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Asahi Kasei Corporation

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Presentation

Kadokura: Good afternoon, ladies and gentlemen. Thank you very much for taking time out of your busy schedule to attend Asahi Kasei's FY 2016 Q2 earnings report. I am Kiyoteru Kadokura, from Investor Relations, serving as the moderator.

Today's participants are: Shuichi Sakamoto, CFO; Daichi Arima, Corporate Accounting & Control; Toshiyasu Horie, Petrochemicals Strategic Business Unit, or SBU; Yukifumi Kuwaba, Performance Polymers SBU; Akira Fukuda, Separators SBU; Hideharu Takashima, Asahi Kasei Microdevices Corp.; Toru Tomioka, Asahi Kasei Homes Corp.; and Hiroki Ideguchi, Asahi Kasei Pharma Corp.

First, presentation by CFO, Shuichi Sakamoto.

Sakamoto: Good afternoon, ladies and gentlemen. Thank you very much for taking time out of your busy schedule to attend Asahi Kasei's FY 2016 Q2 earnings report. Using the slides, I will go over the results for the H1 of FY 2016.

P. 4 Summary of financial results (i)

Net sales were ¥890.7 billion, down ¥66.7 billion year-on-year. Operating profit was ¥70.8 billion, down 13.7 billion or 16.2%. Profit decreased despite sales expansion and cost reduction efforts made in each segment, due to the appreciation of the Japanese yen and the effect of the consolidation of Polypore International, LP and its consolidated subsidiaries at the end of August 2015, as well as an increase in the retirement benefit expenses.

Ordinary income was down 14.2%. While net equity in earnings and losses of affiliates improved, loss on foreign exchange worsened.

Net income attributable to owners of the parent was ¥52.9 billion, up 12.2%, making this the strongest Q2 ever in cumulative terms. As we explained at the time of the Q1 earnings report, we sold part of stock holdings based on the revision of the strategic shareholdings, and following the absorption of some of core operating companies by Asahi Kasei Corporation in April, we reviewed recoverability of deferred tax assets, which resulted in an increase in profit.

Summary of the consolidated balance sheets is as shown here. Total assets, equity capital, and interest-bearing debts decreased respectively. D/E ratio was 0.39, with the decline in the interest-bearing debts following the repayment of short-term loans payable.

P. 5 Summary of financial results (ii)

As for the interim dividends for the H1 of FY 2016, we decided to pay ¥10 per share, the same amount as in the previous year.

Domestic naphtha price for the H1 of the year on average was ¥31,450/kL, ¥16,550/kL lower than a year earlier. Average exchange rate during the period was ¥105 to the US dollar, representing an appreciation by ¥16/$ year-on-year.

P. 6 Statements of income

Net sales were down 7% year-on-year. Gross profit was ¥279.8 billion, accounting for 31.4% of sales, an improvement by 1.1 percentage points. This was mainly thanks to a decline in feedstock costs particularly in the Chemicals, which served to improve the cost of sales ratio.

SG&A expenses totaled ¥209.1 billion, up ¥3.4 billion year-on-year. As Polypore acquisition was completed at the end of August 2015, on a year-on-year basis, this year SG&A expenses including the amortization of goodwill, etc. associated with the Polypore acquisition was recorded for five extra months between April and August. That was the main reason for the increase.

Operating income totaled ¥70.8 billion, accounting for 7.9% of sales, representing a slight decline year-on-year.

Non-operating income and expenses improved by ¥2.1 billion. While loss on foreign exchange worsened by ¥2.5 billion, equity in losses of affiliates transitioned to equity in earnings of affiliates. This was thanks to improvements in equity in earnings of PTT Asahi Chemical Company Ltd. in Thailand. During FY 2015, loss was incurred when translating a dollar-based borrowing to Thai baht as a result of the impact of foreign exchange. In the absence of such factor this year, this item improved year-on-year.

Extraordinary income and loss was a net income of ¥800 million. Income before income taxes and minority interests was ¥70.7 billion.

As it was explained at the time of the Q1 earnings report, following the absorption of some of the core operating companies, we reviewed the recoverability of deferred tax assets in accordance with the tax effect accounting standards. Consequently income tax expenses decreased. Net income attributable to owners of the parent after tax totaled ¥52.9 billion, up 12.2% year-on-year.

P. 7 Extraordinary income and loss

Some words on extraordinary income and loss. Extraordinary income totaled ¥3.9 billion, up ¥3.8 billion year-on-year. Gain on sales of investment securities was recorded following the revision of strategic shareholdings in the Q1.

Extraordinary loss totaled ¥3.1 billion, representing an improvement of ¥2.6 billion year-on-year. During FY 2015, provision for loss on litigation of ¥2.9 billion was recorded in Critical Care. The absence of such factor this year was a main reason for improvement.

Consequently extraordinary items improved by ¥6.3 billion year-on-year.

P. 8 Balance sheets

Between the end of March and the end of September, total assets decreased by ¥94.6 billion. The major reason was a decline in foreign currency translation adjustment of ¥65.2 billion due to the appreciation of the yen. Among liabilities, there were major changes in current liabilities and noncurrent liabilities. This was in relation to the refinancing of the borrowings related to the Polypore acquisition made in the Q1. I will explain this using the next slide.

P. 9 Financing activity

Compared to the end of March, short-term loans payable decreased by ¥173.4 billion, while long-term loans payable increased by ¥93 billion. As a result of refinancing, the ratio between noncurrent liabilities and current liabilities changed. In addition, due to the repayment of current liabilities, interest-bearing debts overall decreased by ¥46.7 billion, compared to the end of March.

P. 10 Cash flows and primary investments

During FY 2015, with the acquisition of Polypore, there were major changes in the investing and financing cash flows year-on-year. There were no such factors in FY 2016. Cash and cash equivalents as of the end of September totaled ¥132.3 billion.

CapEx, depreciation, and R&D expenses are as shown on the slide. Little change from a year earlier

P. 11 H1 2016 vs. H1 2015 sales and operating income by segment

Operating income based on the new three segments. Major decline in profit in Material, due to significant impact of the appreciation of the yen. Health Care recorded a decline in profits, due to NHI price revisions and reduced reimbursement prices for both pharmaceuticals and devices.

P. 12 Overseas sales by business category

The ratio of overseas sales declined from 35.8% in FY 2015 to 34.1%, a decline of approximately two percentage points, due mainly to the impact of the appreciation of the yen and the strengthening of domestic petrochemical operations in Chemicals, which resulted in a decrease in shipments of styrene.

P. 13 Sales and operating income increase/decrease by business category (i)
P. 14 Sales and operating income increase/decrease by business category (ii)
P. 40 Critical Care

In Fibers, both sales and profit declined. Shipments grew for Bemberg cupro fiber, and Lamous artificial suede for automobile upholstery as well as for Leona nylon 66 filament for automotive airbags. But sales prices declined due to competition, and the impact of the appreciation of the yen was felt in all products. In addition selling prices fell following lower feedstock costs.

For Chemicals, both sales and operating income fell year-on-year.

For petrochemicals, terms of trade improved for acrylonitrile or AN, polyethylene, and polystyrene. However, shipments of styrene decreased after reducing capacity as part of strengthening of domestic petrochemical operations. Both sales and operating income decreased. The average price of AN during the H1 was $1,147 per ton, against $772 per ton of propylene, for a spread of $375 per ton.

For performance polymers, shipments increased for synthetic rubber for fuel-efficient tires, but the stronger yen had an impact on products across the board. Both sales and operating income decreased.

On the other hand, for performance materials and consumables, ion-exchange membranes took a hit from the stronger yen, but sales were firm for coating materials and functional additives among performance materials, and Saran Wrap cling film among consumables. Cost reductions had a positive effect, too. Sales decreased, but operating income increased.

For Electronics, sales increased, but operating income fell year-on-year.

For separators, sales increased, but operating income decreased. Hipore Li-ion battery separator shipments increased, and Polypore results are now consolidated in full. But significant amortization of goodwill, etc., associated with the Polypore acquisition was recorded. The stronger yen did not help, either.

Sales and operating income both fell for electronic devices. Shipments of audio devices for smartphones increased, but not enough to offset the impact of the stronger yen and the decrease in shipments of electronic compasses.

For Homes, net sales were up, but operating income was almost flat.

For order-built homes, net sales were flat, but operating income decreased. Deliveries of Hebel Haus unit homes and Hebel Maison apartment buildings were flat, but SG&A expenses such

as advertising expenses increased.

In the H1, 3,898 buildings were delivered, down 69 from 3,967 in the same period previous year. With a higher percentage of apartment buildings, however, the price factor was positive.

For real estate, remodeling and others, SG&A expenses such as labor costs increased for remodeling but rental management business among real estate operations was firm.

Moving on to Construction Materials. Sales and operating income both declined. Sales of Neoma phenolic foam insulation panels were firm, whereas shipments for autoclaved aerated concrete or AAC, and foundation systems decreased.

For Health Care, both sales and operating income were down year-on-year.

Sales and operating income both fell for pharmaceuticals. Shipments increased for Teribone osteoporosis drug and Recomodulin recombinant thrombomodulin. However, reduced reimbursement prices had a negative impact. Flivas agent for treatment of benign prostatic hyperplasia was affected by competition from generics.

On the devices side, again, both sales and operating income fell. Shipments increased for Planova virus removal filters, but the stronger yen and reduced reimbursement prices for dialysis-related products in Japan had an impact.

With regard to Critical Care, with the rapid appreciation of the Japanese yen, it is difficult to gauge the real performance based on the yen-based figures alone. We would therefore like to refer to US-dollar-based figures as well. Please turn to slide 40.

Net sales in the H1 in Japanese yen declined ¥3.3 billion year-on-year, including the effect of the stronger yen. In US dollars, however, net sales actually increased from $556 million to $612 million on the back of continued strong growth. LifeVest wearable defibrillator business continued to expand strongly. Sales of other products such as defibrillators and related accessories were firm, too. Operating income increased even on a Japanese-yen basis, despite the stronger yen against the US dollar and the increase in SG&A expenses with reinforced sales activity.

Consolidated operating income after goodwill amortization etc. came to ¥6.8 billion, continuing year-on-year growth.

P. 16 Consolidated operating performance forecast

With that, let us now go to slide 16, and discuss the forecast. This time we have revised the H2 and full-year forecast figures based on results up to Q2.

The net sales forecast for the full-year is downward revised by ¥80 billion from the previous guidance issued in May. Operating income remains unchanged. Ordinary income is upward revised by ¥1 billion. Net income attributable to owners of the parent is upward revised by ¥7 billion. The revision in ordinary income and net income comes from the gain on sales of investment securities, which were part of strategic shareholdings, and the reduction in tax expenses.

The revised forecast assumes domestic naphtha prices to average at ¥35,000/kL in the H2 and ¥33,225/kL for the full-year. The foreign exchange rate assumption is ¥100 to the US dollar for the H2 and ¥103 to the dollar for the full-year.

Dividend payout is planned at ¥20 per share for the full-year.

P. 18 Operating income (loss) forecast by business category

For the breakdown by business category, let us mostly focus on the operating income forecast on slide 18.

For Fibers, we have downward revised the full-year operating income forecast by ¥1.5 billion. We expect continued strength in Lamous artificial suede for use in automotive upholstery, but we also expect an impact of the stronger yen and price erosion due to competition.

For Chemicals, petrochemicals were affected by the stoppage of naphtha cracker in Mizushima, Okayama prefecture, Japan, in the H1. In the H2, however, we are expecting an improvement in market prices and spreads for AN, polyethylene, and polystyrene.

With regard to performance polymers, demand is firm for both engineering plastics and synthetic rubber, but we are also factoring in the impact of the stronger yen.

For performance materials and consumables, we expect sales to stay firm across the board, in particular for Saran Wrap cling film.

The full-year operating forecast for Chemicals is upward revised by ¥3 billion. It assumes market prices in the H2 to average at $1,225 per ton of AN, and $810 per ton of propylene, for a spread of $415 per ton.

Electronics are almost in line.

For separators, we expect the negative impact of the stronger yen to be offset by Hipore shipments exceeding initial expectations, and reduced corporate administrative expenses at Polypore.

Electronic devices operations are also negatively affected by the stronger yen, but with strong demand for devices used in smartphones, the forecast remains almost unchanged here.

Moving on to Homes.

Remodeling operations are somewhat short of the original forecast, but with order-built homes in line and real estate firm thanks to rental management, the forecast is unchanged.

For Construction Materials, the forecast is also unchanged, given firm performance in core lines of businesses, such as AAC and insulation materials.

For Health Care, both pharmaceuticals and devices are in line.

With regard to pharmaceuticals, we reviewed sales expectations for Teribone and Recomodulin, as the consumption tax hike being postponed means no preceding rush demand towards the end of the fiscal year. At the same time, the stronger yen is reducing costs associated with clinical studies outside of Japan.

On the devices side, the stronger yen is affecting sales for products across the board, but we expect this to be offset by increased shipments of Planova, and the forecast is unchanged.

For Critical Care, net sales have been downward revised in connection with the delay in hiring marketing personnel, but with continued good expansion of LifeVest among others, operating income has been upward revised by ¥1 billion.

Before closing, I would like to make some additional comments on the forecast revision. As I have just explained, while downward revising the sales forecast, we are maintaining the operating income forecast of ¥145 billion. Back in May, I mentioned four factors that have a negative impact year-on-year on operating income. They are the stronger yen, increased retirement benefit expenses, reduction of NHI reimbursement prices for pharmaceuticals, and amortization of goodwill, etc. related to the Polypore acquisition. Three out of these four, except for the stronger yen, are in line with initial expectations. However, the foreign exchange rate has deviated. Back in May, our assumption was for ¥110 to the dollar, which translated into a negative impact of ¥10 billion on operating income. Now, the assumption is ¥100 to the dollar for the H2 and ¥103 to the dollar for the full-year, meaning an additional ¥7 billion negative impact from the exchange rate alone.

Despite that, we are maintaining our operating income forecast of May. In the face of the negative impact of the exchange rate, this is in effect an upward revision. Positive contributors include petrochemicals, for which we are starting to see tangible effect of the strengthening of domestic operations, and high value-added businesses such as performance polymers, performance materials, and Critical Care, all of which are successfully building on their strengths and increasing volume by differentiation on product and marketing performance.

The current medium-term management initiative “Cs for Tomorrow 2018” aims at creating a portfolio of high-profitability, high-value added businesses. I am happy that we have indeed been able to make a solid first step in building the foundation for that growth in this year 1 of the 3-year period.

Thank you very much for your kind attention.

Question and Answer Session

Kadokura: We will now take questions.

Mr. Watabe: Watabe from Morgan Stanley MUFG Securities. I have two questions. First on Electronics. Despite further appreciation of the yen, the Q2 sales were higher than those in the Q1. You said Hipore business was strong. Can you talk about quarter-on-quarter changes in shipments of other major products? Also what's your projection for the second half?

Fukuda: Fukuda from Separators SBU. Shipments of the Li-ion battery separators increased steadily in all products between the Q2 over the Q1. But due to the impact of the appreciation of the yen, sales on the yen basis were flat. As for the H2, we are projecting a nearly flat growth in the shipments over the H1.

Takashima: Takashima of Asahi Kasei Microdevices. As for electronic devices, we saw a steady increase in shipments in the Q2 over the Q1, but profits did not grow in a comparable manner as a result of the appreciation of the yen. We expect a similar trend between the Q2 and the Q3. But there are some uncertainties primarily related to demand for smartphone applications. We are also expecting further appreciation of the yen, and our forecasts reflect those factors.

Mr. Watabe: The trend regarding the separators that you mentioned: Is that both Hipore and Celgard Li-ion battery separators put together?

Fukuda: Yes, that is correct.

Mr. Watabe: How did the profit from Polypore affect your profit for the H1, year-on-year, considering amortization of goodwill and such? How would it have looked like without that factor?

Sakamoto: This is Sakamoto speaking. As the acquisition was made at the end of August last year, during the H1 of the last fiscal year we only recorded the profit for September; whereas this year, we recorded six months' worth. So it does not make much sense to compare the two. Doing so would not tell you much.

At Polypore, Daramic lead-acid battery separator business is progressing steadily, both in terms of volume and sales. As for Celgard, activities to win new adoptions are progressing steadily regarding major Li-ion battery manufacturers around the world. And post merger integration is progressing as planned. We have seen integration in the areas of marketing, manufacturing, and R&D functions between the two entities, Asahi Kasei and Polypore. But given that we are addressing next generation batteries and automotive developments, new adoptions will be made in terms of years, and so integration would not result in an improved capacity utilization overnight. There still is room for increasing the capacity utilization at Celgard manufacturing facilities, but it will be sometime before we are going to see visible differences.

As for profit and loss, as we explained at the time of the acquisition, our target is to turn to profit after the amortization of goodwill and intangible assets in FY 2018, the final year of the current medium-term strategic management initiative. That thinking remains unchanged.

Mr. Watabe: I see. I would like to move onto Chemicals. What were the reasons for upside in profit during the H1? Can you also talk about the impact on AN supply and demand of a plant shutdown of your US competitor? When do you expect the plant to restart, and how would that change supply and demand of AN? I also have a question on an improvement in the net equity in earnings of affiliates. Was it just a matter of an improvement in loss on foreign exchange at PTT Asahi Chemicals in Thailand? What was the status of AN, and MMA or methyl methacrylate operations there?

Horie: Horie of Petrochemicals SBU. You asked about factors for upside in AN operations during the H1. As you know, a US supplier declared force majeure in middle of July. As a result, AN price spread improved from the Q1 to the Q2. The way we are incorporating the impact in our projection is that it is generally believed that the operation at the plant in question would be restarted in the January-March timeframe so we are projecting accordingly. In other words, we are assuming that the the Q2 situation would continue into the Q3, but then in the Q4 the supply and demand will return to the normal level. That is the basis of our current full-year forecast.

As for PTT Asahi Chemical, AN profit did improve in the Q2. So the upside was not just a matter of an improvement in the exchange rate loss. Operating profit did improve there.

Mr. Watabe: I see. Thank you.

Mr. Takeuchi: Takeuchi from SMBC Nikko Securities. My first question is on Homes. You are showing us the assumptions for the orders for the H2. Can you describe how you view the order environment? In the original forecast, you were not separating the H1 and the H2. Can you explain what part of the assupmtions for the H2 have been revised?

Tomioka: Tomioka from Homes. Order environment varies on a monthly basis, so it's a bit hard to see a trend, but overall we saw a slight delay in recovery in orders during the Q1. The reason being a rather sluggish growth in orders for Hebel Maison apartment buildings. Recovering from the effect of curtailment in advertising took longer time than we had expected. But in the Q2, the orders returned to the level of previous year, indicating a recovery in the orders for apartment buildings. For the H2, we are expecting a year-on-year improvement of 10% in terms of order values, with the recovery in orders for apartment buildings.

Mr. Takeuchi: Are you saying that you are expecting the current order environment to continue? Do you see any major changes such as in the number of visitors to model houses?

Tomioka: More recently, the number of visitors to model houses as of the end of September was small due to the impact of typhoons, but we see a recovery in October. As I said earlier, inquiries on apartment buildings are picking up so we are expecting orders to grow.

Mr. Takeuchi: I see. My next question is on Critical Care. Operating profit increased significantly from the Q1 to the Q2, while sales were flat. Was that simply a matter of lag in recording cost? Sales on a local currency basis increased by 10% or so, maintaining a high growth rate; but at the same time, it appears to be slowing down a little bit. Is this also because of the constraints on your headcount in marketing? Can you also talk about the operating profit margins, as well as the current sales trend and momentum?

Sakamoto: I think looking at the results on a US dollar basis gives you a better sense of the situation. The sales of ZOLL overall increased by 10% year-on-year. The trend was the same as in the past. The driver was, as has been explained several times, the LifeVest, and this remains unchanged. Now the question is, how long can we expect this high growth to continue? There are two ways to look at this: Some expect this to continue for some time, while others expect that the growth will slow down, given the size of the business.

So for the H2, we are assuming the growth rate of the H1 to continue. But we have to carefully watch the trend in orders. Our plan is to hire more people to grow sales, in managerial positions. But we are lagging behind. Hiring and retaining talented personnel proves to be rather challenging. We want to hire more, but we continue to lag behind the plan this year.

So SG&A expenses have grown year-on-year, but are less than originally expected. If we succeed in hiring the people in managerial positions as planned, we expect sales and profit to grow further. We believe there’s still room for further growth.

Mr. Takeuchi: Sales for the H1 increased by 10 percent year-on-year on a local currency basis, while operating profit increased by over 60%. I suppose the gross profit ratio basically wouldn’t change much. So am I correct to assume that the sales per person are increasing, and that is the reason why profit grew much higher than sales on a local currency basis? Or were there any other factors that changed the gross profit ratio?

Sakamoto: You said operating profit increased by 60%. I suppose you're looking at the consolidated operating income after the amortization of goodwill, etc. In terms of gross operating income before PPA impact, it was $101 million in FY 2015 and $126 million in FY 2016. I think these figures better reflect the reality. There are no structural factors, such as major changes in gross profit ratio. The same trend continues.

Mr. Takeuchi: I see. Thank you.

Mr. Okazaki: Shigeki Okazaki from Nomura Securities. My first question is on pharmaceuticals and medical devices, your thinking behind revising the full-year forecast. On one hand, you expect shipments of Recomodulin and Teribone to be less, as a result of the government decision to postpone raising the consumption tax originally scheduled for April 2017, while you expect operating income to be higher thanks to curtailing of the cost. Would that be a fair summary? And what is your projection for the next fiscal yeart?

Ideguchi: Ideguchi from Asahi Kasei Pharma. As for this fiscal year, as you said, major factors included repricing of Teribone for market expansion, lowering of the NHI drug price of Flivas, as well as the impact of generics on Flivas. But shipments of Teribone and Recomodulin are increasing, so we are to maintain the sales in those basic portions. And there is a lag in recording some of the R&D expenses from the H1 to the H2. And we are also seeing some saving in translating R&D expenses in the US into to Japanese yen thanks to the stronger yen. These are the factors of for an increase in profit.

Mr. Okazaki: What about next fiscal year? Any predictors, based on current sales, or R&D pipeline or cost situation?

Ideguchi: As for Teribone, the impact of the revised NHI price should only be for this year, so we expect volume to increase. We also hope to grow Recomodulin. This fall we will be launching bisphosphonate Reclast, an osteoporosis drug to be administered once a year, which should make a full-year contribution next year. Given these factors we expect the sales trend to improve over this year.

Mr. Okazaki: You have revised the sales forecast slightly downward for this fiscal year. Do I understand correctly that profits are revised upward due to gain on exchange rate in translating R&D expenses in the US?

Ideguchi: Yes, that is correct.

Mr. Okazaki: I see. My second question is on Electronics, about the smartphone-related businesses of your separators and electronic devices operations respectively. You earlier indicated flat growth for separators from the H1 to the H2, and for devices, the Q3 remains at the same level as in the Q2. Can you talk about the market situation and your market share? And if possible, can you talk about the recent smartphone battery ignition and fire incidents? Any impact that you felt?

Fukuda: Fukuda from Separators SBU. First on the smartphone market. Yes, we see the market growth slowing down. But the sales of our separators remain very strong.

You mentioned the fire incidents. Generally speaking, these incidents would prompt battery manufacturers to focus more on safety, which in turn means stricter quality requirements on materials suppliers. But this is exactly the area that we excel over our competitors. So this is not a negative for us.

Takashima: Takashima of Asahi Kasei Microdevices. There’s a lot of talk about the smartphone market having matured. But some smartphone manufacturers are still very vibrant. We are making sure to win business from those players. We expect the overall trend to be: the volume growth observed in the Q2 to be maintained throughout the Q3, followed by a slight decline in Q4, as usual, due to the Chinese new year and others, given that we have many Chinese customers.

As for the impact of the fire incidents, we expect the requirement for quality to intensify. And we will address them thoroughly.

Mr. Okazaki: In electronic devices, should I take it that your market share remains unchanged? Of course I understand it varies from product to product.

Takashima: One of our leading products, electronic compass, saw its market share drop around the

Q2 of the last fiscal year. But then, it gradually picked up, and now it has largely recovered. We are also seeing an increase in sales for LSIs for crystal oscillators in volume, as the market itself is now leaning towards the older solution of chipsets requiring external LSIs for crystal oscillators. And there's a requirement for high resolution audio. Middle standing smartphone manufacturers are now trying to differentiate themselves by incorporating high resolution audio function, which drives the sales of our high performance audio devices for smartphones.

Mr. Yamada: Yamada from Mizuho Securities. Can you first explain why you are expecting operating income for Chemicals to fall from the H1 to the H2, please? With only limited growth forecast for net sales, even though AN prices are expected to rise, it appears as if you are expecting a slowdown for performance polymers or performance materials and consumables. However, that would be unusual given that the typical seasonal peak comes in Q3 for Saran Wrap, for example. Can you explain what is going on here?

Horie: Horie speaking for petrochemicals. We are not expecting much difference between the H1 and the H2. Thanks to the strengthening of domestic petrochemical operations, we are now relatively immune to fluctuations in the exchange rate.

Kuwaba: Kuwaba from Performance Polymers SBU. For both synthetic rubber and engineering plastics, we are expecting similar levels between the H1 and the H2, too. Perhaps engineering plastics could be slightly down in the H2, due to the effect of naphtha-based formula pricing for some of our customers and due to higher prices expected for feedstock such as naphtha. But only slightly.

Kadokura: Kadokura filling in the part regarding performance materials and consumables. The decline from the H1 to the H2 mostly comes from consumables, for which shipments in the H1 were unusually strong this year. It makes the H2 look relatively weak, but actually the H2 will be flat year-on-year.

Sakamoto: Sakamoto speaking. For Chemicals as a whole, the exchange rate assumption also has an effect. The average rate in the H1 was ¥105 to the dollar, whereas the H2 forecast assumes ¥100 to the dollar.

Mr. Yamada: According to your analysis, was that strength in consumables in the H1 due to a one-off factor?

Kadokura: This is Kadokura again. I am not sure if we conducted a detailed analysis, but we know that after the earthquake in April, people in the affected areas were using Saran Wrap in a way that they usually do not in normal times, and that pushed up demand.

Mr. Yamada: Thank you for that. Now on Health Care, if you look at H1 results, shipments appear not to have grown very much, neither for Teribone nor Recomodulin. Was there something special here? And what about shipments of devices other than Planova?

Ideguchi: Ideguchi from Asahi Kasei Pharma again. With regard to pharmaceuticals shipments, although we cannot provide exact figures, Teribone shipments increased at a rate slightly less than 10%. The reimbursement price for Teribone was reduced by 18.8% due to repricing for market expansion, but we made up for part of that impact by volume growth. Recomodulin was not affected by this round of price revision, and volume growth is only at several percent.

Mr. Yamada: For Teribone, if you calculate from sales figures of ¥13.9 billion in the H1 last year and ¥12 billion in the H1 this year, and adjust for repricing, volume growth comes to only around 6%. Are you saying that the real volume growth is higher?

Ideguchi: Yes, according to our internal figures.

Kadokura: This is Kadokura again, with an additional comment on devices. For therapeutic apheresis and dialyzers, demand is steady but not rapidly growing. And given the high percentage of exports, there is a big impact of the stronger yen. On the other hand, Planova is enjoying volume growth that more than offsets the negative impact of the stronger yen. Therefore, for devices as a whole, the negative and positive factors are almost in balance.

Mr. Yamada: Thank you very much.

Mr. Owaki: Owaki from Mitsubishi UFJ Morgan Stanley Securities. My questions are related to earlier ones, so I am sorry if they sound repetitive. First on home orders. Earlier you responded to a question in a very upbeat, confident tone. Looking at the monthly order figures, however, while July was strong and up more than 20% from the same month previous year, August and September figures were down, which makes me wonder if there is really momentum here. Your earlier response referred to increasing visitor counts at model houses, and a recovery in inquiries and requests for information on Hebel Maison. Do we not have to worry about the year-on-year declines in August and September orders? Would October figures be up year-on-year?

Tomioka: Tomioka from Asahi Kasei Homes again. Monthly order figures are subject to fluctuations due to various factors such as the calendar factor. My response was based on quarterly figures. Q1 order value was down 9.7% year-on-year, while Q2 was almost flat. And this difference between Q1 and Q2 mainly comes from orders for Hebel Maison. With regard to the H2, we are confident that the recovery we saw from Q1 to Q2 for Hebel Maison is real, and will continue. Given that order levels in the H2 in FY 2015 was lower than usual, the current forecast is quite realistic.

Mr. Owaki: Thank you for that. Now on Electronics. And again, this is related to a previous question on smartphone-related demand. For us analysts, what is confusing or puzzling is the difference among companies on how they view smartphone-related demand. Some say that demand peaked out in the July-to-September quarter, while others say that Q3 is also strong, or that Q3 is even stronger than Q2. We also hear some saying Chinese smartphone manufacturers are bullishly ramping up production, while others saying no, not as strong as expected. Now what is your view on smartphone-related demand in the Q2 and Q3, please?

Fukuda: Fukuda from Separators SBU. For our Li-ion battery separators, there is continued strong demand and we do not see any significant difference between Q2 and Q3.

Takashima: Takashima for electronic devices. Same here, we are not expecting anything much different between Q2 and Q3. It might be that depending on your customer base, there can be some timing difference as different smartphone manufacturers have different product launch schedules.

Mr. Owaki: Thank you very much.

Mr. Ikeda: Ikeda from Citigroup Global Markets Japan. Still on Li-ion battery separators. Can you provide more detail on the upward revision for Hipore sales? Given that consumer electronics probably accounts for more of your Hipore sales, does it mean that demand for consumer electronics was strong? What about demand for automotives, for both Hipore and Celgard? And with regard to Celgard, which is struggling this year, when do you expect full recovery? Would it be in FY 2017, or would we have to wait till FY 2018? Could you also comment on the demand and pricing picture against the backdrop of many new Li-ion battery separator suppliers emerging in places like South Korea?

Fukuda: Fukuda for Separators SBU. With regard to Hipore demand, there is growth for use in both consumer electronics and automotives. For automotive use, efforts currently underway are targeting model-year 2018 and later. We are expecting significant shipment growth, somewhere

between 30 and 40% year-on-year, for both Hipore and Celgard.

Mr. Ikeda: How would that growth play out time-wise? Would it be 30-40% in FY 2018 after a slow year in FY 2017, or would it start in FY 2017?

Fukuda: With regard to year-on-year growth from FY 2016 to FY 2017, growth may be at around 30% or slightly less, although the forecast is still work-in-process. That growth will mostly come from wet-process separators. For dry-process separators, it will take more time.

Mr. Ikeda: What about supply versus demand? Is it returning to balance, or is there still a glut?

Fukuda: For us, it does not feel like a glut at all. There is continued strong demand for high quality Li-ion battery separators from producers with dependable supply capacity.

Mr. Ikeda: Thank you for that. Now on AN. We estimate a loss of supply by about 560,000 tons due to that shutdown in the US, which probably translates into 10% of global demand. What will happen when that capacity comes back on line? I understand that a wave of capacity expansion in China is now over and that no major expansions are in sight after 2016. What is your longer-term outlook?

Horie: Horie from Petrochemicals SBU. Once that US capacity comes back on line, supply would exceed demand again, given that run rates are coming up in China. New capacity there is also ramping up smoothly. On the other hand, demand is strong, too, this year, in particular for use in ABS resins, acrylamide and carbon fibers. If this demand growth continues into the next year, the supply-demand balance would improve accordingly.

Mr. Ikeda: Is it correct to understand that major capacity additions have occurred by now, and that nothing significant is expected until about 2018?

Horie: It is not clear yet when or if the Chinese producers would begin their next round of capacity expansions. There could be some addition, but as of now there is nothing concrete that we know of.

Mr. Ikeda: Thank you very much.

Kadokura: With that, it is time to close this briefing. Once again, thank you very much for joining us.