Annual Report 2017

NIPPO

Consolidated Financial Highlights

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

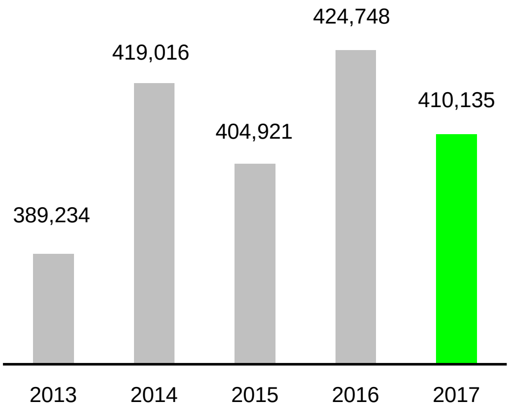
For the years ended March 31,	2013	2014	2015	2016	2017
Net sales	¥ 385,017	¥ 431,638	¥ 396,948	¥ 407,433	¥ 393,614
Net income	14,537	21,786	22,437	26,224	28,518
Comprehensive income	18,400	24,462	32,103	19,214	30,656
Net assets	201,230	223,010	250,913	267,638	294,944
Total assets	400,352	440,464	469,454	472,492	496,182
Net cash from operating activities	202	39,311	29,585	31,726	30,639
Net cash from investing activities	(11,094)	(9,146)	(11,143)	(11,122)	(15,937)
Net cash from financing activities	(1,749)	(3,053)	(4,520)	(4,191)	(5,676)
Cash and cash equivalents at end of year	54,997	82,472	96,855	114,170	124,668
Net assets per share	¥ 1,660.09	¥ 1,838.14	¥ 2,069.43	¥ 2,201.99	¥ 2,422.42
Basic net income per share	122.03	182.89	188.37	220.18	239.46
Diluted net income per share	—	—	—	—	—
Net assets as a percentage of total assets	49.4%	49.7%	52.5%	55.5%	58.1%
Return on equity	7.68%	10.46%	9.64%	10.31%	10.36%
Price earnings ratio (times)	9.37	7.79	10.54	8.60	8.82
Employees (persons) [Average number of temporary workers, etc.]	3,586 [2,695]	3,644 [2,669]	3,795 [2,456]	4,035 [2,320]	4,658 [2,035]

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

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

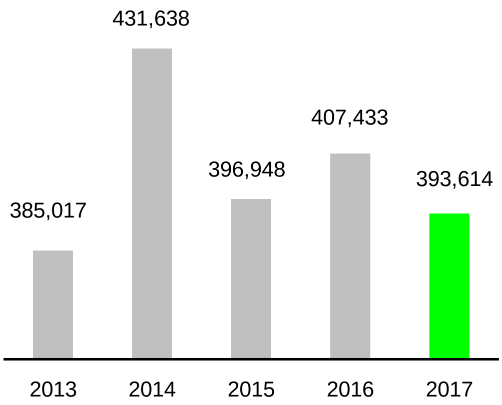
Orders

(Millions of yen)



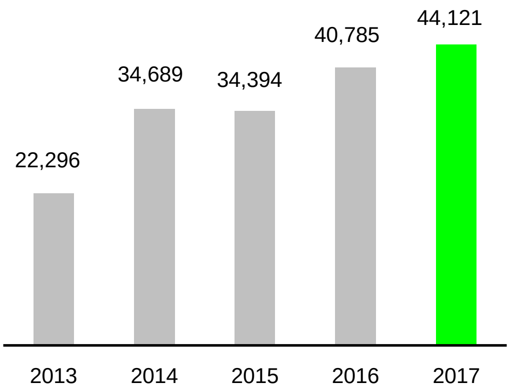
Net Sales

(Millions of yen)



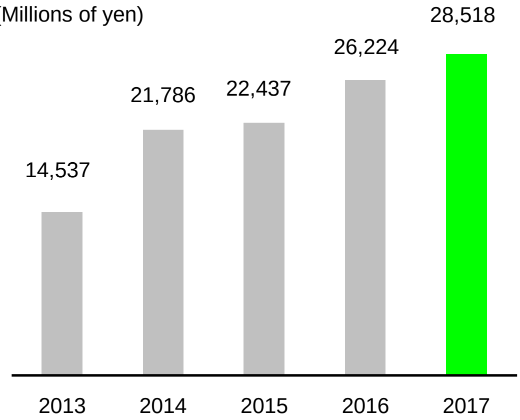
Operating Income

(Millions of yen)



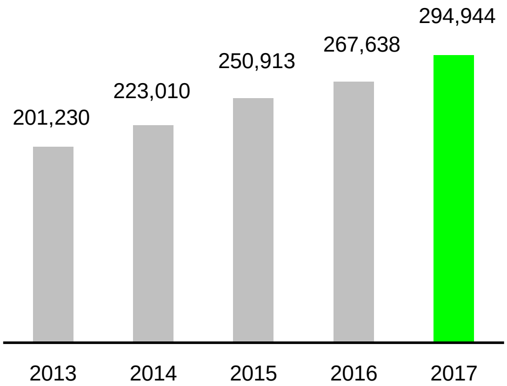
Net Income

(Millions of yen)



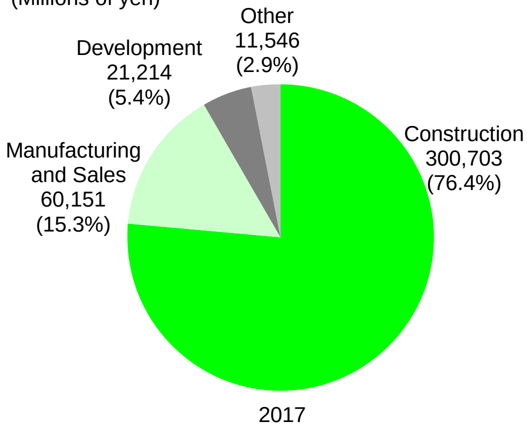
Net Assets

(Millions of yen)



Net Sales by Segment

(Millions of yen)



To Our Shareholders

We appreciate your continued exceptional support.
We hereby present this Annual Report for the 116th term (from April 1, 2016, to March 31, 2017) and report on the business overview of NIPPO CORPORATION (the "Company"), its initiatives and results, etc.
First of all, as to the string of violations of the Antimonopoly Act, we deeply apologize for the great inconvenience and concern that the incidents have caused to our shareholders, business partners and stakeholders.
Taking this situation seriously, the Company is committed to further reinforcing and ensuring its compliance system so as to prevent a recurrence, and making every effort to restore the public trust.
Concerning Japan's economy during the consolidated fiscal year under review, although a moderate recovery trend continued as a result of the economic measures by the Japanese government and other factors, uncertainty about the future remained as downturn of overseas economies was putting downward pressure on the domestic economy.
In the construction industry, despite signs of recovery in capital expenditures and steady public investments, a severe management environment continued with the need for attention to the trend of demand for labor and raw material prices.
In this environment, the Company and its consolidated subsidiaries (hereinafter the "Group") strove to secure orders utilizing the superior proprietary technologies of each company and reinforce sales of asphalt mixture and other products.
On the other hand, with an ongoing improvement in employment and income conditions, a moderate recovery of Japan's economy is expected, supported partially by the effect of various economic measures. However, attention must be paid to the uncertainty about the world economy and the effect of the volatility in financial and capital markets, which is considered a risk that could decelerate the domestic economy.
In the construction industry, although private-sector capital expenditures are expected to increase due to improvement in corporate revenues, and future public investments are projected to grow owing to the positive effect of a national supplementary budget, the management environment surrounding the industry is predicted to continue to be harsh because of fierce competition for orders among corporations.
Under such circumstances, as a corporate group backed by superior technologies and management, the Group will strive to improve its technical capabilities, bolster its sales skills and cope with rising raw material prices appropriately, while steadily increasing productivity and trimming costs to enhance its competitiveness. We will also make efforts to reinforce the revenue bases of the pavement, civil engineering and product sales businesses, as well as to stabilize operating revenues in the building construction, development, and overseas business, etc.
In addition, as to the string of violations of the Antimonopoly Act, on which the onsite inspections by the Japan Fair Trade Commission were held from August 2016 onward, we will continue to fully cooperate in the ongoing investigations. At the same time, based on profound regret and a determination not to repeat illegal acts, the Company will continue to steadily implement measures to prevent recurrence to ensure compliance with the Antimonopoly Act and other laws and regulations, and make concerted efforts to restore the trust in the Company.
We ask for your continued understanding and support.
June 2017

Hiromi Iwata
President, Representative Director
NIPPO CORPORATION

Overview of the Company

The Company and its affiliated companies are primarily engaged in construction, manufacturing/sales of asphalt mixture and other products, development and other businesses. The positioning of the Company, the Company's parent company, the Company's 214 subsidiaries and 26 affiliated companies, and their relations to segment information are as follows:

1. Construction business

The Company is engaged in pavement works, civil engineering and construction works, and receives orders for a portion of the works of JXTG Nippon Oil & Energy Corporation (the Company's fellow subsidiary).
Dai Nippon Construction (a consolidated subsidiary) is engaged in the construction and civil engineering businesses; HASEGAWA SPORTS FACILITIES Co., Ltd. (a consolidated subsidiary) is mainly engaged in the construction of sports facilities; and NIPPO CONSTRUCTION CO., LTD. (a consolidated subsidiary) is engaged in civil engineering. Additionally, 73 consolidated subsidiaries, 30 non-consolidated subsidiaries, 8 affiliated companies and 1 affiliate accounted for by equity methods are engaged in pavement works and civil engineering. The Company contracts a portion of its works to the above companies and also receives orders for works from them.

2. Manufacturing and sales business

The Company is engaged in the manufacture and sales of asphalt mixture, asphalt emulsion and other materials related to pavement works, and purchases asphalt, the main material of asphalt mixture, from JXTG Nippon Oil & Energy Corporation.
Fair Road Co., Ltd. and 52 other consolidated subsidiaries, and other 48 non-consolidated subsidiaries and affiliated companies are engaged in the manufacture and sales of asphalt mixture.
The Company supplies or sells asphalt mixture, asphalt emulsion and other products to the above companies and to a portion of the affiliated companies engaged in construction and also purchases asphalt mixture from some of the above companies.

3. Development business

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

4. Other businesses

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

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

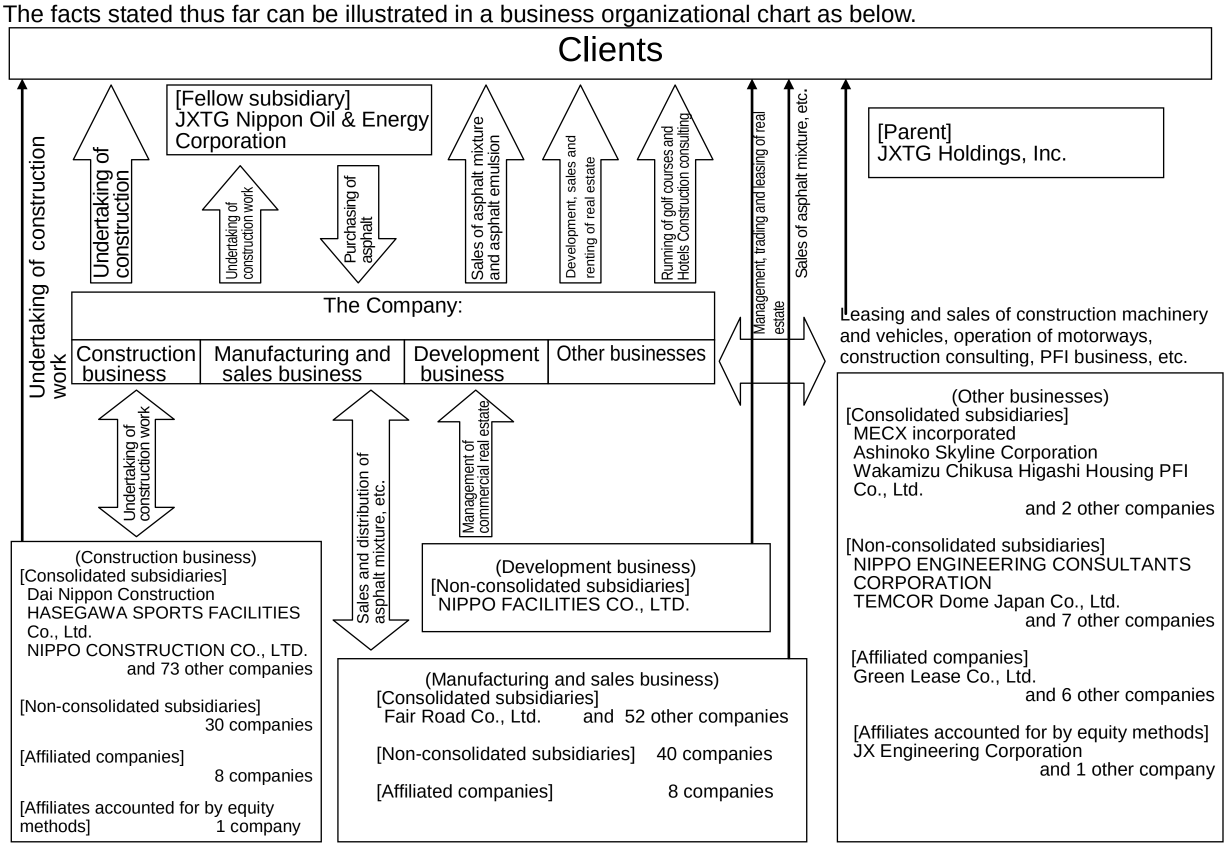
Ashinoko Skyline Corporation (a consolidated subsidiary) operates motorways; and 3 consolidated subsidiaries including Wakamizu Chikusa Higashi Housing PFI, 1 affiliate accounted for by equity methods and 1 affiliate not accounted for by equity methods are engaged in the PFI business.

Additionally, JX Engineering Corporation (an affiliate accounted for by equity methods) is engaged in plant engineering business; 4 non-consolidated subsidiaries including NIPPO ENGINEERING CONSULTANTS CORPORATION (a non-consolidated overseas subsidiary) are engaged in the construction consulting business; 1 non-consolidated subsidiary is engaged in the operation of a golf course and a hotel; 1 affiliated company is engaged in the soil-pollution investigation business; and 4 non-consolidated companies and 3 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, and construction consulting with some of the above companies.

5. Business organizational chart

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



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	Paid in capital (¥ million)	Principal business	Ratio of voting rights holding (held) (%)	Relationship	
					Concurrent positions held by Directors	Business transactions and financial assistance
(Parent) JXTG Holdings, Inc. (Notes) 2, 4	Chiyoda-ku, Tokyo	100,000	Pure holding company	Ratio of voting rights held: 57.2 (0.0)	Yes	Interlocking Directors: 1
(Consolidated subsidiaries) Dai Nippon Construction (Notes) 3, 5	Gifu-shi, Gifu	2,000	(Construction business) Construction and civil engineering work, etc. by contract	Ratio of voting rights holding: 78.5	None	Receiving or placing order of construction work. The subsidiary is renting buildings, etc. owned by the Company.
HASEGAWA SPORTS FACILITIES, Co., Ltd.	Setagaya-ku, Tokyo	100	(Construction business) Construction of sports facilities, etc. by contract	Ratio of voting rights holding: 81.3	None	Receiving or placing order of construction work. The subsidiary is renting buildings, etc. owned by the Company.
NIPPO CONSTRUCTION CO., LTD.	Setagaya-ku, Tokyo	50	(Construction business) Civil engineering work by contract	Ratio of voting rights holding: 100.0	None	Receiving or placing order of construction work. The subsidiary is renting buildings, etc. owned by the Company.
MECX incorporated	Nishi-ku, Saitama-shi	30	(Other businesses) Lease, etc. of construction machinery and vehicles	Ratio of voting rights holding: 100.0	None	The subsidiary is leasing construction machinery and vehicles to, and repairing manufacturing equipment for the Company, etc. The subsidiary is renting buildings, etc. owned by the Company.
Fair Road Co., Ltd. and 129 other companies	-	-	-	-	-	-
(Affiliates accounted for using equity method) JX Engineering Corporation and 2 other companies	-	-	-	-	-	-

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

Main profit or loss information, etc.

(1)	Net sales	¥72,376 million
(2)	Ordinary income	¥6,243 million
(3)	Net income	¥4,312 million
(4)	Net assets	¥24,307 million
(5)	Total assets	¥69,061 million

Major Shareholders

(As of March 31, 2017)

Name	Address	Number of shares held (Thousands of shares)	Percentage of shares held to the total number of issued shares (%)
JXTG Holdings, Inc.	1-2 Otemachi 1-chome, Chiyoda-ku, Tokyo	67,890	56.86
Japan Trustee Services Bank, Ltd. (Trust account)	8-11 Harumi 1-chome, Chuo-ku, Tokyo	6,368	5.33
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited)	50 BANK STREET, CANARY WHARF, LONDON E14 5NT, UK (11-1 Nihonbashi 3-chome, Chuo-ku, Tokyo)	4,502	3.78
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited)	50 BANK STREET, CANARY WHARF, LONDON E14 5NT, UK (11-1 Nihonbashi 3-chome, Chuo-ku, Tokyo)	2,726	2.28
The Master Trust Bank of Japan, Ltd. (Trust account)	11-3 Hamamatsucho 2-chome, Minato-ku, Tokyo	2,461	2.06
NORTHERN TRUST CO. (AVFC) ACCOUNT NON TREATY (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited)	50 BANK STREET, CANARY WHARF, LONDON E14 5NT, UK (11-1 Nihonbashi 3-chome, Chuo-ku, Tokyo)	1,602	1.34
STATE STREET BANK AND TRUST COMPANY 505001 (Standing proxy: Mizuho Bank, Ltd.)	P.O. BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A. (15-1 Konan 2-chome, Minato-ku, Tokyo)	1,510	1.26
Japan Trustee Services Bank, Ltd. (Trust account 9)	8-11 Harumi 1-chome, Chuo-ku, Tokyo	1,154	0.97
Japan Trustee Services Bank, Ltd. (Trust account 5)	8-11 Harumi 1-chome, Chuo-ku, Tokyo	957	0.80
THE BANK OF NEW YORK, TREATY JASDEC ACCOUNT (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	AVENUE DES ARTS, 35 KUNSTLAAN, 1040 BRUSSELS BELGIUM (7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo)	945	0.79
Total	—	90,115	75.47

Notes: 1. Of the shares held by the major shareholders shown above as of the end of the current fiscal year, the Company cannot accurately determine the number of shares related to trust services.

2. It is stated in the Report of Possession of Large Volume, which was made available for public inspection as of April 5, 2016, that Daiwa SB Investments Ltd. held the following shares as of March 31, 2016. However, Daiwa SB Investments is not included in Major Shareholders, mentioned above, since the Company could not confirm the actual number of shares held by the company at the end of the current business year.

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

Name	Address	Number of securities certificates, etc. held (1,000 shares)	Holding ratio of securities certificates, etc. (%)
Daiwa SB Investments Ltd.	2-1 Kasumigaseki 3-chome, Chiyoda-ku, Tokyo	6,239	5.23

3. It is stated in the Report of Possession of Large Volume, which was made available for public inspection as of March 8, 2017, that Silchester International Investors LLP held the following shares as of March 6, 2017. However, it is not included in the major shareholders listed above, since the Company could not confirm the actual number of shares it held as of the end of the current business year.

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

Name	Address	Number of securities certificates, etc. held (1,000 shares)	Holding ratio of securities certificates, etc. (%)
Silchester International Investors LLP	Time & Life Building 5F, 1 Bruton Street, London, W1J 6TL, UK	9,735	8.15

Business Overview

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

1. Financial results

Concerning Japan’s economy during the consolidated fiscal year under review, although a moderate recovery trend continued as a result of the economic measures by the Japanese government, uncertainty about the future remained as downturn of overseas economies was putting downward pressure on the domestic economy.

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

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

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

Net sales were ¥393,614 million, down 3.4% from the previous consolidated fiscal year. Operating income was ¥44,121 million, up 8.2% year over year, and ordinary income was ¥45,799 million, up 8.8% from the previous fiscal year. Profit attributable to owners of parent was ¥28,518 million, up 8.7% year over year.

Results by business segment were as follows:

(1) Construction business

The construction business is a major segment of the Group, and orders received for construction for the current fiscal year decreased by 2.8% from the previous fiscal year to ¥317,498 million; net sales decreased by 2.1% to ¥300,703 million; and operating income increased by 1.9% to ¥30,119 million.

(Pavement and Civil Engineering)

Orders received for construction were below the year-earlier level, recording a decrease of 5.8% from the previous fiscal year to ¥241,217 million. Although net sales increased by 3.4% to ¥235,883 million, as the progress of construction works for which the Company has already received orders surpassed the previous fiscal year, operating income decreased by 4.6% to ¥24,282 million due to the profitability that was below the year-earlier level.

(Building Construction)

Orders received for construction surpassed the year-earlier level, up 8.3 % from the previous fiscal year to ¥76,281 million. Although net sales decreased by 17.9% to ¥64,819 million, as the progress of construction works for which the Company has already received orders was below the year-earlier level, operating income was ¥5,837 million, up 41.8% from the previous fiscal year, thanks to improved profitability resulting from cost reductions and improvement of business efficiency.

(2) Manufacturing and sales business

Net sales decreased by 8.1% from the previous fiscal year to ¥60,151 million and operating income decreased by 8.6% to ¥15,964 million, reflecting a moderate decline in construction investments.

(3) Development business

Net sales decreased by 4.3% from the previous fiscal year to ¥21,214 million, and operating income was ¥3,169 million (compared with an operating loss of ¥304 million for the previous consolidated fiscal year), since sales of the condominium sales business were largely on par with the year-earlier level, and efforts to improve profitability resulted favorably.

(4) Other businesses

Net sales decreased by 8.9% from the previous fiscal year to ¥11,546 million, and operating income increased by 22.0% to ¥1,633 million.

2. Cash flows

Cash and cash equivalents (hereinafter "cash") as at the end of the current fiscal year increased by ¥10,498 million from the end of the previous fiscal year to ¥124,668 million.

(Net cash provided by operating activities)

Net cash provided by operating activities amounted to ¥30,639 million. (A net inflow of ¥31,726 million was recorded in the previous fiscal year.) This was primarily due to income before income taxes recorded.

(Net cash used in investing activities)

Net cash used in investing activities amounted to ¥15,937 million. (A net outflow of ¥11,122 million was recorded in the previous fiscal year.) This was primarily due to purchases of machinery for the manufacturing and sales business, etc.

(Net cash used in financing activities)

Net cash used in financing activities amounted to ¥5,676 million. (A net outflow of ¥4,191 million was recorded in the previous fiscal year.) This was primarily due to cash dividends paid.

CONSOLIDATED BALANCE SHEET

NIPPO CORPORATION
As of March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2017	2016	2017
Current assets:			
Cash and bank deposits (Notes 3 & 21)	¥ 61,810	¥ 69,855	$ 550,940
Notes receivable, accounts receivable on completed construction contracts and other (Note 21)	133,661	133,618	1,191,380
Electronically recorded receivables (Note 21)	5,914	3,608	52,714
Lease receivables and investments in leased assets (Note 20)	3,012	3,372	26,847
Inventories (Note 5)	43,556	43,310	388,234
Short-term loans receivable (Notes 3 & 21)	63,351	44,600	564,675
Deferred tax assets (Note 17)	3,666	4,299	32,676
Other	16,259	16,172	144,923
Allowance for doubtful accounts (Note 21)	(478)	(496)	(4,260)
Total current assets	330,754	318,342	2,948,159
Property, plant and equipment: (Notes 7 & 16)			
Land (Notes 5 & 6)	62,973	61,360	561,306
Buildings and structures (Notes 5 & 6)	66,797	63,330	595,391
Machinery, equipment and vehicles	94,322	93,650	840,734
Tools, furniture and fixtures	5,614	5,396	50,040
Leased assets (Note 20)	984	973	8,770
Construction in progress	10,310	4,688	91,897
Total	241,003	229,399	2,148,168
Accumulated depreciation	(125,741)	(124,890)	(1,120,786)
Net property, plant and equipment	115,262	104,509	1,027,382
Intangible assets	2,015	2,022	17,960
Investments and other assets:			
Investment securities (Notes 4, 7 & 21)	43,486	43,463	387,610
Long-term loans receivable (Note 7)	610	378	5,437
Deferred tax assets (Note 17)	1,686	1,573	15,028
Other	3,231	3,078	28,799
Allowance for doubtful accounts	(865)	(876)	(7,710)
Total investments and other assets	48,149	47,617	429,173
Total assets	¥ 496,182	¥ 472,492	$ 4,422,693

LIABILITIES AND NET ASSETS	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
Current liabilities:			
Short-term bank loans payable (Note 7)	¥ 1,450	¥ 1,317	$ 12,924
Notes payable, accounts payable on construction contracts and other (Note 21)	89,696	93,583	799,500
Electronically recorded payables (Note 21)	31,732	34,533	282,841
Income taxes payable	9,627	9,594	85,809
Advances received on uncompleted construction contracts	16,572	13,503	147,713
Reserve for bonuses	3,818	3,616	34,031
Reserve for warranty on completed construction contracts	393	447	3,502
Reserve for loss on construction contracts (Note 5)	261	370	2,326
Reserve for loss on anti-monopoly act	1,970	1,054	17,559
Other	18,830	18,701	167,840
Total current liabilities	174,354	176,723	1,554,095
Non-current liabilities:			
Long-term debt (Notes 7 & 21)	1,681	2,892	14,983
Deferred tax liabilities (Note 17)	6,848	6,406	61,039
Reserve for directors' retirement benefits	86	97	766
Liability for employees' retirement benefits (Note 8)	9,471	9,948	84,419
Asset retirement obligations (Note 9)	1,391	1,086	12,398
Other	7,404	7,698	65,995
Total non-current liabilities	26,882	28,130	239,611
Commitments and contingent liabilities (Notes 12 & 20)			
Net assets (Notes 10 & 19):			
Shareholders' equity:			
Common stock (Note 11):			
Authorized-240,000,000 shares in 2017 and 2016			
Issued-119,401,836 shares in 2017 and 2016	15,324	15,324	136,589
Capital surplus	15,967	15,916	142,321
Retained earnings	239,928	214,782	2,138,586
Treasury stock (Note 11):			
306,789 shares in 2017 and 300,202 shares in 2016	(234)	(221)	(2,085)
Total shareholders' equity	270,986	245,802	2,415,420
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 4)	18,328	18,025	163,365
Deferred gains (losses) on hedging instruments	(0)	(2)	(0)
Accumulated adjustments for retirement benefits	(815)	(1,565)	(7,264)
Total accumulated other comprehensive income	17,512	16,457	156,092
Non-controlling interests	6,446	5,378	57,456
Total net assets	294,944	267,638	2,628,968
Total liabilities and net assets	¥ 496,182	¥ 472,492	$ 4,422,693

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF INCOME

NIPPO CORPORATION
Year ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Net sales (Note 23)	¥ 393,614	¥ 407,433	$ 3,508,458
Cost of sales (Note 13)	325,355	343,330	2,900,035
Gross profit	68,259	64,103	608,423
Selling, general and administrative expenses (Note 14)	24,137	23,318	215,143
Operating income	44,121	40,785	393,270
Other income (expenses):			
Interest and dividend income	1,140	1,112	10,161
Interest expenses	(43)	(15)	(383)
Loss on sales of notes receivable	(0)	(1)	(0)
Guarantee expenses	(69)	(82)	(615)
Rental profit (loss), net	66	48	588
Gain (loss) on valuation of derivatives	291	(529)	2,593
Gain (loss) on disposal or sales of property, plant and equipment (Note 15)	(164)	45	(1,461)
Equity in earnings of unconsolidated subsidiaries and affiliates	371	473	3,306
Foreign exchange gain (loss)	(394)	(56)	(3,511)
Gain on sales of investment securities	348	12	3,101
Loss on devaluation of investment securities	(92)	(78)	(820)
Loss on impairment (Note 16)	(38)	(201)	(338)
Settlement of development business	-	(1,519)	-
Provision for loss on anti-monopoly act	(1,225)	(1,054)	(10,918)
Loss on dissolution of welfare pension fund	(815)	-	(7,264)
Other-net	314	391	2,798
Other income (expenses)-net	(312)	(1,457)	(2,780)
Income before income taxes	43,809	39,327	390,489
Income taxes (Note 17):			
Current	13,738	13,296	122,452
Deferred	447	(1,009)	3,984
Total income taxes	14,186	12,287	126,446
Net income	29,623	27,040	264,043
Net income attributable to non-controlling interests	1,104	815	9,840
Net income attributable to shareholders of NIPPO CORPORATION	¥ 28,518	¥ 26,224	$ 254,193

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

NIPPO CORPORATION
Year ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Net income	¥ 29,623	¥ 27,040	$ 264,043
Other comprehensive income (Note 18):			
Valuation difference on available-for-sale securities	274	(6,552)	2,442
Adjustments for employees' retirement benefits	756	(1,271)	6,738
Share of other comprehensive income of affiliates accounted for using equity method	2	(1)	17
Total other comprehensive income	1,033	(7,825)	9,207
Comprehensive income	¥ 30,656	¥ 19,214	$ 273,250
Total comprehensive income attributable to:			
Shareholders of NIPPO CORPORATION	¥ 29,573	¥ 18,398	$ 263,597
Non-controlling interests	1,083	816	9,653

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

NIPPO CORPORATION
Year ended March 31, 2017

Millions of Yen

	Shareholders' equity									
		Common stock		Capital surplus		Retained earnings		Treasury stock		Total shareholders' equity
Balance as of April 1, 2015	¥	15,324	¥	15,916	¥	191,170	¥	(202)	¥	222,209
Changes during the year:										
Cash dividends paid						(2,977)				(2,977)
Net income attributable to shareholders of NIPPO CORPORATION						26,224				26,224
Purchases of treasury stock								(19)		(19)
Changes in the scope of consolidation						291				291
Other						73				73
Net changes in items other than those in shareholders' equity										–
Balance as of March 31, 2016	¥	15,324	¥	15,916	¥	214,782	¥	(221)	¥	245,802
Changes during the year:										
Cash dividends paid						(4,168)				(4,168)
Net income attributable to shareholders of NIPPO CORPORATION						28,518				28,518
Purchases of treasury stock								(12)		(12)
Changes in the scope of consolidation						795				795
Other				51						51
Net changes in items other than those in shareholders' equity										
Balance as of March 31, 2017	¥	15,324	¥	15,967	¥	239,928	¥	(234)	¥	270,986

Millions of Yen

	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedging instruments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of April 1, 2015	¥ 24,553	¥ (0)	¥ (269)	¥ 24,282	¥ 4,421	¥ 250,913
Changes during the year:						
Cash dividends paid						(2,977)
Net income attributable to shareholders of NIPPO CORPORATION						26,224
Purchases of treasury stock						(19)
Changes in the scope of consolidation						291
Other						73
Net changes in items other than those in shareholders' equity	(6,527)	(1)	(1,295)	(7,825)	956	(6,868)
Balance as of March 31, 2016	¥ 18,025	¥ (2)	¥ (1,565)	¥ 16,457	¥ 5,378	¥ 267,638
Changes during the year:						
Cash dividends paid						(4,168)
Net income attributable to shareholders of NIPPO CORPORATION						28,518
Purchases of treasury stock						(12)
Changes in the scope of consolidation						795
Other						51
Net changes in items other than those in shareholders' equity	302	2	749	1,054	1,067	2,122
Balance as of March 31, 2017	¥ 18,328	¥ (0)	¥ (815)	¥ 17,512	¥ 6,446	¥ 294,944

Thousands of U.S. Dollars (Note 1)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2016	$ 136,589	$ 141,866	$ 1,914,448	$ (1,969)	$ 2,190,943
Changes during the year:					
Cash dividends paid			(37,151)		(37,151)
Net income attributable to shareholders of NIPPO CORPORATION			254,193		254,193
Purchases of treasury stock				(106)	(106)
Changes in the scope of consolidation			7,086		7,086
Other		454			454
Net changes in items other than those in shareholders' equity					
Balance as of March 31, 2017	$ 136,589	$ 142,321	$ 2,138,586	$ (2,085)	$ 2,415,420

Thousands of U.S. Dollars (Note 1)

	Accumulated other comprehensive income								Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities		Deferred gains (losses) on hedging instruments		Accumulated adjustments for retirement benefits		Total accumulated other comprehensive income			
Balance as of April 1, 2016	$	160,664	$	(17)	$	(13,949)	$	146,688	$ 47,936	$ 2,385,578
Changes during the year:										
Cash dividends paid										(37,151)
Net income attributable to shareholders of NIPPO CORPORATION										254,193
Purchases of treasury stock										(106)
Changes in the scope of consolidation										7,086
Other										454
Net changes in items other than those in shareholders' equity		2,691		17		6,676		9,394	9,510	18,914
Balance as of March 31, 2017	$	163,365	$	(0)	$	(7,264)	$	156,092	$ 57,456	$ 2,628,968

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

NIPPO CORPORATION
Year ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
Operating activities:			
Income before income taxes	¥ 43,809	¥ 39,327	$ 390,489
Depreciation and amortization	7,238	6,831	64,515
Loss on impairment	38	201	338
Provision for loss on anti-monopoly act	915	1,054	8,155
Settlement of development business	-	1,519	-
Net (gain) loss on disposal or sales of property, plant and equipment	164	(45)	1,461
Loss on write-down of inventories	132	2,862	1,176
Increase (decrease) in allowance for doubtful accounts	(39)	105	(347)
Increase (decrease) in reserve for bonuses	193	7	1,720
Increase (decrease) in liability for employees' retirement benefits	673	(543)	5,998
Increase (decrease) in reserve for loss on construction contracts	(109)	(3,897)	(971)
Interest and dividend income	(1,140)	(1,113)	(10,161)
Interest expenses	43	15	383
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	(371)	(473)	(3,306)
Foreign exchange (gain) loss	(9)	235	(80)
(Increase) decrease in trade receivables	57	(402)	508
(Increase) decrease in costs on uncompleted construction contracts	(1,365)	7,386	(12,166)
(Increase) decrease in other inventories	1,274	2,276	11,355
Increase (decrease) in trade payables	(8,693)	(4,932)	(77,484)
Increase (decrease) in advances received on uncompleted construction contracts	3,007	(4,908)	26,802
Increase (decrease) in consumption taxes payable	(3,009)	947	(26,820)
Other, net	885	(377)	7,888
Sub total	43,695	46,079	389,473
Interest and dividend income received	1,141	1,112	10,170
Interest expenses paid	(52)	(24)	(463)
Income taxes paid	(14,103)	(13,962)	(125,706)
Settlement paid of development business	(40)	(1,479)	(356)
Net cash provided by operating activities	30,639	31,726	273,099
Investing activities:			
Purchases of property, plant and equipment	(15,785)	(11,790)	(140,698)
Proceeds from sales of property, plant and equipment	1,052	1,821	9,376
Purchases of investment securities	(1,848)	(1,554)	(16,472)
Proceeds from sales of investment securities	718	48	6,399
Proceeds from repayment of investment securities	559	269	4,982
Payments of loans receivable	(1,568)	(1,451)	(13,976)
Collections of loans receivable	1,297	1,387	11,560
Other, net	(362)	145	(3,226)
Net cash used in investing activities	(15,937)	(11,122)	(142,053)
Financing activities:			
Proceeds from short-term bank loans payable	133	70	1,185
Repayments of short-term bank loans payable	(110)	(560)	(980)
Proceeds from long-term debt	7	861	62
Repayments of long-term debt	(1,390)	(1,437)	(12,389)
Cash dividends paid	(4,168)	(2,977)	(37,151)
Cash dividends paid to non-controlling shareholders	(27)	(25)	(240)
Other, net	(121)	(123)	(1,078)
Net cash used in financing activities	(5,676)	(4,191)	(50,592)
Foreign currency translation adjustments on cash and cash equivalents	9	(238)	80
Net increase (decrease) in cash and cash equivalents	9,034	16,173	80,524
Cash and cash equivalents at beginning of the year	114,170	96,855	1,017,648
Increase in cash and cash equivalents due to inclusion in consolidation	1,463	1,140	13,040
Cash and cash equivalents at end of the year (Note 3)	¥ 124,668	¥ 114,170	$ 1,111,222

The accompanying notes are an integral part of these statements

Notes to Consolidated Financial Statements

NIPPO CORPORATION and Consolidated Subsidiaries
Year ended March 31, 2017

1. Basis of Presenting Consolidated Financial Statements

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the financial statements for the year ended March 31, 2016 to conform to the classifications used in the financial statements for the year ended March 31, 2017.

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, 2017, which was ¥112.19 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, 2017, the accounts of 134 (91 in 2016) subsidiaries have been included in the consolidated financial statements.

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

Investments in 3 (3 in 2016) unconsolidated subsidiaries or affiliates are accounted for using the equity method as of March 31, 2017. Investments in the remaining unconsolidated subsidiaries or affiliates are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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

a. Changes in scope of consolidation during the year ended March 31, 2017
Nihon Hozai, Ltd. and 42 other subsidiaries were newly included in the scope of consolidation effective from the year ended March 31, 2017 due to the increased materiality.

Major unconsolidated subsidiary as of March 31, 2017 is as follows:
TEMCOR Dome Japan Co., Ltd.
This company was not consolidated because its effect on the consolidated financial statements was immaterial in terms of total assets, net sales and retained earnings.

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

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

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

Investments in unconsolidated subsidiaries and affiliates were included in "Other" under "Current assets" and "Investment securities" and "Other" under "Investments and other assets" in the total amounts of ¥15,250 million ($135,930 thousand) and ¥13,112 million as of March 31, 2017 and 2016, respectively.

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

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

(3) Derivatives
Derivatives are stated at fair value.

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

(5) Depreciation and Amortization
Property, plant and equipment of the Group, except for leased assets, are depreciated by the straight-line method. 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. Software cost for internal use is amortized over the useful life within five years.

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

(6) Leases
As lessor:
The Group recognizes net sales and cost of sales on finance lease transactions upon receipt of lease charges.

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

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

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

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

(11) Reserve for Loss on Anti-monopoly Act
Reserve for loss on anti-monopoly act is provided for future payments of penalties related to anti-monopoly act and breach of contract considering the probability of any related loss.

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

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

(14) Recognizing Revenues and Costs of Construction Contracts

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

Revenue recognized by the percentage-of-completion method was ¥168,540 million ($1,502,272 thousand) and ¥182,153 million for the years ended March 31, 2017 and 2016, respectively.

(15) Consumption Taxes

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

(16) Cash and Cash Equivalents

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

(17) Accounting Changes

Effective from the year ended March 31, 2017, the some domestic subsidiaries adopted “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (Accounting Standards Board of Japan (“ASBJ”) Practical Issues Task Force No. 32, June 17, 2016) and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

There was immaterial effect of these changes on the accompanying consolidated financial statements.

(18) Additional Information

Effective from the year ended March 31, 2017, the Company adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26 issued on March 28, 2016).

3. Cash and Cash Equivalents

The reconciliation of “Cash and cash equivalents” in the consolidated statement of cash flows at the end of the fiscal year and “Cash and bank deposits” in the consolidated balance sheet as of March 31, 2017 and 2016 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Cash and bank deposits	¥61,810	¥69,855	$550,940
Time deposits maturing over 3 months	(372)	(284)	(3,315)
Short-term loans which will be collected within 3 months	63,230	44,599	563,597
Cash and cash equivalents at the end of year	¥124,668	¥114,170	$1,111,222

4. Investment Securities

There were no held-to-maturity securities as of March 31, 2017 and 2016.
The following table summarizes carrying amounts, acquisition costs and unrealized gain (loss) of available-for sale securities as of March 31, 2017 and 2016:

Available-for-sale securities

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

	Millions of Yen		
	2016		
March 31	Carrying amount	Acquisition cost	Unrealized gain (loss)
Carrying amount exceeds acquisition cost:			
Equity securities	¥32,110	¥5,690	¥26,419
Carrying amount does not exceed acquisition cost:			
Equity securities	¥1	¥1	¥(0)
Total	¥32,111	¥5,692	¥26,418

	Thousands of U.S. Dollars		
	2017		
March 31	Carrying amount	Acquisition cost	Unrealized gain (loss)
Carrying amount exceeds acquisition cost:			
Equity securities	$288,207	$49,362	$238,844
Carrying amount does not exceed acquisition cost:			
Equity securities	$8	$8	$(0)
Total	$288,225	$49,380	$238,835

Proceeds from sales of available-for-sale securities and realized gain (loss) for the years ended March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Sales proceeds	¥ 711	¥ —	$6,337
Realized gain	347	—	3,092
Realized loss	—	—	—

No impairment loss was recognized on securities for the year ended March 31, 2017.

The Company recognized loss on impairment in an amount of ¥78 million on investments in affiliates and ¥0 million on equity securities classified as available-for-sale securities for the year ended March 31, 2016.

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

5. Inventories

Inventories as of March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Costs on uncompleted construction contracts	¥18,503	¥17,014	$164,925
Real estate for sale	22,759	23,867	202,861
Manufactured goods	415	447	3,699
Raw material and supplies	1,878	1,981	16,739
Total	¥43,556	¥43,310	$388,234

Inventories related to construction contracts on which losses are expected are presented on a gross basis without offsetting against reserve for loss on construction contracts.
Inventories related to construction contracts that are covered by reserve for loss on construction contracts were ¥237 million ($2,112 thousand) and ¥207 million as of March 31, 2017 and 2016, respectively.

During the year ended March 31, 2016, land in an amount of ¥5 million was reclassified from real estate for sale to property, plant and equipment and on the other hand, land in an amount of ¥107 million and buildings and structures in an amount of ¥295 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 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, 2017 and 2016 were as follows.

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

	Millions of Yen			
	Carrying amounts			Fair value
Year ended March 31, 2016	April 1, 2015	Changes	March 31, 2016	March 31, 2016
Investment and rental properties	¥17,994	¥226	¥18,221	¥20,321
Real estate including portions to be used for investment and rental properties	3,187	(118)	3,069	3,599

	Thousands of U.S. Dollars			
	Carrying amounts			Fair value
Year ended March 31, 2017	April 1, 2016	Changes	March 31, 2017	March 31, 2017
Investment and rental properties	$162,411	$39,745	$202,157	$221,142
Real estate including portions to be used for investment and rental properties	27,355	(1,577)	25,768	33,960

Notes:

1. Carrying amounts represent the net book values of acquisition costs, less accumulated depreciation and accumulated impairment losses.
2. Changes during the year ended March 31, 2017 consist of an increase primarily due to investment properties under construction in the amount of ¥2,635 million ($23,486 thousand) at Minato-ku, Tokyo.
   Changes during the year ended March 31, 2016 consist of an increase primarily due to purchase of land in the amount of ¥1,905 million at Kawasaki city.
3. The fair value is measured based on the real estate appraisal values by independent real estate appraisers for significant properties and internally measured based on the certain appraisal values and indices considered to be reflecting market prices properly for other properties.

Profit or loss on these properties for the years ended March 31, 2017 and 2016 was as follows:

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

	Millions of Yen		
Year ended March 31, 2016	Rental income	Rental costs	Profit
Investment and rental properties	¥2,054	¥1,032	¥1,021
Real estate including portions to be used for investment and rental properties	400	220	179

	Thousands of U.S. Dollars		
Year ended March 31, 2017	Rental income	Rental costs	Profit
Investment and rental properties	$21,347	$10,651	$10,687
Real estate including portions to be used for investment and rental properties	3,725	3,289	436

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

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

The annual weighted-average interest rate applicable to short-term bank loans was 1.25% for the year ended March 31, 2017.
The annual weighted-average interest rates applicable to long-term debt were 2.38% and 2.75% for the years ended March 31, 2017 and 2016, respectively and the repayment due dates are from 2018 through 2024.
The annual weighted-average interest rate applicable to non-recourse long-term debt for the years ended March 31, 2017 and 2016 was 0.80% and 1.16%, respectively, and the repayment due dates are from 2018 through 2035.
The due dates of long-term lease obligations are from 2018 through 2026.

Annual maturities within 5 years subsequent to March 31, 2017 of long-term debt, non-recourse long-term debt and long-term lease obligations, excluding current portions, were as follows:

	Millions of Yen		
Years ending March 31	Long-term debt	Non-recourse long-term debt	Long-term lease obligations
2019	¥64	¥79	¥418
2020	52	80	286
2021	47	80	172
2022	47	81	78

	Thousands of U.S. Dollars		
Years ending March 31	Long-term debt	Non-recourse long-term debt	Long-term lease obligations
2019	$570	$704	$3,725
2020	463	713	2,549
2021	418	713	1,533
2022	418	721	695

Assets pledged as collateral for long-term debt as of March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Land	¥462	¥78	$4,118
Buildings and structures	36	34	320
Investment securities	52	52	463
Long-term loans receivable	3	3	26
Total	¥554	¥167	$4,938

Note: The above investment securities and long-term loans receivable are pledged as collateral for liabilities including borrowings of companies other than consolidated subsidiaries as of March 31, 2017 and 2016 and a part of investment securities is pledged as collateral for short-term bank loans of affiliates in an amount of ¥596 million ($5,312 thousand) as of March 31, 2017 and for long-term debt of affiliates in an amount of ¥1,193 million as of March 31, 2016. In addition, shares issued by consolidated subsidiaries and investments in partnerships which are eliminated in the consolidation process are pledged as collateral in the amounts of ¥292 million ($2,602 thousand) and ¥390 million ($3,476 thousand), respectively, as of March 31, 2017 and ¥292 million and ¥366 million, respectively, as of March 31, 2016.
Furthermore, PFI business assets in an amount of ¥3,547 million ($31,616 thousand) and ¥7,018 million corresponding to non-recourse loans (short-term bank loans) in the amounts of ¥1,284 million ($11,444 thousand) and ¥1,284 million and non-recourse loans (long-term debt) in the amounts of ¥1,442 million ($12,853 thousand) and ¥2,727 million, financed from financial institutions by consolidated subsidiaries operating PFI business, are pledged as collateral as of March 31, 2017 and 2016, respectively.
The liability secured by the above pledged assets was long-term debt (including current portion) in an amount of ¥291 million ($2,593 thousand) and ¥191 million as of March 31, 2017 and 2016, respectively.

8. Employees' Retirement Benefits

(1) Summary of retirement benefit plans of the Group

The Company and its consolidated subsidiaries have defined benefit corporate pension plans, welfare pension fund plans and lump-sum payment plans (including external funding plans) to cover the employees' retirement benefits. As of March 31, 2017, of the companies under the Group, one company has a funded defined benefit corporate pension plan, one company has a welfare pension fund plan, five companies have lump-sum payment plans (excluding external funding plans) and one company has a defined contribution pension plan. As lump-sum payment plans (external funding plans), 128 subsidiaries participate in the Retirement Mutual Fund Plan for Small and Medium Size Companies or the Construction Industry Retirement Mutual Fund Plan.
Japan Welfare Pension Fund of the Construction Industry in which certain Group companies had maintained the membership was dissolved on September 30, 2016 upon obtaining approval for dissolution from the Minister of Health, Labour and Welfare of Japan and a portion was transferred to defined benefit corporate pension plans of the Group on October 1, 2016. No additional burden is expected to be incurred.
Some consolidated subsidiaries adopt a short-cut method to calculate the liability for retirement benefits and retirement benefit expenses for their lump-sum payment plans.

(2) Defined benefit plans

1) The changes in retirement benefit obligations for the years ended March 31, 2017 and 2016, were as follows (excluding the plans to which a short-cut method is applied):

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Beginning balance of retirement benefit obligations	¥ 32,623	¥ 33,063	$ 290,783
Service cost	1,199	1,096	10,687
Interest cost	93	215	828
Actuarial differences	(985)	1,142	(8,779)
Retirement benefits paid	(2,681)	(2,893)	(23,896)
Impact of changes in pension plans	3,627	-	32,329
Ending balance of retirement benefit obligations	¥ 33,877	¥ 32,623	$ 301,960

2) The changes in plan assets for the years ended March 31, 2017 and 2016, were as follows (excluding the plans to which a short-cut method is applied):

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Beginning balance of plan assets	¥ 22,968	¥ 25,037	$ 204,724
Expected return on plan assets	574	625	5,116
Actuarial differences	(57)	(872)	(508)
Contribution from the employer	667	653	5,945
Retirement benefits paid	(2,250)	(2,476)	(20,055)
Estimated amount of transfer due to dissolution of welfare pension fund	2,811	-	25,055
Ending balance of plan assets	¥ 24,712	¥ 22,968	$ 220,269

3) The changes in liability for retirement benefits of the plans to which a short-cut method is applied for the years ended March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Beginning balance of liability for retirement benefits	¥ 293	¥ 284	$ 2,611
Retirement benefit expenses	77	52	686
Retirement benefits paid	(63)	(42)	(561)
Ending balance of liability for retirement benefits	¥ 307	¥ 293	$ 2,736

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Funded defined benefit obligations	¥ 28,149	¥ 26,819	$ 250,904
Plan assets	24,712	22,968	220,269
	3,436	3,850	30,626
Unfunded defined benefit obligations	6,035	6,097	53,792
Net liability recorded in the consolidated balance sheet	9,471	9,948	84,419
Liability for employees' retirement benefits	9,471	9,948	84,419
Net liability recorded in the consolidated balance sheet	¥ 9,471	¥ 9,948	$ 84,419

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, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Service cost	¥ 1,199	¥ 1,096	$ 10,687
Interest cost	93	215	828
Expected return on plan assets	(574)	(625)	(5,116)
Amortization of actuarial differences	236	(161)	2,103
Amortization of past service cost	4	4	35
Retirement benefit expenses computed by a short-cut method	60	52	534
Retirement benefit expenses on defined benefit plans	¥ 1,020	¥ 580	$ 9,091

6) The components of adjustments for retirement benefits (before adjusting for tax effects) for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Past service costs	¥ 4	¥ 4	$ 35
Actuarial differences	1,163	(2,176)	10,366
Total	¥ 1,167	¥ (2,172)	$10,401

7) The components of accumulated adjustments for retirement benefits (before adjusting for tax effects) as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrecognized past service costs	¥ 23	¥ 27	$ 205
Unrecognized actuarial differences	1,132	2,296	10,090
Total	¥1,155	¥2,323	$10,295

8) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

	2017	2016
Debt securities	41.6%	45.8%
Equity securities	22.4%	24.3%
Cash and deposits	19.6%	6.5%
Alternative investments	5.3%	11.8%
General accounts of life insurance companies	9.4%	10.6%
Other	1.7%	1.0%
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 allocation of plan assets which are expected currently and in the future and the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

9) Actuarial assumptions used for the years ended March 31, 2017 and 2016, were set forth as follows:

	2017	2016
Discount rate	0.2%-0.3%	0.2%-0.7%
Long-term expected rate of return	2.5%	2.5%
Expected rate of salary increase	2.7%-3.3%	2.7%-3.3%

(3) Defined contribution plan

The amount of the required contribution to the defined contribution plan of a consolidated subsidiary was ¥19 million ($169 thousand) and ¥19 million for the years ended March 31, 2017 and 2016, respectively.

(4) Multi-employer plans

The amount of the required contribution to the Welfare Pension Fund Plans of multi-employer plans which are accounted for in the same manner as defined contribution plans was ¥331 million ($2,950 thousand) and ¥727 million for the years ended March 31, 2017 and 2016, respectively.

1) Latest funding status of multi-employer plans

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Plan assets	¥ 5,088	¥ 286,441	$ 45,351
Total of actuarial obligations and minimum policy reserve for pension accounting purpose	14,713	276,045	131,143
Net	¥ (9,625)	¥ 10,395	$ (85,791)

2) The Company's share of contribution to the multi-employer plans was 1.5% and 10.3% for the years ended March 31, 2017 and 2016, respectively.

3) Supplementary explanation
Major factors for "Net" (negative) in the above table 1) as of March 31, 2016 consisted of ¥(1,336) million of the balance of past service liabilities and ¥(8,288) million of deficit carry-forward.
The outstanding balance of unamortized past service liabilities of the plans, which amounts to ¥1,336 million ($11,908 thousand) and ¥11,779 million as of March 31, 2017 and 2016, respectively, will be amortized over the periods until March 2030 on a straight-line basis.
The share of above (2) does not agree with the actual share of the contribution of the Group.

9. Asset Retirement Obligations

The Group's asset retirement obligations represent obligations of restoration stipulated in the real estate rental contracts of land for business use.
Asset retirement obligations are measured by estimating the periods for use to be 6 years through 44 years after the beginning of the contract term and using the discount rates of 0.2% through 2.3%.
The changes in asset retirement obligations during the years ended March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Beginning balance	¥1,086	¥1,061	$ 9,680
Increase due to acquisition of tangible assets	22	29	196
Accretion expenses	4	4	35
Decrease due to settlement of obligations	19	8	169
Increase due to changes in estimates*	296	—	2,638
Ending balance	¥1,391	¥1,086	$ 12,398

*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 was changed in the year ended March 31, 2017 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 stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is a component of capital surplus.
Under the Act, an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon approval by the Board of Directors and/or upon resolution of the shareholders' meeting.
In addition, legal reserve and capital surplus could be used to eliminate or reduce a deficit or could be capitalized by a resolution of the shareholders' meeting.

11. Capital Stock and Dividends Paid

The Company's capital stock consists of only common stock.
The changes in the number of outstanding common stock and treasury stock during the years ended March 31, 2017 and 2016 were as follows:

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

	Number of shares			
Year ended March 31, 2016	April 1, 2015	Increase	Decrease	March 31, 2016
Outstanding shares issued:				
Common stock	119,401,836	—	—	119,401,836
Treasury stock	290,721	9,481	—	300,202

Note: Increase in treasury stock during the years ended March 31, 2017 and 2016 is due to purchase of shares less than one unit.

The Company paid the following dividends during the years ended March 31, 2017 and 2016:

Year ended March 31, 2017

Cash dividends approved at the shareholders' meeting held on June 24, 2016:	Total amount (Millions of Yen) (Thousands of U.S. Dollars)	Per share amount (Yen) (U.S. Dollars)	Dividend record date	Effective date
Common stock	¥4,168 ($37,151)	¥35 ($0.31)	Mar. 31, 2016	Jun. 27, 2016

Year ended March 31, 2016

Cash dividends approved at the shareholders' meeting held on June 23, 2015:	Total amount (Millions of Yen)	Per share amount (Yen)	Dividend record date	Effective date
Common stock	¥2,977	¥25	Mar. 31, 2015	Jun. 24, 2015

12. Contingent Liabilities

The Group guarantees the following liabilities as of March 31, 2017 and 2016:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Housing loans of employees	¥19	¥48	$ 169

13. Cost of Sales

Cost of sales for the years ended March 31, 2017 and 2016 includes the following costs:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Write-down of inventories due to a decline of profitability	¥132	¥2,862	$ 1,176
Provision of reserve for loss on construction contracts	140	132	1,247

14. Selling, General and Administrative Expenses

The major components of selling, general and administrative expenses for the years ended March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Salaries and wages	¥7,736	¥7,256	$68,954
Provision of reserve for bonuses	1,320	1,056	11,765
Retirement benefit expenses	315	209	2,807
Provision for doubtful accounts	(67)	205	(597)
Research and development expenses	729	876	6,497

15. Other Income (Expenses)

Net gain (loss) on disposal or sales of property, plant and equipment for the years ended March 31, 2017 and 2016 consists of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Gain on sales of property, plant and equipment:			
Machinery, equipment and vehicles	¥45	¥49	$ 401
Land	72	397	641
Other	12	87	106
Sub-total	130	534	1,158
Loss on disposal or sales of property, plant and equipment:			
Buildings and structures	(246)	(419)	(2,192)
Machinery, equipment and vehicles	(43)	(51)	(383)
Other	(5)	(18)	(44)
Sub-total	(295)	(489)	(2,629)
Net gain (loss) on disposal or sales of property, plant and equipment	¥(165)	¥45	$ (1,470)

16. Loss on Impairment of Fixed Assets

The Group recognized loss on impairment amounting to ¥38 million ($338 thousand) and ¥201 million for the years ended March 31, 2017 and 2016, respectively.

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

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

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

The Group reduced the carrying amounts of land as idle assets determined to be disposed of and business assets (land, buildings and structures) whose profitability declined to the recoverable amounts and recorded the decreased amounts as loss on impairment under “Other expenses” for the year ended March 31, 2016.

The recoverable amount of the idle assets is determined based on the fixed asset tax assessment value and transactions results of the neighborhood and that of above business assets is determined based on real estate assessment value by an external independent real estate appraiser.

The recoverable amounts are determined based on real estate assessment values by an external independent real estate appraiser.

17. Income Taxes

Major components of the Group's deferred income tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets:			
Reserve for bonuses	¥1,534	¥1,357	$13,673
Reserve for loss on construction contracts	83	115	739
Allowance for doubtful accounts	438	537	3,904
Loss on valuation of real estate for sale and development projects in progress	1,218	1,463	10,856
Liability for employees' retirement benefits	2,967	2,328	26,446
Loss on impairment	6,004	5,984	53,516
Other	3,135	4,091	27,943
Sub-total	15,382	15,880	137,106
Valuation allowance	(8,166)	(8,324)	(72,787)
Total deferred tax assets	¥7,215	¥7,556	$64,310
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	¥(8,150)	¥(8,046)	$(72,644)
Reserve for reduction entry of fixed assets	(513)	(514)	(4,572)
Other	(46)	470	(410)
Total deferred tax liabilities	¥(8,711)	¥(8,089)	$(77,645)
Net deferred tax liabilities:	¥(1,495)	¥(533)	$(13,325)

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Current assets - Deferred tax assets	¥3,666	¥4,299	$32,676
Investments and other assets - Deferred tax assets	1,686	1,573	15,028
Non-current liabilities - Deferred tax liabilities	(6,848)	(6,406)	(61,039)

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

A reconciliation between the statutory tax rate and the effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2016 was as follows:

	2016
Statutory tax rate	33.0 %
Expenses permanently not deductible for income tax purpose	1.1
Non-taxable income	(0.2)
Per capita inhabitant tax	0.7
Enterprise tax equivalent on overseas income	(0.1)
Tax credit on research and development expenses	(0.1)
Investment tax credit on manufacturing facilities	(0.0)
Changes in valuation allowance	(4.5)
Modification of the amounts of deferred tax assets and liabilities due to income tax rate changes	0.2
Other	1.2
Effective tax rate	31.2 %

18. Other Comprehensive Income

The reclassification adjustment and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Valuation difference on available-for-sale securities:			
Amount recognized during the year	¥ 432	¥ (10,315)	$ 3,850
Amount before tax effect	432	(10,315)	3,850
Tax effect	(157)	3,762	(1,399)
Valuation difference on available-for-sale securities	274	(6,552)	2,442
Adjustments for employees' retirement benefits:			
Amount recognized during the year	926	(2,014)	8,253
Reclassification adjustment to net income	240	(157)	2,139
Amount before tax effect	1,167	(2,172)	10,401
Tax effect	(411)	901	(3,663)
Adjustments for employees' retirement benefits	756	(1,271)	6,738
Share of other comprehensive income in affiliates accounted for using the equity method:			
Amount recognized during the year	2	(1)	17
Other comprehensive income	¥ 1,033	¥ (7,825)	$ 9,207

19. Per Share Data

March 31	Yen 2017	Yen 2016	U.S. Dollars 2017
Net assets per common share	¥2,422.42	¥2,201.99	$21.59

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

March 31	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars 2017
Total net assets	¥294,944	¥267,638	$2,628,968
Amount to be deducted from total net assets:			
(Non-controlling interests)	(6,446)	(5,378)	(57,456)
Net assets attributable to common shares	288,498	262,260	2,571,512

March 31	Number of shares 2017	Number of shares 2016
Number of common shares as of fiscal year-end	119,095,047	119,101,634

March 31	Yen 2017	Yen 2016	U.S. Dollars 2017
Net income per common share	¥239.46	¥220.18	$2.13

*Diluted net income per common share was not presented since the potential shares did not exist for the years ended March 31, 2017 and 2016.

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

Years ended March 31	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars 2017
Net income attributable to shareholders of NIPPO CORPORATION	¥28,518	¥26,224	$254,193
Net income attributable to common shareholders of NIPPO CORPORATION	28,518	26,224	254,193

Years ended March 31	Number of shares 2017	Number of shares 2016
Average number of common shares during the year	119,098,471	119,105,222

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 leased assets.

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Receivable portion of lease charges	¥2,363	¥2,634	$21,062
Estimated residual value	216	220	1,925
Interest income portion	285	393	2,540
Investments in leased assets	¥2,865	¥3,249	$25,537

Collection schedules of lease receivables and receivable portion of lease charges on investments in leased assets subsequent to March 31, 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
Year ending March 31	Lease receivables	Investments in leased assets	Lease receivables	Investments in leased assets
2018	¥39	¥925	$347	$8,244
2019	29	693	258	6,177
2020	25	447	222	3,984
2021	22	230	196	2,050
2022	13	64	115	570
2023 and thereafter	6	2	53	17

2. Operating leases

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Due within one year	¥99	¥117	$882
Due over one year	157	204	1,399
Total	¥256	¥322	$2,281

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
	2017	2016	2017
Investments in leased assets:			
Current assets	¥1,061	¥1,450	$9,457
Lease obligations:			
Current liabilities	457	583	4,073
Non-current liabilities	526	866	4,688

21. Financial Instruments

a. Policy for Financial Instruments

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

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

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

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

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

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

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

c. Supplementary Information on Fair Values

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

Note that contract amounts of derivative transactions disclosed in Note 22 “Derivative Transactions” do not show the volume of market risk on derivative transactions.

Fair Value of Financial Instruments

Carrying amounts of the financial instruments included in the consolidated balance sheet and their fair values as of March 31, 2017 and 2016 were as follows:

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

	Millions of Yen		
March 31, 2016	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and bank deposits	¥69,855	¥69,855	¥—
(2) Notes receivable, accounts receivable on completed construction contracts and other	133,618		
Allowance for doubtful accounts*1	(342)		
	133,276	133,276	—
(3) Electronically recorded receivables	3,608		
Allowance for doubtful accounts*1	(9)		
	3,599	3,599	—
(4) Short-term loans receivable	44,600		
Allowance for doubtful accounts*1	(114)		
	44,486	44,486	—
(5) Investment securities	32,111	32,111	—
Total assets	283,329	283,329	—
(1) Notes payable, accounts payable on construction contracts and other	93,583	93,576	(6)
(2) Electronically recorded payables	34,533	34,533	—
(3) Long-term debt*2	2,892	2,872	(19)
Total liabilities	131,009	130,983	(26)
Derivatives*3	(322)	(322)	—

March 31, 2017	Thousands of U.S. Dollars Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and bank deposits	$550,940	$550,940	$—
(2) Notes receivable, accounts receivable on completed construction contracts and other	1,191,380		
Allowance for doubtful accounts*1	(2,682)		
	1,188,688	1,189,196	508
(3) Electronically recorded receivables	52,714		
Allowance for doubtful accounts*1	(115)		
	52,598	52,598	—
(4) Short-term loans receivable	564,675		
Allowance for doubtful accounts*1	(1,274)		
	563,401	563,401	—
(5) Investment securities	288,207	288,207	—
Total assets	2,643,854	2,644,371	508
(1) Notes payable, accounts payable on construction contracts and other	799,500	799,536	26
(2) Electronically recorded payables	282,841	282,841	—
(3) Long-term debt*2	27,016	26,847	(160)
Total liabilities	1,109,368	1,109,234	(133)
Derivatives*3	(267)	(267)	—

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

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

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

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

Assets:

(1) Cash and bank deposits

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

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

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

(3) Electronically recorded receivables

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

(4) Short-term loans receivable

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

(5) Investment securities

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

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

Liabilities:

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

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

(2) Electronically recorded payables

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

(3) Long-term debt

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

Derivative transactions:
Please see Note 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
	2017	2016	2017
Unlisted equity securities	¥11,151	¥11,346	$99,393

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

Note 3: Annual maturities of monetary receivables and securities with maturity subsequent to March 31, 2017 were as follows:

	Millions of Yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and bank deposits	¥61,810	¥—	¥—	¥—
Notes receivable, accounts receivable on completed construction contracts and other	127,409	6,221	30	—
Electronically recorded receivables	5,914	—	—	—
Short-term loans receivable	63,351	—	—	—
Investment securities	—	—	—	—
Total	¥258,486	¥6,221	¥30	¥—

	Thousands of U.S. Dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and bank deposits	$550,940	$—	$—	$—
Notes receivable, accounts receivable on completed construction contracts and other	1,135,653	55,450	267	—
Electronically recorded receivables	52,714	—	—	—
Short-term loans receivable	564,675	—	—	—
Investment securities	—	—	—	—
Total	$2,304,002	$55,450	$267	$—

Note 4: Annual maturities of long-term debt and lease obligations subsequent to March 31, 2017:
Please see Note 7 "Short-term Bank Loans, Long-term Debt 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, 2017		Millions of Yen			
Category	Transaction type	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Over-the-counter transactions	Foreign exchange forward contracts:				
	Bought:				
	USD	¥2,843	¥76	¥(109)	¥(109)
	AUD	1,214	223	78	78
	Total	¥4,058	¥299	¥(30)	¥(30)

March 31, 2016		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	¥6,556	¥2,061	¥(362)	¥(362)
	AUD	712	560	39	39
	Total	¥3,581	¥7,269	¥2,622	¥(322)

March 31, 2017		Thousands of U.S. Dollars			
Category	Transaction type	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Over-the-counter transactions	Foreign exchange forward contracts:				
	Bought:				
	USD	$25,340	$677	$(971)	$(971)
	AUD	10,820	1,987	695	695
	Total	$36,170	$2,665	$(267)	$(267)

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, 2017 and 2016.

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

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

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies".
Intersegment sales or transfers are determined based on market prices.

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

	Millions of Yen								
	2017								
	Reportable Segments					Other (Note 1)	Total	Reconciliation (Notes 2 and 3)	Consolidated (Note 4)
	Construction								
	Pavement and Civil Engineering	Building Construction	Manufacturing and Sales	Development	Total				
Sales:									
Sales to external customers	¥235,883	¥64,819	¥60,151	¥21,214	¥382,068	¥11,546	¥393,614	¥—	¥393,614
Intersegment sales or transfers	119	1,075	29,982	36	31,212	8,859	40,072	(40,072)	—
Total	236,003	65,894	90,133	21,250	413,281	20,406	433,687	(40,072)	393,614
Segment profit	24,282	5,837	15,964	3,169	49,253	1,633	50,886	(6,765)	44,121
Segment assets	155,727	50,127	135,541	61,757	403,153	28,678	431,832	64,350	496,182
Other items:									
Depreciation	1,449	37	3,879	623	5,990	886	6,876	303	7,179
Amortization of goodwill	9	—	16	—	25	—	25	—	25
Investment in affiliates accounted for by the equity method	18	—	—	—	18	5,333	5,352	—	5,352
Increase in tangible and intangible fixed assets	2,603	170	9,549	5,219	17,542	1,753	19,296	34	19,330

	Millions of Yen								
	2016								
	Reportable Segments					Other (Note 1)	Total	Reconciliation (Notes 2 and 3)	Consolidated (Note 4)
	Construction								
	Pavement and Civil Engineering	Building Construction	Manufacturing and Sales	Development	Total				
Sales:									
Sales to external customers	¥228,210	¥78,906	¥65,486	¥22,160	¥394,763	¥12,670	¥407,433	¥—	¥407,433
Intersegment sales or transfers	932	1,931	28,847	62	31,774	7,430	39,204	(39,204)	—
Total	229,142	80,838	94,333	22,222	426,537	20,101	446,638	(39,204)	407,433
Segment profit (loss)	25,456	4,115	17,471	(304)	46,739	1,338	48,078	(7,292)	40,785
Segment assets	138,153	51,842	104,660	51,886	346,542	29,952	376,494	95,998	472,492
Other items:									
Depreciation	1,548	60	3,120	601	5,330	896	6,226	564	6,791
Amortization of goodwill	13	—	16	—	29	—	29	—	29
Investment in affiliates accounted for by the equity method	15	—	—	—	15	5,522	5,538	—	5,538
Increase in tangible and intangible fixed assets	2,084	28	8,779	2,767	13,659	3,015	16,675	205	16,880

	Thousands of U.S. Dollars								
	2017								
	Reportable Segments					Other (Note 1)	Total	Reconciliation (Notes 2 and 3)	Consolidated (Note 4)
	Construction								
	Pavement and Civil Engineering	Building Construction	Manufacturing and Sales	Development	Total				
Sales:									
Sales to external customers	$2,102,531	$577,760	$536,152	$189,089	$3,405,544	$102,914	$3,508,458	$—	$3,508,458
Intersegment sales or transfers	1,060	9,581	267,243	320	278,206	78,964	357,179	(357,179)	—
Total	2,103,601	587,342	803,396	189,410	3,683,759	181,887	3,865,647	(357,179)	3,508,458
Segment profit	216,436	52,027	142,294	28,246	439,014	14,555	453,569	(60,299)	393,270
Segment assets	1,388,064	446,804	1,208,137	550,467	3,593,484	255,619	3,849,113	573,580	4,422,693
Other items:									
Depreciation	12,915	329	34,575	5,553	53,391	7,897	61,288	2,700	63,989
Amortization of goodwill	80	—	142	—	222	—	222	—	222
Investment in affiliates accounted for by the equity method	160	—	—	—	160	47,535	47,704	—	47,704
Increase in tangible and intangible fixed assets	23,201	1,515	85,114	46,519	156,359	15,625	171,993	303	172,296

Notes:

1. "Other" represents a business segment which is not included in any reportable segment and includes leasing, manufacturing and repairs of construction machines, leasing of vehicles, management of hotels and golf courses, construction consulting, PFI business and other.
2. A reconciliation of segment profit (loss) is corporate expenses not allocated to each reportable segment. Corporate expenses mainly consist of headquarter control division expenses which are not attributable to any reportable segment.
3. A reconciliation of segment assets includes elimination of receivables due from the headquarter control division and corporate assets not allocated to each reportable segment.
4. Segment profit (loss) is reconciled with operating income of the accompanying consolidated statement of income.
5. The computation method of segment profit (loss) of the Manufacturing and Sales segment has been changed from the fourth quarter of the year ended March 31, 2017 because said segment is currently being transferred from the Company to a consolidated subsidiary.
6. As noted in Note 2 (17) "Accounting Changes," in accordance with the revisions to the Corporate Tax Act, certain consolidated subsidiaries changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 and accordingly, the depreciation method of the business segments was changed as well. There was no measurable effect of these changes on segment profit for the year ended March 31, 2017.

Related information:

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

Loss on impairment of fixed assets by reportable segment

For the years ended March 31, 2017 and 2016

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

	Millions of Yen							
	2016							
	Reportable Segments							
	Construction							
	Pavement and Civil Engineering	Building Construction	Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
Loss on impairment	¥—	¥—	¥30	¥—	¥30	¥171	¥—	¥201

	Thousands of U.S. Dollars							
	2017							
	Reportable Segments							
	Construction							
	Pavement and Civil Engineering	Building Construction	Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
Loss on impairment	$124	$—	$205	$—	$338	$—	$—	$338

Amortization and balance of goodwill by reportable segment

As of March 31, 2017 and 2016 and for the years then ended

	Millions of Yen							
	2017							
	Reportable Segments							
	Construction							
	Pavement and Civil Engineering	Building Construction	Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
Amortization for the year	¥9	¥—	¥16	¥—	¥25	¥—	¥—	¥25
Unamortized balance	5	—	17	—	22	—	—	22

	Millions of Yen							
	2016							
	Reportable Segments							
	Construction							
	Pavement and Civil Engineering	Building Construction	Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
Amortization for the year	¥13	¥—	¥16	¥—	¥29	¥—	¥—	¥29
Unamortized balance	3	—	33	—	37	—	—	37

	Thousands of U.S. Dollars							
	2017							
	Reportable Segments					Other	Corporate/ Elimination	Total
	Construction		Manufacturing and Sales	Development	Total			
	Pavement and Civil Engineering	Building Construction						
Amortization for the year	$80	$—	$142	$—	$222	$—	$—	$222
Unamortized balance	44	—	151	—	196	—	—	196

24. Related Party Transactions

Transactions between the Company and related parties were as follows:

For the year ended March 31, 2017

	Related parties who are owned by the common parent company		
Name of the parties:	JXTG Nippon Oil & Energy Corporation	JX Nippon Finance Corporation	
Location:	Chiyoda-ku, Tokyo	Chiyoda-ku, Tokyo	
Capital:	¥139,437 million ($1,242,864 thousand)	¥400 million ($3,565 thousand)	
Business:	Manufacturing of oil and petrochemical products	Financing services for JXTG Group companies	
Ownership of voting rights:	–	–	
Business relations:	Construction works, purchase of asphalt and other materials	Loans	Interest income
Nature of business:	Order acknowledgement of works	Loans	Interest income
Transaction amount:	¥7,069 million ($63,009 thousand)	¥55,192 million ($491,951 thousand)	¥30 million ($267 thousand)
Account title:	Accounts receivable on completed construction contracts	Short-term loans	
Balance at fiscal year-end:	¥2,807 million ($25,020 thousand)	¥59,669 million ($531,856 thousand)	

Notes:

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

For the year ended March 31, 2016

	Related parties who are owned by the common parent company		
Name of the parties:	JXTG Nippon Oil & Energy Corporation	JX Nippon Finance Corporation	
Location:	Chiyoda-ku, Tokyo	Chiyoda-ku, Tokyo	
Capital:	¥139,437 million	¥400 million	
Business:	Manufacturing of oil and petrochemical products	Financing services for JXTG Group companies	
Ownership of voting rights:	–	–	
Business relations:	Construction works, purchase of asphalt and other materials	Loans	Interest income
Nature of business:	Order acknowledgement of works	Loans	Interest income
Transaction amount:	¥9,005 million	¥41,674 million	¥59 million
Account title:	Accounts receivable on completed construction contracts	Short-term loans	
Balance at fiscal year-end:	¥3,444 million	¥42,639 million	

Notes:

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

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

25. Subsequent Event

Appropriations of Retained Earnings:
The following appropriation of retained earnings as of March 31, 2017 was approved at the shareholders' meeting held on June 23, 2017:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends:		
Common stock, ¥35 ($0.31) per share	¥4,168	$37,151

Building a better working world

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Independent Auditor's Report

The Board of Directors
NIPPO CORPORATION

We have audited the accompanying consolidated financial statements of NIPPO CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NIPPO CORPORATION and its consolidated subsidiaries as at March 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 23, 2017
Tokyo, Japan