

Key Points of the Q&A Session for the Second Quarter of the Year Ending December 31, 2020

(Friday, July 31, 2020; conference call)

- Q1. In the second quarter, net sales decreased by approx. 14.4 billion yen from the first quarter, while operating profit decreased only some hundreds of million yen. What are the reasons for this?
- A1. First is the reduction of raw materials and fuel costs. Production efficiency for glass for flat panel displays (FPDs) was also improved. Some of the equipment improvement projects were postponed. Costs for some of these projects may be recorded in the second half of this year while the others will be put off to the next fiscal year. By product, profit margin of glass for FPDs is higher than the average of the Company. Glass for optical and electronic devices has maintained a profit margin of 20% or higher. Glass fiber recorded profits in Japan and Malaysia, but losses in Europe and the U.S. exceeded them, ending up with negative results as a whole.
- Q2. Please explain the reason for the decrease in operating profit for the second half compared to the first half.
- A2. In the second half, construction projects for repair, etc. that were postponed from the first half are scheduled, which we expect will be associated with an increase in costs. We will also increase research and development.
- Q3. How did the improvement in production efficiency of glass for FPDs contribute to increasing profits?
- A3. We have become able to melt and form glass of very high quality. This helps reduce defects and raise production efficiency. We plan to promote application of this technology throughout the Company.
- Q4. Recently, you have published many press releases on product development. When do you expect the new products to contribute to income? And please explain your prospects for the medical field, in which an increase in demand can be expected in association with the novel coronavirus disease (COVID-19).
- A4. We wish to launch the new products in the market as early as possible. However, they are still under sample work and we have no specific sales plans yet. For glass tubing for pharmaceutical and medical use, we plan to strengthen production capacity at our subsidiary in Malaysia in November this year. This is expected to contribute to sales and profit from the fourth quarter.
- Q5. What are your assumptions about crude oil prices?
- A5. We see the prices will continue to decline in the second half though it will be reflected in raw materials and fuel costs about six months later.
- Q6. While the capacity utilization rates for glass fiber have been declining, capacity reinforcement is planned for glass for FPDs in China (Xiamen) next year. Does this mean that the profit-making structure of the entire company has been changing?
- A6. We have tried to balance the scale of business of glass for FPDs and that of glass fiber, but currently we are increasingly dependent on glass for FPDs. However, since glass fiber is a basic material for various industries, its sales will recover along with the recovery of the market, though it may take some time.

- Q7. The inventory level at the end of the second quarter was higher than that of the end of the first quarter. Please explain the details of the increase. Also, I would like to know the percentage of reduction in production of glass fiber.
- A7. At the beginning of this year, we planned to continue production reduction of approximately 20% for glass fiber. But from the second quarter, it has been expanded to about 40% in total. In the second quarter, inventories of glass fiber and heat-resistant glass increased. As for the percentage of reduction in production of glass fiber, we will continue to maintain a level of about 40% within this year and are not planning any additional reduction.
- Q8. Car production is currently recovering, but the capacity utilization rate for glass fiber is not recovering, why?
- A8. Our products are placed at the most upstream of the supply chain. It is difficult to identify the amount of inventory retained within the supply chain. But we understand that recovery of demand for our products will lag two or three months behind. We think that demand for glass fiber bottomed out in the second quarter and will gradually recover.
- Q9. You said that sales of glass fiber will recover after hitting the bottom in the second quarter. Do you expect profits to also increase?
- A9. Sales will increase, but it is not easy to make profits because operation adjustments are still ongoing.
- Q10. About how much will the capital investment be for this fiscal year?
- A10. Due to the impact of the spread of COVID-19, it is difficult to predict exactly when construction work will start or equipment operation will be resumed for some projects. However, since most of them will be postponed, the amount will be lower than the initially planned 26 billion yen.
- Q11. The annual dividend for this fiscal year is expected to be 100 yen per share, the same as the previous year. Please explain your dividend policy in the medium to long run.
- A11. Our policy is to reward our shareholders with dividends. We will work to continue stable dividend payment.

* The information in this document is intended to be used for reference purposes only.

* This document is not a full transcription of the Q&A session held at our earnings presentation meeting. Please understand that this is a simplified summary created at our discretion.

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