

Key Points in the Q&A Session for the Second Quarter  
of the Fiscal Year ending December 31, 2014  
(November 4, 2014 (Tuesday), Tokyo)

- Q1. To what degree did productivity improvements contribute to second quarter profit growth?
- A1. The productivity at our new plant in South Korea (substrate glass for LCDs) improved roughly 20% more than at our domestic plants. This made the largest contribution to our profit growth. On top of this, our ordinary income was shored up by gains on exchange rate translations reflecting a weak yen.
- Q2. Which made a larger contribution to profit growth in the second quarter, benefits from productivity improvement at plants in South Korea or at plants in Japan?
- A2. Around 60% of the contribution we saw to our profit growth reflects productivity improvements at our new plant in South Korea. This enabled us to shut down facilities with poor productivity in Japan which contributed to cost improvement.
- Q3. Please provide details on shipment volume trends for substrate glass for LCDs in the third quarter?
- A3. We estimate shipment volume is likely to be flat quarter-on-quarter and look for prices to decline in the lower single digits. For the market overall, in calendar 2014 we forecast volume is likely to growth in the upper single digits year-on-year, and a decline in price in the range of 10%-plus.
- Q4. How do you plan to deal with the share expansion measures being implemented by competitors?
- A4. While it is our aim to expand market share, we do not plan to sharply lower prices merely for the sake of increasing market share.
- Q5. Please tell us what factors played a role in productivity improvements at your new plant in South Korea?
- A5. We incorporated the knowhow we built up in Japan into all the facilities of our new plant in South Korea. Our second-phase facilities are more advanced than before. We also plan to install newly improved facilities at our new plant in China (substrate glass for LCDs) in and after 2015, by taking into account the circumstances we encountered at the new plant in South Korea.
- Q6. What progress is the new plant in China making in the acquisition of customers?
- A6. The plant's major customer is LG Display (Guangzhou) Co., Ltd. The plant is also carrying out sales activities that target other customers. I believe that our success will depend upon the volume of shipments to customers other than LG Display.

Q7. Will it take time for you to secure customers other than LG Display (Guangzhou)?

A7. We estimate that 60%-plus of total capacity at the new plant in China will be shipped to LG Display (Guangzhou), assuming we fill 100% of the company's total demand. Consequently, to entirely sell the remaining capacity, we are currently conducting sales to begin shipment to other customers by the time we complete the second phase of our facilities construction.

Q8. What degree of pressure is being exerted on selling prices for substrate glass for LCDs?

A8. Starting 2014, demand has been increasing for large-screen TVs owing to the market penetration of 4K TVs. Supply-demand balance appears to be tight but prices in the TV set market are continuing to decline. Accordingly, parts prices are also trending downward. This holds true for substrate glass as well. Although pressure on selling prices is weakening to certain degree, there is still being weighed down.

Q9. What is your outlook for selling prices for substrate glass for LCDs in the third quarter, in comparison with the first and second quarters?

A9. We believe that the decline is likely to somewhat milder than in the first and two quarters.

Q10. At your results presentation meeting for the fiscal year ended March 31, 2014, I believe you estimated at 20%-30% improvement in productivity at the new plant in South Korea but you just commented that the improve was around 20%. Can you explain this?

A10. Since our previous presentation meeting, we factored in the start of production of two types of materials to a certain extent. The lower productivity improvement rate does not indicate a decline in benefit from the enhancement of structural efficiency.

Q11. Will you be able to compensate for the increase in depreciation expense in the third quarter with the overall improvement in production efficiency?

A11. The enhancement in efficiency is of the utmost importance. We are also factoring in a reduction in procurement cost, which we aim to achieve by diversifying the procurement of parts and materials. In the current fiscal year, which is a nine-month period, we are estimating a cost reduction of around ¥2.0 billion. Roughly the ratio of benefit from productivity improvements is 60% and the reduction in procurement costs is 40%. However, another point of interest is the trend in energy costs reflecting exchange rate trends.

Q12. Do you expect to attain your depreciation expense estimate of ¥30.0 billion?

A12. We believe we will be closely in line with our estimate.

Q13. What are your strategies for the cover glass (specialty glass for chemical strengthening) business?

A13. High-end smartphone models use aluminosilicate glass while soda glass is employed in popularly-priced smartphone models. Our business deals exclusively in glass for high-end

models. In 2014, manufacturers in China released a large volume of low-priced mainstream models but it is expected these manufacturers are likely to shift over to high-end models to a certain extent. As we are expecting to see an increase in the number of models employing our glass, in 2015 we plan to once again aim to expand sales and secure a 20% share of the high-end smartphone market.

Q14. Can you please give us your outlook on cover glass price trends?

A14. The downward trend in prices is inevitable given that this market is still in the expansion stage. However, as production increases, we will reap mass production benefits. Consequently, we should be able to adjust our prices to a certain degree as shipments rise.

Q15. What level of impact do you expect to see from exchange rate translations?

A15. We estimate an increase in sales of several 100 million yen annually for each ¥1 decline in the yen's value against major currencies. Given that our mainstay LCD substrate glass sales transactions are denominated in yen, around 50% of our total sales are yen-denominated. The remaining sales transactions are carried out in US dollars or the euro, with USD-denominated sales about 3 times that of those conducted in Euro.

Q16. What other areas, outside of the LCD glass business, are benefiting from a weak yen?

A16. We are seeing benefit to sales but costs, including raw material outlays, are rising. Accordingly, there is minimal change in profit (basically neutral impact).

Q17. Please discuss your balance sheet strategies.

A17. Our shareholders' equity ratio is rising. We are planning to invest nearly ¥100 billion in our new plant in China and to boost production capacity at our glass fibers operations in Malaysia. At present, our financial position is at the minimum required level for carrying out these investments. Going forward, we plan to keep our shareholders' equity ratio at a high level to implement flexible investment strategies. In addition, further out we will have to deal with other costs, including bond redemption. We are currently contemplating various methods for procuring capital while keeping these future outlays in mind.

Q18. What is your view on the cross-shareholdings with Nipro?

A18. We are starting to see synergies with Nipro in the medical glass business, in particular in emerging economies. In addition to exchanges between our two technical teams, the top executives of both companies meet regularly to discuss business development going forward. For the time being, we plan to continue to maintain this relationship. Consequently, at this stage, we do not believe that Nipro would sell their shares in Nippon Electric Glass and we do not plan to take the initiative to reduce our shares in Nipro.

Q19. Can you explain why you upwardly revised your capital investment plans from ¥40 billion to ¥45 billion?

A19. We boosted our capital investment plans by roughly ¥3.0 billion for additional construction at our new plant in South Korea. In addition, we took into consideration impact from exchange rate translations. In October 2014, we started up the final production line at our new plant in South Korea. From October onward, in addition to the start-up costs for our production lines, we will also begin recording depreciation expense for the new plant.

Q20. The yen is continuing to trend weakly. Taking this into account, to what degree do you estimate investments in the new plant in China will increase?

A20. This project is costing us around ¥70 billion. About 30%-plus of the total facilities at this new plant will be transferred from Japan. All costs are yen-denominated at the new plant so essentially there is no impact from exchange rate translations. However, since local costs are exposed to foreign exchange rates, we are planning to use a forex hedge.

Q21. What is your capital investment plan for 2015?

A21. We plan to earmark around ¥40 billion-¥50 billion.

Q22. Is there possibility of negative impact to your investment plans in China should the yen continue to weaken?

A22. This is not a possibility. Area growth in the global LCD market is expected to be around 5% annually. In China, this is the only market that is expected to show double-digit growth (roughly 10%) in a five-year and ten-year period. Moreover, there is an ongoing shift to domestic production for LCD glass. There is a risk that a hike in customs tariffs and other factors are likely to prevent overseas products from entering China. Accordingly, we plan to move forward with our current plans which basically call for local production and local supply.

Q23. Do you plan to expand cover glass for other uses?

A23. We are broadly implementing the development and proposal of parts and materials for products such as automobiles.

Q24. How do you plan to improve earnings on cover glass?

A24. The selling price for cover glass is around 20%-30% higher than that for substrate glass for LCDs. We believe that we can reap steady returns as long as shipment volume increases.

Q25. Why did you downwardly revise your profit outlook for the third quarter?

A25. This major catalyst was glass for LCDs. Initially, we forecasted a "marginal" decline in selling prices, anticipating a rise in shipment volume and a tighter supply-demand balance for glass in the third quarter. However, in actuality, shipment volume is not growing and prices are still continuing to decrease, causing us to sharply underperform our earnings plan. Another major factor is that we missed our target for cover glass sales.

Q26. Why do you believe you will undershoot your profit plan despite brisk sales for glass fibers which is in line with your initial forecast?

A26. We received far more inquiries than estimated. To fill orders for various types of glass fibers we had to start-up old facilities that we had no intention of using. Consequently, this weighed down our profits.

Q27. I understand that demand for cover glass declined. What were trends for shipment volume in the second quarter?

A27. Due to the decline in demand, shipment volume was nearly 50% lower than in the first quarter.

Q28. Can you give us a breakdown for sales in the glass for electronic and information devices business (¥90.8 billion in sales in the first half)?

A28. Substrate glass for LCDs accounts for roughly 80% of total sales in this business. The remaining 20% of sales consists of more than ¥5 billion in sales to the electronics components industry. This is followed by cover glass sales (several billion yen).

Q29. Why are selling prices for substrate glass for LCDs continuing to decline despite it being an oligopolistic industry?

A29. In niche businesses with a small market scale, the returns are high and the pressure to reduce selling prices is not that strong. However, in businesses where the market and scale of sales is large, it is becoming more difficult to secure high returns. This is reminiscent of the oligopoly in the cathode-ray tube glass market. During those days, every time TV prices dropped, there was strong pressure to lower selling prices for CRT glass.

(End of translation)

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