

Key Points in the Q&A Session for the Second Quarter
of the Fiscal Year ending December 31, 2015
(July 31, 2015 (Friday), Tokyo)

Q1. Can you tell us the sector-by-sector income changes in the second quarter compared with three months earlier?

A1. The second-quarter operating balance of substrates glass for solar cells sustained marginal losses. The sector related to optical-related products and electronic devices chalked up more than 20% in the ratio of operating income to their total sales both in the first and second quarters. The glass fiber sector saw its operating income ratio fall below 10% when new manufacturing facilities began operating, due to increased business costs associated with the start-up of the new facilities. However, business for the sector improved subsequently, with its operating income ratio recovering to a stable level. Good and poor income performances were mixed for medical-use glass, glass used in building materials, and heat-resistant glass. Overall, these sectors improved, with each sector moving around the break-even point. The ratio of operating income has stayed at a single-digit percentage for substrate glass for liquid crystal displays (LCDs).

Q2. May we understand that the cover glass sector suffered an income fall in the second quarter compared with the first quarter given its price decline?

A2. No. That sector's income did not change much during the second quarter.

Q3. Nippon Electric Glass projects that sales of substrate glass for LCDs will grow by a low single-digit percentage in the third quarter in terms of volume. Can you tell us why the company has made such a projection?

A3. News has reached us that LCD panel makers have become cautious about LCD panel market in the second half of the current business year. However, our marketing division has brushed off the significance of the news, saying that our business will not be affected much by the reported move of display makers. Also encouraging is the prospect that sales of substrate glass for LCDs to new customers in China will expand in the second half of the current business year.

Q4. We have heard that Nippon Electric Glass benefited from sluggish production of competitors in the second quarter. Are you confident that your company will be able to maintain its current market share in the third quarter and beyond?

A4. It is uncertain whether or not we will be able to maintain the current market share.

Q5. Nippon Electric Glass forecasts that its shipments of substrate glass for LCDs in the current year will grow by 5% to 7% from the previous year.. Does this projection mean that shipments of the products will be flat or decline in terms of volume in the third and fourth quarters?

A5. That is not what we are forecasting. We project that such shipments will grow in terms of volume during the period.

Q6. Despite the improvement of productivity, Nippon Electric Glass revised downward its sales projection. Do you think the company's inventories will increase toward the end of the year? Why is it that the improvement of business efficiency has not led to higher sales?

A6. Inventories of glass fibers and heat-resistant glass have been building up. Production of glass fibers has been expanded as planned. However, their sales have slightly lagged behind the production increase. Prices of glass fibers were raised last year. The price hike did not have an impact on demand from major clients. However, we have heard that small and medium-sized clients have slightly shunned buying products from us. We expect demand for glass fibers to grow in the second half of the current year. In view of this prospect, we will do our best so as not to lose business opportunities. As for heat-resistant glass, its overseas sales are expected to rise. If the product's inventory increases further, we think we should make inventory adjustments.

Q7. Why did your company revise upward income projections for the full year ending in December?

A7. The biggest factors behind the upward revision were cost reductions, improved productivity and falling crude oil prices. If crude oil prices stay at around 60 dollars per barrel, fuel and raw material costs will drop by more than 1 billion yen per year.

Q8. Which products have contributed to the improvement of productivity? Where are such products manufactured - South Korea or Japan?

A8. As for substrate glass for LCDs, productivity in South Korea is higher than that in Japan. Last year, we repaired facilities to improve the productivity of substrate glass for LCDs. Because of the cost of repairing such facilities, the ratio of income to sales in connection with the LCD glass business slackened in the third quarter of last year. However, productivity in the business has now begun to improve.

Q9. May we understand that the income rate for substrate glass for LCDs will be steadily maintained at the current level?

A9. It is essential to keep productivity at a stable level if income rates are to be raised for products. We believe that productivity has been maintained at stable levels for all our

products.

Q10. Profitability of LCD panel makers is expected to worsen in the first half of next year. Does this prospect have any downward pressure on prices of substrate glass for LCDs? In addition, I would like to hear your views regarding what impact may be possible on the price front following display panel makers' concept to use thinner substrate glass.

A10. We will work on improving productivity. However, we have no immediate plan to expand production significantly. We recognize that competitors will behave in the same manner as we do. It is therefore unlikely that a glut will occur once more in the glass market. Instead, we believe the supply-demand ties will be balanced in the glass market. If thinner glass is to be made, more technological expertise will be necessary. Therefore, even if glass becomes even thinner, we will keep prices at certain levels.

Q11. Do you think that positive effects from the company's efforts to improve productivity will continue next year and beyond?

A11. Our efforts to improve productivity will continue. We recognize that the ratio of yield regarding glass products is still lower compared with other industrial products. We believe that we can improve productivity further next year and beyond.

Q12. With the proportion of non-display glass business increasing in the company's overall business, do you think that their inventories will increase?

A12. Inventory levels are different from product to product in the non-display business. It's not just because of non-display products that we have to build up inventories. The only exception is glass tubing for medical use. Because Nippon Electric Glass is the main supplier of glass tubes for medical use in domestic market, we will have their inventories slightly above the minimum required amounts to prevent concern about product shortages within the medical market.

Q13. Nippon Electric Glass revised upward its operating income projection for the current year by 5 billion yen. However, our understanding is that the upward revision stemmed mostly from excessive production, which pushed down fixed manufacturing costs per unit production, resulting in piling up of inventories.

A13. Your assessment is partially right. However, our basic understanding is that production costs declined due to improved productivity, helping raise the operating income projection.

Q14. Nippon Electric Glass revised upward its operating income and ordinary income projections for the current year ending in December. However, the company kept its net income projection intact. Is there any particular reason for this?

A14. The company's net income projection was affected by special factors that occurred in the first half of 2015, such as the company having been forced to tap into deferred tax assets following the change in tax rates and unscheduled costs associated with the closure of the Fujisawa Plant. We believe that similar incidents are unlikely to occur in the third or fourth quarter of the current year.

Q15. Productivity has improved significantly due to the company's efforts to transfer part of its production overseas. Could you tell us profit projections, taking into account manufacturing in China, in the company's mid-term management plan? By including the projections in a mid-term management plan, I believe that investors who tend to see the company from short-term views will be able to have a long-term view of the company.

A15. As for a mid-term management plan, the Corporate Governance Code calls for its disclosure. We recognize that it has become necessary to show its long-term policy direction to investors. In view of this need, we are currently working on drawing up a mid-term management plan featuring business plans to be achieved and new development projects to be undertaken.

Q16. Did you conclude a long-term contract with a new Chinese customer?

A16. I will refrain from commenting on the details of the contract. What I can say at this moment is that the Chinese customer has chosen Nippon Electric Glass from among glass manufacturers. Based on the contract, the company expects to deliver glass products that represent a significant share to the Chinese company.

Q17. Nippon Electric Glass revised downward its glass fiber sales projection for the current year. What about the business's profit projection?

A17. As for the glass fiber business, we are likely to secure more than 10% in the ratio of operating income to total sales in the current year.

Q18. Could you tell us about the inventory of substrate glass for LCDs?

A18. We believe that the product's inventory level is appropriate.

Q19. Sales of substrate glass for LCDs grew in terms of volume in the second quarter. Given the expected increase in orders from new customers in China, is your company revising upward the product's sales projection for 2015 from the initial projection?

A19. The expected sales increase from the new contract in China was already reflected in our

earnings projection when our company decided to construct a new processing factory in Nanjing last year. Therefore, our overall projection for 2015 will not change even if the upswing in the second quarter is counted.

Q20. Can you tell us when the Xiamen factory will begin operating?

A20. First-phase construction for the Xiamen factory has progressed as scheduled, making it likely that the first line will begin operating in the second half of December 2015. By early 2016, we will be able to establish a solid manufacturing system in which products rolled out of the line are good quality. The factory is expected to go into full operation in the middle of 2016. Meanwhile, second-phase operation is set to begin at the end of 2016. However, we will make a final decision regarding the timing of second-phase construction after keeping a close watch on market situation.

Q21. Can you compare production costs at the Xiamen factory with costs in Korea factory?

A21. Electricity and personnel costs have increased in China. However, in view of the fact that no import tariffs are levied for local production, overall production costs in China are still lower than those in South Korea. However, there is no longer a significant production cost gap between the two countries as was seen in the past. What is important for us is whether or not we can upgrade our manufacturing system from the one currently in operation in South Korea in terms of technological proficiency and capacity. By doing so, we should raise the rate of good-quality products.

(End of translation)

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