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Asahi Kasei Corporation

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Presentation

MC: Good afternoon. Thank you very much for joining us for the conference call on Asahi Kasei Corporation's earnings for Q1 that ended June 30, 2019. We will begin with a presentation from Mr. Yutaka Shibata, CFO, and then take questions.

Other participants from Asahi Kasei are: Yozo Sato, Corporate Accounting & Control; Toshiyasu Horie, Basic Materials Strategic Business Unit, or SBU; Yukifumi Kuwaba, Performance Products SBU; Hiroaki Sugiyama, Specialty Solutions SBU; Akira Fukuda, Separator Administration, Specialty Solutions SBU; Izumi Kawata, Asahi Kasei Microdevices Corp.; Kensuke Sakai, Asahi Kasei Homes Corp.; Masato Kashiwagi, Asahi Kasei Pharma Corp.; and Futoshi Hamamoto, Investor Relations.

Let me give the floor to Mr. Shibata now.

P. 3 Focus of Q1 2019 results and H1 2019 forecast

Shibata: Good afternoon. This is Yutaka Shibata, CFO. Thank you very much for joining us for this briefing. I would like to present Q1 earnings and the Q2 forecast, and will refer to the presentation material slides.

Let us begin with slide 3. In Q1 FY 2019, consolidated operating income was down year-on-year, mainly due to the slowdown of the Chinese economy. However, thanks to firm performance in Homes and Health Care, the quarterly figure was still the second highest after Q1 FY 2018.

Homes and Health Care segments were up year-on-year, with operating income of the two segments combined growing by 13% from the same period last year. The Material segment was down year-on-year due to the maintenance shutdown of the naphtha cracker and plants of derivatives, combined with lower market prices for products, as well as the slowdown of the Chinese economy

and smartphone-related markets. Operating income for the segment declined 26% year-on-year. Consolidated operating income was down 14% year-on-year.

From Q1 to Q2, we expect continued firm performance for Homes and Health Care. For Material, that maintenance shutdown impact will be gone, and we expect increased shipments centered on Specialty Solutions.

For the H1, we have downward revised the consolidated operating income forecast to ¥94.5 billion. This is down 3% from the initial forecast released in May, but will still be the second highest for a H1, after that of FY 2018.

P. 4 Outline of Q1 2019 results

Slide 4 shows the outline of Q1 operating income for each segment. In the Material segment, the Basic Materials business category suffered from the impact of maintenance shutdown of the naphtha cracker and plants of derivatives, combined with deteriorated terms of trade for MMA, polyethylene, polystyrene, etc., resulting in a year-on-year operating income decrease.

Performance Products benefitted from the consolidation of Sage Automotive Interiors, Inc. Yet, operating income declined due to the impact of the slowdown of the Chinese economy on fiber products such as nonwovens.

Specialty Solutions was also down year-on-year. Demand was down for Li-ion battery separators for use in ESS, or energy storage systems. The slowdown in the smartphone market had an impact mainly on electronic devices. Shipments of ion-exchange membranes decreased in China.

For the Homes segment, operating income increased year-on-year. The largest contributor was order-built homes operations. Deliveries increased, and the average price was higher in line with the increase in home sizes. The segment posted highest ever sales and operating income for Q1.

Health Care operating income also increased, thanks to growth in shipments of defibrillators for professional use.

P. 5 Outline of Q2 2019 forecast

Moving on to slide 5, which shows Q2 forecast. From Q1 to Q2, we expect firm performance to continue for Homes and Health Care. We also expect operating income to improve for Material in the absence of that maintenance shutdown of the naphtha cracker and plants of derivatives, and with increased shipments of ion-exchange membranes, Li-ion battery separators, and electronic devices.

Within Material, we expect operating income to increase for Performance Products. Unlike Q1, there will be no maintenance turnaround impact on synthetic rubber operations. And shipments for Saran Wrap cling film are planned to increase.

For Specialty Solutions, again, we expect operating income to increase. Shipments of ion-exchange membranes are expected to concentrate in Q2. For Li-ion battery separators, we expect demand for use in ESS to recover, and shipments to increase for both consumer-electronics and automotive applications. Smartphone-related demand for electronic devices is also expected to recover.

For Homes and Health Care, we expect firm performance to continue.

P. 6 Outline of H1 2019 forecast

Slide 6 summarizes the forecast for H1. I would like to come back to this later.

P. 8 Summary of financial results

Please turn to slide 8. I have already covered the key financial figures. As you can see, net sales were ¥502.1 billion, operating income was ¥41.3 billion, and net income attributable to owners of the parent was ¥24.4 billion. The net sales amount was the highest ever for Q1, the operating income and ordinary income amounts were the second highest ever, and the net income amount was the third highest ever respectively, again for Q1.

P. 9 Statements of income

Slide 9 shows the consolidated statements of income. Net sales were ¥502.1 billion, up ¥12.3 billion year-on-year. Positives included an effect of the consolidation of Sage Automotive

Interiors.

The gross profit was ¥162.7 billion, accounting for 32.4% of sales, which was slightly lower compared to the same period of the previous fiscal year. This was due to the impact of the maintenance shutdown of the naphtha cracker and others. SG&A expenses increased by ¥7.9 billion to ¥121.4 billion. This was because we increased the number of personnel to strengthen marketing function, as well as the increase in amortization of goodwill associated with the acquisition of Sage Automotive Interiors. Operating Income was ¥41.3 billion, down ¥6.5 billion year-on-year.

Non-operating income and expenses recorded an income of ¥2.6 billion, a deterioration of ¥1.3 billion also compared to the previous fiscal year, including a slight deterioration in net equity in earnings and losses of affiliates. The main reason was the deterioration of MMA operating performance at PTT Asahi Chemical Company Limited in Thailand.

Net extraordinary income and loss was negative ¥200 million, which represented a deterioration of ¥6.2 billion year-on-year. This was due to the considerable unloading of strategic shareholdings during the same period of the previous fiscal year, which resulted in a year-on-year decline in the gain on sales of investment securities.

Net income attributable to owners of the parent after income taxes was ¥24.4 billion, coming from the decrease in the operating income, and the decrease in unloading of strategic shareholdings.

P. 10 Balance sheets

Slide 10 shows the balance sheets. Compared to the end of March, total assets decreased by ¥51.7 billion. The main reasons were a decrease in cash and deposits due to a reassessment of cash on hand, and a decrease in operating receivables associated with the maintenance shutdown of the naphtha cracker and others.

Turning to liabilities and net assets on the right-hand side, liabilities decreased by ¥15.4 billion. The reason was a decrease in trade payable due to the maintenance shutdown of the naphtha cracker. Net assets decreased by ¥36.3 billion. This was mainly due to the ¥10 billion repurchase of shares carried out a couple of months ago, and the decline in foreign currency translation adjustment, reflecting the appreciation of the yen.

Goodwill, interest-bearing debt, and debt-to-equity ratio, are shown on the bottom left of this slide. Interest-bearing debt increased by ¥30.7 billion, and the debt-to-equity ratio was 0.34.

P. 11 Cash flows

Please turn to slide 11 for the statements of cash flows. Operating cashflows were net cash inflow of ¥15.9 billion. Between income before income taxes and depreciation and amortization, cash inflow totaled about ¥65.4 billion, but there was an increase in demand for working capital in the Homes business and others.

Investing cashflows were net outflow of ¥16.4 billion. The reason for this was an increase in the amount of payments associated with the expansion of capacity, following aggressive expansion investments made up to FY 2018.

Free cash flow was net cash outflow of ¥500 million.

Financing cash flows were net outflow of ¥5.3 billion, including ¥29 billion raised to meet the funding requirements for the payment of cash dividends and repurchase of shares.

Cash and cash equivalents at the end of the period were ¥170.5 billion.

P. 12 Sales and operating income increase/decrease by segment

I will skip slide 12, as most of what’s shown there has been covered at the outset.

P. 14 Consolidated operating performance forecast

Slide 14 shows the consolidated operating performance forecast for H1 of FY 2019. As we expect the Material segment to feel the impact of slowdown of Chinese economy, as well as automotive-related and smartphone-related markets, operating income forecast has been revised to ¥94.5 billion, down 3% from the May forecast.

Homes are expected to perform as planned. In the Homes business category, we are forecasting record sales and operating income for H1 of the year. Health Care expects firm operating

performance in each business, and we expect the results for this segment to turn out better than the May forecast.

Interim dividends are projected to be ¥18 per share.

P. 15 Sales and operating income forecast by segment

Slide 15 shows the sales and operating income forecast by segment. The results for Q1 and forecasts by business category are described in the appendix after slide 16. We'll be happy to take your questions on them in the Q&A session.

That concludes my presentation. Thank you for your kind attention.

Question and Answer Session

MC: We can now take questions.

Mr. Watabe: Watabe from Morgan Stanley MUFG Securities. My first question is on Basic Materials. Q1 operating income was down year-on-year, although terms of trade improved for acrylonitrile, or AN. You mentioned factors such as the maintenance shutdown and shipment declines, but can you elaborate further about shipments, and also about spreads for products other than AN, please?

Horie: Horie from Basic Materials SBU. For operations other than AN, uncertainties about the Chinese economy has slowed down business across the board. For example, ethylene prices have fallen significantly relative to naphtha. Benzene prices have come down, too. As market prices of monomers fell, prices of polymers, such as polyethylene and polystyrene, also followed. As a result, spreads are tighter than a year before. MMA market prices have continued to decline.

In summary, the maintenance shutdown increased fixed costs and decreased shipments. In addition, spreads were squeezed across the board except for AN. The operating income decline is a result of all that added together.

Mr. Watabe: Thank you. Can you tell us more about AN? I understand that market prices had slipped back for about a month, but have recently started to recover.

Horie: With regard to AN, the apparent decline in market prices was based more on indicative prices cited in market reports, rather than real transactions. Many players were holding off purchases given uncertainties about the Chinese economy, resulting in low transaction activity. Actual contract prices for AN destined for Asia averaged at above $1,800 per ton in July. It may be the case that real prices have yet to come down.

Recently, market prices appear to be bottoming out. This is probably because some AN users, in particular acrylic fiber producers, have resumed purchasing, now that a bottom is within sight and given maintenance turnarounds scheduled down the road. It suggests that prices may remain relatively stable until around September.

Mr. Watabe: Thank you. My next question is about Critical Care. Can you explain the large year-on-year growth in the Critical Care sales figure, please? And can you also explain this ¥2.8 billion negative impact on operating income due to operating costs and others, please? Should we expect something like four times this figure over the full year?

Shibata: Shibata speaking. The Critical Care business growth is continuing, centered around defibrillators for professional use. On the expense side, the bulk of the increase is in SG&A to support continued business expansion. This includes R&D expenses. Such expenses are prone to quarterly fluctuations, and I certainly do not expect four times this level of increase over the full year. These figures need to be examined quarter-by-quarter.

Mr. Watabe: I thought ZOLL was at one point in time trying to control fixed expenses. Have they

now shifted gear in light of geographical expansion opportunities?

Shibata: Yes, that is true for the LifeVest wearable defibrillator. In addition, ZOLL has recently made some acquisitions in the data management field, so they are definitely investing in better preparing themselves for future growth.

Mr. Watabe: Thank you very much.

Mr. Yamada: Yamada from Mizuho Securities. First on Homes, which recorded the highest ever sales and operating income for Q1. Was sales growth more than you had initially expected, or in line? And what about Q2? You have not upward revised the forecast for H1, but can you tell us more about the current situation for both sales and expenses, please? And can you also provide more detail about housing-related businesses, too?

Sakai: Sakai from Homes. Q1 sales was in line with expectation, and we expect Q2 to be in line, too. Housing-related operations were also in line with expectation across the board for Q1, although some grew more than others on a year-on-year basis. We expect Q2 to be in line, too.

Mr. Yamada: Are costs in line, too?

Sakai: Yes, some are up, some are down, but generally in line as a whole.

Mr. Yamada: On slide 25, there is significant year-on-year top-line growth in remodeling as well as in other housing-related, etc., the latter in particular. What caused this?

Sakai: The other housing-related, etc. figure this time includes contribution from Erickson Framing Operations.

Mr. Yamada: I see. Thank you. Next on Material. How is post-merger integration going for Sage Automotive Interiors? And how much confidence do you have in the recovery of Li-ion battery separator shipments in Q2? You said you expect demand for use in ESS to recover, and shipments for other applications to also increase from Q2. Also, can you update us on the latest situation regarding ion-exchange membranes and electronic materials, please?

Kuwaba: Kuwaba from Performance Products. With regard to Sage, the integration is going well. In Q1, Sage had a positive contribution. Actually, Performance Products operating income was down year-on-year although sales went up, and that makes it a little difficult to see the Sage contribution, but it is there.

Mr. Yamada: Was the Sage earnings contribution positive, even after amortization of goodwill?

Kuwaba: Yes.

Sugiyama: Sugiyama from Specialty Solutions. The year-on-year decline in operating income was, as shown on slide 17, mostly due to sales volume difference. As you rightly mentioned, ion-exchange membranes and battery separators accounted for much of this.

Ion-exchange membrane shipments do not occur constantly, such as every month, and tend to fluctuate. In FY 2018, we had rather large shipments in Q1. This year, we have less in Q1 but more in Q2, which caused the apparently significant year-on-year difference. With increased uncertainties about the Chinese economy, demand for caustic soda slowed down, and that in turn delayed replacement demand for ion-exchange membranes. Over the longer term, however, we are not observing a decline in investment appetite among players in the caustic soda market. Indeed, shipments of electrolyzers are still strong and contributing to sales growth, but its contribution to operating income is rather limited.

Fukuda: Fukuda for separators. With regard to dry-process Li-ion battery separators, the fire incidents in South Korea did have an impact, and Q1 shipments were down significantly year-on-year. However, after the government of the Republic of Korea released an investigation report on June 11th, both orders and shipments are recovering. We expect ESS-related sales to recover in Q2.

Mr. Yamada: Thank you very much.

Mr. Okazaki: Shigeki Okazaki from Nomura Securities. According to slide 22, which shows quarterly operating income by segment, Q2 sales will be up year-on-year for Performance Products, but down for Specialty Solutions. Can you tell us which products are up and which ones are down?

Kuwaba: Kuwaba from Performance Products. Yes, Q2 operating income in FY 2018 was ¥10.7 billion, and we expect a year-on-year increase to ¥11.6 billion in Q2 2019. Performance polymers are generally up. In addition, among consumables, we are expecting some rush demand for Saran Wrap cling film ahead of the consumption tax hike in October.

Mr. Okazaki: What about synthetic rubber and engineering plastics? I believe they struggled in Q1. Would Q2 be better?

Kuwaba: Synthetic rubber shipments will be slightly up, but almost unchanged. Engineering plastics shipments are expected to increase from Q1 to Q2.

Mr. Okazaki: Thank you.

Sugiyama: Sugiyama from Specialty Solutions. Specialty Solutions operating income for Q2 is forecast to be down year-on-year by ¥600 million. Performance materials are to be slightly up. As mentioned earlier, we expect shipments of ion-exchange membranes to increase, and other products are expected to be generally firm as well.

Fukuda: Fukuda for separators again. Operating income for separators will be down due to reduced shipments of dry-process separators. For wet-process Lit-ion battery separators, we expect shipments to increase centered around automotive application. For dry-process separators, ESS-related demand would recover as explained earlier, but total shipments will be down year-on-year due to the impact of the Chinese government's electric vehicle policy.

Kawata: Kawata from Asahi Kasei Microdevices. Regarding electronic devices, Q2 sales will be almost unchanged year-on-year, but operating income will be down due to a difference in capacity utilization levels associated with the change in sales mix.

Mr. Okazaki: Going back to separators, is it correct to understand that Q2 shipments for dry-process separators will be down year-on-year, but by a smaller margin than in Q1?

Fukuda: Fukuda speaking again. Yes, that is correct.

Mr. Okazaki: What about wet-process separators? Is growth in line with expectations?

Fukuda: Q1 wet-process separator shipments for automotive use was up, but shipments for consumer-electronics application suffered a temporary slowdown due to inventory adjustments at some users in the beginning of the period.

Mr. Okazaki: Are you saying that, in Q2, the adjustment impact on consumer-electronics applications will be gone, and that shipments will return to previous levels?

Fukuda: Yes, that is correct.

Mr. Okazaki: Thank you very much.

Mr. Umebayashi: Umebayashi from Daiwa Securities. My first question is about AN. Can you tell us about spreads in Q1? And in Q2, now that the maintenance turnaround in Mizushima is over, shipments should increase, but what level of capacity utilization shall we expect? I recall that you brought down capacity utilization in the latter half of FY 2018. Would it go up, or stay at the reduced level?

Horie: Horie from Basic Materials. First, the AN price spread for 1Q. The spread was greater than we had expected, exceeding $900 per ton. It is not that certain demand was seriously hit by the state of the Chinese economy or anything like that, but rather overall business was somewhat sluggish. And yet there was a supply-side factor, specifically a plant of a competitor in the US was having the hard time recovering from its production troubles, and thus a sense of supply tightness was felt more strongly than expected, and that resulted in the greater spread than we had expected.

Your second question was on the capacity utilization. Basically we are adjusting the operation closely watching the demand. But as you correctly described, Mizushima had the maintenance shutdown in May and June, and PTT Asahi Chemical in Thailand also had a maintenance turnaround at the same time, so there is a slight shortage of inventory now, and we are increasing our operation. But going forward, we are planning to operate carefully monitoring the economic situations in China and other Asian countries.

Mr. Umebayashi: I see. I have an additional question. You said that the demand for acrylic fiber is rising. How about ABS resin?

Horie: Demand situation for ABS resin is mixed. China's domestic demand is not bad so far. However, some of the ABS resin manufacturers that are exporting to China, have begun to lower commodity products production after carefully watching the latest situation. On the other hand, manufacturers of high-value-added, specialty products don't seem affected. Their operations are not slowing down. So overall, ABS suppliers in Asia are maintaining capacity utilization at over 80%, so we have yet to see a clear decline in demand.

Mr. Umebayashi: I see. Thank you, that's all.

Mr. Takeuchi: Takeuchi from SMBC Nikko Securities. My first question is on pharmaceuticals. Slide 28 shows that first quarter sales of Teribone osteoporosis drug were lower year-on-year. Can you give us the background to that? Was there an impact of generics? Also, how do you plan to recover in Q2 and beyond?

Kashiwagi: Kashiwagi from Asahi Kasei Pharma. First, regarding the year-on-year decline, one factor was that this year's Golden Week holidays turned out to be 10 days long, so there were fewer business days compared to last year. Another reason is that in March of this year, a new drug that competes with Teribone was launched, which had some impact on our business. For those reasons, the results for the first quarter were slightly lower year-on-year.

Mr. Takeuchi: Were those negative factors already incorporated in your full-year forecast announced in May? Or do you feel that the impact in Q1 was more serious than you expected?

Kashiwagi: It was stronger than we had expected.

Mr. Takeuchi: I see. The Q1 operating profit for Health Care declined by ¥400 million, year-on-year. Was it because pharmaceuticals saw lower profit due to lower volume of mainstay products, while medical devices posted higher profit?

Kashiwagi: Actually, medical devices posted a slight decline.

Mr. Takeuchi: And pharmaceuticals as well?

Kashiwagi: No, pharmaceuticals profit was higher.

Mr. Takeuchi: Will you elaborate on factors for higher profit for pharmaceuticals then?

Kashiwagi: Pharmaceuticals profit was higher year-on-year partly because during Q1 and Q2 of last fiscal year, we recorded high R&D expenses in relation to Teribone autoinjection, the formulation currently being filed. In the absence of the corresponding expenses this year, we saw the increase in profit.

Mr. Takeuchi: I see. Health Care profit forecast for H1 has been revised upward by ¥1 billion. What is breakdown between pharmaceuticals and medical devices?

Hamamoto: Hamamoto of Investor Relations. The projected upside is in relation to medical devices.

Mr. Takeuchi: Does that mean that sales are stronger than expected? Since the sales forecast remains unchanged, are you expecting improvement in sales mix?

Hamamoto: Well, all products are doing well in medical devices.

Mr. Takeuchi: I see. Slide 14 shows the revisions to the H1 operating performance forecast. The ordinary income forecast has been reduced by ¥4 billion, while the net income forecast has been raised by ¥3 billion. Can you give us the reasons, including possible changed in extraordinary income and loss?

Sato: Sato of Corporate Accounting & Control. The difference is in relation to the unloading of strategic shareholdings. The gain on the sale recorded in the extraordinary items.

Mr. Takeuchi: So I take it that there may be additional unloading of strategic shareholdings, not included in the May forecast. Am I correct?

Sato: Yes, that’s correct.

Mr. Takeuchi: I see. Thank you.

Mr. Ikeda: Ikeda from Citigroup Global Markets Japan. My first question is on Specialty Solutions. Am I correct to understand that the Q1 shipment of LIB separators declined as a whole year-on-year, but recovered quarter-on-quarter after dipping considerably in Q4? Could you also comment on whether the prices of separators are decreasing due to supply and demand, such as the decline in demand for ESS as well as the reduction in electric vehicle subsidies in China.

Fukuda: Fukuda for separators. First, shipments increased from Q4 to Q1. Regarding the impact of supply and demand on prices, China’s EV-related market has a very policy-driven aspect, and our view is that some auto manufacturers, battery manufacturers, and battery material manufacturers are beginning to go out of business. In the meantime, we have not changed our policy of delivering to customers that find value in the quality and performance of our products and are accepting paying premium for that. Currently, we are carefully monitoring the market trends.

Mr. Ikeda: Am I correct to assume that basically, other than China, your demand outlook for automotive applications remains unchanged from three months ago, especially for Europe? Or is demand getting stronger?

Fukuda: We are under the impression that the demand in Europe is a little stronger than three months ago.

Mr. Ikeda: But no changes to your plan to add capacity for both dry-process and wet-process this year, correct? Am I correct?

Fukuda: First, capacity expansion for the wet-process separator is proceeding smoothly as planned. Production lines are being started up in succession, and we are acquiring certification from customers, and trial production of new grades are being carried out as planned. As for dry-process, we started commercial operation of expanded capacity last year, also as planned. We are in the process of starting up sequentially. Given the characteristics of the dry-process, production capacity can be increased in stages. Now, due to the impact of the ESS fires, demand is growing slower than initially assumed, so we are adjusting the start-up and operation of our facilities in accordance with the demand.

Mr. Ikeda: I see. Thank you. My next question is on fibers. It was growing relatively smoothly up to FY 2018, but I think that nonwovens for diapers and artificial suede for automobiles are probably slowing down. Can you describe the impact? Also, is Sage Automotive's sales growing by roughly 4-5%?

Kuwaba: Kuwaba from Performance Products. In general, sales of apparel fibers were sluggish, particularly in China. Excluding the impact of Sage consolidation, fibers posted a declining trend in sales and profit in Q1. With regard to the trend of operating performance of Sage Automotive, higher sales and almost flat gross operating income year-on-year for Q1. And as for H1, we are projecting higher sales and profit year-on-year.

Mr. Ikeda: I think that the nonwovens for diapers are declining quite a bit. Are you feeling the impact?

Kuwaba: The demand is slowing down somewhat. However, we are working on it as a strategic area.

Mr. Ikeda: I see. I think feedstock costs are declining quite a bit, What's the impact on the profit of fibers?

Kuwaba: Actually, the decline in feedstock prices has had little impact on the year-on-year change in profit for Q1.

Mr. Ikeda: I see. Thank you.

Mr. Miyamoto: Miyamoto from UBS Securities Japan. First on the quarter-on-quarter changes in Basic Materials. Slide 22 shows that profit increased from Q4 to Q1. During this period the AN market price increased, but on the other hand, there was maintenance shutdown. From Q1 to Q2, profit is expected to increase. While AN price is expected to drop, there will be no impact of Maintenance Shutdown. Can you describe the changes from Q4 to Q1 and from Q1 to Q2? Please also comment on the AN spread assumption for Q2.

Horie: Horie from Basic Materials. First, changes in profit from Q4 to Q1. As you correctly described, the spread of the AN was significantly reduced in Q4 of last fiscal year due to the start of a decrease in production by AN users because of their concerns over the future. On the other hand, as for Q1, the supply further narrowed and did not recover while demand began to pick up, and thus the spread recovered. For your information, the spread dropped to $519 per ton in Q4 and recovered to $943 in Q1.

With regard to Q1 to Q2, the situation remains that we must carefully assess future demand, and we cannot expect the supply and demand to tighten in the future. Based on that

assumption, we are projecting Q2 AN spread to be $800 per ton, with the selling price of $1720, and propylene price of $920. So, as you pointed out, mainly coming from the absence of cost associated with the maintenance shutdown, we expect to see a recovery in profit from Q1 to Q2.

Mr. Miyamoto: Should I assume that the maintenance shutdown factor amounted to about ¥3 billion? Can you also comment on factors other than the maintenance shutdown and products other than AN?

Horie: Yes, you can assume that the effect of the maintenance shutdown was about ¥3 billion. In terms of products other than AN, the overall situation is expected to improve, as other products should also benefit from no effect of maintenance turnaround in Q2. However, we do not expect special circumstances such as the recovery in particular product market price or the recovery in particular applications.

Mr. Miyamoto: I think the market price for MMA for example is expected to be lower in the Q2. Are you incorporating this in your projection?

Horie: Yes, MMA alone expects the terms of trade to continue to deteriorate, but other products are expected to improve more or less.

Mr. Miyamoto: I see. My next question. Looking at the variance analysis on slide 17, the difference in sales prices was particularly positive for Performance Products and Specialty Solutions. Excluding foreign exchange, Performance Products improved by ¥1.2 billion and Specialty Solutions by ¥700 million. What products saw higher prices or improved sales mix? Earlier, there was a reference to the Chinese market situation relative to separators. Do I understand correctly that Asahi Kasei doesn’t pursue the policy of lowering price to sell more?

Kuwaba: Kuwaba from Performance Products. As for Performance Products, the main element for the positive resulting from sales price difference was that engineering plastics had price hikes in FY 2018, which has been sustained in to H1 of this fiscal year. That is the main factor for the positive effect from the sales price difference.

Sugiyama: Sugiyama from Specialty Solutions. The effect of sales price difference came mainly from the performance materials. And this is closely related to negative effect of the cost difference. To reflect higher feedstock prices, we raised prices for performance coating materials and others. There was also a positive effect of sales mix difference, this coming from the electronic devices as well. But not much sales price effect related to separators.

Mr. Miyamoto: What products contributed to difference in sales mix?

Sugiyama: It’s a net effect of various products, so it’s hard to say which.

Mr. Miyamoto: I see. Thank you.