

Minutes of Briefings on Operating Results for FY2022

Corporate Communications & Investor Relations Div.

[Overall company]

Q: What is the upside potential and downside risk to achieving the earnings forecast for this fiscal year?

A: I will explain the visibility of the operating profit forecast of ¥190 billion for 2023 with reference to page 23 of the briefing materials of financial results.

First, the ¥15 billion decrease in depreciation and amortization due to impairment losses will occur as indicated. The ¥20 billion increase in operating profit in the core businesses is attributable almost entirely to the improvement in Automotive glass. In 2022, we made progress in price revisions mainly in Europe, but we also expect progress in Asia going forward. We believe visibility here is high, since profitability improved significantly in 2022 Q4 as planned. We doubt the impact of the semiconductors shortage on automobile production will worsen from here, so if production recovers and utilization rates rise, we may be able to generate a little more profit. In the Display business, there was a significant drop in demand for panels in 2022. Christmas and Lunar New Year sales of TVs and PCs were not strong. While there will not be a sharp recovery, panel inventories are falling, so earnings could beat expectations.

Sales in strategic businesses increased by ¥10 billion. We are not really concerned about Electronics. As for Life Science, we are making big capital investments, but it will be some time before utilization rises, so expenses are running ahead of revenues. Therefore, profits in 2023 will hit a slight plateau.

The chlor-alkali market is the most difficult part to read. It bottomed at end-2022 and now has turned up a bit. If they continue at the current level, annual profits will decrease by ¥35 billion, but there is potential for upside if market conditions improve further in the future. The operating profit forecast of ¥190 billion is down about ¥10 billion YoY, excluding the effect of impairment losses. In a situation where we are still recovering from the impact of the lockdown in China, etc., we do not envision profits to fall further from that point, unless the global economy turns much worse. If anything, we see upside potential.

Q: I think that your 2022 earnings were considerably affected by fuel cost increases and fluctuations. Looking ahead, are you considering any measures to mitigate the exposure to market fluctuations, such as changing hedging strategies?

A: The first thing to do in dealing with fuel price fluctuations is to pass them on to product prices. Apart from that, we will hedge a certain portion of oil and gas purchases, but our hedging policy is basically unchanged. We enter forward contracts of which approximately 20-30% are hedged. We do not plan to drastically alter the hedge ratio depending on the situation at the time, but rather adjust it within the scope of our hedging policy. Hedging is risky, so our current policy is built on past experience. Rather, the Scope 1 portion of GHG emissions, in other words, usage of gas and heavy oil, is high, and the Company is working on a policy to reduce it. An intrinsic measure to reduce the usage itself.

Q: Looking ahead to around 2030, will the format and combination of businesses generally remain the same?

A: We would like to maintain the current growth of our strategic businesses when we look toward 2030, but we think it is important to work on establishing another pillar within a few years. As for the core businesses, we believe that the basic structure is in place at this point. We cannot completely foresee our portfolio

transformation 10 years into the future. This is an issue that we will continue to consider depending on the situation at that time.

Q: Are you making progress in planting the seeds of strategic businesses that will drive further growth? What fields are you considering?

A: Our thinking is in two steps. There is still upside for growth in the current Life Science, Electronics, and Mobility fields alone, and we are undertaking initiatives to expand these areas. In Electronics, for example, materials for optoelectronics and semiconductors are now pillars, but it is a very practical solution to build other pillars here. Over the past few years in Life Science, we have acquired multiple modalities, particularly for biopharmaceutical CDMOs. Our approach is to expand on modalities accordingly as technological innovation progresses. These are the first steps we have to take. In addition, we would like to create the next field apart from these three fields within a few years. We are still considering a number of fields, so I cannot tell you what kind of fields we are looking at that the moment, but we would like to establish such pillars within a few years.

Q: It is good that you have started structural reform of the display and glass businesses in Russia. But why couldn't you have acted earlier, especially when you were aware of the impairment risk in Europe, including Russia, since last spring? I have the impression that the speed of structural reforms is lagging. What are your views on this?

A: Russia has always been a relatively high-profit region, and under normal circumstances it would not have been in scope for impairment losses. In this context, what we could have done in light of the international situation is a quite a difficult question. Among various factors, we considered the significance of continuing the Russian business as AGC and announced that we would begin to consider the transfer of the business. We do not consider this slow. Compared to assembly and processing businesses, it is not easy to quickly discontinue a furnace business. And the importance of this essential business in Russia also makes it a very tough decision. Considering that, we believe we made the decision at the right time.

Q: Why did you announce a share buyback at this timing? And what is the background behind the decision for repurchase ¥50 billion?

A: As part of our shareholder return policy, we intend to pay stable dividends and flexibly buy back shares. There are two factors behind this share buyback. First, the Company has set a D/E ratio of 0.5 or less as a financial target and has determined that it is now in a position to generate stable cash from its business operations. This makes it possible to repurchase shares within our financial target. The second is related to the unwinding of cross-held shares. While the Company sold its cross-held shares, AGC shares were also sold in the market, and the Company considered it necessary to absorb the impact of this increase in floating stock.

I will explain it in page 10 of the financial results briefing materials. First, we will make steady investments in strategic businesses. This does not mean that we will cut back here for the sake of shareholder returns. Our ability to generate cash has risen as a result of solid investment. At the same time, we are also proceeding with asset sales. Considering funding of ¥1 trillion from these sources, we believe we can deliver sufficient shareholder returns after making solid investments in strategic businesses. We also took into account the size of the floating shares resulting from the unwinding of cross shareholdings, as explained earlier. We believe that it is preferable to conduct share buybacks in one go rather than piecemeal based on the total return ratio as before. We decided on ¥50 billion when we were confident that we would be able to achieve a certain level

of earnings again 2023.

[Glass]

Q: Do you envisage the regional composition of the glass business remaining as it is for some time? With the alliance with Saint-Gobain and the acquisition of SBTi certification, I think the significance of AGC's glass business has been underestimated up to now. How do you see this changing?

A: There were various question when we withdrew from the North American architectural glass business. I answered then that we were not considering anything further at the moment. Nothing has changed since. With regard to the development alliance with Saint-Gobain, it is very meaningful that two top manufacturers are in partnership, as it is quite difficult for a single company to achieve carbon neutrality. This was made possible by the presence of AGC's base in Europe. This initiative is very important when thinking about the future of our business.

Q: Which is the bigger driver of improving profitability of automotive glass, an increase in volume or price?

A: Price increases are more significant.

[Electronics]

Q: I really appreciate the enhanced segment disclosure. Regarding the display business, what is the impact of the decrease in depreciation and amortization due to the impairment loss, and what is the time frame for the profit improvement measures?

A: The scale of the impairment loss is largest for the Display business. Therefore, a considerable portion of the ¥15 billion reduction in depreciation expenses is related to the Display business. The majority of the impairment loss on PCB substrate materials is for goodwill, which means that almost all of the ¥15 billion is attributable to the Display business. As for the time frame of the improvement measures for the Display business, we are still negotiating with customers and thus cannot give details. Some of the measures may take time, but in any case, we will proceed swiftly. The listing order of the profit improvement measures shown on page 13 directly indicates their priority for implementation.

Q: Please provide as much detail as possible on the earnings projections used in the impairment test for the LCD glass business. If possible, please also disclose the balance of related tangible assets.

A: When estimating impairment tests, there are two approaches: 1) calculate the value in use based on future plans and 2) calculate the current fair value using appraisals and others. In this case, we used the recoverable value estimated by the latter approach to book the impairment loss. The fair value and disposal price of real estate and movable property were calculated by requesting external appraisers, etc., and the book value was reduced by recognizing an impairment loss to the value of the asset. You could say that the impairment loss has reduced the asset scale by 20%.

Q: The Display business has a 0% ROCE for 2023. I don't have a very good impression of this business, but is a sale of the business conceivable? Or is it better to think that AGC will do all it can to achieve 10% ROCE?

A: Earlier, I mentioned three measures as structural reforms, and if they are properly implemented, we believe a 10% ROCE is achievable. The display market is not expected to grow that much over the medium term, but

in terms of panel area, stable growth of about 3% is expected. We will take a close look as to whether we can secure profitability in this market.

Q: Amid concerns over sluggish semiconductor demand, I am quite uncomfortable with your assumption that the Electronics business in 2023 will make comeback in 2H. I can understand that EUV mask blanks and other products will rebound as a reaction to last year's decline, but have you seen any signs of this?

A: The Electronics business has always been tilted toward 2H, and it is still that way in normal times. We explained that the growth of smartphones will be limited this year, but the tilt toward 2H remains the same. Although demand for semiconductors is weak now, its impact on our mainstay high-end products like CMP slurries and EUV mask blanks is generally minor. EUV mask blanks plateaued in 2022 and did not meet our expectations due to the situation at customers. In 2023, sales are projected to increase by 1.4x compared to last year, although this will be a year late. Shipments are clearly increasing, and we are seeing signs of sales growth.

Q: What was the growth rate of EUV mask blanks in the last FY and what is your forecast for this FY? Also, your peers are showing a challenging outlook for the next two quarters, but what about AGC?

A: Even if looking conservatively, sales in 2023 should be up about 1.4x YoY.

[Chemicals]

Q: Please explain your view of the supply-demand balance for PVC resin and caustic soda in Southeast Asia and the assumptions for the spread in your forecast for this fiscal year. Also, is it safe to assume the PVC market has bottomed out? If so, what is behind your thinking?

A: In terms of sensitivity, a US\$1 change in the caustic soda price impacts profits by US\$1 million, while a US\$1 change in the PVC spread impacts profits by US\$1.2 million. At present, caustic soda is stable at a high level. PVC bottomed out at the end of last year and is on a modest uptrend. We believe it will recover with the end of China's zero-COVID policy. Europe and the US may still be a bit wait-and-see situation, but we do not see any major risks. The PVC market in Southeast Asia will be affected by the construction in North America and the supply/demand balance in China. That said, GDP in Southeast Asia is growing firmly, and if the current international situation continues, we do not see any major risks. The negative impact of ¥35 billion YoY should be considered as being relatively conservative.

Q: Regarding PFAS, 3M announced its withdrawal from manufacturing them. I am concerned about the tightening of regulations and restrictions on the use of organic fluorine compounds. Should we be mindful that these may have a negative impact on AGC's fluoroproducts or that they may pose a risk?

A: Various media outlets are covering the issue, but PFAS is a generic term that encompasses all fluorine compounds. PFAS also refers to fluoropolymers and fluorinated films used in semiconductor manufacturing which have not been identified as a problematic. The issue is with PFOS and PFOA, which are used in fire extinguishing agents, for example. We have been considering the risks in our businesses in the past. We are now running our businesses with even more foresight, focusing on areas without such risks. Meanwhile, major European and US chemical companies have been downsizing amid emerging environmental issues, so there is no denying that our presence is increasing. If we do not strengthen our lobbying and PR activities, unspoken

rumors will arise, and we must promote ourselves to ensure the correct understanding of our products, including the correct use of language. Fluorochemical products are essential to the semiconductor and other industries. We recognize that we need to engage with people in these industries and make work harder than before to ensure that there are no misunderstandings.

Q: What is your outlook for the profitability of the Life Science business for this fiscal year and beyond?

A: Sales will continue to grow steadily in 2023, but the magnitude of profit growth looks limited due to considerable upfront costs. We project full-scale profit growth in 2024. Note that the figures for the Life Science business shown in the strategic businesses do not match the figures for the Life Science segment because some of its products are included in the Chemicals segment. Similarly, the Electronics business includes electronics-related products from other segments in addition to the electronic materials business in the Electronics segment.

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