

**Minutes of Briefings on Operating Results for FY2024.1Q**

Corporate Communications &amp; Investor Relations Div.

**[Overall]****Q: How did 1Q operating income progress against the initial forecast? Please explain ups and downs by segment, please tell us about them as well.**

A: In our initial forecast, we assumed that annual operating income would be 150 billion yen, 60 billion yen in the first half and 90 billion yen in the second half. Although there were some ups and downs by segment in 1Q, overall operating income was almost in line with our forecast. Architectural glass was slightly below expectations due to a weak European economy and weaker than expected demand in Asia. Automotive was largely in line with expectations. Operating profit could have been a little higher, but was affected by customers' operating conditions and other factors. Electronics exceeded expectations. Although foreign exchange rates negatively impacted the Display business, increased shipments, improved capacity utilization and productivity contributed to the results. Sales of Electronic Materials exceeded expectations due to strong sales of EUV mask blanks and other products. Chemicals were largely in line with expectations, as the market for chlor-alkali was expected to remain low. Performance Chemicals also performed well. Life Science was significantly lower than expected due to low capacity utilization.

**Q: Profit before tax was in the red in the 1Q. What were the other expenses that contributed to the loss?**

A: Other expenses of about 36 billion yen were incurred in the 1Q as a result of the transfer of the Russian business announced in February.

**Q: How much improvement in business performance can be expected from the transfer of the Russian business?**

A: The Russian business had sales of 34.1 billion yen and operating income of 4.6 billion yen in FY2023. With the transfer of the Russian business, this revenue will be eliminated, so we are forecasting a year-on-year decline in Architectural Glass performance.

**Q: What is the 2Q forecast for each segment?**

A: Among Architectural Glass, sales and profits in Europe are expected to increase in 2Q compared to 1Q, when construction demand was weak during the winter season. In Japan, subsidies related to renovation of high-performance windows will continue this fiscal year, but demand was weak in 1Q due to the off-season. Demand for this part is expected to recover in 2Q. Automotive sales and profits usually peak in 1Q, especially in March, especially in Japan, but this year, due to the impact of customers' operating conditions and other factors, this peak will be delayed to 2Q. In addition, due to seasonal factors in Europe, we expect profits to increase in 2Q. In the Electronics, in addition to an increase in shipments of Displays, EUV is also expected to be strong, leading to an increase in profit in 2Q on a QoQ basis. Chemicals in 2Q is expected to be on par with 1Q. Of these, Essential Chemicals will probably fall slightly in QoQ due to the impact of Lebaran in Indonesia and Songkran in Thailand in 2Q. On the other hand, Performance Chemicals is expected to see earnings growth in 2Q. It will be difficult for Life Science earnings to recover rapidly in 2Q, and we need to closely monitor how much improvement can be achieved. The situation is improving, but it is taking time to recover.

**[Glass]**

**Q: The profitability of the glass business (Automotive and Architectural Glass) has been deteriorating since 2Q23. I thought that structural reforms had been successful and that we were now in a position to generate an operating profit margin in the mid-single digits, but should we assume that the business will continue to be affected by market conditions? I would like to know your thoughts on profitability from the 2Q onward, including your view on the profitability of the business.**

A: Architectural Glass business has been sluggish for a long period of time. Especially since the recession that began in 2008, there has been a long period of difficult performance. As a result of our structural reforms and actions taken, including our withdrawal from North America, the risk of a downturn in performance has been reduced compared to previous years. This business continues to be affected by economic ups and downs. We are currently suffering particularly from the effects of the economic downturn in Europe. Under such circumstances, demand for high-insulation glass is supporting demand in Japan and Europe. Similarly, demand is also expected to grow in Asia. We will not suffer losses as we have in the past. Even if the business environment is unfavorable, operating profit margin is structured to remain at around 5%. Automotive business has improved considerably as a result of structural reforms, including the consolidation of unprofitable production lines in Europe, North America, and South America, as well as the implementation of pricing policies. ROCE has also improved, but it is still not enough. Further improvement is needed through pricing policy, structural reforms, and higher functionality.

**[Architectural Glass]**

**Q: This is the first time in about three years that sales in Asia for Architectural Glass have been negative in YoY. I would like to have an explanation along with the outlook for 2Q and beyond. Also, what is the background to the continued weakness in Asia? Is there any possibility of a return to the double-digit % or so margins seen in the first half of last year?**

A: Shipments in Japan are temporarily down, but are expected to recover from 2Q onward. In Asia, economic conditions in Indonesia and Thailand are not good. Japan is becoming a relatively profitable region, and we expect the business to return to about 10% operating profit margin.

**Q: I have the impression that the performance of Architectural Glass in Europe has not stopped declining, but I would like you to explain this along with the outlook for 2Q and beyond. What is your view of future demand for Architectural Glass in Europe?**

A: Since the Russian business was transferred, Architectural Glass in Europe will be negatively impacted by the loss of that revenue. Although profits will increase from 2Q, partly due to seasonal factors, demand in Europe is not strong, so a rapid recovery is unlikely.

**[Automotive]**

**Q: Did you revise prices in the January-March quarter for Automotive? Were there any changes in prices compared to the previous quarter?**

A: We are proceeding with price revisions. I cannot give you a specific amount, but it is having a certain effect.

**Q: Is it correct to think that the large decline in Automotive in Japan and Asia was due to transitory factors related to customers' production troubles and so on? Please explain this together with your view the 2Q**

**and beyond.**

A: The decline in Japan and Asia was due to customer-related factors. Usually, shipments peak in March, but this year we expect the peak to be postponed to the 2Q and beyond.

**[Electronics]**

**Q: Earnings for Displays improved to near the break-even point, which I believe was a better-than-expected improvement in earnings. What were the factors behind this? Other companies in the industry are expecting "substantial improvement" in earnings in 2Q. Will AGC's display business also turn profitable in 2Q and beyond?**

A10: Our shipments also increased as panel inventory adjustment progressed and customers' utilization increased. In addition, the cost was lowered due to the effect of structural improvements, in addition to the productivity issues that were resolved. We expect the business to improve further and become profitable from the 2Q onward. Although we have not yet reached our goal of achieving a 10% ROCE in the current mid-term plan, we intend to steadily improve profitability.

**Q: Regarding the Display structural reform project, you are aiming to reduce production capacity by about 20% from the 2022 level, but how much did you reduce it as of the end of 2023? Also, what level of profitability can we expect at the end of 2024?**

A11: We reduced production capacity by about 10% last year as we terminated production at the Takasago Plant in Japan, and we expect to further reduce it by about 10% this year. Since we are reducing the volume of supply, we will see a reasonable effect depending on the operating conditions of our customers. We have not disclosed the amount of profit improvement resulting from this structural reform.

**Q: How did the display glass business get out of the red? How did you improve profitability, given the difficult situation with the weakening of the yen? Is there a possibility that pricing arrangements will change to a form that takes foreign exchange rates into account in the future? Is the price revision for display glass still in execution? Also, you mentioned that you will be reducing production capacity by 20%, but will output also drop by 20%? Or will the output itself not change much due to improvements in efficiency?**

A: There were headwinds from the depreciation of yen. The currencies of Korea, China, and Taiwan have an impact on manufacturing costs, and although they were not as severely affected as the yen-dollar exchange rate, these were negatively affected. Profitability improvement was largely due to the effect of improved capacity utilization through measures such as structural reforms and improvement of lines that had productivity problems. There was also the effect of price increases of about a low single-digit % QoQ. We believe that price revisions should continue in the future. For trading currency, it is difficult for us to change it since the business is denominated in yen. While reducing production capacity, we will also work to improve productivity. A 20% reduction in production capacity means a 20% reduction regardless of productivity improvement.

**Q: Regarding EUV mask blanks, you mentioned that you may aim for sales of 40 billion yen or more in 2024, which seems to suggest that growth of around 80% YoY may be expected. I also feel that the explanation is more positive than it was 3 months ago. Has there been a change in the last 3 months for**

**major or non-major customers? Joint presentations with TSMC at SPIE are presented in the presentation.**

**Are there any changes in market share?**

A: Business conditions have been favorable. FY2023 sales were estimated at the beginning of the term to grow 1.4 times over FY2022, but the actual result was 1.5 times. FY2024 sales were estimated at the beginning of the term to grow more than 1.4 times over FY2023, but this time the figure was revised upward to more than 1.5 times. Although we don't disclose information on individual customers, we supply products to all customers who are currently mass-producing EUV lithography products. We are also working with customers on technology development for advanced logic devices.

\* S.H. Yang, et.al, "EUV mask blank for N3 technology node and beyond," SPIE Photomask Technology 2023, 12751-22

**Q: Regarding EUV mask blanks, you are working with TSMC on 3-nanometer, but what is the R&D status of phase shift masks? You mentioned that EUV mask blanks are supplied to all four companies, but by node, where is the volume zone? The gap in sales with your competitors seems to be narrowing considerably, but what do you need to do to increase your market share further?**

A: DRAM is ahead in the adoption of phase-shift blanks, and they are already being used in mass production. We are also disseminating technical information, such as presentations at symposiums on how to solve exposure characteristic problems, and we are making considerable progress. I cannot go into detail about the relationship with our competitors. As for the future, it is extremely important to respond to the advancements in technology. Productivity of mass-produced products, quality, and response to next-generation products are all important, and we will respond as one of the top runners.

**Q: You say that you offer a wide range of EUV mask blanks, but is the number of companies adopting AGC's mask blanks increasing? Also, how much higher is the added value of EUV mask blanks for High-NA compared to those for Low-NA? Will the size for High-NA mask blanks be the same as before, 6 inches square, or will the size be changed to accommodate anaphoric lithography? We would like an explanation of AGC's support, including its current status. Also, we would like to confirm AGC's position in relation to the competition in terms of its support for curvilinear masks. Are phase-shift masks being used in DRAM first because of their simple structure?**

A: AGC supplies EUV mask blanks to all four semiconductor manufacturers that are in mass production with EUV lithography. Our customer base has expanded since the beginning of our business. I mentioned earlier about technology development and support for phase-shift masks, but AGC is involved in a wide range of development projects for all technologies related to advanced products, and it is no exaggeration to say that we are at the forefront of the industry. I cannot answer about size, technology, etc., as these are customer matters.

**[Chemicals]**

**Q: Performance Chemicals results, excluding the effect of foreign exchange rates, seem to lack strength compared to the same period of the previous year. Please tell us about the demand environment and future outlook for Performance Chemicals.**

A: We are not concerned about the performance of Performance Chemicals. Demand for this business emerge quite late against trends in user industries. For example, automobile production has recovered since last year, but

demand for performance chemicals products for the automobile industry is still low. We are not worried because such demand will definitely recover in the future.

**[Life Science]**

**Q: Regarding Biopharmaceutical CDMOs, what is the status of the start-up of the Boulder plant in the U.S.?**

A: We started operation at the end of last year. We cannot say that we have reached full-scale production yet this year, but is on track for full-scale mass production and is gradually ramping up operations. If we can increase utilization, it will contribute to this year's business performance.

**Q: Interest rates in the U.S. remain high, but are there any signs of recovery in sales to bio-ventures?**

A: Our current situation remains difficult, but the market for bio-related financial transactions is gradually recovering. We feel that initial clinical trial projects and the gene cell market are also gradually recovering.

**Q: We understand that the contribution from new lines is limited in Life Science and that the situation in bio-ventures is not favorable, but we had hoped for a positive contribution from new lines and a bottoming out of the impact of reduced inflows of funds into bio-ventures. Could you tell us about the background to the decline in sales and profit in Life Science in QoQ and your view of the profit level in 2Q and beyond?**

A: Life Science has two businesses: Synthetic pharmaceuticals and agrochemicals CDMO and Biopharmaceuticals CDMO. Sales and profits of Synthetic pharmaceuticals and agrochemicals CDMO usually increase in the 4Q due to seasonality. This has had a negative impact on the 1Q results compared to last year's 4Q. Biopharmaceutical CDMO sales were weaker than expected, but this was partly due to the fact that the timing of full-scale operations has been pushed back from the beginning in Boulder, U.S.A. although the situation has been improving. The 2Q will not see a sharp recovery, and a full-fledged recovery will probably not be seen until the second half of the year or later. As for the full year, it will be tougher to achieve the initial forecast.

**Q: If the Biosecure Act is passed in the U.S., Wuxi may be shut out of U.S. government projects. What is the possible impact on AGC, which has the second largest single-use bag production capacity globally after Wuxi?**

A18: We will need to monitor this closely, but we believe there is a good chance that it could have a positive impact.

**Q: 1Q Life Science profits were down 6.9 billion yen YoY, but the sales volume, selling price, and product mix led to a 4.3 billion yen decline. Is there a situation in which selling prices are falling?**

A19: Selling prices have not fallen. The sales price was affected by the drop of special demand for Covid-19 and a decrease in orders received due to reduced inflow of funds to bio-ventures.

**Q: You said that 1Q Life Science sales were lower than expected. If you break it down into market factors and AGC factors, what do you think? In particular, I am concerned about whether the new line in the U.S. is starting up as expected; are there any costs incurred that were not anticipated in 1Q, for example?**

A: The CDMO market environment can be broadly divided into two types: large tanks that cultivate large quantities, and single use like ours that focus on smaller projects. The single-use market is more severely affected by the

decrease in the inflow of funds to bio-ventures, and is in a more difficult situation than the competitors. This difference in composition is the reason why our demand is still weak compared to other parts of the industry that have bottomed out. The return of demand has been slower than expected. In the Boulder business, full-scale mass production has been pushed back from the initial schedule, partly due to customers' circumstances, and this had a considerable impact in 1Q.

**Q: How do you see the timing of recovery in the Life Science business environment? What is your outlook for the second half of the year?**

A: The general view in the CDMO industry is that development projects are being carried out regardless of the economy, and there is some optimistic view that projects that have stopped are gradually starting to move, but we are cautiously anticipating the return of reduced capital inflows to bio ventures.

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