ANNUAL REPORT 2006

FISCAL YEAR ENDED MARCH 31, 2006

Enhancing a Global Platform for Futher Growth

NIPPON SHEET GLASS

Profile

Nippon Sheet Glass Co., Ltd. (hereafter “Nippon Sheet Glass,” “NSG” or “the Company”) is engaged in three primary business areas. These include Flat Glass, in which we handle a vast range of architectural glass and automotive glass, Information/Electronics Materials, in which we provide core materials for information and telecommunications devices and displays, and Glass Fiber. Consolidated net sales for the fiscal year ended March 31, 2006 were ¥265.9 billion.

In June 2006, Nippon Sheet Glass completed the acquisition of the leading British glass manufacturer Pilkington plc, welcoming into the Group a partner that will help us compete for top share in the global flat glass market. As a result, Group net sales are projected to exceed ¥800 billion. The combined market scale and synergistic effects of integration are expected to bring advantages to both parties, including the securing of preeminence in the global market, the ability to provide top-quality products and the achievement of significant cost savings.

Contents

To Our Shareholders

Left: Yozo Izuhara Chairman and Chief Executive Officer
Right: Katsuji Fujimoto President

Companies in the global flat glass industry are searching for ways to survive in the midst of advancing globalization and a new cycle of growth. In its New Vision, formulated in 2000, Nippon Sheet Glass established long-term policies to be implemented by 2010, aiming to become an innovative company with a formidable global presence. We can now claim to have made significant progress toward the attainment of our vision.

In June 2006, Nippon Sheet Glass acquired 100% of the issued shares of Pilkington plc, a leading glass manufacturer from the U.K. and a longtime partner with which NSG has maintained capital and operational relations. With the completion of the share acquisition, Pilkington became a wholly owned subsidiary of NSG. The world market for flat glass is undergoing a time of marked growth. Against this backdrop, the integration of NSG's strengths in the markets of Japan and East Asia with the broad-based European business operations of Pilkington represents a major step in our worldwide strategy, signifying the creation of a "truly global concern" aiming to become the world leader in the manufacture and supply of glass products. We will push vigorously forward in order to maximize the anticipated effects of the integration.

Business Results

Net sales for the fiscal year ended March 31, 2006 increased 0.3% year on year to ¥265,888 million. Through concerted efforts to boost revenues by expanding sales of growth products and improving productivity, Nippon Sheet Glass accomplished sales growth in the flat and safety glass and building materials segment. Decreased revenues in the information/electronics materials and devices segment, as well as other segments, kept the overall sales increase to a slight gain.

While NSG accomplished modest year-on-year sales growth, the Company struggled to offset increases in raw material and fuel costs driven primarily by hikes in crude oil prices. As a result, operating income declined 29.9% to ¥8,430 million, a significant decrease from the previous fiscal year.

Net income for the fiscal year ended March 31, 2006 rose 1.2% year on year to ¥7,764 million. Contributory factors included the recording of ¥5,548 million in gain on sales of investment securities, as well as net gains in other income.

Forward-Looking Management

Acquiring Pilkington, in which we previously had a stake of approximately 20%, and incorporating it as a wholly owned subsidiary, has accelerated our drive to become a corporation with a formidable global presence. In addition, we intend to take significant strides in our push to make NSG a company rich in innovation by fully leveraging the synergistic effects generated by the combination of the two companies' accumulated development and technological capabilities.

NSG recognizes as its most pressing and prominent issue the maximum realization of the merits of integration with Pilkington. Accordingly, we will work to construct an organizational framework that will generate more beneficial synergistic effects and will enable us to proceed with unified business activities. Moreover, the entire Company will work as one in order to formulate a new management vision and a new medium- to long-term business plan, as well as policies to implement these rapidly.

While the flat glass market is generally expanding, NSG earnings were hit by the relentless rises in crude oil prices.

Business Targets

The new NSG aims to become the world's No. 1 manufacturer of flat glass in terms of both scale and financial standing by relentlessly pursuing improvements in products, services and technological innovations, and by skillfully allocating the human resources and technologies of both companies. To attain these targets, all of us at NSG must exert our full potential and work in close cooperation to maximize organizational strengths.

In addition to raising the NSG Group into the ranks of global leaders in the industry, this acquisition will also bolster Group profitability, representing a momentous step forward in our strategy to enhance corporate and shareholder value.

To help ensure the success of the new Company, management from Pilkington and NSG has worked together to create a statement of the "Values and Action Principles" to be adopted by all employees.

Three-Phase Strategy for Achieving Business Targets

The new Company's scope of operations is not limited to the Automotive Glass and Building Products businesses, but also encompasses IT, glass fiber and other adjacent areas where we can leverage the strengths and advantages created by the integration.

Over the long-term, we will reinforce these advantages and implement our strategies to ascertain strong growth in terms of both financial results and business scale.

The three-phase strategy for achieving our aspirations will be carried out over the next 10 years.

Phase 1 (Four years: FY2008-2011)
Create a new entity focused on establishing predominance over our competitors and maximizing productivity and operational quality, while enhancing our financial position.

Phase 2 (Three years: FY2012-2014)
Achieve strong growth in the flat glass business

Phase 3 (Three years: FY2015-2017)
Explore new areas with clear targets for further growth

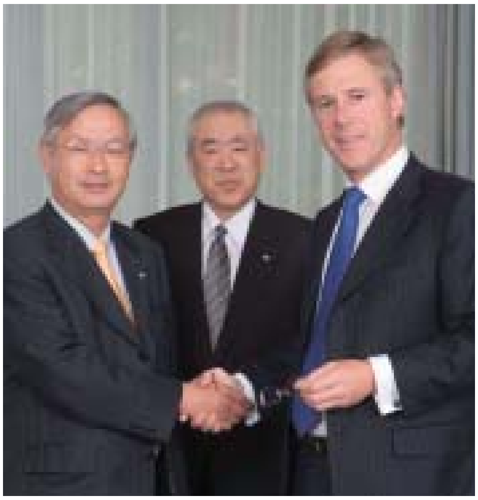
Through the united collaboration of both management teams, we will make every effort to further enhance shareholder value of the NSG Group.

NSG kindly requests the steadfast understanding and input of all of its shareholders.

September 2006

Yozo Izuhara
Chairman and Chief Executive Officer

Katsuji Fujimoto
President



Left: Katsuji Fujimoto
Center: Yozo Izuhara
Right: Stuart Chambers

Overview of Acquisition Agreement

- The offer price was set at 165 pence per share, representing a 30% premium on the share's October 28, 2005 closing price.
- The scheme of arrangement for the acquisition was in accordance with procedures under the laws of the United Kingdom, with over 75% of Pilkington shareholders approving the scheme at a court meeting and at an extraordinary general meeting.
- All shares, except for the 20% already held by NSG, were purchased in cash for a total price of approximately 358.5 billion yen (approximately 1.8 billion pounds).
- The acquisition is a friendly one, approved unanimously by Pilkington's Board of Directors
- The acquisition is a strategic move that will position NSG as a global leader.

Nippon Sheet Glass completed a series of procedures pertaining to the acquisition of the leading British glass manufacturer Pilkington plc on June 16, 2006.

At NSG's general meeting of shareholders held on June 29, Pilkington chief executive Stuart Chambers was appointed as a director of NSG. Senior managers of both companies are currently in consultations, and preparations for integration are proceeding rapidly under the direction of the Integration Programme Office.

The acquisition of Pilkington is an historic achievement for Nippon Sheet Glass, meaningful in a number of ways. This step will provide us with the top position in the growing global market for flat glass, and we believe it will also help us to pursue greater operational efficiency and to enhance Group profitability.

The transaction was based upon a scheme of arrangement approved by U.K. courts, in accordance with antimonopoly laws of the U.K. A "scheme of arrangement" is a procedure mandated by British law and requires a shareholders' resolution, court approval and several other conditions to be fulfilled in order to come into force.

Through these procedures, Nippon Sheet Glass paid Pilkington's existing shareholders 165 pence per share in cash to complete the purchase of 100% of Pilkington's shares.

The integration of the two companies is proceeding in a very friendly manner as we continue to build Group strength in order to be the global leader in the industry.

Nippon Sheet Glass views points A through D as highlighting the strategic significance of the Pilkington transaction. In addition to bolstering its global competitive position by enlarging the scale of business operations, we expect smooth integration of the various strengths of the two companies to create a truly powerful group that will meet diverse client needs.

Over and above its strategic significance, points E and F indicate a number of the synergies NSG expects the acquisition of Pilkington, supported by the current high market growth, to create over the long term, including improved profit ratios and optimal frameworks for purchasing and the procurement of funding. We are confident that integration with Pilkington will bring significant benefit to all of NSG's stakeholders.

A. Dramatic increase in scale of operations and shift to global strategy

- Creation of a leading global force by the combination of two companies with solid regional platforms
- Establishment of complementary relationships across developed and emerging markets
- Expansion of global services to Japanese automakers

B. Best practices

- Synergy of R&D strengths, customer and product platforms, and best practices of both companies establishes outstanding business groundwork

C. Creation of shareholder value

- Long-term industry growth of 4.9%-5.9% in products for the construction industry, 3.4%-3.7% in products for the automotive industry (NSG estimates of global averages)
- Pilkington has good profit ratios
- Revenue and cost synergies anticipated in various areas, including joint purchasing of materials and collaborative production operations

D. Securing of global sales foundation

- Strengthened foundations as a long-term winner in the global flat glass industry
- Increased resilience to shifts in demand and market conditions

E. Smooth integration with enhanced synergistic effects

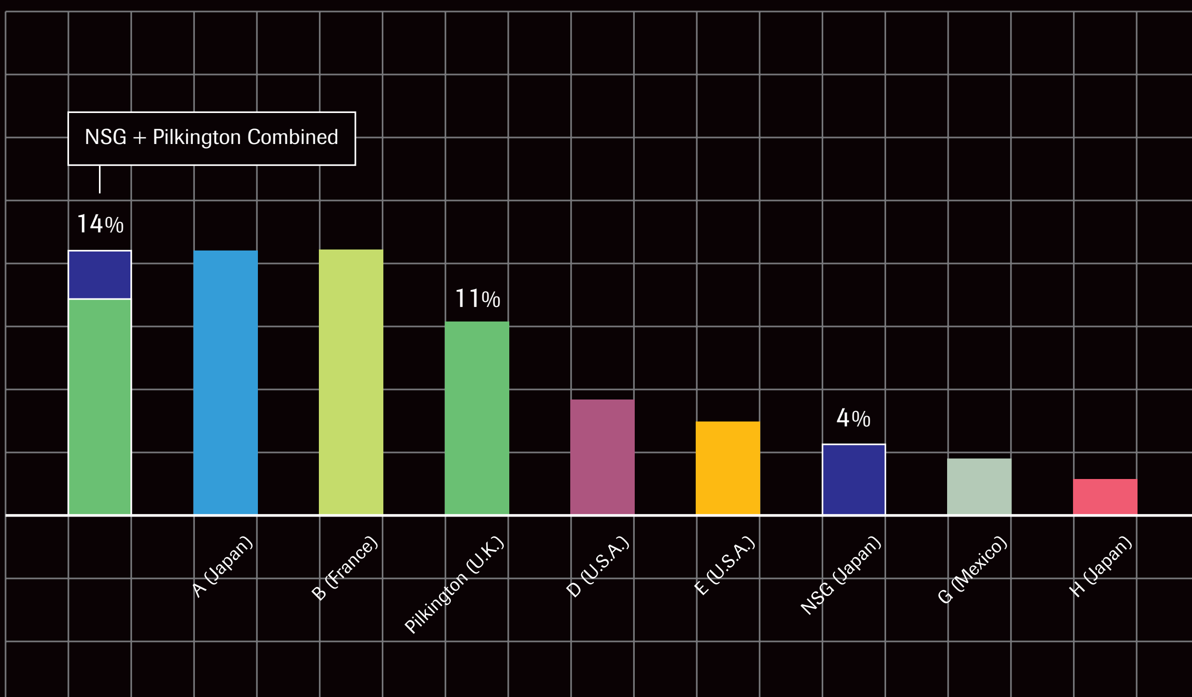
- Existing friendly long-term relationship and similar corporate cultures provide a strong base for smooth integration
- Stable management structure, with Pilkington's key management committed to remaining following the transaction
- No material changes to scope of Pilkington's operations and strategies

F. Managed risk

- Well-balanced financing structure
- Will maintain investment-grade rating
- Improvement in amount of leverage

Global Share

MARKET SHARE OF FLAT GLASS MARKET (SALES BASE)



Global production of flat glass is approximately 37 million tons per year. In terms of value, the market for flat glass at the primary manufactured level is approximately ¥2 trillion, and at the processed level is approximately ¥5 trillion, representing an industry of significant scale.

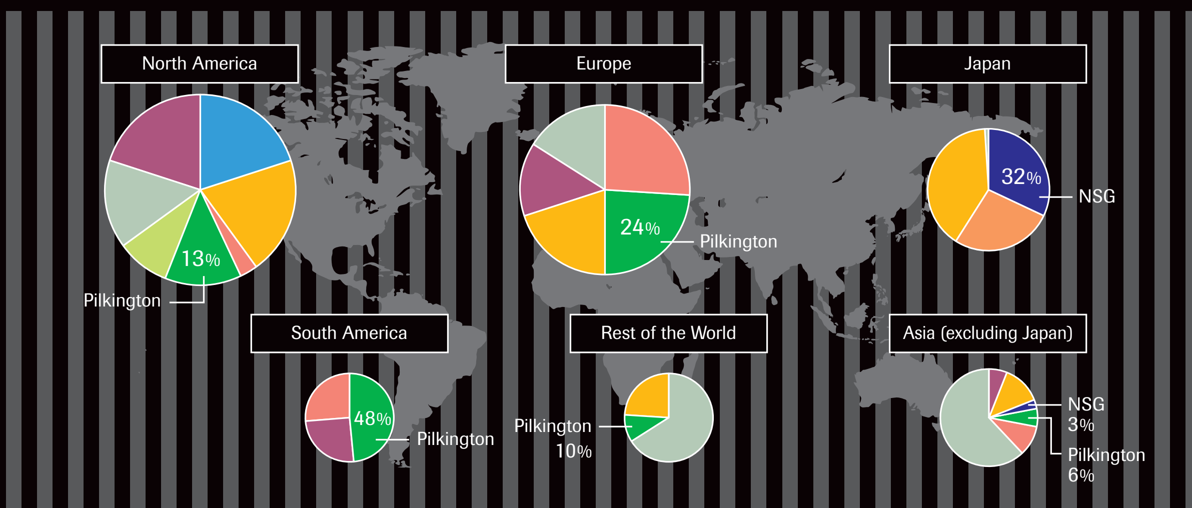
Annual growth levels over the previous 15 years have averaged 3.9%, with growth of 5.2% in 2005 clearly exceeding Japan's 2.6% GDP growth for the year. Flat glass is undoubtedly a growth industry.

According to NSG's sales-based estimates of market share in the global flat glass market, Pilkington is number three, with a share of approximately 11%, and NSG is number six, with a share of approximately 4%. The integration of the two companies, however, will give the NSG Group a market share of over 14%, distinguishing the Group as one of the world's top three glass manufacturers.

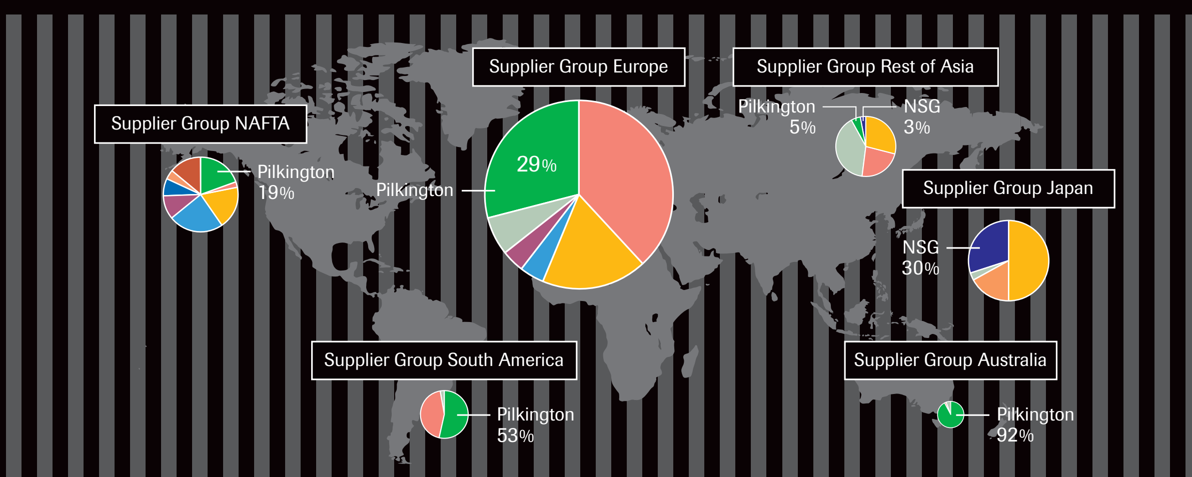
Increasing share in this growing market to become one of the global leaders in the industry will help to establish a stable platform for long-term growth, further demonstrating the benefits of integration.

Diagram of Synergistic Effects

SHARE OF FLOAT GLASS PRODUCTION BY REGION



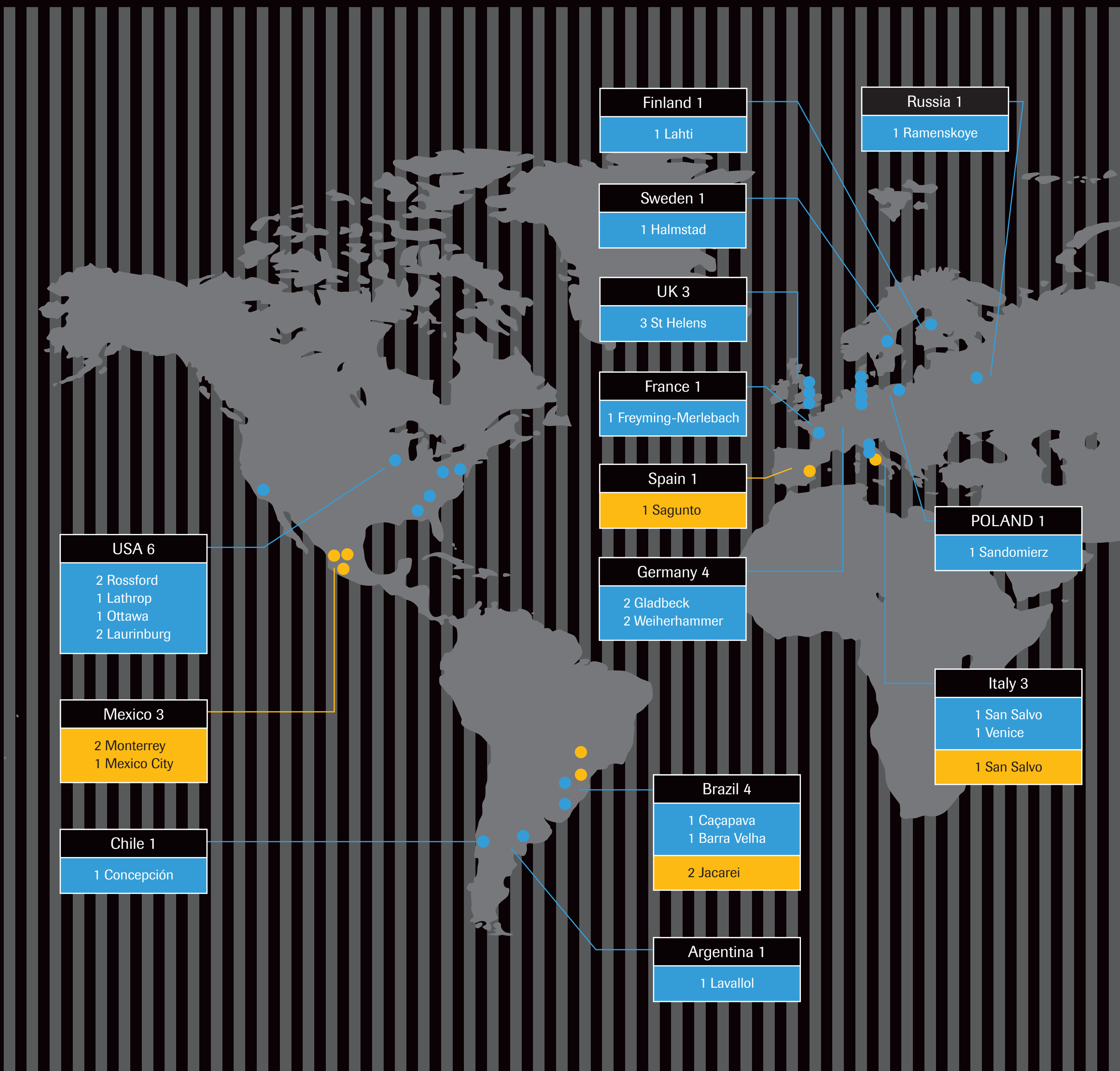
SHARE OF AUTOMOTIVE GLASS SALES BY REGION



Geographic expansion of the Group's business platform will serve to mitigate the effects of market cycles in the area of architectural glass. The integration will also give the Group a superior presence in emerging markets such as China, Southeast Asia, South America, Russia and others. The sharing of know-how in downstream processing operations represents a major merit of the integration.

The NSG Group will secure the No. 1 position in the automotive glass market. Our anticipatory moves to meet the needs of Japanese automakers as they continue to step up overseas production give us a tremendous advantage in this market.

FLOAT GLASS LINES

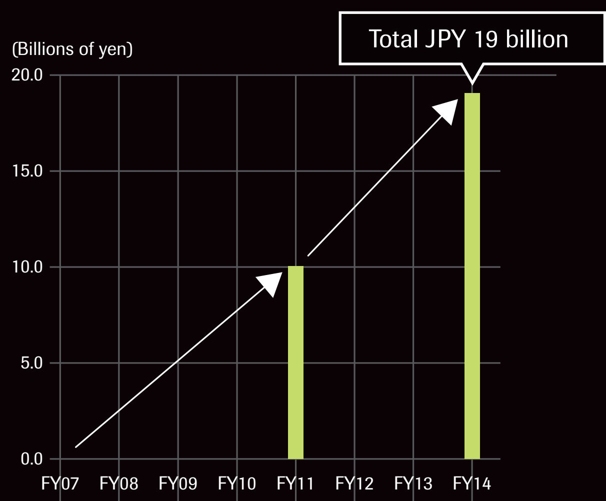


As the map opposite shows, NSG and Pilkington operate float glass lines in all major world markets.

NSG operates a total of eight float glass lines, including four in Japan and four in Southeast Asia (one is currently under construction). Pilkington operates a total of 38 float glass lines in Europe, the Americas, Australia and China, including 26 that it directly manages and 12 in partnerships. None of these float glass operations will overlap geographically following the integration. Rather, they will form a far-reaching network that gives the Group full coverage of the global market, providing us with advantages in terms of strategy, efficiency and effectiveness.

In addition to covering markets in all developed countries, the integration will also put the NSG Group on par with the leading companies in all markets, bolstering the Group's presence in the global industry.

ATTAINMENT OF SYNERGIES



COST IMPROVEMENTS	• Global procurement • Benchmarking/Best Practice • Optimum production sharing • Remove organizational overlap
TECHNOLOGY	• Process Innovation • Product Innovation • R&D Focus
GROWTH/ PROFITABILITY	• OE Global Strategy • Profitability Improvement • New Products • Cross-selling

Synergies we expect to attain through the acquisition can be largely divided into cost improvements, technological synergies and growth/profitability. While cost improvements can be anticipated in the near-term, synergies related to technology and growth/profitability require a medium- to long-term perspective.

Cost improvements will be achieved by trimming purchasing expenses and organizational overlap, and by sharing production and best practices in an optimal manner in order to reduce manufacturing costs.

In terms of technological synergies, we anticipate that sharing the advanced manufacturing technologies of both companies will lead to significant improvements in productivity, subsequently helping to reduce the unit cost of producing goods. In terms of growth and profitability, we aim to increase market share by leveraging our predominance in products and markets. We will expand sales of both companies' outstanding architectural glass products and further develop global automotive glass operations in order to boost market share.

Through these initiatives, we expect to achieve synergistic effects of approximately ¥19 billion by the fiscal year ending March 31, 2015.

NSG has divided the 10 years until fiscal 2016 into a first phase of four years followed by second and third phases of three years each, during which the Company will steadily implement growth strategies in order to attain its long-term vision.

Pilkington is engaged in the manufacture and sale of architectural flat glass and automotive glass and had sales of £2,582 million during the fiscal year ended March 31, 2006.

In addition to its Flat Glass Business, Nippon Sheet Glass has also developed businesses in the areas of information/electronics and glass fiber. Following the integration, the flat glass business will for the foreseeable future account for a greater portion of business activities than previously and will be the Group's primary business.

From a medium- to long-range perspective, NSG will utilize the stable cash flow generated by the flat glass business to support R&D investment in adjacent domains that exhibit growth potential, such as information and electronics.

Financing Structure and Debt/Equity Ratio

FINANCING SOURCES

(Billions of yen)

1. Cash on hand and sale of marketable securities:	
NSG	88.9
Pilkington	approximately 54.1
2. New loans:	
Japan	45.0
UK	approximately 318.0
3. Convertible-bond-type bonds with stock acquisition rights:	
Japan	110.0
Total	616.0

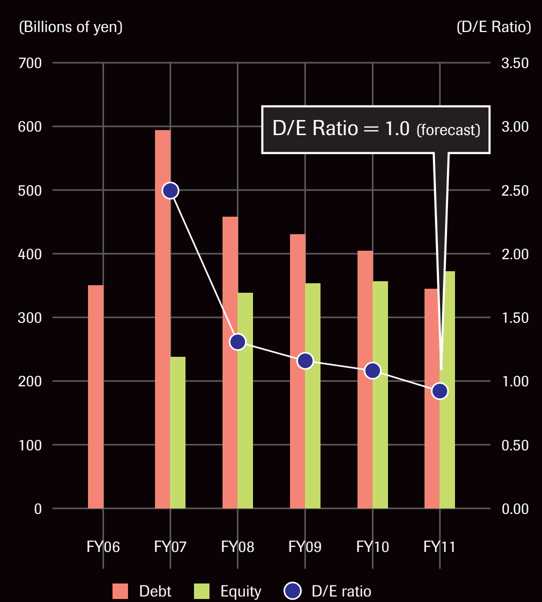
FINANCING USES

(Billions of yen)

1. 80% of Pilkington equity	358.5
2. Refinancing existing gross debt	222.8
3. Other*	34.6
Total	616.0

* Includes net purchase of options and other transaction expenses

DEBT/EQUITY RATIO



Nippon Sheet Glass invested a total of ¥616.0 billion in relation to the acquisition of Pilkington. The primary cost of ¥358.5 billion to purchase the remaining 80% of Pilkington's shares included refinancing of existing obligations and exercising of options in order to purchase shares.

Financing for these activities included approximately ¥143.0 billion consisting of cash on hand and current assets (marketable securities) from both NSG and Pilkington, as well as approximately ¥363.0 billion in new bank loans. The remaining ¥110.0 billion was procured through the issue of non-secured convertible corporate bonds with stock acquisition rights.

The Pilkington acquisition is intended to support the Group's growth and to enhance corporate value. The above financing structure was implemented with the aim of maintaining investment-grade rating without being downgraded in capital markets.

In accordance with the procuring of new bank loans, the debt/equity ratio for the fiscal year ended March 31, 2006 increased to 2.50. However, under the assumption that NSG will redeem ¥110.0 billion in convertible bonds during the coming fiscal year, the debt/equity ratio is expected to follow the trend indicated on the graph above.

NSG intends to bring the debt/equity ratio down to the 1.0 level in fiscal 2010 and plans to repay ¥20.0 billion in loans annually.

In accordance with this outlook, NSG received the following ratings after the completion of acquisition procedures.

R&I: Downgrade from BBB+ to BBB

Moody's: Downgrade from Baa2 to Baa3.

The decrease of one grade in ratings was in line with NSG's expectations.

Following the completion of the acquisition of Pilkington plc, Pilkington Group Chief Executive Stuart Chambers was appointed as a Director of Nippon Sheet Glass at the Company's Annual Shareholders' Meeting held on June 29, 2006. In addition, Katsuji Fujimoto (Chairman), Tomoaki Abe (Chairman of the Audit Committee) and Masakuni Nitta (Chairman of the Remuneration Committee) from NSG were appointed to Pilkington's Board of Directors as non-executive directors.

In accordance with its corporate governance system, NSG's Board of Directors will work to ensure that all business activities continue to be conducted with the same transparency and fairness that NSG has conventionally practiced. We will establish communication teams composed of members from both companies to promote communication with employees, customers and suppliers.

Status of Corporate Governance Measures Implemented

In the following section, we will discuss the present status of the management organization pertaining to decision-making, executive, and oversight functions, as well as the Company's other corporate governance systems and the implementation status of recent corporate governance measures.

Board of Directors and Executive Officer System

To promote the independent management of each business and promote an emphasis on cash flows in management, Nippon Sheet Glass reorganized its four business divisions into in-house companies in 1999. At the same time, NSG implemented an executive officer system to enhance management efficiency and speed and to clarify the responsibilities and authority of the Board of Directors and executive officers.

The management responsibilities of directors were defined more clearly in June 2002. In addition, the term of office for directors was reduced to one year, with the objective of building a management system capable of responding flexibly and appropriately to changes in the business environment.

Then, in June 2004, the executive officer system was strengthened to further clarify the separation of oversight and executive functions and the responsibilities corresponding to each, and the number of directors was reduced from ten to seven.

As of March 31, 2006, the Company had eight directors (including two outside directors) and 19 executive officers (including those concurrently serving as directors). In fiscal 2006 the Board of Directors met 14 times, and the Management Conference 27 times. Chaired by the president, the Management Conference has a mandate to make decisions regarding important operational issues. Compensation for directors totaled ¥271 million during fiscal 2006.

There are no personal or financial ties between Nippon Sheet Glass and its outside directors that could constitute a conflict of interest.

Corporate Auditors, Audits by Corporate Auditors and Internal Audits

Nippon Sheet Glass employs a corporate auditor system. At March 31, 2006, the Company employed four corporate auditors (including two outside auditors). Auditors' Meetings were held six times during fiscal 2006.

In accordance with the established audit policies and tasks assigned by the Board of Auditors, corporate auditors attend meetings of the Board of Directors and other important bodies and audit the operations and finances of Nippon Sheet Glass and its principal subsidiaries. In the interest of efficiency in auditing, the corporate auditors receive reports from the independent auditor and the Internal Audit Department and engage in the free exchange of opinions among themselves. In fiscal 2006, compensation for corporate auditors totaled ¥60 million.

There are no personal or financial ties between Nippon Sheet Glass and its corporate auditors that could constitute a conflict of interest.

The Company's Internal Audit Department conducts internal audits based on its audit plan and in communication with the corporate auditors and independent auditor. Each business location is visited and its operational status is audited.

Audit of Accounts

The accounts of Nippon Sheet Glass are audited by Ernst & Young ShinNihon. Certified public accountants employed by Ernst & Young ShinNihon who conducted the audit for the fiscal year ended March 31, 2006 included Kyoichi Nishiwaki (first year working on NSG audit), Hiroyuki Koichi (eighth year on NSG audit) and Masashi Inoue (second year on NSG audit). The above three CPAs were assisted by three other CPAs and by 11 junior accountants.
Compensation to the independent auditor was as follows:
Certification of accounts: ¥23 million
Compensation other than the above: ¥- million.

Other Corporate Governance Systems

To increase transparency with regard to the compensation of directors, corporate auditors, and executive officers, Nippon Sheet Glass has established a Compensation Advisory Committee headed by the Chairman of the Board. This committee has a membership of seven, which includes three outside directors. In fiscal 2006, this committee met three times.

The Compliance Committee promotes increasingly thorough compliance by educating employees in the requirements of the NSG Group's compliance policies and code of conduct, and by promoting individual adherence to important statutes. NSG is stepping up IR and public relations activities that increase management transparency and is continually engaged in activities intended to reduce the environmental impact of its operations. The Group will continue to reinforce and expand these activities in the future.

Risk Management Systems

NSG has established risk-management regulations in order to minimize and avoid risks and to ensure an effective response when they arise. The General Affairs Department is tasked with promoting risk management throughout the Company.

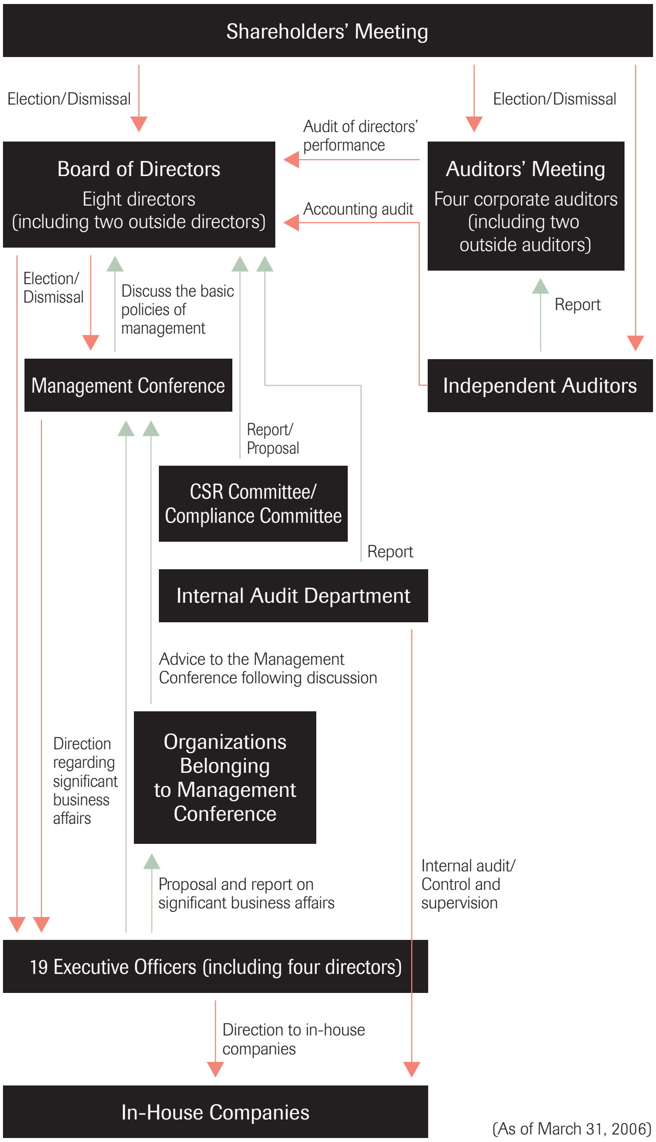
CSR Activities

As a responsible member of society, Nippon Sheet Glass has an obligation to heighten management transparency and promote mutual understanding between stakeholders and the NSG Group. This makes Group policy on CSR an important management issue. Over and above environmental protection, energy conservation, and resource conservation, NSG strives to be a company that makes multifaceted contributions to society on a daily basis.

NSG has been widely recognized for these efforts. For instance, the Company was selected for a grant from the Corporate Governance Fund created by the Pension Fund Association in Japan. This fund's mission is to contribute to improved corporate governance throughout Japanese business and industry through grants to firms that clearly display proper corporate governance. In addition, NSG received the highest prior-vetting ranking from the Development Bank of Japan in connection with utilization of its "Environmentally Conscious Management" environmental scoring system. The Development Bank of Japan has implemented the world's first system designed to encourage environmental protection by using an environmental scoring system to set interest rates at one of three levels based on a company's environmental management efforts. NSG was the first glass manufacturer to receive funding at favorable interest rates under this system.

Both of these developments are objective evidence that the NSG Group's CSR activities are highly regarded.

In the interest of sustainable growth and increasing corporate value for the benefit of stakeholders, Nippon Sheet Glass formed a CSR project team in the spring of 2005, established a CSR Committee, and launched companywide CSR activities. The Company will continue to expand and further develop its CSR activities.



(As of March 31, 2006)

Management (As of September 1, 2006)

BOARD OF DIRECTORS

Yozo Izuhara
Chairman & CEO,
Representative Director

Tomoaki Abe
Vice Chairman,
Representative Director

Katsuji Fujimoto
President,
Representative Director

Masakuni Nitta
Director &
Senior Managing Officer

Toshikazu Kondo
Director &
Managing Officer

Kazuyuki Izumi
Director &
Managing Officer
Head of Automotive
Glass Business Unit

Stuart Chambers
Director

Noritaka Kurauchi
Director
Adviser,
Sumitomo Electric Industries, Ltd.

Kozo Okumura
Director
Senior Adviser,
Dainippon Ink and Chemicals, Inc.

CORPORATE AUDITORS

Kiyohiko Ichinohe
Standing Auditor

Togo Tanaka
Standing Auditor

Isao Uchigasaki
Auditor
Chairman of the Board,
Hitachi Chemical Co., Ltd.

Shoichi Ohi
Auditor
Professor,
Tokyo Denki University

Kowashi Watanabe
Auditor
Attorney at law

MANAGING OFFICERS

Takeshi Horiguchi
Managing Officer

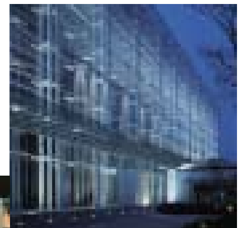
Takashi Murakami
Managing Officer,
Head of Building Products
Business Unit

Naotaka Todoroki
Managing Officer

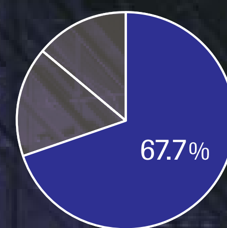
EXECUTIVE OFFICERS

- Itsuo Umemoto
- Chiharu Hisamoto
- Masaaki Funaki
- Toru Ito
- Yoshinobu Kato
- Seiichiro Honjo
- Hiroyoshi Koshiba
- Keiji Yoshikawa
- Takao Kawasaki
- Shinichiro Yokoyama
- Toshiyuki Nakazawa
- Tsunefumi Nakagawa

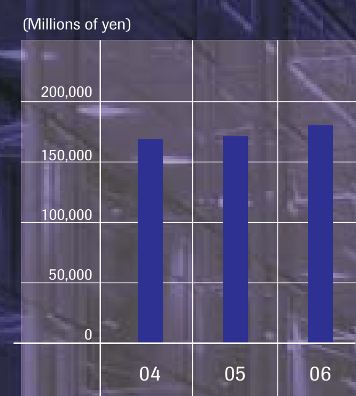
FLAT AND SAFETY GLASS AND BUILDING MATERIALS



Share of Net Sales



Sales



Principal products in this segment are glass for residential and commercial construction and various types of automobile glass.

The Year in Review

Sales in the Building Products Business, which encompasses architectural glass, window sashes and other construction materials, increased in comparison to the previous fiscal year. Primary factors included steady domestic shipments of high-value-added glass products such as double-glazed glass and security glass, as well as effects from the start-up of a new glass furnace in Malaysia. A year-on-year sales increase was also recorded in the Automotive Glass Business, driven by strong sales of glass for new automobiles. Operating income for the overall segment declined, however, owing to significant impact from cost increases for heavy oil, as well as for other raw materials and fuels. As a result of these factors, sales in the Flat and Safety Glass and Building Materials Segment rose 5.3% to ¥180,069 million, while operating income decreased 29.6% to ¥5,001 million.

(Millions of yen)

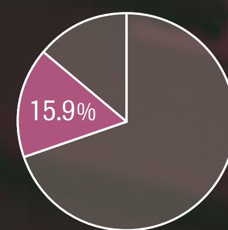
	FY 2005	FY 2006
Sales	¥171,029	¥180,069
Operating Income	7,100	5,001
Total Assets	162,578	168,832
Capital Expenditures	6,489	10,179

Primary products in this segment include components such as SELFOC™ Lens Arrays (SLA™) and Self-scanning Light Emitting Devices (SLED) for office appliances, telecommunications devices such as SELFOC™ micro lenses (SML), and display devices, including LCD and PDP substrates.

The Year in Review

Sales in the Information and Telecommunications Devices Business edged down in comparison with the previous fiscal year. Though business in the area of telecommunications experienced a modest recovery and sales of optical lenses for multi-function printers remained steady, competition intensified in the area of light source components, impacting sales results. In the Display Glass Business, recent recovery in the overall market was offset by inventory adjustments in the markets for small- and mid-sized LCDs during the first half of the fiscal year, leading to a year-on-year decline in sales results in this business. In spite of the impact from lower revenues, operating income for the entire segment increased in comparison with the previous fiscal year, helped by improvements in telecommunications-related business. As a result of these factors, overall sales in the Information/Electronics Materials and Devices segment decreased 4.1% year on year to ¥42,375 million, and operating income climbed 24.5% to ¥1,424 million.

Share of Net Sales



Sales

(Millions of yen)

	FY 2005	FY 2006
Sales	¥44,191	¥42,375
Operating Income	1,143	1,424
Total Assets	56,817	64,017
Capital Expenditures	2,532	3,908

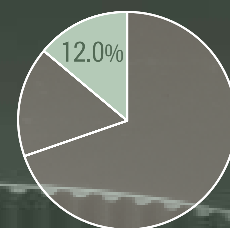
Primary products in this segment include: glass cord for automotive timing belts; GLASFLAKE™, which has applications as an anti-corrosive agent, as reinforcing material in plastics or as a glittering pigment; battery separators for automotive batteries and uninterruptible power supplies; and air filters for clean rooms. The Other Business includes fire-resistant insulation, engineering services and others.

The Year in Review

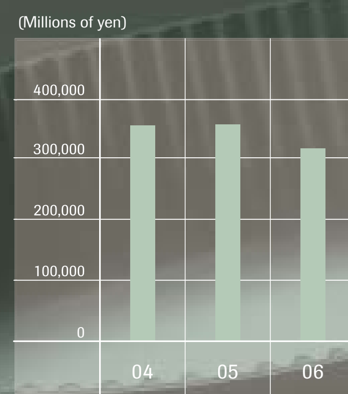
In the Glass Fiber Business, sales of glass cord for timing belts remained strong, while competition intensified in the market for battery separators. Sales of air filters were lower due to stagnation in semiconductor manufacturing activity. As a result of these factors, overall sales in the Glass Fiber Business declined 11.0% year-on-year to ¥31,911 million, and operating income dropped 14.2% to ¥3,901 million.

In the Other Business, sales declined 17.1% year on year to ¥11,533 million. This business recorded an operating loss amounting to ¥1,893 million owing to factors that include investment in information systems within NSG.

Share of Net Sales



Sales



(Millions of yen)

	FY 2005	FY 2006
Sales	¥35,839	¥31,911
Operating Income	4,549	3,901
Total Assets	45,392	46,989
Capital Expenditures	1,983	1,268

Note: Data above is for the Glass fiber segment only.

On April 1, 2005, Nippon Sheet Glass implemented structural reforms to R&D organizations, including the establishment of the New Products and Business Development Department, the closing of the Production Engineering Center and the accompanying transfer of its functions to the R&D departments of each business segment. As a result of these reforms, NSG's research and development activities are being conducted at Group research centers, the New Products and Business Development Department, the Flat Glass Division and the R&D departments of each business segment.

Consolidated R&D expenses for the fiscal year ended March 31, 2006 were ¥7,623 million, representing 2.9% of net sales.

Flat and Safety Glass and Building Materials Segment

In-house companies involved in business related to architectural glass and building materials, transportation glass and materials, as well as other subsidiaries in this segment are pursuing the development of new value-added glass for building materials, automotive glass and glass antennas. Making use of its high-value-added glass, NSG began the development of a large-scale greenhouse for the cultivation of tomatoes in a joint project with Kagome Co., Ltd. and Kajima Corporation. By utilizing high-value-added glass with exceptional energy-saving effects, this collaborative development project aims to achieve a significant decrease in the energy required for heating.

NSG also concluded an agreement for joint research with the National Institute of Advanced Industrial Science and Technology in order to develop glass that automatically regulates solar thermal energy. This glass will utilize a thin film of oxidized vanadium compound that forms on the surface and changes optical properties according to the temperature. Utilizing the properties of this thin film, the amount of solar heat collected by the glass changes according to the temperature of the environment.

In the area of transportation glass and materials, we have moved from the development stage to the mass production stage for automobile door glass that utilizes reinforced glass with IR-cut coating on the surface.

R&D expenses in this segment amounted to ¥2,590 million in the fiscal year ended March 31, 2006.

Information/Electronics Materials and Devices Segment

In-house companies in the information and electronics businesses, as well as other related subsidiary companies in this segment, are engaged in development activities in optical communications, information devices and displays. Nippon Sheet Glass has long been involved in R&D activities related to IC tags and glass antennas. During the fiscal year under review, we pioneered the development of "Glass Smart Shelves"—glass display shelves that incorporate glass reader antennas—for luxury-brand shops. Through "non-contact connection" and simultaneous reading functions, information related to the inventory and location of merchandise equipped with IC tags can be processed automatically and instantly. We will press ahead vigorously with leading-edge R&D initiatives to develop products that meet user needs in other areas as well, aiming to usher in an era marked by information-based convenience and efficiency.

R&D expenses in this segment amounted to ¥3,445 million in the fiscal year ended March 31, 2006.

Glass Fiber Business

By creating synergies between NSG's in-house glass fiber company and subsidiary company Nippon Muki Co., Ltd., we are continuing with aggressive efforts to develop air filters and other specialty glass fibers.

R&D expenses in this segment amounted to ¥1,198 million in the fiscal year ended March 31, 2006.

Other R&D Activities

To establish a business structure capable of consistently creating new products, NSG maintains a fund and adopts a global perspective in investigating new business opportunities, primarily in the areas of environment and biotechnology, as well as in new materials for optical communications. In the area of environmental activities, NSG and Tokyo Denki University succeeded in jointly developing C&R Checker, a material that absorbs and desorbs heavy metals in response to light. By exposing varied metal ions in an aqueous solution to light, C&R Checker is able to effectively absorb and desorb those ions and to easily confirm absorption and desorption through changes in color. NSG will continue working to expand its environmental cleanup business.

Furthermore, in collaboration with Olympus Corporation, NSG developed the world's first glass surface precision-processing technology that enables the formation of an ultra fine contour (structure), ranging in size from 100 nanometers to the micrometer level, directly on a glass surface without semiconductor processing or molding. We are progressing with the search for applications by supplying samples of nanoimprint, plastic-forming molds, optical components such as mirrors and cover glass, micro-reactors, biochips and other items, aiming to develop products for marketing.

R&D expenses in this segment amounted to ¥388 million.

Smart shelf compatible with IC tag using glass antenna

Fine processing on glass surface

Five-Year Summary
Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2006	2005	2004	2003	2002	**2006**
For the year						
Net sales	**¥265,888**	¥264,975	¥269,149	¥280,100	¥286,849	**$2,272,547**
Income before income taxes and minority interests	**11,535**	11,424	9,562	1,468	(174)	**98,590**
Net income	**7,764**	7,588	3,207	(3,152)	(2,278)	**66,359**
Amounts per share (Yen and U.S. dollars):						
Net income						
Basic	**¥ 17.52**	¥ 17.12	¥ 7.19	¥ (7.17)	¥ (5.13)	**$ 0.15**
Diluted	**15.71**	15.78	—	—	—	**0.13**
Cash dividends	**6.00**	6.00	3.00	3.00	6.00	**0.05**
At year-end						
Total assets	**¥595,963**	¥426,909	¥442,163	¥452,463	¥528,227	**$5,093,701**
Shareholders' equity	**238,284**	205,300	200,562	190,913	223,202	**2,036,616**
Number of employees	**12,736**	12,006	11,392	13,406	11,985	**—**

Note: The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥117 = U.S.$1.00, the exchange rate prevailing on March 31, 2006. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

Scope of Consolidation

As of March 31, 2006, the NSG Group consisted of 54 consolidated companies, including Nippon Sheet Glass Co., Ltd. Compared with a year earlier, NSG added two subsidiary companies to the consolidated Group, including Suzhou NSG AFC Thin Films Electronics Co., Ltd. (STEC), and removed three companies from the scope of consolidation, including NSG Hokuriku Co., Ltd. Of these 53 companies, 37 are based in Japan and 16 are based overseas. The NSG Group also contained 47 equity-method affiliated companies, one less than a year earlier, as a result of STEC being added to the scope of consolidation.

Among the consolidated subsidiary companies, 30 have balance sheet closing dates of December 31. Accordingly, consolidated balance sheets utilize information for those 30 companies as of December 31, and significant transactions made during the period from January 1 through March 31 are adjusted for as necessary.

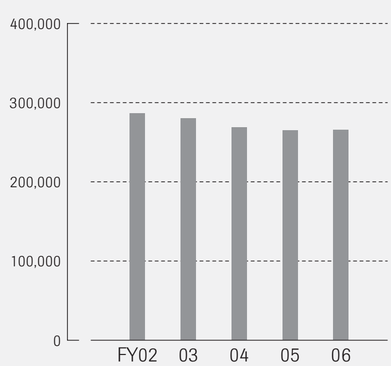
Business Performance

To attain the goals set forth in its New Vision for the year 2010, Nippon Sheet Glass formulated a new mid-term business plan called CCP300 (the initials stand for challenge, courage, passion), which further develops the initiatives of the previous ACT21 mid-term business plan. During the fiscal year ended March 31, 2006, the inaugural year of the new mid-term business plan, the entire NSG group endeavored as one to improve profitability, aiming to expand and develop business by refortifying existing operations and to cultivate proprietary technologies, new products and new business fields. As a result of these initiatives, business performance in the fiscal year under review was as follows.

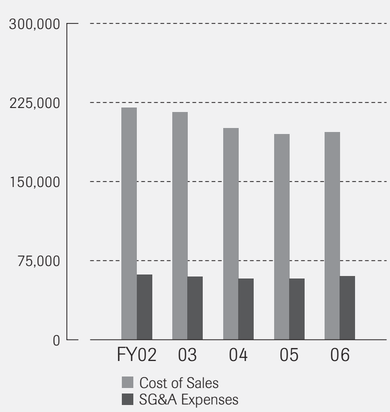
Net Sales and Operating Income

Net sales in the fiscal year ended March 31, 2006 totaled ¥265,888 mil-

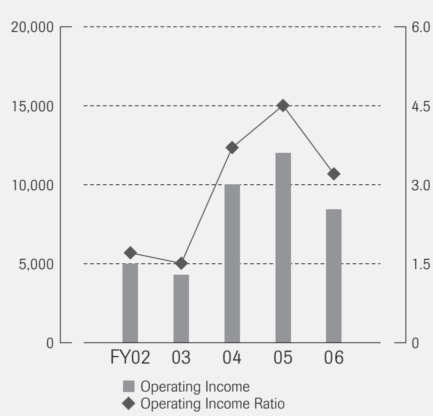
Net Sales (Millions of yen)



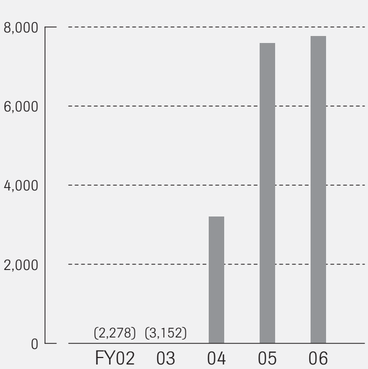
Cost of Sales and SG&A Expenses (Millions of yen)



Operating Income and Operating Income Ratio (Millions of yen, %)



Net Income (Loss) (Millions of yen)



lion, up 0.3% from the previous fiscal year. In addition to strong demand for high-value-added glass such as double-glazed glass and security glass for residential construction, steady automobile production in Japan also supported robust sales of automotive glass. Overall sales remained largely on par with the previous fiscal year, however, owing to decreased sales in the Information/Electronics Materials and Devices Segment and the Glass Fiber and Other Segment.

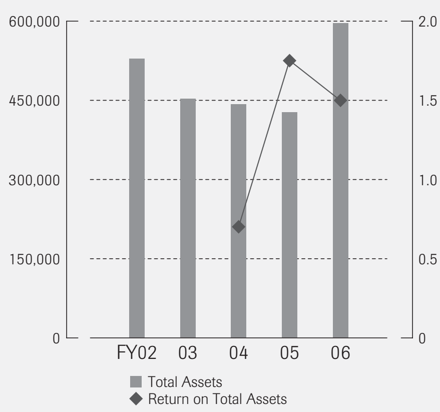
Overseas sales rose 6.2% year on year to ¥53,782 million, and the overseas sales ratio increased from 19.1% to 20.2%. Led by Asian nations, NSG recorded sales growth in all overseas markets.

Operating income declined 29.9% year on year to ¥8,430 million. While NSG implemented cost-reducing measures to improve productivity, these were insufficient to offset the cost of investment for in-house IT systems and the heavy impact of higher costs for crude oil and other raw materials and fuels.

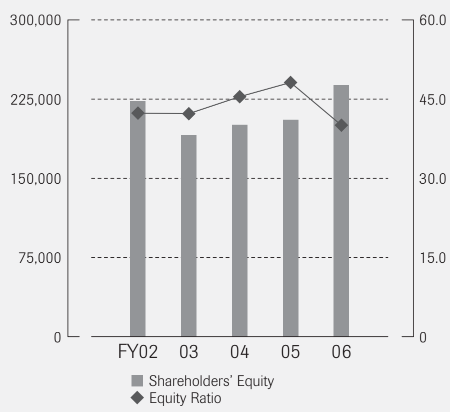
Looking at results by segment, sales in the Flat and Safety Glass and Building Materials Segment climbed 5.3% year on year to ¥180,069 million, while operating income fell 29.6% to ¥5,001 million. In the Information/Electronics Materials and Devices Segment, despite a decrease of 4.1% for total sales of ¥42,375 million, operating income in the segment jumped 24.6% to ¥1,424 million. Sales in the Glass Fiber Business decreased 11.0% to ¥31,911 million, and operating income declined 14.2% to ¥3,901 million. Sales in the Other Business were down 17.1% year on year to ¥11,533 million. The Other Business also recorded an operating loss of ¥1,893 million.

By geographic segment, sales in Japan edged down 1.8% to ¥220,124 million, and operating income dropped 48.3% to ¥3,971 million. Sales in Asia climbed 13.2% to ¥32,770 million, while operating income decreased 4.8% to ¥3,030 million. In North America, sales jumped 62.2% year on year to ¥1,766 million, and operating income was up 29.2% to ¥221 million. In other regions, sales rose 4.1% to ¥11,228 million, while operating income declined 6.2% to ¥1,205 million.

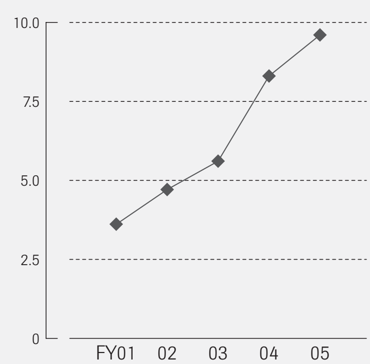
Total Assets and Return on Total Assets (Millions of yen, %)



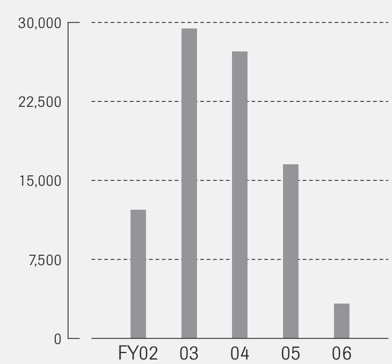
Shareholders' Equity and Equity Ratio (Millions of yen, %)



Interest Coverage (Times)



Free Cash Flows (Millions of yen)



Net Income

In the fiscal year under review, NSG recorded losses on impairment of fixed assets amounting to ¥703 million, as well as expenses totaling ¥1,243 million related to the acquisition of Pilkington. These were offset, however, by a net gain on sales of investment securities amounting to ¥5,548. As a result, income before income taxes increased 1.0% compared with the previous fiscal year to ¥11,535 million.

Income and other taxes for the year ended March 31, 2006 were in line with the previous fiscal year, totaling ¥3,435 million. Net income rose 2.3% year on year to ¥7,764 million.

Net income per share increased from ¥17.12 a year earlier to ¥17.52.

Financial Position

Nippon Sheet Glass adheres to a basic financial policy of maintaining a stable balance sheet and a flexible system for procuring funds that will contribute to future business growth and strengthen the business platform. Under these principles, NSG has implemented numerous business selection and focus initiatives and trimmed its balance sheet. NSG secured funding for the acquisition of Pilkington during the fiscal year under review, and the Group's financial standing as of March 31, 2006 was as follows.

Assets

The sum of current assets and property, plant and equipment totaled ¥595,963 million, up ¥169,054 million from a year earlier. Due in part to the issue of ¥110,000 million in convertible bonds, cash and cash equivalents amounted to ¥180,671 million, an increase of ¥116,507 million from a year earlier. In line with the CCP300 mid-term business plan, NSG focused investment in growth areas, as well as in rationalization initiatives and energy-saving technologies, for an increase of ¥5,311 million in investment for property, plant and equipment. In addition, we are updating IT systems throughout the Group, leading to a year-on-year increase of ¥3,099 million in investment for intangible fixed assets. Moreover, the total amount of the increase for investments in securities, as well as investments in and advances to unconsolidated subsidiaries and affiliates, was ¥39,603 million, primarily as a result of the carrying value of investment securities.

Liabilities

The sum of current and long-term liabilities totaled ¥354,364 million, up ¥135,496 million from a year earlier. Main factors behind the increase were the issue of ¥110,000 million in convertible bonds and the increase in interest-bearing debt.

Shareholders' Equity

Shareholders' equity totaled ¥238,284 million as of March 31, 2006, up ¥32,984 million from a year earlier. Unrealized holding gain on securities at period-end amounted to ¥50,338 million, up ¥23,551 million from a year earlier. Translation adjustments amounted to ¥1,056 million, an increase of ¥9,075 million. As a result of these factors, the shareholders' equity ratio as of March 31, 2006 was 40.0%, a decrease of 8.1 points compared with a year earlier. Shareholders' equity per share increased from ¥462.44 a year earlier to ¥536.74 as of March 31, 2006.

Cash Flows

Cash provided by operating activities totaled ¥15,455 million.

Net cash used in investing activities amounted to ¥12,149 million. Major cash outflows consisted of ¥18,590 million for purchases of property, plant and equipment and purchases of other assets. Principal cash inflows included proceeds from sales of investment securities totaling ¥7,565 million.

Free cash flow, which represents the net total of cash flows from operating activities and investing activities, amounted to ¥3,306 million.

Net cash provided by financing activities totaled ¥111,225 million. Major components included the first issue of non-secured convertible bonds with stock acquisition rights for financing the acquisition of Pilkington, as well as the redemption of ¥9,600 million in existing corporate bonds and the balance of long-term and short-term borrowings.

Accounting for the effect of changes in exchange rates, cash and cash equivalents as of March 31, 2006 totaled ¥179,159 million, an increase of ¥115,647 million compared with a year earlier.

The debt redemption period increased from 7.2 years to 15.3 years, while the interest coverage ratio went from 8.3 times to 9.0 times.

Debt redemption period: Interest-bearing debt/operating cash flow
Interest coverage ratio: Operating cash flow/interest paid

Risk Information

Items that may potentially have a significant impact on investor decisions are listed below. The forward-looking statements contained herein are based upon assessments by the NSG Group as of March 31, 2006. The following is not intended to be a comprehensive assessment of all business risks facing the Group.

1. Economic conditions

Sales of NSG Group products are largely dependent on the Japanese and Asian markets. Conditions in the Japanese and global economies, as well as the economic environment impacting the business of our customers, tend to influence demand for NSG Group products, and the Group's business results may be significantly affected thereby.

2. Fluctuations in business performance

Business performance of the NSG Group's Information/Electronics Materials and Devices Business has fluctuated markedly in recent years. While the segment recorded operating income of ¥13,428 million in the fiscal year ended March 31, 2001, the segment then suffered operating losses of ¥5,697 million, 6,633 million and 924 million respectively in the fiscal years ended March 31, 2002, 2003 and 2004. These fluctuations are primarily the result of cyclical demand for NSG Group products, and such fluctuations in business performance may again be experienced at times in the future.

The Group is wholly reconfiguring the structure of the Information/Electronics Materials and Devices Business and aims to improve business results through the new business structure. However, there is no guarantee that future economic downturns in the industry will not have a significant impact on the business and financial conditions of the Information/Electronics Materials and Devices Business and the entire NSG Group.

3. Reliance on specific industries

The Flat and Safety Glass and Building Materials Business contributes over 60% of the Group's net sales, primarily based upon business with customers in the construction, housing and automotive industries. Conditions affecting the construction and automotive sectors in turn impact a number of corporations related to the construction and automotive components industries, including the NSG Group.

NSG strives to build a stable profit structure in the Flat and Safety Glass and Building Materials Segment by thorough cost reductions, in addition to development and expanded sales of high-value-added products. However, Group business performance and financial condition may be affected by economic cycles in the construction and automotive sectors.

4. Competition

The NSG Group is in competitive relationships with other glass product manufacturers in Japan and overseas. Moreover, the Group is in competition with manufacturers of other materials such as plastics and metals that are used in the construction, automotive, and information and electronics industries.

The Group seeks to maintain a superior competitive position by introducing proprietary technologies and products to markets. The Group's business performance and financial condition may be adversely affected, however, as a result of competitive circumstances.

5. New product development and technological innovations

In addition to focusing efforts on the development of proprietary technologies and products in existing business fields, the NSG Group is also moving ahead with initiatives to develop new products in new business fields. Long time periods may be required for the new product development process, potentially leading to mounting expenses. Moreover, substantial investment of capital and resources may be necessary before new products contribute to sales. Investment in the development of new products may not generate sufficient earnings in the event that competing companies release new products to the market more rapidly than the Group. In addition, in the event that the Group is unable to predict or respond in a timely manner to changes in technologies, or does not succeed in developing new products suited to customer needs, the business performance and financial condition may be adversely impacted.

6. Future investment capital

The NSG Group may, in the future, need to procure additional capital for any or several of the following business activities: releasing new products; implementing business or research and development plans; increasing manufacturing capacity; acquiring complementary businesses, technologies or services; or repaying liabilities. In the event that the Group is unable to secure such capital in a timely manner and under favorable conditions, or cannot procure capital at all, the Group may not be able to invest for the expansion, development or strengthening of products and services, and may not be able to grasp business opportunities or to respond sufficiently to competitive pressures.

7. Overseas manufacturing

The NSG Group has manufacturing operations in several nations, including China, Taiwan, and Vietnam. Several risks are inherent in conducting business in each nation, including political and economic conditions, as well as circumstances related to laws and regulations. These risks may impact the Group's business results and financial condition.

8. Interruptions in production

NSG conducts periodic inspection and maintenance of all equipment to prevent breakdown and minimize the impact that would be incurred by the interruption of production operations. However, there is no guarantee that the Group can completely prevent or alleviate the impact of earthquakes, power outages, or other disasters or disruptions upon production equipment.

Moreover, the Group manufactures certain products that cannot be manufactured with equipment other than its own. Accordingly, the occurrence of severe earthquakes or other disturbances that lead to the temporary or long-term interruption of production operations may in turn cause sharp decreases in the production capacity of specific products. The Group's business performance and financial condition may be affected accordingly.

9. Foreign exchange and interest rates

The NSG Group manufactures and sells products to customers around the world and faces numerous risks related to the fluctuation of foreign exchange and interest rates in the markets where it is active. While the Group takes active measures to hedge against such risks, fluctuations in currency exchange and interest rates may affect the Group's business activities, earnings performance and financial condition.

10. Insufficient pension reserves

In the event of decreases in the market value or return on investment of the Group's pension assets, or in the event of changes in actuarial assumptions for insurance that form the basis for postulations used to calculate projected benefit obligations, the Group's business performance and financial condition may be significantly affected.

Consolidated Balance Sheets

Nippon Sheet Glass Company, Limited and Consolidated Subsidiaries
March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1 (a))
ASSETS	2006	2005	2006
CURRENT ASSETS:			
Cash and cash equivalents	¥ 179,159	¥ 63,512	$ 1,531,274
Short-term investments	1,512	652	12,923
Trade notes and accounts receivable	65,061	64,235	556,077
Allowance for doubtful accounts	(769)	(773)	(6,573)
Inventories:			
Finished goods	21,367	18,590	182,624
Work in process and raw materials	16,382	15,992	140,017
Deferred income taxes (Note 6)	1,863	1,690	15,923
Other current assets	4,157	3,825	35,530
Total current assets	288,732	167,723	2,467,795
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 4 and 7)	23,030	23,438	196,838
Buildings and structures (Notes 4 and 7)	107,577	107,298	919,462
Machinery, equipment and vehicles (Note 7)	194,218	179,714	1,659,983
Construction in progress (Notes 4 and 7)	8,965	9,844	76,623
	333,790	320,294	2,852,906
Accumulated depreciation	(214,394)	(206,209)	(1,832,427)
Property, plant and equipment, net	119,396	114,085	1,020,479
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Notes 3 and 7)	112,022	66,037	957,453
Investments in and advances to unconsolidated subsidiaries and affiliates	61,985	68,367	529,786
Deferred income taxes (Note 6)	834	793	7,128
Long-term loans receivable and other assets	12,994	9,904	111,060
Total investments and other assets	187,835	145,101	1,605,427
TOTAL ASSETS	¥ 595,963	¥ 426,909	$ 5,093,701

See accompanying notes to consolidated financial statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1 (a)) 2006
CURRENT LIABILITIES:			
Short-term bank borrowings (Note 7)	¥ 38,477	¥ 32,707	$ 328,863
Current portion of long-term debt (Note 7)	8,226	14,071	70,308
Notes and accounts payable:			
Trade	37,357	38,923	319,291
Construction	5,400	4,134	46,154
Accrued expenses	10,013	8,519	85,581
Accrued income taxes (Note 6)	3,419	1,797	29,222
Deferred income taxes (Note 6)	1,206	1,718	10,308
Customers' deposits and other	6,904	6,139	59,008
Total current liabilities	111,002	108,008	948,735
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	190,220	74,534	1,625,812
Accrued retirement benefits (Note 5)	13,210	14,163	112,906
Reserve for rebuilding furnaces	9,684	8,724	82,769
Deferred income taxes (Note 6)	28,075	12,030	239,957
Other long-term liabilities	2,173	1,409	18,573
Total long-term liabilities	243,362	110,860	2,080,017
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	3,315	2,741	28,333
CONTINGENT LIABILITIES (Note 9)			
SHAREHOLDERS' EQUITY (Notes 8, 16 (b) and 16 (c)):			
Common stock:			
Authorized — 1,150,000,000 shares			
Issued — 443,946,452 shares in 2006 and 2005	41,060	41,060	350,940
Capital surplus	50,373	50,373	430,538
Retained earnings	95,791	95,356	818,727
Unrealized holding gain on securities (Notes 3 and 7)	50,338	26,787	430,240
Translation adjustments	1,056	(8,019)	9,026
Treasury stock, at cost; 950,832 shares in 2006 and 792,358 shares in 2005	(334)	(257)	(2,855)
Total shareholders' equity	238,284	205,300	2,036,616
TOTAL LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	¥ 595,963	¥ 426,909	$ 5,093,701

Consolidated Statements of Income

Nippon Sheet Glass Company, Limited and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1 (a))
	2006	2005	2006
Net sales	¥ 265,888	¥ 264,975	$ 2,272,547
Cost of sales (Notes 5 and 12)	(196,948)	(194,843)	(1,683,316)
Gross profit	68,940	70,132	589,231
Selling, general and administrative expenses (Notes 5 and 12)	60,510	58,106	517,180
Operating income	8,430	12,026	72,051
Other income (expenses):			
Interest and dividend income	2,270	1,488	19,402
Interest expense	(1,608)	(2,033)	(13,744)
Equity in earnings of affiliates	4,018	4,441	34,342
Loss on disposal and sales of property, plant and equipment	(219)	(1,809)	(1,872)
Gain on sales of investments in securities, net (Note 3)	5,548	3,634	47,419
Loss on disposal of inventories	(1,358)	(2,980)	(11,607)
Loss on impairment of fixed assets (Notes 2 and 4)	(703)	—	(6,009)
Expenses for acquisition of Pilkington plc.	(1,243)	—	(10,624)
Other, net	(3,600)	(3,343)	(30,768)
	3,105	(602)	26,539
Income before income taxes and minority interests	11,535	11,424	98,590
Income taxes (Note 6):			
Current	4,015	4,294	34,316
Deferred	(580)	(874)	(4,957)
	3,435	3,420	29,359
Income before minority interests	8,100	8,004	69,231
Minority interests in net income of consolidated subsidiaries	(336)	(416)	(2,872)
Net income	¥ 7,764	¥ 7,588	$ 66,359

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Nippon Sheet Glass Company, Limited and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	Number of shares of common stock		Millions of yen		Thousands of U.S. dollars (Note 1 (a))
	2006	2005	2006	2005	2006
COMMON STOCK:					
Balance at beginning and end of the year	443,946,452	443,946,452	¥41,060	¥ 41,060	$350,940
CAPITAL SURPLUS:					
Balance at beginning of the year			¥50,373	¥ 50,371	$430,538
Increase resulting from sales of treasury stock			—	2	—
Balance at end of the year			¥50,373	¥ 50,373	$430,538
RETAINED EARNINGS:					
Balance at beginning of the year			¥95,356	¥ 90,558	$815,009
Net income			7,764	7,588	66,359
Cash dividends			(2,659)	(2,659)	(22,726)
Bonuses to directors and corporate auditors			—	(20)	—
Decrease resulting from changes in scope of consolidation and application of equity method			—	(111)	—
Decrease in retained earnings resulting from initial adoption of International Financial Reporting Standards at an overseas affiliate, Pilkington plc.			(4,670)	—	(39,915)
Balance at end of the year			¥95,791	¥ 95,356	$818,727
UNREALIZED HOLDING GAIN ON SECURITIES (Notes 3 and 7)					
Balance at beginning of the year			¥26,787	¥ 28,751	$228,949
Net change during the year			23,551	(1,964)	201,291
Balance at end of the year			¥50,338	¥ 26,787	$430,240
TRANSLATION ADJUSTMENTS:					
Balance at beginning of the year			¥ (8,019)	¥ (10,008)	$ (68,538)
Net change during the year			9,075	1,989	77,564
Balance at end of the year			¥ 1,056	¥ (8,019)	$ 9,026

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Sheet Glass Company, Limited and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2006	2005	2006
I. CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 11,535	¥ 11,424	$ 98,590
Adjustments for:			
Depreciation and amortization	12,961	12,553	110,778
Loss on impairment of fixed assets	703	—	6,009
Increase in allowance for doubtful accounts	169	347	1,444
(Decrease) increase in accrued retirement benefits	(2,093)	379	(17,889)
Loss on disposal and sales of property, plant and equipment	219	1,809	1,872
Gain on sales of investments in securities	(5,548)	(3,634)	(47,419)
Loss on revaluation of investments in securities	121	54	1,034
Equity in earnings of affiliates	(4,018)	(4,441)	(34,342)
Interest and dividend income	(2,270)	(1,488)	(19,402)
Interest expense	1,608	2,033	13,744
Decrease (increase) in notes and accounts receivable	3,529	(1,135)	30,162
Increase in inventories	(2,081)	(436)	(17,786)
Decrease in notes and accounts payable	(3,680)	(1,793)	(31,453)
Increase in reserve for rebuilding furnaces	960	221	8,205
Other, net	2,645	3,404	22,607
Subtotal	14,760	19,297	126,154
Interest and dividend income received	5,541	4,485	47,359
Interest paid	(1,720)	(2,036)	(14,701)
Income taxes paid	(3,126)	(4,947)	(26,718)
Net cash provided by operating activities	15,455	16,799	132,094
II. CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for time deposits included in short-term investments	(1,195)	(2,317)	(10,214)
Proceeds from time deposits	335	2,212	2,863
Purchases of investments in securities	(543)	(1,123)	(4,641)
Proceeds from sales of investments in securities	7,565	5,599	64,658
Purchases of investments in an affiliate	(2,483)	—	(21,222)
Proceeds from sales of investments in affiliates	—	1,442	—
Purchases of property, plant and equipment	(14,043)	(11,820)	(120,026)
Proceeds from sales of property, plant and equipment	2,169	6,773	18,538
Purchases of other assets	(4,547)	(675)	(38,863)
Decrease in short-term loans receivable included in other current assets	841	390	7,188
Increase in long-term loans receivable	(265)	(374)	(2,265)
Other, net	17	(363)	146
Net cash used in investing activities	(12,149)	(256)	(103,838)
III. CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank borrowings	5,420	(9,259)	46,325
Proceeds from long-term loans	13,529	8,279	115,632
Repayment of long-term loans	(5,317)	(7,265)	(45,444)
Issuance of bonds	110,000	23,000	940,171
Redemption of bonds	(9,600)	(19,791)	(82,051)
Cash dividends paid	(2,659)	(2,659)	(22,726)
Other, net	(148)	(111)	(1,266)
Net cash provided by (used in) financing activities	111,225	(7,806)	950,641
Effect of exchange rate changes on cash and cash equivalents	1,031	(439)	8,813
Net increase in cash and cash equivalents	115,562	8,298	987,710
Cash and cash equivalents at beginning of the year	63,512	55,357	542,838
Effect of changes in scope of consolidation (Note 13)	85	(143)	726
Cash and cash equivalents at end of the year	¥179,159	¥ 63,512	$1,531,274

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

(a) Basis of preparation

The accompanying consolidated financial statements of Nippon Sheet Glass Company, Limited (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards and have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically for the convenience of readers outside Japan.

The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥117= U.S.$1.00, the exchange rate prevailing on March 31, 2006. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2005 to the 2006 presentation. These reclassifications had no effect on consolidated net income or shareholders' equity.

(b) Principles of consolidation

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

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

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

(c) Foreign currency translation

The balance sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of shareholders' equity which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rates of exchange in effect during the year.

(d) Cash equivalents

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

(e) Allowance for doubtful accounts

The allowance for doubtful accounts is calculated based on the historical experience with bad debts plus an estimate of certain uncollectible amounts determined after an analysis of specific individual receivables.

(f) Short-term investments and investments in securities

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

(g) Derivatives

Derivatives are stated at fair value.

(h) Inventories

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

(i) Property, plant and equipment

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

The estimated useful lives adopted are principally as follows:

Buildings and structures	3–50 years
Machinery, equipment and vehicles	3–15 years

(j) Retirement benefits

Accrued retirement benefits for employees are provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

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

Effective April 1, 2004, the Company established internal regulations for an unfunded retirement benefit plan for its executive officers. The funding required under this plan has been accrued in accordance with these internal regulations and the accrual has been treated as a component of accrued retirement benefits for employees.

The Company and certain consolidated subsidiaries have unfunded retirement benefit plans for their directors and statutory auditors. The funding required under these plans has been fully accrued in accordance with their respective internal regulations.

Effective the year ended March 31, 2006, the Company and its consolidated subsidiaries have adopted "Partial Amendments to the Accounting Standard for Retirement Benefits" (Financial Accounting Standard No. 3, March 16, 2005) and "Application Guidelines for Partial Amendments to the Accounting Standard for Retirement Benefits" (Application Guidelines for Financial Accounting Standard No. 7, March 16, 2005). The effect of the adoption of this standard and the applicable guidelines on the consolidated operating results was nil for the year ended March 31, 2006.

(k) Reserve for rebuilding furnaces

In order to prepare for periodic large-scale repairs to furnaces, the reserve for rebuilding furnaces is calculated in consideration of the estimated cost of scheduled repairs and the number of hours of operation prior to the next repair date.

(l) Leases

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

(m) Bond issuance expenses

Bond issuance expenses are charged to income as incurred.

(n) Research and development costs and software development costs

Research and development costs are charged to income as incurred.

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

(o) Income taxes

Deferred income taxes are recognized by the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(p) Hedge accounting

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged item is recognized. Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt. Receivables and payables hedged by forward foreign exchange contracts which meet certain conditions are translated at the corresponding contract rates.

(q) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period and the accounts for the period, therefore, do not reflect such appropriations. (Refer to Note 16 (b))

2. Change in Method of Accounting

Effective April 1, 2005, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets. The effect of the adoption of this standard was to decrease income before income taxes and minority interests by ¥703 million ($6,009 thousand) for the year ended March 31, 2006. The accumulated impairment loss on the related assets has been deducted directly from the carrying amounts of the respective assets in the consolidated balance sheet at March 31, 2006.

3. Investments in Securities

The Company and its consolidated subsidiaries did not hold any trading securities or held-to-maturity debt securities at March 31, 2006 and 2005.

Marketable securities classified as other securities at March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		
	2006		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥16,173	¥100,798	¥84,625
Other	100	100	0
Subtotal	16,273	100,898	84,625
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	416	89	(327)
Total	¥16,689	¥100,987	¥84,298

	Millions of yen		
	2005		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥17,916	¥63,138	¥45,222
Other	100	100	0
Subtotal	18,016	63,238	45,222
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	448	87	(361)
Total	¥18,464	¥63,325	¥44,861

	Thousands of U.S. dollars		
	2006		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	$138,230	$861,521	$723,291
Other	855	855	0
Subtotal	139,085	862,376	723,291
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	3,556	761	(2,795)
Total	$142,641	$863,137	$720,496

At the year end, the Company and its consolidated subsidiaries compare the market value and the carrying value of each of their marketable equity securities. Impairment losses are recorded for those whose market value represents a substantial decline of 50% or more, or for those which have declined within a range of 30% or more, but less than 50%, over a consecutive two-year period if the decline is not deemed to be recoverable.

Sales of other securities for the years ended March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Sales	¥7,565	¥5,599	$64,658
Aggregate gain	5,608	3,648	47,932
Aggregate loss	60	14	513

The carrying value of investments in non-marketable securities at March 31, 2006 and 2005 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Unlisted equity securities (except for equity securities traded on the over-the-counter market)	¥9,918	¥9,687	$84,769
Other	130	112	1,111

The redemption schedule as of March 31, 2006 for other securities with maturity dates is summarized as follows:

	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds	¥1	¥4	¥2	¥ —

	Thousands of U.S. dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds	$9	$34	$17	$ —

4. Loss on Impairment of Fixed Assets

The Company and its consolidated subsidiaries recognized a loss on impairment of fixed assets for the year ended March 31, 2006 as follows:

Description	Location	Classification	Millions of yen	Thousands of U.S. dollars
Industrial properties and other	Ryugasaki City, Ibaragi Prefecture and other	Land, buildings and structures	¥374	$3,197
Properties for sale	Abiko City, Chiba Prefecture	Land, buildings and structures	169	1,444
Idle properties	Tsu City, Mie Prefecture	Construction in progress	160	1,368
Total			¥703	$6,009

The Company and its consolidated subsidiaries group their fixed assets by cash-generating units based on their business use, except for idle property, which is grouped individually.

Corresponding to a recent decline in land prices, the carrying value of these assets (or groups of assets) whose market value has decreased significantly from their carrying value has been reduced to their respective recoverable amounts.

The recoverable amounts of the assets (or groups of assets) are measured based on the net selling prices determined principally by appraisals conducted by real estate appraisers. Idle properties were not anticipated to be utilized in the future and their recoverable amounts measured at net selling value were reduced to ¥1 ($0.01) per idle property as they had been originally constructed for a specific type of usage which is no longer applicable.

5. Retirement Benefits

The Company, its domestic consolidated subsidiaries and certain overseas subsidiaries have defined benefit plans, i.e., Welfare Pension Fund Plans ("WPFPs"), tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs. In certain cases, additional severance payments are made when employees retire.

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2006 and 2005 for the defined benefit plans of the Company and its consolidated subsidiaries:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Retirement benefit obligation	¥(44,632)	¥(43,218)	$(381,470)
Plan assets at fair value	31,238	25,175	266,991
Unfunded retirement benefit obligation	(13,394)	(18,043)	(114,479)
Unrecognized actuarial loss	1,372	4,953	11,727
Accrued retirement benefits	¥(12,022)	¥(13,090)	$(102,752)

The components of retirement benefit expenses for the years ended March 31, 2006 and 2005 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost	¥2,494	¥1,822	$21,316
Interest cost	786	821	6,718
Expected return on plan assets	(693)	(662)	(5,923)
Net actuarial loss recognized during the year	1,930	1,920	16,496
Total	¥4,517	¥3,901	$38,607

The retirement benefit expenses of the consolidated subsidiaries, which are calculated by simplified methods as allowed under the applicable accounting standard, have been included in “Service cost” in the above table.

The assumptions used in accounting for the above plans were a discount rate principally of 2.0% and an expected rate of return on plan assets principally of 3.0% for the years ended March 31, 2006 and 2005.

The Company and certain consolidated subsidiaries, based on their internal bylaws, recorded accrued retirement benefits to directors and corporate auditors of ¥1,188 million ($10,154 thousand) and ¥1,073 million at March 31, 2006 and 2005, respectively.

6. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants’ taxes and enterprise tax, which in the aggregate, resulted in a statutory tax rate of approximately 40.5% for the years ended March 31, 2006 and 2005, respectively. Overseas subsidiaries are subject to the income tax regulations of the countries in which they operate.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2006 and 2005 differ from the statutory tax rates for the following reasons:

	2006	2005
Statutory tax rates	40.5%	40.5%
Loss or income of subsidiaries	0.9	(15.6)
Permanently non-deductible expenses	0.7	1.7
Permanently non-taxable income	(1.8)	(3.8)
Elimination of dividend income for consolidation purposes	17.6	18.7
Differences in tax rates applicable to domestic and overseas subsidiaries	(15.8)	(8.1)
Temporary differences resulting from eliminations for consolidation purposes	(14.8)	3.3
Temporary differences resulting from acquisition of Pilkington plc.	3.8	—
Other	(1.3)	(6.7)
Effective tax rates	29.8%	30.0%

The significant components of deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Accrued retirement benefits	¥ 4,517	¥ 5,127	$ 38,607
Reserve for rebuilding furnaces	3,137	2,853	26,812
Tax loss carryforwards	919	1,222	7,855
Loss on revaluation of investments in securities	6,566	2,430	56,120
Accrued expenses	996	951	8,513
Allowance for doubtful accounts	1,203	286	10,282
Unrealized profit on fixed assets	2,236	2,211	19,111
Other	(2,180)	1,995	(18,633)
Subtotal	17,394	17,075	148,667
Less valuation allowance	(4,659)	(4,087)	(39,821)
Total deferred tax assets	12,735	12,988	108,846
Deferred tax liabilities:			
Unrealized holding gain on securities	(35,471)	(19,558)	(303,171)
Reserve for special depreciation (a reserve for tax purposes under the Corporation Tax Law of Japan)	(2,478)	(2,793)	(21,179)
Other	(1,370)	(1,902)	(11,710)
Total deferred tax liabilities	(39,319)	(24,253)	(336,060)
Net deferred tax liabilities	¥(26,584)	¥(11,265)	$(227,214)

7. Short-Term Bank Borrowings and Long-Term Indebtedness

Short-term bank borrowings generally represent bank loans with deeds. The average interest rates on these borrowings were 1.0% and 0.8% at March 31, 2006 and 2005, respectively.

For flexible financing purposes, the Company has lines-of-credit with certain banks. The status of these at March 31, 2006 and 2005 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Lines of credit	¥25,000	¥10,000	$213,675
Credit used	—	—	—
Available credit	¥25,000	¥10,000	$213,675

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

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
1.06% to 3.35% secured loans from banks and other financial institutions, due in installments through 2011	¥ 1,792	¥ 2,205	$ 15,317
0.55% to 5.68% unsecured loans from banks and other financial institutions, due in installments through 2008	43,654	33,800	373,111
2.85% unsecured bonds, due April 27, 2005	—	9,600	—
1.18% unsecured bonds, due September 8, 2008	10,000	10,000	85,470
1.77% unsecured bonds, due September 8, 2010	10,000	10,000	85,470
Zero-coupon unsecured convertible bonds with stock acquisition rights, due May 13, 2011	23,000	23,000	196,581
Zero-coupon unsecured convertible bonds with stock acquisition rights, due March 13, 2009	110,000	—	940,171
Total	198,446	88,605	1,696,120
Less-current portion included in current liabilities	8,226	14,071	70,308
	¥190,220	¥74,534	$1,625,812

Unsecured convertible bonds with stock acquisition rights at the gross issuance amount of ¥23,000 million ($196,581 thousand) are convertible into common stock of the Company at ¥542 per share during the period from May 20, 2004 to May 6, 2011.

Unsecured convertible bonds with stock acquisition rights at the gross issuance amount of ¥110,000 million ($940,171 thousand) are convertible into common stock of the Company at ¥581 per share during the period from March 16, 2006 to March 12, 2009. This conversion price is subject to adjustment in certain cases within the range from ¥336.8 to ¥1,010.4 per share in accordance with the issuance conditions.

The assets pledged as collateral for long-term debt of ¥1,156 million ($9,881 thousand), short-term bank borrowings of ¥1,070 million ($9,145 thousand), current portion of long-term indebtedness of ¥636 million ($5,436 thousand), and trade notes discounted with banks of ¥109 million ($932 thousand) at March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥3,303	$28,231
Buildings and structures	1,345	11,496
Machinery, equipment and vehicles	31	265
Investments in securities	50	427
Total	¥4,729	$40,419

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 8,226	$ 70,308
2008	14,560	124,444
2009	128,472	1,098,051
2010	2,793	23,872
2011	11,779	100,675
2012 and thereafter	32,616	278,770
	¥198,446	$1,696,120

8. Shareholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equivalent to at least 10% of cash dividends paid and bonuses to directors and corporate auditors, and exactly 10% of interim cash dividends paid be appropriated to the legal reserve until the sum of additional paid-in capital, which is included in capital surplus, and the legal reserve, which is included in retained earnings, equals 25% of stated capital. The Code also provides that additional paid-in capital and the legal reserve are not available for dividends, but may be used to reduce a capital deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. The legal reserve of the Company amounted to ¥6,376 million ($54,496 thousand) at March 31, 2006 and 2005.

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Code, went into effect on May 1, 2006. The Law stipulates requirements on distributions of earnings which are similar to those of the Code. Under the Law, however, such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

9. Contingent Liabilities

At March 31, 2006, the Company and its consolidated subsidiaries were contingently liable for trade notes receivable discounted with banks of ¥319 million ($2,726 thousand), trade notes receivable endorsed of ¥829 million ($7,085 thousand), and for guarantees of loans of non-consolidated subsidiaries, affiliates and distributors amounting to ¥1,836 million ($15,692 thousand). These amounts included contingent guarantees and letters of awareness amounting to ¥760 million ($6,496 thousand) in the aggregate.

10. Leases

The Company and its consolidated subsidiaries lease certain machinery, equipment and vehicles. Lease payments remitted under these leases totaled ¥1,242 million ($10,615 thousand) and ¥1,366 million for the years ended March 31, 2006 and 2005, respectively.

The *pro forma* information relating to acquisition costs, accumulated depreciation and the net book value of the leased assets at March 31, 2006 and 2005, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Machinery, equipment and vehicles:			
Acquisition costs	¥11,362	¥11,023	$97,111
Accumulated depreciation	7,418	7,649	63,402
Net book value	¥ 3,944	¥ 3,374	$33,709

Future minimum lease payments to be made under finance leases subsequent to March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥1,245	$10,641
Due after one year	2,699	23,068
Total	¥3,944	$33,709

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

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, if computed by the straight-line method, would have been ¥1,242 million ($10,615 thousand) and ¥1,366 million for the years ended March 31, 2006 and 2005, respectively.

11. Derivatives

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

The Company and its consolidated subsidiaries are exposed to certain market risks arising from derivatives. However their derivatives positions are strictly limited in amount based on the underlying hedged transactions. The Company and its consolidated subsidiaries are also exposed to certain credit risk in the event of nonperformance by the counterparties to the currency and interest-rate related derivatives; however, the Company and its consolidated subsidiaries believe that the credit risk is minimal because they do not anticipate nonperformance by any of these counterparties, all of which are financial institutions with high credit ratings.

Disclosure of fair value information on derivatives at March 31, 2006 and 2005 has been omitted because all open derivatives positions qualified for hedge accounting.

12. Research and Development Costs

Costs relating to research and development activities which are charged to income as incurred amounted to ¥7,623 million ($65,154 thousand) and ¥7,945 million for the years ended March 31, 2006 and 2005, respectively.

13. Supplementary Cash Flow Information

SUZHOU NSG AFC THIN FILMS ELECTRONICS CO., LTD. was initially consolidated effective the year ended March 31, 2006 because of the acquisition of its shares. The assets and liabilities of this company as of December 31, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥2,106	$18,000
Non-current assets	2,682	22,923
Current liabilities	469	4,009
Non-current liabilities	338	2,889

Effective August 27, 2004, Isolite Insulating Products Co., Ltd. and another subsidiary were excluded from the scope of consolidation because the investments in these companies had been sold. The assets and liabilities of these companies as of the dates of the respective sales were as follows:

	Millions of yen
Current assets	¥ 6,959
Non-current assets	10,064
Current liabilities	7,353
Non-current liabilities	2,505

14. Amounts per Share

Amounts per share at March 31, 2006 and 2005 and for the years then ended were as follows:

	Yen		U.S. dollars
	2006	2005	2006
Net assets	¥537.89	¥463.27	$4.60
Net income	17.52	17.12	0.15
Diluted net income	15.71	15.78	0.13
Cash dividends	6.00	6.00	0.05

Net assets per share are based on the number of shares of common stock outstanding at the year-end.

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

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

15. Segment Information

(a) Business segments

The Company and its consolidated subsidiaries operate principally in four business segments: "Flat and safety glass and building materials," "Information/electronic materials and devices," "Glass fiber products," and "Other."

The "Flat and safety glass and building materials" segment includes principally the manufacture and sale of flat glass, the transportation of glass, and various interior and exterior construction materials. The "Information/electronics materials and devices" segment consists primarily of the manufacture and sale of micro-optics, fine glass and glass disks. The "Glass fiber products" segment deals with the manufacture and sale of glass fiber products. The segment designated as "Other" includes the manufacture and sale of fireproof adiabators and certain other items.

The business segment information for the years ended March 31, 2006 and 2005 is summarized as follows:

	Millions of yen						
	Year ended March 31, 2006						
	Flat and safety glass and building materials	Information/ electronics materials and devices	Glass fiber products	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income (loss)							
External sales	¥180,069	¥42,375	¥31,911	¥ 11,533	¥265,888	¥ —	¥265,888
Intersegment sales	794	443	43	5,701	6,981	(6,981)	—
Total sales	180,863	42,818	31,954	17,234	272,869	(6,981)	265,888
Operating expenses	175,862	41,394	28,053	19,127	264,436	(6,978)	257,458
Operating income (loss)	¥ 5,001	¥ 1,424	¥ 3,901	¥ (1,893)	¥ 8,433	¥ (3)	¥ 8,430
II. Assets, depreciation, impairment loss, and capital expenditures							
Total assets	¥168,832	¥64,017	¥46,989	¥334,815	¥614,653	¥(18,690)	¥595,963
Depreciation	6,713	3,512	1,413	1,639	13,277	(316)	12,961
Impairment loss	173	—	159	371	703	—	703
Capital expenditures	10,179	3,908	1,268	5,841	21,196	(379)	20,817

	Millions of yen						
	Year ended March 31, 2005						
	Flat and safety glass and building materials	Information/ electronics materials and devices	Glass fiber products	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income (loss)							
External sales	¥171,029	¥44,191	¥35,839	¥ 13,916	¥264,975	¥ —	¥264,975
Intersegment sales	1,230	1,199	78	4,808	7,315	(7,315)	—
Total sales	172,259	45,390	35,917	18,724	272,290	(7,315)	264,975
Operating expenses	165,159	44,247	31,368	19,490	260,264	(7,315)	252,949
Operating income (loss)	¥ 7,100	¥ 1,143	¥ 4,549	¥ (766)	¥ 12,026	¥ (0)	¥ 12,026
II. Assets, depreciation and capital expenditures							
Total assets	¥162,578	¥56,817	¥45,932	¥178,449	¥443,776	¥(16,867)	¥426,909
Depreciation	6,732	3,556	1,572	957	12,817	(264)	12,553
Capital expenditures	6,489	2,532	1,983	3,267	14,271	(619)	13,652

	Thousands of U.S. dollars						
	Year ended March 31, 2006						
	Flat and safety glass and building materials	Information/ electronics materials and devices	Glass fiber products	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income (loss)							
External sales	$1,539,051	$ 362,180	$272,743	$ 98,573	$2,272,547	$ —	$2,272,547
Intersegment sales	6,787	3,786	368	48,726	59,667	(59,667)	—
Total sales	1,545,838	365,966	273,111	147,299	2,332,214	(59,667)	2,272,547
Operating expenses	1,503,094	353,795	239,769	163,479	2,260,137	(59,641)	2,200,496
Operating income (loss)	$ 42,744	$ 12,171	$ 33,342	$ (16,180)	$ 72,077	$ (26)	$ 72,051
II. Assets, depreciation, impairment loss, and capital expenditures							
Total assets	$1,443,009	$ 547,154	$401,615	$2,861,666	$5,253,444	$(159,743)	$5,093,701
Depreciation	57,376	30,017	12,077	14,009	113,479	(2,701)	110,778
Impairment loss	1,479	—	1,359	3,171	6,009	—	6,009
Capital expenditures	87,000	33,402	10,838	49,922	181,162	(3,239)	177,923

(b) Geographic segments

The geographic segment information for the years ended March 31, 2006 and 2005 is summarized as follows:

	Millions of yen						
	Year ended March 31, 2006						
	Japan	Asia	North America	Other areas	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income							
External sales	¥220,124	¥32,770	¥ 1,766	¥11,228	¥265,888	¥ —	¥265,888
Intersegment sales	21,400	7,793	999	285	30,477	(30,477)	—
Total sales	241,524	40,563	2,765	11,513	296,365	(30,477)	265,888
Operating expenses	237,553	37,533	2,544	10,308	287,938	(30,480)	257,458
Operating income	¥ 3,971	¥ 3,030	¥ 221	¥ 1,205	¥ 8,427	¥ 3	¥ 8,430
II. Assets	¥556,747	¥53,220	¥74,421	¥34,103	¥718,491	¥(122,528)	¥595,963

	Millions of yen						
	Year ended March 31, 2005						
	Japan	Asia	North America	Other areas	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income							
External sales	¥224,148	¥28,948	¥ 1,089	¥10,790	¥264,975	¥ —	¥264,975
Intersegment sales	19,564	6,281	1,665	366	27,876	(27,876)	—
Total sales	243,712	35,229	2,754	11,156	292,851	(27,876)	264,975
Operating expenses	236,033	32,045	2,583	9,872	280,533	(27,584)	252,949
Operating income	¥ 7,679	¥ 3,184	¥ 171	¥ 1,284	¥ 12,318	¥ (292)	¥ 12,026
II. Assets	¥401,674	¥36,434	¥59,383	¥31,506	¥528,997	¥(102,088)	¥426,909

	Thousands of U.S. dollars						
	Year ended March 31, 2006						
	Japan	Asia	North America	Other areas	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income							
External sales	$1,881,402	$280,085	$ 15,094	$ 95,966	$2,272,547	$ —	$2,272,547
Intersegment sales	182,906	66,607	8,538	2,436	260,487	(260,487)	—
Total sales	2,064,308	346,692	23,632	98,402	2,533,034	(260,487)	2,272,547
Operating expenses	2,030,368	320,795	21,743	88,103	2,461,009	(260,513)	2,200,496
Operating income	$ 33,940	$ 25,897	$ 1,889	$ 10,299	$ 72,025	$ 26	$ 72,051
II. Assets	$4,758,521	$454,872	$636,077	$291,479	$6,140,949	$(1,047,248)	$5,093,701

(c) Overseas sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the overseas consolidated subsidiaries, for the years ended March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Overseas sales:			
Asia	¥ 40,187	¥ 38,086	$ 343,479
North America	2,299	1,703	19,650
Other areas	11,296	10,863	96,546
Total	¥ 53,782	¥ 50,652	$ 459,675
Consolidated net sales	¥265,888	¥264,975	$2,272,547
Overseas sales as a percentage of consolidated net sales:			
Asia	15.1%	14.4%	
North America	0.9%	0.6%	
Other areas	4.2%	4.1%	
Total	20.2%	19.1%	

16. Subsequent Events

(a) Acquisition of Pilkington plc

In accordance with a resolution approved by the Board of Directors, the Company, on February 27, 2006, completed procedures for the acquisition of all shares issued by Pilkington plc (“Pilkington”), a U.K. company, in exchange for cash, having received final court approval. Accordingly, shares of Pilkington were delisted from the London Stock Exchange on June 16, 2006 and Pilkington became a wholly owned subsidiary of the Company.

(b) Appropriations of retained earnings

The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2006, was approved at a meeting of the Company’s shareholders held on June 29, 2006:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥3.0 = $0.03 per share)	¥1,328	$11,350

(b) Stock option plan

The shareholders of the Company at a meeting held on June 29, 2006 approved a resolution to grant non-contributory stock options to directors and executive officers, except for external directors as stipulated in Section 15 of Article 2 of the new Corporation Law of Japan (the “Law”), in accordance with the provisions of Articles 236, 238 and 259 of the Law. Another resolution approved a delegation for determining the terms and conditions of the stock options to the Board of Directors' meeting of the Company and the calculation formula for the allocation of stock acquisition rights to directors as non-monetary compensation in accordance with the provisions of Article 361 of the Law.

Independent Auditors' Report

The Board of Directors
Nippon Sheet Glass Company, Limited

We have audited the accompanying consolidated balance sheets of Nippon Sheet Glass Company, Limited and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Sheet Glass Company, Limited and consolidated subsidiaries at March 31, 2006 and 2005, 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.

Supplemental Information

(1) As described in Note 2, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for loss on the impairment of fixed assets effective the year ended March 31, 2006.

(2) As described in Note 16(a), the Company has completed its acquisition of Pilkington plc, a U.K. company.

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(a).

Osaka, Japan
June 29, 2006

Ernst & Young ShinNihon

Corporate Data/Stock Information (As of March 31, 2006)

Corporate Data

Head Office	1-7, Kaigan 2-chome, Minato-ku, Tokyo 105-8552 Japan Tel: 81-3-5443-9506 Fax: 81-3-5443-9566
Osaka Head Office	5-33, Kitahama 4-chome, Chuo-ku, Osaka 541-8559 Japan Tel: 81-6-6222-7511 Fax: 81-6-6222-7580
Establishment	November 22, 1918
Number of Employees (Consolidated)	12,736
Common Stock	Authorized: 1,150,000,000 shares Issued: 443,946,452 shares
Number of Shareholders	54,342
Paid-in Capital	¥41,060 million
Stock Listing	Tokyo and Osaka (Code:5202)
Independent Auditors	Ernst & Young ShinNihon
Transfer Agent	The Sumitomo Trust & Banking Co., Ltd. Stock Transfer Agency Division 4-4, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233 Japan

Major Shareholders

	Number of shares (thousands)	Percentage of shares
Japan Trustee Services Bank, Ltd. (trust account)	30,776	6.93
The Master Trust Bank of Japan, Ltd. (trust management account)	27,980	6.30
CBNY-Third Avenue Int'l Val Fd	13,696	3.09
The Sumitomo Trust & Banking Co., Ltd. (trust account B)	11,554	2.60
Toyota Motor Corporation	9,610	2.16
Sumitomo Life Insurance Company	9,148	2.06
Japan Trustee Services Bank, Ltd. (pension trust account for the Sumitomo Trust & Banking Co., Ltd.)	8,769	1.98
UBS AG London Asia Equities	7,304	1.65
Japan Trustee Services Bank, Ltd. (pension trust account for Sumitomo Corporation, re-entrusted by the Sumitomo Trust & Banking Co., Ltd.)	6,869	1.55
Sumitomo Mitsui Banking Corporation	6,104	1.38

Status of Shareholders

	Number of shareholders	Number of shares (thousands)	Percentage of shares
National/Local Governments	—	—	—
Financial Institutions	101	158,299	35.98
Securities Firms	59	15,439	3.51
Other Corporations	741	44,145	10.03
Foreign Investors	281	91,902	20.89
Individuals and Others	53,160	130,179	29.59
Total	54,342	439,964	100.00

NIPPON SHEET GLASS

Head Office: 1-7, Kaigan 2-chome, Minato-ku, Tokyo 105-8552 Japan
URL: http://www.nsg.co.jp/en/

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