# Transcript of Financial Results Conference for 3rd quarter Fiscal 2016, held on February 7, 2017

Asahi Kasei Corporation

## Participants

Shuichi Sakamoto
CFO
Daichi Arima
Executive Officer, Senior General Manager, Corporate Accounting & Control
Toshiyasu Horie
Senior General Manager, Planning & Coordination, Petrochemicals SBU
Yukifumi Kuwaba
Senior General Manager, Planning & Coordination, Performance Polymers SBU
Akira Fukuda
Managing Executive, Senior General Manager, Planning & Coordination, Separators SBU
Hideharu Takashima
Senior General Manager, Corporate Administration & Planning, Asahi Kasei Microdevices Corp.
Toru Tomioka
General Manager, Accounting & Control Dept., Asahi Kasei Homes Corp.
Hiroki Ideguchi
Managing Executive, Senior General Manager, Corporate Planning & Coordination Div., Asahi Kasei Pharma Corp.
Kiyoteru Kadokura
General Manager, Investor Relations

## Presentation

MC: Welcome to the earnings briefing conference call of Asahi Kasei Corporation for the Q3 of FY 2016. We will begin with a presentation from Shuichi Sakamoto, CFO, and then take questions.

Other participants from Asahi Kasei are: 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 Corporation; Toru Tomioka, Asahi Kasei Homes Corporation; Hiroki Ideguchi, Asahi Kasei Pharma Corporation; and Kiyoteru Kadokura, Investor Relations.

Now to Shuichi Sakamoto, CFO.

Sakamoto: Good afternoon, ladies and gentlemen. This is Sakamoto speaking. Thank you very much for taking time out of your busy schedule to join the earnings briefing conference call of Asahi Kasei.

First an overview of the Q3 earnings. During the Oct.–Dec. period, each business category was supported by strong demand, and with the additional help of the depreciation of the yen, results were strong.

For the cumulative 9-month period from April to December, mainly due to the impact of the appreciation of the yen during the H1, sales, operating income, and ordinary income were all down year on year. But in terms of net income attributable to owners of the parent, this 9-month period turned out to be the strongest ever, with significant gain on sales of strategic shareholdings and a decline in tax expenses. We have made upward revisions to our full year forecast on all items, over the projections made back in November. We now expect the full-year net income to set a new record.

P. 4 Summary of financial results

I will now go over the results for the first 9 months of FY 2016, using the presentation

material. Please turn to page 4.

During the Apr.–Dec. period, net sales were ¥1.3568 trillion, down ¥91.5 billion. Operating income was ¥114.1 billion, down ¥12.5 billion or 9.9%. Despite efforts made in each business category to expand sales and reduce costs, profit decreased due mainly to the impact of the appreciation of the yen, consolidation of Polypore International, LP and its consolidated subsidiaries, increase in retirement benefit expenses, and reduced reimbursement prices for pharmaceuticals.

Ordinary income declined 5% despite improvements in equity in earnings or losses of affiliates, and foreign exchange gains or loss. But for the Oct.–Dec. period, both operating income and ordinary income increased year-on-year.

Net income attributable to owners of the parent for the cumulative 9-month period was up 25% at ¥89.7 billion, the highest ever for a 9-month period—this following a record net income posted for the cumulative 6-month period. Net income for the Oct.–Dec. quarter was also higher, with the sales of strategic shareholdings and the effect of reexamining recoverability of deferred tax assets which was conducted in the Q1, following the absorption of core operating companies by Asahi Kasei Corporation in April.

Summary of financial position is as shown here. Total assets and equity increased with the recording of net income and the impact of net unrealized gain on other securities. Interest bearing debt increased as of the end of December, as financing was made in light of capital requirement for the Q4. With an increase in equity, D/E ratio decreased by 0.02 points at 0.41.

## P. 5 Statements of income

Net sales were down 6.3% year-on-year. Gross profit was ¥428.2 billion. Ratio to net sales improved by 1.3 percentage points to 31.6%, owing to an improvement in cost of sales ratio as a result of lower feedstock costs, felt particularly in the Chemicals. SG&A expenses totaled ¥314 billion, which was ¥2.7 billion more than in the same period of the previous year. Main reasons were an increase in retirement benefit expenses and an increase in amortization of goodwill and others. Operating income was ¥114.1 billion. Ratio to net sales was 8.4%.

Non-operating income and expenses improved by ¥6.3 billion, as a result of improvements in net equity in earnings and losses of affiliates, and foreign exchange gains and loss. As for net equity in earnings and losses of affiliates, PTT Asahi Chemical Company Ltd in Thailand recorded improvement. During the same period of the previous year, the company faced difficult business environment. But during this fiscal year, market prices of acrylonitrile, or AN, and MMA, or methyl methacrylate, are firm. Extraordinary income and loss was a net income of ¥3 billion. Accordingly profit before tax was ¥121.4 billion.

As was explained earlier, as a result of reexamining the recoverability of deferred tax assets, income taxes decreased. Net profit attributable to owners of the parent excluding income taxes and others, totaled ¥89.7 billion, up to 25% year-on-year.

## P. 6 Extraordinary income and loss

Extraordinary income for the cumulative 9-month period totaled ¥9.9 billion, ¥9.7 billion more than in the previous year. During the Q1 and the Q3, gain on sales of investment in securities was recorded based on the review of strategic shareholdings.

Extraordinary loss totaled ¥6.9 billion, an improvement of ¥4.8 billion year-on-year. This was mainly because during FY 2015 we recorded litigation settlement in the Critical Care business, as well as special retirement expenses and others to some retiring executives at Polypore, following the acquisition. This fiscal year, there were no such losses.

Owing to these reasons, extraordinary income and loss improved by ¥14.5 billion yen year- on-year.

## P. 7 Balance sheets

Comparing the end of March and the end of December 2016, net assets increased by ¥128.9 billion. Main reason was the recording of net income totaling ¥89.7 billion. In addition, given that stock prices were higher than at end of the previous fiscal year, net unrealized gain on other securities increased by ¥16.6 billion. And, as the exchange rate moved in the direction of the yen depreciation between the end of March and the end of December, foreign currency translation

adjustment increased by ¥8.3 billion.

As for liabilities, current liabilities and non-current liabilities both changed significantly, this was because during the Q1 we refinanced borrowings related to the Polypore acquisition.

### P. 8 Cash flows

During FY 2015 the Polypore acquisition entailed major changes in the investing and financing cash flows. In the absence of such factors during FY 2016, cash and cash equivalents at the end of the Q3 was ¥187.8 billion.

### P. 10 Sales and operating income by segment, Apr.-Dec. 2015 and 2016

Starting this fiscal year, we are reporting segment results on 3 reportable segments of Material, Homes, and Health Care. For the cumulative 9-month period, all 3 segments recorded a year-on-year decline in sales and operating income.

Analyses of results by business category are explained on page 13 onward.

### P. 13 Sales and operating income increase/decrease by business category, Apr.-Dec. 2016 and 2015 (i)
### P. 14 Sales and operating income increase/decrease by business category, Apr.-Dec. 2016 and 2015 (ii)
### P. 37 Critical Care

Please turn to page 13. Variance analysis of sales and operating income by business category for the cumulative 9 months.

Fibers recorded a year-on-year decline in both sales and profit. Shipments of Bemberg cupro fiber, Lamous artificial suede, and Leona nylon 66 filament increased, but selling prices declined due to competition, and the stronger yen affected each product.

For the Chemicals business category, sales fell but operating income increased year-on-year.

For petrochemicals, sales decreased, but operating income increased. Shipments of styrene decreased following the strengthening of petrochemical operations in Japan. However, terms of trade improved for AN. The average price of AN during the first 3 quarters was $1,215 per ton, against $796 per ton of propylene, for a spread of $418 per ton.

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

For performance materials and consumables, sales decreased, but operating income increased. Ion-exchange membranes took a hit from the stronger yen, but sales were firm for electronic materials and consumables such as Saran Wrap cling film.

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

For separators, sales increased, but operating income decreased. Shipments increased across the board and Polypore results are consolidated starting from Q2 2015, but amortization of goodwill, etc., related to the Polypore acquisition weighed down. The stronger yen did not help, either.

Sales increased while operating income fell for electronic devices as well. Shipments of audio devices for smartphones increased, but there was an impact of the stronger yen and upfront outsourcing expenses increased with growing shipments.

For the Homes business category, both net sales and operating income decreased.

For order-built homes, both sales and operating income decreased. Deliveries of Hebel Haus unit homes and Hebel Maison apartment buildings were down, while SG&A expenses such as advertising expenses increased. The low level of deliveries is tied to orders received during the previous year, as advertisements were curtailed from late October 2015 towards the beginning of the current financial year.

In the first 3 quarters, 5,769 buildings were delivered, down 168 from 5,937 in the same period previous year. Value of new orders in the period decreased by 2.0% year-on-year. Orders were still affected by that curtailment of advertising in Q1, but have since recovered following full

resumption in May. Q2 orders were almost flat year-on-year, and Q3 orders were up 5.5%.

For real estate, remodeling, and others, sales decreased, but operating income increased. SG&A expenses such as labor costs increased for remodeling, but rental management in real estate 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.

Now on slide 14.

For the Health Care business category, 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. Shipments declined for Flivas agent for treatment of benign prostatic hyperplasia due to competition from generics.

For medical devices, both sales and operating income fell, too. 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, please turn to slide 37. Since the Japanese yen is much stronger than it was a year ago, 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.

Net sales in the first 3 quarters translated into Japanese yen declined due to the stronger yen. However, despite that, the yen-based consolidated operating income increased to ¥10.8 billion after goodwill amortization etc., continuing growth.

In US dollars, net sales in the first 3 quarters came to $930 million, up $77 million, or just short of 10% from the previous equivalent period.

Gross operating income before PPA impact came to $193 million, up more than 20% year-on-year. SG&A expenses continued to grow with reinforced sales activity, but LifeVest wearable defibrillator business continued to expand well. Sales of other products, such as defibrillators and related accessories, were firm, too. As such, the business continues steady growth.

## P. 16 Consolidated operating performance forecast

With that, let us now go to slide 16, and discuss the full-year forecast, with a focus on revisions against the previous guidance published in November.

This time, we have upward revised net sales, operating income, ordinary income, as well as net income. Ordinary income has been upward revised by ¥8 billion. The yen is weaker than we expected in November, terms of trade for AN improved, and fixed costs were reviewed and reduced across all businesses.

The revised forecast assumes domestic naphtha prices to average at ¥38,000/kL in the H2 and ¥34,725/kL for the full year. The foreign exchange rate assumption is ¥110 yen to the dollar for the H2 and ¥108 yen 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. The operating income forecast has been upward revised for all business categories except Fibers and Homes.

For Fibers, the weaker yen is positive for income, but feedstock prices have risen, too, and the November forecast remains unchanged.

For the Chemicals business category, petrochemicals benefitted from higher market prices of AN due to a plant shutdown in the US. Performance polymers, as well as performance materials are firm. Feedstock prices are rising, but the weaker yen is helping. We have thus upward revised the full-year operating forecast for Chemicals by ¥3.5 billion. It assumes market prices in Q4 to average at $1,240 per ton of AN, and $925 per ton of propylene, for a spread of $315 per ton.

Electronics is upward revised by ¥3 billion. For separators, our expectation remains unchanged from November. For electronic devices, we expect strong demand for audio devices and

the electronic compass for use in smartphones, on top of a positive impact of the exchange rate.

The Homes business category has been downward revised. Structural steel prices are rising, and the weaker yen is pushing up costs of imported materials. We are also factoring in the effect of the ongoing "work style reform," which may increase fixed costs such as outsourcing expenses.

For Construction Materials, the forecast is upward revised by ¥500 million, given firm performance in AAC among others.

The Health Care business category is upward revised by ¥2 billion. Both pharmaceuticals and devices are upward revised. With regard to pharmaceuticals, Teribone and Recomodulin shipments are continuing to grow, and fixed costs for the H2 have been reviewed. For medical devices, the upward revision comes from continued growth in Planova shipments and the benefit of the weaker yen.

For Critical Care, the operating income forecast has been upward revised by ¥500 million, as we expect continued strong expansion of LifeVest, the benefit of a weaker yen and SG&A expenses coming in less than expected.

This concludes my presentation. Thank you very much for your kind attention.

## Question and Answer Session

MC: We will now take questions.

Mr. Watabe: Watabe from Morgan Stanley MUFG Securities. My first question is on Chemicals. Can you talk about the quarterly changes in profit for the 3 subsegments, from the Q2 to Q3, and from the Q3 to Q4?

Horie: Horie from the Petrochemicals SBU. First, the changes from the Q2 to the Q3. As was explained earlier, a plant shutdown at a competitor site in the US resulted in a price spread improvement for AN during this period. And during the Q2, there was negative impact of a disruption in the operation of the naphtha cracker, but this was no longer the case in the Q3, so this was another positive. Together with the improvement in the price spread of AN, results improved quarter-on-quarter. Turning to the Q4, it is projected that the competitor's plant will come back on line soon, which should push down the market price of AN. So we expect the price spread to be narrower in the Q4.

Another factor is naphtha price which is currently rising. There is a time lag in transferring these higher feedstock costs to selling prices of polyethylene and polystyrene. Given those reasons, we are projecting profit for AN and general purpose polymers to decline from the Q3 to the Q4.

Kuwaba: Kuwaba from the Performance Polymers SBU. While shipments of performance polymers were very firm from the Q2 to the Q3, we had maintenance turnaround at engineering plastics and synthetic rubber plants during the Q3. That was one negative factor during the Q3 compared to the Q2. Another factor was that we saw feedstock prices beginning to rise in the Q3, and given that there is a time lag in transferring high feedstock costs to selling price, we saw a quarter-on-quarter decline in profit for the Q3.

From the Q3 to Q4, shipments are firm and moving in line with the plan. But as feedstock prices continue to rise, we are trying to catch up by price hikes, but we should account for an inevitable time lag. Still, one positive factor is that there is no maintenance turnaround in the Q4. And so on the whole, we expect little change in profit between the Q3 and the Q4.

Kadokura: Kadokura from Investor Relations will comment on performance materials and consumables. From the Q2 to the Q3 due to the impact of the depreciation of the yen, results for ion-exchange membranes improved. Shipments of consumables, primarily Saran Wrap, increased, which contributed to an increase in profit. Profit increased from the Q2 to the Q3.

From the Q3 to the Q4, little change is expected for performance materials. Some businesses are doing better than others, but overall we expect the results to be about the same as in

the Q3. As for consumables, primarily for Saran Wrap, we expect sales to decline for seasonality. So we expect sales and profit for consumables to decline quarter-on-quarter at a rate similar to that in the average year.

Mr. Watabe: A follow-up question on petrochemicals. What about the possible positive impact of inventory valuation gain or loss, or a rapid rise in butadiene market price?

Horie: Horie from petrochemicals. As for inventory valuation gain or loss, with feedstock prices gradually increasing. we should expect some positive impact for the Q4. As for the butadiene market price, given that in our petrochemicals operations, butadiene is mostly for internal use, a rise in market price would not translate into a large profit contribution. True, we do have some external sales, and that part of profit is benefiting somewhat; but the volume is limited and therefore the impact is limited.

Mr. Watabe: I see, thank you. My next question: Can you comment on how electronic devices and separators are doing?

Fukuda: Fukuda from the Separators SBU. From the Q2 to the Q3, Hipore Li-ion battery separator maintained a high level of shipments, while Celgard Li-ion battery separator and Daramic lead-acid battery separator also saw a firm increase in shipments, resulting in overall increase in sales and profit for the separators.

From the Q3 to Q4, due to Chinese New Year, we see Hipore shipments for consumer electronics declining, while Celgard continues to see steady growth in shipments. As a result, overall sales remain unchanged. As for operating income with an increase in fixed expenses at the year end, including depreciation expenses, we expect a quarter-on-quarter decline.

Takashima: Takashima from Microdevices. As for electronic devices, from the Q2 to the Q3, audio devices for smartphones, electronic compass, and other devices for smartphones were strong, resulting in an increase in sales and profit. From the Q3 to the Q4 we expect strong shipments of devices for smartphones to continue. But we are expecting increase in expenses at the fiscal year-end, and therefore we expect profit to decline slightly.

Mr. Watabe: I see. Thank you.

Mr. Umebayashi: Umebayashi from Daiwa Securities. I also have a question on Chemicals, particularly on engineering plastics and synthetic rubber for automotive applications. I understand there was maintenance turnaround in both operations during the Q3. With the absence of maintenance turnaround in the Q4, what is your demand and shipment projections?

Kuwaba: Kuwaba from the Performance Polymers SBU. In terms of demand, we believe that the most decisive factor for both synthetic rubber and engineering plastics is the production volume of automobiles. In CY 2016, global auto production and sales were strong, particularly in China with the continued effect of tax reduction, and we expect this to continue further. So we don't see reasons for concern going forward in terms of demand. We therefore expect shipments for both synthetic rubber and engineering plastics to remain firm. Particularly for solution-polymerized SBR or S-SBR for fuel-efficient tires, we expect high growth to continue.

Mr. Umebayashi: I see, thank you. A follow-up question on separators. Earlier you said that Hipore expects a slowdown for the Q4 presumably for seasonality, while Celgard expects a slight increase. Can you explain the reasons for the difference?

Fukuda: Fukuda from the Separators SBU. Actually Hipore shipments are growing steadily for the automotive applications. But we expect shipments for consumer electronics applications to decline particularly in China for the Q4, presumably due to the impact of the Chinese new year. Celgard is mainly for automotive applications, and therefore shipments continue to grow.

Mr. Umebayashi: I see, thank you. A follow-up question: If I remember correctly you said previously that Celgard for automotive applications is mainly targeting China. Do I understand correctly that that's where the growth is coming from?

Fukuda: Yes, you can say that.

Mr. Umebayashi: I see, thank you

Mr. Yamada: Yamada from Mizuho Securities. My first question is on Homes. When I compare results for the FY 2015 Q4 to the forecast that you announced for this Q4, sales are about the same while the operating income is projected to decline by ¥2 billion or so. Is this in relation to the expected increase in fixed costs due to the work style reform? If so, should we expect this factor to continue in the next fiscal year, pushing down profits, as this will be structural in nature? Or is it more or less a one-time impact, and therefore the impact would gradually decline next fiscal year onward? The amount of downward revision for the full year profit forecast is ¥2 billion, which is the same amount as the Q4 year-on-year decline, so I was wondering if that's related. Also, can you comment on whether the Q3 results were in line with your projection?

Tomioka: Tomioka from Homes. You asked about the reason for the downward revision by ¥2 billion. Basically one is the fixed cost factor. The other is, as was mentioned earlier, an increase in construction materials costs. Each accounting for about half.

The work style reform is progressing rapidly. Right now we are trying to set up a structure by increasing the manpower. It remains to be seen whether this will prove to be effective. And we still don't know whether we will continue to increase the manpower, either. We might be able to deal with the situation next fiscal year with the current size of workforce. We believe the question of how best to reform the work style in itself is a challenge to be tackled next year and beyond.

Mr. Yamada: I see. So the fixed cost increase includes to a certain extent an increase in the number of temp staff, and so we don’t have to expect a ¥2-billion increase every six months for next fiscal year onward, am I correct? You also talked about higher construction materials cost. The contracts you are concluding now must be based on higher materials prices, so am I correct to understand that for the next fiscal year we should not expect a big increase in your materials cost?

Tomioka: As for work style reform, currently it mainly involves increasing the number of temp staff. So it's not necessarily permanent. As for construction materials cost, it's mainly steel, and we expect the impact to persist into the Q1 of next fiscal year. We are told that for the Q2 and beyond, we should expect an improvement.

Mr. Yamada: Very clear. Thank you. My next question is on Critical Care. Do I take it that the reason for the revision is solely in relation to foreign exchange? What about an increase in the sales force? Can you also talk about the growth of main products and market expansion in terms of geographical coverage?

Kadokura: Kadokura from Investor Relations. On a US-dollar basis, net sales, gross operating income before PPA impact, and consolidated operating income are all more or less in line with the previous projection. So as you have correctly indicated, the revised forecast reflects the impact of the depreciation of the yen at the time of translating into consolidated accounts. No particular change in the volume projections of LifeVest, and other products such as defibrillators and related accessories.

Mr. Yamada: Is the sales force expanding as planned?

Kadokura: The number is still somewhat short of the plan.

Mr. Yamada: I see, thank you.

Mr. Okazaki: Shigeki Okazaki from Nomura Securities. My first question is on the quarterly profit for the Electronics. You said that in the Q2 there was a loss of ¥0.2 billion, and then in the Q3 a profit of ¥1.7 billion, which is a big improvement. Now back in the FY 2015, in the Q2 when the exchange rate was ¥123 yen to the US dollar, you posted a profit of about ¥2.1 billion. Compared to that, the Q3 profit for this fiscal year seems rather large. Can you explain in more detail what happened in the Q3? You said you expected fixed cost to increase in the Q4. Can you talk about those special factors as well?

Fukuda: Fukuda from the Separators SBU. During the Q3, shipments of Hipore were maintained at a high level. Celgard grew with new orders received in addition to existing business as well as from growth in the Chinese market, while Daramic saw a firm increase in shipments, resulting in higher sales and profit.

Mr. Okazaki: So it’s not like, for example in the separator business, cost was particularly concentrated in one quarter, am I correct?

Fukuda: Right, There wasn't much difference between the Q2 and the Q3.

Mr. Okazaki: I see. And you expect a slight increase in the fourth quarter, correct?

Fukuda: Yes. We are expecting some increase in the Q4, as we tend to see an increase in fixed cost at the end of the fiscal year.

Takashima: Takashima from the Microdevices. Similar situation for electronic devices. From the Q2 to the Q3, sales increased, and profit increased as well. In terms of expenses, as is the case with the separators, we expect expenses to increase towards the end of the fiscal year, and therefore we are expecting a slight decrease in profit in the Q4.

Mr. Okazaki: I see. Thank you. My next question is on Critical Care. Looking at the Q3, sales on a US-dollar basis increased about 7% year-on-year, which seems to indicate that the growth rate has slowed down somewhat. Should we not be concerned about that? I think you were projecting a double-digit percent growth to continue.

Kadokura: Kadokura from Investor Relations. During the Q3, defibrillators for hospitals and EMS saw an increase in order backlog. Demand continues to be firm, and LifeVest business is also strong. As for fundaments of the business, we see no reasons for concern.

Mr. Okazaki: So do I understand correctly that on a local currency basis, we can expect a 10%-or-so growth as a basic trend?

Kadokura: Yes. With the denominator getting larger, the growth rate shall gradually come down but basically we should expect a growth of around 10% to continue.

Mr. Okazaki: I see, thank you

Mr. Takeuchi: Takeuchi from SMBC Nikko Securities. First on pharmaceuticals, can you provide an update on the sales trend for Teribone and Recomodulin, please? Are they in line with your plan? Are there any special efforts?

Ideguchi: Ideguchi from Asahi Kasei Pharma speaking. With regard to Teribone, while the reimbursement price was reduced, the idea is to make up for that by volume growth. In the first 3 quarters, shipments were up 10% year-on-year. We attribute this growth to the ongoing program to reduce dropouts, that is encouraging patients to complete their regimen, as well as to an increase in use not only at large hospitals but also at smaller clinics.

With regard to Recomodulin, independent analyses give us a high rating for detail impact, and shipments are up year-on-year. In addition, from the current financial year, we have begun a new e-promotion program on the web for doctors. The number of doctors who are viewing the online content is steadily increasing.

Mr. Takeuchi: What about FY 2017? You may still be in the planning process, but do you expect further volume growth with regard to Teribone? Can you give us an idea of what you expect volume-wise next year, if possible, for both Recomodulin and Teribone, please?

Ideguchi: With regard to Teribone, we intend to continue getting more clinics to adopt the drug. We also expect a positive impact of the extension of duration of treatment from 1.5 to 2 years, which, we hope, will be approved in July. So, yes, we believe there is further growth potential.

Mr. Takeuchi: Thank you for that. My next question concerns the full-year forecast. For the first 3 quarters, the net of extraordinary items was a net loss [*sic*, income]. Your revised forecast is for ¥154 billion in ordinary income and ¥106 billion in net income. Can you provide details about what extraordinary items are included in between these numbers, please?

Arima: Arima from Corporate Accounting and Control speaking. For Q4, we are expecting some non-operating expenses. As for extraordinary items, we plan to book a provision in Q4 which is related to the planned relocation of our headquarters.

Mr. Takeuchi: Would that mean the net of extraordinary items would be a loss for the full year?

Arima: That is what we expect.

Mr. Takeuchi: What about dividend, then? In your medium-term management initiative, your aim is to raise payout ratio to 35%, yet your forecast translates into only 26%. Is there a possibility of raising dividend from the planned ¥20 per share?

Sakamoto: This is Sakamoto speaking. Our dividend policy has been about stable and continuously increasing payout, with 30% as a basic standard for payout ratio. Under our current medium-term management initiative, we aim to achieve a total return ratio of 35% in FY2018. This policy stands unchanged.

At this point in time, we are maintaining our planned dividend per share of ¥20 per year, given that the level of uncertainties in Q4, such as the exchange rate, is rather high. Once we have Q4 results, we will revisit the dividend figure in accordance with our policy.

Mr. Takeuchi: Thank you very much.

Mr. Owaki: Owaki from Mitsubishi UFJ Morgan Stanley Securities. My first question concerns the outlook for Electronics in Q4. I think it was mentioned earlier that Hipore shipments, which are mostly for consumer electronics might be down in Q4 compared with Q3 due to the Chinese New Year. If I understood correctly, it was also mentioned that for electronic devices, you expect shipments to increase from Q3 to Q4, on the back of strong demand for use in smartphones, while operating income will be down, as expenses would also increase.

As I try to understand the overall global momentum for smartphone production, whether it is going up or down from Q3 to Q4, it is difficult to reconcile the seemingly contradictory trends that you are expecting for separators and devices. Can you help me sort it out, please?

Fukuda: Fukuda from Separators SBU. We have asked the same question among us, too, and we understand that it is confusing. Separator shipments were very strong from Q2 to Q3, but with hindsight, it may have been that some big customers were simply building ahead of demand.

Takashima: Takashima for electronic devices. On the devices side, in a usual year, demand falls

from Q3 to Q4 because of the Chinese New Year. This year, however, that decline appears to be smaller. In addition, for Q4 this year, we expect upfront demand related to new models due out in spring, and that is different from a usual year, too. So yes, the picture is a little different from separators.

Mr. Owaki: Is that unusual demand for devices coming mostly from Chinese smartphone manufacturers?

Takashima: Yes.

Mr. Owaki: Thank you for that.

My next question is a very general one. What do rising crude oil prices mean to you? My guess is that Fibers and Chemicals would be most affected. Suppose crude oil prices remain at the current high level or rise even higher in FY2017. Would that have a serious impact on earnings? Or, would it not be the case as long as shipment volume is good and capacity utilization is high, since you should be able to reflect feedstock costs in your selling prices, albeit with some delay, and maintain reasonable margins? How much risk is there that higher feedstock prices may squeeze earnings?

Sakamoto: Sakamoto speaking. Very generally, there are two types of impacts from feedstock prices. One is short-term, the other is medium-to-long term, and they work in different ways.

When feedstock prices rise, we would naturally raise selling prices of our products. But since there would be some delay in doing so, in the short term, the impact on earnings is usually negative. Similarly, when feedstock prices fall, there would be a momentary improvement in spreads and earnings.

Over a longer term, however, the demand factor becomes important. If downstream users believe prices will keep rising, they will be encouraged to buy early and ramp up their production. For petrochemicals in general, therefore, an expectation of feedstock prices rising gradually is usually positive for earnings. Again, the reverse is true, too. When the prevailing belief is that prices would keep falling steadily, downstream users would try to hold off activity, and the medium-to-long term impact on our earnings would usually be negative.

It all depends on how quickly feedstock prices rise and to what extent, as well as the demand outlook. In addition, it depends on the time horizon you are looking at, whether short-term or medium-to-longer term.

Mr. Owaki: Thank you. If so, how should we characterize Q3 in that context, particularly with regard to short-term impact and the time lag between feedstock price movement and product pricing? Was the impact of higher feedstock prices positive, negative, or insignificant?

Horie: Horie from Petrochemicals SBU. With regard to petrochemicals, the impact of feedstock prices in Q3 was not significant. Terms of trade improved for AN, but that was due to a plant shutdown in the US, not feedstock prices.

Mr. Owaki: Thank you very much.

Mr. Enomoto: Enomoto from Merrill Lynch Japan Securities. First, on separators. Can you provide us with volume growth figures for Hipore and Celgard, please? And may I also ask why you are maintaining the forecast for separators despite the weaker yen? Does the exchange rate not affect separators?

Fukuda: Fukuda for Separators SBU. With regard to the impact of the exchange rate, the operating income forecast remains unchanged as the weaker yen actually pushes up the yen-translated amount of amortization of goodwill, etc. As for volume growth figures, we would like to provide them when we have the H2 results.

Mr. Enomoto: Thank you for that. My next question is on Homes. You mentioned "work style reform"; can you elaborate on that, please? It sounded like reducing overtime work while increasing outsourcing, but is that correct? How exactly would that affect costs, up or down?

Tomiokda: Tomioka from Asahi Kasei Homes. Well, the situation really varies and is therefore difficult to generalize. Our focus now is on adding manpower, which involves getting new temp staff, and training them into the jobs. The difficulty is that it takes time and effort before the net effect on productivity becomes positive. But that is part of how we are currently trying to change our work style. With regard to the impact on earnings, as manpower increases, so will expenses.

Mr. Enomoto: Does that apply only to Homes, or generally across the group?

Sakamoto: This is Sakamoto speaking. Work-style reform is a permanent issue for business management. We are not doing this just because it is government policy. We are always trying to realize a work style that best suits the business environment. Particularly, in this day and age, human resources development, or providing fulfilling and satisfying working conditions for everyone and heightening professional skills of the workforce, is of increasing importance. Work-style reform is just one part of it.

Mr. Enomoto: Thank you very much.

Mr. Ikeda: Ikeda from Citigroup Global Markets Japan. My question is on Chemicals and the expected decline in operating income from Q3 to Q4. I understand that the AN spread will tighten by about $100 per ton, and that consumables would be down, but I still wonder why the decline is so large. With regard to AN, what about the impact of 500,000 tons per year of capacity coming back on line, once that plant shutdown in the US is resolved? How would that affect your performance towards FY 2017? What about rising capacity utilization among Chinese producers?

Horie: Horie from Petrochemicals. With regard to AN from Q3 to Q4 and into FY 2017, in Q4 we do expect the spread to tighten when that shutdown is resolved. But since there are a number of maintenance turnarounds scheduled among Asian producers between February and May, we do not expect significant fluctuations in market prices. Having said so, feedstock propylene prices are higher than we initially anticipated, so that is a negative for the spread.

Capacity utilization is improving in China as you rightly mentioned, but with this wave of maintenance turnarounds in spring, we do not expect a major deterioration in the supply-demand balance into FY 2017.

As to the operating income decline from Q3 to Q4, that is due to the delay in raising selling prices for polyethylene and polystyrene. We are in the process of raising prices, but the short-term negative factor weighs down Q4 income. But this should not be a serious problem over the longer term or into the next financial year.

Kadokura: Kadokura from Investor Relations. May I just comment on consumables? Our expectation for Q4 operating income is not different from previous years. However, Q3 turned out to be unusually strong, particularly with regard to Saran Wrap cling film. That is why the Q3 to Q4 difference appears larger than usual, although Q4 should be just like an ordinary year.

Mr. Ikeda: One more question, please. Styrene prices have come up recently. Is it correct, however, that the impact is limited since you have scaled down operations, and probably do not sell much on a spot basis?

Horie: Horie from petrochemicals. Yes, that is correct. We only export a small amount now, so the impact is limited.

Mr. Ikeda: Thank you very much.