

Fiscal March 2003 Annual Highlights

1. Performance review

In the fiscal year ending March 2003, the NSG Group implemented various corporate-wide programs to improve performance and profitability in accordance with ACT21, our medium-term management plan. However, dwindling construction demand and other negative factors resulted in total year-end sales of 280,100 million yen, down by 2.4% from the previous year; operating profits of 4,302 million yen, down by 14.1%; losses of 1,572 million yen before extraordinary items; and net losses of 3,152 million yen. The extraordinary loss totaled 12,311 million yen, primarily in relation to rectifying supply systems in the optical telecommunications business of the Information/Electronics Materials and Devices Division and the extraordinary profit of 15,353 million yen included gains on the sales of investment securities.

Given below is the performance of each business segment:

(1) Flat and Safety Glass and Building Materials Division

Sales of flat glass and building materials, such as window glass and frames for buildings, were lower than last year due to diminishing numbers of large-scale construction projects, although sales of high-performance glass products such as double glazing glass held level. Overseas, once-healthy sales in Southeast Asian nations (primarily in Vietnam and Malaysia) declined, affected by the general economic downturn.

In the automotive glass business, sales increased slightly over last year, partly attributable to increased shipment tonnage.

As a result, the divisional sales stood at 176,433 million yen, a decline of 4.9% from the previous year, with operating income down by 17.0% to 6,421 million yen.

(2) Information/Electronics Materials and Devices Division

Despite increased shipment to the office equipment market, a sharp decline in demand for optical communications lenses in North America resulted in lower sales in the optoelectronics devices business than the previous year.

Sales of glass magnetic disk business remained virtually unchanged. However, sales in the display division jumped significantly from last year, due to increased demand for mobile phone LCDs. Overall, these changes resulted in sales of 49,754 million yen for the entire Information/Electronics Materials and Devices Division, an increase of 29.4% over last year, and operating losses of 6,633 million yen.

(3) Other Divisions

In the area of glass fiber products, sales in specialty glass fiber products such as glass cords for rubber reinforcement and glass flakes showed healthy gains, but overall sales decreased significantly, due to the transfer of our continuous glass fiber operations to a newly established joint venture with the Saint-Gobain Group. While sales in other businesses than glass fiber increased slightly from last year, sales in this division decreased by 14.4% to 53,912 million yen. The operating income rose by 48.1% to 4,506 million yen.

Given below is the performance by region:

Primarily due to decline in sales of building glass and materials, sales in Japan dropped to 239,358 million yen, a decline of 4.3%, while operating income fell by 32.6% to 2,445 million yen.

In Asia, sales in flat glass business decreased, mainly in Malaysia, but the profit sustained the level achieved last year by implementing various cost-reduction measures. On the other hand, sales in Asia increased by 22.1% to 29,732 million yen, primarily due to increased sales in information/electronics materials and devices in China, while operating income stood at 2,196 million yen, a decline of 16.4%,.

In North America, demand for optical products including micro lenses for the optical telecommunications industry shrank by half, resulting in regional sales of 1,490 million yen (down 49.3%) and operating losses of 650 million yen.

In other regions, sales totaled 9,518 million yen (0.0% increase), with an operating income of 1,016 million yen (up 12.0%).

2. Capital expenditures and fund-raising

Capital expenditures for the year totaled 14,405 million yen, including a large-scale cold repair of a glass production furnace and facilities improvement aimed to streamline production, enhance efficiency, and save energy.

No new shares or bonds were issued to raise funds this year.

3. Future prospects

In the overall outlook it will take some time to see a full-fledged recovery of domestic economy due to increased uncertainties arising from sluggish economic conditions in the United States and Europe as well as the aftermath of the Iraqi war and SARS.

For the sectors in which the NSG Group operates, optical communications will remain in an adjustment phase. In the building and automotive glass sectors, demand from various markets such as non-residential buildings is projected to decrease.

NSG and its consolidated subsidiaries will press ahead with the Second Stage of ACT 21 in the coming two years, the latter-half of the medium-term management plan slated for completion by the end of fiscal 2004. This plan targets final consolidated profits of 15 billion yen before extraordinary items and consolidated ROA (return on assets) of 4% by the final year. Redoubled efforts will also focus on environmental conservation, not only through energy saving and recycling, but also through the

development of products capable of reducing environmental impact, as part of our corporate effort to achieve harmonious coexistence with the natural environment.

What will this mean to each of the sectors?

(1) Flat Glass and Building Materials Division

Across the entire division, this will lead to further efforts for cost reduction and the development and marketing of high-performance glass products. In the construction glass sector, with growing concerns for the environment and security from the public, we will focus on double glazing glass and laminated glass incorporating energy-saving and anti-crime features. In the automotive glass sector, we plan to expand the range of high value-added products intended to enhance driver and passenger comfort.

(2) Information/Electronics Division

In this division, we will further speed up in gathering market needs for new products and new technologies while seeking to enhance our development system. In the promising display business, we plan to focus on introducing newly formulated plasma display glass as well as expanding sales of glass substrates for LCD panels. In the optoelectronic device business, we will actively expand our business in the markets of multi-function color printers and high-precision color printers. As for lenses used in communications, we will prepare for demand recovery, with a leaner, revamped organization, while aggressively promoting high-performance and high added-value products.

(3) Other Divisions

In the glass fiber products sector, we will expedite new product development processes and expand our business globally under a strategy entitled “Number One, Only One” for specialty glass fiber products such as glass cords for timing belts, battery separators, and air filters designed for clean rooms.

(4) All Divisions

In our R&D operations, in addition to focusing on proprietary technologies in existing fields and the development of unique products, we will participate in projects such as the Nano-Glass Technical Project, efforts that will allow us to develop new products in medical and environmental fields, into which we have not previously ventured.

In order to improve our overall performance, the NSG Group will sustain corporate-wide efforts to achieve the objectives set in the Second Stage of ACT21.

4. Financial statements

Consolidated Statements of Operations
For the years ended March 31, 2003 and 2002

(Millions of yen)

	2003	2002	Variance
Net sales	280,100	286,849	(6,749)
Cost of sales	215,743	220,052	(4,309)
Selling, general and administrative expenses	60,055	61,788	(1,733)
Operating income	4,302	5,008	(706)
Non-operating income	4,191	6,472	(2,281)
<i>Interest and dividend income</i>	2,124	3,416	(1,292)
<i>Other income</i>	2,066	3,056	(989)
Non-operating expenses	10,066	10,406	(340)
<i>Interest expense</i>	3,769	3,878	(108)
<i>Equity in losses of affiliates</i>	391	531	(140)
<i>Other expenses</i>	5,905	5,996	(90)
(Loss) income before extra-ordinary items	(1,572)	1,074	(2,647)
Extra-ordinary income	15,353	3,362	11,990
<i>Gain on sales of property, plant and equipment</i>	349	549	(199)
<i>Gain on sales of investments in securities</i>	15,004	1,779	13,224
<i>Gain on reserve for rebuilding furnaces</i>		802	(802)
<i>Other extra-ordinary income</i>		231	(231)
Extra-ordinary losses	12,311	4,611	7,700
<i>Loss on disposal of property, plant and equipment</i>	2,474	953	1,521
<i>Loss on revaluation of investments in securities</i>	1,651	627	1,023
<i>Loss on sale of investments in affiliates</i>	1,888		1,888
<i>Loss on liquidation of investments in affiliates</i>	1,727	895	831
<i>Loss on revaluation of golf club membership</i>		151	(151)
<i>Additional retirement benefits</i>	302	1,022	(720)
<i>Loss on disposal of inventories</i>	4,266	364	3,902
<i>Other extra-ordinary losses</i>		595	(595)
(Loss) income before income taxes and minority interests	1,468	(174)	1,643
Income taxes :Current	3,426	2,892	533
Income taxes :Deferred	1,118	(1,244)	2,362
Minority interests in net income of consolidated subsidiaries	76	455	(379)
Net (loss) income	(3,152)	(2,278)	(873)

Consolidated Balance Sheets

For the years ended March 31, 2003 and 2002

(Millions of yen)

ASSETS	2003	2002	Variance
Total current assets	159,970	170,566	(10,596)
Cash and deposits	46,675	34,344	12,331
Notes and accounts receivable: Trade	64,421	72,475	(8,053)
Inventories	38,201	50,956	(12,754)
Deferred income taxes	2,574	3,870	(1,295)
Other current assets	10,444	10,741	(296)
Allowance for doubtful accounts	(2,348)	(1,821)	(526)
Total fixed assets	292,493	357,661	(65,168)
Tangible fixed assets	151,876	168,057	(16,181)
<i>Buildings and structures</i>	55,258	58,950	(3,692)
<i>Machinery and equipment</i>	57,638	67,649	(10,010)
<i>Tools & fixtures</i>	4,637	5,300	(663)
<i>Land</i>	30,075	29,924	151
<i>Construction in progress</i>	4,266	6,231	(1,965)
Intangible fixed assets	5,537	7,549	(2,012)
Investments and other assets	135,079	182,054	(46,974)
<i>Investments in securities</i>	125,906	170,448	(44,541)
<i>Long-term loans receivable and other assets</i>	3,266	1,978	1,288
<i>Deferred income taxes</i>	1,411	3,146	(1,734)
<i>Long-term prepaid expense</i>	2,298	1,141	1,157
<i>Other assets</i>	4,856	6,170	(1,313)
<i>Allowance for doubtful accounts</i>	(2,660)	(830)	(1,829)
Total assets	452,463	528,227	(75,764)

LIABILITIES AND SHAREHOLDERS' EQUITY	2003	2002	Variance
Current liabilities	141,693	148,317	(6,623)
Notes and accounts payable: Trade	39,469	44,319	(4,849)
Short-term bank borrowings	69,770	76,282	(6,511)
Current portion of bonds	9,900	2,481	7,419
Notes and accounts payable: Construction	5,276	5,160	115
Accrued income taxes	1,461	1,625	(164)
Accrued consumption taxes	815	621	193
Accrued expenses	5,724	6,997	(1,272)
Customers' deposits	4,449	5,235	(786)
Accrued bonus	2,690	3,914	(1,224)
Deferred income taxes	501	218	283
Other current liabilities	1,633	1,461	172
Long-term liabilities	110,206	146,324	(36,117)
Unsecured bonds	19,600	29,500	(9,900)
Convertible bonds	19,791	19,841	(50)
Long-term bank borrowings	40,936	45,737	(4,801)
Accrued retirement benefits to employees	14,060	14,494	(433)
Accrued retirement benefits to directors	986	1,048	(61)
Reserve for rebuilding furnaces	7,588	10,627	(3,039)
Consolidation goodwill	798	222	576
Deferred income taxes	3,986	21,957	(17,970)
Other long-term liabilities	2,458	2,896	(438)
Minority interests in consolidated subsidiaries	9,649	10,383	(733)
Shareholders' equity	190,913	223,202	(32,288)
Common stock:	41,060	41,060	
Additional paid-in capital	50,371	50,371	
Retained earnings	88,047	92,793	(4,746)
Unrealized holding gain on securities	13,396	34,742	(21,346)
Translation adjustments	(1,822)	4,255	(6,078)
Treasury stock, at cost	191,053	223,224	(32,171)
Treasury stock, at cost	(139)	(22)	(117)
	452,463	528,227	(75,764)

Consolidated Statements of Cash Flows

For the years ended March 31, 2003 and 2002

(Millions of yen)

	2003	2002
Cash flows from operating activities:		
(Loss) income before income taxes and minority interests	1,468	(174)
Adjustments for:		
Depreciation and amortization	17,753	18,696
Increase in allowance for doubtful accounts	2,356	24
(Decrease) increase in accrued bonus	(1,224)	287
(Decrease) increase in accrued retirement benefits	(494)	(1,802)
Gain on sales of investments in securities	(15,004)	(1,785)
Interest and dividend income	(2,124)	(3,416)
Interest expense	3,769	3,878
Decrease (increase) in notes and accounts receivable	3,170	15,272
Decrease (increase) in inventories	9,076	108
(Decrease) increase in notes and accounts payable	(1,867)	(12,243)
Other, net	3,326	3,994
Subtotal	20,207	22,838
Interest and dividend income received	4,614	2,721
Interest paid	(3,761)	(3,881)
Income taxes paid	(3,330)	(7,542)
Net cash provided by operating activities	17,730	14,136
Cash flows from investing activities:		
Purchases of property, plant and equipment	(12,546)	(17,261)
Proceeds from sales of property, plant and equipment	2,343	3,576
Purchases of investments in securities	(945)	(27,413)
Proceeds from sales of investments in securities	18,880	3,092
Proceeds from sales of investments in affiliates	3,606	-
Other, net	361	1,399
Net cash provided by (used in) investing activities	11,698	(36,607)
Cash flows from financing activities:		
Decrease (Increase) in short-term borrowings	(5,033)	6,742
Issuance of long-term indebtedness	10,175	12,303
Repayment of long-term indebtedness	(17,450)	(12,712)
Redemption of bonds	(2,531)	-
Cash dividends paid	(1,331)	(3,969)
Other, net	(357)	(138)
Net cash provided by (used in) financing activities	(16,527)	2,225
Effect of exchange rate changes on cash and cash equivalents	(1,881)	2,646
Net decrease in cash and cash equivalents	11,019	(17,598)
Cash and cash equivalents at beginning of the year	33,799	49,450
Effect of change in scope of consolidation	962	1,947
Cash and cash equivalents at end of the year	45,781	33,799

Notes: The accompanying consolidated financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan.