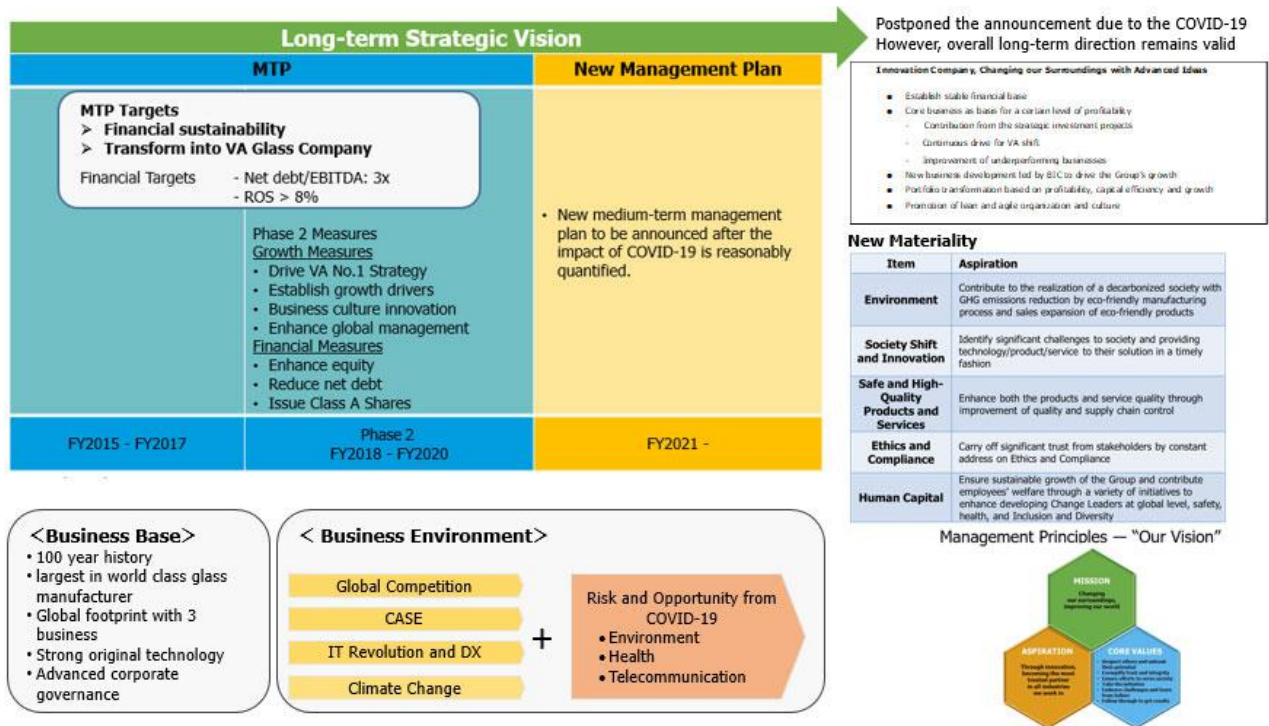


# Management Policy, Business Environment and the Issues to be Addressed



## 1. Business Environment and Issues to be Addressed

The current pandemic of novel coronavirus is not only threatening the health and lives of people across the globe but also affecting the global economy significantly. It likely impacts on both manufacturing and consumption for the next several years. The Group's core businesses – Architectural and Automotive have been considerably affected and the Group will carefully watch demand trends going forward. The longer-term trend is going to be more commoditization and lower prices of flat glass products with the higher presence of glass manufacturers in emerging markets. On the other hand, expectations for new kinds of glass products are increasing, which can contribute to the environment and people's health and safety, further to the once-in-a-century technical innovation in the automotive industry. In addition to the momentum toward information technology revolution and digital transformation to date, the post-COVID-19 work and lifestyle would lead us to much more expectation that glass materials could make a contribution in fields such as life science, IoT and cloud computing.

The Group views these changes as an innovative opportunity to transform its business structure, responding to them agilely and flexibly and adapting to the new business environment.

## 2. Management Principle

The NSG Group announced its new management principle "Our Vision" at the company's 100th anniversary in 2018. "Our Vision" comprises the Mission (core purpose), Aspiration (desired future position) and Core Values (the basis on which work and conduct ourselves).

With "Our Vision," The NSG Group is striving to realize a sustainable society by offering new values and services with

### Our Vision



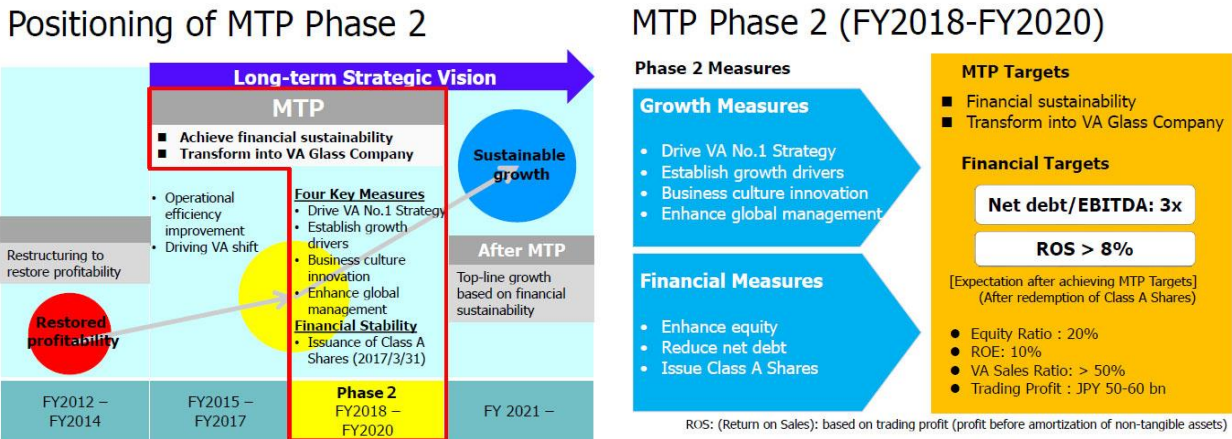
glass swiftly and appropriately to meet the growing needs of our customers and society.

### 3. Long-Term Strategic Vision, Medium-term Plan (MTP) Phase2 and its Review

#### (1) Long-Term Strategic Vision and Medium-Term (MTP) Phase2

Based on the Group's Long-Term Strategic Vision announced in May 2014 to transform NSG Group into a VA Glass Company (VA stands for value-added), the NSG Group developed and executed the Medium-term Plan (MTP) Phase 2 over a three-year period from FY2018 to FY2020. The objectives of MTP Phase 2 were to achieve financial sustainability and start the transformation into the VA Glass Company. The two financial targets were net financial debt/EBITDA of lower than 3x and operating return on sales (ROS) of greater than 8 percent\*.

\*ROS: based on trading profit (profit before amortization of non-tangible assets)



#### (2) Review of MTP Phase 2

Since the start of MTP in FY2015, the Group's profitability improved steadily, and the VA shift progressed during the first half of MTP Phase 2. With the growth measures to pursue the "VA No. 1" strategy, the Group successfully established an advantageous position in the field of online coating in the Architectural Glass business and was increasingly awarded new business of VA glass in automotive business.

Financially, the Group improved the equity ratio by issuing Class A Shares in 2017; achieved the target to reduce financial expenses one year earlier; and resumed dividend distribution for the first time in the last six years and thereby, successfully contributing to the improvement of net profitability.

In order to further expedite the growth with strategic investment, the Group decided to expand manufacturing facilities for solar panels in Vietnam and North America and to construct a new float plant in South America (Argentina), a promising emerging market. The float line in Vietnam started operation in February 2020.

In order to accelerate new business development and create new customer value, the Business Innovation Center was established in July 2018.

Although the Group steadily improved the profits up to FY2019 as mentioned above, it has been severely impacted by the sharp drop of automotive production in Europe and the deterioration of supply and demand balance in architectural glass markets since the beginning of FY2020. As a result, the Group failed to achieve the financial targets of MTP Phase 2 in FY2020, the final year of MTP Phase2.

### (3) Open Issues in View of the Previous MTP Phase 2

In the review of MTP Phase2 based on the achievements mentioned above, the Group has identified the following issues to be addressed and approach to them as follows.

<b>Review of MTP Phase 2</b>	<b>Approach</b>
<p>Stronger business less vulnerable to economic fluctuations</p> <ul style="list-style-type: none"> <li>• Even with the VA sales ratio of 46%, still bound to commodity-centric and price-competitive business model</li> <li>• Insufficient reduction in fixed cost ratio</li> </ul>	<ul style="list-style-type: none"> <li>• Increasing "number one" and "only one" products</li> <li>• Promotion of leaner-asset management</li> </ul>
<p>Top line growth based on launches of new products</p> <ul style="list-style-type: none"> <li>• Accelerated with the establishment of BIC but not enough</li> </ul>	<ul style="list-style-type: none"> <li>• Reinforcement of R&amp;D including BIC</li> </ul>
<p>More stable financial foundation</p> <ul style="list-style-type: none"> <li>• Delay in improvement, while equity enhanced with Class A Shares</li> </ul>	<ul style="list-style-type: none"> <li>• Improvement of business profitability</li> <li>• Capital expenditure within depreciation</li> <li>• Disposals of non-core business/assets</li> </ul>

## 4. Next Steps and Business Plan

### (1) Challenges and Mitigation Plan against the Coronavirus Pandemic

The most urgent and critical challenge for the Group now is how it mitigates the adverse impact on the business due to the novel coronavirus infection spread worldwide.

Currently, the Group's main businesses – Architectural and Automotive are severely suffering the impact across the world in the uncertainties of the pandemic.

In light of these circumstances, the employees' safety and health are our first priority, and the Group has formed the management structure to enable agile decision makings by the local management of each region and implemented the following emergency actions.

Safety Measures for Employees and Their Family	<ul style="list-style-type: none"> <li>• Establishing and maintaining workplace to prioritize safety of employees and their family first and foremost</li> <li>• Creating and following the guidelines to prevent the spread of infection within the Group in accordance with the government policy of each country the Group in accordance with the government policy of each country</li> </ul>
Funding Activities	<ul style="list-style-type: none"> <li>• Securing cash position and unused commitment lines and if necessary, additional funding</li> <li>• Freezing new capital expenditure except most critical projects</li> <li>• Minimizing discretionary spending and maximize utilization of government subsidies</li> </ul>
Production Mitigation	<ul style="list-style-type: none"> <li>• Temporary line suspension and layoffs and furloughs in response to declining demand</li> <li>• Preparation for flexible restart of operation including the introduction of additional safety measures as demand recovers</li> </ul>

With a possibility of prolonged influence in mind, the Group will continue to review its business direction from time to time.

## (2) Enhancement of Financial Foundation

The Group recognizes that the improvement of its financial stability is critical and urgent. It will continue to make efforts such as below to recover its equity ratio, which declined in FY2020.

### 1. Recovery and improvement of profitability

In order to enhance its profitability and cash flow, the Group will reinforce profitable businesses and reform the cost structure of underperforming businesses drastically, while accelerating new business development with the reinforcement of R&D and Business Innovation Center activities.

### 2. Reduction of interest-bearing debt

The Group will control capital expenditure and dispose non-core businesses and assets to reduce interest-bearing debt.

## (3) New Medium-term Management Plan and Long-term Direction

The Group has decided to postpone the announcement of a new medium-term management plan, which was planned to start in FY2021, considering the current uncertainties of our business environment due to the novel coronavirus pandemic.

However, the Group believes its overall long-term direction remains valid, but will be re-confirmed once the longer-term impact of the pandemic is better understood. The broad direction is shown below.

### **Innovation Company, Changing our Surroundings with Advanced Ideas**

- Establish stable financial base
- Core business as basis for a certain level of profitability
  - Contribution from the strategic investment projects
  - Continuous drive for VA shift
  - Improvement of underperforming business
- New business development led by BIC to drive the Group's growth
- Portfolio transformation based on profitability, capital efficiency and growth
- Promotion of lean and agile organization and culture

Even when the current coronavirus pandemic subsides, our society and economy may change drastically in future. Irrespective of such changes, however, the Group believes that its strengths will continually enable us to make a contribution in fields such as; environment (glass for solar panels, energy saving glass for ZEB and ZEH); health and welfare (PCR test device and antivirus glass); and increased telecommunication demands associated with new working styles (optical telecom devices).

Despite the current uncertain and ambiguous socio-economic circumstances, the Group will make its best effort in solidarity to transform the business structure into the one suitable for sustainable growth under the new management principle – "Our Vision."

## (4) New Materiality Defined for Sustainable Growth

Based on "Our Vision", the Group redefined the Materiality in the process of discussion in trying to formulate a new mid-term management plan. [\(Click here for detail\)](#)