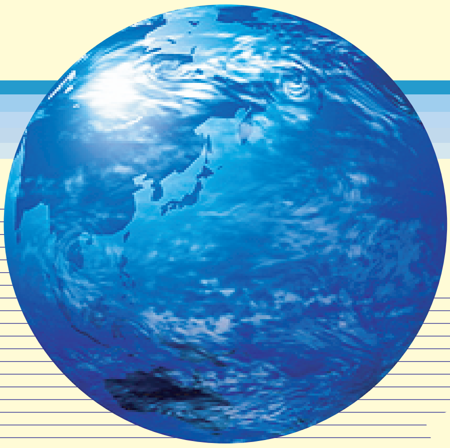

ANNUAL REPORT 2016

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

Ⅰ. Review of the Year ended March 31, 2016

For the fiscal year ended March 31, 2016, the Japanese economy has shown modest recovery through steady growth in corporate earnings, improved employment and personal incomes, despite some weakness in consumer spending. As for the economic outlook, there is growing uncertainty due to economic slowdown in emerging countries, a decline in crude oil prices, and turbulence in the financial markets. The Japanese government is expected to continue supporting the economy by utilizing various economic measures.
In the domestic construction market, we have seen a solid growth in construction demand, led by increased corporate earnings and private capital investments. The market is forecast to show steady growth for the time being, owing to many large-scale projects planned in metropolitan areas such as Olympic related facilities. However, careful attention should be paid to supply-demand trends in the labor market as there are increasing concerns over the shortage of skilled construction workers, which once showed a sign of stability.

For the year ended March 31, 2016, consolidated net sales amounted to 415.0 billion yen, up 37.1 billion yen from the previous fiscal year, principally due to brisk progress in both Civil and Building works and the completion of a large volume of new buildings.
With regard to earnings, the effect of increased net sales, as well as an increase in earnings from Civil works and improved profitability of Building works, substantially contributed to the improvement of gross profit from completed works. In overseas business, due to brisk progress toward the completion of works and the successful big contracts from new customers, the SMCC Group has achieved profitability as originally planned. As a result, consolidated operating income amounted to 23.4 billion yen, up 11.1billion yen from the previous fiscal year, which is a record high since its merger. However, mainly due to 2.2 billion yen extraordinary loss providing allowance for contingency losses as a consequence of the problem of the piling works for condominiums in Yokohama in 2015, consolidated profit attributable to owners of parent was 9.9 billion yen, up 2.9 billion yen from the previous fiscal year.

Ⅱ.The Mid-Term Management Plan

The SMCC Group has started "The Mid-term Management Plan 2016-2018." (as "PLAN" here in after) By placing top priority on the restoration of creditability lost by quality scandal in Yokohama, we are determined again to exert group-wide efforts to enhance our corporate value. Accordingly, we have formulated a group vision from a longer-term perspective and established long-term management policies to be pursued in order to materialize the vision.

(i) Group vision

○ Group vision "Our future direction," from the respective perspectives of management, technology and employees: ・Corporate group that secures solid profitability and achieves sustainable growth ・Corporate group that challenges to address social issues with its unique Technologies and services ・Corporate group that expands its activities both in Japan and overseas by placing emphasis on faith and sincerity and keeping its pride in participating in building a society

○ Long-term management policies ・Enhance manufacturing capabilities ・Create an attractive corporate culture ・Strengthen the competitiveness and profitability of construction business ・Build a multilayered earnings base enabling us to respond to changes in the business environment ・Promote corporate social responsibility (CSR) in management

To be specific:
- Enhance manufacturing capabilities by strengthening the development of technologies and reforming production systems.
- Create an attractive corporate culture through securing, cultivating and vitalizing human resources.
- Strengthen the competitiveness and profitability of our three core segments: Civil in Japan, Building in Japan and overseas business
- Build a multilayered earnings base by promoting new businesses and businesses in new areas.
- Promote CSR in management; that is, conduct business with social responsibility.

(ii) Outline of the "PLAN "

Based on our utmost theme of "Restoring creditability and enhancing our corporate value," we have selected "Enhance manufacturing capabilities" and "Create an attractive corporate culture" listed in the long-term management policies as "Themes to be focused on" that should be tackled extensively during the period of the plan. We will also devise business strategies by segment and earnestly implement various measures, with the aim of achieving performance targets.

○ Themes to be focused on

・"Reform production systems"

Based on the recognition that it is the most important challenge to restore creditability in our quality, we will exert our efforts to ensure quality, as well as address structural issues, including the retaining of workers and improvement of productivity, as themes we should solve in our production systems.

・"Secure, cultivate and vitalize human resources"

With regard to "manpower," which is the basis of a company, we, in the face of such issues as the shortage and aging of workers, will endeavor to secure and cultivate human resources and materialize a vibrant, attractive corporate group.

○ Business targets of the "PLAN" for the year ending March 31, 2019 (FY 2018) (consolidated)

・Net sales: 440.0 billion yen

・Operating income to sales ratio: 5% or more

・Capital-to-asset ratio: 20% or more

・Dividend payout ratio: 20% or more

The SMCC Group will exert concerted efforts to implement the plan to restore creditability and enhance its 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, 2016
with Independent Auditor's Report

	As of March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Assets			
Current assets:			
Cash and deposits *(Notes 6-(b), 10 and 11)*	¥ 66,209	¥ 53,305	$ 587,584
Trade notes receivable, accounts receivable on completed construction contracts and other *(Note 11)*	134,596	128,591	1,194,497
Inventories *(Notes 6-(a) and 6-(e))*	29,530	30,975	262,069
Deferred tax assets *(Notes 5 and 15)*	3,175	2,817	28,177
Other current assets	13,854	11,442	122,949
Allowance for doubtful receivables *(Note 11)*	(41)	(98)	(363)
Total current assets	247,325	227,033	2,194,932
Non-current assets:			
Property and equipment, at cost:			
Land *(Notes 6-(b) and 6-(c))*	15,463	16,308	137,229
Buildings and structures *(Note 6-(b))*	16,288	16,056	144,550
Machinery, equipment and vehicles *(Note 6-(b))*	18,417	19,032	163,445
Construction in progress	62	162	550
Accumulated depreciation	(25,606)	(26,813)	(227,245)
Property and equipment, net	24,626	24,746	218,548
Intangible fixed assets	2,022	1,931	17,944
Investments and other assets:			
Investments in securities *(Notes 6-(b), 11 and 12)*	10,383	11,451	92,145
Long-term loans receivable *(Note 11)*	6,273	6,394	55,670
Deferred tax assets *(Notes 5 and 15)*	1,152	1,784	10,223
Investments in unconsolidated subsidiaries and affiliates	1,199	1,213	10,640
Other *(Note 6-(b))*	7,206	13,513	63,951
Allowance for doubtful receivables *(Note 11)*	(6,526)	(8,618)	(57,916)
Total investments and other assets	19,688	25,739	174,724
Total non-current assets	46,337	52,416	411,226
Total assets	¥293,663	¥279,450	$2,606,167

	As of March 31,		
	2016	**2015**	**2016**
	(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)*	¥115,745	¥132,552	$1,027,200
Electronically recorded payable (*Note 11)*	22,096	–	196,095
Short-term bank loans and current portion of long-term debt *(Notes 6-(b), 6-(f), 11 and 20)*	4,418	10,210	39,208
Accrued expenses	5,676	4,800	50,372
Income tax payable	4,701	2,732	41,719
Advances received on construction contracts in progress	31,926	34,802	283,333
Reserve for defects on completed construction projects	800	866	7,099
Allowance for losses on construction contracts *(Note 6-(e))*	939	3,027	8,333
Allowance for contingency loss	2,152	–	19,098
Allowance for loss related to Antitrust Law	287	–	2,547
Other current liabilities *(Note 6-(b))*	12,825	14,172	113,817
Total current liabilities	201,569	203,167	1,788,862
Long-term liabilities:			
Long-term debt *(Notes 6-(b), 6-(f), 11 and 20)*	18,971	9,787	168,361
Deferred tax liability on land revaluation *(Note 6-(c))*	285	304	2,529
Liability for retirement benefits *(Note 14)*	19,474	20,604	172,825
Other long-term liabilities *(Note 6-(b))*	5,225	5,396	46,370
Total long-term liabilities	43,957	36,092	390,104
Contingent liabilities *(Notes 6-(d) and 17)*			
Net assets:			
Shareholders' equity:			
Capital stock:	12,003	12,003	106,522
Common stock:			
Authorized:			
2,669,464,970 shares in 2016 and 2015			
Issued and outstanding:			
813,366,605 shares in 2016 and 2015			
Additional paid-in capital	523	479	4,641
Retained earnings	30,131	21,039	267,403
Treasury stock, at cost:			
501,516 shares in 2016 and 482,953 shares in 2015	(246)	(244)	(2,183)
Total shareholders' equity	42,412	33,278	376,393
Accumulated other comprehensive income:			
Unrealized holding gain on securities	373	1,204	3,310
Deferred gain on hedging instruments, net of taxes *(Note 13)*	6	195	53
Land revaluation *(Note 6-(c))*	56	52	496
Translation adjustments	(130)	205	(1,153)
Retirement benefits liability adjustment *(Note 14)*	(652)	(467)	(5,786)
Total accumulated other comprehensive income (loss)	(345)	1,191	(3,061)
Non-controlling interests	6,069	5,720	53,860
Total net assets	48,136	40,190	427,192
Total liabilities and net assets	¥293,663	¥279,450	$2,606,167

The accompanying notes are an integral part of these statements.

	Years ended March 31,		
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Net sales *(Note 7-(a))*	¥414,958	¥377,825	$3,682,623
Cost of sales *(Notes 7-(b) and 7-(d))*	375,163	349,874	3,329,455
Gross profit	39,794	27,950	353,159
Selling, general and administrative expenses *(Notes 7-(c), 7-(d) and 14)*	16,429	15,685	145,802
Operating income	23,364	12,265	207,348
Other income (expenses):			
Interest and dividend income	869	833	7,712
Payments received from insurance claims	138	163	1,224
Exchange (loss) gain, net	(558)	652	(4,952)
Interest expense	(532)	(866)	(4,721)
Gain on sales of property and equipment *(Note 7-(e))*	17	24	150
Gain on sales of investment in securities *(Note 12-(c))*	3	2	26
Gain on negative goodwill	–	40	–
Loss on sales and disposal of property and equipment *(Note 7-(f))*	(353)	(108)	(3,132)
Impairment loss *(Note 7-(g))*	(711)	(926)	(6,309)
Loss on allowance for contingency loss	(2,152)	–	(19,098)
Loss on allowance for loss related to Antitrust Law	(287)	–	(2,547)
Other, net	(1,625)	(1,047)	(14,421)
	(5,191)	(1,231)	(46,068)
Profit before income taxes	18,173	11,033	161,279
Income taxes *(Note 15)*:			
Current	6,786	4,024	60,223
Deferred	725	(781)	6,434
	7,511	3,243	66,657
Profit	10,661	7,790	94,613
Profit attributable to:			
Non-controlling interests	759	835	6,735
Owners of parent	¥ 9,902	¥ 6,955	$ 87,877
	(Yen)		*(U.S. dollars) (Note 3)*
Profit per share – basic *(Note 18)*	¥ 12.18	¥ 8.59	$ 0.108
Profit per share – diluted *(Note 18)*	–	8.56	–

The accompanying notes are an integral part of these statements.

	Years ended March 31,		
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Profit	¥10,661	¥ 7,790	$ 94,613
Other comprehensive income:			
Unrealized holding (loss) gain on securities	(830)	911	(7,365)
Deferred (loss) gain on hedging instruments, net of taxes	(188)	166	(1,668)
Land revaluation	16	31	141
Translation adjustments	(481)	719	(4,268)
Retirement benefits liability adjustments	(262)	349	(2,325)
Share of other comprehensive income of affiliates accounted for by the equity method	–	38	–
Total other comprehensive income *(Note 8)*	(1,746)	2,216	(15,495)
Comprehensive income	¥ 8,914	¥10,007	$ 79,108
Comprehensive income attributable to:			
Owners of the parent	¥ 8,368	¥ 8,923	$ 74,263
Non-controlling interests	546	1,083	4,845

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes In Net Assets

March 31, 2016

	Year ended March 31, 2016				
	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	¥21,039	¥(244)	¥33,278
Cumulative effect of change in accounting principle					–
Restated balance at the beginning of the period	12,003	479	21,039	(244)	33,278
Changes in items during the period:					
Change in a parent's ownership interest due to transaction with non-controlling interests		43			43
Dividends from surplus			(812)		(812)
Profit attributable to owners of the parent			9,902		9,902
Purchases of treasury stock				(2)	(2)
Disposition of treasury stock		(0)		0	0
Reversal of land revaluation			2		2
Net changes in items other than shareholders' equity					
Total changes in items during the period	–	43	9,092	(2)	9,133
Balance at the end of the period	¥12,003	¥523	¥30,131	¥(246)	¥42,412

	Year ended March 31, 2016							
	Accumulated other comprehensive income							
	Unrealized holding gain (loss) on securities	Deferred gain (loss) on hedging instruments, net of taxes	Land revaluation	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	(Millions of yen)							
Balance at the beginning of the period	¥1,204	¥ 195	¥52	¥ 205	¥(467)	¥ 1,191	¥5,720	¥40,190
Cumulative effect of change in accounting principle								–
Restated balance at the beginning of the period	1,204	195	52	205	(467)	1,191	5,720	40,190
Changes in items during the period:								
Change in a parent's ownership interest due to transaction with non-controlling interests								43
Dividends from surplus								(812)
Profit attributable to owners of parent								9,902
Purchases of treasury stock								(2)
Disposition of treasury stock								0
Reversal of land revaluation								2
Net changes in items other than shareholders' equity	(830)	(188)	3	(336)	(185)	(1,536)	348	(1,187)
Total changes in items during the period	(830)	(188)	3	(336)	(185)	(1,536)	348	7,945
Balance at the end of the period	¥ 373	¥ 6	¥56	¥(130)	¥(652)	¥ (345)	¥6,069	¥48,136

	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
	Year ended March 31, 2016				
	Shareholders' equity				
	(Thousands of U.S. dollars) (Note 3)				
Balance at the beginning of the period	$106,522	$4,250	$186,714	$(2,165)	$295,331
Cumulative effect of change in accounting principle					
Restated balance at the beginning of the period	106,522	4,250	186,714	(2,165)	295,331
Changes in items during the period:					
Change in a parent's ownership interest due to transaction with non-controlling interests		381			381
Dividends from surplus			(7,206)		(7,206)
Profit attributable to owners of parent			87,877		87,877
Purchases of treasury stock				(17)	(17)
Disposition of treasury stock		(0)		0	0
Reversal of land revaluation			17		17
Net changes in items other than shareholders' equity					
Total changes in items during the period	–	381	80,688	(17)	81,052
Balance at the end of the period	$106,522	$4,641	$267,403	$(2,183)	$376,393

	Unrealized holding gain (loss) on securities	Deferred gain (loss) on hedging instruments, net of taxes	Land revaluation	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	Year ended March 31, 2016							
	Accumulated other comprehensive income							
	(Thousands of U.S. dollars) (Note 3)							
Balance at the beginning of the period	$10,685	$ 1,730	$461	$ 1,819	$(4,144)	$ 10,569	$50,763	$356,673
Cumulative effect of change in accounting principle								
Restated balance at the beginning of the period	10,685	1,730	461	1,819	(4,144)	10,569	50,763	356,673
Changes in items during the period:								
Change in a parent's ownership interest due to transaction with non-controlling interests								381
Dividends from surplus								(7,206)
Profit attributable to owners of parent								87,877
Purchases of treasury stock								(17)
Disposition of treasury stock								0
Reversal of land revaluation								17
Net changes in items other than shareholders' equity	(7,365)	(1,668)	26	(2,981)	(1,641)	(13,631)	3,088	(10,534)
Total changes in items during the period	(7,365)	(1,668)	26	(2,981)	(1,641)	(13,631)	3,088	70,509
Balance at the end of the period	$ 3,310	$ 53	$496	$(1,153)	$(5,786)	$ (3,061)	$53,860	$427,192

	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			267		267
Restated balance at the beginning of the period	12,003	479	14,094	(242)	26,335
Changes in items during the period:					
Change in a parent's ownership interest due to transaction with non-controlling interests					
Dividends from surplus			(10)		(10)
Profit attributable to owners of parent			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	Non-controlling 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							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:								
Change in a parent's ownership interest due to transaction with non-controlling interests								–
Dividends from surplus								(10)
Profit attributable to owners of parent								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

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

March 31, 2016

	Years ended March 31,		
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Operating activities			
Profit before income taxes	¥18,173	¥ 11,033	$161,279
Depreciation and amortization	1,832	1,791	16,258
Impairment loss	711	926	6,309
Increase (decrease) in allowance for doubtful receivables	233	(78)	2,067
(Decrease) increase in reserve for defects on completed construction projects	(59)	27	(523)
(Decrease) increase in allowance for losses on construction contracts	(2,088)	1,272	(18,530)
Increase in allowance for contingency loss	2,152	–	19,098
Increase in allowance for loss related to Antitrust Law	287	–	2,547
(Decrease) increase in liability for retirement benefits	(1,114)	700	(9,886)
Loss on sales and disposal of property and equipment	336	64	2,981
Gain on negative goodwill	–	(40)	–
Interest and dividend income	(869)	(833)	(7,712)
Interest expense	532	866	4,721
Exchange loss (gain), net	389	(537)	3,452
Equity in loss of affiliates	3	6	26
(Increase) decrease in trade notes receivable, accounts receivable on completed construction contracts and other	(6,480)	1,817	(57,507)
Decrease (increase) in inventories	1,414	(11,636)	12,548
(Increase) decrease in other assets	(2,217)	1,848	(19,675)
(Decrease) increase in retirement benefits liability adjustments included in accumulated other comprehensive income.	(257)	319	(2,280)
Decrease (increase) in trade notes payable, accounts payable on construction contracts and other	6,095	(5,405)	54,091
(Decrease) increase in advances received on construction contracts in progress	(2,774)	12,096	(24,618)
(Decrease) increase in other liabilities	(1,028)	3,004	(9,123)
Other	13	12	115
Subtotal	15,285	17,258	135,649
Interest and dividends received	873	769	7,747
Interest paid	(540)	(825)	(4,792)
Income taxes paid	(4,876)	(2,675)	(43,272)
Net cash provided by operating activities	10,742	14,527	95,331
Investing activities			
(Decrease) increase in fixed deposits	(200)	277	(1,774)
Purchases of property and equipment	(2,034)	(2,374)	(18,051)
Proceeds from sales of property and equipment	172	129	1,526
Purchases of intangible fixed assets	(198)	(188)	(1,757)
Proceeds from sales of investments in real estate	2,920	–	25,914
Purchases of investments in securities	(171)	(4,310)	(1,517)
Proceeds from sales of investments in securities	3	3	26
Increase in investments in unconsolidated subsidiaries and affiliates	–	(218)	–
Disbursements for loans receivable	(39)	(43)	(346)
Proceeds from collection of loans receivable	162	87	1,437
Other	190	9	1,686
Net cash provided by (used in) investing activities	805	(6,628)	7,144

	Years ended March 31,		
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Financing activities			
(Decrease) in short-term bank loans	¥ (6,448)	¥ (6,142)	$ (57,223)
Increase in long-term debt	12,200	11,200	108,271
Decrease in long-term debt	(2,358)	(1,533)	(20,926)
Increase in long-term loans of employees	154	102	1,366
(Increase) in treasury stock	(2)	(1)	(17)
Cash dividends paid	(806)	(10)	(7,152)
Cash dividends paid for non-controlling shareholders	(143)	(161)	(1,269)
Other	(425)	(398)	(3,771)
Net cash provided by financing activities	2,168	3,053	19,240
Effect of exchange rate changes on cash and cash equivalents	(551)	1,148	(4,889)
Net increase in cash and cash equivalents	13,165	12,101	116,835
Cash and cash equivalents at beginning of the year	44,565	32,055	395,500
Increase in cash and cash equivalents due to inclusion in consolidation	–	409	–
Cash and cash equivalents at end of the year *(Note 10)*	¥57,730	¥ 44,565	$512,335

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 non-controlling 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, 2016.

(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.

(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.

(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) Allowance for Contingency Loss

The allowance for contingency loss is provided for future contingency loss on rationally estimated based on individual assessment of each risk.

(Additional information)

Regarding the defective piling work at a condominium in Yokohama disclosed on October 14, 2015, ¥2,152 million was recognized as the amount of the rationally estimated cost required to be paid as the contractor based on the defect liability applicable to the construction contract as a result of a ground investigation analysis up to the present time. In addition, the same amount was recognized in other expenses as "Loss on allowance for contingency loss."

The above amounts may change depending on circumstances in the future.

(k) Allowance for Loss Related to Antitrust Law

The allowance for loss related to Antitrust Law is provided for payment for surcharge etc. based on Antitrust Law.

(Additional information)

SUMIKEN MITSUI ROAD CO., LTD. recognized the estimated amount of ¥287 million as a surcharge payment, etc., which will be incurred related to a violation of the Antitrust Law on a project contracted by East Nippon Expressway Co., Ltd. In addition, the same amount was recognized in other expenses as "Loss on allowance for loss related to Antitrust Law."

(l) 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, 2016.

(2) Amortization of actuarial gain or loss and prior service cost

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.

(m) 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.

(n) 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.

(o) 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).

(o) Derivatives and Hedge Accounting (continued)

(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.

(p) 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.

(q) Consumption Taxes

Consumption taxes are accounted for by the tax exclusion method.

(r) 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 ¥112.68 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2016. 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 "Revise Accounting Standard for Business Combinations" (ASBJ Statement No. 21 issued on September 13, 2015), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 issued on September 13, 2015) and "Revise Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 issued on September 13, 2015) effective from April 1, 2015. As a result, under these revised accounting standards, the accounting treatment for any changes in a parent's ownership interest in a subsidiary when the parents retains control over the subsidiary are recognized as capital surplus, and the corresponding accounting for acquisition-related costs were changed to recognized for the fiscal year in which they incurred. In addition, for business combination carry out from April 1, 2015, the reviewed acquisition cost allocation result from the finalization of the tentative accounting method is changed to restate in the consolidated financial for the fiscal year in which the business combination incurred. In addition, the presentation method of profits (loss) attributable to owners of parents was amended, the reference to "minority interests" was changed to "non-controlling interests." The consolidated financial statement for the previous year has been reclassified to restate these changes in presentation.

In the consolidated statements of cash flow for the year ended March 31, 2016, cash flow related to the acquisition or sale of share of subsidiaries not result from changes in scope of consolidation is listed in "Financial activities". In addition, cash flow related to cost related to the acquisition of share of subsidiaries result from changes in scope of consolidation and cash flow related to cost result from the acquisition or sale of share of subsidiaries not result from change in scope of consolidation is listed in "Operating activities".

The Accounting Standard for Business Combinations, etc. is applied in accordance with transitional treatment provided in Paragraph 58-2(4) of the Accounting Standard for Business Combinations, Paragraph 44-5(4) of the Accounting Standard for Consolidated Financial Statements and Paragraph 57-4(4) of the Accounting Standard for Business Divestitures, and has been applied from the beginning for the year ended March 31, 2016 and will be applied in the future.

In addition, the effect of these changes on Consolidated Financial Statements and per share information is immaterial.

5. Unapplied Accounting Standards

"Revised Implementation Guidance in Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 issued on March 28, 2016)

(a) Outline

Regards the treatment of the recoverability of deferred tax assets, a review was conducted following the framework of the Japanese Institute of Certified Public Accounts Audit Committee Report No. 66 "Audit Treatment on Determining the recoverability of Deferred Tax Assets," whereby companies are categorized into five categories and deferred tax assets are calculated based on each of these categories.

(1) Treatment of companies that do not satisfy any of the category requirements from (Category 1) to (Category 5)

(2) Category requirements for (Category 2) and (Category 3)

(3) Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as (Category 2)

(4) Treatment related to reasonable estimated period of future pre-adjusted taxable income in companies that qualify as (Category 3)

(5) Treatment in case that companies that satisfy the category requirements for (Category 4) but qualify as (Category 2) or (Category 3)

(b) Scheduled date of adoption

The Company will adopt the revised implementation guidance from the beginning of the year ended March 31, 2017.

(c) Impact of the Adoption of These Accounting Standards

The Company is currently assessing the effects of adoption of this revised implementation guidance on its consolidated financial statements.

6. Notes to Consolidated Balance Sheets

(a) Inventories

The components of inventories as of March 31, 2016 and 2015 were as follows:

	As of March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Merchandise and finished goods	¥ 536	¥ 609	$ 4,756
Materials and supplies	3,964	1,296	35,179
Costs on uncompleted construction contracts	25,026	29,067	222,097
Real estate for sale	2	2	17
	¥29,530	¥30,975	$262,069

(b) Pledged Assets

The following assets were pledged at March 31, 2016 and 2015 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,		
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and deposits	¥ 0	¥ 21	$ 0
Land	10,308	10,308	91,480
Buildings and structures, net of accumulated depreciation	774	812	6,869
Machinery, equipment and vehicles, net of accumulated depreciation	93	63	825
Investments in securities	20	7,440	177
Others (Investments and other assets)	530	3,736	4,703
	¥11,727	¥22,381	$104,073

Of the above property and equipment, mortgaged assets for factory foundations at March 31, 2016 and 2015 were summarized as follows:

	As of March 31,		
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Land	¥1,258	¥1,258	$11,164
Buildings and structures, net of accumulated depreciation	180	199	1,597
Machinery, equipment and vehicles, net of accumulated depreciation	93	63	825
	¥1,532	¥1,520	$13,596

The secured liabilities as of March 31, 2016 and 2015 were summarized as follows:

	As of March 31,		
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Short-term bank loans	¥237	¥5,736	$2,103
[Including current portion of long-term debt]	[237]	[736]	[2,103]
Long-term debt	249	487	2,209
Other current liabilities	–	100	–
Other long-term liabilities	–	24	–

(c) 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 ¥704 million ($6,247 thousand) and ¥701 million more than the revalued book amount at March 31, 2016 and 2015, respectively.

(d) Contingent Liabilities

At March 31, 2016 and 2015, the Company and consolidated subsidiaries were contingently liable for the following:

	As of March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
As guarantors of bank loans to customers, unconsolidated subsidiaries, an affiliate and employees	¥241	¥ 14	$2,138
Advance deposits	–	924	–
As endorsers of notes receivable discounted with banks	–	313	–

(e) 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 ¥277 million ($2,458 thousand) and ¥2,089 million as of March 31, 2016 and 2015, respectively.

(f) Financial covenants

For the year ended March 31, 2016

(1) The Company has entered into a syndicated loan contract dated on August 6, 2014 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 ¥8,500 million ($75,434 thousand) in long-term debt (including the current portion) as of March 31, 2016.

(f) Financial covenants (continued)

(2) The Company has entered into a syndicated loan contract dated on March 29, 2016 and loan commitment agreement dated on March 31, 2016 with its seven banks (same bank as we had contracted for the year ended March, 31 2015.) 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, 2016 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 calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million ($88,746 thousand) in long-term debt (including the current portion) as of March 31, 2016.

Unused amount on loan commitment agreement as of March 31, 2016 and 2015 were as follows.

	As of March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Maximum limit under the agreement	¥20,000	¥–	$177,493
Loan balance outstanding	–	–	–
Difference (unused portion)	¥20,000	¥–	$177,493

For the year ended March 31, 2015

The Company has entered into a syndicated loan contract dated on August 6, 2014 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 in long-term debt (including the current portion) as of March 31, 2015.

7. 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 ¥311,991 million ($2,768,823 thousand) and ¥284,140 million for the years ended March 31, 2016 and 2015, 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 ¥316 million ($2,804 thousand) and ¥2,115 million for the years ended March 31, 2016 and 2015, respectively.

(c) Selling, General and Administrative Expenses

The significant components of selling, general and administrative expenses at March 31, 2016 and 2015 were as follows:

	Years ended March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Salaries and wages	¥ 7,566	¥ 6,643	$ 67,145
Retirement benefit expenses	499	1,011	4,428
Provision of allowance for doubtful receivables	0	7	0
Other	8,364	8,024	74,227
Total	¥16,429	¥15,685	$145,802

(d) Research and Development Expenses

Research and development costs included in selling, general and administrative expenses and manufacturing costs amounted to ¥1,380 million ($12,247 thousand) and ¥1,118 million for the years ended March 31, 2016 and 2015, 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, 2016 and 2015 were as follows:

	Years ended March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Buildings and structures	¥ 1	¥ –	$ 8
Machinery, equipment and vehicles	16	24	141
Others	0	–	0
Total	¥17	¥24	$150

(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, 2016 and 2015 were as follows:

	Years ended March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Loss on sales	¥307	¥ 0	$2,724
Loss on disposal	46	78	408
Others	–	28	–
Total	¥353	¥108	$3,132

(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, 2016

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 closure of product department in factory of assets for business. The corresponding write-down was recognized in the amount of ¥711 million ($6,309 thousand) as part of other income expenses.

Location	Usage	Classification	Year ended March 31, 2016	
			(Millions of yen)	*(Thousands of U.S. dollars)*
Hachioji, Tokyo	Elder care facility (1 building)	Land	¥692	$6,141
Esashi, Hokkaido	Assets for business (1 building)	Land, machinery, equipment and vehicles	19	168
Rishiri, Hokkaido	Assets for business (1 building)	Building, structure, machinery, equipment and vehicles	0	0

In addition, the recoverable value of above assets was estimated at its net realizable value based on amounts determined by a valuation made in accordance with real estate appraisal standards.

(g) Impairment Loss (continued)

(2) 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 as part of other income expenses.

Location	Usage	Classification	**Year ended March 31 2015,**
			(Millions of yen)
Hachioji, Tokyo	Elder care facility (1 building)	Land and Buildings	¥693
Izumisano, Osaka	Rental property (1 building)	Investment and other assets	165
Hatsukaichi, Hiroshima	Assets for business (1 building)	Land	68

In addition, the recoverable value of the 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.

8. 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, 2016 and 2015 were as follows:

	Years ended March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrealized holding gain on securities:			
Changes in items during the period	¥(1,241)	¥1,323	$(11,013)
Amount of recycling	(0)	–	(0)
Before income tax effect adjustment	(1,241)	1,323	(11,013)
Income tax effect adjustment	411	(411)	3,647
Unrealized holding gain on securities	(830)	911	(7,365)
Deferred gain on hedging instruments, net of taxes:			
Changes in items during the period	(282)	246	(2,502)
Amount of recycling	–	–	–
Before income tax effect adjustment	(282)	246	(2,502)
Income tax effect adjustment	93	(80)	825
Deferred gain on hedging instruments, net of taxes	(188)	166	(1,668)
Land revaluation:			
Income tax effect adjustment	16	31	141
Land revaluation	16	31	141
Translation adjustments:			
Changes in items during the period	(481)	719	(4,268)
Amount of recycling	–	–	–
Before income tax effect adjustment	(481)	719	(4,268)
Income tax effect adjustment	–	–	–
Translation adjustments	(481)	719	(4,268)
Retirement benefits liability adjustments:			
Changes in items during the period	(233)	(1,583)	(2,067)
Amount of recycling	(23)	1,933	(204)
Before income tax effect adjustment	(257)	350	(2,280)
Income tax effect adjustment	(4)	(0)	(35)
Retirement benefits liability adjustments	(262)	349	(2,325)
Share of other comprehensive income of affiliates accounted for by the equity method:			
Changes in items during the period	–	38	–
Amount of recycling	–	–	–
Share of other comprehensive income of affiliates accounted for by the equity method	–	38	–
Total other comprehensive income	¥(1,746)	¥2,216	$(15,495)

9. 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, 2016

	Balance at April 1, 2015	Increase	Decrease	Balance at March 31, 2016
		(Number of shares)		
Shares issued:				
Common stock	813,366,605	–	–	813,366,605

	Balance at April 1, 2015	Increase	Decrease	Balance at March 31, 2016
		(Number of shares)		
Treasury shares:				
Common stock	482,953	19,300	737	501,516

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.

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 options on 2nd Series Class A preferred stock and the 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.

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

	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.

(b) Dividends:

(1) Dividends paid

For the year ended March 31, 2016

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

For the years 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	–		

(b) Dividends: (continued)

(2) Dividends with the cut-off date in the year ended March 31, 2016 and the effective date in the year ending March 31, 2017 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 29, 2016	Common stock	¥1,625	¥2.00	March 31, 2016	June 30, 2016

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

10. Notes to Consolidated Statements of Cash Flows

Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2016 and 2015 were as follows:

	As of March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and deposits	¥66,209	¥53,305	$587,584
Time deposits with maturities of over three months	(8,479)	(8,739)	(75,248)
Cash and cash equivalents	¥57,730	¥44,565	$512,335

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-(o).

(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 13 "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, 2016 and 2015, were 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, 2016					
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Cash and deposits	¥ 66,209	¥ 66,209	¥ –	$ 587,584	$ 587,584	$ –
Trade notes receivable, accounts receivable on completed construction contracts and other	134,596	134,593	(3)	1,194,497	1,194,471	(26)
Securities and investments in securities	7,720	7,731	10	68,512	68,610	88
Held-to-maturity securities	280	291	10	2,484	2,582	88
Other securities	7,440	7,440	–	66,027	66,027	–
Long-term loans receivable	6,333			56,203		
Allowance for doubtful receivables (*1)	(5,485)			(48,677)		
	848	822	(25)	7,525	7,294	(221)
Total assets	209,375	209,357	(17)	1,858,138	1,857,978	(150)
Trade notes payable, accounts payable on construction contracts and other	115,745	115,745	–	1,027,200	1,027,200	–
Electronically recorded payable	22,096	22,096	–	196,095	196,095	–
Short-term bank loans and current portion of long-term debt	4,418	4,419	0	39,208	39,217	0
Long-term debt	18,971	18,759	(212)	168,361	166,480	(1,881)
Total liabilities	¥161,232	¥161,019	¥(212)	$1,430,883	$1,428,993	$(1,881)
Derivative transactions (*2)						
Hedge accounting is not applied	(22)	(22)	–	(195)	(195)	–
Hedge accounting is applied	9	9	–	79	79	–

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

(*2): Assets and liabilities arising from derivative transactions are shown at net value. If total is liabilities, amounts is shown as "( )."

(b) Fair value of financial instruments (continued)

	As of March 31, 2015		
	Carrying value	Fair value	Difference
	(Millions of yen)		
Cash and deposits	¥ 53,305	¥ 53,305	¥ –
Trade notes receivable, accounts receivable on completed construction contracts and other	128,591		
Allowance for doubtful receivables (*1)	(7)		
	128,584	128,572	(12)
Securities and investments in securities	8,789	8,794	5
Held-to-maturity securities	279	285	5
Other securities	8,509	8,509	–
Long-term loans receivable	6,454		
Allowance for doubtful receivables (*1)	(5,268)		
	1,186	1,128	(58)
Total assets	191,865	191,800	(64)
Trade notes payable, accounts payable on construction contracts and other	132,552	132,552	–
Electronically recorded payable	–	–	
Short-term bank loans and current portion of long-term debt	10,210	10,205	(5)
Long-term debt	9,787	9,643	(143)
Total liabilities	¥152,550	¥152,401	¥(148)
Derivative transactions (*2)	292	292	–

(*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 and Electronically recorded payable

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, 2016	As of March 31, 2015	As of March 31, 2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unlisted stocks (*)	¥3,272	¥3,272	$29,037

(*): Unlisted stocks are not included in "(3) Securities and 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, 2016 and 2015

	As of March 31, 2016							
	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	¥ 66,177	¥ –	¥ –	¥ –	$ 587,300	$ –	$ –	$ –
Trade notes receivable, accounts receivable on completed construction contracts and other	132,724	1,872	–	–	1,177,884	16,613	–	–
Securities and investments in securities								
Held-to-maturity securities (Bonds)	–	166	113	–	–	1,473	1,002	–
Long-term loans receivable	1	147	70	628	8	1,304	621	5,573
	¥198,904	¥2,186	¥183	¥628	$1,765,211	$19,400	$1,624	$5,573

	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
	(Millions of yen)			
Deposits	¥ 53,279	¥ –	¥ –	¥ –
Trade notes receivable, accounts receivable on completed construction contracts and other	125,602	2,981	–	–
Securities and Investments in securities				
Held-to-maturity securities (Bonds)	–	121	157	–
Long-term loans receivable	6	143	287	748
	¥178,887	¥3,247	¥445	¥748

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 20.

12. Securities

Securities at March 31, 2016 and 2015 were summarized as follows:

(a) Held-to-maturity securities

	As of March 31, 2016					
	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	¥280	¥291	¥10	$2,484	$2,582	$88

	As of March 31, 2015		
	Carrying value	Fair value	Unrealized gain
	(Millions of yen)		
Securities whose fair value exceeds their carrying value:			
Bonds	¥279	¥285	¥5

(b) Other securities

	As of March 31, 2016					
	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	¥4,033	¥2,398	¥ 1,635	$35,791	$21,281	$14,510
Unrealized loss:						
Stock	3,406	4,485	(1,079)	30,227	39,802	(9,575)
Total	¥7,440	¥6,883	¥ 556	$66,027	$61,084	$ 4,934

	As of March 31, 2015		
	Balance sheet amount	Cost	Unrealized gain (loss)
	(Millions of yen)		
Unrealized gain:			
Stock	¥4,376	¥2,445	¥1,930
Unrealized loss:			
Stock	4,133	4,266	(132)
Total	¥8,509	¥6,712	¥1,797

(c) Sales of other securities

	Year ended March 31,		
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Sales proceeds	¥3	¥3	$26
Total gain on sales of security	3	2	26
Total loss on sales of security	–	–	–

13. Derivatives and Hedge Accounting

Derivative transactions for the years ended March 31, 2016 and 2015 were summarized as follows:

(a) Derivative transactions to which the hedge accounting is not applied.

(1) Currency-related transactions

As of March 31, 2016

Segmentation	Transaction type	Contract amount	Over 1 year	Fair value	Valuation (loss)	Contract amount	Over 1 year	Fair value	Valuation (loss)
		(Millions of yen)				*(Thousands of U.S. dollar)*			
Off-market transaction	Foreign exchange forward contracts								
	Long U.S. dollar	¥1,452	¥585	¥(22)	¥(22)	$12,886	$5,191	$(195)	$(195)

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

There were no derivative transactions to which the hedge accounting is not applied for the year ended March 31, 2015.

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

(1) Currency-related transactions

As of March 31, 2016

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	Accounts payable						
	Long U.S. dollar		¥ 31	¥ –	Note 2	$ 275	$ –	Note 2
	Long U.S. dollar	Future foreign currency transactions	298	30	¥9	2,644	266	$79
Total			¥330	¥30	¥9	$2,928	$266	$79

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, 2015

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	Accounts payable			
	Long U.S. dollar		¥ 30	¥ 0	Note 2
	Long U.S. dollar	Future foreign currency	2,902	330	¥292
Total			¥2,932	¥330	¥292

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, 2016

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	¥100	–	Note 1	$887	–	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 long-term debt (The current portion of long-term debt is short-term bank loans).

As of March 31, 2015

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	¥700	¥100	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 long-term debt (The current portion of long-term debt is short-term bank loans).

14. Retirement Benefit Plans

For the year ended March 31, 2016, 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 and certain consolidated subsidiaries have 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.

The changes in the retirement benefit obligation during the year ended March 31, 2016 and 2015 were as follows (excluding plans for which the simplified method is applied):

	Year ended March 31,		
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Balance at the beginning of year	¥19,481	¥19,005	$172,887
Cumulative effect of change in accounting principle	–	(315)	–
Restated balance at the beginning of the period	19,481	18,690	172,887
Service cost	717	695	6,363
Interest cost	95	317	843
Actuarial loss	231	1,582	2,050
Retirement benefit paid	(2,189)	(1,910)	(19,426)
Foreign currency translation	(19)	18	(168)
Increase from newly consolidated subsidiary	0	86	0
Balance at the end of year	¥18,318	¥19,481	$162,566

The changes in plan assets during the year ended March 31, 2016 and 2015 were as follows (excluding plans for which the simplified method is applied):

	Years ended March 31,		
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Balance at the beginning of year	¥68	¥58	$603
Expected return on plan assets	4	4	35
Actuarial gain	(1)	(0)	(8)
Retirement benefit paid	(1)	(2)	(8)
Foreign currency translation	(3)	7	(26)
Balance at the end of year	¥65	¥68	$576

The changes in liability for retirement benefits based on the simplified method during the year ended March 31, 2016 and 2015 were as follows:

	Years ended March 31,		
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Balance at the beginning of year	¥1,191	¥1,174	$10,569
Retirement benefit expense	123	128	1,091
Retirement benefit paid	(85)	(103)	(754)
Contribution to defined contribution plan	(8)	(8)	(70)
Balance at the end of year	¥1,221	¥1,191	$10,835

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, 2016 and 2015 is as follows:

	As of March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Funded retirement benefit obligation	¥ 327	¥ 321	$ 2,902
Plan assets at fair value	(209)	(225)	(1,854)
	118	96	1,047
Unfunded retirement benefit obligation	19,356	20,508	171,778
Net liability for retirement benefits in the consolidated balance sheet	19,474	20,604	172,825
Liability for retirement benefits	19,474	20,604	172,825
Assets for retirement benefits	–	–	–
Net liability for retirement benefits in the consolidated balance sheet	¥19,474	¥20,604	$172,825

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

The components of retirement benefit expense during the year ended March 31, 2016 and 2015 were as follows:

	Year ended March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service cost	¥ 717	¥ 695	$ 6,363
Interest cost	95	317	843
Expected return on plan assets	(4)	(4)	(35)
Amortization of actuarial loss	385	358	3,416
Amortization of prior service cost	(409)	(409)	(3,629)
Amortization of net retirement benefit obligation at transition	–	1,984	–
Retirement benefit expense calculated by the simplified method	123	128	1,091
Total retirement benefit expense	¥ 910	¥3,070	$ 8,075

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effect) during the year ended March 31, 2016 and 2015 were as follows:

	Years ended March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Actuarial loss	¥ 151	¥(1,224)	$ 1,340
Prior service cost	(409)	(409)	(3,629)
Net retirement benefit obligation at transition	–	1,984	–
Total	¥(257)	¥ 350	$(2,280)

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2016 and 2015 were follows:

	Years ended March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrecognized actuarial loss	¥ 3,101	¥ 3,253	$ 27,520
Unrecognized prior service cost	(2,347)	(2,756)	(20,828)
Total	¥ 754	¥ 497	$ 6,691

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2016 and 2015 were follows:

	As of March 31,	
	2016	**2015**
Bonds	83%	91%
Cash and Deposits	16%	8%
Other	1%	1%
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,	
	2016	**2015**
Discount rate	Principally 0.3%	Principally 0.3%
Expected rate of return on plan assets	4.7%	5.6%
Expected rate of increase in salaries	Principally 4.0%	Principally 3.4%

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

	Years ended March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Contribution to defined contribution plans	¥680	¥653	$6,034

15. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2016 and 2015 were as follows:

	As of March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Liability for retirement benefits	¥ 5,984	¥ 6,674	$ 53,106
Accounts payable and accrued expenses	3,167	2,688	28,106
Allowance for bad debts	1,999	2,142	17,740
Allowance for losses on construction contracts	290	529	2,573
Reserve for defects on completed construction projects	246	282	2,183
Other	2,584	1,690	22,932
Gross deferred tax assets	14,272	14,008	126,659
Valuation allowance	(9,493)	(8,513)	(84,247)
Total deferred tax assets	4,778	5,495	42,403
Deferred tax liabilities:			
Unrealized holding gain on securities	(169)	(581)	(1,499)
Other	(281)	(313)	(2,493)
Total deferred tax liabilities	(451)	(894)	(4,002)
Net deferred tax assets	¥ 4,327	¥ 4,600	$ 38,400

The following table summarizes the significant differences between the statutory tax rate and the effective tax rates for the years ended March 31, 2016 and 2015:

	Years ended March 31,	
	2016	**2015**
Statutory tax rate	33.1%	35.6%
Non-deductible expenses	2.3	1.7
Non-taxable income	(1.4)	(3.0)
Per capita inhabitants' taxes	1.2	0.4
Tax credit	(3.0)	(2.2)
Valuation allowance	7.8	(8.5)
Different tax rate applied to foreign subsidiaries	(0.1)	(0.7)
Change in corporate tax rate	1.0	3.9
Other	0.4	2.2
Effective tax rates	41.3%	29.4%

The "Act for Partial Amendment of the Income Tax Act, etc." and the "Act for Partial Amendment of the Local Tax Act, etc." were enacted on March 29, 2016 and the effective statutory tax rate used to measure deferred tax assets and liabilities was changed from 32.3 % for the year ended March 31, 2015 to 30.9% for those for which taxes are expected to be returned or paid from April 1, 2016 to March 31, 2018, and to 30.6% for those for which taxes are expected to be returned or paid on or after April 1, 2018.

As a result, net deferred tax assets (after deducting deferred tax liabilities, excluding for those on land revaluation) decreased by ¥178 million ($1,579 thousand), income taxes-deferred increased by ¥188 million ($1,668 thousand), unrealized holding gain on securities increased ¥9 million ($79 thousand) and deferred gain on hedging instruments, net of taxes increased by ¥0 million ($0 thousand) as of and for the year ended March 31, 2016.

In addition, deferred tax liabilities on land revaluation decreased ¥16 million yen ($141 thousands) and Land revaluation increased equal amounts.

16. 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.

Segment Information (continued)

(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, 2016						
	Reportable operating segments						
	Civil	Building	Total	Others	Total	Adjustments	Consolidated
				(Millions of yen)			
Sales							
External Customers	¥165,319	¥248,812	¥414,131	¥826	¥414,958	¥ –	¥414,958
Intersegment transactions or transfers	1,127	3	1,130	76	1,206	(1,206)	–
Net sales	¥166,446	¥248,815	¥415,261	¥903	¥416,164	¥(1,206)	¥414,958
Segment income	21,259	18,313	39,573	348	39,921	(127)	39,794

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.

	Year ended March 31, 2016						
	Reportable operating segments						
	Civil	Building	Total	Others	Total	Adjustments	Consolidated
				(Thousands of U.S. dollars)			
Sales							
External Customers	$1,467,154	$2,208,129	$3,675,283	$7,330	$3,682,623	$ –	$3,682,623
Intersegment transactions or transfers	10,001	26	10,028	674	10,702	(10,702)	–
Net sales	$1,477,156	$2,208,155	$3,685,312	$8,013	$3,693,326	$(10,702)	$3,682,623
Segment income	188,667	162,522	351,198	3,088	354,286	(1,127)	353,159

Segment Information (continued)

	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.

Related Information

For the year ended March 31, 2016

(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, 2016							
Japan	Asia	Others	Total	Japan	Asia	Others	Total
(Millions of yen)				*(Thousands of U.S. dollars)*			
¥350,035	¥63,704	¥1,217	¥414,958	$3,106,451	$565,353	$10,800	$3,682,623

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, 2016.

(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, 2016.

Related Information (continued)

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
(Millions of yen)			
¥315,992	¥59,397	¥2,435	¥377,825

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, 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.

Loss on impairment by reportable segment

For the year ended March 31, 2016, ¥711 million ($6,309 thousand) impairment loss was recorded.

Note 1: The above amount is assets for business.

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

For the year ended March 31, 2015, ¥926 million impairment loss was recorded.

Note 1: The above amount consists of elder care facilities of ¥693 million, rental property of ¥165 million, and assets for business of ¥68 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, 2016 and 2015, 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, 2016, there were no 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 for the year ended March 31, 2015.

Gain on negative goodwill was not allocated to operating segments.

17. Related Party Transactions

(a) Related party transaction

Transactions with affiliates for the year ended March 31, 2016 were summarized as follows:

	Year ended March 31, 2016					
	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, 2016
			(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, 2016					
	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, 2016
			(Thousands of U.S. dollars)			
Affiliated company:						
Yoshiikikaku Co., Ltd. (Real estate business)	$88	30.0%	Long-term non operating accounts receivable	$22,887	Long-term non operating accounts receivable	$28,026
			Long-term accounts payable	$22,887	Long-term accounts payable	$22,887

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 ¥2,843 million ($25,230 thousand).

Note 3: Consumption tax was excluded from the total amount of the transaction, however it was included in the balance at March 31, 2016.

(a) Related party transaction (continued)

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

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.

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

(b) Significant affiliates

(1) The parent information

There is no parent company at March 31, 2016 and 2015.

(2) Financial information about significant affiliates

There is no significant affiliates at March 31, 2016 and 2015

18. Per Share Information

Net assets and basic profit per share as of and for the years ended March 31, 2016 and 2015 were as follows:

	2016	2015	2016
	(Yen)		*(U.S. dollars)*
Net assets per share	¥51.75	¥42.40	$0.459
Profit per share – basic	12.18	8.59	0.108
Profit per share – diluted	–	8.56	–

Note: Profit per share – diluted was omitted as there were no diluted share for the year ended March 31, 2016.

The basis of calculation for net assets per share at March 31, 2016 and 2015 were as follows:

	As of March 31,		
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Total net assets	¥48,136	¥40,190	$427,192
Amounts deducted from total net assets	6,069	5,720	53,860
[Including non-controlling interests]	[6,069]	[5,720]	[53,860]
Total net assets attributable to common stock	¥42,066	¥34,469	$373,322
	(Thousands of shares)		
Number of shares of common stock used to determine net assets per share	812,865	812,883	

The basis for calculating basic profit per share – based and profit per share – diluted for the years ended March 31, 2016 and 2015 were as follows:

	Years ended March 31,		
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Profit per share – basic:			
Profit attributable to owners of parent	¥9,902	¥6,955	$87,877
Amount not available to common shareholders	–	–	–
Profit attributable to owners of parent per share – basic	¥9,902	¥6,955	$87,877
	(Thousands of shares)		
Average number of shares of common stock outstanding	812,874	809,466	

	Years ended March 31,	
	2016	2015
	(Thousands of shares)	
Increase in number of share of common stock	–	3,425
[Including preferred stock]	[–]	[3,425]

19. Subsequent Event

There is no information to be disclosed as of March 31, 2016.

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

Short-term bank loans generally represent notes, principally at average annual interest rates of 1.7% and 1.2% at March 31, 2016 and 2015, respectively.

Long-term debt at March 31, 2016 and 2015 were summarized as follows:

	As of March 31,		
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Debt with collateral (at average interest rates of 2.3% at 2016 and 2.4% at 2015)	¥ 487	¥ 1,223	$ 4,321
Debt without collateral (at average interest rates of 1.4% at 2016 and 1.6% at 2015)	21,415	10,837	190,051
Lease obligations	1,310	803	11,625
Current portion (excluding lease obligations)	(2,930)	(2,273)	(26,002)
Current portion of lease obligations	(614)	(278)	(5,449)
Deposits from employees	2,101	1,947	18,645
	¥21,769	¥12,259	$193,193

The aggregate annual maturities of long-term debt subsequent to March 31, 2016 were summarized as follows:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2017	¥ 2,930	$ 26,002
2018	8,081	71,716
2019	786	6,975
2020 and thereafter	10,103	89,660
	¥21,902	$194,373

The aggregate annual maturities of lease obligations subsequent to March 31, 2016 were summarized as follows:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2017	¥ 614	$ 5,449
2018	414	3,674
2019	158	1,402
2020 and thereafter	122	1,082
	¥1,310	$11,625

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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, 2016, 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, 2016, 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.

Ernst & Young Shinnihon LLC

June 24, 2016
Tokyo, Japan

Non-Consolidated Financial Statements

Sumitomo Mitsui Construction Co., Ltd.

Year ended March 31, 2016
with Independent Auditor's Report

Non-Consolidated Balance Sheets

March 31, 2016

	As of March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Assets			
Current assets:			
Cash and deposits	¥ 37,875	¥ 28,790	$ 336,128
Trade notes receivable	792	7,275	7,028
Accounts receivable on completed construction contracts	115,359	98,152	1,023,775
Inventories	23,567	26,969	209,149
Deferred tax assets *(Note 7)*	2,207	1,983	19,586
Other current assets	17,082	12,384	151,597
Allowance for doubtful receivables	(36)	(209)	(319)
Total current assets	196,848	175,345	1,746,964
Non-current assets:			
Property and equipment, at cost:			
Land *(Note 4-(b))*	5,328	5,434	47,284
Buildings *(Note 4-(b))*	4,789	4,767	42,500
Structures *(Note 4-(b))*	737	737	6,540
Machinery and equipment	2,945	2,990	26,135
Vehicles	416	477	3,691
Tools, furniture and fixtures	3,276	3,225	29,073
Construction in progress	20	145	177
Accumulated depreciation	(9,495)	(9,332)	(84,265)
Property and equipment, net	8,018	8,445	71,157
Intangible fixed assets	1,383	1,261	12,273
Investments and other assets:			
Investments in securities *(Note 4-(b))*	10,129	11,190	89,891
Investments in subsidiaries and affiliates *(Notes 4-(b) and 6)*	13,613	16,271	120,811
Long-term loans receivable	5,618	5,618	49,858
Long-term loans to employees	624	743	5,537
Long-term prepaid expenses	25	27	221
Deferred tax assets *(Note 7)*	1,190	1,482	10,560
Other	6,261	9,078	55,564
Allowance for doubtful receivables	(9,529)	(10,977)	(84,566)
Total investments and other assets	27,933	33,435	247,896
Total non-current assets	37,335	43,141	331,336
Total assets	¥234,183	¥218,486	$2,078,301

	As of March 31,		
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Liabilities and net assets			
Current liabilities:			
Trade notes payable *(Note 4-(a))*	¥ 21,251	¥ 40,663	$ 188,596
Electronically recorded payable *(Note 4-(a))*	20,953	20,953	185,951
Accounts payable on construction contracts *(Note 4-(a))*	71,785	63,829	637,069
Short-term bank loans and current portion of long-term debt *(Notes 4-(b), 4-(d) and 9)*	4,374	10,133	38,817
Income taxes payable	3,792	1,871	33,652
Advances received on construction contracts in progress	27,385	30,435	243,033
Reserve for defects on completed construction projects	693	736	6,150
Allowance for losses on construction contracts	890	2,998	7,898
Allowance for contingency loss	2,152	–	19,098
Other current liabilities	13,970	14,851	123,979
Total current liabilities	167,250	165,520	1,484,291
Long-term liabilities:			
Long-term debt *(Notes 4-(b), 4-(d) and 9)*	18,821	9,600	167,030
Accrued retirement benefits	15,700	17,171	139,332
Other long-term liabilities	3,040	2,989	26,979
Total long-term liabilities	37,562	29,761	333,351
Contingent liabilities *(Note 4-(c))*			
Net assets:			
Shareholders' equity:			
Capital stock:	12,003	12,003	106,522
Common stock:			
Authorized:			
2,669,464,970 shares in 2016 and 2015			
Issued and outstanding:			
813,366,605 shares in 2016 and 2015			
Capital surplus:			
Other capital surplus	398	399	3,532
Total capital surpluses	398	399	3,532
Retained earnings:			
Legal retained earnings	184	103	1,632
Earned surplus carried forward	16,646	9,546	147,728
Total retained earnings	16,830	9,649	149,361
Treasury stock, at cost:			
501,516 shares in 2016 and 482,953 shares in 2015	(246)	(244)	(2,183)
Total shareholders' equity	28,987	21,808	257,250
Valuation, translation adjustments and other:			
Unrealized holding gain on securities	376	1,200	3,336
Deferred gain on hedging instruments, net of taxes	6	195	53
Total valuation, translation adjustments and other	382	1,396	3,390
Total net assets	29,369	23,205	260,640
Total liabilities and net assets	¥234,183	¥218,486	$2,078,301

See accompanying notes to non-consolidated financial statements.

	Years ended March 31,		
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Net sales:			
Completed construction *(Note 5-(a))*	¥320,781	¥284,096	$2,846,831
Others	45	14	399
	320,826	284,111	2,847,231
Cost of sales:			
Completed construction	292,493	266,639	2,595,784
Others	24	8	212
	292,518	266,648	2,596,006
Gross profit			
Completed construction	28,287	17,457	251,038
Others	20	5	177
	28,308	17,463	251,224
Selling, general and administrative expenses *(Note 5-(d))*	11,552	11,076	102,520
Operating income	16,755	6,387	148,695
Other income (expenses):			
Interest and dividend income *(Note 5-(b))*	972	1,161	8,626
Payments received from insurance claims	128	146	1,135
Exchange (loss) gain, net	(575)	656	(5,102)
Royalty income *(Note 5-(b))*	494	573	4,384
Interest expense	(592)	(913)	(5,253)
Provision of allowance for doubtful receivables	(919)	(26)	(8,155)
Gain on sales of property and equipment	1	–	8
Gain on sales of investments in securities	3	2	26
Loss on sales and disposal of property and equipment *(Note 5-(c))*	(54)	(58)	(479)
Loss on allowance for contingency loss	(2,152)	–	(19,098)
Impairment loss	–	(233)	–
Other, net	(945)	(708)	(8,386)
	(3,640)	598	(32,303)
Profit before income taxes	13,114	6,985	116,382
Income taxes *(Note 7)*:			
Current	4,551.	1,731	40,388
Deferred	569	(480)	5,049
	5,120	1,250	45,438
Profit	¥ 7,994	¥ 5,735	$ 70,944
	(Yen)		*(U.S. dollars) (Note 2)*
Profit per share – basic	¥ 9.83	¥ 7.09	$ 0.087
Profit per share – diluted	–	7.06	–

See accompanying notes to non-consolidated financial statements.

	Capital stock	Other capital surplus	Earned reserve	Earned surplus carried forward	Total retained earnings	Treasury stock, at cost	Total shareholders' equity
	Year ended March 31, 2016						
	Shareholders' equity						
		Additional paid-in capital	Retained earnings				
	(Millions of yen)						
Balance at the beginning of the period	¥12,003	¥399	¥103	¥ 9,546	¥ 9,649	¥(244)	¥21,808
Cumulative effect of change in accounting principle							–
Restated balance at the beginning of the period	12,003	399	103	9,546	9,649	(244)	21,808
Changes in items during the period							
Dividends from surplus				(812)	(812)		(812)
Provision of legal retained earnings			81	(81)	–		–
Profit				7,994	7,994		7,994
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)	81	7,099	7,181	(2)	7,178
Balance at the end of the period	¥12,003	¥398	¥184	¥16,646	¥16,830	¥(246)	¥28,987

	Unrealized holding gain (loss) on securities	Deferred gain (loss) on hedging instruments, net of taxes	Total valuation, translation adjustments and other	Total net assets
	Year ended March 31, 2016			
	Valuation, translation adjustments and other			
	(Millions of yen)			
Balance at the beginning of the period	¥1,200	¥ 195	¥ 1,396	¥23,205
Cumulative effect of change in accounting principle				–
Restated balance at the beginning of the period	1,200	195	1,396	23,205
Changes in items during the period				
Dividends from surplus				(812)
Provision of legal retained earnings				–
Profit				7,994
Purchases of treasury stock				(2)
Disposition of treasury stock				0
Net changes in items other than shareholders' equity	(824)	(188)	(1,013)	(1,013)
Total changes in items during the period	(824)	(188)	(1,013)	6,164
Balance at the end of the period	¥ 376	¥ 6	¥ 382	¥29,369

Year ended March 31, 2016

	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	$106,522	$3,541	$ 914	$ 84,717	$ 85,631	$(2,165)	$193,539
Cumulative effect of change in accounting principle							–
Restated balance at the beginning of the period	106,522	3,541	914	84,717	85,631	(2,165)	193,539
Changes in items during the period							
Dividends from surplus				(7,206)	(7,206)		(7,206)
Provision of legal retained earnings			718	(718)	–		–
Profit				70,944	70,944		70944
Purchases of treasury stock						(17)	(17)
Disposition of treasury stock		(0)				0	0
Net changes in items other than shareholders' equity							
Total changes in items during the period	–	(0)	718	63,001	63,729	(17)	63,702
Balance at the end of the period	$106,522	$3,532	$1,632	$147,728	$149,361	$(2,183)	$257,250

Year ended March 31, 2016

	Valuation, translation adjustments and other			
	Unrealized holding gain (loss) on securities	Deferred gain (loss) 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	$10,649	$ 1,730	$12,389	$205,937
Cumulative effect of change in accounting principle				–
Restated balance at the beginning of the period	10,649	1,730	12,389	205,937
Changes in items during the period				
Dividends from surplus				(7,206)
Provision of legal retained earnings				–
Profit				70,944
Purchases of treasury stock				(17)
Disposition of treasury stock				0
Net changes in items other than shareholders' equity	(7,312)	(1,668)	(8,990)	(8,990)
Total changes in items during the period	(7,312)	(1,668)	(8,990)	54,703
Balance at the end of the period	$ 3,336	$ 53	$ 3,390	$260,640

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				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)	–		–
Profit				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				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				–
Profit				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

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.

(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) Allowance for Contingency Loss

The allowance for contingency loss is provided for future contingency loss on rationally estimated based on individual assessment of each risk.

(Additional information)

Regarding the defective piling work at a condominium in Yokohama disclosed on October 14, 2015, ¥2,152 million was recognized as the amount of the rationally estimated cost required to be paid as the contractor based on the defect liability applicable to the construction contract as a result of a ground investigation analysis up to the present time. In addition, the same amount was recognized in other expenses as "Loss on allowance for contingency loss."

Above amounts might be increased or decreased depend on direction in which things are moving.

(j) 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, 2016.

(2) Amortization of actuarial gain or loss and prior service cost

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.

(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.

(l) 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).

(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.

(m) Accounting for Retirement Benefits

Accounting for unrecognized actuarial loss and unrecognized prior service cost on non-consolidated financial statements is different from the accounting on consolidated financial statements.

(n) Consumption Taxes

Consumption taxes are accounted for by the tax exclusion method.

(o) 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 ¥112.68 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2016. 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 and its consolidated subsidiaries have adopted "Revise Accounting Standard for Business Combinations" (ASBJ Statement No. 21 issued on September 13, 2015) and "Revise Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 issued on September 13, 2015) effective from April 1, 2015. As a result, under these revised accounting standards, the corresponding accounting for acquisition-related costs were revised.

In addition, for business combination carry out from April 1, 2015, the reviewed acquisition cost allocation result from the finalization of the tentative accounting method is changed to restate in the consolidated financial for the fiscal year in which the business combination incurred.

The Accounting Standard for Business Combinations, etc. is applied in accordance with transitional treatment provided in Paragraph 58-2(4) of the Accounting Standard for Business Combinations and Paragraph 57-4(4) of the Accounting Standard for Business Divestitures, and has been applied from the beginning for the year ended March 31, 2016 and will be applied in the future.

In addition, the effect of these changes on Non-Consolidated Financial Statements and per share information 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, 2016 and 2015 were as follows:

	As of March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Trade notes payable	¥ 220	¥ 863	$ 1,952
Electronically recorded payable	1,261	–	11,190
Accounts payable on construction contracts	13,278	13,252	117,838

(b) Pledged Assets

The following assets were pledged at March 31, 2016 and 2015 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,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Land	¥5,209	¥ 5,209	$46,228
Buildings, net of accumulated depreciation	290	301	2,573
Structures, net of accumulated depreciation	32	27	283
Investments in securities	–	7,424	–
Investments in subsidiaries and affiliates	369	364	3,274
	¥5,901	¥13,326	$52,369

The secured liabilities as of March 31, 2016 and 2015 are summarized as follows:

	As of March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Short-term bank loans	¥200	¥5,700	$1,774
[Including current portion of long-term debt]	[200]	[700]	[1,774]
Long-term debt	100	300	887

(c) Contingent Liabilities

At March 31, 2016 and 2015, the Company was contingently liable for the following:

	As of March 31,		
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
As guarantor of bank loans to customers, subsidiaries, an affiliate and employees	¥2,535	¥993	$22,497
Advance deposits	–	924	–
As endorsers of notes receivable discounted with banks	–	190	–
As endorsers of other current assets (Non-operating notes receivable) discounted with banks	–	122	–

(d) Financial covenants

For the year ended March 31, 2016

(1) The Company has entered into a syndicated loan contract dated on August 6, 2014 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 ¥8,500 million ($75,434 thousand) in long-term debt (including the current portion) as of March 31, 2016.

(d) Financial covenants (continued)

(2) The Company has entered into a syndicated loan contract dated on March 29, 2016 and loan commitment agreement dated on March 31, 2016 with its seven banks (same bank as we had contracted for the year ended March, 31 2015.) 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, 2016 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 calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million ($88,746 thousand) in long-term debt (including the current portion) as of March 31, 2016.

Unused amount on loan commitment agreement as of March 31, 2016 and 2015 were as follows.

	As of March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Maximum limit under the agreement	¥20,000	¥–	$177,493
Loan balance outstanding	–	–	–
Difference (unused portion)	¥20,000	¥–	$177,493

For the year ended March 31, 2015

The Company has entered into a syndicated loan contract dated on August 6, 2014 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 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 ¥265,349 million ($2,354,889 thousand) and ¥235,443 million for the years ended March 31, 2016 and 2015, 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 2016 and 2015 were as follows:

	Years ended March 31,		
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Dividend income	¥715	¥895	$6,345
Royalty income	494	573	4,384

(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, 2016 and 2015 were as follows:

	Years ended March 31,		
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Loss on sales	¥38	¥ –	$337
Loss on disposal	16	30	141
Others	–	28	–
Total	¥54	¥58	$479

(d) Selling, General and Administrative Expenses

The significant components of selling, general and administrative expenses for the years ended March 31, 2016 and 2015 were as follows:

	Years ended March 31,		
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Salaries and wages	¥ 5,463	¥ 4,676	$ 48,482
Rent	1,044	1,056	9,265
Retirement benefit expenses	379	854	3,363
Communication and traveling expenses	920	839	8,164
Legal welfare expenses	840	725	7,454
Depreciation expenses	404	487	3,585
Other	2,498	2,435	22,168
Total	¥11,552	¥11,076	$102,520

6. Securities

Stocks of subsidiaries and affiliates at March 31, 2016 and 2015 were as follows:

	As of March 31, 2016					
	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	¥2,082	¥1,364	$6,363	$18,477	$12,105

	As of March 31, 2015		
	Carrying value	Fair value	Unrealized gain
	(Millions of yen)		
Stocks of a subsidiary	¥717	¥2,540	¥1,823

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,		
	2016	2015	2016
	Carrying value		
	(Millions of yen)		*(Thousands of U.S. dollars)*
Stocks of a subsidiaries	¥2,448	¥2,458	$21,725
Stocks of a affiliates	10	10	88

7. Income Taxes

The significant components of the Company's deferred tax assets and liabilities at March 31, 2016 and 2015 were as follows:

	As of March 31,		
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Accrued retirement benefits	¥ 4,814	¥ 5,571	$ 42,722
Allowance for bad debts	2,929	2,940	25,993
Account payable and accrued expenses	1,484	1,069	13,170
Loss on devaluation of investments in subsidiaries and affiliates	894	941	7,933
Allowance for losses on construction contracts	274	520	2,431
Reserve for defects on completed construction projects	213	243	1,890
Tax loss carryforwards	–	210	–
Other	1,424	500	12,637
Gross deferred tax assets	12,035	11,997	106,806
Valuation allowance	(8,465)	(7,857)	(75,124)
Total deferred tax assets	3,570	4,140	31,682
Deferred tax liabilities:			
Unrealized holding gain on securities	(165)	(573)	(1,464)
Deferred gain on hedging instruments, net of taxes	(4)	(96)	(35)
Asset retirement obligations	(3)	(4)	(26)
Total deferred tax liabilities	(172)	(674)	(1,526)
Net deferred tax assets	¥ 3,397	¥ 3,465	$ 30,147

The following table summarizes the significant differences between the statutory tax rates and the effective tax rates for the years ended March 31, 2016 and 2015:

	Years ended March 31,	
	2016	2015
Statutory tax rates	33.1 %	35.6 %
Non-deductible expenses	0.8	1.5
Non-taxable income	(1.8)	(4.4)
Per capita inhabitants' taxes	1.2	0.1
Tax credit	(3.9)	(3.0)
Valuation allowance	9.3	(17.4)
Change in corporate tax rate	1.3	5.8
Other	(1.0)	(0.3)
Effective tax rates	39.0 %	17.9 %

The “Act for Partial Amendment of the Income Tax Act, etc.” and the “Act for Partial Amendment of the Local Tax Act, etc.” were enacted on March 29, 2016 and the effective statutory tax rate used to measure deferred tax assets and liabilities was changed from 32.3% for the year ended March 31, 2015 to 30.9% for those for which taxes are expected to be returned or paid from April 1, 2016 to March 31, 2018, and to 30.6% for those for which taxes are expected to be returned or paid on or after April 1, 2018.

As a result, net deferred tax assets (after deducting deferred tax liabilities, excluding for those on land evaluation) decreased ¥160 million ($1,419 thousand), income taxes-deferred increased ¥169 million ($1,499 thousand), Unrealized holding gain on securities increased ¥9 million ($79 thousand) and deferred gain on hedging instruments, net of taxes increased ¥0 million ($0 thousand) as of and for the year ended March 31, 2016.

8. Subsequent Event

There is no information to be disclosed as of March 31, 2016.

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

Short-term bank loans generally represent notes, principally at average interest rates of 1.7% and 1.2% at March 31, 2016 and 2015, respectively.

Long-term debt at March 31, 2016 and 2015 were summarized as follows:

	As of March 31,		
	2016	**2015**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Debt with collateral (at average interest rates of 2.2% and 2.4% at 2016 and 2015)	¥ 300	¥1,000	$ 2,662
Less current portion	(200)	(700)	(1,774)
	¥ 100	¥ 300	$ 887

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, 2016, 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, 2016, 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.

Ernst & Young ShinNihon LLC

June 24, 2016
Tokyo, Japan

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.

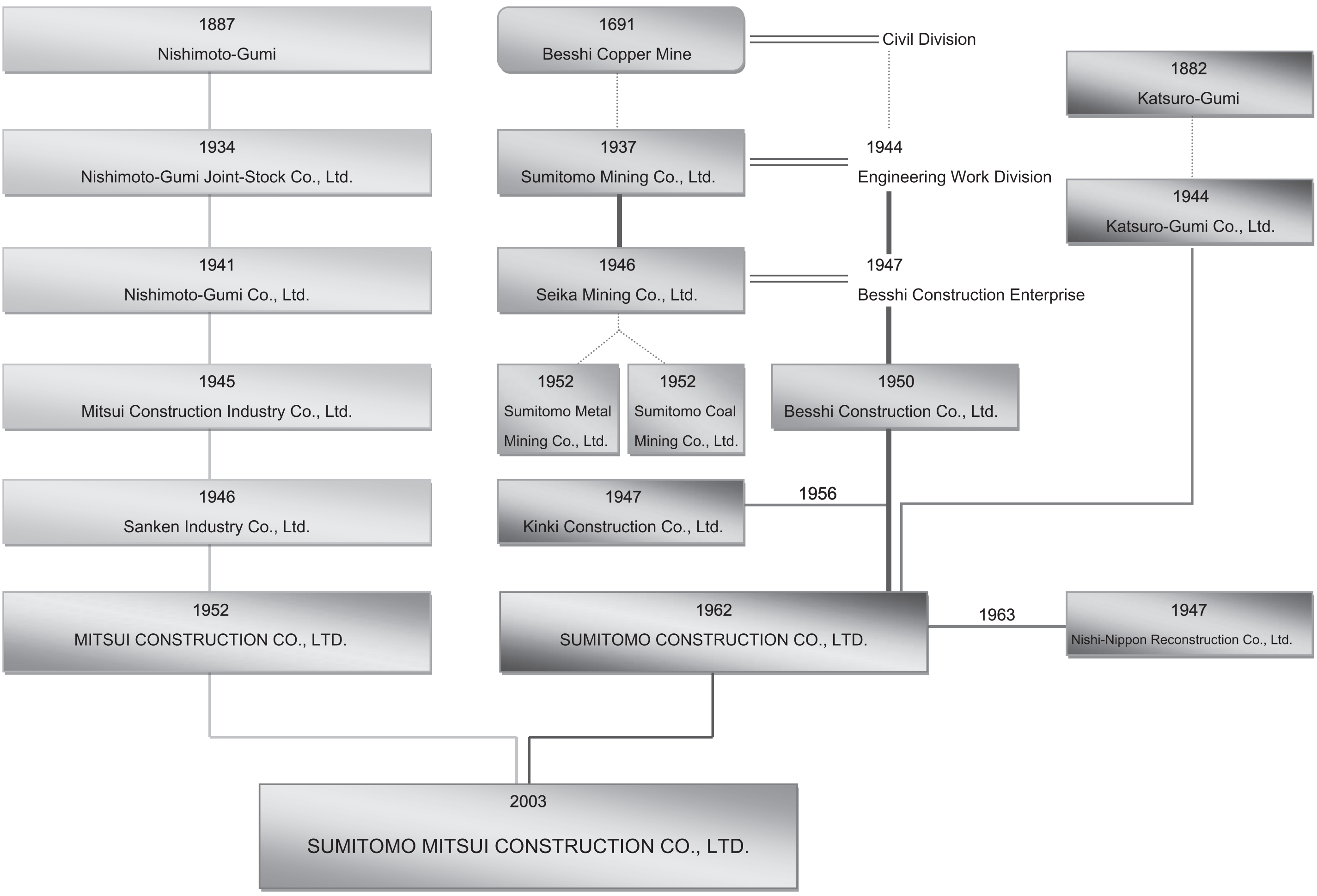
The Master Trust Bank of Japan, Ltd.

NORTHERN TRUST GLOBAL SERVICES LIMITED, LUXEMBOURG RE LUDU RE: UCTIS CLIENTS 15.315 PCT NON TREATY ACCOUNT

STATE STREET LONDON CARE OF STATE STREET BANK AND TRUST, BOSTON SSBTC A/C UK LONDON BRANCH CLIENTS-UNITED KINGDOM

Mitsui Fudosan Co., Ltd.

Corporate History



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