Notes to Consolidated Financial Statements and Notes to Financial Statements with respect to the 148th financial period under Japanese Companies Act

For the period of 1 April 2013 to 31 March 2014
(English translation)

Nippon Sheet Glass Company, Limited

We are providing shareholders with the Notes to Consolidated Financial Statements and the Notes to Financial Statements with respect to the 148th financial period, by posting both on the Company website at www.nsg.com, since 5 June 2014, in accordance with the relevant law and ordinance and article 14 of the Articles of Incorporation.

Notes to the consolidated financial statements (English translation)

Summary of significant accounting policies

1. Preparation of Consolidated Financial Statements

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) with some omissions of disclosure items pursuant to the latter part of the first paragraph, Article 120 of the Ordinance for Companies Accounting.

2. Scope of consolidation

Number of consolidated subsidiaries and name of major consolidated subsidiaries

Number of consolidated subsidiaries is 206. Major consolidated subsidiaries are;
NSG Building Products Co. Limited, Thanxs Corporation Co. Limited, NSG Win-Tec Co. Limited, Nanox Co. Limited, Pilkington United Kingdom Limited, Pilkington Automotive Limited, Pilkington Technology Management Limited, NGF Europe Limited, Pilkington Deutschland AG, Pilkington Automotive Deutschland GmbH, Pilkington Austria GmbH, Pilkington Norge AS, Pilkington Floatglas AB, Pilkington Automotive Finland OY, Pilkington International Glass Poland Sp.Zo.o., Pilkington Automotive Poland Sp.Zo.o., Pilkington Polska Sp.Zo.o., Pilkington Italia SpA, Pilkington North America Inc., L-N Safety Glass SA de CV, Vidrieria Argentina S.A., Vidrios Lirquen S.A., Pilkington Automotive Argentina S.A., Pilkington Brasil Limitada, Guilin Pilkington Safety Glass Co. Limited, Pilkington Solar (Taicang) Limited, Suzhou NSG Electronics Co. Limited, NSG Hong Kong Co. Limited, Malaysian Sheet Glass Sdn. Bhd., Vietnam Float Glass Co. Limited, NSG Vietnam Glass Industries Limited, NSG Holding (Europe) Limited, NSG UK Enterprises Limited, Pilkington Group Limited

From this financial year, PNA Receivables, LLC has been newly added to the consolidation due to new incorporation of the company. During this financial year, Nissho Service Co. Limited, Nanox Philippines Inc., Pilipinas NM Inc. and Qitaihe Rijiu Glass Products Co. Limited have been removed from the consolidation due to disposal of the companies to outside of the Group, and Hi-Mirror Co. Limited, Nippon Sheet Glass SYP Sales and Marketing Co. Limited, NSG Techno-Research Co. Limited, Pilkington Distribution and Sales LLC, Pilkington Luxembourg No.1 Unlimited, Pilkington Luxembourg No.2 Unlimited and Pilkington Luxembourg No.3 Unlimited have been removed from the consolidation due to liquidation of the companies.

3. Application of equity method

Number of joint ventures and associates accounted for by the equity method and name of major joint ventures and associates

Number of Joint ventures and associates accounted for by the equity method is 27 (Cebrace Cristal Plano Limitada and other 26 affiliated companies).

From this financial year, Brunn N68 Sanierungs GmbH has been newly added to the scope of the companies accounted for by the equity method due to new incorporation of the company. During this financial year, Pilipinas NM Realty Inc. has been removed from the scope of the companies accounted for by the equity method due to disposal of the company to outside of the Group and Shanghai SYP-NSG Sales and Marketing Co. Limited has been removed from the scope of the companies accounted for by the equity method due to liquidation of the company.

4. Accounting policies and practices

(1) Financial investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets / liabilities at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets / liabilities in this category are classified as current assets / liabilities if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date and these are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The Group does not currently hold any investments in this category.

(d) Available-for-sale investments

Available-for-sale investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. They are initially recognized at fair value plus transaction costs and thereafter at fair value.

Purchases and sales of investments are recognized on the trade date, the date on which the Group commits to purchase or sell the asset. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the investments, the Group considers whether it has retained control of the investments. Available-for-sale investments and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the year in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in the fair value reserve within equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Derivatives

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged and the effectiveness of the hedging arrangement. The Group designates certain derivatives as hedges of the changes in fair value of recognized assets or liabilities or a firm commitment (fair value hedges), hedges of exposure to variability in cash flows associated with an asset or liability or arising from highly probable forecast transactions (cash flow hedges), and hedges of net investments in foreign operations (net investment hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents, both at hedge inception and on an ongoing basis, its assessment of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items

(a) Fair value hedge

Changes in the fair value of derivatives, designated and qualifying as fair value hedges, are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability, attributable to the hedged risk.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives, designated and qualifying as cash flow hedges, is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity, the gain or loss relating to the ineffective portion is recognized immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

(d) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments, not qualifying for hedge accounting, are recognized immediately in the income statement.

Impairments of financial investments

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost would be considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from equity and recognized in the income statement

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of trade. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The movement in the provision is recognized in the income statement.

(2) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work-in-progress comprises design costs, raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

(3) Property, plant and equipment and intangible assets

Land and buildings comprise mainly the Group's manufacturing facilities. Land is shown at historical cost. All property (excluding land) and plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Assets held under finance leases (in which a significant proportion of the risks and rewards of ownership are retained by the Group) are included in property, plant and equipment at cost and are depreciated over the shorter of the lease term or their useful economic life.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

Freehold buildings	3 to 50 years
Leasehold buildings procured by finance leases	over the life of the lease
Float glass tanks	10 to 15 years
Glass making plant	25 years
Glass processing plant	15 years
Other plant and equipment	5 to 20 years
Vehicles	5 years

The assets' residual values and useful lives are reviewed to take account of technological changes, intensity of use over their lives and market requirements, and adjusted if appropriate, at each balance sheet date.

Intangible assets

(a) Goodwill

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units, based on the allocation of expected benefits from the business combination, for the purpose of impairment testing. Each of those cash-generating units represents the Group's investments in each region of operation by each primary reporting segment.

(b) Trademarks and licenses

Trademarks and licenses are shown at historical cost. Trademarks and licenses have a definite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives (over a maximum of 20 years).

(c) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (five to ten years).

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, which are seen to generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized over their estimated useful lives (not exceeding 10 years).

(d) Research and development

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products or processes which will be used internally within the Group) are recognized as intangible assets when it is probable that the project will be commercially successful and technologically feasible or will give rise to internally improved processes, and costs can be measured reliably. Other development expenditure is recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs are amortized from the date of the new product being available for production or from the potential first date of use of the process, on a straight-line basis over the period of the expected benefit, not exceeding five years (products) and 20 years (processes).

(e) Intangible assets created on acquisition

The intangible assets identified on acquisition of the Pilkington Group as part of the fair valuing of the net assets acquired include customer relationships, know-how, license agreements, the Pilkington brand name and other brands, research and development and developed technology. These have been capitalized and are amortized over the estimated life of each category of intangible asset and are amortized on a straight-line basis over the period of their expected benefit to the Group as follows:

Customer relationships	Up to 20 years
Know-how	10 years
License agreements	11 years
Pilkington brand name *	Nil
Other brands	10 years
Research and development	Up to 20 years
Developed technology	Up to 15 years

* The Pilkington brand name has been assigned an indefinite useful life and is therefore not subject to routine

amortization, but is instead tested annually for impairment.

Impairment of assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(4) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the income statement net of any reimbursement. Provisions are not recognized for future losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(5) Retirement benefit obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are taken through the statement of comprehensive income to equity in accordance with IAS 19.

(6) Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Japanese yen which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the Group entities with a functional currency different from the Group's presentation currency, (none of which has the currency of a hyperinflationary economy), are translated into the presentation currency as follows:

- ☐ assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- ☐ income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- ☐ all resulting exchange differences are recognized in the exchange translation reserve, a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to the exchange translation reserve within shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

Exchange differences recognized prior to 31 March 2010 are included in a separate reserve within retained earnings called 'Retained earnings (translation adjustment at the IFRS transition date)'. Exchange differences arising on or after 1 April 2010 are recognized within a separate exchange translation reserve in the accumulated other comprehensive income.

Goodwill, intangible assets and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(7) Construction work-in-progress

Construction work-in-progress is represented by engineering construction contracts for the building, construction and delivery of float glass lines or other assets for third-party customers. Profits are recognized where revenue and contract costs can be reliably estimated and are based on the stage of completion of the contract. Where the outcome cannot be estimated reliably, revenue is only recognized to the extent that it is probable that the contract costs incurred will be recoverable. Where it is probable that the contract costs will exceed the total contract revenue, the expected loss is recognized as an expense immediately in the income statement.

The stage of completion on construction contracts is assessed at regular intervals by the engineering project team and is based on an analysis of construction progress made, order fulfillment, costs incurred and technical completion at the balance sheet date.

(8) Accounting for consumption tax

All accounts are presented net of consumption tax.

5. Changes in accounting policies

The Group has applied the following new accounting standards from this financial year.

IAS 19 was amended in June 2011. The impact on the Group's retirement benefit obligations is to replace interest cost and expected return on plan assets, previously calculated separately, with a net interest charge that is calculated by applying a territory specific discount rate to the net defined benefit liability in that territory. The amended standard is not anticipated to have a material effect on the Group's net defined benefit liabilities. The increase in finance costs arising from the adoption of the amended standard is

expected to be offset by an equivalent amendment to gains and losses recorded within the Statement of Comprehensive income.

The impact of adopting the amendments to IAS 19 is summarized as below.

	FY2014 ¥ millions
As of 1 April	
Change in total shareholders' equity	-
Change in total equity	-
As of 31 March	
Increase in finance expenses	2,722
Increase in loss before taxation	2,722
Decrease in taxation charge	616
Increase in loss for the period	2,105
Decrease in retirement benefit obligations charge within the statement of Comprehensive income, net of taxation	2,105
Increase in total comprehensive loss for the period	-
Change in total shareholders' equity	-
Change in total equity	-
Increase in loss per share attributable to owners of the parent (basic) - yen	2.33
Increase in loss per share attributable to owners of the parent (diluted) - yen	2.33

IFRS 10, 'Consolidated financial statements' identifies the concept of control as the determining factor in whether a subsidiary company should be consolidated within the Group's financial statements. The standard provides additional guidance to assist in the determination of control. The adoption of this standard has not resulted in any changes to the Group's financial performance or net assets.

IFRS 11, 'Joint arrangements' has replaced IAS 31 'Interests in Joint Ventures'. This standard deals with how a joint arrangement, of which two or more parties have joint control, should be classified. The adoption of this standard has not resulted in any changes to the Group's financial performance or net assets.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The adoption of this standard has not resulted in any changes to the Group's financial performance or net assets.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRS. The adoption of this standard has not resulted in any changes to the Group's financial performance or net assets, although the disclosure requirements contained within this standard have been applied to the relevant disclosure notes.

6. Changes in accounting estimates

During the current financial year the Group changed its methodology used to calculate inventory provisions to reflect a more accurate forward looking estimation. The impact during the year-ended 31 March 2014 was to reduce inventory provisions by ¥ 1,440 million. The effect of this change in future periods is not expected to be material.

Notes – Consolidated balance sheet

1. Collaterals

(1) Assets treated as collaterals

Machinery	JPY	3,682	million
Land and buildings	JPY	1,334	million
Intangible assets	JPY	1,592	million
Total	JPY	6,608	million

(2) Liabilities related to collaterals

Current portion of long term borrowings	JPY	1,238	million
Long term borrowings	JPY	7,316	million
Lease obligations - Current	JPY	703	million
Lease obligations – Non current	JPY	757	million
Total	JPY	10,014	million

2. Provision, presented as a deduction of asset account on B/S

Provision for doubtful accounts against:

Trade and other receivables	JPY	4,331	million

3. Accumulated depreciation of tangible fixed assets

	JPY	417,124	million

4. Contingent liabilities

Claims

Following the European Commission's decision announced on 12 November 2008 to impose a fine on the Group for alleged breaches of European competition laws, certain of the Group's Automotive customers have communicated to the Group their intention to pursue the Group for damages arising from the alleged activities. The Group intends to defend itself against such claims and notes that it is still pursuing an appeal against the European Commission fine. To cover the cost of defense as well as any potential financial impact as may result from the resolution of certain cases the Group has made a provision for amounts that may be payable. In certain other cases, the Group considers that it is too early to judge the probable future outcome of the claim and as such cannot determine that the claim will probably result in an outflow of economic benefits to the claimants.

Notes – Consolidated income statement

The Group discloses certain gains or losses in the income statement as exceptional items if this is necessary to gain a fair understanding of the Group's operating performance. Exceptional items would usually be material in value or would be of a non-recurring nature. Charges resulting from the Group's profit improvement program are included within exceptional items.

Exceptional items incurred during this financial year are detailed in the below table.

	(JPY million)
Exceptional Items (gains):	
Gain on dilution of shares in associates (Note 1)	2,056
Reversal of impairment of non-current assets (Note 2)	1,227
Reduction of pension liabilities (Note 3)	1,098
Gain on disposal of available-for-sale assets (Note 4)	335
Others	802
Sub total – Exceptional items (gains)	5,518
Exceptional Items (losses):	
Restructuring costs, including employee termination payments (Note 5)	(15,927)
Impairments of non-current assets (Note 6)	(2,034)
Settlement of litigation matters (Note 7)	(572)
Loss on disposal or scrapping of non-current assets (Note 8)	(240)
Others	(578)
Sub total – Exceptional items (losses)	(19,351)
Exceptional items (gains and losses) - net	(13,833)

(Note 1) The gain on dilution of shares in associates relates to a placing of new shares by each of two of the Groups' associated entities, Shanghai Yaohua Pilkington Glass Co Ltd (China) and Holding Concorde SA (Colombia), in which the Group did not participate.

(Note 2) The reversal of impairment of non-current assets relates to assets impaired during the previous year, mainly in Sweden, which have now either been given an alternative use elsewhere in the Group, or are anticipated to have an alternative use elsewhere in the Group.

(Note 3) The reduction in pension liabilities arises at a UK subsidiary, where employees have accepted a change to their terms and conditions, whereby pensionable salaries in the subsidiary's pension scheme will be capped at their level on 1 January 2014. The change enables the Group to reduce further its future pension liability risk.

(Note 4) The gain on disposal of available-for-sale assets relates to the disposal of investment in Japan and the UK.

(Note 5) Restructuring costs arise in a variety of locations around the world. It also includes the cost of maintaining idle facilities, principally in Europe. The costs incurred during the year include the costs arising from the Groups' decision to mothball its' float line at Cowley Hill, St Helens, UK. This action was part of the Groups' ongoing restructuring program.

(Note 6) The impairments arising during the period mainly relate to the Group's Architectural facilities in Cowley Hill, UK, and Halmstad, Sweden.

(Note 7) The settlement of litigation matters relates to claims made by certain of the Group's automotive customers in Europe, following the European Commission's earlier decision to fine the Group for alleged breaches of European competition law.

(Note 8) The loss on disposal or scrapping of non-current assets relates to a variety of disposals, principally in China, Japan, and the Philippines.

Notes – Consolidated statement of changes in equity

1. Types and volume of issued shares as of 31 March 2014

Ordinary shares 903,550,999 shares

2. Stock subscription rights exercisable as of 31 March 2014

Type & volume of shares Ordinary shares 5,834,000 shares

Notes of financial instruments

1. Status of financial instruments

The Group is financed by a combination of cash flows from operations, bank loans and corporate bonds. The Group's policy is to ensure continuity of finance at a reasonable cost with varying maturities. The Group invests cash balances and short-term money market balances with a selected group of credit worthy deposit takers. The Group does not engage in speculative trading of financial instruments or derivatives.

The Group borrows in a variety of currencies at both fixed and floating rates of interest using derivatives where appropriate to generate the desired effective currency and interest rate exposure. The financial instruments used for this purpose are principally interest rate swaps and forward foreign exchange contracts. The Group's treasury function is responsible for the provision of the Group's liquidity management and for the management of the Group's interest, commodity and foreign exchange risks, operating within policies and authority limits set by the Board of Directors.

2. Fair values of financial instruments

Carrying value on consolidated balance sheet, fair value and variance as of 31 March, 2014 are presented in the table below.

(in JPY millions)

	Carrying value on consolidated B/S	Fair value	Variance
(1) Trade and other receivables	108,138	108,138	-
(2) Investments accounted for using the equity method	50,070	57,573	7,503
(3) Available-for-sale investments	6,837	6,837	-
(4) Derivative financial instruments	2,327	2,327	-
(5) Cash and cash equivalents	73,864	73,864	-
Financial assets – total	241,236	248,739	7,503
(6) Borrowings	451,793	423,760	28,033
(7) Derivative financial instruments	3,510	3,510	-
(8) Trade and other payables	128,431	128,431	-
Financial liabilities – total	583,734	555,701	28,033

(Note) Fair valuation methods

Financial asset items:

(1) Trade and other receivables

Fair values of trade and other receivables are measured at balance sheet value, as most of them are settled within a short period and so their fair values are thought to be almost equal to the balance sheet values.

(2) Investments accounted for using the equity method

Fair values of quoted investments included in this category are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation by using valuation techniques. These include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

(3) Available-for-sale investments

Fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

(4) Derivative financial instruments

Fair values of derivative financial instruments are measured by reference to prices or indices indicated by financial institutions also taking into account credit risk.

(5) Cash and cash equivalents

Fair values of cash and cash equivalents are measured at balance sheet value, as they are settled within a short period and so their fair values are thought to be almost equal to the balance sheet values.

Financial liability items:

(6) Borrowings

Fair values of bank borrowings are calculated by discounting aggregated future cash payments for interests and principals related to each borrowing contract to present values. A combination of interest rates, assumed as applicable to new bank borrowings with similar values and terms at the yearend, and credit risk indicators are used as discount rates

Fair values of bonds payable with market price are measured at the market prices and fair values of bonds payables with no market price are calculated by discounting aggregated future cash payments for interests and principals related to each bond to present values. Interest rates, after considering remaining periods to maturity and credit risks associated with the bonds, are used as discount rates.

(7) Derivative financial instruments

Fair values of derivative financial instruments are measured by reference to prices or indices indicated by financial institutions, also taking into account credit risk

(8) Trade and other payables

Fair values of trade and other payables are measured at balance sheet value, as most of them are settled within a short period and so their fair values are thought to be almost equal to the balance sheet values.

Amounts per share

1. Total shareholders' equity per share	JPY	182.75
2. Net loss per share	JPY	19.53

Notes to the Financial Statements

Summary of significant accounting policies

1. Policies and methods regarding valuation of assets

(1) Securities

Investments in subsidiaries and affiliates:

Stated at cost determined by the moving-average method

Other securities:

Securities with fair value

Stated at fair value by reference to market price, etc., as of the closing date, with changes in unrealized holding gain or loss charged directly to net assets and any disposal value determined by the moving average method

Securities with no fair value

Stated at cost determined by the moving-average method

(2) Derivatives

Stated at their fair market value

(3) Inventories

Stated at cost determined by the FIFO method (with provision for reducing the balance in case net realizable value decreases).

2. Depreciation (amortization) of fixed assets

(1) Tangible fixed assets

Depreciation is calculated by the straight-line method.

The estimated useful lives applied are principally as follows:

Buildings and structures	3 - 50 years
Machinery, equipment and vehicles	3 - 30 years

(2) Intangible fixed assets

Amortization is calculated by the straight-line method. Software intended for internal use in the Company are amortized by the straight-line method over their estimated useful period of 10 years or less.

(3) Leased assets

Leased assets procured by finance lease transactions in which ownership are not transferred to lessees are depreciated by the straight-line method to residual value of zero.

3. Provisions

(1) Allowance for doubtful accounts

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

(2) Provision for employees' bonuses

Provision for employees' bonuses is calculated based on the amount expected to be paid to the employees and accrued for the financial year.

(3) Provision for directors' bonuses

Provision for directors' bonuses is calculated based on the amount expected to be paid to the directors and accrued for the financial year.

(4) Provision for warranties

Provision for warranties is calculated based on the amount expected to be expensed for warranties of products.

(5) Provision for retirement benefits

Accrued retirement benefit for employees is provided at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the end of the financial year.

Past years' service costs related to pension schemes are generally expensed as incurred, and actuarial gain or loss is amortized, commencing the year following the year in which the gain or loss is recognized,

by the straight-line method over a period of five years which is shorter than the average remaining year of service for the eligible employees.

(6) Environmental provision

Environmental provision is calculated based on the amount expected to be expensed for environmental preservation in the future.

(7) Provision for rebuilding furnaces

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

4. Other policies

(1) Hedge accounting

Deferral hedge method is applied (Gains or losses on derivatives designated as hedging instruments are deferred until the corresponding loss or gain on the underlying hedged item is recognized. Where a derivative instrument does not qualify or no longer qualifies for hedge accounting the gain or loss on the derivative is charged immediately to profit and loss account).

(2) Accounting of consumption tax

All accounts are presented net of consumption tax.

(3) Application of consolidated taxation

The Company applied the consolidated taxation for the financial year.

5. Changes in accounting policies

Adoption of accounting standard for retirement benefits

Concomitant with the Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan (ASBJ) Statement No.26 of May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25 of May 17, 2012), which became eligible for adoption from April 1, 2013, the Company has applied these standards from this financial year. The Company has revised the method of calculating retirement benefit obligations and service costs, with the method of attributing benefits to accounting periods changed from the straight-line method to the standard pension benefit formula basis.

In accordance with transitional accounting as stipulated in article 37 of the Accounting Standard for Retirement Benefits, for the amendments relating to determination of retirement benefit obligations and service costs, the effect of changes in accounting policies arising from the application of the standards is recognized as an adjustment to retained earnings at the beginning of this financial year.

As a result, "Retained earnings carried over" has increased by JPY 1,654 million as of the beginning of this financial year. And both operating loss and net loss before tax has decreased by JPY 135 million, and ordinary profit has increased by JPY 135 million, for this financial year.

Notes regarding balance sheet items

1. Collaterals

(1) Assets treated as collaterals

Buildings	JPY	1,255	million
Structures	JPY	79	million
Machinery & Equipment	JPY	3,545	million
Vehicles	JPY	1	million
Tools & Fixtures	JPY	72	million
Total	JPY	4,952	million

(2) Liabilities related to collaterals

Current portion of long-term borrowings	JPY	1,245	million
Long-term borrowings	JPY	7,941	million
Total	JPY	9,186	million

Assets treated as collaterals and liabilities related to the collaterals in the above are related to finance

lease contracts arising from sale and lease-back transactions. The sale and lease-back transactions are accounted for as borrowings secured by collateral assets, and the liabilities are recognized in long-term bank borrowings and current portion of long-term borrowings.

2. Accumulated depreciation of tangible fixed assets	JPY	175,290	million
3. Contingent guarantees			
Guarantees	JPY	114,904	million
4. Notes receivables endorsed	JPY	261	million
5. Receivables from and payables to subsidiaries and affiliates			
Short-term receivable from subsidiaries & affiliates	JPY	71,092	million
Long-term receivable from subsidiaries & affiliates	JPY	2,884	million
Short-term payable to subsidiaries & affiliates	JPY	19,367	million

Notes regarding income statement items

1. Transactions with subsidiaries & affiliates

Sales to subsidiaries & affiliates	JPY	35,433	million
Purchases from subsidiaries & affiliates	JPY	14,337	million
Non-operational transactions with subsidiaries and affiliates	JPY	13,051	million

Notes regarding statement of change in net assets

1. Number of treasury stock as of 31 March 2014 — Ordinary shares 758,952 shares

Components of deferred tax assets and liabilities

	(in JPY millions)
Deferred tax assets:	
Provision for retirement benefits	366
Provision for rebuilding furnaces	1,210
Allowance for doubtful accounts	373
Provision for warranties	22
Asset retirement obligations	240
Temporary differences related to fixed assets and inventories	1,829
Loss on revaluation of investments in securities	7,994
Loss on revaluation of derivatives (commodity swap, etc.)	1
Loss brought forward	8,111
Other	1,423
Gross deferred tax assets	21,569
Valuation allowance	(20,504)
Total: Deferred tax assets	1,065
Deferred tax liabilities:	
Reserve for advanced depreciation	(1,190)
Gain on revaluation of derivatives (commodity swap, etc.)	(599)
Other	(55)
Total: Deferred tax liabilities	(1,844)
Net deferred tax liabilities	(779)

(Note)

Amendments of deferred tax asset and liability amounts due to tax rate changes, etc.

"Law to partially amend the income tax codes" (2014 Law No.10) was enacted on 31 March 2014 and, consequently, the disaster restoration special tax is no longer levied for the financial year commencing on and after 1 April 2014.

Due to the enactment of the law, effective tax rate used for calculation of deferred tax assets and liabilities, which was previously 38.01%, is changed to 35.64% for the temporary differences which are expected to be realized for the financial year commencing on 1 April 2014.

Due to the tax rate change, deferred tax liabilities (net of deferred tax assets) decreased by JPY 52 million, deferred tax expense decreased by JPY 12 million and deferred gain on hedges increased by JPY 40 million.

Related party transactions

(in JPY millions)

Type of company	Name of company	Equity	Relationship	Content of transaction	Transaction value	Account	Balance as of 31 Mar2014
Subsidiary	NSG Building Products Co. Ltd.	100% directly owned	Sales of products of NSG Co. Ltd.	Sales of products of NSG Co. Ltd. (*1)	11,654	Accounts receivable - trade	1,929
Subsidiary	NSG Hong Kong Co. Ltd.	100% indirectly owned	Sales of products of NSG Co. Ltd.	Sales of products of NSG Co. Ltd. (*1)	13,502	Accounts receivable - trade	2,353
Subsidiary	NSG UK Enterprises Ltd.	100% indirectly owned	Fund assistance & Loan guarantee & Shared director duties	Interest receivable (*2)	230	Other current assets	158
				Loan receivable (net) (*2)	16,588	Short-term loan	16,588
				Loan guarantee (*3)	100,602	-	-
Subsidiary	NSG Holding (Europe) Ltd.	100% directly owned	Fund assistance & Shared director duties	Interest receivable (*4)	2,287	Other current assets	184
				Forgiveness of loan receivable (*4)	3,352	-	-
				Loan receivable (net) (*4)	27,755	Short-term loan	31,389
				Repayment of long-term loan receivable (*4)	18,852	Long-term loan	-
				Subscription of subsidiary shares (*5)	132,555	-	-

Terms of transaction and decision policy of terms

(*1) Terms of transactions, such as sale prices, are determined through negotiations with the related party.

(*2) Interest rates for the loans to NSG UK Enterprises Ltd. are determined after consideration of market rates.
No collaterals are provided for the loans.

(*3) Loan guarantees are provided for subsidiary's borrowings from external financial institutions.

(*4) Interest rates for the loans to NSG Holding (Europe) Ltd. are determined after consideration of market rates.
Interest receivable, which has been accrued from a part of the loan receivable, was forgiven during the period.
No collaterals are provided for the loans.

(*5) Debt-Equity swap transaction was completed for a part of loan receivable to NSG Holding (Europe) Ltd..

Amounts per share

Net assets per share	JPY	321.97
Net loss per share	JPY	0.88