

Transcript of briefing on
“Cs+ for Tomorrow 2021”
Medium-term management initiative
Progress and Outlook
held on May 25, 2021

Asahi Kasei Corporation

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Presentation

Hamamoto: Ladies and gentlemen, thank you for taking time out of your busy schedule to join us in the conference call of Asahi Kasei Corp. I am Futoshi Hamamoto from Investor Relations, serving as the moderator. Participants of today's conference call are Hideki Kobori, president, and Koshiro Kudo, CFO.

Without further ado, presentation by President Kobori.

Kobori: This is Kobori speaking. Thank you for participating in our management briefing. Today I will discuss the progress and outlook of our medium-term management initiative "Cs+ for Tomorrow 2021".

The COVID-19 pandemic is making it extremely difficult to foresee the future, but I would like to review the progress we've made so far in the current medium-term management initiative, or MTP, in the face of changes in the environment, and go over the framework of implementations for this fiscal year, the final year of the current MTP, and the direction of management over a medium term.

P. 2 Introduction

Page 2 shows our view of the business environment and the basic thinking on the execution of the MTP based on that view.

The business environment has changed significantly since April 2019, when the current MTP started, including changes in the international affairs such as US-China decoupling, accelerated decarbonization movement aiming at carbon neutrality, and changes in social, economic and personal lives due to the impact of COVID-19. In some industries, the market itself is facing irreversible structural changes, requiring responses that defy a simple extension of conventional ways of thinking.

While reconfirming risks in such discontinuous and uncertain environment, we should regard changes as business opportunities and move proactively to improve corporate value over a medium term.

We will celebrate the 100th anniversary of our founding next year in 2022. We would execute "Care for People" for the realization of active life in the new normal, and "Care for Earth" to bring about the carbon neutral sustainable world, through "diversity" cultivated over the 100-year history and "capability to change" through the innovation of employees, organizations, and the company.

P. 3 Value provision for sustainable society

Page 3 explains Asahi Kasei's concept of value provision, which largely remains unchanged.

We will continue to focus on the 5 priority fields for provision of value, aiming for medium-term growth and contributing to the realization of a sustainable society. The 5 priority fields are: Environment & Energy, Mobility, Life Material, Home & Living, and Health Care. Despite the COVID-19 impacts, we will continue to drive measures for medium-term growth in these areas with an emphasis on financial discipline.

In terms of reinforcing the base for growth, we are accelerating the transformation of our business portfolio as well as cultivating new fields of growth. In addition, we are making focused resource allocation to advance sustainability management and digital transformation, or DX, as the

extremely important sources of competitiveness.

Through this approach, we will continue to carry out the plan in this final year of the MTP, and aim to contribute to a sustainable society.

P. 4 Table of Contents

Page 4 is the table of contents. First, progress on financial objectives, second, progress on major activities, third, sustainability initiatives, and lastly toward Asahi Kasei's next 100 years.

P. 5 Operating income and operating margin

Please go to page 5. First, the changes in operating income and operating income ratio. Profit growth stagnated due to the effects of the US–China trade conflict and COVID-19. Operating income in FY 2020 stayed at ¥171.8 billion, as shown in the bar chart. The operating income forecast for FY 2021 is ¥190 billion, with the expectation of a significant recovery in operating performance in the Material sector. The initial assumption under the MTP was ¥240 billion, meaning there's a gap despite a recovery trend in operating performance.

The operating income ratio shown in the line graph is forecasted to be 8% for FY 2021, lower than the initial assumption of 10%.

Given this situation, the most important management issues are strengthening profitability and putting profits back on a growth track.

P. 6 Main financial metrics

Moving on to page 6, other main financial metrics.

Again, profitability-related metrics are expected to fall short of the initial assumption. In FY 2020, net income fell mainly due to the temporary increase in tax expenses associated with the reconfiguration at Veloxis Pharmaceuticals Inc. Conversely, in FY 2021, net income is expected to improve significantly with much lower tax expenses in relation to Veloxis reconfiguration.

In terms of capital efficiency, ROIC dipped in FY 2020 due to lower operating income, while it is expected to rise in FY 2021 as operating income recovers. Still, there is a gap from the original assumption. We expect that the level in FY 2021 will recover close to FY 2019 level. ROE was also low in FY 2020 due to lower net income following an increase in tax expenses. We expect improvement in FY 2021. In terms of financial soundness, the D/E ratio is at the level originally assumed. We are maintaining a strong financial base.

P. 7 Capital allocation

Page 7. Capital allocation.

First, operating cash flow as a source of funds. Although net income is lower than expected, we are working to enhance cash generation capacity, such as improving the efficiency of working capital, aiming toward the targeted range.

We are raising funds with interest-bearing debt as planned, and the balance of interest-bearing debt is expected to stay within the range expected in the initial assumption. As a result, the D/E ratio is expected to maintain the reference level of 0.5.

Capital expenditure is expected to reach ¥700 to ¥800 billion for the 3-year period, compared to the initial assumption of ¥800 billion, with M&As in the Health Care sector and others, while enforcing strict selection of investments under the COVID-19 impact.

Regarding shareholder returns, the annual dividend was maintained at ¥34 per share, even with declined profit. We expect the payout ratio to be in line with the original assumption.

Based on the above, we believe we need to strictly scrutinize projects for investment for higher investment returns, from the perspective of operating cash flow, cash generation, and improved investment efficiency.

P. 8 Performance and outlook by sector

Next, page 8. Performance and outlook by sector.

The figure on the left shows the position of each sector during the current MTP period and future target positions from the perspective of growth potential and profitability. Dotted circles indicate the positions in the current MTP period, solid circles indicate the target in the next few years, and the

size of the circles indicates the amount of operating income.

In Material, growth has slowed down significantly due to changes in the environment, and profitability has declined. Going forward, we will prioritize improving profitability and capital efficiency rather than expanding scale, and will focus on portfolio transformation.

Regarding Homes, the domestic business expects to achieve the MPT targets one year behind schedule due to the decline under the COVID-19 impact. In the overseas business, sales are expected to increase significantly with McDonald Jones Homes Pty Ltd. of Australia becoming a consolidated subsidiary. Going forward, we plan to ensure continued growth through homes for seniors and medium-rise in Japan, and expansion in Australia and the US.

In the Health Care sector, COVID-19 has boosted the demand for our ventilators and virus removal filters, and we expect to achieve the MTP targets. We will continue to pursue high profit growth and profitability by continuing investment for further expansion as a growth driver for the group.

P. 9 Investment for sustainable growth

Next, page 9. Investment for sustainable growth.

Since last year, we have emphasized financial discipline and carefully selected investments. On the other hand, as we have maintained a sound financial condition, we are continuing with active investments in businesses with medium-term growth prospects such as in the Health Care sector, as well as in DX and sustainability.

As a result, the investment amount on a decision-adopted basis for the cumulative 3-year period will exceed the previous MTP. Looking at expansion investment, Material accounted for the majority in the previous MTP, while in the current MTP, Health Care accounts for more than half. We are shifting resources based on growth potential.

As for the main expansion investments in the current MTP, in addition to M&A projects centered on Health Care, we have decided to increase the capacity of lithium-ion battery, or LIB, separators.

Sustainability-related investments are to total approximately ¥30 billion, including investment related to hydropower plants in the Nobeoka area of Miyazaki Prefecture. DX-related investments are estimated at approximately ¥20 billion. We will continue to proactively invest in strengthening our foundations in these areas to enhance our competitiveness over the medium term.

P. 10 Business portfolio transformation

Next, page 10. Business portfolio transformation.

In portfolio transformation overall, we evaluate businesses based on operating income and sales, but we also take into consideration perspectives of ROIC, cost of capital, and sustainability. Through the evaluation, businesses are classified into 4 categories. Out of 60 businesses evaluated, 15 have been classified as strategy reformulation businesses and being revisited, which mainly consist of commodity products in Material.

For those, we have been studying strategies and directions of businesses since last year. For some of the businesses, actions have begun for structural reform.

P. 11 Shareholder returns

Next, page 11. Shareholder returns.

The shareholder return policy has not changed. Based on the medium-term outlook for free cash flow, we will determine the level of shareholder returns and basically pay dividends as shareholder return, aiming to maintain or increase dividends per share.

In light of this policy, we plan to maintain the dividend per share in FY 2021 based on the earnings forecast for the fiscal year. The dividend payout ratio for the 3 years is forecasted to increase from 30% in the previous MTP to 40% or higher in the current MTP. Going forward, we will continue to work on steadily improving the level of shareholder returns, aiming to maintain or increase dividends per share.

P. 13 Material: Business strategy

Next, progress of major activities. Please turn to page 13.

First is the Material sector. Given major changes in the business environment, we will clarify the priorities of the fields in which resources are to be invested, and pursue new value provision models, so as to improve profitability and investment efficiency.

In Environment & Energy, the carbon neutral movement is accelerating globally, and there is rapid growth in need for technologies and solutions that contribute to decarbonization. In response, we are to create value by providing systems and solutions that combine core technologies, processes, and operational know-how of innovative materials.

In Mobility, demand dropped temporarily due to COVID-19, but changes related to the progress of CASE continue to present opportunities to provide value with new materials. We aim to provide value by shifting to business that proposes materials that meet required properties as parts, through the use of CAE, computer-aided engineering, and others. To that end, we will build strong relationships with key customers, deepen our understanding of their needs, and translate them into compelling proposals.

In Life Material, demand for electronic materials and healthcare materials remains strong even in the face of COVID-19. In addition, the advances in next-generation communications, changes in health and hygiene awareness, and the emergence of new lifestyles are giving rise to new types of needs. We will work on meeting these with distinctive high-value-added materials.

We aim to provide materials and devices to realize the performance required for the digital society, as well as provide solutions to new requirements in the healthcare field.

P. 14 Material: Focus on Growth Businesses

Now on page 14, let us look at growth businesses within the Material sector.

For Environment & Energy, we are ramping up our LIB separator production capacity in line with growth of the EV market. Capacity will reach 1.9 billion m² in FY 2023, and 3 billion m² over the medium term. We will continue to cater to diverse requirements with both wet-process and dry-process separators.

In the field of Mobility, one focus is expansion of Sage Automotive Interiors, Inc. The aim is to leverage designability and strengthen our position as a leading global supplier of automotive interior material, through building an optimized supply network and offering the best material for each and every region.

We will also seek synergy with the environmentally-friendly Lamous artificial suede, so as to achieve more than \$1 billion in sales in the medium term.

These businesses will therefore continue to be the focus of management resource investment.

P. 15 Material: Highlights in Life Material

Moving on to page 15.

In the field of Life Material, on accelerating growth of existing businesses, we decided in FY 2020 to construct a second plant for Ceolus microcrystalline cellulose. It will double our production capacity, so that we can increase supply of high-performance products for pharmaceuticals.

We are also accelerating expansion of Klaran high-performance UVC LEDs for disinfection. These LED devices feature high output at the wavelength effective for disinfection. It has been adopted for the Daikin UV streamer Air Purifier.

To reduce environmental impact, we are working with a global provider of imaging devices and software for packaging material printing to develop an automated flexo printing platemaking solution. The idea is to combine products from the 2 companies, so as to streamline the production process and significantly reduce environmental impact.

In addition, we are developing new business models with a longer-term perspective. Fresh Logi is a value-added solution to maintain freshness of produce that can reduce food waste as well as CO₂ emissions. The Fresh Logi sealed box uses our high-performance insulation material, Neoma foam. Built-in sensors allow visualization of temperatures inside and outside the box as well as the CO₂ concentration inside. We aim to develop new business models utilizing all the collected data.

We are also developing a solution for the supply chain to prevent counterfeiting. It uses blockchain in conjunction with transparent RFID tags that are difficult to replicate. The aim is to build a business model around providing product authentication to thwart circulation of counterfeit goods and allow only genuine goods to be delivered to consumers.

P. 16 Homes: Business Strategy

Moving on to page 16 and the Homes sector.

Here, we maintain the growth strategy of leveraging our strengths and developing related growth markets.

With regard to urban development, we will continue to expand business for medium-rise homes and homes for seniors. Outside of Japan, we are leveraging M&As to expand business in Australia and North America.

With regard to addressing new and changing lifestyle needs, we are leveraging our know-how to support the decarbonization of society and strengthen resilience to disasters. We are also enhancing efforts to improve productivity with DX and thereby reinforcing operations.

P. 17 Homes: Expansion of Overseas Business

Page 17 is about expansion of overseas business, which is a pillar of growth for the Homes sector.

In Australia, McDonald Jones, a major steel-frame housing company there, is now becoming a consolidated subsidiary. After capital participation in July 2017, an agreement was signed this April to increase Asahi Kasei's stake. The consolidation will boost net sales from overseas business and bring the figure for FY 2021 to ¥100 billion together with operations in North America. We are also accelerating our strategy to become Australia's leading brand through vertical integration with the steel frame supplier we acquired in 2020.

In North America, we will continue to focus on providing high-quality buildings in an efficient, streamlined way, leveraging the horizontal integration with Austin Companies for electrical, concrete, and HVAC through the acquisition in September 2020.

P. 18 Homes: Sustainability and Resilience

As shown on page 18, to realize sustainable urban living, we are leveraging our know-how to expedite decarbonization and enhance resilience to disasters.

For sustainability, Asahi Kasei Homes participates in the RE100 international initiative aiming for 100% renewable energy and has been promoting net-zero emission homes. In addition, we have launched a program to supply non-FIT non-fossil power to one of our sites. Our Neoma Foam insulation panels are also getting recognition, including the Minister of the Environment Award of the 18th GSC Awards of the Green & Sustainable Chemistry Network, and the Environmental Technology Award of the JCIA Technology Award.

On the resilience front, we received the Japan Resilience Award for rebuilding a condominium in only 4 years after the 2016 Kumamoto earthquake. We are also working with the National Research Institute for Earth Science and Disaster Resilience to develop a real-time earthquake damage estimation system. It aims to provide an assessment of building damage and soil liquefaction for each and every Hebel Haus unit homes and Hebel Maison apartment buildings in the target area, within 10 minutes to 2 hours of a major earthquake. The plan is to start with the 23 central wards of Tokyo, verify the effectiveness of the system, and then expand to other areas.

P. 19 Health Care: Business Strategy

Moving on to page 19 and the Health Care sector.

While this sector is also affected by the pandemic, the growth trend continues, partly thanks to increased demand for some products in relation to the pandemic. Over the past 10 years, net sales achieved double-digit annual growth. The ratio of overseas sales is approaching 80%. Global expansion is certainly driving growth here. Operating income has also grown significantly over this period, by more than a factor of 6. We have been able to maintain profit growth, and also improve margins.

To further drive and accelerate global expansion for both pharmaceuticals and medical devices, we will continue to give priority to this sector with regard to management resources, so that it will remain the major pillar and driver of growth.

P. 20 Health Care: Critical Care Business Development

Page 20 describes the Critical Care business category which is the central growth driver.

While continuing organic growth of existing businesses around cardiopulmonary resuscitation, we will also proactively leverage M&A opportunities to promote business development for both existing businesses and adjacent areas.

In June 2019, we acquired Cardiac Science Corp. to reinforce and expand existing business. It has contributed to solidifying the business foundation for medical devices and other products for medical practitioners.

With regard to business development in adjacent areas, we acquired Respicardia, Inc. this April. Respicardia is a provider of novel devices for the treatment of CSA, central sleep apnea, accompanied by risk of heart failure. With this acquisition, ZOLL Medical Corp. will combine its expertise in cardiac and respiratory care with Respicardia's novel system to make a meaningful difference in the health and quality of life for more patients.

P. 21 Health Care: Pharmaceuticals and Medical Devices

Page 21 explains business expansion and strengthening of pharmaceuticals and medical devices.

For pharmaceuticals, there is steady growth in Envarsus XR an immune-suppressant drug used following kidney transplant, which is supplied by Veloxis which became part of the group after the acquisition in FY 2019. We intend to integrate the clinical development and business development functions of Asahi Kasei Pharma in the US with Veloxis, so as to accelerate expansion of pharmaceuticals business there. Domestically, Teribone osteoporosis drug has gained the No. 1 market share among teriparatide formulations, thanks to Teribone autoinjector for self-injection.

For medical, we are expanding sales and production capacity of Planova virus removal filters in line with market growth of biologics, the need for which has increased due to the pandemic.

The intent is to leverage our strength in each business area for sustained growth of the Health Care sector as a whole.

P. 22 Building platform for sustainable growth

Moving on to page 22, let us switch gear and discuss how we are building the platform for sustainable growth.

P. 23 Asahi Kasei DX Vision 2030

Page 23 describes how we are deploying DX.

The current MTP already focuses on DX as a powerful tool for our growth strategy, but to go one step further, in FY 2021, we have newly formulated the "Asahi Kasei DX Vision 2030". The vision is that Asahi Kasei will co-create "healthy living" and "a future world full of smiles" through the borderless connections enhanced by digital innovation.

We believe it is of prime importance to work together across various types of boundaries so that we can hand down to the next generation healthy, secure, safe, comfortable life and a world full of smiles.

The power of digital innovation shall be leveraged in full to realize the sustainable society we seek. The whole of the group will strive to contribute to that end.

P. 24 Development of DX as a pillar of growth strategy

Page 24 describes our DX-related activities so far and going forward.

The initial period from 2018 was characterized as the "Digital Introduction Period", during which we built the foundation for functional DX through about 400 projects.

The second period from 2020 is the "Digital Deployment Period". Building on the functional DX, we are expanding DX across the whole value chain and group business management.

From 2022 is the "Digital Creation Period". It will involve further business model transformation and valuing of intangible assets. And from 2024, we will be in a "Digital Normal Period", when all employees will be equipped with a mindset of digital utilization. Clear KPIs will be established to continuously drive efforts.

Specifically, application of MI, materials informatics, to development of innovative materials is already enabling us to accelerate the process, which gives us an advantage in addressing

customer needs. We are also working towards a smart lab that can search for new materials and conduct experiments without human intervention using MI and robots.

Another example is remote monitoring for productivity improvement. There are already a number of successes here, including remote monitoring of an alkaline water electrolyzer system in Germany from Japan, and using smart glasses to remotely support a plant starting up in China. It shows how we realized productivity gains even though the pandemic has prevented us from travelling.

P. 25 DX Promotion Framework

Page 25 shows the organizational framework to advance DX.

In April 2021, we established a Digital Value Co-creation organization to accelerate DX throughout the group. The organization brings together people from strategic planning, functional DX promotion groups, and IT infrastructure. It will spur transformation, leveraging diversity, which is the strength of the group, through co-creation within and outside the group.

In January 2021, we opened the CoCo-Cafe digital co-creation laboratory. As DX involves a change of culture and mindset within the group, this new laboratory is to serve as a base from which practices such as agile development and design thinking can spread and penetrate across the group.

The most important aspect of DX is human resources. In addition to building up the pool of DX professionals, we are also enhancing DX education and training for employees at different levels. This April we rolled out an Open Badge system. We are leveraging the group e-learning system and offering various training programs, including those on the basics of digital, or dedicated DX programs for business managers. With regard to in-house DX professionals, we are aiming to increase the number to 230 by the end of the financial year, through a combination of hiring and training.

P. 26 Use of intellectual property

Page 26 discusses IP, intellectual property, in the context of DX.

We have been strategically leveraging our IP for new business creation and strategic planning. Such efforts have been recognized, and we have received the Ministry of Economy Trade and Industry Award of the Intellectual Property Awards which is hosted by the Ministry and the Japan Patent Office. The reasons for receiving this award are the 3 items described at the top of the diagram.

In order to maintain the business competitiveness, intellectual property strategies will become more important than ever, and we hope to use intellectual property strategically in securing the business competitiveness, creating new businesses, and making decisions in businesses so that we can provide new values to society.

P. 27 Development of Human Resource Base

Moving on to page 27, I would like to discuss the development of our human resource base.

Based on the idea that everything starts from people, we have been seeking to develop our human resource base. Even before the COVID-19 pandemic, we had been engaged in initiatives to promote diverse work styles, expand a highly-skilled professional system, nurture the next generation of leaders, and use new engagement surveys, all designed to build the environment conducive to active use of diverse human resources, and improve work engagement.

Furthermore, under the pandemic, with the “new normal” in mind, we introduced coreless flexible time and satellite office systems, implemented work style reforms and productivity improvement utilizing IT tools, and promoted one-on-one meetings with increased importance to maintain individual mental and physical health when working from home.

In this context, there was renewed awareness of the importance of vibrant work environment, diverse ways of working, actively embracing changes, and flexible management. As we had many discussions on work styles and greater satisfaction in work in a cross-functional project team, the key word that emerged was “lifetime growth.” We have realized the increased importance of enhancing specialization regardless of generations from junior to experienced employees so that they can continue to grow.

P. 28 Promoting Health and Productivity Management

On page 28, I will explain about how we have been promoting health and productivity management since FY 2020.

We believe the prerequisite for the success of employees at work would be their own and their family's health. Based on the idea that we can only realize our sustainability goals when our employees are happy, we have picked up the enhanced health and productivity management as an even more prioritized issue than before.

In FY 2020, we started our activities by issuing a declaration of enhanced health and productivity management, putting together a group vision on this theme, establishing the position of a director and a department responsible for this, and setting a goal for the entire group.

Other health-related initiatives started anew include implementation of AED live-saving seminars for employees, and introduction of an osteoporosis checkup subsidy support.

P. 29 Sustainability Initiatives

Next, page 29, sustainability initiatives.

P. 30 Materiality of the Asahi Kasei Group considering business environment change

Page 30 shows the overall picture of our important initiatives designed to realize sustainability.

As indicated at the top of the diagram, we have identified, as high priority premises, corporate governance, compliance and sincerity, human rights, and safety and quality. We also want to contribute as our businesses, in areas such as global environment, health and longevity and comfortable life.

In executing them, what we regard as important include decarbonization, circular economy, supply chain management, communication with stakeholders, and other items listed on this slide. Today, I would like to highlight our work in decarbonization in particular.

P. 31 Contribution to realize a carbon neutral and sustainable world

Let me move on to page 31. As we consider contribution to realize a carbon neutral and sustainable world as important, while the increased infection of COVID-19 helped reduce the global GHG emissions temporarily, they started to increase again as the economies began to reopen.

This demonstrates how difficult and important it is to solve the issue of global warming. We, Asahi Kasei Group, would like to muster our collective effort to address this issue by leveraging our scientific strengths cultivated since our foundation, through our technologies, products and services, regarding this as our mission.

We will obviously be contributing to society through our environmental contribution products listed on the right, but also want to work on more challenging future societal issues such as next-generation energy, carbon absorption and utilization, and circular economy.

P. 32 Decarbonization Initiatives

Page 32. Given such context, I would like to share with you our new policies today.

We would like to take this opportunity to declare that we aim to achieve carbon neutrality by 2050. To that end, we will seek energy decarbonization, manufacturing process innovation, shift in businesses, and transformation of the portfolio.

First of all, we will target the reduction of GHG emissions by 30% or more by 2030, compared to FY 2013. Previously, we had been using emissions per unit sales value as a target but we have replaced it with an absolute emission volume as we seek to achieve carbon neutrality. We will accelerate our initiatives to accomplish our target in 2030 by developing a roadmap.

From the perspective of "Care for Earth," we will put in company-wide efforts in both fronts, reduction of GHG emissions in our own businesses and contribution through our businesses to reduction of GHG emissions of society at large.

P. 33 Projects for decarbonization

Page 33. In order to help achieve carbon neutral society, new technologies that had not existed before will be required. And we believe the key will be hydrogen and CO₂ separation and recovery system.

In terms of hydrogen, in Fukushima Hydrogen Energy Research Field, we have started up one of the world's largest scale alkaline water electrolysis system that can respond to the variability of

renewable energy and started the operation to supply hydrogen in March 2020. This demonstration project will be implemented until FY 2022. In Germany, we participated in ALIGN-CCUS project, a demonstration designed for realization of low carbon society. Moreover, in order to realize hydrogen society, cooperation throughout the entire supply chain will be essential, and therefore we are collaborating various corporations, for instance, by participating in Japan Hydrogen Association.

Next, let me also explain about the technological development for use in CO₂ adsorption and utilization. Another important theme in carbon neutrality is CO₂ chemistry combined with CO₂ separation and recovery. CO₂ chemistry, where you use CO₂ as a raw material to produce chemicals, has already been commercialized at our company as polycarbonate production technologies. Also, a new technology under development is the use of CO₂ to produce isocyanate, a raw material for polyurethane. We are also engaged in development of zeolite-based CO₂ separation and recovery system, which we believe will be able to make a great contribution to reduction of GHG emissions.

We will be able to provide even more eco-friendly chemicals by using hydrogen derived from renewable energy.

As an entity to promote these activities, we established in April this year Green Solution Project, a project which directly reports to me. In order to play a central role in creating sustainable society, we hope to position carbon neutrality-related businesses as one of our core businesses.

P. 34 Projects for the circular economy

On page 34, I would like to discuss projects for realization of a circular economy.

We believe the role to be played by the material industry will be extremely large in helping realize a circular economy. At present, various relevant organizations in our company are exploring what can be done for a circular economy. There are still many challenges to overcome in order to implement the circular economy in society. Let me share with you 2 of our projects.

One is to recycle materials for polyethylene, which accounts for 30% of the plastics used in the world. This project has been adopted as one of the Innovative Resource Recycling Process Technologies by NEDO. In this project, 4 companies, i.e., a recycling company, a molding and processing manufacturer, a consumer goods manufacturer, and our company, are engaged in an effort to develop toiletry bottles using recycled resin derived from waste plastics.

Furthermore, what will become important as we move to a circular economy is the perspective of traceability. We have established a platform to manage and visualize the supply chain in the recycling of used plastics based on blockchain technologies with IBM Japan, Ltd. This project will start a demonstration to distribute recycled resin on a test basis and manage it with the blockchain by the end of FY 2021.

The other project is polystyrene chemical recycling by PS Japan Corp., where used polystyrene products will be converted back to styrene monomer through thermal decomposition. Preparations are underway to construct a facility for the conversion.

In order to realize a circular economy, efforts by corporations like ourselves alone will not be enough, but collaborations with the government and academia as well as establishment of new business models based on concepts different from conventional ones will be required. Therefore, we will further promote our collaborations with both internal and external entities, and accelerate investments for more contribution.

P. 35 Contributing to active life in the "new normal"

On page 35. So far, I have talked from the perspective of "Care for Earth" but now let me discuss a bit about "Care for People".

For the past 1 year of FY 2020, the response to COVID-19 was our pressing issue. ZOLL, one of our group companies, significantly increased the production capacity of ventilators as its response to the emergency, to help take care of severely ill patients. We also provided the medical community with materials for masks, and virus removal filters necessary to produce various biopharmaceuticals and vaccines by increasing production volume.

Contributing to aging society is also a major issue in realizing a sustainable society. For elderly people, to lead a life in good health should not just help improve their own quality of life but help reduce the social burden in terms of medical and nursing care, and lead to hopes in the future. We will contribute in areas such as orthopedics, renal diseases, critical care, heart diseases, and

immunosuppressive agents required in transplantations.

P. 36 Toward Asahi Kasei's Next 100 Years

Last but not least, turning to page 36, under the title of Toward Asahi Kasei's Next 100 years, I would like to touch upon our future management directions.

P. 37 Asahi Kasei's centennial and the next 100 years

Page 37. Our company was founded in 1922, and will mark its 100th anniversary in calendar year 2022. During the past 100 years, we have always sought to make sure we would stay ahead of social needs and provide social values, while continuously transforming our business structures by leveraging our strengths of diversity and capability to change.

FY 2021 is the final year of the current MTP, and the next MTP will start in FY 2022, which we believe will be a plan for a period with a significant meaning as we start out for the next 100 years. In developing the plan, in terms of management philosophies, as indicated on the right, there is no change in our pursuit to realize the virtuous cycle of contribution to sustainable society and sustainable growth of corporate value, through our group values of sincerity, challenge, and creativity.

That said, compared to FY 2019 when these plans were put together, the environment surrounding us has considerably changed. In other words, what we are aiming for has taken on further significance, thus requiring us to execute them faster and at even higher standards than initially assumed.

P. 38 Management direction for the next 100 years

Moving on to page 38, where you can see our management direction for the next 100 years.

From a medium- to long-term perspective, the expectation for our company is to contribute to society through innovative technologies and advanced initiatives, with particular emphasis on the area of realizing carbon neutral society.

From a financial perspective, to become a portfolio of high-profitability and high capital efficiency value-added businesses will be a key for us to meet the expectations from our stakeholders. In order to realize such high-quality, profitable growth, it is essential to pursue synergies between businesses and dynamic portfolio transformation, and we will need to follow it through completely.

Moreover, there will be further enhancement of business platforms required, which will be the source of our actions. Creating venues where diverse individuals can thrive with high motivation, maximizing use of diverse core technologies and accumulated know-how, and upgrading and streamlining operations and reforming business models through DX will increasingly become a key going forward.

We are convinced that, by making sure our diversity and capability to change, fostered over the past 100 years, and care for the future of people and the earth, always embraced despite changes in the businesses, will endure for another century, we will be able to live up to the expectations from our stakeholders.

That concludes my presentation. Thank you for your attention.

Question and Answer Session

Hamamoto: We will now take questions.

Mr. Watabe: Watabe from Morgan Stanley MUFG Securities. I have 2 questions. First on the portfolio transformation on page 10. 15 businesses have been classified as strategy reformulation businesses. And you will proceed with structural reforms of Material, including efforts toward carbon neutrality. Can you elaborate on that? What is the scale of sales and profit, and what are the KPIs such as ROIC that you currently have in mind? You are setting milestones, but I think you already started in FY 2020. So, what is your specific implementation plan?

Kobori: It's hard to talk about individual businesses. But, as described here, we are scrutinizing each business mainly from the perspectives of future growth potential, profitability, and the scale of profit. What is also important is the position in the industry. That is, as the market undergoes major changes, is

the business firmly securing its position in the market, product uniqueness, differentiation, and other strength?

Also, ever since the Lehman crisis, the whole world has seen globalization. And there are also US-China decoupling, the protectionist of movement which prioritizes domestic industry. Considering this situation, we also need to take into account the regional characteristics, the regional relevance of each business.

Another important aspect is sustainability. For example, GHG emissions and carbon footprint. Taking all these factors into consideration comprehensively, we are evaluating from many more perspectives and a more medium- to long-term perspective than in the past.

In addition to evaluating the existing businesses, we also consider where we will focus as new growth fields in and beyond the next MTP, and how long it will take to commercialize them. We are working on transforming the portfolio based on comprehensive viewpoint, taking both aspects into consideration.

Among the 15 businesses, there are those that can be reinforced by changing the strategy, and there are others that we might have to consider whether to continue from the standpoint of the position in the industry. That's the type of scrutiny we are currently conducting, and some actions are already being implemented.

Going forward, investments in growth areas will increase considerably, toward carbon neutrality and DX, which would mean that, investment in existing businesses, including maintenance investment, must be selected more carefully than in the past. The perspective of investment efficiency, that is, whether or not enough earnings are projected to justify investment, is going to be an important viewpoint.

Mr. Watabe: I see, thank you. I know it will be difficult for you to disclose specifics of the criteria, such as the scale of profit, but I actually doubt you have many low-profit businesses. So, is it fair to say that you have picked up 15 businesses with low ROIC, including the cost of capital, and you are going to consider what to do about them individually?

Kobori: True, except for new businesses, there are almost no businesses incurring large losses. However, if the profit size is small and growth in scale is not likely, and if the maintenance investment to keep the operating profit is large, that means the investment efficiency is low. We are assessing the businesses from those viewpoints.

Mr. Watabe: I see. The second question is on Health Care, the current growth driver. Health Care posted the largest operating income among the 3 sectors in FY 2020. Over a medium term, ZOLL plans expansion to adjacent areas through acquisitions, and Veloxis is also expected to grow. On the other hand, there are concerns about the patent cliff of the Teribone osteoporosis drug. What is the profit target that you have for Health Care in the next MTP?

Kobori: In FY 2016, the initial year of the previous MTP, our outlook of Health Care for FY 2025 was set at ¥600 billion in sales and ¥80 billion in operating income. The outlook for FY 2021, the final year of the current MTP, is almost on that projection line. In that respect, we will continue with the existing projection.

Which makes business development and M&As all the more important means. In Critical Care, we will further strengthen the ZOLL's pipeline. In pharmaceuticals, with the acquisition of Veloxis, business base in the US has been laid. So, Asahi Kasei Pharma and Veloxis will strengthen the pharmaceuticals pipeline together. We will pursue both in-licensing and out-licensing for that purpose, and will further strengthen the pharmaceutical business. In the medical business, Planova virus removal filters are seeing growing needs and demands associated with vaccines and infectious diseases. We will strengthen the adjacent businesses through M&As and will also consider investing in early-stage companies, joint development, and open innovation.

Also, if we find that there are few investment opportunities in Material, we might invest more management resources in Health Care. At this point, the Health Care sector is growing at the expected level, and our view remains unchanged to promote growth toward 2025.

Mr. Watabe: I see. Thank you very much.

Mr. Yamada: Yamada from Mizuho Securities. I have 2 questions. The first is on the selection and concentration of business portfolio. You don't have to be specific, but let me confirm your thinking a little further. Asahi Kasei implemented business portfolio transformation around 2000, I think that served as the cornerstone of your subsequent growth.

What you did at that time was to concentrate your resources on areas of your expertise and strength, where you would be No. 1 or No. 2 in the global market. As you mentioned earlier, the importance of DX will intensify, and there's need for commitment to sustainability, which means that investment will increase, and the amount of management resources required will increase, which I think means that it will be easier for the No. 1 or No. 2 player to continue to be the winner.

I think that's where you should concentrate your investment. And it is not the growth potential or the size of short-term profits. So, I wonder if you have priorities in criteria applied to strategy reformulation businesses. Can you also elaborate on the thinking behind the overall portfolio transformation?

Kobori: The basic idea regarding Material is to concentrate the businesses into Environment & Energy, Mobility, and Life Material, among the priority fields for provision of value defined in the current MTP as much as possible.

However, the market environment has changed over the last couple of years. Especially for Environment & Energy, the requirements from society are increasing. The market for Mobility hasn't expanded as expected in the last couple of years, but there have been major changes inside the market itself. By incorporating their changes, we will be making proposals to automobile manufacturers. And in Life Material, the idea remains unchanged in focusing on electronic materials, healthcare, and consumables related to people's daily life. So, for Material, we will continue to concentrate in businesses in Environment & Energy, Mobility, and Life Material.

As for businesses that don't fall under those categories, we will consider whether it is advisable to keep them within the Asahi Kasei Group, and try to focus resources more on these three. Now, with regard to Environment & Energy, there is an increase in the number of development themes from a medium- to long-term perspective. So, from the viewpoint of how to fund such development investments, we will revisit the portfolio of existing businesses, control the amount to certain extent, so as to increase investment for the next growth.

Mr. Yamada: I see. In other words, what you just said pertains to the exit, and the main thrust is to concentrate on the businesses where you enjoy strength, am I correct?

Kobori: Yes. Back in 2000, however, it was different. We were almost solely focused on proprietary, in-house technology. Historically, we would start from a strong, in-house technology, based on which we would develop businesses, by developing of various applications.

When you keep doing that, the lines of business tend to diverge. Target markets also diverge. Which means our resources are spread out, and the metrics against which we assess the businesses would also diversify. And it becomes more difficult to create synergy in terms of access to markets. That is why we decided to take a fresh look, and while maintaining focus on proprietary technology development, to refocus on markets where we can provide value, namely in the priority fields of Environment & Energy, Mobility, and Life Material.

With that clear view of target markets, we can identify who are the customers we would want to build strong relations with, who we would want to collaborate with, which companies we would want to acquire, and what technology we would want to obtain through our CVC, corporate venture capital. It provides a broader framework for formulating business strategy.

At a business unit level, you tend to think with a narrower focus. We therefore wanted to provide a framework that allows everyone to think broader about both leveraging proprietary technology and introducing complementary technology available outside, within the context of priority fields where we can provide value.

Mr. Yamada: Thank you very much. It does sound reasonable and well aligned with your operating

holding company configuration.

Now, my next question is about your decarbonization initiatives and page 32. You have decided to switch your emission reduction target to an absolute amount, whereas previously it was intensity relative to sales. Is that a reflection of your strong commitment to business portfolio transformation? Because as of now, all the large chemical names in Europe have intensity targets. And I do believe that intensity targets make more sense, because to reduce total global environmental footprint, it is more desirable to let companies which have the technology to do the same thing with a smaller environmental footprint, like yours, do more business than those who do not. Are you switching to an absolute target with a view to driving portfolio transformation and focusing more on higher value-added businesses to deliver larger shareholder value? Or if that is not the case, can you please explain why?

Kobori: There are 2 ideas behind the change. Declaring carbon neutrality in 2050 holds us, the current generation, explicitly accountable to future generations. It obligates us to do all that we can now, meaning, to take a longer-term perspective and immediately start laying the path toward that goal, so that following generations can keep building on, and in the end achieve carbon neutrality in 2050. We therefore believe it is important to set a clear target for what our generation should achieve by FY 2030.

In the previous MTP, we committed to 35% reduction from FY 2013 in carbon intensity relative to sales by FY 2030. Through business restructuring and portfolio transformation, we have made good progress and have already achieved 31% reduction. So, we are coming close to that target level. But, if the end objective is zero carbon emissions, then it only makes sense to control absolute emissions and bring that down.

That is why this time we set a new target, which is the reduction of 30% or more in absolute amount from FY 2013. Achieving this means enabling following generations to surely achieve carbon neutrality in 2050. We believe this is the next big challenge for businesses, it is what society is demanding of corporations globally, and we accept it. That is why we revised the way the reduction target is set.

Mr. Yamada: My concern is about being overly bound by such commitments. In the case of adiponitrile, although this may not be the best example, global under-investment has caused shortage of supply, which can be a risk. The same thing may happen to other materials, too.

Is it correct, however, that in your case you are confident about reducing the absolute amount of emissions, while also bringing the whole of the group businesses to a sustainable and resilient state?

Kobori: Yes, it is true that chemical companies including us have both great potential and great challenges in relation to global carbon neutrality. Our industry is a large emitter after steel. But at the same time, technologies related to chemicals, fibers, and electronics can be key enablers of decarbonization. For example, both alkaline water electrolysis and CO₂ separation, recovery and utilization, mentioned in the slide, use a combination of such technologies. So, for us strengthening these fields can contribute to decarbonization, and we intend to make that our business in the true sense.

This will not just be about Japan. The strong momentum for renewable energy means that in emerging markets such as ASEAN, there is a great opportunity for our decarbonization technology and business to contribute. Yes, aiming for zero emission is challenging and we do not take it lightly, but we also intend to leverage this as an opportunity to accelerate development of relevant technology and drive commercialization so that we can better contribute to society. This will not be a unilateral undertaking. It will involve working in a consortium and partnering with government, academia etc. A large transformation is already under way. For us, it means more business opportunities.

Mr. Yamada: I do hope you are successful in commercializing those ideas and getting good earnings. Thank you very much.

Mr. Umebayashi: Umebayashi from Daiwa Securities. I have 2 questions. My first question is about the business around carbon neutrality. You referred to CO₂ separation, recovery, and utilization, and

hydrogen production through alkaline water electrolysis. I would expect that in addition to potential as new businesses, these technologies, when introduced to your plants, would also allow reduction of your own CO₂ emissions. Isn't that so?

And regarding commercialization, you mentioned forming a consortium, but specifically what kind of partnering do you have in mind? With regard to CO₂ separation and recovery, for example, Asahi Kasei may provide the technology for the capturing part, but the marketing part may be better done by a plant manufacturer. If that is the case, would you partner with a Japanese plant manufacturer with which you already have close ties, and export to other countries with that partner; or are you thinking about having multiple plant manufacturing partners for different parts of the world, so that all combined, you will have access to a wider global market?

Kobori: Thank you for your question. How exactly we commercialize these technologies is indeed an important issue going forward. If it is just a single new material, for example, we can pitch it on its novelty. But when it comes to alkaline water electrolysis or CO₂ separation, recovery, and utilization, they are closely tied with actual operation of the systems as well as service and maintenance, which means, it is all the more important to connect to and work with partners from different industries.

This is even more true for hydrogen. Developing a hydrogen-based society needs to be based on green hydrogen production using renewable energy. National government policies will have a great impact, too. We must think about how to work with power generators, what the downstream usage of that green hydrogen would be, whether it will be converted to ammonia, or to have it react with CO₂ so as to form methanol, how to identify downstream users, and how we would work with those users. We might partner with a user and build a system which we jointly deliver to ASEAN, or we might just provide equipment, or just provide the technology. There are just so many possible ways to do this. We believe it is useful to start with demonstrations, develop good working relations in the process and then build on that to go fully commercial.

With regard to CO₂, it is important to capture the CO₂ emitted at various places and utilize it. This cannot all be done by ourselves, so we will need to work in groups. Collaboration across different industries will be key for Japan to raise its value of profile as a country. I hope this answers your question.

Mr. Umebayashi: Thank you. But I still find it difficult to imagine how exactly you would identify such partners, and what projects you will take part in. My impression is that you would need to invest considerable human resources to commercialize these ideas on a global scale. What exactly is your target scale? And can you also tell us whether you intend to build and operate your own hydrogen production facility?

Kobori: We have established a new project called the Green Solution Project, which directly reports to the president, myself, and centrally manages those activities. Its role is to communicate and make visible what Asahi Kasei is working on, to those both inside and outside the group. The project therefore serves as the point of contact and connection. Rather than having different things happening in different parts of the company, having a single team that centrally oversees all relevant activities makes it clear to everyone where to contact. The Green Solution Project is therefore all about facilitating access from both within and outside of the group, and fostering collaboration across government, academia, and industries.

Another purpose of launching Green Solution Project is to accelerate the decision making. Changes in society are very fast and large. We will be required to capture those changes in a timely fashion so that we can adjust the speed of the progress of our projects by applying a brake, stepping on the gas, or changing directions slightly.

That is why we established a team directly reporting to the president with relevant personnel gathered. I also believe it is important to manage internal resources in a centralized manner. In that sense, we will have a solid centralized management of the new initiative for decarbonization and hydrogen society.

Globally, in alkaline water electrolysis, we are already taking part in a demonstration project in Germany. So, it is not the case that we have no access to global channels, and the project involves players from electric utilities, engineering, and airline industries, and is exploring the possibility of

use of methanol jet fuels using green hydrogen. We believe that, if we can effectively emphasize Japanese high technological capabilities, we will be able to participate fully in projects overseas. Going forward, we expect opportunities based on government-to-government relations to increase further, and therefore we would like to highlight our technologies in those opportunities, so we can take part in initiatives for renewable energy.

Mr. Umebayashi: Thank you. My second question is about the Homes segment. Since the outbreak of COVID-19, it must have become difficult for you to execute your strong suit, i.e. the sales strategy to close deals by first attracting visitors to your model homes. Under such circumstances, have you been seeing any tangible results after spending 1 year on remote sales activities? In addition, you will soon make McDonald Jones one of your subsidiaries. I would assume it is possible that their way of selling is different from yours. Could you tell me whether you are going to change their style of selling going forward?

Kobori: In April and May of FY 2020, when the emergency declaration was issued, we voluntarily restricted our activities to attract customer traffic at our model homes. In case of our company, the ratio of cases where visits to our model homes would ultimately lead to signing contracts was higher than in other companies. In that sense, in FY 2020, we struggled quite a bit in taking orders. But we have reinforced our sales activities, so we could get more orders from those who requested brochures or from those identified through referrals, and those efforts have been beginning to bear fruit more recently.

Once the emergency declarations are lifted, we can expect visitors to model homes to increase again. Therefore, while still taking advantage of our strength in face-to-face sales, we continue to reinforce our capability to win contracts based on requests for brochures or referrals. In that sense, COVID-19 actually turned out to be a good opportunity for us to shore up what had been our weaknesses. And moving forward, we believe we will be able to reinforce order taking activities through diverse approaches, instead of depending solely on any single source of attracting customers.

The COVID-19 pandemic triggered everyone involved, including those responsible for construction and sales, to be equipped with IT tools. Therefore, without physically meeting each other, our people are now able to stay in touch with one another and to engage in order taking and construction activities, thus significantly enhancing the productivity. It seems that COVID-19 has led to finding new ways of doing business. In fact, it is the Homes segment that has seen the biggest effect of productivity improvement in our company.

With regard to Australia, we are aiming to achieve vertical integration. In Australia, as far as the appearance of houses is concerned, there is hardly any difference. Therefore, it is likely to take long if we were to differentiate ourselves in terms of design. Therefore, what we are trying to do is to improve productivity through construction know-how fostered in our work in Japan. For instance, by acquiring a steel frame supplier, we can reduce costs and shorten the construction period. It is in those approaches where we are initially trying to distinguish ourselves from others.

Fortunately, we are expecting to get McDonald Jones consolidated in FY 2021. We will still need to recognize amortization expenses of goodwill. But we expect to see its contribution to profits.

Mr. Umebayashi: Thank you.

Mr. Miyamoto: Miyamoto from SMBC Nikko Securities. My first question is again about your efforts toward hydrogen society on page 33. Based on what you explained to us, am I correct to understand that you are still at the phase of exploring different directions for monetization, and have yet to decide on anything specific? With regard to competitive landscape, polymer electrolyte membrane water electrolysis players seem to be also quite active in Europe. Could we assume that your technology of alkaline water electrolysis can grow by benefitting from its cost advantages?

Kobori: Thank you for your question. In terms of commercialization of alkaline water electrolysis, we have a similar business in ion-exchange membrane, where we command a top market share in the world in the sales of systems to produce caustic soda. Our business is mainly in China. We provide electrodes, membranes, electrolytes, and electrolyzers. In addition, what we are now putting more

focus on is the accumulation of expertise in the operation of the system. Getting involved in the operation allows us to check any possible degradation of electrodes, membranes and other components, to choose the right timings of their replacements and to ensure continuity and optimization of the operation. In other words, we are not simply offering materials but also engaged in the actual operation in the business. And we are hoping to follow the same approach in the business of hydrogen production through alkaline water electrolysis.

That said, when it comes to how to use hydrogen produced from alkaline water electrolysis, we will need to seek collaborations with customers who have demand for hydrogen. Moreover, in order for us to be able to produce hydrogen, we will need to work with electric utilities to get them to provide us with renewable energy. So, there are many different relevant players we will have to collaborate with. It will be our role in the entire business to produce hydrogen in a stable and efficient manner by adjusting to any variability in the volume of supply of renewable energy, and accumulate know-how in that regard, so that we will be able to continue to efficiently produce hydrogen at low costs.

There are obviously competitors in this business. Different methods can be applied, depending on the scale of the production of hydrogen. If we are to secure supply of hydrogen in a smaller area, small electrolyzers may suffice. But supplying hydrogen in a much larger area may require large electrolyzers as well. Therefore, different methods of production can be used for different needs, and you cannot generalize and say which method is always the best. Depending on the characteristics of the particular community served, the scale of the renewable energy, and the required volume and use of hydrogen, you will need to choose different methods.

What we are aiming for is to offer and commercialize technological innovations in the area of producing green hydrogen at a larger scale. We do not believe we are at the phase of trying to beat the competition yet, but currently it is more important to focus on improving our own technologies and to do so quickly.

Mr. Miyamoto: I see. Then, am I correct to understand that based on the scale and other factors, both alkaline water electrolysis and polymer electrolyte membrane water electrolysis can find their respective target markets, and that your company is the top runner in the alkaline water electrolysis?

Kobori: Yes. That is generally correct. We were invited to join the demonstration project in Germany, and in Japan, at Namie town, Fukushima Prefecture, we have been participating in the project adopted by NEDO as one of its development programs. Given that, it is our understanding that we are at such a position.

Mr. Miyamoto: With regard to how to monetize the business, are you going to pursue the same approach as the ion-exchange membrane business?

Kobori: That is one of the options being considered.

Mr. Miyamoto: I see. Thank you. My second question is on page 10, business portfolio transformation. If you look at the financial result of Basic Materials in FY 2020, you seem to have experienced volatility, albeit not as much as other companies, as the operating income in H1 was only ¥100 million. Are the measures to mitigate such volatility included in the 15 businesses identified as strategy reformulation businesses?

Kobori: Yes, they are. If a business cannot curb volatility on its own, that means that it is in a weaker position in the market. If the business has strength and distinctive characteristics whose values are appreciated by customers, it should have the power to negotiate with customers to get them to understand changes in the business environment, and therefore be able to curb volatility to some extent. If the volatility of a business is too large for us to manage, the business is likely to not remain part of our priority fields for provision of value. Therefore, volatility is one of the perspectives that we have in the business portfolio transformation.

Mr. Miyamoto: Does that mean that, even if a business has a competitive advantage and is large in

scale, it could be among those 15 businesses?

Kobori: That also involves a matter of time frame. If a business has a certain position in the market, it has a responsibility to ensure stable supply, and so we will also take into account the time frame to consider strategy reformulation.

Hamamoto: With that, we would like to conclude this conference call. Thank you for your attendance.