Notes to Consolidated Financial Statements and Notes to Financial Statements with respect to the 145th financial period under Japanese Companies Act

For the period of 1 April 2010 to 31 March 2011
(English translation)

Nippon Sheet Glass Company, Limited

We are providing shareholders with the Notes to Consolidated Financial Statements and the Notes to Financial Statements with respect to the 145th financial period, by posting both on the Company web site at www.nsg.com, since 7 June 2011, 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. Scope of consolidation

(1) Consolidated subsidiaries

Count: 226 subsidiaries

Subsidiaries under this category:

NSG Building Products Co.,Ltd.	Thanxs Corporation	NSG Win-Tec Co.,Ltd.	Nanox Corporation
Pilkington United Kingdom Ltd.	Pilkington Automotive Ltd.	Pilkington Technology Management Ltd.	Pilkington Deutschland AG
Pilkington Automotive Deutschland GmbH	Pilkington Austria GmbH	Pilkington Norge AS	Pilkington Floatglas AB
Pilkington Automotive Sweden AB	Pilkington Automotive Finland OY	Pilkington Lahden Lasitehdas OY	Pilkington Danmark A/S
Pilkington International Glass Poland Sp.z o.o	Pilkington Polska Sp.z o.o.	Pilkington Italia SpA	Pilkington North America Inc.
L-N Safety Glass SA de V	Vidrieria Argentina S.A.	Vidrios Lirquen S.A.	Pilkington Automotive Argentina S.A.
Pilkington Brasil Ltda.	Guilin Pilkington Safety Glass Co. Ltd.	Changchun Pilkington Safety Glass Co. Ltd.	Suzhou NSG Electronics Co. Ltd.
NSG Hong Kong Co Ltd	Malaysian Sheet Glass Sdn. Bhd.	Vietnam Float Glass Co.,Ltd.	Vietnam Glass Industries Ltd.
NSG UK Enterprises Ltd.	NSG Holding (Europe) Ltd.	Pilkington Group Ltd.	(and others)

Changes in consolidated subsidiaries in this fiscal year:

Newly consolidated to the group due to new incorporation

Glass Master, S.A. DE C.V.	VASA Vidrieria Boliviana S.A.		

Newly consolidated to the group due to increased materiality

Verre du Nord Co., Ltd.	Hosaka-Engineering Co., Ltd.	Nippon Sheet Glass SYP Sales and Marketing Co., Ltd.	NSG Keihin-Sash Center Co., Ltd.
Nissho Kako Co., Ltd.	Nissho Service Co., Ltd.	Nissho Fiber Co., Ltd.	Nihon Silica Co., Ltd.
Shanghai Sheet Glass M&E International Trading Co., Ltd.			

Newly consolidated to the group due to additional acquisition of majority of shares of the company, which were previously accounted for by equity method

Pilkington Solar (Taicang), Ltd. (Previously, Taicang Pilkington China Glass Special Glass Limited)			

Removed from the count due to merger with the Parent company

NSG Business Assist Co., Ltd.			

Removed from the count due to merger with other subsidiaries

NGF Asia Co., Ltd.	NI Autowindow Systems Inc.		

Removed from the count due to being sold

Maekawa Glass Co., Ltd.			

Removed from the count due to liquidation

Pilkington KZ	Pilkington North America Receivables Corp.	Pilkington (Isle of Man) Ltd.	Nippon Tokusyu Sangyo Co., Ltd.

Removed from the count due to disolution

A.G. Glass Limited			

(2) Subsidiaries not included in the consolidation

Count: 4 subsidiaries
Subsidiaries under this category: NSG Pacific Pte. Ltd. (and others)

Justification for non-consolidated subsidiaries:
Non-consolidated subsidiaries are all small in size, and total assets, sales, and net income of these subsidiaries can be considered to have no material impact on the consolidated financial statements.

2. Application of equity method

(1) Affiliates accounted under equity method

Count: 20 affiliates
Subsidiaries under this category:

Cebrace Cristal Plano Ltda.	(and others)		

Changes in affiliates accounted under equity method in this fiscal year

Added to the count due to new incorporation

DyeTec Solar, Inc.	Vidrios Andino Ecuador		

Removed from the count due to disposal of investments

Penstone Inc.			

Removed from the count due to additional acquisition of majority of shares of the company, which has now been added to scope of consolidation

Taicang Pilkington China Glass Special Glass Limited			

(2) Application of cost method to investments in non-consolidated subsidiaries and affiliates
Cost method is applied instead of the equity method for the accounting of investments in non-consolidated subsidiaries and affiliates (FMC Wyoming Corp. and 11 affiliates), since no material impact can be identified due to this application.

3. Accounting policies and practices

(1) Policies and methods regarding valuation of assets

Securities

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

Derivatives

Stated at their fair market value

Inventories

Parent company and subsidiaries in Japan:

Principally stated at cost determined by the moving average method (with provision for reducing the balance in case net realizable value decreases)

- Subsidiaries located outside Japan:
  Principally stated at the lower of cost and net realizable value, determined by the first-in, first-out (FIFO) method.

(Additional information)

"Accounting Standard for Measurement of Inventories" (ASBJ Statement No.9, revised on 26 September 2008) has been applied and so valuation of some work-in-process goods was changed from LIFO method to moving-average method. There was no material impact from the application of this accounting standard.

(2) Depreciation (amortization) of fixed assets

Tangible fixed assets

Depreciation is calculated by the straight-line method.
The estimated useful lives applied are principally as follows:

- Parent company and subsidiaries in Japan:

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

- Subsidiaries located outside Japan:

Buildings and structures	20-50 years
Machinery, equipment and vehicles	5-25 years

(Additional information)

The Company has changed the estimated useful life of machinery, equipment and vehicles to be within the range of 3 to 30 years, which was previously 3 to 9 years. Similarly, the Company has changed the estimated useful life of tools, furniture and fixtures to be 5 years, which was previously within the range of 2 to 10 years. Also, the Company has changed its depreciation method for tangible fixed assets acquired before and on 31 March 2007, so that they are depreciated to a nominal value as a residual value by the straight-line method over the useful economic life. These fixed assets were previously depreciated to the value of 5% of the acquisition cost, and then after reaching 5% of the acquisition cost, the remaining balance of the assets was depreciated to a nominal value by the straight-line method over a period of five years commencing a year after.

These changes were made to more accurately reflect the utilization of such assets over their expected useful life.
As a result of these changes, operating income, ordinary income and net income before taxation increased by ¥ 835 million during this financial year.

Intangible fixed assets

Amortization is calculated by the straight-line method. For computer software used in the parent company and subsidiaries within Japan, the estimated useful lives are determined within a period of 10 years. Intangible assets recognized upon acquisition of Pilkington, such as relationships with customers, brand, and developed technology, have depreciation periods not exceeding 20 years.

(Additional information)
The Company has changed the estimated useful life of computer software to 5 or 10 years, which was Previously 5 years. This change was also made to more accurately reflect the utilization of such assets over their expected useful life.
As a result of this change, operating income, ordinary income and net income before taxation increased by ¥ 1,388 million during this financial year.

Leased assets

Leased assets procured by finance lease transactions, in which ownership is not transferred to the lessees are depreciated by the straight-line method to a nil residual value with the estimated useful lives assumed to be the same as the lease term periods.

(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 on an accruals basis for the financial year on the expected amount to be paid to the employees.

3) Provision for directors' bonuses
Provision for directors' bonuses is calculated on an accruals basis for the financial year on the expected amount to be paid to the directors.

4) Provision for restructuring expenditure
Provision for restructuring expenditure is calculated based on costs associated with the restructuring initiatives performed by the Company and its subsidiaries, less amounts already spent.

5) Provision for German minority interests
Provision for German minority interests is calculated based on additional payments of principal and interest expected to be paid to former minority interest shareholders of Dahlbusch AG, a German subsidiary of the Group.

6) Provision for Netherlands fine
Provision for Netherlands fine is created for potential future payments following an investigation undertaken by the Netherlands Competition Commission. The amount is calculated based on guidelines within Netherlands law.

7) **Provision for warranties and claims**

Provision for warranties and claims is calculated based on future financial risk incurring from warranties and claims of products sold.

8) **Accrued retirement benefit for employees**

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

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 years of service of the eligible employees.

9) **Provision for rebuilding furnaces**

Provision for rebuilding furnaces are Japan 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. Provisions are not made with respect to future furnace rebuilds outside of Japan.

10) **Environmental provision**

The environmental provision is calculated based on future financial risk relating to environmental preservation.

11) **Provision for loss from disasters**

Provision for loss on disasters is calculated based on reasonable estimate of the costs, which are expected to arise during this financial year, of all costs related to repairs of or recovery from the damage caused by the earthquake in Tohoku, Japan.

(4) Other significant accounting policies and practices for consolidated financial statements

Application of the accounting standard for asset retirement obligations

From the financial year ending 31 March 2011, "Accounting Standard for Asset Retirement Obligations" (Accounting Standards Board of Japan (ASBJ) Statement No.18, issued on 31 March 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21, issued on 31 March 2008) have been applied.

There was no impact from the application of this accounting standard on the Group's results of operations for the period.

Application of the accounting standard for business combinations

From the financial year ending 31 March 2011, "Accounting Standard for Business Combinations" (ASBJ Statement No.21, issued on 26 December 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, issued on 26 December 2008), "Partial Amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No.23, issued on 26 December 2008), "Accounting Standard for Business Divestitures" (ASBJ Statement No.7, revised on 26 December 2008), "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No.16, partially revised on 26 December 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, revised on 26 December 2008) have been applied.

There was no impact from the application of this accounting standard on the Group's results of operations for the period.

Application of the accounting standard for equity method accounting

From the financial year ending 31 March 2011, "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No.16, issued on 10 March 2008) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ PITF No.24, issued on

10 March 2008) have been applied. There was no impact from the application of this accounting standard.

Hedge accounting

Parent company and subsidiaries in Japan:

The recognition of gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged item is recognized.

(Additional information)

To better reflect the expected timing of benefits arising from interest rate swap contracts from the first quarter of the financial year ending 31 March 2011, The Company changed its accounting method for interest rate swap contracts held by the Company, which had previously been accounted for under the exceptional method to the hedge accounting method. Prior to the change, those interest swap contracts were accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt.

There was no impact from the application of this accounting method on the Group's results of operations during the financial year.

Subsidiaries located outside Japan:

The relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions, are documented at the inception of the transaction.

1) 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.

2) 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.

3) 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.

4) Derivatives that 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.

Accounting for consumption tax

All accounts are presented net of consumption tax.

Treatment of deferred assets

Expenses incurred upon issuance of corporate bonds and shares are charged to the income statement

Amortization of goodwill

Goodwill is amortized by straight-line method within the period of 20 years.

Construction contracts

The construction contracts with assured progress as of the end of this financial year are accounted by the percentage of completion basis method with cost proportion method. The other construction contracts are accounted by the completed work basis method.

Difference of accounting policies between the parent company and overseas subsidiaries

Financial statements of overseas subsidiaries are prepared based on accounting principles which are generally accepted in each respective country or region.

The Company applied “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (Practical Issues Task Force No.18, Issued: 17 May 2006), and for those items stated in this PITF, necessary adjustments are made upon consolidation.

4. Changes in presentation

(Consolidated income statement)

From this financial year, “Income before minority interest” has been presented, pursuant to the “Partial Amendment to Regulations Concerning Terminology, Forms, and Method for Preparing Financial Statements” (Cabinet Ordinance No. 5, issued on 24 March 2009) following issuance of “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22, issued on 26 December 2008)

Notes – Consolidated balance sheet

1. Collaterals

(1) Assets treated as collaterals

Machinery	JPY	1,203	Million
Land	JPY	4,892	Million
Total	JPY	6,095	Million

(2) Liabilities related to collaterals

Current portion of long-term bank borrowings	JPY	115	Million
Long-term bank borrowings	JPY	2,535	Million
Lease obligations - Current	JPY	14	Million
Lease obligations – Non current	JPY	82	Million
Total	JPY	2,746	Million

2. Accumulated depreciation of tangible fixed assets	JPY	329,373	Million

3. Guarantees and other contingent liabilities

Guarantees, etc.:

Guarantees	JPY	2,337	Million
Letters of awareness	JPY	10	Million
Total	JPY	2,347	Million

4. Discounted and endorsed notes receivables

Notes receivables (endorsed)	JPY	629	Million

Notes – Consolidated income statement

“Loss from disasters” is the loss of the damage caused by the earthquake in Tohoku, Japan. The amount includes JPY 133 million as the provision for the loss from the disasters.

Notes – Consolidated statement of changes in net assets

1. Types and volume of issued shares as of 31 March 2010

Ordinary shares	903,550,999	Shares

2. Dividends

(1) Dividends paid

Duly approved in the Board of Directors Meeting held on 14 May 2010

Type of shares	Ordinary shares	
Total amount of dividends	JPY 2,004	Million
Dividend per share	JPY 3	
Dividends paid to shareholders as of:	31 March 2010	
Start of payment	8 June 2010	

Type of shares	Type A preferred shares	
Total amount of dividends	JPY 1,383	Million
Dividend per share	JPY 461	
Dividends paid to shareholders as of:	31 March 2010	
Start of payment	4 June 2010	

Duly approved in the Board of Directors Meeting held on 4 November 2010

Type of shares	Ordinary shares	
Total amount of dividends	JPY 2,706	Million
Dividend per share	JPY 3	
Dividends paid to shareholders as of:	30 September 2010	
Start of payment	3 December 2010	

Type of shares	Type A preferred shares	
Total amount of dividends	JPY 935	Million
Dividend per share	JPY 463	
Dividends paid to shareholders as of:	30 September 2010	
Start of payment	3 December 2010	

(2) Dividends which are effective as of year-end, but which payment will come in the next fiscal year

For approval in the Board of Directors Meeting held on 12 May 2011

Type of shares	Ordinary shares	
Source of dividends	Retained earnings	
Total amount of dividends	JPY 2,004	Million
Dividend per share	JPY 3	
Dividends paid to shareholders as of:	31 March 2011	
Start of payment	8 June 2011	

3. Stock subscription rights

Type & volume of shares	Ordinary shares	48,080,376 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, 2011 are presented in the table below.

(in JPY millions)

	Carrying value on consolidated B/S	Fair value	Variance
(1) Cash and deposits	60,906	60,906	-
(2) Notes and accounts receivable-trade	95,640		
Allowance for doubtful accounts(*1)	(4,091)		
	91,548	91,548	-
(3) Investments			
JV & associates	12,451	41,500	29,050
Other securities	6,029	6,029	-
Financial assets – total	170,934	199,984	29,050
(4) Notes and accounts payable-trade	73,927	73,927	-
(5) Short-term bank borrowings	14,925	14,925	-
(6) Long-term bank borrowings (*2)	278,274	278,950	677
(7) Bonds payable (*3)	74,000	74,592	592
Financial liabilities – total	441,126	441,851	1,268
Derivatives contracts(*4)	1,016	1,016	-

(*1) The amount of allowance for doubtful accounts is related only to notes and accounts receivable – trade.

(*2) The amount of long-term bank borrowings includes portion of borrowings maturing within one year.

(*3) The amount of bonds payable includes portion of bonds payable maturing within one year.

(*4) The amounts of derivative contracts present net of financial receivables and payables from the outstanding contracts, and are presented in negative value if financial payables exceed receivables.

(Note1)

Fair valuation methods and notes about investments and derivatives

Financial asset items:

(1) Cash and deposits and (2) Notes and accounts receivable - trade

These items 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.

(3) Investments

Fair values of investments in equity securities are measured by reference to market prices at stock exchanges and fair values of investments in debt securities are measured by reference to prices at financial markets or specific prices indicated by financial institutions.

Financial liability items:

(4) Notes and accounts payable - trade

Notes and accounts receivable – trade 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

(5) Short-term bank borrowings and (6) Long-term bank borrowings

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

(7) Bonds payable

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

Derivative contracts

Fair values of derivative contracts are measured by reference to prices or indices indicated by financial institutions. Fair values of interest swap contracts, which are accounted for by “Special method” under J-GAAP, are not fair valued separately, because the fair values are included in fair values of the underlying long-term borrowings as they are accounted for as if the interest rates applied to the swaps had originally applied to the underlying borrowings.

(Note2)

Unlisted equity securities (Carrying value on consolidated balance sheet JPY 45,519 million) are not included in (3) Investments, because it is quite difficult to reliably measure their fair values as they are with no market prices and so difficult to estimate future cash flows associated with the securities.

Business combination

(Business combination by share acquisition)

1. Outline

(1) Company name: Taicang Pilkington China Glass Special Glass Limited
Content of the business: Manufacture and sale of low iron rolled glass

(2) Purpose of the acquisition
To strengthen the Group’s solar energy business

(3) Acquisition date: 16 April 2010

(4) Legal form of the business combination: Acquisition

(5) Company name after the acquisition: Pilkington Solar (Taicang), Limited

(6) Percentage of the voting rights
Percentage of the voting before the acquisition: 50%
Percentage of the additional acquisition of the voting rights: 50%
Percentage of the voting after the acquisition: 100%

(7) Basis for deciding the acquiring company
Pilkington International Holdings BV acquired 100 percentage of the voting rights of Pilkington Solar (Taicang), Limited and controlled the acquired company.

2. Period of the performance of the acquired company in this first quarter
From 01 April 2010 to 31 March 2011

3. Acquisition costs and those details
Fair value of the shares of JV Investments Limited granted at the acquisition date: JPY 1,029 million

4. Amount of difference between aggregated acquisition costs and its fair value from staged acquisition
JPY 0 million

5. Amount, cause and method and period of amortization of the goodwill
   (1) Amount of goodwill: JPY 1,368 million
   (2) Cause of the goodwill: Anticipated future profitability in excess of net asset value
   (3) Method and period of amortization of the goodwill: Straight line over 20 years

6. The amount of the assets and liabilities received at the acquisition date

	JPY million
Current assets	1,452
Non-current assets	5,526
Total assets	6,978
Current liabilities	4,387
Non-current liabilities	3,473
Total liabilities	7,860

Amounts per share

1.	Net assets per share	JPY	239.40
2.	Net loss per share	JPY	0.13

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 moving-average method (with provision for reducing the balance in case net realizable value decreases).

(Additional information)

"Accounting Standard for Measurement of Inventories" (ASBJ Statement No.9, revised on 26 September 2008) has been applied and so valuation of some work-in-process goods was changed from LIFO method to moving-average method. There was no material impact from the application of this accounting standard.

2. Depreciation (amortization) of fixed assets

(1) Tangible fixed assets

Depreciation is calculated by the straight-line method.

For some machinery and equipments, depreciation is calculated at rates based on the estimated useful lives of the respective assets. The estimated useful lives applied are principally as follows:

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

(Additional information)

The Company has changed the estimated useful life of machinery, equipment and vehicles to be within the range of 3 to 30 years, which was previously 3 to 9 years. Similarly, the Company has changed the estimated useful life of tools, furniture and fixtures to be 5 years, which was previously within the range of 2 to 10 years. Also, the Company has changed its depreciation method for tangible fixed assets acquired before and on 31 March 2007, so that they are depreciated to a nominal value as a residual value by the straight-line method over the useful economic life. These fixed assets were previously depreciated to the value of 5% of the acquisition cost, and then after reaching 5% of the acquisition cost, the remaining balance of the assets was depreciated to a nominal value by the straight-line method over a period of five years commencing a year after.

These changes were made to more accurately reflect the utilization of such assets over their expected useful life.

As a result of these changes, operating income and ordinary income increased by ¥ 835 million during this financial year, and net loss before tax decreased by ¥ 835 million during the period.

(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.

(Additional information)

The Company has changed the estimated useful life of computer software to 5 or 10 years, which was previously 5 years. This change was also made to more accurately reflect the utilization of such assets over their expected useful life.

As a result of this change, operating income and ordinary income increased by ¥ 1,388 million during this financial year, and net loss before tax decreased by ¥ 1,388 million during the period.

(3) Leased assets

Leased assets procured by finance lease transactions in which ownership are not transferred to lessees Is 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 an accrual basis for the financial year on expected amount to be paid to the employees

(3) Provision for directors' bonuses

Provision for directors' bonuses is calculated based on an accrual basis for the financial year on expected amount to be paid to the directors

(4) Provision for warranties and claims

Provision for warranties and claims is calculated based on future financial risk incurring from warranties and claims of products sold.

(5) Provision for loss from disasters

Provision for loss on disasters is calculated based on reasonable estimate of the costs, which are expected to arise during this financial year, of all costs related to repairs of or recovery from the damage caused by the earthquake in Tohoku, Japan.

(6) Provision for retirement benefit for employees

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

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 years of service of the eligible employees.

(7) Environmental provision

Environmental provision is calculated based on future financial risk relating to environmental preservation.

(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.

4. Other policies

(1) Hedge accounting

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged item is recognized.

(Additional information)

The Company changed its accounting method for interest rate swap contracts held by the Company, which had previously been accounted for under the exceptional method to the hedge accounting method. Prior to the change, those interest swap contracts were accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt.

There was no impact from the application of this accounting method on the Group's results of operations during the financial year.

(2) Accounting of consumption tax

All accounts are presented net of consumption tax.

(3) Treatment of deferred assets

Issuance costs of bonds and shares are accounted as expenses.

(4) Application of consolidated taxation

From the financial year ending 31 March 2011, the Company applied the consolidated taxation.

(5) Application of the accounting standard for asset retirement obligations

From the financial year ending 31 March 2011, "Accounting Standard for Asset Retirement Obligations" (Accounting Standards Board of Japan (ASBJ) Statement No.18, issued on 31 March 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21, issued on 31 March 2008) have been applied.

There was no impact from the application of this accounting standard on the Company's results of operations for the period.

5. Changes in presentation

(Income statement)

"Loss on sale of investments in subsidiaries" which was previously presented separately, was included in "Other extraordinary loss" from this financial year. The amounts for "Loss on sale of investments in subsidiaries" was ¥191 million.

Notes regarding balance sheet items

1. Accumulated depreciation of tangible assets	JPY	174,011 million
2. Contingent guarantees		
Guarantees	JPY	100,229 million
Letters of awareness	JPY	10 million
Total	JPY	100,239 million
3. Notes receivables endorsed	JPY	629 million
4. Transactions with subsidiaries and affiliates		
Short-term receivable from subsidiaries & affiliates	JPY	55,554 million
Long-term receivable from subsidiaries & affiliates	JPY	91,453 million
Short-term payable to subsidiaries & affiliates	JPY	15,399 million

Notes regarding Income Statement

1. Transactions with subsidiaries & affiliates

Sales to subsidiaries & affiliates	JPY	39,610 million
Purchases from subsidiaries & affiliates	JPY	19,214 million
Non-operational transactions with subsidiaries and affiliates	JPY	5,678 million

2. “Loss from disasters” is the loss of the damage caused by the earthquake in Tohoku, Japan. The amount includes JPY 75 million as the provision for the loss from the disasters.

<u>Notes regarding Statement of Net Assets</u>

1. Number of treasury shares as of 31 March 2011 Ordinary shares 1,404,087 shares

2. Issuance of ordinary shares

The Company issued ordinary shares as presented below.

Date of issuance	Sep.15, 2010	Sep.28, 2010	Total
Method of issuance	Public offering	Third part allotment	
Number of shares issued	222,000,000 shares	12,000,000 shares	234,000,000 shares
Issue price	JPY 173.52 per share	JPY 173.52 per share	
Total issue price	JPY 38,521 million	JPY 2,082 million	JPY 40,604 million
Amount of stated capital increased	JPY 19,261 million	JPY 1,041 million	JPY 20,302 million

3. Acquisition and cancellation of Type A preferred shares

The Company acquired and cancelled all of preferred shares as presented below.

1.Date of acquisition and cancellation	Oct.1, 2010	Feb.18, 2011	Total
2.Number of shares acquired	980,000 shares	2,020,000 shares	3,000,000 shares
3.Total issue price	JPY 10,081 million	JPY 20,542 million	JPY 30,623 million
4.Purpose of acquisition:	Reduce dividend cost of the preferred shares		
5.Metod of cancellation	By reducing balances of both other capital surplus and retained earnings		

<u>Components of deferred tax assets and liabilities</u>

	(in JPY millions)
Deferred tax assets:	
Accrued retirement benefits	1,232
Allowance for rebuilding furnaces	2,994
Allowance for doubtful accounts	830
Provision for warranties and claims	343
Asset retirement obligations	256

Temporary differences related to fixed assets and inventories	2,040
Loss on revaluation of investments in securities	9,496
Loss on revaluation of derivatives (oil swaps etc.)	132
Loss brought forward	4,288
Other	1,623
Gross deferred tax assets	23,234
Valuation allowance	(22,245)
Total: Deferred tax assets	989
Deferred tax liabilities:	
Unrealized holding gain on securities	(224)
Reserve for advanced depreciation	(1,918)
Gain on revaluation of derivatives (oil swap etc.)	(555)
Total: Deferred tax liabilities	(2,697)
Net deferred tax liabilities	(1,708)

Related party transactions

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(in JPY millions)

Type of company	Name of company	Equity	Relationship	Content of transaction	Transaction value	Account	Balance as of 31 Mar2011
Subsidiary	NSG Building Products Co. Ltd.	100% directly owned	Sales of the products of NSG Co. Ltd.	Sales of the products of NSG Co. Ltd.	12,038 (*1)	Accounts receivable - trade	2,136
Subsidiary	NSG Hong Kong Co. Ltd.	100% indirectly owned	Sales of the products of NSG Co. Ltd.	Sales of the products of NSG Co. Ltd.	14,332 (*1)	Accounts receivable - trade	2,441
Subsidiary	NSG UK Enterprises Ltd.	100% indirectly owned	Fund assistance & Shared director duties	Loan guarantee Loan receivable	92,923 (*2) 18,000	- Short-term loan	- 18,000
Subsidiary	NSG Holding (Europe) Ltd.	100% indirectly owned	Fund assistance & Shared director duties	Loan receivable	9,227 89,953(*3)	Short-term loan Long-term loan	9,227 89,953

Terms of transaction and decision policy of terms

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

(*2) The loan guarantees are provided for borrowing by the subsidiaries from external financial institutions.

(*3) Interest rates for the loans to NSG Holding (Europe) Ltd are determined after consideration of market rates.
The long-term one is with repayment term of 4 years and repayable early before the repayment term.
No collateral is provided for the loans.

Amounts per share

Net assets per share	JPY	334.93
Net income per share	JPY	(0.81)

Summary of Tangible and Intangible Fixed Assets

(in JPY millions)

Category	Asset type	Acquisition cost				Accumulated depreciation	Depreciation during the period	Net book value (as of 31 March 2011)
		As of 31 March 2010	Increase	Decrease	As of March 31, 2010			
Tangible assets	Building	69,301	610	731 *1 (59)	69,181	51,135	1,458	18,046
	Structures	10,978	54	64	10,969	9,356	195	1,613
	Machinery & equipment	114,053	1,761	1,760 *1 (17)	114,054	99,043	2,153	15,011
	Transportation equip. & vehicles	306	3	13	296	280	8	16
	Tools & dies	15,703	762	656 *1 (1)	15,809	12,607	766	3,202
	Land	10,232	252	424 *1 (130)	10,060	---	---	10,060
	Leased assets	2,197	29	5	2,221	1,590	145	631
	Construction in progress	1,480	3,368	3,863 *1 (468)	985	---	---	985
	Total	224,250	6,839	7,515 *1 (675)	223,574	174,011	4,724	49,564
Intangible assets	Goodwill	283	---	---	283	259	8	23
	Patents	228	5	1	232	203	11	29
	Leasehold	37	---	---	37	---	---	37
	Facility usage rights	1,080	---	3 *1 (2)	1,078	641	4	437
	Software	12,739	4,598	1,655 *1 (0)	15,682	11,808	501	3,875
	Leased assets	8,058	---	4,665	3,393	2,713	130	680
	Others	55	---	0	55	4	0	52
	Total	22,481	4,603	6,324 *1 (2)	20,760	15,627	653	5,133

Notes:
1. Figures in ( ) indicate the amount of impairment included in each asset category.

Summary of Provisions

(in JPY millions)

Accounts	As of 31 March 2010	Increase	Decrease		As of 31 March 2011
			Utilization	Other	
Allowance for doubtful accounts	2,493	79	239	44	2,289
Provision for employees' bonuses	1,229	1,090	1,229	---	1,090
Provision for directors' bonuses	14	17	14	---	17
Provision for warranty and claims	1,310	---	466	---	844
Provision for loss on disasters	---	75	---	---	75
Accrued retirement benefits for employees	3,557	2,076	2,621	---	3,012
Environmental provision	862	1	3	636	224
Provision for rebuilding furnaces	10,560	401	---	---	10,961

Notes:

1. Accounting policies regarding above provisions are presented in the "Notes to the financial statements".
2. "Other" decrease in allowance for doubtful accounts means reversal of the allowance balance due to collections of the account receivable against which the allowance has been provided.
3. Decrease in environmental provision means transfer to asset retirement obligations which was previously booked by being included in "Other" of fixed liabilities.

Summary of Indirect Selling, General & Administrative Expenses

(in JPY millions)

Accounts	Amount	Notes
Handling charges	1,478	
Shipping & storage charges	6,406	
Royalties	251	
Directors' compensation	499	
Salaries	4,495	
Wages	509	
Provision for employees’ bonuses	322	
Legal welfare expenses	861	
Employees' retirement benefit costs	671	
Welfare expenses	227	
Depreciation	1,320	
Research & development	2,499	
Insurance	162	
Repair & maintenance	255	
Outsourcing and services	5,591	
Power, light and water	35	
Duties & taxes	262	
Enterprise tax based on size of business	206	
Business tax	7	
Traveling expenses	676	
Communications	30	
Entertainment	98	
Advertisement	22	
Stationary	25	
Miscellaneous operating income	197	
Provision for allowance for doubtful accounts	79	
Total	27,182	