

Annual Report 2019



Consolidated Financial Highlights

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

For the years ended March 31,	2015	2016	2017	2018	2019
Net sales	¥ 396,948	¥ 407,433	¥ 393,614	¥ 404,153	¥ 413,236
Net income	22,437	26,224	28,518	26,610	25,514
Comprehensive income	32,103	19,214	30,656	30,237	26,105
Net assets	250,913	267,638	294,944	321,829	343,620
Total assets	469,454	472,492	496,182	508,638	521,758
Net cash from operating activities	29,585	31,726	30,639	22,015	2,960
Net cash from investing activities	(11,143)	(11,122)	(15,937)	(18,077)	(15,238)
Net cash from financing activities	(4,520)	(4,191)	(5,676)	(5,696)	(5,163)
Cash and cash equivalents at end of year	96,855	114,170	124,668	124,317	107,906
Net assets per share	¥ 2,069.43	¥ 2,201.99	¥ 2,422.42	¥ 2,638.91	¥ 2,811.27
Basic net income per share	188.37	220.18	239.46	223.45	214.25
Diluted net income per share	—	—	—	—	—
Net assets as a percentage of total assets	52.5%	55.5%	58.1%	61.8%	64.2%
Return on equity	9.64%	10.31%	10.36%	8.83%	7.86%
Price earnings ratio (times)	10.54	8.60	8.82	11.04	9.63
Employees (persons)	3,795	4,035	4,658	5,353	6,087
[Average number of temporary workers, etc.]	[2,456]	[2,320]	[2,035]	[1,318]	[673]

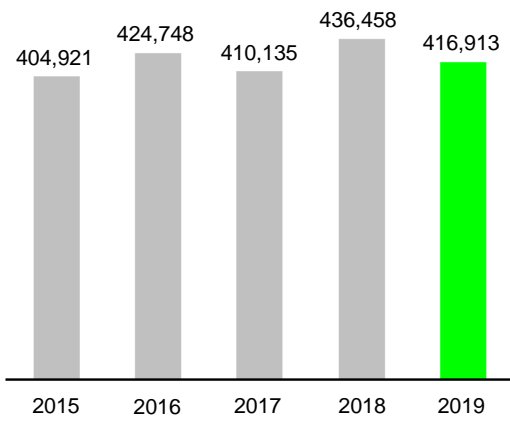
Notes: 1. Net sales are presented exclusive of consumption tax.

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

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

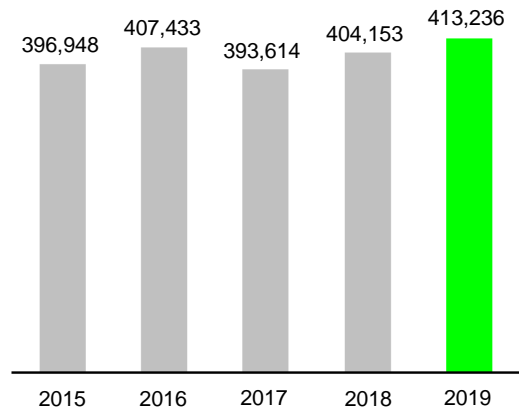
Orders

(Millions of yen)



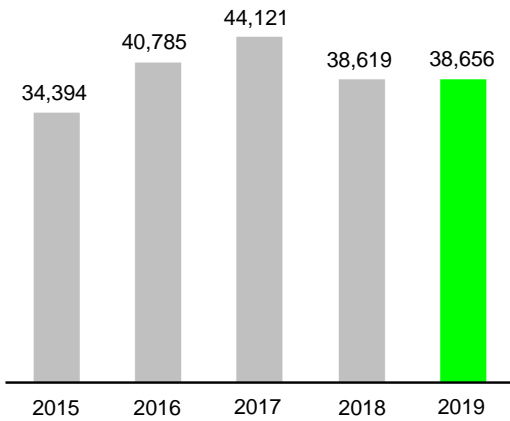
Net Sales

(Millions of yen)



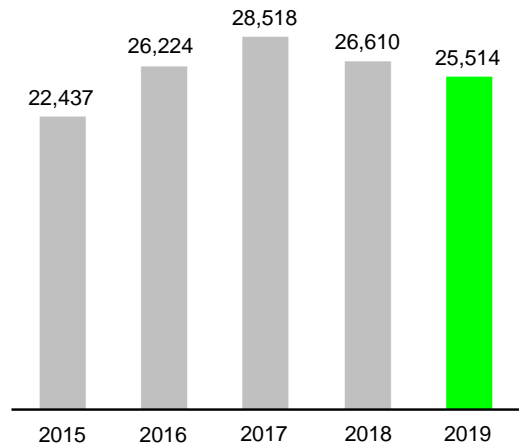
Operating Income

(Millions of yen)



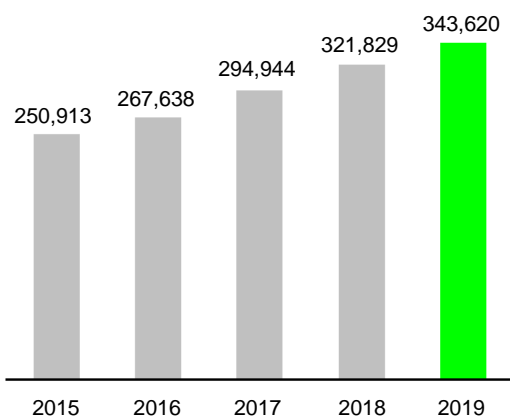
Net Income

(Millions of yen)



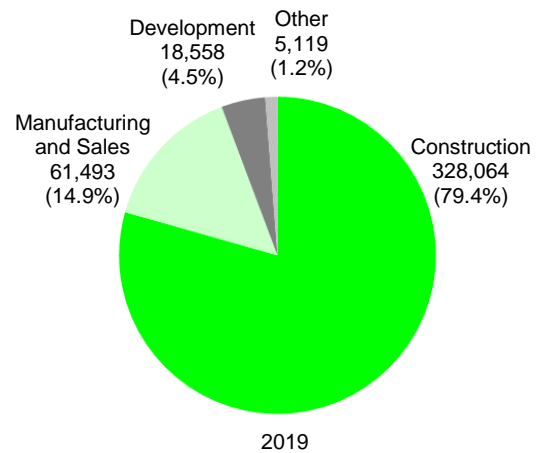
Net Assets

(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 118th term (from April 1, 2018, to March 31, 2019) and report on the business overview of NIPPO CORPORATION (the “Company”), its corporate initiatives and financial results, etc.

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

In the construction industry, amid weakening public investments, a severe management environment continued, reflecting rising labor costs and raw material prices, etc., despite increasing private-sector capital expenditures. In this environment, the Company and its consolidated subsidiaries (hereinafter the “Group”) strove to secure orders utilizing the superior proprietary technologies of each company and reinforce sales of asphalt mixture and other products.

With an ongoing improvement in employment and income conditions, a moderate recovery of Japan’s economy is expected to continue, supported partially by the effect of various economic measures. However, the attention must be paid to the impact that developments of trade issues will have on the global economy, the outlook for the Chinese economy, and the volatility in financial/capital markets, etc.

Although expectations are high for a continuing increase in capital expenditures derived from the corporate revenue improvement as well as the positive effect produced by the national supplementary budget on public investments, the management environment surrounding the construction industry is projected to remain harsh because of fierce competition for orders among corporations.

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

Furthermore, the Company will promote efforts to strengthen a corporate culture and structure that are determined to never violate the Antimonopoly Act and all other laws and regulations, and to make concerted efforts to restore the trust in the Company.

We ask for your continued understanding and support.

June 2019

Yoshikazu Yoshikawa
President, Representative Director
NIPPO CORPORATION



Overview of the Company

The Company and its affiliated companies are primarily engaged in construction, manufacturing/sales of asphalt mixture and other products, development and other businesses. The positioning of the Company, the Company's parent company, the Company's 235 subsidiaries and 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 general civil engineering businesses; HASEGAWA SPORTS FACILITIES Co., Ltd. (a consolidated subsidiary) is mainly engaged in the construction of sports facilities; and NIPPO CONSTRUCTION CO., LTD. (a consolidated subsidiary) is engaged in general civil engineering. Additionally, 93 consolidated subsidiaries, 30 non-consolidated subsidiaries, 7 affiliated companies and 1 affiliate accounted for by equity method are engaged in pavement works and civil engineering.

The Company contracts a portion of its works to the above companies and also receives orders for works from them.

2. Manufacturing and sales business

The Company is engaged in manufacturing and sales of asphalt mixture, asphalt emulsion and other materials related to pavement works, and purchases asphalt, the main material of asphalt mixture, from JXTG Nippon Oil & Energy Corporation.

Fair Road Co., Ltd. and 82 other consolidated subsidiaries, and other 18 non-consolidated subsidiaries and 8 affiliated companies are engaged in manufacturing and sales of asphalt mixture.

The Company supplies and sells asphalt mixture, asphalt emulsion and other products to the above companies and to a portion of the affiliated companies engaged in construction and also purchases asphalt mixture from the above companies.

3. Development business

The Company is engaged in the real-estate business, including housing-land development and sales and renting of condominiums.

Additionally, the Company has 1 non-consolidated subsidiary that is engaged in the real-estate management business.

4. Other businesses

The Company is engaged in leasing of construction machinery and other vehicles, the operation of golf courses and hotels, PFI, and other businesses.

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

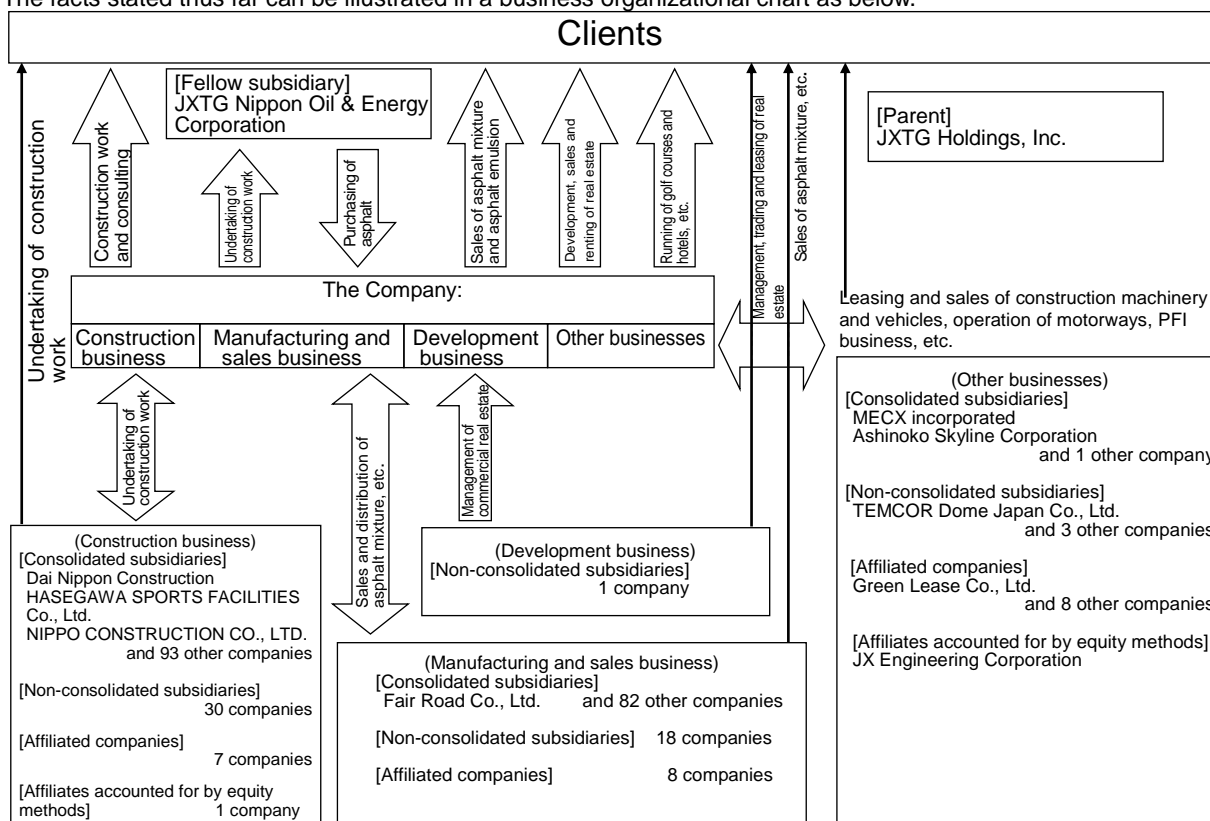
Ashinoko Skyline Corporation (a consolidated subsidiary) operates motorways; and 1 consolidated subsidiary and 1 affiliated company are engaged in the PFI business.

Additionally, JX Engineering Corporation (an affiliate accounted for by equity methods) is engaged in plant engineering business; 1 non-consolidated subsidiary is engaged in the operation of a golf course and a hotel; 1 affiliated company is engaged in the soil-pollution investigation business; and 3 non-consolidated companies and 5 affiliated companies are engaged in other businesses.

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

5. Business organizational chart

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



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

Overview of Affiliated Companies

Company name	Address	Paid in capital (¥ million)	Principal business	Ratio of voting rights holding (held) (%)	Relationship	
					Concurrent positions held by Directors	Business transactions and financial assistance
(Parent) JXTG Holdings, Inc. (Notes) 2, 4	Chiyoda-ku, Tokyo	100,000	Pure holding company	Ratio of voting rights held: 57.0 (0.0)	Yes	Interlocking Directors: 1
(Consolidated subsidiaries) Dai Nippon Construction (Notes) 3, 5	Gifu-shi, Gifu	2,000	(Construction business) Construction and civil engineering work, etc. by contract	Ratio of voting rights holding: 78.5	None	Receiving or placing order of construction work. The subsidiary is renting buildings, etc. owned by the Company.
HASEGAWA SPORTS FACILITIES, Co., Ltd.	Setagaya-ku, Tokyo	100	(Construction business) Construction of sports facilities, etc. by contract	Ratio of voting rights holding: 81.3	None	Receiving or placing order of construction work. The subsidiary is renting buildings, etc. owned by the Company.
NIPPO CONSTRUCTION CO., LTD.	Setagaya-ku, Tokyo	50	(Construction business) Civil engineering work by contract	Ratio of voting rights holding: 100.0	None	Receiving or placing order of construction work. The subsidiary is renting buildings, etc. owned by the Company.
MECX incorporated	Nishi-ku, Saitama-shi	30	(Other businesses) Lease, etc. of construction machinery and vehicles	Ratio of voting rights holding: 100.0	None	The subsidiary is leasing construction machinery and vehicles to, and repairing manufacturing equipment for the Company, etc. The subsidiary is renting buildings, etc. owned by the Company.
Fair Road Co., Ltd. and 177 other companies	-	-	-	-	-	-
(Affiliates accounted for using equity method) JX Engineering Corporation and 1 other company	-	-	-	-	-	-

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

Main profit or loss information, etc.

(1) Net sales	¥77,072 million
(2) Ordinary income	¥5,862 million
(3) Net income	¥3,904 million
(4) Net assets	¥32,236 million
(5) Total assets	¥72,685 million

Major Shareholders

(As of March 31, 2019)

Name	Address	Number of shares held (Thousands of shares)	Percentage of shares held to the total number of issued shares (%)
JXTG Holdings, Inc.	1-2 Otemachi 1-chome, Chiyoda-ku, Tokyo	67,890	57.00
Japan Trustee Services Bank, Ltd. (Trust account)	8-11 Harumi 1-chome, Chuo-ku, Tokyo	6,837	5.74
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	50 BANK STREET, CANARY WHARF, LONDON E14 5NT, UK (11-1 Nihonbashi 3-chome, Chuo-ku, Tokyo)	5,322	4.46
The Master Trust Bank of Japan, Ltd. (Trust account)	11-3 Hamamatsucho 2-chome, Minato-ku, Tokyo	3,384	2.84
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	50 BANK STREET, CANARY WHARF, LONDON E14 5NT, UK (11-1 Nihonbashi 3-chome, Chuo-ku, Tokyo)	2,789	2.34
NORTHERN TRUST CO. (AVFC) ACCOUNT NON TREATY (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	50 BANK STREET, CANARY WHARF, LONDON E14 5NT, UK (11-1 Nihonbashi 3-chome, Chuo-ku, Tokyo)	1,808	1.51
NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	50 BANK STREET, CANARY WHARF, LONDON E14 5NT, UK (11-1 Nihonbashi 3-chome, Chuo-ku, Tokyo)	1,675	1.40
STATE STREET BANK AND TRUST COMPANY 505001 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	P.O. BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A. (15-1 Konan 2-chome, Minato-ku, Tokyo)	1,562	1.31
Japan Trustee Services Bank, Ltd. (Trust account 9)	8-11 Harumi 1-chome, Chuo-ku, Tokyo	1,417	1.19
THE BANK OF NEW YORK, TREATY JASDEC ACCOUNT (Standing proxy: MUFG Bank, Ltd.)	AVENUE DES ARTS, 35 KUNSTLAAN, 1040 BRUSSELS BELGIUM (7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo)	1,398	1.17
Total	—	94,085	79.00

Note: Of the shares held by the major shareholders shown above as of March 31, 2019, the Company cannot accurately determine the number of shares related to trust services.

Business Overview

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

1. Financial results

Concerning Japan’s economy during the consolidated fiscal year under review, a moderate recovery trend continued as a result of the economic measures, amid continued improvement in the employment and income environment.

In the construction industry, amid weakening public investments, a severe management environment continued, reflecting rising labor costs and raw material prices, etc., despite increasing private-sector capital expenditures. In this environment, the Group strove to secure orders utilizing the superior proprietary technologies of each company and reinforce sales of asphalt mixture and other products.

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

Net sales were ¥413,236 million, up 2.2% from the previous consolidated fiscal year. Operating profit was ¥38,656 million, up 0.1% year over year, and ordinary profit was ¥39,022 million, down 3.3% from the previous fiscal year. Profit attributable to owners of parent was ¥25,514 million, down 4.1% year over year.

Results by business segment were as follows:

a. Construction business

The construction business is a major segment of the Group, and orders received for construction for the current fiscal year decreased by 5.2% from the previous fiscal year to ¥331,978 million; net sales increased by 3.8% to ¥328,064 million; while operating profit increased by 5.0% to ¥31,942 million.

(Pavement and Civil Engineering)

Orders received for construction were below the year-earlier level, recording a decrease of 6.8% from the previous fiscal year to ¥192,482 million. Meanwhile, net sales increased by 6.9% to ¥198,076 million, as the progress of construction works for which the Company has already received orders surpassed the year-earlier level, and operating profit increased by 2.9% to ¥21,437 million.

(General Civil Engineering)

Orders received for construction surpassed the year-earlier level, recording an increase of 9.7% from the previous fiscal year to ¥82,779 million. Net sales decreased by 3.3% to ¥64,246 million, as the progress of construction works for which the Company has already received orders was below the year-earlier level, and operating profit was ¥4,822 million, down 4.6% from the previous fiscal year.

(Building Construction)

Orders received for construction were below the year-earlier level, down 17.0 % from the previous fiscal year to ¥56,717 million. However, net sales increased by 2.2% to ¥65,741 million, as the progress of construction

works for which the Company has already received orders surpassed the year-earlier level, and operating profit was ¥5,683 million, up 25.6% from the previous fiscal year.

b. Manufacturing and sales business

Net sales decreased by 0.4% from the previous fiscal year to ¥61,493 million, and operating profit decreased by 8.2% to ¥10,676 million, reflecting the rise in crude oil prices and an increase in depreciation due to the renewal of manufacturing facilities.

c. Development business

Net sales decreased by 3.5% from the previous fiscal year to ¥18,558 million, since sales of the condominium sales business were below the year-earlier level, while operating profit increased by 0.7% to ¥3,197 million.

d. Other businesses

Net sales decreased by 27.3% from the previous fiscal year to ¥5,119 million, and operating profit decreased by 38.5% to ¥615 million.

2. Cash flows

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

(Net cash provided by operating activities)

Net cash provided by operating activities amounted to ¥2,960 million. (A net inflow of ¥22,015 million was recorded in the previous fiscal year.) This was primarily due to a cash increase resulting from profit before income taxes recorded, despite a cash decrease resulting from an increase in notes and accounts receivable - trade.

(Net cash used in investing activities)

Net cash used in investing activities amounted to ¥15,238 million. (A net outflow of ¥18,077 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 ¥5,163 million. (A net outflow of ¥5,696 million was recorded in the previous fiscal year.) This was primarily due to cash dividends paid.

As a result, cash as at the end of the current fiscal year decreased by ¥16,410 million, or 13.2%, from the end of the previous fiscal year to ¥107,906 million.

CONSOLIDATED BALANCE SHEET

NIPPO CORPORATION
As of March 31, 2019

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Current assets:			
Cash and bank deposits (Notes 3 & 21)	¥ 40,982	¥ 53,337	\$ 369,240
Notes receivable, accounts receivable on completed construction contracts and other (Notes 4 & 21)	154,936	137,398	1,395,945
Electronically recorded receivables (Notes 4 & 21)	5,868	6,931	52,869
Lease receivables and investments in leased assets (Note 20)	2,805	2,821	25,272
Securities (Notes 5 & 21)	226	438	2,036
Inventories (Note 6)	50,913	41,319	458,717
Short-term loans receivable (Notes 3 & 21)	68,122	71,464	613,767
Other	19,965	15,614	179,881
Allowance for doubtful accounts (Note 21)	(347)	(482)	(3,126)
Total current assets	343,473	328,843	3,094,630
Property, plant and equipment: (Notes 8 & 17)			
Land (Notes 6 & 7)	67,333	67,838	606,658
Buildings and structures (Notes 6 & 7)	78,967	74,834	711,478
Machinery, equipment and vehicles	101,300	99,027	912,694
Tools, furniture and fixtures	6,352	5,900	57,230
Leased assets (Note 20)	1,158	922	10,433
Construction in progress	1,077	6,575	9,703
Total	256,190	255,099	2,308,225
Accumulated depreciation	(130,997)	(129,560)	(1,180,259)
Net property, plant and equipment	125,193	125,539	1,127,966
Intangible assets	1,668	1,654	15,028
Investments and other assets:			
Investment securities (Notes 5, 8 & 21)	46,359	47,035	417,686
Long-term loans receivable (Note 8)	293	388	2,639
Deferred tax assets (Note 17)	2,415	2,692	21,758
Other	3,225	3,376	29,056
Allowance for doubtful accounts	(870)	(890)	(7,838)
Total investments and other assets	51,422	52,601	463,303
Total assets	¥ 521,758	¥ 508,638	\$ 4,700,946

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Current liabilities:			
Short-term bank loans payable, including current portion of long-term debt (Notes 8 and 21)	¥ 223	¥ 258	\$ 2,009
Notes payable, accounts payable on construction contracts and other (Note 21)	69,496	85,112	626,146
Electronically recorded payables (Note 21)	37,936	28,156	341,796
Income taxes payable	7,842	8,416	70,655
Advances received on uncompleted construction contracts	16,581	13,800	149,391
Reserve for bonuses	4,040	4,119	36,399
Reserve for warranty on completed construction contracts	564	588	5,081
Reserve for loss on construction contracts (Note 6)	280	164	2,522
Reserve for loss on anti-monopoly act	317	489	2,856
Other	18,063	20,953	162,744
Total current liabilities	155,347	162,060	1,399,648
Non-current liabilities:			
Long-term debt (Notes 8 & 21)	1,482	1,605	13,352
Deferred tax liabilities (Note 17)	5,470	6,601	49,283
Reserve for directors' retirement benefits	139	97	1,252
Liability for employees' retirement benefits (Note 9)	6,464	7,601	58,239
Asset retirement obligations (Note 10)	1,327	1,664	11,956
Other	7,904	7,178	71,213
Total non-current liabilities	22,789	24,748	205,324
Commitments and contingent liabilities (Notes 13 & 20)			
Net assets (Notes 11 & 19):			
Shareholders' equity:			
Common stock (Note 12):			
Authorized-240,000,000 shares in 2019 and 2018			
Issued-119,401,836 shares in 2019 and 2018	15,324	15,324	138,066
Capital surplus	16,363	16,315	147,427
Retained earnings	284,050	262,903	2,559,239
Treasury stock (Note 12):			
315,378 shares in 2019 and 314,804 shares in 2018	(254)	(252)	(2,288)
Total shareholders' equity	315,483	294,290	2,842,445
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 5)	20,226	20,876	182,232
Deferred gains (losses) on hedging instruments	30	0	270
Remeasurements of defined benefit plans	(956)	(906)	(8,613)
Total accumulated other comprehensive income	19,300	19,970	173,889
Non-controlling interests	8,836	7,569	79,610
Total net assets	343,620	321,829	3,095,954
Total liabilities and net assets	¥ 521,758	¥ 508,638	\$ 4,700,946

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF INCOME

NIPPO CORPORATION
Year ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Net sales (Note 23)	¥ 413,236	¥ 404,153	\$ 3,723,182
Cost of sales (Note 14)	344,978	338,407	3,108,189
Gross profit	68,257	65,745	614,983
Selling, general and administrative expenses (Note 15)	29,601	27,126	266,699
Operating income	38,656	38,619	348,283
Other income (expenses):			
Interest and dividend income	1,202	1,126	10,829
Interest expenses	(9)	(25)	(81)
Guarantee expenses	(60)	(63)	(540)
Rental profit (loss), net	30	45	270
Gain (loss) on valuation of derivatives	88	0	792
Gain (loss) on disposal or sales of property, plant and equipment (Note 16)	(459)	(16)	(4,135)
Share of profits (losses) of entities accounted for using equity method	(1,457)	453	(13,127)
Foreign exchange gain (loss)	187	(146)	1,684
Gain on sales of investment securities	74	15	666
Loss on devaluation of investment securities	(10)	-	(90)
Reversal of provision for loss on anti-monopoly act	-	818	-
Loss on revision of retirement benefit plan	-	(176)	-
Other-net	386	336	3,477
Other income (expenses)-net	(28)	2,366	(252)
Income before income taxes	38,627	40,986	348,022
Income taxes (Note 17):			
Current	12,581	12,606	113,352
Deferred	(613)	662	(5,523)
Total income taxes	11,968	13,268	107,829
Net income	26,659	27,717	240,192
Net income attributable to non-controlling interests	1,144	1,106	10,307
Net income attributable to shareholders of NIPPO CORPORATION	¥ 25,514	¥ 26,610	\$ 229,876

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

NIPPO CORPORATION
Year ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Net income	¥ 26,659	¥ 27,717	\$ 240,192
Other comprehensive income (Note 18):			
Valuation difference on available-for-sale securities	(533)	2,583	(4,802)
Remeasurements of defined benefit plans, net of tax	(50)	(63)	(450)
Share of other comprehensive income of entities accounted for using equity method	30	0	270
Total other comprehensive income	(553)	2,520	(4,982)
Comprehensive income	¥ 26,105	¥ 30,237	\$ 235,201
Total comprehensive income attributable to:			
Shareholders of NIPPO CORPORATION	¥ 24,844	¥ 29,068	\$ 223,839
Non-controlling interests	1,260	1,169	11,352

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

NIPPO CORPORATION
Year ended March 31, 2019

	Millions of Yen					
	Shareholders' equity					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	
Balance as of April 1, 2017	¥ 15,324	¥ 15,967	¥ 239,928	¥ (234)	¥ 270,986	
Changes during the year:						
Cash dividends paid			(4,168)		(4,168)	
Net income attributable to shareholders of NIPPO CORPORATION			26,610		26,610	
Purchases of treasury stock				(18)	(18)	
Disposal of treasury stock				0	0	
Changes in the scope of consolidation			532		532	
Other		347			347	
Net changes in items other than those in shareholders' equity						
Balance as of March 31, 2018	¥ 15,324	¥ 16,315	¥ 262,903	¥ (252)	¥ 294,290	
Changes during the year:						
Cash dividends paid			(4,763)		(4,763)	
Net income attributable to shareholders of NIPPO CORPORATION			25,514		25,514	
Purchases of treasury stock				(1)	(1)	
Disposal of treasury stock				0	0	
Changes in the scope of consolidation			395		395	
Other		47			47	
Net changes in items other than those in shareholders' equity						
Balance as of March 31, 2019	¥ 15,324	¥ 16,363	¥ 284,050	¥ (254)	¥ 315,483	

Millions of Yen

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedging instruments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2017	¥ 18,328	¥ (0)	¥ (815)	¥ 17,512	¥ 6,446	294,944
Changes during the year:						
Cash dividends paid						(4,168)
Net income attributable to shareholders of NIPPO CORPORATION						26,610
Purchases of treasury stock						(18)
Disposal of treasury stock						0
Changes in the scope of consolidation						532
Other						347
Net changes in items other than those in shareholders' equity	2,548	0	(91)	2,457	1,122	3,580
Balance as of March 31, 2018	¥ 20,876	¥ 0	¥ (906)	¥ 19,970	¥ 7,569	321,829
Changes during the year:						
Cash dividends paid						(4,763)
Net income attributable to shareholders of NIPPO CORPORATION						25,514
Purchases of treasury stock						(1)
Disposal of treasury stock						0
Changes in the scope of consolidation						395
Other						47
Net changes in items other than those in shareholders' equity	(650)	30	(50)	(670)	1,267	597
Balance as of March 31, 2019	¥ 20,226	¥ 30	¥ (956)	¥ 19,300	¥ 8,836	343,620

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, 2018	\$ 138,066	\$ 146,995	\$ 2,368,708	\$ (2,270)	\$ 2,651,500
Changes during the year:					
Cash dividends paid			(42,913)		(42,913)
Net income attributable to shareholders of NIPPO CORPORATION			229,876		229,876
Purchases of treasury stock				(9)	(9)
Disposal of treasury stock				0	0
Changes in the scope of consolidation			3,558		3,558
Other		423			423
Net changes in items other than those in shareholders' equity					
Balance as of March 31, 2019	\$ 138,066	\$ 147,427	\$ 2,559,239	\$ (2,288)	\$ 2,842,445

Thousands of U.S. Dollars (Note 1)

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedging instruments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2018	\$ 188,089	\$ 0	\$ (8,162)	\$ 179,926	\$ 68,195	\$ 2,899,621
Changes during the year:						
Cash dividends paid						(42,913)
Net income attributable to shareholders of NIPPO CORPORATION						229,876
Purchases of treasury stock						(9)
Disposal of treasury stock						0
Changes in the scope of consolidation						3,558
Other						423
Net changes in items other than those in shareholders' equity	(5,856)	270	(450)	(6,036)	11,415	5,378
Balance as of March 31, 2019	\$ 182,232	\$ 270	\$ (8,613)	\$ 173,889	\$ 79,610	\$ 3,095,954

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

NIPPO CORPORATION
Year ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
Operating activities:			
Income before income taxes	¥ 38,627	¥ 40,986	\$ 348,022
Depreciation and amortization	8,486	7,783	76,457
Reversal of provision for loss on anti-monopoly act	-	(818)	-
Net (gain) loss on disposal or sales of property, plant and equipment	459	16	4,135
(Gain) loss on valuation of short-term and long-term investment securities	22	-	198
Loss on write-down of inventories	57	83	513
Increase (decrease) in allowance for doubtful accounts	(157)	26	(1,414)
Increase (decrease) in reserve for bonuses	(80)	255	(720)
Increase (decrease) in liability for employees' retirement benefits	(81)	(2,069)	(729)
Increase (decrease) in reserve for loss on construction contracts	115	(96)	1,036
Interest and dividend income	(1,202)	(1,126)	(10,829)
Interest expenses	9	25	81
Share of (profits) losses of entities accounted for using equity method	1,457	(453)	13,127
Foreign exchange (gain) loss	(57)	90	(513)
(Increase) decrease in trade receivables	(15,681)	(3,389)	(141,282)
(Increase) decrease in costs on uncompleted construction contracts	(3,040)	2,847	(27,389)
(Increase) decrease in other inventories	(3,816)	417	(34,381)
Increase (decrease) in trade payables	(8,514)	(12,961)	(76,709)
Increase (decrease) in advances received on uncompleted construction contracts	2,536	(2,802)	22,848
Increase (decrease) in consumption taxes payable	(1,221)	3,148	(11,000)
Other, net	(2,635)	3,339	(23,740)
Sub total	15,281	35,300	137,679
Interest and dividend income received	1,203	1,126	10,838
Interest expenses paid	(10)	(33)	(90)
Income taxes paid	(13,208)	(13,848)	(119,001)
Payments related to anti-monopoly act	(306)	(528)	(2,757)
Net cash provided by operating activities	2,960	22,015	26,669
Investing activities:			
Purchases of securities	(700)	-	(6,306)
Proceeds from sales of securities	450	-	4,054
Purchases of property, plant and equipment	(13,109)	(17,274)	(118,109)
Proceeds from sales of property, plant and equipment	449	464	4,045
Purchases of investment securities	(2,160)	(1,291)	(19,461)
Proceeds from sales of investment securities	402	140	3,621
Payments of loans receivable	(1,369)	(1,371)	(12,334)
Collections of loans receivable	1,434	1,209	12,920
Other, net	(635)	45	(5,721)
Net cash used in investing activities	(15,238)	(18,077)	(137,291)
Financing activities:			
Proceeds from short-term bank loans payable	167	401	1,504
Repayments of short-term bank loans payable	(90)	(395)	(810)
Proceeds from long-term debt	50	10	450
Repayments of long-term debt	(375)	(1,385)	(3,378)
Cash dividends paid	(4,763)	(4,168)	(42,913)
Cash dividends paid to non-controlling shareholders	(28)	(26)	(252)
Other, net	(123)	(132)	(1,108)
Net cash used in financing activities	(5,163)	(5,696)	(46,517)
Foreign currency translation adjustments on cash and cash equivalents	57	(96)	513
Net increase (decrease) in cash and cash equivalents	(17,384)	(1,855)	(156,626)
Cash and cash equivalents at beginning of the year	124,317	124,668	1,120,073
Increase in cash and cash equivalents due to inclusion in consolidation	973	1,503	8,766
Cash and cash equivalents at end of the year (Note 3)	¥ 107,906	¥ 124,317	\$ 972,213

The accompanying notes are an integral part of these statements

Notes to Consolidated Financial Statements

NIPPO CORPORATION and Consolidated Subsidiaries
Year ended March 31, 2019

1. Basis of Presenting Consolidated Financial Statements

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the financial statements for the year ended March 31, 2018 to conform to the classifications used in the financial statements for the year ended March 31, 2019.

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, 2019, which was ¥110.99 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, 2019, the accounts of 182 (167 in 2018) subsidiaries have been included in the consolidated financial statements.

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

Investments in 2 (3 in 2018) unconsolidated subsidiaries or affiliates are accounted for using the equity method as of March 31, 2019. Investments in the remaining unconsolidated subsidiaries or affiliates are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Intercompany transactions and accounts have been eliminated.

In the elimination of investments in consolidated subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling shareholders, are evaluated using the fair value at the time when the Company acquired the control over the respective subsidiary. The consolidated subsidiaries, except for Ashinoko Skyline Corporation whose fiscal closing date is December 31 and 2 other companies, close their fiscal accounts on March 31.

In preparing the accompanying consolidated financial statements, Ashinoko Skyline Corporation is consolidated using the financial statements at December 31 and other consolidated subsidiaries whose fiscal closing dates are different from the consolidated closing date are consolidated using the provisional accounts made as of the consolidated closing date. Any necessary adjustments for consolidation are made in the consolidated financial statements to reflect significant transactions occurring in the period between December 31 and March 31.

a. Changes in the scope of consolidation during the year ended March 31, 2019

SKY ROAD CO., LTD. and 17 other subsidiaries were newly included in the scope of consolidation effective from the year ended March 31, 2019 due to the increased materiality. Three companies were excluded from the scope of consolidation due to liquidation in the year ended March 31, 2019.

Major unconsolidated subsidiary as of March 31, 2019 is as follows:

TEMCOR Dome Japan Co., Ltd.

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

b. Major unconsolidated subsidiary or affiliate accounted for using the equity method

JX Engineering Corporation

One company was excluded from the scope of affiliates accounted for using the equity method due to liquidation in the year ended March 31, 2019.

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 ¥15,438 million (\$139,093 thousand) and ¥15,994 million as of March 31, 2019 and 2018, respectively.

(2) Securities

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

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

(3) Derivatives

Derivatives are stated at fair value.

(4) Inventories

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

Inventories, other than costs on uncompleted construction contracts, are valued at the lower of cost or net realizable value. Cost is determined principally by the specific identification method, except for manufactured goods and materials that are determined principally by the moving average method.

(5) Depreciation and Amortization

Property, plant and equipment of the Group, except for leased assets, are depreciated by the straight-line method.

Major useful lives are as follows:

Buildings and structures: 2-64 years

Machinery, equipment and vehicles: 2-14 years

Intangible assets, except for leased assets, are amortized over the useful life using the straight-line method.

Cost for internally-used software is amortized over the useful life within five years.

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

(6) Leases

As lessor:

The Group recognizes net sales and cost of sales on finance lease transactions upon receipt of lease charges.

(7) Allowance for Doubtful Accounts

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

(8) Reserve for Bonuses

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

(9) Reserve for Warranties on Completed Construction Contracts

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

(10) Reserve for Loss on Construction Contracts

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

(11) Reserve for Loss on Anti-monopoly Act

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

(12) Reserve for Directors' Retirement Benefits

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

(13) Accounting for Employees' Retirement Benefits

In determining retirement benefit obligations, the estimated amount of retirement benefits are attributed to periods on a benefit formula basis.

Past service cost is amortized by the straight-line method over periods which are shorter than the average remaining service years (12 years) of employees at the time of occurrence.

Actuarial gain and loss are amortized by the straight-line method over periods which are shorter than the average remaining service years (principally 12 years) of employees at the time of occurrence from the year following the year of occurrence.

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

(14) Recognizing Revenues and Costs of Construction Contracts

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

Revenue recognized by the percentage-of-completion method was ¥189,932 million (\$1,711,253 thousand) and ¥174,958 million for the years ended March 31, 2019 and 2018, 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) Changes in Presentation

Changes following adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting"

The Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28; February 16, 2018) from the beginning of the year ended March 31, 2019. Accordingly, changes are made to the method of presentation whereby deferred tax assets and deferred tax liabilities are presented under "Investments and other assets" and "Non-current liabilities," respectively.

As a result, deferred tax liabilities in the amount of ¥57 million included in "Other" under "Current liabilities" and deferred tax assets in the amount of ¥1,988 million out of ¥3,032 million under "Current assets" in the consolidated balance sheet at March 31, 2018, are reclassified into "Deferred tax liabilities" of ¥6,601 million under "Non-current liabilities," and "Deferred tax assets" under "Investments and other assets" is presented as ¥2,692 million in the accompanying consolidated balance sheet at March 31, 2018.

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, 2019 and 2018 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Cash and bank deposits	¥40,982	¥53,337	\$369,240
Time deposits maturing over 3 months	(871)	(285)	(7,847)
Short-term loans which will be collected within 3 months	67,795	71,265	610,820
Cash and cash equivalents at the end of year	¥107,906	¥124,317	\$972,213

4. Notes Receivable

The Company settles notes receivable, etc. maturing on the balance sheet date based on the actual exchange date or settlement date of those notes. As March 31, 2019 and 2018 fell on a bank holiday, the following notes, etc., maturing on the balance sheet date are included in each account on the consolidated balance sheet date:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Notes receivable	¥1,157	¥619	\$10,424
Electronically recorded receivables	461	55	4,153

5. Investment Securities

Held-to-maturity securities:

	Millions of Yen		
	2019		
March 31	Carrying amount	Fair value	Unrealized gain (loss)
Fair value exceeds carrying amount:	¥-	¥-	¥-
Fair value does not exceed carrying amount:	¥1,500	¥1,483	¥(16)
Total	¥1,500	¥1,483	¥(16)
Thousands of U.S. Dollars			
2019			
March 31	Carrying amount	Fair value	Unrealized gain (loss)
Fair value exceeds carrying amount:	\$-	\$-	\$-
Fair value does not exceed carrying amount:	\$13,514	\$13,361	\$(144)
Total	\$13,514	\$13,361	\$(144)

There were no held-to-maturity securities as of March 31, 2018.

Available-for-sale securities:

The following table summarizes carrying amounts, acquisition costs and unrealized gain (loss) of available-for sale securities as of March 31, 2019 and 2018:

	Millions of Yen		
	2019		
March 31	Carrying amount	Acquisition cost	Unrealized gain (loss)
Carrying amount exceeds acquisition cost:			
Equity securities	¥35,741	¥5,939	¥29,802
Carrying amount does not exceed acquisition cost:			
Equity securities	¥199	¥245	¥(46)
Debt securities - Other	226	250	(23)
Total	¥36,167	¥6,434	¥29,732

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

	Thousands of U.S. Dollars		
	2019		
March 31	Carrying amount	Acquisition cost	Unrealized gain (loss)
Carrying amount exceeds acquisition cost:			
Equity securities	\$322,020	\$53,509	\$268,510
Carrying amount does not exceed acquisition cost:			
Equity securities	\$1,792	\$2,207	\$(414)
Debt securities - Other	2,036	2,252	(207)
Total	\$325,858	\$57,969	\$267,879

Proceeds from sales of available-for-sale securities and realized gain (loss) for the years ended March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Sales proceeds	¥78	¥22	\$702
Realized gain	74	12	666
Realized loss	—	—	—

Impairment loss of ¥10 million (\$90 thousand) was recognized on securities (equity securities classified as available-for-sale securities) for the year ended March 31, 2019.

No impairment loss was recognized on securities for the year ended March 31, 2018.

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

6. Inventories

Inventories as of March 31, 2019 and 2018 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Costs on uncompleted construction contracts	¥19,192	¥15,751	\$172,916
Real estate for sale	29,247	22,995	263,510
Manufactured goods	449	450	4,045
Raw material and supplies	2,024	2,122	18,235
Total	¥50,913	¥41,319	\$458,717

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 ¥114 million (\$1,027 thousand) and ¥129 million as of March 31, 2019 and 2018, respectively.

During the year ended March 31, 2019, land in an amount of ¥774 million (\$6,973 thousand), buildings and structures in an amount of ¥1,258 million (\$11,334 thousand) and intangible assets in an amount of ¥346 million (\$3,117 thousand) were reclassified from property, plant and equipment and intangible assets to real estate for sale due to changes in holding purpose.

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

7. Investment and Rental Property

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

The carrying amounts, changes in such balances and fair values of such properties for the years ended March 31, 2019 and 2018 were as follows.

Year ended March 31, 2019	Millions of Yen			
	Carrying amounts			Fair value
	April 1, 2018	Changes	March 31, 2019	March 31, 2019
Investment and rental properties	¥24,045	¥(2,814)	¥21,231	¥23,021
Real estate including portions to be used for investment and rental properties	2,821	(67)	2,753	3,874

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

Year ended March 31, 2019	Thousands of U.S. Dollars			
	Carrying amounts			Fair value
	April 1, 2018	Changes	March 31, 2019	March 31, 2019
Investment and rental properties	\$216,641	\$(25,353)	\$191,287	\$207,415
Real estate including portions to be used for investment and rental properties	25,416	(603)	24,804	34,904

Notes:

- Carrying amounts represent the net book values of acquisition costs, less accumulated depreciation and accumulated impairment losses.
- Changes during the year ended March 31, 2019 consist of a decrease primarily due to reclassification to real estate for sale in the amount of ¥2,378 million (\$21,425 thousand).
Changes during the year ended March 31, 2018 consist of an increase primarily due to acquisition of investment properties in the amount of ¥573 million at Asahi-ku, Osaka.
- 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, 2019 and 2018 was as follows:

Year ended March 31, 2019	Millions of Yen		
	Rental income	Rental costs	Profit
Investment and rental properties	¥2,691	¥1,277	¥1,413
Real estate including portions to be used for investment and rental properties	453	222	231

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

Year ended March 31, 2019	Thousands of U.S. Dollars		
	Rental income	Rental costs	Profit
Investment and rental properties	\$24,245	\$11,505	\$12,730
Real estate including portions to be used for investment and rental properties	4,081	2,000	2,081

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

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

The annual weighted-average interest rates applicable to short-term bank loans were 1.42% and 1.12% for the years ended March 31, 2019 and 2018, respectively.

The annual weighted-average interest rates applicable to long-term debt were 1.90% and 2.09% for the years ended March 31, 2019 and 2018, respectively and the repayment due dates are from 2020 through 2024.

The annual weighted-average interest rate applicable to non-recourse long-term debt for the years ended March 31, 2019 and 2018 was 0.80% and the repayment due dates are from 2020 through 2035.

The due dates of long-term lease obligations are from 2020 through 2026.

Annual maturities within 5 years subsequent to March 31, 2019 of long-term debt, non-recourse long-term debt and long-term lease obligations, excluding current portions, were as follows:

Years ending March 31	Millions of Yen		
	Long-term debt	Non-recourse long-term debt	Long-term lease obligations
2021	¥89	¥80	¥292
2022	70	81	206
2023	32	82	117
2024	5	82	53

Years ending March 31	Thousands of U.S. Dollars		
	Long-term debt	Non-recourse long-term debt	Long-term lease obligations
2021	\$801	\$720	\$2,630
2022	630	729	1,856
2023	288	738	1,054
2024	45	738	477

Assets pledged as collateral for long-term debt as of March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Land	¥540	¥540	\$4,865
Buildings and structures	102	107	919
Investment securities	12	12	108
Long-term loans receivable	2	2	18
Total	¥658	¥662	\$5,928

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, 2019 and 2018 and a part of investment securities is pledged as collateral for obligations based on the performance of contracts of special purpose companies which are investees of the consolidated subsidiaries and loan agreements concluded with financial institutions in an amount of ¥11 million (\$99 thousand) as of March 31, 2019. In addition, shares issued by consolidated subsidiaries and investments in partnerships which are eliminated in the consolidation process are pledged as collateral in the amounts of ¥74 million (\$666 thousand) and ¥410 million (\$3,694 thousand), respectively, as of March 31, 2019 and ¥74 million and ¥406 million, respectively, as of March 31, 2018. Furthermore, PFI business assets in the amounts of ¥1,713 million (\$15,433 thousand) and ¥1,783 million corresponding to non-recourse loans (short-term bank loans) in the amounts of ¥80 million (\$720 thousand) and ¥79 million and non-recourse loans (long-term debt) in the amounts of ¥1,283 million (\$11,559 thousand) and ¥1,363 million, financed from financial institutions by consolidated subsidiaries operating PFI business, are pledged as collateral as of March 31, 2019 and 2018, respectively. The liability secured by the above pledged assets was long-term debt (including current portion) in the amounts of ¥235 million (\$2,117 thousand) and ¥333 million as of March 31, 2019 and 2018, respectively.

9. Employees' Retirement Benefits

(1) Summary of retirement benefit plans of the Group

The Company and its consolidated subsidiaries have defined benefit corporate pension plans, welfare pension fund plans and lump-sum payment plans (including external funding plans) to cover the employees' retirement benefits. As of March 31, 2019, of the companies under the Group, one company has a funded defined benefit corporate pension plan, six companies have lump-sum payment plans and two companies have a defined contribution pension plan. As lump-sum payment plans (external funding plans), certain subsidiaries participate in the Retirement Mutual Fund Plan for Small and Medium Size Companies or the Construction Industry Retirement Mutual Fund Plan.

Some consolidated subsidiaries adopt a short-cut method to calculate the liability for retirement benefits and retirement benefit expenses for their lump-sum payment plans.

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.

(2) Defined benefit plans

1) The changes in retirement benefit obligations for the years ended March 31, 2019 and 2018, were as follows (excluding the plans to which a short-cut method is applied):

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Beginning balance of retirement benefit obligations	¥ 33,998	¥ 33,877	\$306,315
Service cost	1,327	1,224	11,956
Interest cost	122	153	1,099
Actuarial differences	384	737	3,459
Retirement benefits paid	(1,868)	(2,046)	(16,830)
Impact of changes in pension plans	(1,510)	52	(13,604)
Ending balance of retirement benefit obligations	¥ 32,453	¥ 33,998	\$ 292,395

2) The changes in plan assets for the years ended March 31, 2019 and 2018, were as follows (excluding the plans to which a short-cut method is applied):

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Beginning balance of plan assets	¥ 26,777	¥ 24,712	\$ 241,255
Expected return on plan assets	650	629	5,856
Actuarial differences	(292)	277	(2,630)
Contribution from the employer	696	2,712	6,270
Retirement benefits paid	(1,494)	(1,553)	(13,460)
Ending balance of plan assets	¥ 26,337	¥ 26,777	\$ 237,291

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, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Beginning balance of liability for retirement benefits	¥ 380	¥ 307	\$ 3,423
Retirement benefit expenses	40	46	360
Retirement benefits paid	(72)	(40)	(648)
Increase due to new consolidation	-	66	-
Ending balance of liability for retirement benefits	¥ 348	¥ 380	\$ 3,135

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
	2019	2018	2019
Funded defined benefit obligations	¥ 32,453	¥ 33,998	\$ 292,395
Plan assets	26,337	26,777	237,291
	6,116	7,220	55,104
Unfunded defined benefit obligations	348	380	3,135
Net liability recorded in the consolidated balance sheet	6,464	7,601	58,239
Liability for employees' retirement benefits	6,464	7,601	58,239
Net liability recorded in the consolidated balance sheet	¥ 6,464	¥ 7,601	\$ 58,239

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, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Service cost	¥ 1,327	¥ 1,224	\$ 11,956
Interest cost	122	153	1,099
Expected return on plan assets	(650)	(629)	(5,856)
Amortization of actuarial differences	598	363	5,387
Amortization of past service cost	4	4	36
Retirement benefit expenses computed by a short-cut method	40	46	360
Retirement benefit expenses on defined benefit plans	¥ 1,443	¥ 1,162	\$ 13,001

6) The components of remeasurements of defined benefit plans (before adjusting for tax effects) for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Past service costs	¥ 4	¥ 4	\$ 36
Actuarial differences	(77)	(96)	(693)
Total	¥ (73)	¥ (92)	\$(657)

7) The components of accumulated remeasurements of defined benefit plans (before adjusting for tax effects) as of March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrecognized past service costs	¥ 15	¥ 19	\$ 135
Unrecognized actuarial differences	1,306	1,229	11,766
Total	¥1,321	¥1,248	\$11,901

8) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

	2019	2018
Debt securities	33.1%	33.0%
Equity securities	36.8%	36.4%
Cash and deposits	7.9%	8.4%
Alternative investments	12.4%	12.5%
General accounts of life insurance	8.5%	8.4%
Other	1.3%	1.3%
Total	100.0%	100.0%

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

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

9) Actuarial assumptions used for the years ended March 31, 2019 and 2018, were set forth as follows:

	2019	2018
Discount rate	0.1%-0.4%	0.2%-0.5%
Long-term expected rate of return	2.0%-2.5%	2.0%-2.5%
Expected rate of salary increase	1.4%-3.8%	1.5%-3.6%

(3) Defined contribution plan

The amount of the required contribution to the defined contribution plan of a consolidated subsidiary was ¥119 million (\$1,072 thousand) and ¥36 million for the years ended March 31, 2019 and 2018, respectively.

10. Asset Retirement Obligations

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

Asset retirement obligations are measured by estimating the periods for use to be 6 years through 50 years after the beginning of the contract term and using the discount rates of (0.1)% through 2.3%.

The changes in asset retirement obligations during the years ended March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Beginning balance	¥1,664	¥1,391	\$14,992
Increase due to acquisition of tangible assets	6	291	54
Accretion expenses	3	4	27
Decrease due to settlement of obligations	(150)	(41)	(1,351)
Increase (decrease) due to changes in estimates*	(197)	19	(1,774)
Ending balance	¥1,327	¥1,664	\$11,956

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

11. Net Assets

Under the Japanese Companies Act (the "Act"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding 50% of the price of the new shares as additional paid-in capital, which is a component of capital surplus. Under the Act, an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon approval by the Board of Directors and/or upon resolution of the shareholders' meeting.

In addition, legal reserve and capital surplus could be used to eliminate or reduce a deficit or could be capitalized by a resolution of the shareholders' meeting.

12. Capital Stock and Dividends Paid

The Company's capital stock consists of only common stock.

The changes in the number of outstanding common stock and treasury stock during the years ended March 31, 2019 and 2018 were as follows:

Year ended March 31, 2019	Number of shares			
	April 1, 2018	Increase	Decrease	March 31, 2019
Outstanding shares issued:				
Common stock	119,401,836	—	—	119,401,836
Treasury stock	314,804	619	45	315,378

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

Note: Increase in treasury stock during the years ended March 31, 2019 and 2018 is due to purchase of shares less than one unit. Decrease in treasury stock during the year ended March 31, 2019 is due to sales of shares less than one unit.

The Company paid the following dividends during the years ended March 31, 2019 and 2018:

Year ended March 31, 2019

Cash dividends approved at the shareholders' meeting held on June 22, 2018:	Total amount (Millions of Yen) (Thousands of U.S. Dollars)	Per share amount (Yen) (U.S. Dollars)	Dividend cut-off date	Effective date
Common stock	¥4,763 (\$42,913)	¥40 (\$0.36)	Mar. 31, 2018	Jun. 25, 2018

Year ended March 31, 2018

Cash dividends approved at the shareholders' meeting held on June 23, 2017:	Total amount (Millions of Yen)	Per share amount (Yen)	Dividend cut-off date	Effective date
Common stock	¥4,168	¥35	Mar. 31, 2017	Jun. 26, 2017

Dividends whose cut-off date is in the year ended March 31, 2019 but whose effective date is in the following fiscal year

Cash dividends approved at the shareholders' meeting held on June 24, 2019:	Total amount (Millions of Yen) (Thousands of U.S. Dollars)	Source of dividends	Per share amount (Yen) (U.S. Dollars)	Dividend cut-off date	Effective date
Common stock	¥4,763 (\$42,913)	Retained earnings	¥40 (\$0.36)	Mar. 31, 2019	Jun. 25, 2019

13. Contingent Liabilities

The Group guarantees the following liabilities as of March 31, 2019 and 2018:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Housing loans of employees	¥8	¥11	\$ 72

14. Cost of Sales

Cost of sales for the years ended March 31, 2019 and 2018 includes the following costs:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Write-down of inventories due to a decline of profitability	¥57	¥83	\$ 513
Provision for loss on construction contracts	269	164	2,423

15. Selling, General and Administrative Expenses

The major components of selling, general and administrative expenses for the years ended March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Salaries and wages	¥9,413	¥8,456	\$84,809
Provision of reserve for bonuses	1,526	1,525	13,748
Retirement benefit expenses	463	334	4,171
Research and development expenses	711	750	6,405
Miscellaneous expenses	3,229	2,729	29,092

16. Other Income (Expenses)

Net gain (loss) on disposal or sales of property, plant and equipment for the years ended March 31, 2019 and 2018 consists of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Gain on sales of property, plant and equipment:			
Land	¥0	¥39	\$ 0
Machinery, equipment and vehicles	46	65	414
Other	4	5	36
Sub-total	51	110	459
Loss on disposal or sales of property, plant and equipment:			
Buildings and structures	(411)	(95)	(3,703)
Machinery, equipment and vehicles	(49)	(25)	(441)
Other	(50)	(5)	(450)
Sub-total	(510)	(126)	(4,595)
Net gain (loss) on disposal or sales of property, plant and equipment	¥(459)	¥(16)	\$ (4,135)

17. Income Taxes

Major components of the Group's deferred income tax assets and liabilities as of March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Deferred tax assets:			
Reserve for bonuses	¥1,806	¥1,635	\$16,271
Reserve for loss on construction contracts	85	50	765
Allowance for doubtful accounts	370	403	3,333
Loss on valuation of real estate for sale and development projects in progress	918	954	8,271
Liability for employees' retirement benefits	2,160	2,524	19,461
Loss on impairment	5,776	5,904	52,040
Other	3,348	3,321	30,164
Sub-total	14,467	14,794	130,345
Valuation allowance	(7,560)	(8,239)	(68,114)
Total deferred tax assets	¥6,907	¥6,554	\$62,230
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	¥(9,070)	¥(9,293)	\$(81,719)
Reserve for reduction entry of fixed assets	(512)	(513)	(4,613)
Other	(379)	(655)	(3,414)
Total deferred tax liabilities	¥(9,962)	¥(10,463)	\$(89,755)
Net deferred tax liabilities:	¥(3,055)	¥(3,908)	\$(27,525)

A reconciliation between the statutory tax rate and the effective tax rate for the years ended March 31, 2019 and 2018 was omitted since the difference between the statutory tax rate and the effective tax rate was less than 5% of the statutory tax rate.

18. Other Comprehensive Income

The reclassification adjustment and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Valuation difference on available-for-sale securities:			
Amount recognized during the year	¥ (993)	¥ 3,658	\$ (8,946)
Amount before tax effect	(993)	3,658	(8,946)
Tax effect	459	(1,074)	4,135
Valuation difference on available-for-sale securities	(533)	2,583	(4,802)
Remeasurements of defined benefit plans:			
Amount recognized during the year	(676)	(460)	(6,090)
Reclassification adjustment to net income	602	367	5,423
Amount before tax effect	(73)	(92)	(657)
Tax effect	22	29	198
Remeasurements of defined benefit plans	(50)	(63)	(450)
Share of other comprehensive income of entities accounted for using equity method:			
Amount recognized during the year	30	0	270
Other comprehensive income	¥ (553)	¥ 2,520	\$ (4,982)

19. Per Share Data

March 31	Yen		U.S. Dollars
	2019	2018	2019
Net assets per common share	¥2,811.27	¥2,638.91	\$25.32

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

March 31	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Total net assets	¥343,620	¥321,829	\$3,095,954
Amount to be deducted from total net assets: (Non-controlling interests)	(8,836)	(7,569)	(79,610)
Net assets attributable to common shares	334,783	314,260	3,016,334

March 31	Number of shares	
	2019	2018
Number of common shares as of fiscal year-end	119,086,458	119,087,032

March 31	Yen		U.S. Dollars
	2019	2018	2019
Net income per common share	¥214.25	¥223.45	\$1.93

*Diluted net income per common share was not presented since the potential shares did not exist for the years ended March 31, 2019 and 2018.

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

Years ended March 31	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Net income attributable to shareholders of NIPPO CORPORATION	¥25,514	¥26,610	\$229,876
Net income attributable to common shareholders of NIPPO CORPORATION	25,514	26,610	229,876

Years ended March 31	Number of shares	
	2019	2018
Average number of common shares during the year	119,086,756	119,090,098

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
	2019	2018	2019
Receivable portion of lease charges	¥2,495	¥2,396	\$22,479
Estimated residual value	103	162	928
Interest income portion	136	191	1,225
Investments in leased assets	¥2,735	¥2,750	\$24,641

Collection schedules of lease receivables and receivable portion of lease charges on investments in leased assets subsequent to March 31, 2019 were as follows:

Year ending March 31	Millions of Yen		Thousands of U.S. Dollars	
	Lease receivables	Investments in leased assets	Lease receivables	Investments in leased assets
2020	¥18	¥982	\$162	\$8,847
2021	18	691	162	6,225
2022	14	453	126	4,081
2023	10	261	90	2,351
2024	4	93	36	837
2025 and thereafter	2	13	18	117

2. Operating leases

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

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Due within one year	¥777	¥112	\$7,000
Due over one year	3,413	160	30,750
Total	¥4,191	¥273	\$37,760

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
	2019	2018	2019
Investments in leased assets:			
Current assets	¥522	¥679	\$4,703
Lease obligations:			
Current liabilities	208	315	1,874
Non-current liabilities	277	314	2,495

21. Financial Instruments

a. Policy for Financial Instruments

The Group invests only in safe financial assets. Its surplus funds are managed using the Group financing system of the parent company or invested in financial assets such as bonds with highly safe principal based on external ratings. In addition, the Group primarily raises its funds using its own capital, while certain consolidated subsidiaries use bank loans to a limited extent as a means of raising funds. Derivatives are used, not for speculative purposes, but to avoid risks arising from future changes in foreign exchange rates.

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

Trade receivables such as notes receivable and accounts receivable 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.

Investment securities mainly consist of held-to-maturity debt securities and equity securities issued by trade customers and are exposed to credit risk of the issuers and the risk of market price fluctuations. With respect to such risks, in accordance with the Fund Investment Rules, the responsible divisions efficiently control the outstanding balances, monitor the market values and financial positions of the issuers (trade customers) and continuously review the holding status considering the relationship with the trade customers.

Short-term loans receivable are invested through the aforementioned Group financing system.

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. In addition, appropriate liquidity on hand is secured by using the Cash Management System (CMS) to effectively utilize funds among the Group companies.

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

c. Supplementary Information on Fair Values

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

Note that contract amounts of derivative transactions disclosed in Note 22 "Derivative Transactions" do not indicate the extent of market risk on derivative transactions.

Fair Value of Financial Instruments

Carrying amounts of the financial instruments included in the consolidated balance sheet and their fair values as of March 31, 2019 and 2018 were as follows:

March 31, 2019	Millions of Yen		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and bank deposits	¥40,982	¥40,982	¥—
(2) Notes receivable, accounts receivable on completed construction contracts and other	154,936		
Allowance for doubtful accounts* ¹	(223)		
	154,712	154,767	54
(3) Electronically recorded receivables	5,868		
Allowance for doubtful accounts* ¹	(8)		
	5,859	5,859	—
(4) Short-term loans receivable	68,122		
Allowance for doubtful accounts* ¹	(98)		
	68,024	68,024	—
(5) Investment securities:			
Held-to-maturity debt securities	1,500	1,483	(16)
Available-for-sale securities	36,167	36,167	—
Total assets	307,246	307,284	38
(1) Notes payable, accounts payable on construction contracts and other	69,496	69,496	—
(2) Electronically recorded payables	37,936	37,936	—
(3) Long-term debt* ²	1,672	1,588	(83)
Total liabilities	109,104	109,021	(83)
Derivatives* ³	57	57	—

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

Thousands of U.S. Dollars

March 31, 2019	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and bank deposits	\$369,240	\$369,240	\$—
(2) Notes receivable, accounts receivable on completed construction contracts and other	1,395,945		
Allowance for doubtful accounts ^{*1}	(2,009)		
	1,393,927	1,394,422	486
(3) Electronically recorded receivables	52,869		
Allowance for doubtful accounts ^{*1}	(72)		
	52,788	52,788	—
(4) Short-term loans receivable	613,767		
Allowance for doubtful accounts ^{*1}	(882)		
	612,884	612,884	—
(5) Investment securities:			
Held-to-maturity debt securities	13,514	13,361	(144)
Available-for-sale securities	325,858	325,858	—
Total assets	2,768,231	2,768,573	342
(1) Notes payable, accounts payable on construction contracts and other	626,146	626,146	—
(2) Electronically recorded payables	341,796	341,796	—
(3) Long-term debt ^{*2}	15,064	14,307	(747)
Total liabilities	983,007	982,259	(747)
Derivatives ^{*3}	513	513	—

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

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

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

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

Assets:

(1) Cash and bank deposits

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

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

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

(3) Electronically recorded receivables

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

(4) Short-term loans receivable

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

(5) Investment securities

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

With respect to notes on securities by holding purposes, please see Note 5 "Investment Securities."

Liabilities:

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

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

(2) Electronically recorded payables

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

(3) Long-term debt

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

Derivative transactions:

Please see Note 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
	2019	2018	2019
Unlisted equity securities	¥8,917	¥10,562	\$80,340

The above items are not included in "(5) Investment securities" since market prices are not available and it is extremely difficult to determine their fair values.

Note 3: Annual maturities of monetary receivables and securities with maturity subsequent to March 31, 2019 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	¥40,982	¥—	¥—	¥—
Notes receivable, accounts receivable on completed construction contracts and other	146,619	8,290	26	—
Electronically recorded receivables	5,868	—	—	—
Short-term loans receivable	68,122	—	—	—
Investment securities:				
Held-to-maturity debt securities	—	—	1,500	—
Available-for-sale securities	226	—	—	—
Total	¥261,592	¥8,290	¥1,526	¥—

	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	\$369,240	\$—	\$—	\$—
Notes receivable, accounts receivable on completed construction contracts and other	1,321,010	74,691	234	—
Electronically recorded receivables	52,869	—	—	—
Short-term loans receivable	613,767	—	—	—
Investment securities:				
Held-to-maturity debt securities	—	—	13,514	—
Available-for-sale securities	2,036	—	—	—
Total	\$2,356,897	\$74,691	\$13,748	\$—

Note 4: Annual maturities of long-term debt and lease obligations subsequent to March 31, 2019:

Please see Note 8 "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, 2019		Millions of Yen			
Category	Transaction type	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
	Foreign exchange forward contracts:				
Over-the-counter transactions	Bought:				
	USD	¥3,527	¥1,512	¥57	¥57
	EUR	625	—	(0)	(0)
	AUD	—	—	—	—
	Total	¥4,153	¥1,512	¥57	¥57
March 31, 2018		Millions of Yen			
Category	Transaction type	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
	Foreign exchange forward contracts:				
Over-the-counter transactions	Bought:				
	USD	¥2,730	¥514	¥(37)	¥(37)
	EUR	—	—	—	—
	AUD	330	—	6	6
	Total	¥3,060	¥514	¥(30)	¥(30)
March 31, 2019		Thousands of U.S. Dollars			
Category	Transaction type	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
	Foreign exchange forward contracts:				
Over-the-counter transactions	Bought:				
	USD	\$31,777	\$13,622	\$513	\$513
	EUR	5,631	—	(0)	(0)
	AUD	—	—	—	—
	Total	\$37,417	\$13,622	\$513	\$513

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, 2019 and 2018.

23. Segment Information

1. Description of reportable segments

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

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

segment

The accounting policies of each reportable segment are consistent to those disclosed in Note 2 "Summary of Significant Accounting Policies."

Intersegment sales or transfers are determined based on market prices.

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

	Millions of Yen									
	2019									
	Reportable Segments						Other (Note 1)	Total	Reconciliation (Notes 2 and 3)	Consolidated (Note 4)
Pavement and Civil Engineering	Construction		Manufacturing and Sales	Development	Total					
	General Civil Engineering	Building Construction								
Sales:										
Sales to external customers	¥198,076	¥64,246	¥65,741	¥61,493	¥18,558	¥408,116	¥5,119	¥413,236	¥—	¥413,236
Intersegment sales or transfers	1,293	2,103	1,023	34,992	36	39,449	7,541	46,991	(46,991)	—
Total	199,370	66,349	66,765	96,486	18,594	447,566	12,661	460,227	(46,991)	413,236
Segment profit	21,437	4,822	5,683	10,676	3,197	45,816	615	46,432	(7,776)	38,656
Segment assets	110,606	59,253	52,002	149,838	60,766	432,468	23,898	456,366	65,391	521,758
Other items:										
Depreciation	1,460	143	67	4,916	665	7,253	989	8,243	239	8,482
Amortization of goodwill	2	—	—	1	—	3	—	3	—	3
Investment in affiliates accounted for by the equity method	—	—	—	—	—	—	3,898	3,898	—	3,898
Increase in tangible and intangible fixed assets	3,181	193	30	5,242	264	8,911	2,104	11,016	1,563	12,579

	Millions of Yen									
	2018									
	Reportable Segments						Other (Note 1)	Total	Reconciliation (Notes 2 and 3)	Consolidated (Note 4)
Pavement and Civil Engineering	Construction		Manufacturing and Sales	Development	Total					
	General Civil Engineering	Building Construction								
Sales:										
Sales to external customers	¥185,377	¥66,417	¥64,348	¥61,731	¥19,238	¥397,112	¥7,040	¥404,153	¥—	¥404,153
Intersegment sales or transfers	1,056	2,584	1,658	33,063	36	38,400	8,863	47,264	(47,264)	—
Total	186,434	69,002	66,007	94,795	19,274	435,513	15,904	451,417	(47,264)	404,153
Segment profit	20,830	5,053	4,524	11,630	3,176	45,214	1,000	46,215	(7,596)	38,619
Segment assets	103,703	56,188	48,810	145,916	58,143	412,762	26,485	439,247	69,391	508,638
Other items:										
Depreciation	1,396	113	50	4,338	653	6,552	930	7,483	216	7,700
Amortization of goodwill	37	—	—	16	—	53	—	53	—	53
Investment in affiliates accounted for by the equity method	22	—	—	—	—	22	5,597	5,619	—	5,619
Increase in tangible and intangible fixed assets	3,045	787	597	9,322	1,283	15,036	1,885	16,922	3,613	20,535

	Thousands of U.S. Dollars									
	2019									
	Reportable Segments						Other (Note 1)	Total	Reconciliation (Notes 2 and 3)	Consolidated (Note 4)
Pavement and Civil Engineering	Construction		Manufacturing and Sales	Development	Total					
	General Civil Engineering	Building Construction								
Sales:										
Sales to external customers	\$1,784,629	\$578,844	\$592,314	\$554,040	\$167,204	\$3,677,051	\$46,121	\$3,723,182	\$—	\$3,723,182
Intersegment sales or transfers	11,649	18,947	9,217	315,271	324	355,428	67,943	423,380	(423,380)	—
Total	1,796,287	597,792	601,540	869,321	167,528	4,032,489	114,073	4,146,562	(423,380)	3,723,182
Segment profit	193,143	43,445	51,202	96,188	28,804	412,793	5,541	418,343	(70,060)	348,283
Segment assets	996,540	533,858	468,528	1,350,013	547,490	3,896,459	215,316	4,111,775	589,161	4,700,946
Other items:										
Depreciation	13,154	1,288	603	44,292	5,991	65,348	8,910	74,267	2,153	76,421
Amortization of goodwill	18	—	—	9	—	27	—	27	—	27
Investment in affiliates accounted for by the equity method	—	—	—	—	—	—	35,120	35,120	—	35,120
Increase in tangible and intangible fixed assets	28,660	1,738	270	47,229	2,378	80,286	18,956	99,252	14,082	113,334

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 represents 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. From the beginning of the year ended March 31, 2019, the calculation method of intersegment transactions has been changed. Segment information for the year ended March 31, 2018 is prepared based on the calculation method after the change.

Related information:

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

Loss on impairment of fixed assets by reportable segment

There was no loss on impairment of fixed assets for the years ended March 31, 2019 and 2018.

Amortization and balance of goodwill by reportable segment

As of March 31, 2019 and 2018 and for the years then ended

	Millions of Yen								
	2019								
	Reportable Segments								
	Pavement and Civil Engineering	Construction		Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
General Civil Engineering		Building Construction							
Amortization for the year	¥2	¥—	¥—	¥1	¥—	¥3	¥—	¥—	¥3
Unamortized balance	—	—	—	—	—	—	—	—	—
	Millions of Yen								
	2018								
	Reportable Segments								
	Pavement and Civil Engineering	Construction		Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
General Civil Engineering		Building Construction							
Amortization for the year	¥37	¥—	¥—	¥16	¥—	¥53	¥—	¥—	¥53
Unamortized balance	2	—	—	1	—	3	—	—	3
	Thousands of U.S. Dollars								
	2019								
	Reportable Segments								
	Pavement and Civil Engineering	Construction		Manufacturing and Sales	Development	Total	Other	Corporate/ Elimination	Total
General Civil Engineering		Building Construction							
Amortization for the year	\$18	\$—	\$—	\$9	\$—	\$27	\$—	\$—	\$27
Unamortized balance	—	—	—	—	—	—	—	—	—

24. Related Party Transactions

Transactions between the Company and related parties were as follows:

For the year ended March 31, 2019

	Related parties who are owned by the common parent company	
	JXTG Nippon Oil & Energy Corporation	JX Nippon Finance Corporation
Name of the parties:	JXTG Nippon Oil & Energy Corporation	JX Nippon Finance Corporation
Location:	Chiyoda-ku, Tokyo	Chiyoda-ku, Tokyo
Capital:	¥30,000 million (\$270,294 thousand)	¥400 million (\$3,603 thousand)
Business:	Manufacturing of oil and petrochemical products	Financing services for JXTG Group companies
Ownership of voting rights:	—	—
Business relations:	Construction works, purchase of asphalt and other materials	Loans Interest income
Nature of business:	Order acknowledgement of works	Loans Interest income
Transaction amount:	¥4,337 million (\$39,075 thousand)	¥64,843 million (\$584,223 thousand) ¥27 million (\$243 thousand)
Account title:	Accounts receivable on completed construction contracts	Short-term loans
Balance at fiscal year-end:	¥2,767 million (\$24,930 thousand)	¥61,730 million (\$556,176 thousand)

Notes:

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

For the year ended March 31, 2018

	Related parties who are owned by the common parent company		
Name of the parties:	JXTG Nippon Oil & Energy Corporation	JX Nippon Finance Corporation	
Location:	Chiyoda-ku, Tokyo	Chiyoda-ku, Tokyo	
Capital:	¥139,437 million	¥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:	¥4,980 million	¥68,919 million	¥32 million
Account title:	Accounts receivable on completed construction contracts	Short-term loans	
Balance at fiscal year-end:	¥2,515 million	¥65,702 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)



Ernst & Young ShinNihon LLC Tel: +81 3 3503 1100
Tokyo Midtown Hibiya www.shinnihon.or.jp
1-1-2 Yuraku-cho, Chiyoda-ku
Tokyo 100-0006, Japan

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, 2019, 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, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

June 24, 2019
Tokyo, Japan