

(Unofficial Translation)
FY2017-2Q Financial Results Conference Call for Institutional Investors and Analysts
Q&A Summary

Date: November 14, 2017 19:30 - 20:30
Respondent: Toshiaki Sumino, Executive Officer, Chief of Corporate Planning Unit
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< Revision of Earnings Guidance >

Q1: Please clarify the three factors with respect to the revision of the Company’s earnings guidance. Was the (1) “change in fundamental profit of Dai-ichi Life” due mainly to the increase in interest and dividends income from foreign securities? The impact on net income from the (2) “share exchange gain” was around 10 billion yen higher than your original forecast. However, because the impact on Group adjusted profit was limited to tax relating to the share exchange gain, did the higher tax cause a negative impact? I believe that the impact from the change in your policy providing contingency reserves was included in (3) “Others.” Could you provide details on this?

A1: You are correct on (1). We made an upward revision to fundamental profit by 50 billion yen. There was an increase in income from interest and dividends because of the weaker yen as well as an increase in gains on distribution of mutual funds attributable to rising stock prices. You are correct on (2) as well. The share exchange gain was around 10 billion yen higher than expected but not accounted for in adjusted profit and the higher tax expense (around 2 billion yen) relating to the share exchange gain had a negative on adjusted profit. As for (3), the decrease in Dai-ichi Life’s provision for contingency reserves had a positive impact on net income. However, this was offset by other negative items. Provision for contingency reserves of not less than 4 billion yen (approximately 3 billion yen after tax) was accounted for as regulatory reserve and had a negative impact on Group adjusted profit. Given these factors, regarding (3), the negative amount for Group adjusted profit was larger.

Q2: With respect to the upward revision of your earnings guidance, what economic assumptions did you apply?

A2: We made the revision based on the assumption that economic conditions would not change from the level at the end of September 2017.

Q3: What do you think will be the outcome of the tax treatment for the share exchange gain on the Janus and Henderson merger and when do you expect the outcome?

A3: We would like to deal with the situation without preconception. As for timings, there is nothing specific I can mention today.

Q4: Ordinary profit for the second half of the fiscal year is expected to be about 176 billion yen as Dai-ichi Life's ordinary profit on an annual basis was revised. This means an 18 billion yen increase over the first half results. What is the main reason for this increase?

A4: The main reason is the expected increase in capital gains in the second half.

Q5: When comparing Dai-ichi Life's fundamental profit and ordinary profit after adjustments, it looks like the revised earnings guidance reflects an extra 10 billion yen in capital gains. In the first half, you recorded net capital loss. Are you expecting gains in the second half?

A5: We are expecting capital gains but not on a large-scale. We are not disclosing exact levels.

Q6: You mentioned that the upward revision to fundamental profit of Dai-ichi Life reflected the upswing in investment income during the first half. If there is an upswing in investment income for the second half as well, will it have an impact on net income?

A6: That would depend on the financial environment. In addition, there would be gains and losses as we shuffle assets allocation according to changes in the financial environment. Therefore, the improvement in the investment environment does not necessarily have a direct impact on net income.

Q7: Was the upward revision of your earnings guidance based on one-time factors that we will not see in the next fiscal year? Or was the revision based on recurrent factors affecting the next fiscal year and onwards?

A7: The revision is purely for the current fiscal year and is not based on the outlook for the next fiscal year. Whether we can maintain similar profit levels for the next fiscal year and onwards will depend on the financial environment. An appreciation of the yen will cause income from interest and dividends to decrease.

< Dai-ichi Life's Results >

Q8: As Dai-ichi Life shifts to protection-type products, a weak trend in annualized net premium (ANP) of new business has continued for the first quarter and second quarter. Could you explain sales trends during the second quarter?

A8: As the low interest rate environment persists, both profit contribution and product appeal of savings-type products have declined. From the latter half of the previous fiscal year we have been “strategically” controlling sales of savings-type products. As a result, ANP of new business decreased by about 30% compared to the same period of the previous year. On the other hand, third-sector product sales increased by 50%. We are responding to customer needs by offering protection-type products through our sales representative channel. Profitability indicators such as value of new business are improving as a result of these efforts. We believe business conditions should not be judged by short-term factors such as fluctuation in annualized net premium.

Q9: Dai-ichi Life’s ANP of new business was up 50% YoY for the six month period and up 60% for the three month period to September because of third-sector products. How do you compare ANP contribution and new business margins between products for individual customers and corporate customers?

A9: Out of 36.3 billion yen in third-sector new business, about 9 billion yen came from products for corporate customers and the remaining 27 billion yen came from products for individual customers. Products for corporate customers accounted for one fourth, which was almost the same compared with the share in the first quarter. For the second quarter, products for individual customers gained some momentum. We do not disclose new business margins by product, but generally speaking, compared to level-premium products for individual customers, new business margins of products for corporate customers are lower.

Q10: Value of gross sales revenues per sales representative improved YoY. To what extent do you expect further improvement?

A10: We will be making management efforts to increase the efficiency of each of our sales representatives. Specifically, this is to market highly profitable products that meet customer needs through high quality sales representatives. However, we currently have not specified objectives or indicators to measure efficiency to share with you.

Q11: When the value of gross sales revenues improves, does it mean that new business margins will also improve?

A11: Generally, yes. It is the same for value of new business in the sense that it is necessary to market higher volumes of product with high margins.

Q12: I would like to ask about how we should look at Dai-ichi Life's fundamental profitability. For Dai-ichi Frontier Life and TAL, you disclose indicators that exclude market related impacts namely, operating income and underlying profit. For Dai-ichi Life, should we look at fundamental profit to grasp profit in real terms? Or should we also take into account capital gains and consider that as Dai-ichi Life's fundamental profitability?

A12: Fundamental profit of Dai-ichi life is the main indicator. It is also an indicator shared in the industry. Please refer to fundamental profit and positive spread which are indicators that represents the sustainable profit of the core insurance business. We will disclose information in the case fundamental profit include capital factors. For the life insurance business, ordinary profit itself does not have enough significance. Please refer to net income as well.

< Dai-ichi Frontier Life's Results >

Q13: Operating income was provided as a new indicator for Dai-ichi Frontier Life. Dai-ichi Frontier Life's results were flat YoY based on underlying profit (the previous indicator). Based on operating income (the new indicator), there was an improvement of 10 billion yen. Could you explain the cause of this difference?

A13: Operating income increased by about 10 billion yen from 23.1 billion yen to 33.4 billion yen. Tax for the first half of the previous year was 0 billion yen, whereas it was 9.2 billion yen for the first half of current year. One of the reasons for the difference is that operating income does not account for tax expense. Corporate tax is imposed on Dai-ichi Frontier Life as it generates profit on a constant basis.

< European Embedded Value >

Q14: Could you provide new business margins for the first half?

A14: 4% (upper range after the decimal point) for the Dai-ichi Life Group, 7% (just over the middle range after the decimal point) for Dai-ichi Life and 1% (lower range after the decimal point) for Dai-ichi Frontier Life. We are planning to disclose details at the Q2 Financial Analyst Meeting scheduled for November 22, 2017.

< Shareholder Returns >

Q15: With respect to shareholder returns, is it your policy to determine the allocation between dividends and share repurchase after profit levels have been settled at the end of the fiscal year?

A15: Your understanding is correct. Shareholder dividends are based on annual results. Our dividend forecast currently remains unchanged. As previously disclosed as our direction, our response to one-time upswings in accounting profit will be to repurchase the Company's shares. Moving forward, taking future profit outlook into account, we will consider the combination of dividend payments and share repurchases for shareholder returns.

Q16: Assuming that the upward revision to the earnings guidance is due to better than expected investment income, it would lead to returns through share repurchase. Would you make additional repurchases in the following fiscal year or would repurchases within the current fiscal year also be an option?

A16: The share repurchases we have disclosed as shareholder returns is based on FY2016 results. If we initiate share repurchases as shareholder returns based on FY2017 results, it will commence after entering FY2018.

Note: We made partial additions and alterations in preparing the above summary for clarity.

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