1 November 2018

Key Questions and Answers at FY2019 Second Quarter Results Announcement

Q: Please explain why profit declined in Architectural Glass, especially how the business was impacted by special factors such as the cold repair in Europe and production cost increase in North America.

A: The cold repair in Germany had an approximately JPY700 million in the first quarter but the decline was mainly caused by an energy cost increase and foreign exchange impact, which were mainly incurred in Architectural Glass. The production cost increase in North America was associated with the development of VA products to meet customer needs in the United States. At present, there is no major concern with regard to the business environment.

Q: Is the WLTP (Worldwide harmonized Light vehicles Test Procedure) imposed on vehicle manufacturers (VMs) in Europe affecting Automotive Glass?

A: The WLTP regulation took effect in September this year. Until then, the car sales in Europe had been strong. However, as VMs are warning about the challenges in complying with the new regulation, we expect some volatility in car demands in coming few months and might need to make adjustment for delivery time. In a longer term, we believe there will be limited impact on our sales.

Q: In Technical Glass, profit incurred by the disposal of tangible asset was included in the previous year. Excluding this factor, the business achieved a substantial improvement. Can this be considered a sustainable level of profitability for Technical Glass now?

A: In Technical Glass, the VA shift is progressing and profitability is improving steadily. However, the results of Technical Glass for FY2019 also include a special factor, which is the transfer of a part of R&D expenditure from the business to the newly established organization, BIC (Business Innovation Center). (Note: The BIC's cost is accounted in "Other Operations", which includes headquarter costs.) The profit level excluding these two one-off factors is the current level of Technical Glass.

Q: Though the progress up to the second quarter was steady, the improvement of operating profit seems a little weak in light of the full year forecast. Considering the rising input cost, are you taking any measures in the second half which could ensure the achievement of annual forecast?

A: While we have hedge transactions against input cost increases, the fuel prices has remained at a high level since the second quarter and is expected to be at the same level throughout FY2019. However, we believe the input cost increase can be set off by the strong performance of certain businesses such as Automotive Europe, which achieved good results in the first half and are expected to remain solid in the second half. Also, profitability improvement measures are being taken in underperforming regions. Therefore, we believe we can achieve the full-year forecast.

Q: As for working capital, inventory increased in the first half. Is there any special reason for that?

A: Increased product shipment from the two restarted furnaces (Ottawa in the United States and Venice in Italy) was the major reason for increased inventories. We plan to alleviate the impact on the annual basis with the inventory reduction project underway.

Investors Relations Department

Nippon Sheet Glass Co., Ltd.

Tel: +81-3-5443-0100

5-27, Mita 3-Chome, Minato-Ku, Tokyo, 108-6321 Japan

Q: You are starting growth investments from this year and the capital expenditure is expected to increase significantly. Do you believe you can keep it within the depreciation cost? Is it possible for you to achieve free cash flow above JPY10 billion?

A: We aim to generate more than JPY10 billion of free cash flow this fiscal year excluding the strategic investments. A major part of the strategic investments will be spent next year, which may exceed the amount of depreciation cost. Therefore, we are also studying the possibility of selective asset disposals.

Q: How are you financing the redemption of Class-A Shares? What is your policy for the redemption in the future?

A: Basically, free cash flow will be used to redeem Class A Shares. The purpose of issuing Class A Shares was to stabilize the financial conditions of the Group. We intend to redeem Class A Shares without giving a negative impact on the Group's equity, while taking into account the dividend distribution on both Class A Shares and ordinary shares out of net profit.

Q: Do you consider the equity ratio of 20 percent as the target of stabilized shareholders' equity?

A: 20 percent is an important criterion for us to measure the capital stabilization, though it is not a target of the MTP (Medium-term Plan).

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