

10 May 2019

## **Key Questions and Answers at FY2019 Annual Results Announcement**

Q: Why did working capital increase in FY2019?

A: The main factor was increased inventory due to two reasons: automotive glass product inventory increase in Europe and North America caused by a sudden drop in market demand in the second half of FY2019 and insufficient time for the Group to adjust its production; and intentional increase of automotive glass product inventory in Europe in anticipation of potential so-called hard Brexit at the end of March 2019.

Q: How is it possible for you to improve free cash flow in FY2020, while you are increasing capital expenditure significantly?

A: As shown in Slide 44 of the Financial Results Presentation, the planned capital expenditure for FY2020 is JPY90 billion, including JPY60 billion for strategic investment projects such as production capacity expansions for thin film solar glass and South American float glass. Excluding these strategic projects, the Group believes it can generate free cash flow of more than JPY10 billion. Additionally, the Group continues to review asset disposal opportunities to support cash flow improvement.

Q: Why are you redeeming Class A Shares when you need cash for the strategic investment projects?

A: The purpose of issuing Class A Shares was to improve the financial stability and the Group is aiming for redeeming Class A Shares while maintaining a certain level of equity, taking into consideration various factors including the amount of distributable profit, ordinary dividends and exchange impact on its balance sheet. Accelerated redemption would reduce the total payment of preferred dividends and redemption premium, and in the future, it should help bolster EPS improvement.

Q: How much did and will thin film solar glass increase in FY2019 and FY2020 respectively?

A: In FY2019 the volume recovered by approximately 30 percent and a similar volume growth is anticipated in FY2020.

Q: Please expand on the comments on FY2020 outlook in Slide 15 of the Financial Results Presentation.

A: Trading profits of Architectural Glass is expected to decline slightly, as it will be affected by input cost increases most and increasingly competitive market situations in some areas. Automotive Glass will be impacted by subdued demand in Europe and North America, while Technical Glass will continue to be positive.

Q: Please explain more specifically the comments "Increasingly competitive markets in North America" and "Cost increase expected in Asia, especially in Japan" in Slide 15 of the Financial Results Presentation.

A: "Increasingly competitive markets in North America" means that several float lines suspended for accidents and natural disasters including our float line affected by a tornado in previous year have restarted and the glass supply has increased, not referring to new float glass capacity. "Cost increase in Japan and Asia" is caused by energy and material cost increases.

- Q: Please provide your assumption of crude oil price. Is it hedged?
- A: The Brent oil price assumption is USD67 per barrel for FY2020, as shown in Slide 45 of the Financial Results Presentation. The Group's energy price hedging covers approximate half of expecting energy usage for FY2020. However, the main reason for input cost increase in FY2020 is expected to be material cost increases. In addition, electricity prices are increasing in Europe in relation to CO2 emission rights and renewable energy investment.
- Q: In relation to the change analysis of trading profit for FY2020 in Slide 14 of the Financial Results Presentation, cost saving seems negligible. Is there room for additional cost reduction? Or is it possible for you to raise price further in Architectural Glass?
- A: We are continuously making efforts for cost reduction and the benefits are already included in our plan. However, labor and other cost increases are expected to offset the benefit. A new project aiming to reduce manufacturing cost further has been launched, which will benefit FY2021 and onward, not FY2020. Sales prices of Architectural Glass have been improving considerably in Europe and North America over the last few years. Further price increases would be tougher in increasingly competitive market environment. Nonetheless, we will make efforts to increase prices where possible.
- Q: Please provide your view on FY2021 and onward, which should be in your next medium term plan.
- A: The Group is currently making the next plan. The Group should at least aim for the target of ROS (return on sales based on Trading Profit) 8 percent defined by the current MTP (Medium-Term Plan). The benefits from the strategic investment projects as well as further VA (value added) shift and cost reduction would be crucial. Especially, for supplying VA products, the Group must improve its manufacturing excellence further to meet their heightened quality requirements. The Group will also focus on logistics cost reduction and manufacturing process automation. With all these measures, the Group aims to return to profit growth from FY2021.

The projections contained in this document are based on information currently available to us and certain assumptions that we consider to be reasonable. Hence the actual results may differ. The major factors that may affect the results are the economic and competitive environment in major markets, product supply and demand shifts, currency exchange and interest rate fluctuations, changes in supply of raw materials and fuel and changes and laws and regulations, but not limited.