Nippon Electric Glass Co., Ltd.

Key Points of the Q&A Session for the 2nd Quarter of the Year Ending December 31, 2018

(Tuesday, July 31, 2018; Tokyo)

Q1. Could you please explain to us the changes of net sales and operating income from the 1st half to the 2nd half of fiscal 2018 and forecast for the full year of fiscal 2018?

A1. We believe that we will be able to achieve net sales of 300 billion yen, our target for fiscal 2018, but we find it challenging to accomplish our operating income target of 31 billion yen, and actually feel that we need to work considerably harder to achieve it. However, we expect to see productivity in the U.S. glass fiber business improve in the 2nd half of fiscal 2018 since we think that almost all of their expenses have been recorded in the 1st half of fiscal 2018.

Q2. Could you please explain to us why net sales in Performance Materials and Others declined by 2.2 billion yen from the 1st to the 2nd quarter of fiscal 2018?

A2. In addition to a fall in sales of glass making machinery, sales of glass tubing for pharmaceutical and medical use declined in reaction to robust sales in the 1st quarter. Sales of glass fibers didn’t change greatly.

Q3. Could you please explain to us how much expenses the Company spent to improve productivity of U.S. glass fiber plants (EGFA) in the 1st half of fiscal 2018?

A3. We spent 4 to 5 billion yen in the 1st half of fiscal 2018 (excluding amortization of goodwill), of which one-fourth was capital expenditures and around three-fourths were repairing expenses.

Q4. Will EGFA earnings improve in the 2nd half of fiscal 2018?

A4. In the 2nd half of fiscal 2018, we expect to have a positive impact from improvements in productivity and capacity expansion.

Q5. You explained to us that the Company aims to expand sales in the Glass Fiber business to approx. 150 billion yen in the next three years. The growth rate is the same as the market expansion (around 5% annually). Could you please explain to us the Company’s medium-term sales growth plan?

A5. Sales of dry chop products, a mainstay, are expected to increase by around 5% annually. Sales of direct roving products used for wind power generator blades, etc., our second largest sales item, are forecast to rise by around 6%. Basically, our sales will expand along with the growth of these products. We don’t include a new M&A in sales of the 150 billion yen.

Q6. How much will summer vacations (production adjustment) by European customers in the Glass Fiber business affect the Company’s sales?

A6. We estimate that they will affect 4 to 5% of the entire sales in the Glass Fiber business.

Q7. I heard that EGFA will run in the red after amortization of goodwill in fiscal 2018 (at the Q&A session held in February 2018). Could you please explain to us how far the Company has progressed to bring EGFA into the black in fiscal 2019 or later?

A7. We have almost finished the repair of facilities and investment for capacity expansion. Aiming to achieve improvements in productivity and profitability in fiscal 2019, we are trying hard to turn EGFA into the black on an operating basis (after amortization of goodwill) within fiscal 2018 (even just for one month).

Q8. At Electric Glass (Xiamen) in China, new furnaces (to manufacture substrate glass for LCDs), which were constructed under their 2nd phase investment, began operations. Is there any possibility that the Company will suspend operations in Japan due to subsequent excessive production capacity?

A8. We plan to manufacture products by monitoring the growth of demand in the markets. Regardless of whether in Xiamen or Japan, we will raise productivity and manufacture products using as few facilities as possible.

Q9. If the production of LCD panels decreases in the future, can the Company maintain operations in Electric Glass (Xiamen)?

A9. We won't have any problem. Although Electric Glass (Xiamen) is operating at full capacity now, they can't cover all the needs of customers in China. We have fulfilled substantial parts of the demand by exporting made-in-Japan substrates (half-finished goods) to China and processing them in China.

Q10. Could you please explain to us the Company's idea about investment for manufacturing 10.5-genration LCD glass substrates?

A10. We need to build our plant next to the customer's manufacturing site, since it is difficult to transport 10.5-generation LCD glass substrates. It requires us to make a huge investment. Meanwhile, once the customer's business loses momentum, it will affect our glass production. Therefore, we have to examine our investment calmly and carefully.

Q11. One of the Company's main customers for glass substrates for LCDs announced poor financial results for the 2nd quarter of fiscal 2018. Did this affect the Company's earnings?

A11. We haven't had any particular negative impact so far.

Q12. You explained to us that demand for glass substrates for LCDs is steady. How does the Company view the price trend from fiscal 2018 to fiscal 2019?

A12. The price decrease has become moderate year by year. We have tried to have customers understand that the supply-demand balance is tight.

Q13. I understand that investment in glass substrates for LCDs in China is highly risky. However, doesn't the Company think that a lack of sufficient supply capacity in the Chinese market, on the contrary, will become a risk factor in the future?

A13. We think that it depends on what we consider as a risk factor. When excessive glass products formed in China are exported, duties will be levied on them. The Chinese government may change its policy on such duties in the future. However, we consider excessive production in China as a risk factor so far.

Q14. Could you please explain to us the trend of energy costs?

A14. Both energy and raw material prices have risen slightly. We forecast that costs will increase by 1 to 2 billion yen annually from the previous year. However, we plan to absorb them though improving productivity and other ways.

Q15. Could you please tell us the Company's assumed crude oil prices?

A15. Our assumed crude oil prices are US$55 to US$56 per barrel. Crude oil prices stay at a high level recently. Since we don't use crude oil directly, we will feel an impact from rising crude oil prices as a hike in electricity or gas bills six or seven months later.

Q16. Crude oil prices are on the rise compared to the Company's assumed price of US$55 per barrel. Does the Company expect the rise to have a negative impact on its earnings?

A16. Yes, we assume that the rise in crude oil prices will burden our earnings as higher fuel costs from fiscal 2019 or later.

Q17. I heard that natural gas prices have risen in Malaysia. Does the Company expect the rise to have a negative impact on its earnings?

A17. Yes, we expect our earnings to be affected to some extent.

Q18. In the 1st half of fiscal 2018, the progress of depreciation was slower compared to the Company's plan, 35 billion yen annually. What is the Company's forecast for depreciation in the future?

A.18. We forecast that depreciation may decrease compared to our initial plan. As we estimate capital expenditures at the budget formulation stage, a change in our investment plan sometimes influences depreciation.

Q19. Will the Company continue to repurchase its own shares in fiscal 2019 or later?

A19. We haven't decided to implement the repurchase of our own shares every year. We will decide in a timely manner whether to repurchase our shares considering the progress of our medium-term business plan and results.

Q20. I find that the Company's ROE is at a low level. Doesn't the Company think it should at least send investors a message that it will repurchase its own shares if its free cash flow continues to be positive?

A20. This is the first time we have repurchased our own shares as part of our return to shareholders. Outside directors asked us, “Has the Company changed its policy?” We understand that our decision about the repurchase had a considerably huge impact even on people outside the Company to some extent. We will continue trying to seek and enhance our shareholders’ understanding of our policy on return to shareholders and capital.

Q21. The Company’s shareholders’ equity ratio is considerably high, while its estimated ROE is relatively low, around 4%. What is the Company’s view on an appropriate level of shareholders’ equity ratio?

A21. We were able to acquire companies in Europe and the United States because of our strong balance sheet. Moreover, we maintain our shareholders’ equity ratio at more than 70%, since we would like to pay for tangible fixed assets (machinery and equipment, etc.) at our own expense. This is the basic point on our capital policy including return to shareholders.

Q22. Could you please explain to us the Company’s view on its cross-shareholding?

A22. There are reasons for the cross-shareholding. We don’t cross-hold shares without any reasons. We will sell cross-held shares if the business relationship becomes weak.

Q23. Could you please explain to us the way the Company will formulate its next medium-term business plan or its formulation policy?

A23. We will formulate the plan by retroactively thinking about “our goal in the next three years” from “the future” instead of accumulating figures in a conventional way. Our members, mainly employees in their 30s, discussed for over six months the Company’s future goals in the next 30 years (our 100th anniversary). Our management team has deliberated their discussion results and is working on formulating a specific business plan by retroactively imagining the Company’s goals from the standpoint from 10, 5, and 3 years from now. (The next medium-term business plan is scheduled to be announced in February 2019 when we will announce our financial results for fiscal 2018.)