



Creating for Tomorrow

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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 2017 (April 2017 to March 2018). Some qualitative information pertaining to April to September 2018 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 September 2018.

Guidelines consulted

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

Disclaimer

The forecasts and estimates shown in this report are dependent on a variety of assumptions and economic conditions. Plans and figures depicting the future do not imply a guarantee of actual outcome.

**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

To Our Stakeholders

Our business environment is changing at a very rapid pace. The so-called fourth industrial revolution is transforming our lives with digital technology such as IoT, AI, and Big Data. Meanwhile, sensitivity toward social and environmental issues continues to rise around the world, exemplified by the agenda for sustainable development goals (SDGs) adopted by the UN in 2015.

Asahi Kasei has continued to create new value in accordance with our Group Mission of contributing to life and living for people around the world by always adapting to the changing needs of the times through our diverse business operations. We believe the current period of rapid change presents great opportunities for us to provide innovative solutions which meet emerging needs.



With our Cs for Tomorrow 2018 (CT2018) management initiative for the three-year period from fiscal 2016 to 2018, we are building the foundation to create a portfolio of high profitability and high value-added businesses by fiscal 2025, ten years from the start of the initiative. We have made solid progress, and in fiscal 2017, the second year of CT2018, sales in each business were robust, especially in Chemicals where improved market prices for acrylonitrile bolstered performance. As a result, we marked record highs in net sales, operating income, ordinary income, and net income attributable to owners of the parent.

In fiscal 2018, the final year of CT2018, we are continuing to make proactive investments for growth while addressing environmental, social, and governance (ESG) issues in accordance with our Group Mission, Group Vision, and Group Values.

I would be pleased if you find this *Asahi Kasei Report* to be informative with its description of financial and non-financial performance focused on fiscal 2017, together with our longer-term strategies and actions. We continue to value proactive communication with our stakeholders as part of a commitment to appropriate and highly transparent disclosure.

September 2018

A handwritten signature in black ink, reading "H. Kobori".

Hideki Kobori
President

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™ cupro 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



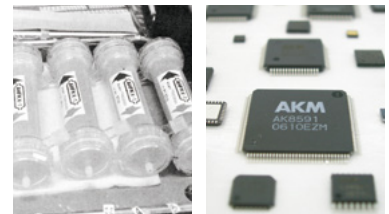
Naphtha cracker (Kurashiki, Okayama, Japan)

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.

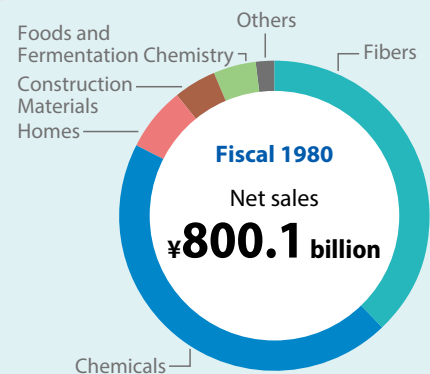
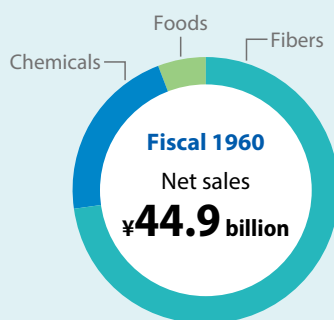
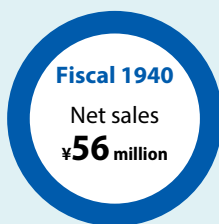


The first Hebel Haus™ (Kamata model home park)



Hollow-fiber membrane artificial kidneys LSI

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

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

1922–
2017

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



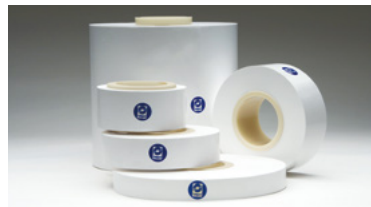
Asahi Kasei Electronics Materials (Suzhou) Co., Ltd., a major manufacturing base for photosensitive dry film

From 2010

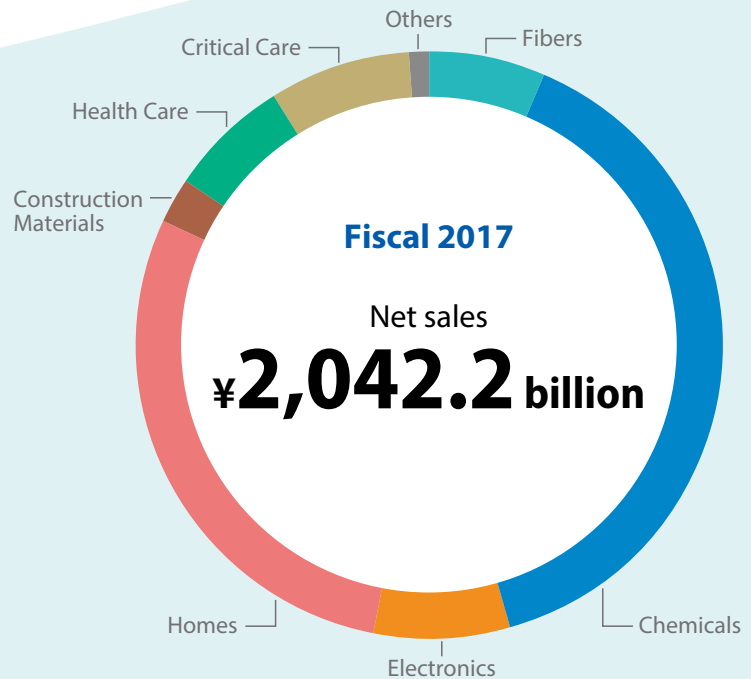
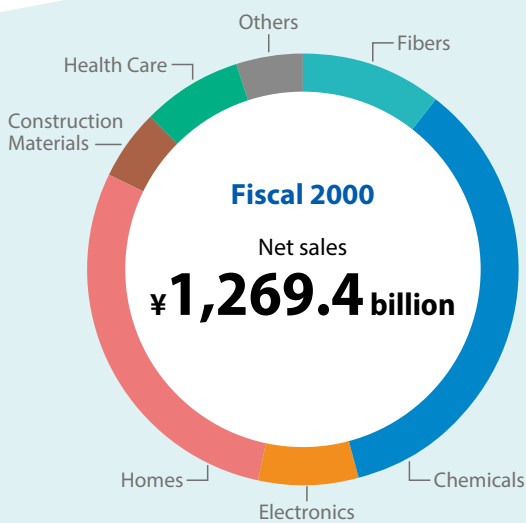
Under the “For Tomorrow 2015” management initiative which began in 2011, we proactively expanded our operations through major acquisitions. In 2012 we entered the acute critical care business by acquiring ZOLL Medical Corporation, and in 2015 we acquired battery separator manufacturer Polypore International, 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



Increased comfort and convenience

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

Heightened environmental consciousness, evolution of ICT

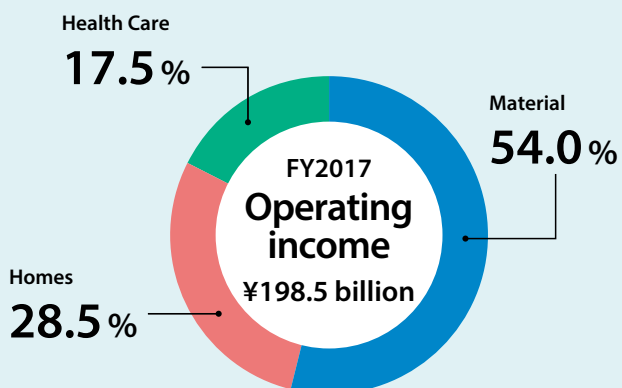
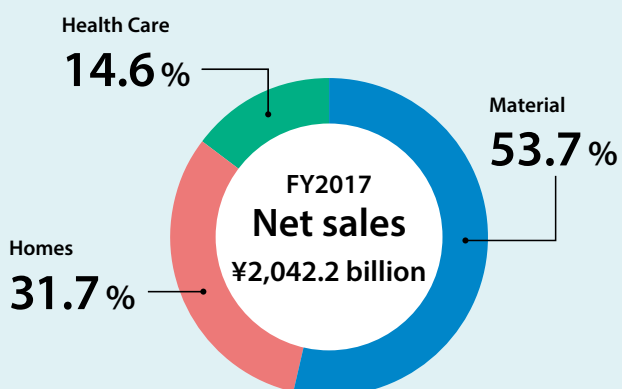
- Reduced dependence on fossil fuels, greater use of renewables
- The fourth industrial revolution by IoT, AI, Big Data, etc.

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.

Fiscal 2017 net sales and operating income

New record highs in both net sales and operating income



Note: Percentages shown exclude “Others” category and “corporate expenses and eliminations.”

Business sector

Material

P. 40 ▶▶

Homes

P. 42 ▶▶

Health Care

P. 44 ▶▶

Net sales

¥ **1,087.7** billion

Operating income

¥ **121.9** billion

- Asahi Kasei 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



S-SBR for fuel-efficient tires



Acrylonitrile plant



Lamous™ microfiber suede

Net sales

¥ **641.0** billion

Operating income

¥ **64.4** billion

- Asahi Kasei Homes Corp.
 - Homes

- Asahi Kasei Construction Materials Corp.
 - Construction Materials



Hebel Haus™



Atlas™ condominiums



Neoma Foam™ phenolic foam insulation panels

Net sales

¥ **296.3** billion

Operating income

¥ **39.5** billion

- Asahi Kasei Pharma Corp.
 - Pharmaceuticals
- Asahi Kasei Medical Co., Ltd.
 - Medical Care
- ZOLL Medical Corporation
 - Acute Critical Care



Pharmaceutical products



Planova™ virus removal filter



ZOLL AED Plus™ automated external defibrillator



LifeVest™ wearable defibrillator

We will provide new value that contributes to solutions for society's challenges while accelerating business growth aimed at creating a portfolio of high profitability and high value-added businesses.

Hideki Kobori

President, Asahi Kasei

Review of fiscal 2017 and progress of Cs for Tomorrow 2018

We are generally making solid progress in our three-year medium-term management initiative "Cs for Tomorrow 2018" (CT2018). In fiscal 2017, the second year, each segment recorded firm sales. Chemicals operations in particular were buoyed by rising market prices for acrylonitrile. As a result, net sales exceeded ¥2 trillion for the first time, while operating income, ordinary income, and net income attributable to owners of the parent all hit record highs. Our operating income target for fiscal 2018 was reached a year early.

CT2018 sets forth the objective of creating a portfolio of high-profitability and high-value added businesses by fiscal 2025, 10 years from the start of the initiative, with the three-years from fiscal 2016 to 2018 being the period to build our foundations for the next phase. While it's important to achieve financial targets, what's even more essential is to continuously heighten our corporate value from the longer perspective.

In fiscal 2018, as the final year of the three-year period, we are focusing on what can be done now—for proactive investments such as M&A and expanded manufacturing infrastructure, to enhance business with the latest ICT, for thorough risk management and compliance, and to create new business in concert with outside entities including through CVC—while we make the most of our strengths by building further connections among our diversified businesses, human resources, and technologies. This will also be the year to advance discussions on the strategic direction to take in the next medium-term management initiative.

We raised our annual dividend for fiscal 2017 to ¥34 per share, a ¥10 increase from a year ago, reflecting our favorable performance. Under CT2018 we are targeting a total return ratio of 35% in fiscal 2018.

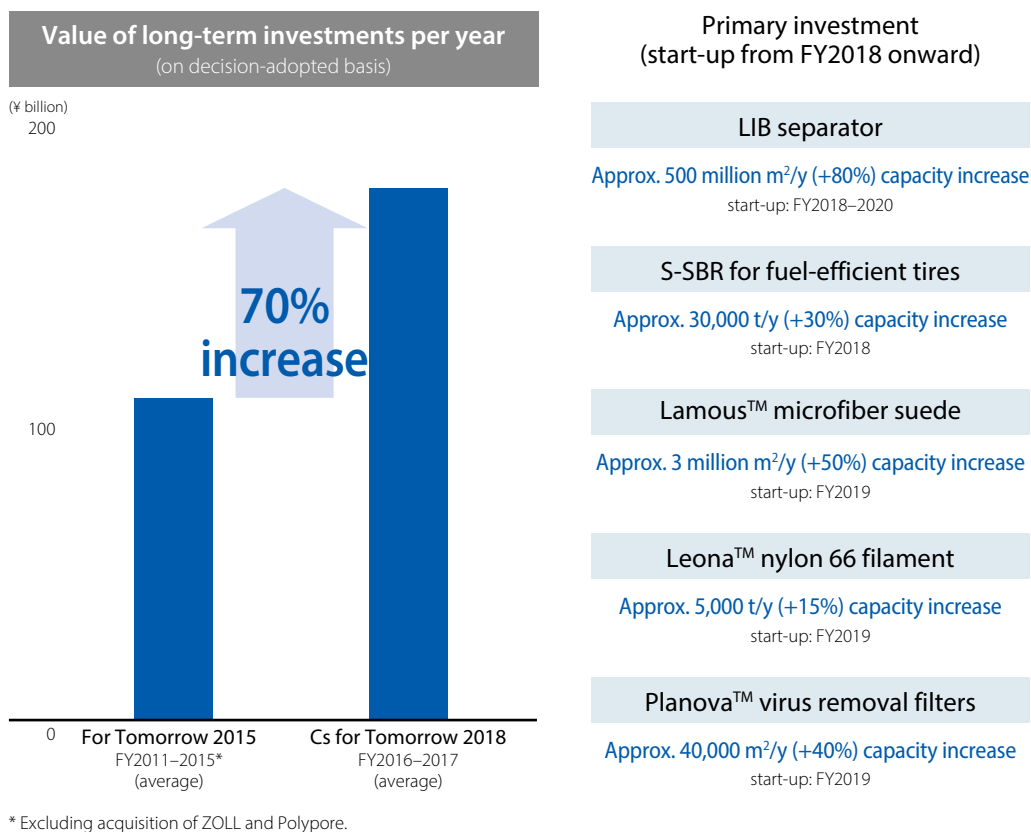
New records for net sales, operating income, and net income in FY2017

	Cs for Tomorrow 2018 (CT2018)					
(¥ billion, except where noted)	FY2015	FY2016	FY2017	FY2018 forecast (As of May 2018)	FY2018 target (As of April 2016)	FY2025 outlook (As of April 2016)
Net sales	1,940.9	1,883.0	2,042.2	2,155.0	2,200.0	3,000.0
Operating income	165.2	159.2	198.5	190.0	180.0	280.0
Operating margin	8.5%	8.5%	9.7%	8.8%	8.2%	9.3%
Net income attributable to owners of the parent	91.8	115.0	170.2	140.0	110.0	
Net income per shareholders' equity (ROE)	8.6%	10.5%	14.0%		9.0%	10.0%
Net income per shareholders' equity and interest-bearing debt	7.1%	7.6%	9.7%		7.0%	8.0%
Dividends per share (¥)	20	24	34	34		
Payout ratio*	30.4%	29.1%	27.9%	33.9%	35.0%	
¥/US\$ Exchange rate	120	108	111	105	110	

* FY2018 target figure for payout ratio is total return ratio including share buybacks.

Proactive investments for growth

We plan to adopt strategic long-term investments totaling ¥700 billion over the three-year period of CT2018. In the first two years we adopted decisions on about half of that amount, ¥340 billion. The value of long-term investments per year rose from some ¥100 billion under the previous medium-term management initiative to ¥170 billion, a 70% increase. Such proactive investments will contribute to future earnings growth.



With long-term investment plans exceeding ¥200 billion for organic growth in fiscal 2018, we are on track to reach the ¥700 billion total under CT2018.

During the previous medium-term initiative, we made two large acquisitions which have each contributed significantly to the growth of the Asahi Kasei Group. After we acquired ZOLL in fiscal 2012, its already high growth accelerated further, reaching an average of 15% over the past ten years. And Polypore, which we acquired in fiscal 2015, has enabled significant synergy through integration with our established battery separator business. In fiscal 2017, separator operations turned profitable after amortization of goodwill and other intangible assets associated with the acquisition. We will continue to pursue such acquisitions as an effective way to drive further growth.

While we expected there would be synergy with our established health care businesses, ZOLL's field of acute critical care was new for Asahi Kasei at the time of the acquisition. In contrast, the Polypore acquisition served to reinforce our operations in a field in which we already had a world-leading position with the Hipore™ lithium-ion battery (LIB) separator, where the market was poised to grow dramatically.

M&A is an effective way to strengthen competitiveness in existing fields, to expand into related fields, or to gain complementary technology. We will continue to study further M&A opportunities which can contribute to business growth and greater corporate value.

Our strengths are evinced at times of dramatic change

The business environment is rapidly changing year by year with the advance of digital technology such as IoT, AI, and Big Data—what is being called the fourth industrial revolution. We consider a time of change to be a time of opportunity. With our diverse range of businesses and wide variety of technologies, we are in an excellent position to leverage change to our advantage through innovation and new business creation.

Throughout the 96 years since our founding, Asahi Kasei has always stood out for our ability to continually evolve our business portfolio in accordance with changes in the industrial structure and social environment over time. I think the key to such successful adaptation is having a constant lodestar to guide the way.

Though our operations have been radically transformed over the decades, our Group Mission of “contributing to life and living for people around the world” remains unchanged. We have always created new value by providing solutions to challenges faced by society, and all of our personnel share a sincere commitment to continue to do so.

Among the various Cs we are emphasizing in CT2018, “connection” is foremost. We are aiming to create new value by building new connections among our three different sectors of Material, Homes, and Health Care. Furthermore, we actively seek to develop connections with outside entities as well.

We have a diverse range of technologies, human resources, and market channels. This gives us numerous opportunities to create new value by transforming our business portfolio to meet emerging needs in a dramatically changing environment. I consider this to be our greatest strength. The next few years will be pivotal. We must keep abreast of current trends as we develop world-leading businesses which make valuable contributions to society.

Sustainable growth supported by various human resources

For us to achieve sustainable growth and thrive in world markets, outstanding human resources are essential. When planning a strategy for growth, we also need to consider how to retain and nurture the people who will execute the business. We are therefore placing greater emphasis on linkage between business strategy and personnel strategy.

We are refounding our systems to nurture professional personnel with a high degree of expertise in certain fields and managerial personnel who can demonstrate effective leadership, in addition to the personnel who support operations at each workplace. In fiscal 2017 we revised our Group Masters program to nurture specialists and provide them with greater engagement.

 See p. 38 for more about the Group Masters program

The management team is currently advancing discussions on what is needed of next-generation leaders and how to best nurture them. We are considering what kind of training and experience the next generation of leaders will need and how to rotate them through various positions of responsibility as we formulate the optimum framework.

As our operations continue to globalize, more and more employees are hired locally. We need to discern whether it's best to have them continue working in the same location or if it may be valuable to give them opportunities to gain experience in other regions of the world. It's important for us to remain flexible in this regard.

It was very stimulating that our acquisitions of ZOLL and Polypore brought many new people into the Asahi Kasei Group. M&A is meaningful in that it enables us to gain exceptional human resources, not only as a means to obtain a business and save time. Many of them have rich experience and skills that are different from our own. We achieve business growth by welcoming them as our colleagues, sharing our Group Mission with them, and giving them opportunities to fully utilize their abilities. It's mutually stimulating for people from different countries and different companies with different cultures and different values to work together toward a common goal. Connections among such different personnel can open new possibilities and spark innovation.

What really left an impression on me when we acquired ZOLL was how much time the management of foreign companies devote to M&A. It might be especially so in the field of healthcare, but they clearly regard business development as essential for dynamic growth. Their growth strategy is predicated on executing M&A, and a good deal of attention is focused on studying potential deals. This style of business development was eye-opening for me.

Materiality for business from the perspective of ESG

The fourth industrial revolution of digital transformation is not the only major change in our operating environment. Concern for social and environmental issues has been intensifying considerably. Environmental, social, and governance (ESG) aspects of management are placed under ever greater scrutiny. In 2015, the United Nations adopted the agenda for sustainable development goals (SDGs), advocating targets to be achieved such as eradicating poverty, protecting the environment, and attaining peaceful prosperity.

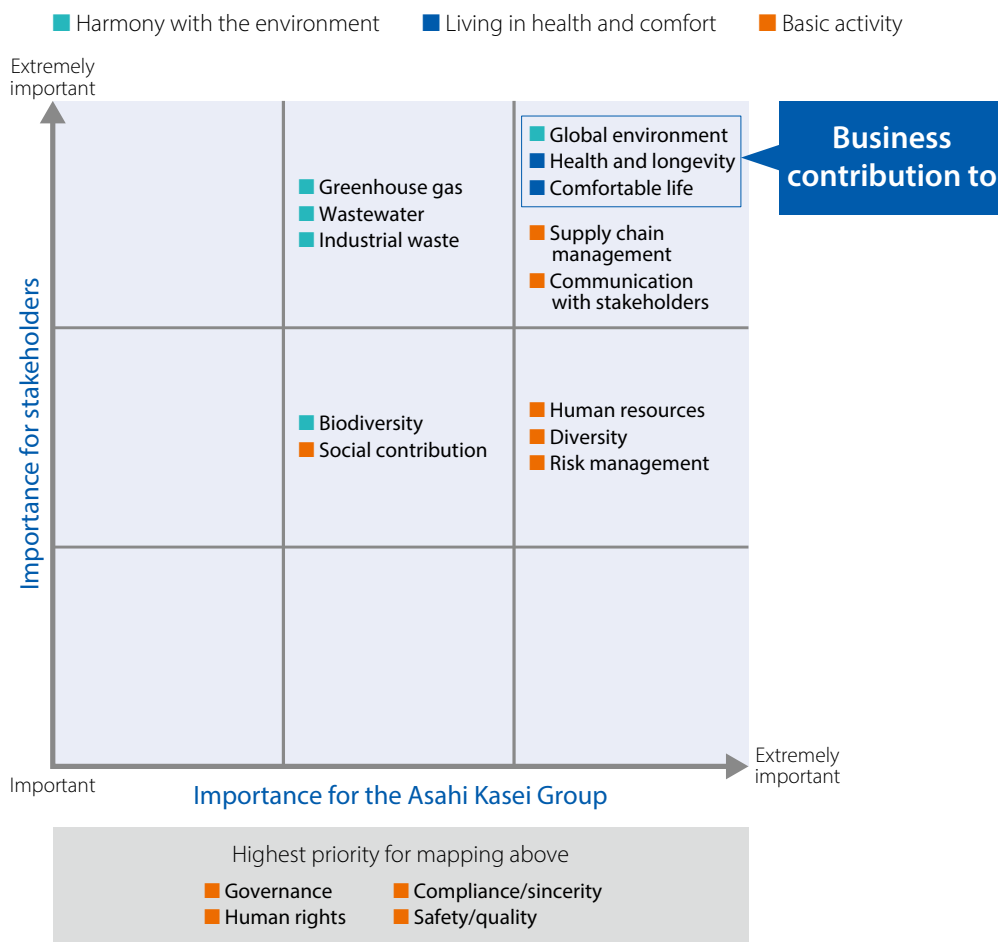
This is not a novel concept to us. We have long held a Group Vision of providing value to society by enabling "living in health and comfort" and "harmony with the natural environment," based on our Group Mission as I described. We therefore welcome the fresh attention on doing business responsibly.

Reviewing the issues we have addressed and those to focus on moving forward, we organized the following matrix to map our matters of materiality by importance. All the items shown in the illustration are important for our company. Items in the matrix are arranged vertically by importance for stakeholders and horizontally by importance for the Asahi Kasei Group. The four matters of corporate governance, compliance/sincerity, human rights, and safety/quality are shown separately to indicate their significance as indispensable prerequisites for doing business.

The map shows five items in the “extremely important” region of each axis. We consider three of them—the global environment, health and longevity, and comfortable life—as matters to be achieved through our business activities. We have many businesses that contribute to solutions for society: Regarding the global environment, for example, we have LIB separators for electric vehicles and solution-polymerized styrene-butadiene rubber (S-SBR) for fuel-efficient tires. We’re also launching a new business for our alkaline water electrolysis system to produce hydrogen from renewable energy, with plant demonstrations in progress. Likewise, our Health Care sector contributes to health and longevity while our Homes sector contributes to comfortable life.

Having identified our tasks, now it is vital for us to mobilize the entire Asahi Kasei Group to achieve progress. We will work to optimize our systems of implementing actions and evaluating results, including third-party verification, and apply a continuous cycle of improvement to ensure that we fulfil our mission to create new value. We will continue to meet the needs of society by maintaining a productive dialogue with our stakeholders to incorporate various perspectives.

Materiality of the Asahi Kasei Group



Alkaline water electrolysis system to produce green hydrogen from renewable energy

Asahi Kasei developed an alkaline water electrolysis system for the large-scale production of green hydrogen by leveraging our world-leading technology of chlor-alkali electrolysis.

In April 2018, we began trial operation of an alkaline water electrolysis plant producing green hydrogen from solar power jointly with IHI Corp. in Soma, Fukushima, Japan. In May, we launched a demonstration project for the system in Herten, North Rhine-Westphalia, Germany, using simulated electric power from wind energy. Hydrogen is not only expected to be used for fuel-cell powered buses and trains, it can be used to make green methane and green methanol by reacting with carbon dioxide.



The demonstration plant in Herten, Germany

Corporate governance strengthening the integrity and transparency of management

Adopted in 2015, Japan's Corporate Governance Code was revised this year. Attitudes toward corporate governance among Japanese companies have changed greatly in recent years. The biggest change is a stronger emphasis on the importance of bringing outside perspectives to bear in management.

As integrity and transparency in management have become more important than ever, we are expected to consider the impact of our business activities and sustainability from various perspectives including diversity of gender, nationality, and background. While our Head Office is located in Japan and a large proportion of our employees are Japanese, we are making efforts to raise the diversity of our management team. Though we currently have several non-Japanese Executive Officers and a woman on the Board of Directors, this is a work in progress and we will continue to seek further diversity for sound management. At the same time, we are working to reinforce our systems to bring greater transparency and appropriate information disclosure.

Regarding the effectiveness of the Board of Directors, we have active discussions based on an annual questionnaire for each Director. We obtain many candid opinions contributing to a vibrant discourse on how the board should be and what we can do to further improve its function.

I sense that the role of Outside Directors is evolving as well. They are not passively observing, but actively raising questions and opinions which contribute to corporate management as outsiders. I find this to be very meaningful and effective from the standpoint of governance. Outside Directors have stimulated more lively discussion of business strategy, and exhibit a very deep sense of involvement in formulating our longer-term strategy.

Taking up challenges—the spirit of Asahi Kasei

I mentioned Asahi Kasei's history of unceasingly taking up challenges to create new value. This doesn't only mean launching new businesses. It also means finding new value in our existing businesses. Our personnel are good at coming up with new ideas and finding new ways to do things in line with emerging changes in society around us. This exemplifies how we discover new ways to add value in every business.

Our Group Values are "sincerity," "challenge," and "creativity." We have nurtured the spirit of pursuing challenges among our personnel from generation to generation. An important part of my role as President is to constantly encourage our people to take up challenges on their own initiative and fully develop their own abilities in each field. I also instruct supervisors to find opportunities for their subordinates to pursue challenges in their daily tasks, and to support them in doing so. By facing our tasks with sincerity and striving to create new value for society, the culture of welcoming challenges repeatedly takes root in a new generation and passes on in an unbroken line to the future. We strive to instill these values in all of our personnel around the world, who put the spirit of our company into practice. I believe that this is the ultimate basis of our enduring success.

Thinking of my own experience, I was given many opportunities to take up challenges. On such occasions, I reminded myself of the company's spirit of creating new value. As President, now my task is to lead the management to achieve further growth by capturing the opportunities presented by the changes in the world around us. I want to leverage this occasion by giving as many personnel as possible the experience of creating new value for our company to provide to society.

It is in this way that the Asahi Kasei Group will always carry on evolving with the times, achieving growth by building connections among diverse businesses, personnel, and technologies, "Creating for Tomorrow" with ongoing contributions to life and living for people around the world.

Basic Concept of “Cs for Tomorrow 2018” Medium-Term Management Initiative

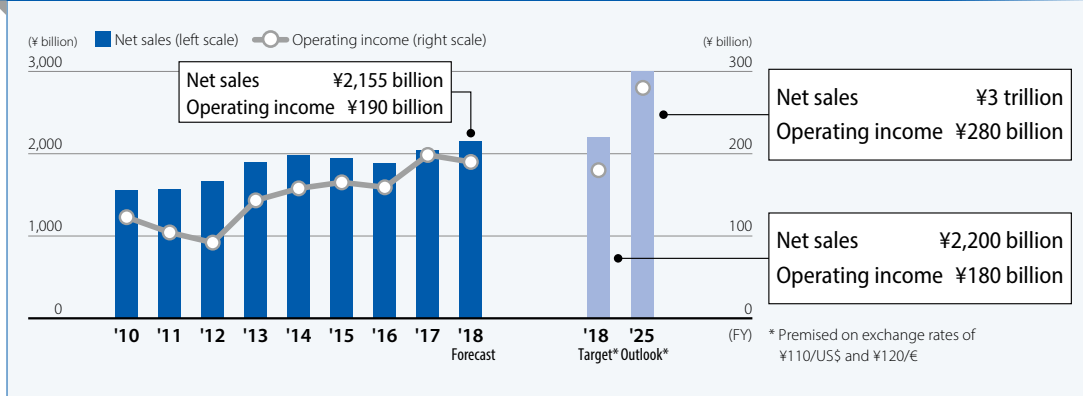
Providing solutions to two important challenges faced by society with diversified businesses

Society of clean environmental energy

Society of healthy/comfortable longevity with peace of mind

Advancing toward 2025

Creating a portfolio of high-profitability and high value-added businesses



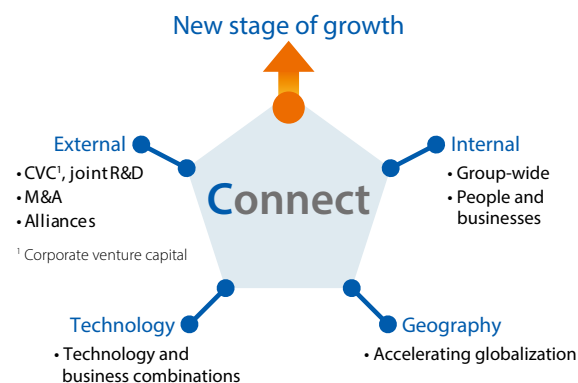
Focus of “Cs for Tomorrow 2018”

Building the base for the next phase with connections among diverse businesses and diverse human resources

Group Slogan

Creating for Tomorrow

Create new markets through connections



Practice three Cs

Compliance

Thorough compliance based on the “three actuals”²
² Actual place, actual thing, and actual fact

Communication

Open communication that fosters mutual understanding and trust

Challenge

Relishing new challenges to advance and evolve

Basic strategy

Pursuit of growth and profitability

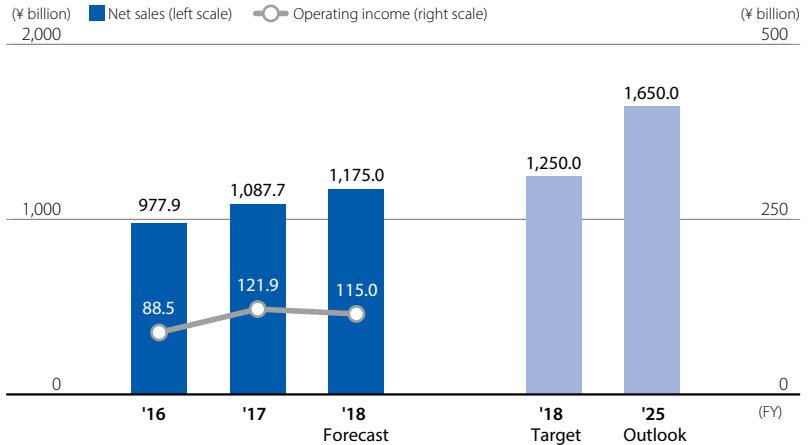
Creation of new businesses

Acceleration of globalization

Future path toward 2025 for each sector

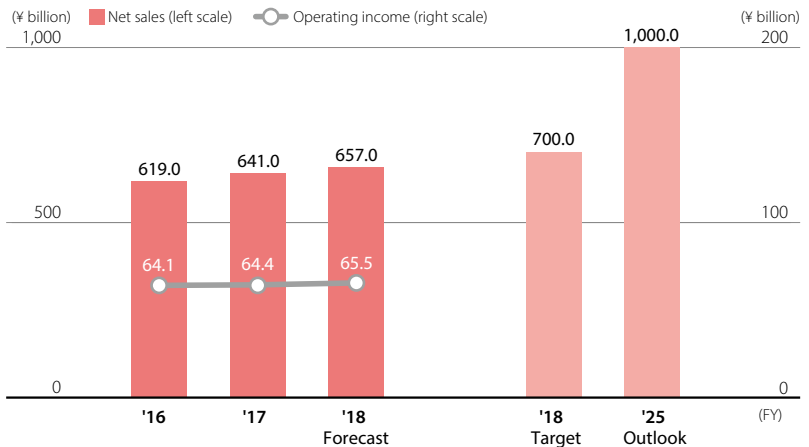
Material

- Seek greater profitability by expanding in performance products
- Solidify No. 1 position of battery separator business
- Use combined strength to cultivate new markets for materials



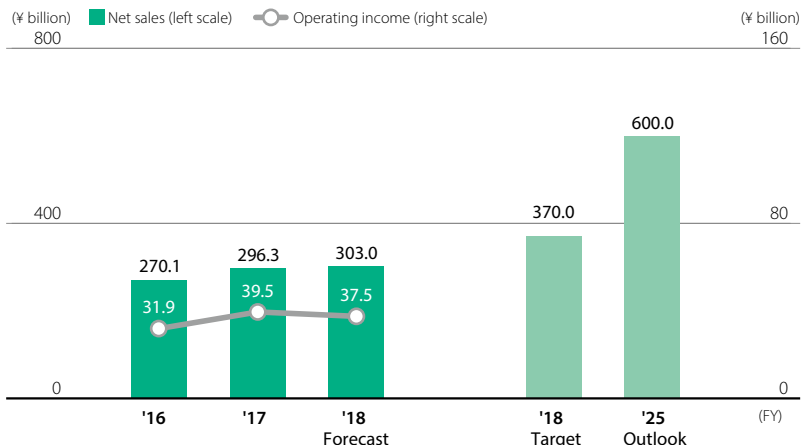
Homes

- Secure stable earnings by raising market share for established businesses
- Advance new businesses focused on medium-rise homes, seniors, and overseas markets
- Create distinctive added value through connections with other sectors in Asahi Kasei



Health Care

- Increase overseas sales; operating income to reach 1/3 of Asahi Kasei Group total
- Pharmaceuticals: global expansion
- Medical devices: grow by further utilizing and strengthening global platform



Interview with the CFO



We will raise cash flow generation and proactively invest for growth to enable sustainable increase in corporate value and stable shareholder returns

Yutaka Shibata

Director, Primary Executive Officer

Financial strategy to achieve fiscal 2015 goals

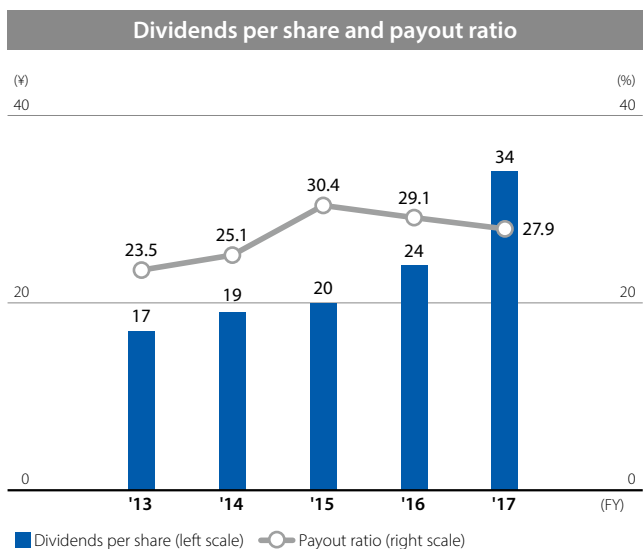
Under Cs for Tomorrow 2018 (CT2018) we are working to create a portfolio of high-profitability and high value-added businesses as we aim to reach net sales of ¥3 trillion and operating income of ¥280 billion in fiscal 2025. The three-year period through fiscal 2018 is positioned as the time to build the base for the next phase of growth. We are expanding competitive businesses and creating new added value in all three sectors of Material, Homes, and Health Care to increase the generation of cash flow enabling both investments for growth and shareholder returns in an appropriate balance. While expanding established businesses with increased production capacity, we are actively evaluating opportunities for strategic M&A.

By proactive investment in growth fields, we can achieve sustainable business expansion to enable stable returns to our shareholders.

With funds essentially raised through bank borrowings, we flexibly evaluate various methods to obtain stable financing at low cost in accordance with financial circumstances. We also utilize group finance in Japan and overseas for capital efficiency. Recording strong results in fiscal 2017, we repaid borrowings and lowered our D/E ratio to 0.23 by fiscal year-end. Leveraging our sound financial condition we will proactively invest for further growth toward our goals in fiscal 2025.

Shareholder returns policy

Asahi Kasei's basic policy for shareholder returns is to aim for stable dividends and continuous dividend increases. Based on this policy we have raised dividends in line with earnings growth. Our results in fiscal 2017 were generally favorable, with petrochemicals operations in particular benefitting from high market prices and a weaker yen, and positive impacts from sales of investment securities and from the US tax reform. Net sales exceeded ¥2 trillion for the first time, and each income category reached new highs. We raised our annual dividend by ¥10 to ¥34 per share reflecting such robust results. Our CT2018 target is a total return ratio of 35% in fiscal 2018, and we plan to continue to raise dividends as earnings increase.



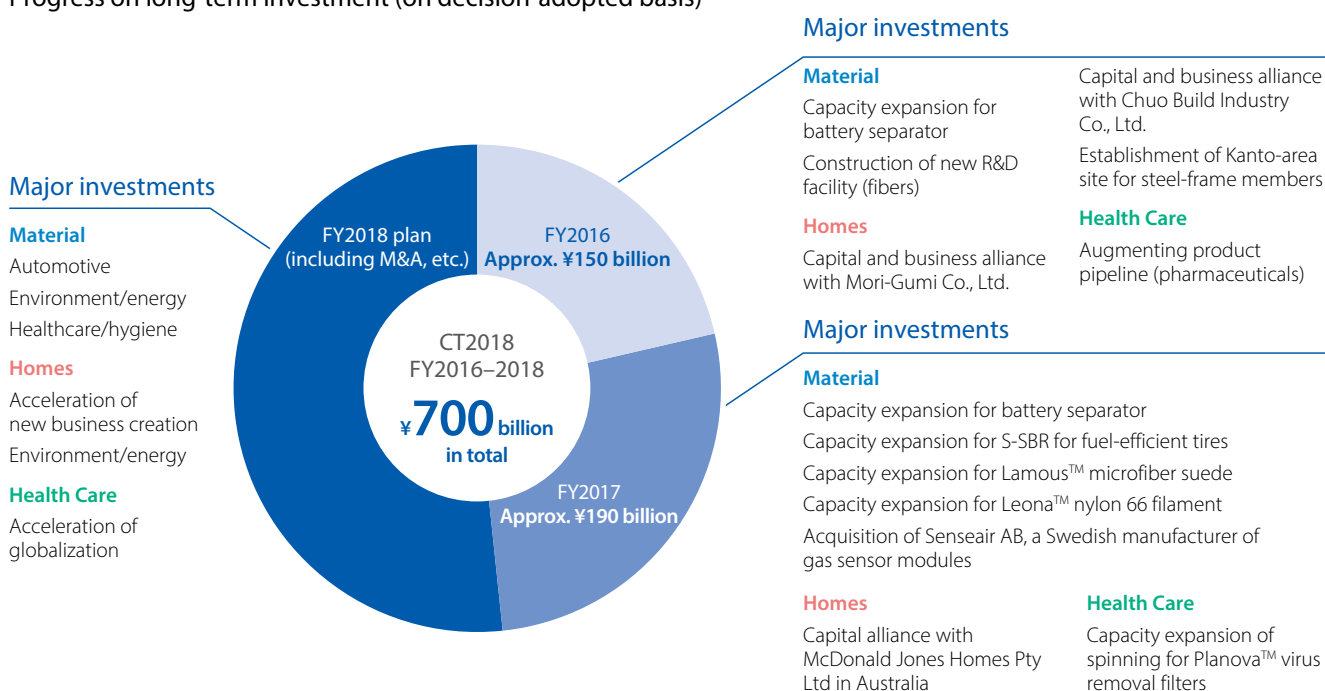
Progress in financial strategy of CT2018

We expect to generate ¥600–700 billion of operating cash flow during the three years of CT2018. With firm performance in the first two years, we have generated over ¥400 billion of operating cash flow and are on track to reach our target.

We plan to adopt decisions on ¥700 billion of long-term investments during the three-year period, and reached

nearly half that figure in the first two years. In fiscal 2018 we plan to formalize over ¥200 billion of long-term investment focused on established businesses. At the same time we are actively evaluating strategic M&A opportunities that can contribute to further growth for the future. Decisions will be made in light of our financial condition.

Progress on long-term investment (on decision-adopted basis)



Primary financial metrics

	FY2013	FY2014	FY2015	FY2016	FY2017
Net cash provided by operating activities (¥ billion)	244.2	137.6	216.2	169.0	249.9
Net cash used in investing activities (¥ billion)	(103.8)	(100.5)	(285.3)	(89.9)	(110.3)
Free cash flows (¥ billion)	140.4	37.1	(69.1)	79.0	139.6
Net income per share (EPS)	¥72.48	¥75.62	¥65.69	¥82.34	¥121.93
Net income per total assets (ROA)	5.5%	5.4%	4.3%	5.1%	7.4%
Net income per shareholders' equity (ROE)	11.7%	10.6%	8.6%	10.5%	14.0%
Net income per net sales (ROS)	5.3%	5.3%	4.7%	6.1%	8.3%
Total asset turnover ratio	1.02	1.01	0.92	0.84	0.89
Financial leverage	2.2	2.0	2.0	2.0	1.9
Net income per shareholders' equity and interest-bearing debt (ROIC)	7.7%	7.5%	7.1%	7.6%	9.7%
D/E ratio	0.33	0.25	0.43	0.35	0.23

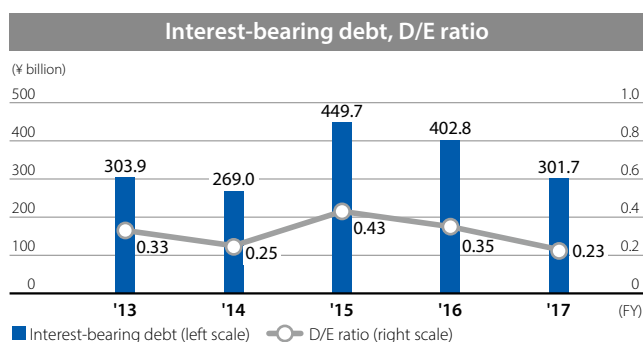
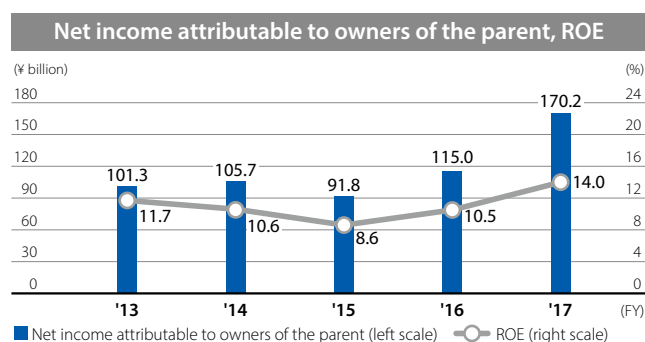
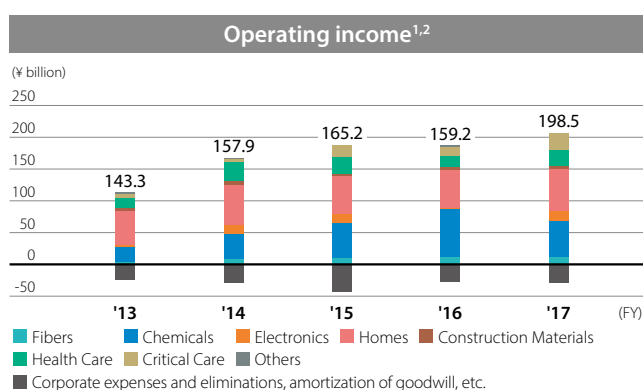
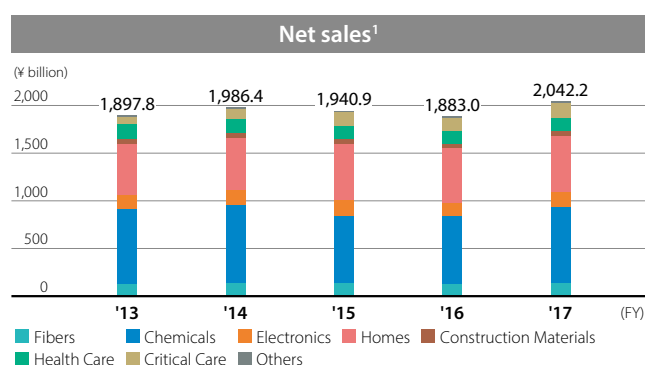
Financial and Non-Financial Highlights

For the years ended March 31	2018	2017	2016	2015
Net sales	¥2,042,216	¥1,882,991	¥1,940,914	¥1,986,405
Domestic sales	1,274,548	1,226,633	1,261,203	1,313,128
Overseas sales	767,668	656,358	679,711	673,277
Operating income	198,475	159,229	165,203	157,933
Ordinary income	212,544	160,633	161,370	166,543
Income before income taxes	218,333	157,388	146,389	158,440
Net income attributable to owners of the parent	170,248	115,000	91,754	105,652
Comprehensive income	177,717	138,979	(11,925)	214,484
Net income per share, yen	121.93	82.34	65.69	75.62
Capital expenditure	101,331	90,573	99,000	89,108
Depreciation and amortization	95,415	91,387	93,811	86,058
R&D expenditures	85,695	79,566	81,118	75,540
Cash dividends per share, yen	34.00	24.00	20.00	19.00

As of March 31	2018	2017	2016	2015
Total assets	¥2,316,137	¥2,254,500	¥2,211,729	¥2,014,531
Inventories	359,687	346,682	336,743	339,677
Property, plant and equipment	562,048	556,881	555,989	502,507
Investments and other assets	380,489	340,302	305,140	334,368
Net worth ^a	1,287,387	1,151,344	1,041,901	1,082,654
Net worth per share, yen	922.11	824.36	745.94	775.05
Net worth/total assets, %	55.6	51.1	47.1	53.7
Number of employees	34,670	33,720	32,821	30,313

^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.



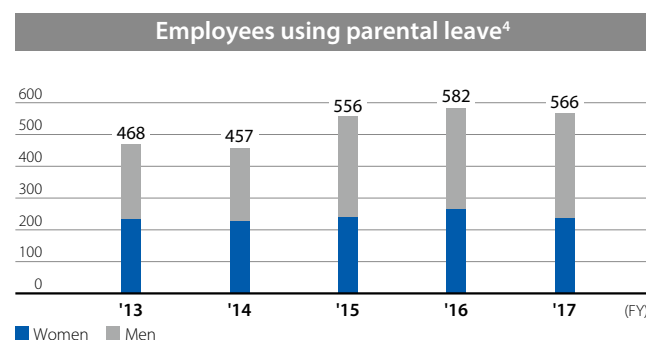
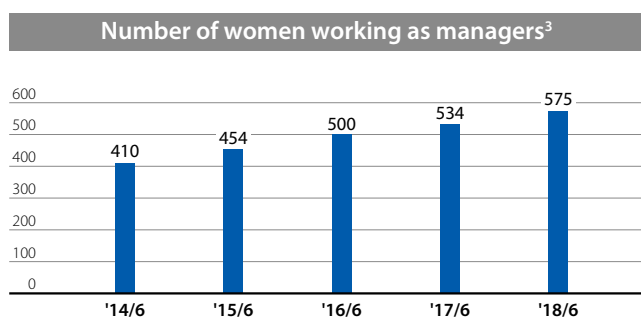
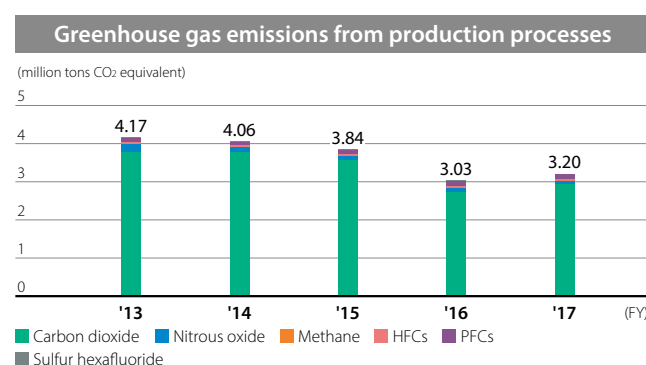
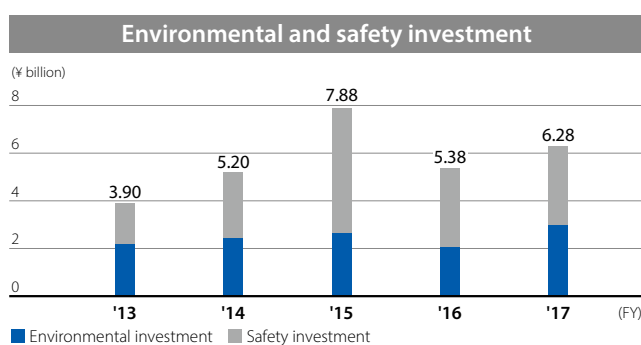
¹ Some businesses were transferred between categories in FY2016 and FY2017; figures are shown according to the new classification thenceforth.

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, amortization of goodwill, etc."

Millions of yen, except where noted

	2014	2013	2012	2011 ^b	2010 ^b	2009 ^b	2008 ^b
	¥1,897,766	¥1,666,640	¥1,573,230	¥1,555,945	¥1,392,212	¥1,521,178	¥1,663,778
	1,289,054	1,181,429	1,151,705	1,106,656	1,021,803	1,127,213	1,176,441
	608,712	485,211	421,525	449,289	370,409	393,965	487,337
	143,347	91,960	104,258	122,927	57,622	34,959	127,656
	142,865	95,125	107,567	118,219	56,367	32,500	120,456
	163,860	82,302	94,866	98,342	46,056	19,031	105,599
	101,296	53,712	55,766	60,288	25,286	4,745	69,945
	146,102	117,515	62,561	45,088	—	—	—
	72.48	38.43	39.89	43.11	18.08	3.39	50.01
	92,397	113,785	85,124	66,014	83,990	126,725	82,911
	86,052	80,050	78,440	84,092	86,166	79,436	73,983
	71,101	71,120	66,269	62,320	62,924	60,849	56,170
	17.00	14.00	14.00	11.00	10.00	10.00	13.00

	2014	2013	2012	2011	2010	2009	2008
	¥1,915,089	¥1,800,170	¥1,410,568	¥1,425,879	¥1,368,892	¥1,379,337	¥1,425,367
	328,540	309,677	279,206	256,248	251,084	273,539	272,372
	480,535	461,581	416,119	418,354	447,497	441,271	424,193
	285,735	263,704	227,489	220,773	226,331	218,477	234,873
	912,699	812,080	706,846	663,566	633,343	603,846	666,244
	653.15	581.05	505.72	474.59	452.91	431.77	476.39
	47.7	45.1	50.1	46.5	46.3	43.8	46.7
	29,127	28,363	25,409	25,016	25,085	24,244	23,854



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).

Directors



**1. 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 the Asahi Kasei Group's overall 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.

**2. 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.

**5. Director
Senior 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**

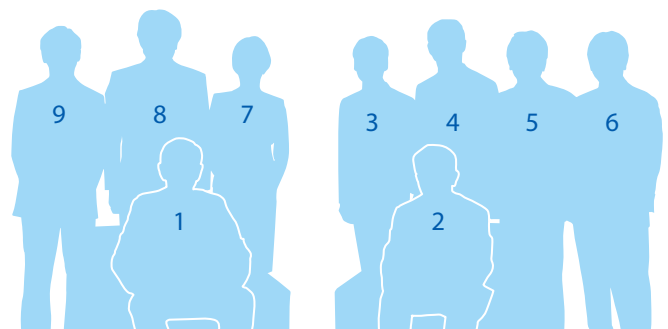
Soichiro Hashizume

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

Tsuyoshi Okamoto

With his wealth of experience and broad range of insight into corporate management, including as Director 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.





3. Director
Primary Executive Officer

Yutaka Shibata

After many years of experience in legal affairs and corporate planning, including as General Manager of Corporate Strategy, Asahi Kasei Medical President & Representative Director, and Asahi Kasei Pharma President & Representative Director, he became responsible for the Asahi Kasei Group's strategy, accounting, finance, and IT in April 2018. 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

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.

4. Director
Senior Executive Officer

Shuichi Sakamoto

After many years of experience in the petrochemical business, including as General Manager of the Performance Plastics Division and General Manager of the Acrylonitrile Division at Asahi Kasei Chemicals, he oversaw the Asahi Kasei Group's strategy, accounting, finance, and IT, and in April 2018 became responsible for the Health Care business sector. He possesses a wealth of experience and a broad range of knowledge on the Asahi Kasei Group's businesses and corporate management.

8. 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.

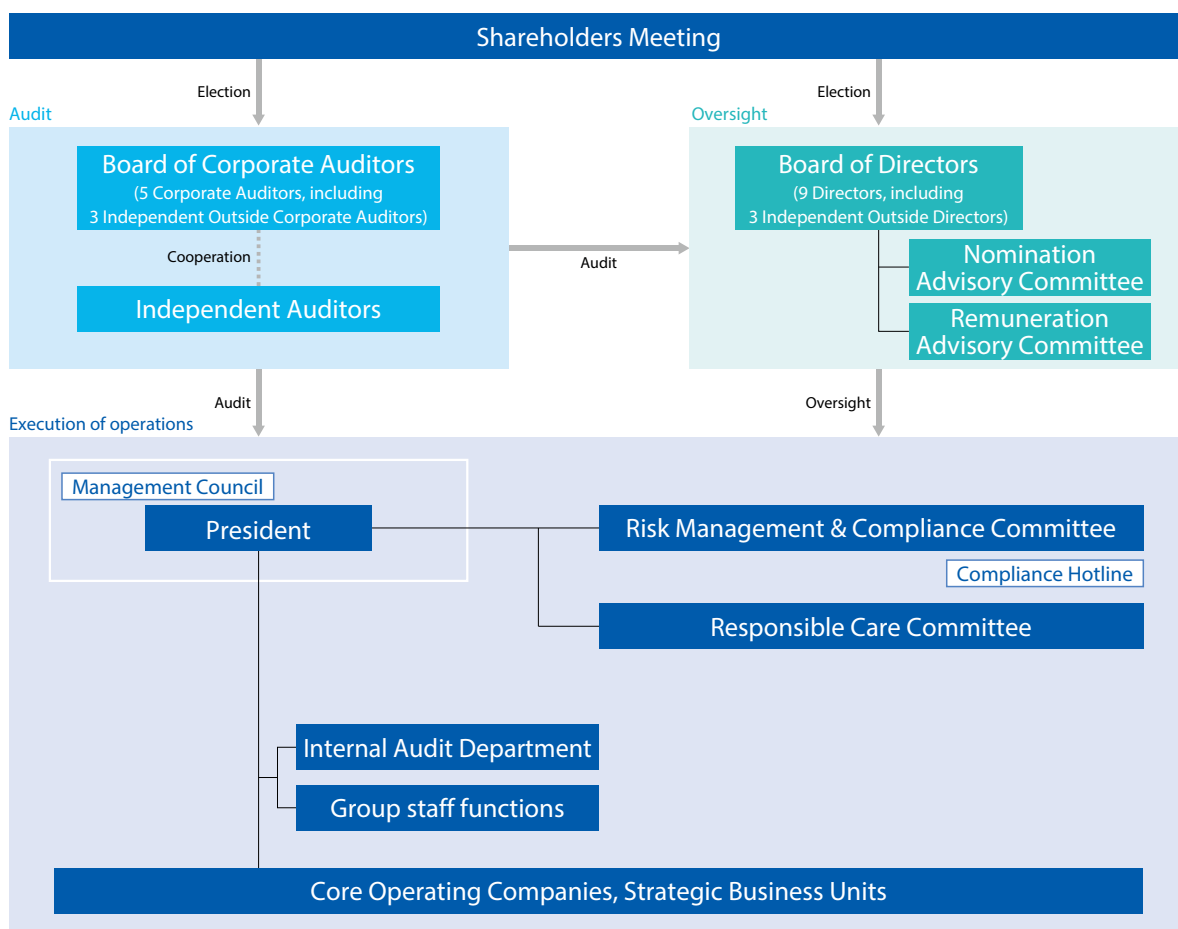
Corporate Governance

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 27, 2018)



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 Nomination Advisory Committee and Remuneration Advisory Committee under the Board of Directors consist primarily of Outside Directors who provide advice 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 corporate regulations, 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.

Risk management and compliance, etc.

We have a Risk Management & Compliance Committee which determines policy and deliberates on matters related to risk management and compliance. We also have a Responsible Care Committee which deliberates on measures to prevent accidents involving environmental protection, quality assurance, operational safety, workplace safety and hygiene, and health maintenance, and to prevent recurrence.

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 according to 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 19 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.

Evaluation of the Effectiveness of the Board of Directors

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

Measures implemented in fiscal 2017

The Board of Directors implemented the following measures in fiscal 2017 based on evaluation of the previous fiscal year.

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 continued to provide them with tours of our production sites and R&D facilities. To help them gain a deeper understanding of our diverse operations, we also provide them with regular explanations by people responsible for the business units and invite them to attend various events held inside and outside the company.

Sharing information on IR activities and opinions of investors

In addition to reporting a summary of IR activities, the responsible Executive Officer has begun to regularly report and share opinions of investors with the Board of Directors.

Moving forward

We will continue to extend efforts to enrich information provision for Outside Directors and Outside Corporate Auditors, and work to enrich deliberations at Board of Directors meetings through the timely input of perspectives of investors. Based on deliberations of the effectiveness of the Board of Directors during fiscal 2017, we will continue and expand these efforts in the future. In fiscal 2018, we plan to develop discussions among attendees of Board of Directors meetings including Outside Directors and Outside Corporate Auditors on the longer-term direction of management strategies for the next medium-term management initiative which will start in fiscal 2019.

Outstanding people are transforming Asahi Kasei

Outside Directors Tsuneyoshi Tatsuoka and Masumi Shiraishi discuss the way for Asahi Kasei to raise corporate value

Corporate governance at Asahi Kasei

Tatsuoka When Japan's Corporate Governance Code was applied to listed companies in 2015, Asahi Kasei had already focused efforts on strengthening corporate governance for some time. During the two years that I've been an Outside Director, various governance issues were raised in the course of evaluating the effectiveness of the Board of Directors, as well as through meetings between Corporate Auditors and Outside Directors. Each issue was given serious consideration and improvements were proposed in turn.

Corporate governance is a continuing process; there's never a point where you can say "It's finished." Issues to be addressed are constantly changing as the management climate evolves. We must maintain a keen sense of the importance of measures to further strengthen corporate governance.

Shiraishi Yes, but Asahi Kasei did update its governance configuration in accordance with the principles of the Corporate Governance Code when it was introduced.

The Board of Directors has serious discussions on M&A in various fields of business; we consider how a company could add value, and how a business could contribute to earnings. Management decisions are made with a clear focus on raising corporate value. Information disclosure is proactive. All three Outside Directors are independent, and there is a good balance among each of our areas of specialty.

Still, there are concerns. Asahi Kasei has an extremely broad range of operations, and sites located across the world. So there must be more than a few unseen risks. As business continues to expand, more deliberate effort will be needed to reveal such unseen risks.



Tsuneyoshi Tatsuoka
Outside Director

April 1980: Joined Ministry of International Trade and Industry
January 2010: Councilor, Cabinet Secretariat
August 2011: Deputy Vice-Minister of Economy, Trade and Industry
June 2013: Vice-Minister of Economy, Trade and Industry
July 2015: Retired from Ministry of Economy, Trade and Industry
June 2016: Outside Director, Asahi Kasei Corp. (position held at present)



Impression of the Board of Directors

Tatsuoka I appreciate the various measures devised to foster high-quality discussions. As you mention, Asahi Kasei has a very wide range of businesses. The important thing is how the Board of Directors looks at each one. We don't delve into the details of individual measures taken. Rather, we grasp the essence of each matter and have high-level discussions from a broad point of view.

I also feel that management speed has increased to keep pace with a rapidly changing world. We need to appropriately judge when to step on the accelerator and when to apply the brakes. If we're too cautious and keep stepping on the brakes, we will miss out on opportunities for growth. As someone who has spent many years focused on the growth of the Japanese economy, I fully recognize the importance of this. At Board of Directors meetings, I always try to offer opinions on how the company can make the most of opportunities in every situation.

Shiraishi You mention the measures to raise the quality of discussions by the Board of Directors. I'm impressed by how thorough these are. For example, we are briefed on the background and main issues related to items on the agenda prior to board meetings. It's an effective means of ensuring that there



is no information gap between the Outside Directors and the Directors from inside the company. Several times a year we also have on-site visits to learn about the different businesses, and we also attend conferences where R&D results are presented. I find such events to be very informative.

I also think Chairman Itoh (now Honorary Chairman) was very skillful at leading the board meetings. Among the board members, he was the most knowledgeable of Asahi Kasei's history. He often interspersed the discussion with historical perspective, which was engaging for us as Outside Directors. He also adeptly made the discussion mesh among Outside Directors and the Directors from inside the company. I think Itoh-san's leadership raised the quality of discussions for the Board of Directors.

Tatsuoka Yes, and now that President Kobori is chairing the meetings, I feel that high-quality discourse is maintained. He is able to guide the discussion to weave together both inside and outside perspectives.

Outsider's perspective on Asahi Kasei's strengths

Tatsuoka I feel that Asahi Kasei's true strength lies in having a firm corporate philosophy that is shared by all personnel. Long before ESG became prevalent, Asahi Kasei already had a Group Mission of "contributing to life and living for people around the world," and a Group Slogan of "Creating for Tomorrow." These are clear and concise expressions of the spirit of the company which permeates throughout, and is brought to life in business operations. Another strength is the trove of technology that provides the seeds of new business, which is how the company continues creating for tomorrow.

Masumi Shiraishi Outside Director

May 1989: Joined NLI Research Institute
April 2001: Head Researcher, NLI Research Institute
April 2002: Assistant Professor, Department of Economics, Toyo University
April 2006: Professor, Department of Economics, Toyo University
April 2007: Professor, Faculty of Policy Studies, Kansai University (position held at present)
June 2013: Outside Director, Asahi Kasei Corp. (position held at present)



Shiraishi I see the source of Asahi Kasei's strength as having so many positive thinkers, working in a flat organizational structure. People communicate with ease. Even under challenging circumstances, they earnestly share their views on actions that will help their business advance toward a brighter future.

We said the company has a wide range of businesses, but at a time of dramatic changes in the world about us, this diversity of operations is itself a strength, isn't it?

Completing "Cs for Tomorrow 2018"

Shiraishi The company achieved its income targets a year ahead of schedule. I think that attests to Asahi Kasei's outstanding management and employees. Now in the final fiscal year, it will be vital to gain solid earnings from the investments and acquisitions made thus far.

I also feel the company should do a better job of drawing attention to performance characteristics that go beyond business results. Though Asahi Kasei is very active in areas related to ESG, many aspects are not widely known. Greater recognition can be gained by using key performance indicators to enable easier understanding.

Tatsuoka The company is well on track to achieve solid financial performance with its medium-term management initiative, centered on businesses that provide new value to society by enabling "living in health and comfort" and "harmony with the natural environment" in accordance with its Group Vision.

Asahi Kasei is aiming at high targets for fiscal 2025, ¥3 trillion in net sales and ¥280 billion in operating income. While advancing discussions on the next medium-term initiative with an eye toward those targets, fiscal 2018 is also a year to study concrete measures to prepare for various forthcoming changes.

What Asahi Kasei needs for global growth

Shiraishi Since we can't expect robust growth in the Japanese market, the company will need to raise the pace of globalization. Connecting with many partners whose operations complement Asahi Kasei's established businesses, while retaining and fostering various innovative personnel, will be essential.

I also think further globalization of business will require greater diversity in the Board of Directors over the longer term. We should consider having more Directors with a technological background, female Directors not only from outside the company but also from within, and non-Japanese Directors as well.

Tatsuoka I agree that people will be an important key. Digital transformation including AI and IoT is bringing very rapid changes to the world, and material industries may be profoundly affected. More and more, Asahi Kasei will need personnel with high IT literacy, personnel who understand different cultures for overseas business, and personnel who can make the needed connections for success moving forward.

Specific Measures to Heighten Compliance

“Compliance,” “Communication,” and “Challenge” are identified as areas of emphasis to solidify the foundation for future growth under our Cs for Tomorrow 2018 management initiative. To heighten awareness for compliance among personnel, we are focusing on the “three actuals”—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, acting with sincerity in accordance with our Group Values based on our Group Mission.

Internal framework

Asahi Kasei Group Basic Regulation for Risk Management & Compliance

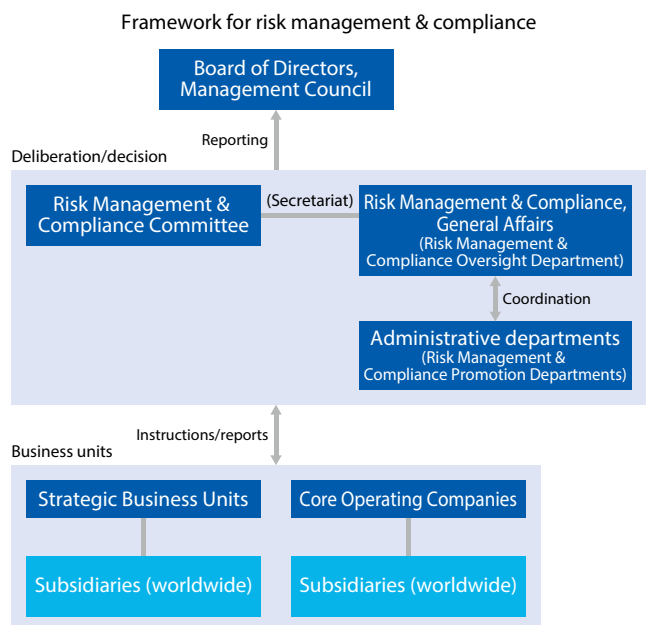
The Asahi Kasei Group Basic Regulation for Risk Management & Compliance specifies basic systems and organizations for the central aggregation and administration of all matters related to risk management and compliance.

- 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 and Risk Management & Compliance Promotion Departments
 - 4) Role of Presidents of SBUs and core operating companies
 - 5) Designation and role of Risk Management & Compliance Supervisors and Risk Management & Compliance Managers
 5. The Asahi Kasei Group Code of Conduct
 6. Crisis response
 7. Compliance hotline (internal reporting system)

Risk Management & Compliance Committee

Our Risk Management & Compliance Committee is chaired by the President of Asahi Kasei Corp. with the Presidents of each Strategic Business Unit and Core Operating Company serving as committee members. The committee determines policy and deliberates on matters related to risk management and compliance, and monitors the management of risks and the state of compliance throughout the Asahi Kasei Group. Results of the committee’s deliberations, etc., are reported to the Board of Directors.

- Main subjects on the committee’s agenda
- 1) Summary of activities and results based on annual plans for risk management and compliance
 - 2) Progress of education and training regarding the Asahi Kasei Group Code of Conduct
 - 3) Reports of compliance violations and measures taken in response
 - 4) State of operation of the compliance hotline
 - 5) Disciplinary measures imposed on employees



Asahi Kasei Group Code of Conduct

In April 2017, 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 for greater ease of understanding among our personnel around the world. The new code of conduct was distributed as a booklet to all employees in Japan. It was translated into various languages for international employees, and measures are advancing to gain understanding among subsidiaries and affiliates located outside Japan. The code of conduct is also made available to the public on our website.

→ Outline of the Asahi Kasei Group Code of Conduct ←

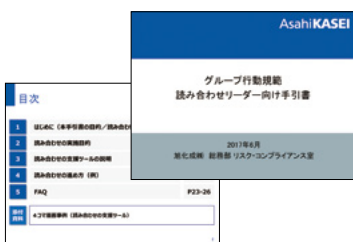
- 1. Ensuring Safety, Environmental Protection, and High Quality to Contribute to Life and Living**
 - (1) Maintaining Thorough Safety in All Aspects
 - (2) Provision of Safe and High-Quality Products and Services that Customers Can Rely On
 - (3) Thorough Management of Workplace Safety, Ensuring Safe 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



Heightened employee awareness

Discussions were held at workplaces in Japan based on case studies regarding each section of the Asahi Kasei Group Code of Conduct. Posters on the code of conduct were hung in each workplace, and a business-card sized summary was distributed to employees in Japan enabling easy reference at any time.

Material for workplace discussions



Workplace poster



Portable summary



Compliance hotline

The Asahi Kasei Group began employing a Compliance Hotline in April 2005 to ensure that any possible ethical lapses which employees may encounter or observe are dealt with swiftly and appropriately. In fiscal 2015, the system was expanded to enable suppliers and their employees to report or consult.

Reports and responses

During fiscal 2017 there were 47 reports and consultations made through the hotline system. None of them regarded significant matters which would affect the performance of operations.

Some 70% of the reports and consultations concerned personal relationships among workplace colleagues. After fact-checking, cautions were issued to relevant personnel as necessary, and monitoring to confirm improvement was performed.

Announcement of amendment

The system and operation of our Compliance Hotline was partially amended in accordance with guidelines issued by Japan's Consumer Affairs Agency in December 2016. The amendment was announced in the internal magazine and on the corporate intranet.



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/code_of_conduct.pdf

Measures for risk management

We provide clear guidelines for risk management and emergency response in accordance with the Asahi Kasei Group Basic Regulation for Risk Management & Compliance.

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. They work to thoroughly identify, 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.

Crisis response system

Due to accidents, incidents, or problems, if Asahi Kasei Group operations are significantly damaged or would cause serious adverse effects on the general public, we have a system to establish a group emergency response headquarters which works with the relevant divisions and departments to ensure that the proper response is taken.

Measures applied throughout the Asahi Kasei Group

Prevention of bribery

The Asahi Kasei Group considers bribery to be an important risk factor which could seriously jeopardize our corporate reputation. Applied throughout all operations, the Asahi Kasei Group Policies for Prevention of Bribery clarify basic policies to prohibit bribery and procedures to follow to avoid bribery-related risks. Education and training on the prevention of bribery are provided to personnel worldwide, including e-learning and workshops.



The Asahi Kasei Group Policies for Prevention of Bribery are available at the following address.

www.asahi-kasei.co.jp/asahi/en/csr/compliance/about_compliance/pdf/about_compliance_02.pdf

Information security

Recognizing the importance of countermeasures to protect against information security risks, we established the Asahi Kasei Group Information Security Policy and aim to ensure and further improve information security. A range of information security measures is systematically applied for protection against sophisticated cyberattacks such as targeted threats. Our internal company rules were amended, employee education and training including e-learning and e-mail drills performed, and monitoring functions reinforced with the adoption of a high-level monitoring system.



The Asahi Kasei Group Information Security Policy is available at the following address.

www.asahi-kasei.co.jp/asahi/en/csr/compliance/about_compliance/

Protection of personal information

Asahi Kasei is committed to the proper handling and use of personal information, in accordance with the Asahi Kasei Group Regulation for Management of Personal Information. An information security handbook which describes our rules for handling information is distributed to all employees, and education is performed via e-learning.

We revised the Asahi Kasei Group Regulation for Management of Personal Information in accordance with an amendment to Japan's Act on the Protection of Personal Information which became effective in May 2017. Additionally, to comply with the EU General Data Protection Regulation (GDPR) which became effective in May 2018, we established new Asahi Kasei Group Bylaws for Management of Personal Information for GDPR and prepared the necessary standards and systems.

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. Measures were swiftly applied to gain understanding and awareness among personnel regarding the revised regulation and related internal rules. Management of share-trading by officers and employees has been enhanced under the new rules, and a wide-ranging program of education and training is ongoing.



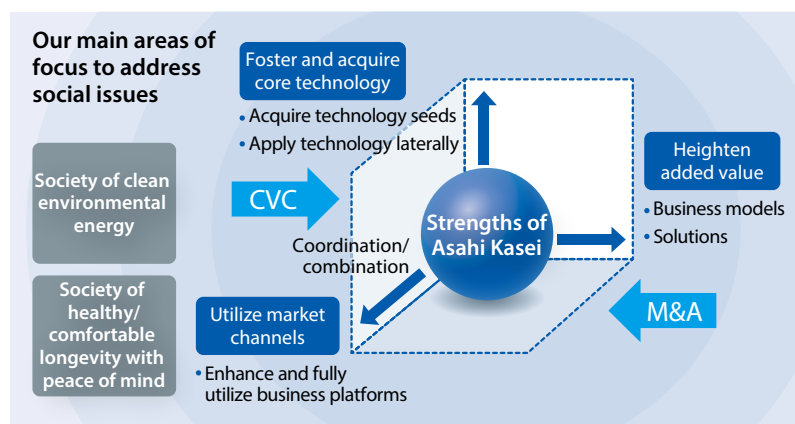
Enhancing the system to create new businesses and strengthen established businesses

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

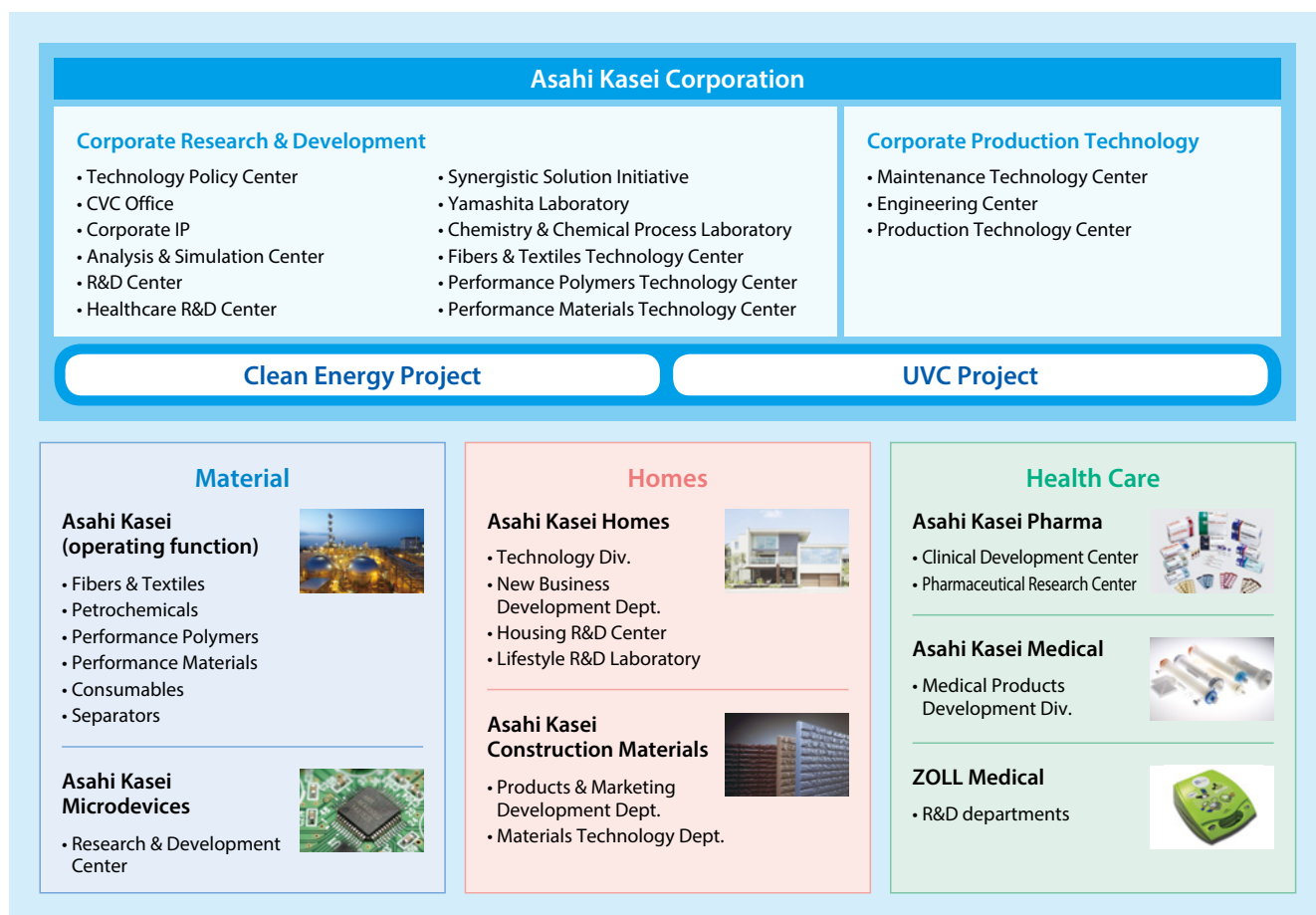
To attain our ideal for Asahi Kasei in 2025, we have reformed our training and systems of education and support to strengthen the two mainstays of management skills and specialist abilities.

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

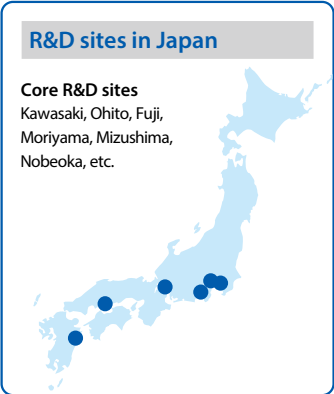
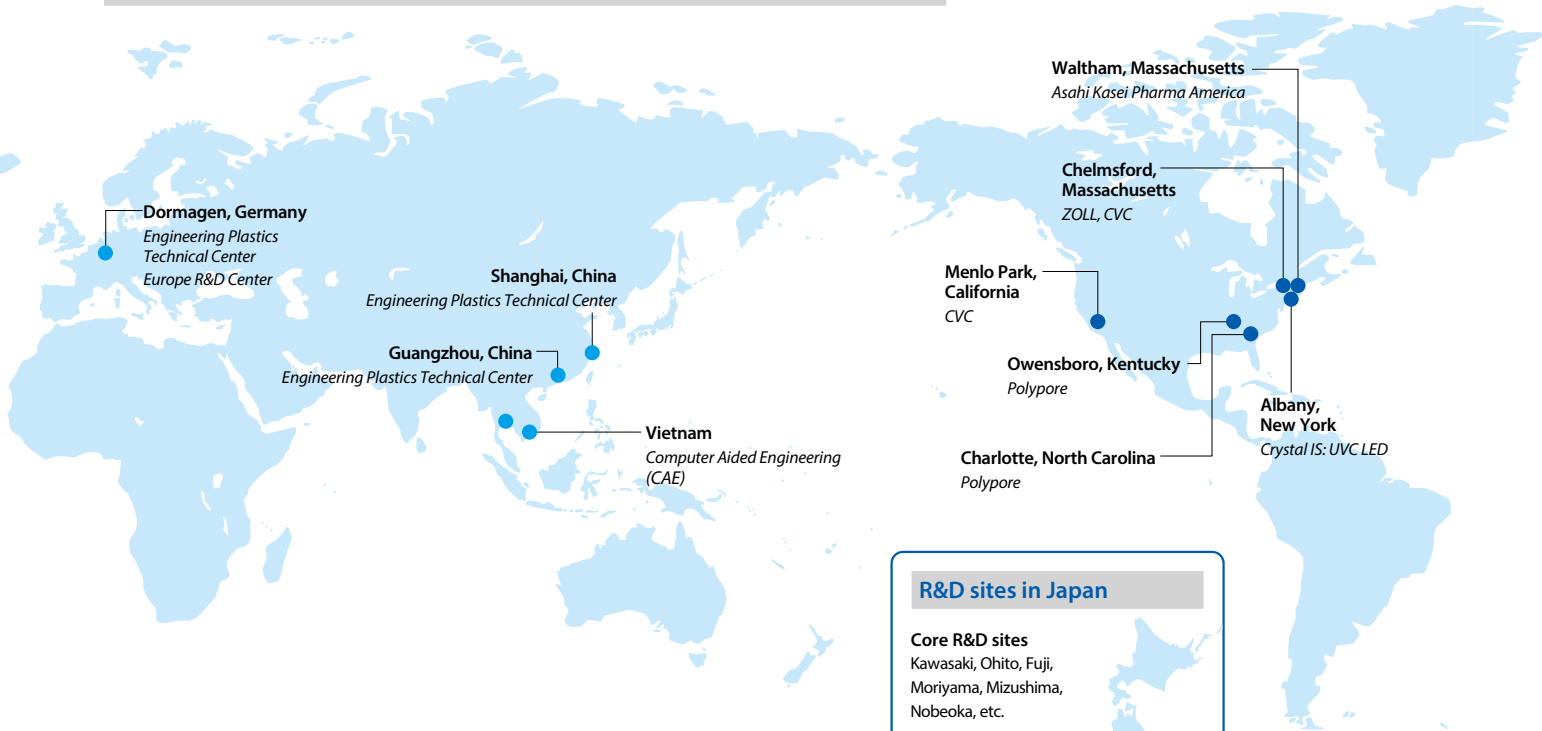
We reconfigured our R&D organization at the time of our transition to an operating holding company structure in April 2016 to enhance coordination among different departments within the company. Under "Cs for Tomorrow 2018," we are leveraging our strengths in various technologies and diversified operations from a 3-axis perspective of "foster and acquire core technology," "heighten added value," and "utilize market channels" to accelerate R&D, while enhancing external connections through CVC (corporate venture capital) and joint research to create new business.



Main R&D bases around the world

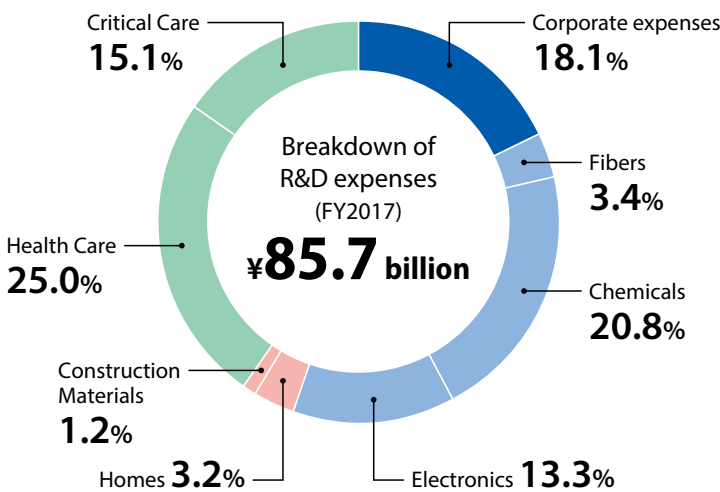
With R&D bases located around the world, we are able to meet a wide variety of needs in each market.

R&D sites overseas

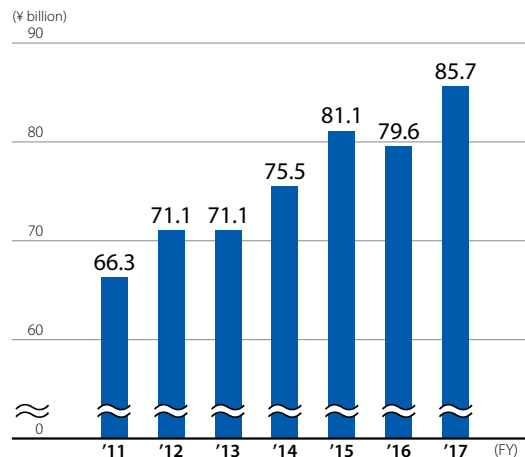


R&D expenses

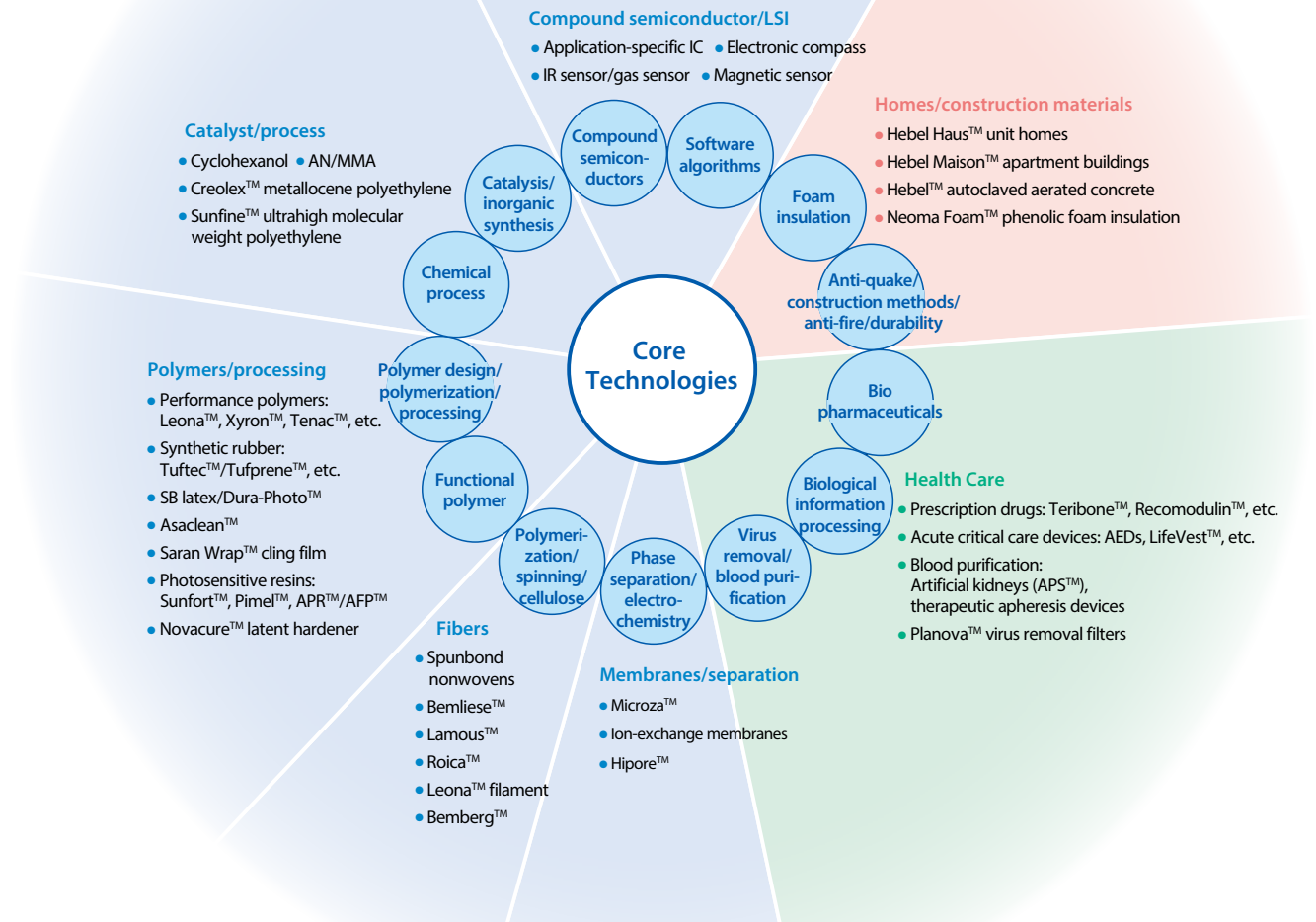
Each SBU performs R&D both to reinvigorate and enhance existing businesses and to create new businesses for the future.



Annual R&D expenses



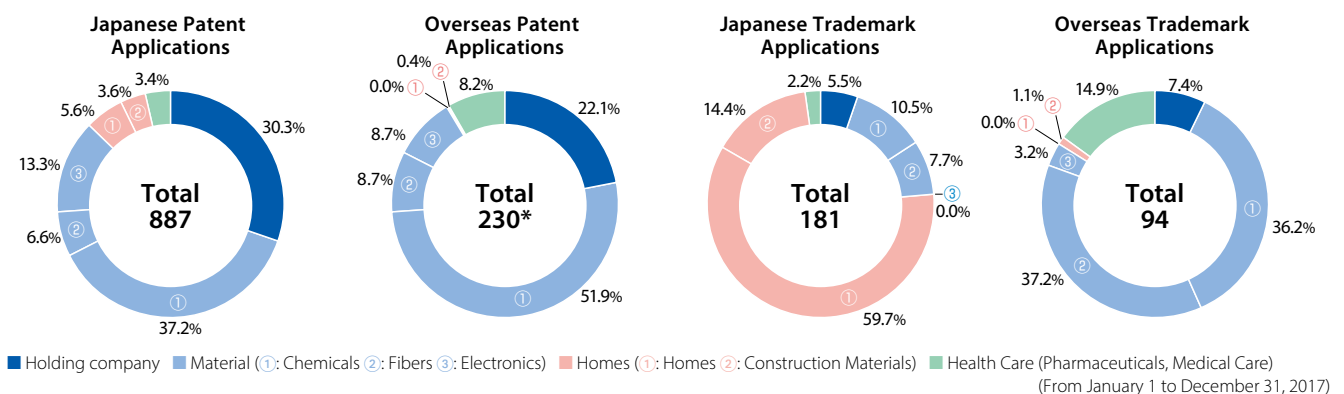
Core technologies that support Asahi Kasei products



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.



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

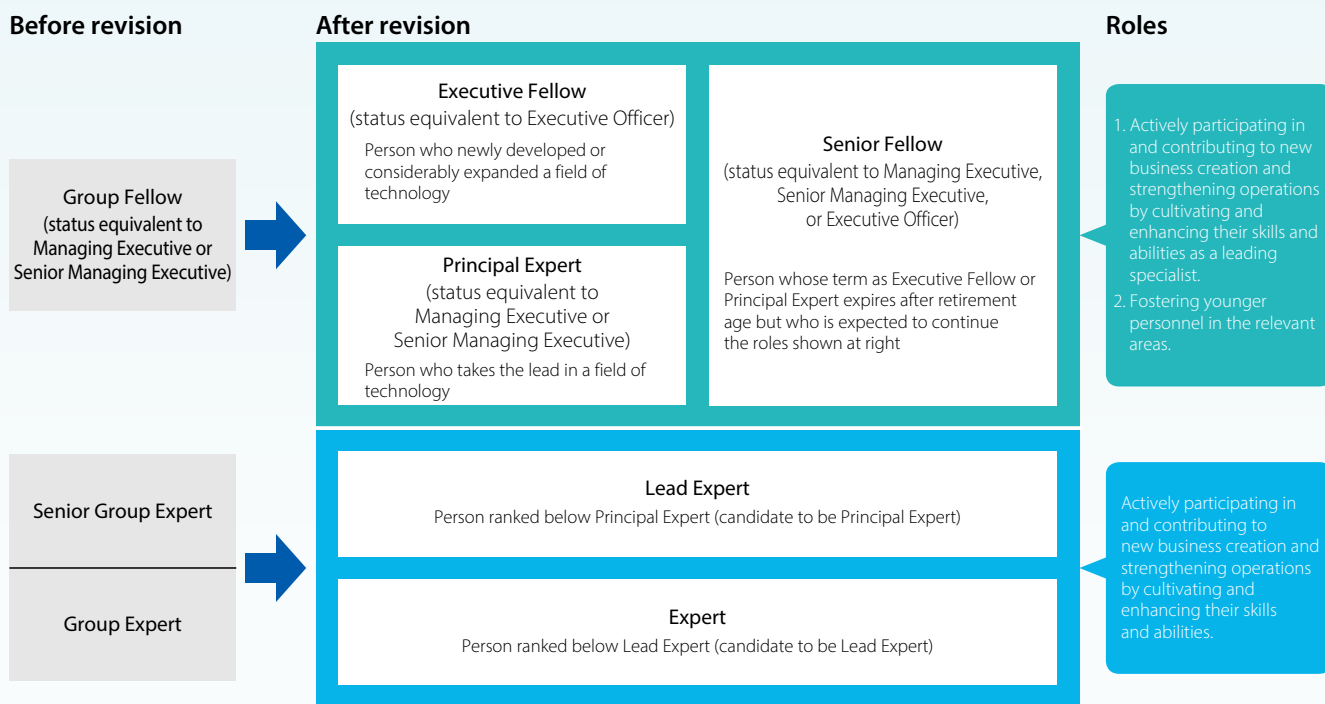
(From January 1 to December 31, 2017)

Renewed Group Masters program —Fostering highly specialized personnel—

In fiscal 2017, our Group Masters program was renewed for greater emphasis on creation of new businesses and strengthening of established businesses. The new program aims to foster highly specialized personnel by providing advanced training and enhanced status.

Substance of revision

The program was reclassified from three into five designations.



To achieve sustainable growth in a rapidly changing business environment, the biggest key is human resources that can bring success and growth globally. In fiscal 2017 we renewed our Group Masters system for the first time in ten years, sharpening the focus on development of highly specialized personnel who are expected to be at the core of business expansion.

Global companies achieving high growth have many highly specialized human resources in various fields, and fully utilize their abilities for business development. In Japan, however, companies tend to focus more on generalized ability, so even technical personnel who could thrive as specialists often pursue a career in managerial positions. This means their individual strengths may not be fully utilized.

While we had developed a system called Group Masters to foster high-level specialists in a hierarchical structure with Group Fellow as the highest rank, its function was not sufficiently effective. We therefore renewed the Group Masters system for greater effectiveness to support the growth of operations while nurturing specialist employees.

Purpose

Placing greater emphasis on the participation and contribution of high-level specialists for the creation of new businesses and strengthening of established businesses

Identification of core technology fields

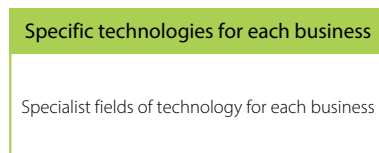
Core technology fields are designated as areas of sector-wide technologies to be reinforced, and technological personnel leading each area are appointed as Group Masters.

We identified 11 domains as sector-wide core technology fields organized based on sources of our group competitiveness for the achievement of business expansion and business creation in five to ten years. These are accumulated core technologies, manufacturing technologies, know-how, business platforms, various market channels, and business models. The core technology fields are reviewed every year.

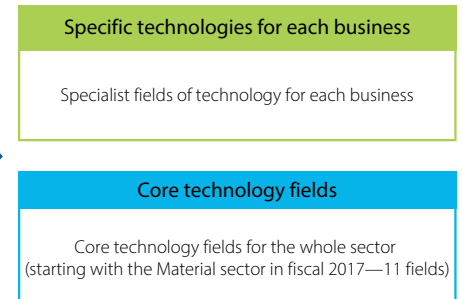
Core technology fields (starting with the Material sector in fiscal 2017)

- | | |
|---|--|
| 1) Fibers
(polymerization, spinning, cellulose) | 6) Compound semiconductors |
| 2) Membranes, separation | 7) Software, algorithms |
| 3) Electrochemistry (electrolysis, battery) | 8) Evaluation, analysis technology
(computer simulation, materials informatics) |
| 4) Polymers, processing
(polymer design, polymerization, processing, performance polymers) | 9) Process development, construction technology |
| 5) Catalysts, chemical processes
(inorganic synthesis) | 10) Product design, advanced control |
| | 11) Equipment technology |

Before revision



After revision



Application to non-technical areas

Non-technical areas and job categories were identified for fostering specialist personnel, and leaders in each area were appointed as Group Masters.

Succession planning

Programs to nurture successors to Group Masters in each area were developed, with linkage between business promotion and human resources development.

Enhanced status

Rank and remuneration of Group Masters were enhanced in order to make the program more appealing, and as an effective way to attract needed personnel from outside.

Transition period

The renewed program was applied to the Material sector (Asahi Kasei Corp. and Asahi Kasei Microdevices Corp.) in fiscal 2017 prior to other sectors. It is being extended to the Homes and Health Care sectors (Asahi Kasei Pharma Corp., Asahi Kasei Medical Co., Ltd., Asahi Kasei Homes Corp., and Asahi Kasei Construction Materials Corp.) in fiscal 2018.

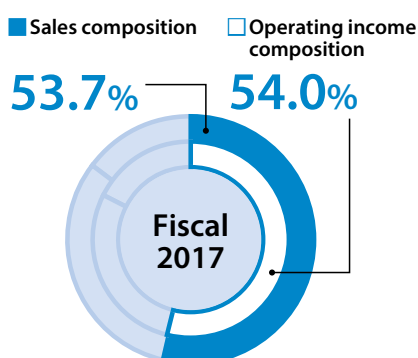
Material



Hideki Kobori

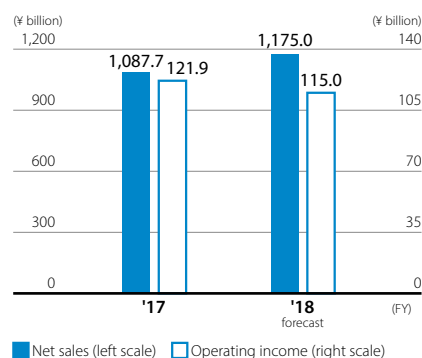
*Executive Officer
for Material business sector
President & Representative Director,
Presidential Executive Officer,
Asahi Kasei Corp.*

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.



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

Net sales & operating income



Main products

- Bemberg™ cupro fiber
- Roica™ premium stretch fiber
- Spunbond nonwovens
- Bemliese™ continuous-filament cellulose nonwoven
- Lamous™ microfibre suede
- 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

GRS certification of Bemberg™ cupro fiber

With concern for sustainability rising around the world, we acquired Global Recycled Standard (GRS*) certification for Bemberg™ cupro fiber in March 2017 (Certification No. CU848689). A regenerated fiber being made from cotton linter, the short fibers on cotton seeds, Bemberg™ is used in a wide range of applications from high-quality suit linings to outerwear, innerwear, bedclothes, and sportswear. The GRS certification of Bemberg™ recognizes the sustainability of its manufacture from cotton linter, which is not conventionally used as fiber, for 100% of its material, with strict control of chemical substances in the production process and an established system of traceability. This is the second GRS certification for our products, following that for Roica™ EF premium stretch fiber in 2016 (Certification No. CU839905 in Japan and CU831661 in Europe).



Cotton bolls and seeds covered in linter

* GRS is a certification that confirms the amount of recycled inputs and their traceability, issued by Textile Exchange, a global non-profit organization focused on accelerating sustainable practices in the textile industry.

Fibers and Textiles



- ◆ Performance in fiscal 2017 was firm, particularly for nonwovens, as sales increased and operating income increased slightly
- ◆ Business will continue to expand by leveraging the investments made for growth

Lamous™ microfiber suede for automotive interiors led the growth of shipments, and sales increased while operating income increased slightly in fiscal 2017.

Sales growth continues for Bemberg™ cupro fiber as material for ethnic garments in India and Pakistan, Bemliese™

continuous-filament cellulose nonwoven for facial masks, and Leona™ nylon 66 filament for air bags. Increasing demand is forecasted for each product, and global business expansion will leverage the investments made for growth.

Chemicals



- ◆ Sales and operating income increased in fiscal 2017 with higher market prices for AN and firm performance in high value-added businesses
- ◆ We will continue to expand operations in S-SBR for fuel-efficient tires and engineering plastics for vehicle weight reduction as part of our focus on the automotive field

Chemicals posted increased sales and operating income in fiscal 2017 with higher market prices for acrylonitrile (AN) and other petrochemicals, improved terms of trade for solution-polymerized styrene-butadiene rubber (S-SBR), and firm sales of engineering plastics.

In our expansion of high value-added businesses, emphasis is placed on the automotive field including S-SBR for fuel-efficient tires and engineering plastics to replace metal for vehicle weight

reduction. European marketing activities are being proactively advanced through our subsidiary Asahi Kasei Europe.

Tire labeling requirements in various countries are bolstering demand for S-SBR which enhances tire performance through our unique polymer design technology. An expansion of capacity in Singapore is scheduled for start-up in January 2019. We are also strengthening our overseas compounding facilities and technical centers for engineering plastics.

Electronics



- ◆ Sales and operating income increased with firm shipments of each product in fiscal 2017
- ◆ We are expanding capacity for LIB separators and developing new business for gas sensors

Shipments increased by a wide margin, particularly for lithium-ion battery (LIB) separators, contributing to higher sales and operating income for separators in fiscal 2017. Separator operations turned profitable even after amortization of goodwill and other intangible assets associated with our acquisition of Polypore International in fiscal 2015. We will continue to expand capacity for LIB separators to meet rapidly growing demand in automotive applications.

Sales and operating income for electronic devices increased in fiscal 2017 with firm shipments of camera module devices and of magnetic sensors for household appliances. We are developing a new business for CO₂ sensors with Senseair AB, a Swedish manufacturer of gas sensor modules which we acquired in April 2018.

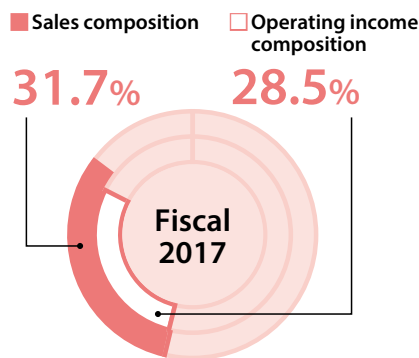
Homes



Fumitoshi Kawabata

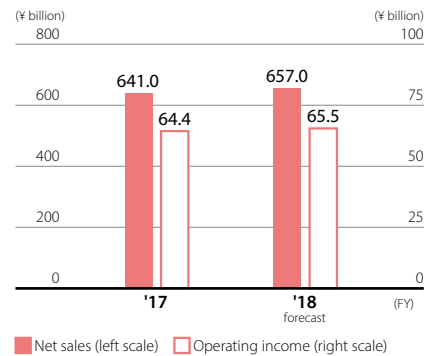
*Executive Officer
for Homes business sector
Senior Executive Officer, Asahi Kasei Corp.
President & Representative Director,
Asahi Kasei Homes Corp.*

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



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

Net sales & operating income



Main products

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

Highlights

Mixed-use redevelopment at Kusatsu Station, Shiga, Japan

Asahi Kasei Realty & Residence Corp. held a groundbreaking ceremony in October 2017 for an urban redevelopment project at JR Kusatsu Station in Shiga, Japan, as a member of the redevelopment consortium for the Kitanakanishi and Sakae district.

This is the fourth project of large-scale redevelopment for a safe and comfortable urban environment in the area around Kusatsu Station. Focused on "creating a thriving promenade," we are constructing a multifunctional complex that combines rich commercial facilities together with residential units, including serviced apartments for seniors as well as standard condominiums for sale.



Illustration

This project will play a key role in the revitalization of the city center by providing a thriving and efficient setting for young families to live with comfort and convenience, while enabling seniors to reside with security and peace of mind.

Homes



- ◆ Sales grew with increased unit prices in fiscal 2017, but operating income was flat due to increased SG&A expenses
- ◆ We will continue to provide high added value in order-built homes, expand the real estate and remodeling businesses, and develop new businesses

In fiscal 2017, sales grew but operating income was flat. While unit prices rose, especially for Hebel Maison™ apartment buildings, SG&A expenses increased.

Although Japan has a declining birth rate and aging population, demand for high-quality homes in urban markets is unabated. We will continue to provide order-built homes with high added value corresponding to customer needs. In May 2017 we adopted a new insulation system in all 2-story unit homes which exceeds the performance standard for Net Zero Energy House designated by the Japanese government.

As we expand the real estate and remodeling businesses, we will also continue to develop new businesses such as medium-rise buildings of 5–8 stories, apartments for seniors, and overseas business through a capital alliance with McDonald Jones Homes Pty Ltd of Australia.



Hebel Maison™

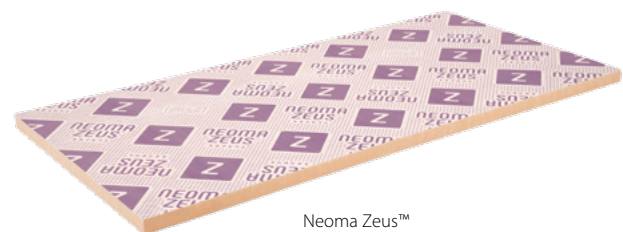
Construction Materials



- ◆ Sales increased with firm shipments of insulation material, but operating income decreased in fiscal 2017 with higher feedstock costs
- ◆ We will continue to expand business by providing high-performance insulation material that contributes to saving energy in homes

Sales increased but operating income decreased in fiscal 2017. Shipments of Neoma Foam™ phenolic foam insulation panels were firm, but feedstock costs rose.

In January 2018 we launched Neoma Zeus™ featuring world-leading insulation performance. We are developing non-housing applications for the product in addition to the main application in homes. As consciousness for saving energy continues to rise, we will provide high-quality insulation material that meets customer needs.



Neoma Zeus™

Health Care



Shuichi Sakamoto

**Executive Officer
for Health Care business sector (joint)**

Director, Senior Executive Officer,
Asahi Kasei Corp.

Chairman & Director,
Asahi Kasei Pharma Corp.

Chairman & Director,
Asahi Kasei Medical Co., Ltd.



Richard Packer

**Executive Officer
for Health Care business sector (joint)**

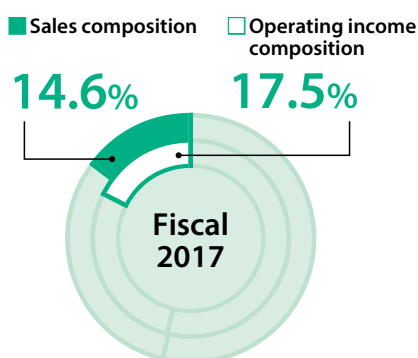
Primary Executive Officer, Asahi Kasei Corp.

Chairman & Board Director,
ZOLL Medical Corporation

Main products

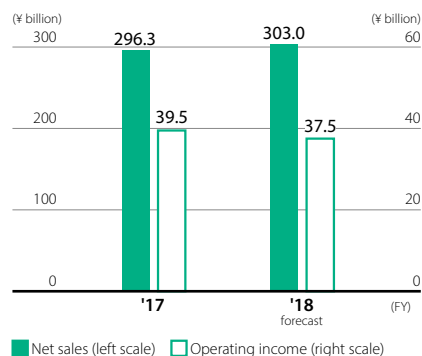
- Teribone™ osteoporosis drug
- Recomodulin™ anticoagulant
- APS™ polysulfone-membrane dialyzers
- Therapeutic apheresis devices
- Planova™ virus removal filters
- Defibrillators for professional use
- LifeVest™ wearable defibrillator
- AED Plus™ automated external defibrillator
- Thermogard System™ 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 products in the field of acute critical care including AEDs, defibrillators for professional use, and intravascular temperature management systems help to save people's lives.



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

Net sales & operating income



Highlights

Approval to extend treatment duration for Teribone™ osteoporosis drug

In May 2017, Asahi Kasei Pharma obtained approval for an extension of the maximum duration of treatment for the osteoporosis drug Teribone™ 56.5 μg subcutaneous injection from 72 weeks to 24 months.

Sold in Japan since November 2011, Teribone™ is used for the treatment of osteoporosis with high risk of fracture. Administered once a week, it facilitates bone formation by activating osteoblasts, which inhibits fracture through increased bone strength with both improved bone quality and increased bone mass.

We believe that the extension of the maximum duration of treatment for Teribone™ will further enhance the treatment of osteoporosis.



Teribone™

Pharmaceuticals and Medical Care



- ◆ In fiscal 2017, although sales and operating income from pharmaceuticals decreased due to competition from generics, sales and operating income from medical care increased with firm performance of each business
- ◆ Reinforcement of the global business platform and strengthening of domestic profitability will contribute to growth of the Health Care sector

Shipments of Teribone™ osteoporosis drug increased but Flivas™ agent for treatment of benign prostatic hyperplasia in particular was impacted by competition from generics, and sales and operating income from pharmaceuticals decreased. We are expanding the pharmaceutical product lineup by launching Reclast™ for osteoporosis and Kevzara™ for rheumatoid arthritis to enhance profitability in the field of orthopedics in Japan.

For medical care, both sales and operating income increased due to firm performance of each business and the weaker yen. We will further expand sales of Planova™ virus removal filters and continuously develop the dialysis business in China.



Medical care products

Pharmaceuticals



Acute Critical Care



- ◆ Sales and operating income in fiscal 2017 increased due to significant growth in shipments of defibrillators for professional use
- ◆ High growth will be sustained through expansion of business for temperature management systems as well as the mainstay LifeVest™ wearable defibrillator and defibrillators for professional use

Both sales and operating income from acute critical care grew thanks to considerably increased shipments of defibrillators for professional use and firm performance of the LifeVest™ business.

With a focus on the US, we will expand our market share in defibrillators for professional use while gaining further market penetration for LifeVest™. We will also advance clinical development of the Thermogard System™ intravascular temperature management system in the area of acute myocardial infarction. Proactive expansion in acute critical care will drive the growth of the Health Care sector as the third major pillar of the Asahi Kasei Group after the Material and Homes sectors.



LifeVest™ wearable defibrillator

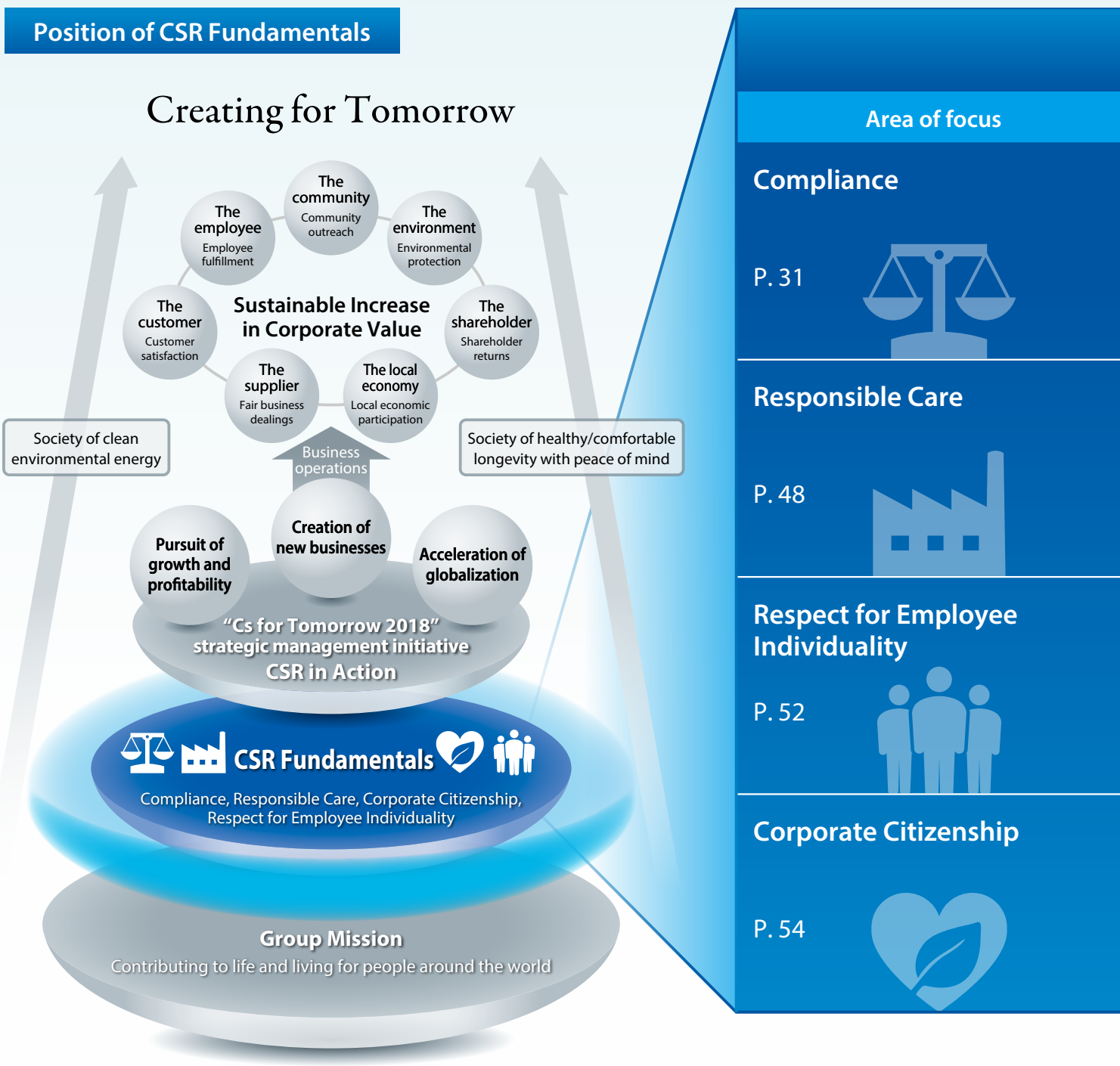
AED Plus™ automated external defibrillator



Medium-Term Management Initiative and CSR Fundamentals




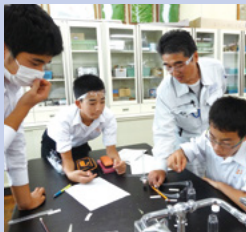
The Asahi Kasei Group is focused on providing solutions to various challenges faced by society in accordance with our Group Mission of contributing to life and living for people around the world. Under our Cs for Tomorrow 2018 management initiative which began in fiscal 2016, we are emphasizing business 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
	<ul style="list-style-type: none"> ■ Identification of compliance-related issues ■ Enriching the risk compliance system 	<ul style="list-style-type: none"> • Gain trust through not only thorough compliance with laws and regulations, but also consideration of generally accepted social norms • Understand risks in management, and establish a system to mitigate them and enable sustainable development
	<ul style="list-style-type: none"> ■ Environmental protection ■ Operational safety ■ Workplace safety and hygiene ■ Health maintenance ■ Product safety ■ Managing chemical substances 	<ul style="list-style-type: none"> • Contribute to establishment of a recycling-oriented society • Enrich system for risk assessment • Zero workplace injuries • Maintain and promote employees' health • Minimize risks from chemicals
	<ul style="list-style-type: none"> ■ Dissemination of Human Resources Principles <ul style="list-style-type: none"> └ Developing human resources (global human resources) ■ Valuing human rights and diversity ■ Balancing work and family life  <p>Platinum Kurumin certification for outstanding support for the development of the next generation.</p>	<ul style="list-style-type: none"> • Employee engagement in challenging and fulfilling work in global business operations • Workplace environment that respects diversity and work-life balance, enabling employees to perform to their full potential
	<ul style="list-style-type: none"> ■ Stakeholder dialog <ul style="list-style-type: none"> • Customers • Investors • Suppliers • Public outreach ■ Community fellowship 	<ul style="list-style-type: none"> • Maintain good relationships with stakeholders • 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 the global environment; operational safety; workplace safety, hygiene, and health; quality assurance (including product safety); managing chemical substances; 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 encompasses operations in all fields, including homes, health care, fibers, electronics, and 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.

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 and 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.



RC objectives and results

★★★Complete ★★Satisfactory ★Unsatisfactory

	FY2017 RC Objectives	FY2017 Results	Attainment	FY2018 RC Objectives
RC compliance	Review RC framework (including quality assurance)	Studied reorganization, studied reinforcement of human resources	★★★	Establish a culture of environmental, quality, and safety awareness: - Nurture customs for compliance - Advance measures for handover to the next generation
	Enhance RC compliance	Provided guidance and support through audits and site inspections	★★★	
	Further advance RC education and training (gaining fuller understanding)	RC training course continually reviewed Group discussions enhanced Follow-up until all members pass test Strengthened communication and coordination with superiors	★★	Enhance foundations for safety
	Enhance RC at affiliates	RC at affiliates enhanced through instructions and support by core operating companies	★★★	Establish activities for compliance
	Enhance dialog with the public	RC reports of core operating companies and plant complex sites were utilized in community outreach	★★★	Promote global-oriented RC
Global environment	Avoid all polluting accidents and minor incidents	No polluting accidents or serious incidents, 20 incidents (2 other than freon leaks)	★	Avoid all polluting accidents and minor incidents
	Promote recycling-oriented society: - Final disposal of 0.3% or less of generated industrial waste - Recycling rate of at least 90%	Goal reached with final disposal rate of 0.2% Goal reached with recycling rate of 99%	★★★	Promote recycling-oriented society: - Maintain rate of final disposal at 0.3% or less of generated industrial waste - Maintain recycling rate of at least 90%
	Prevention of global warming: - Reduce GHG emissions in Japan by 34.8% from FY2005 level - LCA/CO ₂ contribution ratio ¹ of 8.5	50% reduction from FY2005 level LCA/CO ₂ contribution ratio of 11.7	★★★	Prevention of global warming: - Reduce FY2020 GHG emissions in Japan by 35% from FY2005 level Achieve LCA/CO ₂ contribution ratio of 11.3
	Protect water resources: - Water resource contribution ratio ² of 8.8	Water resource contribution ratio of 9.3	★★★	Protect water resources: - Water resource contribution ratio of 9.3
	Control emissions of chemical substances: - Control emissions of PRTR-specified substances - 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 chemical substances: - Control emissions of PRTR-specified substances - Control emissions of air and water pollutants
	Promote preservation of biodiversity at each site	Moriyama Works won the JCI RC Jury's Special Award; Kotou Area Biodiversity Network, including Shiga Plant of Asahi Kasei Jyuko Co., Ltd., and Moriyama Works, won the Shiga Biodiversity Award 2017	★★★	Promote "Town Woods" program and actions for biodiversity at each site
	Advance CSR procurement	Implemented CSR procurement	★★★	Advance CSR procurement
	Continue to avoid all industrial accidents	No serious industrial accidents	★★★	Continue to avoid all industrial accidents
	Enhance risk assessment: - Continuously monitor for hazards of fire, explosion, and leaks - Continue ongoing review to prevent abnormal reactions and confirm interlock functions	Review performed at time of on-site confirmation for preventing abnormal reactions Confirmed progress in preventing abnormal reactions and securing interlock functions	★★★	Enhance risk assessment: - Continuously monitor for hazards of fire, explosion, and leaks - Continue ongoing review to prevent abnormal reactions and confirm interlock functions
	Enhance pre-investment safety assessment system Control changes to equipment and operating conditions	Ongoing confirmation of implementation at RC Audits, etc.	★★★	Enhance pre-investment safety assessment system Control changes to equipment and operating conditions
Operational safety	Enhance earthquake response system: - Review earthquake preparedness (emergency facilities, disaster response supplies)	Progressed on schedule	★★★	Enhance earthquake response system: - Review earthquake preparedness (emergency facilities, disaster response supplies)
	- Advance seismic retrofitting for specific and non-specific buildings	Retrofitting plan added for certain non-specific buildings due to change of building use	★★★	- 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
	—	—	—	Maintain zero serious logistic incidents
	No serious workplace injuries: - Achieve frequency rate ³ of 0.1 or less - Achieve severity rate ⁴ of 0.005 or less	No serious workplace injuries 0.28 (2.3 overseas) 0.005	★★	No serious workplace injuries: - Achieve frequency rate of 0.1 or less (1.0 or less overseas) - Achieve severity rate of 0.005 or less
	Prevent all accidents in "caught in/between machinery" category: - Perform sound risk assessment for mechanical equipment - Thorough standards of behavior for safety	Advanced risk assessment for mechanical equipment, but one lost-workday injury in "caught in machinery" category in May 2018	★★	Prevent all accidents in "caught in/between machinery" category: - Perform sound risk assessment for mechanical equipment - Thorough standards of behavior for safety
	Avoid workplace injuries related to chemical substances: - Perform sound risk assessment for chemical substances - Perform sound management of workplace environment	Advanced risk assessment for chemical substances and management of workplace environment No lost-workday injury	★★★	Avoid workplace injuries related to chemical substances: - Perform sound risk assessment for chemical substances - Perform sound management of workplace environment
	Prevent injuries during working hours unrelated to operating procedures and during commuting: - Thorough standards of behavior for safety related to stairways and walking - Program to prevent traffic accidents resulting in harm to self or others while commuting or traveling for sales	- 7 lost-workday injuries due to falls related to stairways and walking - 1 injury due to traffic accidents resulting in harm to self or others while commuting or traveling for sales	★★	Prevent injuries during working hours unrelated to operating procedures and during commuting: - Thorough standards of behavior for safety related to stairways and walking - Program to prevent traffic accidents resulting in harm to self or others while commuting or traveling for sales
	Prevent serious injuries related to on-site contractors and equipment work: - Improve the level of safety management guidance related to on-site contractors and equipment work	No serious injuries No injury in "caught in machinery" category 9 lost-workday injuries	★★	Prevent serious injuries related to on-site contractors and equipment work: - Improve the level of safety management guidance related to on-site contractors and equipment work
	Promote health maintenance and improvement among personnel: - Promote the prevention of and countermeasures to lifestyle-related diseases - Company-wide measures for preventing falls	Proportion of employees with health warning signs decreased slightly, obesity increased slightly, and ratio of employees who smoke unchanged Physical fitness tests performed as part of fall prevention program, follow-up implemented	★★★	Promote health maintenance and improvement among personnel: - Promote the prevention of and countermeasures to lifestyle-related diseases - Reduce the rate of absence due to illness or injury - Reduce the rate of lifestyle-related diseases
Promote countermeasures to mental health issues and enhance support system: - Implement company-wide stress survey, utilize its results, and perform follow-up Improve the health management system: - Resolve critical tasks at each site with lateral extension	Stress survey and follow-up implemented Held internal interviews and provided instructions on health management activities	★★★	Enhance mental health support system: - Reduce the rate of absence due to mental health	
Product safety and management of chemical substances	Enhance quality assurance: - Maintain zero serious product safety incidents	No product safety incidents	★★★	Maintain zero serious product safety incidents
	Enhance management of chemical substances: - 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: - Promote compliance with laws and regulations on management of chemical substances in Japan and overseas
	- Encourage JIPSP ⁵ activities - Promote JAMP ⁶ tools	Secretariat activities to promote JIPSP; continued risk assessment and public disclosure of safety documents Provided and received information via MSDSplus and AIS, transitioned to new JAMP scheme chemSHERPA	★★	- Encourage JIPSP activities - Promote JAMP tools
	Living in health and comfort	Number of people our health care business contributed to: - Maintain FY2015 level Number of residents in Hebel Haus™ homes: - 10% increase from FY2015 level	7% decrease from FY2015 level 2.9% increase from FY2015 level	★★

¹ LCA is used to determine the amount of reduction in CO₂ 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 CO₂ 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.

The global environment

As stated in our Group Vision of “harmony with the natural environment,” we consider environmental preservation to be one of our most important tasks. Our major focuses are on 1) measures for climate change, 2) preservation of biodiversity, and 3) promotion of a recycling-oriented society. Regarding measures for climate change, we are currently formulating new targets for 2030 building on our previously established targets for 2020. We make efforts to reduce the impact of our business activities on biodiversity and launched a new group-wide program called “Town Woods.” To contribute to the establishment of a recycling-oriented society, we continue to reduce final disposal of industrial waste as well as increase the rate of resource recycling. As a chemical company, we are also working to promote safe handling of chemical substances and actively provide the related information.

Highlights

Climate-change and water-conservation efforts ranked “A–” by CDP. Our efforts with respect to climate change and water conservation were given an evaluation of “A–” by the CDP* in fiscal 2017.

* 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 an 8-rank scale of A, A–, B, B–, C, C–, D, and D–.

Launch of the “Town Woods” program

Planting modules called “Town Woods Pots” are being used to enhance green spaces at operating sites across the Asahi Kasei Group. This program contributes to biodiversity preservation while heightening understanding and awareness of the value of biodiversity among personnel.

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. As with the previous year, there were no serious operational accidents inside or outside Japan during fiscal 2017.

Workplace safety, hygiene, and health

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.

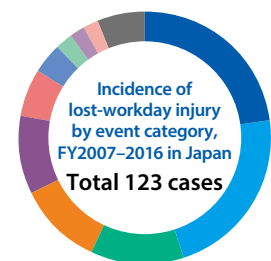


* Occupational Health and Safety Management System. A standardized system used to confirm that continuous improvement is being applied to measures to minimize the risks of workplace injuries and to prevent the emergence of future risks.

Occurrence of workplace injuries



Fall on same level	53%
Traffic accident	27%
Caught in/between machinery	6%
Fall from height	7%
Kickback/overexertion	7%



Traffic accident	23%
Fall on same level	22%
Kickback/overexertion	12%
Caught in/between machinery	11%
Fall from height	10%
Contact with high temperature substance/object	6%
Caught in something else	4%
Hit by flying/falling object	2%
Contact with harmful substance	2%
Collision	2%
Others	6%



For more information, please refer to the Asahi Kasei Group website.
www.asahi-ksaei.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.

Intranet-based electronic diagnosis to survey workplace stress

Based on an electronic survey of workplace stress performed since fiscal 2012, industrial medical staff follow-up on individual employees and each department analyzes survey results to improve the workplace environment.

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 addition to its role as the central hub for the provision and sharing of QA-related information throughout all operations, the Quality Assurance Group holds QA Forums with lectures by eminent professors in the field of quality control to augment the training of QA personnel. In fiscal 2017, 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-sales 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 of strategic business units and core operating companies to perform. The bylaws define the central role of quality assurance managers in activities to enhance quality assurance, and are applied in concert with our product safety guidelines. 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. In fiscal 2017 we continued to convey relevant information throughout the supply chain to help establish JAMP as a widely used tool.

Since fiscal 2016, we have used a tool for information transmission compatible with chemSHERPA, a 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.



CSR Fundamentals

Respect for Employee Individuality

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

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.

Basic Expectations

- Enterprise and growth through challenge and change
- Integrity and responsibility in action
- Respect for diversity

Expectations of Leaders

- Building the team, heightening performance and achievement
- Going beyond conventional boundaries, in thought and action
- 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 April 2018, 122 Group Masters are designated, those whose rank and remuneration are commensurate with Senior General Manager, General Manager, and

Section Manager, respectively number 10, 46, and 66.

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 2018, 418 new graduates were hired: 325 men and 93 women. In addition, 153 persons were hired in mid-career between April 2017 and March 2018.

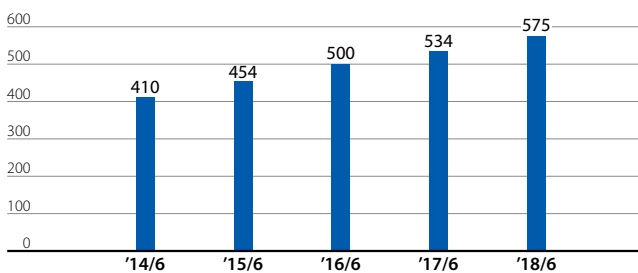


For more information, please refer to the Asahi Kasei Group website.
www.asahi-kasei.co.jp/asahi/en/csr

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 575 in June 2018. 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*

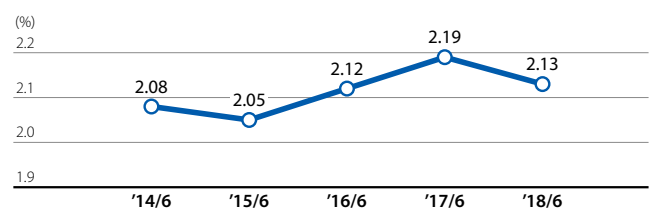


* Results as of June 30 each year for personnel employed by Asahi Kasei Corp., Asahi Kasei Microdevices Corp., Asahi Kasei Homes Corp., Asahi Kasei Construction Materials Corp., Asahi Kasei Pharma Corp., and Asahi Kasei Medical Co., Ltd. (Asahi Kasei Chemicals Corp., Asahi Kasei Fibers Corp., and Asahi 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 2.13% (543.5 persons) as of June 1, 2018. We continue recruitment activities to 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 25,463.5 persons in the 21 applicable companies. As of June 1, 2018, the number of persons with disabilities employed by Asahi Kasei Ability Corp. stood at 351.5 of the total 543.5 employees with disabilities. Calculated in accordance with the Act on Employment Promotion etc. of Persons with Disabilities.

Balancing work and family life

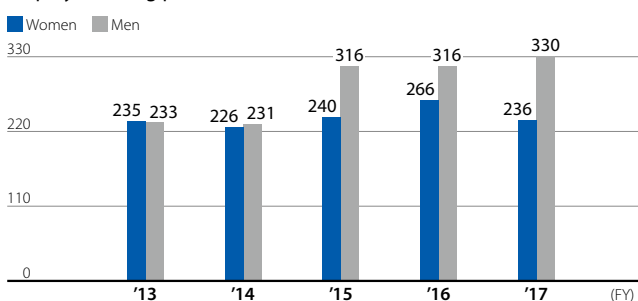
Basic policy

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 2017, parental leave was utilized by 566 personnel. This included 330 men, 42% of those who were qualified, and 236 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. are 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 2017, 20 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.



* Certification received for Asahi Kasei 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.



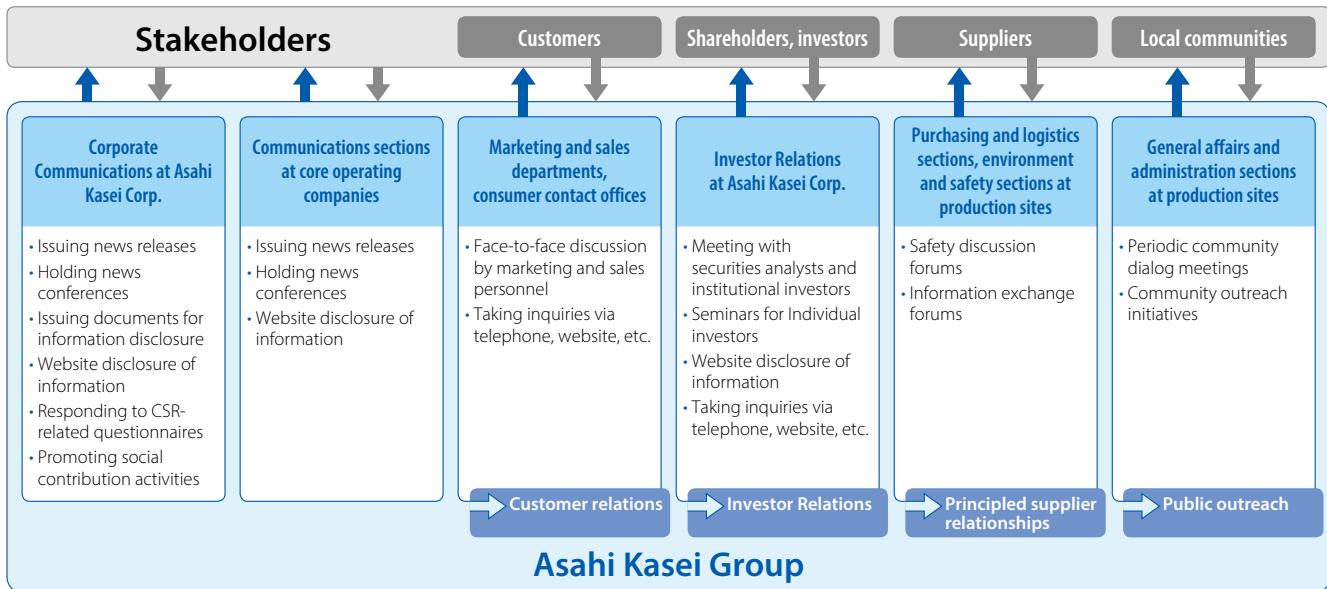
CSR Fundamentals

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 2017, Investor Relations (IR) held 191 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, 70 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, two seminars were held in fiscal 2017. 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.
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 2016, this was ¥3,953 million.

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, with a total of 2,058 students of 61 schools participating in fiscal 2017. In August 2017, 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

We participate in afforestation projects in Japan, exhibit at environmental-related events, and work to raise understanding of environmental issues.

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.



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Management's Discussion and Analysis

Fiscal year 2017 (April 1, 2017 – March 31, 2018)

Operating Environment

The global economy was generally favorable during fiscal 2017, although there were concerns of risks related to the US Trump administration's trade policy and the North Korean situation. Gradual recovery of the Japanese economy continued, supported by export growth, recovering capital investment, and firm consumer spending.

Overview of Consolidated Results

Net sales, operating income

Consolidated net sales for the fiscal year increased by ¥159.2 billion from a year ago to ¥2,042.2 billion. Overseas sales increased by ¥111.3 billion to ¥767.7 billion, largely in the Material segment, and increased by 2.7 percentage points as a portion of consolidated net sales to 37.6%. Domestic sales increased by ¥47.9 billion to ¥1,274.5 billion, largely in the Material and Homes segments.

Operating income increased by ¥39.2 billion to ¥198.5 billion. As a percentage of net sales, cost of sales decreased by 0.6 percentage points to 68.2%. Selling, general and administrative (SG&A) expenses increased by ¥23.1 billion, but decreased as a portion of net sales by 0.6 percentage points to 22.1%. Operating margin increased by 1.3 percentage points to 9.7%.

Non-operating income and expenses, ordinary income

Net non-operating income was ¥14.1 billion, a ¥12.7 billion increase from the ¥1.4 billion of a year earlier, with a notable increase in equity in earnings of affiliates. Ordinary income increased by ¥51.9 billion to ¥212.5 billion.

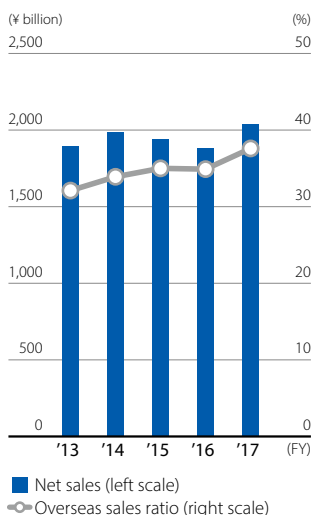
Extraordinary income and loss

The net extraordinary income of ¥5.8 billion was a ¥9.0 billion improvement from the net extraordinary loss of ¥3.2 billion a year earlier. Extraordinary loss of ¥9.9 billion included ¥1.5 billion in business structure improvement expenses, a ¥6.3 billion loss on disposal of noncurrent assets, and a ¥2.2 impairment loss. Extraordinary income of ¥15.7 billion included a ¥15.2 billion gain on sales of investment securities.

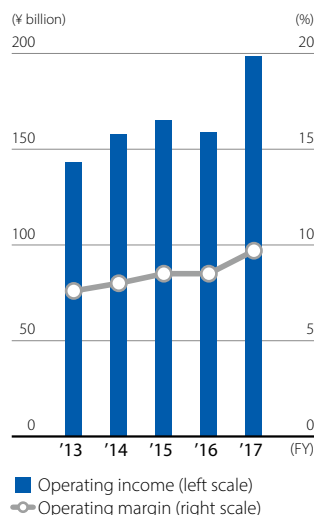
Net income attributable to owners of the parent

With ordinary income of ¥212.5 billion and net extraordinary income of ¥5.8 billion, income before income taxes was ¥218.3 billion. Income tax expense was ¥46.1 billion (current income taxes of ¥63.2 billion less deferred income taxes of ¥17.1 billion). Net income attributable to non-controlling interests was ¥1.9 billion. As a result, net income attributable to owners of the parent increased by ¥55.2 billion to ¥170.2 billion, and net income per share increased by ¥39.59 to ¥121.93.

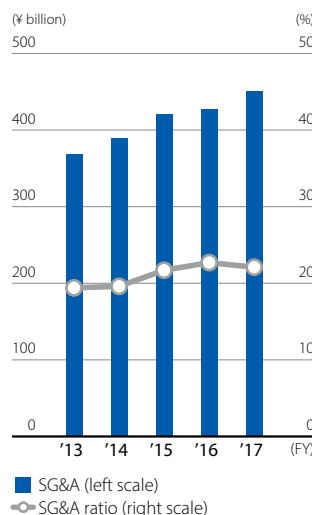
Net Sales, Overseas Sales Ratio



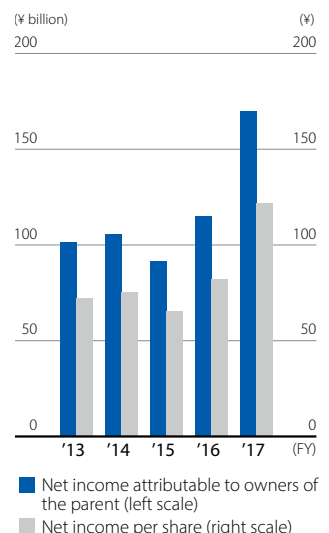
Operating Income, Operating Margin



SG&A, SG&A Ratio



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



Results by Operating Segment

The Asahi Kasei Group's operations are described by major business classification: three reportable segments of Material, Homes, and Health Care, together with an "Others" category. Beginning with the first quarter of fiscal 2017, the Energy Division, which was formerly included in Others, is reclassified into the Material segment. The figures for the year-ago period have been recalculated in accordance with the new classification for comparison purposes.

Material

Sales increased by ¥109.8 billion from a year ago to ¥1,087.7 billion, and operating income increased by ¥33.4 billion from a year ago to ¥121.9 billion.

Although fibers & textiles operations were impacted by higher feedstock costs, sales increased and operating income slightly increased with firm performance centered on Lamous™ microfiber suede for automotive interiors.

Among chemical operations, in petrochemicals, sales and operating income increased with improved market prices for acrylonitrile. Sales and operating income in performance polymers increased with improved terms of trade for synthetic rubber for fuel-efficient tires and greater shipments of engineering plastics for automotive parts. Sales and operating income in performance materials and consumables increased with greater shipments of ion-exchange membranes and electronic materials, and firm sales of Saran Wrap™ cling film.

Among electronics operations, sales and operating income in separators grew with considerably increased shipments of each battery separator product, centered on Li-ion battery separator. Sales and operating income in electronic devices increased with firm sales of camera module devices for smartphones and magnetic sensors for household appliances.

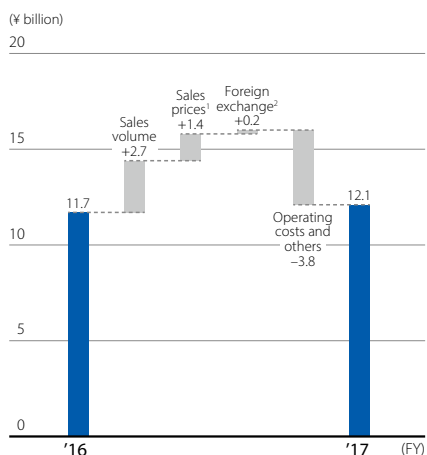
Homes

Sales increased by ¥22.0 billion from a year ago to ¥641.0 billion, and operating income increased by ¥0.3 billion from a year ago to ¥64.4 billion.

Sales grew but operating income was flat in homes operations as unit prices increased centered on Hebel Maison™ apartment buildings, while labor costs and advertising expenses increased. Although the value of orders for unit homes decreased, the overall value of orders for order-built homes increased by 1.2% with growing orders for apartment buildings. Sales and operating income in real estate, remodeling, and other operations increased with firm performance of rental management in real estate, and performance in remodeling on par with the previous year.

Sales increased but operating income decreased in construction materials operations as shipments of Neoma Foam™ phenolic foam insulation panels were firm, while higher feedstock costs had an impact.

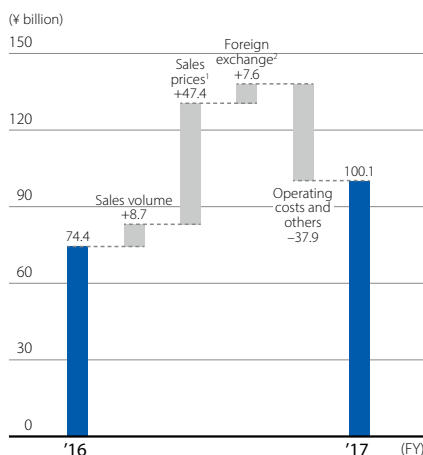
Fibers Business Operating Income Increases/Decreases



¹ Excluding impact of foreign exchange

² Impact of foreign exchange on sales prices

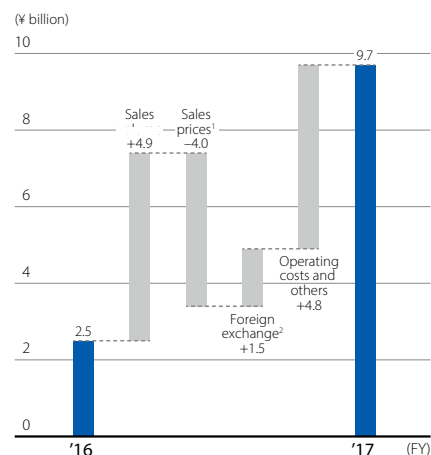
Chemicals Business Operating Income Increases/Decreases



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 increased by ¥26.1 billion from a year ago to ¥296.3 billion, and operating income increased by ¥7.5 billion from a year ago to ¥39.5 billion.

Shipments of Teribone™ osteoporosis drug increased, but sales and operating income in pharmaceutical operations decreased with lower shipments centering on Flivas™ agent for treatment of benign prostatic hyperplasia due to competition from generics.

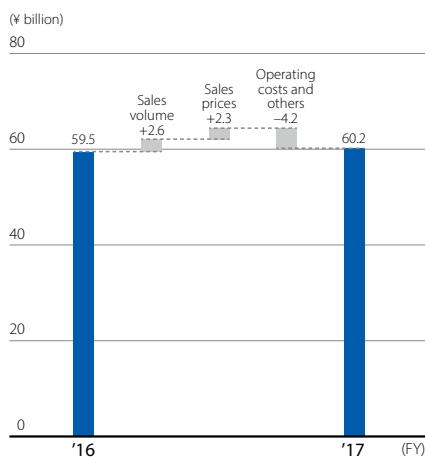
Sales and operating income in medical devices operations increased with an effect of the weaker yen and firm performance of each business.

Sales and operating income in critical care operations grew with considerably increased shipments of defibrillators for professional use and firm performance of the LifeVest™ wearable defibrillator business.

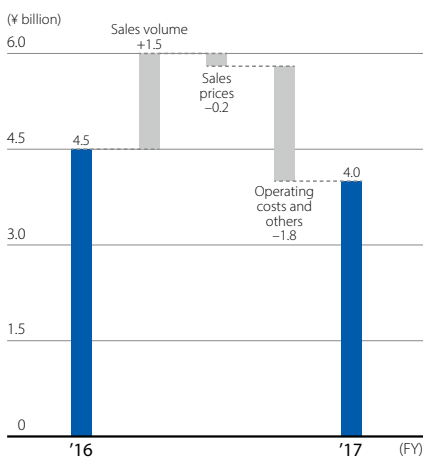
Others

Sales increased by ¥1.2 billion from a year ago to ¥17.3 billion, and operating income decreased by ¥0.1 billion from a year ago to ¥1.9 billion.

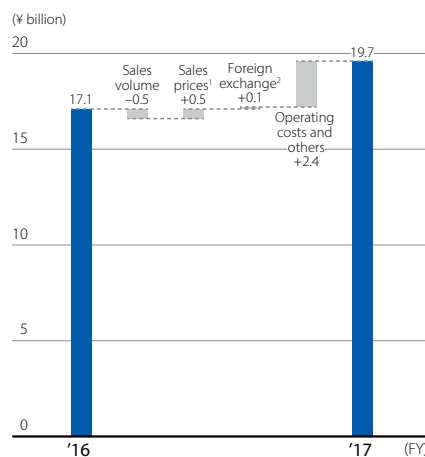
Homes Business
Operating Income Increases/Decreases



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 ¥2,316.1 billion, ¥61.6 billion higher than a year earlier, with cash and deposits, and notes and accounts receivable–trade, increasing as an effect of growing sales and the closing date falling on a weekend.

Current assets increased by ¥64.4 billion to ¥959.0 billion, mainly as notes and accounts receivable–trade increased by ¥38.6 billion and inventories increased by ¥13.0 billion.

Noncurrent assets decreased by ¥2.8 billion to ¥1,357.2 billion, notably with a ¥48.2 billion decrease in intangible assets while there was a ¥30.7 billion increase in investment securities.

Current liabilities decreased by ¥5.7 billion to ¥589.1 billion, mainly with a ¥36.0 billion decrease in commercial paper and a ¥20.0 billion decrease in the current portion of bonds payable, while there was a ¥23.9 billion increase in notes and accounts payable–trade and a ¥13.5 billion increase in income taxes payable.

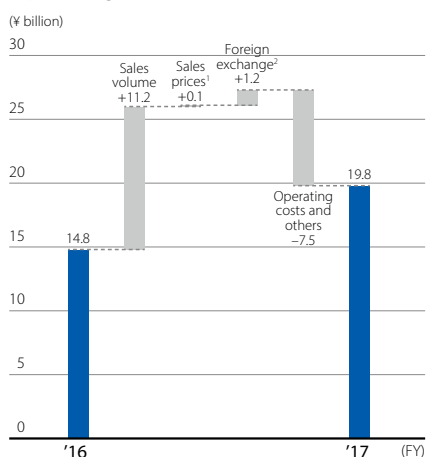
Noncurrent liabilities decreased by ¥69.7 billion to ¥421.8 billion with a ¥49.4 billion decrease in long-term loans payable and a ¥14.1 billion decrease in deferred tax liabilities.

Interest-bearing debt decreased by ¥101.1 billion to ¥301.7 billion.

Net assets increased by ¥137.1 billion from ¥1,168.1 billion to ¥1,305.2 billion. While dividend payments were ¥39.1 billion, net income attributable to owners of the parent was ¥170.2 billion.

As a result, net worth per share increased by ¥97.75 to ¥922.11, net worth to total assets increased from 51.1% to 55.6%, and debt-to-equity ratio decreased by 0.12 points to 0.23.

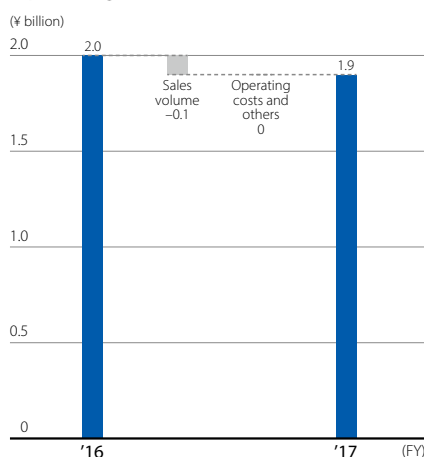
Critical Care Business Operating Income Increases/Decreases



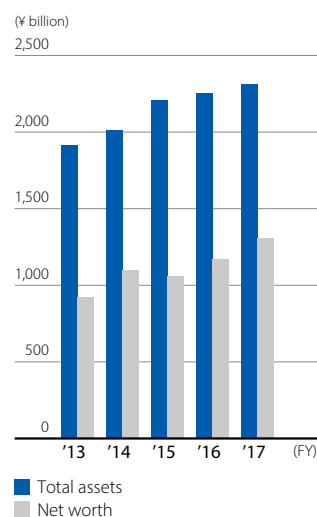
¹ Excluding impact of foreign exchange

² Impact of foreign exchange on sales prices

Others Operating Income Increases/Decreases



Total Assets, Net Worth



Capital expenditure

Capital expenditure (capex) was primarily focused on 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.

	Totals for the year (¥ million)	Compared to previous year (%)
Material	59,814	113.2
Homes	18,431	151.8
Health Care	12,186	78.1
Others	1,226	103.4
Combined	91,657	112.1
Corporate assets and eliminations	9,673	110.1
Consolidated	101,331	111.9

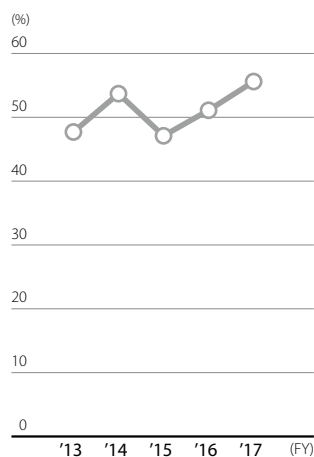
Note: Beginning with the first quarter of fiscal 2017, the Energy Division, which was formerly included in Others, is reclassified into the Material segment. The figures for the year-ago period have been recalculated in accordance with the new classification for comparison purposes.

A total of ¥101.3 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.

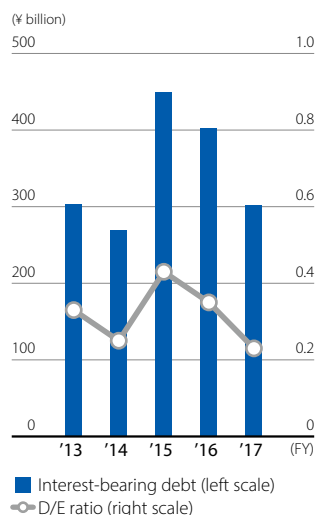
Notable capex by operating segment was as follows.

Material	Expansion of production capacity for Hipore™ lithium-ion battery separator, expansion of production capacity for synthetic rubber for fuel-efficient tires, rationalization, labor-saving, and maintenance.
Homes	Rationalization, labor-saving, and maintenance.
Health Care	Rationalization, labor-saving, and maintenance.
Others	Rationalization, labor-saving, and maintenance.
Corporate assets	R&D equipment, IT systems, and maintenance.

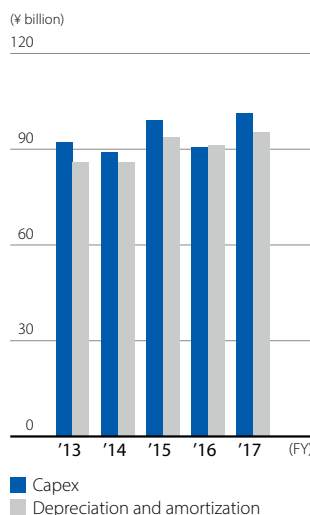
Net Worth to Total Assets



Interest-Bearing Debt, D/E Ratio



Capex, Depreciation and Amortization



Cash flows

Free cash flows (net cash provided by operating activities less net cash used in investing activities) were a positive ¥139.6 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 ¥134.4 billion used, including for cash dividends paid. As a result, cash and cash equivalents at fiscal year end were ¥148.6 billion, ¥4.5 billion higher than a year earlier.

Cash flows from operating activities

Cash used included ¥49.5 billion for income taxes paid and a ¥39.0 increase in notes and accounts receivable–trade. Income before income taxes provided ¥218.3 billion, and depreciation and amortization provided ¥95.4 billion. Net cash provided by operating activities was ¥249.9 billion, ¥80.9 billion higher than a year earlier.

Cash flows from investing activities

Cash provided included ¥30.6 billion from collection of loans receivable and ¥17.8 billion in proceeds from sales of investment securities. Cash used included ¥82.9 billion for purchase of property, plant and equipment, ¥45.3 billion in payments of loans receivable, ¥13.4 billion for purchase of intangible assets, and ¥11.6 billion for purchase of investment securities. Net cash used in investing activities was ¥110.3 billion, ¥20.4 billion higher than a year earlier.

Cash flows from financing activities

Cash provided included ¥15.4 billion in proceeds from long-term loans payable. Cash used included ¥39.1 billion in cash dividends paid, a ¥36.0 billion decrease in commercial paper, a ¥28.9 billion decrease in short-term loans payable, ¥23.5 billion for repayment of long-term loans payable, and ¥20.0 billion for redemption of bonds. Net cash used in financing activities was ¥134.4 billion, ¥60.5 billion higher than a year earlier.

Financial Policy

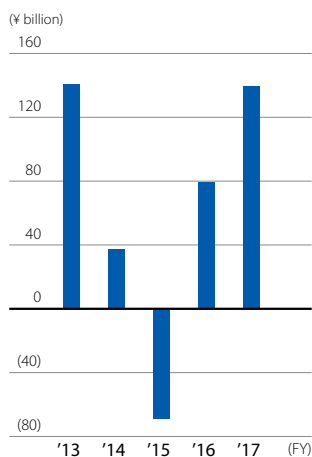
We aim to increase free cash flows with increased earnings through enhanced cost efficiency, greater product competitiveness, and business structure improvements, and with greater capital efficiency through utilization of group finance and maintenance of optimum inventory levels.

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.

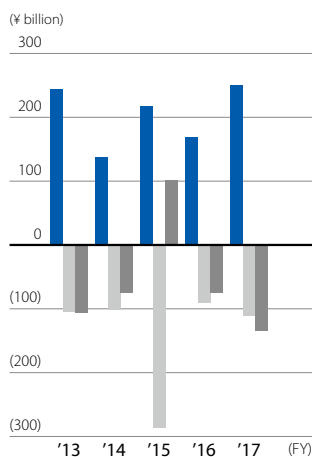
These resources will be used to fund strategic investments under the “Cs for Tomorrow 2018” strategic management initiative focused on the pursuit of growth and profitability, creation of new businesses, and acceleration of globalization, as well as dividends for shareholders.

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



■ Net cash provided by operating activities
 ■ Net cash used in investing activities
 ■ Net cash provided by (used in) financing activities

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 27, 2018, 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, 2018 and 2017

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Current assets:			
Cash and deposits (Notes 8 and 10)	¥ 156,318	¥ 145,289	\$ 1,471,228
Notes and accounts receivable—trade	341,396	302,751	3,213,139
Merchandise and finished goods	169,948	159,395	1,599,511
Work in process	109,486	116,481	1,030,456
Raw materials and supplies	80,253	70,806	755,322
Deferred tax assets (Note 14)	20,032	20,279	188,536
Other	83,956	81,816	790,174
Allowance for doubtful accounts	(2,411)	(2,272)	(22,692)
Total current assets	958,978	894,545	9,025,675
Noncurrent assets:			
Property, plant and equipment:			
Buildings and structures (Notes 4 (b), (d))	517,562	508,713	4,871,172
Accumulated depreciation	(285,760)	(278,122)	(2,689,506)
Buildings and structures, net	231,802	230,590	2,181,666
Machinery, equipment and vehicles (Notes 4 (b), (d))	1,399,081	1,376,029	13,167,821
Accumulated depreciation	(1,200,504)	(1,176,686)	(11,298,861)
Machinery, equipment and vehicles, net	198,577	199,343	1,868,960
Land (Note 4 (d))	62,938	62,391	592,358
Lease assets (Note 9)	11,698	12,367	110,099
Accumulated depreciation	(10,901)	(11,381)	(102,598)
Lease assets, net	798	986	7,511
Construction in progress	50,502	45,958	475,313
Other (Note 4 (d))	153,002	150,073	1,440,019
Accumulated depreciation	(135,571)	(132,460)	(1,275,962)
Other, net	17,431	17,613	164,056
Subtotal	562,048	556,881	5,289,864
Intangible assets:			
Goodwill	252,724	285,622	2,378,579
Other	161,898	177,149	1,523,746
Subtotal	414,621	462,772	3,902,315
Investments and other assets:			
Investment securities (Notes 4 (a), (b), 10 and 11)	314,830	284,137	2,963,106
Long-term loans receivable (Note 10)	27,793	18,918	261,581
Deferred tax assets (Note 14)	6,727	9,309	63,313
Other	31,406	28,154	295,586
Allowance for doubtful accounts	(266)	(215)	(2,504)
Subtotal	380,489	340,302	3,581,073
Total noncurrent assets	1,357,158	1,359,955	12,773,252
Total assets	¥ 2,316,137	¥ 2,254,500	\$ 21,798,936

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Liabilities:			
Current liabilities:			
Notes and accounts payable—trade (Note 10)	¥ 171,413	¥ 147,543	\$ 1,613,299
Short-term loans payable (Notes 4 (b), 10 and 20)	118,018	113,475	1,110,758
Commercial paper (Notes 10 and 20)	20,000	56,000	188,235
Current portion of bonds payable (Notes 10 and 20)	—	20,000	—
Lease obligations (Notes 9, 10 and 20)	199	305	1,873
Accrued expenses	105,787	100,419	995,642
Income taxes payable (Note 10)	29,714	16,202	279,661
Advances received	70,142	72,882	660,160
Provision for grant of shares	28	—	264
Provision for periodic repairs	3,185	5,003	29,976
Provision for product warranties	2,730	2,461	25,694
Provision for removal cost of property, plant and equipment	2,425	1,800	22,824
Asset retirement obligations (Note 15)	557	572	5,242
Other	64,948	58,217	611,275
Total current liabilities	589,146	594,880	5,544,904
Noncurrent liabilities:			
Bonds payable (Notes 10 and 20)	20,000	20,000	188,235
Long-term loans payable (Notes 4 (b), 10 and 20)	143,176	192,584	1,347,539
Lease obligations (Notes 9, 10 and 20)	352	467	3,313
Deferred tax liabilities (Note 14)	45,622	59,759	429,384
Provision for grant of shares	172	—	1,619
Provision for periodic repairs	3,263	165	30,711
Provision for removal cost of property, plant and equipment	2,699	4,390	25,402
Provision for loss on litigation	—	2,162	—
Net defined benefit liability (Note 13)	170,634	178,368	1,605,967
Asset retirement obligations (Note 15)	3,282	3,436	30,889
Long-term guarantee deposits (Note 10)	20,658	20,479	194,428
Other	11,917	9,695	112,160
Total noncurrent liabilities	421,776	491,506	3,969,656
Total liabilities	1,010,922	1,086,385	9,514,560
Net assets:			
Shareholders' equity:			
Capital stock			
Authorized—4,000,000,000 shares			
Issued and outstanding—1,402,616,332 shares	103,389	103,389	973,073
Capital surplus	79,440	79,443	747,671
Retained earnings (Note 7 (b) (ii))	981,934	850,532	9,241,732
Treasury stock	(3,930)	(3,242)	(36,988)
(2018—6,491,617 shares, 2017—5,958,904 shares)			
Total shareholders' equity	1,160,833	1,030,122	10,925,487
Accumulated other comprehensive income:			
Net unrealized gain on other securities	121,128	113,475	1,140,028
Deferred gains or losses on hedges	92	55	866
Foreign currency translation adjustment	28,676	40,831	269,892
Remeasurements of defined benefit plans	(23,343)	(33,140)	(219,699)
Total accumulated other comprehensive income	126,553	121,222	1,191,087
Non-controlling interests	17,827	16,771	167,784
Total net assets	1,305,214	1,168,115	12,284,367
Commitments and contingent liabilities (Notes 4 (c) and 9)			
Total liabilities and net assets	¥2,316,137	¥2,254,500	\$21,798,936

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

Asahi Kasei Corporation and Consolidated Subsidiaries
Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net sales (Note 16)	¥2,042,216	¥1,882,991	\$19,220,856
Cost of sales (Note 5 (b))	1,393,111	1,296,255	13,111,633
Gross profit	649,105	586,736	6,109,224
Selling, general and administrative expenses (Note 5 (a))	450,630	427,506	4,241,224
Operating income (Note 16)	198,475	159,229	1,868,000
Non-operating income:			
Interest income	2,078	1,425	19,558
Dividends income	6,626	5,170	62,362
Equity in earnings of affiliates	13,137	4,899	123,642
Other	5,961	3,854	56,104
Total non-operating income	27,802	15,347	261,666
Non-operating expenses:			
Interest expense	4,594	4,435	43,238
Foreign exchange loss	2,971	1,228	27,962
Other	6,169	8,281	58,061
Total non-operating expenses	13,733	13,944	129,252
Ordinary income	212,544	160,633	2,000,414
Extraordinary income:			
Gain on sales of investment securities	15,164	9,918	142,720
Gain on sales of noncurrent assets (Note 5 (c))	534	165	5,026
Total extraordinary income	15,698	10,083	147,746
Extraordinary loss:			
Loss on valuation of investment securities	31	101	292
Loss on disposal of noncurrent assets (Note 5 (d))	6,261	4,863	58,927
Impairment loss (Note 5 (e))	2,158	1,484	20,311
Business structure improvement expenses (Notes 5 (e), (f))	1,460	6,189	13,741
Business integration expense	—	690	—
Total extraordinary loss	9,908	13,328	93,252
Income before income taxes	218,333	157,388	2,054,899
Income taxes (Note 14) — current	63,239	49,017	595,191
— deferred	(17,095)	(8,293)	(160,894)
Total income taxes	46,143	40,724	434,287
Net income	172,190	116,663	1,620,612
Net income attributable to non-controlling interests	1,941	1,663	18,268
Net income attributable to owners of the parent	¥ 170,248	¥ 115,000	\$ 1,602,334

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net income	¥172,190	¥116,663	\$1,620,612
Other comprehensive income:			
Net increase in unrealized gain on other securities	7,651	21,177	72,009
Deferred gains or losses on hedges	37	234	348
Foreign currency translation adjustment	(12,252)	(8,020)	(115,313)
Remeasurements of defined benefit plans	9,735	8,114	91,624
Share of other comprehensive income of affiliates accounted for using equity method	356	810	3,351
Total other comprehensive income (Note 6)	5,528	22,315	52,028
Comprehensive income	¥177,717	¥138,979	\$1,672,631
Comprehensive income attributable to:			
Owners of the parent	¥175,557	¥137,045	\$1,652,301
Non-controlling interests	2,160	1,934	20,329

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, 2018 and 2017

	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	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
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
Cumulative effect of changes in accounting policies					—							—
Restated balance	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
Changes during the fiscal year:												
Dividends from surplus			(39,106)		(39,106)							(39,106)
Net income attributable to owners of the parent			170,248		170,248							170,248
Purchase of treasury stock				(688)	(688)							(688)
Disposal of treasury stock		1		1	2							2
Change of scope of consolidation			259		259							259
Change of scope of equity method					—							—
Capital increase of consolidated subsidiaries		(4)			(4)							(4)
Net changes of items other than shareholders' equity						7,653	37	(12,155)	9,797	5,331	1,057	6,388
Total changes of items during the period	—	(3)	131,402	(687)	130,712	7,653	37	(12,155)	9,797	5,331	1,057	137,100
Balance at March 31, 2018	¥103,389	¥79,440	¥981,934	¥(3,930)	¥1,160,833	¥121,128	¥92	¥28,676	¥(23,343)	¥126,553	¥17,827	¥1,305,214

	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	Remeasurements 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

	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	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2017	\$973,073	\$747,699	\$8,005,007	\$(30,513)	\$9,695,266	\$1,068,000	\$518	\$384,292	\$(311,906)	\$1,140,913	\$157,845	\$10,994,024
Cumulative effect of changes in accounting policies					—							—
Restated balance	973,073	747,699	8,005,007	(30,513)	9,695,266	1,068,000	518	384,292	(311,906)	1,140,913	157,845	10,994,024
Changes during the fiscal year:												
Dividends from surplus			(368,056)		(368,056)							(368,056)
Net income attributable to owners of the parent			1,602,334		1,602,334							1,602,334
Purchase of treasury stock				(6,475)	(6,475)							(6,475)
Disposal of treasury stock		9		9	19							19
Change of scope of consolidation			2,438		2,438							2,438
Change of scope of equity method					—							—
Capital increase of consolidated subsidiaries		(38)			(38)							(38)
Net changes of items other than shareholders' equity						72,028	348	(114,400)	92,207	50,174	9,948	60,122
Total changes of items during the period	—	(28)	1,236,725	(6,466)	1,230,231	72,028	348	(114,400)	92,207	50,174	9,948	1,290,353
Balance at March 31, 2018	\$973,073	\$747,671	\$9,241,732	\$(36,988)	\$10,925,487	\$1,140,028	\$866	\$269,892	\$(219,699)	\$1,191,087	\$167,784	\$12,284,367

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Cash flows from operating activities:			
Income before income taxes	¥ 218,333	¥ 157,388	\$ 2,054,899
Depreciation and amortization	95,415	91,387	898,024
Impairment loss	2,158	1,484	20,311
Amortization of goodwill	18,048	17,806	169,864
Amortization of negative goodwill	(159)	(159)	(1,496)
Increase in provision for grant of shares	200	—	1,882
Increase in provision for periodic repairs	1,280	703	12,047
Increase in provision for product warranties	280	108	2,635
Decrease in provision for removal cost of property, plant and equipment	(1,066)	(3,168)	(10,033)
Decrease in provision for loss on litigation	(2,137)	—	(20,113)
Decrease in net defined benefit liability	(4,875)	(8,150)	(45,882)
Interest and dividend income	(8,704)	(6,595)	(81,920)
Interest expense	4,594	4,435	43,238
Equity in (earnings) losses of affiliates	(13,137)	(4,899)	(123,642)
Gain on sales of investment securities	(15,164)	(9,918)	(142,720)
Loss on valuation of investment securities	31	101	292
Gain on sale of property, plant and equipment	(534)	(165)	(5,026)
Loss on disposal of noncurrent assets	6,261	4,863	58,927
Increase in notes and accounts receivable—trade	(38,986)	(20,756)	(366,927)
Increase in inventories	(11,815)	(9,840)	(111,200)
Increase in notes and accounts payable—trade	23,020	18,619	216,659
Increase in accrued expenses	6,014	2,467	56,602
Decrease in advances received	(2,463)	(1,886)	(23,181)
Other, net	17,259	(6,721)	162,438
Subtotal	293,851	227,105	2,765,656
Interest and dividend income, received	10,267	7,733	96,631
Interest expense paid	(4,736)	(4,428)	(44,574)
Income taxes paid	(49,492)	(61,444)	(465,807)
Net cash provided by operating activities	249,891	168,965	2,351,915
Cash flows from investing activities:			
Payments into time deposits	(9,508)	(4,105)	(89,487)
Proceeds from withdrawal of time deposits	3,012	5,232	28,348
Purchase of property, plant and equipment	(82,909)	(82,983)	(780,320)
Proceeds from sales of property, plant and equipment	1,601	3,178	15,068
Purchase of intangible assets	(13,363)	(8,810)	(125,769)
Purchase of investment securities	(11,564)	(9,846)	(108,838)
Proceeds from sales of investment securities	17,774	12,018	167,285
Payments of loans receivable	(45,261)	(5,218)	(425,986)
Collection of loans receivable	30,568	2,169	287,699
Other, net	(645)	(1,553)	(6,071)
Net cash used in investing activities	(110,294)	(89,920)	(1,038,061)
Cash flows from financing activities:			
Decrease in short-term loans payable	(28,935)	(193,760)	(272,329)
(Decrease) increase in commercial paper	(36,000)	56,000	(338,824)
Proceeds from long-term loans payable	15,395	138,812	144,894
Repayment of long-term loans payable	(23,532)	(45,513)	(221,478)
Redemption of bonds	(20,000)	—	(188,235)
Repayments of lease obligations	(389)	(965)	(3,661)
Purchase of treasury stock	(688)	(93)	(6,475)
Proceeds from disposal of treasury stock	2	1	19
Cash dividends paid	(39,106)	(27,935)	(368,056)
Cash dividends paid to non-controlling interests	(1,141)	(712)	(10,739)
Other, net	(18)	207	(169)
Net cash (used in) provided by financing activities	(134,412)	(73,959)	(1,265,054)
Effect of exchange rate change on cash and cash equivalents	(937)	(6,759)	(8,819)
Net increase (decrease) in cash and cash equivalents	4,247	(1,673)	39,972
Cash and cash equivalents at beginning of year	144,077	145,307	1,356,019
Increase in cash and cash equivalents resulting from changes in scope of consolidation	272	443	2,560
Cash and cash equivalents at end of year (Note 8)	¥ 148,596	¥ 144,077	\$ 1,398,551

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 ¥106.25=US\$1 prevailing on March 31, 2018, has been used.

Consolidation and investments in affiliated companies

The consolidated financial statements consist of the accounts of the parent company and 171 subsidiaries (171 subsidiaries at March 31, 2017, 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 Tongsoh 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 54 such unconsolidated subsidiaries and 20% to 50% owned companies to which the equity method is applied at March 31, 2018 (32 at March 31, 2017), 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 7 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.

(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.

vi) Provision for grant of shares

To record the grant of shares to Directors, etc., in accordance with Share Grant Regulations, the provision for grant of shares is recorded based on an estimate of grant of shares liabilities as of March 31, 2018.

(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, 2018 and 2017, 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) Accounting Standards issued but not yet applied

i) Implementation Guidance on Tax Effectuated Accounting and Implementation Guidance on Recoverability of Deferred Tax Assets

The Accounting Standards Board of Japan (ASBJ) issued ASBJ Guidance No. 28 "Implementation Guidance on Tax Effectuated Accounting" and ASBJ Guidance No. 26 (revised 2018) "Implementation Guidance on Recoverability of Deferred Tax Assets." Treatment of taxable temporary differences associated with investments in subsidiaries in the non-consolidated financial statements was revised, and treatment of recoverability of deferred tax assets for companies corresponding to Category 1 was clarified. The Company will apply the guidance from the beginning of the fiscal year ending March 31, 2019. The effects on the consolidated financial statements are currently being assessed.

ii) Accounting Standard for Revenue Recognition and Implementation Guidance on Accounting Standard for Revenue Recognition

The ASBJ issued ASBJ Statement No. 29 "Accounting Standard for Revenue Recognition" and ASBJ Guidance No. 30 "Implementation Guidance on Accounting Standard for Revenue Recognition." This is a comprehensive standard related to revenue recognition, with the following five steps to be applied for recognition of revenue:

- Step 1: Identify the contract with customers
- Step 2: Identify the separate performance obligations
- Step 3: Determine the transaction price of the contract
- Step 4: Allocate the transaction price to each of the separate performance obligations
- Step 5: Recognize the revenue as each performance obligation is satisfied

The Company will apply the standard and guidance from the beginning of the fiscal year ending March 31, 2022. At the time of the preparation of the consolidated financial statements, the effects are being assessed.

(b) Changes in presentation

Consolidated statements of income

In the fiscal year ended March 31, 2018, donations, which had previously been reported separately, became 10% or less of total non-operating expenses, and were included in others under non-operating expenses.

The consolidated statements of income for the fiscal year ended March 31, 2017 have been reclassified accordingly, resulting in donations of ¥3,930 million being included in other under non-operating expenses.

(c) Additional information

Accounting treatment related to the trust for granting shares to Directors, etc.

As approved by the Company's Board of Directors on April 21, 2017, and at the 126th Ordinary General Meeting of Shareholders held on June 28, 2017, a stock-based remuneration system was introduced for the Company's Directors (excluding Outside Directors), Executive Officers of the Company, and Executive Officers of core operating companies of the Asahi Kasei Group who hold a certain rank (collectively "Directors, etc."), to more clearly link remuneration of Directors, etc., and the Company's shareholder value, thereby reinforcing the common interest between Directors, etc., and shareholders, including both the benefits of share price increases and the risk associated with share price decreases.

The system is a stock-based incentive system in which a trust, established and funded by the Company, acquires shares of the Company, and the Company grants the shares to eligible Directors, etc., in accordance with Share Grant Regulations adopted by the Board of Directors. The Company confers on each Director, etc., a certain number of points as specified in accordance with their individual rank, etc., and at the time of their retirement a number of shares equal to the number of accumulated points are granted to Directors, etc., or sold by the trust and granted to Directors, etc., in the form of cash. Voting rights associated with the shares of the Company held in the trust are not exercisable.

Accounting treatment of shares of the Company held by the trust is performed in accordance with PITF No. 30 "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" issued by the ASBJ. The Company records its own stocks held by the trust as treasury stock under net assets in the consolidated balance sheets, at book value excluding associated costs incurred by the trust, using the gross method which identifies the Company with the trust. As of March 31, 2018, there were 464 thousand shares of such treasury stock, with a book value of ¥601 million.

4. Notes to Consolidated Balance Sheets

(a) Investment securities

Among investment securities, shares of unconsolidated subsidiaries and affiliates as of March 31, 2018 and 2017, amounted to ¥83,487 million (US\$785,760 thousand) and ¥65,725 million, respectively. Included in those amounts are investments in joint ventures of ¥43,168 million (US\$406,287 thousand) and ¥33,686 million, respectively.

(b) Pledged assets and secured debt

A summary of assets pledged as collateral and secured debt as of March 31, 2018 and 2017, is shown below:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Pledged assets:			
Buildings and structures	¥—	¥106	\$—
Machinery, equipment and vehicles	—	1	—
Total pledged assets	¥—	¥107	\$—
Secured debt:			
Short-term loans payable	¥—	¥ 0	\$—
Long-term loans payable	—	28	—
Total secured debt	¥—	¥ 29	\$—

Besides the above, investment securities pledged to suppliers as transaction guarantees at March 31, 2018 and 2017, were ¥72 million (US\$678 thousand) and ¥61 million, respectively.

(c) Contingent liabilities

Contingent liabilities at March 31, 2018 and 2017, arising in the ordinary course of business were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Loans guaranteed	¥39,457	¥35,774	\$371,360
Letters of awareness	—	—	—
Completion guarantees	—	10,185	—
Total	¥39,457	¥45,959	\$371,360

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, 2018 and 2017, were ¥9,999 million (US\$94,108 thousand) and ¥9,572 million, respectively. The breakdown of reduced-value entries as of March 31, 2018 and 2017, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Buildings and structures	¥3,320	¥3,394	\$31,247
Machinery, equipment and vehicles	6,366	5,865	59,915
Land	167	167	1,572
Other	146	146	1,374
Total	¥9,999	¥9,572	\$94,108

(e) Notes maturing on March 31, 2018

Although financial institutions in Japan were closed on March 31, 2018, and notes maturing on that date were actually settled on the following business day, April 2, 2018, those were accounted for as if settled on March 31, 2018.

The breakdown of those notes at March 31, 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Notes and accounts receivable—trade	¥2,501	¥—	\$23,539
Notes and accounts payable—trade	1,301	—	12,245

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, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Salaries and benefits	¥174,659	¥165,337	\$1,643,849
Research and development*	61,998	59,476	583,511
Freight and storage	38,568	37,450	362,993

* The aggregate amounts of research and development expenses included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2018 and 2017, were ¥85,695 million (US\$806,541 thousand) and ¥79,566 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, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
	¥(224)	¥(152)	\$(2,108)

(c) Gain on sales of noncurrent assets

Major components of gain on sales of noncurrent assets for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Land	¥466	¥146	\$4,386
Machinery	48	14	452
Other	20	4	188

(d) Loss on disposal of noncurrent assets

Loss on disposal of noncurrent assets for the years ended March 31, 2018 and 2017, was primarily loss on abandonment and sale of buildings, machinery and equipment, etc. The abandonment and sale of buildings, machinery and equipment, etc. were performed under a single, all-inclusive contract for each facility.

(e) Impairment loss

Major components of impairment losses for the years ended March 31, 2018 and 2017, were as follows:

Use	Asset class	Location	Millions of yen		Thousands of U.S. dollars	Item on the Consolidated Statements of Income
			2018	2017	2018	
Production facility for electronic devices	Machinery and equipment, etc.	Hyuga, Miyazaki	¥ —	¥1,210	\$ —	Business structure improvement expenses
Office assets	Buildings, etc.	Chiyoda-ku, Tokyo, etc.	—	1,208	—	Impairment losses
Production facility for synthetic resin	Machinery and equipment, etc.	Sodegaura, Chiba	—	1,131	—	Business structure improvement expenses
Dormitory for employees	Buildings, etc.	Izunokuni, Shizuoka	—	125	—	Impairment losses
Others	Machinery and equipment, etc.	Fuji, Shizuoka, etc.	—	265	—	Impairment losses and business structure improvement expenses
Goodwill related to new electronic device business	Goodwill	—	997	—	9,834	Impairment losses
Facility for storage of waste	Buildings, etc.	Kawasaki, Kanagawa, etc.	557	—	5,242	Impairment losses
Equipment for dry-heat treatment of nonwovens	Buildings, etc.	Nobeoka, Miyazaki, etc.	284	—	2,673	Impairment losses
Others	Buildings, etc.	Moriyama, Shiga, etc.	381	—	3,586	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.

The book value of goodwill related to new electronic device business was reduced to the recoverable amount due to diminished profitability, the book value of the facility for storage of waste was reduced to the recoverable amount due to a determination of a lack of future profitability, and the book value of equipment for dry-heat treatment of nonwovens was reduced to the recoverable amount due to the disappearance of prospects for future use. The recoverable amount is stated as the value for future usage, which is calculated based on discounted future cash flows within the applicable discount rate of 6% as of March 31, 2018 and 2017.

Among the extraordinary losses under Others, ¥62 million (US\$584 thousand) and ¥115 million were recorded under business structure improvement expenses for the years ended March 2018 and 2017, respectively.

(f) Business structure improvement expenses

Major components of business structure improvement expenses for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Impairment of fixed assets	¥ 62	¥2,456	\$ 584
Loss on disposal and devaluation of inventory and others	1,398	3,734	13,158
Total	¥1,460	¥6,189	\$13,741

6. Notes to Consolidated Statements of Comprehensive Income

Recycling adjustment and tax effects on other comprehensive income for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net unrealized gain on other securities:			
Changes during the fiscal year	¥ 26,084	¥40,337	\$ 245,496
Recycling adjustment	(15,068)	(9,858)	(141,816)
Pre-tax effect	11,016	30,479	103,680
Tax effect	(3,364)	(9,302)	(31,661)
Net unrealized gain on other securities	7,651	21,177	72,009
Deferred gains or losses on hedges:			
Changes during the fiscal year	71	380	668
Recycling adjustment	(74)	(170)	(696)
Pre-tax effect	(3)	210	(28)
Tax effect	40	24	376
Deferred gains or losses on hedges	37	234	348
Foreign currency translation adjustment:			
Changes during the fiscal year	(12,088)	(8,073)	(113,769)
Pre-tax effect	(12,088)	(8,073)	(113,769)
Tax effect	(164)	53	(1,544)
Foreign currency translation adjustment	(12,252)	(8,020)	(115,313)
Remeasurements of defined benefit plans:			
Changes during the fiscal year	2,844	(74)	26,767
Recycling adjustment	11,302	10,901	106,372
Pre-tax effect	14,145	10,827	133,129
Tax effect	(4,410)	(2,713)	(41,506)
Remeasurements of defined benefit plans	9,735	8,114	91,624
Share of other comprehensive income of affiliates accounted for using equity method:			
Changes during the fiscal year	356	866	3,351
Recycling adjustment	—	(55)	—
Share of other comprehensive income of affiliates accounted for using equity method	356	810	3,351
Total other comprehensive income	¥ 5,528	¥22,315	\$ 52,028

7. Notes to Consolidated Statements of Changes in Net Assets

For the year ended March 31, 2018

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

	Thousands of shares			
	Number of shares as of March 31, 2017	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, 2018
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 & 3)	5,959	534	1	6,492
Total	5,959	534	1	6,492

Notes: 1. The increase of 534 thousand shares in common stock of treasury stock was primarily attributable the purchase of 464 thousand shares by the trust for granting shares to Directors, etc., and the purchase of 70 thousand shares in quantities of less than one share unit.

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

3. The number of shares of treasury stock as of March 31, 2018, includes 464 thousand shares held by the trust for granting shares to Directors, etc.

(b) Dividends

i) Cash dividends paid

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

Dividends for common stock

Total dividends	¥19,553 million (US\$184,028 thousand)
Dividend per share	¥14.00 (US\$0.13)
Date of record	March 31, 2017
Payment date	June 6, 2017

2) The following was resolved by the Board of Directors on November 1, 2017.

Dividends for common stock

Total dividends	¥19,552 million (US\$184,019 thousand)
Dividend per share	¥14.00 (US\$0.13)
Date of record	September 30, 2017
Payment date	December 1, 2017

Note: Total dividends includes ¥6 million (US\$56 thousand) for shares held by the trust for granting shares to Directors, etc.

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, 2018.

Dividends for common stock

Total dividends	¥27,932 million (US\$262,889 thousand)
Source of dividends	Retained earnings
Dividend per share	¥20.00 (US\$0.19)
Date of record	March 31, 2018
Payment date	June 5, 2018

Note: Total dividends includes ¥9 million (US\$85 thousand) for shares held by the trust for granting shares to Directors, etc.

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
Dividend per share	¥10.00
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
Dividend per share	¥10.00
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
Source of dividends	Retained earnings
Dividend per share	¥14.00
Date of record	March 31, 2017
Payment date	June 6, 2017

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, 2018 and 2017, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and deposits	¥156,318	¥145,289	\$1,471,228
Time deposits with deposit term of over 3 months	(7,722)	(1,212)	(72,678)
Cash and cash equivalents	¥148,596	¥144,077	\$1,398,551

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."

(b) Operating lease transactions

Future lease payments for the non-cancelable portion of the Company's operating leases at March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Due within one year	¥ 8,677	¥ 5,753	\$ 81,666
Due after one year	25,987	33,899	244,584
Total	¥34,664	¥39,652	\$326,249

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, 2018 and 2017, 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		
	2018		
	Carrying amount	Fair value	Difference
Cash and deposits	¥156,318	¥156,318	¥ —
Notes and accounts receivable—trade	341,396	341,396	—
Short-term investment securities and investment securities:			
Investments in affiliates	15,353	16,471	1,118
Other securities	221,708	221,708	—
Long-term loans receivable	28,442	28,445	3
Total assets	763,217	764,338	1,121
Notes and accounts payable—trade	171,413	171,413	—
Short-term loans payable	58,898	58,898	—
Commercial paper	20,000	20,000	—
Income taxes payable	29,714	29,714	—
Bonds payable	20,000	20,420	(420)
Long-term loans payable	202,296	199,485	2,811
Lease obligations	551	551	(0)
Long-term guarantee deposits	8,696	8,726	(30)
Total liabilities	511,568	509,207	2,361
Derivative financial instruments (*)	¥ 1,257	¥ 1,257	¥ —

	Millions of yen		
	Carrying amount	Fair value	Difference
		2017	
Cash and deposits	¥145,289	¥145,289	¥ —
Notes and accounts receivable—trade	302,751	302,751	—
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	693,633	688,657	(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 (*)	¥ (249)	¥ (249)	¥ —

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Difference
		2018	
Cash and deposits	\$1,471,228	\$1,471,228	\$ —
Notes and accounts receivable—trade	3,213,139	3,213,139	—
Short-term investment securities and investment securities:			
Investment in affiliates	144,499	155,021	10,522
Other securities	2,086,664	2,086,664	—
Long-term loans receivable	267,689	267,718	28
Total assets	7,183,219	7,193,769	10,551
Notes and accounts payable—trade	1,613,299	1,613,299	—
Short-term loans payable	554,334	554,334	—
Commercial paper	188,235	188,235	—
Income taxes payable	279,661	279,661	—
Bonds payable	188,235	192,188	(3,953)
Long-term loans payable	1,903,962	1,877,506	26,456
Lease obligations	5,186	5,186	(0)
Long-term guarantee deposits	81,845	82,127	(282)
Total liabilities	4,814,758	4,792,536	22,221
Derivative financial instruments (*)	\$ 11,831	\$ 11,831	\$ —

(*) 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. 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, 2018 and 2017, amounting to ¥59,120 million (US\$556,424 thousand) and ¥24,510 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, 2018 and 2017, amounting to ¥74,668 million (US\$702,758 thousand) and ¥54,787 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, 2018 and 2017, amounting to ¥3,101 million (US\$29,186 thousand) and ¥3,127 million, respectively, fair value is

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

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, 2018 and 2017, amounting to ¥11,962 million (US\$112,584 thousand) and ¥12,180 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.

Millions of yen				
2018				
	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	¥156,318	¥ —	¥ —	¥—
Notes and accounts receivable—trade	341,396	—	—	—
Long-term loans receivable	5,431	22,676	335	—
Total	¥503,145	¥22,676	¥335	¥—

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	¥—

Thousands of U.S. dollars				
2018				
	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	\$1,471,228	\$ —	\$ —	\$—
Notes and accounts receivable—trade	3,213,139	—	—	—
Long-term loans receivable	51,115	213,421	3,153	—
Total	\$4,735,482	\$213,421	\$3,153	\$—

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						
2018						
Year ending March 31	Short-term loans payable	Commercial paper	Bonds payable	Long-term loans payable	Lease obligations	Total
2019	¥58,898	¥20,000	¥ —	¥59,120	¥199	¥138,217
2020	—	—	20,000	21,794	162	41,956
2021	—	—	—	23,371	128	23,499
2022	—	—	—	28,981	54	29,034
2023	—	—	—	28,043	8	28,051
2024 and thereafter	—	—	—	40,988	—	40,988

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

Thousands of U.S. dollars

Year ending March 31	2018					
	Short-term loans payable	Commercial paper	Bonds payable	Long-term loans payable	Lease obligations	Total
2019	\$554,334	\$188,235	\$ —	\$556,424	\$1,873	\$1,300,866
2020	—	—	188,235	205,120	1,525	394,880
2021	—	—	—	219,962	1,205	221,167
2022	—	—	—	272,762	508	273,261
2023	—	—	—	263,934	75	264,009
2024 and thereafter	—	—	—	385,769	—	385,769

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, 2018 and 2017, were as follows:

	Millions of yen		
	Carrying amount	Cost	Unrealized gains (losses)
2018			
Securities with unrealized gains:			
Equity securities	¥209,576	¥35,703	¥173,872
Subtotal	209,576	35,703	173,872
Securities with unrealized losses:			
Equity securities	12,133	13,240	(1,108)
Subtotal	12,133	13,240	(1,108)
Total	¥221,708	¥48,943	¥172,765
2017			
Securities with unrealized gains:			
Equity securities	¥200,280	¥35,723	¥164,557
Subtotal	200,280	35,723	164,557
Securities with unrealized losses:			
Equity securities	11,414	12,690	(1,277)
Subtotal	11,414	12,690	(1,277)
Total	¥211,694	¥48,414	¥163,280
2018			
Thousands of U.S. dollars			
	Carrying amount	Cost	Unrealized gains (losses)
Securities with unrealized gains:			
Equity securities	\$1,972,480	\$336,028	\$1,636,442
Subtotal	1,972,480	336,028	1,636,442
Securities with unrealized losses:			
Equity securities	114,193	124,612	(10,428)
Subtotal	114,193	124,612	(10,428)
Total	\$2,086,664	\$460,640	\$1,626,024

(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, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Selling amount	¥18,088	¥12,087	\$170,240
Gain on sales of securities	15,164	9,918	142,720
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, 2018, was ¥31 million (US\$292 thousand), which is the sum of ¥28 million (US\$264 thousand) for equity securities of unconsolidated subsidiaries and affiliates and ¥3 million (US\$28 thousand) for other securities, and for the year ended March 31, 2017, ¥101 million, which is for other securities.

12. Derivative financial instruments

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

i) Foreign exchange forward contracts

		Millions of yen			
		2018			
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	¥ 52,155	¥—	¥1,514	¥1,514
	Euro	9,720	—	158	158
	Thai baht	1,867	—	4	4
	Singapore dollar	—	—	—	—
	British pound	27	—	0	0
	Buying:				
	U.S. dollar	5,438	—	(84)	(84)
	Euro	50,269	—	(335)	(335)
	Thai baht	5	—	(0)	(0)
	Total	¥119,481	¥—	¥1,257	¥1,257
		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)

		Thousands of U.S. dollars			
		2018			
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	\$ 490,871	\$—	\$14,249	\$14,249
	Euro	91,482	—	1,487	1,487
	Thai baht	17,572	—	38	38
	Singapore dollar	—	—	—	—
	British pound	254	—	0	0
	Buying:				
	U.S. dollar	51,181	—	(791)	(791)
	Euro	473,120	—	(3,153)	(3,153)
	Thai baht	47	—	(0)	(0)
	Total	\$1,124,527	\$—	\$11,831	\$11,831

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

i) Foreign exchange forward contracts

			Millions of yen		
			2018		
Classification	Items	Hedged assets/liabilities	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	¥ 5,966	¥—	¥ 180
	Euro	Accounts receivable—trade	721	—	17
	Thai baht	Accounts receivable—trade	—	—	—
	Buying:				
	U.S. dollar	Accounts payable—trade	359	—	(10)
	Euro	Accounts payable—trade	—	—	—
	Thai baht	Accounts payable—trade	3	—	0
	Swedish krona	Investment securities	5,198	—	(186)
	Total		¥12,246	¥—	¥ 0

			Millions of yen		
			2017		
Classification	Items	Hedged assets/liabilities	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)
	Buying:				
	U.S. dollar	Accounts payable—trade	1,445	—	32
	Euro	Accounts payable—trade	2	—	(0)
	Thai baht	Accounts payable—trade	106	—	6
	Swedish krona	Investment securities	—	—	—
	Total		¥2,292	¥—	¥74

			Thousands of U.S. dollars		
			2018		
Classification	Items	Hedged assets/liabilities	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	\$ 56,151	\$—	\$ 1,694
	Euro	Accounts receivable—trade	6,786	—	160
	Thai baht	Accounts receivable—trade	—	—	—
	Buying:				
	U.S. dollar	Accounts payable—trade	3,379	—	(94)
	Euro	Accounts payable—trade	—	—	—
	Thai baht	Accounts payable—trade	28	—	0
	Swedish krona	Investment securities	48,922	—	(1,751)
	Total		\$115,256	\$—	\$ 0

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

			Millions of yen		
			2018		
Classification	Items	Hedged assets/liabilities	Amount of contract	Amount of contract over 1 year	Fair value
Special treatment for interest-rate swaps	Interest-rate swaps				
	Pay fixed/receive floating	Long-term loans payable	¥139,261	¥93,633	(*)
Special treatment for interest-rate and currency swaps	Interest-rate and currency swaps				
	U.S. dollar receive floating/ Thai baht pay fixed	Long-term loans payable	170	—	(*)
	Total		¥139,431	¥93,633	¥—

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

			Thousands of U.S. dollars		
			2018		
Classification	Items	Hedged assets/liabilities	Amount of contract	Amount of contract over 1 year	Fair value
Special treatment for interest-rate swaps	Interest-rate swaps				
	Pay fixed/receive floating	Long-term loans payable	\$1,310,692	\$881,252	(*)
Special treatment for interest-rate and currency swaps	Interest-rate and currency swaps				
	U.S. dollar receive floating/ Thai baht pay fixed	Long-term loans payable	1,600	—	(*)
	Total		\$1,312,292	\$881,252	\$—

(*) 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, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Beginning balance of the projected benefit obligations	¥398,132	¥398,588	\$3,747,125
Service cost	14,922	15,581	140,442
Interest cost	695	677	6,541
Actuarial gains/losses	1,213	2,133	11,416
Payment of retirement benefits	(14,620)	(19,016)	(137,600)
Other	513	169	4,828
Ending balance of the projected benefit obligations	¥400,855	¥398,132	\$3,772,753

Reconciliations of beginning and ending balances of plan assets for the fiscal years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Beginning balance of plan assets	¥219,765	¥212,288	\$2,068,376
Expected return	5,461	5,265	51,398
Actuarial gains/losses	4,064	2,056	38,249
Contributions	9,513	9,799	89,534
Payment of retirement benefits	(8,571)	(9,532)	(80,668)
Other	(11)	(110)	(104)
Ending balance of plan assets	¥230,220	¥219,765	\$2,166,776

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, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Projected benefit obligations of funded plans	¥ 257,710	¥ 256,082	\$ 2,425,506
Plan assets	(230,220)	(219,765)	(2,166,776)
Subtotal	27,489	36,318	258,720
Projected benefit obligations of unfunded plans	143,145	142,050	1,347,247
Net of liability and asset that have been recorded in the consolidated balance sheets	¥ 170,634	¥ 178,368	\$ 1,605,967
Net defined benefit liability	¥ 170,634	¥ 178,368	\$ 1,605,967
Net of liability and asset that have been recorded in the consolidated balance sheets	¥ 170,634	¥ 178,368	\$ 1,605,967

Periodic retirement benefit expenses for employees and the breakdown of items for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost (net of employee contributions)	¥13,301	¥13,952	\$125,186
Interest cost	695	677	6,541
Expected return on plan assets	(5,461)	(5,265)	(51,398)
Amortization of actuarial gains/losses	11,196	10,763	105,374
Amortization of prior service costs	141	142	1,327
Additional retirement benefits and other	636	506	5,986
Retirement benefit expenses of defined benefit plans	¥20,509	¥20,775	\$193,026

The components of other comprehensive income on defined benefit plans for the fiscal years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Prior service costs	¥ 141	¥ 142	\$ 1,327
Actuarial gains/losses	14,004	10,685	131,802
Total	¥14,145	¥10,827	\$133,129

Accumulated other comprehensive income on defined benefit plans at March 31, 2018 and 2017, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized prior service costs	¥ 78	¥ 219	\$ 734
Unrecognized actuarial gains/losses	33,779	47,783	317,920
Total	¥33,857	¥48,002	\$318,654

Share by major classifications for plan assets at March 31, 2018 and 2017, was as follows:

	2018	2017
Bonds	37%	37%
Stock	25	24
Alternative investments	16	16
Life insurance	13	14
Cash and deposits	8	8
Other	2	1
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, 2018 and 2017, were as follows:

	2018	2017
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	2.0–6.5%	2.3–7.1%

Required payments to defined contribution plans at March 31, 2018, amounted to ¥1,807 million (US\$17,007 thousand), and at March 31, 2017, amounted to ¥1,874 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, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Net defined benefit liability	¥ 52,147	¥ 55,324	\$ 490,795
Accrued bonuses	7,734	7,687	72,791
Foreign tax credit carry forwards	6,069	5,560	57,120
Unrealized gain on noncurrent assets and others	3,931	3,843	36,998
Impairment losses	3,414	3,397	32,132
Loss on disposal of noncurrent assets	3,268	3,383	30,758
Other	22,951	29,389	216,009
Subtotal deferred tax assets	99,515	108,583	936,612
Less: Valuation allowance	(10,865)	(10,054)	(102,259)
Total deferred tax assets	88,651	98,528	834,362
Deferred tax liabilities:			
Unrealized gain on other securities	(54,229)	(51,508)	(510,391)
Identified intangible assets during business combination	(29,925)	(50,049)	(281,647)
Deferred gain on property, plant and equipment	(8,383)	(8,388)	(78,899)
Depreciation—overseas subsidiaries	(8,077)	(13,405)	(76,019)
Other	(6,899)	(5,388)	(64,932)
Total deferred tax liabilities	(107,514)	(128,738)	(1,011,896)
Net deferred tax assets (liabilities)	¥ (18,864)	¥ (30,210)	\$ (177,544)

Net deferred tax assets (liabilities) at March 31, 2018 and 2017, were included in the following line items on the consolidated balance sheets.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current assets—deferred tax assets	¥ 20,032	¥ 20,279	\$ 188,536
Noncurrent assets—deferred tax assets	6,727	9,309	63,313
Current liabilities—other	—	(39)	—
Noncurrent liabilities—deferred tax liabilities	(45,622)	(59,759)	(429,384)

In the fiscal year ended March 31, 2018, tax loss carry forwards, depreciation, unrealized loss on investment securities, provision for periodic repairs, provision for product warranties, accrued enterprise tax, devaluation of inventories, allowance for doubtful accounts, and asset retirement obligations, which had previously been reported separately, are included in Current liabilities—other due to immateriality. The figures for Current liabilities—other for the fiscal year ended March 31, 2017, include ¥6,870 million in tax loss carry forwards, ¥2,781 million in depreciation, ¥1,765 million in unrealized loss on investment securities, ¥1,456 million in provision for periodic repairs, ¥1,338 million in provision for product warranties, ¥1,247 million in accrued enterprise tax, ¥1,092 million in devaluation of inventories, ¥979 million on allowance for doubtful accounts, and ¥610 million in asset retirement obligations.

Reconciliation of the differences between the statutory tax rate and the effective income tax rate for the years ended March 31, 2018 and 2017, was as follows:

	2018	2017
Statutory tax rate	30.9%	30.9%
Increase (reduction) in taxes resulting from:		
Non-deductible expenses and non-taxable income	0.3	1.1
R&D expenses deductible from income taxes	(2.9)	(3.7)
Amortization of goodwill and negative goodwill	2.5	3.5
Equity in (losses) earnings of unconsolidated subsidiaries and affiliates	(1.9)	(1.0)
Undistributed earnings (losses) of foreign subsidiaries	0.4	0.2
Difference of tax rates for foreign subsidiaries	(0.4)	(1.2)
Items related to U.S. tax reform	(7.9)	—
Other	0.1	(3.9)
Effective income tax rate	21.1%	25.9%

Note: In the fiscal year ended March 31, 2018, equalization of inhabitants taxes and valuation allowance, which had previously been reported separately, are included in Other due to immateriality. The figure for Other rate reconciliation items for the fiscal year ended March 31, 2017, includes a 0.3% effect of equalization of inhabitants taxes and a (3.9)% effect of valuation allowance.

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

The U.S. Tax Cuts and Jobs Reform Act enacted on December 22, 2017, reduced the corporate tax rate applied to U.S. consolidated subsidiaries from 35% to 21% effective January 1, 2018. As a result, deferred tax liabilities (net of deferred tax assets) and deferred income taxes for the fiscal year ended March 31, 2018, each decreased by ¥19,027 million (US\$179,078 thousand).

15. 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, 2018, 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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of year	¥4,007	¥4,047	\$37,713
Increase due to asset retirement obligations accrued	164	37	1,544
Adjustment due to passage of time	198	136	1,864
Decrease due to fulfillment of asset retirement obligations	(82)	(125)	(772)
Decrease due to accounting estimates	(505)	—	(4,753)
Increase (decrease) due to foreign exchange fluctuation	56	(88)	527
Balance at end of year	¥3,838	¥4,007	\$36,122

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, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of year	¥1,766	¥1,733	\$16,621
Increase due to new lease agreements	80	79	753
Decrease due to the cancelation of existing lease agreements	(6)	(46)	(56)
Balance at end of year	¥1,840	¥1,766	\$17,318

16. 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.

Beginning with the first quarter of the fiscal year ended March 31, 2018, the Energy Division, which was formerly included in Others, was reclassified into the Material segment. The figures for the prior period have been recalculated in accordance with the new classification for comparison purposes.

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.

Others

The Company performs plant and environmental engineering, research and analysis, employment agency/staffing operations, etc.

(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						
2018						
	Material	Homes	Health Care	Subtotal	Others (Note 1)	Total
Sales:						
External customers	¥1,087,720	¥640,988	¥296,258	¥2,024,966	¥17,251	¥2,042,216
Intersegment	5,014	39	34	5,086	27,557	32,643
Total	1,092,734	641,026	296,292	2,030,052	44,807	2,074,860
Operating income	121,925	64,357	39,464	225,746	1,870	227,616
Assets	1,332,202	483,342	450,846	2,266,390	78,427	2,344,817
Other items:						
Depreciation and amortization (Note 2)	56,002	9,506	19,340	84,848	1,665	86,513
Amortization of goodwill	8,961	—	8,821	17,782	266	18,048
Investments in affiliates accounted for using equity method	45,020	12,318	450	57,788	17,172	74,961
Increase in property, plant and equipment, and intangible assets	59,814	18,431	12,186	90,431	1,226	91,657

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

Millions of yen						
2017						
	Material	Homes	Health Care	Subtotal	Others (Note 1)	Total
Sales:						
External customers	¥ 977,892	¥618,964	¥270,120	¥1,866,976	¥16,015	¥1,882,991
Intersegment	5,687	1,761	34	7,482	25,682	33,165
Total	983,579	620,725	270,154	1,874,458	41,698	1,916,156
Operating income	88,495	64,100	31,921	184,516	2,018	186,534
Assets	1,268,258	455,242	459,251	2,182,752	72,199	2,254,950
Other items:						
Depreciation and amortization (Note 2)	54,188	9,411	18,187	81,787	1,285	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	52,893	12,139	15,604	80,635	1,149	81,783

Notes: 1. The "Others" category includes 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						
2018						
	Material	Homes	Health Care	Subtotal	Others (Note 1)	Total
Sales:						
External customers	\$10,237,365	\$6,032,828	\$2,788,311	\$19,058,504	\$162,362	\$19,220,856
Intersegment	47,191	367	320	47,868	259,360	307,228
Total	10,284,555	6,033,186	2,788,631	19,106,372	421,713	19,528,094
Operating income	1,147,529	605,713	371,426	2,124,668	17,600	2,142,268
Assets	12,538,372	4,549,101	4,243,256	21,330,729	738,136	22,068,866
Other items:						
Depreciation and amortization (Note 2)	527,078	89,468	182,024	798,569	15,671	814,240
Amortization of goodwill	84,339	—	83,021	167,360	2,504	169,864
Investments in affiliates accounted for using equity method	423,718	115,934	4,235	543,887	161,619	705,515
Increase in property, plant and equipment, and intangible assets	562,955	173,468	114,692	851,115	11,539	862,654

Notes: 1. The "Others" category includes 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		Thousands of U.S. dollars
	2018	2017	2018
Total of reporting segments	¥2,030,052	¥1,874,458	\$19,106,372
Net sales in "Others" category	44,807	41,698	421,713
Elimination of intersegment transactions	(32,643)	(33,165)	(307,228)
Net sales on consolidated statements of income	¥2,042,216	¥1,882,991	\$19,220,856

Operating income	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Total of reporting segments	¥225,746	¥184,516	\$2,124,668
Operating income in "Others" category	1,870	2,018	17,600
Elimination of intersegment transactions	381	220	3,586
Corporate expenses, etc.*	(29,522)	(27,525)	(277,854)
Operating income on consolidated statements of income	¥198,475	¥159,229	\$1,868,000

* 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		Thousands of U.S. dollars
	2018	2017	2018
Total of reporting segments	¥2,266,390	¥2,182,752	\$21,330,729
Assets in "Others" category	78,427	72,199	738,136
Elimination of intersegment transactions	(512,163)	(476,300)	(4,820,358)
Corporate assets*	483,482	475,850	4,550,419
Total assets on consolidated balance sheets	¥2,316,137	¥2,254,500	\$21,798,936

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

Other items	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	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	
Depreciation and amortization (Note 2)	¥84,848	¥81,787	\$798,569	¥1,665	¥1,285	\$15,671	¥8,901	¥8,315	\$83,774	¥95,415	¥91,387	\$898,024				
Amortization of goodwill	17,782	17,546	167,360	266	260	2,504	—	—	—	18,048	17,806	169,864				
Investments in affiliates accounted for using equity method	57,788	39,962	543,887	17,172	17,873	161,619	—	—	—	74,961	57,835	705,515				
Increase in property, plant and equipment, and intangible assets	90,431	80,635	851,115	1,226	1,149	11,539	9,673	8,790	91,040	101,331	90,573	953,704				

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										Thousands of U.S. dollars				
2018					2017					2018				
Japan	United States	China	Other regions	Total	Japan	United States	China	Other regions	Total	Japan	United States	China	Other regions	Total
¥1,274,548	¥191,765	¥183,425	¥392,477	¥2,042,216	¥1,226,633	¥164,241	¥165,481	¥326,637	¥1,882,991	\$11,995,746	\$1,804,847	\$1,726,353	\$3,693,901	\$19,220,856

2) Property, plant and equipment.

Millions of yen										Thousands of U.S. dollars					
2018					2017					2018					
Japan	United States	Other regions	Total	Japan	United States	Other regions	Total	Japan	United States	Other regions	Total	Japan	United States	Other regions	Total
¥384,076	¥85,003	¥92,969	¥562,048	¥371,654	¥86,780	¥98,447	¥556,881	\$3,614,833	\$800,028	\$875,002	\$5,289,864				

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.

17. 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, 2018: None

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
Amount name	—
Balance at end of year	—

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

None

18. Per share information

Basic and diluted net assets per share and net income per share for the years ended March 31, 2018 and 2017, were as follows:

	Yen		U.S. dollars
	2018	2017	2018
Basic net assets per share	¥922.11	¥824.36	\$8.68
Basic net income per share	121.93	82.34	1.15

(a) Basis for calculation of net assets per share

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Total net assets	¥1,305,214	¥1,168,115	\$12,284,367
Amount deducted from total net assets	17,827	16,771	167,784
<i>of which, non-controlling interests</i>	(17,827)	(16,771)	(167,784)
Net assets allocated to capital stock	¥1,287,387	¥1,151,344	\$12,116,584
Number of shares of capital stock outstanding at fiscal year end used in calculation of net assets per share (thousand)	1,396,125	1,396,657	1,396,125

Note: Shares held by the trust for granting shares to Directors, etc., numbering 464 thousand at March 31, 2018, are excluded from the number of shares of capital stock outstanding at fiscal year end used in calculation of net assets per share.

(b) Basis for calculation of net income per share

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net income attributable to owners of the parent	¥ 170,248	¥ 115,000	\$1,602,334
Amount not attributable to common stock shareholders	—	—	—
Net income attributable to common stock owners of the parent	¥ 170,248	¥ 115,000	\$1,602,334
Weighted-average number of shares of capital stock (thousand)	1,396,322	1,396,715	1,396,322

Notes: 1. As the Company had no dilutive securities at March 31, 2018 and 2017, the Company does not disclose diluted net income per share for the years ended March 31, 2018 and 2017.

2. Shares held by the trust for granting shares to Directors, etc., numbering 290 thousand during the year ended March 31, 2018, are excluded from the weighted-average number of shares of capital stock used in calculation of net income per share.

19. Subsequent events

Business combination

(a) Acquisition of Senseair AB

i) Outline of business combination

1) Name and nature of business of counterparty

Name of acquired company: Senseair AB

Nature of business: Manufacture and sale of NDIR gas sensor modules

2) Main reasons for the acquisition

In addition to joint development through which Senseair's optical path design technology and manufacturing know-how for gas sensors is combined with the small, high-quality IR light emitting elements and detectors based on the core technology for compound semiconductors of consolidated subsidiary Asahi Kasei Microdevices Corp., the acquisition will make it possible for the two companies to more deeply integrate their technological knowledge and market networks, enabling an expansion of business activities in the market for air, gas, and alcohol sensors, where rapid growth is forecasted.

3) Acquisition date

April 4, 2018

4) Statutory form of business combination

Stock purchase for cash as consideration

5) Name of company after transaction

Senseair AB

6) Acquired ownership percentage

Ownership percentage before the acquisition: 8.1%

Additional ownership percentage acquired as of the acquisition date: 91.9%

Ownership percentage after the acquisition: 100%

7) Basic means of materializing the acquisition

Stock purchase for cash as consideration by a consolidated subsidiary

ii) Cost of acquisition and details

Stock purchase price: 0.4 billion Swedish krona (cash)

Purchase price: 0.4 billion Swedish krona

iii) Amount of goodwill, measurement principle, amortization method, and useful life

Not determined at present

(b) Acquisition of Sage Automotive Interiors, Inc.

An agreement regarding the Company's acquisition of Sage Automotive Interiors, Inc. (hereinafter "Sage"), a US-based manufacturer of automotive interior material, for a cash transaction price of approximately \$700 million, was concluded on July 13, 2018, between the Company and Clearlake Sage Holdings, LLC, the 100% owner of Sage.

Expected effects of the acquisition include:

- Enhanced access to vehicle manufacturers and Tier-1 suppliers, in order to swiftly and accurately ascertain trends and needs in the automotive industry
- Proposal and provision of comprehensive vehicle interior designs and solutions leveraging Sage's design and marketing capabilities in combination with various Asahi Kasei products and technologies such as fibers, plastics, and sensors
- Utilizing Sage's sales, manufacturing, and marketing bases as management infrastructure and resources for the global expansion of Asahi Kasei's operations

The transaction price of approximately \$700 million will change depending on fluctuation of cash and debt balance, working capital, etc., at the time of closing. The total acquisition price including Sage's net interest-bearing debt is \$1.06 billion. Closing of the transaction is conditional upon performing the required procedures in accordance with each relevant country's antitrust regulations, and obtaining approval from the relevant authorities.

Corporate profile of Sage Automotive Interiors, Inc.

Location: Greenville, South Carolina, USA

CEO: Dirk R. Pieper

Operations: Development, manufacture, and sale of fabrics as automotive interior material

Paid-in capital: \$82.5 million (consolidated, as of December 31, 2017)

Establishment: 2009 (spinoff from fiber and chemical manufacturer Milliken & Company)

Production sites: United States, Italy, Poland, Romania, Brazil, China

Employees: Approximately 2,200 (consolidated, as of March 31, 2018)

Ownership: 100% by Clearlake Sage Holdings, LLC

Three-year trend of assets and sales:

	2015	2016	2017
Total assets (\$ million)	426.8	474.0	504.7
Net sales (\$ million)	359.3	415.6	474.9

20. Borrowings

(a) Bonds payable at March 31, 2018 and 2017, comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unsecured 1.46% yen bonds due in 2019	¥20,000	¥20,000	\$188,235
Unsecured 0.30% yen bonds due in 2017	—	20,000	—
Total	¥20,000	¥40,000	\$188,235

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, 2018, are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥ —	\$ —
2020	20,000	188,235
2021	—	—
2022	—	—
2023	—	—
2024 and thereafter	—	—
Total	¥20,000	\$188,235

(b) Loans payable at March 31, 2018 and 2017, comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Short-term loans payable with an interest rate of 0.90%	¥ 58,898	¥ 88,965	\$ 554,334
Current portion of long-term loans payable with an interest rate of 1.56%	59,120	24,510	556,424
Current portion of lease obligations with an interest rate of 1.44%	199	305	1,873
Long-term loans payable (except portion due within one year) with an interest rate of 1.06%	143,176	192,584	1,347,539
Lease obligations (except portion due within one year) with an interest rate of 1.48%	352	467	3,313
Commercial papers (portion due within one year) with an interest rate of (0.02)%	20,000	56,000	188,235
Total	¥281,746	¥362,832	\$2,651,727

Notes: 1. Interest rates shown are weighted average interest rates for the balance outstanding at March 31, 2018.

2. The aggregate annual maturities of long-term loans payable and lease obligations (except portion due within one year) after March 31, 2018, are as follows:

Year ending March 31	Long-term loans payable		Lease obligations	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2019	¥21,794	\$205,120	¥162	\$1,525
2020	23,371	219,962	128	1,205
2021	28,981	272,762	54	508
2022	28,043	263,934	8	75
2023 and thereafter	40,988	385,769	—	—

21. Supplementary schedule of asset retirement obligations

Because the amounts of asset retirement obligations on April 1, 2017, and March 31, 2018, were not more than 1% of the combined totals of liabilities and net assets on the respective dates, preparation of a supplementary schedule of asset retirement obligations is omitted in accordance with Article 92-2 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements.

22. Others

Litigation

(a) Litigation related to defibrillator products

On June 18, 2010, Koninklijke Philips Electronics N.V. and Philips Electronics North America Corporation (hereinafter collectively "Philips") sued ZOLL Medical Corporation (hereinafter "ZOLL"), a subsidiary of the Company, 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. 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, and a verdict regarding damages of both parties was issued on August 3, 2017, with the content shown below. On September 21, 2017, a judgment of first instance was rendered with the same content.

- i. Damages to be paid to ZOLL by Philips US\$3.3 million
- ii. Damages to be paid to Philips by ZOLL US\$10.4 million

Philips had been seeking damages of US\$217 million in this lawsuit.

Subsequently, ZOLL and Philips agreed to settle this litigation and other litigation between them, and a settlement agreement was concluded on December 21, 2017.

(b) Litigation related to pile installation

On November 28, 2017, Mitsui Fudosan Residential Co., Ltd. filed suit (hereinafter "First Lawsuit") in the Tokyo District Court against the three companies of Sumitomo Mitsui Construction Co., Ltd., Hitachi High-Technologies Corporation, and Asahi Kasei Construction Materials Corporation, a subsidiary of the Company, seeking compensation for damages of approximately ¥45.9 billion (subsequently changed to approximately ¥51.0 billion) related to the cost of rebuilding a condominium complex in Yokohama City due to concerns of unsound installation of a portion of foundation piles; Sumitomo Mitsui Construction being the prime contractor for construction of said condominium complex, Hitachi High-Technologies the primary subcontractor for pile installation, and Asahi Kasei Construction Materials the secondary subcontractor for pile installation. Asahi Kasei Construction Materials holds that there is no basis for Mitsui Fudosan Residential's claim, and will make this argument during the proceedings of the First Lawsuit.

Related to the First Lawsuit, on April 27, 2018, Sumitomo Mitsui Construction filed suit (hereinafter "Second Lawsuit") against Hitachi High-Technologies and Asahi Kasei Construction Materials seeking compensation for any damages it may incur in the First Lawsuit. Regarding this Second Lawsuit, the date of service of complaint to Asahi Kasei Construction Materials was May 14, 2018. Asahi Kasei Construction Materials holds that there is no basis for Sumitomo Mitsui Construction's claim, and will make this argument during the proceedings of the Second Lawsuit.

Related to the First Lawsuit and Second Lawsuit, on May 25, 2018, Hitachi High-Technologies filed suit (hereinafter "Third Lawsuit") against Asahi Kasei Construction Materials seeking compensation for any damages it may incur in the First Lawsuit or Second Lawsuit. Asahi Kasei Construction Materials holds that there is no basis for Hitachi High-Technologies's claim, and will make this argument during the proceedings of the Third Lawsuit.



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, 2018, 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, 2018, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of matter

As described in Note 19 "Subsequent Events", an agreement regarding the Company's acquisition of Sage Automotive Interiors, Inc. was concluded on July 13, 2018 between the Company and Clearlake Sage Holdings, LLC, the 100% owner of Sage Automotive Interiors, Inc.

Our opinion is not qualified in respect of this matter.

Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of 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

August 13, 2018

PricewaterhouseCoopers Aarata LLC

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Major Subsidiaries and Affiliates

(As of April 1, 2018)

Company	Major products/business line	Paid-in capital (million)	Equity interest (%)
Material Segment			
Asahi Kasei Fibers Nobeoka Co., Ltd.*	Production and processing of chemical fibers	¥ 50	100.0
Asahi Kasei Leona Filament Co., Ltd.*	Production, packaging, and storage of nylon 66 fiber	¥ 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
DuPont-Asahi Flash Spun Products Co., Ltd.	Processing and sale of flash spun nonwovens	¥ 450	50.0
Asahiozu Corp.	Processing of nonwovens	¥ 20	50.0
Kyuasa Co., Ltd.*	Legwear 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	92.5
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 Advance Thailand Co., Ltd.*	Processed yarn	THB 134	100.0
Asahi Kasei Spunbond (Thailand) Co., Ltd.*	Spunbond nonwovens	THB 1,835	84.3
Asahi Kasei Spandex Europe GmbH*	Spandex	€ 28**	100.0
Asahi Kasei NS Energy Corp.*	Electricity and steam	¥ 10	61.0
Asahi Kasei New Port Terminal Co., Ltd.*	Receiving and storage of fuel and feedstocks	¥ 100	100.0
Asahi Kasei Mitsubishi Chemical Ethylene Corp.	Basic petrochemicals supplied to parent companies	¥ 2,000	50.0
Okayama Butadiene Co., Ltd.	Butadiene	¥ 490	50.0
PS Japan Corp.*	Polystyrene	¥ 5,000	62.1
Tongsoh Petrochemical Corp., Ltd.*	Acrylonitrile, sodium cyanide, acrylamide, EDTA	KRW 237,642	100.0
PTT Asahi Chemical Co., Ltd.	Acrylonitrile, methyl methacrylate, etc.	THB 13,819	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.	Processing and sale of natural and synthetic rubber	¥ 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 (Hong Kong) Co., Ltd.*	Sale of performance resin	US\$ 2.6	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\$ 184	100.0
Asahikasei Plastics (America) Inc.*	Compounded performance resin operations	US\$ 18**	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 curing agent	¥ 300	100.0
Asahi Kasei Finechem Co., Ltd.*	Specialty chemicals, contract manufacturing of pharmaceutical ingredients	¥ 325	100.0
Asahi Kasei Metals Ltd.*	Aluminum paste	¥ 250	100.0
Asahi SKB Co., Ltd.*	Explosive devices	¥ 100	100.0
Asahi Chemitech Co., Ltd.*	Resin anchors	¥ 10	100.0
ASTOM Corp.	Hydrocarbon ion-exchange membranes and electro dialysis systems	¥ 450	45.0
Kayaku Japan Co., Ltd.	Industrial explosives	¥ 60	50.0
Asahi Kasei EMS Co., Ltd.*	Electronic materials and devices	¥ 10	100.0
Asahi-Schwebel Co., Ltd.*	Glass fabric	¥ 50	100.0
Asahi Kasei Performance Chemicals Corp.*	HDI-based polyisocyanate, polycarbonatediol	CNY 291	100.0

* Consolidated subsidiary ** Including capital reserve

Company	Major products/business line	Paid-in capital (million)	Equity interest (%)
Asahi Kasei Microza (Hangzhou) Co., Ltd.*	Industrial filtration membranes and systems	CNY 70	100.0
Asahi Kasei Electronics Materials (Changshu) Co., Ltd.*	Photosensitive dry film	CNY 306	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	100.0
Sundic Inc.	Biaxially oriented polystyrene sheet	¥ 1,500	50.0
Asahi Kasei E-materials Korea Inc.*	Lithium-ion battery separator	KRW 18,900	100.0
Celgard Korea, Ltd.*	Lithium-ion battery separator	KRW 26,200**	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	Rs 463.3**	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 10**	100.0
Daramic Tianjin PE Separator Co., Ltd.*	Lead-acid battery separator	CNY 75**	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 97	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
Asahi Kasei Microdevices (Shanghai) Co., Ltd.*	Electronic devices marketing and technical support	CNY 13.7	100.0
Asahi Kasei Microdevices Europe GmbH*	Electronic devices marketing and technical support	€ 0.4	100.0
AKM Semiconductor, Inc.*	Sale of LSIs	US\$ 2.9	100.0
AKM Technology Corp.*	Design of LSIs	¥ 30	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 Remodeling Corp.*	Remodeling and maintenance work	¥ 250	100.0
Asahi Kasei Homes Financial 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	100.0
AR Construction Corp.*	Remodeling work	¥ 100	100.0
Asahi Kasei Jyuko Vietnam Corp.*	Steel-frame members	US\$ 16.8	80.4
McDonald Jones Homes Pty Ltd	Contracted home construction and marketing of parceled lots	AU\$ 60.0	40.0
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	100.0

* Consolidated subsidiary ** Including capital reserve

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 30.6	84.8
Asahi Kasei Medical Trading (Korea) Co., Ltd.*	Sale of medical devices, medical systems	KRW 1,000	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\$ 122**	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 Engineering Corp.*	Plant, equipment, process engineering	¥ 400	100.0
Asahi Kasei Office One Co., Ltd.*	Real estate rental	¥ 160	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 EIC Solutions Corp.	Electrical, IT, and control engineering	¥ 100	100.0
Asahi Yukizai Corp.	Synthetic resin, fabricated plastic products	¥ 5,000	30.6
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
Koyo Machinery Works Co., Ltd.*	Machinery installation	¥ 100	100.0
Toyo Kensa Center Co., Ltd.	Environmental measurement and verification	¥ 20	100.0
AJS Inc.	Computer software, IT systems	¥ 800	49.0
Asahi Kasei (China) Co., Ltd.*	Investment and business support services	CNY 2,214	100.0
Asahi Kasei India Pvt. Ltd.	Business support services	Rs 45	100.0
Crystal IS, Inc.*	Development of aluminum nitride substrates and UVC LEDs	US\$ 44**	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	€ 16**	100.0

* Consolidated subsidiary ** Including capital reserve

Company Information/Investors Information

(as of March 31, 2018)

■ Corporate Profile

Company Name	Asahi Kasei Corporation
Date of Establishment	May 21, 1931
Paid-in Capital	¥103,389 million
Employees	34,670 (consolidated) 7,520 (non-consolidated)

■ Asahi Kasei Group Offices (as of September 1, 2018)

Asahi Kasei Corporation

Tokyo Head Office

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1-1-2 Yurakucho, Chiyoda-ku, Tokyo 100-0006 Japan
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Phone: +1-212-371-9900 Fax: +1-212-371-9050

Asahi Kasei Europe GmbH

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Asahi Kasei India Pvt. Ltd.

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Bandra Kurla Complex, Bandra (East), Mumbai 400051 India
Phone: +91-22-6710-3962

Asahi Kasei IR Website



Asahi Kasei's financial results and other materials for investors are available in our IR website.

www.asahi-kasei.co.jp/asahi/en/ir

Core Operating Companies

Asahi Kasei Microdevices

Hibiya Mitsui Tower
1-1-2 Yurakucho, Chiyoda-ku, Tokyo 100-0006 Japan
Phone: +81-(0)3-6699-3933

Asahi Kasei Homes

1-24-1 Nishi-shinjuku, Shinjuku-ku, Tokyo 160-8345 Japan
Phone: +81-(0)3-3344-7111

From January 2019:

1-105 Kanda Jinbocho, Chiyoda-ku, Tokyo 101-8101 Japan

Asahi Kasei Construction Materials

1-105 Kanda Jinbocho, Chiyoda-ku, Tokyo 101-8101 Japan
Phone: +81-(0)3-3296-3500

Asahi Kasei Pharma

Hibiya Mitsui Tower
1-1-2 Yurakucho, Chiyoda-ku, Tokyo 100-0006 Japan
Phone: +81-(0)3-6699-3600

Asahi Kasei Medical

Hibiya Mitsui Tower
1-1-2 Yurakucho, Chiyoda-ku, Tokyo 100-0006 Japan
Phone: +81-(0)3-6699-3750

ZOLL Medical Corporation

269 Mill Rd., Chelmsford, MA 01824-4105 USA
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	85,302

Largest Shareholders	% of equity*
JP Morgan Chase Bank 380055	9.05
The Master Trust Bank of Japan, Ltd. (trust account)	5.69
Japan Trustee Services Bank, Ltd. (trust account)	4.37
Nippon Life Insurance Company	4.18
Sumitomo Mitsui Banking Corp.	2.54
Asahi Kasei Group Employee Stockholding Assn.	2.33
Japan Trustee Services Bank, Ltd. (trust account 9)	1.82
Japan Trustee Services Bank, Ltd. (trust account 5)	1.79
State Street Bank West Client – Treaty 505234	1.71
State Street Bank and Trust Company	1.56

* Percentage of equity ownership after exclusion of treasury stock.



ASAHI KASEI CORPORATION

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