

Transcript of Conference for Final
Phase of *Growth Action-2010* &
Concept for the Next Initiative,
held on June 4

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Asahi Kasei Corporation

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Presentation

Fujita: Good afternoon. Thank you very much for coming to Asahi Kasei Corporation's briefing on management plans. Let me introduce the participants. Taketsugu Fujiwara, the president; Koji Fujiwara, CFO, responsible for Corporate Strategy, Corporate Accounting & Control, Corporate Finance as well as Investor Relations; Yuji Mizuno, Director, Senior Executive Officer, and General Manager of General Affairs; and Yutaka Shibata, Lead Executive Officer and General Manager of Corporate Strategy. Now let us begin with the presentation.

Taketsugu Fujiwara: Thank you for the introduction, I am Taketsugu Fujiwara, and have been serving as the president from April 1st. 2010 happens to fall on the final year of Asahi Kasei group's *Growth Action – 2010* mid-term initiative. Throughout this year, we will compile our next mid-term plan beginning in 2011, based on the developments so far and on changes in the environment due to the Lehman shock we experienced in the latter part of 2008. We are now in the midst of conceptual discussions for our next plan, so we are unfortunately not yet in a position of sharing with you concrete plans. (We ask for your understanding.)

P3: Shifting to growth

Page 3 shows our mid-term business plans up to the *Growth Action – 2010*. We initiated mid-term plan called *Ishin2000* under the slogan of selectivity and focus, followed by *Ishin-05*, where we called for selective diversification. In these periods, we selected our businesses to focus on, and developed basic strength. Based on that, the *Growth Action – 2010*, a five-year business plan, was launched in 2006 for expansion and growth.

Our concept back then was to divide our businesses into high growth businesses and stable growth, stable earnings businesses. We intended to globally expand our high growth businesses, as well as stable growth businesses if they were competitive enough. We also emphasized firmly creating stable foundation by enhancing Homes and many other domestic businesses. That was how we started the mid-term plan.

P4: Strategic investment for continuous profit growth and dividends increase

What we had in mind for investment back then was to invest a total of 800 billion yen in five years, out of which 400 billion yen was to be spent for strategic investment. Of them, 150 billion yen was for M&As, 220 billion yen for organic purpose. And with such resources we aimed to increase our earnings continuously.

P5: Targets in FY 2010

Back then our ultimate target for 2010 was to post 1.8 trillion yen in net sales and 150 billion yen in operating income, and 80 billion yen in net income. Our performance in fiscal 2005 before initiating

this plan was 1.5 trillion yen in net sales and 100 billion yen in operating income.

P6: Strong performance through FY 2007, impact of severe economy in FY 2008

So this was where we started the mid-term plan. We actually outperformed our plan until 2007. But in the latter half of 2008, we saw a plunge in some of our businesses such as Chemicals and Fibers due to Lehman shock. We also saw Electronics which was relatively high growth and profitable segment to fall. In the end, we were able to see a positive operating income of 35 billion yen supported by our domestic businesses.

P7: Responding to challenges

After the Lehman shock, we slightly revised the initial *Growth Action – 2010*, although we didn't change our basic concept. But in addition to our earlier plans, we decided to accelerate streamlining general-use/commodity business, and invest only on effective segments to improve our investment efficiency.

P8: Revision of FY 2010 outlook (as of June 2009)

And based on that, in June 2009 we announced the revised outlook for fiscal 2010. We revised our outlook on total sales to be somewhere between 1.35 to 1.5 trillion yen, down from our earlier target of 1.8 trillion yen. On operating income, we revised our initial target of 150 billion yen to somewhere between 60 to 80 billion yen. Since Chemicals and Fibers were highly volatile, and since they were heavily hit by the Lehman shock, we revised our initial target quite substantially. But we did not make a drastic downward revision for Electronics and Health Care since they were expected to grow.

P9: Revision of 5-year capex plan (as of June 2009)

We reduced the 5-year capex plan from 800 billion yen to around 670 billion yen, and limited the framework of investments for expansion, thereby raising investment efficiency. Based on such idea, we compiled a revised plan and have been implementing it for a year.

P10: Consolidated operating performance

Page 10 shows the figures at the end of 2009, where we started the 2010 budget plan. I would like to explain the current situation based on them. For the budget, we set our net sales to be 1,677 billion yen, and operating income to be 80 billion yen. As I said earlier, the revision we made on June 2009, our outlook on operating income for 2010 was revised to be 60 to 80 billion yen. So that means that in the budget we thought we would reach the upper side of the our assumption. Net income was forecasted to be 42.5 billion yen, up 17.2 billion year-on-year.

As for the premise of such figures, we assumed the price of naphtha to be 50,000 yen per kiloliter. Currently the market price stands a little lower than that, but has remained close to 50,000 yen. The assumption of the foreign exchange is 90 yen to the dollar, but due to the impact of political situation in Japan, the current rate is around 92 or 93 yen. But although it is not written here, our euro forecast was 130 yen. In Europe, we trade a large amount in euro mainly in medical devices business, but the percentage of euro-based transaction is not that large for the group. A fluctuation of one yen per euro would cause an impact of 100 million yen in operating income annually. Since we had many medical devices business conducted in euro, for this we handled the risk cautiously and set a flexible premise of around 120 yen per euro, although our main forecast was 130 yen. Therefore, even if the current market price of euro fell below the premise of 130 yen, it will not affect the company's profit so much. We have more transactions based in dollar. A fluctuation of one yen per dollar would render an impact of 600 million to 700 million yen in operating income. So in all foreign exchange rate is not a problem.

P11: Sales forecast by segment

On page 11 we have sales forecast by segment. As you may be aware, our sales volume and prices of Chemicals have been good in China and other places. In particular, we expect that the sales of chemicals and derivative products will increase. What we should pay attention on is Homes, where we forecast an increase in sales. Although the number of housing starts in Japan is not expected to grow much, we are foreseeing some benefits from various public measures, such as the so-called "Eco-point" incentives by the government, and increased interest rate discounts by the Japan Housing Finance Agency,

thus providing a sense of recovery to the housing market. And we also beefed up our sales team placing emphasis on detached homes in order to rekindle the demand. In other business segments, we forecast increase of sales. In particular, in Electronics we already saw a steady demand for electronic compass at the time of budget compilation, so we're forecasting larger sales. As a result in consolidated basis, we foresee an increase of sales by 243.4 billion yen year-on-year.

P12: Operating income forecast by segment

Page 12 shows the forecast of operating income by segment. In Chemicals, we plan an increase of about 2.4 billion yen year-on-year. For Homes, as I said earlier we expect an increase in sales and income. If we can achieve 29 billion yen in income, that will mark the highest income since we started homes business. We incorporated this figure here in aspiration to attain this goal. As for Fibers, this segment posted the only negative operating income in fiscal 2009, but we expect it to turn into positive this year. We have been able to strengthen its operations, so the segment has been demonstrating a good start since April. We expect Electronics to post 16 billion yen in operating income, which is more than twice the previous year, indicating our determination to do all we can.

Two months have passed since the fiscal year began, and I believe we were able to make a good start. For instance, in Chemicals. Spread has been good in chemicals and derivative products such as acrylonitrile and adipic acid, enabling us to make a good start in April and May in a better pace than we thought.

In other segments, we are producing electronics with our full production capacity. Sales have been brisk these two months, and the challenge here is to swiftly improve marketing and operational strengths of semiconductor business acquired from Toko Inc. We have here a forecast of a total of 80 billion yen in operating income, but I say we should aim at 100 billion yen since the company has a new president. So we are trying to do more than the forecast, in order to see a better figure at the end of the fiscal year.

P13: Electronics

From page 13 we see actions taken by each segments. I will try to be brief here since you may already know these facts. Electronics have been a segment we have been emphasizing, and are divided into two sub-segments, electronic devices and electronic materials. For electronic devices, our traditional business model has been rather dedicated to the Japanese market, developing product designed to meet customer requirements. But in fiscal 2009, we expanded the sales of new products such as electronic compass, acquired power management ICs from Toko, and enlarged production capacity with an eye on expanding our overseas operations in the future. We also increased overseas sales companies and enhanced our design base. Those were the progresses we saw in terms of business.

In electronic materials, Asahi Kasei created a new operating company and gathered various operations related to electronic materials that had been dispersed in different companies, such as Asahi Kasei Chemicals and Asahi Kasei Electronics, into the new company in order to maximize market synergy. In addition to such organizational changes, we have been making investments without hesitation to Hipore™ lithium-ion rechargeable battery separator, dry film photoresists, photomask pellicles, and other businesses that enjoy high global share, in order to make them bigger. We plan to further utilize the merit of a number-one position of these businesses, and implement a strategy of ample investment, and continue to put people and money into R&D in these fields.

In particular, the usage of lithium-ion rechargeable battery is expected to change drastically. This product has been expanding significantly, used mainly in mobile phones and mobile personal computer so far. However, its use in automobiles, storage batteries for home, and other social applications is expected to grow in future. We have been carrying out researches for various materials of lithium-ion rechargeable batteries, and we wish to maintain and further raise our leading position in separators by developing new materials as well as processing methods.

P14: Health Care

Page 14 explains about our other field of emphasis, Health Care. As we wrote here in pharmaceuticals, Recomodulin™ recombinant thrombomodulin is expected to expand its sales this year. We also acquired the intellectual property rights of naftopidil that we have been using for Flivas™, an agent for treatment of benign prostatic hyperplasia, and plan to launch the production of the compound in

Japan. The sales of Flivas™ itself have been brisk, so our pharmaceutical pipeline until around 2015 is quite robust. Although the investment had been a little up-front, we increased the number of medical representatives and spent quite a large amount for R&D to expand the business. Some investors pointed out that profits should have been bigger in fiscal 2009 and in forecast for 2010, due to up-front investments, but in that respect we can say that we have been able to build a solid foundation where we can add new drugs on top in future. Regarding Recomodulin™, we are conducting clinical studies abroad, so we hope this will serve as our breakthrough into the overseas market, expanding our drug market from Japan to overseas.

We also aimed at a global expansion of our medical devices. Under the leadership of former president Shiro Hiruta, we forged partnership with many companies. As written here, we tied up with Kawasumi Laboratories, developed dialysis business with NxStage Medical, and explored advanced medical device businesses by tying up with foreign companies to develop Reveal® DX insertable cardiac monitor and Evaheart™ ventricular assist system. Thus we were able to enter the market of advanced medical systems.

P15: Chemicals & Fibers

Chemicals and Fibers on page 15 gained quite a lot of sales. I think these are the two reasons behind this. First, I talked about this when I explained about our *Growth Action – 2010*, but we successfully carried out a structural reform. We streamlined general-use/commodity businesses by consolidating fertilizer business and integrating industrial explosive operations. As we announced earlier this week, we decided to unify naphtha cracker operation in Mizushima with Mitsubishi Chemical. Through such efforts, I believe we will be able to improve our business character to make it stable and firm so that the general-use/commodity businesses will not stand in the way in the future.

Secondly, we focused on businesses that have potential to secure strong market positions in the world. Ion-exchange membranes, acrylonitrile, which we are now building a new plant in Thailand, and Duranate™ HDI-based polyisocyanate, which we built a plant in China. These and water treatment businesses can aim at obtaining a top global share and will be developed further. At the same time general-use/commodity businesses will be structurally changed into stable, profitable business.

On Fibers, I earlier said it will turn black in terms of operating income. We closed the polyester filament plant that has long been struggling, and withdrew from the field of monofilament. So I believe we have been able to make this segment a stable business as well.

P16: Homes & Construction Materials

As for Construction Materials, since there's not too much hope in the Japanese construction market, we decided to change our business model. For example, we introduced fables model for piles and changed our operations highlighting the core value of business.

On Homes, as I referred to earlier, the number of housing starts is indeed declining in Japan. What we are trying to do is to once again cultivate customers in our target market. This means creating new demand. Our new 3-stories Hebel Haus™ Frex “G3” showed an excellent start. We need to develop the target market of Hebel Haus™ and strengthen sales operations accordingly. We cut cost in 2009 by over 10 billion yen, so I believe our unit-home business has been strengthened.

P17: Overview of results to present

To that extent, what we have achieved so far is investment for expansion in high-growth businesses, such as Electronics, Health Care and chemical specialties. We also have expanded AN as a global business with competitive superiority. We reviewed commodity businesses, and considered the unification of naphtha cracker operations in Mizushima for production efficiency improvement, and improved structures of Fiber and Construction Material businesses. And as I explained earlier, we have made the business stronger, and we will challenge unit-home business once again. Having said that, we were not able to achieve initial business target and we have not been able to create specific new businesses. And although we said we would have large-size M&A as one of the goals in *Growth Action – 2010*, but this has not been done.

So *Growth Action – 2010* can be summarized in this way, and as global economy has been significantly changed, business growth only along with this trend should not be good enough for us. So as we have already achieved many of those *Growth Action – 2010*, and the historical record operating

income for us was 128 billion yen. And we should be strong enough to surpass that number, even though the timing has been delayed. As we have come to this point, I believe we have made achievement for planned action so far, even though there are some exceptions.

P18: Maturity and decline of Japanese economy

After the Lehman shock, sense of value has been changed as situations were changed. Point is how we can understand and reflect them in our next mid-term plan. I am not going to explain fully as you should be an expert, but in Japan markets are being matured. And population in Japan starts to drop from 2010 or so. Aging society is no news, but population finally starts to drop.

P19: Growth of world economy

P20: Challenges and constraints to growth

And as for global environment, you can expect growth mostly from China or India only. This causes shortage of resources. So we discussed internally about the several change of value, as we want to use them as opportunities.

P21: Other subjects

This slide explains about assumptions of our main businesses, future trends of ethylene production capacity, Japanese national medical expenses, and number of households.

P22: Facing upcoming socio-economic developments

By capturing these social changes, we have come to a conclusion that we need to look ahead under the upcoming trends and capture the trend early, and use them for our business opportunities. We decided to have this kind of discussion. Each business of Asahi Kasei has been generally operated independently based on physical products, but we need to open our eyes wider and discuss how society would be changing in future. So directors of Asahi Kasei spent about six months to discuss how we can utilize our own originality and fit ourselves into the social changes.

P23: Basic tenets of the Asahi Kasei Group

Basic tenets of Asahi Kasei Group is “contribution to human life and human livelihood.” Human life is about person, individuals, or mankind, and human livelihood is about society as their collective form. Contributing people and society is the basic philosophy of Asahi Kasei. Then based on the changing world, how specifically we can contribute to human life and human livelihood. Our conclusion was to help society progress in harmony with the natural environment on a global scale, and enable each individual to live in health and comfort. That means Asahi Kasei’s business should be based on the two perspectives. Our overall philosophy should be about creating such society through our businesses.

P24: Management responding to the needs of the times

Asahi Kasei has been changing our businesses based on new concepts every 15 years or so. As we are getting into new mid-term plan, we recognize the changes of the world, and we need to converge our output with concepts such as harmony with the natural environment and living in health and comfort.

P25: Responding to the needs of the new era

Therefore, we set our future direction of our all businesses based on these two perspectives. When we create new businesses, we also use the concepts. Our actions should be unified based on these two phrases. This is the point of our current discussion.

P26: Concept for the new mid-term management initiative (1)

In the past, Asahi Kasei moved ahead with *Ishin2000*, *Ishin-05*, and *Growth Action – 2010* by using key phrases such as “selectivity and focus”, “selective diversification”, or “growth”. In *Growth Action – 2010*, we tried to convert our portfolio for expansion and growth. We continue and complete the direction in each business without any changes. So from now on, we will create businesses based on ideas such as “harmony with the natural environment” and “living in health and comfort”, and review our existing business with these two perspectives once again, and consider new deployment of our business

accordingly. It is also important to shift to stable profit structure as quickly as possible. At the same time, we also want to try fresh approach to creating new businesses based on another new value. This is one of the points we currently discuss for our mid-term plan.

P27: Concept for the new mid-term management initiative (2)

As I said earlier, all businesses will be converged with the two phrases, living in health and comfort and harmony with the natural environment. And what this means is traditionally company outputs have been evaluated based on these economic evaluation or numerical figures. But we are discussing about evaluation of business execution based on these perspectives. And when we are talking about changes of business portfolio, we would like to make it visible moving toward the two directions. So we are discussing how we can express that so we are trying to create evaluation format with equal weighting between the two new perspectives and traditional economical values.

For example, for environmental issues, there is an index called LCA or life cycle assessment which has been already acknowledged globally, but there is no such numerical index for health and comfort. So we are discussing about indices for contribution to health or human life, such as sustainable index. But we are also looking for something else that makes us visible as we execute our business. So we are also discussing about this.

P28: Perception of established businesses

As for our continuing effort about change of established businesses, we are going to realize growth with these three perceptions. First, pursuing ultimate business structure with stable profitability. I mentioned about fables model for construction materials business, and like this we need to set core value of each business quickly and change the business structure to fit into that. I believe we should have more businesses we can operate with the fables model and this could be one of the format.

Second point is what happens when we reexamine each business based on the two perspectives of harmony with the natural environment and living in health and comfort. For example, polystyrene has become matured business in Japan. However, our polystyrene has less residual monomer. For packaging materials, the residual monomer matters. Or fine quality is an appeal of Ceolus™, additives for food or drug. So these factors such as food safety or fine quality are attracting attention closer in growing Chinese market. So Chinese market would grow with bulky, inexpensive, and stable products. But not only that, such special zone, such as food safety or fine quality, would be more important perspectives when we consider concepts in China, and it would be possible for us to expand and grow business by establishing our uniqueness from that perspective.

And we accelerate expansion of global business. I keep saying this, but when we see the growth of our global business, we cannot be simply satisfied only with market growth. In the growing market we should establish global position with our strength. Without the concept we cannot continue growth. That would become possible when we have technological and market advantages. For example, we are deploying acrylonitrile because we have advantages with the product. There are other businesses with such advantages, like synthetic rubber as a commodity product, and also many other quality products. We accelerate growth of such businesses; we are strong in global market and deploy those businesses by establishing global presence.

P29: Fresh approach to creation of new businesses

So these ideas are all about our established businesses, but other than that we need to have a fresh approach to creation of new businesses. Asahi Kasei has been trying to grow each business independently in global market, because each of those businesses has solid business base. So we have been moving on with a key idea of selectivity and focus.

One of our new keywords now is a system. By combining each business together, we are going to launch system-type products for changing new society. We are going to deploy our business with our systems and services. So we are thinking about integrating some of the material-based business and create new businesses that contribute to changing new society with system which is unique to Asahi Kasei.

Once again the key phrases here are harmony with the natural environment and living in health and comfort. But I believe every chemical company should have similar keywords like us. But our advantages exist in wide range of our products, components, and technologies, and also their combination point. Utilizing such materials in a system industry like Homes is one example. This is a kind of our

strength, so I would like to touch upon this point.

P30: Opportunity to create new businesses (1) – Environment & Energy

This is a picture in environment and energy area. To this vast energy network, every company is trying to launch businesses everywhere. We are entering these markets with products like peripheral materials such as sealing one, next-generation solar cells, for which we are trying to develop and launch highly efficient sheet-type products. We are going to deploy these businesses based on each materials, but at the same time with the combination-type business concept. At places like “Eco-town” here in this picture, we may be able to combine our housing, electronics, and battery businesses, and build up the system as a whole by throwing in our materials or products.

Also for energy saving, for example, we are discussing about ideal way of lighting in a house, rather than discussing about making lighting fixtures. We examine not only lighting fixtures but also materials in a house. For example, we are thinking about the use of diffusion film to realize ideal lighting. Like this, we would like to launch businesses in environment and energy area that are not completely material-oriented, but more system-oriented. So in this slide items in larger characters are possible businesses for us, but this does not mean we will do all of these. We are trying to have as wider image as possible, so we have listed so many ideas in this slide. But the idea here is for example, “Eco-town” could be one of the areas we can enter with our own way.

P31: Opportunity to create new businesses (2) – Effective utilization of water & rare metals

This slide is about water and rare metals, and I would like to explain water business. Water has become one of the hottest topic these days, and business models with water reuse or seawater desalination technologies are spreading widely in global market. We have no idea to do everything about seawater desalination by ourselves as a project base, but rather we would like to sell separation membrane modules. If we were building up closed systems just like we did for Sony Chemical with total water recycle system, we would be able to approach to our customers with water treatment cycle package which includes not only separation membranes which we sell today, but also other systems such as small-scale water disinfection, or phosphorus recovery system. I believe we have basis to make it happen.

P32: Opportunity to create new businesses (3) Health, ICT, and broadband

This is another area we would like to challenge, health and information & communication technologies. Health Care is one of our key area today and we are developing advanced medical devices such as artificial kidneys or hearts as advanced medical care devices. And it is a device-oriented development. On the other hand, we are considering to widen the scope to process technologies in the areas like biopharmaceuticals production process. We are also considering about areas such as insertable advanced medical devices as an related equipment of medical devices, but we would like to go beyond device-based products to enter medical diagnosis business field. By adding remote diagnosis, diagnosis at home, or remote monitoring to such system and combining them to living environment, we may be able to come up with a business image. That could be a sales point for us and unique way to deploy our business, and we think it may be possible for us to develop new system-type business with ideas such as remote monitoring linked with advanced medicine.

P33: Overall shift of management resources

So as for our established businesses, we are discussing about using our existing resources for the growth of such keywords, and realize innovations. And we are thinking about shifting our resources for R&D and investment from lower left to upper right in this slide.

P34: Summary

In summary, in our *Growth Action – 2010*, we are able to earn high operating profit which is close to our historical record if things go right for each business to generate profits. Based on that, some of those businesses will be further sophisticated and we try growth in global markets. We would like to work on the innovation of existing businesses with these new keywords, but at the same time we want to add innovation of business image in our next mid-term business plan. And I showed you some examples in three slides, but we have not selected any of them yet. We may be able to handle two or three of them, so we are going to spend next six months or so to narrow down the scope and discuss about systems we

need to have, which will be reflected in our next mid-term plan. That's all for explanation about what we are currently thinking. Thank you.

Question and Answer Session

Fujita: Now we will open the floor for questions.

Mr. Kanai: Thank you for the briefing. I am Kanai of the Citigroup. First, I would like to ask you about your ideas on business portfolio. In a similar briefing a year ago, former president Hiruta said he plans to build a profit structure balancing the four segments of Chemical & Fibers, Electronics, Health Care, and Homes & Construction Materials. From that perspective, profits of Chemicals segment grew but Electronics and Health Care are lagging behind. Are you maintaining the basic concept of balanced profit structure?

Fujiwara: Basically we haven't changed. As you said, Homes and Chemical are doing well now, so the current figures may be different from the forecast. But when we designed the portfolio, we wanted to strike a balance between high-value added businesses and general-use/commodity business that should grow thanks to their favorable position despite the spread being small. With such balance, we will be able to cover volatility as much as possible, and develop growth sectors when opportunity arises. I believe this idea was behind the discussion of balancing the portfolio, and I haven't changed my thoughts on this.

But having said that, the actual figures are lower than the forecast in Health Care and Electronics. This is because as I said earlier, we are lagging behind in recovering the investments. For instance, in pharmaceuticals it will be 2010 or 2011 when the new drugs will contribute. And in medical devices we are seeing growth since much emphasis is placed on them in our global strategy. So we will have to wait until around 2011. I don't see a need to change our business portfolio, but we have a different concept for the composition of system-based businesses.

The discussion on portfolio began with balancing the existing businesses. So it is centered on products we currently have. If the current line-up continues, there is no need to change it. But the world and the society are changing, and the question is how Asahi Kasei should respond. We are now discussing ways to start system-based businesses where the concept may be a little different from the current portfolio.

Mr. Kanai: So in terms of organizations for system-based businesses, will they be different from the current units of operating companies?

Fujiwara: When we established E-materials all we needed to do was to merge the relevant materials divisions within Chemicals and Electronics as well as the holding company. Its core business and resources were clear. But this time, it's impossible to do the same for the new entity for system-based businesses. And it may be better to set up a team to promote the operation first.

In the last part of my presentation I talked about the shift in management resources, and that is something we have in mind when we think about the set-up. But we are not trying to change the whole configuration of the holding company. We are thinking about setting up a project team to start the system-based businesses, and maintain the team for several years.

Mr. Kanai: My second question is about M&A. You said in your presentation that you are not currently engaged in major M&A that will require changing the business scale. But are you planning to carry out M&A aggressively? Other chemical companies are expanding at the expense of financial stability, but what are your thoughts on this?

Fujiwara: Well, as you may know, we carried out few large-scale M&As. Our M&As are mostly small in size and intended to increase our resources for R&D. I believe there are two purposes in M&A. One is to acquire companies to raise and accelerate the growth of global share. The other is to swiftly obtain a platform we don't have. We plan to do the former type of M&A in the existing business framework, but for the system-based businesses the area Asahi Kasei can prepare for will be limited. So we need a wider platform.

And I think we should also consider whether we should obtain the platform through an M&A or engage in system-based business by forging a firm relationship with a partner with minor investment. Such type of investment should be considered going forward. Since we are a manufacturer, we tend to gear towards building the businesses all on our own. But we need to drastically expand collaboration with outside companies. So in that respect, our stake could be minor in some cases. I think we should consider such kind of investment.

Mr. Kanai: Lastly on the unification of naphtha cracker operations in Mizushima. Mitsubishi Chemicals' position is that, even if it reduces the scale of ethylene production, it can maintain a balance because it will close PVC production. What's your position?

Fujiwara: I spoke about this at the time of the news conference announcing the unification of naphtha cracker operations, but I believe that we should seriously think about how to operate petrochemicals in Japan in a manner we meet domestic demand. From our historical perspective, in terms of ethylene derivatives, such as polyethylene, we have always been doing businesses focusing on domestic demand. So in that respect, we have been maintaining close ties with our customers. Although there may be various views on petrochemical business in Japan, I think this is a domestic industry.

So in terms of the exports, we don't think we can take a good condition. So instead in Japan, I think we should firmly establish basis for materials, and supply them stably in a profitable basis. It may not grow much, but there will be enhanced value. So regarding our current and future position of derivatives, we are not thinking about, for example, closing some operations and downsizing naphtha cracker soon.

Of course, some people may say we should have a capacity to produce derivatives based on the existing cracker. But I think we should be able to downsize the cracker's capacity in accordance with our needs for our derivatives business. So what I emphasized the most in tying up with Mitsubishi is to improve the flexibility of the supplies of the naphtha cracker center.

There are of course various views on the strength of crackers, but I believe at the end of the day, it is the ability to raise flexibility. For example, some people say we should close one cracker, and the hardware may one day be torn down in the future. But since we've been able to integrate with Mitsubishi Chemical in such a way, we could stop the operation anytime quite flexibly. As you may know, Asahi Kasei and Mitsubishi Chemicals' respective naphtha crackers were joint ventures established by the two companies. So we had pipelines we could share from the beginning. We have a pipeline that we could share when we want to restart operation, so I believe it is quite possible to raise flexibility.

For example, not only naphtha crackers, but fractions from the center such as hydrogen and aromatics can be integrated. We can change the relationships with oil refiners. So what I told reporters then was that we can make a cracker that has the best position in Japan, it could even develop into a petrochemical complex, and that was the aim of the setting up such a system. Now I want to make a concrete proposal as soon as possible to act upon it. My understanding is the deadline for the action is 2012. The agreement refers to the timing of downsizing but it is also a timing to complete integration projects.

Mr. Nishimura: I'm Nishimura of Nomura Securities. First, on *Growth Action – 2010*. Now that Mr. Fujiwara, you have become the president, what do you plan to do with this? Or are you thinking about the next year and onward since the mid-term has virtually passed? You have written in the presentation material about the overview of results, and say you have some tasks left unaccomplished. But there is still a year to go until the mid-term ends. So, for instance, on page 17 you say you haven't been able to achieve the task of large-scale M&A for significant business expansion. Does that mean that you will not negotiate a large-scale M&A during 2010? Since you have succeeded the presidency in the middle of the mid-term plan, it may be difficult to talk about your position, but are you thinking about the next mid-term plan or are you trying to complete the current one?

Fujiwara: If you're asking for a yes-no answer, I do not think the *Growth Action – 2010* has been completed. As is written here, M&As are carried out to clarify our global position. So this is not something we should end with the term of *Growth Action – 2010*. As I mentioned earlier, the question is how to make the established businesses stable and profitable. We will naturally carry out operations on

materials to raise our global presence. My intention is to establish system-based businesses I explained earlier in addition to that. So I am not thinking of calling off the current mid-term and moving on to the next.

Mr. Nishimura: I was wondering if you have really established a capacity to achieve the highest operating income. This period of *Growth Action – 2010* was actually a period where your performance did not deteriorate like other companies, thanks to effects of the previous mid-term plan ISHIN. So when you talk about achieving an operating income of 128 billion yen or 150 billion yen in one or two years, I don't think you've made necessary up-front investment. What are your thoughts on this? Last year you reviewed investments for an austere management, but don't you have any plans to stop that and carry out large-scale investments, not only small investments you announced in the latest financial results meeting?

Fujiwara: We compiled our budget for decision-adopted investments in 2010 totaling 100 billion yen. But I think M&A is not something you include in the budget. This is something you try to find a source with money in your pocket. So I think we could do it even this year if we had an opportunity. In that respect, we plan to study more than ever on possible M&As, with the two directions I shared with you earlier, in mind.

As you said, from the latter half of 2008 up to 2009 had been difficult for us. This is not just a question of financial balance, but the target of M&A as well. But needless to say, it is best to purchase companies when EBITDA multiple is low. So in that respect, this year or next year may be a chance for us.

Mr. Nishimura: Last question. I wasn't going to ask you this today, but on the unification of naphtha cracker in Mizushima. Since you mentioned it I wanted to ask you about your comment on improving the flexibility and holding the best position in Japan. But I think you already have the best position and flexibility. The situation hasn't changed much. Last year Asahi Kasei announced creating a joint venture, and making some drastic changes. But in the end, you announced you're not going to change much. Maybe I should have asked the former president, but can you explain? I can't understand the changes from the last year's plan.

Fujiwara: It is true that we have been doing our utmost to raise flexibility in Asahi Kasei's operations. The situation may become severe. But if the two companies tried to raise flexibility, respectively, but began discussions later only when we started to feel danger, then it will take us more than two years, perhaps more than three years to materialize. That will be too late if we consider the timing of construction. But with our current set-up, we can close no matter what happens at whatever timing. Although scrapping plant facilities is a different story, we can stop our operations anytime. So I think we can act promptly with the agreement.

Mr. Nishimura: So does that mean that for instance, if a recession in petrochemical industry suddenly takes place this year or next year, you can respond better, like cutting down production capacity more flexibly than the last time?

Fujiwara: Absolutely. Another merit is that we can respond to the need of being capable to use various materials. This is not just about materials for the cracker, but in Japan, there is a clear shortage of C3 and C4. And when we think about the necessary amount of C3 and the investment to be spent, it cannot be done by just one firm. And it won't work if we try to tie up with different companies for different projects. So I think there is a huge benefit of establishing a united framework.

Mr. Nishimura: One more question please. Don't you think your holding company configuration is an obstacle to start system-based businesses?

Fujiwara: I am aware that system-based businesses may be difficult to set up if the relationship of core operating companies and the holding company is rigid. I think the holding company should allocate more resources on R&D and new business development and make these teams a base to start up the projects. If that could be done, it's more practical, and so we can launch the projects even under the current system.

Mr. Owaki: My name is Owaki from JP Morgan Securities. You presented us very big pictures, and I feel it's difficult to ask questions, but I believe no business can make money if they make products irrelevant to the ideas like contribution to human life and human livelihood, help society progress in harmony with the natural environment on a global scale, or enable each individual to live in health and comfort. Products made simply for making money with any possible profits are developed with careful consideration, especially about pleasantness. So most of them would lead to pleasantness. Therefore I've got an impression that you were only saying you set directions that could fit into anything. But I think I must be wrong. So I believe you must have some specific established businesses in your mind that don't fit into that concept. So I am assuming that you are spending hours to discuss them. I couldn't judge by myself, but if all of your current businesses or future business ideas fit into that concept 100 percent, you do not have to create such concepts from the beginning. If you have any specific businesses in your mind that would not fit into the concept, please tell us.

Fujiwara: If I tell you what would not fit into then you might suspect that we were withdrawing from that business, but that is not true. As you pointed out, this is about direction for change. You can choose any axis of change for any business. But among our established businesses there are some which are already completed as current business scheme and we think we had better make that business stable, because we cannot expect further market growth. You don't have to make changes forcibly. Those are the businesses that can be flawless but still with core values, as I explained earlier. In any business, when we say "make changes", then we tend to input resources there forcibly. But it takes time and chance of success is low. So wherever we want to change into new format, we make them system-type, and do them in combination. I am also saying for some established businesses, if any of them can securely make profits under the current format, even in matured market, that would be highly evaluated as business.

Mr. Owaki: I understand what you are trying to say but I don't understand why that lead to those keywords there.

Fujiwara: At least we want to seek for growth point there.

Mr. Owaki: Understand. One more question. You mentioned combination or system. Among your current businesses, probably housing is the largest system-type product, and medical devices can be also included in the system concept. But the word "system" includes social infrastructure, so if you want to enter the business, as you do not have large sales like 10 trillion or 20 trillion yen, it would be very difficult for a company with your size to handle.

When you say "system" you should have an image of specific size in terms of product, market size or sales. I wonder if you are targeting products which could succeed with around 50 billion yen in sales. But for some systems, you need to have at least 1 trillion yen in sales, so please clarify your idea about size of the businesses.

Fujiwara: The systems we are aiming at could be a few trillion yen, if we apply them to entire social infrastructures as you said. But we believe what we are doing is sub-system of that. So our target is subsystems in bold letters in the slide. So they say total size of water business market is 100 trillion yen, but we have no idea to challenge 100 trillion yen business. With an analogy of wastewater recycling business we are doing for Sony Chemical, an image of single business would be around 100 billion yen.

Mr. Owaki: 100 billion yen of market size? Or sales?

Fujiwara: Sales.

Mr. Owaki: 100 billion yen in sales.

Fujiwara: Yes. If market size were 100 billion yen, then even if we win half of the market, sales would be only 50 billion yen, and that does not mean we are challenging for system-type business.

Mr. Owaki: Understand. Thank you.

Mr. Yamada: Thank you very much for your presentation. My name is Yamada. I am from Barclays Capital Japan. First of all, you are right when you say volume products in Chemicals and some products in Fibers are highly volatile. I got strong impression you are trying hard to stabilize such products with high volatility. But on the other hand, when you seek for globalization in these fields, you cannot escape from increasing volatility. So let me confirm your idea. When you say stabilizing, are you only talking about further integration of your domestic business for higher flexibility, and you do not really care volatility when you enter global markets?

Fujiwara: When we want to make our business global with materials we have today, as you pointed out, most of such businesses are volatile ones.

So we cannot eliminate volatility no matter how big that grows.

Several years ago, Dow Chemical or BASF claimed they could improve profitability with commoditized products once the size of their business becomes so big enough to control global market. They said they were able to have higher operating income margin and they tried some years.

That argument is right to some extent. However, I think the basis of the volatility cannot be eliminated only by controlling the market.

There are resource issues and other issues we cannot get involved and we cannot control them. So if we decide to enter the global market, we need to expect existence of volatility for those businesses.

On the other hand, we need to challenge sophisticated domestic market to cover the volatility. There are many opinions about housing industry and housing starts figure is dropping, but the market size of our Hebel Haus™ which we make and sell is not so large. So if we could create new market that meet with new social creative type housing environment, we can make our business bigger in very different environment, so combination with this can be possible. So for businesses we operate in global markets we cannot avoid volatility.

Mr. Yamada: You cannot avoid, so you will manage it?

Fujiwara: Yes, as I said earlier, even with volatility, if we can take initiative in the markets, that is meaningful. When we think about profit margin in petrochemical business, there is a range of average profit margin, but for our business operation, our profit margin in average there is about 6 to 7 percent, but as you know it could be much larger sometimes. But you cannot really prevent the years with lower profitability, or even with loss-making results. But we need to consider the long term to find out investment values. And even though our profitability can be volatile, there is no volatility in terms of market share, so we can expect continuous profits from the business in one specific term. I have no doubt there.

Mr. Yamada: I understand very well thank you. Secondly, regarding your financial conditions, even in fiscal year March 2009 when your balance sheet had been contracted, your net debt to EBITDA ratio was about three times and still very strong. There are no other chemical company like you with the sales over 1 trillion yen with rare exceptions Shinetsu Chemical. I have been thinking in last five years that you are not using your capital effectively. What is your idea? If you do not really want to grow, I think you'd better return to shareholders.

Fujiwara: Use them for investment should be the way, I think. I assumed the presidency just two months ago, so I am not saying about the past, but we use capital for investment, seeking for expansion. As we do that, we also make dividend return. This should be the way for us. To that extent the numerical meaning of debt/equity ratio is about level of financing advantage, and when we are comfortable with the figure, then it is important for us to make concentrated investment to specific business that needs growth. So we do not really stick with the figures themselves.

Mr. Yamada: When you say investment, your next management plan will have some keywords, and you will consider indices other than economic ones. So when you make new investments, are you also going to think about them?

Fujiwara: Right.

Mr. Yamada: Thank you. One more question. In Health Care segment, large players may be exceptions but the industry is to be more consolidated, so maybe it is different for device business, but for pharmaceutical business, playing in niche market is becoming more difficult, as minimum required fixed expenses are getting higher. What is your long-term strategy? Why pharmaceutical segment should exist in Asahi Kasei Group? And how you can satisfy all axis, environmental, social and economical ones with that way, and why do you think keeping medical representative by yourself is right thing for you?

Fujiwara: When we think about the position of our pharmaceutical segment, as you know, as we have new drug products, probably until around 2015, we have solid portfolio, and pipeline that would generate profits later. So I think we need to discuss beyond there. So far, our pharmaceutical business is domestic base in terms of our style and sales format. But for example, once we can prove medical benefits of Reomodulin™ at several occasions, then based on the data, we can expand the business by repeating license-in and -out. We have that kind of advantage, and we expect some expansion.

Having said that, as you said, pharmaceutical companies are being integrated and consolidated. And one of the reason is for license-in of drugs. Another point is to expand sales route, and earn more profit by expanding sales of same drug products. These two are the points, and for the latter, our drug is not for the gross market such as hyperlipidemia or hypertension, but rather we focus on narrower and the relatively unmet needs. So we can secure profits even with current format. There would be little merit in expanding the sales network significantly.

And as for synergy issue, we want to increase device business, and field of medical service is important for us. So having both should give us some merits, I think. Therefore, I think there should be more business opportunities in device business in several different ways in Japan, and there are only a small number of device companies which also owns pharmaceuticals, so we utilize this advantage. So in order to expand device side, we can utilize our access to medical service field. That kind of synergy can be effectively used as market synergy.

Mr. Yamada: For sales expansion, number of MR staff is important. Also R&D is a fixed cost and just like naphtha cracker in petrochemicals, more you do, more flexibility you can realize, but if you are not going to do that, then isn't it better to outsource the part?

Fujiwara: With our current target area in mind, we believe we can handle by ourselves.

Mr. Watabe: My name is Watabe from Deutsche Securities. I have two questions about petrochemical. Regarding the unification of operations in Mizushima, you mentioned flexibility and enhancement, so please elaborate the idea of enhancement. Or with what products you are going to enhance its operation?

Fujiwara: My image now, whether or not we can realize it as I want, for example, cost of ethylene cracker could be significantly different by utilization rate. This is not simply about fixed costs, but crackers are energy plants themselves, so utilization ratio can significantly ruin energy efficiency.

So in an extreme case, if we operate plant of 500 thousand tonnage capacity with 350 thousand tonnage production, conversion cost is significantly worsened. Therefore you cannot reduce operation rate lower than specific level. Physically one plant can be operated with as low as 70 percent operation rate, but if you ask there are economic rationale, answer may be no. Then for example, if we can adopt more multiple cracker condition adjustment.

Let's say there are 10 ethylene centers, and by stopping two of them and operating eight, we can enjoy merits with such adjustments, even though we have to consider distribution and other costs. I have a feeling that kind of trials may be necessary in order to make self-sustainable petrochemical business in Japan.

If we can be a hub which can handle that, this should be quite strong. Let's put aside the argument that it is not realistic at this stage, but we can do at some level in areas like raw material flexibilities or dealing fractions. As for our current cracker operation mode, we are basically doing propylene-rich operation, so from a perspective of ethylene-propylene ratio, our operation is quite mild.

So we have been able to use several materials. But when you operate with ethylene mode, ethylene volume would increase, but we cannot take out C3 or C4. So flexibility of operation mode is quite large factor. Now, to operate in such mode, we adopt several different types of furnace for decomposition, but advantage of such flexible changes are not something like conversion cost of 1 to 2 yen per kilogram, but it is about a few billions of yen annually. This could be quite good topic I think.

Mr. Watabe: Secondly, I want to ask about petrochemical market. Almost all petrochemical products should move along with similar trends, but in recent few months or six months, contrast has become clearer. For example, whether acrylonitrile is in bubble or current condition would continue for long. Why we are seeing such contrast now, and whether it goes back to original trend or not, please tell us about petrochemical markets on these points.

Fujiwara: This is just my personal opinion, but it seems that volatility here has been amplified a little. For example, with products like AN or adipic acid, to that extent our products price can be currently at high level. But traditionally, in B2B transaction with such liquid-type products, we manage data in detail up to the other end of the flow, so we could project volatility, including inventory level, at several stages. And economic cycle is also a big cycle. But now, when demand changes in large markets like China or India, it is now more difficult to understand where are the 100 thousand or 200 thousand tonnage existing in reality. So this should be one of the reason which accelerates and amplify the change.

That can be also said for electronic devices, especially memory as a electronics component, but we produce custom LSI, so we can have clear picture of our customers. So we can know the changes. As products become more commoditized, it would be more difficult to know where those inventories actually exist. This accelerate the volatility, so now it is difficult to know, but we cannot just let it happen. So for AN, we need to improve network to capture the route. We need to forecast or control volatility to some extent because we believe we are a leading company at least in Asia, and from that position, we should be able to capture market information.

Mr. Watabe: Thank you.

Fujita: If there's no further question, we would like to close this explanatory session. Thank you very much for you cooperation.

Fujiwara: Thank you very much.