

Annual Report 2006

YEAR ENDED MARCH 31, 2006



 **CENTRAL GLASS CO., LTD.**

Contents

1	Financial Highlights
2	President's Message
6	Environmental Initiatives
7	At a Glance
8	Review of Operations
14	Research and Development
16	Topics
17	Financial Review
18	Consolidated Balance Sheets
20	Consolidated Statements of Income
21	Consolidated Statements of Shareholders' Equity
22	Consolidated Statements of Cash Flows
23	Notes to Consolidated Financial Statements
31	Independent Auditors' Report
32	Corporate Data
33	Stock Information

Profile

Originally founded as Ube Soda Industry Co., Ltd. in 1936 in Ube City, Yamaguchi Prefecture, the Company commenced operation as a manufacturer of soda ash and caustic soda, which are fundamental alkaline materials used in various industries.

In 1958, the Company set up Central Glass Co., Ltd. as a wholly owned subsidiary for the purpose of entering into the field of sheet glass manufacturing. The Company then absorbed the subsidiary in 1963, and the combined entity was renamed Central Glass Co., Ltd., the present name of the Company.

Since then, the Company has diversified its operations and expanded the scale of its business. Currently, the Central Glass Group consists of the parent company and 71 subsidiaries and affiliates, including overseas companies, principally located in the United States, Great Britain, and Taiwan.

Our principal business lines are glass and chemicals. Our glass business includes architectural glass, automotive glass, and fine glass for information technology industries, while our chemicals business includes basic chemicals, fertilizers, fine chemicals for pharmaceutical, agrochemical and IT sectors, glass fiber and glass wool.

Through the production and supply of such products, we have been contributing to the prosperity of the communities in which we operate.

Financial Highlights

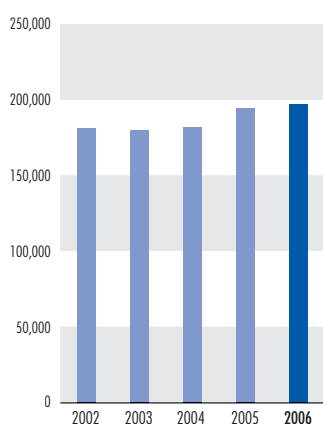
Years ended March 31

	Millions of yen					Thousands of U.S.dollars(Note)
	2006	2005	2004	2003	2002	2006
Net Sales	¥196,652	¥194,208	¥181,874	¥179,549	¥180,939	\$1,674,061
Operating Income	17,707	19,310	19,369	15,749	14,732	150,736
Net Income	10,631	11,615	11,614	8,801	7,985	90,500
Total Assets	247,039	231,564	218,096	217,519	227,839	2,102,997
Total Shareholders' Equity	124,256	109,165	97,727	83,184	79,648	1,057,768
Shareholders' Equity Ratio (%)	50.30	47.14	44.80	38.24	34.96	
	Yen					U.S. dollars (Note)
Amounts per Share:						
Net Income	¥ 49.36	¥ 53.92	¥ 53.85	¥ 40.77	¥ 37.16	\$0.42
Shareholders' Equity	579.36	508.85	455.32	387.47	370.71	4.93
Cash Dividends	10.00*	9.00	7.00	6.00	6.00	0.09

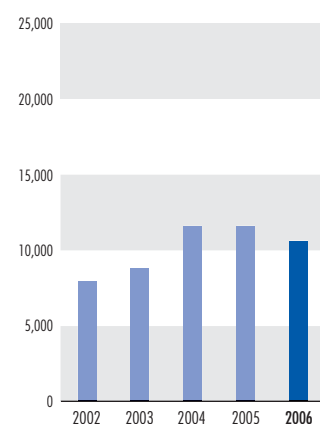
Note: U.S. dollar amounts have been translated from Japanese yen, for convenience only, at the rate of ¥117.47=US \$1.00, the approximate exchange rate on March 31, 2006.

*Ordinary dividend per share of ¥9.0 plus ¥1.0 to commemorate the 70th anniversary of our founding.

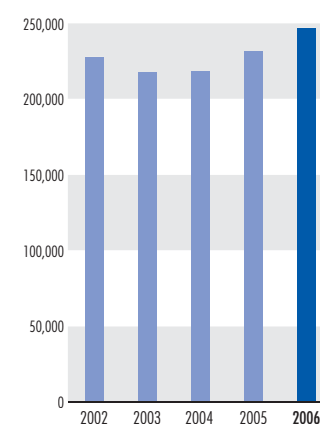
Net Sales (Millions of yen)



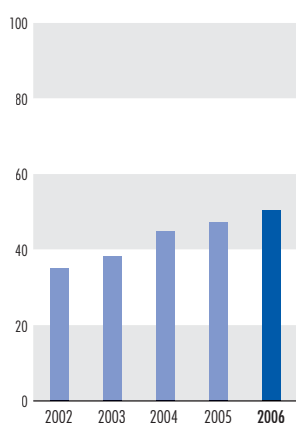
Net Income (Millions of yen)



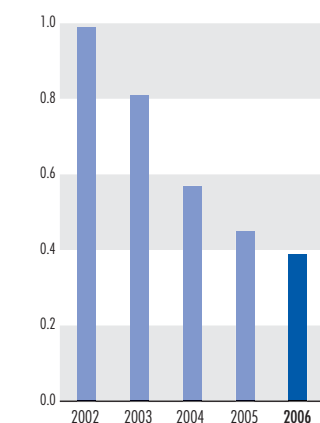
Total Assets (Millions of yen)



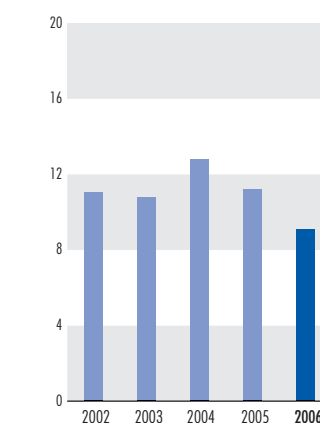
Shareholders' Equity Ratio (%)



Debt Equity Ratio (Times)



Return On Equity (%)



President's Message



Based on its commitment to quality, the Central Glass Group aims to fulfill its role in the development of society by providing stable supplies of thoroughly reliable products.

Our basic policy is to increase our enterprise value through earnings growth and by strengthening our financial position. To achieve these ends, we are working to ensure the continued stability of our glass and chemicals operations as our core businesses, and enhancing our capabilities in the manufacture of high-performance, high-value-added products in fine chemicals, fine glass, and related fields.

Under this policy, we will continue to reform our corporate structure through Companywide initiatives to raise management efficiency, such as strengthening our production and marketing systems and lowering the cost of sales. We will also strengthen our research and development capabilities and focus management resources on business fields with growth potential. Through these measures, we aim to build a stronger Central Glass Group.

Based on our Responsible Care policy, we pursue initiatives in the areas of health, safety, and the environment throughout the lifecycle of our products, from R&D to final disposal, to meet our commitments to society.

Our policy with regard to the distribution of profits is to pay a stable dividend, while taking into account the Company's business performance from a long-term perspective, in order to strengthen our financial position.

Under this policy, we are ensuring retention of sufficient funds to finance the research and development activities and capital investment required for future expansion. Our goal for several years ahead is to increase the total return ratio (combination of cost of dividend payouts and share buybacks, as a percentage of net income) to 30%.

Medium-Term Management Plan

In April 2005, the Central Glass Group compiled a three-year medium-term management plan, with fiscal 2007 as its final year. Below are its principal policies.

- (1) Set up a self-sustaining growth model through aggressive investment in growth businesses, thereby raising enterprise value.
- (2) Maintain and strengthen the Company's capabilities as an organization by handing down technical skills and fostering the development of a wide range of skills among our employees.

The major numerical targets in the plan (consolidated basis) are as follows: maintaining ROE at 10%, and increasing sales to ¥200 billion and operating income to ¥20 billion by the fiscal year ending March 31, 2008.

In our core glass business, we are pursuing various initiatives, including at Group companies, to improve profitability. Particular focuses are finding ways to absorb higher raw material and fuel costs, by optimizing the operation of glass furnaces and adopting more aggressive marketing strategies, and strengthening global business development.

In our basic chemicals business, we have three strategies to ensure stable profitability in core businesses: business restructuring, strengthening our marketing capabilities, and cost-cutting.

In our growing business fields such as fine chemicals and fine glass, we are aggressively and efficiently utilizing our management resources, and speeding up the development of new products, to expand our business scale and strengthen our earnings capabilities.

Furthermore, we aim to maintain the shareholders' equity ratio at 50%, and maintain financial stability while leaving ample funds for further proactive investment. We plan to make available funding for capital investment of at least ¥60 billion during the three years ending March 2008, to build up new businesses and strengthen existing ones.

Performance for the Year Ended March 2006

During the period under review, the Japanese economy maintained recovery momentum, with increased private-sector capital investment and steady consumer spending against a backdrop of improved corporate earnings, keeping at bay the effects of higher prices for raw materials including crude oil.

As a result of aggressive marketing by the Central Glass Group, sales rose 1.3% year-on-year, to ¥196,652 million (US\$1,674,061 thousand). But operating income declined by ¥1,603 million to ¥17,707 million (US\$150,736 thousand); soaring prices for raw materials including heavy oil offset the effects of our price rises for both architectural glass and chemical products, and of efficiency and rationalization policies applied across all our businesses. Net income decreased by ¥984 million year-on-year to ¥10,631 million (US\$90,500 thousand). Net income during the period included an extraordinary loss of ¥2,622 million (US\$22,321 thousand) in the form of a provision to the reserve for future expenses stemming from the discontinuation of caustic soda production at our Kawasaki Plant.

Glass Business

Sales of architectural glass were down year-on-year. During the year, the glass industry succeeded in popularizing window-glass products with more sophisticated, value-added functions (such as insulation and anti-burglary properties). However, sales of these products deteriorated due to intensified competition. In addition, we discontinued the handling of some sales items.

In automotive glass, sales rose year-on-year thanks to robust marketing, chiefly by overseas subsidiaries.

Sales of fine glass for the electronics industry were down year-on-year due to sluggish demand for LCD-related products.

Sales overall in the glass business decreased 3.8% year-on-year to ¥116,622 million (US\$992,781 thousand). Operating income declined by ¥2,815 million to ¥2,734 million (US\$23,274 thousand), due chiefly to rising raw materials and fuel prices.

Chemicals

Sales in the chemicals business rose year-on-year, as new products established themselves in the market and price rises across our product line up took effect. We decided to withdraw from the caustic soda and chlorine derivatives business and close down the brine electrolysis facilities at our Kawasaki Plant at the end of June 2006.

Sales of fine chemicals also rose year-on-year, on increased sales of medical-use and specialty-gas products.

Sales of fertilizers also rose year-on-year on strong shipments of coated fertilizers and the impact of price raises.

Glass fiber saw sales grow year-on-year, on buoyant demand from the housing and automotive sectors, as well as the electronics and electrical components industries.

Sales in the chemicals business increased 9.7% year-on-year to ¥80,030 million (US\$681,280 thousand). Operating income rose ¥1,206 million year-on-year to

¥14,972 million (US\$127,454 thousand), with cost increases prompted by soaring raw materials and fuel prices outweighed by the effects of price rises for chemical products and increased sales of fine chemical products.

Capital Investment

For the term ended March 2006, capital investment totaled ¥16,814 million (US\$143,134 thousand), with ¥8,246 million going into the chemicals business, principally for construction of new fine chemicals facilities, and ¥8,568 million going into the glass business, chiefly for large-scale renovation of facilities. All our funding requirements were met internally.

Changes in Affiliates

During the term under review, we set up the PDP glass substrate manufacturing and marketing company Display Glass Alliance Inc. in South Korea, jointly with the Saint-Gobain Group of France. We also increased our stake in Beijing Sanchong Mirror Co., Ltd., our mirror production base in China, converting this company into a consolidated subsidiary. We excluded one of our architectural glass distributors in Japan from our equity-method affiliates due to a decrease in our equity share in the company.

Issues to be Addressed

Japan's economy is forecast to stay on a recovery track. However, uncertainty persists due to soaring raw materials and fuel prices, rising long-term interest rates, and fears of deceleration in the US and Chinese economies. We feel the operating environment surrounding the Central Glass Group still does not warrant complacency.

The Central Glass Group will continue working to raise overall management efficiency by strengthening its sales

networks and reducing production costs. We aim to further strengthen the Group's overall capability by intensifying structural reform in our core businesses, strengthening research and development and technological development, and focusing management resources on growth areas.

Business Risks

Principal Business Risks are as Follows

Market Fluctuation:

Fluctuation in product market following trends in the construction, construction materials, automotive, LCD and semiconductor industries.

Fluctuations in Raw Materials and Fuel Prices:

The Group's products use raw materials and heavy oil, which are subject to market fluctuation.

Bad Credits:

Delay in recovering accounts receivable from customers due to a deterioration in their business conditions.

Exchange Rate Fluctuation:

Some of our products, including fine chemical products, are exported, and we also import heavy oil and certain other raw materials.

Major Litigation:

The Company is currently involved in a patent violation dispute involving its inhalation anesthesia "Sevoflurane."

Other:

Economic and demand trends in home and overseas markets, quality problems, intellectual property-related issues, environmental regulations, dependency on specific markets, product liability, overseas business risks, disasters and accidents, interruption of production, interest-rate movements, and impairment of its fixed assets.

Corporate Governance

The management of Central Glass is working to enhance the Company's enterprise value and increase earnings by redesigning its organizational structure to create an efficient and streamlined system capable of quickly adapting to changes in the business environment and by making the entire process of management of the Company as transparent and fair as possible.

We adopted an executive officer system, which went into effect at the meeting of the Board of Directors held in June 29, 2004. This reform was adopted to clearly separate the functions of the decision-making and implementation of day-to-day operations from the decision-making of important management issues and overall supervision of the Company's management. This reform is intended to reduce the number of members of the Board of Directors, and increase efficiency and speed in decision-making.

In addition, a meeting of the Board of Directors held on May 15, 2006, approved the establishment of an internal control system.

The Board of Directors comprises nine members, including representative directors (as of June 29, 2006).

The Board of Directors at its regular monthly meetings makes official decisions on important management issues and supervises the execution of duties by directors and executive officers, including the chief executive officer (the president).

The Board of Executive Officers comprises 11 senior executive officers (as of June 29, 2006). The senior executive officers meet once a week, in principle, to discuss and decide on important matters for day-to-day operations. They also deliberate on agenda items that will be put to the Board of Directors.

The Board of Corporate Auditors comprises five statutory auditors, including three outside auditors (as of June 29, 2006). Regular meetings are convened monthly, during which the auditors deliberate and make decisions on important issues. To enable corporate auditors to effectively audit the executive performance of the Company's directors, they attend not only the meetings of the Board, but also other important management-level meetings, to remain constantly updated on

the state of business operations in the Company's various departments, and also at subsidiaries. The corporate auditors work closely together, sharing information and exchanging opinions, with the aim of reinforcing the discipline of management at both the headquarters and all Group companies.

An internal auditing department has been set up in-house to monitor Group activities, coordinate with corporate auditors working on a regular basis, and present reports on in-house operations.

With regard to compliance, we are working to ensure strict compliance measures throughout the Group. We have a number of committees in place, members of which are drawn from across the whole Company, to deal with each specific aspect of legal compliance, and to work to ensure compliance with laws and regulations by the entire Company. These committees, which deal specifically with environmental and safety issues, the anti-monopoly law, trade in military products, and product safety, conduct deliberations and surveys, offer training and give guidance on compliance-related matters.



Sadayoshi Nakamura
Representative Director, President & CEO

Environmental Initiatives

Central Glass is determined to fulfill its responsibilities as a corporate citizen, and has been a member of the Japan Responsible Care Council since 1995. We consider it essential to our growth to maintain a strong awareness of environmental, safety, and health issues (Responsible Care) in our corporate activities.

Our basic Responsible Care philosophy is as follows:

“Based on our deep understanding that we are a corporate member of society, and on the principle of sustainable development that protects and is in harmony with social communities and the global environment, we will pursue our corporate activities with due consideration for environmental, safety and health issues throughout the full life-cycle of our products from development to disposal.”

Under this philosophy, we will conduct our business in an environment-friendly way.

We acquired ISO14001 international environmental certification for our Ube, Sakai and Matsuzaka plants in

2000, and we have applied for certification of the Kawasaki plant. Against this backdrop, we are engaged in a wide range of activities to counter global warming, including promotion of energy conservation, reduction of waste, development of recycling technology, and reduction of emissions of harmful chemical substances.

In addition to the above-mentioned environmental programs that we carry out at our plants, we are also ensuring that our products are as environment-friendly as possible.

We have developed a range of eco-friendly products such as energy-saving insulating glass, mirrors that do not employ lead or other harmful metals, and environment friendly coated fertilizers and microbial materials.

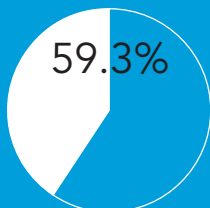
Under the motto of “everything for people and the global environment,” Central Glass will contribute to a richer society by pursuing corporate activities that are in harmony with the global environment.

At a Glance

Net Sales
¥ 196,652 million

Glass

¥ 116,622 million



Architectural Glass

Float Glass, Figured Glass, Wired Glass (Polished, Figured), Heat Absorbing Glass, Heat Reflective Glass, Insulating Glass Units, Laminated Glass, Tempered Glass, Burglar-Proof Glass, Decorative Glass, Mirrors

Automotive Glass

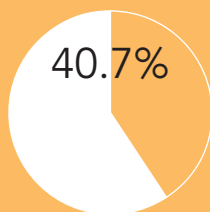
Water Repellent Glass, UV-Cut Glass, Heat Insulating Glass, Antenna Glass, Anti-Fogging Glass, Module Glass, Safety Glass

Fine Glass

For LCD; Thin Sheet Glass, Polished Glass, Chromium Coated Glass (Low Reflection BM Blanks)
For PDP; High-Strain-Point-Glass, Substrates for Cover Filters
Others; Optical Mirrors, Chemical Tempered Glass

Chemicals

¥ 80,030 million



Basic Chemicals

Soda Ash, Calcium Chloride, Caustic Soda, Polyaluminum Chloride, Gypsums, Fluorochemicals

Fine Chemicals

Pharmaceutical Intermediate/Bulk, Organic Fluoro Compounds, Inorganic Fluoro Compounds, Organic Fluoro Reagents, Inorganic Fluoro Reagents, High Purity Gases, Microbial Materials

Fertilizers

NP-Compound Fertilizer, NK-Compound Fertilizer, Coated Fertilizer, Ammonium Phosphate, Liquid Phosphoric Acid

Glass Fiber

Glass Fiber, Glass Wool

Review of Operations

GLASS

Of the sheet glass makers currently operating in Japan, the Company was the third to enter this field of business, in 1958. From an initial strength in architectural glass products, we have advanced into the fields of automotive glass and fine glass.

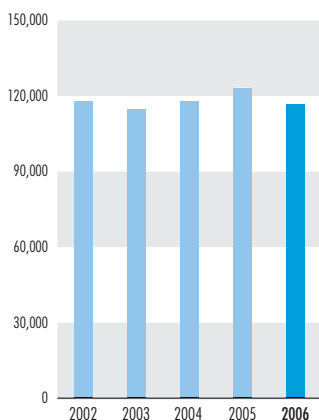
Central Glass has three major glass plants in Japan – at Matsuzaka in Mie Prefecture, at Sakai in Osaka Prefecture, and at Ube in Yamaguchi Prefecture.

At the Matsuzaka Plant, there is one float glass production line, principally for automotive use. For architectural use, there is one Duplex glass line for polished wired glass and another line for producing figured glass. Nearly all of our glass products supplied to domestic automakers are produced at the Matsuzaka Plant. Varieties of architectural glass are also processed here. Mirrors and decorative glass are produced at our subsidiary Mie Glass Industry Co., Ltd., which is close to the Matsuzaka Plant.

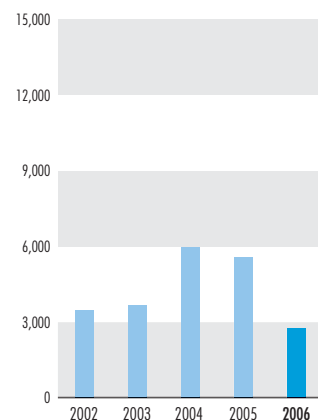
The Sakai Plant and Ube Plant each have one float glass production line. The Sakai Plant produces glass primarily for architectural use, while the Ube Plant manufactures flat glass for fine-glass applications as well as architectural glass. We have already completed renovation of the existing float line at the Ube Plant to produce high strain point glass for the substrates of plasma display panels (PDPs), and then process this glass at the Ube Plant and the Matsuzaka Plant.

In the glass business, we have focused on flat-panel display and other fine glass as growth drivers. We intend to strengthen and expand capital investments to speed up research and development on them, while retaining a firm operational footing in products for the construction and automotive industries.

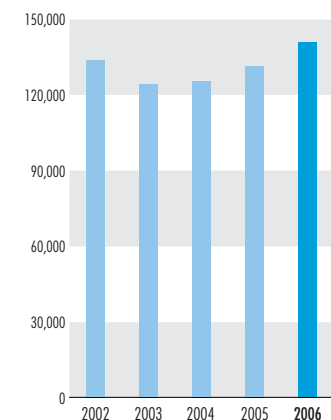
Sales (Millions of yen)



Operating Income (Millions of yen)



Total Assets (Millions of yen)



Architectural Glass

In the architectural glass category, we offer a wide variety of products ranging from basic float glass to various high-performance products including insulating glass with heat-insulation and heat-shielding properties, and burglar-proof glass, as well as glass facades using various innovative glazing methods.

The Company has established an extensive network of branches and a nationwide network of contracted sales agents, selling our products to glass retailers, construction companies, housing manufacturers, assemblers, and others. Overseas, our subsidiary Northwestern Industries, Inc. produces and sells processed glass in North America. Beijing Sanchong Mirror Co., Ltd. undertakes the manufacture and sale of mirrors in China.

In recent years, we have been undertaking a reorganization of fabrication bases and the sales network with the aim of raising efficiency in fabrication, distribution, and sales. In connection with the reorganization, we set up a fabrication



base of insulating glass within each sales area in response to rising demand in the Japanese market for insulating glass.

In recent years, there has been a movement toward energy-saving technologies in the housing construction market, and a stronger tendency to stress the importance of comfort and safety of housing environments among users. Consequently, we saw a rise in sales of insulating glass, laminated safety glass, and sound control glass, as well as eco-friendly unleaded mirrors, and other special-feature products.

We will continue to introduce specialized, value-added items that meet customers' demands and stimulate yet unrealized needs in order to increase profitability.

Automotive Glass

In the automotive glass market, a growing trend toward aerodynamic design and styling is resulting in increasingly complex shaping and difficulty in processing. Moreover, car manufacturers' needs with respect to glass are becoming increasingly sophisticated, with priority being given to the heat resistance and sound control of the cabin, upgraded glass antennas in line with the development of car electronics, lighter-weight glass and the modularization of glass. Through close collaboration among our sales, production, and research and development divisions, we are working to make progress in productivity and respond to users' needs for more sophisticated design, more comfort, and better safety features.

In this field, we have three production bases, the Matsuzaka Plant in Japan, our 100% subsidiary in North America Carlex Glass Company, and Yue Sheng Industrial Co., Ltd., our affiliate in Taiwan. These plants primarily supply local plants of Japanese automotive makers.



The sale of our products to customers in Japan is handled by Central Saint-Gobain Co., Ltd., a joint sales venture with the Saint-Gobain Group of France. This company, established to respond to the globalization of Japanese automakers, is owned 65% by Central Glass and 35% by the Saint-Gobain Group.

Fine Glass

Our main products in the fine glass category are thin sheet glass for TN-type and STN-type liquid crystal displays (LCDs), chromium coated glass for color filters in TFT-type LCDs, printed glass for plasma display panel (PDP) filters and high strain point glass for PDPs.

These products are widely used in the telecommunications and electronics fields, such as in PDP TVs, LCD TVs, mobile phones, PDAs and notebook PCs.

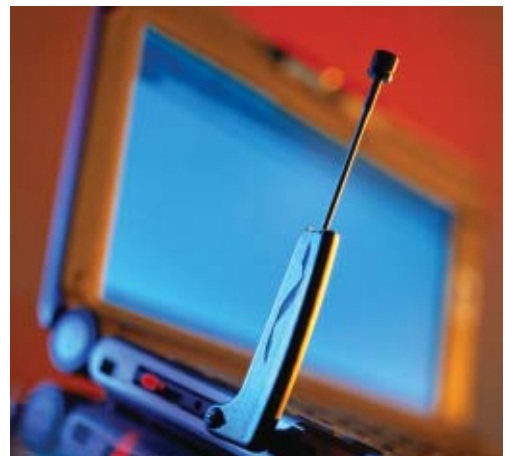
Production bases for TN-type and STN-type LCD are migrating from Japan and Korea to Taiwan and mainland China. In line with this industry trend, we are strengthening our overseas marketing, utilizing Taiwan Central Glass Co.,

Ltd. as our production base and Central Glass Taiwan Trading Co., Ltd. as our marketing base. Both of these companies are our wholly owned subsidiaries.

Regarding chrome-coated glass for color filters used in TFT-type LCDs, our affiliate Ulvac Coating Corporation and its subsidiary Ulcoat Taiwan deposit thin chromium films on substrates, and then the Company and Central Glass Taiwan Trading sell these processed substrates to color filter manufacturers.

Sales of printed glass for PDP filters are growing thanks to the increasing popularity of PDPs.

Regarding high strain point glass for PDPs, in April 2005, the Company established a manufacturing and sales company in Korea for glass substrates under the name of Display Glass Alliance Inc., jointly with the Saint-Gobain Group. Through this, we aim to acquire new orders in Korea by efficiently utilizing our enhanced service capabilities for local PDP manufacturers. In the Japanese market, after vigorous promotion of sample shipments, we commenced commercial shipments to a customer in April 2006.



CHEMICALS

Since beginning operation in 1936 as a producer of soda ash and caustic soda, we have expanded into chemical fertilizers, glass fibers, and fine chemicals.

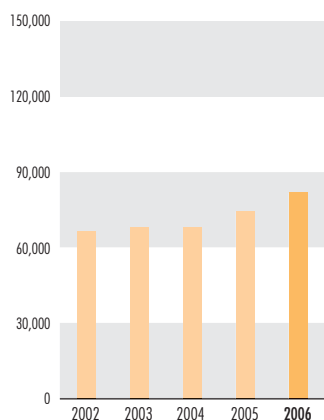
We will further strengthen and expand investment, and also speed up our research and development of promising fine chemical products centered on fluorochemicals, while maintaining a firm business footing in established businesses such as basic chemicals, fertilizers, and glass fibers.

The Ube Plant is our production base for basic chemicals, mainly sodium carbonate and its by-products derived from the ammonia-soda process, as well as fine chemicals. At our Kawasaki Plant, we produce various types of products, principally using brine electrolysis. Production of fertilizers is handled entirely by our wholly owned subsidiary Central Kasei Chemical Co., Ltd., which is located next to the Ube Plant.

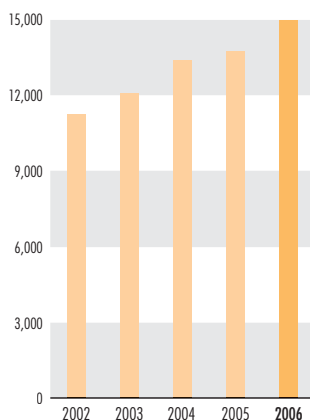
Glass fiber is produced by our wholly owned subsidiary Central Glass Fiber Co., Ltd., while glass wool is produced by another wholly owned subsidiary, Central Glass Wool Co., Ltd. Production of both fibers is undertaken in the Chubu region (Central Japan), where the automotive industry is concentrated.

Regarding products subject to commoditization, we have reviewed the entire process from raw material procurement to product delivery and marketing, and have made substantial progress in rationalizing operations and lowering the cost of sales. As a part of this initiative, we decided to close down brine electrolysis operations at the Kawasaki Plant at the end of June 2006. In the years to come, we plan to dispose of the brine electrolysis facilities and construct new facilities, mainly for the fine chemicals business.

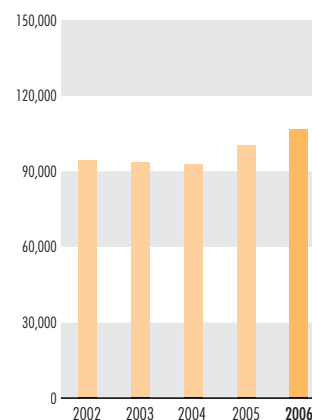
Sales (Millions of yen)



Operating Income (Millions of yen)



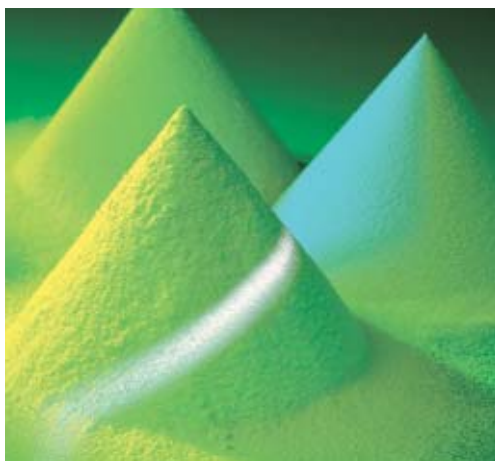
Total Assets (Millions of yen)



Basic Chemicals

In basic chemicals, we offer a diverse lineup of products, encompassing soda ash (a portion of which is utilized in-house as a raw material for sheet glass), ammonium chloride (similarly used in part in our production of fertilizer), calcium chloride (mainly for use on roads to melt the snow), hydrofluoric acid (mainly for use as a raw material of fine chemicals) and various kinds of gypsum. All these products serve as raw materials for industrial products, and they are also widely used by the civil engineering and construction industry.

We decided to discontinue the production of caustic soda and chlorine derivative products at our Kawasaki Plant at the end of June 2006.



Fine Chemicals

In the field of fine chemicals, we aim to develop business in this high-value-added niche field utilizing such technologies as fluorination, chlorination, triflate reaction, asymmetric



synthesis, and high-level purification.

In the pharmaceutical and agrochemical field, we market the inhalation anesthesia "Sevoflurane" and the anti-ulcer agent "Lafutidine" to pharmaceutical manufacturers.

We aim to seek orders for the mass production of custom chemicals, active pharmaceutical ingredients and intermediates by promoting the sale of reagents to pharmaceutical manufacturers and research institutes and actively conducting joint research with them.

This business is promoted by three strategic bases: Central Glass in Asia, SynQuest Laboratories Inc. in North America, and Apollo Scientific Limited in Europe.

In the semiconductor and FPD field, we offer a wide variety of products. Our principal specialty gases include nitrogen trifluoride (NF₃), used as a cleaning gas for semiconductor and LCD production lines, chlorine trifluoride (ClF₃) and diluted fluorine (F₂), used as a cleaning gas for semiconductors, and tungsten hexafluoride (WF₆), employed as an inter-layer wiring material. Looking ahead, we intend to develop more fluorine products in this field.

In the agri-bio field, we produce and develop agricultural materials that utilize microorganisms found in the natural environment, helping protect crops from disease or improving the performance of crop roots. These products are handled by our wholly owned subsidiary SUNGREEN Co., Ltd.

Fertilizers

In fertilizers, we produce and sell fertilizer, mainly for rice cultivation. We sell straight fertilizers (including ammonium chloride and ammonium phosphate), compound fertilizers, and coated fertilizers to ZEN-NOH, Japan's nationwide federation of agricultural cooperatives. In recent years, fertilizer demand for rice cultivation purposes has been showing a declining trend. However, the trends toward labor saving and reducing the environmental burden have led to growth in sales of controlled-release fertilizers.

Fertilizer production was entrusted to Central Kasei Chemical Co., Ltd., and sales were entrusted to Central Union Fertilizer Co., Ltd., a joint venture formed with Japan Union Fertilizer Co., Ltd. (a subsidiary of Asahi Glass Co., Ltd.) in July 2004. Subsequently, Central Union Fertilizer Co., Ltd. became a wholly owned subsidiary of the Company, making the Group the only manufacturer of ammonium chloride fertilizer in Japan.

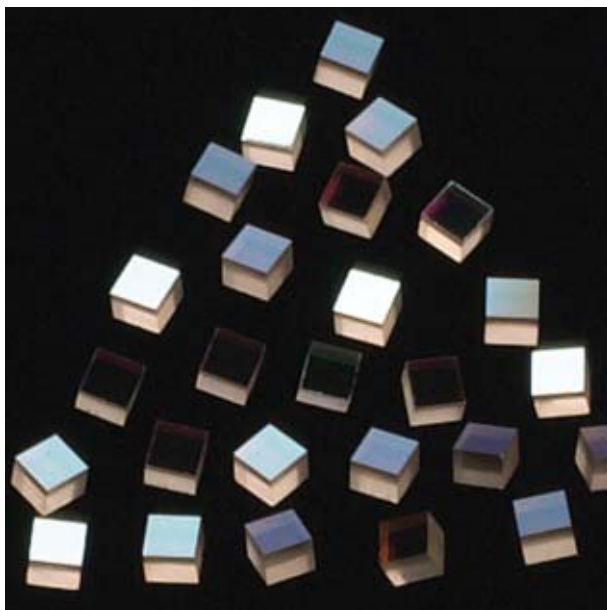


Glass Fiber

We produce glass wool, which is widely used as a material for the sound-insulation of automobile hoods and as a thermal insulation for residences, and glass fiber, which is mainly used with resins to produce fiber-reinforced plastics (FRP), sold for use in the production of small boats and casings for various electronic appliances. When used with rubber, the glass fiber forms fiber-reinforced rubber (FRR), which is widely used in belts and other components for general industrial use.

By supplying distinctive products to customers such as autoparts makers and electronics/electric parts manufacturers, the Central Glass Group has enhanced the effectiveness of its glass fiber business.

Research and Development

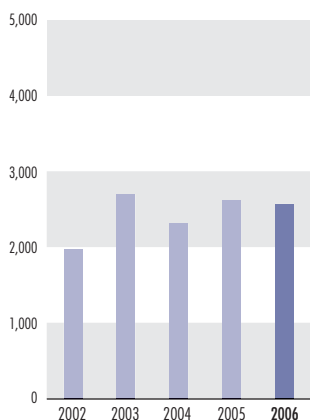


The basic research policy of the Central Glass Group is to develop original products that meet the needs of the market, which are diversifying in response to social change. While expanding and strengthening our operations in existing business fields, we will focus efforts on the development of products with the potential to become the cores of new businesses in the future.

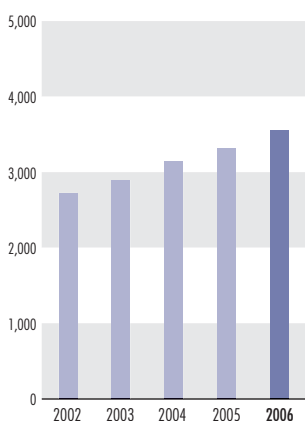
We operate two research centers, the Glass Research Center and the Chemical Research Center, and these centers maintain close contact with their related departments. We are pressing ahead with initiatives to improve efficiency by regularly reviewing research themes, concentrating on a selected number of themes, and optimally allocating research staff.

Research and development expenses for the term to March 2006 came to ¥6,125 million (US\$52,141 thousand) on a consolidated basis.

Glass (Millions of yen)



Chemicals (Millions of yen)



Glass

At our Glass Research Center, we apply fundamental technologies in glass composition, forming, processing, film-coating, and compounding to the development of high-performance, environment-friendly glass products for architectural, automotive, and electronics use. R&D expenses in the glass segment for the term under review amounted to ¥2,571 million (US\$21,886 thousand).

Architectural Glass

By developing special-performance products with unique properties, such as heat-insulation and heat-shielding, greater resistance to breakage (burglar-proof), resistance to fogging, sound control, and electromagnetic shielding and absorbing features, we seek to further contribute to the creation of comfortable living environments.

Automotive Glass

In the automotive glass category, we help make driving a safer, more pleasant experience by developing glass products with UV-cut, heat-insulating, and water-repellent properties, as well as antenna glass.

Fine Glass

We are focusing efforts on the development and improvement of a wide range of products such as materials for use in flat-panel displays, particularly CP600V, a high strain point glass for plasma display panel (PDPs); glass frit with a low melting point for use in panels; and printed glass for PDP filters. In this way, we are working to respond appropriately to growing demand amid today's advanced information society.

Chemicals

In the Chemical Research Center, we target the development of new products for use in the industrial fields of basic commodities, fine chemicals, and optical devices. We focus on the development of technological expertise in the fields of production, refinement, analysis, and application methods.

R&D expenses for this segment for the term under review amounted to ¥3,554 million (US\$30,255 thousand).

Basic Chemicals

In the fertilizer field, we are working on development of an upgraded version of our coated fertilizer Cera-coat® that features further improved controllability of timing of the fertilizer effect, and new brands, while also stepping up our sales activities.

Fine Chemicals

In custom chemicals, we are making use of advanced manufacturing technologies employing asymmetric synthesis and low-temperature reactions to produce mainly fluorochemicals.

By these and other means, we are reinforcing our lineup in active pharmaceutical ingredients, pharmaceutical intermediates, and other fine chemicals.

In electronic materials, we are expanding our capabilities in manufacturing and analytical technology and are putting considerable efforts into the development of a wide range of specialty gas and high-performance resin materials for the semiconductor and LCD industries.

In energy-related fields, we have developed a new electrolyte for use in a longer-lasting and higher-power lithium secondary batteries and capacitors, and are actively shipping samples to users.

In the agri-bio field, following our development of *Biokeeper* (a microbe to prevent soft rot) and *Momigenki* (a microbial disinfectant for rice seeds), we have developed, jointly with the Nagano Prefectural Government, *Vegekeeper* (a microbe to prevent soft rot for lettuce). At the same time, we are pushing ahead with research into other new materials and are also active in joint research with outside organizations.

In optical devices, we are developing devices for leading-edge applications such as bio-sensing and optical communications, making full use of our expertise in fluoride glass fiber and resins. We are conducting active research and development into the practical commercialization of high-performance, low-cost optical components.

The Central Glass International Architectural Design Competition

Since 1966, the Company has sponsored the Central Glass International Architectural Design Competition. It has been open to overseas applicants since the 10th competition.

The award committee comprises various senior figures from the construction industries in Japan, who judge a large number of entries.

In the 40th competition, the theme was "Town Landmark." Ms. Petra Oplatokova (AAAD Prague, Czech Republic) won top prize among 391 Japanese and 407 overseas entries, with her entry shown below. The members of the award committee were as follows:

Chairman of the committee

Toyo Ito (Toyo Ito & Associates, Architects)

Members of the committee

Masaru Okamoto (Kume Sekkei Co., Ltd.)

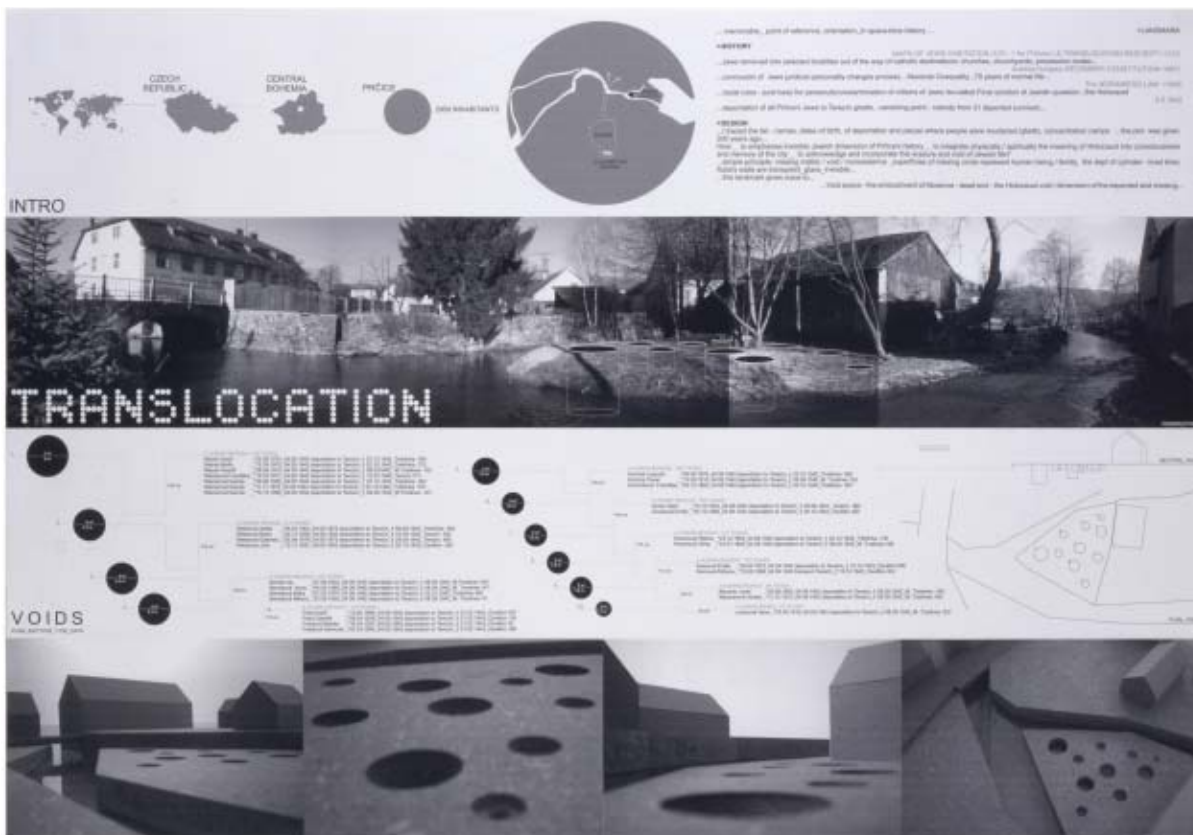
Riken Yamamoto (Riken Yamamoto & Field Shop)

Kiyoshi Sakurai (Nikken Sekkei Co., Ltd.)

Taro Ashihara (Taro Ashihara Architects)

Kengo Kuma (Kengo Kuma & Associates)

Yutaka Suzurikawa (Executive Managing Officer, Central Glass Co., Ltd.)



"Town Landmark" by Ms. Petra Oplatokova (Czech Republic)

Results of Operations

Group net sales for the term ended March 2006 increased ¥2,444 million to ¥196,652 million (US\$1,674,061 thousand). Operating income decreased ¥1,603 million to ¥17,707 million (US\$150,736 thousand).

Other income amounted to ¥3,585 million (US\$30,518 thousand), due mainly to the posting of gains on foreign currency translation, the sale of property, plant and equipment, and investments in securities. Other expenses came to ¥4,083 million (US\$34,757 thousand), due mainly to provisions for business restructuring, rebuilding a glass furnace and environmental safety measures, which more than canceled out a decline in interest expense.

As a result of the above, income before income taxes and minority interests totaled ¥17,209 million (US\$146,497 thousand). We posted a net income for the term of ¥10,631 million (US\$90,500 thousand), a year-on-year decrease of ¥984 million.

Assets and Liabilities

Total assets at the end of March 2006 increased ¥15,475 million from the previous term-end to ¥247,039 million (US\$2,102,997 thousand). Current assets decreased ¥791 million from the previous term-end to ¥94,367 million (US\$803,329 thousand) due to declines in cash and time deposits and trade receivables, which more than offset an increase in inventories. Property, plant and equipment rose ¥5,338 million from the previous term-end to ¥94,180 million (US\$801,737 thousand), due to the rebuilding of a glass furnace and aggressive investments in growth businesses such as fine chemicals (production facilities). In investments and other assets, investment securities increased ¥10,674 million from the previous term-end to ¥51,210

million (US\$435,941 thousand) due to rises in stock prices. As a result, non-current assets increased ¥16,266 million from the previous term-end to ¥152,672 million (US\$1,299,668 thousand).

Total liabilities increased ¥104 million from the end of the previous term to ¥122,260 million (US\$1,040,777 thousand). This is principally due to a ¥2,622 million (US\$22,321 thousand) transfer to the reserve for business restructuring expenses resulting from our withdrawal from brine electrolysis production, which outweighed a decline in interest-bearing debt and accrued income taxes.

Due to an increase in retained earnings and unrealized gains on available-for-sale securities, shareholders' equity increased ¥15,091 million from the previous term-end to ¥124,256 million (US\$1,057,768 thousand).

Cash Flows

Net cash provided by operating activities totaled ¥17,184 million (US\$146,284 thousand), which is chiefly attributable to the posting of income before income taxes and minority interests, as well as depreciation expenses.

Net cash used in investing activities totaled ¥17,412 million (US\$148,255 thousand) due mainly to purchases of property, plant and equipment. Net cash used in financing activities totaled ¥3,526 million (US\$30,016 thousand), attributable chiefly to payment of dividends and repayment of borrowings. Cash and cash equivalents declined by ¥3,572 million to ¥11,211 million (US\$94,671 thousand) at term-end.

The balance of interest-bearing debt declined by ¥800 million from the previous term-end to ¥48,052 million (US\$409,058 thousand), enabling us to improve our debt-equity ratio from 0.45 times at the previous term-end to 0.39 times.

Consolidated Balance Sheets

Central Glass Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Assets			
Current assets:			
Cash and time deposits (Note 12)	¥ 11,244	¥ 14,708	\$ 95,718
Notes and accounts receivable – trade	50,101	51,981	426,500
Allowance for doubtful accounts	(609)	(686)	(5,184)
Inventories	29,321	24,839	249,604
Deferred tax assets (Note 6)	1,631	1,871	13,884
Prepaid expenses and other current assets	2,679	2,445	22,807
Total current assets	94,367	95,158	803,329
Property, plant and equipment, at cost (Notes 10 and 17):			
Land	24,237	24,245	206,325
Buildings and structures	83,847	79,054	713,774
Machinery and equipment	216,797	207,804	1,845,552
Construction in progress	3,915	5,307	33,328
	328,796	316,410	2,798,979
Less: accumulated depreciation	(234,616)	(227,568)	(1,997,242)
Property, plant and equipment, net	94,180	88,842	801,737
Investments and other assets:			
Goodwill.....	1,122	885	9,551
Investment securities (Notes 4 and 14)	51,210	40,536	435,941
Long-term loans receivable	89	108	758
Deferred tax assets (Note 6)	1,211	1,255	10,309
Other assets	5,405	5,595	46,011
Allowance for doubtful accounts	(545)	(815)	(4,639)
Total investments and other assets	58,492	47,564	497,931
Total assets (Note 17)	¥247,039	¥231,564	\$2,102,997

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Liabilities, minority interests and shareholders' equity			
Current liabilities:			
Short-term debt (Note 3)	¥ 17,921	¥ 21,414	\$ 152,558
Long-term debt due within one year (Note 4)	1,401	1,768	11,926
Notes and accounts payable – trade	22,818	22,997	194,245
Income taxes payable (Note 6)	3,536	5,006	30,101
Accrued expenses and other current liabilities	19,950	21,130	169,832
Total current liabilities	65,626	72,315	558,662
Long-term liabilities:			
Long-term debt (Note 4)	28,639	25,586	243,798
Deferred tax liabilities (Note 6)	3,719	1,081	31,659
Accrued retirement benefits			
Employees (Note 7).....	12,330	13,178	104,963
Directors and statutory auditors	502	391	4,273
Reserve for rebuilding furnaces	7,699	8,688	65,540
Reserve for restructuring charge	2,622	—	22,321
Reserve for environmental safeguard	327	—	2,784
Other long-term liabilities	796	917	6,777
Total long-term liabilities	56,634	49,841	482,115
Total liabilities	122,260	122,156	1,040,777
Minority interests	523	243	4,452
Contingent liabilities (Note 13)			
Shareholders' equity (Note 15):			
Common stock:			
Authorized – 867,944,000 shares at March 31, 2006 and 2005			
Issued – 214,879,975 shares at March 31, 2006 and 2005	18,168	18,168	154,661
Capital surplus	8,119	8,118	69,116
Retained earnings	82,049	73,614	698,468
Net unrealized holding gains on available-for-sale securities (Note 14) ...	17,237	11,546	146,735
Foreign currency translation adjustments (Note 2 (b)).....	(1,066)	(2,061)	(9,075)
	124,507	109,385	1,059,905
Treasury stock, at cost			
490,535 shares at March 31, 2006 and			
446,317 shares at March 31, 2005	(251)	(220)	(2,137)
Total shareholders' equity, net	124,256	109,165	1,057,768
Total liabilities, minority interests and shareholders' equity	¥247,039	¥231,564	\$2,102,997

Consolidated Statements of Income

Central Glass Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Net sales (Note 17)	¥196,652	¥194,208	\$1,674,061
Cost of sales (Notes 8 and 17).....	139,178	134,718	1,184,796
Gross profit	57,474	59,490	489,265
Selling, general and administrative expenses (Notes 8 and 17).....	39,767	40,180	338,529
Operating income (Note 17)	17,707	19,310	150,736
Other income (expenses):			
Interest and dividend income	650	551	5,533
Interest expense	(493)	(706)	(4,197)
Provision for rebuilding furnaces	(509)	(509)	(4,333)
Provision for restructuring charge	(2,622)	—	(22,321)
Provision for environmental safeguard	(327)	—	(2,784)
Gain on sales of investment securities (Note 14)	1,387	174	11,807
Loss on redemption of bonds (Note 4)	—	(269)	—
Loss on impairment of fixed assets (Note 10)	(132)	—	(1,124)
Other, net (Notes 5 and 14)	1,548	177	13,180
Total	(498)	(582)	(4,239)
Income before income taxes and minority interests	17,209	18,728	146,497
Income taxes (Note 6):			
Current	7,366	7,941	62,705
Deferred	(792)	(835)	(6,742)
	6,574	7,106	55,963
Minority interests	4	7	34
Net income	¥ 10,631	¥ 11,615	\$ 90,500

	Yen		U.S. dollars (Note 1)
	2006	2005	2006
Amounts per share of common stock (Note 11)			
Net income	¥49.36	¥53.92	\$0.42
Diluted net income	44.26	51.59	0.38
Cash dividends applicable to the year	10.00	9.00	0.09

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Central Glass Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	2006	2005	
Number of shares issued			
Balance at beginning of year	214,879,975	214,879,975	
Balance at end of year	214,879,975	214,879,975	
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Common stock			
Balance at beginning of year	¥18,168	¥18,168	\$ 154,661
Balance at end of year	¥18,168	¥18,168	\$ 154,661
Capital surplus			
Balance at beginning of year	¥ 8,118	¥ 8,118	\$ 69,107
Surplus from sale of treasury stock	1	0	9
Balance at end of year	¥ 8,119	¥ 8,118	\$ 69,116
Retained earnings			
Balance at beginning of year	¥73,614	¥63,561	\$626,662
Directors' bonuses	(50)	(60)	(426)
Net income	10,631	11,615	90,500
Cash dividends paid	(2,146)	(1,502)	(18,268)
Balance at end of year	¥82,049	¥73,614	\$698,468
Net unrealized holding gains on available-for-sale securities (Note 14)			
Balance at beginning of year	¥11,546	¥10,062	\$ 98,289
Net changes during the year	5,691	1,484	48,446
Balance at end of year	¥17,237	¥11,546	\$ 146,735
Foreign currency translation adjustments (Note 2 (b))			
Balance at beginning of year	¥ (2,061)	¥ (2,013)	\$ (17,545)
Adjustments arising from translation of foreign currency financial statements	995	(48)	8,470
Balance at end of year	¥ (1,066)	¥ (2,061)	\$ (9,075)
Treasury stock, at cost			
Balance at beginning of year	¥ (220)	¥ (169)	\$ (1,873)
Increase in treasury stock	(31)	(51)	(264)
Balance at end of year	¥ (251)	¥ (220)	\$ (2,137)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Central Glass Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Operating activities			
Income before income taxes and minority interests	¥17,209	¥18,728	\$ 146,497
Depreciation	11,015	10,284	93,769
Loss on impairment	132	—	1,124
Amortization of goodwill	22	4	187
Increase (Decrease) in reserve	886	(227)	7,542
Interest and dividend income	(650)	(551)	(5,533)
Interest expense	493	706	4,197
Equity in earnings of affiliates	(269)	(330)	(2,290)
Loss (Gain) on evaluation and sale of investment securities and long-lived assets, net	(550)	332	(4,682)
Changes in operating assets and liabilities:			
Decrease (Increase) in notes and accounts receivable – trade	2,440	(2,369)	20,771
Increase in inventories	(4,207)	(1,965)	(35,813)
(Decrease) Increase in trade notes and accounts payable	(382)	828	(3,252)
Decrease in consumption taxes payable	(195)	(221)	(1,660)
Directors' bonuses	(50)	(60)	(426)
Other, net	(172)	3,697	(1,464)
Subtotal	25,722	28,856	218,967
Interest and dividends received	650	551	5,533
Interest paid	(458)	(796)	(3,899)
Income taxes paid	(8,730)	(7,096)	(74,317)
Net cash provided by operating activities	17,184	21,515	146,284
Investing activities			
Increase in time deposits	(143)	(0)	(1,217)
Proceeds from time deposits	35	31	298
Purchases of property, plant and equipment	(17,390)	(13,512)	(148,038)
Proceeds from sale of property, plant and equipment	326	305	2,775
Increase in investment securities	(2,039)	(210)	(17,358)
Proceeds from sale of investment securities	2,371	335	20,184
Payments for purchase of securities issued by a subsidiary which caused a change in the scope of consolidation	—	(245)	—
Proceeds from purchase of securities issued by a subsidiary which caused a change in the scope of consolidation	97	—	826
Other	(669)	(310)	(5,695)
Net cash used in investing activities	(17,412)	(13,606)	(148,225)
Financing activities			
Decrease in short-term debt	(3,970)	(8,286)	(33,796)
Proceeds from long-term debt	4,525	—	38,520
Repayment of long-term debt	(1,868)	(3,447)	(15,902)
Proceeds from issuance of bonds	—	20,000	—
Redemptions of bonds	—	(15,000)	—
Cash dividends paid	(2,146)	(1,502)	(18,268)
Other	(67)	4	(570)
Net cash used in financing activities	(3,526)	(8,231)	(30,016)
Effect of exchange rate changes on cash and cash equivalents	182	4	1,549
Net decrease in cash and cash equivalents	(3,572)	(318)	(30,408)
Cash and cash equivalents at beginning of the year	14,693	15,011	125,079
Cash and cash equivalents at end of the year (Note 12)	¥11,121	¥14,693	\$ 94,671

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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

1. Basis of Presenting Consolidated Financial Statements

Central Glass Co., Ltd. ("the Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted and applied in Japan ("Japanese GAAP"), and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been prepared from the financial statements filed with the Ministry of Finance as required by the Securities and Exchange Law of Japan.

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

Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The U.S. dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetic results of translating Japanese yen into U.S. dollars at ¥117.47=U.S. \$1.00, the approximate exchange rate on March 31, 2006. The inclusion of such U.S. dollar amounts is solely for the convenience of readers outside Japan and is not intended to imply that Japanese yen amounts have been or could be converted, realized or settled in U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Basis of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries ("the Companies") over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

Certain subsidiaries are consolidated on the basis of fiscal periods which differ from that of the Company or on the basis of the fiscal period ending March 31 as a tentative closing date; however, the necessary adjustments have been made if the effect of this difference is material.

Investments in unconsolidated subsidiaries are stated at cost because their impacts on the consolidated financial statements were immaterial.

Investments in affiliates (companies over which the Company has the ability to exercise significant influence) are stated at cost plus equity in their undistributed earnings or losses. Consolidated net income includes the Company's equity in the current net income or loss of such companies, after the elimination of unrealized intercompany profits.

All assets and liabilities of the subsidiaries are revaluated on acquisition, if applicable, and the excess of cost over the underlying net assets at the respective date of acquisition is amortized over a period of five years on a straight-line basis except for subsidiaries located in the United States of America which adopt Statement of

Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets." The statement requires management to perform impairment testing of existing goodwill every fiscal year.

The number of subsidiaries included in the consolidated financial statements increased by one, due to an increase in the materiality of a subsidiary. As a result, the number of subsidiaries included in the consolidated financial statements was 39 and 38 for the years ended March 31, 2006 and 2005, respectively.

There were no unconsolidated subsidiaries included in the consolidated financial statements on an equity basis for the years ended March 31, 2006 and 2005. The number of affiliates included in the consolidated financial statements on an equity basis was 11 for the years ended March 31, 2006 and 2005.

(b) Foreign currency translation

Under Japanese accounting standard for foreign currency translation, monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at each balance sheet date with the resulting gain or loss included in the current statements of income.

Assets and liabilities of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates in effect at the balance sheet date of the foreign subsidiaries and affiliates, except for common stock and capital surplus, which are translated at historical rates. Revenue and expense accounts are translated into yen at the rates of exchange in effect at the balance sheet date. The resulting foreign currency translation adjustments are included in "Translation adjustments" in shareholders' equity and minority interests in the consolidated balance sheets.

(c) Cash and cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash or are so near maturity that they represent only an insignificant risk of any change in value attributable to changes in interest rates, are considered to be cash equivalents.

Under the accounting standard for statements of cash flows, the definition of cash and cash equivalents in the statements of cash flows and cash and time deposits in the balance sheets differs in certain components. Reconciliation between the cash definitions above is presented in Note 12.

(d) Investment securities

Available-for-sale securities for which fair value is available are stated at fair value. The difference between fair market value and the carrying amount is recognized as net unrealized holding gains and losses on these securities that are reported as a separate item in the shareholders' equity. The cost of securities sold is mainly determined based on the moving-average method. Also, available-for-sale securities for which fair value is not available are mainly stated at cost computed by the moving-average method.

(e) Inventories

Inventories are mainly stated at cost determined by the average method.

(f) Depreciation and amortization

Depreciation of property, plant and equipment is calculated principally by the declining-balance method at rates based on the estimated useful lives of the respective assets. Buildings (excluding leasehold improvements) acquired after March 31, 1998 by the Company and the domestic consolidated subsidiaries are depreciated by the straight-line method.

Intangible assets are amortized by the straight-line method over their estimated useful lives. Software costs capitalized are amortized by the straight-line method over the estimated useful lives (5 years).

(g) Impairment accounting for fixed assets

Effective April 1, 2005, the Company and its domestic consolidated subsidiaries adopted the new accounting standards for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003).

As a result of adopting the new standard and the guidance, income before income taxes and minority interests for the year ended March 31, 2006 decreased by ¥132 million (\$1,124 thousand) compared with what would have been recorded under the previous accounting standard.

Accumulated impairment losses are deducted directly from the related fixed assets in accordance with revised regulations concerning consolidated financial statements.

(h) Bond issuance expenses

Bond issuance expenses are charged to the consolidated statement of income as incurred.

(i) Leases

All finance lease contracts, other than those by which the ownership of the leased assets is to be transferred to lessees, are accounted for by a method similar to that applied to operating leases.

(j) Allowance for doubtful accounts

The allowance for doubtful accounts is provided in an amount sufficient to cover possible losses on the collection of receivables. The amount of the allowance is mainly determined on the basis of past experience of bad debts and an estimate of the collectibility of individual receivables based on the financial position of the debtors.

(k) Accrued retirement benefits

Employees whose services with the Company and its domestic consolidated subsidiaries are terminated are usually entitled to lump-sum retirement benefits determined by reference to their current basic salary, length of service and the conditions under which the termination occurs. A portion of the liability for employees' retirement benefits is funded by the Company and its domestic consolidated subsidiaries in a pension fund administered by an independent trustee.

For the payment of employees' retirement benefits in the future, the Company and its domestic consolidated subsidiaries provide reserves for retirement benefits based on the estimated amount of projected benefit obligation and pension assets at the end of each consolidated accounting period. Actuarial gains and losses are amortized from the following consolidated accounting period using the straight-line method over a certain period of time (13 years) within the average remaining years of employment of employees at the time of occurrence in each consolidated accounting period. As the Company's overseas consolidated subsidiaries do not have retirement benefits plans, these subsidiaries do not provide any reserves for retirement benefits.

(l) Retirement benefits for directors and statutory auditors

Directors who are members of the Board of Directors and statutory auditors severing their connection with the Company and its domestic consolidated subsidiaries upon retirement or otherwise are entitled, in most circumstances, to lump-sum retirement benefits based on current rates of pay, length of service and certain other criteria including contributions to the Company and its domestic consolidated subsidiaries. The payments are subject to shareholders' approval.

The Company and its domestic consolidated subsidiaries accrued 100% of obligations for retirement benefits for directors and statutory auditors based on the internal rules under the assumption that all directors and statutory auditors terminate their services at the fiscal yearend.

(m) Reserve for rebuilding furnaces

The Companies provide reserves for expenditures for the substantial rebuilding of glass melting furnaces, taking into account the estimated cost of the next rebuilding and the projected operating period.

(n) Reserve for restructuring charge

The Companies provide reserves for possible costs or losses associated with restructuring its organization. The amounts are reasonably estimated by the Company's management.

(o) Reserve for environmental safeguard

The Companies provide reserves for possible costs or losses for removal and disposal of asbestos and polychlorinated-biphenyl (PCB) used for buildings and equipments. The amounts are reasonably estimated by the Company's management.

(p) Hedge accounting

The Companies enter into interest rate swap contracts to hedge the risk of changes in interest rates over borrowings.

• **Hedge accounting method**

Hedge accounts are stated in accordance with the deferred hedge accounting method.

Under hedge accounting, the net amount to be paid under the interest rate swap contract is added to or deducted from the interest on the liabilities for which the swap contract was executed as the transactions meet the criteria for this treatment.

• **Measures and objects**

Measures Interest rate swap

Objects Borrowings

(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 a general shareholders' meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Note 18.

(r) Reclassifications

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

3. Short-Term Debt and Commitment-Line

Short-term debt substantially represents short-term debt from banks at average interest rates of 1.35 percent and 1.05 percent per annum as of March 31, 2006 and 2005, respectively.

In order to expedite the procurement of operating funds, the Company maintains commitment-line agreements with five banks. Based on these agreements, the Company's total commitment-lines of credit unexecuted as of March 31, 2006 and 2005, are ¥10,000 million (\$85,128 thousand) and ¥10,000 million, respectively.

4. Long-Term Debt

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

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
1.04% yen – unsecured straight bonds due 2007	¥ 400	¥ 400	\$ 3,405
0.00% yen – unsecured convertible bonds due 2010	20,000	20,000	170,256
Loans from banks, due through 2012 at an average rate of 2.274% in 2006	9,640	6,954	82,063
Total long-term debt	30,040	27,354	255,724
Less amount due within one year	1,401	1,768	11,926
	¥28,639	¥25,586	\$243,798

The Company concluded an agreement effective November 15, 2004 on an in-substance defeasance on its 1.79% yen – unsecured straight bonds of ¥15,000 million and made a cash payment into the trust account of the amount necessary for the payment of the related principal and interest. Accordingly, these bonds have been treated as redeemed and loss on redemption of bonds in the amount of ¥269 million was recognized. The contingent liabilities to the bond holders with respect to this transaction for the year ended March 31, 2005 are described in Note 13.

In addition, 0% yen – unsecured convertible bonds in the original principal amount of ¥20,000 million were issued on November 8, 2004. The bonds are convertible into the common stock of the Company at a conversion price of ¥810 (\$6.895) per share from December 1, 2004 to March 30, 2010. At March 31, 2006,

24,691,358 additional shares of common stock would have been issued upon full conversion at the current conversion price. At the option of the Company, when the stock price is 130% or more of the conversion price, the bonds total that remains after December 3, 2007, may be advancing repaid.

The assets pledged as collateral for short-term debt and long-term debt as of March 31, 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Land	¥ —	¥ 9,961	\$ —
Buildings and structures	—	11,562	—
Machinery and equipment	—	16,036	—
Investment securities	12,006	8,867	102,205
	¥12,006	¥46,426	\$102,205

The related debt for which the above assets were pledged as collateral as of March 31, 2006 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Long-term debt including the current portion thereof	¥3,439	¥4,657	\$29,276
	¥3,439	¥4,657	\$29,276

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

Years ending March 31,	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
2006	¥ —	¥ 1,768	\$ 11,926
2007	1,401	1,201	11,926
2008	1,143	813	9,730
2009	782	282	6,657
2010	23,756	23,249	202,230
2011	2,689	9	22,891
2012 and thereafter	269	32	2,290
	¥30,040	¥27,354	\$255,724

5. Other Income (Expenses)

The components of "other, net" in other income (expenses) for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Rental income	¥ 398	¥236	\$ 3,388
Equity in earnings of affiliates	269	330	2,290
Gain on sale of supplies	869	539	7,398
Exchange gain (loss)	1,024	(247)	8,717
Loss on disposal of property, plant and equipment	(1,137)	(833)	(9,679)
Gain on sale of property, plant and equipment	115	183	979
Loss on sale of property, plant and equipment	(24)	—	(204)
Loss on sale of investment securities	(18)	(2)	(153)
Loss on valuation of investment securities	(73)	(13)	(621)
Loss on valuation of golf club memberships	(8)	(72)	(68)
Other, net	133	56	1,133
	¥1,548	¥177	\$13,180

6. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised of corporation taxes, inhabitant taxes and enterprise taxes. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation. The aggregate statutory income tax rate was 39.5% for the years ended March 31, 2006 and 2005.

Disclosure of a reconciliation between the statutory rate and the effective tax rate as a percentage of income before income taxes and minority interests for the years ended March 31, 2006 and 2005 have been omitted since the differences were not material.

The major components of deferred tax assets and liabilities as of March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Enterprise taxes payable	¥ 287	¥ 388	\$ 2,443
Allowances for employees' bonuses	692	685	5,891
Accrued retirement benefits	4,837	4,810	41,176
Reserve for rebuilding furnaces	2,459	2,622	20,933
Net operating loss carryforward	3,907	3,296	33,260
Other	3,701	2,611	31,506
Gross deferred tax assets	15,883	14,412	135,209
Valuation allowance.....	(4,477)	(3,857)	(38,112)
Total deferred tax assets.....	11,406	10,555	97,097
Deferred tax liabilities:			
Reserve for deferred gain on property...	(492)	(512)	(4,188)
Net unrealized holding gains on available-for-sale securities.....	(11,235)	(7,530)	(95,642)
Other	(556)	(468)	(4,733)
Total deferred tax liabilities.....	(12,283)	(8,510)	(104,563)
Net deferred tax (liabilities) assets	¥ (877)	¥2,045	\$ (7,466)

7. Employees' Retirement Benefits

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

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥(31,244)	¥(31,694)	\$(265,974)
Fair value of pension plan assets	18,029	15,048	153,477
Unfunded retirement benefit obligation	(13,215)	(16,646)	(112,497)
Unrecognized actuarial loss.....	885	3,468	7,534
Accrued retirement benefits.....	¥(12,330)	¥(13,178)	\$(104,963)

The components of retirement benefits 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 costs.....	¥1,215	¥1,256	\$10,343
Interest costs	438	448	3,729
Expected return on pension plan assets	(142)	(132)	(1,209)
Amortization of actuarial loss	334	372	2,843
Total	¥1,845	¥1,944	\$15,706

The assumptions used in accounting for the above plans for the years ended March 31, 2006 and 2005 are as follows:

	2006	2005
Discount rate	1.5%	1.5%
Expected rate of return on pension plan assets	1.0%	1.0%
Method of attributing the projected benefits to periods of service	Straight-line basis	Straight-line basis
Amortization of unrecognized actuarial differences (amortization starts from the year following the year in which they arise).....	13 years	13 years

8. Research and Development Expenses

Research and development expenses for the years ended March 31, 2006 and 2005, were ¥6,125 million (\$52,141 thousand) and ¥5,922 million, respectively.

9. Leases

(1) Finance leases

The following are finance lease contracts other than those by which the ownership of the leased assets is to be transferred to lessees:

(a) Lessee's accounting

Lease rental expenses on finance lease contracts without ownership-transfer for the years ended March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Lease rental expenses	¥193	¥163	\$1,643

Assumed data as to acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets, which include the portion of interest thereon, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Acquisition costs.....	¥1,296	¥1,191	\$11,032
Accumulated depreciation	(696)	(663)	(5,925)
Net book value	600	528	5,107
Depreciation	193	163	1,643

Depreciation is computed on the straight-line method over the lease term of the leased assets with no residual value. The amount of outstanding future lease payments as of March 31, 2006 and 2005, which include the portion of interest thereon, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Future lease payments			
Within one year	¥205	¥165	\$1,745
Over one year	456	416	3,882
Total	¥661	¥581	\$5,627

(b) Lessor's accounting

The amount of outstanding future lease receivables as of March 31, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Future lease receivables			
Within one year	¥17	¥18	\$145
Over one year	45	37	383
Total	¥62	¥55	\$528

Note: Above is the amount of the lessor's outstanding future lease receivables related to sub-lease contracts. The amount of the lessee's outstanding future lease receivables includes about the same amount of the lessor's outstanding future lease payments related to sub-lease contracts to the third party, with whom the same sub-lease contracts are maintained.

(2) Operating leases

(a) Lessee's accounting

The amount of outstanding future lease payments as of March 31, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Future lease payments			
Within one year	¥ 28	¥—	\$ 239
Over one year	141	—	1,200
Total	¥169	¥—	\$1,439

(b) Lessor's accounting

The amount of outstanding future lease receivables as of March 31, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Future lease receivables			
Within one year	¥ 403	¥—	\$ 3,431
Over one year	7,491	—	63,769
Total	¥7,894	¥—	\$67,200

10. Impairment of Fixed Assets

During the fiscal year ended March 31, 2006, the Company and its consolidated domestic subsidiaries recognized loss on impairment on the following group of assets.

Use	Type of assets	Millions of yen	Thousands of U.S. dollars
Idle properties	Land and other	¥132	\$1,124

The Company and its consolidated domestic subsidiaries classified their fixed assets into groups by the type of respective operations based on the business segment. Their idle properties are individually considered.

Book values of idle properties were reduced to recoverable amounts. As a result, the Company recognized loss on impairment in the amount of ¥132 million (\$1,124 thousand), which consisted of ¥113 million (\$962 thousand) for land and ¥19 million (\$162 thousand) for buildings and structures, as other expenses.

Recoverable amounts of these idle properties are net selling price. Land and other properties are mainly evaluated by the agreed inheritance tax value and zero, respectively.

11. Amounts per Share

Amounts per share of net income are based on the weighted average number of shares of common stock outstanding during each year.

Amounts per share of diluted net income assume the potential dilution that could occur if all convertible bonds were converted.

12. Supplementary Cash Flow Information

The following table represents a reconciliation of cash and cash equivalents as of March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash and time deposits	¥11,244	¥14,708	\$95,718
Time deposits with a maturity of more than three months	(123)	(15)	(1,047)
Cash and cash equivalents	¥11,121	¥14,693	\$94,671

13. Contingent Liabilities

Contingent liabilities for trade notes receivable discounted and endorsed, loans guaranteed, and joint indebtedness as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Notes receivable – trade discounted and endorsed	¥159	¥160	\$1,354
Joint indebtedness for bank loans of companies other than consolidated subsidiaries	42	354	358

In addition, the Companies had commitments at March 31, 2006 and 2005 to guarantee bank borrowings of unconsolidated subsidiaries of ¥78 million (\$664 thousand) and ¥102 million in the aggregate, respectively. These guarantees can be activated at any time by the respective banks on behalf of those companies.

At March 31, 2005, the Company was contingently liable for an in-substance defeasance on bonds in the amount of ¥15,000 million.

On November 5, 2002, the Company brought a declaratory judgment action against Honeywell Intellectual Properties Inc. ("HWPI") in the United States that the manufacturing method of HFC-245fa (next generation rigid urethane foam blowing agents with zero ozone-depletion properties), of which the Company began commercialization in January 2004, does not infringe HWPI's patent rights.

In response, the Company was sued by HWPI on November 6, 2002 for patent infringement and HWPI sought an injunction suspending the commercialization of HFC-245fa. Moreover, Honeywell International Inc. ("HWI"), the exclusive licensee of the patent, had filed a lawsuit which was similar in substance to that filed by HWPI on April 1, 2003. The Company dropped the judgment action against HWPI on March 31, 2004, based on discussion with the agent, since the details of the suits were substantially the same.

Therefore, the trials for the judgment action brought by HWPI and HWI had been proceeding.

The Company was also sued by HWPI and HWI in Germany and Netherlands on October 17, 2003 and in France on October 20, 2003. Among these, the Düsseldorf Regional Court in Germany dismissed the appeal on May 3, 2005. HWPI and HWI filed an appeal to Düsseldorf High Court against the judgment on June 20, 2005.

The Company, HWP and HWI brought the patent litigation in Japan to an amicable settlement on June 27, 2006 in the Tokyo Local Court, and these lawsuits were resolved.

As a result, HWP and HWI will withdraw the provisional disposition statement in Japan and all lawsuits in Europe (Germany, Netherlands and France).

The influence of the above on the Company's operational results is negligible.

On May 30, 2005, the Company together with Abbot Laboratories incorporated in the United States ("the plaintiffs") brought a judgment action against Baxter Healthcare Corporation ("Baxter") incorporated in the United States. The plaintiffs requested the prohibition of import and sale of Baxter products in Japan, stating that Baxter's product ("Sevoflurane" an inhalation gas for anesthesia) violates the plaintiffs' patent.

The plaintiffs were unable to prove any patent violation, and on March 21, 2002, had lost the case in the first judgment decision in the higher court's ruling and in an Illinois district court decision on September 26, 2005. As a result, the plaintiffs filed to take their case to a higher court.

The plaintiffs filed a patent violation case against Baxter for other patents relating to the same product.

The Company believes that its patent is violated by Baxter. However, at this time, the Company cannot predict the outcome of this case.

14. Securities

Available-for-sale securities with market value as of March 31, 2006 are as follows:

	Millions of yen			
	Acquisition cost	Unrealized gain	Unrealized loss	Book value (Market value)
Equity securities.....	¥10,946	¥28,441	¥(0)	¥39,387

	Thousands of U.S. dollars			
	Acquisition cost	Unrealized gain	Unrealized loss	Book value (Market value)
Equity securities.....	\$93,181	\$242,113	\$ (0)	\$335,294

Available-for-sale securities with market value as of March 31, 2005 are as follows:

	Millions of yen			
	Acquisition cost	Unrealized gain	Unrealized loss	Book value (Market value)
Equity securities.....	¥10,335	¥19,100	¥(8)	¥29,427

Available-for-sale securities with no market value as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
	Unlisted equity securities.....	¥3,732	¥3,795

For the year ended March 31, 2006 and 2005, the Companies recognized ¥73 million (\$621 thousand) and ¥12 million in loss on devaluation of equity securities which were included in available-for-sale securities with market value.

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2005, were ¥2,375 million (\$20,218 thousand) and ¥336 million, respectively. Realized gains on sales of available-for-sale securities for the year ended March 31, 2006 and 2005, were ¥1,387 million (\$11,807 thousand) and ¥174 million, respectively. Realized losses on sales of available-for-sale securities for the year ended March 31, 2006 and 2005, were ¥18 million (\$153 thousand) and ¥2 million, respectively.

15. Shareholders' Equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The total amount of legal earnings reserve and additional paid-in capital of the Company has reached 25% of common stock, and therefore the Company is not required to provide any further legal earnings reserve. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains equal to or exceeds 25% of common stock, they are available for distribution by the resolution of a general meeting of shareholders. Legal earnings reserve is included in retained earnings in the accompanying consolidated financial statements.

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

16. Derivatives

The Companies conducted derivative transactions, which are interest rate swap transactions only, as hedging activities for the years ended March 31, 2006 and 2005. The Companies utilized the interest rate swap transactions to decrease interest on loans by hedging its exposure to interest rate fluctuations. These transactions effectively offset risks on assets and liabilities in the balance sheet. The Company does not anticipate non-performance by any of the counterparties in the transactions, as it has selected only financial institutions with high credit ratings as counterparties.

The derivatives transactions are carried out by our finance section and are controlled by our accounting section under the director in charge of those sections. The management of the Company believes that the risks in the derivatives position can be minimized by the Company's said internal control system.

Market value information of the derivative financial instruments is not disclosed as all derivatives financial instruments used by the Companies are used and qualified as hedges.

17. Segment Information

The business and geographical segment information and overseas sales of the Companies for the years ended March 31, 2006 and 2005 are outlined as follows:

Business segments

	Millions of yen				
	Year ended March 31, 2006				
	Glass	Chemicals	Total	Eliminations or unallocated amounts	Consolidated
I. Sales and operating income					
Sales to external customers	¥116,622	¥ 80,030	¥196,652	¥ —	¥196,652
Intersegment sales or transfers	2,926	1,682	4,608	(4,608)	—
Total net sales	119,548	81,712	201,260	(4,608)	196,652
Operating expenses	116,814	66,740	183,554	(4,609)	178,945
Operating income	¥ 2,734	¥ 14,972	¥ 17,706	¥ 1	¥ 17,707
II. Total assets, depreciation and capital expenditures					
Total assets	¥140,892	¥106,763	¥247,655	¥ (616)	¥247,039
Depreciation	4,483	6,533	11,016	—	11,016
Capital expenditures	8,568	8,246	16,814	—	16,814

	Thousands of U.S. dollars				
	Year ended March 31, 2006				
	Glass	Chemicals	Total	Eliminations or unallocated amounts	Consolidated
I. Sales and operating income					
Sales to external customers	\$ 992,781	\$681,280	\$1,674,061	\$ —	\$1,674,061
Intersegment sales or transfers	24,909	14,319	39,228	(39,228)	—
Total net sales	1,017,690	695,599	1,713,289	(39,228)	1,674,061
Operating expenses	994,416	568,145	1,562,561	(39,236)	1,523,325
Operating income	\$ 23,274	\$127,454	\$ 150,728	\$ 8	\$ 150,736
II. Total assets, depreciation and capital expenditures					
Total assets	\$1,199,387	\$908,853	\$2,108,240	\$ (5,243)	\$2,102,997
Depreciation	38,163	55,614	93,777	—	93,777
Capital expenditures	72,938	70,196	143,134	—	143,134

	Millions of yen				
	Year ended March 31, 2005				
	Glass	Chemicals	Total	Eliminations or unallocated amounts	Consolidated
I. Sales and operating income					
Sales to external customers	¥121,270	¥ 72,938	¥194,208	¥ —	¥194,208
Intersegment sales or transfers	2,027	1,446	3,473	(3,473)	—
Total net sales	123,297	74,384	197,681	(3,473)	194,208
Operating expenses	117,748	60,618	178,366	(3,468)	174,898
Operating income	¥ 5,549	¥ 13,766	¥ 19,315	¥ (5)	¥ 19,310
II. Total assets, depreciation and capital expenditures					
Total assets	¥131,536	¥100,456	¥231,992	¥ (428)	¥231,564
Depreciation	4,169	6,115	10,284	—	10,284
Capital expenditures	5,757	10,642	16,399	—	16,399

Notes: a) Basis of segmentation

(1) The business segments are divided into the Glass Division and the Chemicals Division based on the nature of the manufacturing process and the sales market.

(2) The major products in each business segment are as follows:

Glass – architectural glass, glass products for automobiles, fine glass, etc.

Chemicals – chemical products, fine chemical products, fertilizer, fiberglass products, etc.

b) No unallocated operating expenses were included in eliminations or unallocated amounts for the years ended March 31, 2006 and 2005.

c) No total assets were included in eliminations or unallocated amounts as of March 31, 2006 and 2005.

d) Amortization of, and additions to long-term prepaid expenses have been included in depreciation and capital expenditures.

Geographical segments

Information on geographical segments for the year ended March 31, 2005 has been omitted because the Japanese segment constituted more than 90% of total consolidated net sales and assets.

Information on geographical segments for the year ended March 31, 2006 has been described provided the Japanese segment constituted less than 90% of total consolidated net sales.

	Millions of yen				
	Year ended March 31, 2006				
	Japan	Other areas	Total	Eliminations or unallocated amounts	Consolidated
I. Sales and operating income					
Sales to external customers	¥176,418	¥20,234	¥196,652	¥ —	¥196,652
Intersegment sales or transfers	1,922	224	2,146	(2,146)	—
Total net sales	178,340	20,458	198,798	(2,146)	196,652
Operating expenses	160,971	20,107	181,078	(2,133)	178,945
Operating income	¥ 17,369	¥ 351	¥ 17,720	¥ (13)	¥ 17,707
II. Total assets					
Total assets	¥246,245	¥15,829	¥262,074	¥(15,035)	¥247,039

	Thousands of U.S. dollars				
	Year ended March 31, 2006				
	Japan	Other areas	Total	Eliminations or unallocated amounts	Consolidated
I. Sales and operating income					
Sales to external customers	\$1,501,813	\$172,248	\$1,674,061	\$ —	\$1,674,061
Intersegment sales or transfers	16,361	1,907	18,268	(18,268)	—
Total net sales	1,518,174	174,155	1,692,329	(18,268)	1,674,061
Operating expenses	1,370,315	171,167	1,541,482	(18,157)	1,523,325
Operating income	\$ 147,859	\$ 2,988	\$ 150,847	\$ (111)	\$ 150,736
II. Total assets					
Total assets	\$2,096,238	\$134,749	\$2,230,987	\$(127,990)	\$2,102,997

Notes: a) Geographical areas are divided into categories based on their geographical proximity.

b) The principal nations or regions included in other are as follows:

Other areas – United States of America, Taiwan

c) No unallocated operating expenses were included in eliminations or unallocated amounts for the year ended March 31, 2006.

d) No total assets were included in eliminations or unallocated amounts as of March 31, 2006.

Overseas sales

	Millions of yen				
	Year ended March 31, 2006				
	North America	Asia	Europe	Other areas	Total
Overseas sales	¥22,652	¥11,371	¥10,158	¥1,188	¥ 45,369
Consolidated net sales					¥196,652
Percent of consolidated net sales	11.5%	5.8%	5.2%	0.6%	23.1%

	Thousands of U.S. dollars				
	Year ended March 31, 2006				
	North America	Asia	Europe	Other areas	Total
Overseas sales	\$192,832	\$96,799	\$86,473	\$10,114	\$ 386,218
Consolidated net sales					\$1,674,061
Percent of consolidated net sales	11.5%	5.8%	5.2%	0.6%	23.1%

	Millions of yen				
	Year ended March 31, 2005				
	North America	Asia	Europe	Other areas	Total
Overseas sales	¥18,772	¥11,684	¥9,917	¥1,063	¥ 41,436
Consolidated net sales					¥194,208
Percent of consolidated net sales	9.7%	6.0%	5.1%	0.5%	21.3%

Notes: a) Geographical areas are divided into categories based on their geographical proximity.

b) The principal nations or regions included in each geographical area are as follows:

(1) North America – United States of America, Canada

(2) Asia – Korea, Taiwan, China, Singapore

(3) Europe – The United Kingdom, Italy, Germany, the Netherlands, Belgium

(4) Other areas – Argentine Republic, Colombia

c) Overseas sales are sales of the Company and its consolidated subsidiaries in countries other than Japan.

18. Subsequent Event

The following appropriation of retained earnings of the Company, which have not been reflected in the consolidated financial statements for the year ended March 31, 2006, were approved at a general shareholders' meeting held on June 29, 2006:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥5.5=U.S.\$0.047 per share) ...	¥1,180	\$10,045
Bonus to directors and statutory auditors	47	400
	¥1,227	\$10,445

Independent Auditors' Report

To the Shareholders and the Board of Directors of Central Glass Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Central Glass Co., Ltd. ("the Company") 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, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and consolidated subsidiaries as of 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.

Without qualifying our opinion, we draw attention to following.

- (1) As discussed in Note 2 (g) to the consolidated financial statements, effective April 1, 2005, the Company and its domestic consolidated subsidiaries adopted the new accounting standard for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

KPMG AZSA & Co.

M. 

Masahiko Sasamura
Certified Public Accountant

Tokyo, Japan
June 29, 2006

Corporate Data (As of June 29, 2006)

Company Name

Central Glass Co., Ltd.

Established

October 10, 1936

Head Office

Kowa-Hitotsubashi Building
7-1, Kanda-Nishikicho 3-chome
Chiyoda-ku, Tokyo 101-0054, Japan
<http://www.cgco.co.jp/>

Paid-In Capital

¥18,168 million

Number of Employees

4,573 (Consolidated) (March 31, 2006)

Business Activities

Manufacture and sale of flat glass, fabricated glass and other glass products; soda, chlorine, organic and inorganic fluorine compounds, fertilizers, high-purity gas, solvents, medical and agricultural products; fiberglass products; and synthetic resins.

Board of Directors

Representative Director, President & CEO

Sadayoshi Nakamura

Representative Director, Senior Executive Vice President

Yo Kawakami

Representative Director, Senior Executive Managing Officer

Seiichi Mitsumoto

Directors

Arao Abe	Takashi Tamura
Yutaka Suzurikawa	Keiji Kaneko
Yoichi Kumagai	Yoichi Kageyama

Corporate Auditors

Standing Auditors

Mitsuo Ishizuka	Toshiki Hayase
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External Auditors

Shigeharu Negishi	Hiroshi Hosoda
Takashi Shimoda	

Offices and Plants

Sales Offices

Sendai Branch	Tokyo Branch	Nagoya Branch
Osaka Branch	Fukuoka Branch	

Plants

Ube Plant

Manufacture of soda ash and other chemicals, fluorine compounds, architectural glass, fine glass for electronics

Sakai Plant

Manufacture of architectural glass

Matsuzaka Plant

Manufacture of architectural glass and automobile glass

Kawasaki Plant

Manufacture of chemicals

R&D Centers

Glass Research Center (Matsuzaka)

Chemical Research Center (Kawagoe and Ube)

Overseas Office

Central Glass Co., Ltd. Shanghai Rep. Office

Room 607 Shanghai International Trade Center, 2201 Yan An Road (West),
Shanghai 200336 China
Tel: +86-21-6219-9791 Fax: +86-21-6275-2691

Principal Domestic Subsidiaries

Central Kasei Chemical Co., Ltd.

Manufacture of compound fertilizers

Central Glass Wool Co., Ltd.

Manufacture and processing of insulating glass wool

Central Glass Fiber Co., Ltd.

Manufacture and processing of glass fiber for reinforcement

Mie Glass Industry Co., Ltd.

Manufacture of mirror and decorative glass

Central Saint-Gobain Co., Ltd.

Sale of automobile glass

Central Union Fertilizer Co., Ltd.

Sale of compound fertilizers

Overseas Subsidiaries and Affiliates

• North America

Carlex Glass Company

Manufacture and sale of automobile glass
77 Excellence Way Vonore, TN 37885 U.S.A.
Tel: +1-423-884-1111 Fax: +1-423-884-1041
<http://www.carlex.com/>

Central Glass International, Inc.

Information, consulting and advisory services and sale of merchandise
P.O. BOX 789 Alachua, FL 32616-0789, U.S.A.
Tel: +1-386-462-0588 Fax: +1-386-462-0425

Northwestern Industries, Inc.

Manufacture and sale of architectural processing glass
2500 West Jameson Street, Seattle, WA 98199 U.S.A.
Tel: +1-206-285-3140 Fax: +1-206-285-3603
<http://www.nwglass.com/>

SynQuest Laboratories, Inc.

Manufacture and sale of fluorine chemicals
13201, Rachael Blvd., Route 2054, Alachua, FL 32615 U.S.A.
Tel: +1-386-462-0788 Fax: +1-386-462-7097
<http://www.synquestlabs.com/>

•Europe

Central Glass Europe Limited

Sale of fine chemical compounds and market research
Whitefield Road, Bredbury, Stockport, Cheshire, SK6 2QR U.K.
Tel: +44-161-406-0888 Fax: +44-161-406-0999

Apollo Scientific Limited

Sale of fine chemical products
Whitefield Road, Bredbury, Stockport, Cheshire, SK6 2QR U.K.
Tel: +44-161-406-0505 Fax: +44-161-406-0506
<http://www.apolloscientific.co.uk/>

•Asia

Yue Sheng Industrial Co., Ltd.

Manufacture and sale of automobile glass, seat belts, and textile interior products for automobiles
40-5 Po-Kung Keng, Hsi-Hu Tsun Sanyi Hsiang, Miaoli Hsien, 36705 Taiwan R.O.C.
Tel: +886-37-871-811 Fax: +886-37-874-154
<http://www.twys.com.tw/>

Taiwan Central Glass Co., Ltd.

Manufacture, processing and sale of thin glass
40-21 Po-Kung Keng, Hsi-Hu Tsun Sanyi Hsiang, Miaoli Hsien, 36705 Taiwan R.O.C.
Tel: +886-37-876-586 Fax: +886-37-876-448

Central Glass Taiwan Trading Co., Ltd.

Sale of electronic materials and related products
Head Office 40-21 Po-Kung Keng, Hsi-Hu Tsun Sanyi Hsiang, Miaoli Hsien, 36705 Taiwan R.O.C.
Tel: +886-37-876-586 Fax: +886-37-876-448
Tainan Office No.60 Industry III road, An-Nan District, Tainan, 709 Taiwan R.O.C.
Tel: +886-6-384-0798 Fax: +886-6-384-0797

Giga Gas & Electronic Materials Company

Sale of specialty gases and electronic materials
9F, No.10, Heng Yang Rd. Taipei 100, Taiwan R.O.C.
Tel: +886-2-2313-1830 Fax: +886-2-2361-9058
<http://www.giga-gas.com.tw/>

Beijing Sanchong Mirror Co., Ltd.

Manufacture and sale of mirror and decorative glass
East Xisanqi Dewart Haidian District, Beijing 100096 China
Tel: +86-10-8291-3827 Fax: +86-10-8291-2433

Display Glass Alliance Inc.

Process and sale of FPD (PDP) glass
Youngpoong Bldg. 16th Floor, 33 Seorin-dong, Jongno-gu, Seoul Korea 110-752
Tel: +82-2-3706-9041 Fax: +82-2-3706-9037

Central Glass Korea Co., Ltd.

Information, consulting and advisory services and sale of merchandise
18F, Taesuk bldg, 275-5 Yangjae-dong, Seocho-gu, Korea

Thai Central Chemical Public Co., Ltd.

Manufacture and sale of compound fertilizers
Metro Building, 8F, 180-184 Rajawongse Road, Bangkok 10100 Thailand
Tel: +66-2-225-0135 Fax: +66-2-226-1263

PMK-Central Glass Co., Ltd.

Manufacture and sale of processed glass for automobiles and buildings
41 Moo 12 Petchkasem Road, Omnoi, Krathumban, Samutsakorn 74130 Thailand
Tel: +66-2-813-7277 Fax: +66-2-431-2119

Japan Vietnam Fertilizers Company

Manufacture and sale of compound fertilizers
182 Dien Bien Phu Street, Dist.3, Ho Chi Minh City Vietnam
Tel: +84-8-290-5069 Fax: +84-8-290-5066

Number of Shares

214,879,975 (issued common shares)
867,944,000 (authorized)

Number of Shareholders

21,071

Term-end

End of March

General Meeting of Shareholders

Late June

Stock Exchange Listings

Tokyo Stock Exchange (First Section), Osaka Securities Exchange (First Section) (Code: 4044)

Principal Shareholders

Name	Shares Held (1,000)	Percentage of Issued Shares
Japan Trustee Services Bank, Ltd. (trust account)	13,485	6.27%
The Master Trust Bank of Japan, Ltd. (trust account)	11,755	5.47
Trust & Custody Services Bank, Ltd. as a trustee for Mizuho Trust Retirement Benefits Trust Account for Mizuho Corporate Bank, Ltd.	8,295	3.86
Trust & Custody Services Bank, Ltd. as a trustee for Mizuho Trust Retirement Benefits Trust Account for The Yamaguchi Bank, Ltd.	4,300	2.00
Mitsui Sumitomo Insurance Co., Ltd.	3,734	1.74
State Street Bank and Trust Company 505019	3,245	1.51
Sumitomo Mitsui Banking Corporation	3,241	1.51
Japan Trustee Services Bank, Ltd. (The Chuo Mitsui Trust and Banking Co., Ltd. Pension Fund Trustee)	3,149	1.47
Nippon Life Insurance Company	3,017	1.40
Mitsui Life Insurance Co., Ltd.	2,769	1.29

Composition of Shareholders

	Shares Held (Thousands)	Percentage of Shares Held	Number of Shareholders
National/Local Governments	3	0.00	1
Japanese Individuals/Others	*44,644	20.92	14,314
Financial Institutions	86,677	40.61	99
Securities Companies	3,779	1.77	52
Other Domestic Corporations	23,461	10.99	264
Foreign Investors	54,880	25.71	267

* Including treasury stocks, 331 thousand.

 **CENTRAL GLASS CO., LTD.**

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7-1, Kanda-Nishikicho 3-chome
Chiyoda-ku, Tokyo 101-0054, Japan



Printed in Japan on Recycled Paper

Half-Year Financial Summary

Year Ended March 31, 2007

For the Half-Year Ended September 30, 2006
Central Glass Co., Ltd. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note)
	2006	2005	2,006
Net Sales	93,287	95,223	791,238
Operating Income	7,916	8,691	67,142
Net Income	5,127	4,255	43,486
Total Assets	245,290	236,458	2,080,492
Total Shareholders' Equity	126,342	114,780	1,071,603
Shareholder's Equity Ratio	51.3%	48.5%	
Debt Equity Ratio	0.38 Times	0.43 Times	
ROE	4.1%	3.8%	
	Yen		U.S. dollars
	2006	2005	2,006
Amounts per Share:			
Net Income	23.92	19.85	0.20
Shareholders' Equity	586.98	535.33	4.98
Interim Cash Dividends	6.00	4.50	0.05

Note: U.S. dollar amounts have been translated from Japanese yen, for convenience, at the rate of ¥117.90 = US\$1.00, the approximate exchange rate on September 30, 2006.