

Key Points in the Q&A Session for the Fiscal Year ending December 31, 2014

(February 9, 2015 (Monday), Tokyo)

Q1. Why were third quarter earnings in the LCD substrate glass business lower than expected?

A1. This reflects smaller-than-expected sales growth and a decline in selling prices. We believed that the decline in selling prices would come to a halt in the third quarter but the actual decline was in the lower single digits. In addition, we incurred development costs for a prototype for a new customer in Nanjing, China, which we recently signed a sales contract with.

Q2. What are your first quarter FY2015 forecasts for earnings improvement in the LCD substrate glass business?

A2. Our earnings forecast for the first quarter looks bleak because we plan to concentrate on repairing aging facilities in Japan and complete development of the aforementioned prototype all in the first quarter.

Q3. How do you forecast LCD substrate glass price trends going forward?

A3. We are still negotiating prices. We expect selling prices to decline in the lower single digits in the first quarter. In 2014, selling prices dropped more than 10% year-on-year. However, in 2015 we think the drop is likely to be in the single digits. Demand for PCs is trending downward and tablet demand recently peaked. Meanwhile, demand is brisk for smartphones and TVs. In particular, the ongoing market penetration of 4K TVs is generating replacement demand—an increasing number of consumers are switching to large-screen TVs. Consequently, we anticipate a growth in LCD area. It is our belief that these factors should curb the degree of decline in selling prices.

Q4. What impact have you seen from the decline in crude oil prices?

A4. We use a large volume of electric power and natural gas. A drop in crude oil prices should trigger a decline in thermal power generation costs. Assuming crude oil prices continue to trend at current levels, we believe we should see a proportionate drop in electric power costs from April 2015 onward. Gas also trends in tandem with crude oil prices. However, owing to our contract, the decline in price is not factored into our rates for 3-4 months after the decline. Accordingly our gas costs should decline from around May or June. Based on today's exchange rate, we can expect to see an annual cost reduction benefit of around ¥1 billion, should the price of crude oil dip below US\$50.00 per barrel. Of course there are risk factors involved so we have not factored this into our full-year forecast.

Q5. Is the ¥1.0 billion benefit from cost reductions for both electric power and natural gas combined?

A5. Yes, that is correct.

Q6. What earnings drivers do you forecast in the second to fourth quarters?

A6. We forecast demand will remain tight for LCD glass substrates. Although we believe selling prices are likely to decline in the lower single digits in the first quarter, we think the fall in selling prices will ease up to a certain extent. Glass fiber is our major profit growth driver. In the glass fiber business, we plan to launch a new facility in April and have them running at full capacity by the middle of May. We look for a 30% increase in total capacity, compared with our previous level. Actual production is scheduled to come on line in May so we anticipate an annual increase in capacity of around 20% in FY2015. We have already signed contracts with customers for this portion of product so we expect to completely sell what is produced. Extrapolating from this, we expect to clear our double-digit operating margin goal of 10%.

Q7. Please tell us what progress you have made in improving profit margins on LCD substrate glass.

A7. The melting and forming operation plant in South Korea began operating at full capacity in the third quarter of FY2014. The factory is operating very smoothly. The physical productivity per line is more than 20% higher than lines in Japan. In 2015, we expect to see an improvement in profit margin as the full-year contribution from this factory should offset the decline in selling price.

Q8. What is your sales strategy for cover glass (glass for chemical strengthening) moving forward?

A8. We plan to continue to increase the number of models that use our cover glass. In China, a huge market, we are seeing a transition in consumer demand from cheaper smartphones to high-end models. I believe that in 2015 we should see benefit from having increased the number of models that employ NEG cover glass. Our cover glass shortens the time for chemical strengthening and thereby boosts productivity. We are touting this in our PR. Other product strengths we are promoting to expand sales include the fact that NEG cover glass has a smoother surface and higher transparency than that of rival products.

Q9. What is NEG's share of the cover glass market?

A9. We believe our market share for cover glass use in high-end model smartphones (aluminosilicate glass) is around 10%. In 2014, at the start of the fiscal year we aimed to boost our market share for the month of December to 20%. Unfortunately the market did not grow as expected so our market share was only 10%. We are determined to continue trying to achieve our target of the last year.

Q10. I understand you are scheduled to complete development for new customers and facility repairs in the first quarter of FY2015. What degree of benefit do you expect this will have on shoring up your earnings?

A10. On a quarterly basis, we expect our cost burden to decline by a little over ¥1 billion.

Q11. What trends do you see for depreciation expense in FY2015?

A11. Depreciation expense in January-March 2015 is likely to be slightly lower than in October-December 2014. However, it is likely to rise thereafter owing to the start up of new facilities in Malaysia in April.

Q12. The majority of profit appears to be generated by the glass fiber business. What are profits trends like for other products?

A12. Glass for electronic devices are likely to be the next largest profit contributor after glass fiber. We believe glass tubing for medical use will contribute to profit once facilities, which we are currently expanding, are running at full capacity. Profit from LCD substrate glass were poor in 2014 but we expect the melting and forming operation plant in South Korea, which boasts high productivity, to contribute to performance in the full year. Consequently, we forecast a substantial improvement in profit margin.

Q13. Will the size of LCD substrate glass sales remain larger than glass fiber sales in FY2015?

A13. The size of LCD substrate glass sales is expected to be larger. Based on sales in the previous fiscal year, display glass, which includes LCD substrate glass, accounted for more than 60% of total sales, while non-display glass, which includes glass fiber, made up more than 30%. In FY2015, we anticipate display glass sales will represent slightly less than 60% of total sales and non-display glass sales more than 40%. In our near-term vision, we aim to achieve an even balance in display glass and non-display glass sales. We believe that our profits also hinge on achieving this balance. Our first goal is to attain a stable business structure, by achieving a recovery in full-year sales to ¥300 billion—50% display glass sales and 50% non-display glass sales—and attaining double-digit operating income growth (over 10%).

Q14. What are your forecasts for extraordinary gains and losses? (Trends for reversal to reserve for special repairs)

A14. In the LCD substrate glass business, we plan to shut down domestic facilities after monitoring the startup of the new factory in Xiamen. This will result in an extraordinary loss. However, since we plan to post a reversal to our reserve for special repairs (extraordinary gain), this should either balance out this extraordinary loss or we might see slightly more in extraordinary profit.

Q15. In other words, you expect to post extraordinary losses in Japan in the next fiscal year in line with startup of the new factory in Xiamen,China?

A15. We anticipate extraordinary losses in FY2016. However, there is a possibility we will stop surplus lines in FY2015, but this depends on whether we see a rise in productivity owing to the repairs we made to domestic facilities.

Q16. So you will start depreciating the new Xiamen factory from FY2016?

A16. The factory is scheduled to start operation at the end of 2015. However, even if operations are launched at the end of the year, we will not be able to immediately begin manufacturing. Consequently, we will not see any impact from depreciation until FY2016 when the factory starts manufacturing product.

Q17. Now that Corning® Gorilla® Glass 4 is out on the market. Do you think the gap has widened for evaluations given to glass for chemical strengthening (Corning's Gorilla Glass versus NEG's Dinorex)?

A17. I have heard that Gorilla Glass 4 is hard to break. However, in actual use, we have not confirmed any significant differences with our glass.

Q18. What are your development costs on deliveries to your new customer in Nanjing?

A18. We posted cost for prototype development for a new type of glass. We signed a contract to supply the customer with product to fill the majority of their needs. We plan to set up a processing factory in Nanjing and deliver product from there. As a forerunner to this, we are currently carrying out sample work with this customer. We estimate that this customer and LG Display (Guangzhou) will purchase nearly the Xiamen factory's entire product. We are developing a large-size, thinner and lower-compaction product.

Q19. What has Asahi Glass and Corning's reaction been to NEG's handling of this new customer in Nanjing?

A19. I believe there were likely numerous terms and conditions for competition but we ultimately won the order.

(End of translation)

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