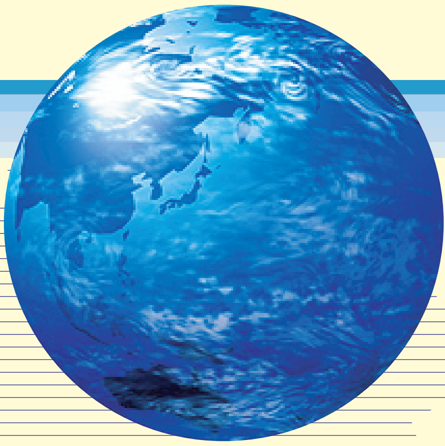

ANNUAL REPORT 2011

SUMITOMO MITSUI CONSTRUCTION CO.,LTD.

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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 would like to extend my deepest condolences to the people who were affected by the Great East Japan Earthquake and Tsunami that occurred on March 11, 2011. Our company is making a concerted effort to assist in the swift recovery and reconstruction of the affected areas.

Through the economic measures imposed by the government and the increase in exports due to the expansion of the Asian markets, the economy in Japan had been experiencing mild recovery during this current term, however, the conditions have changed completely after the Great East Japan Earthquake occurred. As individual consumer spending has been decreasing throughout the nation and production activities have been experiencing a sudden downturn due to the shutdown of factories in the disaster-affected area, the prospect of Japanese economy had become uncertain.

Although the construction market in Japan has began to show some signs of recovery in the private housing sector, the recovery of public works and investment in private facilities are still very slow, thus the condition of market environment continues to remain harsh.

Under these circumstances, this current term, SMCC group has achieved total sales of 298.6 billion yen (down 37.8 billion yen from the previous fiscal year), operating profit of 5 billion yen (down 1.6 billion from the previous fiscal year), and a net profit of 1.5 billion yen.

The first fiscal year has passed since we established "The Third Mid-term Management Plan" in May 2010 in order to create management with a high level of transparency and to strengthen earning power in our core business, as well as to develop sustainable corporate activities through introducing and adapting new growth strategies.

Basic policies of the Plan are as follows:

- ○ Establish the domestic civil engineering and building construction divisions and the overseas business as the three pillars to achieve sustainable growth.
- ○ Further, enhance our strength as the core business segments to maintain the current scale and ensure profit.

The essential points of our business strategies are as follows:

a. For the domestic civil engineering division, we will strengthen its profit structure by establishing the PC bridge business, which is the company's forte, as the core segment with an emphasis on the technical-proposal type overall evaluation method while also putting our resources into the tunnel business, where the market size is large, in order to set it up as the second pillar next to the PC bridge segment.

b. For the domestic building construction division, as the core segment, we will fortify sales promotion and increase competitiveness to receive more orders and improve profitability by utilizing our leading-edge core technology in high-rise housing construction.

c. For the overseas division, we will develop and upgrade the construction and risk-management systems involving overseas subsidiaries, and further expand our marketing efforts to cultivate demands mostly in Asia.

As a result of working diligently in these activities, we were able to achieve our target for the first fiscal year of the Plan in terms of amount of orders, operating income and ordinary profit through healthy increase in overseas works.

We will continue to implement various measures based on this Plan, and establish a stable revenue base while responding swiftly to the changes in the market environment.

Y. Norihisa

Yoshiyuki Norihisa
Representative Director,
President And Chief Executive Officer

Consolidated Financial Statements

Sumitomo Mitsui Construction Co., Ltd.
and Consolidated Subsidiaries

Years ended March 31, 2011 and 2010
with Report of Independent Auditors

Consolidated Balance Sheets

March 31, 2011

	As of March 31,		
	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Assets			
Current assets:			
Cash and deposits *(Notes 6-(c) and 10)*	¥ 20,730	¥ 29,768	$ 249,308
Trade notes and accounts receivable *(Note 6-(c))*	93,034	102,129	1,118,869
Inventories *(Notes 6-(a) and 6-(f))*	21,248	24,103	255,538
Deferred tax assets *(Note 16)*	2,764	3,173	33,241
Other current assets	10,819	13,679	130,114
Less allowance for doubtful receivables	(608)	(1,839)	(7,312)
Total current assets	147,989	171,016	1,779,783
Non-current assets:			
Property and equipment, at cost:			
Land *(Notes 6-(c) and 6-(d))*	16,540	16,368	198,917
Buildings and structures *(Note 6-(c))*	14,551	14,525	174,996
Machinery, equipment and vehicles *(Note 6-(c))*	17,740	17,011	213,349
Construction in progress	89	9	1,070
Accumulated depreciation	(25,302)	(24,598)	(304,293)
Property and equipment, net	23,617	23,315	284,028
Intangible fixed assets	2,262	2,409	27,203
Investments and other assets:			
Investments in securities *(Notes 6-(c) and 13)*	4,649	4,722	55,911
Long-term loans receivable	7,544	7,611	90,727
Claims provable in bankruptcy and other	7,848	7,969	94,383
Investments in unconsolidated subsidiaries and affiliates *(Note 13)*	1,481	1,437	17,811
Investments in real estate *(Notes 6-(b) and 6-(c))*	3,569	3,601	42,922
Long-term non-operating accounts receivable *(Note 20)*	38,114	45,104	458,376
Deferred tax assets *(Note 16)*	2,016	1,768	24,245
Other	7,534	8,162	90,607
Less allowance for doubtful receivables	(49,610)	(54,530)	(596,632)
Total investments and other assets	23,150	25,846	278,412
Total non-current assets	49,031	51,571	589,669
Total assets	¥197,021	¥222,588	$2,369,464

	As of March 31, 2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Liabilities and net assets			
Current liabilities:			
Short-term bank loans and current portion of long-term debt *(Notes 6-(c) and 23)*	¥ 7,517	¥ 6,642	$ 90,402
Trade notes and accounts payable	101,548	122,336	1,221,262
Accrued expenses	1,961	2,108	23,583
Advances received on contracts in progress	21,164	23,417	254,527
Deposits received *(Note 6-(c))*	–	12,726	–
Reserve for defects on completed construction projects	1,161	1,255	13,962
Allowance for losses on construction contracts *(Note 6-(f))*	372	327	4,473
Allowance for loss on litigation	1,280	1,325	15,393
Allowance for loss on disaster	470	–	5,652
Other current liabilities *(Note 6-(c))*	16,568	10,410	199,254
Total current liabilities	152,045	180,549	1,828,562
Long-term liabilities:			
Long-term debt *(Notes 6-(c) and 23)*	2,582	1,197	31,052
Accrued retirement benefits *(Note 15)*	16,135	14,996	194,046
Deferred tax liability on land revaluation *(Note 6-(d))*	445	446	5,351
Other long-term liabilities *(Note 6-(c))*	5,163	5,087	62,092
Total long-term liabilities	24,327	21,727	292,567
Contingent liabilities *(Notes 6-(e) and 20)*			
Net assets:			
Shareholders' equity:			
Capital stock:	12,003	12,003	144,353
Common stock:			
Authorized:			
2,669,464,970 shares in 2011 and 2010			
Issued and outstanding:			
283,363,598 shares in 2011 and 275,313,598 shares in 2010			
Preferred stock:			
Authorized:			
26,894,644 shares in 2011 and 2010			
Issued and outstanding:			
13,843,700 shares in 2011 and 16,323,100 shares in 2010			
Additional paid-in capital	682	682	8,202
Retained earnings	6,360	5,651	76,488
Less treasury stock, at cost: 436,646 shares in 2011 and 425,236 shares in 2010	(242)	(241)	(2,910)
Total shareholders' equity	18,804	18,096	226,145
Accumulated other comprehensive income:			
Unrealized holding (loss) gain on securities	(195)	37	(2,345)
Land revaluation *(Note 6-(d))*	57	57	685
Translation adjustments	(694)	(604)	(8,346)
Total accumulated other comprehensive income (loss)	(833)	(508)	(10,018)
Minority interests	2,677	2,723	32,194
Total net assets	20,648	20,310	248,322
Total liabilities and net assets	¥197,021	¥222,588	$2,369,464

The accompanying notes are an integral part of these statements.

	Years ended March 31, 2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Net sales *(Note 7-(a))*	¥298,647	¥336,476	$3,591,665
Cost of sales *(Note 7-(b))*	278,285	313,337	3,346,782
Gross profit	20,362	23,138	244,882
Selling, general and administrative expenses *(Notes 7-(c) and 15)*	15,399	16,537	185,195
Operating income	4,962	6,601	59,675
Other income (expenses):			
Interest and dividend income	248	394	2,982
Payments received from insurance claims	195	184	2,345
Employment adjustment subsidies	245	109	2,946
Interest expense	(963)	(989)	(11,581)
Exchange loss, net	(386)	(4)	(4,642)
Corporate tax on overseas sales	(257)	–	(3,090)
Provision for doubtful receivables	(605)	(106)	(7,276)
Loss on disaster *(Note 7-(f))*	(547)	–	(6,578)
Equity in earnings of affiliates	67	36	805
Gain on sales of property and equipment	15	60	180
Gain on negative goodwill	273	–	3,283
Loss on sales and disposal of property and equipment	(44)	(51)	(529)
Gain on prior-period adjustment *(Note 7-(e))*	245	153	2,946
Amortization of negative goodwill upon consolidation	–	0	–
Allowance for loss on litigation	–	(1,280)	–
Relocation expenses *(Note 7-(g))*	–	(384)	–
Other, net	(811)	(868)	(9,753)
	(2,325)	(2,746)	(27,961)
Income before income taxes and minority interests	2,636	3,854	31,701
Income taxes *(Note 16)*:			
Current	603	947	7,251
Deferred	191	(16)	2,297
	795	931	9,561
Income before minority interests	1,841	–	22,140
Minority interests in net income of consolidated subsidiaries	300	(378)	3,607
Net income	¥ 1,541	¥ 2,543	$ 18,532
	(Yen)		*(U.S. dollars) (Note 3)*
Net income per share – basic *(Note 21)*	¥5.47	¥6.22	$0.065
Net income per share – diluted *(Note 21)*	2.65	4.32	0.031

The accompanying notes are an integral part of these statements.

	Years ended March 31,		
	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars)*
		(Note 8)	*(Note 3)*
Income before minority interests	¥1,841	–	$22,140
Other comprehensive income:			
Unrealized holding loss on securities	(234)	–	(2,814)
Translation adjustments	(104)	–	(1,250)
Share of other comprehensive income of affiliates accounted for by equity method	(8)	–	(96)
Total other comprehensive income	(347)	–	(4,173)
Comprehensive income	¥1,494	–	$17,967
Comprehensive income attributable to:			
Comprehensive income attributable to the parent	¥1,217		$14,636
Comprehensive income attributable to minority interests	¥ 276		$ 3,319

The accompanying notes are an integral part of these statements.

	Years ended March 31,		
	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Shareholders' equity			
Capital stock:			
Balance at the end of previous period	¥12,003	¥16,859	$144,353
Changes in items during the period			
Transfer to other additional paid-in capital	–	(4,855)	–
Total changes in items during the period	–	(4,855)	–
Balance at the end of the period	12,003	12,003	144,353
Additional paid-in capital:			
Balance at the end of previous period	682	80	8,202
Changes in items during the period:			
Transfer from capital stock	–	4,855	–
Deficit disposition	–	(4,253)	–
Disposition of treasury stock	(0)	(0)	(0)
Total changes in items during the period	(0)	601	(0)
Balance at the end of the period	682	682	8,202
Retained earnings (deficit):			
Balance at the end of previous period	5,651	(1,145)	67,961
Changes in items during the period			
Cash dividends paid	(833)	–	(10,018)
Deficit disposition	–	4,253	–
Net income	1,541	2,543	18,532
Reversal of revaluation reserve for land, net of taxes	0	0	0
Total changes in items during the period	708	6,797	8,514
Balance at the end of the period	6,360	5,651	76,488
Treasury stock, at cost:			
Balance at the end of previous period	(241)	(240)	(2,898)
Changes in items during the period			
Purchases of treasury stock	(0)	(1)	(0)
Disposition of treasury stock	0	0	0
Total changes in items during the period	(0)	(0)	(0)
Balance at the end of the period	(242)	(241)	(2,910)
Total shareholders' equity:			
Balance at the end of previous period	18,096	15,553	217,630
Changes in items during the period			
Dividends from surplus	(833)	–	(10,018)
Transfer to other additional paid-in capital	–	(4,855)	–
Transfer from capital stock	–	4,855	–
Deficit disposition	–	–	–
Net income	1,541	2,543	18,532
Purchases of treasury stock	(0)	(1)	(0)
Disposition of treasury stock	0	0	0
Reversal of revaluation reserve for land, net of taxes	0	0	0
Total changes in items during the period	708	2,543	8,514
Balance at the end of the period	18,804	18,096	226,145

	Years ended March 31,		
	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Valuation, translation adjustments and other			
Unrealized holding (loss) gain on securities:			
Balance at the end of previous period	37	(375)	444
Changes in items during the period			
Net changes in items other than shareholders' equity	(233)	413	(2,802)
Total changes in items during the period	(233)	413	(2,802)
Balance at the end of the period	(195)	37	(2,345)
Land revaluation:			
Balance at the end of previous period	57	58	685
Changes in items during the period			
Net changes in items other than shareholders' equity	(0)	(0)	(0)
Total changes in items during the period	(0)	(0)	(0)
Balance at the end of the period	57	57	685
Translation adjustments:			
Balance at the end of previous period	(604)	(656)	(7,263)
Changes in items during the period			
Net changes in items other than shareholders' equity	(90)	52	(1,082)
Total changes in items during the period	(90)	52	(1,082)
Balance at the end of the period	(694)	(604)	(8,346)
Total valuation, translation adjustments and other:			
Balance at the end of previous period	(508)	(973)	(6,109)
Changes in items during the period			
Net changes in items other than shareholders' equity	(324)	464	(3,896)
Total changes in items during the period	(324)	464	(3,896)
Balance at the end of the period	(833)	(508)	(10,018)
Minority interests			
Balance at the end of previous period	2,723	2,356	32,748
Changes in items during the period			
Net changes in items other than shareholders' equity	(45)	366	(541)
Total changes in items during the period	(45)	366	(541)
Balance at the end of the period	2,677	2,723	32,194
Total net assets			
Balance at the end of previous period	20,310	16,936	244,257
Changes in items during the period			
Dividends from surplus	(833)	–	(10,018)
Transfer to other additional paid-in capital	–	(4,855)	–
Transfer from capital stock	–	4,855	–
Deficit disposition	–	–	–
Net income	1,541	2,543	18,532
Purchases of treasury stock	(0)	(1)	(0)
Disposition of treasury stock	0	0	0
Reversal of revaluation reserve for land, net of taxes	0	0	0
Net changes in items other than shareholders' equity	(370)	831	(4,449)
Total changes in items during the period	337	3,374	4,052
Balance at the end of the period	¥20,648	¥20,310	$248,322

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

March 31, 2011

	Years ended March 31,		
	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Operating activities			
Income before income taxes and minority interests	¥ 2,636	¥ 3,854	$ 31,701
Depreciation and amortization	1,502	1,213	18,063
Increase (decrease) in allowance for doubtful receivables	916	(24)	11,016
Increase (decrease) in accrued retirement benefits	1,142	(695)	13,734
Decrease in reserve for defects on completed construction projects	(92)	(236)	(1,106)
Increase (decrease) in allowance for losses on construction contracts	45	(245)	541
(Decrease) increase in allowance for loss on litigation	(45)	1,325	(541)
Increase in provision for loss on disaster	470	–	5,652
Loss (gain) on sales and disposal of property and equipment	13	(5)	156
Amortization of negative goodwill upon consolidation	–	(0)	–
Interest and dividend income	(248)	(394)	(2,982)
Interest expense	963	989	11,581
Exchange loss, net	308	130	3,704
Equity in earnings of affiliates	(67)	(36)	(805)
Gain on negative goodwill	(273)	–	(3,283)
Relocation expenses	–	384	–
Decrease in trade notes and accounts receivable	7,903	17,548	95,045
Decrease in inventories	2,852	2,638	34,299
Decrease in other assets	4,036	1,957	48,538
Decrease in trade notes and accounts payable	(20,663)	(17,979)	(248,502)
Decrease in advances received on contracts in progress	(2,221)	(5,337)	(26,710)
(Decrease) increase in other liabilities	(6,023)	149	(72,435)
Other	36	33	432
Subtotal	(6,807)	5,269	(81,864)
Interest and dividends received	271	882	3,259
Interest paid	(959)	(983)	(11,533)
Income taxes paid	(984)	(815)	(11,834)
Special retirement benefits	(32)	(417)	(384)
Relocation expenses	(293)	(91)	(3,523)
Net cash (used in) provided by operating activities	(8,805)	3,845	(105,892)
Investing activities			
Increase in short-term investments	(1,297)	(1,026)	(15,598)
Purchases of property and equipment	(1,508)	(865)	(18,135)
Proceeds from sales of property and equipment	48	68	577
Purchases of intangible fixed assets	(114)	(344)	(1,371)
Purchases of investments in real estate	–	(23)	–
Proceeds from sales of investments in real estate	–	59	–
Purchases of investments in securities	(234)	(4)	(2,814)
Proceeds from sales of investments in securities	102	88	1,226
Increase in investments in unconsolidated subsidiaries and affiliates	(15)	(0)	(180)
Disbursements for loans	(220)	(151)	(2,645)
Proceeds from collection of loans	185	299	2,224
Other	539	212	6,482
Net cash used in investing activities	(2,514)	(1,689)	(30,234)
Financing activities			
Increase in short-term bank loans	1,101	2,525	13,241
Increase in long-term debt	3,200	–	38,484
Decrease in long-term debt	(2,040)	(1,489)	(24,533)
Increase (decrease) in long-term loans of employees	51	(65)	613
Increase in treasury stock	(0)	(1)	(0)
Cash dividends paid	(833)	–	(10,018)
Cash dividends paid for minority shareholders	(25)	(17)	(300)
Other	(89)	(60)	(1,070)
Net cash provided by financing activities	1,363	891	16,392
Effect of exchange rate changes on cash and cash equivalents	(267)	(75)	(3,211)
Net (decrease) increase in cash and cash equivalents	(10,224)	2,971	(122,958)
Cash and cash equivalents at beginning of the year	26,967	23,995	324,317
Cash and cash equivalents at end of the year	¥ 16,742	¥ 26,967	$ 201,346

The accompanying notes are an integral part of these statements.

1. Basis of Preparation

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

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

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

2. Summary of Significant Accounting Policies

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

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

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

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

The Company had 14 consolidated subsidiaries, 1 unconsolidated subsidiary and 2 affiliates accounted for by the equity method as of March 31, 2011 and 14 consolidated subsidiaries, 2 unconsolidated subsidiaries and 2 affiliates accounted for by the equity method as of March 31, 2010, respectively.

(b) Fiscal Year of Consolidated Subsidiaries

All foreign consolidated subsidiaries (4 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 Low 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.

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

(f) 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) Advances Received on 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.

(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 Loss on Litigation

An allowance has been provided for future losses on pending litigation at an estimated amount calculated based on specific circumstances.

(k) Allowance for Loss on Disaster

An allowance has been provided for future losses on recovery and restoration related to ongoing construction projects damaged by the Great East Japan Earthquake.

(l) Employees' Retirement Benefits

Accrued retirement benefits for employees are provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets, as adjusted for the unrecognized net retirement benefit obligation at transition, unrecognized actuarial gain or loss and unrecognized prior service cost.

(l) Employees' Retirement Benefits (continued)

The net retirement benefit obligation at transition is being amortized principally over a period of 15 years. 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. 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.

(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.

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

(Change in accounting policy)

Effective the year ended March 31, 2010, the Company has adopted "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15 issued on December 27, 2007), and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18 issued on December 27, 2007).

Under the new accounting standard and guidance, 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 continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.

As a result of this change, net sales increased by ¥21,702 million, operating income increased by ¥2,175 million, and income before income taxes increased by ¥2,195 million for the year ended March 31, 2010 compared with the corresponding amounts which would have been recorded under the previous method.

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

(2) Hedging instruments and hedging items

Hedging instruments is the interest rate swaps, hedging items is the interest on debt.

(3) Hedging policy

The Company utilizes interest rate swaps only for the purpose of hedging future interest rate fluctuation risk.

(4) Assessment of hedge effectiveness

The evaluation of hedge effectiveness is omitted for interest rate swaps as all meet specified criteria to be qualified for 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 files a tax return under the consolidated corporate-tax 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 ¥83.15 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2011. 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

(a) Effective the year ended March 31, 2011, the Company has adopted "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18 issued on March 31, 2008) an "Guidance for the Application of Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008).

As a result, operating income decreased by ¥21 million ($252 thousand) and income before income taxes and minority interests decreased by ¥112 million ($1,346 thousand) for the year ended March 31, 2011.

(b) Effective the year ended March 31, 2011, the Company has adopted "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16, issued on March 10, 2008) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (PITF No. 24, issued on March 10, 2008).

The effect of this adoption has no impact on the consolidated statement of income for the year ended March 31, 2011.

(c) Effective the year ended March 31, 2011, the Company has adopted "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued on December 26, 2008), "Partial amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No. 23, issued on December 26, 2008), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued on December 26, 2008), "Accounting Standard for Equity Method of Accounting for Investments"(ASBJ Statement No. 16, issued on December 26, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on December 26, 2008).

(d) Effective the year ended March 31, 2010, the Company has adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19 issued on July 31, 2008).

The effect of this adoption has no impact on the consolidated statement of operations for the year ended March 31, 2010, nor has the amount of the retirement benefit obligation changed.

5. Additional Information

Effective the year ended March 31, 2011, the Company has adopted "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, issued on June 30, 2010). The amounts recorded as "Accumulated Other Comprehensive Income" and "Total Accumulated Other Comprehensive Income" as of March 31, 2010 in the accompanying balance sheets and statements of changings in net assets had been recorded as "Valuation, Translation Adjustments and Other" and "Total Valuation, Translation Adjustments and Other," respectively, in prior years.

6. Notes to Consolidated Balance Sheets

(a) Inventories

The components of inventories as of March 31, 2011 and 2010 were as follows:

	As of March 31,		
	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Merchandise and finished goods	¥ 484	¥ 501	$ 5,820
Materials and supplies	1,937	1,503	23,295
Costs on uncompleted construction contracts	18,717	21,962	225,099
Real estate for sale	108	135	1,298
	¥21,248	¥24,103	$255,538

(b) Investments in Real Estate

"Investments in real estate" includes accumulated depreciation in the amount of ¥619 million ($7,444 thousand) and ¥587 million at March 31, 2011 and 2010, respectively.

(c) Pledged Assets

The following assets were pledged at March 31, 2011 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,		
	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and deposits	¥ 2,788	¥ 2,493	$ 33,529
Trade notes and accounts receivable	338	3,401	4,064
Land	12,959	12,961	155,850
Buildings and structures, net of accumulated depreciation	1,371	1,498	16,488
Machinery, equipment and vehicles, net of accumulated depreciation	90	119	1,082
Investments in securities	1,926	2,001	23,162
Investments in real estate	3,333	3,365	40,084
	¥22,809	¥25,841	$274,311

(c) Pledged Assets (continued)

Of the above property and equipment, assets that were held in mortgage for factory foundations at March 31, 2011 and 2010 are summarized as follows:

	As of March 31,		
	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Land	¥1,236	¥1,236	$14,864
Buildings and structures, net of accumulated depreciation	267	285	3,211
Machinery, equipment and vehicles, net of accumulated depreciation	90	119	1,082
	¥1,594	¥1,642	$19,170

The secured liabilities as of March 31, 2011 and 2010 are summarized as follows:

	As of March 31,		
	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Short-term bank loans	¥2,213	¥5,757	$26,614
[Including current portion of long-term debt]	[873]	[876]	[10,499]
Long-term debt	2,332	1,197	28,045
Deposits received	–	100	–
Other current liabilities	100	–	1,202
Other long-term liabilities	425	525	5,111

(d) Land Revaluation

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

The market value of the land was ¥678 million ($8,153 thousand) and ¥662 million more than the revalued book amount at March 31, 2011 and 2010, respectively.

(e) Contingent Liabilities

At March 31, 2011 and 2010, the Company and consolidated subsidiaries were contingently liable for the followings:

	As of March 31,		
	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars)*
As guarantors of bank loans to customers, unconsolidated subsidiaries, an affiliate and employees	¥3,291	¥3,576	$39,579
As endorsers of notes receivable discounted with banks	433	–	5,207
As endorsers of notes receivable endorsed to vendors	7	10	84

(f) Estimated Loss on Uncompleted Construction Contracts

An estimated loss on uncompleted construction contracts was recognized and included as part of inventories but was not offset against the amount on the balance sheet. It has been recorded as an allowance for losses on construction contracts in the amount of ¥57 million ($685 thousand) and ¥159 million as of March 31, 2011 and 2010.

7. Notes to Consolidated Statements of Operations

(a) Net sales based on percentage-of-completion method

Net sales on such construction contracts amounted to ¥208,742 million ($2,510,426 thousand) and ¥213,404 million for the year ended March 31, 2011 and 2010, 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 amount of ¥298 million ($3,583 thousand) and ¥327 million for the year ended March 31, 2011 and 2010, respectively.

(c) Selling, General and Administrative Expenses

The significant components of selling, general and administrative expenses at March 31, 2011 and 2010 were as follows:

	Years ended March 31,		
	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Salaries and wages	¥ 6,348	¥ 6,849	$ 76,343
Retirement benefit expenses	1,171	1,197	14,082
Rent	1,628	2,080	19,579
Provision for doubtful receivables	132	81	1,587
Other	6,118	6,327	73,577
Total	¥15,399	¥16,537	$185,195

(d) Research and Development Expenses

Research and development costs included in selling, general and administrative expenses and manufacturing costs amounted to ¥916 million ($11,016 thousand) and ¥1,015 million for the years ended March 31, 2011 and 2010, respectively.

(e) Gain on Prior-period Adjustment

The significant components of gain on prior-period adjustment for the years ended March 31, 2011 and 2010 were as follows:

	Years ended March 31,		
	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Reversal of provision for doubtful receivables	¥138	¥119	$1,659
Gain on recovery of bad debts	13	21	156
Reversal of special retirement benefits	84	–	1,010
Others	8	12	96
Total	¥245	¥153	$2,946

(f) Loss on Disaster

Loss on disaster for the year ended March 31, 2011 included relief and support costs of ¥77 million ($926 thousand) and an allowance for loss on disaster of ¥470 million ($5,652 thousand) due to the Great East Japan Earthquake.

(g) Relocation Expenses

Relocation and integration expenses for head office and branches located around the Tokyo metropolitan area have been recognized for the year ended March 31, 2010.

8. Notes to Consolidated Statements of Comprehensive Income

Comprehensive income for the year ended March 31, 2010 was as follows:

	March 31, 2010
	(Millions of yen)
Comprehensive income attributable to the parent	¥3,007
Comprehensive income attributable to minority interests	393
Comprehensive income	¥3,401

Components of other comprehensive income for the year ended March 31, 2010 was as follows:

	March 31, 2010
	(Millions of yen)
Unrealized holding loss on securities	¥408
Translation adjustments	45
Share of other comprehensive income of affiliates accounted for by the equity method	23
Other comprehensive income	¥478

9. Notes to Consolidated Statements of Charges in Net Assets

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

(1) For the year ended March 31, 2011

	Balance at March 31, 2010	Increase	Decrease	Balance at March 31, 2011
		(Number of shares)		
Shares issued:				
Common stock	275,313,598	8,050,000	–	283,363,598
2nd Series Class A preferred stock	4,500,000	–	2,479,400	2,020,600
3rd Series Class C preferred stock	5,861,200	–	–	5,861,200
3rd Series Class D preferred stock	5,961,900	–	–	5,961,900
Total	291,636,698	8,050,000	2,479,400	297,207,298

Note 1: Increase of common stock is due to acquisition of common stock by exercising a call option of the 2nd Series Class A preferred stock.

Note 2: Decrease of preferred stock is due to redemption of 2nd Series Class A preferred stock to acquire common stock by exercising a call option.

	Balance at March 31, 2010	Increase	Decrease	Balance at March 31, 2011
		(Number of shares)		
Treasury shares:				
Common stock	425,236	11,877	467	436,646
2nd Series Class A preferred stock	–	2,479,400	2,479,400	–
Total	425,236	2,491,277	2,479,867	436,646

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 requests to purchase fractional shares.

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

Note 4: Decrease of preferred stock is due to redemption of 2nd Series Class A preferred treasury stock to acquire common stock by exercising a call option.

(2) For the year ended March 31, 2010

	Balance at March 31, 2009	Increase	Decrease	Balance at March 31, 2010
		(Number of shares)		
Shares issued:				
Common stock	275,097,086	216,512	–	275,313,598
2nd Series Class A preferred stock	4,500,000	–	–	4,500,000
3rd Series Class C preferred stock	5,868,700	–	7,500	5,861,200
3rd Series Class D preferred stock	5,961,900	–	–	5,961,900
Total	291,427,686	216,512	7,500	291,636,698

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

Note 2: Decrease of preferred stock is due to redemption of 3rd Series Class C preferred stock to acquire common stock by exercising a call option.

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

	Balance at March 31, 2009	Increase	Decrease	Balance at March 31, 2010
	(Number of shares)			
Treasury shares:				
Common stock	411,183	14,722	669	425,236
3rd Series Class C preferred stock	–	7,500	7,500	–
Total	411,183	22,222	8,169	425,236

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 requests to purchase fractional shares.

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

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

(b) Dividends:

Dividends with the cut-off date in the year ended March 31, 2010 and the effective date in the year ending March 31, 2011, were as follows:

Resolution	Type of shares	Total dividends *(millions of yen)*	Dividends per share *(yen)*	Cut-off date	Effectiv e date
Annual general meeting of the shareholders on June 29, 2010	2nd Series Class A preferred stock	¥ 38	¥ 8.45	March 31, 2010	June 30, 2010
	3rd Series Class C preferred stock	394	67.25		
	3rd Series Class D preferred stock	400	67.25		
		¥833			

For the year ended March 31, 2012 and 2011, there were no dividends paid to shareholders.

10. Notes to Consolidated Statements of Cash Flows

(a) Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2011 and 2010 were as follows:

	As of March 31,		
	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and deposits	¥20,730	¥29,768	$249,308
Time deposits with maturities of over three months	(3,987)	(2,801)	(47,949)
Cash and cash equivalents	¥16,742	¥26,967	$201,346

11. Leases

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation / amortization and net book value of the leased property as of March 31, 2011 and 2010, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

(a) As lessee:

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

	2011			2010		
	Machinery, equipment and vehicles	Intangible fixed assets	Total	Machinery, equipment and vehicles	Intangible fixed assets	Total
	(Millions of yen)					
Acquisition costs	¥721	¥146	¥867	¥774	¥173	¥947
Accumulated depreciation / amortization	431	115	547	358	113	472
Net book value	¥290	¥ 30	¥320	¥415	¥ 59	¥475

	2011		
	Machinery, equipment and vehicles	Intangible fixed assets	Total
	(Thousands of U.S. dollars)		
Acquisition costs	$8,671	$1,755	$10,426
Accumulated depreciation / amortization	5,183	1,383	6,578
Net book value	$3,487	$1,360	$ 3,848

	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars)*
Future minimum payments:			
Within one year	¥135	¥157	$1,623
Over one year	205	340	2,465
	¥340	¥498	$4,088
Lease payments	¥173	¥220	$2,080
Depreciation / amortization equivalents	152	192	1,828
Interest expense equivalents	18	26	216

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

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

(a) As lessee: (continued)

(2) Operating leases

	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars)*
Future minimum payments:			
Within one year	¥ 6	¥11	$ 72
Over one year	3	10	36
	¥10	¥21	$120

(b) As lessor:

(1) Finance leases (of which the commencement dates prior to the initial year of application of change in accounting method)

	As of March 31,		
	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars)*
	Machinery and equipment		
Acquisition costs	¥15	¥27	$180
Accumulated depreciation / amortization	12	19	144
Net book value	¥ 2	¥ 7	$ 24

	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars)*
Future minimum payments:			
Within one year	¥2	¥ 7	$24
Over one year	0	6	0
	¥3	¥13	$36

Future minimum receivable are computed by the interest-inclusive method, since the balance of future minimum payments accounts for a minimal portion of trade accounts at the end of fiscal year.

	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars)*
Lease receivable	¥4	¥9	$48
Depreciation / amortization	3	8	36

12. Financial Instruments

Financial instruments at March 31, 2011 are summarized as follows:

(a) Overview

(1) Policy for financial instruments

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

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

Trade notes and accounts receivable 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.

The management of credit risks (Risks in relation to default of customers and trading partners)

The Company has systems enabling the management of due dates and balances of trade notes and accounts receivable for individual customers and trading partners 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 in relation to fluctuation of currency exchange and interest rates)

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

Loan payables are mainly for short-term operating funds. The Group manages loan payables to flexibly plan 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. The derivative transactions are carried out after getting approval in accordance with the Companies' internal rules on transactions.

Information regarding the method of hedge Accounting, hedging instruments and hedged items, hedging policy, and assessment of hedge effectiveness is found in Note 2-15.

(a) Overview (continued)

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

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

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

(b) Fair value of financial instruments

Amounts recognized in the consolidated balance sheet, market value, and the difference on March 31, 2011, are as shown below. Moreover, items for which it is extremely difficult to determine fair values are not included in the following table (see Note 2).

	2011					
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Cash and deposits	¥ 20,730	¥ 20,730	¥ –	$ 249,308	$ 249,308	$ –
Trade notes and accounts receivable	93,034	93,023	(10)	1,118,869	1,118,737	(120)
Investments in securities	1,970	1,970	0	23,692	23,692	0
Held-to-maturity securities	9	9	0	108	108	0
Other securities	1,960	1,960	–	23,571	23,571	–
Long-term loans receivable	7,544			90,727		
Allowance for doubtful receivables	(5,792)			(69,657)		
	1,752	1,597	(155)	21,070	19,206	(1,864)
Claims provable in bankruptcy and other	7,848			94,383		
Allowance for doubtful receivables	(7,653)			(92,038)		
	195	195	(0)	2,345	2,345	0
Long-term non-operating accounts receivable	38,144			458,737		
Allowance for doubtful receivables	(35,245)			(423,872)		
	2,868	2,824	(43)	34,491	33,962	(517)
Total assets	120,551	120,341	(210)	1,449,801	1,447,276	(2,525)
Trade notes and accounts payable	101,548	101,548	–	1,221,262	1,221,262	–
Short-term bank loans and current portion of long-term debt	7,517	7,528	11	90,402	90,535	132
Long-term debt	2,582	2,519	(63)	31,052	30,294	(757)
Total liabilities	¥111,648	¥111,597	¥ (51)	$1,342,730	$1,342,116	$ (613)
Derivative	–	–	–	–	–	–

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

(b) Fair value of financial instruments (continued)

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 and accounts receivable

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.

(3) Investments in securities

Concerning the market value of investment securities, the market value for stock 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 investment securities.”

(4) Long-term loans receivable, (5) Claims provable in bankruptcy and other and
(6) Long-term non-operating accounts 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 and accounts payable

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

(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.

(b) Fair value of financial instruments (continued)

(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, which is discounted by an interest rate to be applied if similar new loans were entered into.

The information of the fair value for derivatives is included in Note 14.

Note 2: Unlisted stock (The carrying value ¥4,160 million ($50,030 thousand)) is not included in "(3) Investments in securities" because these have no market value and it is extremely difficult to measure the fair value.

Note 3: The redemption schedule for monetary claims and held-to-maturity debt securities with maturity dates subsequent to the consolidated balance sheet date.

	2011							
	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	¥ 20,663	¥ –	¥ –	¥ –	$ 248,502	$ –	$ –	$ –
Trade notes and accounts receivable	92,179	854	–	–	1,108,586	10,270	–	–
Investments in securities Held-to-maturity securities (Bonds)	–	9	–	–	–	108	–	–
Long-term loans receivable	12	5	783	951	144	60	9,416	11,437
Claims provable in bankruptcy and other (*)	20	3	–	–	240	36	–	–
Long-term non-operating accounts receivable (*)	211	1,407	0	–	2,537	16,921	0	–
	¥113,088	¥2,281	¥783	¥951	$1,360,048	$27,432	$9,416	$11,437

(*) The fair values of these items are extremely difficult to determine. This table does not include the amount of ¥171 million ($2,056 thousand) out of claims provable in bankruptcy and other and the amount of ¥1,248 million ($15,009 thousand) out of long-term non-operating accounts receivable.

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 23.*

Financial instruments at March 31, 2010 are summarized as follows:

(a) Overview

(1) Policy for financial instruments

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

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

Trade notes and accounts receivable 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.

The management of credit risks (Risks in relation to default of customers and trading partners)

The Company has systems enabling the management of due dates and balances of trade notes and accounts receivable for individual customers and trading partners 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 in relation to fluctuation of currency exchange and interest rates)

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

Loan payables are mainly for short-term operating funds. The Group manages loan payables to flexibly plan or revise its fund management plans.

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

The fair values of financial instruments include prices 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.

(b) Fair value of financial instruments

Amounts recognized in the consolidated balance sheet, market value, and the difference on March 31, 2010, are as shown below. Moreover, items for which it is extremely difficult to determine fair values are not included in the following table (see Note 2).

	2010		
	Carrying value	Fair value	Difference
	(Millions of yen)		
Cash and deposits	¥ 29,768	¥ 29,768	¥ –
Trade notes and accounts receivable	102,129		
Allowance for doubtful receivables	(1,104)		
	101,025	100,980	(44)
Investments in securities	2,045	2,045	0
Held-to-maturity securities	9	9	0
Other securities	2,035	2,035	–
Long-term loans receivable	7,611		
Allowance for doubtful receivables	(5,792)		
	1,819	1,645	(173)
Claims provable in bankruptcy and other	7,969		
Allowance for doubtful receivables	(7,461)		
	507	507	(0)
Long-term non-operating accounts receivable	45,104		
Allowance for doubtful receivables	(40,421)		
	4,683	4,635	(48)
Total assets	139,848	139,582	(266)
Trade notes and accounts payable	122,336	122,336	–
Short-term bank loans and current portion of long-term debt	6,642	6,653	11
Long-term debt	1,197	1,163	(33)
Total liabilities	¥130,175	¥130,153	¥ (22)

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

(b) Fair value of financial instruments (continued)

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 and accounts receivable

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.

(3) Investments in securities

Concerning the market value of investment securities, the market value for stock 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 investment securities.”

(4) Long-term loans receivable, (5) Claims provable in bankruptcy and other and
(6) Long-term non-operating accounts 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 and accounts payable

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

(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.

(b) Fair value of financial instruments (continued)

(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.

Note 2: Unlisted stock (The carrying value ¥4,114 million) is not included in "(3) Investments in securities" because these have no market value and it is extremely difficult to measure the fair value.

Note 3: The redemption schedule for monetary claims and held-to-maturity debt securities with maturity dates subsequent to the consolidated balance sheet date.

	2010			
	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Over 10 years
	(Millions of yen)			
Deposits	¥ 29,624	¥ –	¥ –	¥ –
Trade notes and accounts receivable	96,575	4,449	–	–
Investments in securities				
Held-to-maturity securities (Bonds)	–	9	–	–
Long-term loans receivable	29	18	784	987
Claims provable in bankruptcy and other (*)	21	6	–	–
Long-term non-operating accounts receivable (*)	979	1,543	0	–
	¥127,231	¥6,027	¥784	¥987

(*) The fair values of these items are extremely difficult to determine. This table does not include the amount of ¥479 million out of claims provable in bankruptcy and other and the amount of ¥2,160 million out of long-term non-operating accounts receivable.

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 23*.

(Additional information)

Effective the year ended March 31, 2010, the Company has adopted "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10 issued on March 10, 2008), and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 issued on March 10, 2010).

13. Securities

Securities at March 31, 2011 and 2010 are summarized as follows:

(a) Held-to-maturity securities

	2011					
	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	¥9	¥9	¥0	$108	$108	$0

	2010		
	Carrying value	Fair value	Unrealized gain
	(Millions of yen)		
Securities whose fair value exceeds their carrying value:			
Bonds	¥9	¥9	¥0

(b) Other securities

	2011					
	Cost	Balance sheet amount	Unrealized gain (loss)	Cost	Balance sheet amount	Unrealized gain (loss)
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Unrealized gain:						
Stock	¥ 629	¥ 521	¥ 107	$ 7,564	$ 6,265	$1,286
Unrealized loss:						
Stock	1,331	1,625	(293)	16,007	19,542	3,523
Total	¥1,960	¥2,146	¥(186)	$23,571	$25,808	$2,236

	2010		
	Cost	Balance sheet amount	Unrealized gain (loss)
	(Millions of yen)		
Unrealized gain:			
Stock	¥1,064	¥ 835	¥ 229
Unrealized loss:			
Stock	970	1,117	(147)
Total	¥2,035	¥1,953	¥ 82

(c) Sales of securities classified as other securities

	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars)*
Sales amount-stock	¥32	¥78	$384
Aggregate gain-stock	3	9	36

14. Derivatives and Hedge Accounting

Derivative transactions for the year ended March 31, 2011 are summarized as follows:

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

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

Interest-related transactions

	2011						
	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	¥2,500	¥2,000	*Note 1*	$30,066	$24,052	*Note 1*

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

For the year ended March 31, 2010, there were no derivative transactions.

15. Retirement Benefit Plans

For the year ended March 31, 2011, the Company and its consolidated subsidiaries have lump-sum retirement benefit plans covering substantially all employees. The benefit amounts are determined by reference to basic rates of pay, length of service and the conditions under which termination occurs. Certain consolidated domestic subsidiaries transferred annuity payments to a defined benefits pension plan or the Smaller Enterprise Retirement Allowance Mutual Aid Scheme. Certain foreign consolidated subsidiaries set up an employee pension trust.

For the year ended March 31, 2010, the Company and its consolidated subsidiaries have lump-sum retirement benefit plans covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service and the conditions under which termination occurs.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at March 31, 2011 and 2010 for the Company's and the consolidated subsidiaries' defined benefit plans:

	As of March 31,		
	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligation	¥(27,222)	¥(27,351)	$(327,384)
Plan assets at fair value	179	370	2,152
Unfunded retirement benefit obligation	(27,042)	(26,980)	(325,219)
Unrecognized net retirement benefit obligation at transition	7,934	9,917	95,417
Unrecognized actuarial loss	2,876	1,909	34,588
Unrecognized prior service cost	95	158	1,142
Net retirement benefit obligation	(16,135)	(14,994)	(194,046)
Prepaid pension cost	–	2	–
Accrued retirement benefits	¥(16,135)	¥(14,996)	$(194,046)

The components of retirement benefit expenses for the years ended March 31, 2011 and 2010 are outlined as follows:

	Years ended March 31,		
	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service cost	¥1,146	¥1,230	$13,782
Interest cost	645	721	7,757
Expected return on plan assets	(1)	(1)	(12)
Amortization of net retirement benefit obligation at transition	1,983	1,983	23,848
Amortization of actuarial loss	430	429	5,171
Amortization of prior service cost	62	62	745
Total retirement benefit expenses	¥4,266	¥4,426	$51,304

The principal assumptions used for the above plans were as follows:

	2011	**2010**
Discount rate	Principally 1.7%	Principally 2.5%
Expected rate of return on plan assets	1.0%	1.0%
Amortization period for prior service cost	Principally 11 years	Principally 11 years
Amortization period for actuarial differences	Principally 11 years	Principally 11 years
Period for recognition of net retirement benefit obligation at transition	Principally 15 years	Principally 15 years

16. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2011 and 2010 were as follows:

	As of March 31,		
	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Tax loss carryforwards	¥ 61,760	¥ 82,652	$ 742,754
Accrued retirement benefits	6,574	6,097	79,061
Allowance for bad debts	3,357	3,935	40,372
Allowance for loss on litigation	521	539	6,265
Reserve for defects on completed construction projects	466	506	5,604
Other	3,412	3,033	41,034
Gross deferred tax assets	76,091	96,764	915,105
Valuation allowance	(71,277)	(91,768)	(857,209)
Total deferred tax assets	4,814	4,996	57,895
Deferred tax liabilities:			
Asset retirement obligations	(11)	–	(132)
Unrealized holding gain on securities	(1)	(35)	(12)
Other	(19)	(18)	(228)
Total deferred tax liabilities	(32)	(53)	(384)
Net deferred tax assets	¥ 4,781	¥ 4,942	$ 57,498

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate at March 31, 2011 and 2010:

	March 31,	
	2011	**2010**
Statutory tax rate	40.7%	40.7%
Non-deductible expenses	8.0	4.6
Non-taxable income	(4.7)	(1.0)
Per capita inhabitants' taxes	6.4	(1.5)
Valuation allowance	(16.6)	(17.2)
Adjustments related to consolidation	(1.0)	(0.4)
Other	(2.6)	(1.0)
Effective tax rate	30.2%	24.2%

17. Business Combinations

Business combinations for the year ended March 31, 2011 are summarized as follows:

Transactions under common control

Increase in capital of consolidated subsidiary

(a) Name and business activity of company at the time of business combination, date of business combination, form of business combination, outline and purpose of transaction.

(1) Name and business activity of combined entity

SMCC PHILIPPINES, INC. (General Contractor)

(2) Date of business combination

December 16, 2010

(3) Form of business combination

Allocation of new shares to a third party

(4) Outline and purpose of transaction

In order to deal with expanding construction demand in Philippines, the Company will strengthen the subsidiary's financial status to facilitate stable and flexible business growth.

(b) Summary of accounting treatment applied

In accordance with "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on December 26, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on December 26, 2008), this business combination has been treated as a transaction under common control.

(c) Obtaining additional shares from consolidated subsidiary

(1) Acquisition cost

Cash and deposits ¥3 million ($36 thousand).

(2) Amount and nature of amortization of negative goodwill upon consolidation

Amount ¥79 million ($950 thousand).

Nature Due to addition of our shares, the amount of allocation of new shares multiplied by the rate of minority equity becomes less than the amount of accepted net asset.

Obtaining shares from minority shareholders

(a) Name and business activity of company at the time of business combination, date of business combination, form of business combination, outline and purpose of transaction.

(1) Name and business activity of combined entity

SMCC PHILIPPINES, INC. (General Contractor)

(2) Date of business combination

December 22, 2010

(3) Form of business combination

Obtaining shares from minority shareholders

(4) Outline and purpose of transaction

We obtained additional shares due to offers from minority shareholders of SMCC PHILIPPINES INC.

(b) Summary of accounting treatment applied

In accordance with "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on December 26, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on December 26, 2008), this business combination has been treated as a transaction with minorities.

(c) Concerning to obtaining additional shares from consolidated subsidiary

(1) Acquisition cost

Cash and deposits	¥12 million ($144 thousand).

(2) Amount and nature of amortization of negative goodwill upon consolidation

Amount	¥191 million ($2,297 thousand).
Nature	Due to the acquisition cost of additional shares becomes less than the decreased value of minority equity.

For the year ended March 31, 2010, there were no transactions applicable as business combinations.

18. Investment and Rental Property

Investment and rental property as of March 31, 2011 and 2010 were as follows;

(a) Types of investment and rental property

A consolidated subsidiary maintains warehouses available for rent including land in Saitama prefecture. Gains on investment and rental property for the year ended March 31, 2011 and 2010 were ¥133 million ($1,599 thousand) and ¥134 million.

(b) Fair value of investment and rental property

The book value, net increase (decrease) and fair value of investment and rental property for the year ended March 31, 2011 and 2010 were as follows:

2011

Book value				Book value			
Balance as of previous fiscal year-end	Net increase (decrease)	Balance as of current fiscal year-end	Fair value as of current fiscal year-end	Balance as of previous fiscal year-end	Net increase (decrease)	Balance as of current fiscal year-end	Fair value as of current fiscal year-end
(Millions of yen)				*(Thousands of U.S. dollars)*			
¥3,365	¥(31)	¥3,333	¥2,821	$40,469	$(372)	$40,084	$33,926

Note 1: The consolidated amount is acquisition cost less accumulated depreciation and accumulated impairment loss.

Note 2: Net decrease mainly consists of depreciation in the amount of ¥31 million ($372 thousand)

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

2010

Book value			
Balance as of previous fiscal year-end	Net increase (decrease)	Balance as of current fiscal year-end	Fair value as of current fiscal year-end
(Millions of yen)			
¥3,397	¥(31)	¥3,365	¥2,857

Note 1: The consolidated amount is acquisition cost less accumulated depreciation and accumulated impairment loss.

Note 2: Net decrease mainly consists of depreciation in the amount of ¥31 million.

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

(Additional information)

Effective the year ended March 31, 2010, the Company has adopted “Accounting Standard for Disclosures about Fair Value of Investment and Rental Property” (ASBJ Statement No. 20 issued on November 28, 2008), and “Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property” (ASBJ Guidance No. 23 issued on November 28, 2008).

19. Segment Information, etc

Segment Information for the year ended March 31, 2011

Segment Information

(a) Outline of Segments

The Company's reportable operating segments are components of an entity 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 cash segment.

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

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

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

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

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

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

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

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

	2011						
	Reportable operating segments						
	Civil	Building	Total	Others	Total	Adjustments	Consolidated
	(Millions of yen)						
Sales							
External Customers	¥117,118	¥180,741	¥297,859	¥787	¥298,647	¥ –	¥298,647
Intersegment transactions or transfers	1,211	1	1,213	68	1,281	(1,281)	–
Net sales	¥118,330	¥180,742	¥299,073	¥855	¥299,928	¥(1,281)	¥298,647
Segment income	10,100	10,010	20,110	352	20,463	(100)	20,362

Note 1: "Others," which includes the Company's business of 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.

	2011						
	Reportable operating segments						
	Civil	Building	Total	Others	Total	Adjustments	Consolidated
	(Thousands of U.S. dollars)						
Sales							
External Customers	$1,408,514	$2,173,674	$3,582,188	$ 9,464	$3,591,655	$ –	$3,591,665
Intersegment transactions or transfers	14,564	12	14,588	817	15,405	(15,405)	–
Net sales	$1,423,090	$2,173,686	$3,596,788	$10,282	$3,607,071	$(15,405)	$3,591,665
Segment income	121,467	120,384	241,852	4,233	246,097	(1,202)	244,882

(Additional Information)

Effective the year ended March 31, 2011, the Company has adopted "Accounting Standard for Disclosures about Segments of an Enterprise Related Information" (ASBJ Statement No. 17 issued March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20 issued March 21, 2008).

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

	2010						
	Reportable operating segments						
	Civil	Building	Total	Others	Total	Adjustments	Consolidated
				(Millions of yen)			
Sales							
External Customers	¥131,153	¥204,540	¥335,693	¥782	¥336,476	¥ –	¥336,476
Intersegment transactions or transfers	512	3	516	70	586	(586)	–
Net sales	¥131,665	¥204,544	¥336,209	¥852	¥337,062	¥(586)	¥336,476
Segment income	11,409	11,457	22,867	318	23,185	(46)	23,138

Note 1: "Others," which includes the Company's business of 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

(a) Product and service information

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

(b) Geographical segment information

(1) Sales

2011							
Japan	Asia	Others	Total	Japan	Asia	Others	Total
	(Millions of yen)				*(Thousands of U.S. dollars)*		
¥264,260	¥32,396	¥1,990	¥298,647	$3,178,111	$389,609	$23,932	$3,591,665

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 for the year ended March 31, 2011, as the amount of tangible fixed assets in Japan constituted over 90% of total for the year then ended.

(c) Major customer information

Information on major customers has been omitted for the ended year March 31, 2011, as there were no sales to a single customer constituting over 10% of net sales for the year then ended.

Loss on impairment by reportable segment

For the year ended March 31, 2011, there was no loss on impairment for any reportable segment.

Amortization of goodwill and unamortized balance by reportable segment

For the year ended March 31, 2011, there was no amortization and unamortized balance of goodwill by reportable segment.

Gain on negative goodwill by reportable segment

For the year ended March 31, 2011, negative goodwill has been recognized due to the additional acquisition of shares of SMCC PHILIPPINE INC. which mainly operates in Civil Construction Segment.

Gain on negative goodwill was ¥270 million ($3,247 thousand) for the year ended March 31, 2011.

Segment Information for the year ended March 31, 2010

The Company and consolidated subsidiaries are primarily engaged in construction business, both in Japan and overseas.

Business segments

Business segment information has been omitted for the year ended March 31, 2010 as sales, operating income and total assets of the construction segment constituted over 90% of the consolidated totals for the years then ended.

Geographic segments

Geographic segment information has been omitted for the year ended March 31, 2010 as sales, operating income and total assets in Japan constituted over 90% of the consolidated totals for the years then ended.

Overseas sales

Overseas sales information for the Company and consolidated subsidiaries for the year ended March 31, 2010 is summarized below:

	2010		
	Asia	Other	Total
	(Millions of yen)		
Overseas sales	¥31,839	¥2,778	¥ 34,617
Consolidated sales			336,476
Overseas sales as a percentage of consolidated sales (%)	9.5	0.8	10.3

Note 1: Countries and areas are segmented based on their geographic proximity.

Note 2: Major countries and areas that belong to segments are as follows:

(1) Asia .... Singapore, India, Vietnam, Thailand, Philippines
(2) Other .... U.S.A., Guam, Kenya

Note 3: Overseas sales represent sales to countries and regions outside of Japan.

20. Related Party Transactions

Transactions with affiliates for the year ended March 31, 2011 are summarized as follows:

	Year ended March 31, 2011					
	Capital contribution of the related party	Number of voting shares held as a percentage of voting shares issued	Nature of transaction	Total amount of transaction	Balance sheet account	Balance at the year end
	(Millions of yen)					
Affiliated company: Yoshiikikaku Co., Ltd. (Real estate business)	¥10	30.0%	Guarantee of bank loan	¥2,797	Long-term non-operation accounts receivable	¥609

	Year ended March 31, 2011					
	Capital contribution of the related party	Number of voting shares held as a percentage of voting shares issued	Nature of transaction	Total amount of transaction	Balance sheet account	Balance at the year end
	(Thousands of U.S. dollars)					
Affiliated company: Yoshiikikaku Co., Ltd. (Real estate business)	$120	30.0%	Guarantee of bank loan	$33,638	Long-term non-operation accounts receivable	$7,324

Transactions with affiliates for the year ended March 31, 2010 are summarized as follows:

	Year ended March 31, 2010					
	Capital contribution of the related party	Number of voting shares held as a percentage of voting shares issued	Nature of transaction	Total amount of transaction	Balance sheet account	Balance at the year end
			(Millions of yen)			
Affiliated company:						
Yoshiikikaku Co., Ltd. (Real estate business)	¥10	30.0%	Guarantee of bank loan	¥2,847	Long-term non-operation accounts receivable	¥609

21. Per Share Information

Net assets and basic net income per share as of and for the years ended March 31, 2011 and 2010 were as follows:

	2011	2010	2011
	(Yen)		*(U.S. dollars)*
Net assets per share	¥(44.52)	¥(54.76)	$(0.535)
Net income per share – basic	5.47	6.22	0.065
Net income per share – diluted	2.65	4.32	0.031

The basis of calculation for net assets per share at March 31, 2011 and 2010 was as follows:

	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars)*
Total net assets	¥ 20,648	¥ 20,310	$248,322
Amounts deducted from total net assets	33,245	35,364	399,819
[Including paid-in amounts for shares of preferred stock]	[30,568]	[31,807]	[367,624]
[Including amount of preferred dividends]	[–]	[833]	[–]
[Including minority interests]	[2,677]	[2,723]	[32,194]
Total net assets for common stock	¥(12,596)	¥(15,053)	$(151,485)
	(Thousands of shares)		
Number of shares of common stock used to determine net assets per share	282,926	274,888	

The basis for calculating basic net income per share for the years ended March 31, 2011 and 2010 was as follows:

	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars)*
Net income per share – basic:			
Net income	¥1,541	¥2,543	$18,532
Amount not available to common shareholders	–	833	–
[Including amount of preferred dividends]	[–]	[833]	[–]
Net income per share – basic	¥1,541	¥1,710	$18,532
	(Thousands of shares)		
Average number of shares of common stock outstanding	281,799	274,857	

	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars)*
Net income per share – diluted:			
Adjustment for net income	¥–	¥833	$–
[Including amount of preferred dividends]	[–]	[833]	[–]
	(Thousands of shares)		
Increase in number of share of common stock	300,056	313,538	
[Including preferred stock]	[300,056]	[313,538]	

22. Subsequent Event

The following acquisition of treasury stock (3rd Series Class C preferred stock) was determined at the board of directors' meeting held on May 13, 2011. The proposal was submitted to the shareholders' meeting for approval, and subsequently approved at the shareholders' meeting held on June 29, 2011.

(a) Reason for acquisition

To maintain the value of common stock in the event that preferred stock holders exercise their acquisition rights to common stock, and to reduce dividends, the Company plans to acquire treasury stock pursuant to clause 156-1 of the Companies Act.

(b) Details of acquisition of treasury stocks which was approved by shareholder's meeting

(1) Type of stock
3rd Series Class C preferred stock

(2) Amount of stock
80,000 shares

(3) Total of acquisition cost
¥200 million ($2,405 thousand) [Maximum]

(4) Term for acquisition
1 year from the date of the shareholders' meeting.

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

Short-term bank loans generally represent notes, principally at average annual interest rates of 1.9% at March 31, 2011 and 2010, respectively.

Long-term debt at March 31, 2011 and 2010 is summarized as follows:

	As of March 31,		
	2011	2010	2011
	(Millions of yen)		(Thousands of U.S. dollars)
Debt with collateral (at average interest rates of 2.6% at 2011 and 2.8% at 2010)	¥2,866	¥2,073	$34,467
Debt without collateral (at average interest rates of 2.4% at 2011 and 2010	416	50	5,003
Lease obligations	393	228	4,726
Current portion (excluding lease obligations)	(700)	(926)	(8,418)
Current portion of lease obligations	(111)	(63)	(1,334)
Deposits from employees	1,660	1,608	19,963
	¥4,525	¥2,976	$54,419

The aggregate annual maturities of long-term debt subsequent to March 31, 2011 are summarized as follows:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2012	¥ 700	$ 8,418
2013	702	8,442
2014	619	7,444
2015 and thereafter	1,260	15,153
	¥3,283	$39,482

The aggregate annual maturities of lease obligations subsequent to March 31, 2011 are summarized as follows:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2012	¥111	$1,334
2013	98	1,178
2014	90	1,082
2015 and thereafter	92	1,106
	¥393	$4,726

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Sumitomo Mitsui Construction Co., Ltd. and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended March 31, 2011, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Mitsui Construction Co., Ltd. and consolidated subsidiaries at March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 4 (a), effective the year ended March 31, 2011, the Company has adopted "Accounting Standard for Asset Retirement Obligations," and "Guidance for the Application of Accounting Standard for Asset Retirement Obligations."

As described in Note 2 (m), effective the year ended March 31, 2010, the Company has adopted "Accounting Standard for Construction Contracts," and "Guidance on Accounting Standard for Construction Contracts."

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon LLC

June 29, 2011

Non-Consolidated Financial Statements

Sumitomo Mitsui Construction Co., Ltd.

Years ended March 31, 2011 and 2010
with Report of Independent Auditors

Non-Consolidated Balance Sheets

March 31, 2011

	As of March 31,		
	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Assets			
Current assets:			
Cash and deposits *(Note 4-(c))*	¥ 11,407	¥ 19,648	$ 137,185
Notes receivable *(Note 4-(c))*	190	1,426	2,285
Accounts receivable on completed contracts *(Note 4-(c))*	78,984	84,889	949,897
Short-term loans receivable *(Note 4-(b))*	8,136	8,211	97,847
Inventories *(Notes 4-(a) and 4-(e))*	17,537	20,548	210,907
Deferred tax assets *(Note 9)*	2,600	2,900	31,268
Accounts receivable, other	2,025	2,326	24,353
Advance payments	6,591	9,786	79,266
Other current assets *(Note 4-(c))*	2,925	2,905	35,177
Less allowance for doubtful receivables	(1,218)	(2,399)	(14,648)
Total current assets	129,180	150,242	1,553,577
Non-current assets:			
Property and equipment, at cost:			
Land *(Note 4-(c))*	5,500	5,325	66,145
Buildings *(Note 4-(c))*	4,759	4,719	57,233
Structures *(Note 4-(c))*	697	698	8,382
Machinery and equipment	3,951	3,453	47,516
Vehicles	143	133	1,719
Tools, furniture and fixtures	3,635	3,576	43,716
Construction in progress	87	9	1,046
Accumulated depreciation	(10,398)	(10,090)	(125,051)
Property and equipment, net	8,377	7,825	100,745
Intangible fixed assets	1,717	1,865	20,649
Investments and other assets:			
Investments in securities *(Note 4-(c))*	4,422	4,494	53,180
Investments in subsidiaries and affiliates *(Notes 4-(c) and 8)*	6,342	6,844	76,271
Long-term loans receivable	6,571	6,581	79,025
Long-term loans to employees	941	976	11,316
Claims provable in bankruptcy and other	7,740	7,810	93,084
Long-term prepaid expenses	54	48	649
Deferred tax assets *(Note 9)*	1,892	1,566	22,754
Long-term guarantee deposits	1,803	2,347	21,683
Long-term non-operating accounts receivable	37,928	44,874	456,139
Other	5,289	5,342	63,607
Less allowance for doubtful receivables	(51,515)	(56,398)	(619,542)
Total investments and other assets	21,470	24,488	258,208
Total non-current assets	31,565	34,178	379,615
Total assets	¥160,745	¥184,421	$1,933,193

	As of March 31,		
	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Liabilities and net assets			
Current liabilities:			
Short-term bank loans and current portion of long-term debt *(Notes 4-(b),4-(c) and 12)*	¥ 8,682	¥ 5,528	$ 104,413
Trade notes payable *(Note 4-(b))*	35,760	42,380	430,066
Accounts payable on completed contracts *(Note 4-(b))*	49,339	62,461	593,373
Accounts payable, other	1,986	2,729	23,884
Accrued expenses	1,402	1,455	16,861
Income taxes payable	231	268	2,778
Consumption taxes payable	4,340	4,389	52,194
Advances received on contracts in progress	17,348	20,872	208,634
Deposits received	6,902	11,999	83,006
Deposits received from employees	1,660	–	19,963
Reserve for defects on completed construction projects	1,134	1,223	13,638
Allowance for losses on construction contracts *(Note 4-(e))*	231	222	2,778
Allowance for loss on litigation	1,280	1,325	15,393
Allowance for loss on disaster	470	–	5,652
Other current liabilities	41	1,617	493
Total current liabilities	130,811	156,476	1,573,193
Long-term liabilities:			
Long-term debt *(Notes 4-(c) and 12)*	2,250	820	27,059
Accrued retirement benefits	14,226	13,060	171,088
Other long-term liabilities	256	124	3,078
Total long-term liabilities	16,733	14,005	201,238
Contingent liabilities *(Note 4-(d))*			
Net assets:			
Shareholders' equity:			
Capital stock:	12,003	12,003	144,353
Common stock:			
Authorized:			
2,669,464,970 shares in 2011 and 2010			
Issued and outstanding:			
283,363,598 shares in 2011 and 275,313,598 shares in 2010			
Preferred stock:			
Authorized:			
26,894,644 shares in 2011 and 2010			
Issued and outstanding:			
13,843,700 shares in 2011 and 16,323,100 shares in 2010			
Capital surplus:			
Other capital surplus	601	601	7,227
Total capital surpluses	601	601	7,227
Retained earnings:			
Legal retained earnings	83	–	998
Earned surplus carried forward	934	1,523	11,232
Total retained earnings	1,018	1,523	12,242
Less treasury stock, at cost: 436,646 shares in 2011 and 425,236 shares in 2010	(242)	(241)	(2,910)
Total shareholders' equity	13,381	13,887	160,926
Valuation, translation adjustments and other:			
Unrealized holding (loss) gain on securities	(180)	51	(2,164)
Total valuation, translation adjustments and other	(180)	51	(2,164)
Total net assets	13,200	13,939	158,749
Total liabilities and net assets	¥160,745	¥184,421	$1,933,193

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Operations

March 31, 2011

	Years ended March 31,		
	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Net sales:			
Completed construction *(Note 5-(a))*	¥240,996	¥275,321	$2,898,328
Cost of sales:			
Completed construction *(Note 5-(b))*	226,166	258,868	2,719,975
Gross profit	14,830	16,453	178,352
Selling, general and administrative expenses *(Note 5-(d))*	11,447	12,478	137,666
Operating income	3,382	3,974	40,673
Other income (expenses):			
Interest and dividend income	543	463	6,530
Payments received from insurance claims	188	176	2,260
Employment adjustment subsidies	245	109	2,946
Interest expense	(1,018)	(1,034)	(12,242)
Exchange loss, net	(422)	–	(5,075)
Corporate tax on overseas sales	(257)	–	(3,090)
Provision for doubtful receivables	(582)	(105)	(6,999)
Loss on devaluation of investments in subsidiaries and affiliates	(640)	–	(7,696)
Loss on disaster *(Note 5-(g))*	(534)	–	(6,422)
Gain on sales of property and equipment	–	48	–
Gain on prior-period adjustment *(Note 5-(f))*	179	112	2,152
Allowance for loss on litigation	–	(1,280)	–
Relocation expenses *(Note 5-(h))*	–	(384)	–
Other, net	(636)	(665)	(7,648)
	(2,935)	(2,560)	(35,297)
Income before income taxes	446	1,413	5,363
Income taxes *(Note 9)*:			
Current	111	(109)	1,334
Deferred	7	–	84
	118	(109)	1,419
Net income	¥ 327	¥ 1,523	$ 3,932
Net income per share – basic *(Note 10)*	¥1.16	¥2.51	$0.013
Net income per share – diluted *(Note 10)*	0.56	2.44	0.006

See accompanying notes to non-consolidated financial statements.

	Years ended March 31,		
	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Shareholders' equity			
Capital stock:			
Balance at the end of previous period	¥12,003	¥16,859	$144,353
Changes in items during the period			
Transfer to other additional paid-in capital	–	(4,855)	–
Total changes in items during the period	–	(4,855)	–
Balance at the end of the period	12,003	12,003	144,353
Additional paid-in capital:			
Other capital surplus:			
Balance at the end of previous period	601	–	7,227
Changes in items during the period			
Transfer from capital stock	–	4,855	–
Deficit disposition	–	(4,253)	–
Disposal of treasury stock	(0)	(0)	(0)
Total changes of items during the period	(0)	601	(0)
Balance at the end of the period	601	601	7,227
Retained earnings (deficit):			
Earned reserve:			
Balance at the end of previous period	–	109	–
Changes in items during the period			
Provision of legal retained earnings	83	–	998
Deficit disposition	–	(109)	–
Total changes in items during the period	83	(109)	998
Balance at the end of the period	83	–	998
Earned (deficit) surplus carried forward:			
Balance at the end of previous period	1,523	(4,362)	18,316
Changes in items during the period			
Cash dividends paid	(833)	–	(10,018)
Provision of legal retained earnings	(83)	–	(998)
Deficit disposition	–	4,362	–
Net income	327	1,523	3,932
Total changes in items during the period	(588)	5,885	(7,071)
Balance at the end of the period	934	1,523	11,232
Total retained earnings (deficit):			
Balance at the end of previous period	1,523	(4,253)	18,316
Changes in items during the period			
Cash dividends paid	(833)	–	(10,018)
Provision of legal retained earnings	–	–	–
Deficit disposition	–	4,253	–
Net income	327	1,523	3,932
Total changes in items during the period	(505)	5,776	(6,073)
Balance at the end of the period	1,018	1,523	12,242

	Years ended March 31,		
	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Treasury stock, at cost:			
Balance at the end of previous period	(241)	(240)	(2,898)
Changes in items during the period			
Purchases of treasury stock	(0)	(1)	(0)
Disposition of treasury stock	0	0	0
Total changes in items during the period	(0)	(0)	(0)
Balance at the end of the period	(242)	(241)	(2,910)
Total shareholders' equity:			
Balance at the end of previous period	13,887	12,365	167,011
Changes in items during the period			
Cash dividends paid	(833)	–	(10,018)
Provision of legal retained earnings	–	–	–
Transfer to other additional paid-in capital	–	(4,855)	–
Transfer from capital stock	–	4,855	–
Deficit disposition	–	–	–
Net income	327	1,523	3,932
Purchases of treasury stock	(0)	(1)	(0)
Disposition of treasury stock	0	0	0
Total changes in items during the period	(506)	1,522	(6,085)
Balance at the end of the period	13,381	13,887	160,926
Valuation, translation adjustments and other			
Unrealized holding gain on securities:			
Balance at the end of previous period	51	(361)	613
Changes in items during the period			
Net changes in items other than shareholders' equity	(232)	413	(2,790)
Total changes in items during the period	(232)	413	(2,790)
Balance at the end of the period	(180)	51	(2,164)
Total net assets			
Balance at the end of previous period	13,939	12,003	167,636
Changes in items during the period			
Cash dividends paid	(833)	–	(10,018)
Provision of legal retained earnings	–	–	–
Transfer to other additional paid-in capital	–	(4,855)	–
Transfer from capital stock	–	4,855	–
Deficit disposition	–	–	–
Net income	327	1,523	3,932
Purchases of treasury stock	(0)	(1)	(0)
Disposition of treasury stock	0	0	0
Net changes in items other than shareholders' equity	(232)	413	(2,790)
Total changes in items during the period	(738)	1,935	(8,875)
Balance at the end of the period	¥13,200	¥13,939	$158,749

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 Low of Japan except that the straight-line method is applied to office buildings acquired on or after April 1, 1998.

(d) Depreciation and Amortization (continued)

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

Amortization of intangible fixed assets (except lease 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) Leases assets

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

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

(e) 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.

(f) Advances Received on 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.

(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 Loss on Litigation

An allowance has been provided for future losses on pending litigation at on estimated amount calculated based on specific circumstances.

(j) Allowance for Loss on Disaster

An allowance has been provided for future losses on recovery and restoration related to ongoing construction projects damaged by the Great East Japan Earthquake.

(k) Employees' Retirement Benefits

Accrued retirement benefits for employees are provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets, as adjusted for the unrecognized net retirement benefit obligation at transition, unrecognized actuarial gain or loss and unrecognized prior service cost.

(l) Recognition of Revenues and Costs on Construction Contracts

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

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

(Change in accounting policy)

Effective the year ended March 31, 2010, the Company has adopted "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15 issued on December 27, 2007), and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18 issued on December 27, 2007).

Under the new accounting standard and guidance, 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 continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.

As a result of this change, net sales increased by ¥20,452 million, operating income and income before income taxes increased by ¥2,147 million for the year ended March 31, 2010 compared with the corresponding amounts which would have been recorded under the previous method.

Until the year ended March 31, 2009, revenues and costs of construction contracts, which cover a construction period longer than 12 months, were in principle, recognized by the percentage-of-completion method, except for revenue on long-term contracts which totaled less than ¥500 million. Net sales on such contracts amounted to ¥225,903 million for the year ended March 31, 2009.

(m) Derivatives and Hedge Accounting

(1) Method of Hedge Accounting

Derivative financial instruments are mainly stated at fair value, and interest rate swaps, which qualify for hedge accounting and meet specific matching criteria, are not remeasured at market value, but the differential paid or received under the swap agreements is charged to income (short-cut method).

(2) Hedging instruments and hedging items

Hedging instruments is the interest rate swaps, hedging items is the interest on debt.

(3) Hedging policy

The Company utilizes interest rate swaps only for the purpose of hedging future interest rates fluctuation risk.

(4) Assessment of hedge effectiveness

The evaluation of hedge effectiveness is omitted for interest rate swaps as all meet specified criteria to be qualified for the short-cut method.

(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 files a tax return under the consolidated corporate-tax 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 ¥83.15 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2011. 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

(a) Effective the year ended March 31, 2011, the Company has adopted "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18 issued on March 31, 2008) and "Guidance for the Application of Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008).

As a result, operating income decreased by ¥15 million ($180 thousand) and income before income taxes and minority interests decreased by ¥57 million ($685 thousand) for the end year ended March 31, 2011.

(b) Effective the year ended March 31, 2010, the Company has adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19 issued on July 31, 2008).

The effect of this adoption has no impact on the consolidated statement of income for the year ended March 31, 2010, nor has the amount of the retirement benefit obligation changed.

4. Notes to Non-Consolidated Balance Sheets

(a) Inventories

The components of inventories as of March 31, 2011 and 2010 were as follows:

	As of March 31,		
	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Costs on uncompleted construction contracts	¥17,430	¥20,414	$209,621
Real estate for sale	106	133	1,274
	¥17,537	¥20,548	$210,907

(b) Transactions and 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, 2011 and 2010 were as follows:

	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Short-term loans receivable	¥ 8,008	¥ 8,201	$ 96,307
Trade notes payable	711	637	8,550
Accounts payable on completed contracts	12,220	12,879	146,963
Short-term bank loans and current portion of long-term debt	2,388	–	28,719

(c) Pledged Assets

The following assets were pledged at March 31, 2011 and 2010 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,		
	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and deposits	¥ 2,776	¥ 2,426	$ 33,385
Notes receivable	–	289	–
Accounts receivable on completed contracts	–	2,193	–
Other current assets	–	130	–
Land	5,209	5,209	62,645
Buildings, net of accumulated depreciation	402	436	4,834
Structures, net of accumulated depreciation	34	40	408
Investments in securities	1,909	1,978	22,958
Investments in subsidiaries and affiliates	358	358	4,305
	¥10,691	¥13,063	$128,574

The secured liabilities as of March 31, 2011 and 2010 are summarized as follows:

	As of March 31,		
	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars)*
Short-term bank loans	¥2,123	¥5,528	$25,532
[Including current portion of long-term debt]	[500]	[840]	[6,013]
Long-term debt	2,000	820	24,052

(d) Contingent Liabilities

At March 31, 2011 and 2010, the Company was contingently liable for the followings:

	As of March 31,		
	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars)*
As guarantor of bank loans to customers, subsidiaries, an affiliate and employees	¥4,358	¥4,819	$52,411
As endorsers of notes receivable discounted with banks	433	–	5,207

(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 amount of ¥51 million ($613 thousand) and ¥82 million as of March 31, 2011 and 2010, respectively.

5. Notes to Non-Consolidated Statements of Operations

(a) Net sales based on percentage-of-completion method

Net sales on such construction contracts amounted to ¥185,894 million ($2,235,646 thousand) and ¥199,122 million for the year ended March 31, 2011 and 2010, 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 amount of ¥156 million ($1,876 thousand) and ¥222 million for the year ended March 31, 2011 and 2010, respectively.

(c) Transactions and Outstanding Balances with Subsidiaries and Affiliates

Significant transactions with subsidiaries and affiliates other than individually presented on the accompanying non-consolidated statements of operations for the years ended 2011 and 2010 were as follows:

	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Interest and dividend income	¥461	¥361	$5,544

(d) Selling, General and Administrative Expenses

The significant components of selling, general and administrative expenses at March 31, 2011 and 2010 were as follows:

	Years ended March 31,		
	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Salaries and wages	¥ 4,590	¥ 5,096	$ 55,201
Retirement benefit expenses	1,016	1,075	12,218
Rent	1,363	1,800	16,392
Other	4,477	4,507	53,842
Total	¥11,447	¥12,478	$137,666

(e) Research and Development Expenses

Research and development costs included in selling, general and administrative expenses and manufacturing costs amounted to ¥842 million ($10,126 thousand) and ¥927 million for the years ended March 31, 2011 and 2010, respectively.

(f) Gain on Prior-period Adjustment

The significant components of gain on prior-period adjustment for the years ended March 31, 2011 and 2010 were as follows:

	Years ended March 31,		
	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Reversal of provision for doubtful receivables	¥ 81	¥ 87	$ 974
Gain on recovery of bad debts	13	21	156
Reversal of special retirement benefits	84	–	1,010
Other	–	3	–
Total	¥179	¥112	$2,152

(g) Loss on Disaster

Loss on disaster for the year ended March 31, 2011 included relief and support costs of ¥64 million ($769 thousand) and an allowance for loss on disaster of ¥470 million ($5,652 thousand) due to the Great East Japan Earthquake.

(h) Relocation Expenses

Relocation and integration expenses for head office and branches located around the Tokyo metropolitan area have been recognized for the year ended March 31, 2010.

6. Notes to Non-Consolidated Statements of Changes in Net Assets

Type and number of treasury stocks at March 31, 2011 are as follows:

	Balance at March 31, 2010	Increase	Decrease	Balance at March 31, 2011
		(Number of shares)		
Treasury shares:				
Common stock	425,236	11,877	467	436,646
2nd Series Class A preferred stock	–	2,479,400	2,479,400	–
Total	425,236	2,491,277	2,479,867	436,646

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 requests to purchase fractional shares.

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

Note 4: Decrease of preferred stock is due to redemption of 2nd Series Class A preferred treasury stock to acquire common stock by exercising a call option.

Type and number of treasury stocks at March 31, 2010 were as follows:

	Balance at March 31, 2009	Increase	Decrease	Balance at March 31, 2010
		(Number of shares)		
Treasury shares:				
Common stock	411,183	14,722	669	425,236
3rd Series Class C preferred stock	–	7,500	7,500	–
Total	411,183	22,222	8,169	425,236

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 requests to purchase fractional shares.

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

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

7. Leases

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation / amortization and net book value of the leased property as of March 31, 2011 and 2010, which would have been reflected in the non-consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

(a) As lessee:

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

	2011				2010			
	Vehicles	Tools, furniture and fixtures	Intangible fixed assets	Total	Vehicles	Tools, furniture and fixtures	Intangible fixed assets	Total
	(Millions of yen)							
Acquisition costs	¥10	¥116	¥133	¥260	¥10	¥130	¥155	¥296
Accumulated depreciation / amortization	9	88	104	201	7	77	99	183
Net book value	¥ 1	¥ 28	¥ 29	¥ 59	¥ 3	¥ 53	¥ 56	¥113

	2011			
	Vehicles	Tools, furniture and fixtures	Intangible fixed assets	Total
	(Thousands of U.S. dollars)			
Acquisition costs	$120	$1,395	$1,599	$3,126
Accumulated depreciation / amortization	108	1,058	1,250	2,417
Net book value	$ 12	$ 336	$ 348	$ 709

	2011	2010	2011
	(Millions of yen)		(Thousands of U.S. dollars)
Future minimum payments:			
Within one year	¥46	¥ 55	$553
Over one year	17	63	204
	¥63	¥119	$757
Lease payments	¥59	¥ 91	$709
Depreciation / amortization equivalents	53	81	637
Interest expense equivalents	3	6	36

(a) As lessee: (continued)

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

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

(2) Operating leases

	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars)*
Future minimum payments:			
Within one year	¥0	¥0	$ 0
Over one year	0	1	0
	¥1	¥2	$12

8. Securities

Stocks of subsidiaries and affiliates at March 31, 2011 were as follows:

	2011					
	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	¥1,394	¥677	$8,622	$16,764	$8,141

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

	2011	
	Carrying value	
	(Millions of yen)	*(Thousands of U.S. dollars)*
Stocks of a subsidiaries	¥2,618	$31,485
Stocks of a affiliates	400	4,810

Stocks of subsidiaries and affiliates at March 31, 2010 were as follows:

	2010		
	Carrying value	Fair value	Unrealized gain
	(Millions of yen)		
Stocks of a subsidiary	¥717	¥926	¥209

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

	2010
	Carrying value
	(Millions of yen)
Stocks of a subsidiaries	¥2,775
Stocks of a affiliates	745

9. Income Taxes

The significant components of the Company's deferred tax assets and liabilities at March 31, 2011 and 2010 were as follows:

	As of March 31,		
	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Tax loss carryforwards	¥ 59,469	¥ 80,300	$ 715,201
Accrued retirement benefits	5,790	5,315	69,633
Allowance for bad debts	4,432	5,032	53,301
Loss on devaluation of investments in subsidiaries and affiliates	1,277	1,028	15,357
Allowance for loss on litigation	521	539	6,265
Reserve for defects on completed construction projects	461	497	5,544
Other	2,149	1,963	25,844
Gross deferred tax assets	74,101	94,678	891,172
Valuation allowance	(69,601)	(90,178)	(837,053)
Total deferred tax assets	4,500	4,500	54,119
Deferred tax liabilities:			
Asset retirement obligations	(7)	–	(84)
Unrealized holding gain on securities	(0)	(34)	(0)
Total deferred tax liabilities	(7)	(34)	(84)
Net deferred tax assets	¥ 4,492	¥ 4,466	$ 54,022

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for years ended March 31, 2011 and 2010:

	March 31, 2011	March 31, 2010
Statutory tax rate	40.7 %	40.7 %
Non-deductible expenses	40.2	9.7
Non-taxable income	(27.7)	(2.7)
Per capita inhabitants' taxes	26.6	(7.7)
Valuation allowance	(53.2)	(47.7)
Effective tax rate	26.6%	(7.7)%

10. Per Share Information

Net assets and basic net income per share as of and for the years ended March 31, 2011 and 2010 were as follows:

	2011	2010	2011
	(Yen)		*(U.S. dollars)*
Net assets per share	¥(61.38)	¥(68.03)	$(0.738)
Net income per share – basic	1.16	2.51	0.013
Net income per share – diluted	0.56	2.44	0.006

The basis of calculation for net assets per share at March 31, 2011 was as follows:

	2011	2010	2011
	(Millions of yen)		*(Thousands of U.S. dollars)*
Total net assets	¥ 13,200	¥ 13,939	$ 158,749
Amounts deducted from total net assets	30,568	32,640	367,624
[Including paid-in amounts for shares of preferred stock]	[30,568]	[31,807]	[367,624]
[Including amount of preferred dividends]	[–]	[833]	[–]
Total net assets for common stock	¥(17,367)	¥(18,701)	$(208,863)
	(Thousands of shares)		
Number of shares of common stock used to determine net assets per share	282,926	274,888	3,402,597

The basis for calculating basic net income per share – basic and net income per share – diluted for the years ended March 31, 2011 and 2010 was as follows:

	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Net income per share – basic:			
Net income	¥327	¥1,523	$3,932
Amount not available to common shareholders	–	833	–
[Including amount of preferred dividends]	[–]	[833]	[–]
Net income per share – basic	¥327	¥ 690	$3,932
	(Thousands of shares)		
Average number of share of common stock outstanding	281,799	274,857	

	2011	**2010**	**2011**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Net income per share – diluted:			
Adjustment for net income	¥ –	¥394	$ –
[Including amount of preferred dividends]	[–]	[394]	[–]
	(Thousands of shares)		
Increase in number of share of common stock	300,056	169,241	
[Including preferred stock]	[300,056]	[169,241]	

11. Subsequent Event

The following acquisition of treasury stock (3rd Series Class C preferred stock) was determined at the board of directors' meeting held on May 13, 2011. The proposal was submitted to the shareholders' meeting for approval, and subsequently approved at the shareholders' meeting held on June 29, 2011.

(a) Reason for acquisition

To maintain the value of common stock in the event that preferred stock holders exercise their acquisition rights to common stock, and to reduce dividends, the Company plans to acquire treasury stock pursuant to clause 156-1 of the Companies Act.

(b) Details of acquisition of treasury stocks which was approved by shareholder's meeting

(1) Type of stock
3rd Series Class C preferred stock

(2) Amount of stock
80,000 shares

(3) Total of acquisition cost
¥200 million ($2,405 thousand) [Maximum]

(4) Term for acquisition
1 year from the date of the shareholders' meeting.

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

Short-term bank loans generally represent notes, principally at average interest rates of 2.1% and 2.8% at March 31, 2011 and 2010, respectively.

Long-term debt at March 31, 2011 and 2010 is summarized as follows:

	As of March 31,		
	2011	2010	2011
	(Millions of yen)		(Thousands of U.S. dollars)
Debt with collateral (at average interest rates of 2.6% at 2011 and 2010)	¥2,500	¥1,660	$30,066
Less current portion	(500)	(840)	6,013
	¥2,000	¥ 820	$24,052

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Report of Independent Auditors

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

We have audited the accompanying non-consolidated balance sheets of Sumitomo Mitsui Construction Co., Ltd. as of March 31, 2011 and 2010, and the related non-consolidated statements of income, changes in net assets for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of Sumitomo Mitsui Construction Co., Ltd. at March 31, 2011 and 2010, and the non-consolidated results of its operations for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 3 (a), effective the year ended March 31, 2011, the Company has adopted "Accounting Standard for Asset Retirement Obligations," and "Guidance for the Application of Accounting Standard for Asset Retirement Obligations."

As described in Note 1 (l), effective the year ended March 31, 2010, the Company has adopted "Accounting Standard for Construction Contracts," and "Guidance on Accounting Standard for Construction Contracts."

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

June 29, 2011

Ernst & Young ShinNihon LLC

CORPORATE OUTLINE

Corporate Name:
Sumitomo Mitsui Construction Co.,Ltd.

Established:
October 14,1941

Permission:
(Special-18)No.200, Specified Constructor, granted by the Minister of Land, Infrastructure and Transport

License:
(14)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

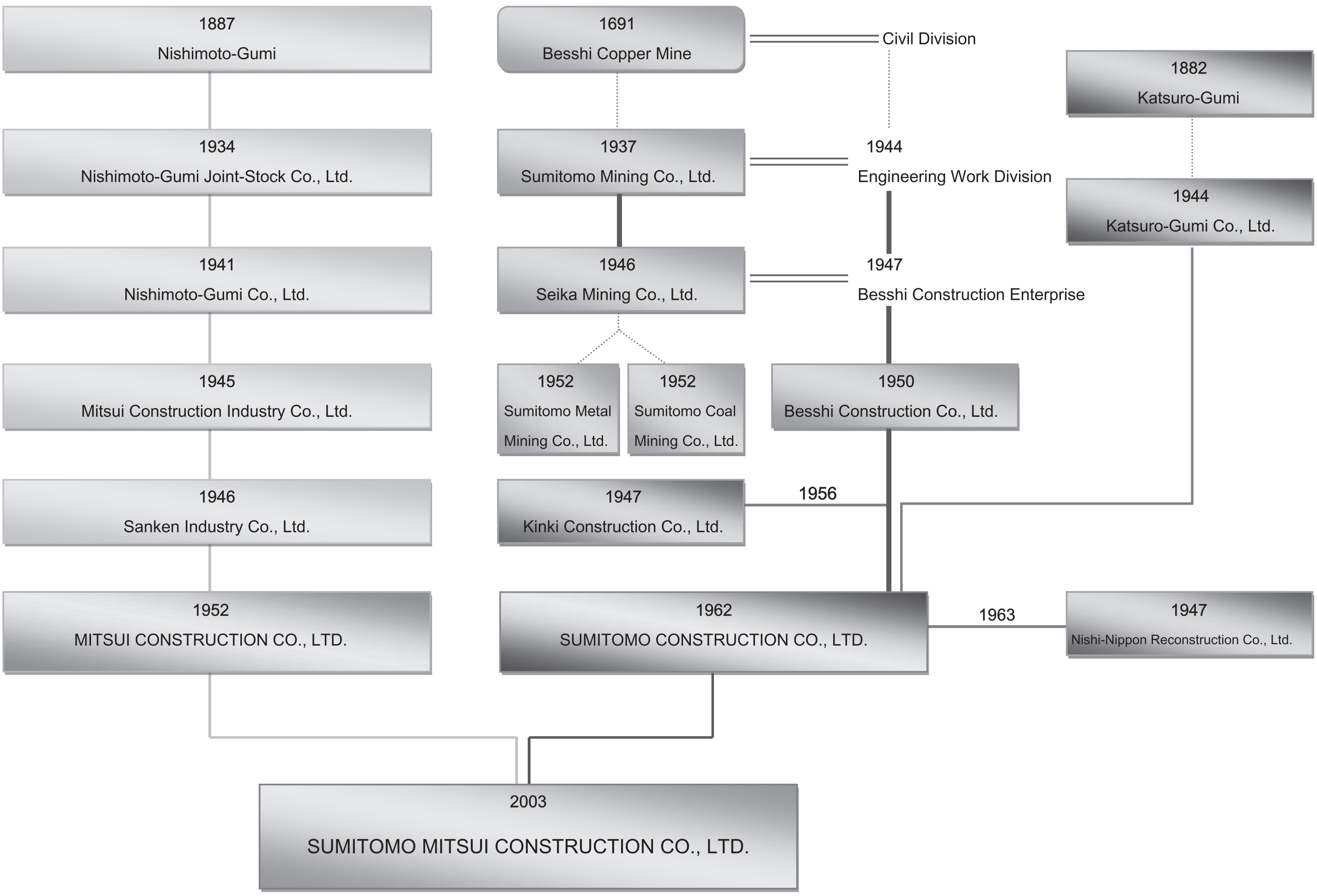
2) To plan, design and supervise marine development, regional development, urban development, natural resource development and environment maintenance

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 Trust & Banking Co.,Ltd.

Main Shareholders
Daiwa Securities SMBC Principal Investments Co. Ltd.
Mitsui Fudosan Co.,Ltd.
Isao Nasu
Mitsui Sumitomo Insurance Co.,Ltd.
Sumitomo Mitsui Banking Corporation

Corporate History



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