

Key Points in the Q&A Session for the Fiscal Year ending December 31, 2016

(February 6, 2017 (Monday), Tokyo)

- Q1. Please tell us which businesses have large contributions to profit growth under the Company's consolidated earnings forecasts for fiscal 2017 and which businesses hold the key to the medium-term business plan.
- A1. In both cases, they are substrate glass for LCD and glass fiber. Last year, while the volume of substrate glass for LCD increased slightly, prices fell. Profit also fell because of factors such as repairs and typhoon damage in Xiamen, China, but we are forecasting an increase in profit in this fiscal year. Glass fiber is doing well both in terms of production and sales, so we are expecting a profit increase along with the increase in sales. We also expect to maintain a certain level of profitability in electronic devices and believe that 24.0 billion yen in operating income (fiscal 2017 forecast) is achievable.
- Q2. It appears that the volume of substrate glass for LCD will increase in the latter half of the year, but are there other factors for profit growth? Also, what will happen in this fiscal year to repair expenses and launch costs that emerged from China and South Korea last year?
- A2. In China, new production line was launched in Xiamen last year, but there is no launch planned in this fiscal year. In South Korea, most lines were repaired last year, and after several lines are repaired in 1Q of this fiscal year, there are no more plans for repairs. Therefore, we believe that there will be an improvement from these factors. We are also taking measures to improve facilities in Japan and the productivity has been increasing.
- Q3. Can we assume that to achieve the target of 30.0 billion yen in operating income under the Company's medium-term business plan, substrate glass for LCD and glass fiber will continue to be the focus?
- A3. That is correct. Next year (2018), as we are expecting the launch of a second-phase facility in Xiamen and new repairs, profitability may not change. However, we believe we will be able to increase sales slightly, so there will be a contribution to the absolute amount of profit.
- Q4. The Company said it would "consider a dividend increase based on the business performance", but what criteria do you see as the condition to increase dividends?
- A4. First, we would like to make the payout ratio within 100%. In this regard, we will basically make a decision based on the progress made in current income and we believe that one point of focus will be this fiscal year's target of 17 billion yen (profit attributable to owners of parent in fiscal 2017). In terms of our thinking on dividends, we have become more conscious of DOE 2%, and we would like to achieve that level in the future.
- Q5. Please tell us about the effect on increased revenue from the acquisition of the former PPG's European operations and the outlook for organic growth in glass fiber.
- A5. The former PPG's European operations have annual sales of 140 million-150 million EUR. Last year, one-fourth

of that was consolidated into 4Q, so the remaining three-fourths of the amount, or over 10 billion yen, will increase revenue in this fiscal year. Our Malaysia operations began full production from November to December last year. As a result, production capacity increased by about 10 percent and we believe that will lead to increased revenue in this fiscal year.

Q6. Please tell us about the impact on profit and loss from the acquisition of the former PPG's European operations.

A6. The impact on operating income is neutral. There was a revaluation of assets after the acquisition, and for the parts in which the evaluation increased, depreciation and amortization rose, and there is also goodwill amortization. Before the acquisition, it was an operation that generated sufficient operating income, but considering such costs, we expect the contribution to profit to be zero. However, if we take the large amount of glass fiber we exported to Europe from Malaysia and Japan and produce it at EGF (former PPG Europe) instead in the future, we can cut costs in transportation. Furthermore, with the increase in sales, we can strengthen our relations with customers and expect to have synergies such as an increase in orders to newly developed products. We believe there will be benefits from such factors in the future.

Q7. What is the market growth for substrate glass for LCD in this fiscal year? It seems it will recover in this fiscal year after a slight decrease in share last year, but have you factored in a sufficient increase in volume to offset the fall in prices?

A7. We expect market growth to be around 5%. The Company has factored in a percentage increase that is slightly higher than market growth and expects sales to be "flat to slightly higher" compared with the previous year.

Q8. What is the outlook for substrate glass for LCD prices in this fiscal year?

A8. We are presuming that the pace of decline will ease further and that the fall in prices will be at an annual rate in the mid to high single digit percentage.

Q9. How will profitability in substrate glass for LCD prices progress going forward?

A9. We expect profitability to increase in this fiscal year. However, repair expenses remained high in 1Q and shipments will fall slightly due to seasonal factors. Therefore, profitability is expected to improve in 2Q and beyond.

Q10. When the Company announced the medium-term business plan, there was a comment that if price declines in substrate glass for LCD are limited and various measures are taken, then a certain level of profitability can be secured. How do you see the progress made in this fiscal year?

A10. We believe that results are already starting to emerge in production and quality depending on the production lines.

Q11. There were temporary costs related to the acquisition of the former PPG's European operations, so are there any areas that will lead to a profit increase when such costs are gone?

A11. There was approximately 500 million yen in agent costs.

Q12. In the forecast for this fiscal year, the rate from ordinary income to profit attributable to owners of parent (20 billion yen → 17 billion yen) has improved. Please explain the situation for the tax rate and extraordinary profit/loss.

A12. One factor is that our overseas factories, which are a source of profit, have low tax rates. On the other hand, it has become difficult to generate profit in Japan, so we expect tax expenses to be low in this fiscal year. As for extraordinary profit/loss, we do not expect big items.

Q13. Depreciation cost has fallen significantly from 37.1 billion yen in fiscal 2015 to 31.2 billion yen in fiscal 2016, but what factors were behind the decline?

A13. Depreciation of facilities in South Korea were short-term, so the fall from that factor had an effect. Furthermore, facilities have become impaired, so we believe there was a decline from that aspect.

Q14. Energy costs are expected to be flat in this fiscal year, but can we assume that the decline in repair expenses from the extension of service life for facilities will lead to cost cuts?

A14. We have not factored in cost cuts from the extension of service life in this fiscal year. However, the effect from the change in our estimates for the reserve for special repairs appeared in the operating income from 4Q last year. The effect from 1Q to 3Q was appropriated in extraordinary income, but from 4Q and beyond, it will be reflected in cost of goods sold, so it will have the effect of pushing up the operating income again in this fiscal year.

Q15. You would like to raise your share of substrate glass for LCD in China from the current 10% level to 20% level, but does this mean that the share will be more than 20% with the increased shipments to LGD Guangzhou and BOE Fuzhou? Furthermore, how will glass manufacturers respond to the investment in G10 by Chinese LCD panel manufacturers?

A15. If you exclude G10 and higher, we believe that our share in China will be around 25% as a result of increased shipments to the customers you mentioned. The Company produces G8 in Xiamen, but for G10, it is necessary to build a furnace near the LCD panel plant when taking transportation into account. As additional large-scale investment would be required in such case, more cautious consideration is necessary to make the decision for G10 glass production in China.

Q16. To achieve the sales target under the medium-term business plan, you would need to build up about 40 billion yen in sales from this fiscal year to next fiscal year, but what measures do you have in mind?

A16. We plan to increase about half of the 40 billion yen with displays. There is only organic growth for displays, but we have expectations for operations at the second-phase facility in Xiamen to contribute to growth. The remainder will mostly be with glass fiber and electronic devices. As for glass fiber, we believe that time-wise, we could achieve the target early with non-organic growth, but to achieve it on our own, we would need to build a new facility and there may be a delay of 1-2 years.

Q17. As for glass fiber, will you work on expanding operations in areas such as the North American market?

A17. We believe that a base for the U.S. is necessary. In the U.S., the cost of raw material and fuel has declined in recent years, while shipments from Asia are burdened with tariffs and shipping charges. The unit price of glass fiber is low but the burden of such distribution costs is high, so there are plenty of advantages to local production.

Q18. Please tell us about the significance of the acquisition of the former PPG's European operations. For example, was it to strengthen relations with non-Japanese car manufacturers, expand operations in areas other than your usual client base, etc.?

A18. We wanted to create a foundation for expanding operations in Europe and also had requests from local clients. The acquisition of a European base brought about the advantage of increasing share, but this does not mean our clients changed or that we handle more products. Still, the former PPG's U.K. plant has big business in glass fiber for wind turbine blades rather than for engineering plastics in automotive industry, so there was the benefit from connecting with completely new clients in that field.

Q19. As for substrate glass for LCD, full operation is taking place at the first-phase location in Xiamen, but is productivity improving according to plan?

A19. Productivity in Xiamen is as we had envisioned. Construction expenses were well-controlled within what was planned and excluding the damage incurred from the typhoon, the launch has been better than expected and good production is currently continuing.

End

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