

Key Points in the Q&A Session for the 2Q of the Fiscal Year ending December 31, 2017

(August 1, 2017 (Tuesday), Tokyo)

- Q1. Please explain the reasons for the outperformance in 1H earnings.
- A1. Earnings in the glass fiber business surpassed our expectations. Sales of glass substrate for LCD were in line with our forecast underpinning sales growth of glass fiber.
- Q2. In glass fiber business, in what applications and regions did its sales increase?
- A2. The glass fiber business in Europe which we acquired is contributing fully to earnings in FY2017. In addition, demands were firm for glass fiber used in automotive parts and wind turbine blades for wind power generators in Europe.
- Q3. You upwardly revised your full-fiscal year forecast. However, when compared with 1H result, can you explain why a profit decline in 2H forecast is expected?
- A3. Our 2H forecast is slightly conservative given the strong performance in 1H for glass substrate for LCD. We also factored in seasonal catalysts that are likely to negatively impact performance of glass fiber business in 2H, as customers in Europe will be on summer vacation, and year-end inventory adjustments.
- Q4. At the operating income level, you have reached the stage where you will attain the goal in your medium-term business plan. What themes and goals do you plan to undertake in and after fiscal 2018?
- A4. Firstly, we have to pour energies into achieving our goals for the current fiscal year. We also plan to release goals for fiscal 2018 and beyond in February 2018, when we hold our full-year earnings results briefing.
- Q5. Previously, you stated a DOE goal of 2%. Is it still the same?
- A5. Yes. A DOE goal of 2% is still one of our targets.
- Q6. In the 1H, sales increased 15.0 billion yen year-on-year, and operating income rose 7.5 billion yen. Can you explain what factors attributed to the growth in sales and operating income?
- A6. More than 50% of the growth in sales reflects benefits from the acquired European glass fiber business. In addition, the increase in production capacity at our glass fiber operations in Malaysia

began making full contribution in the current fiscal year. Also, since Malaysia is a major production site for glass fiber, we are seeing benefit from weak Malaysian Ringgit.

Profit growth was also largely attributable to the increase in sales of glass fiber. Other positive catalysts included a reduction in glass substrate for LCD manufacturing facility repairs compared with the same period of last fiscal year and an improvement in productivity.

Q7. I understand that profit contribution from the business acquired in Europe is low due in part to amortization of goodwill. However, even including it, the glass fiber business is generating a profit margin of 10%-plus. In other words, is it correct to assume the organic component of your profit margin has increased a fair amount compared with the same period of last fiscal year?

A7. Yes, that is correct.

Q8. You are reinforcing facilities to reduce the cost of manufacturing glass substrate for LCD. Are you finally envisaging an operating margin at the 10% level?

A8. We have made improvements but it is still lower than the companywide average presently.

Q9. We are hearing rumors of product increases at Chinese FPD (Flat Panel Display) manufacturers and active investment in OLED at your major customers. Moving forward, how do you plan to use your cash in the glass substrate for LCD business?

A9. Regarding our major customers, if asked for assistance, we would like consider investment. However, we are likely to be cautious about anything other than that. However, our policy is not to make any investment that does not provide a return.

Q10. Presently, your primary product of glass fiber—chopped strand is mainly applied to general-purpose fields and automotive parts. Do you plan to allocate management resources to fields with higher added value, including electronic materials, to raise profit margins on glass fiber?

A10. Previously we carried out the glass fiber yarn for printed circuit board on a fairly large scale but we withdrew from this business, mainly due to the emergence of rival manufacturers in China. At present, we continue to produce yarns but we are specializing in industrial yarns and carrying out operations on a smaller scale. The reason we shifted to the chopped strands for engineering plastics is that we believed this was a growth field. Chopped strands can be used in not only automobiles, but also home applications and various areas as well. However, this business alone will not boost the presence of our glass fiber business going forward. That is why we are looking to utilize the European business we acquired from PPG to grow in different fields, including wind turbine blades.

Q11. Can you explain the increase in glass fiber sales volume in 1H? Is this attributable to an increase in a specific automotive part or owing to a growth in use for wind turbine blades for wind power generators

in Europe?

A11. Use of glass fiber in wind turbine blades has grown. Use in automotive parts naturally has also increased, but we cannot get an accurate grasp of which parts exactly have increased.

Q12. What is your estimate for growth in the glass fiber market, excluding M&A benefits?

A12. I estimate a market growth of roughly 5%.

Q13. Is it correct to assume that you will achieve your glass fiber sales goal of 100.0 billion yen if you successfully acquire the U.S glass fiber business of PPG Industries, Inc.? Or is a new investment necessary to achieve the goal?

A13. I believe that we will be on track to achieving this goal once the U.S acquisition deal closes.

Q14. Do you have any plans to enter the market for specialty glass for chemical strengthening used in smartphone housing?

A14. We are continuing R&D on specialty glass for chemical strengthening to understand its potential for various uses, including in automobiles.

Q15. Hon Hai Precision Industry is looking to build an LCD panel manufacturing plant in the United States. The United States is likely to impose anti-dumping duties and other measures if the company successfully builds a glass substrate plant in the United States. In this situation, do you think there is a possibility of a change in location of glass substrate plants which are currently mainly in Asia? Is there a possibility Nippon Electric Glass entering the U.S market if you were asked?

A15. Regarding the possibility, it is hard to comment. As for Nippon Electric Glass, entry into the U.S market is not a realistic plan.

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