

Asahi Kasei Corporation

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Consolidated Results for 1st and 2nd Quarter Fiscal 2017: April 1, 2017 – September 30, 2017

(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 2017	Q1–Q2 2016
Net sales	964,749 [+8.3%]	890,723 [–7.0%]
Operating income	92,652 [+30.9%]	70,765 [–16.2%]
Ordinary income	98,172 [+40.5%]	69,864 [–14.2%]
Net income attributable to owners of the parent	70,868 [+33.9%]	52,914 [+12.2%]
Net income per share*	50.75	37.88
Diluted net income per share*	—	—

* Yen

Note: Comprehensive income was ¥101,719 million during Q2 2017, and ¥(7,021) million during Q2 2016.

2. Financial position

At end of	September 2017	March 2017
Total assets	2,334,885	2,254,500
Net assets	1,249,288	1,168,115
Net worth/total assets	52.8%	51.1%
Net worth per share*	882.26	824.36

* Yen

Notes:

- Net worth consists of shareholders' equity and accumulated other comprehensive income.
- Net worth as of September 30, 2017, was ¥1,231,751 million; as of March 31, 2017, ¥1,151,344 million.

II. Cash Dividends

Fiscal year	Cash dividends per share*				Total annual
	Q1	Q2	Q3	Q4	
2016	—	10.00	—	14.00	24.00
2017	—	14.00			
2017 (forecast)			—	14.00	28.00

* Yen

III. Forecast for Fiscal 2017 (April 1, 2017 – March 31, 2018)

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

	For the fiscal year
Net sales	2,000,000 [+6.2%]
Operating income	183,000 [+14.9%]
Ordinary income	192,000 [+19.5%]
Net income attributable to owners of the parent	140,000 [+21.7%]
Net income per share*	100.25

* Yen

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 2017 announced on May 11, 2017, 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: None

4. Number of shares outstanding

	Q2 2017	FY 2016
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	6,482,630	5,958,904
Average number of shares outstanding during period	1,396,515,455	1,396,740,661*

* Q2 2016

V. Consolidated Financial Statements

1. Balance sheets

	At end of March 2017	At end of September 2017
Assets		
Current assets		
Cash and deposits	145,289	163,336
Notes and accounts receivable–trade	302,751	321,878
Merchandise and finished goods	159,395	166,040
Work in process	116,481	126,481
Raw materials and supplies	70,806	71,733
Deferred tax assets	20,279	20,826
Other	81,816	82,377
Allowance for doubtful accounts	(2,272)	(2,288)
Total current assets	894,545	950,382
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	508,713	517,200
Accumulated depreciation	(278,122)	(282,814)
Buildings and structures, net	230,590	234,386
Machinery, equipment and vehicles	1,376,029	1,395,684
Accumulated depreciation	(1,176,686)	(1,194,295)
Machinery, equipment and vehicles, net	199,343	201,388
Land	62,391	63,018
Lease assets	12,367	12,178
Accumulated depreciation	(11,381)	(11,261)
Lease assets, net	986	916
Construction in progress	45,958	44,273
Other	150,073	152,585
Accumulated depreciation	(132,460)	(134,290)
Other, net	17,613	18,296
Subtotal	556,881	562,278
Intangible assets		
Goodwill	285,622	277,925
Other	177,149	171,130
Subtotal	462,772	449,055
Investments and other assets		
Investment securities	284,137	315,453
Long-term loans receivable	18,918	27,575
Deferred tax assets	9,309	2,941
Other	28,154	27,408
Allowance for doubtful accounts	(215)	(207)
Subtotal	340,302	373,170
Total noncurrent assets	1,359,955	1,384,503
Total assets	2,254,500	2,334,885

	At end of March 2017	At end of September 2017
Liabilities		
Current liabilities		
Notes and accounts payable–trade	147,543	162,099
Short-term loans payable	113,475	113,700
Commercial paper	56,000	60,000
Current portion of bonds payable	20,000	—
Lease obligations	305	202
Accrued expenses	100,419	97,018
Income taxes payable	16,202	20,341
Advances received	72,882	82,287
Provision for periodic repairs	5,003	1,808
Provision for product warranties	2,461	2,684
Provision for removal cost of property, plant and equipment	1,800	951
Asset retirement obligations	572	548
Other	58,217	62,800
Total current liabilities	594,880	604,438
Noncurrent liabilities		
Bonds payable	20,000	20,000
Long-term loans payable	192,584	183,861
Lease obligations	467	444
Deferred tax liabilities	59,759	58,165
Provision for periodic repairs	165	898
Provision for removal cost of property, plant and equipment	4,390	3,290
Provision for loss on litigation	2,162	2,175
Net defined benefit liability	178,368	176,762
Asset retirement obligations	3,436	3,731
Long-term guarantee deposits	20,479	20,621
Other	9,695	11,211
Total noncurrent liabilities	491,506	481,158
Total liabilities	1,086,385	1,085,597
Net assets		
Shareholders' equity		
Capital stock	103,389	103,389
Capital surplus	79,443	79,440
Retained earnings	850,532	902,132
Treasury stock	(3,242)	(3,917)
Total shareholders' equity	1,030,122	1,081,044
Accumulated other comprehensive income		
Net unrealized gain on other securities	113,475	126,045
Deferred gains or losses on hedges	55	(30)
Foreign currency translation adjustment	40,831	53,953
Remeasurements of defined benefit plans	(33,140)	(29,262)
Total accumulated other comprehensive income	121,222	150,707
Non-controlling interests	16,771	17,538
Total net assets	1,168,115	1,249,288
Total liabilities and net assets	2,254,500	2,334,885

2. Statements of income and statements of comprehensive income

1) Statements of income

	Q1-Q2 2016	Q1-Q2 2017
Net sales	890,723	964,749
Cost of sales	610,899	651,543
Gross profit	279,824	313,206
Selling, general and administrative expenses	209,059	220,554
Operating income	70,765	92,652
Non-operating income		
Interest income	625	960
Dividends income	2,657	2,841
Equity in earnings of affiliates	1,318	5,349
Other	2,155	1,646
Total non-operating income	6,755	10,795
Non-operating expenses		
Interest expense	2,133	2,298
Foreign exchange loss	3,297	923
Other	2,227	2,054
Total non-operating expenses	7,657	5,275
Ordinary income	69,864	98,172
Extraordinary income		
Gain on sales of investment securities	3,887	5,845
Gain on sales of noncurrent assets	18	416
Total extraordinary income	3,905	6,261
Extraordinary loss		
Loss on disposal of noncurrent assets	1,339	1,477
Impairment loss	46	567
Business structure improvement expenses	1,016	699
Business integration expense	658	—
Total extraordinary loss	3,059	2,743
Income before income taxes	70,710	101,690
Total income taxes	16,967	29,736
Net income	53,743	71,954
Net income attributable to non-controlling interests	829	1,086
Net income attributable to owners of the parent	52,914	70,868

2) Statements of comprehensive income

	Q1-Q2 2016	Q1-Q2 2017
Net income	53,743	71,954
Other comprehensive income		
Net increase (decrease) in unrealized gain on other securities	695	12,613
Deferred gains or losses on hedges	(84)	(85)
Foreign currency translation adjustment	(63,955)	12,542
Remeasurements of defined benefit plans	4,421	3,919
Share of other comprehensive income of affiliates accounted for using equity method	(1,841)	776
Total other comprehensive income	(60,764)	29,765
Comprehensive income	(7,021)	101,719
Comprehensive income attributable to:		
Owners of the parent	(7,228)	100,330
Non-controlling interests	207	1,389

3. Statements of cash flows

	Q1–Q2 2016	Q1–Q2 2017
Cash flows from operating activities		
Income before income taxes	70,710	101,690
Depreciation and amortization	43,672	45,817
Impairment loss	46	567
Amortization of goodwill	8,627	9,063
Amortization of negative goodwill	(79)	(79)
Decrease in provision for periodic repairs	(732)	(2,463)
Increase in provision for product warranties	46	223
Decrease in provision for removal cost of property, plant and equipment	(2,254)	(1,949)
Increase in provision for loss on litigation	—	2
Decrease in net defined benefit liability	(3,003)	(1,765)
Interest and dividend income	(3,282)	(3,801)
Interest expense	2,133	2,298
Equity in earnings of affiliates	(1,318)	(5,349)
Gain on sales of investment securities	(3,887)	(5,845)
Gain on sale of property, plant and equipment	(18)	(416)
Loss on disposal of noncurrent assets	1,339	1,477
Decrease (increase) in notes and accounts receivable–trade	2,303	(16,156)
Increase in inventories	(6,916)	(15,206)
Increase in notes and accounts payable–trade	7,473	12,517
Decrease in accrued expenses	(5,637)	(3,834)
Increase in advances received	5,324	9,380
Other, net	0	14,012
Subtotal	114,547	140,183
Interest and dividend income, received	4,510	5,229
Interest expense paid	(2,073)	(2,437)
Income taxes paid	(26,564)	(27,966)
Net cash provided by operating activities	90,420	115,009
Cash flows from investing activities		
Payments into time deposits	(3,024)	(1,725)
Proceeds from withdrawal of time deposits	2,236	1,232
Purchase of property, plant and equipment	(43,065)	(36,822)
Proceeds from sales of property, plant and equipment	2,198	1,010
Purchase of intangible assets	(3,910)	(4,785)
Purchase of investment securities	(6,588)	(9,166)
Proceeds from sales of investment securities	4,478	6,306
Payments of loans receivable	(3,772)	(36,663)
Collection of loans receivable	1,541	27,936
Other, net	(642)	(279)
Net cash used in investing activities	(50,548)	(52,956)

	Q1-Q2 2016	Q1-Q2 2017
Cash flows from financing activities		
Net decrease in short-term loans payable	(178,354)	(2,435)
Increase in commercial paper	34,000	4,000
Proceeds from long-term loans payable	127,234	5,676
Repayment of long-term loans payable	(11,069)	(12,064)
Redemption of bonds	—	(20,000)
Repayments of lease obligations	(569)	(211)
Purchase of treasury stock	(26)	(675)
Proceeds from disposal of treasury stock	1	1
Cash dividends paid	(13,968)	(19,553)
Cash dividends paid to non-controlling interests	(627)	(680)
Other, net	25	3
Net cash used in financing activities	(43,353)	(45,937)
Effect of exchange rate change on cash and cash equivalents	(9,954)	1,121
Net (decrease) increase in cash and cash equivalents	(13,435)	17,237
Cash and cash equivalents at beginning of period	145,307	144,077
Increase in cash and cash equivalents resulting from changes in scope of consolidation	443	272
Cash and cash equivalents at end of period	132,315	161,586

4. Notes to consolidated financial statements

Consolidated balance sheets

Contingent liabilities

In October 2015 Asahi Kasei Corp. disclosed that Asahi Kasei Construction Materials Corp., a consolidated subsidiary of Asahi Kasei Corp., which performed pile installation work as secondary subcontractor for the construction of a condominium complex in Yokohama, Kanagawa, Japan, submitted incorrect data in the pile installation report for the precast concrete piles installed for this project. There was manipulation of ammeter data and flowmeter data for the installation of piles.

Asahi Kasei Corp. established a task force and an internal fact-finding committee as well as an independent commission to advance investigation, and on October 22, 2015, Asahi Kasei Construction Materials Corp. reported its record of similar pile installation work over the past 10 years to Japan's Ministry of Land, Infrastructure, Transport and Tourism (MLIT).

On November 24, 2015, Asahi Kasei Construction Materials Corp. completed all possible investigation of whether or not there was manipulation of data regarding the installation of precast concrete piles, and reported the results to the MLIT. Out of the 3,052 projects subject to investigation, manipulation of data was found for 360 projects.

Regarding projects where manipulation of data was found, Asahi Kasei Construction Materials is cooperating with the prime contractors and the owners of the buildings in efforts to confirm safety based on instructions from the MLIT. Regarding projects where a Specific Administrative Agency has confirmed safety, the Specific Administrative Agency has issued a report to the MLIT (at a meeting of the House of Councillors Committee on Land and Transport held on April 5, 2016, it was reported that the safety of 357 of the 360 projects had been confirmed).

Although there is a possibility that an effect on the consolidated results of Asahi Kasei Corp. may emerge such as the recording of an additional reserve, etc., no such effect is reflected in the consolidated financial statements due to the difficulty of making a rational estimate of the amount of financial impact from this matter as of the time of preparation of the consolidated financial statements.