

ANNUAL REPORT *2020*



**SUMITOMO MITSUI
CONSTRUCTION CO.,LTD.**

CONTENTS

PROFILE	1
THE MESSAGE FROM THE PRESIDENT	2
CONSOLIDATED BALANCE SHEETS	6
CONSOLIDATED STATEMENTS OF INCOME	8
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	9
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS	10
CONSOLIDATED STATEMENTS OF CASH FLOWS	13
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	15
INDEPENDENT AUDITOR'S REPORT	58
NON-CONSOLIDATED BALANCE SHEETS	62
NON-CONSOLIDATED STATEMENTS OF INCOME	64
NON-CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS	65
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS	68
INDEPENDENT AUDITOR'S REPORT	84
CORPORATE OUTLINE	88
CORPORATE DATA	89

Disclaimer for Forward-Looking Statements:

This document contains forward-looking statements about the performance and management plans of SMCC Group based on available information and management's assumptions in light of their experience and perception of historical trends, current conditions, future developments and other factors they believe appropriate. By their nature, forward-looking statements involve risk and uncertainty, because they relate to events and depend on circumstances that will occur in the future and various economic and other factors could cause actual results and developments to differ materially from those expressed in or implied by such forward-looking statements. Although it is believed that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to be correct and you are therefore cautioned not to place undue reliance on these forward-looking statements which speak only as at the date of this document.

PROFILE

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

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

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

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

THE MESSAGE FROM THE PRESIDENT

I. Review of the Year ended March 31, 2020

In the fiscal year which ended on March 31, 2020, Japan's economy continued to recover at a moderate pace due to an increase in personal consumption expenditures and improvements in employment and income conditions; however the situation has changed drastically and became severe due to the global outbreak of COVID-19, which has caused a massive downturn in current market conditions. The SMCC Group places its highest priority on, and strives to establish measures to protect the safety and health of all of its stakeholders including employees and clients, and strives to maintain stable business management.

In regard to the domestic construction market, although public-sector investments and private-sector investments had remained consistent, the outbreak of COVID-19 caused a rapid downturn in operations and activities relating to manufacturing and other industries, and there is a concern that the domestic construction market is shrinking. Meanwhile, Japan's population decline, low birthrate and aging population situation is continuing, and the construction industry is required to accelerate correction of the problem of long working hours by implementing work style reform and productivity improvement measures by utilizing ICT among other things.

Against this background, the SMCC Group is strategically committed to establishing its management foundation based on the policies "Change the construction process", "Strengthen overseas business" and "Expand businesses domain" which originate from the "Mid-term Management Plan 2019-2021." The results of the first year of this Plan are as follows:

Net sales for the year was 472.4 billion yen, a 23.6 billion yen increase over the previous fiscal year. This result is attributable to the steady progress in high-level, undelivered construction work. On the other hand, operating profit for the year was 24.8 billion yen, a 4.5 billion yen decrease from the previous fiscal year and ordinary profit was 23.9 billion yen, which is a 5 billion yen decrease from the previous fiscal year. This result is mainly due to a decrease in gross profit which resulted from the difficulties to achieve a profit rate improvement and an increase in construction costs attributable to compressed construction schedules for certain major projects.

Net profit attributable to the shareholders of the parent company was 15.6 billion yen, a 3.3 billion yen decrease from the previous fiscal year.

[Consolidated results]		(Unit: billion yen)		
	FY2018	FY2019	Increase/(decrease)	Ratio (%)
Net sales	448.8	472.4	23.6	5.3
Operating profit	29.2	24.8	(4.5)	(15.2)
Ordinary profit	28.9	23.9	(5.0)	(17.2)
Net profit attributable to the shareholders of the parent company	18.8	15.6	(3.3)	(17.4)

II. Management Strategy and Foresight

With reference to the medium to long-term outlook for the business environment affecting the SMCC Group, high demand in terms of infrastructure works is expected in light of the rapid economic growth occurring in regions overseas, especially in emerging countries such as those in Southeast Asia, South Asia and Africa, while concern exists that domestic construction demand is shrinking. In addition, although labor shortage, which is an issue common to all companies in the domestic construction industry, is expected to worsen, technological innovations such as IoT and AI applications and devices as well as other advanced information and communications technologies have rapidly progressed and expanded use of digitalization in the construction process has been forecasted.

In the face of such changes occurring in our business environment, we are striving towards “Vision 2030” in order to enhance the strengths of the SMCC Group, encourage each employee to act with a vision for the future and achieve a sustainable society and sustainable growth of the SMCC Group.

■ “Vision 2030”

A construction company that globally supports and connects “People” and “Communities” with new value

Provide “New Value”

- (1) Revolutionize construction process
~Next-generation construction system~
- (2) Diverse services extended from construction
- (3) Sustainable technology
- (4) Global human resources

As the first step of “Vision 2030”, we established “Accelerate Changes” as the theme of the “Mid-term Management Plan 2019-2021.” Our objectives are to progress the changes of the previous mid-term management plan, to achieve a new result with a sense of urgency, to take actions addressing social issues through businesses that are compatible with sustainable development goals (SDGs), and to accelerate the enhancement of our corporate competitiveness and value creation. We established three basic policies as follows:

“Accelerate Changes”	
Accelerate changes to enhance our business competitiveness and create corporate value while flexibly adapting to the changing business environment to contribute to achieving SDGs.	
1 Change the construction process	10% improvement of the productivity from FY2018
2 Strengthen overseas business	Awarded contract amount from overseas business: 100 billion yen
3 Expand businesses domain	Investment (total volume for the term): 50 billion yen

Consolidated numerical management targets

	Result of FY2019	Target for FY2021
Net sales	¥472.4 billion	¥500 billion
Operating income margin	5.2%	6% or higher
ROE	16.7%	12% or higher
Capital-to-asset ratio	27.1%	30% or higher
Total return ratio	34.0%	30% or higher

As for issues the Company faces, the outbreak of COVID-19 has caused a rapid worldwide downturn in work for manufacturing and other industries, and there is a concern that demand for construction is shrinking. In Japan, a nationwide state of emergency was declared due to the increasing number of new COVID-19 infections and concern over the serious impact of the pandemic; and there is concern that the impact to the economy will become more severe both in Japan and overseas.

The construction industry provides services affecting various business sectors, and fulfills the important role of properly maintaining and renewing public capital such as public infrastructure even during the desperate situation of the COVID-19 pandemic. In various ways, the construction industry may also affect employment and other wide-ranging aspects of society. The Company continues to prioritize the safety and health of all of its stakeholders including employees, and will take countermeasures pursuant to the policies and plans of the Japanese government as well as those of each country in which we do business.

Finally, regarding the case involving the construction of the apartment building located in Yokohama City, we will take appropriate actions determined through appropriate discussions with members of the rebuilding union, the vendor and other related parties. Although on November 28, 2017 Mitsui Fudosan Residential Co., Ltd. (hereinafter as “MFR”), which is one of the developers of the apartment, initiated a lawsuit against the Company and two piling companies, claiming about 45.9 billion yen (which amount increased to about 51.0 billion yen on July 11, 2018) as alleged rebuilding cost for the whole structure of the apartment. We consider MFR’s claim lacks legal foundation and reason, and will continue to make appropriate arguments in that court proceeding.

新井英雄

Hideo Arai
Representative Director,
President

Consolidated Financial Statements

**Sumitomo Mitsui Construction Co., Ltd.
and Consolidated Subsidiaries**

*Year ended March 31, 2020
with Independent Auditor's Report*

Consolidated Balance Sheets

March 31, 2020

	As of March 31,		
	2020 (Millions of yen)	2019 (Millions of yen)	2020 (Thousands of U.S. dollars) (Note 4)
Assets			
Current assets:			
Cash and deposits (Notes 6-(b), 10 and 11)	¥ 53,495	¥ 74,319	\$ 491,546
Trade notes receivable, accounts receivable on completed construction contracts and other (Notes 6-(f) and 11)	200,794	166,875	1,845,024
Inventories (Notes 6-(a) and 6-(e))	30,180	25,826	277,313
Other current assets (Note 6-(b))	15,942	18,121	146,485
Total current assets	300,413	285,143	2,760,387
Non-current assets:			
Property and equipment, at cost:			
Land (Notes 6-(b) and 6-(c))	14,333	13,995	131,700
Buildings and structures (Note 6-(b))	16,067	15,951	147,633
Machinery, equipment and vehicles (Note 6-(b))	20,468	19,179	188,073
Construction in progress	168	16	1,543
Accumulated depreciation	(27,783)	(26,735)	(255,288)
Property and equipment, net	23,254	22,406	213,672
Intangible fixed assets	2,504	2,225	23,008
Investments and other assets:			
Investments in securities (Notes 6-(b), 11 and 12)	15,048	20,677	138,270
Deferred tax assets (Note 15)	5,293	3,684	48,635
Investments in unconsolidated subsidiaries and affiliates	1,125	1,159	10,337
Other (Note 6-(b))	6,690	6,499	61,472
Allowance for doubtful receivables	(919)	(944)	(8,444)
Total investments and other assets	27,238	31,076	250,280
Total non-current assets	52,997	55,708	486,970
 Total assets	 ¥353,410	 ¥340,851	 \$3,247,358

Consolidated Balance Sheets

March 31, 2020

	As of March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 4)
Liabilities and net assets			
Current liabilities:			
Trade notes payable, accounts payable on construction contracts and other (Notes 6-(f) and 11)	¥103,870	¥ 98,496	\$ 954,424
Electronically recorded payable (Note 6-(f) and 11)	32,568	32,103	299,255
Short-term bank loans and current portion of long-term debt (Notes 6-(b), 6-(g), 11 and 20)	11,511	1,777	105,770
Lease obligations	408	350	3,748
Accrued expenses	7,962	7,610	73,159
Income tax payable	3,565	4,481	32,757
Advances received on construction contracts in progress	21,181	25,030	194,624
Reserve for defects on completed construction projects	920	1,008	8,453
Allowance for losses on construction contracts (Note 6-(e))	330	257	3,032
Allowance for contingency loss	2,159	2,159	19,838
Other current liabilities	15,497	17,119	142,396
Total current liabilities	199,977	190,395	1,837,517
Long-term liabilities:			
Long-term debt (Notes 6-(b), 6-(g), 11 and 20)	28,330	29,842	260,314
Lease obligations	634	687	5,825
Deferred tax liability on land revaluation (Note 6-(c))	285	285	2,618
Allowance for share-based payment	16	—	147
Liability for retirement benefits (Note 14)	17,540	17,475	161,168
Other long-term liabilities	4,181	4,212	38,417
Total long-term liabilities	50,989	52,502	468,519
Contingent liabilities (Notes 6-(d) and 17)			
Net assets:			
Shareholders' equity:			
Capital stock:	12,003	12,003	110,291
Common stock:			
Authorized:			
533,892,994 shares in 2020 and 2019			
Issued and outstanding:			
162,673,321 shares in 2020 and 2019			
Additional paid-in capital	—	528	—
Retained earnings	91,084	79,694	836,938
Treasury stock, at cost:			
4,648,600 shares in 2020 and 2,094,304 shares in 2019	(3,118)	(1,716)	(28,650)
Total shareholders' equity	99,969	90,509	918,579
Accumulated other comprehensive income:			
Unrealized holding gain on securities	(2,274)	1,926	(20,894)
Deferred (loss) on hedging instruments, net of taxes (Note 13)	(156)	(170)	(1,433)
Land revaluation (Note 6-(c))	73	73	670
Translation adjustments	(1,130)	(1,086)	(10,383)
Retirement benefits liability adjustment (Note 14)	(775)	(655)	(7,121)
Total accumulated other comprehensive income	(4,264)	86	(39,180)
Non-controlling interests	6,738	7,357	61,913
Total net assets	102,443	97,953	941,312
Total liabilities and net assets	¥353,410	¥340,851	\$3,247,358

The accompanying notes are an integral part of these statements.

	Years ended March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 4)
Net sales (Note 7-(a))	¥472,402	¥448,758	\$4,340,733
Cost of sales (Notes 7-(b) and 7-(d))	424,733	397,709	3,902,719
Gross profit	47,669	51,049	438,013
Selling, general and administrative expenses (Notes 7-(c), 7-(d) and 14)	22,903	21,831	210,447
Operating income	24,765	29,217	227,556
Other income (expenses):			
Interest and dividend income	1,057	975	9,712
Payments received from insurance claims	99	89	909
Interest expense	(754)	(462)	(6,928)
Exchange loss, net	(535)	(109)	(4,915)
Financing related expenses	(245)	(54)	(2,251)
Gain on sales of property and equipment (Note 7-(e))	4	98	36
Gain on sales of investment in securities (Note 12-(c))	0	325	0
Gain on liquidation of subsidiaries and affiliates	—	75	—
Loss on sales and disposal of property and equipment (Note 7-(f))	(66)	(111)	(606)
Loss on valuation of shares of subsidiaries and affiliates	(81)	—	(744)
Impairment loss (Note 7-(g))	—	(794)	—
Other, net	(506)	(805)	(4,649)
Profit before income taxes	(1,026)	(772)	(9,427)
	23,738	28,444	218,120
Income taxes (Note 15):			
Current	7,255	7,811	66,663
Deferred	269	944	2,471
	7,524	8,755	69,135
Profit	16,213	19,688	148,975
Profit attributable to:			
Non-controlling interests	662	859	6,082
Owners of parent	¥ 15,550	¥ 18,828	\$ 142,883
	(Yen)		(U.S. dollars) (Note 4)
Profit per share (Note 18)	¥ 97.89	¥ 117.03	\$ 0.899

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

March 31, 2020

	Years ended March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 4)
Profit	¥16,213	¥19,688	\$148,975
Other comprehensive income:			
Unrealized holding gain on securities	(4,201)	916	(38,601)
Deferred gain (loss) on hedging instruments, net of taxes	14	(170)	128
Translation adjustments	(22)	(726)	(202)
Retirement benefits liability adjustments	(141)	11	(1,295)
Total other comprehensive income (Note 8)	(4,351)	30	(39,979)
Comprehensive income	¥11,862	¥19,719	\$108,995
Comprehensive income attributable to:			
Owners of the parent	¥11,204	¥18,960	\$102,949
Non-controlling interests	657	759	6,036

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes In Net Assets

March 31, 2020

	Year ended March 31, 2020				
	Shareholders' equity				
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
	(Millions of yen)				
Balance at the beginning of the period	¥12,003	¥528	¥79,694	¥(1,716)	¥90,509
Changes in items during the period:					
Change in a parent's ownership interest due to transaction with non-controlling interests		(513)	(247)		(760)
Dividends from surplus			(3,853)		(3,853)
Profit attributable to owners of the parent			15,550		15,550
Change of scope of consolidation			(59)		(59)
Purchases of treasury stock				(1,501)	(1,501)
Disposition of treasury stock		(15)		98	83
Net changes in items other than shareholders' equity					
Total changes in items during the period	—	(528)	11,390	(1,402)	9,459
Balance at the end of the period	¥12,003	—	¥91,084	¥(3,118)	¥99,969

	Year ended March 31, 2020							
	Accumulated other comprehensive income							
	Unrealized holding gain on securities	Deferred loss on hedging instruments, net of taxes	Land revaluation	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	(Millions of yen)							
Balance at the beginning of the period	¥1,926	¥(170)	¥73	¥(1,086)	¥(655)	¥ 86	¥7,357	¥ 97,953
Changes in items during the period:								
Change in a parent's ownership interest due to transaction with non-controlling interests								(760)
Dividends from surplus								(3,853)
Profit attributable to owners of the parent								15,550
Change of scope of consolidation								(59)
Purchases of treasury stock								(1,501)
Disposition of treasury stock								83
Net changes in items other than shareholders' equity	(4,201)	14	—	(44)	(119)	(4,351)	(618)	(4,970)
Total changes in items during the period	(4,201)	14	—	(44)	(119)	(4,351)	(618)	4,489
Balance at the end of the period	¥(2,274)	¥(156)	¥73	¥(1,130)	¥(775)	¥(4,264)	¥6,738	¥102,443

Consolidated Statements of Changes In Net Assets

March 31, 2020

	Year ended March 31, 2020				
	Shareholders' equity				
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
	<i>(Thousands of U.S. dollars) (Note 4)</i>				
Balance at the beginning of the period	\$110,291	\$4,851	\$732,279	\$(15,767)	\$831,654
Changes in items during the period:					
Change in a parent's ownership interest due to transaction with non-controlling interests		(4,713)	(2,269)		(6,983)
Dividends from surplus			(35,403)		(35,403)
Profit attributable to owners of the parent			142,883		142,883
Change of scope of consolidation			(542)		(542)
Purchases of treasury stock				(13,792)	(13,792)
Disposition of treasury stock		(137)		900	762
Net changes in items other than shareholders' equity					
Total changes in items during the period	—	(4,851)	104,658	(12,882)	86,915
Balance at the end of the period	\$110,291	—	\$836,938	\$(28,650)	\$918,579

	Year ended March 31, 2020							
	Accumulated other comprehensive income							
	Unrealized holding gain on securities	Deferred loss on hedging instruments, net of taxes	Land revaluation	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	<i>(Thousands of U.S. dollars) (Note 4)</i>							
Balance at the beginning of the period	\$ 17,697	\$(1,562)	\$670	\$(9,978)	\$(6,018)	\$ 790	\$67,600	\$900,055
Changes in items during the period:								
Change in a parent's ownership interest due to transaction with non-controlling interests								(6,983)
Dividends from surplus								(35,403)
Profit attributable to owners of the parent								142,883
Change of scope of consolidation								(542)
Purchases of treasury stock								(13,792)
Disposition of treasury stock								762
Net changes in items other than shareholders' equity	(38,601)	128	0	(404)	(1,093)	(39,979)	(5,678)	(45,667)
Total changes in items during the period	(38,601)	128	0	(404)	(1,093)	(39,979)	(5,678)	41,247
Balance at the end of the period	\$(20,894)	\$(1,433)	\$670	\$(10,383)	\$(7,121)	\$(39,180)	\$61,913	\$941,312

Consolidated Statements of Changes In Net Assets

March 31, 2020

	Year ended March 31, 2019				
	Shareholders' equity				
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' Equity
	<i>(Millions of yen)</i>				
Balance at the beginning of the period	¥12,003	¥524	¥63,790	¥ (262)	¥76,056
Changes in items during the period:					
Change in a parent's ownership interest due to transaction with non-controlling interests		0			0
Dividends from surplus			(2,925)		(2,925)
Profit attributable to owners of the parent			18,828		18,828
Change of scope of consolidation					—
Purchases of treasury stock				(1,512)	(1,512)
Disposition of treasury stock		3		58	61
Net changes in items other than shareholders' equity					
Total changes in items during the period	—	3	15,903	(1,453)	14,452
Balance at the end of the period	¥12,003	¥528	¥79,694	¥(1,716)	¥90,509

	Year ended March 31, 2019							
	Accumulated other comprehensive income							
	Unrealized holding gain on securities	Deferred (loss) gain on hedging instruments, net of taxes	Land revaluation	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	<i>(Millions of yen)</i>							
Balance at the beginning of the period	¥1,010	¥ (0)	¥73	¥ (466)	¥(660)	¥(44)	¥6,840	¥82,852
Changes in items during the period:								
Change in a parent's ownership interest due to transaction with non-controlling interests								0
Dividends from surplus								(2,925)
Profit attributable to owners of the parent								18,828
Change of scope of consolidation								—
Purchases of treasury stock								(1,512)
Disposition of treasury stock								61
Net changes in items other than shareholders' equity	916	(170)	0	(619)	5	131	517	648
Total changes in items during the period	916	(170)	0	(619)	5	131	517	15,101
Balance at the end of the period	¥1,926	¥(170)	¥73	¥(1,086)	¥(655)	¥ 86	¥7,357	¥97,953

The accompanying notes are an integral part of these statements.

	Years ended March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 4)
Operating activities			
Profit before income taxes	¥23,738	¥28,444	\$218,120
Depreciation and amortization	2,143	2,115	19,691
Impairment loss	—	794	—
(Decrease) in allowance for doubtful receivables	(20)	(18)	(183)
(Decrease) increase in reserve for defects on completed construction projects	(86)	41	(790)
Increase in allowance for losses on construction contracts	73	129	670
Increase in allowance for share-based payment	16	—	147
Increase (decrease) in liability for retirement benefits	65	(727)	597
Loss on sales and disposal of property and equipment	61	13	560
Interest and dividend income	(1,057)	(975)	(9,712)
Interest expense	754	462	6,928
Exchange loss (gain), net	203	(324)	1,865
Equity in loss of affiliates	—	45	—
Reversal of allowance for PCB disposal expenses	(4)	(165)	(36)
(Increase) in trade notes receivable, accounts receivable on completed construction contracts and other	(33,947)	(20,644)	(311,926)
(Increase) decrease in inventories	(4,361)	51	(40,071)
Decrease (increase) in other assets	2,004	(4,655)	18,414
(Decrease) increase in retirement benefits liability adjustments included in accumulated other comprehensive income	(172)	27	(1,580)
Increase in trade notes payable, accounts payable on construction contracts and other	5,809	4,873	53,376
(Decrease) in advances received on construction contracts in progress	(3,787)	(3,505)	(34,797)
(Decrease) in other liabilities	(1,839)	(574)	(16,897)
Other	146	(275)	1,341
Subtotal	(10,259)	5,131	(94,266)
Interest and dividends received	1,104	898	10,144
Interest paid	(756)	(451)	(6,946)
Income taxes paid	(8,093)	(6,601)	(74,363)
Net cash provided by (used in) operating activities	(18,005)	(1,021)	(165,441)
Investing activities			
Decrease in fixed deposits	10	1,172	91
Purchases of property and equipment	(2,228)	(874)	(20,472)
Proceeds from sales of property and equipment	51	444	468
Purchases of intangible fixed assets	(555)	(352)	(5,099)
Purchases of investments in securities	(501)	(6,915)	(4,603)
Proceeds from sales of investments in securities	27	490	248
Purchases of shares of subsidiaries and affiliates	—	(295)	—
Disbursements for loans receivable	(341)	(160)	(3,133)
Proceeds from collection of loans receivable	158	125	1,451
Other	(36)	(36)	(330)
Net cash (used in) investing activities	(3,416)	(6,400)	(31,388)

Sumitomo Mitsui Construction Co., Ltd.
Consolidated Statements of Cash Flows
March 31, 2020

	Years ended March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 4)
Financing activities			
(Decrease) in short-term bank loans	¥ (265)	¥ (196)	\$ (2,434)
Proceed from long-term debt	10,000	10,000	91,886
Payments of long-term debt	(1,511)	(2,286)	(13,884)
Increase in long-term loans of employees	433	267	3,978
(Increase) in treasury stock	(1,500)	(1,511)	(13,782)
Cash dividends paid	(3,844)	(2,918)	(35,321)
Cash dividends paid for non-controlling shareholders	(215)	(225)	(1,975)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(1,809)	—	(16,622)
Other	(447)	(409)	(4,107)
Net cash provided by (used in) financing activities	837	2,719	7,690
Effect of exchange rate changes on cash and cash equivalents	(102)	7	(937)
Net (decrease) increase in cash and cash equivalents	(20,686)	(4,695)	(190,076)
Cash and cash equivalents at beginning of the year	66,430	71,125	610,401
Increase in cash and cash equivalents from newly consolidated subsidiaries	98	—	900
Cash and cash equivalents at end of the year (Note 10)	¥45,842	¥66,430	\$421,225

The accompanying notes are an integral part of these statements.

1. Basis of Preparation

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

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

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

2. Summary of Significant Accounting Policies

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

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

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

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

The Company had 18 consolidated subsidiaries and 1 affiliates accounted for by the equity method as of March 31, 2020.

(b) Fiscal Year of Consolidated Subsidiaries

All foreign consolidated subsidiaries (7 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. Cost of real estate for sale and materials and supplies is written down when their carrying amounts become unrecoverable.

(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 and the residual value of the respective assets as prescribed in the Corporation Tax Law of Japan except that the straight-line method is applied to office buildings (except facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016.

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

(2) Intangible fixed assets (except leased assets)

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

(e) Depreciation and Amortization (continued)

(3) Leased assets

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

(f) Advances Received on Construction Contracts in Progress

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

(g) Allowance for Doubtful Receivables

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

(h) Reserve for Defects on Completed Construction Projects

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

(i) Allowance for Losses on Construction Contracts

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

(j) Allowance for Contingency Loss

An allowance for contingency loss related to the defective piling work at a condominium in Yokohama has been provided based on the reasonably estimated amount necessary for payments to be borne as the contractor in accordance with defect liability applicable to the construction contract.

(k) Allowance for Share-based Payment

An allowance has been provided based on the estimated amount for share-based payment liability as of 31 March, 2020 in order to cover payments of share to directors based on a share-based payment regulation.

(l) Accounting for Retirement Benefits

(1) Method of attributing expected retirement benefits to periods

In calculating the retirement benefit obligation, the benefit formula method is applied to attribute the expected retirement benefits to the periods up to year ended March 31, 2020.

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

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

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

(m) Recognition of Revenues and Costs on Construction Contracts

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

(n) Recognition of Income from Finance Leases

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

(o) Derivatives and Hedge Accounting

(1) Method of hedge accounting

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

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

(2) Hedging instruments and hedged items

Hedging instruments: Interest rate swaps

Hedged items: Interest on debt

(o) Derivatives and Hedge Accounting (continued)

(3) Hedging policy

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

(4) Assessment of hedge effectiveness

An evaluation of hedge effectiveness for interest rate swaps is performed on a quarterly basis to confirm that there is a strong correlation between hedged items and hedging instruments by comparing accumulated amount of the change of cash flows of hedged items and accumulated amount of the change of cash flows of hedging instruments to assess whether the forward contract qualifies for hedge accounting.

(p) Cash Equivalents

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

(q) Consumption Taxes

Consumption taxes are accounted for by the tax exclusion method.

(r) Income Taxes

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

The Company has adopted the consolidated taxation system.

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made, as a matter of arithmetic computation only, at ¥108.83 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2020. 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. Unapplied Accounting Standard and Implementation Guidance

- (a) “Accounting Standard for Revenue Recognition”
(ASBJ Statement No. 29 issued on March 30, 2018)
“Implementation Guidance on Accounting Standard for Revenue Recognition”
(ASBJ Guidance No. 30 issued on March 30, 2018)

(1) Outline

This is a comprehensive accounting standard for revenue recognition. Revenue is recognized using the following five steps:

- (i) Identify the contract(s) with a customer
- (ii) Identify the performance obligations in the contract(s)
- (iii) Determine the transaction price
- (iv) Allocate the transaction price to the performance obligations
- (v) Recognize revenue when (or as) the entity satisfied each performance obligation

(2) Scheduled Date of Application

The Company will apply the accounting standard and the implementation guidance from the beginning of the year ended March 31, 2022.

(3) Impact of the Application of the Unapplied Accounting Standard and the Implementation Guidance

The Company is currently assessing the effects of application of the accounting standards and the implementation guidance on its consolidated financial statements.

- (b) “Accounting Standard for Fair Value Measurement”
(ASBJ Statement No. 30 issued on July 4, 2019)
“Implementation Guidance on Accounting Standard for Fair Value Measurement”
(ASBJ Guidance No. 31 issued on July 4, 2019)
“Accounting Standard for Measurement of Inventories”
(ASBJ Statement No. 9 revised 2019)
“Accounting Standard for Financial Instruments”
(ASBJ Statement No. 10 revised 2019)
“Implementation Guidance on Disclosures about Fair Value of Financial Instruments”
(ASBJ Guidance No. 19 revised 2020)

(1) Outline

The ASBJ has developed an “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (hereinafter collectively, the “Fair Value Measurement Standard”), which provide guidance for fair value measurement in order to improve comparability with internationally recognized accounting standards. The Fair Value Measurement Standard is applied with respect to the fair value of the following items;

- (i) Financial instruments defined in “Accounting Standard for Financial Instruments”
- (ii) Inventories held for trading purposes defined in “Accounting Standard for Measurement of Inventories”

“Implementation Guidance on Disclosures about Fair Value of Financial Instruments” has been revised requiring disclosure of financial instruments broken down by level in the fair value hierarchy.

(2) Scheduled Date of Application

The Company will apply the accounting standards and the implementation guidance from the beginning of the year ended March 31, 2022.

(3) Impact of the Application of the Unapplied Accounting Standard and the Implementation Guidance

The Company is currently assessing the effects of application of the accounting standards and the implementation guidance on its consolidated financial statements.

- (c) “Accounting Standard for Disclosure of Accounting Estimates”
(ASBJ Statement No. 31 issued on March 31, 2020)

(1) Outline

This accounting standard has been released to provide guidance on disclosure of information that deepens the understanding of users of the financial statements about estimates that embody a risk of a significant impact on the financial statements of the following accounting period.

(2) Scheduled Date of Application

The Company will apply the accounting standard from the end of the fiscal year ending March 31, 2021.

- (d) “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections”
(ASBJ Statement No. 24 issued on March 31, 2020)

(1) Outline

This accounting standard has been released to provide and outline of the applicable accounting principles and procedures in cases where directly relevant accounting standards are not available.

(2) Scheduled Date of Application

The Company will apply the accounting standard from the end of the fiscal year ending March 31, 2021.

5. Additional Information

The estimation of accounting consequences of COVID-19

The timing of the end and the impacts upon domestic and global economy of COVID-19 pandemic are unpredictable and the outlook of market conditions of the future global economy and the Group is laborious to foresee.

Whereas consequences such as suspension of a project are moderate in domestic projects, limitation of activities continues in overseas projects. The Group predicts effects on progress of the projects and calculates accounting estimates such as profit and loss and recovery possibility of deferred tax assets.

6. Notes to Consolidated Balance Sheets

(a) Inventories

The components of inventories as of March 31, 2020 and 2019 were as follows:

	As of March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Merchandise and finished goods	¥ 1,991	¥ 1,292	\$ 18,294
Materials and supplies	3,111	2,637	28,585
Costs on uncompleted construction contracts	25,074	21,894	230,396
Real estate for sale	2	2	18
	<u>¥30,180</u>	<u>¥25,826</u>	<u>\$277,313</u>

(b) Pledged Assets

The following assets were pledged at March 31, 2020 and 2019 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,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Cash and deposits	¥ 0	¥ 0	\$ 0
Land	6,070	6,070	55,775
Buildings and structures, net of accumulated depreciation	540	565	4,961
Machinery, equipment and vehicles, net of accumulated depreciation	152	152	1,396
Investments in securities	4	10	36
Others (Investments and other assets)	10	10	91
	<u>¥6,778</u>	<u>¥6,810</u>	<u>\$62,280</u>

Of the above property and equipment, mortgaged assets for factory foundations at March 31, 2020 and 2019 were summarized as follows:

	As of March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Land	¥1,258	¥1,258	\$11,559
Buildings and structures, net of accumulated depreciation	235	229	2,159
Machinery, equipment and vehicles, net of accumulated depreciation	152	152	1,396
	<u>¥1,646</u>	<u>¥1,640</u>	<u>\$15,124</u>

(b) Pledged Assets (continued)

The secured liabilities as of March 31, 2020 and 2019 were summarized as follows:

	As of March 31,		
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Short-term bank loans	¥ 11	¥ 11	\$ 101
[Including current portion of long-term debt]	[11]	[11]	[101]
Long-term debt	80	92	735

(c) Land Revaluation

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

The market value of the land was less than the revalued book amount by ¥658 million (\$6,046 thousand) and ¥660 million at March 31, 2020 and 2019, respectively.

(d) Contingent Liabilities

At March 31, 2020 and 2019, the Company and consolidated subsidiaries were contingently liable for the following:

	As of March 31,		
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
As guarantors of bank loans to employees (house building fund)	¥ 3	¥ 3	\$ 27
Advance deposits	1,226	—	11,265
As endorsers of notes receivable discounted with banks	—	300	—
As endorsers of notes receivable endorsed to vendors	—	11	—

(e) Estimated Loss on Uncompleted Construction Contracts

An estimated loss on uncompleted construction contracts was recognized and included as part of inventories but was not offset against the amount on the balance sheet. It has been recorded as an allowance for losses on construction contracts in the amounts of ¥24 million (\$220 thousand) and ¥37 million as of March 31, 2020 and 2019, respectively.

(f) Trade Notes Maturing on the Balance Sheet Date

Trade notes maturing at the end of the fiscal year are settled on the dates they mature.

Since the last day of the fiscal year ended March 31, 2019 fell on a bank holiday, the below-listed trade notes maturing on that date were excluded from the corresponding balances in the consolidated balance sheets as of March 31, 2019.

	As of March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Trade notes receivable	—	¥213	—
Trade notes payable	—	51	—
Electronically recorded payable	—	123	—

(g) Financial covenants

For the year ended March 31, 2020

- (1) The Company has entered into a syndicated loan contract dated on March 29, 2016 and loan commitment agreement dated on March 31, 2016 with its seven banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2016 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million (\$91,886 thousand) in long-term debt (including the current portion) as of March 31, 2020.

Unused amount on loan commitment agreement as of March 31, 2020 and 2019 were as follows.

	As of March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Maximum limit under the agreement	¥20,000	¥20,000	\$183,772
Loan balance outstanding	—	—	—
Difference (unused portion)	¥20,000	¥20,000	\$183,772

(g) Financial covenants (continued)

- (2) The Company has entered into a syndicated loan contract dated on September 28, 2016 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2017 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥6,500 million (\$59,726 thousand) in long-term debt (including the current portion) as of March 31, 2020.

- (3) The Company has entered into a syndicated loan contract dated on September 28, 2016 with its seven banks (including different 5 banks from above (2)) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2017 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2016 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥3,250 million (\$29,863 thousand) in long-term debt (including the current portion) as of March 31, 2020.

(g) Financial covenants (continued)

- (4) The Company has entered into a committed syndicated loan contract dated on March 30, 2018 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2018 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2017 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥10,000 million (\$91,886 thousand) in long-term debt as of March 31, 2020.

Unused amount on the committed syndicated loan contract as of March 31, 2020 and 2019 were as follows.

	As of March 31,		
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Maximum limit under the contract	¥10,000	¥10,000	\$91,886
Loan balance outstanding	10,000	10,000	91,886
Difference (unused portion)	¥ —	¥ —	\$ —

(g) Financial covenants (continued)

- (5) The Company has entered into a committed syndicated loan contract dated on December 26, 2019 with its ten banks (including different 6 banks from above (4)) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2020 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2019 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥10,000 million (\$91,886 thousand) in long-term debt as of March 31, 2020.

Unused amount on the committed syndicated loan contract as of March 31, 2020 and 2019 were as follows.

	As of March 31,		
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Maximum limit under the contract	¥10,000	¥ —	\$91,886
Loan balance outstanding	10,000	—	91,886
Difference (unused portion)	¥ —	¥ —	\$ —

(g) Financial covenants (continued)

For the year ended March 31, 2019

- (1) The Company has entered into a syndicated loan contract dated on March 29, 2016 and loan commitment agreement dated on March 31, 2016 with its seven banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2016 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million in long-term debt as of March 31, 2019.

Unused amount on loan commitment agreement as of March 31, 2019 and 2018 were as follows.

	As of March 31,	
	2019	2018
	<i>(Millions of yen)</i>	
Maximum limit under the agreement	¥20,000	¥20,000
Loan balance outstanding	—	—
Difference (unused portion)	¥20,000	¥20,000

- (2) The Company has entered into a syndicated loan contract dated on September 28, 2016 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2017 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

(g) Financial covenants (continued)

In addition, the balance of bank borrowings under this syndicated loan contract is ¥7,500 million in long-term debt (including the current portion) as of March 31, 2019.

- (3) The Company has entered into a syndicated loan contract dated on September 28, 2016 with its seven banks (including different 5 bank from above (2)) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2017 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2016 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥3,750 million in long-term debt (including the current portion) as of March 31, 2019.

- (4) The Company has entered into a committed syndicated loan contract dated on March 30, 2018 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2018 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2017 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥10,000 million in long-term debt as of March 31, 2019.

Unused amount on the committed syndicated loan contract as of March 31, 2019 and 2018 were as follows.

	As of March 31,	
	2019	2018
	<i>(Millions of yen)</i>	
Maximum limit under the contract	¥10,000	¥10,000
Loan balance outstanding	10,000	—
Difference (unused portion)	¥ —	¥10,000

7. Notes to Consolidated Statements of Income

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

Net sales on construction contracts accounted for under the percentage-of-completion method amounted to ¥381,887 million (\$3,112,136 thousand) and ¥345,416 million for the years ended March 31, 2020 and 2019, respectively.

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

The allowance for losses on construction contracts was included in cost of sales in the amounts of ¥184 million (\$1,946 thousand) and ¥216 million for the years ended March 31, 2020 and 2019, respectively.

(c) Selling, General and Administrative Expenses

The significant components of selling, general and administrative expenses at March 31, 2020 and 2019 were as follows:

	Years ended March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and wages	¥10,526	¥ 9,884	\$96,719
Retirement benefit expenses	595	574	5,467
Provision of allowance for doubtful receivables	—	0	0
Other	11,782	11,371	108,260
Total	¥22,903	¥21,831	\$210,447

(d) Research and Development Expenses

Research and development costs included in selling, general and administrative expenses and manufacturing costs amounted to ¥2,750 million (\$22,290 thousand) and ¥2,474 million for the years ended March 31, 2020 and 2019, respectively.

(e) Gain on Sales of Property and Equipment

The significant components of gain on sales of property and equipment for the years ended March 31, 2020 and 2019 were as follows:

	Years ended March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥ —	¥32	\$ —
Machinery, equipment and vehicles	4	29	36
Land	—	36	—
Total	¥ 4	¥98	\$36

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

The significant components of loss on sales and disposal of property and equipment for the years ended March 31, 2020 and 2019 were as follows:

	Years ended March 31,		
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Loss on disposal	¥59	¥ 34	\$542
Loss on sales	6	77	55
Total	¥66	¥111	\$606

(g) Impairment Loss

The Group recognized impairment loss on the following asset groups.

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

(1) For the year ended March 31, 2020

There were no impairment loss recognized for the year ended March 31, 2020.

(2) For the year ended March 31, 2019

The book values of following assets were reduced to their recoverable values as a result of profit deterioration on elder care facility. The corresponding write-down was recognized in the amount of ¥794 million as part of other expenses.

Location	Usage	Classification	Year ended March 31, 2019 <i>(Millions of yen)</i>
Hachioji, Tokyo	Elder care facility (1 building)	Land, buildings and structures	¥794

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

8. Notes to Consolidated Statements of Comprehensive Income

Amount of recycling and amount of income tax effects associated with other comprehensive income for the years ended March 31, 2020 and 2019 were as follows:

	Years ended March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Unrealized holding gain on securities:			
Changes in items during the period	¥(6,056)	¥1,322	\$(55,646)
Amount of recycling	2	(0)	18
Before income tax effect adjustment	(6,053)	1,322	(55,618)
Income tax effect adjustment	1,852	(406)	17,017
Unrealized holding gain on securities	(4,201)	916	(38,601)
Deferred gain on hedging instruments, net of taxes:			
Changes in items during the period	21	(245)	192
Amount of recycling	—	—	—
Before income tax effect adjustment	21	(245)	192
Income tax effect adjustment	(6)	75	(55)
Deferred gain on hedging instruments, net of taxes	14	(170)	128
Translation adjustments:			
Changes in items during the period	(22)	(651)	(202)
Amount of recycling	—	(75)	—
Before income tax effect adjustment	(22)	(726)	(202)
Income tax effect adjustment	—	—	—
Translation adjustments	(22)	(726)	(202)
Retirement benefits liability adjustments:			
Changes in items during the period	(210)	1	(1,929)
Amount of recycling	38	25	349
Before income tax effect adjustment	(172)	27	(1,580)
Income tax effect adjustment	30	(15)	275
Retirement benefits liability adjustments	(141)	11	(1,295)
Total other comprehensive income	¥(4,351)	¥ 30	\$(39,979)

9. Notes to Consolidated Statements of Changes in Net Assets

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

For the year ended March 31, 2020

	Balance at April 1, 2019	Increase	Decrease	Balance at March 31, 2020
		<i>(Number of shares)</i>		
Shares issued:				
Common stock	162,673,321	—	—	162,673,321
	Balance at April 1, 2019	Increase	Decrease	Balance at March 31, 2020
		<i>(Number of shares)</i>		
Treasury shares:				
Common stock	2,094,304	2,695,089	140,793	4,648,600

Note 1: Increase of common stock is due to the purchase of fractional 6,689 shares and the acquisition of treasury stock of 800,000 shares and 1,888,400 shares based on the resolution of the board of directors held on May 10, 2019 and on August 7, 2019, respectively.

Note 2: Decrease of common stock is due to the sale of fractional 562 shares in response to shareholder requests and the disposition of treasury stock of 140,231 shares as the compensation of restricted stocks based on the resolution of the board of directors held on August 8, 2019.

For the year ended March 31, 2019

	Balance at April 1, 2018	Increase	Decrease	Balance at March 31, 2019
		<i>(Number of shares)</i>		
Shares issued:				
Common stock	162,673,321	—	—	162,673,321
Note:	The Company executed the consolidation of shares at the ratio of 5 shares into 1 share effective from October 1, 2017. Decrease of common stock is due to the consolidation of shares.			
	Balance at April 1, 2018	Increase	Decrease	Balance at March 31, 2019
		<i>(Number of shares)</i>		
Treasury shares:				
Common stock	131,601	2,033,555	70,852	2,094,304

Note 1: Increase of common stock is due to the purchase of fractional 16,755 shares and the acquisition of treasury stock of 2,016,800 shares based on the resolution of the board of directors held on May 14, 2018.

Note 2: Decrease of common stock is due to the sale of fractional 1,207 shares in response to shareholder requests and the disposition of treasury stock of 69,645 shares as the compensation of restricted stocks based on the resolution of the board of directors held on July 27, 2018.

(b) Dividends:

(1) Dividends paid

For the year ended March 31, 2020

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 27, 2019	Common stock	¥3,853	¥24.00	March 31, 2019	June 28, 2019

For the year ended March 31, 2019

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 28, 2018	Common stock	¥2,925	¥18.00	March 31, 2018	June 29, 2018

(2) Dividends with the cut-off date in the year ended March 31, 2020 and the effective date in the year ending March 31, 2021 were as follows:

Resolution	Type of shares	Source of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 26, 2020	Common stock	Retained earnings	¥3,792	¥24.00	March 31, 2020	June 29, 2020

Dividends with the cut-off date in the year ended March 31, 2019 and the effective date in the year ending March 31, 2020 were as follows:

Resolution	Type of shares	Source of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 27, 2019	Common stock	Retained earnings	¥3,853	¥24.00	March 31, 2019	June 28, 2019

10. Notes to Consolidated Statements of Cash Flows

Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2020 and 2019 were as follows:

	As of March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Cash and deposits	¥53,495	¥74,319	\$491,546
Time deposits with maturities of over three months	(7,652)	(7,888)	(70,311)
Cash and cash equivalents	<u>¥45,842</u>	<u>¥66,430</u>	<u>\$421,225</u>

11. Financial Instruments

(a) Overview

(1) Policy for financial instruments

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

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

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

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

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

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

(a) Overview (continued)

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

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

Loan payables are used for operating funds. The Group manages loan payables by flexibly preparing or revising its fund management plans.

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

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

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

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

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

In addition, the amounts of derivatives in Note 13 "Derivatives and Hedge Accounting" are not necessarily indicative of the actual market risk involved in the derivative transactions.

(b) Fair value of financial instruments

Amounts recognized in the consolidated balance sheets, market value, and the difference at March 31, 2020 and 2019, were as shown below. Moreover, items for which it is extremely difficult to determine fair values are not included in the following table (see Note 2).

	As of March 31, 2020					
	Carrying value (Millions of yen)	Fair value (Millions of yen)	Difference	Carrying value (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)	Difference
Cash and deposits	¥ 53,495	¥ 53,495	¥ –	\$ 491,546	\$ 491,546	\$ –
Trade notes receivable, accounts receivable on completed construction contracts and other	200,794	200,764	(29)	1,845,024	1,844,748	(266)
Securities and investments in securities	11,581	11,584	2	106,413	106,441	18
Held-to-maturity securities	162	164	2	1,488	1,506	18
Other securities	11,419	11,419	–	104,925	104,925	–
Total assets	<u>¥265,872</u>	<u>¥265,844</u>	<u>¥ (27)</u>	<u>\$2,443,002</u>	<u>\$2,442,745</u>	<u>\$(248)</u>
Trade notes payable, accounts payable on construction contracts and other	¥103,870	¥103,870	¥ –	\$ 954,424	\$ 954,424	\$ –
Electronically recorded payable	32,568	32,568	–	299,255	299,255	–
Short-term bank loans and current portion of long-term debt	11,511	11,378	(133)	105,770	104,548	(1,222)
Long-term debt	28,330	28,185	(145)	260,314	258,981	(1,332)
Total liabilities	<u>¥176,281</u>	<u>¥176,002</u>	<u>¥(278)</u>	<u>\$1,619,783</u>	<u>\$1,617,219</u>	<u>\$(2,554)</u>
Derivative transactions (*)	¥ (224)	¥ (224)	¥ –	\$ (2,058)	\$ (2,058)	\$ –

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

(b) Fair value of financial instruments (continued)

	As of March 31, 2019		
	Carrying value	Fair value	Difference
	(Millions of yen)		
Cash and deposits	¥ 74,319	¥ 74,319	¥ –
Trade notes receivable, accounts receivable on completed construction contracts and other	166,875	166,858	(17)
Securities and investments in securities	17,276	17,281	4
Held-to-maturity securities	274	279	4
Other securities	17,001	17,001	–
Total assets	<u>¥258,471</u>	<u>¥258,459</u>	<u>¥(12)</u>
Trade notes payable, accounts payable on construction contracts and other	¥ 98,496	¥ 98,496	¥ –
Electronically recorded payable	32,103	32,103	–
Short-term bank loans and current portion of long-term debt	1,777	1,760	(17)
Long-term debt	29,842	29,150	(691)
Total liabilities	<u>¥162,219</u>	<u>¥161,510</u>	<u>¥(708)</u>
Derivative transactions (*)			
Hedge accounting is not applied	¥ (246)	¥ (246)	¥ –

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

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

Assets

(1) Cash and deposits

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

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

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

(b) Fair value of financial instruments (continued)

(3) Securities and investments in securities

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

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

Liabilities

(1) Trade notes payable, accounts payable on construction contracts, Electronically recorded payable

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

(2) Short-term bank loans

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

(3) Long-term debt

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

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

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

	As of March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted stocks (*)	¥4,288	¥4,535	\$39,400
(*): Unlisted stocks are not included in “Securities and investments in securities” because these have no market value and it is extremely difficult to measure the fair value.			

(b) Fair value of financial instruments (continued)

Note 3: The redemption schedule for monetary claims and held-to-maturity debt securities with maturity dates subsequent to March 31, 2020 and 2019

As of March 31, 2020								
	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
	<i>(Millions of yen)</i>				<i>(Thousands of U.S. dollars)</i>			
Deposits	¥ 53,490	¥ –	¥–	¥–	\$ 491,500	\$, –	\$–	\$–
Trade notes receivable, accounts receivable on completed construction contracts and other	192,156	8,637	–	–	1,765,652	79,362	–	–
Securities and investments in securities								
Held-to-maturity securities (Bonds)	45	116	–	–	413	1,065	–	–
	<u>¥245,693</u>	<u>¥8,753</u>	<u>¥–</u>	<u>¥–</u>	<u>\$2,257,585</u>	<u>\$80,428</u>	<u>\$–</u>	<u>\$–</u>
As of March 31, 2019								
	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Over 10 years				
	<i>(Millions of yen)</i>							
Deposits	¥ 74,302	¥ –	¥–	¥–				
Trade notes receivable, accounts receivable on completed construction contracts and other	154,199	12,676	–	–				
Securities and Investments in securities								
Held-to-maturity securities (Bonds)	113	161	–	–				
	<u>¥228,615</u>	<u>¥12,837</u>	<u>¥–</u>	<u>¥–</u>				

Note 4: The redemption schedule for corporate bonds, long-term debt and other interest bearing debt with maturity dates subsequent to March 31, 2020 and 2019. See Note 20.

12. Securities

Securities at March 31, 2020 and 2019 were summarized as follows:

(a) Held-to-maturity securities

	As of March 31, 2020					
	Carrying value	Fair value	Unrealized gain	Carrying value	Fair value	Unrealized gain
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Securities whose fair value exceeds their carrying value:						
Bonds	¥162	¥164	¥2	\$1,488	\$1,506	\$18

	As of March 31, 2019		
	Carrying value	Fair value	Unrealized gain
	<i>(Millions of yen)</i>		
Securities whose fair value exceeds their carrying value:			
Bonds	¥274	¥279	¥4

(b) Other securities

	As of March 31, 2020					
	Balance sheet amount	Cost	Unrealized gain (loss)	Balance sheet amount	Cost	Unrealized gain (loss)
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Unrealized gain:						
Stock	¥ 3,021	¥ 1,674	¥1,346	\$ 27,758	\$ 15,381	\$12,367
Unrealized loss:						
Stock	8,397	13,007	(4,609)	77,157	119,516	(42,350)
Total	<u>¥11,419</u>	<u>¥14,682</u>	<u>¥3,262</u>	<u>\$104,925</u>	<u>\$134,907</u>	<u>\$29,973</u>

	As of March 31, 2019		
	Balance sheet amount	Cost	Unrealized gain (loss)
	<i>(Millions of yen)</i>		
Unrealized gain:			
Stock	¥13,693	¥10,591	¥3,101
Unrealized loss:			
Stock	3,307	3,618	(310)
Total	<u>¥17,001</u>	<u>¥14,210</u>	<u>¥2,791</u>

(c) Sales of other securities

	Year ended March 31,		
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Sales proceeds	¥27	¥490	\$248
Total gain on sales of security	0	325	0
Total loss on sales of security	3	0	27

13. Derivatives and Hedge Accounting

Derivative transactions for the years ended March 31, 2020 and 2019 were summarized as follows:

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

(1) Currency-related transactions

There were no currency-related transactions to which the hedge accounting is applied for the year ended March 31, 2020 and 2019.

(2) Interest-related transactions

As of March 31, 2020								
Method of hedge accounting	Transaction type	Hedged item	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value
			(Millions of yen)			(Thousands of U.S. dollars)		
Fair value	Interest-rate swaps: Pay fixed/ Receive floating	Long-term debt	¥ 7,500	¥ 7,500	¥(109)	\$68,914	\$68,914	\$(1,001)
	Pay fixed/ Receive floating	Long-term debt	2,500	2,500	(114)	22,971	22,971	(1,047)
Total			<u>¥10,000</u>	<u>¥10,000</u>	<u>¥(224)</u>	<u>\$91,886</u>	<u>\$91,886</u>	<u>\$(2,058)</u>

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

As of March 31, 2020								
Method of hedge accounting	Transaction type	Hedged item	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value
			(Millions of yen)			(Thousands of U.S. dollars)		
Short-cut method	Interest-rate swaps: Pay fixed/ Receive floating	Long-term debt	¥ 6,000	¥ 6,000	(Note 1)	\$55,131	\$55,131	(Note 1)
	Pay fixed/ Receive floating	Long-term debt	4,000	4,000	(Note 1)	36,754	36,754	(Note 1)
Total			<u>¥10,000</u>	<u>¥10,000</u>		<u>\$91,886</u>	<u>\$91,886</u>	

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

As of March 31, 2019					
Method of hedge accounting	Transaction type	Hedged item	Contract amount	Over 1 year	Fair value
			(Millions of yen)		
Fair value	Interest-rate swaps: Pay fixed/ Receive floating	Long-term debt	¥ 7,500	¥ 7,500	¥(139)
	Pay fixed/ Receive floating	Long-term debt	2,500	2,500	(106)
Total			<u>¥10,000</u>	<u>¥10,000</u>	<u>¥(246)</u>

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

14. Retirement Benefit Plans

For the year ended March 31, 2020, the Group has either funded or unfunded defined benefit and defined contribution plans.

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

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

The changes in the retirement benefit obligation during the year ended March 31, 2020 and 2019 were as follows (excluding plans for which the simplified method is applied):

	Year ended March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Balance at the beginning of year	¥16,116	¥16,929	\$148,084
Service cost	866	866	7,957
Interest cost	67	72	615
Actuarial loss	214	(6)	1,966
Retirement benefit paid	(1,145)	(1,714)	(10,520)
Foreign currency translation	0	(31)	0
Balance at the end of year	¥16,120	¥16,116	\$148,120

The changes in plan assets during the year ended March 31, 2020 and 2019 were as follows (excluding plans for which the simplified method is applied):

	Years ended March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Balance at the beginning of year	¥44	¥52	\$404
Expected return on plan assets	4	3	36
Actuarial gain	3	(4)	27
Retirement benefit paid	(8)	(3)	(73)
Foreign currency translation	0	(3)	0
Balance at the end of year	¥45	¥44	\$413

The changes in liability for retirement benefits based on the simplified method during the year ended March 31, 2020 and 2019 were as follows:

	Years ended March 31,		
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of year	¥1,404	¥1,354	\$12,900
Retirement benefit expense	122	120	1,121
Retirement benefit paid	(45)	(57)	(413)
Contribution to defined contribution plan	(15)	(13)	(137)
Balance at the end of year	<u>¥1,466</u>	<u>¥1,404</u>	<u>\$13,470</u>

A reconciliation of the funded retirement benefit obligation and plan assets and the net liability for retirement benefits recognized in the consolidated balance sheet at March 31, 2020 and 2019 is as follows:

	As of March 31,		
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligation	¥ 415	¥ 345	\$ 3,813
Plan assets at fair value	(194)	(182)	(1,782)
	221	163	2,030
Unfunded retirement benefit obligation	17,319	17,312	159,138
Net liability for retirement benefits in the consolidated balance sheet	<u>17,540</u>	<u>17,475</u>	<u>161,168</u>
Liability for retirement benefits	17,540	17,475	161,168
Assets for retirement benefits	—	—	—
Net liability for retirement benefits in the consolidated balance sheet	<u>¥17,540</u>	<u>¥17,475</u>	<u>\$161,168</u>

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

The components of retirement benefit expense during the year ended March 31, 2020 and 2019 were as follows:

	Year ended March 31,		
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost	¥ 866	¥ 866	\$ 7,957
Interest cost	67	72	615
Expected return on plan assets	(4)	(3)	(36)
Amortization of actuarial loss	398	385	3,657
Amortization of prior service cost	(360)	(360)	(3,307)
Retirement benefit expense calculated by the simplified method	122	120	1,121
Total retirement benefit expense	<u>¥1,090</u>	<u>¥1,081</u>	<u>\$10,015</u>

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effect) during the year ended March 31, 2020 and 2019 were as follows:

	Years ended March 31,		
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Actuarial loss	¥ 187	¥387	\$ 1,718
Prior service cost	(360)	(360)	(3,307)
Total	<u>¥(172)</u>	<u>¥ 27</u>	<u>\$(1,580)</u>

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2020 and 2019 were follows:

	As of March 31,		
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrecognized actuarial loss	¥1,752	¥1,940	\$16,098
Unrecognized prior service cost	(864)	(1,224)	(7,938)
Total	<u>¥ 888</u>	<u>¥ 716</u>	<u>\$ 8,159</u>

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2020 and 2019 were follows:

	As of March 31,	
	2020	2019
Bonds	98%	93%
Other	2%	7%
Total	100%	100%

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

The principal assumptions used for above plans were as follows:

	Years ended March 31,	
	2020	2019
Discount rate	Principally 0.3%	Principally 0.3%
Expected rate of return on plan assets	7.6%	5.8%
Expected rate of increase in salaries	Principally 4.7%	Principally 4.7%

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

	Years ended March 31,		
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Contribution to defined contribution plans	¥779	¥792	\$7,157

15. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2020 and 2019 were as follows:

	As of March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Liability for retirement benefits	¥ 5,379	¥ 5,360	\$ 49,425
Accounts payable and accrued expenses	3,445	3,521	31,654
Impairment loss	1,016	1,062	9,335
Loss on valuation of investment securities	998	8	9,170
Other	2,225	2,054	20,444
Gross deferred tax assets	13,066	12,008	120,058
Valuation allowance	(7,314)	(7,070)	(67,205)
Total deferred tax assets	5,751	4,938	52,843
Deferred tax liabilities:			
Retained earnings of foreign consolidated subsidiaries	(428)	(375)	(3,932)
Unrealized holding gain on securities	(0)	(855)	(0)
Other	(34)	(27)	(312)
Total deferred tax liabilities	(463)	(1,258)	(4,254)
Net deferred tax assets	¥ 5,288	¥ 3,679	\$ 48,589

The significant differences between the statutory tax rate and the effective tax rates for the years ended March 31, 2020 has been omitted as its difference was less than 5% of the statutory tax rate.

16. Segment Information, etc.

Segment Information

(a) Outline of Segments

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

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

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

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

Segment Information (continued)

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

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

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

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

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

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

Year ended March 31, 2020							
Reportable operating segments				Others	Total	Adjustments	Consolidated
Civil	Building	Total					
(Millions of yen)							
Sales							
External							
Customers	¥176,594	¥294,776	¥471,371	¥1,031	¥472,402	¥ —	¥472,402
Intersegment transactions or transfers	617	—	617	82	700	(700)	—
Net sales	¥177,212	¥294,776	¥471,988	¥1,114	¥473,102	¥(700)	¥472,402
Segment income	¥ 22,265	¥ 25,074	¥ 47,340	¥ 386	¥ 47,726	¥ (57)	¥ 47,669

	Year ended March 31, 2020						
	Reportable operating segments						
	Civil	Building	Total	Others	Total	Adjustments	Consolidated
	(Thousands of U.S. dollars)						
Sales							
External							
Customers	\$1,622,659	\$2,708,591	\$4,331,259	\$ 9,473	\$4,340,733	\$ –	\$4,340,733
Intersegment transactions or transfers	5,669	–	5,669	753	6,432	(6,432)	–
Net sales	<u>\$1,628,337</u>	<u>\$2,708,591</u>	<u>\$4,336,929</u>	<u>\$10,236</u>	<u>\$4,347,165</u>	<u>\$(6,432)</u>	<u>\$4,340,733</u>
Segment income	\$ 204,585	\$ 230,396	\$ 434,990	\$ 3,546	\$ 438,537	\$ (523)	\$ 438,013

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

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

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

Segment Information (continued)

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

	Year ended March 31, 2019						
	Reportable operating segments						
	Civil	Building	Total	Others	Total	Adjustments	Consolidated
	(Millions of yen)						
Sales							
External Customers	¥168,109	¥279,775	¥447,884	¥873	¥448,758	¥ –	¥448,758
Intersegment transactions or transfers	792	32	825	72	897	(897)	–
Net sales	¥168,901	¥279,808	¥448,709	¥946	¥449,655	¥(897)	¥448,758
Segment income	¥ 23,580	¥ 27,211	¥ 50,791	¥346	¥ 51,138	¥ (89)	¥ 51,049

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

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

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

Related Information

For the year ended March 31, 2020

(a) Product and service information

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

(b) Geographical segment information

(1) Sales

Year ended March 31, 2020							
Japan	Asia	Others	Total	Japan	Asia	Others	Total
<i>(Millions of yen)</i>				<i>(Thousands of U.S. dollars)</i>			
¥401,065	¥67,075	¥4,260	¥472,402	\$3,685,243	\$616,328	\$39,143	\$4,340,733

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

(2) Tangible fixed assets

Geographical segment information on tangible fixed assets has been omitted as the amount of tangible fixed assets in Japan constituted over 90% of total as of March 31, 2020.

Related Information (continued)

(c) Major customer information

Information on major customers has been omitted as there were no sales to a single customer constituting over 10% of net sales for the year ended March 31, 2020.

For the year ended March 31, 2019

(a) Product and service information

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

(b) Geographical segment information

(1) Sales

Year ended March 31, 2019			
Japan	Asia	Others	Total
<i>(Millions of yen)</i>			
¥384,728	¥55,324	¥8,706	¥448,758

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

(2) Tangible fixed assets

Geographical segment information on tangible fixed assets has been omitted as the amount of tangible fixed assets in Japan constituted over 90% of total as of March 31, 2019.

(c) Major customer information

Information on major customers has been omitted as there were no sales to a single customer constituting over 10% of net sales for the year ended March 31, 2019.

Losses on impairment by reportable segment

For the year ended March 31, 2020, there were no losses on impairment by reportable segment.

For the year ended March 31, 2019, ¥794 million impairment loss was recorded.

Note 1: The above amount consists of elder care facilities of ¥794 million.

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

Amortization of goodwill and unamortized balance by reportable segment

For the year ended March 31, 2020 and 2019, there were no amortization and unamortized balance of goodwill by reportable segment.

Gain on negative goodwill by reportable segment

For the years ended March 31, 2020 and 2019, there were no gain on negative goodwill by reportable segment.

17. Related Party Transactions

Related party transaction

Transactions with affiliates for the year ended March 31, 2020 were summarized as follows:

Year ended March 31, 2020						
	Capital investment	Number of voting shares held as a percentage of voting shares issued	Nature of transaction	Total amount of transaction	Balance sheet account	Balance at March 31, 2020
(Millions of yen)						
Affiliated company: Yoshiikikaku Co., Ltd. (Real estate business)	¥10	30.0%	Long-term non operating accounts receivable	¥—	Long-term non operating accounts receivable	¥2,918
			Long-term accounts payable	¥—	Long-term accounts payable	¥2,339
Year ended March 31, 2020						
	Capital investment	Number of voting shares held as a percentage of voting shares issued	Nature of transaction	Total amount of transaction	Balance sheet account	Balance at March 31, 2020
(Thousands of U.S. dollars)						
Affiliated company: Yoshiikikaku Co., Ltd. (Real estate business)	\$91	30.0%	Long-term non operating accounts receivable	\$—	Long-term non operating accounts receivable	\$26,812
			Long-term accounts payable	\$—	Long-term accounts payable	\$21,492

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

Note 2: Allowance for above long-term non operating accounts receivable was recognized in the amount of ¥2,889 million (\$26,545 thousand).

Note 3: Consumption tax was excluded from the total amount of the transaction, however it was included in the balance at March 31, 2020.

Related party transaction (continued)

Transactions with affiliates for the year ended March 31, 2019 were summarized as follows:

Year ended March 31, 2019					
Capital investment	Number of voting shares held as a percentage of voting shares issued	Nature of transaction	Total amount of transaction	Balance sheet account	Balance at March 31, 2019
<i>(Millions of yen)</i>					
Affiliated company: Yoshiikikaku Co., Ltd. (Real estate business)	¥10	30.0%	Long-term non operating accounts receivable	Long-term non operating accounts receivable	¥2,918
			¥—		
		Long-term accounts payable	Long-term accounts payable	Long-term accounts payable	¥2,339
			¥—		

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

Note 2: Allowance for above long-term non operating accounts receivable was recognized in the amount of ¥2,889 million.

Note 3: Consumption tax was excluded from the total amount of the transaction, however it was included in the balance at March 31, 2019.

18. Per Share Information

Net assets and basic profit per share as of and for the years ended March 31, 2020 and 2019 were as follows:

	2020	2019	2020
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Net assets per share	¥605.63	¥564.19	\$5.565
Profit per share	97.89	117.03	0.899

Note: Profit per share – diluted was omitted as there were no diluted share for the year ended March 31, 2020 and 2019.

The basis of calculation for net assets per share at March 31, 2020 and 2019 were as follows:

	As of March 31,		
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Total net assets	¥102,443	¥97,953	\$941,312
Amounts deducted from total net assets	6,738	7,357	61,913
[Including non-controlling interests]	[6,738]	[7,357]	[61,913]
Total net assets attributable to common stock	¥95,704	¥90,596	\$879,389
	<i>(Thousands of shares)</i>		
Number of shares of common stock used to determine net assets per share	158,024	160,579	

The basis for calculating basic profit per share – based and profit per share – diluted for the years ended March 31, 2020 and 2019 were as follows:

	Years ended March 31,		
	2020	2019	2020
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Profit per share – basic:			
Profit attributable to owners of parent	¥15,550	¥18,828	\$142,883
Amount not available to common shareholders	–	–	–
Profit attributable to owners of parent per share – basic	¥15,550	¥18,828	\$142,883
	<i>(Thousands of shares)</i>		
Average number of shares of common stock outstanding	158,867	160,886	

19. Subsequent Event

Business Combination by Acquisition

At the meeting of the Board of Directors held on May 13, 2020, the Company resolved to enter into a basic agreement for acquiring 70% of the Mitsui E&S Steel Structures Engineering Co., Ltd. (hereinafter as “MSE”) stock with Mitsui E&S Holdings Co., Ltd. (hereinafter as “MES”) which owns the whole MSE stock, and entered into the agreement on the same date.

As a result of the acquisition, DPS Bridge Works Co., Ltd. (hereinafter as “DPS”) which is a subsidiary of MSE become a second-tier subsidiary of the Company.

MES and the Company will enter into a definitive agreement in accordance with the provision of the basic agreement.

(a) Summary of business combination

(1) Name of the acquired company and the company's business

Name of the acquired company	Mitsui E&S Steel Structures Engineering Co., Ltd.
The company's business	Construction of bridge, maintenance of bridge, construction in coastal area

(2) Purpose of business combination

The SMCC Group has established "Mid-term Management Plan 2019-2021" and its theme as "Accelerate Changes", which aims to accelerate changes to enhance our business competitiveness and create corporate value based on policies: (1) Change the construction process (2) Strengthen overseas business (3) Expand businesses domain.

The Group considers this acquisition of stock will leads to expand to steel structure business, and will enables to make comprehensive design/build approach for prestressed concrete and steel structure bridges.

Massive renewal of infrastructure and expanding business in overseas are expected in this business area, and it is also expected that utilization of technology from MSE and DPS and improvement of efficiency of business/production bases and construction management system will lead to improve productivity of the Group. Therefore, the Group determine the business combination is sufficiently cost-effective and matches the basic policies of the Group's mid-term management plan, and also the Group's business resources are beneficial for increasing MSE's corporate value.

The Group expects great contribution to the Group's civil construction business strategy and enter into the basic agreement for the acquisition.

(3) Date of business combination

October 1, 2020 (schedule)

(4) Legal form of business combination

Acquisition of stock

(5) Name of the company after business combination

Not determined at present.

(6) Acquiring ratio of voting rights

70%

(7) Measure of acquisition

The Company obtains the stock in exchange for cash.

- (b) Acquisition cost of the acquired company and the breakdown of the cost

Cannot be disclosed due to stipulation with the counterparty.

- (c) Composition and amount of major acquiring expenses

Not determined at present.

- (d) Price and major components of assets and liabilities transferred on the combination date

Not determined at present.

- (e) Amount of emerged goodwill, source of the goodwill, measure and term of amortization

Not determined at present.

20. Short-Term Debt and Long-Term Debt

Short-term debt at March 31, 2020 and 2019 were summarized as follows:

	As of March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Short-term bank loans (at weighted-average interest rates of 4.8% at 2019)	¥ —	¥ 266	\$ —
Deposits from employees (at interest rates of 1.0% at 2020 and 2019)	¥3,415	¥2,982	\$31,379

Long-term debt at March 31, 2020 and 2019 were summarized as follows:

	As of March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Debt with collateral (at weighted-average interest rates of 2.5% at 2020 and 2.5% at 2019)	¥ 92	¥ 103	\$ 845
Debt without collateral (at weighted-average interest rates of 1.3% at 2020 and 1.4% at 2019)	39,750	31,250	365,248
Lease obligations	1,043	1,037	9,583
Current portion (excluding lease obligations)	(11,511)	(1,511)	(105,770)
Current portion of lease obligations	(408)	(350)	(3,748)

The aggregate annual maturities of long-term debt subsequent to March 31, 2020 were summarized as follows:

<u>Year ending March 31,</u>	<u>(Millions of yen)</u>	<u>(Thousands of U.S. dollars)</u>
2021	¥11,511	\$105,770
2022	6,012	55,242
2023	512	4,704
2024	9,262	85,105
2025	12	110
2026 and thereafter	12,530	115,133
	<u>¥39,842</u>	<u>\$366,093</u>

The aggregate annual maturities of lease obligations subsequent to March 31, 2020 were summarized as follows:

<u>Year ending March 31,</u>	<u>(Millions of yen)</u>	<u>(Thousands of U.S. dollars)</u>
2021	¥ 408	\$3,748
2022	315	2,894
2023	210	1,929
2024	87	799
2025	21	192
2026 and thereafter	0	0
	<u>¥1,043</u>	<u>\$9,583</u>

Independent Auditor's Report

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

Opinion

We have audited the accompanying consolidated financial statements of Sumitomo Mitsui Construction Co., Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Conflicts of Interest

We have no interest in the Group which should be disclosed in accordance with the Certified Public Accountants Act.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan
June 26, 2020

福本 予人 

Kazuo Fukumoto
Designated Engagement Partner
Certified Public Accountant

中原 義勝 

Yoshikatsu Nakahara
Designated Engagement Partner
Certified Public Accountant

Non-Consolidated Financial Statements

Sumitomo Mitsui Construction Co., Ltd.

*Year ended March 31, 2020
with Independent Auditor's Report*

Non-Consolidated Balance Sheets

March 31, 2020

	As of March 31,		
	2020 (Millions of yen)	2019 (Millions of yen)	2020 (Thousands of U.S. dollars) (Note 3)
Assets			
Current assets:			
Cash and deposits	¥ 20,387	¥ 45,308	\$ 187,328
Trade notes receivable (Note 4-(d))	288	1,074	2,646
Accounts receivable on completed construction contracts	176,827	143,619	1,624,800
Securities	45	113	413
Inventories	22,913	18,321	210,539
Other current assets	16,776	18,465	154,148
Allowance for doubtful receivables	(20)	(20)	(183)
Total current assets	237,218	226,883	2,179,711
Non-current assets:			
Property and equipment, at cost:			
Land (Note 4-(b))	5,328	5,328	48,957
Buildings (Note 4-(b))	4,823	4,734	44,316
Structures (Note 4-(b))	797	796	7,323
Machinery and equipment	3,751	3,200	34,466
Vehicles	278	311	2,554
Tools, furniture and fixtures	4,236	3,883	38,923
Construction in progress	110	11	1,010
Accumulated depreciation	(10,202)	(9,754)	(93,742)
Property and equipment, net	9,125	8,513	83,846
Intangible fixed assets	1,902	1,634	17,476
Investments and other assets:			
Investments in securities	14,841	20,464	136,368
Investments in subsidiaries and affiliates (Notes 4-(b) and 6)	16,219	14,082	149,030
Long-term loans receivable	73	73	670
Long-term loans to employees	416	442	3,822
Long-term prepaid expenses	57	28	523
Deferred tax assets (Note 7)	3,984	2,294	36,607
Other	5,028	4,914	46,200
Allowance for doubtful receivables	(4,667)	(4,611)	(42,883)
Total investments and other assets	35,953	37,689	330,359
Total non-current assets	46,982	47,837	431,700

Total assets	¥284,200	¥274,721	\$2,611,412
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Non-Consolidated Balance Sheets

March 31, 2020

	As of March 31,		
	2020 (Millions of yen)	2019 (Millions of yen)	2020 (Thousands of U.S. dollars) (Note 3)
Liabilities and net assets			
Current liabilities:			
Trade notes payable (Note 4-(a))	¥ 9,516	¥ 11,350	\$ 87,439
Electronically recorded payable (Note 4-(a))	23,818	24,354	218,855
Accounts payable on construction contracts (Note 4-(a))	76,789	69,542	705,586
Short-term bank loans and current portion of long-term debt (Notes 4-(e))	11,500	1,500	105,669
Lease obligations	180	157	1,653
Income taxes payable	2,813	3,767	25,847
Advances received on construction contracts in progress	13,847	19,043	127,235
Reserve for defects on completed construction projects	761	866	6,992
Allowance for losses on construction contracts	278	248	2,554
Allowance for losses on business of subsidiaries and affiliates	670	750	6,156
Allowance for contingency loss	2,159	2,159	19,838
Other current liabilities	19,591	20,805	180,014
Total current liabilities	161,926	154,545	1,487,880
Long-term liabilities:			
Long-term debt (Notes 4-(e))	28,250	29,750	259,579
Lease obligations	297	265	2,729
Accrued retirement benefits	13,409	13,538	123,210
Other long-term liabilities	2,660	2,666	24,441
Total long-term liabilities	44,617	46,220	409,969
Contingent liabilities (Note 4-(c))			
Net assets:			
Shareholders' equity:			
Capital stock:	12,003	12,003	110,291
Common stock:			
Authorized:			
533,892,994 shares in 2020 and 2019			
Issued and outstanding:			
162,673,321 shares in 2020 and 2019			
Capital surplus:			
Other capital surplus	382	397	3,510
Total capital surpluses	382	397	3,510
Retained earnings:			
Legal retained earnings	1,268	883	11,651
Earned surplus carried forward	69,535	60,619	638,932
Total retained earnings	70,804	61,503	650,592
Treasury stock, at cost:			
4,648,600 shares in 2020 and 2,094,304 shares in 2019	(3,118)	(1,716)	(28,650)
Total shareholders' equity	80,072	72,188	735,753
Valuation, translation adjustments and other:			
Unrealized holding gain on securities	(2,258)	1,937	(20,747)
Deferred (loss) on hedging instruments, net of taxes	(156)	(170)	(1,433)
Total valuation, translation adjustments and other	(2,414)	1,766	(22,181)
Total net assets	77,657	73,954	713,562
Total liabilities and net assets	¥284,200	¥274,721	\$2,611,412

See accompanying notes to non-consolidated financial statements.

	Years ended March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Net sales:			
Completed construction (Note 5-(a))	¥369,254	¥349,923	\$3,392,943
Others	158	152	1,451
	369,412	350,076	3,394,394
Cost of sales:			
Completed construction	333,845	310,014	3,067,582
Others	107	80	983
	333,953	310,095	3,068,574
Gross profit			
Completed construction	35,408	39,908	325,351
Others	50	71	459
	35,459	39,980	325,820
Selling, general and administrative expenses (Note 5-(e))	16,854	16,329	154,865
Operating income	18,605	23,650	170,954
Other income (expenses):			
Interest and dividend income (Note 5-(b))	1,497	1,316	13,755
Payments received from insurance claims	84	81	771
Royalty income (Note 5-(b))	387	821	3,556
Interest expense	(821)	(510)	(7,543)
Exchange loss, net	(523)	(86)	(4,805)
Financing related expenses	(245)	(54)	(2,251)
Provision for loss on business of subsidiaries and affiliates (Note 5-(b))	—	(717)	—
Gain on sales of property and equipment (Note 5-(c))	0	1	0
Gain on sales of investments in securities	0	180	0
Loss on sales and disposal of property and equipment (Note 5-(d))	(10)	(10)	(91)
Loss on valuation of shares of subsidiaries and affiliates	(81)	—	(744)
Loss on membership evaluation	—	(12)	—
Loss on liquidation of subsidiaries and affiliates	—	(7)	—
Other, net (Note 5-(b))	(398)	(936)	(3,657)
	(112)	64	(1,029)
Profit before income taxes	18,492	23,715	169,916
Income taxes (Note 7):			
Current	5,182	5,929	47,615
Deferred	155	1,019	1,424
	5,337	6,949	49,039
Profit	¥ 13,155	¥ 16,766	\$ 120,876
	(Yen)		(U.S. dollars) (Note 3)
Profit per share – basic	¥ 82.81	¥ 104.21	\$ 0.761

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Changes In Net Assets

March 31, 2020

	Year ended March 31, 2020						
	Shareholders' equity						
	Additional paid-in capital		Retained earnings			Treasury stock, at cost	Total shareholders' equity
	Capital stock	Other capital surplus	Earned reserve	Earned surplus carried forward	Total retained earnings		
(Millions of yen)							
Balance at the beginning of the period	¥12,003	¥397	¥883	¥60,619	¥61,503	¥(1,716)	¥72,188
Changes in items during the period							
Dividends from surplus				(3,853)	(3,853)		(3,853)
Provision of legal retained earnings			385	(385)	—		—
Profit				13,155	13,155		13,155
Purchases of treasury stock						(1,501)	(1,501)
Disposition of treasury stock		(15)				98	83
Net changes in items other than shareholders' equity							
Total changes in items during the period	—	(15)	385	8,915	9,301	(1,402)	7,884
Balance at the end of the period	¥12,003	¥382	¥1,268	¥69,535	¥70,804	¥(3,118)	¥80,072

	Year ended March 31, 2020			
	Valuation, translation adjustments and other			
	Unrealized holding gain on securities	Deferred loss on hedging instruments, net of taxes	Total valuation, translation adjustments and other	Total net assets
	(Millions of yen)			
Balance at the beginning of the period	¥1,937	¥(170)	¥1,766	¥73,954
Changes in items during the period				
Dividends from surplus				(3,853)
Provision of legal retained earnings				—
Profit				13,155
Purchases of treasury stock				(1,501)
Disposition of treasury stock				83
Net changes in items other than shareholders' equity	(4,196)	14	(4,181)	(4,181)
Total changes in items during the period	(4,196)	14	(4,181)	3,702
Balance at the end of the period	¥(2,258)	¥(156)	¥(2,414)	¥77,657

Non-Consolidated Statements of Changes In Net Assets

March 31, 2020

	Year ended March 31, 2020						Total shareholders' equity
	Shareholders' equity						
		Additional paid-in capital	Retained earnings			Treasury stock, at cost	
	Capital stock	Other capital surplus	Earned reserve	Earned surplus	Total retained earnings		
				carried forward			
<i>(Thousands of U.S. dollars) (Note 3)</i>							
Balance at the beginning of the period	\$110,291	\$3,647	\$8,113	\$557,006	\$565,129	\$(15,767)	\$663,309
Changes in items during the period							
Dividends from surplus				(35,403)	(35,403)		(35,403)
Provision of legal retained earnings			3,537	(3,537)	—		—
Profit				120,876	120,876		120,876
Purchases of treasury stock						(13,792)	(13,792)
Disposition of treasury stock		(137)				900	762
Net changes in items other than shareholders' equity							
Total changes in items during the period	—	(137)	3,537	81,916	85,463	(12,882)	72,443
Balance at the end of the period	\$110,291	\$3,510	\$11,651	\$638,932	\$650,592	\$(28,650)	\$735,753

	Year ended March 31, 2020			
	Valuation, translation adjustments and other			
	Unrealized holding gain on securities	Deferred loss on hedging instruments, net of taxes	Total valuation, translation adjustments and other	Total net assets
	(Thousands of U.S. dollars) (Note 3)			
Balance at the beginning of the period	\$17,798	\$(1,562)	\$16,227	\$679,536
Changes in items during the period				
Dividends from surplus				(35,403)
Provision of legal retained earnings				—
Profit				120,876
Purchases of treasury stock				(13,792)
Disposition of treasury stock				762
Net changes in items other than shareholders' equity	(38,555)	128	(38,417)	(38,417)
Total changes in items during the period	(38,555)	128	(38,417)	34,016
Balance at the end of the period	\$(20,747)	\$(1,433)	\$(22,181)	\$713,562

Non-Consolidated Statements of Changes In Net Assets

March 31, 2020

	Year ended March 31, 2019						
	Shareholders' equity						
		Additional paid-in capital	Retained earnings				Total shareholders' equity
	Capital stock	Other capital surplus	Earned reserve	Earned surplus carried forward	Total retained earnings	Treasury stock, at cost	
	(Millions of yen)						
Balance at the beginning of the period	¥12,003	¥393	¥590	¥47,071	¥47,662	¥ (262)	¥59,797
Changes in items during the period							
Dividends from surplus				(2,925)	(2,925)		(2,925)
Provision of legal retained earnings			292	(292)	—		—
Profit				16,766	16,766		16,766
Purchases of treasury stock						(1,512)	(1,512)
Disposition of treasury stock		3				58	61
Net changes in items other than shareholders' equity							
Total changes in items during the period	—	3	292	13,548	13,841	(1,453)	12,390
Balance at the end of the period	¥12,003	¥397	¥883	¥60,619	¥61,503	¥(1,716)	¥72,188

	Year ended March 31, 2019			
	Valuation, translation adjustments and other			
	Unrealized holding gain on securities	Deferred gain (loss) on hedging instruments, net of taxes	Total valuation, translation adjustments and other	Total net assets
	(Millions of yen)			
Balance at the beginning of the period	¥1,010	¥ (0)	¥1,010	¥60,807
Changes in items during the period				
Dividends from surplus				(2,925)
Provision of legal retained earnings				—
Profit				16,766
Purchases of treasury stock				(1,512)
Disposition of treasury stock				61
Net changes in items other than shareholders' equity	926	(170)	756	756
Total changes in items during the period	926	(170)	756	13,147
Balance at the end of the period	¥1,937	¥(170)	¥1,766	¥73,954

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 (cost of materials and supplies is written down when their carrying amounts become unrecoverable).

(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 and the residual value of the respective assets as prescribed in the Corporation Tax Law of Japan except that the straight-line method is applied to office buildings (except facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016.

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

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

(3) Leased assets

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

(e) Advances Received on Construction Contracts in Progress

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

(f) Allowance for Doubtful Receivables

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

(g) Reserve for Defects on Completed Construction Projects

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

(h) Allowance for Losses on Construction Contracts

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

(i) Allowance for Losses on Business of Subsidiaries and Affiliates

An allowance has been provided for the future losses on business of subsidiaries and affiliates which is estimated beyond the amount of investments and loans to the subsidiaries and the affiliates.

(j) Allowance for Contingency Loss

An allowance for contingency loss related to the defective piling work at a condominium in Yokohama has been provided based on the reasonably estimated amount necessary for payments to be borne as the contractor in accordance with defect liability applicable to the construction contract.

(k) Employees' Retirement Benefits

(1) Method of attributing expected retirement benefits to periods

In calculating the retirement benefit obligation, the benefit formula method is applied to attribute the expected retirement benefits to the periods up to year ended March 31, 2020.

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

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

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

(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.

(m) Derivatives and Hedge Accounting

(1) Method of hedge accounting

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

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

(m) Derivatives and Hedge Accounting (continued)

(2) Hedging instruments and hedged items

Hedging instruments: Interest rate swaps

Hedged items: Interest on debt

(3) Hedging policy

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

(4) Assessment of hedge effectiveness

An evaluation of hedge effectiveness for interest rate swaps is performed on a quarterly basis to confirm that there is a strong correlation between hedged items and hedging instruments by comparing accumulated amount of the change of cash flows of hedged items and accumulated amount of the change of cash flows of hedging instruments to assess whether the forward contract qualifies for hedge accounting.

(n) Accounting for Retirement Benefits

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

(o) Consumption Taxes

Consumption taxes are accounted for by the tax exclusion method.

(p) Income Taxes

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

The Company has adopted the consolidated taxation system.

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 ¥108.83 = U.S.\$1.00, the approximate rate of exchange prevailing on March 31, 2020. 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. Additional Information

The estimation of accounting consequences of COVID-19

The timing of the end and the impacts upon domestic and global economy of COVID-19 pandemic are unpredictable and the outlook of market conditions of the future global economy and the Group is laborious to foresee.

Whereas consequences such as suspension of a project are moderate in domestic projects, limitation of activities continues in overseas projects. The Group predicts effects on progress of the projects and calculates accounting estimates such as profit and loss and recovery possibility of deferred tax assets.

4. Notes to Non-Consolidated Balance Sheets

(a) Outstanding Balances with Subsidiaries and Affiliates

Significant outstanding balances for subsidiaries and affiliates other than individually presented on the accompanying non-consolidated balance sheets at March 31, 2020 and 2019 were as follows:

	As of March 31,		
	2020 (Millions of yen)	2019 (Millions of yen)	2020 (Thousands of U.S. dollars)
Trade notes payable	¥ 464	¥ 494	\$ 4,263
Electronically recorded payable	4,985	4,127	45,805
Accounts payable on construction contracts	9,449	8,572	86,823

(b) Pledged Assets

The following assets were pledged at March 31, 2020 and 2019 principally as collateral for guarantees (such as guarantees for the completion of construction contracts):

	As of March 31,		
	2020 (Millions of yen)	2019 (Millions of yen)	2020 (Thousands of U.S. dollars)
Land	¥1,735	¥1,735	\$15,942
Buildings, net of accumulated depreciation	109	120	1,001
Structures, net of accumulated depreciation	32	34	294
Investments in subsidiaries and affiliates	363	369	3,335
Total	¥2,240	¥2,258	\$20,582

There were no secured liabilities as of March 31, 2020 and 2019.

(c) Contingent Liabilities

At March 31, 2020 and 2019, the Company was contingently liable for the following:

	As of March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
As guarantor of bank loans to subsidiaries and other	¥2,558	¥1,829	\$23,504
Advance deposits	1,226	—	11,265

(d) Trade Notes Maturing on the Balance Sheet Date

Trade notes maturing at the end of the fiscal year are settled on the dates they mature.

Since the last day of the fiscal year which is March 31, 2019 fell on a bank holiday, the below-listed trade notes maturing on that date were excluded from the corresponding balances in the non-consolidated balance sheets as of March 31, 2019.

	As of March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Trade notes receivable	—	¥5	—

(e) Financial covenants

For the year ended March 31, 2020

- (1) The Company has entered into a syndicated loan contract dated on March 29, 2016 and loan commitment agreement dated on March 31, 2016 with its seven banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2016 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million (\$91,886 thousand) in long-term debt (including the current portion) as of March 31, 2020.

Unused amount on loan commitment agreement as of March 31, 2020 and 2019 were as follows.

	As of March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Maximum limit under the agreement	¥20,000	¥20,000	\$183,772
Loan balance outstanding	—	—	—
Difference (unused portion)	¥20,000	¥20,000	\$183,772

- (2) The Company has entered into a syndicated loan contract dated on September 28, 2016 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2017 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

(e) Financial covenants (continued)

In addition, the balance of bank borrowings under this syndicated loan contract is ¥6,500 million (\$59,726 thousand) in long-term debt (including the current portion) as of March 31, 2020.

- (3) The Company has entered into a syndicated loan contract dated on September 28, 2016 with its seven banks (including different 5 bank from above (2)) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2017 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2016 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥3,250 million (\$29,863 thousand) in long-term debt (including the current portion) as of March 31, 2020.

- (4) The Company has entered into a committed syndicated loan contract dated on March 30, 2018 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2018 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2017 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥10,000 million (\$91,886 thousand) in long-term debt as of March 31, 2020.

Unused amount on the committed syndicated loan contract as of March 31, 2020 and 2019 were as follows.

	As of March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Maximum limit under the contract	¥10,000	¥10,000	\$91,886
Loan balance outstanding	10,000	10,000	91,886
Difference (unused portion)	¥ —	¥ —	\$ —

(e) Financial covenants (continued)

- (5) The Company has entered into a committed syndicated loan contract dated on December 26, 2019 with its ten banks (including different 6 banks from above (4)) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2020 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2019 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥10,000 million (\$91,886 thousand) in long-term debt as of March 31, 2020.

Unused amount on the committed syndicated loan contract as of March 31, 2020 and 2019 were as follows.

	As of March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Maximum limit under the contract	¥10,000	¥ —	\$91,886
Loan balance outstanding	10,000	—	91,886
Difference (unused portion)	¥ —	¥ —	\$ —

(e) Financial covenants (continued)

For the year ended March 31, 2019

- (1) The Company has entered into a syndicated loan contract dated on March 29, 2016 and loan commitment agreement dated on March 31, 2016 with its seven banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2016 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million in long-term debt as of March 31, 2019.

Unused amount on loan commitment agreement as of March 31, 2019 and 2018 were as follows.

	As of March 31,	
	2019	2018
	(Millions of yen)	
Maximum limit under the agreement	¥20,000	¥20,000
Loan balance outstanding	—	—
Difference (unused portion)	¥20,000	¥20,000

- (2) The Company has entered into a syndicated loan contract dated on September 28, 2016 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2017 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

(e) Financial covenants (continued)

In addition, the balance of bank borrowings under this syndicated loan contract is ¥7,500 million in long-term debt (including the current portion) as of March 31, 2019.

- (3) The Company has entered into a syndicated loan contract dated on September 28, 2016 with its seven banks (including different 5 bank from above (2)) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2017 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2016 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥3,750 million in long-term debt (including the current portion) as of March 31, 2019.

- (4) The Company has entered into a committed syndicated loan contract dated on March 30, 2018 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2018 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2017 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under the committed syndicated loan contract is immaterial as of March 31, 2019.

Unused amount on the committed syndicated loan contract as of March 31, 2019 and 2018 were as follows.

	As of March 31,	
	2019	2018
	(Millions of yen)	
Maximum limit under the contract	¥10,000	¥10,000
Loan balance outstanding	10,000	—
Difference (unused portion)	¥ —	¥10,000

5. Notes to Non-Consolidated Statements of Income**(a) Net Sales Based on Percentage-of-completion Method**

Net sales on construction contracts accounted for under the percentage-of-completion method amounted to ¥329,234 million (\$3,025,213 thousand) and ¥294,525 million for the years ended March 31, 2020 and 2019, respectively.

(b) Transactions with Subsidiaries and Affiliates

Significant transactions with subsidiaries and affiliates other than individually presented on the accompanying non-consolidated statements of income for the years ended March 31, 2020 and 2019 were as follows:

	Years ended March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Dividend income	¥1,060	¥770	\$9,739
Royalty income	387	821	3,556
Provision for (loss) on business of subsidiaries and affiliates	(-)	(717)	(-)
Other (expenses)	(80)	(155)	(735)

(c) Gain on Sales of Property and Equipment

The significant components of gain on sales of property and equipment for the years ended March 31, 2020 and 2019 were as follows:

	Years ended March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Machinery and equipment	¥0	¥1	\$0
Vehicles	0	-	0

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

The significant components of loss on sales and disposal of property and equipment for the years ended March 31, 2020 and 2019 were as follows:

	Years ended March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Loss on disposal	¥10	¥10	\$91

(e) Selling, General and Administrative Expenses

The significant components of selling, general and administrative expenses for the years ended March 31, 2020 and 2019 were as follows:

	Years ended March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and wages	¥ 7,933	¥ 7,429	\$ 72,893
Provision of allowance for doubtful receivables	—	0	—
Depreciation expenses	565	605	5,191
Other	8,355	8,294	76,771
Total	¥16,854	¥16,329	\$154,865

6. Securities

Stocks of subsidiaries and affiliates at March 31, 2020 and 2019 were as follows:

	As of March 31, 2020					
	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	¥3,785	¥3,068	\$6,588	\$34,779	\$28,190

	As of March 31, 2019		
	Carrying value	Fair value	Unrealized gain
	(Millions of yen)		
Stocks of a subsidiary	¥717	¥3,736	¥3,018

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

	As of March 31,		
	2020	2019	2020
	Carrying value		
	(Millions of yen)		(Thousands of U.S. dollars)
Stocks of subsidiaries	¥5,721	¥3,992	\$52,568
Stocks of affiliates	30	10	275

7. Income Taxes

The significant components of the Company's deferred tax assets and liabilities at March 31, 2020 and 2019 were as follows:

	As of March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Accrued retirement benefits	¥ 4,105	¥ 4,145	\$ 37,719
Allowance for bad debts	1,435	1,418	13,185
Account payable and accrued expenses	1,970	2,034	18,101
Loss on valuation of investment securities	997	7	9,161
Loss on devaluation of investments in subsidiaries and affiliates	957	932	8,793
Reserve for defects on completed construction projects	233	265	2,140
Allowance for losses on construction contracts	85	76	781
Other	1,355	1,231	12,450
Gross deferred tax assets	11,140	10,111	102,361
Valuation allowance	(7,143)	(6,955)	(65,634)
Total deferred tax assets	3,996	3,155	36,717
Deferred tax liabilities:			
Unrealized holding gain on securities	—	(854)	—
Asset retirement obligations	(11)	(6)	(101)
Total deferred tax liabilities	(11)	(860)	(101)
Net deferred tax assets	¥ 3,984	¥ 2,294	\$ 36,607

The following table summarizes the significant differences between the statutory tax rates and the effective tax rates for the years ended March 31, 2020 and 2019:

	Years ended March 31,	
	2020	2019
Statutory tax rates	30.6%	—%
Non-deductible expenses	0.6	—
Non-taxable income	(1.7)	—
Per capita inhabitants' taxes	0.7	—
Tax credit	(2.4)	—
Valuation allowance	1.0	—
Other	0.1	—
Effective tax rates	28.9%	—%

The significant differences between the statutory tax rate and the effective tax rates for the years ended March 31, 2019 has been omitted as its difference was less than 5% of the statutory tax rate.

8. Subsequent Event

Business Combination by Acquisition

At the meeting of the Board of Directors held on May 13, 2020, the Company resolved to enter into a basic agreement for acquiring 70% of the Mitsui E&S Steel Structures Engineering Co., Ltd. (hereinafter as “MSE”) stock with Mitsui E&S Holdings Co., Ltd. (hereinafter as “MES”) which owns the whole MSE stock, and entered into the agreement on the same date.

As a result of the acquisition, DPS Bridge Works Co., Ltd. (hereinafter as “DPS”) which is a subsidiary of MSE become a second-tier subsidiary of the Company.

MES and the Company will enter into a definitive agreement in accordance with the provision of the basic agreement.

(a) Summary of business combination

(1) Name of the acquired company and the company’s business

Name of the acquired company	Mitsui E&S Steel Structures Engineering Co., Ltd.
The company’s business	Construction of bridge, maintenance of bridge, construction in coastal area

(2) Purpose of business combination

The SMCC Group has established “Mid-term Management Plan 2019-2021” and its theme as “Accelerate Changes”, which aims to accelerate changes to enhance our business competitiveness and create corporate value based on policies: (1) Change the construction process (2) Strengthen overseas business (3) Expand businesses domain.

The Group considers this acquisition of stock will leads to expand to steel structure business, and will enables to make comprehensive design/build approach for prestressed concrete and steel structure bridges.

Massive renewal of infrastructure and expanding business in overseas are expected in this business area, and it is also expected that utilization of technology from MSE and DPS and improvement of efficiency of business/production bases and construction management system will lead to improve productivity of the Group. Therefore, the Group determine the business combination is sufficiently cost-effective and matches the basic policies of the Group’s mid-term management plan, and also the Group’s business resources are beneficial for increasing MSE’s corporate value.

The Group expects great contribution to the Group’s civil construction business strategy and enter into the basic agreement for the acquisition.

(3) Date of business combination

October 1, 2020 (schedule)

(4) Legal form of business combination

Acquisition of stock

(5) Name of the company after business combination

Not determined at present.

(6) Acquiring ratio of voting rights

70%

(7) Measure of acquisition

The Company obtains the stock in exchange for cash

(b) Acquisition cost of the acquired company and the breakdown of the cost

Cannot be disclosed due to stipulation with the counterparty.

(c) Composition and amount of major acquiring expenses

Not determined at present.

(d) Price and major components of assets and liabilities transferred on the combination date

Not determined at present.

(e) Amount of emerged goodwill, source of the goodwill, measure and term of amortization

Not determined at present.

Independent Auditor's Report

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

Opinion

We have audited the accompanying non-consolidated financial statements of Sumitomo Mitsui Construction Co., Ltd. (the Company), which comprise the non-consolidated balance sheet as at March 31, 2020, and the non-consolidated statements of income, and changes in net assets for the year then ended, and notes to the non-consolidated financial statements.

In our opinion, the accompanying non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of the Company as at March 31, 2020, and its non-consolidated financial performance for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Non-Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the non-consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Non-Consolidated Financial Statements

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

In preparing the non-consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Non-Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the non-consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these non-consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the non-consolidated financial statements is not expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the non-consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the non-consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the non-consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Conflicts of Interest

We have no interest in the Company which should be disclosed in accordance with the Certified Public Accountants Act.

Convenience Translation

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the non-consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan
June 26, 2020

福本 予人



Kazuo Fukumoto
Designated Engagement Partner
Certified Public Accountant

中原 義勝



Yoshikatsu Nakahara
Designated Engagement Partner
Certified Public Accountant

CORPORATE OUTLINE

Corporate Name:

Sumitomo Mitsui Construction Co., Ltd.

Established:

October 14, 1941

Permission:

(Special-28)No.200, Specified Constructor, granted by the Minister of Land, Infrastructure and Transport

License:

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

Main Scope of Business:

- 1) To contract, plan, design and/or supervise civil engineering, architectural, prestressed concrete, electrical, piping and other works
- 2) To plan, design and supervise marine development, regional development, urban development, natural resource development and environment maintenance
- 3) To manufacture, sell and lease materials for civil and building works, prestressed concrete products, seismic isolating device, seismic damping device, and other machinery and instruments

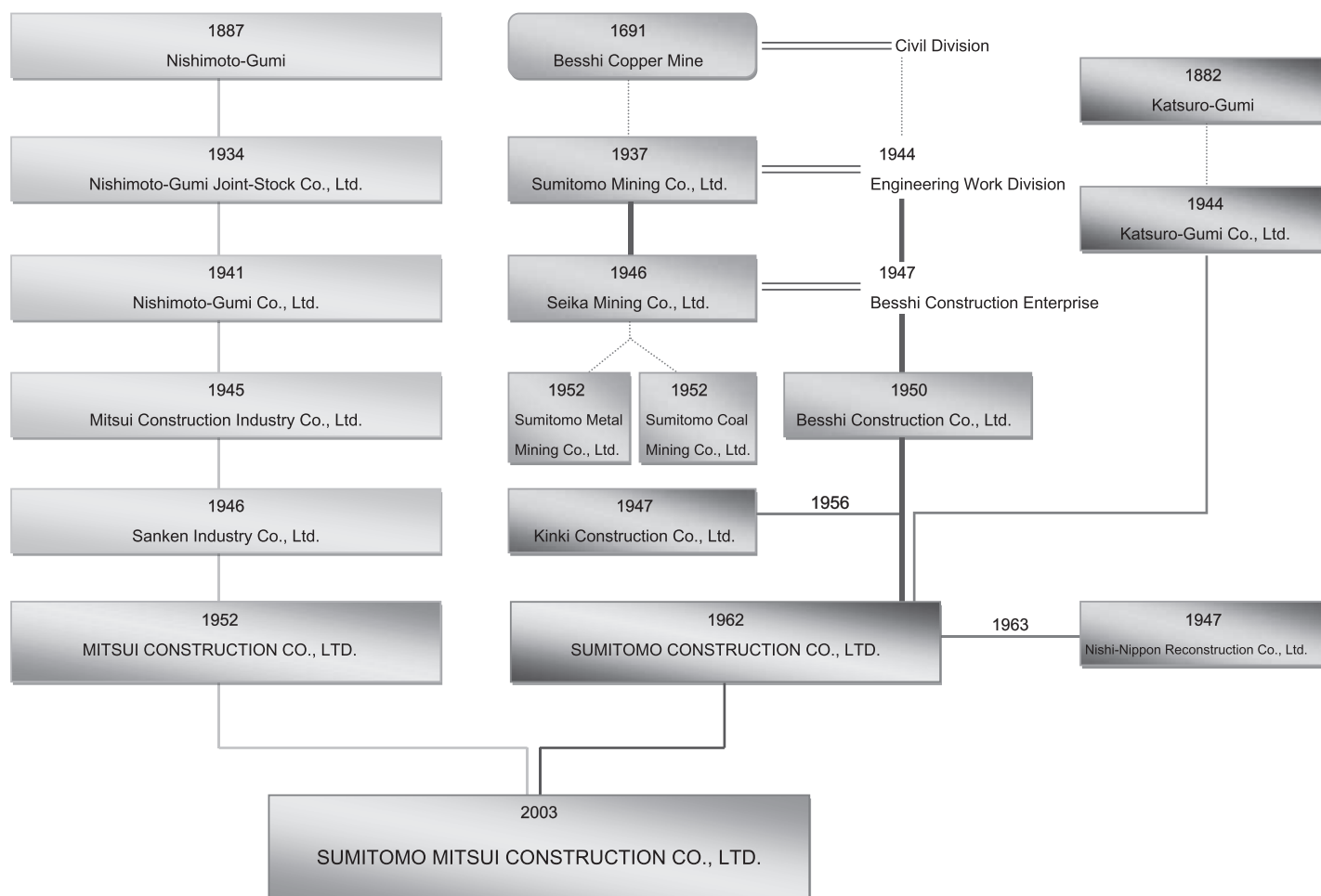
Main Banks

Sumitomo Mitsui Banking Corporation
Sumitomo Mitsui Trust Bank, Limited

Main Shareholders

Japan Trustee Services Bank, Ltd.
The Master Trust Bank of Japan, Ltd.
Mitsui Fudosan Co., Ltd.
Sumitomo Realty & Development Co., Ltd.

Corporate History



CORPORATE DATA

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FAX:886-2-2563-3839



**SUMITOMO MITSUI
CONSTRUCTION CO.,LTD.**