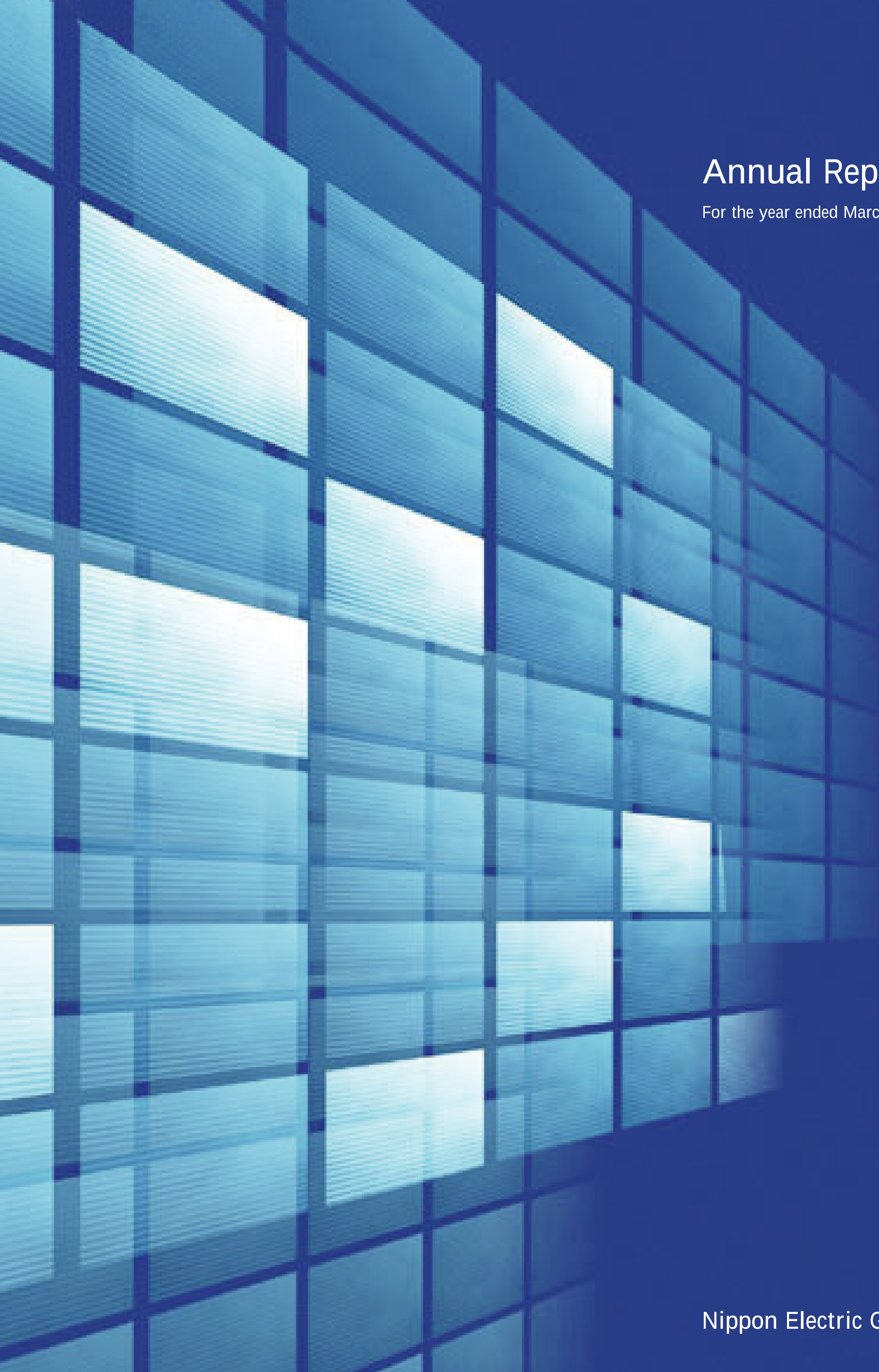


Annual Report 2006

For the year ended March 31, 2006

Nippon Electric Glass Co., Ltd.

CONTENTS

Glass is a unique material. It can be given a desired set of qualities by adjusting the composition of the starting materials, and then formed and processed into countless shapes. Over the half century since its inception, NEG has been striving to develop and refine technology for imparting specific properties to glass and for shaping and processing this unique material while vigorously responding to the needs of customers.

High-tech Glass is NEG's term for glass whose properties and shape are optimized for the intended application. It is advanced glass required by the global customers and the ongoing progress of technology. Used in display devices, information technology, laboratory equipment, architecture and in the home, high-tech glass is playing an essential role in all walks of our life and industry.

NEG will continue to focus on contributing to the development of society through the creation of high-tech glass, in harmony with the environment.

Consolidated Financial Highlights

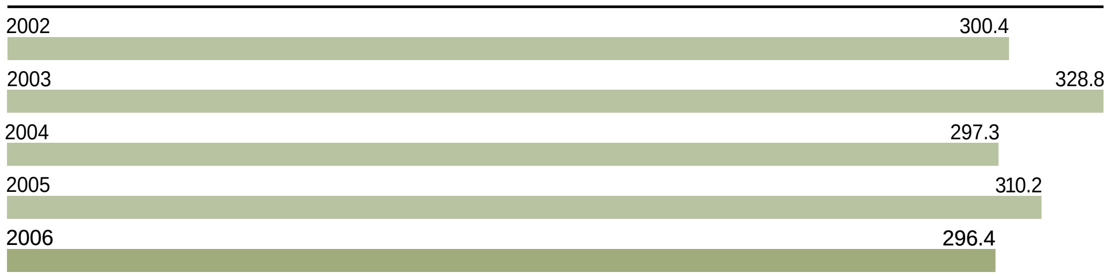
Nippon Electric Glass Co., Ltd.
and Consolidated Subsidiaries for
the Years Ended March 31, 2002,
2003, 2004, 2005 and 2006

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

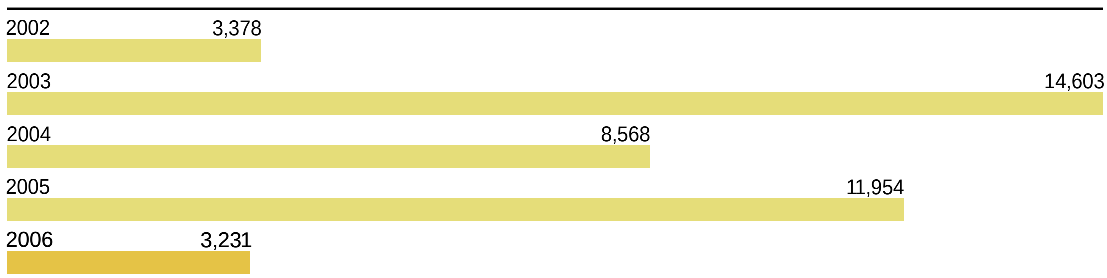
	2002	2003	2004	2005	2006	2006	Percent change 2006/2005
Net sales	¥300,395	¥328,803	¥297,307	¥310,198	¥296,440	$2,533,675	- 4.4%
Operating income	22,132	42,985	33,819	51,109	51,952	444,034	1.7
Net income	3,378	14,603	8,568	11,954	3,231	27,615	-73.0
Total assets	559,957	499,569	514,691	495,568	486,016	4,153,983	- 1.9
Shareholders' equity	218,184	212,942	208,248	217,588	231,005	1,974,402	6.2
Per share of common stock (yen and dollars)							
Net income	¥ 10.57	¥ 45.23	¥ 26.37	¥ 36.97	¥ 9.71	$ 0.08	-73.7
Diluted net income	-	-	-	-	-	-	-
Shareholders' equity	682.85	666.63	652.02	681.50	723.87	6.19	6.2
Equity ratio (%)	39.0	42.6	40.5	43.9	47.5		
Return on equity (%)	1.6	6.8	4.1	5.6	1.4		

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 split. The company had a 2-for-1 stock split of its common stock on March 10, 2005.
3. Because there were no dilutive stock, the computation of diluted net income per share was not calculated in 2002, 2003, 2004, 2005 and 2006.
4. 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, 2006 of ¥117 to US$1.
5. At March 31, 2006, Nippon Electric Glass Co., Ltd. had 24 consolidated subsidiaries.

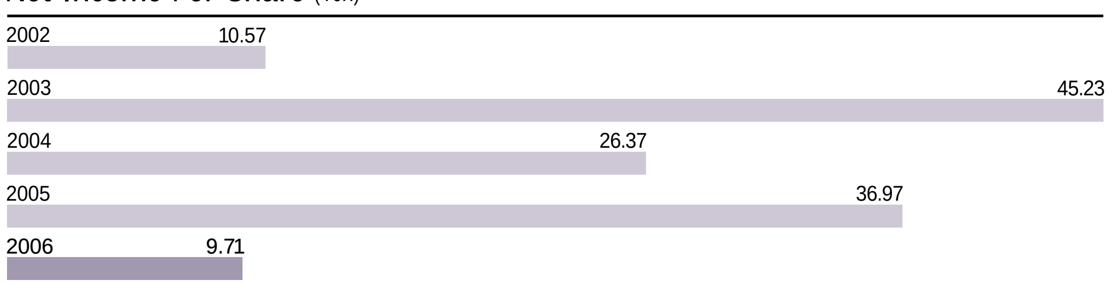
Net Sales (Billions of yen)



Net Income (Millions of yen)



Net Income Per Share (Yen)



Message from the Management

Fiscal 2006 Results

In fiscal 2006, which ended March 31, 2006, in the NEG Group's core business area of display devices, the market shifted further away from cathode ray tubes (CRTs) toward flat panel displays (FPDs), which include liquid crystal display (LCD) panels and plasma display panels (PDPs). We have made the accommodation of these changes our highest priority, and we are implementing a number of measures as outlined below.

As a result, while the CRT glass business climate deteriorated, non-CRT glass (glass for FPDs and for optical and electronic devices) recorded substantial growth. Consolidated net sales declined 4.4% compared with the previous year to ¥296,440 million ($2,534 million), but operating income edged up 1.7% year-over-year to ¥51,952 million ($444 million). Net income, however, suffered a substantial decline, falling 73.0% from the previous year to ¥3,231 million ($28 million) due to losses incurred as a result of restructuring of the CRT glass business. Net income per share was ¥9.71 (8 cents).

With respect to dividends, we acquired approval at the General Meeting of Shareholders to raise the per-share dividend by ¥1.5 to ¥5 (4 cents) in order to reward shareholders for their support. Combined with the ¥4 per share interim dividend, the per-share dividend for the year totaled ¥9 (8 cents).

Anticipating Growth Following Restructuring

We made further progress in restructuring our display devices section by reorganizing and downsizing our CRT glass business and expanding our FPD glass business. This process has been underway for the past several years, but in the year under review, we put a system in place for rebuilding the CRT glass business by consolidating mainstay business sites into subsidiaries located in Malaysia and Fujian, China. At the same time, we further increased production and supply capacity for FPD glass, as a tentative end to our restructuring activities has come into view. We intend to return to a growth track in fiscal 2007.

Leveraging Cumulative Technological Capacity to Meet New Needs

FPD glass is expected to play a leading role in driving our growth and development, but multifaceted growth that does not overly rely on a single business area is necessary to ensure stable management. From this point of view, glass fiber is one of the important business areas in which we expect future growth. Demand is growing worldwide for glass fiber used to strengthen high-function plastics for auto parts. The Company plans to start operations of a new facility at our Malaysian subsidiary in this summer.

Additionally, sales of crystallized glass are growing, particularly for application in the top plates of cooking appliances, fire rated applications, and electronics. We have high expectations for crystallized glass, as its applications are set to expand going forward due to its exceptional qualities. We will construct a balanced, stable business structure by strengthening these areas together with construction glass operations, all of which we have identified as pillars in the foundation of the Company's operations.

In addition to these initiatives, to ensure growth and development into the future, we will devote resources to "non-glass products," a term that refers to thin film applications and products that combine glass with non-glass materials like metals and organic materials. We will position these areas to serve as the basis for our next-generation lineup, and in doing so, we intend to develop away from glass materials and toward functional products with high added value.


Tetsuji Mori, Chairman of the Board (right), and Yuzo Izutsu, President

Fulfilling Corporate Social Responsibilities

Addressing environmental problems is one of our most important social responsibilities. As one example of our efforts, we have reduced energy consumption and curtailed greenhouse gas emissions by introducing oxygen-burning glass melting furnaces and by converting to cleaner fuels. As for water used in manufacturing processes, in addition to recycling and wastewater treatment, water use reduction is also being vigorously pursued with the construction of an optimal manufacturing system.

Employing people with disabilities is another priority at the Company. Our employment rate for people with disabilities at a subsidiary established in 1980 to tackle this issue and at the Company itself is 4.1% in total, which far exceeds the average for Japanese companies (1.5%) as well as the statutory employment rate (1.8%).

We intend to strive to improve corporate value while ensuring a highly sustainable form of growth through the activities and initiatives presented here.

In closing, on behalf of the Board of Directors, we would like to express our sincere appreciation to our shareholders, customers, employees, and other associates. We thank you for your continuing support for our future development.

Tetsuji Mori, Chairman of the Board

Yuzo Izutsu, President

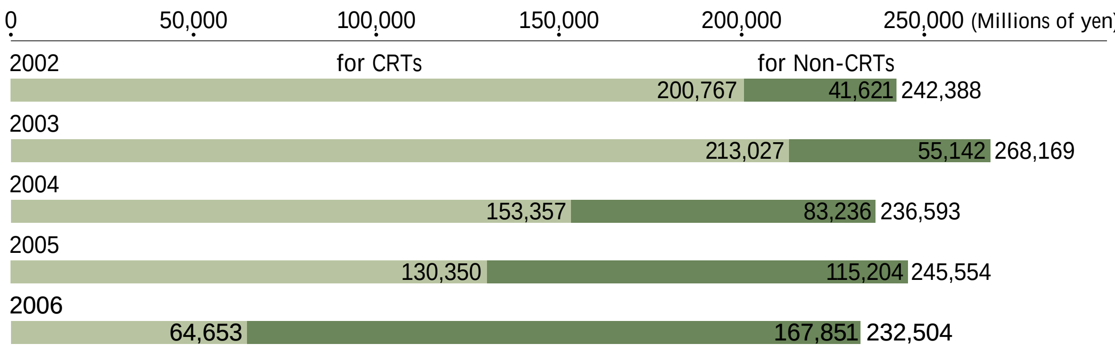
Review of Operations

Sales in the glass business segment decreased 4.5% from the previous year to ¥294,962 million ($2,521 million), which represents 99.5% of consolidated net sales.

Information and Communications

This sector comprises glass for various display devices and glass for optical and electronic devices. Sales in the year under review from this sector totaled ¥232,504 million ($1,987 million), a year-over-year decline of 5.3%, and accounted for 78.4% of consolidated net sales.

Information and Communications



CRT Glass

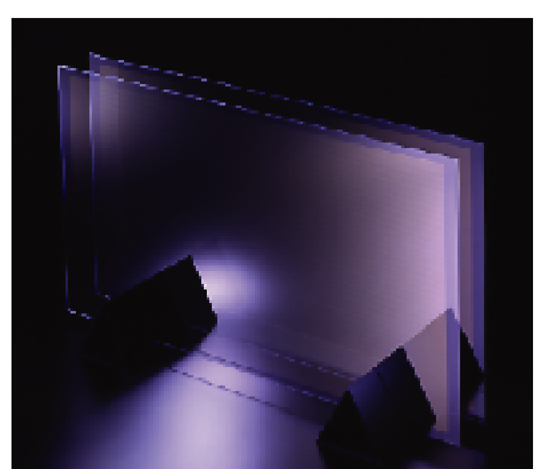
Sales of glass for CRTs decreased 50.4% from the previous year to ¥64,653 million ($552 million). This was due to the combined effects of reducing the Group's production capacity, inventory adjustments in the CRT industry, and lower prices for CRT glass.

NEG continued to reorganize and downsize its CRT glass business in fiscal 2006 in order to respond to a worsening operating environment for CRT glass due to a worldwide market contraction. Domestic production of CRT glass were discontinued by the end of the year. For Europe, we ended production at our U.K. subsidiary in December 2005. Further, we transferred our stake in a joint venture located in Hebei Province, China, to our Chinese partner, ending joint operations as of March 2006.

Non-CRT Glass (Glass for FPDs and Glass for Optical and Electronic Devices)

Sales of glass for non-CRT applications climbed 45.7% over the previous year to ¥167,851 million ($1,435 million). Responding to growth in the FPD market, we augmented production and supply capacity for FPD-related products, resulting in substantially higher sales of glass for LCDs and PDPs. Glass for optical components also sold well thanks to a recovery in market conditions.

NEG established new substrate glass production facilities, which were put into operation in June 2005 and March 2006, respectively. Construction also began on another substrate glass production facility, with a view to launching operations by the end of 2006. Moreover, in order to boost supply capacity for LCD substrate glass for markets in Korea and Taiwan, we ramped up capacity at local subsidiaries involved in processing and launched operations of LCD substrate glass processing in January 2006 at Paju Electric Glass Co., Ltd. in South Korea, a joint venture between NEG (60%



Substrate Glass for PDPs

Main products

CRT Glass
- CRT glass for TVs, displays, and projection TVs

Non-CRT Glass
Glass for LCDs:
- substrates,
- tubes for back-light lamps

Glass for PDPs:
- substrates,
- glass paste

Glass for optical devices:
- parts for optical communications,
- glass materials for aspheric lenses

Glass for electronic devices:
- cover glass for image sensors,
- glass for laser diodes,
- powdered glass,
- tubes for diodes

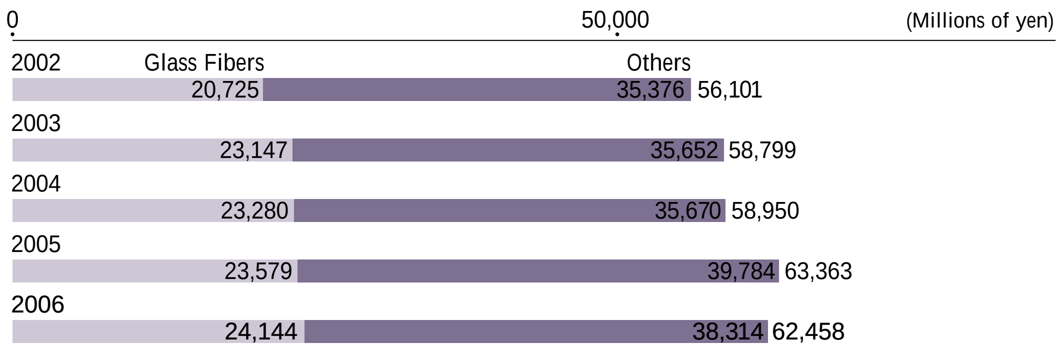
ownership) and LG Philips LCD Co., Ltd.

At the same time, for PDP substrate glass, we began augmenting substrate glass production facilities at the Shiga-Takatsuki plant, with a view to bringing them online in the summer of 2006, in order to accommodate increased demand and the shift to large multiple-panel substrates. In addition, we made further progress in enhancing thin film coating capacity and processing capacity for PDP substrate glass.

Other Products

This sector comprises glass fibers, building materials, heat-resistant glass, glass tubing for lighting and medical uses, and other glass products. Sales for this sector totaled ¥62,458 million ($534 million), a 1.4% decrease compared with the previous year. This figure represents 21.1% of consolidated net sales for the year.

Other Products



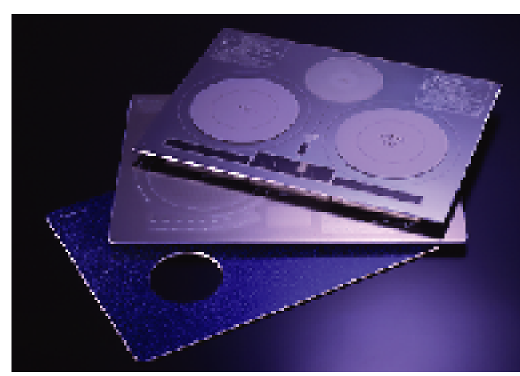
Glass Fibers

Sales of glass fibers increased 2.4% year-over-year to ¥24,144 million ($206 million). While demand increased, primarily for glass fibers used in high-function plastic auto parts, shipments showed little growth due to the Group's limited supply capacity.

In order to accommodate increasing global demand, we initiated enhancements of glass fiber production facilities at our Malaysian subsidiary, targeting the summer of 2006 for the launch of operations.

Building Materials, Heat-Resistant Glass, Glass Tubing, and Other Glass Products

Sales of building materials were slow due to market competition from low-priced imports. Glass for lighting and thermoses declined under the impact of a contraction in the domestic market. As a result of these developments, sales from this category amounted to ¥38,314 million ($328 million), down 3.7% from a year ago.



"Neoceram" for Top Plates of IH and Gas Cooking Appliances

This segment consists of service and retail activities conducted by NEG subsidiaries. Sales increased 15.4% over the previous year to ¥1,478 million ($13 million).

Main products

Glass Fibers
- E-fiber for engineering plastics, printed circuit boards and FRP,
- ARG (alkali-resistant glass) fiber for GRC and asbestos replacements

Building materials and Others

Building materials:
- Glass blocks,
- glass-ceramics building materials "Neoparies" and "Neoclad,"
- fire rated glass "Firelite,"
- "LX" radiation-shielding glass

Heat-resistant glass:
- super heat-resistant glass-ceramic "Neoceram,"
- heat-resistant glass "Neorex"

Glass tubing:
- fluorescent-lamp bulbs,
- glass for ampules, vials, and laboratory use

Other:
- glass for thermos flasks, evacuated-type solar collectors, glassmaking machinery

Consolidated Five-year Summary

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

	2002	2003	2004	2005	2006	
For the year ended March 31						
Net sales	¥300,395	¥328,803	¥297,307	¥310,198	¥296,440	$2,533,675
Operating income	22,132	42,985	33,819	51,109	51,952	444,034
Net income	3,378	14,603	8,568	11,954	3,231	27,615
Depreciation and amortization	37,079	34,967	31,177	30,345	30,106	257,316
Capital expenditures	34,919	15,236	47,315	47,997	79,300	677,778
Per share of common stock (yen and dollars)						
Net income	¥ 10.57	¥ 45.23	¥ 26.37	¥ 36.97	¥ 9.71	$ 0.08
Diluted net income	-	-	-	-	-	-
Cash dividends	5.50	6.00	6.00	6.50	9.00	0.08
Shareholders' equity	682.85	666.63	652.02	681.50	723.87	6.19
At year-end						
Total assets	¥559,957	¥499,569	¥514,691	¥495,568	¥486,016	$4,153,983
Current assets	229,395	213,667	237,274	233,799	216,168	1,847,590
Net property, plant and equipment	279,711	242,126	243,816	228,218	233,206	1,993,214
Current liabilities	200,459	165,926	173,199	165,367	177,748	1,519,214
Long-term debt	84,891	69,007	84,176	59,066	48,757	416,726
Shareholders' equity	218,184	212,942	208,248	217,588	231,005	1,974,402
Cash flows						
Net cash provided by operating activities	¥ 36,456	¥ 79,241	¥ 53,397	¥ 71,844	¥ 71,312	$ 609,504
Net cash used in investing activities	(33,024)	(18,368)	(32,478)	(52,918)	(56,516)	(483,043)
Net cash provided by (used in) financing activities	(16,434)	(57,433)	5,615	(9,603)	(29,760)	(254,359)
Cash and cash equivalents at end of year	58,886	62,339	89,291	97,902	86,321	737,786
Number of shares outstanding (in thousands)						
Average	159,768	159,702	159,597	319,101	318,993	
Year-end	159,760	159,614	159,577	319,048	318,938	

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 split. The company had a 2-for-1 stock split of its common stock on March 10, 2005.
3. Because there were no dilutive stock, the computation of diluted net income per share was not calculated in 2002, 2003, 2004, 2005 and 2006.
4. 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, 2006 of ¥117 to US$1.
5. Number of shares outstanding is net of treasury stock.

Financial Review

Business Climate

The Japanese economy in fiscal 2006 was marked by a clear recovery supported by growth in private-sector capital investment and buoyant exports. In the field of display devices, the core business area of the NEG Group, the market continued to transition from CRT displays to flat-panel displays (FPDs) such as LCDs and PDPs.

Sales

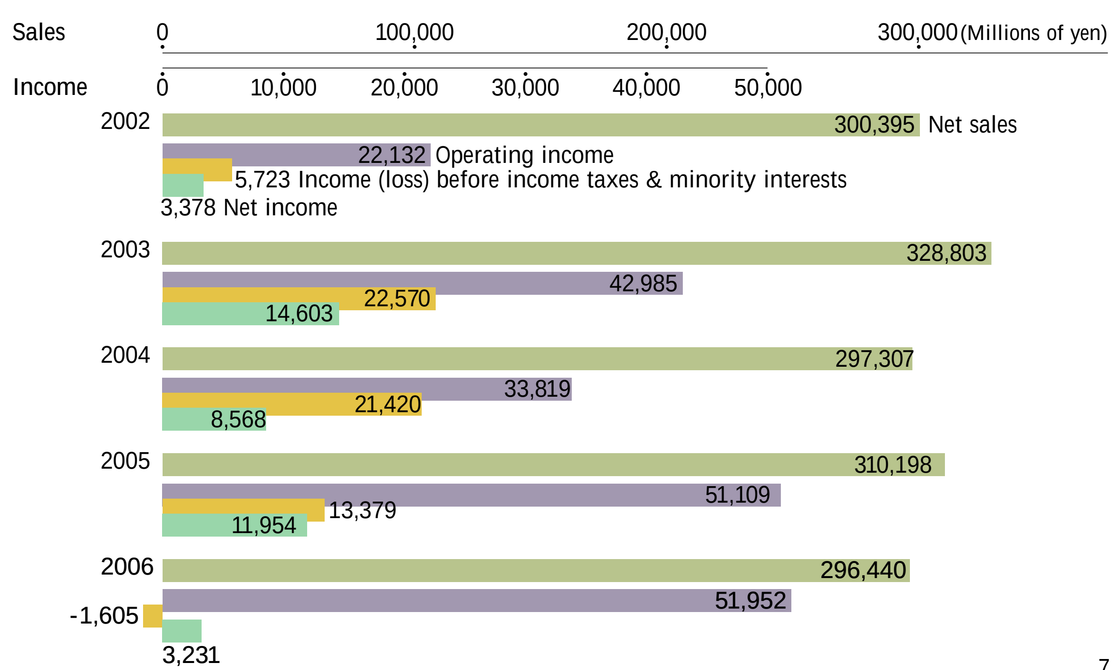
Consolidated net sales declined 4.4% from the previous year to ¥296,440 million ($2,534million). Sales of non-CRT glass increased steadily, but sales of CRT glass were reduced to half due to reorganizing and downsizing of the business and lower market prices.

Sales by Business (Millions of yen and U.S. dollars)

	2002	2003	2004	2005	2006		Percent change 2006/2005	Percent of net sales 2006
Glass Business:								
Information and Communications								
Glass for CRTs	¥200,767	¥213,027	¥153,357	¥130,350	¥ 64,653	$ 552	-50.4 %	21.8 %
Glass for Non-CRTs	41,621	55,142	83,236	115,204	167,851	1,435	45.7	56.6
	242,388	268,169	236,593	245,554	232,504	1,987	-5.3	78.4
Other Products								
Glass Fibers	20,725	23,147	23,280	23,579	24,144	206	2.4	8.2
Building Materials, Heat-resistant Glass, Glass Tubing, Other	35,376	35,652	35,670	39,784	38,314	328	-3.7	12.9
	56,101	58,799	58,950	63,363	62,458	534	-1.4	21.1
	298,489	326,968	295,543	308,917	294,962	2,521	-4.5	99.5
Other Business:	1,906	1,835	1,764	1,281	1,478	13	15.4	0.5
Total	¥300,395	¥328,803	¥297,307	¥310,198	¥296,440	$2,534	-4.4 %	100.0 %

Income

Operating income increased 1.7% year-over-year to ¥51,952 million ($444 million). Factors putting downward pressure on income included deteriorated profitability from CRT glass and higher prices for raw materials. However, these factors were more than offset by the increase in sales of FPD-related products, the effects of company efforts to



improve productivity and lower costs, and lower selling expenses in conjunction with changes in the composition of products sold.

Other expenses were incurred in the form of ¥35,923 million ($307 million) in business restructuring charges for CRT glass operations; ¥11,496 million ($98 million) in loss on impairment of fixed assets, primarily with regard to CRT glass facilities in Japan; and ¥6,753 million ($58 million) in loss on retirement benefit plan changes.

As a result, loss before income taxes and minority interests was ¥1,605 million ($14 million). Net amounts of provision for income taxes totaled ¥4,585 million ($39 million), and minority interests in loss of ¥9,421 million ($81 million) were incurred. As a result, net income was held to ¥3,231 million ($28 million), down 73% from the previous year. Net income per share was ¥9.71 (8 cents).

Geographic Segment Information

Japan: Although sales of CRT glass decreased, sales of FPD-related products steadily increased. As a result, total sales in Japan increased 3.3% over the previous year to ¥237,719 million ($2,032 million). Operating income climbed 36.1% year-over-year to ¥57,381 million ($490 million) owing to improved profitability due to changes in the composition of products sold, higher productivity, and the effects of cost-cutting initiatives.

Asia: Demand for LCD substrate glass in South Korea and Taiwan increased, and processing and supply capacity was augmented at Nippon Glass Electric (Korea) Co., Ltd. and Nippon Electric Glass Taiwan Co., Ltd. As a result, total sales in Asia increased 12.9% over the previous year to ¥135,608 million ($1,159 million). Operating income, however, decreased 95.1% year-over-year to ¥619 million ($5 million). This was due to the impact of lower profits for CRT glass.

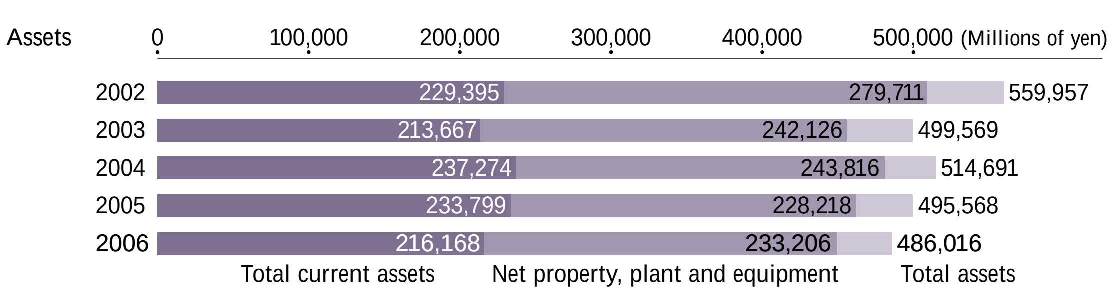
Other Regions: Total sales in other regions fell 58.0% compared with the previous year to ¥19,873 million ($170 million), due to a smaller market for CRT glass in North America and Europe, discontinuation of production at Techneglas, Inc. in the U.S. in August 2004, and other factors. The operating loss grew by 42.5% over the previous year to ¥5,997 million ($51 million), largely because of deteriorating profitability for CRT glass in Europe.

Dividends

The cash dividend per share for the 2006 fiscal year was ¥9 (8 cents), which includes an interim dividend of ¥4 (3 cents) per share paid out in December 2005. NEG conducted a two-for-one stock split on March 10, 2005. When the dividend paid in fiscal 2005 is converted based on the number of shares after the split, this year's payout represents an increase in real terms of ¥2.50 (2 cents) per share.

Financial Position

Total assets at the end of the fiscal year amounted to ¥486,016 million ($4,154 million), a decrease of ¥9,552 million ($82 million) compared with the end of the previous fiscal



year. NEG transferred its entire stake in Shijiazhuang Baoshi Electric Glass Co., Ltd. (SBEG) in March 2006 and ended the joint venture for CRT glass in Hebei Province, China. For this reason, SBEG was excluded from the scope of the consolidated balance sheet at the end of the fiscal year under review, which had an impact on the Group's financial position for the fiscal year.

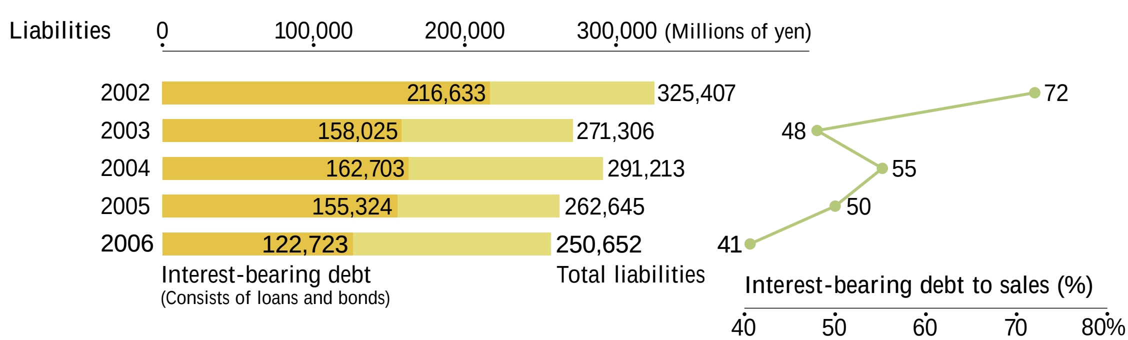
Current assets decreased by ¥17,631 million ($151 million). Cash and time deposits decreased mainly due to payment for facilities in the FPD glass business, and redemption of corporate bonds. Notes and accounts receivable, trade declined owing to a reduction in collection sites for accounts receivable and exclusion of SBEG from the scope of consolidation. Inventories also declined in conjunction with reorganization and downsizing of the CRT glass business.

Net property, plant and equipment increased by ¥4,988 million ($43 million). Capital investment, primarily to augment production capacity for FPD glass, exceeded depreciation, and figures for property, plant, and equipment connected with FPD glass increased. Figures for property, plant, and equipment associated with CRT glass, however, decreased with the reorganization and downsizing of the CRT glass business. Investments and other assets increased by ¥3,091 million ($26 million) due to an increase in investment securities.

Total liabilities at the end of fiscal 2006 totaled ¥250,652 million ($2,142 million), down ¥11,993 million ($103 million) compared with the end of the previous year.

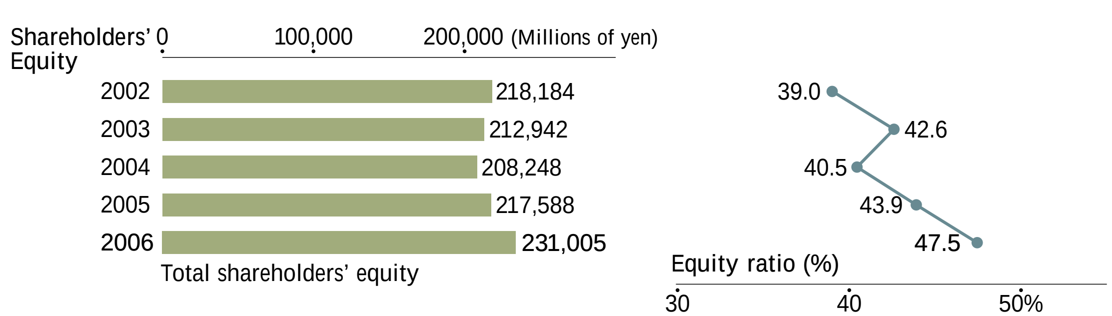
Current liabilities increased by ¥12,381 million ($106 million) due in part to an increase in notes and accounts payable for construction and an increase in accrued income taxes.

The NEG Group has been working since fiscal 2000 to reduce its interest-bearing debt as a part of its medium- to long-term plan. In Fiscal 2006, interest-bearing debt declined by ¥32,601 million ($279 million), which includes a reduction from the exclusion of SBEG from the scope of the consolidated balance sheet. Consolidated interest-bearing debt at the end of the fiscal year totaled ¥122,723 million ($1,049 million).



Other changes included decreases in both severance and retirement benefits and reserve for special repairs.

Minority interests decreased by ¥10,976 million ($94 million) compared with the previous year, largely as a result of excluding SBEG from the scope of the consolidated balance sheet.



Shareholders’ equity at the end of fiscal 2006 increased by ¥13,417 million ($115 million) over the previous year-end to ¥231,005 million ($1,974 million). Major factors were an increase in retained earnings and an increase in foreign currency translation adjustments. Consequently, the shareholders’ equity ratio rose 3.6 percentage points, from 43.9% at the end of fiscal 2005 to 47.5% at the end of the year under review.

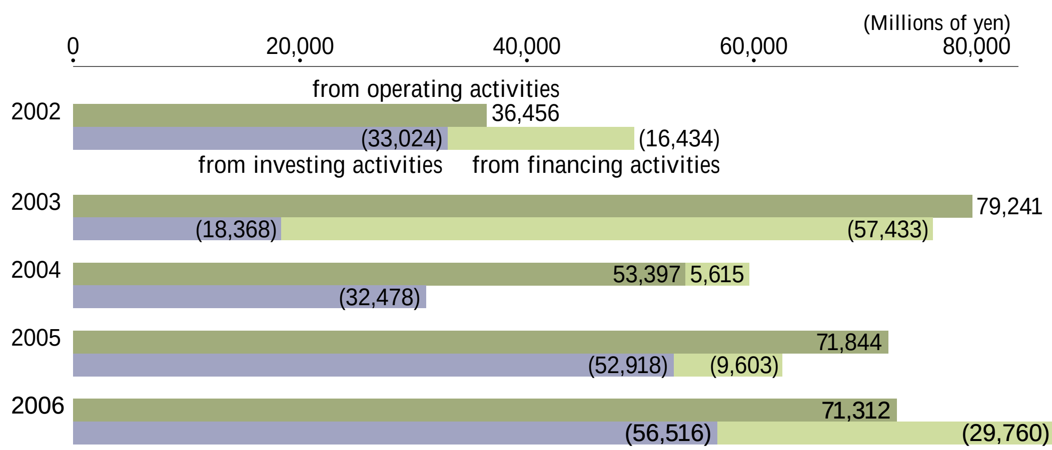
Cash Flows

Cash and cash equivalents at the end of the fiscal year totaled ¥86,321 million ($738 million), down ¥11,581 million ($99 million) compared with the end of the previous year.

In fiscal 2006, there was a greater demand for funds for investment activities. Also, there was an increase in net cash used in financing activities. Cash flows from operating activities, however, stayed flat compared with the previous year. These factors contributed to lower cash and cash equivalents at the year-end.

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥71,312 million ($610 million). This was largely the result of the fact loss on impairment of fixed assets and business restructuring charges of ¥27,741 million ($237 million) were non-cash items, decreases in notes and accounts receivable and inventories, and an increase in notes and accounts payable. Compared with the previous year, whereas the loss before income taxes and minority interests incurred, there was an increase in loss on impairment of fixed assets as a non-cash item, and a decline in payment for income taxes net.



Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥56,516 million ($483 million), mainly because property, plant and equipment were acquired for increasing FPD glass production capacity. Compared with the previous year, net cash used in investing activities increased by ¥3,598 million ($31 million) mainly due to an increase in purchases of property, plant and equipment, and assignment of subsidiaries' equity resulting in changes in the scope of consolidation.

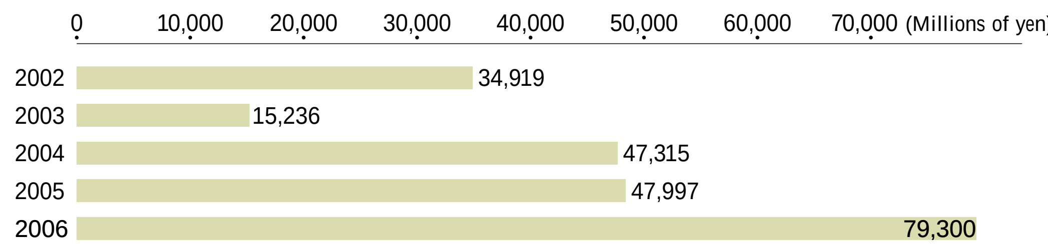
Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥29,760 million ($254 million), primarily due to the scheduled repayment of long-term debt and redemption of ¥20,000 million ($171 million) in unsecured bonds. Fiscal 2006 marked the first year of the NEG Group’s third three-year interest-bearing debt reduction project, and because progress was made in reducing interest-bearing debt through redemption of bonds and other initiatives, net cash used in financing activities increased by ¥20,157 million ($172 million) compared with the previous year.

Capital Expenditures

The NEG Group made capital expenditures totaling ¥79,300 million ($678 million) in order to establish new facilities for increased production capacity, to update facilities to improve productivity, and to make scheduled repairs of melting furnaces.

In the Information and Communications sector, capital expenditures totaling ¥70,432 million ($602 million) were made, primarily to boost production capacity of LCD and PDP glass and to enhance processing facilities for LCD substrate glass in South Korea and Taiwan. In the Other Products sector, capital expenditures of ¥8,857 million ($76 million) were made, mainly in order to ramp up production capacity for Neoceram.



Capital expenditures

Consolidated Balance Sheets

Nippon Electric Glass Co., Ltd. and Consolidated Subsidiaries
March 31, 2005 and 2006

ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
Current assets:			
Cash and time deposits (Notes 7 and 10)	¥ 97,957	¥ 86,322	$ 737,795
Notes and accounts receivable, trade	76,164	70,514	602,684
Allowance for doubtful receivables	(1,466)	(1,590)	(13,590)
Inventories (Note 8)	46,291	40,798	348,701
Deferred income taxes (Note 12)	6,898	14,312	122,325
Other current assets	7,955	5,812	49,675
Total current assets	233,799	216,168	1,847,590
Property, plant and equipment (Notes 9 and 10):			
Land	16,308	16,294	139,265
Buildings and structures	88,012	83,581	714,368
Machinery and equipment	423,856	413,610	3,535,128
Construction in progress	18,484	18,625	159,188
	546,660	532,110	4,547,949
Accumulated depreciation	(318,442)	(298,904)	(2,554,735)
Net property, plant and equipment	228,218	233,206	1,993,214
Investments and other assets:			
Investment securities (Note 5)	13,197	18,581	158,812
Investment in affiliates (Note 5)	3,473	1,739	14,863
Goodwill	99	50	427
Deferred income taxes (Note 12)	10,159	11,545	98,675
Other assets (Notes 9 and 10)	6,623	4,727	40,402
Total investments and other assets	33,551	36,642	313,179
Total assets	¥495,568	¥486,016	$4,153,983

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

LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
Current liabilities:			
Short-term borrowings, including current portion of long-term debt (Notes 10 and 11)	¥ 96,258	¥ 73,966	$ 632,188
Notes and accounts payable (Note 10) :			
Trade	42,048	36,119	308,709
Construction and other	14,290	37,991	324,710
Accrued expenses	10,432	11,665	99,701
Accrued income taxes	1,295	16,958	144,940
Other current liabilities	1,044	1,049	8,966
Total current liabilities	165,367	177,748	1,519,214
Long-term debt (Note 11)	59,066	48,757	416,726
Provision for product defect compensation	-	830	7,094
Severance and retirement benefits (Note 13)	9,926	1,240	10,598
Directors' retirement benefits	431	372	3,179
Reserve for special repairs	14,494	11,286	96,462
Deferred income taxes (Note 12)	4,115	2,400	20,513
Other non-current liabilities	9,246	8,019	68,539
Total liabilities	262,645	250,652	2,142,325
Minority interests	15,335	4,359	37,256
Shareholders' equity (Note 14):			
Common stock			
Authorized - 800,000,000 shares in 2006 and 2005			
Issued - 319,544,156 shares in 2006 and 2005	18,386	18,386	157,145
Capital surplus	20,120	20,124	172,000
Retained earnings	181,889	185,673	1,586,949
Net unrealized holding gains on securities	4,078	7,098	60,667
Foreign currency translation adjustments	(6,483)	371	3,171
	217,990	231,652	1,979,932
Less: cost of treasury stock: 606,461 shares in 2006, 495,687 shares in 2005,	(402)	(647)	(5,530)
Total shareholders' equity	217,588	231,005	1,974,402
Contingent liabilities (Note 15)			
Total liabilities and shareholders' equity	¥495,568	¥486,016	$4,153,983

Consolidated Statements of Income

Nippon Electric Glass Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2004, 2005 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2005	2006	2006
Net sales	¥297,307	¥310,198	¥296,440	$2,533,675
Cost of sales	225,403	222,260	212,711	1,818,043
Gross profit	71,904	87,938	83,729	715,632
Selling, general and administrative expenses	38,085	36,829	31,777	271,598
Operating income	33,819	51,109	51,952	444,034
Other income (expenses):				
Interest and dividend income	463	1,146	2,147	18,350
Interest expense	(2,625)	(2,082)	(1,680)	(14,359)
Loss from special retirement benefits	(1,479)	-	-	-
Loss from devaluation of inventories	(747)	(313)	(2,497)	(21,342)
Loss on disposal of property, plant and equipment including removal expenses	(4,726)	(5,077)	(2,688)	(22,975)
Gain on sales of investment securities	5,156	1,910	250	2,137
Loss on disposal of inventories	(70)	(467)	(951)	(8,128)
Goodwill impairment charges (Note 4)	(9,214)	-	-	-
Loss on impairment of fixed assets (Note 9)	-	(725)	(11,496)	(98,256)
Reversal of reserve for special repairs	2,765	4,388	5,148	44,000
Business restructuring charges (Note 4)	-	(38,748)	(35,923)	(307,034)
Loss on retirement benefit plan changes (Note 13)	-	-	(6,753)	(57,718)
Provision for product defect compensation	-	-	(830)	(7,094)
Foreign exchange gains (losses), net	(2,325)	641	2,177	18,607
Other, net	403	1,597	(461)	(3,940)
	(12,399)	(37,730)	(53,557)	(457,752)
Income (loss) before income taxes and minority interests	21,420	13,379	(1,605)	(13,718)
Provision for income taxes (Note 12):				
Current	17,105	1,762	18,727	160,060
Deferred	(4,992)	(1,172)	(14,142)	(120,872)
	12,113	590	4,585	39,188
Minority interests	739	835	(9,421)	(80,521)
Net income	¥ 8,568	¥ 11,954	¥ 3,231	$ 27,615

	Yen			U.S. dollars (Note 1)
Amount per share of common stock:				
Net income (Note 2)	¥ 26.37	¥ 36.97	¥ 9.71	$ 0.08
Diluted net income (Note 2)	-	-	-	-
Cash dividends applicable to the year (Note 14)	6.00	6.50	9.00	0.08

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

Consolidated Statements of Shareholders' Equity

Nippon Electric Glass Co., Ltd. and Consolidated Subsidiaries

Years Ended March 31, 2004, 2005 and 2006

	Thousands of shares	Millions of yen					
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency transaction adjustments	Treasury stock
Balance at March 31, 2003	159,772	¥ 18,386	¥ 20,116	¥ 168,942	¥ 3,419	¥ 2,276	¥ (197)
Net income	-	-	-	8,568	-	-	-
Decrease due to accounting standards in foreign countries, net	-	-	-	(2,695)	-	-	-
Gain on treasury stock	-	-	1	-	-	-	-
Net change during the year	-	-	-	-	897	(9,275)	-
Treasury stock	-	-	-	-	-	-	(66)
Cash dividends paid	-	-	-	(1,995)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(129)	-	-	-
Balance at March 31, 2004	159,772	18,386	20,117	172,691	4,316	(6,999)	(263)
Net income	-	-	-	11,954	-	-	-
Decrease due to accounting standards in foreign countries	-	-	-	(710)	-	-	-
Gain on treasury stock	-	-	3	-	-	-	-
Net change during the year	-	-	-	-	(238)	516	-
Treasury stock	-	-	-	-	-	-	(139)
Cash dividends paid	-	-	-	(1,915)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(131)	-	-	-
Stock split (Note 14)	159,772	-	-	-	-	-	-
Balance at March 31, 2005	319,544	18,386	20,120	181,889	4,078	(6,483)	(402)
Net income	-	-	-	3,231	-	-	-
Increase due to accounting standards in foreign countries, net	-	-	-	3,088	-	-	-
Gain on treasury stock	-	-	4	-	-	-	-
Net change during the year	-	-	-	-	3,020	6,854	-
Treasury stock	-	-	-	-	-	-	(245)
Cash dividends paid	-	-	-	(2,393)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(142)	-	-	-
Balance at March 31, 2006	319,544	¥ 18,386	¥ 20,124	¥ 185,673	¥ 7,098	¥ 371	¥ (647)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency transaction adjustments	Treasury stock
Balance at March 31, 2005	$ 157,145	$ 171,966	$ 1,554,607	$ 34,855	$(55,410)	$ (3,436)
Net income	-	-	27,615	-	-	-
Increase due to accounting standards in foreign countries, net	-	-	26,393	-	-	-
Gain on treasury stock	-	34	-	-	-	-
Net change during the year	-	-	-	25,812	58,581	-
Treasury stock	-	-	-	-	-	(2,094)
Cash dividends paid	-	-	(20,453)	-	-	-
Bonuses to directors and corporate auditors	-	-	(1,213)	-	-	-
Balance at March 31, 2006	$157,145	$172,000	$1,586,949	$60,667	$3,171	$(5,530)

The accompanying notes to 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, 2004, 2005 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2005	2006	2006
Cash flows from operating activities:				
Income (loss) before income taxes and minority interests	¥21,420	¥13,379	¥ (1,605)	$ (13,718)
Depreciation and amortization	31,177	30,345	30,106	257,316
Business restructuring charges	-	25,956	27,741	237,103
Loss on disposal of property, plant and equipment	3,672	5,785	1,850	15,812
Loss on impairment of fixed assets	-	725	11,496	98,256
Goodwill impairment charges	9,214	-	-	-
Gain on sales of investment securities	(5,156)	(1,910)	(250)	(2,137)
Provision for severance and retirement benefits	-	-	(8,694)	(74,308)
Provision for reserve for special repairs	(413)	(2,153)	(3,208)	(27,419)
Interest and dividend income	(463)	(1,146)	(2,147)	(18,350)
Interest expense	2,625	2,082	1,680	14,359
Decrease (increase) in notes and accounts receivable	(5,857)	6,136	6,853	58,573
Decrease in inventories	4,378	6,509	4,423	37,803
Increase in notes and accounts payable	7,975	1,617	4,522	38,650
Other	(2,328)	(169)	144	1,231
Sub-total	66,244	87,156	72,911	623,171
Interest and dividends received	661	1,128	2,177	18,607
Interest paid	(2,653)	(2,143)	(1,873)	(16,009)
Payment for income taxes, net	(10,855)	(14,297)	(1,903)	(16,265)
Net cash provided by operating activities	53,397	71,844	71,312	609,504
Cash flows from investing activities:				
Increase in time deposits, net	(51)	(1,400)	(117)	(1,000)
Purchases of marketable and investment securities	(4)	(4)	(1,054)	(9,009)
Proceeds from sale of marketable and investment securities	6,506	1,970	985	8,419
Purchases of property, plant and equipment	(39,214)	(57,783)	(59,080)	(504,957)
Proceeds from sales of property, plant and equipment	164	4,360	5,323	45,495
Decrease (Increase) in loans receivable, net	(422)	(55)	11	94
Assignment of subsidiaries' equity resulting in changes in the scope of consolidation (Note 4)	-	-	(2,584)	(22,085)
Other	543	(6)	-	-
Net cash used in investing activities	(32,478)	(52,918)	(56,516)	(483,043)
Cash flows from financing activities:				
Increase (decrease) in short-term debt, net	(3,751)	(296)	519	4,436
Proceeds from long-term loans	7,653	6,834	-	-
Repayment of long-term loans	(17,207)	(13,752)	(8,693)	(74,299)
Proceeds from issue of unsecured bonds	20,000	-	-	-
Redemption of unsecured bonds	-	-	(20,000)	(170,940)
Proceeds from common stock issued to minority shareholders	1,301	-	1,620	13,846
Cash dividends paid	(1,995)	(1,915)	(2,393)	(20,453)
Other	(386)	(474)	(813)	(6,949)
Net cash provided by (used in) financing activities	5,615	(9,603)	(29,760)	(254,359)
Effect of exchange rate changes on cash and cash equivalents	418	(712)	3,383	28,915
Net increase (decrease) in cash and cash equivalents	26,952	8,611	(11,581)	(98,983)
Cash and cash equivalents at beginning of year	62,339	89,291	97,902	836,769
Cash and cash equivalents at end of year (Note 7)	¥89,291	¥97,902	¥86,321	$737,786

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

1. Basis of presenting consolidated financial statements

Nippon Electric Glass Co., Ltd. (the “Company”) and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code (the “Code”) and accounting principles generally accepted in Japan (”Japanese GAAP”).

The accounts of consolidated foreign subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile.

Certain accounting principles generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of shareholders’ equity) 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 Securities and Exchange Law.

Some 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 the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117 to US $1. The convenience translations 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 investees over which they have 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 in consolidation.

The excess of cost of the investments in consolidated subsidiaries over the equity in net assets at the time of acquisition is amortized on a straight-line basis over five years.

Investments in other affiliated companies are stated at cost.

Financial information for foreign subsidiaries is based on their fiscal years ended 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 exchange rates at the balance sheet date.

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

(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 a maturity 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 value are stated at fair market values. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders’ equity.

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 estimated uncollectable amounts based on the historical ratio of bad debt losses. For receivables from customers in financial difficulty, it consists of the estimated uncollectable amounts with respect to specific doubtful receivables.

(f) Inventories

Finished goods are stated principally at the lower of cost or market value, cost being determined by the moving average method. Other inventories are stated principally at cost , which is determined on a first-in, first-out basis or by the moving average method.

(g) Property, plant and equipment
Property, plant and equipment are principally stated at cost.

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

Depreciation of property, plant and equipment of consolidated foreign subsidiaries is calculated principally by the straight-line method over the estimated useful lives of the assets.

The ranges of estimated useful lives of machinery and equipment are generally 9 to 14 years.

(h) Goodwill
Effective from the year ended March 31, 2003, in accordance with the change in the United States, accounting for goodwill from business combinations changed from the amortization method to an impairment-only approach.

(i) Accounting for certain lease transactions
Finance leases that do not transfer ownership to the lessees are accounted for principally in the same manner as operating leases in accordance with Japanese GAAP.

(j) Provision for product defect compensation
The provision for product defect compensation is provided at an amount that is calculated based on the number of shipments of the target products to cover estimated future compensation for a single type of product manufactured by the Company.

(k) Severance and retirement benefits
The Company and its consolidated domestic subsidiaries provide the liability for severance and retirement benefits based on the projected benefit obligation and the estimated pension assets at March 31, 2005. The excess of the projected benefit obligation over the total of the fair value of pension assets at April 1, 2001 and the liabilities for severance and retirement benefits recorded at April 1, 2001 (the “net transition obligation”) was ¥2,785 million. The Company and its consolidated domestic subsidiaries recognize this net transition obligation as expenses in equal amounts over 15 years.

Actuarial differences as of each year-end are recognized as expenses using the straight-line method over 10 years (within the average of the estimated remaining service lives) starting from the following fiscal year.

On March 31, 2006, the Company revised post-employment benefit plans, abolished the previous plans, funded non-contributory pension plans and unfunded lump-sum payment plans, prepaid the retirement benefits and expanded the defined contribution pension plans.

The Company applied Accounting Procedures Concerning the Change in Retirement Benefit Plan (Corporate Accounting Principles Application Guideline 1).

As a result of this revision, the Company recorded a loss on retirement benefit plan changes of ¥6,753 million ($57,718 thousand).

At March 31, 2006, accrued retirement benefits for employees were provided mainly at an amount of the projected benefit obligation which is calculated by a simplified method because the number of employees still covered by unfunded lump-sum payment plans is not significant.

(l) Directors’ retirement benefits
The Company and its consolidated domestic subsidiaries record the amount that is 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 ceased recording it from July 2004.

(m) Reserve for special repairs
Significant repair expenditures are expected for 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 ¥2,160 million, ¥3,190 million and ¥2,643 million ($22,590 thousand) in 2004, 2005 and 2006, respectively.

(p) Net income per share
The computations of net income per share are based on the average number of shares outstanding during each year. Diluted net income per share of common stock is computed based on the average outstanding number of shares, 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. But there are 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 split.

The Company had a 2-for-1 stock split of its common stock on March 10, 2005.

(q) Derivatives and hedge accounting
The Company and its consolidated domestic subsidiaries state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes. If derivative financial instruments are used to hedge and meet certain hedging conditions, the Company and its consolidated domestic subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related gains or losses on the hedged items are recognized.

Foreign exchange forward contracts employed to hedge an existing foreign currency receivable or payable are measured at fair value and the related unrealized gains and losses are recognized in income.

If currency swap contracts are executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted currency, and no gains or losses on the currency swap contract is recognized.

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

Hedging instruments:	Hedged item:
Forward foreign exchange contracts	Principally foreign currency receivables
Currency swap contracts	Principally long-term loan

The Company and its consolidated subsidiaries enter into forward foreign exchange contracts and currency 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) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2006 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Accounting changes

Accounting standard for impairment of fixed assets

For the year ended March 31, 2006, the Company and its domestic consolidated subsidiaries have adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standard Board of Japan on October 31, 2003).

As a result of adopting this new accounting standards, a loss on impairment of fixed assets in the amount of ¥10,118 million ($86,479 thousand) was recognized, income before income taxes and minority interests decreased by the same amount and operating income increased by ¥735 million ($6,282 thousand) as compared with the corresponding amount under the previous method.

Accumulated impairment loss is directly deducted from the related fixed asset.

4. Supplementary information

(a) Goodwill impairment charges

Techneglas Inc., a consolidated foreign subsidiary in the United States, recorded goodwill impairment charges of ¥9,214 million in 2004.

(b) Business restructuring charges

Techneglas Inc., a consolidated foreign subsidiary in the United States, recognized losses on stop of production activities of ¥38,748 million in 2005. The losses principally consisted of impairment loss on fixed assets, impairment loss on inventories and loss related to personnel reduction, etc.

The Company and its consolidated overseas subsidiaries recognized losses on the restructuring and the reduction of the CRT glass business in the amount of ¥35,923 million ($307,034 thousand) in 2006.

The losses consisted of loss on dissolution of the joint venture in Europe and China, liquidating Nippon Electric Glass UK Limited, a consolidated foreign subsidiary in U.K., and disposal of production facilities with stoppage in production in Japan.

(c) Assignment of subsidiaries' equity resulting in changes in the scope of consolidation

Assets and liabilities as of December 31, 2005 of Shijiazhuang Baoshi Electric Glass Co., Ltd., a joint venture in China which was no longer the Company's consolidated subsidiary as a result of assignment of investment equity, were as follows:

	Millions of yen	Thousands of U.S. dollars
	December 31, 2005	December 31, 2005
Current assets	¥8,946	$76,462
Non-current assets	8,290	70,855
Current liabilities	9,424	80,547
Non-current liabilities	661	5,650

(d) Tendering guarantee letter

On June 16, 2006, the Company tendered a guarantee letter indemnifying the liquidator for the following items related to liquidation of Nippon Electric Glass UK Limited, a consolidated foreign subsidiary in U.K.

(1) Responsibility and cost, etc., related to the liquidation that the liquidator assumes
(2) Liquidator's fee

The total amount of possible compensation shall not exceed the amount that the Company collects from Nippon Electric Glass UK Limited and its interest, after tendering the guarantee letter.

(e) Completion of the reorganization in Techneglas Inc.

Techneglas Inc., a consolidated foreign subsidiary in the United States, had been authorized on its reorganization plan under the U.S. Federal bankruptcy law and has executed the plan through the current fiscal year. Subsequently, the court made a final decree on completing the reorganization plan on June 26, 2006.

5. Market value information of securities

(a) At March 31, 2005 and 2006, acquisition costs, book values and fair values of securities with available market values were as follows:

	Millions of yen		
2005:	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 6,245	¥ 13,095	¥ 6,850
Securities with acquisition costs exceeding book values:			
Equity securities	91	83	(8)
	¥ 6,336	¥ 13,178	¥ 6,842

	Millions of yen		
2006:	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 6,533	¥ 18,442	¥ 11,909
Securities with acquisition costs exceeding book values:			
Equity securities	120	120	-
	¥ 6,653	¥ 18,562	¥ 11,909

	Thousands of U.S. dollars		
2006:	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	$55,838	$157,624	$101,786
Securities with acquisition costs exceeding book values:			
Equity securities	1,026	1,026	-
	$56,864	$158,650	$101,786

(b) At March 31, 2005 and 2006, book values of securities with no available market values were as follows:

	Millions of yen
2005:	Book value
Available-for-sale securities:	
Equity securities issued by non-consolidated affiliates	¥ 3,473
Non-listed equity securities, other	19
	¥ 3,492

	Millions of yen	Thousands of U.S. dollars
2006:	Book value	Book value
Available-for-sale securities:		
Equity securities issued by non-consolidated affiliates	¥ 1,739	$ 14,863
Non-listed equity securities, other	19	162
	¥ 1,758	$ 15,025

(c) Sales of available-for-sale securities sold in the years ended March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Total sales amounts	¥ 1,970	¥ 985	$ 8,419
Gains on sales	1,910	250	2,137

6. Derivatives

All current derivative transactions are accounted for as hedging instruments and, accordingly, are not required to be disclosed.

7. Cash and cash equivalents

Cash and cash equivalents at March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Cash and time deposits in the balance sheets	¥97,957	¥86,322	$737,795
Time deposits due over three months	(55)	(1)	(9)
Cash and cash equivalents in the statements of cash flows	¥97,902	¥86,321	$737,786

8. Inventories

Inventories at March 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Finished and purchased goods	¥20,907	¥15,062	$128,735
Semi-finished goods and work in process	14,136	15,127	129,291
Raw materials	11,248	10,609	90,675
	¥46,291	¥40,798	$348,701

9. 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 value of the asset may not recoverable. Recoverability of assets to be held and used is measured by a comparison of the book value of the asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the book value of the asset exceeds its estimated future cash flows, an impairment loss is recognized in the amount by which the book value of the asset exceeds the fair value of the asset.

Loss on impairment of fixed assets for the year ended March 31, 2006 consisted of the following:

(a) Grouping

The Company and its consolidated subsidiaries essentially group its operating assets by business units and its idle assets severally, 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 amount was recognized as impairment loss.

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

(c) Assessment of recoverable values

The recoverable values are measured at net salable price.

No recoverable values were expected for the production facilities for CRT glass because the possibility for future use and sale is low.

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

(d) Details of loss on impairment of fixed assets

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Machinery and equipment	¥ 9,679	$82,726
Other	1,817	15,530
	¥11,496	$98,256

10. Pledged assets

At March 31, 2005, assets pledged as collateral were as follows, and at March 31, 2006, there is no applicable matter.

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Cash and time deposits	¥ 572	-	-
Property, plant and equipment, net of accumulated depreciation	5,030	-	-
Other assets (leasehold)	633	-	-
	¥ 6,235	-	-

At March 31, 2005, debt secured by collateral were as follows and at March 31, 2006, there is no applicable matter.

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Short-term borrowings	¥ 755	-	-
Trade notes payables, other	1,902	-	-
	¥ 2,657	-	-

11. Short-term borrowings and long-term debt

Short-term borrowings, including the current portion of long-term debt, at March 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Short-term bank loans: average rate 0.5% per annum	¥ 67,673	¥ 65,756	$562,017
Current portion of long -term loans: average rate 0.9% per annum	8,585	8,210	70,171
Current portion of unsecured bonds: 1.97%	20,000	-	-
	¥ 96,258	¥ 73,966	$632,188

Long-term debt at March 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Loans, principally from banks and insurance companies			
due from 2007 through 2011: average rate 1.0% per annum	¥ 27,651	¥ 16,967	$145,017
1.97% unsecured bonds, due 2006	20,000	-	-
1.27% unsecured bonds, due 2008	20,000	20,000	170,940
0.99% unsecured bonds, due 2010	20,000	20,000	170,940
	87,651	56,967	486,897
Less-current portion included in short-term borrowings	(28,585)	(8,210)	(70,171)
	¥ 59,066	¥ 48,757	$416,726

The aggregate annual maturities of long-term debt at March 31, 2006 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 8,210	$ 70,171
2008	24,787	211,855
2009	2,602	22,239
2010	21,178	181,008
2011 and thereafter	190	1,624
	¥56,967	$486,897

12. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 40.4% for the years ended March 31, 2005 and 2006.

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 year ended March 31, 2005 were as follows:

	2005
Statutory tax rate in Japan	40.4%
Valuation allowance	131.0
Expense not deductible for tax purposes mainly entertainment expenses	3.4
Effect of elimination of dividend income	0.6
Exclusion from gross revenue of dividends	(5.0)
Effect of tax exemption of consolidated foreign subsidiaries	(16.8)
Difference in tax rates for consolidated foreign subsidiaries	(17.7)
Effect of elimination of allowance for doubtful accounts	(49.1)
Effect of loss on written down of investment in consolidated foreign subsidiary	(84.4)
Other	2.0
Effective tax rate	4.4%

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 year ended March 31, 2006, hasn't been disclosed because the Company recognized a loss before income taxes and minority interests.

Significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Deferred tax assets:			
Accrued liability on retirement benefit plan changes	¥ -	¥ 4,952	$ 42,325
Business restructuring charges	-	4,499	38,453
Loss from valuation of investments in affiliated company	-	3,232	27,624
Impairment loss on property, plant and equipment	2,458	3,200	27,350
Loss on devaluation of inventories	3,057	2,973	25,410
Excess reserve for special repairs	4,057	2,771	23,684
Unrealized gain on property, plant and equipment	2,461	2,248	19,214
Unrealized gain on inventories	1,455	1,567	13,393
Excess accrued bonuses	1,596	1,525	13,034
Alternative minimum tax	1,137	1,288	11,009
Tax losses carried forward	11,186	879	7,513
Excess severance benefits	3,955	446	3,812
Other	7,637	5,518	47,162
Subtotal deferred tax assets	38,999	35,098	299,983
Less : Valuation allowance	(17,816)	(3,054)	(26,103)
Total net deferred tax assets	21,183	32,044	273,880
Deferred tax liabilities:			
Net unrealized holding gains on securities	(2,764)	(4,811)	(41,120)
Excess tax depreciation of consolidated foreign subsidiaries	(5,333)	(3,753)	(32,077)
Other	(144)	(178)	(1,521)
Total deferred tax liabilities	(8,241)	(8,742)	(74,718)
Net deferred tax assets	¥12,942	¥23,302	$199,162

13. Severance and retirement benefits

On March 31, 2006, the Company revised post-employment benefit plans, abolished the previous plans, funded non-contributory pension plans and unfunded lump-sum payment plans, prepaid the retirement benefits and expanded the defined contribution pension plans.

The amount of projected benefit obligation at March 31, 2006 is calculated by a simplified method because the number of employees still covered by the unfunded lump-sum payment plans is not significant.

Certain consolidated subsidiaries provide funded non-contributory pension plans, unfunded lump-sum payment plans and defined contribution pension plans.

Liabilities for severance and retirement benefits at March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Projected benefit obligation	¥(35,978)	¥(1,241)	$(10,607)
Pension assets	19,251	67	573
Unrecognized benefit obligation	(16,727)	(1,174)	(10,034)
Unrecognized transition obligation	1,857	(66)	(564)
Unrecognized actuarial differences	4,944	-	-
Net liabilities for severance and retirement benefits	(9,926)	(1,240)	(10,598)
Prepaid benefit cost	-	-	-
Liabilities for severance and retirement benefits	¥ (9,926)	¥(1,240)	$(10,598)

Severance and retirement benefit expenses for the years ended March 31, 2005 and 2006 were as follows, and the Company recorded a loss on retirement benefit plan changes of ¥6,753 million ($57,718 thousand), other than those blow.

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Service costs	¥ 1,582	¥ 1,489	$ 12,727
Interest cost	718	697	5,957
Expected return on pension assets	(187)	(193)	(1,650)
Amortization of transition obligation	186	186	1,590
Amortization of actuarial differences	931	800	6,838
Subtotal severance and retirement benefit expenses	3,230	2,979	25,462
Defined contribution pension plan	333	258	2,205
Total severance and retirement benefit expenses	¥ 3,563	¥ 3,237	$ 27,667

Above calculations are based on the following:

	2005	2006
Discount rate	2.0 %	- %
Expected return on pension assets	1.0 %	- %
Amortization period for actuarial differences	10 years	- years
Amortization period for net transition obligation	15 years	- years

A consolidated foreign subsidiary in the United States had a defined benefit plan, but liquidated the plan under the protection of Chapter 11 in 2006, accounts and records in accordance with accounting principles generally accepted in the United States. Projected benefit obligation and severance and retirement benefit expenses for years ended March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Projected benefit obligation	¥ 15,854	¥ -	$ -
Severance and retirement benefit expenses	2,011	544	4,650

14. Shareholders' equity

The Commercial Code of Japan requires that at least 50% of the proceeds from the issuance of common stock be credited to common stock and the remaining amount be accounted for as additional paid-in capital.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code.

The Code requires that an amount equivalent to at least 10% of cash dividends and other cash appropriations be set aside as a legal reserve until the total amounts of the legal reserve and additional paid-in capital equals 25% of common stock. The total amount of legal reserve and additional paid-in capital already exceeds 25% of the common stock and additional provision is not required.

If the Company reversed the excess, it would be available for distribution by resolution of the shareholders' meeting. Legal reserve is included in retained earnings.

On March 10, 2005 the Company effected 2-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.

Appropriations of retained earnings

On June 29, 2006, the Company's shareholders authorized the following appropriations of retained earnings at the Annual General Meeting of shareholders:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Cash dividends, ¥5.00 per share	¥1,595	$13,632
Bonuses to directors	99	846

In addition to the cash dividends described above, the Company paid interim cash dividends of ¥1,276 million ($10,906 thousand), ¥4.00 per share on December 5, 2005.

15. Contingent liabilities

Contingent liabilities at March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Notes discounted	¥ 175	¥ 122	$ 1,043
Notes endorsed	13	-	-
Guarantee of employees' housing loans	2,133	1,770	15,128
Guarantee of affiliated company's bank loans (by letter of comfort)	555	-	-
	¥2,876	¥1,892	$16,171

16. Lease information

(a) At March 31, 2005 and 2006, 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
	2005	2006	2006
Acquisition cost of machinery and equipment	¥680	¥663	$5,667
Accumulated depreciation of machinery and equipment	371	376	3,214
Net book value	¥309	¥287	$2,453

(b) Future minimum lease payments excluding interest under finance leases at March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Current	¥134	¥138	$1,179
Non-current	183	179	1,530
	¥317	¥317	$2,709

(c) Lease payments, assumed depreciation and assumed interest for the years ended March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Lease payments	¥169	¥160	$1,368
Assumed depreciation	159	151	1,291
Assumed interest	9	8	68

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

(d) Future minimum lease payments under operating leases at March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Current	¥ 44	¥ 29	$ 248
Non-current	43	32	273
	¥ 87	¥ 61	$ 521

(e) There is no loss on impairment of fixed assets distributed to lease assets at March 31, 2006.

17. Segment information

Information by segment for the years ended March 31, 2004, 2005 and 2006 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, and therefore, information by business segment is not required to be disclosed.

(b) Information by geographic area

	Millions of yen					
2004:	Japan	Asia	Other areas	Total	Elimination and corporate	Consolidated Total
Net sales						
External	¥174,456	¥ 61,905	¥ 60,946	¥297,307	¥ -	¥297,307
Inter-segment	49,155	8,491	1,966	59,612	(59,612)	-
Total sales	223,611	70,396	62,912	356,919	(59,612)	297,307
Operating expenses	187,188	63,326	73,399	323,913	(60,425)	263,488
Operating income (loss)	¥ 36,423	¥ 7,070	¥(10,487)	¥ 33,006	¥ 813	¥ 33,819
Identifiable assets	¥305,838	¥118,201	¥ 92,175	¥516,214	¥ (1,523)	¥514,691

	Millions of yen					
2005:	Japan	Asia	Other areas	Total	Elimination and corporate	Consolidated Total
Net sales						
External	¥149,247	¥114,448	¥ 46,503	¥310,198	¥ -	¥310,198
Inter-segment	80,797	5,646	844	87,287	(87,287)	-
Total sales	230,044	120,094	47,347	397,485	(87,287)	310,198
Operating expenses	187,869	107,448	51,556	346,873	(87,784)	259,089
Operating income (loss)	¥ 42,175	¥ 12,646	¥ (4,209)	¥ 50,612	¥ 497	¥ 51,109
Identifiable assets	¥341,462	¥149,925	¥ 48,396	¥539,783	¥(44,215)	¥495,568

	Millions of yen					
2006:	Japan	Asia	Other areas	Total	Elimination and corporate	Consolidated Total
Net sales						
External	¥ 150,622	¥ 126,779	¥ 19,039	¥ 296,440	¥ -	¥ 296,440
Inter-segment	87,097	8,829	834	96,760	(96,760)	-
Total sales	237,719	135,608	19,873	393,200	(96,760)	296,440
Operating expenses	180,338	134,989	25,870	341,197	(96,709)	244,488
Operating income (loss)	¥ 57,381	¥ 619	¥ (5,997)	¥ 52,003	¥ (51)	¥ 51,952
Identifiable assets	¥ 365,074	¥ 141,723	¥ 17,145	¥ 523,942	¥ (37,926)	¥ 486,016

2006:	Thousands of U.S. dollars Japan	Asia	Other areas	Total	Elimination and corporate	Consolidated Total
Net sales						
External	$1,287,368	$1,083,581	$162,726	$2,533,675	$ -	$2,533,675
Inter-segment	744,419	75,462	7,128	827,009	(827,009)	-
Total sales	2,031,787	1,159,043	169,854	3,360,684	(827,009)	2,533,675
Operating expenses	1,541,351	1,153,752	221,111	2,916,214	(826,573)	2,089,641
Operating income (loss)	$ 490,436	$ 5,291	$ (51,257)	$ 444,470	$ (436)	$ 444,034
Identifiable assets	$3,120,290	$1,211,308	$146,538	$4,478,136	$(324,154)	$4,153,982

Note: 1. The classification of countries are based on the degree of geographical proximity.
2. The main countries belonging to the classification of those other than Japan:
(1) Asia Malaysia, Indonesia, China, Korea, Taiwan
(2) Other areas U.S.A., Mexico, U.K.
3. Accounting changes
For the year ended March 31, 2006, the Company and its domestic consolidated subsidiaries have adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standard Board of Japan on October 31, 2003).
As a result of adopting this new accounting standards, operating income increased by ¥735 million ($6,282 thousand) as compared with the corresponding amount under the previous method.
4. Corporate assets of ¥61,890 million ($528,974 thousand), ¥50,096 million and ¥62,066 million at March 31, 2006, 2005 and 2004, respectively, consist mainly of cash and time deposits and investment securities owned by the Company.
5. Change in location classification
In 2006, "America" and "Europe" that had been indicated as one segment in 2004 and 2005 are included in "Other areas" because the percentage of total sales and identifiable assets, respectively, was less than 10% in all geographic areas.
The prior year amaunts have been reclassified to conform to the 2006 presentation.

(c) Overseas sales information

2004:	Millions of yen Asia	Other areas	Total
Overseas sales	¥ 124,462	¥ 74,419	¥ 198,881
Consolidated sales			297,307
Percentage of overseas sales	41.9%	25.0%	66.9%

2005:	Millions of yen Asia	Other areas	Total
Overseas sales	¥ 147,065	¥ 62,436	¥ 209,501
Consolidated sales			310,198
Percentage of overseas sales	47.4%	20.1%	67.5%

	Millions of yen		
2006:	Asia	Other areas	Total
Overseas sales	¥ 152,019	¥ 34,144	¥ 186,163
Consolidated sales			296,440
Percentage of overseas sales	51.3%	11.5%	62.8%

	Thousands of U.S. dollars		
2006:	Asia	Other areas	Total
Overseas sales	$1,299,308	$ 291,829	$1,591,137
Consolidated sales			2,533,675

Note: 1. The classification of countries are based on the degree of geographical proximity.
2. The main countries belonging to the classification of those other than Japan:
(1) Asia Malaysia, Indonesia, China, Korea, Taiwan, etc.
(2) Other areas U.S.A., Mexico, U.K., etc.
3. Overseas sales were comprised of the Company's and its consolidated subsidiaries' sales to countries other than Japan.
4. Change in location classification
In 2006, "America" and "Europe" that had been indicated as one segment in 2004 and 2005 are included in "Other areas" because the percentage of overseas sales, respectively, was less than 10% in total consolidated sales.
The prior year amaunts have been reclassified to conform to the 2006 presentation.

18. Related party transactions

Related party transactions for the year ended March 31, 2006 were as follows, and for the year ended March 31, 2005, there is no applicable matter.

Group Companies	2006
Type	Affiliate of the Company
Name of the Related party	Saint-Gobain TM K.K.
Address	Chiyoda-ku, Tokyo
Common stock	¥573 million ($4,897 thousand)
Type of business	Production and distribution of refractories
Equity ownership percentage	(owned) direct 40.0%
Relation	
Additional posts held by the directors	4
Operating relation	Purchase of refractories
Nature of transaction	Received from dividends
Transaction amount	¥1,311 million ($11,205 thousand)
Account	Dividend income
Balance at year end	-

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, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2006, 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
As discussed in Note 3 to the consolidated financial statements, effective April 1, 2005, Nippon Electric Glass Co., Ltd. and consolidated domestic subsidiaries adopted the new accounting standards for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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 30, 2006

Directors and Corporate Auditors

Directors

Chairman of the Board
Tetsuji Mori

President
Yuzo Izutsu

Director
Hiroshi Kato
Katsumi Inada
Masayuki Arioka
Masami Atsuji
Shigeru Yamamoto
Koichi Inamasu

Corporate Auditors

Toshio Hayashi
Hitoshi Yasuda

Takuro Takeuchi
Attorney at Law

Fujio Okada
Associate Senior Vice President
(Legal Division)
NEC Corporation

Officers

President
Yuzo Izutsu

Executive Vice President
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Senior Vice President
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Vice President
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Masahiro Miyake
Tamotsu Kitagawa
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