

2007

Annual Report

Profile

Paid-in Capital	¥14,075 million
Listings	Tokyo Stock Exchange (First Section) and Osaka Securities Exchange (First Section)
No. of Employees	1,146
Lines of Business	Production and sale of glass containers and, plastic containers, plastic closures, Manufacture and sale of related equipment
Settlement Date	31st March

Shareholders' Information

Head Office Address	2-21, Hamamatsubara-cho Nishinomiya, Hyogo 662-8586 Japan
Established	5th April, 1914
Shares Issued	111,452,494
No. of Shareholders	12,951

Contents

Financial Highlights.....	1
Message from the President, CEO & COO	2
Three-Year Summary	4
Consolidated Balance Sheets	5
Consolidated Statements of Income	7
Consolidated Statements of Changes in Net Assets	8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements.....	10
Independent Auditors' Report	24
Board of Directors, Audit Committee, Executive Officers and Company Presidents	25
Corporate Directory	25

Financial Highlights

1. Summary of consolidated results

For the year ended 31st March

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Net sales	¥70,229	¥73,804	\$624,981
Operating income	3,237	3,268	27,674
Income before income taxes	3,099	3,158	26,742
Net income	1,924	1,845	15,624

At 31st March

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Total assets	¥90,379	¥91,058	\$771,090
Property, plant and equipment	38,957	40,001	338,733
Total Net Assets	53,350	54,665	462,910
	Yen		U.S. Dollars
Net income per share	¥16.32	¥16.59	\$0.140

2. Summary of non-consolidated results

(Unaudited)

For the year ended 31st March

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Net sales	¥57,438	¥60,255	\$510,246
Operating income	2,368	2,346	19,866
Income before income taxes	2,180	2,605	22,059
Net income	1,308	1,611	13,642

At 31st March

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Total assets	¥82,001	¥82,377	\$697,578
Property, plant and equipment	35,737	36,967	313,041
Total Net Assets	48,451	49,202	416,648
	Yen		U.S. Dollars
Net income per share	¥11.16	¥14.49	\$0.123

Note: U.S. dollar amounts have been translated from Japanese yen at the rate of ¥118.09 to \$1.00.

Message from the President, CEO & COO

The Yamamura Group, with Nihon Yamamura Glass Co., Ltd. as its core, has engaged in glass bottle manufacturing business as its main field of operation ever since the company's founding in 1914. The scope of our operations has been expanded, and we are now operating in areas such as plastic containers, logistics, new glass, and engineering businesses. For the year 2014 marking the 100th anniversary since the company's foundation, we are working to become a corporate group with great presence both in Japan and overseas.

Overview of Achievements in Fiscal Year 2006

~Increased Revenue of All Business Areas

With regard to the achievements of the Yamamura Group for the last fiscal year (ends in March 2007), all business areas' revenue increased: The consolidated sales was ¥73,804 million (5.1% increase from the previous fiscal year). For the consolidated operating income, prime cost and logistics cost reductions were reflected. However, raw material and fuel costs went up because crude oil costs remained at a high level. This put pressure on our profits, with a small increase in the consolidated operating income to ¥3,268 million (1.0% increase from the previous fiscal year). The final current net income was ¥1,844 million (4.1% decrease from the previous fiscal year).

<Glass Container Business>

The entire shipping volume is decreasing in glass container industry. In glass container business, however, we increased the sales volume slightly and revenue because the sales of drink, beer, and Shochu bottles were favorable. For the consolidated operating income, we could achieve an increase through our efforts to improve production efficiency, hold down equipment investment, and reduce costs systematically.

<Plastic Container Business>

In PET bottle business, the demands for heat-resistant

PET bottles turn out be lower because in-plant manufacturing of consumers have become more prevalent. However, we increased the shipping volume due to the increased preform sales. In plastic caps business, we provided sophisticated products for a great range of applications, including plastic caps for aseptic filling. As a result, we increased the revenue. For the consolidated operating income, we strived to absorb the increased crude oil cost through improving production efficiency and reducing costs. Unfortunately, however, we decreased the operating income.

<Logistics Business>

In logistics business, we could continue to increase the revenue due to our active efforts for expanding business and finding potential customers. As our efforts for the whole cost reduction was made throughout the entire group, we increased the consolidated operating income although some costs increased (personnel expenses, etc.).

<New Glass Business>

The Amagasaki No. 3 Plants, which is designed to produce glass powder mainly for PDP TVs, started to operate. The Naruohama Plant was renewed along with the addition of melting furnaces. These two factors contributed to the increases in revenues and profits, and our new glass business is expanding and improving steadily.

<Other Business Operations>

In engineering business, one of our business operations, we could succeed in receiving an order of glass bottle forming machines from SMY, along with the addition of glass melting furnaces. As a result, we increased the sales of engineering business dramatically.

With respect to the achievements of the Yamamura Group for the next fiscal year, we are expecting sales of ¥74,500 million (0.9% increase from the previous



fiscal year), an operating income of ¥2,900 million (11.3% decrease from the previous fiscal year), and a current net income of ¥1,500 million (18.7% decrease from the previous fiscal year).

(The earnings expectations are made, based on the presupposition that depreciation expenses are expected to increase by about ¥1,000 million due to the tax system revision. Furthermore, the earnings expectations are made, based on the predictable effect of our capital participation in business partner groups.)

Future Business Expansions:

~Medium-Term Business Plan

From the Fiscal Year Ending March 2008 to the Fiscal Year Ending March 2010

The Yamamura Group will celebrate its 100th anniversary in 2014. For the anniversary year, we have set out a long-term vision "New YAMAMURA," and as the initial step striven to transform a business structure under the slogan "NXET STAGE." As the second step to achieve the vision, we will continue to engage in transforming a business structure under the slogan "Evolution."

There are three essential features of the new medium-term management plan:

(1)Strengthening of competitiveness of existing

domestic business operations.

To maintain a stable business foundation, through further increasing "company's profitability"

(2)Enhancing and establishing of new domestic business operations

To expand our operations, through utilizing the "existing technology" and exhibiting the "synergy effect"

(3)Further expanding of international business operations

To expand our operations, through enhancing the "relationship with overseas business partners"

In accordance with basic principles of these features, we are striving to transform a business structure and become a corporate group, which never stops growing.

As the initial step to achieve the medium-term business plan, we have decided to take a capital participation in the San Miguel Packaging Specialists, Inc. and the San Miguel Packaging International Ltd. These corporations are subsidiaries wholly owned by San Miguel Corporation that has formed a business tie-up with our company for many years. Through the capital participation, we aim to accelerate the deployment of our operations into burgeoning Asian markets, to actively explore business opportunities with Japanese corporations that have already entered into the markets, and to expand the scope of our operations.

We ask your continuous understanding and support as we, as the entire group, further strive to optimize corporate value.

山村幸治

KOJI YAMAMURA,
PRESIDENT, CEO & COO

Three-Year Summary

For the year ended 31st March

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	2007	2007
Net sales	¥72,944	¥70,229	¥73,804	\$624,981
Cost of sales	58,781	56,119	59,120	500,635
Gross profit	14,163	14,110	14,684	124,346
Selling, general and administrative expenses	11,245	10,873	11,416	96,672
Operating income	2,918	3,237	3,268	27,674
Income before income taxes	2,659	3,099	3,158	26,742
Income taxes	1,113	1,173	1,312	11,110
Net income	1,544	1,924	1,845	15,624

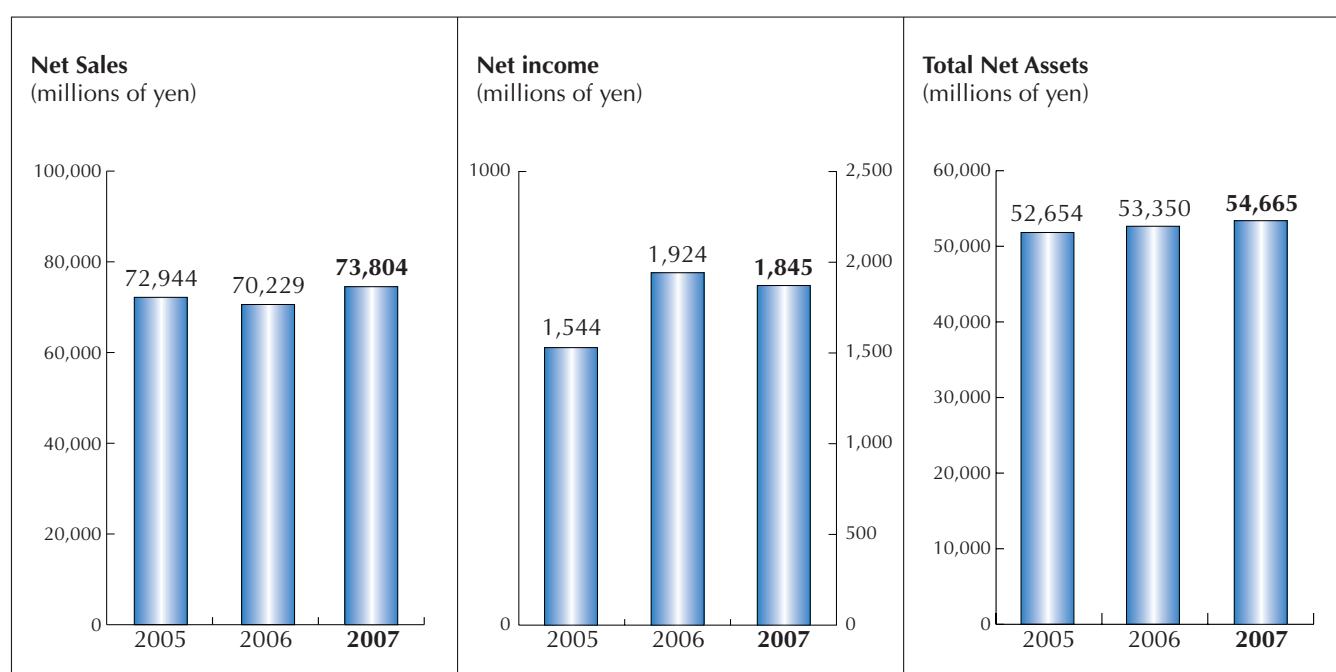
At 31st March

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	2007	2007
Total assets	¥91,037	¥90,379	¥91,058	\$771,090
Property, plant and equipment	41,322	38,957	40,001	338,733
Total Net Assets	52,654	53,350	54,665	462,910

Amounts per share

	Yen			U.S. Dollars
Net income	¥13.02	¥16.32	¥16.59	\$0.140
Cash dividends applicable to the year	6.00	6.50	6.50	0.055

Note: U.S. dollar amounts have been translated from Japanese yen at the rate of ¥118.09 to \$1.00.



Consolidated Balance Sheets

Nihon Yamamura Glass Co., Ltd. and Consolidated Subsidiaries
March 31, 2006 and 2007

	Millions of Yen		Thousands of
	2006	2007	U.S. Dollars (Note 1)
			2007
ASSETS			
Current assets:			
Cash and cash equivalents	¥8,973	¥7,922	\$67,084
Receivables:			
Trade notes and accounts			
Unconsolidated subsidiaries and affiliated companies	19	60	508
Other	18,974	19,788	167,567
Other	750	464	3,929
Allowance for doubtful receivables	(16)	(15)	(127)
	19,727	20,297	171,877
Inventories (Note 4)	9,102	8,647	73,224
Deferred tax assets (Note 13)	623	521	4,412
Other current assets (Note 10)	198	310	2,626
Total current assets	38,623	37,697	319,223
Investments and other assets:			
Investments in:			
Unconsolidated subsidiaries and affiliated companies	4,204	4,793	40,588
Other (Note 10)	4,330	4,778	40,461
Long-term loans receivable	12	12	102
Deferred tax assets (Note 13)	2,768	2,501	21,179
Other investments and non-current receivables	1,235	1,030	8,720
Allowance for doubtful receivables	(125)	(142)	(1,202)
	12,424	12,972	109,848
Property, plant and equipment (Note 6):			
Land	12,033	12,033	101,897
Buildings and structures	29,677	30,901	261,673
Machinery and equipment	82,274	82,858	701,651
Construction in progress	685	532	4,505
	124,669	126,324	1,069,726
Less : accumulated depreciation	(85,712)	(86,323)	(730,993)
	38,957	40,001	338,733
Intangible assets			
	375	388	3,286
	¥90,379	¥91,058	\$771,090

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of
	2006	2007	U.S. Dollars (Note 1)
			2007
LIABILITIES AND NET ASSETS			
Current liabilities:			
Bank loans (Note 6)	¥970	¥2,380	\$20,154
Long-term debt due within one year (Note 6)	2,202	3,622	30,672
Notes and accounts payable:			
Trade:			
Unconsolidated subsidiaries and affiliated companies	63	43	364
Other	8,718	8,211	69,532
Construction and other	2,344	3,470	29,384
	11,125	11,724	99,280
Accrued for employees' bonuses	769	747	6,326
Accrued for directors' bonuses	-	67	567
Accrued income and enterprise taxes	323	675	5,716
Other current liabilities	2,010	1,398	11,838
Total current liabilities	17,399	20,613	174,553
Non-current liabilities:			
Long-term debt due after one year (Note 6)	10,899	7,880	66,729
Retirement and severance benefits:			
Employees (Note 12).....	4,737	4,281	36,252
Directors.....	191	-	-
Allowance for special repairs	3,267	3,056	25,879
Other non-current liabilities (Note 13)	536	563	4,767
Total non-current liabilities	19,630	15,780	133,627
Contingent liabilities (Note 5)			
Net Assets (Note 7):			
Common stock	14,075	14,075	119,189
Authorized-300,000,000 shares in 2006 and 2007			
Issued -111,452,494 shares in 2006 and 2007			
Capital surplus	17,301	17,301	146,507
Retained earnings	24,812	22,565	191,083
Less treasury stock, at cost			
(14,178,337 shares in 2006 and 302,539 shares in 2007)	(3,367)	(75)	(635)
Unrealized gains on securities, net of taxes	1,386	1,264	10,704
Deferred profits on hedges, net of taxes	-	2	17
Foreign currency translation adjustments	(899)	(509)	(4,311)
Minority interests	42	42	356
Total Net Assets	53,350	54,665	462,910
	¥90,379	¥91,058	\$771,090

Consolidated Statements of Income

Nihon Yamamura Glass Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2007	2007
Net sales	¥70,229	¥73,804	\$624,981
Cost of sales	56,119	59,120	500,635
Gross profit	14,110	14,684	124,346
Selling, general and administrative expenses	10,873	11,416	96,672
Operating income	3,237	3,268	27,674
Other income (expenses):			
Interest and dividend income	50	65	550
Interest expense	(202)	(222)	(1,880)
Loss on disposal of property, plant and equipment and intangible assets, net	(2,039)	(455)	(3,853)
Loss on sale of property, plant and equipment, net	(16)	-	-
Reversal of allowance for special repairs	723	-	-
Equity in earnings of affiliates	484	184	1,558
Depreciation and taxes on idle equipment	(288)	(242)	(2,049)
Product warranty expense	77	75	635
Reversal of allowance for doubtful receivables	11	2	17
Gain on sale of property, plant and equipment, net	-	4	34
Gain on sale of investment securities	1,014	49	415
Lump-sum benefits for early retirement	(285)	-	-
Gain on termination of retirement and severance benefit plan	46	-	-
Gain on return of financial reserve of matured insurance	108	-	-
Gain on insurance adjustment	-	97	821
Loss on compensation for products	(59)	-	-
Other, net	238	333	2,820
Income before income taxes	3,099	3,158	26,742
Income taxes (Note 13)			
Current	398	877	7,427
Deferred	775	435	3,683
	1,173	1,312	11,110
Minority interests	(2)	(1)	(8)
Net income	¥1,924	¥1,845	\$15,624

	Yen		U.S. Dollars (Note 1)
	2006	2007	2007
Amounts per share			
Net income	¥16.32	¥16.59	\$0.140
Cash dividends applicable to the year	6.50	6.50	0.055

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

Nihon Yamamura Glass Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2007

	Millions of Yen									
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Less Treasury stock, at cost	Unrealized gains on securities, net of taxes	Deferred profits on hedges, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2005	¥125,368	¥14,075	¥17,301	¥23,635	¥(2,054)	¥966	¥-	¥(1,269)	¥-	¥52,654
Net income	-	-	-	1,924	-	-	-	-	-	1,924
Cash dividends paid (¥6.0 per share).....	-	-	-	(685)	-	-	-	-	-	(685)
Bonuses to directors	-	-	-	(56)	-	-	-	-	-	(56)
Decrease from split up of companies	-	-	-	(6)	-	-	-	-	-	(6)
Net unrealized gains on securities	-	-	-	-	-	420	-	-	-	420
Changes in foreign currency translation adjustments	-	-	-	-	-	-	-	370	-	370
Acquisition of treasury stock	-	-	-	-	(1,313)	-	-	-	-	(1,313)
Changes in minority interests	-	-	-	-	-	-	-	-	42	42
Balance at March 31, 2006	125,368	14,075	17,301	24,812	(3,367)	1,386	-	(899)	42	53,350
Net income	-	-	-	1,845	-	-	-	-	-	1,845
Cash dividends paid (¥6.5 per share).....	-	-	-	(723)	-	-	-	-	-	(723)
Bonuses to directors	-	-	-	(64)	-	-	-	-	-	(64)
Acquisition of treasury stock	-	-	-	-	(14)	-	-	-	-	(14)
Sales of treasury stock	-	-	-	-	1	-	-	-	-	1
Retirement of treasury stock	(13,916)	-	-	(3,305)	3,305	-	-	-	-	-
Net changes during the year	-	-	-	-	-	(122)	2	390	-	270
Balance at March 31, 2007	¥111,452	¥14,075	¥17,301	¥22,565	¥(75)	¥1,264	¥2	¥(509)	¥42	¥54,665

Thousands of U.S. Dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Less Treasury stock, at cost	Unrealized gains on securities, net of taxes	Deferred profits on hedges, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2006	\$119,189	\$146,507	\$210,111	\$(28,512)	\$11,737	\$-	\$(7,613)	\$356	\$451,774
Net income	-	-	15,624	-	-	-	-	-	15,624
Cash dividends paid (\$0.055 per share)...	-	-	(6,123)	-	-	-	-	-	(6,122)
Bonuses to directors	-	-	(542)	-	-	-	-	-	(542)
Acquisition of treasury stock	-	-	-	(119)	-	-	-	-	(119)
Sales of treasury stock	-	-	-	9	-	-	-	-	8
Retirement of treasury stock	-	-	(27,987)	27,987	-	-	-	-	-
Net changes during the year	-	-	-	-	(1,033)	17	3,302	-	2,287
Balance at March 31, 2007	\$119,189	\$146,507	\$191,083	\$(635)	\$10,704	\$17	\$(4,311)	\$356	\$462,910

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Nihon Yamamura Glass Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2007	2007
Cash Flows from Operating Activities:			
Income before income taxes	¥3,099	¥3,158	\$26,742
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	4,591	4,589	38,860
Equity in earnings of affiliates	(484)	(184)	(1,558)
Increase (decrease) in allowance for doubtful receivables	(16)	16	135
Decrease in allowance for special repairs	(530)	(211)	(1,787)
Decrease in provision for employees' retirement and severance benefits	(1,711)	(456)	(3,861)
Decrease in provision for directors' retirement and severance benefits	(141)	(191)	(1,617)
Decrease in accruing for employees' bonuses	(28)	(23)	(195)
Increase in accruing for directors' bonuses	–	67	567
Loss on disposal of property, plant and equipment	2,039	422	3,574
Loss (gain) on sale of property, plant and equipment	16	(4)	(34)
Loss on disposal of intangible assets	–	2	17
Gain on sale of investment securities	(1,014)	(49)	(415)
Interest and dividend income	(50)	(65)	(550)
Interest expense	202	222	1,880
Decrease (increase) in trade notes and accounts receivable	1,727	(1,508)	(12,770)
Decrease in trade notes and accounts payable	(192)	(483)	(4,090)
Decrease (increase) in inventories	(1,135)	455	3,853
Other	362	(295)	(2,498)
Total adjustments	6,735	5,462	46,253
Interest and dividends received	64	139	1,177
Interest paid	(197)	(224)	(1,897)
Income and enterprise taxes paid	(1,325)	(219)	(1,854)
Net cash provided by operating activities	5,277	5,158	43,679
Cash Flows from Investing Activities:			
Purchase of property, plant and equipment	(4,694)	(5,097)	(43,162)
Proceeds from sale of property, plant and equipment	508	570	4,827
Purchase of intangible assets	(206)	(130)	(1,101)
Purchase of investment securities	(146)	(670)	(5,674)
Proceeds from sale of investment securities	1,355	70	593
Purchase of securities of an affiliated company	(962)	–	–
Increase in other assets	(79)	(229)	(1,939)
Proceeds from other assets	506	191	1,617
Other	5	13	110
Net cash used in investing activities	(3,713)	(5,282)	(44,729)
Cash Flows from Financing Activities:			
Increase in short-term bank loans	400	1,410	11,940
Proceeds from long-term debt	2,450	600	5,081
Repayments of long-term debt	(3,270)	(2,199)	(18,621)
Increase in treasury stock	(1,313)	(14)	(119)
Proceeds from issuance of bonds	986	–	–
Cash dividends paid	(688)	(724)	(6,131)
Net cash used in financing activities	(1,435)	(927)	(7,850)
Net Increase (decrease) in Cash and Cash Equivalents	129	(1,051)	(8,900)
Cash and Cash Equivalents at Beginning of Year	8,844	8,973	75,984
Cash and Cash Equivalents at End of Year (Note 8)	¥8,973	¥7,922	\$67,084

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Nihon Yamamura Glass Co., Ltd. and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

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

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure and the inclusion of the consolidated statement of changes in net assets for 2006) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥ 118.09 to U.S. \$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Change in Accounting Policies of Net Assets

(a) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, the "New Accounting Standards").

Under the New Accounting Standards, the balance sheet comprises three sections, which are the assets, liabilities and net assets sections. Previously, the balance sheet

comprised the assets, liabilities, minority interests, as applicable, and the shareholders' equity sections.

Under the New Accounting Standards, the following items are presented differently compared to the previous presentation. The net assets section includes deferred profits on hedges, net of taxes. Under the previous presentation rules, companies were required to present unrealized gains (losses) on hedging derivatives in the assets or liabilities section without considering the related income tax effects. Minority interests are required to be included in the net assets section under the New Accounting Standards. Under the previous presentation rules, companies were required to present minority interests in the current liabilities section and between the non-current liabilities and shareholders' equity sections, respectively.

The consolidated balance sheet as of March 31, 2006 has been restated to conform to the 2007 presentation. There were no material effects on total assets or total liabilities from applying the New Accounting Standards to the balance sheet as of March 31, 2006.

(b) Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the "Additional New Accounting Standards").

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statement of changes in net assets for 2006 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

(c) Reclassification and restatement

Certain prior year amounts have been reclassified to conform to the current year presentation.

Also, as described in Notes 2 (a) and 2 (b), the consolidated balance sheet for 2006 has been adapted to conform to new presentation rules of 2007. Also, in lieu of the consolidated statements of shareholders' equity for the year ended March 31, 2006, which were prepared on a

Notes to Consolidated Financial Statements

Nihon Yamamura Glass Co., Ltd. and Consolidated Subsidiaries

voluntary basis for inclusion in the 2006 consolidated financial statements, the Company prepared the consolidated statements of changes in net assets for 2006 as well as for 2007.

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

3. Significant Accounting Policies

Basis of consolidation and investments in affiliated companies

The consolidated financial statements include the accounts of the Company and three significant domestic subsidiaries. Consolidation of the remaining subsidiaries would have had no material effect on the accompanying consolidated financial statements. Intercompany transactions and accounts have been eliminated.

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or existence of certain other conditions evidencing control by the Company.

Investments in four affiliates over which the Company has the ability to exercise significant influence over operating and financial policies of the investees are accounted for by the equity method. For the years ended March 31, 2006 and 2007, four affiliates have fiscal years ended on 31st December of the previous years. Affiliates are accounted for using the equity method as of each affiliate's most recent fiscal year-end. Unusual significant transactions occurring between affiliates' year-ends and the Company's are adjusted on consolidation.

In the elimination of investments in subsidiaries, the portion of assets and liabilities of a subsidiary attributable to the subsidiary's shares acquired by the Company are evaluated at the fair value as of the respective dates when such shares were acquired. The amounts of assets and liabilities attributable to minority shareholders of the subsidiary are determined using the financial statements of the subsidiary.

Translation of foreign currencies

Revenues and expenses are translated at the rates of exchange prevailing when transactions are made. Foreign currency monetary assets and liabilities are translated into Japanese yen at the current rate at the end of the fiscal year and the resulting translation gains or losses are included in earnings currently.

All assets, liabilities, revenues and expenses of foreign affiliates are translated into Japanese yen at the current rate at the end of the fiscal year. The resulting translation adjustments are shown as "Foreign currency translation adjustments", a separate component of Net Assets.

Cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Securities

The Company and its consolidated domestic subsidiaries do not hold securities for trading purposes. Debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities") are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of Net Assets. Realized gains and losses on sale of such securities are computed using moving-average cost.

Other securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method and other securities is not readily available, such securities should be written down to net asset value with a corresponding charge in the statement of income in the event the net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

Allowance for doubtful receivables

For receivables from insolvent customers, who are undergoing bankruptcy or other collection proceedings or are in similar financial condition, the allowance for doubtful accounts is provided based on the evaluation of each customer's financial condition and the estimation of recoverable amounts due to the existence of security interests or guarantees.

For other receivables, the allowance for doubtful accounts is provided based on the Company's actual rate of collection losses in the past.

Inventories

Inventories are stated at cost. Cost is determined by the first-in first-out method for raw materials excluding cullet

Notes to Consolidated Financial Statements

Nihon Yamamura Glass Co., Ltd. and Consolidated Subsidiaries

and by the average cost method for remaining inventories.

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is calculated, over estimated useful lives as prescribed by Japanese tax regulations, using the declining balance method, except for buildings acquired after April 1, 1998, the buildings, structures, machinery and certain equipment of the Harima and certain assets of consolidated subsidiaries, which are depreciated on a straight-line basis.

Depreciation of assets for which the acquisition cost is between ¥100 thousand and ¥200 thousand is calculated using the straight-line method over three years.

Contribution for construction of property, plant and equipment by the government is credited to advances received when received and, when construction is completed are deducted from the acquisition cost of the related fixed assets in accordance with the Corporation Tax Law of Japan. Accumulated amounts of the deductions were ¥ 124 million (\$ 1,050 thousand) at March 31, 2007.

Software costs

The Company and its consolidated subsidiaries include software in intangible assets and depreciate it using the straight-line method over its estimated useful life (five years).

Bond issue costs

Previous year, all costs of issuing bonds were expensed when incurred. There were no costs of issuing bonds for the years ended March 31, 2007.

Research and development expenses

The Company charges research and development expenses to selling, general and administrative expenses and manufacturing costs as incurred. Research and development expenses amounted to ¥ 402 million and ¥ 430 million (\$ 3,641 thousand) for the year ended March 31, 2006 and 2007, respectively.

Bonuses

(a) Employees

The Company and its consolidated subsidiaries mainly follow the Japanese practice of paying bonuses to employees in June and December. Accrued employees' bonuses at the balance sheet date is calculated based upon management's estimate of annual amounts thereof.

(b) Directors

Allowance for directors' bonuses at the balance sheet date are calculated based upon management's estimate of annual amounts thereof.

Previous year, bonuses to directors, which were subject to approval at the general meeting of shareholders, were

accounted for as an appropriation of retained earnings.

The Company and its consolidated subsidiaries have adopted "Accounting Standard for Directors' Bonus" (Accounting Standards Board of Japan Statement No.4 issued on November 29, 2005). As a result of the adoption of this accounting standard, operating income, income before income taxes decreased ¥ 67 million (\$ 567 thousand) for the year ended March 31, 2007 from the amount which would have been recorded under the method applied in the previous year.

Income taxes

Income taxes comprise corporation tax, prefectural and municipal inhabitants taxes and enterprise tax.

The Company and its consolidated subsidiaries recognize tax effects of tax loss carry forwards and temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Retirement and severance benefits

(a) Employees

The unfunded lump-sum benefits plan provides a lump-sum payment to substantially all employees who have rendered services for more than one year. The amount of the retirement and severance benefit is, in general, based on length of service, base salary at the time of retirement and cause of retirement.

Liabilities and expenses for retirement and severance benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated subsidiaries provide for employees' retirement and severance benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

Actuarial gains and losses are recognized as expenses using the straight-line method within the average of the estimated remaining service lives commencing the following year.

The Company and its consolidated subsidiary, Yamamura Glass Works Co., Ltd., revised their retirement benefit plans on April 1, 2005. Previously there were lump-sum benefits plan, the tax-qualified pension plans, but these were changed to lump-sum benefits and, defined benefit corporate pension plans (Cash balance plan), and the plan that the employees can select between defined contribution pension plans or prepaid retirement allowance plans.

Notes to Consolidated Financial Statements

Nihon Yamamura Glass Co., Ltd. and Consolidated Subsidiaries

(b) Directors

Until the previous year, retirement benefits for directors, which were subject to approval at the general meeting of shareholders, were provided in amounts which would be required, in accordance with the regulations of the Company and its consolidated subsidiaries, if all directors retired at the balance sheet date. But, the Company and its consolidated subsidiaries, Yamamura Glass Works Co., Ltd. and Seisho Co., Ltd., have abolished this regulations on June 2006, and have decided to provide directors with resignation bonuses for special services corresponding to the term in office of then. As a result of this revision, such bonuses amounted to ¥ 184 million (\$ 1,558 thousand) included in other non-current liabilities.

Allowance for special repairs

Glass furnaces and hot blast stoves including related machinery and equipment periodically require substantial component replacement and repair. The estimated future costs of such work are provided for and charged to income on a straight-line basis over the period to the date of the anticipated replacement and repair. The difference between such estimated cost and actual costs is charged or credited to income at the time the work takes place.

Accounting for leases

Finance leases which do not transfer ownership and do not have bargain purchase provisions are accounted for in the same manner as operating leases under Japanese GAAP.

Derivatives and hedging transactions

The Company and its consolidated subsidiaries state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

(a) Hedge accounting

The Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign currency exchange contracts are used as hedges and meet certain hedging criteria, forward foreign currency exchange contracts and hedged items are accounted for in the following manner:

- (1) If a forward foreign currency exchange contract is executed to hedge an existing foreign currency receivable or payable,
 - (i) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the statement of income in the period which includes the inception date, and

- (ii) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

- (2) If a forward foreign currency exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gain or loss on the forward foreign currency exchange contract is recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(b) Hedging instruments and hedged items

Hedging instruments :

Interest rate swap contracts

Forward foreign currency exchange contracts

Hedged items:

Interest expense on long-term debt

Foreign currency transactions

(c) Hedging policy

The Company and its consolidated subsidiaries use derivative financial instruments to hedge future risks of interest rate fluctuations, exchange rate fluctuations and market price fluctuations in accordance with their internal policies and procedures.

Effect of bank holidays on March 31, 2007

Financial institutions in Japan were closed on March 31, 2007. The Company accounted for notes receivable, trade of ¥700 million (\$ 5,928 thousand) and notes payable, trade of ¥669 million (\$ 5,665 thousand) which matured on March 31, 2007, as if settled on March 31, 2007.

Amounts per share

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

Diluted net income per share of common stock for the years ended March 31, 2006 and 2007 is not shown since there were no outstanding convertible bonds or other common stock equivalents.

Notes to Consolidated Financial Statements

Nihon Yamamura Glass Co., Ltd. and Consolidated Subsidiaries

4. Inventories

Inventories at March 31, 2006 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Finished goods	¥6,291	¥6,167	\$52,223
Work in process	1,443	888	7,520
Raw materials	558	721	6,105
Supplies	810	871	7,376
Total	<u>¥9,102</u>	<u>¥8,647</u>	<u>\$73,224</u>

5. Contingent Liabilities

At March 31, 2006 and 2007, the Company and its consolidated subsidiaries were contingently liable as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Employees' housing loan guarantees	<u>¥5</u>	<u>¥4</u>	<u>\$34</u>

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Trade notes discounted and guaranteed	<u>¥53</u>	<u>¥-</u>	<u>\$-</u>

6. Bank Loans and Long-Term Debt

Bank loans at March 31, 2006 and 2007 consisted of short-term notes, generally for 178 days, bearing average interest rates of 0.83 per cent and 1.26 per cent per annum, respectively.

Long-term debt at March 31, 2006 and 2007 consisted of the following :

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Secured :			
Banks, insurance companies and others, 1.04 – 2.53 per cent maturing through 2011	¥6,921	¥6,372	\$53,959
Unsecured :			
Banks, 1.16 – 2.28 per cent maturing through 2011	5,180	4,130	34,973
0.86 per cent bonds due 2011.....	1,000	1,000	8,469
	<u>13,101</u>	<u>11,502</u>	<u>97,401</u>
Less : amounts due within one year	2,202	3,622	30,672
Total	<u>¥10,899</u>	<u>¥7,880</u>	<u>\$66,729</u>

Notes to Consolidated Financial Statements

Nihon Yamamura Glass Co., Ltd. and Consolidated Subsidiaries

At March 31, 2006 and 2007, assets pledged as collateral for secured long-term debt were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Property, plant and equipment – net of accumulated depreciation	¥22,396	¥21,131	\$178,940
Total	¥22,396	¥21,131	\$178,940

As is customary in Japan, security may need to be provided if requested by a lending bank, and such banks have the right to offset cash deposited with it against any debt or obligation that becomes due and, in the case of default or certain other specified events, against all debts payable to the bank. Certain of the long-term debt agreements

provide, among other things, that the Company submit to the lenders (upon their request) for approval its proposed appropriation of profits (including dividends) before such appropriation can be submitted to the shareholders. The Company has never received such a request.

The annual maturities of long-term debt at March 31, 2007 were as follows :

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥3,622	\$30,672
2009	2,000	16,936
2010	2,330	19,731
2011	2,950	24,981
2012	600	5,081
	¥11,502	\$97,401

7. Net Assets

As described in Note 2 (a), net assets comprises four subsections, which are owners' equity, accumulated gains (losses) from valuation and translation adjustments, share subscription rights and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

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

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

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and

additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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

At the annual shareholders' meeting held on June 27, 2007, the shareholders approved cash dividends amounting to ¥ 389 million (\$ 3,294 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2007. Such appropriations are recognized in the period in which they are approved by the shareholders.

Notes to Consolidated Financial Statements

Nihon Yamamura Glass Co., Ltd. and Consolidated Subsidiaries

8. Supplemental Disclosures of Cash Flows Information

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Cash and cash equivalents – balance sheets	¥8,973	¥7,922	\$67,084
Cash and cash equivalents – statements of cash flows	¥8,973	¥7,922	\$67,084

Depreciation and amortization in the consolidated statements of cash flows includes research and development asset depreciation and depreciation of idle equipments.

9. Leases

At March 31, 2006 and 2007, assets leased under non-capitalized finance leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Machinery and equipment	¥769	¥685	\$5,801
Less : accumulated depreciation and amortization	(162)	(218)	(1,846)
Total	¥607	¥467	\$3,955

The above "as if capitalized" depreciation and amortization is calculated on the straight-line basis over the lease term. If the above leases were capitalized, interest of ¥ 5 million and ¥ 10 million (\$ 85 thousand) and depreciation and amortization of ¥ 135 million and ¥ 147 million (\$ 1,245

thousand) would have been recorded for the years ended March 31, 2006 and 2007, respectively.

Total lease payments under non-capitalized finance leases were ¥ 148 million and ¥ 154 million (\$ 1,304 thousand) for the years ended March 31, 2006 and 2007, respectively.

Obligations under finance leases at March 31, 2006 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Due within one year	¥143	¥134	\$1,135
Due after one year	467	340	2,879
Total	¥610	¥474	\$4,014

Obligations under operating leases at March 31, 2006 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Due within one year	¥65	¥65	\$550
Due after one year	227	162	1,372
Total	¥292	¥227	\$1,922

Notes to Consolidated Financial Statements

Nihon Yamamura Glass Co., Ltd. and Consolidated Subsidiaries

10. Securities

The following tables summarize acquisition costs and book values (fair values) of securities with available fair values as of March 31, 2006 and 2007.

Available-for-sale securities

Securities with book values (fair values) that exceed acquisition cost:

	Millions of Yen		
	2006		
	Acquisition cost	Book value	Difference
Equity securities	¥1,665	¥4,020	¥2,355

	Millions of Yen		
	2007		
	Acquisition cost	Book value	Difference
Equity securities	¥2,312	¥4,472	¥2,160

	Thousands of U.S. Dollars		
	2007		
	Acquisition cost	Book value	Difference
Equity securities	\$19,578	\$37,869	\$18,291

Securities with book values (fair values) that do not exceed acquisition cost:

	Millions of Yen		
	2006		
	Acquisition cost	Book value	Difference
Equity securities	¥72	¥68	¥(4)

	Millions of Yen		
	2007		
	Acquisition cost	Book value	Difference
Equity securities	¥64	¥54	¥(10)

	Thousands of U.S. Dollars		
	2007		
	Acquisition cost	Book value	Difference
Equity securities	\$542	\$457	\$(85)

Notes to Consolidated Financial Statements

Nihon Yamamura Glass Co., Ltd. and Consolidated Subsidiaries

The following table summarizes book values of securities not stated at fair value as of March 31, 2006 and 2007:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
	Book value	Book value	Book value
Held-to-maturity debt securities:			
Debt securities	¥14	¥-	\$-
Available-for-sale securities:			
Non-listed equity securities	242	252	2,135
Total	¥256	¥252	\$2,135

Maturities of available-for-sale securities with maturities and held-to-maturity debt securities as of March 31, 2006 and 2007 were as follows :

	Millions of Yen	
	2006	
	Within one year	Over one year but within five years
Government bonds and municipal bonds	¥-	¥-
Other	14	-
Total	¥14	¥-

	Millions of Yen	
	2007	
	Within one year	Over one year but within five years
Government bonds and municipal bonds	¥-	¥-
Other	-	-
Total	¥-	¥-

	Thousands of U.S. Dollars	
	2007	
	Within one year	Over one year but within five years
Government bonds and municipal bonds	\$-	\$-
Other	-	-
Total	\$-	\$-

Total sales of such securities in the year ended March 31, 2006 and 2007 amounted to ¥1,355 million and ¥ 70 million (\$ 593 thousand) and net gains amounted to ¥1,014 million and ¥ 49 million (\$ 415 thousand) .

Notes to Consolidated Financial Statements

Nihon Yamamura Glass Co., Ltd. and Consolidated Subsidiaries

11. Derivative Financial Instruments and Hedging Transactions

The Company and its consolidated subsidiaries use forward foreign currency contracts, interest rate swap contracts and commodity price swap contracts as derivative financial instruments only for the purpose of mitigating future risk of fluctuations in foreign currency exchange rates with respect to foreign currency receivables and payables, interest rate increases with respect to borrowings (within the amounts of borrowings or foreign currency receivables and payables) and to manage exposures to fluctuations in the purchase cost of fuel.

Forward foreign currency contracts, interest rate swap contracts and commodity price swap contracts are subject to risk of foreign exchange rate changes, interest rate changes, and market price changes, respectively.

The derivative transactions are executed and managed by the finance departments of the Company and its consolidated subsidiaries in accordance with established policies and within the specified limits on the amounts of derivative transactions allowed. The managers of the finance department report information on derivative transactions to the boards of directors on a monthly basis.

The Company and its consolidated subsidiaries evaluate hedge effectiveness by recognizing the association of hedging instruments and hedged items.

There were no derivative transactions for which hedge accounting has not been applied as of March 31, 2006 and 2007.

12. Retirement and Severance Benefits

The Company and certain consolidated subsidiaries provide for employees' retirement and severance benefits under four plans, lump-sum benefits and, defined benefit corporate pension plans (Cash balance plan), and the plan that the employees can select between defined contribution pension plans or prepaid retirement allowance plans. The

Company sets up retirement benefits trust.

The following table sets forth the changes in benefit obligation, plan assets and funded status of the Company's and its consolidated subsidiaries' employee retirement plans at March 31, 2006 and 2007.

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Benefit obligation at end of year	¥9,728	¥8,655	\$73,291
Fair value of plan assets at end of year (including employees' retirement benefit trust)	(3,953)	(3,474)	(29,418)
Funded status:			
Benefit obligation in excess of plan assets	5,775	5,181	43,873
Unrecognized actuarial losses	(1,038)	(900)	(7,621)
Retirement and severance benefits on the consolidated balance sheet	¥4,737	¥4,281	\$36,252

Note: Some consolidated subsidiaries have adopted an alternative accounting standard for the treatment of retirement benefits for small business entities.

Notes to Consolidated Financial Statements

Nihon Yamamura Glass Co., Ltd. and Consolidated Subsidiaries

Severance and pension costs of the Company and its consolidated subsidiaries included the following components for the years ended March 31, 2006 and 2007.

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Service cost	¥438	¥378	\$3,201
Interest cost	213	192	1,626
Expected return on plan assets	(52)	(48)	(406)
Amortization:			
Actuarial losses	193	173	1,465
Prior service cost	(339)	-	-
Other	150	146	1,236
Net periodic benefit cost	¥603	¥841	\$7,122

Note: Main contents of "others" were the extra retirement bonuses the Company provided temporarily and defined contribution pension plan. The retirement benefits of consolidated subsidiaries adopting simple and easy method are included in service cost. Besides the retirement benefits mentioned above, there were "lump-sum benefits for early retirement" amounted to ¥ 285 million (\$ 2,413 thousand) recorded in other expense.

Assumptions used in accounting for the defined benefit plans for the years ended 31st March, 2006 and 2007 were as follows:

	2006	2007
Method of attributing benefit to periods of service	Straight-line method	Straight-line method
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.00%	2.00%
Expected rate of return on employees' retirement benefit trust	0.45%	0.45%
Amortization period for prior service cost.....	1 years	-
Amortization period for actuarial losses.....	10 years	10 years
	(within average remaining service lives)	(within average remaining service lives)

13. Income Taxes

The Company and its consolidated subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rates in Japan of approximately 40.64% for the years ended March 31, 2006 and 2007.

The following table summarizes the significant differences between the statutory tax rate and the Company's and its

consolidated subsidiaries' effective tax rate for financial statement purposes for the year ended March 31, 2006 :

No reconciliation for the year ended March 31, 2007 has been presented because differences between the statutory tax rate and the Company's and its consolidated subsidiaries' effective tax rate was immaterial.

	2006
Statutory tax rate	40.64%
Expenses permanently non-deductible	2.71
Equity in earnings of affiliates	(6.16)
Other	0.67
Effective tax rate	37.86%

Notes to Consolidated Financial Statements

Nihon Yamamura Glass Co., Ltd. and Consolidated Subsidiaries

Significant components of the deferred tax assets and liabilities of the Company and its consolidated subsidiaries as of March 31, 2006 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Deferred tax assets:			
Retirement and severance benefits	¥2,741	¥2,560	\$21,678
Excess allowance for special repairs	780	580	4,912
Loss on of investment securities	167	-	-
Loss on unconsolidated subsidiaries and affiliates	516	516	4,370
Unrealized gain on disposal of property, plant and equipment	351	342	2,896
Other	1,093	866	7,333
	5,648	4,864	41,189
Less : valuation allowance	(660)	(566)	(4,793)
Total deferred tax assets	4,988	4,298	36,396
Deferred tax liabilities:			
Deferred gains on real properties	747	675	5,716
Net unrealized gains on securities	961	714	6,046
Other	21	4	34
Total deferred tax liabilities	1,729	1,393	11,796
Net deferred tax assets	¥3,259	¥2,905	\$24,600

Net deferred tax assets are reflected in the consolidated balance sheets as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2007	2007
Current assets	¥623	¥521	\$4,412
Investments and other assets	2,768	2,501	21,179
Non-current liabilities	(132)	(117)	(991)
	¥3,259	¥2,905	\$24,600

14. Segment Information

The operations of the Company and its consolidated subsidiaries are classified into five industry segments as follows:

Glass containers :	Production and sale of glass containers
Plastic containers :	Production and sale of plastic containers
Logistics :	Transport, warehousing, cargo handling
New glass :	Glass used in electronic components
Other :	IS machines, conveyance machines, sale of goods

Industry segment information for the years ended March 31, 2006 and 2007 was as follows :

Notes to Consolidated Financial Statements

Nihon Yamamura Glass Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2006

	Millions of Yen						Consolidated
	Glass containers	Plastic containers	Logistics	New glass	Other	Eliminations & corporate	
Net sales :							
Outside customers	¥46,080	¥12,957	¥8,799	¥1,643	¥750	¥-	¥70,229
Inter segment	-	-	63	-	9	(72)	-
Total	46,080	12,957	8,862	1,643	759	(72)	70,229
Cost and expenses	44,821	12,046	8,332	1,239	626	(72)	66,992
Operating income	¥1,259	¥911	¥530	¥404	¥133	¥-	¥3,237
Identifiable assets	¥59,017	¥16,853	¥970	¥2,863	¥2,091	¥8,585	¥90,379
Depreciation and amortization	3,289	936	16	177	6	-	4,424
Capital expenditures	2,410	1,225	9	196	15	-	3,855

Year ended March 31, 2007

	Millions of Yen						Consolidated
	Glass containers	Plastic containers	Logistics	New glass	Other	Eliminations & corporate	
Net sales :							
Outside customers	¥46,967	¥13,329	¥9,330	¥2,315	¥1,863	¥-	¥73,804
Inter segment	-	-	106	-	10	(116)	-
Total	46,967	13,329	9,436	2,315	1,873	(116)	73,804
Cost and expenses	45,532	12,658	8,881	1,801	1,780	(116)	70,536
Operating income	¥1,435	¥671	¥555	¥514	¥93	¥-	¥3,268
Identifiable assets	¥57,556	¥16,399	¥944	¥5,052	¥1,828	¥9,279	¥91,058
Depreciation and amortization	3,113	1,096	8	214	18	-	4,449
Capital expenditures	3,404	762	-	1,672	187	-	6,025

Year ended March 31, 2007

	Thousands of U.S. Dollars						Consolidated
	Glass containers	Plastic containers	Logistics	New glass	Other	Eliminations & corporate	
Net sales :							
Outside customers	\$397,722	\$112,871	\$79,008	\$19,604	\$15,776	\$-	\$624,981
Inter segment	-	-	897	-	85	(982)	-
Total	397,722	112,871	79,905	19,604	15,861	(982)	624,981
Cost and expenses	385,570	107,189	75,205	15,251	15,074	(982)	597,307
Operating income	\$12,152	\$5,682	\$4,700	\$4,353	\$787	\$-	\$27,674
Identifiable assets	\$487,391	\$138,869	\$7,994	\$42,781	\$15,480	\$78,575	\$771,090
Depreciation and amortization	26,362	9,281	68	1,812	152	-	37,675
Capital expenditures	28,825	6,453	-	14,159	1,583	-	51,020

Corporate assets shown in the eliminations and corporate column of ¥8,585 million and ¥9,279 million (\$ 78,575 thousand) for the years ended March 31, 2006 and 2007, respectively, mainly comprise the cash and cash equivalents and investment securities of the Company and its consolidated

subsidiaries.

Geographic segment information is not shown due to the Company having no overseas consolidated subsidiaries. Information on overseas sales is not disclosed due to their immateriality in relation to consolidated net sales.

Notes to Consolidated Financial Statements

Nihon Yamamura Glass Co., Ltd. and Consolidated Subsidiaries

15. Subsequent Events

(a) At the general shareholders' meeting of the Company held on June 27, 2007, year-end dividends of ¥ 3.5 per share for a total of ¥ 389 million (\$ 3,294 thousand) were approved .

(b) At the board of directors held on April 27, 2007, acquiring capital in San Miguel Packaging Specialists, Inc. (SMPSI) and San Miguel Packaging International Ltd. (SMPIL) which are wholly-owned subsidiaries of San Miguel Co. (Philippines) were approved.

(1) Purpose

The Company has performed a joint venture and technical support with a longtime business partner, San Miguel Co. (Philippines). By this acquiring capital, there are those for the purposes of the Company let business development accelerate in the Asian market where growth is remarkable, and catching a business chance to a Japanese-affiliated company stepping forward positively, planning expansion of a business domain.

(2) Contents of investing companies

(1) Company	San Miguel Packaging Specialists, Inc.	San Miguel Packaging International, Ltd.
(2) Business contents	Producing and selling various container products and container-related products, in the Philippines country.	Producing and selling various container products and container-related products, in China, Vietnam, Indonesia and Malaysia
(3) Establishment date	August 29, 2002	June 25, 1991
(4) Head office location	Philippines country, Manila City	U.K. territory Virgin Islands
(5) Representative	Mr. Ferdinand Tumpalan	Mr. Ferdinand K. Constantino
(6) Capital	P 5,122 million	\$1,000
(7) Total assets	P 21,443 million	\$51,681 thousand
(8) Sales amount	P 11,079 million (December, 2006 period)	\$85,298 thousand (December, 2006 period)
(9) Operating income	P 1,142 million (December, 2006 period)	\$2,676 thousand (December, 2006 period)
(10) Employees	3,000	800

(3) Summary of acquiring capital

1) Plan of an amount of investment

It is planned 140,000 million – 160,000 million yen in both companies. (1 peso 2.5 yen conversion)

2) Ratio of investment

It is planned to invest in each companies at 35%.

Both of two investment companies are going to become affiliated companies accounted for under the equity method.

3) Plan of acquisition time

After a last agreement, the Company is going to pay a share acquisition fund by July, 2007.

4) Supply of a fund

The Company is going to raise a fund by self-fund and borrowing money from domestic bank.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Nihon Yamamura Glass Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2007, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nihon Yamamura Glass Co., Ltd. and subsidiaries as of March 31, 2006 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

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

- (1) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2006, Nihon Yamamura Glass Co., Ltd. and consolidated domestic subsidiaries adopted new accounting standards for the presentation of net assets in the balance sheet.
- (2) As discussed in Note 15 to the consolidated financial statements, at the board of directors on April 27, 2007, Nihon Yamamura Glass Co., Ltd. resolved to acquire capital in San Miguel Packaging Specialists, Inc. (SMPSI) and San Miguel Packaging International Ltd.(SMPIL) which are Wholly-owned subsidiaries of San Miguel Co.(Philippines).

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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.)
Osaka, Japan
June 27, 2007

Board of Directors

Koji Yamamura	<i>President, CEO & COO Advisor to International Department</i>
Yoshinori Tanigami	<i>Managing Director, Advisor to Corporate Headquarters, Personnel Department, Research & Development Center</i>
Kazuo Yoshida	<i>Managing Director, Advisor to Glass Bottle Company, Plastics Company, Engineering Company</i>
Hideyuki Kuribayashi	<i>Director, Company President, New Glass Company General Manager, New Glass Research Center</i>
Yoshio Inoue	<i>Director,</i>

Audit Committee

Yoshio Fujiki
Koichi Kimura
Hanroku Toriyama
Toshie Miyauchi

Executive Officers and Company Presidents

Tatsuya Metori <i>Managing Executive Officer Company President, Glass Bottle Company</i>	Hiroji Shimizu <i>Executive Officer Division Director, Sales Division, General Manager, Osaka Sales Department, Glass Bottle Company</i>
Motokazu Hiraiwa <i>Financial Executive Officer, Division Director, Corporate Headquarters General Manager, Corporate Planning Department</i>	Yuki Uetaka <i>Executive Officer, Company President, Plastics Company</i>
Osamu Uchiyama <i>Personnel Executive Officer, General Manager, Personnel Department</i>	Tsutomu Matsubara <i>Executive Officer, Division Director, Production Division, Plastics Company</i>
Kunio Ishioka <i>Executive Officer General Manager, Research & Development Center</i>	Masao Igi <i>Executive Officer, Company President, Engineering Company</i>
Harushige Matsuhisa <i>Executive Officer Company Managing Director, General Manager Corporate Planning & Administration Department, Glass Bottle Company</i>	

Corporate Directory

Head Office

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Tel:+81-798-32-2300 Fax:+81-798-36-0725

Internal Auditing Office

2-21, Hamamatsubara-cho, Nishinomiya, Hyogo 662-8586 Tel:+81-798-32-2306

Corporate Headquarters

Corporate Planning Department
2-21, Hamamatsubara-cho, Nishinomiya, Hyogo 662-8586 Tel:+81-798-32-2300

Administration Department
2-21, Hamamatsubara-cho, Nishinomiya, Hyogo 662-8586 Tel:+81-798-32-2300

International Department

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Glass Bottle Company

Technical Center
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20F, Shinjuku Green Tower Building, 14-1, 6-chome,
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Osaka Sales Department
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Nagoya Sales Office
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Marunouchi, Naka-ku, Nagoya, Aichi 460-0002 Tel:+81-52-211-5405

Kyushu Sales Office
3F, Green Building, 4-21, 4-chome, Hakataekimae,
Hakata-ku, Fukuoka, Fukuoka 812-0011 Tel:+81-92-431-6836

Tokyo Plant
3-45, Oyama-cho, Sagami-hara, Kanagawa 229-1106 Tel:+81-42-771-5111

Saitama Plant
611-10, Shimobayashi, Miizugahara, Kumagaya, Saitama 360-8558 Tel:+81-48-533-7081

Harima Plant
5, Niiijima, Harima-cho, Kako-gun, Hyogo 675-0155 Tel:+81-79-435-2051

Osaka Plant
52-2, 1-chome, Shibo-cho, Takatsuki, Osaka 569-0823 Tel:+81-72-677-1100

Plastics Company

Tokyo Sales Department
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Nishi-Shinjuku, Shinjuku-ku, Tokyo 160-0023 Tel:+81-3-3349-7250

Osaka Sales Department
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Utsunomiya Plant
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Kawajima Plant
6-8, Hachiman, Kawajima-cho, Hiki-gun, Saitama 350-0151 Tel:+81-49-297-7105

New Glass Company

New Glass Research Center
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Naruohama Plant
1-18, 2-chome, Naruohama, Nishinomiya, Hyogo 663-8142 Tel:+81-798-40-4456

Amagasaki Plant
111, Nishimukojima, Amagasaki, Hyogo 660-0857 Tel:+81-6-6411-3421

Engineering Company

111, Nishimukojima-cho, Amagasaki, Hyogo 660-0857 Tel:+81-6-6411-7071

Affiliated Companies

Yamamura Warehouse Co., Ltd.
Seisho Co., Ltd.

Yamamura Glass Works Co., Ltd.
Yamamura Kosan Co., Ltd.

Glass Studio Yamamura Co., Ltd.
Nissho Seiki Co., Ltd.

Ad Am Co., Ltd.
Link Work Co., Ltd.

Joint Venture Companies

San Miguel Yamamura Asia Corp.
SMC Yamamura Fuso Molds Corp.
Lam Soon Ball Yamamura Inc.
San Miguel Yamamura Glass (Vietnam) Ltd.
San Miguel Yamamura Haiphong Glass Co., Ltd.
Zhancheng(Suzhou) Plastic Co., Ltd.

(As of 1st July, 2007)

 **NIHON YAMAMURA GLASS CO.,LTD.**
<http://www.yamamura.co.jp>