Transcript of Conference for "Cs for Tomorrow 2018" New Mid-term Management Initiative, held on April 25, 2016

Asahi Kasei Corporation

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Presentation

Kadokura: Thank you for joining us for Asahi Kasei Corporation's briefing on the new medium-term management initiative. Your MC today is Kiyoteru Kadokura, General Manager, Investor Relations. We will begin with a presentation from Hideki Kobori, President, and then take questions. Participants from Asahi Kasei are: Hideki Kobori, President; and Shuichi Sakamoto, CFO.

Now to Hideki Kobori.

Kobori: Thank you very much for joining us for the briefing on the new medium-term management initiative for the 3 years from FY 2016 to FY 2018. The name is "Cs for Tomorrow 2018." I would like to begin with a review of the 5 years under the previous initiative "For Tomorrow 2015," and then discuss the new initiative.

P4: 1. Performance results (1)

Slide 4 shows net sales and operating income over the 5-year period. The target figures were ¥2 trillion in sales and ¥160 billion in operating income for FY 2015. Our latest forecast is ¥1,954 billion in sales and ¥164 billion in operating income, so we are almost in line.

In the last 3 years in particular, the business environment has been favorable for us. We beat the previous high for operating income for 2 years in a row, and expect to do so yet again for FY 2015.

P5: 1. Performance results (2)

Slide 5 shows how the breakdown of sales and operating income has changed over the 5-year period from FY 2010. In the middle of the pie charts are the total figures. Net sales have grown by around ¥400 billion, and operating income by ¥40 billion. That means roughly 10% return on sales growth, with larger contribution from businesses with high profitability.

For the operating income breakdown, back in FY 2010, Chemicals & Fibers accounted for more than 50%. Now we have a more balanced structure thanks to growth in Homes & Construction Materials and Health Care.

P6: 1. Performance results (3) Trend after transition to holding company configuration

Slide 6 shows some financial indicators over the past 13 years starting from FY 2003, which was when we adopted a configuration of a holding company and core operating companies.

As shown in the table, operating margin has improved during this period. Overseas sales ratio has grown from 19% to an expected 36%. Annual dividend per share has grown steadily from ¥6 per share to a planned ¥20 per share. Net income over shareholder equity, or ROE, has also improved from around 6% in FY 2003 to above 10% in recent years, and the forecast for FY 2015 is 8.1%. D/E ratio has stayed at around 0.5 times. We have as such been able to consolidate financial strength.

P7: 2. Actions advanced (1) Basic framework

Slide 7 is a summary of the basic strategy for the past 5 years. The business strategy focused on pursuit of growth, through expansion of world-leading businesses and creation of new

value for society. Another part of the strategy was to reform corporate systems by way of promoting "one AK" management. In the initial years, the strong yen proved a big challenge, in response to which we added streamlining for improved profit structure.

P8: 2. Actions advanced (2) Major items

Slide 8 shows the measures taken in more detail. For expansion of world-leading businesses, we focused on building new and additional capacity for the products listed, mostly in Asia.

For the creation of new value for society, we identified 3 areas of focus, namely, Environment & Energy, Residential Living, and Health Care. Major achievements include the acquisition of Polypore International, Inc. and ZOLL Medical Corporation. The acquisitions have added breadth, reinforced existing business, and accelerated globalization of the group.

For improvement of earnings structure, we have structurally realigned the domestic petrochemical business, in particular operations at Mizushima Works in Okayama Prefecture, Japan. We also implemented a company-wide streamlining project, which has delivered an estimated savings of ¥50 billion in three-and-a-half years.

P9: 2. Actions advanced (3) Investments under "For Tomorrow 2015"

Slide 9 summarizes investments made during the 5-year period in pursuit of growth, which amounts to a total of ¥1 trillion. It includes ¥540 billion in existing businesses and ¥460 billion for non-linear growth, a large part of which was for the ZOLL and Polypore acquisitions.

P10: Pile installation data issue

While our financial performance has been good, it came to light in October last year that Asahi Kasei Construction Materials had manipulated data for the installation of precast concrete piles.

We deeply apologize to our customers and other parties who placed their trust in us. We take the matter very seriously, will thoroughly investigate the case both internally and externally, and reinforce compliance throughout the group so as to prevent recurrence and restore trust of our stakeholders.

P11: Restoring trust

As part of efforts to restore trust of society and customers, in the new medium-term period, we will focus on "three actuals." It is about going to the actual place in person, seeing the actual thing with your own eyes, focusing on facts, and acting sincerely in accordance with the facts. There will be a group-wide focus on higher levels of awareness for compliance.

P12: Measures to enhance compliance

Slide 12 shows specific measures in this regard. We are combining a top-down approach and a bottom-up approach.

On the top-down side, we are enacting a compliance policy and will thoroughly identify risks from a bird's-eye view. Specifically, we will prepare a global code of conduct, communicate the compliance policy throughout the organization, and provide necessary education.

On the bottom-up side, all businesses shall conduct inspections to identify risks, and corrective measures shall be implemented continuously.

With regard to the organizational framework, we have newly established a Risk Management and Compliance section, which will consolidate risk information and compliance issues for the whole group. Each business division will also designate a person responsible for risk management and compliance. This person shall be responsible for identifying risks and ensuring compliance within each organization.

P14: "Cs for Tomorrow 2018" (CT2018)

Now that we have reviewed the past 5 years, let us move on to our new management initiative, "Cs for Tomorrow 2018."

"Cs for Tomorrow 2018," or "CT2018" for short, is about building the base for the next

phase of growth through various Cs.

The first C is "Creating for Tomorrow," which is our group slogan.

The 2nd C is "connecting." With the new organizational structure from April, we aim to better connect internally across the group, to connect diverse people and businesses. We will also try to better connect technology and business. It is also about connecting externally, through joint R&D, business alliances, or through our corporate venture capital, or CVC, in the US that focuses on early stage technologies and businesses. Connecting across different geographic regions and accelerating globalization of our activities is yet another part of it. Through connecting, we aim to create new markets and deliver a new stage of growth.

There are also the three Cs that I asked all members of Asahi Kasei to focus on when I became president. They are "compliance," "communication," and "challenge," through which we seek to rebuild trust and drive further growth.

P15: 1. Recognition of operating climate and main areas of focus

Slide 15 summarizes our view on the operating environment and the main areas of focus. We are now in times of great change and uncertainty. Against that backdrop, we would like to leverage our diversified lines of business to help society address two important challenges. One is about clean environmental energy, and the other is about realizing healthy and comfortable longevity with peace of mind. We will focus on businesses that can contribute and offer value here.

P16: History of portfolio transformation

Slide 16 shows our history of business portfolio transformation.

During our 90 years of history, we have delivered growth through boldly taking challenges with new businesses under changing operating climates. In other words, our growth is a result of continually adjusting the business portfolio to address changes in the environment.

In the chart, the bars represent net sales, and the line indicates operating income.

In the earlier years, through the early diversification phase and the advanced diversification phase, we delivered consistent net sales growth.

After the collapse of the economic bubble, however, we struggled to deliver growth both in terms of net sales and operating income for over a decade. During that period, we went through a round of structural reform. We scrutinized our businesses to decide on which ones to stay in and reinforce, and which ones to scale down or let go. That was the selection & focus phase from 1990 to the early 2000s.

In the latter half of the 2000s, net sales started to grow again, but then the so-called Lehman shock rocked the globe. Since then, we have been in a phase of new challenges.

The point is that business portfolio rebalancing is a continued theme for us as we begin this new medium-term management initiative.

P17: 2. Basic concept of "Cs for Tomorrow 2018"

All that leads us to the basic concept of "Cs for Tomorrow 2018."

As I mentioned at the outset, this is a 3-year plan of action, given the uncertainties in the environment. We have set financial targets for this 3-year period. However, we actually have a 10-year horizon in mind, with the 3-year period regarded as a first phase. Over the 10 years to FY 2025, we aim to develop a diversified portfolio of high-profitability, high value-added businesses. In the initial 3 years, therefore, the focus would be on building the base for the next phase with connections among diverse businesses and diverse personnel.

The basic strategy is 3-pronged, to pursue growth and profitability, create new businesses, and accelerate globalization.

P18: Structure to enhance connections among businesses and human resources

In an effort to build a structure to enhance connections among businesses and human resources, we have organized our businesses in a configuration shown on this slide since April 2016.

We have reorganized our businesses into 3 business sectors, Material, Homes, and Health Care. Asahi Kasei Corp, which used to be a pure holding company, has been transformed into an operating holding company by incorporating material-related operating companies.

For the past 13 years since we established the configuration of a holding company and core operating companies, we have emphasized what we call centrifugal dynamics in the organization, encouraging independence and autonomy in the management of operating companies. Over the next 3 years, however, we will shift our focus more on exerting centripetal dynamics so as to leverage group cohesion and combined strengths.

P19: 3. Financial targets

Let me move on to financial targets.

As you can see, our financial targets in 10 years' time, or FY 2025, are net sales of ¥3 trillion and operating income of ¥280 billion. In order to achieve this goal, we would like to position the 3 years during the new medium-term management initiative as a period to build the base, with financial targets of ¥2.2 trillion in net sales and ¥180 billion in operating income in FY 2018.

If you take a look at the footnote, you can see the exchange rate assumed is ¥110 to the dollar. Initially, when we put together this medium-term management initiative, our assumption was ¥120 to the dollar, based on which we came up with the operating income of ¥190 billion. More recently, however, the yen has been rising slightly to trend around ¥110 to the dollar, so we decided to change the operating income to ¥180 billion.

As some of you may know, in terms of the entire group's sensitivity to the exchange rate fluctuations, one yen appreciation against the dollar would erode the profit by ¥800 million to ¥900 million. This is the reason why we came forward with this number.

P20: 4. Basic strategy (1) Pursuit of growth and profitability

Here you can see the first of our basic strategies, pursuit of growth and profitability.

What we mean by this is to ensure each business sector fulfills its mission under the new organization, while Asahi Kasei Group as a whole provides value that contributes to society. The Material business sector takes up enhanced profitability as its mission, Homes, continuous stable growth, and Health Care, high growth.

In each of the existing businesses, competitive advantages should be reaffirmed and further reinforced to generate cash flow. Within each business sector, through combinations and integration of diverse elements, creation of added value will be pursued. On a group-wide basis, we will strive to create new businesses by connecting management resources.

P21: 4. Basic strategy (2) Creation of new businesses

The second strategy is creation of new businesses.

We will work to leverage Asahi Kasei's diversity to create value through combinations among various technologies and businesses. We have various technologies, diverse business operations, and market channels. By combining diverse business models, various core technologies and diverse human resources, we will seek to create value.

And at the same time, we will resort to open innovation, such as joint R&D and CVC to capture novelty and originality, while using M&A to enhance our strengths further and make up for our weaknesses, in managing businesses.

P22: 4. Basic strategy (2) Creation of new businesses (combining strength)

Another aspect of creating new businesses is about combining strengths. We will be striving to connect the strengths and features of each of the 3 business sectors so as to create new businesses unique to Asahi Kasei.

For example, in Material, our capability to develop new materials should prove to be one of our strengths. Homes will be able to serve as a platform for different businesses. In Health Care, insights and expertise specific to applications or the markets can be leveraged.

For instance, by combining resources in Material and Homes, we are hoping to build businesses in environmentally friendly construction materials and renewable energy–related fields, as well as net-zero energy houses, which is one of the topics much talked about recently. In Material and Health Care, development of high-performance materials for pharmaceuticals and medical care, as well as development of new markets for disinfection, can be pursued. In Homes and Health Care, we will explore at-home care, nursing care, and other businesses related to seniors.

P23: 4. Basic strategy (2) Creation of new businesses (approach to R&D)

Here we have shown our approach to R&D as part of our efforts to create new businesses. As we have combined a holding company and operating companies, we have gathered R&D personnel from a mid- to long-term perspective to reorganize the structure for human resources to join forces to yield synergies.

Our basic philosophy is to connect R&D to new business creation with a 3-axis perspective. In other words, R&D should be conducted not for the sake of R&D but to create new businesses. The 3-axis refers to fostering and acquiring core technologies, utilizing market channels, and heightening added value.

Given that industry trends are constantly changing, we need to identify technologies that will serve as our strength as we engage in R&D activities. Especially, in Chemicals, we have technologies of catalysts, membranes and polymer processing, whereas in Fibers, we have spinning and fabric technologies, as well as technologies to produce electronic devices, such as compound semiconductors and LSIs, which is rare for a materials company. We will continue to engage in R&D, utilizing these technologies, so that they will bear fruit by concentrating on fields of focus to some extent to create new businesses.

One such focal area is the environment and energy. Here it says hydrogen production. Hydrogen has often been produced out of fossil fuels conventionally, consuming a lot of energy and producing environmentally harmful substances, while we are working to produce hydrogen through alkaline water electrolysis, where we expect to apply our ion-exchange membranes, in other words, technologies to electrolyze brine. We are not just providing membranes, but offering systems to expand our business to include maintenance services. In gas separation, we will apply our membrane technologies in olefin and paraffin gas separation to create new businesses. Gas sensors which are based on indium antimonide compound semiconductor can be taken advantage of in this system.

In the automotive area, gas sensors such as CO_2 and alcohol sensors can be produced and integrated into modules and systems, instead of being offered just as devices, so that we can tap into new automotive applications. In performance composites, fabric technologies can be combined with polymer processing technologies developed for Chemicals, to carry out hybrid molding so as to produce extremely strong materials that can substitute metals. As for energy materials, we would like to come up with new materials such as inorganic ceramics-coated separators with enhanced safety for batteries and polymer electrolyte membranes for fuel cells.

In Health Care, we have high hopes for single-crystal aluminum nitride substrate-based deep-UV LED to substitute mercury vapor and deuterium lamps, which can be used for sterilization of water, air, and material surfaces. New materials for healthcare include ultra-thin stent grafts, which utilize fabric technologies, as well as cellulose nanobeads as labels for lateral flow immunoassay, which is based on technologies developed for Bemberg cupro fiber. The size of the market for each of these products may not be that large, but we would like to put our focus on those new materials for healthcare, by combining technologies in fabric and chemicals, while taking advantage of our expertise in the healthcare industry.

P24: 4. Basic strategy (3) Acceleration of globalization

The third basic strategy is acceleration of globalization.

This has been pursued in the previous medium-term management initiative, but by making the priority strategies in each of the business sectors clearer, we are hoping to further emphasize it.

In Japan, which is a basis to lead R&D and creation of new businesses, we will reinforce marketing functions and develop and pursue cutting-edge technologies in Homes, Health Care, and consumable-related products to increase our market shares, while heightening technologies at mother factories.

In North America, which is one of the few industrialized countries where the population is notably increasing, we will work to expand automotive and healthcare-related businesses, and obtain leading-edge technologies by utilizing CVC.

In Europe, which is a mature market, but is among the first to implement environmental and other standards and regulations, we will promptly respond to new standards and regulations in automotive and healthcare-related sectors. We also established Asahi Kasei Europe in Germany,

where we hope to enhance marketing functions.

In Asia, we made significant manufacturing presence under the previous medium-term management initiative. We would like to enhance the competitiveness of those manufacturing locations, while at the same time, capturing the region's potential as a growing market, reaping the benefit of our efforts in those growing emerging countries under the concept of local production and local consumption.

Furthermore, as we seek further globalization of our businesses, we expect to see the trade order to change with TPP and FTAs, which we need to closely watch in making the next investment plans.

P25: 5. Main performance metrics (1)

Given those basic strategies, here is the main performance metrics for the final year of the new medium-term management initiative and 10 years ahead in FY 2025.

As you can see, the operating income forecast of ¥164 billion in FY 2015 is expected to grow to ¥180 billion in FY 2018. This may look like an anemic growth, but as I said earlier, different exchange rates are assumed, ¥120 to the dollar in FY 2015 and ¥110 in FY 2018 respectively. If we used ¥120, during the 3 years, net sales would grow ¥250 billion, and operating income ¥25 billion, and ratio of growth in operating income against net sales would be about 10%. As we have done under the previous medium-term management initiative, we hope to strengthen highly profitable businesses and enhance their shares.

The net income per share is expected to grow to reach close to ¥80, and the payout ratio is planned to be increased from the current 30% to 35% in FY 2018. ROE, which stands at slightly higher than 8% currently, will be improved further.

The total investment during the 3 years is planned to be about ¥700 billion.

P26: 5. Main performance metrics (2) Concept for growth of each business scector

This slide shows the forecasts for FY 2015, targets for FY 2018, and the outlook for FY 2025 by business sector.

In Material, our goal is to enhance the profitability, and therefore we want to grow the operating margin by 0.5 percentage points in FY 2018.

In Homes, in order to ensure continuous stable growth, we will maintain 10% in ROS during the 10 years. However, we do not know whether there is another hike in the consumption tax rate, and if there is, FY 2018 must be the most challenging year in terms of profits, and therefore we are slightly conservative in coming up with the growth forecast in terms of absolute value.

In Health Care, we are aiming for high growth with average annual sales growth rate targeted at 8.8% for the next 3 years, and 7.2% between FY 2018 and FY 2025, with the operating margin intended to be maintained at 13%.

P27: 6. Future path for each sector: Material

In this slide, you can see the forecast for FY 2015 and the outlook for FY 2025 in net sales by business sector, represented in a bar chart.

As you can see, in the Material area, policy toward FY 2025 is to seek greater profitability through expansion in the performance products area, to solidify the No. 1 position of the battery separator business, and to use the combined strength of Asahi Kasei to cultivate new markets for materials.

Along this long-term policy, what we will do for the next 3 years is to enhance profitability by strengthening established businesses, and advance measures for the future that span across the sector.

As the bar graphs indicate, we will work on solidifying the stable earnings base consisting of petrochemicals and consumables primarily in Japan, and Fibers business, which is growing stably, while, over a long term for the next 10 years, grow demand in such areas as automotive, battery-related, and new materials for healthcare. We also envision growing business in the membrane area as shown at the top.

P28: 6. Future path for each sector: Homes

In Homes, policy toward FY 2025 is to secure stable earnings by raising market share for established businesses, to advance new businesses focused on medium-rise homes, seniors, and overseas markets, and to create distinctive added-value through connections with other sectors in Asahi Kasei.

Along this basic direction, the 3-year CT2018 envisions securing stable earnings in main businesses and seeking stable growth by expanding such businesses as real estate, remodeling, and insulation materials.

Sales are to grow from approximately ¥637 billion estimated for FY 2015 to ¥1 trillion in FY 2025. Major growth is expected in real estate, remodeling, overseas, and senior businesses.

P29: 6. Future path for each sector: Health Care

Moving on to Health Care, policy towards FY 2025 is to increase overseas sales with operating income reaching around one third of Asahi Kasei's total, promote global expansion in pharmaceuticals with Recomodulin recombinant thrombomodulin as the growth driver, and in medical devices, grow by further utilizing and strengthening the global platform centering on ZOLL.

Our focus for the next 3 years will be to strengthen profitability of domestic businesses, while building the global business base so as to grow this sector as the third major pillar of the Asahi Kasei Group along with Material and Homes.

We expect to double sales from a little less than ¥300 billion estimated for FY 2015 to ¥600 billion in FY 2025. This growth shall come notably from increasing the ratio of overseas sales. Given that overseas healthcare market, notably the US market, has great growth potential, we will focus on growth outside of Japan.

P30: Material (1)

I would like to elaborate on the measures to be implemented in each of the sectors over the next 3 years.

In Material, we will enhance connections among businesses, and pursue high profitability through optimized business portfolio. There are two sector-wide measures; one is to enhance connections among businesses in the sector, and the second is to advance global strategy in each area. You can see the details described in the slide.

P31: Material (2)

Slide 31 shows key businesses. First is to expand environment/energy and automotive–related businesses.

As I said earlier, expanding earnings from the battery separators is positioned as the biggest growth driver. In addition to the lead-acid battery separator capturing the demand in emerging countries, we will leverage our strength as a company with both the dry process and wet process Li-ion battery separators to offer our customers with new grades of separators so as to become their good partner. These are the measures we will take to expand our separator business.

Second is to expand automotive-related businesses. Our plan is to offer new types of products, such as compound semiconductor-based CO_2 sensors and alcohol sensors so as to make it a starting point of building firm and solid partnership with major automotive customers, such as tier one suppliers. We envision this opportunity leading on to offering weight-saving materials, for example, performance polymers, as shown here, so as to establish a solid partnership with major customers in the automotive industry. We also plan to leverage catalyst technology to advance our position in the area of environmental technology. This might be more of a license-income type of business rather than an operational one.

Another pillar is to strengthen the healthcare and hygiene–related businesses, with a view to raising earnings by enriching the product lineup and expanding capacity, which includes pharmaceutical additives, new products in the area of materials and components for medical devices based on fiber and synthetic rubber, as well as film for preservation and transportation of agricultural produce and food, and protective film for medical use. We will put our efforts in developing and commercializing new products in this area. We will also work on developing a new market in the field of sterilization, based on UVC-LEDs. These are the key businesses.

In terms of enhancing profitability of other established businesses, we will enrich the

lineup of high value-added products and promote globalization, and thoroughly execute the naphtha cracker joint operation which started this April. We will also work on optimizing domestic petrochemical derivatives businesses.

P32: Material (3) Automotive

Regarding the enhancement of the automotive-related business in the Material sector, for the purpose of facilitating a sector-wide comprehensive approach to automotive-related customers, the Automotive Marketing Department was established in April. In the Material sector, Asahi Kasei has a number of and a wide variety of businesses from Fibers to Electronics as you can see on the left-hand side of the slide. Instead of each of these businesses approaching the customers independently for different product areas, the newly established Automotive Marketing Department is to interface with the customers, exercising a greater internal coordination. We are thinking of pursuing this approach particularly in Europe to expand the automotive-related business.

P33: Material (4) Battery separators

In the battery separator area, as I said earlier, our plan is to maintain the No. 1 position in this field by strategically leveraging the 3 brands we have. Over the last 6 months, we have seen smooth progress in the PMI, or the post-merger integration, and we believe the foundation for future growth has been laid down successfully.

P34: Homes (1)

In the Homes sector, the mission is to keep on being a core sector and the main pillar of earnings for the Asahi Kasei Group, continue to contribute to people's healthy and comfortable living, and create a new value in unique ways together with other sectors.

P35: Homes (2)

More specifically we are to ascertain society's needs and further strengthen established businesses with comprehensive offerings of products, construction, and services, and expand the value chain through business development.

In Homes operations, we will pursue a new phase for real estate and remodeling businesses.

In remodeling business, with Hebel Haus unit homes having been marketed for 40 years, we now see generational change in people living there. We recently announced Frame Hebel Haus concept, in which only the framework and the exterior walls are retained, to completely redo the inside of the house. This is not just about maintenance or remodeling, but presenting new ideas about the interior to suit changes in the lifestyles of the residents.

In the field of real estate, given it's been 60 years since the first condominiums were sold in Japan, we will leverage our capability to build consensus among unit holders to rebuild the building, to enhance new forms of condominium business.

In the Construction Materials operations, we will reconstruct the configuration for compliance, rebuild foundation systems business, expand insulation materials business, and secure earnings in the AAC, autoclaved aerated concrete business.

P36: Health Care (1)

In Health Care, we will strengthen the global business platform for growth of this sector as the third major pillar of the Asahi Kasei Group. For this, we will enhance business infrastructure in the US, and leverage external resources. And we will improve profitability of established businesses in Japan for a leaner business. Those are our basic strategies.

P37: Health Care (2)

More specifically in pharmaceuticals, so as to advance globalization, we will accelerate the global Phase III clinical study for Recomodulin, currently underway in the US, for its launch in the US to establish global business platform. We also plan to expand the development pipeline for new products in Japan and overseas, focusing on the orthopedics area.

In medical devices we are to achieve stable growth by expanding market share for Planova

virus removal filters in the global market, and for dialysis products, we will capture growing demand notably in the Chinese market. In Japan, we will improve productivity and reduce cost so as to improve profitability.

In Critical Care, we will expand the Thermogard intravascular temperature management system for new indications, so as to make it the second growth driver following LifeVest. We will increase the market penetration and geographical coverage of LifeVest. We will launch new AED 3 defibrillator, which has better portability and usability, to achieve a leadership position in the AED market.

In terms of new businesses we are thinking of moving into disruptive technology that can change paradigms in the provision of care, and continue investments in medical ICT, regenerative medicine, and diagnostics.

P38: Health Care (3) ZOLL

Looking more closely at ZOLL, a growth driver under the previous medium-term initiative, we expect it to continue to be the growth driver for the coming several years. We expect a double-digit growth to continue for the next several years. Over the past 4 years there have been several mergers and acquisitions made, albeit limited in size, to reinforce ZOLL's business development. We also plan to enhance the ZOLL business in Japan in a steady manner.

P39: 7. Financial and capital strategy (FY 2016-2018 cash flow and allocation)

Moving onto the financial and capital strategy for the next 3 years, here are our plans for generating the cash flow and their allocation. We are to execute strategy for future growth so as to perform return to shareholders, while raising corporate value.

We assume the operating cash flow for 3 years to total ¥600 to ¥700 billion, and from that cash flow make a total investment of ¥700 billion.

In terms of shareholder return, target total return ratio for FY 2018 is 35%. In addition to stable and continuous dividend increases, we will flexibly perform share buybacks to achieve this return ratio.

Funding policy will be to rely on borrowings in principle, while maintaining the D/E ratio of around 0.5.

P40: Enhancing profitability

In terms of enhancing profitability, under the previous medium-term initiative, we had SL200 project to streamline cost. As an extension of that, we will promote SL2018 project, in which we will incorporate the "three actuals" in the area of cost, in addition to compliance. We will raise productivity and heighten specialization and efficiency of the supporting functions, by setting a target of saving over ¥50 billion, as was the case under the previous medium-term initiative.

P41: CSR at Asahi Kasei Group

Last but not least, Asahi Kasei's corporate social responsibility, CSR. We will strive to achieve our group mission by executing CSR fundamentals and CSR in action.

Based on the group mission to contribute to life and living for people around the world, we will execute such CSR fundamentals as nurturing the next generation through school visits, coexistence with environment through afforestation, and promotion of sports.

In addition, we will execute CSR in action, by delivering on the medium-term management initiatives so as to raise the corporate value for our various stakeholders.

And with that, I conclude my bit lengthy presentation. Thank you for your attention.

Question & Answer Session

Kadokura: Let us now take questions.

Mr. Kanai: Kanai from Citigroup Global Markets Japan. I have two questions. One is about investments. During the past 5 years, there were two major M&As, for ZOLL and Polypore, which

helped reshape your business portfolio.

Now, for the next 3 years, your plan is for a total of ¥700 billion, which means even more than the past 5 years on a per-year basis. As part of that, what is your M&A strategy? Will you continue to seek large opportunities, similar in scale to ZOLL or Polypore, or would the focus shift to smaller opportunities that augment existing businesses?

Kobori: With regard to M&A, it takes two to dance, and it is difficult to plan or foresee. Clearly, however, there are different approaches for each business sector.

For the Material business sector, the focus would be on new, early stage technologies that would augment our own R&D.

For Homes, our operations have so far been mostly domestic, but we are now considering how we can extend our reach internationally. As housing depends strongly on local context, such as history, climate, or traditions and customs, we would most likely team up with a local partner. The preferred form may be a business alliance through investment or loans, rather than outright acquisition.

For Health Care, one focus would be for the global marketing of Recomodulin, once we complete the clinical trials currently under way. We may also seek opportunities to better leverage and reinforce the global sales infrastructure of ZOLL.

In summary, while we do not rule out the possibility of a large-scale M&A, we are also focusing on smaller opportunities that are more specific to business sector.

Mr. Kanai: Thank you. My next question is about slide 26. The FY 2018 target figure for the Material business sector is ¥100 billion in operating income, against a ¥76.5 billion forecast for FY 2015, which means growth even against a stronger yen.

What is to drive that growth? I understand that this sector combines two of your previous business sectors, namely Chemicals & Fibers and Electronics, and that Chemicals can be further broken down to petrochemicals, performance polymers, and specialty products. Among these, specifically which is to drive growth?

Kobori: One would be the separator business. As I mentioned earlier, we intend to solidify our leadership in the battery separator business.

Another growth driver would be performance products such as engineering plastics and S-SBR for automotive applications. Our plan credits those two fields for about 60% of the expected operating income growth.

Mr. Kanai: Thank you very much.

Mr. Watabe: Watabe from Morgan Stanley MUFG Securities. To follow up on the previous discussion on the Material business sector, can you tell us if you are already seeing synergistic effects of the Polypore acquisition with regard to separators?

Additionally on Material, can you tell us your view on the acrylonitrile, or AN, spread for the next 3 or 5 years, please? What supply-demand picture do you expect, and what would profitability be like, given the historically tight levels now?

Kobori: With regard to separators, we are happy that after half a year, the post-merger integration is making good progress and that the Polypore side enjoys being part of our group.

We are almost complete with the consolidation of sales operations, so that customers interested in any of our separators would know where to go. We have also successfully combined the Polypore dry-process with our coating technology and have started offering samples of new grades of separator to customers. Synergies are already happening, but it should take more time before there is a tangible difference.

With regard to AN, the current situation is quite challenging. It is partly due to new capacity that came on line in China in FY 2014. Since then, however, we do not hear much talk among producers about adding capacity. On the other hand, there is growth centering on emerging markets, and we expect steady total market growth of around 2 to 3% per annum. Which means the

spread would improve from current levels at some point in time.

As the leading company in this field, our focus would be to maintain leadership and enhance profitability by improving on the catalyst technology and production yields.

We are hoping that market conditions would have improved significantly from current levels by FY 2018.

Mr. Watabe: Thank you very much. Now on Health Care, what expectations do you have for ZOLL and for Pharma?

Kobori: With regard to ZOLL, the contribution to the group over the past 4 years has exceeded our initial expectations. We believe the current high growth can continue further towards 2020 or so. We intend to support that by adding indications and reinforcing operations. It may involve smaller M&A deals. At the same time, we believe there are ways in which we can better leverage the ZOLL infrastructure towards FY 2025. In this way, we expect ZOLL to continue to be a major growth driver.

With regard to Pharma, it is more difficult to forecast. One key would be to make sure we obtain the FDA approval for Recomodulin, so that we can market it globally. The next 3 years will be critical for the growth of our Recomodulin business. If we can do it right, it should provide us with a strong foundation for the global expansion of our pharmaceuticals business towards FY 2025.

Mr. Watabe: Thank you very much. Finally, can you clarify what you said about shareholder return, please? Is this 35% total return ratio where you intend to arrive at in 3 years, by the end of FY 2018? And is this IFRS? Is it 35% over net income excluding amortization of goodwill?

Kobori: The basic idea is to steadily increase dividends, with a view to 35% in FY 2018. For the time being, given the market environment and the foreign exchange rate, we expect the environment to be challenging.

We do expect to deliver another best-ever year when we announce FY 2015 results in May, but we must not forget that we have been helped by a favorable environment. We should not be complacent and must keep working hard.

As to the basis of the 35% figure, it is net income as currently stated in JGAAP.

Mr. Watabe: Thank you very much.

Mr. Owaki: Owaki from Mitsubishi UFJ Morgan Stanley Securities. I think I follow the logic for changing from a holding company structure to an operating holding company, and shifting the focus to centripetal dynamics from centrifugal dynamics. From an outsider's point of view, however, it is not clear what difference that actually makes in terms of the behavior of people.

It is also a little difficult to understand why you are absorbing only some operating companies into the holding company rather than all of them.

Can you please elaborate on why you chose to do so, and what exactly would be different? Would it change the way people behave? Is it about changing how you evaluate performance, or how you manage human resources?

Kobori: We do understand that it may be difficult to understand from the outside.

From an R&D point of view, in the past we had core operating companies conduct their own R&D activities for their near-term as well as medium- and long-term growth. The holding company would also conduct R&D activities with a focus on the medium and long term.

Now the idea is to consolidate all that relates to materials in order to integrate medium- and long-term objectives and human resources plans. It is like a stocktaking exercise on our overall direction, the focus themes, and the necessary human resources.

If you could recall the history of the group that I touched upon in the presentation, there was an almost constant stream of new businesses all the way until the 1990s. However, since the 2000s, the diversification has mostly come from outside. ZOLL and Polypore are two examples here. Over the past decade or so, the drive to create new businesses from within, leveraging new,

proprietary materials, may not have been strong enough.

That is why we decided it is time to consolidate all material-related resources under one umbrella, so that we can review all activities and better align or coordinate across. It should put us on a better footing to develop seeds of new businesses for the next 10 years and beyond. Among the fields of focus that we have identified are hydrogen production, gas separation, and new materials for healthcare.

We are also holding multi-day seminars gathering leaders of all research centers together. It is enhancing mutual understanding on what R&D activities are under way at different teams. We seek to better connect and integrate R&D across different teams in order to expedite the development process and to help develop more of innovative, differentiating products by adding new perspectives.

Similarly, for supporting functions, there used to be supporting functions at the core operating companies as well as at the holding company. While the holding company was assisting the operating companies, the configuration was not conducive to personnel rotation. In order to enhance the specialization and efficiency levels of supporting personnel, consolidating the organization on a larger scale is beneficial, as it facilitates personnel exchange or rotation, and makes it easier to implement measures with a longer-term perspective.

Mr. Owaki: Thank you very much. My final question is on the data manipulation matter. Has there been any progress?

Kobori: Among the 360 projects for which manipulation of data was found, the Ministry of Land, Infrastructure, Transport and Tourism has confirmed safety of 357. The remaining 3 include the condominium complex in Yokohama, as well as 2 others for which safety inspections are almost complete but discussions with the residents and owners are still under way.

A total of 3,052 projects were subject to investigation of whether or not there was data manipulation. Associated expenses have been recognized during FY 2015, and should not have an impact on FY 2016 and onwards, with the exception of expenses related to the condominium complex in Yokohama.

Mr. Owaki: Thank you very much.

Mr. Yamada: I am Yamada from Mizuho Securities. There are 3 questions. First, in FY 2018, the financial targets are 9% in ROE, ¥180 billion in operating income and ¥2.2 trillion in net sales. Which one of these will you, as president, give top priority?

As you look ahead from FY 2018 to FY 2025, which is far into the future, unless the kind of the annual average top line growth you achieved for the past 10 years continues, you will not be able to reach ¥3 trillion. However, looking back over the last 7 or 8 years, it was only because of the quantitative expansion in developing countries and the yen's depreciation that you managed to achieve to grow sales by 1.5 times. Now this time around, what are we supposed to expect to happen to enable you to reach ¥3 trillion?

Kobori: For FY 2018, what we would like to put priority to is the operating income, and that would lead us to focus most on enhancing the operating margin, while achieving the net sales of ¥3 trillion as we move to FY 2025.

The average annual growth rate in sales for the next 3 years will be about 4%, and 4.5% for the remaining 7 years. In that sense, we have set a slightly higher target for growth in net sales further down the road than for a more immediate future.

To this end, we will pursue globalization of businesses, especially in the Health Care sector, where we anticipate higher growth potential in the market, which should bring us higher growth in our business as well. So, capturing the expected higher growth rate in the Health Care sector in industrialized countries is the reason why we expect to achieve slightly higher average annual growth in net sales.

Mr. Yamada: Thank you. My next question is about page 28 in relation to Homes. With the changes in demographics in Japan, how can you expect to maintain the sales of order-built homes?

I can see how you can grow real estate remodeling, but not for order-built business. Your distinctive business model is so successful because it suits the Japanese culture, but can we expect similar profitability when you roll it out outside of Japan? What kind of time frame do you plan for to achieve this?

Kobori: Order-built homes business is concentrated in urban areas, where we can still expect a certain level of housing starts to continue for some time. And our basic strategy is to increase our share in medium-rise unit homes and apartment buildings.

For the past 10 years, as you rightly pointed out, housing starts have been gradually declining, whereas we managed to increase the orders received in terms of value, and enhance profitability in order-built homes. We do not expect the trend of the overall market to change, but by proposing ways of living to meet the needs of the customers, under the Hebel Haus brand, we believe we can increase our share stably, if not at a high growth rate, to expand the scale of our business.

With regard to overseas markets, we are now engaged in concrete studies. As I said in my presentation, the way of living depends on the history, culture, and practices in a particular country. But we have expertise such as reducing construction period, and capturing customers' needs, which we can leverage in overseas markets by collaborating with housing companies overseas so that we can build our business step by step.

We do not plan, for the moment, to follow the model of major developers, who would acquire large chunks of land and develop the space on a large scale. Instead, we will take one step at a time slowly but steadily by focusing on certain geographic areas. Whether this would bear fruit will really depend on how such efforts would play out for the next few years.

Given that, a total of ¥100 billion in sales for the overseas business and business for seniors is represented in the top graph on page 28.

Mr. Yamada: Personally, I don't believe the corporate value should change with changes in its accounting standards. Putting that aside, I'm interested to know how you look at the adoption of IFRS?

Once you introduce IFRS, since you have a large amount of amortization of goodwill, operating income would look increased. But more costs will also incur, therefore, the introduction of IFRS should push down the corporate value by the amount the costs have increased. If you can share your thoughts on this, that would be appreciated.

Kobori: It is true that we carried out two major acquisitions during the period of the previous medium-term management initiative, which has resulted in a significant increase in the amount of goodwill amortization. We are constantly exploring the possibility of adopting IFRS.

On the other hand, there is also concern on lease accounting standards. We have heard that policies for lease accounting in IFRS have mostly been finalized. We would like to spend the next one year or so closely studying what would happen if we apply IFRS.

As you said, once we introduce IFRS, we will not amortize goodwill, so the operating income is likely to increase significantly. However some companies are struggling with the impairment losses in recent years, as the business would be scrutinized for its impairment. So there are different types of impacts you must consider with the introduction of IFRS.

So, what we need to do is to figure out how to enhance the corporate value and gain understanding on that from stakeholders including shareholders. Therefore, we will study the possibility from these two perspectives for the next few years.

We do not plan to apply it by the end of the new medium-term management initiative, or FY 2018. But we hope to spend the 3 years studying the possibility so that we can decide what to do at the next medium-term management initiative.

Mr. Okazaki: I am Shigeki Okazaki from Nomura Securities. I have 2 questions. The first question has to do with the period between FY 2015 and 2018 with regard to Homes. For the near term, it must be challenging for you in terms of unit homes and apartment buildings, partly due to the data manipulation matter, but would it be correct to understand that your expectation is that, by FY 2018,

the issue would be all resolved and your share would be increased rather than declined as compared to the past, as the president said?

Kobori: You are right. For the past 6 months or so, we have been voluntarily curtailing advertising and promotional activities. Given this, we may seem to be slightly struggling especially in orders received for apartment buildings, with a monthly decline of more than 10% year-on-year, which may have caused concern that we must be in a big trouble. Looking at the absolute numbers, however, we are not doing so poorly compared to our historical performance.

In April, we have resumed advertising in newspapers and other media and therefore we hope our business will be back on track in a few months and start to see brisk growth in orders. Therefore, we believe that there will be no impact from the data manipulation matter in FY 2018.

Mr. Okazaki: You were quoted in the media reports as saying you have confidence that orders will recover. Have you felt any positive reactions from the market so far?

Kobori: Well, we have just started the advertising again, so what we can do is to monitor the actual performance for the next 2 to 3 months and disclose it to demonstrate the recovery is on track.

Mr. Okazaki: My second question is the way you look at assets. For example, strategically held shares, and unprofitable businesses, although in your case there are very few of such cases, could be scrutinized to select possible divestiture targets in order to improve cash flow from financing activities. Are initiatives like this incorporated somehow in the new medium-term management initiative?

Kobori: As you said, the corporate governance code was issued last year, which requires us to assess the value of strategic shareholdings every year, and explain the rationale to justify the holdings. We are diligently carrying this out currently to respond to it. Obviously, in order to sell such shares, we need to discuss with related parties, and so it would not be possible to sell all of them so quickly, but we hope to carry it out wherever we can during the 3 years of the medium-term management initiative.

With regard to review of businesses, we should not just focus on adding to our businesses, but must engage in improvement on cash flow and, in some cases pursue various means of business restructuring.

For more than 10 years, as part of the initiative of selection and concentration, we have withdrawn from some of the businesses, and therefore we will not just increase the businesses we take up but will also look at eliminating some so as to improve cash flow.

Mr. Okazaki: With regard to shareholder return, when you said 35% in total return ratio, do you mean you would like to achieve 35% in FY 2018, including some share buyback?

Kobori: Yes, you are right.

Mr. Takeuchi: Takeuchi from SMBC Nikko Securities. I have 2 questions. The first question is about page 39. How much non-linear growth does the ¥700 billion of total investments include? In other words, you are going to spend as much as ¥700 billion and yet the sales growth you expect to achieve as a result would only be ¥250 billion. I do understand timing may matter, but to what extent has the impact from these investment plans been incorporated in the financial targets?

Kobori: In the previous medium-term management initiative, we have invested slightly more than ¥100 billion in existing businesses. For the next 3 years, as I said, we will look at the competitive advantages of the existing businesses more closely, to strengthen them.

For these existing businesses which are our strength and therefore can be rolled out globally or can be expanded further domestically, we would like to expand the capacity further. It will not be limited to the simple increase of the current facilities but, for example, we may seek to establish the integrated production starting from raw materials, or to increase services for customers

in each of the business locations. Therefore, we intend to enhance and expand the capacity from various perspectives.

In that sense, we want to spend slightly more in existing businesses than what we spent under the previous medium-term management initiative. And with the slightly less than half of the amount that would remain, we hope to carry out initiatives such as M&A. But it really depends on at what timing we can actually implement them, so it is likely that the tangible results may not be seen until FY 2019 or subsequent years.

Mr. Takeuchi: Does that mean no impacts from the investments in M&A and non-linear growth worth about ¥350 billion have been reflected in the ongoing plan of sales and operating income?

Kobori: Yes. Though some of post-acquisition depreciation/amortization costs will probably be accounted for, we have to wait a bit longer for contribution to sales.

Mr. Takeuchi: The second question is about Polypore. Previously, you said you would absorb the goodwill amortization costs and other intangible assets to turn into positive operating income in 4 years after the acquisition. Has there not been any change in that prospect?

Moreover, could you be more specific about the current status of adoption of Li-ion battery separators for automotive and other applications, as I understand Polypore had lost one of its major customers before the acquisition. Aside from synergistic effect, how much progress has the company made in rebuilding its business on its own so far?

Kobori: Our basic thinking is to bring the after-amortization operating income to break even or even be profitable in 3 years after the acquisition, which happens to be FY 2018. Since the acquisition of Polypore, the operating environment has been one in which we see the acceleration of shift to eco-cars in the market, as represented by electric buses in China and Toyota's vision, as reported today, to further strengthen plug-in hybrid vehicles. In the meantime US environmental regulations are becoming more stringent. So overall, we see a move toward environmentally friendly vehicles, a move toward eco-cars, which is a favorable trend for our business.

We believe the market is moving in a favorable direction, and so using the separator business as a growth driver, we expect the battery-related business to achieve sales of around ¥200 billion in 10 years' time, in FY 2025, from the current level of sales which is still in the order of tens of billions of yen.

Mr. Takeuchi: In the interim, how much sales do you expect from separators in FY 2018?

Kobori: We have yet to disclose those numbers. Since we are talking about the automotive-related business, we need to first get a better feel of when we can expect various initiatives to start making contributions, before we get more comfortable sharing specific figures with you.

Mr. Takeuchi: As of FY 2018, will the automotive portion in the LIB separator business be remarkably higher? Or will you still be in a preparation stage for the period under the next medium-term initiative?

Kobori: In the Celgard business of Polypore, there still are quite a bit of idle capacity at the production facilities. We want to first raise the production level to full capacity, and then, depending on the situation, add capacity to remove bottlenecks. We expect the mobile applications to grow steadily and the automotive applications to grow rapidly.

Mr. Takeuchi: I see. thank you.

Mr. Enomoto: Takashi Enomoto from Merrill Lynch Japan Securities. I have 2 questions. First on extraordinary income and loss. What factors are incorporated in your medium-term initiative? Particularly in relation to the pile installation falsification issue, any risks of having to pay compensation, for instance?

Kobori: Your question is on extraordinary loss. During the period under the previous medium-term initiative, there were some big items such as strengthening of the petrochemicals operations in Japan. For the next 3 years we do not expect similarly large items in the operations area.

As you have correctly indicated, one possibility is in relation to the pile installation data issue in Yokohama. We need to first have a good understanding of facts. About what the developer of the condominium complex in question is proposing to the residents, we are not hearing anything further from the developer than what is generally being reported. We don't know if they are going to rebuild the complex.

We will verify the status of piles, and if the decision is to rebuild, we will try to identify the extent of our legal liability. We will be deciding that through thorough consultation with the developer. The medium-term initiative that we announced today does not include any expenses related to the data falsification issue.

Mr. Enomoto: Next question is the impact of the data falsification on the brand image of Asahi Kasei. From what I can tell by looking at the medium-term initiative, it seems that there hasn't been major impairment of your brand. Am I correct? Conversely, what if the orders don't return as you expect after the resumption of your advertisements? What do you think of the risk of that sort happening? What's your view on the current status and how confident are you with the 3-year initiative?

Kobori: There were compliance violations in the foundation systems business of the Construction Materials operations. So certainly we expect an impact on the foundation systems business.

But when it comes to the Homes business, while we did feel the impact during the last 6 months when we refrained from advertising, going forward as we resume advertisements, we doubt there will be any major impact. As for associated risks, as far as unit homes are concerned, orders remained strong even during the last 6 months despite advertisements being voluntarily suspended.

Japan has many earthquakes. The structurally robust Hebel Haus unit homes with strong earthquake and fire resistance complemented by a 60-year inspection system are well appreciated in the market.

Where we saw some decline in orders is for apartment buildings. As we voluntarily suspended advertisements, there were smaller traffic of potential customers seeking reference materials, which had quite a bit of impact on the level of orders. We also saw a decline in orders based on referrals.

Mr. Enomoto: I see. Thank you.

Mr. Umebayashi: Hidemitsu Umebayashi from Daiwa Securities. I have a question on slide 38, on ZOLL Medical. As far as the next 3 years are concerned, am I correct to assume that the driver in the LifeVest business will continue to be the US? Or do you expect a certain level of growth in Europe and Japan as well?

Kobori: Basically we believe the US will continue to be the main driver. At the same time, we see growth in Germany picking up. We see the LifeVest business beginning to grow in France, Japan, and elsewhere as well.

While there is an aspect of health insurance reimbursement price to be taken into consideration here, what's important is to build the appreciation for the effectiveness of the product, to have doctors in the field recognize the effectiveness of LifeVest. Once those factors are satisfied, the adoption rate or growth shall be rather dramatic.

So it is extremely important to build the track records. The objective is not to grow rapidly but to demonstrate in each market the benefit to the patient. When you do that, growth would follow and accelerate. That's what happened in the US, and is happening in Germany. So building a solid foundation in France and Japan over the next year or two should lead to higher growth in 3 to 5 years' time

Mr. Umebayashi: So you're saying that Germany should contribute within the next 3 years, but France and Japan should wait a little longer?

Kobori: Yes, that is correct.

Mr. Umebayashi: I see, thank you. My next question is on slide 26 where you're showing the expansion in each sector. When I add up the operating income of each sector, it appears that others and elimination is projected to decline by ¥20 billion or so. I am aware that the note at the bottom says the total shown here does not match that shown on the previous page, but would you care to comment on the difference?

Kobori: We are living in the world where changes are rapid. There are geopolitical risks, so some segments might do better than others. So as a buffer or a cushion to absorb those elements, we are presenting rather conservative figures. Of course, in the meantime, each sector is expected to work hard toward achieving its respective goal. That's our basic thinking.

Mr. Umebayashi: Am I correct to assume that it's not that corporate expenses and eliminations would rise dramatically as a result of mergers and acquisitions, and strategic investments?

Kobori: You're right, that is not the case.

Mr. Umebayashi: Thank you.

Mr. Azuma: Yoshihiro Azuma from Jefferies Japan. I also have a question on your medium-term growth, beyond FY 2015. In terms of absolute value, the largest growth comes from Material.

I suppose you're expecting growth in separators. But compared to 10 years ago, there are much more competitors in the separator business. I do understand growth in the market demand, but can you really grow that much?

And what about businesses other than separators? You mentioned automotive-related as a focal area. Can you elaborate on that? So my question is what drives so much growth in the Material sector?

Kobori: For FY 2015, sales for Material are estimated at approximately ¥1 trillion. For FY 2025, we are projecting ¥1.65 trillion, an increase of ¥650 billion in 10 years.

One big factor there is automotive-related. Excluding separators, sales are about ¥100 billion today. We want to grow this to ¥300 billion or so in 10 years, based on performance polymers businesses such as S-SBR.

And battery separators and healthcare-related materials currently have combined sales of around ¥100 billion. We want to grow this to around ¥300 billion in FY 2025.

So these fields should account for around 60% of the expected increase of ¥650 billion.

In addition, there are membranes as listed there on the top, and coating materials. But as far as membrane-related business is concerned, we don't expect FY 2025 to be a peak growth year, but rather still a transient point.

Mr. Azuma: By membrane-related, you don't just mean ion-exchange membranes and others that you already have, but rather you expect new applications areas, such as hydrogen production to be more significant, am I correct?

Kobori: We are thinking of growth including such applications, yes.

Mr. Azuma: I see, thank you. My last question is on your total return ratio which you said will be targeted at 35% in FY 2018. Now given the company's cash generating capability, particularly given that the Homes sector has stable cash flow, should you not consider raising your leverage a bit more? To raise total return ratio, and target a bit higher ROE, I think that is doable. What do you think?

Kobori: You may be right. There might be some room for that. But things change very rapidly, for instance the exchange rate quickly changing from ¥120 to ¥110 to the US dollar. So are the stock prices. At the end of last year, many securities firms were projecting the Nikkei average at the end of this year to be around ¥23,000. But that doesn't seem to be the case looking at the current level.

And equity is impacted by changes in foreign currency translation adjustment, and valuation difference on available-for-sale securities for instance. When these items fluctuate, ROE figure would easily shift by several fractions of a percentage point. That's how volatile today's world is.

So if we set a stretch goal, perhaps we can achieve it. But we would rather continuously enhance the corporate value, and think about growth not only for the next 3 or 5 years but beyond. We need to enhance our financial base, and we want to be mindful of stable shareholder returns.

This figure reflects those thoughts. Rather than setting a high goal and not delivering it, we want to present a solid figure so as to live up to the expectations of our shareholders over a medium- to long-term. That is our policy.