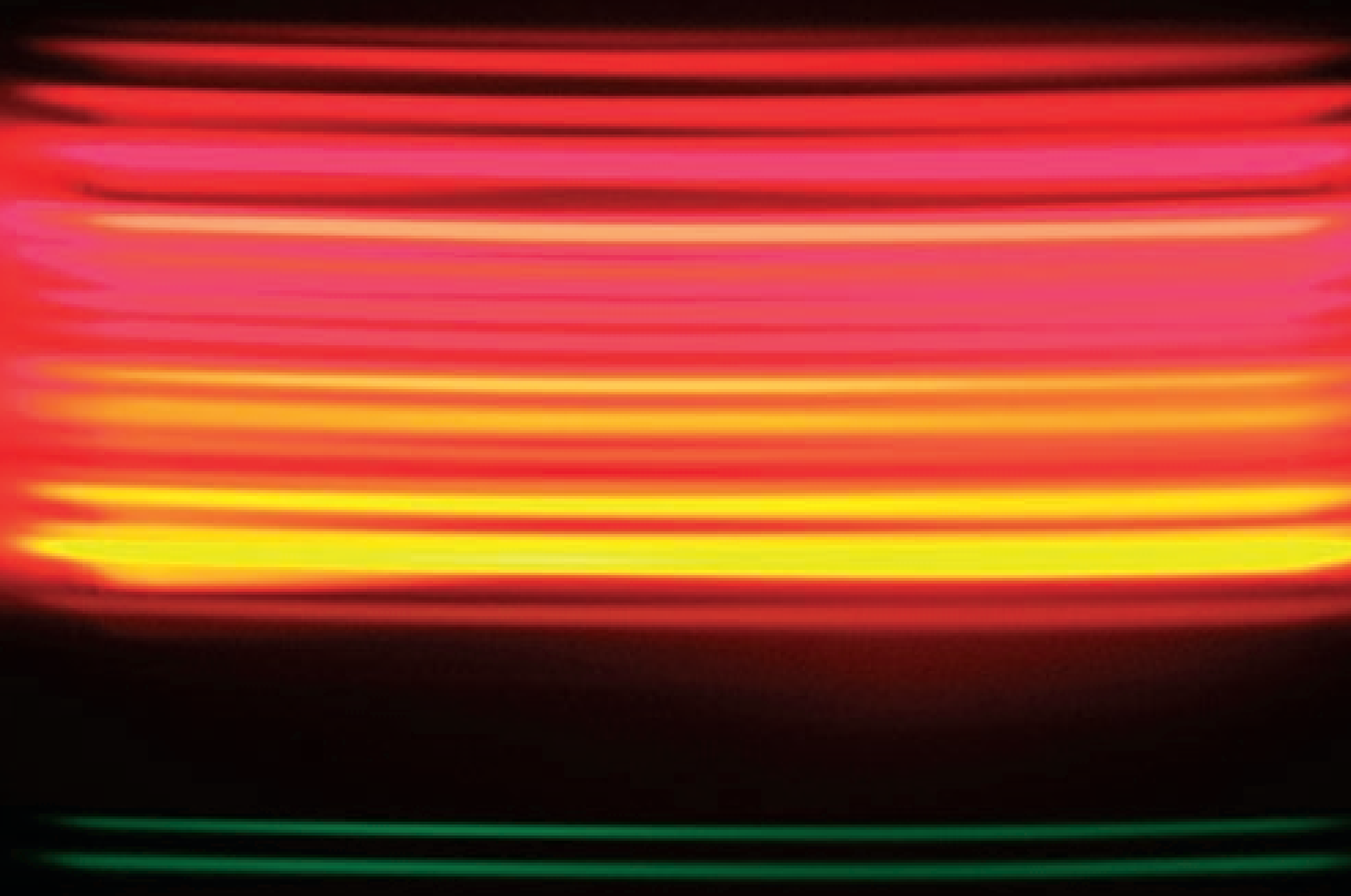
# Annual Report 2009

For the year ended March 31, 2009

Nippon Electric Glass Co., Ltd.



## C O N T E N T S



# Nippon Electric Glass—Creating the Future with High-Tech Glass

Glass is a unique material that provides a multitude of positive societal benefits. It can be customized to result in these positive benefits by modifying its composition and altering the various forming and finishing processes used to manufacture the intended end product. Since its establishment, NEG has wholly dedicated itself to this distinctive material seeking at all times to develop new glass compositions and advanced technologies for melting, forming, and processing.

High-tech glass forms the basis for NEG's products, produced with advanced technology that optimally meets the needs of customers with respect to characteristics, shape, grade, and precision. High-tech glass has been widely used in display devices, IT equipment, automobiles, buildings, and household appliances. The range of next-generation applications for these materials continues to expand.

Through the creation of high-tech glass, NEG intends to continue contributing to societal development while working to ensure harmony with the environment.

**A Caution concerning Forward-Looking Statements**

Statements in this annual report with respect to NEG's plans, strategies, and benefits, as well as other statements that are not historical facts, are forward-looking statements involving risks and uncertainties.

# Consolidated Financial Summary

Nippon Electric Glass Co., Ltd. and Consolidated Subsidiaries for the ten most recent years

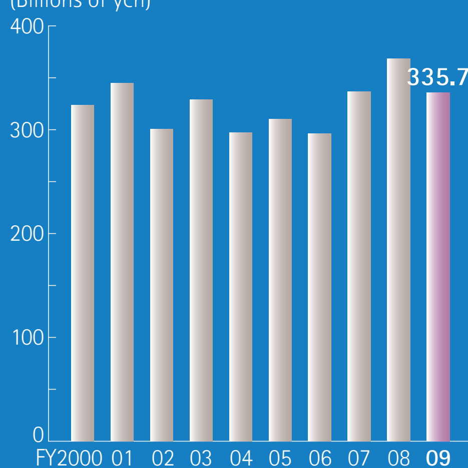
| | FY2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|
| **For the year ended March 31** | | | | |
| Net sales | ¥323,590 | ¥344,677 | ¥300,395 | ¥328,803 |
| Operating income | 37,536 | 49,204 | 22,132 | 42,985 |
| Net income | 13,731 | 25,398 | 3,378 | 14,603 |
| Depreciation and amortization | 32,241 | 35,932 | 37,079 | 34,967 |
| Capital expenditures | 23,549 | 50,241 | 34,919 | 15,236 |
| **Per share of common stock (yen and dollars)** | | | | |
| Net income | ¥ 28.65 | ¥ 52.99 | ¥ 7.05 | ¥ 30.16 |
| Diluted net income | 26.60 | 48.63 | - | - |
| Cash dividends | 4.00 | 3.67 | 3.67 | 4.00 |
| Shareholders' equity | 363.67 | 419.18 | 455.21 | 444.43 |
| **At year-end** | | | | |
| Total assets | ¥544,766 | ¥563,377 | ¥559,957 | ¥499,569 |
| Current assets | 239,906 | 244,743 | 229,395 | 213,667 |
| Net property, plant and equipment | 256,382 | 271,241 | 279,711 | 242,126 |
| Current liabilities | 175,472 | 210,609 | 200,459 | 165,926 |
| Long-term debt | 146,397 | 100,466 | 84,891 | 69,007 |
| Shareholders' equity | 174,311 | 200,918 | 218,184 | 212,942 |
| **Cash flows** | | | | |
| Net cash provided by operating activities | ¥ 56,789 | ¥ 72,640 | ¥ 36,456 | ¥ 79,241 |
| Net cash used in investing activities | (6,801) | (32,820) | (33,024) | (18,368) |
| Net cash provided by (used in) financing activities | (28,723) | (39,707) | (16,434) | (57,433) |
| Cash and cash equivalents at end of year | 70,009 | 71,585 | 58,886 | 62,339 |
| **Number of shares outstanding (thousands)** | | | | |
| Average | 159,770 | 159,769 | 159,768 | 159,702 |
| Year-end | 159,770 | 159,771 | 159,760 | 159,614 |
| **Equity ratio (%)** | 32.0 | 35.7 | 39.0 | 42.6 |
| **Return on equity (%)** | 8.5 | 13.5 | 1.6 | 6.8 |

*Note: 1. The computations of net income per share and shareholders' equity per share are based on the average number of shares outstanding during each year and the number of shares outstanding at the end of each year, respectively.*

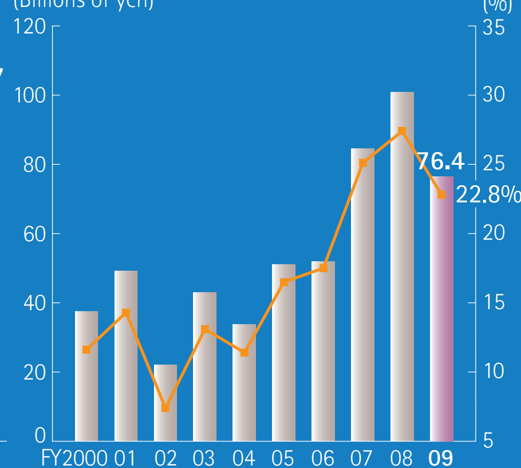
*2. Per share of common stock amounts are retroactively adjusted for subsequent stock splits. The company had a 2-for-1 stock split of its common stock on March 10, 2005, and had a 1.5-for-1 stock split of its common stock on April 1, 2007 .*

*3. Due to the redemption of convertible bonds on March 29, 2002, the computation of diluted net income per share was not calculated in 2002, 2003, 2004, 2005, 2006, 2007, 2008, and 2009.*

**Net sales**




**Operating income & operating income ratio**

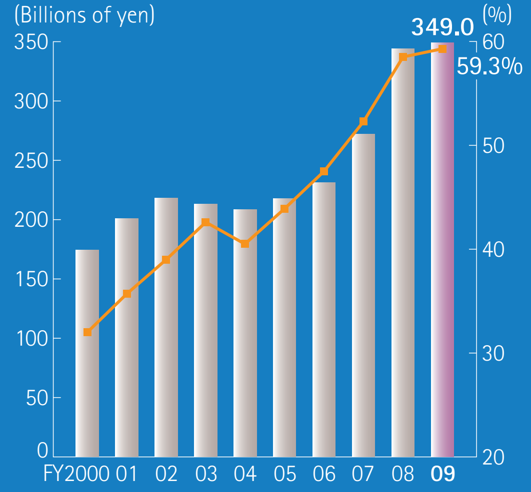


*(Millions of yen and thousands of U.S. dollars, except per share figures)*

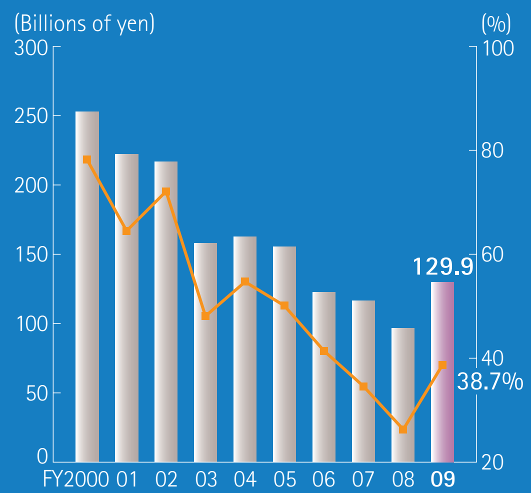
| 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | |
|---|---|---|---|---|---|---|
| ¥297,307 | ¥310,198 | ¥296,440 | ¥336,411 | ¥368,267 | **¥335,662** | **$3,425,122** |
| 33,819 | 51,109 | 51,952 | 84,585 | 100,883 | **76,416** | **779,755** |
| 8,568 | 11,954 | 3,231 | 40,358 | 50,669 | **21,832** | **222,776** |
| 31,177 | 30,345 | 30,106 | 38,042 | 38,843 | **46,134** | **470,755** |
| 47,315 | 47,997 | 79,300 | 100,414 | 107,283 | **102,050** | **1,041,327** |
| ¥ 17.58 | ¥ 24.64 | ¥ 6.47 | ¥ 84.37 | ¥ 105.29 | **¥ 43.89** | **$ 0.45** |
| – | – | – | – | – | **–** | **–** |
| 4.00 | 4.33 | 6.00 | 7.33 | 9.00 | **10.00** | **0.10** |
| 434.68 | 454.33 | 482.58 | 568.55 | 691.27 | **701.62** | **7.16** |
| ¥514,691 | ¥495,568 | ¥486,016 | ¥519,707 | ¥588,031 | **¥588,414** | **$6,004,224** |
| 237,274 | 233,799 | 216,168 | 208,719 | 238,859 | **200,062** | **2,041,449** |
| 243,816 | 228,218 | 233,206 | 274,683 | 318,527 | **362,860** | **3,702,653** |
| 173,199 | 165,367 | 177,748 | 198,308 | 189,606 | **165,640** | **1,690,204** |
| 84,176 | 59,066 | 48,757 | 23,981 | 29,112 | **44,989** | **459,071** |
| 208,248 | 217,588 | 231,005 | 271,951 | 343,953 | **349,043** | **3,561,663** |
| ¥ 53,397 | ¥ 71,844 | ¥ 71,312 | ¥107,784 | ¥102,429 | **¥ 89,873** | **$ 917,071** |
| (32,478) | (52,918) | (56,516) | (95,960) | (91,931) | **(121,975)** | **(1,244,643)** |
| 5,615 | (9,603) | (29,760) | (9,432) | 5,525 | **27,438** | **279,980** |
| 89,291 | 97,902 | 86,321 | 85,392 | 101,046 | **94,623** | **965,541** |
| 159,597 | 319,101 | 318,993 | 318,912 | 481,226 | **497,456** | |
| 159,577 | 319,048 | 318,938 | 318,880 | 497,570 | **497,484** | |
| 40.5 | 43.9 | 47.5 | 52.3 | 58.5 | **59.3** | |
| 4.1 | 5.6 | 1.4 | 16.0 | 16.5 | **6.3** | |

*4. Shareholders' equity = Total net assets - Minority interests (as recorded on the Consolidated Balance Sheets)*
*5. U.S. dollar amounts have been translated from Japanese yen, solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2009 of ¥98 to US$1.00.*
*6. The number of shares outstanding is net of treasury stock.*
*7. At March 31, 2009, Nippon Electric Glass Co., Ltd. had 22 consolidated subsidiaries.*

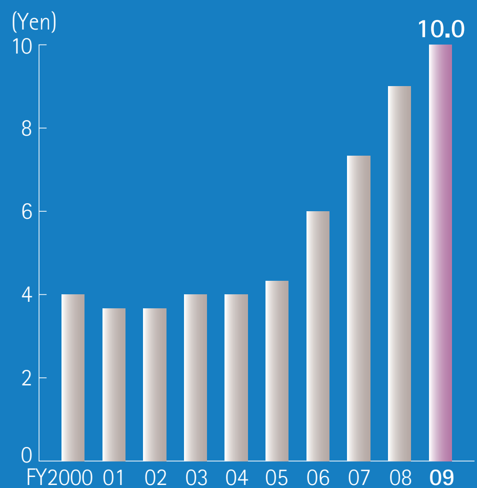
**Shareholders' equity & equity ratio**



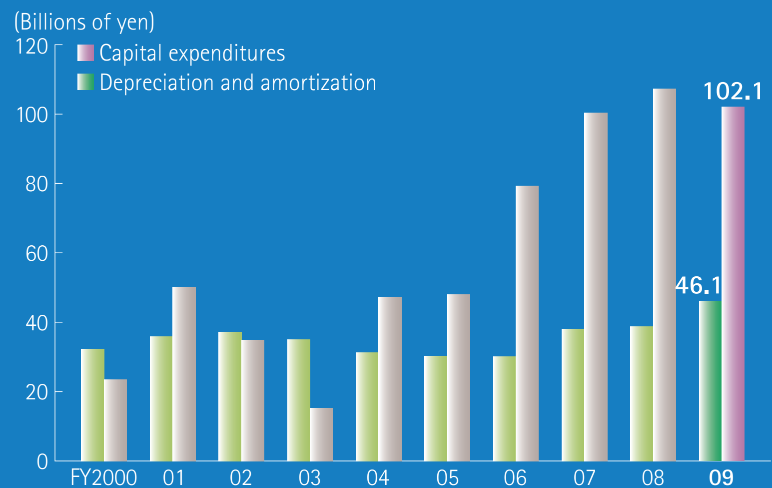

**Interest-bearing debt & interest-bearing debt to sales ratio**




**Cash dividends**




**Capital expenditures & depreciation and amortization**



## Establishment of a New Administration

The "once-in-one-hundred-years" global recession has caused the NEG Group to experience a sharp drop in sales in the latter half of fiscal year 2009, ended March 31, 2009. Although demand in the liquid crystal display (LCD)-related field, which is our core business area, is now rapidly recovering, it is anticipated that the business environment will generally continue to remain severe.

The NEG Group has transformed its core business structure, and entered a new phase of growth based on flat panel display (FPD) glass such as for LCDs and plasma display panels (PDPs). At the same time, the development of "post-FPD" products is emerging as a new challenge. To confront these circumstances and address such challenges, NEG has established a new administration, with Yuzo Izutsu (former President) taking over as Vice Chairman and Masayuki Arioka (former Executive Vice President) assuming the role of President. We continue to place great emphasis on cash flow-based management and are striving to achieve overall efficiency of our business activities. At the same time, we are also fully committed to "Manufacturing" and "Development for the future".

## Challenges for the New Fiscal Year

In the FPD glass business, until recently it had been more necessary to prioritize response to the rapid expansion of demand and the shift to larger substrate glass, rather than to drastically improve manufacturing. When the market more than halved in size at the end of last year, NEG looked upon it as an opportunity. We stopped and reduced production where appropriate, while we also implemented improvements to our manufacturing processes. However, the quick recovery in the operations of our clients and especially the shift in demand for ultra-large substrate glass is taking place at a more rapid pace than expected, and currently, meeting such demand is an urgent issue. To address this, we have started operation of new facilities and will sequentially recommence operation of facilities that have completed improvements.

In the Other Products sector, NEG intends to enhance the competitiveness of its glass products used for electronic devices, especially in fields related to imaging devices and optical devices. We also intend to further promote the development of products used for advanced technical applications and research and development that utilizes thin-film making and compounding technologies. In the glass fiber business, the Group has been forced to make significant production cuts in response to the severe business conditions in the automobile industry. However, in terms of the medium-to-long-term range, we expect sustainable growth of glass fibers mainly in the automobile sector. In regard to heat-resistant glass, NEG is developing new applications for glass-ceramics. With respect to glass for building materials, we intend to expand sales of fire-rated glass and radiation shielding glass, both of which feature excellent functions and properties.

To rise to the coming challenges, in fiscal 2010, we plan to invest about 60 billion yen on capital expenditures mainly to augment production of ultra-large substrate glass and thinner substrate glass and to improve overall production efficiency. From a financial perspective, NEG intends to reduce its interest-bearing debts while securing liquidity on hand in case of a sudden change in the business environment.

## Business Strategy for the Medium Term

The FPD glass business has rapidly expanded in recent years. This continuing process is expected to go through several stages, resulting in a period of stable growth. During such time, we plan to put our efforts into developing businesses that will play a major role in our future operations.

We regard a number of promising fields as having high growth potential. These include next-generation displays such as organic light-emitting (OLED) displays, energy from photovoltaic/solar thermal power generation and secondary batteries, new types of lighting such as light-emitting diodes and OLED lighting, and products for medical applications. The driving power behind the promotion of growth in such areas will be our skill in the creation of ultra-large substrate glass and ultra-thin sheet glass, as well as thin-film making, compounding, precision processing, crystallization, and other areas. Such competencies have been built upon a number of vital core technologies acquired

Tetsuji Mori,
Chairman of the
Board (left), and
Masayuki Arioka,
President

over the years (see pages 8-9). NEG will continue to develop and expand its business based on glass, however, we will actively pursue development in areas that do not involve glass as well.

## Promoting CSR

Our active involvement in corporate social responsibilities (CSR) activities can be seen in the fact that we place a specific emphasis on preserving the environment, employing people with disabilities, and contributing to local communities. We will continue to carry out efforts based both on what is necessary and what is possible. Efforts to preserve the environment do not conflict with manufacturing activities and therefore should not be regarded as separate from such work. We develop our business activities in harmony with the environment in accordance with the basic idea that “ideal manufacturing in terms of production efficiency and cost performance will be environmentally friendly.”

We promote and protect the employment of people with disabilities and we believe in the importance of developing workplace conditions that make it easier for such people to go about their jobs. Moreover, we are continuing with our endeavors to make contributions to local communities.

## Returning Profits to Our Shareholders

Returning profits to our shareholders is an important issue for our management. While we make efforts to improve our business structure and retain earnings for future business development, we will follow through on our basic dividend policy to continuously return profits to shareholders in a stable manner over the long term, without significant affects being exerted by changes in business performance. As we made efforts to return profits in accordance with this policy, we increased our annual dividend per share substantially by about 250% over the past four years.

In closing, as representatives of the board, we would like to express our heartfelt gratitude to our shareholders, customers, and employees, as well as to all other stakeholders. We cordially request your continued support for further growth of the NEG Group.

T. Mori

*Tetsuji Mori, Chairman of the Board*

M. Arioka

*Masayuki Arioka, President*

# Review of Operations

## Glass Business

Glass Business sales in fiscal 2009 totaled ¥334,235 million ($3,411 million), a decline of 8.9% from the previous year.

### Information and Communications

Sales in the Information and Communications sector amounted to ¥274,164 ($2,798 million), a year-on-year decrease of 8.9%.

#### Glass for Display Devices

Although sales of FPD glass were steady in the first quarter, changes in the market environment resulted in slowing sales of LCD substrate glass, our mainstay product, in the second quarter, and overall sales further declined in the third quarter and onwards. In total, sales decreased 7.9% to ¥262,515 million ($2,679 million) from the previous year.

#### Glass for Electronic Devices

Sales rapidly declined in the third quarter and onwards due to worsening market conditions for electronic devices. Sales amounted to ¥11,649 million ($119 million), a 27.8% decrease compared with the previous year.

### Other Products

Sales in the Other Products sector totaled ¥60,071 million ($613 million), a 8.7% decline from the previous year.

#### Glass Fibers

Sales of glass fibers remained strong until the second quarter, particularly with respect to glass fibers used in high-function plastics for auto parts. However, during the third quarter, demand plunged in the wake of drastic production cuts in the automotive industry, following which sales dropped sharply in the fourth quarter. Overall, sales totaled ¥29,615 million ($302 million), a year-on-year decrease of 5.7%.

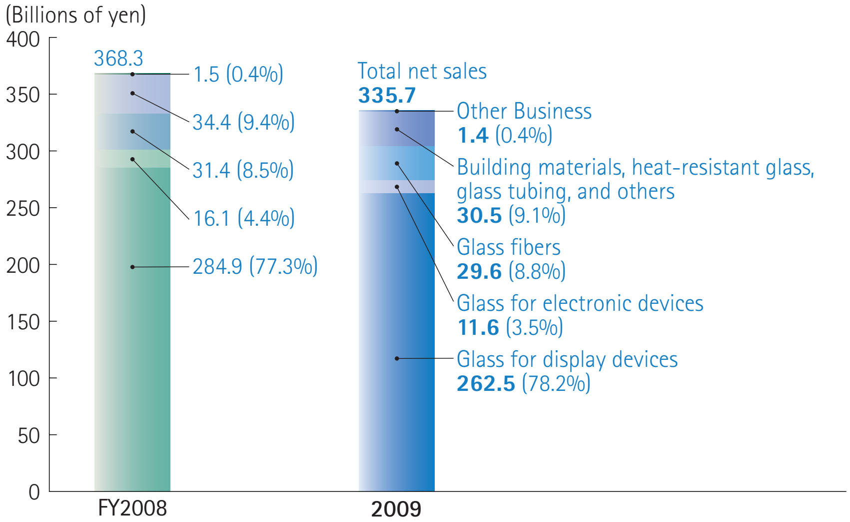
#### Building Materials, Heat-Resistant Glass, Glass Tubing, and Others

With the slowdown of both domestic and overseas housing and construction markets, sales declined 11.4% from the previous year to ¥30,456 million ($311 million).

## Other Business

This segment consists of service and retail activities conducted by NEG subsidiaries. Sales decreased 2.1% from the previous year to ¥1,427 million ($14 million).

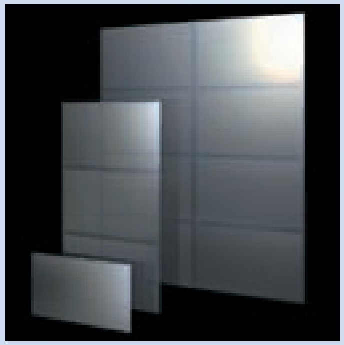
**Sales by business**

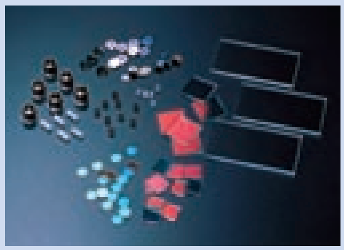


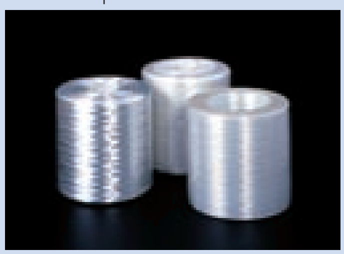

### Main products

**Information and Communications**
- Glass for Display Devices
  - Glass for FPDs
    - Glass for LCDs:
      - substrate glass
      - glass tubing for back-light lamps
    - Glass for PDPs:
      - substrate glass
      - glass paste
  - Glass for CRTs
- Glass for Electronic Devices
  - Glass for optical devices:
    - glass parts for optical communications
    - glass materials for aspheric lenses
  - Glass for electronic devices:
    - powdered glass
    - sheet glass
    - glass tubes

**Other Products**
- Glass Fibers
  - chopped strands for function plastics
  - yarns for printed circuit boards
  - rovings for reinforced plastics
  - alkali-resistant glass fiber
- Building Materials, Heat-Resistant Glass, Glass Tubing, and Others
  - Building materials:
    - glass blocks
    - glass-ceramics building materials "Neopariés" and "NeoClad"
    - fire rated glass "FireLite"
    - radiation-shielding glass
    - glass for interiors / exteriors
  - Heat-resistant glass:
    - super heat-resistant glass-ceramic "Neoceram"
    - heat-resistant glass "Neorex"
  - Fluorescent-lamp bulbs
  - Glass for ampules, vials, and laboratory use
  - Glass for thermos flasks
  - Glassmaking machinery


Glass for PDPs


Glass for optical devices


Rovings for reinforced plastics


Glass for interiors / exteriors

NEG's corporate philosophy states: "We, the NEG Group, will contribute to the welfare and prosperity of society by means of creating high-technology glass in harmony with the environment." With this firmly in mind, NEG manages its business in accordance with the Group's high ethical standards of integrity. We place special emphasis on compliance, preservation of the environment, employment of people with disabilities, and contribution to communities. By fulfilling our corporate responsibilities as a member of society, we pursue sustainable development of the Group and increase its corporate value.

## Corporate Governance

### Directors, Board of Directors, and Corporate Officers

NEG endeavors to speed up decision-making, ensure managerial transparency, and enhance the execution of business affairs. We have optimized the number of directors, clearly defined their decision-making and supervisory functions, and introduced a corporate officer system to facilitate effective business operations. In order to clearly specify managerial responsibilities and build a flexible management system capable of responding to changes in the business environment, we have reduced director tenure to one year.

### Auditors and Board of Auditors

NEG's board of auditors currently consists of four auditors, including two external auditors. Auditors audit the business conduct of directors by attending meetings of the board of directors, investigating business affairs, and assessing corporate assets in accordance with auditing policies, plans, and duty assignments determined by the board of auditors. External auditors are independent of the company and perform their duties from an objective and expert standpoint.

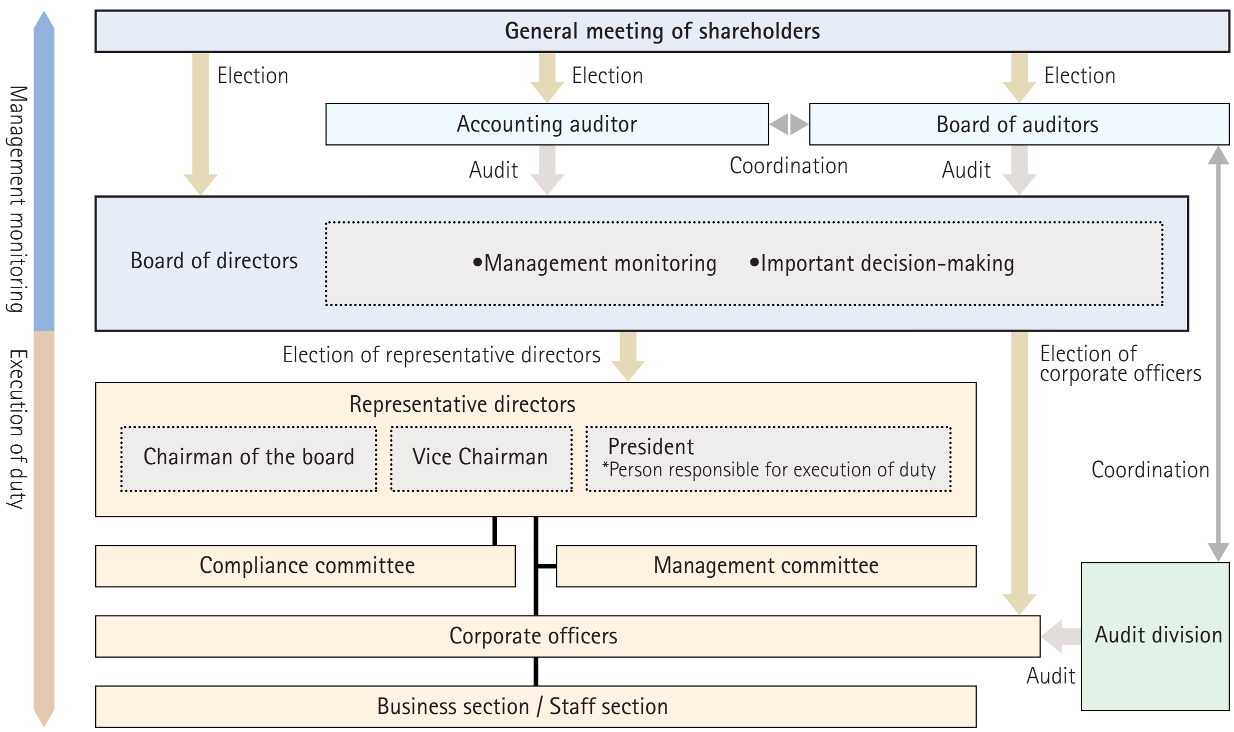
## Internal Control

NEG has a basic policy on internal control that includes the following elements.
For internal control related to financial reporting, NEG has established a system to ensure that NEG and the Group companies make appropriate financial reports in accordance with applicable laws, the efficacy of which is determined by the internal auditing department.

### •Compliance System

The Company has established a compliance committee as a specialized organization that continuously informs employees of NEG and its Group companies so that they will comply with laws and corporate ethical standards. The committee is responsible for the following matters.

**Diagram of corporate governance system**



- Drafting revisions to the Corporate Philosophy, the Group Code of Conduct, and Principles of Activities, and implementing various measures to disseminate them throughout the Group
- Gathering and analyzing information on compliance and providing compliance training
- Operating an internal reporting system

Details of activities regarding the above matters are reported to the board of directors and auditors on a regular basis.

### •Risk Management System

NEG recognizes the importance of business risks relating to compliance, finance, the environment, disasters, foreign trade management, information management, quality, and health and safety. Therefore, the responsible departments or special committees establish regulations and guidelines, conduct training, prepare manuals, and undertake other activities as needed. When a new type of risk arises, the president will promptly designate responsible personnel and implement necessary measures. Matters of particular importance to the company's management are discussed at and reported to the management committee and the board of directors.

## Anti-takeover Measures

NEG believes that as long as it remains a public company whose shares are freely traded on the market, the final decision on whether or not to sell Company shares in response to large-scale purchases should be made by our shareholders. However, some attempted large-scale purchases may fail to give shareholders adequate time and information to consider the terms of the bid or may eventually damage corporate value. Furthermore, such purchases could prove detrimental to the common interests of shareholders.

Before our shareholders make decisions in response to proposed large-scale purchases, we consider it essential that we receive sufficient information from potential large-scale purchasers and that our board of directors assess and discuss such information and provide our shareholders with its findings and opinions.

Based on the above concept, NEG has partially revised its policy on countermeasures in relation to large-scale purchases of the Company's stock, a policy that was first introduced in 2006. With the approval of our shareholders at the annual meeting held in June 2009, NEG continued to implement the revised policy.

The policy involves the establishment of a special committee in order to prevent the board of directors from taking arbitrary countermeasures. The policy ensures that the committee makes objective judgments on policy implementation, and an emphasis is placed on judgments by highly independent and objective external parties.

NEG intends to continue to protect and increase the common interests of all shareholders based on this policy. In principle, the policy shall remain effective until the conclusion of the 2012 annual meeting of shareholders.

# Environmental Preservation

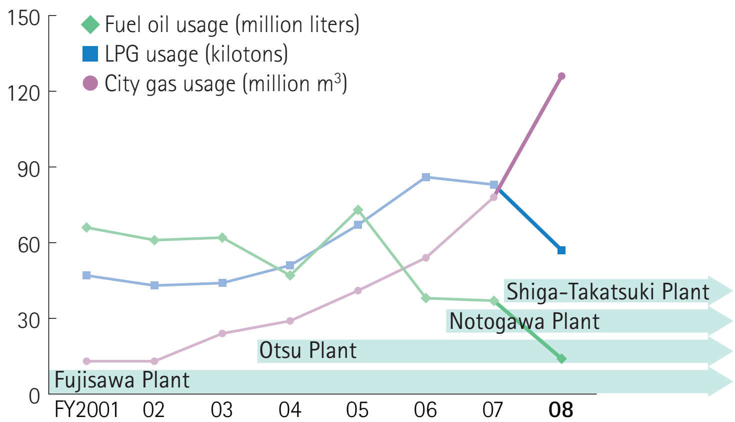
NEG, which considers environmental consciousness to be one of its most important corporate social responsibilities, has established environmental policies in its Environmental Charter. We regard environmental activities as integral aspects of manufacturing activities. We will continuously take various proactive measures to prevent global warming and reduce the environmental impact of our business activities.

## Action against Global Warming

### •Setting a New Target

The commitment period of the Kyoto Protocol, which aims to reduce carbon dioxide ($CO_2$) emissions, started in 2008. NEG has accordingly set a new target of reducing $CO_2$ emissions by 1% (based on the weight of products sold) on an annual basis for the five years from 2008 to 2012. To attain this goal, we are determined to work steadily toward

**Fuel conversion changes in domestic plants**



**Conversion to lower carbon fuel**

| Fuel item | $CO_2$ emission coefficient Units:kg$CO_2$/MJ | Comparison |
|---|---|---|
| Fuel oil | 0.0693 | 100 |
| Liquefied petroleum gas (LPG) | 0.0598 | 86 |
| City gas | 0.0506 | 73 |

Source: List of emission coefficients, Article 3 of the Cabinet Order for Enforcement of the Law Concerning the Promotion of the Measures to Cope with Global Warming

improving production efficiency while achieving maximum energy efficiency with minimal environmental impact.

### • Progress with Fuel Conversion for Glass Melting Furnaces

NEG is making efforts to reduce $CO_2$ emissions by converting energy resources for glass melting furnaces from fuel oil to LPG, which is then changed to city gas. In fiscal 2008, our annual use of city gas, which generates less $CO_2$ than fuel oil and LPG, has increased remarkably (see chart on page 6). We continue to actively promote fuel conversion in order to reduce $CO_2$ emissions.

## Regional Contributions

NEG was founded in Shiga Prefecture, a region of natural beauty and home to the largest lake in Japan. In developing a number of plants in the prefecture, NEG has steadily contributed to its local communities. More specifically, it has provided economic benefits, created employment, undertaken roadside cleanup activities, planted trees around its plants, and continuously participated in community activities.

NEG has concluded a comprehensive agreement with the University of Shiga Prefecture in order to pursue academic-industrial collaboration. Under the agreement, we provide endowment courses and conduct joint research and collaboration in training personnel. Since last year, we have actively cooperated in the internship program for university students for the purpose of developing human resources useful for the region. We successfully help students to acquire more expertise and create a positive attitude toward work, which is highly appreciated by the university.

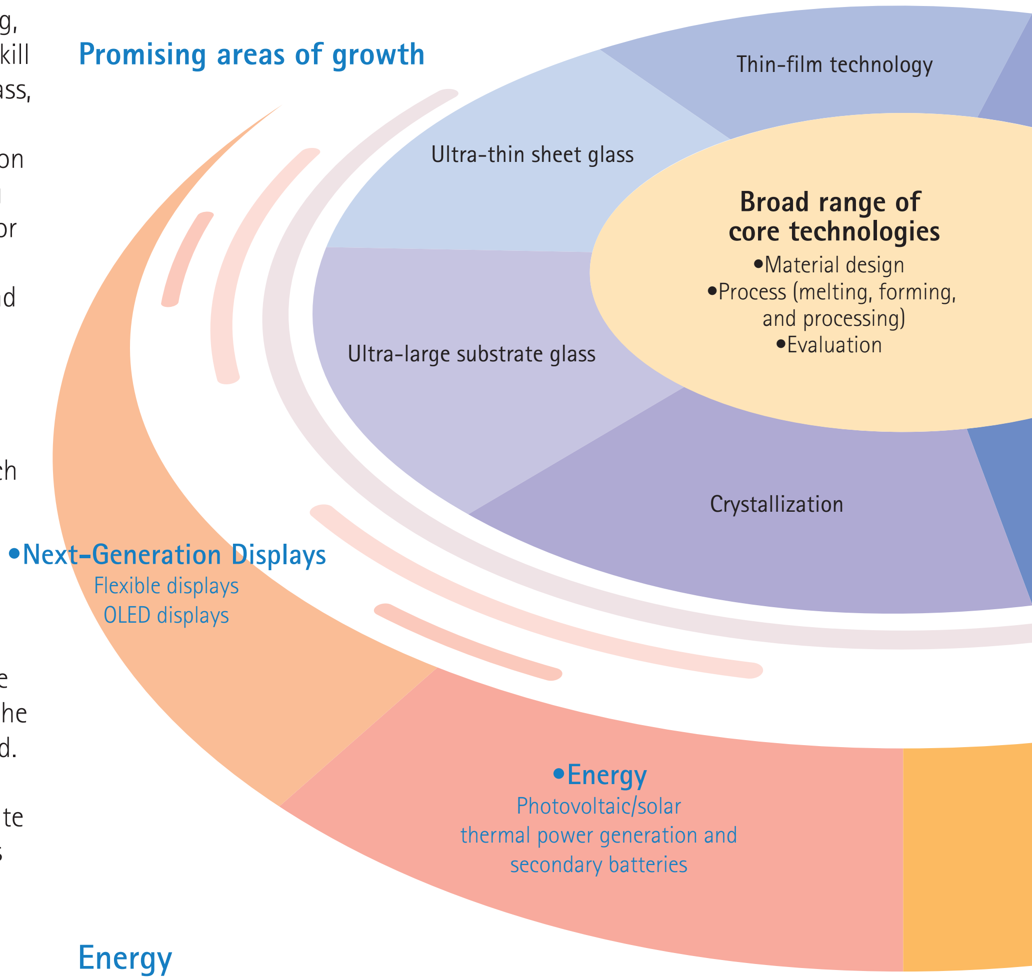
## Promotion of Employment of People with Disabilities

The NEG Group continuously works to expand the employment of people with disabilities and improve the working environment for such employees. Among our efforts to expand such employment, we have recently started a cleaning service for clean-room uniforms at the Wakasa-Kaminaka plant. We have newly employed several people with disabilities at the plant through a subsidiary that was established for the purpose of employing people with disabilities. They are assigned to clean special clean-room uniforms—an important task that impacts product quality. We intend to provide sufficient numbers of staff members and encourage them to improve their skills in order to start this service at other plants.

Employees cleaning clean-room uniforms at Wakasa-Kaminaka plant.

# Technological Development with a View to the Future

Over the years, NEG has acquired a number of vital core technologies, such as material design, melting, forming, processing, and evaluation. By utilizing skill for ultra-large substrate glass, ultra-thin sheet glass, thin-film making, compounding, precision processing, crystallization, and other areas based on such core technologies, we are actively promoting the development and expansion of our business for the next generation with a focus on "post-FPD" products. We are particularly active in research and development in fields with high future growth potential. These include next-generation displays such as OLED displays, energy from photovoltaic/solar thermal power generation and secondary batteries, and new types of lighting such as LED and OLED lighting.




## Next-Generation Displays

We are committed to the field of next-generation displays such as OLED and flexible displays. We are focusing on ultra-thin sheet glass technology as the key to successful product development in this field. Through the manufacture of substrate glass for LCDs, NEG has cultivated the technique of substrate glass sheet formation without polishing by means of the overflow process . Building on this technology, we are now undertaking the development of a process to form and mass-produce high-precision, high-grade, ultra-thin sheet glass with a thickness of less than 100 µm (0.1 mm). NEG is highly confident that ultra-thin sheet glass will be used not only for displays, but also in a variety of other fields and applications.

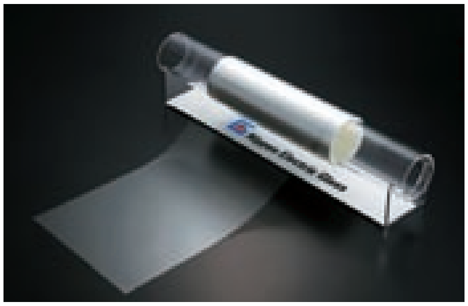
At an exhibition held in Japan last fall, NEG introduced low-compaction glass, suitable for low-temperature polysilicon LCDs and OLED displays. The company also displayed rolled ultra-thin sheet glass products with thicknesses of 50 and 100 µm and received an enthusiastic response from many visitors.

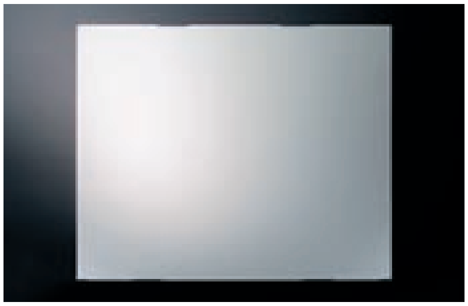
## Energy

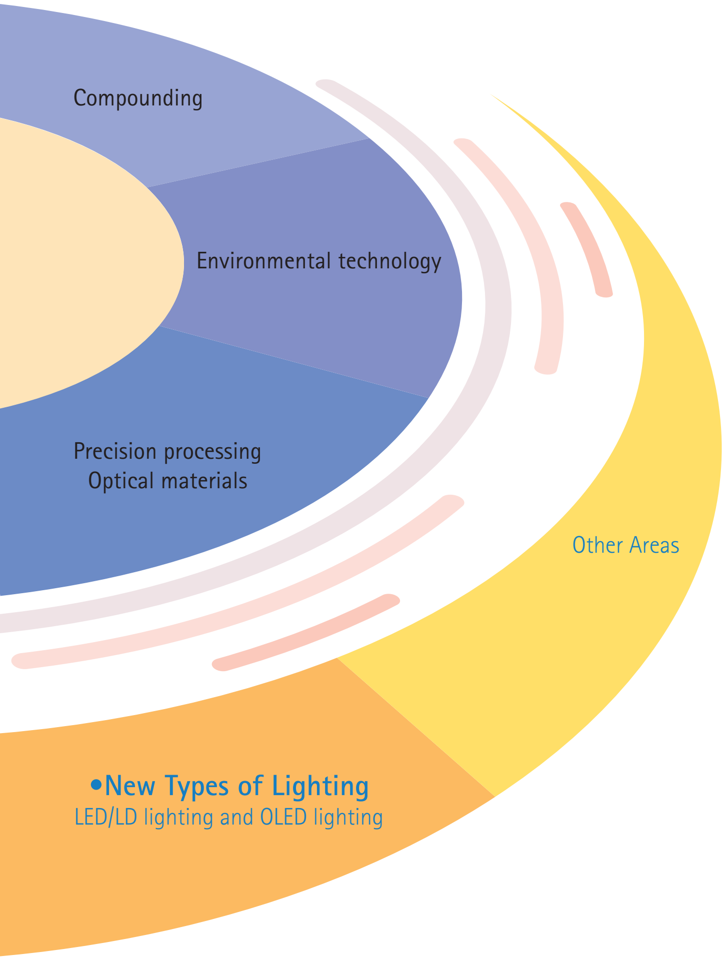
NEG is engaged in the development of products to be used in fields related to photovoltaic/solar thermal power generation and secondary batteries.

By utilizing its thin-film technology, NEG has successfully completed and introduced the world's largest solar reflector with dielectric film. It is a sheet glass formed with nearly one hundred layers in total and is highly efficient in reflecting solar energy. This reflector is heat-resistant at high temperatures and is expected to be used for solar thermal power generation facilities and in other areas.


Ultra-thin sheet glass folded in the middle


Ultra-thin sheet glass rolled into a cylinder


Solar reflector for solar thermal energy power generation



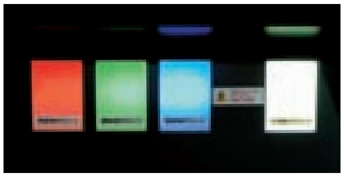

## New Types of Lighting

As substitutes for incandescent lamps and fluorescent lamps, high-performance, power-saving LED and OLED lighting equipment seems to be entering a period of rapid growth. Glass for lighting equipment is a business field in which NEG has been engaged in since its establishment. We continue to work assiduously to develop and supply new lighting materials, such as phosphor glass for LED and LD light sources and glass for OLED lighting.

NEG has developed phosphor glass for high-powered LEDs. This material has been created by applying a technique involving either a glass/phosphor composite or glass-ceramics, and such technologies are used for color converters of LEDs that change blue light to white. The glass/phosphor composite can be applied to a color converter for changing UV rays to red, green, and blue light. Phosphor glass allows superior performance in comparison with conventional color converters made of resin in terms of durability to heat, light, and humidity. This new material is an optimal candidate for color converter use in future high-powered LED light sources.

Furthermore, in the OLED lighting field, in conjunction with the Research Institute for Organic Electronics, NEG has been successful in a trial production of an OLED with a thickness of 200 µm, using ultra-thin sheet glass.


OLED panel under development


Phosphor glass for high-powered LEDs

Furthermore, in conjunction with the Graduate School of Engineering of Iwate University, NEG has introduced the world's first thin-film lithium-ion secondary battery made on an ultra-thin glass substrate with a thickness of only 30 µm—the world's thinnest. It is expected that the battery will contribute to the creation of even slimmer mobile electronic devices and will be used in next-generation IC cards and for other applications.

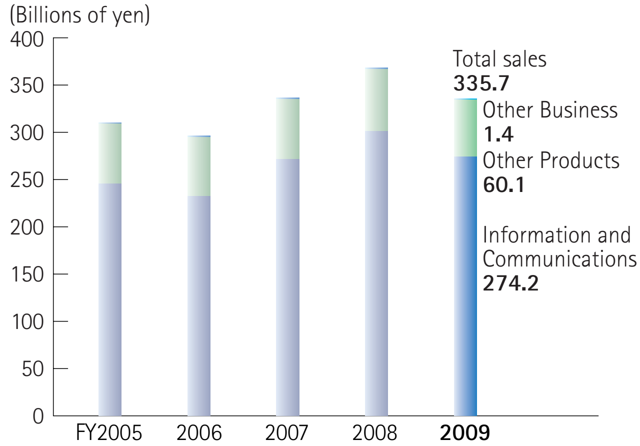

Thin-film lithium-ion secondary battery

# Financial Review

## Business Climate

In fiscal year 2009, resource and energy prices continued to soar until around the second quarter. In September 2008, the so-called "Lehman shock" occurred, causing a global financial crisis and decline in stock prices. This dealt a damaging blow to the real economy, triggering a global recession. The Japanese business climate also took a serious turn for the worse. On one hand, consumer sentiment was drastically low, due to the soaring prices in various markets in the first half and to the sudden fall in the stock market and the deteriorating economy in the second half. On the other hand, drops in exports and capital investment led to drastic production cuts in the manufacturing industry, particularly among automobile and electrical goods manufacturers. Under these circumstances, in the FPD glass sector, the Group experienced a slowdown in sales of LCD substrate glass from the middle of the second quarter. From the third quarter, the business environment worsened at a pace well beyond expectations. The Group was forced to make significant production cuts in response to drastic drops in sales not only of LCD substrate glass, but also of glass fibers and other products. Such changes reflected sharp declines in demand resulting from the cooling of the global economy.

### Net sales




## Net Sales

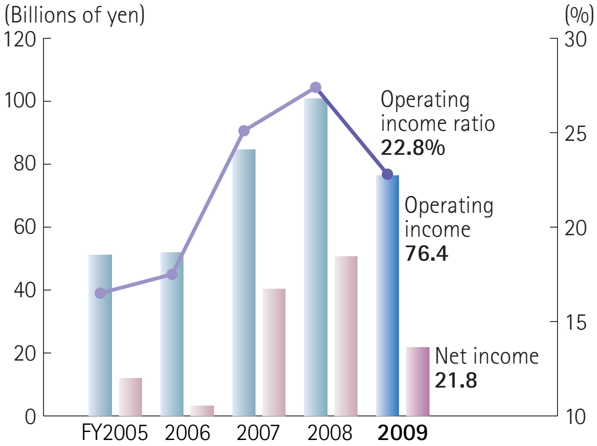
Consolidated net sales decreased 8.9% from the previous year to ¥335,662 million ($3,425 million). Owing to rapid changes in the market environment in the FPD glass sector, sales of LCD substrate glass began to slow down in the middle of the second quarter and sales overall dropped significantly from the third quarter. Sales of glass for electronic devices also fell drastically during this period. As a result, sales in the Information and Communications sector decreased from the previous year. In the Other Products sector, sales for products such as glass fibers and heat-resistant glass also decreased from the third quarter, due to the effects of the depressed market.

### Sales by business

*(Millions of yen and U.S. dollars)*

| | FY2008 | | FY2009 | | | 2009/2008 |
|---|---|---|---|---|---|---|
| | Net sales | Percent of net sales | Net sales | | Percent of net sales | Percent change |
| **Glass Business :** | | | | | | |
| Information and Communications | | | | | | |
| Glass for Display Devices | ¥284,882 | 77.3% | ¥262,515 | $2,679 | 78.2% | -7.9% |
| Glass for Electronic Devices | 16,130 | 4.4 | 11,649 | 119 | 3.5 | -27.8 |
| | 301,012 | 81.7 | 274,164 | 2,798 | 81.7 | -8.9 |
| Other Products | | | | | | |
| Glass Fibers | 31,416 | 8.5 | 29,615 | 302 | 8.8 | -5.7 |
| Building Materials, Heat-resistant Glass, Glass Tubing, Others | 34,381 | 9.4 | 30,456 | 311 | 9.1 | -11.4 |
| | 65,797 | 17.9 | 60,071 | 613 | 17.9 | -8.7 |
| Glass Business Total | 366,809 | 99.6 | 334,235 | 3,411 | 99.6 | -8.9 |
| **Other Business :** | 1,458 | 0.4 | 1,427 | 14 | 0.4 | -2.1 |
| Total | ¥368,267 | 100.0% | ¥335,662 | $3,425 | 100.0% | -8.9% |

## Income




### Income

Operating income decreased 24.3% from the previous year to ¥76,416 million ($780 million). In the first quarter, rising material and fuel prices and higher depreciation expenses put downward pressure on income, but these trends were more than compensated for by steady profits earned mainly from FPD glass. In the second quarter, however, business slowed down due to weakened demand for glass for LCDs and falling product prices. From the third quarter, business rapidly worsened due to a sharp decline in sales, drops in product prices, and a drastic decline in plant utilization ratio. As a result, gross profit decreased 20.2%, and the cost to sales ratio deteriorated by 4.3 points from the previous year. As a result, the operating income ratio was 22.8%, a decrease of 4.6 points from the previous year.

The net amount of other income and other expenses amounted to losses of ¥35,855 million ($366 million), or a loss ¥25,446 million ($260 million) greater than that of the previous year. Other income included interest and dividend income of ¥1,554 million ($16 million). Other expenses included foreign exchange losses of ¥3,761 million ($38 million), loss on disposal of property, plant and equipment including removal expenses of ¥6,495 million ($66 million), depreciation of idle property, plant and equipment of ¥2,061 million ($21 million), loss on sales of property, plant and equipment of ¥15,903 million ($162 million) due to sale of production facilities, loss on impairment of fixed assets of ¥2,442 million ($25 million), and loss on sales of investment securities of ¥1,906 million ($19 million).

As a result, income before income taxes and minority interests totaled ¥40,561 million ($414 million), a decrease of ¥49,913 million ($509 million) from the previous year.
Net amounts of provisions for income taxes totaled ¥18,761 million ($191 million), while minority interests in losses were ¥32 million ($0.3 million), resulting in net income of ¥21,832 million ($223 million), or 56.9% below the amount for the previous year. Net income per share was ¥43.89 ($0.45).

### Geographic Segment Information

[Japan]
Sales remained steady until the second quarter. However, from the third quarter, sales dropped in the Company's core business of FPD glass, and in other sectors due to the cooling of the global economy. Sales totaled ¥277,092 million ($2,827 million), a decrease of 10.7% from the previous year. Operating income decreased to ¥69,298 million ($707 million), a fall of 28.2% from the previous year, mainly due to a sharp decline in sales, drops in product prices, and drastic decreases in plant utilization ratio.

[Asia]
In the third quarter, sales at processing subsidiaries of LCD substrate glass began to slow down owing to client production adjustments. In the fourth quarter, sales declined at the Malaysian subsidiary, which mainly manufactures glass fibers and CRT glass. As a result, total sales in Asia decreased to ¥214,742 million ($2,191 million), representing a decrease of 3.1% from the previous year. Operating income also decreased to ¥3,375 million ($34 million), a decline of 20.7% from the previous year, mainly due to a decline in sales and drastic decreases in plant utilization ratio.

[Other Areas]
Sales from other areas, which include sales from the U.S. sales subsidiary, increased 3.3% from the previous year to ¥3,096 million ($32 million), while operating income decreased 22.3% from the previous year to ¥150 million ($2 million).

### Dividends

The dividend per share for this fiscal year was ¥10 ($0.10), including a ¥5 ($0.05) per share interim dividend paid out in November 2008. This represents an effective increase in dividends of ¥1 ($0.01) from the prior fiscal year.

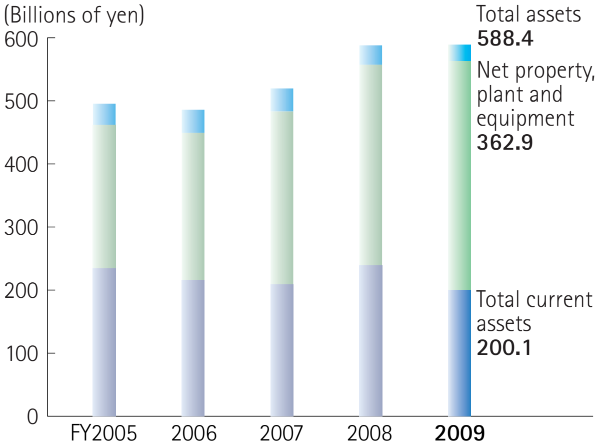
## Financial Position

Total assets at the end of the fiscal year were ¥588,414 million ($6,004 million), an increase of ¥383 million ($4 million) from the end of the previous year.

Current assets decreased by ¥38,797 million ($396 million). While finished goods and purchased goods increased, notes and accounts receivable, trade decreased because of lower sales.

Net property, plant and equipment increased by ¥44,333 million ($452 million) as a result of capital expenditures in excess of depreciation as in the previous year. Such capital expenditures were chiefly used to augment production capacity for FPD glass. On the other hand, investment in securities decreased.

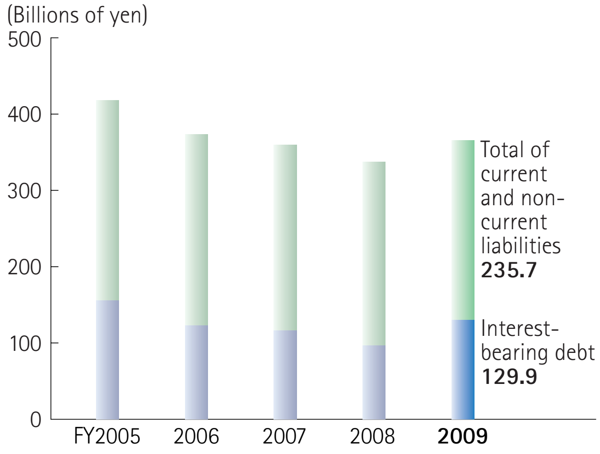
### Assets



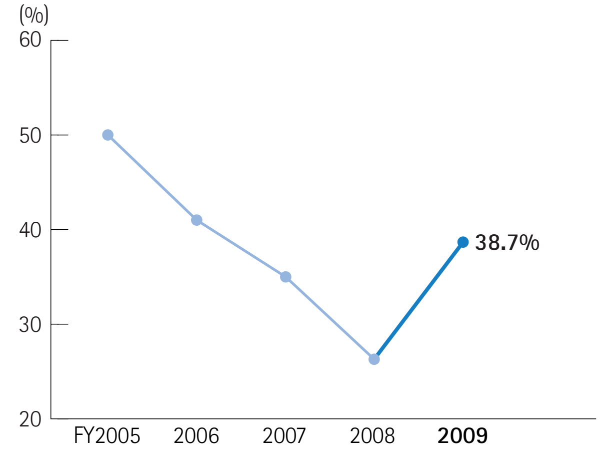

Current liabilities decreased by ¥23,966 million ($245 million). While notes and accounts payable, trade decreased due to reduced production, the current portion of corporate bonds increased due to a reclassification of such bonds from their former designation as non-current liabilities. Accrued income taxes decreased as a result of reduced income.

Non-current liabilities increased by ¥19,390 million ($198 million). Although corporate bonds decreased, long-term debts increased as a result of capital expenditures mainly used for the FPD glass sector. Long-term debts also increased to maintain liquidity on hand in case of a sudden change in the business environment.

### Liabilities



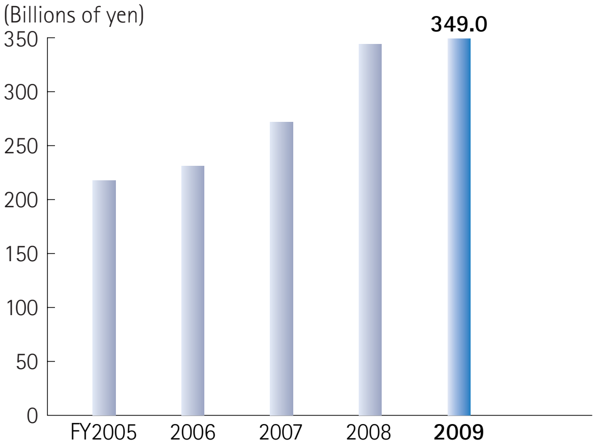

### Interest-bearing debt to sales ratio




The NEG Group has worked to reduce its interest-bearing debt as part of a medium-to-long-term plan to improve its financial position. However, because of the increase in long-term debts due to the abovementioned circumstances, total interest-bearing debt at the end of this fiscal year increased ¥33,117 million ($338 million) over the previous year to ¥129,883 million ($1,325 million).
Total net assets at the end of the fiscal year increased ¥4,959 million ($51million) over the previous year to ¥352,744 million ($3,599 million). While retained earnings increased, net unrealized holding gains on securities and foreign currency translation adjustments decreased due to the decline in stock prices and the appreciation of the yen.

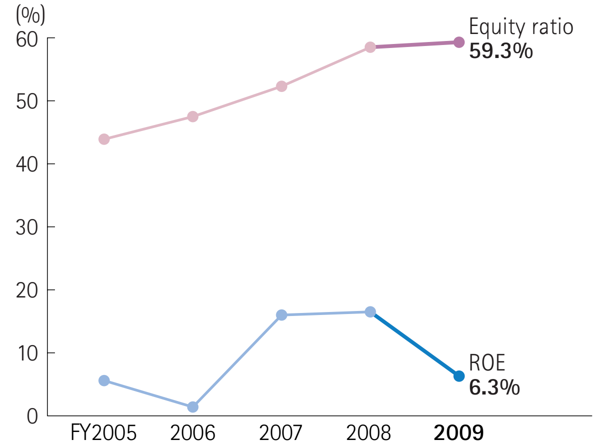
As a result, the equity ratio at the end of this fiscal year was 59.3%, an increase of 0.8 points from last year's 58.5%.

## Shareholders' equity*



*(total net assets - minority interests)

## Equity ratio & ROE




## Cash Flows

### [Cash Flows from Operating Activities]

Net cash provided by operating activities totaled ¥89,873 million ($917 million), a decrease of ¥12,556 million ($128 million) from the previous year. This was due to a decrease in income before income taxes and minority interests, an increase in depreciation and amortization expenses, a decrease in notes and accounts receivable, and an increase in payment for income taxes.

### [Cash Flows from Investing Activities]

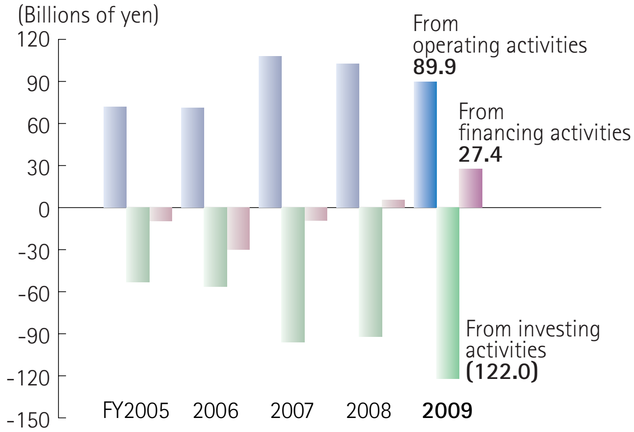
Net cash used in investing activities totaled ¥121,975 million ($1,245 million), an increase of ¥30,044 million ($307 million) over the previous year. Cash outflows in this category for this fiscal year mainly consisted of purchases of property, plant and equipment to augment production capacity for FPD glass.

### [Cash Flows from Financing Activities]

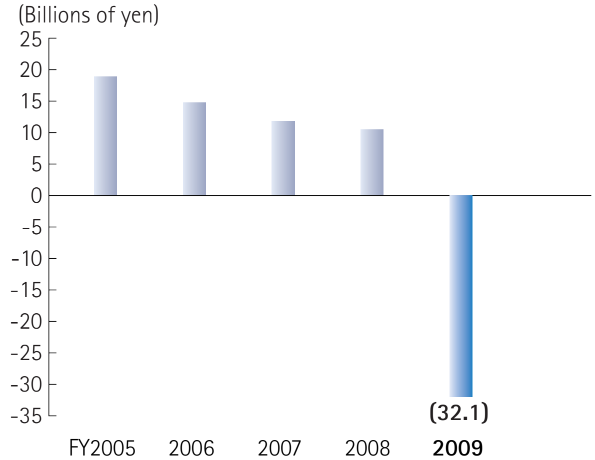
Net cash provided by financing activities totaled ¥27,438 million ($280 million), an increase of ¥21,913 million ($224 million) over the previous fiscal year, mainly due to an increase in proceeds from long-term loans.

Cash and cash equivalents at the end of this fiscal year, including the negative effect of exchange rate changes on cash and cash equivalents of ¥1,759 million ($18 million), totaled ¥94,623 million ($966 million), a year-on-year decrease of ¥6,423 million ($66 million).

## Cash flows




## Free cash flows




## Capital Expenditures

Capital expenditures for the fiscal year totaled ¥102,050 million ($1,041 million). In the Information and Communications sector, capital expenditures of ¥93,672 million ($956 million) were made mainly to augment production capacity for FPD glass. In the Other Products sector, capital expenditures of ¥8,378 million ($85 million) were made primarily to improve productivity and boost production capacity.

# Consolidated Financial Statements

## Consolidated Balance Sheets

Nippon Electric Glass Co., Ltd. and Consolidated Subsidiaries
March 31, 2008 and 2009

### ASSETS

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| **Current assets:** | | | |
| Cash and time deposits (Note 7 and 9) | ¥ 101,046 | ¥ 96,693 | $ 986,663 |
| Notes and accounts receivable, trade | 84,825 | 47,167 | 481,296 |
| Allowance for doubtful receivables | (579) | (602) | (6,143) |
| Inventories (Note 8) | 39,731 | 42,251 | 431,133 |
| Deferred income taxes (Note 12) | 10,011 | 6,249 | 63,765 |
| Other current assets | 3,825 | 8,304 | 84,735 |
| Total current assets | 238,859 | 200,062 | 2,041,449 |
| **Property, plant and equipment** (Note 9 and 10): | | | |
| Land | 14,323 | 14,108 | 143,959 |
| Building and structures | 89,350 | 97,638 | 996,306 |
| Machinery and equipment | 497,769 | 523,708 | 5,343,959 |
| Construction in progress | 16,230 | 30,223 | 308,398 |
| | 617,672 | 665,677 | 6,792,622 |
| Accumulated depreciation | (299,145) | (302,817) | (3,089,969) |
| Net property, plant and equipment | 318,527 | 362,860 | 3,702,653 |
| **Investments and other assets:** | | | |
| Investment securities (Note 5) | 17,508 | 12,424 | 126,776 |
| Investment in affiliates (Note 5) | 1,757 | 1,710 | 17,449 |
| Deferred income taxes (Note 12) | 6,904 | 9,083 | 92,684 |
| Other assets (Note 9 and 10) | 4,476 | 2,275 | 23,213 |
| Total investments and other assets | 30,645 | 25,492 | 260,122 |
| **Total assets** | ¥ 588,031 | ¥ 588,414 | $ 6,004,224 |

The accompanying notes to the consolidated financial statements are an integral part of these statements.

## LIABILITIES AND NET ASSETS

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| **Current liabilities:** | | | |
| Short-term borrowings, including current portion of long-term debt (Note 11) | ¥ 67,654 | ¥ 84,894 | $ 866,265 |
| Notes and accounts payable (Note 9) : | | | |
| Trade | 45,967 | 29,812 | 304,204 |
| Construction and other | 35,209 | 37,244 | 380,041 |
| Accrued expenses | 10,145 | 11,076 | 113,020 |
| Accrued income taxes | 29,629 | 1,348 | 13,755 |
| Other reserves | 351 | 222 | 2,265 |
| Other current liabilities | 651 | 1,044 | 10,654 |
| Total current liabilities | 189,606 | 165,640 | 1,690,204 |
| **Non current liabilities:** | | | |
| Long-term debt (Note 11) | 29,112 | 44,989 | 459,071 |
| Reserve for special repairs | 17,612 | 23,132 | 236,041 |
| Other reserves (Note 13) | 1,767 | 1,790 | 18,265 |
| Other non-current liabilities | 2,149 | 119 | 1,214 |
| Total non current liabilities | 50,640 | 70,030 | 714,591 |
| **Net assets** (Note 14): | | | |
| **Shareholders' equity:** | | | |
| Common stock | | | |
| Authorized - 1,200,000,000 shares in 2008 and 2009 | | | |
| Issued - 497,616,234 shares in 2008 and 2009 | 32,156 | 32,156 | 328,122 |
| Capital surplus | 34,517 | 34,358 | 350,592 |
| Retained earnings | 272,803 | 290,062 | 2,959,816 |
| Treasury stock at cost | | | |
| 46,344 shares in 2008 | | | |
| 131,778 shares in 2009 | (45) | (197) | (2,010) |
| Total shareholders' equity | 339,431 | 356,379 | 3,636,520 |
| **Valuation and translation adjustments:** | | | |
| Net unrealized holding gains on securities | 3,683 | 1,411 | 14,398 |
| Deferred gains on hedges | - | 11 | 112 |
| Foreign currency translation adjustments | 839 | (8,758) | (89,367) |
| Total valuation and translation adjustments | 4,522 | (7,336) | (74,857) |
| **Minority interests** | 3,832 | 3,701 | 37,766 |
| Total net assets | 347,785 | 352,744 | 3,599,429 |
| **Contingent liabilities** (Note 15) | | | |
| **Total liabilities and net assets** | ¥ 588,031 | ¥ 588,414 | $ 6,004,224 |

# Consolidated Statements of Income

Nippon Electric Glass Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2008 and 2009

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| **Net sales** | ¥ 368,267 | ¥ 335,662 | $ 3,425,122 |
| **Cost of sales** | 241,577 | 234,572 | 2,393,592 |
| Gross profit | 126,690 | 101,090 | 1,031,530 |
| **Selling, general and administrative expenses** | 25,807 | 24,674 | 251,775 |
| Operating income | 100,883 | 76,416 | 779,755 |
| **Other income (expenses):** | | | |
| Interest and dividend income | 1,261 | 1,554 | 15,857 |
| Interest expense | (1,445) | (1,774) | (18,102) |
| Loss on disposal of property, plant and equipment, including removal expenses | (3,247) | (6,495) | (66,276) |
| Loss on sales of property, plant and equipment | - | (15,903) | (162,276) |
| Gain on sales of investment securities (Note 5) | 368 | - | - |
| Loss on sales of investment securities (Note 5) | - | (1,906) | (19,449) |
| Gain from liquidation of investment securities (Note 4) | 2,065 | - | - |
| Loss from valuation of investment securities | (1,268) | (503) | (5,133) |
| Loss on disposal of inventories | (1,685) | (1,035) | (10,561) |
| Depreciation of idle property, plant and equipment | (111) | (2,061) | (21,031) |
| Loss on impairment of fixed assets (Note 10) | (6,364) | (2,442) | (24,918) |
| Reversal of reserve for special repairs | 338 | 523 | 5,337 |
| Foreign exchange gains or (losses) | 188 | (3,761) | (38,378) |
| Other, net | (509) | (2,052) | (20,937) |
| | (10,409) | (35,855) | (365,867) |
| **Income before income taxes and minority interests** | 90,474 | 40,561 | 413,888 |
| **Income taxes** (Note 12): | | | |
| Current | 38,210 | 15,493 | 158,092 |
| Deferred | 1,668 | 3,268 | 33,347 |
| | 39,878 | 18,761 | 191,439 |
| **Minority Interests** | (73) | (32) | (327) |
| **Net income** | ¥ 50,669 | ¥ 21,832 | $ 222,776 |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| **Amount per share of common stock:** | | | |
| Net income (Note 2) | ¥ 105.29 | ¥ 43.89 | $ 0.45 |
| Diluted net income (Note 2) | - | - | - |
| Cash dividends applicable to the year (Note 14) | 9.00 | 10.00 | 0.10 |

The accompanying notes to the consolidated financial statements are an integral part of these statements.

# Consolidated Statements of Changes in Net Assets

Nippon Electric Glass Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2008 and 2009

| | Thousands of shares | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares of common stock issued | Common stock | Capital surplus | Retained earnings | Treasury stock | Net unrealized holding gains on securities | Deferred gains on hedges | Foreign currency transaction adjustments | Minority interests | Total net assets |
| **Balance at March 31, 2007** | 319,544 | 18,386 | 20,130 | 225,961 | (805) | 6,970 | - | 1,309 | 4,605 | 276,556 |
| Net income | - | - | - | 50,669 | - | - | - | - | - | 50,669 |
| Cash dividends paid | - | - | - | (3,827) | - | - | - | - | - | (3,827) |
| Issuance of common stock (Note 14) | 18,300 | 13,770 | 13,770 | - | - | - | - | - | - | 27,540 |
| Acquisition of treasury stock | - | - | - | - | (226) | - | - | - | - | (226) |
| Disposition of treasury stock | - | - | 617 | - | 986 | - | - | - | - | 1,603 |
| Decrease due to accounting standards in foreign countries | - | - | - | (0) | - | - | - | - | - | (0) |
| Net change during the year | - | - | - | - | - | (3,287) | - | (470) | (773) | (4,530) |
| Stock split (Note 14) | 159,772 | - | - | - | - | - | - | - | - | - |
| **Balance at March 31, 2008** | 497,616 | 32,156 | 34,517 | 272,803 | (45) | 3,683 | - | 839 | 3,832 | 347,785 |
| Net income | - | - | - | 21,832 | - | - | - | - | - | 21,832 |
| Cash dividends paid | - | - | - | (4,975) | - | - | - | - | - | (4,975) |
| Acquisition of treasury stock | - | - | - | - | (510) | - | - | - | - | (510) |
| Disposition of treasury stock | - | - | (159) | - | 358 | - | - | - | - | 199 |
| Increase due to the change of accounting standards | - | - | - | 402 | - | - | - | - | - | 402 |
| Net change during the year | - | - | - | - | - | (2,272) | 11 | (9,597) | (131) | (11,989) |
| **Balance at March 31, 2009** | 497,616 | ¥ 32,156 | ¥ 34,358 | ¥290,062 | ¥ (197) | ¥ 1,411 | ¥ 11 | ¥ (8,758) | ¥ 3,701 | ¥ 352,744 |

| | Thousands of U.S. dollars (Note 1) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Net unrealized holding gains on securities | Deferred gains on hedges | Foreign currency transaction adjustments | Minority interests | Total net assets |
| **Balance at March 31, 2008** | $328,122 | $352,214 | $2,783,704 | $ (459) | $37,582 | $ - | $ 8,562 | $39,102 | $3,548,827 |
| Net income | - | - | 222,776 | - | - | - | - | - | 222,776 |
| Cash dividends paid | - | - | (50,765) | - | - | - | - | - | (50,765) |
| Acquisition of treasury stock | - | - | - | (5,204) | - | - | - | - | (5,204) |
| Disposition of treasury stock | - | (1,622) | - | 3,653 | - | - | - | - | 2,031 |
| Increase due to the change of accounting standards | - | - | 4,101 | - | - | - | - | - | 4,101 |
| Net change during the year | - | - | - | - | (23,184) | 112 | (97,929) | (1,336) | (122,337) |
| **Balance at March 31, 2009** | $328,122 | $350,592 | $2,959,816 | $(2,010) | $14,398 | $112 | $(89,367) | $37,766 | $3,599,429 |

The accompanying notes to the consolidated financial statements are an integral part of these statements.

# Consolidated Statements of Cash Flows

Nippon Electric Glass Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2008 and 2009

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| **Cash flows from operating activities:** | | | |
| Income before income taxes and minority interests | ¥ 90,474 | ¥ 40,561 | $ 413,888 |
| Depreciation and amortization | 38,843 | 46,134 | 470,755 |
| Loss on disposal of property, plant and equipment | 1,811 | 3,010 | 30,714 |
| Loss on sales of property, plant and equipment | - | 15,903 | 162,276 |
| Loss on impairment of fixed assets | 6,364 | 2,442 | 24,918 |
| Loss (gain) on sales of investment securities | (368) | 1,906 | 19,449 |
| Gain from liquidation of investment securities | (2,065) | - | - |
| Loss from valuation of investment securities | 1,268 | 503 | 5,133 |
| Provision for reserve for special repairs | 2,742 | 5,521 | 56,337 |
| Interest and dividend income | (1,261) | (1,554) | (15,857) |
| Interest expense | 1,445 | 1,774 | 18,102 |
| Decrease (increase) in notes and accounts receivable | (13,087) | 36,387 | 371,296 |
| Increase in inventories | (142) | (4,504) | (45,959) |
| Increase (decrease) in notes and accounts payable | 2,363 | (12,879) | (131,418) |
| Other | (859) | 2,992 | 30,529 |
| Sub-total | 127,528 | 138,196 | 1,410,163 |
| Interest and dividends received | 1,191 | 1,574 | 16,061 |
| Interest paid | (1,476) | (1,689) | (17,235) |
| Payment for income taxes, net | (24,814) | (48,208) | (491,918) |
| Net cash provided by operating activities | 102,429 | 89,873 | 917,071 |
| **Cash flows from investing activities:** | | | |
| Increase in time deposits, net | (129) | (124) | (1,265) |
| Purchases of marketable and investment securities | (5,536) | (3,760) | (38,367) |
| Proceeds from sales of marketable and investment securities | 501 | 2,684 | 27,388 |
| Proceeds from liquidation of investment securities | 3,870 | - | - |
| Purchases of property, plant and equipment | (90,809) | (129,659) | (1,323,051) |
| Proceeds from sales of property, plant and equipment | 8 | 8,833 | 90,133 |
| Proceeds from capital reduction of affiliated company | 218 | - | - |
| Decrease in loans receivable, net | 13 | 7 | 71 |
| Cash paid in conjunction with the purchases of consolidated subsidiaries | (67) | - | - |
| Other | - | 44 | 448 |
| Net cash used in investing activities | (91,931) | (121,975) | (1,244,643) |
| **Cash flows from financing activities:** | | | |
| Decrease in short-term debt, net | (2,461) | (2,290) | (23,367) |
| Proceeds from long-term loans | 7,818 | 38,215 | 389,949 |
| Repayment of long-term loans | (4,791) | (2,543) | (25,949) |
| Redemption of unsecured bonds | (20,000) | - | - |
| Proceeds from issuance of common stock | 27,540 | - | - |
| Proceeds from common stock issued to minority shareholders | 193 | - | - |
| Cash dividends paid | (3,825) | (4,972) | (50,735) |
| Other | 1,051 | (972) | (9,918) |
| Net cash provided by financing activities | 5,525 | 27,438 | 279,980 |
| **Effect of exchange rate changes on cash and cash equivalents** | (369) | (1,759) | (17,949) |
| **Net increase (decrease) in cash and cash equivalents** | 15,654 | (6,423) | (65,541) |
| **Cash and cash equivalents at beginning of year** | 85,392 | 101,046 | 1,031,082 |
| **Cash and cash equivalents at end of year** (Note 7) | ¥ 101,046 | ¥ 94,623 | $ 965,541 |

The accompanying notes to the consolidated financial statements are an integral part of these statements.

## 1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Nippon Electric Glass Co., Ltd. ("the Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP") which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

Prior to the year ended March 31, 2009, the accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. As discussed in Note 3, the accounts of overseas consolidated subsidiaries for the year ended March 31, 2009, are prepared in accordance with International Financial Reporting Standards or U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been restructured and translated into English with certain expanded disclosures from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate at March 31, 2009, which was ¥98 to U.S. $1.00.

The translations, provided for convenience, should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

## 2. Significant accounting policies

### (a) Consolidation policies

Under Japanese GAAP, companies are required to consolidate all significant equity investments over which they have the power of control through a majority of voting rights or existence of certain conditions evidencing control.

The accompanying consolidated financial statements include the accounts of the Company and substantially all of its subsidiaries. All significant intercompany transactions and account balances are eliminated upon consolidation.

Investments in unconsolidated subsidiaries and affiliates are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Financial information for foreign subsidiaries is based on their fiscal years which end December 31.

### (b) Translation of foreign currencies

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the relevant exchange rates at the balance sheet date.

The financial statements of the Company's overseas consolidated subsidiaries are translated into Japanese yen at the current rates for assets and liabilities and at historical rates for shareholders' equity accounts. Average rates for the years are used for the translation of income and expense amounts. Foreign currency translation adjustments are recorded in net assets.

### (c) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, deposits placed with banks on demand and short-term highly liquid investments with maturities of three months or less when deposited or purchased are considered to be cash and cash equivalents.

### (d) Marketable and investment securities

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Cost of sales is calculated using moving average cost.

### (e) Allowance for doubtful receivables

Allowance for doubtful receivables is provided in an amount sufficient to cover possible losses on collection. For regular receivables, it consists of an estimated amount based on the historical ratio of bad debt losses. For receivables from customers in financial difficulty, it consists of the estimated non-collectable amounts of specific doubtful receivables.

### (f) Inventories

Through the year ended March 31, 2008, finished goods are stated principally at lower of cost or market value, with cost determined by the moving average method. Other inventories are stated principally at cost determined by the moving average method. Commencing in the year ended March 31, 2009, inventories are stated principally at the lower of weighted-average cost or net realized value.

For the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Board of Japan on July 5, 2006). The new accounting standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net realizable value, which is defined as selling price less estimated additional manufacturing costs and estimated direct selling expenses. Replacement cost may be used in lieu of the net realizable value, if appropriate. The effect of adopting the new accounting standard decreased operating income by ¥1,683 million ($17,173 thousand) and decreased income before income taxes and minority interests by ¥657 million ($6,704 thousand). The impact on segment information as a result of this change is described in detail in the segment information section.

**(g) Property, plant and equipment (except for leased properties)**

Property, plant and equipment are principally stated at cost.

Depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries is calculated by the declining-balance method at rates based on the estimated useful life of the assets. Buildings, excluding fixtures, acquired after March 31, 1998 are depreciated using the straight-line method. Depreciation of property, plant and equipment of overseas consolidated subsidiaries is calculated principally by the declining-balance method at rates based on the estimated useful life of the assets. The estimated useful life of machinery and equipment are generally 9 years.

For the year ended March 31, 2008, pursuant to an amendment to the Japanese Corporate Tax Law, the Company and its domestic consolidated subsidiaries depreciate tangible fixed assets acquired on or after April 1, 2007 in accordance with the method stipulated in the amended Japanese Corporation Tax Law. As a result, for the year ended March 31, 2008, operating income and income before income taxes and minority interests were each ¥998 million less than they would have been using the previous method. The impact on segment information as a result of this change is described in detail in the segment information section.

Pursuant to an amendment to the Japanese Corporate Tax Law, after fully depreciating tangible fixed assets acquired on or before March 31, 2007 up to 5% of the acquisition cost based on the prior Japanese Corporate Tax Law, the Company and its domestic consolidated subsidiaries depreciate the difference between 5% of the acquisition cost and the memorandum price using a straight-line method over 5 years and expense the amounts as "Depreciation and amortization". The straight-line depreciation starts from the year following the year the book value of tangible assets acquired on or before March 31, 2007 reach 5% of the acquisition cost. As a result, for the year ended March 31, 2008, the operating income and income before income taxes and minority interests were each ¥596 million less than they would have been using the previous method. The impact on segment information as a result of this change is described in detail in the segment information section.

For the year ended March 31, 2009, in the light of amendment to the Japanese Corporate Tax Law, the Company and its domestic consolidated subsidiaries reviewed useful lives of tangible fixed assets and the generally estimated useful lives of machinery and equipment were changed from 13 years to 9 years. The effect of this change decreased operating income by ¥2,427 million ($24,765 thousand) and decreased income before income taxes and minority interests by ¥2,710 million ($27,653 thousand). The impact on segment information as a result of this change is described in detail in the segment information section.

**(h) Leased properties**

Through the year ended March 31, 2008, finance leases, which do not transfer ownership and do not have bargain purchase provisions, are accounted for in the same manner as operating leases in accordance with Japanese GAAP. Commencing in the year ended March 31, 2009, finance leases are recognized on the balance sheets. Depreciation or amortization expense is recognized on a straight-line basis over the lease period. For leases, the residual value is zero.

Commencing in the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Lease Transaction" (Statement No.13 originally issued by the Business Accounting Deliberation Counsel on June 17, 1993 and revised by the Accounting Standards Board of Japan on March 30, 2007) and "Guidance on Accounting Standard for Lease Transaction" (Accounting Standard Implementation Guidance No.16 originally issued by the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised by the Accounting Standards Board of Japan on March 30, 2007). For the year ended March 31, 2009, all finance lease transactions were capitalized.

As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases with disclosure of certain "as if capitalized" information.

The effect of the adoption of this new accounting standard was not material.

**(i) Provision for product defect compensation**

The provision for product defect compensation is provided to cover the estimated future compensation for a single type of product manufactured by the Company and calculated based on the number of shipments of that product.

**(j) Reserve for directors' bonuses**

To provide a reserve for directors' bonuses, the Company and its domestic consolidated subsidiaries record the amount estimated to be paid to directors after the balance sheet date for their services rendered during the current fiscal period.

**(k) Severance and retirement benefits**

The Company and its consolidated subsidiaries principally provided the liability for severance and retirement benefits based on the projected benefit obligation at the end of fiscal year.

At March 31, 2008 and 2009, accrued retirement benefits for employees were provided mainly at an amount of the projected benefit obligation calculated by a simplified method because the amount of severance and retirement benefits were not significant.

**(l) Directors' retirement benefits**

To provide for directors' retirement benefits, the Company and its consolidated subsidiaries recorded the amount that was required by the internal corporate policy at the end of the current fiscal year. However, the directors' retirement benefits system was abolished in June 2004, and the Company has ceased recording these provisions since July 2004.

**(m) Reserve for special repairs**

Significant expenditures are expected for the repair of melting furnaces every 3 to 7 years. Such repairs are provided for in advance by charging the estimated cost against current operations over those periods.

(n) Income taxes
Tax effects of loss carryforwards and temporary differences between the financial statements basis and the tax basis of assets and liabilities are recognized as deferred tax assets and liabilities. The provision for income taxes is computed based on the pretax income included in the consolidated statements of income.

(o) Research and development
Costs relating to research and development activities are charged to income as incurred and amounted to ¥5,108 million and ¥5,051 million ($51,541 thousand) in 2008 and 2009, respectively.

(p) Net income per share
The computations of net income per share are based on the average number of shares of common stock outstanding during each year. Diluted net income per share of common stock is computed based on the average number of shares outstanding, increased by the number of shares that would be outstanding assuming all dilutive convertible bonds were converted at the beginning of the year at the current conversion price. Because there was no diluted stock, the computation of diluted net income per share was not calculated.

Per share of common stock amounts are retroactively adjusted for subsequent stock splits. The Company had a 1.5-for-1 stock split of its common stock on April 1, 2007.

(q) Derivatives and hedge accounting
The Company and its consolidated subsidiaries state derivative financial instruments at fair value and recognize changes in the fair value as gain or loss unless the derivative financial instruments are used for hedging purposes.

Interest rate swap contracts, that meet the criteria of hedge accounting as regulated in "Accounting Standard for Financial Instruments," are accounted for using deferral hedge accounting, which requires the unrealized gain or loss to be deferred as net unrealized gains or losses on the contracts, component of net assets, until gain or loss relating to the hedged item is actually recognized.

Hedging instruments and hedged items used by the Company and its consolidated subsidiaries are as follows:

| Hedging instruments: | Hedged item: |
|---|---|
| Interest rate swap contracts | Interest on borrowings |

The Company and its consolidated subsidiaries enter into forward foreign exchange contracts, currency swap contracts and interest rate swap contracts to manage risk exposure.

The Company and its consolidated subsidiaries use derivative transactions solely for the purpose of managing risks, and not for speculation.

The counterparties are major financial institutions, therefore, the Company and its consolidated subsidiaries consider the credit risk to be minimal.

The derivative transactions are entered into by each company in accordance with accounting policies and decisions made in each company's management meeting.

(r) Reclassification and restatement
Certain prior year amounts have been reclassified to conform to the current year presentation.

These reclassifications had no impact on previously reported results of operations or retained earnings.

## 3. Accounting changes

Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements
Effective for the year ended March 31, 2009, the Company and its overseas consolidated subsidiaries have adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18 ("PITF No.18") issued by the Accounting Standards Board of Japan on May 17, 2006). PITF No. 18 requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries' financial statements prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. As a result of the adoption of this accounting standard, operating income decreased by ¥2,304 million ($23,510 thousand) and income before income taxes and minority interests decreased by ¥5,333 million ($54,418 thousand) for the year ended March 31, 2009 from the amounts which would have been recorded under the method applied in the previous year. The impact on segment information as a result of this change is described in detail in the segment information section.

## 4. Supplementary information

Gain from liquidation of investment securities
Gain from liquidation of investment securities was due to the liquidation of Nippon Electric Glass (UK) Limited, a former subsidiary in the U.K.

## 5. Marketable and investment securities

(a) At March 31, 2008 and 2009, acquisition cost, book value and fair value of securities with available market values were as follows:

| | Millions of yen | | |
|---|---|---|---|
| 2008: | Acquisition cost | Book value | Difference |
| Available-for-sale securities: | | | |
| Securities with book value exceeding acquisition cost: | | | |
| Equity securities | ¥ 4,755 | ¥ 11,327 | ¥ 6,572 |
| Securities with acquisition cost exceeding book value: | | | |
| Equity securities | 6,694 | 6,168 | (526) |
| | ¥ 11,449 | ¥ 17,495 | ¥ 6,046 |

| | Millions of yen | | |
|---|---|---|---|
| 2009: | Acquisition cost | Book value | Difference |
| Available-for-sale securities: | | | |
| Securities with book value exceeding acquisition cost: | | | |
| Equity securities | ¥ 7,354 | ¥ 9,892 | ¥ 2,538 |
| Securities with acquisition cost exceeding book value: | | | |
| Equity securities | 2,763 | 2,518 | (245) |
| | ¥ 10,117 | ¥ 12,410 | ¥ 2,293 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| 2009: | Acquisition cost | Book value | Difference |
| Available-for-sale securities: | | | |
| Securities with book value exceeding acquisition cost: | | | |
| Equity securities | $ 75,041 | $100,939 | $25,898 |
| Securities with acquisition cost exceeding book value: | | | |
| Equity securities | 28,194 | 25,694 | (2,500) |
| | $103,235 | $126,633 | $23,398 |

(b) At March 31, 2008 and 2009, book value of securities with no available market values were as follows:

| | Millions of yen |
|---|---|
| 2008: | Book value |
| Available-for-sale securities: | |
| Equity securities issued by affiliates | ¥ 1,757 |
| Non-listed equity securities, other | 13 |
| | ¥ 1,770 |

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2009: | Book value | Book value |
| Available-for-sale securities: | | |
| Equity securities issued by affiliates | ¥ 1,710 | $ 17,449 |
| Non-listed equity securities, other | 14 | 143 |
| | ¥ 1,724 | $ 17,592 |

(c) Sales of available-for-sale securities sold in the years ended March 31, 2008 and 2009 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| Total sales amounts | ¥ 501 | ¥ 2,684 | $27,388 |
| Gains on sales | 368 | - | - |
| Losses on sales | - | 1,906 | 19,449 |

## 6. Derivatives

The fair value of derivative contracts utilized by the Company and its consolidated subsidiaries at March 31, 2008 and 2009 were as follows:

Currency related transaction

2008: Millions of yen

| Classification | Type of transaction | Notional amount | Portion due after 1 year | Fair value | Unrealized gain (loss) |
|---|---|---|---|---|---|
| | Forward foreign exchange | | | | |
| Non-market transaction | Sell | ¥ 1,558 | ¥ - | ¥ 1,544 | ¥ 13 |
| | Buy | 42 | - | 42 | 0 |
| | Swap | 1,591 | 530 | 87 | 87 |
| | | ¥ 3,191 | ¥ 530 | ¥ 1,673 | ¥ 100 |

2009: Millions of yen

| Classification | Type of transaction | Notional amount | Portion due after 1 year | Fair value | Unrealized gain |
|---|---|---|---|---|---|
| | Forward foreign exchange | | | | |
| Non-market transaction | Sell | ¥ 1,000 | ¥ - | ¥ 1,041 | ¥ (42) |
| | Buy | 99 | - | 100 | 1 |
| | Swap | 8,202 | 5,566 | 1,227 | 1,227 |
| | | ¥ 9,301 | ¥ 5,566 | ¥ 2,368 | ¥ 1,186 |

2009: Thousands of U.S. dollars

| Classification | Type of transaction | Notional amount | Portion due after 1 year | Fair value | Unrealized gain |
|---|---|---|---|---|---|
| | Forward foreign exchange | | | | |
| Non-market transaction | Sell | $10,204 | $ - | $10,622 | $ (429) |
| | Buy | 1,010 | - | 1,020 | 10 |
| | Swap | 83,694 | 56,796 | 12,520 | 12,520 |
| | | $94,908 | $56,796 | $24,162 | $12,101 |

*Note: 1. The fair value of forward foreign exchange is based on the forward exchange rate. The fair value of swaps is based on the prices obtained from the financial institution.*
*2. Derivative transactions utilized by the Company and its consolidated subsidiaries other than those above are accounted for hedge accounting and are not included in the above tasks.*

## 7. Cash and cash equivalents

Cash and cash equivalents at March 31, 2008 and 2009 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| Cash and time deposits in the balance sheets | ¥101,046 | ¥96,693 | $986,663 |
| Time deposits due over three months | - | (2,070) | (21,122) |
| Cash and cash equivalents in the statements of cash flows | ¥101,046 | ¥94,623 | $965,541 |

## 8. Inventories

Inventories at March 31, 2008 and 2009 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| Finished and purchased goods | ¥ 23,076 | ¥25,586 | $261,082 |
| Work-in-process | 2,086 | 1,348 | 13,755 |
| Raw materials and others | 14,569 | 15,317 | 156,296 |
| | ¥ 39,731 | ¥42,251 | $431,133 |

## 9. Pledged assets

At March 31, 2008 and 2009, the following assets were pledged as collateral for notes payable and others amounting to ¥1,002 million and ¥826 million ($8,429 thousand).

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| Cash and time deposit | ¥ - | ¥ 303 | $ 3,092 |
| Building and structures | 1,080 | 868 | 8,857 |
| Other assets (leasehold) | 168 | 138 | 1,408 |
| | ¥ 1,248 | ¥ 1,309 | $ 13,357 |

## 10. Loss on impairment of fixed assets

Long-lived assets, such as property, plant and equipment, and acquired intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the book values of the assets may not be recoverable. Recoverability of assets to be held and used are measured by a comparison between the book values of the assets and the estimated undiscounted future cash flows expected to be generated by the assets. If the book values of the assets exceed the estimated future cash flows, an impairment loss is recognized in the amount by which the book values of the assets exceed the fair values of the assets.

Loss on impairment of fixed assets for the years ended March 31, 2008 and 2009 consisted of the following:

(a) Grouping
The Company and its consolidated subsidiaries essentially group its operating assets by business units and its idle assets separately, to measure the impairment of the assets.

(b) Assets subject to impairment
After review, the book values of the following assets were reduced to recoverable values and the reduced amounts were recognized as impairment losses.

2008:

| Use | Reason | Location | Type |
|---|---|---|---|
| Production facilities for CRT glass | Unprofitable due to marked deterioration in market circumstances | China<br>Malaysia | Machinery and equipment, Other |
| Important idle assets | No utilization plan | Shiga-Takatsuki factory, Other | Machinery and equipment, Other |

2009:

| Use | Reason | Location | Type |
|---|---|---|---|
| Production facilities for CRT glass | Unprofitable due to marked deterioration in market circumstances | China | Machinery and equipment, Other |
| Important idle assets | No utilization plan | Wakasa-Kaminaka factory, Other | Machinery and equipment, Other |

(c) Assessment of recoverable values

For the year ended March 31, 2008, the recoverable values were mainly measured at value in use calculated by discounting future cash flows at an interest rate of 12.0%.

No recoverable values were expected for the production facilities because the possibility for future sale was low.

Recoverable values for land and buildings are measured at the appraisal values given by real estate appraisers.

For the year ended March 31, 2009, recoverable values of the production facilities were mainly measured based on the net selling prices.

Recoverable values for land and buildings are measured at the appraisal values given by real estate appraisers.

(d) Impairment loss on fixed assets is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| Machinery and equipment | ¥ 4,482 | ¥ 2,097 | $ 21,398 |
| Other | 1,882 | 345 | 3,520 |
| | ¥ 6,364 | ¥ 2,442 | $ 24,918 |

## 11. Short-term borrowings and long-term debt

Short-term borrowings, including the current portion of long-term debt, at March 31, 2008 and 2009 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| Short-term bank borrowings; average rate 1.21% per annum | ¥65,073 | ¥62,589 | $638,663 |
| Current portion of long-term borrowings; average rate 1.40% per annum | 2,581 | 2,305 | 23,520 |
| Current portion of unsecured bonds; 0.99% | - | 20,000 | 204,082 |
| | ¥67,654 | ¥84,894 | $866,265 |

Long-term debt at March 31, 2008 and 2009 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| Borrowings, principally from banks and insurance companies due from 2010 through 2016; average rate 1.36% per annum | ¥11,693 | ¥47,294 | $482,591 |
| 0.99% unsecured bonds, due in 2010 | 20,000 | 20,000 | 204,082 |
| | 31,693 | 67,294 | 686,673 |
| Less current portion included in short-term borrowings | (2,581) | (22,305) | (227,602) |
| | ¥29,112 | ¥44,989 | $459,071 |

The aggregate annual maturities of long-term debt at March 31, 2009 were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2010 | ¥22,305 | $227,602 |
| 2011 | 7,875 | 80,357 |
| 2012 | 7,470 | 76,224 |
| 2013 | 24,470 | 249,694 |
| 2014 | 3,655 | 37,296 |
| 2015 and thereafter | 1,519 | 15,500 |
| | ¥67,294 | $686,673 |

For flexible financing purposes, the Company has committed credit facility with certain banks. The maximum aggregate credit facility available to the Company is ¥25,000 million ($255,102 thousand). The credit facility has not been used as of March 31, 2009.

## 12. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 40.4% for the years ended March 31, 2008 and 2009.

The significant differences between the statutory tax rate in Japan and the effective tax rate of the Company and its consolidated subsidiaries for financial statement purposes for the years ended March 31, 2008 and 2009 were as follows:

| | 2008 | 2009 |
|---|---|---|
| Statutory tax rate in Japan | 40.4% | 40.4% |
| Difference in tax rates for overseas consolidated subsidiaries | 0.9 | 2.8 |
| Effect of elimination of dividend income | 1.5 | 2.4 |
| Valuation allowance | 0.6 | 1.2 |
| Undistributed earnings of overseas consolidated subsidiaries | (0.0) | 1.2 |
| Expense not deductible for tax purposes, mainly entertainment expenses | 0.2 | 0.4 |
| Exclusion from gross revenue of dividends | (1.3) | (3.4) |
| Other | 1.8 | 1.3 |
| Effective tax rate | 44.1% | 46.3% |

Significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2008 and 2009 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| Deferred tax assets: | | | |
| Excess reserve for special repairs | ¥ 3,645 | ¥ 4,594 | $ 46,878 |
| Impairment loss on property, plant and equipment | 2,791 | 2,962 | 30,224 |
| Tax losses carried forward | 2,417 | 2,400 | 24,490 |
| Loss on devaluation of inventories | 2,550 | 2,065 | 21,071 |
| Unrealized gain on property, plant and equipment | 1,856 | 1,804 | 18,408 |
| Accrued bonuses | 1,445 | 1,254 | 12,796 |
| Excess of depreciation | 537 | 1,230 | 12,551 |
| Alternative minimum tax | 1,283 | 1,023 | 10,439 |
| Accrued liability on retirement benefit plan changes | 1,732 | 758 | 7,735 |
| Loss from valuation of investment securities | 1,030 | 593 | 6,051 |
| Other | 8,225 | 6,331 | 64,601 |
| Subtotal deferred tax assets | 27,511 | 25,014 | 255,244 |
| Less valuation allowance | (5,589) | (5,992) | (61,142) |
| Total net deferred tax assets | 21,922 | 19,022 | 194,102 |
| Deferred tax liabilities: | | | |
| Depreciation of overseas consolidated subsidiaries | (2,624) | (1,951) | (19,908) |
| Net unrealized holding gains on securities | (2,362) | (883) | (9,010) |
| Other | (21) | (1,076) | (10,980) |
| Total deferred tax liabilities | (5,007) | (3,910) | (39,898) |
| Net deferred tax assets | ¥16,915 | ¥15,112 | $154,204 |

## 13. Severance and retirement benefits

The Company provides mainly defined contribution pension plans, and unfunded lump-sum payment plans are provided for a few employees. Consolidated subsidiaries provide mainly funded lump-sum payment plans and defined contribution pension plans.

Liabilities for severance and retirement benefits at March 31, 2008 and 2009 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| Projected benefit obligation | ¥ (1,421) | ¥ (1,408) | $ (14,367) |
| Pension assets | 56 | 52 | 530 |
| Unrecognized benefit obligation | (1,365) | (1,356) | (13,837) |
| Unrecognized transition obligation | (51) | (44) | (449) |
| Unrecognized actuarial differences | 2 | (44) | (449) |
| Net liabilities for severance and retirement benefits | (1,414) | (1,444) | (14,735) |
| Prepaid benefit cost | - | - | - |
| Liabilities for severance and retirement benefits | ¥ (1,414) | ¥ (1,444) | $ (14,735) |

Severance and retirement benefit expenses for the years ended March 31, 2008 and 2009 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| Service costs | ¥ 350 | ¥ 207 | $ 2,112 |
| Interest cost | 6 | 11 | 112 |
| Expected return on pension assets | (1) | (1) | (10) |
| Amortization of transition obligation | (7) | (7) | (71) |
| Amortization of actuarial differences | 4 | (13) | (133) |
| Subtotal severance and retirement benefit expenses | 352 | 197 | 2,010 |
| Defined contribution pension plan | 1,348 | 1,309 | 13,357 |
| Total severance and retirement benefit expenses | ¥ 1,700 | ¥ 1,506 | $ 15,367 |

## 14. Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under The Japanese Corporate Law ("the Law"), in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings by resolution of the shareholders' meeting, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

On April 1, 2007 the Company effected a 1.5-for-1 common stock split. The amount of common stock did not increase by this stock split. All historical share and per share data included in these financial statements have been adjusted to reflect this stock split.

The Company issued 18,300,000 shares of common stock by public offering on February 14, 2008. The issue price was ¥1,569 per share and gross cash proceeds were ¥27,540 million, of which ¥13,770 million was recorded as capital surplus in accordance with the Law.

Concurrently with the above public offering, the Company disposed (offered for sale) 1,050,000 shares of treasury stock.

At the annual shareholders' meeting held on June 26, 2009, the shareholders approved cash dividends amounting to ¥2,487 million ($25,378 thousand), ¥5.00 per share.

In addition to the cash dividends described above, the Company paid interim cash dividends of ¥2,487 million ($25,378 thousand), or ¥5.00 per share on November 28, 2008.

## 15. Contingent liabilities

Contingent liabilities at March 31, 2008 and 2009 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| Notes discounted | ¥ 105 | ¥ 61 | $ 623 |
| Guarantee of employees' housing loans | 1,347 | 1,149 | 11,724 |
| | ¥1,452 | ¥1,210 | $12,347 |

### Other contingent liabilities

For the legal liquidation of Nippon Electric Glass (UK) Limited, the Company executed and delivered a guaranty to the liquidator and others. The Company compensates the following under the guaranty.

1. The liabilities and expenses borne by the liquidator and others related to the liquidation
2. Fee for the liquidator

The compensation under the guaranty is less than the amount, including interest, which the Company receives from Nippon Electric Glass (UK) Limited.

## 16. Lease information

Finance leases, which do not transfer ownership and do not have bargain purchase provisions, which the transaction have started before March 31, 2008, are accounted for in the same manner as operating leases. The details of these lease transactions are as follows;

(a) At March 31, 2008 and 2009, the equivalent amounts of acquisition cost, accumulated depreciation and net book value of leased properties under finance leases accounted for in the same manner as operating leases were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| Acquisition cost of machinery and equipment | ¥727 | ¥696 | $7,102 |
| Accumulated depreciation of machinery and equipment | (260) | (388) | (3,959) |
| Net book value | ¥467 | ¥308 | $3,143 |

(b) Future minimum lease payments, excluding interest, under finance leases at March 31, 2008 and 2009 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| Current | ¥146 | ¥130 | $1,327 |
| Non-current | 331 | 201 | 2,051 |
| | ¥477 | ¥331 | $3,378 |

(c) Lease payments, assumed depreciation and assumed interest for the years ended March 31, 2008 and 2009 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| Lease payments | ¥184 | ¥189 | $1,929 |
| Assumed depreciation | 164 | 158 | 1,612 |
| Assumed interest | 24 | 43 | 439 |

Assumed depreciation is calculated by the straight-line method over the term of the lease assuming no residual value.

Future minimum lease payments under operating leases at March 31, 2008 and 2009 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2009 | 2009 |
| Current | ¥185 | ¥ 78 | $ 796 |
| Non-current | 807 | 37 | 377 |
| | ¥992 | ¥115 | $1,173 |

There was no impairment loss on fixed assets distributed to lease assets at March 31, 2008 and 2009.

## 17. Segment information

Information by segment for the years ended March 31, 2008 and 2009 was as follows:

(a) Information by business segment
The Company and its consolidated subsidiaries principally operate in the glass business in Japan and foreign countries. Therefore, information by business segment is not required to be disclosed.

(b) Information by geographic area

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| 2008: | Japan | Asia | Other areas | Total | Elimination and corporate | Consolidated total |
| Net sales | | | | | | |
| External | ¥ 155,289 | ¥ 210,032 | ¥ 2,946 | ¥ 368,267 | ¥ - | ¥ 368,267 |
| Inter-segment | 154,853 | 11,686 | 51 | 166,590 | (166,590) | - |
| Total sales | 310,142 | 221,718 | 2,997 | 534,857 | (166,590) | 368,267 |
| Operating expenses | 213,673 | 217,462 | 2,804 | 433,939 | (166,555) | 267,384 |
| Operating income | ¥ 96,469 | ¥ 4,256 | ¥ 193 | ¥ 100,918 | ¥ (35) | ¥ 100,883 |
| Identifiable assets | ¥ 439,881 | ¥ 144,340 | ¥ 1,901 | ¥ 586,122 | ¥ 1,909 | ¥ 588,031 |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| 2009: | Japan | Asia | Other areas | Total | Elimination and corporate | Consolidated total |
| Net sales | | | | | | |
| External | ¥ 128,885 | ¥ 203,728 | ¥ 3,049 | ¥ 335,662 | ¥ - | ¥ 335,662 |
| Inter-segment | 148,207 | 11,014 | 47 | 159,268 | (159,268) | - |
| Total sales | 277,092 | 214,742 | 3,096 | 494,930 | (159,268) | 335,662 |
| Operating expenses | 207,794 | 211,367 | 2,946 | 422,107 | (162,861) | 259,246 |
| Operating income | ¥ 69,298 | ¥ 3,375 | ¥ 150 | ¥ 72,823 | ¥ 3,593 | ¥ 76,416 |
| Identifiable assets | ¥ 456,093 | ¥ 101,465 | ¥ 1,427 | ¥ 558,985 | ¥ 29,429 | ¥ 588,414 |

| | Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| 2009: | Japan | Asia | Other areas | Total | Elimination and corporate | Consolidated total |
| Net sales | | | | | | |
| External | $1,315,153 | $2,078,857 | $31,112 | $3,425,122 | $ - | $3,425,122 |
| Inter-segment | 1,512,316 | 112,388 | 480 | 1,625,184 | (1,625,184) | - |
| Total sales | 2,827,469 | 2,191,245 | 31,592 | 5,050,306 | (1,625,184) | 3,425,122 |
| Operating expenses | 2,120,347 | 2,156,806 | 30,061 | 4,307,214 | (1,661,847) | 2,645,367 |
| Operating income | $ 707,122 | $ 34,439 | $ 1,531 | $ 743,092 | $ 36,663 | $ 779,755 |
| Identifiable assets | $4,654,010 | $1,035,357 | $14,561 | $5,703,928 | $ 300,296 | $6,004,224 |

*Note: 1. The classification of countries or areas is based on the degree of geographical proximity.*
*2. The main countries or areas belonging to the classification of those other than Japan are:*
*(1) Asia Malaysia, China, Korea, Taiwan*
*(2) Other areas U.S.A.*
*3. Corporate assets of ¥63,986 million and ¥63,516 million ($648,122 thousand) at March 31, 2008 and 2009, respectively, consisted mainly of cash and time deposits and investment securities owned by the Company.*
*4. Accounting changes*
*For the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Board of Japan on July 5, 2006). As a result of adopting this new accounting standard, operating income decreased by ¥1,683 million ($17,173 thousand) in the Japan segment when compared to the amounts that would have been recorded under the previous method.*
*For the year ended March 31, 2009, the Company and its overseas subsidiaries have adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18 issued by the Accounting Standards Board of Japan on May 17, 2006). As a result of adopting this new accounting standard, operating income decreased by ¥2,304 million ($23,510 thousand) in the Asia segment when compared to the amounts that would have been recorded under the previous method.*

*5. Additional information*
*As discussed in Note 2(g), for the year ended March 31, 2008, the Company changed the method of depreciation of tangible fixed assets. As a result of this change, operating income decreased by ¥998 million in the Japan segment when compared to the amounts that would have been recorded under the previous method.*
*As discussed in Note 2(g), for the year ended March 31, 2008, the Company changed the accounting method of residual value of tangible fixed assets. As a result of this change, operating income decreased by ¥596 million in the Japan segment when compared to the amounts that would have been recorded under the previous method.*
*As discussed in Note 2(g), for the year ended March 31, 2009, the Company changed the useful life of tangible fixed assets. As a result of this change, operating income decreased by ¥2,427 million ($24,765 thousand) in the Japan segment when compared to the amounts that would have been recorded under the previous method.*

(c) Overseas sales information

| | Millions of yen | | |
|---|---|---|---|
| 2008: | Asia | Other areas | Total |
| Overseas sales | ¥ 231,645 | ¥ 19,718 | ¥ 251,363 |
| Consolidated sales | | | 368,267 |
| Percentage of overseas sales | 62.9% | 5.4% | 68.3% |

| | Millions of yen | | |
|---|---|---|---|
| 2009: | Asia | Other areas | Total |
| Overseas sales | **¥ 213,835** | **¥ 18,459** | **¥ 232,294** |
| Consolidated sales | | | **335,662** |
| Percentage of overseas sales | **63.7%** | **5.5%** | **69.2%** |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| 2009: | Asia | Other areas | Total |
| Overseas sales | **$2,181,990** | **$188,357** | **$2,370,347** |
| Consolidated sales | | | **3,425,122** |

*Note: 1. The classification of countries or areas is based on the degree of geographical proximity.*
*2. The main countries or areas belonging to the classification of those other than Japan are:*
*(1) Asia Malaysia, China, Korea, Taiwan*
*(2) Other areas U.S.A*
*3. Overseas sales comprised the Company's and its consolidated subsidiaries' sales to countries other than Japan.*

## 18. Related party transaction

For the years ended March 31, 2008 and 2009, there were no applicable matters.

## 19. Subsequent event

Dissolution of subsidiary
While the Company has implemented a restructuring process of the cathode ray tube (CRT) glass business and a reduction of that business size in response to the constriction of global (CRT) glass market, Nippon Electric Glass (Fujian) Co., Ltd. ("the Subsidiary") continued to face severe conditions in terms of profitability of business without any prospects for improvement. In response to this situation, the Company resolved, at a meeting of the Board of Directors held on June 9, 2009, for the dissolution of the Subsidiary.

Overview of the Subsidiary

| | |
|---|---|
| Name | Nippon Electric Glass (Fujian) Co., Ltd |
| Description of main business | Production and sale of CRT glass |
| Shareholder composition | 91.4% held by the Company |
| Dissolution period | After middle of June, the Subsidiary will be given the approval by the authorities concerned and start liquidation |
| Estimated loss by the dissolution | Approximately ¥2 billion ($20 million) |

# Independent Auditors' Report

## To the Board of Directors of Nippon Electric Glass Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Nippon Electric Glass Co., Ltd. and consolidated subsidiaries as of March 31, 2008 and 2009, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Electric Glass Co., Ltd. and consolidated subsidiaries as of March 31, 2008 and 2009, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

(1) As discussed in Note 2 to the consolidated financial statements, commencing in the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Measurement of Inventories".

(2) As discussed in Note 3 to the consolidated financial statements, effective for the year ended March 31, 2009, the Company and its overseas consolidated subsidiaries adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements".

(3) As discussed in Note 19 to the consolidated financial statements, on June 9, 2009, the Company resolved for the dissolution of the Nippon Electric Glass (Fujian) Co., Ltd.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 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.

KPMG AZSA & Co.

Osaka, Japan
June 26, 2009

# Directors and Corporate Auditors

## Directors

*Chairman of the Board*
Tetsuji Mori

*Vice Chairman*
Yuzo Izutsu

*President*
Masayuki Arioka

*Director*
Hiroshi Kato
Katsumi Inada
Masami Atsuji
Shigeru Yamamoto
Koichi Inamasu
Shuji Ito
Masanori Yokota

## Corporate Auditors

Hitoshi Yasuda
Nobuhiro Miyamoto

Takuro Takeuchi
*Attorney at Law*

Fujio Okada
*Associate Senior Vice President NEC Corporation*

# Corporate Officers

*President*
Masayuki Arioka

*Executive Vice President*
Hiroshi Kato
Katsumi Inada
Masami Atsuji

*Senior Vice President*
Shigeru Yamamoto
Koichi Inamasu
Shuji Ito
Masanori Yokota

*Vice President*
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Tamotsu Kitagawa
Takao Akune
Kenji Ishitani
Yoshihisa Kinoshita
Sumio Oshita
Motoharu Matsumoto
Atsushi Shimomura
Masahiro Tomamoto
Seiichi Osako
Shigeaki Aoki
Shigeru Goto

# Corporate Data

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**Factories in Japan**
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Notogawa, Wakasa-Kaminaka

**Transfer Agent for Common Stock**
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Company, Limited
5-33, Kitahama 4-chome, Chuo-ku,
Osaka 541-0041, Japan

**Stock Exchange Listings**
The common stock is listed on the
Tokyo and Osaka
Stock Exchanges in Japan

## Major Overseas Subsidiaries

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