

Notes to the Consolidated Financial  
Statements and Notes to the Financial  
Statements  
with respect to the 151<sup>st</sup> financial period  
under Japanese Companies Act

For the period of 1 April 2016  
to 31 March 2017  
(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 151<sup>st</sup> financial period, by posting both on the Company website at [www.nsg.com](http://www.nsg.com), since 31 May 2017, in accordance with the relevant law and ordinance and article 14 of the Articles of Incorporation.

## Notes to the consolidated financial statements

### **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 196. 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, Guilin 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, Pilkington Glasveredelung GmbH has been newly added to the consolidation due to new incorporation of the company. During this financial year, Pilkington Solar (Taicang) Limited has been removed from the consolidation due to withdrawal of the business, and Pilkington Eiendom AS 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 21 (Cebrace Cristal Plano Limitada and other 20 affiliated companies).

During this financial year, China Glass Holdings Limited has been removed from the scope of the companies accounted for by the equity method due to disposal of a part of the shares, leading to decrease in the Group's shareholding in the entity.

## 4. Accounting policies and practices

### (1) Financial instruments

The Group classifies its financial instruments in the following categories: financial assets and liabilities at fair value through profit or loss, financial assets and liabilities held at amortized cost, and financial assets held at fair value through other comprehensive income.

Management determines the classification of its investments at initial recognition and re-evaluates this designation at each subsequent reporting date. The evaluation considers the characteristics of the cash flows generated by the investments and the Group's business model rationale for holding the investments.

#### (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. At the balance sheet date the Group does not have any assets or liabilities in this category.

#### (b) Financial assets and liabilities at amortized cost

Assets within this category are included in the Group statement of financial position as receivables. 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.

Liabilities in this category are included in the statement of financial position either as financial liabilities – borrowings, or as trade and other payables. Financial liabilities - borrowings predominantly arise from the Group's lending facilities arranged with its banks, classified either as current liabilities for maturities within 12 months, or non-current for maturities later than 12 months. Liabilities in this category have fixed or determinable payments to debt holders and are not quoted in an active market. Trade and other payables arise when the Group receives goods and services from its suppliers and is similarly split into current and non-current liabilities dependent on the time period expected before settlement.

Financial assets and liabilities at amortized cost are carried at amortized cost using the effective interest method, unless the asset or liability arises through the normal course of business with payments terms that indicate that the group is neither granting a financing arrangement to its suppliers or receiving one from its customers. Where no financing arrangement exists than the asset, classified as a receivable or payable, is held at amortized cost.

The Group applies the expected credit loss method to receivables balances and also considers individual provisions for specific balances where appropriate. This involves considering likely credit losses for a portfolio of receivables using a range of forward looking scenarios. A provision for impairment of trade receivables is established with respect to an individual receivable 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 expected credit loss method applied to a portfolio of receivables can result in a provision being created even when on an individual basis, the Group expects each receivable to be converted to cash with no loss arising. The movement in receivables provisions is recognized in the income statement.

Where trade receivables are sold to a financial institution through a securitization program and where the Group does not retain the significant risks and rewards of these receivables, or where the Group retains an element of risk and reward but no longer controls the asset, the Group derecognizes the trade receivables.

### **(c) Financial assets at fair value through other comprehensive income**

Financial assets held at fair value through other comprehensive income are non-derivative financial investments where the Group is unable to exert significant influence over the investee. This category of investment could include equity investments or investments that are expected to generate fixed or determinable payments.

Financial assets at fair value through other comprehensive income are initially and subsequently recognized at fair value. Unrealized gains and losses arising from changes in the fair value of such assets are recognized within the statement of comprehensive income and result in a movement within the fair value reserve within equity. 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. When assets that represent fixed interest investments held in this category are impaired, then the Group treats this as a realized loss recognized in the income statement, with historical amounts recycled from reserves through the statement of comprehensive income. When assets that represent equity investments held in this category are impaired, resulting in a realized loss, then that realized loss is recognized in the statement of comprehensive income.

### **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. For time-period related hedges, the cost of hedging is reflected in the income statement on a straight-line basis over the period of the hedge, with the accounting treatments described below relating to movements in the principal value of the hedge.

(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.

## (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:

|  |                                    |
|--|------------------------------------|
| 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                            |

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 legal obligation or constructive obligation 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 financial assets held at fair value through comprehensive income, 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 accounting policies

The Group has adopted IFRS 9 “Financial Instruments” from FY2017. The main impact arising from this is the reclassification of “available-for-sale” assets into a new category of investments entitled “assets held at fair value through other comprehensive income”. All assets previously held as “available-for-sale” have now been reclassified as “assets held at fair value through other comprehensive income”. Included in this category are fixed interest and equity investments. The equity investments held within this category are those where the Group does not have a significant influence over the finance and operating policies of the investee. The Group expects to retain its investments in these entities. Therefore it considers gains and losses arising from fluctuations in valuations of investments to be unrealized. Early adoption of IFRS9 allows the Group to classify investments at fair value through other comprehensive income with subsequent gains and losses recorded in other comprehensive income. The Group considers this accounting treatment to be more aligned with its intentions with respect to these investments compared to its treatment prior to adoption of IFRS9. Except for the change in categorization, no changes arise to the Group’s accounting policies for fixed interest investments. The accounting policy for equity investments is amended with respect to the processing of impairment losses. Previously impairment losses were charged to the consolidated income statement. Future impairment losses will be charged to the consolidated statement of comprehensive income and shown as items that will not be reclassified to profit or loss. No restatement of the balances at 1 April 2016 has been processed, except for the above mentioned reclassification to “assets held at fair value through other comprehensive income”, as no such material impairments were recognized during FY2016.

The Group now applies the expected credit loss method to receivables balances. This involves considering likely credit losses using a range of forward looking scenarios. No changes to the balances of receivables either at 1 April 2016 have arisen as a result of this change.

The Group’s accounting policy for hedging instruments is amended such that for time period related hedges, the cost of hedging is now allocated to the income statement on a straight-line basis. Previously this cost of hedging was recognized over time as part of the gain or loss on the hedging instrument included in the statement of comprehensive income, and then recycled to the consolidated income statement on maturity. The impact of this amended policy is immaterial and therefore no restatement of the balances at 1 April 2016 has been processed in this respect.

There are no other changes to the classifications of assets or liabilities on the adoption of IFRS9.

## Notes - Consolidated balance sheet

### 1. Collaterals

#### (1) Assets treated as collaterals

|   |     |        |         |
|---|-----|--------|---------|
| Machinery & Equipment, Tools & Fixtures | JPY | 13,367 | million |
| Buildings & Structures                  | JPY | 1,025  | million |
| Software                                | JPY | 295    | million |
| Total                                   | JPY | 14,687 | million |

#### (2) Liabilities related to collaterals

|   |     |        |         |
|---|-----|--------|---------|
| Current portion of long term borrowings | JPY | 1,888  | million |
| Long term borrowings                    | JPY | 13,832 | million |
| Total                                   | JPY | 15,720 | million |

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

#### Provision for doubtful accounts against:

|                             |     |       |         |
|-----------------------------|-----|-------|---------|
| Trade and other receivables | JPY | 2,931 | million |
|-----------------------------|-----|-------|---------|

### 3. Accumulated depreciation of tangible fixed assets

|  |     |         |         |
|--|-----|---------|---------|
|  | JPY | 449,453 | million |
|--|-----|---------|---------|

## 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)                       | 8,189               |
| Reversal of impairment of non-current assets (Note 2)                 | 1,468               |
| Gain on disposal of investments in associates (Note 3)                | 907                 |
| Reversal of restructuring provisions (Note 2)                         | 893                 |
| Gain from exit of business (Note 4)                                   | 855                 |
| Settlement of litigation matters (Note 5)                             | 772                 |
| Other gains   | 47                  |
| Sub total - Exceptional items (gains)                                 | <u>13,131</u>       |
| Exceptional Items (losses):   |                     |
| Restructuring costs, including employee termination payments (Note 6) | (4,759)             |
| Impairments of non-current assets (Note 7)                            | (3,855)             |
| Settlement of litigation matters (Note 5)                             | (972)               |
| Loss on disposal of current assets (Note 8)                           | (624)               |
| Sub total - Exceptional items (losses)                                | <u>(10,210)</u>     |
| Exceptional items (gains and losses) - net                            | <u><u>2,921</u></u> |

(Note 1) The gain on disposal of non-current assets primarily relates to the sale and lease-back of land at Kyoto City, Kyoto Prefecture, Japan, and land and buildings at Sungai Buloh, Malaysia.

(Note 2) Reversals of impairment of non-current assets, and reversals of restructuring provisions together arise from the Group's decision to restart its float glass production line at Venice, Italy.

(Note 3) The gain from disposal of investments in associates relates to the disposal of a part of the Group's shareholding in China Glass Holdings Ltd. This includes a gain on recycling to the income statement of previous foreign exchange postings.

(Note 4) The gain on exit from business relates to the exit from the Group's business in China producing rolled glass for Solar Energy applications. This includes a gain on recycling to the income statement of previous foreign exchange postings.

(Note 5) In both the current and previous years, 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. The net gain arising during the period represents a partial reversal of provision recognized through exceptional costs in previous periods.

(Note 6) 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. The current year cost relates principally to restructuring activities in both Architectural and Automotive Europe, and Technical Glass in Vietnam.

(Note 7) The impairment of non-current assets for the current year relates mainly to assets in Architectural and Automotive Europe, together with an impairment of architectural assets in Vietnam.

(Note 8) The loss on disposal or scrapping of assets relates to inventories damaged at Ottawa, USA, during the Tornado that struck this site on 28 February 2017. It also includes the scrapping of current assets in Europe connected to restructuring programs undertaken in that region.

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

1. Types and volume of issued shares as of 31 March 2017

|                |            |        |
|----------------|------------|--------|
| Common shares  | 90,365,699 | shares |
| Class A shares | 40,000     | shares |

2. Stock subscription rights exercisable as of 31 March 2017

|                         |               |         |        |
|-------------------------|---------------|---------|--------|
| Type & volume of shares | Common shares | 684,700 | 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's multinational operations and debt financing expose it to a variety of financial risks that include the effects of changes in foreign currency exchange rates, energy prices, debt market prices, interest rates, credit risks, and liquidity. The Group has in place a risk management program that seeks to limit the effects on the financial performance of the Group by using financial instruments.

Financial risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, energy price risk, use of derivative and non-derivative financial instruments, credit risk, and investing excess liquidity.

## 2. Fair values of financial instruments

Carrying value on consolidated balance sheet, fair value and variance as of 31 March, 2017 are presented in the table below.

(in JPY millions)

|  | Carrying value on consolidated B/S | Fair value | Variance |
|--|------------------------------------|------------|----------|
| (1) Trade and other receivables                                  | 85,180                             | 85,180     | -        |
| (2) Assets held at Fair Value through other Comprehensive Income | 27,140                             | 27,140     | -        |
| (3) Derivative financial instruments                             | 1,211                              | 1,211      | -        |
| (4) Cash and cash equivalents                                    | 84,920                             | 84,920     | -        |
| Financial assets - total   | 198,451                            | 198,451    | -        |
| (5) Borrowings   | 396,398                            | 368,282    | 28,116   |
| (6) Derivative financial instruments                             | 2,988                              | 2,988      | -        |
| (7) Trade and other payables                                     | 124,237                            | 124,237    | -        |
| Financial liabilities - total                                    | 523,623                            | 495,507    | 28,116   |

### (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) Assets held at Fair Value through other Comprehensive Income

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, reference to investee's balance sheet net assets 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<br>per share | JPY | 941.76 |
| 2. Basic earnings per share                | JPY | 62.04  |

## 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, tools and fixtures 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 waste disposal expenditure

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

(6) Provision for payment under Position retirement program

Provision for payment under Position retirement program is calculated based on the amount expected to be paid to the employees and accrued for the financial year.

(7) 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.

(8) 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).

(9) 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 | 969   | million |
| Structures            | JPY | 56    | million |
| Machinery & Equipment | JPY | 7,938 | million |
| Tools & Fixtures      | JPY | 67    | million |
| Software              | JPY | 295   | million |
| Total                 | JPY | 9,325 | million |

#### (2) Liabilities related to collaterals

|   |     |        |         |
|---|-----|--------|---------|
| Current portion of long-term borrowings | JPY | 1,908  | million |
| Long-term borrowings                    | JPY | 14,509 | million |
| Total                                   | JPY | 16,417 | 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 | 177,549 | million |
|--|-----|---------|---------|

### 3. Contingent guarantees

|            |     |        |         |
|------------|-----|--------|---------|
| Guarantees | JPY | 71,260 | million |
|------------|-----|--------|---------|

4. Notes receivables endorsed

|  |     |     |         |
|--|-----|-----|---------|
|  | JPY | 129 | million |
|--|-----|-----|---------|

### 5. Receivables from and payables to subsidiaries and affiliates

|  |     |        |         |
|--|-----|--------|---------|
| Short-term receivable from subsidiaries & affiliates | JPY | 74,448 | million |
| Short-term payable to subsidiaries & affiliates      | JPY | 21,301 | million |

## Notes regarding income statement items

### 1. Transactions with subsidiaries & affiliates

|   |     |        |         |
|---|-----|--------|---------|
| Sales to subsidiaries & affiliates                            | JPY | 28,970 | million |
| Purchases from subsidiaries & affiliates                      | JPY | 13,472 | million |
| Non-operational transactions with subsidiaries and affiliates | JPY | 9,174  | million |

## Notes regarding statement of change in net assets

1. Number of treasury stock as of 31 March 2017

|  |               |        |        |
|--|---------------|--------|--------|
|  | Common shares | 11,489 | shares |
|--|---------------|--------|--------|

Components of deferred tax assets and liabilities

(in JPY millions)

|   |                 |
|---|-----------------|
| Deferred tax assets:                                      |                 |
| Provision for retirement benefits                         | 439             |
| Provision for rebuilding furnaces                         | 1,137           |
| Allowance for doubtful accounts                           | 226             |
| Provision for warranties                                  | 23              |
| Asset retirement obligations                              | 709             |
| Temporary differences related to fixed assets             | 591             |
| Temporary differences related to inventories              | 1,198           |
| Loss on revaluation of investments in securities          | 6,739           |
| Loss on revaluation of derivatives (commodity swap, etc.) | 304             |
| Loss brought forward                                      | 11,139          |
| Other   | 1,622           |
| Gross deferred tax assets                                 | <u>24,127</u>   |
| Valuation allowance                                       | <u>(23,093)</u> |
| Total: Deferred tax assets                                | 1,034           |
| <br>  |                 |
| Deferred tax liabilities:                                 |                 |
| Reserve for advanced depreciation                         | (709)           |
| Gain on revaluation of derivatives (commodity swap, etc.) | (56)            |
| Other   | (482)           |
| Total: Deferred tax liabilities                           | <u>(1,247)</u>  |
| Net deferred tax assets/liabilities                       | <u>(213)</u>    |

## 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) | 10,728            | Accounts receivable - trade | 1,938                    |
| Subsidiary      | NSG UK Enterprises Ltd.        | 100% indirectly owned | Fund assistance & Loan guarantee & Shared director duties | Interest receivable (*2)               | 753               | Other current assets        | 178                      |
|                 |                                |                       |   | Loan receivable (net) (*2)             | (2,000)           | Short-term loan             | 28,000                   |
|                 |                                |                       |   | Loan guarantee (*3)                    | 60,488            | -                           | -                        |
| Subsidiary      | NSG Holding (Europe) Ltd.      | 100% directly owned   | Fund assistance & Shared director duties                  | Interest receivable (*4)               | 845               | Other current assets        | 2                        |
|                 |                                |                       |   | Loan receivable (net) (*4)             | 2,990             | Short-term loan             | 34,379                   |

### 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 3,105.69

Net profit per share

JPY (43.23)