NSG

Annual Report 2001

NIPPON SHEET GLASS

Profile

Dedicated to providing a range of glass products, services, and systems that enhance living spaces, the NSG Group also seeks to help build a future environment based on information technology. Since its establishment 1918, NSG has supplied high-quality, high-performance, and high added-value products based on its own innovative technologies, earning the company its current position as a leader in the glass industry. With operations in Japan, Europe, North America, and Asia, NSG is rapidly growing into a truly global concern.

The NSG Group has formulated a new vision for the future. The specific terms of this overall plan target the year 2010, by which NSG seeks to be a cutting-edge business with a true global presence.   Another significant target year for NSG is 2004, by which it hopes to achieve the objectives outlined in its ACT21 four-year medium term management plan, the aim of which is to enhance the value of the Group, thereby contributing to our greater society.

Contents

Financial Highlights

NIPPON SHEET GLASS COMPANY, LIMITED AND CONSOLIDATED SUBSIDIARIES
(At March 31, 2001 and 2000 and for the years then ended)

	Japanese yen		U. S. dollars
	2001	2000	**2001**
Net sales	**·307,401**	·270,654	**$2,499,195**
Income before income taxes and minority interests	**35,562**	34,746	**289,122**
Net income	**31,522**	14,007	**256,276**
Per share of common stock:			
Net income (Basic)	**71.70**	31.86	**0.583**
Cash dividends	**6.00**	3.00	**0.049**
Total assets	**546,329**	452,283	**4,441,698**
Shareholders equity	**233,236**	153,455	**1,896,227**
Number of employees	**12,640**	10,993	

Note: The amounts presented in the above table are in millions of yen and thousands of U.S. dollars, except for per share data which is in yen and U.S. dollars. The U.S. dollar amounts in this report represent arithmetic translations of Japanese yen at ·123 = US$1.00, the approximate exchange rate prevailing on March 31, 2001.

Board of Directors

President

Yozo Izuhara

Executive Vice President

Shinkichi Shono
Technology
Information/Electronics Materials & Devices

Executive Managing Directors

Toshio Nohara
Corporate Planning, General Affairs and Legal, Finance and Accounting, Purchasing

Tomoaki Abe
International Business and Continuous Fiber Glass

Managing Directors

Seiichiro Manabe
Transportation Glass and Materials, Human Resources

Yuji Kido
Research and Development, Engineering, Logistics and Float Manufacturing

Hajime Osaka
Architectural Glass and Buildings Materials, Japan

Message to Shareholders

Yozo Izuhara

Performance Review

In the fiscal year ending March 2001, the NSG Group worked to achieve the aims of the WIN21 medium term management plan. Cost reductions across the Group and an all-out drive toward expansion in growth areas such as information/electronics resulted in year-end sales totaling 307,401 million yen, up 13.6% over the previous year, and net income of 31,522 million yen, an increase of 125%. Furthermore despite some extraordinary losses-due, for example, to the appropriation of revenue for the Group retirement fund-we achieved a 213.7% increase in operating income and extraordinary profits from sources that included gain on share exchanges with Pilkington plc, resulting in a significant increase in net income.

The performance for each segment of the company is given below:

In the Flat and Safety Glass and Building Materials Division, the sales of flat glass and building materials, such as window glass and frames, were higher than the previous year, since sales by volume in Japan of high-performance glass products such as PAIRMULTI® double-glazing glass and SPACIA®

evacuated glazing glass increased. Also overseas, relatively healthy sales in Southeast Asian nations (e.g., Vietnam and Malaysia) contributed to the sales increase for these materials.
In automotive glass, a minor increase in domestic auto production and successful marketing of high-performance, high added-value glass products resulted in a slight increase in sales. Efforts to make the Flat and Safety Glass and Building Materials Division more efficient-e.g., by implementing cost-cutting structural changes-contributed to Division sales of 184,159 million yen, an increase of 8.7% over the previous year, with operating income up 423.1% to 8,113 million yen.

In the Information/Electronics Materials and Devices Division, continuing growth in sales of micro lenses to the North American optical telecommunications industry resulted in a significant increase in sales of optical products. Sales of display glass products ended the year slightly down as a result of adjustments in demand for mobile phone LCDs. Sales of glass magnetic disks surpassed those of the previous year, thanks to increasing demand for larger diameter disks for use in servers. Overall, these results generated sales of 65,404 million yen over the entire Information/Electronics Materials and Devices Division, an increase of 19.7%, and operating income of 13,428 million yen, up 204.2%.

In other divisions, sales of continuous fiber glass products rose due to favorable conditions in the electronic component market. Sales in other divisions totaled 57,838 million yen (up 24.2%) and operating income of 4,888 million yen (up 104.1%).

The performance of each business segment by region was as follows:

Sales rose in Japan, mainly for building glass, to 258,573 million yen-an increase of 8.3%-while operating income rose 148.9% to 18,763 million yen.

Recovery in the Asian economies resulted in a 69.3% increase (to 24,021 million yen) in regional sales, with operating income rebounding to 4,530 million yen above the breakeven point.

In North America, sales of micro lenses for the optical telecommunications industry were excellent, resulting in regional sales of 15,659 million yen (up 60.6%) and operating income of 2,834 million yen, up 63.6%.

In other regions, recovery in the European continuous glass fiber market resulted in sales totaling 9,148 million yen (up 16.5%) and operating income of 1,045 million yen (up 27.6%).

Capital expenditures and fund-raising

Capital expenditures for the year totaled 15,953 million yen, including expanded facilities for micro lens manufacture and equipment improvements to enhance efficiency.

There were no increases in capital or bond issues to raise funds this year.

Future Prospects

As the Japanese economy shows all the signs of a deflationary trend, there are numerous causes for concern about the future, including sluggish personal consumption, reduced capital investment, and a slowdown in the U.S. economy. A stagnant Japanese economy appears unavoidable. At the same time, fears are growing overseas of an economic slowdown in Europe, North America, and Asia.

For the sectors in which NSG operates, while IT is undoubtedly a growth sector, it is expected to remain in an adjustment phase over the short term. Continued vigilance is required in housing and automotive glass as these sectors are buffeted by economic trends.

NSG and the NSG consolidated subsidiaries will address these issues by pressing full-steam ahead with the new ACT21 medium-term management plan. This plan basically involves concentrating management resources in growth areas such as information/electronics to expand operations, and making structural changes, including comprehensive cost reductions, particularly in flat and safety glass, to establish structure that will generate sustained profits. Greater efforts will also be made to apply information technology to operations, to make innovative changes to the structure of operations, and to preserve the shared global environment. The internal company and executive director systems will be used to implement these various measures, with a management focus on ROE, ROA, and cash flows.

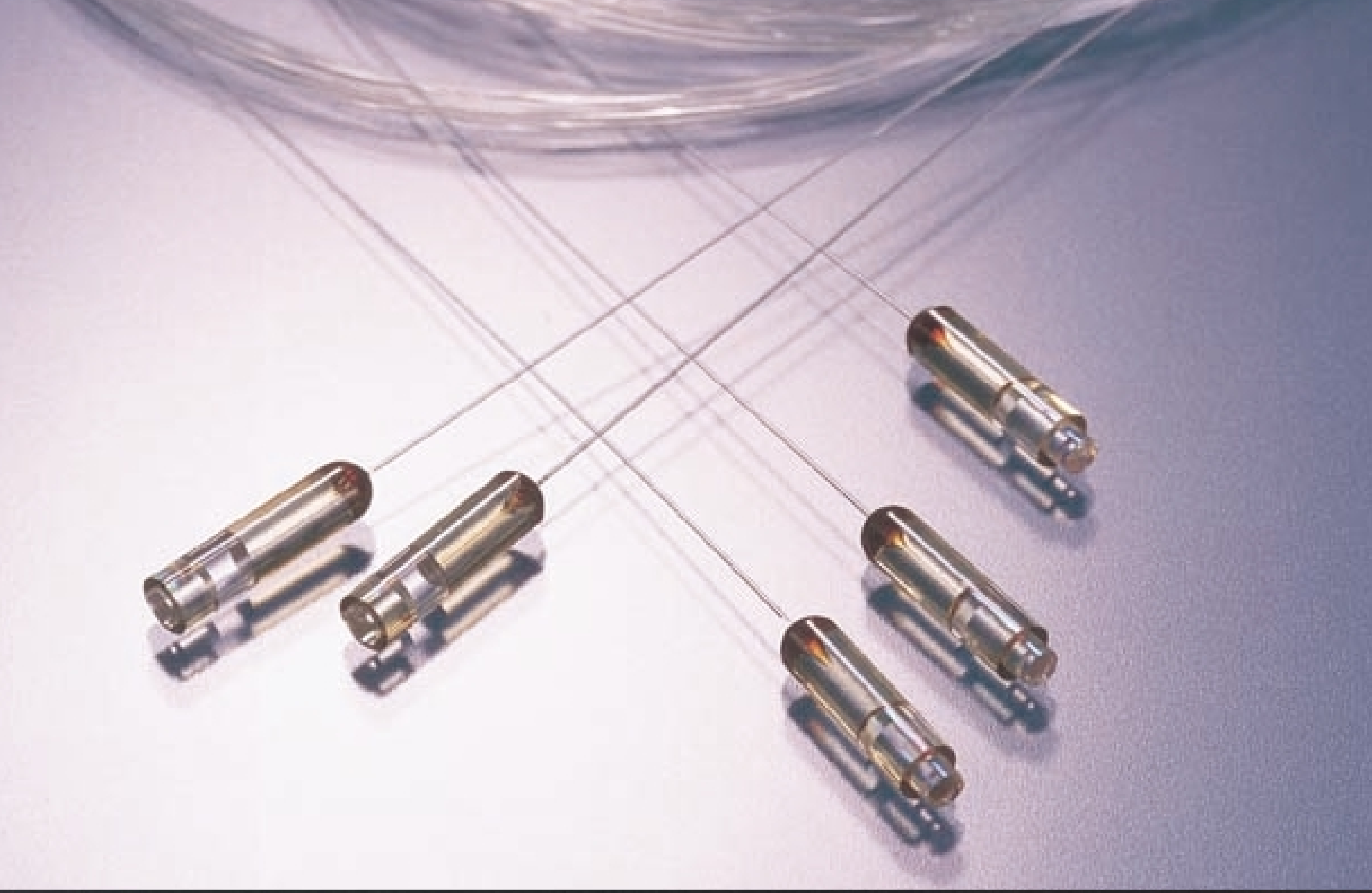
What will this mean for each of the sectors? In the construction sector, this will mean cost reductions across the sector and further concentration on marketing of high-performance glass products, such as double-glazing glass, laminated glass, and tempered glass.

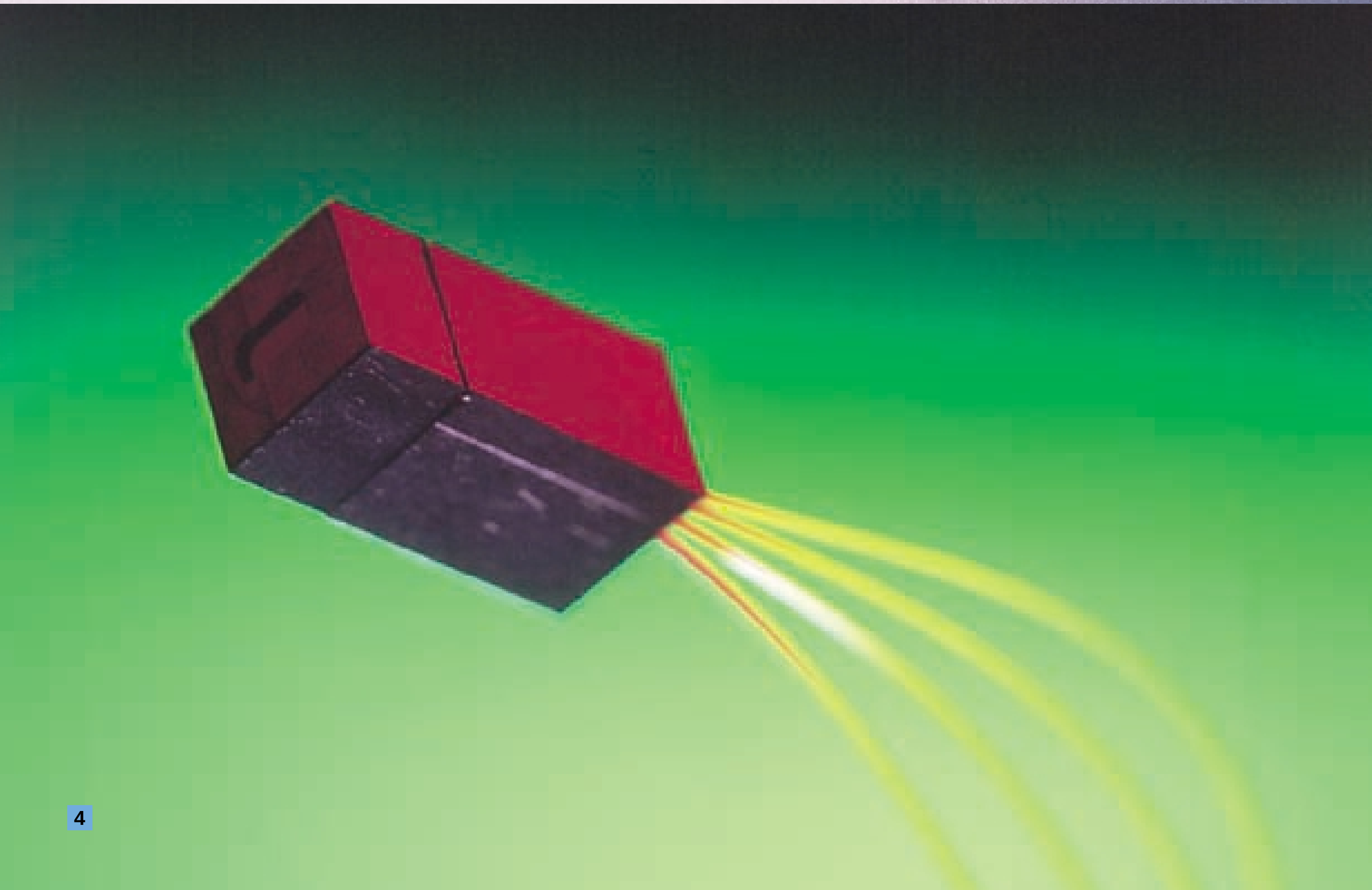
In the automotive glass sector, this will mean cost-cutting across the board, developing and marketing high-performance, high added-value products, and expanding our role as a global supplier through our alliance with Pilkington, U.K.

For information/electronics, we will concentrate in the optical products business on putting in place systems to boost domestic and overseas production of micro lenses for use in telecommunications. We will use photonic semiconductors to enter the color printer market. In the area of display glass, we will use our float facilities designed specifically for manufacturing electronics products to focus on expanding sales of glass substrates for use in small and medium-sized LCD panels. The float manufacturing method will also be used as part of cost-cutting initiatives in glass magnetic disk operations. We plan to adapt operations in response to a shift from aluminum to glass substrates.

In the continuous fiber glass products sector, we will be looking to achieve synergy from our association with Nippon Muki Co., Ltd., which became a wholly-owned NSG subsidiary on April 1 of this year, in order to expand and develop our air filter and other special continuous glass fiber operations.

The NSG and the NSG consolidated subsidiaries will sustain efforts to achieve the objectives of the ACT21 plan, in order to achieve a highly profitable group structure as quickly as possible and to improve performance.





Topics

Boosting the production capacity of micro lenses used in optical telecommunications

As use of DWDM (dense wavelength division multiplexing) telecommunications systems grows rapidly, particularly in North America, demand for our micro lenses - a key component in DWDM - is also increasing dramatically.

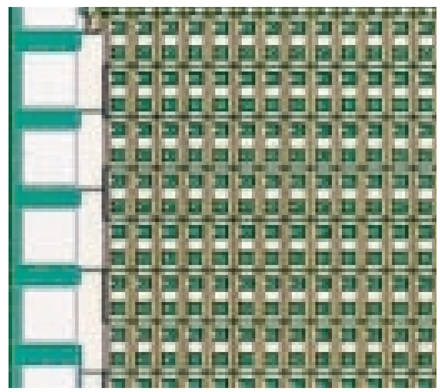
To meet this rapid growth in demand, NSG will install new facilities for the production of rod lenses at the Kyoto Plant, as well as new processing facilities in Singapore and Indonesia. Although setting up these facilities is expected to cost a total of around 6,000 million yen, boosting production capacity in this manner will allow us to produce 250 million lenses annually.

Acquisition of Nippon Muki Co., Ltd.

Nippon Muki Co., Ltd. (Second Section, Tokyo Stock Exchange) became a wholly owned subsidiary of NSG on April 1 of this year. With annual sales of around 20,000 million yen, Nippon Muki is a blue-chip company whose strength lies in specialized continuous fiber glass products such as air filters and separators for batteries. We hope that the synergy achieved by this move will enable NSG to expand its specialized continuous fiber glass business.

Photonic semiconductor shipments commence

NSG had already applied its own technology successfully to develop photonic semiconductors. Shipment of these semiconductors commenced in November 2000, when they were chosen for use in an LED (light-emitting diode) printer model. In addition to being very compact, LED printers are four times faster than laser printers, and the market for LED printers is expected to grow. NSG photonic semiconductors integrate the LED element and drive circuit on a single chip, reducing LED print head costs and facilitating increased use of LED printing technology.



NGF Europe wins Queen's Award

On June 15th 2001, NGF Europe Limited has been presented with The Queen's Award for enterprise: International Trade. Its ceremony was held at The World of Glass Museum in St. Helens. This Award, the most prestigious award for UK enterprises, is presented in recognition of their substantial growth in exports of glass cord products over the last six years and contribution to UK economy thereby.

Review of Operations

Flat and Safety Glass and Building Materials (building and automotive glass)

The NSG flat and safety glass and building materials business comprises a glass and building materials business supplying these items for the construction industry and a transportation glass and materials business that supplies automotive glass. This flat and safety glass and building materials area of the business is currently undergoing restructuring, efforts that have reduced costs some 7,000 million yen over the past year, mainly in fixed costs. This brings total cost reductions for the past two years to 17,700 million yen.

1) Construction

In Japan, despite a slight decline in new housing construction for the year, sales of building materials such as windows and frames rose thanks to real progress in the use of double-glazing glass. Double-glazing glass fared particularly well, with sales volume up around 10% over the previous year. Installation of double-glazing glass has shown annual growth in recent years. In 2000, 41% of new homes were estimated to have double-glazing glass, compared to 38% in 1999. Sales of laminated glass have also grown, by around 30% over the previous year, as consumers have become more security conscious. Meanwhile, shipments of glass and frame construction materials for commercial buildings commenced in earnest in January 2000 as redevelopment projects got underway in the Tokyo metropolitan area. Shipments are expected to continue for around two more years, with demand for double-glazing and evacuated glazing glass also expected to increase as developers incorporate energy-saving features into new office buildings.

Restructuring efforts such as reductions in sales staff and expenses, reductions in factory staff, and integration of cutting centers have met with success. In the spring of 2000, we also increased prices. The effects of these price increases are now becoming visible in some areas.

Overseas, recovery in the Asian economies and the efforts of the Group companies produced a significant improvement in performance. In Malaysia, economic recovery resulted in higher sales and profits. In China, the Tianjin NSG Float Glass Co. Ltd. shifted its production focus to high added-value products such as automotive glass and top-of-the-line building glass, with a resulting boost to sales and profits. In only its second year of operations, our Vietnamese operation experienced brisk demand that significantly increased both sales and profits.

2) Automotive glass

Sales of automotive glass in Japan rose marginally, thanks to a slight increase in domestic auto production and successful marketing of high-performance, high added-value glass products such as UV-cut glass, solar control, and water-repellent glass.

Meanwhile, restructuring efforts in the construction sector also extended to the automotive glass sector. Efforts to centralize facilities and outsourcing and to cut sales staff, expenses, and fixed costs at the plants were successful.

Overseas, the Asian automotive glass sector in Malaysia recovered dramatically. In North America, United L-N Glass Inc. posted higher revenues and improved its profitability. In July 2000, an equity swap with Pilkington removed companies in North America and the U.K., to which the equity method were applied, from the consolidated accounts. We are currently fine-tuning details of our alliance with Pilkington covering a number of areas including R&D, marketing, and manufacturing. NSG currently owns a share in Pilkington of approximately 10%.

Information/electronics materials and devices

Our NSG information/electronics materials and devices operations are composed of a micro optics business, display glass business, and glass disk business. While the display glass business has shown little activity in the latter half of the year due to inventory adjustments in the mobile phone sector, excellent results in the micro optics and glass disk operations meant that overall sales in the information/electronics materials and devices business finished up by approximately 20% over the previous year.

1) Micro optics

In the micro optics business, sales of SELFOC® micro lenses for use in optical telecommunications rose to around three times last year s level in unit terms. In North America, telecommunications companies are making increasing use of DWDM (dense wavelength division multiplexing), and the technology has become the virtual standard in the passive optical components field. This massive increase in demand prompted NSG to more than double its micro lens production capacity. Micro lens production extended to the Yokkaichi Plant in Japan and overseas to the Philippines, with rod lens production at

120 million units and processing at 70 million units for the year to March 2001. Plans are underway for further expansion, to be implemented as demand requires. In new products, there has been a dramatic increase in inquiries into our planar micro lenses, which are well suited for use in array formations and integration. NSG has established a private fund and injected capital into a venture capital fund specifically for optical telecommunications products to explore the possibilities of next generation technology.

In information devices for office automation equipment, competition intensified in SLAs (SELFOC® lens arrays) used to read images, mainly in the scanner sector. Meanwhile, shipments of photonic semiconductors for use in print heads commenced in November 2000, with other printer manufacturers rating our samples highly.

2) Display glass

In our fine glass operations, sales of STN and TN LCD glass fell slightly due to inventory adjustments in small and medium items (e.g., for use in mobile phones and pocket games). All ITO (indium-tin-oxide) film coating processes were shifted to China and capacity boosted at the joint venture company STEC. Meanwhile, glass for notebook PCs and LCD monitors sold well, resulting in around a 40% increase in sales of TFT LCD glass. TFT LCD glass is manufactured by NH Techno Glass Corp., a joint venture company (equity method applies) located at our Yokkaichi Plant. In June 2000, in response to brisk demand, a fifth furnace was added to the existing four currently operating. However, this business area was affected by falling prices in the latter half of the year.

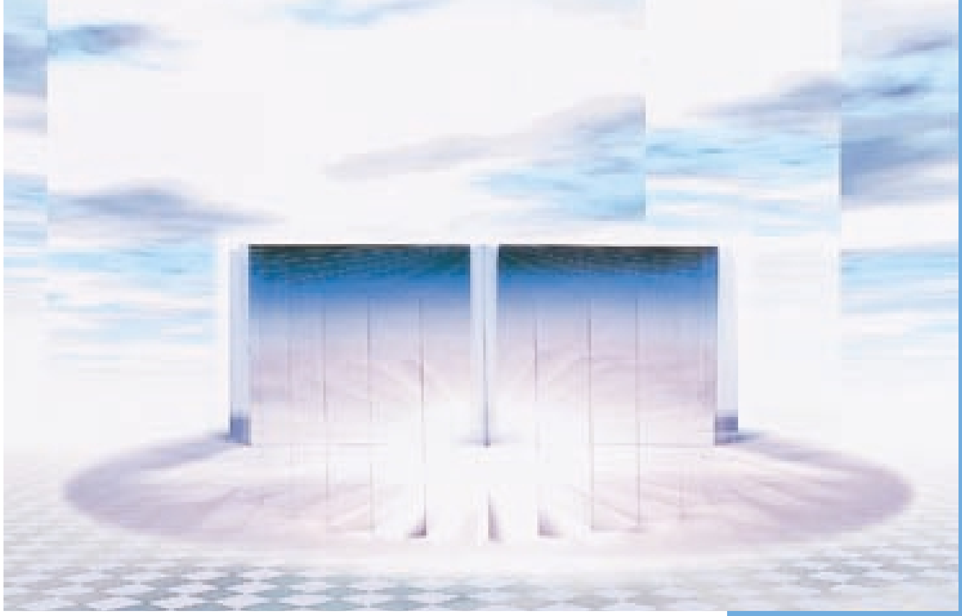
3) Glass magnetic disks

Sales of glass magnetic disks for use in notebook PCs rose despite the effects of inventory adjustments in the sector in the second half of the year, primarily due the increasing use of larger glass disks in servers. In disks for use in desktop PCs, production in Malaysia by ADT (50:50 NSG and Kobe Steel, Ltd. ownership) commenced and is proceeding on target. Finally, in addition to using the float manufacturing method to boost competitiveness, we are working to improve efficiency in processing lines such as polishing to enable production of low-cost substrates.

Other sectors (continuous fiber glass)

Sales of continuous fiber glass in Japan were relatively healthy in the electronic component sector, while recovery in the European market lead to an increase in sales. Over the course of the year, NSG also acquired Nippon Muki, a company with an established reputation for specialized continuous fiber glass products such as air filters and battery separators.

In insulating firebrick and ceramic fiber refractory products, sales to IT industries increased while restructuring efforts continued, including sales of idle assets and staff reductions.



Financial Statements

NIPPON SHEET GLASS COMPANY, LIMITED AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2001**	2000	**2001**
Current assets:			
Cash and cash equivalents	**· 49,450**	· 62,295	**$ 402,033**
Short-term investments (Notes 1(e), 3 and 7)	**1,173**	16,767	**9,537**
Trade notes and accounts receivable	**87,957**	75,878	**715,098**
Allowance for doubtful accounts	**(3,367)**	(3,127)	**(27,374)**
Inventories:			
Finished goods	**25,334**	23,533	**205,967**
Work in process and raw materials	**23,427**	17,956	**190,463**
Deferred income taxes (Notes 1(o) and 5)	**3,132**	1,990	**25,463**
Other current assets	**7,918**	11,150	**64,373**
Total current assets	**195,024**	206,442	**1,585,560**
Property, plant and equipment (Note 7):			
Land	**23,757**	23,708	**193,146**
Buildings and structures	**119,906**	120,243	**974,846**
Machinery and equipment	**219,157**	209,342	**1,781,764**
Construction in progress	**6,230**	5,244	**50,651**
	369,050	358,537	**3,000,407**
Accumulated depreciation	**(212,871)**	(203,618)	**(1,730,659)**
Property, plant and equipment, net	**156,179**	154,919	**1,269,748**
Investments and other assets:			
Investments in securities (Notes 1(e), 3 and 7)	**148,102**	20,283	**1,204,081**
Investments in and advances to non-consolidated subsidiaries and affiliates	**29,139**	26,309	**236,902**
Deferred income taxes (Notes 1(n) and 5)	**1,167**	6,713	**9,488**
Long-term loans receivable and other assets	**16,718**	20,130	**135,919**
	195,126	73,435	**1,586,390**
Translation adjustments (Note 1(c))		17,487	
Total assets	**·546,329**	·452,283	**$4,441,698**

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND SHAREHOLDERS EQUITY	**2001**	2000	**2001**
Current liabilities:			
Short-term bank borrowings (Note 6)	**· 48,764**	· 63,510	**$ 396,455**
Current portion of long-term indebtedness (Note 7)	**10,596**	21,012	**86,146**
Notes and accounts payable:			
Trade	**49,622**	43,211	**403,430**
Construction	**6,378**	2,825	**51,854**
Accrued expenses	**10,557**	11,323	**85,829**
Accrued income taxes (Notes 1(n) and 5)	**5,833**	1,614	**47,423**
Deferred income taxes (Notes 1(n) and 5)	**23**	198	**187**
Customers' deposits and other	**7,739**	8,079	**62,920**
Total current liabilities	**139,512**	151,772	**1,134,244**
Long-term liabilities:			
Long-term indebtedness (Note 7)	**99,803**	101,567	**811,407**
Accrued retirement benefits (Notes 1(i), 2 and 4)	**16,201**	15,702	**131,715**
Reserve for rebuilding furnaces	**12,363**	13,957	**100,512**
Deferred income taxes (Notes 1(n) and 5)	**33,001**	870	**268,301**
Other long-term liabilities	**3,057**	2,722	**24,854**
	164,425	134,818	**1,336,789**
Minority interests in consolidated subsidiaries	**9,156**	12,238	**74,438**

	Millions of yen		Thousands of U.S. dollars (Note 1)
Contingent liabilities (Note 9)	**2001**	2000	**2001**
Shareholders equity (Notes 8 and 15):			
Common stock, ·50 par value:			
Authorized-1,150,000,000 shares			
Issued-439,675,332 shares in 2001 and 439,609,902 shares in 2000	**· 40,847**	· 40,823	**$ 332,090**
Additional paid-in capital	**44,195**	44,172	**359,308**
Retained earnings	**99,024**	68,469	**805,073**
Unrealized holding gain on securities (Notes 1(e) and 3)	**53,745**	—	**436,950**
Translation adjustments (Note 1(c))	**(4,572)**	—	**(37,170)**
Treasury stock	**(3)**	(9)	**(24)**
	233,236	153,455	**1,896,227**
	·546,329	·452,283	**$4,441,698**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

For the years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Net sales	**·307,401**	·270,654	**$2,499,195**
Cost of sales	**220,564**	203,574	**1,793,203**
Gross profit	**86,837**	67,080	**705,992**
Selling, general and administrative expenses	**60,602**	58,718	**492,699**
Operating income	**26,235**	8,362	**213,293**
Other income (expenses) :			
Interest and dividend income	**3,866**	2,759	**31,431**
Interest expense	**(4,842)**	(5,535)	**(39,366)**
Equity in earnings (losses) of affiliates	**2,145**	(1,399)	**17,439**
Gain on sales of securities		59,708	
Gain on exchange of shares (Note 13)	**13,237**		**107,617**
Loss on revaluation of investment in an af liate (Note 1(b))		(14,308)	
Net retirement benefit obligation at transition (Note 1(i))	**(1,862)**		**(15,138)**
Additional provision for accrued retirement benefits (Note 2)		(7,158)	
Pension cost for past service cost (Note 2)		(2,036)	
Other, net	**(3,217)**	(5,647)	**(26,154)**
	9,327	26,384	**75,829**
Income before income taxes and minority interests	**35,562**	34,746	**289,122**
Income taxes (Notes 1(n) and 5):			
Current	**5,647**	23,094	**45,911**
Deferred	**(1,751)**	(1,164)	**(14,236)**
	3,896	21,930	**31,675**
Income before minority interests	**31,666**	12,816	**257,447**
Minority interests in net (income) losses of consolidated subsidiaries	**(144)**	1,191	**(1,171)**
Net income	**· 31,522**	· 14,007	**$ 256,276**

	Yen		U.S. dollars (Note 1)
Amounts per share:	**2001**	2000	**2001**
Net income:			
Basic	**· 71.70**	· 31.86	**$ 0.583**
Diluted	**68.77**	30.75	**0.559**
Cash dividends	**6.00**	3.00	**0.049**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders Equity

For the years ended March 31, 2001 and 2000

	Number of shares of common stock		Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**	2000	**2001**
Common stock:					
Balance at beginning ofthe year	**439,609,902**	439,463,039	**·40,823**	·40,816	**$331,894**
Increase resulting from merger with a subsidiary		146,463		7	
Increase resulting from conversion of convertible securities	**65,430**		**24**		**196**
Balance at end of the year	**439,675,332**	439,609,902	**·40,847**	·40,823	**$332,090**
Additional paid-in capital:					
Balance at beginning of the year			**·44,172**	·44,172	**$359,122**
Increase resulting from conversion of convertible securities			**23**		**186**
Balance at end of the year			**·44,195**	·44,172	**$359,308**
Retained earnings:					
Balance at beginning of the year			**·68,469**	·50,941	**$556,659**
Cumulative effect of adopting tax-effect accounting (Note 1(n))				6,824	
Net income			**31,522**	14,007	**256,276**
Cash dividends			**(1,318)**	(1,318)	**(10,715)**
Bonuses to directors and statutory auditors			**(10)**	(8)	**(81)**
Increase (decrease) resulting from changes in scope of consolidation			**361**	(1,977)	**2,934**
Balance at end of the year			**·99,024**	·68,469	**$805,073**
Unrealized holding gain on securities (Note 3)					
Balance at beginning of the year			**·**	·	**$**
Net change during the year			**53,745**		**436,950**
Balance at end of the year			**·53,745**	·	**$436,950**
Translation adjustments:					
Balance at beginning of the year			**·**	·	**$**
Net change during the year (Note 1(c))			**(4,572)**		**(37,170)**
Balance at end of the year			**·(4,572)**	·	**$(37,170)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
I. Cash ows from operating activities:			
Income before income taxes and minority interests	**· 35,562**	· 34,746	**$ 289,122**
Adjustments for:			
Depreciation and amortization	**16,275**	15,685	**132,317**
Increase in allowance for doubtful accounts	**626**	1,670	**5,089**
Provision for accrued retirement benefits	**2,499**	6,928	**20,317**
Gain on disposal and sales of property, plant and equipment	**(5,384)**	(1,486)	**(43,772)**
Gain on sales of investments in securities		(54,971)	
Gain on sales of short-term investments		(4,737)	
Gain on exchange of shares (Note 13)	**(13,237)**		**(107,618)**
Loss on revaluation of investments in securities	**739**	719	**6,008**
Loss on revaluation of short-term investments		516	
Equity in (earnings) losses of non-consolidated subsidiaries and affiliates	**(2,145)**	1,399	**(17,439)**
Interest and dividend income	**(3,866)**	(2,759)	**(31,431)**
Interest expense	**4,842**	5,535	**39,366**
(Increase) decrease in notes and accounts receivable	**(4,300)**	5,633	**(34,959)**
(Increase) decrease in inventories	**(5,593)**	1,439	**(45,472)**
Increase (decrease) in notes and accounts payable	**6,971**	(3,246)	**56,675**
(Decrease) increase in other long-term liabilities	**(2,036)**	2,036	**(16,553)**
Decrease in reserve for rebuilding furnaces	**(1,658)**	(1,944)	**(13,480)**
Other, net	**4,140**	12,882	**33,659**
Subtotal	**33,435**	20,048	**271,829**
Interest and dividend income received	**3,951**	2,741	**32,122**
Interest expense paid	**(4,764)**	(5,526)	**(38,732)**
Income taxes paid	**(5,996)**	(637)	**(48,748)**
Net cash provided by operating activities	**26,626**	16,627	**216,472**

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2001	2000	2001
II.Cash ows from investing activities:			
Payment for time deposits	· **(418)**	· (608)	$ **(3,398)**
Proceeds from time deposits	**704**	1,649	**5,724**
Purchases of short-term investments		(1,406)	
Proceeds from sales of short-term investments		7,515	
Purchases of investment in securities	**(7,698)**	(5,516)	**(62,585)**
Proceeds from sales of investment in securities	**2,580**	63,519	**20,976**
Purchases of property, plant and equipment	**(17,925)**	(10,163)	**(145,732)**
Proceeds from sales of property, plant and equipment	**9,712**	6,959	**78,959**
Purchases of other assets	**(700)**	(2,186)	**(5,691)**
Increase in short-term loans	**(1,656)**	(523)	**(13,463)**
Payment for long-term loans	**(549)**	(1,274)	**(4,463)**
Payment of income taxes on gain on sales of investments in securities		(21,743)	
Other, net	**1,553**	336	**12,626**
Net cash (used in) provided by investing activities	**(14,397)**	36,555	**(117,049)**
III.Cash ows from nancing activities:			
Decrease in short-term borrowings	**(12,379)**	(7,927)	**(100,642)**
Issuance of long-term indebtedness	**9,986**	7,476	**81,187**
Repayment of long-term indebtedness	**(14,494)**	(20,345)	**(117,837)**
Redemption of bonds	**(10,000)**		**(81,301)**
Early redemption of bonds	**(500)**		**(4,065)**
Cash dividends paid	**(1,318)**	(1,318)	**(10,715)**
Other, net	**(52)**	(540)	**(423)**
Net cash used in nancing activities	**(28,757)**	(22,654)	**(233,797)**
Effect of exchange rate changes on cash and cash equivalents	**3,465**	(123)	**28,171**
Net (decrease) increase in cash and cash equivalents	**(13,063)**	30,405	**(106,203)**
Cash and cash equivalents at beginning of year	**62,295**	28,855	**506,463**
Effect of change in scope of consolidation	**218**	3,035	**1,772**
Cash and cash equivalents at end of year	**· 49,450**	· 62,295	**$ 402,033**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

March 31, 2001

1. Summary of Significant Accounting Policies

(a) Basis of Preparation

Nippon Sheet Glass Company, Limited (the Company) and consolidated domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted and applied in Japan, and the consolidated foreign subsidiaries in conformity with those of the countries of their domicile. The accompanying consolidated financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan and include certain additional financial information for the convenience of readers outside Japan

Certain amounts previously reported have been reclassified to conform to the current year s presentation.

The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of the reader, using the approximate exchange rate on March 31, 2001, which was ·123 = U.S.$1.00. This translation of convenience should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollar amounts at this or any other rate of exchange.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and the significant companies controlled directly or indirectly by the Group. Companies over which the Group exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. The assets and liabilities of the newly consolidated subsidiaries are stated at fair value as of their respective dates of acquisition.

Until the year ended March 31, 1999, the consolidated financial statements included the accounts of the Company and its significant subsidiaries, and investments in certain significant affiliates (owned 20% to 50%) were accounted for by the equity method.

The balance sheet dates of certain consolidated subsidiaries are December 31 and February 28. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the periods from January 1 through March 31 and March 1 through March 31 have been adjusted, if necessary.

The differences between the cost and the underlying net equity in the net assets at the dates of acquisition of the consolidated subsidiaries and companies accounted for by the equity method are amortized by the straight-line method principally over a period of five years.

The excess of the cost over the underlying net equity at fair value of foreign affiliates in the amount of ·18,030 million was being amortized by the straight-line method over a period of forty years. The unamortized balance of ·14,308 million as of March 31, 2000, has been charged to income for the year ended March 31, 2000 because of uncertain expectations concerning their future operations.

(c) Translation of Foreign Currencies

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of shareholders equity which are translated at their historical exchange rates. Revenue and expense accounts are translatedat the average rate of exchange in effect during the year. A revised accounting standard for foreign currency translation became effective April 1, 2000. The effect of the adoption of the revised standard on the consolidated financial statements was to decrease income before income taxes and minority interests by ·6 million ($49 thousand) for the year ended March 31, 2001. Due to a change effective the year ended March 31, 2001 in the regulations relating to the presentation of translation adjustments, the Company has presented translation adjustments as a component of shareholders equity and minority interests in consolidated subsidiaries (instead of as a component of assets or liabilities) in its consolidated financial statements for the year ended March 31, 2001.

(d) Cash Equivalents

For purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments, which are readily convertible to cash subject to an insignificant risk of changes in value and which were purchased with an original maturity of three months or less.

(e) Short-term Investments and Investments in Securities

Until the year ended March 31, 2000, marketable securities had been valued principally at the lower of cost or market, cost being determined by the moving average method, and investment securities other than marketable securities had been stated at cost determined by the moving average method.

A new accounting standard for financial instruments, which became effective April 1, 2000, requires that securities be classified into three categories: trading, held-to-maturity or other securities. Under the new accounting standard, trading securities are carried at fair value and held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

As of April 1, 2000, the Company and its consolidated subsidiaries assessed their intent to hold their investments in securities and classified their investments as other securities and accounted for the securities at March 31, 2001 in accordance with the new standard referred to above. As a result, marketable securities of ·41,000 million ($333,333 thousand), which had been included in short-term investments, were reclassified to investment securities as of April 1, 2000.

The effect of the adoption of this new standard for financial instruments was to decrease income before income taxes and minority interests by ·857 million ($6,967 thousand) for the year ended March 31, 2001.

(f) Derivatives

Derivatives are stated at fair value.

(g) Inventories

Inventories are principally stated at cost determined by the moving average method.

(h) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated at rates based on the estimated useful lives of the respective assets by the declining-balance method, except for the depreciation of buildings (other than leasehold improvements) acquired on or after April 1, 1998, which is calculated by the straight-line method.

The principal estimated useful lives are as follows:

Buildings and structures	**3-50 years**
Machinery and equipment	**3-15 years**

Costs of maintenance, repairs and minor renewals are charged to income as incurred, although major renewals and improvements are capitalized.

(i) Retirement Benefits

Until the year ended March 31, 2000, accrued retirement benefits to employees were stated at the amount which would be required to be paid if all employees covered by the retirement benefit plans voluntarily terminated their employment at the balance sheet date. Costs with respect to the pension plans were charged to income as funded at an amount determined actuarially. Prior service cost was charged to income as incurred.

In accordance with a new accounting standard for retirement benefits which became effective April 1, 2000, accrued retirement benefits for employees at March 31, 2001 have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of March 31, 2001, as adjusted for unrecognized net retirement benefit obligation at transition, unrecognized actuarial gain or loss, and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. The net retirement benefit obligation at transition of ·1,862 million ($15,138 thousand) was charged to income for the year ended March 31, 2001.

Actuarial gain or loss is amortized in the years following the year in which the gain or loss is recognized primarily by the straight-line method over a period of five years which is shorter than the average remaining years of service of the employees.

Prior service cost is being amortized as incurred by the straight-line method over a period of two years which is shorter than the average remaining years of service of the employees.

The effect of the adoption of the new standard for retirement benefit was to decrease income before income taxes and minority interests by ·150 million ($1,220 thousand) for the year ended March 31, 2001.

The Company and certain consolidated subsidiaries have unfunded retirement benefit plans for directors and statutory auditors. The amounts required under the plans have been fully accrued in accordance with internal rules.

(j) Reserve for Rebuilding Furnaces

The Company s furnaces and related machinery periodically require substantial replacement of their components and repairs. Such work occurs, normally, every eight to ten years after a furnace is put into operation or rebuilt.

The estimated costs, which are substantially non-deductible for tax purposes until actually expended, of such work are provided and charged to income on a straight-line basis over the period to the date of the anticipated replacement or repairs. The differences between the estimated and the actual costs are charged or credited to income at the time the work is performed.

(k) Leases

The Company and its consolidated subsidiaries lease certain machinery and equipment under noncancelable lease agreements referred to as finance leases. At both the Company and the domestic consolidated subsidiaries, finance leases, which are defined as leases which do not transfer the ownership of the leased property to the lessee, are principally accounted for as operating leases.

(l) Bond Issuance Expenses

Bond issuance expenses are charged to income as incurred.

(m) Research and Development Costs and Computer Software Development Costs

Effective April 1, 1999, the Company and its consolidated subsidiaries adopted a new accounting standard for research and development costs.

Research and development costs are charged to income as incurred.

Expenditures relating to the development of computer software intended for internal use are charged to income when incurred, except if it is anticipated that this software will contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and are amortized by the straight-line method over their estimated useful life of 5 years.

(n) Income Taxes

Effective April 1, 1999, the Company and its consolidated subsidiaries adopted a new accounting standard for tax-effect accounting. Under this standard, deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse. The cumulative effect of this change has been reported as cumulative effect of adopting tax-effect accounting in the consolidated statements of shareholders equity for the year ended March 31, 2000.

Prior to the adoption of accounting for deferred taxes, income taxes were calculated on taxable income and charged to income. The effect of this change was to increase net income by ·1,164 million and retained earnings by ·7,987 million for the year ended March 31, 2000.

(o) Hedge Accounting

Under the new accounting standard for financial instruments effective April 1, 2000, gain or loss on derivatives designed as hedging instruments is deferred until the loss or gain on the underlying hedged item is recognized. Interest rate swaps which meet certain conditions are accounted for as if the interest rates applied to the interest rate swaps had originally applied to the underlying debt and others. Receivables and payables hedged by forward foreign exchange contracts which meet certain conditions are translated at the corresponding foreign exchange contract rates.

(p) Appropriation of Retained Earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period and the accounts for such period, therefore, do not reflect such appropriations.

(q) Amounts Per Share

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding each year after giving effect to the dilutive potential of common shares to be issued upon the conversion of convertible bonds.

Cash dividends per share represent the cash dividends declared as applicable to the respective years.

2. Accounting Changes

(1) Effective the year ended March 31, 2000, the Company and its domestic consolidated subsidiaries changed the basis of their accrual for termination and retirement allowances from 40% to 100% of the amount which would be required to be paid if all employees voluntarily terminated their services as of the balance sheet date.

This change was made in order to prepare for the extension of the average employee s years of service and the increase in future payments of employees termination and retirement benefits, and to strengthen the financial structure of the Company and its domestic consolidated subsidiaries.

The effect of this change was to decrease income before income taxes and minority interests by ·7,158 million for the year ended March 31, 2000.

(2) Effective the year ended March 31, 2000, the Company changed its basis for charging prior service cost of the pension plan from a cash basis to an accrual basis.

This change was made to recognize pension cost more reasonably and to strengthen the financial structure with reference to the low performance of the pension plan s investment assets.

The effect of this change was to decrease income before income taxes and minority interests by ·2,036 million for the year ended March 31, 2000.

3. Securities

The Company and its consolidated subsidiaries did not hold trading securities and held-to-maturity debt securities as of March 31, 2001.

(a) Information on marketable other securities as of March 31, 2001 is summarized below:

	Millions of yen		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceed their acquisition costs:			
Stock	·28,948	·121,156	· 92,208
Debt securities	87	104	17
Subtotal	29,035	121,260	92,225
Securities whose acquisition costs exceed their carrying value:			
Stock	2,824	1,528	(1,296)
Other	251	214	(37)
Subtotal	3,075	1,742	(1,333)
Total	·32,110	·123,002	· 90,892

	Thousands of U.S. dollars		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceed their acquisition costs:			
Stock	$235,350	$ 985,008	$749,658
Debt securities	707	846	139
Subtotal	236,057	985,854	749,797
Securities whose acquisition costs exceed their carrying value:			
Stock	22,959	12,423	(10,536)
Other	2,041	1,740	(301)
Subtotal	25,000	14,163	(10,837)
Total	$261,057	$1,000,017	$738,960

(b) Sales of securities classified as other securities amounted to ·2,580 million ($20,976 thousand) with an aggregate loss of ·639 million ($5,195 thousand) for the year ended March 31, 2001.

(c) Carrying value of non-marketable other securities as of March 31, 2001, which were not stated at fair value were as follows:

	Millions of yen	Thousands of U.S. dollars
Non-listed stock (except for OTC stock)	· 54,145	$ 440,203
Others	93	756

(d)The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities as of March 31, 2001 is summarized as follows:

	Millions of yen		
	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds	· 5	· 5	· 2
Other debt securities	314		
Total	· 319	· 5	· 2

	Thousands of U.S. dollars		
	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds	$ 41	$ 41	$ 16
Other debt securities	2,552		
Total	$2,593	$ 41	$ 16

(e) The carrying value and related fair value of current and noncurrent marketable securities at March 31, 2000 were as follows:

	Millions of yen		
	Carrying value	Estimated fair value	Net unrealized gain (loss)
(1)Current:			
Stock	·14,041	· 54,357	· 40,316
Bonds	87	102	15
Others	1,079	725	(354)
Subtotal	15,207	55,184	39,977
(2)Noncurrent:			
Stock	14,001	86,313	72,312
Subtotal	14,001	86,313	72,312
Total	·29,208	·141,497	·112,289

4. Retirement Benefits

The Company and its domestic consolidated subsidiaries have unfunded retirement benefit plans for all their eligible employees who terminate their employment before the age of 50. The amounts of retirement benefits are, in general, determined on the basis of length of service of the employees and their current basic salary at the time of retirement.

In addition, the Company and certain consolidated subsidiaries have non-contributory funded pension plans for certain eligible employees to supplement the unfunded retirement benefit plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheet as of March 31, 2001 for defined benefit plans of the Company and its consolidated subsidiaries:

	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligation	· (43,467)	$(353,390)
Plan assets at fair value	26,559	215,927
Unfunded retirement benefit obligation	(16,908)	(137,463)
Unrecognized actuarial loss	1,546	12,569
Accrued retirement benefits	· (15,362)	$(124,894)

Consolidated subsidiaries, except Isolite Insulating Products Co., Ltd., have adopted simplified methods for calculating their projected benefit obligation, which are allowed under the new accounting standard for employees retirement benefits.

The components of retirement benefit expenses for the year ended March 31, 2001 are outlined as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	· **2,177**	**$ 17,699**
Interest cost	**1,400**	**11,382**
Expected return on plan assets	**(926)**	**(7,528)**
Net retirement benefit obligation at transition	**1,862**	**15,138**
Retirement benefit expense	· **4,513**	**$ 36,691**

Retirement benefit expense of consolidated subsidiaries, which were calculated by the simplified methods are included in service cost in the above table.

The assumptions used in accounting for the above plans were as follows:

Discount rate	**Mainly 3.5%**
Expected return on plan assets	**Mainly 3.5%**

At March 31, 2001, the Company and certain consolidated subsidiaries recorded ·839 million ($6,821 thousand) of accrued retirement benefits to directors and statutory auditors, which was estimated based on the internal rules.

5. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants taxes and enterprise tax, which in the aggregate, resulted in statutory tax rates of approximately 41.9% for the years ended March 31, 2001 and 2000. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The effective tax rates reflected in the consolidated statement of income for the years ended March 31, 2001 and 2000, differ from the statutory tax rates for the following reasons:

	2001	2000
Statutory tax rate	**41.9%**	41.9%
Losses at subsidiaries	**(3.7)**	(27.9)
Amortization of excess of acquisition costs over fair value of net assets held by affiliates		38.2
Permanent non-deductible expenses	**0.6**	1.6
Non-taxable dividend income	**(1.3)**	(2.6)
Temporary differences resulting from elimination for consolidation purposes	**(0.3)**	13.8
Gain on exchange of shares	**(26.6)**	
Other	**0.4**	(2.0)
Effective tax rate	**11.0%**	63.0%

The significant components of deferred tax assets and liabilities as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Deferred tax assets:			
Accrued retirement benefits	· **5,973**	· 5,483	**$ 48,561**
Reserve for rebuilding furnaces	**3,134**	2,896	**25,480**
Tax loss carryforwards	**3,052**	4,624	**24,813**
Accrued expenses	**669**	359	**5,439**
Unrealized profits on fixed assets	**1,277**	1,160	**10,382**
Other	**3,616**	2,074	**29,398**
Sub total	**17,721**	16,596	**144,073**
Less valuation allowance	**(2,899)**	(4,139)	**(23,569)**
Deferred tax assets total	**14,822**	12,457	**120,504**
Deferred tax liabilities:			
Unrealized holding gain on securities	**(38,110)**		**(309,837)**
Reserve for special depreciation (tax purpose reserve allowed under the Corporation Tax Law of Japan)	**(3,779)**	(3,113)	**(30,724)**
Other	**(1,658)**	(1,709)	**(13,480)**
Deferred tax liabilities total	**(43,547)**	(4,822)	**(354,041)**
Net deferred tax assets	·	· 7,635	**$**
Net deferred tax liabilities	**·(28,725)**	·	**$(233,537)**

6. Short-Term Bank Borrowings

Short-term bank borrowings generally represent bank overdrafts. The average interest rates on these borrowings were 1.8% and 1.4% as of March 31, 2001 and 2000, respectively.

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
1.10% to 3.63% secured loans from banks and other financial institutions, due in installments through 2017	**· 5,701**	· 5,791	**$ 46,349**
1.00% to 7.42% unsecured loans from banks and other financial institutions, due in installments through 2013	**52,876**	54,418	**429,886**
2.3% unsecured bonds, due August 18, 2000		10,000	
2.5% unsecured bonds, due September 25, 2003	**9,900**	10,000	**80,488**
2.85% unsecured bonds, due April 27, 2005	**9,600**	10,000	**78,049**
3.2% unsecured bonds, due August 3, 2005	**10,000**	10,000	**81,301**
1.9% convertible bonds, due March 31, 2003	**2,481**	2,529	**20,171**
1.8% convertible bonds, due September 30, 2004	**19,841**	19,841	**161,309**
Total	**110,399**	122,579	**897,553**
Less-current portion included in current liabilities	**10,596**	21,012	**86,146**
	· 99,803	· 101,567	**$ 811,407**

The following is summary of the terms of conversion and redemption of convertible bonds as of March 31, 2001:

	Conversion price	Redemption at the option of the Company
1.9% bonds	· 733.6	At 106% to 100% of principal after March 31,1996,decreasing 1% annually
1.8% bonds	· 1,122.0	At 106% to 100% of principal after September 30,1997,decreasing 1% annually

The conversion prices are to be adjusted for certain events such as the issue of common stock at less than fair value or for stock splits.

The 1.9% and 1.8% convertible bonds are subject to certain restrictions under the covenants such as maintenance of profit and a restriction on certain additional secured indebtedness, as defined in the respective agreements.

The 3.2% unsecured bonds are subject to certain restrictions under the covenants such as maintenance of profit and minimum net worth and a restriction on certain additional secured indebtedness, as defined in the respective agreements.

As is customary in Japan, short-term and long-term bank loans are made under general agreements, which provide that additional securities and guarantees for present and future indebtedness will be given upon request of the bank under certain circumstances, and that any collateral so furnished will be applicable to all indebtedness to that bank. To date, the Company has not received any such requests from its banks. In addition, the agreements provide that the bank has the right to offset cash deposits against any short-term or long-term debt that becomes due, and, in the case of default and certain other specified events, against all other debts payable to the bank.

The assets pledged as collateral for long-term indebtedness of ·6,479 million ($52,675 thousand), short-term bank borrowings of ·5,003 million ($40,675 thousand) and trade notes discounted with banks of ·2,504 million ($20,358 thousand) at March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
Short-term investments	**· 40**	**$ 325**
Investments in securities	**3**	**24**
Buildings and structures	**3,444**	**28,000**
Machinery and equipment	**1,253**	**10,187**
Land	**6,399**	**52,024**
Total	**· 11,139**	**$ 90,560**

The aggregate annual maturities long-term indebtedness subsequent to March 31, 2001 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2002	**· 10,596**	**$ 86,146**
2003	**28,648**	**232,911**
2004	**21,771**	**177,000**
2005	**25,509**	**207,390**
2006	**21,148**	**171,935**
2007 and thereafter	**2,727**	**22,171**
	·110,399	**$ 897,553**

8. Shareholders’ Equity

The Commercial Code of Japan (the Code) provides that an amount equivalent to at least 10% of cash dividends and other cash outlays resulting from appropriations of retained earnings with respect to each fiscal period be appropriated to the legal reserve until such reserve equals 25% of stated capital. The Code also provides that additional paid-in capital and the legal reserve are not available for dividends, but may be used to reduce a capital deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. The legal reserve of the Company, which is included in retained earnings, amounted to ·6,112 million ($ 49,691 thousand) and ·5,980 as of March 31, 2001 and 2000, respectively.

9. Contingent Liabilities

The Company and its consolidated subsidiaries were contingently liable as of March 31, 2001 for trade notes receivable discounted with banks of ·11,285 million ($91,748 thousand) and for guarantees of loans of non-consolidated subsidiaries, affiliates and distributors amounting to ·6,071 million ($ 49,358 thousand). These amounts included contingent guarantees and letters of awareness of ·900 million ($7,317 thousand) in the aggregate.

10. Leases

The Company and its consolidated subsidiaries lease certain machinery and equipment. The total lease payments remitted under these leases were ·2,582 million ($20,992 thousand) and ·2,593 million for the years ended March 31, 2001 and 2000, respectively.

Pro forma information relating to acquisition costs, accumulated depreciation and net book value of leased assets as of March 31, 2001 and 2000, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted of as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Acquisition costs	**· 17,991**	· 18,320	**$146,268**
Accumulated depreciation	**11,663**	10,363	**94,821**
Net book value	**· 6,328**	· 7,957	**$ 51,447**

Future minimum lease payments to be made under finance leases subsequent to March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	**· 2,366**	**$ 19,236**
Due after one year	**3,962**	**32,211**
Total	**· 6,328**	**$ 51,447**

The acquisition costs and future minimum lease payments under finance leases include the imputed interest expense portion.

Depreciation expense, which is not reflected in the accompanying consolidated statements of operations, if computed by the straight-line method, would have been ·2,582 million ($20,992 thousand) and ·2,593 million for the years ended March 31, 2001 and 2000, respectively.

11. Derivatives

Derivative financial instruments are utilized by the Company and its consolidated subsidiaries principally to hedge risks of fluctuations of reduce interest rates and foreign currency exchange rates. The Company and its consolidated subsidiaries have established a control environment, which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Company and its consolidated subsidiaries do not hold or issue derivative financial instruments for trading purposes.

The Company and its consolidated subsidiaries are exposed to certain market risks arising from derivative transactions; however, the Company and its consolidated subsidiaries maintain positions of derivatives within actual transactions to be hedged by these derivatives. The Company and its consolidated subsidiaries are also exposed to the certain credit risks in the event of nonperformance by the counterparties to the currency and interest-rate related derivatives; however, the Company and its consolidated subsidiaries believe credit risks are minimal because they do not anticipate nonperformance by any of these counterparties all of which are financial institutions with high credit ratings.

Disclosure of fair value information on derivatives as of March 31, 2001 was omitted because they were accounted for applying hedge accounting.

Fair value information on derivatives as of March 31, 2000 is summarized in the following tables.

The contract amounts at March 31, 2000 shown in the tables below are the notional amounts in the derivative contracts. These amounts do not represent either the market risk or the credit risk incurred to the Company and its consolidated subsidiaries on derivative transactions.

Fair value is computed based on the prices quoted by the banks.

These fair values presented are valuations of derivatives and do not mean the amount that the Company and its consolidated subsidiaries may pay or receive.

(a) Forward Foreign Exchange Contracts

	Millions of yen		
	Contract amount	Fair value	Unrealized gain (loss)
Selling:			
U.S. dollars	**· 125**	**· 129**	**· (4)**
Malaysian ringid	**1,814**	**1,772**	**42**
Buying:			
U.S. dollars	**841**	**851**	**10**
Australian dollars	**5**	**5**	**0**

The above amounts exclude contracts entered into in order to hedge receivables and payables denominated in foreign currencies which have been translated and reflected at the corresponding contracted rates in the accompanying consolidated balance sheet at March 31, 2000.

(b) Interest Rate Swaps

	Millions of yen		
	Contract amount	Fair value	Unrealized loss
Receive-Variable Pay-Fix	**·6,700**	**·(183)**	**·183**

The above amounts exclude swap agreements entered into in order to hedge the principal amounts of outstanding debt and the related interest which are denominated in foreign currencies. Such swaps have been translated and reflected at their respective rates in the accompanying consolidated balance sheet at March 31, 2000.

12. Research and Development Costs

Costs relating to research and development activities, which are charged to income as incurred, amounted to ·6,328 million ($51,447 thousand) and ·6,750 million for the years ended March 31, 2001 and 2000, respectively.

13. Supplementary Cash Flow Information

On May 24, 2000, the Company and Pilkington plc., a U.K.-based company, entered into an agreement to invest in each other and the Company and NSG Holding U.S.A. INC. (a consolidated subsidiary) exchange the following shares for approximately 120 million shares of Pilkington plc. s common stock to be newly issued:

20% of Libby-Owens-Ford Co. (held by NSG Holding U.S.A. INC.)
50% of L-N Safety Glass S.A. DE C.V. (held by the Company)
20% of Triplex Safety Glass Limited (held by NSG Holding U.S.A. INC.)

As a result of these share exchanges, the Company and NSG Holding U.S.A. INC. acquired ·24,324 million ($197,756 thousand) of shares of Pilkington plc. and recorded gain on exchange of shares of ·13,237 million ($107,617 thousand) for the year ended March 31, 2001.

14. Segment Information

(a) Business Segments

The Company and its consolidated subsidiaries operate principally in three business segments: flat and safety glass and building materials business, information/ electronics materials and devices business and other materials business.

Flat and safety glass and building materials business includes principally the manufacture and sales of flat glass, transportation glass and interior and exterior construction materials.

Information/electronics materials and devices business includes principally the manufacture and sales of micro optics, fine glass and glass disks.

Other materials business includes principally the manufacture and sales of fiber glass and others.

Business segment information for the years ended March 31, 2001 and 2000 is as follows:

	Millions of yen					
	Year ended March 31, 2001					
	Flat and safety glass and building materials	Information/ electronics materials and devices	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income						
External sales	·184,159	· 65,404	· 57,838	·307,401	·	·307,401
Intersegment sales	2,248	3,924	17,437	23,609	(23,609)	
Total sales	186,407	69,328	75,275	331,010	(23,609)	307,401
Operating expenses	178,294	55,900	70,387	304,581	(23,415)	281,166
Operating income	· 8,113	· 13,428	· 4,888	· 26,429	· (194)	· 26,235
II. Assets, depreciation and capital expenditures						
Total assets	·220,018	· 69,902	·265,202	·555,122	· (8,793)	·546,329
Depreciation	10,101	3,399	3,195	16,695	(420)	16,275
Capital expenditures	3,787	8,941	3,365	16,093	(140)	15,953

	Millions of yen					
	Year ended March 31, 2000					
	Flat and safety glass and building materials	Information/ electronics materials and devices	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income						
External sales	·169,454	· 54,647	· 46,553	·270,654	·	·270,654
Intersegment sales	2,620	3,436	11,846	17,902	(17,902)	
Total sales	172,074	58,083	58,399	288,556	(17,902)	270,654
Operating expenses	170,523	53,668	56,003	280,194	(17,902)	262,292
Operating income	· 1,551	· 4,415	· 2,396	· 8,362	·	· 8,362
Assets, depreciation and capital expenditures						
Total assets	·222,950	· 55,141	·161,396	·439,487	· 12,796	·452,283
Depreciation	9,837	2,662	3,504	16,003	(318)	15,685
Capital expenditures	5,745	3,375	3,558	12,678	(445)	12,233

	Thousands of U.S. dollars					
	Year ended March 31, 2001					
	Flat and safety glass and building materials	Information/ electronics materials and devices	Other area	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income						
External sales	$1,497,228	$531,740	$ 470,227	$2,499,195	$	$2,499,195
Intersegment sales	18,276	31,902	141,765	191,943	(191,943)	
Total sales	1,515,504	563,642	611,992	2,691,138	(191,943)	2,499,195
Operating expenses	1,449,545	454,471	572,252	2,476,268	(190,366)	2,285,902
Operating income	$ 65,959	$109,171	$ 39,740	$ 214,870	$ (1,577)	$ 213,293
II. Assets, depreciation and capital expenditures						
Total assets	$1,788,764	$568,309	$2,156,113	$4,513,186	$ (71,488)	$4,441,698
Depreciation	82,122	27,634	25,975	135,731	(3,414)	132,317
Capital expenditures	30,789	72,691	27,357	130,837	(1,138)	129,699

(b) Geographic Segments

Geographic segment information for the years ended March 31, 2001 and 2000 is as follows:

	Millions of yen						
	Year ended March 31, 2001						
	Japan	Asia	North America	Other area	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income							
External sales	·258,573	· 24,021	· 15,659	· 9,148	·307,401	·	·307,401
Intersegment sales	28,446	13,459	972	114	42,991	(42,991)	
Total sales	287,019	37,480	16,631	9,262	350,392	(42,991)	307,401
Operating expenses	268,256	32,950	13,797	8,217	323,220	(42,054)	281,166
Operating income	· 18,763	· 4,530	· 2,834	· 1,045	· 27,172	· (937)	· 26,235
II. Assets	·487,139	· 67,092	· 54,123	· 5,954	·614,308	·(67,979)	·546,329

	Millions of yen						
	Year ended March 31, 2000						
	Japan	Asia	North America	Other area	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income							
External sales	·238,866	· 14,189	· 9,747	· 7,852	·270,654	·	·270,654
Intersegment sales	15,377	4,624	580	95	20,676	(20,676)	
Total sales	254,243	18,813	10,327	7,947	291,330	(20,676)	270,654
Operating expenses	246,706	20,272	8,596	7,127	282,701	(20,409)	262,292
Operating income(loss)	· 7,537	· (1,459)	· 1,731	· 820	· 8,629	· (267)	· 8,362
II. Assets	·349,031	· 43,773	· 41,717	· 7,853	·442,374	· 9,909	·452,283

	Millions of dollars						
	Year ended March 31, 2001						
	Japan	Asia	North America	Other area	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income							
External sales	$2,102,220	$195,293	$127,309	$ 74,373	$2,499,195	$	$2,499,195
Intersegment sales	231,268	109,423	7,902	927	349,520	(349,520)	
Total sales	2,333,488	304,716	135,211	75,300	2,848,715	(349,520)	2,499,195
Operating expenses	2,180,943	267,886	112,171	66,805	2,627,805	(341,903)	2,285,902
Operating income	$ 152,545	$ 36,830	$ 23,040	$ 8,495	$ 220,910	$ (7,617)	$ 213,293
II. Assets	$3,960,480	$545,463	$440,024	$ 48,406	$4,994,373	$(552,675)	$4,441,698

As mentioned in Note 1 (i), the Company and its domestic consolidated subsidiaries adopted a new accounting standard for retirement benefits effective April 1, 2000. The effect of this adoption on the above segment information for the year ended March 31, 2001 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
By business segment:		
Increase in operating income in flat and safety glass and building materials segment	· 449	$ 3,650
Increase in operating income in information/electronics materials and devices segment	131	1,065
Increase in operating income in other segment	315	2,561
By geographic segment:		
Decrease in operating income in Japan area	896	7,285

(c) Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the foreign consolidated subsidiaries, for the years ended March 31, 2001 and 2000 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Overseas sales:			
Asia	**· 33,991**	· 19,992	**$ 276,350**
North America	**22,896**	13,266	**186,146**
Other area	**9,572**	8,340	**77,821**
Total	**· 66,459**	· 41,598	**$ 540,317**
Consolidated sales	**·307,401**	·270,654	**$2,499,195**
Overseas sales as a percentage of consolidated sales:			
Asia	**11.1%**	7.4%	
North America	**7.4**	4.9	
Other area	**3.1**	3.1	
Total	**21.6%**	15.4%	

15. Subsequent Events

(1) Exchange of Shares

Effective April 1, 2001, the Company and Nippon Muki Co., Ltd. exchanged their own shares based on the share exchange contract, which was approved at the extraordinary meeting of the Company s board of directors held on December 25, 2000 and the extraordinary meeting of shareholders of Nippon Muki Co., Ltd. held on February 22, 2001. Consequently, Nippon Muki Co, Ltd. became a wholly owned subsidiary of the Company. For the purpose of this share exchange transaction, the Company issued 4,271,120 shares of new shares and assigned them to shareholders of Nippon Muki Co., Ltd. other than the Company at the exchange rate of 0.28 shares of the Company against 1 share of Nippon Muki Co Ltd. Consequently, common stock and additional paid-in capital of the Company increased by ·213 million ($1,732 thousand) and ·5,360 million ($43,577 thousand), respectively.

(2) Appropriation of Retained Earnings

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2001, were approved at a shareholders meeting of the Company held on June 28, 2001:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (·6.0 = $0.05 per share)	**·2,638**	**$21,447**
Transfer to legal reserve	**264**	**2,146**

Independent Auditors Report

The Board of Directors and Shareholders
Nippon Sheet Glass Company, Limited

We have audited the consolidated balance sheets of Nippon Sheet Glass Company, Limited and consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders equity and cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Nippon Sheet Glass Company, Limited and consolidated subsidiaries at March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis, during the period, except for the changes, with which we concur, in the method of accounting for prior service cost of the pension plan and in the method of accounting for severance benefits for the year ended March 31, 2000 as described in Note 2 to the consolidated financial statements.

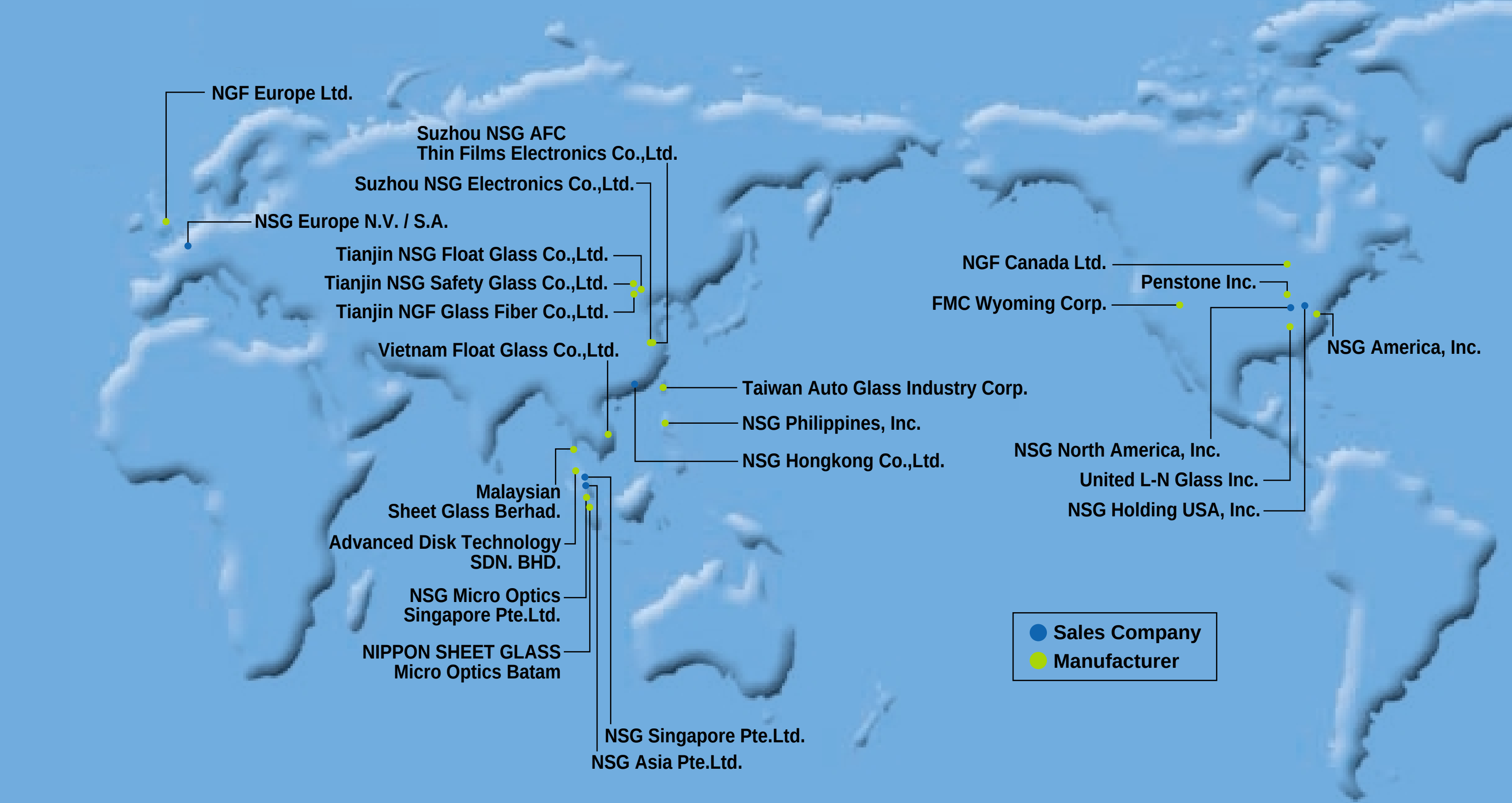
As described in Note 1 to the consolidated financial statements, Nippon Sheet Glass Company, Limited and consolidated subsidiaries have adopted new accounting standards for consolidation, research and development cost and tax-effect accounting effective the year ended March 31, 2000 and for employees retirement benefits, financial instruments and foreign currency translation effective the year ended March 31, 2001 in the preparation of their consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2001 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Century Ota Showa & Co.
Century Ota Showa & Co.

Kobe, Japan
June 28, 2001

See Note 1 to the accompanying consolidated financial statements which explains the basis of preparation of the consolidated financial statements of Nippon Sheet Glass Company, Limited and consolidated subsidiaries under Japanese accounting principles and practices.



Corporate Data

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Facsimile: 06-6222-7580

Tokyo Head Office:
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Tel: 03-5443-9522
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Plants:
Chiba, Sagamihara, Aichi, Yokkaichi, Tsu, Kyoto, Maizuru

Branch Offices:
Sapporo, Sendai, Tokyo, Nagoya, Osaka, Hiroshima, Fukuoka

Capital:
·40,816 million

Year Established:
1918

Number of Employees:
2,800

Product Lines

Flat Glass
- Float glass
- Figured glass
- Heat-absorbing glass
- Heat-reflecting glass
- Wired glass
- Double-glazing insulating units
- Tempered glass
- Laminated glass
- Mirrors
- Wireless fire and safety
- rated glass

Fiber Glass
- Continuous filament
- Alkali-resistant glass fiber (Glass fiber-reinforced cement)
- Glass Paper

Micro Optics
- Selfoc® micro-lens
- Selfoc® lens array
- Step-index large-core fiber and cable
- Selfoc® rod lens
- Leached image bundle

Fine Glass
- Ultrathin flat glass
- Liquid crystal glass
- Solar battery glass substrate
- Industrial glass

Glass Disk

Others
- Aluminum sashes and fittings
- Decorative interior goods
- Wall decorating materials
- Soundproofing and sound-shielding system engineering
- Resinous coating materials and techniques
- LCD