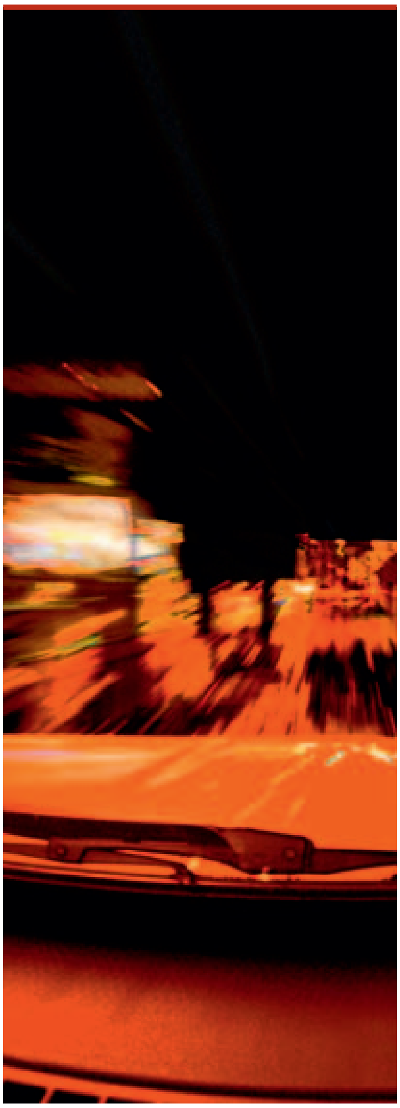
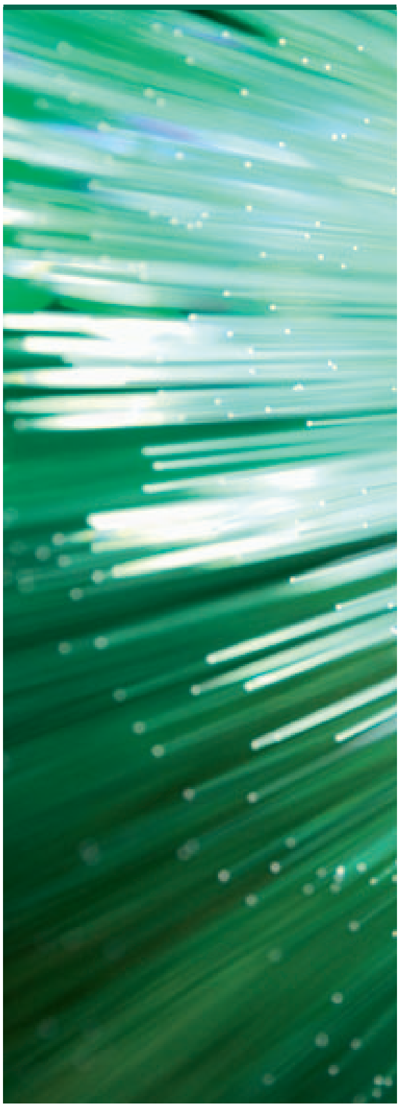
Annual Report 2010

Fiscal year ended 31 March 2010

'First in Glass'

NSG GROUP

The NSG Group is one of the world's largest manufacturers of glass and glazing products for the building, automotive and specialty glass markets.

With around 28,500 permanent employees, we have principal operations in 29 countries and sales in over 130. Geographically, approximately half our sales are in Europe, around a quarter are in Japan and the rest are primarily in North and South America, South East Asia and China.

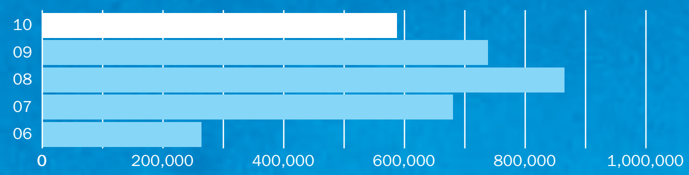
The Group operates three worldwide business lines. Building Products supplies glass for interior and exterior glazing in buildings and for the growing Solar Energy sector. Automotive serves the original equipment, replacement and specialized transport glazing markets. Specialty Glass products include very thin glass for displays, lenses and light guides for printers, and glass fiber, used in battery separators and engine timing belts.

Financial highlights

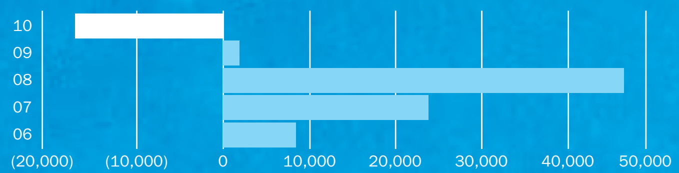
	Millions of yen		Millions of euro
	2010	2009	**2010**
Net sales	**588,394**	739,365	**4,707**
Loss before income taxes and minority interests	**(42,414)**	(13,515)	**(339)**
Net loss	**(41,313)**	(28,392)	**(331)**
Amounts per share (yen and euro cents)			
Net loss:			
Basic	**(65.61)**	(42.49)	**(0.52)**
Diluted	–	–	–
Cash dividends	**6.00**	6.00	**0.05**
Total assets	**933,721**	1,025,221	**7,470**
Total net assets	**239,931**	257,223	**1,920**
Number of permanent employees	**28,338**	31,436	

Note:
The translation of Japanese yen into euro values is included solely for the convenience of readers outside Japan and has been made at ¥125 = €1.00, the exchange rate prevailing on 31 March 2010. This translation should not be construed as a representation that yen can be converted into euro at the above or any other rate.

NET SALES Millions of yen



OPERATING (LOSS)/INCOME Millions of yen



NET (LOSS)/INCOME Millions of yen

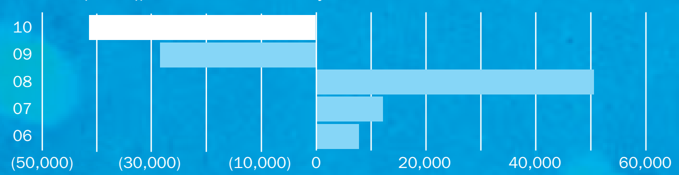


Photo credit: Front cover and page 6,
Hoch Zwei Building, Vienna, Eric Firley.

Operational highlights

- Full-year results better than previous forecast, with fourth-quarter results reflecting stabilized markets and benefits from restructuring actions.
- Craig Naylor appointed as new President and CEO, to lead the NSG Group in the next stage of its development.
- Major restructuring program completed. Cost savings delivered and benefits showing through in operational results.
- Full-year dividend held, reflecting the Board's confidence in longer-term prospects.
- Key objective for FY2011 is to continue improving manufacturing and quality performance, while realizing full benefits from restructuring programs.

Forward-looking statements
This annual report contains information about forward-looking statements related to such matters as the Company's plans, strategies, and business results. These forward-looking statements represent judgments made by the Company based on information available at present and are inherently subject to a variety of risks and uncertainties. The Company's actual activities and business results could differ significantly due to factors including, but not limited to, changes in the economic environment, business environment, demand, and exchange rates.

Contents

The NSG Group

Review of operations

Financial statements

The mission of the NSG Group is to be the global leader in the manufacture and supply of glass products through the best use of our people and technology and the pursuit of innovation.

To our shareholders

Katsuji Fujimoto Chairman NSG Group

Key message

The Group's financial results reflect continued challenging conditions in the first half of FY2010, but with signs of stabilization in market conditions in the final quarter. Controlled cash management and cost reduction continue to mitigate the impact of the challenging conditions in our markets.

We have completed, as planned, the major restructuring program announced in January 2009, designed to improve profitability and enhance operational efficiencies. Related savings are now beginning to show through in the Group's results.

New Chairman and President and CEO appointments were announced during the year. Management's key objectives in FY2011 are to continue to improve manufacturing and quality performance, while realizing benefits from the restructuring.

Business results

In the fiscal year under review, the Group experienced challenging conditions in its major markets. The first two quarters of the year were particularly severe, with recessionary conditions prevalent in most of the major countries in which we operate. From the third quarter of the year, market conditions gradually stabilized. In the fourth quarter, most of the Group's major markets steadied at levels significantly better than earlier in the year, although still well below historically normal levels.

Consolidated net sales for the fiscal year under review decreased, by around 20 percent, to ¥588,394 million. The Group recorded an operating loss of ¥17,183 million.

In Europe, Building Products market conditions remained difficult, with flat glass volumes down around 20 percent from the previous year. Harsh winter conditions across much of central and northern Europe negatively affected fourth-quarter volumes, although they improved towards the year-end date. Average prices in the quarter were higher than in the same quarter of the previous year.

Sales of new light vehicles were below the previous year. Government scrappage schemes helped stimulate demand until the fourth quarter, when the incentives ended in some European countries. The European Automotive Glass Replacement (AGR) market showed resilience and demand for glass cord improved steadily through the year.

Consolidated net sales for the fiscal year under review decreased, by around 20 percent, to ¥588,394 million. The Group recorded an operating loss of ¥17,183 million.

In Japan, market conditions were challenging, but with tentative improvement in the fourth quarter. New housing starts were significantly down, but the rate of decline slowed during the fourth quarter, providing optimism that the current levels of activity may represent the bottom of the cycle. Light vehicle sales in Japan were approximately 10 percent below the previous year, but with improvement in the fourth quarter. Demand for Specialty Glass products continued to improve from the previous low levels.

In North America, housing starts remain below the level of previous years, but the rate of decline now appears to be slowing. The commercial market remains depressed. Earlier in the year, the US government's scrappage program aided sales of new cars. Car sales initially declined following the conclusion of the scheme, but have since improved as consumer confidence slowly began to recover.

In the rest of the world, the emerging markets in which we operate continued to perform relatively well, compared to more developed markets.

Dividend policy

The Group's policy is to secure dividend payments based on stable business results. The Group intends to distribute a year-end dividend of ¥3 per common share. The full-year dividend payment will be ¥6 per common share, including the interim dividend of ¥3 per common share.

The Board and senior management

In April 2010, we announced new Chairman and President and CEO appointments. At the shareholder meeting held on 29 June 2010, my appointment as Chairman of NSG Group was confirmed, following the retirement of Yozo Izuhara. The Board takes this opportunity to recognize the outstanding contribution and leadership of Mr Izuhara in the course of his 48-year career with the Company.

As Chairman of the NSG Group, my role is to ensure that the Company is run in accordance with its long-term objectives and strategy, and guiding Values and Principles. I also provide support to the Executive in communicating with stakeholders, governments and other external organizations of importance to the Group.

Following the decision of Stuart Chambers to stand down in August 2009, we were pleased to announce, in April 2010, the appointment of Craig Naylor as President and CEO of the NSG Group. His appointment as Representative Executive Director, President and CEO was recommended to the Board by the Nomination Committee and was confirmed following the shareholder meeting held on 29 June 2010.

Craig Naylor has brought to the Company extensive international management experience and expertise in product development, manufacturing and marketing. As President and CEO, he has responsibility for the profitable operation of all businesses within the Group. He chairs an Executive Committee, which oversees the day-to-day management of the Group's businesses.

Following the shareholder meeting held on 29 June 2010, the appointments to the Board of Seiichi Asaka and Hiroshi Komiya, as external directors, were also approved. They have brought to the Board extensive industrial and international experience. Concurrently, Kozo Okumura retired from the Board and we thank Mr Okumura for his contribution to the work of the Board over the past five years.

Corporate governance

The adoption of the 'Company with Committees' model has brought the NSG Group into line with a number of leading Japanese corporations and with best practice. It has introduced additional safeguards for shareholders, increased transparency and enhanced corporate governance, with the role of the external directors strengthened. There are three board committees (Nomination, Audit and Compensation) and five external directors.

The adoption of the 'Company with Committees' model has brought the NSG Group into line with a number of leading Japanese corporations and with best practice.

The Nomination Committee decides the details of the agenda items to be submitted to the General Meeting of Shareholders concerning the appointment and removal of directors. Chaired by me, the Committee consists of eight directors, including five external directors.

The Audit Committee, chaired by the Group Vice Chairman, Tomoaki Abe, comprises five directors, including three external directors. It conducts audits of the execution of duties by directors and executive directors and ensures that adequate risk management processes are followed. It also decides the details of agenda items to be submitted to the General Meeting of Shareholders concerning the appointment and removal of independent auditors.

Despite the current emphasis on cost reduction, we continue to invest in the future of employees and the training and development of our people, as individuals and as professionals, remains a priority.

The Compensation Committee makes decisions on compensation of individual directors and executive directors. The Committee is chaired by an external director, George Olcott, and comprises five directors, including three external directors.

The Group's integrated organization offers expanded scope for the development of manufacturing excellence, through benchmarking, best practice and standard operating procedures. It is also helping to address issues such as increasingly global competition, a rapidly changing business environment and growing social responsibilities.

Evolution of company organization

The process of integration, which began in 2006, is now complete, with all of the former Pilkington and NSG businesses operating in three business lines: Building Products, Automotive and Specialty Glass.

Each business line is managed on a global basis by a main board director, with Mark Lyons leading Building Products Worldwide, Mike Fallon heading Automotive Worldwide and Keiji Yoshikawa managing Specialty Glass Worldwide. The Group Finance Director is Mike Powell. Global functions provide specialist services across all business lines.

Code of Conduct

Our Code of Conduct defines the behavior we expect across all areas of our business. It applies to relationships with colleagues, customers, suppliers, business partners, the community and all others with whom we have contact in daily business life. The Code acknowledges internationally proclaimed human rights and the impact these have on employment. Our employment standards have been derived from external international human rights employment guidelines and our own business requirements.

The Code and our overall employment policy provide employees with reassurance on how they will be treated, and guide employment policy and practice in individual businesses.

Our equal opportunity policy aims to prohibit discrimination on the basis of race, color, creed, religion, age, gender, sexual orientation, national origin, disability, union membership, political affiliation or any other status protected by law. This policy operates in all employment-related decisions. A summary document, 'The Way we do Business', covers the main points of the Code. Personal copies are distributed to all Group employees in their local language.

Employees

The NSG Group now has around 28,500 permanent employees, working in over 29 countries and speaking some 25 languages. Of these, 80 percent are based outside Japan. Safety and Quality underpin everything we do, with the principle of 'open communication' central to our employment policies.

Our management philosophy, 'people are the most important asset of our company', is deeply rooted in the 400-year-old Sumitomo Spirit to which we subscribe. It has therefore been a cause of great regret that the initiatives we have had to take over the past year required significant headcount reductions.

As of 31 March 2010, 6,700 employees had left the Group since June 2008. We have taken special measures to mitigate the effects on both those employees leaving the Group and those remaining.

Employee engagement is being given a high priority, with training for managers and supervisors in communication skills and additional briefing to keep employees informed of developments. We continue to promote the health and well-being of our people.

We conduct a global employee survey every two years. Results from the 2009 survey show that a total of 87 percent of employees took part – a 7 percent increase on 2007. Responses suggest improvements in several areas, particularly in Health, Safety and Environment.

Employee engagement is being given a high priority, with training for managers and supervisors in communication skills and additional briefing to keep employees informed of developments.

Over the past year, we have further strengthened our commitment to sustainability. Our new Sustainability website complements our printed Sustainability Report, with additional background and data.

The survey results nevertheless highlighted some areas in which we need to improve, and these will be addressed through action plans, to be implemented at every Group location over the next 18 months.

Despite the current emphasis on cost reduction, we continue to invest in the future of employees and the training and development of our people, as individuals and as professionals, remains a priority. Education and training programs are provided for employees so as to raise global professional standards and to reinforce employee engagement.

Our people-development policy emphasizes the importance of the training, retraining and continuous development of all employees. On-the-job training is significant and focuses on raising safety standards and performance and enhancing skills through planned initiatives in the workplace.

Sustainability

Over the past year, we have further strengthened our commitment to sustainability, with the publication of a Group Sustainability Policy. We also published our 2009 Sustainability Report, which retains much of the content of our former Corporate Social Responsibility Report, but signals an important change in our approach. The Sustainability Report is complemented by a new Group Sustainability website.

Our commitment underlines the important contribution our products make to addressing climate change and conserving energy, while recognizing that glass production is energy-intensive.

Glass has a unique role to play in helping to reduce greenhouse gas emissions and mitigating the effects of climate change. The ‘energy balance’ between manufacture of high-performance glazing products and their use means that the energy used and CO_2 emitted in manufacture are quickly paid back through the lifetime of the products. The energy involved in glass-making can therefore be seen as an investment in future energy saving.

Our new Sustainability Policy represents a start, but we are aware that we still have much to do. We aim to move forward by balancing the needs of all our stakeholders, managing our environmental impacts, developing our people, encouraging innovation in processes and products, working in harmony with the communities in which we operate and encouraging our customers, contractors and suppliers to do the same.

Management principles

The fundamental principles of the Company’s basic management policy are ensuring open and fair business dealings, adhering to corporate ethical standards and contributing to the resolution of global environmental issues. The aim is to develop a company with a spirit of innovation and a global presence, while maximizing its value for all stakeholders.

Our management philosophy aims to achieve a balance between achieving short-term targets and consistently seeking long-term business strategies.

Throughout its history, the NSG Group has focused on glass materials in its pursuit of innovation, driven by the Group’s spirit of *monozukuri* (passion for manufacturing excellence). The management philosophy of the Group aims to achieve a good balance between focusing energy on achieving short-term targets and consistently seeking long-term business strategies.

The Group’s Medium-term Plan, launched in November 2006, continues to drive Group strategy. Following the appointment of the new CEO, and to address the challenges and opportunities presented by the new global economic environment, we are preparing an update of the Medium-term Plan, details of which we will announce in November 2010. Management’s key objectives in FY2011 are to continue to improve manufacturing and quality performance, while realizing benefits from the restructuring.

The NSG Group kindly requests the steadfast understanding and input of all its shareholders.

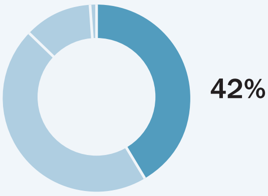
Katsuji Fujimoto
Chairman NSG Group

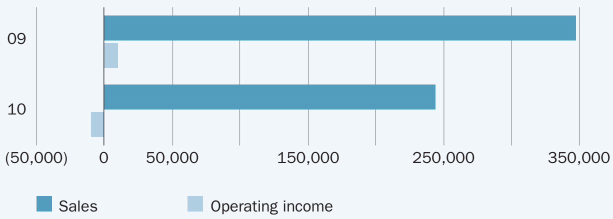
Business overview

The Group operates three worldwide business lines. Building Products supplies glass for interior and exterior glazing in buildings. Automotive serves the original equipment, replacement and specialized transport glazing markets. Specialty Glass comprises a number of discrete businesses, supplying glass for small displays, lenses and light guides for printers, and glass fiber products, including battery separators and glass cord for engine timing belts.

Building Products

Group sales and operating income Millions of yen





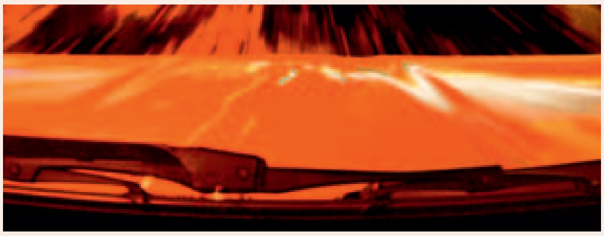
Financial highlights by business

Millions of yen

	2009	**2010**
Sales	347,833	**244,236**
Operating income/(loss)	10,622	**(9,614)**
Total assets	388,339	**350,387**
Capital expenditures	20,990	**5,689**

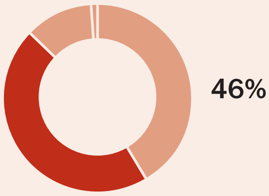
Fiscal year in review

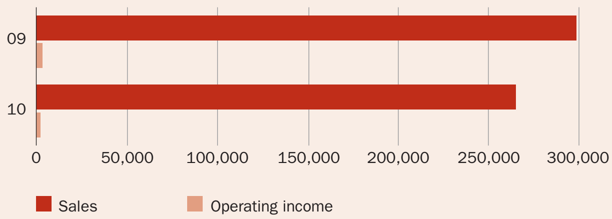
- Profit performance lower than last year, with results impacted by the economic downturn.
- Significant restructuring initiatives successfully completed. Major headcount reduction, capacity reduction and cost savings delivered.
- Building Products returned to profit in Quarter 4 FY2010.
- Solar Energy business continues to grow, Thin Film volumes grew by 37 percent compared with FY2009.



Automotive

Group sales and operating income Millions of yen





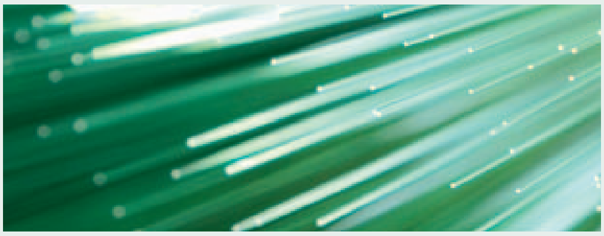
Financial highlights by business

Millions of yen

	2009	**2010**
Sales	299,096	**265,017**
Operating income	1,292	**221**
Total assets	385,259	**371,940**
Capital expenditures	15,574	**12,723**

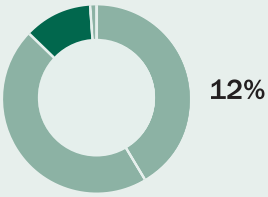
Fiscal year in review

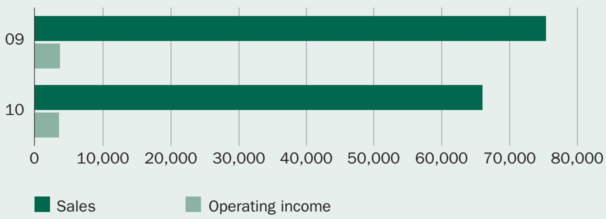
- Strengthening performance through year, but heavily influenced by government incentives in each country.
- Total Original Equipment (OE) sales down 5 percent, Automotive Glass Replacement relatively stable.
- Increased market volatility. Improved operational flexibility demonstrated. Good cost control.
- Restructuring successfully completed. Cost base reduced and structural realignment to future market.



Specialty Glass

Group sales and operating income Millions of yen





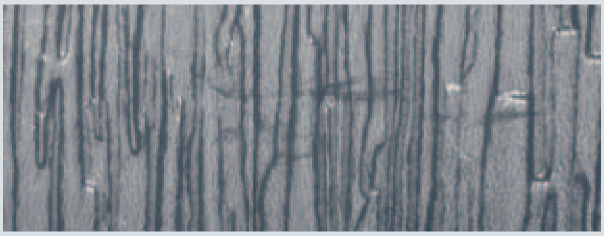
Financial highlights by business

Millions of yen

	2009	2010
Sales	75,397	**66,112**
Operating income	3,758	**3,643**
Total assets	93,465	**65,217**
Capital expenditures	3,788	**2,051**

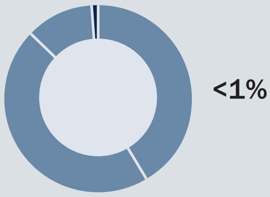
Fiscal year in review

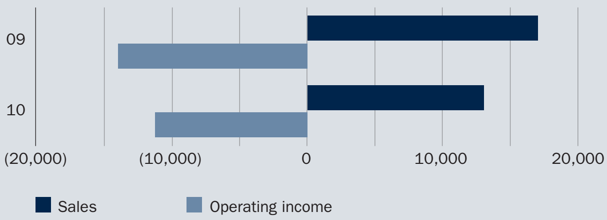
- Almost all the Specialty Glass businesses have successfully shaken off the effects of the recession that followed the financial crisis, though sales declined from the previous year, due to the sale of the Air Filters business.
- A range of products, such as glass cord and battery separators for automotive and ultra-thin float glass for display applications, profited from economic stimulus packages introduced in many countries, especially in China.
- Despite the overall decrease in sales, annual profits in the business remained at the same level as the previous year due to cost savings through restructuring.



Other

Group sales and operating income Millions of yen





Financial highlights by business

Millions of yen

	2009	2010
Sales	17,039	**13,029**
Operating loss	(13,893)	**(11,433)**
Total assets	158,158	**146,177**
Capital expenditures	1,791	**351**

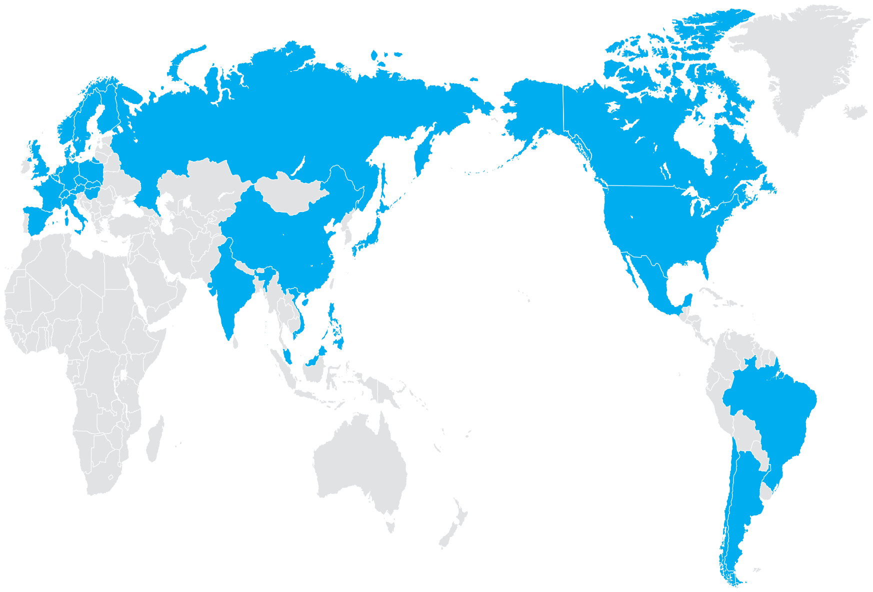
Fiscal year in review

- 'Other' segment covers corporate costs and engineering income.
- Also includes small businesses not included in Building Products, Automotive and Specialty Glass.
- Operating losses incurred in 'Other' operations were below the previous year, due mainly to engineering income recognized in the third quarter.

Global operations

The NSG Group has a wide geographic reach, with principal operations in 29 countries on four continents and sales in some 130 countries.

This broad presence enables the Group to take advantage of diversified sources of raw materials and to capitalize on the advantages of the best local labor forces available.



Argentina
Austria
Belgium
Brazil
Canada
Chile
China
Czech Republic
Denmark
Finland
France
Germany
Hungary
India
Italy
Japan
Malaysia
Mexico
Netherlands
Norway
Philippines
Poland
Romania
Russia
Spain
Sweden
United Kingdom
United States
Vietnam

CONSOLIDATED NET SALES BY BUSINESS

BP Europe	20%
BP Japan	13%
BP North America	4%
BP Rest of World	5%
Automotive Europe	23%
Automotive North America	9%
Automotive Japan	8%
Automotive Rest of World	6%
Specialty Glass	12%

¥588.4 billion

CONSOLIDATED NET SALES BY REGION

Europe	44%
Japan	29%
North America	13%
Rest of World	14%

¥588.4 billion

Europe

12,000 employees

- 13 float lines
- Automotive OE plants in 7 countries
- BP downstream in 10 countries
- Extensive AGR network
- Specialty Glass operations in UK

Finland
3 Automotive plants

Germany
4 Automotive plants
4 float lines

Italy
3 Automotive plants
3 float lines

Poland
1 Automotive plant
1 float line

Russia
1 float line

Spain
1 Automotive plant

Sweden
1 Automotive plant
1 float line

United Kingdom
1 Automotive plant
3 float lines
1 Specialty Glass plant

Japan

5,200 employees

- 4 float lines
- BP downstream network
- Automotive OE plants and AGR network
- Specialty Glass operations

Japan
3 Automotive plants
4 float lines
6 Specialty Glass plants

North America

3,900 employees

- 6 float lines
- Automotive OE in US, Canada and Mexico
- Extensive AGR network in US
- Specialty Glass operations in Canada

Canada
1 Automotive plant
1 Specialty Glass plant

Mexico
1 Automotive plant

United States
5 Automotive plants
6 float lines

South America

2,400 employees

- 6 float lines
- BP downstream operations
- Automotive OE in Brazil and Argentina
- AGR network

Argentina
1 Automotive plant
1 float line

Brazil
2 Automotive plants
4 float lines

Chile
1 float line

South and South East Asia

3,000 employees

- 2 float lines and Automotive operations in Malaysia
- Automotive plant in India commissioned 2009
- 2 float lines in Vietnam
- Specialty Glass operations in the Philippines

India
1 Automotive plant

Malaysia
1 Automotive plant
2 float lines

Philippines
2 Specialty Glass plants

Vietnam
2 float lines

China

2,000 employees

- 16 float lines
- 3 Automotive plants
- Specialty Glass operations
- Rolled glass for photovoltaics

China
3 Automotive plants
16 float lines
2 Specialty Glass plants

Key
Float operations (including JVs and associates)
Automotive OE
Specialty Glass

We are in Phase 1 of our 3-phase strategy. Our key objectives are to create an international, integrated, global company, reduce our debt to target levels and prepare the Group for profitable growth.

President and CEO's review

Craig Naylor President and CEO

Key message

The Group's results for FY2010 reflect continuing challenging conditions in most of our major markets. However, they also demonstrate progress we have made in improving our competitiveness through the restructuring.

Our immediate priorities in FY2011 are to realize full gains from the restructuring, with a return to profitability the first step to future growth.

We are reviewing our Medium-term Plan to take account of the challenges and opportunities presented by the new global economic environment. We will announce details of the updated Plan in November 2010.

Performance

In FY2010, our financial results continued to reflect the global slowdown in international trade, with conditions remaining challenging in most of our major markets. However, the outcome also reflected progress we have made in improving our competitiveness over the past year.

The first two quarters of the financial year were particularly severe, but market conditions gradually improved in the third quarter. In the final quarter, most of our major markets stabilized at levels significantly better than earlier in the year, but still well below historically normal levels.

Good progress was made during the year in completing the restructuring program, the benefits of which are already beginning to show through in our results.

Our Building Products markets suffered from low levels of construction activity. Conditions improved in the final two quarters, but the time lag in residential and commercial projects from approval to construction meant that the increase in demand for building products glass was marginal.

Good progress was made during the year in completing the restructuring program, the benefits of which are already beginning to show through in our results.

Restructuring

In January 2009, we announced restructuring initiatives designed to address the economic downturn and to improve profitability going forward. These built on action already taken in response to the sudden and rapid changes in the global economic environment. The overall objective of the program has been to protect the business in the short term and to re-establish profit growth from FY2011 onwards.

The restructuring program was completed as planned during the year under review, with 2,200 employees having left the Group during FY2010, bringing the total headcount reduction to 6,700. The restructuring has included management headcount reduction through reorganization, shift reductions and line closures in some plants, and temporary and permanent plant closures throughout our global operations.

The restructuring program was completed as planned during the year, with 2,200 employees having left the Group during FY2010.

The restructuring produced cost savings of ¥16 billion during FY2010. The cost of the restructuring program charged to the income statement during FY2010 was ¥6.6 billion, as anticipated.

We are currently in Phase 1 of our 3-phase strategy, but preparatory work on growth opportunities in Phases 2 and 3 is under way. Our immediate priorities in FY2011 are to ensure that we realize full gains from the restructuring, with a return to profitability the first step to future growth.

Strategy

The Group's 10-year strategy, published in November 2006, remains central to our long-term vision and the basic objectives remain in place. Good progress has been made on our strategic priorities over the past four years.

The acquisition of Pilkington transformed the NSG Group from a regional Japanese glass company into a global group. Since 2006, integration has now largely been completed. Debt levels have improved and the recent restructuring has helped adjust the Group's profile to the new market conditions. However, we operate in some of the most competitive sectors in the world, so it is vital that we maintain pressure on costs and overheads to ensure we stay competitive.

The Group had already made significant progress in preparing for Phase 2 before the downturn, with some important strategic investments in key markets. The global downturn has forced us to slow down our investment plans until the future becomes clearer, with a reduction in total investment and some key projects delayed.

Building Products

In our Building Products business (representing 42 percent of Group sales), we aim to retain our position as the technological leader, with safety and customer quality paramount. We are determined to ensure that the NSG Group is the lowest cost supplier to our customers, despite the challenge of reduced demand and increasing input costs.

We are expanding our range of value-added coated products. In every region of the world in which we operate, the need to save energy is a political priority. Buildings account for almost 50 percent of the energy consumed in developed countries. Governments are putting increased focus on legislation and policies to improve their energy efficiency.

In China, the new on-line coating system at the Group's JSYP joint venture plant in Jiangsu was commissioned in October 2009. We have plans to expand further our capability to produce low-e products, such as Pilkington Energy Advantage™, in China.

As well as saving energy through thermal insulation, solar control glass can also play a role in reducing solar heat gain, while still offering high levels of natural light. In May 2009, our Malaysian operations started production of our medium-performance solar control glass range, Pilkington Reflite™, for both domestic and export markets.

Through calendar year 2009, the global photovoltaic market grew by over 20 percent, despite the challenging global economic environment.

Through calendar year 2009, the global photovoltaic market grew by over 20 percent, despite the challenging global economic environment. The United States and the European Union in particular are encouraging the introduction of renewable energy, with other countries, including Japan and China, also following this trend.

As the use of photovoltaics becomes increasingly common and technology advances, electricity generation is more efficient and costs are lower, making it economic for solar generators to feed power into national grid systems. The NSG Group is well placed to supply all three of the leading Solar Energy technologies.

The NSG Group supplies all of the world's vehicle manufacturers, operating through a global network of 32 Automotive manufacturing and processing facilities in 16 countries.

Automotive

Operating under the Pilkington Automotive brand, the Group's Automotive business (46 percent of Group sales) is an integrated global organization, serving OE, AGR and specialized transport markets throughout the world.

With mature automotive markets showing recovery and continued growth in emerging markets, a degree of polarization of requirements is becoming evident. In mature markets, vehicle manufacturers and consumers seek sustainable transport solutions, to improve fuel efficiency and environmental footprint. For consumers, recycling and conservation of resources are now seen as high priorities, alongside passenger comfort, value for money, emissions reductions and better fuel economy.

Automotive glazing complexity and product requirements continue to evolve, with the reasons behind such evolution also changing. Consumer buying habits and overall market forces require that efficiency improvements be closely linked to product requirements.

The Group's Automotive business is an integrated global organization, serving OE, AGR and specialized transport markets throughout the world.

Streamlining vehicle exterior surfaces leads to improved aerodynamics and fuel economy. This requires larger windscreens, backlights and rooflights at shallower angles, and improvements to flush-glazed apertures. Reducing component weight is seen as an absolute priority for the entire industry, with the balance between acoustic performance and glazing thickness constantly under review. Vehicle glazing weight reduction contributes to the overall mass reduction targets vehicle manufacturers seek to achieve to deliver fuel economy improvements.

In emerging markets, component cost is paramount. As these markets grow, establishing ourselves as the benchmark supplier for product quality and reliability will support our aim to be Number 1 in the industry.

In parallel, complementary industries are having an increasingly important effect on the automotive glazing sector. Developments in material and structural engineering, electronics and power storage are dictating the pace of the development. Our Automotive business is at the very forefront of development of glazing products designed to contribute to, or complement, the pace of evolution.

Specialty Glass

Our Specialty Glass business (12 percent of Group sales) focuses on a number of niche markets in which we occupy leading positions, in terms of both market share and technological superiority.

We are expanding sales of glass fiber separators for smaller and more powerful batteries for use in lower-emission vehicles.

We are a world-leading supplier of ultra-thin glass for small LCD applications. Our Ultra Fine Flat glass (UFF) is produced in thicknesses as low as 0.3 to 1.1 mm. These products are increasingly being used in the growing touch panel market, particularly in mobile devices and computers.

We are expanding sales of glass fiber separators for smaller and more powerful batteries for use in the next generation of lower-emission vehicles.

We have been involved in the joint development of a new generation of Light Emitting Diode (LED) print heads, using our proprietary SELFOC® Lens Array (SLA®) technology. The new print head offers all of the advantages of miniaturization, low power consumption and low-noise operation, while providing image quality equal to, or surpassing, more conventional laser scanning units.

Our advanced glass fiber cord products extend the life of automotive timing belts, helping to maintain performance for longer, thus contributing to reductions in vehicle fuel consumption and maintenance costs.

Technology and Engineering

The NSG Group is a company founded on technological innovation in glass and invests in sustaining this technology to create value for our shareholders.

The Group owns or controls around 4,000 patents and patent applications, predominantly in the fields of float glass production and processing, automotive glazing and specialty glass, with access under license to patents held by third parties.

As well as developing new products, significant R&D effort is focused on improving our glass manufacturing processes, improving energy efficiency, reducing environmental emissions and enhancing product quality. The Group invested ¥12,071 million in R&D in FY2010.

Float lines operate non-stop for between 10 and 15 years before requiring refurbishment. The NSG Group operates, or has interests in, 49 float lines worldwide.

Our manufacturing base includes management of, or interests in, 49 float lines worldwide, 32 Automotive manufacturing facilities in 16 countries and 12 Specialty Glass production sites. The impact of the economic crisis has led us to reduce loading on several of our lines, with suspension of production or mothballing of others.

In FY2010, Building Products Engineering completed upgrades to add coating capability on Group-managed lines in the UK and China, and on the line sold to CSR in Australia. We also started the rolled line we built for solar panels in China, and a float line constructed with a partner in Iran.

In Automotive, for the first half of the year, most projects remained on hold except for essential new model introduction work, with the key focus on restructuring. In the second half, we commissioned a new PVB stretching machine in Poland, expanded our toughened capacity in Brazil and added several new pre-process lines around the Group. We are currently launching a new high-speed toughened process in Europe and North America and expanding our lamination capacity and capability in South America.

We are reviewing the Group's Medium-term Plan, to take account of the challenges and opportunities presented by the new global economic environment. We will announce details of the updated Plan in November 2010.

Quality is a key feature in building successful relationships with our industry customers and end-consumers. In the Building Products business, the Group has ISO9000:2000 quality management certification in all major manufacturing sites worldwide. Where applicable, the management systems have been extended to include Solar Energy products. In this sector, formal glass product qualifications with major customers are additionally required to ensure end products meet electronic industry IEC 61646 and IEC 61215 standards.

The Automotive business's corporate ISO/TS16949:2009 certification scheme was expanded to include manufacturing sites in Mexico, China and India during the last year and further extensions to sites in Japan are scheduled for this year.

Looking ahead

I am honored and excited to be leading the NSG Group into the next stage of its development. Since my appointment, with the senior team, I have been taking a close look at everything we do and the way we do it. I am particularly interested in how we can work more effectively and more efficiently. I have been very impressed by the level of commitment, expertise and diversity of the workforce in this global corporation.

The NSG Group enjoys an excellent reputation in the industry for quality and service, innovation, technical excellence and a strong product range. We are also well placed to supply the emerging photovoltaics sector, which I believe is an important growth area.

Our objective is to be our customers' preferred supplier, the preferred place for our employees to work and the preferred investment for our shareholders.

Over the long term, growth in demand for glass has consistently exceeded economic growth and I expect that to be the case again. Our products have always been crucial to construction, automotive, office equipment and mobile devices and that is not going to change fundamentally.

Our objective is to be our customers' preferred supplier, the preferred place for our employees to work and, of course, the preferred investment for our shareholders.

I do not expect us to move away from the general direction of our current strategy, but I may be challenging certain aspects, and of course aiming to make a personal contribution with ideas of my own. We are reviewing the Group's Medium-term Plan, to take account of the challenges and opportunities presented by the new global economic environment. We will announce details of the updated Plan in November 2010.

It remains to be seen how deep and prolonged the world recession will be, but I have joined this company because I believe we have great potential to succeed.

Craig Naylor
President and CEO

We are following a 3-phase strategy. Our current operational focus is firmly on achieving the objectives of Phase 1: integrating the business and strengthening competitiveness, improving our financial strength and preparing for future growth.

In the course of FY2011, we will announce details of a revised Medium-term Plan for the Group, taking account of the challenges and opportunities presented by the new global economic trading environment.

Our strategy

2007

Phase 1

4 years

Objective

Create a new entity, differentiating ourselves from competitors, maximizing productivity and operational quality, while re-establishing our financial foundations.

Priorities

- Create one integrated global business, designed for maximum effectiveness, and exploit synergies.
- Reduce net debt down to target levels.
- Prepare for Phase 2.

2011

Phase 2

3 years

Objective

Achieve strong growth in the Flat Glass and Specialty Glass sectors, expanding into emerging markets, with improved competitiveness and innovation.

Priorities

- Pursue strong growth in Building Products and Automotive.
- Expand in new emerging markets and some in which we already operate.
- Improve operational competitiveness in all business lines.
- Leverage our strong market positions in Specialty Glass.
- Improve R&D and foster technologies. Launch major new products.

2014

Phase 3

3 years

Objective

Explore new areas for future growth.

Priorities

- Explore new businesses by leveraging our customer base.
- Use our technical and operational competencies to enter new areas.
- Pursue acquisitions and alliances in adjacent areas.

2017

Our achievements so far

- An integrated global organization has been established, with good progress on the realization of operational synergies. Our organization has been simplified and improvements made to corporate governance.
- Our net debt has been reduced by ¥200 billion (around 40 percent) since the acquisition of Pilkington in June 2006. We have met the target level we set of ¥350 billion.
- We are already preparing the ground in emerging markets – creating joint ventures and undertaking selective on-the-ground investment to ready the businesses for expansion in regions such as Eastern Europe, South America and China.
- In January 2009, we announced plans to restructure the business to take account of the global downturn, which affected all our markets. This has been completed, with 6,700 employees leaving the business and capacity realigned to meet the requirements of our customers.

Next steps

- Ensure that we realize full gains from the extensive restructuring plans announced early in 2009, intended to re-set the Group's cost base at a level suitable for the reduced level of demand in our core markets.
- Continue to manage net debt below the target level of ¥350 billion set for March 2010. We already achieved this in March 2009, but must remain below this throughout Phase 1.
- Introduce further efficiency improvements and cost reductions throughout the business, to counter cost-push and sustain cash generation.
- Rationalize our supply chains to run the business effectively at ever-lower levels of stock and respond to volatility in our markets.
- Improve debtor and creditor levels to reduce working capital wherever possible.
- Prepare to exploit sectors having strong growth potential as we move into Phase 2.
- Further develop our portfolio of value-added products. These include building glass with energy-saving and other functionality, products for the growing Solar Energy sector, as well as innovative products in Automotive and Specialty Glass.

Risks

- Global market downturn (which started in mid-2008) continuing to affect our global markets, countered by executing the restructuring program announced in early 2009 and maintaining pressure on cost base.
- Cost-push in energy and commodities, countered where possible by more effective purchasing, hedging strategy and introduction of energy surcharges.
- Increased competition from low labor-cost emerging markets, countered by our investment in these regions.
- The availability of funding in the capital markets is less predictable and more expensive, countered by an increased focus on cash flow management.

Next steps

- Key factor influencing the timing of our transition from Phase 1 to Phase 2 will be a return to the levels of profitability attained by the Group before the global downturn.
- We aim to continue to deliver strong cash flow performance to pay down debt and prepare for investment in growth.
- Key sectors for potential growth are in Solar Energy, energy-saving glass, Automotive Glass Replacement (AGR) and Specialized Transport. South America and China remain significant growth targets for Building Products, with expansion plans delayed by the global downturn. Important growth geographies for AGR are Eastern Europe and South America.

Risks

- Concentration on debt reduction could constrain the investment in ongoing businesses; nevertheless, we are following a focused capital allocation process.
- Demand growth in mature markets remains depressed in both building and automotive sectors, emphasizing the need to grow in emerging markets.

Next steps

- Move into markets in which we are not already established, either alone or in joint ventures.
- Look for further opportunities to leverage our technology base, pursuing alliances in areas in which we are not a technology leader.
- Develop existing joint ventures, where appropriate, moving towards full ownership.

Risks

- Risks of operating in new territories minimized through working with joint ventures and local partners, where appropriate, and by spreading our investments over several markets.
- Risk of being overtaken in technology and product range minimized by constant improvements in processes and product range and by pursuing alliances with partners with established leadership in complementary technologies.

Glass is a growth industry. Global demand growth for glass outstrips economic growth around the world. Today's architects and car designers are using larger surface areas of glass in their designs, increasingly with added functionality and complexity.

Our industry & market environment

Key message

- A €22 billion global industry at primary manufacturing level.
- 75 percent of the world's demand for glass is in Europe, China and North America.
- NSG Group is one of four glass groups producing around 60 percent of the world's high quality glass.
- Pilkington float process is at the heart of the worldwide industry.
- NSG Group is one of only three glass groups supplying 70 percent of the world's automotive OE glazing.
- Global glass demand growth outstrips GDP growth.
- Volume growth as architects and car designers use increasingly larger glass areas.
- Value growth in Building Products is driven by legislation and demand for enhanced functionality.
- Value growth in Automotive is driven by model differentiation, increased complexity and functionality.
- Value growth in Specialty Glass fuelled by demand for ultra-thin glass for touch screens and by new battery technologies.

Routes to market

Most of the world's float glass goes into buildings. Automotive applications account for around 10 percent.

In Building Products, basic glass can undergo two or more stages of processing before being installed as original or replacement windows and glazing systems, or used as a component in Solar Energy, and a variety of other growing applications.

Within Automotive, glass is used in Original Equipment (OE) for new cars, specialized transport applications, including buses, trucks, trains and ships, and also in the manufacture of replacement parts for the aftermarket.

Global glass usage

Building	**90%**
New buildings	40%
Refurbishment	40%
Other (including Solar Energy)	20%
Automotive	**10%**
Original equipment	85%
Replacement market	15%

Market and competitive environment

85 percent of the NSG Group's sales are in flat glass.

The global market for flat glass in calendar year 2009 was approximately 52 million tonnes. At the level of primary manufacture, this represents a value of around €22 billion. Of this tonnage, around 70 percent is consumed in windows for buildings, 10 percent in glazing products for automotive applications and 20 percent used in domestic appliances, electronics, furniture and Solar Energy applications.

Europe, China and North America together account for 75 percent of demand for glass. Europe is the most mature glass market and has the highest proportion of value-added products.

Four companies; NSG Group, AGC, Saint-Gobain and Guardian, produce around 60 percent of the world's high-quality float glass. Much of the world's lower-quality float and sheet glass production is being replaced by high-quality float.

There are only three glass groups with global automotive glazing capability and presence. NSG Group (Pilkington Automotive), AGC and Saint-Gobain, together with their respective associates and strategic partners, supply 70 percent of the world's OE glazing requirements.

The NSG Group is increasingly leveraging its technical capabilities to penetrate more attractive, value-added market segments.

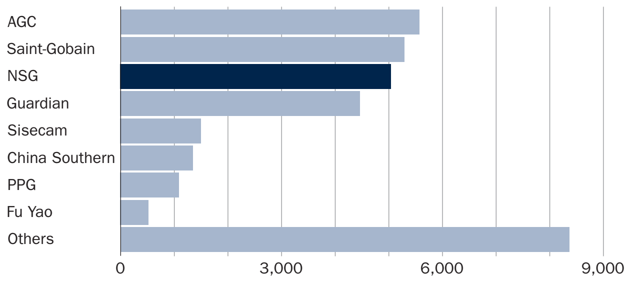
Industry economics

A float plant typically costs €70 million to €100 million to build, depending on size, location and planned product complexity. It will operate non-stop for a 'campaign' of between 10 and 15 years, making around 6,000 km of glass a year, before requiring refurbishment. A capacity utilization rate of above 70 percent is required for the plant to be profitable.

In Automotive, a typical European automotive glazing plant, with capacity to fully glaze one million cars a year, could cost between €45 million and €65 million, depending upon the technology employed, the degree of automation and its location.

World high-quality float glass capacities 2009

The NSG Group has 16 percent of global high-quality capacity



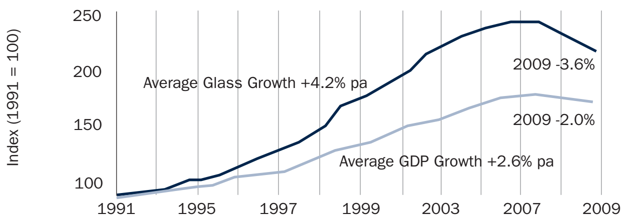
Growth in glass

Over the past 20 years, glass demand has grown more quickly than GDP. In spite of the current recession, over the long-term, glass demand is still growing at more than 4 percent per annum.

Demand growth for glass is driven not only by economic growth, but also by legislation and regulations concerning safety, noise attenuation and the response to the growing need for energy conservation. Architects and car designers are increasing their use of glass in buildings and vehicles, particularly value-added glass.

Demand for value-added products is growing at a faster rate than demand for basic glass, enriching the product mix and boosting the sales line. Value-added products, particularly coated, are delivering greater functionality in all application areas.

Global float demand and GDP growth



Value Growth – Buildings

Demand	Growth drivers
Energy-saving (heating)	Energy-saving legislation and building regulations; reduction of energy loss from buildings, energy labeling of windows.
Energy-saving (cooling)	Energy-saving legislation, reduction of air-conditioning load in buildings, preventing non-air-conditioned buildings from over-heating.
Safety/ security	Increasing legislative requirement for safety glass in certain applications. Requirement for transparency combined with security features.
Fire protection	Requirement for good light transmission and compliance with regulations on fire protection.
Acoustic	Increasing noise levels caused by traffic, aircraft, etc., progressively backed by legislation.
Self-cleaning	Reduction in use of detergents, safety at heights, extension of product range and features to increase functionality in commercial and domestic applications.
Solar Energy	Demand for renewable energy, stimulated by government support and feed-in tariffs.

Value Growth – Automotive

Demand	Growth drivers
Complexity	Designers see glazing as a crucial element in designs to differentiate vehicles.
Curvature	Styling demands increase the complexity and depth of curves in vehicle glazing.
Surface tolerance	Increasing depth and complexity of curvature makes surface tolerances critical, e.g. for efficient windscreen wiper operation.
Security	Crime and vandalism increase the need for security, provided by laminated side glazings.
Solar control	Larger glass areas require tinted and coated glazing to reduce solar gain and air-conditioning load.
Glazing systems	Reduced time to market and lean manufacturing require modularized glazing including trim and other fittings in one unit.
Integrated systems	Complex antenna arrays and electronics integrated into glazing.

Value Growth – Specialty Glass

Demand	Growth drivers
Thinner touch-screen interface	Move to touch-screen mobile devices requires thinner and lighter top-quality ultra-thin float glass.
High-quality energy-efficient office machinery	Demand for high-performance light guides and next-generation LED printers and copiers require high optical performance with low-energy usage.
High-performance batteries	Glass fiber battery separators help to assure improved capacity, stability and safety margins in the next generation of batteries.
Efficient engine timing belts	NSG Group glass cord is increasingly replacing chain in engine timing belts, enabling lifetime fitting of belts that resist stretching.
Reduction of traffic noise without light loss	Glass acoustic environmental screening attenuates noise without affecting light transmission, particularly useful in urban freeway settings.

In FY2010, Building Products sales were ¥244,236 million (¥347,833 million in FY2009) and operating loss was ¥9,614 million (¥10,622 million operating income in FY2009).

Building Products

PILKINGTON
NSG Group Flat Glass Business

Mark Lyons Head of Building Products Worldwide

Key message

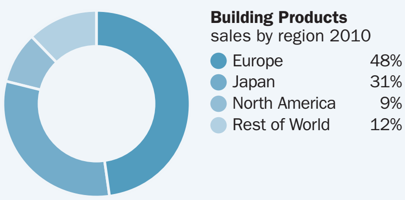
Architects increasingly seek to bring natural environmental factors into the interior of buildings by maximizing natural daylight. This has been achieved through the use of larger glazed areas in façades and roofs, and through entirely glazed façades where the glass is a structural component of the building. Our added-value products offer increasing functionality, often combined in a single product.

Glass has a key role in attempts to find cheaper and more efficient ways of generating power from the sun. Our products support the three leading Solar Energy technologies; thin-film, crystalline solar modules and concentrated solar power applications.

Sales by region

Contribution to Group sales 42%

Fiscal year ended 31 March 2010



Global review

Summary

The cumulative result for the year was significantly down on the previous year, due to lower volumes and reduced prices in difficult market conditions across all territories. Conditions improved during the third and fourth quarters as markets demonstrated tentative signs of growth.

Europe

Cumulative revenue was lower than in the previous year, due to lower prices and volumes in difficult markets and consequently profit performance was also lower. Price increases, implemented earlier in the year, have held relatively well since, experiencing some softening during the fourth quarter winter months.

Japan

Cumulative revenues fell, with continued weakness of commercial and residential construction markets leading to significantly reduced volumes. Losses narrowed as the year progressed, with cost savings increasingly offsetting the impact of the difficult market conditions.

North America

Revenues decreased on the prior year, due mainly to reduced prices. Headline prices declined steadily during the first three quarters of the year before stabilizing in the final quarter. Profits fell, as reduced input costs, the achievement of efficiency gains and an improving product mix were offset by lower market prices and reduced volumes.

Rest of the World

Revenues and profits were relatively robust. During the third and fourth quarters, the Group's businesses in South America and South East Asia benefited from increasing volumes and strengthening prices. In February, an earthquake in Chile temporarily halted production at the Group's float glass production facility in Concepción.

Outlook

In FY2011, a return to modest demand growth is anticipated in the developed markets of Japan, North America and Europe, following the declines of FY2009 and FY2010. In South America and South East Asia, demand is expected to be robust through FY2011.

The Solar Energy business will continue to grow, as will demand for energy-saving products in many markets.

Solar control
In warm weather, solar control products dramatically reduce the effect of the sun's heat, reducing air-conditioning load.

Thermal insulation
During cold weather, low-emissivity (low-e) products reflect heat back into buildings.

Fire protection
Specially developed glasses to protect lives and valuables from fire.

Noise control
Specialist glasses with enhanced acoustic insulating properties to meet the increasing demands for noise control.

Safety & security
Glass that is used to reduce risk of accident by impact, fracture or shattering and able to withstand deliberate attacks of various kinds.

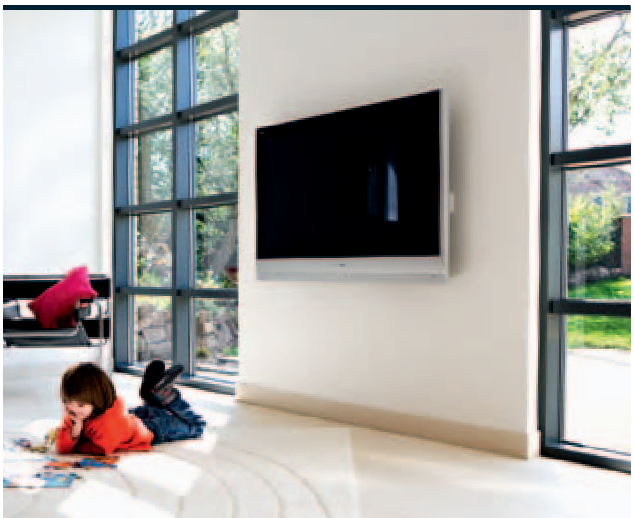
Self-cleaning
Pilkington Activ™ self-cleaning glass uses the forces of nature to maintain its clear appearance without leaving unsightly streaks.

Decoration
Glass that is used when privacy and decoration are the main requirements.

Glass systems
Pilkington Planar™ structural glazing system.

Special applications
A range of specialist glasses such as low-iron float, very thin float, curved glass and UMU™ switchable glass.

Solar Energy
Products used in solar energy applications, such as Pilkington Optiwhite™, Pilkington Sunplus™ and Pilkington TEC Glass™.



Low-e glazing – combining high thermal insulation and high light transmittance

In cold weather, low-emissivity (low-e) products reflect heat back into the building. Our thermal insulation products combine unrivalled thermal insulation with high light transmittance and lower reflectance for a more neutral appearance.

Our Spacia™ product was developed in Japan and was the world's first commercially available vacuum glazing, offering the thermal performance of conventional double glazing in the same thickness as single glass. Sales for this product are developing worldwide, particularly for use in historic buildings.

For the residential market, we have developed products combining thermal insulation and passive solar gain, helping domestic window companies meet homeowner demand for more energy-efficient windows.

Pilkington energiKare™ is a family of energy-efficient Insulating Glass Units innovatively using low-iron float glass Pilkington Optiwhite™ in combination with Pilkington K Glass™, to provide the best possible energy-efficient performance. The product is being used in both replacement windows for homes and in newly built dwellings utilizing both double and advanced triple glazing technology.

Our products support the three leading Solar Energy technologies

Glass has a key role to play in attempts to find cheaper and more efficient ways of generating power from the sun. Our products support the three leading Solar Energy technologies; thin film, crystalline solar modules and concentrated solar power applications.

Increasingly, electrically conductive glass is used in photovoltaic modules as the front contact of the solar cell, to form a system which generates a direct electrical current. Where the power feeds into a grid, it is first converted into alternating current.

The United States and the European Union in particular, are encouraging the production of renewable energy and in December 2008 the EU published the Renewable Energy Directive.

Carbon-trading schemes encourage CO_2 reductions, adding further impetus to the development of renewable energy options. US government schemes designed to encourage 'green' industries are also expected to play an important part in establishing renewable technologies.

In FY2010, Automotive sales were ¥265,017 million (¥299,096 million in FY2009) and operating income was ¥221 million (¥1,292 million in FY2009).

Automotive

PILKINGTON
NSG Group Flat Glass Business

Mike Fallon Head of Automotive Worldwide

Key message

One of only three glass groups in the world with global automotive glazing capability and presence, the NSG Group supplies all of the world's major automotive and specialized transport vehicle manufacturers under the Pilkington Automotive brand. Combined geographical presence now makes the NSG Group the largest global operator in automotive replacement glass distribution and wholesale.

We provide a full range of glazing solutions on a global basis to our customers, drawing heavily on our advanced technology, continuous improvement and standardization activities.

Sales by region

Contribution to Group sales 46%

Fiscal year ended 31 March 2010

Automotive
sales by region 2010

Europe	50%
North America	21%
Japan	17%
Rest of World	12%

Global review

Summary

Cumulative revenues were significantly below the level of the previous year. The decline in profitability was, however, less marked as the impact of lower volumes was partially offset by cost reductions.

Europe

In the European Original Equipment (OE) sector, cumulative revenues fell, due to reduced levels of demand, although several government scrappage schemes provided a temporary demand stimulus. The profit impact of the lower volumes was partially mitigated by savings generated by restructuring and tight control over costs. Results in the Automotive Glass Replacement (AGR) business were relatively robust, with revenues holding up well through the year.

Japan

Automotive revenues were significantly below last year in Japan, due to reduced levels of demand, although markets improved following the introduction of government incentive schemes. Profitability improved through the year as market conditions gradually improved and cost savings were realized.

North America

In North America, cumulative sales were significantly below the previous year, again due to reduced volumes. Volumes improved in the fourth quarter with strengthening vehicle sales as market conditions gradually improved. AGR profitability continued to be below prior year levels, due to both reduced demand and market prices.

Rest of the World

In the rest of the world, cumulative revenues were flat year on year, but profits were above the prior year level as emerging market regions held up relatively well compared to more developed markets.

Outlook

OE sales in South America, China and South East Asia continue to grow healthily. Japan and North America are expected to continue steady recovery, though sales in Europe could be flat or decline slightly following the removal of government incentives. Sales in AGR, particularly in Europe and South America, are holding up. Despite the anticipated difficult economic conditions, the business is continuing to develop new and high value-added products, with particular emphasis on eco-friendly solutions, strong continued focus on efficiency improvements and reduction of costs.

Thermal comfort | Visual comfort | Visual comfort | Atmospheric comfort | Integrated systems | Acoustic comfort | Safety | Security

Our Automotive products include solar control glass for passenger comfort, glass heating systems to control condensation and icing, security glazing, and glazing systems, including encapsulations, extrusions, and components such as rain sensors, hinges and clips, added after basic manufacturing.

We provide a full range of glazing solutions on a global basis to our customers, drawing heavily on our advanced technology, continuous improvement and standardization activities.

Original Equipment (OE)

Most of our OE production is focused on the volume light vehicle industry, serving all of the world's major vehicle manufacturers, including Toyota, GM, Ford, VW, Renault/Nissan, Chrysler, Mercedes, Fiat, Honda, PSA, BMW, Mitsubishi, Subaru and Suzuki, together with their respective subsidiary brands.

Of all such vehicles built in the world last year, around one in three contained glazing manufactured by Pilkington Automotive businesses.

We operate Automotive fabrication facilities throughout Europe, Japan, North America, South America, China and Malaysia; 32 locations in total, in 16 different countries.

Aftermarket (AGR)

We have well developed aftermarket distribution and wholesale networks throughout Europe and North America, with estimated market shares around 20 percent. We are also well established in serving the aftermarkets in Japan, South America and South East Asia.

In addition to glass, our product offering includes accessories needed for fitting, such as trims, urethane and tools and also extensive technical support.

Our products can reach end-users in the aftermarket by one of two main routes: through our own distribution chains, supplying independent retail fitters, or through vehicle manufacturers' dealer networks.

Specialized transport

We provide high-quality glazing solutions and value-added products to the original equipment manufacturers of specialized transport and utility vehicles. These include:

- buses and coaches;
- trucks;
- trams and metro systems;
- locomotives;
- train carriages;
- special cars and vans;
- recreational vehicles;
- tractors and combine harvesters;
- construction vehicles; and
- ships and pleasure craft (Pilkington Marine).

Our customers are recognized as world-leading manufacturers, with many operating on a global basis.

In FY2010, Specialty Glass sales were ¥66,112 million (¥75,397 million in FY2009) and operating income was ¥3,643 million (¥3,758 million in FY2009).

Specialty Glass

Keiji Yoshikawa Head of Specialty Glass Worldwide

Key message

Our Specialty Glass business operates in a number of discrete sectors, including the manufacture and sale of very thin glass for small displays, lenses and light guides for printers, as well as glass fiber products, such as battery separators and glass components for engine timing belts.

The NSG Group is a pioneer in the field of micro-optics, researching, developing and manufacturing a variety of optoelectronic products. Glass fiber has become a high-profile, high-tech material in a variety of fields: it is light and strong, heat-resistant, non-conductive and resistant to chemicals.

Sales by product

Contribution to Group sales 12%

Fiscal year ended 31 March 2010

Specialty Glass
sales by product 2010

Thin LCD glass	29%
Copiers/printer lenses	19%
Glass cord	14%
Acoustic insulation	12%
Battery separators	10%
Other	16%

Global review

Summary

Specialty Glass markets demonstrated steady improvement during the year. Revenues in Specialty Glass were below the prior year although profits were maintained at close to previous year levels.

The business had a slow start to the year, with weak export markets for printers and scanners. Profitability increased through the year, however, in line with a steady improvement in market conditions. During the year under review, the Group disposed of its Air Filters business, partly accounting for the decline in revenues from the previous year.

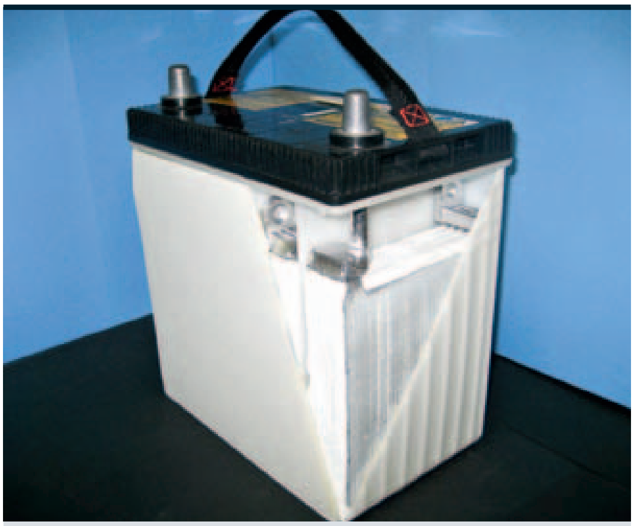
The largest segment of the Specialty Glass business is in displays, where the Group is globally recognized as a leading supplier of ultra-thin float glass, used in small to medium flat panel displays. In this sector, touch panel is a rapidly growing application.

Another segment includes patented optical products, such as SELFOC Lens Array (SLA™) and SELGUIDE™; used for multi-function printers, scanners and other compact office equipment. SLA™ is an important element in the development of LED technology applied to commodity printer markets. This sector has been impacted by reduced sales of office equipment worldwide, but there are now signs of improvement, particularly in Japan.

Outlook

The Specialty Glass business has already recovered from the global economic downturn and expects to be at the same level as the last half year.

Although overall annual sales may decline due to the sale of the Air Filters business, profits are expected to be underpinned by the implementation of a further cost reduction plan. Over the next few years, demand is expected to grow for the Group's optical lenses for multi-functional printers and Ultra Fine Flat Glass (UFF) for touch-screen applications. Sales of the Group's glass cord products are expected to benefit from the shift away from chain in automotive timing belts. Sales of the Group's glass fiber battery separators for fuel-efficient vehicles are expected to grow.



BATTERY SEPARATOR TECHNOLOGY –
An important role in the next generation of electric vehicles

We are world leaders in the development of advanced glass products for use in battery separators; sheets of non-conducting porous material between positive and negative plates in storage batteries. They prevent short circuits caused by plates bending and touching and greatly increase the efficiency of batteries.

Moves to achieve a low-carbon society have focused the automotive industry on the development of more fuel-efficient cars. Such vehicles require advanced performance batteries. The aim of our research is to improve the capacity, stability, power and safety margins of the next generation of batteries. Enhanced performance characteristics can enable the use of smaller and more powerful batteries in next-generation lower-emission vehicles. We are rising to this challenge, developing and expanding sales of separators for these new batteries.

DISPLAY PANELS IN COMMUNICATIONS DEVICES
Helping to cut power consumption and reduce need for peripherals

We are a world-leading supplier of ultra-thin glass for small LCD applications, helping to reduce power consumption in the display market. Our Ultra Fine Flat Glass (UFF) is produced in thicknesses as low as 0.3 to 1.1mm.

These products are increasingly being used in the growing touch-panel market, particularly in mobile devices and computers. This technology helps reduce the need for additional peripheral equipment, such as keyboards and printers.

Sustainability

Our new format NSG Group Sustainability Report retains much of the content of our former Corporate Social Responsibility Report, but signals an important change in our approach.

Key message

Over the past year, we have further strengthened our commitment to sustainability, with the publication of a Group Sustainability Policy. This underlines the important contribution our products make to addressing climate change and conserving energy, while recognizing that glass production is energy-intensive. We have reported our progress in an annual Sustainability Report.

We aim to move forward by balancing the needs of all our stakeholders, managing our environmental impacts, developing our people, encouraging innovation in processes and products, working in harmony with the communities in which we operate and encouraging our customers, contractors and suppliers to do the same.

We are all collectively responsible to those with whom we share one world to try to attain a more sustainable future for the next generation. As a global manufacturer of advanced glazing products that help save, manage and generate energy, the NSG Group has a significant role to play in this process.

Our sustainability agenda

The NSG Group is fully committed to sustainability. Our policies underline the unique contribution our products can make to addressing climate change and the challenges we face in improving our own energy usage and resource management.

We are constantly working to develop innovative new products and processes, offering increased benefits to our customers and the environment. We assess the life cycle impacts of our products and processes, seeking to reduce adverse environmental impact, maximizing the reuse or recovery of resources and exercising responsible stewardship of land we hold.

Key elements of our Sustainability Policy

- We value the health and safety of all our people above all other considerations.
- We develop innovative new products and processes that give increased sustainability benefits throughout their life cycle.
- We foster long-term partnerships with our suppliers, preferring those who share our commitment to sustainability.
- In assessing the life cycle impacts of our products and processes, we seek to reduce adverse environmental impact, maximize the reuse, recycling or recovery of resources and minimize the production of waste.
- We manage all materials responsibly in a manner commensurate with their environmental risk, and implement responsible stewardship of those lands for which we are accountable.

The NSG Group is fully committed to sustainability. Our policies underline the unique contribution our products can make to addressing climate change and the challenges we face in improving our own energy usage and resource management.

Glass and sustainability

Glass has a unique role to play in promoting sustainability, reducing greenhouse gas emissions and mitigating the effects of climate change. The 'energy balance' between manufacture of high-performance glazing products and their use, means that the energy used and CO_2 emitted in manufacture are quickly paid back through the lifetime of the products. The energy involved in glass-making should therefore be seen as an investment in future energy saving.

Our product range and R&D efforts are geared to addressing the challenges of a low-carbon world. In buildings, energy saving and carbon emission reduction requirements are driving tougher specifications for energy-saving glazing. In vehicle glazing, energy saving and weight reduction are increasingly important considerations. Our Specialty Glass business is developing battery technology for the next generation of electric and hybrid vehicles.

Glass has an important role to play in the development of the growing Solar Energy sector. The NSG Group supplies products for all three of the leading technologies, converting power from the sun into clean renewable energy.

Glass has a unique role to play in society's attempts to reduce greenhouse gas emissions and mitigate the effects of climate change. The energy used in making high-performance glass products is quickly paid back.

Employees

We operate as an integrated international Group, with a multinational management and 80 percent of our employees work outside Japan. We reflect diversity in our workforce and believe that the range of nationalities, skills, qualifications and experience available in our many operations are a positive benefit to our business. Our management style is to put the best person in each job, regardless of nationality or region.

Our Code of Conduct defines for all employees what is expected of them. It reflects our values and principles, particularly the emphasis on safety, taking personal ownership for actions and communicating with openness and involvement.

Our safety programs emphasize the importance of appropriate safe behavior and of individuals taking personal responsibility. All injuries at work are regarded as unnecessary and avoidable. No matter how minor, each one must be reported and investigated. Only by investigating and learning from such incidents will the desired levels of safety performance be achieved. Details of our progress on safety performance are shown in the Employees section of our 2009 Sustainability Report.

Customers

We aim to be the supplier of choice of our customers. This means that all our businesses must be the most efficient, most reliable and most responsive supplier. Most efficient means having the lowest delivered unit cost of what we supply.

Most reliable means that, having committed to a customer order, we deliver what they ordered, with the promised quality, when they expect it, in full, on time, every time, without quality issues or paperwork mistakes. Most responsive means that when our customers contact us by whatever method, they get an answer immediately. In other words, they know where they stand with us.

Shareholders

Effective communication with all our stakeholders is a priority for us. We aim to keep our shareholders informed through a focused international investor relations program. This encompasses regular communications throughout the financial year, through meetings, publications, plant visits and our websites.

In communicating with our shareholders, potential investors, the financial community regulatory authorities and the media, our aim is to provide transparency, timeliness and accuracy. Our overall objective is to provide as much information as possible to help our shareholders and potential shareholders understand our strategy and performance, to enable them to take investment decisions.

Suppliers

We purchase materials, goods and services from over 3,000 direct and critical indirect suppliers worldwide. Our Supplier Code of Conduct and related audits help ensure that our suppliers understand and comply with our standards. We aim to develop long-term partnerships with our suppliers, preferring those who share our commitment.

In June 2009, as part of our Sustainable Procurement Program, we launched a new Supplier Code of Conduct. It outlines behaviors, processes and procedures which we observe as the standards we expect from our suppliers.

Communities

We have around 28,500 permanent employees, with principal operations in 29 countries throughout Europe, Japan, North and South America, China and South and South East Asia. We do this in around 550 separate facilities worldwide – some large and some small. Each has an impact on the community in which it is based, by providing employment, investment and other benefits, but also having an impact on the environment.

We act as responsible members of our communities, by generating economic growth and supporting social, educational and cultural development.

The full-year results reflect the impact of the challenging conditions faced in our markets. Results during the year gradually improved with stabilized markets and the impact of our restructuring actions dramatically improving our cost base.

Finance Director's review

Mike Powell Group Finance Director

Results for the year

The global economic difficulties severely impacted the Group's results for the year, although our early restructuring actions and stabilized market conditions enabled the results towards the end of the year to be better than we had previously expected.

	Millions of yen	
	2010	2009
Revenue	**588,394**	739,365
Operating income before amortization	**861**	22,519
Amortization arising on acquisition of Pilkington plc	**18,044**	20,611
Operating (loss)/income	**(17,183)**	1,908
Non-operating income:		
Interest and dividend income	**2,709**	8,258
Equity in earnings of affiliates	**2,396**	1,585
Other non-operating income	**1,336**	1,526
Non-operating expense:		
Interest expense	**14,252**	19,956
Other non-operating expense	**3,558**	5,580
Ordinary loss	**(28,552)**	(12,259)
Extraordinary income	**9,313**	39,893
Extraordinary loss	**23,175**	41,149
Net loss before taxation and minority interest	**(42,414)**	(13,515)
Taxation	**2,476**	(12,833)
Minority interest in net income of subsidiaries	**(1,375)**	(2,044)
Net loss	**(41,313)**	(28,392)
Net loss per share – basic (yen)	**(65.61)**	(42.49)

Net sales

Sales decreased by 20 percent from ¥739,365 million to ¥588,394 million. The decrease was partly due to the translational impact of a further strengthening Japanese yen, and at constant exchange rates the reduction in sales was approximately 14 percent. Most of the sales decrease compared to the prior year occurred during the first two quarters. Since then, conditions have stabilized with some tentative improvements in certain markets.

Operating income

Operating income decreased from ¥1,908 million to a loss of ¥17,183 million. Operating income before amortization arising on the acquisition of Pilkington plc decreased from ¥22,519 million to ¥861 million. Amortization arising on the acquisition of Pilkington plc includes amortization of goodwill and other intangible assets generated on the date of the acquisition in June 2006. It does not include the routine amortization or depreciation of other tangible or intangible assets.

Operating income – Building Products

The Building Products business suffered from recessionary market conditions through most of the financial year. Markets did stabilize towards the end of the year, although this was at historically low levels of activity. In the Building Products business line, Europe represents 48 percent of sales, Japan 31 percent, and North America 9 percent. The rest arises in other areas of the world. In Europe, market conditions were difficult, with volumes being approximately 20 percent lower than the previous year. Market prices were also below the previous year as a consequence of the excess capacity caused by the low volumes. Consequently, profits were lower than last year. The Group's restructuring actions balanced capacity with demand as the year progressed and significant savings were delivered. In Japan, results deteriorated as the continued weakness of commercial and residential construction markets led to significantly reduced volumes. As in Europe, losses narrowed as the year progressed, with cost savings increasingly offsetting the impact of the difficult market conditions. In North America, profits fell, as reduced input costs, the achievement of efficiency gains and an improving product mix were offset by lower market prices, reduced volumes and the bankruptcy of a major customer. In the rest of the world, revenues and profits were relatively robust compared to the more developed markets. During the third and fourth quarters, the Group's businesses in South America and South East Asia benefited from increasing volumes and strengthening prices. In February, an earthquake in Chile resulted in the temporary cessation of production at the Group's float glass production facility in that country. The Group expects to recommence production in Chile during the coming financial year and is currently in discussions with its insurers regarding a potential claim.

As a result, the Building Products business line achieved sales of ¥244,236 million (¥347,833 million FY2009), and an operating loss of ¥9,614 million (income of ¥10,622 million FY2009).

Operating income – Automotive

In the Automotive Original Equipment (OE) business, volumes also reduced compared to the previous year but in many markets the impact of the global economic environment was partly mitigated by government vehicle purchase incentive schemes. The Automotive Glass Replacement (AGR) segment was less impacted by the recessionary conditions, with revenues and profits remaining relatively robust.

In the Automotive business line, Europe represents 50 percent of sales, Japan 17 percent and North America 21 percent. The rest arises in other areas of the world. In Europe, OE profits fell, due to reduced levels of demand, although several government incentive schemes provided a temporary demand stimulus. The impact of the lower volumes was partially mitigated by savings generated by restructuring and tight control over costs. Results in the AGR business were relatively robust, with revenues holding up well through the year. The picture in Japan was similar, with light vehicle sales approximately 10 percent below the levels of the previous year. Annual profits fell, although profitability improved through the year as market conditions gradually improved and cost savings were realized. In North America, earlier in the year, sales of new cars were aided by the US government's vehicle purchase incentive program. Sales initially declined following the conclusion of this scheme, but have since improved through the fourth quarter as consumer confidence slowly began to return. The AGR market proved challenging, with increasing pressure on both prices and volumes. In the rest of the world, cumulative revenues were flat year on year, while profits were above the prior year level as emerging market regions held up relatively well compared to more developed markets.

As a result, the Automotive business line achieved revenues of ¥265,017 million (¥299,096 million FY2009), and an operating income of ¥221 million (¥1,292 million FY2009).

Operating income – Specialty Glass

The Specialty Glass business had a slow start to the year, with weak export markets for printers and scanners. Profitability increased through the year, however, in line with a steady improvement in market conditions. Earlier in the year, the Group disposed of its Air Filters business, partly accounting for the decline in revenues from the previous year.

As a result, the Specialty Glass business line achieved sales of ¥66,112 million (¥75,397 million FY2009) and an operating income of ¥3,643 million (¥3,758 million FY2009).

Equity in earnings of affiliates

The share of profits from the Group's joint ventures and associates increased from ¥1,585 million to ¥2,396 million. Profits at Cebrace, the Group's joint venture company in Brazil, declined, although were still at satisfactory levels. Results in the Group's Building Products joint ventures and associates in China improved with robust market conditions.

Interest expenses and other non-operating items

Net interest expenses decreased slightly, with reduced average levels of indebtedness and a low global interest rate environment. Other non-operating expenses also decreased.

Extraordinary items

Extraordinary income was below the level of the previous year, due to the non-recurrence of gains on disposal of affiliates in FY2009. Extraordinary income in FY2010 comprised mainly gains from the disposal of other securities of ¥4,137 million and gains from the disposal of fixed assets of ¥1,809 million.

Extraordinary losses arose partly from the Group's restructuring programs, the details of which were announced on 29 January 2009 and 7 April 2009. Restructuring costs charged to extraordinary items were ¥4,629 million. Following this program, and in light of the continued weak economic environment, the Group has also conducted a thorough review of the accounting values of its fixed asset base, recording impairments of fixed assets of ¥10,669 million.

Taxation

The taxation credit of ¥2,476 million represents a taxation rate of 6 percent of net income before taxation. The tax credit consists of a current taxation charge of ¥5,538 million and a deferred taxation credit of ¥8,014 million.

Minority interests

Profits attributable to minority interests decreased by 33 percent, from ¥2,044 million to ¥1,375 million.

Net income per share

The basic net loss per share increased from ¥42.49 to a net loss per share of ¥65.61.

Dividends

A final dividend of ¥3 per share is being paid which, when added to the half-year dividend of ¥3 per share, gives a total dividend for the year of ¥6 per share, unchanged from the previous financial year.

Cash flows

Millions of yen	2010	2009
Operating cash flows before financial items	**29,552**	(12,321)
Interest received less interest paid	**(13,726)**	(8,657)
Income taxes paid	**(18,594)**	(11,619)
Net cash used in operating activities	**(2,768)**	(32,597)
Capital expenditure (net of disposals)	**(13,838)**	(39,386)
Acquisitions less divestments	**7,951**	41,975
Net cash outflow before dividends and financing	**(8,655)**	(30,008)

Operating cash flows before financial items decreased from an outflow of ¥12,321 million to an inflow of ¥29,552 million. The previous year included a non-recurring cash payment to settle the fine arising from the European Commission investigation into the European car glass market. Interest paid increased, due largely to the timing of interest payments with the underlying interest charge being largely flat. Taxation payments increased, again due mainly to timing issues. As a result, net cash provided by operating activities improved from an outflow of ¥32,597 million to an outflow of ¥2,768 million.

Capital expenditure, net of disposals, decreased by 65 percent, from ¥39,386 million to ¥13,838 million, reflecting both the timing of significant capital projects and the Group's efforts to reduce capital expenditure in order to preserve cash during the current economic downturn. Acquisitions less divestments were again positive, reflecting the disposal of the Group's downstream Building Products business in Switzerland and the majority of its downstream Building Products business in France, in addition to the disposal of other investment securities.

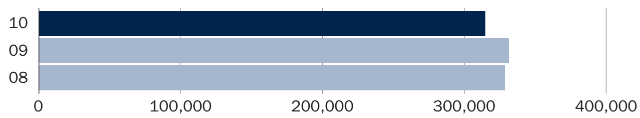
Funding and liquidity

Net debt

Net financial indebtedness decreased by ¥16,697 million from 31 March 2009 to ¥314,646 million at the year end, mainly due to the proceeds from the issuance of preference shares of ¥30,000 million, offset by restructuring expenditure in line with the Group's previously announced programs. Currency movements generated an increase in net debt of approximately ¥1,700 million over the year. Gross debt was ¥394,442 million at the year end.

The chart below shows how net debt has decreased following the acquisition of Pilkington plc in June 2008.

NET DEBT Millions of yen
Full year to 31 March



Sources of finance

The Group is financed by a combination of cash flows from operations, bank loans and corporate bonds. The chart at top right on page 29 analyzes the Group's sources of debt at 31 March 2010.

The Group refinances borrowings well before their due date and ensures that any uncommitted or short-term borrowings are supported by undrawn committed facilities. The Group aims to obtain its funding from a variety of sources and access markets globally as and when they are available to it.

The Group seeks to deal with relationship banks who are able to support its businesses worldwide with the services it requires and at the same time provide, where necessary, appropriate levels of credit. The chart at top left on page 29 shows the maturity of the Group's committed facilities.

During the year, the Group refinanced external debt of approximately ¥164,000 million. This includes new facilities signed on 24 March 2010 totalling approximately ¥52,000 million and maturing in September 2013. The total proceeds were used, following the year-end date, to prepay all remaining borrowings maturing in financial year 2011 and to provide sufficient levels of surplus headroom. In addition to the new debt facilities, the Group issued preference shares of ¥30,000 million during the year as announced on 10 August 2009. As at 31 March 2010, the Group had unused committed financial facilities of ¥52,000 million maturing in September 2013, and ¥40,000 million maturing in November 2013.

The Group has obtained long-term investment grade credit ratings from three rating agencies. The current ratings are Baa3 from Moody's, BBB from R&I and BBB+ from JCR. The Group aims to maintain these ratings and further reductions in net debt should underpin this objective. There were no changes to the Group's credit ratings during the year.

Shareholders' equity (net assets)

Shareholders' equity and minority interests decreased by 7 percent, from ¥257,223 million to ¥239,931 million. This was due to the net loss recorded, partially offset by the preferred shares issued during the period.

Treasury management

The Group has a global treasury function appropriate for the global nature of our business. The 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. The Board approves a set of financial counterparties noted for their strong credit standing. Treasury operations are reviewed annually by the Group Internal Audit Function, to ensure compliance with the Group's policies.

Risk management – foreign exchange and interest rates

The Group has major manufacturing operations in 29 countries and sales in around 130 countries. Assets are hedged where appropriate by matching the currency of borrowings to the net assets.

The Group borrows in a variety of currencies, principally, but not limited to, Japanese yen, euro, US dollars and sterling, 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. Material foreign exchange transactions are hedged when reasonably certain, usually through the use of foreign exchange forward contracts.

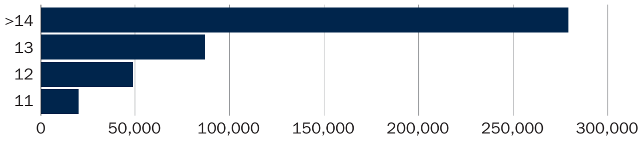
The Group does not engage in speculative trading of financial instruments or derivatives. However, risks arise in these transactions if the expected cash flow does not arise or if the highly rated financial counterparty does not perform its obligations under the contract. The policies require immediate cancellation of any derivative that is found to be no longer required.

Exposure to interest rate fluctuations on borrowings is managed by borrowing on either a fixed or floating basis and entering into interest rate swaps or forward rate agreements. The policy objective is to have a target proportion, currently 30 percent to 70 percent of forecast net borrowings, hedged at all times for a period of greater than one year. Foreign exchange contracts and interest rate swaps are transacted in such a way as to ensure deferral hedge accounting on some transactions.

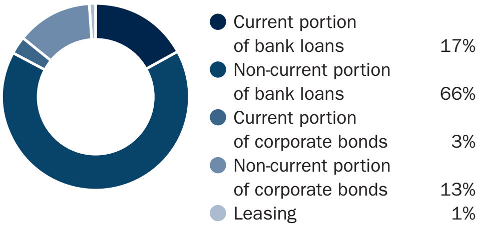
Risk management – commodities

The Group consumes significant amounts of energy and is exposed to energy price risk arising from this consumption, principally of oil and gas. The Group's risk management policy for energy is to hedge between 20 percent and 100 percent of anticipated purchases for the subsequent 12 months and between 10 percent and 80 percent for the next four years.

COMMITTED FACILITY MATURITIES Millions of yen



DEBT SOURCES



The financial instruments used for this purpose are energy swaps and are trades with highly rated financial counterparties. Risks arise in these transactions if the expected cash flow does not arise or if the highly rated financial counterparty does not perform its obligations under the contract. The policies require immediate cancellation of any derivative that is found to be no longer required.

Commodity hedging is transacted in order to ensure effectiveness of the hedge, therefore the Group usually benefits from deferral hedge accounting on all transactions.

Fair values of financial instruments

Financial instruments are shown on the balance sheet at the fair value on the balance sheet date. Fair values of derivatives are calculated with reference to forward exchange rates, interest rates or commodity prices in the financial markets on the balance sheet date. Expected future cash flows on these contracts are discounted to the balance sheet date. Where an instrument is tradable in the financial markets we use this market price as the fair value. Fair values are expected to change throughout the life of the instrument, such that this valuation is only relevant at the balance sheet date and may not equate to an actual price at which the instrument can be sold.

Cash and deposits

The Group invests cash balances and short-term money market balances with a selected group of credit-worthy financial institutions. Cash and deposits are short term and are used for the day-to-day operation of the business, interest accrues on cash balances at market interest rates, therefore the fair value of our cash and deposits equates to the balance sheet value.

Corporate governance and risk management

The Group has an established system of internal controls. These controls have been thoroughly documented and tested during the year, as part of the Group's ongoing J-SOX compliance program.

Contingencies

On 19 January 2009, EEIF Sub VI N.V., the Group's joint venture partner in Russia, exercised its put option over its 50 percent shareholding in Pilkington Nederland (No. 6) B.V., the joint venture company owning the Group's business in Russia, Pilkington Glass LLC. Subsequently, the Group reached an agreement with EEIF Sub VI N.V over the exercise price of the put option, which is based on a calculation of the market value of Pilkington Glass LLC, and as a result, paid consideration of €42.5 million (¥5,313 million) to EEIF Sub VI N.V. on 6 January 2010. Subsequent to this transaction, the Group has reached an agreement, subject to the consent of the debt-holding investors in Pilkington Glass LLC, to sell the shares acquired from EEIF Sub VI N.V, to a new joint venture partner, East Investing Ltd. As a result, the Group continues to account for Pilkington Nederland (No. 6) B.V as a joint venture using the equity method of accounting.

In 1989, Pilkington Holding GmbH (then known as Pilkington Deutschland GmbH) entered into a profit and loss pooling agreement with Dahlbusch AG and, accordingly, made a mandatory offer to acquire the minority interests in Dahlbusch AG. Certain minority shareholders have legally challenged the offer made as insufficient and court proceedings have been ongoing since 1989.

The Court of First Instance made its decision in December 2006 and issued its ruling in respect of this claim in February 2007. The Court found that the price should be €629 per preference share (instead of €578 as per the original offer) and €330 per ordinary share (instead of €292 as per the original offer).

In addition, Pilkington Holding GmbH was required to pay interest at a rate of 2 percent above the respective reference rates since March 1989, the time of the original offer. Pilkington Holding GmbH is entitled to deduct the paid guarantee dividend from the interest charge. The minority shareholders and Pilkington Holding GmbH both lodged an appeal against this decision.

In June 2009, the Higher Regional Court in Düsseldorf confirmed the earlier ruling of the Court of First Instance. A sum of €25 million (¥3,125 million) had already been provided at 31 March 2009 for payments to former shareholders and interest payments to remaining outstanding shareholders. Following the Court's decision, the majority of the then remaining outstanding shareholders decided to make use of the mandatory offer, resulting in an amount of €7.7 million (¥963 million) being paid to them. As the offer period expired on 10 September 2009 there is no further liability to the remaining outstanding shareholders. Add-on payments to former shareholders (who made use of the original mandatory offer) amounted to €21.7 million (¥2,713 million) including interest as at 31 March 2010, which was covered by provisions.

Add-on interest payments to shareholders who did not make use of the original mandatory offer amounted to €2.0 million (¥250 million), also covered by provisions. The remaining potential maximum claims for add-on payments amounted to €4.1 million (¥513 million), including interest as at 31 March 2010. These potential claims are subject to a limitation period of three years and will become statute-barred at 31 December 2012.

Mike Powell
Group Finance Director

Board of Directors

Katsuji Fujimoto*
Director
Chairman NSG Group

Tomoaki Abe**
Director
Vice-Chairman

Craig Naylor
Representative
Executive Director
President and CEO

Mike Powell
Executive Director
Group Finance Director

Mark Lyons
Executive Director
Head of Building
Products Worldwide

Mike Fallon
Executive Director
Head of Automotive
Worldwide

Keiji Yoshikawa
Executive Director
Head of Specialty Glass
Worldwide

Isao Uchigasaki
External Director

George Olcott***
External Director

Sumitaka Fujita
External Director

Seiichi Asaka
External Director

Hiroshi Komiya
External Director

* Chairman Nomination Committee
** Chairman Audit Committee
*** Chairman Compensation Committee

Five-year summary

Year ended 31 March	Millions of yen 2010	2009	2008	2007	2006	Millions of euro (Note 1a) 2010
Net sales	**588,394**	739,365	865,588	681,548	265,888	**4,707**
(Loss)/income before income taxes and minority interests	**(42,414)**	(13,515)	62,258	38,058	11,535	**(339)**
Net (loss)/income	**(41,313)**	(28,392)	50,417	12,096	7,764	**(331)**
Amounts per share (yen and euro)						
Net (loss)/income:						
Basic	**(65.61)**	(42.49)	75.44	21.85	17.52	**(0.52)**
Diluted	**–**	–	70.90	20.28	15.71	**–**
Cash dividends	**6.00**	6.00	6.00	6.00	6.00	**0.05**
Total assets	**933,721**	1,025,221	1,319,290	1,408,984	595,963	**7,470**
Total shareholders' equity	**302,544**	319,009	352,995	306,900	186,890	**2,420**
Number of permanent employees	**28,338**	31,436	32,587	35,811	12,736	

Note:
The translation of yen amounts into euro amounts is included solely for the convenience of readers outside Japan and has been made at ¥125 = €1.00, the exchange rate prevailing on 31 March 2010. This translation should not be construed as a representation that yen can be converted into euro at the above or any other rate.

Consolidated balance sheets

Nippon Sheet Glass Company Limited and consolidated subsidiaries
31 March 2010 and 2009

	Millions of yen		Millions of euro (Note 1a)
	2010	2009	**2010**
Assets			
Current assets			
Cash and cash equivalents (Notes 4 and 15)	**79,435**	94,525	**635**
Short-term investments (Note 4)	**361**	454	**3**
Trade notes and accounts receivable (Note 4)	**97,680**	94,291	**781**
Allowance for doubtful accounts (Note 4)	**(4,146)**	(3,815)	**(33)**
Inventories:			
Finished goods	**56,107**	69,335	**449**
Work in process and raw materials	**42,684**	44,491	**342**
Deferred income taxes (Note 9)	**560**	974	**5**
Other current assets	**24,765**	24,976	**198**
Total current assets	**297,446**	325,231	**2,380**
Property, plant and equipment, at cost (Notes 7 and 10)			
Land	**39,774**	46,483	**318**
Buildings and structures	**141,122**	147,014	**1,129**
Machinery, equipment and vehicles	**403,019**	407,800	**3,224**
Leased assets	**8,179**	8,089	**66**
Construction in progress	**1,486**	4,690	**12**
	593,580	614,076	**4,749**
Accumulated depreciation	**(310,440)**	(296,598)	**(2,484)**
Property, plant and equipment, net	**283,140**	317,478	**2,265**
Investments and other assets			
Investments in securities (Notes 4 and 5)	**7,818**	13,502	**63**
Investments in unconsolidated subsidiaries and affiliates (Note 4)	**51,406**	42,434	**411**
Goodwill	**122,653**	132,882	**981**
Deferred income taxes (Note 9)	**47,836**	48,363	**382**
Other assets	**123,422**	145,331	**988**
Total investments and other assets	**353,135**	382,512	**2,825**
Total assets	**933,721**	1,025,221	**7,470**

Consolidated balance sheets continued

	Millions of yen		Millions of euro (Note 1a)
	2010	2009	**2010**
Liabilities and net assets			
Current liabilities			
Short-term bank borrowings (Notes 4, 10 and 15)	**25,619**	23,530	**205**
Current portion of long-term debt (Notes 4 and 10)	**53,517**	64,292	**428**
Notes and accounts payable:			
Trade (Note 4)	**68,898**	61,871	**551**
Construction and other	**18,890**	16,694	**151**
Accrued expenses	**17,859**	31,536	**143**
Accrued income taxes (Note 9)	**6,023**	19,369	**48**
Provision for loss arising from enhanced early retirement program	**–**	245	**–**
Provision for Netherlands fine	**625**	2,590	**5**
Provision for warranties and claims	**7,225**	4,968	**58**
Provision for restructuring expenditure	**3,485**	10,941	**28**
Provision for German minority interests (Note 13c)	**353**	3,192	**3**
Deferred income taxes (Note 9)	**5,562**	3	**44**
Other current liabilities	**27,078**	30,084	**217**
Total current liabilities	**235,134**	269,315	**1,881**
Long-term liabilities			
Long-term debt (Notes 4 and 10)	**315,306**	338,500	**2,522**
Accrued retirement benefits (Note 8)	**59,319**	62,991	**475**
Allowance for rebuilding furnaces	**10,560**	10,159	**84**
Environmental provision	**7,401**	6,531	**59**
Deferred income taxes (Note 9)	**45,919**	62,271	**368**
Other long-term liabilities	**20,151**	18,231	**161**
Total long-term liabilities	**458,656**	498,683	**3,669**
Net assets			
Shareholders' equity (Notes 11 and 19):			
Capital stock:			
Common stock:			
Authorized – 1,775,000,000 shares in 2010 and 2009			
Issued – 669,550,999 shares in 2010 and 2009	**96,147**	96,147	**769**
Preferred stock:			
Authorized – 3,000,000 shares in 2010			
Issued – 3,000,000 shares in 2010	**–**	–	**–**
Capital surplus	**135,290**	105,287	**1,082**
Retained earnings	**71,696**	118,159	**574**
Treasury stock, at cost: 1,427,080 shares in 2010 and 1,398,921 shares in 2009	**(589)**	(584)	**(5)**
Total shareholders' equity	**302,544**	319,009	**2,420**
Valuation and translation adjustments:			
Net unrealized holding gain on securities (Note 5)	**836**	2,339	**7**
Net unrealized deferred loss on hedges (Note 6)	**(5,026)**	(10,756)	**(40)**
Translation adjustments	**(68,049)**	(63,944)	**(544)**
Total valuation and translation adjustments	**(72,239)**	(72,361)	**(577)**
Stock options (Note 11b)	**684**	493	**5**
Minority interests	**8,942**	10,082	**72**
Total net assets	**239,931**	257,223	**1,920**
Total liabilities and net assets	**933,721**	1,025,221	**7,470**

See the notes to the consolidated financial statements.

Consolidated statements of income

Nippon Sheet Glass Company Limited and consolidated subsidiaries
31 March 2010 and 2009

	Millions of yen		Millions of euro (Note 1a)
	2010	2009	**2010**
Net sales (Note 17)	**588,394**	739,365	**4,707**
Cost of sales (Note 14)	**440,055**	537,270	**3,520**
Gross profit	**148,339**	202,095	**1,187**
Selling, general and administrative expenses (Note 14)	**165,522**	200,187	**1,324**
Operating (loss)/income (Note 17)	**(17,183)**	1,908	**(137)**
Other income/(expenses):			
Interest and dividend income	**2,709**	8,258	**22**
Interest expense	**(14,252)**	(19,956)	**(114)**
Equity in earnings of affiliates	**2,396**	1,585	**19**
Gain on sales of fixed assets	**1,809**	1,337	**14**
Loss on disposal of fixed assets	**(164)**	(714)	**(1)**
Gain on sales of investments in securities (Note 5)	**4,137**	7,720	**33**
Loss on impairment of fixed assets (Note 7)	**(10,669)**	(9,899)	**(85)**
Loss on revaluation of investments in securities	**(6)**	(1,388)	**(0)**
Loss arising from alleged violation of Competition Law of the European Union	**–**	(7,773)	**–**
Restructuring expenditure	**(4,629)**	(15,375)	**(37)**
Gain on sales of investments in subsidiaries and affiliates	**771**	30,023	**6**
Other, net	**(7,333)**	(9,241)	**(59)**
	(25,231)	(15,423)	**(202)**
Loss before income taxes and minority interests	**(42,414)**	(13,515)	**(339)**
Income taxes (Note 9):			
Current	**5,538**	17,999	**44**
Deferred	**(8,014)**	(5,166)	**(63)**
	(2,476)	12,833	**(19)**
Loss before minority interests	**(39,938)**	(26,348)	**(320)**
Minority interests	**(1,375)**	(2,044)	**(11)**
Net loss (Note 16)	**(41,313)**	(28,392)	**(331)**

See the notes to the consolidated financial statements.

Consolidated statements of changes in net assets

Nippon Sheet Glass Company Limited and consolidated subsidiaries
31 March 2010 and 2009

Millions of yen

	Common stock	Preferred stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities
Balance at 31 March 2008	96,147	–	105,292	152,097	(541)	352,995	9,194
Net loss for the year	–	–	–	(28,392)	–	(28,392)	–
Cash dividends	–	–	–	(4,009)	–	(4,009)	–
Sales of treasury stock	–	–	(5)	–	24	19	–
Purchases of treasury stock	–	–	–	–	(67)	(67)	–
Decrease in retained earnings arising on initial inclusion of subsidiaries in consolidation	–	–	–	(1,537)	–	(1,537)	–
Net changes during the year except for items under shareholders' equity	–	–	–	–	–	–	(6,855)
Balance at 31 March 2009	96,147	–	105,287	118,159	(584)	319,009	2,339
Net loss for the year	**–**	**–**	**–**	**(41,313)**	**–**	**(41,313)**	**–**
Cash dividends	**–**	**–**	**–**	**(5,150)**	**–**	**(5,150)**	**–**
Issuance of preferred stock	**–**	**15,000**	**15,000**	**–**	**–**	**30,000**	**–**
Transfer to capital surplus	**–**	**(15,000)**	**15,000**	**–**	**–**	**–**	**–**
Sales of treasury stock	**–**	**–**	**3**	**–**	**10**	**13**	**–**
Purchases of treasury stock	**–**	**–**	**–**	**–**	**(15)**	**(15)**	**–**
Net changes during the year except for items under shareholders' equity	**–**	**–**	**–**	**–**	**–**	**–**	**(1,503)**
Balance at 31 March 2010	**96,147**	**–**	**135,290**	**71,696**	**(589)**	**302,544**	**836**

Millions of yen

	Net unrealized deferred loss on hedges	Translation adjustments	Total valuation and translation adjustments	Stock options	Minority interests	Total net assets
Balance at 31 March 2008	(128)	(3,627)	5,439	254	13,310	371,998
Net loss for the year	–	–	–	–	–	(28,392)
Cash dividends	–	–	–	–	–	(4,009)
Sales of treasury stock	–	–	–	–	–	19
Purchases of treasury stock	–	–	–	–	–	(67)
Decrease in retained earnings arising on initial inclusion of subsidiaries in consolidation	–	–	–	–	–	(1,537)
Net changes during the year except for items under shareholders' equity	(10,628)	(60,317)	(77,800)	239	(3,228)	(80,789)
Balance at 31 March 2009	(10,756)	(63,944)	(72,361)	493	10,082	257,223
Net loss for the year	**–**	**–**	**–**	**–**	**–**	**(41,313)**
Cash dividends	**–**	**–**	**–**	**–**	**–**	**(5,150)**
Issuance of preferred stock	**–**	**–**	**–**	**–**	**–**	**30,000**
Transfer to capital surplus	**–**	**–**	**–**	**–**	**–**	**–**
Sales of treasury stock	**–**	**–**	**–**	**–**	**–**	**13**
Purchases of treasury stock	**–**	**–**	**–**	**–**	**–**	**(15)**
Net changes during the year except for items under shareholders' equity	**5,730**	**(4,105)**	**122**	**191**	**(1,140)**	**(827)**
Balance at 31 March 2010	**(5,026)**	**(68,049)**	**(72,239)**	**684**	**8,942**	**239,931**

Consolidated statements of changes in net assets continued

Millions of euro (Note 1a)

	Common stock	Preferred stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities
Balance at 31 March 2009	769	–	842	946	(5)	2,552	19
Net loss for the year	–	–	–	(331)	–	(331)	–
Cash dividends	–	–	–	(41)	–	(41)	–
Issuance of preferred stock	–	120	120	–	–	240	–
Transfer to capital surplus	–	(120)	120	–	–	–	–
Sales of treasury stock	–	–	0	–	0	0	–
Purchases of treasury stock	–	–	–	–	(0)	(0)	–
Net changes during the year except for items under shareholders' equity	–	–	–	–	–	–	(12)
Balance at 31 March 2010	769	–	1,082	574	(5)	2,420	7

Millions of euro (Note 1a)

	Net unrealized deferred loss on hedges	Translation adjustments	Total valuation and translation adjustments	Stock options	Minority interests	Total net assets
Balance at 31 March 2009	(86)	(512)	(579)	4	81	2,058
Net loss for the year	–	–	–	–	–	(331)
Cash dividends	–	–	–	–	–	(41)
Issuance of preferred stock	–	–	–	–	–	240
Transfer to capital surplus	–	–	–	–	–	–
Sales of treasury stock	–	–	–	–	–	0
Purchases of treasury stock	–	–	–	–	–	(0)
Net changes during the year except for items under shareholders' equity	46	(32)	2	1	(9)	(6)
Balance at 31 March 2010	(40)	(544)	(577)	5	72	1,920

See the notes to the consolidated financial statements.

Consolidated statements of cash flows

Nippon Sheet Glass Company Limited and consolidated subsidiaries
31 March 2010 and 2009

	Millions of yen		Millions of euro (Note 1a)
	2010	2009	2010
Cash flows from operating activities			
Loss before income taxes and minority interests	(42,414)	(13,515)	(339)
Adjustments for:			
Depreciation and amortization of tangible and intangible assets other than goodwill	49,560	57,772	397
Amortization of goodwill	7,501	8,486	60
Loss on impairment of fixed assets	10,669	9,899	85
Increase/(decrease) in allowance for doubtful accounts	876	(198)	7
Decrease in accrued retirement benefits	(1,340)	(16,682)	(11)
Net (gain)/loss on sales of fixed assets	(872)	483	(7)
Gain on sales of investments in securities	(4,137)	(7,720)	(33)
Loss/(gain) on sales of investments in subsidiaries and affiliates	1,086	(30,023)	9
Loss on revaluation of investments in securities	6	1,388	0
Equity in earnings of affiliates	(2,396)	(1,585)	(19)
Interest and dividend income	(2,709)	(8,258)	(22)
Interest expense	15,261	19,956	122
(Increase)/decrease in trade notes, accounts receivable and other receivables	(12,696)	37,271	(102)
Decrease/(increase) in inventories	12,845	(9,971)	103
Increase/(decrease) in notes and accounts payable	736	(30,290)	6
Reversal of provision for loss arising from alleged violation of Competition Law of the European Union	–	(43,448)	–
(Decrease)/increase in provision for restructuring expenditure	(7,456)	13,296	(60)
Increase in allowance for rebuilding furnaces	401	395	3
Other, net	4,631	423	37
	29,552	(12,321)	236
Interest and dividend income received	5,797	10,861	46
Interest paid	(19,523)	(19,518)	(156)
Income taxes paid	(18,594)	(11,619)	(148)
Net cash used in operating activities	(2,768)	(32,597)	(22)

Consolidated statements of cash flows continued

	Millions of yen		Millions of euro (Note 1a)
	2010	2009	2010
Cash flows from investing activities			
Payments for time deposits	(361)	(196)	(3)
Proceeds from time deposits	454	994	4
Purchases of investments in securities	(17)	(671)	(0)
Proceeds from sales of investments in securities	7,668	9,705	61
Purchases of investments in affiliates	(7,016)	(2,559)	(56)
Proceeds from sales of investments in subsidiaries and affiliates	14,454	42,639	116
Purchases of property, plant and equipment	(15,746)	(42,635)	(126)
Proceeds from sales of property, plant and equipment	2,920	3,722	23
Purchases of other assets	(1,012)	(473)	(8)
Increase in short-term loans receivable included in other current assets	(2,055)	(6,727)	(16)
Increase in long-term loans receivable included in other assets	(10,720)	(115)	(86)
Proceeds from repayment of long-term loans receivable	5,544	476	44
Other, net	–	(1,571)	–
Net cash (used in)/provided by investing activities	(5,887)	2,589	(47)
Cash flows from financing activities			
Increase/(decrease) in short-term bank borrowings, net	441	(22,902)	3
Proceeds from long-term borrowings	144,846	98,160	1,159
Repayment of long-term borrowings	(176,030)	(65,858)	(1,408)
Proceeds from issuance of bonds	–	26,828	–
Redemption of bonds	–	(10,000)	–
Repayment of finance lease obligations	(3,087)	(3,847)	(25)
Proceeds from issuance of preferred stock	30,000	–	240
Cash dividends paid	(5,150)	(4,009)	(41)
Cash dividends paid to minority shareholders of consolidated subsidiaries	(862)	(2,465)	(7)
Other, net	(1,288)	(67)	(10)
Net cash (used in)/provided by financing activities	(11,130)	15,840	(89)
Effect of exchange rate changes on cash and cash equivalents	182	(15,710)	1
Net decrease in cash and cash equivalents	(19,603)	(29,878)	(157)
Cash and cash equivalents at beginning of the year	75,598	103,294	605
Increase due to change in scope of consolidation	–	2,182	–
Cash and cash equivalents at end of the year (Note 15)	55,995	75,598	448

See the notes to the consolidated financial statements.

Notes to the consolidated financial statements

Nippon Sheet Glass Company Limited and consolidated subsidiaries
31 March 2010 and 2009

1. Summary of significant accounting policies

(a) Basis of preparation
The accompanying consolidated financial statements of Nippon Sheet Glass Company Limited (the Company) and domestic consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (IFRS), and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

The Company applies the 'Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements' (PITF No. 18). In accordance with PITF No. 18, the accompanying consolidated financial statements have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with IFRS as adjusted for certain items including those for goodwill, actuarial differences and capitalized development costs.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically for the convenience of readers outside Japan.

The translation of Japanese yen into euro values is included solely for the convenience of readers outside Japan and has been made at ¥125 = €1.00, the exchange rate prevailing on 31 March 2010. This translation should not be construed as a representation that yen can be converted into euro at the above or any other rate.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended 31 March 2009 to the 2010 presentation. These reclassifications had no effect on consolidated net income or net assets.

(b) Principles of consolidation
The accompanying consolidated financial statements include the accounts of the Company and the significant companies which it controls directly or indirectly. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for in the accompanying consolidated financial statements by the equity method. As of 31 March 2010, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 223 and 20 (231 and 23 in 2009), respectively. The assets and liabilities of initially consolidated subsidiaries are stated at fair value as of their respective dates of acquisition.

Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

Differences between the cost and the underlying net equity at fair value of the consolidated subsidiaries, at their respective dates of acquisition, are amortized by the straight-line method, principally over a period of 20 years.

(c) Foreign currency translation
Assets and liabilities of overseas consolidated subsidiaries and affiliates are translated into yen at the exchange rates in effect at the respective balance sheet date. Revenue and expenses are translated at the average rates of exchange for the respective years. Differences arising from translation are reflected in 'translation adjustments' and 'minority interests' in the consolidated balance sheets.

(d) Cash and cash equivalents
Cash and cash equivalents as stated in the consolidated statements of cash flows, consist of cash in hand, deposits with banks withdrawable on demand, overdrawn bank balances and short-term investments which are readily convertible to cash, subject to an insignificant risk of any change in their value and which were purchased with an original maturity of three months or less.

(e) Allowance for doubtful accounts
The allowance for doubtful accounts is calculated based on historical experience of bad debts plus an estimate of certain uncollectible amounts determined after an analysis of specific individual receivables.

(f) Short-term investments and investments in securities
The accounting standard for financial instruments requires that securities other than equity securities issued by subsidiaries and affiliates be classified into three categories; trading securities; held-to-maturity debt securities; or other securities. Under this accounting standard, trading securities are carried at fair value and held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method. The Company and its consolidated subsidiaries did not hold any trading securities or held-to-maturity debt securities at 31 March 2010 and 2009.

(g) Derivatives
Derivatives are stated at fair value.

(h) Inventories
Inventories of the Company and its domestic consolidated subsidiaries are principally stated at the lower of cost or market value being determined by the moving average method.

Inventories held by overseas subsidiaries are stated at the lower of cost or net realizable value, determined by the first-in, first-out method.

(i) Property, plant and equipment
Depreciation is calculated at rates based on the estimated useful lives of the respective assets by the straight-line method. The estimated useful lives applied by the Company and domestic subsidiaries are principally as follows:

Buildings and structures	3-50 years
Machinery, equipment and vehicles	3-9 years

The estimated useful lives applied by the overseas subsidiaries are principally as follows:

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

Notes to the consolidated financial statements continued

1. Summary of significant accounting policies continued

(j) Intangible assets included in other assets
Amortization of intangible assets is calculated by the straight-line method. For computer software used in the Company and domestic consolidated subsidiaries within Japan, the estimated useful lives are determined within a period of five years. Intangible assets recognized upon acquisition of Pilkington, such as relationships with customers, brand, and developed technology, have depreciation periods not exceeding 20 years.

(k) Retirement benefits
Accrued retirement benefits for employees are provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets, as adjusted for unrecognized actuarial gain or loss and unrecognized past service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

Past 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.

For 2009, certain domestic consolidated subsidiaries have unfunded retirement benefit plans for their directors and corporate auditors. The funding required under these plans has been fully accrued in accordance with their respective internal rules.

(l) Allowance for rebuilding furnaces
In order to prepare for periodic large-scale repairs to furnaces, the allowance for rebuilding domestic furnaces in 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. Such an allowance is not made for furnaces outside Japan.

(m) Leases
The Company and its consolidated subsidiaries lease certain machinery, equipment and vehicles under non-cancelable lease agreements referred to as finance leases. Finance leases are capitalized as liabilities and leased assets are treated as though they were legally owned. All other lease transactions are accounted for as operating leases and relating payments are charged to income as incurred.

(n) Bond issuance expenses and share issuance expenses
Bond issuance expenses and share issuance expenses are charged to income as incurred.

(o) Research and development costs
Research and development costs are charged to income as incurred.

(p) Income taxes
Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to be reversed.

(q) Provision for German minority interests
The provision 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.

(r) Provision for warranties and claims
This provision is calculated based on expected future costs incurring from warranties and claims of products sold.

(s) Environmental provision
This provision is calculated based on expected future costs relating to preservation of the environment.

(t) Provision for restructuring expenditure
The Company has created a provision for restructuring expenditure. This provision covers the future costs associated with initiatives not yet paid at the balance sheet date.

(u) Provision for Netherlands fine
The Company has created a provision for potential future payments following an investigation undertaken by the Netherlands Competition Commission. The amount is calculated based on guidelines under Netherlands law.

(v) Hedge accounting
The Company and domestic consolidated subsidiaries adopt deferred hedge accounting for derivatives which qualify as hedges, under which unrealized gains or losses are deferred. Interest rate swaps which meet certain conditions are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt ('Exceptional method').

Derivative financial instruments are used to hedge the risks associated with fluctuations in foreign exchange rates, interest rates and fuel prices in accordance with internal rules.

The hedged items and the hedging instruments used by the Company and consolidated subsidiaries are as follows:

- Hedged items: Accounts receivable and accounts payable denominated in foreign currencies and forecast transactions denominated in foreign currencies

  Hedging instruments: Forward foreign exchange contracts
- Hedged item: Interest on borrowings

  Hedging instruments: Interest rate swaps
- Hedged items: Fuel prices

  Hedging instruments: Commodity swaps

The Company and its domestic consolidated subsidiaries evaluate the effectiveness of their hedging activities by comparing the market price fluctuations or the cumulative changes in cash flows on hedging instruments with those of the related hedged items from the commencement of the hedges on a semi-annual basis. For interest rate swaps, such effectiveness assessment is omitted unless they qualified for treatment under the 'Exceptional Method'.

1. Summary of significant accounting policies continued

Certain overseas consolidated subsidiaries account for their derivative transactions based on the terms of the respective contracts entered into at inception as follows:

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

ii. Cash flow hedges
The effective portion of changes in the fair value of derivatives, designated and qualifying as cash flow hedges, is recognized in valuation and translation adjustments at an amount net of the relevant tax effects. The gain or loss relating to the ineffective portion is recognized immediately and charged to income as incurred.

iii. Net investment hedges
Hedges of net investments in overseas operations are accounted for in a manner similar to that of cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in valuation and translation adjustments at an amount net of the relevant tax effects.

iv. Derivatives that do not qualify for hedge accounting.
Changes in the fair value of any derivative instruments not qualifying for hedge accounting are immediately charged or credited to income as incurred.

(w) Appropriation of retained earnings
Pursuant to the Corporation Law of Japan and the Articles of Incorporation of the Company, the appropriation of retained earnings, including the declaration of dividends with respect to a given financial period, is made by resolution of the Board of Directors. The accounts for the period, therefore, do not reflect such appropriations.

(x) Accounting for consumption tax
Transactions subject to consumption tax are shown net of this amount.

(y) Revenue recognition
Revenues and costs of construction contracts of which the percentage completion can be reliably estimated are recognized by the percentage of completion method. The percentage of completion is calculated by reference to the cost incurred as a percentage of the estimated total cost. The completed contract method is applied for contracts for which the percentage of completion cannot be reliably estimated.

2. Balance sheet date of consolidated subsidiaries

The 2010 consolidated results include all consolidated subsidiaries using a balance sheet date of 31 March 2010. During the year ended 31 March 2009, certain subsidiaries that had previously been consolidated as at a balance sheet date of 31 December were included in the income statement for a 15-month period such that they were consolidated with a balance sheet date of 31 March.

3. Changes in method of accounting and estimates

(a) Change in method of accounting
From this financial year, 'Partial Amendment to Accounting Standard for Retirement Benefits (Part 3)' (Accounting Standards Board of Japan Statement No. 19, issued on 31 July 2008) has been applied. The application of this accounting standard did not generate any impact on the Group's retirement benefit obligations and also did not have any impact on the Group's profit and loss.

From this financial year, 'Accounting Standard for Construction Contracts' (Accounting Standards Board of Japan Statement No. 15, issued on 27 December 2007) and 'Guidance on Accounting Standard for Construction Contracts' (Accounting Standards Board of Japan Guidance No. 18, issued on 27 December 2007) have been applied. Under the new accounting standard and guidance, revenues and costs of construction contracts that commenced on or after 1 April 2009, of which the percentage completion can be reliably estimated, are recognized by the percentage of completion method. The percentage of completion is calculated by reference to the cost incurred as a percentage of the estimated total cost. The completed contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated. The effect of this change was immaterial to the consolidated financial statements and segmental information for the year ended 31 March 2010.

(b) Changes in accounting estimates
With effect from the beginning of the year ended 31 March 2010, the Company, except for NSG UK Enterprises Ltd and its subsidiaries, started to record 'Provision for warranties and claims' providing an estimated amount based upon potential future payments that have become reliably measurable. Previously, the cost for companies, other than NSG UK Enterprises Ltd and its subsidiaries, was recorded when related invoices were received. Due to this change, ¥1,820 million (€15 million), an amount estimated as of 1 April 2009, was provided and posted to 'Other, net'. Consequently, operating loss decreased by ¥510 million (€4 million) and loss before income taxes and minority interests increased by ¥1,820 million (€15 million), compared to the year ended 31 March 2009. The effect of this change on segment information is explained in Note 17.

Except for NSG UK Enterprises Ltd and its subsidiaries, environmental costs were previously included in 'Other current liabilities'. Effective 1 April 2009, the Company, except for NSG UK Enterprises Ltd and its subsidiaries, started to record 'Environmental provision' providing an estimated amount based upon future payments that have become reliably measurable. Due to this change, ¥922 million (€7 million), an estimated amount as of 1 April 2009, was provided and posted to 'Other, net'. Consequently, 'Loss before income taxes and minority interests' increased by ¥922 million (€7 million), compared to the prior year. There was no effect from this change on the segment information.

Notes to the consolidated financial statements continued

4. Financial instruments

(a) Overview

i. Use of financial instruments

The Company and its subsidiaries (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 refinances borrowings well before their due date and ensures that any uncommitted or short-term borrowings are supported by un-drawn committed facilities. The Group aims to obtain its funding from a variety of sources and access markets globally as and when such funding is required.

The Group seeks to deal with Relationship Banks that are able to support its businesses worldwide with the services it requires and at the same time provide, where necessary, appropriate levels of credit.

The Group has obtained long-term investment grade credit ratings from three rating agencies. The current ratings are Baa3 from Moody's, BBB from Rating and Investment, Inc. and BBB+ from Japan Credit Rating Agency, Ltd. The Group aims to maintain these ratings, and further reductions in net debt should underpin this objective.

The Group invests cash balances into short-term investments, such as money market funds and certificates of deposit, with a selected group of credit worthy financial institutions.

The Group does not engage in speculative trading of financial instruments or derivatives.

ii. Types of financial instruments and the associated risk

Trade notes and accounts receivable are exposed to credit risks of each individual customer. The Group actively manages its exposure to such credit risks through regular reviews of balances and formal approval of credit limits. In some territories, the Group uses external credit insurance to protect the value of notes and accounts receivable. The Group provides specifically for the value of doubtful notes and accounts receivable and, as such, the carrying value of such items is equal to the fair value.

Investment in securities consists mainly of equity securities issued by the companies with whom the Group has a close business relationship and bond securities with higher credibility. These investments are exposed to market risks due to the fluctuation in market prices, and so the Group regularly monitors their fair values.

The majority of notes and accounts payable are settled within one year from the financial year end.

The treasury function manages the liquidity risk of the Group. It has procedures in place to manage the risk for the Group and responds appropriately based upon timely information reported from each business line.

The Group has a global treasury function appropriate for the global nature of our business. The treasury function is responsible for 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. The Board approves a set of financial counterparties noted for their strong credit standing. Treasury operations are reviewed annually by the Group Internal Audit Function, to ensure compliance with the Group's policies.

Risk management – foreign exchange and interest rates

The Group has major manufacturing operations in 29 countries and sales in around 130 countries. Assets denominated in foreign currencies are hedged where appropriate, for example by matching the currency of borrowings to those assets.

The Group borrows in a variety of currencies, principally, but not limited to Japanese yen, euro, US dollars and sterling, 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. Material foreign exchange transactions are hedged when reasonably certain, usually through the use of foreign exchange forward contracts.

The Group does not engage in speculative trading of financial instruments or derivatives. However, risks arise in these transactions if the expected cash flow does not arise or if the highly rated financial counterparty does not perform its obligations under the contract. The policies require immediate cancellation of any derivative that is found to be no longer required.

Exposure to interest rate fluctuations on borrowings is managed by borrowing on either a fixed or floating basis and entering into interest rate swaps or forward rate agreements. Foreign exchange contracts and interest rate swaps are transacted in order to ensure deferred hedge accounting on some transactions.

Risk management – commodities

The Group consumes significant amounts of energy and is exposed to energy price risk arising from this consumption, principally of oil and gas. The Group's risk management policy for energy is to hedge between 20 and 100 percent of anticipated purchases for the subsequent 12 months and between 10 and 80 percent for the next four years.

The financial instruments used for this purpose are energy swaps and are trades with highly rated financial counterparties. Risks arise in these transactions if the expected cash flow does not arise or if the highly rated financial counterparty does not perform its obligations under the contract. The policies require immediate cancellation of any derivative that is found to be no longer required.

Commodity hedging is transacted in such a way as to ensure effectiveness of the hedge and therefore the Group usually benefits from deferred hedge accounting on all transactions.

iii. Supplementary explanations of the fair values of financial instruments

Financial instruments are shown on the balance sheet at the fair value on the balance sheet date although there are some exceptions. As a general rule, the fair values of derivatives are calculated with reference to forward exchange rates, interest rates or commodity prices in the financial markets on the balance sheet date. However, when the future cash flows for the derivative can be reliably estimated, they are discounted to the balance sheet date. Where an instrument is tradable in the financial markets we use this market price as the fair value. Fair values are expected to change throughout the life of the instrument such that this valuation is only relevant at the balance sheet date and may not equate to an actual price at which the instrument can be sold.

4. Financial instruments continued

(b) Fair value information
The table below shows the carrying value, fair value and variance of each of the major financial instruments held by the Group as of 31 March 2010. Financial instruments, whose fair values are extremely difficult to measure reliably, are excluded from the table. Due to the first time implementation of the JGAAP requirement to disclose financial instruments in 2010, comparative data for 2009 is not required.

	Millions of yen		
	2010		
	Carrying value as at the balance sheet date	Fair value	Variance
Cash and cash equivalents	79,435	79,435	
Short-term investments	361	361	
	79,796	79,796	–
Trade notes and accounts receivable	97,680		
Allowance for doubtful accounts (Note i)	(3,604)		
	94,076	94,076	–
Investments in securities			
Joint ventures and associates	7,181	17,919	10,738
Other securities	6,523	6,523	–
Total financial assets	187,576	198,314	10,738
Trade notes and accounts payable	68,898	68,898	–
Short-term bank borrowings	25,619	25,619	–
Long-term bank borrowings (Note ii)	303,859	303,669	(190)
Bonds payable (Note iii)	60,000	59,736	(264)
Total financial liabilities	458,376	457,922	(454)
Derivative contracts (Note v)	(7,567)	(7,567)	–

	Millions of euro		
	2010		
	Carrying value as at the balance sheet date	Fair value	Variance
Cash and cash equivalents	635	635	
Short-term investments	3	3	
	638	638	–
Trade notes and accounts receivable	781		
Allowance for doubtful accounts (Note i)	(28)		
	753	753	–
Investments in securities			
Joint ventures and associates	57	143	86
Other securities	52	52	–
Total financial assets	1,500	1,586	86
Trade notes and accounts payable	551	551	–
Short-term bank borrowings	205	205	–
Long-term bank borrowings (Note ii)	2,431	2,429	(2)
Bonds payable (Note iii)	480	478	(2)
Total financial liabilities (Note iv)	3,667	3,663	(4)
Derivative contracts (Note v)	(61)	(61)	–

Notes:
i. The amount of allowance for doubtful accounts relates only to trade notes and accounts receivable.

ii. The amount of long-term bank borrowings includes a portion of borrowings maturing within one year.

iii. The amount of bonds payable includes a portion of bonds payable maturing within one year.

iv. Short-term and long-term finance lease liabilities are excluded from the fair value disclosure due to immateriality.

v. The amounts of derivative contracts are presented as the net of financial receivables and payables from the outstanding contracts, and are presented in negative value if financial payables exceed receivables.

Notes to the consolidated financial statements continued

4. Financial instruments continued

Fair valuation methods and notes about investments and derivatives

Financial asset items

Cash and cash equivalents and Trade notes and accounts receivable

These items are measured at carrying value, as they are settled within a short period and so their fair values are thought to be almost equal to the carrying values.

Investments in securities

Fair values of investments in equity securities are measured by reference to quoted market prices at stock exchanges. 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

Trade notes and accounts payable

Trade notes and accounts payable are measured at carrying value, as they are settled within a short period and so their fair values are thought to be almost equal to the carrying values.

Short-term and long-term bank borrowings

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

Bonds payable

Fair values of bonds payable with a market price are measured at the market price. Fair values of bonds payable with no market price are calculated by discounting aggregated future cash payments of interest and principal 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, accounted for by 'Exceptional method' under J-GAAP, are not fair valued separately, because the fair values are included in those 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.

Financial instruments whose fair values are extremely difficult to measure reliably

Unlisted equity securities (¥45,519 million (€364 million)) are not included in Investments in securities because it is extremely difficult to reliably measure their fair values, as such their market prices are not available and future cash flows from investments in the securities cannot be estimated.

Maturity profile of financial assets and investments in securities with fixed maturities

Millions of yen	2010			
	Due within one year	Due after one to five years	Due after five to 10 years	Due after 10 years
Cash and cash equivalents	79,435	–	–	–
Short-term investments	361	–	–	–
Trade notes and accounts receivable	97,680	–	–	–
Investments in securities				
Other securities with maturity				
Debt securities (Government bonds)	1	910	736	1,956
Total	177,477	910	736	1,956

Millions of euro	2010			
	Due within one year	Due after one to five years	Due after five to 10 years	Due after 10 years
Cash and cash equivalents	635	–	–	–
Short-term investments	3	–	–	–
Trade notes and accounts receivable	781	–	–	–
Investments in securities				
Other securities with maturity				
Debt securities (Government bonds)	0	7	6	16
Total	1,419	7	6	16

For the maturity profile of long-term debt please refer to Note 10.

5. Investments in securities

The Company and its consolidated subsidiaries did not hold any trading securities or held-to-maturity debt securities at 31 March 2010 and 2009.

Marketable securities classified as other securities at 31 March 2010 and 2009 are summarized as follows:

	2010			2009		Millions of yen
	Carrying value	Acquisition costs	Unrealized gain/(loss)	Carrying value	Acquisition costs	Unrealized gain/(loss)
Securities whose carrying value exceeds their acquisition costs						
Equity securities	2,811	1,796	1,015	6,772	2,958	3,814
Debt securities	3,207	2,570	637	3,570	3,316	254
Securities whose carrying value does not exceed their acquisition costs						
Equity securities	110	128	(18)	1,473	1,657	(184)
Debt securities	395	397	(2)	–	–	–
Total	6,523	4,891	1,632	11,815	7,931	3,884

			Millions of euro
			2010
	Carrying value	Acquisition costs	Unrealized gain/(loss)
Securities whose carrying value exceeds their acquisition costs			
Equity securities	22	14	8
Debt securities	26	21	5
Securities whose carrying value does not exceed their acquisition costs			
Equity securities	1	1	(0)
Debt securities	3	3	(0)
Total	52	39	13

At the year end, the Company and its consolidated subsidiaries compare the market value and the carrying value of each of their marketable equity securities. Impairment losses are recorded as appropriate.

Sales of other securities for the years ended 31 March 2010 and 2009 are summarized as follows:

	Millions of yen		Millions of euro
	2010	2009	2010
Sales			
Equity securities	7,155	9,705	57
Debt securities – government bonds	513	–	4
Total	7,668	9,705	61
Aggregate gain			
Equity securities	4,087	7,720	33
Debt securities – government bonds	50	–	0
Total	4,137	7,720	33
Aggregate loss			
Equity securities	–	58	–

Notes to the consolidated financial statements continued

6. Derivatives

Derivatives that did not qualify for deferred hedge accounting

The notional amounts and the estimated fair value of the derivative instruments outstanding which did not qualify for deferred hedge accounting at 31 March 2010 and 2009 were as follows:

(a) Currency-related transactions

	Millions of yen			
	2010			
	Contract value	Due after one year	Fair value	Gain/(loss)
Forward foreign exchange contracts				
Sell:				
Pound sterling	8,656	–	(7)	(7)
Euro	8,027	–	(5)	(5)
US dollar	7,160	–	(4)	(4)
Buy:				
Pound sterling	5,724	–	(332)	(332)
Euro	473	–	(36)	(36)
US dollar	131	–	0	0
Total	30,171	–	(384)	(384)

	Millions of yen		
	2009		
	Contract value	Fair value	Gain/(loss)
Forward foreign exchange contracts			
Sell:			
Euro	12,173	13,336	(1,163)
US dollar	2,425	2,525	(100)
Russian rouble	6,709	6,600	109
Brazilian real	290	273	17
Other	1,195	1,228	(33)
Buy:			
Pound sterling	484	469	(15)
Euro	7,588	8,079	491
US dollar	7,727	7,787	60
Canadian dollar	2,901	2,799	(102)
Other	2,166	2,244	78
Total	43,658	45,340	(658)

	Millions of euro			
	2010			
	Contract value	Due after one year	Fair value	Gain/(loss)
Forward foreign exchange contracts				
Sell:				
Pound sterling	69	–	(0)	(0)
Euro	64	–	(0)	(0)
US dollar	57	–	(0)	(0)
Buy:				
Pound sterling	46	–	(3)	(3)
Euro	4	–	(0)	(0)
US dollar	1	–	0	0
Total	241	–	(3)	(3)

Note:
The fair value of each contract is measured by reference to the price or index indicated by financial institutions.

6. Derivatives continued

(b) Interest-related transactions

Millions of yen, 2010

	Contract value	Due after one year	Fair value	Gain/(loss)
Interest rate swaps				
Receive/fixed and pay/floating	11,707	11,707	394	394
Receive/floating and pay/fixed	10,411	10,411	(1,336)	(1,336)
Total	22,118	22,118	(942)	(942)

Millions of yen, 2009

	Contract value	Fair value	Gain/(loss)
Interest rate swaps			
Receive/fixed and pay/floating	65,275	(526)	(526)
Receive/floating and pay/fixed	15,227	(1,581)	(1,581)
Total	80,502	(2,107)	(2,107)

Millions of euro, 2010

	Contract value	Due after one year	Fair value	Gain/(loss)
Interest rate swaps				
Receive/fixed and pay/floating	94	94	3	3
Receive/floating and pay/fixed	83	83	(11)	(11)
Total	177	177	(8)	(8)

Note:
The fair value of each contract is measured by reference to the price or index indicated by financial institutions.

Notes to the consolidated financial statements continued

6. Derivatives continued

Derivatives that did qualify for deferred hedge accounting

The notional amounts and the estimated fair value of the derivative instruments outstanding which did qualify for deferred hedge accounting at 31 March 2010 were as follows:

(a) Currency-related contracts

	Millions of yen		
	2010		
	Contract value	Due after one year	Fair value
Type: deferred hedge			
Hedged item: receivables and payables in foreign currencies			
Forward foreign exchange contracts			
Sell:			
Euro	121	–	(1)
US dollar	3,292	–	(100)
Buy:			
Euro	8	–	0
US dollar	18	–	0
Type: net investment hedge			
Hedged item: assets and liabilities denominated in foreign currencies			
Forward foreign exchange contracts			
Sell:			
Pound sterling	23,735	–	(48)
Buy:			
Pound sterling	29,343	–	(1,422)
Euro	3,657	–	(370)
Type: cash flow hedge			
Hedged item: receivables and payables in foreign currencies			
Forward foreign exchange contracts			
Sell:			
Pound sterling	8,150	232	148
Euro	3,795	–	167
US dollar	3,943	–	180
Buy:			
Pound sterling	6,366	–	(200)
Euro	2,889	–	(160)
US dollar	408	–	(43)
Other	399	–	14
Total	86,124	232	(1,836)

6. Derivatives continued

	Contract value	Due after one year	Fair value
	Millions of euro		
	2010		
Type: deferred hedge			
Hedged item: receivables and payables in foreign currencies			
Forward foreign exchange contracts			
Sell:			
Euro	1	–	(0)
US dollar	26	–	(1)
Buy:			
Euro	0	–	0
US dollar	0	–	0
Type: net investment hedge			
Hedged item: assets and liabilities denominated in foreign currencies			
Forward foreign exchange contracts			
Sell:			
Pound sterling	190	–	(0)
Buy:			
Pound sterling	235	–	(11)
Euro	29	–	(3)
Type: cash flow hedge			
Hedged item: receivables and payables in foreign currencies			
Forward foreign exchange contracts			
Sell:			
Pound sterling	65	2	1
Euro	31	–	1
US dollar	32	–	1
Buy:			
Pound sterling	51	–	(2)
Euro	23	–	(1)
US dollar	3	–	(0)
Other	3	–	0
Total	689	2	(15)

Note:
Due to the first time implementation of the JGAAP requirement to disclose derivatives for which hedge accounting is applied in 2010, comparative data for 2009 is not required. The fair value of each contract is measured by reference to the price or index indicated by financial institutions.

Notes to the consolidated financial statements continued

6. Derivatives continued

(b) Interest-related contracts

	Millions of yen		
	2010		
	Contract value	Due after one year	Fair value
Type: deferred hedge			
Hedge item: long-term debt			
Interest rate swaps			
Receive/floating and pay/fixed	22,500	22,500	(304)
Type: exceptional method			
Hedge item: long-term debt			
Interest rate swaps			
Receive/floating and pay/floating	8,700	8,700	Note 3
Receive/floating and pay/fixed	1,500	1,500	Note 3
Type: cash flow hedge			
Hedge item: long-term debt			
Interest rate swaps			
Receive/floating and pay/fixed	68,304	30,804	(2,833)
Total	101,004	63,504	(3,137)

	Millions of euro		
	2010		
	Contract value	Due after one year	Fair value
Type: deferred hedge			
Hedge item: long-term debt			
Interest rate swaps			
Receive/floating and pay/fixed	180	180	(2)
Type: exceptional method			
Hedge item: long-term debt			
Interest rate swaps			
Receive/floating and pay/floating	70	70	Note 3
Receive/floating and pay/fixed	12	12	Note 3
Type: cash flow hedge			
Hedge item: long-term debt			
Interest rate swaps			
Receive/floating and pay/fixed	546	246	(23)
Total	808	508	(25)

Notes:
1. Due to the first time implementation of the JGAAP requirement to disclose derivatives for which hedge accounting is applied in 2010, comparative data for 2009 is not required.
2. The fair value of each contract is measured by reference to the price or index indicated by financial institutions.
3. Fair values of interest swap contracts, accounted for by 'Exceptional method' under JGAAP, are not fair valued separately, because the fair values are included in those 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.

6. Derivatives continued

(c) Commodity-related contracts

	Millions of yen		
	2010		
	Contract value	Due after one year	Fair value
Type: deferred hedge			
Hedge item: forecast oil transaction			
Commodity swap contracts			
Oil swap contracts	6,726	3,251	(64)
Type: cash flow hedge			
Hedge item: forecast energy purchase			
Commodity swap contracts			
Energy swap contract	14,743	14,743	(1,204)
Total	21,469	17,994	(1,268)

	Millions of euro		
	2010		
	Contract value	Due after one year	Fair value
Type: deferred hedge			
Hedge item: forecast oil transaction			
Commodity swap contracts			
Oil swap contacts	54	26	(0)
Type: cash flow hedge			
Hedge item: forecast energy purchase			
Commodity swap contracts			
Energy swap contract	118	118	(10)
Total	172	144	(10)

Note:
Due to the first time implementation of the JGAAP requirement to disclose derivatives for which hedge accounting is applied in 2010, comparative data for 2009 is not required.

The fair value of each contract is measured by reference to the price or index indicated by financial institutions.

Notes to the consolidated financial statements continued

7. Loss on impairment of fixed assets

The Company and its consolidated subsidiaries recognized a loss on impairment of fixed assets for the years ended 31 March 2010 and 2009 as follows:

			2010	
Description	Location	Classification	Millions of yen	Millions of euro
Production facilities	Italy	Machinery, equipment, tools and fixtures	488	4
Other	Netherlands	Goodwill	137	1
Other	Switzerland	Goodwill	1,167	9
Factory	Chile	Buildings, machinery and equipment	530	4
Other	Denmark	Other intangible assets	51	0
Idle production facilities	Germany	Machinery and equipment	818	7
Production facilities	Germany	Machinery and equipment	152	1
Other	Hungary	Other intangible assets	189	1
Warehouse	Finland	Buildings, machinery and equipment	328	3
Other	France	Other intangible assets and goodwill	2,189	18
Factory	France	Buildings, machinery and equipment	1,362	11
Production facilities	UK	Machinery and equipment	1,761	14
Factory	UK	Land	461	4
Idle production facilities	UK	Machinery and equipment	96	1
Office	UK	Buildings	64	0
Other	UK	Computer software	33	0
Research and development	UK	Computer software	18	0
Production facilities	China	Machinery and equipment	163	1
Factory	China	Buildings	91	1
Factory	USA	Land and buildings	223	2
Production facilities	USA	Machinery and equipment	194	2
Idle production facilities	Chiba, Japan	Machinery and equipment, buildings, others	117	1
Idle production facilities	Mie, Japan	Buildings, machinery and equipment	37	0
Total			10,669	85

7. Loss on impairment of fixed assets continued

Description	Location	Classification	2009 Millions of yen
Idle production facilities	Asahikawa City, Hokkaido	Buildings	7
Warehouse	Kameda-gun, Hokkaido	Land	13
Lease facilities	Noshiro City, Akita	Buildings	2
Idle production facilities	Akita City, Akita	Land	73
Idle production facilities	Ichihara City, Chiba	Construction in progress	63
Production facilities	Ritto City, Shiga	Buildings, machinery, equipment and others	43
Idle production facilities	Iruma City, Saitama	Buildings and land	21
Factory	Misato City, Saitama	Land	143
Lease facilities	Kawagoe City, Saitama	Buildings and land	64
Idle production facilities	Misato City, Saitama	Buildings and others	103
Idle production facilities	Niigata City, Niigata	Buildings, land and others	46
Warehouse	Higashiosaka City, Osaka	Buildings and land	152
Dormitory	Suginami-ku, Tokyo	Buildings and land	38
Office	Morioka City, Iwate	Buildings, land and others	38
Lease facilities	Morioka City, Iwate	Buildings and land	3
Office	Osaki City, Miyagi	Buildings	3
Idle production facilities	Soh-gun, Kagoshima	Land	38
Lease facilities	Minami Satsuma City, Kagoshima	Buildings	4
Production facilities	China	Machinery, equipment and others	308
Idle production facilities	UK	Buildings, machinery, equipment and others	2,043
Research and development	UK	Intangible fixed assets	104
Idle production facilities	Finland	Machinery, equipment and others	1,569
Production facilities	Norway	Machinery, equipment and others	30
Production facilities	Germany	Buildings, machinery and equipment	456
Factory	Austria	Buildings, land, machinery and equipment	451
Idle production facilities	USA	Buildings, machinery and equipment	297
Idle production facilities	Canada	Buildings, machinery and equipment	1,495
Production facilities	Italy	Buildings, machinery and equipment	1,542
Production facilities	Spain	Buildings, machinery and equipment	576
Production facilities	Argentina	Machinery, equipment and others	22
Idle production facilities	China	Machinery and equipment	152
Total			9,899

The Company and its consolidated subsidiaries group their assets based on their business segment except for idle facilities which are considered separately because they are not applicable for business use.

Impairment loss is recognized on idle facilities which are not anticipated to be utilized in the future.

The carrying value of the items in the above table, except for the idle facilities, have been reduced to their respective recoverable amounts due to continuing losses from operating activities, which the Group has recognized in the current financial year.

The carrying amounts of the goodwill, that relate to the businesses which were classified as for sale, have been reduced to their fair value less costs to sell.

The recoverable amounts are measured based on net selling price and value in use. The net selling price of land is measured based on professional appraisals issued by real estate appraisers and the recoverable amounts of the other assets are based on reasonable estimates. Value in use is measured as the sum of the anticipated future cash flows discounted at an annual rate from 6 to 10.45 percent and from 6 to 11.5 percent for the years ended 31 March 2010 and 2009, respectively.

Notes to the consolidated financial statements continued

8. Retirement benefits

The Company and its consolidated subsidiaries operate various types of funded or unfunded defined benefit plans, covering substantially all employees who are entitled to lump sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs. Plan assets for retirement benefit plans are contributed to insurance companies or pension trusts. In addition to the defined benefit plans, some of the consolidated subsidiaries have defined contribution plans. Further, some of the subsidiaries in the USA, UK and other countries, also have medical insurance schemes for retirees. In certain cases, additional severance payments are made when employees retire.

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the consolidated balance sheets at 31 March 2010 and 2009 for the defined benefit plans of the Company and its consolidated subsidiaries:

	Millions of yen		Millions of euro
	2010	2009	**2010**
Retirement benefit obligation	**(305,223)**	(258,495)	**(2,442)**
Plan assets at fair value	**220,385**	179,353	**1,763**
Unfunded retirement benefit obligation	**(84,838)**	(79,142)	**(679)**
Unrecognized actuarial loss	**25,519**	16,334	**204**
Accrued retirement benefits	**(59,319)**	(62,808)	**(475)**

The retirement benefit obligation in the table above is calculated by independent external actuaries.

Accrued retirement benefits of ¥59,319 million (€475 million) and ¥62,991 million reflected in the accompanying consolidated balance sheets at 31 March 2010 and 2009, respectively, included accrued retirement benefits for directors and corporate auditors of certain domestic consolidated subsidiaries of nil and ¥183 million, at 31 March 2010 and 2009, respectively.

The components of retirement benefit expenses for the years ended 31 March 2010 and 2009 are outlined as follows:

	Millions of yen		Millions of euro
	2010	2009	**2010**
Service cost	**5,598**	5,149	**45**
Interest cost	**15,772**	19,026	**126**
Expected return on plan assets	**(10,132)**	(17,029)	**(81)**
Net actuarial loss recognized during the year	**3,284**	249	**26**
Past service costs recognized during the year	**221**	–	**2**
Payments into defined contribution pension plans	**4,000**	6,324	**32**
Total	**18,743**	13,719	**150**

The retirement benefit expenses of the domestic consolidated subsidiaries, which are calculated by simplified methods as allowed under the applicable accounting standard, have been included in 'service cost' in the above table.

For the years ended 31 March 2010 and 2009, the assumptions used in accounting for the above plans are as follows:

Year ended 31 March 2010	**Japan**	**Overseas**
Discount rate	**principally 2.0%**	**between 3.8% and 5.8%**
Expected rate of return on plan assets	**principally 2.0%**	**between 6.1% and 7.2%**

Year ended 31 March 2009	Japan	Overseas
Discount rate	principally 2.0%	between 3.7% and 7.3%
Expected rate of return on plan assets	principally 2.0%	between 6.2% and 7.2%

9. Income taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in aggregate, resulted in a statutory tax rate of approximately 40.5 percent for the years ended 31 March 2010 and 2009. Overseas subsidiaries are subject to the income tax regulations of the respective countries in which they operate.

Due to the loss recorded within the Group's income statement, the effective tax rate has not been presented for the year ended 31 March 2009 or 2010.

The significant components of deferred tax assets and liabilities at 31 March 2010 and 2009 were as follows:

	Millions of yen		Millions of euro
	2010	2009	2010
Deferred tax assets			
Allowance for doubtful accounts	2,156	2,141	17
Accrued expenses	1,174	886	9
Accrued retirement benefits	14,014	21,573	112
Allowance for rebuilding furnaces	2,831	2,838	23
Loss on revaluation of investments in securities	7,127	6,044	57
Non-deductible investments and other assets	1,816	2,081	15
Tax loss carryforward	31,839	22,355	255
Other	16,797	11,932	134
Gross deferred tax assets	77,754	69,850	622
Less valuation allowance	(29,358)	(20,365)	(235)
Total deferred tax assets	48,396	49,485	387
Deferred tax liabilities			
Unrealized holding gain on securities	(407)	(1,480)	(3)
Reserve for special depreciation (a reserve for tax purposes under the Corporation Tax Law of Japan)	(2,133)	(2,451)	(17)
Revaluation of net assets acquired upon acquisition of Pilkington plc at fair value	(29,799)	(35,325)	(239)
Accelerated depreciation	(16,595)	(21,410)	(133)
Undistributed earnings of overseas subsidiaries	(1,022)	(920)	(8)
Other	(1,525)	(836)	(12)
Total deferred tax liabilities	(51,481)	(62,422)	(412)
Net deferred tax liabilities	(3,085)	(12,937)	(25)

Notes to the consolidated financial statements continued

10. Short-term bank borrowings and long-term debt

The weighted average interest rates on gross borrowings for the years ended 31 March 2010 and 2009 were 1.99 and 3.54 percent, respectively.

In order to provide certainty of future financing, the Company has arranged committed credit facilities of ¥93,131 million (€745 million) and ¥88,222 million which were undrawn as at 31 March 2010 and 2009, respectively.

Long-term debt at 31 March 2010 and 2009 consisted of the following:

	Millions of yen		Millions of euro
	2010	2009	**2010**
Secured loans from banks and other financial institutions	**33,845**	189,189	**271**
Unsecured loans from banks and other financial institutions	**270,014**	145,622	**2,160**
Finance leases	**4,964**	7,981	**39**
1.77% unsecured bonds, due 8 September 2010	**10,000**	10,000	**80**
1.98% unsecured bonds, due 23 March 2012	**2,000**	2,000	**16**
2.24% unsecured bonds, due 22 May 2013	**20,000**	20,000	**160**
1.96% unsecured bonds, due 30 September 2015	**5,000**	5,000	**40**
Zero-coupon unsecured convertible bonds with stock acquisition rights, due 13 May 2011	**23,000**	23,000	**184**
Total	**368,823**	402,792	**2,950**
Less current portion included in current liabilities	**53,517**	64,292	**428**
	315,306	338,500	**2,522**

Zero-coupon unsecured convertible bonds with stock acquisition rights at the gross issuance amount of ¥23,000 million (€184 million) are convertible into shares of common stock of the Company at ¥542 (€4.34) per share during the period from 20 May 2004 to 6 May 2011.

Assets pledged as collateral for long-term loans from banks and other financial institutions of ¥33,961 million (€272 million) and ¥189,189 million at 31 March 2010 and 2009, respectively and short-term bank borrowings of ¥190 million (€2 million) at 31 March 2010 and 2009 were as follows:

	Millions of yen		Millions of euro
	2010	2009	**2010**
Land	**79**	215	**1**
Buildings and structures	**–**	277	**–**
Machinery, equipment and vehicles	**20,116**	20,914	**161**
Investments in consolidated subsidiaries	**312,532**	312,532	**2,500**
Total	**332,727**	333,938	**2,662**

The aggregate annual maturities of long-term debt as at 31 March 2010 are summarized as follows:

Year ending 31 March	Millions of yen	Millions of euro
2011	53,517	428
2012	40,922	327
2013	89,976	720
2014	123,331	987
2015	38,376	307
2016 and thereafter	22,701	181
Total	368,823	2,950

11. Shareholders' equity

(a) The Corporation Law of Japan (the Law), provides that an amount equal to 10 percent of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25 percent of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

Retained earnings include the legal reserve provided in accordance with the provisions of the Law. The legal reserve of the Company amounted to ¥6,377 million (€51 million) at 31 March 2010 and 2009.

Movements in stock during the years ended 31 March 2010 and 2009 are summarized as follows:

				Number of shares
	31 March 2009	Increase	Decrease	**31 March 2010**
Common stock	669,550,999	–	–	**669,550,999**
Preferred stock	–	3,000,000	–	**3,000,000**
	669,550,999	3,000,000	–	**672,550,999**
Treasury stock	1,398,921	55,182	27,023	**1,427,080**

				Number of shares
	31 March 2008	Increase	Decrease	31 March 2009
Common stock	669,550,999	–	–	669,550,999
Treasury stock	1,290,932	165,729	57,740	1,398,921

During the year ended 31 March 2010, the preferred stock of the Company was increased through an allocation of new shares (3,000,000 shares) to third parties.

The movement in treasury stock during the year ended 31 March 2010 was due to the purchase of odd-lot shares (55,182 shares), the exercise of stock options (22,000 shares) and the disbursement of odd-lot shares (5,023 shares).

The movement in treasury stock during the year ended 31 March 2009 was due to the purchase of odd-lot shares (165,729 shares) and the disbursement of odd-lot shares (57,740 shares).

(b) In accordance with the former Commercial Code and the Law, stock option plans for certain directors, certain executive officers and certain officers *(Riji)* of the Company were approved at ordinary general meetings of the shareholders, a meeting of the Board of Directors of the Company, and/or the Representative Executive Director. The stock options issued in July 2004 were approved by shareholders of the Company on 29 June 2004. The stock options issued in August 2005 were approved by shareholders of the Company on 29 June 2005. The stock options issued in August 2006 were approved by shareholders of the Company on 29 June 2006. The stock options issued in September 2007 were approved by the Board of Directors of the Company on 30 August 2007. The stock options issued in September 2008 were approved by the Board of Directors of the Company on 28 August 2008. The stock options issued in September 2009 were approved by the Representative Executive Director on 14 September 2009.

The Company recognized selling, general and administrative expenses amounting to ¥203 million (€2 million) and ¥239 million in relation to stock options for the years ended 31 March 2010 and 2009, respectively.

Notes to the consolidated financial statements continued

11. Shareholders' equity continued

The stock option plans of the Company are summarized as follows:

	Stock options (issued July 2004)	Stock options (issued August 2005)	Stock options (issued August 2006)	Stock options (issued September 2007)	Stock options (issued September 2008)	Stock options (issued September 2009)
Number and category of grantees of stock options	Directors (exclusive of external directors) (6 persons) Executive officers (15 persons)	Directors (exclusive of external directors) (6 persons) Executive officers (15 persons)	Directors exclusive of external directors) (7 persons) Executive officers (15 persons)	Directors (exclusive of external directors) (7 persons) Executive officers (6 persons) Officers *(Riji)* (10 persons)	Directors (exclusive of external directors) (4 persons) Executive officers (11 persons) Officers *(Riji)* (10 persons)	Directors (exclusive of external directors) (4 persons) Executive officers (10 persons) Officers *(Riji)* (7 persons)
Number of stock options granted per class of shares	Common stock 455,000	Common stock 495,000	Common stock 345,000	Common stock 281,000	Common stock 461,000	Common stock 796,000
Grant date	30 July 2004	1 August 2005	31 August 2006	28 September 2007	27 September 2008	30 September 2009
Conditions for vesting of stock options	Those who hold stock options must remain employees from a grant date on 30 July 2004 to a vesting date on 30 June 2006 to exercise the stock options except for holders' mandatory retirement, end of tenure or other due reasons.	Those who hold stock options must remain employees from a grant date on 1 August 2005 to a vesting date on 30 June 2007 to exercise the stock options except for holders' mandatory retirement, end of tenure or other due reasons.	Those who hold stock options must remain employees from a grant date on 31 August 2006 to a vesting date on 30 June 2008 to exercise the stock options except for holders' mandatory retirement, end of tenure or other due reasons.	N/A	N/A	N/A
Period of service to which stock option rights are granted	From 30 July 2004 to 30 June 2006	From 1 August 2005 to 30 June 2007	From 31 August 2006 to 30 June 2008	N/A	N/A	N/A
Period in which stock option rights can be exercised	From 1 July 2006 to 28 June 2014	From 1 July 2007 to 28 June 2015	From 1 July 2008 to 28 June 2016	From 29 September 2007 to 28 September 2037	From 28 September 2008 to 27 September 2038	From 1 October 2009 to 30 September 2039

11. Shareholders' equity continued

Stock option activities during the year ended 31 March 2010 were as follows:

	2010 plan	2009 plan	2008 plan
Number of shares:			
Outstanding at beginning of the year	**–**	461,000	281,000
Granted	**796,000**	–	–
Exercised	**–**	(13,000)	(9,000)
Expired	**–**	–	–
Outstanding at end of the year	**–**	–	–
Exercisable at end of the year	**796,000**	448,000	272,000
Price information:			
Exercise price	**1**	1	1
Weighted average price of shares when exercised	**–**	256	256
Fair value of unit price	**255**	498	666

	2007 plan	2006 plan	2005 plan
Number of shares:			
Outstanding at beginning of the year	345,000	495,000	455,000
Granted	–	–	–
Exercised	–	–	–
Expired	–	–	–
Outstanding at end of the year	–	–	–
Exercisable at end of the year	345,000	495,000	455,000
Price information:			
Exercise price	578	466	418
Weighted average price of shares when exercised	–	–	–
Fair value of unit price	221	–	–

Note:
Number of stock options granted is translated into the same number of shares.

Method for estimating fair value per share of stock options

The fair value per share of the 2010 plan granted during the year ended 31 March 2010 was estimated as follows:

1. Technique of estimation used: the Black-Scholes Model
2. Basic factors taken into account for the estimation:

	Stock options (issued in September 2009)
Expected volatility of the share price (Note 1)	44.8%
Expected remaining life of the option (Note 2)	8 years
Expected dividend (Note 3)	¥6 per share
Risk-free interest rate (Note 4)	1.018%

Notes:
1. The volatility of the share price is estimated by taking into account the actual share prices for eight years (from 10 October 2001 to 30 September 2009).
2. Expected remaining life of the option is estimated reflecting the actual conditions, taking into account that any person to whom the stock options were allotted may exercise the stock options five years after the holders' tenure as a director, an executive officer, or an officer *(Riji)* had ended.
3. Based on the actual dividend for the year ended 31 March 2009.
4. Risk-free interest rate represents the yield on government bonds for the period that corresponds to the expected remaining life of the option.

Notes to the consolidated financial statements continued

11. Shareholders' equity continued

Stock option activities during the year ended 31 March 2009 were as follows:

	2009 plan	2008 plan	2007 plan	2006 plan	2005 plan
Number of shares:					
Outstanding at beginning of the year	–	281,000	345,000	495,000	455,000
Granted	461,000	–	–	–	–
Exercised	–	–	–	–	–
Expired	–	–	–	–	–
Outstanding at end of the year	–	–	–	–	–
Exercisable at end of the year	461,000	281,000	345,000	495,000	455,000
Price information:					
Exercise price	1	1	578	466	418
Weighted average price of shares when exercised	–	–	–	–	–
Fair value of unit price	498	666	221	–	–

Note:
Number of stock options granted is translated into the same number of shares.

Method for estimating fair value per share of stock options
The fair value per share of the 2009 plan granted during the year ended 31 March 2009 was estimated as follows:

1. Technique of estimation used: the Black-Scholes Model
2. Basic factors taken into account for the estimation:

	Stock options (issued in September 2008)
Expected volatility of the share price (Note 1)	44.3%
Expected remaining life of the option (Note 2)	8 years
Expected dividend (Note 3)	¥6 per share
Risk-free interest rate (Note 4)	1.309%

Notes:
1. The volatility of the share price is estimated by taking into account the actual share prices for eight years (from 26 September 2000 to 26 September 2008).
2. Expected remaining life of the option is estimated reflecting the actual conditions, taking into account that any person, to whom the stock options were allotted, may exercise the stock options five years after the holders' tenure as a director, an executive officer, or an officer *(Riji)* had ended.
3. Based on the actual dividend for the year ended 31 March 2008.
4. Risk-free interest rate represents the yield on government bonds for the period that corresponds to the expected remaining life of the option.

12. Leases

Future minimum lease payments to be made under non-cancelable operating leases subsequent to 31 March 2010 are summarized as follows:

	Millions of yen	Millions of euro
Due in one year or less	**2,099**	**17**
Due after one year	**15,082**	**121**
Total	**17,181**	**138**

13. Contingent liabilities

(a) Trade notes receivable endorsed
At 31 March 2010, the Company and its consolidated subsidiaries were contingently liable for trade notes receivable endorsed of ¥1,048 million (€8 million).

(b) Guarantees of loans
At 31 March 2010, the Company and its consolidated subsidiaries were contingently liable for guarantees of loans of unconsolidated subsidiaries and affiliates amounting to ¥3,722 million (€30 million) in aggregate. These amounts include contingent guarantees and letters of awareness amounting to ¥80 million (€1 million) in the aggregate.

13. Contingent liabilities continued

(c) Minority interests – Germany

In 1989, Pilkington Holding GmbH (then known as Pilkington Deutschland GmbH) entered into a profit and loss pooling agreement with Dahlbusch AG and, accordingly, made a mandatory offer to acquire the minority interests in Dahlbusch AG. Certain minority shareholders have legally challenged the offer made as insufficient and court proceedings have been ongoing since 1989. The Court of First Instance made its decision in December 2006 and issued its ruling in respect of this claim in February 2007. The Court found that the price should be €629 per preferred share (instead of €578 as per the original offer) and €330 per ordinary share (instead of €292 as per the original offer). In addition, Pilkington Holding GmbH was required to pay interest at a rate of 2 percent above the respective reference rates since March 1989, the time of the original offer. Pilkington Holding GmbH is entitled to deduct the paid guarantee dividend from the interest charge. The minority shareholders and Pilkington Holding GmbH both lodged an appeal against this decision.

In June 2009, the Higher Regional Court confirmed the earlier ruling of the Court of First Instance. A sum of €25 million (¥3,125 million) had already been provided at 31 March 2009 for payments to former shareholders and interest payments to remaining outstanding shareholders. Following the Court's decision, the majority of the then remaining outstanding shareholders decided to make use of the mandatory offer, resulting in an amount of €7.7 million (¥963 million) being paid to them. As the offer period expired on 10 September 2009, there is no further liability to the remaining outstanding shareholders. Add-on payments to former shareholders (who made use of the original mandatory offer) amounted to €21.7 million (¥2,713 million), including interest as at 31 March 2010, which was covered by provisions. Add-on interest payments to shareholders who did not make use of the original mandatory offer amounted to €2 million (¥250 million) also covered by provisions. The remaining potential maximum claims for add-on payments amounted to €4.1 million (¥513 million), including interest as at 31 March 2010. These potential claims are subject to a limitation period of three years and will become statute-barred at 31 December 2012.

14. Research and development costs

Costs relating to research and development activities charged to cost of sales and selling, general and administrative expenses amounted to ¥12,071 million (€97 million) and ¥10,526 million for the years ended 31 March 2010 and 2009, respectively.

15. Supplementary cash flow information

Reconciliation of cash and cash equivalents

Reconciliation of cash and cash equivalents presented in the accompanying consolidated balance sheets at 31 March 2010 and 2009 and cash and cash equivalents presented in the accompanying consolidated statements of cash flows for the years then ended are as follows:

	Millions of yen		Millions of euro
	2010	2009	**2010**
Cash and cash equivalents presented in the consolidated balance sheet	**79,435**	94,525	**635**
Overdraft included in short-term bank borrowings	**(23,440)**	(18,927)	**(187)**
Cash and cash equivalents presented in the consolidated statement of cash flows	**55,995**	75,598	**448**

16. Amounts per share

Amounts per share at 31 March 2010 and 2009 and for the years then ended were as follows:

	Yen		Euro
	2010	2009	**2010**
Net assets	**297.73**	369.15	**2.38**
Net income:			
Basic	**(65.61)**	(42.49)	**(0.52)**
Diluted	**–**	–	**–**
Cash dividends	**6.00**	6.00	**0.05**

Net assets per share are based on the number of shares of common stock outstanding at the year end.

Basic net income per share is computed on the basis of the weighted-average number of shares of common stock outstanding during each year. Diluted net income per share is computed on the basis of the weighted-average number of shares of common stock outstanding during each year, after giving effect to the dilutive potential of the shares of common stock to be issued upon the conversion of convertible bonds and the exercise of stock acquisition rights. Due to the loss recorded for the year ended 31 March 2010 and 2009, diluted net income is not presented. Cash dividends per share represent the cash dividends declared as applicable to the respective years.

The Interim dividend for the preferred shares was ¥1,143 million (€9 million) or ¥381 (€3.05) per share.

Notes to the consolidated financial statements continued

17. Segment information

(a) Business segments

The Building Products segment includes principally the manufacture and sale of flat glass and various interior and exterior materials with additional properties for the building market.

The Automotive segment provides a wide range of automotive glazing for new vehicles and for replacement markets.

The Specialty Glass segment operates in five niche markets. The most important sectors are in ultra-thin glass for displays and patented optical products used in office machinery. The others include the manufacture and sale of glass fiber products, such as battery separators and components for engine timing belts.

The Other segment covers corporate costs and engineering income, but also includes small businesses not included in the Building Products, Automotive and Specialty Glass segments.

The business segment information for the years ended 31 March 2010 and 2009 is summarized as follows:

Millions of yen

	Year ended 31 March 2010						
	Building Products	**Automotive**	**Specialty Glass**	**Other**	**Total**	**Eliminations**	**Consolidated**
Sales and operating income/(loss)							
External sales	**244,236**	**265,017**	**66,112**	**13,029**	**588,394**	**–**	**588,394**
Inter-segment sales	**12,015**	**2,449**	**1,219**	**4,323**	**20,006**	**(20,006)**	**–**
Net sales	**256,251**	**267,466**	**67,331**	**17,352**	**608,400**	**(20,006)**	**588,394**
Operating expenses	**265,865**	**267,245**	**63,688**	**28,785**	**625,583**	**(20,006)**	**605,577**
Operating income/(loss)	**(9,614)**	**221**	**3,643**	**(11,433)**	**(17,183)**	**–**	**(17,183)**
Total assets, depreciation and amortization, impairment loss and capital expenditure							
Total assets	**350,387**	**371,940**	**65,217**	**146,177**	**933,721**	**–**	**933,721**
Depreciation and amortization	**23,520**	**26,351**	**3,584**	**3,606**	**57,061**	**–**	**57,061**
Impairment loss	**5,075**	**1,861**	**144**	**3,589**	**10,669**	**–**	**10,669**
Capital expenditure	**5,689**	**12,723**	**2,051**	**351**	**20,814**	**–**	**20,814**

Millions of yen

	Year ended 31 March 2009						
	Building Products	Automotive	Specialty Glass	Other	Total	Eliminations	Consolidated
Sales and operating income/(loss)							
External sales	347,833	299,096	75,397	17,039	739,365	–	739,365
Inter-segment sales	2,461	3,895	972	4,782	12,110	(12,110)	–
Net sales	350,294	302,991	76,369	21,821	751,475	(12,110)	739,365
Operating expenses	339,672	301,699	72,611	35,714	749,696	(12,239)	737,457
Operating income/(loss)	10,622	1,292	3,758	(13,893)	1,779	129	1,908
Total assets, depreciation and amortization, impairment loss and capital expenditure							
Total assets	388,339	385,259	93,465	158,158	1,025,221	–	1,025,221
Depreciation and amortization	28,086	30,111	4,118	4,046	66,361	(103)	66,258
Impairment loss	1,381	8,518	–	–	9,899	–	9,899
Capital expenditure	20,990	15,574	3,788	1,791	42,143	(20)	42,123

17. Segment information continued

Millions of euro

	Year ended 31 March 2010						
	Building Products	Automotive	Specialty Glass	Other	Total	Eliminations	Consolidated
Sales and operating income/(loss)							
External sales	1,954	2,120	529	104	4,707	–	4,707
Inter-segment sales	96	20	10	35	161	(161)	–
Net sales	2,050	2,140	539	139	4,868	(161)	4,707
Operating expenses	2,127	2,138	510	230	5,005	(161)	4,844
Operating income/(loss)	(77)	2	29	(91)	(137)	–	(137)
Total assets, depreciation and amortization, impairment loss and capital expenditure							
Total assets	2,803	2,976	522	1,169	7,470	–	7,470
Depreciation and amortization	188	211	28	29	456	–	456
Impairment loss	41	15	1	28	85	–	85
Capital expenditure	46	102	16	3	167	–	167

The Company has changed the estimate for booking the provision for warranties and claims for the year ended 31 March 2010, as noted in the ‘Summary of significant accounting policies’. Due to this change, operating loss for the ‘Building Products’ segment decreased by ¥470 million (€4 million) and operating income for ‘Specialty Glass’ segment increased by ¥40 million (€0 million) for the year ended 31 March 2010.

(b) Geographic segments
The geographic segment information for the years ended 31 March 2010 and 2009 is summarized as follows:

Millions of yen

	Year ended 31 March 2010						
	Japan	Europe	North America	Other areas	Total	Eliminations	Consolidated
Sales and operating income/(loss)							
External sales	167,306	258,720	78,417	83,951	588,394	–	588,394
Inter-segment sales	114,392	158,542	19,203	24,414	316,551	(316,551)	–
Net sales	281,698	417,262	97,620	108,365	904,945	(316,551)	588,394
Operating expenses	285,754	431,016	104,320	101,038	922,128	(316,551)	605,577
Operating income/(loss)	(4,056)	(13,754)	(6,700)	7,327	(17,183)	–	(17,183)
Total assets	144,049	521,061	129,036	139,575	933,721	–	933,721

Millions of yen

	Year ended 31 March 2009						
	Japan	Europe	North America	Other areas	Total	Eliminations	Consolidated
Sales and operating income/(loss)							
External sales	206,795	348,284	94,122	90,164	739,365	–	739,365
Inter-segment sales	20,574	197,152	24,797	22,506	265,029	(265,029)	–
Net sales	227,369	545,436	118,919	112,670	1,004,394	(265,029)	739,365
Operating expenses	228,793	543,166	124,095	106,760	1,002,814	(265,357)	737,457
Operating income/(loss)	(1,424)	2,270	(5,176)	5,910	1,580	328	1,908
Total assets	216,251	559,220	118,640	131,110	1,025,221	–	1,025,221

Notes to the consolidated financial statements continued

17. Segment information continued

	Japan	Europe	North America	Other areas	Total	Eliminations	Consolidated
							Millions of euro
							Year ended 31 March 2010
Sales and operating income/(loss)							
External sales	1,338	2,070	627	672	4,707	–	4,707
Inter-segment sales	916	1,268	154	195	2,533	(2,533)	–
Net sales	2,254	3,338	781	867	7,240	(2,533)	4,707
Operating expenses	2,286	3,448	835	808	7,377	(2,533)	4,844
Operating income/(loss)	(32)	(110)	(54)	59	(137)	–	(137)
Total assets	1,152	4,168	1,032	1,118	7,470	–	7,470

The Company has changed the estimate for booking the provision for warranties and claims for the year ended 31 March 2010, as noted in the 'Summary of significant accounting policies'. Due to this change, operating loss for 'Japan' decreased by ¥510 million (€4 million) for the year ended 31 March 2010.

(c) Overseas sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the overseas consolidated subsidiaries, for the years ended 31 March 2010 and 2009 are summarized as follows:

	Millions of yen		Millions of euro
	2010	2009	2010
Overseas sales			
Europe	245,974	330,691	1,968
North America	73,799	91,972	590
Asia	69,021	63,733	552
Other areas	52,906	62,034	423
Total	441,700	548,430	3,533
Consolidated net sales	588,394	739,365	4,707

	2010 %	2009 %
Overseas sales as a percentage of consolidated net sales		
Europe	41.8	44.7
North America	12.5	12.4
Asia	11.7	8.6
Other areas	9.1	8.5
Total	75.1	74.2

18. Business combination

First quarter of fiscal year ended 31 March 2010 (For the period of 1 April 2009 to 30 June 2009)

1. Name and nature of the business, legal form, name of the company that succeeded the split business and the purpose behind the combination

   i. Name and nature of the business

   Name of the business: Sales section of building products downstream of Nippon Sheet Glass Company Limited (NSG Co., Ltd.).

   Nature of the business: Sales of building products to Japanese domestic distributors

   ii. Legal form of the business combination

   NSG Co., Ltd. transferred the business to Nippon Sheet Glass Building Products Company Limited (NSG BP Co., Ltd.). NSG BP Co., Ltd. did not issue any shares, money or other estate.

18. Business combination continued

iii. Name of the company that succeeded the divested business

NSG BP Co., Ltd. (consolidated subsidiary)

iv. Purpose of the combination

NSG Co., Ltd. previously made sales of building products within Japan in addition to NSG BP Co., Ltd. This was a duplication of operations and as such the functions were combined to eliminate the duplication, enable faster decision making and improve the profitability of building products.

2. Accounting treatment

This business combination was accounted for as an 'under common control' transaction which allows companies to apply the pooling of interests method of accounting only when specific criteria are met, such as when the business combination is essentially regarded as a uniting-of-interests. This is in accordance with 'Accounting standard of business combination' (Business Accounting Council announced on 31 October 2003) and 'Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures' (Accounting Standards Board of Japan Guidance No. 10, issued on 15 November 2007).

19. Subsequent events

(a) Acquisition of a controlling interest in a former joint venture
To strengthen the Group's Solar Energy Business, in April 2010 the Group completed a share exchange transaction with China Glass Holdings Ltd, under which the Group acquired 100 percent control of Taicang Pilkington China Glass Special Glass Limited.

Under the terms of the share exchange agreement signed, the Group acquired the 50 percent stake owned by China Glass Holdings in Taicang Pilkington China Glass Special Glass Limited. In return, the Group sold to China Glass Holdings 14.68 percent of the issued share capital of JV Investments Limited. Accordingly, upon completion of the transaction, NSG Group now owns 100 percent of Taicang Pilkington China Glass Special Glass Limited and 25.46 percent of JV Investments Limited.

Following this transaction, the Group changed the name of Taicang Pilkington China Glass Special Glass Limited to Pilkington Solar (Taicang), Limited. Pilkington Solar (Taicang), Limited's principal activity is the manufacture and sale of low-iron rolled glass. This glass is used in the manufacture of crystalline silicon-based solar energy modules.

(b) Appropriation of retained earnings
The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended 31 March 2010, was approved by the Board of Directors on 14 May 2010 with an effective payment date of 4 June 2010 for the preferred stock and 8 June 2010 for the common stock.

	Millions of yen	Millions of euro
Common stock		
Year-end cash dividends (¥3 (€0.02) per share)	2,004	16
Preferred stock		
Year-end cash dividends (¥461 (€3.69) per share)	1,383	11

20. Additional information

Exercise of put option over Russian joint venture
On 19 January 2009, EEIF Sub VI N.V. the Group's joint venture partner in Russia exercised its put option over its 50 percent shareholding in Pilkington Nederland (No. 6) B.V., the joint venture company owning the Group's business in Russia, Pilkington Glass LLC. Subsequently, the Group reached an agreement with EEIF Sub VI N.V over the exercise price of the put option, which is based on a calculation of the market value of Pilkington Glass LLC, and as a result, paid consideration of €42.5 million (¥5,313 million) to EEIF Sub VI N.V. on 6 January 2010. Subsequent to this transaction, the Group has reached an agreement, subject to the consent of the debt holding investors in Pilkington Glass LLC, to sell the shares acquired from EEIF Sub VI N.V, to a new joint venture partner, East Investing Ltd. As a result, the Group continues to account for Pilkington Nederland (No. 6) B.V as a joint venture using the equity method of accounting.

Independent auditors' report

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011

Tel: +81 3 3503 1191
Fax: +81 3 3503 1277

Report of Independent Auditors

The Board of Directors
Nippon Sheet Glass Company Limited

We have audited the accompanying consolidated balance sheets of Nippon Sheet Glass Company Limited and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Sheet Glass Company Limited and consolidated subsidiaries at March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The Euro amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into Euro amounts and, in our opinion, such translation has been made on the basis described in Note 1(a).

Ernst & Young ShinNihon LLC

June 29, 2010

A member firm of Ernst & Young Global Limited

Corporate data

Nippon Sheet Glass Co., Ltd

Corporate data

Head Office
Sumitomo Fudosan Mita Twin Building
West Wing, 5-27, Mita 3-chome,
Minato-ku, Tokyo 108-6321 Japan
Telephone: +81 (0) 3-5443-9500

Established
22 November 1918

Number of employees (Consolidated)
28,338

Common stock
Authorized: 1,775,000,000 shares
Issued: 669,550,999 shares

Type A preferred shares
Authorized: 3,000,000 shares
Issued: 3,000,000 shares

Number of shareholders
Common shares: 59,035
Type A preferred shares: 2

Paid-in capital
¥96,147 million

Stock listing
Tokyo and Osaka (Code: 5202)

Independent auditors
Ernst & Young ShinNihon LLC

Transfer agent
The Sumitomo Trust & Banking Co., Ltd.
Stock Transfer Agency Division
3-1, Yaesu 2-chome,
Chuo-ku, Tokyo Japan

Shareholder information

Major shareholders as at 31 March 2010

	Number of shares	Percentage of shares
Common shares		
Japan Trustee Services Bank, Ltd. (trust account)	70,896,000	10.59
The Master Trust Bank of Japan, Ltd. (trust account)	45,050,000	6.73
Japan Trustee Services Bank, Ltd. (trust account 9)	22,167,000	3.31
Japan Trustee Services Bank, Ltd. (trust account 4)	13,452,000	2.01
Morgan Stanley & Co. Inc	12,500,442	1.87
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	11,340,000	1.69
Toyota Motor Corporation	9,610,650	1.44
Sumitomo Life Insurance Company	9,148,000	1.37
Japan Trustee Services Bank, Ltd. (Retirement Benefit Account, Sumitomo Trust and Banking)	8,769,000	1.31
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	7,365,101	1.10
Type A preferred shares		
UDS Corporate Mezzanine No.3 Limited Partnership	2,550,000	85. 00
UDS Corporate Mezzanine Limited Partnership	450,000	15.00

Status of shareholders as at 31 March 2010

	Number of shareholders	Number of shares (thousands)	Percentage of shares
Common shares			
National/local governments	1	2	0.00
Financial institutions	83	260,160	38.87
Securities firms	69	20,363	3.04
Other corporations	728	37,859	5.65
Foreign investors	405	197,685	29.52
Individuals and others	57,748	152,055	22.71
Treasury stock	1	1,427	0.21
Total	59,035	669,551	100.00

Fiscal period
1 April to 31 March of the following year

Ordinary General Meeting of Shareholders
Held annually in June

Shareholders' Confirmation Standard Dates
Ordinary General Meeting of Shareholders: 31 March
Dividend: 30 September and 31 March

Transfer agent
The Sumitomo Trust & Banking Co., Ltd.

Operating Office
The Sumitomo Trust & Banking Co., Ltd.
Stock Transfer Agency Department
3-1, Yaesu 2 chome, Chuo-ku,
Tokyo 104-8476, Japan

Public Notice
www.nsg.com

Independent Auditors
Ernst & Young ShinNihon LLC

Contact information
If you need to record any changes in your address, personal details or any other relevant matter, please contact the securities company administrating your shareholder account.

If you do not use a securities company, please notify our Transfer Agent as below.

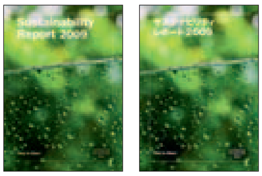
Mail Address
The Sumitomo Trust & Banking Co., Ltd.
Stock Transfer Agency Department
1-10, Nikko-cho, Fuchu-shi,
Tokyo 183-8701, Japan

Telephone number
0120-176-417 (toll free in Japan)

Further information

We produce a regular flow of publications intended to provide current and potential investors with as much information as possible about the Group, the industries in which we operate and the organization, strategy, targets and progress of the Group. Some of our key publications are shown below.

Publications



Sustainability Report

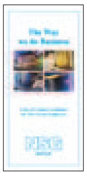
Published annually in February, reporting on the Group's progress in advancing its sustainability agenda in the previous calendar year. Editions in both English and Japanese.

Pilkington and the Flat Glass industry

Published annually in November. Detailed analysis of the world's Flat Glass industry and the NSG Group's position within it. Published in English.

To our Shareholders

Published twice a year, in June and December, designed to keep shareholders informed of progress against our strategy. Editions in both English and Japanese.



The Way we do Business

Produced for Group employees in all of the languages in which the Group operates, summarizing the main points of the Group's Code of Conduct.

NSG Group Corporate website (English)
http://www.nsg.com

NSG Group Corporate website (Japanese)
http://www.nsg.co.jp

Commercial website (BP and Automotive)
http://www.pilkington.com

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