

Annual Report 2021



Consolidated Financial Highlights

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

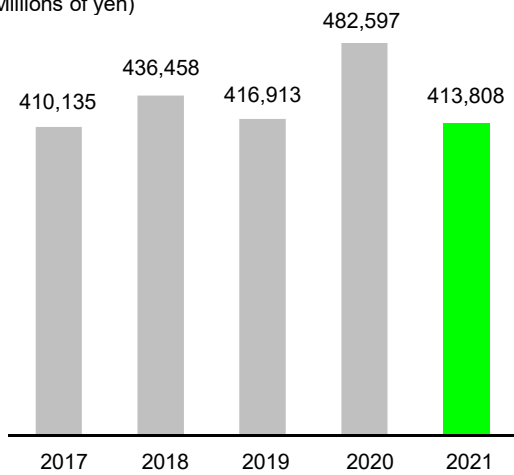
For the years ended March 31,	2017	2018	2019	2020	2021
Net sales	¥ 393,614	¥ 404,153	¥ 413,236	¥ 429,066	¥ 445,720
Profit attributable to owners of parent	28,518	26,610	25,514	23,594	31,068
Comprehensive income	30,656	30,237	26,105	22,225	39,474
Net assets	294,944	321,829	343,620	362,273	395,321
Total assets	496,182	508,638	521,758	540,774	589,950
Net cash provided by operating activities	30,639	22,015	2,960	43,194	52,729
Net cash used in investing activities	(15,937)	(18,077)	(15,238)	(25,753)	(20,476)
Net cash used in financing activities	(5,676)	(5,696)	(5,163)	(232)	(8,192)
Cash and cash equivalents at end of the year	124,668	124,317	107,906	126,871	152,558
Net assets per share	¥ 2,422.42	¥ 2,638.91	¥ 2,811.27	¥ 2,955.74	¥ 3,220.49
Earnings per share	239.46	223.45	214.25	198.13	260.89
Diluted earnings per share	—	—	—	—	—
Equity ratio	58.1%	61.8%	64.2%	65.1%	65.0%
Return on equity	10.36%	8.83%	7.86%	6.87%	8.45%
Price earnings ratio (times)	8.82	11.04	9.63	12.01	11.58
Employees (persons)	4,658	5,353	6,087	6,166	6,505
[Average number of temporary workers, etc.]	[2,035]	[1,318]	[673]	[682]	[635]

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

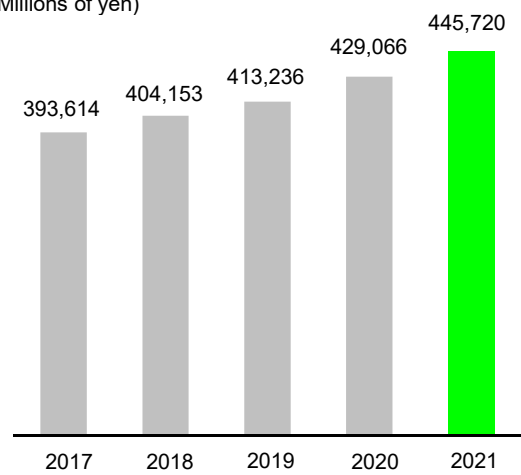
2. Diluted earnings per share are not presented because the Company has no potentially dilutive shares.

3. Each figure of key management indicators, etc. for FY2018 has been reclassified retroactively as the Company has been applying "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28; February 16, 2018), etc. from the beginning of FY2019.

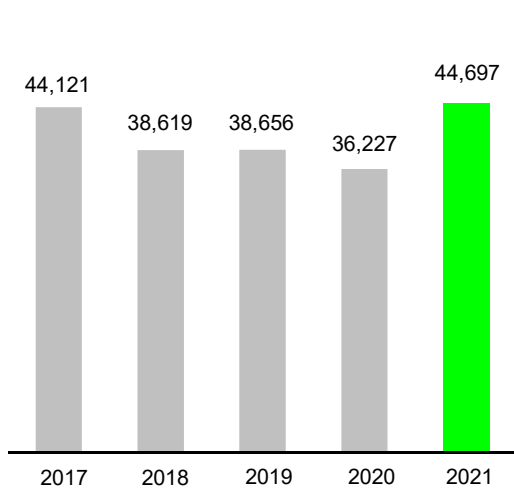
Orders
(Millions of yen)



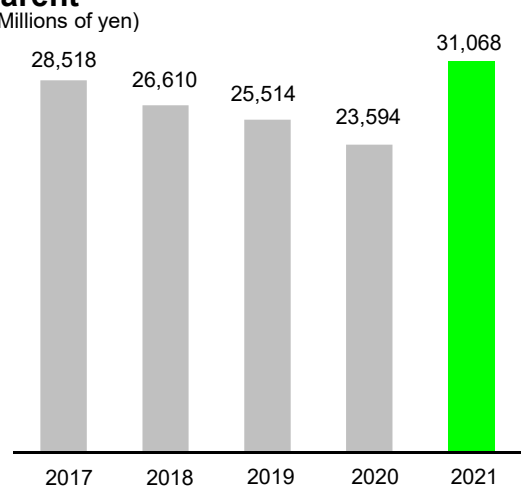
Net Sales
(Millions of yen)



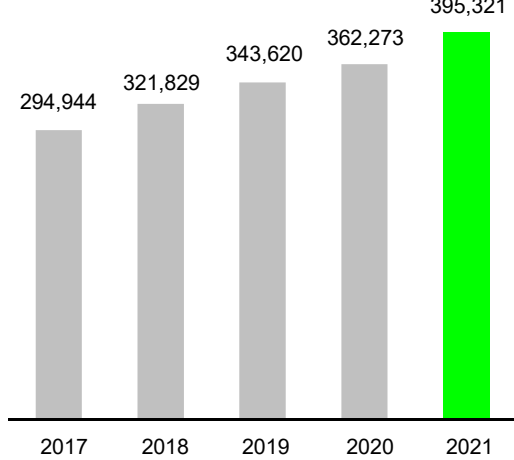
Operating Profit
(Millions of yen)



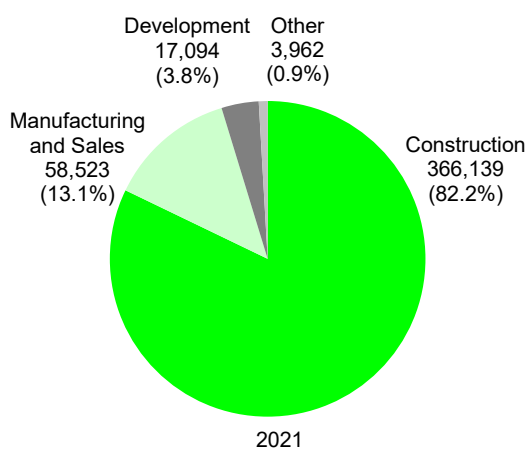
Profit Attributable to Owners of Parent
(Millions of yen)



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 120th term (from April 1, 2020, to March 31, 2021) and report on the business overview of NIPPO CORPORATION (the “Company”), its corporate initiatives and financial results, etc.

Financial results for the current fiscal year

During the fiscal year under review, the Japanese economy showed some signs of recovery due to the effects of various policies while measures were taken to prevent the spread of the novel coronavirus infection (COVID-19), but harsh conditions persisted as a result of the rebound of the outbreak.

In the construction industry, severe management environment continued as private-sector capital expenditures weakened despite firm public investments and the trend of demand and supply for labor, raw material prices, etc. required close attention.

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. As a result, net sales for the fiscal year under review were ¥445,720 million, up 3.9% from the previous fiscal year. Operating profit was ¥44,697 million, up 23.4% from the previous fiscal year, and ordinary profit was ¥46,791 million, up 22.4% from the previous fiscal year. Profit attributable to owners of parent was ¥31,068 million, up 31.7% year over year.

Outlook for the next fiscal year

In the construction industry, public investments are expected to remain robust, but a resurgence of COVID-19 may reduce private-sector capital expenditures, especially in the manufacturing industry, creating a difficult business environment.

Even under such circumstances, 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 in pavement works, civil engineering works and sale of products with mid-to-long-term management vision and stabilize the business revenue of building construction, development, overseas business, etc.

We ask for your continued understanding and support.

June 2021

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 235 subsidiaries and 24 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 ENEOS 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, 104 consolidated subsidiaries, 19 non-consolidated subsidiaries, 6 affiliated companies and 1 affiliate accounted for using equity method 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 ENEOS Corporation.

Fair Road Co., Ltd. and 85 other consolidated subsidiaries, and other 13 non-consolidated subsidiaries and 8 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. Ashinoko Skyline Co., Ltd. (a consolidated subsidiary) operates motorways, and 1 consolidated subsidiary is engaged in other development 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.

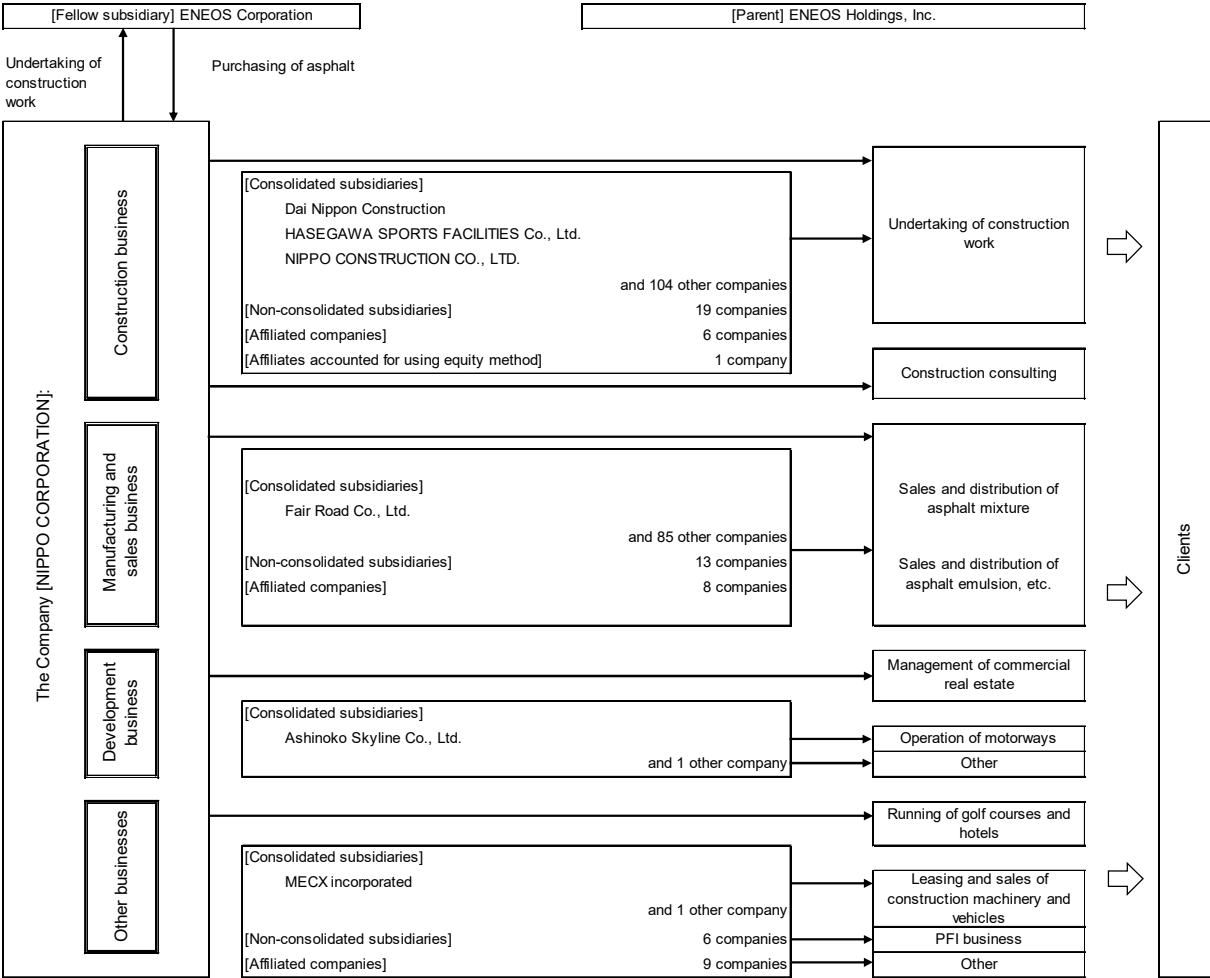
MECX incorporated (a consolidated subsidiary) and 2 affiliated companies are engaged in leasing, sales, manufacturing and maintenance of construction machinery and vehicles.

1 consolidated subsidiary is engaged in the PFI 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 5 non-consolidated companies and 6 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.



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

Overview of Affiliated Companies

Company name	Address	Share capital (¥ million)	Principal business	Ratio of voting rights holding (held) (%)	Relationship	
					Concurrent positions held by Directors	Business transactions and financial assistance
(Parent) ENEOS Holdings, Inc. (Notes) 2, 4	Chiyoda-ku, Tokyo	100,000	Pure holding company	Ratio of voting rights held: 57.0 (0.0)	None	-
(Consolidated subsidiaries)						
Dai Nippon Construction (Notes) 3, 5	Gifu-shi, Gifu	2,000	(Construction business) Construction and civil engineering work, etc. by contract	Ratio of voting rights holding: 78.5	None	Receiving or placing order of construction work. The subsidiary is renting buildings, etc. owned by the Company.
HASEGAWA SPORTS FACILITIES, Co., Ltd.	Setagaya-ku, Tokyo	100	(Construction business) Construction of sports facilities, etc. by contract	Ratio of voting rights holding: 81.2	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 192 other companies	-	-	-	-	-	-
(Affiliates accounted for using equity method) Sankyodouro Co., Ltd.	-	-	-	-	-	-

- 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	¥91,234 million
(2) Ordinary profit	¥5,517 million
(3) Profit	¥3,944 million
(4) Net assets	¥38,949 million
(5) Total assets	¥82,349 million

Major Shareholders

(As of March 31, 2021)

Name	Address	Number of shares held (Thousands of shares)	Percentage of shares held to the total number of issued shares (%)
ENEOS Holdings, Inc.	1-2 Otemachi 1-chome, Chiyoda-ku, Tokyo	67,890	57.00
Custody Bank of Japan, Ltd. (Trust account)	8-12 Harumi 1-chome, Chuo-ku, Tokyo	5,394	4.53
The Master Trust Bank of Japan, Ltd. (Trust account)	11-3 Hamamatsucho 2-chome, Minato-ku, Tokyo	5,312	4.46
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)	3,662	3.07
MLI FOR CLIENT GENERAL OMNI NON COLLATERAL NON TREATY-PB (Standing proxy: BofA Securities Japan Co., Ltd.)	MERRILL LYNCH FINANCIAL CENTRE, 2 KING EDWARD STREET, LONDON, UNITED KINGDOM (4-1 Nihonbashi 1-chome, Chuo-ku, Tokyo)	2,168	1.82
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)	2,002	1.68
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)	1,419	1.19
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)	1,221	1.02
MSIP CLIENT SECURITIES (Standing proxy: Morgan Stanley MUFG Securities Co., Ltd.)	25 CABOT SQUARE, CANARY WHARF, LONDON E14 4QA, U.K. (9-7 Otemachi 1-chome, Chiyoda-ku, Tokyo)	1,045	0.87
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)	882	0.74
Total	—	91,001	76.41

- Notes: 1. Of the shares held by the major shareholders shown above as of March 31, 2021, the Company cannot accurately determine the number of shares related to trust services, and therefore, it is not stated in the above table.
2. The Large Shareholding Report (amended report) that became available for public inspection on September 25, 2020 stated that Silchester International Investors LLP owned the Company's shares

as shown below on September 24, 2020. Silchester International Investors LLP is not included in the above list of major shareholders because the Company was unable to confirm the number of shares effectively held by the shareholder as of March 31, 2021.

Details of the Large Shareholding Report (amended report) are as follows.

Name	Address	Number of shares, etc. held (Thousands of shares)	Percentage of shares, etc. held (%)
Silchester International Investors LLP	5th Floor, Time & Life Building, 1 Bruton Street, London, W1J 6TL, U.K.	8,548	7.16

Business Overview

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

1. Financial results

Orders received for the construction business were ¥334,412 million, down 15.8% from the previous fiscal year when orders received for General Civil Engineering and Building Construction were at high levels.

Net sales were ¥445,720 million, up 3.9% year over year, due to an increase in net sales of completed construction contracts for Pavement and Civil Engineering and Building Construction.

As a result of an increase in gross profit on completed construction contracts for Pavement and Civil Engineering and General Civil Engineering, operating profit was ¥44,697 million, up 23.4% year over year, and ordinary profit was ¥46,791 million, up 22.4% from the previous fiscal year. Profit attributable to owners of parent was ¥31,068 million, up 31.7% year over year.

Results by business segment were as follows:

a. Construction business

(Pavement and Civil Engineering)

Due to the progress in completion of large-scale public works, net sales increased by 7.5% year over year to ¥214,490 million, and operating profit increased by 34.1% year over year to ¥28,113 million.

(General Civil Engineering)

While net sales decreased by 4.4% year over year to ¥76,688 million, which is about the same level as the previous fiscal year, operating profit increased by 39.9% to ¥8,164 million owing to the completion of high-margin works.

(Building Construction)

Although net sales increased by 17.4% year over year to ¥74,960 million as a result of higher net sales of completed construction contracts, operating profit was ¥2,200 million, down 41.9% from the previous fiscal year, mainly due to the impact of low-profit construction works.

b. Manufacturing and sales business

Net sales decreased by 4.5% from the previous fiscal year to ¥58,523 million due to flat market conditions.

However, operating profit increased by 15.1% to ¥11,678 million, reflecting lower raw material prices and cost reduction efforts.

c. Development business

Despite the delivery of large-scale logistics facilities, net sales were down by 12.9% to ¥17,094 million, and operating profit was down by 36.9% to ¥1,737 million from the previous fiscal year when the condominium business, among others, performed well.

d. Other businesses

Net sales decreased by 15.0% from the previous fiscal year to ¥3,962 million, and operating profit decreased by 6.0% to ¥736 million.

2. Cash flows

Cash and cash equivalents (hereinafter “cash”) as at the end of the current fiscal year increased by ¥25,686 million, or 20.2%, from the end of the previous fiscal year to ¥152,558 million.

The status of cash flows during the current fiscal year and the factors related thereto are described below.

(Net cash provided by operating activities)

Net cash provided by operating activities amounted to ¥52,729 million. (A net inflow of ¥43,194 million was recorded in the previous fiscal year.) This was primarily due to profit before income taxes recorded.

(Net cash used in investing activities)

Net cash used in investing activities amounted to ¥20,476 million. (A net outflow of ¥25,753 million was recorded in the previous fiscal year.) This was primarily due to a purchase of property, plant and equipment for the manufacturing and sales business.

(Net cash used in financing activities)

Net cash used in financing activities amounted to ¥8,192 million. (A net outflow of ¥232 million was recorded in the previous fiscal year.) This was primarily due to dividends paid.

CONSOLIDATED BALANCE SHEET

NIPPO CORPORATION
As of March 31, 2021

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
Current assets:			
Cash and deposits (Notes 3 & 21)	¥ 154,303	¥ 128,432	\$ 1,393,758
Notes receivable, accounts receivable from completed construction contracts and other (Note 21)	155,870	150,890	1,407,912
Electronically recorded monetary claims - operating (Note 21)	4,030	4,019	36,401
Lease receivables and investments in leases (Note 20)	2,459	2,704	22,211
Inventories (Note 5)	48,064	45,636	434,143
Short-term loans receivable (Note 21)	196	201	1,770
Other	19,483	20,710	175,982
Allowance for doubtful accounts (Note 21)	(331)	(343)	(2,989)
Total current assets	384,078	352,252	3,469,225
Property, plant and equipment: (Notes 7 & 16)			
Land (Notes 5 & 6)	74,084	73,597	669,171
Buildings and structures (Notes 5 & 6)	85,994	83,295	776,750
Machinery, equipment and vehicles	108,512	103,189	980,146
Tools, furniture and fixtures	6,967	6,771	62,930
Leased assets (Note 20)	1,102	1,088	9,953
Construction in progress	1,991	2,140	17,983
Total	278,651	270,083	2,516,945
Accumulated depreciation	(136,254)	(133,949)	(1,230,728)
Net property, plant and equipment	142,397	136,134	1,286,216
Intangible assets	4,495	3,390	40,601
Investments and other assets:			
Investment securities (Notes 4, 7 & 21)	53,554	43,675	483,732
Long-term loans receivable (Note 7)	339	371	3,062
Deferred tax assets (Note 17)	2,525	2,463	22,807
Other	3,403	3,371	30,737
Allowance for doubtful accounts	(843)	(885)	(7,614)
Total investments and other assets	58,979	48,997	532,734
Total assets	¥ 589,950	¥ 540,774	\$ 5,328,786

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
Current liabilities:			
Short-term borrowings, including current portion of long-term borrowings (Notes 7 and 21)	¥ 613	¥ 910	\$ 5,536
Notes payable, accounts payable for construction contracts and other (Note 21)	74,949	69,323	676,984
Electronically recorded obligations - operating (Note 21)	37,520	33,738	338,903
Income taxes payable	10,232	7,539	92,421
Advances received on construction contracts in progress	19,728	16,609	178,195
Provision for bonuses	4,472	4,151	40,393
Provision for warranties for completed construction	1,151	548	10,396
Provision for loss on construction contracts (Note 5)	173	335	1,562
Other	20,689	18,272	186,875
Total current liabilities	169,531	151,430	1,531,307
Non-current liabilities:			
Long-term borrowings (Notes 7 & 21)	6,090	6,182	55,008
Deferred tax liabilities (Note 17)	5,144	4,823	46,463
Provision for retirement benefits for directors (and other officers)	633	523	5,717
Retirement benefit liability (Note 8)	3,647	6,904	32,941
Provision for loss on development business	1,303	—	11,769
Asset retirement obligations (Note 9)	1,276	1,260	11,525
Other	7,001	7,374	63,237
Total non-current liabilities	25,097	27,069	226,691
Commitments and contingent liabilities (Notes 12 & 20)			
Net assets (Notes 10 & 19):			
Shareholders' equity:			
Share capital (Note 11):			
Authorized-240,000,000 shares in 2021 and 2020			
Issued-119,401,836 shares in 2021 and 2020	15,324	15,324	138,415
Capital surplus	16,394	16,363	148,080
Retained earnings	328,078	303,668	2,963,399
Treasury shares (Note 11):			
316,372 shares in 2021 and 315,783 shares in 2020	(256)	(255)	(2,312)
Total shareholders' equity	359,541	335,101	3,247,592
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 4)	23,968	18,459	216,493
Foreign currency translation adjustment	32	63	289
Remeasurements of defined benefit plans	(28)	(1,637)	(252)
Total accumulated other comprehensive income	23,972	16,886	216,529
Non-controlling interests	11,807	10,286	106,647
Total net assets	395,321	362,273	3,570,779
Total liabilities and net assets	¥ 589,950	¥ 540,774	\$ 5,328,786

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF INCOME

NIPPO CORPORATION
Year ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
Net sales (Note 23)	¥ 445,720	¥ 429,066	\$ 4,026,013
Cost of sales (Note 13)	370,993	361,041	3,351,034
Gross profit	74,726	68,025	674,970
Selling, general and administrative expenses (Note 14)	30,029	31,797	271,240
Operating profit	44,697	36,227	403,730
Other income (expenses):			
Interest and dividend income	1,242	1,212	11,218
Interest expenses	(77)	(60)	(695)
Guarantee commission	(63)	(92)	(569)
Rental income (loss) on real estate, net	34	36	307
Compensation income	284	554	2,565
Gain (loss) on valuation of derivatives, net	59	(34)	532
Gain (loss) on disposal or sales of property, plant and equipment, net (Note 15)	(161)	(314)	(1,454)
Impairment losses (Note 16)	(315)	(116)	(2,845)
Share of profit (loss) of entities accounted for using equity method	8	15	72
Foreign exchange gains (losses), net	82	(23)	740
Gain (loss) on sale of investment securities, net	346	61	3,125
Loss on valuation of investment securities	—	(60)	—
Loss on redemption of securities	—	(47)	—
Reversal of provision for loss on anti-monopoly act	—	317	—
Loss on exchange from business combination	—	(814)	—
Other-net	522	437	4,715
Other income (expenses), net	1,966	1,072	17,758
Profit before income taxes	46,663	37,299	421,488
Income taxes (Note 17):			
Current	17,122	12,090	154,656
Deferred	(2,866)	471	(25,887)
Total income taxes	14,256	12,562	128,768
Profit	32,406	24,737	292,710
Profit attributable to non-controlling interests	1,338	1,142	12,085
Profit attributable to owners of parent	¥ 31,068	¥ 23,594	\$ 280,625

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

NIPPO CORPORATION
Year ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
Profit	¥ 32,406	¥ 24,737	\$ 292,710
Other comprehensive income (Note 18):			
Valuation difference on available-for-sale securities	5,468	(1,879)	49,390
Foreign currency translation adjustment	(46)	78	(415)
Remeasurements of defined benefit plans, net of tax	1,645	(680)	14,858
Share of other comprehensive income of entities accounted for using equity method	—	(30)	—
Total other comprehensive income	7,067	(2,512)	63,833
Comprehensive income	¥ 39,474	¥ 22,225	\$ 356,553
Total comprehensive income attributable to:			
Owners of parent	¥ 38,154	¥ 21,180	\$ 344,630
Non-controlling interests	1,319	1,044	11,914

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

NIPPO CORPORATION
Year ended March 31, 2021

Millions of Yen						
Shareholders' equity						
		Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of April 1, 2019	¥	15,324	¥ 16,363	¥ 284,050	¥ (254)	¥ 315,483
Changes during the year:						
Dividends of surplus				(4,763)		(4,763)
Profit attributable to owners of parent				23,594		23,594
Purchase of treasury shares					(1)	(1)
Disposal of treasury shares			0		0	0
Change in scope of consolidation				787		787
Net changes in items other than shareholders' equity						
Balance as of March 31, 2020	¥	15,324	¥ 16,363	¥ 303,668	¥ (255)	¥ 335,101
Changes during the year:						
Dividends of surplus				(7,145)		(7,145)
Profit attributable to owners of parent				31,068		31,068
Purchase of treasury shares					(1)	(1)
Disposal of treasury shares			0		0	0
Change in scope of consolidation				526		526
Decrease due to exclusion of consolidated subsidiaries				(26)		(26)
Other			31	(13)		17
Net changes in items other than shareholders' equity						
Balance as of March 31, 2021	¥	15,324	¥ 16,394	¥ 328,078	¥ (256)	¥ 359,541

Millions of Yen

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2019	¥ 20,226	¥ 30	—	¥ (956)	¥ 19,300	¥ 8,836	¥ 343,620
Changes during the year:							
Dividends of surplus							(4,763)
Profit attributable to owners of parent							23,594
Purchase of treasury shares							(1)
Disposal of treasury shares							0
Change in scope of consolidation							787
Net changes in items other than shareholders' equity	(1,766)	(30)	63	(680)	(2,414)	1,449	(964)
Balance as of March 31, 2020	¥ 18,459	—	¥ 63	¥ (1,637)	¥ 16,886	¥ 10,286	¥ 362,273
Changes during the year:							
Dividends of surplus							(7,145)
Profit attributable to owners of parent							31,068
Purchase of treasury shares							(1)
Disposal of treasury shares							0
Change in scope of consolidation							526
Decrease due to exclusion of consolidated subsidiaries							(26)
Other							17
Net changes in items other than shareholders' equity	5,508	—	(31)	1,608	7,086	1,521	8,607
Balance as of March 31, 2021	¥ 23,968	—	¥ 32	¥ (28)	¥ 23,972	¥ 11,807	¥ 395,321

Thousands of U.S. Dollars (Note 1)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of April 1, 2020	\$ 138,415	\$ 147,800	\$ 2,742,913	\$ (2,303)	\$ 3,026,835
Changes during the year:					
Dividends of surplus			(64,537)		(64,537)
Profit attributable to owners of parent			280,625		280,625
Purchase of treasury shares				(9)	(9)
Disposal of treasury shares		0		0	0
Change in scope of consolidation			4,751		4,751
Decrease due to exclusion of consolidated subsidiaries			(234)		(234)
Other		280	(117)		153
Net changes in items other than shareholders' equity					
Balance as of March 31, 2021	\$ 138,415	\$ 148,080	\$ 2,963,399	\$ (2,312)	\$ 3,247,592

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 or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2020	\$ 166,732	\$ —	\$ 569	\$ (14,786)	\$ 152,524	\$ 92,909	\$ 3,272,269
Changes during the year:							
Dividends of surplus							(64,537)
Profit attributable to owners of parent							280,625
Purchase of treasury shares							(9)
Disposal of treasury shares							0
Change in scope of consolidation							4,751
Decrease due to exclusion of consolidated subsidiaries							(234)
Other							153
Net changes in items other than shareholders' equity	49,751	—	(280)	14,524	64,005	13,738	77,743
Balance as of March 31, 2021	\$ 216,493	\$ —	\$ 289	\$ (252)	\$ 216,529	\$ 106,647	\$ 3,570,779

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

NIPPO CORPORATION
Year ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
Cash flows from operating activities:			
Profit before income taxes	¥ 46,663	¥ 37,299	\$ 421,488
Depreciation	9,688	8,976	87,507
Amortization of goodwill	147	98	1,327
Impairment losses	315	116	2,845
Reversal of provision for loss on anti-monopoly act	—	(317)	—
Net loss (gain) on sales and retirement of property, plant and equipment	161	314	1,454
Loss (gain) on sale of short-term and long-term investment securities	(346)	(49)	(3,125)
Loss (gain) on valuation of short-term and long-term investment securities	—	60	—
Loss (gain) on redemption of short-term and long-term investment securities	—	47	—
Loss (gain) on exchange from business combination	—	814	—
Loss on valuation of inventories	3,586	11	32,390
Increase (decrease) in allowance for doubtful accounts	(56)	10	(505)
Increase (decrease) in provision for bonuses	314	106	2,836
Increase (decrease) in provision for warranties for completed construction	602	(16)	5,437
Increase (decrease) in retirement benefit liability	(929)	(764)	(8,391)
Increase (decrease) in provision for loss on construction contracts	(162)	55	(1,463)
Increase (decrease) in provision for loss on development business	1,303	—	11,769
Interest and dividend income	(1,242)	(1,213)	(11,218)
Interest expenses	77	60	695
Share of loss (profit) of entities accounted for using equity method	(8)	(15)	(72)
Foreign exchange losses (gains)	(120)	16	(1,083)
Decrease (increase) in trade receivables	(4,391)	5,968	(39,662)
Decrease (increase) in costs on construction contracts in progress	(2,306)	3,879	(20,829)
Decrease (increase) in inventories	(3,443)	3,399	(31,099)
Increase (decrease) in trade payables	9,529	(4,308)	86,071
Increase (decrease) in advances received on construction contracts in progress	2,998	(184)	27,079
Increase (decrease) in accrued consumption taxes	2,356	(1,189)	21,280
Other, net	1,549	1,461	13,991
Subtotal	66,284	54,636	598,717
Interest and dividends received	1,243	1,225	11,227
Interest paid	(75)	(51)	(677)
Income taxes paid	(14,723)	(12,615)	(132,987)
Net cash provided by operating activities	52,729	43,194	476,280
Cash flows from investing activities:			
Proceeds from sale and redemption of securities	—	202	—
Purchase of property, plant and equipment	(17,050)	(22,226)	(154,005)
Proceeds from sale of property, plant and equipment	506	639	4,570
Purchase of investment securities	(3,170)	(3,111)	(28,633)
Proceeds from sale of investment securities	627	622	5,663
Long-term loan advances	(1,020)	(1,343)	(9,213)
Proceeds from collection of long-term loans receivable	1,051	1,265	9,493
Other, net	(1,421)	(1,802)	(12,835)
Net cash used in investing activities	(20,476)	(25,753)	(184,951)
Cash flows from financing activities:			
Proceeds from short-term borrowings	36	311	325
Repayments of short-term borrowings	(738)	(150)	(6,666)
Proceeds from long-term borrowings	90	4,800	812
Repayments of long-term borrowings	(253)	(222)	(2,285)
Dividends paid	(7,145)	(4,763)	(64,537)
Dividends paid to non-controlling interests	(46)	(73)	(415)
Other, net	(134)	(134)	(1,210)
Net cash used in financing activities	(8,192)	(232)	(73,995)

Effect of exchange rate change on cash and cash equivalents	93	22	840
Net increase (decrease) in cash and cash equivalents	24,153	17,230	218,164
Cash and cash equivalents at beginning of the year	126,871	107,906	1,145,975
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	1,533	1,733	13,846
Cash and cash equivalents at end of the year (Note 3)	¥ 152,558	¥ 126,871	\$ 1,377,996

The accompanying notes are an integral part of these statements

Notes to Consolidated Financial Statements

NIPPO CORPORATION and Consolidated Subsidiaries
Year ended March 31, 2021

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, 2020 to conform to the classifications used in the financial statements for the year ended March 31, 2021.

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, 2021, which was ¥110.71 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, 2021, the accounts of 197 (192 in 2020) 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.

Investment in 1 (1 in 2020) affiliate is accounted for using the equity method as of March 31, 2021. 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 closing date of Ashinoko Skyline Corporation and other 4 (5 in 2020) companies is December 31. In preparing the accompanying consolidated financial statements, financial statements as of the closing date were used. 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. The closing date of other

consolidated subsidiaries is March 31, same as that of the Company.

a. Changes in the scope of consolidation during the year ended March 31, 2021
SHIBUKAWA ASCON CORPORATION and 8 other subsidiaries were newly included in the scope of consolidation effective from the year ended March 31, 2021 due to their increased materiality.
In addition, 3 companies and 1 company were excluded from the scope of consolidation due to absorption-type merger and transfer of shares, respectively.

Major unconsolidated subsidiary as of March 31, 2021 is as follows:

DAINICHI GIKEN KOGYO CO., LTD.

This company was not consolidated because its effect on the consolidated financial statements was immaterial in terms of total assets, net sales, profit and retained earnings.

b. Major unconsolidated subsidiary or affiliate accounted for using the equity method
Sankyodouro Co., Ltd.

c. Major unconsolidated subsidiaries and affiliates not accounted for using the equity method
DAINICHI GIKEN KOGYO CO., LTD. is 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 profit 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," "Investment securities" and "Other" under "Investments and other assets" in the total amounts of ¥9,340 million (\$84,364 thousand) and ¥9,231 million as of March 31, 2021 and 2020, 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.

(3) Derivatives

Derivatives are stated at fair value.

(4) Inventories

Inventories consist of costs on construction contracts in progress, real estate for sale and development projects in progress and other inventories, including manufactured goods, raw material and supplies.

Inventories, other than costs on construction contracts in progress, 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) Provision for Bonuses

The Company and certain consolidated subsidiaries record provision for bonuses payable to employees to provide for payment of bonuses applicable to the current fiscal year.

(9) Provision for Warranties for Completed Construction

Provision for warranties for completed construction is provided for future payments on defects or post-sales costs to be incurred in connection with warranties for completed construction based on past experience.

(10) Provision for Loss on Construction Contracts

Provision for loss on construction contracts is provided with respect to construction contracts in progress on which estimated total costs would exceed the contract amounts and the related loss can be reasonably estimated.

(11) Provision for Retirement Benefits for Directors (and Other Officers)

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 retirement benefits for directors and other officers.

(12) Provision for Loss on Development Business

Provision for loss on development business is provided with respect to development business projects on which loss can be expected, considering the situations of the individual business projects.

(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.

Unrecognized actuarial gain and loss and unrecognized past service cost are adjusted for tax effects and recorded in "Remeasurements of defined benefit plans" under "Accumulated other comprehensive income" in the net assets section.

(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 ¥226,264 million (\$2,043,753 thousand) and ¥198,475 million for the years ended March 31, 2021 and 2020, respectively.

(15) Accounting Method for Joint Ventures

Assets, liabilities, income and expenses are principally recorded in proportion to the ratio of investment made as a member of the joint venture.

(16) Consumption Taxes

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

(17) 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.

(18) Significant Accounting Estimates

i. Completed construction contracts based on the percentage-of-completion method

a. Amount recorded in the accompanying consolidated financial statements for the year ended March 31, 2021
Net sales related to completed construction contracts based on the percentage-of-completion method:

¥226,264 million (\$2,043,753 thousand)

b. Other information useful for the users of the consolidated financial statements

• Calculation method:

For the construction contracts whose outcome can be estimated reasonably, completed construction contracts are recorded based on the percentage-of-completion method under which the percentage of completion is determined using the percentage of the cost incurred to the estimated total cost as of the fiscal year end.

• Main assumptions:

Main assumptions underlying total construction costs and the percentage of completion consist of the construction period, construction material unit cost, labor unit cost, etc. The working budget is prepared based on these assumptions by the person in charge of the work who has relevant expertise and the in-charge department scrutinizes the contents.

• Impacts on the consolidated financial statements for the following fiscal year:

Main assumptions involve uncertainty of estimates, and completed construction contracts for the following fiscal year might possibly be affected in the event of a delay in the construction period resulting from unfavorable weather, natural disasters, the spread of infectious diseases or changes in the construction material unit cost and labor unit cost due to unexpected changes in the market environments.

ii. Valuation of real estate for sale

a. Amount recorded in the accompanying consolidated financial statements for the year ended March 31, 2021
Real estate for sale recorded in the consolidated balance sheet: ¥27,028 million (\$244,133 thousand)

b. Other information useful for the users of the consolidated financial statements

• Calculation method

The carrying amount of real estate for sale held for sales purposes is stated at the net selling value if the net selling value as of the fiscal year end falls below the acquisition cost, and the difference is recognized in a cost of sales for the year. The net selling value is estimated by deducting the estimated construction costs and selling expenses to be incurred in future, from the sales value estimated based on the projected market price at the time of future sales.

• Main assumptions

Main assumptions for estimating the net selling value are sales price and construction costs incorporated in the development business plan. The sales price and the construction costs are being studied by the in-charge department with reference to the recent sales in the area the property is located and estimation submitted from potential contractors, respectively.

• Impacts on the consolidated financial statements for the following fiscal year

Main assumptions involve uncertainty of estimates, and the cost of sales for the following fiscal year might possibly be affected in the event of changes in the real estate price, the construction costs, etc. incurred due to unexpected changes in the market environments.

(19) Unapplied New Accounting Standards

The ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition" on March 31, 2020 and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition" on March 26, 2021.

This accounting standard is a comprehensive accounting standard for revenue recognition. Revenue shall be recognized by applying the following five steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Company expects to apply the accounting standard and guidance from the beginning of the year ending March 31, 2022.

The effects of applying the new accounting standard and guidance are immaterial.

(20) Changes in Presentation

Adoption of “Accounting Standard for Disclosure of Accounting Estimates”

The Company has applied “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31; March 31, 2020) from the end of the year ended March 31, 2021 and included notes concerning significant accounting estimates in the consolidated financial statements.

However, comparative information for the year ended March 31, 2020 is not presented pursuant to the transitional treatment prescribed in the proviso of paragraph 11 of the Accounting Standard.

(21) Additional Information

Impact of the spread of the novel coronavirus disease (COVID-19) on accounting estimates

The impact of COVID-19 on the Group’s operating performance was immaterial in the year ended March 31, 2021. The Company is making accounting estimates based on the assumption that the impact would remain immaterial for the foreseeable future.

Accounting policies and procedures adopted when the provisions of the related accounting standards are not clear

The Company applied “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections,” (ASBJ Statement No. 24; March 31, 2020) from the end of the year ended March 31, 2021 and discloses the “Accounting policies and procedures adopted when the provisions of the related accounting standards are not clear.”

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 deposits” in the consolidated balance sheet as of March 31, 2021 and 2020 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Cash and deposits	¥154,303	¥128,432	\$1,393,758
Time deposits maturing over 3 months	(1,745)	(1,560)	(15,761)
Cash and cash equivalents at the end of year	¥152,558	¥126,871	\$1,377,996

4. Investment Securities

Held-to-maturity securities:

	Millions of Yen		
	2021		
March 31	Carrying amount	Fair value	Unrealized gain (loss)
Fair value exceeds carrying amount:	¥1,550	¥1,555	¥5
Fair value does not exceed carrying amount:	¥4,100	¥4,073	¥(26)
Total	¥5,650	¥5,629	¥(20)

March 31	Millions of Yen		
	2020		
	Carrying amount	Fair value	Unrealized gain (loss)
Fair value exceeds carrying amount:	¥—	¥—	¥—
Fair value does not exceed carrying amount:	¥2,500	¥2,487	¥(12)
Total	¥2,500	¥2,487	¥(12)

March 31	Thousands of U.S. Dollars		
	2021		
	Carrying amount	Fair value	Unrealized gain (loss)
Fair value exceeds carrying amount	\$14,000	\$14,045	\$45
Fair value does not exceed carrying amount:	\$37,033	\$36,789	\$(234)
Total	\$51,034	\$50,844	\$(180)

Available-for-sale securities:

The following table summarizes carrying amounts, acquisition costs and unrealized gain (loss) of available-for-sale securities as of March 31, 2021 and 2020:

	Millions of Yen		
	2021		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
March 31			
Carrying amount exceeds acquisition cost:			
Equity securities	¥44,110	¥9,181	¥34,929
Carrying amount does not exceed acquisition cost:			
Equity securities	¥229	¥233	¥(4)
Total	¥44,339	¥9,414	¥34,924

	Millions of Yen		
	2020		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
March 31			
Carrying amount exceeds acquisition cost:			
Equity securities	¥36,469	¥9,267	¥27,201
Carrying amount does not exceed acquisition cost:			
Equity securities	¥794	¥903	¥(109)
Total	¥37,263	¥10,171	¥27,091

	Thousands of U.S. Dollars		
	2021		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
March 31			
Carrying amount exceeds acquisition cost:			
Equity securities	\$398,428	\$82,928	\$315,499
Carrying amount does not exceed acquisition cost:			
Equity securities	\$2,068	\$2,104	\$(36)
Total	\$400,496	\$85,032	\$315,454

Proceeds from sales of available-for-sale securities and realized gain (loss) for the years ended March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
	Sales proceeds	¥395	¥88
Realized gain	347	77	3,134
Realized loss	1	10	9

No impairment losses were recognized on securities for the year ended March 31, 2021.

Impairment losses of ¥60 million were recognized on securities (equity securities classified as available-for-sale securities) for the year ended March 31, 2020.

The Company recognizes impairment losses 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 impairment losses if the substantial value at the fiscal year-end declines more than 50% from the acquisition cost, unless the recoverability can be sufficiently justified.

5. Inventories

Inventories as of March 31, 2021 and 2020 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Costs on construction contracts in progress	¥18,362	¥15,896	\$165,856
Real estate for sale	27,028	26,875	244,133
Manufactured goods	597	467	5,392
Raw material and supplies	2,077	2,397	18,760
Total	¥48,064	¥45,636	\$434,143

Inventories related to construction contracts on which losses are expected are presented on a gross basis without offsetting against provision for loss on construction contracts.

Inventories related to construction contracts that are covered by provision for loss on construction contracts were ¥70 million (\$632 thousand) and ¥116 million as of March 31, 2021 and 2020, respectively.

During the year ended March 31, 2021, no property, plant and equipment were reclassified to real estate for sale.

During the year ended March 31, 2020, land in the amount of ¥562 million and buildings and structures in the amount of ¥828 million were reclassified from property, plant and equipment to real estate for sale due to changes in holding purpose.

6. Investment and Rental Property

The Company and certain consolidated subsidiaries own rental properties such as office buildings, commercial facilities, residential houses, parking lots and others in Tokyo and other areas for the purpose of earning rental income. Certain office buildings for rent are included in "Real estate including portions to be used for 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, 2021 and 2020 were as follows.

	Millions of Yen			
	Carrying amounts			Fair value
	April 1, 2020	Changes	March 31, 2021	March 31, 2021
Year ended March 31, 2021				
Investment and rental properties	¥29,114	¥2,110	¥31,225	¥36,079
Real estate including portions to be used for investment and rental properties	2,726	(41)	2,685	3,914

	Millions of Yen			
	Carrying amounts			Fair value
	April 1, 2019	Changes	March 31, 2020	March 31, 2020
Year ended March 31, 2020				
Investment and rental properties	¥21,231	¥7,883	¥29,114	¥31,540
Real estate including portions to be used for investment and rental properties	2,753	(27)	2,726	3,956

Year ended March 31, 2021	Thousands of U.S. Dollars			
	Carrying amounts			Fair value
	April 1, 2020	Changes	March 31, 2021	March 31, 2021
Investment and rental properties	\$262,975	\$19,058	\$282,043	\$325,887
Real estate including portions to be used for investment and rental properties	24,622	(370)	24,252	35,353

Notes:

- Carrying amounts represent the net book values of acquisition costs, less accumulated depreciation and accumulated impairment losses.
- Changes during the year ended March 31, 2021 consist of an increase primarily due to buildings, etc. related to rental properties acquired in Sapporo city, Hokkaido in the amount of ¥1,255 million (\$11,335 thousand). Changes during the year ended March 31, 2020 consist of an increase primarily due to buildings, etc. related to rental properties acquired in Shinjuku-ku, Tokyo in the amount of ¥6,642 million.
- 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, 2021 and 2020 was as follows:

Year ended March 31, 2021	Millions of Yen		
	Rental income	Rental costs	Profit
Investment and rental properties	¥2,960	¥1,944	¥1,016
Real estate including portions to be used for investment and rental properties	391	273	117

Year ended March 31, 2020	Millions of Yen		
	Rental income	Rental costs	Profit
Investment and rental properties	¥2,660	¥1,268	¥1,392
Real estate including portions to be used for investment and rental properties	436	223	213

Year ended March 31, 2021	Thousands of U.S. Dollars		
	Rental income	Rental costs	Profit
Investment and rental properties	\$26,736	\$17,559	\$9,177
Real estate including portions to be used for investment and rental properties	3,531	2,465	1,056

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

7. Short-term Borrowings, Long-term Borrowings and Lease Obligations

The annual weighted-average interest rates applicable to short-term borrowings were 3.50% and 3.35% for the years ended March 31, 2021 and 2020, respectively.

The annual weighted-average interest rates applicable to long-term borrowings were 1.39% and 4.25% for the years ended March 31, 2021 and 2020, respectively, and the repayment due dates are from 2022 through 2026. The annual weighted-average interest rate applicable to non-recourse long-term borrowings for the years ended March 31, 2021 and 2020 was 0.97%, respectively, and the repayment due dates are from 2022 through 2035. The due dates of long-term lease obligations are from 2022 through 2030.

Annual maturities within 5 years subsequent to March 31, 2022 of long-term borrowings, non-recourse long-term borrowings and long-term lease obligations, excluding current portions, were as follows:

Millions of Yen		
Long-term	Non-recourse	Long-term

Years ending March 31	borrowings	long-term borrowings	lease obligations
2023	¥76	¥82	¥279
2024	46	82	197
2025	38	4,883	112
2026	8	84	48

Years ending March 31	Thousands of U.S. Dollars		
	Long-term borrowings	Non-recourse long-term borrowings	Long-term lease obligations
2023	\$686	\$740	\$2,520
2024	415	740	1,779
2025	343	44,106	1,011
2026	72	758	433

Assets pledged as collateral for long-term borrowings as of March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
(Pledged assets)			
Land	¥462	¥540	\$4,173
Buildings and structures	32	111	289
Total	¥494	¥651	\$4,462
(Collateralized debt)			
Long-term borrowings (including current portion)	¥164	¥152	\$1,481

Assets pledged as collateral for borrowings of unconsolidated PFI business companies as of March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Investment securities	¥38	¥38	\$343
Long-term loans receivable	2	2	18
Total	¥40	¥40	\$361

Assets pledged as collateral for the following non-recourse debt as of March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
(Pledged assets)			
Business assets, etc.	¥8,098	¥8,161	\$73,146
(Collateralized debt)			
Long-term borrowings (including current portion)	¥6,002	¥6,219	\$54,213

Above amounts indicate non-recourse debt included in long-term borrowings and pledged assets corresponding to non-recourse debt.

8. Employees' Retirement Benefits

(1) Summary of retirement benefit plans of the Group

The Group has defined benefit corporate pension plans and lump-sum payment plans (including external funding plans) to cover the employees' retirement benefits. As of March 31, 2021, of the companies under the Group, one company has a funded defined benefit corporate pension plan, seven companies have lump-sum payment plans (while these are unfunded plans, one company has changed to funded plans following the establishment of a retirement benefit trust) and two companies have a defined contribution pension plan. As lump-sum payment plans (external funding plans), certain subsidiaries participate in the Retirement Mutual Fund Plan for Small and Medium Size Companies or the Construction Industry Retirement Mutual Fund Plan.

Some consolidated subsidiaries adopt a short-cut method to calculate the retirement benefit liability 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, 2021 and 2020, were as follows (excluding the plans to which a short-cut method is applied):

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Beginning balance of retirement benefit obligations	¥ 32,791	¥ 32,453	\$296,188
Service cost	1,099	1,178	9,926
Interest cost	124	117	1,120
Actuarial differences	33	608	298
Retirement benefits paid	(1,538)	(1,566)	(13,892)
Ending balance of retirement benefit obligations	¥ 32,512	¥ 32,791	\$293,668

2) The changes in plan assets for the years ended March 31, 2021 and 2020, were as follows (excluding the plans to which a short-cut method is applied):

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Beginning balance of plan assets	¥ 26,237	¥ 26,337	\$236,988
Expected return on plan assets	626	639	5,654
Actuarial differences	1,952	(1,062)	17,631
Contribution from the employer	1,721	1,590	15,545
Retirement benefits paid	(1,266)	(1,267)	(11,435)
Ending balance of plan assets	¥ 29,271	¥ 26,237	\$264,393

3) The changes in retirement benefit liability of the plans to which a short-cut method is applied for the years ended March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Beginning balance of retirement benefit liability	¥ 394	¥ 348	\$3,558
Retirement benefit expenses	63	45	569
Retirement benefits paid	(50)	(43)	(451)
Ending balance of retirement benefit liability	¥ 407	¥ 350	\$3,676

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Funded defined benefit obligations	¥ 32,512	¥ 32,791	\$ 293,668
Plan assets	29,271	26,237	264,393
	3,240	6,554	29,265
Unfunded defined benefit obligations	407	350	3,676
Net liability recorded in the consolidated balance sheet	3,647	6,904	32,941
Retirement benefit liability	3,647	6,904	32,941
Net liability recorded in the consolidated balance sheet	¥ 3,647	¥ 6,904	\$ 32,941

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, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Service cost	¥ 1,099	¥ 1,178	\$ 9,926
Interest cost	124	117	1,120
Expected return on plan assets	(626)	(639)	(5,654)
Amortization of actuarial differences	447	689	4,037
Amortization of past service cost	4	4	36
Retirement benefit expenses computed by a short-cut method	63	45	569
Retirement benefit expenses on defined benefit plans	¥ 1,113	¥ 1,396	\$ 10,053

6) The components of remeasurements of defined benefit plans (before adjusting for tax effects) for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Past service costs	¥ 4	¥ 4	\$ 36
Actuarial differences	2,366	(980)	21,371
Total	¥ 2,370	¥ (976)	\$ 21,407

7) The components of accumulated remeasurements of defined benefit plans (before adjusting for tax effects) as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrecognized past service costs	¥ 7	¥ 11	\$ 63
Unrecognized actuarial differences	(79)	2,287	(713)
Total	¥(72)	¥2,298	\$ (650)

8) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

	2021	2020
Debt securities	38.0%	26.7%
Equity securities	24.7%	28.6%
Cash and deposits	11.8%	19.9%
Alternative investments	14.3%	12.7%
General accounts of life insurance	7.5%	8.4%
Other	3.6%	3.7%
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, 2021 and 2020, were set forth as follows:

	2021	2020
Discount rate	0.25%-0.5%	0.25%-0.5%
Long-term expected rate of return	1.0%-2.5%	2.0%-2.5%
Expected rate of salary increase	1.5%-4.0%	1.5%-4.0%

(3) Defined contribution plan

The amount of the required contribution to the defined contribution plan of a consolidated subsidiary was ¥120 million (\$1,083 thousand) and ¥119 million for the years ended March 31, 2021 and 2020, respectively.

9. Asset Retirement Obligations

The Group's asset retirement obligations represent obligations of restoration stipulated in the real estate rental contracts of land for business use.

Asset retirement obligations are measured by estimating the periods for use to be 2 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, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Beginning balance	¥1,260	¥1,327	\$ 11,381
Increase due to acquisition of tangible assets	11	1	99
Accretion expenses	2	3	18
Decrease due to settlement of obligations	(21)	(72)	(189)
Increase (decrease) due to changes in estimates*	24	—	216
Ending balance	¥1,276	¥1,260	\$ 11,525

*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.

10. Net Assets

Under the Japanese Companies Act (the "Act"), the entire amount paid for new shares is required to be designated as common shares. 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 shares. 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 shares, 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.

11. Share Capital and Dividends Paid

The Company's share capital consists of only common shares.

The changes in the number of outstanding common shares and treasury shares during the years ended March 31, 2021 and 2020 were as follows:

Year ended March 31, 2021	Number of shares			
	April 1, 2020	Increase	Decrease	March 31, 2021
Outstanding shares issued:				
Common shares	119,401,836	—	—	119,401,836
Treasury shares	315,783	650	61	316,372

Year ended March 31, 2020	Number of shares			
	April 1, 2019	Increase	Decrease	March 31, 2020
Outstanding shares issued:				
Common shares	119,401,836	—	—	119,401,836
Treasury shares	315,378	466	61	315,783

Note: Increase in treasury shares during the years ended March 31, 2021 and 2020 is due to purchase of shares less than one unit. Decrease in treasury shares during the years ended March 31, 2021 and 2020 is due to sales of shares less than one unit.

The Company paid the following dividends during the years ended March 31, 2021 and 2020:

Year ended March 31, 2021

Cash dividends approved at the shareholders' meeting held on June 23, 2020:	Total amount	Per share amount	Dividend cut-off date	Effective date
	(Millions of Yen) (Thousands of U.S. Dollars)	(Yen) (U.S. Dollars)		
Common shares	¥7,145 (\$64,537)	¥60 (\$0.54)	Mar. 31, 2020	Jun. 24, 2020

Year ended March 31, 2020

Cash dividends approved at the shareholders' meeting held on June 24, 2019:	Total amount	Per share amount	Dividend cut-off date	Effective date
	(Millions of Yen)	(Yen)		
Common shares	¥4,763	¥40	Mar. 31, 2019	Jun. 25, 2019

Dividends whose cut-off date is in the year ended March 31, 2021 but whose effective date is in the following fiscal year

Cash dividends approved at the shareholders' meeting held on June 23, 2021:	Total amount	Source of dividends	Per share amount	Dividend cut-off date	Effective date
	(Millions of Yen) (Thousands of U.S. Dollars)		(Yen) (U.S. Dollars)		
Common shares	¥9,526	Retained	¥80	Mar. 31, 2021	Jun. 24, 2021

(\$86,044) earnings (\$0.72)

12. Contingent Liabilities

The Group guarantees the following liabilities as of March 31, 2021 and 2020:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Housing loans of employees	¥ —	¥4	\$ —

13. Cost of Sales

Cost of sales for the years ended March 31, 2021 and 2020 includes the following costs:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Loss on valuation of inventories due to a decline of profitability	¥3,586	¥11	\$ 32,390
Provision for loss on construction contracts	173	306	1,562
Provision for loss on development business	1,303	—	11,769

14. Selling, General and Administrative Expenses

The major components of selling, general and administrative expenses for the years ended March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Salaries and wages	¥9,770	¥10,120	\$ 88,248
Provision for bonuses	1,583	1,488	14,298
Retirement benefit expenses	431	565	3,893
Research and development expenses	978	741	8,833
Miscellaneous expenses	2,863	3,339	25,860

15. Other Income (Expenses)

Net gain (loss) on sales and retirement of property, plant and equipment for the years ended March 31, 2021 and 2020 consists of the following:

	Millions of Yen		Thousands of
	2021	2020	U.S. Dollars
Gain on sales of property, plant and equipment:			2021
Land	¥279	¥45	\$ 2,520
Machinery, equipment and vehicles	54	37	487
Other	1	3	9
Subtotal	335	85	3,025
Loss on sales and retirement of property, plant and equipment:			
Buildings and structures	(271)	(330)	(2,447)
Machinery, equipment and vehicles	(216)	(43)	(1,951)
Other	(7)	(26)	(63)
Subtotal	(496)	(399)	(4,480)
Net gain (loss) on sales and retirement of property, plant and equipment	¥(161)	¥(314)	\$(1,454)

16. Impairment Losses

The Group recognized impairment losses amounting to ¥315 million (\$2,845 thousand) and ¥116 million for the years ended March 31, 2021 and 2020, respectively.

The Group considers business units based on the business category for management accounting purposes as the minimum cash-generating unit and all corporate assets of the headquarters are treated as common assets for the purpose of grouping.

The Group reduced the carrying amounts of land (Tomakomai City, Hokkaido) which was determined to be disposed of and buildings (Nagasaki City, Nagasaki Prefecture) for which profitability declined in the year ended March 31, 2021, and recorded the decrease in the amounts of such assets as impairment losses under "Other expenses" for the year ended March 31, 2021.

The Group reduced the carrying amounts of land (Koriyama City, Fukushima Prefecture) for which profitability declined and determined to be disposed of in the year ended March 31, 2020, and recorded the decrease in the amounts of such assets as impairment losses under "Other expenses" for the year ended March 31, 2020.

The recoverable amounts of the business assets (land and buildings) are reasonably determined based on the net selling value in accordance with the real estate appraisal value by the independent real estate appraisers.

17. Income Taxes

Major components of the Group's deferred income tax assets and liabilities as of March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Deferred tax assets:			
Provision for bonuses	¥1,833	¥1,680	\$ 16,556
Provision for loss on construction contracts	51	110	460
Allowance for doubtful accounts	347	354	3,134
Loss on valuation of real estate for sale and development projects in progress	2,000	906	18,065
Retirement benefit liability	1,798	2,686	16,240
Impairment loss	5,837	5,720	52,723
Provision for loss on development business	399	-	3,604
Other	3,960	2,659	35,769
Subtotal	16,227	14,118	146,572
Valuation allowance	(7,064)	(7,700)	(63,806)
Total deferred tax assets	¥9,163	¥6,418	\$ 82,765
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	¥(10,638)	¥(8,236)	\$ (96,088)
Reserve for reduction entry of fixed assets	(512)	(512)	(4,624)
Other	(630)	(29)	(5,690)
Total deferred tax liabilities	¥(11,781)	¥(8,778)	\$(106,413)
Net deferred tax liabilities:	¥(2,618)	¥(2,359)	\$ (23,647)

A reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2021 was omitted since the difference between the statutory tax rate and the effective tax rate was less than 5% of the statutory tax rate.

A reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2020 was as follows:

	2020
Statutory tax rate	30.6%
Expenses not deductible for income tax purpose, such as entertainment expense	0.8
Income not taxable for income tax purpose, such as dividend income	(0.2)
Per capita inhabitant tax	0.7
Enterprise tax corresponding to overseas income	(0.0)
Tax credit for research and development costs	(0.2)
Increase/decrease in valuation allowance	0.4
Income tax rate difference of consolidated subsidiaries	1.1
Other	0.5
Effective tax rate	33.7%

18. Other Comprehensive Income

The reclassification adjustment and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of
	2021	2020	U.S. Dollars
			2021
Valuation difference on available-for-sale securities:			
Amount recognized during the year	¥ 8,251	¥ (2,483)	\$ 74,528
Reclassification adjustment to profit	(302)	—	(2,727)
Amount before tax effect	7,948	(2,483)	71,791
Tax effect	(2,480)	604	(22,400)
Valuation difference on available-for-sale securities	5,468	(1,879)	49,390
Foreign currency translation adjustment:			
Amount recognized during the year	(46)	78	(415)
Remeasurements of defined benefit plans:			
Amount recognized during the year	1,918	(1,670)	17,324
Reclassification adjustment to profit	451	693	4,073
Amount before tax effect	2,370	(976)	21,407
Tax effect	(725)	295	(6,548)
Remeasurements of defined benefit plans	1,645	(680)	14,858
Share of other comprehensive income of entities accounted for using equity method:			
Amount recognized during the year	—	(30)	—
Other comprehensive income	¥ 7,067	¥ (2,512)	\$ 63,833

19. Per Share Data

March 31	Yen		U.S. Dollars
	2021	2020	2021
Net assets per share	¥3,220.49	¥2,955.74	\$29.08

Net assets per share are calculated based on the following:

March 31	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Total net assets	¥395,321	¥362,273	\$3,570,779
Amount to be deducted from total net assets: (Non-controlling interests)	(11,807)	(10,286)	(106,647)
Net assets attributable to common shares	383,513	351,987	3,464,122

March 31	Number of shares	
	2021	2020
Number of common shares as of fiscal year-end	119,085,464	119,086,053

Years ended March 31	Yen		U.S. Dollars
	2021	2020	2021
Earnings per share	¥260.89	¥198.13	\$2.35

*Diluted earnings per share was not presented because the Company had no potentially dilutive shares for the years ended March 31, 2021 and 2020.

Earnings per share is calculated based on the following:

Years ended March 31	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Profit attributable to owners of parent	¥31,068	¥23,594	\$280,625
Profit attributable to common shareholders of parent	31,068	23,594	280,625

Years ended March 31	Number of shares	
	2021	2020
Average number of common shares during the year	119,085,825	119,086,338

20. 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 leases.

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Receivable portion of lease charges	¥2,231	¥2,506	\$20,151
Estimated residual value	78	58	704
Interest income portion	99	108	894
Investments in leases	¥2,409	¥2,673	\$21,759

Collection schedules of lease receivables and receivable portion of lease charges on investments in leases subsequent to March 31, 2021 were as follows:

Year ending March 31	Millions of Yen		Thousands of U.S. Dollars	
	Lease receivables	Investments in leases	Lease receivables	Investments in leases
2022	¥16	¥839	\$144	\$7,578
2023	15	623	135	5,627
2024	9	416	81	3,757
2025	5	247	45	2,231
2026	1	86	9	776
2027 and thereafter	1	17	9	153

2. Operating leases

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Due within one year	¥875	¥826	\$ 7,903
Due over one year	4,154	4,685	37,521
Total	¥5,029	¥5,512	\$ 45,424

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
	2021	2020	2021
Investments in leases:			
Current assets	¥562	¥581	\$ 5,076
Lease obligations:			
Current liabilities	168	167	1,517
Non-current liabilities	365	381	3,296

21. Financial Instruments

a. Policy for Financial Instruments

The Group invests only in safe financial assets. Its temporary surplus funds are invested in financial assets such

as bonds with highly safe principal based on external ratings. In addition, the Group primarily raises its funds using its own capital, while certain consolidated subsidiaries use bank loans to a limited extent as a means of raising funds. 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 from completed construction contracts and electronically recorded monetary claims - operating are exposed to customer credit risk. With respect to such risks, the Company controls the outstanding balances of the whole Group 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.

Investment securities mainly consist of held-to-maturity debt securities and equity securities issued by trade customers and are exposed to credit risk of the issuers and the risk of market price fluctuations. With respect to held-to-maturity debt securities, the credit risk is minimal since the Company efficiently controls investment amounts and invests only in debt securities with high credit ratings, in accordance with the Fund Investment Rules. Concerning equity securities issued by the trade customers, the Company efficiently controls the outstanding balances, monitor the market values and financial positions of the issuers (trade customers) and continuously review the holding status considering the relationship with the trade customers as well as control market risks.

Payment terms of trade payables such as notes payable, accounts payable on construction contracts and electronically recorded obligations - operating are mostly less than six months. Long-term borrowings are mainly non-recourse loans financed from financial institutions for each project of consolidated subsidiaries operating PFI business or development business.

The Group maintains sufficient funds on hand at present, but controls such liquidity risk associated with funding by preparing and updating funding plans on a timely basis. In addition, appropriate liquidity on hand is secured by using the Cash Management System (CMS) to effectively utilize funds among the Group companies.

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 22 "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, 2021 and 2020 were as follows:

March 31, 2021	Millions of Yen		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	¥154,303	¥154,303	¥ —
(2) Notes receivable, accounts receivable from completed construction contracts and other Allowance for doubtful accounts* ¹	155,870 (302)		
	155,567	155,640	72
(3) Electronically recorded monetary claims – operating Allowance for doubtful accounts* ¹	4,030 (7)		
	4,022	4,022	—
(4) Short-term loans receivable Allowance for doubtful accounts* ¹	196 (0)		
	196	196	—
(5) Investment securities: Held-to-maturity debt securities	5,650	5,629	(20)

Available-for-sale securities	44,339	44,339	—
Total assets	364,079	364,131	52
(1) Notes payable, accounts payable from construction contracts and other	74,949	74,949	—
(2) Electronically recorded obligations - operating	37,520	37,520	—
(3) Long-term borrowings ^{*2}	6,296	6,279	(16)
Total liabilities	118,766	118,749	(16)
Derivatives ^{*3}	82	82	—

March 31, 2020	Millions of Yen		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	¥128,432	¥128,432	¥ —
(2) Notes receivable, accounts receivable from completed construction contracts and other Allowance for doubtful accounts ^{*1}	150,890 (309)		
	150,580	150,659	79
(3) Electronically recorded monetary claims – operating Allowance for doubtful accounts ^{*1}	4,019 (8)		
	4,010	4,010	—
(4) Short-term loans receivable Allowance for doubtful accounts ^{*1}	201 (0)		
	201	201	—
(5) Investment securities:			
Held-to-maturity debt securities	2,500	2,487	(12)
Available-for-sale securities	37,263	37,263	—
Total assets	322,988	323,055	66
(1) Notes payable, accounts payable from construction contracts and other	69,323	69,323	—
(2) Electronically recorded obligations – operating	33,738	33,738	—
(3) Long-term borrowings ^{*2}	6,370	6,371	1
Total liabilities	109,433	109,434	1
Derivatives ^{*3}	6	6	—

Thousands of U.S. Dollars

March 31, 2021	Carrying amount	Fair value	Unrealized gain (loss)	*1
(1) Cash and deposits	\$1,393,758	\$1,393,758	\$ —	
(2) Notes receivable, accounts receivable from completed construction contracts and other	1,407,912			
Allowance for doubtful accounts*1	(2,727)			
	1,405,175	1,405,835	650	
(3) Electronically recorded monetary claims – operating	36,401			
Allowance for doubtful accounts*1	(63)			
	36,329	36,329	—	
(4) Short-term loans receivable	1,770			
Allowance for doubtful accounts*1	(0)			
	1,770	1,770	—	
(5) Investment securities:				
Held-to-maturity debt securities	51,034	50,844	(180)	
Available-for-sale securities	400,496	400,496	—	
Total assets	3,288,582	3,289,052	469	
(1) Notes payable, accounts payable from construction contracts and other	676,984	676,984	—	
(2) Electronically recorded obligations – operating	338,903	338,903	—	
(3) Long-term borrowings*2	56,869	56,715	(144)	
Total liabilities	1,072,766	1,072,613	(144)	
Derivatives*3	740	740	—	

General allowance for doubtful accounts corresponding to "Notes receivable, accounts receivable from completed construction contracts, electronically recorded monetary claims - operating and short-term loans receivable" is deducted.

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

*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 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 from 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 monetary claims - operating

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 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.

(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 4 "Investment Securities."

Liabilities:

(1) Notes payable, accounts payable from 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 obligations - operating

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 borrowings

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 22 “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
	2021	2020	2021
Unlisted equity securities	¥3,564	¥3,912	\$32,192

The above items are not included in “(5) 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, 2021 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 deposits	¥154,303	¥—	¥—	¥—
Notes receivable, accounts receivable from completed construction contracts and other	140,679	15,162	28	—
Electronically recorded monetary claims – operating	4,030	—	—	—
Short-term loans receivable	196	—	—	—
Investment securities:				
Held-to-maturity debt securities	—	800	4,850	—
Available-for-sale securities	—	—	—	—
Total	¥299,209	¥15,962	¥4,878	¥—

	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 deposits	\$1,393,758	\$—	\$—	\$—
Notes receivable, accounts receivable from completed construction contracts and other	1,270,698	136,952	252	—
Electronically recorded monetary claims – operating	36,401	—	—	—
Short-term loans receivable	1,770	—	—	—
Investment securities:				
Held-to-maturity debt securities	—	7,226	43,808	—
Available-for-sale securities	—	—	—	—
Total	\$2,702,637	\$144,178	\$44,061	\$—

Note 4: Annual maturities of long-term borrowings and lease obligations subsequent to March 31, 2021: Please see Note 7 “Short-term Borrowings, Long-term Borrowings and Lease Obligations.”

22. 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, 2021	Millions of Yen

Category	Transaction type	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Over-the-counter transactions	Foreign exchange forward contracts:				
	Bought:				
	USD	¥1,713	¥22	¥82	¥82
	EUR	—	—	—	—
Total		¥1,713	¥22	¥82	¥82

March 31, 2020

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	¥7,505	¥687	¥70	¥70
	EUR	2,168	—	(64)	(64)
Total		¥9,673	¥687	¥6	¥6

March 31, 2021

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	\$15,472	\$198	\$740	\$740
	EUR	—	—	—	—
Total		\$15,472	\$198	\$740	\$740

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, 2021 and 2020.

23. 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									
	2021									
	Reportable Segments						Other (Note 1)	Total	Reconciliator (Notes 2 and 3)	Consolidated (Note 4)
	Construction			Manufacturing and Sales	Development	Total				
Pavement and Civil Engineering	General Civil Engineering	Building Construction								
Sales:										
Sales to external customers	¥214,490	¥76,688	¥74,960	¥58,523	¥17,094	¥441,757	¥3,962	¥445,720	¥—	¥445,720
Intersegment sales or transfers	1,199	2,039	480	38,454	24	42,198	10,286	52,485	(52,485)	—
Total	215,689	78,728	75,440	96,978	17,118	483,956	14,249	498,206	(52,485)	445,720
Segment profit	28,113	8,164	2,200	11,678	1,737	51,895	736	52,631	(7,934)	44,697
Segment assets	115,061	77,351	49,765	128,612	66,678	437,468	18,755	456,224	133,726	589,950
Other items:										
Depreciation	1,253	175	68	5,935	783	8,215	1,211	9,427	261	9,688
Amortization of goodwill	147	—	—	—	—	147	—	147	—	147
Investment in affiliates accounted for by the equity method	5	—	—	—	—	5	—	5	—	5
Increase in tangible and intangible fixed assets	3,304	78	11	11,751	1,537	16,683	2,123	18,806	1,303	20,109

	Millions of Yen									
	2020									
	Reportable Segments						Other (Note 1)	Total	Reconciliation (Notes 2 and 3)	Consolidated (Note 4)
	Construction			Manufacturing and Sales	Development	Total				
Pavement and Civil Engineering	General Civil Engineering	Building Construction								
Sales:										
Sales to external customers	¥199,491	¥80,196	¥63,829	¥61,272	¥19,616	¥424,405	¥4,660	¥429,066	¥—	¥429,066
Intersegment sales or transfers	932	2,168	1,228	36,400	36	40,766	8,316	49,082	(49,082)	—
Total	200,423	82,364	65,058	97,672	19,652	465,171	12,977	478,149	(49,082)	429,066
Segment profit	20,972	5,835	3,790	10,150	2,752	43,500	783	44,283	(8,056)	36,227
Segment assets	110,526	68,810	46,691	146,378	65,627	438,034	18,764	456,799	83,975	540,774
Other items:										
Depreciation	1,315	165	61	5,519	707	7,770	1,019	8,789	256	9,045
Amortization of goodwill	98	—	—	—	—	98	—	98	—	98
Investment in affiliates accounted for by the equity method	—	—	—	—	—	—	—	—	—	—
Increase in tangible and intangible fixed assets	2,836	518	9	6,892	10,689	20,946	1,829	22,775	1,932	24,708

	Thousands of U.S. Dollars									
	2021									
	Reportable Segments						Other (Note 1)	Total	Reconciliation (Notes 2 and 3)	Consolidated (Note 4)
	Construction			Manufacturing and Sales	Development	Total				
Pavement and Civil Engineering	General Civil Engineering	Building Construction								

	Engineering									
Sales:										
Sales to external customers	\$1,937,404	\$692,692	\$677,084	\$528,615	\$154,403	\$3,990,217	\$35,787	\$4,026,013	\$ —	\$4,026,013
Intersegment sales or transfers	10,830	18,417	4,335	347,339	216	381,157	92,909	474,076	(474,076)	—
Total	1,948,234	711,119	681,419	875,964	154,620	4,371,384	128,705	4,500,099	(474,076)	4,026,013
Segment profit	253,933	73,742	19,871	105,482	15,689	468,747	6,647	475,395	(71,664)	403,730
Segment assets	1,039,300	698,681	449,507	1,161,701	602,276	3,951,476	169,406	4,120,892	1,207,894	5,328,786
Other items:										
Depreciation	11,317	1,580	614	53,608	7,072	74,202	10,938	85,150	2,357	87,507
Amortization of goodwill	1,327	—	—	—	—	1,327	—	1,327	—	1,327
Investment in affiliates accounted for by the equity method	45	—	—	—	—	45	—	45	—	45
Increase in tangible and intangible fixed assets	29,843	704	99	106,142	13,883	150,690	19,176	169,867	11,769	181,636

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 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 represents corporate assets not allocated to each reportable segment.
4. Segment profit is reconciled with operating profit of the accompanying consolidated statement of income.

Related information:

1. Information by product and service

This information is omitted because the same information is disclosed in segment information.

2. Information by geographic segment

(Sales)

This information is omitted because sales to external customers in Japan exceed 90% of consolidated sales.

(Tangible fixed assets)

This information is omitted because tangible fixed assets in Japan exceed 90% of tangible fixed assets of the consolidated balance sheet.

3. Information by major customer

This information is omitted because there is no specific external customer to whom sales exceed 10% of consolidated sales.

Impairment loss by reportable segment

	Millions of Yen								
	2021								
	Reportable Segments								
	Pavement and Civil Engineering	Construction		Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
General Civil Engineering		Building Construction							
Loss on impairment	¥—	¥—	¥—	¥53	¥—	¥53	¥262	¥—	¥315

	Millions of Yen								
	2020								
	Reportable Segments								
	Pavement and Civil Engineering	Construction		Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
General Civil Engineering		Building Construction							
Loss on impairment	¥—	¥—	¥—	¥116	¥—	¥116	¥—	¥—	¥116

Thousands of U.S. Dollars									
2021									
Reportable Segments									
	Construction			Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
	Pavement and Civil Engineering	General Civil Engineering	Building Construction						
Loss on impairment	\$—	\$—	\$—	\$478	\$—	\$478	\$2,366	\$—	\$2,845

Amortization and balance of goodwill by reportable segment

As of March 31, 2021 and 2020 and for the years then ended

Millions of Yen									
2021									
Reportable Segments									
	Construction			Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
	Pavement and Civil Engineering	General Civil Engineering	Building Construction						
Amortization for the year	¥147	¥—	¥—	¥—	¥—	¥147	¥—	¥—	¥147
Unamortized balance	368	—	—	—	—	368	—	—	368

Millions of Yen									
2020									
Reportable Segments									
	Construction			Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
	Pavement and Civil Engineering	General Civil Engineering	Building Construction						
Amortization for the year	¥98	¥—	¥—	¥—	¥—	¥98	¥—	¥—	¥98
Unamortized balance	304	—	—	—	—	304	—	—	304

Thousands of U.S. Dollars									
2021									
Reportable Segments									
	Construction			Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
	Pavement and Civil Engineering	General Civil Engineering	Building Construction						
Amortization for the year	\$1,327	\$—	\$—	\$—	\$—	\$1,327	\$—	\$—	\$1,327
Unamortized balance	3,323	—	—	—	—	3,323	—	—	3,323

24. Related Party Transactions

Transactions between the Company and related parties were as follows:

For the year ended March 31, 2021

	Related parties who are owned by the common parent company
Name of the parties:	ENEOS Corporation
Location:	Chiyoda-ku, Tokyo
Capital:	¥30,000 million (\$270,978 thousand)
Business:	Manufacturing of oil and petrochemical products
Ownership of voting rights:	—
Business relations:	Construction works, purchase of asphalt and other materials
Nature of business:	Order acknowledgement of works
Transaction amount:	¥6,629 million (\$59,877 thousand)
Account title:	Accounts receivable from completed construction contracts
Balance at fiscal year-end:	¥2,894 million (\$26,140 thousand)

Notes:

- The above transaction amounts do not include consumption taxes, but the balances at fiscal year-end include consumption taxes, except for short-term loans receivable.
- Trading conditions and policies for deciding such conditions:
Transaction amounts are determined in the same manner as those with the third parties.
- The trade name of ENEOS Corporation was changed from JXTG Nippon Oil & Energy Corporation in June 2020.

For the year ended March 31, 2020

	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:	¥30,000 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:	¥5,542 million	¥65,093 million ¥38 million
Account title:	Accounts receivable from completed construction contracts	Short-term loans receivable
Balance at fiscal year-end:	¥3,076 million	¥—

Notes:

- The above transaction amounts do not include consumption taxes, but the balances at fiscal year-end include consumption taxes, except for short-term loans receivable.
- 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.
- Transaction amounts of loans represent the average outstanding balance after the inception of the transaction.

Information about the parent company:

ENEOS Holdings, Inc. (listed on the exchanges of Tokyo and Nagoya)

Independent Auditor's Report

The Board of Directors
NIPPO Corporation

Opinion

We have audited the accompanying consolidated financial statements of NIPPO Corporation and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2021, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Estimate of Total Construction Cost Based on Percentage-of-Completion Method	
Description of Key Audit Matter	Auditor's Response
<p>As described in Note 2 (Summary of Significant Accounting Policies) (14) Recognizing Revenues and Costs of Construction Contracts and (18) Significant Accounting Estimates (Completed construction contracts based on the percentage-of-completion method) in the Notes to Consolidated Financial Statements, the Company applies the percentage-of-completion method (the percentage of completion is determined using the percentage of the cost incurred as of the fiscal year end to the estimated total cost) for construction when the outcome of a construction contract can be estimated reliably. The percentage-of-completion method is applied to each construction of the Pavement and Civil Engineering business segment, the General Civil Engineering business segment, and the Building Construction business segment included in the Construction business, and the total amount of sales recorded based on the percentage-of-completion method in the current fiscal year was 226,264 million yen, accounting for 62% of sales in the Construction business, in net sales in the Consolidated Financial Statements.</p> <p>Revenue recognized under the percentage-of-completion method is measured based on the progress of construction, and such progress is calculated by using the percentage of the cost incurred as of the fiscal year end to the estimated total cost.</p> <p>The construction contracts for each business segment included in the Construction business include road paving work such as new road construction and repairs, general civil engineering work such as land preparation, and construction work such as building construction.</p>	<p>We mainly performed the following audit procedures to evaluate the reasonableness of the estimate of total construction cost based on the percentage-of-completion method in the contract of each business segment included in the Construction business:</p> <p>(1) Assessment of internal control</p> <p>We assessed the design and operating effectiveness of internal controls related to the estimate of total construction cost of each construction project with an emphasis on the following internal controls;</p> <ul style="list-style-type: none"> • Control over the execution budget (the budget prepared and approved for construction cost control), which is prepared by the construction site manager with specialized knowledge and construction experience, and verified by obtaining the necessary approval of the branch manager with specialized knowledge and construction experience. • Control to confirm that each element of the total construction cost is calculated by accumulating in detail based on objective prices such as the standard unit price approved internally and external quotations. • Control to ensure that the estimate of total construction cost is revised in a timely manner based on the construction progress, the actual costs incurred or requests for changes in specifications from the contractee. • Control that timely and appropriate monitoring is performed by the construction cost management department, which is responsible for reliability for construction cost concerning profit or loss management and construction progress.

Since construction work based on the percentage of completion method is highly customized, and the basic specifications and work contents are determined based on the instructions of the contractee, it is difficult to maintain a uniform standard of judgment in estimating the total construction cost. For this reason, it entails a degree of uncertainty in estimating the total construction cost with certain assumptions and judgments by the construction site manager who has specialized knowledge and construction experience.

Also, since the construction work is carried out over long periods of time, making timely and appropriate revisions of total construction costs during the construction process is difficult because there may be delays in the construction due to bad weather, natural disasters and the spread of infectious diseases, and the construction material unit prices and labor unit prices may fluctuate due to unexpected changes in the market environment during the construction process. Thus, timely and appropriate revisions of total construction costs involve complex judgments.

For the above reasons, we determined that the estimate of total construction cost based on the percentage-of-completion method related to the construction contracts of each business segment included in the Construction business is particularly significant in the current fiscal year and is a key audit matter.

(2) Assessment of the reasonableness of the total construction cost estimate

We identified the construction projects for which there was relatively high uncertainty in the estimate total construction cost and performed the following audit procedures based on the construction contract amount, construction profit or loss, construction details, and construction status.

- We compared the latest estimate of total construction cost with the working budget that is the basis of the calculation for construction work that exceeded a certain threshold. We checked the construction cost details and compared the estimated costs for each main construction contents with the estimation materials that are the basis for the order confirmations and quotations from the subcontractors, in order to confirm whether the estimated cost is consistent with the construction specifications in the contract and whether it is calculated by accumulating each type of construction item regarding the latest estimate of total construction cost estimate.
- We compared the initial profit margin ratio on construction with the most recent one, and if the fluctuation exceeded a certain threshold, made inquiries with the person in charge of the construction cost management department and assessed the reasonableness of the replies. Then, we confirmed whether the reasons of the fluctuations reflected the actual construction status.
- We inspected construction sites and examined whether the construction status was consistent with the total construction cost estimate and progress for the construction works that we identified with high uncertainty for the estimate of the total construction cost.
- We assessed the process of estimating the total construction cost by comparing the initial amount of the estimate of the total construction cost with the completed or re-estimated amount.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 23, 2021

佐藤 森夫 

Morio Sato
Designated Engagement Partner
Certified Public Accountant

高橋 聡 

Satoshi Takahashi
Designated Engagement Partner
Certified Public Accountant