

Financial Section

77 Financial Highlights (6 years)

78 Consolidated Financial Statements

78 Consolidated Balance Sheet

80 Consolidated Statement of Income

81 Consolidated Statement of Comprehensive Income

82 Consolidated Statement of Changes in Net Assets

83 Consolidated Statement of Cash Flows

85 Notes to Consolidated Financial Statements

116 Independent Auditor's Report

Financial Section

Financial Highlights (6 years)

	Millions of yen					
	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Achievement Transition						
Net Sales	1,032,431	1,110,851	1,112,748	1,096,317	1,065,776	1,107,429
Operating Income	59,621	82,541	85,764	89,823	96,476	99,231
Ordinary Income	60,670	83,310	87,978	81,213	91,513	93,929
Net Income Attributable to Owners of the Parent	30,174	41,190	52,995	56,653	60,850	63,459
Comprehensive Income	77,437	57,944	91,587	37,080	57,638	73,898
Operating Income Ratio (%)	5.8	7.4	7.7	8.2	9.1	9.0
Assets, Liabilities and Net Assets						
Total Assets	901,564	961,009	968,011	936,043	943,640	999,114
Net Assets	433,228	473,555	535,292	544,156	570,549	612,757
Shareholders' Equity to Total Assets (%)	46.4	47.5	53.3	55.9	58.2	58.8
Current Ratio (%)	131.1	127.4	139.8	138.0	160.7	158.3
Fixed Ratio (%)	110.3	102.1	97.2	95.9	86.9	89.5
Interest-bearing Debt	115,320	94,010	63,120	52,338	43,734	46,326
Debt/Equity Ratio (%)	27.6	20.6	12.2	10.0	8.0	7.9
Total Assets Turnover (Times)	1.19	1.19	1.15	1.15	1.13	1.14
Inventory Turnover (Times)	7.57	7.50	7.09	7.11	7.00	6.84
Tangible Fixed Assets Turnover (Times)	4.38	4.51	4.31	4.11	4.01	4.09
Cash Flow						
Net cash provided by operating activities	71,016	97,720	67,760	71,389	108,229	82,272
Net cash provided by (used in) investing activities	(31,133)	(60,914)	4,127	(23,715)	(44,057)	(60,881)
Net cash used in financing activities	(30,520)	(49,803)	(63,856)	(41,726)	(39,633)	(35,981)
Free Cash Flow	30,650	24,915	58,810	33,375	48,107	2,325
Capital Expenditures, Depreciation and R&D Expenditures						
Capital Expenditures	36,842	41,827	46,993	49,740	43,868	53,518
Depreciation and Amortization	34,895	34,376	31,203	34,735	34,843	36,016
R&D Expenditures	25,894	27,720	29,452	31,693	34,169	36,974
R&D Expenditures to Revenues (%)	2.51	2.50	2.65	2.89	3.21	3.34
Per Share Data						
Net Assets per Share (Yen)	810.76	897.18	1,033.49	1,071.24	1,147.91	1,245.91
Net Income Attributable to Owners of the Parent per Share (Yen)	58.53	80.13	104.73	115.08	126.13	133.80
Dividends per Share (Yen)	18.00	23.00	27.00	30.00	35.00	40.00
Dividends Payout Ratio (%)	30.8	28.7	25.8	26.1	27.7	29.9
Other Data						
Return on Equity (%)	7.8	9.4	10.9	10.9	11.3	11.2
Return on Total Assets (%)	7.0	8.9	9.1	8.5	9.7	9.7
EBITDA	94,516	116,918	116,967	124,558	131,319	135,248
Dividend on Equity Ratio (%)	2.4	2.7	2.8	2.8	3.1	3.3
Interest Coverage Ratio (Times)	21.7	33.2	51.7	64.5	100.4	109.9
PER (Times)	17.63	13.39	14.89	12.04	14.83	13.87
Number of Employees	22,202	23,017	23,886	23,901	23,006	26,080
Net Sales per Employee (Ten thousands of yen)	4,796	4,913	4,744	4,588	4,544	4,512

Shareholders' Equity to Total Assets =

Shareholders' Equity including Accumulated Other Comprehensive Income / Total Assets

Current Ratio = Current Assets / Current Liabilities

Fixed Ratio = Fixed Assets / Shareholders' Equity

Debt/Equity Ratio = Interest-bearing Debt / Shareholders' Equity

Total Assets Turnover = Net Sales / Average Total Assets

Inventory Turnover = Net Sales / Average Inventory

Tangible Fixed Assets Turnover = Net Sales / Average Tangible Fixed Assets

Free Cash Flow = CF Operating Activities + CF Investing Activities - Dividend Paid

R&D Expenditures to Revenues = R&D Expenditures / Net Sales

Return on Equity =

Net Income Attributable to Owners of the Parent / Average Shareholders' Equity

Return on Total Assets = Ordinary Income / Average Total Assets

EBITDA = Operating Income + Depreciation and Amortization

Dividend on Equity Ratio = Total Dividend Payment (full year) / Average Shareholders' Equity

Interest Coverage Ratio = (Operating Income + Interest and Dividends) / Interest Expense

PER = Stock Prices at the End of Fiscal Year / Net Income Attributable to Owners of the Parent per Share

Net Sales per Employee = Net Sales / Average Number of Employees

Financial Section

Consolidated Financial Statements

Consolidated Balance Sheet

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
March 31, 2018

		Millions of yen	
		2018	2017
Assets			
Current assets:			
Cash and deposits (Notes 16 and 18)	¥	77,996	¥ 109,891
Notes receivable, trade (Notes 3 and 18)		45,959	32,960
Accounts receivable, trade (Note 18)		137,304	131,111
Marketable securities (Notes 4 and 18)		0	1
Merchandise and finished goods		62,185	56,619
Land for sale		30,926	30,879
Work in process		46,984	38,349
Raw materials and supplies		30,362	27,704
Advance payments		1,547	1,687
Prepaid expenses		3,762	3,388
Deferred tax assets (Note 9)		14,096	13,870
Short-term loans receivable		7,230	5,128
Other current assets		16,537	15,688
Allowance for doubtful accounts		(1,597)	(1,179)
Total current assets		473,297	466,101
Non-current assets:			
Property, plant and equipment, net (Notes 5, 6, 14 and 21):			
Buildings and structures		93,140	88,882
Machinery, equipment and vehicles		77,803	73,615
Land		73,299	70,426
Leased assets		10,146	10,126
Construction in progress		14,890	9,388
Other		10,457	9,323
Total property, plant and equipment, net		279,738	261,765
Intangible assets (Notes 6, 14 and 21):			
Goodwill		17,640	14,627
Software		8,177	8,167
Leased assets		208	216
Other		25,071	16,579
Total intangible assets		51,097	39,591
Investments and other assets:			
Investments in securities (Notes 4 and 18)		177,707	156,916
Long-term loans receivable		1,048	1,789
Long-term prepaid expenses		1,519	1,211
Asset for retirement benefits (Note 8)		200	179
Deferred tax assets (Note 9)		2,959	4,840
Other		13,587	13,058
Allowance for doubtful accounts		(2,042)	(1,815)
Total investments and other assets		194,980	176,181
Total non-current assets		525,817	477,538
Total assets (Note 21)	¥	999,114	¥ 943,640

Financial Section

	Millions of yen	
	2018	2017
Liabilities		
Current liabilities:		
Notes payable, trade (Notes 3, 6, 17 and 18)	¥ 4,972	¥ 4,320
Electronically recorded obligations (Note 18)	26,639	22,116
Accounts payable, trade (Notes 6 and 18)	99,208	93,684
Short-term debt and current portion of long-term debt (Notes 6 and 18)	10,974	13,274
Commercial paper (Notes 6 and 18)	7,000	-
Current portion of bonds (Notes 6 and 18)	16	16
Lease obligations (Note 7)	3,317	3,413
Accrued expenses (Note 17)	40,942	39,115
Accrued income taxes and other taxes (Note 9)	11,109	12,361
Allowance for bonuses to employees	16,886	16,740
Allowance for bonuses to directors and audit and supervisory board members	343	308
Provision for compensation for completed construction	1,191	1,222
Provision for stock-based compensation	138	133
Advances received	38,798	41,623
Other	37,511	41,750
Total current liabilities	299,050	290,081
Long-term liabilities:		
Bonds (Notes 6 and 18)	10,036	10,052
Long-term debt less current portion (Notes 6 and 18)	7,966	9,991
Lease obligations (Note 7)	7,016	6,985
Deferred tax liabilities (Note 9)	9,728	3,364
Liability for retirement benefits (Note 8)	46,501	47,069
Provision for stock-based compensation	282	135
Other	5,774	5,410
Total long-term liabilities	87,305	83,009
Total liabilities	386,356	373,090
Contingent liabilities (Note 12)		
Net assets		
Shareholders' equity (Notes 10 and 20);		
Common stock	100,002	100,002
Capital surplus	109,031	109,192
Retained earnings (Note 23)	374,101	341,009
Treasury stock, at cost (Note 23)	(42,461)	(40,969)
Total shareholders' equity	540,673	509,234
Accumulated other comprehensive income:		
Unrealized holding gain on securities	46,346	39,463
Deferred loss on hedges (Note 19)	(49)	(52)
Unrealized gain on land revaluation (Note 11)	321	321
Translation adjustments	3,116	941
Retirement benefit adjustments (Note 8)	(2,643)	(565)
Total accumulated other comprehensive income	47,092	40,109
Stock acquisition rights	271	418
Non-controlling interests	24,720	20,787
Total net assets	612,757	570,549
Total liabilities and net assets	¥ 999,114	¥ 943,640

See accompanying notes to consolidated financial statements

Financial Section

Consolidated Statement of Income

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2018

	Millions of yen	
	2018	2017
Net sales (Notes 17 and 21)	¥ 1,107,429	¥ 1,065,776
Cost of sales	745,346	712,258
Gross profit	362,082	353,517
Selling, general and administrative expenses (Note 13)	262,850	257,040
Operating income (Note 21)	99,231	96,476
Non-operating income:		
Interest income	963	748
Dividends income	3,952	3,828
Equity in earnings of affiliates	2,508	2,485
Miscellaneous income	4,506	5,060
Total non-operating income	11,931	12,122
Non-operating expenses:		
Interest expenses	533	610
Sales discounts	414	396
Foreign exchange loss, net	2,480	808
Inspection and maintenance expenses for external walls	2,856	3,499
Miscellaneous expenses	10,950	11,771
Total non-operating expenses	17,233	17,086
Ordinary income	93,929	91,513
Extraordinary income:		
Gain on sales of investments in securities (Note 4)	-	6,935
Gain on sales of property, plant and equipment	2,469	-
Total extraordinary income	2,469	6,935
Extraordinary loss:		
Loss on transfer of business	-	4,988
Loss on devaluation of investments in securities (Note 4)	-	4,534
Loss on impairment of fixed assets (Notes 14 and 21)	701	3,573
Loss on sales or disposal of property, plant and equipment	1,355	2,500
Total extraordinary loss	2,056	15,596
Income before income taxes	94,342	82,851
Income taxes (Note 9):		
Current	23,393	23,396
Deferred	4,232	(2,446)
Total income taxes	27,626	20,950
Net income	66,716	61,901
Net income attributable to:		
Non-controlling interests	3,256	1,050
Owners of the parent (Note 20)	¥ 63,459	¥ 60,850

See accompanying notes to consolidated financial statements

Consolidated Statement of Comprehensive Income

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2018

	Millions of yen	
	2018	2017
Net income	¥ 66,716	¥ 61,901
Other comprehensive income (loss) (Note 15)		
Unrealized holding gain (loss) on securities	6,144	(1,055)
Deferred gain on hedges	3	64
Translation adjustments	2,364	(5,086)
Retirement benefit adjustments	(2,217)	1,359
Comprehensive income of affiliates accounted for by the equity method attributable to the Company	887	455
Total other comprehensive income (loss)	7,182	(4,262)
Comprehensive income	¥ 73,898	¥ 57,638
Comprehensive income attributable to:		
Owners of the parent	¥ 70,442	¥ 56,777
Non-controlling interests	3,455	861

See accompanying notes to consolidated financial statements

Financial Section

Consolidated Statement of Changes in Net Assets

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2018

Millions of yen

	Shareholders' equity				Accumulated other comprehensive income					Stock acquisition rights	Non-controlling interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain on securities	Deferred loss on hedges	Unrealized gain on land revaluation	Translation adjustments	Retirement benefit adjustments			
Balance at April 1, 2016	¥ 100,002	¥109,183	¥ 295,659	¥(25,970)	¥ 40,054	¥ (116)	¥ 321	¥ 5,817	¥ (1,894)	¥ 512	¥ 20,586	¥ 544,156
Cash dividends	-	-	(15,541)	-	-	-	-	-	-	-	-	(15,541)
Net income attributable to owners of the parent	-	-	60,850	-	-	-	-	-	-	-	-	60,850
Purchase of treasury stock	-	-	-	(17,380)	-	-	-	-	-	-	-	(17,380)
Disposal of treasury stock	-	15	-	2,381	-	-	-	-	-	-	-	2,397
Change in scope of consolidation	-	-	40	-	-	-	-	-	-	-	-	40
Change in shareholders' equity due to transactions with non-controlling interests	-	(6)	-	-	-	-	-	-	-	-	-	(6)
Net changes of items other than shareholders' equity	-	-	-	-	(590)	64	-	(4,876)	1,329	(94)	201	(3,966)
Total changes of items during the year	-	9	45,349	(14,998)	(590)	64	-	(4,876)	1,329	(94)	201	26,393
Balance at April 1, 2017	¥ 100,002	¥109,192	¥ 341,009	¥(40,969)	¥ 39,463	¥ (52)	¥ 321	¥ 941	¥ (565)	¥ 418	¥ 20,787	¥ 570,549
Cash dividends	-	-	(18,137)	-	-	-	-	-	-	-	-	(18,137)
Net income attributable to owners of the parent	-	-	63,459	-	-	-	-	-	-	-	-	63,459
Increase in retained earnings resulting from inclusion of subsidiaries in consolidation	-	-	691	-	-	-	-	-	-	-	-	691
Retirement of treasury stock	-	(12,904)	-	12,904	-	-	-	-	-	-	-	-
Purchase of treasury stock	-	-	-	(16,006)	-	-	-	-	-	-	-	(16,006)
Disposal of treasury stock	-	(32)	-	1,608	-	-	-	-	-	-	-	1,576
Transfer from retained earnings to capital surplus	-	12,921	(12,921)	-	-	-	-	-	-	-	-	-
Change in shareholders' equity due to transactions with non-controlling interests	-	(145)	-	-	-	-	-	-	-	-	-	(145)
Net changes of items other than shareholders' equity	-	-	-	-	6,882	3	-	2,175	(2,078)	(147)	3,933	10,769
Total changes of items during the year	-	(161)	33,092	(1,492)	6,882	3	-	2,175	(2,078)	(147)	3,933	42,208
Balance at March 31, 2018	¥ 100,002	¥109,031	¥ 374,101	¥(42,461)	¥ 46,346	¥ (49)	¥ 321	¥ 3,116	¥ (2,643)	¥ 271	¥ 24,720	¥ 612,757

See accompanying notes to consolidated financial statements

Consolidated Statement of Cash Flows

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2018

	Millions of yen	
	2018	2017
Operating activities:		
Income before income taxes	¥ 94,342	¥ 82,851
Adjustments for:		
Depreciation and amortization	36,016	34,843
Amortization of goodwill	2,416	2,118
Loss on impairment of fixed assets	701	3,573
Loss on disposal of property, plant and equipment	1,118	1,785
(Gain) loss on sales of property, plant and equipment, net	(2,232)	715
Decrease in liability for retirement benefits	(997)	(3,827)
Gain on sales of investments in securities	-	(6,935)
Loss on devaluation of investments in securities	-	4,534
Interest and dividends income	(4,916)	(4,576)
Interest expenses and sales discounts	947	1,006
Equity in earnings of affiliates	(2,508)	(2,485)
Loss on transfer of business	-	4,988
Increase in notes and accounts receivable	(5,506)	(2,019)
Increase in inventories	(11,787)	(7,466)
Increase in notes and accounts payable	1,350	1,898
(Decrease) increase in advances received	(2,873)	2,203
Decrease in deposits received	(674)	(4,304)
Other	(2,238)	6,837
Subtotal	103,157	115,740
Interest and dividends received	5,603	5,264
Interest paid	(966)	(1,040)
Income taxes refunded	-	4,661
Income taxes paid	(25,521)	(16,395)
Net cash provided by operating activities	82,272	108,229
Investing activities:		
Purchases of property, plant and equipment	(45,526)	(35,241)
Proceeds from sales of property, plant and equipment	4,005	1,459
Payments into time deposits	(646)	(23,109)
Proceeds from withdrawal of time deposits	19,920	4,006
Purchases of investments in securities	(7,470)	(2,026)
Proceeds from sales or redemption of investments in securities	1,510	18,165
Acquisition of investments in subsidiaries resulting in change in scope of consolidation (Note 16)	(22,137)	-
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	-	(734)
Acquisition of investments in subsidiaries	(5,006)	(1,630)
Purchases of intangible assets	(4,211)	(4,572)
Increase in short-term loans receivable	(2,158)	(423)
Other	837	50
Net cash used in investing activities	¥ (60,881)	¥ (44,057)

Consolidated Statement of Cash Flows (continued)

Financing activities:

Decrease in short-term debt, net	¥ (2,828)	¥ (1,336)
Repayments of lease obligations	(3,774)	(3,817)
Increase in commercial paper	7,000	-
Proceeds from long-term debt	2,003	3,925
Repayment of long-term debt	(3,784)	(7,987)
Proceeds from issuance of bonds	-	10,000
Redemption of bonds	(16)	(10,016)
Cash dividends paid	(18,134)	(15,538)
Cash dividends paid to non-controlling interests	(930)	(525)
Purchase of treasury stock	(16,006)	(16,356)
Other	491	2,019
Net cash used in financing activities	(35,981)	(39,633)
Effect of exchange rate change on cash and cash equivalents	814	(1,786)
Net (decrease) increase in cash and cash equivalents	(13,776)	22,752
Cash and cash equivalents at beginning of year	89,856	67,104
Increase in cash and cash equivalents from newly consolidated subsidiaries	644	-
Cash and cash equivalents at end of year (Note 16)	¥ 76,723	¥ 89,856

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

1. Basis of Preparation of Consolidated Financial Statements

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries (the “Companies”) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements were made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

Certain amounts in the prior year’s consolidated financial statements have been reclassified to conform to the current year’s presentation.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sum of the individual amounts.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

The accompanying consolidated financial statements for the year ended March 31, 2018 include the accounts of the Company and its 151 significant subsidiaries.

The accounts of the other subsidiaries have not been consolidated with those of the Company at March 31, 2018, because their combined assets, retained earnings, net sales and net income (loss) in the aggregate were not material to the consolidated financial statements.

The fiscal year end of 22 overseas consolidated subsidiaries was December 31. These consolidated subsidiaries have been consolidated using provisional financial statements at March 31.

Unrealized intercompany profit and loss among the Company and its consolidated subsidiaries have been entirely eliminated and the portion attributable to non-controlling interests has been charged to non-controlling interests.

At March 31, 2018, the Company has applied the equity method to investments in 8 major affiliates, including Sekisui Plastics Co., Ltd. and Sekisui Jushi Co., Ltd. for the purpose of the consolidated financial statements for the year then ended since the investments in the other unconsolidated subsidiaries and affiliates were not material.

(2) Foreign Currency Transactions

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates of exchange in effect at the respective transaction dates. Gain or loss on foreign exchange is credited or charged to income in the period in which the gain or loss is recognized for financial reporting purposes.

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and gain or loss on each translation is credited or charged to income.

The balance sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date except that the components of net assets excluding non-controlling interests are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rates of exchange in effect during the year. Adjustments resulting from translating foreign currency financial statements are not included in the determination of net income and are reported as translation adjustments and non-controlling interests in the accompanying consolidated balance sheet and statement of comprehensive income.

2. Summary of Significant Accounting Policies (continued)

(3) Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash-on-hand and in banks and other highly liquid investments with maturities of three months or less when purchased.

(4) Inventories

Inventories are stated at the lower of cost or net selling value, cost being determined primarily by the average method.

(5) Securities

Securities other than those of unconsolidated subsidiaries and affiliates are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities are carried at fair value. Gain or loss, both realized and unrealized, is credited or charged to income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

(6) Property, Plant and Equipment and Depreciation (excluding leased assets)

Depreciation of property, plant and equipment is computed by the straight-line method based on the estimated useful lives of the respective assets.

The range of useful lives is principally from 3 to 60 years for buildings and structures and from 4 to 17 years for machinery, equipment and vehicles.

(7) Leased Assets

Leased assets arising from finance lease transactions which do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.

(8) Goodwill

Goodwill is amortized over a period of 5 years by the straight-line method. If the economic useful life can be estimated, the useful life is used as the amortization period. Immaterial amounts, however, are charged to income.

(9) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided to cover possible losses on collection. With respect to normal accounts receivable, trade, allowance for doubtful accounts is stated at an amount based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount has been individually estimated.

(10) Allowance for Bonuses to Employees

Allowance for bonuses to employees is provided at the estimated amount of bonuses to be paid to the employees in the following year which has been allocated to the current fiscal year.

(11) Retirement Benefits

Asset for retirement benefits and liability for retirement benefits have been recorded mainly at the amount calculated based on the retirement benefit obligations and the fair value of the pension plan assets as of balance sheet date. The retirement benefit obligation is attributed to each period on a benefit formula basis over the estimated years of service of the eligible employees.

Prior service cost is amortized by the straight-line method over a period of 5 years, which is within the estimated average remaining years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a period of 5 years, which is within the estimated average remaining years of service of the eligible employees.

Certain consolidated subsidiaries have adopted a simplified method of calculation with liability for retirement benefits and retirement benefits expense. Under this simplified method, retirement benefit obligation for employees are stated the amount which would be required to be paid if all eligible employees voluntarily retired at the balance sheet date.

Certain consolidated subsidiaries have retirement benefit plans for their officers which are stated at 100 % of the estimated amount calculated in accordance with each subsidiary's internal rules. The related amount is included in liability for retirement benefits.

2. Summary of Significant Accounting Policies (continued)

(12) Recognition of Revenue and Related Costs

Revenues and costs of construction contracts, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method, except for construction contracts with extremely short construction periods. To estimate the progress of such construction projects, the Company and certain consolidated subsidiaries measure the percentage of completion by comparing costs incurred to date with the most recent estimate of total costs required to complete the project (cost to cost basis). If a reliable estimate cannot be made, revenues and costs of construction contract are recognized by the completed-contract method.

(13) Research and Development Costs and Computer Software (excluding leased assets)

Research and development costs are charged to income when incurred. Expenditures relating to computer software developed for internal use are charged to income when incurred, unless these contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their respective estimated useful lives, generally a period of 5 years.

(14) Income Taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes which are entered into the determination of taxable income in different periods. The Company and consolidated subsidiaries have recognized the tax effects of such temporary differences in the accompanying consolidated financial statements.

The Company and certain consolidated subsidiaries have applied the consolidated taxation system.

(15) Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. Consumption taxes paid not offset by consumption taxes received in accordance with Consumption Tax Act of Japan that arise from the purchases of property, plant and equipment are charged to income when incurred.

(16) Derivatives and Hedging Activities

The Company and certain consolidated subsidiaries have entered into derivative transactions in order to manage the risk arising from adverse fluctuation in foreign currency exchange rates and interest rates. Derivatives are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss, net of the applicable income taxes, is reported as a component of accumulated other comprehensive income. Forward foreign exchange contracts and currency swap contracts which meet certain criteria are accounted for by allocation method, which requires that recognized foreign currency receivables or payables be translated at the corresponding contract rates.

If interest rates swap contracts meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract is executed.

(17) Accounting Standards Issued but Not Yet Effective

On February 16, 2018, the Accounting Standards Board of Japan ("ASBJ") issued "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28 revised on February 16, 2018) and "Implementation Guidance on Recoverability of Deferred Tax Assets" (revised on February 16, 2018) (ASBJ Guidance No. 26).

(a) Overview

The following revisions to the above guidances were made as necessary in the process of transferring the revised implementation guidance on accounting standard for tax effect accounting of the Japanese Institute of Certified Public Accountants to the ASBJ.

The accounting treatment for taxable temporary differences related to investments in subsidiaries when an entity prepares separate financial statements was modified. In addition, the accounting treatment related to the recoverability of deferred tax assets in entities that qualify as Category 1 was clarified.

(b) Scheduled date of adoption

The Company expects to adopt the implementation guidance from the beginning of the fiscal year ending March 31, 2019.

(c) Impact of the adoption of implementation guidance

The Company is currently evaluating the effect of the adoption of this implementation guidance on its consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

(17) Accounting Standards Issued but Not Yet Effective (continued)

On March 30, 2018, the ASBJ issued “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30).

(a) Overview

The International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) of the U.S. have jointly developed a comprehensive accounting standard on revenue recognition. In May 2014, the IASB and the FASB each issued “Revenue from Contracts with Customers” (IASB: IFRS 15 and FASB: Topic 606). Considering that IFRS 15 has been applied from fiscal years beginning on or after January 1, 2018 and Topic 606 has been applied from fiscal years beginning after December 15, 2017, the ASBJ has developed a comprehensive accounting standard for revenue recognition, which was issued together with its implementation guidance.

As a basic policy in developing the accounting standard on revenue recognition, the ASBJ has incorporated the basic principles of IFRS 15 from the viewpoint of comparability between financial statements, a factor essential for facilitating consistency with IFRS 15. In addition, if there are any business practices in Japan for which consideration is required, alternative accounting treatments shall be added to the accounting standard to the extent that they do not impair comparability.

(b) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(c) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

3. Notes Receivable, Trade and Notes Payable, Trade

The balance sheet date for the year ended March 31, 2018 fell on a bank holiday. Consequently, notes receivable, trade and notes payable, trade in the amounts of ¥3,949 million and ¥483 million, respectively, with the due date of March 31, 2018 were included in the respective balances and settled on the next business day.

4. Marketable Securities and Investments in Securities

(1) Held-to-maturity debt securities at March 31, 2018 and 2017 are summarized as follows:

Millions of yen				
2018				
	Carrying value	Estimated fair value	Gross unrealized gain	Gross unrealized loss
Unlisted foreign debt securities	¥ 2	¥ 2	¥ -	¥ -
Total	¥ 2	¥ 2	¥ -	¥ -

Millions of yen				
2017				
	Carrying value	Estimated fair value	Gross unrealized gain	Gross unrealized loss
Unlisted foreign debt securities	¥ 3	¥ 3	¥ -	¥ -
Total	¥ 3	¥ 3	¥ -	¥ -

4. Marketable Securities and Investments in Securities (continued)

- (2) Other securities with available fair market value at March 31, 2018 and 2017 are summarized as follows:

	Millions of yen			
	2018			
	Acquisition cost	Carrying value	Gross unrealized gain	Gross unrealized loss
Equity securities whose carrying value exceeds their acquisition cost	¥ 55,369	¥ 117,299	¥ 61,929	¥ -
Equity securities whose carrying value does not exceed their acquisition cost	126	113	-	(13)
Total	¥ 55,496	¥ 117,412	¥ 61,929	¥ (13)

	Millions of yen			
	2017			
	Acquisition cost	Carrying value	Gross unrealized gain	Gross unrealized loss
Equity securities whose carrying value exceeds their acquisition cost	¥ 55,561	¥ 108,768	¥ 53,207	¥ -
Equity securities whose carrying value does not exceed their acquisition cost	138	125	-	(13)
Total	¥ 55,699	¥ 108,893	¥ 53,207	¥ (13)

Because no quoted market prices are available and it is extremely difficult to determine the fair value, unlisted equity securities of ¥2,656 million and ¥1,593 million at March 31, 2018 and 2017, respectively, are not included in the above tables.

- (3) The proceeds from sales of, and gross realized gain on, other securities for the years ended March 31, 2018 and 2017 are summarized as follows:

	Millions of yen	
	2018	2017
Proceeds from sales	¥ 1,442	¥ 17,621
Gross realized gain	823	6,935

- (4) For the year ended March 31, 2018, the Company recorded no loss on devaluation of investments in securities.

For the year ended March 31, 2017, the Company recorded a loss on devaluation of investments in securities amounting to ¥4,534 million, consisting of equity securities classified as other securities of ¥4,460 million and investments in unconsolidated subsidiaries of ¥73 million.

5. Accumulated Depreciation

Property, plant and equipment, net reflected in the accompanying consolidated balance sheet at March 31, 2018 and 2017 were stated at cost, less accumulated depreciation. Accumulated depreciation at March 31, 2018 and 2017 amounted to ¥544,814 million and ¥520,632 million, respectively.

6. Short-Term Debt, Bonds and Long-Term Debt

(1) Short-term debt

The average interest rates of short-term debt outstanding at March 31, 2018 and 2017 were 1.43% and 1.56%, respectively.

The average interest rate of commercial paper due within one year in the amount of ¥7,000 million was negative 0.08%.

(2) Bonds outstanding at March 31, 2018 and 2017 were as follows:

	Millions of yen	
	2018	2017
0.28% bonds due June 2026	¥ 10,000	¥ 10,000
6 month JPY TIBOR bonds due March 2021	52	69
	10,052	10,069
Less current portion	(16)	(16)
	¥ 10,036	¥ 10,052

(3) Long-term debt at March 31, 2018 and 2017 was as follows:

	Millions of yen	
	2018	2017
Secured	¥ 337	¥ 307
Unsecured	11,620	13,388
	11,958	13,696
Less current portion	(3,992)	(3,704)
	¥ 7,966	¥ 9,991

As is customary in Japan, substantially all loans (including short-term loans) from banks are made under general agreements which provide that, at the request of the respective banks, the Company or the relevant consolidated subsidiaries be required to provide collateral or guarantors (or additional collateral or guarantors, as appropriate) with respect to such loans, and that all assets pledged as collateral under such agreements be applicable to all present and future indebtedness to the banks concerned. The general agreements further provide that the banks have the right, as the indebtedness matures or becomes due prematurely by reason of default, to offset deposits at such banks against any indebtedness due to the banks.

The annual maturities of long-term debt subsequent to March 31, 2018 are summarized below:

Year ending March 31,	Millions of yen	
	Bonds	Long-term debt
2019	¥ 16	¥ 3,992
2020	16	1,945
2021	19	3,219
2022	-	2,801
2023	-	-
2024 and thereafter	10,000	-

6. Short-Term Debt, Bonds and Long-Term Debt (continued)

- (4) At March 31, 2018 and 2017, the following assets were pledged as collateral for notes and accounts payable, trade and long-term and short-term debt:

Assets	Millions of yen	
	2018	2017
Buildings and structures	¥ 1,757	¥ 4,022
Machinery	646	532
Land	1,465	3,887
Intangible assets	144	175
Other	2,497	2,076
Total	¥ 6,510	¥ 10,695

Liabilities	Millions of yen	
	2018	2017
Notes payable, trade	¥ 66	¥ 63
Accounts payable, trade	1,103	1,081
Short-term debt	840	955
Long-term debt	337	307
Total	¥ 2,347	¥ 2,408

- (5) In order to achieve more efficient and flexible financing, the Company had line-of-credit agreements with certain financial institutions, but such agreements were terminated on August 1, 2017 due to expiration of the term. The status of these at March 31, 2018 and 2017 were as follows:

	Millions of yen	
	2018	2017
Lines of credit	¥ -	¥ 10,000
Credit used	-	-
Available credit	¥ -	¥ 10,000

7. Lease Obligations

The annual maturities of lease obligations subsequent to March 31, 2018 are summarized below:

Year ending March 31,	Millions of yen
2019	¥ 3,317
2020	2,862
2021	2,051
2022	1,257
2023	592
2024 and thereafter	252

8. Retirement Benefits

The Company and domestic consolidated subsidiaries have set up funded and unfunded defined benefit plans and defined contribution plans to provide for employees' retirement benefits. Under the defined benefit pension plans, which are funded, lump-sum payments or pensions are provided mainly based on the salary amounts and service periods. Under the lump-sum payment plans, which are unfunded, lump-sum payments are provided mainly based on the merit points acquired by the time of retirement.

Certain overseas consolidated subsidiaries have defined benefit plans and defined contribution plans to provide for employees' retirement benefits. Certain consolidated subsidiaries calculated liability for retirement benefits and retirement benefit expenses as for defined benefit pension plans and lump-sum payment plans, using the simplified method. In addition, certain consolidated subsidiaries participate in multi-employer pension plans. Contributions made by certain consolidated subsidiaries to the multi-employer pension plans are expensed when paid in the event that the plan assets attributable to each participant cannot be reasonably determined.

Defined Benefit Plans

- (1) The changes in defined benefit obligation, excluding plans to which simplified methods are applied, for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen	
	2018	2017
Retirement benefit obligations at the beginning of the year	¥ 146,234	¥ 137,162
Service cost	6,768	6,255
Interest cost	1,007	968
Actuarial loss (gain)	1,436	(1,052)
Retirement benefits paid	(7,059)	(6,925)
Prior service cost	(13)	6
Others	1,223	9,818
Retirement benefit obligations at the end of the year	¥ 149,595	¥ 146,234

Note: "Others" include principally effects from business reorganization and foreign exchange translation adjustments.

- (2) The changes in plan assets, excluding plans to which simplified methods are applied, for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen	
	2018	2017
Plan assets at the beginning of the year	¥ 107,712	¥ 95,755
Expected return on plan assets	2,643	2,369
Actuarial (loss) gain	(278)	1,033
Contributions by the employer	6,936	6,596
Retirement benefits paid	(5,613)	(5,102)
Others	239	7,059
Plan assets at the end of the year	¥ 111,640	¥ 107,712

Note: "Others" include principally effects from business reorganization and foreign exchange translation adjustments.

- (3) The changes in liability for retirement benefits of the plans to which simplified methods are applied for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen	
	2018	2017
Liability for retirement benefits at the beginning of the year	¥ 7,234	¥ 8,137
Retirement benefit expenses	2,839	3,269
Retirement benefits paid	(488)	(660)
Contributions to the plans	(1,964)	(2,275)
Increase due to business combinations	451	-
Decrease due to business reorganization	(809)	(1,237)
Liability for retirement benefits at the end of the year	¥ 7,262	¥ 7,234

8. Retirement Benefits (continued)

- (4) The balance of retirement benefit obligations and plan assets at fair value as of March 31, 2018 and 2017, liabilities and assets recognized in the consolidated balance sheet were as follows:

	Millions of yen	
	2018	2017
Funded retirement benefit obligations	¥ 126,715	¥ 123,097
Plan assets at fair value	(116,395)	(112,192)
	10,320	10,905
Unfunded retirement benefit obligations	34,897	34,850
Net liability recognized in the consolidated balance sheet	45,217	45,756
Liability for retirement benefits	45,418	45,936
Asset for retirement benefits	200	179
Net liability recognized in the consolidated balance sheet	¥ 45,217	¥ 45,756

Note: Plans to which simplified methods are applied are included. Liability for retirement benefits included retirement benefits for directors and audit and supervisory board members of ¥1,083 million and ¥1,133 million for the years ended March 31, 2018 and 2017, respectively.

- (5) The components of retirement benefit expenses for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen	
	2018	2017
Service cost	¥ 6,768	¥ 6,255
Interest cost	1,007	968
Expected return on plan assets	(2,643)	(2,369)
Amortization of actuarial (gain) loss	(1,405)	271
Amortization of prior service cost	(11)	48
Retirement benefit expenses calculated by simplified methods	2,839	3,269
Effects from business reorganization	328	1,840
Retirement benefit expenses	¥ 6,884	¥ 10,284

- (6) The components of retirement benefit adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen	
	2018	2017
Prior service cost	¥ (2)	¥ (42)
Actuarial loss (gain)	2,924	(2,093)
Total	¥ 2,921	¥ (2,136)

8. Retirement Benefits (continued)

- (7) The components of retirement benefit adjustments in accumulated other comprehensive income (before tax effect) as of March 31, 2018 and 2017 were as follows:

	Millions of yen	
	2018	2017
Unrecognized prior service cost	¥ 5	¥ 8
Unrecognized actuarial loss	3,675	751
Total	¥ 3,681	¥ 759

- (8) Plan assets, by major category, as a percentage of total plan assets as of March 31, 2018 and 2017 were as follows:

	2018	2017
Debt securities	43%	41%
Equity securities	22%	23%
General accounts at life insurance companies	19%	19%
Cash and deposits	5%	6%
Others	11%	11%
Total	100%	100%

The expected rate of return on plan assets is determined considering the allocation of the plan assets expected currently and in the future and the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

- (9) The assumptions used in accounting for the above plans were as follows:

	2018	2017
Discount rates	0.2%-0.7%	0.2%-0.7%
Expected long-term rates of return on plan	1.5%-2.5%	1.5%-2.5%
Expected rate of salary increases	2.9%	2.9%

Multi-employer Pension Plans

The contributions to the multi-employer pension plans, which were expensed when paid, were ¥1,408 million and ¥1,363 million for the years ended March 31, 2018 and 2017, respectively.

- (1) The most recent funded status related to multi-employer pension plans as of March 31, 2018 and 2017 was as follows:

	Millions of yen	
	2018	2017
Plan assets	¥ 119,968	¥ 115,159
Amount of actuarial obligations calculated under pension financing	111,719	113,042
Unfunded obligations	¥ 8,249	¥ 2,117

- (2) Benefit obligations calculated under pension financing of the Companies accounted for approximately 15% of the multi-employer pension plans as of March 31, 2018 and 2017.

- (3) Supplementary explanation

The above information is obtained from the latest available information. (Data for the years ended March 31, 2018 and 2017 is based on the information as of March 31, 2017 and 2016, respectively.)

The ratio of benefit obligations noted in above (2) is not the same as the actual ratio of the Group's obligation.

Defined Contribution Plans

The amounts of the required contribution to the defined contribution plans of the Company and certain consolidated subsidiaries were ¥1,386 million and ¥1,234 million for the years ended March 31, 2018 and 2017, respectively.

9. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries consist of corporation, inhabitants' and enterprise taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 30.7% for the year ended March 31, 2017.

A reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2018 is omitted because the difference is less than 5% of the statutory tax rate.

The effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2017 differs from the above statutory tax rate for the following reasons:

	2017
Statutory tax rate	30.7%
Income tax credit	(4.7)
Other	(0.7)
Effective tax rate	25.3%

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding amounts reported for income tax purposes. The significant components of the Companies' deferred tax assets and liabilities at March 31, 2018 and 2017 are summarized as follows:

	Millions of yen	
	2018	2017
Deferred tax assets:		
Liability for retirement benefits	¥ 13,315	¥ 13,538
Unrealized gain	6,091	5,761
Loss on devaluation of investments in securities	5,070	4,988
Allowance for bonuses	5,055	5,024
Asset adjustment account	1,831	2,524
Loss on impairment of fixed assets and goodwill	1,654	1,754
Tax loss carry forwards	1,476	882
Accrued business tax	869	1,055
Other	9,728	10,336
Valuation allowance	(5,040)	(3,906)
Total deferred tax assets	40,054	41,959
Deferred tax liabilities:		
Unrealized holding gain on securities	(18,172)	(15,937)
Temporary differences arising from consolidation without tax effect	(4,826)	(2,603)
Deferred capital gains on property	(2,423)	(2,476)
Revaluation of investments in affiliates	(2,088)	(2,091)
Accelerated depreciation of property, plant and equipment	(2,026)	(3,484)
Other	(3,189)	(17)
Total deferred tax liabilities	(32,727)	(26,612)
Net deferred tax assets	¥ 7,327	¥ 15,346

10. Shareholders' Equity

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

Retained earnings include the legal reserve provided in accordance with the provisions of the Law. The legal reserve of the Company included in retained earnings amounted to ¥10,363 million at March 31, 2018 and 2017.

Stock-based compensation plan

In accordance with the Law, certain stock option plans (the 2012, 2013, 2014 and 2015 plans) for directors, executive officers and key employees of the Company and for representative directors, certain directors and key employees of certain subsidiaries and affiliates were approved at the annual general meetings of shareholders held on June 27, 2012, June 26, 2013, June 26, 2014 and June 25, 2015, respectively.

The stock option plans outlined above are summarized as follows:

	Number of stock options granted	Exercise price	Exercisable period
The 2012 plan	1,205,000	742	From July 1, 2014 up to and including June 30, 2017
The 2013 plan	1,195,000	1,136	From July 1, 2015 up to and including June 30, 2018
The 2014 plan	1,260,000	1,276	From July 1, 2016 up to and including June 30, 2019
The 2015 plan	1,270,000	1,542	From July 1, 2017 up to and including June 30, 2020

Information regarding the Company's stock option plans is summarized as follows:

	The 2012 plan	The 2013 plan	The 2014 plan	The 2015 plan
Number of stock options:				
Balance at March 31, 2016	517,000	955,000	1,245,000	1,270,000
Granted	-	-	-	-
Cancelled	5,000	5,000	10,000	10,000
Exercised	243,000	342,000	382,000	-
Balance at March 31, 2017	269,000	608,000	853,000	1,260,000
Granted	-	-	-	-
Cancelled	101,000	-	-	-
Exercised	168,000	307,000	245,000	318,000
Balance at March 31, 2018	-	301,000	608,000	942,000
Fair value of stock options as of the grant date	¥ 61	¥ 238	¥ 173	¥ 100

10. Shareholders' Equity (continued)

Common stock and treasury stock

Movements in common stock in issue and treasury stock for the years ended March 31, 2018 and 2017 are summarized as follows:

	Number of shares			
	2018			
	April 1, 2017	Increase	Decrease	March 31, 2018
Common stock	510,507,285	-	10,000,000	500,507,285
Treasury stock	31,948,436	7,944,186	11,142,140	28,750,482

	Number of shares			
	2017			
	April 1, 2016	Increase	Decrease	March 31, 2017
Common stock	510,507,285	-	-	510,507,285
Treasury stock	22,236,633	10,870,803	1,159,000	31,948,436

Note: The number of treasury stock as of March 31, 2018 and 2017 included treasury stock of 646,000 shares and 750,000 shares held by an Employee stock ownership plan ("ESOP") trust and an Executive compensation board incentive plan ("BIP") trust, respectively.

11. Land Revaluation

Sekisui Plastics Co., Ltd., which has been accounted for by the equity method, revalued its land held for business use in accordance with the "Land Revaluation Law" and the "Amended Land Revaluation Law." As a result of this revaluation by Sekisui Plastics Co., Ltd., the Company recognized the portion attributable to the Company's interest in the unrealized gain on land revaluation and this has been included in accumulated other comprehensive income as unrealized gain on land revaluation of ¥321 million in the accompanying consolidated balance sheets at March 31, 2018 and 2017.

12. Contingent Liabilities

Contingent liabilities at March 31, 2018 and 2017 were as follows:

	Millions of yen	
	2018	2017
Guaranteed obligations		
Housing loans of customers and employees	¥ 30,253	¥ 28,168
Other guaranteed obligations	1,923	1,526

	Millions of yen	
	2018	2017
Notes receivable, trade with recourse		
Notes receivable, trade endorsed	¥ 131	¥ 166

13. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen	
	2018	2017
Research and development costs	¥ 36,974	¥ 34,169

14. Loss on Impairment of Fixed Assets

The Companies group their fixed assets and goodwill by cash-generating units (except for idle property which is grouped individually) and these are defined as the smallest identifiable groups of assets generating cash inflows which are largely independent of the cash inflows from other assets or groups of assets.

For the year ended March 31, 2018, the Companies have written down the amount of certain machinery, which is not expected to be used in the future due to the restructuring of the production system in the functional resin business in the U.S., to the recoverable value. As a result, the Companies recorded loss on impairment of fixed assets under extraordinary loss in the amount of ¥208 million. The recoverable value was measured at value in use and the Companies recorded the loss on impairment in the full amount since future cash flows from these properties were no longer expected.

For the year ended March 31, 2017, the Companies have written down the amount of certain property, plant and equipment, from which future cash flows are expected to be less than the book value in the housing business in Thailand, to the recoverable value. As a result, the Companies recorded loss on impairment of fixed assets under extraordinary loss in the amount of ¥1,926 million. The recoverable value was measured at the net selling value. The recoverable value of land was reasonably determined based on the market value of adjacent land and that of other fixed assets was measured at the estimated selling value.

15. Other Comprehensive Income

The reclassification adjustments and tax effects for components of other comprehensive income for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen	
	2018	2017
Unrealized holding gain (loss) on securities:		
Amount arising during the year	¥ 9,520	¥ 1,056
Reclassification adjustments for gains and losses realized in net income	(794)	(2,537)
Before tax effects	8,726	(1,481)
Tax effects	(2,581)	425
Unrealized holding gain (loss) on securities	6,144	(1,055)
Deferred gain on hedges:		
Amount arising during the year	3	64
Translation adjustments:		
Amount arising during the year	2,364	(4,492)
Reclassification adjustments for gains and losses realized in net income	-	(593)
Translation adjustments	2,364	(5,086)
Retirement benefit adjustments:		
Amount arising during the year	(1,560)	2,079
Reclassification adjustments for gains and losses realized in net income	(1,361)	56
Before tax effects	(2,921)	2,136
Tax effects	704	(776)
Retirement benefit adjustments	(2,217)	1,359
Comprehensive income of affiliates accounted for by the equity method attributable to the Company:		
Amount arising during the year	898	464
Reclassification adjustments for gains and losses realized in net income	(11)	(9)
Comprehensive income of affiliates accounted for by the equity method attributable to the Company	887	455
Total other comprehensive income (loss)	¥ 7,182	¥ (4,262)

16. Supplemental Information on Statement of Cash Flows

Reconciliations between cash and cash equivalents in the accompanying consolidated statement of cash flows and cash and deposits in the accompanying consolidated balance sheet at March 31, 2018 and 2017 are presented as follows:

	Millions of yen	
	2018	2017
Cash and deposits	¥ 77,996	¥109,891
Time deposits with maturities in excess of three months	(1,273)	(20,035)
Cash and cash equivalents	¥ 76,723	¥ 89,856

Major components of assets and liabilities of the newly consolidated subsidiaries due to acquisition of shares during the year ended March 31, 2018:

The summary of assets acquired and liabilities assumed at the inception of consolidation of PT Cayman Limited and other eleven companies, newly consolidated subsidiaries through the acquisition of shares, acquisition cost and net payment for acquisition of shares is as follows:

	Millions of yen
Current assets	¥ 9,829
Non-current assets	11,566
Goodwill	4,074
Current liabilities	(3,081)
Long-term liabilities	(2,477)
Non-controlling interests	(1,049)
Acquisition cost of shares	18,861
Cash and cash equivalents	(3,299)
Net payment for acquisition of shares	¥ (15,561)

Major components of assets and liabilities of the newly consolidated subsidiary due to acquisition of shares during the year ended March 31, 2018:

The summary of assets acquired and liabilities assumed at the inception of consolidation of Sekisui SoflanWiz Co., Ltd., a newly consolidated subsidiary through the acquisition of shares, acquisition cost and net payment for acquisition of shares is as follows:

	Millions of yen
Current assets	¥ 6,272
Non-current assets	5,677
Goodwill	1,258
Current liabilities	(4,860)
Long-term liabilities	(1,039)
Acquisition cost of shares	7,309
Cash and cash equivalents	(733)
Net payment for acquisition of shares	¥ (6,575)

Non cash financing activities

Assets and liabilities related to finance lease obligations newly recognized were ¥3,400 million and ¥4,521 during the years ended March 31, 2018 and 2017, respectively.

17. Related Party Transactions

Principal transactions between the Company's consolidated subsidiaries and their related parties for the year ended March 31, 2018 are summarized as follows:

2018						
Name	Description/ Principal business	Paid-in capital (Millions of yen)	Transaction	Millions of yen		
				Transaction amount	Account name	Ending balance
Relative of Kazukiyo Kuroki	-	¥ -	Sales of residence	¥ 64	-	¥ -
Yuichi Hamabe	Audit and supervisory board member of the Company	-	Sales of residence	42	-	-
Musashi Kougyousha Co., Ltd.	Majority of voting rights of this company are owned by a director's relative/ Manufacturing	10	Processing of metal parts	39	Notes payable, trade Accrued expenses	18 1
Relative of Hitoshi Kobayashi	-	-	Sales of residence	32	-	-

Notes: 1. Above transaction amounts do not include consumption taxes but ending balances are inclusive of consumption taxes.

2. Prices for the above transactions were determined based on the same terms as third party transactions.

There were no related party transactions to be noted for the year ended March 31, 2017.

18. Financial Instruments

Overview

(1) Policy for financial instruments

The Companies raise funds by bank borrowings and bonds, including short-term bonds. The Companies manage funds only through short-term deposits and others. The Companies use derivatives for the purposes of managing foreign currency exchange risk related to notes and accounts receivable, trade and notes and accounts payable, trade and avoiding the risk of fluctuations of interest rates related to debt. The Companies do not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk

Notes and accounts receivable, trade are exposed to credit risk in relation to customers. In addition, the Companies are exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies resulting from trade with overseas customers.

Equity securities—the Companies hold equity securities, which are mainly issued by companies who have business relationships with the Companies, and these securities are exposed to the risk of fluctuation in market prices.

Notes and accounts payable, trade and electronically recorded obligations mostly have payment due dates within one year. A portion of trade payables, which is denominated in foreign currencies, is exposed to foreign currency exchange risk.

Short-term debt of bank loans and bonds is raised mainly in connection with business activities. Long-term debt and bonds are taken out principally for the purpose of capital expenditure. Long-term debt and bonds have maturity dates within 8 years, at the longest, subsequent to March 31, 2018. Debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for debt bearing interest at variable rates, the Companies undertake interest rate swap transactions as a hedging instrument for most long-term debt.

18. Financial Instruments (continued)

(3) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies for managing credit risk of the Companies, the Companies monitor credit worthiness of their main customers periodically, and monitor due dates and outstanding balances by customer.

To minimize the credit risk when entering into derivative transactions, counterparties are limited to financial institutions with high ratings.

(b) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For equity securities included in investments in securities, the fair values of these securities are periodically reviewed and reported to the Board of Directors.

In conducting and managing derivative transactions, the accounting department confirms the effectiveness of hedging and obtains approval from the responsible person, depending on the notional contract value, based on the internal policies and formal regulations on market risk for financial instruments.

(c) Monitoring of liquidity risk for financing (the risk that the Companies may not be able to meet its obligations on the scheduled due dates)

The Companies manage liquidity risk mainly through the monthly cash-flow plans, which are prepared by each company.

(4) Supplementary explanation of the estimated fair value of financial instruments

For derivative transactions, please refer to Note 19 "Derivatives" of the notes to consolidated financial statements.

Estimated Fair Value of Financial Instruments

The carrying value of the financial instruments on the consolidated balance sheet, fair value and the difference at March 31, 2018 and 2017 are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to (2) below).

Estimated fair value information at March 31, 2018:

	Millions of yen		
	Carrying value	Estimated fair value	Difference
Cash and deposits	¥ 77,996	¥ 77,996	¥ -
Notes and accounts receivable, trade	183,263	183,263	-
Marketable securities and investments in securities	149,580	153,779	4,198
Total assets	¥ 410,840	¥ 415,039	¥ 4,198
Notes and accounts payable, trade and electronically recorded obligations	¥ 130,820	¥ 130,820	¥ -
Short-term debt	6,981	6,981	-
Commercial paper	7,000	7,000	-
Long-term debt, including current portion	11,958	11,953	(4)
Bonds, including current portion	10,052	10,008	(44)
Total liabilities	¥ 166,812	¥ 166,763	¥ (48)
Derivative transactions (*):			
Derivatives for which hedge accounting is applied	¥ (49)	¥ (49)	¥ -
Total derivative transactions	¥ (49)	¥ (49)	¥ -

18. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

Estimated fair value information at March 31, 2017:

	Millions of yen		
	Carrying value	Estimated fair value	Difference
Cash and deposits	¥ 109,891	¥ 109,891	¥ -
Notes and accounts receivable, trade	164,072	164,072	-
Marketable securities and investments in securities	139,045	136,205	(2,840)
Total assets	¥ 413,009	¥ 410,169	¥ (2,840)
Notes and accounts payable, trade and electronically recorded obligations	¥ 120,121	¥ 120,121	¥ -
Short-term debt	9,570	9,570	-
Long-term debt, including current portion	13,696	13,701	5
Bonds, including current portion	10,069	9,920	(148)
Total liabilities	¥ 153,457	¥ 153,314	¥ (143)
Derivative transactions (*):			
Derivatives for which hedge accounting is not applied	¥ (144)	¥ (144)	¥ -
Derivatives for which hedge accounting is applied	(52)	(52)	-
Total derivative transactions	¥ (196)	¥ (196)	¥ -

(*): Assets and liabilities arising from derivative transactions are shown at net value with the amount in parentheses representing net liability position.

- (1) Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Cash and deposits and notes and accounts receivable, trade

Since these items are settled in a short period, their carrying value approximates fair value.

Marketable securities and investments in securities

The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on either quoted market prices or prices provided by the financial institutions making markets in these securities. For information on securities classified by holding purpose, please refer to Note 4 "Marketable Securities and Investments in Securities."

Notes and accounts payable, trade, electronically recorded obligations, short-term debt and commercial paper

Since these items are settled in a short period, their carrying value approximates fair value.

Long-term debt, including current portion

The fair value of long-term debt is based on the present value of the total amount including principal and interest, discounted by the expected interest rate to be applied if similar new loans with a similar remaining period were entered into. Variable interest rates for long-term debt are hedged by interest rate swap contracts and accounted for as debt with fixed interest rates. The fair value of long-term debt with variable interest is based on the present value of the total of principal, interest and net cash flow of interest rate swap contracts discounted by the reasonably estimated interest rate to be applied if similar new loans with a similar remaining period were entered into.

Bonds, including current portion

The fair value of bonds issued by the Company is the quoted market price.

18. Financial Instruments (continued)

- (2) Financial instruments for which it is extremely difficult to determine the fair value were as follows:

	Millions of yen	
	2018	2017
Unlisted equity securities	¥ 28,126	¥ 17,872

Because no quoted market prices are available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the preceding table.

- (3) Redemption schedule for cash and deposits, notes and accounts receivable, trade and marketable securities and investments in securities with maturities at March 31, 2018 and 2017:

Maturity analysis at March 31, 2018:

	Millions of yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and deposits	¥ 77,996	¥ -	¥ -	¥ -
Notes and accounts receivable, trade	183,263	-	-	-
Marketable securities and investments in securities				
Held-to-maturity debt securities	0	2	-	-
Total	¥ 261,260	¥ 2	¥ -	¥ -

Maturity analysis at March 31, 2017:

	Millions of yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and deposits	¥ 109,891	¥ -	¥ -	¥ -
Notes and accounts receivable, trade	164,072	-	-	-
Marketable securities and investments in securities				
Held-to-maturity debt securities	1	2	-	-
Total	¥ 273,964	¥ 2	¥ -	¥ -

- (4) The redemption schedule for long-term debt and bonds is disclosed in Note 6 “Short-Term Debt, Bonds and Long-Term Debt.”

19. Derivatives

The Company and certain consolidated subsidiaries enter into currency swap contracts, forward foreign exchange contracts and interest-rate swap contracts in order to manage certain risks arising from adverse fluctuation in foreign currency exchange rates and interest rates. The Company and certain consolidated subsidiaries are also exposed to the risk of credit loss in the event of nonperformance by the counterparties to these currency swap contracts, forward foreign exchange contracts and interest-rate swap contracts; however, they do not anticipate nonperformance by any of the counterparties, all of whom are financial institutions with high credit ratings.

Summarized below are the notional amounts and the estimated fair value of the derivatives positions outstanding at March 31, 2018 and 2017:

(1) Derivatives for which hedge accounting is not applied

(a) Currency-related transactions

There were no derivatives for which hedge accounting is not applied at March 31, 2018.

	Millions of yen		
	2017		
	Notional amount	Fair value	Unrealized gain (loss)
Over-the-counter transactions			
Forward foreign exchange contracts:			
Buy: U.S. dollars	¥ 71	¥ (2)	¥ (2)
Buy: Thai Baht	40	(2)	(2)
Foreign currency swaps:			
Receive fixed – U.S. dollars/ pay fixed – yen	313	(139)	(139)
Total	¥ 425	¥ (144)	¥ (144)

The notional amount of forward foreign exchange contracts and foreign currency swaps do not include any portion over 1 year at March 31, 2017.

Financial Section

19. Derivatives (continued)

(2) Derivatives for which hedge accounting is applied

(a) Currency-related transactions

Millions of yen			
2018			
	Hedged item	Notional amount	Fair value
Forward foreign exchange contracts:			
Buy: U.S. dollars	Accounts payable	¥ 571	¥ (6)
Buy: Euro		49	(0)
Foreign currency swaps:			
Receive fixed – U.S. dollars/ pay fixed – Indian rupees	Long-term debt	716	(42)
Total		¥1,337	¥ (49)

Millions of yen			
2017			
	Hedged item	Notional amount	Fair value
Forward foreign exchange contracts:			
Buy: U.S. dollars	Accounts payable	¥ 637	¥ (7)
Buy: Euro		14	(0)
Buy: Australian dollars		5	0
Foreign currency swaps:			
Receive fixed – U.S. dollars/ pay fixed – Indian rupees	Long-term debt	811	(44)
Total		¥1,469	¥ (52)

The notional amount of foreign currency swaps of receive fixed – U.S. dollars / pay fixed – Indian rupees includes a portion over 1 year of ¥716 million and ¥449 million at March 31, 2018 and 2017, respectively. The notional amount of forward foreign exchange contracts of the buy position in U.S. dollars, Euro and Australian dollars does not include any portion over 1 year at March 31, 2018 and 2017.

(b) Interest-related transactions

There were no interest-related transactions at March 31, 2018.

Millions of yen			
2017			
	Hedged item	Notional amount	Fair value
Interest-rate swap:			
Receive/floating and pay/fixed	Long-term debt	¥ 2,325	(*)
Total		¥ 2,325	

(*): Because the interest rate swap contract is accounted for as if the interest rate applied to the swap had originally applied to the underlying long-term debt, its fair value is included in that of long-term debt.

The notional amount of the above interest rate swap does not include any portion over 1 year at March 31, 2017.

20. Amounts per Share

	Yen	
	2018	2017
Net income attributable to owners of the parent:		
Basic	¥ 133.80	¥ 126.13
Diluted	133.58	125.95
Cash dividends	40.00	35.00
Net assets	1,245.91	1,147.91

Basic net income attributable to owners of the parent per share has been computed based on the net income attributable to owners of the parent available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income attributable to owners of the parent per share has been computed based on the net income attributable to owners of the parent available for distribution to the shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year after giving effect to the dilutive potential of the shares of common stock issuable upon the exercise of stock options issued by the Company. The aggregate amounts of cash dividends include cash dividends of ¥25 million and ¥26 million for the shares of the Company held by the BIP Trust and ESOP Trust for the years ended March 31, 2018 and 2017, respectively. The amounts per share of net assets have been computed based on the number of shares of common stock outstanding at year end.

	Millions of yen	
	2018	2017
Net income attributable to owners of the parent	¥ 63,459	¥ 60,850

	Thousands of shares	
	2018	2017
Weighted-average number of shares of common stock outstanding	474,280	482,442
Increase in shares of common stock resulting from the exercise of stock acquisition rights	794	675

The financial data used in the computation of net assets per share as of March 31, 2018 and 2017 is summarized as follows:

	Millions of yen	
	2018	2017
Total net assets	¥ 612,757	¥ 570,549
Deduction from total net assets:		
Stock acquisition rights	(271)	(418)
Non-controlling interests	(24,720)	(20,787)
	(24,991)	(21,205)
Total net assets attributable to common shareholders	587,766	549,344

	Thousands of shares	
	2018	2017
Number of shares of common stock used in the calculation of net assets per share	471,756	478,558

20. Amounts per Share (continued)

The Company's own shares held in the ESOP trust and the BIP trust recorded as treasury stock under shareholders' equity are included in treasury stock to be deducted from the weighted-average number of shares of common stock during the year in computing net income attributable to owners of the parent per share and from the number of shares of common stock at year-end in computing net assets per share.

The numbers of shares of treasury stock deducted from the weighted-average number of shares in computing net income attributable to owners of the parent per share were 675 thousand and 425 thousand shares for the years ended March 31, 2018 and 2017, respectively, and the numbers of shares of treasury stock deducted from the number of shares outstanding at year-end in computing net assets per share were 646 thousand and 750 thousand shares as of March 31, 2018 and 2017, respectively.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective fiscal years together with the interim cash dividends paid.

21. Segment Information

(1) Overview of the Reportable segments

The reportable segments of the Companies are determined on the basis that separate financial information of such segments is available and examined periodically by the Board of Directors of the Company to make decisions regarding the allocation of management resources and assess the business performances of such segments. The Companies have divided the business operations into the three segments of Housing, Urban Infrastructure and Environmental Products (UIEP), and High Performance Plastics (HPP) based on manufacturing methods, products, sales channels, and other business similarities. Each business segment formulates comprehensive strategies and develops business activities for its products in Japan and overseas. The Housing business comprises manufacturing, construction, sales, refurbishing, and other operations related to unit housing, real estate, and residential service business. The UIEP business comprises manufacturing, sales, and construction operations related to PVC pipes and joints, polyethylene pipes and joints, pipe and drain renewal materials and construction methods, reinforced plastic pipe, construction materials, and FFU. The HPP business comprises manufacturing and sales of interlayer films for laminated glass, polyolefin foam, tape, LCD fine particles and photosensitive materials, functional resin for infrastructure, diagnostic drugs and other products.

(2) Calculation methods used for sales, income, assets and the other items on each reportable segment

The accounting methods for the reportable segments are presented principally in accordance with the same accounting policies of the accompanying consolidated financial statements defined in Note 2 "Summary of Significant Accounting Policies." The amounts of segment income (loss) are calculated based on the same method as the calculation of operating income in the consolidated statement of income for the years ended March 31, 2018 and 2017. The figures of intersegment sales and transfers are presented based on the current market prices at the time of these transactions.

21. Segment Information (continued)

(3) Information as to sales, income, assets and other items on each reportable segment

Reportable segment information of the Companies for the years ended March 31, 2018 and 2017 is summarized as follows:

	Millions of yen					
	2018					
	Reportable segments					Consolidated
	Housing	Urban infrastructure and environmental products	High performance plastics	Total	Other (*1)	
Sales:						
Sales to third parties	¥497,320	¥ 225,753	¥ 378,676	¥ 1,101,750	¥ 5,679	¥ 1,107,429
Intersegment sales or transfers	462	13,487	7,478	21,427	182	21,610
Net sales	497,782	239,241	386,154	1,123,178	5,861	1,129,039
Segment income (loss)	¥ 37,935	¥ 14,791	¥ 57,821	¥ 110,547	¥ (9,764)	¥ 100,783
Segment assets	¥284,880	¥ 207,623	¥ 448,190	¥ 940,694	¥ 14,427	¥ 955,121
Other items:						
Depreciation and amortization (*2)	9,296	6,399	18,019	33,714	1,286	35,001
Investments in affiliates accounted for by the equity method	8,595	-	2,630	11,225	-	11,225
Increase in property, plant and equipment, and intangible assets (*2)	14,392	9,786	25,715	49,894	2,540	52,434

21. Segment Information (continued)

(3) Information as to sales, income, assets and other items on each reportable segment (continued)

	Millions of yen					
	2017					
	Reportable segments					Consolidated
	Housing	Urban infrastructure and environmental products	High performance plastics	Total	Other (*1)	
Sales:						
Sales to third parties	¥ 484,668	¥ 227,180	¥ 351,234	¥ 1,063,083	¥ 2,692	¥ 1,065,776
Intersegment sales or transfers	307	13,152	6,291	19,751	38	19,789
Net sales	484,975	240,332	357,526	1,082,834	2,730	1,085,565
Segment income (loss)	¥ 37,549	¥ 12,827	¥ 54,537	¥ 104,915	¥ (7,619)	¥ 97,295
Segment assets	¥ 277,762	¥ 193,928	¥ 388,154	¥ 859,845	¥ 11,103	¥ 870,948
Other items:						
Depreciation and amortization (*2)	8,867	6,429	17,727	33,024	837	33,862
Investments in affiliates accounted for by the equity method	8,178	-	2,522	10,700	-	10,700
Increase in property, plant and equipment, and intangible assets (*2)	13,452	6,690	20,692	40,835	2,077	42,912

(*1): Other represents segments other than the reportable segments, which includes provision of services and manufacturing and sales of film-type lithium-ion batteries and products not included in the Company's reportable segments.

(*2): Depreciation and amortization and increase in property, plant and equipment, and intangible assets include amortization of long-term prepaid expenses and its associated costs.

(4) Information on the difference between the total amount of the reportable segments in the above tables and the corresponding amount reported in the consolidated financial statements

Net sales and income for the years ended March 31, 2018 and 2017

	Millions of yen	
	2018	2017
Net sales:		
Total of reportable segments	¥ 1,123,178	¥ 1,082,834
Other net sales	5,861	2,730
Eliminations	(21,610)	(19,789)
Net sales	¥ 1,107,429	¥ 1,065,776

21. Segment Information (continued)

- (4) Information on the difference between the total amount of the reportable segments in the above tables and the corresponding amount reported in the consolidated financial statements (continued)

	Millions of yen	
	2018	2017
Income:		
Total of reportable segments	¥ 110,547	¥ 104,915
Other loss	(9,764)	(7,619)
Eliminations	(151)	114
Corporate expenses (*1)	(1,400)	(933)
Operating income	¥ 99,231	¥ 96,476

(*1): Corporate expenses are mainly general administrative expenses not attributable to each reportable segment.

Assets at March 31, 2018 and 2017

	Millions of yen	
	2018	2017
Assets:		
Total of reportable segments	¥ 940,694	¥ 859,845
Assets classified as "other"	14,427	11,103
Eliminations	(306,451)	(292,668)
Corporate assets (*1)	350,444	365,360
Total assets	¥ 999,114	¥ 943,640

(*1): Corporate assets are assets not attributable to the reportable segments. The main items were cash and deposits, long-term investments (investments in securities), assets related to administrative operations and deferred tax assets, etc. of the Company.

Other items for the years ended March 31, 2018 and 2017

	Millions of yen			
	2018			
	Reporting Segments	Others	Adjustments (*1)	Consolidated
Other items:				
Depreciation and amortization	¥ 33,714	¥ 1,286	¥ 1,015	¥ 36,016
Investments in affiliates accounted for by the equity method	11,225	-	32,185	43,410
Increase in property, plant and equipment, and intangible assets	49,894	2,540	1,084	53,518

	Millions of yen			
	2017			
	Reporting Segments	Others	Adjustments (*1)	Consolidated
Other items:				
Depreciation and amortization	¥ 33,024	¥ 837	¥ 980	¥ 34,843
Investments in affiliates accounted for by the equity method	10,700	-	30,157	40,857
Increase in property, plant and equipment, and intangible assets	40,835	2,077	955	43,868

(*1): Adjustment represents the amounts of investments in affiliates accounted for by the equity method, which are not attributable to the reportable segments.

21. Segment Information (continued)

(5) Related information

(a) Sales information by geographic area

Overseas net sales by geographical areas for the years ended March 31, 2018 and 2017 is as follows:

Millions of yen						
2018						
	Japan	America	Europe	Asia	Other	Total
Net sales	¥ 832,441	¥ 77,535	¥ 60,582	¥ 124,393	¥ 12,475	¥ 1,107,429

Millions of yen						
2017						
	Japan	America	Europe	Asia	Other	Total
Net sales	¥ 813,930	¥ 73,872	¥ 55,796	¥ 110,430	¥ 11,747	¥ 1,065,776

(b) Information of property, plant and equipment, net by geographic area

Information of property, plant and equipment, net by geographical areas as of March 31, 2018 and 2017 is as follows:

Millions of yen						
2018						
	Japan	America	Europe	Asia	Other	Total
Property, plant and equipment, net	¥ 203,098	¥ 18,879	¥ 18,825	¥ 32,116	¥ 6,818	¥ 279,738

Millions of yen						
2017						
	Japan	America	Europe	Asia	Other	Total
Property, plant and equipment, net	¥ 195,399	¥ 19,737	¥ 14,971	¥ 28,639	¥ 3,018	¥ 261,765

21. Segment Information (continued)

(6) Information of loss on impairment of fixed assets and goodwill

Information on loss on impairment of fixed assets and goodwill for the years ended March 31, 2018 and 2017 is as follows:

	Millions of yen					
	2018					
	Housing	Urban infrastructure and environmental products	High performance plastics	Other	Elimination or unallocable accounts	Total
Loss on impairment of fixed assets and goodwill	¥ 67	¥ 330	¥ 303	¥ -	¥ -	¥ 701

	Millions of yen					
	2017					
	Housing	Urban infrastructure and environmental products	High performance plastics	Other	Elimination or unallocable accounts	Total
Loss on impairment of fixed assets and goodwill	¥ 2,373	¥ 434	¥ 765	¥ -	¥ -	¥ 3,573

(7) Amortization and balance of goodwill

Information on amortization of goodwill by each segment and its remaining balance for the years ended March 31, 2018 and 2017 is summarized as follows:

	Millions of yen					
	2018					
	Housing	Urban infrastructure and environmental products	High performance plastics	Other	Elimination or unallocable accounts	Total
Amortization of goodwill	¥ 127	¥ 215	¥ 2,043	¥ 29	¥ -	¥ 2,416
Balance at March 31, 2018	2,160	270	15,117	92	-	17,640

	Millions of yen					
	2017					
	Housing	Urban infrastructure and environmental products	High performance plastics	Other	Elimination or unallocable accounts	Total
Amortization of goodwill	¥ 127	¥ 215	¥ 1,774	¥ -	¥ -	¥ 2,118
Balance at March 31, 2017	2,288	485	11,852	-	-	14,627

22. Business Combinations

(Business combination through acquisition)

- (1) Summary of the business combination
 - (a) Name and business description of the acquired company
 Name of the acquired company: PT Cayman Limited
 Business description: Shareholdings in subsidiaries engaged in manufacturing and sales of automotive-related parts and electronics-related parts
 - (b) Main reason for the business combination
 To expand the business in the automotive and transportation fields, etc. and to strengthen fundamental technology such as material combining and processing technology, etc.
 - (c) Date of the business combination
 August 31, 2017
 - (d) Legal form of the business combination
 Share acquisition
 - (e) Company name after the business combination
 PT Cayman Limited
 - (f) Percentage of shares with voting rights acquired
 91%
 - (g) Basis for determining the acquiring company
 The acquisition was a share acquisition by the Company for a cash consideration
- (2) Period of the operating results of the acquired company included in the Company's consolidated financial statements
 From September 1, 2017 through March 31, 2018
- (3) Acquisition cost and type of consideration for the acquired business

Cash payment for acquisition of shares	¥18,861 million
Acquisition cost	¥18,861 million
- (4) Details on major acquisition-related costs
 Compensation and fees for financial advisory services, etc.: ¥118 million
- (5) Amount, reason for recognition, and amortization method and period for goodwill arising from the acquisition
 - (a) Amount of goodwill arising from the acquisition
 ¥4,074 million
 - (b) Reason for recognition
 The difference between the fair value of net assets and the acquisition cost was recognized as goodwill because the fair value of net assets was less than the acquisition cost at the time of the share acquisition.
 - (c) Amortization method and period
 Straight-line method over a period of 10 years
- (6) The amounts and main components of assets acquired and liabilities assumed on the date of the business combination

	Millions of yen
Current assets	¥ 9,829
Property, plant and equipment	4,646
Intangible assets	6,327
Investments and other assets	591
Total assets	21,395
Current liabilities	3,081
Long-term liabilities	2,477
Total liabilities	¥ 5,558

22. Business Combinations (continued)

(Business combination through acquisition)

- (1) Summary of the business combination
 - (a) Name and business description of the acquired company
 Name of the acquired company: Soflan Wiz Co., Ltd.
 Business description: Manufacturing and sales of rigid polyurethane component liquids, manufacturing and sales of thermal insulation panels for agricultural and livestock applications, installation and management of ultra low temperature thermal insulation
 - (b) Main reason for the business combination
 To enhance the development and sales of heat-resistant and noncombustible materials and to expand the building and infrastructure field
 - (c) Date of the business combination
 December 27, 2017
 - (d) Legal form of the business combination
 Share acquisition
 - (e) Company name after the business combination
 Sekisui Soflan Wiz Co., Ltd.
 - (f) Percentage of shares with voting rights acquired
 100%
 - (g) Basis for determining the acquiring company
 The acquisition was a share acquisition by the Company for a cash consideration
- (2) Period of the operating results of the acquired company included in the Company's consolidated financial statements
 From January 1, 2018 through March 31, 2018
- (3) Acquisition cost and type of consideration for the acquired business

Cash payment for acquisition of shares	¥7,309 million
Acquisition cost	¥7,309 million
- (4) Details on major acquisition-related costs
 Compensation and fees for financial advisory services, etc.: ¥120 million
- (5) Amount, reason for recognition, and amortization method and period for goodwill arising from the acquisition
 - (a) Amount of goodwill arising from the acquisition
 ¥1,258 million
 - (b) Reason for recognition
 The difference between the fair value of net assets and the acquisition cost was recognized as goodwill because the fair value of net assets was less than the acquisition cost at the time of the share acquisition.
 - (c) Amortization method and period
 Straight-line method over a period of 6 years

- (6) The amounts and main components of assets acquired and liabilities assumed on the date of the business combination

	Millions of yen
Current assets	¥ 6,272
Property, plant and equipment	1,769
Intangible assets	3,311
Investments and other assets	596
Total assets	11,950
Current liabilities	4,860
Long-term liabilities	1,039
Total liabilities	¥ 5,899

23. Subsequent Events

(Year-end cash dividends)

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2018, was proposed by the Board of Directors at the meeting held on May 14, 2018. The distribution proposed is subject to approval by the shareholders at the meeting to be held on June 27, 2018.

	Millions of yen
Year-end cash dividends (¥21.0 per share)	¥ 9,927

The aggregate amount of cash dividends includes cash dividends of ¥13 million for the shares of the Company held by the BIP Trust and ESOP Trust.

(Acquisition of treasury stock)

For the purpose of implementing flexible capital policy and as a way to provide returns to shareholders, the Company resolved at the Board of Directors' meeting held on April 26, 2018 to acquire 8,000,000 shares of treasury stock for a maximum total amount of ¥16,000 million through the market during the period from April 27, 2018 through March 29, 2019.

As of June 13, 2018, the status of the acquisition of treasury stock is as follows:

Type of shares acquired: Common stock

Total number of shares acquired: 7,000,000 shares

Total acquisition cost: ¥12,866 million

(Retirement of treasury stock)

For the purpose of strengthening measures to enhance capital efficiency and as a way to provide returns to shareholders, the Company resolved at the Board of Directors' meeting held on April 26, 2018 to retire 8,000,000 shares of treasury stock and executed the retirement on May 25, 2018. After the retirement, total number of shares issued was 492,507,285 shares.

Independent Auditor's Report

The Board of Directors
Sekisui Chemical Co., Ltd.

We have audited the accompanying consolidated financial statements of Sekisui Chemical Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, and 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 accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the 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 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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. 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 referred to above present fairly, in all material respects, the consolidated financial position of Sekisui Chemical Co., Ltd. and its consolidated subsidiaries at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

June 15, 2018
Osaka, Japan

Ernst & Young Shin Nihon LLC