Financial Section

Financial Highlights (6 years)

Millions of yen

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Achievement Transition						
Net Sales	965,090	1,032,431	1,110,851	1,112,748	1,096,317	1,065,776
Operating Income	54,610	59,621	82,541	85,764	89,823	96,476
Ordinary Income	54,158	60,670	83,310	87,978	81,213	91,513
Net Income Attributable to Owners of the Parent	28,116	30,174	41,190	52,995	56,653	60,850
Comprehensive Income	24,652	77,437	57,944	91,587	37,080	57,638
Operating Income Ratio (%)	5.7	5.8	7.4	7.7	8.2	9.1
Assets, Liabilities and Net Assets						
Total Assets	827,103	901,564	961,009	968,011	936,043	943,640
Net Assets	363,299	433,228	473,555	535,292	544,156	570,549
Shareholders' Equity to Total Assets (%)	42.5	46.4	47.5	53.3	55.9	58.2
Current Ratio (%)	123.5	131.1	127.4	139.8	138.0	160.7
Fixed Ratio (%)	121.4	110.3	102.1	97.2	95.9	86.9
Interest-bearing Debt	127,188	115,320	94,010	63,120	52,338	43,734
Debt/Equity Ratio (%)	36.2	27.6	20.6	12.2	10.0	8.0
Total Assets Turnover (Times)	1.19	1.19	1.19	1.15	1.15	1.13
Inventory Turnover (Times)	7.71	7.57	7.50	7.09	7.11	7.00
Tangible Fixed Assets Turnover (Times)	4.13	4.38	4.51	4.31	4.11	4.01
Cash Flow						
Net cash provided by operating activities	66,652	71,016	97,720	67,760	71,389	108,229
Net cash provided by (used in) investing activities	(70,727)	(31,133)	(60,914)	4,127	(23,715)	(44,057)
Net cash used in financing activities	(16,077)	(30,520)	(49,803)	(63,856)	(41,726)	(39,633)
Free Cash Flow	(12,332)	30,650	24,915	58,810	33,375	48,107
Capital Expenditures, Depreciation and R&D Expenditures						
Capital Expenditures	33,076	36,842	41,827	46,993	49,740	43,868
Depreciation and Amortization	35,102	34,895	34,376	31,203	34,735	34,843
R&D Expenditures	25,611	25,894	27,720	29,452	31,693	34,169
R&D Expenditures to Revenues (%)	2.65	2.51	2.50	2.65	2.89	3.21
Per Share Data						
Net Assets per Share (Yen)	682.46	810.76	897.18	1,033.49	1,071.24	1,147.91
Net Income Attributable to Owners of the Parent per Share (Yen)	53.96	58.53	80.13	104.73	115.08	126.13
Dividends per Share (Yen)	15.00	18.00	23.00	27.00	30.00	35.00
Dividends Payout Ratio (%)	27.8	30.8	28.7	25.8	26.1	27.7
Other Data						
Return on Equity (%)	8.1	7.8	9.4	10.9	10.9	11.3
Return on Total Assets (%)	6.7	7.0	8.9	9.1	8.5	9.7
EBITDA	89,712	94,516	116,918	116,967	124,558	131,319
Dividend on Equity Ratio (%)	2.3	2.4	2.7	2.8	2.9	3.2
Interest Coverage Ratio (Times)	20.7	21.7	33.2	51.7	64.5	100.4
PER (Times)	13.31	17.63	13.39	14.89	12.04	14.83
Number of Employees	20,855	22,202	23,017	23,886	23,901	23,006
Net Sales per Employee (Ten thousands of yen)	4,751	4,796	4,913	4,744	4,588	4,544

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 = Dividends per Share / Average Net Assets per Share
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

Consolidated Financial Statements

Consolidated Balance Sheet

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
March 31, 2017

	Millions of yen	
	2017	2016
Assets		
Current assets:		
Cash and deposits (Notes 16 and 18)	¥ 109,891	¥ 68,007
Notes receivable, trade (Note 18)	32,960	35,168
Accounts receivable, trade (Note 18)	131,111	140,828
Marketable securities (Notes 4 and 18)	1	107
Merchandise and finished goods	56,619	58,917
Land for sale	30,879	25,405
Work in process	38,349	38,204
Raw materials and supplies	27,704	28,233
Advance payments	1,687	4,679
Prepaid expenses	3,388	3,766
Deferred tax assets (Note 9)	13,870	12,540
Short-term loans receivable	5,128	974
Other current assets	15,688	19,377
Allowance for doubtful accounts	(1,179)	(1,698)
Total current assets	466,101	434,513
Non-current assets:		
Property, plant and equipment, net (Notes 5, 6, 14 and 21):		
Buildings and structures	88,882	90,767
Machinery, equipment and vehicles	73,615	78,352
Land	70,426	71,203
Leased assets	10,126	9,402
Construction in progress	9,388	12,244
Other	9,323	8,004
Total property, plant and equipment, net	261,765	269,974
Intangible assets (Notes 6, 14 and 21):		
Goodwill	14,627	16,783
Software	8,167	8,108
Leased assets	216	271
Other	16,579	18,559
Total intangible assets	39,591	43,722
Investments and other assets:		
Investments in securities (Notes 4 and 18)	156,916	168,262
Long-term loans receivable	1,789	696
Long-term prepaid expenses	1,211	1,421
Asset for retirement benefits (Note 8)	179	625
Deferred tax assets (Note 9)	4,840	4,925
Other	13,058	14,424
Allowance for doubtful accounts	(1,815)	(2,521)
Total investments and other assets	176,181	187,833
Total non-current assets	477,538	501,530
Total assets (Note 21)	¥ 943,640	¥ 936,043

	Millions of yen	
	2017	2016
Liabilities		
Current liabilities:		
Notes payable, trade (Notes 6 and 18)	¥ 4,320	¥ 5,021
Electronically recorded obligations (Note 18)	22,116	14,781
Accounts payable, trade (Notes 6 and 18)	93,684	105,232
Short-term debt and current portion of long-term debt (Notes 6 and 18)	13,274	22,899
Current portion of bonds (Notes 6 and 18)	16	10,016
Lease obligations (Note 7)	3,413	3,227
Accrued expenses	39,115	38,242
Accrued income taxes and other taxes (Note 9)	12,361	5,686
Allowance for bonuses to employees	16,740	16,745
Allowance for bonuses to directors and audit and supervisory board members	308	259
Provision for compensation for completed construction	1,222	1,209
Provision for stock-based compensation	133	-
Provision for loss on transfer of business	-	3,241
Advances received	41,623	40,534
Other	41,750	47,845
Total current liabilities	290,081	314,944
Long-term liabilities:		
Bonds (Notes 6 and 18)	10,052	69
Long-term debt less current portion (Notes 6 and 18)	9,991	9,569
Lease obligations (Note 7)	6,985	6,555
Deferred tax liabilities (Note 9)	3,364	3,782
Liability for retirement benefits (Note 8)	47,069	51,455
Provision for stock-based compensation	135	-
Other	5,410	5,509
Total long-term liabilities	83,009	76,942
Total liabilities	373,090	391,887
Contingent liabilities (Note 12)		
Net assets		
Shareholders' equity (Notes 10 and 20);		
Common stock	100,002	100,002
Capital surplus	109,192	109,183
Retained earnings	341,009	295,659
Treasury stock, at cost	(40,969)	(25,970)
Total shareholders' equity	509,234	478,874
Accumulated other comprehensive income:		
Unrealized holding gain on securities	39,463	40,054
Deferred loss on hedges	(52)	(116)
Unrealized gain on land revaluation (Note 11)	321	321
Translation adjustments	941	5,817
Retirement benefit adjustments (Note 8)	(565)	(1,894)
Total accumulated other comprehensive income	40,109	44,182
Stock acquisition rights	418	512
Non-controlling interests	20,787	20,586
Total net assets	570,549	544,156
Total liabilities and net assets	¥ 943,640	¥ 936,043

See accompanying notes to consolidated financial statements

Consolidated Statement of Income

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2017

	Millions of yen	
	2017	2016
Net sales (Notes 17 and 21)	¥ 1,065,776	¥ 1,096,317
Cost of sales	712,258	750,513
Gross profit	353,517	345,804
Selling, general and administrative expenses (Note 13)	257,040	255,981
Operating income (Note 21)	96,476	89,823
Non-operating income:		
Interest income	748	859
Dividends income	3,828	3,791
Equity in earnings of affiliates	2,485	2,226
Miscellaneous income	5,060	2,842
Total non-operating income	12,122	9,720
Non-operating expenses:		
Interest expenses	610	1,147
Sales discounts	396	317
Foreign exchange loss, net	808	3,155
Inspection and maintenance expenses for external walls	3,499	987
Miscellaneous expenses	11,771	12,723
Total non-operating expenses	17,086	18,330
Ordinary income	91,513	81,213
Extraordinary income:		
Gain on sales of investments in securities (Note 4)	6,935	10,769
Total extraordinary income	6,935	10,769
Extraordinary loss:		
Loss on transfer of business	4,988	6,638
Loss on devaluation of investments in securities (Note 4)	4,534	-
Loss on impairment of fixed assets and goodwill (Notes 14 and 21)	3,573	2,313
Provision for loss on transfer of business	-	3,241
Loss on sales or disposal of property, plant and equipment	2,500	1,838
Total extraordinary loss	15,596	14,032
Income before income taxes	82,851	77,950
Income taxes (Note 9):		
Current	23,396	15,007
Deferred	(2,446)	5,215
Total income taxes	20,950	20,223
Net income	61,901	57,727
Net income attributable to:		
Non-controlling interests	1,050	1,073
Owners of the parent	¥ 60,850	¥ 56,653

See accompanying notes to consolidated financial statements

Consolidated Statement of Comprehensive Income

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2017

	Millions of yen	
	2017	2016
Net income	¥ 61,901	¥ 57,727
Other comprehensive loss (Note 15)		
Unrealized holding loss on securities	(1,055)	(3,480)
Deferred gain (loss) on hedges	64	(150)
Translation adjustments	(5,086)	(11,828)
Retirement benefit adjustments	1,359	(4,570)
Comprehensive income (loss) of affiliates accounted for by the equity method attributable to the Company	455	(616)
Total other comprehensive loss	(4,262)	(20,647)
Comprehensive income	¥ 57,638	¥ 37,080
Comprehensive income (loss) attributable to:		
Owners of the parent	¥ 56,777	¥ 37,237
Non-controlling interests	861	(156)

See accompanying notes to consolidated financial statements

Consolidated Statement of Changes in Net Assets

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2017

Millions of yen

	Shareholders' equity				Accumulated other comprehensive income (loss)							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain on securities	Deferred gain (loss) on hedges	Unrealized gain on land revaluation	Translation adjustments	Retirement benefit adjustments	Stock acquisition rights	Non-controlling interests	Total net assets
Balance at April 1, 2015	¥ 100,002	¥109,234	¥265,246	¥(21,770)	¥ 43,713	¥ 33	¥ 301	¥ 16,417	¥ 3,133	¥ 414	¥ 18,566	¥ 535,292
Cash dividends	-	-	(13,836)	-	-	-	-	-	-	-	-	(13,836)
Net income attributable to owners of the parent	-	-	56,653	-	-	-	-	-	-	-	-	56,653
Decrease in retained earnings resulting from inclusion of subsidiaries in consolidation	-	-	(526)	-	-	-	-	-	-	-	-	(526)
Decrease in retained earnings resulting from exclusion of subsidiaries from consolidation	-	-	(2)	-	-	-	-	-	-	-	-	(2)
Change due to merger	-	-	30	-	-	-	-	-	-	-	-	30
Retirement of treasury stock	-	(11,803)	-	11,803	-	-	-	-	-	-	-	-
Purchase of treasury stock	-	-	-	(16,783)	-	-	-	-	-	-	-	(16,783)
Disposal of treasury stock	-	(102)	-	780	-	-	-	-	-	-	-	677
Transfer from retained earnings to capital surplus	-	11,906	(11,906)	-	-	-	-	-	-	-	-	-
Change in shareholders' equity due to transactions with non-controlling interests	-	(51)	-	-	-	-	-	-	-	-	-	(51)
Net changes of items other than shareholders' equity	-	-	-	-	(3,658)	(150)	20	(10,600)	(5,027)	98	2,019	(17,298)
Total changes of items during the year	-	(51)	30,413	(4,199)	(3,658)	(150)	20	(10,600)	(5,027)	98	2,019	8,863
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 March 31, 2017	¥ 100,002	¥109,192	¥341,009	¥(40,969)	¥ 39,463	¥ (52)	¥ 321	¥ 941	¥ (565)	¥ 418	¥ 20,787	¥ 570,549

See accompanying notes to consolidated financial statements

Consolidated Statement of Cash Flows

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2017

	Millions of yen	
	2017	2016
Operating activities:		
Income before income taxes	¥ 82,851	¥ 77,950
Adjustments for:		
Depreciation and amortization	34,843	34,735
Amortization of goodwill	2,118	2,156
Loss on impairment of fixed assets and goodwill	3,573	2,313
Loss on disposal of property, plant and equipment	1,785	1,134
Loss on sales of property, plant and equipment, net	715	703
(Decrease) increase in liability for retirement benefits	(3,827)	2,238
Gain on sales of investments in securities	(6,935)	(10,769)
Loss on devaluation of investments in securities	4,534	-
Interest and dividends income	(4,576)	(4,651)
Interest expenses and sales discounts	1,006	1,465
Equity in earnings of affiliates	(2,485)	(2,226)
Loss on transfer of business	4,988	6,638
Provision for loss on transfer of business	-	3,241
(Increase) decrease in notes and accounts receivable	(2,019)	3,927
(Increase) decrease in inventories	(7,466)	4,562
Increase (decrease) in notes and accounts payable	1,898	(2,818)
Increase (decrease) in advances received	2,203	(2,757)
Decrease in deposits received	(4,304)	(10,801)
Other	6,837	(8,732)
Subtotal	115,740	98,310
Interest and dividends received	5,264	5,275
Interest paid	(1,040)	(1,488)
Income taxes refunded	4,661	-
Income taxes paid	(16,395)	(30,707)
Net cash provided by operating activities	108,229	71,389
Investing activities:		
Purchases of property, plant and equipment	(35,241)	(39,444)
Proceeds from sales of property, plant and equipment	1,459	2,525
Payments into time deposits	(23,109)	(27,644)
Proceeds from withdrawal of time deposits	4,006	51,056
Purchases of investments in securities	(2,026)	(8,314)
Proceeds from sales or redemption of investments in securities	18,165	21,408
Acquisition of investments in a subsidiary resulting in change in scope of consolidation (Note 16)	-	(12,232)
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation (Note 16)	(734)	(4,239)
Acquisition of investments in subsidiaries	(1,630)	(1,481)
Purchases of intangible assets	(4,572)	(5,688)
Increase in short-term loans receivable	(423)	(185)
Other	50	525
Net cash used in investing activities	¥ (44,057)	¥ (23,715)

Consolidated Statement of Cash Flows (continued)

Financing activities:		
Decrease in short-term debt, net	¥ (1,336)	¥ (3,443)
Repayments of lease obligations	(3,817)	(3,540)
Proceeds from long-term debt	3,925	2,611
Repayment of long-term debt	(7,987)	(6,979)
Proceeds from issuance of bonds	10,000	-
Redemption of bonds	(10,016)	(8)
Cash dividends paid	(15,538)	(13,820)
Cash dividends paid to non-controlling interests	(525)	(479)
Purchase of treasury stock	(16,356)	(16,783)
Other	2,019	717
Net cash used in financing activities	(39,633)	(41,726)
Effect of exchange rate change on cash and cash equivalents	(1,786)	(2,879)
Net increase in cash and cash equivalents	22,752	3,069
Cash and cash equivalents at beginning of year	67,104	62,780
Increase in cash and cash equivalents from newly consolidated subsidiaries	-	1,255
Decrease in cash and cash equivalents resulting from exclusion of a subsidiary from consolidation	-	(0)
Cash and cash equivalents at end of year (Note 16)	¥ 89,856	¥ 67,104

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

At March 31, 2017, the Company had 184 subsidiaries. The accompanying consolidated financial statements for the year ended March 31, 2017 include the accounts of the Company and its 143 significant subsidiaries.

The accounts of the remaining 41 subsidiaries have not been consolidated with those of the Company at March 31, 2017, 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 16 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, 2017, although the Company had 41 unconsolidated subsidiaries and 16 affiliates, 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 remaining 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 (loss). 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. 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 (loss).

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.

3. Additional Information

Application of the Implementation Guidance on Recoverability of Deferred Tax Assets

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

Employee stock ownership plan ("ESOP") trust with stock grant

Effective from the year ended March 31, 2017, the Company grants its stocks to its key employees, etc. through a trust.

(1) Outline of the transaction

The Company has introduced a stock grant plan for key employees, etc. using an ESOP trust with stock grant for the purpose of improving the medium and long-term performance of the whole Group and enhancing motivation toward the increase of corporate value and shareholders-focused management.

Under the plan, a trust is set up by contributing funds to acquire the Company's stocks, designating key employees, etc. who satisfy the requirements as beneficiaries and the trust purchases the Company's stocks expected to be granted to key employees, etc. from the Company pursuant to a predetermined stock grant rule (third-party allotment of treasury stock).

3. Additional Information

(1) Outline of the transaction (continued)
During the trust period, key employees, etc. are granted a certain number of points every year according to the stock grant rule and the Company's stocks corresponding to a certain percentage of the number of the accumulated points and money corresponding to cash conversion value of the Company's stocks will be granted to them through the trust.

(2) The Company's stocks remaining in the trust
The Company's stocks remaining in the trust are recorded as treasury stock under net assets at the book value of the trust (excluding incidental costs). The book value and number of shares of such treasury stock as of March 31, 2017 were ¥546 million and 400 thousand shares, respectively.

Executive compensation board incentive plan (BIP) trust

Effective from the year ended March 31, 2017, the Company grants its stocks to the Company's directors (excluding outside directors and nonresidents of Japan) and executive officers (excluding nonresidents of Japan) (hereinafter referred to as "directors, etc.") through the trust.

(1) Outline of the transaction
The Company has introduced a stock-based compensation plan for the directors, etc. using an executive compensation BIP trust for the purpose of improving the medium and long-term performance of the whole Group and enhancing motivation toward the increase of corporate value and shareholders-focused management.
Under the plan, a trust is set up by contributing funds to acquire the Company's stocks with the directors, etc. who satisfy beneficiary requirements as beneficiaries, and the trust purchases the Company's stocks expected to be granted to the directors, etc. from the Company pursuant to a predetermined stock grant rule (third-party allotment of treasury stock).
Thereafter, the directors, etc. are granted a certain number of points every year according to their positions and the Company's stocks corresponding to a certain percentage of the number of the accumulated points upon retirement and money corresponding to cash conversion value of the Company's stocks will be granted to them through the trust.

(2) The Company's stocks remaining in the trust
The Company's stocks remaining in the trust are recorded as treasury stock under net assets at the book value of the trust (excluding incidental costs). The book value and number of shares of such treasury stock as of March 31, 2017 were ¥477 million and 350 thousand shares, respectively.

4. Marketable Securities and Investments in Securities

(1) Held-to-maturity debt securities at March 31, 2017 and 2016 are summarized as follows:

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

	Millions of yen			
	2016			
	Carrying value	Estimated fair value	Gross unrealized gain	Gross unrealized loss
Unlisted foreign debt securities	¥ 10	¥ 10	¥ -	¥ -
Total	¥ 10	¥ 10	¥ -	¥ -

4. Marketable Securities and Investments in Securities

(2) Other securities with available fair market value at March 31, 2017 and 2016 are summarized as follows:

	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)

	Millions of yen			
	2016			
	Acquisition cost	Carrying value	Gross unrealized gain	Gross unrealized loss
Equity securities whose carrying value exceeds their acquisition cost	¥ 70,496	¥ 125,070	¥ 54,573	¥ -
Equity securities whose carrying value does not exceed their acquisition cost	197	165	-	(32)
Total	¥ 70,694	¥ 125,235	¥ 54,573	¥ (32)

Because no quoted market prices are available and it is extremely difficult to determine the fair value, unlisted equity securities of ¥1,593 million and ¥2,319 million at March 31, 2017 and 2016, respectively, are not included in the above tables.

(3) The proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2017 and 2016 are summarized as follows:

	Millions of yen	
	2017	2016
Proceeds from sales	¥ 17,621	¥ 21,256
Gross realized gain	6,935	10,769
Gross realized loss	-	1

(4) 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, 2017 and 2016 were stated at cost, less accumulated depreciation. Accumulated depreciation at March 31, 2017 and 2016 amounted to ¥520,632 million and ¥532,778 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, 2017 and 2016 were 1.56% and 2.26%, respectively.

(2) Bonds outstanding at March 31, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
0.60% bonds due June 2016	¥ -	¥ 10,000
0.28% bonds due June 2026	10,000	-
6 month JPY TIBOR bonds due March 2021	69	86
	10,069	10,086
Less current portion	(16)	(10,016)
	¥ 10,052	¥ 69

(3) Long-term debt at March 31, 2017 and 2016 was as follows:

	Millions of yen	
	2017	2016
Secured	¥ 307	¥ 495
Unsecured	13,388	17,278
	13,696	17,774
Less current portion	(3,704)	(8,205)
	¥ 9,991	¥ 9,569

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, 2017 are summarized below:

	Millions of yen	
Year ending March 31,	Bonds	Long-term debt
2018	¥ 16	¥ 3,704
2019	16	3,995
2020	16	1,543
2021	19	3,100
2022	-	1,352
2023 and thereafter	10,000	-

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

(4) At March 31, 2017 and 2016, the following assets were pledged as collateral for notes and accounts payable, trade and long-term and short-term debt:

	Millions of yen	
Assets	2017	2016
Buildings and structures	¥ 4,022	¥ 4,105
Machinery	532	141
Land	3,887	4,209
Intangible assets	175	194
Other	2,076	1,603
Total	¥ 10,695	¥ 10,254

	Millions of yen	
Liabilities	2017	2016
Notes payable, trade	¥ 63	¥ 81
Accounts payable, trade	1,081	1,034
Short-term debt	955	1,607
Long-term debt	307	495
Total	¥ 2,408	¥ 3,219

(5) In order to achieve more efficient and flexible financing, the Company has concluded line-of-credit agreements with certain financial institutions. The status of these at March 31, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Lines of credit	¥ 10,000	¥ 10,000
Credit used	-	-
Available credit	¥ 10,000	¥ 10,000

7. Lease Obligations

The annual maturities of lease obligations subsequent to March 31, 2017 are summarized below:

Year ending March 31,	Millions of yen
2018	¥ 3,413
2019	2,642
2020	2,021
2021	1,342
2022	649
2023 and thereafter	331

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, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Retirement benefit obligations at the beginning of the year	¥ 137,162	¥ 135,425
Service cost	6,255	5,945
Interest cost	968	1,311
Actuarial (gain) loss	(1,052)	2,813
Retirement benefits paid	(6,925)	(7,744)
Prior service cost	6	(72)
Others	9,818	(516)
Retirement benefit obligations at the end of the year	¥ 146,234	¥ 137,162

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, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Plan assets at the beginning of the year	¥ 95,755	¥ 95,657
Expected return on plan assets	2,369	2,382
Actuarial gain (loss)	1,033	(3,421)
Contributions by the employer	6,596	6,575
Retirement benefits paid	(5,102)	(5,018)
Others	7,059	(419)
Plan assets at the end of the year	¥ 107,712	¥ 95,755

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

8. Retirement Benefits (continued)

(3) The changes in liability for retirement benefits of the plans to which simplified methods are applied for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Liability for retirement benefits at the beginning of the year	¥ 8,137	¥ 6,776
Retirement benefit expenses	3,269	3,446
Retirement benefits paid	(660)	(576)
Contributions to the plans	(2,275)	(2,330)
Increase due to business combination	-	822
Decrease due to business reorganization	(1,237)	-
Liability for retirement benefits at the end of the year	¥ 7,234	¥ 8,137

(4) The balance of retirement benefit obligations and plan assets at fair value as of March 31, 2017 and 2016, liabilities and assets recognized in the consolidated balance sheet were as follows:

	Millions of yen	
	2017	2016
Funded retirement benefit obligations	¥ 123,097	¥ 116,218
Plan assets at fair value	(112,192)	(101,381)
	10,905	14,837
Unfunded retirement benefit obligations	34,850	34,707
Net liability recognized in the consolidated balance sheet	45,756	49,544
Liability for retirement benefits	45,936	50,170
Asset for retirement benefits	179	625
Net liability recognized in the consolidated balance sheet	¥ 45,756	¥ 49,544

Note: Plans to which simplified methods are applied are included.

(5) The components of retirement benefit expenses for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Service cost	¥ 6,255	¥ 5,945
Interest cost	968	1,311
Expected return on plan assets	(2,369)	(2,382)
Amortization of actuarial loss (gain)	271	(985)
Amortization of prior service cost	48	(29)
Retirement benefit expenses calculated by simplified methods	3,269	3,446
Effects from business reorganization	1,840	-
Retirement benefit expenses	¥ 10,284	¥ 7,306

(6) The components of retirement benefit adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Prior service cost	¥ (42)	¥ (43)
Actuarial (gain) loss	(2,093)	6,899
Total	¥ (2,136)	¥ 6,856

8. Retirement Benefits (continued)

(7) The components of retirement benefit adjustments in accumulated other comprehensive income (before tax effect) as of March 31, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Unrecognized prior service cost	¥ 8	¥ 50
Unrecognized actuarial loss	751	2,845
Total	¥ 759	¥ 2,895

(8) Plan assets, by major category, as a percentage of total plan assets as of March 31, 2017 and 2016 were as follows:

	2017	2016
Debt securities	41%	48%
Equity securities	23%	20%
General accounts at life insurance companies	19%	21%
Cash and deposits	6%	1%
Others	11%	10%
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:

	2017	2016
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 ¥1,363 million and ¥1,916 million for the years ended March 31, 2017 and 2016, respectively.

(1) The most recent funded status related to multi-employer pension plans as of March 31, 2017 and 2016 was as follows:

	Millions of yen	
	2017	2016
Plan assets	¥ 115,159	¥ 116,108
Amount of actuarial obligations calculated under pension financing	113,042	114,167
Unfunded obligations	¥ 2,117	¥ 1,940

(2) Benefit obligations calculated under pension financing of the Companies accounted for approximately 15% and 20% of the multi-employer pension plans as of March 31, 2017 and 2016, respectively.

(3) Supplementary explanation
The above information is obtained from the latest available information. (Data for the years ended March 31, 2017 and 2016 is based on the information as of March 31, 2016 and 2015, 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 ¥1,234 million and ¥710 million for the years ended March 31, 2017 and 2016, 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 statutory tax rates of approximately 30.7% and 32.9% for the years ended March 31, 2017 and 2016, respectively.

The effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2017 and 2016 differ from the above statutory tax rates for the following reasons:

	2017	2016
Statutory tax rates	30.7%	32.9%
Income tax credit	(4.7)	(3.1)
Other	(0.7)	(3.9)
Effective tax rates	25.3%	25.9%

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, 2017 and 2016 are summarized as follows:

	Millions of yen	
	2017	2016
Deferred tax assets:		
Liability for retirement benefits	¥ 13,538	¥ 14,632
Unrealized gain	5,761	5,411
Allowance for bonuses	5,024	5,045
Loss on devaluation of investments in securities	4,988	3,681
Asset adjustment account	2,524	3,860
Loss on impairment of fixed assets and goodwill	1,754	1,500
Accrued business tax	1,055	632
Tax loss carry forwards	882	1,070
Other	10,336	10,797
Valuation allowance	(3,906)	(4,642)
Total deferred tax assets	41,959	41,987
Deferred tax liabilities:		
Unrealized holding gain on securities	(15,937)	(16,375)
Accelerated depreciation of property, plant and equipment	(3,484)	(3,784)
Temporary differences arising from consolidation without tax effect	(2,603)	(2,919)
Deferred capital gains on property	(2,476)	(2,345)
Revaluation of investments in affiliates	(2,091)	(2,530)
Other	(17)	(348)
Total deferred tax liabilities	(26,612)	(28,305)
Net deferred tax assets	¥ 15,346	¥ 13,682

9. Income Taxes (continued)

The "Act for Partial Revision to the Act for Partial Revision, etc. of Consumption Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources, etc. for Social Security" (Act No. 85 of 2016) and the "Act for Partial Revision to the Act for Partial Revision, etc. of Local Tax Act and Local Allocation Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources, etc. for Social Security" (Act No. 86 of 2016) were enacted by the Japanese Diet on November 18, 2016, and the timing of the Japanese consumption tax rate hike to 10% was postponed from April 1, 2017 to October 1, 2019.
This resulted in the postponing of the abolition of the special local corporation tax, the restoration of the corporation enterprise tax and the revision to the local corporation tax rate and the corporation inhabitant tax rate on a per capita basis from fiscal years beginning on or after April 1, 2017 to fiscal years beginning on or after October 1, 2019.
As a result, there is no change in the effective statutory tax rate used to measure the Company's and its domestic consolidated subsidiaries' deferred tax assets and liabilities, but there is reclassification between the national corporation tax and the local corporation tax.
The effect of this reclassification on the Company's consolidated financial statements was immaterial.

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, 2017 and 2016.

Stock-based compensation plan

In accordance with the Law, certain stock option plans (the 2011, 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 29, 2011, 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 2011 plan	1,230,000	739	From July 1, 2013 up to and including June 30, 2016
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

10. Shareholders' Equity (continued)

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

	The 2011 plan	The 2012 plan	The 2013 plan	The 2014 plan	The 2015 plan
Number of stock options:					
Balance at March 31, 2015	513,000	679,000	1,185,000	1,250,000	-
Granted	-	-	-	-	1,270,000
Cancelled	-	-	5,000	5,000	-
Exercised	178,000	162,000	225,000	-	-
Balance at March 31, 2016	335,000	517,000	955,000	1,245,000	1,270,000
Granted	-	-	-	-	-
Cancelled	143,000	5,000	5,000	10,000	10,000
Exercised	192,000	243,000	342,000	382,000	-
Balance at March 31, 2017	-	269,000	608,000	853,000	1,260,000
Fair value of stock options as of the grant date	¥ 67	¥ 61	¥ 238	¥ 173	¥ 100

Common stock and treasury stock

Movements in common stock in issue and treasury stock for the years ended March 31, 2017 and 2016 are summarized as follows:

	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

	Number of shares			
	2016			
	April 1, 2015	Increase	Decrease	March 31, 2016
Common stock	520,507,285	-	10,000,000	510,507,285
Treasury stock	20,926,419	12,012,802	10,702,588	22,236,633

Note: The number of treasury stock as of March 31, 2017 included treasury stock of 750,000 shares held by the ESOP trust and the BIP trust.

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, 2017 and 2016.

12. Contingent Liabilities

Contingent liabilities at March 31, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Guaranteed obligations		
Housing loans of customers and employees	¥ 28,168	¥ 29,868
Other guaranteed obligations	1,526	85

	Millions of yen	
	2017	2016
Notes receivable, trade with recourse		
Notes receivable, trade endorsed	¥ 166	¥ 290

13. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen	
	2017	2016
Research and development costs	¥ 34,169	¥ 31,693

14. Loss on Impairment of Fixed Assets and Goodwill

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, 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.

For the year ended March 31, 2016, the Companies have written down the full amount of certain property, plant and equipment, from which the recoverability of future cash flows has become unexpected in the pipeline rehabilitation business in the United States. As a result, the Companies recorded loss on impairment of fixed assets and goodwill under extraordinary loss in the amount of ¥423 million, which consists of machinery and equipment in the amount of ¥219 million, vehicles in the amount of ¥150 million and other in the amount of ¥53 million for the year ended March 31, 2016.
In addition, the Companies have written down intangible assets recognized at the time of acquisition of the IT field related business (present electronics field business), to its net recoverable value since the management of the Companies has determined that reaching the income target expected in line with the business plan in effect when the business was acquired is no longer probable. As a result, the Companies recorded loss on impairment of fixed assets and goodwill under extraordinary loss in the amount of ¥413 million for the year ended March 31, 2016. The recoverable value was measured at value in use, which is determined by discounting future cash flows at 10%.

15. Other Comprehensive Income

The reclassification adjustments and tax effects for components of other comprehensive income for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen	
	2017	2016
Unrealized holding loss on securities:		
Amount arising during the year	¥ 1,056	¥ 3,705
Reclassification adjustments for gains and losses realized in net income	(2,537)	(10,669)
Before tax effects	(1,481)	(6,963)
Tax effects	425	3,483
Unrealized holding loss on securities	(1,055)	(3,480)
Deferred gain (loss) on hedges:		
Amount arising during the year	64	(150)
Translation adjustments:		
Amount arising during the year	(4,492)	(11,983)
Reclassification adjustments for gains and losses realized in net income	(593)	154
Translation adjustments	(5,086)	(11,828)
Retirement benefit adjustments:		
Amount arising during the year	2,079	(6,162)
Reclassification adjustments for gains and losses realized in net income	56	(694)
Before tax effects	2,136	(6,856)
Tax effects	(776)	2,285
Retirement benefit adjustments	1,359	(4,570)
Comprehensive income (loss) of affiliates accounted for by the equity method attributable to the Company:		
Amount arising during the year	464	(615)
Reclassification adjustments for gains and losses realized in net income	(9)	(0)
Comprehensive income (loss) of affiliates accounted for by the equity method attributable to the Company	455	(616)
Total other comprehensive loss	¥ (4,262)	¥ (20,647)

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, 2017 and 2016 are presented as follows:

	Millions of yen	
	2017	2016
Cash and deposits	¥ 109,891	¥ 68,007
Time deposits with maturities in excess of three months	(20,035)	(903)
Cash and cash equivalents	¥ 89,856	¥ 67,104

Major components of assets and liabilities of the newly consolidated subsidiary due to acquisition of shares during the year ended March 31, 2016:

The summary of assets acquired and liabilities assumed at the inception of consolidation of EIDIA 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	¥ 14,174
Non-current assets	9,431
Goodwill	5,768
Current liabilities	(4,746)
Long-term liabilities	(2,411)
Acquisition cost of shares	22,216
Cash and cash equivalents	(9,983)
Net payment for acquisition of shares	¥ (12,232)

Major components of assets and liabilities of the companies which were excluded from the scope of consolidation due to sales of shares during the year ended March 31, 2016:

The summary of assets and liabilities of Sekisui SPR Europe G.m.b.H., Sekisui SPR Construction G.m.b.H. and other twelve companies which were excluded from the scope of consolidation due to sales of shares, sales value of shares and disbursement due to sales is as follows:

	Millions of yen
Current assets	¥ 8,318
Non-current assets	1,052
Current liabilities	(2,585)
Long-term liabilities	(45)
Translation adjustments	(100)
Loss on transfer of business	(6,638)
Sales value of shares	0
Cash and cash equivalents	(4,254)
Net payment for sales of shares	¥ (4,254)

Non cash financing activities

Assets and liabilities related to finance lease obligations newly recognized were ¥4,521 million and ¥3,080 during the years ended March 31, 2017 and 2016, respectively.

17. Related Party Transactions

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

Principal transactions between the Company's consolidated subsidiaries and their related parties for the year ended March 31, 2016 are summarized as follows:

2016			
			Millions of yen
Name	Title	Transactions	Amounts
Satoshi Uenoyama	Director	Sales of residence	¥50

Notes: 1. Above amounts do not include consumption taxes.
2. Prices for the sales and remodeling of the residence were determined based on the same terms as third party transactions.

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 9 years, at the longest, subsequent to March 31, 2017. 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, 2017 and 2016 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).

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	¥ 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	¥ 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	¥ (196)	¥ (196)	¥ -

18. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

Estimated fair value information at March 31, 2016:

	Millions of yen		
	Carrying value	Estimated fair value	Difference
Cash and deposits	¥ 68,007	¥ 68,007	¥ -
Notes and accounts receivable, trade	175,997	175,997	-
Marketable securities and investments in securities	153,718	148,121	(5,596)
Total	¥ 397,722	¥ 392,126	¥ (5,596)
Notes and accounts payable, trade and electronically recorded obligations	¥ 125,035	¥ 125,035	¥ -
Short-term debt	14,694	14,694	-
Long-term debt, including current portion	17,774	17,816	41
Bonds, including current portion	10,086	10,086	-
Total	¥ 167,591	¥ 167,632	¥ 41
Derivative transactions (*):			
Derivatives for which hedge accounting is not applied	¥ (115)	¥ (115)	¥ -
Derivatives for which hedge accounting is applied	(116)	(116)	-
Total	¥ (231)	¥ (231)	¥ -

(*): 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 investment 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 and short-term debt
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	
	2017	2016
Unlisted equity securities	¥ 17,872	¥ 14,650

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, 2017 and 2016:

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	¥ -	¥ -

Maturity analysis at March 31, 2016:

	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	¥ 68,007	¥ -	¥ -	¥ -
Notes and accounts receivable, trade	175,997	-	-	-
Marketable securities and investments in securities				
Held-to-maturity debt securities	7	3	-	-
Other securities with maturity	100	-	-	-
Total	¥ 244,111	¥ 3	¥ -	¥ -

(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, 2017 and 2016:

(1) Derivatives for which hedge accounting is not applied

(a) Currency-related transactions

	Millions of yen					
	2017			2016		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Over-the-counter transactions						
Forward foreign exchange contracts:						
Buy: U.S. dollars	¥ 71	¥ (2)	¥ (2)	¥ 101	¥ 5	¥ 5
Buy: Thai Baht	40	(2)	(2)	671	6	6
Buy: S.G. dollars	-	-	-	71	2	2
Foreign currency swaps:						
Receive fixed – U.S. dollars/ pay fixed – yen	313	(139)	(139)	6,789	(170)	(170)
Receive fixed – S.G. dollars/ pay fixed – yen	-	-	-	561	40	40
Total	¥ 425	¥ (144)	¥ (144)	¥ 8,195	¥ (115)	¥ (115)

The notional amount of receive fixed – U.S. dollars / pay fixed – yen includes portions over 1 year of nil and ¥313 million at March 31, 2017 and 2016, respectively.

19. Derivatives (continued)

(2) Derivatives for which hedge accounting is applied

(a) Currency-related transactions

	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)

	Millions of yen		
	2016		
	Hedged item	Notional amount	Fair value
Forward foreign exchange contracts:			
Buy: U.S. dollars	Accounts payable	¥1,756	¥ (117)
Buy: Euro		16	0
Total		¥1,773	¥ (116)

The notional amount of foreign currency swaps of receive fixed – U.S. dollars / pay fixed – Indian rupees includes a portion over 1 year of ¥449 million at March 31, 2017. 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, 2017 and 2016.

(b) Interest-related transactions

	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	

	Millions of yen		
	2016		
	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 includes portions over 1 year of nil and ¥2,325 million at March 31, 2017 and 2016, respectively.

20. Amounts per Share

	Yen	
	2017	2016
Net income attributable to owners of the parent:		
Basic	¥ 126.13	¥ 115.08
Diluted	125.95	114.88
Cash dividends	35.00	30.00
Net assets	1,147.91	1,071.24

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 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	
	2017	2016
Net income attributable to owners of the parent	¥ 60,850	¥ 56,653

	Thousands of shares	
	2017	2016
Weighted-average number of shares of common stock outstanding	482,442	492,301
Increase in shares of common stock resulting from the exercise of stock acquisition rights	675	871

The financial data used in the computation of net assets per share as of March 31, 2017 and 2016 is summarized as follows:

	Millions of yen	
	2017	2016
Total net assets	¥ 570,549	¥ 544,156
Deduction from total net assets:	(418)	(512)
Stock acquisition rights	(20,787)	(20,586)
Non-controlling interests	(21,205)	(21,098)
Total net assets attributable to common shareholders	549,344	523,057

	Thousands of shares	
	2017	2016
Number of shares of common stock used in the calculation of net assets per share	478,558	488,270

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 number 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 was 425 thousand shares for the year ended March 31, 2017 and the number of shares of treasury stock deducted from the number of shares outstanding at year-end in computing net assets per share was 750 thousand shares as of March 31, 2017.
There was no applicable deduction of stock as of March 31, 2016 or for the year then ended.

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.
Following a review of its organizational structure and systems, the operations of Hinomaru Co., Ltd. and Sekisui Seikei Industry Co., Ltd., which were previously included in "Other," have been included in the Urban Infrastructure & Environmental Products segment effective from the year ended March 31, 2017.
Segment information for the year ended March 31, 2016 has been restated to reflect the reportable segments after the change in the organizational structure and systems.

(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, 2017 and 2016. 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, 2017 and 2016 is summarized as follows:

	Millions of yen					
	2017					
	Reportable segments					
	Housing	Urban infrastructure and environmental	High performance plastics	Total	Other (*1)	Consolidated
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
Investment in affiliates accounted for by the equity	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

21. Segment Information (continued)

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

	Millions of yen					
	2016					
	Reportable segments					
	Housing	Urban infrastructure and environmental products	High performance plastics	Total	Other (*1)	Consolidated
Sales:						
Sales to third parties	¥ 473,380	¥ 248,014	¥ 371,916	¥ 1,093,310	¥ 3,007	¥ 1,096,317
Intersegment sales or transfers	61	13,258	6,636	19,957	135	20,093
Net sales	473,441	261,273	378,552	1,113,267	3,142	1,116,410
Segment income (loss)	¥ 36,387	¥ 5,958	¥ 53,353	¥ 95,699	¥ (5,426)	¥ 90,273
Segment assets	¥ 265,481	¥ 205,863	¥ 382,440	¥ 853,784	¥ 6,656	¥ 860,440
Other items:						
Depreciation and amortization (*2)	7,958	7,136	18,117	33,212	606	33,818
Investment in affiliates accounted for by the equity method	8,314	-	-	8,314	-	8,314
Increase in property, plant and equipment, and intangible assets (*2)	14,350	9,439	23,484	47,274	1,463	48,737

(*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, 2017 and 2016

	Millions of yen	
	2017	2016
Net sales:		
Total of reportable segments	¥ 1,082,834	¥ 1,113,267
Other net sales	2,730	3,142
Eliminations	(19,789)	(20,093)
Net sales	¥ 1,065,776	¥ 1,096,317

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 2017	Millions of yen 2016
Income:		
Total of reportable segments	¥ 104,915	¥ 95,699
Other loss	(7,619)	(5,426)
Eliminations	114	8
Corporate expenses (*1)	(933)	(459)
Operating income	¥ 96,476	¥ 89,823

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

Assets at March 31, 2017 and 2016

	Millions of yen 2017	Millions of yen 2016
Assets:		
Total of reportable segments	¥ 859,845	¥ 853,784
Assets classified as “other”	11,103	6,656
Eliminations	(292,668)	(285,374)
Corporate assets (*1)	365,360	360,977
Total assets	¥ 943,640	¥ 936,043

(*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, 2017 and 2016

	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

	Millions of yen			
	2016			
	Reporting Segments	Others	Adjustments (*1)	Consolidated
Other items:				
Depreciation and amortization	¥ 33,212	¥ 606	¥ 916	¥ 34,735
Investments in affiliates accounted for by the equity method	8,314	-	28,479	36,794
Increase in property, plant and equipment, and intangible assets	47,274	1,463	1,003	49,740

(*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, 2017 and 2016 is as follows:

	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

	Millions of yen					
	2016					
	Japan	America	Europe	Asia	Other	Total
Net sales	¥ 813,091	¥ 86,215	¥ 66,794	¥ 118,860	¥ 11,355	¥ 1,096,317

(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, 2017 and 2016 is as follows:

	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

	Millions of yen					
	2016					
	Japan	America	Europe	Asia	Other	Total
Property, plant and equipment, net	¥ 193,694	¥ 21,163	¥ 17,829	¥ 35,408	¥ 1,878	¥ 269,974

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, 2017 and 2016 is as follows:

	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

	Millions of yen					
	2016					
	Housing	Urban infrastructure and environmental products	High performance plastics	Other	Elimination or unallocable accounts	Total
Loss on impairment of fixed assets and goodwill	¥ 190	¥ 1,093	¥ 1,029	¥ -	¥ -	¥ 2,313

(7) Amortization and balance of goodwill

Information on amortization of goodwill by each segment and its remaining balance for the years ended March 31, 2017 and 2016 is summarized as follows:

	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

	Millions of yen					
	2016					
	Housing	Urban infrastructure and environmental products	High performance plastics	Other	Elimination or unallocable accounts	Total
Amortization of goodwill	¥ 127	¥ 303	¥ 1,724	¥ -	¥ -	¥ 2,156
Balance at March 31, 2016	2,416	701	13,665	-	-	16,783

22. Business Divestiture

(Business divestiture)

(1) Summary of the business divestiture

(a) Name of the company to which the business was transferred
HTT ENTERPRISE INDUSTRIAL CO., LTD.

(b) Description of the transferred businesses
The Company's water infrastructure businesses in China (SEKISUI KNT (Hebei) Environmental Technology Co., Ltd.)

(c) Main reason for the business divestiture
In February 2013, the Company acquired a 75% equity interest in SEKISUI KNT (Hebei) Environmental Technology Co., Ltd. in order to expand the water infrastructure business in coastal areas of China on a large scale and has developed the large diameter reinforced plastic pipe business to be used for FRP tanks and irrigation. However, in recent years a decline in earnings has continued due to the effects from reduced public works due to an economic decline in China. In the water infrastructure business in China, the Company has implemented continuous structural reform, but the management judged drastic measures are necessary for further improvement of profitability and accordingly, transferred 65% out of 75% of the Company's equity interest in SEKISUI KNT (Hebei) Environmental Technology Co., Ltd. to HTT ENTERPRISE INDUSTRIAL CO., LTD. As a result, the Company withdrew from the water infrastructure business in coastal areas of China following the withdrawal from inland areas of China (in April 2016) and completed its structural reform of the water infrastructure business in China.

(d) Date of the business divestiture
March 29, 2017

(e) Legal form and other matters related to the summary of the transaction
Transfer of business for a cash consideration, etc. only

(2) Summary of the accounting treatment applied

(a) Amount of gain or loss on business transfer
Loss on transfer of business ¥2,409 million

(b) Book value and the main components of the assets and liabilities transferred

	Millions of yen
Current assets	¥ 3,213
Property, plant and equipment	1,200
Intangible assets	928
Total assets	¥ 5,342
Current liabilities	2,255
Total liabilities	¥ 2,255

(c) Accounting treatment
The accounting treatment applied for the transfer of the Company's equity interest is based on the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 of September 13, 2013) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 of September 13, 2013).

(3) Name of the reportable segment corresponding to the transferred businesses
Urban Infrastructure and Environmental Products Business

(4) Estimated amounts of income or loss associated with the transferred businesses reported in the consolidated statement of income for the fiscal year ended March 31, 2017
Net sales ¥1,212 million
Operating loss ¥ (398) million

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, 2017, was proposed by the Board of Directors at the meeting held on May 17, 2017. The distribution proposed is subject to approval by the shareholders at the meeting to be held on June 28, 2017.

	Millions of yen
Year-end cash dividends (¥19.0 per share)	¥ 9,113

(Business combination through acquisition)

The Company entered into a share transfer agreement to acquire 91% of shares issued by PT Cayman Limited on April 25, 2017.

(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 (scheduled)

(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) Acquisition cost and type of consideration for the acquired company
It is expected that these items will be adjusted in the manner agreed with the counterparty by the date of the acquisition and they have not yet been determined.

(3) Major acquisition-related cost
Not yet determined

(4) Amount, reason for recognition, and amortization method and period for goodwill arising from the acquisition
Not yet determined

(5) The amounts and main components of assets acquired and liabilities assumed on the date of the business combination
Not yet determined

(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 27, 2017 to acquire 8 million shares of treasury stock for a maximum total amount of ¥16,000 million through the market during the period from April 28, 2017 through March 30, 2018.

As of June 14, 2017, the status of the acquisition of treasury stock is as follows:
Type of shares acquired: Common stock
Total number of shares acquired: 5,315,000 shares
Total acquisition cost: ￥10,534 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 27, 2017 to retire 10,000,000 shares of treasury stock and executed the retirement on May 25, 2017. After the retirement, total number of shares issued was 500,507,285 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, 2017, 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, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

June 16, 2017
Osaka, Japan

Ernst & Young ShinNihon LLC