

AGC Asahi Glass Minutes of Briefings on Operating Results for 1Q FY2018

Corporate Communications & Investor Relations Div.

[Overall company]

Q1

Usually, I understand that you have higher profits the second quarter onward. But as far as this first quarter is concerned, the operating income accounted for more than 50% of the projection of 55 billion yen for the first half, and yet, you have not changed the forecast of 130 billion for FY2018. Is it that you are anticipating some risks for the second quarter?

A1

The first quarter results represented a very good result for us. Year on year, there was an impact of new acquisitions made, which contributed to increasing in profit, but excluding those, we saw favorable shipments in all segments. We do not see any major concerns for the second quarter onward. Having said that as we move towards the second half, we are seeing oil price increasing, distribution cost getting higher and expecting cost increase due to the company name change, and therefore, we did not change our forecast.

Q2

In the first quarter, what was the impact of higher oil price? Is there the benefit of oil hedging operation?

A2

As for the oil price, a dollar per barrel difference translates into higher costs around 300 million yen per year. As in the first quarter, the price was about 10 dollar higher compared to the previous year. So should this continue on a full year basis, the impact should be around 3 billion yen. So for the first quarter, it will be a quarter of that full year amount. Regarding the benefit from the oil hedging, there was no significant gain.

Q3

On presentation page 8 "Sales Volume/Product Mix" decreased by 10.5 billion yen in variance analysis on operating profit compared with the previous quarter. I think that in the past recent years, the decline was around 6-7 billion yen on average. What was the factor that caused the drop over the previous year? Also, what is the breakdown of the +5.2 billion yen under "Cost Reduction/Others"?

A3

Regarding the difference in "Sales Volume/Product Mix", the impact of the decline in

optoelectronic materials is large. In addition, sales volume fell due to a decrease in production volume because of maintenance turnarounds of chlor-alkali production facilities and seasonal factors for fluorine products. As for "Cost Reduction/Others", there was improvement in architectural glass and automotive glass in Europe, and no temporarily corporate expenses was recorded this term as there was in the previous quarter. Improvement in displays was also a factor.

Q4

How should we forecast 2Q profit for each segment? Are there any irregularities that should be noted other than usual seasonality?

A4

None in particular. We think we'll see the similar trends as the previous year.

[Glass]

Q5

Did profit increase in both architectural glass and automotive glass?

A5

We do not disclose these specifics, but generally speaking, the year on year increase was mostly attributable to improvement in automotive glass. The recovery of automotive glass in Europe was the biggest factor for improvement.

Architectural glass also saw an improvement. It was favorable in Europe, partly due to oil and fuel prices being higher, the overall improvement was limited, year on year.

Q6

About the European automotive glass recovery, you said last year that the production efficiency was declining. You said that until the production plant in Morocco comes in line, you cannot expect the full recovery. Is things recovering earlier than your projection?

A6

When the automotive glass fabrication plant in Morocco comes in line, the production should normalize, which would push down the distribution costs. Not yet to the extent to the structural improvement, we are seeing improvement in productivity compared to last year.

Q7

We recognize that the European glass business for both architecture and automotive is close to full operation, but is there still room for quantitative growth? Also, is there an effect showing from price increases? Will the increase trend continue in Europe in 2Q and beyond?

A7

Shipments in Europe are expected to remain strong. Prices are also increasing slightly. Clear float glass prices have already come up to high levels, but there is still room for price increases for interior mirrors and fabricated items. Although furnace operation is high, we think that sales can still be increased.

Q8

Have price increases for architectural glass penetrated also in Japan?

A8

As a start it is going well. We think price increases impact will come out in the second half of the year.

[Electronics]

Q9

Regarding the electronic segment, sales were down, and profit increased by 1.6 million yen compared to the same period of the last year. Did the cost reduction of display contribute to increase in profit?

A9

You are right. Last year we tried to strike a balance between falling selling price and cost, and we more or less achieved that last year. And right now, shipments are increasing, and rate of operation is pushing the cost which made the contribution. And that is the main reason for increasing profit.

Q10

As to decline in the optoelectronics shipments in the first quarter, do you expect this to improve after the second quarters?

A10

Usually optoelectronics shipments will increase towards the second half of the year, and we expect similar trend for this year. For this first quarter, the decline of shipment was rather drastic compared to recent years, but we expect to recover gradually by the usual pattern.

Q11

Display sales are down about 10% in 1Q compared with 4Q of last year. Despite explanations that the volume of glass for LCDs decreased by a mid-single digit range compared to the previous term, and that the price decline was becoming mild, has supply and demand for glass been kept tight? Is it because supply and demand are being kept tight, not only by your company but also by other companies, that the price decline is mild despite the volume reduction?

A11

We recognize that supply and demand is tight. We will continue to consider supply and demand balance as a top priority.

Q12

In that case, we think that panel maker's profit and loss will further worsen in some places, but is it correct to understand that has no influence on glass makers? ?

A12

We recognize the difficult situation panel makers are facing, but for us to maintain price is important.

Q13

What would be AGC's stance or direction for larger display, such as 11G and above?

A13

Majorities of capacity expansion going forward is expected to take place in China. Accordingly, AGC would also like to increase sales in China. Float production method originally has strength in larger glass substrates. Therefore, we would like to leverage on its cost competitiveness. As for the trend for G8.5G and below, it is up to the behavior of our clients in South Korea, Taiwan, and China. We will continue to be flexible in addressing our needs, including options to relocate our capacity. In 2019, our new G11 production site will come up in China, so we think that volume will grow. However, upfront cost should be required for the launch, hence earning will start to grow once the operations are on track beyond 2020.

Q14

Please tell us about the 2Q prospects for shipment and price of LCD glass substrates. ?

A14

Shipment is expected to be the same level as the previous quarter. The range of price decrease is expected to be milder.

Q15

Would you consider this as a threat?

A15

We are aware that Chinese glass makers are making an effort to enter the market for glass substrates for display. However, we believe it is very difficult to produce LCD glass substrates with float method, while meeting G11 requirements. We are the only company who can make such large size glass substrates with float method at competitive cost. Therefore, we do not see them as a threat for now.

[Chemicals]

Q16

How much was the impact of the new acquisitions for CMC Biologics and Vinythai, in the profit increase in the first quarter?

A16

Of the overall increase in operating profit of 8.4 billion yen, around 2/3 was organic growth, and around 1/3 was the growth from M&A.

Q17

Presentation page 7. The variance analysis, especially the selling price differential, in contribution by caustic soda. Maybe there was an impact from LCD's price decline, however the price of domestic caustic soda may have increased slightly more. Can you give us the breakdown of the impact of selling price differential?

A17

From the business scale of chlor-alkali, the impact of overseas caustic soda price increases is higher than domestic.

Q18

What is the breakdown of the OP increase in chemicals? In life sciences, would it be correct to recognize that CMC Biologics' contribution is the largest in the 5.2 billion yen sales increase?

A18

As for profit, we do not disclose individual profits, so this will be a qualitative explanation. However, contributions are in the order of chlor-alkali, life sciences, and fluorochemicals. Fluorochemicals has seasonal factors. The sales increase in life sciences is as you said. As for CMC Biologics, it has gained orders, sales are growing, and profits are emerging strongly.

Q19

Do you think that life science is making better progress towards the projected sales of 60 billion yen for 2020?

A19

As CMC Biologics posted a revenue of 11.8 billion yen in 4Q last year, it is already capable of contributing over 40 billion yen sales on a full year basis. So we should be able to achieve the 60 billion sales target by 2020 as planned.

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