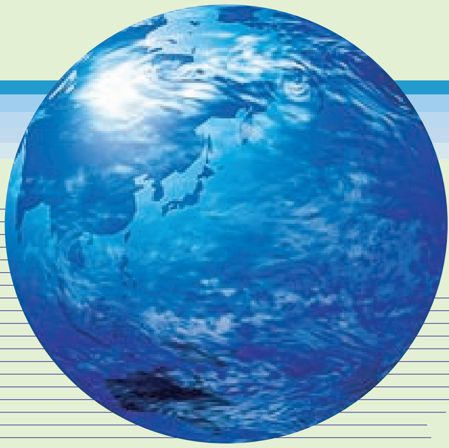

ANNUAL REPORT 2015

SUMITOMO MITSUI CONSTRUCTION CO.,LTD.

CONTENTS

PROFILE

Sumitomo Mitsui Construction Co., Ltd. (SMCC) is a leading Japanese construction company with operations that span the globe. The company was created in 2003 through the merger of two long established and experienced companies, Sumitomo Construction Co., Ltd and Mitsui Construction Co., Ltd.

Since its formation, SMCC has risen to the challenge of providing flexible and adaptable solutions to the varying demands of customers, with a management philosophy that emphasizes pursuing total customer satisfaction, increasing shareholder value, respect for the efforts of its employees, and contributing both to society and the environment.

The company is a leading proponent of many cutting edge technologies which are utilized in the erection of skyscrapers, the seismic reinforcement of buildings, the pre-stressed concrete structures and underground structures.

The key strength of experience combined with a proactive attitude allows SMCC to aggressively develop new technological applications. The company will continue to actively pursue the future, specializing and focusing on these core areas and thereby ensuring that Sumitomo Mitsui Construction Co., Ltd maintains its position as one of the leading Japanese construction companies operating around the world.

THE MESSAGE FROM THE PRESIDENT

For the fiscal year ended March 31, 2015, there had been concerns that a slow down in the Japanese economy would come about from a substantial decline in private spending due to the consumption tax rate increase and from fickle weather conditions and other factors. However, with the stable employment and income situations, corporate earnings have continued to improve, assisted by the government's promotion of growth strategies and the Bank of Japan's proactive monetary easing policy, as well as a decline in crude oil prices and the weakening Japanese yen. The economy has thus remained in a phase of modest recovery.

In the domestic construction market, we have seen a firm growth in construction demand as infrastructure improvement projects to host the 2020 Tokyo Olympics and Paralympics have begun to gain momentum while reconstruction activities after the Great East Japan Earthquake have gotten into full swing. However, the construction industry has suffered from its structural problems, such as the chronic shortages and aging of skilled construction workers, and will be required to make drastic business efforts to implement innovative and efficient initiatives in terms of construction processes and costs, among others.

Under these circumstances,, the results of operations for the fiscal year ended March 31, 2015, the second year of "The 4th Mid-term Management Plan 2013-2015" (as "PLAN" hereinafter) are as follows.

The consolidated net sales of the SMCC Group was 377.8 billion yen (down 4.9 billion yen from the previous fiscal year). With regard to profits, mainly due to an improved gross profit margin, operating income amounted to 12.2 billion yen (up 4.3 billion yen from the previous fiscal year) and net income amounted to 7.0 billion yen (up 2.8 billion yen from the previous fiscal year).

For the fiscal year ended March 31, 2015, the second year of the "PLAN", the SMCC Group exerted group-wide efforts to carry out initiatives under the "PLAN". As a result, its construction business, both domestic and overseas, performed well and the business goals for the final year of the "PLAN" were successfully accomplished a year early.

Financial Progress in the "PLAN"   (Billions of yen)

	2nd year (FY2014)		3rd year (FY2015)
	Plan	Results	Plan
Net sales	355.0	377.8	360.0
Operating income	7.5	12.3	9.5
Ordinary income	5.1	12.0	6.5

In consideration of its current capital structure, the SMCC Group will continue efforts to further increase retained earnings, improve operating results and build up a stronger business foundation to implement a stable dividend policy. Under a new leadership, the SMCC Group will place emphasis on the following measures for the fiscal year ending March 31, 2016 (the final year of the "PLAN").

Accomplishment of the 4th Mid-term Management Plan

Establish a sound and high-profitability business structure based on our human resources and technology

We will seek orders strategically through selection and concentration and further reinforce our overseas business. We will also promote the forming of strengthened relationships with our partner companies and establish a vigorous construction group.

Challenge to Create New Values

To devise technological strategies from medium- and long-term perspectives and actively promote productivity-enhancing technologies (such as manpower-saving and labor-saving technologies and IT), as well as the development of technologies integrating civil engineering and architecture, we established a Technical & Engineering Service Division on April 1, 2015. We will set our sights on the realization of innovations and cross-industry collaboration. In addition, in response to changing business environments, we will explore new business opportunities, including maintenance and renewal, private finance initiative (PFI) and renewable energy.

We firmly believe that the role to be assumed by the construction industry will become increasingly significant in the reconstruction activities after the Great East Japan Earthquake, infrastructure improvement projects to host the 2020 Tokyo Olympics and Paralympics, the National Infrastructure Resilience Plan and regional revitalization, among others.

Together with comprehensive corporate governance, we will continue to maintain a high level of transparency in management and reinforce the profitability of our core businesses, and further enhance our corporate value.

新井英雄

Hideo Arai
Representative Director,
President

Consolidated Financial Statements

Sumitomo Mitsui Construction Co., Ltd.
and Consolidated Subsidiaries

Year ended March 31, 2015
with Independent Auditor's Report

	As of March 31,		
	2015	**2014**	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Assets			
Current assets:			
Cash and deposits *(Notes 5-(c), 9 and 11)*	¥ 53,305	¥ 40,320	$ 443,579
Trade notes receivable, accounts receivable on completed construction contracts and other *(Notes 5-(c) and 11)*	128,591	129,418	1,070,075
Inventories *(Notes 5-(a) and 5-(f))*	30,975	19,302	257,759
Deferred tax assets *(Note 15)*	2,817	3,035	23,441
Other current assets	11,442	12,414	95,215
Allowance for doubtful receivables *(Note 11)*	(98)	(135)	(815)
Total current assets	227,033	204,356	1,889,265
Non-current assets:			
Property and equipment, at cost:			
Land *(Notes 5-(c) and 5-(d))*	16,308	16,766	135,707
Buildings and structures *(Note 5-(c))*	16,056	16,142	133,610
Machinery, equipment and vehicles *(Notes 5-(c) and 10)*	19,032	18,006	158,375
Construction in progress	162	46	1,348
Accumulated depreciation	(26,813)	(26,687)	(223,125)
Property and equipment, net	24,746	24,273	205,924
Intangible fixed assets	1,931	2,011	16,068
Investments and other assets:			
Investments in securities *(Notes 5-(c), 11 and 12)*	11,451	5,818	95,290
Long-term loans receivable *(Note 11)*	6,394	6,434	53,207
Deferred tax assets *(Note 15)*	1,784	1,218	14,845
Investments in real estate *(Notes 5-(b), 5-(c) and 16)*	3,985	4,017	33,161
Investments in unconsolidated subsidiaries and affiliates	1,213	1,378	10,094
Other	9,528	10,895	79,287
Allowance for doubtful receivables *(Note 11)*	(8,618)	(9,687)	(71,715)
Total investments and other assets	25,739	20,074	214,188
Total non-current assets	52,416	46,360	436,182
Total assets	¥279,450	¥250,716	$2,325,455

	As of March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Liabilities and net assets			
Current liabilities:			
Trade notes payable, accounts payable on construction contracts and other (*Note 11)*	¥132,552	¥136,453	$1,103,037
Short-term bank loans and current portion of long-term debt *(Notes 5-(c), 5-(g), 11 and 21)*	10,210	15,032	84,962
Accrued expenses	4,800	3,427	39,943
Advances received on construction contracts in progress	34,802	22,260	289,606
Reserve for defects on completed construction projects	866	823	7,206
Allowance for losses on construction contracts *(Note 5-(f))*	3,027	1,755	25,189
Other current liabilities *(Note 5-(c))*	16,905	13,742	140,675
Total current liabilities	203,167	193,494	1,690,663
Long-term liabilities:			
Long-term debt *(Notes 5-(c), 5-(g), 11 and 21)*	9,787	1,440	81,442
Deferred tax liability on land revaluation *(Note 5-(d))*	304	335	2,529
Liability for retirement benefits *(Notes 4 and 14)*	20,604	20,122	171,457
Other long-term liabilities *(Note 5-(c))*	5,396	5,249	44,903
Total long-term liabilities	36,092	27,147	300,341
Contingent liabilities *(Notes 5-(e) and 18)*			
Net assets:			
Shareholders' equity:			
Capital stock:	12,003	12,003	99,883
Common stock:			
Authorized:			
2,669,464,970 shares in 2015 and 2014			
Issued and outstanding:			
813,366,605 shares in 2015 and 808,262,394 shares in 2014			
Preferred stock:			
Authorized:			
No shares in 2015 and 26,894,644 shares in 2014			
Issued and outstanding:			
No shares in 2015 and 1,507,500 shares in 2014			
Additional paid-in capital	479	479	3,986
Retained earnings	21,039	13,826	175,076
Treasury stock, at cost: 482,953 shares in 2015 and 468,382 shares in 2014	(244)	(242)	(2,030)
Total shareholders' equity	33,278	26,068	276,924
Accumulated other comprehensive income:			
Unrealized holding gain on securities	1,204	294	10,019
Deferred gain on hedging instruments, net of taxes *(Note 13)*	195	29	1,622
Land revaluation *(Note 5-(d))*	52	40	432
Translation adjustments	205	(357)	1,705
Retirement benefits liability adjustment *(Note 14)*	(467)	(787)	(3,886)
Total accumulated other comprehensive income (loss)	1,191	(781)	9,910
Minority interests	5,720	4,787	47,599
Total net assets	40,190	30,074	334,442
Total liabilities and net assets	¥279,450	¥250,716	$2,325,455

The accompanying notes are an integral part of these statements.

	Years ended March 31,		
	2015	**2014**	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Net sales *(Note 6-(a))*	¥377,825	¥382,724	$3,144,087
Cost of sales *(Notes 6-(b) and 6-(d))*	349,874	359,829	2,911,492
Gross profit	27,950	22,894	232,587
Selling, general and administrative expenses *(Notes 6-(c), 6-(d) and 14)*	15,685	14,949	130,523
Operating income	12,265	7,944	102,063
Other income (expenses):			
Interest and dividend income	833	843	6,931
Payments received from insurance claims	163	139	1,356
Reversal of allowance for loss on litigation	–	580	–
Exchange gain, net	652	368	5,425
Interest expense	(866)	(799)	(7,206)
Gain on sales of property and equipment *(Note 6-(e))*	24	96	199
Gain on negative goodwill	40	0	332
Loss on sales and disposal of property and equipment *(Note 6-(f))*	(108)	(44)	(898)
Impairment loss *(Note 6-(g))*	(926)	(181)	(7,705)
Impairment loss on membership	–	(60)	–
Other, net	(1,045)	(946)	(8,696)
	(1,231)	(3)	(10,243)
Income before income taxes and minority interests	11,033	7,941	91,811
Income taxes *(Note 15)*:			
Current	4,024	2,444	33,485
Deferred	(781)	223	(6,499)
	3,243	2,667	26,986
Income before minority interests	7,790	5,273	64,824
Minority interests in net income of consolidated subsidiaries	835	1,072	6,948
Net income	¥ 6,955	¥ 4,201	$ 57,876
	(Yen)		*(U.S. dollars) (Note 3)*
Net income per share – basic *(Note 19)*	¥ 8.59	¥ 5.51	$ 0.071
Net income per share – diluted *(Note 19)*	8.56	5.17	0.071

The accompanying notes are an integral part of these statements.

	Years ended March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Income before minority interests	¥ 7,790	¥5,273	$64,824
Other comprehensive income:			
Unrealized holding gain on securities	911	97	7,580
Deferred gain (loss) on hedging instruments, net of taxes	166	(109)	1,381
Land revaluation	31	0	257
Translation adjustments	719	418	5,983
Retirement benefits liability adjustments	349	–	2,904
Share of other comprehensive income of affiliates accounted for by the equity method	38	(5)	316
Total other comprehensive income *(Note 7)*	2,216	400	18,440
Comprehensive income	¥10,007	¥5,674	$83,273
Comprehensive income attributable to:			
Owners of the parent	¥ 8,923	¥4,514	$74,253
Minority interests	1,083	1,160	9,012

The accompanying notes are an integral part of these statements.

	Year ended March 31, 2015				
	Shareholders' equity				
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
	(Millions of yen)				
Balance at the beginning of the period	¥12,003	¥479	¥13,826	¥(242)	¥26,068
Cumulative effect of change in accounting principle *(Note 4)*			267		267
Restated balance at the beginning of the period	12,003	479	14,094	(242)	26,335
Changes in items during the period:					
Dividends from surplus			(10)		(10)
Net income			6,955		6,955
Purchases of treasury stock				(2)	(2)
Disposition of treasury stock		(0)		0	0
Reversal of land revaluation			(0)		(0)
Net changes in items other than shareholders' equity					
Total changes in items during the period	–	(0)	6,944	(1)	6,942
Balance at the end of the period	¥12,003	¥479	¥21,039	¥(244)	¥33,278

	Year ended March 31, 2015							
	Accumulated other comprehensive income							
	Unrealized holding gain on securities	Deferred gain on hedging instruments, net of taxes	Land revaluation	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Minority interests	Total net assets
	(Millions of yen)							
Balance at the beginning of the period	¥ 294	¥ 29	¥40	¥(357)	¥(787)	¥ (781)	¥4,787	¥30,074
Cumulative effect of change in accounting principle *(Note 4)*							47	315
Restated balance at the beginning of the period	294	29	40	(357)	(787)	(781)	4,835	30,389
Changes in items during the period:								
Dividends from surplus								(10)
Net income								6,955
Purchases of treasury stock								(2)
Disposition of treasury stock								0
Reversal of land revaluation								(0)
Net changes in items other than shareholders' equity	910	166	12	563	319	1,972	885	2,857
Total changes in items during the period	910	166	12	563	319	1,972	885	9,800
Balance at the end of the period	¥1,204	¥195	¥52	¥ 205	¥(467)	¥1,191	¥5,720	¥40,190

	Year ended March 31, 2015				
	Shareholders' equity				
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
	(Thousands of U.S. dollars) (Note 3)				
Balance at the beginning of the period	$99,883	$3,986	$115,053	$(2,013)	$216,926
Cumulative effect of change in accounting principle *(Note 4)*			2,221		2,221
Restated balance at the beginning of the period	99,883	3,986	117,283	(2,013)	219,147
Changes in items during the period:					
Dividends from surplus			(83)		(83)
Net income			57,876		57,876
Purchases of treasury stock				(16)	(16)
Disposition of treasury stock		(0)		0	0
Reversal of land revaluation			(0)		(0)
Net changes in items other than shareholders' equity					
Total changes in items during the period	–	(0)	57,784	(8)	57,768
Balance at the end of the period	$99,883	$3,986	$175,076	$(2,030)	$276,924

	Year ended March 31, 2015							
	Accumulated other comprehensive income							
	Unrealized holding gain on securities	Deferred gain on hedging instruments, net of taxes	Land revaluation	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Minority interests	Total net assets
	(Thousands of U.S. dollars) (Note 3)							
Balance at the beginning of the period	$ 2,446	$ 241	$332	$(2,970)	$(6,549)	$ (6,499)	$39,835	$250,262
Cumulative effect of change in accounting principle *(Note 4)*							391	2,621
Restated balance at the beginning of the period	2,446	241	332	(2,970)	(6,549)	(6,499)	40,234	252,883
Changes in items during the period:								
Dividends from surplus								(83)
Net income								57,876
Purchases of treasury stock								(16)
Disposition of treasury stock								0
Reversal of land revaluation								(0)
Net changes in items other than shareholders' equity	7,572	1,381	99	4,685	2,654	16,410	7,364	23,774
Total changes in items during the period	7,572	1,381	99	4,685	2,654	16,410	7,364	81,551
Balance at the end of the period	$10,019	$1,622	$432	$ 1,705	$(3,886)	$ 9,910	$47,599	$334,442

Year ended March 31, 2014

	Shareholders' equity				
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
			(Millions of yen)		
Balance at the beginning of the period	¥12,003	¥480	¥ 9,814	¥(241)	¥22,056
Cumulative effect of change in accounting principle *(Note 4)*					–
Restated balance at the beginning of the period	12,003	480	9,814	(241)	22,056
Changes in items during the period:					
Dividends from surplus			(188)		(188)
Net income			4,201		4,201
Purchases of treasury stock				(1)	(1)
Disposition of treasury stock		(0)		0	0
Net changes in items other than shareholders' equity					
Total changes in items during the period	–	(0)	4,012	(0)	4,011
Balance at the end of the period	¥12,003	¥479	¥13,826	¥(242)	¥26,068

Year ended March 31, 2014

	Accumulated other comprehensive income							
	Unrealized holding gain on securities	Deferred gain (loss) on hedging instruments, net of taxes	Land revaluation	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Minority interests	Total net assets
				(Millions of yen)				
Balance at the beginning of the period	¥197	¥139	¥39	¥(682)	¥ –	¥(306)	¥3,611	¥25,361
Cumulative effect of change in accounting principle *(Note 4)*								–
Restated balance at the beginning of the period	197	139	39	(682)	–	(306)	3,611	25,361
Changes in items during the period:								
Dividends from surplus								(188)
Net income								4,201
Purchases of treasury stock								(1)
Disposition of treasury stock								0
Net changes in items other than shareholders' equity	97	(109)	0	325	(787)	(474)	1,176	701
Total changes in items during the period	97	(109)	0	325	(787)	(474)	1,176	4,712
Balance at the end of the period	¥294	¥ 29	¥40	¥(357)	¥(787)	¥(781)	¥4,787	¥30,074

The accompanying notes are an integral part of these statements.

	Years ended March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Operating activities			
Income before income taxes and minority interests	¥ 11,033	¥ 7,941	$ 91,811
Depreciation and amortization	1,791	1,610	14,903
Impairment loss	926	181	7,705
(Decrease) increase in allowance for doubtful receivables	(78)	159	(649)
Increase in reserve for defects on completed construction projects	27	88	224
Increase in allowance for losses on construction contracts	1,272	1,037	10,585
(Decrease) in allowance for loss on litigation	–	(310)	–
Increase in liability for retirement benefits	700	1,207	5,825
Loss (gain) on sales and disposal of property and equipment	64	(47)	532
Gain on negative goodwill	(40)	(0)	(332)
Impairment loss on membership	–	60	–
Interest and dividend income	(833)	(843)	(6,931)
Interest expense	866	799	7,206
Exchange (gain), net	(537)	(371)	(4,468)
Reversal of allowance for loss on litigation	–	(580)	–
Equity in loss (earnings) of affiliates	6	(36)	49
Decrease (increase) in trade notes receivable, accounts receivable on completed construction contracts and other	1,817	(26,775)	15,120
(Increase) decrease in inventories	(11,636)	134	(96,829)
Decrease (increase) in other assets	1,848	(1,114)	15,378
Increase in retirement benefits liability adjustments included in accumulated other comprehensive income.	319	–	2,654
(Increase) decrease in trade notes payable, accounts payable on construction contracts and other	(5,405)	18,722	(44,977)
Increase (decrease) in advances received on construction contracts in progress	12,096	(6,150)	100,657
Increase in other liabilities	3,004	39	24,997
Other	12	(14)	99
Subtotal	17,258	(4,261)	143,613
Interest and dividends received	769	900	6,399
Interest paid	(825)	(802)	(6,865)
Income taxes paid	(2,675)	(2,410)	(22,260)
Net cash provided (used in) by operating activities	14,527	(6,575)	120,887
Investing activities			
Increase in fixed deposits	277	786	2,305
Purchases of property and equipment	(2,374)	(1,107)	(19,755)
Proceeds from sales of property and equipment	129	96	1,073
Purchases of intangible fixed assets	(188)	(136)	(1,564)
Proceeds from sales of investments in real estate	–	284	–
Purchases of investments in securities	(4,310)	(329)	(35,865)
Proceeds from sales of investments in securities	3	66	24
Increase in investments in unconsolidated subsidiaries and affiliates	(218)	–	(1,814)
Disbursements for loans receivable	(43)	(71)	(357)
Proceeds from collection of loans receivable	87	127	723
Other	9	17	74
Net cash (used in) investing activities	(6,628)	(266)	(55,155)

	Years ended March 31,		
	2015	**2014**	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Financing activities			
(Decrease) increase in short-term bank loans	¥ (6,142)	¥ 6,657	$ (51,110)
Increase in long-term debt	11,200	200	93,201
Decrease in long-term debt	(1,533)	(969)	(12,756)
Increase in long-term loans of employees	102	33	848
(Increase) in treasury stock	(1)	(1)	(8)
Cash dividends paid	(10)	(188)	(83)
Cash dividends paid for minority shareholders	(161)	(99)	(1,339)
Other	(398)	(231)	(3,311)
Net cash provided by financing activities	3,053	5,400	25,405
Effect of exchange rate changes on cash and cash equivalents	1,148	916	9,553
Net increase (decrease) in cash and cash equivalents	12,101	(524)	100,699
Cash and cash equivalents at beginning of the year	32,055	31,400	266,747
Increase in cash and cash equivalents due to inclusion in consolidation	409	1,179	3,403
Cash and cash equivalents at end of the year *(Note 9)*	¥ 44,565	¥ 32,055	$370,849

The accompanying notes are an integral part of these statements.

1. Basis of Preparation

The accompanying consolidated financial statements of Sumitomo Mitsui Construction Co., Ltd. (the “Company”) and consolidated subsidiaries (collectively the “Group”) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan. In addition, certain amounts in the prior year’s financial statements have been reclassified to conform to the current year’s presentation.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

2. Summary of Significant Accounting Policies

(a) Basis of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The accompanying consolidated financial statements include the accounts of the Company and the significant companies which it controls directly or indirectly. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The excess of the cost over the underlying net assets at fair value at the respective dates of acquisition of the consolidated subsidiaries (goodwill) or the excess of fair value of the net assets acquired over cost (negative goodwill) is charged or credited to income in the year of acquisition.

Investments in affiliates not accounted for by the equity method are principally stated at cost.

The Company had 17 consolidated subsidiaries and 1 affiliate accounted for by the equity method as of March 31, 2015.

(b) Fiscal Year of Consolidated Subsidiaries

All foreign consolidated subsidiaries (5 companies) have a fiscal year that ends on December 31. The accompanying consolidated financial statements were prepared based on the financial statements as of the same date. Necessary adjustments for consolidation were made on significant transactions that took place during the period between the fiscal year-end of the subsidiaries and the fiscal year-end of the Company.

(c) Securities

The accounting standard for financial instruments requires that securities be classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities for which market prices are determinable are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(d) Inventories

Inventories other than materials and supplies are stated at cost determined by the specific identification method. Materials and supplies are valued at cost determined by the average method. Book values are written down based on any decline in profitability.

(e) Depreciation and Amortization

(1) Property and equipment (except leased assets) and investments in real estate

Depreciation of property and equipment (except leased assets) and investments in real estate is determined primarily by the declining-balance method based on the estimated useful lives of the respective assets as prescribed in the Corporation Tax Law of Japan except that the straight-line method is applied to office buildings acquired on or after April 1, 1998.

Depreciation at all overseas subsidiaries is determined by the straight-line method or by the declining-balance method based on the estimated useful lives of the respective assets.

(2) Intangible fixed assets (except leased assets)

Amortization of intangible fixed assets (except leased assets) is calculated by the straight-line method based on the estimated useful lives of the respective assets as prescribed in the Corporation Tax Law of Japan. Amortization of computer software for internal use is calculated by the straight-line method over the estimated useful lives of 5 years.

(e) Depreciation and Amortization (continued)

(3) Leased assets

Depreciation of leased assets under finance leases other than those that transfer the ownership of the leased assets to the lessees is calculated by the straight-line method over the lease term with a residual value of zero.

Finance leases other than those that transfer the ownership of the leased assets to the lessees, whose commencement dates are on or before March 31, 2008, continue to be accounted for in a similar manner as operating leases.

(f) Advances Received on Construction Contracts in Progress

As is customary in Japan, the Company and its domestic consolidated subsidiaries receive payments from customers on an installment basis in accordance with the terms of the respective construction contracts.

(g) Allowance for Doubtful Receivables

The allowance for doubtful receivables is provided for future losses on general receivables at an amount calculated by applying the percentage of actual losses on collection experienced in the past, and an uncollectible amount for doubtful receivables estimated based on an individual assessment of each receivable and probability of collection.

(h) Reserve for Defects on Completed Construction Projects

A reserve has been provided at an estimated amount for the fiscal year's sales proceeds in order to cover the liability for future costs of defects of the completed construction projects.

(i) Allowance for Losses on Construction Contracts

An allowance has been provided based on the estimated amount for the future losses on construction projects in progress at the fiscal year end which are anticipated to be substantial losses in the future.

(j) Accounting for Retirement Benefits

(1) Method of attributing expected retirement benefits to periods

In calculating the retirement benefit obligation, the benefit formula method is applied to attribute the expected retirement benefits to the periods up to year ended March 31, 2015.

(2) Amortization of actuarial gain or loss, prior service cost and net retirement benefit obligation at transition

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over periods (mainly 11 years), which are shorter than the average remaining years of service of the employees.

Prior service cost is being amortized as incurred by the straight-line method over periods (mainly 11 years), which are shorter than the average remaining years of service of the employees.

The net retirement benefit obligation at transition is being amortized by the straight-line method over a period of 15 years.

(k) Recognition of Revenues and Costs on Construction Contracts

Revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method is applied for contracts for which the percentage of completion cannot be reliably estimated.

Revenues and costs of construction contracts of the Company that commenced on or before March 31, 2009, which cover a construction period longer than 12 months is, in principle, also recognized by the percentage-of-completion method, except for total revenue on long-term contracts of less than ¥500 million.

(l) Recognition of Income from Finance Leases

Income from finance leases is recorded as sales and cost of sales at the time a lease payment is received.

(m) Derivatives and Hedge Accounting

(1) Method of hedge accounting

Derivative financial instruments are mainly stated at fair value except those accounted for under deferred hedge accounting.

Foreign exchange forward contracts qualifying for allocation accounting are translated at the contract rate.

Interest rate swaps qualifying for hedge accounting and meeting specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is charged or credited to income (short-cut method).

(2) Hedging instruments and hedged items

Hedging instruments:	Forward foreign exchange contracts Interest rate swaps
Hedged items:	Future foreign currency transactions Interest on debt

(3) Hedging policy

The Company utilizes foreign exchange forward contracts and interest rate swaps only for the purpose of hedging future risks of fluctuation of foreign currency exchange rates or interest rates.

(4) Assessment of hedge effectiveness

The evaluation of hedge effectiveness for a foreign exchange forward contract is performed on a quarterly basis to confirm that amount of the foreign exchange contract is within amount of the underlying hedged item to assess whether the forward contract qualifies for hedge accounting.

An evaluation of hedge effectiveness for interest rate swaps is not performed as all meet specified criteria under the short-cut method.

(n) Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased, which can easily be converted to cash and are subject to little risk of change in value, are considered cash equivalents.

(o) Consumption Taxes

Consumption taxes are accounted for by the tax exclusion method.

(p) Income Taxes

Deferred tax assets and liabilities are determined based on the differences between the amounts calculated for financial reporting purposes and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

The Company has adopted the consolidated taxation system.

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made, as a matter of arithmetic computation only, at ¥120.17 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2015. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

4. Changes in Accounting Methods

The Company and its consolidated subsidiaries have adopted the main clause of Section 35 of "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 issued on May 17, 2012) and the main clause of Section 67 of "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 issued on March 26, 2015) effective from April 1, 2014. The methods for calculating retirement benefit obligation and service cost have been revised in the following respects: the methods for attributing the expected retirement benefits to the periods has been changed from the straight-line method to the benefit formula method, and the method for determining the discount rate has been changed from the method of determining the period of bonds, which is a basis for deciding on the discount rate, based on the number of years, which is approximate to the average remaining years of service of employees to method of using a single weighted-average discount rate reflecting the expected timing and amounts of payments.

The cumulative effect of changing the method for calculating the retirement benefit obligation and service cost was recognized by adjusting retained earnings at April 1, 2014, in accordance with the transitional treatment provided in Paragraph 37 of Accounting Standard for Retirement Benefits. As a result, a liability for retirement benefits decreased by ¥315 million ($2,621 thousand) and retained earnings increased by ¥267 million ($2,221 thousand) at April 1, 2014.

The effect of these changes on profit and loss for the year ended March 31, 2015 is immaterial. In addition, the effect of these changes on net assets per share, net income per share and diluted net income per share is immaterial.

5 Notes to Consolidated Balance Sheets

(a) Inventories

The components of inventories as of March 31, 2015 and 2014 were as follows:

	As of March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars)*
Merchandise and finished goods	¥ 609	¥ 550	$ 5,067
Materials and supplies	1,296	1,570	10,784
Costs on uncompleted construction contracts	29,067	17,178	241,882
Real estate for sale	2	2	16
	¥30,975	¥19,302	$257,759

(b) Investments in Real Estate

"Investments in real estate" includes accumulated depreciation in the amounts of ¥746 million ($6,207 thousand) and ¥714 million at March 31, 2015 and 2014, respectively.

(c) Pledged Assets

The following assets were pledged at March 31, 2015 and 2014 principally as collateral for short-term bank loans, long-term debt, and guarantees (such as guarantees for the completion of construction contracts):

	As of March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and deposits	¥ 21	¥ 605	$ 174
Trade notes receivable, accounts receivable on completed construction contracts and other	–	25	–
Land	10,308	12,241	85,778
Buildings and structures, net of accumulated depreciation	812	1,308	6,757
Machinery, equipment and vehicles, net of accumulated depreciation	63	65	524
Investments in securities	7,440	2,634	61,912
Investments in real estate	3,736	3,768	31,089
	¥22,381	¥20,649	$186,244

(c) Pledged Assets (continued)

Of the above property and equipment, mortgaged assets for factory foundations at March 31, 2015 and 2014 are summarized as follows:

	As of March 31,		
	2015	2014	2015
	(Millions of yen)		(Thousands of U.S. dollars)
Land	¥1,258	¥1,258	$10,468
Buildings and structures, net of accumulated depreciation	199	217	1,655
Machinery, equipment and vehicles, net of accumulated depreciation	63	65	524
	¥1,520	¥1,542	$12,648

The secured liabilities as of March 31, 2015 and 2014 are summarized as follows:

	As of March 31,		
	2015	2014	2015
	(Millions of yen)		(Thousands of U.S. dollars)
Short-term bank loans	¥5,736	¥10,800	$47,732
[Including current portion of long-term debt]	[736]	[736]	[6,124]
Long-term debt	487	1,223	4,052
Other current liabilities	100	100	832
Other long-term liabilities	24	124	199

(d) Land Revaluation

Land for operations was revalued by a consolidated subsidiary under the Law for Land Revaluation during the year ended March 31, 2001. The revaluation amount is shown as a separate component of net assets.

The market value of the land was ¥701 million ($5,833 thousand) and ¥697 million more than the revalued book amount at March 31, 2015 and 2014, respectively.

(e) Contingent Liabilities

At March 31, 2015 and 2014, the Company and consolidated subsidiaries were contingently liable for the following:

	As of March 31,		
	2015	**2014**	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
As guarantors of bank loans to customers, unconsolidated subsidiaries, an affiliate and employees	¥ 14	¥ 31	$ 116
Advance deposits	924	–	7,689
As endorsers of notes receivable discounted with banks	313	331	2,604

(f) Estimated Loss on Uncompleted Construction Contracts

An estimated loss on uncompleted construction contracts was recognized and included as part of inventories but was not offset against the amount on the balance sheet. It has been recorded as an allowance for losses on construction contracts in the amounts of ¥2,089 million ($17,383 thousand) and ¥431 million as of March 31, 2015 and 2014, respectively.

(g) Financial covenants

The Company has entered into a syndicated loan contract with its seven banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2015 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014, or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥9,500 million ($79,054 thousand) in long-term debt (including the current portion) as of March 31, 2015.

6. Notes to Consolidated Statements of Income

(a) Net Sales Based on Percentage-of-completion Method

Net sales on construction contracts accounted for under the percentage-of-completion method amounted to ¥284,140 million ($2,364,483 thousand) and ¥284,191 million for the years ended March 31, 2015 and 2014, respectively.

(b) Allowance for Losses on Construction Contracts Included in Cost of Sales

The allowance for losses on construction contracts was included in cost of sales in the amounts of ¥2,115 million ($17,600 thousand) and ¥1,530 million for the years ended March 31, 2015 and 2014, respectively.

(c) Selling, General and Administrative Expenses

The significant components of selling, general and administrative expenses at March 31, 2015 and 2014 were as follows:

	Years ended March 31,		
	2015	**2014**	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Salaries and wages	¥ 6,643	¥ 6,364	$ 55,280
Retirement benefit expenses	1,011	1,071	8,413
Provision of allowance for doubtful receivables	7	45	58
Other	8,024	7,468	66,772
Total	¥15,685	¥14,949	$130,523

(d) Research and Development Expenses

Research and development costs included in selling, general and administrative expenses and manufacturing costs amounted to ¥1,118 million ($9,303 thousand) and ¥975 million for the years ended March 31, 2015 and 2014, respectively.

(e) Gain on Sale of Property and Equipment

The significant components of gain on sale of property and equipment for the years ended March 31, 2015 and 2014 were as follows:

	Years ended March 31,		
	2015	**2014**	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Machinery, equipment and vehicles	¥24	¥ 5	$199
Investments in real estate	–	90	–
Others	–	0	–
Total	¥24	¥96	$199

(f) Loss on Sales and Disposal of Property and Equipment

The significant components of loss on sales and disposal of property and equipment for the years ended March 31, 2015 and 2014 were as follows:

	Years ended March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars)*
Loss on disposal	¥ 78	¥31	$649
Loss on sales	0	13	0
Others	28	0	233
Total	¥108	¥44	$898

(g) Impairment Loss

The Group recognized impairment loss on the following asset groups.

The Group principally calculates impairment loss by grouping together assets of the construction segments and by grouping assets of the other segment individually.

(1) For the year ended March 31, 2015

The book values of following assets were reduced to their recoverable values as a result of profit deterioration on elder care facility and determination of sales price of a rental property and assets for business. The corresponding write-down was recognized in the amount of ¥926 million ($7,705 thousand) as part of other income expenses.

Location	Usage	Classification	Year ended March 31, 2015	
			(Millions of yen)	*(Thousands of U.S. dollars)*
Hachioji, Tokyo	Elder care facility (1 building)	Land and Building	¥693	$5,766
Izumisano, Osaka	Rental property (1 building)	Investment and other assets	165	1,373
Hatsukaichi, Hiroshima	Assets for business (1 building)	Land	68	565

In addition, the recoverable value of elder care facility was estimated based on the estimated future cash flow discounted by the rate of 1.1%.

The recoverable value of a rental property and assets for business was estimated at its net realizable value based on amounts determined by estimated sales price.

(g) Impairment Loss (continued)

(2) For the year ended March 31, 2014

The book values of following assets were reduced to their recoverable values as a result of profit deterioration on rental property and a decline in the fair value of a resort facility etc. The corresponding write-down was recognized in the amount of ¥181 million as part of other income expenses.

Location	Usage	Classification	**Year ended March 31 2014,**
			(Millions of yen)
Izumisano, Osaka	Rental property (1 building)	Investment and other assets	¥139
Uonuma, Niigata	Resort facility (3 rooms)	Land, Buildings and Structure	39
Sapporo, Hokkaido	Assets for business (1 building)	Buildings and Structure	2

In addition, the recoverable value of the rental property was estimated based on the estimated future cash flow discounted by the rate of 1.2%.

The recoverable value of the resort facility was estimated at its net realizable value based on amounts determined by a valuation made in accordance with real estate appraisal standards.

The recoverable value of assets for business use was estimated based on the estimated future cash flow and the value was estimated at nil, because the asset will be disposed.

7. Notes to Consolidated Statements of Comprehensive Income

Amount of recycling and amount of income tax effects associated with other comprehensive income for the years ended March 31, 2015 and 2014 were as follows:

	Years ended March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrealized holding gain on securities:			
Changes in items during the period	¥ 1,323	¥ 262	$ 11,009
Amount of recycling	–	(1)	–
Before income tax effect adjustment	1,323	261	11,009
Income tax effect adjustment	(411)	(164)	(3,420)
Unrealized holding gain on securities	911	97	7,580
Deferred gain on hedging instruments, net of taxes:			
Changes in items during the period	246	(178)	2,047
Amount of recycling	–	–	–
Before income tax effect adjustment	246	(178)	2,047
Income tax effect adjustment	(80)	69	(665)
Deferred gain on hedging instruments, net of taxes	166	(109)	1,381
Land revaluation:			
Income tax effect adjustment	31	0	257
Land revaluation	31	0	257
Translation adjustments:			
Changes in items during the period	719	418	5,983
Amount of recycling	–	–	–
Before income tax effect adjustment	719	418	5,983
Income tax effect adjustment	–	–	–
Translation adjustments	719	418	5,983
Retirement benefits liability adjustments:			
Changes in items during the period	(1,583)	–	(13,173)
Amount of recycling	1,933	–	16,085
Before income tax effect adjustment	350	–	2,912
Income tax effect adjustment	(0)	–	(0)
Retirement benefits liability adjustments	349	–	2,904
Share of other comprehensive income of affiliates accounted for by the equity method:			
Changes in items during the period	38	(5)	316
Amount of recycling	–	–	–
Share of other comprehensive income of affiliates accounted for by the equity method	38	(5)	316
Total other comprehensive income	¥ 2,216	¥ 400	$ 18,440

8. Notes to Consolidated Statements of Changes in Net Assets

(a) Type and number of shares issued and treasury stock

For the year ended March 31, 2015

	Balance at April 1, 2014	Increase	Decrease	Balance at March 31, 2015
		(Number of shares)		
Shares issued:				
Common stock	808,262,394	5,104,211	–	813,366,605
2nd Series Class A preferred stock	1,500,000	–	1,500,000	–
3rd Series Class D preferred stock	7,500	–	7,500	–
Total	809,769,894	5,104,211	1,507,500	813,366,605

Note 1: Increase of common stock is due to the acquisition of common stock by exercising call option on the 2nd Series Class A preferred stock and 3rd Series Class D preferred stock.

Note 2: Decrease of 2nd Series Class A preferred stock and 3rd Series Class D preferred stock is due to redemption by exercising a call option.

	Balance at April 1, 2014	Increase	Decrease	Balance at March 31, 2015
		(Number of shares)		
Treasury shares:				
Common stock	468,382	15,706	1,135	482,953
2nd Series Class A preferred stock	–	1,500,000	1,500,000	–
3rd Series Class D preferred stock	–	7,500	7,500	–
Total	468,382	1,523,206	1,508,635	482,953

Note 1: Increase of common stock is due to the purchase of fractional shares.

Note 2: Decrease of common stock is due to the sale of fractional shares in response to shareholder requests.

Note 3: Increase of 2nd Series Class A preferred stock and 3rd Series Class D preferred stock is due to the acquisition of common stock by exercising a call option.

Note 4: Decrease of 2nd Series Class A preferred stock and 3rd Series Class D preferred stock is due to redemption by exercising a call option.

(a) Type and number of shares issued and treasury stocks (continued)

For the year ended March 31, 2014

	Balance at April 1, 2013	Increase	Decrease	Balance at March 31, 2014
		(Number of shares)		
Shares issued:				
Common stock	675,480,576	132,781,818	–	808,262,394
2nd Series Class A preferred stock	1,500,000	–	–	1,500,000
3rd Series Class C preferred stock	2,921,200	–	2,921,200	–
3rd Series Class D preferred stock	7,500	–	–	7,500
Total	679,909,276	132,781,818	2,921,200	809,769,894

Note 1: Increase of common stock is due to the acquisition of common stock by exercising call options on the 3rd Series Class C preferred stock.

Note 2: The period of demand for preferred stock is from April 1, 2009 to August 26, 2019 on the 2nd Series Class A preferred stock and from October 1, 2008 to September 30, 2018 on the 3rd Series Class D preferred stock.

Note 3: Decrease of 3rd Series Class C preferred stock is due to redemption by exercising a call option.

	Balance at April 1, 2013	Increase	Decrease	Balance at March 31, 2014
		(Number of shares)		
Treasury shares:				
Common stock	454,364	15,256	1,238	468,382
3rd Series Class C preferred stock	–	2,921,200	2,921,200	–
Total	454,364	2,936,456	2,922,438	468,382

Note 1: Increase of common stock is due to the purchase of fractional shares.

Note 2: Decrease of common stock is due to the sale of fractional shares in response to shareholder requests.

Note 3: Increase of 3rd Series Class C preferred stock is due to the acquisition of common stock by exercising a call option.

Note 4: Decrease of 3rd Series Class C preferred stock is due to redemption by exercising a call option.

(b) Dividends:

(1) Dividends paid

For the year ended March 31, 2015

Resolution	Type of shares	Total dividends *(Millions of yen)*	Dividends per share *(Yen)*	Cut-off date	Effective date
Annual general meeting of the shareholders on June 27, 2014	2nd Series Class A preferred stock	¥10	¥ 6.69	March 31, 2014	June 30, 2014
	3rd Series Class D preferred stock	0	58.45		
		¥10	–		

For the years ended March 31, 2014

Resolution	Type of shares	Total dividends *(Millions of yen)*	Dividends per share *(Yen)*	Cut-off date	Effective date
Annual general meeting of the shareholders on June 27, 2013	2nd Series Class A preferred stock	¥ 10	¥ 7.17	March 31, 2013	June 28, 2013
	3rd Series Class C preferred stock	177	60.85		
	3rd Series Class D preferred stock	0	60.85		
		¥188			

(2) Dividends with the cut-off date in the year ended March 31, 2015 and the effective date in the year ending March 31, 2016 were as follows:

Resolution	Type of shares	Total dividends *(Millions of yen)*	Dividends per share *(Yen)*	Cut-off date	Effective date
Annual general meeting of the shareholders on June 26, 2015	Common stock	¥812	¥ 1.00	March 31, 2015	June 29, 2015
		¥812			

Dividends with the cut-off date in the year ended March 31, 2014 and the effective date in the year ending March 31, 2015 were as follows:

Resolution	Type of shares	Total dividends *(Millions of yen)*	Dividends per share *(Yen)*	Cut-off date	Effective date
Annual general meeting of the shareholders on June 27, 2014	2nd Series Class A preferred stock	¥10	¥ 6.69	March 31, 2014	June 30, 2014
	3rd Series Class D preferred stock	0	58.45		
		¥10			

9. Notes to Consolidated Statements of Cash Flows

Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2015 and 2014 were as follows:

	As of March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and deposits	¥53,305	¥40,320	$443,579
Time deposits with maturities of over three months	(8,739)	(8,265)	(72,721)
Cash and cash equivalents	¥44,565	¥32,055	$370,849

10. Leases

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation / amortization and net book value of the leased property as of March 31, 2015 and 2014, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

As lessee:

Finance leases (of which commencement dates were prior to application of change in accounting method)

	As of March 31					
	2015		2014		2015	
	Machinery, equipment and vehicles	Total	Machinery, equipment and vehicles	Total	Machinery, equipment and vehicles	Total
	(Millions of yen)				(Thousands of U.S. dollars)	
Acquisition costs	¥4	¥4	¥383	¥383	$33	$33
Accumulated depreciation / amortization	3	3	316	316	24	24
Net book value	¥0	¥0	¥ 66	¥ 66	$ 0	$ 0

	As of March 31,		
	2015	2014	2015
	(Millions of yen)		(Thousands of U.S. dollars)
Future minimum payments:			
Within one year	¥ 0	¥71	$ 0
Over one year	–	0	–
	¥ 0	¥71	$ 0
Lease payments	¥34	¥63	$282
Depreciation / amortization equivalents	28	52	233
Interest expense equivalents	1	4	8

Depreciation / amortization equivalents are computed by the straight-line method over the respective lease terms with a residual value of zero.

The difference between total lease expenses and acquisition costs of the leased assets comprise interest equivalents. Interest equivalents are computed by the interest method over the respective lease terms.

11. Financial Instruments

(a) Overview

(1) Policy for financial instruments

The Group limits investments of surplus funds to short-term bank deposits, and raises necessary funds through bank loans.

In addition, the Group only uses derivatives for hedging risk of fluctuation of foreign currency exchange rates or interest rates, not for speculative transactions.

(2) Types of financial instruments and related risk and risk management system

Trade notes receivable, accounts receivable on completed construction contracts and other are exposed to credit risk in relation to customers and trading partners. Also, the Group's main investments in securities are shares of companies, and they are exposed to market price fluctuation risk.

Management of credit risks (Risks of default by customers and trading partners)

The Company manages due dates and balances of trade notes receivable, accounts receivable on completed construction contracts and other for individual customers and trading partners through its internal systems and monitors their credit status. These systems enable the Group to identify any concerns for doubtful receivables at an early stage and reduce risks of uncollectible amounts. Consolidated subsidiaries also manage credit risks in the same manner as the Company. The Company minimizes credit risks by mainly holding held-to-maturity securities with high credit ratings.

Management of market risks (Risks of fluctuations in currency exchange and interest rates)

The Company and certain consolidated subsidiaries hold trade receivables in foreign currencies. However, the risk of fluctuations in the currency exchange rate is not significant because a similar amount of trade payables are also held, and the Company utilizes foreign exchange forward contracts to hedge the risk of changes in the foreign currency exchange rate.

Loan payables are mainly for short-term operating funds. The Group manages loan payables to flexibly execute or revise its fund management plans. In order to fix the interest expense for long-term debt bearing interest at variable rates, the Group utilizes interest rate swap transactions for certain long-term debt.

Derivatives are foreign currency exchange forward contracts held for the purpose of hedging future risk of fluctuation of foreign currency exchange rate of the monetary liabilities denominated in foreign currencies, and interest rate swaps held for the purpose of hedging future risk of fluctuation of interest rates on loans.

Derivative transactions are carried out in accordance with the Companies' internal rules on transactions, and with highly rated financial institutions used as counter parties to reduce the risk of default.

Information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and assessment of hedge effectiveness is found in Note 2-(n).

(a) Overview (continued)

(3) Supplementary explanation of the fair value of financial instruments

The fair values of financial instruments are based on market prices, or, if no market prices are available, they include estimated amounts. Because estimations of the fair value incorporate various factors, applying different assumptions can, in some cases, result in different fair values.

In addition, the amounts of derivatives in Note 14 “Derivative and Hedge Accounting” are not necessarily indicative of the actual market risk involved in the derivative transactions.

(b) Fair value of financial instruments

Amounts recognized in the consolidated balance sheets, market value, and the difference at March 31, 2015 and 2014, are as shown below. Moreover, items for which it is extremely difficult to determine fair values are not included in the following table (see Note 2).

	As of March 31, 2015					
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
	(Millions of yen)			(Thousands of U.S. dollars)		
Cash and deposits	¥ 53,305	¥ 53,305	¥ –	$ 443,579	$ 443,579	$ –
Trade notes receivable, accounts receivable on completed construction contracts and other	128,591			1,070,075		
Allowance for doubtful receivables (*1)	(7)			(58)		
	128,584	128,572	(12)	1,070,017	1,069,917	(99)
Securities and investments in securities	8,789	8,794	5	73,138	73,179	41
Held-to-maturity securities	279	285	5	2,321	2,371	41
Other securities	8,509	8,509	–	70,808	70,808	–
Long-term loans receivable	6,454			53,707		
Allowance for doubtful receivables (*1)	(5,268)			(43,837)		
	1,186	1,128	(58)	9,869	9,386	(482)
Total assets	191,865	191,800	(64)	1,596,613	1,596,072	(532)
Trade notes payable, accounts payable on construction contracts and other	132,552	132,552	–	1,103,037	1,103,037	–
Short-term bank loans and current portion of long-term debt	10,210	10,205	(5)	84,962	84,921	41
Long-term debt	9,787	9,643	(143)	81,442	80,244	(1,189)
Total liabilities	¥152,550	¥152,401	¥(148)	$1,269,451	$1,268,211	$(1,231)
Derivative transactions (*2)	292	292	–	2,429	2,429	–

(*1): Allowance for doubtful receivables recognized individually is offset.

(*2): Assets and liabilities arising from derivative transactions are shown at net value.

(b) Fair value of financial instruments (continued)

	As of March 31, 2014		
	Carrying value	Fair value	Difference
	(Millions of yen)		
Cash and deposits	¥ 40,320	¥ 40,320	¥ –
Trade notes receivable, accounts receivable on completed construction contracts and other	129,418	129,390	(27)
Securities and investments in securities	3,164	3,165	1
Held-to-maturity securities	278	279	1
Other securities	2,886	2,886	–
Long-term loans receivable	6,494		
Allowance for doubtful receivables (*1)	(5,258)		
	1,235	1,154	(81)
Total assets	174,139	174,032	(107)
Trade notes payable, accounts payable on construction contracts and other	136,453	136,453	–
Short-term bank loans and current portion of long-term debt	15,032	15,036	4
Long-term debt	1,440	1,397	(43)
Total liabilities	¥152,926	¥152,887	¥ (39)
Derivative transactions(*2)	45	45	–

(*1): Allowance for doubtful receivables recognized individually is offset.

(*2): Assets and liabilities arising from derivative transactions are shown at net value.

Note 1: Calculation of the fair value of financial instruments and other matters related to investment securities and derivative transactions

Assets

(1) Cash and deposits

Because settlement periods of deposits are short and their market values are almost the same as their book values, the book values are used.

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

The fair values are determined using the present value of discounted collectible principal and interest amounts estimated reflecting their collectability based on an appropriate rate in which a credit spread is added to a risk-free benchmark rate (such as a government bond yield) corresponding to the remaining term.

(b) Fair value of financial instruments (continued)

(3) Securities and investments in securities

Concerning the market value of investment securities, the market value for stocks is the price quoted on the stock exchange, and the market value for bonds is the price provided by financial institutions.

In addition, for matters concerning to securities, see "Notes on securities."

(4) Long-term loans receivable

These fair values are determined using the present value of discounted collectible principal and interest amounts estimated reflecting their collectability, based on an appropriate rate in which a credit spread is added to a risk-free benchmark rate (such as a government bond yield) corresponding to the remaining term. Further, the fair value of doubtful debts are determined by discounting the value of expected cash flows using the same discount rate, or estimated collectible amount secured by collateral or guaranteed.

Liabilities

(1) Trade notes payable, accounts payable on construction contracts and other

The book values are used, because these are operation payable and settlement periods are within a year and their market values are almost the same as their book values.

(2) Short-term bank loans

The carrying amount of the current portion of long-term debt approximates fair value since the carrying amount is equivalent to the present value of future cash flows discounted using the current borrowing rate for similar debt with a compatible maturity. For borrowings other than the current portion of long-term debt, the carrying amount approximates fair value due to the short maturities of these instruments.

(3) Long-term debt

Fair value of long-term debt is based on the price provided by financial institutions or the present value of future cash flows discounted using the current borrowing rate for similar debt with a comparable maturity. The fair value of loans subject to special hedge accounting treatment of interest rate swaps is based on the present value of the total principal and interest of the borrowings hedged by interest rate swaps, discounted by the interest rate to be applied if similar new loans were entered into.

The information of the fair value for derivatives is included in Note 13.

(b) Fair value of financial instruments (continued)

Note 2: Financial instruments for which it is extremely difficult to measure the fair value.

	As of March 31, 2015	As of March 31, 2014	As of March 31, 2015
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unlisted stocks (*)	¥3,272	¥3,409	$27,228

(*): Unlisted stocks are not included in "(3) Investments in securities" because these have no market value and it is extremely difficult to measure the fair value.

Note 3: The redemption schedule for monetary claims and held-to-maturity debt securities with maturity dates subsequent to March 31, 2015 and 2014.

	As of March 31, 2015							
	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Over 10 years	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Over 10 years
	(Millions of yen)				*(Thousands of U.S. dollars)*			
Deposits	¥ 53,279	¥ –	¥ –	¥ –	$ 443,363	$ –	$ –	$ –
Trade notes receivable, accounts receivable on completed construction contracts and other	125,602	2,981	–	–	1,045,202	24,806	–	–
Securities and investments in securities								
Held-to-maturity securities (Bonds)	–	121	157	–	–	1,006	1,306	–
Long-term loans receivable	6	143	287	748	49	1,189	2,388	6,224
	¥178,887	¥3,247	¥445	¥748	$1,488,616	$27,020	$3,703	$6,224

	As of March 31, 2014			
	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Over 10 years
	(Millions of yen)			
Deposits	¥ 40,282	¥ –	¥ –	¥ –
Trade notes receivable, accounts receivable on completed construction contracts and other	122,739	6,678	–	–
Securities and Investments in securities				
Held-to-maturity securities (Bonds)	–	9	268	–
Long-term loans receivable	3	82	355	794
	¥163,025	¥6,771	¥623	¥794

Note 4: The redemption schedule for corporate bonds, long-term debt, and other interest bearing debt with maturity dates subsequent to the consolidated balance sheet date. See Note 21.

12. Securities

Securities at March 31, 2015 and 2014 are summarized as follows:

(a) Held-to-maturity securities

	As of March 31, 2015					
	Carrying value	Fair value	Unrealized gain	Carrying value	Fair value	Unrealized gain
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Securities whose fair value exceeds their carrying value:						
Bonds	¥279	¥285	¥ 5	$2,321	$2,371	$41

	As of March 31, 2014		
	Carrying value	Fair value	Unrealized gain (loss)
	(Millions of yen)		
Securities whose fair value exceeds their carrying value:			
Bonds	¥216	¥218	¥ 2
Securities whose fair value does not exceed their carrying value:			
Bonds	61	60	(0)
	¥278	¥279	¥ 1

(b) Other securities

	As of March 31, 2015					
	Balance sheet amount	Cost	Unrealized gain (loss)	Balance sheet amount	Cost	Unrealized gain (loss)
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Unrealized gain:						
Stock	¥4,376	¥2,445	¥1,930	$36,415	$20,346	$16,060
Unrealized loss:						
Stock	4,133	4,266	(132)	34,392	35,499	(1,098)
Total	¥8,509	¥6,712	¥1,797	$70,808	$55,854	$14,953

	As of March 31, 2014		
	Balance sheet amount	Cost	Unrealized gain (loss)
	(Millions of yen)		
Unrealized gain:			
Stock	¥2,665	¥2,076	¥ 589
Unrealized loss:			
Stock	220	335	(114)
Total	¥2,886	¥2,411	¥ 474

(c) Sales of other securities

	Year ended March 31,		
	2015	**2014**	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Sales proceeds	¥3	¥83	$24
Total gain on sales of security	2	43	16
Total loss on sales of security	–	1	–

13. Derivatives and Hedge Accounting

Derivative transactions for the years ended March 31, 2015 and 2014 are summarized as follows:

(a) There are no derivative transactions to which hedge accounting is not applied.

(b) Derivative transactions to which the hedge accounting is applied

(1) Currency-related transactions

As of March 31, 2015

Method of hedge accounting	Transaction type	Hedged item	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value
			(Millions of yen)			*(Thousands of U.S. dollars)*		
Allocation accounting method for foreign exchange forward contracts	Foreign exchange forward contracts Long U.S. dollar	Accounts payable	¥ 30	¥ 0	Note 2	$ 249	$ 0	Note 2
	Long U.S. dollar	Future foreign currency transactions	2,902	330	¥292	24,149	2,746	$2,429
Total			¥2,932	¥330	¥292	$24,398	$2,746	$2,429

Note 1: Estimated fair value was provided by the counterparty financial institution.

Note 2: Since foreign exchange forward contracts accounted for are included in that of the account payable as the hedged item, the fair values of the contracts are included in the fair values of the account payable.

As of March 31, 2014

Method of hedge accounting	Transaction type	Hedged item	Contract amount	Over 1 year	Fair value
			(Millions of yen)		
Allocation accounting method for foreign exchange forward contracts	Foreign exchange forward contracts Long U.S. dollar	Accounts payable	¥ 0	¥ –	Note 2
	Thai baht		1	–	Note 2
	Long U.S. dollar	Future foreign currency transactions	587	96	¥41
	Thai baht		18	–	4
Total			¥607	¥96	¥45

Note 1: Estimated fair value was provided by the counterparty financial institution.

Note 2: Since foreign exchange forward contracts accounted for are included in that of the account payable as the hedged item, the fair values of the contracts are included in the fair values of the account payable.

(b) Derivative transactions to which the hedge accounting is applied (continued)

(2) Interest-related transactions

As of March 31, 2015

Method of hedge accounting	Transaction type	Hedged item	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value
			(Millions of yen)			*(Thousands of U.S. dollars)*		
Short-cut method	Interest rate swaps: Pay fixed/ Receive floating	Long-term debt	¥700	¥100	Note 1	$5,825	$832	Note 1

Note 1: Since these interest rate swaps accounted for by short-cut method are included in that of the long-term debt as the hedged item, the fair values of the contracts are included in the fair values of the long-term debt.

As of March 31, 2014

Method of hedge accounting	Transaction type	Hedged item	Contract amount	Over 1 year	Fair value
			(Millions of yen)		
Short-cut method	Interest rate swaps: Pay fixed/ Receive floating	Long-term debt	¥1,300	¥700	Note 1

Note 1: Since these interest rate swaps accounted for by short-cut method are included in that of the long-term debt as the hedged item, the fair values of the contracts are included in the fair value of the long-term debt.

14. Retirement Benefit Plans

For the year ended March 31, 2015, the Group has either funded or unfunded defined benefit and defined contribution plans.

The Group has a defined benefits pension plan, i.e. defined benefit company pension plan and lump-sum retirement benefit plans. Certain consolidated domestic subsidiaries participate in the Small and Medium Enterprise Retirement Allowance Mutual Aid Scheme. Certain foreign consolidated subsidiaries have an employee pension trust. The Company has a defined contribution pension plan.

In addition, for certain defined benefit company pension plan and lump-sum retirement benefit plans and the defined contribution pension plan of the Company and certain consolidated subsidiaries, the simplified method is applied to calculate their liability for retirement benefits and retirement benefits expenses.

Certain consolidated subsidiaries has transferred a part of the lump-sum retirement benefit plans to the defined contribution pension plan in October 2014.

The changes in the retirement benefit obligation during the year ended March 31, 2015 and 2014 are as follows (excluding plans for which the simplified method is applied):

	Year ended March 31,		
	2015	**2014**	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at the beginning of year	¥19,005	¥20,250	$158,150
Cumulative effect of change in accounting principle	(315)	–	(2,621)
Restated balance at the beginning of the period	18,690	20,250	155,529
Service cost	695	808	5,783
Interest cost	317	337	2,637
Actuarial loss	1,582	99	13,164
Retirement benefit paid	(1,910)	(2,034)	(15,894)
Prior service cost	–	(466)	–
Foreign currency translation	18	11	149
Increase from newly consolidated subsidiary	86	–	715
Transfer to defined contribution pension plan	–	(0)	–
Balance at the end of year	¥19,481	¥19,005	$162,112

Certain consolidated subsidiaries transferred a part of their lump-sum retirement benefit plans to the defined contribution pension plan for the year ended March, 2014. As a result, retirement benefit obligation decreased by ¥466 million and prior service cost of ¥466 million was incurred. Prior service cost is being amortized as incurred by the straight-line method over periods, which are shorter than the average remaining years of service of the employees from the day of the transfer.

The changes in plan assets during the year ended March 31, 2015 and 2014 are as follows (excluding plans for which the simplified method is applied):

	Years ended March 31,		
	2015	**2014**	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at the beginning of year	¥58	¥47	$482
Expected return on plan assets	4	4	33
Actuarial gain	(0)	2	(0)
Retirement benefit paid	(2)	(1)	(16)
Foreign currency translation	7	5	58
Balance at the end of year	¥68	¥58	$565

The changes in liability for retirement benefits based on the simplified method during the year ended March 31, 2015 and 2014 are as follows:

	Years ended March 31,		
	2015	2014	2015
	(Millions of yen)		(Thousands of U.S. dollars)
Balance at the beginning of year	¥1,174	¥1,158	$9,769
Retirement benefit expense	128	131	1,065
Retirement benefit paid	(103)	(111)	(857)
Contribution to defined contribution plan	(8)	(8)	(66)
Other	–	3	–
Balance at the end of year	¥1,191	¥1,174	$9,910

A reconciliation of the funded retirement benefit obligation and plan assets and the net liability for retirement benefits recognized in the consolidated balance sheet at March 31, 2015 and 2014 is as follows:

	As of March 31,		
	2015	2014	2015
	(Millions of yen)		(Thousands of U.S. dollars)
Funded retirement benefit obligation	¥ 321	¥ 286	$ 2,671
Plan assets at fair value	(225)	(218)	(1,872)
	96	67	798
Unfunded retirement benefit obligation	20,508	20,054	170,658
Net liability for retirement benefits in the consolidated balance sheet	20,604	20,122	171,457
Liability for retirement benefits	20,604	20,122	171,457
Assets for retirement benefits	–	–	–
Net liability for retirement benefits in the consolidated balance sheet	¥20,604	¥20,122	$171,457

Note: Including plans for which the simplified method is applied.

The components of retirement benefit expense during the year ended March 31, 2015 and 2014 are as follows:

	Year ended March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service cost	¥ 695	¥ 808	$ 5,783
Interest cost	317	337	2,637
Expected return on plan assets	(4)	(4)	(33)
Amortization of actuarial loss	358	362	2,979
Amortization of prior service cost	(409)	(257)	(3,403)
Amortization of net retirement benefit obligation at transition	1,984	1,984	16,509
Retirement benefit expense calculated by the simplified method	128	131	1,065
Expense for transfer to defined contribution pension plan	–	0	–
Other	–	(1)	–
Total retirement benefit expense	¥3,070	¥3,362	$25,547

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effect) during the year ended March 31, 2015 and 2014 are as follows:

	Years ended March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars)*
Actuarial loss	¥(1,224)	¥–	$(10,185)
Prior service cost	(409)	–	(3,403)
Net retirement benefit obligation at transition	1,984	–	16,509
Total	¥ 350	¥–	$ 2,912

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2015 and 2014 are follows:

	Years ended March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrecognized actuarial loss	¥ 3,253	¥ 2,029	$ 27,069
Unrecognized prior service cost	(2,756)	(3,165)	(22,934)
Unrecognized net retirement benefit obligation at transition	–	1,984	–
Total	¥ 497	¥ 848	$ 4,135

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2015 and 2014 are follows:

	As of March 31,	
	2015	2014
Bonds	91%	93%
Other	9%	7%
Total	100%	100%

The expected return on plan assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The principal assumptions used for above plans were as follows:

	As of March 31,	
	2015	2014
Discount rate	Principally 0.3%	Principally 1.7%
Expected rate of return on plan assets	5.6%	5.9%
Expected rate of increase in salaries	Principally 3.4%	Principally 3.8%

The contribution to defined contribution plans in the company and consolidated subsidiaries were as follows:

	Years ended March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars)*
Contribution to defined contribution plans	¥653	¥623	$5,433

15. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2015 and 2014 were as follows:

	As of March 31,		
	2015	**2014**	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Liability for retirement benefits	¥ 6,674	¥ 6,875	$ 55,537
Accounts payable and accrued expenses	2,688	1,457	22,368
Allowance for bad debts	2,142	1,920	17,824
Allowance for losses on construction contracts	529	625	4,402
Reserve for defects on completed construction projects	282	284	2,346
Tax loss carryforwards	256	4,336	2,130
Other	1,433	1,089	11,924
Gross deferred tax assets	14,008	16,590	116,568
Valuation allowance	(8,513)	(12,131)	(70,841)
Total deferred tax assets	5,495	4,459	45,726
Deferred tax liabilities:			
Unrealized holding gain on securities	(581)	(169)	(4,834)
Other	(313)	(37)	(2,604)
Total deferred tax liabilities	(894)	(207)	(7,439)
Net deferred tax assets	¥ 4,600	¥ 4,251	$ 38,279

The following table summarizes the significant differences between the statutory tax rate and the effective tax rates for the years ended March 31, 2015 and 2014:

	Years ended March 31,	
	2015	**2014**
Statutory tax rate	35.6%	38.0%
Non-deductible expenses	1.7	3.3
Non-taxable income	(3.0)	(2.5)
Per capita inhabitants' taxes	0.4	(0.9)
Tax credit	(2.2)	(0.3)
Valuation allowance	(8.5)	(4.0)
Different tax rate applied to foreign subsidiaries	(0.7)	(3.2)
Change in corporate tax rate	3.9	3.3
Other	2.2	(0.1)
Effective tax rates	29.4%	33.6%

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 9 of 2015) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 2 of 2015) were promulgated on March 31, 2015 and the effective statutory tax rate used to measure deferred tax assets and liabilities was changed from 35.6% for the year ended March 31, 2014 to 33.1% for those for which taxes are expected to be returned or paid from April 1, 2015 to March 31, 2016, and to 32.3% for those for which taxes are expected to be returned or paid on or after April 1, 2016.

As a result, net deferred tax assets (after deducting deferred tax liabilities) decreased by ¥362 million ($3,012 thousand), income taxes-deferred increased by ¥429 million ($3,569 thousand), unrealized holding gain on securities increased ¥59 million ($490 thousand) and deferred gain on hedging instruments, net of taxes increased by ¥7million ($58 thousand) as of and for the year ended March 31, 2015.

In addition, deferred tax liabilities on land revaluation decreased ¥31million ($257 thousands) and Land revaluation decreased equal amounts.

16. Investment and Rental Property

Investment and rental property as of March 31, 2015 and 2014 were as follows:

(a) Types of investment and rental property

A consolidated subsidiary maintains warehouses available for rent including land in Saitama prefecture. Gains on investment and rental property for the years ended March 31, 2015 and 2014 were ¥137 million ($1,140 thousand) and ¥137 million, respectively.

(b) Fair value of investment and rental property

The book value, net increase (decrease) and fair value of investment and rental property for the years ended March 31, 2015 and 2014 were as follows:

Year ended March 31, 2015

Book value				Book value			
Balance as of April 1, 2014	Net increase (decrease)	Balance as of March 31, 2015	Fair value as of March 31, 2015	Balance as of April 1, 2014	Net increase (decrease)	Balance as of March 31, 2015	Fair value as of March 31, 2015
(Millions of yen)				*(Thousands of U.S. dollars)*			
¥3,238	¥(31)	¥3,206	¥3,388	$26,945	$(257)	$26,678	$28,193

Note 1: The amount at the end of the year represents acquisition cost less accumulated depreciation and accumulated impairment loss.

Note 2: Net decrease is due to depreciation.

Note 3: Fair values are calculated based on the appraisal value for major properties.

Year ended March 31, 2014

Book value			
Balance as of April 1, 2013	Net increase (decrease)	Balance as of March 31, 2014	Fair value as of March 31, 2014
(Millions of yen)			
¥3,270	¥(31)	¥3,238	¥3,158

Note 1: The amount at the end of the year represents acquisition cost less accumulated depreciation and accumulated impairment loss.

Note 2: Net decrease is due to depreciation.

Note 3: Fair values are calculated based on the appraisal value for major properties.

17. Segment Information, etc.

Segment Information

(a) Outline of Segments

The Company's reportable operating segments are components for which separate financial information is available and that are evaluated regularly by the board of directors in determining the allocation of management resources and in assessing performance.

The Company currently divides its operations into Civil Construction and Building Construction, managed by the Civil Engineering Division and the Building Administration Division, respectively. Business strategies are formulated by each segment.

Accordingly, the Company divides its operations into two reportable operating segments on the same basis as it uses internally; Civil Construction and Building Construction.

Civil Construction consists mainly of governmental public works like bridge construction. Building Construction is awarded by private sector companies for things like high rise apartment buildings.

(b) Accounting methods used to calculate segment income (loss), segment assets and other items for reportable segments

Accounts for reportable segments are for the most part calculated in line with the generally accepted standards used for the preparation of the consolidated financial statements.

Segment income (loss) for reportable segments is based on gross profit.

Amounts for intersegment transactions or transfers are based on the market prices determined by third party transactions.

The Company does not allocate any assets to reportable operating segments.

(c) Segment income, segment assets and other items for reportable segments

	Year ended March 31, 2015						
	Reportable operating segments						
	Civil	Building	Total	Others	Total	Adjustments	Consolidated
				(Millions of yen)			
Sales							
External Customers	¥141,220	¥235,805	¥377,026	¥798	¥377,825	¥ –	¥377,825
Intersegment transactions or transfers	1,131	7	1,139	63	1,202	(1,202)	–
Net sales	¥142,352	¥235,813	¥378,165	¥861	¥379,027	¥(1,202)	¥377,825
Segment income	17,160	10,573	27,733	329	28,063	(113)	27,950

Note 1: "Others," which includes the Company's business of solar power, elder care facilities and insurance agent, does not qualify as a reportable operating segment.

Note 2: Adjustment for segment income is the reduction of income recognized between reportable operating segments.

Note 3: Segment income corresponds to gross profit in the consolidated statement of income.

Segment Information (continued)

	Year ended March 31, 2015						
	Reportable operating segments						
	Civil	Building	Total	Others	Total	Adjustments	Consolidated
	(Thousands of U.S. dollars)						
Sales							
External Customers	$1,175,168	$1,962,261	$3,137,438	$6,640	$3,144,087	$ –	$3,144,087
Intersegment transactions or transfers	9,411	58	9,478	524	10,002	(10,002)	–
Net sales	$1,184,588	$1,962,328	$3,146,916	$7,164	$3,154,090	$(10,002)	$3,144,087
Segment income	142,797	87,983	230,781	2,737	233,527	(940)	232,587

	Year ended March 31, 2014						
	Reportable operating segments						
	Civil	Building	Total	Others	Total	Adjustments	Consolidated
	(Millions of yen)						
Sales							
External Customers	¥135,124	¥246,794	¥381,918	¥805	¥382,724	¥ –	¥382,724
Intersegment transactions or transfers	1,344	65	1,409	53	1,463	(1,463)	–
Net sales	¥136,469	¥246,859	¥383,328	¥859	¥384,187	¥(1,463)	¥382,724
Segment income	12,149	10,520	22,669	356	23,025	(131)	22,894

Note 1: "Others," which includes the Company's business of solar power, elder care facilities and insurance agent, does not qualify as a reportable operating segment.

Note 2: Adjustment for segment income is the reduction of income recognized between reportable operating segments.

Note 3: Segment income corresponds to gross profit in the consolidated statement of income.

Related Information

For the year ended March 31, 2015

(a) Product and service information

See "Segment income, segment assets and other items for reportable segments."

(b) Geographical segment information

(1) Sales

Year ended March 31, 2015							
Japan	Asia	Others	Total	Japan	Asia	Others	Total
(Millions of yen)				(Thousands of U.S. dollars)			
¥315,992	¥59,397	¥2,435	¥377,825	$2,629,541	$494,274	$20,262	$3,144,087

Notes: Geographical segments are determined based on the country/region of domicile of customers.

Related Information (continued)

(2) Tangible fixed assets

Geographical segment information on tangible fixed assets has been omitted as the amount of tangible fixed assets in Japan constituted over 90% of total as of March 31, 2015.

(c) Major customer information

Information on major customers has been omitted as there were no sales to a single customer constituting over 10% of net sales for the year ended March 31, 2015.

For the year ended March 31, 2014

(a) Product and service information

See "Segment income, segment assets and other items for reportable segments."

(b) Geographical segment information

(1) Sales

Year ended March 31, 2014			
Japan	Asia	Others	Total
(Millions of yen)			
¥312,514	¥68,603	¥1,606	¥382,724

Notes: Geographical segments are determined based on the country/region of domicile of customers.

(2) Tangible fixed assets

Geographical segment information on tangible fixed assets has been omitted as the amount of tangible fixed assets in Japan constituted over 90% of total as of March 31, 2014.

(c) Major customer information

Information on major customers has been omitted as there were no sales to a single customer constituting over 10% of net sales for the year ended March 31, 2014.

Loss on impairment by reportable segment

For the year ended March 31, 2015, ¥926 million ($7,705 thousand) impairment loss was recorded.

Note 1: The above amount consists of elder care facilities of ¥693 million ($5,766 thousand), rental property of ¥165 million ($1,373 thousand), and assets for business of ¥68 million ($565 thousand).

Note 2: The impairment loss was not allocated to operating segments.

For the year ended March 31, 2014, ¥181 million impairment loss was recorded.

Note 1: The above amount consists of rental property of ¥139 million, resort facility of ¥39 million, and assets for business of ¥2 million.

Note 2: The impairment loss was not allocated to operating segments

Amortization of goodwill and unamortized balance by reportable segment

For the year ended March 31, 2015 and 2014, there were no amortization and unamortized balance of goodwill by reportable segment.

Gain on negative goodwill by reportable segment

For the years ended March 31, 2015, negative goodwill has been recognized due to the additional acquisition of share of Pt. SMCC Utama Indonesia, etc.

Gain on negative goodwill was ¥40 million ($332 thousand) for the year ended March 31, 2015.

Gain on negative goodwill was not allocated to operating segments.

For the years ended March 31, 2014, negative goodwill has been recognized due to the acquisition of treasury share of SUMIKEN MITSUI ROAD CO.,LTD.

Gain on negative goodwill was ¥0 million for the year ended March 31, 2014.

Gain on negative goodwill was not allocated to operating segments.

18. Related Party Transactions

(a) Related party transaction

Transactions with affiliates for the year ended March 31, 2015 were summarized as follows:

	Year ended March 31, 2015					
	Capital investment	Number of voting shares held as a percentage of voting shares issued	Nature of transaction	Total amount of transaction	Balance sheet account	Balance at March 31, 2015
			(Millions of yen)			
Affiliated company:						
Yoshiikikaku Co., Ltd. (Real estate business)	¥10	30.0%	Long-term non operating accounts receivable	¥2,579	Long-term non operating accounts receivable	¥3,158
			Long-term accounts payable	¥2,579	Long-term accounts payable	¥2,579

	Year ended March 31, 2015					
	Capital investment	Number of voting shares held as a percentage of voting shares issued	Nature of transaction	Total amount of transaction	Balance sheet account	Balance at March 31, 2015
			(Thousands of U.S. dollars)			
Affiliated company:						
Yoshiikikaku Co., Ltd. (Real estate business)	$83	30.0%	Long-term non operating accounts receivable	$21,461	Long-term non operating accounts receivable	$26,279
			Long-term accounts payable	$21,461	Long-term accounts payable	$21,461

Note 1: Total amount of transaction represents the amount of a claim for damages from Yoshiikikaku Co., Ltd. and the amount of guarantee for financial institution.

Note 2: Allowance for above long-term non operating accounts receivable was recognized in the amount of ¥2,840 million ($23,633 thousand).

Note 3: Consumption tax was excluded from the total amount of the transaction, however it was included in the balance at March 31, 2015.

Transactions with affiliates for the year ended March 31, 2014 were summarized as follows:

	Year ended March 31, 2014					
	Capital investment	Number of voting shares held as a percentage of voting shares issued	Nature of transaction	Total amount of transaction	Balance sheet account	Balance at March 31, 2014
			(Millions of yen)			
Affiliated company:						
Yoshiikikaku Co., Ltd. (Real estate business)	¥10	30.0%	Long-term non operating accounts receivable	¥2,579	Long-term non-operation accounts receivable	¥3,158
			Long-term accounts payable	¥2,579	Long-term accounts payable	¥2,579

Note 1: Total amount of transaction represents the amount of a claim for damages from Yoshiikikaku Co., Ltd. and the amount of guarantee for financial institution.

Note 2: Allowance for above long-term non operating accounts receivable was recognized in the amount of ¥2,840 million. In addition, a provision of allowance for above long-term non operating accounts receivable was ¥60 million for the year ended March 31, 2014.

Note 3: Consumption tax was excluded from the total amount of the transaction, however it was included in the balance at March 31, 2014.

(b) Significant affiliates

(1) The parent information

There is no parent company at March 31, 2015 and 2014.

(2) Financial information about significant affiliates

There is no significant affiliates at March 31, 2015 and 2014

19. Per Share Information

Net assets and basic net income per share as of and for the years ended March 31, 2015 and 2014 were as follows:

	2015	2014	2015
	(Yen)		*(U.S. dollars)*
Net assets per share	¥42.40	¥30.34	$0.353
Net income per share – basic	8.59	5.51	0.071
Net income per share – diluted	8.56	5.17	0.071

The basis of calculation for net assets per share at March 31, 2015 and 2014 were as follows:

	As of March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars)*
Total net assets	¥40,190	¥30,074	$334,442
Amounts deducted from total net assets	5,720	5,567	47,599
[Including paid-in amounts for shares of preferred stock]	[–]	[768]	[–]
[Including cash dividends on preferred stock]	[–]	[10]	[–]
[Including minority interests]	[5,720]	[4,787]	[47,599]
Total net assets attributable to common stock	¥34,469	¥24,507	$286,835
	(Thousands of shares)		
Number of shares of common stock used to determine net assets per share	812,883	807,794	

The basis for calculating basic net income per share – based and net income per share – diluted for the years ended March 31, 2015 and 2014 were as follows:

	Years ended March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars)*
Net income per share – basic:			
Net income	¥6,955	¥4,201	$57,876
Amount not available to common shareholders	–	10	–
[Including cash dividends on preferred stock]	[–]	[10]	[–]
Net income per share – basic	¥6,955	¥4,191	$57,876
	(Thousands of shares)		
Average number of shares of common stock outstanding	809,466	760,510	

	Years ended March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars)*
Net income per share – diluted:			
Adjustment for net income	¥ –	¥ 10	$ –
[Including cash dividends on preferred stock]	[–]	[10]	[–]
	(Thousands of shares)		
Increase in number of share of common stock	3,425	52,449	
[Including preferred stock]	[3,425]	[52,449]	

20. Subsequent Event

There is no information to be disclosed as of March 31, 2015.

21. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans generally represent notes, principally at average annual interest rates of 1.2% and 2.2% at March 31, 2015 and 2014, respectively.

Long-term debt at March 31, 2015 and 2014 was summarized as follows:

	As of March 31,		
	2015	**2014**	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Debt with collateral (at average interest rates of 2.4% at 2015 and 2014)	¥ 1,223	¥1,960	$ 10,177
Debt without collateral (at average interest rates of 1.6% at 2015 and 1.9% at 2014)	10,837	433	90,180
Lease obligations	803	769	6,682
Current portion (excluding lease obligations)	(2,273)	(953)	(18,914)
Current portion of lease obligations	(278)	(274)	(2,313)
Deposits from employees	1,947	1,845	16,202
	¥12,259	¥3,780	$102,013

The aggregate annual maturities of long-term debt subsequent to March 31, 2015 are summarized as follows:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2016	¥ 2,273	$ 18,914
2017	1,690	14,063
2018	7,981	66,414
2019 and thereafter	115	956
	¥12,060	$100,357

The aggregate annual maturities of lease obligations subsequent to March 31, 2015 are summarized as follows:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2016	¥278	$2,313
2017	224	1,864
2018	173	1,439
2019 and thereafter	126	1,048
	¥803	$6,682

22. Other Material Events

SUMIKEN MITSUI ROAD CO.,LTD. was subject to an on-the-spot inspection by the Japanese Fair Trade Commission for suspected violation of the Antitrust Law related to a project contracted by the Tohoku Branch of East Nippon Expressway Co., Ltd. and the Tohoku Regional Development Bureau of the Ministry of Land, Infrastructure and Transport.

SUMIKEN MITSUI ROAD CO.,LTD. is fully cooperating with the investigation by the Fair Trade Commission. In addition, the Company provides guidance and support for the compliance system at SUMIKEN MITSUI ROAD CO.,LTD., the strengthening of risk management and will act to further reinforce group internal controls.

Building a better
working world

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Independent Auditor's Report

The Board of Directors
Sumitomo Mitsui Construction Co., Ltd.

We have audited the accompanying consolidated financial statements of Sumitomo Mitsui Construction Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2015, 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 Sumitomo Mitsui Construction Co., Ltd. and its consolidated subsidiaries as at March 31, 2015, 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 3.

June 26, 2015
Tokyo, Japan

Ernst & Young ShinNihon LLC

Non-Consolidated Financial Statements

Sumitomo Mitsui Construction Co., Ltd.

Year ended March 31, 2015
with Independent Auditor's Report

Non-Consolidated Balance Sheets

March 31, 2015

	As of March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Assets			
Current assets:			
Cash and deposits *(Note 4-(b))*	¥ 28,790	¥ 17,209	$ 239,577
Trade notes receivable	7,275	171	60,539
Accounts receivable on completed construction contracts *(Note 4-(b))*	98,152	105,814	816,776
Inventories	26,969	15,483	224,423
Deferred tax assets *(Note 7)*	1,983	2,545	16,501
Other current assets	12,384	13,297	103,054
Allowance for doubtful receivables	(209)	(457)	(1,739)
Total current assets	175,345	154,064	1,459,141
Non-current assets:			
Property and equipment, at cost:			
Land *(Note 4-(b))*	5,434	5,500	45,219
Buildings *(Note 4-(b))*	4,767	4,749	39,668
Structures *(Note 4-(b))*	737	726	6,132
Machinery and equipment	2,990	2,353	24,881
Vehicles	477	347	3,969
Tools, furniture and fixtures	3,225	3,178	26,836
Construction in progress	145	7	1,206
Accumulated depreciation	(9,332)	(9,219)	(77,656)
Property and equipment, net	8,445	7,643	70,275
Intangible fixed assets	1,261	1,349	10,493
Investments and other assets:			
Investments in securities *(Note 4-(b))*	11,190	5,572	93,118
Investments in subsidiaries and affiliates *(Notes 4-(b) and 6)*	16,271	16,779	135,399
Long-term loans receivable	5,618	5,618	46,750
Long-term loans to employees	743	786	6,182
Long-term prepaid expenses	27	34	224
Deferred tax assets *(Note 7)*	1,482	927	12,332
Other	9,078	10,416	75,542
Allowance for doubtful receivables	(10,977)	(12,014)	(91,345)
Total investments and other assets	33,435	28,120	278,230
Total non-current assets	43,141	37,113	358,999
Total assets	¥218,486	¥191,178	$1,818,140

	As of March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Liabilities and net assets			
Current liabilities:			
Trade notes payable *(Note 4-(a))*	¥ 40,663	¥ 40,148	$ 338,378
Accounts payable on construction contracts *(Note 4-(a))*	63,829	67,781	531,155
Short-term bank loans and current portion of long-term debt *(Notes 4-(b), 4-(d) and 9)*	10,133	14,941	84,322
Income taxes payable	1,871	208	15,569
Advances received on construction contracts in progress	30,435	16,384	253,266
Reserve for defects on completed construction projects	736	680	6,124
Allowance for losses on construction contracts	2,998	1,714	24,947
Other current liabilities	14,851	12,472	123,583
Total current liabilities	165,520	154,332	1,377,382
Long-term liabilities:			
Long-term debt *(Notes 4-(b), 4-(d) and 9)*	9,600	1,217	79,886
Accrued retirement benefits *(Note 3)*	17,171	16,615	142,889
Other long-term liabilities	2,989	2,799	24,873
Total long-term liabilities	29,761	20,632	247,657
Contingent liabilities *(Note 4-(c))*			
Net assets:			
Shareholders' equity:			
Capital stock:	12,003	12,003	99,883
Common stock:			
Authorized:			
2,669,464,970 shares in 2015 and 2014			
Issued and outstanding:			
813,366,605 shares in 2015 and 808,262,394 shares in 2014			
Preferred stock:			
Authorized:			
No shares in 2015 and 26,894,644 shares in 2014			
Issued and outstanding:			
No shares in 2015 and 1,507,500 shares in 2014			
Capital surplus:			
Other capital surplus	399	399	3,320
Total capital surpluses	399	399	3,320
Retained earnings:			
Legal retained earnings	103	102	857
Earned surplus carried forward	9,546	3,621	79,437
Total retained earnings	9,649	3,723	80,294
Treasury stock, at cost:			
482,953 shares in 2015 and 468,382 shares in 2014	(244)	(242)	(2,030)
Total shareholders' equity	21,808	15,884	181,476
Valuation, translation adjustments and other:			
Unrealized holding gain on securities	1,200	300	9,985
Deferred gain on hedging instruments, net of taxes	195	29	1,622
Total valuation, translation adjustments and other	1,396	329	11,616
Total net assets	23,205	16,213	193,101
Total liabilities and net assets	¥218,486	¥191,178	$1,818,140

See accompanying notes to non-consolidated financial statements.

	Years ended March 31,		
	2015	**2014**	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Net sales:			
Completed construction *(Note 5-(a))*	¥284,096	¥280,612	$2,364,117
Others	14	–	116
	284,111	280,612	2,364,242
Cost of sales:			
Completed construction	266,639	268,404	2,218,848
Others	8	–	66
	266,648	268,404	2,218,923
Gross profit			
Completed construction	17,457	12,207	145,269
Others	5	–	41
	17,463	12,207	145,319
Selling, general and administrative expenses *(Note 5-(d))*	11,076	10,485	92,169
Operating income	6,387	1,722	53,149
Other income (expenses):			
Interest and dividend income *(Note 5-(b))*	1,161	729	9,661
Payments received from insurance claims	146	134	1,214
Reversal of allowance for doubtful receivables	320	447	2,662
Exchange gain, net	656	325	5,458
Royalty income *(Note 5-(b))*	573	273	4,768
Reversal of allowance for loss on litigation	–	580	–
Interest expense	(913)	(834)	(7,597)
Transfer agent expense	(186)	(165)	(1,547)
Gain on sales of investments in securities	2	43	16
Gain on liquidation of subsidiaries	–	1	–
Loss on sales and disposal of property and equipment *(Note 5-(c))*	(58)	(9)	(482)
Loss on valuation of investments in subsidiaries and affiliates	(452)	–	(3,761)
Impairment loss	(233)	(139)	(1,938)
Impairment loss on membership	–	(60)	–
Other, net	(417)	(1,077)	(3,470)
	598	249	4,976
Income before income taxes	6,985	1,971	58,125
Income taxes *(Note 7)*:			
Current	1,731	(132)	14,404
Deferred	(480)	439	(3,994)
	1,250	306	10,401
Net income	¥ 5,735	¥ 1,664	$ 47,724
	(Yen)		*(U.S. dollars) (Note 2)*
Net income per share – basic	¥ 7.09	¥ 2.18	$ 0.059
Net income per share – diluted	7.06	2.05	0.059

See accompanying notes to non-consolidated financial statements.

Year ended March 31, 2015

	Shareholders' equity						
		Additional paid-in capital	Retained earnings				
	Capital stock	Other capital surplus	Earned reserve	Earned surplus carried forward	Total retained earnings	Treasury stock, at cost	Total shareholders' equity
				(Millions of yen)			
Balance at the beginning of the period	¥12,003	¥399	¥102	¥3,621	¥3,723	¥(242)	¥15,884
Cumulative effect of change in accounting principle *(Note 3)*				201	201		201
Restated balance at the beginning of the period	12,003	399	102	3,822	3,924	(242)	16,085
Changes in items during the period							
Dividends from surplus				(10)	(10)		(10)
Provision of legal retained earnings			1	(1)	–		–
Net income				5,735	5,735		5,735
Purchases of treasury stock						(2)	(2)
Disposition of treasury stock		(0)				0	0
Net changes in items other than shareholders' equity							
Total changes in items during the period	–	(0)	1	5,723	5,724	(1)	5,722
Balance at the end of the period	¥12,003	¥399	¥103	¥9,546	¥9,649	¥(244)	¥21,808

Year ended March 31, 2015

	Valuation, translation adjustments and other			
	Unrealized holding gain on securities	Deferred gain on hedging instruments, net of taxes	Total valuation, translation adjustments and other	Total net assets
		(Millions of yen)		
Balance at the beginning of the period	¥ 300	¥ 29	¥ 329	¥16,213
Cumulative effect of change in accounting principle *(Note 3)*				201
Restated balance at the beginning of the period	300	29	329	16,415
Changes in items during the period				
Dividends from surplus				(10)
Provision of legal retained earnings				–
Net income				5,735
Purchases of treasury stock				(2)
Disposition of treasury stock				0
Net changes in items other than shareholders' equity	900	166	1,066	1,066
Total changes in items during the period	900	166	1,066	6,789
Balance at the end of the period	¥1,200	¥195	¥1,396	¥23,205

Year ended March 31, 2015

	Shareholders' equity						
		Additional paid-in capital	Retained earnings				
	Capital stock	Other capital surplus	Earned reserve	Earned surplus carried forward	Total retained earnings	Treasury stock, at cost	Total shareholders' equity
	(Thousands of U.S. dollars) (Note 2)						
Balance at the beginning of the period	$99,883	$3,320	$848	$30,132	$30,981	$(2,013)	$132,179
Cumulative effect of change in accounting principle *(Note 3)*				1,672	1,672		1,672
Restated balance at the beginning of the period	99,883	3,320	848	31,804	32,653	(2,013)	133,852
Changes in items during the period							
Dividends from surplus				(83)	(83)		(83)
Provision of legal retained earnings			8	(8)	–		–
Net income				47,724	47,724		47,724
Purchases of treasury stock						(16)	(16)
Disposition of treasury stock		(0)				0	0
Net changes in items other than shareholders' equity							
Total changes in items during the period	–	(0)	8	47,624	47,632	(8)	47,615
Balance at the end of the period	$99,883	$3,320	$857	$79,437	$80,294	$(2,030)	$181,476

Year ended March 31, 2015

	Valuation, translation adjustments and other			
	Unrealized holding gain on securities	Deferred gain on hedging instruments, net of taxes	Total valuation, translation adjustments and other	Total net assets
	(Thousands of U.S. dollars) (Note 2)			
Balance at the beginning of the period	$2,496	$ 241	$ 2,737	$134,917
Cumulative effect of change in accounting principle *(Note 3)*				1,672
Restated balance at the beginning of the period	2,496	241	2,737	136,598
Changes in items during the period				
Dividends from surplus				(83)
Provision of legal retained earnings				–
Net income				47,724
Purchases of treasury stock				(16)
Disposition of treasury stock				0
Net changes in items other than shareholders' equity	7,489	1,381	8,870	8,870
Total changes in items during the period	7,489	1,381	8,870	56,494
Balance at the end of the period	$9,985	$1,622	$11,616	$193,101

Year ended March 31, 2014

	Shareholders' equity						
		Additional paid-in capital	Retained earnings				
	Capital stock	Other capital surplus	Earned reserve	Earned surplus carried forward	Total retained earnings	Treasury stock, at cost	Total shareholders' equity
	(Millions of yen)						
Balance at the beginning of the period	¥12,003	¥400	¥ 83	¥2,164	¥2,247	¥(241)	¥14,409
Cumulative effect of change in accounting principle *(Note 3)*							–
Restated balance at the beginning of the period	12,003	400	83	2,164	2,247	(241)	14,409
Changes in items during the period							
Dividends from surplus				(188)	(188)		(188)
Provision of legal retained earnings			18	(18)	–		–
Net income				1,664	1,664		1,664
Purchases of treasury stock						(1)	(1)
Disposition of treasury stock		(0)				0	0
Net changes in items other than shareholders' equity							
Total changes in items during the period	–	(0)	18	1,456	1,475	(0)	1,474
Balance at the end of the period	¥12,003	¥399	¥102	¥3,621	¥3,723	¥(242)	¥15,884

Year ended March 31, 2014

	Valuation, translation adjustments and other			
	Unrealized holding gain on securities	Deferred gain (loss) on hedging instruments, net of taxes	Total valuation, translation adjustments and other	Total net assets
	(Millions of yen)			
Balance at the beginning of the period	¥204	¥139	¥343	¥14,753
Cumulative effect of change in accounting principle *(Note 3)*				–
Restated balance at the beginning of the period	204	139	343	14,753
Changes in items during the period				
Dividends from surplus				(188)
Provision of legal retained earnings				–
Net income				1,664
Purchases of treasury stock				(1)
Disposition of treasury stock				0
Net changes in items other than shareholders' equity	96	(109)	(13)	(13)
Total changes in items during the period	96	(109)	(13)	1,460
Balance at the end of the period	¥300	¥ 29	¥329	¥16,213

See accompanying notes to non-consolidated financial statements.

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying non-consolidated financial statements of Sumitomo Mitsui Construction Co., Ltd. (the "Company") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the non-consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

Certain reclassifications have been made to present the accompanying financial statements in a format which is familiar to readers outside Japan. In addition, certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying financial statements do not necessarily agree with the sums of the individual amounts.

(b) Securities and Investments in Subsidiaries and Affiliates

The accounting standard for financial instruments requires that securities be classified into three categories: trading, held-to-maturity or other securities. Under this standard, trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities for which market prices are determinable are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method. Investments in subsidiaries and affiliates are stated at cost determined by the moving average method.

(c) Inventories

Inventories other than materials and supplies are stated at cost determined by the specific identification method. Materials and supplies are valued at cost determined by the average method. Book values are written down based on any decline in profitability.

(d) Depreciation and Amortization

(1) Property and equipment (except leased assets)

Depreciation of property and equipment (except leased assets) is determined by the declining-balance method based on the estimated useful lives of the respective assets as prescribed in the Corporation Tax Law of Japan except that the straight-line method is applied to office buildings acquired on or after April 1, 1998.

(2) Intangible fixed assets (except leased assets) and long-term prepaid expenses

Amortization of intangible fixed assets (except leased assets) and long-term prepaid expenses is calculated by the straight-line method based on the estimated useful lives of the respective assets as prescribed in the Corporation Tax Law of Japan. Amortization of computer software for internal use is calculated by the straight-line method over the estimated useful lives of 5 years.

(3) Leased assets

Depreciation of leased assets under finance leases other than those that transfer the ownership of the leased assets to the lessees is calculated by the straight-line method over the lease term with a residual value of zero.

Finance leases other than those that transfer the ownership of the leased assets to the lessees, whose commencement dates are on or before March 31, 2008, continue to be accounted for in a similar manner as operating leases.

(e) Advances Received on Construction Contracts in Progress

As is customary in Japan, the Company receives payments from customers on an installment basis in accordance with the terms of the respective construction contracts.

(f) Allowance for Doubtful Receivables

The allowance for doubtful receivables is provided for future losses on general receivables at an amount calculated by applying the percentage of actual losses on collection experienced in the past, and an uncollectible amount for doubtful receivables estimated based on an individual assessment of each receivable and probability of collection.

(g) Reserve for Defects on Completed Construction Projects

A reserve has been provided at an estimated amount for the fiscal year’s sales proceeds in order to cover the liability for future costs of defects of the completed construction projects.

(h) Allowance for Losses on Construction Contracts

An allowance has been provided based on the estimated amount for the future losses on construction projects in progress at the fiscal year end which are anticipated to be substantial losses in the future.

(i) Employees' Retirement Benefits

(1) Method of attributing expected retirement benefits to periods

In calculating the retirement benefit obligation, the benefit formula method is applied to attribute the expected retirement benefits to the periods up to year ended March 31, 2015.

(2) Amortization of actuarial gain or loss, prior service cost and net retirement benefit obligation at transition

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over periods (11 years), which are shorter than the average remaining years of service of the employees.

Prior service cost is being amortized as incurred by the straight-line method over periods (11 years), which are shorter than the average remaining years of service of the employees.

The net retirement benefit obligation at transition is being amortized by the straight-line method over a period of 15 years.

(j) Recognition of Revenues and Costs on Construction Contracts

Revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage-of-completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method is applied for contracts for which the percentage of completion cannot be reliably estimated.

Revenues and costs of construction contracts that commenced on or before March 31, 2009, which cover a construction period longer than 12 months are, in principle, also recognized by the percentage-of-completion method, except for total revenue on long-term contracts of less than ¥500 million.

(k) Derivatives and Hedge Accounting

(1) Method of hedge accounting

Derivative financial instruments are mainly stated at fair value except those accounted for under deferred hedge accounting.

Foreign exchange forward contracts qualifying for allocation accounting are translated at the contract rate.

Interest rate swaps qualifying for hedge accounting and meeting specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreement is charged or credited to income (short-cut method).

(k) Derivatives and Hedge Accounting (continued)

(2) Hedging instruments and hedged items

Hedging instruments:	Forward foreign exchange forward contracts Interest rate swaps
Hedged items:	Future foreign currency transactions Interest on debt

(3) Hedging policy

The Company utilizes foreign exchange forward contracts and interest rate swaps only for the purpose of hedging future risks of fluctuation of foreign currency exchange rates or interest rates.

(4) Assessment of hedge effectiveness

An evaluation of hedge effectiveness for a foreign exchange forward contract is performed on a quarterly basis to confirm that amount of the foreign exchange contract is within amount of the underlying hedged item to assess whether the forward contract qualifies for hedge accounting.

An evaluation of hedge effectiveness for interest rate swaps is not performed as all meet specified criteria under the short-cut method.

(l) Accounting for Retirement Benefits

Accounting for unrecognized actuarial loss, unrecognized prior service cost and unrecognized net retirement benefit obligation at transition on non-consolidated financial statements is different from the accounting on consolidated financial statements.

(m) Consumption Taxes

Consumption taxes are accounted for by the tax exclusion method.

(n) Income Taxes

Deferred tax assets and liabilities are determined based on the differences between the amounts calculated for financial reporting purposes and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

The Company has adopted the consolidated taxation system.

2. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥120.17 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2015. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

3. Changes in Accounting Methods

The Company has adopted the main clause of Section 35 of "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 issued on May 17, 2012) and the main clause of Section 67 of "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 issued on March 26, 2015) effective from April 1, 2014. The methods for calculating retirement benefit obligation and service cost have been revised in the following respects: the methods for attributing the expected retirement benefits to the periods has been changed from the straight-line method to the benefit formula method, and the method for determining the discount rate has been changed from the method of determining the period of bonds, which is a basis for deciding on the discount rate, based on the number of years, which is approximate to the average remaining years of service of employees to method of using a single weighted-average discount rate reflecting the expected timing and amounts of payments.

The cumulative effect of changing the method for calculating the retirement benefit obligation and service cost was recognized by adjusting retained earnings at April 1, 2014, in accordance with the transitional treatment provided in Paragraph 37 of Accounting Standard for Retirement Benefits. As a result, accrued retirement benefits decreased by ¥201 million ($1,672 thousand) and retained earnings increased by ¥201 million ($1,672 thousand) at April 1, 2014.

The effect of these changes on profit and loss for the year ended March 31, 2015 is immaterial. In addition, the effect of these changes on net assets per share, net income per share and diluted net income per share is immaterial.

4. Notes to Non-Consolidated Balance Sheets

(a) Outstanding Balances with Subsidiaries and Affiliates

Significant outstanding balances for subsidiaries and affiliates other than individually presented on the accompanying non-consolidated balance sheets at March 31, 2015 and 2014 were as follows:

	As of March 31,		
	2015	**2014**	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Trade notes payable	¥ 863	¥ 822	$ 7,181
Accounts payable on construction contracts	13,252	16,047	110,277

(b) Pledged Assets

The following assets were pledged at March 31, 2015 and 2014 principally as collateral for short-term bank loans, long-term debt and guarantees (such as guarantees for the completion of construction contracts):

	As of March 31,		
	2015	**2014**	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and deposits	¥ –	¥ 539	$ –
Accounts receivable on completed construction contracts	–	25	–
Land	5,209	5,209	43,346
Buildings, net of accumulated depreciation	301	328	2,504
Structures, net of accumulated depreciation	27	26	224
Investments in securities	7,424	2,606	61,779
Investments in subsidiaries and affiliates	364	364	3,029
	¥13,326	¥9,101	$110,892

The secured liabilities as of March 31, 2015 and 2014 are summarized as follows:

	As of March 31,		
	2015	**2014**	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Short-term bank loans	¥5,700	¥10,763	$47,432
[Including current portion of long-term debt]	[700]	[700]	[5,825]
Long-term debt	300	1,000	2,496

(c) Contingent Liabilities

At March 31, 2015 and 2014, the Company was contingently liable for the following:

	As of March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars)*
As guarantor of bank loans to customers, subsidiaries, an affiliate and employees	¥993	¥1,047	$8,263
Advance deposits	924	–	7,689
As endorsers of notes receivable discounted with banks	190	242	1,581
As endorsers of other current assets (Non-operating notes receivable) discounted with banks	122	88	1,015

(d) Financial covenants

The Company has entered into a syndicated loan contract with its seven banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2015 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014, or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥9,500 million ($79,054 thousand) in long-term debt (including the current portion) as of March 31, 2015.

5. Notes to Non-Consolidated Statements of Income

(a) Net Sales Based on Percentage-of-completion Method

Net sales on construction contracts accounted for under the percentage-of-completion method amounted to ¥235,443 million ($1,959,249 thousand) and ¥230,978 million for the years ended March 31, 2015 and 2014, respectively.

(b) Transactions with Subsidiaries and Affiliates

Significant transactions with subsidiaries and affiliates other than individually presented on the accompanying non-consolidated statements of income for the years ended 2015 and 2014 were as follows:

	Years ended March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars)*
Dividend income	¥895	¥462	$7,447
Royalty income	573	273	4,768

(c) Loss on Sales and Disposal of Property and Equipment

The significant components of loss on sales and disposal of property and equipment for the years ended March 31, 2015 and 2014 were as follows:

	Years ended March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars)*
Loss on disposal	¥30	¥9	$249
Loss on sales	–	0	–
Others	28	–	233
Total	¥58	¥9	$482

(d) Selling, General and Administrative Expenses

The significant components of selling, general and administrative expenses for the years ended March 31, 2015 and 2014 were as follows:

	Years ended March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars)*
Salaries and wages	¥ 4,676	¥ 4,460	$38,911
Rent	1,056	1,027	8,787
Retirement benefit expenses	854	928	7,106
Communication and traveling expenses	839	825	6,981
Legal welfare expenses	725	674	6,033
Depreciation expenses	487	439	4,052
Other	2,435	2,128	20,262
Total	¥11,076	¥10,485	$92,169

6. Securities

Stocks of subsidiaries and affiliates at March 31, 2015 and 2014 were as follows:

	As of March 31, 2015					
	Carrying value	Fair value	Unrealized gain	Carrying value	Fair value	Unrealized gain
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Stocks of a subsidiary	¥717	¥2,540	¥1,823	$5,966	$21,136	$15,170

	As of March 31, 2014		
	Carrying value	Fair value	Unrealized gain
	(Millions of yen)		
Stocks of a subsidiary	¥717	¥2,142	¥1,424

Note: Stocks of subsidiaries and affiliates for which it is extremely difficult to determine market values were excluded from the above as follows:

	As of March 31,		
	2015	2014	2015
	Carrying value		
	(Millions of yen)		*(Thousands of U.S. dollars)*
Stocks of a subsidiaries	¥2,458	¥2,696	$20,454
Stocks of a affiliates	10	6	83

7. Income Taxes

The significant components of the Company's deferred tax assets and liabilities at March 31, 2015 and 2014 were as follows:

	As of March 31,		
	2015	2014	2015
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Accrued retirement benefits	¥ 5,571	¥ 5,921	$ 46,359
Allowance for bad debts	2,940	2,871	24,465
Account payable and accrued expenses	1,069	929	8,895
Loss on devaluation of investments in subsidiaries and affiliates	941	875	7,830
Allowance for losses on construction contracts	520	611	4,327
Reserve for defects on completed construction projects	243	242	2,022
Tax loss carryforwards	210	1,952	1,747
Other	500	315	4,160
Gross deferred tax assets	11,997	13,720	99,833
Valuation allowance	(7,857)	(10,060)	(65,382)
Total deferred tax assets	4,140	3,660	34,451
Deferred tax liabilities:			
Unrealized holding gain on securities	(573)	(165)	(4,768)
Deferred gain on hedging instruments, net of taxes	(96)	(16)	(798)
Asset retirement obligations	(4)	(5)	(33)
Total deferred tax liabilities	(674)	(187)	(5,608)
Net deferred tax assets	¥ 3,465	¥ 3,472	$ 28,834

The following table summarizes the significant differences between the statutory tax rates and the effective tax rates for the years ended March 31, 2015 and 2014:

	Years ended March 31,	
	2015	2014
Statutory tax rates	35.6 %	38.0 %
Non-deductible expenses	1.5	7.8
Non-taxable income	(4.4)	(9.1)
Per capita inhabitants' taxes	0.1	(6.7)
Tax credit	(3.0)	–
Valuation allowance	(17.4)	(26.6)
Change in corporate tax rate	5.8	12.5
Other	(0.3)	(0.3)
Effective tax rates	17.9 %	15.6 %

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 9 of 2015) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 2 of 2015) were promulgated on March 31, 2015 and the effective statutory tax rate used to measure deferred tax assets and liabilities was changed from 35.6% for the year ended March 31, 2014 to 33.1% for those for which taxes are expected to be returned or paid from April 1, 2015 to March 31, 2016, and to 32.3% for those for which taxes are expected to be returned or paid on or after April 1, 2016.

As a result, net deferred tax assets (after deducting deferred tax liabilities) decreased ¥340 million ($2,829 thousand), income taxes-deferred increased ¥406 million ($3,378 thousand), Unrealized holding gain on securities increased ¥58 million ($482 thousand) and deferred gain on hedging instruments, net of taxes increased ¥7 million ($58 thousand) as of and for the year ended March 31, 2015.

8. Subsequent Event

There is no information to be disclosed as of March 31, 2015.

9. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans generally represent notes, principally at average interest rates of 1.2% and 2.2% at March 31, 2015 and 2014, respectively.

Long-term debt at March 31, 2015 and 2014 were summarized as follows:

	As of March 31,		
	2015	**2014**	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Debt with collateral (at average interest rates of 2.4% and 2.3% at 2015 and 2014)	¥1,000	¥1,700	$ 8,321
Less current portion	(700)	(700)	(5,825)
	¥ 300	¥1,000	$ 2,496

EY
Building a better working world

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Independent Auditor's Report

The Board of Directors
Sumitomo Mitsui Construction Co., Ltd.

We have audited the accompanying non-consolidated financial statements of Sumitomo Mitsui Construction Co., Ltd. which comprise the non-consolidated balance sheet as at March 31, 2015, and the non-consolidated statements of income, changes in net assets 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 Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-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 non-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 non-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 non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. The purpose of an audit of the non-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 non-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 non-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 non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sumitomo Mitsui Construction Co., Ltd. as at March 31, 2015, and its financial performance for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these non-consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying non-consolidated financial statements have been properly translated on the basis described in Note 2.

June 26, 2015
Tokyo, Japan

Ernst & Young ShinNihon LLC

CORPORATE OUTLINE

Corporate Name:
Sumitomo Mitsui Construction Co.,Ltd.

Established:
October 14, 1941

Permission:
(Special-23)No.200, Specified Constructor, granted by the Minister of Land, Infrastructure and Transport

License:
(15)No.1, Housing, Land and Building Dealer, granted by the Minister of Land, Infrastructure and Transport

Main Scope of Business:
1) To contract, plan, design and/or supervise civil engineering, architectural, prestressed concrete, electrical, piping and other works

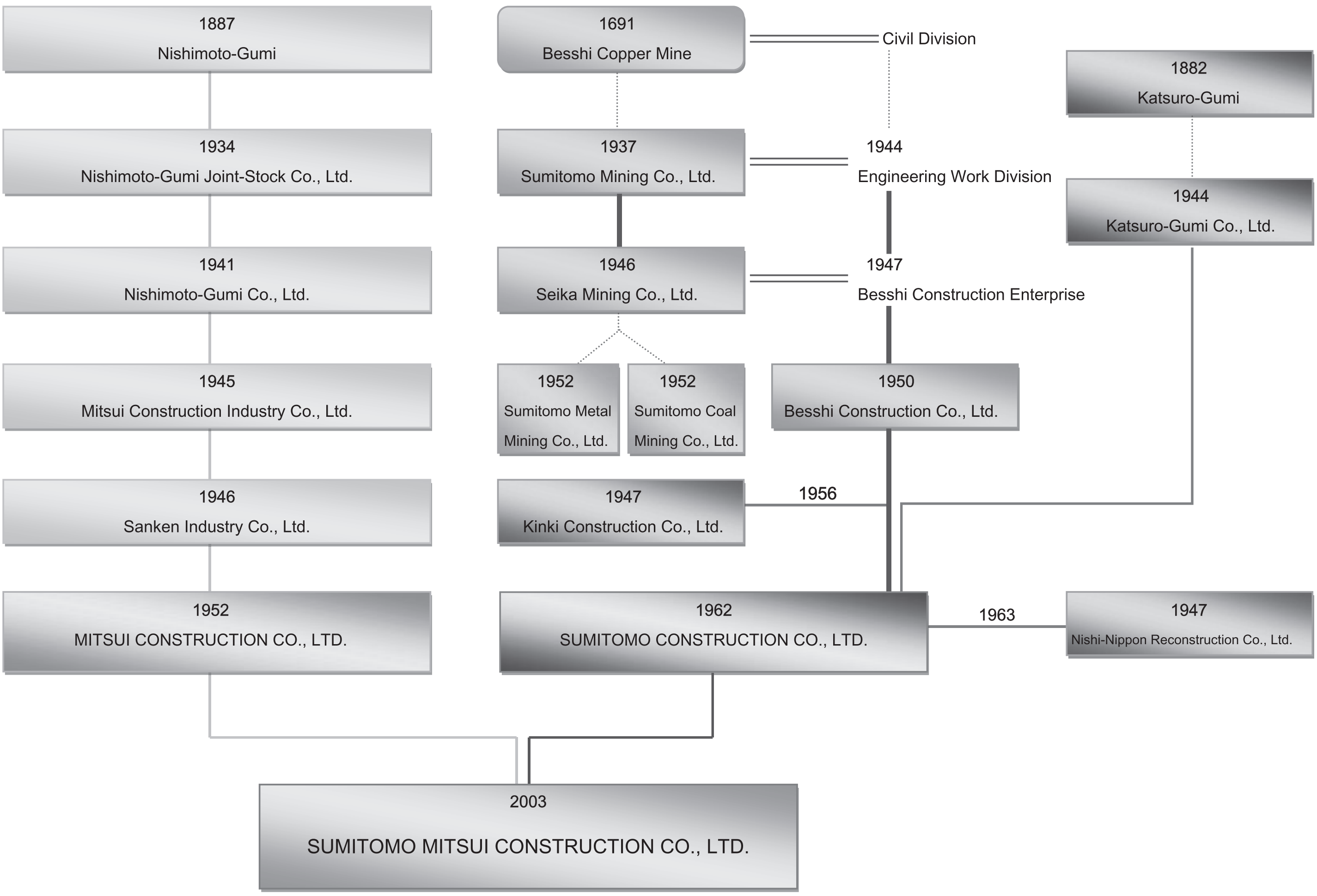
2) To plan, design and supervise marine development, regional development, urban development, natural resource development and environment maintenance

3) To manufacture, sell and lease materials for civil and building works, prestressed concrete products, seismic isolating device, seismic damping device, and other machinery and instruments

Main Banks
Sumitomo Mitsui Banking Corporation
Sumitomo Mitsui Trust Bank, Ltd

Main Shareholders
Japan Trustee Services Bank, Ltd.
The Master Trust Bank of Japan, Ltd.
Mitsui Fudosan Co., Ltd.
State Street Bank and Trust Company 505041
Matsui Securities Co., Ltd.

Corporate History



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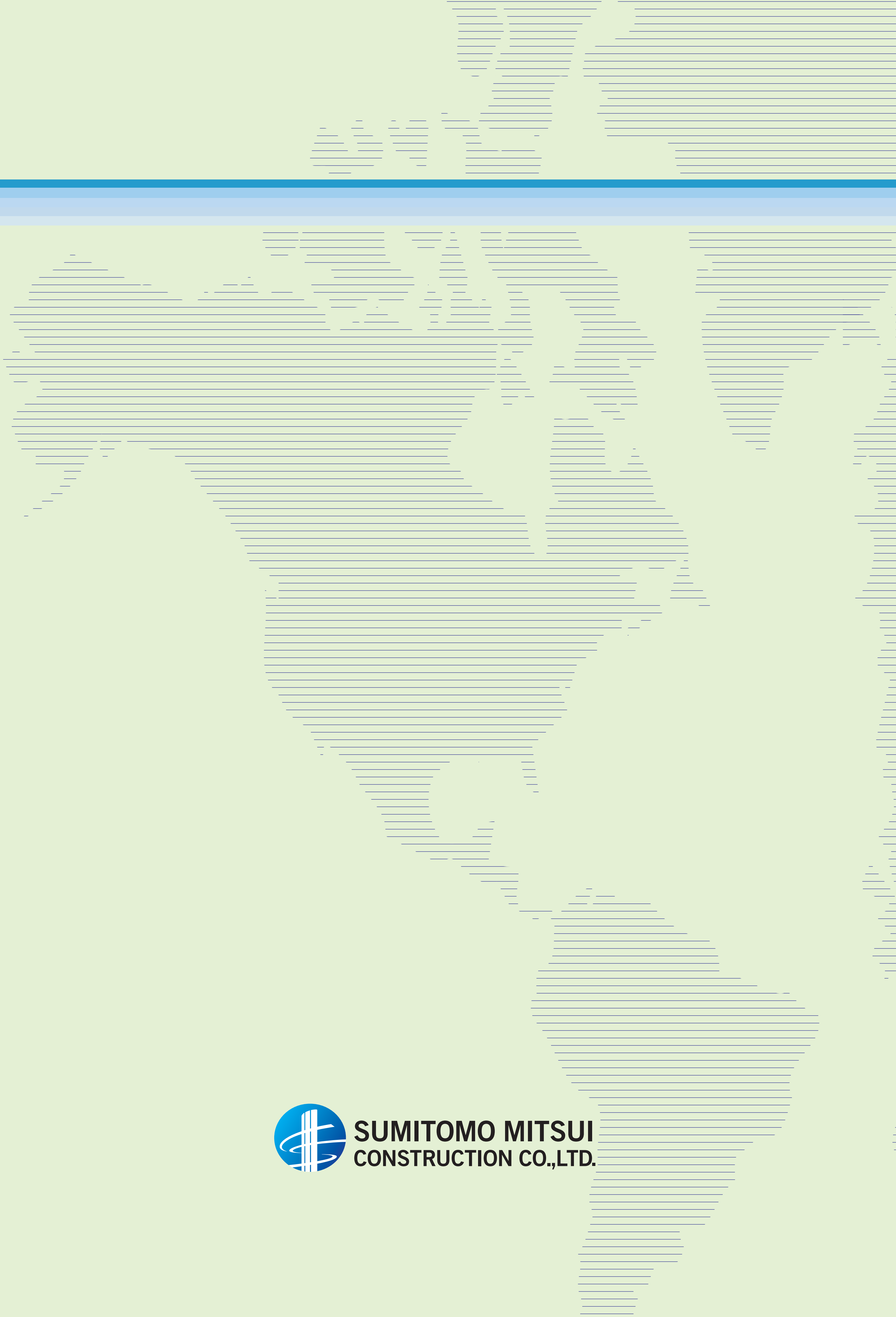

SUMITOMO MITSUI
CONSTRUCTION CO.,LTD.