation of foreign operations	32	(16,907)	1,586	(159,140)
Share of other comprehensive income of investments accounted for using the equity method	16, 32	(2,705)	(4,072)	(25,461)
Total items that may be subsequently reclassified to profit or loss		(17,263)	(2,969)	(162,491)
Other comprehensive income, net of taxes		6,403	11,862	60,269
Total comprehensive income		¥184,561	¥120,962	$1,737,208
Total comprehensive income attributable to:				
Owners of the parent		142,421	88,258	1,340,559
Non-controlling interests		42,140	32,704	396,649
Total comprehensive income		¥184,561	¥120,962	$1,737,208

See accompanying notes.

Consolidated Statement of Changes in Equity

Sumitomo Chemical Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

		Millions of yen											
		Equity attributable to owners of the parent											
						Other components of equity							
	Notes	Share capital	Capital surplus	Retained earnings	Treasury shares	Remeasurements of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Cash flow hedges	Exchange differences on translation of foreign operations	Total	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance as at April 1, 2016		¥89,699	¥23,389	¥546,542	¥(8,186)	¥100,245	¥ —	¥(4,751)	¥ —	¥95,494	¥746,938	¥282,141	¥1,029,079
Net income		—	—	76,540	—	—	—	—	—	—	76,540	32,560	109,100
Other comprehensive income	32	—	—	—	—	9,720	4,703	(173)	(2,532)	11,718	11,718	144	11,862
Total comprehensive income		—	—	76,540	—	9,720	4,703	(173)	(2,532)	11,718	88,258	32,704	120,962
Purchase of treasury shares	26	—	—	—	(43)	—	—	—	—	—	(43)	—	(43)
Disposal of treasury shares	26	—	0	—	1	—	—	—	—	—	1	—	1
Dividends	27	—	—	(21,258)	—	—	—	—	—	—	(21,258)	(16,880)	(38,138)
Changes in interest in subsidiaries		—	(1,284)	—	—	—	—	—	—	—	(1,284)	(2,409)	(3,693)
Transfer from other components of equity to retained earnings		—	—	21,684	—	(16,981)	(4,703)	—	—	(21,684)	—	—	—
Others, net		—	—	—	—	—	—	—	—	—	—	7,735	7,735
Total transactions with owners		—	(1,284)	426	(42)	(16,981)	(4,703)	—	—	(21,684)	(22,584)	(11,554)	(34,138)
Balance as at March 31, 2017		¥89,699	¥22,105	¥623,508	¥(8,228)	¥92,984	¥ —	¥(4,924)	¥ (2,532)	¥85,528	¥812,612	¥303,291	¥1,115,903
Balance as at April 1, 2017		¥89,699	¥22,105	¥623,508	¥(8,228)	¥92,984	¥ —	¥(4,924)	¥ (2,532)	¥85,528	¥812,612	¥303,291	¥1,115,903
Net income		—	—	133,768	—	—	—	—	—	—	133,768	44,390	178,158
Other comprehensive income	32	—	—	—	—	13,673	6,390	2,072	(13,482)	8,653	8,653	(2,250)	6,403
Total comprehensive income		—	—	133,768	—	13,673	6,390	2,072	(13,482)	8,653	142,421	42,140	184,561
Purchase of treasury shares	26	—	—	—	(68)	—	—	—	—	—	(68)	—	(68)
Disposal of treasury shares	26	—	0	—	0	—	—	—	—	—	0	—	0
Dividends	27	—	—	(27,797)	—	—	—	—	—	—	(27,797)	(15,569)	(43,366)
Changes in interest in subsidiaries		—	(417)	—	—	—	—	—	—	—	(417)	(4,789)	(5,206)
Transfer from other components of equity to retained earnings		—	—	9,034	—	(2,644)	(6,390)	—	—	(9,034)	—	—	—
Others, net		—	—	369	—	21	—	—	—	21	390	—	390
Total transactions with owners		—	(417)	(18,394)	(68)	(2,623)	(6,390)	—	—	(9,013)	(27,892)	(20,358)	(48,250)
Balance as at March 31, 2018		¥89,699	¥21,688	¥738,882	¥(8,296)	¥104,034	¥ —	¥(2,852)	¥(16,014)	¥85,168	¥927,141	¥325,073	¥1,252,214
		Thousands of US dollars (Note 2)											
Balance as at April 1, 2017		$844,305	$208,067	$5,868,863	$(77,447)	$875,226	$ —	$(46,348)	$(23,833)	$805,045	$7,648,833	$2,854,772	$10,503,605
Net income		—	—	1,259,111	—	—	—	—	—	—	1,259,111	417,828	1,676,939
Other comprehensive income	32	—	—	—	—	128,699	60,147	19,503	(126,901)	81,448	81,448	(21,179)	60,269
Total comprehensive income		—	—	1,259,111	—	128,699	60,147	19,503	(126,901)	81,448	1,340,559	396,649	1,737,208
Purchase of treasury shares	26	—	—	—	(640)	—	—	—	—	—	(640)	—	(640)
Disposal of treasury shares	26	—	0	—	0	—	—	—	—	—	0	—	0
Dividends	27	—	—	(261,643)	—	—	—	—	—	—	(261,643)	(146,546)	(408,189)
Changes in interest in subsidiaries		—	(3,925)	—	—	—	—	—	—	—	(3,925)	(45,076)	(49,001)
Transfer from other components of equity to retained earnings		—	—	85,034	—	(24,887)	(60,147)	—	—	(85,034)	—	—	—
Others, net		—	—	3,473	—	197	—	—	—	197	3,670	—	3,670
Total transactions with owners		—	(3,925)	(173,136)	(640)	(24,690)	(60,147)	—	—	(84,837)	(262,538)	(191,622)	(454,160)
Balance as at March 31, 2018		$844,305	$204,142	$6,954,838	$(78,087)	$979,235	$ —	$(26,845)	$(150,734)	$801,656	$8,726,854	$3,059,799	$11,786,653

See accompanying notes.

Consolidated Statement of Cash Flows

Sumitomo Chemical Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

		Millions of yen		Thousands of US dollars (Note 2)
	Note	2018	2017	2018
Cash flows from operating activities:				
Income before taxes		¥240,811	¥122,338	$2,266,670
Depreciation and amortization		107,103	110,308	1,008,123
Impairment loss	15	12,378	36,525	116,510
Reversal of impairment loss	15	(3,477)	—	(32,728)
Share of profit of investments accounted for using the equity method		(55,319)	(42,238)	(520,698)
Interest and dividend income		(10,101)	(8,967)	(95,077)
Interest expenses		10,646	11,145	100,207
Business structure improvement expenses		14,210	18,186	133,754
Changes in fair value of contingent consideration		(8,383)	6,507	(78,906)
Gain on sale of property, plant and equipment		(6,801)	(1,035)	(64,015)
Gain on step acquisitions		—	(2,840)	—
Increase in trade receivables		(24,617)	(43,452)	(231,711)
Increase in inventories		(55,626)	(3,292)	(523,588)
Increase in trade payables		73,607	31,665	692,837
Increase in provisions		10,514	17,232	98,965
Others, net		(7,170)	(17,592)	(67,491)
Subtotal		297,775	234,490	2,802,852
Interest and dividends received		41,742	42,978	392,903
Interest paid		(10,534)	(11,322)	(99,153)
Income taxes paid		(28,747)	(64,303)	(270,585)
Business structure improvement expenses paid		(6,986)	(16,067)	(65,757)
Net cash provided by operating activities		293,250	185,776	2,760,260
Cash flows from investing activities:				
Purchase of property, plant and equipment, and intangible assets		(149,207)	(137,989)	(1,404,433)
Proceeds from sale of property, plant and equipment, and intangible assets		10,200	3,424	96,009
Purchase of investments in subsidiaries	7	(13,236)	(99,388)	(124,586)
Purchase of other financial assets		(14,276)	(7,451)	(134,375)
Proceeds from sales and redemption of other financial assets		6,092	35,596	57,342
Others, net		5,907	111	55,600
Net cash used in investing activities		(154,520)	(205,697)	(1,454,443)
Cash flows from financing activities:				
Net (decrease) increase in short-term borrowings	20	(82,586)	109,154	(777,353)
Net increase (decrease) of commercial paper	20	34,000	(24,000)	320,030
Proceeds from long-term borrowings	20	81,690	33,557	768,919
Repayments of long-term borrowings	20	(58,984)	(49,326)	(555,196)
Proceeds from issuance of bonds	20	39,790	29,837	374,529
Redemption of bonds	20	(55,000)	(55,000)	(517,696)
Repayments of lease obligations	20	(3,281)	(2,995)	(30,883)
Cash dividends paid	27	(27,797)	(21,258)	(261,643)
Cash dividends paid to non-controlling interests		(15,569)	(16,880)	(146,546)
Payments for acquisition of subsidiaries' interests from non-controlling interests		(6,588)	(4,475)	(62,011)
Others, net		61	863	576
Net cash used in financing activities		(94,264)	(523)	(887,274)
Effect of exchange rate changes on cash and cash equivalents		(5,832)	(1,892)	(54,895)
Net increase (decrease) in cash and cash equivalents		38,634	(22,336)	363,648
Cash and cash equivalents at beginning of year	8	193,295	215,631	1,819,419
Cash and cash equivalents at end of year	8	¥231,929	¥193,295	$2,183,067

See accompanying notes.

Notes to Consolidated Financial Statements

Sumitomo Chemical Company, Limited and Consolidated Subsidiaries
For the Years ended March 31, 2018 and 2017

1 Reporting Entity

Sumitomo Chemical Company, Limited (the "Company") is a company domiciled in Japan. The address of the Company's registered Head Office and main places of business are presented on the Company's website (URL http://www.sumitomo-chem.co.jp/).

The consolidated financial statements of the Company and its subsidiaries (thereinafter the "Group") have a closing date as of March 31 and comprise the financial statements of the Group and the interests in associates and jointly controlled entities of the Group.

The Group is primarily involved in the manufacturing and sale of "Petrochemicals & Plastics," "Energy & Functional Materials," "IT-related Chemicals," "Health & Crop Sciences" and "Pharmaceuticals." Details of these businesses are presented in Note 6 Segment Information.

2 Basis of Preparation

(1) Compliance with IFRS and matters concerning its First-Time Adoption

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. The provision of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements applies, as the Company meets the requirements for a "Specified Company applying Designated International Financial Reporting Standards" prescribed in Article 1-2 of said ordinance.

The Group's consolidated financial statements were approved for issue (IAS10) on June 21, 2018 by Masakazu Tokura, Representative Director & President.

The Group adopted IFRS from the fiscal year ended March 31, 2018. The date of transition to IFRS (the "transition date") was April 1, 2016. The effects of the transition to IFRS on the Group's financial position, results of operations, and cash flows on the transition date and comparative periods are presented in Note 40 First-time Adoption of IFRS.

(2) Basis of Measurement

The Group's consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments measured at fair value presented in Note 3 Significant Accounting Policies.

(3) Functional Currency and Presentation Currency

The Group's consolidated financial statements are presented in Japanese yen, which is the Company's functional currency, rounded to the nearest million yen.

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, 2018, which was ¥106.24 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.

(4) Early Application of the New Standard

The Group has early adopted IFRS 9 Financial Instruments (revised in July 2014).

3 Significant Accounting Policies

(1) Basis of Consolidation

① Subsidiaries

Subsidiaries are entities controlled by the Group. The Group has control over an entity if it has exposure or rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Accordingly, even in cases where the Group does not own the majority of voting rights of an entity, if the Group is deemed to effectively control its decision-making body, the entity is treated as a subsidiary.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which it is lost.

Subsidiaries' financial statements are adjusted, if necessary, when their accounting policies differ from those of the Group. All intergroup balances, transactions, income and expenses and unrealized gains and losses arising from intergroup transactions are eliminated in preparing the consolidated financial statements.

A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Differences between adjusted non-controlling interest amounts and fair value of the considerations are recognized directly as equity attribute to owners of the parent. In the event of a loss of control, any gain or loss arising from a loss of control is recognized in profit or loss.

In the case when the closing date of subsidiary is different from that of the Group, financial statements that are prepared provisionally as of the consolidated closing date are used for such subsidiaries.

② Associates and Joint Arrangements

Associates are those entities in which the Group has significant influence over the financial and operating policies but does not have control or joint control. The Group is presumed to have significant influence over another when it holds at least 20% of the voting rights of that entity.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Investments in joint arrangements are classified as Joint operations or Joint ventures depending on the rights and obligations of the parties to the arrangement. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in associates and equity interests in joint ventures are initially recognized at acquisition cost, and subsequently accounted for using the equity method. Investments in associates and joint ventures include goodwill identified on acquisition.

If the Group holds an interest in a joint operation, the Group recognizes its share of the assets, liabilities, revenues and expenses generated of joint operation.

Financial statements of associates, joint ventures and joint operations are adjusted, if necessary, when their accounting policies differ from those of the Group.

When it is impracticable to unify the closing date of associates, joint ventures and joint operations due to certain reasons such as relationships with other shareholders, significant transactions or events between the closing date of the Group and that of the said entities' financial statements are reflected in the consolidated financial statements.

(2) Business Combinations

The Group uses the acquisition method to account for business combinations. The consideration of acquisition is measured as the aggregate of the acquisition-date fair value of the assets transferred, liabilities assumed and equity securities issued by the Group in exchange for control of the acquiree.

Identifiable assets and liabilities of the acquiree, excluding the following items, are measured at their acquisition-date fair values.

- Deferred tax assets/liabilities, and assets/liabilities related to employee benefits;
- Share-based payment contracts of the acquiree; and
- Non-current assets and disposal groups classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Goodwill is recognized as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree; over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. Conversely, any shortfall is immediately recognized as gain in profit or loss.

Non-controlling interests are initially measured either at fair value or at proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Acquisition-related costs associated with business combinations, such as advisory fees, attorney fees and due diligence costs, are expensed as incurred.

If the initial accounting for business combination is incomplete by the reporting date in which the business combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts recognized at the acquisition date are retrospectively adjusted if new information obtained within one year from the acquisition date ("measurement period") would have affected the measurement of the amounts recognized on the acquisition date.

If a business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value, and recognizes the resulting gain or loss, if any, in profit or loss or other comprehensive income.

Some changes in the fair value of contingent consideration after the acquisition are adjusted against the recognized consideration if it is regarded as the above-mentioned measurement period adjustment; otherwise, it will be recognized as a change in fair value in profit or loss.

Additional acquisition of non-controlling interests is accounted for as an equity transaction, and therefore goodwill is not recognized with respect to such a transaction.

(3) Foreign Currency Translations

① Foreign Currency Transactions

Foreign currency transactions are translated into the respective functional currencies at the spot exchange rate at the date of transactions.

Foreign currency monetary assets and liabilities at the reporting date are translated into the functional currency using the exchange rate at the reporting date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the spot exchange rate at the date of transactions.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency using the exchange rate at the date when the fair value is determined.

Exchange differences arising from translations and settlements are recognized in the profit or loss. However, exchange differences arising from equity instruments measured at fair value through other comprehensive income and cash flow hedges to the extent that the hedge is effective are recognized in other comprehensive income.

② Financial Statements of Foreign Operations

Assets and liabilities of foreign operations are translated into Japanese yen at the spot exchange rate at the reporting date. Income and expenses are translated into Japanese yen at the average exchange rate, except that the exchange rate fluctuates significantly.

Exchange differences arising from translation of financial statements of the foreign operations are recognized in other comprehensive income.

In the case of disposal of foreign operations, the cumulative amount of the exchange differences related to that foreign operation, which is recognized in other comprehensive income and accumulated in equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized.

(4) Financial Instruments

① Non-derivative Financial Assets

(i) Initial Recognition and Measurement

The Group initially recognizes trade receivables and other receivables at the date of occurrence. All other financial assets are recognized initially on the transaction date on which the Group becomes a party to the contractual provisions of the instrument.

The Group classifies its financial assets as follows upon initial recognition:

(a) Financial Assets Measured at Amortized Cost

A financial asset is classified as financial asset measured at amortized cost if the both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- Contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

(b) Financial Assets Measured at Fair Value through Other Comprehensive Income (financial assets measured at FVTOCI)

- Debt instruments Measured at Fair Value through Other Comprehensive Income

  A debt instrument meeting both of the following conditions is classified as financial asset measured at fair value through other comprehensive income.

  a. The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets
  b. The contractual terms of financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Equity Instruments Measured at Fair Value through Other Comprehensive Income

  For certain equity instruments held primarily for the purpose of maintaining or strengthening the business relationships with investees, the Group elects these instruments as fair value through other comprehensive income at initial recognition.

(c) Financial Assets Measured at Fair Value through Profit or Loss (financial assets measured at FVTPL)

Financial assets designated as measured at fair value through profit or loss and other than financial assets mentioned in (a) and (b), are classified as financial assets measured at fair value through profit or loss.

Except for financial assets measured at fair value through profit or loss, financial assets are initially measured at fair value plus transaction costs.

(ii) Subsequent Measurement

After initial recognition, financial assets are measured based on the following classifications:

(a) Financial Assets Measured at Amortized Cost

These financial assets are measured at amortized cost using the effective interest method. Interest income from these financial assets measured at amortized cost is included in finance income in the consolidated statement of profit or loss.

(b) Financial Assets Measured at Fair Value through Other Comprehensive Income

Financial assets measured at fair value through other comprehensive income are measured at fair value, and subsequent changes in fair value are recognized in other comprehensive income.

However, dividends from the equity instruments that are designated as measured at fair value through other comprehensive income are recognized in profit or loss when the Group's right to receive payment of the dividend is established. Also, accumulated other comprehensive income in 'Other components of equity' is transferred to retained earnings when the fair value of financial assets declines significantly or when financial assets are derecognized.

Interests accrued on debt instruments are recognized in finance income in the consolidated statement of profit or loss. Also, accumulated other comprehensive income in 'Other components of equity' is transferred to profit or loss as reclassification adjustments when such instruments are derecognized.

(c) Financial Assets Measured at Fair Value through Profit or Loss

Financial assets measured at fair value through profit or loss are measured at fair value, and subsequent changes in fair value are recognized in profit or loss.

(iii) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when the Group transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

(iv) Impairment

At each reporting date, the Group assesses whether the credit risk on a financial asset measured at amortized cost, a debt instrument measured at fair value through other comprehensive income or a financial guarantee contract has increased significantly since the initial recognition.

The Group measures allowance for doubtful accounts for financial assets at an amount equal to the lifetime expected credit losses if the credit risk on those financial assets has increased significantly since initial recognition. If the credit risk on the financial assets has not significantly increased since the initial recognition, the Group measures allowance for doubtful accounts for financial assets at an amount equal to 12-month expected credit losses. However, the Group always measures allowance for doubtful accounts at an amount equal to lifetime expected credit loss for trade receivables without a significant financial component. When determining whether the credit risk of the financial asset has significantly increased since initial recognition, the Group evaluates by comparing the risk of a default occurring on the financial assets at each reporting date with the risk of a default occurring on the financial assets at the date of initial recognition. The Group considers reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that is available, without excessive cost or effort. The following is this information.

(a) Internal credit rating
(b) External credit rating (if available)
(c) Actual or expected significant change in the results of the borrower's performance
(d) Actual or anticipated significant adverse change in the regulatory environment, economic environment or technological environment that causes a significant change in the borrower's ability to fulfill its obligation
(e) Significant increase in credit risk of the other financial instruments of the same borrower
(f) Significant change in the value of collateral underlying debt, third-party guarantee or credit enhancement

The Group measures a credit loss using the difference between the discounted present value of the contractual amount receivable and the estimated amount receivable, and recognized it in profit and loss.

② Non-derivative Financial Liabilities

(i) Initial Recognition and Measurement

The Group initially recognizes financial liabilities when the Group becomes a contractual party. Financial liabilities, excluding the following items, are classified as financial liabilities measured at amortized cost at the initial recognition.

(a) Financial liabilities measured at fair value through profit or loss (financial liabilities measured at FVTPL)
(b) Financial guarantee contracts
(c) Contingent consideration associated with business combination

All financial liabilities are initially measured at fair value. Financial liabilities measured at amortized cost are measured at fair value after deducting transaction costs that are directly attributable to the financial liabilities.

(ii) Subsequent Measurement

After initial recognition, financial liabilities are measured based on the following classifications:

(a) Financial Liabilities Measured at Fair Value through Profit or Loss

These financial liabilities are measured at fair value and subsequent changes in fair value are recognized in profit or loss.

(b) Financial guarantee contracts

Financial guarantee contracts are measured at the higher of the following.

- The amount of allowance for doubtful accounts calculated based on the above (iv) Impairment
- The amount initially recognized less accumulated amortization

(c) Contingent consideration associated with business combination

Contingent consideration associated with business combination is measured at fair value and its fair value changes are recognized in profit or loss.

(d) Financial Liabilities Measured at Amortized Cost

These financial liabilities are measured at amortized cost using the effective interest method. Interest expenses from these financial liabilities measured at amortized cost are included in finance expenses in the consolidated statement of profit or loss.

(iii) Derecognition

The Group derecognizes financial liabilities when they are extinguished; i.e., when the obligation specified in the contract is discharged, cancelled, or expires.

③ Derivative Financial Instruments and Hedge Accounting

The Group uses derivatives such as foreign exchange forward contracts, interest rate swaps contracts and commodity futures contracts to hedge foreign exchange fluctuation risk, interest rate fluctuation risk and commodity price fluctuation risk, respectively. For certain forward sales transactions, the Group made an irrevocable designation as financial instruments to be measured at fair value through profit or loss at the inception of contracts only when it removes or significantly reduces accounting mismatch. They are included in financial instruments as derivatives. These derivatives are initially measured at the fair value when contracts are entered into and are subsequently remeasured at fair value.

Changes in the fair value of derivatives are recognized in profit or loss. However, gains or losses on cash flow hedges to the extent that the hedges are effective are recognized in other comprehensive income.

At the inception of the hedge, the Group formally designates and documents hedging relationships to which hedge accounting applies and the risk management objectives and strategies for undertaking the hedges. The documentation includes identifying hedging instruments, the hedged items or transaction, the nature of the risk being hedged, and how the effectiveness of hedging instruments is assessed in offsetting the exposures to the changes in fair value or cash flows of hedged items attributable to hedged risks. The Group evaluates whether a derivative used to hedge a transaction is effective to offset the change in the fair value or the cash flow of a hedged item at the inception of the hedge and on an ongoing basis.

(i) Fair Value Hedges

Changes in the fair value of hedging instruments are recognized in profit or loss. Changes in the fair value of hedged items attributable to the hedged risks adjust carrying amounts of hedged items and are recognized in profit or loss.

(ii) Cash Flow Hedges

The effective portion of gains or losses on hedging instruments is recognized in other comprehensive income as cash flow hedges and the ineffective portion is recognized in profit or loss.

After that, accumulated gains and losses recognized in other comprehensive income are reclassified to profit or loss as reclassification adjustments in the same period when cash flows arising from the hedged item affect profit or loss. When the hedged items result in recognition of a non-financial asset, the accumulated gains and losses through other comprehensive income are reclassified and included directly in the initial cost of the non-financial asset.

Hedge accounting is discontinued when a forecast transaction is not highly probable to occur. Furthermore, if a forecast transaction is no longer expected to occur, the accumulated amount recognized in other comprehensive income is transferred immediately to profit or loss.

(5) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term investments that are readily convertible to cash and are subjected to insignificant risks of changes in value, and whose maturities are three months or less from the date of acquisition.

(6) Inventories

Inventories are measured at the lower of acquisition cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated cost necessary to make a sale. Costs of inventories are mainly calculated by the periodic average method and comprise purchase costs, processing costs, and all other costs incurred in bringing the inventories to their present location and condition.

(7) Property, Plant and Equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

The acquisition cost includes direct costs of acquisition, estimated costs of dismantlement, land removal and restoration, and borrowing costs to be capitalized.

Depreciation of assets other than land and construction in progress is calculated on a straight-line method over the estimated useful lives of the assets.

The estimated useful lives of major asset classes are as follows:

- Buildings and structures 5-60 years
- Machinery, equipment and vehicles 4-12 years

Estimated useful lives, residual values and depreciation method are reviewed at each fiscal year-end, and any revisions are applied prospectively as changes in accounting estimate.

(8) Goodwill and Intangible Assets

1 Goodwill

Goodwill arising on the acquisition of business is recognized and initially measured as stated in (2) Business Combinations. Goodwill is not amortized and is tested for impairment annually and whenever there is an indication that it may be impaired.

Impairment loss on goodwill is recognized in profit or loss and is not reversed in subsequent periods.

Goodwill is presented in the consolidated statement of financial position at the amount calculated by deducting accumulated impairment loss from acquisition cost.

As for investee accounted for by using the equity method, goodwill is included in the carrying amount of the investment.

2 Intangible Assets

Intangible assets are measured at acquisition cost less accumulated amortization and accumulated impairment losses.

Separately acquired intangible assets are initially recognized at acquisition cost. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Research expenditures of an internal project are recognized as expenses when they are incurred. Development expenditures of an internal project that satisfy all the recognition criteria are recognized as intangible assets.

Intangible assets are amortized on a straight-line basis over their useful lives. Intangible assets recorded as in-process research and development that are not yet available for use are not amortized, and are tested for impairment at the end of each reporting period or whenever there is an indication of impairment. In case of in-process research and development, they are reclassified to patent, marketing rights, or other related accounts when marketing approval from regulatory authorities is obtained and are amortized when they become available for use. Estimated useful lives of major categories of assets are as follows;

- Patent 3-15 years
- Software 3-10 years

Estimated useful lives, residual values and amortization method are reviewed at each fiscal year-end, and any revisions are applied prospectively as changes in accounting estimate.

(9) Leases

The Group classifies a lease that transfers substantially all the risks and rewards incidental to ownership of an asset as a finance lease and a lease other than a finance lease as an operating lease, based on conditions of each contract.

Leased assets and lease obligations in finance lease transactions are initially recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments, determined at the inception of the lease. Leased assets are depreciated after initial recognition on a straight-line basis over the shorter of their estimated useful lives or lease term.

Lease payments are apportioned between the finance expense and repayment of lease obligations, and the finance expense is recognized in the consolidated statement of profit or loss.

Lease payments under operating leases are recognized as an expense in the consolidated statement of profit or loss on the straight-line basis over the lease term.

(10) Impairment of Non-Financial Assets

The Group assesses whether there is any indication that a non-financial asset may be impaired at the end of each reporting date. If there is an indication of impairment, the recoverable amount of the asset is estimated. For goodwill, intangible assets with indefinite useful lives, and intangible assets not yet available for use, the recoverable amount is estimated annually at a consistent time in each year, irrespective of whether there is any indication of impairment.

The recoverable amount of an asset or its cash generating unit is the higher of its value in use or its fair value less disposal costs. In determining value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset. If it is not possible to estimate the recoverable amount of each asset individually for the impairment test, such assets are integrated into the smallest cash-generating unit that generates cash inflows from continuing use that are largely independent of cash inflows from other assets or groups of assets. For the purposes of goodwill impairment testing, cash-generating units to which goodwill would be allocated are aggregated when necessary so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored. Goodwill acquired in a business combination is allocated to the (group of) cash-generating unit (units) that is expected to benefit from the synergies of the business combination.

Group corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, the recoverable amount of the (group of) cash-generating unit to which the corporate assets belong is measured.

If the carrying amount of assets or the (group of) cash-generating unit exceeds the recoverable amount, Impairment loss is recognized in profit or loss for the period. The impairment loss recognized for the (group of) cash-generating unit is first allocated to reduce the carrying amount of any goodwill allocated to the unit, and subsequently to other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

An impairment loss recognized for goodwill cannot be reversed. In respect of assets other than goodwill, impairment losses recognized in prior periods are assessed at the end of each reporting date as to whether there is any indication that the losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. In cases in which the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, the impairment loss is reversed up to the carrying amount less depreciation or amortization that would have been determined if no impairment loss had been recognized in prior periods.

(11) Employee Benefits

① Post-retirement Benefits

The Group sponsors defined benefit plans and defined contribution plans as post-retirement benefits.

The Group uses the projected unit credit method to determine the present value of its defined benefit obligation and the related current and past service costs.

The discount rates are determined by referring to the market yield at the fiscal year-end on high-quality corporate bonds for the corresponding periods in which the retirement benefits are to be paid.

The amount of the net defined benefit liability (asset) is calculated by deducting the fair value of plan assets from the present value of defined benefit obligation.

Remeasurements of defined benefit plans are recognized in other comprehensive income and immediately reclassified to retained earnings in the periods in which they occur.

Past service costs are recognized in profit or loss for the periods in which they are incurred.

Payments to defined contribution plans are recognized as expense in the periods that employees render services.

② Short-term Employee Benefit

Short-term employee benefit obligations are measured on an undiscounted basis, and are recognized as expense when the related service is rendered.

For bonuses and paid absence expenses, when there is a legal or constructive obligation to make payments of these, and a reliable estimate of the obligation can be made, the estimated amount to be paid based on these plans is accounted for as a liability.

③ Other Long-term Employee Benefits

Long-term benefit obligations other than post-retirement benefit plans include special paid leaves and bonuses granted conditional on a certain period of employment. Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future benefits that are expected to be paid by the Group in exchange for the services rendered by employees up to the reporting date.

(12) Provisions

Provisions are recognized when the Group has a present legal obligation or constructive obligation arising as a result of a past event; it is probable that an outflow of economic resources will be required to settle the obligation; and a reliable estimate can be made. Provisions are stated at the present value of the estimated future cash flows which is discounted using a pre-tax discount rate reflecting the time value of money and the specific risks of the liability. Where discounting is used, the increase in the provision to reflect the passage of time is recognized as finance expense.

① Provisions for sales rebates
Provisions 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 year-end date.

② Provisions for asset retirement obligations
Provisions for asset retirement obligations is provided based on estimated future expenditures when the Group has a legal, contractual or similar obligation associated with the retirement of property, plant and equipment.

③ Provisions for sales returns
Provisions for sales returns is provided based on estimated amounts of loss due to sales returns of merchandise and finished goods.

④ Provisions for removal cost of property, plant and equipment
Provisions for removal cost of property, plant and equipment for which removal policy has been determined is provided based on the estimated amount of removal expenditures.

(13) Revenue

① Sale of Goods
Revenue from sales of goods is recognized when the Group has transferred the significant risks and rewards of the goods to the customer, the Group retains neither continuing managerial involvement nor effective control over the goods sold, it is probable that the economic benefits associated with the transaction will flow to the Group, and the amount of revenue and associated cost can be measured reliably.

② Construction Contracts
When the outcome of a construction contract can be estimated reliably, revenue from the construction contract is recognized according to the percentage of completion method. The cost-to-cost method is used for estimation of the stage of completion at the reporting date.

③ Services Rendered
Revenue from providing services is recognized by reference to the stage of completion of the transaction at reporting date.

④ Interest Income
Interest income is recognized using the effective interest method.

⑤ Dividends
Dividends are recognized when a right to receive dividend payments is established.

(14) Income Taxes

Income taxes consist of current taxes and deferred taxes. They are recognized as income or expense and included in profit or loss, except for those related to business combinations and items that are recognized directly in equity or in other comprehensive income.

Current tax liabilities (assets) are measured in the amount of the expected tax payable to or receivable from the taxation authorities. Calculation of the amount of tax is based on the tax rates and tax laws enacted or substantively enacted by the reporting date in countries where the Group conducts business and earns taxable income.

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amount of assets or liabilities and their tax bases, tax loss carryforwards and tax credits at the reporting date.

Deferred tax assets and liabilities are not recognized for the following temporary differences:

- Temporary difference arising from initial recognition of goodwill
- Temporary differences arising from initial recognition of assets and liabilities from transactions that are not business combinations and affect neither accounting income nor taxable income.
- Taxable temporary differences on investments in subsidiaries and associates, and interests in joint arrangements, when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax liabilities are recognized, in principle, for all taxable temporary differences. Deferred tax assets are recognized for deductible temporary differences, the carryforwards of unused tax losses and the carryforwards of unused tax credits to the extent that it is probable that they will be utilized against future taxable income.

The carrying amount of deferred tax assets is reviewed each period and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to realize benefits from all or part of the assets. Unrecognized deferred tax assets are reassessed each period and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates and tax laws that are expected to apply to the period when the assets are realized or the liabilities are settled based on the statutory tax rates and tax laws enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and income taxes are levied by the same taxation authority and on the same taxable entity.

The Company and certain consolidated subsidiaries have adopted the consolidated tax system.

(15) Earnings per Share

Basic earnings per share are calculated by dividing net income attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period, adjusted for treasury shares held. Diluted earnings per share are calculated by adjusting the effects of all dilutive potential ordinary shares.

(16) Capital

Ordinary shares are classified as capital.
Treasury shares are recognized at cost and deducted from equity. No gains or losses are recognized on the purchase, sale or retirement of the Company's treasury shares. Any differences between the carrying amount and consideration received on the sale of treasury shares are recognized in capital surplus.

4 Significant Accounting Estimates and Judgments

Management has made a number of judgments, estimates and assumptions relating to the application of accounting policies, and reporting of revenues, expenses, assets and liabilities in the preparation of these consolidated financial statements in accordance with IFRS. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated. The effect of changes to accounting estimates is recognized in the reporting period in which the changes are made and in future periods.

Estimates and judgments made by the management that could materially affect the Company's consolidated financial statements are included in the following notes:

- Fair value of assets acquired and liabilities assumed from business combinations (Note 7 Business Combinations)
- Valuation of inventories (Note 11 Inventories)
- Impairment of non-financial Assets (Note 15 Impairment of Non-financial Assets)
- Recoverability of deferred tax assets (Note 17 Income Taxes)
- Measurement of defined benefit obligations (Note 23 Employee Benefits)
- Measurement of provision and contingent liabilities (Note 24 Provisions and Note 38 Contingent Liabilities)
- Fair value of financial instruments (Note 34 Financial Instruments)

5 New Standards and Interpretations Not Yet Applied

Standards and interpretations that have not been applied by the Group as of March 31, 2018 because application was not mandatory among new or revised major standards and interpretations issued by the date of approval of the consolidated financial statements are as follows:

As for applying IFRS 15, the Group evaluates the monetary impact, but it is not expected to have a material impact. The effects on the Group's consolidated financial statements from applying IFRS 16 are being evaluated, and an estimate is currently not available.

	Standard	Mandatory Application (Hereafter, Starting Year)	Application by the Group	Overview of introduction or Revision
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	Fiscal year ending March 31, 2019	Revised accounting standards for revenue recognition
IFRS 16	Leases	January 1, 2019	Fiscal year ending March 31, 2020	Revised accounting standards for leases

The Group adopts the method of recording the cumulative effect of applying IFRS 15 as an adjustment to the beginning balance of the retained earnings for the fiscal year ending March 31, 2019 which includes the date of initial application.

6 Segment Information

(1) Summary (or outline / overview) of reportable segments

The reportable segments of the Group 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 allocation of management resources and evaluate business performances by each business unit.

The Group divides its operation into business sectors identified by products and services, which manage manufacturing, sales, and research in an integrated manner. Each business sector is responsible for developing comprehensive domestic and overseas strategies with respect to its products and services, and operates its business activities.

Accordingly, the Group has five reportable segments based on its products and services in accordance with its business sectors, including "Petrochemicals & Plastics," "Energy & Functional Materials," "IT-related Chemicals," "Health & Crop Sciences," and "Pharmaceuticals."

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

Reportable Segment	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.

(2) Reportable Segment Information

The accounting methods for each reportable segment are identical to those set forth in Note 3 Significant Accounting Policies, in principle. The segment profit is core operating income, which is calculated from operating income after excluding effects from non-recurring factors.

Inter-segment sales revenue is based on market prices.

Fiscal year ended March 31, 2018

	Millions of yen								
	Reportable segments								
	Petrochemicals & Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharmaceuticals	Total	Others (Note 1)	Adjustments (Note 2)	Consolidated
Sales revenue									
Sales revenue from external customers	¥674,116	¥250,988	¥368,709	¥339,698	¥500,227	¥2,133,738	¥ 56,771	¥ —	¥2,190,509
Inter-segment sales revenue	6,461	6,449	885	3,650	10	17,455	70,776	(88,231)	—
Total sales revenue	680,577	257,437	369,594	343,348	500,237	2,151,193	127,547	(88,231)	2,190,509
Segment profit (core operating income)	94,567	19,189	12,341	43,964	94,786	264,847	11,052	(13,205)	262,694
Segment assets	769,570	290,920	357,697	555,598	869,658	2,843,443	295,625	(70,383)	3,068,685
Other items									
Depreciation and amortization	22,963	13,916	29,571	16,181	15,084	97,715	5,925	3,463	107,103
Share of profit (loss) of investments accounted for using the equity method	48,373	(46)	(1,897)	1,625	(10)	48,045	7,086	188	55,319
Impairment loss	3,192	132	4,045	2,846	2,147	12,362	16	—	12,378
Reversal of impairment loss	—	3,477	—	—	—	3,477	—	—	3,477
Investments accounted for using the equity method	157,504	194	6,848	31,114	686	196,346	101,415	(3,391)	294,370
Capital expenditures	17,408	22,521	24,498	56,334	21,238	141,999	12,620	4,220	158,839

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 reportable segments.

Note 2: Amounts in "Adjustments" are as follows:

(1) ¥(13,205) million for segment profit in "Adjustments" includes inter-segment elimination of ¥2,823 million and corporate expenses of ¥(16,028) million unallocated to each reportable segment. Corporate expenses are mainly R&D expenses for company-wide research, which were not attributed to reportable segments.

(2) Segment assets in "Adjustments" are ¥(70,383) million, which includes ¥(207,454) million in eliminations of inter-segment receivables and assets, and ¥137,071 million of corporate assets unallocated to each reportable segment. Corporate assets mainly consist of cash and cash equivalents, investment securities, and the assets related to R&D activities for company-wide research.

(3) Depreciation and amortization in "Adjustments" are ¥3,463 million, mainly related to the assets arising from R&D activities for company-wide research unallocated to each reportable segment.

(4) Investments accounted for using the equity method in "Adjustments" is ¥(3,391) million, which is eliminations of inter-segment transactions.

(5) Capital expenditures in "Adjustments" amounting to ¥4,220 million, was mainly contributed by company-wide research activities that are not allocated to each reportable segment.

Fiscal year ended March 31, 2017

	Millions of yen								
	Reportable segments								
	Petrochemicals & Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharmaceuticals	Total	Others (Note 1)	Adjustments (Note 2)	Consolidated
Sales revenue									
Sales revenue from external customers	¥557,852	¥206,414	¥358,473	¥320,613	¥440,974	¥1,884,326	¥54,743	¥ —	¥1,939,069
Inter-segment sales revenue	8,809	5,480	1,109	4,422	9	19,829	49,730	(69,559)	—
Total sales revenue	566,661	211,894	359,582	325,035	440,983	1,904,155	104,473	(69,559)	1,939,069
Segment profit (core operating income)	58,884	6,030	8,714	47,440	69,871	190,939	10,146	(16,538)	184,547
Segment assets	709,379	248,756	339,598	492,114	841,024	2,630,871	263,598	(16,276)	2,878,193
Other items									
Depreciation and amortization	22,846	12,706	31,723	16,174	15,456	98,905	7,498	3,905	110,308
Share of profit (loss) of investments accounted for using the equity method	33,986	—	(762)	2,273	47	35,544	6,645	49	42,238
Impairment loss	8,746	12,685	12,286	554	2,254	36,525	—	—	36,525
Investments accounted for using the equity method	144,789	—	5,469	26,507	821	177,586	94,712	(3,579)	268,719
Capital expenditures	30,640	21,913	33,534	24,168	14,947	125,202	5,092	6,055	136,349

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 reportable segments.

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

(1) ¥(16,538) million for segment profit in "Adjustments" included inter-segment elimination of ¥(530) million and corporate expenses of ¥(16,008) million unallocated to each reportable segment. Corporate expenses were mainly R&D expenses for company-wide research, which were not attributed to reportable segments.

(2) Segment assets in "Adjustments" were ¥(16,276) million, which included ¥(162,133) million in eliminations of inter-segment receivables and assets, and ¥145,857 million of corporate assets unallocated to each reportable segment. Corporate assets mainly consist of cash and cash equivalents, investment securities, and the assets related to R&D activities for company-wide research.

(3) Depreciation and amortization in "Adjustments" were ¥3,905 million, mainly related to the assets arising from R&D activities for company-wide research unallocated to each reportable segment.

(4) Investments accounted for using the equity method in "Adjustments" is ¥(3,579) million, which is eliminations of inter-segment transactions.

(5) Capital expenditures in "Adjustments" amounting to ¥6,055 million, was mainly contributed by company-wide research activities that are not allocated to each reportable segment.

Adjustments from Segment profit to Income before income taxes are as follows:

	Millions of yen	
	2018	2017
Segment profit	**¥262,694**	¥184,547
Business structure improvement expenses	**(14,210)**	(18,186)
Impairment loss	**(12,378)**	(36,525)
Gain on sale of property, plant and equipment	**6,801**	1,035
Changes in fair value of contingent consideration	**6,146**	(6,507)
Reversal of impairment loss	**3,477**	—
Gain on step acquisition	**—**	2,840
Others, net	**(1,607)**	(737)
Operating income	**250,923**	126,467
Finance income	**11,542**	10,700
Finance expenses	**(21,654)**	(14,829)
Income before taxes	**¥240,811**	¥122,338

(3) Geographic Information

The breakdown of sales revenues and non-current assets is as follows:

Sales revenues from external customers

Fiscal year ended March 31, 2018

Millions of yen				
Japan	North America (U.S.A)	China	Others	Total
¥805,760	**¥366,917 (358,673)**	**¥342,000**	**¥675,832**	**¥2,190,509**

Note: Sales revenues are classified by country and region based on the location of customers.

Fiscal year ended March 31, 2017

Millions of yen				
Japan	North America (U.S.A)	China	Others	Total
¥755,645	¥305,770 (297,278)	¥312,208	¥565,446	¥1,939,069

Note: Sales revenues are classified by country and region based on the location of customers.

Non-current assets

As of March 31, 2018

Millions of yen				
Japan	North America (U.S.A)	Korea	Others	Total
¥516,740	**¥310,125 (308,818)**	**¥114,215**	**¥131,690**	**¥1,072,770**

Note: Classification of non-current assets is based on the location of the assets. Financial instruments, deferred tax assets and retirement benefit assets are not included in non-current assets.

As of March 31, 2017

Millions of yen				
Japan	North America (U.S.A)	Korea	Others	Total
¥459,366	¥327,858 (326,337)	¥123,789	¥125,105	¥1,036,118

Note: Classification of non-current assets is based on the location of the assets. Financial instruments, deferred tax assets and retirement benefit assets are not included in non-current assets.

As of April 1, 2016 (Transition date)

Millions of yen				
Japan	North America (U.S.A)	Korea	Others	Total
¥455,962	¥183,658 (183,403)	¥117,814	¥116,413	¥873,847

Note: Classification of non-current assets is based on the location of the assets. Financial instruments, deferred tax assets and retirement benefit assets are not included in non-current assets.

(4) Information about major customers

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

7 Business Combinations

(1) Significant business combinations

Fiscal year ended March 31, 2018

There are no significant business combinations in the fiscal year ended March 31, 2018.

Fiscal year ended March 31, 2017

Business combinations by acquisition

(Cynapsus Therapeutics Inc.)

① Overview of business combination

(i) Name and business description of acquired company

Name: Cynapsus Therapeutics Inc. ("Cynapsus")

Business description: Development of pharmaceuticals for Parkinson's disease

(ii) Acquisition date

October 21, 2016 (U.S. Eastern Standard Time)

(iii) Percentage of voting rights acquired 100%

(iv) Main reason for business combination

Sunovion Pharmaceuticals Inc., which is a consolidated subsidiary of Sumitomo Dainippon Pharma Co., Ltd., a consolidated subsidiary of the Company, focuses on the Psychiatry & Neurology area and promotes the atypical antipsychotic agent Latuda® and antiepileptic drug Aptiom®. It is concluded that this acquisition contributes to expand the Psychiatry & Neurology portfolio, one of its key therapeutic areas, through the acquisition of Cynapsus and their products for Parkinson's disease.

(v) Method for gaining control of acquired company

Acquisition of shares for cash consideration

Due to the Amalgamation (reorganization under the State of Prentiss-Columbia of Canada) on the acquisition date, Sunovion CNS Development Canada ULC was newly established in reorganization including Cynapsus.

② Fair value of consideration transferred, assets acquired and liabilities assumed on acquisition date

	Millions of yen
	Amount
Fair value of assets acquired and liabilities assumed	
Intangible assets	¥69,686
Cash and cash equivalents	938
Other assets	175
Income taxes payable	(5,761)
Other liabilities	(3,056)
Fair value of assets acquired and liabilities assumed (Net)	61,982
Goodwill	1,255
Total	63,237
Fair value of consideration transferred	
Cash	63,237
Total	¥63,237

Goodwill primarily represents the excess earning power expected from future business development. This goodwill is not deductible on tax law.

Provisional accounting treatment had been applied to the purchase price allocation as of March 31, 2017, but it has been finalized in the fiscal year ended March 31, 2018. There are no adjustments to the amounts.

③ Acquisition-related costs ¥681 million

Acquisition-related costs mainly represent advisory fees and others, and are recognized in Selling, General and Administrative Expenses.

④ Effect on the Group's performance

(i) Sales revenue and net income (losses) of the acquired company after acquisition date recognized in the consolidated statement of profit or loss for the fiscal year ended March 31, 2017

Sales revenue —

Net income (losses) ¥(1,624) million

(ii) Effect on sales revenue and net income (losses) of consolidated statement of profit or loss assuming that the business combination had been completed at the beginning of the fiscal year ended March 31, 2017 (unaudited information)

Sales revenue ¥1,939,069 million

Net income (losses) ¥105,838 million

(Tolero Pharmaceuticals Inc.)

① Overview of business combination

(i) Name and business description of acquired company

Name: Tolero Pharmaceuticals Inc. ("Tolero")

Business description: Research and development of pharmaceuticals in the areas of oncology and hematological disorders

(ii) Acquisition date January 25, 2017 (U.S. Pacific Standard Time)

(iii) Percentage of voting rights acquired 100%

(iv) Main reason for business combination

Tolero Pharmaceuticals, Inc. (Tolero) is a biotechnology company in the U.S. 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 the Group to reinforce our oncology pipeline to add these compounds. And also, high drug discovery abilities in Tolero contribute to create a continuous flow of development compounds going forward to achieve sustainable growth of the Group.

(v) Method for gaining control of acquired company Acquisition of shares for cash consideration

② Fair value of consideration transferred, assets acquired and liabilities assumed on acquisition date

	Millions of yen		
	Provisional fair value	Fair value adjustment	Provisional fair value (as adjusted)
Fair value of assets acquired and liabilities assumed			
Intangible assets	¥59,843	¥(14,335)	¥45,508
Cash and cash equivalents	115	—	115
Other assets	54	—	54
Deferred tax liabilities	20,365	(5,304)	15,061
Other liabilities	799	—	799
Fair value of assets acquired and liabilities assumed (Net)	38,848	(9,031)	29,817
Goodwill	18,586	3,911	22,497
Total	57,434	(5,120)	52,314
Fair value of consideration transferred			
Cash	22,165	—	22,165
Contingent consideration	35,269	(5,120)	30,149
Total	¥57,434	¥ (5,120)	¥52,314

Goodwill primarily represents the excess earning power expected from future business development. This goodwill is not deductible on tax law.

Provisional accounting treatment had been applied to the purchase price allocation as of March 31, 2017, but it has been finalized in the fiscal year ended March 31, 2018. Accordingly, the provisional amounts have been adjusted retrospectively. As a result, provisional fair values of certain assets acquired, liabilities assumed and the consideration transferred have been adjusted as described above.

③ Contingent consideration

As for the contingent consideration for acquisition of Tolero, it is possible to pay a maximum of US$430 million (¥45,688 million) as development milestones for the compound developing by Tolero in the future. In addition, it is possible to pay a maximum of US$150 million (¥15,938 million) before considering the time value of the money as commercial milestones based on annual net sales.

The Group recognizes these contingent considerations in "Other financial liabilities" in the consolidated statement of financial position after considering the time value of the money.

The fair value of contingent consideration is classified as level 3 in the fair value hierarchy. The changes in the fair value are recognized in "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

④ Acquisition-related costs ¥1,066 million

Acquisition-related costs are mainly related to advisory fees and others, and are recognized in Selling, General and Administrative Expenses.

⑤ Effect on the Group's performance

(i) Sales revenue and net income (losses) of acquired company after acquisition date recognized in the consolidated statement of profit or loss for the fiscal year ended March 31, 2017

Sales revenue —

Net income (losses) ¥(208) million

(ii) Effect on sales revenue and net income (losses) of consolidated statement of profit or loss assuming that the business combination had been completed at the beginning of the fiscal year ended March 31, 2017 (unaudited information)

Sales revenue ¥1,939,069 million

Net income (losses) ¥108,342 million

(2) Contingent consideration

As for the acquisitions of Boston Biomedical, Inc. ("BBI"), Elevation Pharmaceuticals, Inc. (Currently: Sunovion Respiratory Development Inc.) ("Elevation"), and Tolero Pharmaceuticals, Inc. ("Tolero"), the contingent considerations are to be additionally paid to former shareholders upon the achievement of predetermined milestone.

As for the acquisition of BBI, consideration for acquisition amounting to US$225 million (¥18,958 million) has been paid until the fiscal year ended March 31, 2018, and it is possible to pay a maximum amount of US$515 million (¥54,719 million) before considering the time value of the money on achievement of the development milestones of the chemical compounds under development by BBI. In addition, it is possible to pay a maximum amount of US$1,890 million (¥200,813 million), before considering time value of money as commercial milestones based on sales revenue earned after commencement of sales.

As for the acquisition of Elevation, consideration for acquisition amounting to US$189 million (¥17,800 million) has been paid until the fiscal year ended March 31, 2018. In addition, it is possible to pay a maximum amount of US$210 million (¥22,313 million), before considering time value of money, on achievement of commercial milestones determined based on sales revenue earned after commencement of sales.

As for the acquisition of Tolero, consideration for acquisition amounting to US$195 million (¥22,165 million) has been paid until the fiscal year ended March 31, 2018, and it is possible to pay a maximum amount of US$430 million (¥45,688 million) before considering the time value of the money on achievement of the development milestones for chemical compounds under development by Tolero. In addition, it is possible to pay a maximum amount of US$150 million (¥15,938 million), before considering time value of money, on achievement of commercial milestones determined based on sales revenue earned after commencement of sales.

The Group recognize these contingent considerations in other financial liabilities in the consolidated statement of financial position after considering the time value of the money.

The fair value hierarchy of contingent consideration and its sensitivity analysis are disclosed in Note 34 Financial Instruments.

The total amount of future payments, that the Group has possibility to make pursuant to contingent consideration contract is ¥342,661 million (undiscounted) and ¥367,429 million (undiscounted) as of March 31, 2018 and 2017, respectively. The amounts payable by due date of contingent consideration are not presented because of the uncertainty.

8 Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Cash and deposits	¥197,582	¥159,100	¥134,592
Short-term investments	34,347	34,195	81,039
Total	¥231,929	¥193,295	¥215,631

9 Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Trade notes and accounts receivable	¥477,254	¥458,690	¥407,260
Other receivables	50,239	43,022	36,957
Others	3,078	1,797	1,551
Total	¥530,571	¥503,509	¥445,768

Trade and other receivables are classified as financial assets measured at amortized cost.

10 Other Financial Assets

The breakdown of other financial assets is as follows:

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Financial assets measured at fair value through OCI			
Shares and investments	¥237,317	¥208,892	¥237,505
Financial assets measured at fair value through profit or loss			
Loan receivables	63,773	67,571	67,965
Long-term accrued interests	11,468	10,229	8,683
Derivative assets	5,245	8,315	8,110
Others	823	997	—
Financial assets measured at amortized cost			
Loan receivables	3,282	2,376	3,035
Others	1,700	1,423	1,731
Total	¥323,608	¥299,803	¥327,029
Current assets	6,720	5,652	6,262
Non-current assets	316,888	294,151	320,767
Total	¥323,608	¥299,803	¥327,029

The fair value of the investment in equity instruments measured at fair value through other comprehensive income is as follows:

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Marketable	¥185,674	¥162,502	¥191,480
Non-marketable	51,643	46,390	46,025
Total	¥237,317	¥208,892	¥237,505

The fair values of the major issues included in the above are as follows:

	Millions of yen		
Issue	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Nippon Shokubai Co., Ltd.	¥19,695	¥21,126	¥22,329
Taisho Pharmaceutical Holdings Co., Ltd.	14,748	16,032	18,820
Ono Pharmaceutical Co., Ltd.	11,340	7,932	20,573

Investments held for the purpose of expanding its revenue base by maintaining and strengthening business relations with the investees are designated as financial assets measured at fair value through other comprehensive income.

The Group disposed and derecognized some investments in equity instruments measured at fair value through other comprehensive income to improve the efficiency of assets by reassessing the business relationships.

Their fair value and accumulated gains or losses at the time of disposal in the fiscal years ended March 31, 2018 and 2017 were as follows:

Millions of yen			
2018		2017	
Fair Value	Cumulative gains or losses	Fair Value	Cumulative gains or losses
¥6,142	¥5,625	¥35,670	¥27,188

Accumulated gain or loss recorded as other components of equity are reclassified from other components of equity to retained earnings when the fair value is significantly declined or derecognized. Accumulated gain or loss (after tax) reclassified to retained earnings are due to derecognition of part of investment on disposal, and these are ¥2,644 million and ¥16,981 million for the fiscal years ended March 31, 2018 and 2017, respectively.

11 Inventories

The breakdown of Inventories is as follows:

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Merchandise and finished goods	¥300,193	¥271,997	¥271,826
Raw materials and supplies	124,122	107,760	98,865
Work in process	22,486	17,643	13,350
Total	¥446,801	¥397,400	¥384,041

For the fiscal years ended March 31, 2018 and 2017, write-downs of inventories recognized as expenses are ¥16,332 million and ¥15,284 million, respectively.

12 Other Assets

The breakdown of other assets is as follows:

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Prepaid expenses	¥35,879	¥34,648	¥20,706
Income taxes receivable	9,698	18,278	7,312
Advance payment	6,208	6,186	4,858
Others	28,559	20,667	19,585
Total	¥80,344	¥79,779	¥52,461
Current assets	38,797	41,022	26,426
Non-current assets	41,547	38,757	26,035
Total	¥80,344	¥79,779	¥52,461

13 Property, Plant And Equipment

(1) Changes in Property, Plant and Equipment

Changes in the carrying amount, balances of acquisition cost, accumulated depreciation and impairment losses of Property, Plant and Equipment are as follows:

Carrying Amount

	Millions of yen					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
April 1, 2016	¥86,093	¥244,879	¥269,171	¥24,619	¥ 37,001	¥661,763
Additions	—	—	—	—	130,081	130,081
Acquisitions through business combinations	2,098	2,759	6,314	187	225	11,583
Sales and disposals	(809)	(689)	(1,575)	(308)	(128)	(3,509)
Reclassification	614	15,557	75,137	8,612	(99,920)	—
Depreciation	—	(16,368)	(72,138)	(9,717)	—	(98,223)
Impairment losses	—	(10,430)	(21,049)	(387)	(1,652)	(33,518)
Exchange differences on translation of foreign operations	157	733	232	(77)	(27)	1,018
Others	(271)	(1,819)	(1,563)	(25)	(21,458)	(25,136)
March 31, 2017	¥87,882	¥234,622	¥254,529	¥22,904	¥ 44,122	¥644,059
Additions	—	—	—	—	149,481	149,481
Acquisitions through business combinations	1,047	332	2,733	11	41	4,164
Sales and disposals	(396)	(940)	(2,404)	(586)	(147)	(4,473)
Reclassification	151	18,411	48,578	8,804	(75,944)	—
Depreciation	—	(15,968)	(68,926)	(9,002)	—	(93,896)
Impairment losses	(1,241)	(3,583)	(6,424)	(419)	(505)	(12,172)
Reversal of impairment losses	—	1,653	1,353	24	435	3,465
Exchange differences on translation of foreign operations	(125)	(1,498)	(1,897)	(74)	(294)	(3,888)
Others	204	622	977	1,098	(13,896)	(10,995)
March 31, 2018	¥87,522	¥233,651	¥228,519	¥22,760	¥103,293	¥675,745

Note: Depreciation of property, plant and equipment is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

Acquisition Cost

	Millions of yen					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
April 1, 2016	¥87,235	¥651,862	¥1,620,451	¥161,982	¥ 46,323	¥2,567,853
March 31, 2017	88,772	657,516	1,707,675	163,085	54,740	2,671,788
March 31, 2018	¥89,568	¥671,234	¥1,708,692	¥161,482	¥109,457	¥2,740,433

Accumulated Depreciation and impairment losses

	Millions of yen					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
April 1, 2016	¥1,142	¥406,983	¥1,351,280	¥137,363	¥9,322	¥1,906,090
March 31, 2017	890	422,894	1,453,146	140,181	10,618	2,027,729
March 31, 2018	¥2,046	¥437,583	¥1,480,173	¥138,722	¥6,164	¥2,064,688

(2) Lease Assets

The carrying amount of lease assets classified as finance lease included in Property, Plant and Equipment is as follows:

	Millions of yen			
	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
April 1, 2016	¥278	¥8,423	¥61	¥8,762
March 31, 2017	279	8,300	67	8,646
March 31, 2018	¥262	¥6,119	¥54	¥6,435

14 Goodwill and Intangible Assets

(1) Changes in goodwill and intangible assets

Changes in the carrying amounts, balances of acquisition cost, accumulated amortization and impairment losses of goodwill and intangible assets are as follows:

Carrying amount

	Millions of yen					
		Intangible assets				
	Goodwill	Research and development costs	Patent	Software	Others	Total
April 1, 2016	¥ 82,647	¥ 58,268	¥ 4,230	¥11,616	¥29,288	¥103,402
Additions	—	—	219	5,273	5,670	11,162
Acquisitions through business combinations	37,580	115,393	—	42	12,133	127,568
Sales and disposals	—	—	(7)	(480)	(244)	(731)
Amortization	—	—	(1,134)	(4,909)	(4,051)	(10,094)
Impairment losses	—	—	(155)	(257)	(2,311)	(2,723)
Exchange differences on translation of foreign operations	307	4,330	(43)	(56)	258	4,489
Others	14	—	(18)	(43)	(258)	(319)
March 31, 2017	¥120,548	¥177,991	¥3,092	¥11,186	¥40,485	¥232,754
Additions	—	5,101	1,474	6,209	725	13,509
Acquisitions through business combinations	8,370	—	—	—	8,451	8,451
Sales and disposals	—	—	—	(78)	(111)	(189)
Amortization	—	—	(1,821)	(4,686)	(4,994)	(11,501)
Impairment losses	—	—	—	(46)	(33)	(79)
Reversals of impairment losses	—	—	—	12	—	12
Exchange differences on translation of foreign operations	(6,081)	(8,550)	(944)	(130)	(1,477)	(11,101)
Others	12	(20,612)	20,997	(3)	391	(773)
March 31, 2018	**¥122,849**	**¥153,930**	**¥22,798**	**¥12,464**	**¥43,437**	**¥232,629**

Note 1: The amortization of intangible assets is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

Note 2: There are no internally generated intangible assets as of March 31, 2018 and 2017.

Note 3: The assets that are at the research and development stage and have yet to obtain marketing approval from regulatory authorities are not able to be used and the period in which they could deliver economic benefit is unforeseeable; therefore, the assets are classified as intangible assets with indefinite useful lives. The carrying values of the intangible assets with indefinite useful lives are ¥153,930 million, ¥177,991 million and ¥58,268 million as of March 31, 2018, 2017 and the transition date, respectively.

Note 4: Others include marketing rights for pharmaceuticals and others.

Note 5: Others of research and development costs and patent mainly represent reclassifications from research and development costs to patent, accompanying obtaining marketing approval from regulatory authorities.

Acquisition cost

	Millions of yen					
		Intangible assets				
	Goodwill	Research and development costs	Patent	Software	Others	Total
April 1, 2016	¥105,606	¥ 65,268	¥28,997	¥57,125	¥62,071	¥213,461
March 31, 2017	143,439	184,964	28,515	59,020	79,289	351,788
March 31, 2018	**¥140,288**	**¥156,002**	**¥53,654**	**¥62,502**	**¥87,133**	**¥359,291**

Accumulated amortization and impairment losses

	Millions of yen					
		Intangible assets				
	Goodwill	Research and development costs	Patent	Software	Others	Total
April 1, 2016	¥22,959	¥7,000	¥24,767	¥45,509	¥32,783	¥110,059
March 31, 2017	22,891	6,973	25,423	47,834	38,804	119,034
March 31, 2018	**¥17,439**	**¥2,072**	**¥30,856**	**¥50,038**	**¥43,696**	**¥126,662**

(2) Significant intangible assets

Significant intangible assets recorded in the consolidated statement of financial position are in-process research and development. They are acquired through the acquisition of Cynapsus Therapeutics Inc. (currently known as Sunovion CNS Development Canada ULC) and Tolero Pharmaceuticals, Inc., etc., by a consolidated subsidiary, Sumitomo Dainippon Pharma Co., Ltd. and its subsidiaries.

The carrying amounts of significant intangible assets are as follows:

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Sunovion CNS Development Canada ULC	**¥71,071**	¥75,044	¥ —
Tolero Pharmaceuticals, Inc.	**41,650**	43,979	—
Boston Biomedical Inc.	**26,988**	28,496	28,605

These assets are in-process research and development assets. Due to the uncertainties in the research and development processes, they are particularly at a risk of impairment if the projects are not expected to result in commercialized products.

(3) Research and development costs

Research and development costs recognized in the consolidated statement of profit or loss are ¥165,336 million and ¥157,995 million for the fiscal years ended March 31, 2018 and 2017, respectively.

15 Impairment of non-financial assets

(1) Impairment losses

Fiscal Year ended March 31, 2018

Impairment losses recognized for the fiscal year ended March 31, 2018 are ¥12,378 million. Impairment losses are recognized in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss. Details of the impairment losses by segment are presented in Note 6 Segment information.

The major CGUs for which material impairment losses are recognized are as follows:

				Millions of yen
Location	Usage	Class of assets	Reportable segment	Impairment losses
Korea	Optical functional film production facilities	Machinery, equipment and vehicles, etc.	IT-related Chemicals	¥2,730
Saudi Arabia	Polypropylene compound production facilities	Buildings, structures, machinery and equipment, etc.	Petrochemicals & Plastics	2,110
Hyogo, Japan	Welfare facilities	Buildings, structures and land, etc.	Pharmaceuticals	2,100
China	High-performance house film for agriculture production facilities	Buildings, structures, machinery and equipment, etc.	Health & Crop Sciences	1,938

Details of the impairment losses

- Optical functional film production facilities ¥2,730 million (Machinery and vehicles ¥2,315 million, Others ¥414 million)
- Polypropylene compound production facilities ¥2,110 million (Buildings and structures ¥1,565 million, Machinery and vehicles ¥533 million, Others ¥13 million)
- Welfare facilities ¥2,100 million (Buildings and structures ¥929 million, Land ¥1,159 million, Others ¥12 million)
- High-performance house film for agriculture production facilities ¥1,938 million (Buildings and structures ¥360 million, Machinery and vehicles ¥1,534 million, Others ¥44 million)

The Group reduced the carrying amounts to recoverable amounts related to Optical functional film production facilities and High-performance house film for agriculture production facilities of which the profitability decreased due to serious deterioration in the business environment, polypropylene compound production facilities of which the profit is not expected to be improved with decreased demand, and idle welfare facilities. The recoverable amounts of these assets were measured at net realizable value or the value in use. Net realizable value was calculated by estimated selling price and the value in use was calculated by discounting the future cash flows with pre-tax discount rate of 9.5%–18.5%.

Fiscal year ended March 31, 2017

Impairment losses recognized for the fiscal year ended March 31, 2017 are ¥36,525 million. Impairment losses are recognized in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss. Details of the impairment losses by segment are presented in Note 6 Segment information.

The major CGUs for which material impairment losses are recognized are as follows:

Location	Usage	Class of assets	Reportable segment	Millions of yen Impairment losses
Ehime, Japan	Optical functional film production facilities	Buildings, structures, machinery and equipment, etc.	IT-related Chemicals	¥10,208
Singapore	S-SBR production facilities	Buildings, structures, machinery and equipment, etc.	Energy & Functional Materials	5,077
Ehime, Japan	High-purity alumina production facilities, High-purity aluminum production facilities	Buildings, structures, machinery and equipment, etc.	Energy & Functional Materials	4,360
Ehime, Japan	Electrolyzers	Buildings, structures, machinery and equipment, etc.	Petrochemicals & Plastics	3,379
Ehime, Japan	Nitric acid, Aniline production facilities	Buildings, structures, machinery and equipment, etc.	Petrochemicals & Plastics	2,879
Korea	High-purity alumina production facilities	Buildings, structures, machinery and equipment, etc.	Energy & Functional Materials	2,310
Japan	Marketing rights of pharmaceuticals	Other intangible assets	Pharmaceuticals	2,059

Details of impairment losses

- Optical functional film production facilities ¥10,208 million (Buildings and structures ¥3,428 million, Machinery, equipment and vehicles ¥5,609 million, Construction-in-progress ¥766 million, Others ¥404 million)
- S-SBR production facilities ¥5,077 million (Buildings and structures ¥1,035 million, Machinery, equipment and vehicles ¥3,437 million, Others ¥605 million)
- High-purity alumina production facilities and High-purity aluminum production facilities ¥4,360 million (Buildings and structures ¥1,524 million, Machinery, equipment and vehicles ¥2,725 million, Others ¥110 million)
- Electrolyzers ¥3,379 million (Buildings and structures ¥898 million, Machinery, equipment and vehicles ¥2,093 million, Others ¥388 million)
- Nitric acid, Aniline production facilities ¥2,879 million (Buildings and structures ¥1,109 million, Machinery, equipment and vehicles ¥1,474 million, Others ¥297 million)
- High-purity alumina production facilities ¥2,310 million (Buildings and structures ¥1,082 million, Machinery, equipment and vehicles ¥1,188 million, Others ¥41 million)
- Marketing rights of pharmaceuticals ¥2,059 million (Other intangible assets ¥2,059 million)

The Group reduced the carrying amount to recoverable amount related to Optical functional film production facilities, S-SBR production facilities, High-purity alumina production facilities, High-purity aluminum production facilities, Electrolyzers, Nitric acid, Aniline production facilities, High-purity alumina production facilities, and Marketing rights of pharmaceuticals with decreased profitability due to serious deterioration in the business environment. The recoverable amounts of these assets were measured at value in use, which were calculated by discounting the future cash flows with pre-tax discount rate in the range of 8.2 - 14.1%.

(2) Reversal of impairment losses

Fiscal year ended March 31, 2018

As for alumina production facilities of the Energy & Functional Materials segment, on which impairment losses were recognized previously, reversal of impairment losses of ¥3,477 million (Buildings and structures ¥1,653 million, Machinery equipment and vehicles ¥1,353 million, Others ¥471 million) are recognized in Cost of sales in consolidated statement of profit or loss, because it is expected to increase recoverable amounts. The recoverable amounts of these assets were measured at value in use, which was calculated by discounting the future cash flows with pre-tax discount rate of 9.5%.

Details of reversal of impairment loss by segment are presented in Note 6 Segment information.

Fiscal year ended March 31, 2017

There is no reversal of impairment losses for the fiscal year ended March 31, 2017.

(3) Impairment test of Goodwill

Goodwill arising from business combination is allocated at the acquisition to cash-generating units benefitting from the business combination, and the carrying amount is ¥122,849 million, ¥120,548 million and ¥82,647 million as of March 31, 2018 and 2017 and the transition date, respectively.

The material items of goodwill associated with the pharmaceutical business and the carrying amounts are as follows:

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
North America (excluding oncology area)	¥71,836	¥ 75,852	¥74,787
North America (oncology area)	23,261	24,342	2,163
Total	¥95,097	¥100,194	¥76,950

Impairment loss of goodwill is recognized when the recoverable amount is less than its carrying amount. The carrying amount of goodwill is reduced to its recoverable amount. The recoverable amount is calculated based on the value in use. The value in use is calculated by discounting estimates of the future cash flows based on the historical experience and external information.

As a result of impairment test as of March 31, 2018, 2017 and the transition date, impairment loss was not recorded since the recoverable amounts of CGUs were more than its carrying amounts. The weighted average cost of capital that was set by cash generating unit is used for impairment test of goodwill. The weighted average cost of capital used for impairment test is 9.0%-17.0%, 8.5%-15.0% and 9.0%-14.0% for the fiscal year ended March 31, 2018, 2017 and the transition date, respectively.

The value in use substantially exceeds the carrying amounts of the relevant CGUs and management considers it unlikely that a significant impairment loss would be recognized even if the key assumptions used in the calculation of value in use fluctuated within a reasonable range.

16 Investments accounted for using the equity method

(1) Investments in associates

Carrying amounts of individually immaterial investments in associates accounted for using the equity method are as follows:

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Total carrying amount	¥140,346	¥127,873	¥116,302

The aggregate amounts of the Group's share of comprehensive income of individually immaterial investments in associates accounted for using the equity method are as follows:

	Millions of yen	
	2018	2017
The Group's share of net income	¥10,205	¥10,724
The Group's share of other comprehensive income	503	2,382
The Group's share of comprehensive income	10,708	13,106

(2) Investments in joint ventures

① Material Joint venture

The joint venture that is material to the Group is as follows:

			Proportion of ownership interest		
Company name	Core business	Location	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Rabigh Refining and Petrochemical Company	Manufacturing and sales of refined petroleum products and petrochemicals	Saudi Arabia Rabigh	37.50%	37.50%	37.50%

Summarized financial information of Rabigh Refining and Petrochemical Company is as follows.

The Company applies the equity method to financial statements of Rabigh Refining and Petrochemical Company on a three-month time lag, as it is impracticable to unify the reporting period of Rabigh Refining and Petrochemical Company. The summarized financial information of the Rabigh Refining and Petrochemical Company for the period ended three months before the Group's reporting date is disclosed in this Note.

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Current assets	¥ 384,698	¥ 298,499	¥ 184,656
Non-current assets	1,476,653	1,513,536	1,470,985
Total assets	1,861,351	1,812,035	1,655,641
Current liabilities	418,717	352,574	253,561
Non-current liabilities	1,138,244	1,198,276	1,132,922
Total liabilities	1,556,961	1,550,850	1,386,483
Equity	304,390	261,185	269,157
Total equity attributable to owners of the parent	114,146	97,944	100,934
Consolidation adjustment	(16,312)	(15,006)	(14,269)
Carrying amount of investments	97,834	82,938	86,665
Fair value of investments	¥ 231,486	¥ 125,033	¥ 104,020
The material items included in the above:			
Cash and cash equivalents	34,956	42,988	30,032
Current financial liabilities (except for trade and other payables, and provisions)	112,683	98,039	105,872
Non-current financial liabilities (except for trade and other payables, and provisions)	¥1,125,547	¥1,187,597	¥1,125,454

	Millions of yen	
	2018	2017
Sales revenue	¥1,024,620	¥730,495
Net income	42,618	1,010
Other comprehensive income	(459)	(1,524)
Total comprehensive income	¥ 42,159	¥ (514)
Interests of the Group		
Net income	17,857	299
Other comprehensive income	(2,961)	(4,026)
Total comprehensive income	¥ 14,896	¥ (3,727)
The material items included in the above:		
Depreciation and Amortization	73,109	70,298
Income tax expenses	(2,775)	(1,172)

Interest income of Rabigh Refining and Petrochemical Company for the fiscal years ended March 31, 2018 and 2017 are ¥7,150 million and ¥7,516 million, respectively. Interest expenses of Rabigh Refining and Petrochemical Company for the fiscal years ended March 31, 2018 and 2017 are ¥7,675 million and ¥6,503 million, respectively.

No dividend was received from Rabigh Refining and Petrochemical Company for the fiscal years ended March 31, 2018 and 2017.

The repayment of loans to Rabigh Refining and Petrochemical Company by the Company, payment of interest associated with the loan, and dividends by Rabigh Refining and Petrochemical Company can be carried out within the terms and conditions stipulated in the project finance contracts.

The Company has agreed to provide Rabigh Refining and Petrochemical Company with the amount equivalent to the Company's interest (37.50%) of capital needs associated with Rabigh Phase II Project which is not funded by borrowings under project finance contracts or other funding method by a capital increase or other method.

② Individually immaterial joint ventures

Carrying amounts of individually immaterial investments in joint ventures accounted for using the equity method are as follows:

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Total carrying amount	¥56,190	¥57,908	¥53,357

The aggregate amounts of the Group's share of comprehensive income of individually immaterial investments in joint ventures accounted for using the equity method are as follows:

	Millions of yen	
	2018	2017
The Group's share of net income	¥27,257	¥31,215
The Group's share of other comprehensive income	208	(474)
The Group's share of comprehensive income	27,465	30,741

17 Income Taxes

(1) Deferred Tax Assets and Liabilities

The details of originations of deferred tax assets and liabilities by major reasons and movements are as follows.

Fiscal Year ended March 31, 2018

	Millions of yen				
	April 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2018
Deferred tax assets					
Property, plant and equipment and intangible assets	¥ 27,729	¥ (5,842)	¥ —	¥ (121)	¥ 21,766
Inventories	49,806	(17,030)	—	(202)	32,574
Retirement benefit liabilities	12,823	392	1,100	(21)	14,294
Accrued expenses and provisions	31,396	(5,814)	—	(661)	24,921
Tax loss carryforwards	32,997	(8,650)	—	(468)	23,879
Prepaid research and development expenses	9,296	2,376	—	6	11,678
Others	15,828	722	1,664	(2,206)	16,008
Total	¥179,875	¥(33,846)	¥2,764	¥(3,673)	¥145,120
Deferred tax liabilities					
Property, plant and equipment and intangible assets	51,084	(15,418)	—	68	35,734
Financial assets measured at fair value through other comprehensive income	43,297	—	7,418	16	50,731
Retirement benefit assets	20,265	55	2,261	(87)	22,494
Investments in subsidiaries and affiliates	21,370	2,258	240	—	23,868
Others	9,585	(1,306)	43	229	8,551
Total	¥145,601	¥(14,411)	¥9,962	¥ 226	¥141,378

Note: Amounts are mainly deferred tax assets and deferred tax liabilities recognized through the acquisition of subsidiaries from business combination. Exchange differences are included in "Others."

Fiscal Year ended March 31, 2017

	Millions of yen				
	April 1, 2016	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2017
Deferred tax assets					
Property, plant and equipment and intangible assets	¥ 27,085	¥ 861	¥ —	¥ (217)	¥ 27,729
Inventories	50,136	(161)	—	(169)	49,806
Retirement benefit liabilities	14,352	83	(1,668)	56	12,823
Accrued expenses and provisions	37,287	(5,701)	—	(190)	31,396
Tax loss carryforwards	18,352	14,268	—	377	32,997
Prepaid research and development expenses	9,527	278	—	(509)	9,296
Others	13,422	1,854	31	521	15,828
Total	¥170,161	¥11,482	¥(1,637)	¥ (131)	¥179,875
Deferred tax liabilities					
Property, plant and equipment and intangible assets	28,085	1,304	—	21,695	51,084
Financial assets measured at fair value through other comprehensive income	49,855	—	(4,901)	(1,657)	43,297
Retirement benefit assets	18,410	541	1,309	5	20,265
Investments in subsidiaries and affiliates	19,646	813	911	—	21,370
Others	12,690	(3,053)	(21)	(31)	9,585
Total	¥128,686	¥ (395)	¥(2,702)	¥20,012	¥145,601

Note: Amounts are mainly deferred tax assets and deferred tax liabilities recognized through the acquisition of subsidiaries from business combination. Exchange differences are included in "Others."

Deductible temporary differences, tax loss carryforwards and tax credit carryforwards for which no deferred tax assets are recognized are as follows:

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Deductible temporary differences	**¥ 74,884**	¥ 71,590	¥ 64,093
Tax loss carryforwards	**124,298**	156,392	162,947
Tax credit carryforwards	**5,823**	3,294	2,140

Tax loss carryforwards and tax credit carryforwards for which no deferred tax assets are recognized will expire as follows:

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Tax loss carryforwards			
Not later than 1 year	**¥ 18,432**	¥ 23,610	¥ 6,886
Later than 1 year and not later than 2 years	**4,854**	10,995	22,487
Later than 2 years and not later than 3 years	**2,891**	5,184	14,766
Later than 3 years and not later than 4 years	**28,102**	15,751	9,031
Later than 4 years	**70,019**	100,852	109,777
Total	**¥124,298**	¥156,392	¥162,947

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Tax credit carryforwards			
Not later than 1 year	**¥ 274**	¥ 149	¥ 61
Later than 1 year and not later than 2 years	**318**	263	237
Later than 2 years and not later than 3 years	**1,005**	306	264
Later than 3 years and not later than 4 years	**144**	260	307
Later than 4 years	**4,082**	2,316	1,271
Total	**¥5,823**	¥3,294	¥2,140

The aggregate amounts of taxable temporary differences associated with investments in subsidiaries and associates for which deferred tax liabilities are not recognized as of March 31, 2018, 2017 and the transition date are ¥373,156 million, ¥325,946 million and ¥299,518 million, respectively. The Group does not recognize deferred tax liabilities for these temporary differences because the Group is able to control the timing of the reversal of these temporary differences, and it is probable that the temporary difference will not reverse in the foreseeable future.

(2) Income tax expenses

Income tax expenses are as follows:

	Millions of yen	
	2018	2017
Current tax expenses (Note 1)	¥43,218	¥25,115
Deferred tax expenses		
Recognition and reversal of temporary differences (Note 2)	17,350	(1,764)
Revaluation of recoverability of deferred tax assets	2,085	(10,113)
Total of deferred tax expenses	19,435	(11,877)
Total	¥62,653	¥13,238

The details of differences between the statutory income tax rate and the average effective tax rate are as follows:

The Group is mainly subject to income taxes, inhabitant tax, and enterprise tax. The statutory tax rates calculated based on these taxes, is 30.9% for the fiscal years ended March 31, 2018 and 2017. However, overseas subsidiaries are subject to income taxes in their respective countries of domicile.

	2018	2017
Effective statutory income tax rate	30.9%	30.9 %
(Reconciliation)		
Permanently non-deductible expenses	0.3	0.6
Permanently non-taxable income	0.7	(0.1)
Share of profit of investments accounted for using the equity method	(7.1)	(10.7)
Affiliates' undistributed earnings	1.2	0.5
Changes in unrecognized deferred tax assets	0.1	0.2
Changes in income tax rate (Note 2)	6.4	0.0
Tax credit for research and development expenses	(3.0)	(4.9)
Others	(3.5)	(5.7)
Average actual tax rate	26.0%	10.8 %

Note 1: Previously unrecognized tax loss carryforwards and unrecognized tax credit carryforwards of prior years or unrecognized benefits arising from temporary differences from prior periods that are used to reduce current tax expenses are ¥(4,236) million and ¥(4,303) million for the fiscal years ended March 31, 2018 and 2017, respectively, and are included in current tax expenses.

Note 2: Fiscal Year ended March 31, 2018

As the U.S. Tax Reform Act "The Tax Cuts and Jobs Act of 2017" was enacted on December 22, 2017, the effective statutory tax rate used for calculating the deferred tax assets and deferred tax liabilities of the consolidated subsidiaries located in the United States was decreased from 35% to 21%. As a result, due to the deferred tax assets and deferred tax liabilities that were adjusted by the revised income tax rate, the income tax expenses increased by ¥15,358 million.

Fiscal Year ended March 31, 2017

Since amendments to the Japanese tax regulations were enacted into law on November 18, 2016, the statutory tax rate used to calculate deferred tax assets and liabilities was changed. The effects on the consolidated financial statements are immaterial.

18 Bonds and borrowings

(1) Breakdown of bonds and borrowings

Bonds and borrowings consist of the following:

	Millions of yen				
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)	Average interest rate	Repayment due date
Short-term borrowings	¥128,521	¥210,734	¥102,659	1.11%	—
Commercial paper	34,000	—	24,000	(0.00)	—
Long-term borrowings	417,478	396,015	402,846	1.04	2018~2028
Bonds	262,162	277,346	302,000	0.98	2018~2037
Total	¥842,161	¥884,095	¥831,505	—%	—
Current liabilities	¥289,190	¥310,619	¥227,235	—%	—
Non-current liabilities	552,971	573,476	604,270	—	—
Total	¥842,161	¥884,095	¥831,505	—%	—

Bonds and borrowings are classified as financial liabilities measured at amortized cost. The Average interest rate and Repayment due date in the above table are for the fiscal year ended March 31, 2018.

(2) Bonds

A summary of the issuance condition of bonds is as follows:

Issuer	Bond Name	Issue Date	Millions of yen March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)	Interest Rate (%)	Collateral	Maturity Date
Sumitomo Chemical Co., Ltd.	34th unsecured bonds	Apr. 28, 2006	—	—	20,000 (20,000)	2.14	No	Apr. 28, 2016
	36th unsecured bonds	Feb. 27, 2007	—	—	25,000 (25,000)	1.95	No	Feb. 27, 2017
	37th unsecured bonds	Sep. 18, 2007	—	20,000 (20,000)	20,000	1.94	No	Sep. 15, 2017
	38th unsecured bonds	Apr. 22, 2008	**20,000 (20,000)**	20,000	20,000	1.76	No	Apr. 20, 2018
	40th unsecured bonds	Dec. 22, 2008	**7,000 (7,000)**	7,000	7,000	2.10	No	Dec. 21, 2018
	41st unsecured bonds	Oct. 20, 2009	**20,000**	20,000	20,000	1.64	No	Oct. 18, 2019
	43rd unsecured bonds	Apr. 23, 2010	**35,000**	35,000	35,000	1.58	No	Apr. 23, 2020
	45th unsecured bonds	Oct. 28, 2011	**20,000**	20,000	20,000	1.22	No	Oct. 28, 2021
	46th unsecured bonds	Sep. 21, 2012	—	25,000 (25,000)	25,000	0.572	No	Sep. 21, 2017
	47th unsecured bonds	Jun. 12, 2013	**10,000**	10,000	10,000	0.984	No	Jun. 12, 2020
	48th unsecured bonds	Jun. 12, 2013	**40,000 (40,000)**	40,000	40,000	0.623	No	Jun. 12, 2018
	49th unsecured bonds	Apr. 25, 2014	**10,000**	10,000	10,000	0.944	No	Apr. 25, 2024
	50th unsecured bonds	Apr. 25, 2014	**10,000**	10,000	10,000	0.567	No	Apr. 23, 2021
	51st unsecured bonds	Apr. 25, 2014	**10,000**	10,000	10,000	0.344	No	Apr. 25, 2019
	52nd unsecured bonds	Sep. 01, 2016	**10,000**	10,000	—	0.85	No	Sep. 01, 2036
	53rd unsecured bonds	Sep. 01, 2016	**10,000**	10,000	—	0.30	No	Sep. 01, 2026
	54th unsecured bonds	Sep. 01, 2016	**10,000**	10,000	—	0.20	No	Sep. 01, 2023
	55th unsecured bonds	Sep. 13, 2017	**10,000**	—	—	0.88	No	Sep. 13, 2037
	56th unsecured bonds	Sep. 13, 2017	**20,000**	—	—	0.38	No	Sep. 13, 2027
	57th unsecured bonds	Sep. 13, 2017	**10,000**	—	—	0.24	No	Sep. 13, 2024
Sumitomo Dainippon Pharma Co., Ltd.	3rd unsecured bonds	Mar. 08, 2011	—	10,000 (10,000)	10,000	1.11	No	Mar. 08, 2018
	4th unsecured bonds	Sep. 08, 2011	—	—	10,000 (10,000)	0.54	No	Sep. 08, 2016
	5th unsecured bonds	Sep. 08, 2011	**10,000 (10,000)**	10,000	10,000	0.82	No	Sep. 07, 2018
Sumika Polycarbonate Limited (Note 2)	2nd unsecured bonds	Dec. 29, 2014	**500**	500	—	0.78	No	Dec. 27, 2019
Total	—	—	**262,500 (77,000)**	277,500 (55,000)	302,000 (55,000)	—	—	—

Note 1: Corporate bonds to be redeemed within 1 year are stated in parentheses.

Note 2: Since the fiscal year ended March 31, 2017, Sumika Polycarbonate Limited was changed from a joint venture accounted for using the equity method into a consolidated subsidiary. Therefore, the balance as of the transition date is not stated.

(3) Pledged Assets

Assets pledged as collateral and collateralized obligations are as follows:

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Pledged Assets			
Investments in joint ventures	¥97,834	¥ 82,938	¥ 86,665
Property, plant and equipment	20,712	21,884	20,879
Trade notes and accounts receivable	7,855	10,835	8,092
Others	490	459	438
Total	¥126,891	¥116,116	¥116,074
Collateralized obligations			
Borrowings	10,104	15,098	4,056
Advance receipts	908	3,146	6,015
Others	1,249	372	77
Total	¥ 12,261	¥ 18,616	¥ 10,148

Investments in joint ventures pledged as collateral for joint venture debt amounting to ¥132,241 million, ¥169,251 million and ¥200,965 million are subjected to real guarantee as of March 31, 2018, 2017 and the transition date, respectively.

19 Other Financial Liabilities

Breakdown of other financial liabilities is as follows:

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Financial liabilities measured at fair value through profit or loss			
Derivative liabilities	¥ 4,361	¥ 7,363	¥ 7,374
Contingent considerations	86,616	103,280	67,013
Others	14,744	14,885	13,152
Financial liabilities measured at amortized cost			
Deposits received	34,468	29,458	32,688
Others	411	2,364	2,753
Lease obligations	8,299	10,769	10,661
Total	¥148,899	¥168,119	¥133,641
Current liabilities	52,244	54,129	47,304
Non-current liabilities	96,655	113,990	86,337
Total	¥148,899	¥168,119	¥133,641

20 Reconciliation of Liabilities for Financing Activities

The reconciliation of liabilities for financing activities is as follows:

Fiscal Year ended March 31, 2018

	Millions of yen					
			Non-cash transactions			
	Carrying amount April 1, 2017	Cash flows	Business Combination	Foreign currency translations	Others	Carrying amount March 31, 2018
Bonds	¥277,346	¥(15,210)	¥ —	¥ —	¥ 26	¥262,162
Commercial paper	—	34,000	—	—	—	34,000
Short-term borrowings	210,734	(82,586)	429	(1,445)	1,389	128,521
Long-term borrowings	396,015	22,706	1,246	(2,296)	(193)	417,478
Lease obligations	10,769	(3,281)	121	(191)	881	8,299
Total	¥894,864	¥(44,371)	¥1,796	¥(3,932)	¥2,103	¥850,460

Note: Others of non-cash transactions of lease obligations include increase of lease assets by new acquisition.

Fiscal Year ended March 31, 2017

	Millions of yen					
			Non-cash transactions			
	Carrying amount April 1, 2016	Cash flows	Business Combination	Foreign currency translations	Others	Carrying amount March 31, 2017
Bonds	¥302,000	¥(25,163)	¥ 500	¥ —	¥ 9	¥277,346
Commercial paper	24,000	(24,000)	—	—	—	—
Short-term borrowings	102,659	109,154	—	(1,079)	—	210,734
Long-term borrowings	402,846	(15,769)	9,919	(992)	11	396,015
Lease obligations	10,661	(2,995)	449	(53)	2,707	10,769
Total	¥842,166	¥ 41,227	¥10,868	¥(2,124)	¥2,727	¥894,864

Note: Others of non-cash transactions of lease obligations include increase of lease assets by new acquisition.

21 Leases

(1) Finance lease obligations

The total of minimum lease payments and their present value under finance lease contracts are as follows:

	Total minimum lease payments			Present value of total minimum lease payments		
	Millions of yen			Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Within 1 year	¥2,937	¥ 3,276	¥ 2,822	¥2,732	¥ 3,010	¥ 2,515
Over 1 year, within 5 years	5,681	7,500	7,335	5,343	7,021	6,696
Over 5 years	248	778	1,549	224	738	1,450
Total	¥8,866	¥11,554	¥11,706	¥8,299	¥10,769	¥10,661
Future finance expenses	567	785	1,045			
Present value of lease obligations	8,299	10,769	10,661			

As a lessee, the Group leases assets such as machinery and equipment.

Certain lease contracts include renewal options and purchase options. The Group has no lease contracts with covenants such as restrictions on additional borrowings and additional leases.

The weighted-average interest rate of finance lease obligations (non-current) based on the balances as of March 31, 2018 is 2.65%, and the weighted-average interest rate of finance lease obligations (current) based on the balances as of March 31, 2018 is 2.09%.

(2) Operating Lease

The total of minimum lease payments of non-cancellable operating lease is as follows:

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Within 1 year	¥ 4,562	¥ 4,725	¥ 4,495
Over 1 year, within 5 years	13,935	18,561	17,897
Over 5 years	13,098	12,154	13,108
Total	¥31,595	¥35,440	¥35,500

The total of minimum lease payments under operating lease contracts recognized as expenses is as follows:

	Millions of yen	
	2018	2017
Total minimum lease payments	¥17,217	¥18,001

Certain lease contracts include renewal options and purchase options. The Group has no lease contracts with covenants such as restrictions on additional borrowings and additional leases.

22 Trade and Other Payables

The breakdown of trade and other payables is as follows:

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Trade notes and accounts payable	¥315,981	¥247,584	¥212,042
Other payables and accrued expenses	168,891	168,190	159,614
Others	1,960	1,950	2,434
Total	¥486,832	¥417,724	¥374,090

Trade and other payables are classified as financial liabilities measured at amortized cost.

23 Employee Benefits

The Company and certain consolidated subsidiaries have defined benefit plans such as funded and unfunded lump-sum retirement benefit plans and defined benefit corporate pension plan, and also have defined contribution pension plan as retirement benefits for employees.

The Company and certain consolidated subsidiaries have retirement benefit trusts.

These plans are subject to minimum funding requirements stipulated in law, which requires the plan sponsor to pay additional contributions to achieve a minimum funding level within a certain time scale if the plan does not hold sufficient assets.

The Group's main plans are exposed to actuarial risk such as investment risk, interest rate risk, inflation risk and longevity risk.

(1) Defined Benefit Plan

1 Reconciliation of Defined Benefit Obligations and Plan Assets

Net defined benefit liabilities and assets recognized in the consolidated statement of financial position, defined benefit obligations and plan assets were as follows:

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Present value of defined benefit obligations	¥319,584	¥311,533	¥315,380
Fair value of the plan assets	(347,406)	(334,325)	(327,542)
Net defined benefit (assets) liabilities	(27,822)	(22,792)	(12,162)
Retirement benefit liabilities	39,871	35,518	41,405
Retirement benefit assets	(67,693)	(58,310)	(53,567)
Net defined benefit (assets) liabilities	¥(27,822)	¥ (22,792)	¥ (12,162)

② Reconciliation of present value of Defined Benefit Obligations

Changes in the present value of defined benefit obligations are as follows:

	Millions of yen	
	2018	2017
Present value of defined benefit obligations at the beginning of the year	¥311,533	¥315,380
Current service cost	13,762	14,152
Interest expense	2,149	1,953
Remeasurements		
Actuarial (gains) losses arising from changes in demographic assumptions	4,073	313
Actuarial (gains) losses arising from changes in financial assumptions	916	(1,995)
Actuarial (gains) losses arising from experiential adjustments	539	(1,609)
Past service cost	(125)	418
Benefits paid	(13,589)	(18,254)
Others	326	1,175
Present value of defined benefit obligations at the end of the year	¥319,584	¥311,533

The weighted-average duration of the defined benefit obligations of the Company and major consolidated subsidiaries is 15.6 years, 15.1 years and 15.2 years as of March 31, 2018, 2017 and the transition date, respectively.

③ Reconciliation of fair value of Plan Assets

Changes in the fair value of plan assets are as follows:

	Millions of yen	
	2018	2017
Fair value of plan assets at the beginning of the year	¥334,325	¥327,542
Interest income	2,667	2,291
Remeasurements		
Return on plan assets	11,664	6,944
Contributions to the plan by the employer	10,124	10,639
Payments from the plan	(11,501)	(14,388)
Others	127	1,297
Fair value of plan assets at the end of the year	¥347,406	¥334,325

The Group's basic policy regarding investment of plan assets has a target to increase the fair value basis plan assets by specifying target investment yield and acceptable risk in order to safely and efficiently ensure plan assets required for current and future pension and lump-sum payment.

A risk diversification on investments is carried out without imbalance to achieve this target.

In addition, the asset allocation ratio will be reassessed as necessary.

The Group plans to contribute ¥12,983 million for the fiscal year ending March 31, 2019.

④ Details of Plan Assets

Plan assets consist of the following:

	Millions of yen								
	March 31, 2018			March 31, 2017			April 1, 2016 (Transition Date)		
	Fair value with quoted prices in active markets	Fair value without quoted prices in active markets	Total	Fair value with quoted prices in active markets	Fair value without quoted prices in active markets	Total	Fair value with quoted prices in active markets	Fair value without quoted prices in active markets	Total
Cash and cash equivalents	¥ 22,902	¥ —	¥ 22,902	¥ 21,967	¥ —	¥ 21,967	¥ 21,388	¥ —	¥ 21,388
Equity instruments	99,413	—	99,413	91,480	—	91,480	81,379	—	81,379
Debt instruments	198,937	—	198,937	195,055	—	195,055	200,753	—	200,753
General accounts of life insurance companies	—	11,396	11,396	—	10,869	10,869	—	10,565	10,565
Others	61	14,697	14,758	389	14,565	14,954	433	13,024	13,457
Total	¥321,313	¥26,093	¥347,406	¥308,891	¥25,434	¥334,325	¥303,953	¥23,589	¥327,542

⑤ Significant actuarial assumptions

Significant actuarial assumptions are as follows:

	%		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Discount rate	0.6	0.6	0.5

⑥ Sensitivity analysis

The effect in the present value of the defined benefit obligations of a 0.5% change in discount rate used for actuarial calculations is as follows.

	Millions of yen	
	March 31, 2018	March 31, 2017
0.5% increase in discount rate	¥(21,092)	¥(20,500)
0.5% decrease in discount rate	22,012	21,438

Note: To calculate the sensitivity of the defined benefit obligations, the same method is applied as that for calculation of the defined benefit obligations recognized in the consolidated statement of financial position. Sensitivity is analyzed based on the reasonably estimable movement of assumptions as at the year-end. The sensitivity analysis assumes that all actuarial assumptions other than that subject to the analysis are constant, but in reality, the movement of other actuarial assumptions may affect the result.

(2) Defined Contribution Plan

Amounts recognized as expenses under defined contribution plans (including welfare pension fund under a multi-employer plan that is accounted for the same as defined contribution plan) for the fiscal years ended March 31, 2018 and 2017 are ¥4,415 million and ¥4,964 million, respectively.

(3) Employee Benefit Expenses

Employee benefit expenses recognized in "Cost of sales," "Selling, general and administrative expenses," and "Other operating expenses" in the consolidated statement of profit or loss for the fiscal years ended March 31, 2018 and 2017 are ¥344,512 million and ¥337,853 million, respectively.

(4) Multi-employer Defined Benefit Plans

Certain consolidated subsidiaries participate in the welfare pension fund under a multi-employer plan. Because the amount of plan assets corresponding to the contribution by the companies cannot be reasonably calculated, the amount of contribution required is accounted for the same as defined contribution plans.

The contributions for welfare pension fund are calculated as a fixed percentage of the average salary or the like of participating employees. In addition, each fund ensures future solvency by revising the contribution in accordance with relevant regulations.

If the funds are dissolved and liquidated, they will charge participants to cover deficits or distribute residual assets to participants based on minimum funding standards calculated in accordance with regulations or the like. In addition, employers that elect to withdraw from the funds are subject to a charge to cover any liabilities and deficits projected to result from their withdrawal.

A welfare pension fund under a multi-employer plan in which certain consolidated subsidiaries had participated was dissolved on March 28, 2018 with the approval of the Minister of Health, Labor and Welfare, and a corporate pension fund as a replacement system was established on the same date.

① Recent financial position of multi-employer defined benefit plans

	Millions of yen	
	As of March 31, 2017	As of March 31, 2016
Plan assets	¥291,474	¥306,491
Aggregate of actuarial liability based on pension finance calculation and minimum liability reserve	358,591	365,489
Net	¥ (67,117)	¥ (58,998)

The net amount presented in the above table is the total of ¥46,483 million in the present value of special contributions and ¥20,634 million in the plan assets shortfall carried forward as of March 31, 2017, and the total of ¥47,872 million in the present value of special contributions and ¥11,126 million in the plan assets shortfall carried forward as of March 31, 2016, respectively.

The present value of special contributions represents the amortized amount to be refunded over future periods to make up the past shortfall of plan assets in pension finance, calculated with a predetermined rate (special contributions) under an agreement regarding the welfare pension fund.

Under this plan, the present value of special contributions is amortized using the equal payment method. The remaining years of amortization are 14 years and 0 months and 15 years and 0 months as of March 31, 2017 and 2016, respectively. Special contributions of ¥63 million and ¥62 million have been accounted for as pension expense on the consolidated financial statements for the fiscal years ended March 31, 2017 and 2016, respectively.

② Ratio of Group contribution to multi-employer plans

1.33% (As of March 31, 2017)

1.29% (As of March 31, 2016)

The amount of the special contribution is calculated by multiplying the pre-determined rate by the amount of average salary at the time of the contribution. Therefore, the ratio of Group contribution to multi-employer plans above does not match the Group's actual proportional contribution.

③ Contributions to multi-employer plans in the fiscal year ending March 31, 2019

The Group expects to contribute ¥64 million to multi-employer plans for the fiscal year ending March 31, 2019.

24 Provisions

Components of and changes in provisions are as follows:

	Millions of yen					
	Provisions for sales rebates	Provisions for asset retirement obligations	Provisions for sales returns	Provisions for removal cost of property, plant and equipment	Other provisions	Total
As of April 1, 2016	¥48,703	¥15,360	¥10,319	¥15,074	¥3,829	¥ 93,285
Increase	63,391	275	9,445	1,476	3,395	77,982
Decrease (provision used)	(46,871)	(53)	(7,520)	(4,191)	(793)	(59,428)
Decrease (provision reversed)	—	—	(28)	(816)	(118)	(962)
Interest expense resulting from unwinding	—	169	—	—	—	169
Others	391	(44)	82	—	125	554
As of March 31, 2017	¥65,614	¥15,707	¥12,298	¥11,543	¥6,438	¥111,600
Current	65,614	40	12,298	3,029	4,015	84,996
Non-current	—	15,667	—	8,514	2,423	26,604
Total	¥65,614	¥15,707	¥12,298	¥11,543	¥6,438	¥111,600

	Provisions for sales rebates	Provisions for asset retirement obligations	Provisions for sales returns	Provisions for removal cost of property, plant and equipment	Other provisions	Total
As of April 1, 2017	¥65,614	¥15,707	¥12,298	¥11,543	¥6,438	¥111,600
Increase	74,955	512	5,544	2,872	1,891	85,774
Decrease (provision used)	(64,845)	(82)	(3,500)	(2,251)	(2,093)	(72,771)
Decrease (provision reversed)	—	(30)	(1)	(248)	(443)	(722)
Interest expense resulting from unwinding	—	77	—	—	—	77
Others	(3,861)	(64)	(725)	—	108	(4,542)
As of March 31, 2018	¥71,863	¥16,120	¥13,616	¥11,916	¥5,901	¥119,416
Current	71,863	—	13,616	5,773	3,544	94,796
Non-current	—	16,120	—	6,143	2,357	24,620
Total	¥71,863	¥16,120	¥13,616	¥11,916	¥5,901	¥119,416

25 Other Liabilities

The breakdown of other liabilities is as follows:

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Accrued bonuses	¥37,459	¥33,371	¥33,969
Obligations for unused paid absences	10,272	9,721	9,662
Advance receipts	10,290	9,548	10,886
Others	34,789	23,895	22,960
Total	¥92,810	¥76,535	¥77,477
Current liabilities	77,810	65,806	69,678
Non-current liabilities	15,000	10,729	7,799
Total	¥92,810	¥76,535	¥77,477

26 Equity and Other Equity Items

(1) Share Capital and Surplus

Changes in the numbers of shares authorized and shares issued are as follows:

	Shares	
	Number of shares authorized	Number of shares issued
As of April 1, 2016 (Transition date)	5,000,000,000	1,655,446,177
Changes during the year	—	—
As of March 31, 2017	5,000,000,000	1,655,446,177
Changes during the year	—	—
As of March 31, 2018	5,000,000,000	1,655,446,177

Note: All of the issued shares of the Company are ordinary shares that have no par value and no limitations on rights. Issued shares are fully paid.

The details of surplus are as follows:

① Capital Surplus

The Companies Act of Japan stipulates that half or more of the capital contributed from the issue of shares must be included in share capital and that the remainder must be included in capital reserve that is included in capital surplus. Moreover, capital reserve may be reclassified to share capital by resolution of the General Meeting of Shareholders.

② Retained Earnings

The Companies Act of Japan requires that an amount equal to one-tenth of dividends must be appropriated to capital reserve or earned surplus reserve until the total of the aggregate amount of capital reserve and earned surplus reserve equals a quarter of share capital. Earned surplus reserve may be appropriated to reduce a deficit, and also may be reversed by resolution of the General Meeting of Shareholders.

(2) Treasury Shares

Changes in the numbers of treasury shares are as follows:

	Shares
	Number of shares
As of April 1, 2016 (Transition date)	20,215,340
Changes during the year	78,211
As of March 31, 2017	20,293,551
Changes during the year	96,602
As of March 31, 2018	20,390,153

Note: The changes during the periods are mainly due to claims for purchases from or sales to shareholders with less than one unit of shares.

(3) Other Components of Equity

Remeasurements of Financial Assets Measured at Fair Value through Other Comprehensive Income

The valuation difference in the fair value on financial assets is measured at fair value through other comprehensive income.

Remeasurement of Defined Benefit Plans

Remeasurement of defined benefit plans is the effects of differences between actuarial assumptions at the beginning of the year and actual experience and the effects of changes in actuarial assumptions.

This amount is recognized in other comprehensive income when it occurs and is immediately transferred from other components of equity to retained earnings.

Cash Flow Hedges
This is the effective portion of gains or losses on the hedging instrument designated as cash flow hedges.

Exchange Differences on Translation of Foreign Operations
These adjustments result from consolidating the financial statements of foreign subsidiaries.

27 Dividends

Dividends paid are as follows:

Fiscal year ended March 31, 2018

Date of Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
May 16, 2017 Board of Directors	Ordinary shares	**¥11,446**	**¥ 7.00**	March 31, 2017	June 2, 2017
November 1, 2017 Board of Directors	Ordinary shares	**16,351**	**10.00**	September 30, 2017	December 4, 2017

Fiscal year ended March 31, 2017

Date of Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
May 11, 2016 Board of Directors	Ordinary shares	¥ 9,811	¥6.00	March 31, 2016	June 1, 2016
October 28, 2016 Board of Directors	Ordinary shares	11,446	7.00	September 30, 2016	December 5, 2016

Dividends with an effective date after the fiscal year ended March 31, 2018 are as follows:

Fiscal year ended March 31, 2018

Date of Resolution	Type of shares	Total dividends (Millions of yen)	Paid from	Dividends per share (Yen)	Record date	Effective date
May 15, 2018 Board of Directors	Ordinary shares	**¥19,621**	Retained earnings	**¥12.00**	March 31, 2018	June 4, 2018

28 Revenue

The breakdown of sales revenue is as follows:

	Millions of yen	
	2018	2017
Sale of goods	**¥2,126,717**	¥1,880,370
Rendering of services	**63,792**	58,699
Total	**¥2,190,509**	¥1,939,069

29 Selling, General and Administrative Expenses

The breakdown of selling, general and administrative expenses is as follows:

	Millions of yen	
	2018	2017
Research and development	**¥162,101**	¥155,048
Employee benefits	**156,012**	149,932
Advertising and sales promotion	**46,707**	44,268
Transportation and storage cost	**45,579**	39,608
Depreciation and amortization	**16,230**	14,502
Changes in fair value of contingent consideration	**(6,146)**	6,507
Others	**137,405**	124,025
Total	**¥557,888**	¥533,890

30 Other Operating Income and Operating Expenses

The breakdown of other operating income is as follows:

	Millions of yen	
	2018	2017
Gain on transfer of business	¥ 8,895	¥ —
Gain on sale of property, plant and equipment	6,801	1,035
Gain on step acquisitions	—	2,840
Others	9,566	10,786
Total	¥25,262	¥14,661

The breakdown of other operating expenses is as follows:

	Millions of yen	
	2018	2017
Business structure improvement expenses (Note)	¥14,210	¥18,186
Others	7,434	8,601
Total	¥21,644	¥26,787

Note: Business structure improvement expenses are expenses to improve the business structure, which mainly include loss on disposal of property, plant and equipment and expenses for reformation of the organizations and operations.

31 Finance Income and Finance Expenses

The breakdown of finance income is as follows:

	Millions of yen	
	2018	2017
Interest income		
Financial assets measured at amortized cost	¥ 1,861	¥ 1,290
Financial assets measured at fair value through profit or loss	2,161	1,769
Dividend income		
Financial assets measured at fair value through other comprehensive income		
Financial assets derecognized during the year	143	228
Financial assets held at year-end	5,936	5,680
Others	1,441	1,733
Total	¥11,542	¥10,700

The breakdown of finance expenses is as follows:

	Millions of yen	
	2018	2017
Interest expenses		
Financial liabilities measured at amortized cost	¥ 8,390	¥ 8,510
Financial liabilities measured at fair value through profit or loss	1,638	1,691
Other liabilities	618	944
Exchange loss	9,588	857
Others	1,420	2,827
Total	¥21,654	¥14,829

32 Other Comprehensive Income

Gains (losses) arising for the year, reclassification adjustments to profit or loss and tax effect for each component of other comprehensive income are as follows:

Fiscal year ended March 31, 2018

	Millions of yen				
	Gains (losses) arising for the year	Reclassification adjustments	Before tax effect	Tax effect	After tax effect
Items that will not be reclassified to profit or loss					
Remeasurements of financial assets measured at fair value through other comprehensive income	¥25,395	¥ —	¥25,395	¥(7,159)	¥18,236
Remeasurements of defined benefit plans	6,136	—	6,136	(1,161)	4,975
Share of other comprehensive income of investments accounted for using the equity method	485	—	485	(30)	455
Total items that will not be reclassified to profit or loss	¥32,016	¥ —	¥32,016	¥(8,350)	¥23,666
Items that may be subsequently reclassified to profit or loss					
Cash flow hedges	597	2,103	2,700	(351)	2,349
Exchange differences on translation of foreign operations	(16,907)	—	(16,907)	—	(16,907)
Share of other comprehensive income of investments accounted for using the equity method	(2,476)	(19)	(2,495)	(210)	(2,705)
Total of items that may be subsequently reclassified to profit or loss	(18,786)	2,084	(16,702)	(561)	(17,263)
Total	¥13,230	¥2,084	¥15,314	¥(8,911)	¥ 6,403

Fiscal year ended March 31, 2017

	Millions of yen				
	Gains (losses) arising for the year	Reclassification adjustments	Before tax effect	Tax effect	After tax effect
Items that will not be reclassified to profit or loss					
Remeasurements of financial assets measured at fair value through other comprehensive income	¥ 7,351	¥ —	¥ 7,351	¥(1,732)	¥ 5,619
Remeasurements of defined benefit plans	10,235	—	10,235	(2,977)	7,258
Share of other comprehensive income of investments accounted for using the equity method	2,450	—	2,450	(496)	1,954
Total items that will not be reclassified to profit or loss	¥20,036	¥ —	¥20,036	¥(5,205)	¥14,831
Items that may be subsequently reclassified to profit or loss					
Cash flow hedges	(1,625)	1,094	(531)	48	(483)
Exchange differences on translation of foreign operations	1,586	—	1,586	—	1,586
Share of other comprehensive income of investments accounted for using the equity method	(3,662)	5	(3,657)	(415)	(4,072)
Total of items that may be subsequently reclassified to profit or loss	(3,701)	1,099	(2,602)	(367)	(2,969)
Total	¥16,335	¥1,099	¥17,434	¥(5,572)	¥11,862

33 Earnings per Share

(1) Basis for calculating basic earnings per share

	2018	2017
Net income attributable to owners of the parent (millions of yen)	¥133,768	¥76,540
Amounts not attributable to ordinary shareholders of the parent (millions of yen)	—	—
Net income used to calculate basic earnings per share (millions of yen)	¥133,768	¥76,540
Average number of ordinary shares (thousands of shares)	1,635,100	1,635,196
Basic earnings per share (yen)	81.81	46.81

(2) Basis for calculating diluted earnings per share

	2018	2017
Net income used to calculate basic earnings per share (millions of yen)	¥133,768	¥76,540
Adjustments by diluted potential ordinary shares of associates accounted for using the equity method (millions of yen)	(72)	(55)
Net income used to calculate diluted earnings per share (millions of yen)	¥133,696	¥76,485
Average number of ordinary shares after dilution (thousands of shares)	1,635,100	1,635,196
Diluted earnings per share (yen)	81.77	46.77

Note 1: There are no potential ordinary shares that are excluded from the calculation of the average number of dilutive ordinary shares due to their antidilutive effects for the fiscal years ended March 31, 2018 and 2017.

Note 2: There are no significant transactions involving ordinary shares or potential ordinary shares between the fiscal year-end to the authorization date of the consolidated financial statements.

34 Financial Instruments

(1) Capital Management

The Group conducts capital management for sustainable growth and maximization of its corporate value.

To achieve sustainable growth, the Group considers it essential to secure sufficient financing capacity to make agile investment in businesses when an opportunity for such investments for business growth (such as acquisition of external resources) arises in the future and aims to maintain the capital structure with balance.

There is no significant capital restriction that applies to the Company (excluding general provisions of the Companies Act and other laws and regulations).

When the Company determines dividend, the Company considers shareholder return as one of our most prioritized management issues and has made it a policy to maintain stable dividend payments, giving due consideration to our business performance and a dividend payout ratio for each fiscal period, the level of retained earnings necessary for future growth, and other relevant factors.

Based on the provision of Article 459, Paragraph 1 of the Companies Act, the Company stipulates that it may pay dividends of surplus by resolution of the Board of Directors.

(2) Financial Risk Management

The Group is exposed to financial risks (e.g. credit risk, liquidity risk, foreign exchange risk, interest rate risk and market price fluctuation risk) in the course of doing business. The Group performs risk management to reduce these financial risks.

(3) Credit Risk

The Company regularly reassesses the dealing policies about trade receivables through monitoring the business condition, the sales turnover, and the balance of receivables of all business counterparties by sales sections of each business segment, and aims at the grasp of changes in customers' credit risks due to deterioration of the financial condition, etc. at the early stage and the reduction of the credit risks in accordance with the Company regulation for credit management.

In case of the consolidated subsidiaries, their sales divisions or accounting departments also manage the financial and credit conditions of their customers pursuant to their internal rules and regulations.

The Group conducts derivative transactions only with creditworthy financial institutions and trading companies to minimize the counterparty risk, and accordingly the impact on credit risk is limited.

The Group does not have significant exposure of credit risk relating to particular counterparties nor excessive concentration of credit risk that requires special attention.

The maximum exposures related to the credit risk of financial assets are the carrying amount (net of impairment) presented in the consolidated statement of financial position. The maximum exposures related to the credit risk of guarantee obligations are described in Note 38 Contingent Liabilities.

The Group holds deposits mainly as collateral against certain trade and other receivables. The amounts recognized in "Other financial liabilities" in the consolidated statement of financial position are ¥12,515 million, ¥12,548 million and ¥12,723 million as of March 31, 2018, 2017 and the transition date, respectively.

Changes in allowance for doubtful accounts

The Group reviews collectability of trade receivables and other receivables, other financial assets, and financial guarantee contracts based on the credit conditions of customers and recognizes allowance for doubtful accounts.

For trade receivables without material financial components, allowances for doubtful accounts are always measured at an amount equal to the lifetime expected credit losses (the simplified approach). For other receivables, other financial assets, and financial guarantee contracts, allowances for doubtful accounts are generally measured at an amount equal to the 12-month expected credit losses, while in case that credit risk of a financial asset (including financial guarantee contracts) has increased significantly since initial recognition, an allowance for doubtful account for the financial asset is measured by estimating individually the lifetime expected credit losses based on the past experiences of bad debts and forecasts on future recoverable amounts (general approach).

The Group considers whether there has been a significant increase in the credit risk based on changes in default risk. To determine if there has been a change in the default risk, the Group considers financial conditions of counterparties, past credit loss history and past overdue information. The Group determines there has been a significant increase in credit risk if a contractual payment is past due for more than 30 days. And it is generally determined that there has been a default, if a contractual payment is past due over 90 days. When making these judgments, the Group considers reasonable and supportable information that is available without excessive cost or effort, and it would be determined that there have been no significant increases in credit risk if it is rebuttable based on this information.

Any financial assets are treated as credit-impaired financial assets if there is request for changing terms and conditions for repayment from the debtors, serious financial difficulties of the debtor, or commencement of legal liquidation procedures due to bankruptcy and others of the debtor, etc. For any amount that is probably not recoverable in the future, the carrying amount of the financial asset is directly reduced from the total amount, and the amount of allowance for doubtful account is reduced correspondingly.

The amount of allowance for doubtful accounts is calculated as follows:

- Trade receivables (Note receivables and account receivables)
  Based on the simplified approach, the allowance is calculated by multiplying the total amount of the receivables by the provision rate calculated by considering future prospects of economic conditions, etc. in addition to the historical rate of credit losses.
- Other receivables (other account receivables, etc.), other financial assets, and financial guarantee contracts
  As for assets for which credit risk is not considered significantly increased, the amount of allowance is calculated by multiplying the total carrying amount by the provision rate that is determined by considering future prospects of economic conditions, etc. in addition to the historical rate of credit losses of similar assets. If credit risk of the asset is considered significantly increased or the asset meets criteria for credit-impaired financial assets, the amount of the allowance is calculated as difference between the recoverable amount that is individually determined by considering future prospects of economic conditions, etc. in addition to the financial conditions of counterparty and the total carrying amount.

The total carrying amount of financial assets and the balance of financial guarantee contracts for which allowance for doubtful accounts is to be recognized is as follows.

	Millions of yen			
		Financial assets applied to the general approach		
	Financial assets applied to the simplified approach	Stage 1 Financial assets measured at an amount equal to the 12-month expected credit losses	Stage 2 Financial assets measured at an amount equal to the lifetime expected credit losses	Stage 3 Financial assets measured at an amount equal to the lifetime expected credit losses
April 1, 2016 (Transition date)	¥409,440	¥333,358	¥—	¥410
March 31, 2017	461,281	405,809	—	377
March 31, 2018	**¥479,919**	**¥447,581**	**¥—**	**¥481**

Expected credit loss of financial assets applied by simplified approach and Stage 1 financial assets, are measured on a collective basis by multiplying the historical rate of credit losses considering the forecasts on future economic conditions in a group of financial assets with similar credit risk characteristics. Expected credit loss of financial assets of Stage 2 and 3 are measured individually considering future prospects of economic conditions, etc. in addition to the financial conditions of counterparties.

Changes in allowance for doubtful accounts are as follows:
There is no significant increase or decrease of carrying amount that could affect a change in allowance for doubtful accounts for the year ended March 31, 2018.

	Millions of yen	
	2018	2017
Balance at the beginning of the year	¥2,983	¥2,600
Increase	913	587
Decrease (provision used)	(249)	(151)
Others	(489)	(53)
Balance at the end of the year	¥3,158	¥2,983

Note: Allowance for doubtful accounts mainly relates to financial assets under simplified approach.

(4) Liquidity Risk

Liquidity risk is the risk that the Group is unable to perform its repayment obligations of financial liabilities on the settlement date.

The treasury department semi-annually prepares funding plans based on reporting from each business division and updates these plans on a daily basis. The Company manages liquidity risk by restricting short-term liquidity to approximately one-day equivalent of sales revenue, signing overdraft contracts with financial institutions, and entering into commitment line agreements totaling ¥101,000 million. The balance of borrowings related to those commitment lines is zero as of March 31, 2018 and 2017, respectively.

The Group has implemented group financing systems to manage liquidity risk by enabling interchange of excess funds among group companies for both domestic and overseas group companies.

The balance of financial liabilities (including derivative financial instruments) by settlement date is as follows.

Fiscal Year ended March 31, 2018

	Millions of yen							
	Carrying amount	Total contractual cash flow	Due within one year	Due after one year within two years	Due after two years within three years	Due after three years within four years	Due after four years within five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	¥486,832	¥486,832	¥486,832	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	128,521	128,812	128,812	—	—	—	—	—
Commercial paper	34,000	34,000	34,000	—	—	—	—	—
Long-term borrowings	417,478	427,107	53,013	63,856	48,654	41,628	77,809	142,147
Bonds	262,162	271,652	79,225	32,219	46,044	30,690	417	83,057
Lease obligations	8,299	8,866	2,937	2,206	1,753	1,113	609	248
Deposits received	34,468	34,468	33,344	64	34	32	47	947
Others	15,155	15,155	14,744	11	2	9	152	237
Derivative liabilities	4,361	4,907	1,488	966	811	621	509	512

Fiscal Year ended March 31, 2017

	Millions of yen							
	Carrying amount	Total contractual cash flow	Due within one year	Due after one year within two years	Due after two years within three years	Due after three years within four years	Due after four years within five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	¥417,724	¥417,724	¥417,724	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	210,734	211,186	211,186	—	—	—	—	—
Long-term borrowings	396,015	407,480	47,978	52,346	61,055	44,520	32,928	168,653
Bonds	277,346	286,759	57,699	79,037	32,031	45,856	30,502	41,634
Lease obligations	10,769	11,554	3,276	2,916	2,039	1,533	1,012	778
Deposits received	29,458	29,458	28,070	32	32	32	32	1,260
Others	17,249	17,249	14,924	1,956	2	2	152	213
Derivative liabilities	7,363	7,707	3,572	1,005	891	755	569	915

Transition date (April 1, 2016)

	Millions of yen							
	Carrying amount	Total contractual cash flow	Due within one year	Due after one year within two years	Due after two years within three years	Due after three years within four years	Due after four years within five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	¥374,090	¥374,090	¥374,090	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	102,659	102,956	102,956	—	—	—	—	—
Commercial paper	24,000	24,000	24,000	—	—	—	—	—
Long-term borrowings	402,846	416,936	49,387	54,113	41,369	59,727	43,118	169,222
Bonds	302,000	312,823	58,606	57,608	78,892	31,391	45,721	40,605
Lease obligations	10,661	11,706	2,822	2,745	2,178	1,287	1,125	1,549
Deposits received	32,688	32,688	28,988	2,486	32	32	32	1,118
Others	15,905	15,905	13,673	1,953	8	3	3	265
Derivative liabilities	7,374	7,492	2,221	1,074	909	883	817	1,588

(5) Foreign Exchange Risk

The Company and certain of its consolidated subsidiaries use forward foreign exchange contracts within a certain extent in accordance with the Company's regulation for management of foreign exchange risk to hedge foreign currency exchange fluctuation risk identified by currency and monthly basis for trade receivables and payables, etc. denominated in foreign currencies. The Group does not use transactions that have larger market price fluctuation ratio than the price fluctuation of the underlying transaction, such as leveraged derivatives transactions.

Exposure of Foreign Exchange Risk

The Group is exposed to foreign exchange risk primarily from US dollars.

The net exposure to foreign exchange risk of US dollars is as follows, excluding exposures hedged by derivative transactions.

	Thousands of US dollars	
	March 31, 2018	March 31, 2017
Net exposure	$1,545,688	$1,136,494

Foreign Exchange Sensitivity Analysis

For the financial instruments denominated in foreign currencies held by the Group as of March 31, 2018 and 2017, the financial impact on net income and equity in the event of 1% appreciation against the US dollar on fiscal year-end, is as follows.

The impact of translating financial instruments denominated in functional currency and translating assets, liabilities, income and expenses of foreign operations into Japanese yen is not included. Also, the analysis assumes that all other factors (balance, interest rate, etc.) are held constant.

	Millions of yen	
	March 31, 2018	March 31, 2017
	¥(1,154)	¥(895)

(6) Interest Rate Risk

The Group considers the details of funding demands, financial condition and financial environment and determines amounts, periods and methods for funding; The Group raises funds with combination of fixed and variable interest rates to be prepared for future interest rate fluctuations; however, there is a possibility that interest expenses will increase in case of interest rate increase and adversely affect the Group's financial performance and condition. The Group and certain consolidated subsidiaries hedge the risk of an increase in interest rate by using interest rate swap transactions within a certain extent to mitigate the interest rate fluctuation risk related to loan payables.

Exposure of Interest Rate Risk

The net exposure to interest rate risk is as follows, excluding exposures hedged by derivative transactions.

	Millions of yen	
	March 31, 2018	March 31, 2017
Net exposure	¥92,667	¥149,328

Interest Rate Sensitivity Analysis

For the financial instruments held by the Group as of March 31, 2018 and 2017, in the event of a 100-basis point interest rate increase, the monetary impact of financial instruments affected by the interest rate movement on net income and equity is as follows.

The analysis relates only to the financial instruments influenced by interest rate fluctuation, and assumes that all other factors (balance, exchange rate, etc.) are held constant.

	Millions of yen	
	March 31, 2018	March 31, 2017
	¥(656)	¥(1,074)

(7) Market Price Fluctuation Risk

The Group is exposed to stock price fluctuation risk because the Group holds the stocks of business partner companies to maintain and strengthen business relationships with them. With regard to those stocks, the Group regularly watches market price and financial conditions of the issuer (business partner companies) and reassesses the Group's stockholding status in light of relationships with business partner companies.

In the event of a 10% market price change on each reporting date, the impacts of equity instruments affected by the market price movement on other comprehensive income (after-tax effect) as of March 31, 2018, 2017 and the transition date are ¥12,939 million, ¥11,330 million and ¥13,334 million, respectively. It is assumed that all other factors are held constant.

(8) Fair Value of Financial Instruments

The fair value hierarchy of financial instruments are categorized into the following levels based on the level of the input used for the fair value measurements.

Level 1: Quoted prices in active markets for identical assets or liabilities
Level 2: Inputs other than Level 1, either directly or indirectly observable
Level 3: Inputs that are not based on observable market data

The carrying amount and fair value of financial instruments measured at amortized cost are as follows:

	Millions of yen					
	March 31, 2018		March 31, 2017		April 1, 2016 (Transition Date)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	**¥262,162**	**¥265,559**	¥277,346	¥282,405	¥302,000	¥310,481
Long-term borrowings	**417,478**	**420,778**	396,015	400,955	402,846	411,044
Lease obligations	**8,299**	**8,490**	10,769	11,163	10,661	11,300

The above table does not include the following financial instruments for which carrying amounts are reasonable approximations of fair value: Cash and cash equivalents, Trade and other receivables, Loan receivables, Other financial assets (Other), Trade and other payables, Short-term borrowings, Commercial paper, Deposits received, Other financial liabilities (Other)

The fair value of bonds is determined based on market prices.

The fair value of long-term borrowings and lease obligations is calculated based on the present value of future cash flow discounted using a deemed interest rate assumed on new contracts with equivalent conditions.

As for fair value hierarchy of financial instruments measured at amortized cost, bonds are classified at Level 2 and others are classified at Level 3.

Financial assets and liabilities measured at fair value are as follows:
Transfers between the levels of the fair value hierarchy are recognized as if they have occurred at the end of reporting period. No financial instruments are transferred between levels of the fair value hierarchy for the fiscal years ended March 31, 2018 and 2017.

Fiscal year ended March 31, 2018

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through profit or loss				
Loan receivables	¥ —	¥ —	¥ 63,773	¥ 63,773
Long-term accrued interests	—	—	11,468	11,468
Derivative assets designated as hedging instruments	—	889	—	889
Derivative assets not designated as hedging instruments	—	4,356	—	4,356
Other financial assets	—	—	823	823
Subtotal	—	5,245	76,064	81,309
Financial assets measured at fair value through other comprehensive income				
Shares and investments	185,674	—	51,643	237,317
Subtotal	185,674	—	51,643	237,317
Total	¥185,674	¥5,245	¥127,707	¥318,626
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities designated as hedging instruments	—	3,897	—	3,897
Derivative liabilities not designated as hedging instruments	—	464	—	464
Contingent consideration	—	—	86,616	86,616
Other financial liabilities	—	—	14,744	14,744
Total	¥—	¥4,361	¥101,360	¥105,721

Fiscal year ended March 31, 2017

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through profit or loss				
Loan receivables	¥ —	¥ —	¥ 67,571	¥ 67,571
Long-term accrued interests	—	—	10,229	10,229
Derivative assets designated as hedging instruments	—	9	—	9
Derivative assets not designated as hedging instruments	—	8,306	—	8,306
Other financial assets	—	—	997	997
Subtotal	—	8,315	78,797	87,112
Financial assets measured at fair value through other comprehensive income				
Shares and investments	162,502	—	46,390	208,892
Subtotal	162,502	—	46,390	208,892
Total	¥162,502	¥8,315	¥125,187	¥296,004
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities designated as hedging instruments	—	5,706	—	5,706
Derivative liabilities not designated as hedging instruments	—	1,657	—	1,657
Contingent consideration	—	—	103,280	103,280
Other financial liabilities	—	—	14,885	14,885
Total	¥ —	¥7,363	¥118,165	¥125,528

Transition date (April 1, 2016)

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through profit or loss				
Loan receivables	¥ —	¥ —	¥ 67,965	¥ 67,965
Long-term accrued interests	—	—	8,683	8,683
Derivative assets designated as hedging instruments	—	1,178	—	1,178
Derivative assets not designated as hedging instruments	—	6,932	—	6,932
Subtotal	—	8,110	76,648	84,758
Financial assets measured at fair value through other comprehensive income				
Shares and investments	191,480	—	46,025	237,505
Subtotal	191,480	—	46,025	237,505
Total	¥191,480	¥8,110	¥122,673	¥322,263
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities designated as hedging instruments	—	6,304	—	6,304
Derivative liabilities not designated as hedging instruments	—	1,070	—	1,070
Contingent consideration	—	—	67,013	67,013
Other financial liabilities	—	—	13,152	13,152
Total	¥ —	¥7,374	¥ 80,165	¥ 87,539

Changes in balances of financial instruments categorized as Level 3 are as follows:

	Millions of yen					
	2018			2017		
	FVTPL Financial assets	FVTOCI Financial assets	FVTPL Financial liabilities	FVTPL Financial assets	FVTOCI Financial assets	FVTPL Financial liabilities
Balance at the beginning of the year	¥78,797	¥46,390	¥118,165	¥76,648	¥46,025	¥ 80,165
Total gains and losses	1,567	(4,381)	(6,132)	1,486	(220)	7,036
Profit or loss (Note 1)	1,567	—	(6,132)	1,486	—	7,036
Other comprehensive income (Note 2)	—	(4,381)	—	—	(220)	—
Increase	—	10,699	956	997	780	31,581
Decrease	(174)	(924)	(6,580)	—	(233)	(556)
Others (Note 3)	(4,126)	(141)	(5,049)	(334)	38	(61)
Balance at the end of the year	¥76,064	¥51,643	¥101,360	¥78,797	¥46,390	¥118,165

Note 1: Gains and losses from financial assets measured at FVTPL, which are included in Profit or loss, are recorded in "Finance income" and "Finance expenses" in the consolidated statement of profit or loss. Among gains and losses related to financial liabilities measured at FVTPL, changes in fair value of contingent consideration are recorded in "Selling, general and administrative expenses," while those related to other financial liabilities are recorded in "Finance income" and "Finance expenses" in the consolidated statement of profit or loss.

Note 2: Gains and losses included in Other comprehensive income are those derived from financial assets measured at fair value through other comprehensive income as of the reporting date. These gains and losses are recorded in "Remeasurements of financial assets measured at fair value through other comprehensive income" in the consolidated statement of comprehensive income.

Note 3: Others mainly include exchange differences of financial instruments denominated in foreign currencies.

Note 4: Fair value measurement of financial instruments classified as level 3 is determined in accordance with valuation policies and procedures approved by appropriate authorized personnel. Valuation models are determined so that they reflect each financial instrument's nature, characteristics and risks most appropriately. The valuator examines whether it is possible to reasonably explain by comparing changes in important inputs that could affect the fair value and changes in fair value, on an ongoing basis.

Material unobservable inputs related to fair value measurement of financial instruments classified as Level 3 are as follows:

- Fair value of financial assets measured at FVTPL is calculated by discounted cash flow method, and the material unobservable inputs are total amount of future cash flow (¥94,708 million, ¥95,524 million and ¥93,233 million as of March 31, 2018, 2017 and the transition date, respectively) and discount rate (4.08%, 3.05% and 2.53% as of March 31, 2018, 2017 and the transition date, respectively).
- The financial assets measured at FVTOCI are mainly composed of unlisted equity securities, and their fair value is calculated by discounted cash flow method in principle. However, for unlisted equity securities for which fair value approximates their net asset value, the fair value is mainly calculated by valuation technique based on the net asset value.
- As for financial liabilities measured at FVTPL, fair value of contingent consideration is calculated by discounted cash flow method, and material unobservable inputs are sales revenue arising from relevant business and discount rate. A certain consolidated subsidiary recognizes the interest of preference shares issued as financial liabilities because it is redeemable at the amount based on its net asset value at any time based on the request of holders of preference shares. Fair value of preference shares is calculated by valuation technique based on the net asset value.

Changes in the material assumption that affect fair value of financial instruments classified as Level 3 are as follows:

			Millions of yen	
			March 31, 2018	March 31, 2017
FVTPL Financial assets	Total future cash flow	5% decrease	¥(3,736)	¥(3,891)
	Discount rate	0.5% increase	(2,071)	(2,558)
		0.5% decrease	2,135	2,951
FVTPL Financial liabilities (contingent consideration)	Sales revenue	5% increase	2,445	1,907
		5% decrease	(2,551)	(2,468)
	Discount rate	0.5% increase	(1,647)	(1,986)
		0.5% decrease	¥ 1,753	¥ 1,772

As of the transition date (April 1, 2016), the effects of changes in the material assumption on the fair value of FVTPL financial assets are ¥(3,832) million in the event of 5% decrease in total future cash flow, ¥(2,900) million in the event of 0.5% increase in discount rate, and ¥3,352 million in the event of 0.5% decrease in discount rate.

(9) Transfer of Financial Assets

The Group enters into liquidation transactions involving certain trade receivables. However, some of these liquidated receivables give rise to an obligation for the Group to make payments retrospectively if the obligor fails to settle. The Group does not derecognize such liquidated receivables because the derecognition criteria has not been met for such financial assets.

The carrying amounts of assets and associated liabilities that are transferred but do not meet the derecognition criteria are as follows. Transferred assets and associated liabilities are mainly included in "Trade and other receivables" (accounts receivable) and "Bonds and borrowings" (short-term borrowings), respectively in the consolidated statement of financial position. The fair values of these financial assets and liabilities are close to their carrying amounts.

	Millions of yen	
	March 31, 2018	March 31, 2017
Carrying amount of transferred assets	¥6,224	¥9,360
Carrying amount of associated liabilities	6,224	9,360

(10) Derivatives

The Group uses derivatives, such as foreign exchange forward contracts for hedging foreign exchange fluctuation risk related to trade receivables and payables denominated in foreign currencies, etc., interest rate swaps contracts for hedging interest payment fluctuation risk related to bonds and borrowings and commodity future (forwards) contracts for hedging market price fluctuation risk related to the sales and purchase of aluminum.

These derivatives are not designated as hedging instruments except for certain transactions designated as a cash flow hedge. However, the Group determines that certain derivative transactions that are not designated as hedging instruments effectively offset the effect of fluctuation of foreign exchange and commodity market, because the Group only uses derivatives for the purpose of hedging risks to the extent of actual demand.

(Cash Flow Hedge)

A cash flow hedge is a hedge for avoiding risk of volatility in future cash flows.

The Group uses interest swap contracts for the purpose of hedging interest rate fluctuation risk related to bonds and borrowings, and commodity future contracts for the purpose of hedging market price fluctuation risk related to the forecasted transactions of aluminum with high possibility.

The Company assesses hedge effectiveness at the hedge's inception and on an ongoing basis, through qualitative assessment on whether important terms and conditions of the hedged item match or conform closely to those of the hedging instrument, or quantitative assessment on whether changes in cash flows of the hedged item and the hedging instrument are offset with each other because of the same risk, in which changes in cash flows of the hedged item caused by the hedged risk are offset by changes in cash flows of the hedging instrument. In addition, the Group has determined the necessary quantity of hedging instruments by estimating ratio of the change in value of hedged items that is attributed to the change in value of risks of hedged items to the change in value of hedging instruments at the inception of hedging relationships. In principle, the Group sets the hedge ratio so as to obtain a one-to-one relationship.

It is possible to occur ineffective portion due to cancelation of forecasted transaction, etc. However, because the Company performs highly effective hedges, the risk of occurring ineffective portion is expected to be insignificant. The amount of hedge ineffectiveness recognized in profit or loss for the fiscal years ended March 31, 2018 and 2017 is not material.

The interest rates of interest rate swap contracts and average prices in commodity future contracts are as follows:

	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Interest rate fluctuation risk			
Interest rate swap contracts			
Pay fixed rate, receive floating rate	0.59% – 1.34%	0.59% – 1.52%	0.59% – 1.84%
Market price fluctuation risk			
Commodity future contracts			
Aluminum future contracts	$2,103.83/MT	$1,767.62/MT	$1,850.98/MT

1 Amounts for derivatives designated as hedging instruments

Below are effects of hedging instruments on the consolidated statement of financial position. The carrying amount (fair value) of assets related to hedging instruments is included in Other financial assets, and the carrying amount (fair value) of liabilities related to hedging instruments is included in Other financial liabilities.

Cash flow hedge

Fiscal year ended March 31, 2018

	Millions of yen			
	Contract amount		Carrying amount (Fair Value)	
Transaction type	Total	Due after one year	Assets	Liabilities
Interest rate fluctuation risk				
Interest rate swap contracts	¥123,143	¥119,637	¥ 64	¥3,637
Market price fluctuation risk				
Commodity future contracts	18,217	6,747	826	226

Fiscal year ended March 31, 2017

	Millions of yen			
	Contract amount		Carrying amount (Fair Value)	
Transaction type	Total	Due after one year	Assets	Liabilities
Interest rate fluctuation risk				
Interest rate swap contracts	¥134,799	¥118,568	¥—	¥4,363
Market price fluctuation risk				
Commodity future contracts	11,317	903	9	1,311

Transition date (April 1, 2016)

	Millions of yen			
	Contract amount		Carrying amount (Fair Value)	
Transaction type	Total	Due after one year	Assets	Liabilities
Interest rate fluctuation risk				
Interest rate swap contracts	¥145,114	¥128,639	¥ —	¥6,280
Market price fluctuation risk				
Commodity future contracts	7,067	1,437	1,134	4

② Effect of hedge accounting on consolidated statement of profit or loss and comprehensive income

Changes in valuation net gains (losses) arisen from hedging instruments designated as cash flow hedges are as follows:

Fiscal year ended March 31, 2018

	Millions of yen	
	Effective portion of changes in the fair value of cash flow hedges	
	Interest rate fluctuation risk	Market price fluctuation risk
As of April 1, 2017	¥(3,277)	¥(1,305)
Other comprehensive income		
Gains (losses) arising for the year (Note 1)	(154)	751
Reclassification adjustments (Note 2)	952	1,151
Tax effect	(102)	(250)
As of March 31, 2018	¥(2,581)	¥ 347

Note 1: The changes in value of the hedged items used as the basis for recognizing hedge ineffectiveness approximate the changes in fair value of the hedging instruments.

Note 2: The major accounts for reclassification adjustments on the consolidated statement of profit or loss are "Financial expenses" (Interest expenses) for interest rate fluctuation risk and "Cost of sales" for market price fluctuation risk.

Fiscal year ended March 31, 2017

	Millions of yen	
	Effective portion of changes in the fair value of cash flow hedges	
	Interest rate fluctuation risk	Market price fluctuation risk
As of April 1, 2016	¥(4,873)	¥ 766
Other comprehensive income		
Gains (losses) arising for the year (Note 1)	806	(2,423)
Reclassification adjustments (Note 2)	1,103	(9)
Tax effect	(313)	361
As of March 31, 2017	¥(3,277)	¥(1,305)

Note 1: The changes in value of the hedged items used as the basis for recognizing hedge ineffectiveness approximate the changes in fair value of the hedging instruments.

Note 2: The major accounts for reclassification adjustments on the consolidated statement of profit or loss are "Financial expenses" (Interest expenses) for interest rate fluctuation risk and "Cost of sales" for market price fluctuation risk.

35 Significant Subsidiaries

(1) Significant subsidiaries

Company name	Capital	Ratio of voting rights (%)	Principal business
Sumitomo Chemical America, Inc.	USD 502,673 thousand	100.00	Investment in related companies in the United States and sale of chemical products
Valent U.S.A. LLC	USD 242,574 thousand	100.00 (100.00)	Development and sale of plant protection, etc.
Valent BioSciences LLC	USD 129,344 thousand	100.00 (100.00)	Research, development, manufacture and sale of biorationals
Sumika Polymers America Corp.	USD 222,544 thousand	100.00 (100.00)	—
CDT Holdings Limited	GBP 187,511 thousand	100.00	Investment in Cambridge Display Technology Limited
Cambridge Display Technology Limited	GBP 183,716 thousand	100.00 (100.00)	R&D and licenses in polymer organic light-emitting diodes and devices
Dongwoo Fine-Chem Co., Ltd.	KRW 282,204 million	100.00	Manufacture and sale of process chemicals for semiconductors and LCDs, optical films, touchscreen panels, LCD panel-related color filters, etc.
SSLM Co., Ltd.	KRW 280,000 million	100.00	Manufacture and sale of heat-resistant separators
Japan-Singapore Petrochemicals Co., Ltd.	JPY 23,877 million	79.67	Investment in Petrochemical Corporation of Singapore (Pte.) Ltd.
Sumitomo Dainippon Pharma Co., Ltd.	JPY 22,400 million	51.58	Manufacture and sale of pharmaceuticals
Sumitomo Dainippon Pharma America, Inc.	USD 2,070,580 thousand	100.00 (100.00)	Investment in related companies in the United States
Sunovion Pharmaceuticals Inc.	USD 1,666,851 thousand	100.00 (100.00)	Manufacture and sale of pharmaceuticals
Boston Biomedical, Inc.	USD 380,484 thousand	100.00 (100.00)	Research and development of pharmaceuticals
Sumika Electronic Materials (Wuxi) Co., Ltd.	RMB 1,276,517 thousand	100.00 (100.00)	Manufacture and sale of polarizing films and other components used in LCD panels
Sumika Ceramics Poland Sp. z o.o.	PLN 573,319 thousand	100.00	—
Sumika Technology Co., Ltd.	TWD 4,417 million	84.96	Manufacture and sale of original fabrics and processed products of polarizing films, and color filters for LCD panels
Sumitomo Chemical Asia Pte Ltd	USD 150,565 thousand	100.00	Manufacture and sale of petrochemical products, etc. and supervision of the Sumitomo Chemical Group in the Southeast Asia, India, and Oceania area
The Polyolefin Company (Singapore) Pte. Ltd.	USD 51,690 thousand	70.00 (70.00)	Manufacture and sale of low-density polyethylene and polypropylene
Tanaka Chemical Corporation	JPY 5,779 million	50.10	Manufacturing and sale of positive electrode materials for rechargeable batteries, catalyst materials, and inorganic chemical products
Koei Chemical Co., Ltd.	JPY 2,343 million	56.33 (0.45)	Manufacture and sale of chemical products, pharmaceutical and crop protection intermediates, etc.
Taoka Chemical Co., Ltd.	JPY 1,572 million	51.54 (0.78)	Manufacture and sale of intermediates for dyestuffs and pharmaceutical and crop protection, functional materials, etc.
Excel Crop Care Limited	INR 55,028 thousand	64.97 (19.98)	Development, manufacture and sale of crop protection products

Sumika Polymers America Corp. made investment in Phillips Sumika Polypropylene Company, which has been dissolved.
Sumika Ceramics Poland Sp. z o.o. ceased business operations during the fiscal year ended March 31, 2018.

Note 1: Figures contained in parentheses ( ) for ratio of voting rights are the ratio of voting rights held by subsidiaries of the Company.
Note 2: Capital for Sumitomo Chemical America, Inc., CDT Holdings Limited, Cambridge Display Technology Limited, Sumitomo Dainippon Pharma America, Inc., Sunovion Pharmaceuticals Inc., and Boston Biomedical, Inc. are shown as paid-in capital.
Note 3: On April 1, 2017, Valent U.S.A. Corp. and Valent BioSciences Corp. transitioned to LLCs (Limited Liability Companies).
Note 4: On April 1, 2017, Sumitomo Chemical Asia Pte Ltd acquired Sumitomo Chemical Singapore Pte Ltd.
Note 5: On July 5, 2017, the trade name of Dainippon Sumitomo Pharma America Holdings, Inc. changed to Sumitomo Dainippon Pharma America, Inc.

(2) Consolidated subsidiaries with material non-controlling interests

Summarized financial information on consolidated subsidiary with material non-controlling interests is as follows. Summarized financial information is based on the amounts before elimination in consolidation.

Sumitomo Dainippon Pharma Co., Ltd

① Non-controlling interest ownership ratios and cumulative non-controlling interests amounts

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Non-controlling interest ownership ratios	48.44%	49.37%	49.80%
Cumulative non-controlling interests amounts	¥219,299	¥203,537	¥194,018

② Net profit attributable to non-controlling interests and dividends paid to non-controlling interests

	Millions of yen	
	2018	2017
Net income attributable to non-controlling interests	¥26,245	¥16,146
Dividends paid to non-controlling interests	3,906	3,561

③ Summarized financial information

(i) Summarized consolidated statement of financial position

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Current assets	¥348,581	¥307,560	¥343,377
Non-current assets	461,103	471,512	362,110
Total assets	¥809,684	¥779,072	¥705,487
Current liabilities	¥210,248	¥232,133	¥185,719
Non-current liabilities	146,713	134,671	130,174
Total liabilities	356,961	366,804	315,893
Total equity	452,723	412,268	389,594
Total liabilities and equity	¥809,684	¥779,072	¥705,487

(ii) Summarized consolidated statement of profit or loss and comprehensive income

	Millions of yen	
	2018	2017
Sales revenue	¥466,838	¥408,357
Net income	53,448	31,316
Total comprehensive income	48,402	29,829

(iii) Summarized consolidated statement of cash flow

	Millions of yen	
	2018	2017
Cash flows from operating activities	¥ 93,420	¥ 19,143
Cash flows from investing activities	(16,523)	(56,129)
Cash flows from financing activities	(29,610)	8,764
Effect of exchange rate changes on cash and cash equivalents	(5,115)	(1,747)
Net Increase (decrease) in cash and cash equivalents	42,172	(29,969)
Cash and cash equivalents at end of year	147,775	105,603

36 Related Parties

(1) Related Party Transactions

Significant transactions with related parties are as follows:

Fiscal year ended March 31, 2018

① Sales amounts and receivable balances to/from associates and joint ventures

	Millions of yen	
	Sales amounts	Receivable balances
Joint ventures	¥ 27,777	¥ 8,681
Associates	140,122	31,640

② Purchase amounts and payable balances from/to associates and joint ventures

	Millions of yen	
	Purchase amounts	Payable balances
Joint ventures	¥327,555	¥61,116
Associates	75,920	22,686

③ Other significant transaction

Type	Company name	Transaction details	Transaction amount (millions of yen)	Account	Ending balance (millions of yen)
Joint venture	Rabigh Refining and Petrochemical Company	Loans (Note 1)	¥ —	Other financial assets (Loan receivables)	¥64,806
		Receipt of interest (Note 1)	2,161	Other financial assets (Long-term accrued interests)	13,285
		Guarantee obligations (Note 2)	108,606	—	—
		Contingent liabilities for the completion of construction (Note 3)	276,713	—	—
		Pledged as collateral (Note 4)	132,241	—	—

Note 1: Loans of funds are conducted based on market interest rates.
Note 2: The Company guarantees indebtedness of Rabigh Refining and Petrochemical Company from financial institutions. Transaction amount in the above table presents an ending balance of guarantee obligations.
Note 3: The Company guarantees indebtedness of Rabigh Refining and Petrochemical Company relating to the completion of construction. Transaction amount in the above table presents an ending balance of contingent liability related to project completion.
Note 4: Investment in Rabigh Refining and Petrochemical Company is subjected to real guarantee to pledge as collateral for Rabigh Refining and Petrochemical Company's indebtedness from financial institutions.

Fiscal year ended March 31, 2017

① Sales amounts and receivable balances to/from associates and joint ventures

	Millions of yen	
	Sales amounts	Receivable balances
Joint ventures	¥ 19,175	¥18,484
Associates	133,781	27,915

② Purchase amounts and payable balances from/to associates and joint ventures

	Millions of yen	
	Purchase amounts	Payable balances
Joint ventures	¥251,204	¥39,819
Associates	71,156	20,354

③ Other significant transaction

Type	Company name	Transaction details	Transaction amount (millions of yen)	Account	Ending balance (millions of yen)
Joint venture	Rabigh Refining and Petrochemical Company	Loans (Note 1)	¥ —	Other financial assets (Loan receivables)	¥68,436
		Receipt of interest (Note 1)	1,769	Other financial assets (Long-term accrued interests)	11,840
		Guarantee obligations (Note 2)	71,596	—	—
		Contingent liabilities for the completion of construction (Note 3)	281,150	—	—
		Pledged as collateral (Note 4)	169,251	—	—

Note 1: Loans of funds are conducted based on market interest rates.
Note 2: The Company guarantees indebtedness of Rabigh Refining and Petrochemical Company from financial institutions. Transaction amount in the above table presents an ending balance of guarantee obligations.
Note 3: The Company guarantees indebtedness of Rabigh Refining and Petrochemical Company relating to the completion of construction. Transaction amount in the above table presents an ending balance of contingent liability related to project completion.
Note 4: Investment in Rabigh Refining and Petrochemical Company is subjected to real guarantee to pledge as collateral for Rabigh Refining and Petrochemical Company's indebtedness from financial institutions.

(2) Key Management Personnel Compensation

	Millions of yen	
	2018	2017
Remuneration and bonuses	¥850	¥798

37 Commitments

Commitments related to expenditures after the fiscal year-end are as follows:

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Purchase of property, plant and equipment	¥ 97,541	¥ 99,484	¥38,247
Purchase of intangible assets	74,807	66,645	48,606
Total	¥172,348	¥166,129	¥86,853

Commitments related to purchase of intangible assets are mainly related to purchase of rights on contracts signed with third parties regarding introduction of pharmaceutical technology. These contracts have terms related to paying a certain amount of fees when a milestone is achieved such as development goal, in addition to the lump-sum payment executed on signing the contract. The above amount is the pre-discounted amount, and includes all potential payments for milestones, assuming that all products in process would be successful, without adjustments made on success probability. Because it is highly uncertain whether a milestone will be achieved, actual payments may be significantly different from these commitment amounts.

38 Contingent Liabilities

The Group provides guarantees and similar undertakings for borrowings from financial institutions taken out by companies outside the Group. These guarantees and similar undertakings for borrowings are applicable to financial guarantee contracts. Should the guaranteed parties go into default, the Group would be required to make such payments under those guarantees. Guarantee obligations are as follows:

(1) Guarantees obligations

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Joint ventures	¥111,976	¥75,315	¥60,244
Employees (for their mortgage loans)	89	127	206
Others	491	386	201
Total	¥112,556	¥75,828	¥60,651

(2) Undertakings similar to guarantees

	Millions of yen		
	March 31, 2018	March 31, 2017	April 1, 2016 (Transition Date)
Joint venture	¥276,713	¥281,150	¥229,349

The Company guarantees completion of construction of the "Rabigh Phase II Project" relating to the project financing of Rabigh Refining and Petrochemical Company.

No provision is recognized for the above contingent liabilities since the outflow of economic benefits is not considered provable, or the amount of obligation cannot be reasonably estimated.

39 Subsequent Events

There are no significant subsequent events.

40 First-time Adoption of IFRS

The Group presents consolidated financial statements that comply with IFRS from the fiscal year ended March 31, 2018. The most recent consolidated financial statements prepared in accordance with Generally Accepted Accounting Principles in Japan (hereinafter "Japanese GAAP") are for the fiscal year ended March 31, 2017, and the transition date to IFRS is April 1, 2016.

IFRS 1 Exemptions

In principle, IFRS requires that companies adopting IFRS for the first time (hereinafter "First-time Adopter") apply the standards retrospectively. However, IFRS 1 "First-time Adoption of International Financial Reporting Standards" (hereinafter "IFRS 1") provides certain mandatory exceptions and voluntary exemptions regarding the application of certain requirements under IFRS. The effects of the application of these requirements are adjusted in retained earnings or other components of equity at the date of transition. The exemptions that the Group applies in connection with the transition from Japanese GAAP to IFRS are as follows:

① Business combinations

IFRS 1 provides that the First-time Adopter may elect not to apply IFRS 3 Business Combinations ("IFRS 3") retrospectively to past business combinations that occurred before the date of transition to IFRS. The Group adopts this exemption and elects not to apply IFRS 3 retrospectively to the business combinations that occurred before the date of transition. As a result, the amount of goodwill that arose from the business combinations that occurred before the date of transition is stated at the carrying amount of the goodwill in accordance with Japanese GAAP as of the date of transition. Impairment test on goodwill was performed as of the date of transition regardless of whether there was an indication of impairment or not.

② Exchange differences on translation of foreign operations

The First-time Adopter may elect to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to IFRS. The Group uses the said exemption and elects to deem the cumulative translation differences for all foreign operations to be zero at the date of transition.

③ Leases

The First-time Adopter is permitted to assess whether a contract existing at the date of transition contains a lease. The Group has used this exemption and assessed whether a contract contains a lease based on the facts and circumstances existing at the transition date.

④ Designation of financial instruments recognized before the transition date

The First-time Adopter may designate equity instruments as measured at fair value through other comprehensive income on the basis of the facts and circumstances that exist at the date of transition to IFRS.

The Group designates certain equity instruments as financial instruments measured through other comprehensive income on the basis of the facts and circumstances that existed at the date of transition to IFRS.

Mandatory Exceptions of IFRS 1

IFRS 1 prohibits retrospective application of IFRS relating to "Estimates," "Derecognition of financial assets and financial liabilities," "Hedge accounting," "Non-controlling interests," and "Classification and measurement of financial assets." The Group prospectively applies IFRS relating to those items from the date of transition to IFRS.

Reconciliation required to be disclosed in connection with the first-time adoption of IFRS is as follows. "Reclassification" column in the reconciliation table below presents items that do not affect retained earnings and comprehensive income and "Recognition and measurement differences" column presents items that affect retained earnings and comprehensive income.

The Group acquired all of the shares of Tolero as of January 25, 2017 and made Tolero become a consolidated subsidiary. Provisional accounting treatment had been applied to the purchase price allocation as of March 31, 2017, and it has been finalized in the fiscal year ended March 31, 2018. Finalized amounts of provisional accounting treatment are reflected in reconciliations of equity as of March 31, 2017 (the reporting date of the most recent consolidated financial statements prepared in accordance with Japanese GAAP) and reconciliations of profit or loss and comprehensive income for the year ended March 31, 2017 (the most recent consolidated financial statements prepared in accordance with Japanese GAAP). The effect of adjustment from initial provisional amount is described in Note 7 Business Combinations.

Reconciliations of Equity as of April 1, 2016
(the transition date to IFRS)

Accounts under Japanese GAAP	Millions of yen Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Accounts under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	¥ 136,554	¥79,037	¥ 40	¥ 215,631		Cash and cash equivalents
Trade notes and accounts receivable	414,809	37,321	(6,362)	445,768	(1)	Trade and other receivables
Securities	81,041	(75,833)	1,054	6,262		Other financial assets
Inventories	402,255	—	(18,214)	384,041	(1)(2)	Inventories
Deferred tax assets	86,369	(86,369)	—	—		
Other	68,520	(41,688)	(406)	26,426		Other current assets
Allowance for doubtful accounts	(1,619)	1,619	—	—		
Total current assets	1,187,929	(85,913)	(23,888)	1,078,128		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	642,166	(89)	19,686	661,763	(2)(3)	Property, plant and equipment
Intangible assets	187,262	(104,615)	—	82,647		Goodwill
	—	104,221	(819)	103,402		Intangible assets
Investment securities	469,319	(207,061)	(5,934)	256,324		Investments accounted for using the equity method
Long-term loans	70,107	220,535	30,125	320,767	(6)	Other financial assets
Net defined benefit asset	53,800	—	(233)	53,567		Retirement benefit assets
Deferred tax assets	13,581	86,369	(6,846)	93,104	(7)	Deferred tax assets
Other	38,847	(13,852)	1,040	26,035		Other non-current assets
Allowance for doubtful accounts	(861)	861	—	—		
Total fixed assets	1,474,221	86,369	37,019	1,597,609		Total non-current assets
Total assets	¥2,662,150	¥ 456	¥13,131	¥2,675,737		Total assets

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Accounts under IFRS
	Millions of yen					
						Liabilities and Equity
Liabilities						Liabilities
Current liabilities						Current liabilities
Trade notes and accounts payable	¥ 205,188	¥(205,188)	¥ —	¥ —		
Short-term borrowings	148,235	79,000	—	227,235		Bonds and borrowings
Long-term bonds due within one year	55,000	(55,000)	—	—		
Commercial paper	24,000	(24,000)	—	—		
	—	373,381	709	374,090		Trade and other payables
	—	31,717	15,587	47,304	(8)	Other financial liabilities
Income tax payable	42,220	1,404	2	43,626		Income taxes payable
Reserve for sales rebates	49,224	(49,224)	—	—		
Reserve for bonuses	31,045	(31,045)	—	—		
Other reserves	19,808	50,124	(5,457)	64,475	(9)	Provisions
Other	214,710	(158,172)	13,140	69,678	(10)	Other current liabilities
Total current liabilities	789,430	12,997	23,981	826,408		Total current liabilities
Long-term liabilities						Non-current liabilities
Bonds	247,000	357,270	—	604,270		Bonds and borrowings
Long-term borrowings	357,270	(357,270)	—	—		
	—	19,993	66,344	86,337	(11)	Other financial liabilities
Deferred tax liabilities	75,490	595	(24,456)	51,629	(7)	Deferred tax liabilities
Reserves	22,218	4,575	2,017	28,810	(9)	Provisions
Net defined benefit liability	35,824	—	5,581	41,405	(12)	Retirement benefit liabilities
Other	44,142	(37,704)	1,361	7,799	(13)	Other non-current liabilities
Total long-term liabilities	781,944	(12,541)	50,847	820,250		Total non-current liabilities
Total liabilities	1,571,374	456	74,828	1,646,658		Total liabilities
Net assets						Equity
Common stock	89,699	—	—	89,699		Share capital
Capital surplus	23,475	—	(86)	23,389		Capital surplus
Retained earnings	539,490	—	7,052	546,542	(14)	Retained earnings
Treasury stock	(8,953)	—	767	(8,186)		Treasury shares
Total accumulated other comprehensive income	123,163	—	(27,669)	95,494	(15)	Other components of equity
	766,874	—	(19,936)	746,938		Equity attributable to owners of the parent
Non-controlling interest	323,902	—	(41,761)	282141	(8)	Non-controlling interests
Total net assets	1,090,776	—	(61,697)	1,029,079		Total equity
Total liabilities and net assets	¥2,662,150	¥ 456	¥13,131	¥2,675,737		Total liabilities and equity

Reconciliations of Equity as of March 31, 2017
(the reporting date of the most recent consolidated financial statements prepared in accordance with Japanese GAAP)

	(Millions of yen)					
Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Accounts under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	¥ 160,866	¥32,423	¥ 6	¥ 193,295		Cash and cash equivalents
Trade notes and accounts receivable	455,239	43,324	4,946	503,509	(1)	Trade and other receivables
Securities	34,196	(28,907)	363	5,652		Other financial assets
Inventories	409,380	—	(11,980)	397,400	(1) (2)	Inventories
Deferred tax assets	85,519	(85,519)	—	—		
Other	87,956	(48,087)	1,153	41,022		Other current assets
Allowance for doubtful accounts	(2,022)	2,022	—	—		
Total current assets	1,231,134	(84,744)	(5,512)	1,140,878		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	626,204	(82)	17,937	644,059	(2) (3)	Property, plant and equipment
Intangible assets	347,273	(235,192)	8,467	120,548	(4)	Goodwill
	—	235,250	(2,496)	232,754	(5)	Intangible assets
Investment securities	446,773	(173,816)	(4,238)	268,719		Investments accounted for using the equity method
Long-term loans	68,784	193,673	31,694	294,151	(6)	Other financial assets
Net defined benefit asset	59,097	—	(787)	58,310		Retirement benefit assets
Deferred tax assets	14,790	85,519	(20,292)	80,017	(7)	Deferred tax assets
Other	58,696	(20,843)	904	38,757		Other non-current assets
Allowance for doubtful accounts	(1,010)	1,010	—	—		
Total fixed assets	1,620,607	85,519	31,189	1,737,315		Total non-current assets
Total assets	¥2,851,741	¥ 775	¥25,677	¥2,878,193		Total assets

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Accounts under IFRS
	Millions of yen					
						Liabilities and Equity
Liabilities						Liabilities
Current liabilities						Current liabilities
Trade notes and accounts payable	¥ 243,539	¥(243,539)	¥ —	¥ —		
Short-term borrowings	246,563	55,000	9,056	310,619	(1)	Bonds and borrowings
Long-term bonds due within one year	55,000	(55,000)	—	—		
	—	416,762	962	417,724		Trade and other payables
	—	35,499	18,630	54,129	(8)	Other financial liabilities
Income tax payable	21,853	1,104	(1)	22,956		Income taxes payable
Reserve for sales rebates	65,653	(65,653)	—	—		
Reserve for bonuses	31,061	(31,061)	—	—		
Other reserves	20,286	68,180	(3,470)	84,996	(9)	Provisions
Other	222,780	(169,602)	12,628	65,806	(10)	Other current liabilities
Total current liabilities	906,735	11,690	37,805	956,230		Total current liabilities
Long-term liabilities						Non-current liabilities
Bonds	222,500	351,189	(213)	573,476		Bonds and borrowings
Long-term borrowings	351,189	(351,189)	—	—		
	—	42,874	71,116	113,990	(11)	Other financial liabilities
Deferred tax liabilities	87,327	37	(41,621)	45,743	(7)	Deferred tax liabilities
Reserves	22,087	4,717	(200)	26,604	(9)	Provisions
Net defined benefit liability	32,782	—	2,736	35,518	(12)	Retirement benefit liabilities
Other	66,627	(58,543)	2,645	10,729	(13)	Other non-current liabilities
Total long-term liabilities	782,512	(10,915)	34,463	806,060		Total non-current liabilities
Total liabilities	1,689,247	775	72,268	1,762,290		Total liabilities
Net assets						Equity
Common stock	89,699	—	—	89,699		Share capital
Capital surplus	22,378	—	(273)	22,105		Capital surplus
Retained earnings	603,892		19,616	623,508	(14)	Retained earnings
Treasury stock	(9,004)	—	776	(8,228)		Treasury shares
Total accumulated other comprehensive income	113,336	—	(27,808)	85,528	(15)	Other components of equity
	820,301	—	(7,689)	812,612		Equity attributable to owners of the parent
Non-controlling interests	342,193	—	(38,902)	303,291	(8)	Non-controlling interests
Total net assets	1,162,494	—	(46,591)	1,115,903		Total equity
Total liabilities and net assets	¥2,851,741	¥ 775	¥25,677	¥2,878,193		Total liabilities and equity

Notes on Reconciliations of Equity

(1) Trade and other receivables

Under Japanese GAAP, revenue from certain types of sales of goods was recognized upon shipment. Under IFRS, the Group recognizes revenue upon delivery of goods to customers. Consequently, Trade and other receivables, and Inventories are adjusted.

Under Japanese GAAP, certain liquidated trade receivables were derecognized when they were transferred to a third party. Under IFRS, they are recognized as borrowings without being derecognized as trade receivables since they are not qualified for derecognition of financial assets. As a result, Trade and other receivables, and Bonds and borrowings (Current liabilities) increased accordingly.

(2) Inventories

Under Japanese GAAP, office supplies and sales promotion goods were included in raw materials and supplies of inventories. Under IFRS, office supplies and sales promotion goods do not meet the definition of assets and are reclassified to retained earnings. Replacement parts, spare parts and maintenance parts that have been included in raw materials and supplies of inventories were reclassified to Property, plant and equipment as a reclassification under IFRS. In addition, the balance of inventory decreased because inventory valuation methods have been unified as periodic average method upon IFRS adoption.

(3) Property, plant and equipment

Under Japanese GAAP, certain facility utilization fees arising from contracts with outside service providers were expensed when incurred.

Under IFRS, certain facility utilization fees are capitalized as a finance lease based on the substantive judgment of the contracts; as a result, Property, plant and equipment have increased.

Under Japanese GAAP, large periodic repair and maintenance costs were charged to profit or loss when they were incurred.

Under IFRS, large periodic repair and maintenance costs incurred on the condition of continuing operations are recognized in the carrying amount of the property, plant and equipment and amortized over the estimated period until future scheduled large periodic repair and maintenance. As a result, Property, plant and equipment has been adjusted.

(4) Goodwill

Under Japanese GAAP, goodwill was amortized on the straight-line basis over the period during which the effect of such goodwill lasts but not exceeding 20 years after recognition.

Under IFRS, Goodwill increased because it is not amortized.

(5) Intangible assets

Under IFRS, as a result of change in the method of impairment loss recognition, an impairment loss for marketing rights of product held by a certain consolidated subsidiary has been recognized because profitability of its products has been decreased and future discounted cash flows are less than the carrying amount.

(6) Other financial assets (Non-current assets)

Under Japanese GAAP, unlisted shares were mainly measured at cost using the moving-average method.

Under IFRS, unlisted shares are measured at fair value. As a result, Other financial assets (Non-current assets) increased.

(7) Deferred tax assets and Deferred tax liabilities

Deferred tax assets increased due to the review of the recoverability of all deferred tax assets upon the adoption of IFRS.

Under Japanese GAAP, the Group offsets deferred tax assets and liabilities in their respective current and non-current classifications. Under IFRS, as all deferred tax assets and liabilities are classified as non-current items, which increased the offset amounts, Deferred tax assets and Deferred tax liabilities decreased accordingly.

(8) Other financial liabilities (Current liabilities)

Under Japanese GAAP, the equity interest of issued preference shares was recognized as net assets. Under IFRS, it is recognized as a financial liability because it can be redeemed at any time based on the request of the owner of the shares. Other financial liabilities (Current liabilities) increased, because certain consolidated subsidiaries recognized the equity interest of issued preference shares as financial liabilities.

(9) Provisions

Under Japanese GAAP, the Group made provisions for large periodic repairs and maintenance by posting to a reserve for repairs. Under IFRS, however, the reserve would not satisfy the provision recognition requirements and has been reversed. As a result, Provisions have decreased. In addition, under Japanese GAAP, the equity method was applied to New Zealand Aluminum Smelters Incorporated. Under IFRS, as a result of review of scope of the equity method, New Zealand Aluminum Smelters Incorporated has been treated as a joint operation. As a result, Provisions (Non-current liability) have increased.

(10) Other current liabilities

Unused paid absences of employees and levies that are not recognized as liabilities under Japanese GAAP need to be recognized as liabilities under IFRS. As a result, Other current liabilities have increased.

(11) Other financial liabilities (Non-current liabilities)

Under IFRS, contingent consideration in the business combination agreement is measured at fair value. As a result, Other financial liabilities (Non-current liabilities) have increased.

(12) Retirement benefit liabilities

Under Japanese GAAP, the discount rate did not need to be revised based on the judgment on whether it has a material impact or not.

Under IFRS, Retirement benefit liabilities are adjusted because certain consolidated subsidiaries reviewed and changed the discount rate.

(13) Other non-current liabilities

Long-term employee benefits that were not recognized as liabilities under Japanese GAAP need to be recognized as liabilities under IFRS. As a result, Other non-current liabilities increased.

(14) Retained earnings

Listed below are the effects of reconciliations on Retained earnings upon IFRS adoption. The table below presents the amounts after deducting non-controlling interests.

	Millions of yen	
	2017	2016
Adjustment of trade receivables and inventories	¥ (3,087)	¥(6,760)
Adjustment of property, plant and equipment	4,084	4,989
Adjustment of investments accounted for using the equity method	(2,495)	(3,137)
Adjustment of employee benefits	(5,722)	(6,697)
Adjustments of other financial liabilities	(31,821)	(29,406)
Adjustments of provisions	6,241	5,258
Adjustments of other current liabilities	(3,982)	(4,180)
Adjustments of goodwill	5,115	—
Adjustments for tax effects	16,100	13,729
Reclassification of cumulative translation differences on foreign operations	34,772	34,772
Others	411	(1,516)
Total	¥19,616	¥ 7,052

(15) Other components of equity

Under Japanese GAAP, actuarial gains and losses and past service costs were recognized in other comprehensive income when they were incurred, and amortized (reclassified to profit or loss) over a certain period within the average remaining service period of employees. Under IFRS, the remeasurements of defined benefit plan including the actuarial gains and losses are recognized in other comprehensive income when they were incurred and immediately reclassified to retained earnings. Past service costs are recognized in profit or loss when they were incurred.

The Group elects to use the exemption under IFRS 1 and transfer all cumulative exchange differences on translation of foreign operations to retained earnings as of the transition date, April 1, 2016.

(16) Reclassifications

In addition to the above Recognition and measurement differences, the Group made reclassifications in conformity with IFRS requirements, of which the principal ones are as follows:

- Under Japanese GAAP, the Group included short-term time deposits with deposit terms exceeding three months in Cash and deposits, but under IFRS they are included in Other financial assets (Current assets). Under Japanese GAAP, the Group included short-term investments with maturities of less than three months from the date of acquisition in securities, but under IFRS they are reclassified to Cash and cash equivalents.
- Under Japanese GAAP, the Group included other receivables in Others (Current assets), but under IFRS they are reclassified to Trade and other receivables.
- The current portion of deferred tax assets and deferred tax liabilities recorded under Japanese GAAP are reclassified to non-current portion in IFRS.
- Under Japanese GAAP, investment securities and long-term loans were separately disclosed, but under IFRS they are reclassified to Other financial assets (Non-current assets). Under Japanese GAAP, the Group included investments in affiliates accounted for using the equity method in Investment securities, but under IFRS they are separately disclosed as Investments accounted for using the equity method.
- Under Japanese GAAP, the Group included investment in funds and long-term accrued interests in the other (Non-current assets) but under IFRS they are reclassified to Other financial assets (Non-current assets).
- Under Japanese GAAP, the Group included other payables in other (Current liabilities), but under IFRS they are reclassified to Trade and other payables.
- Under Japanese GAAP, short-term debts, current portion of bonds and commercial paper were separately disclosed, but under IFRS they are included in Bonds and borrowings (Current liabilities).
- Under Japanese GAAP, the Group included lease obligations and deposits received in other (Current liabilities), but under IFRS they are reclassified to Other financial liabilities (Current liabilities).
- Under Japanese GAAP, reserve for bonuses was separately disclosed, but under IFRS it is reclassified to Other current liabilities. Under Japanese GAAP, reserve for sales rebate and other reserves were separately disclosed, but under IFRS they are included in Provisions (Current liabilities).
- Under Japanese GAAP, bonds and long-term debts were separately disclosed, but under IFRS they are included in Bonds and borrowings (Non-current liabilities).
- Under Japanese GAAP, lease obligations, long-term deposits and contingent considerations were included in other (Non-current liabilities), but under IFRS they are reclassified to Other financial liabilities (Non-current liabilities).

Reconciliations of profit or loss and comprehensive income for the fiscal year ended March 31, 2017
(the most recent consolidated financial statements prepared in accordance with Japanese GAAP)

	Millions of yen					
Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Accounts under IFRS
Net sales	¥1,954,283	¥ —	¥(15,214)	¥1,939,069	(1)	Sales revenue
Cost of sales	(1,285,764)	(38,726)	15,666	(1,308,824)	(1) (2)	Cost of sales
Gross profit	668,519	(38,726)	452	630,245		Gross profit
Selling, general and administrative expenses	(534,214)	(344)	668	(533,890)	(2) (3)	Selling, general and administrative expenses
	—	10,755	3,906	14,661	(1)	Other operating income
	—	(26,761)	(26)	(26,787)		Other operating expenses
	—	41,205	1,033	42,238		Share of profit of investments accounted for using the equity method
Operating income	134,305	(13,871)	6,033	126,467		Operating income
Non-operating income	56,820	(56,820)	—	—		
Non-operating expenses	(24,524)	24,524	—	—		
Extraordinary income	31,695	(31,695)	—	—		
Extraordinary loss	(53,136)	53,136	—	—		
	—	36,148	(25,448)	10,700	(4)	Finance income
	—	(11,684)	(3,145)	(14,829)	(4)	Finance expenses
Income before income taxes	145,160	(262)	(22,560)	122,338		Income before taxes
Income taxes - current	(33,795)	5,919	14,638	(13,238)	(4)	Income tax expenses
Income taxes - deferred	5,657	(5,657)	—	—		
Net income	¥ 117,022	¥ —	¥ (7,922)	¥ 109,100		Net income

	Millions of yen					
Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Accounts under IFRS
Net income	¥117,022	¥—	¥ (7,922)	¥109,100		Net income
Other comprehensive income					(5)	Other comprehensive income
Valuation differences on available-for-sale securities	(13,867)	—	19,486	5,619		Remeasurements of financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans	2,825	—	4,433	7,258		Remeasurements of defined benefit plans
Deferred losses on hedges	(145)	—	(338)	(483)		Cash flow hedges
Foreign currency translation adjustment	1,482	—	104	1,586		Exchange differences on translation of foreign operations
Share of other comprehensive income of associates accounted for using the equity method	(1,912)	—	(206)	(2,118)		Share of other comprehensive income of investments accounted for using the equity method
Total other comprehensive income	(11,617)	—	23,479	11,862		Other comprehensive income, net of taxes
Comprehensive income	¥105,405	¥—	¥15,557	¥120,962		Total comprehensive income

Notes on Reconciliations of Profit or Loss and Comprehensive Income

(1) Sales Revenue

Under Japanese GAAP, exchange transactions between companies in the same industry were presented on a gross basis as Revenue and Cost of sales, but under IFRS these transactions are presented on a net basis. As a result, Sales revenue and Cost of sales decreased. Under Japanese GAAP, revenue from certain types of sales of goods was previously recognized upon shipment. Under IFRS, Sales revenue and Cost of sales are adjusted because the Group recognizes revenue upon delivery of goods to customers.

In addition, under Japanese GAAP, received amount of the lump sum payments and royalties of technology licensing based on license agreements, was included in the sales of certain consolidated subsidiaries, but under IFRS they are included in Other operating income because these transactions are determined as a sale of intangible assets at the inception of the contract.

(2) Cost of sales

Cost of sales increased because inventory valuation method has unified to periodic average method upon IFRS adoption. Under Japanese GAAP, actuarial gains and losses and past service costs were recognized in other comprehensive income when incurred and amortized (reclassified to profit or loss) over a certain period within the average remaining service period of employees, and recognized in profit or loss. Under IFRS, the remeasurements of the defined benefit plan including the actuarial gains and losses are recognized in other comprehensive income when incurred and immediately reclassified to retained earnings. As a result, Cost of sales and Selling, general and administrative expenses were adjusted.

(3) Selling, general and administrative expenses

Under IFRS, contingent considerations in the business combination agreements are measured at fair value. As a result, Selling, general and administrative expenses increased.

As a result of change in the method of impairment loss recognition, an impairment loss for marketing rights of product held by a certain consolidated subsidiary has been recognized because profitability of its products has been decreased and future discounted cash flows are less than the carrying amount.

Under Japanese GAAP, goodwill was amortized on the straight-line basis over the period during which the effect of such goodwill lasts but does not exceed 20 years after recognition. However, under IFRS, goodwill is not amortized. As a result, Selling, general and administrative expenses have decreased.

(4) Finance income, finance expenses and income tax expenses

Under Japanese GAAP, the Group recognized gains and losses on the sale of equity instruments in profit or loss. Under IFRS, as for equity instruments designated as measured at fair value through other comprehensive income, changes in fair value are recognized as other comprehensive income and immediately reclassified to retained earnings at the time of sales. Correspondingly, Finance income and Income tax expense decreased.

Under Japanese GAAP, changes in fair value of the derivative for hedging purposes were recognized in other comprehensive income. However, under IFRS, a certain portion of changes in fair value of a fair value hedge is recognized in profit or loss, and a certain forward sales transaction is designated to be measured at fair value through profit or loss. Accordingly, Finance income and Finance expenses increased.

(5) Other comprehensive income

Under Japanese GAAP, gains or losses on sales of equity instruments had been recognized as net profit or loss and income taxes on such gains on sales. A certain part of those equity instruments is designated as financial assets measured at fair value through other comprehensive income under IFRS. As a result, Financial assets measured at fair value through other comprehensive income increased.

Under Japanese GAAP, actuarial gains and losses were recognized in other comprehensive income when incurred, and were recognized in profit or loss by amortization over a certain period of years that is no longer than the average remaining service period of the employees. Under IFRS, the remeasurements of defined benefit pension plans including actuarial gains and losses are recognized in other comprehensive income when incurred and are not recognized in profit or loss by amortization. As a result, Remeasurement of defined benefit pension plans increased.

(6) Reclassifications

Besides the above reconciliations, certain accounts have been reclassified in order to present the Group's operating results appropriately in compliance with IFRS. The major reclassifications are as follows:

- Under Japanese GAAP, gains on step acquisition and gains on sales of fixed assets were presented as Extraordinary income, but under IFRS, they are included in Other operating income.
- Under Japanese GAAP, impairment loss was presented as Extraordinary loss, but under IFRS, it is included in Cost of sales and Selling, general and administrative expenses.
- Under Japanese GAAP, business structure improvement expenses were presented as Extraordinary losses, but under IFRS, they are included in Other operating expenses.
- Under Japanese GAAP, interest income and dividends received were presented as Non-operating income, but under IFRS they are included in Finance income.
- Under Japanese GAAP, interest expenses, corporate bonds interest, commercial paper interest and foreign exchange losses were presented as Non-operating expenses, but under IFRS, these are included in Finance expenses. In addition, under Japanese GAAP, cost of inactive facilities was presented as Non-operating expenses, but under IFRS it is included in Cost of sales.

Notes on Reconciliations of Cash Flows for the Fiscal Year Ended March 31, 2017 (the most recent consolidated financial statements prepared in accordance with Japanese GAAP)

There are no material differences between the disclosed consolidated statement of cash flows under Japanese GAAP and the disclosed consolidated statement of cash flows under IFRS.

KPMG

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 statement of financial position as at March 31, 2018, and the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year 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 International Financial Reporting Standards, 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 audit. We conducted our audit 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 judgment, 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, 2018, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 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 2(3) to the consolidated financial statements.

KPMG AZSA LLC

June 21, 2018
Tokyo, Japan