

Notes to the Consolidated Financial Statements  
and Notes to the Financial Statements  
with respect to the 150<sup>th</sup> financial period  
under Japanese Companies Act

For the period of 1 April 2015 to 31 March 2016  
(English translation)

**Nippon Sheet Glass Company, Limited**

We provide shareholders with the Notes to Consolidated Financial Statements and the Notes to Financial Statements with respect to the 150<sup>th</sup> financial period, by posting both on the Company website at [www.nsg.com](http://www.nsg.com), since 31 May 2016, 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 197. Major consolidated subsidiaries are; NSG Building Products Co. Limited, Thanxs Corporation Co. Limited, NSG Win-Tec 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 Automotive Finland OY, Pilkington IGP 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, Gullin Pilkington Safety Glass Co. 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, Nippon Sheet Glass Ireland Limited has been newly added to the consolidation due to new incorporation of the company, and NGF Europe Pension Trustee Limited has been newly added to the consolidation due to the fact that the Group has expected to continuously own its controlling interest in the company. During this financial year, NSG Keihin Sash Center Co. Limited, Pilkington Finance Belgium S.A. and Pilkington Finland Oy have been removed from the consolidation due to liquidation of the companies, and Sesosbra Servicios e Comercio Limitada has been removed from the consolidation due to merger to other subsidiary.

#### **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 22 (Cebrace Cristal Plano Limitada and other 21 affiliated companies).

From this financial year, Tianjin Pilkington SYP Glass Co. Limited has been added to the scope of the companies accounted for by the equity method due to reclassification of the company from assets held for sale. During this financial year, Vitro Global S.A. has been removed from the scope of the companies accounted for by the equity method due to reclassification of the company to

available-for-sale investments.

#### **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 reevaluates 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 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 period 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. For unlisted securities or where the market for a financial asset is not active, 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 re-measured 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 mainly 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). 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 comprises all 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 and intangible assets at cost and are depreciated/amortized 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 period in which they are incurred.

Freehold 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:

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Freehold buildings	3 to 50 years
Leasehold lands and buildings procured by finance leases	lease term or useful economic life
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

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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 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 twenty 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 ten 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. Development costs with a finite useful life that have been capitalized, are amortized from the date when the product or use of the process becomes available for commercial production on a straight-line basis over the period of its expected benefit, not exceeding five years (products) and twenty 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, in-process 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.

All provisions, where the time value of money is material with a settlement date exceeding 12 months, are discounted and carried at their discounted value. The discount is unwound through a charge to finance costs each period until the provision is settled. Discount rates are based on rates applicable in each relevant territory where the provision is carried, consistent with risks specific to the liability.

## **(5) Retirement benefit assets and 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.

Retirement benefit assets are recognized for schemes in surplus, when the Group has an unconditional right to a refund of that surplus.

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 'Employee Benefits'.

## **(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 period-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 reserve.

Goodwill, intangibles 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 presentation**

The Group previously presented operating profit after exceptional items as "Operating profit" in the consolidated income statement, but has now presented "Operating profit after exceptional items" to clearly show operating profit is after reflecting exceptional items.

## **Notes - Consolidated balance sheet**

### 1. Collaterals

#### (1) Assets treated as collaterals

Machinery	JPY	10,512	million
Land and buildings	JPY	1,124	million
Total	JPY	11,636	million

#### (2) Liabilities related to collaterals

Current portion of long term borrowings	JPY	1,450	million
Long term borrowings	JPY	12,879	million
Total	JPY	14,329	million

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

#### Provision for doubtful accounts against:

Trade and other receivables	JPY	2,832	million
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### 3. Accumulated depreciation of tangible fixed assets

	JPY	440,121	million
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## **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 disposal of non-current assets (Note 1)	237
Gain on dilution of investment in associates (Note 2)	96
Reversal of impairment of non-current assets (Note 3)	7
Other gains	90
Sub total - Exceptional items (gains)	<u>430</u>
Exceptional Items (losses):	
Impairments of non-current assets (Note 4)	(12,708)
Impairments of goodwill (Note 5)	(6,914)
Impairments of investment in joint ventures (Note 6)	(5,234)
Settlement of litigation matters (Note 7)	(4,721)
Restructuring costs, including employee termination payments (Note 8)	(4,305)
Loss on disposal of current assets (Note 9)	(1,681)
Other losses	(9)
Sub total - Exceptional items (losses)	<u>(35,572)</u>
Exceptional items (gains and losses) - net	<u><u>(35,142)</u></u>

(Note 1) The gain on disposal of non-current assets relates to the disposal of assets in China.

(Note 2) The gain on dilution of shares in an associate arose following a placing of shares by Holding Concorde SA in which the Group did not participate.

- (Note 3) The reversal of impairment of non-current assets relates mainly to assets in Italy, which have had their recoverable value re-assessed during the year.
- (Note 4) The impairment of non-current assets includes asset write-downs following the Group's decision to exit from its business in China producing rolled glass for crystalline silicon photovoltaic applications, and also the asset write-downs at the Group's thin glass facility in Vietnam as a result of the current low level of profitability of the Display glass business.
- (Note 5) The impairment of goodwill relates mainly to the Group's Automotive Rest of World cash generating unit (CGU) and follows a significant reduction in light vehicle sales, particularly in Brazil, during FY2016. This write-down applies to goodwill created on the acquisition of Pilkington in 2006. It also includes an impairment of goodwill related to the Group's business in China producing rolled glass for crystalline silicon photovoltaic applications.
- (Note 6) The impairment of the Group's investments in joint ventures relates to difficult market conditions in Russia and China. The Group has processed an impairment of its investment in SP Glass Holdings BV, a joint venture company owning glass production facilities in Russia. The Group has also processed impairments of its investments in Jiangsu Pilkington SYP Glass Co., Limited and Tianjin Pilkington SYP Glass Co., Limited, both joint venture companies owning glass production facilities in China.
- (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. Following an increase in litigation provisions during FY2016, the Group no longer believes that it has any further material contingent liabilities for such claims.
- (Note 8) Restructuring costs arise in a variety of locations around the world and principally includes the cost of compensating redundant employees for the termination of their contracts of employment.
- (Note 9) The loss on disposal of current assets relates to a variety of regions, principally China, Japan, and the Vietnam.

### **Notes - Consolidated statement of changes in equity**

1. Types and volume of issued shares as of 31 March 2016			
Ordinary shares		903,550,999	shares
2. Stock subscription rights exercisable as of 31 March 2016			
Type & volume of shares	Ordinary shares	6,104,000	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, 2016 are presented in the table below.

(in JPY millions)

	Carrying value on consolidated B/S	Fair value	Variance
(1) Trade and other receivables	87,871	87,871	-
(2) Available-for-sale investments	34,341	34,341	-
(3) Derivative financial instruments	841	841	-
(4) Cash and cash equivalents	55,074	55,074	-
Financial assets - total	178,127	178,127	-
(5) Borrowings	428,408	412,427	15,981
(6) Derivative financial instruments	8,551	8,551	-
(7) Trade and other payables	121,693	121,693	-
Financial liabilities - total	558,652	542,671	15,981

#### (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) Available-for-sale investments

The fair values of quoted investments are based on current bid prices. For unlisted securities or where the market for a financial asset is not active, 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.

(3) 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.

(4) 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:

(5) 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.

(6) 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

(7) 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	114.14
2. Net profit per share	JPY	(55.18)

## **Notes of significant subsequent events**

On 13 May 2016, the Group has announced its intention to sell and lease-back land at Kyoto City, Kyoto Prefecture, Japan, and land and buildings at Sungai Buloh, Malaysia. Both transactions represent the Group's intention to undertake transactions that it considers to be balance sheet enhancing. The details of these proposed transactions are set out below. Neither transaction proposed is expected to contain any particularly unusual clauses which would prevent the occurrence of the transactions as expected and set out below:

Land at Kyoto City, Kyoto Prefecture, Japan.

Buyer	: Sumitomo Mitsui Finance and Leasing Company, Limited.
Previous usage of land	: Automotive glass processing plant
Transaction schedule	: Expected to be completed not later than 30 June 2016
Sale proceeds	: Approximately ¥ 3,300 million

Land and buildings at Sungai Buloh, Malaysia.

Buyer	: Fuyo General (Blue) Sdn. Bhd.
Previous usage of land	: Automotive glass processing plant
Transaction schedule	: Expected to be completed not later than the end of June 2016 (phase I) and August 2016 (phase II)
Sale proceeds	: Approximately ¥ 6,000 million

## 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 warranties

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

(4) Provision for waste disposal expenditure

Provision for inventory disposal expenditure is calculated on the amount expected to be expensed for inventory disposal..

(5) Provision for onerous purchase contracts

Provision for onerous purchase contracts is calculated based on the amount of loss expected on future sales of the inventory which the Company contracted to purchase but has not yet been purchased at the balance sheet date.

(6) 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.

(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).

(8) Environmental provision

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

#### **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.



## **Notes regarding balance sheet items**

### 1. Collaterals

#### (1) Assets treated as collaterals

Buildings	JPY	1,061	million
Structures	JPY	63	million
Machinery & Equipment	JPY	6,111	million
Tools & Fixtures	JPY	31	million
Total	JPY	7,266	million

#### (2) Liabilities related to collaterals

Current portion of long-term borrowings	JPY	1,470	million
Long-term borrowings	JPY	13,854	million
Total	JPY	15,324	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	175,217	million
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### 3. Contingent guarantees

Guarantees	JPY	76,288	million
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4. Notes receivables endorsed

	JPY	141	million
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### 5. Receivables from and payables to subsidiaries and affiliates

Short-term receivable from subsidiaries & affiliates	JPY	80,066	million
Long-term receivable from subsidiaries & affiliates	JPY	2,252	million
Short-term payable to subsidiaries & affiliates	JPY	20,030	million

## **Notes regarding income statement items**

### 1. Transactions with subsidiaries & affiliates

Sales to subsidiaries & affiliates	JPY	30,924	million
Purchases from subsidiaries & affiliates	JPY	17,540	million
Non-operational transactions with subsidiaries and affiliates	JPY	7,170	million

## **Notes regarding statement of change in net assets**

1. Number of treasury stock as of 31 March 2016

Ordinary shares	194,949	shares
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## Components of deferred tax assets and liabilities

	(in JPY millions)
Deferred tax assets:	
Provision for retirement benefits	335
Provision for rebuilding furnaces	867
Allowance for doubtful accounts	178
Provision for warranties	19
Asset retirement obligations	354
Temporary differences related to fixed assets and inventories	1,691
Loss on revaluation of investments in securities	6,661
Loss on revaluation of derivatives (commodity swap, etc.)	697
Loss brought forward	9,372
Other	1,455
Gross deferred tax assets	21,629
Valuation allowance	(20,904)
Total: Deferred tax assets	725
Deferred tax liabilities:	
Reserve for advanced depreciation	(774)
Gain on revaluation of derivatives (commodity swap, etc.)	(13)
Other	(151)
Total: Deferred tax liabilities	(938)
Net deferred tax assets/liabilities	(213)

### (Note)

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

“Law to partially amend the income tax codes” (2016 Law No.15) and “Law to partially amend the local tax codes” (2016 Law No.13) were enacted by the Diet on 29 March 2016 and, consequently, these income tax and local tax rates have been reduced for the financial year commencing on and after 1 April 2016. Due to the enactment of these laws, effective tax rate used for calculation of deferred tax assets and liabilities, which was previously 33.06%, is changed to 30.86% for the temporary differences which are expected to be realized for the financial years commencing on 1 April 2016 and on 1 April 2017, and to 30.62% for the temporary differences which are expected to be realized for the financial year commencing on and after 1 April 2018.

The effect due to the tax rate change is immaterial.

## Related party transactions

(in JPY millions)

Type of company	Name of company	Equity	Relationship	Content of transaction	Transaction value	Account	Balance as of 31 Mar2016
Subsidiary	NSG Building Products Co. Ltd.	100% directly owned	Sales of products of NSG Co. Ltd.	Sales of products of NSG Co. Ltd. (*1)	11,155	Accounts receivable - trade	1,780
Subsidiary	NSG Hong Kong Co. Ltd.	100% indirectly owned	Sales of products of NSG Co. Ltd.	Sales of products of NSG Co. Ltd. (*1)	11,201	Accounts receivable - trade	1,026
Subsidiary	NSG UK Enterprises Ltd.	100% indirectly owned	Fund assistance & Loan guarantee & Shared director duties	Interest receivable (*2)	833	Other current assets	1,717
				Loan receivable (net) (*2)	-	Short-term loan	30,000
				Loan guarantee (*3)	65,093	-	-
Subsidiary	NSG Holding (Europe) Ltd.	100% directly owned	Fund assistance & Shared director duties	Interest receivable (*4)	728	Other current assets	1,612
				Loan receivable (net) (*4)	-	Short-term loan	31,389

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.

No collaterals are provided for the loans.

## Amounts per share

Net assets per share JPY 312.34

Net profit per share JPY (7.37)

### **Notes of significant subsequent events**

On 13 May 2016, the Company has announced its intention to sell and lease-back land at Kyoto City, Kyoto Prefecture, Japan. The transaction represents the Company's intention to undertake the transaction that it considers to be balance sheet enhancing. The detail of the proposed transaction is set out below. The transaction proposed is not expected to contain any particularly unusual clauses which would prevent the occurrence of the transaction as expected and set out below:

Land at Kyoto City, Kyoto Prefecture, Japan.

Buyer : Sumitomo Mitsui Finance and Leasing Company, Limited.

Previous usage of land : Automotive glass processing plant

Transaction schedule : Expected to be completed not later than 30 June 2016

Sale proceeds : Approximately ¥ 3,300 million