

Asahi Kasei Corporation

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Consolidated Results for 1st and 2nd Quarter Fiscal 2014: April 1, 2014 – September 30, 2014

(All figures in millions of yen, rounded to the nearest million, unless otherwise specified)

I. Summary of Consolidated Results

1. Operating results (percent change from previous year in brackets)

	Q1–Q2 2014	Q1–Q2 2013
Net sales	966,930 [+5.2%]	918,984 [+16.7%]
Operating income	70,927 [–4.5%]	74,236 [+93.8%]
Ordinary income	74,170 [+1.9%]	72,814 [+103.0%]
Net income	49,522 [+6.3%]	46,576 [+126.0%]
Net income per share*	35.44	33.33
Diluted net income per share*	—	—

* Yen

Note: Comprehensive income was ¥84,164 million during Q1–Q2 2014, and ¥70,518 million during Q1–Q2 2013.

2. Financial position

At end of	September 2014	March 2014
Total assets	1,942,590	1,915,089
Net assets	979,973	925,766
Net worth/total assets	49.8%	47.7%
Net worth per share*	691.85	653.15

* Yen

Notes:

- Net worth consists of shareholders' equity and accumulated other comprehensive income.
- Net worth as of September 30, 2014, was ¥966,524 million; as of March 31, 2014, ¥912,699 million.

II. Cash Dividends

Fiscal year	Cash dividends per share*				Total annual
	Q1	Q2	Q3	Q4	
2013	—	7.00	—	10.00	17.00
2014	—	9.00			
2014 (forecast)			—	9.00	18.00

* Yen

Note: The Q2 cash dividend was increased by ¥1 per share from the most recent forecast, to ¥9 per share. The total annual dividend forecast has thus been revised to ¥18 per share.

III. Forecasts for Fiscal 2014 (April 1, 2014 – March 31, 2015)

1. Latest forecasts (percent change from results in year-ago period in brackets)

	For the fiscal year
Net sales	2,006,000 [+5.7%]
Operating income	154,000 [+7.4%]
Ordinary income	157,000 [+9.9%]
Net income	100,000 [−1.3%]
Net income per share*	71.58

* Yen

2. Comparison of previous and revised fiscal 2014 forecasts

(billions of yen)

	Previous forecast	Revised forecast	Increase (decrease)	cf. fiscal 2013 results
Net sales	2,016.0	2,006.0	(10.0)	1,897.8
Operating income	150.0	154.0	4.0	143.3
Ordinary income	151.0	157.0	6.0	142.9
Net income	90.0	100.0	10.0	101.3

Notes:

- Performance forecasts are based on the best information available at this time, but actual results may diverge from these forecasts due to a variety of factors which cannot be foreseen.
- The forecast for fiscal 2014 announced on May 9, 2014, has been revised.

IV. Other Information

1. Changes in significant subsidiaries which affected scope of consolidation during the period: None.
2. Special accounting methods for preparation of the consolidated financial statements

Income tax expenses: A reasonable estimate of the effective tax rate after applying tax-effect accounting for the current fiscal year is made, and quarterly income before income taxes is multiplied by the corresponding effective tax rate.

3. Changes in accounting policies, changes in accounting estimates, and retroactive restatement

Changes in accounting policy

The provisions of Article 35 of the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26) and the provisions of Article 67 of the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25) are applied from the first quarter of the fiscal year ending March 31, 2015. The calculation method for present value of retirement benefit obligations and current service costs has been revised. The method of attributing retirement benefit obligations to each period has been changed from the straight-line method to a method of calculating present value of retirement benefit obligations for each period. The method of determining the discount rate used in calculation has been changed from one where the number of years approximately equal to the average remaining service period of employees is used as the basis for determining the discount rate to one using a single weighted average discount rate which reflects each forecasted period of payment of retirement benefit obligations and the amount of payment forecasted for each period.

In accordance with the interim measures stipulated in Article 37 of the Accounting Standard for Retirement Benefits, the effect of the change in the calculation method for present value of retirement benefit obligations and current service costs is reflected in retained earnings as of the beginning of the fiscal year ending March 31, 2015.

As a result, net defined benefit liability increased by ¥23,336 million, investment securities decreased by ¥127 million, and retained earnings decreased by ¥15,741 million as of the beginning of the fiscal year ending March 31, 2015. The effect on operating income, ordinary income, and income before income taxes and minority interests in the April–September period of 2014 is immaterial.

4. Number of shares outstanding

	Q1–Q2 2014	FY 2013
Number of shares outstanding at end of period	1,402,616,332	1,402,616,332
Number of shares of treasury stock at end of period	5,596,612	5,230,736
Average number of shares outstanding during period	1,397,242,864	1,397,557,552*

* Q1–Q2 2013

V. Overview of Consolidated Results

1. Consolidated group results

Although the US economy continued to recover and there were signs of improvement in Europe during the April–September period of fiscal 2014, slower growth was seen in China and other emerging economies, while geopolitical risks were heightened by political instability in certain regions. The Japanese economy continued on a path of gradual recovery with increased employment, but consumer spending softened due to the effects of the consumption tax increase and inclement weather during the summer.

Consolidated net sales of Asahi Kasei Corp. and its consolidated subsidiaries and equity-method affiliates (the Asahi Kasei Group) increased by ¥47.9 billion (5.2%) from a year ago to ¥966.9 billion with increased deliveries of order-built homes in homes operations. Operating income decreased by ¥3.3 billion (4.5%) to ¥70.9 billion with an impact from reduced reimbursement prices in pharmaceuticals operations. Ordinary income increased by ¥1.4 billion (1.9%) to ¥74.2 billion. Net income increased by ¥2.9 billion (6.3%) to ¥49.5 billion.

Results for the year-ago period have been revised retroactively to reflect the consolidation of one subsidiary in the third quarter of fiscal 2013.

2. Results by operating segment

Beginning with the first quarter of fiscal 2014, the Asahi Kasei Group's previous seven reportable segments of Chemicals, Fibers, Homes, Construction Materials, Electronics, Health Care, and Critical Care, together with an "Others" category, have been changed to the four reportable segments of Chemicals & Fibers, Homes & Construction Materials, Electronics, and Health Care, together with an "Others" category, in accordance with a change in the governance configuration. The figures for the year-ago period have been recalculated in accordance with the new segment configuration for comparison purposes.

CHEMICALS & FIBERS

Sales increased by ¥20.7 billion (4.5%) from a year ago to ¥477.5 billion, and operating income decreased by ¥1.0 billion (3.6%) to ¥26.6 billion.

Among chemicals operations, in petrochemicals, market prices for styrene monomer declined, but market prices for acrylonitrile improved, in addition to the positive effects of strengthening of petrochemical operations in Japan. In performance polymers, sales of engineering plastics and of synthetic rubber for fuel-efficient tires were firm, but synthetic rubber for other applications was impacted by low overseas market prices. In specialty products, sales of ion-exchange membranes were firm, but Saran Wrap™ cling film and other consumables were impacted by increased advertising expenses and the effect of the consumption tax increase.

In fibers operations, spunbond and Leona™ nylon 66 filament were impacted by high costs for naphtha-derived feedstocks, and Bemberg™ cupro fiber was impacted by increased depreciation expenses for a new production facility. Sales of Bemliese™ continuous-filament cellulosic nonwoven for facial masks etc. and of Roica™ elastic polyurethane filament were firm.

HOMES & CONSTRUCTION MATERIALS

Sales increased by ¥16.3 billion (6.1%) from a year ago to ¥282.5 billion, and operating income decreased by ¥0.8 billion (2.8%) to ¥28.8 billion.

Among homes operations, in order-built homes, deliveries increased mainly for Hebel Maison™ apartment buildings based on strong orders in the previous fiscal year, but construction and advertising expenses increased. In remodeling, orders decreased in reaction to the surge in demand prior to the consumption tax increase. Real estate performed well with the completion of a large condominium.

In construction materials operations, shipments of Hebel™ autoclaved aerated concrete (AAC) panels increased, but shipments of Neoma™ high-performance phenolic foam panels decreased as an effect of the consumption tax increase and the business was impacted by increased depreciation expenses for a new production line.

ELECTRONICS

Sales decreased by ¥0.7 billion (0.9%) from a year ago to ¥74.0 billion, and operating income decreased by ¥1.9 billion (20.4%) to ¥7.4 billion.

In electronic devices operations, shipments of crystal oscillator ICs decreased, and cost of goods sold increased in reaction to a build-up of inventories prior to the closure of the Tateyama facility in fiscal 2013.

In electronic materials operations, sales of high-end products in each product category increased, but sales prices decreased mainly for Hipore™ Li-ion battery separator.

HEALTH CARE

Sales increased by ¥8.1 billion (7.1%) from a year ago to ¥121.4 billion, and operating income increased by ¥0.6 billion (4.5%) to ¥15.0 billion.

In pharmaceuticals operations, pharmaceutical products excluding new drugs were impacted by reduced reimbursement prices, and shipments of Teribone™ osteoporosis drug and Recomodulin™ recombinant thrombomodulin decreased in reaction to the surge in demand prior to the consumption tax increase.

In medical devices operations, sales of dialysis products and of therapeutic apheresis devices were firm and shipments of Planova™ virus removal filters increased.

In critical care operations, the LifeVest™ wearable defibrillator business continues to expand smoothly, and sales of other products such as defibrillators and related accessories increased, but selling, general and administrative expenses grew with reinforced sales activity.

OTHERS

Sales in “Others” increased by ¥3.6 billion (44.8%) from a year ago to ¥11.6 billion, and operating income decreased by ¥0.1 billion (11.5%) to ¥0.7 billion.

VI. Consolidated Financial Statements

1. Balance sheets

	At end of March 2014	At end of Sept. 2014
Assets		
Current assets		
Cash and deposits	151,474	110,011
Notes and accounts receivable–trade	316,705	326,669
Short-term investment securities	—	384
Merchandise and finished goods	151,156	162,153
Work in process	112,243	120,984
Raw materials and supplies	65,141	68,391
Deferred tax assets	27,469	27,259
Other	68,106	70,901
Allowance for doubtful accounts	(1,894)	(1,990)
Total current assets	890,401	884,759
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	453,498	463,562
Accumulated depreciation	(250,633)	(256,798)
Buildings and structures, net	202,866	206,765
Machinery, equipment and vehicles	1,290,526	1,322,982
Accumulated depreciation	(1,127,452)	(1,152,576)
Machinery, equipment and vehicles, net	163,074	170,405
Land	58,067	58,815
Lease assets	13,567	13,148
Accumulated depreciation	(9,095)	(9,525)
Lease assets, net	4,472	3,623
Construction in progress	35,216	34,056
Other	137,897	140,613
Accumulated depreciation	(121,056)	(122,767)
Other, net	16,841	17,846
Subtotal	480,535	491,511
Intangible assets		
Goodwill	137,679	141,895
Other	120,740	123,697
Subtotal	258,419	265,592
Investments and other assets		
Investment securities	238,419	252,552
Long-term loans receivable	9,173	9,564
Net defined benefit asset	2,369	—
Deferred tax assets	16,278	17,571
Other	19,751	21,310
Allowance for doubtful accounts	(256)	(270)
Subtotal	285,735	300,727
Total noncurrent assets	1,024,689	1,057,830
Total assets	1,915,089	1,942,590

	At end of March 2014	At end of Sept. 2014
Liabilities		
Current liabilities		
Notes and accounts payable–trade	159,925	178,798
Short-term loans payable	103,605	90,386
Commercial paper	10,000	18,000
Lease obligations	1,784	1,546
Accrued expenses	93,313	91,573
Income taxes payable	48,520	14,965
Advances received	80,164	83,152
Provision for periodic repairs	7,964	2,304
Provision for product warranties	2,503	2,701
Provision for removal cost of property, plant and equipment	2,893	3,838
Asset retirement obligations	806	478
Other	65,305	58,442
Total current liabilities	576,782	546,182
Noncurrent liabilities		
Bonds payable	40,000	40,000
Long-term loans payable	146,037	131,688
Lease obligations	2,445	1,787
Deferred tax liabilities	43,441	44,651
Provision for directors' retirement benefits	818	—
Provision for periodic repairs	173	637
Provision for removal cost of property, plant and equipment	9,526	7,712
Net defined benefit liability	143,523	162,778
Asset retirement obligations	3,244	3,215
Long-term guarantee deposits	18,899	18,883
Other	4,434	5,084
Total noncurrent liabilities	412,541	416,435
Total liabilities	989,323	962,616
Net assets		
Shareholders' equity		
Capital stock	103,389	103,389
Capital surplus	79,404	79,407
Retained earnings	635,403	655,702
Treasury stock	(2,591)	(2,884)
Total shareholders' equity	815,605	835,614
Accumulated other comprehensive income		
Net unrealized gain on other securities	75,626	85,346
Deferred gains or losses on hedges	(171)	(64)
Foreign currency translation adjustments	46,734	68,903
Remeasurements of defined benefit plans	(25,094)	(23,275)
Total accumulated other comprehensive income	97,095	130,910
Minority interests	13,067	13,449
Total net assets	925,766	979,973
Total liabilities and net assets	1,915,089	1,942,590

2. Statements of income and statements of comprehensive income

(1) Statements of income

	Q1-Q2 2013	Q1-Q2 2014
Net sales	918,984	966,930
Cost of sales	665,783	707,035
Gross profit	253,201	259,896
Selling, general and administrative expenses	178,964	188,969
Operating income	74,236	70,927
Non-operating income		
Interest income	560	651
Dividends income	1,848	2,075
Equity in earnings of affiliates	—	1,202
Foreign exchange gains	—	1,970
Other	2,601	1,507
Total non-operating income	5,008	7,405
Non-operating expenses		
Interest expense	1,735	1,553
Equity in losses of affiliates	1,755	—
Foreign exchange loss	343	—
Other	2,598	2,609
Total non-operating expenses	6,431	4,162
Ordinary income	72,814	74,170
Extraordinary income		
Gain on sales of investment securities	319	2,274
Gain on sales of noncurrent assets	1,479	244
Total extraordinary income	1,797	2,518
Extraordinary loss		
Loss on sales of investment securities	—	112
Loss on valuation of investment securities	580	505
Loss on disposal of noncurrent assets	1,427	1,238
Impairment loss	—	140
Business structure improvement expenses	1,422	562
Total extraordinary loss	3,430	2,555
Income before income taxes and minority interests	71,181	74,133
Total income taxes	24,103	24,166
Income before minority interests	47,078	49,967
Minority interests in income	502	445
Net income	46,576	49,522

(2) Statements of comprehensive income

	Q1-Q2 2013	Q1-Q2 2014
Income before minority interests	47,078	49,967
Other comprehensive income		
Net increase in unrealized gain on other securities	9,604	9,683
Deferred gains or losses on hedges	489	107
Foreign currency translation adjustment	13,144	20,503
Remeasurements of defined benefit plans, net of tax	—	1,842
Share of other comprehensive income of affiliates accounted for using equity method	203	2,062
Total other comprehensive income	23,440	34,197
Comprehensive income	70,518	84,164
Comprehensive income attributable to:		
Owners of the Parent	69,859	83,300
Minority interests	659	864

3. Statements of cash flows

	Q1–Q2 2013	Q1–Q2 2014
Cash flows from operating activities		
Income before income taxes and minority interests	71,181	74,133
Depreciation and amortization	41,219	40,615
Impairment loss	—	140
Amortization of goodwill	4,384	4,334
Amortization of negative goodwill	(116)	(79)
Increase (decrease) in provision for periodic repairs	599	(5,197)
(Decrease) increase in provision for product warranties	(72)	185
Decrease in provision for removal cost of property, plant and equipment	(195)	(870)
Increase in provision for retirement benefits	805	—
Decrease in net defined benefit liability	—	(1,766)
Interest and dividend income	(2,407)	(2,726)
Interest expense	1,735	1,553
Equity in losses (earnings) of affiliates	1,755	(1,202)
Gain on sales of investment securities	(319)	(2,162)
Loss on valuation of investment securities	580	505
Gain on sale of property, plant and equipment	(1,479)	(244)
Loss on disposal of noncurrent assets	1,427	1,238
Decrease (increase) in notes and accounts receivable–trade	5,004	(5,504)
Increase in inventories	(24,880)	(19,749)
(Decrease) increase in notes and accounts payable–trade	(5,657)	15,484
Decrease in accrued expenses	(6,051)	(2,388)
Increase in advances received	18,576	2,696
Other, net	(4,580)	(1,956)
Subtotal	101,510	97,038
Interest and dividend income, received	3,091	3,941
Interest expense paid	(1,710)	(1,549)
Income taxes paid	(15,699)	(56,404)
Net cash provided by operating activities	87,192	43,025
Cash flows from investing activities		
Payments into time deposits	(3,061)	(7,520)
Proceeds from withdrawal of time deposits	4,873	6,485
Purchase of property, plant and equipment	(41,369)	(43,920)
Proceeds from sales of property, plant and equipment	2,137	322
Purchase of intangible assets	(10,055)	(5,809)
Purchase of investment securities	(1,782)	(227)
Proceeds from sales of investment securities	971	4,961
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(1,697)	—
Payments of loans receivable	(4,744)	(3,339)
Collection of loans receivable	5,837	2,949
Other, net	(539)	(1,686)
Net cash used in investing activities	(49,429)	(47,783)

	Q1–Q2 2013	Q1–Q2 2014
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	2,166	(30,683)
(Decrease) increase in commercial paper	(20,000)	8,000
Proceeds from long-term loans payable	1,864	5,859
Repayment of long-term loans payable	(7,203)	(7,320)
Repayments of lease obligations	(1,303)	(1,036)
Purchase of treasury stock	(60)	(302)
Proceeds from disposal of treasury stock	0	7
Cash dividends paid	(9,783)	(13,974)
Cash dividends paid to minority shareholders	(552)	(582)
Other, net	149	4
Net cash used in financing activities	(34,722)	(40,027)
Effect of exchange rate change on cash and cash equivalents	1,728	1,899
Net increase (decrease) in cash and cash equivalents	4,769	(42,885)
Cash and cash equivalents at beginning of period	104,008	143,139
Increase in cash and cash equivalents resulting from changes in scope of consolidation	498	100
Cash and cash equivalents at end of period	109,276	100,354

VII. Additional Information

1. Consolidated net sales and operating income (loss) by segment

Note: Beginning with the first quarter of fiscal 2014, the Asahi Kasei Group's previous seven reportable segments of Chemicals, Fibers, Homes, Construction Materials, Electronics, Health Care, and Critical Care, together with an "Others" category, have been changed to the four reportable segments of Chemicals & Fibers, Homes & Construction Materials, Electronics, and Health Care, together with an "Others" category, in accordance with a change in the governance configuration. Also, results for the first and second quarters of fiscal 2013 have been revised retroactively to reflect the consolidation of one subsidiary in the third quarter of fiscal 2013.

1) Consolidated net sales by segment

(billions of yen)

	Q1–Q2 2013	Q1–Q2 2014	Increase (decrease)	Fiscal 2014 forecast
Chemicals	397.0	413.1	16.1	847.0
Fibers	59.8	64.4	4.6	129.0
Chemicals & Fibers	456.8	477.5	20.7	976.0
Homes	238.4	256.0	17.6	551.0
Construction Materials	27.8	26.5	(1.3)	55.0
Homes & Construction Materials	266.2	282.5	16.3	606.0
Electronics	74.7	74.0	(0.7)	150.0
Health Care	75.8	73.3	(2.5)	150.0
Critical Care	37.5	48.1	10.6	103.0
Health Care	113.3	121.4	8.1	253.0
Others	8.0	11.6	3.6	21.0
Total	919.0	966.9	47.9	2,006.0

2) Consolidated operating income (loss) by segment

(billions of yen)

	Q1–Q2 2013	Q1–Q2 2014	Increase (decrease)	Fiscal 2014 forecast
Chemicals	23.2	22.0	(1.2)	52.0
Fibers	4.4	4.7	0.3	9.0
Chemicals & Fibers	27.6	26.6	(1.0)	61.0
Homes	26.5	27.0	0.4	58.0
Construction Materials	3.1	2.1	(1.0)	4.0
Homes & Construction Materials	29.6	28.8	(0.8)	62.0
Electronics	9.3	7.4	(1.9)	15.0
Health Care	16.4	14.7	(1.6)	27.5
Critical Care	(2.0)	0.3	2.3	2.5
Health Care	14.3	15.0	0.6	30.0
Others	0.8	0.7	(0.1)	1.5
Combined	81.5	78.4	(3.1)	169.5
Corporate expenses and eliminations	(7.3)	(7.5)	(0.2)	(15.5)
Total	74.2	70.9	(3.3)	154.0

Note: Figures for operating income by business category within segments include intrasegment transactions which are eliminated from the segment totals.

2. Operating income increases/decreases by segment

(billions of yen)

		Increase (decrease) due to:			Net increase (decrease)
		Sales volume	Sales prices [<i>of which, due to foreign exchange</i>]	Operating costs and others	
Chemicals	(0.7)	6.0	6.1	(6.5)	(1.2)
Fibers	0.4	1.0	0.6	(1.1)	0.3
Chemicals & Fibers	(0.3)	7.0	6.7	(7.7)	(1.0)
Homes	0.4	8.2	—	(8.3)	0.4
Construction Materials	(0.2)	0.3	—	(1.0)	(1.0)
Homes & Construction Materials	0.2	8.5	—	(9.6)	(0.8)
Electronics	2.7	(4.7)	1.7	0.1	(1.9)
Health Care	(0.6)	(2.0)	0.9	1.0	(1.6)
Critical Care	7.6	(0.8)	0.1	(4.5)	2.3
Health Care	7.0	(2.8)	1.0	(3.5)	0.6
Others	0.3	—	—	(0.4)	(0.1)
Subtotal	9.9	8.0	9.4	(21.1)	(3.1)
Corporate expenses and eliminations	—	—	—	(0.2)	(0.2)
Consolidated	9.9	8.0	9.4	(21.2)	(3.3)

3. Major financial metrics (consolidated)

(billions of yen, except employees and D/E ratio)

	Q1–Q2 2013	Q1–Q2 2014	Fiscal 2014 forecast
Capital expenditure (tangible)	38.3	36.8	90.0
Capital expenditure (intangible)	4.4	5.9	8.5
Depreciation and amortization*	41.2	40.6	86.0
R&D expenses	34.5	36.0	82.0
Balance of payments	0.6	1.1	
<i>of which, dividends received</i>	<i>(1.8)</i>	<i>(2.1)</i>	
Employees at end of period	29,210	29,862	
D/E ratio	0.41	0.29	

* Excluding amortization of goodwill.

4. Contract trends for home construction operations

	Q1–Q2 2013	Q1–Q2 2014	Increase (decrease)	Fiscal 2014 forecast
No. of orders received (home units)	11,067	10,174	(893)	20,500
Value of orders received (¥ billion)	251.9	217.6	(34.3)	442.0
Backlog of orders (¥ billion)	519.9	516.3	(3.6)	532.6
No. of sales (home units)	7,236	7,924	688	17,300
Value of sales (¥ billion)	176.6	182.9	6.3	391.0

5. Key operating factors

	Q1–Q2 2013	Q1–Q2 2014	Increase (decrease)	Fiscal 2014 forecast
Naphtha price (yen/kL, domestic)	64,750	70,400	5,650	67,200
Exchange rates				
Yen/US\$	99	103	4	104
Yen/€	130	139	9	139

6. Interest-bearing debt (consolidated)

(billions of yen)

	At end of March 2014	At end of Sept. 2014	Increase (decrease)
Short-term loans payable	103.6	90.4	(13.2)
Commercial paper	10.0	18.0	8.0
Long-term loans payable	146.0	131.7	(14.3)
Bonds payable	40.0	40.0	—
Lease obligations	4.2	3.3	(0.9)
Total	303.9	283.4	(20.5)