

Key Points of the Q&A Session for the 2nd Quarter of the Year Ending December 31, 2019

(Tuesday, July 30, 2019 ; Tokyo)

- Q1: Could you explain the reason for the revision of your full-year earnings forecasts?
- A1: The downward revision of net sales is mostly due to the decrease in sales of glass fibers. Besides glass fibers, we also expect decreases in electronic devices, substrates for solar cells, and cover glass (glass for chemical strengthening). The situation for the second half is expected to be about the same as the first half. For the first half, we posted an extraordinary loss of approx. 1.0 billion yen due to the power outage at one of our subsidiary in South Korea. For the second half, we estimate an additional 3.0 billion yen of extraordinary loss, which will be a major factor lowering our net income.
- Q2: Please explain the shipment trends and profitability of glass fibers by region.
- A2: Shipment in Japan is not large in volume but responds mainly to domestic demand, gaining profits. In Malaysia, although the production scale is large with over 10% profit margin achieved, operation adjustment has been under way, resulting in a slight decline in profit margin. In the United States, production efficiency has been improving, though recovery in profits is slow due to the ongoing operation adjustment. We initially planned to reduce the deficit to around 3.0 billion yen by the end of fiscal 2019, but the amount of the deficit is likely to be a bit larger than that. In Europe, the situation is severe in both the Netherlands and the UK.
- Q3: For the glass fiber business, when will the new facility in the Netherlands start operation?
- A3: Because of the sluggish market situation, it is difficult to start operation within this fiscal year.
- Q4: Will the amount of CAPEX for this fiscal year be reduced?
- A4: Because a part of CAPEX for glass fibers was postponed, we reduced the annual estimate from 40.0 billion yen to 30.0 billion yen.
- Q5: When is demand for glass fibers likely to recover?
- A5: We think demand for glass fibers will recover when the automobile market comes into a recovery phase. However, we do not expect a recovery within the second half of this year. We think that demand will gradually recover.
- Q6: Please explain the QoQ performance of glass fibers.
- A6: Shipment volume decreased from the first quarter to the second quarter and is likely to level off from the second to the third quarter. From the third quarter to the fourth quarter, a slight increase in shipments is expected.
- Q7: What are the market conditions like for glass fibers for windmill blades?
- A7: The market is stagnant partly due to a decline in the purchasing prices for renewable energy in Europe. However, demand is expected to increase for offshore wind power generation, and we are working on the expansion of sales of glass fibers with high elasticity to respond to this demand.

Q8: It seems your inventory stock has been increasing. Why don't you adjust production to reduce the stock? And of which specific products has stock increased?

A8: Stock of glass fibers has increased. For glass fibers, production adjustment has been carried out since the second quarter. The items in stock were mostly manufactured at the highly efficient facility in Malaysia with low costs. So we expect that they will make profits when their sales increase along with a recovery in demand.

Q9: Regarding glass fibers, is there any distributors' stock retained in the supply chain?

A9: It is difficult to determine because the supply chain is long.

Q10: Please tell us your quantitative outlook for glass for Flat Panel Displays (FPDs).

A10: For the third quarter, we expect about the same shipment volume as in the second quarter, and it is expected to slightly increase in the fourth quarter.

Q11: What is the profit level of glass for FPDs?

A11: Thanks to our efforts to extend equipment life and improve productivity, the operating profit margin exceeds the level of the company average.

Q12: Regarding glass for FPDs, do you have any plan to produce glass substrates of G10.5?

A12: It depends on the situation of our customers. We have had the technology to produce glass substrates of G10.5 since before, and are therefore capable of responding to requests for production.

Q13: What are the trends in energy costs?

A13: We had a cost increase of around 1.5 to 1.6 billion yen year-on-year in the first half. But we do not expect much increase in costs for the second half.

Q14: What do you think are the products related to 5G or next-generation communication that are likely to grow in sales in the future?

A14: We think glass itself is a material with an affinity for 5G. Some of our items currently on sale are available for 5G-related uses, while we are advancing the development of new products. We see, however, that the full-scale launch of 5G will be two or three years from now.

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