Annual Report 2018

NIPPO

Consolidated Financial Highlights

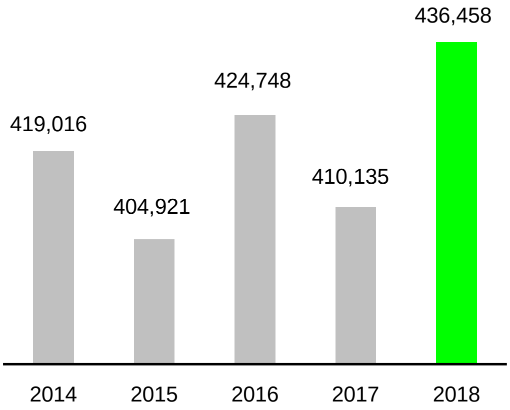
(Millions of yen, except per share information and where otherwise indicated)

For the years ended March 31,	2014	2015	2016	2017	2018
Net sales	¥ 431,638	¥ 396,948	¥ 407,433	¥ 393,614	¥ 404,153
Net income	21,786	22,437	26,224	28,518	26,610
Comprehensive income	24,462	32,103	19,214	30,656	30,237
Net assets	223,010	250,913	267,638	294,944	321,829
Total assets	440,464	469,454	472,492	496,182	510,627
Net cash from operating activities	39,311	29,585	31,726	30,639	22,015
Net cash from investing activities	(9,146)	(11,143)	(11,122)	(15,937)	(18,077)
Net cash from financing activities	(3,053)	(4,520)	(4,191)	(5,676)	(5,696)
Cash and cash equivalents at end of year	82,472	96,855	114,170	124,668	124,317
Net assets per share	¥ 1,838.14	¥ 2,069.43	¥ 2,201.99	¥ 2,422.42	¥ 2,638.91
Basic net income per share	182.89	188.37	220.18	239.46	223.45
Diluted net income per share	—	—	—	—	—
Net assets as a percentage of total assets	49.7%	52.5%	55.5%	58.1%	61.5%
Return on equity	10.46%	9.64%	10.31%	10.36%	8.83%
Price earnings ratio (times)	7.79	10.54	8.60	8.82	11.04
Employees (persons) [Average number of temporary workers, etc.]	3,644 [2,669]	3,795 [2,456]	4,035 [2,320]	4,658 [2,035]	5,353 [1,318]

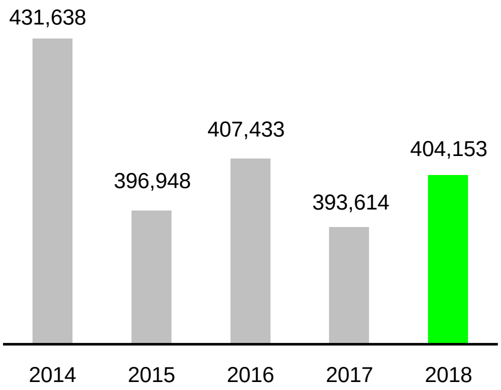
Notes: 1. Net sales are presented exclusive of consumption tax.

2. Diluted net income per share is not presented since the potential shares did not exist.

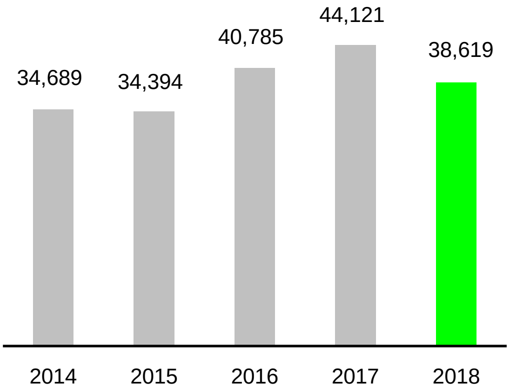
Orders
(Millions of yen)



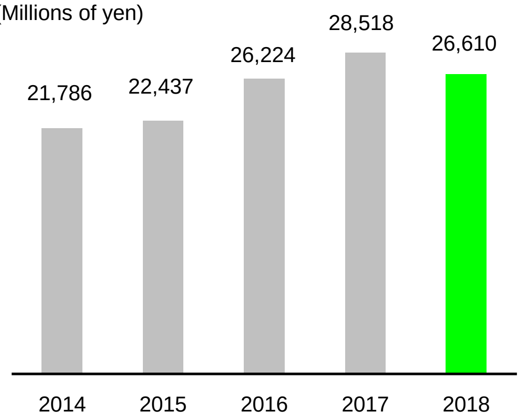
Net Sales
(Millions of yen)



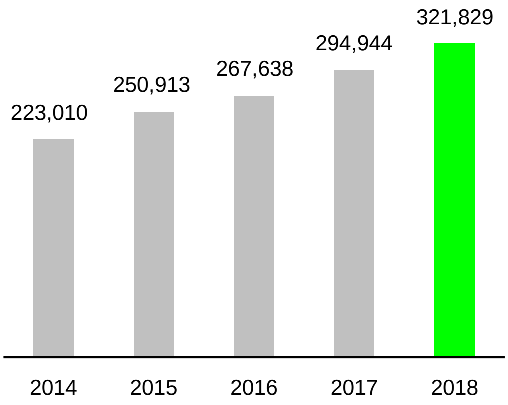
Operating Income
(Millions of yen)



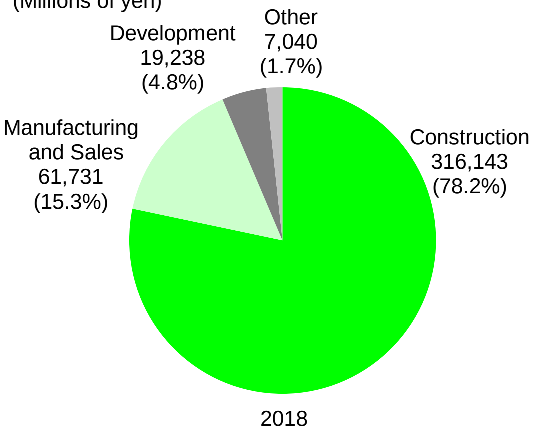
Net Income
(Millions of yen)



Net Assets
(Millions of yen)



Net Sales by Segment
(Millions of yen)



To Our Shareholders

We appreciate your continued exceptional support.

We hereby present this Annual Report for the 117th term (from April 1, 2017, to March 31, 2018) and report on the business overview of NIPPO CORPORATION (the “Company”), its corporate initiatives and financial results, etc.

At the Company, the former President and Representative Director Hiromi Iwata was appointed Chairman and Representative Director, and I, Yoshikazu Yoshikawa, was appointed President as his successor. I am committed to dedicating efforts toward the development of the Company’s business. I am grateful for your continued support and understanding in our future endeavors.

First of all, as to the string of violations of the Antimonopoly Act, we deeply apologize for the great inconvenience and concern that the incidents have caused to our shareholders, business partners and stakeholders.

Taking this situation seriously, the Company is committed to further reinforcing and ensuring its compliance system to prevent the recurrence, and making every effort to restore the public trust.

Concerning Japan’s economy during the consolidated fiscal year under review, a moderate recovery trend continued as a result of the economic measures by the Japanese government and other factors amid ongoing improvement in employment and income conditions.

In the construction industry, despite steady public investments and a gradual increase in capital expenditures, a severe management environment continued with the need for attention to the trend of demand for labor and raw material 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 and reinforce sales of asphalt mixture and other products.

With an ongoing improvement in employment and income conditions, a moderate recovery of Japan’s economy is expected to continue, supported partially by the effect of various economic measures. However, the attention must be paid to the uncertainty about overseas economies and the volatility in financial and capital markets which is considered a risk that could decelerate the domestic economy.

Although expectations are high for increased capital expenditures derived from the corporate revenue improvement as well as steady public investments owing to national supplementary budget, the management environment surrounding the construction industry is projected to remain harsh because of fierce competition for orders among corporations.

Under such circumstances, as a corporate group backed by superior technologies and management, the Group will strive to improve its technical capabilities, bolster its sales skills, and appropriately cope with rising raw material prices, while steadily increasing productivity and trimming costs to enhance its competitiveness. We will also make efforts to further reinforce the revenue bases with mid-to-long-term management vision and stabilize the business.

In addition, as to the suspected violations of the Antimonopoly Act on which the investigations are continuing, we will continue to fully cooperate in the investigations. At the same time, the Company will continue to sustainably and steadily implement effective measures to prevent recurrence. Furthermore, the Company will promote efforts to strengthen a corporate culture and structure that are determined to never violate the Antimonopoly Act and all other laws and regulations, and to make concerted efforts to restore the trust in the Company.

We ask for your continued understanding and support.

June 2018

Yoshikazu Yoshikawa
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 233 subsidiaries and 27 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 JXTG Nippon Oil & Energy Corporation (the Company's fellow subsidiary).

Dai Nippon Construction (a consolidated subsidiary) is engaged in the construction and general 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 general civil engineering. Additionally, 79 consolidated subsidiaries, 38 non-consolidated subsidiaries, 8 affiliated companies and 1 affiliate 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 manufacturing and sales of asphalt mixture, asphalt emulsion and other materials related to pavement works, and purchases asphalt, the main material of asphalt mixture, from JXTG Nippon Oil & Energy Corporation.

Fair Road Co., Ltd. and 79 other consolidated subsidiaries, and 30 other non-consolidated subsidiaries and affiliated companies are engaged in manufacturing and sales of asphalt mixture.

The Company supplies and 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 the above companies.

3. Development business

The Company is engaged in the real-estate business, including housing-land development and sales and renting 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 of construction machinery and other vehicles, the operation of golf courses and hotels, PFI, and other businesses.

MECX incorporated (a consolidated subsidiary) and 2 affiliated companies are engaged in leasing, sales, manufacturing and maintenance of construction machinery and vehicles.

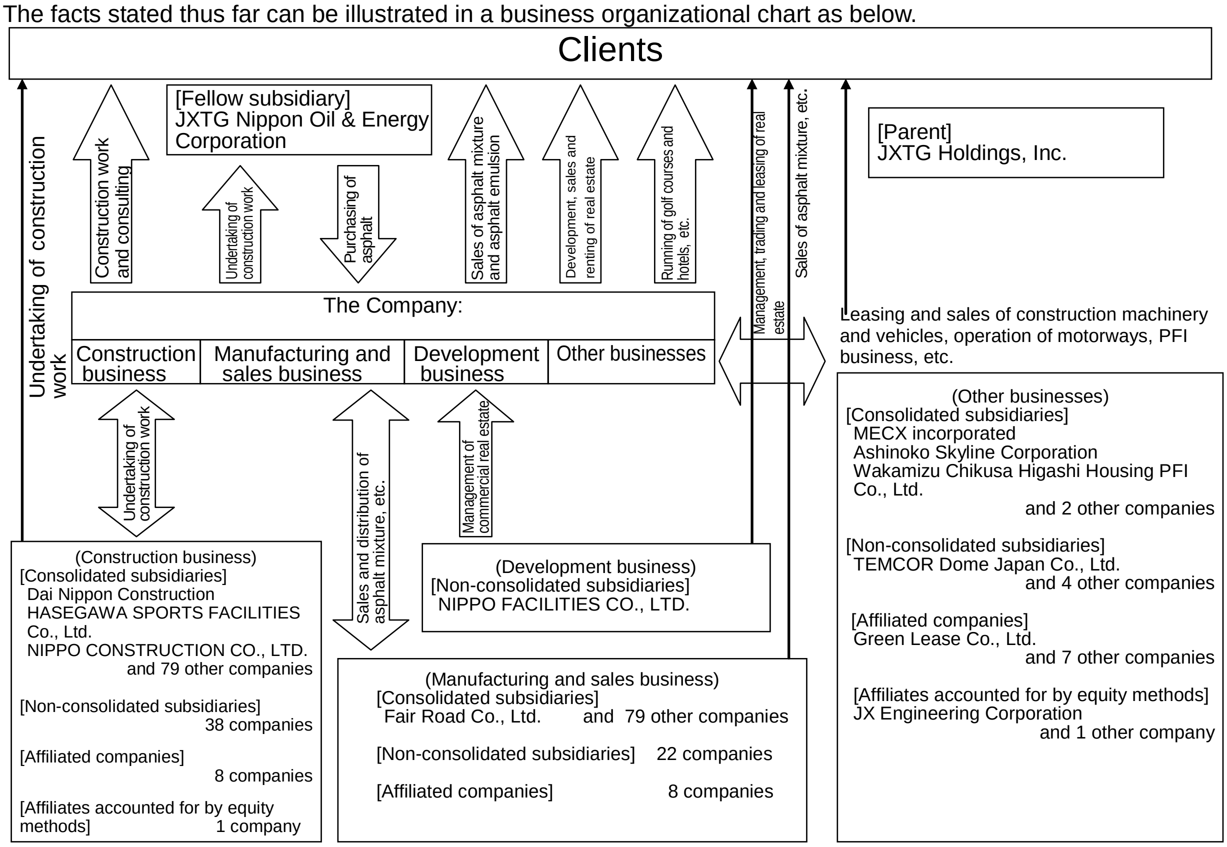
Ashinoko Skyline Corporation (a consolidated subsidiary) operates motorways; and 3 consolidated subsidiaries including Wakamizu Chikusa Higashi Housing PFI, 1 affiliate accounted for by equity methods and 1 affiliate not accounted for by equity methods are engaged in the PFI business.

Additionally, JX Engineering Corporation (an affiliate accounted for by equity methods) is engaged in plant engineering business; 1 non-consolidated subsidiary is engaged in the operation of a golf course and a hotel; 1 affiliated company is engaged in the soil-pollution investigation business; and 4 non-consolidated companies and 4 affiliated companies are 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 to 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: 1. Some of the above affiliated companies are operating multiple businesses. The above classification is based on the representative business of each company.

2. From the consolidated fiscal year under review, the classification of reportable segments has been changed. For details, please see 5. Financial Information, 1. Consolidated Financial Statements, etc., (1) Notes to the Consolidated Financial Statements (Segment Information, etc.).

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) JXTG Holdings, Inc. (Notes) 2, 4	Chiyoda-ku, Tokyo	100,000	Pure holding company	Ratio of voting rights held: 57.0 (0.0)	Yes	Interlocking Directors: 1
(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 and vehicles	Ratio of voting rights holding: 100.0	None	The subsidiary is leasing construction machinery and vehicles to, and repairing manufacturing equipment for the Company, etc. The subsidiary is renting buildings, etc. owned by the Company.
Fair Road Co., Ltd. and 162 other companies	-	-	-	-	-	-
(Affiliates accounted for using equity method) JX Engineering Corporation and 2 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	¥77,736 million
(2)	Ordinary income	¥5,314 million
(3)	Net income	¥3,518 million
(4)	Net assets	¥27,890 million
(5)	Total assets	¥66,756 million

Major Shareholders

(As of March 31, 2018)

Name	Address	Number of shares held (Thousands of shares)	Percentage of shares held to the total number of issued shares (%)
JXTG Holdings, Inc.	1-2 Otemachi 1-chome, Chiyoda-ku, Tokyo	67,890	57.00
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	50 BANK STREET, CANARY WHARF, LONDON E14 5NT, UK (11-1 Nihonbashi 3-chome, Chuo-ku, Tokyo)	5,217	4.38
Japan Trustee Services Bank, Ltd. (Trust account)	8-11 Harumi 1-chome, Chuo-ku, Tokyo	5,078	4.26
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	50 BANK STREET, CANARY WHARF, LONDON E14 5NT, UK (11-1 Nihonbashi 3-chome, Chuo-ku, Tokyo)	3,004	2.52
The Master Trust Bank of Japan, Ltd. (Trust account)	11-3 Hamamatsucho 2-chome, Minato-ku, Tokyo	2,403	2.01
NORTHERN TRUST CO. (AVFC) ACCOUNT NON TREATY (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	50 BANK STREET, CANARY WHARF, LONDON E14 5NT, UK (11-1 Nihonbashi 3-chome, Chuo-ku, Tokyo)	1,902	1.59
NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	50 BANK STREET, CANARY WHARF, LONDON E14 5NT, UK (11-1 Nihonbashi 3-chome, Chuo-ku, Tokyo)	1,645	1.38
STATE STREET BANK AND TRUST COMPANY 505001 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	P.O. BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A. (15-1 Konan 2-chome, Minato-ku, Tokyo)	1,497	1.25
Japan Trustee Services Bank, Ltd. (Trust account 9)	8-11 Harumi 1-chome, Chuo-ku, Tokyo	1,294	1.08
GOVERNMENT OF NORWAY (Standing proxy: Citibank, N.A., Tokyo Branch)	BANKPLASSEN 2, 0107 OSLO 1 OSLO 0107 NO (27-30 Shinjuku 6-chome, Shinjuku-ku, Tokyo)	1,268	1.06
Total	—	91,201	76.58

Notes: 1. Of the shares held by the major shareholders shown above as of March 31, 2018, the Company cannot accurately determine the number of shares related to trust services.

2. It is stated in the Report of Possession of Large Volume (Change Report), which was made available for public inspection as of April 7, 2017, that Silchester International Investors LLP held the following shares as of April 5, 2017. However, it is not included in Major Shareholders, mentioned above, since the Company could not confirm the actual number of shares held by the company at March 31, 2018.

The details of the Report of Possession of Large Volume (Change Report) are as follows:

Name	Address	Number of securities certificates, etc. held (1,000 shares)	Holding ratio of securities certificates, etc. (%)
Silchester International Investors LLP	Time & Life Building 5F, 1 Bruton Street, London, W1J 6TL, UK	10,950	9.17

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 continued as a result of the economic measures, amid continued improvement in the employment and income environment.

In the construction industry, despite steady public investments and a moderate increase in capital expenditures, a severe management environment continued with the need of attention to the trend of demand for labor and raw material prices.

In this environment, the Group strove to secure orders utilizing the superior proprietary technologies of each company and reinforce sales of asphalt mixture and other products.

The consolidated business results of the Group for the consolidated fiscal year under review are as follows.

Net sales were ¥404,153 million, up 2.7% from the previous consolidated fiscal year. Operating income was ¥38,619 million, down 12.5% year over year, and ordinary income was ¥40,345 million, down 11.9% from the previous fiscal year. Net income was ¥26,610 million, down 6.7% year over year.

Results by business segment were as follows:

a. Construction business

The construction business is a major segment of the Group, and orders received for construction for the current fiscal year increased by 9.3% from the previous fiscal year to ¥350,274 million; net sales increased by 3.9% to ¥316,143 million; while operating income decreased by 5.6% to ¥30,407 million. From the consolidated fiscal year under review, General Civil Engineering has been newly added as a reportable segment. Year-over-year comparisons are prepared using figures reclassified by reportable segments after the change. (For details, please see 5. Financial Information, 1. Consolidated Financial Statements, etc., (1) Notes to the Consolidated Financial Statements (Segment Information, etc.).)

(Pavement and Civil Engineering)

Orders received for construction surpassed the year-earlier level, recording an increase of 19.0% from the previous fiscal year to ¥206,492 million. Although net sales increased by 7.3% to ¥185,377 million, as the progress of construction works for which the Company has already received orders surpassed the year-earlier level, operating income decreased by 4.1% to ¥20,830 million due to the profitability that was below the year-earlier level.

(General Civil Engineering)

Orders received for construction surpassed the year-earlier level, recording an increase of 6.7% from the previous fiscal year to ¥75,459 million. Net sales decreased by 0.3% to ¥66,417 million, as the progress of construction works for which the Company has already received orders was below the year-earlier level.

However, operating income was ¥5,053 million, up 8.4% from the previous fiscal year, due to improved profitability resulting from cost reductions and improvement of business efficiency.

(Building Construction)

Orders received for construction were below the year-earlier level, down 10.4 % from the previous fiscal year to ¥68,321 million. Net sales decreased by 0.7% to ¥64,348 million, and operating income was ¥4,524 million, down 22.5% from the previous fiscal year.

b. Manufacturing and sales business

Net sales increased by 2.6% from the previous fiscal year to ¥61,731 million since sales volume surpassed the year-earlier level. However, operating income decreased by 20.3% to ¥11,630 million, reflecting the rise in crude oil prices and an increase in depreciation due to the renewal of manufacturing facilities.

c. Development business

Net sales decreased by 9.3% from the previous fiscal year to ¥19,238 million, since sales of the condominium sales business were below the year-earlier level, while operating income increased by 0.2% to ¥3,176 million.

d. Other businesses

Net sales decreased by 12.0% from the previous fiscal year to ¥7,040 million, and operating income decreased by 10.9% to ¥1,000 million.

2. Cash flows

Cash and cash equivalents (hereinafter “cash”) as at the end of the current fiscal year were as follows.

(Net cash provided by operating activities)

Net cash provided by operating activities amounted to ¥22,015 million. (A net inflow of ¥30,639 million was recorded in the previous fiscal year.) This was primarily due to income before income taxes recorded.

(Net cash used in investing activities)

Net cash used in investing activities amounted to ¥18,077 million. (A net outflow of ¥15,937 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 ¥5,696 million. (A net outflow of ¥5,676 million was recorded in the previous fiscal year.) This was primarily due to cash dividends paid.

As a result, cash as at the end of the current fiscal year decreased by ¥351 million, or 0.3%, from the end of the previous fiscal year to ¥124,317 million.

CONSOLIDATED BALANCE SHEET

NIPPO CORPORATION
As of March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2018	2017	2018
Current assets:			
Cash and bank deposits (Notes 3 & 22)	¥ 53,337	¥ 61,810	$ 502,042
Notes receivable, accounts receivable on completed construction contracts and other (Notes 4 & 22)	137,398	133,661	1,293,279
Electronically recorded receivables (Notes 4 & 22)	6,931	5,914	65,239
Lease receivables and investments in leased assets (Note 21)	2,821	3,012	26,553
Securities (Notes 5 & 22)	438	-	4,122
Inventories (Note 6)	41,319	43,556	388,921
Short-term loans receivable (Notes 3 & 22)	71,464	63,351	672,665
Deferred tax assets (Note 18)	3,032	3,666	28,539
Other	15,614	16,259	146,969
Allowance for doubtful accounts (Note 22)	(482)	(478)	(4,536)
Total current assets	331,876	330,754	3,123,832
Property, plant and equipment: (Notes 8 & 17)			
Land (Notes 6 & 7)	67,838	62,973	638,535
Buildings and structures (Notes 6 & 7)	74,834	66,797	704,386
Machinery, equipment and vehicles	99,027	94,322	932,106
Tools, furniture and fixtures	5,900	5,614	55,534
Leased assets (Note 21)	922	984	8,678
Construction in progress	6,575	10,310	61,888
Total	255,099	241,003	2,401,157
Accumulated depreciation	(129,560)	(125,741)	(1,219,503)
Net property, plant and equipment	125,539	115,262	1,181,654
Intangible assets	1,654	2,015	15,568
Investments and other assets:			
Investment securities (Notes 5, 8 & 22)	47,035	43,486	442,724
Long-term loans receivable (Note 8)	388	610	3,652
Deferred tax assets (Note 18)	1,647	1,686	15,502
Other	3,376	3,231	31,777
Allowance for doubtful accounts	(890)	(865)	(8,377)
Total investments and other assets	51,556	48,149	485,278
Total assets	¥ 510,627	¥ 496,182	$ 4,806,353

LIABILITIES AND NET ASSETS	Millions of Yen 2018	Millions of Yen 2017	Thousands of U.S. Dollars (Note 1) 2018
Current liabilities:			
Short-term bank loans payable, including current portion of long-term debt (Notes 8 and 22)	¥ 258	¥ 1,450	$ 2,428
Notes payable, accounts payable on construction contracts and other (Note 22)	85,112	89,696	801,129
Electronically recorded payables (Note 22)	28,156	31,732	265,022
Income taxes payable	8,416	9,627	79,216
Advances received on uncompleted construction contracts	13,800	16,572	129,894
Reserve for bonuses	4,119	3,818	38,770
Reserve for warranty on completed construction contracts	588	393	5,534
Reserve for loss on construction contracts (Note 6)	164	261	1,543
Reserve for loss on anti-monopoly act	489	1,970	4,602
Other	21,010	18,830	197,759
Total current liabilities	162,118	174,354	1,525,960
Non-current liabilities:			
Long-term debt (Notes 8 & 22)	1,605	1,681	15,107
Deferred tax liabilities (Note 18)	8,531	6,848	80,299
Reserve for directors' retirement benefits	97	86	913
Liability for employees' retirement benefits (Note 9)	7,601	9,471	71,545
Asset retirement obligations (Note 10)	1,664	1,391	15,662
Other	7,178	7,404	67,564
Total non-current liabilities	26,679	26,882	251,120
Commitments and contingent liabilities (Notes 13 & 21)			
Net assets (Notes 11 & 20):			
Shareholders' equity:			
Common stock (Note 12):			
Authorized-240,000,000 shares in 2018 and 2017			
Issued-119,401,836 shares in 2018 and 2017	15,324	15,324	144,239
Capital surplus	16,315	15,967	153,567
Retained earnings	262,903	239,928	2,474,614
Treasury stock (Note 12):			
314,804 shares in 2018 and 306,789 shares in 2017	(252)	(234)	(2,371)
Total shareholders' equity	294,290	270,986	2,770,048
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 5)	20,876	18,328	196,498
Deferred gains (losses) on hedging instruments	0	(0)	0
Remeasurements of defined benefit plans	(906)	(815)	(8,527)
Total accumulated other comprehensive income	19,970	17,512	187,970
Non-controlling interests	7,569	6,446	71,244
Total net assets	321,829	294,944	3,029,263
Total liabilities and net assets	¥ 510,627	¥ 496,182	$ 4,806,353

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF INCOME

NIPPO CORPORATION
Year ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Net sales (Note 24)	¥ 404,153	¥ 393,614	$ 3,804,150
Cost of sales (Note 14)	338,407	325,355	3,185,306
Gross profit	65,745	68,259	618,834
Selling, general and administrative expenses (Note 15)	27,126	24,137	255,327
Operating income	38,619	44,121	363,507
Other income (expenses):			
Interest and dividend income	1,126	1,140	10,598
Interest expenses	(25)	(43)	(235)
Loss on sales of notes receivable	(0)	(0)	(0)
Guarantee expenses	(63)	(69)	(592)
Rental profit (loss), net	45	66	423
Gain (loss) on valuation of derivatives	0	291	0
Gain (loss) on disposal or sales of property, plant and equipment (Note 16)	(16)	(165)	(150)
Equity in earnings of unconsolidated subsidiaries and affiliates	453	371	4,263
Foreign exchange gain (loss)	(146)	(394)	(1,374)
Gain on sales of investment securities	15	348	141
Loss on devaluation of investment securities	-	(92)	-
Loss on impairment (Note 17)	-	(38)	-
Reversal of provision for loss on anti-monopoly act	818	-	7,699
Provision for loss on anti-monopoly act	-	(1,225)	-
Loss on dissolution of welfare pension fund	-	(815)	-
Loss on revision of retirement benefit plan	(176)	-	(1,656)
Other-net	336	314	3,162
Other income (expenses)-net	2,366	(312)	22,270
Income before income taxes	40,986	43,809	385,786
Income taxes (Note 18):			
Current	12,606	13,738	118,655
Deferred	662	447	6,231
Total income taxes	13,268	14,186	124,887
Net income	27,717	29,623	260,890
Net income attributable to non-controlling interests	1,106	1,104	10,410
Net income attributable to shareholders of NIPPO CORPORATION	¥ 26,610	¥ 28,518	$ 250,470

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

NIPPO CORPORATION
Year ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Net income	¥ 27,717	¥ 29,623	$ 260,890
Other comprehensive income (Note 19):			
Valuation difference on available-for-sale securities	2,583	274	24,312
Remeasurements of defined benefit plans, net of tax	(63)	756	(592)
Share of other comprehensive income of affiliates accounted for using equity method	0	2	0
Total other comprehensive income	2,520	1,033	23,719
Comprehensive income	¥ 30,237	¥ 30,656	$ 284,610
Total comprehensive income attributable to:			
Shareholders of NIPPO CORPORATION	¥ 29,068	¥ 29,573	$ 273,606
Non-controlling interests	1,169	1,083	11,003

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

NIPPO CORPORATION
Year ended March 31, 2018

Millions of Yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2016	¥ 15,324	¥ 15,916	¥ 214,782	¥ (221)	¥ 245,802
Changes during the year:					
Cash dividends paid			(4,168)		(4,168)
Net income attributable to shareholders of NIPPO CORPORATION			28,518		28,518
Purchases of treasury stock				(12)	(12)
Changes in the scope of consolidation			795		795
Other		51			51
Net changes in items other than those in shareholders' equity					
Balance as of March 31, 2017	¥ 15,324	¥ 15,967	¥ 239,928	¥ (234)	¥ 270,986
Changes during the year:					
Cash dividends paid			(4,168)		(4,168)
Net income attributable to shareholders of NIPPO CORPORATION			26,610		26,610
Purchases of treasury stock				(18)	(18)
Disposal of treasury stock				0	0
Changes in the scope of consolidation			532		532
Other		347			347
Net changes in items other than those in shareholders' equity					
Balance as of March 31, 2018	¥ 15,324	¥ 16,315	¥ 262,903	¥ (252)	¥ 294,290

Millions of Yen

	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedging instruments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of April 1, 2016	¥ 18,025	¥ (2)	¥ (1,565)	¥ 16,457	¥ 5,378	¥ 267,638
Changes during the year:						
Cash dividends paid						(4,168)
Net income attributable to shareholders of NIPPO CORPORATION						28,518
Purchases of treasury stock						(12)
Changes in the scope of consolidation						795
Other						51
Net changes in items other than those in shareholders' equity	302	2	749	1,054	1,067	2,122
Balance as of March 31, 2017	¥ 18,328	¥ (0)	¥ (815)	¥ 17,512	¥ 6,446	¥ 294,944
Changes during the year:						
Cash dividends paid						(4,168)
Net income attributable to shareholders of NIPPO CORPORATION						26,610
Purchases of treasury stock						(18)
Disposal of treasury stock						0
Changes in the scope of consolidation						532
Other						347
Net changes in items other than those in shareholders' equity	2,548	0	(91)	2,457	1,122	3,580
Balance as of March 31, 2018	¥ 20,876	¥ 0	¥ (906)	¥ 19,970	¥ 7,569	¥ 321,829

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, 2017	$ 144,239	$ 150,291	$ 2,258,358	$ (2,202)	$ 2,550,696
Changes during the year:					
Cash dividends paid			(39,231)		(39,231)
Net income attributable to shareholders of NIPPO CORPORATION			250,470		250,470
Purchases of treasury stock				(169)	(169)
Disposal of treasury stock				0	0
Changes in the scope of consolidation			5,007		5,007
Other		3,266			3,266
Net changes in items other than those in shareholders' equity					
Balance as of March 31, 2018	$ 144,239	$ 153,567	$ 2,474,614	$ (2,371)	$ 2,770,048

Thousands of U.S. Dollars (Note 1)

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedging instruments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2017	$ 172,515	$ (0)	$ (7,671)	$ 164,834	$ 60,673	$ 2,776,204
Changes during the year:						
Cash dividends paid						(39,231)
Net income attributable to shareholders of NIPPO CORPORATION						250,470
Purchases of treasury stock						(169)
Disposal of treasury stock						0
Changes in the scope of consolidation						5,007
Other						3,266
Net changes in items other than those in shareholders' equity	23,983	0	(856)	23,126	10,560	33,697
Balance as of March 31, 2018	$ 196,498	$ 0	$ (8,527)	$ 187,970	$ 71,244	$ 3,029,263

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

NIPPO CORPORATION
Year ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Operating activities:			
Income before income taxes	¥ 40,986	¥ 43,809	$ 385,786
Depreciation and amortization	7,783	7,238	73,258
Loss on impairment	-	38	-
Provision for loss on anti-monopoly act	-	915	-
Reversal of provision for loss on anti-monopoly act	(818)	-	(7,699)
Net (gain) loss on disposal or sales of property, plant and equipment	16	165	150
Loss on write-down of inventories	83	132	781
Increase (decrease) in allowance for doubtful accounts	26	(39)	244
Increase (decrease) in reserve for bonuses	255	193	2,400
Increase (decrease) in liability for employees' retirement benefits	(2,069)	673	(19,474)
Increase (decrease) in reserve for loss on construction contracts	(96)	(109)	(903)
Interest and dividend income	(1,126)	(1,140)	(10,598)
Interest expenses	25	43	235
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	(453)	(371)	(4,263)
Foreign exchange (gain) loss	90	(9)	847
(Increase) decrease in trade receivables	(3,389)	57	(31,899)
(Increase) decrease in costs on uncompleted construction contracts	2,847	(1,365)	26,797
(Increase) decrease in other inventories	417	1,274	3,925
Increase (decrease) in trade payables	(12,961)	(8,693)	(121,997)
Increase (decrease) in advances received on uncompleted construction contracts	(2,802)	3,007	(26,374)
Increase (decrease) in consumption taxes payable	3,148	(3,009)	29,631
Other, net	3,339	885	31,428
Sub total	35,300	43,695	332,266
Interest and dividend income received	1,126	1,141	10,598
Interest expenses paid	(33)	(52)	(310)
Income taxes paid	(13,848)	(14,103)	(130,346)
Payments related to anti-monopoly act	(528)	-	(4,969)
Settlement paid of development business	-	(40)	-
Net cash provided by operating activities	22,015	30,639	207,219
Investing activities:			
Purchases of property, plant and equipment	(17,274)	(15,785)	(162,594)
Proceeds from sales of property, plant and equipment	464	1,052	4,367
Purchases of investment securities	(1,291)	(1,848)	(12,151)
Proceeds from sales of investment securities	140	718	1,317
Proceeds from repayment of investment securities	-	559	-
Payments of loans receivable	(1,371)	(1,568)	(12,904)
Collections of loans receivable	1,209	1,297	11,379
Other, net	45	(362)	423
Net cash used in investing activities	(18,077)	(15,937)	(170,152)
Financing activities:			
Proceeds from short-term bank loans payable	401	133	3,774
Repayments of short-term bank loans payable	(395)	(110)	(3,717)
Proceeds from long-term debt	10	7	94
Repayments of long-term debt	(1,385)	(1,390)	(13,036)
Cash dividends paid	(4,168)	(4,168)	(39,231)
Cash dividends paid to non-controlling shareholders	(26)	(27)	(244)
Other, net	(132)	(121)	(1,242)
Net cash used in financing activities	(5,696)	(5,676)	(53,614)
Foreign currency translation adjustments on cash and cash equivalents	(96)	9	(903)
Net increase (decrease) in cash and cash equivalents	(1,855)	9,034	(17,460)
Cash and cash equivalents at beginning of the year	124,668	114,170	1,173,456
Increase in cash and cash equivalents due to inclusion in consolidation	1,503	1,463	14,147
Cash and cash equivalents at end of the year (Note 3)	¥ 124,317	¥ 124,668	$ 1,170,152

The accompanying notes are an integral part of these statements

Notes to Consolidated Financial Statements

NIPPO CORPORATION and Consolidated Subsidiaries
Year ended March 31, 2018

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 Act and its related accounting regulations and 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, 2017 to conform to the classifications used in the financial statements for the year ended March 31, 2018.

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, 2018, which was ¥106.24 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, 2018, the accounts of 167 (134 in 2017) 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 Company has the ability to exercise significant influence are accounted for using the equity method.

Investments in 3 (3 in 2017) unconsolidated subsidiaries or affiliates are accounted for using the equity method as of March 31, 2018. Investments in the remaining unconsolidated subsidiaries or 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 non-controlling 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 and 4 other companies, close their fiscal accounts on March 31.
In preparing the accompanying consolidated financial statements, Ashinoko Skyline Corporation is consolidated using the financial statements at December 31 and other consolidated subsidiaries whose fiscal closing dates are different from the consolidated closing date are consolidated using the provisional accounts made as of the consolidated closing date. Any necessary adjustments for consolidation are made in the consolidated financial statements to reflect significant transactions occurring in the period between December 31 and March 31.

a. Changes in the scope of consolidation during the year ended March 31, 2018
Azumarekiseikensetsu Co., Ltd. and 32 other subsidiaries were newly included in the scope of consolidation effective from the year ended March 31, 2018 due to the increased materiality.

Major unconsolidated subsidiary as of March 31, 2018 is as follows:
TEMCOR Dome Japan Co., Ltd.
This company was not consolidated because its effect on the consolidated financial statements was immaterial in terms of total assets, net sales, net income and retained earnings.

b. Major unconsolidated subsidiaries or affiliates accounted for using the equity method
JX Engineering Corporation and Tsudanuma Housing No. 2 PFI Co., Ltd.

c. Major unconsolidated subsidiaries and affiliates not accounted for using the equity method
TEMCOR Dome Japan Co., Ltd. was not accounted for using the equity method because its effect on the consolidated financial statements was immaterial in terms of the Company’s share of net income and retained earnings.

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 “Other” under “Current assets” and “Investment securities” and “Other” under “Investments and other assets” in the total amounts of ¥15,994 million ($150,545 thousand) and ¥15,250 million as of March 31, 2018 and 2017, respectively.

(2) Securities
Securities other than investments in affiliates are classified into two categories, based on the Group’s intent and ability 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 aforementioned security 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.
- Compound financial instruments which cannot be measured by segregating the embedded derivatives are measured at fair value as a whole, and unrealized gains or losses are recorded in the consolidated statement of income from the year ended March 31, 2018.

(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. Major useful lives are as follows:

Buildings and structures:	2-64 years
Machinery, equipment and vehicles:	2-14 years

Intangible assets, except for leased assets, are amortized over the useful life using the straight-line method.
Cost for internally-used software 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 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 post-sales 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 Loss on Anti-monopoly Act
Reserve for loss on anti-monopoly act is provided for future payments of penalties related to anti-monopoly act and breach of contract considering the probability of any related loss.

(12) 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.

(13) Accounting for Employees' Retirement Benefits
In determining retirement benefit obligations, the estimated amount of retirement benefits are attributed to periods on a benefit formula 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.

(14) 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 by the percentage-of-completion method was ¥174,958 million ($1,646,818 thousand) and ¥168,540 million for the years ended March 31, 2018 and 2017, respectively.

(15) Consumption Taxes

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

(16) 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.

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, 2018 and 2017 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Cash and bank deposits	¥53,337	¥61,810	$502,042
Time deposits maturing over 3 months	(285)	(372)	(2,682)
Short-term loans which will be collected within 3 months	71,265	63,230	670,792
Cash and cash equivalents at the end of year	¥124,317	¥124,668	$1,170,152

4. Notes Receivable

The Company settles notes receivable, etc. maturing on the balance sheet date based on the actual exchange date or settlement date of those notes. As March 31, 2018 fell on a bank holiday, the following notes, etc., maturing on the balance sheet date are included in each account on the consolidated balance sheet date:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Notes receivable	¥619	¥ —	$5,826
Electronically recorded receivables	55	—	517

5. Investment Securities

There were no held-to-maturity securities as of March 31, 2018 and 2017.
The following table summarizes carrying amounts, acquisition costs and unrealized gain (loss) of available-for sale securities as of March 31, 2018 and 2017:

Available-for-sale securities

	Millions of Yen		
	2018		
March 31	Carrying amount	Acquisition cost	Unrealized gain (loss)
Carrying amount exceeds acquisition cost:			
Equity securities	¥36,247	¥5,704	¥30,542
Carrying amount does not exceed acquisition cost:			
Equity securities	¥226	¥243	¥(17)
Debt securities - Other	438	450	(11)
Total	¥36,911	¥6,397	¥30,513

	Millions of Yen		
	2017		
March 31	Carrying amount	Acquisition cost	Unrealized gain (loss)
Carrying amount exceeds acquisition cost:			
Equity securities	¥32,334	¥5,538	¥26,796
Carrying amount does not exceed acquisition cost:			
Equity securities	¥1	¥1	¥(0)
Total	¥32,336	¥5,540	¥26,795

March 31	Thousands of U.S. Dollars		
	2018		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
Carrying amount exceeds acquisition cost:			
Equity securities	$341,180	$53,689	$287,481
Carrying amount does not exceed acquisition cost:			
Equity securities	$2,127	$2,287	$(160)
Debt securities - Other	4,122	4,235	(103)
Total	$347,430	$60,212	$287,208

Proceeds from sales of available-for-sale securities and realized gain (loss) for the years ended March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Sales proceeds	¥ 22	¥ 711	$207
Realized gain	12	347	112
Realized loss	—	—	—

No impairment loss was recognized on securities for the years ended March 31, 2018 and 2017.

The Company recognizes loss on impairment if the fair value at the fiscal year-end declines more than 30% from the acquisition cost. Regarding securities for which there is no market value, the Company recognizes loss on impairment if the substantial value at the fiscal year-end declines more than 50% from the acquisition cost, unless the recoverability can be sufficiently justified.

6. Inventories

Inventories as of March 31, 2018 and 2017 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Costs on uncompleted construction contracts	¥15,751	¥18,503	$148,258
Real estate for sale	22,995	22,759	216,443
Manufactured goods	450	415	4,235
Raw material and supplies	2,122	1,878	19,973
Total	¥41,319	¥43,556	$388,921

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 ¥129 million ($1,214 thousand) and ¥237 million as of March 31, 2018 and 2017, respectively.

During the year ended March 31, 2018, land in an amount of ¥513 million ($4,828 thousand) and buildings and structures in an amount of ¥425 million ($4,000 thousand) were reclassified from property, plant and equipment to real estate for sale due to changes in holding purpose.

7. 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 investment and 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 years ended March 31, 2018 and 2017 were as follows.

	Millions of Yen			
	Carrying amounts			Fair value
Year ended March 31, 2018	April 1, 2017	Changes	March 31, 2018	March 31, 2018
Investment and rental properties	¥22,680	¥1,364	¥24,045	¥24,158
Real estate including portions to be used for investment and rental properties	2,891	(70)	2,821	3,816

	Millions of Yen			
	Carrying amounts			Fair value
Year ended March 31, 2017	April 1, 2016	Changes	March 31, 2017	March 31, 2017
Investment and rental properties	¥18,221	¥4,459	¥22,680	¥24,810
Real estate including portions to be used for investment and rental properties	3,069	(177)	2,891	3,810

	Thousands of U.S. Dollars			
	Carrying amounts			Fair value
Year ended March 31, 2018	April 1, 2017	Changes	March 31, 2018	March 31, 2018
Investment and rental properties	$213,478	$12,838	$226,327	$227,390
Real estate including portions to be used for investment and rental properties	27,211	(658)	26,553	35,918

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, 2018 consist of an increase primarily due to acquisition of investment properties in the amount of ¥573 million ($5,393 thousand) at Asahi-ku, Osaka.
   Changes during the year ended March 31, 2017 consist of an increase primarily due to investment properties under construction in the amount of ¥2,635 million at Minato-ku, Tokyo.
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 years ended March 31, 2018 and 2017 was as follows:

	Millions of Yen		
Year ended March 31, 2018	Rental income	Rental costs	Profit
Investment and rental properties	¥2,489	¥1,265	¥1,224
Real estate including portions to be used for investment and rental properties	441	223	217

	Millions of Yen		
Year ended March 31, 2017	Rental income	Rental costs	Profit
Investment and rental properties	¥2,395	¥1,195	¥1,199
Real estate including portions to be used for investment and rental properties	418	369	49

	Thousands of U.S. Dollars		
Year ended March 31, 2018	Rental income	Rental costs	Profit
Investment and rental properties	$23,428	$11,907	$11,521
Real estate including portions to be used for investment and rental properties	4,150	2,099	2,042

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.

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

The annual weighted-average interest rates applicable to short-term bank loans were 1.12% and 1.25% for the years ended March 31, 2018 and 2017, respectively.
The annual weighted-average interest rates applicable to long-term debt were 2.09% and 2.38% for the years ended March 31, 2018 and 2017, respectively and the repayment due dates are from 2019 through 2024.
The annual weighted-average interest rate applicable to non-recourse long-term debt for the years ended March 31, 2018 and 2017 was 0.80% and the repayment due dates are from 2019 through 2035.
The due dates of long-term lease obligations are from 2019 through 2026.

Annual maturities within 5 years subsequent to March 31, 2018 of long-term debt, non-recourse long-term debt and long-term lease obligations, excluding current portions, were as follows:

	Millions of Yen		
Years ending March 31	Long-term debt	Non-recourse long-term debt	Long-term lease obligations
2020	¥84	¥80	¥288
2021	66	80	188
2022	62	81	114
2023	27	82	34

	Thousands of U.S. Dollars		
Years ending March 31	Long-term debt	Non-recourse long-term debt	Long-term lease obligations
2020	$790	$753	$2,710
2021	621	753	1,769
2022	583	762	1,073
2023	254	771	320

Assets pledged as collateral for long-term debt as of March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Land	¥540	¥462	$5,082
Buildings and structures	107	36	1,007
Investment securities	12	52	112
Long-term loans receivable	2	3	18
Total	¥662	¥554	$6,231

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, 2018 and 2017 and a part of investment securities is pledged as collateral for short-term bank loans of affiliates in an amount of ¥596 million as of March 31, 2017. 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 ¥74 million ($696 thousand) and ¥406 million ($3,821 thousand), respectively, as of March 31, 2018 and ¥292 million and ¥390 million, respectively, as of March 31, 2017.
Furthermore, PFI business assets in an amount of ¥1,783 million ($16,782 thousand) and ¥3,547 million corresponding to non-recourse loans (short-term bank loans) in the amounts of ¥79 million ($743 thousand) and ¥1,284 million and non-recourse loans (long-term debt) in the amounts of ¥1,363 million ($12,829 thousand) and ¥1,442 million, financed from financial institutions by consolidated subsidiaries operating PFI business, are pledged as collateral as of March 31, 2018 and 2017, respectively.
The liability secured by the above pledged assets was long-term debt (including current portion) in an amount of ¥333 million ($3,134 thousand) and ¥291 million as of March 31, 2018 and 2017, respectively.

9. Employees' Retirement Benefits

(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, 2018, of the companies under the Group, one company has a funded defined benefit corporate pension plan, six companies have lump-sum payment plans (non-funded plans, but one company changed to a funded plan as a result of the establishment of the retirement benefit trust) and one company has a defined contribution pension plan. As lump-sum payment plans (external funding plans), 162 subsidiaries participate in the Retirement Mutual Fund Plan for Small and Medium Size Companies or the Construction Industry Retirement Mutual Fund Plan.
Japan Welfare Pension Fund of the Construction Industry in which certain Group companies had maintained the membership was dissolved on September 30, 2016 upon obtaining approval for dissolution from the Minister of Health, Labour and Welfare of Japan and a portion was transferred to defined benefit corporate pension plans of the Group on October 1, 2016. No additional burden is expected to be incurred.
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 years ended March 31, 2018 and 2017, were as follows (excluding the plans to which a short-cut method is applied):

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Beginning balance of retirement benefit obligations	¥ 33,877	¥ 32,623	$318,872
Service cost	1,224	1,199	11,521
Interest cost	153	93	1,440
Actuarial differences	737	(985)	6,937
Retirement benefits paid	(2,046)	(2,681)	(19,258)
Impact of changes in pension plans	52	3,627	489
Ending balance of retirement benefit obligations	¥ 33,998	¥ 33,877	$ 320,011

2) The changes in plan assets for the years ended March 31, 2018 and 2017, were as follows (excluding the plans to which a short-cut method is applied):

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Beginning balance of plan assets	¥ 24,712	¥ 22,968	$ 232,605
Expected return on plan assets	629	574	5,920
Actuarial differences	277	(57)	2,607
Contribution from the employer	2,712	667	25,527
Retirement benefits paid	(1,553)	(2,250)	(14,617)
Estimated amount of transfer due to dissolution of welfare pension fund	-	2,811	-
Ending balance of plan assets	¥ 26,777	¥ 24,712	$ 252,042

3) The changes in liability for retirement benefits of the plans to which a short-cut method is applied for the years ended March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Beginning balance of liability for retirement benefits	¥ 307	¥ 293	$ 2,889
Retirement benefit expenses	46	77	432
Retirement benefits paid	(40)	(63)	(376)
Increase due to new consolidation	66	-	621
Ending balance of liability for retirement benefits	¥ 380	¥ 307	$ 3,576

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
	2018	2017	2018
Funded defined benefit obligations	¥ 33,998	¥ 28,149	$ 320,011
Plan assets	26,777	24,712	252,042
	7,220	3,436	67,959
Unfunded defined benefit obligations	380	6,035	3,576
Net liability recorded in the consolidated balance sheet	7,601	9,471	71,545
Liability for employees' retirement benefits	7,601	9,471	71,545
Net liability recorded in the consolidated balance sheet	¥ 7,601	¥ 9,471	$ 71,545

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

5) The components of retirement benefit expenses for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Service cost	¥ 1,224	¥ 1,199	$ 11,521
Interest cost	153	93	1,440
Expected return on plan assets	(629)	(574)	(5,920)
Amortization of actuarial differences	363	236	3,416
Amortization of past service cost	4	4	37
Retirement benefit expenses computed by a short-cut method	46	60	432
Retirement benefit expenses on defined benefit plans	¥ 1,162	¥ 1,020	$ 10,937

6) The components of remeasurements of defined benefit plans (before adjusting for tax effects) for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Past service costs	¥ 4	¥ 4	$ 37
Actuarial differences	(96)	1,163	(903)
Total	¥ (92)	¥ 1,167	$(865)

7) The components of accumulated remeasurements of defined benefit plans (before adjusting for tax effects) as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrecognized past service costs	¥ 19	¥ 23	$ 178
Unrecognized actuarial differences	1,229	1,132	11,568
Total	¥1,248	¥1,155	$11,746

8) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

	2018	2017
Debt securities	33.0%	41.6%
Equity securities	36.4%	22.4%
Cash and deposits	8.4%	19.6%
Alternative investments	12.5%	5.3%
General accounts of life insurance	8.4%	9.4%
Other	1.3%	1.7%
Total	100.0%	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 the allocations 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.

9) Actuarial assumptions used for the years ended March 31, 2018 and 2017, were set forth as follows:

	2018	2017
Discount rate	0.2%-0.5%	0.2%-0.3%
Long-term expected rate of return	2.0%-2.5%	2.5%
Expected rate of salary increase	1.5%-3.6%	2.7%-3.3%

(3) Defined contribution plan

The amount of the required contribution to the defined contribution plan of a consolidated subsidiary was ¥36 million ($338 thousand) and ¥19 million for the years ended March 31, 2018 and 2017, respectively.

10. 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 50 years after the beginning of the contract term and using the discount rates of (0.1)% through 2.3%.
The changes in asset retirement obligations during the years ended March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Beginning balance	¥1,391	¥1,086	$ 13,092
Increase due to acquisition of tangible assets	291	22	2,739
Accretion expenses	4	4	37
Decrease due to settlement of obligations	41	19	385
Increase due to changes in estimates*	19	296	178
Ending balance	¥1,664	¥1,391	$ 15,662

*Regarding asset retirement obligations recorded as a result of obligations to restore a site to its original condition according to the real estate lease agreement, the estimation of the recovery cost is changed based on new information obtained by the Group.

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 50% 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 years ended March 31, 2018 and 2017 were as follows:

	Number of shares			
Year ended March 31, 2018	April 1, 2017	Increase	Decrease	March 31, 2018
Outstanding shares issued:				
Common stock	119,401,836	—	—	119,401,836
Treasury stock	306,789	8,015	—	314,804

	Number of shares			
Year ended March 31, 2017	April 1, 2016	Increase	Decrease	March 31, 2017
Outstanding shares issued:				
Common stock	119,401,836	—	—	119,401,836
Treasury stock	300,202	6,587	—	306,789

Note: Increase in treasury stock during the years ended March 31, 2018 and 2017 is due to purchase of shares less than one unit.

The Company paid the following dividends during the years ended March 31, 2018 and 2017:

Year ended March 31, 2018

Cash dividends approved at the shareholders' meeting held on June 23, 2017:	Total amount (Millions of Yen) (Thousands of U.S. Dollars)	Per share amount (Yen) (U.S. Dollars)	Dividend record date	Effective date
Common stock	¥4,168 ($39,231)	¥35 ($0.32)	Mar. 31, 2017	Jun. 26, 2017

Year ended March 31, 2017

Cash dividends approved at the shareholders' meeting held on June 24, 2016:	Total amount (Millions of Yen)	Per share amount (Yen)	Dividend record date	Effective date
Common stock	¥4,168	¥35	Mar. 31, 2016	Jun. 27, 2016

13. Contingent Liabilities

The Group guarantees the following liabilities as of March 31, 2018 and 2017:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Housing loans of employees	¥11	¥19	$ 103

14. Cost of Sales

Cost of sales for the years ended March 31, 2018 and 2017 includes the following costs:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Write-down of inventories due to a decline of profitability	¥83	¥132	$ 781
Provision of reserve for loss on construction contracts	164	140	1,543

15. Selling, General and Administrative Expenses

The major components of selling, general and administrative expenses for the years ended March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Salaries and wages	¥8,456	¥7,736	$79,593
Provision of reserve for bonuses	1,525	1,320	14,354
Retirement benefit expenses	334	315	3,143
Research and development expenses	750	729	7,059
Miscellaneous expenses	2,729	2,195	25,687

16. Other Income (Expenses)

Net gain (loss) on disposal or sales of property, plant and equipment for the years ended March 31, 2018 and 2017 consists of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Gain on sales of property, plant and equipment:			
Land	¥39	¥72	$ 367
Machinery, equipment and vehicles	65	45	611
Other	5	12	47
Sub-total	110	130	1,035
Loss on disposal or sales of property, plant and equipment:			
Buildings and structures	(95)	(246)	(894)
Machinery, equipment and vehicles	(25)	(43)	(235)
Other	(5)	(5)	(47)
Sub-total	(126)	(295)	(1,185)
Net gain (loss) on disposal or sales of property, plant and equipment	¥(16)	¥(165)	$ (150)

17. Loss on Impairment of Fixed Assets

The Group recognized loss on impairment amounting to ¥38 million for the year ended March 31, 2017.

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 grouped into and treated as common assets.

The Group reduced the carrying amounts of the idle assets (land and buildings) located in Hokkaido determined to be disposed of in the year ended March 31, 2017 and the idle asset (land) located in Kagoshima previously determined to be disposed of prior to the year ended March 31, 2017 and recorded the decreased amounts of these assets as loss on impairment under “Other expenses” for the year ended March 31, 2017.

The recoverable amounts of the idle assets (land and buildings) located in Hokkaido are determined based on real estate assessment value by an external independent real estate appraiser and that of the idle asset (land) located in Kagoshima is determined based on the fixed asset tax assessment value.

18. Income Taxes

Major components of the Group's deferred income tax assets and liabilities as of March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Deferred tax assets:			
Reserve for bonuses	¥1,635	¥1,534	$15,389
Reserve for loss on construction contracts	50	83	470
Allowance for doubtful accounts	403	438	3,793
Loss on valuation of real estate for sale and development projects in progress	954	1,218	8,979
Liability for employees' retirement benefits	2,524	2,967	23,757
Loss on impairment	5,904	6,004	55,572
Other	3,321	3,135	31,259
Sub-total	14,794	15,382	139,250
Valuation allowance	(8,239)	(8,166)	(77,550)
Total deferred tax assets	¥6,554	¥7,215	$61,690
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	¥(9,293)	¥(8,150)	$(87,471)
Reserve for reduction entry of fixed assets	(513)	(513)	(4,828)
Other	(598)	(46)	(5,628)
Total deferred tax liabilities	¥(10,405)	¥(8,711)	$(97,938)
Net deferred tax liabilities:	¥(3,851)	¥(1,495)	$(36,248)

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
	2018	2017	2018
Current assets - Deferred tax assets	¥3,032	¥3,666	$28,539
Investments and other assets - Deferred tax assets	1,647	1,686	15,502
Non-current liabilities - Deferred tax liabilities	(8,531)	(6,848)	(80,299)

A reconciliation between the statutory tax rate and the effective tax rate for the years ended March 31, 2018 and 2017 was omitted since the difference between the statutory tax rate and the effective tax rate was less than 5% of the statutory tax rate.

19. Other Comprehensive Income

The reclassification adjustment and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Valuation difference on available-for-sale securities:			
Amount recognized during the year	¥ 3,658	¥ 432	$ 34,431
Amount before tax effect	3,658	432	34,431
Tax effect	(1,074)	(157)	(10,109)
Valuation difference on available-for-sale securities	2,583	274	24,312
Remeasurements of defined benefit plans:			
Amount recognized during the year	(460)	926	(4,329)
Reclassification adjustment to net income	367	240	3,454
Amount before tax effect	(92)	1,167	(865)
Tax effect	29	(411)	272
Remeasurements of defined benefit plans	(63)	756	(592)
Share of other comprehensive income of affiliates accounted for using the equity method:			
Amount recognized during the year	0	2	0
Other comprehensive income	¥ 2,520	¥ 1,033	$ 23,719

20. Per Share Data

	Yen		U.S. Dollars
March 31	2018	2017	2018
Net assets per common share	¥2,638.91	¥2,422.42	$24.83

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

	Millions of Yen		Thousands of U.S. Dollars
March 31	2018	2017	2018
Total net assets	¥321,829	¥294,944	$3,029,263
Amount to be deducted from total net assets:			
(Non-controlling interests)	(7,569)	(6,446)	(71,244)
Net assets attributable to common shares	314,260	288,498	2,958,019

	Number of shares	
March 31	2018	2017
Number of common shares as of fiscal year-end	119,087,032	119,095,047

	Yen		U.S. Dollars
March 31	2018	2017	2018
Net income per common share	¥223.45	¥239.46	$2.10

*Diluted net income per common share was not presented since the potential shares did not exist for the years ended March 31, 2018 and 2017.

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

	Millions of Yen		Thousands of U.S. Dollars
Years ended March 31	2018	2017	2018
Net income attributable to shareholders of NIPPO CORPORATION	¥26,610	¥28,518	$250,470
Net income attributable to common shareholders of NIPPO CORPORATION	26,610	28,518	250,470

	Number of shares	
Years ended March 31	2018	2017
Average number of common shares during the year	119,090,098	119,098,471

21. Leases

1. Financial leases

As lessee:

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

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
	2018	2017	2018
Receivable portion of lease charges	¥2,396	¥2,363	$22,552
Estimated residual value	162	216	1,524
Interest income portion	191	285	1,797
Investments in leased assets	¥2,750	¥2,865	$25,884

Collection schedules of lease receivables and receivable portion of lease charges on investments in leased assets subsequent to March 31, 2018 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
2019	¥20	¥964	$188	$9,073
2020	18	688	169	6,475
2021	15	427	141	4,019
2022	10	225	94	2,117
2023	5	82	47	771
2024 and thereafter	1	8	9	75

2. Operating leases

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

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Due within one year	¥112	¥99	$1,054
Due over one year	160	157	1,506
Total	¥273	¥256	$2,569

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
	2018	2017	2018
Investments in leased assets:			
Current assets	¥679	¥1,061	$6,391
Lease obligations:			
Current liabilities	315	457	2,964
Non-current liabilities	314	526	2,955

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 and electronically recorded receivables 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 are invested through 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 electronically recorded payables 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 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 indicate the extent 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, 2018 and 2017 were as follows:

	Millions of Yen		
March 31, 2018	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and bank deposits	¥53,337	¥53,337	¥—
(2) Notes receivable, accounts receivable on completed construction contracts and other	137,398		
Allowance for doubtful accounts*1	(298)		
	137,100	137,143	43
(3) Electronically recorded receivables	6,931		
Allowance for doubtful accounts*1	(15)		
	6,916	6,916	—
(4) Short-term loans receivable	71,464		
Allowance for doubtful accounts*1	(155)		
	71,309	71,309	—
(5) Investment securities	36,911	36,911	—
Total assets	305,574	305,617	43
(1) Notes payable, accounts payable on construction contracts and other	85,112	85,113	1
(2) Electronically recorded payables	28,156	28,156	—
(3) Long-term debt*2	1,783	1,690	(93)
Total liabilities	115,052	114,961	(91)
Derivatives*3	(30)	(30)	—

	Millions of Yen		
March 31, 2017	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and bank deposits	¥61,810	¥61,810	¥—
(2) Notes receivable, accounts receivable on completed construction contracts and other	133,661		
Allowance for doubtful accounts*1	(301)		
	133,359	133,416	57
(3) Electronically recorded receivables	5,914		
Allowance for doubtful accounts*1	(13)		
	5,901	5,901	—
(4) Short-term loans receivable	63,351		
Allowance for doubtful accounts*1	(143)		
	63,208	63,208	—
(5) Investment securities	32,334	32,334	—
Total assets	296,614	296,672	57
(1) Notes payable, accounts payable on construction contracts and other	89,696	89,700	3
(2) Electronically recorded payables	31,732	31,732	—
(3) Long-term debt*2	3,031	3,012	(18)
Total liabilities	124,460	124,445	(15)
Derivatives*3	(30)	(30)	—

March 31, 2018	Thousands of U.S. Dollars Carrying amount	 Fair value	 Unrealized gain (loss)
(1) Cash and bank deposits	$502,042	$502,042	$—
(2) Notes receivable, accounts receivable on completed construction contracts and other	1,293,279		
Allowance for doubtful accounts*1	(2,804)		
	1,290,474	1,290,879	404
(3) Electronically recorded receivables	65,239		
Allowance for doubtful accounts*1	(141)		
	65,097	65,097	—
(4) Short-term loans receivable	672,665		
Allowance for doubtful accounts*1	(1,458)		
	671,206	671,206	—
(5) Investment securities	347,430	347,430	—
Total assets	2,876,261	2,876,666	404
(1) Notes payable, accounts payable on construction contracts and other	801,129	801,138	9
(2) Electronically recorded payables	265,022	265,022	—
(3) Long-term debt*2	16,782	15,907	(875)
Total liabilities	1,082,944	1,082,087	(856)
Derivatives*3	(282)	(282)	—

*1 General allowance for doubtful accounts corresponding to "Notes receivable, accounts receivable on completed construction contracts, electronically recorded receivables and short-term loans receivable" is deducted.

*2 Current portion of long-term debt (current liabilities) is included in long-term debt.

*3 Receivables or payables arising from derivative transactions are shown in net.

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) Electronically recorded receivables

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

(4) 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.

(5) 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 5 "Investment Securities."

Liabilities:

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

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

(2) Electronically recorded payables

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

(3) 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
	2018	2017	2018
Unlisted equity securities	¥10,562	¥11,151	$99,416

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, 2018 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	¥53,337	¥—	¥—	¥—
Notes receivable, accounts receivable on completed construction contracts and other	126,459	10,901	37	—
Electronically recorded receivables	6,931	—	—	—
Short-term loans receivable	71,464	—	—	—
Investment securities	438	—	—	—
Total	¥258,192	¥10,901	¥37	¥—

	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	$502,042	$—	$—	$—
Notes receivable, accounts receivable on completed construction contracts and other	1,190,314	102,607	348	—
Electronically recorded receivables	65,239	—	—	—
Short-term loans receivable	672,665	—	—	—
Investment securities	4,122	—	—	—
Total	$2,430,271	$102,607	$348	$—

Note 4: Annual maturities of long-term debt and lease obligations subsequent to March 31, 2018:
Please see Note 8 "Short-term Bank Loans, Long-term Debt and Lease Obligations."

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, 2018		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	¥2,730	¥514	¥(37)	¥(37)
	AUD	330	—	6	6
	Total	¥3,060	¥514	¥(30)	¥(30)

March 31, 2017		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	¥2,843	¥76	¥(109)	¥(109)
	AUD	1,214	223	78	78
	Total	¥4,058	¥299	¥(30)	¥(30)

March 31, 2018		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	$25,696	$4,838	$(348)	$(348)
	AUD	3,106	—	56	56
	Total	$28,802	$4,838	$(282)	$(282)

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, 2018 and 2017.

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 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 five main business lines including "Pavement and Civil Engineering," "General Civil Engineering," "Building Construction," "Manufacturing and Sales" and "Development." The "Pavement and Civil Engineering," "General Civil Engineering" and "Building Construction" business lines consist of pavement works, civil engineering works and 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.

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

	Millions of Yen									
	2018									
	Reportable Segments						Other (Note 1)	Total	Reconciliation (Notes 2 and 3)	Consolidated (Note 4)
	Construction									
	Pavement and Civil Engineering	General Civil Engineering	Building Construction	Manufacturing and Sales	Development	Total				
Sales:										
Sales to external customers	¥185,377	¥66,417	¥64,348	¥61,731	¥19,238	¥397,112	¥7,040	¥404,153	¥—	¥404,153
Intersegment sales or transfers	1,056	2,584	1,658	29,050	36	34,387	8,863	43,251	(43,251)	—
Total	186,434	69,002	66,007	90,782	19,274	431,500	15,904	447,404	(43,251)	404,153
Segment profit	20,830	5,053	4,524	11,630	3,176	45,214	1,000	46,215	(7,596)	38,619
Segment assets	110,389	56,188	50,049	147,978	59,099	423,705	26,537	450,243	60,383	510,627
Other items:										
Depreciation	1,396	113	50	4,338	653	6,552	930	7,483	216	7,700
Amortization of goodwill	37	—	—	16	—	53	—	53	—	53
Investment in affiliates accounted for by the equity method	22	—	—	—	—	22	5,597	5,619	—	5,619
Increase in tangible and intangible fixed assets	5,321	787	597	9,914	1,558	18,180	1,900	20,080	455	20,535

	Millions of Yen									
	2017									
	Reportable Segments						Other (Note 1)	Total	Reconciliation (Notes 2 and 3)	Consolidated (Note 4)
	Construction									
	Pavement and Civil Engineering	General Civil Engineering	Building Construction	Manufacturing and Sales	Development	Total				
Sales:										
Sales to external customers	¥172,831	¥66,594	¥64,819	¥60,151	¥21,214	¥385,611	¥8,003	¥393,614	¥—	¥393,614
Intersegment sales or transfers	908	2,405	1,075	30,197	36	34,623	8,859	43,483	(43,483)	—
Total	173,739	69,000	65,894	90,349	21,250	420,234	16,863	437,098	(43,483)	393,614
Segment profit	21,709	4,659	5,837	14,592	3,169	49,968	1,123	51,091	(6,969)	44,121
Segment assets	100,152	58,412	50,127	135,934	61,757	406,384	28,057	434,441	61,740	496,182
Other items:										
Depreciation	1,363	100	37	3,879	623	6,004	872	6,876	303	7,179
Amortization of goodwill	9	—	—	16	—	25	—	25	—	25
Investment in affiliates accounted for by the equity method	18	—	—	—	—	18	5,333	5,352	—	5,352
Increase in tangible and intangible fixed assets	2,387	247	170	9,549	5,219	17,573	1,722	19,296	34	19,330

	Thousands of U.S. Dollars									
	2018									
	Reportable Segments						Other (Note 1)	Total	Reconciliation (Notes 2 and 3)	Consolidated (Note 4)
	Construction									
	Pavement and Civil Engineering	General Civil Engineering	Building Construction	Manufacturing and Sales	Development	Total				
Sales:										
Sales to external customers	$1,744,888	$625,160	$605,685	$581,052	$181,080	$3,737,876	$66,265	$3,804,150	$—	$3,804,150
Intersegment sales or transfers	9,939	24,322	15,606	273,437	338	323,672	83,424	407,106	(407,106)	—
Total	1,754,838	649,491	621,300	854,499	181,419	4,061,558	149,698	4,211,257	(407,106)	3,804,150
Segment profit	196,065	47,562	42,582	109,469	29,894	425,583	9,412	435,005	(71,498)	363,507
Segment assets	1,039,053	528,878	471,093	1,392,865	556,278	3,988,187	249,783	4,237,980	568,364	4,806,353
Other items:										
Depreciation	13,140	1,063	470	40,832	6,146	61,671	8,753	70,434	2,033	72,477
Amortization of goodwill	348	—	—	150	—	498	—	498	—	498
Investment in affiliates accounted for by the equity method	207	—	—	—	—	207	52,682	52,889	—	52,889
Increase in tangible and intangible fixed assets	50,084	7,407	5,619	93,317	14,664	171,121	17,884	189,006	4,282	193,288

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.
5. In line with the increase of subsidiaries that operate the Pavement and Civil Engineering business and Manufacturing and Sales business, the calculation method of intersegment transactions has been changed to appropriately evaluate segment performance.

4. Matters related to changes in reportable segments, etc.

Following the change in the Group's management classification of business performance, the Company reviewed its classification of business segments. Starting from the year ended March 31, 2018, "General Civil Engineering," which was included in "Pavement and Civil Engineering" in the past, has been newly added as an independent reportable segment. In addition, starting from the year ended March 31, 2018, the construction consulting business, etc. which was included in "Other" as a business segment not included in any reportable segment in the past, has been included in "Pavement and Civil Engineering." The segment information for the year ended March 31, 2017 is prepared using reportable segments after the change.

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

For the years ended March 31, 2018 and 2017

	Millions of Yen								
	2018								
	Reportable Segments								
	Construction								
	Pavement and Civil Engineering	General Civil Engineering	Building Construction	Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
Loss on impairment	¥—	¥—	¥—	¥—	¥—	¥—	¥—	¥—	¥—

	Millions of Yen								
	2017								
	Reportable Segments								
	Construction								
	Pavement and Civil Engineering	General Civil Engineering	Building Construction	Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
Loss on impairment	¥14	¥—	¥—	¥23	¥—	¥38	¥—	¥—	¥38

	Thousands of U.S. Dollars								
	2018								
	Reportable Segments								
	Construction								
	Pavement and Civil Engineering	General Civil Engineering	Building Construction	Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
Loss on impairment	$—	$—	$—	$—	$—	$—	$—	$—	$—

Amortization and balance of goodwill by reportable segment

As of March 31, 2018 and 2017 and for the years then ended

Millions of Yen — 2018

	Reportable Segments								
	Construction								
	Pavement and Civil Engineering	General Civil Engineering	Building Construction	Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
Amortization for the year	¥37	¥—	¥—	¥16	¥—	¥53	¥—	¥—	¥53
Unamortized balance	2	—	—	1	—	3	—	—	3

Millions of Yen — 2017

	Reportable Segments								
	Construction								
	Pavement and Civil Engineering	General Civil Engineering	Building Construction	Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
Amortization for the year	¥9	¥—	¥—	¥16	¥—	¥25	¥—	¥—	¥25
Unamortized balance	5	—	—	17	—	22	—	—	22

Thousands of U.S. Dollars — 2018

	Reportable Segments								
	Construction								
	Pavement and Civil Engineering	General Civil Engineering	Building Construction	Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
Amortization for the year	$348	$—	$—	$150	$—	$498	$—	$—	$498
Unamortized balance	18	—	—	9	—	28	—	—	28

25. Related Party Transactions

Transactions between the Company and related parties were as follows:

For the year ended March 31, 2018

	Related parties who are owned by the common parent company		
Name of the parties:	JXTG Nippon Oil & Energy Corporation	JX Nippon Finance Corporation	
Location:	Chiyoda-ku, Tokyo	Chiyoda-ku, Tokyo	
Capital:	¥139,437 million ($1,312,471 thousand)	¥400 million ($3,765 thousand)	
Business:	Manufacturing of oil and petrochemical products	Financing services for JXTG 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:	¥4,980 million ($46,875 thousand)	¥68,919 million ($648,710 thousand)	¥32 million ($301 thousand)
Account title:	Accounts receivable on completed construction contracts	Short-term loans	
Balance at fiscal year-end:	¥2,515 million ($23,672 thousand)	¥65,702 million ($618,429 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, 2017

	Related parties who are owned by the common parent company		
Name of the parties:	JXTG 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 JXTG 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:	¥7,069 million	¥55,192 million	¥30 million
Account title:	Accounts receivable on completed construction contracts	Short-term loans	
Balance at fiscal year-end:	¥2,807 million	¥59,669 million	

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.

Information about the parent company:

JXTG 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, 2018 was approved at the shareholders' meeting held on June 22, 2018:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends:		
Common stock, ¥40 ($0.37) per share	¥4,763	$44,832

Building a better working world

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, 2018, 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, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

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.

June 22, 2018
Tokyo, Japan

Ernst & Young Shinnihon LLC