AsahiKASEI

# Asahi Kasei Report 2017


ASAHI KASEI CORPORATION

Group Mission

# We, the Asahi Kasei Group, contribute to life and living for people around the world.

Group Vision

**Providing new value to society by enabling “living in health and comfort” and “harmony with the natural environment.”**

Group Values

**Sincerity—Being sincere with everyone.**
**Challenge—Boldly taking challenges, continuously seeking change.**
**Creativity—Creating new value through unity and synergy.**

Group Slogan

**Creating for Tomorrow**

### Editorial policy

For greater ease of understanding among our stakeholders, since fiscal 2014 we are integrating information regarding our business strategy and financial performance, which had been published in our *Annual Report*, with information regarding our CSR activities, which had been published in our *CSR Report*, in a single *Asahi Kasei Report*. We hope that the *Asahi Kasei Report* will help you gain a clear perception of the Asahi Kasei Group’s efforts toward sustainability in society in addition to our management strategy, business conditions, and management configuration.

### Period under review

The period under review is fiscal 2016 (April 2016 to March 2017). Some qualitative information pertaining to April to September 2017 has also been included.

In this report, the TM symbol indicates a trademark or registered trademark of Asahi Kasei Corporation, affiliated companies, or third parties granting rights to Asahi Kasei Corporation or affiliated companies.

### Organizational scope

The scope of the report is Asahi Kasei Corp. and its consolidated subsidiaries, except with respect to Responsible Care, in which case the scope is operations in Japan that implement the Asahi Kasei Group’s Responsible Care program. Asahi Kasei’s three operating segments are Material, Homes, and Health Care. Unless otherwise specified, the titles and positions of corporate officers and other personnel as shown in this report are current as of October 2017.

### Guidelines consulted

The Global Reporting Initiative’s Sustainability Reporting Guidelines G4, ISO 26000, and other guidelines were consulted during the preparation of this report.

# Contents

# We, the Asahi Kasei Group, contribute to life and living for people around the world.

“Improve human culture.” These words of Shitagau Noguchi, the founder of Asahi Kasei, manifested the company’s mission of meeting shortages of daily necessities at the time our business began nearly a century ago. Ever since then, we have continuously adapted to meet the changing needs of the times, with business in fields ranging from fibers and chemicals to homes, health care, and electronic devices. Though the content of our operations has evolved, our aspiration to help the people of the world enjoy a better life remains unchanged. Our current Group Mission is to contribute to life and living for people around the world, and we operate in accordance with our Group Vision of providing new value to society by enabling “living in health and comfort” and “harmony with the natural environment.”

The world around us is dramatically different than it was a century ago. We now have many challenges to be solved as indicated by the Sustainable Development Goals (SDGs) adopted by the United Nations in 2015. Our aim is to contribute to society’s solutions to such challenges by leveraging the strengths we gain by having an unparalleled diversity of business operations, technologies, and human resources. In doing so, we will provide value to the world in a way that only Asahi Kasei can.

We are now advancing our medium-term management initiative “Cs for Tomorrow 2018” that aims to provide solutions to two important challenges faced by society for “clean environmental energy” and “healthy/comfortable longevity with peace of mind.” Our management environment has changed significantly in just the past year, including heightened environmental awareness as evinced by the Paris Accord taking effect and the spread of electric vehicles, changing global market frameworks, and the rapid advance of new technologies for IoT, AI, etc. Nevertheless, we see no need to change our basic concept. While the importance of the two challenges faced by society remains unchanged, there is a greater urgency for us to build connections among our diverse businesses and diverse human resources as we build the base for the next phase. In fiscal 2016, the first year of Cs for Tomorrow 2018, the realignment of our business sectors proceeded smoothly and we achieved solid business performance. We will further accelerate the execution of Cs for Tomorrow 2018 as we work to create a portfolio of high-profitability and high value-added businesses in fiscal 2025.

The *Asahi Kasei Report 2017* showcases our proactive efforts under Cs for Tomorrow 2018 to “contribute to life and living for people around the world,” as illustrated in special features such as “Value Provided by the Asahi Kasei Group” and “Global Executives Interviews.” I hope this report will help you gain a greater understanding of Asahi Kasei.

September 2017

**Hideki Kobori**
**President**

## Performance in fiscal 2016 exceeding our original forecast

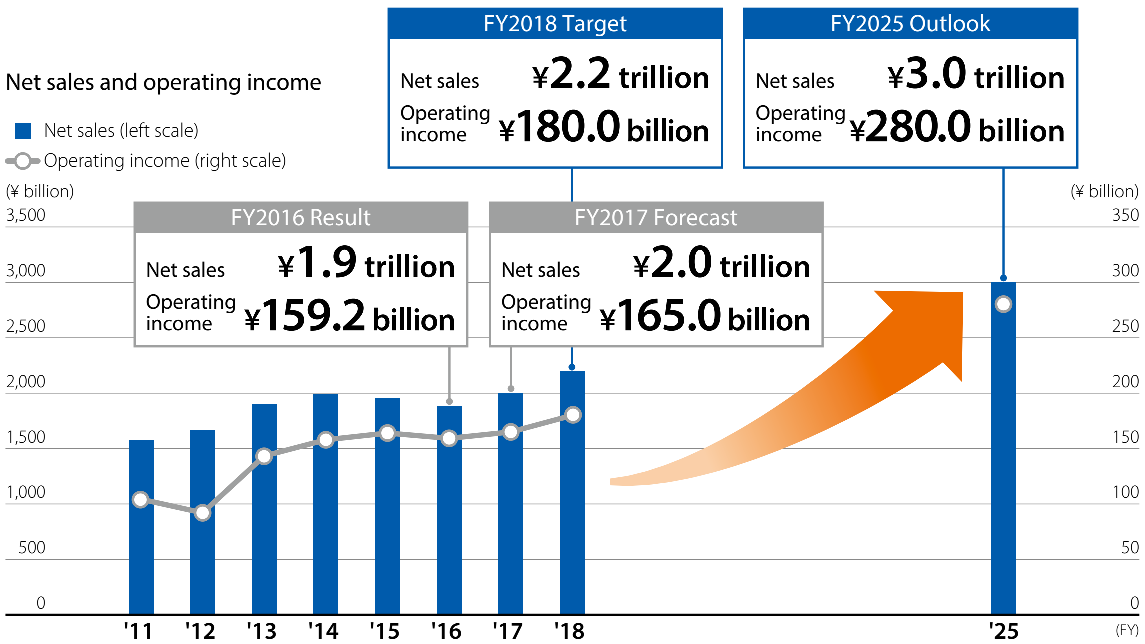
During fiscal 2016, the outlook for the global economy remained obscure with increased political uncertainty related to the withdrawal of the UK from the EU and increased concern regarding the economic policy of the new US administration, as well as concern of economic slowdown in emerging economies. Meanwhile, the Japanese economy continued on a path of gradual recovery with strong corporate performance while consumer spending became firm as the employment situation and income environment improved.

With our transformation to an operating holding company configuration in fiscal 2016, we reconfigured our operations into the three business sectors of Material, Homes, and Health Care. Thanks to careful preparation, the transition went smoothly. While our performance was generally firm, net sales, operating income, and ordinary income each declined from the previous year due to the impact of the strong yen, decreased pharmaceutical reimbursement prices, and full-year amortization of goodwill associated with our acquisition of Polypore International. Operating income was nevertheless the second highest ever and net income attributable to owners of the parent (net income) reached a new record high with gain on sale of investment securities and decreased income taxes. Owing to exceptional efforts in each business to expand sales expansion and reduce costs, operating income, ordinary income, and net income all exceeded our original expectations. All in all, fiscal 2016 was a good step forward as the first year of our Cs for Tomorrow 2018 medium-term management initiative.

Forecasting higher shipment volumes in each business, we expect fiscal 2017 results to further improve with net sales reaching ¥1.99 trillion and operating income reaching ¥165 billion.

# The first year of our Cs for Tomorrow 2018 medium-term management initiative saw steady progress. Net income reached a new record high.

In addition to transitioning to an operating holding company configuration and realigning our business sectors in fiscal 2016, we also took several actions to enhance connections such as reconfiguring our R&D organization, launching Asahi Kasei Europe, and establishing our Automotive Marketing Department. To heighten awareness for compliance we established a Risk Management & Compliance Committee.




* Formulated assuming exchange rates of ¥110/$ and ¥120/€

## Long-term investments

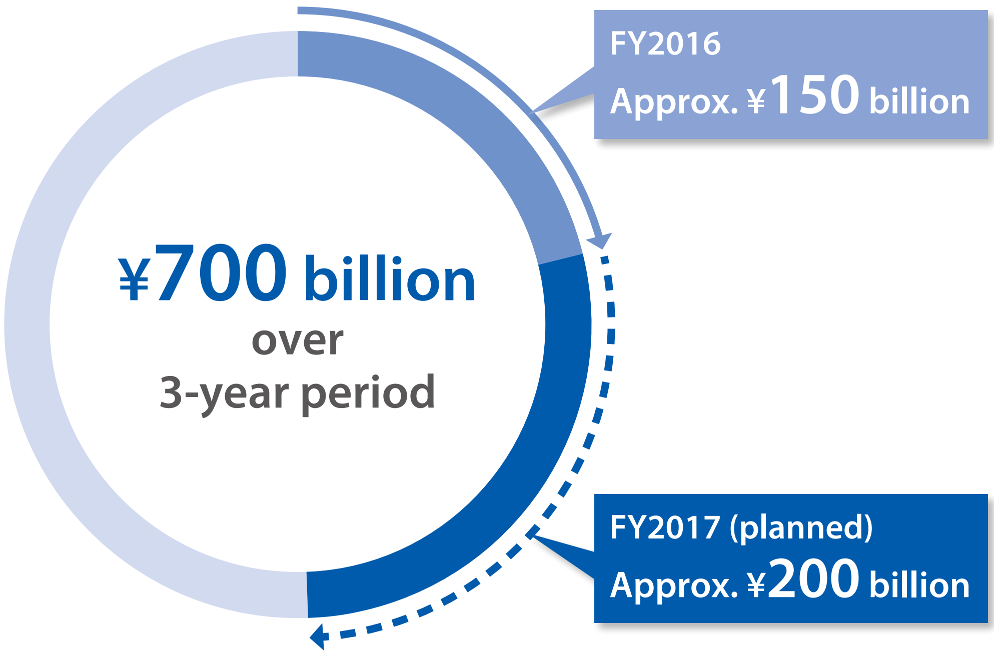
During the five-year period of the previous medium-term management initiative "For Tomorrow 2015," we adopted decisions on ¥1 trillion of long-term investment to strengthen our existing businesses and create new businesses for the future, including large-scale acquisitions of ZOLL and Polypore. Cs for Tomorrow 2018 provides for some ¥700 billion in long-term investments over the three-year period.

Decisions were adopted for about ¥150 billion of investment in fiscal 2016. In the Material sector, these included an expansion of production capacity for Hipore™ lithium-ion battery (LIB) separator, construction of an R&D facility for new composite materials such as cellulose nanobeads and cellulose nanofiber, and the establishment of joint ventures for engineering resin with China National Bluestar (Group) Co., Ltd. In the Homes sector, these included forming capital alliances with Mori-Gumi Co., Ltd., and Chuo Build Industry Co., Ltd., and establishment of a new production base for steel-frame members. In the Health Care sector, decisions were adopted to augment the product pipeline.

In fiscal 2017, investments in the Material sector are mainly planned in the environment/energy, automotive, and healthcare/hygiene fields. Investments planned in the Homes sector are focused on alliances to extend business outside Japan. Investments in the Health Care sector are planned to accelerate globalization and to reinforce manufacturing facilities. Overall investments are projected to be some ¥200 billion, exceeding the level of fiscal 2016.

We will also continue to study M&A in all three sectors of Material, Homes, and Health Care, focusing on proactive investments in accordance with our growth strategy. We are not only considering large acquisitions on the scale of ZOLL or Polypore, but also medium or small-scale acquisitions if they would further strengthen our established businesses or bring new prospects for future business growth.

Long-term investment expenditures



# Growth in each sector

## Material

With the environment/energy, automotive, and healthcare/hygiene designated as areas of focus, we executed several actions for each of them in fiscal 2016.

| | |
|---|---|
| Environment/energy | • Expanded supply capacity of lithium-ion battery (LIB) separator<br>• Advanced verification of DRC process for DPC* |
| Automotive | • Reinforced business configuration (the US and Vietnam)<br>• Expanded capacity for S-SBR for fuel-efficient tires (Singapore)<br>• Expanded capacity for filament for airbags |
| Healthcare/hygiene | • Expanded capacity for nonwoven fabric for facial masks<br>• Expanded capacity for spunbond for diapers<br>• Started sales of UVC LEDs for disinfection |

* A process for polycarbonate intermediate without using phosgene (poisonous gas) and not requiring ethylene oxide as feedstock.

In the field of the environment/energy, decisions were made to expand production capacity for Hipore™ wet-process LIB separator at two lines in Moriyama, Shiga, Japan. While demand for separators remains stable in consumer electronics applications, demand in automotive applications is projected to grow by some 30% per year. Having both Hipore™ wet-process separator and Celgard™ dry-process separator enables us to meet a wide range of market requirements in automotive applications. We are planning to raise capacity for wet-process separator to 610 million $m^2$/year in the first half of fiscal 2019, when electric vehicle (EV) demand is projected to ramp up. After acquiring Polypore in 2015, we also raised production capacity for dry-process separator in the US—capacity is now 250 million $m^2$/year. Combining both wet process and dry process, we plan to raise our total LIB separator capacity to 1.1 billion $m^2$/year in 2020, solidifying our position as the world's leader with reliable supply of high-quality products.

In the automotive field, our Automotive Marketing Department is taking the lead in sector-wide marketing activity to build strategic relationships with vehicle manufacturers and their suppliers. In May 2017 we unveiled our first concept car, AKXY™ (more information on page 12). We are leveraging this drivable car to create new opportunities to communicate with people in the industry about the future of the automobile.

In the healthcare/hygiene field, we are developing new markets for materials for pharmaceuticals and medical devices. We also established Healthcare Material Business Development as a dedicated organization for new business creation.

## Homes

We enhanced our homes business in the three areas of medium-rise homes, overseas business, and homes for seniors. For construction materials, in the environment/energy field, we announced the development and sale of Neoma Zeus™ which features world-leading insulation performance.

In the area of medium-rise homes, we enhanced our condominium business by incorporating the expertise of Mori-Gumi Co., Ltd., through a business and capital alliance, and started sale of the Hebel Building™ System which employs higher quality and higher precision construction of medium-rise homes by systematic manufacturing. In addition, we enriched the product lineup to meet various needs in urban areas such as buildings that integrate homes with rental units or shops. Regarding homes for seniors, we offer Hebel Village™ apartment buildings with features designed for active seniors who are able to live independently. For overseas operations, we completed our first project, a condominium in Zhonghe, New Taipei, Taiwan.

We will continue to advance measures to further strengthen our businesses with comprehensive products, construction, and services, and to expand the breadth of our value chain.

## Health Care

We are growing the Health Care sector to be the third major pillar of the Asahi Kasei Group after Material and Homes.

For pharmaceuticals, we reinforced our lineup in the field of orthopedics with the launch of Reclast® osteoporosis drug which is administered once per year. To accelerate global expansion, we are advancing a global clinical study of Recomodulin™ anticoagulant.

For medical devices, we expanded capacity in Oita, Japan, for Planova™ BioEX virus removal filters used in the manufacture of biotherapeutics.

Critical care continues to be the driver of growth for the Health Care sector, with ZOLL averaging 15% annual growth since we acquired it in 2012 and operating income turning positive three years later even after amortization of goodwill. The LifeVest™ wearable defibrillator, our flagship product, is gaining market penetration in Germany, France, and Japan, in addition to its main market in the US. We are working to expand indications for the Thermogard System™ intravascular temperature management system to include acute myocardial infarction, and aiming for market leadership in the automated external defibrillator (AED) market with the launch of our new AED3™ product. We will continue to expand our range of operations in the field of acute critical care, including through proactive acquisitions to augment the product lineup.

For the Health Care sector overall, we are investing to expand business in North America using our CVC (Corporate Venture Capital) Office in Boston, Massachusetts. Additionally, we periodically hold meetings of our Health Care Council consisting of members from Asahi Kasei Corp., Asahi Kasei Pharma, Asahi Kasei Medical, and ZOLL to discuss marketing activities and other matters of strategy to expand the sector.

## Creating new businesses in the Material sector

Our transition to an operating holding company configuration enhanced connections among technologies and human resources, enabling the acceleration of new business creation.

One area is new business creation connecting fiber, resin, and processing technology. For example, we are developing a new kind of textile composite in a process where polyamide (PA) 66 fiber and continuous glass fiber (GF) are commingled into a yarn which is woven to form the base material for molding, which is followed by injection of PA66 resin in a hybrid molding process. This provides a high degree of flexibility in design together with outstanding strength. Such attributes make this a promising material as a weight-saving substitute for metal in automotive structural parts. Another example is cellulose nanofiber (CNF) composite being developed for automotive applications by combining cellulose with synthetic resin. Unlike carbon fiber composite, this material is made with thermoplastic which enables separation and recyclability for reduced environmental burden. Combining the knowledge on cellulose gained through the Bemberg™ business of fibers and textiles with the polymer composition and processing technology gained in the chemicals business, CNF composite is an outstanding illustration of how connections between different businesses can lead to new developments.

Another area of new business is the UVC LED, developed by connecting internal technology with outside resources. The UVC LED combines technology for high-quality single-crystal AlN (aluminum nitride) substrate developed by Crystal IS, Inc., which became our subsidiary in 2011 after an initial CVC investment, with the compound semiconductor technology built up through our electronics business. Featuring high sterilization efficiency, small size, and low power consumption, the Klaran™ UVC LED product commercialized in May 2016 is gaining attention as a safer and more environmentally friendly substitute for mercury lamps as a UV light source.

The last one is the development of an alkaline water electrolysis system. This system developed under consignment from the New Energy and Industrial Technology Development Organization (NEDO) produces hydrogen from renewable energy at low cost. A large-scale validation electrolyzer installed in Yokohama, Japan, has operated for over 10,000 hours to demonstrate the stability of the process. With a world-leading energy conversion efficiency into hydrogen of 90%, it is able to produce 2,000 $m^3$ of hydrogen per hour consuming just 10,000 kW of electricity under ordinary temperature and ordinary pressure. This is the same amount of hydrogen that a fuel cell vehicle would consume over a two-year period. The hydrogen can also be reacted with $CO_2$ to produce methanol or methane for use as green fuel. We now plan to install a demonstration plant for this system in Germany, which is phasing out nuclear power by 2022.

## Acceleration of globalization

The basic policy for globalization under the Cs for Tomorrow 2018 medium-term management initiative is to focus on strategies suited to each region.

The region of Asia is positioned not only as a manufacturing base but also as a growth market. We are proactively developing our businesses premised on production and consumption within the region. Notable actions include:

- Establishment of joint ventures for Xyron™ modified polyphenylene ether (China)
- Start of photopolymers plant (China)
- Capacity expansion of S-SBR for fuel-efficient tires (Singapore)
- Capacity expansion of spunbond nonwovens for diaper applications (Thailand)
- Sale of condominiums (Taiwan)

North America is positioned as a region of continuing growth and the origin of innovation. We are working to expand automotive and healthcare-related businesses, and to acquire leading-edge technologies through CVC. Notable actions include:

- Reinforcing our CVC activities in the environment, energy, and healthcare fields
- Advancing clinical testing of Recomodulin™ anticoagulant
- Business expansion for LifeVest™ wearable defibrillator
- Reinforcing the separator business
- Operation of second plant for plastic compounds

Europe is positioned as the origin of environmental standards and regulations. We are working to expand through reinforced marketing activities centered on automotive-related business. Notable actions include:

- Launch of an Engineering Plastics Technical Center
- Advancing the alkaline water electrolysis development project
- Start of Asahi Kasei Europe GmbH

## Building the base for sustainable growth

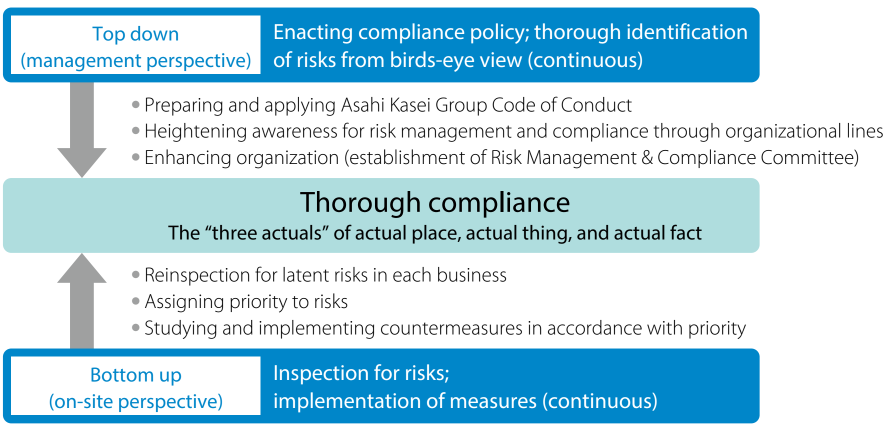
Cs for Tomorrow 2018 is directed toward the establishment of a portfolio of high-profitability and high value-added businesses in fiscal 2025, with the three-year period from fiscal 2016 to 2018 focused on building the base for the next phase.

### (1) Obtaining thorough compliance

Following the disclosure of data irregularities regarding the installation of precast concrete piles in October 2015, our subsidiary Asahi Kasei Construction Materials Corp. is taking measures to prevent recurrence by renewing its management system, performing training of site agents, and disseminating compliance policy.

We also established Risk Management & Compliance in January 2016 as the central hub to aggregate all risk management and compliance-related information. We integrated our Risk Management Committee and Corporate Ethics Committee into a newly established Risk Management & Compliance Committee chaired by the President of Asahi Kasei Corp. to monitor the compliance system and identify risks throughout the Asahi Kasei Group.

Through such actions, we are further strengthening our compliance system and implementing thorough measures based on the “three actuals” of the actual place, the actual thing, and the actual fact, reinforcing our foundations as a company that society can continue to trust and rely on.



(2) Laying the foundation to heighten business activities

We will utilize IT to achieve dramatic improvements in the productivity of our manufacturing and production processes. We have selected model plants and are now beginning trials of actual application to incorporate new technologies such as IoT and Big Data. We are also utilizing IT to deliver high added value in the businesses themselves. The LifeVest™ and plant diagnostics are key examples of businesses that utilize ICT (information and communication technology)—the latter based on technology refined for over 40 years and recently launched as a remote diagnostic service to monitor vibrations for diagnosis of the condition of plants and transportation equipment. We are also strengthening our IT infrastructure for enhanced tools and databases that support business operations, and we continue to reinforce cybersecurity.

(3) Linkage between management strategy and HR strategy

We are working to create value by leveraging our diversified business platforms and diverse human resources, and the key is human resources. In order to develop a group of high value-added personnel, we will foster and strengthen our personnel and organizations.


We will maintain thorough compliance, heightened business activity, and strengthened linkage between HR strategy and long-term growth strategy as the base of operations. Building on these, we will advance our basic strategies of "pursuit of growth and profitability," "creation of new businesses," and "acceleration of globalization," contributing to a "society of clean environmental energy" and a "society of healthy/comfortable longevity with peace of mind."

## Drivable concept car AKXY™

**In May 2017 we unveiled our first concept car, developed jointly with electric vehicle manufacturer GLM Co., Ltd., to showcase our capabilities in the automotive field. It is a drivable car featuring 27 automotive solutions from Asahi Kasei. AKXY™ will help us to actively promote our automotive-related products and technologies as we advance constructive discussions with vehicle manufacturers and their suppliers about the future of the car.**

### Creating the future of automobiles together with customers

The automotive industry is undergoing dramatic changes, with trends for more diverse automobile usage as well as the move toward electric drive. Asahi Kasei has a long track record of supplying various products to the automotive industry, including fibers, chemicals, devices, and battery materials. Now we must move beyond being just a supplier of materials. We need to be able to contribute more fully to the automotive supply chain. By leveraging our comprehensive strengths in products, technology, and quality, we can work together with customers in the automotive industry to create new value for the future. We are now working to reinforce the presence of our Material sector in the automotive industry in accordance with this objective.

The AKXY™ concept car was created to represent our aspiration to work more closely with automotive customers, contributing to the greater safety, comfort, and environmental performance of vehicles of the future. We partnered with GLM to leverage their electric vehicle platform in the development of a drivable concept car equipped with a wide range of Asahi Kasei components and systems. GLM is a young company full of energy and new ideas. They are highly oriented toward the future, and it was very stimulating to work with them.

By having vehicle manufacturers and their suppliers experience AKXY™, we can deepen relationships with customers in the automotive industry and open the door to their adoption of many of our leading-edge products moving forward.

### To be a material concierge that can provide automotive solutions

Tsuneyoshi Tatsuoka
Outside Director

It was very ambitious of Asahi Kasei, a material manufacturer, to create a drivable concept car. The three broad trends in the automotive industry today are weight reduction by substituting plastic for metal, diversification of motive power sources with the rise of electric and fuel-cell vehicles, and intensified application of electronic and control systems throughout the vehicle. How can a material manufacturer adapt to these trends? The company would need to enhance its ability to provide one-stop solutions through technical sales as well as to be a development partner having connections with vehicle manufacturers and their suppliers. Asahi Kasei is exceptional among Japanese material manufacturers in that it has a wide variety of products including electronic devices such as sensors. Although it gives the company many potential opportunities, this alone is not enough to ensure success in global competition. I see the creation of AKXY™ as an indication of the company's keen awareness of the need for further R&D and applications development for automotive-related products.

AKXY

## Origin of the name and logo

Deriving from Asahi Kasei X (multiplied by) You (the customer), the name indicates our intention to create new value for the future together with the automotive industry. The blue flame motif represents the transition to complete combustion, indicating our full-fledged effort beyond mere passion, which would be represented by red.

1. **Head lamp cover** Organic/inorganic hybrid coating agent
2. **Lamp extension** Xyron™ modified polyphenylene ether
3. **Tire raw material** Tufdene™ solution-polymerized styrene butadiene rubber
4. **Tire cord** Leona™ nylon 66 filament yarn
5. **Fender liner** Precise™ spunbond synthetic continuous-filament nonwoven

6. **Body paint raw material** Asahi Kasei Aluminium Paste™
7. **Body paint additive** Duranate™ HDI (hexamethylene diisocyanate)-based polyisocyanate
8. **Tail lamp cover** Delpet™ polymethyl methacrylate

**Cockpit**

9. WGF™ film base reflective polarizer
10. Defroster sensor

**Systems**

11. Vital-sign sensing technology
12. Stand-alone voice command
13. Hands-free communication
14. In-car communication
15. $CO_2$ sensor

16. **A-pillar** Tuftec™ hydrogenated styrenic thermoplastic elastomer
17. **Interior decoration** Multicore POF™ plastic optical fiber
18. **Floor mat** Floor mat with polytrimethylene terephthalate fiber

19. **Connector/cable tie** Leona™ polyamide resin
20. **Speaker cover** Esterlloy™ ABS-based alloy resin
21. **Seat surface** Cubit™ 3D knitting fabric
22. **Headrest** MEF™ moldable polyethylene foam
23. **Seat skin** Lamous™ microfiber artificial suede
24. **Seat skin lining** Eltas™ spunbond synthetic continuous-filament nonwoven
25. **Inside door handle** Tenac™ metallic-colored & low-VOC grade polyacetal resin
26. **Cup holders** SunForce™ modified polyphenylene ether foam beads
27. **LIB separator** Hipore™ lithium-ion battery separator

# Executing strategies aimed at future growth to increase our corporate value; promoting proactive investments for growth and a robust capital policy

**Shuichi Sakamoto**
*Director*
*Senior Executive Officer*

## Q What is your basic financial strategy?

## A We are focused on consistent generation of cash flow, with an appropriate balance between investment for growth and shareholder returns.

The Asahi Kasei Group aims to consistently expand cash flow in two basic ways. One is by enhancing profitability through enhanced product performance, greater cost competitiveness, and business structure improvement, and the other is by improving capital efficiency through intragroup financing and appropriate control of inventory levels. To obtain stable and low-cost financing, we employ various fund-raising methods such as borrowing from banks, issuing bonds, and issuing commercial paper flexibly and dynamically in accordance with our financial circumstances.

Under our "Cs for Tomorrow 2018" (CT2018) management initiative, we will generate cash flow not only by implementing three basic strategies of "pursuit of growth and profitability," "creation of new businesses," and "acceleration of globalization," and by further raising competitiveness of established businesses, but also by creating new added value in each sector. Cash flow generated through these efforts provides further resources to invest for growth as well as to return to shareholders. We are careful to maintain an appropriate balance between the two.

| Primary financial metrics | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 |
|---|---|---|---|---|---|
| Dividends per share | ¥14 | ¥17 | ¥19 | ¥20 | ¥24 |
| Payout ratio | 36.4% | 23.5% | 25.1% | 30.4% | 29.1% |
| Net income per share (EPS) | ¥38.43 | ¥72.48 | ¥75.62 | ¥65.69 | ¥82.34 |
| Net income per total assets (ROA) | 3.3% | 5.5% | 5.4% | 4.3% | 5.1% |
| Net income per shareholders' equity (ROE) | 7.1% | 11.7% | 10.6% | 8.6% | 10.5% |
| Net income per net sales (ROS) | 3.2% | 5.3% | 5.3% | 4.7% | 6.1% |
| Total asset turnover ratio | 1.04 | 1.02 | 1.01 | 0.92 | 0.84 |
| Financial leverage | 2.1 | 2.2 | 2.0 | 2.0 | 2.0 |
| Net income per shareholders' equity and interest-bearing debt (ROIC) | 5.7% | 7.7% | 7.5% | 7.1% | 7.6% |
| D/E ratio | 0.47 | 0.33 | 0.25 | 0.43 | 0.35 |

## Q How is your progress toward the CT2018 financial targets?

## A In fiscal 2016 we made a favorable start toward our fiscal 2018 targets.

Our aim is to build a portfolio of high value-added businesses with high profitability in 2025. The 3-year period of CT2018 is focused on building the base toward that goal, and our targets for fiscal 2018 are ¥2.2 trillion in net sales and ¥180.0 billion in operating income.

We had expected fiscal 2016 to be a challenging year with reduced reimbursement prices for pharmaceuticals, the impact of the higher yen, and increased retirement expenses. But thanks to efforts in each business to expand sales and reduce costs, we achieved results above the forecast. We even exceeded our fiscal 2018 targets of 8.2% for operating margin, ¥110.0 billion for net income, 9.0% for ROE, and 7.0% for ROIC. In all, we made a good start in fiscal 2016 as the first year of the 3-year management initiative.

Fiscal 2017 will be a pivotal year as the middle year of the 3-year period. Though the operating environment changes incessantly, we find no need to change the basic approach laid out in CT2018. We will further advance our strategies toward the achievement of our objectives while each individual business adapts appropriately to change. We are targeting net sales of ¥1,990.0 billion and operating income of ¥165.0 billion in fiscal 2017. While working to expand operating income by emphasizing profitability in each business, we will continue to review our strategic shareholdings in accordance with the corporate governance code.

## Q Please tell us your perspective on funding for strategic investment, and shareholder returns including stock buybacks.

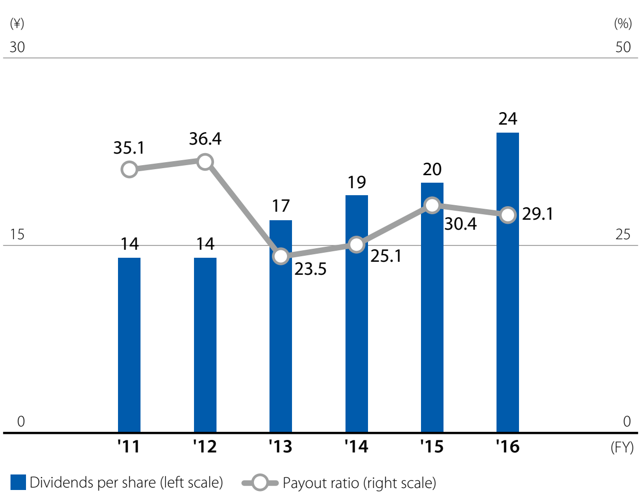
## A We will steadily advance our growth strategy as we aim for greater shareholder returns.

We plan to adopt and execute strategic investments totaling ¥700 billion over the 3-year period of CT2018. We adopted decisions on ¥150 billion of this in fiscal 2016, and another ¥200 billion is slated for adoption in fiscal 2017. We are steadily advancing measures to heighten the competitive advantages of our existing businesses and to expand production capacity for businesses operating on a global scale and for businesses with potential to garner new demand in the Japanese market. Although that leaves about half of the ¥700 billion for fiscal 2018, we are currently studying investments for non-linear growth measures including M&A to proactively expand businesses.

Our funding policy to support these initiatives is to rely on borrowings in principle, while maintaining a D/E ratio of around 0.5. We will strive to maintain stable and low-cost financing, sustaining a sound financial position, as we advance our strategic investments.

Our basic policy for shareholder returns is to strive for stable dividends and increased dividends through continuous earnings growth while maintaining an appropriate internal reserve to perform well-balanced investment for growth and return to shareholders. Under CT2018 we are targeting a total return ratio of 35% in fiscal 2018, including share buybacks performed flexibly. Our fiscal 2016 dividend was raised by ¥4 to ¥24 per share, and we will remain focused on shareholder returns in accordance with our basic policy.

**Dividends per share and payout ratio**



# History of Providing Solutions for the Challenges of Society

The Asahi Kasei Group has consistently grown through proactive transformation of its business portfolio to meet the evolving needs of every age. We have constantly provided products and services that form solutions to various environmental and social challenges. As society undergoes further changes, we will continue to contribute to life and living for people around the world by Creating for Tomorrow.

*Founder:*
Shitagau Noguchi

## From 1922

Shitagau Noguchi, the founder of Asahi Kasei, succeeded in Japan's first industrial production of ammonia by chemical synthesis in Nobeoka, Miyazaki, in 1923 using technology licensed from Italy. The ammonia was used in the production of Bemberg™ regenerated cellulose fiber, part of a diverse range of business operations that included chemical fertilizer and viscose rayon. As industry modernized and the economy of Japan achieved self-sustainable growth, our operations made important contributions to the stability of people's lives.

Part of the ammonia plant completed in 1923 (Nobeoka, Miyazaki, Japan)

The Bemberg™ plant which started operation in 1931 (Nobeoka, Miyazaki, Japan)

## From 1950

In 1957 we began production of polystyrene, and in 1959 entered the synthetic fiber business. These were followed by the three new businesses of nylon fiber, synthetic rubber, and construction materials. In 1968 we began construction of a petrochemical complex in the Mizushima area of Kurashiki, Okayama, Japan, paving the way for our full-scale development of petrochemical operations. Our products during this period supported improvements in the quality of life during Japan's high-growth period.


Saran Wrap™ launched in Japan in 1960

Naphtha cracker (Kurashiki, Okayama, Japan)

## From 1970

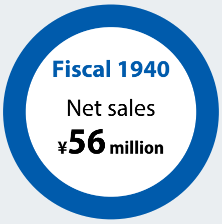
In 1972 we entered the homes business with the launch of the Hebel Haus™, and in 1974 we entered the medical device business with hollow-fiber membrane artificial kidneys. Our entry into the electronics business began with our launch of Hall elements (magnetic sensors) in 1980 and start of LSI manufacture in 1987. Our products continued to help make life more comfortable and convenient as society's needs diversified.

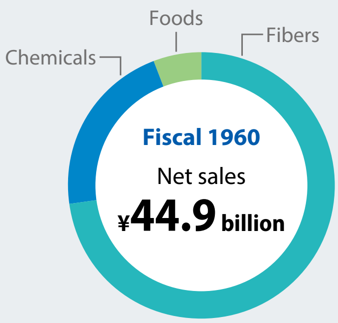
The first Hebel Haus™ (Kamata model home park)

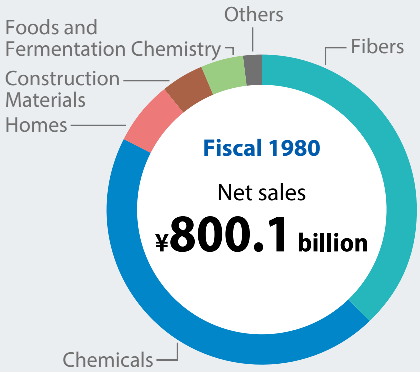
Hollow-fiber membrane artificial kidneys


LSIs

## Portfolio transformation




**Establishing the basis for modern life**

- Development of chemical industry and modern agriculture
- Interbellum economic downturn and World War II

**Sufficiency of daily necessities, improvement in quality of homes, development of public infrastructure**

- Post-war recovery and modernization of industry
- Period of high economic growth

- Stable economic growth
- Economic bubble

## From 1990

In 1992 we acquired Toyo Jozo Co., Ltd. to reinforce pharmaceutical operations. From 1999, we executed a program to heighten selectivity and focus in operations, divesting our food business and closing some fiber businesses, achieving selective diversification. From 2000 onward, we also established many overseas operations, mainly in Asia, laying the foundation for global management.

Pharmaceuticals just after the Toyo Jozo merger

Asahi Kasei Electronics Materials (Suzhou) Co., Ltd., a major manufacturing base for photosensitive dry film

## From 2010

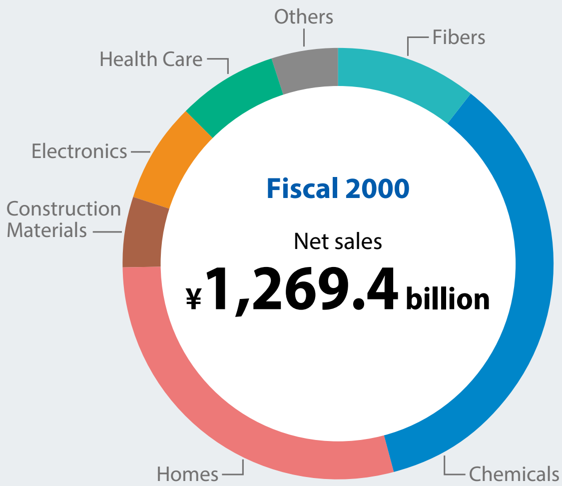
Under the "For Tomorrow 2015" management initiative which began in 2011, we proactively expanded our operations through major acquisitions. In 2012 we entered the acute critical care business by acquiring ZOLL Medical Corporation, and in 2015 we acquired battery separator manufacturer Polypore International, LP. The current management initiative "Cs for Tomorrow 2018" is focused on expanding operations by heightening the combined strength of the Asahi Kasei Group.

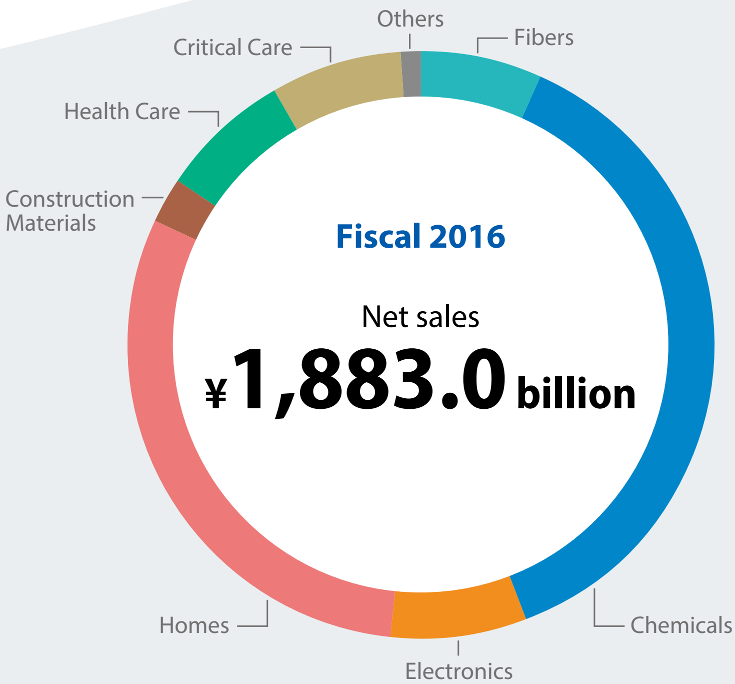
The LifeVest™ wearable defibrillator

Celgard™ Li-ion battery separator of Polypore

**We are Creating for Tomorrow, providing new value to society by enabling *living in health and comfort* and *harmony with the natural environment***

1922–2016



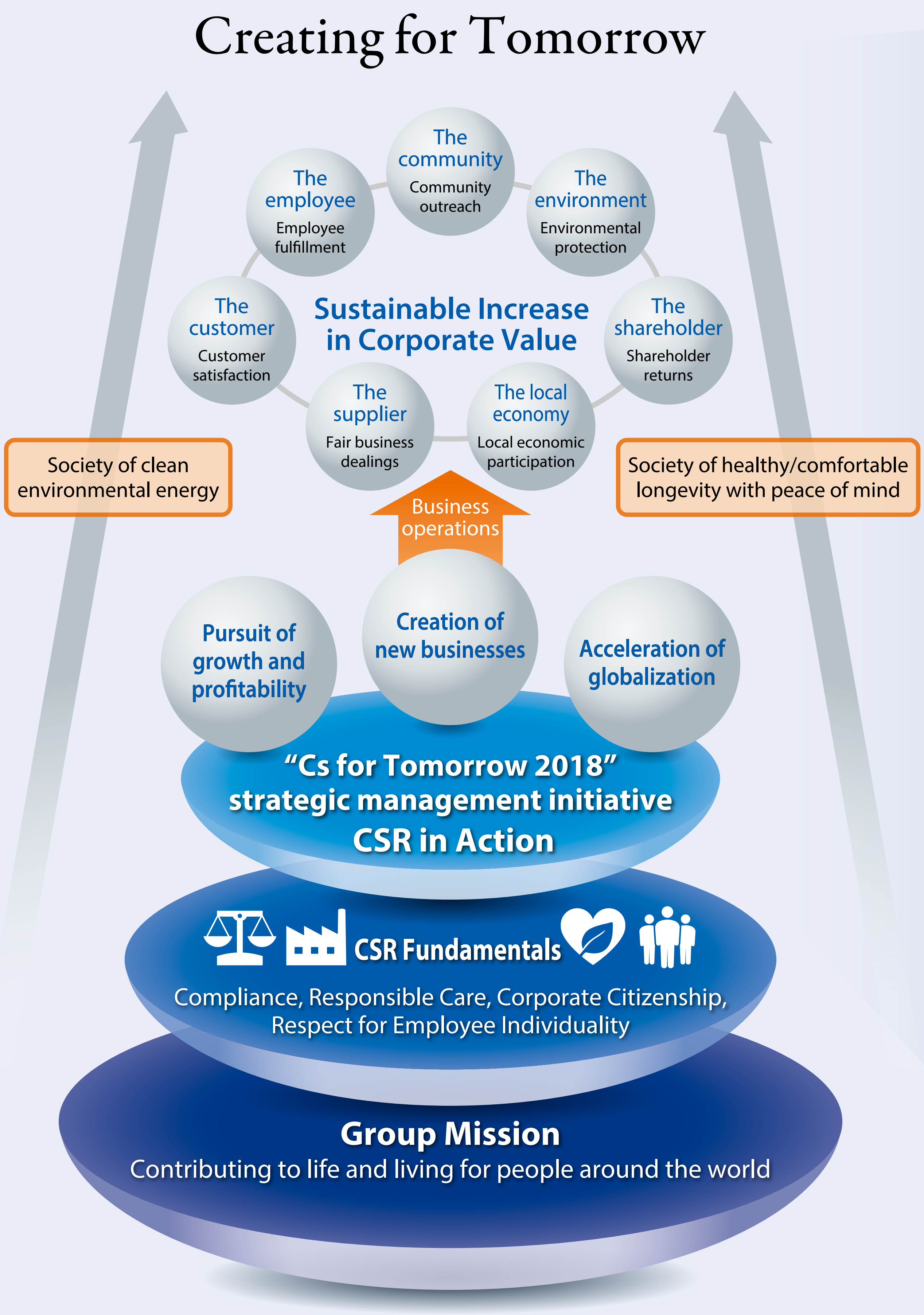

### Increased comfort and convenience

- Two decades of meager growth after collapse of bubble
- Effect of global economic crisis

### Heightened environmental consciousness

- Changing values after the Great East Japan Earthquake
- Emergence from period of slow economic growth

# Feature 1: Process of Creating Value in the Asahi Kasei Group



The Asahi Kasei Group constantly aims to increase corporate value

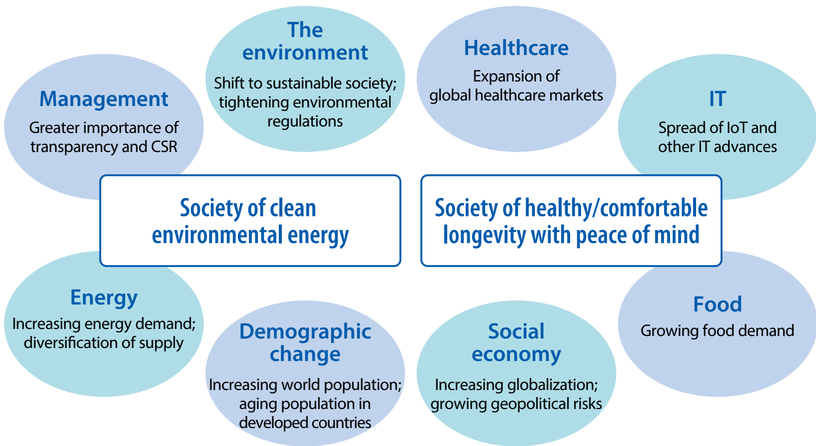
# Creating for Tomorrow

The commitment of the Asahi Kasei Group: To do all that we can in every era to help the people of the world make the most of life and attain fulfillment in living. Since our founding, we have always been deeply committed to contributing to the development of society, boldly anticipating the emergence of new needs. This is what we mean by "Creating for Tomorrow."

## Providing value

▶P.20
Value Provided by the Asahi Kasei Group

We contribute to solutions to two important challenges faced by society, "clean environmental energy" and "healthy/comfortable longevity," through our diversified businesses.




## Business activity

▶P.42
Operating Segments

Focused on the three basic strategies of "pursuit of growth and profitability," "creation of new businesses," and "acceleration of globalization," we are strengthening high value-added businesses to create new value for people in the world.

**Basic strategy**: Pursuit of growth and profitability | Creation of new businesses | Acceleration of globalization

↓

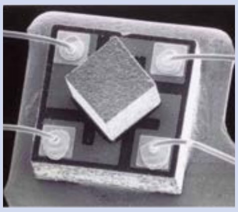
**Focus of CT 2018**: Building the base for the next phase with connections among diverse businesses and diverse human resources

↓

**Advancing toward 2025**: Creating a portfolio of high-profitability, high value-added businesses

Our Group Vision is to provide new value to society by enabling "living in health and comfort" and "harmony with the natural environment" in accordance with our Group Mission of contributing to life and living for people around the world. The Hall element is a notable example of a product that illustrates how Asahi Kasei has created value from the past to the present, and how we will continue to create value in the future.

## Hall element



The Hall element is a highly sensitive magnetic sensor made with a thin film of semiconductor material. The Hall element works by utilizing the Hall effect, in which magnetic fields cause change in voltage. With high sensitivity, Hall elements from Asahi Kasei can detect magnetic flux density and orientation. A broad range of applications include contactless switches in combination with magnets, angle sensors, and current sensors. Geomagnetic sensors using Hall elements have also been commercialized, and are widely used in smartphones. Asahi Kasei started mass production of Hall elements in 1975 and met various evolving needs of society over the following four decades by continuously developing new applications to create new value.

## Applications

### Electric motors

The Hall element contributed to the commercialization of ultra-small brushless DC motors. Advantages include longer service life by eliminating the friction and wear of brushes, suppression of electromagnetic noise, higher drive efficiency, and lower power consumption. Applications have included electronic products such as VCRs and computers, appliances such as refrigerators and washing machines, and automotive components.

VCRs

Appliances

Computers

Development of Hall element starts for collision sensor (originally part of airbag system)

Components using Hall element

Electric motor

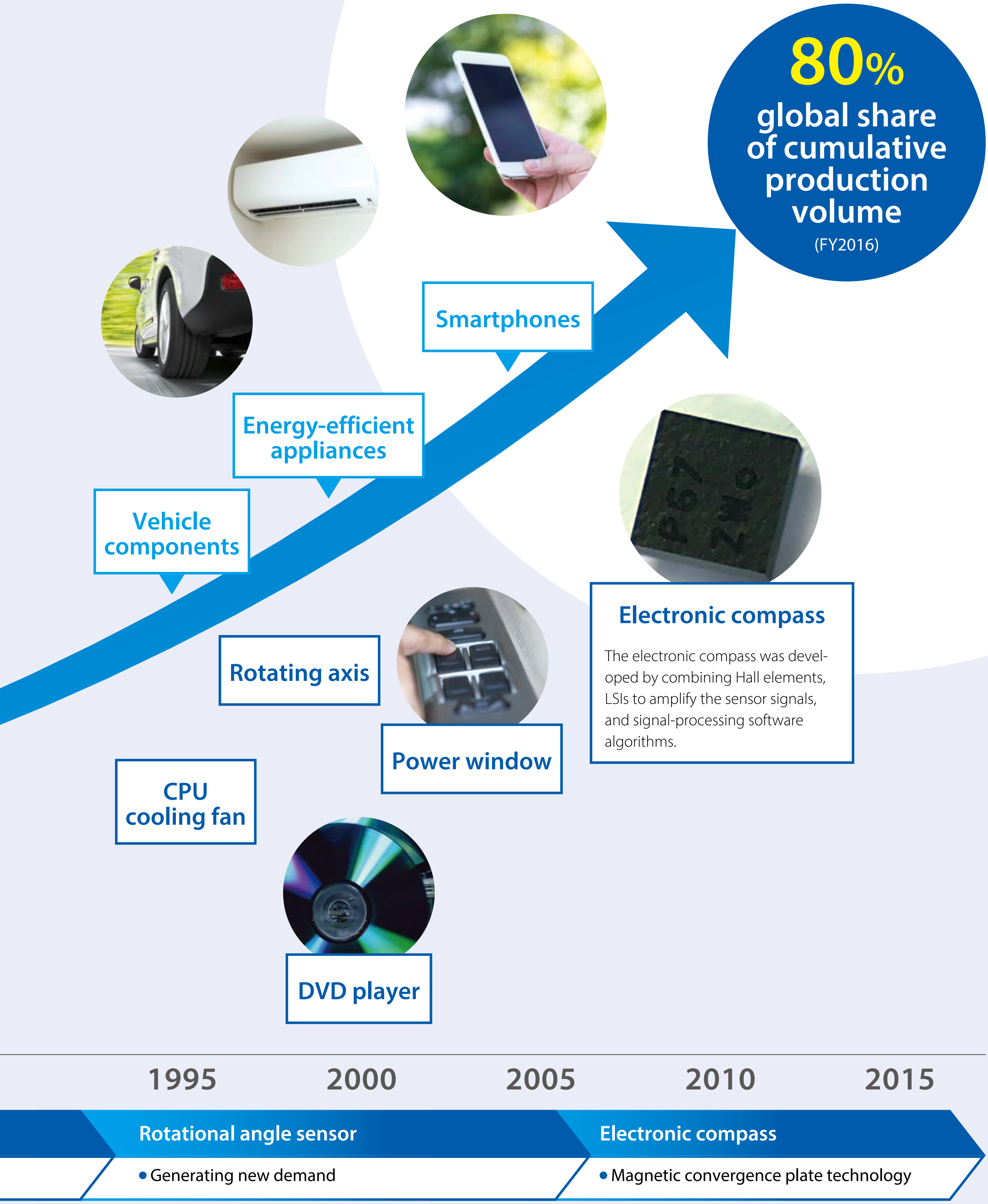
CD drive

1970 | 1975 | 1980 | 1985 | 1990

**Hall element breakthrough timeline**

**Thin-film technology**
- Launch of development

**Hall IC**
- Entry to LSI business, advancing to next stage

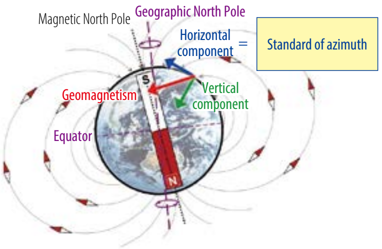

80%
global share of cumulative production volume
(FY2016)
Smartphones
Energy-efficient appliances
Vehicle components
Rotating axis
Power window
CPU cooling fan
DVD player
Electronic compass
The electronic compass was developed by combining Hall elements, LSIs to amplify the sensor signals, and signal-processing software algorithms.
1995
2000
2005
2010
2015
Rotational angle sensor
• Generating new demand
Electronic compass
• Magnetic convergence plate technology

## Notable Example of Value Creation—The Electronic Compass

Our invention of the electronic compass was achieved by combining technology for magnetic sensors to measure geomagnetism with our LSI and software technology. The electronic compass significantly enhanced the functionality of mobile phones and smartphones, enriching the experience of map applications such as pedestrian navigation systems and contributing to their widespread popularity.

### About the electronic compass

The electronic compass, a semiconductor device that determines azimuth by measuring geomagnetism, is widely utilized for map applications installed in smartphones such as pedestrian navigation systems. Asahi Kasei developed the electronic compass by combining our technology for magnetic sensors, LSI technology to amplify the sensor signals, and signal-processing software algorithms. Asahi Kasei has earned a dominant share of the global electronic compass market.



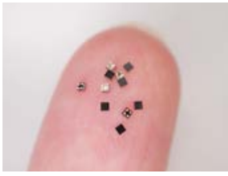

### The outset

Around 2000, when GPS was becoming a standard feature in mobile phones, we anticipated that there would be demand for pedestrian navigation systems similar to vehicle navigation systems. Unlike vehicle speed, however, walking is too slow to enable the direction of movement to be determined from GPS. Realizing that an electronic compass would be required to determine azimuth by measuring geomagnetism, we initiated its development.

### Asahi Kasei's advantage for development

Our development of the electronic compass was not oriented as an effort to find a new outlet for a succession of our technologies starting from sensors and followed by LSIs. Rather, we first identified a market need and then took stock of our range of existing technologies, including sensors, LSIs, other constituent technologies, and manufacturing technology, and considered how to apply them in the development. We also leveraged our established business connections to ascertain customer needs from the early stages of development, and made many proposals. In addition to the advantage gained from each of these aspects, our true strength was the ability to combine all of them together in a new business model culminating in the electronic compass.

### Competitive strength



While other companies focused on the development of sensors with high sensitivity, which was costly and time-consuming, Asahi Kasei already had an established mass-production infrastructure for magnetic sensors as well as signal-amplifying technology and distribution channels in its LSI business. Instead of aiming for high sensitivity, we sought to swiftly make an available product that provided utility to users. Our combination of technologies for sensors, LSIs, and algorithms enabled us to provide a solution to customers at low cost in a short time.

## Creating Value for the Future

Hall elements are poised for expanded use in the automobile field due to emerging trends for intensified application of electronic and control systems throughout the vehicle. The technology for Hall elements has also enabled the creation of infrared sensors which will meet growing demand in new fields such as human detecting sensors and gas sensors.

### For automobiles

In addition to conventional applications in motor control for power steering, power windows, and air conditioner fans, demand for sensors in the power train is expected to grow in line with engine downsizing and an increasing number of gears in the transmission for improved fuel efficiency and compliance with environmental regulations. The development and spread of autonomous vehicle technology around the world will provide further impetus to strong demand growth for sensors in vehicles.

### Infrared sensor

The infrared sensor was developed using thin-film semiconductor technology cultivated in the magnetic sensor business. It can be used to detect human presence in homes and other indoor environments. It also has great potential for use as a gas sensor in systems to heat and cool buildings. Especially in high-rise office buildings and in well-sealed homes, the efficiency of heating and cooling is highly dependent on the amount of outside air drawn in. By measuring indoor $CO_2$ concentration, a gas sensor can enable the minimum necessary ventilation while maintaining a comfortable indoor temperature, resulting in a significantly reduced energy requirement.

### Hall elements contributing to reduced $CO_2$ emissions

Under the "Cs for Tomorrow 2018" medium-term management initiative, Asahi Kasei aims to contribute to solutions for "clean environmental energy" through our diverse businesses. As magnetic sensors, Hall elements play an important role in saving energy. Electric motors are used in every kind of home appliance. By accurately detecting rotation position and speed, magnetic sensors enable the motors to run with the minimum amount of electricity, resulting in reduction of $CO_2$ emission from power generation.

We certified Hall ICs and Hall elements for air conditioner DC motors as global warming conscious products in accordance with our original guidelines. Our business activities with these products will make an ongoing contribution to the environment.

# Directors

1. Chairman & Director / **Ichiro Itoh**

After many years of experience in the fibers business, he held several leadership positions including executive officer for planning, accounting, and finance, and vice-presidential executive officer. He has been Chairman & Director since April 2010. He possesses a wealth of experience and a broad range of knowledge on the Asahi Kasei Group's businesses and corporate management.

2. President & Representative Director
Presidential Executive Officer / **Hideki Kobori**

After many years of experience in the electronics business, including as President & Representative Director of Asahi Kasei Microdevices Corp., he oversaw strategy, accounting, finance, and internal control. He assumed the role of President of Asahi Kasei in April 2016. He possesses a wealth of experience and a broad range of knowledge on the Asahi Kasei Group's businesses and corporate management.

5. Director
Lead Executive Officer / **Nobuyuki Kakizawa**

After many years of experience in the housing businesses, he held several leadership positions including Assistant Senior General Manager of Accounting and Finance at Asahi Kasei Corp. and General Manager of General Affairs at Asahi Kasei Homes Corp. He became General Manager of General Affairs in April 2013 with responsibility for formulating and executing measures for risk management and compliance of the Asahi Kasei Group. He possesses a wealth of experience and a broad range of knowledge on risk management and compliance.

6. Director
Lead Executive Officer / **Soichiro Hashizume**

After many years of experience in human resources, he held several leadership positions including President of PTT Asahi Chemical Company Limited. He has been responsible for human resources development and the planning and execution of personnel and labor measures of the Asahi Kasei Group since April 2013. He possesses a wealth of experience and a broad range of knowledge on human resources.

9. Outside Director / **Tsuneyoshi Tatsuoka**

With his wealth of experience and broad range of insight into industrial and economic policy, including as administrative vice-minister of the Ministry of Economy, Trade and Industry, he fulfills his role as Outside Director in deciding on important matters of the Asahi Kasei Group as well as overseeing business execution.

3. Representative Director
Vice-Presidential Executive Officer

## Masafumi Nakao

After many years of experience in R&D and new business development in the electronics business, he held several leadership roles including General Manager of the R&D Center and executive officer for quality assurance at Asahi Kasei Microdevices Corp. Since April 2012, he has overseen R&D of the Asahi Kasei Group. He possesses a wealth of experience and a broad range of knowledge on R&D.

4. Director
Senior Executive Officer

## Shuichi Sakamoto

After many years of experience in the petrochemical business, he became General Manager of Corporate Strategy in November 2014 with responsibility for formulating and executing the management strategy and business strategies of the Asahi Kasei Group. Since April 2016, he has overseen accounting, finance, and IT. He possesses a wealth of experience and a broad range of knowledge on the Asahi Kasei Group's businesses and corporate management.

7. Outside Director

## Norio Ichino

With his wealth of business management experience and broad range of insight as a corporate executive, including as President of Tokyo Gas Co., Ltd., he fulfills his role as Outside Director in deciding on important matters of the Asahi Kasei Group as well as overseeing business execution.

8. Outside Director

## Masumi Shiraishi

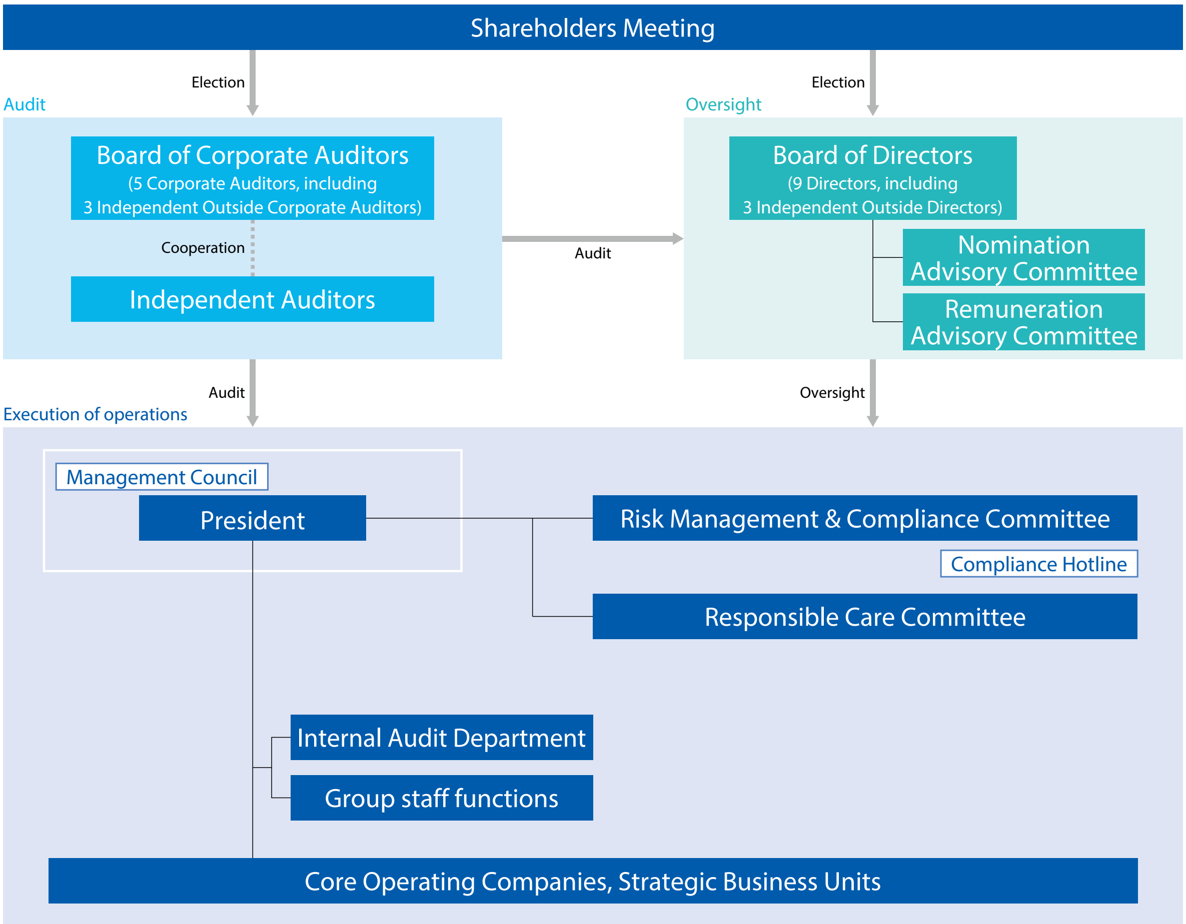
With her wealth of experience and broad range of insight into economics and society, including as a professor at Kansai University, she fulfills her role as Outside Director in deciding on important matters of the Asahi Kasei Group as well as overseeing business execution.

# Corporate Governance

## 1 Basic Views on Corporate Governance

The Group Vision of Asahi Kasei is to provide new value to society and solve social issues by enabling "living in health and comfort" and "harmony with the natural environment" under the Group Mission of "contributing to life and living for people around the world." With this as a base, we aim to contribute to society, achieve sustainable growth, and enhance corporate value over the longer term by promoting innovation and creating synergy through integration of various businesses. We continue to pursue the optimal corporate governance as a framework to make transparent, fair, timely, and resolute decisions in accordance with changes in the business environment.

## 2 Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management (as of June 28, 2017)




## 3 Corporate Governance System

### Oversight and audit

The Board of Directors, which consists of nine Directors including three independent Outside Directors (one-third), makes decisions on matters requiring a Board of Directors resolution in accordance with laws or the Articles of Incorporation, makes decisions on important matters for Asahi Kasei Corp. and other companies of the Group, and oversees execution of operations by Directors and Executive Officers.

The newly established Nomination Advisory Committee and Remuneration Advisory Committee under the Board of Directors consist primarily of Outside Directors who provide active involvement in the consideration of matters such as: optimal makeup and size of the Board of Directors, policy regarding nomination of candidates for Directors and Corporate Auditors, criteria on the independence of Outside Directors and Outside Corporate Auditors, remuneration policy and system for Directors, and evaluation of individual Directors to determine remuneration based on performance.

The Board of Corporate Auditors consists of five Corporate Auditors including three independent Outside Corporate Auditors (a majority). In accordance with the audit policy stipulated by the Board of Corporate Auditors, each Corporate Auditor oversees execution of duties by Directors by attending the Board of Directors meetings and examining the state of operations. To enhance functions of the Board of Corporate Auditors and to facilitate smooth cooperation among Corporate Auditors from inside the company and Outside Corporate Auditors, a Corporate Auditors Office is staffed with full-time employees.

PricewaterhouseCoopers Aarata LLC performs financial audits based on the Companies Act and the Financial Instruments and Exchange Act.

Furthermore, the Internal Audit Department conducts internal audits based on the audit plan. Results of internal audits performed by each group staff function are aggregated by the Internal Audit Department and reported to the Board of Directors.

### Execution of operation

We have adopted an Executive Officer system to enable faster business execution, and clearly define responsibilities; Directors fulfill decision-making and oversight functions, and Executive Officers fulfill execution of operations.

The Decision-making and Approval Authority Regulations of the Asahi Kasei Group stipulate detailed criteria for decision-making with regard to matters concerning the management plan, investments and loans, funding and financial management, organization and management system, research and development, and production technology, and delegate authority from the Board of Directors to the Management Council, strategic business units, and core operating companies.

## 4 Policy and Procedure to Nominate Candidates for Directors

In selecting candidates for Directors, we appoint persons with deep insight and excellent skills suitable for the role. For Directors from inside the company, we select those with expertise, experience and skills required in the respective field. On the other hand, Outside Directors are expected to supervise the management from an objective standpoint based on their deep insights and rich experience. Therefore we select from among people who were corporate executives, academic experts, or public officials.

To further heighten objectivity and transparency in appointing candidates for Directors, we established a Nomination Advisory Committee which consists primarily of Outside Directors who take part in discussions of the makeup and size of the Board of Directors and policies for nomination of Directors and Corporate Auditors, and provide advice to the Board of Directors.

## 5 Policy and Procedure to Determine Remuneration of Directors

Directors' remuneration consists of fixed base remuneration, performance-linked remuneration, and stock-based remuneration. The monetary amount and number of stocks are determined based on the remuneration system approved in advance by the Board of Directors, within the limits approved at a shareholders meeting.

Fixed base remuneration provides specific amounts in accordance with the rank of each Director. Performance-linked remuneration is based on consolidated financial results and individual performance evaluation. Performance is comprehensively evaluated in consideration of the degree of achievement of individually established objectives, achievements, contributions to financial performance, and the degree of contributions, in addition to management benchmarks such as net sales, operating income, and ROA.

The stock-based remuneration system is designed to reward current effort with compensation reflecting future share prices by granting the shares at the time of each individual's retirement from any position of officer of the Asahi Kasei Group, with the number of shares to be granted being determined in accordance with each Director's rank.

Remuneration for Outside Directors, however, is comprised solely of fixed base remuneration.

We determine the level of remuneration based on research data provided by external specialized agencies, etc.

In order to further improve objectivity and transparency of Directors' remuneration, we have established a Remuneration Advisory Committee, which consists primarily of Outside Directors, who participate in discussions about the Directors' remuneration system and operation thereof, and provide advice to the Board of Directors.

## 6 Independence Standards and Qualification for Outside Directors and Outside Corporate Auditors

In determining that Outside Directors and Outside Corporate Auditors are independent, we ensure that they do not correspond to any of the following and whether they are capable of performing duties from a fair and neutral standpoint.

1. Person who currently executes or has executed businesses of the Asahi Kasei Group (executive directors, executive officers, employees, etc.) over the last 10 years
2. Company or person who executes businesses thereof whose major business partner is the Asahi Kasei Group (company with more than 2% of its annual consolidated net sales from the Asahi Kasei Group)
3. Major business partner of the Asahi Kasei Group (when payments by this partner to the Asahi Kasei Group account for more than 2% of our annual consolidated net sales or when we borrow money from such partner amounting to more than 2% of our consolidated total assets) or person who executes businesses thereof
4. Person who receives money or other financial gain (¥10 million or more in a year) from the Asahi Kasei Group as an individual other than remuneration as a Director or Corporate Auditor of Asahi Kasei
5. Company which receives donation or aid (¥10 million or more in a year) from the Asahi Kasei Group or person who executes businesses thereof
6. Main shareholder of the Asahi Kasei Group (person or company who directly or indirectly owns 10% or more of all voting rights in Asahi Kasei) or person who executes businesses thereof
7. Person who executes businesses of a company which elects Directors, Corporate Auditors, or employees of the Asahi Kasei Group as its own Directors or Corporate Auditors
8. Independent Auditors of the Asahi Kasei Group or any staff thereof
9. Person who fell into any of the categories 2 through 8 above over the last three years
10. Person who has a close relative (spouse, relative within the second degree of kinship, and those who share living expenses) who falls under any of the categories 1 through 8 above, provided that “person who executes businesses thereof” in 1, 2, 3, 5, 6, and 7 above shall be replaced with “important person who executes businesses thereof (executive directors, executive officers, etc.)”

## 7 Audits

In accordance with the audit policy adopted by the Board of Corporate Auditors, each Corporate Auditor attends meetings of the Board of Directors and audits Directors in the discharge of their duties through examination of business performance. The Corporate Auditors Office provides staff to support Corporate Auditors in their duties.

PricewaterhouseCoopers Aarata LLC is contracted as the Independent Auditors to perform financial audits in accordance with the Companies Act and Financial Instruments and Exchange Act.

The Independent Auditors form a team of assistants for performance of the audit in accordance with its audit plan, comprising 17 certified public accountants and 34 other specialist accountants.

The Internal Audit Dept., the Board of Corporate Auditors, and the Corporate Auditors of core operating companies and other subsidiaries regularly meet to confirm the effectiveness of internal governance systems for legal compliance and risk management. The Board of Corporate Auditors provides counsel to the Independent Auditors of the consolidated financial audit of Asahi Kasei each quarter and each fiscal year.

Corporate Governance

Feature

The effectiveness of our Board of Directors is regularly evaluated after each fiscal year, and results of evaluation are disclosed.

## 1. Measures implemented in fiscal 2016

The Board of Directors implemented the following measures in fiscal 2016 based on evaluation of the previous fiscal year.

### 1) Change of agendas for Board of Directors meetings

In order to enhance the supervisory functions of the Board of Directors, the agendas for Board of Directors meetings were reviewed in order to place greater focus on discussions of corporate governance, risk management, and compliance. After several discussions at the meetings, the new Asahi Kasei Group Code of Conduct was established and became available on the Asahi Kasei website in April 2017.

### 2) Proposal for adoption of a stock-based remuneration system

By more clearly linking remuneration of Directors and Asahi Kasei's shareholder value, a new system was proposed to reinforce the common interest between Directors and shareholders, including both the benefits and risks associated with variations in the share price. The system is designed to enhance the motivation of Directors to contribute to greater business performance and corporate value of Asahi Kasei over the longer term. For the purposes above, we proposed the introduction of a stock-based remuneration system at the 126th Ordinary General Meeting of Shareholders, and approval was received. To ensure objectivity and transparency, the proposal for adopting the system was deliberated at the Remuneration Advisory Committee consisting primarily of Outside Directors.

### 3) Enhanced provision of information to Outside Directors and Outside Corporate Auditors

As part of our effort to expand the provision of information to Outside Directors and Outside Corporate Auditors, we held tours of our sites for Outside Directors and Outside Corporate Auditors to help them gain a deeper understanding of our operations. In addition to holding such site visits on an annual basis, we provide regular explanations by people responsible for each business unit in order for Outside Directors and Outside Corporate Auditors to keep abreast of the current business situation and issues.

## 2. Moving forward

Through the measures described above, we believe that we have enhanced the supervisory functions of the Board of Directors. Based on deliberations of the effectiveness of the Board of Directors during fiscal 2016, we will continue and expand these efforts in the future. We also plan to develop discussions during fiscal 2017 on the longer-term direction of management strategies, the progress of the medium-term management initiative, and IR activities, as well as the opinions of investors and trends of capital markets.

There is an increasing need for the Asahi Kasei Group to conduct management from a global perspective through large-scale M&A and overseas business development, and the business environment is rapidly changing. In line with such changes in the environment, we recognize the need to flexibly adapt the membership and the structure of the Board of Directors in the future.

### Greater diversity of Directors is needed for growth over the longer term

I feel that the current operation of the Board of Directors is generally appropriate. Outside Directors have diverse backgrounds, including in corporate management, industrial policy, and academia, and independence is maintained. Directors are given ample time to consider proposals in accordance with their content, and the frequency of Board meetings is appropriate. Discussions among Directors are uninhibited and lively, and frank opinions are exchanged.

Nevertheless, viewed from a longer-term perspective, there are outstanding issues concerning the composition of Directors. If we are to have a broader range of business strategies, including for future M&A and global development, I think we need to bring in more people having backgrounds in technology, women from within the company, and younger people as Directors. I believe this is important for the longer-term development of Asahi Kasei, and I will continue to clearly express my thoughts on the matter.

**Masumi Shiraishi**
*Outside Director*

# Specific Measures to Heighten Compliance

"Compliance," "Communication," and "Challenge" are identified as areas of emphasis under our Cs for Tomorrow 2018 management initiative. To heighten awareness for compliance among personnel, we are focusing on the "three actuals" of the actual place, actual thing, and actual fact. We believe that the trust of society is earned by having employees go to the actual place in person, see the actual thing with their own eyes, and know the actual facts.

## Basic principles

The Asahi Kasei Group takes compliance seriously, and fully adheres to laws and regulations that are applicable to each business and function, as well as internal company rules. Each employee is also expected to uphold high ethical standards and respect social norms throughout the course of business activities.

## Actions during the past year

### Enhanced framework for risk management and compliance

#### Enactment of Asahi Kasei Group Basic Regulation for Risk Management & Compliance

We newly enacted the Asahi Kasei Group Basic Regulation for Risk Management & Compliance to clearly specify basic systems and organizations for the central aggregation and administration of all matters related to risk management and compliance.

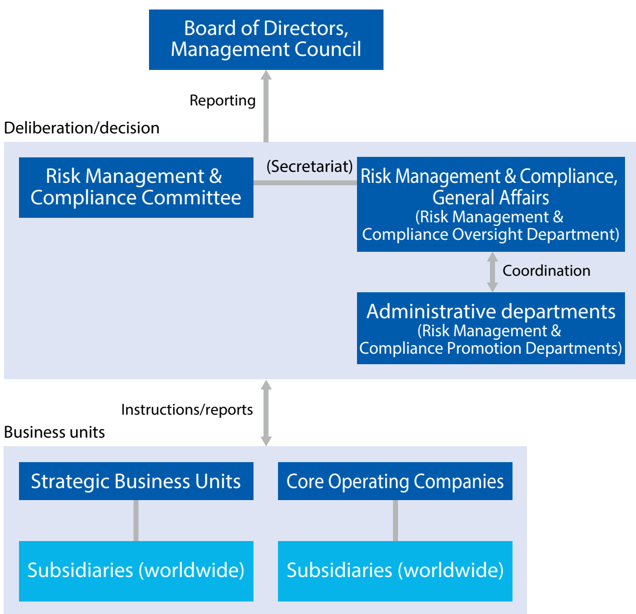
**Outline of Asahi Kasei Group Basic Regulation for Risk Management & Compliance**

1. Purpose of the regulation
2. Definition of terms for risk management & compliance
3. Scope of application of the regulation
4. Framework for risk management & compliance
   1) Designation of Executive Officer for Risk Management & Compliance
   2) Establishment and composition of Risk Management & Compliance Committee
   3) Establishment of Risk Management & Compliance Oversight Department/Risk Management & Compliance Promotion Departments
   4) Role of Presidents of SBUs and core operating companies
   5) Designation and role of Risk Management & Compliance Supervisors/Risk Management & Compliance Managers
5. The Asahi Kasei Group Code of Conduct
6. Crisis response
7. Internal reporting system

#### Establishment and composition of Risk Management & Compliance Committee

Our previous Corporate Ethics Committee and Risk Management Committee were combined into a new Risk Management & Compliance Committee chaired by the President of Asahi Kasei Corp. The new committee monitors the management of risks and the state of compliance throughout the Asahi Kasei Group.

Framework for risk management & compliance



## Formulation of compliance policy, heightening awareness

### Establishment of new Asahi Kasei Group Code of Conduct

For greater ease of understanding among our personnel around the world, we fundamentally reviewed the content of our former "Corporate Ethics—Basic Policy and Code of Conduct" and adopted a new "Asahi Kasei Group Code of Conduct" which is applied throughout all companies of the Asahi Kasei Group. In fiscal 2017 we distributed a booklet on the new code of conduct to all employees in Japan, and disclosed the code of conduct on our public website. (Measures to gain understanding and familiarity with the Asahi Kasei Group Code of Conduct among subsidiaries and affiliates located outside Japan are scheduled to be performed henceforth.)

### Efforts for heightened awareness at each workplace

Each workplace in Japan is holding training sessions to review the content of the Asahi Kasei Group Code of Conduct. To support the consistent and effective implementation of these training sessions, we prepared several case studies for employees to easily understand how elements of the code of conduct relate to real-world situations, as well as a supplementary reader that explains the content of the code of conduct, with cartoon illustrations.

### Outline of the Asahi Kasei Group Code of Conduct

**1. Ensuring Safety, Environmental Protection, and High Quality to Contribute to Life and Living**

(1) Maintaining Thorough Safety in All Aspects
(2) Provision of Safe and High-Quality Products and Services that Customers Can Rely On
(3) Thorough Management of Workplace Safety, Ensuring Safe and Comfortable Workplace Environments
(4) Environmental Protection and Harmony with Local Communities

**2. Maintaining Sincere Relationships with Various Related Parties around Us**

(5) Timely and Appropriate Disclosure of Information to Society
(6) Appropriate Descriptions to Customers, Provision of Safe and Reliable Products and Services
(7) Healthy Relationships with Customers and Government Officials
(8) Fair Relationships with Competitors
(9) Optimized Procurement and Healthy and Appropriate Relationships with Suppliers
(10) Respect for Human Rights and Diversity

**3. Utilizing Management Assets Appropriately and Effectively**

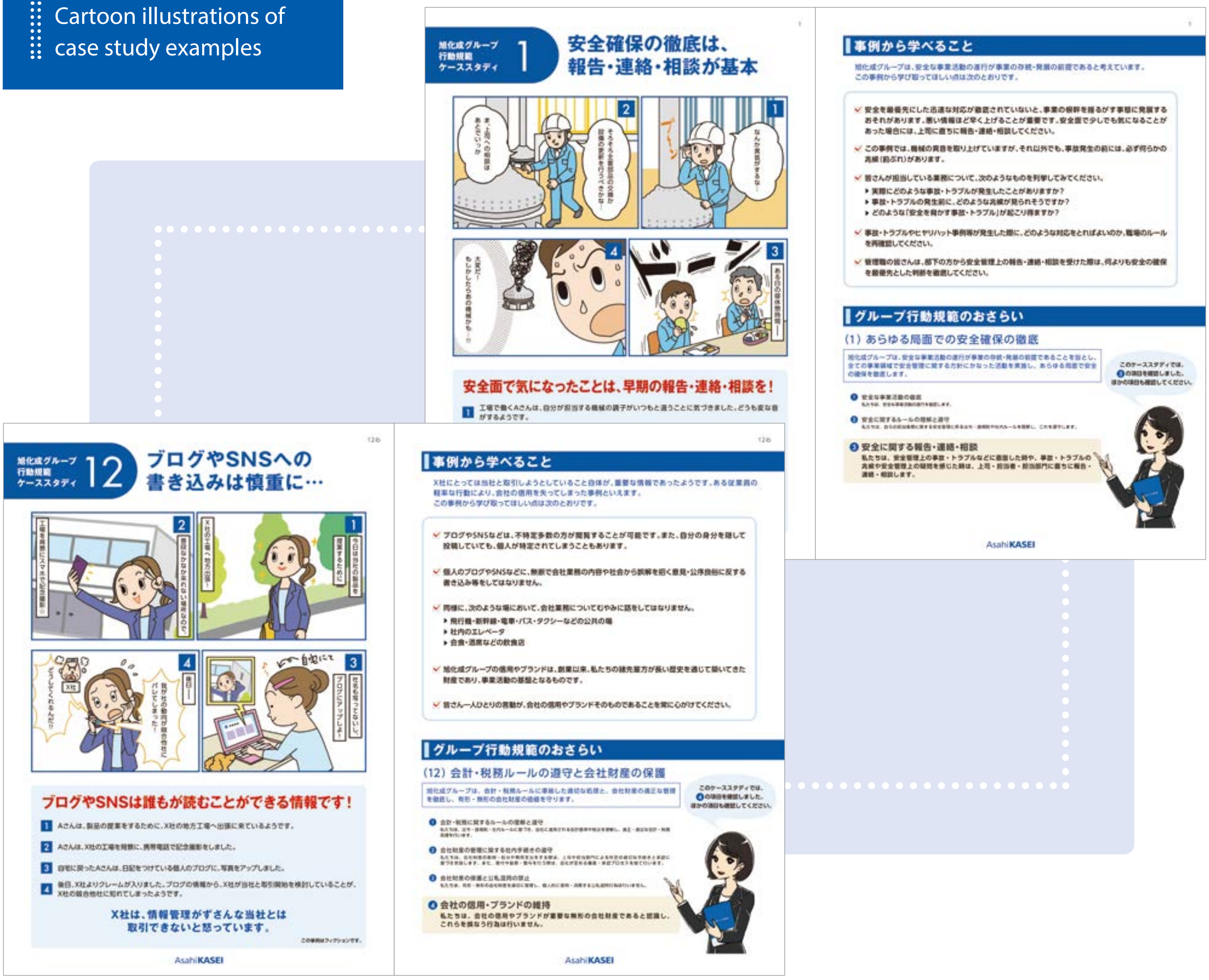
(11) Performing Work with Integrity and Responsibility
(12) Compliance with Accounting and Tax Rules, Protecting Company Property
(13) Protecting and Managing Information
(14) Protecting and Respecting Intellectual Property Rights
(15) Compliance with Laws and Regulations, Practicing Corporate Ethics

### Case studies

1. Reporting, informing, and/or discussing as fundamental to ensuring thorough safety
2. What is the first thing you think of when putting priority on the safety and health of customers?
3. Health management at the workplace
4. Environmental standards that were acceptable in the past, but...
5. Dealing with sudden media inquiries
6. 1) Even if good data is obtained...
   2) Although sales are important...
7. Even when the company doesn't give you instructions...
8. At social gatherings of industry associations...
9. 1) What is optimal procurement?
   2) Offers of gifts from suppliers
10. When enthusiastic instruction may seem dehumanizing...
11. Beware of overdependence on certain individuals!
12. 1) Discretion when speaking in the elevator!
    2) Caution when writing in blogs or SNS
13. 1) Be wary of e-mail from unknown parties!
    2) Carelessness with customer information
14. Carelessness with technological information
15. Conduct with integrity (part 1)
    Conduct with integrity (part 2)

The Asahi Kasei Group Code of Conduct is available at the following address:
www.asahi-kasei.co.jp/asahi/en/csr/compliance/about_compliance/pdf/about_compliance_01.pdf

Cartoon illustrations of case study examples




## Measures for risk management

### Reviews to identify latent risks in each business unit

Managers responsible for risk management and compliance are designated in each SBU, core operating company, and subsidiary, and work to assess and analyze their related risks and to plan and implement measures to mitigate serious risks. Through the Risk Management & Compliance Committee, we confirm and follow-up on the state of risk management in each business unit.

### Measures applied throughout the Asahi Kasei Group

Prevention of bribery: To prevent the occurrence of any act which would constitute bribery, we newly enacted Asahi Kasei Group Policies for Prevention of Bribery, including basic policies to prohibit bribery and clear procedures to follow to reduce bribery-related risks.

Protection of personal information: In conformity with the May 2017 amendment of Japan's Act on the Protection of Personal Information, we revised the Asahi Kasei Group Regulation for Management of Personal Information as necessary. Related departments were informed of the changes and new measures required.

Prevention of insider trading: In March 2017, an employee of a subsidiary was fined by Japan's Financial Services Agency for insider trading. Taking this matter very seriously, we revised the Asahi Kasei Group Regulation for Prevention of Insider Trading to prevent any recurrence. Since July 2017, the revised regulation requires advance notification of share trading by employees, and prohibits share trading by employees prior to earnings announcements.


**Asahi Kasei acquired acute critical care device manufacturer ZOLL in 2012 and battery separator manufacturer Polypore in 2015 for a combined total of some $4.4 billion. While ZOLL retained its management team after the acquisition, new leadership was installed at Polypore. In these interviews, leaders of the two companies share their thoughts on the PMI process and other management challenges.**

## ZOLL

**Richard Packer**

*Chairman, Board Director, ZOLL Medical Corporation*

*Primary Executive Officer, Asahi Kasei Corp.*

### How do you evaluate the post-merger integration (PMI) process between Asahi Kasei and ZOLL?

The process of PMI went smoothly, I think mostly because of the flexibility that Asahi Kasei showed. ZOLL and Asahi Kasei have very different kinds of business, so we had to learn a lot about one another's ways of working. Asahi Kasei's PMI team really allowed the ZOLL people to help define what would work for ZOLL in the long term for continuous growth. It's a good example of what I found to be the Japanese way of making a plan after first scrutinizing conditions; different from the American way of taking action first and thinking about it later.

Compensation was another area where Asahi Kasei showed flexibility. Knowing there are big differences between the American and Japanese systems, Asahi Kasei contracted an American compensation consulting firm to analyze what kind of incentives would be best for ZOLL. The firm concluded that in order to achieve retention, ZOLL people should be compensated in a different manner. But I told Asahi Kasei it wasn't necessary. ZOLL already had an effective compensation system that kept people satisfied, with a low turnover rate. Asahi Kasei flexibly adopted our opinion and trusted us more than the consulting firm, and the result was excellent.

When it comes to flexibility, I believe we owe a lot to the leadership of Fujiwara-san, the President of Asahi Kasei at the time. He and I had many discussions about how to integrate our companies. He always said that the key to success would be to retain the ZOLL people, since Asahi Kasei couldn't grow the business without them. I really appreciate his vision, giving us flexibility to manage the business after the merger as well.

## Did you find any shortcomings of Asahi Kasei?

In my view, some top management people may not really want to take bold actions for growth. They tend to seek stability. I believe that seeking growth provides greater potential to increase business opportunities, and ZOLL is always doing so. Like most American companies, we don't want to just be stable. The younger people in Asahi Kasei understand the need for growth and are eager for it, but some of the senior people don't give me that impression. I'm not saying we should always take high risks aiming for high rewards. The point is striking a balance between risk and reward. It's good to gain a degree of stability by having diversified operations, but we can't expect any growth at all without taking any risk.

Packer together with Taketsugu Fujiwara, President of Asahi Kasei at the time of the acquisition in 2012

## Why do you think some senior people place too much emphasis on stability?

It may because of the Japanese system of lifetime employment and seniority. This functioned very well during the period of high growth until the 1990s. But past success can be an impediment to change. In effect, younger people are prevented from getting into positions of responsibility early in their career. If people don't join the management ranks until they are near retirement, it's natural that they would tend to value stability. They don't want to hurt the business during their tenure, and they can't expect to stay long enough to follow through on something new. If people joined the management ranks at a younger age, knowing they had 10 or 20 years ahead of them, they would be more ambitious in taking risks to expand their business. When I took responsibility for ZOLL, I was the youngest of the top executives; others were more than 10 years older than I. I looked for ways to grow the business, knowing the risks entailed, but I knew I had years ahead of me to make it work if I made a mistake. In the United States, we have a way to fast-track young personnel, moving younger people into management earlier and giving them responsibility for growing their business. I know this may cause friction because some people are skipped over, and some younger people receive more compensation than their seniors. But I believe that it is important to utilize talented young people this way. A diversity in age is also beneficial because the more experienced people can serve as mentors to the younger leaders, and they can reinforce one another effectively.

## You said growth creates opportunities. What is needed for Asahi Kasei to grow more?

I think growth provides opportunities and solves various problems. Having worked at Asahi Kasei for five years, I really appreciate our corporate culture, I know we have outstanding people, and I understand how much they care about the company. Also, I have seen that we can be very flexible. So I think we already have the foundation for further success, but that alone is not enough. We need to build on that foundation by utilizing not only people of various ages but also local people in various locations. By flexibly utilizing a more diverse range of people, Asahi Kasei can build on its strengths toward further growth. I believe this can also establish Asahi Kasei's competitive advantage ahead of other Japanese companies in the midst of globalization. In that sense, utilizing diversity of personnel becomes all the more important.

Looking back on the 25 years I've been involved in the management of ZOLL, we have always utilized people of various nationalities. We leverage local people in the management of our operations around the world. For example, a German person runs our business in Germany, and a British person runs our British business. We deliberately involve local people in the management at each location rather than sending an American person, and it has worked well for us. Unfortunately, we have not been as successful with diversity of gender, as we do not have enough women in high executive positions. We need to do better in this area.

The LifeVest™ wearable defibrillator

The ZOLL AED Plus™ automated external defibrillator

## Finally, could you tell us about the mission of the acute critical care business?

I remember when I first met people from Asahi Kasei. They were fascinated by the mission of ZOLL. Here was this medical equipment that could save a life in danger, and a company that saw its mission as saving lives by providing the right products. On the other hand, I was fascinated by the fact that Asahi Kasei, a 100-year-old company with $20 billion in sales mainly in chemicals, had a mission of contributing to healthy living and longevity. You would rarely see that attitude in an American company. Asahi Kasei sincerely held protecting life to be one of its core values, which aligned perfectly with ZOLL's aims. Our relationship was cemented by sharing the same mission. Since the merger, ZOLL's growth has accelerated and our products save many more lives than before. Together with Asahi Kasei, ZOLL will continue to expand as we fulfill our unchanging mission of saving lives.

## Polypore

Shigeki Takayama

*CEO, Polypore International, LP*

*Senior Executive Officer,*
*Asahi Kasei Corp.*

### What is the key to expanding your business?

The operating environment for Polypore is changing very rapidly. As electric drive vehicles become more widespread, battery performance is improving tremendously. Performance requirements for battery separators are constantly on the rise. We need to meet these changes while maintaining high quality and stable supply. The key is adapting to rapid change. The management team must clearly discern the changes, and swiftly act accordingly.

### What measures have you taken to adapt to changes?

During the post-merger integration (PMI) process, we overhauled the management team. After the acquisition, a new kind of leadership was required for Polypore. Previously, skillful explanation was required in order to raise funds from the capital markets. As part of Asahi Kasei, however, this became unnecessary. Rather, swift actions toward growth while integrating our businesses together and adapting to rapid changes became essential. The previous management team was ill suited to the new tasks. The eight members of the current team are a diverse group, including three women and several nationalities—Japanese, American, German, and Chinese. This team is nimble enough to adapt our strategy on a monthly basis, yet adhere firmly to a long-term growth perspective. It is also able to gain the understanding of personnel as we busily work toward further growth.

Celgard™ lithium-ion battery separator

### How do you evaluate the support you've received from Asahi Kasei?

The battery separator business is probably the most dynamically changing business in Asahi Kasei. The company understands that. Investment decisions are made swiftly and flexibly with sufficient consideration for economics and safety. A delay in judgment would be devastating for this business. I am extremely grateful that Asahi Kasei acts promptly and appropriately to respond to changes in the operating environment and meet customer needs.

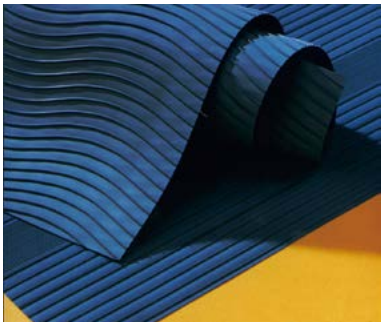

Takayama gives his first briefing to Polypore and Celgard employees after the acquisition

### How do you keep personnel motivated in such a rapidly changing operating environment?

Maintaining employee motivation is absolutely vital. Among brain scientists, there is a theory that people naturally fear change, and to maintain a balance people also need an equivalent degree of stability. I feel that the company's vision can serve as the needed source of stability. While people work hard every day on new developments and quality improvements to meet customer needs, the company's vision remains an unchanging beacon to continuously strive toward. For example, consider Elon Musk, the CEO of Tesla. He is also CEO of SpaceX, which develops rockets. His vision is for the rockets to be used to move 50,000 people to Mars in the near future. I understand that a sense of urgency regarding the world's energy issues and a grand vision are what motivate his employees. Polypore is also involved in solutions to the world's energy challenges. I would like to craft a clear vision that enables all our employees to share the same aim.

I also think it's important to enjoy change. Sometimes it's necessary to go beyond your own boundaries. In the United States, there tends to be clear recognition of personal performance, and so boundaries of responsibility are clearly delineated. At Asahi Kasei, though, people often work beyond their boundaries. This is one aspect of taking on challenges, which is one of our Group Values. Motivation for work comes not only from monetary remuneration. Even in the United States, "fun" is recently seen as an important factor. If the company encourages people to proactively reach beyond their own area, we can foster a culture that values fun. I hope we can get Polypore personnel to begin doing this, and our management team is now advancing discussions on how to do so.

At the opening ceremony of a new plant for Daramic™ in Gujarat, India



Daramic™ lead-acid battery separator

## Globalization requires appropriate response to various changes. What do you consider to be important points?

The first is to have high-level administrative functions such as legal, HR, and IT. Polypore operates globally, with manufacturing sites around the world. They have rich knowledge and experience in various regions. I think the Asahi Kasei Group would benefit from leveraging such functions. For instance, if one of our businesses is going into a region where Polypore is already operating, Polypore's knowledge of legal procedures, HR systems, and IT infrastructure can be very helpful. Also, we have 10 group companies in the United States including ZOLL and Polypore. Polypore has a highly advanced IT infrastructure which could be used to support other operations as well.

The second important point is hiring outstanding local personnel in each location. For example, when we built a new Daramic™ plant in India, an excellent local employee led the project for us. Everything went very smoothly. The local managers and engineers we've hired in each location are fluent in English and help us think hard about the business. Retaining highly capable local personnel is extremely important. Polypore has a global HR network, and is able to contact appropriate outside people as required. It would be valuable for the Asahi Kasei Group to make use of this function.

Thirdly is outstanding communication. I have a telephone conference with around 100 global leaders every three months. In these quarterly conferences, I discuss the state of business, progress on achieving our budget, and what our challenges are. The participants have various nationalities and different native languages, so we try to make sure the documents are written in plain English. We are also careful about the sequence of the documents to be discussed. Arranging each conference requires careful coordination so as to avoid a time that falls on a holiday for any of the participants. We have a very capable communications team that arranges the conferences and prepares the documents. Effective communication is essential for smooth decision-making among our global leaders, and to advance the overall management of a global organization.

## What is the significance of your business?

Our business makes an important contribution to solutions to the world's fossil-fuel challenges. We have the potential to reshape the history of energy. It is a wonderful business that employees can tell their families about with pride. I'd like to channel this into motivation to work diligently for the growth of the business. Put simply, our product is a polyolefin film. But as part of a battery, it is an essential component that ensures safety and performance. More and more electric drive vehicles are on the road. Soon there will be a million, then two million. Our product plays a vital role in ensuring the safety of those vehicles. We can never compromise on the safety and quality of our products. We will continue to contribute to a society of clean environmental energy, providing safety that no competitor can match as we create new value for society.

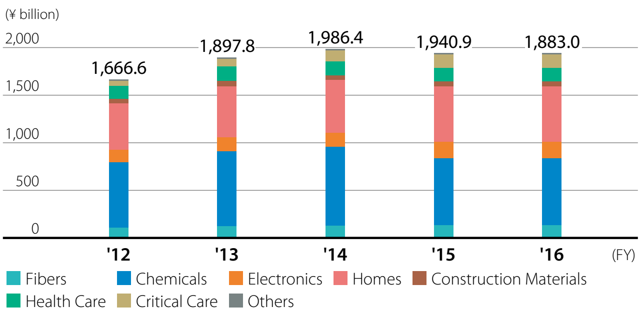
# Financial and Non-Financial Highlights

| For the years ended March 31 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Net sales | **¥1,882,991** | ¥1,940,914 | ¥1,986,405 | ¥1,897,766 |
| Domestic sales | **1,226,633** | 1,261,203 | 1,313,128 | 1,289,054 |
| Overseas sales | **656,358** | 679,711 | 673,277 | 608,712 |
| Operating income | **159,229** | 165,203 | 157,933 | 143,347 |
| Ordinary income | **160,633** | 161,370 | 166,543 | 142,865 |
| Income before income taxes | **157,388** | 146,389 | 158,440 | 163,860 |
| Net income attributable to owners of the parent | **115,000** | 91,754 | 105,652 | 101,296 |
| Comprehensive income | **138,979** | (11,925) | 214,484 | 146,102 |
| Net income per share, yen | **82.34** | 65.69 | 75.62 | 72.48 |
| Capital expenditure | **90,573** | 99,000 | 89,108 | 92,397 |
| Depreciation and amortization | **91,387** | 93,811 | 86,058 | 86,052 |
| R&D expenditures | **79,566** | 81,118 | 75,540 | 71,101 |
| Cash dividends per share, yen | **24.00** | 20.00 | 19.00 | 17.00 |

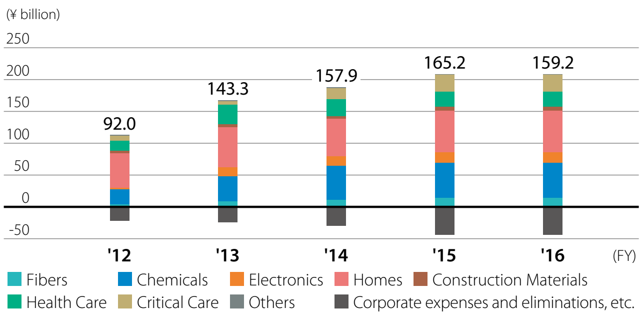
| As of March 31 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Total assets | **¥2,254,500** | ¥2,211,729 | ¥2,014,531 | ¥1,915,089 |
| Inventories | **346,682** | 336,743 | 339,677 | 328,540 |
| Property, plant and equipment | **556,881** | 555,989 | 502,507 | 480,535 |
| Investments and other assets | **340,302** | 305,140 | 334,368 | 285,735 |
| Net worth[a] | **1,151,344** | 1,041,901 | 1,082,654 | 912,699 |
| Net worth per share, yen | **824.36** | 745.94 | 775.05 | 653.15 |
| Net worth/total assets, % | **51.1** | 47.1 | 53.7 | 47.7 |
| Number of employees | **33,720** | 32,821 | 30,313 | 29,127 |

[a] Net assets less non-controlling interests.
[b] In the year ended March 31, 2012, the accounting policy for naphtha resale was changed to exclude naphtha resale amount from net sales. This change is applied retroactively from the year ended March 31, 2008, through the year ended March 31, 2011.

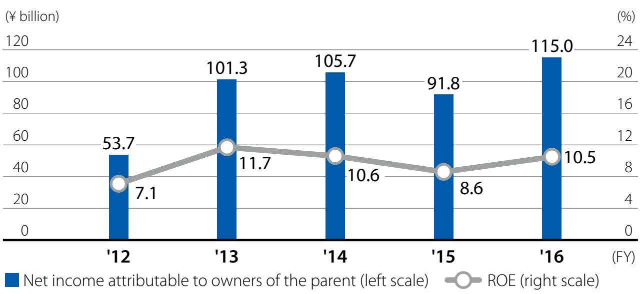
## Net sales[1]



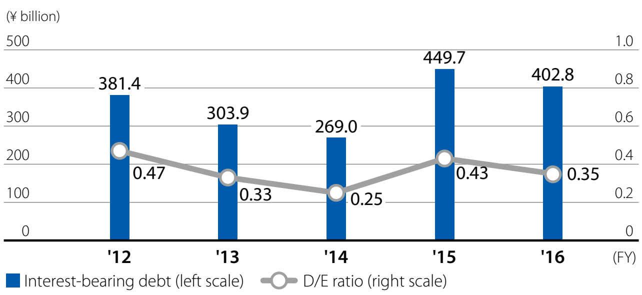

## Operating income[2]




## Net income attributable to owners of the parent, ROE




## Interest-bearing debt, D/E ratio




[1] In FY2016, the four segments of Chemicals & Fibers, Homes & Construction Materials, Electronics, and Health Care were changed to the three segments of Material, Homes, and Health Care. Some businesses were reclassified among segments at the same time. For comparison, FY2015 results have been recalculated according to the new classifications.

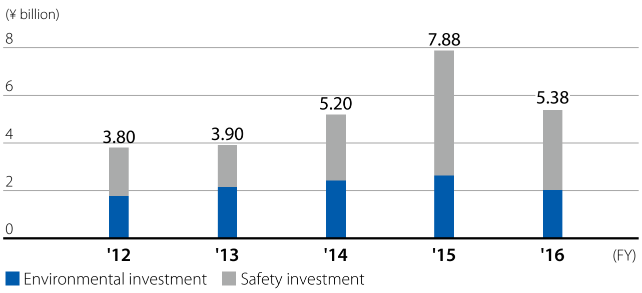
[2] Amortization of goodwill, etc., related to acquisition of ZOLL and Polypore are excluded from Critical Care and Electronics, respectively, and included in "Corporate expenses and eliminations, etc."

Millions of yen, except where noted

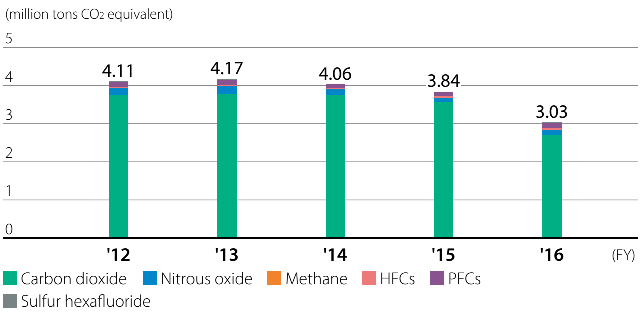
| 2013 | 2012 | 2011[b] | 2010[b] | 2009[b] | 2008[b] | 2007 |
|---|---|---|---|---|---|---|
| ¥1,666,640 | ¥1,573,230 | ¥1,555,945 | ¥1,392,212 | ¥1,521,178 | ¥1,663,778 | ¥1,623,791 |
| 1,181,429 | 1,151,705 | 1,106,656 | 1,021,803 | 1,127,213 | 1,176,441 | 1,195,751 |
| 485,211 | 421,525 | 449,289 | 370,409 | 393,965 | 487,337 | 428,040 |
| 91,960 | 104,258 | 122,927 | 57,622 | 34,959 | 127,656 | 127,801 |
| 95,125 | 107,567 | 118,219 | 56,367 | 32,500 | 120,456 | 126,507 |
| 82,302 | 94,866 | 98,342 | 46,056 | 19,031 | 105,599 | 114,883 |
| 53,712 | 55,766 | 60,288 | 25,286 | 4,745 | 69,945 | 68,575 |
| 117,515 | 62,561 | 45,088 | — | — | — | — |
| 38.43 | 39.89 | 43.11 | 18.08 | 3.39 | 50.01 | 49.00 |
| 113,785 | 85,124 | 66,014 | 83,990 | 126,725 | 82,911 | 84,413 |
| 80,050 | 78,440 | 84,092 | 86,166 | 79,436 | 73,983 | 71,646 |
| 71,120 | 66,269 | 62,320 | 62,924 | 60,849 | 56,170 | 52,426 |
| 14.00 | 14.00 | 11.00 | 10.00 | 10.00 | 13.00 | 12.00 |

| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| ¥1,800,170 | ¥1,410,568 | ¥1,425,879 | ¥1,368,892 | ¥1,379,337 | ¥1,425,367 | ¥1,459,922 |
| 309,677 | 279,206 | 256,248 | 251,084 | 273,539 | 272,372 | 240,006 |
| 461,581 | 416,119 | 418,354 | 447,497 | 441,271 | 424,193 | 426,959 |
| 263,704 | 227,489 | 220,773 | 226,331 | 218,477 | 234,873 | 281,502 |
| 812,080 | 706,846 | 663,566 | 633,343 | 603,846 | 666,244 | 645,655 |
| 581.05 | 505.72 | 474.59 | 452.91 | 431.77 | 476.39 | 461.50 |
| 45.1 | 50.1 | 46.5 | 46.3 | 43.8 | 46.7 | 44.2 |
| 28,363 | 25,409 | 25,016 | 25,085 | 24,244 | 23,854 | 23,715 |

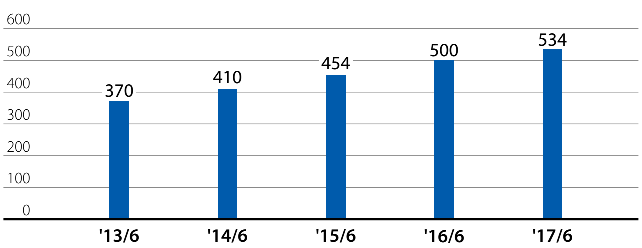
## Environmental and safety investment



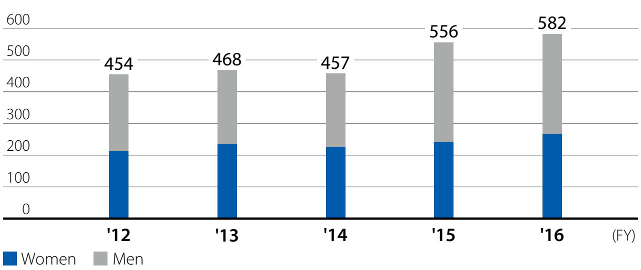

## Greenhouse gas emissions from production processes




## Number of women working as managers[3]




## Employees using parental leave[4]




[3] Results as of June 30 each year for personnel employed by Asahi Kasei Corp., Asahi Kasei Microdevices Corp., Asahi Kasei Homes Corp., Asahi Kasei Construction Materials Corp., Asahi Kasei Pharma Corp., and Asahi Kasei Medical Co., Ltd. (Asahi Kasei Chemicals Corp., Asahi Kasei Fibers Corp., and Asahi Kasei E-materials Corp. included in FY2015 and earlier).

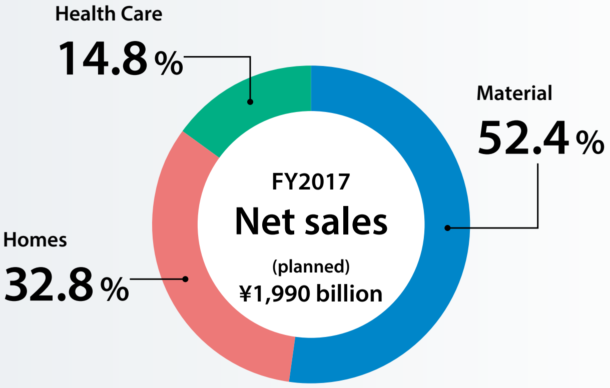
[4] Results for personnel employed by Asahi Kasei Corp., Asahi Kasei Microdevices Corp., Asahi Kasei Homes Corp., Asahi Kasei Construction Materials Corp., Asahi Kasei Pharma Corp., and Asahi Kasei Medical Co., Ltd. (Asahi Kasei Chemicals Corp., Asahi Kasei Fibers Corp., and Asahi Kasei E-materials Corp. included in FY2015 and earlier).

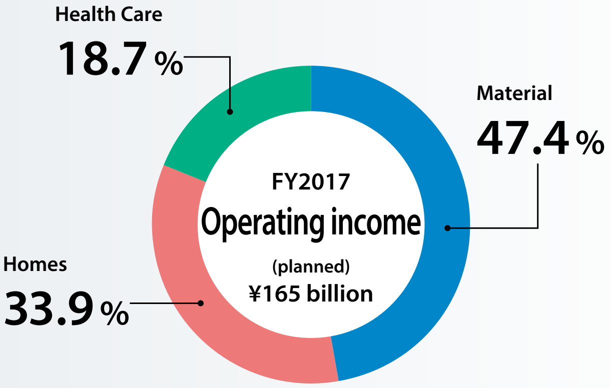
# At a Glance

**The Asahi Kasei Group operates business in the three sectors of Material, Homes, and Health Care. The "Cs for Tomorrow 2018" medium-term management initiative is focused on raising corporate value through optimal allocation of management resources across the three sectors.**

## FY2017 net sales and operating income*

Net sales and operating income are forecasted to increase in all three sectors.




* Original forecast announced on May 11, 2017.
Note: Percentages shown exclude "Others" category and "corporate expenses and eliminations."

Business sector

## Material

## Homes

## Health Care

| FY2017 forecast | Business units | Major products |
|---|---|---|

Net sales

¥1,033.0 billion

Operating income

¥90.0 billion

- Asahi Kasei Corp.
- Asahi Kasei Microdevices Corp.

- Fibers & Textiles SBU
- Petrochemicals SBU
- Performance Polymers SBU
- Performance Materials SBU
- Consumables SBU
- Separators SBU
- Asahi Kasei Microdevices Corp. (electronic devices)


Hipore™ lithium-ion battery (LIB) separator


Membrane-process ion-exchange plant


Acrylonitrile plant


Lamous™ microfiber suede

Net sales

¥647.0 billion

Operating income

¥64.5 billion

- Asahi Kasei Homes Corp.
- Asahi Kasei Construction Materials Corp.

- Homes
- Construction Materials


Hebel Haus™


Atlas™ condominiums


Hebel Building™ System


Neoma Foam™ phenolic foam insulation panels

Net sales

¥291.0 billion

Operating income

¥35.5 billion

- Asahi Kasei Pharma Corp.
- Asahi Kasei Medical Co., Ltd.
- ZOLL Medical Corporation

- Pharmaceuticals
- Medical Care
- Acute Critical Care


Pharmaceutical products


Planova™ virus removal filter


ZOLL AED Plus™ automated external defibrillator


LifeVest™ wearable defibrillator

# Material

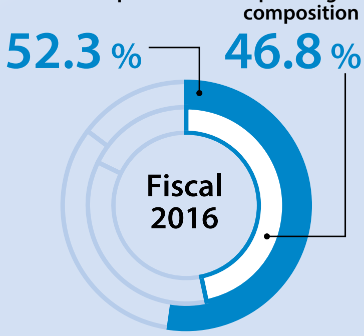
## Hideki Kobori

***Executive Officer***
***for Material business sector***

*President & Representative Director,*
*Presidential Executive Officer,*
*Asahi Kasei Corp.*

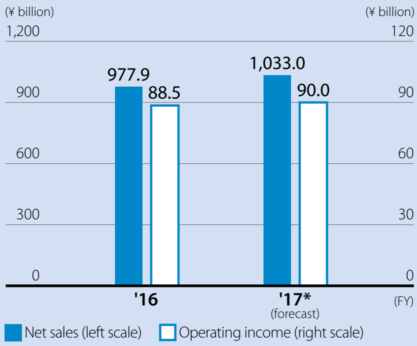
From unique fiber materials to petrochemicals and synthetic resins, and from consumables such as Saran Wrap™ cling film to battery separators and electronic devices such as LSIs and sensors, our high value-added product portfolio is expanding on a global scale, contributing to a better future through unrivaled technologies.

**■ Sales composition** **□ Operating income composition**




Not including "Others" category and corporate expenses and eliminations.

**Net sales & operating income**




* Beginning with FY2017, the Energy Division, which was formerly included in Others, is reclassified into the Material segment. FY2016 figures are recalculated in accordance with the new classification.

### Main products

- Bemberg™ cupro fiber
- Roica™ premium stretch fiber
- Spunbond nonwovens
- Leona™ nylon 66 filament
- Acrylonitrile (AN)
- Styrene
- Polyethylene (PE)
- Engineering plastics
- Synthetic rubber
- Microza™ hollow-fiber filtration membranes
- Ion-exchange membranes
- Ceolus™ microcrystalline cellulose
- Saran Wrap™ cling film
- Sunfort™ photosensitive dry film
- Hipore™ and Celgard™ Li-ion battery separators
- Daramic™ lead-acid battery separator
- Mixed-signal LSIs
- Hall elements

### Highlights

#### • Launch of Klaran™ UVC LEDs for disinfection

With light emission in the vicinity of 265 nm—the wavelength most effective for disinfection—and featuring high output with a small footprint, Klaran™ affords unprecedented flexibility in the design of disinfection products and systems. A wide range of applications is expected to include healthcare, home electronics, and various other fields where UVC disinfection of water, air, and surfaces had previously been impractical.

#### • Capacity expansion for Hipore™ LIB separator

With increasing demand for hybrid-electric and all-electric vehicles worldwide, the lithium-ion battery (LIB) market is forecasted to grow substantially in automotive applications, in addition to applications for consumer electronics. Capacity expansion at the plant in Moriyama, Shiga, will further reinforce our capability to provide stable supply to meet rising global demand for LIB separators.

## Fibers and Textiles

**Q** Please tell us about your proactive investments for growth and the earnings contribution of each business, as well as the outlook for fiscal 2017.

**A** **Sales and operating income decreased in fiscal 2016 with the impact of the stronger yen. We aim to increase sales and operating income in fiscal 2017 by leveraging the investments we made for growth.**

Although shipments were firm in fiscal 2016, sales and operating income decreased with the impact of the stronger yen. Demand for Bemberg™ cupro fiber continues to grow as material for ethnic garments in India and Pakistan as well as functional innerwear. Sales of Lamous™ microfiber suede are expanding in automotive interior applications. Recent expansions of production capacity—for Bemliese™ continuous-filament cellulose nonwoven to meet growing demand in facial masks, and for Leona™ nylon 66 filament to meet growing demand in air bags—are contributing to increased earnings.

We forecast firm demand for each product in fiscal 2017, with recent capacity expansions expected to enable further growth.

## Chemicals

**Q** You reported lower sales but increased operating income for the Chemicals business in fiscal 2016. What is the current situation and future outlook for petrochemicals, synthetic rubber, and engineering plastics?

**A** **Sales decreased and operating income increased in fiscal 2016 as the stronger yen impacted each product category and terms of trade for acrylonitrile (AN) improved. We forecast increased shipments of each product in 2017 while a scheduled maintenance turnaround of the naphtha cracker will have a negative impact, resulting in higher sales and lower operating income.**

Petrochemicals sales decreased in fiscal 2016 with lower shipments of styrene following the strengthening of petrochemical operations in Japan, but operating income increased with improved terms of trade for AN. In performance polymers, sales increased with growing shipments of synthetic rubber for fuel-efficient tires and engineering plastics, but operating income decreased due to the impact of the stronger yen.

We forecast higher sales in fiscal 2017 with further growth in synthetic rubber for fuel-efficient tires and engineering plastics, but lower operating income as an effect of a maintenance turnaround scheduled at the naphtha cracker of Asahi Kasei Mitsubishi Chemical Ethylene Corp. in Mizushima, Okayama, Japan.

In July 2017 we decided to increase production capacity of our plant in Singapore for synthetic rubber for fuel-efficient tires to meet rapidly growing demand against a background of greater motorization in emerging markets and more stringent environmental regulations around the world.

## Electronics

**Q** How did separators and electronic devices perform in fiscal 2016, and what is your outlook moving forward?

**A** **Sales grew with strong shipments of each product in fiscal 2016, but operating income decreased as an effect of the stronger yen and amortization of goodwill related to the acquisition of Polypore. We forecast higher sales and operating income in fiscal 2017 with further shipment growth for each product.**

Fiscal 2016 separators sales increased with greater shipments across the board and a full-year contribution from Polypore which we acquired in the second quarter of fiscal 2015, but operating income decreased with the impact of the stronger yen and amortization of goodwill related to the Polypore acquisition. We have decided to increase production capacity for Hipore™ lithium-ion battery (LIB) separator to meet brisk demand growth in automotive applications, including hybrid-electric and all-electric vehicles. We plan to make further proactive expansions of our LIB separator supply infrastructure, raising our capacity to 1.1 billion $m^2$/year by 2020. Both sales and operating income for electronic devices increased in fiscal 2016, despite the impact of the stronger yen, with growing shipments of audio devices for smartphones.

We forecast higher sales and operating income in fiscal 2017 with increased shipments of both separators and electronic devices.

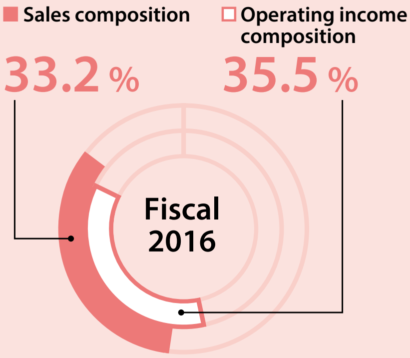
# Homes

With our homes business that provides high-quality products and services for Long Life Homes that maintain high customer satisfaction that lasts more than half a century, and our construction materials business that provides innovative and original high value-added products, we set the stage for a rich and fulfilling lifestyle.


**Fumitoshi Kawabata**

*Executive Officer for Homes business sector*

*Senior Executive Officer, Asahi Kasei Corp.*
*President & Representative Director, Asahi Kasei Homes Corp.*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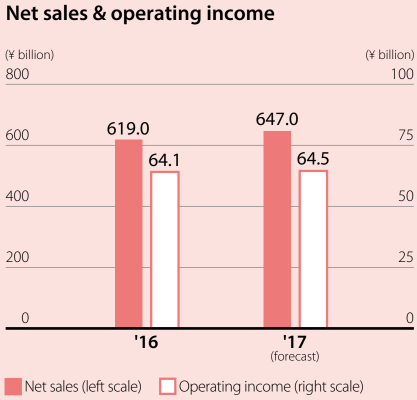



## Main products

- Hebel Haus™ unit homes
- Hebel Maison™ apartment buildings
- Atlas™ condominiums
- Hebel Rooms™ apartment rental network
- Remodeling
- Mortgage financing
- Hebel™ AAC panels
- Neoma Foam™ phenolic foam insulation panels
- Foundation systems
- Structural systems and components

## Highlights

### • Launch of Hebel Building™ System

Asahi Kasei Homes launched the sale of its Hebel Building™ System enabling higher quality, higher precision construction of medium-rise buildings by using systematic manufacturing techniques, developed mainly targeting 4–6 story buildings with space for commercial use on upper floors. By leveraging the company's core technology for heavy-frame steel structures as well as the manufacturing and construction systems of the Hebel Haus Frex™, the new system enables the construction of buildings up to 8 stories while maintaining high quality and precision. It also affords exceptional flexibility in design, with ceiling height ranging from 2.8 to 3.5 m, suitable for commercial purposes.

### • Launch of Comfortable Space Laboratory™

Asahi Kasei Construction Materials launched its Comfortable Space Laboratory™ in Sakai, Ibaraki, Japan, as a facility to exhibit and allow visitors to experience the outstanding thermal insulation performance of Neoma Foam™ panels. The laboratory will serve as a venue to raise public awareness on the importance of the thermal environment and insulation performance, as well as the quality of Neoma Foam™ products.

## Homes

**Q** **How did your homes business perform in fiscal 2016, and how is the trend for home orders?**

**A** **Both sales and operating income decreased in fiscal 2016 with lower deliveries of order-built homes. After the full resumption of advertising, however, orders recovered to the same level as in the previous year.**

Deliveries of Hebel Haus™ unit homes and Hebel Maison™ apartment buildings decreased reflecting a decline in orders received in fiscal 2015, and advertising expenses increased. Labor costs increased for remodeling operations, while real estate operations grew in line with an increased number of rental units under management. For homes overall, both sales and operating income decreased.

After the full resumption of advertising in May 2016, home orders recovered to the previous year's level and increased by +0.1% for the full year. To gain further growth in orders, we held an "Outdoor Living Fair" to showcase how the rooftop of Hebel Haus™ homes can be filled with enjoyable greenery and nature even while generating electricity. We also expanded the marketing area for Hebel Maison™ apartment buildings with features that enrich the living environment for tenants with dogs and cats.

Medium-rise built with the Hebel Building™ System

Hebel Maison Boriki™

## Construction Materials

**Q** **Please tell us about the situation in fiscal 2016, and prospects for the future.**

**A** **Both sales and operating income decreased in fiscal 2016 with lower shipments of autoclaved aerated concrete (AAC) panels and foundation systems. Although feedstock costs are expected to increase, fiscal 2017 operating income is forecasted to be even with the previous year thanks to increased shipments of Neoma Foam™ high-performance foam insulation panels.**

Fiscal 2016 shipments of Neoma Foam™ grew mainly for use in wood-frame houses, but shipments of foundation systems and Hebel™ AAC panels declined. Both sales and operating income decreased for construction materials overall.

Although demand related to construction projects in preparation for the Tokyo Olympics and Paralympics is anticipated to begin materializing around the middle of fiscal 2017, the business environment for construction materials is expected to be challenging with stagnating demand related to construction of rental homes and rising transportation costs. We forecast sales to increase and net income to be on the same level as the previous year with shipment growth mainly in Neoma Foam™ insulation panels.

Neoma Foam™ phenolic foam insulation panels

Comfortable Space Laboratory™

# Health Care

## Yutaka Shibata

***Executive Officer***
***for Health Care business sector (joint)***
*Primary Executive Officer, Asahi Kasei Corp.*
*President & Representative Director,*
*Asahi Kasei Pharma Corp.*

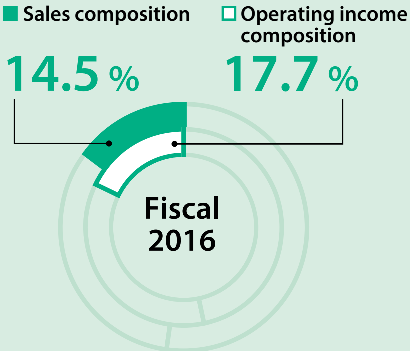
## Richard Packer

***Executive Officer***
***for Health Care business sector (joint)***
*Primary Executive Officer, Asahi Kasei Corp.*
*Chairman & Board Director,*
*ZOLL Medical Corporation*

### Main products

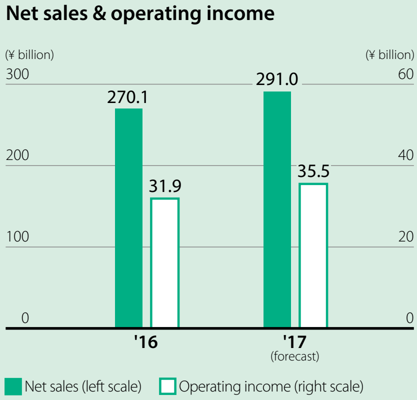
- Teribone™ osteoporosis drug
- Recomodulin™ anticoagulant
- APS™ polysulfone-membrane dialyzers
- Therapeutic apheresis devices
- Planova™ virus removal filters
- Defibrillators for professional use
- LifeVest™ wearable defibrillator
- AED Plus™ automated external defibrillator
- Thermogard System™ temperature management system

We contribute to advanced medical care around the world with world-class drugs in the fields of orthopedics, critical/intensive care, and the immune system; blood purification devices for chronic and acute renal failure, and various intractable diseases; and products for the manufacturing process of biopharmaceuticals and other new drugs. Our life-saving products in the field of acute critical care include AEDs, defibrillators for professional use, and intravascular temperature management systems.




Not including "Others" category and corporate expenses and eliminations.

**Net sales & operating income**




## Highlights

### • Japanese approval of Reclast® for intravenous infusion 5 mg*

Asahi Kasei Pharma obtained approval for the sale of Reclast® for intravenous (i.v.) infusion 5 mg in Japan for the treatment of osteoporosis. Reclast® is an osteoporosis drug capable of a year-long treatment with intravenous administration one time each year.

* Reclast® is a bisphosphonate developed by Novartis Pharma AG and was first approved in 2007 in the US and EU followed by approval in over 115 countries worldwide. Reclast® is a trademark of Novartis Pharma AG.

### • New spinning plant for Planova™ BioEX filters

Asahi Kasei Medical constructed a new plant for the spinning of hollow-fiber membranes for Planova™ BioEX virus removal filters at its Planova Oita Plant in Oita, Japan. Incorporating hydrophilic polyvinylidene fluoride (PVDF) hollow-fiber membranes, Planova™ BioEX virus removal filters are used in the production process for biotherapeutic products such as biopharmaceuticals and plasma derivatives. The hollow-fiber membranes produced at the new spinning plant will be used in the assembly of Planova™ BioEX filters at plants in Oita and Nobeoka.

# Pharmaceuticals and Medical Care

**Q** **Please tell us about fiscal 2016 results and the fiscal 2017 forecast for the pharmaceuticals and medical care businesses.**

**A** **Net sales and operating income decreased in fiscal 2016 with reduced reimbursement prices and competition from generics. We are forecasting both sales and operating income to increase in fiscal 2017 with increased shipments of Teribone™ osteoporosis drug and Planova™ virus removal filters.**

Although shipments of Teribone™ osteoporosis drug and Recomodulin™ thrombomodulin increased, fiscal 2016 sales and operating income from pharmaceuticals decreased with the impact of reduced reimbursement prices, including repricing of Teribone™ for market expansion, and the impact of competition from generics on Flivas™ agent for treatment of benign prostatic hyperplasia. Although shipments of Planova™ virus removal filters increased, sales and operating income from medical care decreased with the impact of the stronger yen and the impact of reduced reimbursement prices for dialysis-related products in Japan.

In fiscal 2017, in pharmaceuticals operations we expect increased R&D expenses related to the development of an auto-injection formulation of Teribone™ and a further impact on Flivas™ due to competition from generics, but increased shipments of Teribone™ following approval to extend the maximum duration of treatment. In medical care operations we expect firm sales centering on Planova™. Increased sales and operating income are forecasted for pharmaceuticals and medical care as a whole.

Medical care products

Pharmaceuticals

# Acute Critical Care

**Q** **The acute critical care operation continues to grow. Please tell us about fiscal 2016 results and the fiscal 2017 forecast.**

**A** **Fiscal 2016 saw continued growth in operating income. We forecast further growth in fiscal 2017.**

The acute critical care business continued to expand well in fiscal 2016. Although sales showed a decline when translated into consolidated accounts due to the impact of the stronger yen, both sales and operating income increased on a US-dollar basis. The LifeVest™ wearable defibrillator business continued to expand well, especially in the US, and sales of other products such as defibrillators and related accessories also increased. Operating income grew in both Japanese-yen and US-dollar terms despite increased SG&A expenses associated with an ongoing increase in personnel to reinforce sales activities. Sales on a US-dollar basis have grown at an average of 15% per year for the past 10 years.

The trend in fiscal 2017 will be largely unchanged, with continuous growth expected. Although we anticipate higher SG&A expenses with reinforced sales activities, we forecast higher net sales and operating income centering on the LifeVest™ business.

LifeVest™ wearable defibrillator

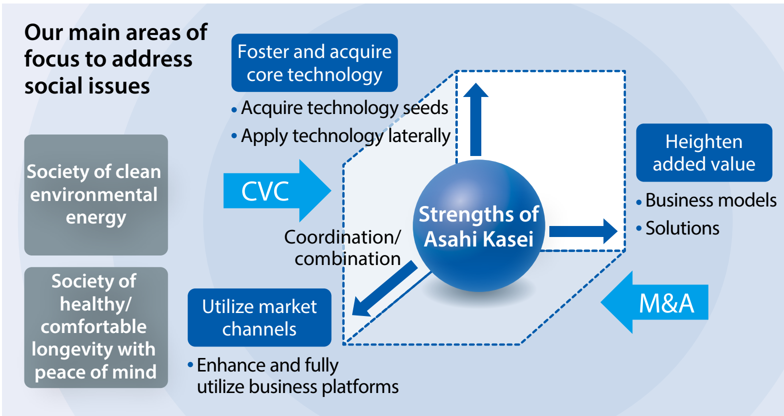
ZOLL AED Plus™
automated external
defibrillator

# New business creation with R&D leveraging diversification

**Masafumi Nakao**
*Representative Director, Vice-Presidential Executive Officer; Executive Officer for R&D*

## Strategy of New Business Creation

One of our basic strategies under the "Cs for Tomorrow 2018" medium-term management initiative is "creation of new businesses." Having various technologies and diverse business operations, the Asahi Kasei Group is striving to create new value through combinations among core technologies, multifaceted business models, and diverse human resources. The areas of "clean environmental energy" and "healthy/ comfortable longevity with peace of mind" are targeted in R&D to create new businesses that provide solutions to challenges faced by society.




### ■ Aims and approach for new business creation

The Asahi Kasei Group will create new businesses by leveraging our strengths in technology and operations from a 3-axis perspective. The first axis is to enhance and fully utilize our market channels. By utilizing the various market channels and platforms of each business area throughout the Asahi Kasei Group, we will develop a broad range of new businesses. The second axis is to foster and acquire core technology. While performing in-house R&D, we will actively apply new external technologies to enhance our core technologies. The third axis is to heighten added value. In addition to just supplying substances, which had been our main approach particularly in material businesses, we will place greater emphasis on building new business models around services and solutions.

**Approach for new business creation viewed by market axis and technology axis**

| | Established mature markets | Established growth markets | New markets | Potential future markets |
|---|---|---|---|---|
| Existing technologies/ improvements/ combinations | 1. Coordinate with strategic business units and core operating companies<br>Maximizing value of established businesses<br>• Brand strength/market channels • Cost competitiveness • Services<br><br>2. Utilize information technology, study new business models<br>Creating added value from new perspectives<br>• Higher added value from solutions | until FY2018 | until FY2025<br>3. Coordinate with strategic business units and core operating companies<br>• Marketing<br>• Full utilization of Asahi Kasei Group technologies and business platforms<br>• Acquiring missing parts (CVC) | |
| Newly developed technologies | 4. Review programs, examine originality and differentiation<br>B-to-C in Health Care and Homes sectors<br>• Better therapy<br>• Comfortable residential living<br><br>B-to-B in Material sector<br>• Disregarding mature markets<br>• Pursuing originality and differentiation in growth markets | | 5. Focus on strong points and accelerate<br>• Accelerating R&D<br>• Acquiring technology seeds/ sprouts by CVC<br>• New business models | 6. Basic/exploratory research in collaboration with universities and government research organs<br>Long-term perspective<br>• Develop/acquire leading-edge technology<br>• Collaboration with outside research institutions |

We perform longer-term group-wide corporate R&D projects where we identify business areas with a high degree of novelty and markets having high growth potential. R&D for further enhancement of existing businesses is focused on ways to build on our strengths. We aim to create new businesses by leveraging our diversification through seamless connections between projects as well as through proactive collaboration utilizing outside resources including CVC.

## R&D at the Asahi Kasei Group

The strength of the Asahi Kasei Group is the ability to create new businesses based on our wide range of technologies and to manage diverse fields of operation. Throughout our history of diversification, we have leveraged a wide variety of technologies cultivated in chemicals operations to establish a number of core technologies. Since our founding, we have constantly performed R&D to meet the world's needs and created new businesses based on technology. While our business environment and the structure of society are rapidly changing, we will continue to strive for the creation of new value.

### ■ R&D organization

We reviewed our R&D organization at the time of our transition to an operating holding company configuration in April 2016. Material-related R&D is now combined together under Corporate Research & Development, with efforts advancing in coordination with the R&D sections of each SBU. Under the new configuration, R&D with a longer perspective is seamlessly connected with product development peripheral to established businesses.

**Asahi Kasei Corporation**

**Corporate Research & Development**

- Technology Policy Center
- CVC Office
- Corporate IP
- Analysis & Simulation Center
- R&D Center
- Healthcare R&D Center
- Synergistic Solution Initiative
- Yamashita Laboratory
- Chemistry & Chemical Process Laboratory
- Fibers & Textiles Technology Center
- Performance Polymers Technology Center
- Performance Materials Technology Center

**Corporate Production Technology**

- Maintenance Technology Center
- Engineering Center
- Production Technology Center

**Clean Energy Project** | **UVC Project** | **Residential Living Project**

**Material**

**Asahi Kasei (operating function)**

- Fibers & Textiles
- Petrochemicals
- Performance Polymers
- Performance Materials
- Consumables
- Separators

**Asahi Kasei Microdevices**

- Research & Development Center

**Homes**

**Asahi Kasei Homes**

- Technology Div.
- New Business Development Dept.
- Housing R&D Center
- Lifestyle R&D Laboratory

**Asahi Kasei Construction Materials**

- Products & Marketing Development Dept.
- Materials Technology Dept.

**Health Care**

**Asahi Kasei Pharma**

- Clinical Development Center
- Pharmaceutical Research Center

**Asahi Kasei Medical**

- Medical Products Development Div.

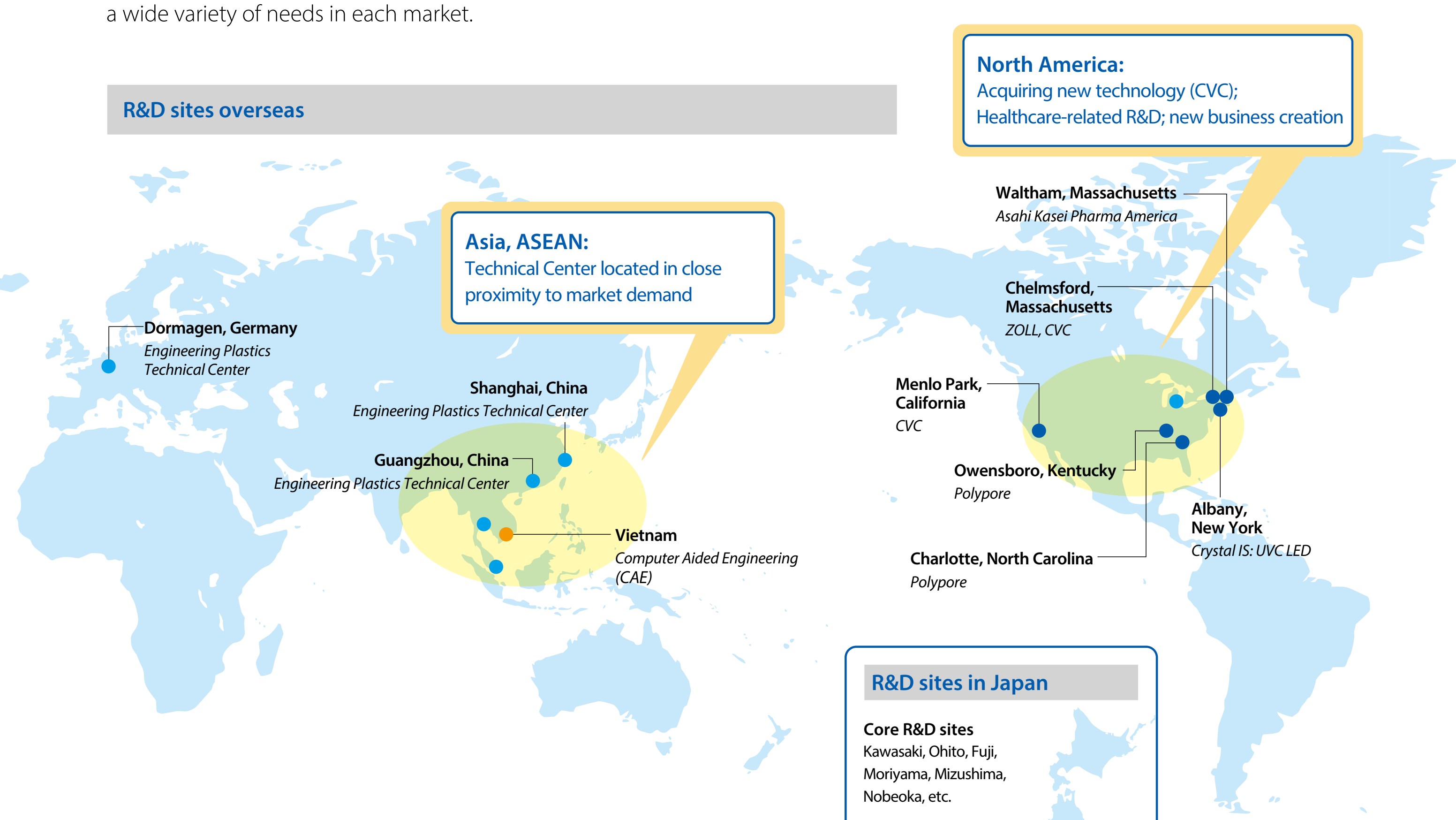
**ZOLL Medical**

- R&D departments

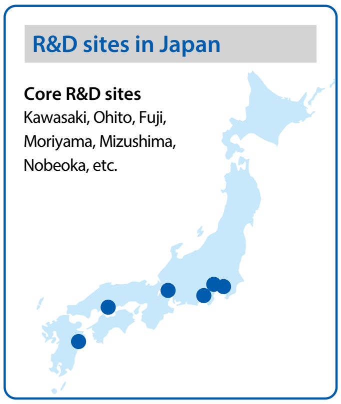
## Main R&D bases around the world

With R&D bases located around the world, we are able to meet a wide variety of needs in each market.

### R&D sites overseas

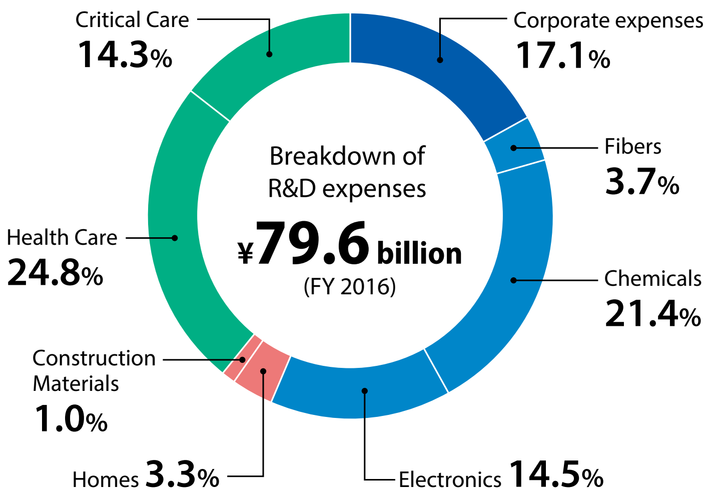



### R&D sites in Japan

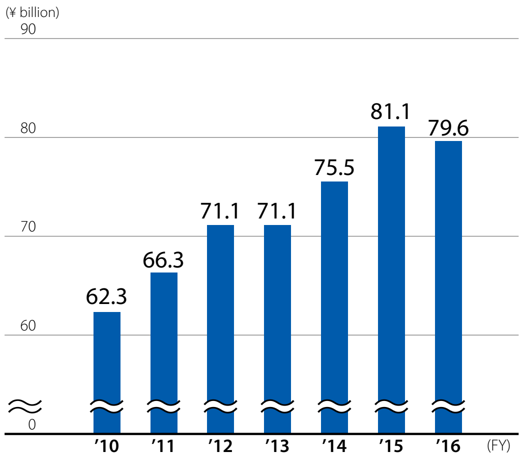



## R&D expenses

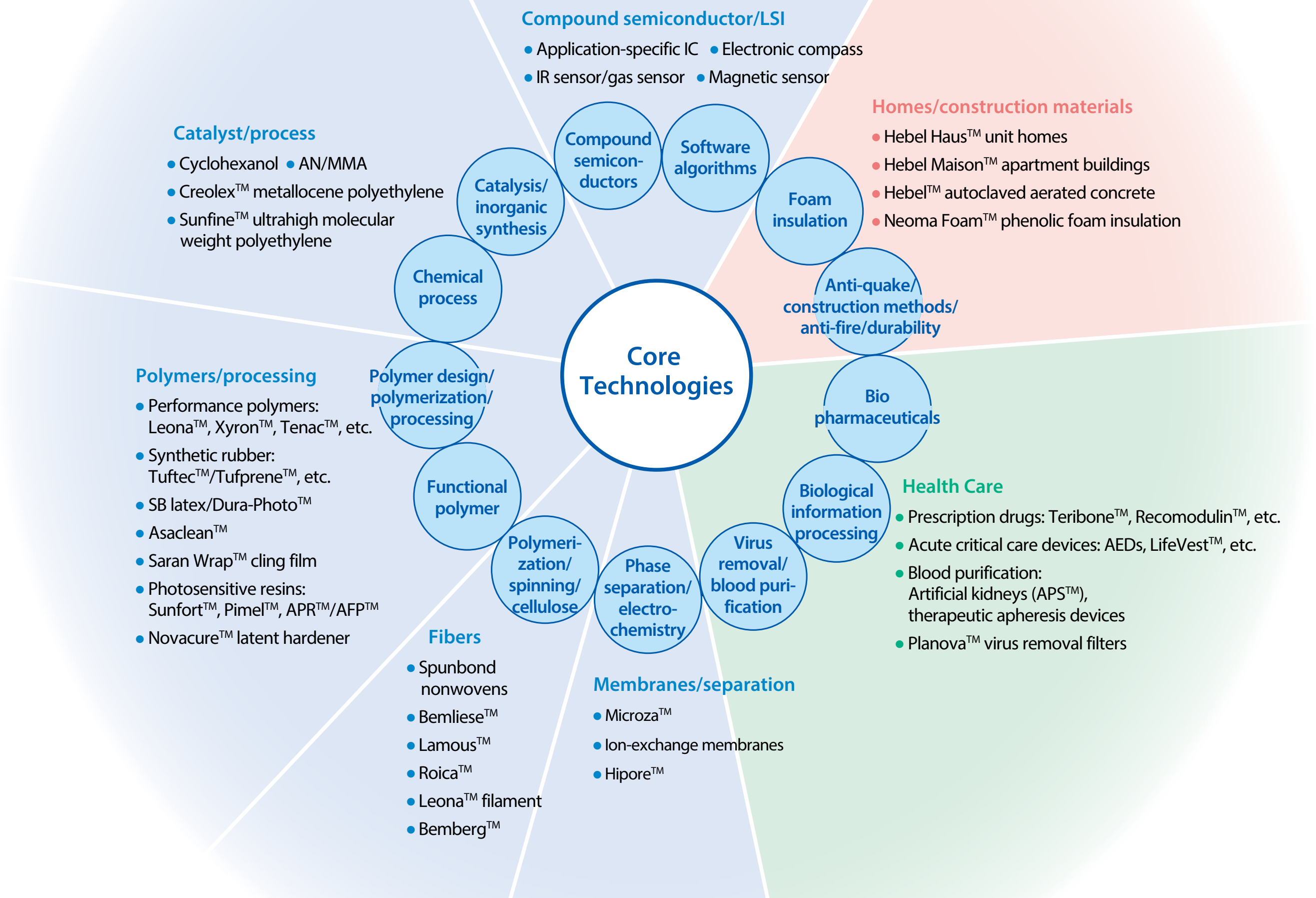
Each SBU performs R&D both to reinvigorate and enhance existing businesses and to create new businesses for the future.




### Annual R&D expenses



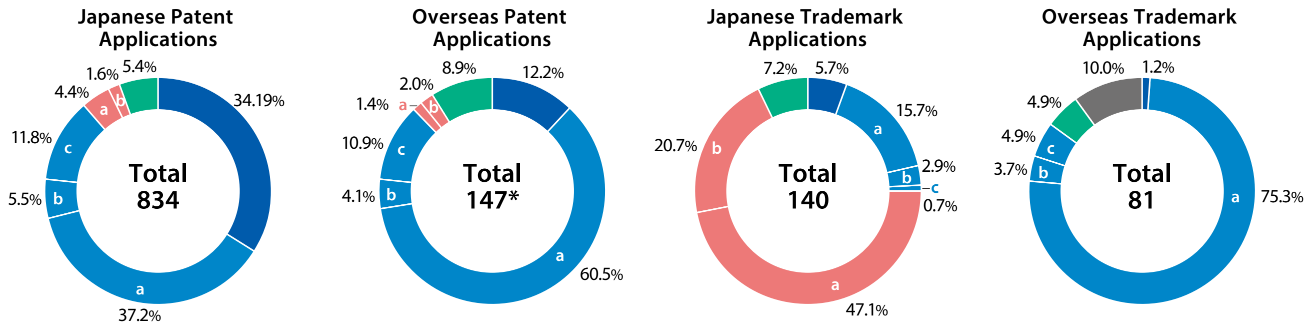
## Core technologies that support Asahi Kasei products




# IP Strategy

To facilitate the creation of new businesses as an important management task in the Asahi Kasei Group, the management strategy, IP strategy, and R&D strategy of each operation are integrated as one. IP activities directly contribute to the management of operations by acquiring IP rights from R&D results to gain business advantage, enabling the creation of new businesses, and securing the profitability of existing businesses.

The business units take the lead in formulating an IP strategy that matches the characteristics of each operation. Emphasis is placed on the quality of individual patents as well as the quantity of patents. Strategic licensing is performed when it is deemed an effective means to heighten the contribution of IP rights to our own business operations.




■ Holding company ■ Material (a: Chemicals b: Fibers c: Electronics) ■ Homes (a: Homes b: Construction Materials) ■ Health Care (Pharmaceuticals, Medical Care) ■ Others

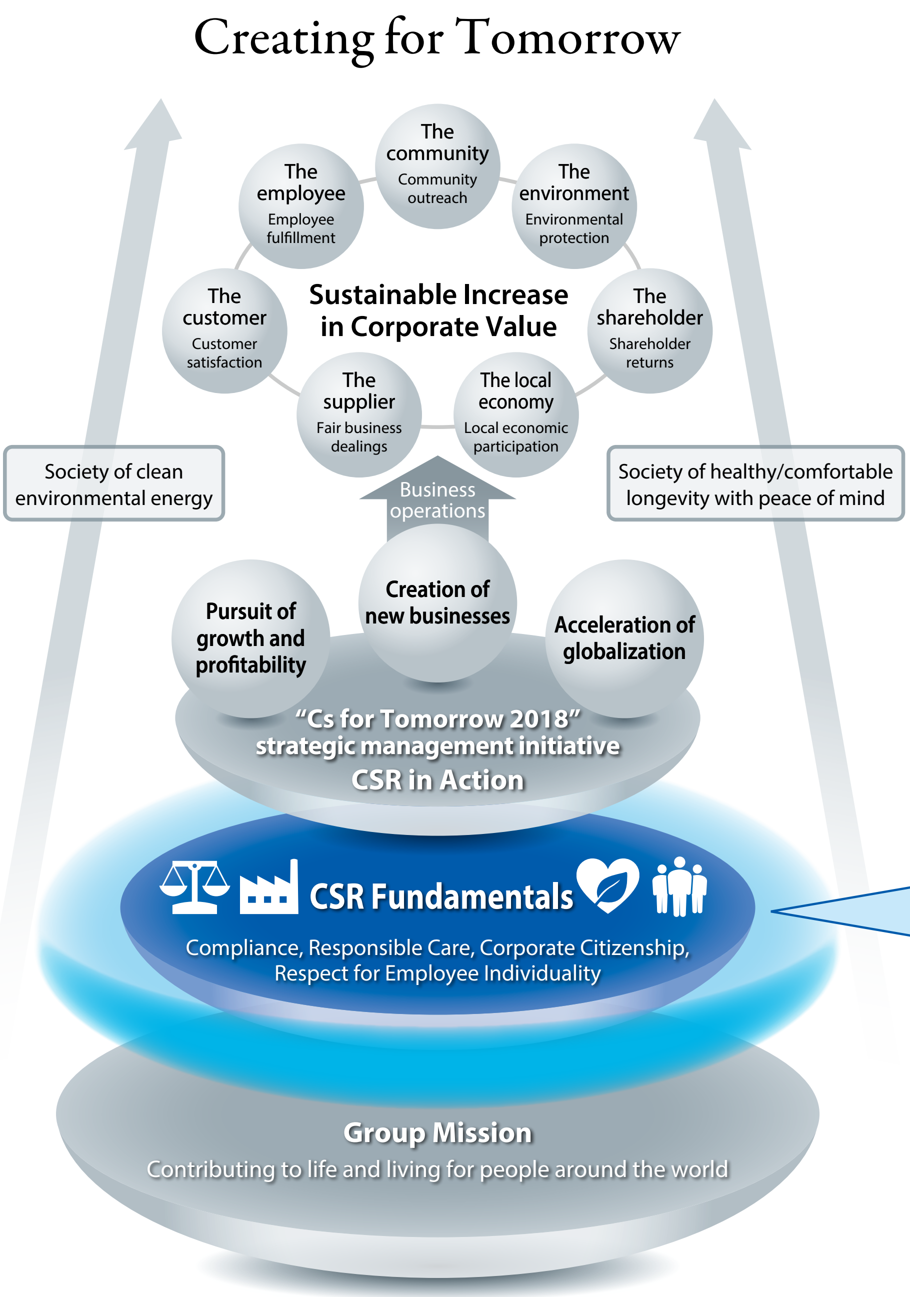
(From January 1 to December 31, 2016)

* Overseas applications for a single patent family are counted as one.

## Medium-Term Management Initiative and CSR Fundamentals

The Asahi Kasei Group is focused on providing solutions to various challenges faced by society in accordance with our Group Mission of contributing to life and living for people around the world.
Under our Cs for Tomorrow 2018 management initiative which began in fiscal 2016, we are emphasizing business operations that contribute to a "society of clean environmental energy" and a "society of healthy/comfortable longevity with peace of mind" based on four CSR Fundamentals: Compliance, Responsible Care, Corporate Citizenship, and Respect for Employee Individuality.

## Position of CSR Fundamentals




Our four CSR Fundamentals of Compliance, Responsible Care, Corporate Citizenship, and Respect for Employee Individuality are applied throughout the Asahi Kasei Group.

# CSR Fundamentals

| Key subjects under CT2018 | | Goals |
|---|---|---|
| Identification of compliance-related issues<br>Enriching the risk compliance system |  | • Gain trust through not only thorough compliance with laws and regulations, but also consideration of generally accepted social norms<br>• Understand risks in management, and establish a system to mitigate them and enable sustainable development |
| Environmental protection<br>Operational safety<br>Workplace safety and hygiene<br>Health maintenance<br>Product safety<br>Managing chemical substances |  | • Contribute to establishment of a recycling-oriented society<br>• Enrich system for risk assessment<br>• Zero workplace injuries<br>• Maintain and promote employees' health<br>• Enrich RC compliance<br>• Minimize risks from chemicals |
| Dissemination of Human Resources Principles<br>└ Developing human resources (global human resources)<br>Valuing human rights and diversity<br>Balancing work and family life | Platinum Kurumin certification for outstanding support for the development of the next generation. | • Employee engagement in challenging and fulfilling work in global business operations<br>• Workplace environment that respects diversity and work-life balance, enabling employees to perform to their full potential |
| Stakeholder dialog<br>• Customers<br>• Investors<br>• Suppliers<br>• Public outreach<br>Community fellowship |  | • Maintain good relationships with stakeholders<br>• Utilize our resources to provide solutions to challenges faced by society |

CSR Fundamentals

# Responsible Care

Safety is a fundamental prerequisite for the continuation of operations as a corporate member of society. To ensure that every aspect of safety is maintained, the Asahi Kasei Group implements a Responsible Care (RC) program comprising the six pillars of operational safety, workplace safety and hygiene, environmental protection, health maintenance, product safety, and community outreach.

### Message from the Executive for RC

**Masafumi Nakao**
*Representative Director, Vice-Presidential Executive Officer*
*Asahi Kasei Corp.*

Asahi Kasei adopted an operating holding company configuration in fiscal 2016 and started the three-year medium-term management initiative "Cs for Tomorrow 2018" (CT2018). We are not only implementing various measures to achieve our business targets and build the base for the next phase towards fiscal 2025, but also contributing to society through our business operations. The operating climate is changing greatly with growing awareness for global environmental issues and corporate responsibility as a social entity. At the Asahi Kasei Group, in accordance with our Group Mission of *contributing to life and living for people around the world*, we will give due consideration to the environment, safety, and health throughout the full life cycle from R&D to manufacturing, product supply, and disposal, while focusing on the three fundamental "actuals" of the actual place, actual thing, and actual fact, as we ensure the stable provision of product quality that our customers can depend upon. While working to achieve our annual RC objectives, we will also advance RC activities from a broader perspective, reinforcing R&D to provide solutions to global warming and other environmental issues, in order to raise our corporate value for our various stakeholders.

## Responsible Care at Asahi Kasei

RC represents the commitment and initiative to secure and improve safety and environmental protection at every step of the product life cycle through the individual determination and responsibility of each firm producing and handling chemical products, together with measures to gain greater public trust through disclosure and communication. RC was conceived in Canada in 1985, and was strengthened on a global scale with the establishment of the International Council of Chemical Associations (ICCA) in 1990. In 1995, the chemical industry in Japan began implementing RC with the establishment of the Japan Responsible Care Council (JRCC*). Asahi Kasei was among the founding members of the JRCC, and played a leading role in the expansion and development of RC in Japan.

RC at the Asahi Kasei Group is not limited to chemicals-related operations but encompass operations in all fields, including homes, health care, fibers, electronics, construction materials.

* JRCC: Operated as the Japan Chemical Industry Association's RC Committee since April 2011.

### Asahi Kasei Group RC Principles

RC at the Asahi Kasei Group is guided by the following principles: In April 2016, a statement regarding quality assurance was added, and the six elements were condensed into four.

We give the utmost consideration to environmental protection, quality assurance, operational safety, workplace safety and hygiene, and health maintenance, throughout the product life cycle from R&D to disposal, as preeminent management tasks in all operations.

- **We give full consideration to the global environment, and make efforts to reduce the environmental burden of all operations.**
- **We continuously provide safe products and services with the quality that gives customers a sense of security and satisfaction.**
- **We strive for stable and safe operation while preventing workplace accidents and securing the safety of personnel and members of the community.**
- **We strive for a comfortable workplace environment, and support the maintenance and promotion of employee health.**

In addition to maintaining legal compliance, we set self-imposed targets for continuous improvement, while performing proactive information disclosure and communication to gain public understanding and trust.

Revised on April 1, 2016

### RC Management System

The management system of Asahi Kasei Group RC is maintained in accordance with our Group RC Management Guidelines and other internal standards. The RC Committee, a corporate organ under the direct authority of the President of Asahi Kasei, deliberates RC plans and results and ensures that continuous reevaluation and improvement are systematically pursued with "plan-do-check-act" (PDCA) cycles—for the Asahi Kasei Group as a whole, within each core operating company and Region*, and within individual plants and facilities.

Certified compliance with internationally standardized management systems is obtained for the RC Management System of the Asahi Kasei Group. We have obtained ISO 14001 environmental management system certification for environmental protection and ISO 9001 quality management system certification for product safety. An Occupational Health & Safety Management System (OHSMS) is adopted for workplace safety, hygiene, and health.

* A site or group of sites consisting of several plants and facilities of various core operating companies. Each Region General Manager is responsible for the unified implementation of RC in the respective Region.

For more information, please refer to the Asahi Kasei Group CSR website.
http://www.asahi-kasei.co.jp/asahi/en/csr/

## RC objectives and results

★★★Complete ★★Satisfactory ★Unsatisfactory

| | FY2016 RC Objectives | FY2016 Results | Attainment | FY2017 RC Objectives |
|---|---|---|---|---|
| RC compliance | Enhance RC compliance | Preparation for follow-up on RC compliance at overseas companies (start in FY2017 using external organizations such as ERM) | ★★ | Review RC framework (including quality assurance)<br>Enhance RC compliance |
| | Advance RC education and training for section managers and assistant chiefs | RC training course partially revised<br>Group discussions enhanced<br>Follow-up until all members pass test<br>Communication and coordination with superiors | ★★ | Further advance RC education and training (gaining fuller understanding) |
| | Enhance RC at affiliates | RC at affiliates enhanced through instructions and support by core operating companies | ★★★ | Enhance RC at affiliates |
| | Enhance dialog with the public | RC reports of 2 core operating companies and 8 plant complex sites were used in community outreach | ★★★ | Continue to enhance dialog with the public |
| Environmental protection | Avoid all polluting accidents and minor incidents | No polluting accidents or serious incidents, 27 incidents (2 other than freon leaks) | ★ | Avoid all polluting accidents and minor incidents |
| | Promote recycling-oriented society: | | ★★★ | Promote recycling-oriented society: |
| | · Final disposal of 0.3% or less of generated industrial waste | Goal reached with final disposal rate of 0.3% | | · Maintain rate of final disposal at 0.3% or less of generated industrial waste |
| | · Recycling rate of at least 90% | Goal reached with recycling rate of 98% | | · Maintain recycling rate of at least 90% |
| | Prevention of global warming: | | ★★★ | Prevention of global warming: |
| | · Reduce $CO_2$ emissions in Japan by 28.2% from FY2005 level | 45% reduction from FY2005 level | | · Reduce $CO_2$ emissions in Japan by 28.7% from FY2005 level |
| | · Reduce global $CO_2$ emissions by 5% from FY2010 level | 29.6% reduction from FY2010 level | | · Reduce global $CO_2$ emissions by 5% from FY2010 level |
| | · Reduce GHG emissions in Japan by 34.8% from FY2005 level | 48.6% reduction from FY2005 level | | · Reduce GHG emissions in Japan by 34.8% from FY2005 level |
| | · LCA/$CO_2$ contribution ratio[1] of 8.3 | LCA/$CO_2$ contribution ratio of 10.3 | | · Achieve LCA/$CO_2$ contribution ratio of 8.5 |
| | Protect water resources: | | ★★★ | Protect water resources: |
| | · Water resource contribution ratio[2] of 8.3 | Water resource contribution ratio of 8.5 | | · Water resource contribution ratio of 8.8 |
| | Control emissions of chemical substances: | | ★★★ | Control emissions of chemical substances: |
| | · Control emissions of PRTR-specified substances<br>· Control emissions of air and water pollutants | Release of PRTR-specified substances and emission of VOCs reduced by 92% and 87%, respectively, from FY2000 level | | · Control emissions of PRTR specified substances<br>· Control emissions of air and water pollutants |
| | Preserve biodiversity when procuring biological resources | Continuously advanced actions in Nobeoka, Moriyama, and Fuji; started new program at Asahi Kasei Jyuko Co., Ltd. in FY2016 | ★★★ | Promote preservation of biodiversity at each site |
| | Advance CSR procurement | Implemented CSR procurement | ★★★ | Advance CSR procurement |
| Operational safety | Avoid all industrial accidents | No serious industrial accidents, 3 incidents including minor industrial accidents and slight injuries | ★★★ | Continue to avoid all industrial accidents |
| | Continuously monitor for hazards of fire, explosion, and leaks; perform training of managers | Review performed at time of on-site confirmation for preventing abnormal reactions | ★★★ | Enhance risk assessment:<br>· Continuously monitor for hazards of fire, explosion, and leaks |
| | Prevent abnormal reactions, confirm interlock functions on-site | Confirmed progress in preventing abnormal reactions and securing interlock functions | ★★★ | · Continue ongoing review to prevent abnormal reactions and confirm interlock functions<br>· Enhance pre-investment safety assessment system |
| | Control changes to equipment and operating conditions | Ongoing confirmation of implementation at RC Audits, etc. | ★★★ | Control changes to equipment and operating conditions |
| | Review earthquake response and enhance emergency response systems:<br>· Confirm seismic resistance of high-pressure gas facilities and formulate plans | Completed according to the plan | ★★★ | Enhance earthquake response system:<br>· Review earthquake preparedness (emergency facilities, disaster response supplies) |
| | · Implement seismic retrofitting for specific and non-specific buildings | Delay in some retrofitting for FY2016 | ★★ | · Advance seismic retrofitting of specific and non-specific buildings |
| | Monitor for items in need of replacement and uninspected items, implement remediation | Information shared with Corporate Production Technology; ongoing review with new perspectives | ★★★ | Monitor for items in need of replacement and uninspected items, implement remediation |
| Workplace safety and hygiene | Avoid all workplace injuries: | | ★ | No serious workplace injuries: |
| | · Achieve frequency rate[3] of 0.1 or less | 0.38 | | · Achieve frequency rate of 0.1 or less (1.0 or less overseas) |
| | · Achieve severity rate[4] of 0.005 or less | Over 0.005 (tentative) | | · Achieve severity rate of 0.005 or less |
| | Deepen utilization of OHSMS:<br>· Enhance risk assessment for workplace tasks | Risk assessment level confirmed at audit and improvements applied as necessary | ★★ | |
| | Avoid all accidents in "caught in/between machinery" category (no lost-workday injury): | | ★ | Prevent all accidents in "caught in/between machinery" category: |
| | · Perform sound risk assessment for mechanical equipment | Advanced risk assessment for mechanical equipment, but one lost-workday injury in "caught in machinery" category occurred in irregular work in February 2017 | | · Perform sound risk assessment for mechanical equipment<br>· Through standards of behavior for safety |
| | Avoid chemical burn, poisoning, fire, explosion, etc. related to chemical substances (no lost-workday injury): | | ★★ | Avoid workplace injuries related to chemical substances: |
| | · Perform sound risk assessment for chemical substances<br>· Perform sound management of workplace environment | Advanced risk assessment for chemical substances and management of workplace environment, but 1 lost-workday injury occurred | | · Perform sound risk assessment for chemical substances<br>· Perform sound management of workplace environment |
| | Prevent injuries during working hours unrelated to operating procedures and during commuting: | | ★★ | Prevent injuries during working hours unrelated to operating procedures and during commuting: |
| | · Prevent lost-workday injury related to stairways | · 4 lost-workday injuries due to falls related to stairways and walking | | · Thorough standards of behavior for safety related to stairways and walking |
| | · Prevent traffic accidents resulting in harm to self or others while commuting or traveling for sales | · Injuries due to traffic accidents resulting in harm to self or others while commuting or traveling for sales decreased from 4 to 2 | | · Program to prevent traffic accidents resulting in harm to self or others while commuting or traveling for sales |
| | Enhance safety management guidance of on-site contractors:<br>· No serious accident of on-site contractors | No serious injuries, but injury from forklift tip-over | ★★ | Prevent serious injuries related to on-site contractors and equipment work:<br>· Improve the level of safety management guidance related to on-site contractors and equipment work |
| | Reinforce management of safety on equipment work:<br>· Zero severe injuries related to equipment work | No serious injuries, but injury in "caught in machinery" category | ★★ | |
| Health maintenance | Promote health maintenance and improvement among personnel: | | ★★★ | Promote health maintenance and improvement among personnel: |
| | · Promote the prevention of and countermeasures to lifestyle-related diseases | Proportion of employees with health warning signs and obesity increased slightly; ratio of employees who smoke decreased | | · Promote the prevention of and countermeasures to lifestyle-related diseases |
| | · Prevent falls | Physical fitness tests performed as part of fall prevention program, follow-up implemented | | · Prevent falls |
| | Promote countermeasures to mental health issues and enhance support system:<br>· Implement company-wide stress survey, utilize its results, and perform follow-up | Stress survey and follow-up implemented | ★★★ | Promote countermeasures to mental health issues and enhance support system:<br>· Implement company-wide stress survey, utilize its results, and perform follow-up |
| | Develop the health management system: | | ★★★ | Improve the health management system: |
| | · Resolve critical tasks at each site with lateral extension | Held internal interviews and provided instructions on health management activities | | · Resolve critical tasks at each site with lateral extension |
| | · Establish the health management system at affiliates and independent plants | Expanded scope of affiliates and independent plants supported by specialist industrial physicians | | · Establish the health management system at affiliates and independent plants |
| Product safety and management of chemical substances | Ongoing zero lost-workday injuries related to serious product safety incidents (review the definition) | No product safety incidents | ★★★ | Maintain zero serious product safety incidents |
| | Enhance management of chemical substances:<br>· Promote compliance with laws and regulations on management of chemical substances in Japan and overseas | Compliance maintained and system enhanced | ★★ | Enhance management of chemical substances:<br>· Promote compliance with laws and regulations on management of chemical substances in Japan and overseas |
| | · Encourage JIPS[5] activities | Secretariat activities to promote JIPS; continued risk assessment and public disclosure of safety documents | ★★ | · Encourage JIPS activities |
| | · Promote JAMP[6] tools | Provided and received information via MSDSplus and AIS, used new JAMP scheme chemSHERPA | | · Expand use of JAMP (chemSHERPA) |
| Living in health and comfort | Number of people our health care business contributed to:<br>· Maintain the same level as FY2015 level | 14% decrease from FY2015 level | ★ | Number of people our health care business contributed to:<br>· FY2018 objective: maintain FY2015 level |
| | Number of residents in Hebel Haus™ homes:<br>· 3.3% increase from FY2015 level | 2.9% increase from FY2015 level | ★★ | Number of residents in Hebel Haus™ homes:<br>· FY2018 objective: 10% increase from FY2015 level |

[1] LCA is used to determine the amount of reduction in $CO_2$ emissions enabled by Asahi Kasei products and technologies in comparison with conventional products and technologies. The ratio is calculated by dividing this amount by the global $CO_2$ emissions of the entire Asahi Kasei Group.
[2] The water resource contribution ratio is calculated by adding up the total quantity of water clarified and recycled using Asahi Kasei filtration technology and dividing this by the quantity of the Asahi Kasei Group's water intake.
[3] Number of accidental deaths and injuries resulting in the loss of one or more workdays, per million man-hours worked.
[4] Lost workdays, severity-weighted, per thousand man-hours worked.
[5] Japan Initiative of Product Stewardship: A chemical industry initiative promoted by the Japan Chemical Industry Association to minimize chemical risks through voluntary risk assessment and management.
[6] Joint Article Management Promotion-consortium.

## Environmental protection

**As in our Group Vision of "harmony with the natural environment," the Asahi Kasei Group considers environmental preservation as one of the most important tasks. Our major focuses are on 1) prevention of global warming, 2) promotion of a recycling-oriented society, 3) management of chemical substances, and 4) preservation of biodiversity. For prevention of global warming, we have established new indicators and targets to curtail greenhouse gas emissions to be achieved by fiscal 2020. Regarding promotion of a recycling-oriented society, we continue to reduce our rate of final disposal and increase our rate of recycling. Furthermore, as a chemical company, we are working to promote safe handling of chemical substances and actively provide safety information. We are also making efforts to reduce the impact of our business activities on biodiversity.**

### Highlights

■ **Climate-change effort ranked "A–" by CDP* for two consecutive years**

Our effort with respect to climate change was given an evaluation of "A–" by the CDP* in fiscal 2015 and 2016.

■ **Moriyama Works receives Environmental Action Promotion Award**

Actions in Moriyama for the conservation of endangered smallhead stickleback were recognized with an Environmental Action Promotion Award at the 9th Biotope Award ceremony held by the Japan Biotope Association.

* Formerly the Carbon Disclosure Project, CDP is an NPO based in the UK which researches and evaluates how companies and cities are working to address environmental issues related to climate change, water, forests, etc., and provides the information and results to investors. It began as a project to disclose companies' environmental strategy and performance in response to demand from institutional investors. The CDP is now one of the most trusted evaluation organizations among investors. It issues evaluations on a 9-rank scale of A, A–, B, B–, C, C–, D, D–, and F.

## Operational safety

**To achieve safe operations, it is essential to build highly safe plants based on process hazard assessment prior to construction, to perform sound plant maintenance, and to operate facilities in a stable and safe manner. The Asahi Kasei Group avoids operational accidents through risk assessments prior to the construction of new plants, periodic inspections of existing plants performed by auditors specialized in fire and explosion prevention, process reviews from the perspective of preventing abnormal reactions and ensuring interlock functions, and process reviews corresponding to the age of facilities.**

In fiscal 2013, we completed a program of on-site confirmation to identify hazards from the perspective of preventing abnormal reactions and ensuring interlock functions. From fiscal 2013 onwards, we have been preparing technical documents on items with a high degree of hazard and on accidents and problems which occurred in the past. From fiscal 2015, we are implementing education and training for managers and operators to enable them to properly identify the cause and take appropriate action if problems occur, including problems that have not been previously encountered. There were no serious operational accidents inside or outside Japan during fiscal 2016.

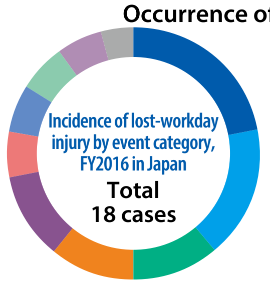
## Workplace safety and hygiene

**The effort to prevent workplace accidents is integrated in a comprehensive OHSMS* program that combines conventional safety initiatives—such as tidiness/orderliness/cleanliness, reporting of near-accidents and potential hazards, hazard prediction analysis, safety patrols, and case studies—with risk assessments and a prevention-oriented plan-do-check-act (PDCA) system.**

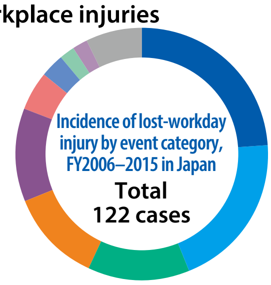
**Integration of workplace safety initiatives**


* Occupational Health and Safety Management System. A standardized system used to confirm that continuous improvement is being applied to measures to minimize the risks of workplace injuries and to prevent the emergence of future risks.

**Occurrence of workplace injuries**




- Fall on same level ··· 22%
- Kickback/overexertion ··· 17%
- Traffic accident ··· 11%
- Contact with high-temperature substance/object ··· 11%
- Caught in something else ··· 11%
- Caught in/between machinery ··· 6%
- Hit by flying/falling object ··· 6%
- Collision ··· 6%
- Contact with harmful substances ··· 6%
- Others ··· 4%




- Traffic accident ··· 24%
- Fall on same level ··· 20%
- Fall from height ··· 13%
- Caught in/between machinery ··· 12%
- Kickback/overexertion ··· 12%
- Contact with high temperature substance/object ··· 5%
- Caught in something else ··· 3%
- Hit by flying/falling object ··· 2%
- Collision ··· 2%
- Others ··· 7%

For more information, please refer to the Asahi Kasei Group CSR website.
http://www.asahi-kasei.co.jp/asahi/en/csr/

## Health maintenance

**The Asahi Kasei Group implements various activities to help employees maintain and advance their mental and physical well-being in accordance with its health management guidelines, including screening for lifestyle-related diseases and mental health checkups.**

### Enhanced health management framework

During fiscal 2016, interviews to monitor the effectiveness of the health management centers were performed at 7 sites. The series of interviews were launched in fiscal 2014 to confirm whether the activities at each site, including the duties of our industrial physicians and health nurses, are being performed in accordance with the Industrial Safety and Health Law and our health management guidelines. Further guidance and support is being provided as necessary.

## Quality assurance

**Upon our transition to an operating holding company configuration in April 2016, we established a new Asahi Kasei Group Quality Policy and Group Quality Assurance Bylaws. At the same time, Corporate ESH & QA was reorganized, including the establishment of a new Quality Assurance Group to coordinate the reinforcement of quality assurance activities throughout the Asahi Kasei Group, ensuring the provision of safe and reliable products to our customers. In fiscal 2016, we once again met our target of no serious product safety incidents.**

**Asahi Kasei Group Quality Policy**

The Asahi Kasei Group creates and provides products and services with the quality to meet the needs of customers and society and ensure safety and security.

### Reinforcing the quality assurance system: maintaining zero serious product safety incidents

■ Consumer satisfaction and safety

Products and services provided by the Asahi Kasei Group include materials, products, installations, various services, and after-sale support. We believe that providing products and services that satisfy our customers is our ultimate mission. We constantly strive to enhance our systems for quality assurance, including product safety.

■ Effort to maintain zero serious product safety incidents

As part of the effort to prevent serious product safety incidents, we established new quality assurance bylaws that stipulate quality assurance activities for RC administrators to perform. The bylaws newly define the central role of quality assurance managers in activities to enhance quality assurance, and are applied in concert with our product safety guidelines to secure product safety and prevent the occurrence of serious product safety incidents.

All business units of the Asahi Kasei Group apply these uniform bylaws and guidelines to assure the quality of products and services.

## Managing chemical substances

**To ensure the safety of products and production processes in the Asahi Kasei Group, we maintain awareness of the properties of the chemical substances we use, and manage them strictly and appropriately throughout each phase from materials procurement to production (including intermediates), use, and disposal.**

### The Asahi Kasei Group's effort

Strict management and control of chemical substances is a key element in the effort to ensure environmental protection, operational safety, workplace safety and hygiene, health maintenance, and product safety. Chemical substances are managed at each stage from development to use and disposal. The management of chemical substances begins with R&D, which is guided throughout every stage by a commitment to developing products and processes characterized by safe, environmentally sound production, handling, and use.

### Industry-wide initiatives
### Joint Article Management Program (JAMP)

As an active member of JAMP, we participate in the development of systems to manage chemical substance information as well as revision of the list of applicable substances. We also convey relevant information throughout the supply chain to help establish JAMP as a widely used tool.

In fiscal 2016, we started to use a tool of information transmission compatible with chemSHERPA, a new scheme by the Ministry of Economy, Trade and Industry. We are working to smoothly transition from JAMP to chemSHERPA during the two-year period starting in fiscal 2016.

As a major upstream company, we will continue to work with the JAMP Office toward the greater adoption of the JAMP-IT platform as a means of information sharing.

# Respect for Employee Individuality

CSR Fundamentals

The Asahi Kasei Group considers fulfilling and satisfying working conditions and workplace culture, in which personnel feel motivated to achieve and take pride in their career, to be key to business performance.

**Our human resources policies are focused on the maintenance and reinforcement of a corporate culture emphasizing Asahi Kasei characteristics, the personal growth of each employee, and the creation and expansion of business through superior people and organizations, based on the understanding that the exceptional power of our people and organizations is the source of our competitive strength.**

## Human Resources Principles

**The Human Resources Principles of the Asahi Kasei Group are a distillation of the values and beliefs held in common by all employees, a key aspect of a corporate culture where personal growth and corporate development are mutually reinforcing.**

| Corporate Commitment | Basic Expectations | Expectations of Leaders |
|---|---|---|
| The basic commitment to human resources is to provide the venue for a dynamic and fulfilling career as a part of a lively and growing corporate group. | • Enterprise and growth through challenge and change<br>• Integrity and responsibility in action<br>• Respect for diversity | • Building the team, heightening performance and achievement<br>• Going beyond conventional boundaries, in thought and action<br>• Contributing to mutual development and growth |

### Human resource development

**■ A wide range of training programs**

Employees are given a wide range of training to develop the skills needed to successfully advance their careers. A regular program of training is applied at key career stages beginning with hiring and extending through promotion to managerial positions. Other individual training programs such as for global management are implemented according to business need. Each core operating company also implements training programs to support the development of employee skills required for its specific field of business.

**■ Group Masters**

The Asahi Kasei Group employs a "Group Masters" program to recognize employees who have developed and exercised extraordinary expertise and skills that hold universal value, and to facilitate their application throughout the Group. As of May 2017, 88 Group Masters are designated: 30 as Senior Group Experts and 58 as Group Experts, with rank and remuneration commensurate with general manager and section manager, respectively.

To accelerate the creation of new businesses as a basic strategy of the "Cs for Tomorrow 2018" management initiative, we revised the system in fiscal 2017 for greater emphasis on the development and growth of engineers and technical personnel. The program is focused on reinforcing the specialized technical abilities of such personnel who will drive the creation of new businesses and the enhancement of established businesses.

**■ Development of global human resources**

To accelerate the expansion of world-leading businesses in accordance with the medium-term management initiative "Cs for Tomorrow 2018" from the perspective of human resources, we are implementing measures such as internship programs for young personnel, and holding training sessions for personnel at overseas subsidiaries on subjects such as dissemination of corporate philosophy, intercultural communication, and management training.

## Valuing human rights and diversity

### Basic policy

Human Resources leads the effort to ensure that there will be no discrimination to maintain a lively workplace culture which enables personnel to perform at their best, to advance employment of persons with disability, and to rehire personnel after mandatory retirement.

To prevent any harassment or discrimination, we implement training on corporate ethics to employees at each level—new hires, assistant managers, and managers. Ethics training is also implemented by business unit and by geographical area.

### Hiring

The Asahi Kasei Group is working to create new value for society by enabling *living in health and comfort* and *harmony with the natural environment*. We strive to hire motivated and capable personnel who will successfully execute our strategy on a global scale.

We continue to hire university graduates of foreign nationality every year, and the overall makeup of our personnel is becoming more global. We are also strengthening our ties to universities both in Japan and overseas, through career briefing sessions and student internships, as part of an ongoing effort to attract talent.

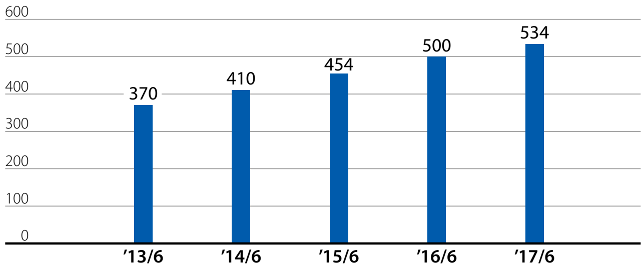
In April 2017, 379 new graduates were hired: 296 men and 83 women. In addition, 108 persons were hired in mid-career between April 2016 and March 2017.

For more information, please refer to the Asahi Kasei Group website.
**http://www.asahi-kasei.co.jp/asahi/en/csr**

### Expansion of opportunities for women

In 1993, we established a dedicated corporate organ (now Diversity Promotion Group) to promote equal opportunity, and have proactively increased the proportion of women hired and expanded the distribution of job assignments for women. While only five employees at the rank of manager or above were women in 1993, this has risen to 534 in June 2017. To support female personnel in their careers, we provide a mentoring program, hold seminars on returning to work after maternity leave, and publish diversity-related articles in our internal magazine.

**Number of women as managers***

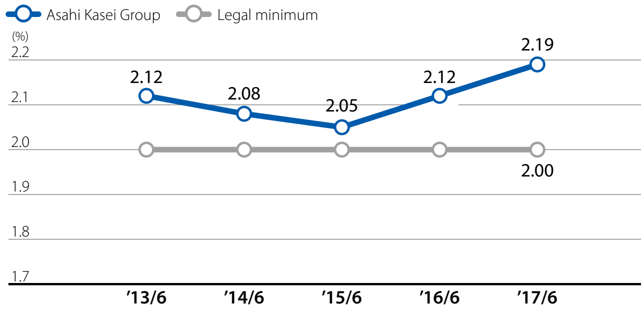



* Results as of June 30 each year for personnel employed by Asahi Kasei Corp., Asahi Kasei Microdevices Corp., Asahi Kasei Homes Corp., Asahi Kasei Construction Materials Corp., Asahi Kasei Pharma Corp., and Asahi Kasei Medical Co., Ltd. (Asahi Kasei Chemicals Corp., Asahi Kasei Fibers Corp., Asahi Kasei E-materials Corp. are included through June 2015).

### Employment of persons with disabilities

Asahi Kasei Ability Corp. was established in 1985 for the employment of persons with disabilities, performing a wide range of services for the Asahi Kasei Group. The employment rate at applicable companies of the Asahi Kasei Group was 2.19% (550.0 persons) as of June 1, 2017, exceeding the legal requirement. We continue recruitment activities to further increase the employment of persons with disabilities at group companies other than Asahi Kasei Ability.

**Rate of employment of persons with disabilities at applicable Group companies***




* Results as of June 1 each year at applicable Group companies. Calculation based on total employment of 25,073 persons in the 21 applicable companies. As of June 1, 2017, the number of persons with disabilities employed by Asahi Kasei Ability Corp. stood at 333 of the total 550 employees with disabilities. Calculated in accordance with the Act on Employment Promotion etc. of Persons with Disabilities.

## Balancing work and family life

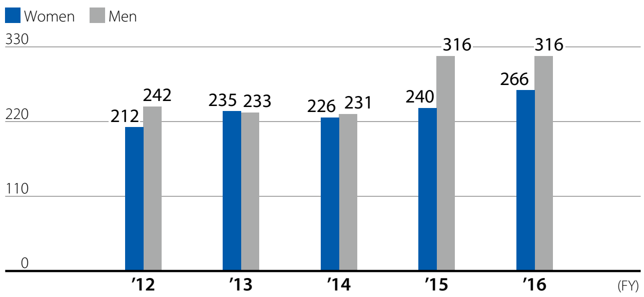
### Basic policy

We provide various forms of support for personnel to work with security and vitality in accordance with their individual circumstances and values from the perspective of balancing work and family life.

### Parental leave

Our parental leave is available through the fiscal year in which the child turns three years old. In fiscal 2016, parental leave was utilized by 582 personnel. This included 316 men, 43% of those who were qualified, and 266 women.

**Employees using parental leave***




* Results as of June 30 each year for personnel employed by Asahi Kasei Corp., Asahi Kasei Microdevices Corp., Asahi Kasei Homes Corp., Asahi Kasei Construction Materials Corp., Asahi Kasei Pharma Corp., and Asahi Kasei Medical Co., Ltd. (Asahi Kasei Chemicals Corp., Asahi Kasei Fibers Corp., and Asahi Kasei E-materials Corp. included through June 2015).

### Shortened working hours for child care

Personnel are able to utilize shortened working hours to care for preschoolers, with the working day shortened by up to 2 hours until the child enters elementary school. In September 2007, a provision called "Kids Support" was added to enable personnel with children in the first and second grades to work shortened hours as well. These provisions may be used concurrently with a "flex-time" system for flexible working hours.

### Leave to accompany spouse overseas

As globalization continues to advance, an increasing number of personnel have a spouse who is transferred to an overseas assignment. In fiscal 2013 we adopted a provision for such personnel to take a leave of absence to accompany their spouses living overseas. In fiscal 2016, 16 personnel utilized this provision.

#### Platinum Kurumin certification mark

In 2016, we received the Platinum Kurumin certification mark from the Ministry of Health, Labor and Welfare.* Platinum Kurumin certification is awarded in recognition of proactive support for the development of the next generation which is superior to the previously received Kurumin certification.

プラチナくるみん
子育てサポートしています

* Certification received for Asahi Kasei Corp., Asahi Kasei Homes Corp., Asahi Kasei Microdevices Corp., Asahi Kasei Pharma Corp., Asahi Kasei Medical Co., Ltd., and Asahi Kasei Ability Corp. Asahi Kasei Ability Corp. is the first company in Miyazaki Prefecture to receive Platinum Kurumin certification.

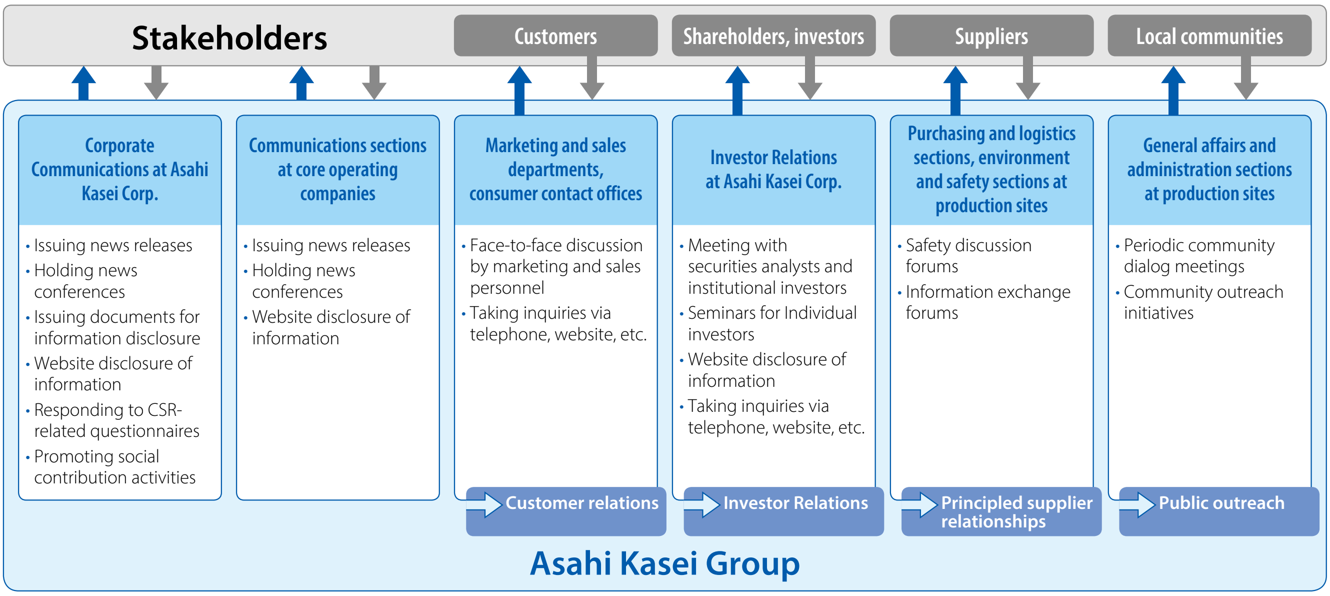
CSR Fundamentals

# Corporate Citizenship

We are committed to advancing in harmony with society from a global perspective through fair information disclosure and the proactive employment of management resources for corporate responsibility and citizenship.

## Stakeholder dialog

**Different corporate organs hold responsibility for fair and open dialog with each of our different groups of stakeholders.**




## Customer relations

**We believe that it is by maintaining customer satisfaction that our products and services contribute to society. For materials, intermediates, and devices, communication with our customers is handled by the sales and technical support departments of each business unit. For end products and housing, communication with our customers is handled by the customer support center of each product.**

## Investor Relations

**We strive to disclose information in a timely and fair manner to enable our domestic and international investors to gain an accurate understanding of the Asahi Kasei Group.**

### Shareholder distribution

Information on shareholder distribution is available in the Corporate Citizenship section of our CSR website.

### IR meetings with institutional investors and securities analysts

In fiscal 2016, Investor Relations (IR) held 210 meetings with institutional investors and securities analysts in Japan, including quarterly results briefings and an annual management briefing with the President. To deepen understanding of Asahi Kasei among investors, we held a briefing on the Material sector as well as individual meetings. In addition, 79 meetings were held overseas. We also provide a wide variety of information for investors on our website.

### Seminars for individual investors

To provide individual investors with a better understanding of the operations of the Asahi Kasei Group, 5 seminars were held in fiscal 2016. We will continue to provide accurate and timely information to individual investors through direct communications, the corporate website, and articles published in magazines for individual investors.

For more information, please refer to the Asahi Kasei Group website.
http://www.asahi-kasei.co.jp/asahi/en/csr

## Principled supplier relationships

**A relationship of mutual trust with our suppliers is fostered through fair and principled purchasing practices based on regulatory compliance and respect for the environment and human rights.**

Purchasing departments throughout the Asahi Kasei Group regard suppliers as important partners and work to build relationships with them based on sincerity in accordance with our Group Philosophy. To this end, we are placing greater emphasis on CSR in accordance with our Procurement Policy. Each year we conduct a survey of suppliers to help foster greater awareness of the importance of CSR issues.

## Public outreach

**We work to honor and respect the local culture of each community where our operations are based, and to maintain effective dialog and communication with community members.**

Many of our major plants offer plant tours to provide the local community with a better understanding of our operations and the measures we implement for the environment and safety. Measures for community dialog and interaction include regularly held forums and meetings with representatives of local governments and members of local residents associations. We also open our gymnasiums, sports fields, parking lots, and other facilities for public use and enjoyment, and host a variety of events.

## Community fellowship

**The Community Fellowship Committee is organized under direct supervision of the President of Asahi Kasei. Its roles include formulation of overall policy, plans, and courses of action in regard to community fellowship activities. The Committee also monitors and reviews community fellowship activities at each site and at each affiliated company of the Asahi Kasei Group. Under our Community Fellowship Policy, we are involved in a wide range of community-focused activities in accordance with the three themes of Nurturing the Next Generation, Coexistence with the Environment, and Promotion of Culture, Art, and Sports.**

We participate in the One-Percent Club of the Keidanren (Japan Business Federation), and convert our social contribution activities into monetary value by a method set forth in its annual Survey of Expenditure for Corporate Philanthropic Activities. In fiscal 2015, this was ¥1.133 billion.

### Nurturing the Next Generation

To promote understanding and heighten interest in science and technology among elementary, junior high, and high school students, we visit schools and host visits by students to factories to give explanations and demonstrations of science and technology and on environmental issues. We also support career development with occupational lectures and host visits by junior high and high school students to our corporate head office. Such activities were held 81 times in fiscal 2016, with a total of some 3,408 students of 83 schools participating. In August 2016, we held a laboratory tour for female high school students, together with informal discussion with our researchers, as part of our effort to foster interest in careers in science and technology among young women. We also sponsor educational events including science competitions and environmental education programs organized by newspaper companies, exhibit at science and chemistry events, and have a partnership with the National Museum of Emerging Science and Innovation (Miraikan).

### Coexistence with the Environment

In addition to our afforestation activities in Miyazaki and Shizuoka, we participate in an afforestation project in the Horqin Desert of Inner Mongolia, China. We also exhibit at environmental-related events, and work to raise understanding of environmental issues.

### Disaster relief

We participate in a Disaster Relief Market featuring produce of the areas affected by the Great East Japan Earthquake. We also supported the relief effort in areas affected by the July 2017 flooding in northern Kyushu by making donations of ¥5 million each to the government of Oita Prefecture and to the Community Chest of Fukuoka.

### Promotion of Culture, Art, and Sports

Members of our corporate distance running and judo teams have competed in the Olympics a total of some 50 times. In Nobeoka, Miyazaki, where the teams are based, we host a major track event, and hold running and judo lessons for the local youth. The Asahi Kasei Himuka Cultural Foundation was established in 1985 to enrich the environment of day-to-day life and culture in Miyazaki Prefecture, with a wide range of cultural activities being held.

# Financial Section

## Contents

# Management's Discussion and Analysis

Fiscal year 2016 (April 1, 2016 – March 31, 2017)

## Operating Environment

During fiscal 2016, the outlook for the global economy remained obscure with increased political uncertainty related to the withdrawal of the UK from the EU and increased concern regarding the economic policy of the new US administration, as well as concern of economic slowdown in emerging economies. Meanwhile, the Japanese economy continued on a path of gradual recovery with strong corporate performance while consumer spending became firm as the employment situation and income environment improved.

## Overview of Consolidated Results

### Net sales, operating income

Consolidated net sales for the fiscal year decreased by ¥57.9 billion (3.0%) to ¥1,883.0 billion. Overseas sales decreased by ¥23.4 billion (3.4%) to ¥656.4 billion, largely in the Material segment, and decreased by 0.2 percentage points as a portion of consolidated net sales from 35.0% to 34.9%. Domestic sales decreased by ¥34.6 billion (2.7%) to ¥1,226.6 billion with lower deliveries of order-built homes in the Homes segment and lower reimbursement prices for pharmaceuticals in the Health Care segment.

Operating income decreased by ¥6.0 billion (3.6%) to ¥159.2 billion. As a percentage of net sales, cost of sales decreased by 1.0 percentage points to 68.8%. Selling, general and administrative (SG&A) expenses increased by ¥6.5 billion despite the decrease in net sales, increasing as a portion of net sales by 1.0 percentage points to 22.7%. Operating margin decreased by 0.1 percentage points to 8.5%.

### Non-operating income and expenses, ordinary income

Net non-operating income was ¥1.4 billion, a ¥5.2 billion improvement from the ¥3.8 billion net non-operating expenses of a year earlier. Foreign exchange loss transitioned to foreign exchange gain, and equity in losses of affiliates decreased. As a result, ordinary income decreased by ¥0.7 billion (0.5%) to ¥160.6 billion.

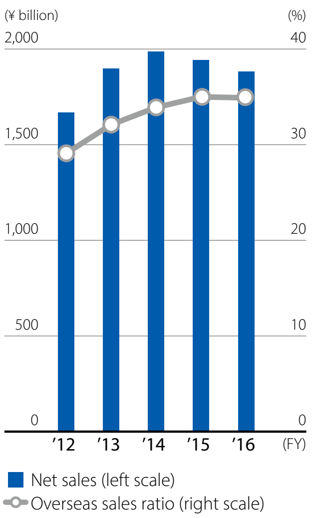
### Extraordinary income and loss

Extraordinary income of ¥10.1 billion included ¥9.9 billion in gain on sales of investment securities. Extraordinary loss of ¥13.3 billion included ¥6.2 billion in business structure improvement expenses, ¥4.9 billion in loss on disposal of noncurrent assets, ¥1.5 in impairment loss, and ¥0.7 billion in business integration expense. The net extraordinary loss of ¥3.2 billion was ¥11.7 billion lower than a year ago.

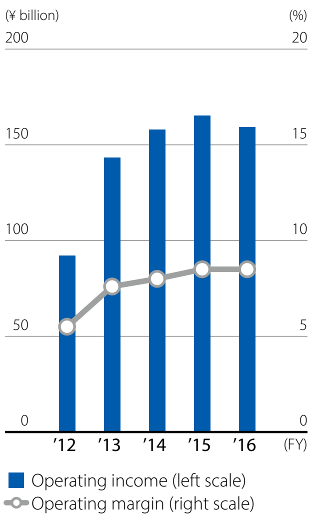
### Net income attributable to owners of the parent

With ordinary income of ¥160.6 billion and net extraordinary loss of ¥3.2 billion, income before income taxes was ¥157.4 billion. Income tax expense was ¥40.7 billion (current income taxes of ¥49.0 billion less deferred income taxes of ¥8.3 billion). Net income attributable to non-controlling interests was ¥1.7 billion. As a result, net income attributable to owners of the parent increased by ¥23.2 billion (25.3%) to ¥115.0 billion, and net income per share increased by ¥16.65 to ¥82.34 from the ¥65.69 of the previous year.

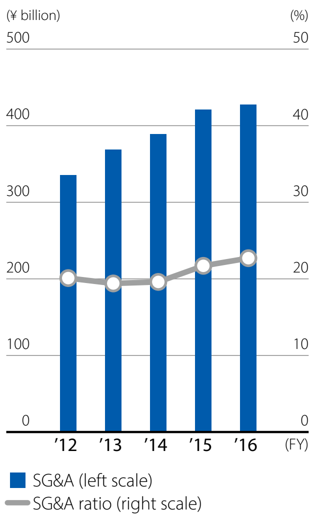
**Net Sales, Overseas Sales Ratio**



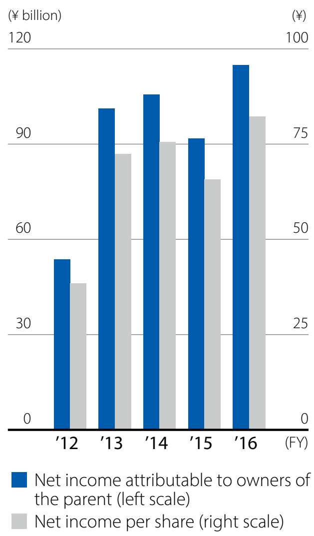

**Operating Income, Operating Margin**




**SG&A, SG&A Ratio**




**Net Income Attributable to Owners of the Parent, Net Income per Share**



## Results by Operating Segment

In April 2016, the Asahi Kasei Group reorganized its business portfolio together with the beginning of a new strategic management initiative. The previous four reportable segments of Chemicals & Fibers, Homes & Construction Materials, Electronics, and Health Care, together with an “Others” category, have been changed to the three reportable segments of Material, Homes, and Health Care, together with an “Others” category. The figures for the year-ago period have been recalculated in accordance with the new segment configuration for comparison purposes.

### Material

Sales decreased by ¥31.3 billion (3.1%) from a year ago to ¥973.2 billion, and operating income increased by ¥5.3 billion (6.6%) from a year ago to ¥84.5 billion.

In fibers & textiles, shipments of Bemberg™ cupro fiber, Lamous™ artificial suede, and Leona™ nylon 66 filament increased, but selling prices declined due to competition, and each product in fibers & textiles operations was impacted by the stronger yen.

Among chemical operations, in petrochemicals, shipments of styrene decreased following the strengthening of petrochemical operations in Japan, while terms of trade improved for acrylonitrile. Shipments of synthetic rubber for fuel-efficient tires and engineering plastics increased, but each product in performance polymers was impacted by the stronger yen. In performance materials and consumables, ion-exchange membranes were impacted by the stronger yen, but sales of electronic materials and Saran Wrap™ cling film were firm.

Among electronics operations, shipments of each battery separator product increased. While results of Polypore, consolidated from the second quarter of fiscal 2015, were included, amortization of goodwill, etc., was recorded for the full year, and the stronger yen had an impact. In electronic devices, shipments of audio devices for smartphones increased but the stronger yen had an impact.

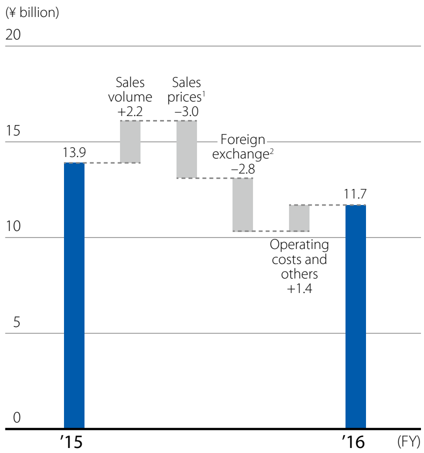
### Homes

Sales decreased by ¥13.5 billion (2.1%) from a year ago to ¥619.0 billion, and operating income decreased by ¥6.9 billion (9.7%) from a year ago to ¥64.1 billion.

Among homes operations, in order-built homes, deliveries of Hebel Haus™ unit homes and Hebel Maison™ apartment buildings decreased as an effect of orders received during the previous period, while SG&A expenses such as advertising expenses increased. In remodeling, SG&A expenses such as labor costs increased, but in real estate, management of rental units was firm.

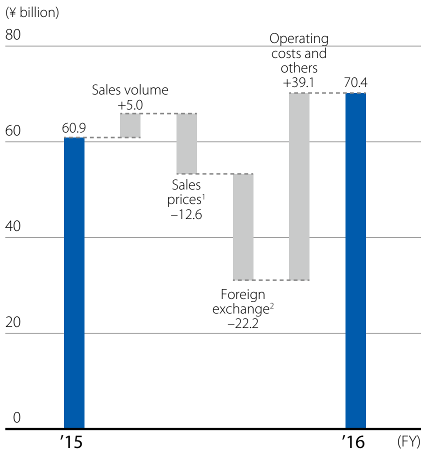
In construction materials operations, sales of Neoma™ phenolic foam insulation panels were firm, while shipments of autoclaved aerated concrete (AAC) and foundation systems decreased.

Fibers Business
Operating Income Increases/Decreases



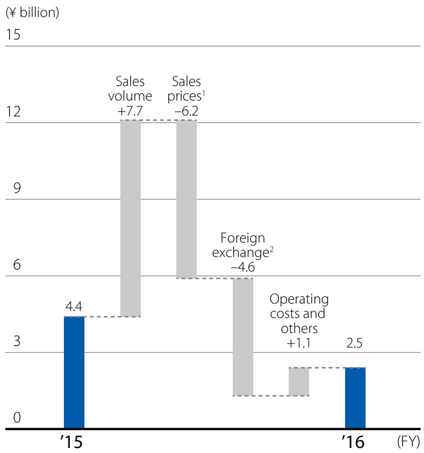

[1] Excluding impact of foreign exchange
[2] Impact of foreign exchange on sales prices

Chemicals Business
Operating Income Increases/Decreases




[1] Excluding impact of foreign exchange
[2] Impact of foreign exchange on sales prices

Electronics Business
Operating Income Increases/Decreases




[1] Excluding impact of foreign exchange
[2] Impact of foreign exchange on sales prices

## Health Care

Sales decreased by ¥15.3 billion (5.4%) from a year ago to ¥270.1 billion, and operating income decreased by ¥4.3 billion (11.9%) from a year ago to ¥31.9 billion.

Shipments of Teribone™ osteoporosis drug and Recomodulin™ recombinant thrombomodulin increased, but pharmaceuticals operations were impacted by reduced reimbursement prices, and Flivas™ agent for treatment of benign prostatic hyperplasia was impacted by competition from generics.

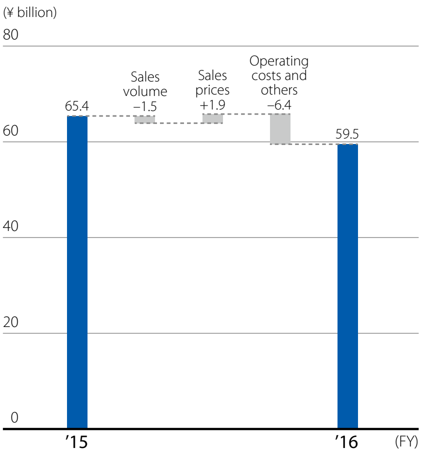
Shipments of Planova™ virus removal filters increased, but medical devices operations were impacted by the stronger yen and, in Japan, by reduced reimbursement prices for dialysis-related products.

In critical care operations, on a local-currency basis, the LifeVest™ wearable defibrillator business continued to expand well, and sales of other products such as defibrillators and related accessories increased, but SG&A expenses grew with reinforced sales activity. The higher exchange value of the yen had an impact on the translation of results into consolidated accounts.

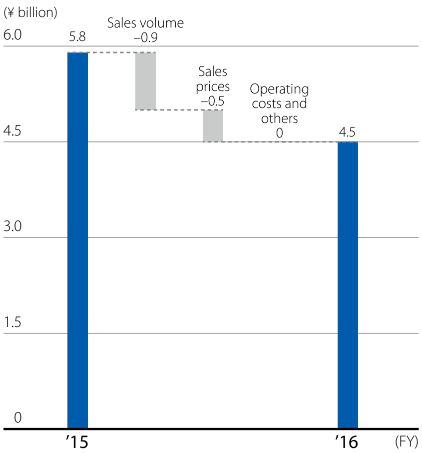
## Others

Sales increased by ¥2.1 billion (11.2%) from a year ago to ¥20.7 billion, and operating income increased by ¥2.3 billion (59.8%) from a year ago to ¥6.0 billion.

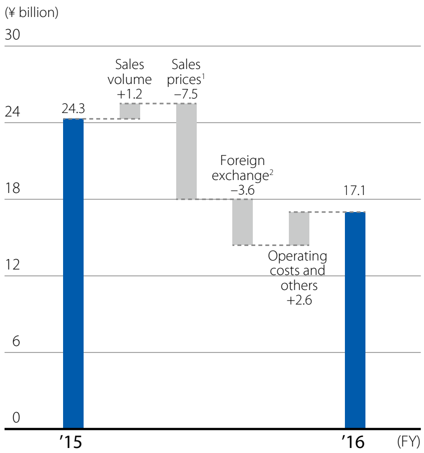
### Homes Business Operating Income Increases/Decreases




### Construction Materials Business Operating Income Increases/Decreases




### Health Care Business Operating Income Increases/Decreases




[1] Excluding impact of foreign exchange
[2] Impact of foreign exchange on sales prices

## Liquidity and Capital Resources

### Financial position

Total assets at fiscal year end were ¥2,254.5 billion, ¥42.8 billion (1.9%) higher than a year earlier.

Current assets increased by ¥38.5 billion (4.5%) to ¥894.5 billion, mainly as notes and accounts receivable–trade increased by ¥22.7 billion and inventories increased by ¥9.9 billion.

Noncurrent assets increased by ¥4.2 billion (0.3%) to ¥1,360.0 billion, notably with a ¥39.5 billion increase in investment securities while there was a ¥31.8 billion decrease in intangible assets.

Current liabilities decreased by ¥130.8 billion (18.0%) to ¥594.9 billion, mainly as a result of a ¥200.1 billion decrease in short-term loans payable and a ¥16.5 billion decrease in income taxes payable, while there was a ¥56.0 billion increase in commercial paper.

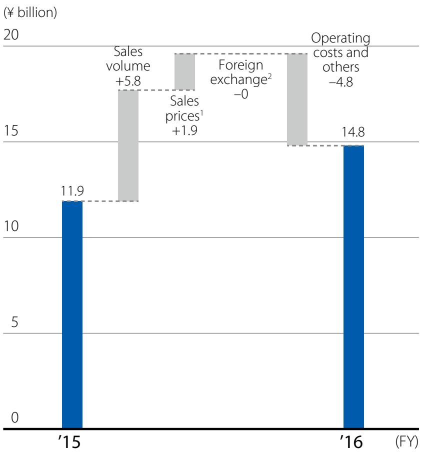
Although bonds payable decreased by ¥20.0 billion, noncurrent liabilities increased by ¥62.8 billion (14.7%) to ¥491.5 billion with a ¥98.0 billion increase in long-term loans payable.

Interest-bearing debt decreased by ¥46.8 billion (10.4%) to ¥402.8 billion.

Net assets increased by ¥110.7 billion (10.5%) from ¥1,057.4 billion to ¥1,168.1 billion. While dividend payments were ¥27.9 billion, net income attributable to owners of the parent was ¥115.0 billion.

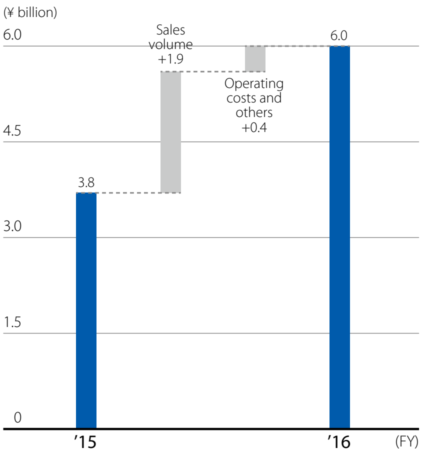
As a result, net worth per share increased by ¥78.42 to ¥824.36, net worth to total assets increased from 47.1% to 51.1%, and debt-to-equity ratio decreased by 0.08 points to 0.35.

Critical Care Business
Operating Income Increases/Decreases

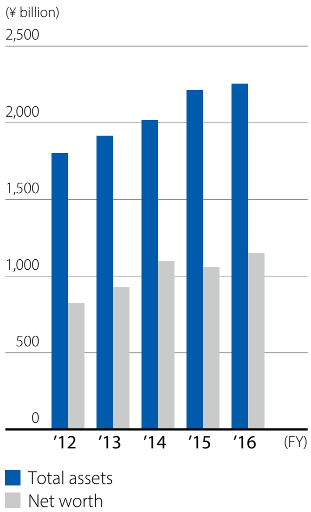



[1] Excluding impact of foreign exchange
[2] Impact of foreign exchange on sales prices

Others
Operating Income Increases/Decreases




Total Assets, Net Worth



## Capital Expenditure

Capital expenditure (capex) was primarily for new and expanded production plant and equipment in long-term growth fields. Investments were also made for rationalization, labor-saving, maintenance, and IT systems to bring greater product reliability and cost reductions.

The following table of capex by operating segment shows totals of property, plant and equipment and intangible assets (other than goodwill), excluding consumption tax.

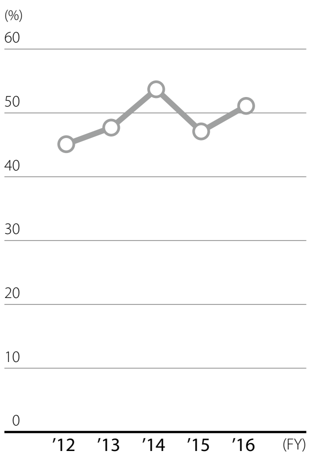
A total of ¥90.6 billion was invested during the fiscal year for the expansion of businesses with competitive superiority, particularly in the Material segment, as well as for modification and rationalization.

| | Totals for the year (¥ million) | Compared to previous year (%) |
|---|---|---|
| Material | 47,205 | 82.5 |
| Homes | 12,139 | 101.6 |
| Health Care | 15,604 | 80.5 |
| Others | 6,836 | 145.3 |
| Combined | 81,783 | 87.7 |
| Corporate assets and eliminations | 8,790 | 152.1 |
| Consolidated | 90,573 | 91.5 |

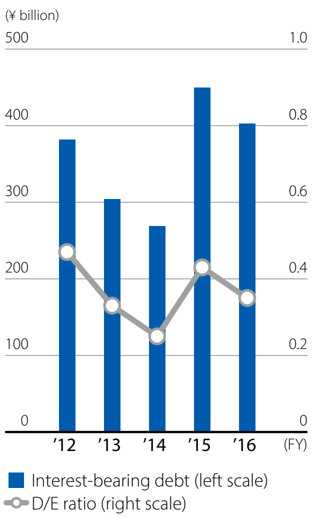
Notable capex by operating segment was as follows.

| | |
|---|---|
| Material | Construction of a new production line for Hipore™ lithium-ion battery separator, construction of a new production facility for Bemliese™ continuous-filament cellulose nonwoven, rationalization, labor-saving, and maintenance. |
| Homes | Rationalization, labor-saving, and maintenance. |
| Health Care | Construction of a new manufacturing facility for the active ingredient of Recomodulin™ thrombomodulin agent, construction of a new plant for the spinning of hollow-fiber membranes for Planova™ BioEX virus removal filters, rationalization, labor-saving, and maintenance. |
| Others | Rationalization, labor-saving, and maintenance. |
| Corporate assets | R&D equipment, IT systems, and maintenance. |

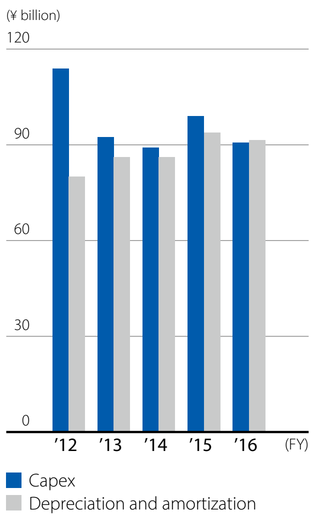
### Net Worth to Total Assets




### Interest-Bearing Debt, D/E Ratio




### Capex, Depreciation and Amortization



## Cash Flows

Free cash flows* were a positive ¥79.0 billion, as cash provided, principally from income before income taxes and from depreciation and amortization, exceeded cash used, principally for purchase of property, plant and equipment, and for payment of income taxes. Cash flows from financing activities were a net ¥74.0 billion used, principally due to a decrease in short-term loans payable. As a result, cash and cash equivalents at fiscal year end were ¥144.1 billion, ¥1.2 billion less than a year earlier.

### Cash flows from operating activities

Cash used included ¥61.4 billion for income taxes paid and a ¥20.8 increase in notes and accounts receivable–trade. Income before income taxes provided ¥157.4 billion, and depreciation and amortization provided ¥91.4 billion. Net cash provided by operating activities was ¥169.0 billion, ¥47.3 billion less than a year earlier.

### Cash flows from investing activities

Cash provided included ¥12.0 billion in proceeds from sales of investment securities. Cash used included ¥83.0 billion for purchase of property, plant and equipment, ¥9.8 billion for purchase of investment securities, and ¥8.8 billion for purchase of intangible assets. Net cash used in investing activities was ¥89.9 billion, ¥195.4 billion less than a year earlier.

### Cash flows from financing activities

Cash provided included ¥138.8 billion in proceeds from long-term loans payable, and a ¥56.0 increase in commercial paper. Cash used included a ¥193.8 billion decrease in short-term loans payable, ¥45.5 billion for repayment of long-term loans payable, and ¥27.9 billion in cash dividends paid. Net cash used in financing activities was ¥74.0 billion, ¥175.3 billion more than a year earlier.

* Total of net cash provided by (used in) operating activities and net cash provided by (used in) investment activities.

## Financial Policy

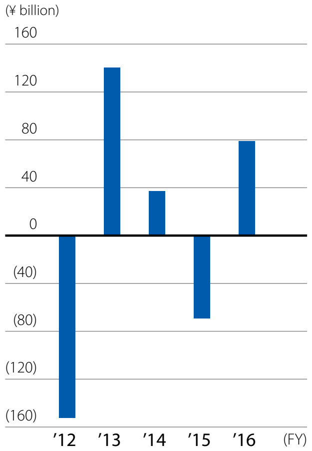
We aim to increase free cash flows with increased earnings through enhanced cost efficiency, greater product competitiveness, and business structure improvements, and with greater capital efficiency through utilization of group finance and maintenance of optimum inventory levels.

A wide range of fund-raising methods including bank borrowings, bonds, and commercial paper will be utilized dynamically in accordance with the financial circumstances of the Asahi Kasei Group in order to obtain stable financing at low cost.

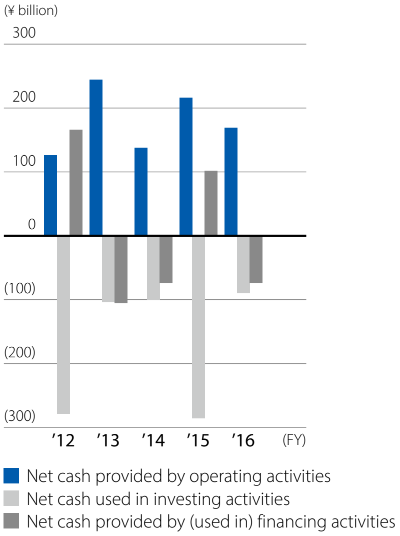
These resources will be used to fund strategic investments under the "Cs for Tomorrow 2018" strategic management initiative focused on the pursuit of growth and profitability, creation of new businesses, and acceleration of globalization, as well as dividends for shareholders.

Advancing these measures will enable us to further enhance corporate value and provide an appropriate return to shareholders while maintaining discipline for a sound financial constitution.

Free Cash Flows




Cash Flows



# Risk Analysis

**Operating risks and non-operating risks which may materially influence investor decisions are described below. The management maintains awareness of the possibility that these scenarios may emerge and, to the fullest possible extent, implements measures to avoid their emergence and to minimize their impact on corporate performance in the event that they do emerge.**

**The description of risks given here includes elements which may emerge in the future, but as it is based on current evaluations as of June 28, 2017, it does not include risks which could not be foreseen.**

### Crude oil and naphtha prices

Operating costs in operations based on petrochemicals are affected by prices for crude oil and naphtha. If crude oil and naphtha prices rise, selling prices for products derived from these feedstocks must be increased in a timely manner to maintain sufficient price spreads. Price spreads may diminish, thereby affecting our consolidated performance and financial condition.

### Exchange rate fluctuation

The value of items denominated in currencies other than the yen is affected by the rate of exchange at the time of conversion to yen. Although measures such as currency exchange hedges are utilized to minimize the short-term effects of exchange rate fluctuations, such fluctuations may exceed the foreseeable range over the short to long term, thereby affecting our consolidated performance and financial condition.

### Overseas operations

Overseas operations may face a variety of risks which cannot be foreseen, including the existence or emergence of economically unfavorable circumstances due to legal and regulatory changes, vulnerability of infrastructure, difficulty in hiring/retaining qualified employees, or other factors, and social or political instability due to terrorism, war, or other factors. Overseas operations may be impaired by such scenarios, thereby affecting our consolidated performance and business plans.

### Housing-related tax policy, interest rate fluctuation

Operations in the Homes segment are affected by Japanese tax policies as they relate to home acquisition and by fluctuations in Japanese interest rates. Changes in Japanese tax policy, including consumption taxes, or fluctuations in Japanese interest rates may result in diminished housing demand, thereby affecting our consolidated performance and financial condition.

### Profitability of electronics-related businesses

The electronics industry is characterized by sharp market cycles. The profitability of electronics-related businesses may decline significantly in a relatively short time, thereby affecting our consolidated performance and financial condition. Because products in this field rapidly become obsolete, the timely development and commercialization of leading-edge devices and materials is required. New product development may be delayed, or demand fluctuations may exceed expectations, thereby affecting our consolidated performance and financial condition.

### Pharmaceutical, medical device, and critical care device businesses

Pharmaceutical, medical device, and critical care device businesses may be significantly affected by government measures regarding health care or other changes in government policy in various countries. Unforeseeable side effects or complications may emerge, significantly affecting these businesses. Product approval may be withdrawn as a result of reexamination, and competition may intensify as a result of the market entry of generics. For products under development, regulatory approval may be prolonged or fail to be obtained, market demand may be lower than expected, and reimbursement prices may be lower than expected. Such scenarios may affect our consolidated performance and financial condition.

### Industrial accidents and natural disasters

The occurrence of a significant industrial accident or natural disaster at a plant or elsewhere may result in a loss of public trust, the emergence of costs associated with accident response, including compensation, and opportunity loss due to plant shutdown caused by damage to plant facilities, supply chain disruptions which impede raw materials procurement, etc., thereby affecting our consolidated performance and financial condition.

### Intellectual property, product liability, and legal regulation

An unfavorable ruling may emerge in a dispute relating to intellectual property, a product defect resulting in a large scale recall and compensation whose costs exceed insurance coverage may emerge, and detrimental legal and regulatory changes may emerge in any country where we operate. Such scenarios may affect our consolidated performance and financial condition.

### Business counterparties

The occurrence of misconduct or unforeseeable credit impairment, etc. may necessitate additional losses or allowances to be recorded in financial accounts, thereby affecting our consolidated performance and financial condition.

### Business and capital alliances

Acquisitions, business alliances, and capital alliances may bear lower results or less synergy than anticipated due to deterioration of the operating environment, thereby affecting our consolidated performance and financial condition. Poor performance at companies in which we have invested may require the recording of an impairment loss for goodwill, etc., thereby affecting our consolidated performance and financial condition.

# Consolidated Financial Statements

## Consolidated Balance Sheets

Asahi Kasei Corporation and Consolidated Subsidiaries
March 31, 2017 and 2016

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| ASSETS | 2017 | 2016 | 2017 |
| **Current assets:** | | | |
| Cash and deposits (Notes 8 and 10) | ¥ 145,289 | ¥ 146,054 | $ 1,295,026 |
| Notes and accounts receivable—trade | 302,751 | 280,095 | 2,698,556 |
| Short-term investment securities (Notes 8, 10 and 11) | — | 1,534 | — |
| Merchandise and finished goods | 159,395 | 159,441 | 1,420,759 |
| Work in process | 116,481 | 108,684 | 1,038,248 |
| Raw materials and supplies | 70,806 | 68,618 | 631,126 |
| Deferred tax assets (Note 14) | 20,279 | 18,133 | 180,756 |
| Other | 81,816 | 75,324 | 729,263 |
| Allowance for doubtful accounts | (2,272) | (1,865) | (20,251) |
| Total current assets | 894,545 | 856,018 | 7,973,482 |
| **Noncurrent assets:** | | | |
| Property, plant and equipment: | | | |
| Buildings and structures (Notes 4 (b), (d)) | 508,713 | 495,817 | 4,534,388 |
| Accumulated depreciation | (278,122) | (268,635) | (2,479,027) |
| Buildings and structures, net | 230,590 | 227,183 | 2,055,353 |
| Machinery, equipment and vehicles (Notes 4 (b), (d)) | 1,376,029 | 1,348,103 | 12,265,166 |
| Accumulated depreciation | (1,176,686) | (1,149,544) | (10,488,332) |
| Machinery, equipment and vehicles, net | 199,343 | 198,559 | 1,776,834 |
| Land (Note 4 (d)) | 62,391 | 61,046 | 556,119 |
| Lease assets (Note 9) | 12,367 | 12,928 | 110,233 |
| Accumulated depreciation | (11,381) | (11,183) | (101,444) |
| Lease assets, net | 986 | 1,745 | 8,789 |
| Construction in progress | 45,958 | 49,240 | 409,644 |
| Other (Note 4 (d)) | 150,073 | 147,286 | 1,337,668 |
| Accumulated depreciation | (132,460) | (129,072) | (1,180,676) |
| Other, net | 17,613 | 18,215 | 156,993 |
| Subtotal | 556,881 | 555,989 | 4,963,731 |
| Intangible assets: | | | |
| Goodwill | 285,622 | 305,112 | 2,545,878 |
| Other | 177,149 | 189,470 | 1,579,009 |
| Subtotal | 462,772 | 494,582 | 4,124,895 |
| Investments and other assets: | | | |
| Investment securities (Notes 4 (a), (b), 10 and 11) | 284,137 | 244,598 | 2,532,641 |
| Long-term loans receivable (Note 10) | 18,918 | 16,353 | 168,625 |
| Deferred tax assets (Note 14) | 9,309 | 20,098 | 82,975 |
| Other | 28,154 | 24,280 | 250,949 |
| Allowance for doubtful accounts | (215) | (189) | (1,916) |
| Subtotal | 340,302 | 305,140 | 3,033,265 |
| Total noncurrent assets | 1,359,955 | 1,355,711 | 12,121,891 |
| Total assets | ¥ 2,254,500 | ¥ 2,211,729 | $ 20,095,374 |

The accompanying notes are an integral part of these statements.

| LIABILITIES AND NET ASSETS | Millions of yen 2017 | 2016 | Thousands of U.S. dollars (Note 1) 2017 |
|---|---|---|---|
| **Liabilities:** | | | |
| Current liabilities: | | | |
| Notes and accounts payable—trade (Note 10) | ¥ 147,543 | ¥ 126,653 | $ 1,315,117 |
| Short-term loans payable (Notes 4 (b), 10 and 20) | 113,475 | 313,587 | 1,011,454 |
| Commercial paper (Notes 10 and 20) | 56,000 | — | 499,153 |
| Current portion of bonds payable (Notes 10 and 20) | 20,000 | — | 178,269 |
| Lease obligations (Notes 9, 10 and 20) | 305 | 919 | 2,719 |
| Accrued expenses | 100,419 | 98,717 | 895,080 |
| Income taxes payable (Note 10) | 16,202 | 32,735 | 144,416 |
| Advances received | 72,882 | 74,667 | 649,630 |
| Provision for periodic repairs | 5,003 | 3,908 | 44,594 |
| Provision for product warranties | 2,461 | 2,355 | 21,936 |
| Provision for removal cost of property, plant and equipment | 1,800 | 2,130 | 16,044 |
| Asset retirement obligations (Note 16) | 572 | 568 | 5,098 |
| Other | 58,217 | 69,423 | 518,914 |
| Total current liabilities | 594,880 | 725,662 | 5,302,433 |
| Noncurrent liabilities: | | | |
| Bonds payable (Notes 10 and 20) | 20,000 | 40,000 | 178,269 |
| Long-term loans payable (Notes 4 (b), 10 and 20) | 192,584 | 94,632 | 1,716,588 |
| Lease obligations (Notes 9, 10 and 20) | 467 | 537 | 4,163 |
| Deferred tax liabilities (Note 14) | 59,759 | 64,930 | 532,659 |
| Provision for periodic repairs | 165 | 558 | 1,471 |
| Provision for removal cost of property, plant and equipment | 4,390 | 7,228 | 39,130 |
| Provision for loss on litigation | 2,162 | 2,171 | 19,271 |
| Net defined benefit liability (Note 13) | 178,368 | 186,300 | 1,589,874 |
| Asset retirement obligations (Note 16) | 3,436 | 3,480 | 30,627 |
| Long-term guarantee deposits (Note 10) | 20,479 | 20,131 | 182,539 |
| Other | 9,695 | 8,702 | 86,416 |
| Total noncurrent liabilities | 491,506 | 428,669 | 4,381,014 |
| Total liabilities | 1,086,385 | 1,154,330 | 9,683,439 |
| **Net assets:** | | | |
| Shareholders' equity: | | | |
| Capital stock | | | |
| Authorized—4,000,000,000 shares | | | |
| Issued and outstanding—1,402,616,332 shares | 103,389 | 103,389 | 921,553 |
| Capital surplus | 79,443 | 79,410 | 708,111 |
| Retained earnings (Note 7 (b) (ii)) | 850,532 | 763,076 | 7,581,175 |
| Treasury stock | (3,242) | (3,150) | (28,897) |
| (2017—5,958,904 shares, 2016—5,861,678 shares) | | | |
| Total shareholders' equity | 1,030,122 | 942,724 | 9,181,941 |
| Accumulated other comprehensive income: | | | |
| Net unrealized gain on other securities | 113,475 | 92,280 | 1,011,454 |
| Deferred gains or losses on hedges | 55 | (179) | 490 |
| Foreign currency translation adjustment | 40,831 | 48,429 | 363,945 |
| Remeasurements of defined benefit plans | (33,140) | (41,353) | (295,392) |
| Total accumulated other comprehensive income | 121,222 | 99,177 | 1,080,506 |
| Non-controlling interests | 16,771 | 15,498 | 149,487 |
| Total net assets | 1,168,115 | 1,057,399 | 10,411,935 |
| Commitments and contingent liabilities (Notes 4 (c) and 9) | | | |
| Total liabilities and net assets | ¥2,254,500 | ¥2,211,729 | $20,095,374 |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Income

Asahi Kasei Corporation and Consolidated Subsidiaries
Years Ended March 31, 2017 and 2016

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Net sales (Note 17) | ¥1,882,991 | ¥1,940,914 | $16,783,947 |
| Cost of sales (Note 5 (b)) | 1,296,255 | 1,354,698 | 11,554,105 |
| Gross profit | 586,736 | 586,216 | 5,229,842 |
| Selling, general and administrative expenses (Note 5 (a)) | 427,506 | 421,013 | 3,810,554 |
| Operating income (Note 17) | 159,229 | 165,203 | 1,419,280 |
| Non-operating income: | | | |
| Interest income | 1,425 | 1,417 | 12,702 |
| Dividends income | 5,170 | 4,757 | 46,083 |
| Equity in earnings of affiliates | 4,899 | — | 43,667 |
| Other | 3,854 | 5,148 | 34,352 |
| Total non-operating income | 15,347 | 11,322 | 136,795 |
| Non-operating expenses: | | | |
| Interest expense | 4,435 | 3,611 | 39,531 |
| Equity in losses of affiliates | — | 854 | — |
| Foreign exchange loss | 1,228 | 3,679 | 10,946 |
| Donations | 3,930 | 851 | 35,030 |
| Other | 4,351 | 6,159 | 38,782 |
| Total non-operating expenses | 13,944 | 15,154 | 124,289 |
| Ordinary income | 160,633 | 161,370 | 1,431,794 |
| Extraordinary income: | | | |
| Gain on sales of investment securities | 9,918 | 8,275 | 88,404 |
| Gain on sales of noncurrent assets (Note 5 (c)) | 165 | 917 | 1,471 |
| Total extraordinary income | 10,083 | 9,192 | 89,874 |
| Extraordinary loss: | | | |
| Loss on valuation of investment securities | 101 | 363 | 900 |
| Loss on disposal of noncurrent assets (Note 5 (d)) | 4,863 | 5,214 | 43,346 |
| Impairment loss (Note 5 (e)) | 1,484 | 3,493 | 13,228 |
| Business structure improvement expenses (Notes 5 (e), (f)) | 6,189 | 3,606 | 55,165 |
| Litigation settlement | — | 1,201 | — |
| Loss on piling business (Note 5 (g)) | — | 1,456 | — |
| Business integration expense | 690 | 1,547 | 6,150 |
| Special retirement expenses and other | — | 2,027 | — |
| Loss on discontinuation of joint sales agreement (Notes 5 (e), (h)) | — | 5,266 | — |
| Total extraordinary loss | 13,328 | 24,173 | 118,798 |
| Income before income taxes | 157,388 | 146,389 | 1,402,870 |
| Income taxes (Note 14) — current | 49,017 | 55,419 | 436,911 |
| — deferred | (8,293) | (2,441) | (73,919) |
| Total income taxes | 40,724 | 52,978 | 362,991 |
| Net income | 116,663 | 93,412 | 1,039,870 |
| Net income attributable to non-controlling interests | 1,663 | 1,658 | 14,823 |
| Net income attributable to owners of the parent | ¥ 115,000 | ¥ 91,754 | $ 1,025,047 |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Comprehensive Income

Asahi Kasei Corporation and Consolidated Subsidiaries
Years Ended March 31, 2017 and 2016

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2017** | 2016 | **2017** |
| Net income | ¥116,663 | ¥ 93,412 | $1,039,870 |
| Other comprehensive income: | | | |
| Net increase (decrease) in unrealized gain on other securities | 21,177 | (21,098) | 188,760 |
| Deferred gains or losses on hedges | 234 | 1,519 | 2,086 |
| Foreign currency translation adjustment | (8,020) | (48,860) | (71,486) |
| Remeasurements of defined benefit plans | 8,114 | (33,331) | 72,324 |
| Share of other comprehensive income of affiliates accounted for using equity method | 810 | (3,567) | 7,220 |
| Total other comprehensive income (Note 6) | 22,315 | (105,337) | 198,904 |
| Comprehensive income | ¥138,979 | ¥ (11,925) | $1,238,782 |
| Comprehensive income attributable to: | | | |
| Owners of the parent | ¥137,045 | ¥ (12,708) | $1,221,544 |
| Non-controlling interests | 1,934 | 783 | 17,239 |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Changes in Net Assets

Asahi Kasei Corporation and Consolidated Subsidiaries
Years Ended March 31, 2017 and 2016

| | Millions of yen | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | | | |
| | Capital stock | Capital surplus | Retained earnings (Note 7 (b)) | Treasury stock | Total shareholders' equity | Net unrealized gain on other securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasure-ments of defined benefit plans | Total accumulated other comprehensive income | Non-controlling interests | Total net assets |
| **Balance at March 31, 2016** | ¥103,389 | ¥79,410 | ¥763,076 | ¥(3,150) | ¥ 942,724 | ¥ 92,280 | ¥(179) | ¥48,429 | ¥(41,353) | ¥ 99,177 | ¥15,498 | ¥1,057,399 |
| Cumulative effect of changes in accounting policies | | | 10 | | 10 | | | | | | | 10 |
| **Restated balance** | 103,389 | 79,410 | 763,086 | (3,150) | 942,734 | 92,280 | (179) | 48,429 | (41,353) | 99,177 | 15,498 | 1,057,409 |
| Changes during the fiscal year: | | | | | | | | | | | | |
| Dividends from surplus | | | (27,935) | | (27,935) | | | | | | | (27,935) |
| Net income attributable to owners of the parent | | | 115,000 | | 115,000 | | | | | | | 115,000 |
| Purchase of treasury stock | | | | (93) | (93) | | | | | | | (93) |
| Disposal of treasury stock | | 0 | | 1 | 1 | | | | | | | 1 |
| Change of scope of consolidation | | | 418 | | 418 | | | | | | | 418 |
| Change of scope of equity method | | | (37) | | (37) | | | | | | | (37) |
| Capital increase of consolidated subsidiaries | | 33 | | | 33 | | | | | | | 33 |
| Net changes of items other than shareholders' equity | | | | | | 21,195 | 234 | (7,597) | 8,213 | 22,045 | 1,273 | 23,318 |
| Total changes of items during the period | — | 33 | 87,446 | (92) | 87,388 | 21,195 | 234 | (7,597) | 8,213 | 22,045 | 1,273 | 110,705 |
| **Balance at March 31, 2017** | ¥103,389 | ¥79,443 | ¥850,532 | ¥(3,242) | ¥1,030,122 | ¥113,475 | ¥ 55 | ¥40,831 | ¥(33,140) | ¥121,222 | ¥16,771 | ¥1,168,115 |

| | Millions of yen | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | | | |
| | Capital stock | Capital surplus | Retained earnings (Note 7 (b)) | Treasury stock | Total shareholders' equity | Net unrealized gain on other securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasure-ments of defined benefit plans | Total accumulated other comprehensive income | Non-controlling interests | Total net assets |
| **Balance at March 31, 2015** | ¥103,389 | ¥79,408 | ¥699,259 | ¥(3,041) | ¥879,014 | ¥113,562 | ¥(1,697) | ¥ 99,531 | ¥ (7,757) | ¥ 203,639 | ¥15,068 | ¥1,097,722 |
| Cumulative effect of changes in accounting policies | | | | | — | | | | | | | — |
| **Restated balance** | 103,389 | 79,408 | 699,259 | (3,041) | 879,014 | 113,562 | (1,697) | 99,531 | (7,757) | 203,639 | 15,068 | 1,097,722 |
| Changes during the fiscal year: | | | | | | | | | | | | |
| Dividends from surplus | | | (27,937) | | (27,937) | | | | | | | (27,937) |
| Net income attributable to owners of the parent | | | 91,754 | | 91,754 | | | | | | | 91,754 |
| Purchase of treasury stock | | | | (113) | (113) | | | | | | | (113) |
| Disposal of treasury stock | | 2 | | 4 | 6 | | | | | | | 6 |
| Change of scope of consolidation | | | | | — | | | | | | | — |
| Capital increase of consolidated subsidiaries | | | | | — | | | | | | | — |
| Change of scope of equity method | | | | | — | | | | | | | — |
| Net changes of items other than shareholders' equity | | | | | | (21,282) | 1,519 | (51,102) | (33,596) | (104,462) | 430 | (104,032) |
| Total changes of items during the period | — | 2 | 63,817 | (109) | 63,710 | (21,282) | 1,519 | (51,102) | (33,596) | (104,462) | 430 | (40,323) |
| **Balance at March 31, 2016** | ¥103,389 | ¥79,410 | ¥763,076 | ¥(3,150) | ¥942,724 | ¥ 92,280 | ¥ (179) | ¥ 48,429 | ¥(41,353) | ¥ 99,177 | ¥15,498 | ¥1,057,399 |

| | Thousands of U.S. dollars (Note 1) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | | | |
| | Capital stock | Capital surplus | Retained earnings (Note 7 (b)) | Treasury stock | Total shareholders' equity | Net unrealized gain on other securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasure-ments of defined benefit plans | Total accumulated other comprehensive income | Non-controlling interests | Total net assets |
| **Balance at March 31, 2016** | $921,553 | $707,817 | $6,801,640 | $(28,077) | $8,402,924 | $ 822,533 | $(1,596) | $431,669 | $(368,598) | $ 884,009 | $138,141 | $ 9,425,074 |
| Cumulative effect of changes in accounting policies | | | 89 | | 89 | | | | | | | 89 |
| **Restated balance** | 921,553 | 707,817 | 6,801,729 | (28,077) | 8,403,013 | 822,533 | (1,596) | 431,669 | (368,598) | 884,009 | 138,141 | 9,425,163 |
| Changes during the fiscal year: | | | | | | | | | | | | |
| Dividends from surplus | | | (248,997) | | (248,997) | | | | | | | (248,997) |
| Net income attributable to owners of the parent | | | 1,025,047 | | 1,025,047 | | | | | | | 1,025,047 |
| Purchase of treasury stock | | | | (829) | (829) | | | | | | | (829) |
| Disposal of treasury stock | | 0 | | 9 | 9 | | | | | | | 9 |
| Change of scope of consolidation | | | 3,726 | | 3,726 | | | | | | | 3,726 |
| Change of scope of equity method | | | (330) | | (330) | | | | | | | (330) |
| Capital increase of consolidated subsidiaries | | 294 | | | 294 | | | | | | | 294 |
| Net changes of items other than shareholders' equity | | | | | | 188,921 | 2,086 | (67,715) | 73,206 | 196,497 | 11,347 | 207,844 |
| Total changes of items during the period | — | 294 | 779,446 | (820) | 778,929 | 188,921 | 2,086 | (67,715) | 73,206 | 196,497 | 11,347 | 986,764 |
| **Balance at March 31, 2017** | $921,553 | $708,111 | $7,581,175 | $(28,897) | $9,181,941 | $1,011,454 | $ 490 | $363,945 | $(295,392) | $1,080,506 | $149,487 | $10,411,935 |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

Asahi Kasei Corporation and Consolidated Subsidiaries
Years Ended March 31, 2017 and 2016

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| **Cash flows from operating activities:** | | | |
| Income before income taxes | ¥ 157,388 | ¥ 146,389 | $ 1,402,870 |
| Depreciation and amortization | 91,387 | 93,811 | 814,573 |
| Impairment loss | 1,484 | 3,493 | 13,228 |
| Amortization of goodwill | 17,806 | 15,821 | 158,713 |
| Amortization of negative goodwill | (159) | (159) | (1,417) |
| Increase in provision for periodic repairs | 703 | 824 | 6,266 |
| Increase (decrease) in provision for product warranties | 108 | (193) | 963 |
| Decrease in provision for removal cost of property, plant and equipment | (3,168) | (1,339) | (28,238) |
| Decrease in net defined benefit liability | (8,150) | (9,227) | (72,645) |
| Interest and dividend income | (6,595) | (6,173) | (58,784) |
| Interest expense | 4,435 | 3,611 | 39,531 |
| Equity in (earnings) losses of affiliates | (4,899) | 854 | (43,667) |
| Gain on sales of investment securities | (9,918) | (8,275) | (88,404) |
| Loss on valuation of investment securities | 101 | 363 | 900 |
| Gain on sale of property, plant and equipment | (165) | (917) | (1,471) |
| Loss on disposal of noncurrent assets | 4,863 | 5,214 | 43,346 |
| (Increase) decrease in notes and accounts receivable—trade | (20,756) | 48,513 | (185,008) |
| (Increase) decrease in inventories | (9,840) | 12,901 | (87,708) |
| Increase (decrease) in notes and accounts payable—trade | 18,619 | (24,104) | 165,960 |
| Increase (decrease) in accrued expenses | 2,467 | (3,980) | 21,989 |
| (Decrease) increase in advances received | (1,886) | 120 | (16,811) |
| Other, net | (6,721) | (4,863) | (59,907) |
| Subtotal | 227,105 | 272,687 | 2,024,289 |
| Interest and dividend income received | 7,733 | 7,558 | 68,928 |
| Interest expense paid | (4,428) | (3,596) | (39,469) |
| Income taxes paid | (61,444) | (60,431) | (547,678) |
| Net cash provided by operating activities | 168,965 | 216,218 | 1,506,061 |
| **Cash flows from investing activities:** | | | |
| Payments into time deposits | (4,105) | (6,360) | (36,590) |
| Proceeds from withdrawal of time deposits | 5,232 | 17,364 | 46,635 |
| Purchase of property, plant and equipment | (82,983) | (85,184) | (739,665) |
| Proceeds from sales of property, plant and equipment | 3,178 | 774 | 28,327 |
| Purchase of intangible assets | (8,810) | (10,330) | (78,527) |
| Purchase of investment securities | (9,846) | (7,017) | (87,762) |
| Proceeds from sales of investment securities | 12,018 | 10,197 | 107,122 |
| Purchase of shares in subsidiaries resulting in change in scope of consolidation | — | (193,680) | — |
| Payments for transfer of business | — | (200) | — |
| Payments of loans receivable | (5,218) | (11,131) | (46,510) |
| Collection of loans receivable | 2,169 | 2,520 | 19,333 |
| Other, net | (1,553) | (2,241) | (13,843) |
| Net cash used in investing activities | (89,920) | (285,287) | (801,497) |
| **Cash flows from financing activities:** | | | |
| (Decrease) increase in short-term loans payable | (193,760) | 213,417 | (1,727,070) |
| Increase in commercial paper | 56,000 | — | 499,153 |
| Proceeds from long-term loans payable | 138,812 | 9,445 | 1,237,294 |
| Repayment of long-term loans payable | (45,513) | (91,760) | (405,678) |
| Repayments of lease obligations | (965) | (1,411) | (8,601) |
| Purchase of treasury stock | (93) | (113) | (829) |
| Proceeds from disposal of treasury stock | 1 | 6 | 9 |
| Cash dividends paid | (27,935) | (27,937) | (248,997) |
| Cash dividends paid to non-controlling interests | (712) | (653) | (6,346) |
| Other, net | 207 | 371 | 1,845 |
| Net cash (used in) provided by financing activities | (73,959) | 101,365 | (659,230) |
| Effect of exchange rate change on cash and cash equivalents | (6,759) | (5,560) | (60,246) |
| Net (decrease) increase in cash and cash equivalents | (1,673) | 26,736 | (14,912) |
| Cash and cash equivalents at beginning of year | 145,307 | 112,297 | 1,295,187 |
| Increase in cash and cash equivalents resulting from changes in scope of consolidation | 443 | 6,273 | 3,949 |
| Cash and cash equivalents at end of year (Note 8) | ¥ 144,077 | ¥ 145,307 | $ 1,284,223 |

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

Asahi Kasei Corporation and Consolidated Subsidiaries

## 1. Major policies for preparing the consolidated financial statements

The consolidated financial statements, which are filed with the prime minister of Japan as required by the Financial Instruments and Exchange Act in Japan, are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards. The accompanying consolidated financial statements are a translation of those filed with the prime minister of Japan and incorporate certain modifications to enhance foreign readers' understanding of the consolidated financial statements. In addition, the notes to the consolidated financial statements include certain financial information which is not required under the disclosure regulations in Japan, but is presented herein as additional information.

The U.S. dollar amounts presented in the consolidated financial statements are included solely for the convenience of readers. These translations should not be construed as representations that the Japanese yen amounts actually represent, have been, or could be converted into U.S. dollars. As the amounts shown in U.S. dollars are for convenience only, and are not intended to be computed in accordance with generally accepted translation procedures, the approximate current exchange rate of ¥112.19=US$1 prevailing on March 31, 2017, has been used.

### Consolidation and investments in affiliated companies

The consolidated financial statements consist of the accounts of the parent company and 171 subsidiaries (174 subsidiaries at March 31, 2016, hereinafter collectively referred to as the "Company") which, with minor exceptions due to immateriality, are all majority or wholly owned companies, including 6 core operating companies (Asahi Kasei Homes Corp., Asahi Kasei Construction Materials Corp., Asahi Kasei Microdevices Corp., Asahi Kasei Pharma Corp., Asahi Kasei Medical Co., Ltd., and ZOLL Medical Corporation), Polypore International, LP, and Tongsuh Petrochemical Corp. Ltd. (Korea). Material inter-company transactions and accounts have been eliminated.

Investments in unconsolidated subsidiaries and 20% to 50% owned companies in which the Company exercises significant influence are accounted for, with minor exceptions due to immateriality, using the equity method of accounting. There were 32 such unconsolidated subsidiaries and 20% to 50% owned companies to which the equity method is applied at March 31, 2017 (31 at March 31, 2016), including Asahi Kasei EIC Solutions Corp. and Asahi Yukizai Corporation.

Certain subsidiaries' results are reported in the consolidated financial statements using a fiscal year ending December 31. Material differences in inter-company transactions and accounts arising from the use of different fiscal year-ends are appropriately adjusted for through consolidation procedures.

All assets and liabilities of acquired companies are measured at their fair value and any difference between the net assets and the cost of investment is recognized as goodwill or negative goodwill. Goodwill, and negative goodwill incurred through business combinations which took place before April 1, 2010, are amortized using the straight-line method over a reasonable period during which their effects would last, with the exception of minor amounts which are charged to income as incurred.

## 2. Significant accounting policies

### (a) Cash and cash equivalents

For cash flow statement purposes, cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, which are readily convertible to known amounts of cash, and therefore present an insignificant risk of changes in value due to changes in interest rates.

### (b) Inventories

Inventories held for sale in the ordinary course of business are stated at the lower of cost or net realizable value. Residential lots and dwellings for sale are stated at specifically identified costs.

### (c) Noncurrent assets and depreciation/amortization

Property, plant and equipment (except for lease assets) are stated at cost. Significant renewals and improvements are capitalized at cost, while maintenance and repairs are charged to income as incurred. Depreciation is provided for under the declining-balance method for property, plant and equipment, except for buildings and building accessories acquired on or after April 1, 2016 which are depreciated using the straight-line method, at rates based on estimated useful lives of the assets, principally ranging from 5 to 60 years for buildings and from 4 to 22 years for machinery and equipment and vehicles.

Intangible fixed assets (except for lease assets), including software for internal use, are mainly amortized using the straight-line method over the estimated useful lives of the assets. The estimated useful life of software for internal use is mainly 5 years.

Lease assets (financing lease transactions without title transfer) are depreciated/amortized on a straight-line basis over the period of the lease with no residual value. For financing lease transactions without title transfer whose transaction date is before March 31, 2008, the previous method of accounting for lease transactions continues to be applied, with periodic lease charges for financing leases being charged to income as incurred.

### (d) Significant allowances

#### i) Allowance for doubtful accounts

Estimates of the unrecoverable portion of receivables, generally based on historical rates and for specific receivables of particular concern based on individual estimates of recoverability, are recognized as allowance for doubtful accounts.

#### ii) Provision for periodic repairs

The portion of foreseeable periodic repair expenses deemed to correspond to normal wear and tear of plant and equipment as of the closing date of the fiscal year is recognized as provision for periodic repairs.

#### iii) Provision for product warranties

Estimates of product warranty expenses based on historical rates are recognized as provision for product warranties.

#### iv) Provision for removal cost of property, plant and equipment

Provision for removal cost of property, plant and equipment is recorded based on estimated future removal cost of property, plant and equipment at the end of each fiscal year.

#### v) Provision for loss on litigation

Provision for loss on litigation is recorded for estimated losses related to pending litigation.

### (e) Accounting for retirement benefits

#### i) Method of attributing expected retirement benefits to each period

In calculating retirement benefit obligations, the Company applies a method of attributing expected retirement benefits to each period based on a benefit formula basis.

#### ii) Accounting for actuarial gains/losses and prior service costs

Actuarial gains/losses are amortized using the straight-line method from the fiscal year following their accrual over a certain period (mainly 10 years) within the average remaining service period of employees at the time of accrual. Prior service costs are amortized using the straight-line method over a certain period (mainly 10 years) within the average remaining service period of employees at the time of accrual.

#### iii) Adoption of the simplified method

In calculating expected defined benefit liability and periodic retirement benefit expenses, certain consolidated subsidiaries have adopted the simplified method. Under this method, the expected defined benefit liability is recorded at the severance payment amount to be required should all employees retire voluntarily at fiscal year end.

### (f) Significant revenue and expense recognition

#### i) Construction activities that are realizable as of fiscal year end

The percentage-of-completion method (progress of work is estimated using the percentage of costs incurred to the total projected costs) is applied.

#### ii) Other construction activities

The completed-contract method is used.

### (g) Financial instruments

#### i) Securities

Securities are classified into four categories: trading securities, held-to-maturity debt securities, equity securities of unconsolidated subsidiaries and affiliates, and other securities. At March 31, 2017 and 2016, the Company did not have trading securities or held-to-maturity debt securities.

Equity securities of unconsolidated subsidiaries and affiliates are accounted for, with minor exceptions due to immateriality, using the equity method of accounting.

Other securities whose fair values are readily determinable are carried at fair value with net unrealized gains or losses, net of income taxes, being included as a component of net assets. Other securities whose fair values are not readily determinable are stated at cost. In cases where any significant decline in the realizable value is assessed to be other than temporary, the cost of other securities is devalued by the impaired amount and is charged to income. Realized gains and losses are determined using the average cost method and are reflected in the consolidated income statements.

#### ii) Derivative financial instruments

All derivatives are stated at fair value. Gains or losses arising from changes in fair value are recognized in the period in which they arise, except for derivatives that are designated as hedging instruments. Gains or losses arising from changes in fair value of these qualifying hedges are deferred as "Deferred gains or losses on hedges" until being offset against gains or losses of the underlying hedged assets and liabilities.

### (h) Taxes

Accrued income taxes are stated at the estimated amount of payables for corporation, enterprise, and inhabitant taxes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

The Company has elected to file its return under the consolidated tax filing system in Japan. Transactions subject to consumption taxes are recorded at amounts net of consumption taxes.

### (i) Translation of foreign currencies

Foreign currency receivables and payables are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are charged to income for the period.

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at fiscal year-end exchange rates, and income and expenses of same are translated into Japanese yen at the average exchange rate for the fiscal year. Shareholders' equity of foreign subsidiaries is translated into Japanese yen at the historical exchange rates. The translation differences in Japanese yen amounts arising from the use of different rates are recognized as foreign currency translation adjustments in the consolidated balance sheets. A portion of the foreign currency translation adjustment is allocated to non-controlling interests and the Company's portion is presented as a separate component of net assets in the consolidated balance sheets.

## 3. Changes in significant accounting policies

### (a) Changes in accounting policies

#### i) Application of revised implementation guidance on recoverability of deferred tax assets

The Accounting Standards Board of Japan (ASBJ) issued revised Guidance No. 26 "Implementation Guidance on Recoverability of Deferred Tax Assets." This revised guidance is applied from the fiscal year ended March 31, 2017. Accordingly, the method of accounting related to recoverability of deferred tax assets has been partially amended.

In accordance with the transitional accounting provisions set forth in Article 49, Paragraph 4, of the revised Guidance No. 26, the difference between the amount of deferred tax assets at the beginning of the fiscal year ended March 31, 2017, as calculated in accordance with the applicable provisions of Article 49, Paragraph 3, Items 1 through 3, of the revised Guidance No. 26, and the amount of deferred tax assets at the end of the fiscal year ended March 31, 2016, is added to retained earnings at the beginning of the fiscal year ended March 31, 2017.

The effect of this change on deferred tax assets (investments and other assets) and retained earnings at the beginning of the fiscal year ended March 31, 2017, is immaterial.

#### ii) Application of practical solution on a change in depreciation method due to Tax Reform 2016

The ASBJ issued Practical Issues Task Force (PITF) No. 32 "Practical Solution on a change in depreciation method due to Tax Reform 2016." This practical solution is applied from the fiscal year ended March 31, 2017. Accordingly, the method of depreciation of buildings and accompanying facilities and of structures has changed from the declining-balance method to the straight-line method.

The effect of this change on operating income, ordinary income, and income before income taxes during the fiscal year ended March 31, 2017, is immaterial.

### (b) Changes in presentation

#### Consolidated statements of income

In the fiscal year ended March 31, 2017, donations, which had previously been included in others under non-operating expenses, exceeded 10% of total non-operating expenses, and is reported separately. The consolidated statements of income for the fiscal year ended March 31, 2016, have been adjusted accordingly, resulting in others under non-operating expenses being ¥851 million lower than previously reported, reflecting the separation of the same amount as donations.

## 4. Notes to Consolidated Balance Sheets

### (a) Investment securities

Among investment securities, shares of unconsolidated subsidiaries and affiliates as of March 31, 2017 and 2016, amounted to ¥65,725 million (US$585,837 thousand) and ¥55,786 million, respectively. Included in those amounts are investments in joint ventures of ¥33,686 million (US$300,258 thousand) and ¥27,003 million, respectively.

### (b) Pledged assets and secured debt

A summary of assets pledged as collateral and secured debt as of March 31, 2017 and 2016, is shown below:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Pledged assets: | | | |
| Buildings and structures | ¥106 | ¥118 | $945 |
| Machinery, equipment and vehicles | 1 | 1 | 9 |
| Total pledged assets | ¥107 | ¥120 | $954 |
| Secured debt: | | | |
| Short-term loans payable | ¥ 0 | ¥ 1 | $ 0 |
| Long-term loans payable | 28 | 77 | 250 |
| Total secured debt | ¥ 29 | ¥ 78 | $258 |

Besides the above, investment securities pledged to suppliers as transaction guarantees at March 31, 2017 and 2016, were ¥61 million (US$544 thousand) and ¥54 million, respectively.

### (c) Contingent liabilities

In October 2015 Asahi Kasei Corp. disclosed that Asahi Kasei Construction Materials Corp., a consolidated subsidiary of Asahi Kasei Corp., which performed pile installation work as a secondary subcontractor for the construction of a condominium complex in Yokohama, Kanagawa, Japan, submitted incorrect data in the pile installation report for the precast concrete piles installed for this project. There was manipulation of ammeter data and flowmeter data for the installation of piles.

Asahi Kasei Corp. established a task force and an internal fact-finding committee as well as an independent commission to advance an investigation, and on October 22, 2015, Asahi Kasei Construction Materials Corp. reported its record of similar pile installation work over the past 10 years to Japan's Ministry of Land, Infrastructure, Transport and Tourism (MLIT).

On November 24, 2015, Asahi Kasei Construction Materials Corp. completed all possible investigation of whether or not there was manipulation of data regarding the installation of precast concrete piles, and reported the results to the MLIT. Out of the 3,052 projects subject to investigation, manipulation of data was found for 360 projects.

Regarding projects where manipulation of data was found, Asahi Kasei Construction Materials is cooperating with the prime contractors and the owners of the buildings in efforts to confirm safety based on instructions from the MLIT. Regarding projects where a Specific Administrative Agency has confirmed safety, the Specific Administrative Agency has issued a report to the MLIT. (At a meeting of the House of Councillors Committee on Land and Transport held on April 5, 2016, it was reported that the safety of 357 of the 360 projects had been confirmed.)

Although there is a possibility that an effect on the consolidated results of Asahi Kasei Corp. may emerge such as the recording of an additional reserve, etc., no such effect is reflected in the consolidated financial statements due to the difficulty of making a rational estimate of the amount of financial impact from this matter as of the time of preparation of the consolidated financial statements.

Contingent liabilities at March 31, 2017 and 2016, arising in the ordinary course of business were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Loans guaranteed | ¥35,774 | ¥36,808 | $318,870 |
| Letters of awareness | — | — | — |
| Completion guarantees | 10,185 | 11,989 | 90,783 |
| Total | ¥45,959 | ¥48,797 | $409,653 |

The parent company and certain of its subsidiaries and affiliates are defendants in several pending lawsuits. However, based upon the information currently available to both the Company and its legal counsel, management of the Company believes that any damages from such lawsuits will not have a material impact to the Company's consolidated financial statements.

### (d) Deferred gain on property, plant and equipment deducted for tax purposes

The accumulated reduced-value entries, which are directly deducted from property, plant and equipment, as of March 31, 2017 and 2016, were ¥9,572 million (US$85,320 thousand) and ¥9,684 million, respectively. The breakdown of reduced-value entries as of March 31, 2017 and 2016, was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Buildings and structures | ¥3,394 | ¥3,407 | $30,252 |
| Machinery, equipment and vehicles | 5,865 | 5,937 | 52,277 |
| Land | 167 | 167 | 1,489 |
| Other | 146 | 173 | 1,301 |
| Total | ¥9,572 | ¥9,684 | $85,320 |

## 5. Notes to Consolidated Statements of Income

### (a) Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2017 and 2016, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Salaries and benefits | ¥165,337 | ¥160,091 | $1,473,723 |
| Research and development* | 59,476 | 60,990 | 530,136 |
| Freight and storage | 37,450 | 36,794 | 333,809 |

* The aggregate amounts of research and development expenses included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2017 and 2016, were ¥79,566 million (US$709,208 thousand) and ¥81,118 million, respectively.

### (b) Gain or loss on valuation of inventories

Inventories held for sale in the ordinary course of business are stated at the lower of cost or net realizable value. (Gain) loss on valuation of inventories for the years ended March 31, 2017 and 2016, were as follows:

| Millions of yen | | Thousands of U.S. dollars |
|---|---|---|
| 2017 | 2016 | 2017 |
| ¥(152) | ¥1,427 | $(1,355) |

### (c) Gain on sales of noncurrent assets

Major components of gain on sales of noncurrent assets for the years ended March 31, 2017 and 2016, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Land | ¥146 | ¥777 | $1,301 |
| Machinery | 14 | 93 | 125 |
| Other | 4 | 47 | 36 |

### (d) Loss on disposal of noncurrent assets

Loss on disposal of noncurrent assets for the years ended March 31, 2017 and 2016, was primarily loss on abandonment and sale of buildings, machinery and equipment, etc. The abandonment and sale of buildings, machinery and equipment, etc. was performed under a single, all-inclusive contract for each facility.

### (e) Impairment loss

Major components of impairment losses for the years ended March 31, 2017 and 2016, were as follows:

| | | | Millions of yen | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|
| Use | Asset class | Location | 2017 | 2016 | 2017 | Item on the Consolidated Statements of Income |
| Joint sales rights of pharmaceutical products | Sales rights | Chiyoda-ku, Tokyo | ¥ — | ¥3,942 | $ — | Loss on discontinuation of joint sales agreement |
| Underground uranium storage facility | Buildings, etc. | Hyuga, Miyazaki | — | 1,850 | — | Impairment losses |
| Idle assets | Buildings, etc. | Fuji, Shizuoka, etc. | — | 817 | — | Impairment losses |
| Production facility for semiconductors | Machinery and equipment, etc. | Nobeoka, Miyazaki | — | 550 | — | Impairment losses |
| Production facility for performance paper | Machinery and equipment, etc. | Gobo, Wakayama | — | 142 | — | Business structure improvement expenses |
| Production facility for electronic devices | Machinery and equipment, etc. | Hyuga, Miyazaki | 1,210 | — | 10,785 | Business structure improvement expenses |
| Office assets | Buildings, etc. | Chiyoda-ku, Tokyo, etc. | 1,208 | — | 10,767 | Impairment losses |
| Production facility for synthetic resin | Machinery and equipment, etc. | Sodegaura, Chiba | 1,131 | — | 10,081 | Business structure improvement expenses |
| Dormitory for employees | Buildings, etc. | Izunokuni, Shizuoka | 125 | — | 1,114 | Impairment losses |
| Others | Machinery and equipment, etc. | Fuji, Shizuoka, etc. | 265 | 600 | 2,362 | Impairment losses and business structure improvement expenses |

Grouping of operating assets is based on managerial accounting categories, with consideration given to production process, geographic location, and domain of authority for making investment decisions. Idle assets are recorded separately in each fixed assets class.

With respect to production facility for electronic devices, production facility for synthetic resin, and part of others, the book value was reduced to the recoverable amount due to diminished profitability, and with respect to dormitory for employees and part of others, the book value was reduced to the recoverable amount due to disappearance of prospects for future use. The recoverable amount is stated as value for future usage, which is calculated based on discounted future cash flows within the applicable discount rate of 6% as of March 31, 2017 and 2016.

With respect to office assets, the entire book value is eliminated due to disappearance of prospects for future use.

Among the extraordinary losses under others, ¥115 million (US$1,025 thousand) and ¥324 million were recorded under business structure improvement expenses for the years ended March 2017 and 2016, respectively.

### (f) Business structure improvement expenses

Major components of business structure improvement expenses for the years ended March 31, 2017 and 2016, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Impairment of fixed assets | ¥2,456 | ¥ 466 | $21,891 |
| Additional payment of retirement benefits due to application of early retirement, etc. | — | 110 | — |
| Loss on disposal and devaluation of inventory and others | 3,734 | 3,029 | 33,283 |
| Total | ¥6,189 | ¥3,606 | $55,165 |

### (g) Loss on piling business

Asahi Kasei Construction Materials Corp., a consolidated subsidiary of Asahi Kasei Corp., submitted incorrect data within their pile installation report for the precast concrete piles installed as a secondary subcontractor for the construction of a condominium complex in Yokohama, Kanagawa, Japan. There was manipulation of ammeter data obtained when boring holes for installation, and manipulation of flowmeter data for the injection of cement milk for consolidation of pile tips. As a result of this matter, Asahi Kasei Corp. has recorded an extraordinary loss in the year ended March 31, 2016, as "loss on piling business" for expenses related to the investigation, etc., of the manipulation of such data.

### (h) Loss on discontinuation of joint sales agreement

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Impairment losses | ¥— | ¥3,942 | $— |
| Cancellation fee | — | 1,303 | — |
| Other | — | 22 | — |
| Total | ¥— | ¥5,266 | $— |

## 6. Notes to Consolidated Statements of Comprehensive Income

Recycling adjustment and tax effects on other comprehensive income for the years ended March 31, 2017 and 2016, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Net unrealized gain on other securities: | | | |
| Changes during the fiscal year | ¥ 40,337 | ¥ (26,559) | $ 359,542 |
| Recycling adjustment | (9,858) | (7,879) | (87,869) |
| Pre-tax effect | 30,479 | (34,438) | 271,673 |
| Tax effect | (9,302) | 13,341 | (82,913) |
| Net unrealized gain on other securities | 21,177 | (21,098) | 188,760 |
| Deferred gains or losses on hedges: | | | |
| Changes during the fiscal year | 380 | (5,649) | 3,387 |
| Recycling adjustment | (170) | 1,976 | (1,515) |
| Adjustment on the acquisition cost of assets | — | 5,718 | — |
| Pre-tax effect | 210 | 2.045 | 1,872 |
| Tax effect | 24 | (527) | 214 |
| Deferred gains or losses on hedges | 234 | 1,519 | 2,086 |
| Foreign currency translation adjustment: | | | |
| Changes during the fiscal year | (8,073) | (49,549) | (71,958) |
| Recycling adjustment | — | 1,028 | — |
| Pre-tax effect | (8,073) | (48,522) | (71,958) |
| Tax effect | 53 | (338) | 472 |
| Foreign currency translation adjustment | (8,020) | (48,860) | (71,486) |
| Remeasurements of defined benefit plans: | | | |
| Changes during the fiscal year | (74) | (50,607) | (660) |
| Recycling adjustment | 10,901 | 3,397 | 97,166 |
| Pre-tax effect | 10,827 | (47,210) | 96,506 |
| Tax effect | (2,713) | 13,880 | (24,182) |
| Remeasurements of defined benefit plans | 8,114 | (33,331) | 72,324 |
| Share of other comprehensive income of affiliates accounted for using equity method: | | | |
| Changes during the fiscal year | 866 | (3,363) | 7,719 |
| Recycling adjustment | (55) | (204) | (490) |
| Share of other comprehensive income of affiliates accounted for using equity method | 810 | (3,567) | 7,220 |
| Total other comprehensive income | ¥ 22,315 | ¥(105,337) | $ 198,904 |

## 7. Notes to Consolidated Statements of Changes in Net Assets

### For the year ended March 31, 2017

### (a) Class and total number of issued and outstanding shares and treasury stock

| | Thousands of shares | | | |
|---|---|---|---|---|
| | Number of shares as of March 31, 2016 | Increase in number of shares during the fiscal year | Decrease in number of shares during the fiscal year | Number of shares as of March 31, 2017 |
| Issued and outstanding shares | | | | |
| Common stock | 1,402,616 | — | — | 1,402,616 |
| Total | 1,402,616 | — | — | 1,402,616 |
| Treasury stock | | | | |
| Common stock (Notes 1 & 2) | 5,862 | 99 | 2 | 5,959 |
| Total | 5,862 | 99 | 2 | 5,959 |

Notes: 1. The increase of 99 thousand shares in common stock of treasury stock was due to the purchase of shares in quantities of less than one share unit.
2. The decrease of 2 thousand shares in common stock of treasury stock was due to the sale of shares in quantities of less than one share unit.

### (b) Dividends

i) Cash dividends paid

1) The following was resolved by the Board of Directors on May 11, 2016.

Dividends for common stock

| | |
|---|---|
| Total dividends | ¥13,968 million (US$124,503 thousand) |
| Dividend per share | ¥10.00 (US$0.09) |
| Date of record | March 31, 2016 |
| Payment date | June 6, 2016 |

2) The following was resolved by the Board of Directors on November 1, 2016.

Dividends for common stock

| | |
|---|---|
| Total dividends | ¥13,967 million (US$124,494 thousand) |
| Dividend per share | ¥10.00 (US$0.09) |
| Date of record | September 30, 2016 |
| Payment date | December 1, 2016 |

ii) Dividends for which the date of record falls within the fiscal year under review but the payment date occurs in the following fiscal year

The following was resolved by the Board of Directors on May 11, 2017.

Dividends for common stock

| | |
|---|---|
| Total dividends | ¥19,553 million (US$174,285 thousand) |
| Source of dividends | Retained earnings |
| Dividend per share | ¥14.00 (US$0.12) |
| Date of record | March 31, 2017 |
| Payment date | June 6, 2017 |

## For the year ended March 31, 2016

### (a) Class and total number of issued and outstanding shares and treasury stock

| | Thousands of shares | | | |
|---|---|---|---|---|
| | Number of shares as of March 31, 2015 | Increase in number of shares during the fiscal year | Decrease in number of shares during the fiscal year | Number of shares as of March 31, 2016 |
| Issued and outstanding shares | | | | |
| Common stock | 1,402,616 | — | — | 1,402,616 |
| Total | 1,402,616 | — | — | 1,402,616 |
| Treasury stock | | | | |
| Common stock (Notes 1 & 2) | 5,743 | 125 | 7 | 5,862 |
| Total | 5,743 | 125 | 7 | 5,862 |

Notes: 1. The increase of 125 thousand shares in common stock of treasury stock was due to the purchase of shares in quantities of less than one share unit.
2. The decrease of 7 thousand shares in common stock of treasury stock was due to the sale of shares in quantities of less than one share unit.

### (b) Dividends

i) Cash dividends paid

1) The following was resolved by the Board of Directors on May 12, 2015.

Dividends for common stock

| | |
|---|---|
| Total dividends | ¥13,969 million |
| Dividend per share | ¥10.00 |
| Date of record | March 31, 2015 |
| Payment date | June 4, 2015 |

2) The following was resolved by the Board of Directors on November 6, 2015.

Dividends for common stock

| | |
|---|---|
| Total dividends | ¥13,968 million |
| Dividend per share | ¥10.00 |
| Date of record | September 30, 2015 |
| Payment date | December 1, 2015 |

ii) Dividends for which the date of record falls within the fiscal year under review but the payment date occurs in the following fiscal year

The following was resolved by the Board of Directors on May 11, 2016.

Dividends for common stock

| | |
|---|---|
| Total dividends | ¥13,968 million |
| Source of dividends | Retained earnings |
| Dividend per share | ¥10.00 |
| Date of record | March 31, 2016 |
| Payment date | June 6, 2016 |

## 8. Notes to Consolidated Statements of Cash Flows

### (a) Cash and cash equivalents

Reconciliation of cash and cash equivalents on the consolidated statements of cash flows to the amounts disclosed on the consolidated balance sheets at March 31, 2017 and 2016, was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Cash and deposits | ¥145,289 | ¥146,054 | $1,295,026 |
| Time deposits with deposit term of over 3 months | (1,212) | (2,281) | (10,803) |
| Money market funds included in short-term investment securities | — | 1,534 | — |
| Cash and cash equivalents | ¥144,077 | ¥145,307 | $1,284,223 |

## 9. Leases

### (a) Financing lease transactions

Financing lease transactions without title transfer

#### i) Components of lease assets are as follows:

1) Property, plant and equipment: Mainly model homes (buildings and structures) for housing business.
2) Intangible fixed assets: Software

#### ii) Depreciation of lease assets:

As stated in Note 2 "Significant accounting policies (c) Noncurrent assets and depreciation/amortization," the financing lease transactions without title transfer which occurred prior to March 31, 2008, are accounted for on a basis similar to an operating lease. For such leases, information for the cost and related accumulated amortization, computed using the straight-line method over the term of the lease assuming such lease transactions accounted for as an operating lease had been accounted for as a financing lease, is required to be disclosed. However, such disclosure is omitted due to immateriality.

### (b) Operating lease transactions

Future lease payments for the non-cancelable portion of the Company's operating leases at March 31, 2017 and 2016, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Due within one year | ¥ 5,753 | ¥ 5,414 | $ 51,279 |
| Due after one year | 33,899 | 5,255 | 302,157 |
| Total | ¥39,652 | ¥10,668 | $353,436 |

## 10. Financial instruments

### (a) Overview of financial instruments

#### i) Policy related to financial instruments

The Company raises long-term funds as required mainly for its planned capital expenditures by borrowing from banks, borrowing from life insurance companies, issuing bonds, etc. A portion of the surplus funds is invested only in highly stable financial assets. Short-term working funds are raised by bank borrowings, issuance of commercial paper, etc. Derivative transactions are mainly entered into for the purpose of reducing risks related to assets and liabilities which are exposed to risks of fluctuations of exchange rate and interest rate. Derivatives are not traded for speculative purposes.

#### ii) Components of financial instruments, their risks and risk management structure

As operating receivables, notes and accounts receivable—trade are exposed to credit risk of customers. As the business of the Company spans a wide range of fields, operating receivables are not excessively concentrated on specific customers, but the parent company and each consolidated subsidiary monitor and manage the credit condition of each customer.

Investment securities are exposed to the risk of fluctuations in market price, but they are mainly equity securities of companies with which the Company has business relationships. These securities are held for the purpose of maintaining the business relationships. Fair value is periodically evaluated, and the financial condition of the issuing company is monitored.

As operating liabilities, notes and accounts payable—trade generally have a payment term of 1 year or less.

Variable interest-rate borrowings are exposed to the risk of interest-rate fluctuations, but derivatives (interest-rate and currency swaps, interest-rate swaps) are used as hedges to fix interest expenses for a portion of long-term variable interest-rate borrowings.

Operating receivables and operating liabilities include those denominated in currencies other than Japanese yen, and are thus exposed to the risk of exchange-rate fluctuations. In order to minimize the effects of short-term exchange-rate fluctuations, the Company hedges with derivative transactions (forward exchange contracts), in principle, within the range of the underlying receivables and liabilities amount.

Derivative transactions are exposed to the credit risk of transacting financial institutions, but the credit condition of those financial institutions is reviewed through periodical monitoring. Such transactions are performed and managed in accordance with the Company's internal regulations which stipulate the related authority, procedures, limits, etc.

Borrowings are exposed to liquidity risk, but the parent company specifies standards for required on-hand funds based on the Company's funding plans, prepares and revises plans for cash receipts and disbursements as appropriate, and enters into commitment-line agreements with transacting financial institutions to manage such risk.

Loan securitization in the housing business is exposed to the risk of interest-rate fluctuations between the time of origination of housing loans and the time of execution of their securitization, but derivative transactions (interest-rate swaps) are entered into in order to reduce such risk.

#### iii) Supplementary explanation of fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. In the case where no quoted market price is available, a reasonably estimated fair value is used. As variable factors are incorporated in its estimation, fair value may change due to the adoption of different assumptions, conditions, etc. The stated amount of contracts regarding derivative transactions included in Note 12 "Derivative financial instruments" is not itself an indication of the market risk of the derivative transactions.

### (b) Fair value of financial instruments

Amounts carried on the consolidated balance sheets, their fair values, and the differences between them as of March 31, 2017 and 2016, were as shown below.

Financial instruments whose fair values are deemed extremely difficult to determine are not included in this table (See Notes 2), 3) and 4) below).

| | Millions of yen | | |
|---|---|---|---|
| | 2017 | | |
| | Carrying amount | Fair value | Difference |
| Cash and deposits | ¥145,289 | ¥145,289 | ¥ — |
| Notes and accounts receivable—trade | 302,751 | | |
| Allowance for doubtful accounts (*1) | (2,078) | | |
| | 300,672 | 300,672 | — |
| Short-term investment securities and investment securities: | | | |
| Investments in affiliates | 14,529 | 9,558 | (4,971) |
| Other securities | 211,694 | 211,694 | — |
| Long-term loans receivable | 19,371 | 19,366 | (5) |
| Total assets | 691,554 | 686,579 | (4,976) |
| Notes and accounts payable—trade | 147,543 | 147,543 | — |
| Short-term loans payable | 88,965 | 88,965 | — |
| Commercial paper | 56,000 | 56,000 | — |
| Income taxes payable | 16,202 | 16,202 | — |
| Bonds payable | 40,000 | 40,646 | (646) |
| Long-term loans payable | 217,094 | 216,145 | 949 |
| Lease obligations | 773 | 765 | 8 |
| Long-term guarantee deposits | 8,299 | 8,344 | (45) |
| Total liabilities | 574,876 | 574,610 | 266 |
| Derivative financial instruments (*2) | ¥ (249) | ¥ (249) | ¥ — |

| | Millions of yen | | |
|---|---|---|---|
| | 2016 | | |
| | Carrying amount | Fair value | Difference |
| Cash and deposits | ¥146,054 | ¥146,054 | ¥ — |
| Notes and accounts receivable—trade | 280,095 | | |
| Allowance for doubtful accounts (*1) | (1,699) | | |
| | 278,396 | 278,396 | — |
| Short-term investment securities and investment securities: | | | |
| Investments in affiliates | 10,890 | 5,985 | (4,905) |
| Other securities | 183,672 | 183,672 | — |
| Long-term loans receivable | 16,607 | 16,604 | (3) |
| Total assets | 635,618 | 630,711 | (4,908) |
| Notes and accounts payable—trade | 126,653 | 126,653 | — |
| Short-term loans payable | 273,418 | 273,418 | — |
| Income taxes payable | 32,735 | 32,735 | — |
| Bonds payable | 40,000 | 40,650 | (650) |
| Long-term loans payable | 134,801 | 137,008 | (2,207) |
| Lease obligations | 1,456 | 1,465 | (9) |
| Long-term guarantee deposits | 8,032 | 8,088 | (55) |
| Total liabilities | 617,096 | 620,017 | (2,921) |
| Derivative financial instruments (*2) | ¥ 354 | ¥ 354 | ¥ — |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2017 | | |
| | Carrying amount | Fair value | Difference |
| Cash and deposits | $1,295,026 | $1,295,026 | $ — |
| Notes and accounts receivable—trade | 2,698,556 | | |
| Allowance for doubtful accounts (*1) | (18,522) | | |
| | 2,680,025 | 2,680,025 | — |
| Short-term investment securities and investment securities: | | | |
| Investment in affiliates | 129,504 | 85,195 | (44,309) |
| Other securities | 1,886,924 | 1,886,924 | — |
| Long-term loans receivable | 172,662 | 172,618 | (44) |
| Total assets | 6,164,132 | 6,119,788 | (44,353) |
| Notes and accounts payable—trade | 1,315,117 | 1,315,117 | — |
| Short-term loans payable | 792,985 | 792,985 | — |
| Commercial paper | 499,153 | 499,153 | — |
| Income taxes payable | 144.416 | 144,416 | — |
| Bonds payable | 356,538 | 362,296 | (5,758) |
| Long-term loans payable | 1,935,057 | 1,926,598 | 8,459 |
| Lease obligations | 6,890 | 6,819 | 71 |
| Long-term guarantee deposits | 73,973 | 74,374 | (401) |
| Total liabilities | 5,124,129 | 5,121,758 | 2,371 |
| Derivative financial instruments (*2) | $ (2,219) | $ (2,219) | $ — |

(*1) This reduction represents specific allowance for doubtful accounts related to notes and accounts receivable—trade.
(*2) The amounts represent net amount of assets and liabilities resulting from derivative transactions. In the case of a net liability, the amount is shown in parentheses.
Note 1) Method to determine the estimated fair value of financial instruments; securities and derivative financial instruments

i) Assets

1) Cash and deposits, notes and accounts receivable—trade
As their fair value approximates book value due to their short maturity, the corresponding book value amount is used as fair value.

2) Short-term investment securities and investment securities
The stock exchange prices are used to determine fair value of traded stocks, and the corresponding book value amount is used as fair value of money market funds, because their fair value approximates book value. Refer to Note 11 "Marketable securities and investment securities" for information on securities classified by holding purpose.

3) Long-term loans receivable
The carrying amounts shown include long-term loans receivable scheduled for repayment within one year. Their fair values are determined based on the present value of principal and interest, discounted using current assumed rates for similar long-term loans receivable. For long-term loans receivable bearing variable interest rates, as they are deemed to reflect market interest rates within a short term, book values are used as fair value.

ii) Liabilities

1) Notes and accounts payable–trade; short-term loans payable; commercial paper; income taxes payable
As their fair values approximate book value due to their short maturity, the corresponding book value amounts are used as fair value.

2) Bonds payable
Fair value of the bonds payable issued by the parent company is based on the quoted market price if available. For those without a quoted market price that are subject to special treatment for interest-rate swaps, fair value is based on the present value by totaling the amount of principal and interest, together with related interest-rate swaps, discounted by the interest rate that would apply if equivalent bonds were newly issued.

3) Long-term loans payable
The carrying amounts shown include long-term loans payable that are scheduled for repayment within one year of March 31, 2017 and 2016, amounting to ¥24,510 million (US$218,469 thousand) and ¥40,169 million, respectively. Their fair values are based on present value of principal and interest discounted using the current assumed rates for similar long-term loans payable. For long-term loans payable bearing variable interest rates, fair value of those subject to special treatment of interest rate-swaps is based on present value by totaling the amount of principal and interest, together with related interest-rate swaps, discounted by the interest rate that would apply if equivalent long-term loans were newly entered. For other long-term loans payable, book value is used as fair value as they are deemed to reflect market interest rates within a short term.

4) Lease obligations
The carrying amounts shown are the total amount of lease obligations under current liabilities and lease obligations under noncurrent liabilities. Present value, calculated by discounting the total amount of principal and interest using the presumed interest rate that would apply if lease transactions were newly made, is used as the fair value.

5) Long-term guarantee deposits
In cases where the deposit period can be estimated, the fair value of long-term guarantee deposits is determined using a discounted cash flow over that period.

iii) Derivative transactions
Refer to Note 12 "Derivative financial instruments."

Note 2) For equity investments in nonpublic companies, with a carrying amount as of March 31, 2017 and 2016, amounting to ¥54,787 million (US$488,341 thousand) and ¥48,453 million, respectively, fair value is not included in short-term investment securities and investment securities, as no quoted market price is available and it is deemed extremely difficult to determine fair value due to the impossibility of estimating future cash flows.

Note 3) For investment securities, with a carrying amount as of March 31, 2017 and 2016, amounting to ¥3,127 million (US$27,872 thousand) and ¥3,117 million, respectively, fair value is not included in short-term investment securities and investment securities, as no quoted market price is available and it is deemed extremely difficult to determine fair value due to the impossibility of estimating future cash flows.

Note 4) For long-term guarantee deposits, the fair value of a portion having a carrying amount as of March 31, 2017 and 2016, amounting to ¥12,180 million (US$108,566 thousand) and ¥12,098 million, respectively, is not included as no quoted market price is available and it is deemed extremely difficult to determine fair value due to the impossibility of estimating future cash flows.

Note 5) For monetary credits and securities with maturity, the amounts scheduled for redemption subsequent to the closing date are as follows:

Millions of yen

| | 2017 | | | |
|---|---|---|---|---|
| | Due within one year | Due after one year, within five years | Due after five years, within ten years | Due after more than ten years |
| Cash and deposits | ¥145,289 | ¥ — | ¥— | ¥— |
| Notes and accounts receivable—trade | 302,751 | — | — | — |
| Long-term loans receivable | 453 | 18,912 | 5 | — |
| Total | ¥448,493 | ¥18,912 | ¥ 5 | ¥— |

Millions of yen

| | 2016 | | | |
|---|---|---|---|---|
| | Due within one year | Due after one year, within five years | Due after five years, within ten years | Due after more than ten years |
| Cash and deposits | ¥146,054 | ¥ — | ¥— | ¥— |
| Notes and accounts receivable—trade | 280,095 | — | — | — |
| Long-term loans receivable | 254 | 16,353 | — | — |
| Total | ¥426,402 | ¥16,353 | ¥— | ¥— |

Thousands of U.S. dollars

| | 2017 | | | |
|---|---|---|---|---|
| | Due within one year | Due after one year, within five years | Due after five years, within ten years | Due after more than ten years |
| Cash and deposits | $1,295,026 | $ — | $— | $— |
| Notes and accounts receivable—trade | 2,698,556 | — | — | — |
| Long-term loans receivable | 4,038 | 168,571 | 45 | — |
| Total | $3,997,620 | $168,571 | $45 | $— |

Note 6) For bonds payable, long-term loans payable, lease obligations, and other interest-bearing debt, the amounts scheduled for repayment subsequent to the closing date are as follows:

Millions of yen

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| Year ending March 31 | Short-term loans payable | Commercial paper | Bonds payable | Long-term loans payable | Lease obligations | Total |
| 2018 | ¥88,965 | ¥56,000 | ¥20,000 | ¥24,510 | ¥305 | ¥189,780 |
| 2019 | — | — | — | 59,796 | 186 | 59,982 |
| 2020 | — | — | 20,000 | 21,279 | 143 | 41,422 |
| 2021 | — | — | — | 22,900 | 112 | 23,012 |
| 2022 | — | — | — | 32,790 | 26 | 32,816 |
| 2023 and thereafter | — | — | — | 55,819 | — | 55,819 |

Millions of yen

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| Year ending March 31 | Short-term loans payable | Commercial paper | Bonds payable | Long-term loans payable | Lease obligations | Total |
| 2017 | ¥273,418 | ¥— | ¥ — | ¥40,169 | ¥919 | ¥314,506 |
| 2018 | — | — | 20,000 | 18,941 | 280 | 39,221 |
| 2019 | — | — | — | 49,616 | 118 | 49,734 |
| 2020 | — | — | 20,000 | 12,028 | 83 | 32,111 |
| 2021 | — | — | — | 4,436 | 55 | 4,491 |
| 2022 and thereafter | — | — | — | 9,611 | 1 | 9,612 |

Thousands of U.S. dollars

| Year ending March 31 | 2017 Short-term loans payable | Commercial paper | Bonds payable | Long-term loans payable | Lease obligations | Total |
|---|---|---|---|---|---|---|
| 2018 | $792,985 | $499,153 | $178,269 | $218,469 | $2,719 | $1,691,595 |
| 2019 | — | — | — | 532,989 | 1,658 | 534,647 |
| 2020 | — | — | 178,269 | 189,669 | 1,275 | 369,213 |
| 2021 | — | — | — | 204,118 | 998 | 205,116 |
| 2022 | — | — | — | 292,272 | 232 | 292,504 |
| 2023 and thereafter | — | — | — | 497,540 | — | 497,540 |

## 11. Marketable securities and investment securities

### (a) Other securities with available fair value

The aggregate cost, carrying amount which was identical to fair value, and gross unrealized gains and losses of debt and equity securities classified as other securities for which fair values were available at March 31, 2017 and 2016, were as follows:

Millions of yen

| | 2017 Carrying amount | Cost | Unrealized gains (losses) |
|---|---|---|---|
| Securities with unrealized gains: | | | |
| Equity securities | ¥200,280 | ¥35,723 | ¥164,557 |
| Others | — | — | — |
| Subtotal | 200,280 | 35,723 | 164,557 |
| Securities with unrealized losses: | | | |
| Equity securities | 11,414 | 12,690 | (1,277) |
| Others | — | — | — |
| Subtotal | 11,414 | 12,690 | (1,277) |
| Total | ¥211,694 | ¥48,414 | ¥163,280 |

Millions of yen

| | 2016 Carrying amount | Cost | Unrealized gains (losses) |
|---|---|---|---|
| Securities with unrealized gains: | | | |
| Equity securities | ¥172,068 | ¥36,960 | ¥135,107 |
| Others | — | — | — |
| Subtotal | 172,068 | 36,960 | 135,107 |
| Securities with unrealized losses: | | | |
| Equity securities | 10,070 | 12,439 | (2,369) |
| Others | 1,534 | 1,534 | — |
| Subtotal | 11,604 | 13,973 | (2,369) |
| Total | ¥183,672 | ¥50,934 | ¥132,738 |

Thousands of U.S. dollars

| | 2017 Carrying amount | Cost | Unrealized gains (losses) |
|---|---|---|---|
| Securities with unrealized gains: | | | |
| Equity securities | $1,785,186 | $318,415 | $1,466,771 |
| Others | — | — | — |
| Subtotal | 1,785,186 | 318,415 | 1,466,771 |
| Securities with unrealized losses: | | | |
| Equity securities | 101,738 | 113,112 | (11,382) |
| Others | — | — | — |
| Subtotal | 101,738 | 113,112 | (11,382) |
| Total | $1,886,924 | $431,536 | $1,455,388 |

### (b) Realized gains and losses on the sale of other securities

The realized gains and losses on the sale of other securities during the years ended March 31, 2017 and 2016, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Selling amount | ¥12,087 | ¥10,396 | $107,737 |
| Gain on sales of securities | 9,918 | 8,275 | 88,404 |
| Loss on sales of securities | — | — | — |

### (c) Loss on other devaluation of investment securities whose fair values are readily determinable

Loss on other devaluation of investment securities whose fair values are readily determinable for the year ended March 31, 2017, was ¥101 million (US$900 thousand), which is for other securities, and for the year ended March 31, 2016, ¥924 million, which is the sum of ¥796 million for equity securities of unconsolidated subsidiaries and affiliates, and ¥127 million for other securities. Among the loss on other devaluation of investment securities for the year ended March 31, 2016, ¥561 million was recorded under business structure improvement expenses.

## 12. Derivative financial instruments

### (a) Derivative financial instruments for which hedge accounting is not applied

i) Foreign exchange forward contracts

| | | Millions of yen | | | |
|---|---|---|---|---|---|
| | | 2017 | | | |
| Classification | Items | Amount of contract | Amount of contract over 1 year | Fair value | Profit (loss) from valuation |
| Off-market transactions | Foreign exchange forward contracts: | | | | |
| | Selling: | | | | |
| | U.S. dollar | ¥24,981 | ¥— | ¥ 100 | ¥ 100 |
| | Euro | 9,289 | — | (9) | (9) |
| | Thai baht | 879 | — | 11 | 11 |
| | Singapore dollar | 11 | — | (0) | (0) |
| | British pound | 52 | — | 0 | 0 |
| | Buying: | | | | |
| | U.S. dollar | 1,827 | — | (376) | (376) |
| | Euro | 45,868 | — | (48) | (48) |
| | Thai baht | 4 | — | (0) | 0 |
| | Total | ¥82,911 | ¥— | ¥(322) | ¥(322) |

| | | Millions of yen | | | |
|---|---|---|---|---|---|
| | | 2016 | | | |
| Classification | Items | Amount of contract | Amount of contract over 1 year | Fair value | Profit (loss) from valuation |
| Off-market transactions | Foreign exchange forward contracts: | | | | |
| | Selling: | | | | |
| | U.S. dollar | ¥21,694 | ¥ — | ¥698 | ¥698 |
| | Euro | 6,137 | — | 16 | 16 |
| | Thai baht | 1,115 | — | (0) | (0) |
| | Singapore dollar | 396 | — | 40 | 40 |
| | British pound | — | — | — | — |
| | Buying: | | | | |
| | U.S. dollar | 2,679 | 728 | (148) | (148) |
| | Euro | 0 | — | (0) | (0) |
| | Thai baht | 9 | — | (0) | (0) |
| | Total | ¥32,030 | ¥728 | ¥605 | ¥605 |

| Classification | Items | Thousands of U.S. dollars 2017 Amount of contract | Amount of contract over 1 year | Fair value | Profit (loss) from valuation |
|---|---|---|---|---|---|
| Off-market transactions | Foreign exchange forward contracts: | | | | |
| | Selling: | | | | |
| | U.S. dollar | $222,667 | $— | $ 891 | $ 891 |
| | Euro | 82,797 | — | (80) | (80) |
| | Thai baht | 7,835 | — | 98 | 98 |
| | Singapore dollar | 98 | — | (0) | (0) |
| | British pound | 463 | — | 0 | 0 |
| | Buying: | | | | |
| | U.S. dollar | 16,285 | — | (3,351) | (3,351) |
| | Euro | 408,842 | — | (428) | (428) |
| | Thai baht | 36 | — | 0 | 0 |
| | Total | $739,023 | $— | $(2,870) | $(2,870) |

## (b) Derivative financial instruments for which hedge accounting is applied

### i) Foreign exchange forward contracts

| Classification | Items | Hedged assets/liabilities | Millions of yen 2017 Amount of contract | Amount of contract over 1 year | Fair value |
|---|---|---|---|---|---|
| Principle-based accounting | Foreign exchange forward contracts: | | | | |
| | Selling: | | | | |
| | U.S. dollar | Accounts receivable—trade | ¥ 619 | ¥— | ¥36 |
| | Euro | Accounts receivable—trade | 109 | — | 1 |
| | Thai baht | Accounts receivable—trade | 11 | — | (0) |
| | Singapore dollar | Accounts receivable—trade | — | — | — |
| | Buying: | | | | |
| | U.S. dollar | Accounts payable—trade | 1,445 | — | 32 |
| | Euro | Accounts payable—trade | 2 | — | (0) |
| | Thai baht | Accounts payable—trade | 106 | — | 6 |
| | Singapore dollar | Accounts payable—trade | — | — | — |
| | Total | | ¥2,292 | ¥— | ¥74 |

| Classification | Items | Hedged assets/liabilities | Millions of yen 2016 Amount of contract | Amount of contract over 1 year | Fair value |
|---|---|---|---|---|---|
| Principle-based accounting | Foreign exchange forward contracts: | | | | |
| | Selling: | | | | |
| | U.S. dollar | Accounts receivable—trade | ¥2,953 | ¥— | ¥(170) |
| | Euro | Accounts receivable—trade | 111 | — | (2) |
| | Thai baht | Accounts receivable—trade | — | — | — |
| | Singapore dollar | Accounts receivable—trade | 289 | — | (12) |
| | Buying: | | | | |
| | U.S. dollar | Accounts payable—trade | 2,018 | — | (62) |
| | Euro | Accounts payable—trade | 21 | — | (0) |
| | Thai baht | Accounts payable—trade | 177 | — | (6) |
| | Singapore dollar | Accounts payable—trade | 29 | — | 1 |
| | Total | | ¥5,596 | ¥— | ¥(251) |

| Classification | Items | Hedged assets/liabilities | Thousands of U.S. dollars 2017 Amount of contract | Amount of contract over 1 year | Fair value |
|---|---|---|---|---|---|
| Principle-based accounting | Foreign exchange forward contracts: | | | | |
| | Selling: | | | | |
| | U.S. dollar | Accounts receivable—trade | $ 5,517 | $— | $321 |
| | Euro | Accounts receivable—trade | 972 | — | 9 |
| | Thai baht | Accounts receivable—trade | 98 | — | (0) |
| | Singapore dollar | Accounts receivable—trade | — | — | — |
| | Buying: | | | | |
| | U.S. dollar | Accounts payable—trade | 12,880 | — | 285 |
| | Euro | Accounts payable—trade | 18 | — | (0) |
| | Thai baht | Accounts payable—trade | 945 | — | 53 |
| | Singapore dollar | Accounts payable—trade | — | — | — |
| | Total | | $20,430 | $— | $660 |

ii) Interest-rate swaps, and interest-rate and currency swaps

| Classification | Items | Hedged assets/liabilities | Millions of yen 2017 Amount of contract | Amount of contract over 1 year | Fair value |
|---|---|---|---|---|---|
| Special treatment for interest-rate swaps | Interest-rate swaps<br>Pay fixed/receive floating | Long-term loans payable | ¥165,889 | ¥139,918 | (*) |
| Special treatment for interest-rate and currency swaps | Interest-rate and currency swaps<br>U.S. dollar receive floating/ Thai baht pay fixed | Long-term loans payable | 324 | 162 | (*) |
| | Total | | ¥166,213 | ¥140,080 | ¥— |

| Classification | Items | Hedged assets/liabilities | Millions of yen 2016 Amount of contract | Amount of contract over 1 year | Fair value |
|---|---|---|---|---|---|
| Special treatment for interest-rate swaps | Interest-rate swaps<br>Pay fixed/receive floating | Long-term loans payable | ¥76,871 | ¥64,084 | (*) |
| Special treatment for interest-rate and currency swaps | Interest-rate and currency swaps<br>U.S. dollar receive floating/ Thai baht pay fixed | Long-term loans payable | 477 | 318 | (*) |
| | Total | | ¥77,349 | ¥64,403 | ¥— |

| Classification | Items | Hedged assets/liabilities | Thousands of U.S. dollars 2017 Amount of contract | Amount of contract over 1 year | Fair value |
|---|---|---|---|---|---|
| Special treatment for interest-rate swaps | Interest-rate swaps<br>Pay fixed/receive floating | Long-term loans payable | $1,478,643 | $1,247,152 | (*) |
| Special treatment for interest-rate and currency swaps | Interest-rate and currency swaps<br>U.S. dollar receive floating/ Thai baht pay fixed | Long-term loans payable | 2,888 | 1,444 | (*) |
| | Total | | $1,481,531 | $1,248,596 | $— |

(*) Fair value of interest-rate swaps and interest-rate and currency swaps, for which special treatment is applied, is included in fair value of the corresponding long-term loans payable for which hedge accounting is applied.

## 13. Provision for retirement benefits

Upon terminating employment, employees of the parent company and its subsidiaries are entitled, under most circumstances, to lump-sum severance indemnities and/or pension payments determined by reference mainly to their current basic rate of pay and length of service and/or defined contribution plans. Additional benefits may be granted to employees depending on the conditions under which termination of employment occurs. Certain consolidated subsidiaries adopt the simplified method in calculating expected defined benefit liability. Reconciliations of beginning and ending balances of projected benefit obligations for the fiscal years ended March 31, 2017 and 2016, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Beginning balance of the projected benefit obligations | ¥398,588 | ¥352,813 | $3,552,794 |
| Service cost | 15,581 | 13,604 | 138,880 |
| Interest cost | 677 | 3,439 | 6,034 |
| Actuarial gains/losses | 2,133 | 44,020 | 19,012 |
| Payment of retirement benefits | (19,016) | (18,549) | (169,498) |
| Other (*) | 169 | 3,260 | 1,506 |
| Ending balance of the projected benefit obligations | ¥398,132 | ¥398,588 | $3,548,730 |

(*) ¥3,101 million was recorded under Increase from changes in scope of consolidation for the years ended March 2016.

Reconciliations of beginning and ending balances of plan assets for the fiscal years ended March 31, 2017 and 2016, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Beginning balance of plan assets | ¥212,288 | ¥213,707 | $1,892,219 |
| Expected return | 5,265 | 5,311 | 46,929 |
| Actuarial gains/losses | 2,056 | (6,598) | 18,326 |
| Contributions | 9,799 | 10,200 | 87,343 |
| Payment of retirement benefits | (9,532) | (10,146) | (84,963) |
| Other | (110) | (186) | (980) |
| Ending balance of plan assets | ¥219,765 | ¥212,288 | $1,958,864 |

Reconciliations of ending balance of projected benefit obligations and the plan assets, and of net defined benefit liability and net defined benefit asset, as recorded in the consolidated balance sheet at March 31, 2017 and 2016, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Projected benefit obligations of funded plans | ¥ 256,082 | ¥ 255,432 | $ 2,282,574 |
| Plan assets | (219,765) | (212,288) | (1,958,864) |
| Subtotal | 36,318 | 43,145 | 323,719 |
| Projected benefit obligations of unfunded plans | 142,050 | 143,155 | 1,266,156 |
| Net of liability and asset that have been recorded in the consolidated balance sheets | ¥ 178,368 | ¥ 186,300 | $ 1,589,874 |
| | | | |
| Net defined benefit liability | ¥ 178,368 | ¥ 186,300 | $ 1,589,874 |
| Net of liability and asset that have been recorded in the consolidated balance sheets | ¥ 178,368 | ¥ 186,300 | $ 1,589,874 |

Periodic retirement benefit expenses for employees and the breakdown of items for the years ended March 31, 2017 and 2016, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Service cost (net of employee contributions) | ¥13,952 | ¥11,967 | $124,360 |
| Interest cost | 677 | 3,439 | 6,034 |
| Expected return on plan assets | (5,265) | (5,311) | (46,929) |
| Amortization of actuarial gains/losses | 10,763 | 3,266 | 95,935 |
| Amortization of prior service costs | 142 | 142 | 1,266 |
| Additional retirement benefits and other | 506 | 452 | 4,510 |
| Retirement benefit expenses of defined benefit plans | ¥20,775 | ¥13,956 | $185,177 |

The components of other comprehensive income on defined benefit plans for the fiscal years ended March 31, 2017 and 2016, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Prior service costs | ¥ 142 | ¥ 142 | $ 1,266 |
| Actuarial gains/losses | 10,685 | (47,352) | 95,240 |
| Total | ¥10,827 | ¥(47,210) | $96,506 |

Accumulated other comprehensive income on defined benefit plans at March 31, 2017 and 2016, was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Unrecognized prior service costs | ¥ 219 | ¥ 361 | $ 1,952 |
| Unrecognized actuarial gains/losses | 47,783 | 58,468 | 425,911 |
| Total | ¥48,002 | ¥58,829 | $427,863 |

Share by major classifications for plan assets at March 31, 2017 and 2016, was as follows:

| | 2017 | 2016 |
|---|---|---|
| Bonds | 37% | 36% |
| Stock | 24 | 21 |
| Alternative investments | 16 | 16 |
| Life insurance | 14 | 14 |
| Cash and deposits | 8 | 10 |
| Other | 1 | 3 |
| Total | 100% | 100% |

Note: Alternative investments include mainly investments in real estate and hedge funds.

The current and future allocation of plan assets, and the current and future long-term rate of expected return from the variety of assets that make up the plan assets, are considered in determining the long-term rate of expected return on plan assets.

Major actuarial assumptions at March 31, 2017 and 2016, were as follows:

| | 2017 | 2016 |
|---|---|---|
| Discount rate | Mainly 0.1% | Mainly 0.1% |
| The long-term rate of expected return on plan assets | Mainly 2.5% | Mainly 2.5% |
| Expected rate of increase in salary | 2.3–7.1% | 2.3–7.1% |

Required payments to defined contribution plans at March 31, 2017, amounted to ¥1,874 million (US$16,704 thousand), and at March 31, 2016, amounted to ¥1,416 million.

## 14. Taxes

Income taxes applicable to the parent company and subsidiaries in Japan include (1) corporation tax, (2) enterprise tax, and (3) inhabitants tax.

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Deferred tax assets: | | | |
| Net defined benefit liability | ¥ 55,324 | ¥ 57,150 | $ 493,128 |
| Accrued bonuses | 7,687 | 7,682 | 68,518 |
| Tax loss carry forwards | 6,870 | 8,105 | 61,235 |
| Foreign tax credit carry forwards | 5,560 | 5,319 | 49,559 |
| Unrealized gain on noncurrent assets and others | 3,843 | 4,004 | 34,254 |
| Impairment losses | 3,397 | 4,332 | 30,279 |
| Loss on disposal of noncurrent assets | 3,383 | 4,198 | 30,154 |
| Depreciation | 2,781 | 2,696 | 24,788 |
| Unrealized loss on investment securities | 1,765 | 2,073 | 15,732 |
| Provision for periodic repairs | 1,456 | 1,283 | 12,978 |
| Provision for product warranties | 1,338 | 1,168 | 11,926 |
| Accrued enterprise tax | 1,247 | 2,074 | 11,115 |
| Devaluation of inventories | 1,092 | 1,057 | 9,733 |
| Allowance for doubtful accounts | 979 | 821 | 8,726 |
| Asset retirement obligations | 610 | 813 | 5,437 |
| Other | 11,251 | 10,197 | 100,285 |
| Subtotal deferred tax assets | 108,583 | 112,969 | 967,849 |
| Less: Valuation allowance | (10,054) | (16,294) | (89,616) |
| Total deferred tax assets | 98,528 | 96,676 | 878,224 |
| | | | |
| Deferred tax liabilities: | | | |
| Unrealized gain on other securities | (51,508) | (42,075) | (459,114) |
| Identified intangible assets during business combination | (50,049) | (53,707) | (446,109) |
| Depreciation—overseas subsidiaries | (13,405) | (13,158) | (119,485) |
| Deferred gain on property, plant and equipment | (8,388) | (9,037) | (74,766) |
| Other | (5,388) | (5,519) | (48,026) |
| Total deferred tax liabilities | (128,738) | (123,496) | (1,147,500) |
| Net deferred tax assets (liabilities) | ¥ (30,210) | ¥ (26,820) | $ (269,275) |

Net deferred tax assets (liabilities) at March 31, 2017 and 2016, were included in the following line items on the consolidated balance sheets.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Current assets—deferred tax assets | ¥ 20,279 | ¥ 18,133 | $ 180,756 |
| Noncurrent assets—deferred tax assets | 9,309 | 20,098 | 82,975 |
| Current liabilities—other | (39) | (120) | (348) |
| Noncurrent liabilities—deferred tax liabilities | (59,759) | (64,930) | (532,659) |

In the fiscal year ended March 31, 2017, environmental expenses, experiment and research expenses, deferred gains or losses on hedges, and accelerated depreciation, which had previously been reported separately, are included in other due to immateriality. Accordingly, the figures for other for the fiscal year ended March 31, 2016, includes ¥238 million in environmental expenses, ¥198 million in experiment and research expenses, ¥19 in deferred gains or losses on hedges, and ¥(137) million in accelerated depreciation.

Reconciliation of the differences between the statutory tax rate and the effective income tax rate for the years ended March 31, 2017 and 2016, was as follows:

| | 2017 | 2016 |
|---|---|---|
| Statutory tax rate | 30.9% | 33.1% |
| Increase (reduction) in taxes resulting from: | | |
| Non-deductible expenses and non-taxable income | 1.1 | 1.1 |
| Equalization of inhabitants taxes | 0.3 | 0.3 |
| R&D expenses deductible from income taxes | (3.7) | (4.6) |
| Amortization of goodwill and negative goodwill | 3.5 | 3.5 |
| Equity in (losses) earnings of unconsolidated subsidiaries and affiliates | (1.0) | 0.2 |
| Undistributed earnings (losses) of foreign subsidiaries | 0.2 | (0.1) |
| Difference of tax rates for foreign subsidiaries | (1.2) | (1.0) |
| Valuation allowance | (3.9) | 0.7 |
| Decrease in deferred tax assets due to the change in statutory tax rate | — | 1.9 |
| Other | (0.2) | 1.1 |
| Effective income tax rate | 25.9% | 36.2% |

Revision of deferred tax assets and liabilities due to change in corporate tax rate, etc.

The "Act for Partial Revision of the Act for Partial Revision of the Act for Consumption Tax for Drastic Reform of the Taxation System to Ensure Stable Financial Resources for Social Security" (Act No. 85 of 2016) and the "Act for Partial Revision of the Act for Partial Revision of the Act for Local Tax and Local Allocation Tax for Drastic Reform of the Taxation System to Ensure Stable Financial Resources for Social Security" (Act No. 86 of 2016) were issued on November 18, 2016. Accordingly, the statutory effective tax rate applied to the calculation of deferred tax assets and deferred tax liabilities for the fiscal year ended March 31, 2017, was changed from that applied to said calculation for the fiscal year ended March 31, 2016. The impact of this change is immaterial.

## 15. Business combinations

### Transactions under common control, etc.

#### Merger by absorption of consolidated subsidiaries

#### (a) Outline of the transaction

#### i) Name and nature of business of merged companies

Surviving company

| | |
|---|---|
| Name | Asahi Kasei Corp. |
| Nature of business | Diversified chemicals operations |

Absorbed companies

| | | | |
|---|---|---|---|
| Name | Asahi Kasei Chemicals Corp. | Asahi Kasei Fibers Corp. | Asahi Kasei E-materials Corp. |
| Nature of business | Manufacture and sale of chemical products | Manufacture and sale of fiber products | Manufacture and sale of electronic materials |

#### ii) Date of merger

April 1, 2016

#### iii) Statutory form of merger

Absorption-type merger with Asahi Kasei Corp. as the surviving company

#### iv) Name of surviving company

Asahi Kasei Corp.

#### v) Other items related to outline of the transaction

With the start of the Asahi Kasei Group's new medium-term management initiative in fiscal 2016, the operating portfolio was realigned into three business sectors of Material (currently the Chemicals & Fibers segment and the Electronics segment), Homes (currently the Homes & Construction Materials segment), and Health Care. Within each business sector, portfolio-based management will be thoroughly implemented with optimum allocation of management resources, and further growth will be pursued by creating synergy among the sectors. Together with this change, in order to obtain efficient management and mutual coordination within the Material business sector and achieve greater corporate value, the decision was made to merge Asahi Kasei Chemicals Corp., Asahi Kasei Fibers Corp., and Asahi Kasei E-materials Corp. with the Company.

#### (b) Outline of the accounting treatment implemented

The transaction was treated as a transaction under common control in accordance with the Accounting Standards Board of Japan (ASBJ) Statement No. 21 "Accounting Standard for Business Combinations" and ASBJ Guidance No. 10 "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

## 16. Asset retirement obligations

### (a) Outline of asset retirement obligations

Due to commitments pertaining to restoration to original state before vacating in accordance with land lease agreements such as for offices, and due to commitments to dismantle leased buildings upon termination of lease period, etc., in accordance with lease agreements for model home parks, relevant asset retirement obligations are recorded in the consolidated balance sheets.

In accordance with building lease agreements such as for the head offices, commitments pertaining to restoration to original state before vacating are recognized as asset retirement obligations. However, instead of recording them as aforementioned asset retirement obligations under liabilities, the amount of lease deposit that cannot ultimately be expected to be collected was estimated in a reasonable manner, and of that, the amount corresponding to the fiscal year ended March 31, 2017, was recorded under operating expenses.

### (b) Method of calculating the amount of relevant asset retirement obligations

The calculation of asset retirement obligations is based on the following: expected term of use of 4 to 55 years, inflation rate of 0.0% to 4.1%, and discount rate of 0.0% to 5.4%.

### (c) (Decrease) increase in the total amount of asset retirement obligations in the fiscal years ended March 31, 2017 and 2016

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2017** | 2016 | **2017** |
| Balance at beginning of year | **¥4,047** | ¥4,039 | **$36,073** |
| Increase due to asset retirement obligations accrued | **37** | 200 | **330** |
| Adjustment due to passage of time | **136** | 133 | **1,212** |
| Decrease due to fulfillment of asset retirement obligations | **(125)** | (193) | **(1,114)** |
| Decrease due to foreign exchange fluctuation | **(88)** | (131) | **(784)** |
| Balance at end of year | **¥4,007** | ¥4,047 | **$35,716** |

The amount of lease deposit which will be written off for a certain percentage at the end of the lease period is charged to expense rather than recorded under asset retirement obligations. Increase (decrease) in those expensed amounts for the fiscal years ended March 31, 2017 and 2016, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2017** | 2016 | **2017** |
| Balance at beginning of year | **¥1,733** | ¥1,650 | **$15,447** |
| Increase due to new lease agreements | **79** | 126 | **704** |
| Decrease due to the cancelation of existing lease agreements | **(46)** | (43) | **(410)** |
| Balance at end of year | **¥1,766** | ¥1,733 | **$15,741** |

## 17. Business segment information

### (a) Overview of reportable segments

The Company's business segments are based on organizational units for which separate financial information is available, and the Board of Directors carries out periodic review to allocate management resources and evaluate business performance.

The Company is organized under an operating holding company configuration with the operating holding company and core operating companies performing operations in three business sectors. The operating holding company and each core operating company lays out strategy and develops business activities in Japan and abroad.

With the start of a new medium-term management initiative in April 2016, the Company realigned its business portfolio. As a result, beginning with the first quarter of the year ended March 31, 2017, the Company's operations were reclassified from the four reportable segments "Chemicals & Fibers," "Homes & Construction Materials," "Electronics," and "Health Care," together with an "Others" category, to the three reportable segments of "Material," "Homes," and "Health Care," together with an "Others" category.

Main products of the three reportable segments are as follows:

#### Material segment

**Fibers business**

The Company manufactures, processes, and sells elastic polyurethane filament, cupro fiber, nonwoven fabrics, and nylon 66 filament.

**Chemicals business**

The Company manufactures, processes, and sells petrochemical products (such as acrylonitrile, styrene, polyethylene, and polystyrene), performance polymer products (such as engineering plastics and synthetic rubber), and performance material and consumable products (such as coating materials, microcrystalline cellulose, explosives, explosion-bonded metal clad, hollow-fiber filtration membranes, ion-exchange membranes, electronic materials, food wrapping film, and plastic films, sheets, and foams).

**Electronics business**

The Company manufactures, processes, and sells battery separator products (such as lithium-ion battery separator and lead-acid battery separator) and electronic devices (such as mixed-signal LSIs and Hall elements).

#### Homes segment

**Homes business**

The Company constructs unit homes and apartment buildings, and operates real estate businesses, remodeling businesses, and financial and other services.

**Construction Materials business**

The Company manufactures and sells autoclaved aerated concrete (AAC) panels, insulation panels, foundation systems, and structural components.

#### Health Care segment

**Pharmaceuticals business**

The Company manufactures and sells pharmaceuticals and diagnostic reagents.

**Medical Care business**

The Company manufactures and sells artificial kidneys, therapeutic apheresis devices, and virus removal filters.

**Critical Care business**

The Company manufactures and sells defibrillators and temperature management systems.

### (b) Methods to determine net sales, income or loss, assets, and other items by reportable business segment

Profit by reportable business segment is stated on an operating income basis. Intersegment net sales and transfers are based on the values of transactions undertaken between third parties.

### (c) Information concerning net sales, income or loss, assets, and other items for each reportable segment

Millions of yen

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Material | Homes | Health Care | Subtotal | Others (Note 1) | Total |
| Sales: | | | | | | |
| External customers | ¥ 973,169 | ¥618,964 | ¥270,120 | ¥1,862,252 | ¥ 20,738 | ¥1,882,991 |
| Intersegment | 4,174 | 1,761 | 34 | 5,969 | 30,384 | 36,352 |
| Total | 977,342 | 620,725 | 270,154 | 1,868,221 | 51,122 | 1,919,343 |
| Operating income | 84,472 | 64,100 | 31,921 | 180,493 | 6,041 | 186,534 |
| Assets | 1,231,592 | 455,242 | 459,251 | 2,146,086 | 109,178 | 2,255,264 |
| Other items: | | | | | | |
| Depreciation and amortization (Note 2) | 50,836 | 9,411 | 18,187 | 78,435 | 4,637 | 83,072 |
| Amortization of goodwill | 8,766 | — | 8,780 | 17,546 | 260 | 17,806 |
| Investments in affiliates accounted for using equity method | 35,055 | 4,796 | 111 | 39,962 | 17,873 | 57,835 |
| Increase in property, plant and equipment, and intangible assets | 47,205 | 12,139 | 15,604 | 74,947 | 6,836 | 81,783 |

Notes: 1. The "Others" category includes electricity supply, plant engineering and environmental engineering, research and analysis, and employment agency/staffing operations.
2. Amortization of goodwill is not included.

Millions of yen

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Material | Homes | Health Care | Subtotal | Others (Note 1) | Total |
| Sales: | | | | | | |
| External customers | ¥1,004,438 | ¥632,418 | ¥285,404 | ¥1,922,261 | ¥ 18,653 | ¥1,940,914 |
| Intersegment | 3,761 | 53 | 48 | 3,862 | 41,854 | 45,716 |
| Total | 1,008,198 | 632,472 | 285,452 | 1,926,123 | 60,508 | 1,986,630 |
| Operating income | 79,209 | 71,000 | 36,235 | 186,444 | 3,781 | 190,225 |
| Assets | 1,224,287 | 449,289 | 474,265 | 2,147,842 | 101,418 | 2,249,260 |
| Other items: | | | | | | |
| Depreciation and amortization (Note 2) | 51,337 | 9,529 | 21,539 | 82,406 | 4,624 | 87,030 |
| Amortization of goodwill | 5,887 | — | 9,646 | 15,533 | 288 | 15,821 |
| Investments in affiliates accounted for using equity method | 31,993 | — | — | 31,993 | 17,541 | 49,534 |
| Increase in property, plant and equipment, and intangible assets | 57,185 | 11,947 | 19,382 | 88,514 | 4,706 | 93,220 |

Notes: 1. The "Others" category includes electricity supply, plant engineering and environmental engineering, research and analysis, and employment agency/staffing operations.
2. Amortization of goodwill is not included.

Thousands of U.S. dollars

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Material | Homes | Health Care | Subtotal | Others (Note 1) | Total |
| Sales: | | | | | | |
| External customers | $ 8,674,294 | $5,517,105 | $2,407,701 | $16,599,091 | $184,847 | $16,783,947 |
| Intersegment | 37,205 | 15,697 | 303 | 53,204 | 270,826 | 324,022 |
| Total | 8,711,489 | 5,532,801 | 2,408,004 | 16,652,295 | 455,673 | 17,107,969 |
| Operating income | 752,937 | 571,352 | 284,526 | 1,608,815 | 53,846 | 1,662,662 |
| Assets | 10,977,734 | 4,057,777 | 4,093,511 | 19,129,031 | 973,153 | 20,102,184 |
| Other items: | | | | | | |
| Depreciation and amortization (Note 2) | 453,124 | 83,884 | 162,109 | 699,126 | 41,332 | 740,458 |
| Amortization of goodwill | 78,135 | — | 78,260 | 156,395 | 2,317 | 158,713 |
| Investments in affiliates accounted for using equity method | 312,461 | 42,749 | 989 | 356,199 | 159,310 | 515,509 |
| Increase in property, plant and equipment, and intangible assets | 420,759 | 108,200 | 139,085 | 668,036 | 60,932 | 728,969 |

Notes: 1. The "Others" category includes electricity supply, plant engineering and environmental engineering, research and analysis, and employment agency/staffing operations.
2. Amortization of goodwill is not included.

### (d) Reconciliation of differences between total amounts of reportable segments and amounts appearing in the consolidated financial statements (adjustment of difference)

| Sales | Millions of yen 2017 | Millions of yen 2016 | Thousands of U.S. dollars 2017 |
|---|---|---|---|
| Total of reporting segments | ¥1,868,221 | ¥1,926,123 | $16,652,295 |
| Net sales in "Others" category | 51,122 | 60,508 | 455,673 |
| Elimination of intersegment transactions | (36,352) | (45,716) | (324,022) |
| Net sales on consolidated statements of income | ¥1,882,991 | ¥1,940,914 | $16,783,947 |

| Operating income | Millions of yen 2017 | Millions of yen 2016 | Thousands of U.S. dollars 2017 |
|---|---|---|---|
| Total of reporting segments | ¥180,493 | ¥186,444 | $1,608,815 |
| Operating income in "Others" category | 6,041 | 3,781 | 53,846 |
| Elimination of intersegment transactions | 220 | 149 | 1,961 |
| Corporate expenses, etc.* | (27,525) | (25,171) | (245,343) |
| Operating income on consolidated statements of income | ¥159,229 | ¥165,203 | $1,419,280 |

* Corporate expenses, etc. include corporate revenue, basic research expense, and group management expense, etc. which are not allocated to reporting segments.

| Assets | Millions of yen 2017 | Millions of yen 2016 | Thousands of U.S. dollars 2017 |
|---|---|---|---|
| Total of reporting segments | ¥2,146,086 | ¥2,147,842 | $19,129,031 |
| Assets in "Others" category | 109,178 | 101,418 | 973,153 |
| Elimination of intersegment transactions | (304,452) | (318,969) | (2,713,718) |
| Corporate assets* | 303,688 | 281,439 | 2,706,908 |
| Total assets on consolidated balance sheets | ¥2,254,500 | ¥2,211,729 | $20,095,374 |

* Corporate assets include assets of the parent company—surplus operating funds (cash and deposits), long-term investment capital (investment securities, etc.), and land, etc.

| | Total of reportable segments | | | Others | | | Adjustments (Note 1) | | | Amounts from consolidated financial statements | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Millions of yen | | Thousands of U.S. dollars | Millions of yen | | Thousands of U.S. dollars | Millions of yen | | Thousands of U.S. dollars | Millions of yen | | Thousands of U.S. dollars |
| Other items | 2017 | 2016 | 2017 | 2017 | 2016 | 2017 | 2017 | 2016 | 2017 | 2017 | 2016 | 2017 |
| Depreciation and amortization (Note 2) | ¥78,435 | ¥82,406 | $699,126 | ¥ 4,637 | ¥ 4,624 | $ 41,332 | ¥8,315 | ¥6,782 | $74,115 | ¥91,387 | ¥93,811 | $814,573 |
| Amortization of goodwill | 17,546 | 15,533 | 156,395 | 260 | 288 | 2,317 | — | — | — | 17,806 | 15,821 | 158,713 |
| Investments in affiliates accounted for using equity method | 39,962 | 31,993 | 356,199 | 17,873 | 17,541 | 159,310 | — | — | — | 57,835 | 49,534 | 515,509 |
| Increase in property, plant and equipment, and intangible assets | 74,947 | 88,514 | 668,036 | 6,836 | 4,706 | 60,932 | 8,790 | 5,780 | 78,349 | 90,573 | 99,000 | 807,318 |

Notes: 1. Adjustments include elimination of intersegment transactions and corporate expenses, etc.
2. Amortization of goodwill is not included.

### (e) Related information

#### i) Information on products and services

Please refer to (c) Information concerning net sales, income or loss, assets, and other items for each reportable segment.

#### ii) Geographic information

#### 1) Net sales

| Millions of yen 2017 | | | | Millions of yen 2016 | | | | Thousands of U.S. dollars 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Japan | China | Other regions | Total | Japan | China | Other regions | Total | Japan | China | Other regions | Total |
| ¥1,226,633 | ¥165,481 | ¥490,877 | ¥1,882,991 | ¥1,261,203 | ¥185,241 | ¥494,470 | ¥1,940,914 | $10,933,532 | $1,475,007 | $4,375,408 | $16,783,947 |

#### 2) Property, plant and equipment.

| Millions of yen 2017 | | | | Millions of yen 2016 | | | | Thousands of U.S. dollars 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Japan | United States | Other regions | Total | Japan | United States | Other regions | Total | Japan | United States | Other regions | Total |
| ¥371,654 | ¥86,780 | ¥98,447 | ¥556,881 | ¥361,825 | ¥91,425 | ¥102,739 | ¥555,989 | $3,312,719 | $773,509 | $877,502 | $4,963,731 |

#### 3) Information by major customer

Information by major customer is not shown because no customer accounts for 10% or more of net sales on the consolidated statements of income.

## 18. Information on related parties

### Related party transactions

### (a) Transactions between the company submitting the consolidated financial statements and related parties

**i) Unconsolidated subsidiaries, affiliates, etc. of the company submitting the consolidated financial statements**

For the year ended March 31, 2017:

| | |
|---|---|
| Type of related party | An affiliated company |
| Name of company | PTT Asahi Chemical Co., Ltd. |
| Location | Rayong, Thailand |
| Paid-in capital | 13,819 million Thai baht |
| Business line | Chemicals |
| Share of voting rights held by the company (of which, indirectly held) | 50.0% (50.0%) |
| Relationship with the related party | Debt guarantee and seconded executive |
| Nature of transaction | Guarantee for completion of manufacturing facilities |
| Transaction amount | ¥10,185 million (US$90,783 thousand) |
| Amount name | — |
| Balance at end of year | — |

For the year ended March 31, 2016: None

### (b) Transactions between consolidated subsidiaries of the company submitting the consolidated financial statements and related parties

**i) Unconsolidated subsidiaries, affiliates, etc. of the company submitting the consolidated financial statements**

For the year ended March 31, 2017: None

For the year ended March 31, 2016:

| | |
|---|---|
| Type of related party | An affiliated company |
| Name of company | PTT Asahi Chemical Co., Ltd. |
| Location | Rayong, Thailand |
| Paid-in capital | 14,246 million Thai baht in the year ended March 31, 2016 |
| Business line | Chemicals |
| Share of voting rights held by the company (of which, indirectly held) | 48.5% (48.5%) in the year ended March 31, 2016 |
| Relationship with the related party | Debt guarantee |
| Nature of transaction | Guarantee for completion of manufacturing facilities |
| Transaction amount | ¥11,989 million |
| Amount name | — |
| Balance at end of year | — |

**ii) Directors, Corporate Auditors, major shareholders, etc. of the company submitting the consolidated financial statements**

For the year ended March 31, 2017: None

For the year ended March 31, 2016:

| | | |
|---|---|---|
| Type of related party | A company in which close relative(s) of a Director or Corporate Auditor of the Company hold(s) a majority of voting rights | A company in which close relative(s) of a Director or Corporate Auditor of the Company hold(s) a majority of voting rights |
| Name of company | Miwa-Syouji Co., Ltd. | Miwa Vinyl Co., Ltd. |
| Location | Nobeoka, Miyazaki, Japan | Nobeoka, Miyazaki, Japan |
| Paid-in capital | ¥65 million | ¥10 million |
| Business line | Wholesale trade | Manufacture and sale of plastic packaging material |
| Share of voting rights held by the company | 0.0% | 0.0% |
| Relationship with the related party | Purchasing consumable goods | Purchasing consumable goods and raw materials |
| Nature of transaction | Purchasing consumable goods | Purchasing consumable goods and raw materials |
| Transaction amount | ¥225 million | ¥45 million |
| Account recorded | Accrued expenses | Accrued expenses and notes and accounts payable—trade |
| Balance at end of year | ¥23 million | ¥3 million |

Notes: 1. Transaction amounts are shown net of consumption taxes, while balances at end of year include consumption taxes.
2. Transaction terms and the policy of deciding transaction terms: Ordinary transaction terms are applied to the purchase of products.

## 19. Per share information

Basic and diluted net assets per share and net income per share for the years ended March 31, 2017 and 2016, were as follows:

| | Yen | | U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Basic net assets per share | ¥824.36 | ¥745.94 | $7.35 |
| Basic net income per share | 82.34 | 65.69 | 0.73 |

### (a) Basis for calculation of net assets per share

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Total net assets | ¥1,168,115 | ¥1,057,399 | $10,411,935 |
| Amount deducted from total net assets | 16,771 | 15,498 | 149,487 |
| *of which, non-controlling interests* | *(16,771)* | *(15,498)* | *(149,487)* |
| Net assets allocated to capital stock | ¥1,151,344 | ¥1,041,901 | $10,262,448 |
| Number of shares of capital stock outstanding at fiscal year end used in calculation of net assets per share (thousand) | 1,396,657 | 1,396,755 | 1,396,657 |

### (b) Basis for calculation of net income per share

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Net income attributable to owners of the parent | ¥ 115,000 | ¥ 91,754 | $1,025,047 |
| Amount not attributable to common stock shareholders | — | — | — |
| Net income attributable to common stock owners of the parent | ¥ 115,000 | ¥ 91,754 | $1,025,047 |
| Weighted-average number of shares of capital stock (thousand) | 1,396,715 | 1,396,812 | 1,396,715 |

Note: As the Company had no dilutive securities at March 31, 2017 and 2016, the Company does not disclose diluted net income per share for the years ended March 31, 2017 and 2016.

## 20. Borrowings

### (a) Bonds payable at March 31, 2017 and 2016, comprised the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2017** | 2016 | **2017** |
| Unsecured 1.46% yen bonds due in 2019 | **¥20,000** | ¥20,000 | **$178,269** |
| Unsecured 0.30% yen bonds due in 2017 | **20,000** | 20,000 | **178,269** |
| Total | **¥40,000** | ¥40,000 | **$356,538** |

Notes: 1. The current portion of bonds payable is recorded under current liabilities on the consolidated balance sheets.
2. The aggregate annual maturities of long-term debt after March 31, 2017, are as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2018 | ¥20,000 | $178,269 |
| 2019 | — | — |
| 2020 | 20,000 | 178,269 |
| 2021 | — | — |
| 2022 | — | — |
| 2023 and thereafter | — | — |
| Total | ¥40,000 | $356,538 |

### (b) Loans payable at March 31, 2017 and 2016, comprised the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2017** | 2016 | **2017** |
| Short-term loans payable with an interest rate of 0.90% | **¥ 88,965** | ¥273,418 | **$ 792,985** |
| Current portion of long-term loans payable with an interest rate of 1.56% | **24,510** | 40,169 | **218,469** |
| Current portion of lease obligations with an interest rate of 1.44% | **305** | 919 | **2,718** |
| Long-term loans payable (except portion due within one year) with an interest rate of 1.06% | **192,584** | 94,632 | **1,716,588** |
| Lease obligations (except portion due within one year) with an interest rate of 1.48% | **467** | 537 | **4,163** |
| Commercial papers (portion due within one year) with an interest rate of (0.02)% | **56,000** | — | **499,153** |
| Total | **¥362,832** | ¥409,675 | **$3,234,085** |

Notes: 1. Interest rates shown are weighted average interest rates for the balance outstanding at March 31, 2017.
2. The aggregate annual maturities of long-term loans payable and lease obligations (except portion due within one year) after March 31, 2017, are as follows:

| | Long-term loans payable | | Lease obligations | |
|---|---|---|---|---|
| Year ending March 31 | Millions of yen | Thousands of U.S. dollars | Millions of yen | Thousands of U.S. dollars |
| 2018 | ¥59,796 | $532,989 | ¥186 | $1,658 |
| 2019 | 21,279 | 189,670 | 143 | 1,275 |
| 2020 | 22,900 | 204,118 | 112 | 998 |
| 2021 | 32,790 | 292,272 | 26 | 232 |
| 2022 and thereafter | 55,819 | 497,540 | — | — |

## 21. Others

### Litigation

On June 18, 2010, Koninklijke Philips Electronics N.V. and Philips Electronics North America Corporation (hereinafter collectively "Philips") sued our subsidiary, ZOLL Medical Corporation (hereinafter "ZOLL"), in the United States District Court for the District of Massachusetts, alleging that several patents owned by Philips are infringed by certain ZOLL defibrillator products. On July 12, 2010, ZOLL sued Philips in the same court alleging that several ZOLL patents are infringed by certain Philips defibrillator products. The two cases were consolidated and bifurcated into an initial liability portion and a later damages portion. The liability portion was tried to a jury in December 2013, and the court entered an interlocutory judgment that ZOLL and Philips each infringe certain of the other's patent rights. On August 18, 2016, following the conclusion of the appeal process relating to the interlocutory judgment, the United States District Court for the District of Massachusetts began a jury trial for the damages portion on July 24, 2017. The Company and ZOLL consider the allegations of Philips to be baseless, and will vigorously contest this litigation.

## Independent Auditor's Report

To the Board of Directors of Asahi Kasei Corporation

We have audited the accompanying consolidated financial statements of Asahi Kasei Corporation ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statement audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2017, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

PricewaterhouseCoopers Aarata LLC

July 31, 2017

# Major Subsidiaries and Affiliates

(As of April 1, 2017)

| Company | Major products/business line | Paid-in capital (million) | | Equity interest (%) |
|---|---|---|---|---|
| **Material Segment** | | | | |
| Asahi Kasei Fibers Nobeoka Co., Ltd.* | Processing of fibers | ¥ | 50 | 100.0 |
| Asahi Kasei Leona Filament Co., Ltd.* | Packaging, packing, and storage of fiber products | ¥ | 11 | 100.0 |
| Asahi Cord Co., Ltd.* | Processing of tire cord, etc. | ¥ | 50 | 100.0 |
| Kyokujitsu Textile Mills Co., Ltd.* | Woven fabrics | ¥ | 99 | 100.0 |
| Asahiozu Corp. | Processing of nonwovens | ¥ | 20 | 50.0 |
| Kyuasa Co., Ltd.* | Stockings and innerwear | ¥ | 90 | 94.0 |
| Fuji Seisen Co., Ltd.* | Dyeing and finishing of yarns and fabrics | ¥ | 50 | 78.7 |
| Merci Co., Ltd.* | Sale of linings and interlinings | ¥ | 10 | 100.0 |
| Hangzhou Asahikasei Textiles Co., Ltd.* | Warp-knit spandex textiles | CNY | 78 | 93.0 |
| Hangzhou Asahikasei Spandex Co., Ltd.* | Spandex | CNY | 154 | 100.0 |
| Asahi Kasei Advance (Shanghai) Co., Ltd. | Processing and sale of fibers and textiles | CNY | 11 | 100.0 |
| Formosa Asahi Spandex Co., Ltd. | Spandex | NT$ | 1,003 | 50.0 |
| Thai Asahi Kasei Spandex Co., Ltd.* | Spandex | THB | 1,350 | 60.0 |
| Asahi Kasei Spunbond (Thailand) Co., Ltd.* | Spunbond nonwovens | THB | 1,835 | 84.3 |
| Asahi Kasei Spandex Europe GmbH* | Spandex | € | 28.4 | 100.0 |
| Asahi Kasei Mitsubishi Chemical Ethylene Corp. | Basic petrochemicals | ¥ | 2,000 | 50.0 |
| PS Japan Corp.* | Polystyrene | ¥ | 5,000 | 62.1 |
| Okayama Butadiene Co., Ltd. | Butadiene | ¥ | 490 | 50.0 |
| Tongsuh Petrochemical Corp., Ltd.* | Acrylonitrile, sodium cyanide, acrylamide, EDTA | KRW | 237,642 | 100.0 |
| PTT Asahi Chemical Co., Ltd. | Acrylonitrile, methyl methacrylate | THB | 13,818 | 50.0 |
| Asahikasei Color Tech Co., Ltd.* | Plastic coloring & compounding | ¥ | 110 | 100.0 |
| Asahi Kasei Technoplus Co., Ltd.* | Processed plastic products | ¥ | 160 | 99.0 |
| Wacker Asahikasei Silicone Co., Ltd. | Silicone | ¥ | 1,050 | 50.0 |
| Kakuichi Rubber Industry Co., Ltd. | Manufacturing | ¥ | 10 | 50.0 |
| Japan Elastomer Co., Ltd.* | Synthetic rubber | ¥ | 1,000 | 75.0 |
| Nobeoka Plastic Processing Co., Ltd.* | Plastic compounding | ¥ | 10 | 100.0 |
| Asahi Kasei Plastics (Guangzhou) Co., Ltd.* | Sale of performance resin | CNY | 10 | 100.0 |
| Asahikasei (Suzhou) Plastics Compound Co., Ltd. | Coloring and compounding of performance resin | CNY | 50 | 51.0 |
| Asahikasei Plastics (Shanghai) Co., Ltd.* | Sale of performance resin | CNY | 18 | 100.0 |
| Asahi Kasei POM (Zhangjiagang) Co., Ltd.* | Polyacetal | CNY | 265 | 100.0 |
| Asahikasei Plastics (Thailand) Co., Ltd.* | Coloring and compounding of performance resin | THB | 140 | 100.0 |
| Asahi Kasei Plastics Singapore Pte. Ltd.* | Performance resin | US$ | 46.0 | 100.0 |
| Asahi Kasei Synthetic Rubber Singapore Pte. Ltd.* | Synthetic rubber | US$ | 160 | 100.0 |
| Asahikasei Plastics (America) Inc.* | Compounded performance resin operations | US$ | 32 | 100.0 |
| Asahi Kasei Plastics North America, Inc.* | Coloring and compounding of performance resin | US$ | 22 | 100.0 |
| Asahi Kasei Plastics Mexico S.A. de C.V.* | Sale of performance plastic compounds | US$ | 2 | 100.0 |
| Asahi Kasei Epoxy Co., Ltd.* | Epoxy resin | ¥ | 300 | 100.0 |
| Asahi Kasei Finechem Co., Ltd.* | Specialty chemicals | ¥ | 325 | 100.0 |
| Asahi Kasei Metals Ltd.* | Aluminum paste | ¥ | 250 | 100.0 |
| Asahi Kasei EMS Co., Ltd.* | Electronic materials and devices | ¥ | 10 | 100.0 |
| Asahi SKB Co., Ltd.* | Defense explosives | ¥ | 100 | 100.0 |
| Asahi Chemitech Co., Ltd.* | Resin anchors, detonator housings/leads | ¥ | 10 | 100.0 |
| Asahi-Schwebel Co., Ltd.* | Glass fabric | ¥ | 50 | 100.0 |
| Kayaku Japan Co., Ltd. | Industrial explosives | ¥ | 60 | 50.0 |
| Asahi Kasei Performance Chemicals Corp.* | High-performance HDI-based polyisocyanate | CNY | 285 | 100.0 |
| Asahi Kasei Microza (Hangzhou) Co., Ltd.* | Industrial filtration membranes and systems | CNY | 70 | 100.0 |

* Consolidated subsidiary

| Company | Major products/business line | Paid-in capital (million) | | Equity interest (%) |
|---|---|---|---|---|
| Asahi Kasei Electronics Materials (Changshu) Co., Ltd.* | Photosensitive dry film | CNY | 305 | 100.0 |
| Asahi Kasei Electronics Materials (Suzhou) Co., Ltd.* | Photosensitive dry film | CNY | 181 | 100.0 |
| Asahi Kasei Wah Lee Hi-Tech Corp.* | Photosensitive dry film | NT$ | 49 | 80.6 |
| Asahi-Schwebel (Taiwan) Co., Ltd.* | Glass fabric | NT$ | 326 | 51.0 |
| Asahi Photoproducts (UK) Ltd.* | Sale of photopolymer, printing-plate making systems | £ | 0.3 | 100.0 |
| Asahi Photoproducts (Europe) SA/NV* | Sale of photopolymer, printing-plate making systems | € | 3 | 100.0 |
| Asahi Kasei Pax Corp.* | Packaging products and solutions | ¥ | 490 | 100.0 |
| Asahi Kasei Home Products Corp.* | Cling film, other household products | ¥ | 250 | 100.0 |
| Sun Plastech Inc.* | Sale of purging compound | US$ | 1.0 | 100.0 |
| Sundic Inc. | Biaxially oriented polystyrene sheet | ¥ | 1,500 | 50.0 |
| Asahi Kasei E-materials Korea Inc.* | Energy and electronic materials | KRW | 1,890 | 100.0 |
| Celgard Korea, Ltd.* | Lithium-ion battery separator | KRW | 25,920 | 100.0 |
| Polypore International, LP* | Battery separators | US$ | 2,233 | 100.0 |
| Celgard, LLC* | Lithium-ion battery separator | US$ | 22 | 100.0 |
| Daramic, LLC* | Lead-acid battery separator | US$ | 12 | 100.0 |
| Daramic Battery Separator India Pvt. Ltd.* | Lead-acid battery separator | INR | 0.3 | 100.0 |
| Daramic S.A.S.* | Lead-acid battery separator | € | 73 | 100.0 |
| Daramic (Thailand) Ltd.* | Lead-acid battery separator | THB | 2,317 | 100.0 |
| Polypore (Shanghai) Membrane Products Co., Ltd.* | Lithium-ion battery separator | CNY | 7 | 100.0 |
| Daramic Tianjin PE Separator Co., Ltd.* | Lead-acid battery separator | CNY | 149 | 100.0 |
| Polypore K.K.* | Lithium-ion and lead-acid battery separator | ¥ | 16 | 100.0 |
| Daramic Separadores de Baterias Ltda.* | Lead-acid battery separator | BRL | 0.3 | 100.0 |
| Daramic Xiangyang Battery Separator Co., Ltd.* | Lead-acid battery separator | CNY | 194 | 65.0 |
| Asahi Kasei Electronics Co., Ltd.* | Hall elements | ¥ | 50 | 100.0 |
| Asahi Kasei Microsystems Co., Ltd.* | LSIs | ¥ | 50 | 100.0 |
| Asahi Kasei Microdevices Korea Corp. | Electronic devices marketing and technical support | KRW | 820 | 100.0 |
| AKM Semiconductor, Inc.* | Sale of LSIs | US$ | 2.9 | 100.0 |
| **Homes Segment** | | | | |
| Asahi Kasei Jyuko Co., Ltd.* | Steel frames | ¥ | 2,820 | 100.0 |
| Asahi Kasei Home Construction Corp.* | Construction of homes | ¥ | 100 | 100.0 |
| Asahi Kasei Chintai Support Corp.* | Rental home agency | ¥ | 50 | 100.0 |
| Asahi Kasei Fudousan Community Corp.* | Condominium management | ¥ | 200 | 100.0 |
| Asahi Kasei Realty & Residence Corp.* | Real estate development, brokerage, and related business | ¥ | 3,200 | 100.0 |
| Asahi Kasei Reform Co., Ltd.* | Home maintenance and remodeling | ¥ | 250 | 100.0 |
| Asahi Kasei Mortgage Corp.* | Financial services | ¥ | 1,000 | 100.0 |
| Asahi Kasei Lifeline Corp.* | Plumbing and wiring work | ¥ | 100 | 100.0 |
| Asahi Kasei Sekkei Corp.* | Building design and supervision | ¥ | 30 | 100.0 |
| AJEX Corp.* | External work | ¥ | 100.0 | 100.0 |
| Asahi Kasei Jyuko Vietnam Corp.* | Steel-frame members | US$ | 13.9 | 80.0 |
| Asahi Kasei Foundation Systems Corp.* | Installation of piles | ¥ | 200 | 100.0 |
| Asahi Kasei Extech Corp.* | Exterior wall panel installation | ¥ | 50 | 100.0 |
| Iwakuni Sun Products Co., Ltd.* | Construction materials processing | ¥ | 30 | 100.0 |
| Sakai Kako Co., Ltd.* | Construction materials processing | ¥ | 10 | 100.0 |
| Hozumi Kako Co., Ltd.* | Construction materials processing | ¥ | 10.0 | 100.0 |

* Consolidated subsidiary

## Major Subsidiaries and Affiliates

| Company | Major products/business line | Paid-in capital (million) | | Equity interest (%) |
|---|---|---|---|---|
| **Health Care Segment** | | | | |
| Asahi Kasei Medical MT Corp.* | Medical devices, bioprocess products | ¥ | 10 | 100.0 |
| Med-Tech Inc.* | Medical devices | ¥ | 140 | 100.0 |
| Asahi Kasei Medical (Hangzhou) Co., Ltd.* | Hemodialyzers; sale of medical devices | CNY | 165 | 100.0 |
| GLT Medical Co., Ltd. | Medical devices | CNY | 24.7 | 81.0 |
| Asahi Kasei Medical Trading (Korea) Co., Ltd.* | Sale of medical devices, medical systems | KRW | 1,000 | 100.0 |
| Asahi Kasei Medical America Inc.* | Sale of medical devices, medical systems | US$ | 0.5 | 100.0 |
| Asahi Kasei Bioprocess America, Inc.* | Bioprocess equipment and systems | US$ | 30 | 100.0 |
| Asahi Kasei Medical Europe GmbH* | Sale of medical devices, medical systems | € | 18 | 100.0 |
| Asahi Kasei Bioprocess Europe SA/NV* | Sale of virus removal filters | € | 0.5 | 100.0 |
| Asahi Kasei Pharma America Corp.* | Clinical trials for new drugs | US$ | 49 | 100.0 |
| ZOLL Medical Corporation* | Acute critical care devices and systems | US$ | 1,723 | 100.0 |
| ZOLL LifeVest Holdings LLC* | Holding company for wearable defibrillator business | US$ | 10 | 100.0 |
| ZOLL Data Systems, Inc.* | IT solutions for acute critical care | US$ | 1 | 100.0 |
| ZOLL Circulation, Inc.* | Intravascular temperature management systems | US$ | 23 | 100.0 |
| **Others** | | | | |
| Asahi Kasei Advance Corp.* | Sale of Asahi Kasei products | ¥ | 500 | 100.0 |
| Asahi Kasei Amidas Co., Ltd.* | Employment agency, consulting | ¥ | 80 | 100.0 |
| Asahi Kasei NS Energy Corp.* | Electricity and steam | ¥ | 10 | 61.0 |
| Asahi Kasei Engineering Corp.* | Plant, equipment, process engineering | ¥ | 400 | 100.0 |
| Asahi Kasei Office One Co., Ltd.* | Real estate rental | ¥ | 160 | 100.0 |
| Asahi Kasei New Port Terminal Co., Ltd.* | Receiving and storage of fuel and feedstocks | ¥ | 100 | 100.0 |
| Asahi Kasei Networks Corp. | IT-related business | ¥ | 400 | 100.0 |
| Asahi Kasei Benefits Management Corp.* | Company housing, recreational facilities | ¥ | 20 | 100.0 |
| Asahi Kasei AS Tech Co., Ltd. | Processing of polyethylene pipe | ¥ | 10 | 100.0 |
| Asahi Kasei EIC Solutions Corp. | Electrical, IT, and control engineering | ¥ | 100 | 100.0 |
| Asahi Yukizai Corp. | Synthetic resin, fabricated plastic products | ¥ | 5,000 | 29.5 |
| Asahi Kasei Ability Corp. | Printing, bookbinding, and office work | ¥ | 40 | 100.0 |
| New Asahi Services Co., Ltd.* | Insurance agency, cellular phone sales, bowling alley | ¥ | 30 | 100.0 |
| Asahi Research Center Co., Ltd.* | Information and analysis | ¥ | 1,000 | 100.0 |
| Cable Media Waiwai Co., Ltd.* | Cable TV | ¥ | 414 | 50.0 |
| ELORTO Corp. | Travel agency | ¥ | 30 | 34.0 |
| AJS Inc. | Computer software, IT systems | ¥ | 800 | 49.0 |
| Koyo Machinery Works Co., Ltd.* | Machinery installation | ¥ | 100 | 100.0 |
| Asahi Kasei (China) Co., Ltd.* | Investment and business support services | CNY | 2,214 | 100.0 |
| Asahi Kasei Advance (Thailand) Co., Ltd.* | Processed yarn | THB | 134 | 100.0 |
| Asahi Kasei India Pvt. Ltd. | Business support services | Rs | 45 | 100.0 |
| Crystal IS, Inc.* | Development of aluminum nitride substrates and UV LEDs | US$ | 40 | 100.0 |
| Asahi Kasei America, Inc.* | Business support services | US$ | 0.1 | 100.0 |
| Asahi Kasei Europe GmbH* | Business support services, sale of performance resin | € | 1 | 100.0 |

* Consolidated subsidiary

# Company Information/Investors Information

(as of March 31, 2017)

## Corporate Profile

| | |
|---|---|
| **Company Name** | Asahi Kasei Corporation |
| **Date of Establishment** | May 21, 1931 |
| **Paid-in Capital** | ¥103,389 million |
| **Employees** | 33,720 (consolidated) |
| | 7,356 (non-consolidated) |

### Asahi Kasei IR Website

Asahi Kasei's financial results and other materials for investors are available in our IR website.
**http://www.asahi-kasei.co.jp/asahi/en/ir**

## Asahi Kasei Group Offices

### Asahi Kasei Corporation

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**Asahi Kasei India Pvt. Ltd.**
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### Core Operating Companies

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Phone: +81-3-3296-3911

**Asahi Kasei Homes**
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Phone: +81-3-3344-7111

**Asahi Kasei Construction Materials**
1-105 Kanda Jinbocho, Chiyoda-ku, Tokyo 101-8101 Japan
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**Asahi Kasei Pharma**
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**Asahi Kasei Medical**
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**ZOLL Medical Corporation**
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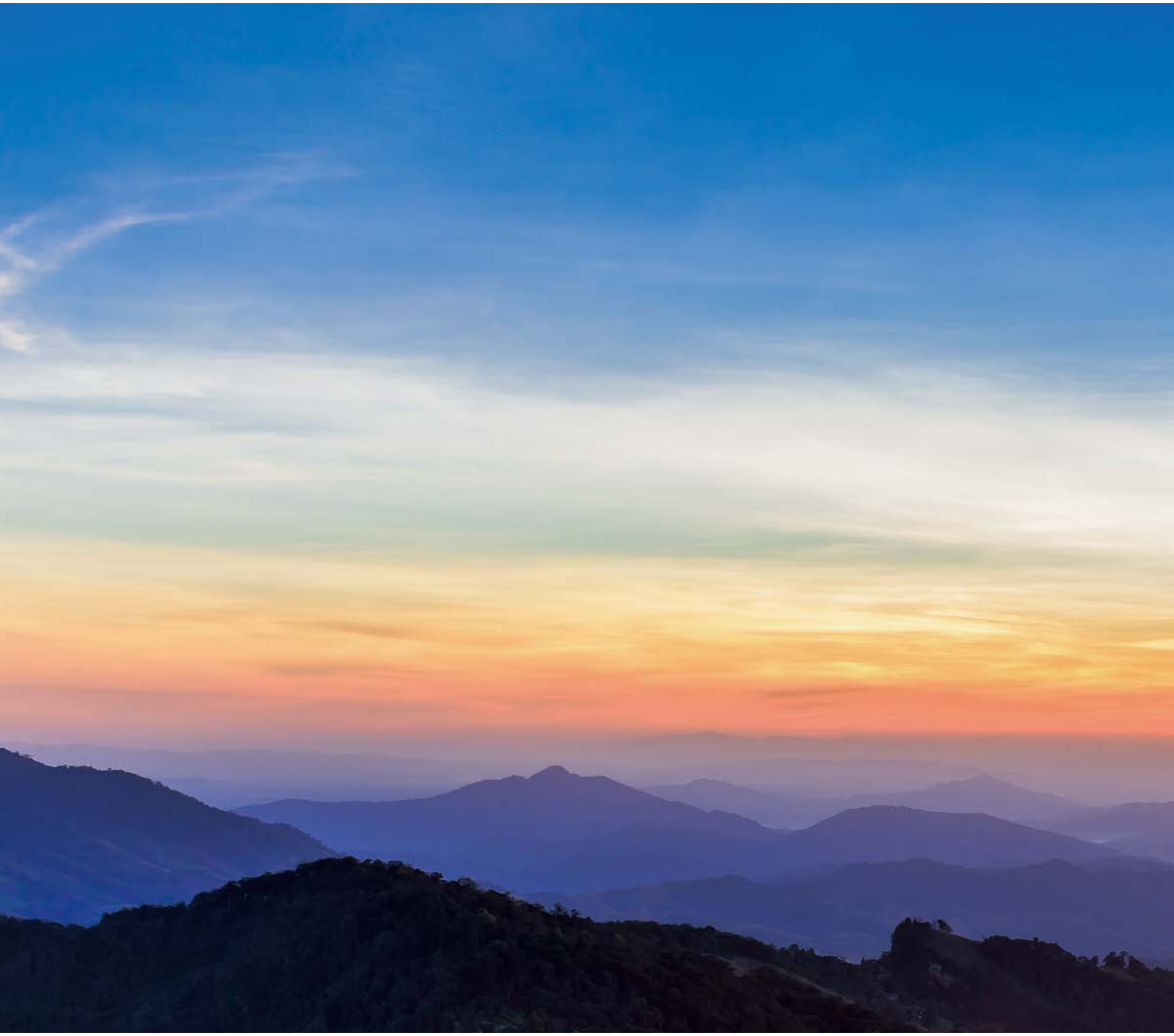
Phone: +1-978-421-9655

## Investors Information

| | |
|---|---|
| **Stock Listing** | Tokyo |
| **Stock Code** | 3407 |
| **Authorized Shares** | 4,000,000,000 |
| **Outstanding Shares** | 1,402,616,332 |
| **Transfer Agent** | Sumitomo Mitsui Trust Bank, Ltd. |
| **Independent Auditors** | PricewaterhouseCoopers Aarata LLC |
| **Number of Shareholders** | 76,784 |

| Largest Shareholders | % of equity* |
|---|---|
| JP Morgan Chase Bank 380055 | 6.28 |
| The Master Trust Bank of Japan, Ltd. (trust account) | 5.19 |
| Nippon Life Insurance Co. | 4.68 |
| Japan Trustee Services Bank, Ltd. (trust account) | 3.68 |
| Sumitomo Mitsui Banking Corp. | 2.52 |
| Asahi Kasei Group Employee Stockholding Assn. | 2.44 |
| Japan Trustee Services Bank, Ltd. (trust account 9) | 2.03 |
| Japan Trustee Services Bank, Ltd. (trust account 5) | 1.71 |
| Mizuho Bank, Ltd. | 1.45 |
| Tokio Marine & Nichido Fire Insurance Co., Ltd. | 1.43 |

* Percentage of equity ownership after exclusion of treasury stock.



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