Annual Report 2014

NIPPO

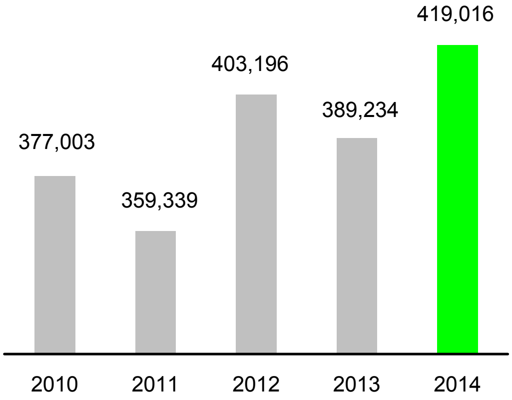
Consolidated Financial Highlights

(Millions of yen, except per share information and where otherwise indicated)

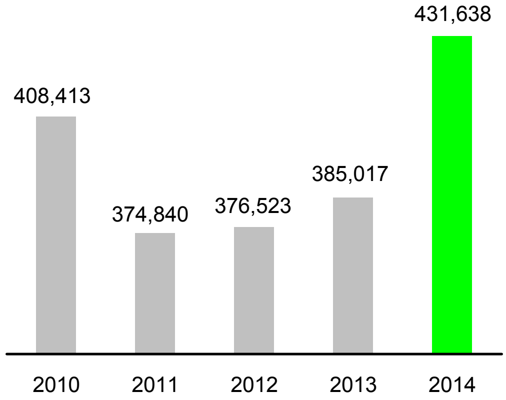
For the years ended March 31,	2010	2011	2012	2013	2014
Net sales	¥ 408,413	¥ 374,840	¥ 376,523	¥ 385,017	¥ 431,638
Net income	11,784	7,669	7,474	14,537	21,786
Comprehensive income	—	6,966	8,560	18,400	24,462
Net assets	171,462	176,981	184,097	201,230	223,010
Total assets	371,839	364,336	393,132	400,352	440,464
Net cash from operating activities	19,922	16,227	19,982	202	39,311
Net cash from investing activities	(11,077)	(9,867)	(5,545)	(11,094)	(9,146)
Net cash from financing activities	(1,523)	6,087	(1,367)	(1,749)	(3,053)
Cash and cash equivalents at end of year	45,317	57,605	70,785	54,997	82,472
Net assets per share	¥ 1,414.04	¥ 1,458.80	¥ 1,517.84	¥ 1,660.09	¥ 1,838.14
Basic net income per share	98.91	64.37	62.74	122.03	182.89
Diluted net income per share	—	—	—	—	—
Net assets as a percentage of total assets	45.3%	47.7%	46.0%	49.4%	49.7%
Return on equity	7.28%	4.48%	4.22%	7.68%	10.46%
Price earnings ratio (times)	7.26	10.38	14.65	9.37	7.79
Employees (persons) [Average number of temporary workers, etc.]	3,822 [2,898]	3,793 [2,708]	3,772 [2,761]	3,586 [2,695]	3,644 [2,669]

Notes: 1. Net sales are presented exclusive of consumption tax.
2. Diluted net income per share was not presented since the potential shares did not exist.

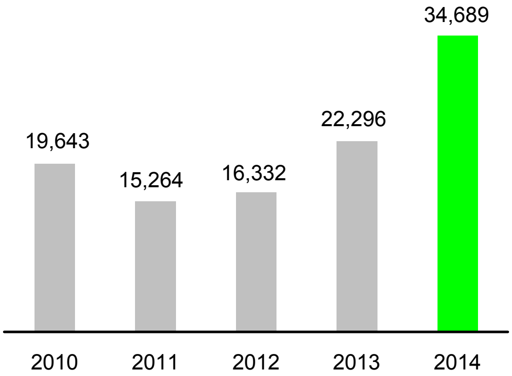
Orders
(Millions of yen)



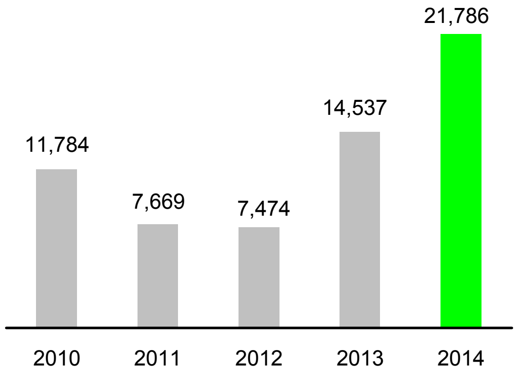
Net Sales
(Millions of yen)



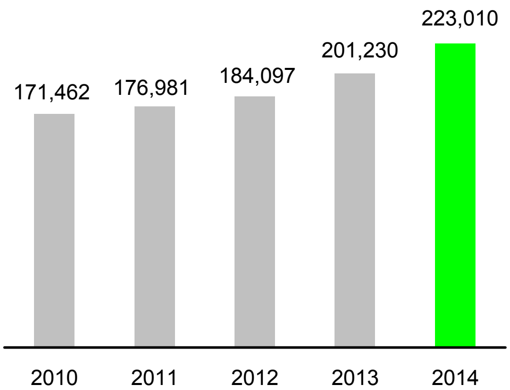
Operating Income
(Millions of yen)



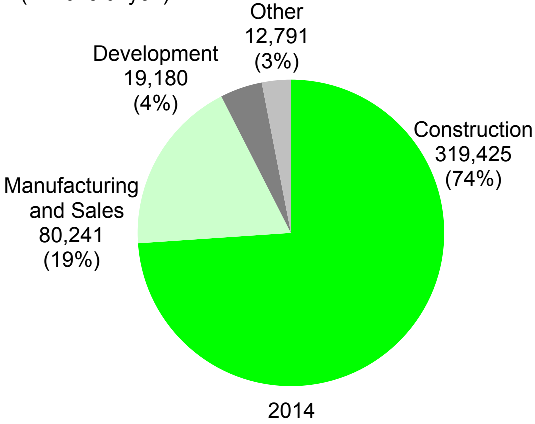
Net Income
(Millions of yen)



Net Assets
(Millions of yen)



Net Sales by Segment
(Millions of yen)



To Our Shareholders

We hereby present this Annual Report for the 113th term (from April 1, 2013, to March 31, 2014) and report on the current business conditions of NIPPO CORPORATION (the “Company”), including the consolidated and nonconsolidated financial results.

At the Company, Kazunori Mizushima, former President, Representative Director, assumed office as Chairman, Representative Director, and I assumed office as President as his successor. I am committed to making dedicated efforts to further develop the Company’s businesses, therefore we ask for your continuing understanding and support.

Concerning Japan’s economy, during the period under review, a moderate recovery trend was seen with improvements in consumer spending and corporate revenues, supported by economic measures by the Japanese government and the Bank of Japan.

In the construction industry, despite steady public investments and a partial recovery in private-sector capital expenditures, a severe management environment continued with the impact of rising labor costs and raw materials prices.

In this environment, the Company and its consolidated subsidiaries (hereinafter the “Group”) strove to secure orders utilizing the superior proprietary technologies of each company, reinforce sales of asphalt mixture and other products, reduce costs and raise the efficiency of operations.

Looking ahead, although a recovery trend of Japan’s economy is expected to continue with recovering exports supported by the effect of various economic measures, uncertainty about the world economy remains high and is considered a risk that will decelerate the domestic economy.

In the construction industry, although steady public investments due to related budget implementation and improvement in private-sector capital expenditures due to improvement in corporate revenues are expected, the management environment is predicted to remain harsh by reason of fierce competition among corporations for orders and rising construction prices.

Under such circumstances, the Group intends to continue focusing on restoration from the Great East Japan Earthquake, optimizing its technological capabilities and high maneuverability. As a corporate group backed by superior technologies and management, we will strive to improve our technical capabilities, bolster our sales skills and cope with rising material prices appropriately, while steadily increasing productivity and trimming costs to enhance our competitiveness. The Group will also make efforts to reinforce the revenue bases of the pavement, civil engineering and product sales businesses, as well as to stabilize operating revenues in the building construction, development and overseas businesses.

We ask for your continued understanding and support.

June 2014

Hiromi Iwata
President, Representative Director
NIPPO CORPORATION

Overview of the Company

The Company and its affiliated companies are primarily engaged in construction, manufacturing/sales of asphalt mixture and other products, development and other businesses. The positioning of the Company, the Company's parent company, the Company's 118 subsidiaries and 25 affiliated companies, and their relations to segment information are as follows:

1. Construction business

The Company is engaged in pavement works, civil engineering and construction works, and receives orders for a portion of the works of JX Nippon Oil & Energy Corporation (the Company's fellow subsidiary).
Dai Nippon Construction (a consolidated subsidiary) is engaged in the construction and civil engineering businesses; HASEGAWA SPORTS FACILITIES Co., Ltd. (a consolidated subsidiary) is mainly engaged in the construction of sports facilities; and NIPPO CONSTRUCTION CO., LTD. (a consolidated subsidiary) is engaged in civil engineering. Additionally, 49 consolidated subsidiaries, 13 unconsolidated subsidiaries, 10 affiliated companies and 10 affiliates accounted for by equity methods are engaged in pavement works and civil engineering.
The Company contracts a portion of its works to the above companies and also receives orders for works from them.

2. Manufacturing and sales business

The Company is engaged in the manufacture and sales of asphalt mixture, asphalt emulsion and other materials related to pavement works, and purchases asphalt, the main material of asphalt mixture, from JX Nippon Oil & Energy Corporation.
Fair Road Co., Ltd. and 7 other consolidated subsidiaries, and other 32 non-consolidated subsidiaries and affiliated companies are engaged in the manufacture and sales of asphalt mixture.
The Company supplies or sells asphalt mixture, asphalt emulsion and other products to the above companies and to a portion of the affiliated companies engaged in construction and also purchases asphalt mixture from some of the above companies.

3. Development business

The Company is engaged in the real-estate business, including housing-land development and sales of condominiums.
Nippo FACILITIES CO., LTD. (a non-consolidated subsidiary) is engaged in the real-estate management business.

4. Other businesses

The Company is engaged in leasing, manufacturing and maintenance of construction machinery, motor-vehicle leasing, the operation of golf courses and hotels, construction consulting, PFI, and other businesses.

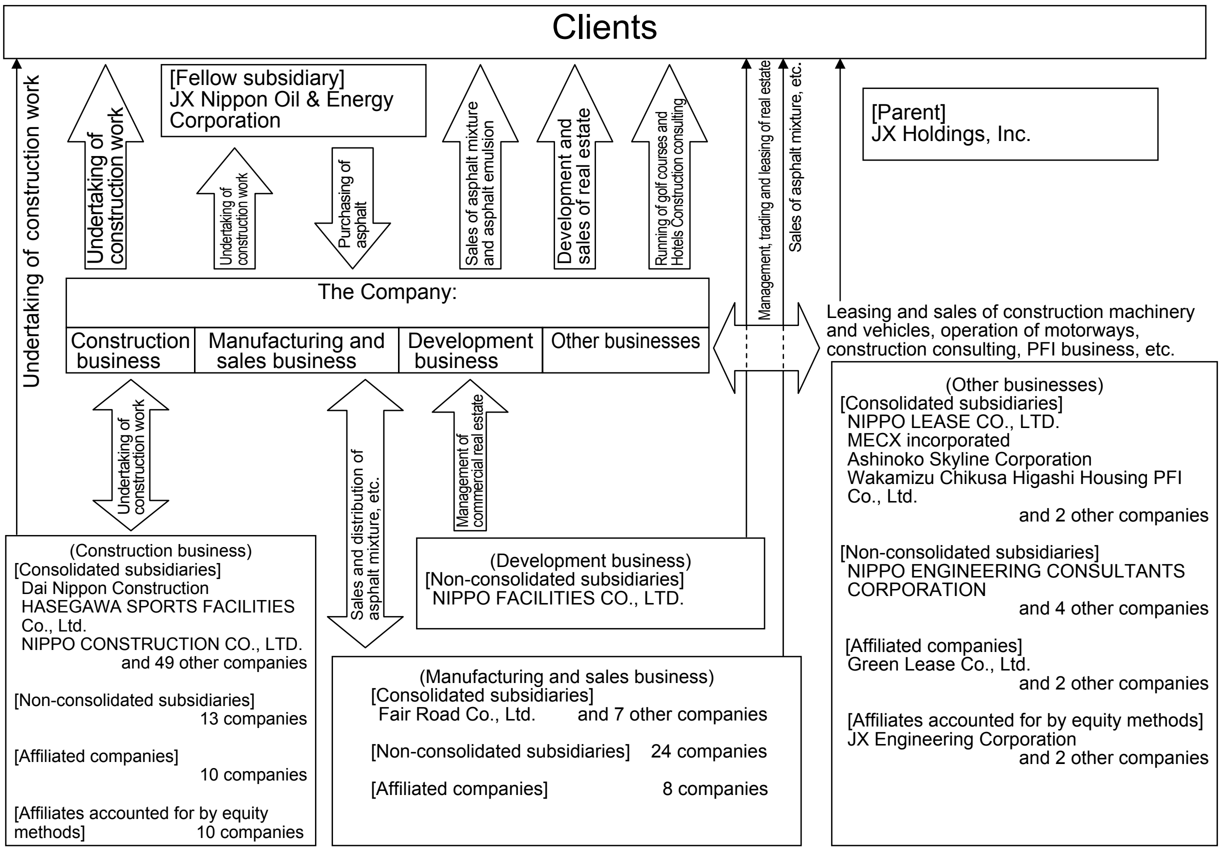
NIPPO LEASE CO., LTD. (a consolidated subsidiary) is engaged in motor-vehicle leasing; and MECX incorporated. (a consolidated subsidiary) and 2 affiliated companies are engaged in leasing, sales, manufacturing and maintenance of construction machinery.

Ashinoko Skyline Corporation (a consolidated subsidiary) operates motorways; and 3 consolidated subsidiaries including Wakamizu Chikusa Higashi Housing PFI and 2 affiliated companies are engaged in the PFI business. Additionally, JX Engineering Corporation (an affiliate accounted for by equity methods) is engaged in plant engineering business; 3 non-consolidated subsidiaries including NIPPO ENGINEERING CONSULTANTS CORPORATION (a non-consolidated overseas subsidiary) are engaged in the construction consulting business; one non-consolidated subsidiary is engaged in the operation of a golf course and a hotel; one affiliated company is engaged in the soil-pollution investigation business; and one non-consolidated subsidiary is engaged in other businesses.

The Company receives orders for construction work from some of the above companies and also places orders for the leasing, sales and maintenance of construction machinery, and construction consulting with some of the above companies.

5. Business organizational chart

The facts stated thus far can be illustrated in a business organizational chart as below.



Notes: Some of the above affiliated companies are operating multiple businesses. The above classification is based on the representative business of each company.

Overview of Affiliated Companies

Company name	Address	Paid in capital (¥ million)	Principal business	Ratio of voting rights holding (held) (%)	Relationship	
					Concurrent positions held by Directors	Business transactions and financial assistance
(Parent) JX Holdings, Inc. (Notes) 2, 4	Chiyoda-ku, Tokyo	100,000	Pure holding company	Ratio of voting rights held: 57.2 (0.0)	None	-
(Consolidated subsidiaries) Dai Nippon Construction (Notes) 3, 5	Gifu-shi, Gifu	2,000	(Construction business) Construction and civil engineering work, etc. by contract	Ratio of voting rights holding: 78.5	None	Receiving or placing order of construction work. The subsidiary is renting buildings, etc. owned by the Company.
HASEGAWA SPORTS FACILITIES, Co., Ltd.	Setagaya-ku, Tokyo	100	(Construction business) Construction of sports facilities, etc. by contract	Ratio of voting rights holding: 81.3	None	Receiving or placing order of construction work. The subsidiary is renting buildings, etc. owned by the Company.
NIPPO CONSTRUCTION CO., LTD.	Setagaya-ku, Tokyo	50	(Construction business) Civil engineering work by contract	Ratio of voting rights holding: 100.0	None	Receiving or placing order of construction work. The subsidiary is renting buildings, etc. owned by the Company.
MECX incorporated	Nishi-ku, Saitama-shi	30	(Other businesses) Lease, etc. of construction machinery	Ratio of voting rights holding: 100.0	None	The subsidiary is leasing construction machinery to, and repairing manufacturing equipment for the Company, etc. The subsidiary is renting buildings, etc. owned by the Company.
NIPPO LEASE CO., LTD.	Shinjuku-ku, Tokyo	100	(Other businesses) Leasing of vehicles, etc.	Ratio of voting rights holding: 100.0	None	The subsidiary is leasing vehicles, etc. to the Company. The subsidiary is borrowing working capital from the Company. The subsidiary is renting buildings, etc. owned by the Company.
Fair Road Co., Ltd. and 60 other companies	-	-	-	-	-	-
(Affiliates accounted for using equity method) JX Engineering Corporation and 12 other companies	-	-	-	-	-	-

Notes: 1. Principal business as stated in the segment information is quoted here.
2. A securities report issuing company.
3. Qualified as specified subsidiary.
4. Parentheses in ratio of voting rights held indicates percentage of voting rights indirectly owned.
5. Dai Nippon Construction’s net sales (excluding net sales from the internal transactions with other consolidated subsidiaries) exceed 10% of the consolidated net sales.

Main profit or loss information, etc.

(1)	Net sales	¥76,670 million
(2)	Net income	¥1,168 million
(3)	Net assets	¥15,276 million
(4)	Total assets	¥54,136 million

Major Shareholders

(As of March 31, 2014)

Name	Address	Number of shares held (Thousands of shares)	Percentage of shares held to the total number of issued shares (%)
JX Holdings, Inc.	6-3 Otemachi 2-chome, Chiyoda-ku, Tokyo	67,890	56.86
The Master Trust Bank of Japan, Ltd. (Trust account)	11-3 Hamamatsucho 2-chome, Minato-ku, Tokyo	5,196	4.35
Japan Trustee Services Bank, Ltd. (Trust account)	8-11 Harumi 1-chome, Chuo-ku, Tokyo	4,241	3.55
The Nomura Trust and Banking Co., Ltd. (Trust account)	2-2 Otemachi 2-chome, Chiyoda-ku, Tokyo	1,334	1.12
THE BANK OF NEW YORK MELLON SA/NV 10 (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	RUE MONTOYERSTRAAT 46, 1000 BRUSSELS, BELGIUM (7-1 Marunouchi 2-chome, Chiyoda-ku, Tokyo	1,178	0.99
STATE STREET BANK AND TRUST COMPANY (Standing proxy: Mizuho Bank, Ltd.)	P.O. BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A (16-13 Tsukishima 4-chome, Chuo-ku, Tokyo)	1,143	0.95
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO (Standing proxy: Citibank Japan Ltd.)	388 GREENWICH STREET, NY, NY 10013, USA (3-14 Higashi-Shinagawa 2-chome, Shinagawa-ku, Tokyo)	1,059	0.89
Evergreen (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	P. O. BOX 2992 RIYADH 11169 KINGDOM OF SAUDI ARABIA SAFAT-KUWAIT (7-1 Marunouchi 2-chome, Chiyoda-ku, Tokyo)	913	0.76
MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION (Standing proxy: Mizuho Bank, Ltd.)	ONE BOSTON PLACE BOSTON, MA 02108 (16-13 Tsukishima 4-chome, Chuo-ku, Tokyo)	741	0.62
THE CHASE MANHATTAN BANK, N.A. LONDON S.L. OMUNIBUS ACCOUNT (Standing proxy: Mizuho Bank, Ltd.)	WOOLGATE HOUSE, COLEMAN STREET LONDON EC2P 2HD, ENGLAND (16-13 Tsukishima 4-chome, Chuo-ku, Tokyo)	707	0.59
Total	—	84,402	70.68

Note: Of the shares held by the major shareholders shown above as of the end of the current fiscal year, the Company cannot accurately determine the number of shares related to trust services.

Business Overview

The amounts stated below do not include consumption tax. Net sales by segment indicate “Sales to third parties” and operating income/loss indicates amounts prior to taking “adjustments” into account.

1. Financial results

Concerning Japan’s economy during the consolidated fiscal year under review, a moderate recovery trend was seen with improvements in consumer spending and corporate revenues, supported by economic measures by the Japanese government and the Bank of Japan.
In the construction industry, despite steady public investments and a partial recovery in private-sector capital expenditures, a severe management environment continued with the impact of rising labor costs and raw materials prices.
In this environment, the Company and its consolidated subsidiaries (the “Group”) strove to secure orders utilizing the superior proprietary technologies of each company, reinforce sales of asphalt mixture and other products, reduce costs and raise the efficiency of operations.
The Consolidated business results of the Group for the consolidated fiscal year under review are as follows.
Net sales were ¥431,638 million, up 12.1% from the previous consolidated fiscal year. Operating income was ¥34,689 million, up 55.6% year over year, and net income was ¥21,786 million, up 49.9% from the previous fiscal year.

Results by business segment were as follows:

(1) Construction business

The construction business is a major segment of the Group, and orders received for construction for the current fiscal year increased by 2.5% from the previous fiscal year to ¥306,239 million; net sales increased by 9.1% to ¥319,425 million; and operating income increased by 49.1% to ¥21,544 million.

(Pavement and Civil Engineering)

Orders received for construction increased by 10.4% from the previous fiscal year to ¥241,462 million; net sales increased by 6.9% to ¥242,077 million; and operating income increased by 18.5% to ¥19,971 million.

(Building Construction)

Orders received for construction decreased by 19.2% from the previous fiscal year to ¥64,777 million; net sales increased by 16.6% to ¥77,348 million; and operating income was ¥1,572 million (compared with an operating loss of ¥2,414 million for the previous consolidated fiscal year).

(2) Manufacturing and sales business

Net sales increased by 11.7% from the previous fiscal year to ¥80,241 million, and operating income increased by 29.5% to ¥15,375 million.

(3) Development business

Net sales increased by 99.2% from the previous fiscal year to ¥19,180 million, and operating income increased by 224.9% from the previous fiscal year to ¥2,956 million.

(4) Other businesses

Net sales increased by 18.4% from the previous fiscal year to ¥12,791 million, and operating income increased by 22.0% to ¥1,570 million.

2. Cash flows

Cash and cash equivalents (hereinafter “cash”) as at the end of the current fiscal year increased by ¥27,474 million from the end of the previous fiscal year to ¥82,472 million.

(Net cash provided by operating activities)

Net cash provided by operating activities amounted to ¥39,311 million. (A net inflow of ¥202 million was recorded in the previous fiscal year.) This was primarily due to income before income taxes and minority interests recorded.

(Net cash used in investing activities)

Net cash used in investing activities amounted to ¥9,146 million. (A net outflow of ¥11,094 million was recorded in the previous fiscal year.) This was primarily due to purchases of machinery for the manufacturing and sales business, etc.

(Net cash used in financing activities)

Net cash used in financing activities amounted to ¥3,053 million. (A net outflow of ¥1,749 million was recorded in the previous fiscal year.) This was primarily due to decrease in short-term loans payable.

CONSOLIDATED BALANCE SHEET

NIPPO CORPORATION
As of March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2014	2013	2014
Current assets:			
Cash and bank deposits (Notes 3 & 22)	¥ 47,865	¥ 38,093	$ 465,069
Notes receivable, accounts receivable on completed construction contracts and other (Notes 10 & 22)	149,816	149,283	1,455,654
Lease receivables and investments in leased assets (Note 21)	3,250	2,772	31,577
Inventories (Note 5)	49,025	43,222	476,340
Short-term loans receivable (Notes 3 & 22)	35,139	17,023	341,420
Deferred tax assets (Note 18)	3,522	3,566	34,220
Other	16,252	14,823	157,909
Allowance for doubtful accounts (Note 22)	(350)	(315)	(3,400)
Total current assets	304,523	268,472	2,958,832
Property, plant and equipment: (Notes 7 & 17)			
Land (Notes 5 & 6)	57,255	53,799	556,305
Buildings and structures (Notes 5 & 6)	59,975	59,928	582,734
Machinery, equipment and vehicles	89,903	88,562	873,523
Tools, furniture and fixtures	5,075	5,068	49,310
Leased assets (Note 21)	880	513	8,550
Construction in progress (Note 5)	834	5,911	8,103
Total	213,924	213,784	2,078,546
Accumulated depreciation	(123,866)	(123,238)	(1,203,517)
Net property, plant and equipment	90,058	90,546	875,029
Intangible assets	2,008	1,968	19,510
Investments and other assets:			
Investment securities (Notes 4, 7 & 22)	41,253	36,231	400,825
Long-term loans receivable (Note 7)	263	368	2,555
Deferred tax assets (Note 18)	385	560	3,740
Other	3,136	3,873	30,470
Allowance for doubtful accounts	(1,165)	(1,668)	(11,319)
Total investments and other assets	43,874	39,364	426,292
Total assets	¥ 440,464	¥ 400,352	$ 4,279,673

LIABILITIES AND NET ASSETS	Millions of yen 2014	2013	Thousands of U.S. dollars (Note 1) 2014
Current liabilities:			
Short-term bank loans payable (Note 7)	¥ 1,965	¥ 2,307	$ 19,092
Notes payable, accounts payable on construction contracts and other (Notes 10 & 22)	142,133	127,781	1,381,004
Income taxes payable	10,676	6,408	103,731
Advances received on uncompleted construction contracts	11,083	12,453	107,685
Reserve for bonuses	3,829	3,415	37,203
Reserve for warranty on completed construction contracts	351	332	3,410
Reserve for loss on construction contracts (Note 5)	947	1,842	9,201
Other	16,987	15,590	165,050
Total current liabilities	187,974	170,133	1,826,408
Non-current liabilities:			
Long-term debt (Notes 7 & 22)	4,668	5,603	45,355
Deferred tax liabilities (Note 18)	8,785	7,209	85,357
Reserve for employees' retirement benefits (Note 8)	―	6,747	―
Reserve for directors' retirement benefits	106	91	1,029
Liability for employees' retirement benefits (Note 8)	6,757	―	65,652
Asset retirement obligations (Note 9)	1,022	1,019	9,930
Other	8,139	8,318	79,080
Total non-current liabilities	29,479	28,989	286,426
Commitments and contingent liabilities (Notes 13 & 21)			
Net assets (Notes 11 & 20):			
Shareholders' equity:			
Common stock (Note 12):			
Authorized-240,000,000 shares in 2014 and 2013			
Issued-119,401,836 shares in 2014 and 2013	15,324	15,324	148,892
Capital surplus	15,916	15,916	154,644
Retained earnings	172,899	152,776	1,679,935
Treasury stock (Note 12):			
283,688 shares in 2014 and 273,449 shares in 2013	(190)	(173)	(1,846)
Total shareholders' equity	203,950	183,843	1,981,636
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 4)	16,263	13,919	158,015
Deferred gains (losses) on hedging instruments	(0)	—	(0)
Accumulated adjustments for retirement benefits	(1,258)	—	(12,223)
Total accumulated other comprehensive income	15,005	13,919	145,792
Minority interests	4,055	3,466	39,399
Total net assets	223,010	201,230	2,166,828
Total liabilities and net assets	¥ 440,464	¥ 400,352	$ 4,279,673

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF INCOME

NIPPO CORPORATION
Year ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
Net sales (Note 24)	¥ 431,638	¥ 385,017	$ 4,193,917
Cost of sales (Note 14)	376,748	342,719	3,660,590
Gross profit	54,889	42,298	533,317
Selling, general and administrative expenses (Note 15)	20,199	20,001	196,259
Operating income	34,689	22,296	337,048
Other income (expenses):			
Interest and dividend income	802	594	7,792
Interest expenses	(94)	(115)	(913)
Loss on sales of notes receivable	(1)	(2)	(9)
Guarantee expenses	(90)	(98)	(874)
Rental profit, net	37	37	359
Gain (loss) on valuation of derivatives	(291)	312	(2,827)
Net loss on disposal or sales of property, plant and equipment, net (Note 16)	(220)	(59)	(2,137)
Equity in earnings of unconsolidated subsidiaries and affiliates	351	322	3,410
Foreign exchange gain	317	267	3,080
Loss on sales of shares in affiliates	(20)	―	194
Other-net	344	272	2,953
Other income (expenses)-net	1,134	1,531	11,018
Income before income taxes and minority interests	35,823	23,828	348,066
Income taxes (Note 18):			
Current	13,204	8,127	128,293
Deferred	507	1,021	4,926
Total income taxes	13,711	9,148	133,219
Net income before minority interests	22,111	14,679	214,836
Minority interests	325	142	3,157
Net income	¥ 21,786	¥ 14,537	$ 211,678

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

NIPPO CORPORATION
Year ended March 31, 2014

		Millions of Yen			Thousands of U.S. Dollars (Note 1)
		2014		2013	2014
Net income before minority interests	¥	22,111	¥	14,679	$ 214,836
Other comprehensive income (Note 19) :					
Valuation difference on available-for-sale securities		2,351		3,720	22,842
Share of other comprehensive income of affiliates accounted for using equity method		(0)		—	(0)
Total other comprehensive income		2,351		3,720	22,842
Comprehensive income	¥	24,462	¥	18,400	$ 237,679
Total comprehensive income attributable to:					
Shareholders of NIPPO CORPORATION	¥	24,129	¥	18,193	$ 234,444
Minority interests	¥	332	¥	207	$ 3,225

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

NIPPO CORPORATION
Year ended March 31, 2014

Millions of Yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2012	¥ 15,324	¥ 15,916	¥ 139,489	¥ (169)	¥ 170,561
Changes during the year:					
Cash dividends paid			(1,429)		(1,429)
Net income for the year			14,537		14,537
Purchases of treasury stock				(4)	(4)
Changes in the scope of consolidation			179		179
Net changes in items other than those in shareholders' equity	—	—	—	—	—
Balance as of April 1, 2013	¥ 15,324	¥ 15,916	¥ 152,776	¥ (173)	¥ 183,843
Changes during the year:					
Cash dividends paid			(1,786)		(1,786)
Net income for the year			21,786		21,786
Purchases of treasury stock				(16)	(16)
Changes in the scope of consolidation			124		124
Net changes in items other than those in shareholders' equity	—	—	—	—	—
Balance as of March 31, 2014	¥ 15,324	¥ 15,916	¥ 172,899	¥ (190)	¥ 203,950

Millions of Yen

	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedging instruments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance as of April 1, 2012	¥ 10,263	¥ —	¥ —	¥ 10,263	¥ 3,272	¥ 184,097
Changes during the year:						
Cash dividends paid						(1,429)
Net income for the year						14,537
Purchases of treasury stock						(4)
Changes in the scope of consolidation						179
Net changes in items other than those in shareholders' equity	3,655	—	—	3,655	194	3,850
Balance as of April 1, 2013	¥ 13,919	¥ —	¥ —	¥ 13,919	¥ 3,466	¥ 201,230
Changes during the year:						
Cash dividends paid						(1,786)
Net income for the year						21,786
Purchases of treasury stock						(16)

Changes in the scope of consolidation						124
Net changes in items other than those in shareholders' equity	2,344	(0)	(1,258)	1,085	588	1,673
Balance as of March 31, 2014	¥ 16,263	¥ (0)	¥ (1,258)	¥ 15,005	¥ 4,055	¥ 223,010

Thousands of U.S. Dollars (Note 1)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2013	$ 148,892	$ 154,644	$ 1,484,415	$ (1,680)	$ 1,786,270
Changes during the year:					
Cash dividends paid			(17,353)		(17,353)
Net income for the year			211,678		211,678
Purchases of treasury stock				(155)	(155)
Changes in the scope of consolidation			1,204		1,204
Net changes in items other than those in shareholders' equity	–	–	–	–	–
Balance as of March 31, 2014	$ 148,892	$ 154,644	$ 1,679,935	$ (1,846)	$ 1,981,636

Thousands of U.S. Dollars (Note 1)

	Accumulated other comprehensive income				Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedging instruments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income		
Balance as of April 1, 2013	$ 135,240	$ –	$ –	$ 135,240	$ 33,676	$ 1,955,207
Changes during the year:						
Cash dividends paid						(17,353)
Net income for the year						211,678
Purchases of treasury stock						(155)
Changes in the scope of consolidation						1,204
Net changes in items other than those in shareholders' equity	22,774	(0)	(12,223)	10,542	5,713	16,255
Balance as of March 31, 2014	$ 158,015	$ (0)	$ (12,223)	$ 145,792	$ 39,399	$ 2,166,828

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

NIPPO CORPORATION
Year ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
Operating activities:			
Income before income taxes and minority interests	¥ 35,823	¥ 23,828	$ 348,066
Depreciation and amortization	4,823	6,220	46,861
Net (gain) loss on disposal or sales of property, plant and equipment	220	59	2,137
Loss on write-down of inventories	880	25	8,550
Increase (decrease) in allowance for doubtful accounts	(469)	(272)	(4,556)
Increase (decrease) in reserve for bonuses	413	(21)	4,012
Increase (decrease) in reserve for employees' retirement benefits	(8,005)	(789)	(77,778)
Increase (decrease) in liability for employees' retirement benefits	6,757	-	65,652
Increase (decrease) in reserve for loss on construction contracts	(895)	(1,594)	(8,696)
Interest and dividend income	(802)	(594)	(7,792)
Interest expenses	94	115	913
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	(351)	(322)	(3,410)
Foreign exchange (gain) loss	(184)	(236)	(1,787)
(Increase) decrease in trade receivables	(1,040)	(12,194)	(10,104)
(Increase) decrease in costs on uncompleted construction contracts	(428)	2,779	(4,158)
(Increase) decrease in other inventories	(305)	(1,220)	(2,963)
Increase (decrease) in trade payables	14,407	(8,407)	139,982
Increase (decrease) in advances received on uncompleted construction contracts	(1,500)	231	(14,574)
(Increase) decrease in consumption taxes payable	(13)	250	(126)
Other, net	(1,944)	(501)	(18,888)
Sub total	47,479	7,353	461,319
Interest and dividend income received	949	594	9,220
Interest expenses paid	(103)	(124)	(1,000)
Income taxes paid	(9,013)	(7,621)	(87,572)
Net cash provided by operating activities	39,311	202	381,956
Investing activities:			
Purchases of property, plant and equipment	(8,115)	(10,698)	(78,847)
Proceeds from sales of property, plant and equipment	215	(549)	2,089
Purchases of investment securities	(1,274)	(184)	(12,378)
Proceeds from sales of investment securities	17	27	165
Payments of loans receivable	(1,218)	(1,287)	(11,834)
Collections of loans receivable	1,323	1,357	12,854
Other, net	(93)	241	(903)
Net cash used in investing activities	(9,146)	(11,094)	(88,865)
Financing activities:			
Proceeds from short-term bank loans payable	1,466	830	14,244
Repayments of short-term bank loans payable	(1,841)	(310)	(17,887)
Proceeds from long-term debt	535	530	5,198
Repayments of long-term debt	(1,503)	(1,238)	(14,603)
Cash dividends paid	(1,786)	(1,429)	(17,353)
Cash dividends paid to minority shareholders	(26)	(24)	(252)
Other, net	102	(106)	991
Net cash used in financing activities	(3,053)	(1,749)	(29,663)
Foreign currency translation adjustments on cash and cash equivalents	183	231	1,778
Net increase (decrease) in cash and cash equivalents	27,295	(12,409)	265,205
Cash and cash equivalents at beginning of the year	54,997	70,785	534,366
Increase in cash and cash equivalents due to inclusion in consolidation	179	199	1,739
Decrease in cash and cash equivalents due to exclusion of consolidation	—	(12)	—
Decrease in cash and cash equivalents due to company split	—	(3,566)	—
Cash and cash equivalents at end of the year (Note 3)	¥ 82,472	¥ 54,997	$ 801,321

The accompanying notes are an integral part of these statements

Notes to Consolidated Financial Statements

NIPPO CORPORATION and Consolidated Subsidiaries
Year ended March 31, 2014

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of NIPPO CORPORATION (the "Company") and its consolidated subsidiaries (collectively, the "Group") have been compiled from the statutory Japanese consolidated financial statements prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and have been in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the financial statements for the year ended March 31, 2013 to conform to the classifications used in the financial statements for the year ended March 31, 2014.

As permitted by the Financial Instruments and Exchange Act, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate as of March 31, 2014, which was ¥102.92 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(1) Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries, the management of which is controlled by the Company. For the year ended March 31, 2014, the accounts of 66 (59 in 2013) subsidiaries have been included in the consolidated financial statements.

Under the control or influence concept, the companies over which the Company, directly or indirectly, is able to exercise control are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for using the equity method.

Investments in 13 (8 in 2013) affiliates are accounted for using the equity method as of March 31, 2014. Investments in the remaining affiliates are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Intercompany transactions and accounts have been eliminated.
In the elimination of investments in consolidated subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time when the Company acquired the control over the respective subsidiary. The consolidated subsidiaries, except for Ashinoko Skyline Corporation, whose fiscal closing date is December 31, close their fiscal accounts on March 31.
Regarding Ashinoko Skyline Corporation, adjustments are made in the consolidated financial statements to reflect significant transactions occurring in the period between December 31 and March 31.

a. Changes in scope of consolidation during the year ended March 31, 2014
7 subsidiaries were newly included in the scope of consolidation effective from the year ended March 31, 2014 due to the increased materiality.

Major unconsolidated subsidiary as of March 31, 2014 is as follows:
Nihon Hozai, Ltd.
This company was not consolidated because their effect on the consolidated financial statements was immaterial in terms of total assets, net sales and retained earnings.

b. Affiliates accounted for using the equity method
JX Engineering Corporation, Tsudanuma Housing No.2 PFI Co., Ltd., Inagekaigan Housing PFI Co., Ltd. and other 10 companies were accounted for using the equity method as of March 31, 2014.
5 companies were newly accounted for using the equity method effective from the year ended March 31, 2014 due to the increased materiality.

c. Major unconsolidated subsidiaries and affiliates not accounted for using the equity method
Nihon Hozai, Ltd. was not accounted for using the equity method because its effect on the consolidated financial statements was immaterial in terms of net income and retained earnings which correspond to the shares.

The difference between the cost of investment in a subsidiary and the equity in the net assets of the subsidiary at the date of acquisition is amortized over the estimated years if available years are possible to estimate substantially. If it is not possible to estimate available years, the difference is amortized over five years.

Investments in unconsolidated subsidiaries and affiliates were included in “Investment securities” and “Other” under “Investments and other assets” in the total amounts of ¥9,381 million ($91,148 thousand) and ¥8,080 million as of March 31, 2014 and 2013, respectively.

(2) Securities
Securities other than investments in affiliates are classified into two categories, based on the Group’s intent as follows:

- Held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity and stated at amortized cost, and
- Available-for-sale securities, which are not classified as either of aforementioned securities and stated at fair value which is determined based on the market price or other relevant value, as of the fiscal year-end, with unrealized gain (loss), net of applicable taxes, reported in net assets. Unrealized gain (loss), net of applicable income taxes, is reported as a separate component of accumulated other comprehensive income in net assets. Realized gain and loss on the sale of such securities are computed using the moving average method.
  If the fair value of available-for-sale securities is extremely difficult to determine, such securities are reported at acquisition cost determined by the moving average method.

(3) Derivatives
Derivatives are stated at fair value.

(4) Inventories
Inventories consist of costs on uncompleted construction contracts, real estate for sale and development projects in progress and other inventories, including manufactured goods, raw material and supplies.
Inventories, other than costs on uncompleted construction contracts, are valued at the lower of cost or net realizable value. Cost is determined principally by the specific identification method, except for manufactured goods and materials that are determined principally by the moving average method.

(5) Depreciation and Amortization
Property, plant and equipment of the Group, except for leased assets, are depreciated by the straight-line method. The useful lives are determined using the same standards as provided by the Corporate Tax Law.

Intangible assets, except for leased assets, are amortized over the useful life using the straight-line method. Software cost for internal use is amortized over the useful life within five years.

Leased assets under finance leases are amortized by the straight-line method with no residual value over the lease term as the useful life.

(6) Leases
As lessee:
Finance leases are capitalized to recognize leased assets and lease obligations in the balance sheet.
However, as permitted by the accounting standard for leases, the Company and its domestic consolidated subsidiaries account for finance leases which do not transfer ownership of the leased assets to the lessee and which started prior to April 1, 2008 in the same manner as operating leases.
As lessor:
The Group recognizes net sales and cost of sales on finance lease transactions upon receipt of lease charges.

(7) Allowance for Doubtful Accounts
Allowance for doubtful accounts is provided principally at an amount based on the actual ratio of bad debts in the past plus the estimated uncollectible amounts of certain individual receivables.

(8) Reserve for Bonuses
The Company and certain consolidated subsidiaries record reserve for bonuses payable to employees to provide for payment of bonuses applicable to the current fiscal year.

(9) Reserve for Warranties on Completed Construction Contracts
Reserve for warranties on completed construction contracts is provided for future payments on defects or after service costs to be incurred in connection with warranties on completed construction contracts based on past experience.

(10) Reserve for Loss on Construction Contracts
Reserve for loss on construction contracts is provided with respect to uncompleted construction contracts on which estimated total costs would exceed the contract amounts and the related loss can be reasonably estimated.

(11) Reserve for Directors' Retirement Benefits
Certain consolidated subsidiaries record necessary amounts to be paid based on the internal rule as of the fiscal year-end to provide for future payments for directors' retirement benefits.

(12) Accounting for Employees' Retirement Benefits
In determining retirement benefit obligations, the estimated amount of retirement benefits are attributed to periods on a straight-line basis.
Past service cost is amortized by the straight-line method over periods which are shorter than the average remaining service years (12 years) of employees at the time of occurrence.
Actuarial gain and loss are amortized by the straight-line method over periods which are shorter than the average remaining service years (principally 12 years) of employees at the time of occurrence from the year following the year of occurrence.

Some consolidated subsidiaries adopt a short-cut method.

(13) Recognizing Revenues and Costs of Construction Contracts

The Company recognizes the construction revenue and construction costs by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. The percentage of completion is determined using the percentage of the cost incurred to the estimated total cost. Revenue from other construction contracts is recognized based on the completed-contract method.

Revenue recognized based on the completed-contract method was ¥184,617 million ($1,793,791 thousand) and ¥168,849 million for the years ended March 31, 2014 and 2013, respectively.

(14) Consumption Taxes

National and local consumption taxes are deducted from transaction amounts and recorded on the consolidated balance sheet.

(15) Cash and Cash Equivalents

In preparing the consolidated statement of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(16) Accounting Changes

Accounting for the liability for retirement benefits

The Company adopted "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 of May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of May 17, 2012) (except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance) as of the end of the year ended March 31, 2014. Accordingly, the Company recorded retirement benefit obligations, net of plan assets, as liability for employees' retirement benefits and included unrecognized actuarial differences and unrecognized past service cost in liability for employees' retirement benefits.

Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Clause 37 of the standard, the effects of such changes are added to accumulated adjustments for retirement benefits under accumulated other comprehensive income at the end of the year ended March 31, 2014.

As a result, the Company recorded liability for employees' retirement benefits of ¥6,757 million ($65,652 thousand) and accumulated other comprehensive income decreased by ¥1,258 million ($12,223 thousand).

The effects on per share data are described in Note 20.

Changes in accounting policies that are difficult to be distinguished from changes in accounting estimates

The Group had depreciated buildings (excluding building attachments) acquired on or after April 1, 1998 and property, plant and equipment related to the Kinkai Project principally using a straight-line method and other tangible assets had been depreciated by a declining-balance method until March 31, 2013. However, the Group changed its depreciation method for all property, plant and equipment to the straight-line method from April 1, 2013.

The Group has commenced a larger amount of capital investment than before based on the middle term asset improvement plan from this fiscal year. The major contents of the capital investment differs from the new capital investment aiming at the expansion of the market area, and are renewal or improvements of obsolete manufacturing facilities of the existing plants, principally aiming at maintenance and improvements of operations with long-term stability.

The Company reviewed the depreciation method upon this opportunity, and reached a judgment that it would better reflect the actual status of use by changing the depreciation method to the straight-line method by which the costs would be allocated evenly over the useful life of the facilities since they operate on a stable and long-term basis and stably contribute to the income.

As a result, compared with the previous method, operating income and income before income taxes and minority interests for the year ended March 31, 2014 increased by ¥1,034 million ($10,046 thousand), respectively.

The effects on segment information are explained in Note 24.

(17) Accounting Pronouncements Not Yet Adopted

On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits." Under the revised accounting standard, accounting treatment for actuarial differences and past service costs that are yet to be recognized in profit or loss, the calculation method for retirement benefit obligations and service costs as well as enhancement of the related disclosure requirements have been revised.

The Company applied the revised accounting standard from March 31, 2014, but the revision of the calculation methods for retirement benefit obligations and service costs will be adopted from April 1, 2014.

Pursuant to the transitional treatments prescribed in the accounting standard, these changes are not retrospectively applied to the past financial statements.

Due to the amendments of the calculation method of retirement benefit obligations, retained earnings as of April 1, 2014 is expected to increase by ¥441 million ($4,284 thousand).

3. Cash and Cash Equivalents

The reconciliation of "Cash and cash equivalents" in the consolidated statement of cash flows at the end of the fiscal year and "Cash and bank deposits" in the consolidated balance sheet as of March 31, 2014 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Cash and bank deposits	¥47,865	¥38,093	$465,069
Time deposits maturing over 3 months	(471)	(89)	(4,576)
Short-term loans which will be collected within 3 months	35,078	16,993	340,827
Cash and cash equivalents at the end of year	¥82,472	¥54,997	$801,321

4. Investment Securities

There were no held-to-maturity securities as of March 31, 2014 and 2013.

The following table summarizes carrying amounts, acquisition costs and unrealized gain (loss) of available-for sale securities as of March 31, 2014:

Available-for-sale securities

	Millions of Yen		
	2014		
March 31	Carrying amount	Acquisition cost	Unrealized gain (loss)
Carrying amount exceeds acquisition cost:			
Equity securities	¥30,634	¥5,089	¥25,545
Carrying amount does not exceed acquisition cost:			
Equity securities	¥1	¥1	¥—
Total	¥30,635	¥5,090	¥25,545

March 31	Millions of Yen 2013 Carrying amount	Acquisition cost	Unrealized gain (loss)
Carrying amount exceeds acquisition cost:			
Equity securities	¥26,892	¥4,983	¥21,909
Carrying amount does not exceed acquisition cost:			
Equity securities	¥16	¥18	¥(1)
Total	¥26,909	¥5,002	¥21,907

March 31	Thousands of U.S. Dollars 2014 Carrying amount	Acquisition cost	Unrealized gain (loss)
Carrying amount exceeds acquisition cost:			
Equity securities	$297,648	$49,446	$248,202
Carrying amount does not exceed acquisition cost:			
Equity securities	$9	$9	$—
Total	$297,658	$49,455	$248,202

Proceeds from sales of available-for-sale securities and realized gain (loss) for the year ended March 31, 2014 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Sales proceeds	¥0	¥1	$0
Realized gain	0	—	0
Realized loss	—	0	—

The Company recognized no loss on impairment on securities for the year ended March 31, 2014.
The Company recognized loss on impairment in an amount of ¥11 million on equity securities classified as available-for-sale securities for the year ended March 31, 2013.
The Company recognizes loss on impairment if the fair value at the fiscal year-end declines more than 30% from the acquisition cost.

5. Inventories

Inventories as of March 31, 2014 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Costs on uncompleted construction contracts	¥18,203	¥17,699	$176,865
Real estate for sale	27,843	22,873	270,530
Manufactured goods	327	360	3,177
Raw material and supplies	2,652	2,289	25,767
Total	¥49,025	¥43,222	$476,340

Inventories related to construction contracts on which losses are expected are presented on a gross basis without offsetting against reserve for loss on construction contracts.
Inventories related to construction contracts that are covered by reserve for loss on construction contracts were ¥214 million ($2,079 thousand) and ¥398 million as of March 31, 2014 and 2013, respectively.

During the year ended March 31, 2014, land in an amount of ¥1,122 million ($10,901 thousand), buildings and structures in an amount of ¥565 million ($5,489 thousand) and construction in progress in an amount of ¥7,627 million ($74,106 thousand) were reclassified from property, plant and equipment to real estate for sale due to change of holding purpose. In addition, land in an amount of ¥1,423 million ($13,826 thousand) and buildings and structures in an amount of ¥167 million ($1,622 thousand) were reclassified from real estate for sale to property, plant and equipment due to change of holding purpose.

During the year ended March 31, 2013, land in an amount of ¥376 million and buildings and structures in an amount of ¥233 million were reclassified from property, plant and equipment to real estate for sale due to change of holding purpose.

6. Investment and Rental Property

The Company and certain consolidated subsidiaries own rental properties such as office buildings, commercial facilities, residential houses, parking lots and others in Tokyo and other areas for the purpose of earning rental income. Certain office buildings for rent are included in "Real estate including portions to be used for rental properties", since the Company and certain consolidated subsidiaries use them.

The carrying amounts, changes in such balances and fair values of such properties for the year ended March 31, 2014 were as follows.

	Millions of Yen			
	Carrying amounts			Fair value
Year ended March 31, 2014	April 1, 2013	Changes	March 31, 2014	March 31, 2014
Investment and rental properties	¥20,057	¥(6,730)	¥13,326	¥16,391
Real estate including portions to be used for investment and rental properties	3,291	353	3,645	4,639

	Millions of Yen			
	Carrying amounts			Fair value
Year ended March 31, 2013	April 1, 2012	Changes	March 31, 2013	March 31, 2013
Investment and rental properties	¥17,393	¥2,664	¥20,057	¥23,333
Real estate including portions to be used for investment and rental properties	3,393	(101)	3,291	4,330

	Thousands of U.S. Dollars			
	Carrying amounts			Fair value
Year ended March 31, 2014	April 1, 2013	Changes	March 31, 2014	March 31, 2014
Investment and rental properties	$194,879	$(65,390)	$129,479	$159,259
Real estate including portions to be used for investment and rental properties	31,976	3,429	35,415	45,073

Notes:

1. Carrying amounts represent the net book values of acquisition costs, less accumulated depreciation and accumulated impairment losses.
2. Changes during the year ended March 31, 2014 consist of an increase primarily due to purchase of real estate in the amount of ¥1,107 ($10,755 thousand) and a decrease primarily due to transfer to real estate for sale in the amount of ¥7,470 million ($72,580 thousand).
   Changes during the year ended March 31, 2013 consist of an increase primarily due to purchase of real estate in the amount of ¥3,516 million and a decrease primarily due to transfer to real estate for sale in the amount of ¥609 million .
3. The fair value is measured based on the real estate appraisal values by independent real estate appraisers for significant properties and internally measured based on the certain appraisal values and indices considered to be reflecting market prices properly for other properties.

Profit or loss on these properties for the year ended March 31, 2014 was as follows:

	Millions of Yen		
Year ended March 31, 2014	Rental income	Rental costs	Profit
Investment and rental properties	¥1,868	¥938	¥930
Real estate including portions to be used for investment and rental properties	407	261	145

Year ended March 31, 2013	Millions of Yen		
	Rental income	Rental costs	Profit
Investment and rental properties	¥1,931	¥1,025	¥906
Real estate including portions to be used for investment and rental properties	406	238	167

Year ended March 31, 2014	Thousands of U.S. Dollars		
	Rental income	Rental costs	Profit
Investment and rental properties	$18,150	$9,113	$9,036
Real estate including portions to be used for investment and rental properties	3,954	2,535	1,408

Note: Since real estate including portions to be used for investment and rental properties include portions used by the Company and certain consolidated subsidiaries, rental income for such portions is not included in the above table. However, such real estate expenses including depreciation, repair and maintenance expenses, insurance and taxes and dues are included in rental costs.

7. Short-term Bank Loans, Long-term Debt and Lease Obligations

The annual weighted-average interest rate applicable to short-term bank loans was 1.14% for the year ended March 31, 2014.
The annual weighted-average interest rates applicable to long-term debt were 1.55% and 1.61% for the years ended March 31, 2014 and 2013, respectively and the repayment due dates are from 2015 through 2022.
The due dates of long-term lease obligations are from 2015 through 2019.

Annual maturities of long-term debt and long-term lease obligations, excluding current portions, as of March 31, 2014 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
Years ending March 31	Long-term debt	Long-term lease obligations	Long-term debt	Long-term lease obligations
2016	¥1,235	¥703	$11,999	$6,830
2017	2,065	523	20,064	5,081
2018	1,235	310	11,999	3,012
2019	29	113	281	1,097
2020 and thereafter	102	18	991	174
Total	¥4,668	¥1,668	$45,355	$16,206

Assets pledged as collateral for long-term debt as of March 31, 2014 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Land	¥78	¥78	$757
Buildings and structures	31	38	301
Investment securities	52	52	505
Long-term loans receivable	3	4	29
Total	¥165	¥173	$1,603

Note: The above investment securities and long-term loans receivable are pledged as collateral for liabilities including borrowings of companies other than consolidated subsidiaries as of March 31, 2014 and 2013 and a part of investment securities is pledged as collateral for long-term debt of affiliates in an amount of ¥1,789 million ($17,382 thousand) and ¥2,982 million as of March 31, 2014 and 2013, respectively. In addition, shares issued by consolidated subsidiaries and investments in partnerships which are eliminated in the consolidation process are pledged as collateral in the amounts of ¥292 million ($2,837 thousand) and ¥337 million ($3,274 thousand), respectively, as of March 31, 2014 and ¥292 million and ¥343 million, respectively, as of March 31, 2013.

Furthermore, PFI business assets in an amount of ¥7,452 million ($72,405 thousand) and ¥8,768 million corresponding to non-recourse loans (short-term bank loans) in the amounts of ¥1,935 million ($18,801 thousand) and ¥2,275 million and non-recourse loans (long-term debt) in the amounts of ¥4,447 million ($43,208 thousand) and ¥5,353 million, financed from financial institutions by consolidated subsidiaries operating PFI business, are pledged as collateral as of March 31, 2014 and 2013, respectively.

The liability secured by the above pledged assets was long-term debt (including current portion) in an amount of ¥249 million ($2,419 thousand) and ¥279 million as of March 31, 2014 and 2013, respectively.

8. Employees' Retirement Benefits

Year ended March 31, 2014

(1) Summary of retirement benefit plans of the Group

The Company and its consolidated subsidiaries have defined benefit corporate pension plans, welfare pension fund plans and lump-sum payment plans (including external funding plans) to cover the employees' retirement benefits. As of March 31, 2014, a consolidated subsidiary has a funded defined benefit corporate pension plan, three subsidiaries have welfare pension fund plans, five subsidiaries have lump-sum payment plans (excluding external funding plans) and one subsidiary has a defined contribution pension plan. As lump-sum payment plans (external funding plans), 58 subsidiaries participate in the Retirement Mutual Fund Plan for Small and Medium Size Companies or the Construction Industry Retirement Mutual Fund Plan.
Some consolidated subsidiaries adopt a short-cut method to calculate the liability for retirement benefits and retirement benefit expenses for their lump-sum payment plans.

(2) Defined benefit plans

1) The changes in retirement benefit obligations for the year ended March 31, 2014, were as follows (excluding the plans to which a short-cut method is applied):

	Millions of Yen	Thousands of U.S. Dollars
Beginning balance of retirement benefit obligations	¥ 33,205	$ 322,629
Service cost	1,047	10,172
Interest cost	377	3,663
Actuarial differences	(148)	(1,438)
Retirement benefits paid	(3,107)	(30,188)
Ending balance of retirement benefit obligations	¥ 31,374	$ 304,838

2) The changes in plan assets for the year ended March 31, 2014, were as follows (excluding the plans to which a short-cut method is applied):

	Millions of Yen	Thousands of U.S. Dollars
Beginning balance of plan assets	¥ 23,682	$ 230,101
Expected return on plan assets	592	5,752
Actuarial differences	1,109	10,775
Contribution from the employer	2,057	19,986
Retirement benefits paid	(2,551)	(24,786)
Ending balance of plan assets	¥ 24,890	$ 241,838

3) The changes in liability for retirement benefits of the plans to which a short-cut method is applied for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Beginning balance of liability for retirement benefits	¥ 269	$ 2,613
Retirement benefit expenses	33	320
Retirement benefits paid	(28)	(272)
Ending balance of liability for retirement benefits	¥ 274	$ 2,662

4) Reconciliation between the ending balances of retirement benefit obligations and plan assets and liability for retirement benefits recorded in the consolidated balance sheet were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Funded defined benefit obligations	¥ 24,984	$ 242,751
Plan assets	24,890	241,838
	93	903
Unfunded defined benefit obligations	6,664	64,749
Net liability recorded in the consolidated balance sheet	6,757	65,652
Liability for employees' retirement benefits	6,757	65,652
Net liability recorded in the consolidated balance sheet	¥ 6,757	$ 65,652

Note: Above amounts include those plans to which a short-cut method is applied.

5) The components of retirement benefit expenses for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 1,047	$ 10,172
Interest cost	377	3,663
Expected return on plan assets	(592)	(5,752)
Amortization of actuarial differences	649	6,305
Amortization of past service cost	(121)	(1,175)
Retirement benefit expenses computed by a short-cut method	33	320
Retirement benefit expenses on defined benefit plans	¥ 1,394	$ 13,544

6) Accumulated adjustments for retirement benefits

The components of accumulated adjustments for retirement benefits (before adjusting for tax effects) were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized past service cost	¥ (90)	$ (874)
Unrecognized actuarial differences	1,348	13,097
Total	¥ 1,258	$ 12,223

7) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

Debt securities	43.7%
Equity securities	26.6%
Cash and deposits	3.0%
Other	26.7%
Total	100.0%

b. Method of determining the long-term expected rate of return on plan assets

The long-term expected rate of return on plan assets is determined considering allocation of plan assets which are expected currently and in the future and the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

8) Actuarial assumptions used for the year ended March 31, 2014, were set forth as follows:

Discount rate:	0.8%-1.2%
Long-term expected rate of return:	2.5%

(3) Defined contribution plan

The amount of the required contribution to the defined contribution plan of a consolidated subsidiary is ¥19 million ($184 thousand).

(4) Multi-employer plans

The amount of the required contribution to the Welfare Pension Fund Plans of multi-employer plans which are accounted for in the same manner as defined contribution plans is ¥809 million ($7,860 thousand).

1) Latest funding status of multi-employer plans as of March 31, 2013

	Millions of Yen	Thousands of U.S. Dollars
Plan assets	¥ 225,553	$ 2,191,537
Benefit obligations for pension accounting purpose	230,627	2,240,837
Net	¥ (5,073)	$ (49,290)

2) The Company's share of contribution to the multi-employer plans as of March 31, 2013 was 9.7%.

3) Supplementary explanation

The outstanding balance of unamortized past service liabilities of the plans, which amounts to ¥12,188 million ($118,422 thousand) as of March 31, 2013, will be amortized over the periods until March 2023 on a straight-line basis.

The share of above (2) does not agree with the actual share of the contribution of the Group.

Year ended March 31, 2013

(1) Summary of retirement benefit plans of the Group

The Company and its domestic consolidated subsidiaries have established defined benefit retirement pension plans such as defined benefit corporate pension plans, welfare pension fund plans and lump-sum payment plans (including external funding plans). As of March 31, 2013, a consolidated subsidiary has a defined benefit corporate pension plan, three subsidiaries have welfare pension fund plans, five subsidiaries have lump-sum payment plans (excluding external funding plans) and a subsidiary has defined contribution pension plan. As lump-sum payment plans (external funding plans), fifty-four subsidiaries participate in the Retirement Mutual Fund Plan for Small and Medium Size Companies or the Construction Industry Retirement Mutual Fund Plan.
Some consolidated subsidiaries adopt multiple retirement benefit plans.

These plans were set up in the following fiscal years:

Lump-sum payment plans:

The Company and consolidated subsidiaries	At the time of incorporation of the company

Welfare pension fund plans (National Construction Welfare Pension Fund):

The Company	FY1988
HASEGAWA SPORTS FACILITIES Co., Ltd.	FY1992
NIPPO CONSTRUCTION CO., LTD.	FY1992

(These funds were established by multi-companies in the construction industry.)

Defined benefit corporate pension plans:

The Company	FY2011

(The plan was transferred from a part of lump-sum payment plans.)

Defined contribution pension plans:

HASEGAWA SPORTS FACILITIES Co., Ltd.	FY2003

The most recent information about the multi-employer plan for which the required contributions to the pension fund system are recognized as retirement benefit expenses, was as follows:

Funded status of the plan

	Millions of Yen
	(As of March 31, 2012)
Pension plan assets	¥202,443
Benefit obligations for pension finance calculation purposes	217,139
Net	¥(14,696)
The Group's share of total salary amounts (As of previous fiscal year-end)	10.18%

(2) Reserve for employees' retirement benefits as of March 31, 2013 consisted of the following:

	Millions of Yen
Projected retirement benefit obligations	¥(33,474)
Plan asset at fair value	23,682
Unfunded retirement benefit obligations	(9,791)
Unrecognized actuarial differences	3,256
Unrecognized past service cost	(211)
Reserve for employees' retirement benefits	¥(6,747)

Notes:

1. Pension assets of the National Construction Welfare Pension Fund, which is a fund established by multi-employer in the construction industry, are not included in the above table. The pension assets computed based on the Group's share of total salary (including substitute portion) amount to ¥20,608 million as of March 31, 2013.
2. Certain consolidated subsidiaries adopt a short-cut method in computing projected retirement benefit obligations.

(3) Retirement benefit expenses for the year ended March 31, 2013 consisted of the following:

	Millions of Yen
Service costs (Notes 1 & 2)	¥1,940
Interest costs	428
Expected return on plan assets	(555)
Amortization of actuarial differences	1,108
Amortization of past service costs	(121)
Other (Note 3)	288
Retirement benefit expenses	¥3,088

Notes:

1. Certain consolidated subsidiaries adopt a short-cut method and its resultant retirement benefit expenses are included in service costs.
2. The amount required to be contributed to the National Construction Welfare Pension Fund, including substitute portions, is included under service costs. Employees' contributions are deducted from service costs.
3. "Other" includes contribution of premiums to the Retirement Mutual Fund Plan for Small and Medium Size Companies, the Construction Industry Retirement Mutual Fund Plan and defined contribution pension plans.

(4) Assumptions used for the year ended March 31, 2013 were set forth as follows:

Inter-period allocation method for estimated retirement benefits	Straight-line method
Discount rate	0.8%－1.2%
Expected rate of return on plan assets	2.5%
Amortization period of prior service cost	12 years (amortized using the straight-line method for a period within the employee's average remaining service period commencing in the fiscal year in which the cost is incurred)
Recognition period of actuarial gain (loss)	Principally 12 years (amortized using the straight-line method for a period within the employees' average remaining service period commencing in the fiscal year immediately following the fiscal year in which the gain (loss) is incurred)

9. Asset Retirement Obligations

The group's asset retirement obligations represent obligations of restoration stipulated in the real estate rental contracts of land for business use.
Asset retirement obligations are measured by estimating the periods for use to be 6 years through 34 years after the beginning of the contract term and using the discount rates of 1.0% through 2.3%.
The changes in asset retirement obligations during the years ended March 31, 2014 and 2013 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Beginning balance	¥1,019	¥1,023	$ 9,900
Increase due to acquisition of tangible assets	—	—	—
Accretion expenses	4	4	38
Decrease due to settlement of obligations	1	7	9
Ending balance	¥1,022	¥1,019	$ 9,930

10. Notes Receivable and Payables

The following notes receivable and payable matured on March 31, 2013 were included in the respective accounts, since March 31, 2013 falls on a bank holiday:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Notes receivable	¥2,526	—	—
Notes payable	90	—	—

11. Net Assets

Under the Japanese Companies Act (the “Act”), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is a component of capital surplus.
Under the Act, an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon approval by the Board of Directors and/or upon resolution of the shareholders’ meeting.
In addition, legal reserve and capital surplus could be used to eliminate or reduce a deficit or could be capitalized by a resolution of the shareholders’ meeting.

12. Capital Stock and Dividends Paid

The Company’s capital stock consists of only common stock.
The changes in the number of outstanding common stock and treasury stock during the year ended March 31, 2014 were as follows:

	Number of shares			
	April 1, 2013	Increase	Decrease	March 31, 2014
Outstanding shares issued:				
Common stock	119,401,836	—	—	119,401,836
Treasury stock	273,449	10,239	—	283,688

	Number of shares			
	April 1, 2012	Increase	Decrease	March 31, 2013
Outstanding shares issued:				
Common stock	119,401,836	—	—	119,401,836
Treasury stock	269,186	4,263	—	273,449

Note: Increase in treasury stock during the years ended March 31, 2014 and 2013 is due to purchase of shares less than one unit.

The Company paid the following dividends during the year ended March 31, 2014:

<u>Year ended March 31, 2014</u>

Cash dividends approved at the shareholders’ meeting held on June 25, 2013:	Total amount (Millions of Yen) (Thousands of U.S. Dollars)	Per share amount (Yen) (U.S. Dollars)	Dividend record date	Effective date
Common stock	¥1,786 ($17,353)	¥15 ($0.14)	Mar. 31, 2013	Jun. 26, 2013

<u>Year ended March 31, 2013</u>

Cash dividends approved at the shareholders’ meeting held on June 26, 2012:	Total amount (Millions of Yen)	Per share amount (Yen)	Dividend record date	Effective date
Common stock	¥1,429	¥12	Mar. 31, 2012	Jun. 27, 2012

13. Contingent Liabilities

The Group guarantees the following liabilities as of March 31, 2014:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Housing loans of employees	¥93	¥113	$ 903
Guarantee on deposits made by buyers of apartment houses offered by the following customers:			
Pressance Corporation	202	25	1,962

14. Cost of Sales

Cost of sales for the year ended March 31, 2014 includes the following costs:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Write-down of inventories due to a decline of profitability	¥880	¥25	$8,550
Provision of reserve for loss on construction contracts	759	1,412	7,374

15. Selling, General and Administrative Expenses

The major components of selling, general and administrative expenses for the year ended March 31, 2014 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Salaries and wages	¥6,902	¥6,939	$67,061
Provision of reserve for bonuses	1,154	1,101	11,212
Retirement benefit expenses	436	705	4,236
Provision for doubtful accounts	341	(222)	3,313
Research and development expenses	791	699	7,685

16. Other Income (Expenses)

Net loss on disposal or sales of property, plant and equipment for the year ended March 31, 2014 consists of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Gain on sales of property, plant and equipment:			
Machinery, equipment and vehicles	¥19	¥16	$184
Land	46	2	446
Other	0	0	0
Sub-total	65	19	631
Loss on disposal or sales of property, plant and equipment:			
Buildings and structures	(191)	(27)	(1,855)
Machinery, equipment and vehicles	(58)	(46)	(563)
Other	(35)	(4)	(340)
Sub-total	(285)	(78)	(2,769)
Net loss on disposal or sales of property, plant and equipment	¥(220)	¥(59)	$(2,137)

17. Loss on Impairment of Fixed Assets

The Group did not recognize loss on impairment for the years ended March 31, 2014 and 2013.
The Group considers the business units based on the business category for management accounting purposes as the minimum unit generating cash flows and all corporate assets of the headquarters are treated as common assets in grouping.
The Group reduces the carrying amounts of the business properties whose profitability deteriorated and of the idle assets decided to be disposed to the recoverable amounts.
The recoverable amounts are determined based on the real estate assessment values.

18. Income Taxes

Major components of the Group's deferred income tax assets and liabilities as of March 31, 2014 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Deferred tax assets:			
Reserve for bonuses	¥1,600	¥1,445	$15,546
Allowance for doubtful accounts	405	526	3,935
Loss on valuation of real estate for sale and development projects in progress	837	1,119	8,132
Liability for employees' retirement benefits	2,164	2,376	21,026
Tax loss carryforwards	55	288	534
Loss on impairment	6,915	7,132	67,188
Other	3,584	3,685	34,823
Sub-total	15,563	16,573	151,214
Valuation allowance	(10,662)	(11,162)	(103,595)
Total deferred tax assets	¥4,901	¥5,410	$47,619
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	¥(9,071)	¥(7,759)	$(88,136)
Reserve for reduction entry of fixed assets	(601)	(608)	(5,839)
Other	(105)	(125)	(1,020)
Total deferred tax liabilities	¥(9,778)	¥(8,493)	$(95,005)
Net deferred tax liabilities:	¥(4,877)	¥(3,082)	$(47,386)

Note: Net deferred tax liabilities are included in the following items of the accompanying consolidated balance sheet:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Current assets - Deferred tax assets	¥3,522	¥3,566	$34,220
Investments and other assets - Deferred tax assets	385	560	3,740
Non-current liabilities - Deferred tax liabilities	(8,785)	(7,209)	(85,357)

A reconciliation between the statutory tax rate and the effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2014 was as follows:

	2014	2013
Statutory tax rate	38.0 %	38.0 %
Expenses permanently not deductible for income tax purpose	0.8	1.2
Non-taxable income	(0.5)	(0.3)
Per capita inhabitant tax	0.7	1.1
Enterprise tax equivalent on overseas income	(0.0)	0.0
Tax credit on research and development expenses	(0.1)	(0.1)
Investment tax credit on manufacturing facilities	(0.2)	—
Changes in valuation allowance	(1.4)	(0.8)
Modification of the amounts of deferred tax assets and liabilities due to income tax rate changes	0.7	—
Other	0.3	(0.5)
Effective tax rates	38.2 %	38.4 %

3. Adjustments of deferred tax assets and liabilities due to a change in the corporate income tax rate:

The New Tax Reform Act proclaimed on March 31, 2014 repealed the special reconstruction corporate tax from the fiscal year beginning on or after April 1, 2014. As a result, the normal effective statutory tax rate used in computing deferred tax assets and liabilities has been reduced from 38.01% to 35.64%. As a result, deferred tax liabilities decreased by ¥249 million ($2,419 thousand) and income taxes – deferred increased by the same amount.

19. Other Comprehensive Income

The reclassification adjustment and tax effects allocated to each component of other comprehensive income for the year ended March 31, 2014 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Valuation difference on available-for-sale securities:			
Amount recognized during the year	¥ 3,638	¥ 5,757	$ 35,347
Reclassification adjustment to net income	(0)	1	(0)
Amount before tax effect	3,637	5,758	35,338
Tax effect	(1,286)	(2,037)	(12,495)
Valuation difference on available-for-sale securities	2,351	3,720	22,842
Share of other comprehensive income in affiliates accounted for using the equity method:			
Amount recognized during the year	(0)	—	(0)
Other comprehensive income	¥ 2,351	¥ 3,720	$ 22,842

20. Per Share Data

	Yen		U.S. Dollars
March 31	2014	2013	2014
Net assets per common share	¥1,838.14	¥1,660.09	$17.85

Net assets per common share is calculated based on the following:

	Millions of Yen		Thousands of U.S. Dollars
March 31	2014	2013	2014
.Total net assets	¥223,010	¥201,230	$2,166,828
Amount to be deducted from total net assets:			
(Minority interests)	(4,055)	(3,466)	(39,399)
Net assets attributable to common shares	218,955	197,763	2,127,429

	Number of shares	
March 31	2014	2013
Number of common shares as of fiscal year-end	119,118,148	119,128,387

As noted in Note 2 (16), the Company applied the revised accounting standard for retirement benefits and guidance and followed the transitional treatments prescribed in Section 37 of ASBJ Statement No. 26. As a result, net assets per share as of March 31, 2014 decreased by ¥10.56 ($0.10).

	Yen		U.S. Dollars
March 31	2014	2013	2014
Net income per common share	¥182.89	¥122.03	$1.77

*Diluted net income per common share was not presented since the potential shares did not exist for the years ended March 31, 2014 and 2013.

Net income per common share is calculated based on the following:

	Millions of Yen		Thousands of U.S. Dollars
Years ended March 31	2014	2013	2014
Net income	¥21,786	¥14,537	$ 211,678
Net income attributable to common shares	21,786	14,537	211,678

	Number of shares	
Years ended March 31	2014	2013
Average number of common shares during the year	119,123,581	119,130,539

21. Leases

As lessee:
The leased assets are some tangible fixed assets such as construction machinery (machinery, equipment and vehicles) for construction business use.

As explained in Note 2 (6), finance leases which do not transfer ownership of the leased assets to the lessee and which started prior to April 1, 2008 are accounted for as operating leases.

1. Pro forma information of the leased assets which started prior to April 1, 2008 was as follows:

	Millions of Yen		
March 31, 2014	Acquisition cost	Accumulated depreciation	Net leased assets
Tools, furniture and fixtures	¥20	¥19	¥1
Total	¥20	¥19	¥1

	Millions of Yen		
March 31, 2013	Acquisition cost	Accumulated depreciation	Net leased assets
Tools, furniture and fixtures	¥20	¥17	¥3
Total	¥20	¥17	¥3

	Thousands of U.S. Dollars		
March 31, 2014	Acquisition cost	Accumulated depreciation	Net leased assets
Tools, furniture and fixtures	$194	$184	$9
Total	$194	$184	$9

Obligations under finance leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Due within one year	¥1	¥2	$9
Due over one year	—	1	—
Total	¥1	¥3	$9

Lease payments, depreciation and interest expense were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Lease payments	¥2	¥10	$19
Depreciation	2	9	19
Interest expense	0	0	0

Depreciation of leased assets is computed by the straight-line method with no residual value over the lease term as the useful life.

Interest expense on leased assets is computed based on the difference between total lease payments and acquisition cost of leased assets and allocated over the lease term by the interest method.

As lessor:

The accounting standard requires that all finance leases that deem to transfer ownership of the leased property to the lessee shall be recognized as lease receivables, and all finance leases that deem not to transfer ownership of the leased property to the lessee shall be recognized as investments in leased assets.

Investments in leased assets classified as current assets consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Receivable portion of lease charges	¥2,527	¥2,336	$24,553
Estimated residual value	185	152	1,797
Interest income portion	431	197	4,187
Investments in leased assets	¥3,144	¥2,686	$30,547

Collection schedules of lease receivables and receivable portion of lease charges on investments in leased assets subsequent to March 31, 2014 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
Year ending March 31	Lease receivables	Investments in leased assets	Lease receivables	Investments in leased assets
2015	¥29	¥884	$281	$8,589
2016	31	692	301	6,723
2017	31	506	301	4,916
2018	28	306	272	2,973
2019	9	111	87	1,078
2020 and thereafter	7	25	68	242

Finance leases which do not transfer ownership of the leased assets to the lessee and which started prior to April 1, 2008 are permitted to be accounted for as operating leases.

Pro forma information about finance leases which do not transfer ownership of the leased assets to the lessee and which started prior to April 1, 2008 was as follows:

	Millions of Yen		
March 31, 2014	Acquisition cost	Accumulated depreciation	Net leased assets
Machinery, equipment and vehicles	¥–	¥–	¥–

	Millions of Yen		
March 31, 2013	Acquisition cost	Accumulated depreciation	Net leased assets
Machinery, equipment and vehicles	¥0	¥0	¥0

	Thousands of U.S. Dollars		
March 31, 2014	Acquisition cost	Accumulated depreciation	Net leased assets
Machinery, equipment and vehicles	$—	$—	$—

Outstanding receivables under finance leases accounted for as operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Due within one year	¥—	¥0	$—
Due over one year	—	—	—
Total	¥—	¥0	$—

Lease receipts, depreciation and interest income were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Lease receipts	¥0	¥6	$0
Depreciation	0	4	0
Interest income	0	0	0

Interest income is allocated over the lease term by the interest method.

2. Operating leases

Future minimum lease payments under non-cancellable operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Due within one year	¥114	¥253	$1,107
Due over one year	185	251	1,797
Total	¥300	¥504	$2,914

3. Subleases

Subleases recorded in the amounts before deducting interest income in the accompanying consolidated balance sheet were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Investments in leased assets:			
Current assets	¥2,182	¥2,070	$21,200
Lease obligations:			
Current liabilities	715	720	6,947
Non-current liabilities	1,321	1,230	12,835

22. Financial Instruments

a. Policy for Financial Instruments

The Group invests its surplus funds only in short-term deposits or uses the Group financing system of the parent company and raises its working capital by bank loans. Derivatives are used, not for speculative purposes, but to avoid risks arising from future changes in foreign exchange rates.

b. Nature and Related Risks Arising from Financial Instruments and Risk Management System

Trade receivables such as notes receivable and accounts receivable on completed construction contracts are exposed to customer credit risk. With respect to such risks, the Company controls the outstanding balances at the Credit Risk Control Committee on a regular basis in accordance with the Company's Credit Control Rules and monitors the credit status of major customers. Its consolidated subsidiaries follow the same control procedures in accordance with the Company's control policy.

Short-term loans receivable were executed to invest funds pursuant to the aforementioned Group financing system.

Equity securities included in investment securities consist of mainly equity securities issued by trade customers. These investments are exposed to the risk of market price fluctuations and the responsible divisions monitor the market values and financial positions of the issuers (trade customers) on a regular basis.

Payment terms of trade payables such as notes payable, accounts payable on construction contracts and other are mostly less than six months. Long-term loans are mainly non-recourse loans financed from financial institutions by consolidated subsidiaries operating PFI business. The Group controls such liquidity risk associated with funding by preparing and updating funding plans on a timely basis.

Derivatives are used to avoid the risk of changes in foreign exchange rates exposed to foreign currency denominated receivables and payables and to secure stable profit. Derivative transactions are executed in accordance with the internal rule which defines authorization policies. In addition, the counterparties to enter into derivative contracts are limited to large financial institutions to mitigate credit risk.

c. Supplementary Information on Fair Values

Fair values of financial instruments are based on quoted prices in active markets. If market quoted prices are not available, other rational valuation techniques are used instead. The results of valuations may differ based upon assumptions used because rational valuation techniques include variable factors.

Note that contract amounts of derivative transactions disclosed in Note 23 “Derivative Transactions” do not show the volume of market risk on derivative transactions.

Fair Value of Financial Instruments

Carrying amounts of the financial instruments included in the consolidated balance sheet and their fair values as of March 31, 2014 were as follows:

	Millions of Yen		
March 31, 2014	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and bank deposits	¥47,865	¥47,865	¥—
(2) Notes receivable, accounts receivable on completed construction contracts and other	149,816		
Allowance for doubtful accounts[*1]	(266)		
	149,550	149,530	(20)
(3) Short-term loans receivable	35,139		
Allowance for doubtful accounts[*1]	(62)		
	35,077	35,077	—
(4) Investment securities	30,635	30,635	—
Total assets	263,128	263,108	(20)
(1) Notes payable, accounts payable on construction contracts and other	142,133	142,122	(10)
(2) Long-term debt	4,668	4,620	(47)
Total liabilities	146,801	146,743	(57)
Derivatives[*2]	(20)	(20)	—

	Millions of Yen		
March 31, 2013	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and bank deposits	¥38,093	¥38,093	¥—
(2) Notes receivable, accounts receivable on completed construction contracts and other	149,283		
Allowance for doubtful accounts[*1]	(267)		
	149,016	149,006	(10)
(3) Short-term loans receivable	17,023		
Allowance for doubtful accounts[*1]	(30)		
	16,993	16,993	—
(4) Investment securities	26,909	26,909	—
Total assets	231,013	231,003	(10)
(1) Notes payable, accounts payable on construction contracts and other	127,781	127,770	(10)
(2) Long-term debt	5,603	5,531	(71)
Total liabilities	133,384	133,302	(81)
Derivatives[*2]	(311)	(311)	—

March 31, 2014	Thousands of U.S. Dollars Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and bank deposits	$465,069	$465,069	$—
(2) Notes receivable, accounts receivable on completed construction contracts and other	1,455,654		
Allowance for doubtful accounts[*1]	(2,584)		
	1,453,070	1,452,876	(194)
(3) Short-term loans receivable	341,420		
Allowance for doubtful accounts[*1]	(602)		
	340,818	340,818	—
(4) Investment securities	297,658	297,658	—
Total assets	2,556,626	2,556,432	(194)
(1) Notes payable, accounts payable on construction contracts and other	1,381,004	1,380,897	(97)
(2) Long-term debt	45,355	44,889	(456)
Total liabilities	1,426,360	1,425,796	(553)
Derivatives[*2]	(194)	(194)	—

*1 General allowance for doubtful accounts corresponding to "Notes receivable, accounts receivable on completed construction contracts and other" is deducted.

*2 Receivables or payables arising from derivative transactions are shown in net and net payables are presented in parentheses.

Note 1: Method used for determining fair values of financial instruments and matters concerning securities and derivative transactions

Assets:

(1) Cash and bank deposits

The carrying amount is presented as the fair value, since the fair value approximates such carrying amount because of their short maturities.

(2) Notes receivable, accounts receivable on completed construction contracts and other

The fair value is based on the present value determined by discounting receivables categorized by fixed periods using interest rates considering the maturities and the credit risk.

(3) Short-term loans receivable

The carrying amount is presented as the fair value, since the fair value approximates such carrying amount because of their short maturities.

(4) Investment securities

The fair value of equity securities is determined by the quoted prices at the exchanges and that of debt securities is determined by the quoted prices at the exchanges or prices presented by the financial institutions.

With respect to notes on securities by holding purposes, please see Note 4 "Investment Securities".

Liabilities:

(1) Notes payable, accounts payable on construction contracts and other

The carrying amount is presented as the fair value, since the fair value approximates the carrying amount because of their short maturities.

(2) Long-term debt

The fair value is based on the present value determined by discounting the aggregated amount of principal and interest using interest rates that would be applied to new similar borrowings.

Derivative transactions:
Please see Note 23 “Derivative Transactions”.

Note 2: Financial instruments whose fair values are extremely difficult to estimate were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Unlisted equity securities	¥10,612	¥9,321	$103,109

The above items are not included in “(4) Investment securities” since market prices are not available and it is extremely difficult to determine their fair values.

Note 3: Annual maturities of monetary receivables and securities with maturity subsequent to March 31, 2014 were as follows:

	Millions of Yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and bank deposits	¥47,865	¥—	¥—	¥—
Notes receivable, accounts receivable on completed construction contracts and other	145,717	4,096	3	—
Short-term loans receivable	35,139	—	—	—
Investment securities	—	—	—	—
Total	¥228,722	¥4,096	¥3	¥—

	Thousands of U.S. Dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and bank deposits	$465,069	$—	$—	$—
Notes receivable, accounts receivable on completed construction contracts and other	1,415,827	39,797	29	—
Short-term loans receivable	341,420	—	—	—
Investment securities	—	—	—	—
Total	$2,222,328	$39,797	$29	$—

Note 4: Annual maturities of long-term debt and lease obligations subsequent to March 31, 2014:
Please see Note 7.

23. Derivative Transactions

The Company uses derivatives (foreign exchange forward contracts) to hedge the foreign exchange risk arising from changes in foreign exchange rates.
Derivative transactions to which hedge accounting was not applied were as follows:

March 31, 2014		Millions of Yen			
Category	Transaction type	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Over-the-counter transactions	Foreign exchange forward contracts:				
	Bought:				
	USD	¥1,464	¥20	¥1,485	¥20
	Total	¥1,464	¥20	¥1,485	¥20

March 31, 2013		Millions of Yen			
Category	Transaction type	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Over-the-counter transactions	Foreign exchange forward contracts:				
	Bought:				
	USD	¥1,620	¥2	¥284	¥284
	AUD	110	—	27	27
	Total	¥1,731	¥2	¥311	¥311

March 31, 2014		Thousands of U.S. Dollars			
Category	Transaction type	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Over-the-counter transactions	Foreign exchange forward contracts:				
	Bought:				
	USD	$14,224	$194	$14,428	$194
	Total	$14,224	$194	$14,428	$194

Note: The fair value is determined based on the prices presented by the financial institutions.

There is no derivative transaction to which hedge accounting is applied as of March 31, 2014 and 2013.

24. Segment Information

1. Description of reportable segments

The Company's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. The Company has established business divisions by product and service and deploys operating activities. The Company's reportable segments consist of four main business lines including "Pavement and Civil Engineering", "Building Construction", "Manufacturing and Sales" and "Development".
The "Pavement and Civil Engineering" business line consists of pavement construction and civil engineering works.
The "Building Construction" business line consists of building construction works among construction businesses.
The "Manufacturing and Sales" business line consists of manufacturing of pavement materials such as asphalt composite and the "Development" business line consists of development and sales of real estate and rental business.

2. Methods of measurement for the amounts of sales, profit (loss), assets and other items for each reportable segment

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies".
Intersegment sales or transfers are determined based on market prices.
(Changes in depreciation method of property, plant and equipment)

As noted in Note 2 (16), the Company changed its depreciation method for property, plant and equipment from the declining-balance method to the straight-line method.
The Group has commenced a larger amount of capital investment than before based on the middle term asset improvement plan from this fiscal year. The major contents of the capital investment differs from the new capital investment aiming at the expansion of the market area, and are renewal or improvements of obsolete manufacturing facilities of the existing plants, principally aiming at maintenance and improvements of operations with long-term stability.
The Company reviewed the depreciation method upon this opportunity, and reached a judgment that it would better reflect the actual status of use by changing the depreciation method to the straight-line method by which the costs would be allocated evenly over the useful life of the facilities since they operate on a stable and long-term basis and stably contribute to the income.
As a result, compared with the previous method, segment profit of “Pavement and Civil Engineering”, “Manufacturing and Sales”, “Development” and “Reconciliation” for the year ended March 31, 2014 increased by ¥100 million ($971 thousand), ¥629 million ($6,111 thousand), ¥93 million ($903 thousand) and ¥210 million ($2,040 thousand), respectively.

3. Information about sales, profit (loss), assets and other items by reportable segment was as follows.

	Millions of Yen								
	2014								
	Reportable Segments								
	Construction								
	Pavement and Civil Engineering	Building Construction	Manufacturing and Sales	Development	Total	Other (Note 1)	Total	Reconciliation (Notes 2 and 3)	Consolidated (Note 4)
Sales:									
Sales to external customers	¥242,077	¥77,348	¥80,241	¥19,180	¥418,847	¥12,791	¥431,638	¥—	¥431,638
Intersegment sales or transfers	347	62	30,527	87	31,024	6,427	37,452	(37,452)	—
Total	242,424	77,411	110,768	19,267	449,872	19,218	469,090	(37,452)	431,638
Segment profit (loss)	19,971	1,572	15,375	2,956	39,876	1,570	41,447	(6,757)	34,689
Segment assets	140,323	47,194	92,174	49,776	329,468	29,403	358,871	81,593	440,464
Other items:									
Depreciation	1,305	21	2,227	439	3,994	677	4,671	82	4,754
Amortization of goodwill	0	—	14	—	15	—	15	—	15
Investment in affiliates accounted for by the equity method	595	—	—	—	595	5,590	6,185	—	6,185
Increase in tangible and intangible fixed assets	1,743	2	5,673	1,246	8,666	1,594	10,260	782	11,043

	Millions of Yen								
	2013								
	Reportable Segments								
	Construction								
	Pavement and Civil Engineering	Building Construction etc	Manufacturing and Sales	Development	Total	Other (Note 1)	Total	Reconciliation (Notes 2 and 3)	Consolidated (Note 4)
Sales:									
Sales to external customers	¥226,443	¥66,337	¥71,806	¥9,628	¥374,216	¥10,801	¥385,017	¥—	¥385,017
Intersegment sales or transfers	33	—	30,029	71	30,134	6,660	36,795	(36,795)	—
Total	226,477	66,337	101,836	9,699	404,351	17,462	421,813	(36,795)	385,017
Segment profit (loss)	16,861	(2,414)	11,876	910	27,232	1,287	28,520	(6,224)	22,296
Segment assets	142,477	41,853	80,041	49,836	314,209	26,331	340,540	59,812	400,352
Other items:									
Depreciation	1,254	35	3,381	554	5,225	627	5,853	100	5,953
Amortization of goodwill	—	—	125	—	125	—	125	—	125
Investment in affiliates accounted for by the equity method	227	—	—	—	227	5,433	5,661	—	5,661
Increase in tangible and intangible fixed assets	2,067	12	4,920	3,799	10,800	1,002	11,802	19	11,821

	Thousands of U.S. Dollars								
	2014								
	Reportable Segments								
	Construction								
	Pavement and Civil Engineering	Building Construction	Manufacturing and Sales	Development	Total	Other (Note 1)	Total	Reconciliation (Notes 2 and 3)	Consolidated (Note 4)
Sales:									
Sales to external customers	$2,352,089	$751,535	$779,644	$186,358	$4,069,636	$124,280	$4,193,917	$—	$4,193,917
Intersegment sales or transfers	3,371	602	296,609	845	301,438	62,446	363,894	(363,894)	—
Total	2,355,460	752,147	1,076,253	187,203	4,371,084	186,727	4,557,811	(363,894)	4,193,917
Segment profit (loss)	194,043	15,273	149,387	28,721	387,446	15,254	402,710	(65,652)	337,048
Segment assets	1,363,418	458,550	895,588	483,637	3,201,204	285,687	3,486,892	792,780	4,279,673
Other items:									
Depreciation	12,679	204	21,638	4,265	38,806	6,577	45,384	796	46,191
Amortization of goodwill	0	—	136	—	145	—	145	—	145
Investment in affiliates accounted for by the equity method	5,781	—	—	—	5,781	54,314	60,095	—	60,095
Increase in tangible and intangible fixed assets	16,935	19	55,120	12,106	84,201	15,487	99,689	7,598	107,296

Notes:
1. "Other" represents a business segment which is not included in any reportable segment and includes leasing, manufacturing and repairs of construction machines, leasing of vehicles, management of hotels and golf courses, construction consulting, PFI business and other.
2. A reconciliation of segment profit (loss) is corporate expenses not allocated to each reportable segment. Corporate expenses mainly consist of headquarter control division expenses which are not attributable to any reportable segment.
3. A reconciliation of segment assets includes elimination of receivables due from the headquarter control division and corporate assets not allocated to each reportable segment.
4. Segment profit (loss) is reconciled with operating income of the accompanying consolidated statement of income.

Related information:

1. Information by product and service
   This information is omitted because the same information is disclosed in segment information.
2. Information by geographic segment
   (Sales)
   This information is omitted because sales to external customers in Japan exceed 90% of consolidated sales.
   (Tangible fixed assets)
   This information is omitted because tangible fixed assets in Japan exceed 90% of tangible fixed assets of the consolidated balance sheet.
3. Information by major customer
   This information is omitted because there is no specific external customer to whom sales exceed 10% of consolidated sales.

Loss on impairment of fixed assets by reportable segment

The Group did not recognize loss on impairment of fixed assets for the years ended March 31, 2014 and 2013.

Amortization and balance of goodwill by reportable segment

As of March 31, 2014 and for the year then ended

	Millions of Yen							
	2014							
	Reportable Segments							
	Construction							
	Pavement and Civil Engineering	Building Construction	Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
Amortization for the year	¥0	¥—	¥14	¥—	¥15	¥—	¥—	¥15
Unamortized balance	0	—	65	—	66	—	—	66

	Millions of Yen							
	2013							
	Reportable Segments							
	Construction							
	Pavement and Civil Engineering	Building Construction etc	Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
Amortization for the year	¥—	¥—	¥125	¥—	¥125	¥—	¥—	¥125
Unamortized balance	—	—	—	—	—	—	—	—

	Thousands of U.S. Dollars							
	2014							
	Reportable Segments					Other	Corporate/ Elimination	Total
	Construction		Manufacturing and Sales	Development	Total			
	Pavement and Civil Engineering	Building Construction						
Amortization for the year	$0	$—	$136	$—	$145	$—	$—	$145
Unamortized balance	0	—	631	—	641	—	—	641

25. Related Party Transactions

Transactions between the Company and related parties were as follows:

For the year ended March 31, 2014

	Related parties who are owned by the common parent company		
Name of the parties:	JX Nippon Oil & Energy Corporation	JX Nippon Finance Corporation	
Location:	Chiyoda-ku, Tokyo	Chiyoda-ku, Tokyo	
Capital:	¥139,437 million ($1,354,809 thousand)	¥400 million ($3,886 thousand)	
Business:	Manufacturing of oil and petrochemical products	Financing services for JX Group companies	
Ownership of voting rights:	–	–	
Business relations:	Construction works, purchase of asphalt and other materials	Loans	Interest income
Nature of business:	Order acknowledgement of works	Loans	Interest income
Transaction amount:	¥13,606 million ($132,199 thousand)	¥22,564 million ($219,238 thousand)	¥36 million ($349 thousand)
Account title:	Accounts receivable on completed construction contracts	Short-term loans	
Balance at fiscal year-end:	¥5,411 million ($52,574 thousand)	¥32,525 million ($316,022 thousand)	

Notes:

1. The above transaction amounts do not include consumption taxes, but the balances at fiscal year-end include consumption taxes.
2. Trading conditions and policies for deciding such conditions:
   Transaction amounts are determined in the same manner as those with the third parties. The interest rates on loans are reasonably determined considering market interest rates.
3. Transaction amounts of loans represent the average outstanding balance after the inception of the transaction.

For the year ended March 31, 2013

	Related parties who are owned by the common parent company		
Name of the parties:	JX Nippon Oil & Energy Corporation	JX Nippon Finance Corporation	
Location:	Chiyoda-ku, Tokyo	Chiyoda-ku, Tokyo	
Capital:	¥139,437 million	¥400 million	
Business:	Manufacturing of oil and petrochemical products	Financing services for JX Group companies	
Ownership of voting rights:	–	–	
Business relations:	Construction works, purchase of asphalt and other materials	Loans	Interest income
Nature of business:	Order acknowledgement of works	Loans	Interest income
Transaction amount:	¥11,479 million	¥18,089 million	¥31 million
Account title:	Accounts receivable on completed construction contracts	Short-term loans	
Balance at fiscal year-end:	¥8,330 million	¥16,488 million	

Notes:

4. The above transaction amounts do not include consumption taxes, but the balances at fiscal year-end include consumption taxes.
5. Trading conditions and policies for deciding such conditions:
   Transaction amounts are determined in the same manner as those with the third parties. The interest rates on loans are reasonably determined considering market interest rates.
6. Transaction amounts of loans represent the average outstanding balance after the inception of the transaction.

Information about the parent company:
JX Holdings, Inc. (listed on the exchanges of Tokyo and Nagoya)

26. Subsequent Event

Appropriations of Retained Earnings:
The following appropriation of retained earnings as of March 31, 2014 was approved at the shareholders' meeting held on June 24, 2014:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends:		
Common stock, ¥25 ($0.24) per share	¥2,977	$28,925

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Building a better working world

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Independent Auditor's Report

The Board of Directors
NIPPO CORPORATION

We have audited the accompanying consolidated financial statements of NIPPO CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NIPPO CORPORATION and its consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 2 to the consolidated financial statements, which describes NIPPO Group had depreciated buildings (excluding building attachments) acquired on or after April 1, 1998 and property, plant and equipment related to the Kinkai Project principally using a straight-line method and other tangible assets had been depreciated by a declining-balance method until March 31, 2013. However, NIPPO Group changed its depreciation method for all property, plant and equipment to the straight-line method from April 1, 2013. Our opinion is not qualified in respect of this matter.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young ShinNihon LLC

June 24, 2014
Tokyo, Japan